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SUBURBAN OFFICE MARKETS AND REGIONAL EMPLOYMENT GROWTH: THE SAN FRANCISCO BAY AREA'S 680 CORRIDOR

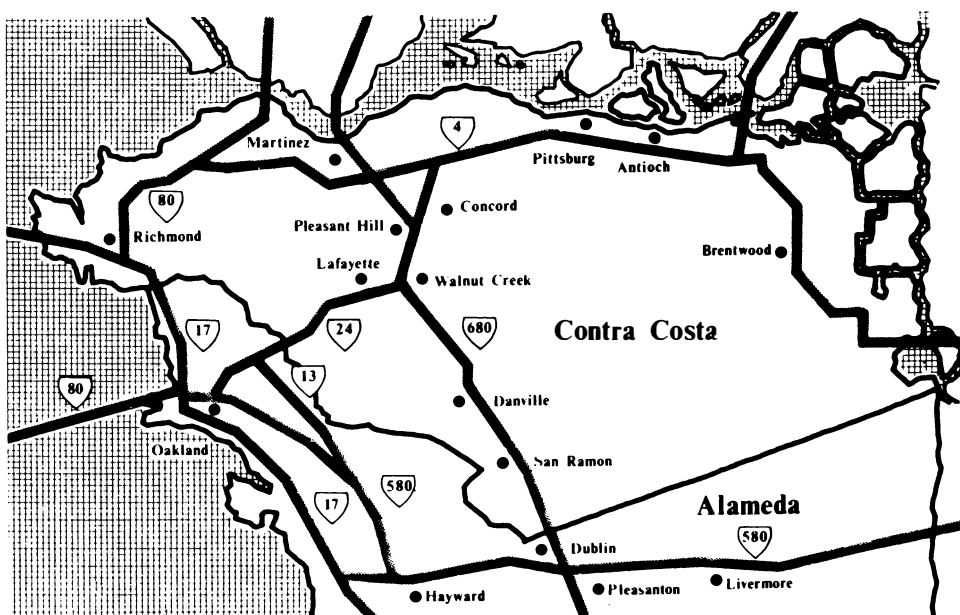
Cynthia Kroll

One of the major changes experienced in the pattern of urban development in the 1970s was the trend toward suburbanization of office space construction. In previous decades, suburbs played a narrower role as bedroom communities. By the 1960s, with the introduction of regional shopping centers, many retail activities had followed residents from the central city to suburban settings.

Office space decentralization in the 1970s is part of a third stage of suburban development—the larger trend towards the movement of jobs from central city to suburb—with manufacturing firms as well as office using firms looking for cheaper land, more space, and a nearby workforce outside of the central city. Before 1970, over four-fifths of speculative office space in the San Francisco SMSA was in San Francisco or Oakland. During the 1970s, 40% of new office space added to the SMSA went to suburbs outside of these central cities.

The 1970s was a very active and very successful period of office space investment nationwide. This led to an enthusiasm for office space development that has persisted in the 1980s, despite a recession that has left many new buildings half vacant. Developers (often including urban renewal agencies as partners) are continuing to build as if “supply creates its own demand.”

Figure 1. Alameda and Contra Costa Counties



In the 1970s, supply appeared to have a growth power of its own for several reasons. With land prices often at less than five dollars per square foot, raw land in suburban centers can be between one fifth and one hundredth the price of land in the central cities (or even less), allowing for lower priced space and a higher vacancy margin. In addition, a broad range of housing types, at prices five to ten percent below central city prices assures the continued availability of a workforce (at least in the short term), and of a growing population to provide business opportunities for smaller firms. All of these factors can attract local firms looking for more space or outside firms seeking cheaper space. Developers who anticipate this demand at the proper moment appear to be “creating demand” through building construction.

This process of soaking up existing demand clearly cannot proceed forever. There are limits to the capacity of a particular area to absorb new office activities, and the region as a whole has a limited capacity to generate the jobs to fill this space. In the 1980s and 1990s, planners and developers will have a much greater need to understand suburban office markets—why do they grow, what types of firms make up demand growth, and what are the limits to the growth of demand for office space.

As part of a larger study of office development and the growth of office-using employment in central Contra Costa and eastern Alameda counties, the Center for Real Estate and Urban Economics conducted a telephone survey of tenants in leased office space along Highway 680, among the fastest growing locations for suburban office space in the San Francisco Bay Area (see Figure 1). The purpose of the survey was to identify the types of firms leasing office space, to determine to what extent demand growth resulted from the transfer of firms from other parts of the San Francisco Bay Area, and to learn why firms selected sites along the 680 corridor. The results indicated a market composed not simply of central city spillovers, but of a much more complex set of interactions, spurred by local population growth and the west coast economy, as well as by intraregional shifts.

Drawing on the findings of the survey, the Center also projected likely employment growth rates in office-using activities and translated this growth into demand for space. This paper reports on the findings of the survey and briefly describes how the survey results contributed to making projections for office growth in this suburban location. The survey results and the broader study are of interest not only to planners and developers in the San Francisco Bay Area, but also more generally to planners in suburban areas throughout the U.S., who may need to evaluate new private investments or public redevelopment proposals whose backers refer to general expectations from growing central city “flight”.

Survey Approach

A random sample was drawn from firms leasing space along Highway 680 in Contra Costa and Alameda Counties, in buildings of at least 25,000 square feet that were built in 1970 or later. The population of firms was identified using reverse directories. Of the 282 firms in the original sample, 6 were eliminated because of duplications or mislistings (e.g., a construction firm in a trailer on a building site), and 28 had either moved from the 680 corridor or had gone out of business since the directories were published (3 to 5 months previously). Of the remaining 248 firms, 11 (4%) were unavailable or chose not to respond to the survey. The survey was conducted in January 1984.

Size Variations of Firms and the Amount of Space Absorbed

As is typical of the firm population in California, the office space tenants in suburban Contra Costa and Alameda Counties are characterized by a large number of very small firms and a smaller range of medium to large establishments. Half of all firms in the sample had five employees or fewer, and 46% leased less than 1,000 square feet of space. However, firms in the smallest square footage category in total rented less than 10% of all of the space used by firms in the sample. Close to 40% of office space was absorbed by firms leasing at least 1,000 but less than 10,000 square feet of space. These firms account for 45% of all firms in the sample. These figures indicate that the overall average for *firms* may not be representative of the average amount of *space absorbed*. For this reason particular emphasis is placed on differences by size of firm in this discussion.

Types of Firms, by Size and Location

Of the survey respondents, 71% were of traditional office type economic activities, including finance, real estate, insurance, business services, legal services, membership organizations, and miscellaneous services (primarily consultant firms). Wholesale and retail trade and administrative or sales offices of manufacturing firms accounted for an additional 20% of firms, while the remainder included activities such as medical offices, government, construction, and transportation firms.

The results on type of firm were generally consistent across size of firm (see Table 1). However, there is some evidence that larger firms are more likely to be traditional office-type firms. Both of the firms using more than 50,000 square feet of space were in traditional office-using economic activities, while almost one third of firms using 1,000 square feet or less were in non office-type economic activities. In addition, all firms with more than 25 employees were of traditional office types.

The type of firm also varied by location and by building type, indicating the development of sub-markets within the suburb. Over 85% of firms were of traditional office types in the older, more

Table 1. Industry Type and Square Footage Range of Firms

	< 1000	1000-4999	5000-9999	10,000-49,999	50,000-99,999	All Firms by Industry	
						Total	%
<i>Total No. Firms*</i>	107	91	15	18	2	233	100.0
<i>% by Sq. Ft. Range</i>	45.9	39.1	6.4	7.7	0.9	100.0	
<i>Office Type</i>							
Finance	9	15	1	0	0	25	10.7
Real Estate	15	13	1	2	0	31	13.3
Insurance	12	11	6	7	0	36	15.5
Business Service	23	5	2	1	0	31	13.3
Legal	14	9	0	0	0	23	9.9
Misc. Office Service	4	9	2	3	2	20	8.6
<i>Subtotal</i>	77	62	12	13	2	166	71.2
<i>% by Sq. Ft. Range</i>	46.4	37.3	7.2	7.8	1.2	100.0	
<i>Other</i>							
Manufacturing	14	7	2	3	0	26	11.2
Wholesale	5	7	0	1	0	13	5.6
Retail	3	6	0	0	0	9	3.9
Medical	1	4	0	0	0	5	2.1
Pers/Social Service	3	1	0	0	0	4	1.7
Government	0	0	0	1	0	1	0.4
Other**	4	4	1	0	0	9	3.9
<i>Subtotal</i>	30	29	3	5	0	67	28.8
<i>% by Sq. Ft. Range</i>	44.8	43.3	4.5	7.5	0.0	100.0	

* Excludes 4 firms that did not respond to this question

** Construction, transportation, utilities

Source: Center for Real Estate and Urban Economics survey of office space tenants along Highway 680, January 1984

prestigious parts of the corridor, such as downtown Walnut Creek. In contrast, in peripheral areas such as Concord and Dublin, over half of firms were non office-type firms. About 85% of tenants in mid-rise or high-rise buildings (four stories or more) and 90% of firms in buildings with rents averaging \$1.80 per square foot or higher are of traditional office-type economic activities.

Previous Location

The growth of office space demand along the 680 corridor is clearly closely integrated to the economy of San Francisco and the Bay Area. However, direct moves from San Francisco and Oakland were responsible for less than half of all office space absorption in the corridor. Most firms in the sample had either moved to current space from another location along the 680 corridor or had started up as a new enterprise in the present location. Overall, only 20% of firms had come from outside the area. However, among larger users, the San Francisco/Oakland "flight" phenomenon was much

more significant. San Francisco or Oakland moves accounted for 46% of firms with more than 25 employees and 25% of firms using more than 10,000 square feet of space (see Table 2). Estimates indicate that from 33 to 40% of *space* is leased by firms that were previously in space outside of the 680 corridor (based on an extrapolation of responses from about half of all firms on the actual number of square feet leased).

Table 2. Previous Firm Location, by Size (Sq. Ft.)

Previous Location	Square Foot Range					Total by Location** [with (%)]
	< 1000	1000-4999	5000-9999	10,000-49,999	50,000+	
New Firm	35 (33)*	23 (25)	2 (13)	1 (6)	0 (0)	61 (26)
Same Town	35 (33)	30 (33)	3 (20)	8 (44)	0 (0)	76 (33)
680 Corridor	13 (12)	21 (23)	4 (27)	2 (11)	1 (50)	41 (18)
San Francisco	6 (6)	3 (3)	4 (27)	3 (17)	1 (50)	17 (7)
Oakland	3 (3)	8 (9)	2 (13)	1 (6)	0 (0)	14 (6)
Other Contra Costa	2 (2)	2 (2)	0 (0)	0 (0)	0 (0)	4 (2)
Other Alameda	6 (6)	3 (3)	0 (0)	1 (6)	0 (0)	10 (4)
Other California	6 (6)	1 (1)	0 (0)	2 (11)	0 (0)	9 (4)
Total	106	91	15	18	2	232
% by Sq. Ft. Range	46	39	7	8	1	100

* Percent from previous location, within square footage range

** Exclude 5 firms that did not respond to square footage or reasons question

Source: Center for Real Estate and Urban Economics

The present location of firms varied by where firms came from. Almost 60% of former San Francisco firms and over 70% of former Oakland firms were in Walnut Creek (downtown or Ygnacio Valley area). In contrast, of firms coming from Santa Clara County, San Mateo County, and south bay locations in Alameda County, only 10% had located in Walnut Creek, while over 80% of these firms chose sites in the southern part of the corridor (San Ramon, Dublin and Pleasanton).

The survey results gave no indication that patterns are changing over time. Firms that had moved into their present site in the past year were no more likely to have come from outside the 680 corridor than firms that have been in their present location since before 1980. There is also no evidence that firms that had recently selected a new site were more likely to be large firms than in the sample as a whole.

Reasons for Choosing the Present Location

Overall, firms were most frequently concerned with choosing a site close to the owner's home or to the firm's workforce. Proximity to the owner's home was a concern for 40% of all firms (most of which were very small). Proximity to the workforce was mentioned by 40% of large employers with fifty employees or more (see Table

Table 3. Reasons for Selecting Current Location, by Firm Size

Reason	Size of Firm (No. of Employees)						% Firms** Giving Reason
	1-5	6-10	11-25	26-50	51-100	101-500	
Cost	28 (25)*	10 (22)	6 (16)	6 (40)	4 (31)	2 (40)	24.3
Available Space	12 (11)	13 (28)	10 (27)	4 (27)	4 (31)	3 (60)	20.0
Transportation	30 (26)	12 (26)	9 (24)	3 (20)	3 (23)	2 (40)	25.7
Near Related Firms	12 (11)	4 (9)	5 (14)	1 (7)	2 (15)	2 (40)	11.3
Near Owner's Home	55 (48)	22 (48)	12 (32)	1 (7)	2 (15)	1 (20)	40.4
Near Workforce	10 (9)	11 (24)	5 (14)	2 (13)	5 (39)	2 (40)	15.2
Amenities	6 (5)	2 (4)	1 (3)	1 (7)	0 (0)	0 (0)	4.3
Urban Problems	2 (2)	1 (2)	1 (3)	1 (7)	0 (0)	0 (0)	2.2
Near Customers	28 (25)	4 (9)	8 (22)	2 (13)	5 (39)	1 (20)	20.9
Other	23 (20)	6 (13)	7 (19)	5 (33)	2 (15)	0 (0)	18.7
% of all firms	49.6	20.0	16.1	6.5	5.7	2.2	

* Numbers in parentheses are % of firms giving reason, by size

** Excludes 7 firms that did not respond to size or reason question

Source: Center for Real Estate and Urban Economics survey of office space tenants along Highway 680, January 1984

3). Large employers were also concerned with the amount of space available, the cost of space, proximity to customers, and transportation access.

The reasons for moving varied more by where firms chose to locate than by where firms had been located previously. Firms moving from San Francisco and Oakland had concerns similar to larger firms overall in the sample. Firms in downtown Walnut Creek were least likely to be concerned with cost, space availability and workforce factors in selecting their location, and were more often concerned with proximity to customers than firms in many other areas. Firms in Ygnacio Valley, San Ramon and Dublin were more likely to mention the cost of space than the average firm. Firms in Concord reflected a manufacturing and sales bias, with relatively high proportions concerned with the amount of space available and transportation access. These variations are consistent with the types of locations chosen—downtown Walnut Creek is in a retail area where many customers conduct business, while many of the other office sites are in less dense locations, with lower cost land and more flexible use of space.

Markets Served and the Future Demand for Space

Half of the firms in the sample primarily served clients or customers in the local area or within the Bay Area. The other half served northern California, west coast, or international markets. Among firms leasing 10,000 square feet of space or more, 85% serve state or west coast markets.

The survey results indicate that the growth of demand for office space along the 680 corridor will come from several sources, including local population growth, firms moving from other parts of the Bay Area, and growth of the California and western state economies. Locations within the 680 corridor differ in their attractiveness to different types of firms. However, changing building patterns, such as the construction of higher quality space in Concord, may shift where firms locate in the next two decades. Builders throughout the corridor presently appear to be focusing particularly on the traditional office user in higher priced space.

Projecting Suburban Office Space Demand

The survey results provide useful input for projecting the growth in demand for office space in the future. The methodology used for the 680 corridor projections focused primarily on employment growth in traditional office-using activities and looked at the effects of the location's advantage within the region and the connections between local growth and statewide growth.

Projections of office space demand in suburban areas are complicated by a lack of data at the subcounty level. However, with an understanding of the type of firms in suburban speculative space, realistic assumptions can be made about the share of new growth captured by the suburban areas, and a likely range for future demand can be identified and illustrated.

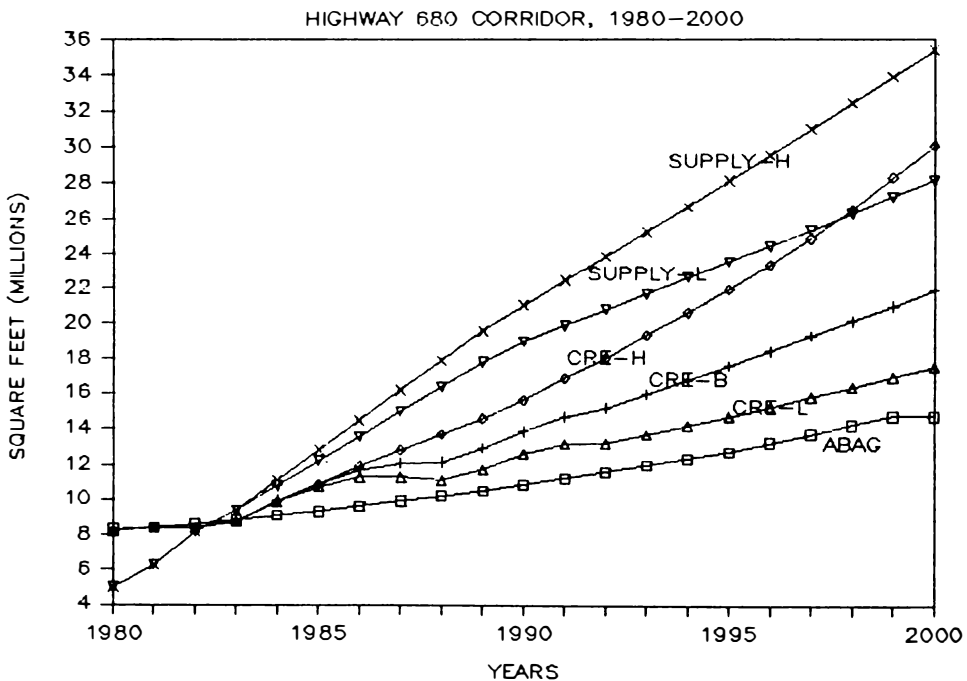
Assumptions used for projecting office space demand along the 680 corridor included the following:

- 1) Growth of traditional office-using economic activities would be the major indicator of increased demand for office growth, as the great majority of office space is absorbed by these types of firms.
- 2) Demand for new office space would grow by approximately 250 square feet for each new job. This multiplier was taken from past relationships observed for office space absorption in San Francisco and Contra Costa Counties in the 1970s and early 1980s.
- 3) The Contra Costa County portion of the 680 corridor would capture all of Contra Costa County's net new office space demand (the county's other major employment centers have stabilized and are not growing); eastern Alameda County would capture half of Alameda County's total demand increase (sharing new demand with Oakland, Hayward and Fremont office centers).
- 4) Overall, Contra Costa and Alameda Counties would continue to hold the same relative advantages over the San Francisco-Oakland SMSA and the state in employment growth in office-type sectors as in the past decade. Office jobs in Contra Costa County have grown about two and a half times as quickly as the annual statewide employment growth rate.

Building on these assumptions, projections of California employment growth provided by Chase Econometrics were used to project a rate of employment growth and office space demand along the 680 corridor. The results showed that the demand for office space may grow much more quickly than regional projections made by the region's council of governments, the Association of Bay Area Governments (ABAG) would imply, but that builders may be planning far more space than the area is likely to absorb (see Figure 2).

This type of work has implications for developers and planners. Developers along the 680 corridor are already responding to perceived vacancies and to projections of lower demand by delaying construction starts on some office buildings. For planners, employment projections based on demand growth, rather than supply expectations, can provide a more realistic measure of housing and transportation needs associated with employment growth.

Figure 2. Projected Demand for Office Space



SUPPLY-H, SUPPLY-L: High and low estimates of rental office space

CRE-L, -B, -H: Low, baseline and high estimates of demand for space made by the Center for Real Estate and Urban Economics

ABAG: Implied demand for space, using ABAG projections of growth of jobs in traditional office-type jobs

Source: Center for Real Estate and Urban Economics, January, 1984

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Further Information on the 680 Office Market

The survey results and other aspects of the 680 corridor office market are reported in more depth in *Employment Growth and Office Space Along the 680 Corridor: Booming Supply and Potential Demand in a Suburban Area*. The full report is available from the publications office of the Center for Real Estate and Urban Economics, 156 Barrows Hall, University of California at Berkeley, Berkeley, CA., 94720. Orders must be prepaid. The cost is \$10.00 plus applicable tax.