

PLEASANTON | TRI-VALLEY | INDUSTRIAL

Q3 2015

Accelerating success.

With Low Vacancy, What Is Next?

- › Vacancy rates continue to fall, reporting 5.4 percent for the third quarter.
- › Asking rates climb to \$0.72 per square foot triple net.
- › Absorption remained positive at 125,209 square feet.

Over the past two years, the Tri-Valley industrial market has experienced remarkable movement. In early 2013, the overall vacancy sat at 11.1 percent; since then, approximately 1.0 million square feet of available space has been absorbed, bringing the vacancy to a healthy 5.4 percent. By the end of the second quarter, the industrial market started to gain momentum and talks of speculative development were in the works. In the latter half of 2013, the industrial market's vacancy was well into single digits. In the first quarter of 2015, the market continued to report a low vacancy of 6.4 percent, declining 100 basis points by the end of September to 5.4 percent. Landlords took full advantage of the tight market, raising asking rates from \$0.65 per square foot (psf) triple net (NNN) in the first quarter to \$0.72 psf NNN, currently. Two years prior, when the vacancy was less than 10.0 percent, the weighted average asking rates were \$0.52 psf NNN. So what is all the movement? In short, some tenant expansions and tenant migrations. Livermore has always been the leader for the Tri-Valley's industrial market, and this quarter is no different; however, Dublin has some news to speak of, which will be mentioned a little later. Absorption for the quarter stayed positive, reporting 125,209 square feet (181,453 square feet year-to-date). Overall gross absorption year-to-date closed the quarter at 822,591 square feet.

Market Indicators - Tri-Valley



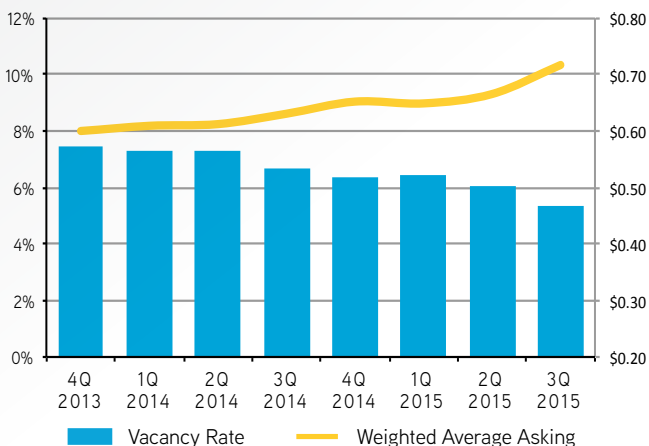
Market Trends

Relative to prior period	Q3 2015	Q4 2015*
Vacancy	↓	↓
Net Absorption	↑	↑
Construction	↔	↑
Rental Rate	↑	↑

*Projected

Historical Vacancy and Average Asking Rates

Tri-Valley | Overall



In the first quarter of 2015, the market continued to report a low vacancy of 6.4 percent, declining 100 basis points by the end of September to 5.4 percent.

Summary Statistics

Q3 2015 Tri-Valley Industrial Market	Previous Quarter	Current Quarter
Vacancy Rate	6.1%	5.4%
Overall Asking Rate*	\$0.67	\$0.72
Light Industrial Asking Rate*	\$0.79	\$0.88
Whse/Dist Asking Rate*	\$0.49	\$0.48
Net Absorption	62,499	125,209
Gross Absorption	362,514	184,558

*Asking rates are reported on a triple net monthly basis

U.S. Economic Indicators

Unemployment Rate	5.3%	5.1%
Labor Force Participation Rate	62.6%	62.4%
Consumer Price Index	2.4%	2.4%
Interest Rate - 10 Yr Treasury	2.4%	2.0%
Business Confidence	99.9%	99.4%
Consumer Confidence	100.9%	100.2%

Data Source: EDD Labor Market Information Division

Dublin/Pleasanton Light Industrial

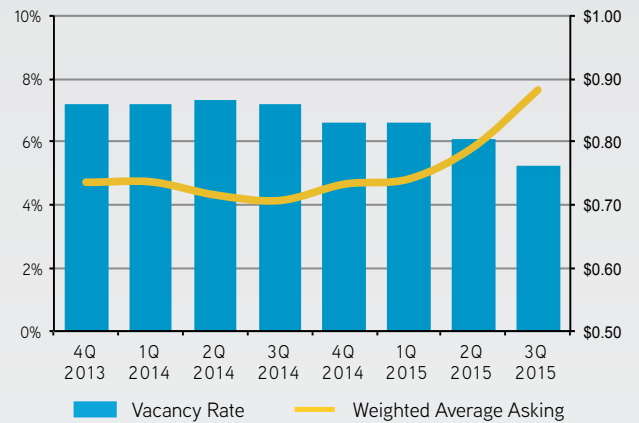
Though the Tri-Valley continued in a positive direction during the third quarter, both Dublin and Pleasanton remained relatively flat. Pleasanton's activity was minimal, closing the quarter at a 2.9 percent vacancy rate. Net absorption reported negative 12,877 square feet, and the overall weighted average asking rate jumped from \$1.00 psf NNN in the first quarter to \$1.24 psf NNN currently. Pleasanton's industrial market is fairly limited with light industrial being the primary focus for any available space. Any movement, positive or negative, impacts this already tight market.

Dublin reported positive 24,850 square feet of net absorption and dropped two basis points to 13.7 percent for the quarter from 15.3 percent three months prior. The overall weighted average asking rates continued their upswing, closing the quarter at \$1.04 psf NNN from \$0.93 psf NNN in the second quarter. Similar to Pleasanton, Dublin currently has no vacant warehouse product on the market. However, recent activity in the Dublin market during the third quarter worth mentioning is: 6400 Sierra Court, a 205,515 square foot light industrial building, which was vacated prior to the market crash, sold to an investor who specializes in troubled properties. Covington Group Inc (CGI Investors LLC) purchased the property for approximately \$62.00 psf. The hazardous materials contaminating the property still need to be resolved; however, it is rumored there are interested parties looking to lease space in the well located building. Given the already low inventory for Dublin, if this building were excluded, the vacancy rate would be less than 1.0 percent. Other noteworthy transactions include New Life Church signing a ten-year lease at 6444 Sierra Court for 60,045 square feet. The building was still occupied when the deal was signed, therefore net absorption was not affected. Lastly, a rare 161,759 square foot warehouse building came onto the market this quarter, which, though not technically vacant (therefore not included in the vacancy numbers), has had a lot of interest from potential tenants. The owner, Prologis, and City of Dublin have been in a dispute over the general plan for use, so any interested parties cannot be entertained at the present time. Once ironed out with the City, this large space is expected to be vacant in 2016. This will greatly impact the tight market as far as vacancy and absorption. With a great location, just across from the new Dublin/Pleasanton BART station and with excellent freeway exposure, this building is not expected to remain vacant long-term.

Expectations for the final quarter of 2015 are for lease and sale activity to remain strong as the economy and Bay Area real estate market thrives. Rental rates are expected to steadily increase as inventory thins and the inner Bay Area market continues to drive demand out to lower cost markets such as the Tri-Valley. While sale prices are near the 2007 peak, lease rates still have a ways to go before returning to 2007 levels. Expectations are for a sustained recovery going forward in the foreseeable future.

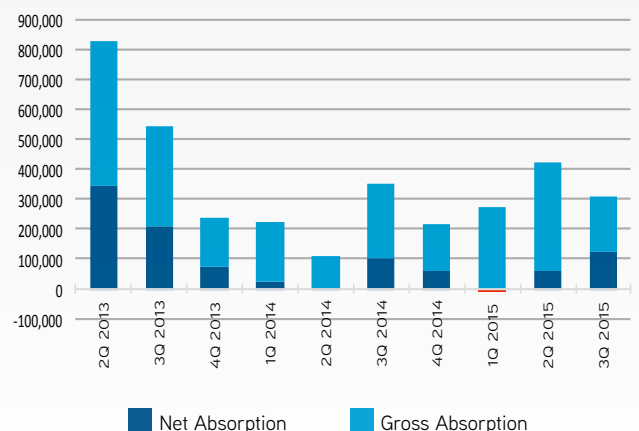
Historical Vacancy and Average Asking Rates

Tri-Valley | Light Industrial



“Expectations for the final quarter of 2015 are for lease and sale activity to remain strong as the economy and Bay Area real estate market thrives.”

Historical Net Absorption and Gross Absorption



Livermore Light Industrial/Warehouse

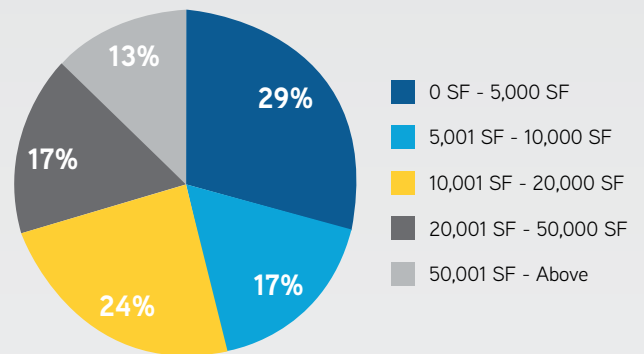
The Livermore industrial market, once again, tightened another notch. Vacancy rates dropped from 5.7 percent to 4.9 percent. Overall asking rates were relatively flat from last quarter, reporting \$0.54 psf NNN. Low vacancy rates and lack of inventory for functional warehouses contribute to a strong landlord's market. Net absorption remained positive at 113,236 square feet by the end of the third quarter. Gross absorption's positive momentum continued, increasing over two hundred percent from the beginning of the year, closing the quarter at 760,780 square feet year-to-date. For the quarter, there was one leased investment sale that took place: Exeter Property Group purchased the 60,000 square foot building at 5476 Brisa Street. Leased to Ryerson through January 2018, the property reportedly sold for under \$82.00 psf with a 6.06 percent capitalization rate.

Light industrial had a small dip in vacancy, reporting 3.6 percent from 4.7 percent in the second quarter. Weighted average asking rates remained relatively flat for the quarter, quoting \$0.62 psf NNN by the end of the quarter, from \$0.63 psf NNN just three months prior. Net absorption stayed positive, closing the quarter at 73,589 square feet (156,250 year-to-date). Gross absorption finished the quarter at 104,792 square feet, bringing the total for the year so far to 335,693 square feet.

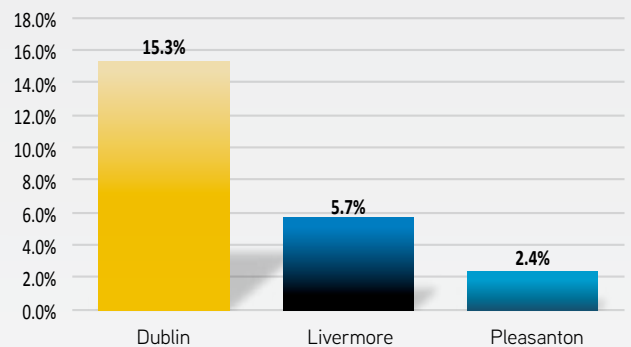
Of lease transactions to note: Geysler Beverage Company leased 27,648 square feet at 101 Pullman Street, and Tapp Label Company signed a long-term deal for 19,315 square feet on South Vasco Road, a space that was on the market for just under two months. NeoTract Inc took up space on Rutan Drive, and Sears Holding Corporation renewed their existing lease on East Airway Boulevard for three years. Both spaces have a great location near the Livermore Airport with excellent highway access.

The warehouse market has made great strides this year. This time last year, vacancy remained in the mid to high 6.0 percentage range, dipping to 6.2 percent this quarter. Weighted average asking rates witnessed little change this quarter, quoting \$0.48 psf NNN.

Available Space by Square Foot Range



Comparable Overall Industrial Vacancy Rates



OAKS LOGISTICS CENTER IN OAKS BUSINESS PARK

The largest speculative development in the Tri-Valley in 2015, as well as the largest industrial product to be developed in Tri-Valley's history, is projected to be completed around the fourth quarter 2015/first quarter 2016, consisting of three buildings of approximately 635,000, 367,000 and 294,000 square feet. Owner/developer TC/BK (Trammell Crow/Bentall Kennedy) hopes to lure big box distribution tenants in search of facilities with close proximity to the Bay Area.

Though the third quarter's activity was minimal, net absorption retained its positive momentum, recording 39,647 square feet, with gross absorption of 47,318 square feet (425,087 square feet year-to-date).

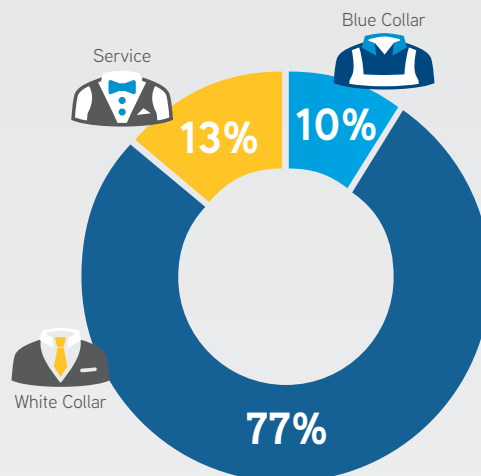
Though little movement transpired from last quarter, with less than 40,000 square feet of net absorption, the significant transactions in the warehouse market state the overall health of this sector for Livermore. Aside from The Oaks Logistics Center, other development news indicative of the upward trend in the Livermore market is Scannell Properties, a developer out of Indiana, purchasing 9.9 acres of land on Marathon Drive and Patterson Pass Road for \$6.75 psf. Plans to construct an 86,700 square foot build-to-suit warehouse/distribution building is underway. Roadrunner Transportation Systems Inc, signed a ten-year lease with Scannell Properties Inc with expectancy of occupying sometime in May 2016. Other noteworthy deals include: Schneider Electric renewing their 31,879 square foot leased on South Vasco Road; All American Plastics & Packaging signed a short-term sublease for 19,200 square feet at 7888 Marathon Drive; WCS Distribution LLC took up 17,000 square feet on Patterson Pass Road in Amador Business Center I; and Canadian Sales Agency Inc inked a three year deal for 15,318 square feet at Livermore Commerce Center (6262 Patterson Pass Road).

Activity is clearly prevalent in the Livermore market in both the light industrial and the warehouse sectors. Fourth quarter will continue to see strong activity finishing out the year. Asking rates are expected to inch upward into 2016. The Oaks Logistics Center in Oaks Business Park, the largest speculative development in the Tri-Valley in 2015, as well as the largest industrial product to be developed in Tri-Valley's history, is projected to be completed around the fourth quarter 2015/ first quarter 2016, consisting of three buildings of approximately 635,000, 367,000 and 294,000 square feet. Owner/developer TC/BK (Trammell Crow/Bentall Kennedy) hopes to lure big box distribution tenants in search of facilities with close proximity to the Bay Area.

Looking Ahead

As the market continues to tighten, the question is, what is next? Available product is at an all-time low, demand is for space that is currently non-existent, and any development is solely catering to large warehouse/distribution users. Migration of companies coming to the Tri-Valley will continue; however, with asking rates pushing upward and product in the 5,000 - 20,000 square foot range narrowing, neighboring markets may become more appealing to those tenants looking for other options in the East Bay. As the Oaks Logistics Center nears completion, anticipation for how large users occupying the project will influence the surrounding tenants and the broader Livermore market rises. With expected population growth over the next five years and construction projects underway, job demand is projected to increase. Tri-Valley has sustained the ebbs and flows of the market; what happens in the next couple of years should be nothing less than positive growth.

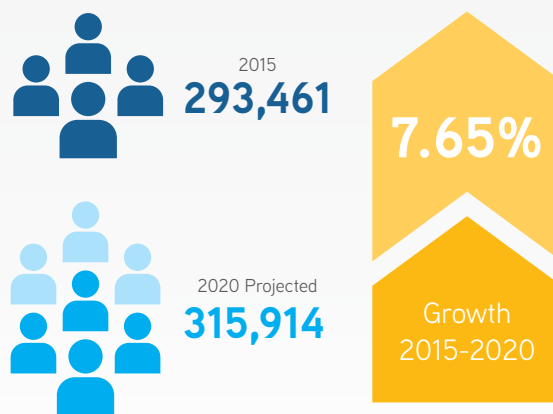
Employment By Category



Data Source: The Nielsen Company

“...demand is for space that is currently non-existent, and any development is solely catering to large warehouse/distribution users.”

Population



Data Source: The Nielsen Company

Significant Sale Activity



Significant Lease Activity

PROPERTY ADDRESS	LEASE DATE	SIZE	TENANT	TYPE
7501-7600 Marathon Drive, Livermore	July 2015	86,700 SF	Roadrunner Transportation Services ²	Warehouse/Distribution
6444 Sierra Court, Dublin	July 2015	60,045 SF	New Life Church	Light Industrial
240 South Vasco Road, Livermore	July 2015	31,879 SF	Schneider Electric*	Warehouse/Distribution
101 Pullman Street, Livermore	July 2015	27,648 SF	Geysler Beverage Company	Light Industrial
161 South Vasco Road, Livermore	August 2015	19,315 SF	Tapp Label Company	Light Industrial
7888 Marathon Drive, Livermore	September 2015	19,200 SF	All American Plastics & Packaging ¹	Warehouse/Distribution
6902 Patterson Pass Road, Livermore	July 2015	17,000 SF	WCS Distribution LLC	Warehouse/Distribution
6262 Patterson Pass Road, Livermore	July 2015	15,318 SF	Canadian Sales Agency, Inc.	Warehouse/Distribution
1963-1971 Rutan Drive, Livermore	August 2015	13,890 SF	NeoTract, Inc.	Light Industrial
283 East Airway Boulevard, Livermore	August 2015	12,584 SF	Sears Holding Corporation*	Light Industrial

*Renewal ¹ Sublease ² Build-to-Suit

Market Comparisons – Tri-Valley

INDUSTRIAL MARKET

CLASS	BLDGS	TOTAL INVENTORY SF	DIRECT VACANT SF	DIRECT VACANCY RATE	SUBLEASE VACANT SF	SUBLEASE VACANCY RATE	TOTAL VACANT SF	VACANCY RATE CURRENT QUARTER	VACANCY RATE PRIOR QUARTER	NET ABSORPTION CURRENT QTR SF	NET ABSORPTION YTD SF	GROSS ABSORPTION YTD SF	COMPLETIONS CURRENT QTR SF	UNDER CONSTRUCTION SF	WEIGHTED AVG ASKING RATE F5G
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DUBLIN

Lt Ind	41	1,302,025	214,402	16.5%	-	0.0%	214,402	16.5%	18.4%	24,850	(8,602)	24,850	-	-	\$1.04
Whse	2	259,917	-	0.0%	-	0.0%	-	0.0%	0.0%	-	-	-	-	-	\$0.60
Total	43	1,561,942	376,161	24.1%	-	0.0%	376,161	24.1%	15.3%	(136,909)	(170,361)	24,850	-	-	\$0.85

LIVERMORE

Lt Ind	309	6,601,394	237,061	3.6%	-	0.0%	237,061	3.6%	4.7%	73,589	156,250	355,693	-	-	\$0.62
Whse	50	6,489,995	365,323	5.6%	36,545	0.6%	401,868	6.2%	6.8%	39,647	31,272	425,087	-	1,298,207	\$0.48
Total	359	13,091,389	602,384	4.6%	36,545	0.3%	638,929	4.9%	5.7%	113,236	187,522	760,780	-	1,298,207	\$0.54

PLEASANTON

Lt Ind	127	2,251,255	73,907	3.3%	5,000	0.2%	78,907	3.5%	2.9%	(12,877)	2,533	36,961	-	-	\$1.24
Whse	2	487,405	-	0.0%	-	0.0%	-	0.0%	0.0%	-	-	-	-	-	\$ -
Total	129	2,738,660	73,907	2.7%	5,000	0.2%	78,907	2.9%	2.4%	(12,877)	2,533	36,961	-	-	\$1.24

MARKET TOTAL

Lt Ind	477	10,154,674	525,370	5.2%	5,000	0.0%	530,370	5.2%	6.1%	85,562	150,181	397,504	-	-	\$0.88
Whse	54	7,237,317	527,082	7.3%	36,545	0.5%	563,627	7.8%	6.1%	(122,112)	(130,487)	425,087	-	1,298,207	\$0.52
Total	531	17,391,991	1,052,452	6.1%	41,545	0.2%	1,093,997	6.3%	6.1%	(36,550)	19,694	822,591	-	1,298,207	\$0.70

QUARTERLY COMPARISON AND TOTALS

Q3-15	531	17,391,991	1,052,452	6.1%	41,545	0.2%	1,093,997	6.3%	6.1%	(36,550)	19,694	822,591	-	1,298,207	\$0.70
Q2-15	531	17,391,991	1,057,447	6.1%	-	0.0%	1,057,447	6.1%	6.4%	62,499	56,244	638,033	-	1,298,207	\$0.67
Q1-15	531	17,391,991	1,096,710	6.3%	23,236	0.1%	1,119,946	6.4%	6.4%	(6,255)	(6,255)	275,519	-	1,298,207	\$0.65
Q4-14	535	17,508,130	1,000,892	5.7%	112,799	0.6%	1,113,691	6.4%	6.7%	57,826	187,028	717,109	-	-	\$0.65
Q3-14	535	17,508,130	1,148,281	6.6%	23,236	0.1%	1,171,517	6.7%	7.3%	99,999	129,202	558,931	-	-	\$0.63



MARATHON BUSINESS CENTER

Scannell Properties, a developer out of Indiana, purchasing 9.9 acres of land on Marathon Drive and Patterson Pass Road for \$6.75 psf. Plans to construct an 86,700 square foot build-to-suit warehouse/distribution building is underway. Roadrunner Transportation Systems Inc, signed a ten-year lease and is expected to occupy mid-2016.

502 offices in 67 countries on 6 continents

United States: **140**

Canada: **31**

Latin America: **24**

Asia Pacific: **199**

EMEA: **108**

\$2.3

billion in
annual revenue

1.7

billion square feet
under management

16,300

professionals
and staff

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