

Shifting Vacancy Defines the Industrial Market

- Tri-Valley overall vacancy decreased to 6.7 percent
- The weighted average asking rate inched up to \$0.82 per square foot NNN
- Overall net absorption closes the quarter at negative 34,046 square feet

The Tri-Valley industrial market was very active over the past three months ending the third quarter of 2019 with an improved overall vacancy rate for Tri-Valley industrial decreasing from 7.3 percent at mid-year to 6.7 percent currently; while the year-to-date net absorption improved significantly to negative 34,046 square feet. With negative net absorption of 462,960 square feet in the second quarter 2019, the swing back to nearly flat for the year, indicates a very busy third quarter. One of the big reasons for this improvement was the Mattress Firm's takedown of 166,140 square feet at 7600 Hawthorne Avenue, which took a big chunk out of Crow Holdings' 241,591 square foot building. The five largest available industrial/warehouse listings in Pleasanton and Livermore which consist of 75,000+ square feet total 1,169,756 square feet of vacancy, which if removed from the overall vacancy numbers for this market, represent 87.5 percent of the total available inventory. In other words, if these five larger buildings were removed from the market, there would be less than 1.0 percent vacancy available for the remainder of the Tri-Valley industrial users. Given that the median industrial user in our market is in the 5,000-30,000 square foot range, this presents a real predicament for new users coming into the market or for existing tenants facing lease

Market Indicators

Unemployment Rate
Tri-Valley



10-Year Nominal
Interest Rate



Consumer
Confidence



Market Trends

Relative to prior period

Q3 2019

Q4 2019*

Vacancy



Net Absorption



Construction



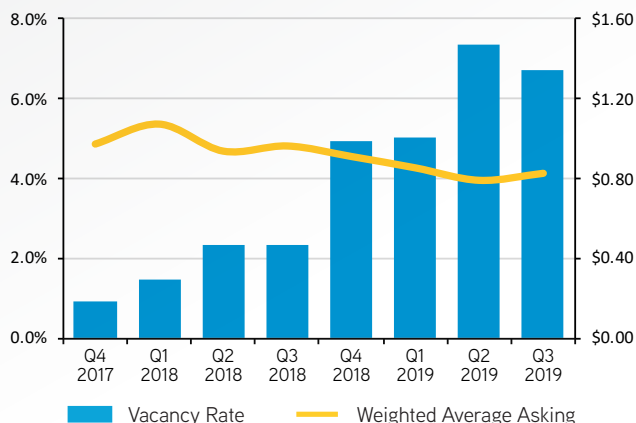
Rental Rate



*Projected

Historical Vacancy and Average Asking Rates

Tri-Valley | Overall



Vacancy rates have significantly increased over the past twelve months due to a couple of large spaces that hit the market at the end of 2018 to mid-2019. Although overall weighted average asking rates saw an increase from last quarter, they have decreased nearly fifteen percent from this time last year.

Summary Statistics

Q3 2019 Tri-Valley Industrial Market

Previous
Quarter

Current
Quarter

Vacancy Rate	7.3%	6.7%
Overall Asking Rate*	\$0.79	\$0.82
Light Industrial Asking Rate*	\$0.97	\$1.20
Whse/Dist Asking Rate*	\$0.77	\$0.77
Net Absorption	(462,960)	131,251
Gross Absorption	283,572	228,985

*Asking rates are reported on a triple net monthly basis

U.S. Economic Indicators

Unemployment Rate	3.6%	3.5%
Labor Force Participation Rate	62.9%	63.2%
Consumer Price Index	2.56%	2.57%
Interest Rate - 10 Yr Treasury	2.00%	1.68%
Business Confidence	99.64	98.90
Consumer Confidence	121.5	125.1

renewals. Average weighted triple net (NNN) asking rental rates were also bumped up by 3.8 percent this quarter. Not much has changed for industrial tenants and buyers in our market, given that low vacancy and strong pricing continue to benefit property ownership.

Dublin/Pleasanton Light Industrial

With the former Unisource building partially leased to Omron, there remains 262,883 square feet at 4225 Hacienda Drive in Pleasanton, which makes up most of Pleasanton's vacancy. While the asking rental rate has skyrocketed to \$1.98 per square foot, NNN, for light industrial, the two available buildings listed in this category are a small light industrial building with a 2.0 acre finished yard on Sunol Boulevard and some heavily improved, light industrial space in Valley Business Park. Currently there is only 1.0 percent vacancy for Pleasanton light industrial. Although it did not affect the vacancy or the absorption numbers in Pleasanton, the former Proficient Foods building at 5675 Sunol Boulevard in Pleasanton was sold by Westcore to Stockbridge Capital Group in a portfolio investment sale consisting of twenty-six properties. This building was already fully leased to T.A.E.C. LLC (Cheetah). At the end of the third quarter 2019, the Dublin industrial market had zero percent vacancy. Given the tightness of both of these markets, there was minimal activity in the last quarter. As industrial users continue to expand their presence in the Tri-Valley, they are increasingly looking to Livermore as their next option.

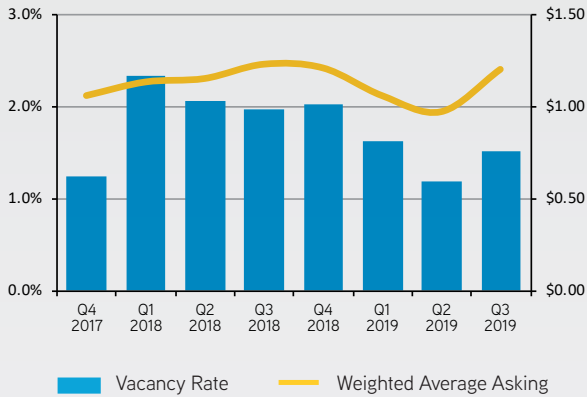
Livermore Industrial/Warehouse

As the primary destination for industrial users in the Tri-Valley, Livermore's overall vacancy rate improved from 7.6 percent to 6.7 percent. The light industrial vacancy rate tipped up slightly to 2.0 percent, while the warehouse vacancy rate declined to 10.8 percent. Additionally, overall rental rates in Livermore increased slightly from \$0.77 per square foot, NNN, last quarter to \$0.79 per square foot, NNN, at the end of the third quarter. Although there is reported activity for the newly developed industrial buildings in East Livermore, Crow Holdings is still looking for users at 6755 Brisa Street (128,622 square feet); at the remaining 75,451 square feet at 7600 Hawthorne Avenue; and at the 90,500 square foot building at 7551 Longard Road in Livermore. Orchard Partners has been actively marketing the Longfellow Logistics Center (previously occupied by E & E Company, Ltd.) consisting of 612,300 square feet. Other than the Westcore/Stockbridge Capital Group's sale in Pleasanton, the other sales were industrial condominiums in Pleasanton and Livermore, which sold in the high \$200's on a per square foot basis. San Ramon Tow & Repair, Inc. sold their 21,796 square foot property on a sale/leaseback at 57-69 Travarno Road.

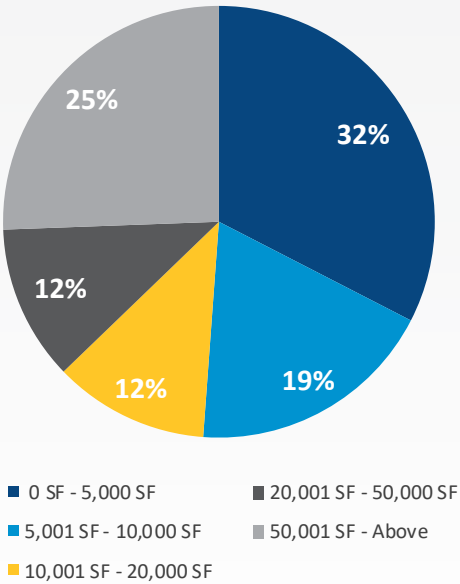
Significant lease transactions that occurred in Livermore during the third quarter 2019 include: Big D Floor Covering Supplies (23,382 square feet) at 4647 Las Positas Road; Longust Distributing, Inc. (15,000 square feet) at 174 Lawrence Drive; Golden West Packaging

Historical Vacancy and Average Asking Rates

Tri-Valley | Light Industrial



“...industrial users continue to expand their presence in the Tri-Valley, they are increasingly looking to Livermore as their next option.”



Group renewed their lease of 108,656 square feet at 6650 National Drive; and Mattress Firm took the lion's share of 7600 Hawthorne Avenue, leasing 166,140 square feet on a long term basis there. In Dublin, LIRA Cosmeceutical leased 10,708 square feet at 6938 Sierra Court, and Galleher Corporation renewed their lease of 10,320 square feet at 6805 Sierra Court.



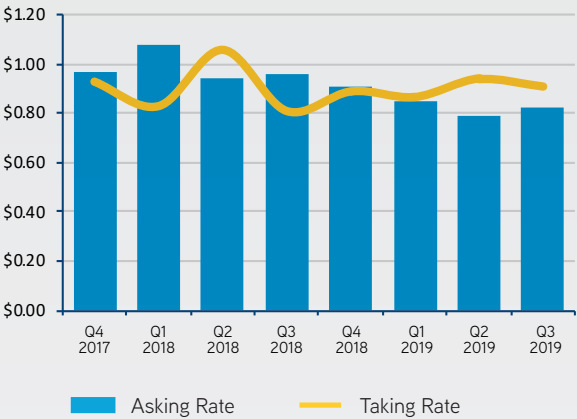
Mattress Firm LLC signed a 166,140 square foot lease at the newly constructed 241,591 square foot warehouse/distribution building.

Looking Forward

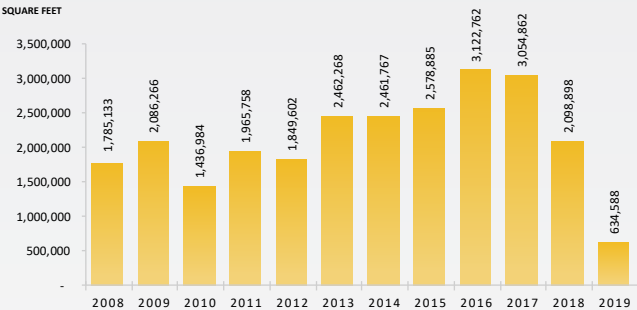
With no expectations of any future industrial development that would cater to smaller, multi-tenant or single-tenant users, the market will remain scarce for most new users coming into the market or tenants looking to renew or expand their facilities there. We do not expect rents to reverse any time soon, and pricing for buildings for sale, while still below replacement cost, will continue to be at a premium. Vacant land that is controlled by developers, such as Scannell Properties and Prologis, will be under development in the near future, catering to larger users. Still, the Tri-Valley remains attractive to companies looking to serve both the Northern California markets along the I-5 Corridor and the Greater Bay Area. Given the strength of the overall Bay Area economy and the region as a whole, we do not expect any significant changes to the momentum of the Tri-Valley industrial market through the beginning of next year.

Asking Rates and Taking Rates (NNN)

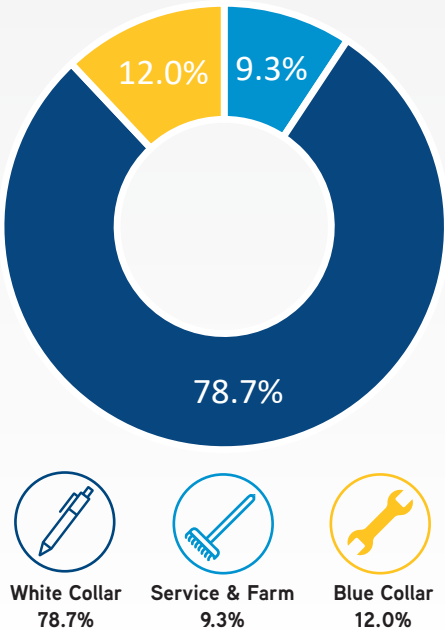
Tri-Valley | Overall



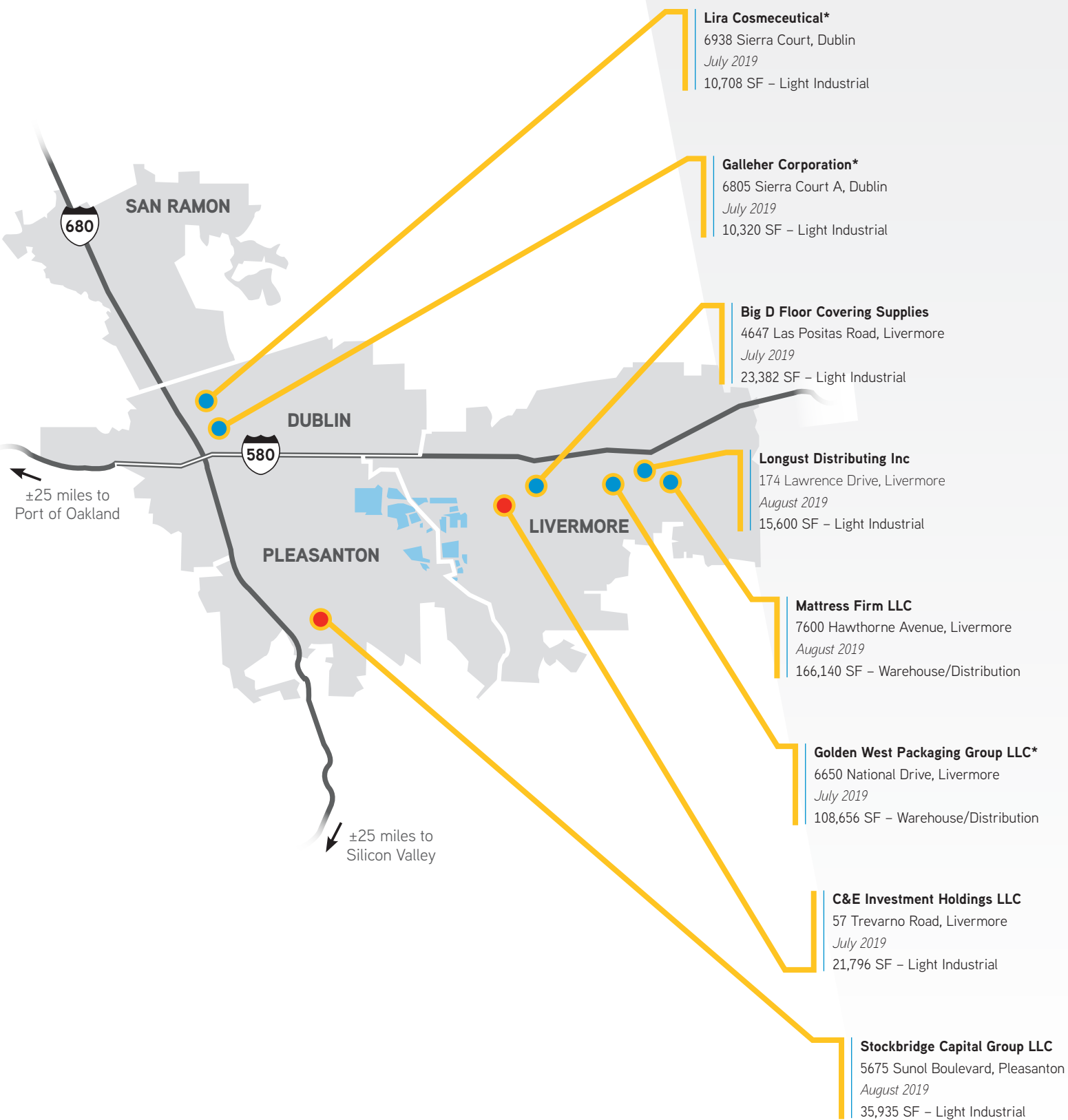
Transaction Volume



Employment By Category



Significant Lease/Sale Activity



* Renewal

Market Comparisons – Tri-Valley

INDUSTRIAL MARKET

TYPE	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 NNN
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DUBLIN

Lt Ind	41	1,321,025	-	0.0%	-	0.0%	-	0.0%	0.0%	-	1,400	15,800	-	-	\$-
Whse	2	259,917	-	0.0%	-	0.0%	-	0.0%	0.0%	-	-	-	-	-	\$-
Total	43	1,580,942	-	0.0%	-	0.0%	-	0.0%	0.0%	-	1,400	15,800	-	-	\$-

LIVERMORE

Lt Ind	303	7,281,922	137,177	1.9%	5,032	0.1%	142,209	2.0%	1.6%	(25,813)	(38,525)	214,196	-	-	\$1.08
Whse	58	8,502,525	916,494	10.8%	-	0.0%	916,494	10.8%	12.7%	166,140	(216,705)	429,409	-	517,710	\$0.75
Total	361	15,784,447	1,053,671	6.7%	5,032	0.0%	1,058,703	6.7%	7.6%	140,327	(255,230)	643,605	-	517,710	\$0.79

PLEASANTON

Lt Ind	125	2,225,122	20,636	0.9%	837	0.0%	21,473	1.0%	0.6%	(9,076)	92,994	136,597	-	20,000	\$1.98
Whse	2	487,418	262,883	53.9%	-	0.0%	262,883	53.9%	53.9%	-	126,790	-	-	-	\$0.85
Total	127	2,712,540	283,519	10.5%	837	0.0%	284,356	10.5%	10.1%	(9,076)	219,784	136,597	-	20,000	\$0.93

MARKET TOTAL

Lt Ind	469	10,828,069	157,813	1.5%	5,869	0.1%	163,682	1.5%	1.2%	(34,889)	55,869	366,593	-	20,000	\$1.20
Whse	62	9,249,860	1,179,377	12.8%	-	0.0%	1,179,377	12.8%	14.5%	166,140	(89,915)	429,409	-	517,710	\$0.77
Total	531	20,077,929	1,337,190	6.7%	5,869	0.0%	1,343,059	6.7%	7.3%	131,251	(34,046)	796,002	-	537,710	\$0.82

QUARTERLY COMPARISON AND TOTALS

Q3-19	531	20,077,929	1,337,190	6.7%	5,869	0.0%	1,343,059	6.7%	7.3%	131,251	(34,046)	796,002	-	537,710	\$0.82
Q2-19	531	20,077,929	1,469,635	7.3%	4,675	0.0%	1,474,310	7.3%	5.0%	(462,960)	(165,297)	567,017	-	477,710	\$0.79
Q1-19	529	20,077,929	1,005,275	5.0%	6,075	0.0%	1,011,350	5.0%	4.9%	297,663	297,663	283,445	332,091	20,000	\$0.85
Q4-18	529	19,770,086	948,680	4.8%	29,369	0.1%	978,049	4.9%	2.3%	(517,679)	(670,740)	573,422	-	352,091	\$0.91
Q3-18	529	19,770,086	433,626	2.2%	26,744	0.1%	460,370	2.3%	2.3%	(2,861)	(153,061)	476,090	-	352,091	\$0.96



6650 NATIONAL DRIVE | LIVERMORE, CA
Golden West Packaging Group LLC renewed their lease.

68 countries

\$3.3

billion in
annual revenue*

2.0

billion square feet
under management

69,000

professionals
and staff

\$127

billion in
total transaction volume

*All statistics are for 2018, are in U.S. dollars and
include affiliates.

COLLIERS INTERNATIONAL | PLEASANTON

4301 Hacienda Drive, Suite 430
Pleasanton, CA 94588 | USA

+1 925 463 2300

MARKET CONTACTS:

Marshall Snover
Executive Managing Director
CA License No. 00882591
+1 925 227 6205
marshall.snover@colliers.com

Lisa Kohler
Senior Research Analyst
+1 925 227 6236
lisa.kohler@colliers.com

CONTRIBUTING AUTHORS:

Mark Triska, SIOR | Executive Vice President



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