

PLEASANTON | ALAMEDA COUNTY, CALIFORNIA RESEARCH & FORECAST REPORT



Industrial Market Review

AND THIS IS JUST THE BEGINNING

Continued decreases in vacancy and increases in asking rents were just the beginning for the industrial market in the Tri-Valley. Looking back two years, the overall industrial market reported double digits in vacancy (11.8 percent) with the average asking rate quoted at \$0.54 per square foot triple net. As the market continued to improve, so did the numbers, reflecting the resilience of the Tri-Valley. The fourth quarter closed with a healthy 6.4 percent vacancy rate, down a point from this time last year. The average asking rate bumped up \$0.04 from the beginning of the year to \$0.65 per square foot, a rate this market has not seen in five years. Overall net absorption, quarter over quarter has remained positive since the second quarter of 2012. This quarter's net absorption reports positive 57,826 square feet and 187,028 square feet year-to-date. Gross absorption year-to-date chimes in at 717,109 square feet. All points indicate the market is strong and showing no indication of slowing down.

The light industrial market has dramatically improved from 11.0 percent vacancy at the end of 2011 to 6.6 percent vacancy today. Asking rates jumped \$0.11 in three years quoting \$0.73 per square foot for the Tri-Valley, a rate that is anticipated to continue to increase as we head into the New Year. Net absorption sits at positive 56,709 square feet for the quarter. Gross absorption finished the quarter at 405,221 square feet. The Livermore market continues to be the Tri-Valley industrial leader, home to all of the significant deals that took place in the fourth quarter.

The warehouse sector has exhibited the most improvement over the past two years. With the vacancy rate topping the charts at 21.8 percent in the beginning of 2012, dropping down to single digits in the first half of 2013, sitting comfortably now at 6.0 percent for the past two quarters, this industry has proven the market has rekindled its spark solidifying the Tri-Valley as a valuable home to many users in

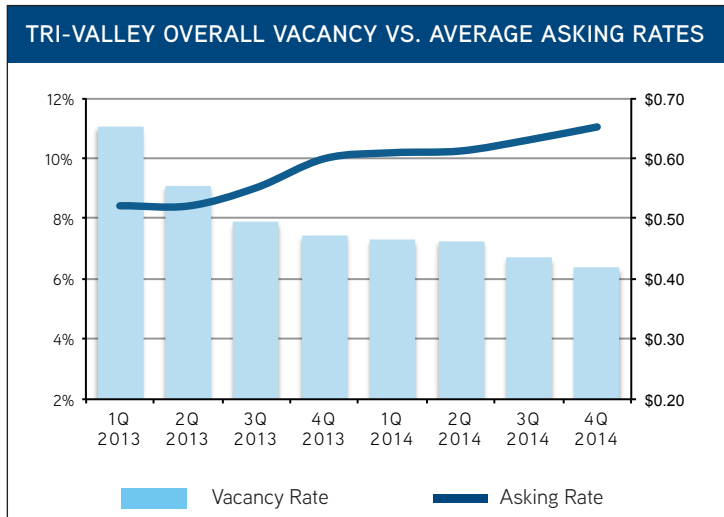
MARKET INDICATORS

	Q4-14	Projected Q1-15
VACANCY	↓	↓
NET ABSORPTION	↓	↑
CONSTRUCTION	↔	↔
RENTAL RATE	↑	↑

SELECTED MARKET STATS

- > Overall vacancy dipped to 6.4 percent
- > Net absorption remains positive at 57,826 square feet
- > The average weighted asking is \$0.65 per square foot triple net
- > California Unemployment Rate as of December 2014: 7.4 percent

*SOURCE: CALIFORNIA EMPLOYMENT DEVELOPMENT DEPARTMENT



Currently, the market sits at a healthy 6.4 percent vacancy, down a point from this time last year. The average asking rate bumped up \$0.04 from the beginning of the year to \$0.65 per square foot.



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the Bay Area. For the moment, there is little warehouse product to be seen as inventory thins, bringing the average asking rents to a settled \$0.49 per square foot triple net. Net absorption reports 1,117 square feet for the quarter, not a big number by any means, but great strides from the close of 2011, which reported negative 358,036 square feet. As the market continued to show progress, the heavy availabilities that once plagued the warehouse market, slowly began to melt away causing the vacancy gap between warehouse and the light industrial sectors to narrow. Today, the vacancy sits securely at 6.0 percent with the weighted average asking quoted rents at \$0.50 per square foot triple net. Net absorption closed the quarter at 87,636 square feet with the year-to-date gross absorption chiming in at 240,408 square feet. Development of the Oaks Business Park is due to commence early 2015, however it is unknown how much of the 1.3 million square feet of Class A distribution buildings are already spoken for. Tenant demand for spaces larger than 100,000 square feet in Livermore remains strong with five large tenant users currently looking for a place to call home.

DUBLIN/PLEASANTON LIGHT INDUSTRIAL

The Tri-Valley, along with the rest of the Bay Area, continued in a positive direction during the fourth quarter of 2014. Both Pleasanton and Dublin light industrial markets took steps forward with positive net absorption of space resulting in drops in vacancy rates. Pleasanton currently has a 3.0 percent vacancy rate when combining light industrial and warehouse categories and Dublin has 13.2 percent combined vacancy rate although it should be noted that if you exclude 6400 Sierra Court, a building with hazardous materials contamination, the Dublin light industrial vacancy rate would be only 0.2 percent. Given the extremely low vacancy rates, rental rates continue to rise at a moderate pace. Landlord concessions are minimal for quality spaces and there is often competition for space. On the sale side, Dublin/Pleasanton industrial inventory for sale is low and demand is strong. Prices have risen sharply and functional buildings continue to see multiple offers. Sale prices are nearing peak values last seen in 2007.

Expectations for the first quarter of 2015 are for lease and sale activity to continue increasing as the economy and Bay Area real estate market improves. 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

SIGNIFICANT DEALS

SALE ACTIVITY

PROPERTY ADDRESS	SALE DATE	SQUARE FEET	BUYER	TYPE
6474-6538 Patterson Pass Road	Oct-14	181,554	MKD Investments LP	Warehouse/Distribution

LEASE ACTIVITY

PROPERTY ADDRESS	LEASE DATE	SQUARE FEET	TENANT	TYPE
6818-6902 Patterson Pass Road	Dec-14	84,304	Record Xpress of California LLC*	Warehouse/Distribution
7503 Las Positas Road	Dec-14	44,480	UNITS	Warehouse/Distribution
7041 Las Positas Road	Nov-14	42,688	Architectural Glass and Aluminum*	Warehouse/Distribution
6538 Patterson Pass Road	Dec-14	27,000	Lost Worlds	Warehouse/Distribution
1901-1999 Rutan Drive	Dec-15	23,253	Performance Contracting Group*	Light Industrial
161 South Vasco Road	Oct-14	12,809	Canon Solutions America	Light Industrial
6336 Patterson Pass Road	Oct-14	10,973	Norman International	Light Industrial

* Renewal 1 Sublease

MARKET COMPARISONS

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	OCCUPIED SPACE SF	NET ABSORPTION CURRENT QTR SF	NET ABSORPTION YTD SF	GROSS ABSORPTION YTD SF	COMPLETIONS CURRENT QTR	UNDER CONST SF	WEIGHTED AVG ASKING RENTAL
DUBLIN																
Lt Ind	41	1,299,190	205,800	15.8%	-	0.0%	205,800	15.8%	15.9%	1,093,390	1,200	39,491	27,910	-	-	\$0.90
Whse	2	259,917	-	0.0%	-	0.0%	-	0.0%	0.0%	259,917	-	-	-	-	-	\$ -
Total	43	1,559,107	205,800	13.2%	-	0.0%	205,800	13.2%	13.3%	1,353,307	1,200	39,491	27,910	-	-	\$0.90
LIVERMORE																
Lt Ind	313	6,720,720	381,501	5.7%	11,810	0.2%	393,311	5.9%	6.6%	6,327,409	49,426	4,084	277,039	-	-	\$0.59
Whse	50	6,489,643	332,151	5.1%	100,989	1.6%	433,140	6.7%	6.7%	6,056,503	1,117	128,830	311,888	-	-	\$0.49
Total	363	13,210,363	713,652	5.4%	112,799	0.9%	826,451	6.3%	6.6%	12,383,912	50,543	132,914	588,927	-	-	\$0.54
PLEASANTON																
Lt Ind	127	2,251,255	81,440	3.6%	-	0.0%	81,440	3.6%	3.9%	2,169,815	6,083	14,623	100,272	-	-	\$1.00
Whse	2	487,405	-	0.0%	-	0.0%	-	0.0%	0.0%	487,405	-	-	-	-	-	\$0.60
Total	129	2,738,660	81,440	3.0%	-	0.0%	81,440	3.0%	3.2%	2,657,220	6,083	14,623	100,272	-	-	\$1.00
MARKET TOTAL																
Lt Ind	481	10,271,165	668,741	6.5%	11,810	0.1%	680,551	6.6%	7.2%	9,590,614	56,709	58,198	405,221	-	-	\$0.74
Whse	54	7,236,965	332,151	4.6%	100,989	1.4%	433,140	6.0%	6.0%	6,803,825	1,117	128,830	311,888	-	-	\$0.38
Total	535	17,508,130	1,000,892	5.7%	112,799	0.6%	1,113,691	6.4%	6.7%	16,394,439	57,826	187,028	717,109	-	-	\$0.65
QUARTERLY COMPARISON AND TOTALS																
Q4-14	535	17,508,130	1,000,892	5.7%	112,799	0.6%	1,113,691	6.4%	6.7%	16,394,439	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%	16,336,613	99,999	129,202	558,931	-	-	\$0.63
Q2-14	535	17,508,130	1,259,706	7.2%	11,810	0.1%	1,271,516	7.3%	7.3%	16,236,614	3,131	29,203	305,063	-	-	\$0.61
Q1-14	535	17,508,130	1,245,779	7.1%	28,868	0.2%	1,274,647	7.3%	7.4%	16,233,483	26,072	26,072	196,171	-	-	\$0.61
Q4-13	535	17,496,859	1,268,909	7.3%	31,810	0.2%	1,300,719	7.4%	7.9%	16,196,140	76,889	765,031	1,237,533	-	-	\$0.60
Q3-13	535	17,496,859	1,357,608	7.8%	20,000	0.1%	1,377,608	7.9%	9.1%	16,119,251	212,984	688,142	1,073,062	-	-	\$0.55



LIVERMORE DISTRIBUTION CENTER - LIVERMORE

A 181,554 square foot warehouse/distribution project consisting of two buildings, which recently sold to MKD Investments LP, soon became 100% leased after Lost Worlds signed a 27,000 square foot lease toward the end of the fourth quarter.

such as the Tri-Valley. While sale prices are nearing 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.

LIVERMORE LIGHT INDUSTRIAL/ WAREHOUSE

The Livermore light industrial/warehouse market's consistent positive run shows no signs of slowing as the New Year begins. Year-end 2014 numbers include total vacancy rates decreasing from 6.6 to 6.3 percent, which has declined consistently from 12.3 percent two years ago. Asking rental rates are now \$0.54 triple net, which is an approximately 7.0 percent increase over the beginning of 2014. The general feeling was some functional warehouses with institutional ownership including Alere and Prologis were finally leased at the end of year and the inventory for functional warehouses over 40,000 square feet has declined significantly.

The overall net absorption for light industrial and warehouse improved reporting positive 50,543 square feet from the previous quarter. Gross absorption rested at 588,927 square feet. The warehouse market increased 71,480 square feet of gross absorption from the previous quarter.

Noteworthy lease transactions in the fourth quarter include: Lost Worlds 27,000 square foot lease at Livermore Distribution Center, UNITS inking 44,480 square feet at Greenville Business Center, Performance Contracting Group renewing their 23,253 square foot lease at Airway Business Center and Canon Solutions America's 12,809 square foot lease at Vasco Business Center. One significant investment deal was the sale of the Livermore Distribution Center's 181,554 square feet to MKD Investments LP.

Looking back on 2014 some of the larger industrial real estate deals included Trammel Crow/Bentall Kennedy purchasing 112 acres of land at Oaks Business Park from Lehman brothers. TC/BK then sold 40 acres to a large undisclosed manufacturer from the I-880 Corridor who plans to build a 500,000 square foot state-of-the-art manufacturing building. TC/BK are in the process of breaking ground in Oaks Business Park on the largest speculative Class A distribution project ever in Livermore, which will consist of 1.4 million square feet in three buildings of approximately 635,000 square feet, 367,000 and 294,000 square feet. TC/BK appears to be banking on the fact that e-commerce continues to be the market driver, especially as retailers continue to determine their fulfillment space needs.

Expect the fall in vacancy rates and rise in rents to continue until new construction catches up with demand, which could be the early end of 2016.

SALES

The final quarter of 2014 posted a total of six industrial building sales consisting of four user sales and two investment deals. Three of the user sales were industrial condos in Livermore; one of 4,200 square feet and two in the 9,000 square foot range, with an average sale price of \$158 per square foot. The fourth, was on Houston Place in Dublin where Water Savers relocated from Livermore to a 9,000 square foot building for \$213 per square foot.

Both investment sales were in Livermore, with the most significant being the sale of 6474-6538 Patterson Pass Road, a two building 181,554 square foot multi-tenant warehouse/industrial project occupied primarily by recreational use tenants. The stabilized CAP rate was 7.35 percent after the final space was leased. The other investment sale was a two tenant 9,024 square foot older industrial building purchased by an exchange buyer on Research Drive for \$90 per square foot.

Purchase demand remains high for good Tri-Valley industrial buildings. In 2015 we expect that properties offered for sale will receive multiple tours and offers soon after listing and at prices approximately 5-10 percent above 2014 prices. Heading into 2015, there is talk of rising interest rates as was the case last year at this time. Those rate increases did not materialize in 2014 thus fueling the fears that this could be the year of slightly rising rates.

LOOKING FORWARD

Looking into 2015, with future development on the horizon, tenant demand remaining strong, and the housing market continuing its upswing, the Tri-Valley market is certain to attract new users to the area. Existing tenants who already know the advantages of being in a market that has convenient transportation connections to the balance of the Bay Area, excellent schools, and a lower cost of living than surrounding competitive markets have chosen to remain in the Tri-Valley due to the richness of what it offers. As the market continues to improve, rental rates are expected to push upward through 2015. Vacancies will remain in the low single digits and absorption will remain positive. All indications point to a thriving industrial market.

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