

# PLEASANTON | CALIFORNIA RESEARCH & FORECAST REPORT



## Office Market Review

### THE ROAD TO IMPROVEMENT - SLOW AND STEADY

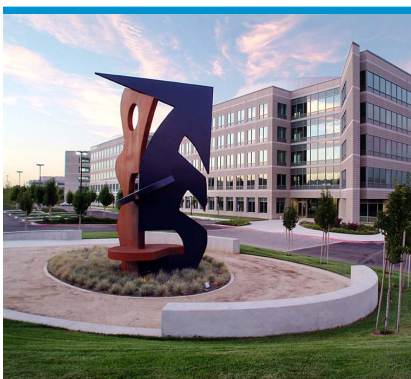
The Tri-Valley office market continues on a slow, but methodical recovery out of one of the most widespread economic crashes many in the industry have ever experienced. Since the initial bust more than two years ago, this market has suffered repeated blows; due primarily to stagnated employment growth, the crash of the financial markets and uncertain economic fundamentals. However, if you look at the Tri-Valley office market under a microscope, you can see signs of positive upward recovery (and a light at the end of the tunnel). The impetus behind these small, but important positive indicators is the improvement in the Class A office market.

It is evident that most transactions are taking place in the Class A office market with 455,153 square feet of gross leasing activity. Compare this to end of year 2009, which recorded 844,700 square feet of gross absorption. By this figure, at mid-year 2010, the Tri-Valley Class A office market has transacted 54 percent of the activity completed for all of 2009 and is 6.6 percent ahead of where gross activity was reported one year ago. Although these percentages may seem small, they are further marked by the large Class A office tenant requirements that are looking for homes in the third quarter of 2010. However, the Tri-Valley Class A office market has reported current net absorption at negative 35,568 square feet compared to 153,198 square feet in the prior quarter. The Tri-Valley Class A office market saw a nominal increase in vacancy rates from 13.8 percent in the prior quarter to 14.0 percent currently. The Tri-Valley Class A office market is not out of the woods, but there is a renewed sense of positive momentum.

On the other hand, the lagging Tri-Valley Class B office market is suffering considerably, registering a vacancy rate of 29.1 percent, up 1.0 percentage point from the previous quarter. Gross leasing activity, a measure of deal velocity in the market, generated only 26,657 square feet of completed transactions. With the exception of Livermore, asking rents sit either equal-to or below asking rates for office/flex

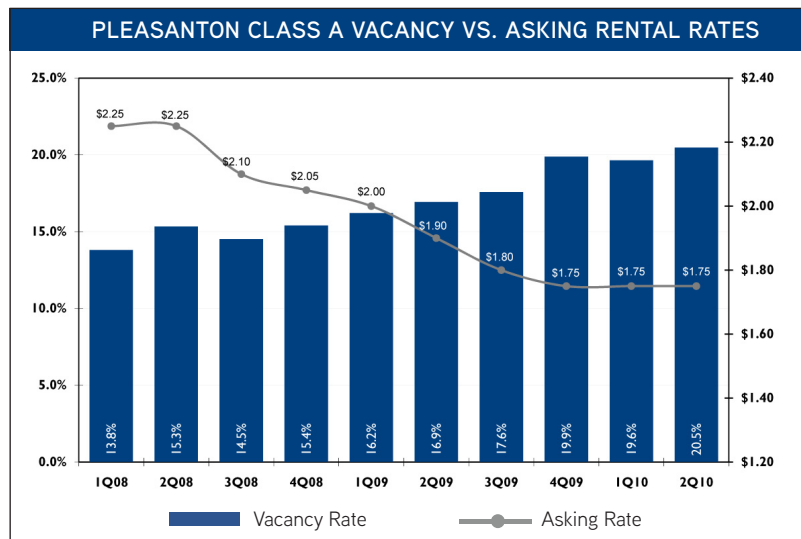
### MARKET INDICATORS

	Q2-10	Projected Q3-10
VACANCY	↑	↑
NET ABSORPTION	↓	↓
CONSTRUCTION	↔	↔
RENTAL RATE	↓	↓



### RECENT MARKET ACTIVITY

Callidus Software Inc and MechanicNet Group Inc leased space in the four 4-story Class A building project known as Pleasanton Corporate Commons in Pleasanton.





*"Tenants will remain empowered to capitalize on tenant-friendly market conditions"*

space and continue to fall. The Class B office market is a function of the Class A market, as typical Class B users look to upgrade to Class A space at Class B rental rates.

Overall, the Tri-Valley Class A Office market will continue to see small slides in effective rental rates, but it is becoming more apparent that the market will likely reach equilibrium in the coming quarters. Class A office space in the 10-15,000 square foot range, are slowly being absorbed, but mid-ranged 2,500-5,000 square foot spaces remain abundant. Tenants will remain empowered to capitalize on tenant-friendly market conditions, as the Tri-Valley Class A office market remains challenging, but positive indicators of recovery are becoming more prevalent.

### PLEASANTON

Pleasanton's Class A office market reported 20.5 percent vacancy in the current quarter, compared to 19.9 percent in the fourth quarter of 2009 and 16.9 percent one year ago. This represents a 21.3 percent increase in vacancy year-over-year. Pleasanton's Class A net absorption was 13,925 square feet in the prior quarter and has settled at negative 54,811 square feet in the second quarter of 2010. A sign of optimism is generated by 210,301 square feet of gross leasing activity currently, which is a nearly 150 percent increase in completed transactions from one year ago (85,174 square feet). Gross absorption was infused by several healthy transactions completed

at Pleasanton Corporate Commons which include, Callidus Software Inc.'s commitment to 32,034 square feet, MechanicNet Group Inc., leasing 12,387 square feet, Big-D Pacific Builders LP executing a lease for 5,522 square feet and Daymon Worldwide Inc., leasing 5,500 square feet. Also to note, Hormel Food Corporation leased 4,375 square feet at Signature Center. Pleasanton's Class A office market's asking rental rate sits unchanged from six months ago at \$1.75 per square foot full service.

### SAN RAMON

\*Note: Last quarter reporting methods were adjusted in an attempt to acknowledge the large impact of Bishop Ranch on the San Ramon office market. However, due to reporting inconsistencies, Bishop Ranch will be included in the San Ramon Office Class A and Class B numbers. For comparison purposes, Q12010 San Ramon Office market numbers have been adjusted accordingly.

San Ramon's Class A office vacancy rate is 8.3 percent currently, down from 10.3 percent two quarters ago, and down from 9.9 percent one year ago. The San Ramon Class A office market continues to steadily improve its vacancy rate and is the lowest in the Tri-Valley. San Ramon's Class A net absorption was 142,379 square feet in the first quarter of 2010 and stands at 12,643 square feet currently. Gross leasing activity in the San Ramon Class A office market is behind its mark from one year ago by 83,192 square

### SIGNIFICANT DEALS

#### SALES ACTIVITY

PROPERTY ADDRESS	SQUARE FEET	SALE PRICE	PRICE PSF	BUYER	SELLER
5724 W Las Positas Rd	40,914	\$4,050,000	\$98.98	Murabaha Asset Mgmt LLC	NK-Leasehold Property LLC
1252 Quarry Ln	17,625	\$1,750,000	\$99.29	Eden Glen Technologies LLC	Breuner Asset Management Inc

#### LEASE ACTIVITY

PROPERTY ADDRESS	SQUARE FEET	LEASE TYPE	BLDG CLASS	LESSEE	LESSOR
5870 Stoneridge Dr	40,589	Renewal/Expansion	Office/Flex	CooperVision Inc	Britannia Hacienda II Ltd
6200 Stoneridge Mall Rd	32,034	Direct	Class A	Callidus Software Inc	6200 Stoneridge Mall Rd Investors LLC
6210 Stoneridge Mall Rd	12,387	Direct	Class A	MechanicNet Group Inc	6200 Stoneridge Mall Rd Investors LLC
4140 Dublin Blvd	6,600	Expansion	Class A	Fluor Engineering	Tishman Speyer
7068 Koll Center Pkwy	5,986	Direct	Office/Flex	Sanarus Technologies LLC	PJMB Commercial
6210 Stoneridge Mall Rd	5,522	Direct	Class A	Big-D Pacific Builders LP	UBS Realty Investors LLC
6200 Stoneridge Mall Rd	5,500	Direct	Class A	Daymon Worldwide Inc	6200 Stoneridge Mall Rd Investors LLC
4160 Dublin Blvd	5,455	Expansion	Class A	TRIA Beauty	Tishman Speyer

MARKET COMPARISONS

OFFICE MARKET

CLASS	BLDGS	TOTAL INVENTORY SF	DIRECT VACANT SF	DIRECT VACANCY RATE	SUBLEASE VACANT SF	SUBLEASE VACANCY RATE	TOTAL VACANT SF	TOTAL VACANCY RATE	VACANCY RATE PRIOR QUARTER	CURRENT OCCUPIED SPACE SF	NET ABSORPTION CURRENT QTR SF	NET ABSORPTION YTD SF	GROSS ABSORPTION YTD SF	UNDER CONST	CONST COMPLETED SF	AVG ASKING RATE (FS)
<b>DUBLIN</b>																
A	9	1,464,228	225,591	15.4%	-	0.0%	225,591	15.4%	15.9%	1,238,637	6,600	3,494	12,055	-	-	\$1.75
B	15	407,460	153,198	37.6%	-	0.0%	153,198	37.6%	39.0%	254,262	5,851	(1,884)	11,210	-	-	\$1.50
Flex	24	869,188	91,118	10.5%	-	0.0%	91,118	10.5%	9.0%	778,070	(12,476)	(22,510)	9,357	-	-	\$1.60
Total	48	2,740,876	469,907	17.1%	-	0.0%	469,907	17.1%	17.1%	2,270,969	(25)	(20,900)	32,622	-	-	\$1.67
<b>LIVERMORE</b>																
B	20	707,086	162,138	22.9%	10,513	1.5%	172,651	24.4%	24.4%	534,435	-	7,062	1,035	-	-	\$1.40
Flex	70	2,048,280	699,708	34.2%	90,137	4.4%	789,845	38.6%	36.0%	1,258,435	(52,482)	(135,315)	80,507	-	-	\$1.25
Total	90	2,755,366	861,846	31.3%	100,650	3.7%	962,496	34.9%	33.0%	1,792,870	(52,482)	(128,253)	81,542	-	-	\$1.29
<b>PLEASANTON</b>																
A	54	6,510,210	1,277,834	19.6%	55,506	0.9%	1,333,340	20.5%	19.6%	5,176,870	(54,811)	(40,886)	210,301	-	-	\$1.75
B	60	2,422,309	835,085	34.5%	24,493	1.0%	859,578	35.5%	34.6%	1,562,731	(20,275)	(42,393)	34,108	-	-	\$1.55
Flex	98	3,521,555	681,878	19.4%	48,119	1.4%	729,997	20.7%	21.9%	2,791,558	41,208	8,544	107,673	-	-	\$1.60
Total	212	12,454,074	2,794,797	22.4%	128,118	1.0%	2,922,915	23.5%	23.2%	9,531,159	(33,878)	(74,735)	352,082	-	-	\$1.67
<b>SAN RAMON</b>																
A	32	7,627,836	597,984	7.8%	34,858	0.5%	632,842	8.3%	8.5%	6,994,994	12,643	155,022	232,797	-	-	\$1.75
B	29	1,051,000	146,745	14.0%	2,605	0.2%	149,350	14.2%	11.3%	901,650	(30,836)	(10,031)	39,492	-	-	\$1.55
Flex	9	705,668	50,463	7.2%	-	0.0%	50,463	7.2%	15.8%	655,205	61,270	56,462	66,038	-	-	\$1.50
Total	70	9,384,504	795,192	8.5%	37,463	0.4%	832,655	8.9%	9.3%	8,551,849	43,077	201,453	338,327	-	-	\$1.71
<b>MARKET TOTAL</b>																
A	95	15,602,274	2,101,409	13.5%	90,364	0.6%	2,191,773	14.0%	13.8%	13,410,501	(35,568)	117,630	455,153	-	-	\$1.75
B	124	4,587,855	1,297,166	28.3%	37,611	0.8%	1,334,777	29.1%	28.1%	3,253,078	(45,260)	(47,246)	85,845	-	-	\$1.52
Flex	201	7,144,691	1,523,167	21.3%	138,256	1.9%	1,661,423	23.3%	23.8%	5,483,268	37,520	(92,819)	263,575	-	-	\$1.49
Total	420	27,334,820	4,921,742	18.0%	266,231	1.0%	5,187,973	19.0%	18.8%	22,146,847	(43,308)	(22,435)	804,573	-	-	\$1.64
<b>QUARTERLY COMPARISON AND TOTALS</b>																
Q2-10	420	27,334,820	4,921,742	18.0%	266,231	1.0%	5,187,973	19.0%	19.0%	22,146,847	(43,308)	(22,435)	804,573	-	-	\$1.64
Q1-10	414	27,334,820	4,877,464	17.8%	267,201	1.0%	5,144,665	18.8%	19.1%	22,190,155	20,873	20,873	429,027	-	-	\$1.67
Q4-09	412	27,088,758	4,864,302	18.0%	301,236	1.1%	5,165,538	19.1%	18.4%	21,923,220	(179,349)	(591,623)	1,372,003	-	-	\$1.69
Q3-09	408	27,088,758	4,658,304	17.2%	327,885	1.2%	4,986,189	18.4%	17.8%	22,102,569	(7,270)	(412,274)	1,064,871	-	185,702	\$1.72
Q2-09	407	26,903,056	4,420,326	16.4%	372,891	1.4%	4,793,217	17.8%	16.5%	22,109,839	(304,177)	(405,004)	695,531	185,702	70,610	\$1.82
Q1-09	404	26,832,446	3,993,307	14.9%	425,123	1.6%	4,418,430	16.5%	16.5%	22,414,016	(100,827)	(100,827)	257,956	256,312	-	\$1.88
Q4-08	377	25,551,284	3,772,533	14.8%	431,972	1.7%	4,204,505	16.5%	13.3%	21,346,779	(684,923)	(825,146)	1,785,900	256,312	125,383	\$1.95
Q3-08	380	25,425,901	3,033,729	11.9%	360,470	1.4%	3,394,199	13.3%	14.3%	22,031,702	238,888	(140,223)	1,454,257	279,695	-	\$2.00
Q2-08	379	25,420,735	3,161,713	12.4%	471,374	1.9%	3,633,087	14.3%	14.4%	21,787,648	37,260	(379,111)	1,030,367	381,695	-	\$2.11
Q1-08	379	25,420,735	3,325,060	13.1%	345,287	1.4%	3,670,347	14.4%	12.6%	21,750,388	(416,371)	(416,371)	432,307	125,383	10,050	\$2.11

feet. Gross absorption in the Class A office market is 232,797 square feet currently, with a \$0.05 per square foot drop in asking rates from the prior quarter to \$1.75 per square foot full service. Deal volume was created primarily by transactions executed at Legacy Plaza, resulting in 16,852 square feet of absorbed space.

**DUBLIN**

Dublin’s small Class A office market showed improvement in vacancy as it moved from 22.3 percent one year ago, to 15.6 percent half a year ago, to 15.4 percent today. Dublin’s Class A office market saw net absorption improve from negative 3,106 square feet in the previous quarter to 6,600 square feet this quarter. Once again, gross absorption was driven by deals completed at the Dublin Corporate Center where Fluor Engineering transacted 6,600 square feet and TRIA Beauty signed on for 5,455 square feet. Like San Ramon’s Class A office market, asking rates for Dublin Class A office ticked down by \$0.05 per square foot to \$1.75 per square foot full service in the second quarter of 2010.

**LIVERMORE**

For the first six months of 2010, the total vacancy for office and office/flex product in Livermore has crept up to 34.9 percent, which is approximately 2.0 percent higher than it was at the end of March 2010. Recent third quarter announcements and rumors, such as the Livermore Charter School purchasing the remainder of the Montevina project and leasing a good portion of Balch’s two story Independence Plaza 80,000± square foot office building, as well as rumored interest from a large technology user for Lam Research’s second

120,000± square foot two story flex building in West Livermore’s Tech Park, could significantly reduce this vacancy number in the months ahead.

Currently, there are seven office and office/flex buildings for sale or lease in Livermore that are greater than 50,000 square feet. The only significant building of this type, which has traded during the first six months of 2010 was the 18,229± square foot Admedes Schuessler purchase of the Festo Corporation building at Copper Hill Business Park. Overall asking rates in Livermore have continued to decrease from quarter to quarter and are expected to do so until the market shows consistent improvement.

**LOOKING FORWARD**

In the remaining two quarters of 2010, we expect to see more transactions completed in the Tri-Valley Class A office market, which many hope will continue to provide positive momentum as we continue to track the economy’s gradually improving market conditions. Though slow and steady, the driving force behind this improvement will continue to be employment growth. Upward pressure on rents remains elusive as vacancy rates need to come down significantly to enact any palpable change in the commercial real estate market. This market will remain tenant-friendly; however, uncertainty will continue and lateral tenant movements will be typical. If this quarter’s deal velocity is a sign of things to come in the remaining six months of the year, then the Tri-Valley office market is on the right path (and much better than where it was six months ago).

480 offices in  
61 countries on  
6 continents

United States: 135  
Canada: 39  
Latin America: 17  
Asia Pacific: 194  
EMEA: 95

- \$1.6 billion in annual revenue
- 672.9 million square feet under management
- Over 10,000 professionals

**PLEASANTON OFFICE:**

5050 Hopyard Rd. Suite 180  
Pleasanton, CA 94588  
United States  
TEL +1 925 463 2300  
FAX +1 925 463 0747

**MANAGING PARTNER**

Ted Helgans  
Managing Partner  
TEL +1 925 227 6202

**RESEARCHER:**

Lisa Kohler  
Research Analyst II  
TEL +1 925 227 6236

**CONTRIBUTING AUTHOR**

Loren Honda, CCIM  
Senior Associate  
TEL +1 925 227 6261

This document/email has been prepared by Colliers International for advertising ulluaptam etuer sequist dolesequam el ea adiat in venisi. Lit prat. Acinim quat praestrud minis doloboEnissed enim diam veniam, sim duip essis nonsequat nulla augiamet adip euguer aut lobore veriusto doloborerat ut wisit augiamet, sequis nit wismodio conseniat.



Accelerating success.

