

PLEASANTON | ALAMEDA COUNTY, CALIFORNIA RESEARCH & FORECAST REPORT



Office Market Review

THE RETURN OF POSITIVE ABSORPTION

The second quarter for the Tri-Valley office market of 2014 was marked by positive net absorption, positive rent growth, marginal leasing activity and investment sales.

After two consecutive quarters of negative net absorption in the Tri-Valley, the office market rebounded in the second quarter, albeit slightly, with positive net absorption of 90,516 square feet; this despite Pleasanton Class A negative absorption of 116,124 square feet largely due to Ross Stores, Inc.'s lease expiration of 181,495 square feet at California Center in Pleasanton. Total market vacancy is at 12.5 percent down from 12.8 percent the prior quarter but up 1.8 percentage points from vacancy one year ago at 10.7 percent.

Total market weighted average asking rents for the quarter up-ticked slightly from \$1.97 in the first quarter of 2014 to \$2.06 full service gross in the second quarter. This was due largely to increased asking rents in the Class B and office/flex sectors that are closing the delta in asking rents on the Class A sector. Class A weighted average asking rents were relatively flat at \$2.42 full service gross compared to \$2.41 three months prior. Class B weighted average asking rents are at \$1.81 up from \$1.74 in the first quarter and up \$0.13 from second quarter 2013. The Tri-Valley office/flex sector also witnessed favorable increases in weighted average asking rents (adjusted to full service gross) to \$1.67 up \$0.08 from the prior quarter and \$0.16 year-over-year.

MARKET INDICATORS

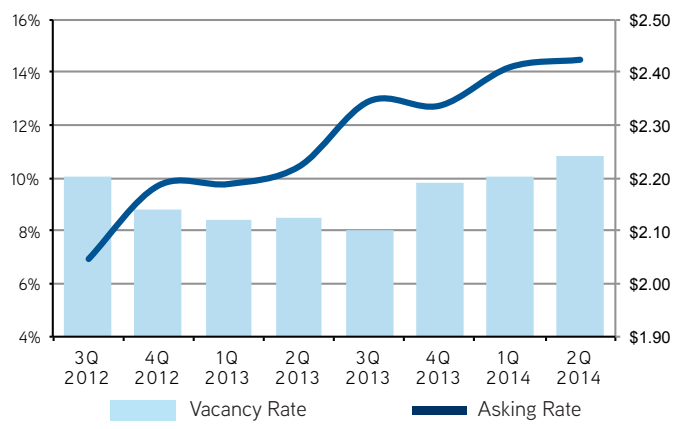
	Q2-14	Projected Q3-14
VACANCY	↓	↓
NET ABSORPTION	↑	↑
CONSTRUCTION	↔	↔
RENTAL RATE	↑	↔

SELECTED MARKET STATS

- > Tri-Valley office market vacancy dipped slightly from 12.8 percent in the first quarter to 12.5 percent currently.
- > Overall net absorption improved reporting positive 90,516 square feet for the quarter.
- > Market weighted average asking rates increased to \$2.06 per square foot full service from \$1.97 per square foot full service three months prior.
- > Current unemployment rates as of May 2014 *
 - California: 7.1 percent
 - Alameda County: 5.6 percent

*SOURCE: CALIFORNIA EMPLOYMENT DEVELOPMENT DEPARTMENT

TRI-VALLEY CLASS A HISTORICAL VACANCY AND AVERAGE ASKING RATES



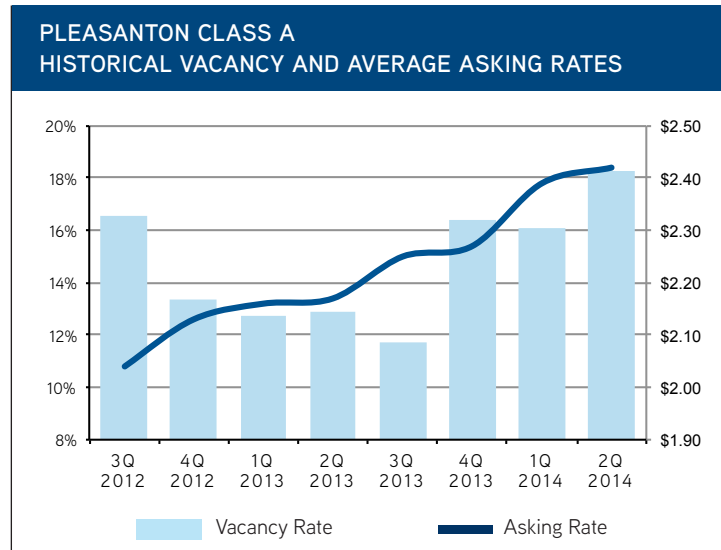
Total market weighted average asking rents for the quarter up-ticked slightly from \$1.97 in the first quarter of 2014 to \$2.06 full service gross in the second quarter. This was due largely to increased asking rents in the Class B and office/flex sectors that are closing the delta in asking rents on the Class A sector.



“A robust stock market and a healthy economy could lead to delays in the consummation of deals this summer as travel and R&R are in the works for a largely employed population with growing retirement accounts.”

Leasing activity this quarter for the Tri-Valley office market was mixed with the bulk of new deals landing in Class B and office/flex space. Activity seemed to slow in late May and early June as summer vacation’s commenced. A robust stock market and a healthy economy could lead to delays in the consummation of deals this summer as travel and R&R are in the works for a largely employed population with growing retirement accounts.

Investment sales were highlighted by Swift Real Estate Partners acquisition of California Center in Pleasanton. They purchased the largely vacant 1,011,973 square foot campus for approximately \$160 million or \$158 per square foot. Vacancy at California Center at purchase (inclusive of the Ross Stores, Inc. premises) was at 84.7 percent. That said, activity at the project is robust and their vacancy could look drastically different by year’s end if the circling deals consummate. Ellie Mae is poised to ink approximately 100,000 square feet at California Center in Building Two (4420 Rosewood Drive) in the third quarter of 2014. The deal is rumored to allow for accommodation of immediate occupancy of part of the premises with the full footage realized in May of 2015 when their existing Pleasanton leases burn off. Arroyo Center, Pleasanton (104,741 square foot two building office/flex project) traded in the quarter as well with Embarcadero Capital Partners (ECI Four Amador LLC) as buyer and Westport Capital Partners LLC as seller. This 100 percent leased investment traded for \$18.7 million or \$178 per square foot. The CAP rate at the time of the sale was estimated to be 8.97 percent. Foothill Corporate Center, Pleasanton (71,403 square foot multi-tenant Class B office), also traded in the quarter to a local investor.



Overall Pleasanton market weighted average asking rents in the second quarter of 2014 moved up dramatically from the first quarter to \$2.21 from \$2.10. Class A weighted average asking rents were relatively flat moving from \$2.39 in the previous quarter to \$2.42 currently.

PLEASANTON

Overall Pleasanton market weighted average asking rents in the second quarter of 2014 moved up dramatically from the first quarter to \$2.21 from \$2.10. Class A weighted average asking rents were relatively flat moving from \$2.39 in the previous quarter to \$2.42 currently. Class A vacancy stands at 18.3 percent with negative absorption for the quarter at 143,320 square feet due to the aforementioned Ross Stores, Inc. lease expiration at California Center. The vacancy number is vastly different than one year ago when vacancy was just 12.9 percent.

Class B weighted average asking rents jumped \$0.12 to \$2.08 from the first quarter average. The rising rental rates in Class B properties is a continued trend witnessed the last three quarters. The strong activity in Class B properties reflects tenant demand for value relative to the Class A sector. Class B vacancy is down to 13.3 percent from 15.7 percent in the first quarter. With Young’s Market on the verge of acquiring 5100 Franklin Drive (64,760 square feet) and Veeva Systems pending acquisition of 4280 Hacienda Drive (141,600 square feet) we expect further erosion of Class B vacancy in the third quarter.

TriNet HR Solutions leased 22,411 square feet at Hacienda Lakes (5568 Gibraltar Drive) contributing to positive net absorption of 68,657 square feet in the Class B sector for the quarter.

The office/flex sector saw positive absorption of 26,383 square feet with weighted average asking rents (adjusted to full service) up \$0.11 from the previous quarter to \$1.84. Office/flex vacancy was down from the previous quarter to 15.5 percent from 16.3 percent. Carl Zeiss X-ray Microscopy, Inc. expanded their premises at Britannia II (4385 Hopyard Road) by 19,362 square feet to 56,505 square feet and MarketSmart Inc. landed at North Creek in 15,636 square feet.

LIVERMORE

The second quarter of 2014 showed impressive improvement for Livermore's office and office/flex markets, due to a couple of sizeable transactions in the West Livermore area. Ellis Partners landed Safeway's future store project at their Gateway Center in the Tri-Valley Tech Park, a 71,423 square foot lease that commences in January, 2015. Additionally, Apollo Technologies purchased Aero Precision's headquarters at 30 Lindbergh Avenue, a 23,555 square foot standalone building near the airport. Aero Precision remained in Livermore and leased another building near the Airway Business Park, previously occupied by RH USA.

Livermore's vacancy rate now stands at 15.0 percent with a total of over 126,935 gross square feet absorbed in the quarter. Unlike the recent past, Livermore's office vacancy now compares well with that of nearby Pleasanton (16.4 percent) and Dublin (15.9 percent). Brand new office condos, also

servicing medical, dental, and retail users are now under construction and being offered for sale at Las Positas Plaza near the Kaiser Permanente clinic and Home Depot/Kohl's center along Las Positas Road. Livermore's amenities of new housing, a vibrant downtown, wine country, and performing arts are increasingly drawing the attention of business users and decision makers in the Tri-Valley area.

DUBLIN

Class A weighted average asking rents dipped slightly to \$2.36 per square foot full service from \$2.38 in the first quarter of 2014. Absorption for the quarter was a positive 8,725 square feet and vacancy stands at 13.9 percent. One year ago, Class A weighted average asking rents were at \$2.42 and vacancy was 8.1 percent.

Class B weighted average asking rents remained stagnant up-ticking \$0.01 from the prior quarter to \$1.60. Absorption this quarter was a healthy 32,356 square feet pushing vacancy down to 25.6 percent from 33.5 percent in the first quarter of 2014. Sleepy Hollow Investment Company leased 11,771 square feet to Save Mart at The Crossroads (6375 Clark Avenue).

Office/flex weighted average asking rents moved up to \$1.65 (adjusted to full service gross) from \$1.62 in the first quarter. Absorption this quarter was a negative 28,739 square feet due to newly vacated space at Creekside Business Park. Office/flex vacancy in the sector is at 14.7 percent up from the first quarters 11.4 percent vacancy. ZELTIQ Aesthetics, Inc. expanded by 5,640 square feet at Sierra Trinity (6761 Sierra Court) and now occupy 19,465 total square feet in the project.

SIGNIFICANT DEALS

SALE ACTIVITY

PROPERTY ADDRESS	SALE DATE	SQUARE FEET	BUYER	TYPE
4410-4460 Rosewood Drive	May-14	1,011,973	Swift Real Estate Partners	Class A
5758-5794 West Las Positas Boulevard	May-14	104,741	ECI Four Amador LLC	Office/Flex
5820 Stoneridge Mall Road	Jun-14	71,403	5820 Stoneridge Mall Road II LLC	Class B
30 Lindbergh Avenue	May-14	23,555	Apollo Technologies Inc	R&D/Flex

LEASE ACTIVITY

PROPERTY ADDRESS	LEASE DATE	SQUARE FEET	TENANT	TYPE
477 North Canyons Parkway	Jun-14	71,423	Safeway Inc	R&D/Flex
4385 Hopyard Road	Apr-14	56,505	Carl Zeiss X-ray Microscopy Inc* ¹	Office/Flex
4464 Willow Road	Apr-14	26,899	Venture Cptial	Office/Flex
5568 Gibraltar Drive	Jun-14	22,411	TriNet HR Solutions ¹	Class B
6800 Koll Center Parkway	Jun-14	17,740	Toll Brothers**	Class A
5673 Gibraltar Drive	Jun-14	16,781	California Department of Transportation	Office/Flex
6900 Koll Center Parkway	May-14	15,636	MarketSmart Inc*	Office/Flex

*Renewal ¹ Expansion **Sublease

MARKET COMPARISONS

OFFICE 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	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 RATE F5Q
DUBLIN																
A	9	1,488,260	98,167	6.6%	108,644	7.3%	206,811	13.9%	14.5%	1,281,449	8,725	(62,274)	9,559	-	-	\$2.36
B	15	409,543	104,641	-	-	0.0%	104,641	25.6%	33.5%	304,902	32,356	33,153	45,514	-	-	\$1.60
Flex	24	869,016	70,472	8.1%	57,232	6.6%	127,704	14.7%	11.4%	741,312	(28,739)	(25,444)	19,300	-	-	\$1.65
Total	48	2,766,819	273,280	9.9%	165,876	6.0%	439,156	15.9%	16.3%	2,327,663	12,342	(54,565)	74,373	-	-	\$1.89
LIVERMORE																
B	23	833,964	201,219	24.1%	-	0.0%	201,219	24.1%	27.1%	632,745	24,952	13,722	28,010	-	-	\$1.38
Flex	70	2,043,065	229,187	11.2%	-	0.0%	229,187	11.2%	14.8%	1,813,878	73,485	36,210	98,925	-	-	\$1.42
Total	93	2,877,029	430,406	15.0%	-	0.0%	430,406	15.0%	18.4%	2,446,623	98,437	49,932	126,935	-	-	\$1.40
PLEASANTON																
A	49	6,373,742	1,143,187	17.9%	23,391	0.4%	1,166,578	18.3%	16.1%	5,207,164	(143,320)	(154,069)	126,288	-	-	\$2.42
B	69	2,848,223	377,804	13.3%	1,716	0.1%	379,520	13.3%	15.7%	2,468,703	68,657	(71,850)	114,838	-	-	\$2.08
Flex	97	3,502,196	543,742	15.5%	-	0.0%	543,742	15.5%	16.3%	2,958,454	26,383	34,322	113,744	-	-	\$1.84
Total	215	12,724,161	2,064,733	16.2%	25,107	0.2%	2,089,840	16.4%	16.0%	10,634,321	(48,280)	(191,597)	354,870	-	-	\$2.21
SAN RAMON																
A	31	7,664,037	306,948	4.0%	-	0.0%	306,948	4.0%	4.2%	7,357,089	18,471	29,743	107,816	-	-	\$2.46
B	26	1,011,228	59,041	5.8%	4,812	0.5%	63,853	6.3%	7.3%	947,375	9,546	14,314	30,312	-	-	\$1.88
Flex	9	705,668	134,050	19.0%	-	0.0%	134,050	19.0%	19.0%	571,618	-	(56,664)	-	-	-	\$1.42
Total	66	9,380,933	500,039	5.3%	4,812	0.1%	504,851	5.4%	5.7%	8,876,082	28,017	(12,607)	138,128	-	-	\$2.11
MARKET TOTAL																
A	89	15,526,039	1,548,302	10.0%	132,035	0.9%	1,680,337	10.8%	10.1%	13,845,702	(116,124)	(186,600)	243,663	-	-	\$2.42
B	133	5,102,958	742,705	14.6%	6,528	0.1%	749,233	14.7%	17.3%	4,353,725	135,511	(10,661)	218,674	-	-	\$1.81
Flex	200	7,119,945	977,451	13.7%	57,232	0.8%	1,034,683	14.5%	15.5%	6,085,262	71,129	(11,576)	231,969	-	-	\$1.67
Total	422	27,748,942	3,268,458	11.8%	195,795	0.7%	3,464,253	12.5%	12.8%	24,284,689	90,516	(208,837)	694,306	-	-	\$2.06
QUARTERLY COMPARISON AND TOTALS																
Q2-14	422	27,748,942	3,268,458	11.8%	195,795	0.7%	3,464,253	12.5%	12.8%	24,284,689	90,516	(208,837)	694,306	-	-	\$2.06
Q1-14	422	27,748,942	3,376,682	12.2%	178,087	0.6%	3,554,769	12.8%	11.8%	24,194,173	(299,353)	(299,353)	196,439	-	-	\$1.97
Q4-13	422	27,503,121	3,084,899	11.2%	170,517	0.6%	3,255,416	11.8%	10.5%	24,247,705	(287,024)	(153,649)	1,340,261	-	-	\$1.92
Q3-13	422	27,421,359	2,691,130	9.8%	195,500	0.7%	2,886,630	10.5%	10.7%	24,534,729	40,697	133,375	1,038,135	-	-	\$1.87
Q2-13	422	27,421,359	2,732,166	10.0%	195,161	0.7%	2,927,327	10.7%	10.9%	24,494,032	74,563	92,678	802,642	-	-	\$1.83

*Note: The weighted average asking rates for office/flex is converted to a full service equivalent



CALIFORNIA CENTER

Swift Real Estate Partners acquisition of California Center in Pleasanton was big news in the second quarter. The 1,011,973 square foot campus was 84.7 percent vacant at the time of purchase, which included the recent vacation of Ross Stores Inc. The project sold for an approximate \$160 million or \$158 per square foot.

SAN RAMON

Class A vacancy now stands at 4.0 percent down from 4.2 percent in the first quarter. This remains the healthiest segment of the Tri-Valley office market with a total square footage of 7,644,037 square feet representing 49 percent of the Tri-Valley's Class A inventory. One year ago vacancy was at 4.9 percent. Ultimately these numbers will suffer once Bishop Ranch commences marketing the approximate 1,000,000 square feet soon to be available in the former AT&T regional headquarters building that was acquired by Sunset Development Company/MetLife late last year. Expectations are that initially 500,000 square feet will come to the market with Bishop Ranch courting only tenants 250,000 square feet and larger. Weighted Class A average asking rents are at \$2.46 down from the previous quarter's asking rent of \$2.48. Absorption this quarter was a positive 18,471 square feet. Leica Geosystems, Inc. leased 11,817 square feet at Bishop Ranch 8 (5000 Executive Parkway).

Class B weighted average asking rents rose \$0.06 from the previous quarter to \$1.88 and absorption was positive at 14,314 square feet. Vacancy dropped a full percentage point quarter to quarter to 6.3 percent and down from 7.5 percent one year ago.

The office/flex sector remained unchanged with no absorption and flat weighted average asking rent of \$1.42 from the prior quarter.

LOOKING FORWARD

The third quarter will commence with statistical good news. In round numbers, Ellie Mae will lease 100,000 square feet at California Center representing net positive absorption of 35,000 square feet (they are in about 65,000 square feet in two Pleasanton projects currently); Young's Market, a new tenant to the Tri-Valley, will purchase 5100 Franklin Drive, Pleasanton, or 65,000 square feet of positive Class B absorption; Veeva Systems will purchase 141,600 square feet at 4280 Hacienda Drive (two-story Class B office) – they are in about 44,000 square feet in two projects in Pleasanton thus 97,000 square feet of positive net absorption. These deals alone will not push rents to new highs but the removal of these large vacancies is a step in the right direction.

The 750,000 vacant square feet at California Center together with the 108,000 square foot Oracle sublease at Dublin Corporate Center and the pending release of 500,000-1,000,000 square feet to the market at Bishop Ranch (former AT&T regional headquarters) will remain the anchor on rents. That said, if the tenants circling these projects, including GE for 200,000 square feet, Callidus Software for 65,000 square feet and California Tissue Donor Network for 35,000 square feet, were to consummate deals, we could see rents push significantly higher by year's end.

485 offices in 63 countries on 6 continents

United States: 146
Canada: 44
Latin America: 25
Asia Pacific: 186
EMEA: 84

- > \$2.1 billion in annual revenue
- > \$1.46 billion square feet under management
- > Over 15,800 professionals

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