

PLEASANTON | ALAMEDA COUNTY, CALIFORNIA RESEARCH & FORECAST REPORT



Office Market Review

READING BETWEEN THE STATISTICAL LINES

The summer evidenced a healthy economy with seemingly long vacations for executives and decision makers – they were not out touring office space in any event. August may have been the slowest touring month in three years and the deals consummated in a robust July were products of prior quarters’ activity. September (back to school/back to work) started sluggish but deal activity has picked up with expectations of a reasonable fourth quarter.

Overall Tri-Valley office and office/flex market absorption numbers for the quarter look atrocious at negative 661,197 square feet. The glass is half full here however as the negative net absorption is the result of Bishop Ranch commencing the official marketing of 953,532 square feet available at 2600 Camino Ramon, the former AT&T Corporate Headquarters. The vacancy was showcased to the brokerage community in September kicking off Bishop Ranch’s search for users to occupy floorplates of approximately 100,000 square feet apiece. This vacancy will compete almost exclusively with Rosewood Commons (formerly California Corporate Center) for deals 200,000 square feet and up and consequently, multi-tenant office projects will be little affected. Discounting the new vacancy at 2600 Camino Ramon from the quarterly numbers shows a greater market positive absorption of 292,335 square feet. The bulk of this positive absorption was due to two significant user purchase transactions in Pleasanton of vacant Class B office product and one Class A office lease all finalized in July 2014. VJ Holdings LLC purchased 5100 Franklin Drive (64,760 square feet) with plans to lease the property to Young’s Market Company to serve as their Northern California headquarters and Veeva Systems purchased 4280 Hacienda Drive (141,985 square feet) for their headquarters. On the leasing front, Ellie Mae leased 105,452 square feet at Rosewood Commons taking three floorplates at 4420 Rosewood Drive.

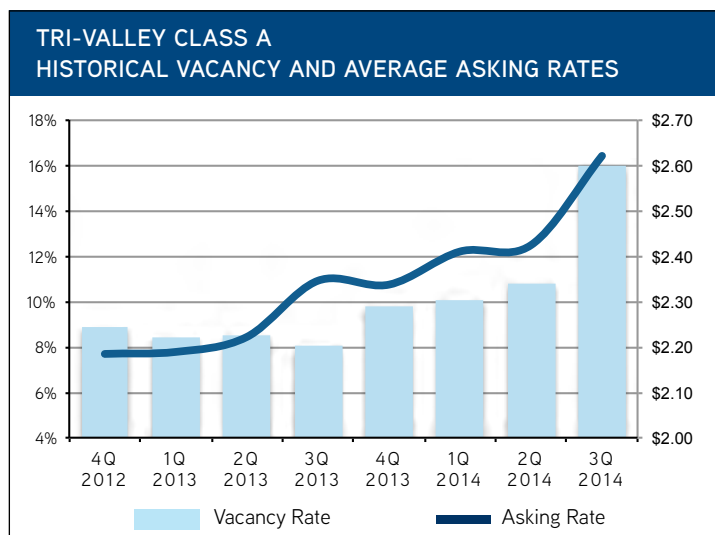
MARKET INDICATORS

	Q3-14	Projected Q4-14
VACANCY	↑	↓
NET ABSORPTION	↓	↑
CONSTRUCTION	↔	↔
RENTAL RATE	↑	↑

SELECTED MARKET STATS

- Tri-Valley office market’s vacancy jumped from 12.5 percent last quarter to 14.9 percent currently.
- Overall net absorption reports negative 661,197 square feet for the quarter.
- Market weighted average asking rates increased to \$2.29 per square foot full service from \$2.06 per square foot full service three months prior.
- Current unemployment rates as of August 2014 *
 - California: 7.4 percent
 - Alameda County: 6.1 percent

*SOURCE: CALIFORNIA EMPLOYMENT DEVELOPMENT DEPARTMENT



The \$2.29 overall weighted average asking rent represents a new ten plus year high. The weighted average asking rents are calculated based on “marketed” footage therefore 953,532 square feet of \$2.83 marketed vacancy greatly impacts the statistic.



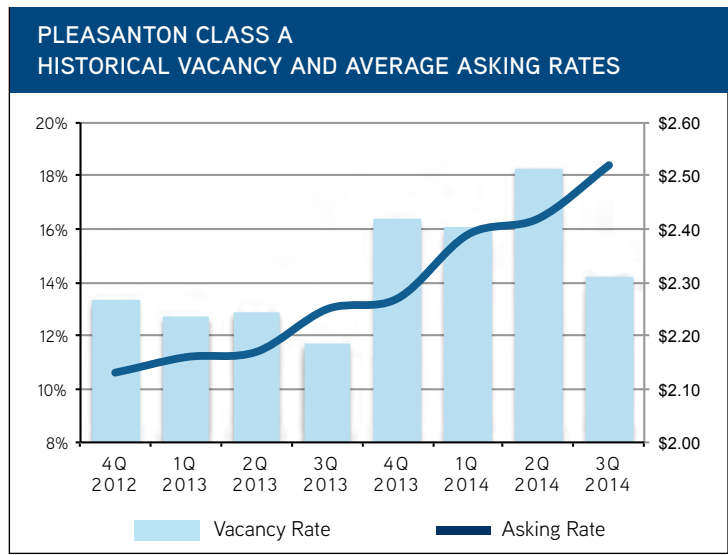
"It is also possible that Safeway may dispose of some or all of their 800,000 plus square foot Tri-Valley footprint in the coming months/years."

Negative net absorption typically results in lower asking rents – not in this case. Tri-Valley office and office/flex market overall weighted average asking rents up-ticked \$0.23 from the previous quarter to \$2.29 full service gross due to the aforementioned newly released vacancy at 2600 Camino Ramon (Bishop Ranch). The \$2.29 overall weighted average asking rent represents a new ten plus year high. The weighted average asking rents are calculated based on “marketed” square footage therefore 953,532 square feet of \$2.83 per square foot greatly impacts the statistic. Rosewood Commons also contributed to the increase in pushing asking rents on their 690,489 square feet of vacant space to \$2.55 full service from \$2.45 the previous quarter. The underlying message here is that these two owners Sunset Development Co./Met Life (Bishop Ranch) and Swift Real Estate Partners (Rosewood Commons) are bullish on their vacancies’ position in a healthy Bay Area office market.

Total Tri-Valley office and office/flex vacancy for the quarter registered 14.9 percent up from 12.5 percent in the second quarter of 2013 with the new vacancy at Bishop Ranch the culprit here. That 953,532 square feet of new vacancy impacted overall Tri-Valley vacancy (total inventory 27,644,063 square feet) by 3.4 percent. Vacancy one year ago was 10.5 percent.

PLEASANTON

Pleasanton Class A weighted average asking rents moved up to \$2.52 full service from \$2.42 in the second quarter of 2014. The increase in the weighted rents is largely due to the increased asking rents at Rosewood Commons to \$2.55 full service up from \$2.45 the prior quarter. Asking rents ticked up in the slow summer months at most Tri-Valley Class A projects. One year ago Class A weighted average asking rents were \$2.25 full service. Pleasanton Class A vacancy is now recording 14.2 percent, up from one year ago when vacancy was 11.7 percent. Rising vacancy and rising rental rates intuitively would not seem to belong on the same chart but when you consider Pleasanton Class A vacancy would be at 3.41 percent (verse one year ago it was 3.96 percent) if you removed the Rosewood Commons vacancy it helps tell the story. This coupled with greater Bay Area Class A rents continuing to trend up the aberration can be conceived. Absorption for the quarter in the Class A sector was a whopping 258,994 square feet comprised largely of two deals done at Rosewood Commons: Ellie Mae leased 105,432 square feet and Astex Pharmaceuticals leased 37,167 square feet in moving across the freeway from Dublin Corporate Commons.



Overall Pleasanton market weighted average asking rents in the third quarter of 2014 moved up to \$2.52 full service from \$2.42 in the second quarter of 2014.

Pleasanton Class B weighted average asking rents jumped to \$2.19 full service from the second quarter 2014 where rents were at \$2.08; marking the fourth quarter in a row of rent growth. Weighted average asking rents were \$1.83 full service one year ago. Vacancy plummeted in the quarter to 6.3 percent from 13.3 percent the prior quarter.

This move in vacancy due to the previously mentioned acquisitions: VJ Holdings LLC purchase of 5100 Franklin Drive (64,760 square feet) and Veeva Systems purchase of 4280 Hacienda Drive (141,985 square feet) dragging the Class B vacancy down 7.2 percentage points in the 2,848,223 square foot market sector. Absorption for the quarter nearly matched the combined footages of the two user acquisitions coming in at positive 200,097 square feet. Notable leasing in Class B office saw BeneSys, Inc. expand by 9,072 square feet at Laurelwood Court (7180 Koll Center Parkway) and NeoTract, Inc. took 15,911 square feet in their expansion and lease extension at Hacienda Lakes (4473 Willow Road).

Pleasanton office/flex weighted average asking rents (adjusted to full service) gained \$0.05 from the previous quarter to \$1.89. One year ago, the third quarter of 2013, rents were at \$1.62. Vacancy rates were relatively static quarter to quarter coming down fractionally from 15.5 percent in the second quarter to 15.3 percent currently. Absorption for the quarter was positive 7,553 square feet with net absorption year to date in the sector at a positive 41,875 square feet with a total inventory of 3,502,196. North American Title leased 12,386 square feet at 6612 Owens Drive and Belden Consulting took 6,259 square feet at The Arbor (5880 W. Las Positas Blvd.). The Arbor also landed Simpson Strong Tie in 5,395 square feet expanding outside of the confines of their campus next door.

LIVERMORE

The most significant transactions that occurred during the third quarter of 2014 were the sale of two leased investments in West Livermore. Shea Center 1, the last remaining block of office/flex space developed by Shea Properties sold in August to BMP Livermore, with Shea Properties and State Farm as anchor tenants on long term leases. The 6.07 percent cap rate reflected the quality of the tenants and length of the leases. Across the freeway, in Airway Business Park, the Larry Israel Family Trust sold a three tenant, 36,660 square foot building to Balch Enterprises for close to \$100 per square foot.

The price reflected very short-term leases, including the anchor tenant Paramedics Plus. Otherwise, this lease market was relatively quiet in the third quarter, with vacancy rates creeping up to 17.5 percent and absorption reporting negative 71,973 square feet. Investors should take note of Ellis Partners' offer to sell their West Livermore Gateway Business Park, which is now for sale (price undisclosed). This 145,758 square foot R&D/flex office park on 11 acres is 100 percent leased and includes recent leases completed with tenants such as Safeway, Nissan, and United Grocers.

DUBLIN

Class A weighted average asking full service rents remained unchanged at \$2.36 quarter to quarter and down slightly from one year ago when they were \$2.42. Vacancy stands at 15.2 percent and absorption for the quarter was negative 19,457 square feet due to the departure of Astex Pharmaceuticals from Dublin Corporate Center (4160 Dublin Blvd., Suite 400; 37,549 square feet) for a floorplate across the Interstate 580 in Pleasanton's Rosewood Commons (4420 Rosewood Drive., Suite 200; 37,167 square feet). Tria Beauty renewed their lease at Dublin Corporate Center in 37,623 square feet (4160 Dublin Blvd.) CallidusCloud will relocate their offices from Pleasanton Corporate Commons in the fourth quarter of 2014 in a rumored newly inked deal on two floors of the Oracle sublease at Dublin Corporate Center. They will take the third and fourth floors (totaling 74,964 square feet) leaving just 33,680 square feet of sublease space available on the ground floor at 4140 Dublin Blvd.

The Class B Dublin office market shrunk in the quarter as Heritage Park Office Center (104,879 square feet) was sold to a residential developer. The inventory in the sector went from 409,543 square feet to 304,664 square feet. Weighted average asking rents jumped to \$1.78 full service from \$1.60 the previous quarter due to the removal of 28,642 square feet of space being marketed at \$1.25 full service at Heritage Park Office Center; registering a false positive net absorption of 28,642 square feet of Class B office absorption.

SIGNIFICANT DEALS

SALE ACTIVITY

PROPERTY ADDRESS	SALE DATE	SQUARE FEET	BUYER	TYPE
4280 Hacienda Drive	Jul-14	141,985	Veeva Property Holdings LLC	Class B
5100 Franklin Drive	Jul-14	64,760	VJ Holdings LLC	Class B
2630-2694 Shea Center Drive	Aug-14	51,375	BMP Livermore LLC	R&D/Flex

LEASE ACTIVITY

PROPERTY ADDRESS	LEASE DATE	SQUARE FEET	TENANT	TYPE
4420 Rosewood Drive	Jul-14	105,452	Ellie Mae Inc	Class A
6601 Koll Center Parkway	Sep-14	51,343	Rimini Street Inc* ¹	Class A
4160 Dublin Boulevard	Jul-14	37,623	TRIA Beauty*	Class A
4420 Rosewood Drive	Aug-14	37,167	Astex Pharmaceuticals Inc	Class A
6591 Sierra Lane	Jul-14	30,723	All Natural Stone	Office/Flex
4473 Willow Road	Aug-14	15,911	NeoTract Inc	Class B
6701 Koll Center Parkway	Jul-14	13,544	ConXtech Inc	Class A
6210 Stoneridge Mall Road	Aug-14	10,155	State Farm Mutual Automobile Insurance Company*	Class A

* Renewal ¹ Expansion

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	117,624	7.9%	108,644	7.3%	226,268	15.2%	13.9%	1,261,992	(19,457)	(81,731)	9,559	-	-	\$2.36
B	11	304,664	75,999	24.9%	-	0.0%	75,999	24.9%	25.6%	228,665	28,642	61,795	45,514	-	-	\$1.78
Flex	24	869,016	89,890	10.3%	57,232	6.6%	147,122	16.9%	14.7%	721,894	(19,418)	(44,862)	50,023	-	-	\$1.71
Total	44	2,661,940	283,513	10.7%	165,876	6.2%	449,389	16.9%	15.9%	2,212,551	(10,233)	(64,798)	105,096	-	-	\$2.00
LIVERMORE																
B	23	833,964	187,170	22.4%	-	0.0%	187,170	22.4%	24.1%	646,794	14,049	27,771	31,678	-	-	\$1.44
Flex	70	2,043,065	199,513	9.8%	115,696	5.7%	315,209	15.4%	11.2%	1,727,856	(86,022)	(49,812)	113,461	-	-	\$1.37
Total	93	2,877,029	386,683	13.4%	115,696	4.0%	502,379	17.5%	15.0%	2,374,650	(71,973)	(22,041)	145,139	-	-	\$1.40
PLEASANTON																
A	49	6,373,742	887,493	13.9%	20,091	0.3%	907,584	14.2%	18.3%	5,466,158	258,994	104,925	337,941	-	-	\$2.52
B	69	2,848,223	179,423	6.3%	-	0.0%	179,423	6.3%	13.3%	2,668,800	200,097	128,247	381,928	-	-	\$2.19
Flex	97	3,502,196	536,189	15.3%	-	0.0%	536,189	15.3%	15.5%	2,966,007	7,553	41,875	176,205	-	-	\$1.89
Total	215	12,724,161	1,603,105	12.6%	20,091	0.2%	1,623,196	12.8%	16.4%	11,100,965	466,644	275,047	896,074	-	-	\$2.27
SAN RAMON																
A	31	7,664,037	1,345,347	17.6%	3,186	0.0%	1,348,533	17.6%	4.0%	6,315,504	(1,041,585)	(1,011,842)	129,503	-	-	\$2.71
B	26	1,011,228	64,501	6.4%	680	0.1%	65,181	6.4%	6.3%	946,047	(1,328)	12,986	43,251	-	-	\$1.84
Flex	9	705,668	136,772	19.4%	-	0.0%	136,772	19.4%	19.0%	568,896	(2,722)	(59,386)	1,150	-	-	\$1.77
Total	66	9,380,933	1,546,620	16.5%	3,866	0.0%	1,550,486	16.5%	5.4%	7,830,447	(1,045,635)	(1,058,242)	173,904	-	-	\$2.59
MARKET TOTAL																
A	89	15,526,039	2,350,464	15.1%	131,921	0.8%	2,482,385	16.0%	10.8%	13,043,654	(802,048)	(988,648)	477,003	-	-	\$2.62
B	129	4,998,079	507,093	10.1%	680	0.0%	507,773	10.2%	14.7%	4,490,306	241,460	230,799	502,371	-	-	\$1.81
Flex	200	7,119,945	962,364	13.5%	172,928	2.4%	1,135,292	15.9%	14.5%	5,984,653	(100,609)	(112,185)	340,839	-	-	\$1.75
Total	418	27,644,063	3,819,921	13.8%	305,529	1.1%	4,125,450	14.9%	12.5%	23,518,613	(661,197)	(870,034)	1,320,213	-	-	\$2.29
QUARTERLY COMPARISON AND TOTALS																
Q2-14	418	27,644,063	3,819,921	13.8%	305,529	1.1%	4,125,450	14.9%	12.5%	23,518,613	(661,197)	(870,034)	1,320,213	-	-	\$2.29
Q1-14	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
Q4-13	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
Q3-13	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
Q2-13	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

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



BISHOP RANCH

Bishop Ranch commenced the official marketing of 953,532 square feet available at 2600 Camino Ramon, the former AT&T Corporate Headquarters. Bishop Ranch's search for users to occupy floorplates at approximately 100,000 square feet apiece.

Dublin office/flex weighted average asking rents (adjusted to full service) moved up to \$1.71 from \$1.65 the prior quarter. The underlying average industrial gross rents (net of PG&E and janitorial) come in at approximately \$1.41 - \$1.46 on an asking basis and further adjusted to estimated net rents of \$1.10 - \$1.15 (market NNN expenses estimated \$0.30-\$0.35 per square foot per month). All Natural Stone leased 30,723 square feet at 6951 Sierra Lane from IndCor Properties highlighting the office/flex activity on the quarter.

SAN RAMON

San Ramon Class A weighted average asking rents spiked from \$2.46 in the second quarter of 2014 to close the third quarter at \$2.71. As previously explained, the release of 953,532 square feet to the market at 2600 Camino Ramon in Bishop Ranch (branded "2600") with asking rent of \$2.83 full service lifted the weighted average asking rents \$0.25. Class A vacancy rose to 17.6 percent from 4.0 percent the previous quarter with net absorption at negative 1,041,585 square feet all due to the new Bishop Ranch availability. Health Tell, Inc. leased 5,054 square feet at Canyon Commons Corporate Plaza (3130 Crow Canyon Place).

Class B San Ramon was unchanged this quarter with weighted average asking rents at \$1.84, vacancy at 6.4 percent and net absorption negative 1,328 square feet.

The office/flex sector (total inventory 705,668 square feet) was largely unchanged with weighted average asking rents getting a lift to \$1.77 (adjusted to full service) to be more in-line with the Class B office product. Absorption was negative 2,722 square feet.

WHAT HAPPENS NEXT?

With the release of the 953,532 square feet to the market of Class A office space in San Ramon at "2600" perhaps the last shoe has dropped in adding large blocks of direct vacant space in the Tri-Valley. However, it is also possible that Safeway may dispose of some or all of their 800,000 plus square foot Tri-Valley footprint in the coming months/years. The lion's share of that potential vacancy, should it come to the market, will likely only compete with the large vacancies at Rosewood Commons (887,493 square feet) and 2600 (953,532 square feet). In the short term, landlords of multi-tenant projects will continue to push rents and enjoy low vacancy. Are \$3.00 full service asking rents on the way in 2015? That will depend on erosion of the mentioned large blocks of space and a continued healthy economy. Perhaps one or two deals at 200,000 square feet will bring that milestone.

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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