

# PLEASANTON | TRI-VALLEY | OFFICE

Q4 2015

Accelerating success.

## 2015 – Looking Back on Half a Decade

- › Total market net absorption in the fourth quarter 2015 was negative 21,602 square feet.
- › Tri-Valley total market weighted average asking rents in all classes of space ended the quarter at \$2.44 full service gross.
- › The total market vacancy rate at the close of the quarter is 12.7 percent.

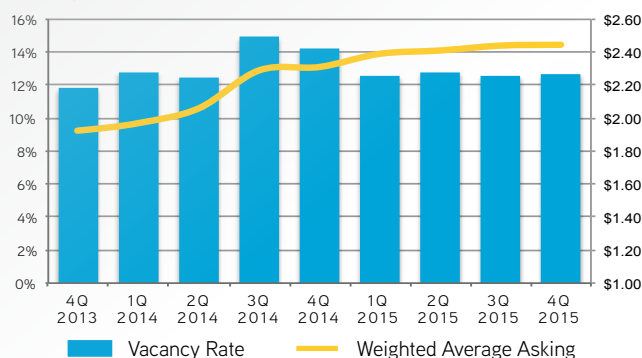
**The 2015 Tri-Valley commercial office campaign has come and gone with mixed results.** The expectations for the year were lofty, but the final summation is not without negatives. The positive aspects of the year included continued rent growth and erosion of the total market vacancy. A five year perspective highlights the incredible run we have been on, in which total market weighted average asking rents in all classes of space ended the year at \$2.44 full service gross versus the close of the 2001-2010 decade when the weighted average asking rents languished at \$1.64. The total market vacancy rate at the close of the quarter is 12.7 percent, down from half a decade ago when it was a lofty 16.9 percent. Total market net absorption in the fourth quarter 2015 was negative 21,602 square feet with an underwhelming year-end positive 130,752 square feet.

The anticipated Class A asking rents of \$3.00 full service gross by year-end missed the mark with Tri-Valley Class A rents settling at \$2.72 at year-end. Five years ago Class A asking rents were \$1.75. Class B weighted average asking rents closed the fourth quarter of 2015 at \$2.05 full service gross versus \$1.51 five years prior. Tri-Valley office/flex (adjusted to full service gross) closed the quarter at \$1.88 per square foot.

The concluding paragraphs of the market reports for the last five years have included a plea for migration of larger companies to the Tri-Valley to solve our big blocks of vacancy – this report will end with that same hope for 2016 – we want our Uber-like deal(s).

### Historical Vacancy and Average Asking Rates

Tri-Valley | All Classes



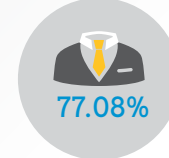
Overall vacancy rate remained flat for the quarter, while weighted average asking rates increased \$0.01 to close out 2015.

### Market Indicators - Tri-Valley

Average  
Household Income

White Collar  
Jobs

Unemployment  
Rate



### Market Trends

Relative to prior period

Q4 2015

Q1 2016\*

Vacancy



Net Absorption



Construction



Rental Rate



\*Projected

### Summary Statistics

Q4 2015 Tri-Valley Office Market

Previous  
Quarter

Current  
Quarter

	Previous Quarter	Current Quarter
Vacancy Rate	11.9%	12.7%
Overall Asking Rate*	\$2.48	\$2.44
Class A Asking Rate*	\$2.74	\$2.72
Class B Asking Rate*	\$1.95	\$2.05
Flex Asking Rate*	\$1.90	\$1.88
Net Absorption	250,917	-21,602
Gross Absorption	573,164	204,626

\*Asking rates are reported on a full service monthly basis

### U.S. Economic Indicators

Unemployment Rate	5.1%	5.0%
Labor Force Participation Rate	62.4%	62.5%
Consumer Price Index	2.4%	2.4%
Interest Rate - 10 Yr Treasury	2.0%	2.3%
Business Confidence	99.4%	99.1%
Consumer Confidence	100.2%	96.5%

Data Source: EDD Labor Market Information Division

## Pleasanton

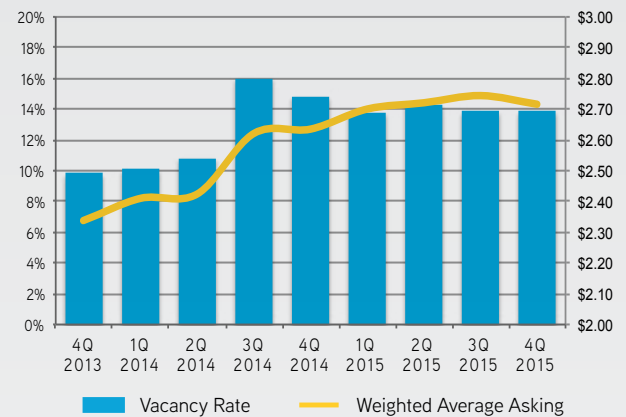
Class A weighted average asking rents are at \$2.76 full service gross, unchanged from the prior quarter, up \$1.00 on the half-decade. The Class A vacancy rate is at 10.5 percent, down 0.4 percentage points from the prior quarter with absorption at positive 25,819 square feet. Ellie Mae expanded in Rosewood Commons, leasing 31,717 square feet at 4420 Rosewood Drive and increasing their total footprint in that project to 137,169 square feet. Workday has rumored plans to lease 6000 Stoneridge Mall Road (59,276 square feet) from Safeway with an option to purchase. This lease is not expected to alter their plans to construct a new 430,000 square foot office project on the nearby BART site at the Stoneridge Mall. The lease, if consummated, will erode the negative impact Safeway's "to be determined" give-back space will have on the market. Currently, it is believed they will only give back the majority of their headquarter buildings on the 5900 block of Stoneridge Mall Road (300,000+ square feet).

Not previously reported, at the close of the third quarter 2015, Embarcadero Capital Partners (ECI Four 7901 Stoneridge LLC) purchased 7901 Stoneridge Drive from Westmar I 7901 LLC/ Westmar II 7901 LLC. Embarcadero Capital Partners has since rebranded the building "Stoneridge Place." Their plans to improve this Class A, five-story (173,000 square foot) multi-tenant project near the mall will include remodeling the lobbies and landscape with the addition of a new café at the project.

Class B Pleasanton weighted average asking rents ended the year at \$2.45 full service gross, up from \$2.25 at the beginning of the year. The total vacancy rate is at 9.0 percent, up a point from one year ago, and net absorption for the quarter was negative 15,389 square feet, with year-to-date absorption at negative 28,266 square feet. When Bay East Association of Realtors purchased 7021 Koll Center Parkway for \$309 per square foot, they set the high water mark for an owner/user purchase. This freestanding 17,157 square foot Class B office building is currently home to D.W. Morgan who will vacate soon to accommodate Bay East's occupancy when they relocate from Stoneridge Place (7901 Stoneridge Drive).

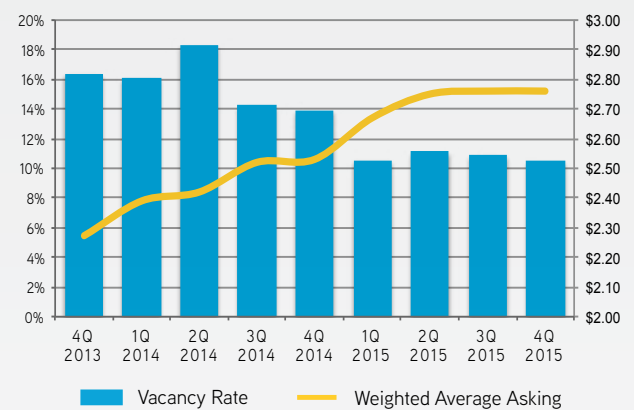
## Historical Vacancy and Average Asking Rates

Tri-Valley | Class A



## Historical Vacancy and Average Asking Rates

Pleasanton | Class A



### EAST BAY CENTER 1 & 2

SAP will vacate 405,000 square feet in the first quarter of 2017 with their future relocation to Bishop Ranch in San Ramon, leasing 150,000 square feet at 2600. Asking rents on this marketed space are \$2.85 full service. Once the space is vacated, the weighted average asking rents in the Dublin Class A market will spike north of \$2.75, and the vacancy will rise to 34.0 percent.

Office/flex weighted average asking rents are at \$2.12 (adjusted to full service gross), flat from the prior quarter, but up on the year \$0.20. Vacancy in the sector is at 5.0 percent with 17,248 square feet of positive absorption. Roche Molecular Systems leased 35,910 square feet at 4155 Hopyard Road (Britannia Business Center I), and 10X Genomics, Inc. leased 16,854 square feet at North Creek II (6920 Koll Center Parkway), marking two significant office/flex deals.

## Dublin

Dublin Class A weighted average asking rents are at \$2.51 full service gross, and the total vacancy rate is 9.9 percent. These statistics do not tell the entire story. SAP will vacate 405,000 square feet in the first quarter of 2017 (formerly Sybase's headquarter location) with their future relocation to Bishop Ranch in San Ramon, leasing 150,000 square feet at 2600. The large software company acquired Sybase in 2010 and moved their training location to Dublin for the remaining term of the lease. Asking rents on this marketed space are \$2.85 full service. Once the space is vacated, the weighted average asking rents in the Dublin Class A market will spike north of \$2.75, and the vacancy will rise to 34.0 percent. The weighted average asking rent and vacancy rate reflect just truly vacant space – SAP still occupies the entirety of East Bay Center 1 and 2. Net absorption for the quarter was negative 38,775 square feet and negative 3,249 for the year. Astex Pharmaceuticals relocated from a floor plate at Dublin Corporate Center to Rosewood Commons, accounting for the negative absorption for the quarter.

Class B Dublin weighted average asking rents weighed in at \$1.96, up a nickel from the prior quarter. Chevron leased 12,060 square feet at Crossroads Office Center (6379 Clark Avenue) from Sleepy Hollow Investment Company. They took the entire ground floor of this two story Class B office building. 6300 Village Parkway traded this quarter at \$225 per square foot to Mission Hope Day Program, a current tenant in the building. With a tight Tri-Valley market for owner/user opportunities, sellers are getting premiums. In contrast, 6400 Village Parkway (20,620 square feet) traded for south of \$160 per square foot in the prior quarter. This multi-tenant Class B office building shares the same parking lot with 6300, and these two buildings were previously connected via a breezeway corridor back in 2004. In place rents decided the valuation of 6400 Village Parkway versus the pricing of 6300 Village Parkway and that captive owner/user.

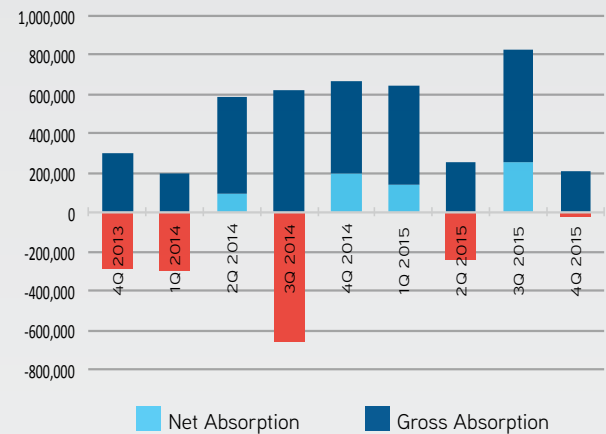
Dublin office/flex weighted average asking rents are \$2.02 (adjusted to full service gross), and the direct vacancy rate is 8.9 percent. Net absorption for the quarter was positive 2,420 square feet and positive 92,456 square feet for the year.

## Livermore

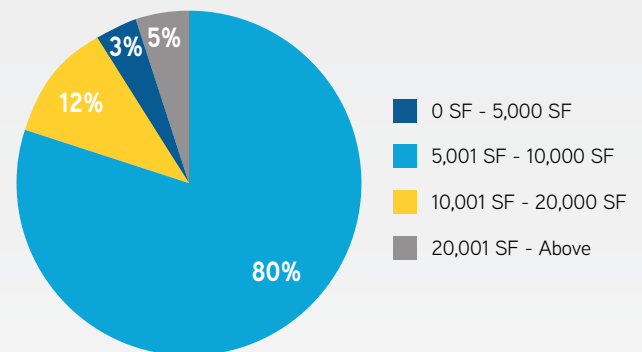
The Livermore office and flex markets were relatively quiet during the last quarter of 2015. A handful of 2,000-4,000 square foot office deals were completed.

## Historical Net Absorption and Gross Absorption

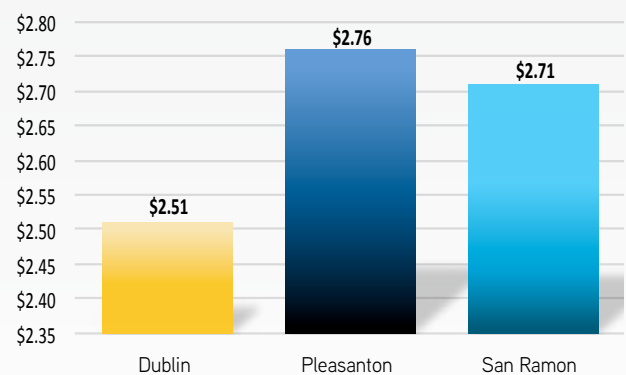
Tri-Valley | All Classes



## Available Space by Square Foot Range



## Comparable Class A Leasing Rates



With 35,000 square feet at 350 Lindbergh Avenue coming back onto the market, Livermore flex showed a negative absorption of 28,514 square feet, bringing the total vacancy rate for both Livermore office and flex up to 15.5 percent. Despite this, the weighted average asking rate increased by 11.0 percent to \$1.63 per square foot, full service. Currently, there are fewer 2,000-5,000 square foot spaces available, with larger blocks of space plentiful at East Livermore's Vineyard Office Park. Downtown office space is commanding a premium, as Livermore Valley Plaza, Livermore's only true class A office building, continues to ask \$2.10 per square foot triple net, which converts to over \$3.00 per square foot full service (higher than any other Tri-Valley city). We expect to experience some positive absorption in 2016, as the greater Tri-Valley cities continue to lease up without any anticipated new office or flex development next year.

## San Ramon

Class A weighted average asking rents are \$2.71 at the close of 2015 with the total vacancy rate at 17.4 percent. Net absorption for the quarter was positive 7,895 square feet but remained negative for the year at 68,705 square feet. 2016 will surely bring positive absorption when both SAP (150,000 square feet) and Blackberry (50,000 square feet) occupy their leased space at 2600.

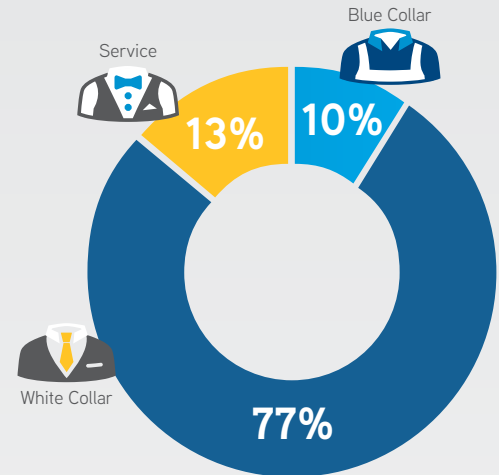
Class B weighted average asking rents wrapped up the year at \$1.97 full service gross, up from the third quarter's \$1.88. The total vacancy rate is 23.1 percent, which is not a true reflection of San Ramon Class B vacancy. Bishop Ranch 2, a vacant 186,752 square foot multi-tenant Class B project, is slated to be razed in the first quarter of 2016; making way for San Ramon City Center, which is scheduled to be open in late 2017. Once the project is demolished, the total Class B inventory will be adjusted downward to 824,476 square feet, and vacancy will be approximately 5.2 percent. Absorption for the quarter was positive 12,221 square feet.

The San Ramon office/flex sector finished 2015 with weighted average asking rents (adjusted to full service gross) at \$1.90, up \$0.13 from year end 2014. Absorption for the year was positive 75,548 square feet in this 705,668 square foot market.

## Wrapping Up 2015 & the Last Five Years

The last five years have been a positive ride for Tri-Valley owners and landlords, who have enjoyed rising property values and rental rates. The tenant activity and market absorption of 2015 in the Tri-Valley did not meet expectations; although the year can still be summed up as a positive step forward. The expectations for 2016 are for continued progress but with hopeful eyes on tenant migration to this neck of the woods. With skyrocketing rents and miniscule vacancies in Oakland, it seems possible that we will see tenants coming over the hill from that market to enjoy our lower rents, ample free parking, and BART access at the expense of hip urban bars and restaurants. There will also be continued hope for relocations from San Francisco and Silicon Valley for large users seeking these same concessions. Happy New Year!

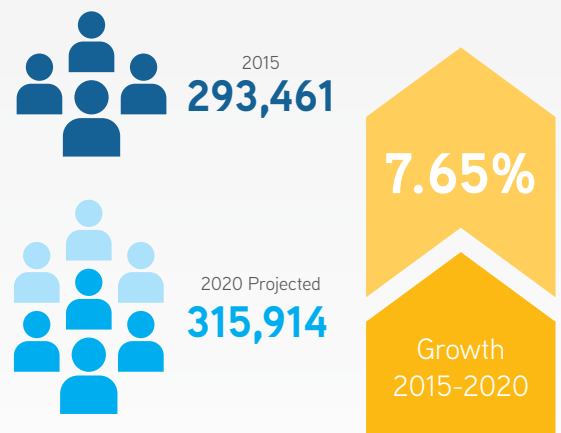
### Employment By Category



Data Source: The Nielsen Company

*“The expectations for 2016 are for continued progress but with hopeful eyes on tenant migration to this neck of the woods.”*

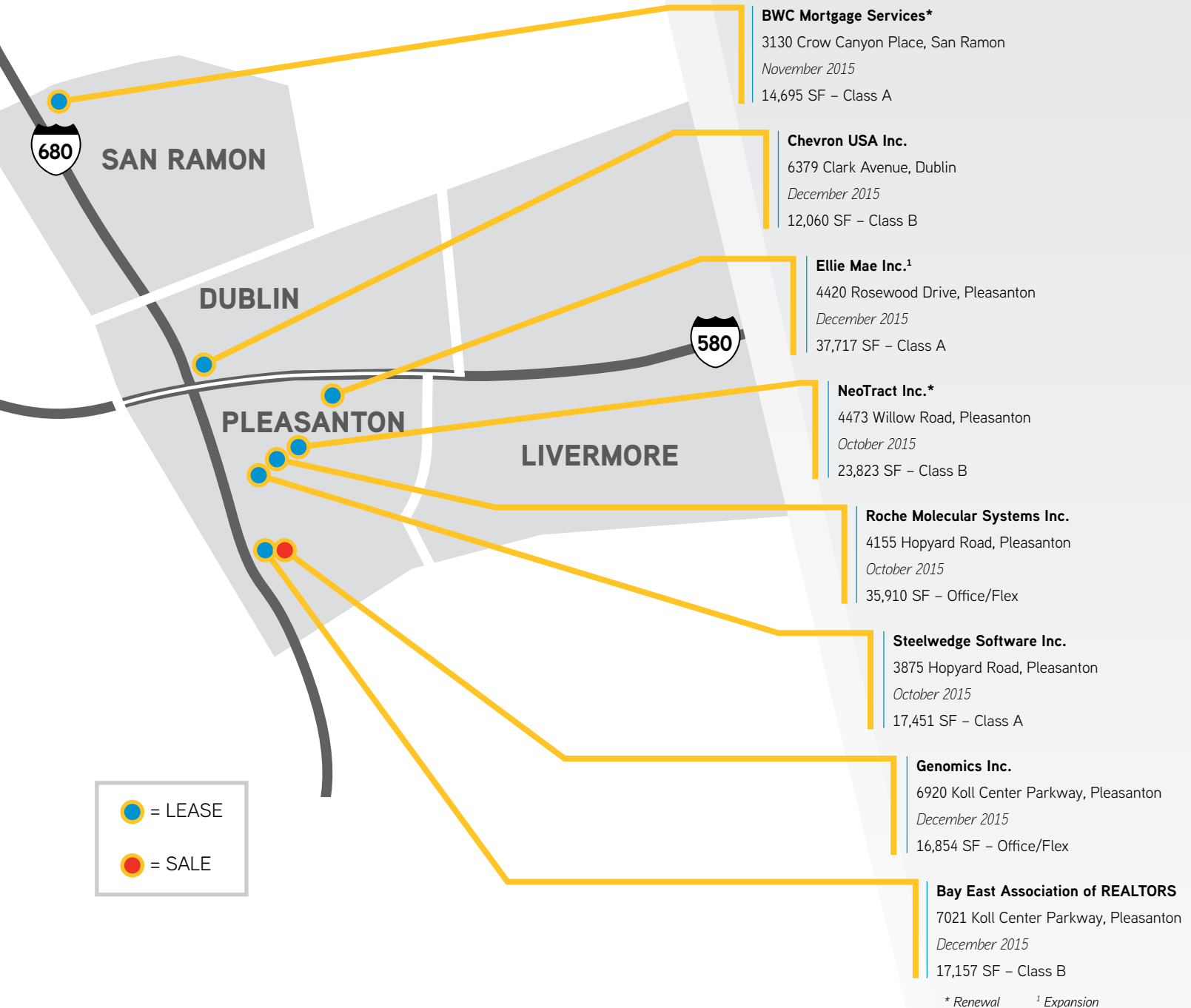
### Population



Data Source: The Nielsen Company



## Significant Lease & Sale Activity



### BRITANNIA BUSINESS CENTER I

Roche Molecular Systems leased 35,910 square feet at 4155 Hopyard Road, marking one of two significant office/flex deals in the fourth quarter.

Market Comparisons – Tri-Valley

OFFICE MARKET

CLASS	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 F5G
DUBLIN															
A	10	1,488,260	96,029	6.5%	50,832	3.4%	146,861	9.9%	7.3%	(38,775)	(3,249)	65,817	-	-	\$2.51
B	12	348,612	75,570	21.7%	3,518	1.0%	79,088	22.7%	20.2%	(17,597)	(8,060)	22,718	-	-	\$1.96
Flex	23	825,068	73,236	8.9%	-	0.0%	73,236	8.9%	8.7%	2,420	92,456	99,712	-	-	\$2.02
Total	45	2,661,940	244,835	9.2%	54,350	2.0%	299,185	11.2%	9.2%	(53,952)	81,147	188,247	-	-	\$2.19

LIVERMORE															
B	23	833,964	176,853	21.2%	-	0.0%	176,853	21.2%	22.4%	9,984	252	17,014	-	-	\$1.66
Flex	74	2,169,548	175,493	8.1%	112,000	5.2%	287,493	13.3%	11.9%	(28,514)	21,313	46,549	-	-	\$1.60
Total	97	3,003,512	352,346	11.7%	112,000	3.7%	464,346	15.5%	14.8%	(18,530)	21,565	63,563	-	-	\$1.63

PLEASANTON															
A	49	6,372,973	600,668	9.4%	67,348	1.1%	668,016	10.5%	10.9%	25,819	218,752	439,030	-	-	\$2.76
B	69	2,848,802	236,554	8.3%	18,526	0.7%	255,080	9.0%	8.4%	(15,389)	(28,266)	157,284	-	-	\$2.45
Flex	92	3,095,722	152,500	4.9%	2,500	0.1%	155,000	5.0%	5.4%	17,248	13,282	178,223	-	-	\$2.12
Total	210	12,317,497	989,722	8.0%	88,374	0.7%	1,078,096	8.8%	8.9%	27,678	203,768	774,537	-	-	\$2.59

SAN RAMON															
A	31	7,664,037	1,317,830	17.2%	18,190	0.2%	1,336,020	17.4%	17.5%	7,895	(68,705)	393,607	-	-	\$2.71
B	26	1,011,228	229,238	22.7%	4,552	0.4%	233,760	23.1%	24.3%	12,221	(182,571)	30,663	-	-	\$1.97
Flex	9	705,668	61,154	8.7%	-	0.0%	61,154	8.7%	9.1%	3,086	75,548	78,570	-	-	\$1.90
Total	66	9,380,933	1,608,222	17.1%	22,712	0.2%	1,630,934	17.4%	17.6%	23,202	(175,728)	502,840	-	-	\$2.57

MARKET TOTAL

A	90	15,525,270	2,014,527	13.0%	136,370	0.9%	2,150,897	13.9%	13.8%	(5,061)	146,798	898,454	-	-	\$2.72
B	130	5,042,606	718,215	14.2%	26,566	0.5%	744,781	14.8%	14.7%	(10,781)	(218,645)	227,679	-	-	\$2.05
Flex	198	6,796,006	462,383	6.8%	114,500	1.7%	576,883	8.5%	8.2%	(5,760)	202,599	403,054	-	-	\$1.88
Total	418	27,363,882	3,195,125	11.7%	277,436	1.0%	3,472,561	12.7%	12.6%	(21,602)	130,752	1,529,187	-	-	\$2.44

QUARTERLY COMPARISON AND TOTALS

Q4-15	418	27,363,882	3,195,125	11.7%	277,436	1.0%	3,472,561	12.7%	12.6%	(21,602)	130,752	1,529,187	-	-	\$2.44
Q3-15	419	27,447,346	3,187,943	11.6%	263,016	1.0%	3,450,959	12.6%	13.5%	250,917	152,354	1,324,561	-	-	\$2.44
Q2-15	418	27,447,346	3,468,382	12.6%	233,494	0.9%	3,701,876	13.5%	12.6%	(242,926)	(98,563)	751,397	-	-	\$2.41
Q1-15	418	27,447,346	3,223,740	11.7%	235,210	0.9%	3,458,950	12.6%	14.2%	144,363	144,363	500,361	-	-	\$2.39
Q4-14	418	27,644,063	3,702,004	13.4%	223,021	0.8%	3,925,025	14.2%	14.9%	200,425	(669,609)	1,783,655	-	-	\$2.31

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

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# 502 offices in 67 countries on 6 continents

United States: **140**

Canada: **31**

Latin America: **24**

Asia Pacific: **199**

EMEA: **108**

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## \$2.3

billion in  
annual revenue

## 1.7

billion square feet  
under management

## 16,300

professionals  
and staff

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