

RESEARCH & FORECAST REPORT



North I-680 Market Summary

MARKET OVERVIEW

Market conditions in the North I-680 Office Market deteriorated again during the second quarter of 2010, reflecting the overall tone of the dragging economy. The trend for total vacancy has increased eight consecutive quarters dating back to the second quarter of 2008 when it closed at a low of 12.4 percent. Current total market vacancy exceeds 20 percent. Office demand is driven by jobs and until the unemployment rate declines vacancies will continue to remain at historical highs. Preliminary labor statistics for Contra Costa County compiled by the California Employment Development Department show unemployment at 11.3 percent for the month of June, a 4.2 percent increase in unemployment over May. Total asking rents for the North I-680 Corridor saw their steepest decline since the first quarter of 2009, dipping 6.1 percent over the first quarter of 2010 to \$2.00 per square foot (PSF) on a full service basis.

Landlords are competing for fewer transactions and many landlords are no longer quoting asking rents. The overwhelming majority of completed transactions are lease renewals or restructures. Given the high vacancy in the market, tenants are consolidating multiple locations into larger contiguous blocks of space. Most non-renewal transactions represent tenants already in the market upgrading their space in a "flight to quality". Few transactions represent actual growth in office space.

MARKET INDICATORS

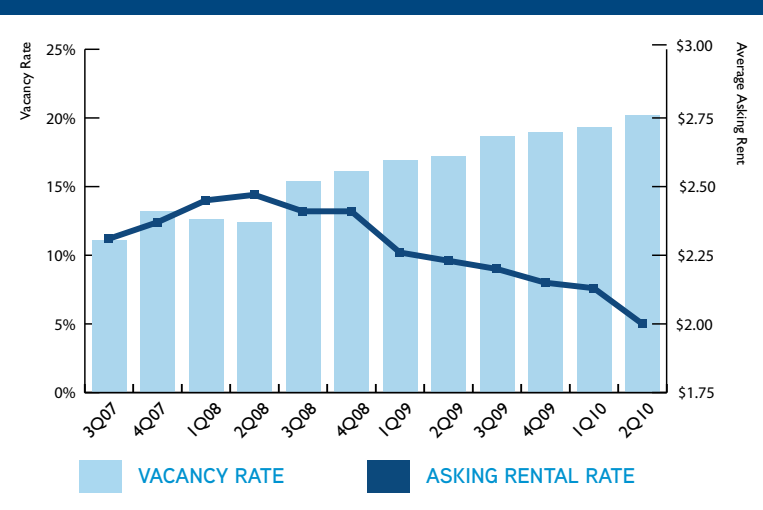
	Q2	Q3
VACANCY	↑	↑
NET ABSORPTION	—	↓
CONSTRUCTION	—	—
RENTAL RATE	↓	↓



RECENT MARKET ACTIVITY

Mechanics Bank purchased a majority interest in 1111 Civic Dr. in Walnut Creek and will be relocating employees from Richmond, Hercules and Walnut Creek in Spring 2011.

NORTH I-680 CORRIDOR > CLASS A ASKING RENT VS. VACANCY



Asking rents continued to fall as vacancies reach record highs



SUBMARKET MAP

1. Walnut Creek / Pleasant Hill
BART Station
2. Walnut Creek Downtown
3. Shadelands
4. Pleasant Hill
5. Lamorinda
6. Martinez
7. Concord
8. Alamo / Danville

DOWNTOWN WALNUT CREEK

After negative net absorption of $\pm 98,000$ square feet (SF) in the first quarter of 2010, the Downtown Walnut Creek submarket stabilized with $\pm 10,000$ SF of net absorption for the quarter buoyed by a gain of $\pm 22,000$ SF in Class B net absorption. Activity was highlighted by the Mechanics Bank purchase of $\pm 64,000$ SF of office condominiums at 1111 Civic Drive. The bank will relocate some workers from Richmond and Hercules, as well as another Walnut Creek location. The largest lease transaction was Sedgwick Claims' renewal at 1600 Riviera for $\pm 28,000$ SF. Existing tenants took advantage of lower rates as the market showed a higher percentage of tenants renewing with their current landlords rather than relocating elsewhere. Class A average asking rents dropped $\$0.33$ PSF from the previous quarter to $\$2.44$ PSF which is a ten year low. Class A vacancy remained flat at just over 20 percent for the second quarter in a row. Transaction velocity for Class A space also remained the same as last quarter. The submarket generated a higher percentage of transactions below $\pm 3,000$ SF this quarter.

CONCORD

Wells Fargo renewed their lease with Brandywine Realty Trust for $\pm 334,000$ SF at Concord Airport Plaza, keeping 1,500 jobs in Concord. Otherwise, it has been nothing but difficult news for this submarket as One Concord Center and Galaxy I went back to the lenders, joining Galaxy II. These

buildings together represent over $\pm 530,000$ SF and close to 20 percent of the Class A inventory. It is rumored that other properties are not far behind. The Concord submarket surpassed 20 percent vacancy this quarter as total vacancy increased 2.6 percent over the first quarter to 22.2 percent. Another $\pm 175,000$ SF is scheduled to hit the market in the third quarter at the Bank of America campus. Class A net absorption is down $\pm 117,000$ SF on the year while the B and C classes have showed slight positive gains. Average Class A asking rents declined $\$0.09$ PSF to $\$1.90$ PSF and Class B vacancy increased 3.8 percentage points to 21.7 percent - both dropping to levels not seen since 1999.

PLEASANT HILL BART

Market conditions in the Pleasant Hill BART submarket improved for the fourth quarter in a row. The most notable transaction was John Muir's $\pm 24,000$ SF renewal and expansion at Pacific Plaza. Once the worst performing Class A submarket with vacancy peaking at 31.8 percent in the second quarter of 2009, vacancy reached a two year low of 26.1 percent this quarter. Transaction velocity increased considerably as several midsized tenants were able to secure new space.

THE SHADELANDS

The Shadelands submarket continues to struggle as Class A vacancies have hit a decade high of 32.3 percent, surpassing even the first quarter

SIGNIFICANT TRANSACTIONS

SALES ACTIVITY

PROPERTY ADDRESS	SALES DATE	SIZE SF	TENANT	CLASS
1111 Civic Drive	June	64,000	Mechanics Bank	Class B
1180 Mt. Diablo Blvd.	April	6,500	Decotech	Class C
220 N. Wiget Ln.	May	2,700	Axiom Consulting	Class C

LEASING ACTIVITY

PROPERTY NAME/ADDRESS	LEASE DATE	SIZE SF	TENANT	CLASS
Concord Airport Plaza	April	334,000	Wells Fargo	Class A
Centre Pointe	June	93,000	Travelers	Class B
1600 Riviera Ave.	April	28,000	Sedgwick Claims	Class A
2300 Clayton	May	25,000	United Healthcare	Class A
1340 Treat Ave.	June	24,000	John Muir	Class A

OFFICE MARKET | Q2 2010

Existing Properties										Absorption		Construction		Rents
Class	Bldgs	Total Inventory SF	Direct Vacancy SF	Direct Vacancy Rate	Sublease Vacant SF	Sublease Vacancy Rate	Total Vacant SF	Vacancy Rate Q2 2010	Vacancy Rate Prior Quarter	Net Absorption Current SF	Net Absorption YTD SF	Completed Current Q SF	Under Construct. SF	Weighted Asking Rental Rate
Walnut Creek DT														
A	20	2,745,998	547,636	19.9%	24,330	0.9%	571,966	20.8%	21.0%	(6,946)	(90,328)	(14,238)	-	\$2.44
B	45	1,318,627	158,857	12.0%	10,400	0.8%	169,257	12.8%	12.1%	22,145	55,408	36,370	-	\$1.93
C	24	540,350	62,590	11.6%	2,819	0.5%	65,409	12.1%	9.5%	(5,515)	(53,331)	9,166	-	\$1.84
Total	89	4,604,975	769,083	16.7%	37,549	0.8%	806,632	17.5%	17.2%	9,684	(88,251)	31,298	-	\$2.28
Walnut Creek PH BART														
A	9	1,370,079	353,217	25.8%	4,187	0.3%	357,404	26.1%	26.9%	10,477	22,975	-	-	\$2.39
B	3	107,034	21,560	20.1%	0	0.0%	21,560	20.1%	25.8%	6,018	(1,747)	-	-	\$2.03
Total	12	1,477,113	374,777	25.4%	4,187	0.3%	378,964	25.7%	26.8%	16,495	21,228	-	-	\$2.37
Concord														
A	13	2,858,808	640,196	22.4%	55,463	1.9%	695,659	24.3%	21.0%	(94,963)	(117,869)	-	-	\$1.90
B	29	881,941	190,451	21.6%	1,167	0.1%	191,618	21.7%	17.9%	(2,108)	6,359	38,936	-	\$1.64
C	35	917,214	136,298	14.9%	9,768	1.1%	146,066	15.9%	16.6%	13,903	13,861	9,375	-	\$1.42
Total	77	4,657,963	966,945	20.8%	66,398	1.4%	1,033,343	22.2%	19.6%	(83,168)	(97,649)	48,311	-	\$1.78
Pleasant Hill														
A	1	128,131	3,592	2.8%	0	0.0%	3,592	2.8%	2.8%	0	-	-	-	\$2.25
B	12	576,035	75,932	13.2%	0	0.0%	75,932	13.2%	15.4%	12,867	2,677	-	-	\$2.07
C	10	170,643	5,572	3.3%	0	0.0%	5,572	3.3%	5.2%	10,476	12,184	7,524	-	\$1.45
Total	23	874,809	85,096	9.7%	0	0.0%	85,096	9.7%	11.6%	23,343	14,861	7,524	-	\$2.04
Shadelands														
A	2	174,807	56,499	32.3%	0	0.0%	56,499	32.3%	26.0%	(11,003)	(14,113)	-	-	\$1.75
B	28	1,097,335	310,385	28.3%	97,579	8.9%	407,964	37.2%	32.6%	(50,622)	(62,905)	-	-	\$1.65
C	14	402,758	15,768	3.9%	0	0.0%	15,768	3.9%	4.8%	3,473	2,659	-	-	\$1.63
Total	44	1,674,900	382,652	22.8%	97,579	5.8%	480,231	28.7%	25.2%	(58,152)	(74,359)	-	-	\$1.84
Martinez														
B	7	243,326	70,563	29.0%	0	0.0%	70,563	29.0%	27.5%	(3,760)	3,102	-	-	\$1.50
C	8	217,068	71,166	32.8%	8,490	3.9%	79,656	36.7%	45.8%	31,202	22,712	-	-	\$1.21
Total	15	460,394	141,729	30.8%	8,490	1.8%	150,219	32.6%	35.6%	27,442	25,814	-	-	\$1.35
Lamorinda														
A	6	248,205	30,580	12.3%	3,045	1.2%	33,625	13.5%	12.8%	(1,937)	5,595	-	-	\$2.95
B	24	632,960	41,030	6.5%	1,150	0.2%	42,180	6.7%	6.6%	(164)	7,368	-	-	\$2.51
C	3	85,535	13,514	15.8%	0	0.0%	13,514	15.8%	14.5%	7,137	14,669	9,625	-	\$2.25
Total	33	966,700	85,124	8.8%	4,195	0.4%	89,319	9.2%	8.9%	5,036	27,632	9,626	-	\$2.45
Alamo/Danville														
A	3	126,821	28,126	22.2%	0	0.0%	28,126	22.2%	20.3%	(2,372)	4,633	-	-	\$2.13
B	30	568,956	53,825	9.5%	0	0.0%	53,825	9.5%	12.1%	28,739	62,445	27,163	-	\$2.13
C	11	144,362	33,838	23.4%	0	0.0%	33,838	23.4%	22.0%	22,680	23,649	31,772	-	\$1.94
Total	44	840,139	115,789	13.8%	0	0.0%	115,789	13.8%	14.8%	49,047	90,727	58,935	-	\$2.08
MARKET TOTAL														
A	54	7,652,849	1,659,846	21.7%	87,025	1.1%	1,746,871	22.8%	21.6%	(106,744)	(189,107)	(14,237)	-	\$2.20
B	178	5,426,214	922,603	17.0%	110,296	2.0%	1,032,899	19.0%	17.9%	13,115	72,707	102,469	-	\$1.86
C	105	2,477,930	338,746	13.7%	21,077	0.9%	359,823	14.5%	14.8%	83,356	36,403	67,462	-	\$1.54
Total	337	15,556,993	2,921,195	18.8%	218,398	1.4%	3,139,593	20.2%	19.3%	(10,273)	(79,997)	155,694	-	\$2.01
QUARTERLY COMPARISON AND TOTALS														
Q2-10	337	15,556,993	2,921,195	18.8%	218,398	1.4%	3,139,593	20.2%	19.3%	(10,273)	(79,997)	155,694	-	\$2.01
Q1-10	324	15,380,143	2,645,918	17.2%	316,532	2.1%	2,962,450	19.3%	19.0%	(65,717)	(65,717)	-	-	\$2.13
Q4-09	324	15,406,333	2,586,603	16.8%	336,320	2.2%	2,922,923	19.0%	18.7%	(50,735)	(544,428)	-	-	\$2.12
Q3-09	324	15,411,449	2,610,326	16.9%	266,978	1.7%	2,877,304	18.7%	17.2%	(230,859)	(493,693)	2,001	-	\$2.18
Q2-09	324	15,409,448	2,332,047	15.1%	312,397	2.0%	2,644,444	17.2%	16.9%	(100,453)	(262,834)	(78,145)	-	\$2.22

high of 26 percent. There were two highlights for this submarket as Travelers renewed their ±93,000 SF lease at Centre Pointe and Kaiser renewed for ±37,000 SF at Walnut Creek Executive Park. This submarket registered ±58,000 SF of negative net absorption this quarter, bringing the yearly total to a loss of ±74,000 SF.

LAMORINDA

Lamorinda remains the healthiest area in terms of vacancy registering a modest 0.3 percentage points increase to 9.2 percent. This submarket has seen two consecutive quarters with positive net absorption, totaling ±32,000 SF year-to-date and Colliers' comparable data shows rental rates flattened out for leases signed in this quarter.

Lamorinda has been able to stay below 10 percent vacancy for the year because it is made up of smaller, professional services tenants with few back office uses.

PLEASANT HILL

Pleasant Hill, one of the smallest submarkets, saw vacancy drop 1.8 percentage points to 9.8 percent, second only to Lamorinda. Class A leasing activity remained quiet, although asking rents dropped \$0.30 PSF to \$2.25 PSF. The majority of the submarket is made up of Class B space which was able to cut vacancy by 2.2 percentage points, falling to 13.2 percent. This increase in leasing activity accounted for ±13,000 SF of net absorption.

480 offices in
61 countries on
6 continents

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

- \$1.9 billion in annual revenue
- 2.4 billion square feet under management
- Over 15,000 professionals

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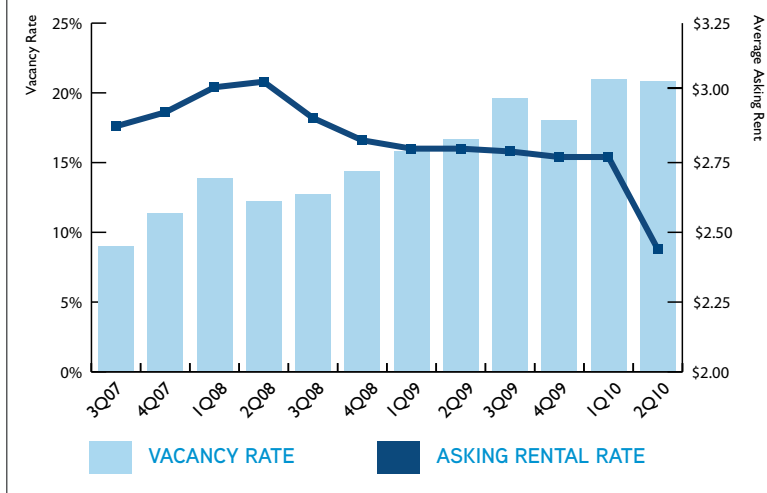
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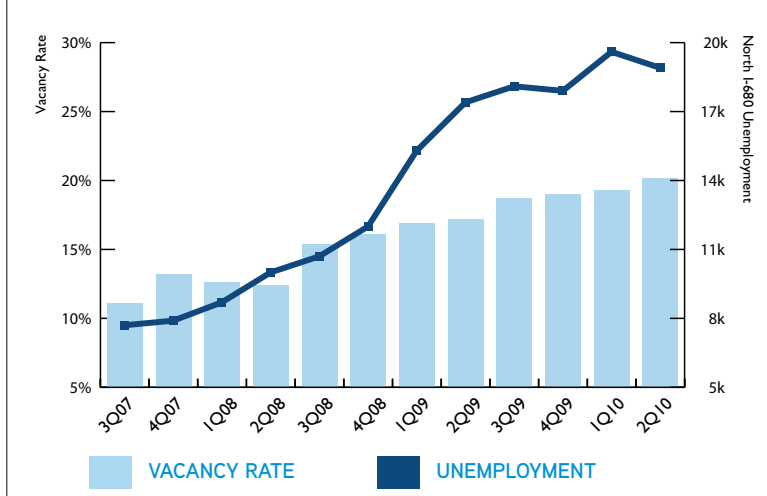
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WALNUT CREEK DOWNTOWN > CLASS A ASKING RENT VS. VACANCY



Class A vacancy remained flat as existing tenants took advantage of lower rates while renewing with their current landlords rather than relocating elsewhere

N. I-680 CORRIDOR > UNEMPLOYMENT RATE VS. VACANCY



Employment statistics provided by The California Employment Development Department.

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