

PLEASANTON | TRI-VALLEY | INDUSTRIAL

Q3 2018

Accelerating success.

A Quiet Quarter Stays Positive

- Tri-Valley industrial market vacancy remains flat at 2.3 percent
- The weighted average asking rental rate inched up to \$0.96 per square foot NNN
- Overall net absorption improved to negative 2,861 square feet

Reflecting on the Tri-Valley industrial market activity for the third quarter of 2018, the activity level was relatively flat in comparison to last quarter. Overall vacancy rate for light industrial and warehouse remain at 2.3 percent and the net absorption was a paltry negative 2,861 square feet.

Across the board, rental rates continued to rise from the previous quarter and previous year, rising from a weighted average asking rate of \$0.92 per square foot triple net (NNN) to \$0.96 per square foot NNN. For most users looking to renew, expand or relocate from outside the market, available building inventory for lease or sale continues to be extremely tight and new building development coming online offers relief only to users who need 75,000 square feet or above. Year-to-date, net absorption is negative 281,683 square feet due to new buildings coming online; compared to last year, absorption was positive 133,265 square feet with 0.9 percent vacancy. Given the traditional Tri-Valley, industrial tenant or buyer is significantly smaller than the speculative big box buildings under construction; these users can expect little availability or rent relief from traditional Tri-Valley industrial owners in the months or year ahead.

Market Indicators

Unemployment Rate
Tri-Valley

10-Year Nominal
Interest Rate

Consumer
Confidence



Market Trends

Relative to prior period

Q3 2018

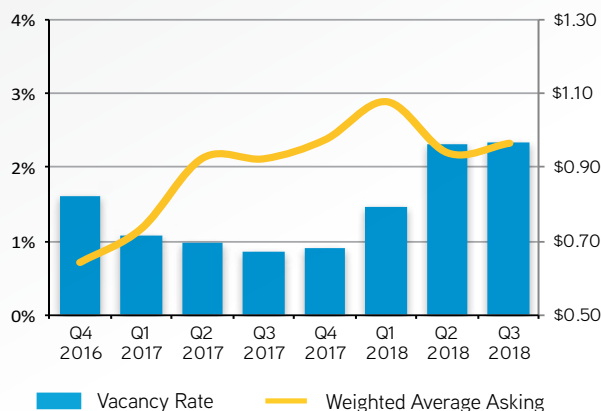
Q4 2018*

	Q3 2018	Q4 2018*
Vacancy	↔	↑
Net Absorption	↓	↓
Construction	↑	↑
Rental Rate	↑	↔

*Projected

Historical Vacancy and Average Asking Rates

Tri-Valley | Overall



Despite vacancy levels remaining flat for the quarter, asking rates inched up from \$0.94 to \$0.96 per square foot NNN. As construction is completed in the coming months, vacancies are expected to increase until tenants are set in place.

Summary Statistics

Q3 2018 Tri-Valley Industrial Market

Previous
Quarter

Current
Quarter

Vacancy Rate	2.3%	2.3%
Overall Asking Rate*	\$0.94	\$0.96
Light Industrial Asking Rate*	\$1.15	\$1.23
Whse/Dist Asking Rate*	\$0.71	\$0.71
Net Absorption	(169,698)	(2,861)
Gross Absorption	115,127	196,279

*Asking rates are reported on a triple net monthly basis

U.S. Economic Indicators

Unemployment Rate	4.0%	3.9%
Labor Force Participation Rate	62.9%	62.7%
Consumer Price Index	2.52%	2.52%
Interest Rate - 10 Yr Treasury	2.85%	3.05%
Business Confidence	101.36	101.47
Consumer Confidence	126.40	138.40

Dublin/Pleasanton Light Industrial

The Dublin/Pleasanton light industrial market remains difficult for industrial tenants and buyers wanting to expand and stay as close as possible to the I-580/I-680 Corridor. With a base of only 170 buildings comprising 4,316,265 square feet, these users continue to migrate to Livermore or beyond into the Central Valley as their expansion requirements dictate. Dublin's vacancy declined to 0.6 percent; while Pleasanton's vacancy increased to 4.5 percent, (80 percent of this vacancy is due to 5675 Sunol Boulevard – Westcore's cooler/freezer campus). Significant transactions for the quarter included the sale of 6700 Golden Gate Drive from Prologis to Bayview Development Group, who is planning to demolish this multi-tenant industrial building and redevelop the site into apartments. Other significant transactions were the sale of 7200 Johnson Drive consisting of a 15.6-acre site to the Costco Wholesale Corporation and the sale of 7135 Johnson Drive (5.0 acres) to Tharaldson Hospitality Management, a hotel developer with plans to build a 231-unit hotel with 2,300 square feet of retail. These two transactions closed escrow without entitlements in hand, after the Pleasanton City Council rescinded its initial approval of an Environmental Impact Report, given a lawsuit by The Pleasanton Citizens for Responsible Growth.

The Valent Lab building at 6560 Trinity Court in Dublin is for lease or sale. This 42,225 square foot free-standing building on 1.99 acres has been leased for the previous ten years to Valent USA corporation and is a fully built out wet and dry lab facility.

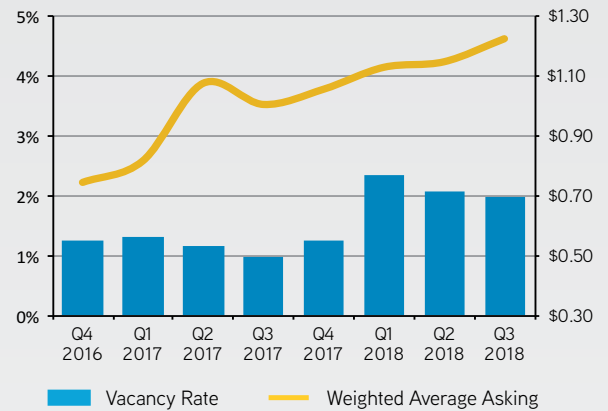
Livermore Industrial/Warehouse

Livermore's overall vacancy rate for industrial and warehouse space finished the quarter at 2.1 percent, holding steady from the previous quarter. Net absorption for the current quarter was positive 663 square feet, with weighted average asking rents trending up from \$0.78 per square foot NNN to \$0.81 per square foot NNN. Active new building developers include Scannell Properties (currently planning a 23,000 and 28,000 square foot industrial building development on Contractors Place for lease or sale); Prologis 77,000 square foot planned speculative building on National Avenue and Exchange Court for lease or sale; and Crow Holdings completed and under construction buildings in East Livermore ranging from 90,000 square feet on Longard Road to 242,000 square feet on Hawthorne Avenue. Additionally, Exeter is actively working on entitlements with the City for the 13.0 acres it holds on Greenville Road for a Fortune 100 build-to-suit logistics center and expects to receive those entitlements before year's end.

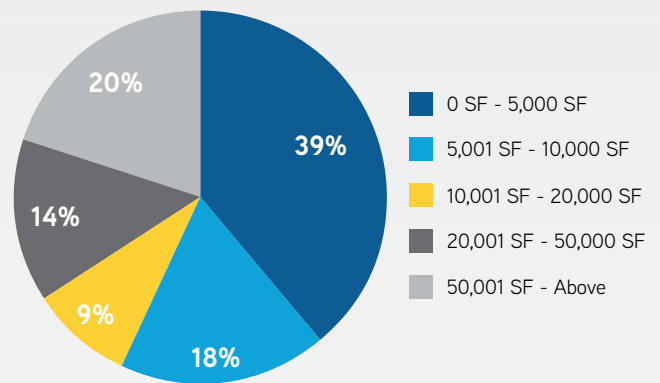
The largest transaction of the quarter was the signing of a long-term build-to-suit transaction for RK Logistics by Prologis on the former Walmart site near the Livermore Airport. This lease with RK Logistics (a Lam Research logistics provider) will consist of approximately 373,590 square feet on 19.27 acres.

Historical Vacancy and Average Asking Rates

Tri-Valley | Light Industrial

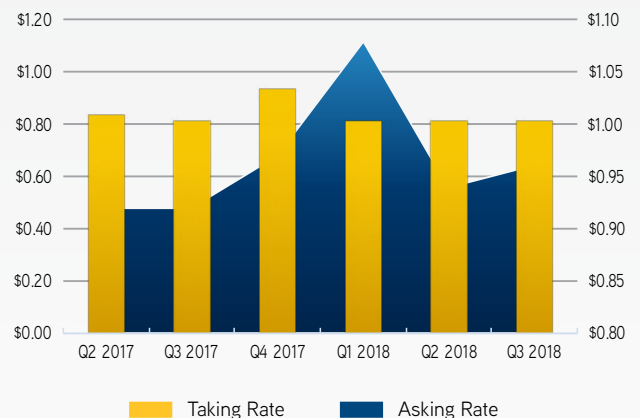


Available Space by Square Foot Range



Asking Rates and Taking Rates (NNN)

Tri-Valley | Overall



Other notable lease transactions that occurred during the quarter include: World Pac’s lease at 5573 Brisa Street (34,375 square feet); Chain Link Fence and Supply, Inc. at 7650 Hawthorne Avenue (19,400 square feet); DR3 Recycling lease at 7041 Las Positas Road (45,089 square feet); Big Fresh LLC’s renewal at 7066 Las Positas Road (39,826 square feet); Meritor’s renewed lease at 151 Lawrence Drive (56,800 square feet); Canadian Sales at 6262 Patterson Pass Road (15,318 square feet); Western Hydro Corporation at 2040 Research Drive (14,600 square feet); Valmark Industries at 161 S. Vasco Road (19,315 square feet); and Schneider Electric’s lease renewal at 250 S. Vasco Road (27,599 square feet).

Notable sales in Livermore include Exeter 6474 Patterson Pass LLC’s purchase of two buildings in the Livermore Distribution Center (totaling 181,554 square feet); Preston 711 LLC’s purchase of an industrial 1.76 acre yard at 5715 Preston Avenue; LSTC California LLC’s leased investment at 2140-2170 Research Drive (a 19,640 square foot building on 2.33 acres); and Powermatic Associates purchase of a 27,300 square foot building on 1.2 acres at 1264 Stealth Street.

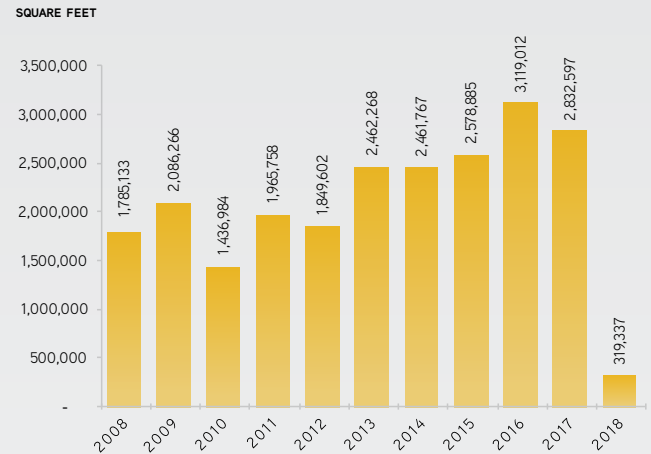
Looking Forward

Looking ahead to the end of the year, our expectation is that as new planned and ongoing speculative development hits the Tri-Valley industrial market; overall vacancy rates will continue their rise. Still, we do not expect any overall relief in rental rate or sales pricing for most, given the cost of new development and the lack of product available for the majority of Tri-Valley industrial users that are looking for smaller, divisible product to lease or purchase. Given the strength of the overall Bay Area economy and the Tri-Valley’s strategic location as a bridge between the Central Valley and the greater Bay Area, we expect demand for our industrial market to continue to be strong in the months and year ahead.



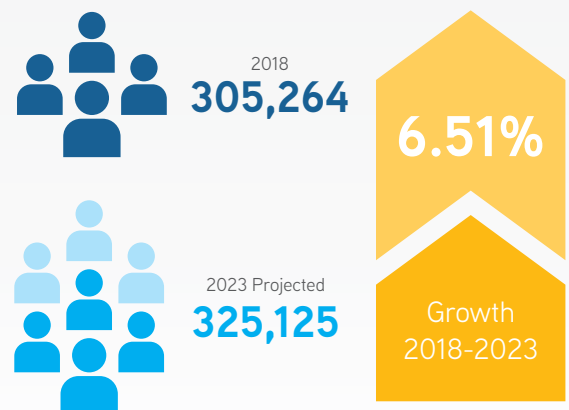
6700 Golden Gate Drive, Dublin – Prologis sold their 225,357 square foot warehouse/distribution building to Bayview Development Group, who have plans to demolish the building and construct an apartment complex.

Transaction Volume



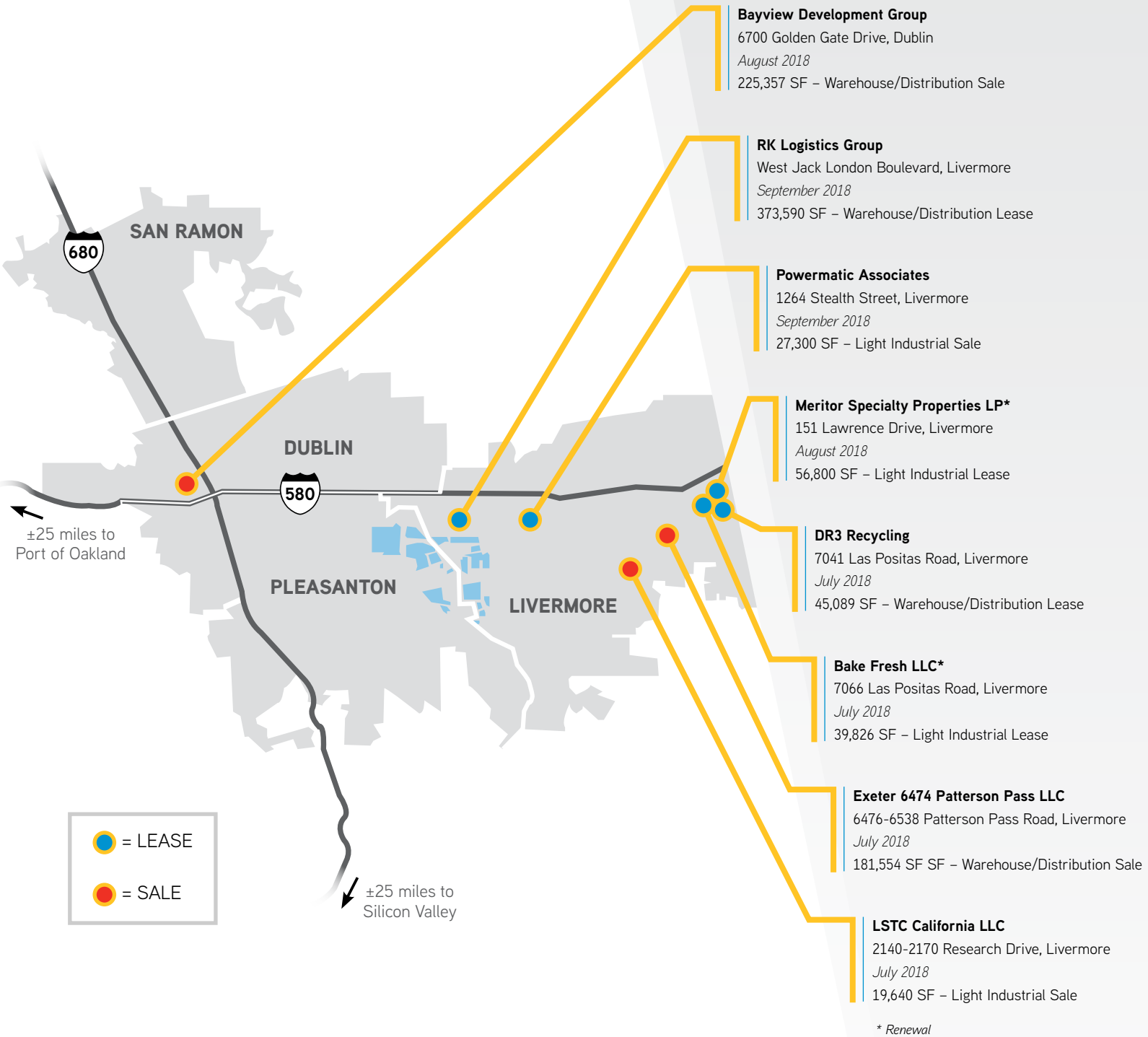
“..expect demand for our industrial market to continue to be strong.”

Population



Data Source: © 2018 Environics Analytics

Significant Lease & Sale Activity



Significant Lease Activity Under 35,000 SF

PROPERTY ADDRESS	LEASE DATE	SIZE	TENANT	TYPE
5573 Brisa Street, Livermore	July 2018	34,375 SF	WORLDPAC Inc.	Warehouse/Distribution
250 South Vasco Road, Livermore	September 2018	27,599 SF	Schneider Electric Inc.*	Light Industrial
7650 Hawthorne Avenue, Livermore	July 2018	19,400 SF	Chain Link Fence & Supply Inc.	Light Industrial
161 South Vasco Road, Livermore	August 2018	19,315 SF	Valmark Industries Inc.	Light Industrial
6262 Patterson Pass Road, Livermore	July 2018	15,318 SF	Canadian Sales Agency Inc.*	Warehouse/Distribution

* Renewal

Market Comparisons – Tri-Valley

INDUSTRIAL 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	NET ABSORPTION CURRENT QTR SF	NET ABSORPTION YTD SF	GROSS ABSORPTION YTD SF	COMPLETIONS CURRENT QTR SF	UNDER CONSTRUCTION SF	WEIGHTED AVG ASKING RATE NNN
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DUBLIN

Lt Ind	41	1,321,025	8,088	0.6%	1,400	0.1%	9,488	0.7%	1.3%	7,684	23,441	36,301	36,301	-	\$1.01
Whse	2	259,917	-	0.0%	-	0.0%	-	0.0%	0.0%	-	-	-	-	-	-
Total	43	1,580,942	8,088	0.5%	1,400	0.1%	9,488	0.6%	1.1%	7,684	23,441	36,301	36,301	-	\$1.01

LIVERMORE

Lt Ind	303	7,280,999	80,627	1.1%	-	0.0%	80,627	1.1%	1.3%	13,221	(19,791)	282,674	282,674	-	\$1.07
Whse	56	8,168,482	220,644	2.7%	25,344	0.3%	245,988	3.0%	2.9%	(12,558)	(201,992)	131,383	131,383	332,091	\$0.71
Total	359	15,449,481	301,271	2.0%	25,344	0.2%	326,615	2.1%	2.1%	663	(221,783)	414,057	414,057	332,091	\$0.81

PLEASANTON

Lt Ind	125	2,247,918	124,267	5.5%	-	0.0%	124,267	5.5%	5.0%	(11,208)	(83,341)	25,732	25,732	-	\$1.34
Whse	2	487,405	-	0.0%	-	0.0%	-	0.0%	0.0%	-	-	-	-	-	-
Total	127	2,735,323	124,267	4.5%	-	0.0%	124,267	4.5%	4.1%	(11,208)	(83,341)	25,732	25,732	-	\$1.34

MARKET TOTAL

Lt Ind	469	10,849,942	212,982	2.0%	1,400	0.0%	214,382	2.0%	2.1%	9,697	(79,691)	344,707	344,707	-	\$1.23
Whse	60	8,915,804	220,644	2.5%	25,344	0.3%	245,988	2.8%	2.6%	(12,558)	(201,992)	131,383	131,383	332,091	\$0.71
Total	529	19,765,746	433,626	2.2%	26,744	0.1%	460,370	2.3%	2.3%	(2,861)	(281,683)	476,090	476,090	332,091	\$0.96

QUARTERLY COMPARISON AND TOTALS

Q3-18	529	19,765,746	433,626	2.2%	26,744	0.1%	460,370	2.3%	2.3%	(2,861)	(281,683)	476,090	476,090	332,091	\$0.96
Q2-18	529	19,765,746	430,765	2.2%	26,744	0.1%	457,509	2.3%	1.5%	(169,698)	(278,822)	279,811	279,811	351,779	\$0.94
Q1-18	520	19,637,124	278,307	1.4%	9,504	0.0%	287,811	1.5%	0.9%	(109,124)	(109,124)	164,684	164,684	390,213	\$1.08
Q4-17	520	19,621,047	177,287	0.9%	1,400	0.0%	178,687	0.9%	0.9%	(9,391)	123,874	776,853	776,853	128,622	\$0.97
Q3-17	520	19,621,047	148,696	0.8%	20,600	0.1%	169,296	0.9%	1.0%	21,017	133,265	545,827	545,827	128,622	\$0.92



6474 PATTERSON PASS ROAD - LIVERMORE

Exeter 6474 Patterson Pass LLC purchased two buildings totaling 181,554 square feet in Livermore Distribution Center. This was an investment transaction with both buildings 100 percent occupied.

69 countries

\$2.7

billion in
annual revenue*

2.0

billion square feet
under management

15,400

professionals
and staff

\$116

billion in
total transaction volume

*All statistics are for 2017, are in U.S. dollars and include affiliates.

COLLIERS INTERNATIONAL | PLEASANTON

3825 Hopyard Road, Suite 195
Pleasanton, CA 94588 | USA

+1 925 463 2300

MARKET CONTACTS:

Marshall Snover
Executive Managing Director
CA License No. 00882591
+1 925 227 6205
marshall.snover@colliers.com

Lisa Kohler
Senior Research Analyst
+1 925 227 6236
lisa.kohler@colliers.com

CONTRIBUTING AUTHOR:

Mark Triska, SIOR | Executive Vice President



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