

Continued Malaise

- > A slight uptick in vacancy to 10.9 percent proved a relatively flat quarter
- > Weighted average asking rents increased slightly to \$2.76 per square foot
- > The quarter ended with 151,444 square feet of negative net absorption

Three consecutive quarters of continued sluggish activity in the Tri-Valley office market probably indicates a “trend” versus the “market pauses” called out in prior reports. Seemingly, contrary to this trend, is the uptick in total market weighted average asking rents, which are at \$2.76 full service gross, up \$0.08 from one year ago, and up \$0.03 from the prior quarter. The weighted average asking rents are based on vacant space, so to call the bump up in weighted average asking rents a positive market indicator is a “glass half full” approach. Net absorption for all classes of space was negative 151,444 square feet and the total vacancy rate for all classes of space is up half of a percent from the prior quarter to 10.9 percent, indicating a glass with less fluid.

The Tri-Valley Class A market weighs in with weighted average asking rents of \$3.05 full service gross, up \$0.05 from the final quarter of 2017. The total vacancy is 12.5 percent, up 0.8 percent from the close of 2017 with 114,348 square feet of negative absorption for the quarter.

Market Indicators

Unemployment Rate
Tri-Valley

10-Year Nominal
Interest Rate

Consumer
Confidence



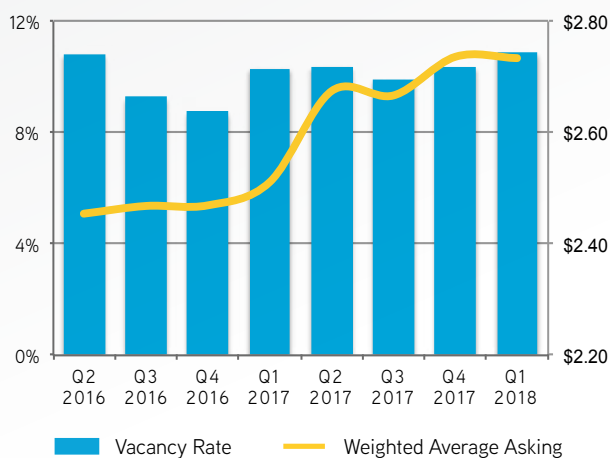
Market Trends

Relative to prior period	Q1 2018	Q2 2018*
Vacancy	↓	↔
Net Absorption	↑	↔
Construction	↔	↔
Rental Rate	↔	↔

*Projected

Historical Vacancy and Average Asking Rates

Tri-Valley | All Classes



Vacancy and weighted average asking rates leveled out from last quarter, marking a quiet start for 2018. Though asking rates have increased 3.0 percent in the past year, overall vacancy has remained fairly constant, around 10.0 percent.

Summary Statistics

Q1 2018 Tri-Valley Office Market	Previous Quarter	Current Quarter
Vacancy Rate	10.4%	10.9%
Overall Asking Rate*	\$2.73	\$2.76
Class A Asking Rate*	\$3.00	\$3.05
Class B Asking Rate*	\$2.28	\$2.28
Flex Asking Rate*	\$2.12	\$2.15
Net Absorption	(121,352)	(151,444)
Gross Absorption	217,340	217,695

*Asking rates are reported on a full service monthly basis

U.S. Economic Indicators

Unemployment Rate	4.1%	4.1%
Labor Force Participation Rate	62.7%	63.0%
Consumer Price Index	2.47%	2.48%
Interest Rate - 10 Yr Treasury	2.40%	2.74%
Business Confidence	101.1	101.5
Consumer Confidence	122.1	127.7

Class B office rents closed the quarter at \$2.28, flat from the prior quarter, and up from \$2.21 one year ago. Absorption was negative 2,122 square feet, and vacancy is 12.8 percent. The office/flex sector ended the quarter with weighted average asking rents of \$2.15 (adjusted to full service gross), up year-over-year \$0.16 or 8.0 percent. One year ago, the weighted average asking rents in the office/flex sector were \$1.99. Currently, net absorption reported negative 34,974 square feet with the vacancy rate of 5.8 percent.

Last year across all sectors of space the Tri-Valley office market reported total negative net absorption of 452,874 square feet. The first quarter of 2018, with 151,444 square feet of negative net absorption, seems to be in lock step with 2017 in continuing a slowing trend.

Dublin

Dublin Class A weighted average asking rents spiked to \$3.20 full service gross, up \$0.09 from the prior quarter. There was no absorption, nothing to see here. Vacancy, as you may have guessed, did not change from the prior quarter and is at 31.7 percent. Callidus Software, Inc. sold to SAP during the quarter prompting speculation as to Callidus' occupancy in Dublin Corporate Center. They occupy 108,644 square feet in that project, and with SAP's relocation to BR 2600 last year, the question arises as to if they will be relocated to SAP's leasehold in Bishop Ranch. SAP's former Dublin campus, Park Place, has rumored activity from a financial services user who is eyeing Three Park Place, a six-story, 209,120 square foot Class A property. The project, recently rumored to have gone through the process of a lot split, freed up ownership to sell off an individual building.

The Class B Dublin market, comprised of only 334,467 square feet, remained largely unchanged from year-end 2017 with weighted average asking rents at \$2.10, vacancy at 16.1 percent and flat absorption.

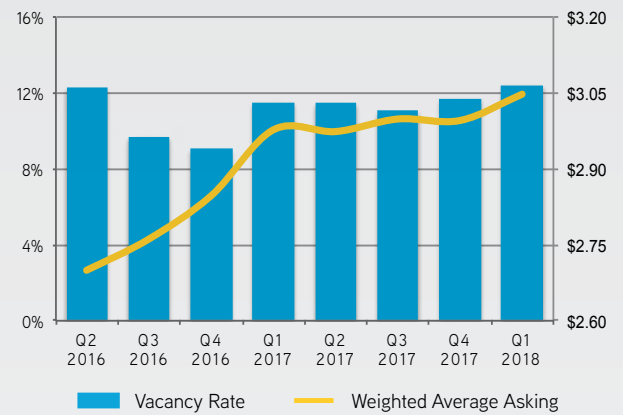
The Dublin office/flex sector had negative absorption of 24,229 square feet, pushing the total vacancy rate up 3.0 percentage points from year-end 2017 to 5.3 percent.

Livermore

A couple of good sized office deals occurred in Livermore over the last quarter that actually dropped Livermore's vacancy rate for office and office/flex from 11.2 percent to 10.5 percent. The Vineyard Business Park trimmed their vacancy by leasing 9,251 square feet to CEMEX (a building material company). Additionally, The Community Association for Preschool Education leased 6,128 square feet from PJMB Commercial. In total, the Livermore office market absorbed a gross 19,916 square feet for the quarter. On the available side, Vineyard Business Park continues to offer large blocks of open office space at significantly reduced rates.

Historical Vacancy and Average Asking Rates

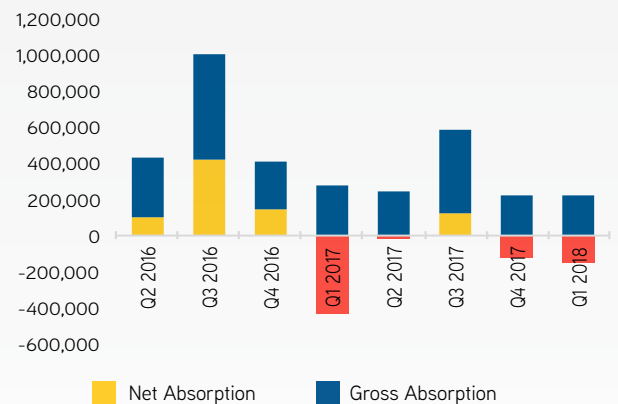
Tri-Valley | Class A



VINEYARD BUSINESS PARK – LIVERMORE
CEMEX, a building material company headquartered in Mexico, signed a 9,251 square foot deal in the four-building office campus.

Historical Net Absorption

Tri-Valley | Class A



Livermore (continued)

Additionally, The Terrill Company has an 11,500 square foot Class A space along Patterson Pass Road available for sublease. Finally, Global Hawk is offering 13,986 square feet of office at Shea Center, which includes freeway frontage. All locations offer users with employees commuting from the Central Valley, a shorter commute than driving farther into the Tri-Valley and beyond.

Pleasanton

Class A weighted average asking rents are at \$2.94 full service gross, flat from the close of 2017. Absorption was positive 885 square feet with the vacancy rate at a healthy 5.5 percent. Barrick Gold of North America, Inc., a tenant new to this market, leased 12,106 square feet at Hacienda Terrace (4301 Hacienda Drive). In addition, Dimension Data leased 16,725 square feet at Rosewood Commons, consolidating and relocating from 5200 Franklin and Signature Center.

Class B weighted average asking rents stand at \$2.56 full service gross, up \$0.02 from the fourth quarter of 2017, and up \$0.04 year-over-year. Class B absorption in the quarter was negative 2,601 square feet, and the total vacancy rate is at 12.0 percent, 2.5 percent higher than a year ago. Anixter, Inc. leased 16,127 square feet of the second floor at 5000 Franklin Drive. They are downsizing and relocating from 28,069 square feet at 4464 Willow Road.

Pleasanton office/flex average weighted asking rents dipped \$0.02 from the previous quarter to \$2.36 (converted to “full service gross” equivalent rates) with negative net absorption of 26,055 square feet. The direct vacancy rate is now 2.4 percent, up 0.9 percentage points from the fourth quarter 2017.



PLAZA SAN RAMON – SAN RAMON

DivcoWest sold the two-building, 4-story, 320,464 square foot office complex at 2000 & 2010 Crow Canyon Place for approximately \$72 million (\$231 per square foot). This low vacancy Class A complex, conveniently located off Highway 680, is walking distance to many amenities and restaurants.

San Ramon

Class A weighted average asking rents upticked from the prior quarter to \$3.01, up a dime from one year ago despite 115,233 square feet of negative net absorption. Vacancy is 14.5 percent, up 2.8 percentage points from the close of the first quarter 2017. Mott MacDonald Group, Inc. leased 13,360 square feet on the second floor of Bishop Ranch 15 (12647 Alcosta Boulevard) in preparing to relocate and downsize from Pleasanton's Hacienda Terrace. Joining them on the second floor in Bishop Ranch 15 in directly adjacent space, Dodge & Cox Funds leased 13,360 square feet.

“Without the migration of new tenants or start-ups in the Tri-Valley, the current sluggish trend will march on.”

The Plaza San Ramon (2000-2010 Crow Canyon Place) traded during the quarter with DivcoWest (DWF IV San Ramon, LLC), as the seller, and Align Real Estate (C-III Capital Partners), as the buyer. This two-building multi-tenant (320,464 square foot), Class A, 4-story office project sold for \$72,181,500 (\$240 per square foot). DivcoWest purchased the project just two years ago, acquiring the asset for \$47,600,000. The project now features a tenant amenity area between the two buildings and new common area finishes. The project is currently less than 4.0 percent vacant.

City Center Bishop Ranch, with a targeted grand opening this fall, is shaping up nicely having inked deals with Williams Sonoma, Pottery Barn, West Elm, Fieldwork Brewing Company and Roam Artisan Burgers. They will also add a 30,000 square foot, high-end fitness facility in Equinox that will feature an outdoor pool on the top deck of the center. These new additions will join previously mentioned luxury cinema, The Lot.

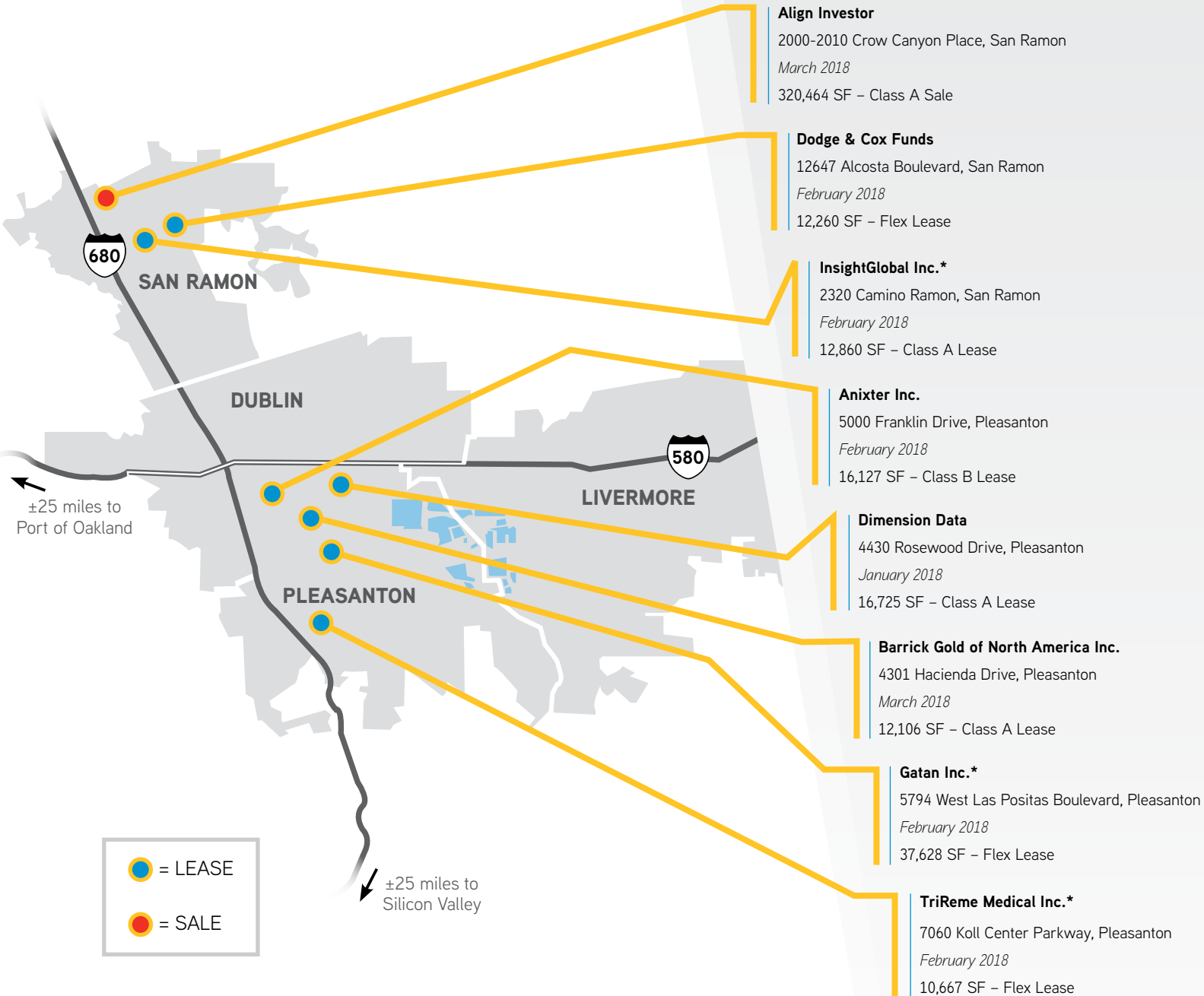
The Class B sector closed the quarter with weighted average asking rents at \$2.37 full service gross with positive absorption of 4,527 square feet and vacancy at 9.1 percent.

San Ramon office/flex rents (adjusted to full service gross) are at \$2.14 with vacancy at 15.1 percent. There was 1,560 square feet of negative net absorption across a total inventory of 700,724 square feet.

Looking Forward

Without the migration of new tenants or start-ups in the Tri-Valley, the current sluggish trend will march on.

Significant Lease & Sale Activity



* Renewal

Market Comparisons – Tri-Valley

OFFICE MARKET

CLASS	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	1,484,616	470,371	31.7%	-	0.0%	470,371	31.7%	31.6%	-	-	-	-	-	\$3.20
B	334,467	53,839	16.1%	-	0.0%	53,839	16.1%	15.5%	(16)	(16)	5,680	-	-	\$2.10
Flex	823,517	43,409	5.3%	-	0.0%	43,409	5.3%	2.3%	(24,229)	(24,229)	-	-	-	\$2.02
Total	2,642,600	567,619	21.5%	-	0.0%	567,619	21.5%	20.4%	(24,245)	(24,245)	5,680	-	-	\$3.01

LIVERMORE														
B	834,139	150,996	18.1%	-	0.0%	150,996	18.1%	17.6%	(4,032)	(4,032)	12,073	-	-	\$1.69
Flex	2,188,275	131,164	6.0%	35,600	1.6%	166,764	7.6%	8.6%	16,870	16,870	7,843	-	-	\$2.09
Total	3,022,414	282,160	9.3%	35,600	1.2%	317,760	10.5%	11.2%	12,838	12,838	19,916	-	-	\$1.88

PLEASANTON														
A	6,386,067	289,075	4.5%	59,730	0.9%	348,805	5.5%	5.5%	885	885	64,625	-	410,000	\$2.94
B	2,941,476	338,349	11.5%	14,787	0.5%	353,136	12.0%	12.1%	(2,601)	(2,601)	38,889	-	-	\$2.56
Flex	2,968,347	69,883	2.4%	-	0.0%	69,883	2.4%	1.5%	(26,055)	(26,055)	20,149	-	-	\$2.36
Total	12,295,890	697,307	5.7%	74,517	0.6%	771,824	6.3%	6.1%	(27,771)	(27,771)	123,663	-	410,000	\$2.70

SAN RAMON														
A	7,712,874	1,036,881	13.4%	85,161	1.1%	1,122,042	14.5%	13.1%	(115,233)	(115,233)	59,551	-	-	\$3.01
B	879,442	74,435	8.5%	5,866	0.7%	80,301	9.1%	9.8%	4,527	4,527	8,885	-	-	\$2.37
Flex	700,724	106,060	15.1%	-	0.0%	106,060	15.1%	14.9%	(1,560)	(1,560)	-	-	-	\$2.14
Total	9,293,040	1,217,376	13.1%	91,027	1.0%	1,308,403	14.1%	12.9%	(112,266)	(112,266)	68,436	-	-	\$2.90

MARKET TOTAL

A	15,583,557	1,796,327	11.5%	144,891	0.9%	1,941,218	12.5%	11.7%	(114,348)	(114,348)	124,176	-	410,000	\$3.05
B	4,989,524	617,619	12.4%	20,653	0.4%	638,272	12.8%	12.9%	(2,122)	(2,122)	65,527	-	-	\$2.28
Flex	6,680,863	350,516	5.2%	35,600	0.5%	386,116	5.8%	5.3%	(34,974)	(34,974)	27,992	-	-	\$2.15
Total	27,253,944	2,764,462	10.1%	201,144	0.7%	2,965,606	10.9%	10.4%	(151,444)	(151,444)	217,695	-	410,000	\$2.76

QUARTERLY COMPARISON AND TOTALS

Q1-18	27,253,944	2,764,462	10.1%	201,144	0.7%	2,965,606	10.9%	10.4%	(151,444)	(151,444)	217,695	-	410,000	\$2.76
Q4-17	27,156,826	2,696,777	9.9%	117,385	0.4%	2,814,162	10.4%	9.9%	(121,352)	(452,874)	1,199,625	-	410,000	\$2.73
Q3-17	27,156,826	2,572,002	9.5%	120,808	0.4%	2,692,810	9.9%	10.4%	120,099	(331,522)	982,285	-	410,000	\$2.74
Q2-17	27,156,826	2,656,534	9.8%	164,914	0.6%	2,821,448	10.4%	10.3%	(18,245)	(451,621)	522,849	-	410,000	\$2.67
Q1-17	27,156,826	2,670,313	9.8%	132,890	0.5%	2,803,203	10.3%	8.7%	(433,376)	(433,376)	274,981	-	410,000	\$2.68

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

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.

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