

# PLEASANTON | ALAMEDA COUNTY, CALIFORNIA RESEARCH & FORECAST REPORT



## Office Market Review

### SLOW AND STEADY

The Tri-Valley class A office market appears to be on pace with gross absorption ticking in at 441,713 square feet in the second quarter of 2011, compared to 455,153 square feet in the second quarter of 2010 and 427,039 square feet in the second quarter of 2009. The Tri-Valley class A office market's net absorption plummeted dramatically from 69,541 square feet in the first quarter of 2011 to negative 194,445 square feet in the current quarter. This marks a 179.6 percent fall in net absorption and a clear indicator that the market still remains in flux. The Tri-Valley class A office market's vacancy rate increased from 14.1 percent three months ago to 15.6 percent in the current quarter. Lastly, the Tri-Valley class A office market's asking rental rates increased from \$1.76 per square foot full service in the last quarter to \$1.88 per square foot full service presently and represented the first jump in asking rates in several years.

With vacancy rates increasing, net absorption showing a disappointing quarter, gross absorption slightly off pace with the previous year and asking rental rates increasing, the complicated up/down movements for each market indicator do not paint a clear picture of the state of the Tri-Valley class A office market. Such opposing movements are likely due to compressed supply of larger spaces (lending to possible rate pressure) but lack of mid-sized (5,000+ square foot) deal requirements. The commercial real estate market will continue to hinge on improvements in the employment sector and the ability of both blue-chip and local credit companies to make commercial real estate decisions.

### MARKET INDICATORS

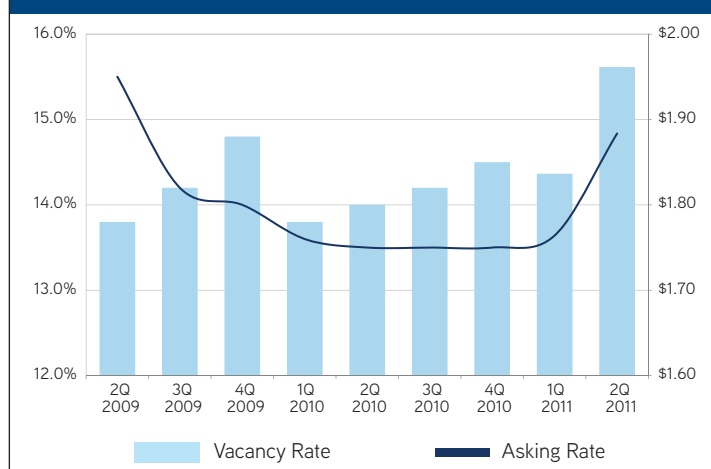
	Q2-11	Projected Q3-11
VACANCY	↑	↓
NET ABSORPTION	↓	↑
CONSTRUCTION	↔	↔
RENTAL RATE	↑	↑

### SELECTED MARKET STATS

- > Overall class A net absorption plummeted dramatically to negative 194,445 square feet in the second quarter.
- > Class A office market's vacancy rate increased to 15.6 percent in the second quarter.
- > Tri-Valley class A asking rental rates increased to \$1.88 per square foot full service.
- > Alameda County's unemployment rates is 10.9 percent as of June 2011\*

\*SOURCE: CALIFORNIA EMPLOYMENT DEVELOPMENT DEPARTMENT

### HISTORICAL VACANCY AND AVERAGE ASKING RATES



With vacancy rates increasing, net absorption showing a disappointing quarter, gross absorption slightly off pace with the previous year and asking rental rates increasing, the complicated up/down movements for each market indicator do not paint a clear picture of the state of the Tri-Valley class A office market.



*"The commercial real estate market will continue to hinge on improvements in the employment sector and the ability of both blue-chip and local credit companies to make commercial real estate decisions."*

In the second quarter of 2011, only a couple of sales transactions were recorded. These include a 1,298 square foot condominium sold by Cathay Bank at 7011 Koll Center Parkway (Birch Lakes) and a 2,787 square foot condominium sale at Vision West by a private buyer. In the prior quarter there were a healthy number of sales transactions completed which indicated an increased appetite by investors and a possible improvement in the capital market. However, with these small transactions marking the only sales activity in the Tri-Valley office sales market, it once again appears that the market has not fully stabilized significantly enough for a market trend to be established.

## PLEASANTON

The Pleasanton class A office market had experienced a slowly improving vacancy rate since second quarter of 2010. The current quarter's class A vacancy rate strayed ever so slightly from this trend showing a vacancy rate of 17.6 percent compared to 17.5 percent in the first quarter of the year and 20.5 percent one year ago. Year-over-year this indicates a 2.9 percentage point improvement in vacancy rates. Pleasanton's class A office net absorption was 10,387 square feet last quarter and improved to 34,064 square feet this quarter. Another positive indicator of the improving health of the Pleasanton class A office market is gross absorption. Pleasanton's class A office market has improved from 85,174 square feet two years ago to a significant leap of 210,301 square feet one year ago to 206,209 square feet presently. In comparison from last year's gross absorption, Pleasanton's class A office market seems on trend with 2010. Gross leasing activity was mainly centered at three projects which include: Pleasanton Corporate Commons (UBS) completing approximately 4,902 square feet of transactions and Stoneridge Corporate Plaza (MetLife) completing 12,374 square feet of lease transactions. The largest lease transactions were completed at Bernal Corporate Park (Principal Real Estate Investors) with MegaPath Networks Inc. leasing 25,709 square feet and Advantage Sales and Marketing LLC leasing 29,357 square feet. The Pleasanton class A office market's asking rental rate actually increased from \$1.75 per square foot full service six months ago to \$1.77 per square foot full service presently. While there was a slight increase in asking rental rates, real upward rental rate pressure is seemingly non-existent with vacancy rates remaining above 15.0 percent.

## SAN RAMON

The San Ramon class A office market had previously experienced a decreasing vacancy rate from 10.5 percent two quarters ago, to 9.7 percent in the prior quarter. However the vacancy rate rose dramatically in the second quarter of 2011 to 13.2 percent. This indicates continued instability in the market. San Ramon's class A office net absorption is negative 271,431 square feet currently which is a dramatic fall from 66,003 square feet of net absorption three months ago. Following a similar trend, gross absorption for the San Ramon class A office market fell from 232,797 square feet twelve months ago to 141,356 square feet presently. This represents a fall in gross leasing activity of approximately 64.6 percent. Deals completed accounting for this activity include, 30,433 square feet

### SIGNIFICANT DEALS

### LEASE ACTIVITY

PROPERTY ADDRESS	LEASE DATE	SQUARE FEET	TENANT	TYPE
2333 Nissen Dr	Jun-11	82,855	The Wellness Community Church	Office/Flex
4120 Dublin Blvd	Jun-11	74,926	Epicor Software Corporation	Class A
6700 Koll Center Pkwy	Jun-11	29,357	Advantage Sales and Marketing LLC	Class A
6800 Koll Center Pkwy	Apr-11	25,709	MegaPath Networks Inc	Class A
3825 Hopyard Rd	May-11	15,175	Kaiser Permanente*	Class A
5950 Stoneridge Dr	May-11	14,456	S & J Stadtler Inc	Class B

\* Renewal

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
<b>DUBLIN</b>																
A	9	1,469,152	282,248	19.2%	-	0.0%	282,248	19.2%	22.1%	1,186,904	42,922	36,073	94,148	-	-	\$1.82
B	15	407,460	110,942	27.2%	2,634	0.6%	113,576	27.9%	31.2%	293,884	13,468	21,001	29,319	-	-	\$1.37
Flex	24	869,188	54,992	6.3%	-	0.0%	54,992	6.3%	8.0%	814,196	14,417	29,659	34,931	-	-	\$1.12
Total	48	2,745,800	448,182	16.3%	2,634	0.1%	450,816	16.4%	19.0%	2,294,984	70,807	86,733	158,398	-	-	\$1.62
<b>LIVERMORE</b>																
B	21	788,586	243,850	30.9%	10,513	1.3%	254,363	32.3%	28.7%	534,223	(27,859)	(27,859)	6,523	-	-	\$1.22
Flex	70	2,044,707	455,796	22.3%	34,110	1.7%	489,906	24.0%	28.7%	1,554,801	97,895	84,834	96,542	-	-	\$0.93
Total	91	2,833,293	699,646	24.7%	44,623	1.6%	744,269	26.3%	28.7%	2,089,024	70,036	56,975	103,065	-	-	\$1.03
<b>PLEASANTON</b>																
A	54	6,480,327	1,121,584	17.3%	18,882	0.3%	1,140,466	17.6%	18.1%	5,339,861	34,064	6,796	206,209	-	-	\$1.77
B	61	2,467,342	464,987	18.8%	1,125	0.0%	466,112	18.9%	18.0%	2,001,230	(21,147)	57,787	117,817	-	-	\$1.71
Flex	97	3,476,433	603,796	17.4%	17,103	0.5%	620,899	17.9%	16.4%	2,855,534	(50,646)	(15,396)	102,868	-	-	\$1.36
Total	212	12,424,102	2,190,367	17.6%	37,110	0.3%	2,227,477	17.9%	17.6%	10,196,625	(37,729)	49,187	426,894	-	-	\$1.64
<b>SAN RAMON</b>																
A	32	7,611,836	904,264	11.9%	102,806	1.4%	1,007,070	13.2%	9.7%	6,604,766	(271,431)	(205,428)	141,356	-	-	\$2.03
B	29	1,066,820	118,079	11.1%	1,405	0.1%	119,484	11.2%	10.5%	947,336	(6,972)	17,287	32,964	-	-	\$1.53
Flex	9	705,668	65,326	9.3%	1,560	0.2%	66,886	9.5%	9.3%	638,782	(1,560)	1,879	3,439	-	-	\$1.21
Total	70	9,384,324	1,087,669	11.6%	105,771	1.1%	1,193,440	12.7%	9.7%	8,190,884	(279,963)	(186,262)	177,759	-	-	\$1.93
<b>MARKET TOTAL</b>																
A	95	15,561,315	2,308,096	14.8%	121,688	0.8%	2,429,784	15.6%	14.4%	13,131,531	(194,445)	(162,559)	441,713	-	-	\$1.88
B	126	4,730,208	937,858	19.8%	15,677	0.3%	953,535	20.2%	19.3%	3,776,673	(42,510)	68,216	186,623	-	-	\$1.52
Flex	200	7,095,996	1,179,910	16.6%	52,773	0.7%	1,232,683	17.4%	18.2%	5,863,313	60,106	100,976	237,780	-	-	\$1.17
Total	421	27,387,519	4,425,864	16.2%	190,138	0.7%	4,616,002	16.9%	16.2%	22,771,517	(176,849)	6,633	866,116	-	-	\$1.62
<b>QUARTERLY COMPARISON AND TOTALS</b>																
Q2-11	421	27,387,519	4,425,864	16.2%	190,138	0.7%	4,616,002	16.9%	16.2%	22,771,517	(176,849)	6,633	866,116	-	-	\$1.62
Q1-11	421	27,387,519	4,259,560	15.6%	179,593	0.7%	4,439,153	16.2%	17.0%	22,948,366	183,482	183,482	443,556	-	-	\$1.57
Q4-10	421	27,416,320	4,468,043	16.3%	192,247	0.7%	4,660,290	17.0%	17.2%	22,756,030	66,301	586,748	2,275,601	-	-	\$1.64
Q3-10	420	27,416,320	4,465,185	16.3%	261,406	1.0%	4,726,591	17.2%	19.1%	22,689,729	499,037	520,447	1,675,115	-	-	\$1.64
Q2-10	420	27,416,320	4,959,397	18.1%	266,231	1.0%	5,225,628	19.1%	18.8%	22,190,692	(80,963)	21,410	804,573	-	-	\$1.64



DUBLIN CORPORATE CENTER

Three four-story class A office buildings, which now house Epicor Software Corporation (formerly Activant Solutions Inc) who relocated from Livermore and leased 74,926 square feet

of transactions at Legacy Plaza (Legacy Partners) and 23,876 square feet of executed deals at Bishop Ranch (Annabel Investment Company). Despite a reversal of fortunes in net absorption, the San Ramon class A office market's asking rental rates increased from \$1.75 per square foot full service two quarters ago to \$2.03 per square foot full service in the current quarter.

## DUBLIN

The Dublin class A office market's vacancy rate continues to fluctuate from 21.7 percent two quarters ago, rising to 22.1 percent one quarter ago and finally decreasing to 19.2 percent in this quarter. The ebb and flow of this smaller market is driven primarily by deal movement at Dublin Corporate Center and seems to be the most difficult market to draw trends from (due to its small mass). The Dublin class A office market's net absorption showed signs of improvement with upward movement from negative 6,849 square feet three months ago to 42,922 square feet. Gross absorption in the Dublin class A office market improved from 12,055 square feet four quarters ago to 94,148 square feet in the present quarter. Gross leasing activity at Dublin Corporate Center (Tishman Speyer) accounted for all of the gross absorption in the Dublin class A office market with Fluor Engineering leasing an additional 3,482 square feet and Epicor Software (purchased Activant) executing a lease for 74,926 square feet. Similar to the other class A office submarkets within the Tri-Valley, Dublin's class A office asking rental rate increased from \$1.75 per square foot full service to \$1.82 per square foot full service in the second quarter of 2011.

## LIVERMORE

The Livermore office market saw a slight improvement in the second quarter of 2011 over the first quarter, as vacancy dropped from 28.7 percent to 26.3 percent. This drop was primarily due to The Wellness Community Church taking the old Comcast office/flex building at 2333 Nissen Drive, consisting of 82,855 square feet at a very aggressive lease rate. Rents for Livermore office vary, depending on the location and product type. Full service office rents in Class B buildings around the Livermore Airport area are going for as little as \$1.35 per square foot full service. In the Downtown Livermore area, rents in the class A Livermore Valley Plaza are being quoted at \$2.50 per square foot full service. Despite the City of Livermore offering to cut new development fees in half for high-wage job users, we cannot expect new office development in Livermore for some time.

## LOOKING FORWARD

With the first two quarters of 2011 already in the books it appears that "slow and steady" remains the motto for this year, as it was twelve months ago. There were no startling trends either in improvement or depression for the most important market indicators; vacancy rates and net absorption. With national unemployment numbers remaining high and the United States dollar very much on the brink of devaluation, optimism for a dramatic, full-fledged recovery and tangible changes in the commercial real estate market (sooner rather than later) remain just over the horizon. For Tri-Valley class A office market landlords, the market will continue to favor tenants. However, for large chunks of class A office space, the choices are far slimmer and will benefit those landlords who have the space. Even spaces in the 10,000 square foot range are starting to be absorbed with options for tenants trimming down significantly in the past few quarters. With new requirements by credit and venture capital funded tenants appearing in the market, the opportunity for class A office landlords to make a dent in their vacancy rates is there. The question remains, at what cost and to what length will landlords go (in rent concessions and tenant improvement dollars) to help occupancy levels now with at, or just below market deals.

## 512 offices in 61 countries on 6 continents

United States: 125  
Canada: 38  
Latin America: 18  
Asia Pacific: 214  
EMEA: 95

- \$1.5 billion in annual revenue
- 979 million square feet under management
- Over 12,500 professionals

### PLEASANTON OFFICE:

5050 Hopyard Rd. Suite 180  
Pleasanton, CA 94588  
United States  
TEL +1 925 463 2300  
FAX +1 925 463 0747

### MANAGING PARTNER

Ted Helgans  
Managing Partner  
TEL +1 925 227 6202  
ted.helgans@colliers.com  
CA License No. 00873026

### RESEARCHER:

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

### CONTRIBUTING AUTHOR

Loren Honda, CCIM  
Senior Associate  
TEL +1 925 227 6261  
loren.honda@colliers.com  
CA License No. 01796910

This report and other research materials may be found on our website at [www.colliers.com](http://www.colliers.com). This is a research document of Colliers International - Pleasanton, CA. Questions related to information herein should be directed to the Research Department at 925-227-6236. Information contained herein has been obtained from sources deemed reliable and no representation is made as to the accuracy thereof. Colliers Parrish International, Inc., dba Colliers International in the State of California is an independently owned and operated business and member firm of Colliers International Property Consultants, an affiliation of independent companies with 480 offices throughout 61 countries worldwide.



Accelerating success.