

PLEASANTON | TRI-VALLEY | OFFICE

Q3 2019

Accelerating success.

A Static Quarter

- Despite 9.9 percent vacancy, there is 569,810 square feet of occupied sublease space
- Average asking rents remain relatively flat at \$2.76 per square foot
- Net absorption was negative 133,697 square feet

Despite overall gross absorption of 349,549 square feet during the third quarter, net absorption settled at negative 133,397 square feet, caused by an uptick in vacancy from 9.4 percent to 9.9 percent and a lack of new migration into the Tri-Valley from outside markets. However, these vacancies do not reflect the occupied sublease space that is currently on the market. If we were to factor in all of the sublease occupied space currently marketed as available, (569,810 square feet), the overall space availability for the Tri-Valley would rest at 12.0 percent. Weighted average asking rates across all classes have remained relatively flat at \$2.75 per square foot full service for the year.

The Tri-Valley Class A office market, consisting of nearly sixteen million square feet, reported an 11.5 percent vacancy for the quarter. This was an increase from 10.3 percent in the second quarter. Again, if we take into consideration the occupied sublease space currently available (363,905 square feet), Class A space availability would register 13.8 percent. Weighted average asking rates are at \$3.08 per square foot full service on a monthly basis, down \$0.01 from the previous quarter.

Market Indicators

Unemployment Rate
Tri-Valley

10-Year Nominal
Interest Rate

Consumer
Confidence



Market Trends

Relative to prior period

Q3 2019

Q4 2019*

Vacancy



Net Absorption



Construction



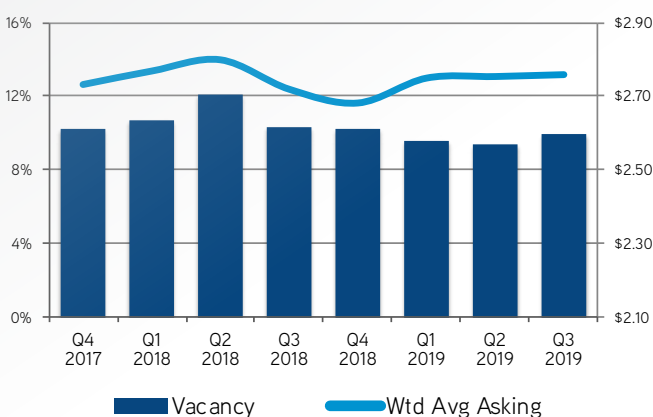
Rental Rate



*Projected

Historical Vacancy and Average Asking Rates

Tri-Valley | Overall Office Market



Overall vacancy remains relatively static through 2019. Asking rates have been flat for the past three quarters at \$2.75 per square foot full service.

Summary Statistics

Q3 2019 Tri-Valley Office Market

Previous
Quarter

Current
Quarter

Vacancy Rate	9.4%	9.9%
Overall Asking Rate*	\$2.75	\$2.76
Class A Asking Rate*	\$3.09	\$3.08
Class B Asking Rate*	\$2.23	\$2.22
Flex Asking Rate*	\$2.07	\$2.24
Net Absorption	22,160	-133,697
Gross Absorption	405,670	349,549

*Asking rates are reported on a full service monthly basis

U.S. Economic Indicators

Unemployment Rate	3.6%	3.5%
Labor Force Participation Rate	62.9%	63.2%
Consumer Price Index	2.56%	2.57%
Interest Rate - 10 Yr Treasury	2.00%	1.68%
Business Confidence	99.64	98.90
Consumer Confidence	121.5	125.1

Though the current quarter's total gross absorption was a healthy 178,095 square feet, net absorption was negative 196,989 square feet primarily due to a large vacancy of space in Bishop Ranch.

The Class B office market vacancy decreased to 13.5 percent from 14.5 percent the prior quarter. Overall weighted average asking rates remained flat from quarter-to-quarter at \$2.22 per square foot full service. Net absorption gained momentum reporting positive 67,385 square feet for the quarter, up from negative 39,186 square feet the prior quarter.

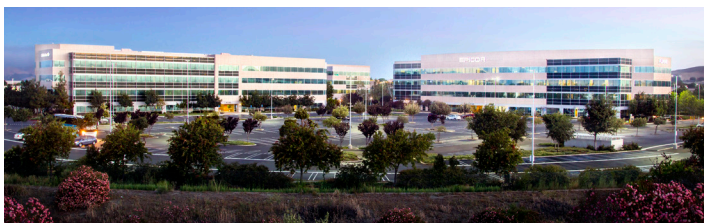
The office/flex market's vacancy ended the quarter at 3.4 percent down from 5.6 percent a year ago. Weighted average asking rates increased sharply to \$2.14 per square foot full service from \$1.84 per square foot full service. This increase was primarily due to Dublin's Creekside Business Park's newly quoted asking rate of \$2.44 per square foot, when converted to a full service equivalent. Net absorption was negative 4,093 square feet, despite gross absorption of 46,157 square feet.

Dublin

Third quarter Class A office market vacancy fell to 10.1 percent from 11.3 percent the prior quarter. This vacancy does not include Callidus Software, Inc.'s 108,644 square feet of occupied sublease space at Dublin Corporate Center. Current weighted average asking rates remain flat at \$3.26 per square foot full service, while up \$0.11 from a year ago. Net absorption for the quarter was positive 17,256 square feet, bringing year-to-date net absorption to 50,756 square feet. The most notable deal for Class A was the telecommunications company, Ericsson, Inc., relocating from Pleasanton and taking 19,796 square feet at Dublin Corporate Center, bringing the year-to-date gross absorption to 104,073 square feet.

Class B office had very little activity during the quarter, with vacancy closing at 32.9 percent. This high vacancy is a result of 7950 Dublin Gateway's redevelopment (formerly Corrie Center) adding 80,500 square feet of office.

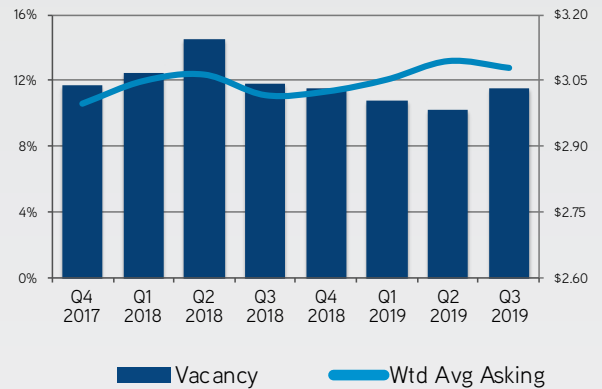
The office/flex market was relatively quiet in the third quarter. Vacancy rose to 6.4 percent, up from 2.1 percent a year ago. Net absorption for the quarter, reported negative 14,711 square feet. The office/flex market was relatively quiet in the third quarter. Vacancy rose to 6.4 percent, up from 2.1 percent a year ago. Net absorption for the quarter, reported negative 14,711 square feet.



DUBLIN CORPORATE CENTER | 4120 DUBLIN BLVD

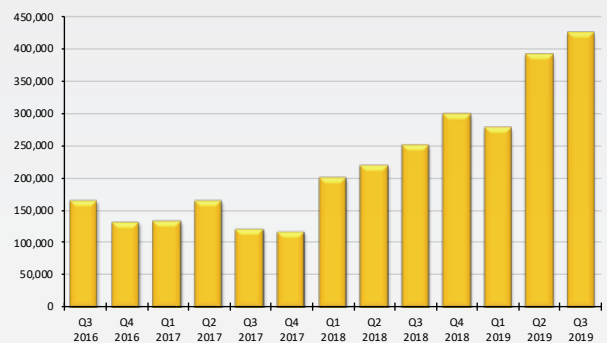
Historical Vacancy and Average Asking Rates

Tri-Valley | Class A



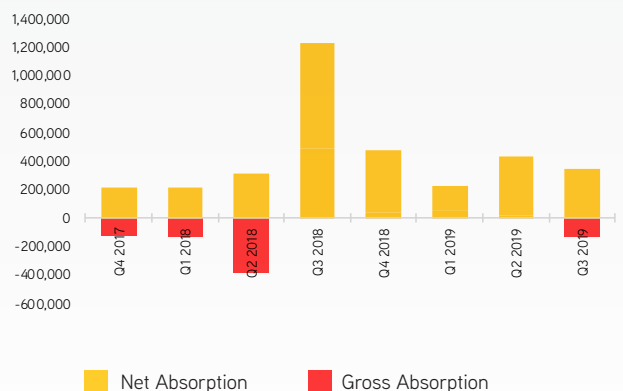
Historical Sublease Space

Tri-Valley | Overall Office Market



Historical Net and Gross Absorption

Tri-Valley | Overall Office Market



Livermore

Looking back, Livermore office property owners will mark the past three months as one of the most active quarters of 2019. Of significance, the thirteen small office buildings formerly occupied by the Livermore Charter School at the intersection of Airway Boulevard and Constitution Drive sold to an unidentified buyer, who then turned around and sold four of them—three, to SMART Local Union No 104, and one to LSTC California LLC. Several other small lease office transactions occurred during the past quarter, the most notable was GSE’s headquarters relocation of 5,340 square feet within Livermore to the Vineyard Business Park. These transactions brought Livermore’s vacancy rate down from 10.9 percent to 9.3 percent. It is interesting to note, Livermore achieved the best net/gross office absorption in the Tri-Valley for the quarter with 47,112 square feet and 49,921 square feet, respectively. With the lowest full service average asking rates in the Tri-Valley and with its proximity to the Central Valley workforce, we expect many users will continue to consider Livermore when expanding or relocating their operations.

“Livermore achieved the best net/gross absorption in the Tri-Valley”



3196 CONSTITUTION DRIVE
Formerly Livermore Charter School, now occupied by SMART Local Union,

Pleasanton

The Class A market’s vacancy saw little change from last quarter, up to 8.5 percent from 8.3 percent. The bulk of the impending vacation will be Patelco Credit Union’s space at 5050 Hopyard Road constituting 62,251 square feet, when they relocate to their new building at 3 Park Place in Dublin (the former SAP building) in 2020. Asking rates are currently at \$3.04 per square foot full service. Rates have flattened with some projects offering reduced rates, where landlords are primarily focused on occupancy. The market’s most constrained sector for space is 20,000 square feet and above, while most Class A available vacant spaces are under 5,000 square feet (221 listings).

Net absorption for the quarter was negative 12,881 square feet, with gross absorption of 95,980 square feet. Workday has plans to develop an additional 400,000 square feet of office buildings where Pleasanton Plaza (the single-story retail center, south of the mall anchored by Cost Plus World Market and JC Penny Home Store) is currently located. This bodes well for the redevelopment of the former Sears location (and adjacent parking structure) at Stoneridge Mall, where the owner, Simon Property Group, has plans to redesign it into a multi-use space including a movie theater, grocery store, a lifestyle health club, new retail and restaurants.

“Rates have flattened with some projects offering reduced rates”

Class B weighted average asking rents remain flat at \$2.69 per square foot full service. The total vacancy was 9.3 percent, down from 10.9 percent three months ago and 12.6 percent the previous year. Net absorption was positive 46,049 square feet for the quarter, bringing the net absorption year-to-date to 52,084 square feet. Gross absorption for the quarter was 90,804 square feet with the total year-to-date at 183,998 square feet. A highlight of the quarter was the purchase of the former courthouse building on Stoneridge Drive by Nor Cal District Council of Laborers. The buyer sold their existing Pleasanton and Fairfield offices; consolidating to one location in Pleasanton. They are expected to occupy in the first half of 2020.

The office/flex market’s percent, is 4.9 percent, up from 4.5 percent last quarter. Asking rates increased to \$2.33 from \$2.13 per square foot full service last quarter. Net absorption is negative 11,734 square feet, with 35,716 square feet of gross absorption. Dollinger Properties, purchased the Sunol Center III building totaling 67,680 square feet, which was fully occupied by Alameda County of Department of Child Services (DCSS), at time of purchase. DCSS signed a renewal in the third quarter, solidifying their tenancy for ten years.

San Ramon

San Ramon’s Class A office market’s vacancy had an uptick to 14.3 percent from 11.7 percent in June. If we were to include the 157,759 square feet of occupied sublease space currently being marketed, the total space availability be 16.4 percent. The vacation of GE Software this quarter contributed to the increase, when GE Software took space across the street at 2600 (2700 Camino Ramon) in 2016, phasing-in the relocation of their employees from 2623 Camino Ramon. Asking rates are at \$3.07 per square foot full service for the quarter, while net absorption is negative 201,364 square feet for the quarter and gross absorption is 55,300 square feet with a year-to-date of 263,054 square feet. SAP America Inc. leased an additional 30,259 square feet

at 2600, now occupying approximately 180,000 square feet. Striking Distance Studios (a game developer) leased 25,466 square feet at 6111 Bollinger Canyon Road (BR 1).

Class B was quiet this quarter with the vacancy standing at 4.2 percent, up from 3.7 percent previously. Asking rates increased to \$2.53 per square foot full service, from \$2.46 last quarter. Net absorption was negative 4,448 square feet.

The office/flex market's vacancy was relatively flat this quarter at 0.1 percent. However, there is 48,931 square feet of occupied sublease space currently on the market. OMRON, a manufacturer of automation and robotics, will be vacating their space at the beginning of 2020. Factoring their space, the space availability would be 7.1 percent. Net absorption was positive 3,380 square feet, bringing the year-to-date to 10,115 square feet.



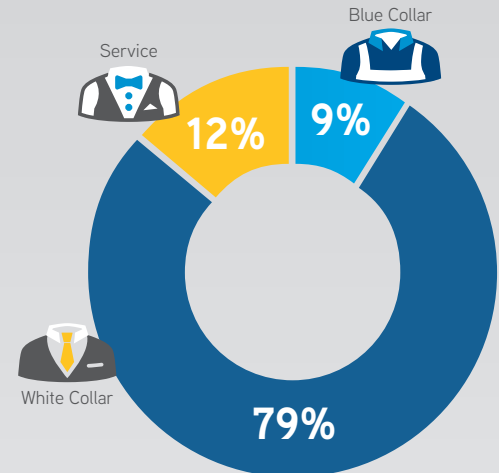
BISHOP RANCH | 6111 BOLLINGER CANYON ROAD
Striking Distance Studios leased 25,466 square feet.

Looking Forward

The Tri-Valley office market completed 400,000 square feet in sales and 270,000 square feet of leases (above 10,000 square feet) during the third quarter. Two impending big-box retail developments, Costco in Pleasanton on Johnson Drive (the 40-acre former Clorox property) - still awaiting approval and rezoning; and IKEA, in Dublin, a smaller version of its original plan to a 317,000 square foot structure, will include a specialized 92,000 square foot indoor/outdoor pedestrian community area with restaurants, retail, and a social atmosphere. When completed, the draw to the Tri-Valley will increase.

The lack of market velocity and the intrusion of large blocks of sublease space are likely to move rental rates downward for the first time in several years. Current rental rates do not justify new construction. Increasingly, the Oakland market has become more viable for tenants leaving San Francisco. However long term, Tri-Valley demographics should attract millennials when they begin to start families based on quality of life issues, schools and affordability.

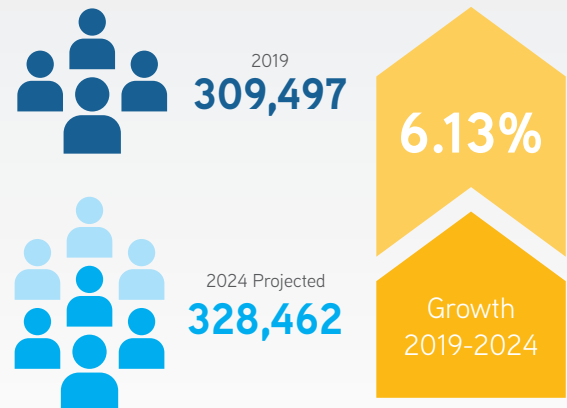
Employment By Category



Data Source: © 2019 The Nielsen Company (US), LLC

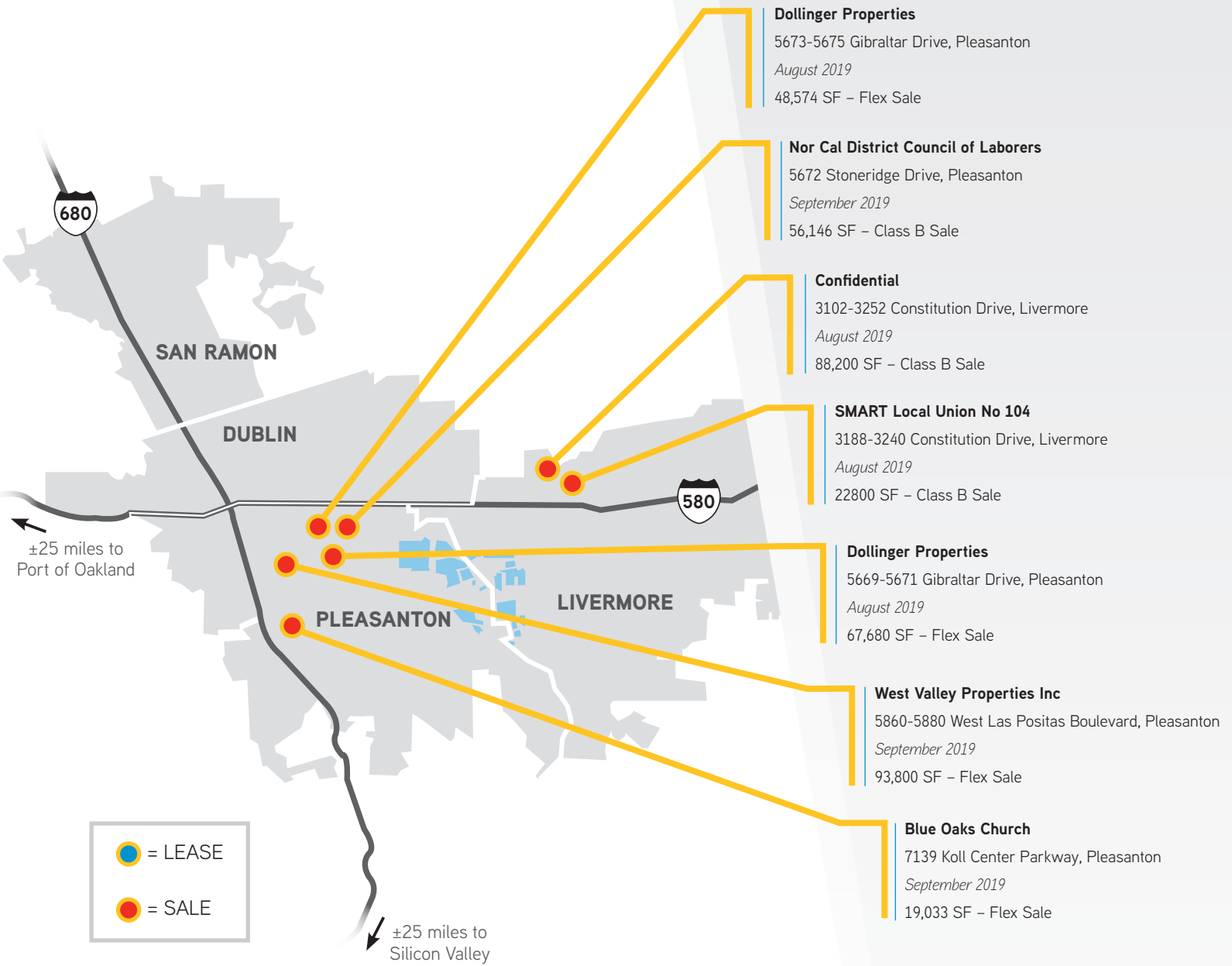
“Current rental rates do not justify new construction”

Population



Data Source: © 2019 The Nielsen Company (US), LLC

Significant Lease & Sale Activity



* Renewal

Significant Lease Activity

PROPERTY ADDRESS	LEASE DATE	SIZE	TENANT	TYPE
5669-5671 Gibraltar Drive, Pleasanton	July 2019	67,680 SF	ALCO Dpt of Child Support Services	Flex
12647 Alcosta Boulevard, San Ramon	July 2019	53,293 SF	24 Hour Fitness USA Inc ¹	Class A
6801 Koll Center Parkway, Pleasanton	September 2019	31,989 SF	Nolo+	Class A
2700 Camino Ramon, San Ramon	July 2019	30,259 SF	SAP America Inc	Class A
6111 Bollinger Canyon Road, Livermore	July 2019	25,466 SF	Striking Distance Studios	Class A
2590 Collier Canyon Road	July 2019	25,381 SF	Sutter Health*	Flex

* Renewal ¹ Expansion

Market Comparisons – Tri-Valley

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	NET ABSORPTION CURRENT QTR SF	NET ABSORPTION YTD SF	GROSS ABSORPTION YTD SF	COMPLETIONS CURRENT QTR SF	UNDER CONSTRUCTION SF	WEIGHTED AVG ASKING RATE FS
DUBLIN															
A	10	1,484,616	140,634	9.5%	9,559	0.6%	150,193	10.1%	11.3%	17,256	50,756	104,073	-	210,656	\$3.26
B	11	344,388	113,303	32.9%	-	0.0%	113,303	32.9%	26.9%	(2,356)	(49,411)	8,749	-	-	\$2.31
Flex	23	823,517	46,573	5.7%	6,360	0.8%	52,933	6.4%	4.6%	(14,711)	(33,181)	6,544	-	-	\$2.14
Total	44	2,652,521	300,510	11.3%	15,919	0.6%	316,429	11.9%	11.2%	189	(31,836)	119,366	-	210,656	\$2.73
LIVERMORE															
B	28	878,871	254,303	28.9%	-	0.0%	254,303	28.9%	32.1%	28,140	(25,458)	39,196	-	-	\$1.68
Flex	60	2,129,475	26,493	1.2%	-	0.0%	26,493	1.2%	2.1%	18,972	75,379	16,264	-	-	\$2.00
Total	88	3,008,346	280,796	9.3%	-	0.0%	280,796	9.3%	10.9%	47,112	49,921	55,460	-	-	\$1.71
PLEASANTON															
A	50	6,795,111	469,125	6.9%	111,107	1.6%	580,232	8.5%	8.3%	(12,881)	25,978	181,646	-	-	\$3.04
B	68	2,903,463	246,528	8.5%	24,816	0.9%	271,344	9.3%	10.9%	46,049	52,084	183,998	-	-	\$2.69
Flex	89	2,968,950	138,658	4.7%	6,855	0.2%	145,513	4.9%	4.5%	(11,734)	(47,727)	73,373	-	-	\$2.33
Total	207	12,667,524	854,311	6.7%	142,778	1.1%	997,089	7.9%	8.0%	21,434	30,335	439,017	-	-	\$2.82
SAN RAMON															
A	30	7,714,416	841,520	10.9%	265,194	3.4%	1,106,714	14.3%	11.7%	(201,364)	(120,364)	263,054	-	-	\$3.07
B	24	879,442	36,849	4.2%	-	0.0%	36,849	4.2%	3.7%	(4,448)	5,701	41,852	-	-	\$2.53
Flex	9	700,724	840	0.1%	-	0.0%	840	0.1%	0.6%	3,380	10,115	4,550	-	-	\$-
Total	63	9,294,582	879,209	9.5%	265,194	2.9%	1,144,403	12.3%	10.1%	(202,432)	(104,548)	309,456	-	-	\$3.04
MARKET TOTAL															
A	90	15,994,143	1,451,279	9.1%	385,860	2.4%	1,837,139	11.5%	10.3%	(196,989)	(43,630)	548,773	-	210,656	\$3.08
B	131	5,006,164	650,983	13.0%	24,816	0.5%	675,799	13.5%	14.5%	67,385	(17,084)	273,795	-	-	\$2.22
Flex	181	6,622,666	212,564	3.2%	13,215	0.2%	225,779	3.4%	3.3%	(4,093)	4,586	100,731	-	-	\$2.24
Total	402	27,622,973	2,314,826	8.4%	423,891	1.5%	2,738,717	9.9%	9.4%	(133,697)	(56,128)	923,299	-	210,656	\$2.76
QUARTERLY COMPARISON AND TOTALS															
Q3-19	402	27,622,973	2,314,826	8.4%	423,891	1.5%	2,738,717	9.9%	9.4%	(133,697)	(56,128)	923,299	-	210,656	\$2.76
Q2-19	402	27,622,973	2,320,258	8.4%	266,546	1.0%	2,586,804	9.4%	9.6%	22,160	77,569	573,750	410,000	210,656	\$2.75
Q1-19	400	27,212,973	2,454,561	9.0%	154,403	0.6%	2,608,964	9.6%	10.2%	55,409	55,409	168,080	-	410,000	\$2.75
Q4-18	400	27,253,944	2,482,353	9.1%	298,310	1.1%	2,780,663	10.2%	10.3%	38,240	1,265	1,709,303	-	410,000	\$2.68
Q3-18	400	27,253,944	2,567,997	9.4%	250,906	0.9%	2,818,903	10.3%	12.1%	482,892	(36,975)	1,274,218	-	410,000	\$2.72

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

68 countries

\$3.3

billion in
annual revenue*

2.0

billion square feet
under management

69,000

professionals
and staff

\$127

billion in
total transaction volume

*All statistics are for 2018, are in U.S. dollars and include affiliates.

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