

2018 in the Rear View Mirror

- › Overall vacancy dipped slightly to 10.6 percent
- › Weighted average asking rents are now \$2.66 per square foot
- › Overall net absorption was positive 37,240 square feet

The 2018 Tri-Valley commercial office campaign has come and gone with forgettable statistics and a continued underlying message of a slowing market. The total market vacancy rate at the close of the fourth quarter 2018 is 10.6 percent, up slightly from the close of 2017's 10.4 percent. Total market net absorption in the fourth quarter was positive 37,240 square feet with the year-end total at negative 70,651 square feet. Gross absorption for the year, the sum total of all deals inked, jumped 435,085 square feet indicating an active fourth quarter. Overall weighted average asking rents across all classes of space closed the year at \$2.66 full service gross, down from the end of 2017's \$2.73 full service gross.

Tri-Valley Class A rents settled at \$3.02 by year-end, \$0.02 higher than the weighted average at the close of 2017. Net absorption for the year was a paltry positive 31,831 square feet that was rescued into positive territory with 40,151 square feet of positive absorption in the fourth quarter. Vacancy in the sector is 11.5 percent, down 0.2 percent year-to-year.

Market Indicators

Unemployment Rate
Tri-Valley

10-Year Nominal
Interest Rate

Consumer
Confidence



Market Trends

Relative to prior period

Q4 2018

Q1 2019*

Vacancy



Net Absorption



Construction



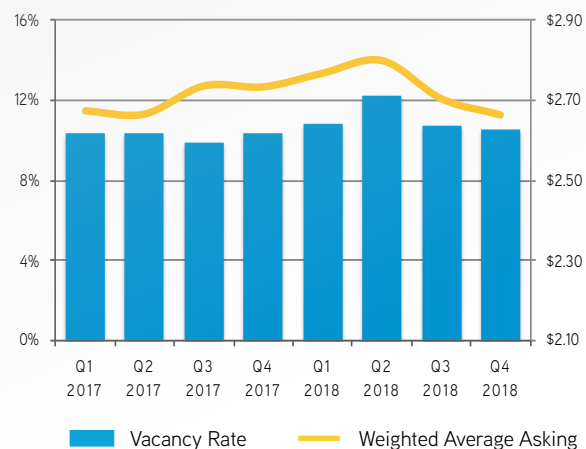
Rental Rate



*Projected

Historical Vacancy and Average Asking Rates

Tri-Valley | All Classes



As vacancy rates continue to decrease, asking rates follow suit, dropping 7.0 percent over the past year, closing the fourth quarter at \$2.66 per square foot, full service, paralleling mid-year 2017. Without outside tenant migration into the Tri-Valley, an increase in reduced asking rates is expected.

Summary Statistics

Q4 2018 Tri-Valley Office Market

Previous
Quarter

Current
Quarter

Vacancy Rate

11.0%

10.6%

Overall Asking Rate*

\$2.65

\$2.66

Class A Asking Rate*

\$3.02

\$3.02

Class B Asking Rate*

\$2.20

\$2.17

Flex Asking Rate*

\$1.95

\$2.03

Net Absorption

415,212

37,240

Gross Absorption

746,087

435,085

*Asking rates are reported on a full service monthly basis

U.S. Economic Indicators

Unemployment Rate

3.9%

3.9%

Labor Force Participation Rate

62.7%

63.1%

Consumer Price Index

2.52%

2.20%

Interest Rate - 10 Yr Treasury

3.05%

2.69%

Business Confidence

101.50

101.17

Consumer Confidence

138.40

128.10

Class B office weighted average asking rents closed the fourth quarter of 2018 at \$2.17 full service gross versus \$2.28 the year prior. Absorption in the fourth quarter was negative 31,408 square feet, closing the year at negative 38,289 square feet. The vacancy rate upticked year-to-year 0.6 percentage points, closing the year at 13.5 percent.

Tri-Valley office/flex (adjusted to full service gross) closed the quarter at \$2.03 per square foot with positive net absorption of 28,497 square feet and the vacancy rate of 6.2 percent versus 5.3 percent one year ago.

Half of the past six years have closed the fourth quarter with negative net absorption. This coupled with mounting sublease vacancy and lackluster activity point to potential erosion of asking rental rates in the latter half of 2019.

Dublin

Dublin Class A weighted average asking rents are at \$3.21 full service gross, and the total vacancy rate is at 13.5 percent. One year ago the vacancy rate was at 31.6 percent. The erosion of the vacancy in Dublin Class A in 2018 is largely due to Patelco's third quarter acquisition of Three Park Place. That 209,120 square foot transaction comprises the bulk of the positive 267,892 square feet of positive absorption for the year. The fourth quarter weighed in with negative 31,287 square feet despite robust Class A activity. The State of California (Department of Justice) finalized its saga in leasing 20,134 square feet at Hites Plaza (5601 Arnold Road). Redfin Corporation leased 18,740 at Dublin Corporate Center (4160 Dublin Boulevard), and Stanford (ValleyCare) expanded in the same project, taking an additional 19,235 square feet with now a total footprint of 25,850 square feet. The negative net absorption is a result of Patelco's marketing of the two vacant floor plates (floors two and three totaling 70,594 square feet) which they will not initially occupy in their new corporate headquarters building at Three Park Place.

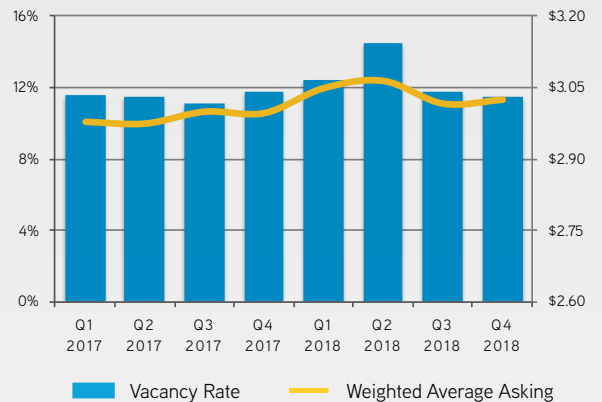
Class B Dublin weighted average asking rents weighed in at \$2.25 full service gross, up from the close of 2017 when the average was \$2.11. Absorption for the year was positive 8,147 square feet, and vacancy in the sector closed the year at 13.7 percent.

Dublin office/flex weighted average asking rents are \$1.82 (adjusted to full service gross) with the vacancy rate at 2.4 percent. Net absorption for the quarter was negative 2,865 square feet.

Office/flex weighted average asking rents are at \$1.82 (adjusted to full service gross) on 4,746 square feet of negative absorption with vacancy in that sector at 2.1 percent.

Historical Vacancy and Average Asking Rates

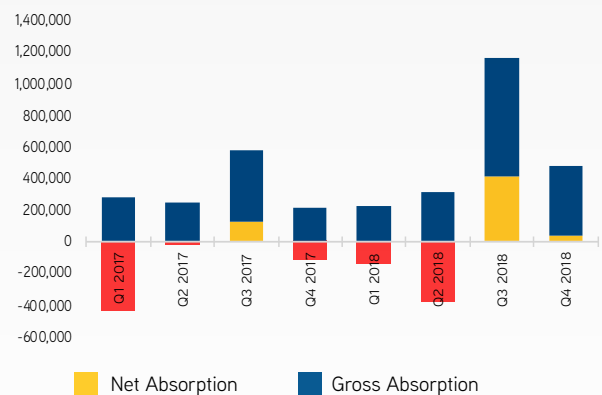
Tri-Valley | Class A



HITES PLAZA – DUBLIN
State of California (Department of Justice) leased 20,134 square feet in the Class A office building.

Historical Net Absorption

Tri-Valley | Class A



Livermore

The results of the Livermore office market, in terms of numbers, show the “glass half empty and half full.” On the glass half empty side, vacancy crept up from 12.5 percent to 14.8 percent between the third and fourth quarters of 2018, and net absorption for 2018 ended at a negative 116,409 square feet. Most of the office and office/flex vacancy comes from a handful of projects: the former Livermore Charter School campus (an 80,400 square foot two-story office building on Independence Drive and 45,600 square feet of space from four classroom buildings in Montevina Business Park); approximately 139,000 square feet at the Vineyard Business Park (formerly the Factory Outlet Mall) at Southfront and Greenville Road; and 116,290 square feet at the Airport Business Center. On the glass half full side, it is nearly impossible to find office space in downtown Livermore, and taking these large empty blocks of office and flex space off the market would only leave 23,517 square feet of vacancy.

Significant transactions that occurred this last quarter include the Livermore School District’s purchase of two Montevina buildings totaling 10,200 square feet; Alameda County leasing 12,189 square feet at 2481 Constitution Drive; and iStar’s investment purchase of FormFactor’s campus from Mohr PCC LP, which consisted of 168,636 square feet of R&D flex space on 11.29 acres.

Pleasanton

Class A weighted average asking rents are \$3.01 full service gross, up \$0.07 from one year ago. The Class A vacancy rate is 9.5 percent, up 4.0 full percentage points from the close of 2017 with negative net absorption for the year at 256,520 square feet. In the quarter, Blume Global leased 13,016 square feet in Stoneridge Place at 7901 Stoneridge Drive from landlord Embarcadero Capital Partners. Additionally, Micro Focus signed a lease for 25,640 square feet at Sycamore Plaza II in the Bernal Corporate Park and will relocate from Arroyo Center.

Class B Pleasanton weighted average asking rents ended the year at \$2.58 full service gross, up from \$2.56 at the beginning of the year. The total vacancy rate was at 12.1 percent. There was positive 48,305 square feet of net absorption in the quarter, but the year-to-date remained in the negative, at 6,833 square feet. ApexChat leased 6,476 square feet at Foothill Corporate (5820 Stoneridge Mall Road) contributing to the positive absorption.

Office/flex weighted average asking rents are \$2.08 (adjusted to full service gross) with vacancy in the sector at 5.6 percent and 24,057 square feet of positive absorption for the quarter. The Impact Group leased 16,466 square feet at 7133 Koll Center Parkway. 4696 Willow Road (42,620 square foot R&D building) sold for \$300 per square foot in an investment sale with Deerfield 2018 LLC purchasing the property from Crosstown Ventures II LLC. This building, which is one of two that comprise Saratoga Center, is fully leased to Gritstone Oncology and traded at a 6.8 percent capitalization rate.

The seller (Ridge Capital) will continue to own and operate the two-story office component of Saratoga Center. Gibraltar Center also traded in the quarter. This 101,039 square foot two building office and R&D complex traded to Bio-Rad Laboratories, Inc. with Hacienda Portfolio Venture LLC as the seller. Bio-Rad leased 5731 West Las Positas Boulevard (41,447 square foot R&D building, Gibraltar II) with an undisclosed lease option on Gibraltar I (two-story office at 59,592 square feet). Their expansion needs and rumored outside interest from another party in Gibraltar I seemingly drove this transaction.

San Ramon

Class A weighted average asking rents are \$2.99 at the close of 2018 with the total vacancy rate at 12.8 percent. Net absorption was positive 102,600 square feet for the quarter and positive 20,459 square feet for the year. Cooper Vision Inc. leased 52,363 square feet at Bishop Ranch 1. They will vacate Stoneridge Corporate Plaza and relocate to San Ramon, allowing Workday Inc to continue expanding into the dwindling supply of multi-tenant space in that project.

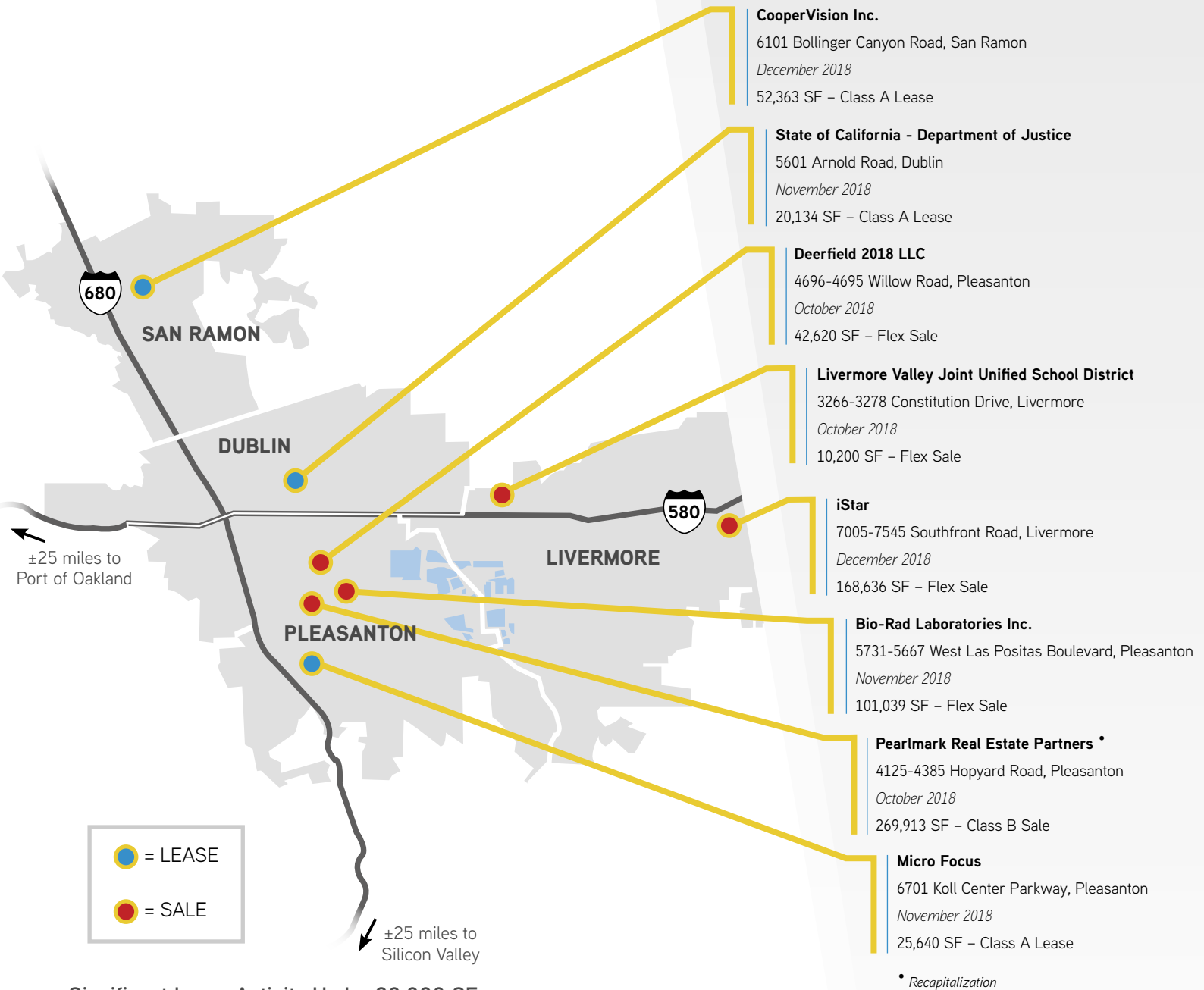
Class B weighted average asking rents wrapped up the year at \$2.35 full service gross, down slightly from the close of 2017 when the average was \$2.39. The total vacancy rate is 4.8 percent, down from 9.8 percent in the fourth quarter of 2017. Fourth quarter absorption was positive 1,286 square feet, closing the year at positive 42,278 square feet. City Center Bishop Ranch opened its doors in the fourth quarter at the former site of Bishop Ranch 2. The lifestyle retail center features FieldWork brewery, The Slanted Door restaurant, THE LOT City Center, a ten-auditorium cinema, and many other shopping and dining options.

The San Ramon office/flex sector finished 2018 with weighted average asking rents (adjusted to full service gross) at \$2.11, up \$0.02 from year-end 2017. Absorption for the year was positive 93,545 square feet in this submarket totaling 700,724 square feet. The positive absorption for the year is a result of the third quarter blockbuster 20-year lease deal whereby Valent USA Corporation leased the entirety of 4600 Norris Canyon Road (96,535 square feet) in Canyon Corporate Park.

Looking Forward

Rents and vacancy treaded water in 2018, but the swimmer seems to be tiring. At the end of the second quarter 2018 Colliers reported that the Tri-Valley office market (Class A, Class B and R&D Office/flex) reflected 509,083 square feet of space on the market for sublease of which 221,625 square feet was vacant. At the close of 2018 there is now 663,524 square feet on the market for sublease with 301,546 square feet of that footage vacant. The historical statistics still reflect a healthy market with overall weighted asking rents across all classes of space remaining near seventeen-year highs and the overall direct vacancy rate at only 10.6 percent. That said, without migration of tenants from outside of the market into the Tri-Valley, we may see reduced asking rents later in the year.

Significant Lease & Sale Activity



Significant Lease Activity Under 20,000 SF

PROPERTY ADDRESS	LEASE DATE	SIZE	TENANT	TYPE
4120 Dublin Boulevard, Dublin	November 2018	19,796 SF	Epicor Software Corporation*	Class A
4120 Dublin Boulevard, Dublin	November 2018	19,235 SF	Stanford ValleyCare	Class A
4160 Dublin Boulevard, Dublin	October 2018	18,740 SF	Redfin Corporation	Class A
7133 Koll Center Parkway, Pleasanton	November 2018	16,466 SF	IMPACT Group ¹	Flex
7901 Stoneridge Drive, Pleasanton	October 2018	13,016 SF	BlumeGlobal	Class A
2481 Constitution Drive, Livermore	November 2018	12,189 SF	Alameda County Social Services	Class B
6210 Stoneridge Mall Road, Pleasanton	November 2018	11,750 SF	CollaborativeSolutions* ¹	Class A
5960 Inglewood Drive, Pleasanton	December 2018	11,650 SF	Hitachi High Technologies America*	Class A
4511 Willow Road, Pleasanton	November 2018	11,481 SF	Lube Management Corporation*	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	200,949	13.5%	-	0.0%	200,949	13.5%	11.4%	(31,287)	267,892	359,737	-	-	\$3.21
B	11	334,467	45,676	13.7%	-	0.0%	45,676	13.7%	13.5%	(599)	8,147	23,909	-	-	\$2.25
Flex	23	823,517	13,392	1.6%	6,360	0.8%	19,752	2.4%	2.1%	(2,865)	(572)	23,372	-	-	\$1.82
Total	44	2,642,600	260,017	9.8%	6,360	0.2%	266,377	10.1%	8.8%	(34,751)	275,467	407,018	-	-	\$2.97

LIVERMORE															
B	22	834,139	228,845	27.4%	-	0.0%	228,845	27.4%	17.8%	(80,400)	(81,881)	39,242	-	-	\$1.53
Flex	66	2,188,275	182,562	8.3%	35,600	1.6%	218,162	10.0%	10.4%	10,295	(34,528)	36,685	-	-	\$1.99
Total	88	3,022,414	411,407	13.6%	35,600	1.2%	447,007	14.8%	12.5%	(70,105)	(116,409)	75,927	-	-	\$1.73

PLEASANTON															
A	49	6,386,067	453,442	7.1%	152,768	2.4%	606,210	9.5%	9.0%	(31,162)	(256,520)	331,555	-	410,000	\$3.01
B	67	2,941,476	336,325	11.4%	21,043	0.7%	357,368	12.1%	13.8%	48,305	(6,833)	153,443	-	-	\$2.58
Flex	89	2,968,347	166,466	5.6%	-	0.0%	166,466	5.6%	6.4%	24,057	(122,638)	198,328	-	-	\$2.08
Total	205	12,295,890	956,233	7.8%	173,811	1.4%	1,130,044	9.2%	9.5%	41,200	(385,991)	683,326	-	410,000	\$2.70

SAN RAMON															
A	30	7,712,874	900,575	11.7%	85,775	1.1%	986,350	12.8%	14.1%	102,600	20,459	375,056	-	-	\$2.99
B	24	879,442	42,550	4.8%	-	0.0%	42,550	4.8%	5.0%	1,286	42,278	69,881	-	-	\$2.35
Flex	9	700,724	10,955	1.6%	-	0.0%	10,955	1.6%	1.1%	(2,990)	93,545	98,095	-	-	\$2.11
Total	63	9,293,040	954,080	10.3%	85,775	0.9%	1,039,855	11.2%	12.3%	100,896	156,282	543,032	-	-	\$2.95

MARKET TOTAL															
A	89	15,583,557	1,554,966	10.0%	238,543	1.5%	1,793,509	11.5%	11.8%	40,151	31,831	1,066,348	-	410,000	\$3.02
B	124	4,989,524	653,396	13.1%	21,043	0.4%	674,439	13.5%	12.9%	(31,408)	(38,289)	286,475	-	-	\$2.17
Flex	187	6,680,863	373,375	5.6%	41,960	0.6%	415,335	6.2%	6.6%	28,497	(64,193)	356,480	-	-	\$2.03
Total	400	27,253,944	2,581,737	9.5%	301,546	1.1%	2,883,283	10.6%	10.7%	37,240	(70,651)	1,709,303	-	410,000	\$2.66

QUARTERLY COMPARISON AND TOTALS															
Q3-18	400	27,253,944	2,581,737	9.5%	301,546	1.1%	2,883,283	10.6%	10.7%	37,240	(70,651)	1,709,303	-	410,000	\$2.66
Q2-18	400	27,253,944	2,666,381	9.8%	254,142	0.9%	2,920,523	10.7%	12.3%	415,212	(107,891)	1,274,218	-	410,000	\$2.71
Q1-18	403	27,253,944	3,119,123	11.4%	221,625	0.8%	3,340,748	12.3%	10.8%	(385,484)	(523,103)	528,131	-	410,000	\$2.80
Q4-17	403	27,253,944	2,750,637	10.1%	201,144	0.7%	2,951,781	10.8%	10.4%	(137,619)	(137,619)	217,695	-	410,000	\$2.77
Q3-17	401	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

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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