

PLEASANTON | ALAMEDA COUNTY, CALIFORNIA RESEARCH & FORECAST REPORT



Industrial Market Review

LOOKING UPWARD IN 2014

2013 ended the year in great strides for the Tri-Valley industrial market. The overall vacancy showed improvement, asking rates increased and the year-to-date net absorption closed the quarter on a positive note. Demonstrating the continual upswing of the Tri-Valley industrial market, the overall vacancy reported 7.4 percent, a dip from 7.9 percent three months prior. Year-over-year, overall vacancy reported 11.8 percent in 2012 and 13.5 percent in 2011. Weighted asking rates increased from \$0.55 per square foot triple net in the third quarter to \$0.58 per square foot triple net in the current quarter. In comparison, weighted asking rates were \$0.54 per square foot triple net this time last year and \$0.50 per square foot triple net twenty-four months ago. However, the true measure of the overall health of the market is in the absorption numbers. By the end of 2011, the overall net absorption reported negative 405,115 square feet and 289,919 square feet by year-end 2012. Currently, overall net absorption stands at 765,031 square feet with over 1.2 million square feet in gross absorption.

The overall light industrial remains positive with vacancy rates continuing to improve. In the fourth quarter, the vacancy reported 7.2 percent, down from 8.0 percent in the previous quarter. In comparison, year-over-year vacancy was at 9.4 percent and 11.0 percent in 2012 and 2011, respectively. Weighted asking rates have jumped from \$0.61 per square foot triple net twelve months ago to \$0.70 per square foot triple net currently. Again proving that as the market continues to narrow, asking rates will push upward.

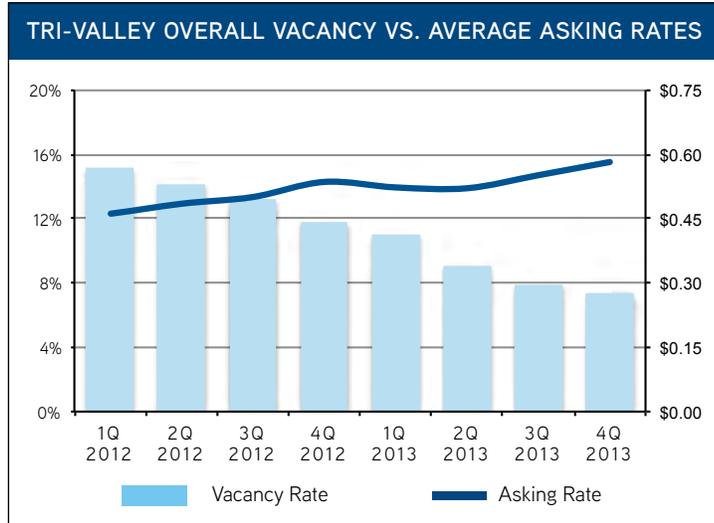
MARKET INDICATORS

	Q4-13	Projected Q1-14
VACANCY	↓	↓
NET ABSORPTION	↑	↑
CONSTRUCTION	↔	↔
RENTAL RATE	↑	↑

SELECTED MARKET STATS

- > Overall vacancy has dropped to 7.4 currently, from 7.9 percent in the previous quarter
- > Year-to-date net absorption reports positive 765,031 square feet
- > The average weighted asking rate inched up to \$0.58 per square foot triple net
- > Unemployment Rates November 2013*
California : 8.3 percent
Alameda County: 6.8 percent

*SOURCE: CALIFORNIA EMPLOYMENT DEVELOPMENT DEPARTMENT



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"The recovery of small businesses that benefit from a robust housing market is crucial to the ongoing recovery of the commercial real estate market."

The warehouse sector remains stable, making positive strides with vacancy reporting 7.8 percent in the fourth quarter from 15.1 percent this time last year. In the first half of 2013, vacancy was between 9.0 and 13.3 percent. Following suit, weighted asking rates have increased 5.0 percent since the beginning of the year to \$0.43 per square foot triple net. The second and third quarters of 2013, were the most active for the warehouse market, completing a handful of significant lease and sale transactions totaling just under 1,000,000 square feet. Historically, the market has not witnessed this volume of activity within two quarters in a single year.

As both sectors continue to recover, construction remains at a standstill. Though the market has proven it is heading in a positive direction, construction costs are too heavy to warrant new industrial buildings in the Tri-Valley market.

DUBLIN/PLEASANTON LIGHT INDUSTRIAL

While the Tri-Valley and the rest of the Bay Area have seen a steady recovery in 2013, the Dublin/Pleasanton light industrial market took a small step backward in the fourth quarter of 2013, at least statistically. Dublin had very slight negative absorption and Pleasanton had a slightly positive net absorption. Pleasanton currently has a 3.5 percent vacancy rate and Dublin has 15.7 percent vacancy, although that figure is skewed because one of the largest light industrial buildings in Dublin continues to sit vacant due to a hazardous materials contamination. Industrial leasing activity in the Dublin/Pleasanton submarket continues to pick up in large part due to the recovery of residential construction and improvement in the Bay Area economy. Quality space is continuing to lease at a faster pace with fewer concessions to tenants. After more than five years of high vacancy and low rents, the rental market has tightened to the point where there is upward pressure on rents moving into 2014.

On the sale side, Dublin/Pleasanton industrial inventory for sale is low and demand is strong. Prices are continuing to increase due to low supply and fairly solid demand. For the first time in several years, buyers entered into bidding wars in 2013.

Expectations for 2014 are for lease and sale activity to continue increasing as the economy improves. Rental rates are likely to continue to rise as inventory thins. The rebound of the housing market has significantly helped the recovery of the Tri-Valley commercial market. The recovery of small businesses that benefit from a robust housing market is crucial to the ongoing recovery of the commercial real estate market. Expectations are for a sustained recovery going forward in the foreseeable future.

SIGNIFICANT DEALS

SALE ACTIVITY

PROPERTY ADDRESS	SALE DATE	SQUARE FEET	BUYER	TYPE
5625 Brisa Street	Oct-13	42,576	JV Lucas Paving Inc	Light Industrial
1306 Stealth Street	Dec-13	21,560	Next Level Spirits	Light Industrial

LEASE ACTIVITY

PROPERTY ADDRESS	LEASE DATE	SQUARE FEET	TENANT	TYPE
7150 Patterson Pass Road	Dec-13	178,034	RonBow Material Corporation	Warehouse/Distribution
174 Lawrence Drive	Nov-13	26,100	Internationally Delicious	Light Industrial
6510 Sierra Court	Dec-13	26,015	AMP Printing	Light Industrial

MARKET COMPARISONS

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
DUBLIN																
Ind	41	1,299,302	245,291	18.9%	-	0.0%	245,291	18.9%	18.3%	1,054,011	(7,774)	1,732	43,345	-	-	\$0.78
Whse	2	259,917	-	0.0%	-	0.0%	-	0.0%	0.0%	259,917	-	-	-	-	-	\$0.60
Total	43	1,559,219	245,291	15.7%	-	0.0%	245,291	15.7%	15.2%	1,313,928	(7,774)	1,732	43,345	-	-	\$0.78
LIVERMORE																
Ind	313	6,708,756	365,585	5.4%	31,810	0.5%	397,395	5.9%	7.1%	6,311,361	80,394	238,081	470,372	-	-	\$0.61
Whse	50	6,497,143	561,970	8.6%	-	0.0%	561,970	8.6%	8.6%	5,935,173	-	433,061	535,042	-	-	\$0.43
Total	363	13,205,899	927,555	7.0%	31,810	0.2%	959,365	7.3%	7.9%	12,246,534	80,394	671,142	1,005,414	-	-	\$0.50
PLEASANTON																
Ind	127	2,244,336	96,063	4.3%	-	0.0%	96,063	4.3%	4.5%	2,148,273	4,269	(5,588)	91,029	-	-	\$0.89
Whse	2	487,405	-	0.0%	-	0.0%	-	0.0%	0.0%	487,405	-	97,745	97,745	-	-	\$0.60
Total	129	2,731,741	96,063	3.5%	-	0.0%	96,063	3.5%	3.7%	2,635,678	4,269	92,157	188,774	-	-	\$0.89
MARKET TOTAL																
Ind	481	10,252,394	706,939	6.9%	31,810	0.3%	738,749	7.2%	8.0%	9,513,645	76,889	234,225	604,746	-	-	\$0.70
Whse	54	7,244,465	561,970	7.8%	-	0.0%	561,970	7.8%	7.8%	6,682,495	-	530,806	632,787	-	-	\$0.43
Total	535	17,496,859	1,268,909	7.3%	31,810	0.2%	1,300,719	7.4%	7.9%	16,196,140	76,889	765,031	1,237,533	-	-	\$0.58
QUARTERLY COMPARISON AND TOTALS																
Q4-13	535	17,496,859	1,268,909	7.3%	31,810	0.2%	1,300,719	7.4%	7.9%	16,196,140	76,889	765,031	1,237,533	-	-	\$0.58
Q3-13	535	17,496,859	1,357,608	7.8%	20,000	0.1%	1,377,608	7.9%	9.1%	16,119,251	212,984	688,142	1,073,062	-	-	\$0.55
Q2-13	540	17,496,859	1,551,392	8.9%	39,200	0.2%	1,590,592	9.1%	11.1%	15,906,267	343,453	475,158	743,894	-	-	\$0.52
Q1-13	540	17,496,859	1,894,845	10.8%	39,200	0.2%	1,934,045	11.1%	11.8%	15,562,814	131,705	131,705	257,228	-	-	\$0.52
Q4-12	540	17,542,354	2,026,550	11.6%	39,200	0.2%	2,065,750	11.8%	13.2%	15,476,604	247,259	289,919	1,278,273	-	-	\$0.54
Q3-12	540	17,542,354	2,293,809	13.1%	19,200	0.1%	2,313,009	13.2%	14.2%	15,229,345	175,276	42,660	809,746	-	-	\$0.50



7150 PATTERSON PASS ROAD IN LIVERMORE

RonBow Materials Corporation leased 178,034 square feet at Amador Business Center II.

Relocating from the I-880 Corridor in Newark, they are a new tenant to the Tri-Valley.

LIVERMORE LIGHT INDUSTRIAL/WAREHOUSE

The Livermore light industrial vacancy showed improvement ending the fourth quarter at 5.9 percent, down from 7.1 percent in the third quarter. A dramatic improvement from twenty-four months ago when the light industrial vacancy was in excess of 10.0 percent. As expected, when vacancy rates improve, weighted average asking rates increase, making a jump of seventeen basis points to \$0.61 per square foot triple net from \$0.52 per square foot triple net in the third quarter. This improvement reflects a consistent positive outlook by landlords over the past two years and is expected to continue into 2014.

The Livermore market's overall net absorption ended the year with positive 671,142 square feet year-to-date. This time last year, year-to-date net absorption was reported at positive 298,994 square feet. This quarter was extremely active with twenty-two deals completed within a three month period. Some deals worth noting are: Next Level Spirits purchasing 21,560 square feet on Stealth Street, Internationally Delicious leasing 26,100 square feet Lawrence Drive.

These statistics are an indication the market is improving. Presently, the year-to-date gross absorption is 1,005,414 square feet; a thirty-seven percent increase exceeding the total 734,132 square feet reported in the fourth quarter of 2011.

The Livermore warehouse vacancy remained flat from last quarter, reporting an 8.6 percent vacancy. The warehouse sector was quiet in the fourth quarter and net absorption remained flat; however, the true sign of the strong market was 433,061 square feet of net absorption year-to-date. One significant deal to note is RonBow Materials Corporation's lease of 178,034 square feet from Principal Mutual Life Insurance Company at 7150 Patterson Pass Road. Livermore continues to see increased touring activity for both light industrial and warehouse properties. Rent growth is expected to continue into the next quarter.

SALES

The fourth quarter was a relatively slow quarter for closings with only two significant industrial/warehouse deals closed in the Tri-Valley. Both were off market deals sold to either an existing tenant or a buyer who located a seller on their own. The first was an industrial building sold to the existing tenant at 1306 Stealth Street, Livermore for \$123.55 per square foot (\$3,000,000). They exercised their option to purchase within the first few months of a two year lease. The second was an investment sale of a 42,576 square foot, a four tenant industrial building at 5625 Brisa Street, Livermore for \$89.25 per square foot or \$3,800,000. A number of industrial buildings either went into escrow or received offers to purchase and should be closing in the first quarter of 2014.

Looking into 2014, we predict prices will be up approximately ten percent or more, depending on size, location and quality, due to the lack of inventory and increased demand from buyers. Buyers who sat on the sidelines waiting for prices to bottom out have now jumped back in the game with sellers receiving multiple offers in some cases. SBA loans are still fairly easy to acquire for well qualified buyers and conventional lenders are creating loans at a much better pace with interest rates hovering in the five percent range.

LOOKING FORWARD

Looking ahead to 2014, the Tri-Valley industrial market's vacancy expects to remain in the single digits. As the housing market sustainably recovers and more jobs materialize, the demand for commercial space is inevitable. Landlords will gain more confidence as the market tightens, which drives rents upward. Tenants migrating from outside the Tri-Valley for newer product with lower rents, coupled with existing tenants expanding within their current locations, confirm the Tri-Valley's industrial market is strong and a viable location for all users.

482 offices in 62 countries on 6 continents

United States: 140
Canada: 42
Latin America: 20
Asia Pacific: 195
EMEA: 85

- > \$2.0 billion in annual revenue
- > \$1.12 billion square feet under management
- > Over 13,500 professionals

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