

PLEASANTON | ALAMEDA COUNTY, CALIFORNIA RESEARCH & FORECAST REPORT



Office Market Review

A GOOD YEAR?

The fourth quarter of 2013 quietly concluded a stable but unremarkable year. The numbers show mixed results whereby some sectors of the market had a “good year” in the face of contrary overall market statistics.

Nationally we celebrate the stock market, lower unemployment and economic growth projected to continue for the next two years. Inflation remains benign and the Fed’s tapering of its monthly bond purchases marks an improving economy where despite this they will continue their low interest rate policy into the near future. In late summer the fear of Fed tapering scared the markets while today the Fed’s action is being viewed as good news – interesting? The Dow Jones industrial average ended at an all-time high for the 52nd time this year. The S&P 500 also ended at a record high. The Dow was up 26 percent and the S&P 500 gained more than 29 percent. The Nasdaq surged nearly 40 percent. National unemployment has dropped to nearly 7 percent and the U.S. economy grew at an incredible 4.1 percent annual rate in the third quarter with projected growth of 2.8 to 3.2 percent in 2014 according to Chairman of the Federal Reserve, Ben Bernanke in his December 18, 2013 year end address.

2013 Tri-Valley office market vacancy rose from a fourth quarter 2012 vacancy rate of 11.0 percent to close the year at 11.9 percent. Net absorption for the year was a negative 169,073 square feet compared to a positive 1,062,291 square feet in 2012. Fourth quarter Class A negative absorption of 266,975 square feet was largely due to AT&T’s departure from California Center in Pleasanton where 242,263 square feet was vacated in December. This erased the modest positive year-to-date net absorption that existed prior to the fourth quarter.

MARKET INDICATORS

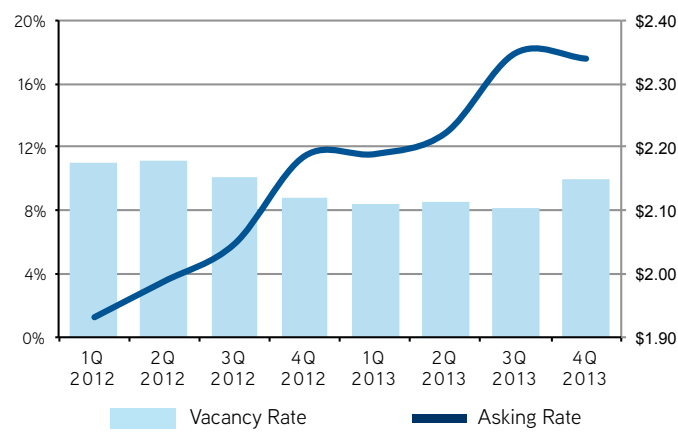
	Q4-13	Projected Q1-14
VACANCY	↑	↓
NET ABSORPTION	↓	↑
CONSTRUCTION	↔	↔
RENTAL RATE	↑	↔

SELECTED MARKET STATS

- Tri-Valley office market vacancy rose from a fourth quarter 2012 vacancy rate of 11.0 percent to close the year at 11.9 percent.
- Overall net absorption was negative 169,073 square feet
- Market weighted average asking rates rose to \$1.93 per square foot full service from \$1.88 per square foot full service three months prior.
- Current Unemployment Rates as of November 2013*
California: 8.3 percent
Alameda County: 6.8 percent

*SOURCE: CALIFORNIA EMPLOYMENT DEVELOPMENT DEPARTMENT

TRI-VALLEY CLASS A HISTORICAL VACANCY AND AVERAGE ASKING RATES



Tenant migration to Class A space over the last thirty-six months has resulted in significant rent deltas between the two product types’ weighted average asking rents. This growing delta is currently at \$0.71 up from last year when this delta was \$0.58 and up from three years ago when it was compressed to just \$0.23.



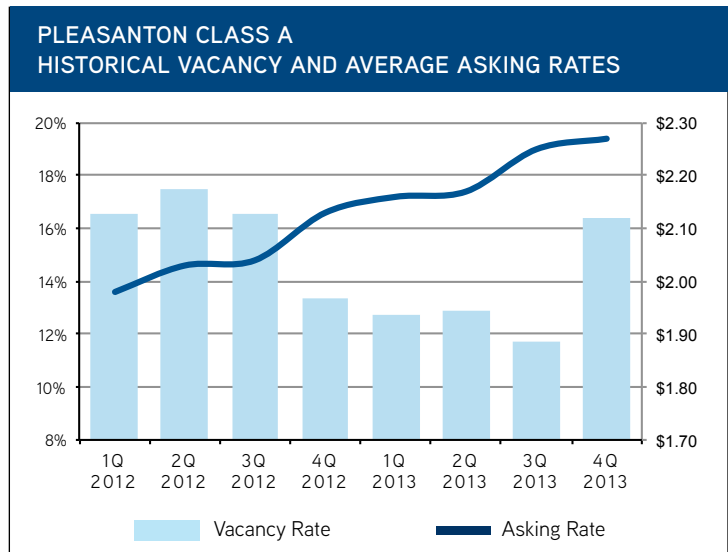
"The expectations for the Tri-Valley are for a continued steady deal flow, decreased vacancy and continued rising rental rates."

Market rents across all sectors rose from average weighted asking rents of \$1.82 per square foot full service in the fourth quarter of 2012 to \$1.93 per square foot full service at year end 2013.

The Tri-Valley office market statistics do little in qualifying 2013 as a "good year" with negative net absorption and a higher overall vacancy rate. However, if you owned Class A multi-tenant office with vacant suites 10,000 square feet and less – you potentially had a "good year". If you owned the same vacancies in Class B office your view may be waxing positive as this sector of the market benefits from tight vacancy and high rents in the Class A sector and seems poised for continued success in early 2014. If your 2013 vacancy position consisted of large blocks (20,000+ square feet) of either Class A or B office space you are left wondering when this size user will materialize. The often offered notion that Silicon Valley and San Francisco users will relocate to the Tri-Valley seeking rent relief from those hot markets did not materialize in 2013. Could it happen this year?

PLEASANTON

The fourth quarter 2013 saw weighted average asking rents up-tick \$0.02 per square foot to \$2.27 per square foot full service from the previous quarter and on the year up a healthy \$0.14 per square foot. As previously referenced, this year-over-year success was driven by leasing in the Class A multi-tenant projects who leased their vacancies of 10,000 square feet and less. This success is difficult to quantify when year-end Pleasanton Class A market vacancy at 16.4 percent is up three points from 2012 vacancy at 13.4 percent. However, if one is to consider, for example, a hypothetical requirement today for 2,500 - 3,500 square feet of demised Class A office space in Pleasanton, the search will show two options for approximately 2,500 square feet and four options around 3,500 square feet. Roll back the clock one year and your search/tour would have included ten plus options at each footage. The enigma in the results (rents up/vacancy also up) lies in the large blocks of Class A vacancy at California Center that awaits that elusive large user potentially relocating from Silicon Valley or San Francisco.



The Pleasanton Class A vacancy drops from 16.4 percent to 4.67 percent if you remove the approximate 675,000 square feet that is currently being marketed as available in that project.

The Pleasanton Class A vacancy drops from 16.4 percent to 4.67 percent if you remove the approximate 675,000 square feet that is currently being marketed as available in that project. 2014 will bring more vacancy to California Center when Ross Stores vacates 180,931 square feet in the summer relocating to their Dublin Campus (formerly known as Emerald Point). Notably in the fourth quarter, Specialty's Café, relocated their corporate headquarters from San Francisco, leasing 14,607 square feet of Class A office on the second floor of Patelco Corporate Center (5050 Hopyard, Pleasanton). 5860 Owens Drive (92,738 square feet, four story Class A office - owned by State Compensation Fund) is in escrow due to close January 2014 to John Muir who will convert this office building at Pleasanton BART to MOB (medical office building). The conversion will include construction of a parking structure necessary to deliver the parking ratio needed for medical users.

Blackberry is rumored to be circling for approximately 20,000 square feet in Bernal Corporate Park and Veeva, Inc. is looking in the market for 80,000 to 100,000 square feet in the Tri-Valley as expansion/relocation space to their current 35,000 square feet at Chabot Center. On the investment side, California Center (1M+ square feet of Class A office on 61.0 acres in Pleasanton owned by RREEF/Deutsche bank) may be on the market in the first quarter of 2014.

Class B weighted average asking rents jumped another \$0.08 per square foot (matching the increase from the second quarter to the third quarter) in the fourth quarter to \$1.91 per square foot full service and up on the year \$0.20 per square foot. Vacancy fell in the quarter 2.0 percentage points from 12.9 percent in the third quarter to finish the year at 10.9 percent, down 2.5 percentage points on the year. The 55,404 square feet absorbed in the quarter was comprised of deals 5,000 square feet and less and further evidences the success in smaller multi-tenant projects. Uneka Concepts, Inc. relocated from Livermore landing in 4,250 square feet at 328 St. Mary Street in downtown Pleasanton.

The office/flex market in Pleasanton continues to heat up but statistically will suffer for the second quarter in a row due to Nearon Enterprises rolling out 241,213 square feet as available on the former Clorox Campus. Rumors have two large users circling this entire campus but as they roll out the new vacancies they will apparently consider one-off deals.

Weighted average asking rents (adjusted to full service) stood at \$1.69 per square foot up from \$1.62 in the third quarter and up from \$1.51 in the fourth quarter 2012. Absorption on the year was a negative 133,162 square feet due to the newly added vacancy at the former Clorox campus. Western Devcon completed the acquisition of 6880 Koll Center Parkway in the quarter and thus consummated the long since executed lease with the Drug

Enforcement Agency (DEA) for the entirety of the 42,828 square foot flex building. Interson Corporation closed on 7150 Koll Center Parkway (17,900 square foot office/flex building) with Garnet Bear LP as seller in this user sale.

LIVERMORE

Livermore's office and office/flex market made good progress in the final quarter of 2013, as vacancy decreased from 19.4 percent to 16.7 percent (still the highest in the Tri-Valley) and more than 76,000 square feet of space leased over the quarter. Major deals included Livermore's Aero Precision's relocation to 291 Lindbergh Avenue (43,844 square feet; previously occupied by RhUSA); Ms. Carita renewing their lease at 2159 Research Avenue for 19,764 square feet; ProctorU expanding and relocating from Sunset Business Park in Livermore to North Canyons Business Center (10,310 square feet). Livermore's office and office/flex buildings still only make up about 10 percent of the Tri-Valley's inventory, but with available land for development in both west and east Livermore, this percentage could increase in the foreseeable future.

DUBLIN

Class A Dublin remained unchanged in the fourth quarter 2013 with weighted average asking rents in-line with the third quarter at \$2.42 per square foot full service and up from the fourth quarter 2012 by \$0.21 per square foot from \$2.21 per square foot. Absorption on the quarter was 1,733 square feet and negative 63,615 square feet on the year.

Class B Dublin (total inventory 409,543 square feet) finished the year with weighted average asking rents of \$1.57 per square foot full service up from fourth quarter 2012 when the weighted average asking rents were \$1.49 per square foot full service. Absorption on the year was negative at 17,915 square feet. This sector could lose approximately 100,000 plus square feet this year if Heritage Office Park is demolished for residential as planned.

SIGNIFICANT DEALS

SALE ACTIVITY

PROPERTY ADDRESS	SALE DATE	SQUARE FEET	BUYER	TYPE
4550 & 4600 Norris Canyon Road	Dec-13	193,510	Cannae Partners	Office/Flex
6880 Koll Center Parkway	Nov-13	42,828	Western Devcon Inc	Office/Flex
7150 Koll Center Parkway	Oct-13	17,900	Interson Corporation	Office/Flex

LEASE ACTIVITY

PROPERTY ADDRESS	LEASE DATE	SQUARE FEET	TENANT	TYPE
201 Lindgergh Avenue	Dec-13	43,844	Aero Precision Industries Inc	R&D/Flex
12939-12959 Alcosta Boulevard	Nov-13	20,600	San Ramon Presbyterian Church*	Office/Flex
2155-2159 Research Drive	Nov-13	19,764	Ms Carita Inc*	R&D/Flex
5050 Hopyard Road	Oct-13	14,607	Specialty's Café and Bakery	Class A
3083 Independence Drive	Nov-13	10,310	ProctorU Inc	R&D/Flex

*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
DUBLIN																
A	9	1,488,260	56,953	3.8%	87,584	0	144,537	9.7%	9.8%	1,343,723	1,733	(63,615)	11,706	-	-	\$2.42
B	15	409,543	137,794	33.6%	-	0.0%	137,794	33.6%	33.6%	271,749	(55)	(17,915)	22,223	-	-	\$1.57
Flex	24	869,016	102,260	11.8%	-	0.0%	102,260	11.8%	11.1%	766,756	(6,121)	(13,881)	47,353	-	-	\$1.46
Total	48	2,766,819	297,007	10.7%	87,584	3.2%	384,591	13.9%	13.7%	2,382,228	(4,443)	(95,411)	81,282	-	-	\$1.70
LIVERMORE																
B	23	833,964	214,941	25.8%	-	0.0%	214,941	25.8%	26.0%	619,023	2,209	37,141	51,403	-	-	\$1.33
Flex	70	2,043,065	265,397	13.0%	-	0.0%	265,397	13.0%	16.6%	1,777,668	74,190	31,879	150,740	-	-	\$1.38
Total	93	2,877,029	480,338	16.7%	-	0.0%	480,338	16.7%	19.4%	2,396,691	76,399	69,020	202,143	-	-	\$1.36
PLEASANTON																
A	47	6,181,887	964,825	15.6%	47,684	0.8%	1,012,509	16.4%	11.7%	5,169,378	(289,829)	(185,530)	278,658	-	-	\$2.27
B	69	2,813,976	302,674	10.8%	4,996	0.2%	307,670	10.9%	12.9%	2,506,306	55,404	69,991	200,309	-	-	\$1.91
Flex	97	3,551,924	578,064	16.3%	-	0.0%	578,064	16.3%	10.1%	2,973,860	(144,633)	(133,162)	209,753	-	-	\$1.69
Total	213	12,547,787	1,845,563	14.7%	52,680	0.4%	1,898,243	15.1%	11.5%	10,649,544	(379,058)	(248,701)	688,720	-	-	\$2.03
SAN RAMON																
A	31	7,564,037	326,674	4.3%	25,441	0.3%	352,115	4.7%	4.9%	7,211,922	21,121	87,245	299,023	-	-	\$2.53
B	28	1,041,781	73,355	7.0%	4,812	0.5%	78,167	7.5%	7.4%	963,614	(1,043)	4,464	67,923	-	-	\$1.77
Flex	9	705,668	77,386	11.0%	-	0.0%	77,386	11.0%	11.0%	628,282	-	14,310	1,170	-	-	\$1.45
Total	68	9,311,486	477,415	5.1%	30,253	0.3%	507,668	5.5%	5.7%	8,803,818	20,078	106,019	368,116	-	-	\$2.24
MARKET TOTAL																
A	87	15,234,184	1,348,452	8.9%	160,709	1.1%	1,509,161	9.9%	8.2%	13,725,023	(266,975)	(161,900)	589,387	-	-	\$2.34
B	135	5,099,264	728,764	14.3%	9,808	0.2%	738,572	14.5%	15.6%	4,360,692	56,515	93,681	341,858	-	-	\$1.66
Flex	200	7,169,673	1,023,107	14.3%	-	0.0%	1,023,107	14.3%	12.2%	6,146,566	(76,564)	(100,854)	409,016	-	-	\$1.57
Total	422	27,503,121	3,100,323	11.3%	170,517	0.6%	3,270,840	11.9%	10.6%	24,232,281	(287,024)	(169,073)	1,340,261	-	-	\$1.93

QUARTERLY COMPARISON AND TOTALS

Q4-13	422	27,503,121	3,100,323	11.3%	170,517	0.6%	3,270,840	11.9%	10.6%	24,232,281	(287,024)	(169,073)	1,340,261	-	-	\$1.93
Q3-13	422	27,421,359	2,706,554	9.9%	195,500	0.7%	2,902,054	10.6%	10.7%	24,519,305	25,273	117,951	1,038,135	-	-	\$1.88
Q2-13	422	27,421,359	2,732,166	10.0%	195,161	0.7%	2,927,327	10.7%	10.9%	24,494,032	74,563	92,678	802,642	-	-	\$1.83
Q1-13	422	27,421,359	2,819,555	10.3%	182,335	0.7%	3,001,890	10.9%	11.0%	24,419,469	18,115	18,115	424,682	-	-	\$1.80
Q4-12	421	27,419,621	2,854,512	10.4%	165,493	0.6%	3,020,005	11.0%	13.0%	24,399,616	611,747	1,062,291	2,605,185	64,474	-	\$1.82

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



HACIENDA WEST

A Class A Office Project in Pleasanton where the vacancy rate has dropped significantly from 23.3 percent in 2012 to 16.6 percent in 2013.

SAN RAMON

Fourth quarter 2013 stats for San Ramon Class A were relatively static with weighted average asking rents holding steady from the third quarter at \$2.53 per square foot full service and up from \$2.27 per square foot full service in the fourth quarter 2012, a significant \$0.26 gain with Bishop Ranch Class A asking rents the driver. Absorption for the quarter was 21,121 square feet putting the annual total of Class A San Ramon office absorption at 87,245 square feet.

Class B weighted average asking rents closed the year at \$1.77 per square foot full service flat from the third quarter and up \$0.10 on the year. Net absorption for the year was a paltry 4,464 square feet and vacancy closed the year at 7.5 percent down from fourth quarter 2012 vacancy at 7.9 percent. This one million square foot sector of the market with total vacancy at 78,167 square feet is expected to tighten as users look for rent relief from the tight Class A sector.

Bishop Ranch (Sunset Investment Company) with capital partner Met Life is poised to close on AT&T Corporate Center in January 2014. The rumored plans are for 500,000 square feet of AT&T give-back space to be marketed initially. Bishop Ranch will market the project as a corporate destination and potentially add conference facilities and service retail (coffee, café, sundries) within the facility. They will be busy this year as they will likely commence construction on the long planned City Center project that will entail demolition of Bishop Ranch 2 to build high end retail, a hotel and residential. Norris Tech Center 4550-4600 Norris Canyon Road (193,510 square feet in total) traded in the fourth quarter with Cannae Partners as buyer and AEW/ZKS as seller. The third building in the project (67,350 square feet) had previously sold to Kaiser in 2011. Rumored pricing on the sale was \$83 per square foot.

LOOKING FORWARD

The Tri-Valley will look to local user expansions and hope for large user migration into this market to drive the next round of rental increases and decreased vacancies. Locally, Ellie Mae may resurface this year and add to their existing 65,000 square foot market footprint with potential expansion to 100,000 square feet. Newly public Veeva, Inc., as previously indicated, is touring the Tri-Valley for 80,000 to 100,000 square feet. Workday's expansion needs will continue to unfold into Stoneridge Corporate Plaza. Safeway may be back out for their relocation from the Shadelands to the Tri-Valley in a combination relocation-expansion into this market as they reshuffle their footprints to accommodate Blackhawk Networks growth needs at Pleasanton Corporate Commons.

These requirements aside, migration from outside the market will be needed to solve what will be roughly 850,000 square feet of vacancy by summer 2014 at California Center, 108,000 square feet of Oracle sublease space at Dublin Corporate Center and the anticipated 500,000 square feet that will come on-line at AT&T Corporate Center when Bishop Ranch commences marketing that vacancy in the near future. Class B Tri-Valley office will continue to improve with asking rents expected to reach \$2.00 per square foot full service by the end of the first quarter. Minimal vacancy in the multi-tenant Class A sector will continue to tighten and push rental rates. The office/flex sector will gain momentum in smaller suites and look for local expansion and new users to fill the larger holes.

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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