

PLEASANTON | TRI-VALLEY | OFFICE

Q2 2015

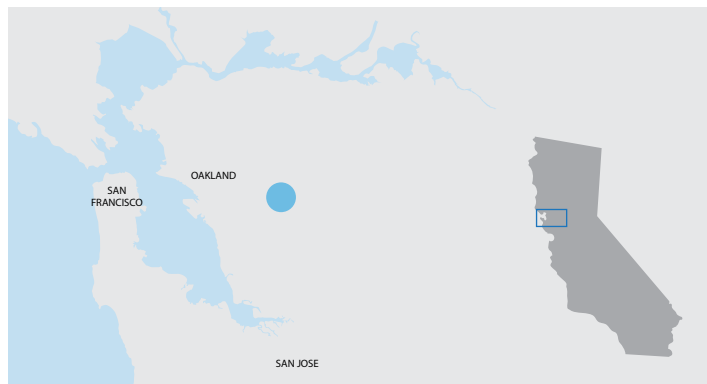
Accelerating success.

The Turn

- > Leasing activity remains strong with 751,397 square feet in the first half of 2015.
- > Asking rates remain relatively flat but have increased 17 percent from second quarter 2014.
- > Vacancy rates reported 12.8 percent for the second quarter.

The second quarter of 2015 for the Tri-Valley office market looked a lot like the first quarter of 2015, which resembled the fourth quarter of 2014...which looked similar to the prior eight quarters. We remain on a very consistent, metered run of decreasing vacancy and upward trending rents with no evidence that this pattern will subside. Activity ebbs and flows, but the overall message remains positive.

Tri-Valley total market weighted average asking rents in all classes of space closed the quarter at \$2.41 full service gross. Class A rents weighed in at \$2.72, Class B at \$1.90, and office/flex at \$1.73 (adjusted to full service gross). These numbers were relatively flat from the first quarter. Absorption for the quarter was negative 48,174 square feet, bringing year-to-date net absorption to 96,189 square feet in all classes of space. The total market vacancy rate closed the quarter at 12.8 percent, a slight uptick from the close of the first quarter (12.4 percent).



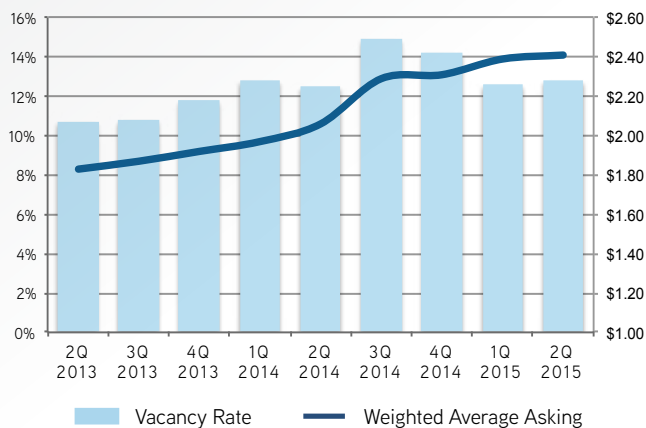
Market Trends

Relative to prior period	Q2 2015	Q3 2015*
Vacancy	↑	↓
Net Absorption	↓	↑
Construction	↔	↔
Rental Rate	↑	↑

*Projected

Historical Vacancy and Average Asking Rates

Tri-Valley | All Classes



Though the vacancy rate increased slightly for the quarter, asking rates continue their upward path.

Summary Statistics

Q2 2015 Tri-Valley Office Market	Previous Quarter	Current Quarter
Vacancy Rate	12.6%	12.8%
Overall Asking Rate*	\$2.39	\$2.41
Class A Asking Rate*	\$2.70	\$2.72
Class B Asking Rate*	\$1.91	\$1.90
Flex Asking Rate*	\$1.74	\$1.73
Net Absorption	144,363	-48,174
Gross Absorption	500,361	251,036

*Asking rates are reported on a full service monthly basis

Economic Indicators

	6.5%	6.2%
California Unemployment Rate	6.5%	6.2%
Alameda County	4.7%	4.6%
Contra Costa County	5.0%	4.9%

Data Source: EDD Labor Market Information Division

Pleasanton

Class A weighted average asking rents closed the quarter at \$2.75, up from \$2.67 in the first quarter 2015 and up \$0.33 year-to-year from the second quarter 2014's weighted average asking rent (\$2.42). We have not seen Class A weighted average asking rents at \$2.75 since the second quarter 2004. Also of note in the second quarter 2004, when Stephen Curry celebrated his Sweet 16 and got his driver's license in Charlotte, North Carolina. Class A vacancy is at 11.1 percent, up from the first quarter's 10.6 percent due to negative net absorption for the quarter at 35,749 square feet.

Class B weighted average asking rents are at \$2.28 full service gross, up from one year ago when rents were \$2.08. Vacancy is at 9.9 percent, and net absorption for the quarter was negative 34,758 square feet.

The office/flex market closed the quarter with weighted average asking rents at \$1.94, adjusted to full service gross. \$1.94 represents an estimated net rent of \$1.24 with estimated net expenses (property taxes, insurance and common area maintenance) at \$0.40 per square foot per month and PG&E and janitorial costs estimated at \$0.30 per square foot per month. Vacancy in the sector is at 5.2 percent, and absorption for the quarter was positive 11,916 square feet. Diebold, Inc. leased 11,929 square feet at 4255 Hopyard Road, and MarketSmart, Inc. leased 13,600 square feet at 6900 Koll Center Parkway.

There were two large office/flex investment transactions and one user purchase that marked an active quarter for sales. Britannia Business Center III (5735 W. Las Positas, 5870 Stoneridge Drive and 4511 Willow Road), comprised of three office/flex buildings totaling 190,574 square feet, traded for \$35,100,000 (\$184 per square foot). The price represented an estimated 6.5 percent CAP in this largely leased portfolio. Ridge Capital Investors LLC was the buyer, and the seller was Stoneridge Holdings LLC. Blackhawk Industries LLC purchased 4733 Chabot Drive for \$6,900,000 (\$284 per square foot) from Hacienda Chabot 5G LLC. The buyer's company, Avetier, will occupy approximately 8,800 square feet in the building.

Dublin

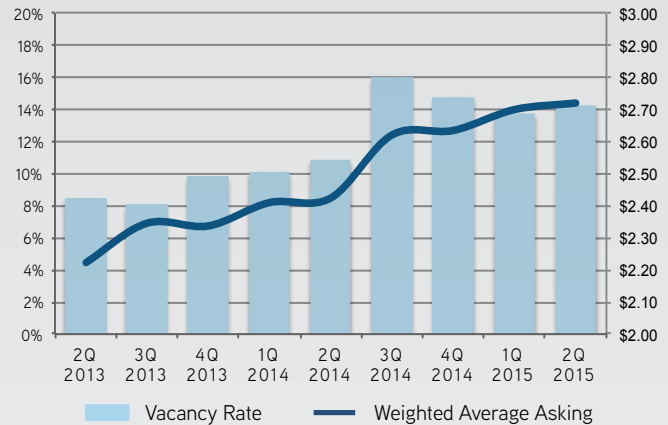
Class A weighted average asking rents dipped slightly to \$2.39 per square foot full service from \$2.41 in the first quarter of 2015. Absorption for the quarter was positive 6,952 square feet, and vacancy stands at 6.5 percent. One year ago, Class A weighted average asking rents were at \$2.36 and vacancy at 13.9 percent.

Class B weighted average asking rents remained flat, rising \$0.01 from the prior quarter to \$1.86. Absorption for the quarter was positive 5,746 square feet, pushing vacancy down to 19.9 percent from 21.8 percent in the prior quarter.

Office/Flex weighted average asking rents are \$1.93 (adjusted to full service gross) flat quarter to quarter but up \$0.28 from one year ago. Absorption for the quarter was positive 39,931 square feet due in large part to Pacific Gas and Electric's lease of 25,142 square feet at Creekside Business Park (5875 Arnold Road). Office/Flex vacancy in the sector is 14.9 percent, down 4.5 percentage points from the first quarter's 19.4 percent vacancy.

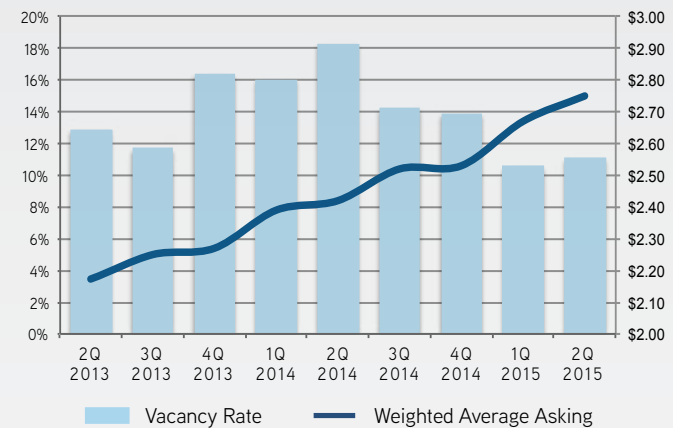
Historical Vacancy and Average Asking Rates

Tri-Valley | Class A



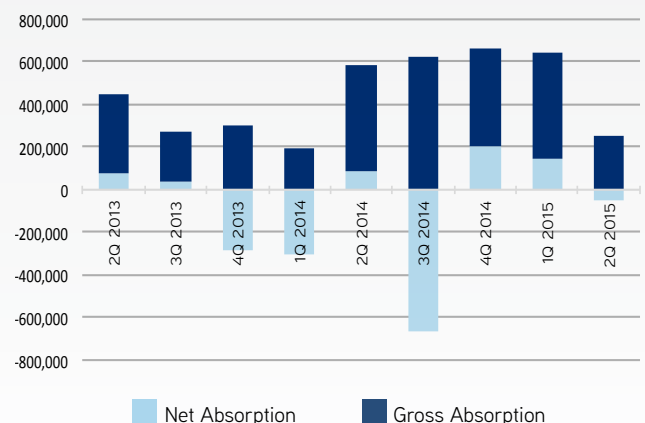
Historical Vacancy and Average Asking Rates

Pleasanton | Class A



Historical Net Absorption and Gross Absorption

Tri-Valley | All Classes



San Ramon

San Ramon Class A weighted average asking rents held steady at \$2.72 full service gross, down \$0.01 from the first quarter. Vacancy in the sector is reporting 18.4 percent, up from 17.7 percent in the prior quarter. This vacancy number will decrease in the next iteration of these statistics, as SAP has inked a 150,000 square foot lease at 2600 in Bishop Ranch in the first week of the third quarter. Absorption for the second quarter was negative 52,222 square feet despite the expansion of Enterprise Rent-A-Car in Bishop Ranch, who will consolidate their regional headquarters in Bishop Ranch 3 (2603 Camino Ramon).

Class B weighted average asking rents are \$1.86 full service gross. Absorption was positive 7,652 square feet. Bishop Ranch 2 is now vacant and will be demolished in August in preparation for development of a new downtown center for San Ramon at the intersection of Bollinger Canyon Road and Camino Ramon.

The office/flex sector closed the quarter with weighted average asking rents flat quarter to quarter at 1.85 (adjusted to full service gross), up \$0.08 from the close of 2014. The total vacancy rate is at 19.2 percent, and absorption for the quarter was negative 720 square feet.

Livermore

The second quarter 2015 was relatively quiet for office and flex leasing in Livermore. Few deals less than 5,000 square feet were done, and rents continue to hover around \$1.40 per square foot full service for Class B and flex deals. Vacancy remains stubborn, unable to decrease beyond 16.0 percent.

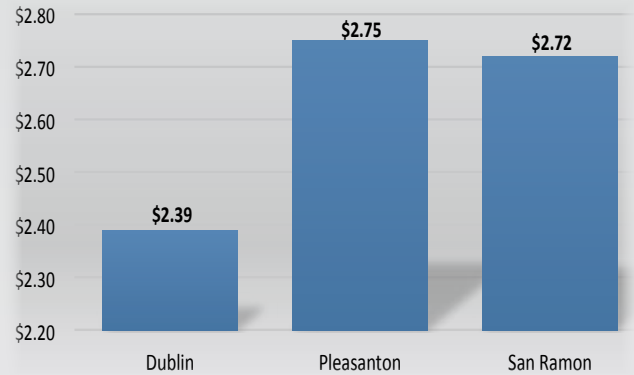
On the other hand, the sales market recorded two significant deals this quarter. Balch Enterprises sold their 80,400 square foot two-story office building on Independence Drive in Tri-Valley Tech Park to the Livermore Charter School for classrooms and administrative offices. Also, Ellis Partners completed their sale of a 74,285 square foot flex building with three tenants in long term leases to another investor for a 7.12 percent CAP rate.

The other noteworthy event was the inability for Sunset Development to rezone their multi-tenant ten-building office park at the northeast corner of Holmes and Concannon Boulevard from office to residential. The office park consists of 75,750 square feet on 13.32 acres with a handful of small tenants remaining. Sunset will need to determine what their next move is on this site given the current market conditions.

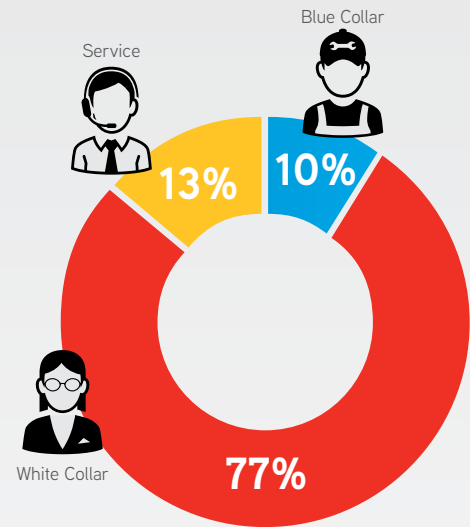
What Lies Ahead

If rents were traded on the NYSE, we would recommend loading up on Class A, December 2015 \$3.00 call-options. The needed erosion of vacancy at both 2600 in Bishop Ranch (nearly one million vacant square feet) and Rosewood Commons (422,739) is happening. The aforementioned 150,000 square foot signed lease with SAP at 2600 (with rumors that may grow a bit) and ServiceMax's pending 50,000 square foot lease at Rosewood Commons are the building blocks of the push towards \$3.00 rents. Look for the third quarter of 2015 to resemble the second quarter of 2015... rents up, vacancy down.

Comparable Class A Leasing Rates

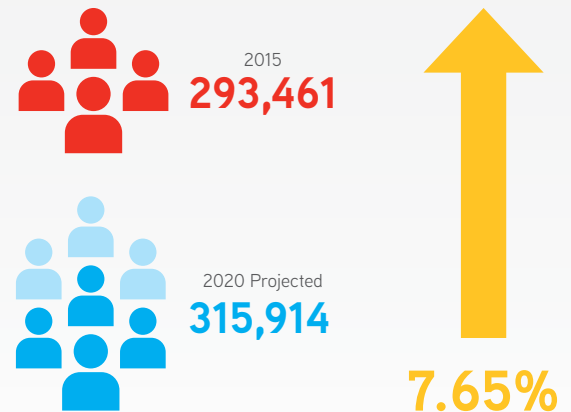


Employment By Category



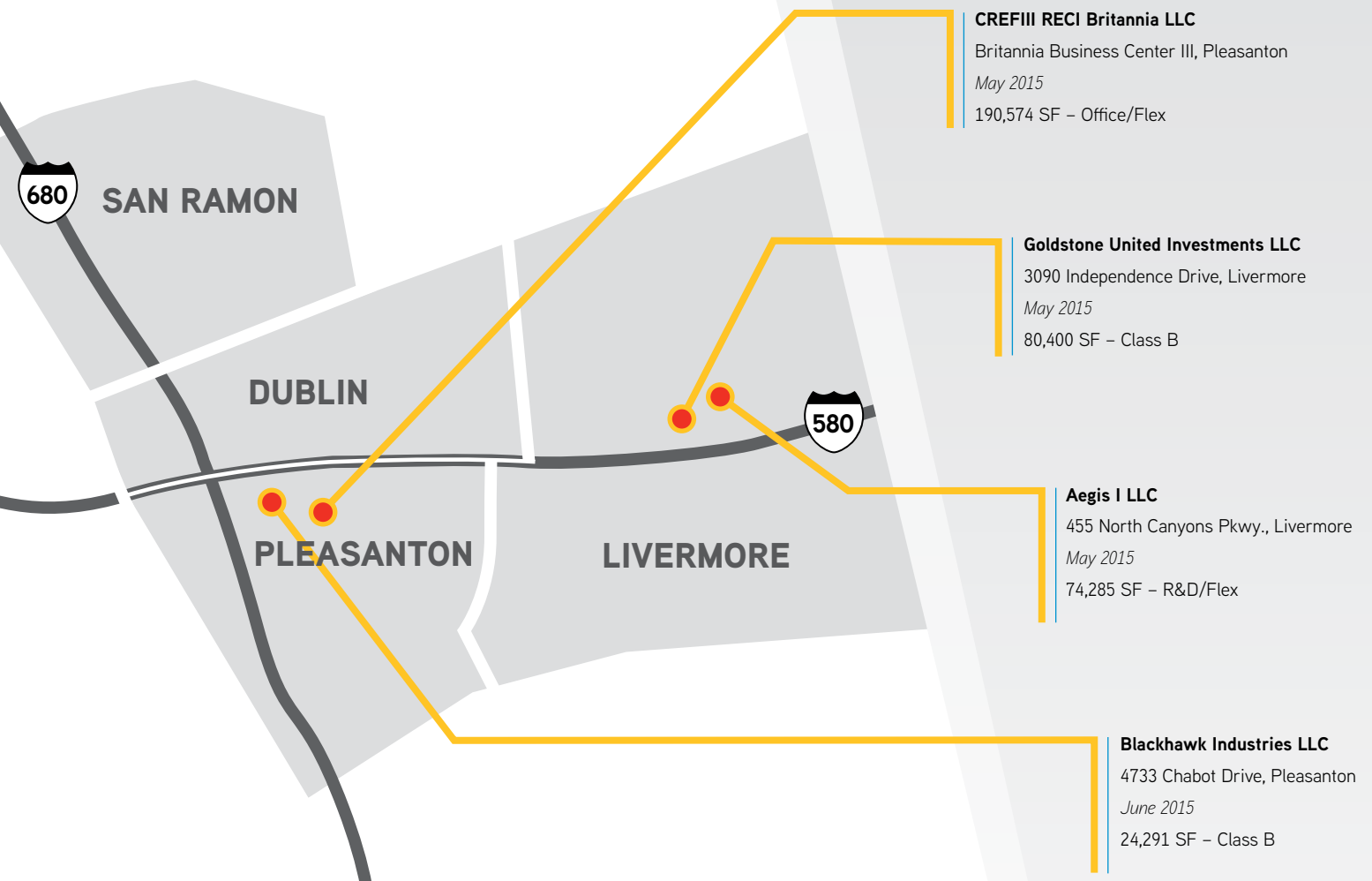
Data Source: The Nielsen Company

Population



Data Source: The Nielsen Company

Significant Sale Activity



Significant Lease Activity

PROPERTY ADDRESS	LEASE DATE	SIZE	TENANT	TYPE
5000 Franklin Drive, Pleasanton	June 2015	30,232 SF	D+H USA Corporation*	Class B
2603 Camino Ramon, San Ramon	May 2015	30,000 SF	Enterprise Rent-A-Car	Class A
5875 Arnold Road, Dublin	June 2015	25,142 SF	Pacific Gas & Energy	Office/Flex
6723 Sierra Court, Dublin	April 2015	14,711 SF	ZELTIQ Aesthetics Inc.	Office/Flex
6723 Sierra Court, Dublin	April 2015	13,825 SF	ZELTIQ Aesthetics Inc.*	Office/Flex
6900 Koll Center Parkway, Pleasanton	April 2015	13,600 SF	MarketSmart Inc.	Office/Flex
4255 Hopyard Road, Pleasanton	June 2015	11,929 SF	Diebold Inc.	Office/Flex

* Renewal

Market Comparisons – Tri-Valley

OFFICE MARKET

CLASS	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 FSG
DUBLIN															
A	9	1,488,260	63,459	4.3%	33,680	2.3%	97,139	6.5%	7.0%	6,952	46,473	60,764	-	-	\$2.39
B	11	304,664	57,114	18.7%	3,518	1.2%	60,632	19.9%	21.8%	5,746	10,658	10,658	-	-	\$1.86
Flex	24	869,016	71,836	8.3%	57,232	6.6%	129,068	14.9%	19.4%	39,931	36,624	43,549	-	-	\$1.93
Total	44	2,661,940	192,409	7.2%	94,430	3.5%	286,839	10.8%	12.8%	52,629	93,493	114,971	-	-	\$2.06
LIVERMORE															
B	23	833,964	180,708	21.7%	-	0.0%	180,708	21.7%	20.8%	(6,889)	(3,603)	3,286	-	-	\$1.33
Flex	74	2,169,548	186,839	8.6%	112,000	5.2%	298,839	13.8%	14.2%	9,967	9,967	6,689	-	-	\$1.39
Total	97	3,003,512	367,547	12.2%	112,000	3.7%	479,547	16.0%	16.1%	3,078	6,364	9,975	-	-	\$1.36
PLEASANTON															
A	49	6,372,973	709,327	11.1%	-	0.0%	709,327	11.1%	10.6%	(35,749)	177,441	286,163	-	-	\$2.75
B	69	2,848,802	273,815	9.6%	7,539	0.3%	281,354	9.9%	8.7%	(34,758)	(54,540)	64,444	-	-	\$2.28
Flex	93	3,179,186	163,060	5.1%	1,928	0.1%	164,988	5.2%	5.6%	11,916	3,294	76,472	-	-	\$1.94
Total	211	12,400,961	1,146,202	9.2%	9,467	0.1%	1,155,669	9.3%	8.8%	(58,591)	126,195	427,079	-	-	\$2.52
SAN RAMON															
A	31	7,664,037	1,396,167	18.2%	13,075	0.2%	1,409,242	18.4%	17.7%	(52,222)	(141,927)	177,893	-	-	\$2.72
B	26	1,011,228	35,767	3.5%	4,552	0.4%	40,289	4.0%	4.7%	7,652	10,900	20,379	-	-	\$1.86
Flex	9	705,668	135,538	19.2%	-	0.0%	135,538	19.2%	19.1%	(720)	1,164	1,100	-	-	\$1.85
Total	66	9,380,933	1,567,472	16.7%	17,597	0.2%	1,585,069	16.9%	16.4%	(45,290)	(129,863)	199,372	-	-	\$2.63
MARKET TOTAL															
A	89	15,525,270	2,168,953	14.0%	46,755	0.3%	2,215,708	14.3%	13.7%	(81,019)	81,987	524,820	-	-	\$2.72
B	129	4,998,658	547,404	11.0%	15,579	0.3%	562,983	11.3%	10.7%	(28,249)	(36,847)	98,767	-	-	\$1.90
Flex	200	6,923,418	557,273	8.0%	171,160	2.5%	728,433	10.5%	11.4%	61,094	51,049	127,810	-	-	\$1.73
Total	418	27,447,346	3,273,630	11.9%	233,494	0.9%	3,507,124	12.8%	12.6%	(48,174)	96,189	751,397	-	-	\$2.41

QUARTERLY COMPARISON AND TOTALS

Q2-15	418	27,447,346	3,273,630	11.9%	233,494	0.9%	3,507,124	12.8%	12.6%	(48,174)	96,189	751,397	-	-	\$2.41
Q1-15	418	27,447,346	3,223,740	11.7%	235,210	0.9%	3,458,950	12.6%	14.2%	144,363	144,363	500,361	-	-	\$2.39
Q4-14	418	27,644,063	3,702,004	13.4%	223,021	0.8%	3,925,025	14.2%	14.9%	200,425	(669,609)	1,783,655	-	-	\$2.31
Q3-14	418	27,644,063	3,819,921	13.8%	305,529	1.1%	4,125,450	14.9%	12.5%	(661,197)	(870,034)	1,320,213	-	-	\$2.29
Q2-14	422	27,748,942	3,268,458	11.8%	195,795	0.7%	3,464,253	12.5%	12.8%	90,516	(208,837)	694,306	-	-	\$2.06



BRITANNIA BUSINESS CENTER III

Britannia Business Center III (5735 W. Las Positas, 5870 Stoneridge Drive and 4511 Willow Road), comprised of three office/flex buildings totaling 190,574 square feet, traded for \$35,100,000 (\$184 per square foot). The price represented an estimated 6.5 percent CAP in this largely leased portfolio. Ridge Capital Investors LLC was the buyer, and the seller was Stoneridge Holdings LLC.

502 offices in 67 countries on 6 continents

United States: **140**

Canada: **31**

Latin America: **24**

Asia Pacific: **199**

EMEA: **108**

\$2.3

billion in
annual revenue

1.7

billion square feet
under management

16,300

professionals
and staff

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