

PLEASANTON | TRI-VALLEY | INDUSTRIAL

Q2 2015

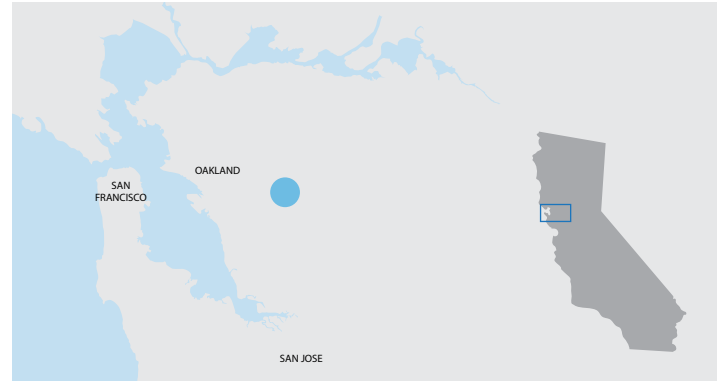
Accelerating success.

If You Build It

- > Vacancy rates are at an all-time low, reporting 6.1 percent.
- > Asking rates jumped 28 percent to \$0.67 per square foot triple net.
- > Absorption remained positive at 62,499 square feet.

The Tri-Valley industrial market has come a long way in a short amount of time. Just three years ago, the overall vacancy rate was well into the double digits, quoting 15.1 percent, 14.2 percent, 13.2 percent, and so on. It was not until mid-year in 2013 that the industrial market started to pick up and vacancy quickly dropped, bringing it to 7.4 percent by year-end. Today, the vacancy reports a healthy 6.1 percent. To coincide with the low vacancy rate, weighted average asking rates have increased, jumping up 28 percent to \$0.67 per square foot triple net from two years ago. Livermore is the primary leader in the industrial market for the Tri-Valley with this quarter's most notable transactions serving as proof. Absorption for the quarter was positive 62,499 square feet. Year to date, the overall gross absorption is 638,033 square feet.

What does all of this mean? In short, activity is fluid, construction is in progress with tenants rumored in place, ancillary companies are looking to the Tri-Valley, and landlords remain in a good position. All arrows are green, and the light says GO!



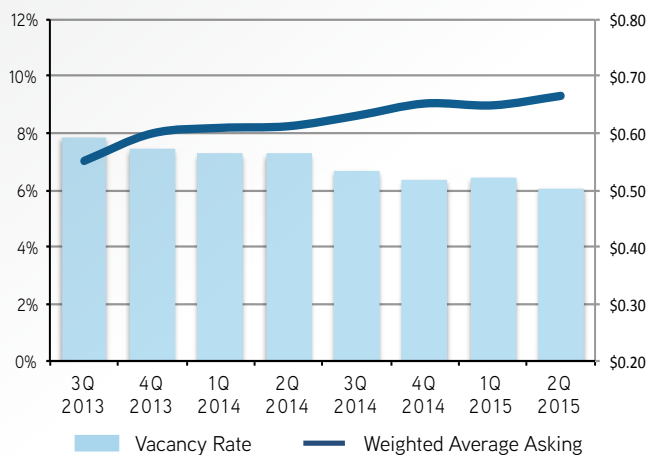
Market Trends

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

*Projected

Historical Vacancy and Average Asking Rates

Tri-Valley | Overall



Vacancy continues to drop and asking rates keep pushing upward.

Summary Statistics

Q2 2015 Tri-Valley Industrial Market	Previous Quarter	Current Quarter
Vacancy Rate	6.4%	5.8%
Overall Asking Rate*	\$0.65	\$0.67
Light Industrial Asking Rate*	\$0.74	\$0.80
Whse/Dist Asking Rate*	\$0.51	\$0.49
Net Absorption	8,706	78,997
Gross Absorption	106,438	176,906

*Asking rates are reported on a triple net monthly basis

Economic Indicators

	Previous Quarter	Current Quarter
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

Dublin/Pleasanton Light Industrial

The Tri-Valley, along with the rest of the Bay Area, continued in a positive direction during the second quarter of 2015. Both Dublin and Pleasanton stayed generally flat. Pleasanton had 10,264 square feet of positive absorption; however, Dublin reported negative 30,737 square feet of absorption due to a couple of light industrial spaces coming on the market. Despite the absorption statistics being relatively flat, the combined vacancy rate for Pleasanton is only 2.4 percent, so there is not enough vacant space to cause large amounts of absorption. Dublin has 15.3 percent combined vacancy; although it should be noted that if you exclude 6400 Sierra Court, a building that has been vacant due to hazardous materials contamination, the Dublin light industrial vacancy rate would be only 2.8 percent. Given the extremely low vacancy rates, the average asking rates continue to rise at a moderate pace. Landlord concessions are minimal for quality spaces, and there is often competition for space. On the sale side, Dublin/Pleasanton industrial inventory for sales is low, and demand is strong. Prices have risen sharply, and functional buildings continue receiving multiple offers. In many cases, sale prices are at or above the peak values seen in 2007.

Expectations for the third quarter of 2015 are for lease and sale activity to remain strong as the economy and Bay Area real estate market thrives. Rental rates are expected to steadily increase as inventory thins and the inner Bay Area market continues to drive demand out to lower cost markets such as the Tri-Valley. While sale prices are near the 2007 peak, lease rates still have a ways to go before returning to 2007 levels. Expectations are for a sustained recovery proceeding into the foreseeable future.

Livermore Light Industrial/Warehouse

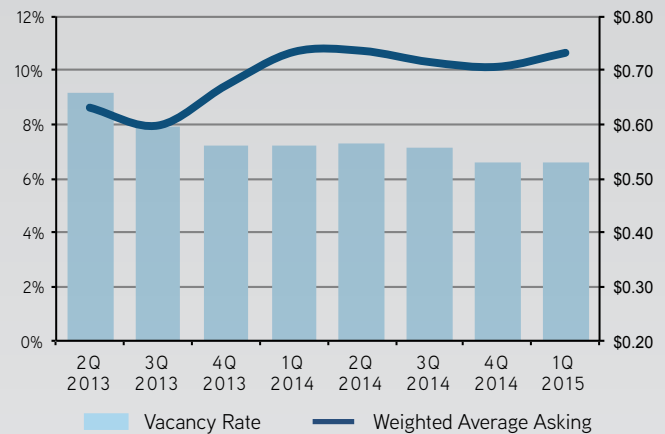
The Livermore light industrial/warehouse market's margin tightened another notch. Vacancy rates dropped once again, from 6.4 percent to 5.7 percent. Overall asking rates were relatively flat for the quarter at \$0.55 per square foot triple net. Low vacancy rates and lack of inventory for functional warehouses contribute to a strong landlord's market. Net absorption rose out of negative territory from the previous quarter to positive 82,972 square feet by the end of the second quarter. Gross absorption continues its healthy trend, closing the quarter at positive 356,668 square feet. One significant investment value add deal was the sale of Vasco Commons, a multi-tenant Class A R&D/flex property totaling 56,832 square feet in East Livermore, to B.M. Tonkin, Inc.

Warehouse has been very active over the past year with construction plans in place and tenants waiting in the wings to occupy. Vacancy has hovered in the mid to high 6.0 percent range over the last four quarters. Currently, vacancy settled at 6.8 percent, a decrease of 15 percentage points from this time last year. Net absorption stayed on track, reporting positive 6,586 square feet for the quarter and 208,688 square feet for gross absorption.

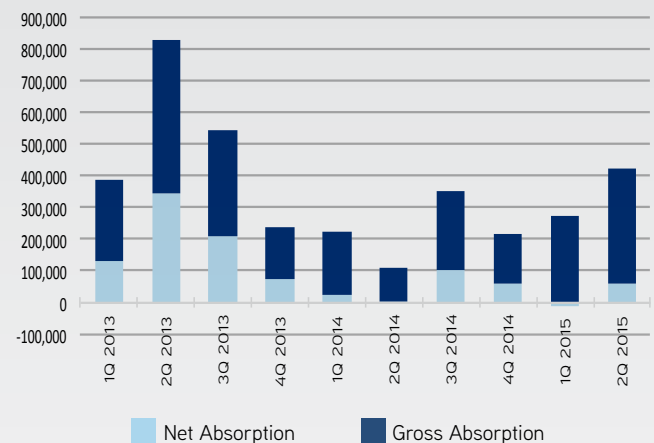
Though little movement occurred from last quarter (6.9 percent vacancy), gross absorption activity tells the story for the warehouse market. Stainless International purchased 96,852 square feet at 2150 Kitty Hawk Road (near the Livermore airport). The buyer plans to occupy approximately 50,000 square feet of the building.

Historical Vacancy and Average Asking Rates

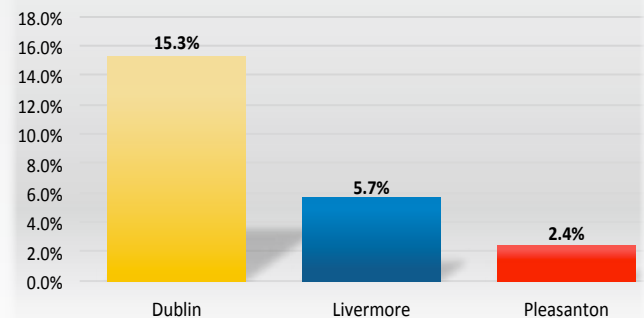
Tri-Valley | Light Industrial



Historical Net Absorption and Gross Absorption



Comparable Overall Industrial Vacancy Rates



There were a handful of deals contributing to gross absorption for the second quarter. The most noteworthy deal that transpired in the second quarter was the 266,825 square foot purchase of Greenville Business Center (7501-7587 Las Positas Road), a 100 percent leased investment sale with leases in place through 2023.

Looking forward into 2015-2016, the largest speculative development in the Tri-Valley ever is being developed by Trammell Crow/Bentall Kennedy (TC/BK), breaking ground at the Oaks Logistics Center in Oaks Business Park. The logistics center will consist of three buildings of approximately 635,000, 367,000 and 294,000 square feet. TC/BK hopes to lure big-box distribution tenants in search of facilities with close proximity to the Bay Area.

Sales

Building sales remained a highlight of the market in the second quarter of 2015. Prices continue to rise, as inventory of buildings for sale is low and demand is robust. There were approximately eight industrial buildings that closed during the second quarter, which is two less than the previous quarter. Values for investment properties and user properties continue to rise due to low interest rates, cap rate compression and high demand.

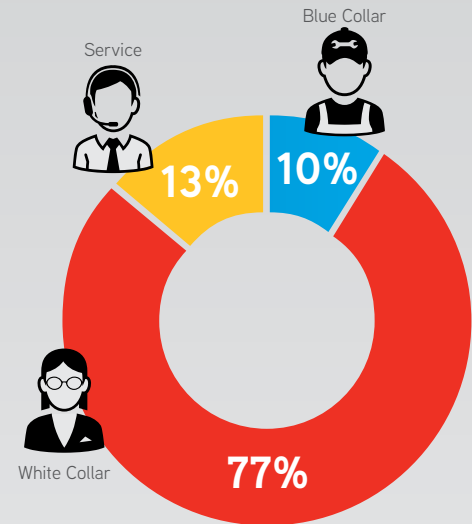
The most notable is the aforementioned sale of 7501-7587 Las Positas Road, a fully leased 266,825 square foot Class A warehouse/distribution building located in East Livermore. This building was purchased by Industrial Property Trust and is an institutional quality class asset that traded for approximately \$97 per square foot and a 5.0 percent cap rate. Another important investment sale was the purchase of 6242-6269 Preston Avenue, a two-building, 56,832 square foot multi-tenant industrial project, that was 100 percent leased at the time of closing and had seventeen different tenants. This project sold for approximately \$147 per square foot and was a 6.75 percent cap rate on in place income. The most notable user sale in the second quarter of 2015 was the sale of 2150 Kitty Hawk Road in Livermore, a 96,852 warehouse/distribution building purchased by Stainless International for approximately \$77 per square foot. Several other buildings were sold, including three light industrial condominiums and two freestanding light industrial buildings under 15,000 square feet.

Given the forces of extremely attractive interest rates, lack of inventory in the Tri-Valley and continued demand, prices are expected to continue to increase during the third quarter.

Looking Ahead

The second half of 2015 will be no different than the first half – decreased vacancies and increased asking rates. Building sales expect to push \$200 per square foot, with activity showing no signs of slowing down. With the tightening market, the migration of companies coming to the Tri-Valley will continue into the following year. As the Oaks Logistics Center nears completion (est. 1Q 2016), it will be interesting to see how the large users who occupy that project influence surrounding tenants and impact the Livermore market. With expected population growth over the next five years and construction projects underway, job demand is projected to increase. With easily accessible public transportation and lower prices for industrial product than other Bay Area cities, the Tri-Valley will continue to be an attractive market for companies to relocate their businesses.

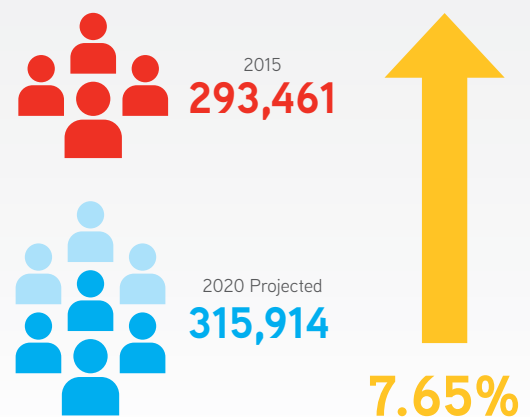
Employment By Category



Data Source: The Nielsen Company

“With expected population growth over the next five years and construction projects underway, job demand is projected to increase.”

Population



Data Source: The Nielsen Company

Significant Sale Activity



Stainless International
2150 Kitty Hawk Road, Livermore
April 2015
96,852 SF – Warehouse/Distribution

B.M. Tonkin Inc.
6242-6269 Preston Ave./Southfront Rd., Livermore
June 2015
56,832 SF – Light Industrial

Industrial Property Trust
7501-7587 Las Positas Road, Livermore
May 2015
266,825 SF – Warehouse/Distribution

LSTC California LLC
1375 Rutan Drive, Livermore
June 2015
21,672 SF – Light Industrial

Significant Lease Activity

PROPERTY ADDRESS	LEASE DATE	SIZE	TENANT	TYPE
5874 Brisa Street, Livermore	June 2015	71,888 SF	Hardwoods Specialty Products Inc.*	Warehouse/Distribution
203 East Airway Boulevard, Livermore	May 2015	56,551 SF	Curtis Instruments Inc.*	Light Industrial
6611 Preston Avenue, Livermore	April 2015	53,575 SF	Homesite Services Inc.	Warehouse/Distribution
6233 Industrial Way, Livermore	May 2015	33,908 SF	Millwork Solutions	Warehouse/Distribution
6611 Preston Avenue, Livermore	April 2015	27,600 SF	Schneider Electric	Warehouse/Distribution
6818 Patterson Pass Road, Livermore	May 2015	26,059 SF	Record Xpress of California LLC*	Warehouse/Distribution
4754 Bennett Drive, Livermore	June 2015	24,353 SF	Go Pet Club LLC	Warehouse/Distribution
4671 Las Positas Road, Livermore	April 2015	22,368 SF	Young's Holdings Inc.	Light Industrial
174 Lawrence Drive, Livermore	May 2015	21,600 SF	Red Bull*	Warehouse/Distribution
5573 Brisa Street, Livermore	May 2015	18,000 SF	Ryerson Procurement Corporation	Warehouse/Distribution
4569 Las Positas Road, Livermore	May 2015	16,000 SF	All Systems Broadband	Light Industrial
174 Lawrence Drive, Livermore	May 2015	15,600 SF	Golden Bear Cabinetry	Light Industrial

* 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 F5G
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DUBLIN

Lt Ind	41	1,302,025	239,252	18.4%	-	0.0%	239,252	18.4%	16.0%	(30,737)	(33,452)	-	-	-	\$0.93
Whse	2	259,917	-	0.0%	-	0.0%	-	0.0%	0.0%	-	-	-	-	-	\$0.60
Total	43	1,561,942	239,252	15.3%	-	0.0%	239,252	15.3%	13.3%	(30,737)	(33,452)	-	-	-	\$0.93

LIVERMORE

Lt Ind	309	6,601,394	310,650	4.7%	-	0.0%	310,650	4.7%	5.9%	76,386	82,661	230,901	-	-	\$0.63
Whse	50	6,489,995	441,515	6.8%	-	0.0%	441,515	6.8%	6.9%	6,586	(8,375)	377,769	-	-	\$0.49
Total	359	13,091,389	752,165	5.7%	-	0.0%	752,165	5.7%	6.4%	82,972	74,286	608,670	-	-	\$0.55

PLEASANTON

Lt Ind	127	2,251,255	66,030	2.9%	-	0.0%	66,030	2.9%	3.4%	10,264	15,410	29,363	-	-	\$1.05
Whse	2	487,405	-	0.0%	-	0.0%	-	0.0%	0.0%	-	-	-	-	-	\$0.60
Total	129	2,738,660	66,030	2.4%	-	0.0%	66,030	2.4%	2.8%	10,264	15,410	29,363	-	-	\$1.05

MARKET TOTAL

Lt Ind	477	10,154,674	615,932	6.1%	-	0.0%	615,932	6.1%	6.6%	55,913	64,619	260,264	-	-	\$0.79
Whse	54	7,237,317	441,515	6.1%	-	0.0%	441,515	6.1%	6.2%	6,586	(8,375)	377,769	-	-	\$0.49
Total	531	17,391,991	1,057,447	6.1%	-	0.0%	1,057,447	6.1%	6.4%	62,499	56,244	638,033	-	-	\$0.67

QUARTERLY COMPARISON AND TOTALS

Q2-15	531	17,391,991	1,057,447	6.1%	-	0.0%	1,057,447	6.1%	6.4%	62,499	56,244	638,033	-	-	\$0.67
Q1-15	531	17,391,991	1,096,710	6.3%	23,236	0.1%	1,119,946	6.4%	6.4%	(6,255)	(6,255)	275,519	-	1,298,207	\$0.65
Q4-14	535	17,508,130	1,000,892	5.7%	112,799	0.6%	1,113,691	6.4%	6.7%	57,826	187,028	717,109	-	-	\$0.65
Q3-14	535	17,508,130	1,148,281	6.6%	23,236	0.1%	1,171,517	6.7%	7.3%	99,999	129,202	558,931	-	-	\$0.63
Q2-14	535	17,508,130	1,259,706	7.2%	11,810	0.1%	1,271,516	7.3%	7.3%	3,131	29,203	305,063	-	-	\$0.61



GREENVILLE BUSINESS CENTER

The most noteworthy deal that transpired in the second quarter was the 266,825 square foot purchase of Greenville Business Center (7501-7587 Las Positas Road), a 100 percent leased investment sale with leases in place through 2023.

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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