

PLEASANTON | TRI-VALLEY | INDUSTRIAL

Q3 2016

Accelerating success.

New Speculative Development on the Way

- > The overall vacancy rate for industrial in the Tri-Valley stood at a paltry 1.6 percent
- > The weighted average asking rental rate is now \$0.67 per square foot NNN
- > The Tri-Valley industrial market absorbed an additional 391,855 square feet

The third quarter 2016 highlights continued to show that the Tri-Valley industrial market is alive and well, with low vacancy rates driven even lower by continued positive net absorption. The title of last quarter's newsletter, "Low Vacancy Begs for New Development", was very appropriate, given the new speculative development activity that has generated over the past ninety days.

The Tri-Valley industrial market absorbed an additional 391,855 square feet, which, after their record quarterly net absorption in the second quarter of this year, brought net absorption in the industrial Tri-Valley market to a record 1,759,071 square feet through the third quarter of 2016. By the close of the quarter, the overall vacancy rate for industrial in the Tri-Valley stood at a paltry 1.6 percent, an all-time low! The weighted average asking rental rate is now \$0.67 per square foot triple net (NNN), compared to \$0.58 per square foot NNN last quarter. The industrial flight to Livermore from Pleasanton, Dublin and San Ramon will continue, given those markets virtually have no space remaining to lease or purchase. Because Livermore continues to have speculative land available for development, this continuing trend will last for several years to come.

Market Indicators - Tri-Valley



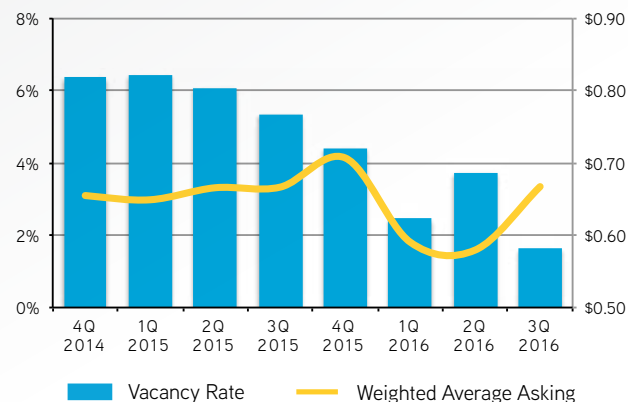
Market Trends

Relative to prior period	Q3 2016	Q4 2016*
Vacancy	↓	↓
Net Absorption	↓	↑
Construction	↔	↑
Rental Rate	↑	↑

*Projected

Historical Vacancy and Average Asking Rates

Tri-Valley | Overall



By the close of the quarter, the overall vacancy rate for industrial in the Tri-Valley stood at a paltry 1.6 percent, an all-time low. The weighted average asking rental rate is now \$0.67 per square foot triple net (NNN).

Summary Statistics

Q3 2016 Tri-Valley Industrial Market	Previous Quarter	Current Quarter
Vacancy Rate	3.7%	1.6%
Overall Asking Rate*	\$0.58	\$0.67
Light Industrial Asking Rate*	\$0.68	\$0.82
Whse/Dist Asking Rate*	\$0.54	\$0.56
Net Absorption	1,025,392	391,855
Gross Absorption	1,103,457	516,148

*Asking rates are reported on a triple net monthly basis

U.S. Economic Indicators

Indicator	Q3 2016	Q4 2016*
Unemployment Rate	4.9%	5.0%
Labor Force Participation Rate	62.7%	62.9%
Consumer Price Index	2.40%	2.41%
Interest Rate - 10 Yr Treasury	1.49%	1.60%
Business Confidence	99.7%	99.5%
Consumer Confidence	100.8%	104.1%

Last year at this time, the vacancy rate for warehouse space in the Tri-Valley was at 5.6 percent; today it stands at 2.1 percent. For light industrial, the vacancy rate last year at this time was 5.2 percent; this quarter, it was reduced to 1.2 percent. Now that the Bentall Kennedy/Trammell Crow buildings in the airport area of Livermore are fully leased, developers such as Balch Enterprises, Scannell Properties, and a host of other undisclosed developers have purchased or tied up a large portion of the remaining industrial land in Livermore. Rents are expected to continue to climb, along with net absorption and steady demand for industrial space from users inside and outside of the Tri-Valley marketplace.

Dublin/Pleasanton

The Dublin/Pleasanton light industrial and warehouse markets are virtually full, with nothing remaining to lease or purchase. 6400 Sierra Court in Dublin has one remaining lease pending, which is a martial arts user that has signed a lease for the remaining 16,067 square feet (the transaction is pending a Conditional Use Permit from the City of Dublin). The AMS Electrical building (20,700 square feet) at 6905 Sierra Court, sold to a San Francisco investor, with the existing tenants (AMS Electrical, Inc. and Tom Duffy Company) leasing back the property. Welcome Home, Inc. sold their 20,825 square foot light industrial building to Dublin Plumbing Supply at 6938 Sierra Court in Dublin. There were only a couple of small leases completed in Pleasanton, which is not surprising, given its vacancy rate of 0.6 percent. By next quarter at this time, we will know whether the Citizens For Planned Growth were successful with their referendum on the planned Costco project on Johnson Drive.

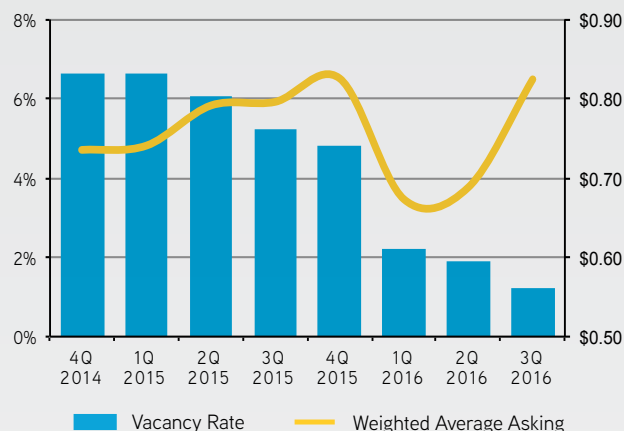
Livermore

Bentall Kennedy/Trammell Crow's final remaining building, consisting of 294,904 square feet, was leased to a Tesla supplier, DAA Dräexlmaier Automotive of America, for ten years. Given that Tesla Motors, Inc. leased the other two Oaks Logistics Center's new buildings of 362,734 square feet and 635,533 square feet, it made perfect sense for this supplier to be adjacent to their customer. Nearby, Gillig Corporation continues construction on their new 633,566 square foot headquarters/manufacturing campus, which is expected to be completed before next summer.

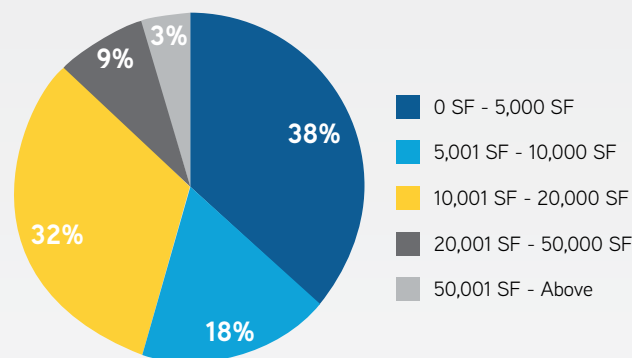
Other significant leases in Livermore include Communication Test and Design, Inc.'s five year, 124,914 square foot lease at Amador Business Center (7150 Patterson Pass Road); Westcore Properties' lease-up of 35,488 square feet at Greenville Business Park (7066 Las Positas Road, Suite C) to VeriCool, Inc.; Arroyo/Livermore Business Park LP's lease to Zoxou, Inc. of 20,000 square feet at Arroyo Business Center (40569 Las Positas Road, Suite A); and Ron Nunes Enterprises' lease renewal at Greenville Business Center (7703 Las Positas Road) of 19,760 square feet.

Historical Vacancy and Average Asking Rates

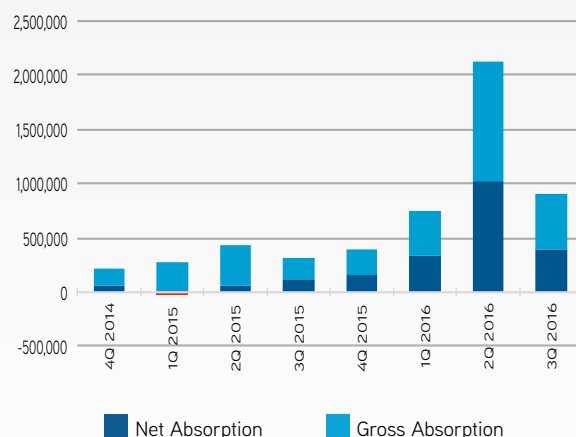
Tri-Valley | Light Industrial



Available Space by Square Foot Range



Historical Net Absorption and Gross Absorption



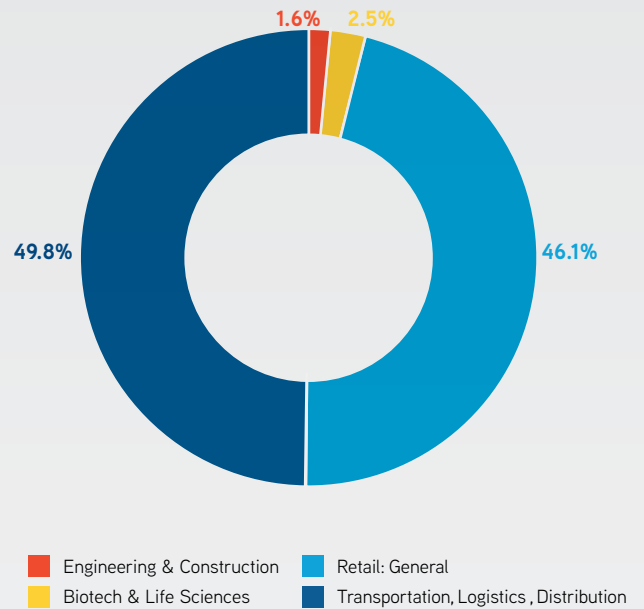
Livermore industrial sales transactions include: 2245-2271 South Vasco Road, a multi-tenant light industrial building, to the owners of Alco Iron and Metal (37,611 square feet); and a purchase by the Ibsen Family Living Trust of a 7,937 square foot, stand-alone building at Livermore Airport Business Center (136 Wright Brothers Avenue).

The spigot for new speculative industrial development in the Tri-Valley is now wide open. Last quarter, we reported Balch Enterprises' plan to build one or two state-of-the-art warehouse buildings in the Oaks Business Park on Discovery Drive (74,746 square feet and 67,228 square feet on a combined, 7.29 acres, or 142,748 square foot building on the same parcel). This quarter, Scannell Properties announced a 75,000 square foot industrial building on 5.2 acres, allowing for additional parking and truck staging. This property will also be in the Oaks Business Park, adjacent to the Balch development on Discovery Drive. In East Livermore, there are some undisclosed developers under contract to purchase land and develop a series of four warehouse/manufacturing buildings along Greenville Road and in National Industrial Park. If all of these speculative developments are built as planned, they could add a total of six new industrial/warehouse buildings to the Tri-Valley and up to an additional 900,000 square feet of industrial space. We are estimating that rents for these projects will need to be somewhere in the low to mid \$0.60 per square foot NNN, in order to provide a reasonable return to the owners.

Looking Ahead

The continuing active pace of industrial leasing and sales in the Tri-Valley industrial market portends that speculative development will occur in 2017 and 2018. For the next six to nine months, unless there is an unexpected economic regional, national or international crisis, the sheer momentum of activity for Bay Area industrial will continue to put pressure on the availability and pricing of all industrial property in the Tri-Valley. There has never been a better time to be a landlord or property owner in our Tri-Valley industrial market. One can only question what inning we are in, in terms of when this strong cycle will end; as far as we know, development cycles come and go, and we are just embarking on a significant development cycle in our market.

Tenant Demand in the Tri-Valley



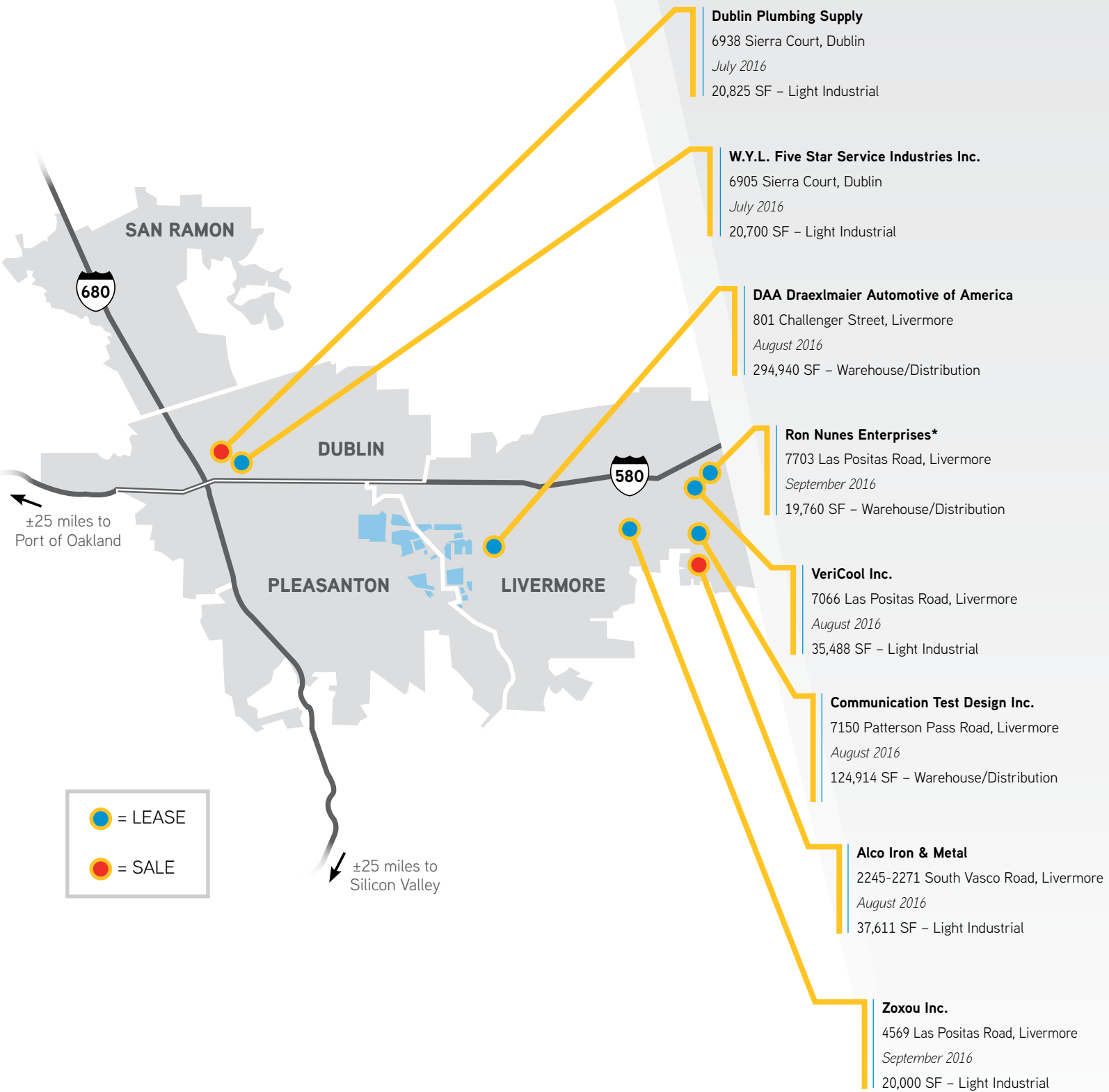
“Livermore continues to have speculative land available for development.”



THE OAKS LOGISTICS CENTER

Bentall Kennedy/Trammell Crow's final remaining building, consisting of 294,904 square feet, was leased to a Tesla supplier, DAA Dräexlmaier Automotive of America, for ten years. This was a natural choice for the German-based automotive company to call home, given their close relationship with Tesla.

Significant Lease & Sale Activity



* Renewal

Market Comparisons – Tri-Valley

INDUSTRIAL MARKET

CLASS	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 NNN
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DUBLIN														
Lt Ind	1,297,559	20,459	1.6%	-	0.0%	20,459	1.6%	1.4%	(1,992)	185,056	210,598	-	-	\$0.88
Whse	259,917	-	0.0%	-	0.0%	-	0.0%	0.0%	-	-	-	-	-	\$ -
Total	1,557,476	20,459	1.3%	-	0.0%	20,459	1.3%	1.2%	(1,992)	185,056	210,598	-	-	\$0.88

LIVERMORE														
Lt Ind	6,583,394	85,766	1.3%	2,945	0.1%	88,711	1.3%	2.4%	67,884	137,584	281,440	-	-	\$0.74
Whse	7,791,902	181,217	2.3%	-	0.0%	181,217	2.3%	6.5%	327,834	1,397,956	1,487,372	-	86,700	\$0.56
Total	14,375,296	266,983	1.9%	2,945	0.0%	269,928	1.9%	4.6%	395,718	1,535,540	1,768,812	-	86,700	\$0.62

PLEASANTON														
Lt Ind	2,248,821	17,227	0.8%	-	0.0%	17,227	0.8%	0.7%	(1,871)	38,475	55,131	-	-	\$1.18
Whse	487,405	-	0.0%	-	0.0%	-	0.0%	0.0%	-	-	-	-	-	\$ -
Total	2,736,226	17,227	0.6%	-	0.0%	17,227	0.6%	0.6%	(1,871)	38,475	55,131	-	-	\$1.18

MARKET TOTAL

Lt Ind	10,129,774	123,452	1.2%	2,945	0.1%	126,397	1.2%	1.9%	64,021	361,115	547,169	-	-	\$0.82
Whse	8,539,224	181,217	2.1%	-	0.0%	181,217	2.1%	6.0%	327,834	1,397,956	1,487,372	-	86,700	\$0.56
Total	18,668,998	304,669	1.6%	2,945	0.0%	307,614	1.6%	3.7%	391,855	1,759,071	2,034,541	-	86,700	\$0.67

QUARTERLY COMPARISON AND TOTALS

Q3-16	18,668,998	304,669	1.6%	2,945	0.0%	307,614	1.6%	3.7%	391,855	1,759,071	2,034,541	-	86,700	\$0.67
Q2-16	18,668,998	693,524	3.7%	5,945	0.0%	699,469	3.7%	2.5%	1,025,392	1,367,216	1,518,393	1,298,207	720,266	\$0.58
Q1-16	17,370,791	422,369	2.4%	4,285	0.0%	426,654	2.5%	4.4%	341,824	341,824	414,936	-	1,931,733	\$0.59
Q4-15	17,391,991	731,933	4.2%	36,545	0.2%	768,478	4.4%	5.4%	149,059	330,512	1,059,921	-	1,931,733	\$0.71
Q3-15	17,391,991	890,693	5.1%	41,545	0.2%	932,238	5.4%	6.1%	125,209	1,025,392	822,591	-	1,298,207	\$0.67



7150 PATTERSON PASS ROAD, LIVERMORE

Communication Test Design Inc signed 124,914 square foot lease, bringing the 450,000 square foot building to 100 percent occupied. This was the second largest deal executed in Livermore in the third quarter.

554 offices in 66 countries on 6 continents

United States: **153**

Canada: **34**

Latin America: **24**

Asia Pacific: **231**

EMEA: **112**

\$2.5

billion in
annual revenue*

2.0

billion square feet
under management

16,000

professionals
and staff

*All statistics are for 2015 and include affiliates

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