

# Quiet Start to Second Half of 2017

- > The vacancy rate for the Tri-Valley continued its downward slope closing the quarter at 10.0 percent
- > Weighted average asking rents are now at \$2.73, up \$0.06 from last quarter
- > Making a significant improvement, net absorption ended the quarter at positive 105,388 square feet

**The third quarter 2017 Tri-Valley office campaign fogged a mirror but little else.** The hopes of an electric fall after a vacation-laden summer did not materialize in rampant touring or consummated lease/sale transactions. Total market weighted average asking rents across all classes of space are now \$2.73 full service gross, up \$0.06 from the second quarter 2017 and up \$0.26 from a year prior. The total market vacancy rate is 9.9 percent with positive net absorption of 105,388 square feet. Net absorption year-to-date is negative 336,233 square feet, although total market weighted average rents have gone up \$0.06 over the same period.

Tri-Valley Class A weighted average asking rents are \$3.00 full service gross – that average reaching the \$3.00 mark for the first time since 2001. Vacancy in the sector is 11.1 percent with positive net absorption of 58,327 square feet.

## Market Indicators

Unemployment Rate  
Tri-Valley

10-Year Nominal  
Interest Rate

Consumer  
Confidence



**2.33**



## Market Trends

Relative to prior period

Q3 2017

Q4 2017\*

Vacancy



Net Absorption



Construction



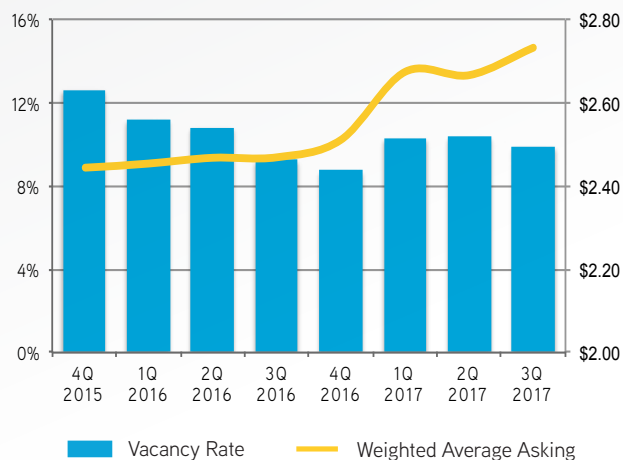
Rental Rate



\*Projected

## Historical Vacancy and Average Asking Rates

Tri-Valley | All Classes



As vacancy rates continue to decline, weighted average asking rates increased 10.5 percent in twelve months. With impending deals due to close in the coming quarter, the overall vacancy will move into single digits. Asking rates, are expected to stabilize for fourth quarter but likely have not hit their peak and will likely increase in 2018.

## Summary Statistics

Q3 2017 Tri-Valley Office Market

Previous  
Quarter

Current  
Quarter

Vacancy Rate

10.4%

10.0%

Overall Asking Rate\*

\$2.67

\$2.73

Class A Asking Rate\*

\$2.97

\$3.00

Class B Asking Rate\*

\$2.18

\$2.31

Flex Asking Rate\*

\$2.07

\$2.18

Net Absorption

(18,245)

105,388

Gross Absorption

247,868

459,436

\*Asking rates are reported on a full service monthly basis

## U.S. Economic Indicators

Unemployment Rate

4.4%

4.4%

Labor Force Participation Rate

62.8%

62.9%

Consumer Price Index

2.44%

2.46%

Interest Rate - 10 Yr Treasury

2.31%

2.33%

Business Confidence

103.6

101.6

Consumer Confidence

118.9

119.8

Class B office closed the third quarter 2017 with overall weighted average asking rents at \$2.31 full service gross. This is up an impressive \$0.13 from the second quarter and up \$0.17 year-to-year. Class B overall vacancy is 11.1 percent on positive net absorption of 50,833 square feet.

The office/flex sector finished the quarter with overall average asking rents of \$2.18 (adjusted to full service gross) which represents an uptick of \$0.10 per square foot from the prior quarter 2017 and a spike of \$0.28 from the third quarter 2016. Vacancy in the sector is 6.4 percent with positive net absorption at 6,228 square feet.

## Dublin

Dublin Class A weighted average asking rents are \$3.11 full service gross with the total vacancy rate now at 31.6 percent. Vacancy dipped 6.5 percentage points quarter-to-quarter due largely to TriNet Group, Inc. leasing two floors (72,930 square feet on the 5th and 6th floors) of One Park Place. TriNet will be the first tenant to occupy the project since SAP's vacation of the entirety of the two building 417,109 square foot project in the first quarter of 2017. Also for the quarter, SABA Software, Inc. leased 19,430 square feet at Dublin Corporate Center (4120 Dublin Boulevard) giving total absorption of positive 91,607 square feet.

Class B Dublin weighted average asking rents weighed in at \$2.11 up \$0.03 from the prior quarter. Vacancy is 15.6 percent with 5,795 square feet of positive net absorption.

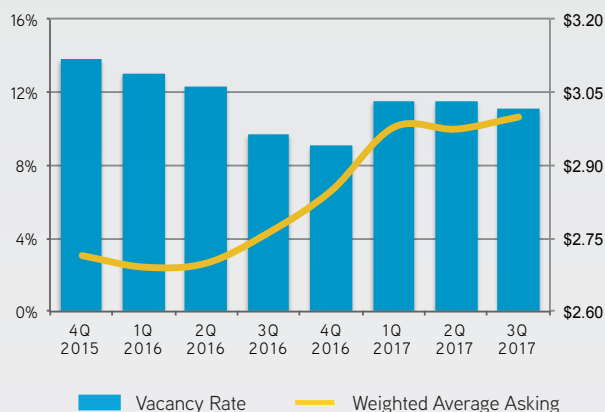
Dublin office/flex weighted average asking rents are \$2.00 (adjusted to full service gross) and the total vacancy rate is 4.2 percent, up from the prior quarter's 0.8 percent. Net absorption for the quarter was negative 27,651 square feet, largely due to Allergan, plc's vacation of 28,536 square feet at Sierra Trinity Business Park, leaving 34,262 vacant square feet in this sector with 823,517 square feet of total market inventory.

## Livermore

Continued strength in the Tri-Valley economy continues to drive vacancy in the Livermore office market down during the third quarter of 2017. Vacancy rates for Livermore office and flex declined to 9.7 percent, compared to 12.2 percent last quarter and 13.3 percent at this time in 2016. Livermore weighted average asking rents on a full service basis continue to be the lowest in the region, with over a \$1.00 per square foot difference to other peer cities in the Tri-Valley (even though asking rents on a full service basis increased this quarter to \$1.92 per square foot versus \$1.70 per square foot last quarter). Significant leasing occurred this quarter in the Vineyard Business Park and in Airway Business Park, with transactions such as Micro Dental Labs in Vineyard Business Park (36,592 square feet) and Lumenis Inc. (4,755 square feet) at North Canyons Business Center.

## Historical Vacancy and Average Asking Rates

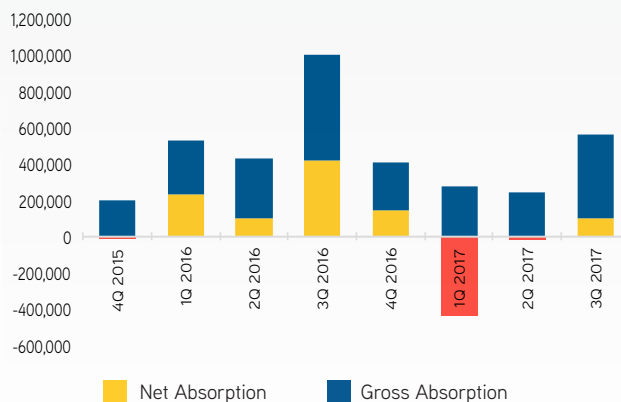
Tri-Valley | Class A



TriNet Group Inc leased two floors at Park Place in Dublin taking 72,930 square feet, marking the first deal transacted since the vacation of SAP.

## Historical Net Absorption

Tri-Valley | Class A



As far as absorption for office and flex is concerned, Livermore led the Tri-Valley cities, with 69,459 square feet absorbed in the third quarter of 2017 and a positive 120,550 square feet absorbed year-to-date. This can only be due to companies deciding that Livermore might be a strategic location, given their employees commute from the Central Valley, and the overall price discount of Livermore office to Pleasanton, Dublin or San Ramon. The continued drumbeat of ACE to BART and BART to Livermore will only improve this City's office market location in the future.

## Pleasanton

Class A weighted average asking rents are \$2.94 full service gross, up \$0.01 from last quarter and up \$0.02 for the year. The vacancy rate is a paltry 4.8 percent with 67,107 of positive net absorption. Allergan, plc (NYSE: AGN) leased 37,101 square feet at Rosewood Commons in taking the fourth floor at 4410 Rosewood Drive. Clapp, Moroney, Bellagamba and Vucinich will be the first traditional office user to occupy space in the John Muir Health Building across from the BART station at 5860 Owens Drive. They have leased 13,714 square feet on the fourth floor of this formerly exclusive medical building. In addition, Insurance Company of the West leased 13,266 square feet at Hacienda Terrace (4301 Hacienda Drive). This asset is owned and operated by Embarcadero Capital Partners.

Class B weighted average asking rents are \$2.57 full service gross with the total vacancy rate at 10.3 percent on negative net absorption of 34,675 square feet. Transamerica Investments leased 7,688 square feet at Birch Court (7077 Koll Center Parkway) in this intercity relocation from Hacienda Terrace.

Office/flex weighted average asking rents are \$2.40 (adjusted to full service gross), up \$0.22 from the third quarter 2016. Vacancy in the sector is 4.0 percent with 34,511 square feet of positive absorption for the quarter. Xip leased 8,904 square feet at The Arbor (5880 West Las Positas Boulevard) and Sharp Business Systems leased 18,900 square feet at Britannia Business Center II (5700 Stoneridge Drive).



4410 Rosewood Drive - Pleasanton

## San Ramon

Class A weighted average asking rents are now \$2.96 per square foot full service gross, up \$0.24 from one year ago. Vacancy is 12.3 percent with negative net absorption of 100,387 square feet. Chevron Corporation vacated two floors at Bishop Ranch 1 (6101 Bollinger Canyon) accounting for the negative net absorption. Bishop Ranch total weighted average asking rents are \$2.96 relative to Dublin and Pleasanton Class A weighted average asking rents of \$3.11 and \$2.94, respectively.

Class B weighted average asking rents are \$2.40 per square foot full service with positive net absorption of 1,182 square feet. This 868,498 square foot market sector has a vacancy of 9.1 percent.

San Ramon office/flex weighted average asking rents adjusted to full service at \$2.09, down from \$2.10 in the second quarter of 2017. The quarter ended with a negative net absorption of 1,560 square feet.

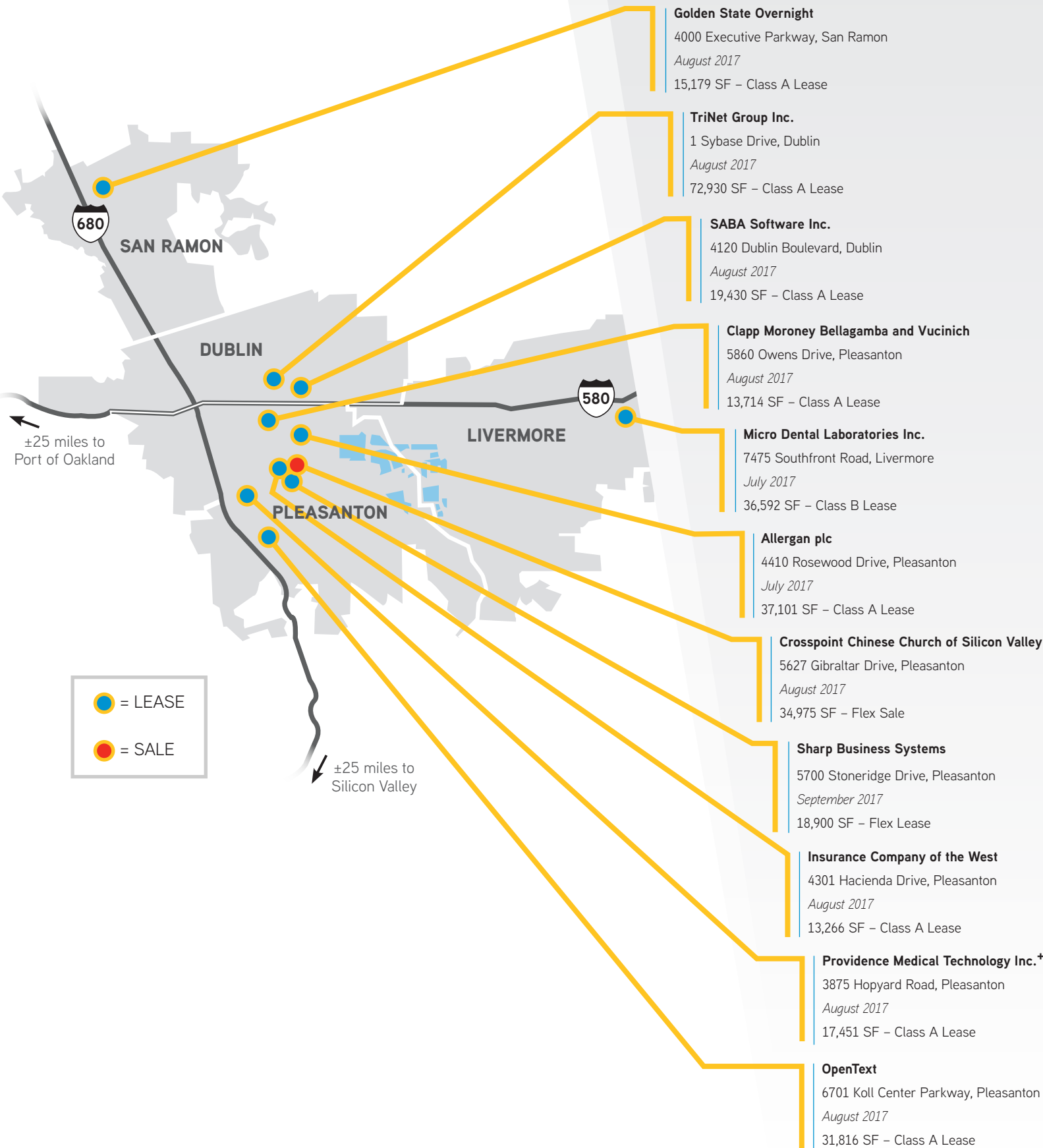


4000 Executive Parkway - San Ramon

## Q4 and Beyond

As we look to the fourth quarter, we expect many deals that have been active in the market to consummate. The Department of Justice (18,000± square feet), Global Syn-Turf (9,000± square feet), ARC Solutions (19,000± square feet), Dodge and Cox (10,000± square feet), Catholic Management Services (10,000± square feet), and Mott MacDonald (12,000± square feet), to name a few, should all close in the fourth quarter 2017. Birch Lakes (7031 and 7041 Koll Center Parkway, current owner Embarcadero Capital Partners) is in escrow, and this project should close in the fourth quarter to an undisclosed buyer. Saratoga Center, on the market for sale, could very well change hands too. As we look to the future, we will look for new activity in the market to continue the trend of rising rents and continued vacancy erosion.

## Significant Lease & Sale Activity



\* Sublease

## Market Comparisons – Tri-Valley

### OFFICE 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 F5G
DUBLIN														
A	1,489,930	470,371	31.6%	-	0.0%	470,371	31.6%	38.1%	91,607	(430,295)	98,975	-	-	\$3.11
B	347,587	54,301	15.6%	-	0.0%	54,301	15.6%	17.3%	5,795	12,312	26,705	-	-	\$2.11
Flex	823,517	34,262	4.2%	-	0.0%	34,262	4.2%	0.8%	(27,651)	4,525	46,290	-	-	\$2.00
Total	2,661,034	558,934	21.0%	-	0.0%	558,934	21.0%	23.8%	69,751	(413,458)	171,970	-	-	\$2.94

LIVERMORE														
B	834,139	117,744	14.1%	-	0.0%	117,744	14.1%	22.7%	68,531	64,779	71,164	-	-	\$1.73
Flex	2,126,274	134,301	6.3%	35,600	1.7%	169,901	8.0%	8.0%	928	55,771	77,161	-	-	\$2.08
Total	2,960,413	252,045	8.5%	35,600	1.2%	287,645	9.7%	12.2%	69,459	120,550	148,325	-	-	\$1.92

PLEASANTON														
A	6,364,463	262,634	4.1%	42,575	0.7%	305,209	4.8%	5.8%	67,107	109,726	175,936	-	410,000	\$2.94
B	2,837,630	283,209	10.0%	19,073	0.7%	302,282	10.7%	9.4%	(34,675)	(37,354)	99,794	-	-	\$2.57
Flex	3,055,282	123,550	4.0%	-	0.0%	123,550	4.0%	5.2%	34,511	(31,441)	90,594	-	-	\$2.40
Total	12,257,375	669,393	5.5%	61,648	0.5%	731,041	6.0%	6.5%	66,943	40,931	366,324	-	410,000	\$2.68

SAN RAMON														
A	7,708,782	928,836	12.0%	17,694	0.2%	946,530	12.3%	11.0%	(100,387)	2,289	286,533	-	-	\$2.96
B	868,498	73,005	8.4%	5,866	0.7%	78,871	9.1%	9.2%	1,182	(47,588)	9,133	-	-	\$2.40
Flex	700,724	104,500	14.9%	-	0.0%	104,500	14.9%	14.7%	(1,560)	(48,957)	-	-	-	\$2.09
Total	9,278,004	1,106,341	11.9%	23,560	0.3%	1,129,901	12.2%	11.1%	(100,765)	(94,256)	295,666	-	-	\$2.84

### MARKET TOTAL

A	15,563,175	1,661,841	10.7%	60,269	0.4%	1,722,110	11.1%	11.5%	58,327	(318,280)	561,444	-	410,000	\$3.00
B	4,887,854	528,259	10.8%	24,939	0.5%	553,198	11.3%	12.2%	40,833	(7,851)	206,796	-	-	\$2.31
Flex	6,705,797	396,613	5.9%	35,600	0.5%	432,213	6.4%	6.5%	6,228	(20,102)	214,045	-	-	\$2.18
Total	27,156,826	2,586,713	9.5%	120,808	0.4%	2,707,521	10.0%	10.4%	105,388	(346,233)	982,285	-	410,000	\$2.73

### QUARTERLY COMPARISON AND TOTALS

Q3-17	27,156,826	2,586,713	9.5%	120,808	0.4%	2,707,521	10.0%	10.4%	105,388	(346,233)	982,285	-	410,000	\$2.73
Q2-17	27,156,826	2,656,534	9.8%	164,914	0.6%	2,821,448	10.4%	10.3%	(18,245)	(451,621)	522,849	-	410,000	\$2.67
Q1-17	27,156,826	2,670,313	9.8%	132,890	0.5%	2,803,203	10.3%	8.7%	(433,376)	(433,376)	274,981	-	410,000	\$2.68
Q4-16	27,100,599	2,238,251	8.3%	131,576	0.5%	2,369,827	8.7%	9.3%	140,225	892,996	1,465,886	-	410,000	\$2.51
Q3-16	27,100,599	2,349,611	8.7%	164,847	0.6%	2,514,458	9.3%	10.8%	421,169	752,771	1,202,449	-	410,000	\$2.47

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

# 396 offices in 68 countries on 6 continents

United States: **153**

Canada: **29**

Latin America: **24**

Asia Pacific: **36**

EMEA: **111**

ANZ: **43**

## \$2.6

billion in  
annual revenue\*

## 2.0

billion square feet  
under management

## 15,000

professionals  
and staff

\*All statistics are for 2016 and include affiliates

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