

PLEASANTON | ALAMEDA COUNTY, CALIFORNIA RESEARCH & FORECAST REPORT



Industrial Market Review

GAINING MOMENTUM

The overall industrial vacancy in the Tri-Valley hit an all-time low this quarter. Beginning in the second quarter of 2013, the vacancy rate dropped to single digits; continuing downward to 6.7 percent where it sits today. Not since the early 2000's has the vacancy been this low in the industrial sector. The Tri-Valley market continues to exhibit strong activity with the majority of the tenants renewing their current leases and/or expanding from the space they are presently occupying. Concurrently, with the low vacancy, the overall weighted average asking rate has continued to creep upward to \$0.63 per square foot triple net. This time last year, the overall average weighted asking rate was \$0.55 per square foot triple net, with the vacancy at 7.9 percent. The overall net absorption in the third quarter reported positive 99,999 square feet; three months prior the second quarter closed at 3,131 square feet positive absorption. Though the net absorption is not as significant in relation to past quarters, the gross absorption year-to-date reported 558,931 square feet; demonstrating the Tri-Valley market has gained momentum over the past year and continues to impact the numbers in a positive way.

The light industrial market continues to inch its way in a positive direction with the vacancy hovering in the low 7.0 percent range: currently reporting 7.2 percent, down from 7.3 percent in the prior quarter. Three years ago, the vacancy was in the double digits reporting 11.4 percent. Following suit, as the market tightens, the asking rates increase. The overall weighted average asking rate stands at \$0.71 per square foot triple net. Twelve months prior the weighted average asking rate was \$0.67 per square foot triple net (vacancy was 8.0 percent). Net absorption reports positive 12,363 square feet, which is up from last quarter reporting negative 8,682 square feet. Gross absorption finished the quarter at 318,523 square feet year-to-date.

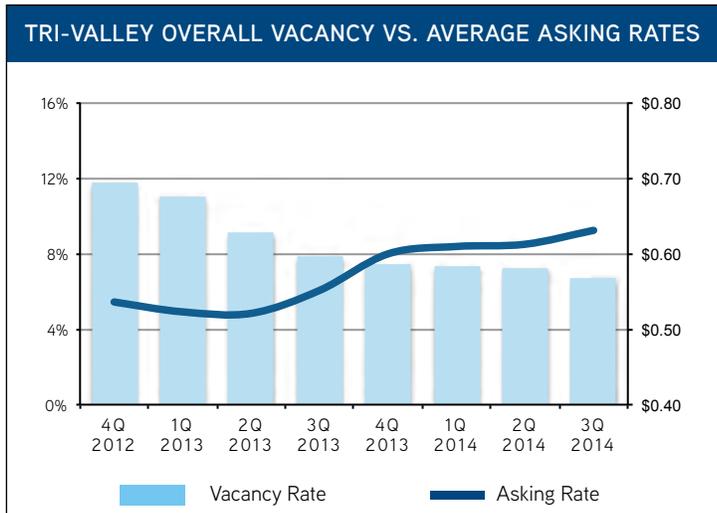
MARKET INDICATORS

	Q3-14	Projected Q4-14
VACANCY	↓	↓
NET ABSORPTION	↑	↑
CONSTRUCTION	↔	↔
RENTAL RATE	↑	↑

SELECTED MARKET STATS

- > The vacancy continue to decline reporting 6.7 percent
- > Net absorption reports positive 99,999 square feet
- > The average weighted asking is \$0.63 per square foot triple net
- > Current unemployment rates as of May 2014*
California: 7.4 percent
Alameda County: 6.1 percent

*SOURCE: CALIFORNIA EMPLOYMENT DEVELOPMENT DEPARTMENT



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“Demand from small business has increased sharply and is helping to lower the vacancy rates, which in turn drive rents.”

The Livermore market is the strongest market in the industrial sector for the Tri-Valley. The majority of the significant deals that took place in the third quarter, were from the Livermore market and show no indication of slowing down.

The warehouse sector has shown the most improvement over the past two years. Beginning in 2012, the vacancy rate was at a challenging 21.8 percent with a negative 368,886 square feet of net absorption. The weighted average asking rate quoted was \$0.41 per square foot triple net. Today, the vacancy sits comfortably at 6.0 percent with the weighted average asking quoting \$0.50 per square foot triple net. Net absorption closed the quarter at 87,636 square feet with the year-to-date gross absorption chiming in at 240,408 square feet. The warehouse market is tightening with little product available. Development of the Oaks Business Park is due to commence early 2015, however it is unknown how much of the 1.3 million square feet of Class A distribution buildings are already spoken for. Tenant demand for space north of 100,000 square feet in Livermore remains strong with five large tenant users currently looking for a place to call home.

DUBLIN/PLEASANTON LIGHT INDUSTRIAL

The Tri-Valley, along with the rest of the Bay Area, continued to gain momentum in the third quarter of 2014. Both Pleasanton and Dublin light industrial markets took steps forward with positive net absorption of space resulting in drops in vacancy rates. Pleasanton currently has a 3.2 percent vacancy rate when combining light industrial and warehouse categories and Dublin has 13.3 percent combined vacancy rate. It should be noted that if you exclude 6400 Sierra Court, a building with hazardous materials contamination, the Dublin light industrial vacancy rate would be only 0.3 percent. The most dramatic change in the third quarter of 2014 was the rise in rental rates due to increased demand and diminished supply. Landlord concessions are minimal for quality spaces and there is often competition for space. On the sale side, Dublin/Pleasanton industrial inventory for sale is low and demand is strong. Prices have risen sharply and functional buildings continue to see multiple offers. Sale prices are nearing peak values last seen in 2007.

SIGNIFICANT DEALS

SALE ACTIVITY

PROPERTY ADDRESS	SALE DATE	SQUARE FEET	BUYER	TYPE
161-195 Pullman Street	Aug-14	76,800	Alberto Seno	Warehouse/Distribution
6485 Brisa Street	Sep-14	31,956	Kingway Construction Supplies Inc	Warehouse/Distribution
80-88 Wright Brothers Avenue	Aug-14	24,100	Joe McGinness	Light Industrial

LEASE ACTIVITY

PROPERTY ADDRESS	LEASE DATE	SQUARE FEET	TENANT	TYPE
6262 Patterson Pass Road	Aug-14	51,219	Wente Family Estates*	Warehouse/Distribution
6909 Las Positas Road	Sep-14	46,080	High Summit LLC	Warehouse/Distribution
6757 Las Positas Road	Sep-14	39,936	The RK Logistics Group Inc	Light Industrial
271 South Vasco Road	Sep-14	26,316	Finelite Inc	Warehouse/Distribution
6800 Sierra Court	Jul-14	25,920	Integrated Resources Group*	Light Industrial
6767 Preston Avenue	Aug-14	20,580	Norcraft Companies LP	Warehouse/Distribution
7888 Marathon Drive	Aug-14	19,971	The RK Logistics Group Inc ¹	Warehouse/Distribution
161 South Vasco Road	Aug-14	19,315	Sub-One Technology	Light Industrial
7888 Marathon Drive	Aug-14	18,370	McCarthy Granite ¹	Warehouse/Distribution
6902 Patterson Pass Road	Aug-14	18,341	Worldwide Packaging Inc ¹	Warehouse/Distribution
6336 Patterson Pass Road	Sep-14	16,208	Ingram Micro Inc	Light Industrial

* Renewal ¹ Sublease

MARKET COMPARISONS

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
DUBLIN																
Ind	41	1,299,190	207,000	15.9%	-	0.0%	207,000	15.9%	15.9%	1,092,190	-	38,291	26,710	-	-	\$0.85
Whse	2	259,917	-	0.0%	-	0.0%	-	0.0%	0.0%	259,917	-	-	-	-	-	\$0.60
Total	43	1,559,107	207,000	13.3%	-	0.0%	207,000	13.3%	13.3%	1,352,107	-	38,291	26,710	-	-	\$0.85
LIVERMORE																
Ind	313	6,720,720	430,927	6.4%	11,810	0.2%	442,737	6.6%	6.7%	6,277,983	10,209	(45,342)	205,295	-	-	\$0.59
Whse	50	6,489,643	422,831	6.5%	11,426	0.2%	434,257	6.7%	8.0%	6,055,386	87,636	127,713	240,408	-	-	\$0.50
Total	363	13,210,363	853,758	6.5%	23,236	0.2%	876,994	6.6%	7.4%	12,333,369	97,845	82,371	445,703	-	-	\$0.55
PLEASANTON																
Ind	127	2,251,255	87,523	3.9%	-	0.0%	87,523	3.9%	4.0%	2,163,732	2,154	8,540	86,518	-	-	\$0.96
Whse	2	487,405	-	0.0%	-	0.0%	-	0.0%	0.0%	487,405	-	-	-	-	-	\$0.60
Total	129	2,738,660	87,523	3.2%	-	0.0%	87,523	3.2%	3.3%	2,651,137	2,154	8,540	86,518	-	-	\$0.96
MARKET TOTAL																
Ind	481	10,271,165	725,450	7.1%	11,810	0.1%	737,260	7.2%	7.3%	9,533,905	12,363	1,489	318,523	-	-	\$0.71
Whse	54	7,236,965	422,831	5.8%	11,426	0.2%	434,257	6.0%	7.2%	6,802,708	87,636	127,713	240,408	-	-	\$0.49
Total	535	17,508,130	1,148,281	6.6%	23,236	0.1%	1,171,517	6.7%	7.3%	16,336,613	99,999	129,202	558,931	-	-	\$0.63
QUARTERLY COMPARISON AND TOTALS																
Q3-14	535	17,508,130	1,148,281	6.6%	23,236	0.1%	1,171,517	6.7%	7.3%	16,336,613	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%	16,236,614	3,131	29,203	305,063	-	-	\$0.61
Q1-14	535	17,508,130	1,245,779	7.1%	28,868	0.2%	1,274,647	7.3%	7.4%	16,233,483	26,072	26,072	196,171	-	-	\$0.61
Q4-13	535	17,496,859	1,268,909	7.3%	31,810	0.2%	1,300,719	7.4%	7.9%	16,196,140	76,889	765,031	1,237,533	-	-	\$0.60
Q3-13	535	17,496,859	1,357,608	7.8%	20,000	0.1%	1,377,608	7.9%	9.1%	16,119,251	212,984	688,142	1,073,062	-	-	\$0.55
Q2-13	540	17,496,859	1,551,392	8.9%	39,200	0.2%	1,590,592	9.1%	11.1%	15,906,267	343,453	475,158	743,894	-	-	\$0.52



LIVERMORE COMMERCE CENTER - LIVERMORE

Wente Family Estates signed a renewal and extension at 6262 Patterson Pass Road from IndCor Properties. They now occupy a total of 51,219 square feet in the 168,897 square foot building.

Expectations for the rest of 2014 are for lease and sale activity to continue increasing as the economy and Bay Area real estate market improves. Rental rates are likely to steadily increase as inventory thins. Demand from small business has increased sharply and is helping to lower the vacancy rates, which in turn drive rents. While sale prices are nearing the 2007 peak, lease rates still have a ways to go to get back to 2007 levels. Expectations are for a sustained recovery going forward in the foreseeable future.

LIVERMORE LIGHT INDUSTRIAL/ WAREHOUSE

The end of the third quarter of 2014, the industrial market in Livermore has not seen the positive occupancy numbers since before the great recession. The total vacancy decreased from 7.4 percent to 6.6 percent. Just over a year ago the total vacancy was 11.2 percent. Two years ago the overall vacancy in the Tri-Valley was an alarming 13.2 percent. Asking rates for Livermore have increased to \$0.55 per square foot triple net in the third quarter of 2014 which is an increase of \$0.03 per square foot over the previous quarter. The general feeling is that the market has turned from a tenants, to a landlords market in Livermore and we will see rental increases continuing in 2015.

The overall net absorption for light Industrial and warehouse improved reporting positive 97,845 square feet from the previous quarter. Gross absorption rested at 220,591 square feet, which is an 18 percentage point increase from this time last year. The warehouse market alone increased to 87,636 square feet; gross absorption to 118,022 square feet from the previous quarter.

Noteworthy deals for the third quarter include: The RK Logistics Group leasing a total of 59,907 square feet (39,936 square feet and 19,971 square feet) at Amador Business Center; High Summit LLC dba Specialty Events lease of 46,080 square feet at Livermore Valley Business Park; Finelite Inc signing a 26,316 square foot deal at Livermore Gateway Business Park West and Norcraft Companies inking a three year deal with for 20,580 square feet.

Livermore continues to see increased touring activity for both light industrial and warehouse properties. Significant rent growth is expected to continue in 2015.

Trammell Crow/Bentall Kennedy plan on breaking ground late fourth quarter on the largest speculative Class A distribution project ever in Livermore at the Oaks Business Park which will consist of 1.3 million square feet in three buildings of approximately 635,000 square feet, 367,000 and 294,000 square feet.

SALES

The third quarter 2014 was the highest sales volume quarter in years with eight industrial, warehouse, and R&D buildings closing in the Tri-Valley. Some were significant buildings that had been on the market for upwards of three years. Kingway Construction Supply bought 31,956 square feet on Brisa in Livermore, Balch Enterprises bought another leased investment near the airport and Sierra Bay Properties Inc (Albert Seeno) purchased the Z-Line Designs Furniture warehouse on Pullman Street in Livermore, in a sale lease back transaction. A 24,100 square foot industrial building was purchased by a neighbor on Wright Brothers Ave, Livermore for \$126.56 per square foot.

With so many sales this past quarter the inventory has shrunk considerably driving prices up another estimated 10-15 percent.

Of the industrial buildings currently offered for sale in the Tri-Valley about 40 percent are in escrow or have offers pending. It is safe to say the Tri-Valley industrial market is fully out of the recession.

LOOKING FORWARD

Looking into 2015, with future development on the horizon, tenant demand remaining strong, the housing market continuing its upswing, the Tri-Valley market is certain to attract new users to the area. Existing tenants who already know the advantages of being in a market that has convenient transportation all over the Bay Area, excellent schools, lower cost of living than surrounding competitive markets have chosen to remain in the Tri-Valley due to the richness of what it offers. As the market continues to improve, rental rates are expected to push upward through 2015. Vacancies will remain low in the single digits and absorption will remain positive. All indications point to a thriving industrial market with no signs of slowing down.

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