

East Bay Industrial

Market Forecast

Trends

Absorption



Vacancy



Rental Rate



New Construction



The East Bay industrial real estate market kept on rolling in the first quarter of 2016, with 535,075 square feet of positive net absorption bringing the year-over-year gain to more than 3.1 million square feet. Leasing activity slowed to about 1.6 million square feet, ending a streak of 14 straight quarters with over 2 million square feet taken, but rental rates continued to rise, buoyed by robust demand and limited new supply. Asking rates increased by more than 6% in the past year, to a market-wide average of \$0.80 per square foot on a triple net basis, and have now trended upward for 15 consecutive quarters.

Notable Lease Transactions

Rapid Displays

30526 San Antonio Street, Hayward
148,935 s.f. leased

Alexander's Mobility Services

3528 Arden Road, Hayward
101,818 s.f. leased

Orion Logistics

2252-2258 W Winton Avenue, Hayward
100,000 s.f. leased

Notable Sales Transactions

Fortinet, Inc.

1570 Atlantic Street, Union City
(Orcon Aerospace Corporation)
202,440 s.f. purchased

Spieker Investments

30315 Union City Boulevard, Union City
(former US Foodservice warehouse)
158,000 s.f. purchased

Morgan Stanley JV Lift Partners

30526 San Antonio Street, Hayward
(Rapid Display)
148,854 s.f. purchased

Vacancy dipped to 4.0% in this already-tight market, down 0.4 percentage points from the previous quarter and 1.7 percentage points year-over-year. All but two East Bay submarkets reported vacancy rates below 5%, with San Leandro/San Lorenzo at a market-low 1.8% and Union City close behind at 2.0%. Alameda's 15.8% vacancy rate was the highest in the East Bay, but even that figure is down 3.2 percentage points since the same time a year ago. Space options are limited along the core I-880 markets, sustaining higher rental ranges in these conveniently accessible areas which are highly coveted for distribution and warehouse uses. Richmond/EI Cerrito (\$1.04, up from \$1.01) and Hayward (\$0.60, up from \$0.58) saw the largest hikes in triple net asking rental rates this quarter.

While net absorption across the East Bay market was at its highest level since the first quarter of 2014, individual submarkets were a mixed bag. The southern reaches of the I-880 corridor—most notably Hayward and Union City—reported the largest gains in occupied industrial space, with the combined increase between those two submarkets coming in just shy of 600,000 square feet. Additionally, the Richmond/EI Cerrito submarket tacked on 171,463 square feet, its fourth straight quarter in the black. On the flipside, the city of Oakland lost 154,184 square feet of industrial space, and the San Leandro/San Lorenzo submarket, which had reported gains in eight consecutive quarters, slipped into the red, shedding 63,799 square feet.

Leasing activity cooled in the first quarter, with the 86 deals signed representing a cycle low, but the average square footage taken in each deal continued to rise. The 86 leases covered a total of 1,932,610 square feet, for an average of 22,472 square feet per deal, up from 18,595 square feet in the third quarter. Rapid Displays struck the quarter's largest lease transaction, grabbing all of the nearly 150,000 square feet at 30526 San Antonio Street in

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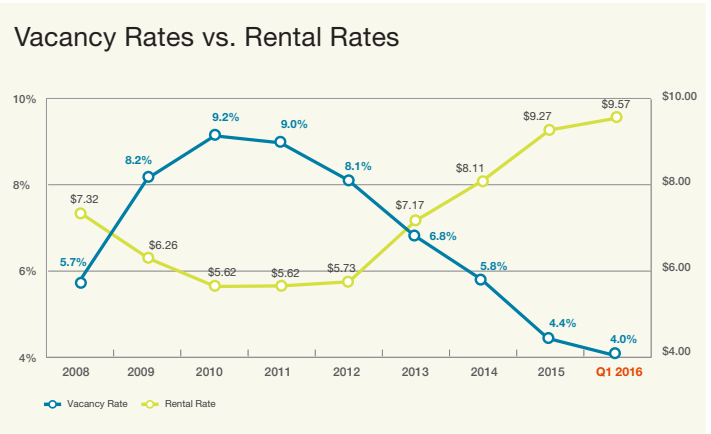
Hayward, which also sold this quarter to Morgan Stanley. The two next-largest leases were also consummated in Hayward: Alexander's Mobility Services renewed its 101,818 square foot space at 3528 Arden Road and Orion Logistics signed on for 100,000 square feet at 2252-2258 West Winton Avenue. The largest lease north of the airport was a 39,160 square foot agreement inked by KWW Kitchen and Bath at 2211 Frederick Street in Oakland. With 621,818 square feet across 25 deals, Hayward was the busiest submarket this quarter, while Berkeley/Albany, where just 3,700 square feet of industrial space came off the market, was the quietest.

While there were 14 fewer industrial sales in the first quarter than in the previous quarter, dollar volume increased to \$98.8 million, the highest sum since the first quarter of 2015. The cyber-security firm Fortinet purchased Orcon Aerospace Corporation's 202,440 square foot warehouse property at 1570 Atlantic Street in Union City for \$19 million (\$94 per s.f.) with the intent to occupy the building. Also in Union City, Spieker Investments bought the former US Foodservice Warehouse at 30315 Union City Boulevard from El Pinal Associates LLC for \$11 million (\$70 per s.f.). In Hayward, Morgan Stanley spent \$14.3 million (\$96 per s.f.) on the 148,854 square foot warehouse facility at 30526 San Antonio Street, buying the building from Prologis days before Rapid Displays' lease deal became official.

Following six deliveries totaling 552,854 square feet in the third quarter of 2015, no new industrial buildings have come on line in the East Bay market in the past two quarters. Construction is underway on the 280,000 square foot Hayman Distribution Center at 31775 Hayman Street in Hayward, with its owner, Prologis, anticipating

delivery in the summer of 2017. Two large projects are awaiting approval in the Richmond/EI Cerrito submarket: The 707,820 square foot Class A building at 2995 Atlas Road and the 351,000 square foot Richmond Industrial Center on Goodrick Avenue. When completed, the developments will boost the submarket's industrial inventory by more than 7%. Finally, Conor Commercial is nearing the start of construction on Building 1 at the Hayward 92 Industrial Center, a future 333,365 square foot warehouse structure that seeks to capitalize on the strong demand for large-scale facilities in the southern I-880 corridor.

Source: Costar



Submarket Statistics

Submarket	Number of Buildings	Total Inventory	Direct Available	Sublease Available	Total Vacancy	Direct Availability Rate	Sublease Availability Rate	Total Vacancy Rate	Net Absorption YTD
Richmond/EI Cerrito	254	14,205,855	1,433,888	81,961	1,526,669	10.10%	0.60%	10.70%	171,463
Berkeley/Albany	210	6,741,078	248,786	0	226,586	3.70%	0.00%	3.40%	847
Emeryville	137	4,597,741	160,218	108,049	100,707	3.50%	2.40%	2.20%	(18,000)
Oakland	810	32,959,704	1,311,422	305,111	958,799	4.00%	0.90%	2.90%	(154,184)
Alameda	117	6,621,453	1,298,412	17,917	1,047,342	19.60%	0.30%	15.80%	1,334
San Leandro/San Lorenzo	484	23,027,250	714,413	57,142	414,225	3.10%	0.20%	1.80%	(63,799)
Hayward	869	39,569,063	1,886,965	282,543	1,140,217	4.80%	0.70%	2.90%	246,279
Union City	210	14,101,832	588,322	175,278	282,864	4.20%	1.20%	2.00%	351,135
Total	3,091	141,823,976	7,642,426	1,028,001	5,697,409	5.40%	0.70%	4.00%	535,075

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