

East Bay Industrial

Market Forecast

Trends

Absorption



Vacancy



Rental Rate



New Construction



Notable Lease Transactions

UPS

22290 Hathaway Avenue, Hayward
297,050 s.f. leased

Amazon

6000 Giant Way, Richmond
224,154 s.f. leased

LagasseSweet

4100 Whipple Road, Union City
154,866 s.f. leased (renewal)

Notable Sales Transactions

Unknown Buyer

20415-20427 Corsair Boulevard, Hayward
122,500 s.f. purchased

Hager Pacific Properties

955 Kennedy Street, Oakland
119,000 s.f. purchased

The East Bay industrial real estate market stayed strong in the second quarter of 2016, with 148,295 square feet of positive net absorption. This brings the year-to-date total to approximately 750,000 square feet, roughly matching the total recorded during the first half of 2015. Leasing activity perked up to 97 deals covering 1.84 million square feet, but remained south of two million square feet for the second consecutive quarter. Asking rental rates have increased by 13% year-over-year, to a market-wide average of \$0.84 per square foot on a triple-net basis, and have now trended upward for 17 consecutive quarters.

Vacancy slipped to 3.9% in the increasingly tight market, down 1.5 percentage points year-over-year, and now stands at exactly half the rate reported in the inner East Bay at this time three years ago. Only two East Bay submarkets showed vacancies in excess of 5% this quarter, Alameda at 15.1% and Richmond/EI Cerrito at 10.2%. Two others, Union City at 1.3% and San Leandro/San Lorenzo at 1.9%, were below 2%. Submarkets along the I-880 corridor continue to be among the most sought-after locations for industrial users in the Bay Area, with vacancies at or near cycle lows in most cities south of Oakland. San Leandro/San Lorenzo and Hayward, at 3.1% this quarter, have both seen 1.1 percentage point declines in vacancy since the second quarter of 2015. Limited space options continue to sustain higher asking rental rates along I-880, with Hayward (\$0.79, up from \$0.70) registering the largest quarterly price-tag hike. Farther north, Oakland (\$0.64) asks are up 27% from this time a year ago.

Virtually all submarkets and product types logged positive net absorption this quarter. Hayward, which ceded 71,658 square feet, was a notable exception. However, this mild loss came on the heels of a 620,000 square foot gain in occupied industrial space over the previous two quarters. In fact, much of that drop occurred at 31260 Wiegman Road, where U.S. Container Corporation moved out of a 46,036 square foot space, into which the building's other tenant, Guest Supply, will soon expand. Union City, a 14.1 million square foot industrial market, has recorded more than 540,000 square feet of positive net absorption to date in 2016. Alameda, which had the market's highest vacancy rate this quarter, is

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Area Review

Submarket Statistics

Submarket	Number of Bldgs	Total Inventory	Direct Available	Sublease Available	Total Vacancy	Direct Availability Rate	Sublease Availability Rate	Total Vacancy Rate	Net Absorption YTD
Richmond/El Cerrito	255	14,304,215	1,420,510	22,961	1,460,326	9.90%	0.20%	10.20%	2,112
Berkeley/Albany	209	6,704,840	246,457	0	193,277	3.70%	0.00%	2.90%	(3,075)
Emeryville	137	4,597,741	136,968	76,827	108,001	3.00%	1.70%	2.30%	(7,294)
Oakland	810	32,951,560	1,256,977	241,260	930,587	3.80%	0.70%	2.80%	67,372
Alameda	118	6,671,466	1,148,844	17,917	1,005,347	17.20%	0.30%	15.10%	39,975
San Leandro/San Lorenzo	485	23,113,227	986,120	74,284	444,182	4.30%	0.30%	1.90%	33,443
Hayward	870	39,605,414	1,532,455	176,832	1,239,351	3.90%	0.40%	3.10%	(71,658)
Union City	210	14,111,270	682,783	64,754	185,752	4.80%	0.50%	1.30%	87,420
Total	3,094	142,059,733	7,411,114	674,835	5,566,823	5.20%	0.50%	3.90%	148,295

gradually tightening, with 39,975 square feet of positive net absorption marking its fourth straight quarter in the black. Finally, Oakland bounced back from a 193,344 square foot plunge in the first quarter with a 67,372 square foot gain over the last three months.

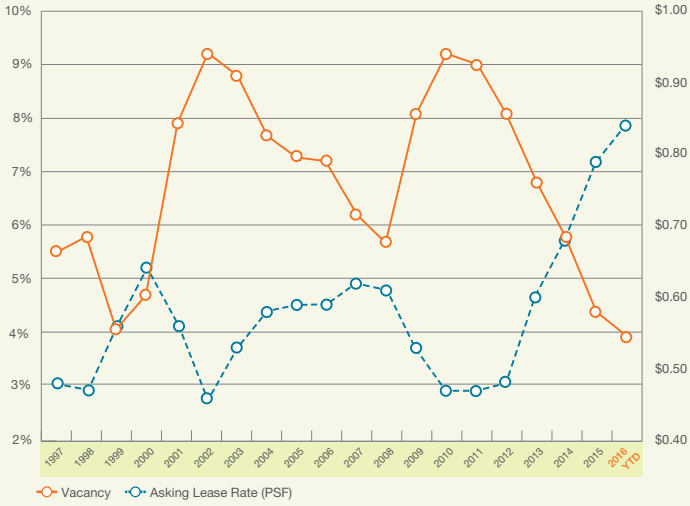
Leasing activity was busier in the second quarter, with 97 transactions totaling 1.84 million square feet, but remained below the two million mark for the second consecutive quarter after clearing it for 14 straight. A paucity of available space, rather than a decline in demand, is likely behind the recent dip in leasing, with cycle-high rental rates indicating the continued desirability of industrial spaces in the inner East Bay. Hayward was home to the quarter's largest lease deal, a 297,050 square foot pact signed by UPS at 22290 Hathaway Avenue, which is currently being renovated for a July move-in. Amazon secured the largest lease north of the airport, grabbing 224,154 square feet in the newly built distribution facility at 6000 Giant Way in Richmond. Lastly, an unknown tenant struck the largest sublease agreement, taking 80,000 square feet at 33261 Central Avenue in Union City from Rapid Displays, which is expanding into a recently leased 148,935 square foot space at 30526 San Antonio Street in Hayward.

Sales activity held steady during the second quarter, with the last three periods seeing between 43 and 46 transactions apiece. Dollar volume dipped to \$72.9 million from \$98.8 million last quarter. An unknown buyer turned in the quarter's largest investment, taking the 122,500 square foot 20415-20427 Corsair Boulevard in Hayward for \$4.14 million, or

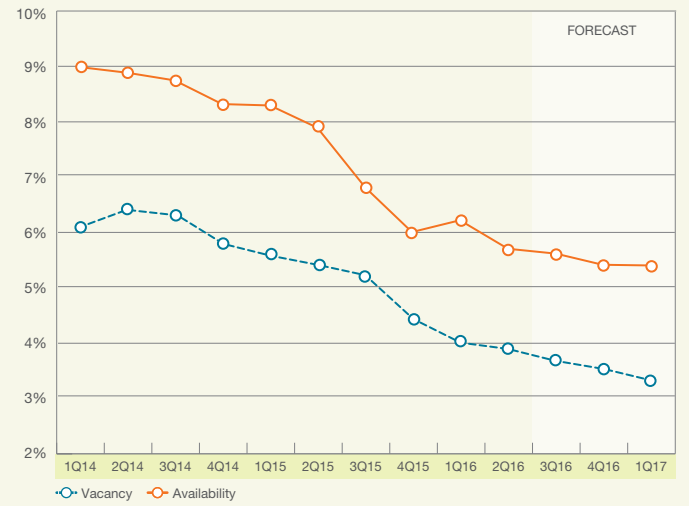
\$33.76 per square foot. Hager Pacific Properties has designs on a redevelopment play, spending \$7.65 million on the 119,000 square foot warehouse building at 955 Kennedy Street in South Oakland, previously owned by the Sara Lee Bakery Group, an owner/user. The quarter's biggest flex buy belonged to Asset Preservation Inc., which took the 64,900 square foot flex property at 870 Harbour Way in Richmond for \$8 million, or \$124 per square foot.

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 three quarters. Construction is underway on the future 280,000 square foot Hayman Distribution Center at 31775 Hayman Street in Hayward, with its owner, Prologis, anticipating delivery in the summer of 2017. Several other large-scale developments are in the planning stages. The two largest future facilities are both in the Richmond/El Cerrito submarket, with 707,820 square feet on the way at 2995 Atlas Road, which is expected to break ground this summer, and 351,000 square feet coming at the Richmond Industrial Center on Goodrick Avenue. Finally, Conor Commercial is nearing the start of construction on Building 1 at the Hayward 92 Industrial Center, a 333,365 square foot warehouse structure that seeks to capitalize on the strong demand for large-scale facilities in the southern I-880 corridor. The southern reaches of the I-880 corridor figure to see low vacancies and rising rental rates until more projects come on line to satisfy users' demand in the area.

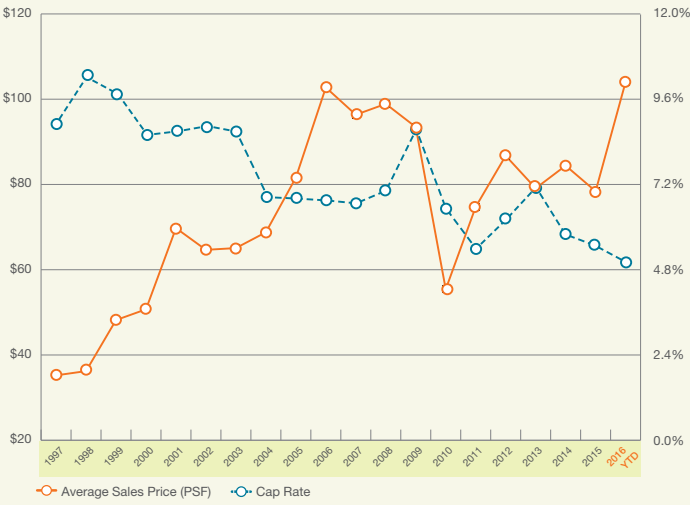
VACANCY VS ASKING LEASE RATE



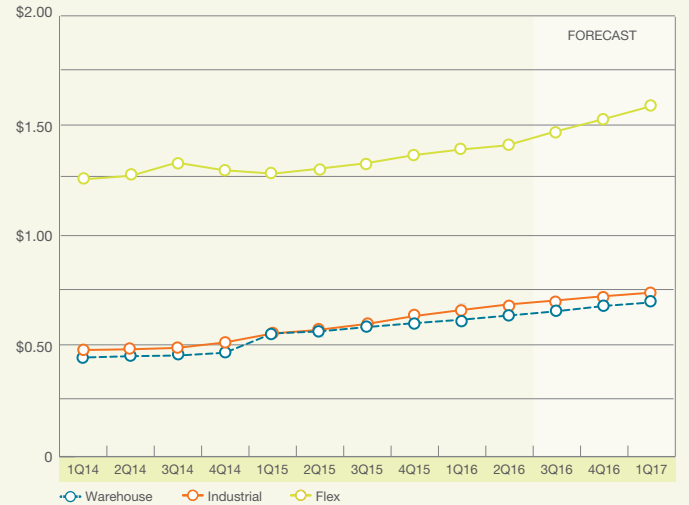
VACANCY VS AVAILABILITY



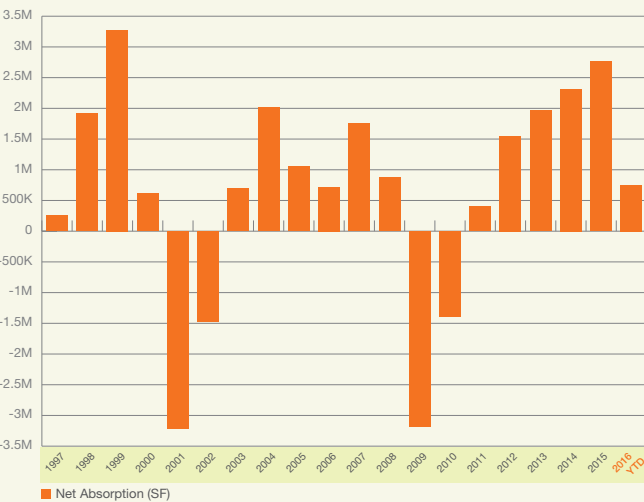
AVERAGE SALES PRICE & CAPITALIZATION RATES



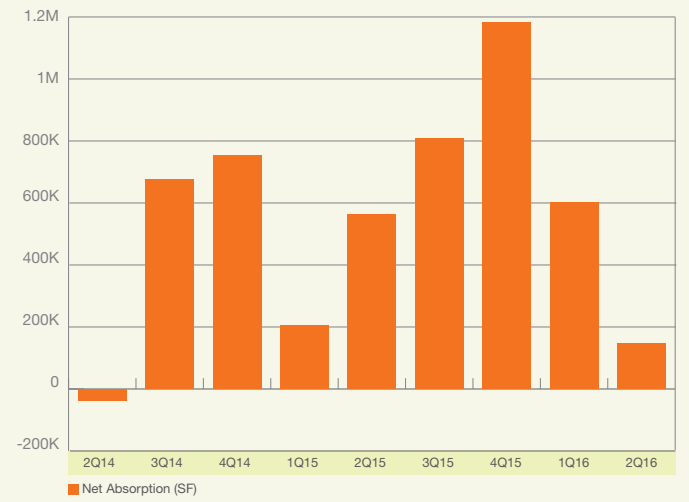
ASKING LEASE RATE - OAKLAND CBD



NET ABSORPTION - HISTORICAL



NET ABSORPTION - QUARTERLY



Offices

Seattle
206.296.9600

Bellevue
425.454.7040

South Seattle
206.248.7300

Tacoma
253.722.1400

Olympia
360.705.2800

Portland
503.221.9900

San Francisco
415.229.8888

Redwood Shores
650.769.3600

Silicon Valley
408.970.9400

Sacramento
916.751.3600

San Diego
858.509.1200

Orange County
949.557.5000

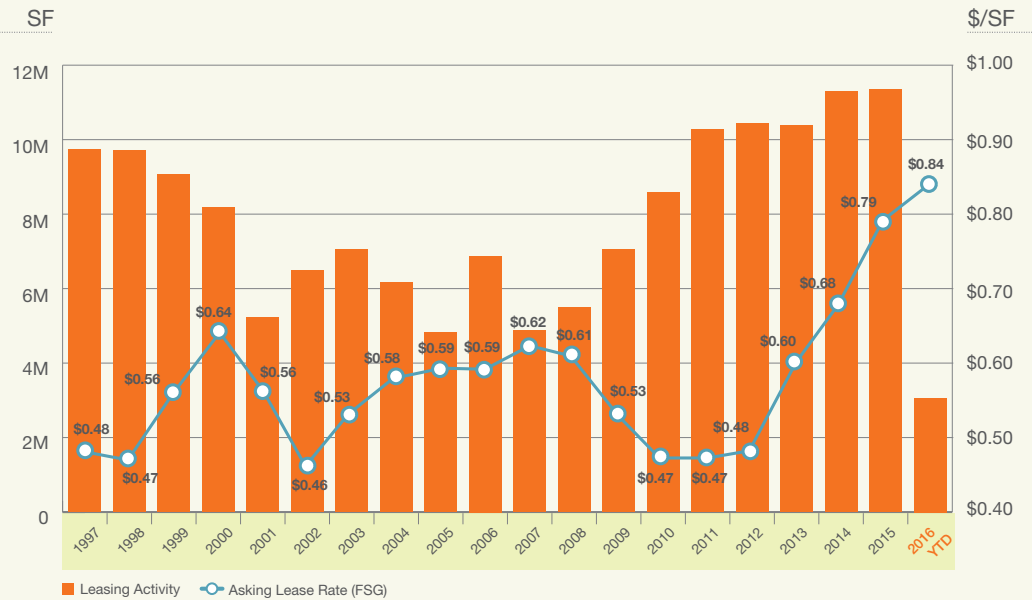
Phoenix
602.513.5200

Reno
775.301.1300

Market Breakdown

	Q2 2016	Q1 2016	Q2 2015	Annual % Change
Vacancy Rate	3.9%	4.0%	5.4%	-27.78%
Availability Rate	5.7%	6.2%	7.9%	-27.85%
Asking Lease Rate	\$0.84	\$0.80	\$0.74	13.51%
Leased SF	1,839,577	1,223,005	3,348,500	-45.06%
Sold SF	1,237,044	1,264,850	748,512	65.27%
Net Absorption	323,729	602,037	563,315	N/A

HISTORICAL LEASING ACTIVITY & ASKING LEASE RATES

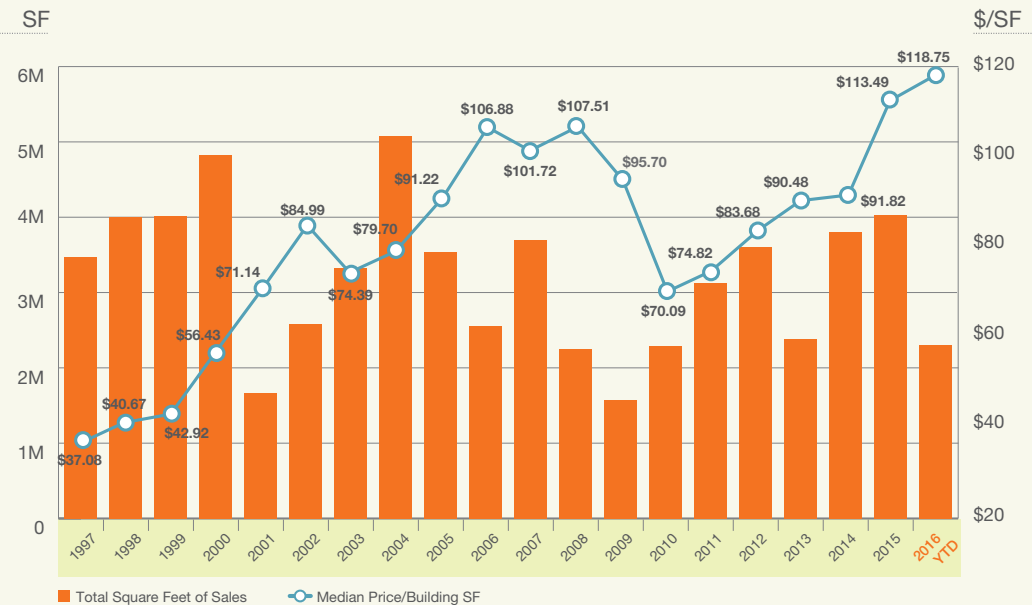


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