

East Bay Industrial

Market Forecast

Trends

Absorption



Vacancy



Rental Rate



Construction



Notable Lease Transactions

LA Specialty Produce
31775 Hayman Street, Hayward
280,000 s.f. Leased

American Furniture Rentals
23541-23547 Eichler Street, Hayward
58,000 s.f. Leased

Pacific Pinball Museum
1680 Viking Street, Alameda
43,375 s.f. Leased

Notable Sales Transactions

JLL Income Property Trust
Pinole Point Business Park
(6000 Giant Highway), Richmond
476,529 s.f.
Purchased for \$78.7M or \$165.15/s.f.

Highridge Provender
2041 Factory Street, Richmond
109,514 s.f.
Purchased for \$26M or \$237.24/s.f.

Clarion Partners
Sears Outlet (1936-1980 West Avenue140th)
San Leandro
312,866 s.f.
Purchased for \$26.55M or \$87/s.f.

The East Bay industrial real estate market was slow but steady in the third quarter of 2016, recording 181,272 s.f. of positive net absorption, which brought the year-to-date total to approximately 1.29 million s.f., roughly in line with gains seen during the first three quarters of 2015. Seventy-six lease deals totaling 1,035,190 s.f. were signed marketwide. Asking rental rates have increased by about 9% year-over-year, to a market-wide average of \$0.85 per s.f. on a triple-net basis, and have now trended upward for 18 straight quarters. As demand for space in the logistically superior I-880 corridor considerably outstrips supply, lease rates figure to keep rising and vacancy rates should continue inching downward to new cycle lows throughout the market.

Vacancies across the East Bay dipped to 3.6% this quarter, down 170 basis points year-over-year to exactly half the rate reported in the region at this time three years ago. Four submarkets logged vacancy rates well below 3% this quarter, led by Union City at 1.6% and Emeryville at 2.0%. Oakland and Hayward, the two largest industrial submarkets in the East Bay, showed vacancy rates of 2.6% and 2.9%, respectively, both down more than 120 basis points year-over-year. The loosest submarket in the region, Alameda, at 10.6% vacancy, is also the most rapidly tightening one, having experienced a 480-basis-point dive in empty space during this quarter alone. Nonetheless, Alameda remains the most affordable submarket in the East Bay, with average triple-net asks of \$0.50 per s.f. Rental rates continue to surge along I-880, where space options are increasingly limited. Hayward price tags averaged \$0.86 this quarter, up from \$0.63 a year ago. Availabilities in Oakland are currently being marketed at \$0.63 triple-net, but that represents a 14.4% hike from the third quarter of 2015.

While net absorption overall was positive 181,272 s.f. this quarter, individual submarkets were a mixed bag. Alameda enjoyed by far its best quarter of the cycle, gaining 320,122 s.f. of occupied industrial space to pace the East Bay. Conversely, San Leandro/San Lorenzo ceded 337,196 s.f., as Kraft Foods closed the Yuban Coffee Plant

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Area Review

Submarket Statistics

Submarket	Total Inventory	Direct Vacancy Rate	Total Vacancy Rate	Total Available Rate	Q3 Net Absorption	YTD Net Absorption	Quarterly Leasing Activity	YTD Leasing Activity	Rental Rate
Richmond/El Cerrito	14,303,815	7.80%	7.80%	9.90%	209,931	526,722	60,154	463,383	\$1.32
Berkeley/Albany	6,692,451	3.50%	3.50%	3.50%	(45,295)	(39,851)	37,965	55,595	\$0.90
Emeryville	4,597,743	1.90%	2.00%	4.90%	26,799	(7,847)	24,076	99,649	\$2.84
Oakland	32,617,832	2.10%	2.60%	4.60%	139,223	72,289	37,499	571,540	\$0.63
Alameda	6,672,265	10.60%	10.60%	6.50%	320,122	394,310	83,375	666,425	\$0.50
San Leandro/San Lorenzo	23,184,108	3.10%	3.40%	4.30%	(337,196)	(401,776)	202,869	637,754	\$0.65
Hayward	39,400,240	2.40%	2.90%	4.40%	(60,452)	291,551	511,892	2,098,202	\$0.86
Union City	14,111,270	1.30%	1.60%	6.50%	(71,860)	451,587	77,360	605,809	\$0.83
Total	141,579,724	3.30%	3.60%	5.30%	181,272	1,286,985	1,035,190	5,198,357	\$0.85
All Industrial	123,046,538	3.00%	3.40%	4.90%	(48,735)	687,872	909,583	8,042,662	\$0.68
Warehouse/Distribution	92,650,144	2.90%	3.20%	4.30%	133,695	720,232	593,680	3,433,144	\$0.65
Flex	18,533,186	5.10%	5.20%	7.80%	230,007	599,113	155,607	764,616	\$1.47

at 100 Halcyon Drive; it is marketing the 34.6-acre complex for sale as a large-scale development site. The Richmond/El Cerrito submarket saw 209,931 s.f. of positive net absorption during the past three months, primarily at 6000 Giant Highway, where Amazon occupied a 224,154 s.f. distribution facility leased in April. Across all submarkets, warehouse and distribution facilities experienced 133,695 s.f. of positive absorption this quarter, accounting for 73.7% of the increase in occupied industrial space.

Leasing activity cooled during the third quarter, with 76 transactions totaling 1,035,190 s.f., partly because of a lack of large-scale availabilities. Average deal size fell to 13,620 s.f., from 21,718 s.f. during the second quarter, when five users signed leases for more than 100,000 s.f. apiece. Only one transaction of that magnitude was signed this quarter: LA Specialty Produce's pact for the entire Hayman Distribution Center building at 31775 Hayman Street in Hayward. The 280,000 s.f. facility is under construction with delivery anticipated in October. Also in Hayward, American Furniture Rentals secured 58,000 s.f. at 23541-23547 Eichler Street. In the northern portion of the I-880 region, the Pacific Pinball Museum took 43,375 s.f. at 1680 Viking Street in Alameda. Two submarkets, Hayward and San Leandro/San Lorenzo, together accounted for 714,761 s.f. of leasing activity over the past three months, or 69% of the market's total. By contrast, Oakland, which has more than 32.6 million s.f. of industrial inventory, saw just 37,499 s.f. leased during the third quarter, as availabilities there slipped to 4.6%, their lowest point since 2008.

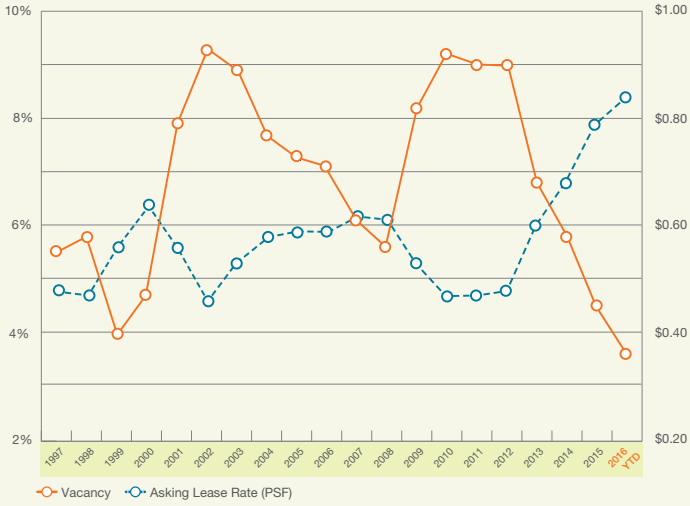
Several significant East Bay industrial assets traded during the third quarter, when there were 44 sale transactions

totaling 1,131,004 s.f. In Richmond, JLL Income Property Trust purchased the two-building Pinole Point Business Park, which will house distribution centers for Amazon and Williams Sonoma, from its developer, Prologis, for \$78,700,000 or about \$165/s.f. Also in Richmond, the 109,594 s.f. cold-storage facility at 2041 Factory Street, which is wholly leased to HelloFresh, went from Highridge Provender to Dedeaux Properties for \$26 million or \$237/s.f. Further south along I-880, Clarion Partners purchased the 312,866 s.f. warehouse at 1936-1980 West Avenue 140th in San Leandro from Sears, its owner/user, for \$26,550,000 or \$87/s.f. Sears is expected to structure a leaseback deal to retain some of that space.

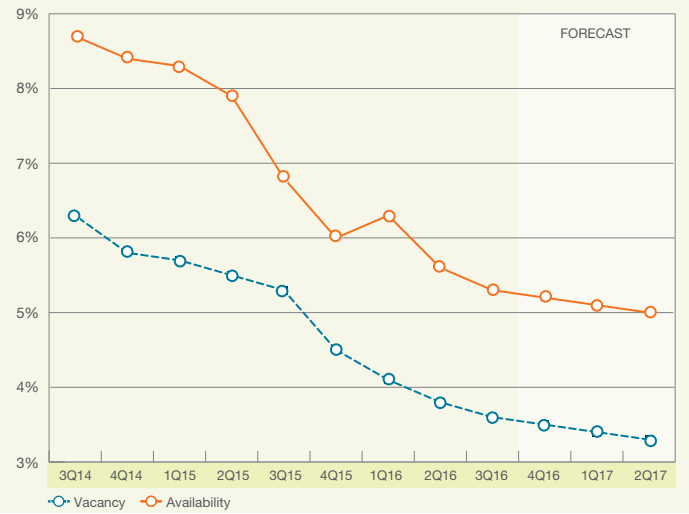
Following six deliveries totaling 552,854 s.f. in the third quarter of 2015, no new industrial buildings have come on line in the East Bay market over the past four quarters. That will change in the coming quarter, when the 280,000 s.f. Hayman Distribution Center in Hayward is delivered by Prologis to its first tenant, LA Specialty Produce. Building 1 of the Hayward Industrial Center, at 3596 Baumberg Avenue, is also nearing completion, as Conor Commercial prepares to open the facility to an undisclosed tenant that leased the full building earlier this year. Building 3 of the Pinole Point Business Park, a 41,365 s.f. distribution structure, is scheduled for delivery in the second quarter of 2017 to Sangamo Bio Sciences. As all three of those buildings are fully preleased, none of them will provide any relief to the increasingly tight East Bay industrial market. The I-880 corridor figures to see low vacancies and rising rental rates until more projects break ground to satisfy users' demand for space in the region.

Data Source: CoStar

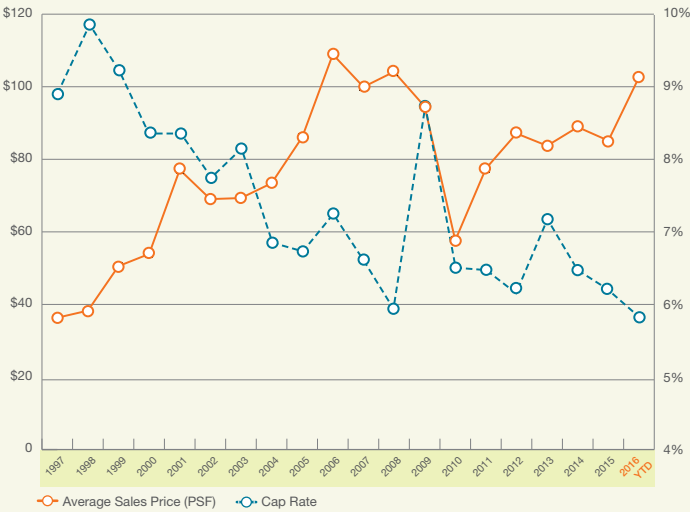
VACANCY VS ASKING LEASE RATE



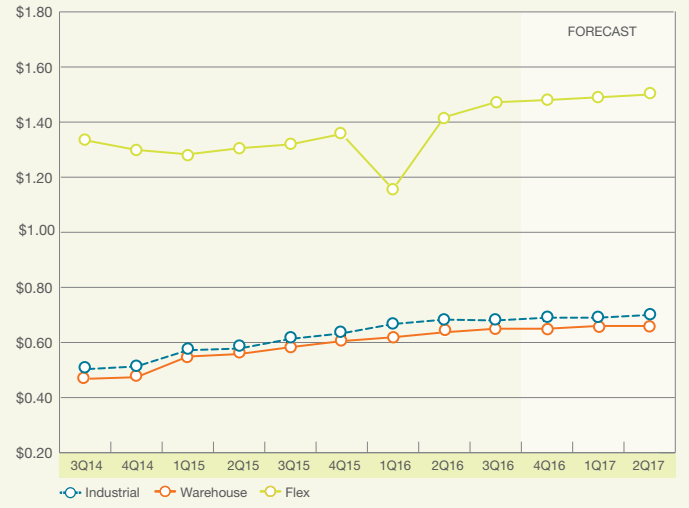
VACANCY VS AVAILABILITY



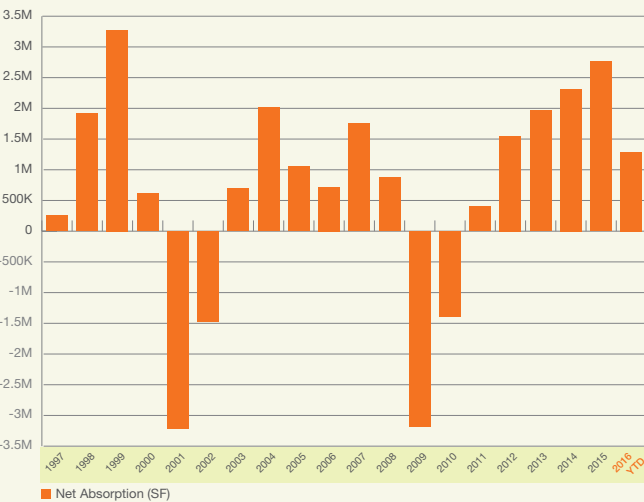
AVERAGE SALES PRICE & CAPITALIZATION RATES



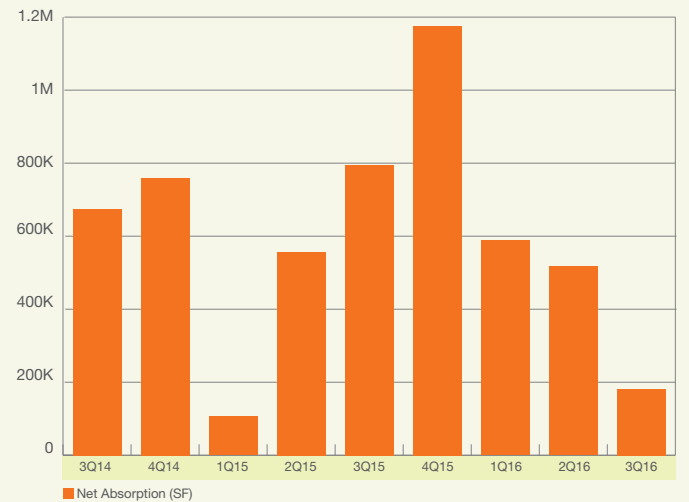
ASKING LEASE RATE



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
916.970.9700

Roseville
916.751.3600

Orange County
949.557.5000

San Diego
858.509.1200

Carlsbad
760.430.1000

Reno
775.301.1300

Phoenix
602.513.5200

Contact

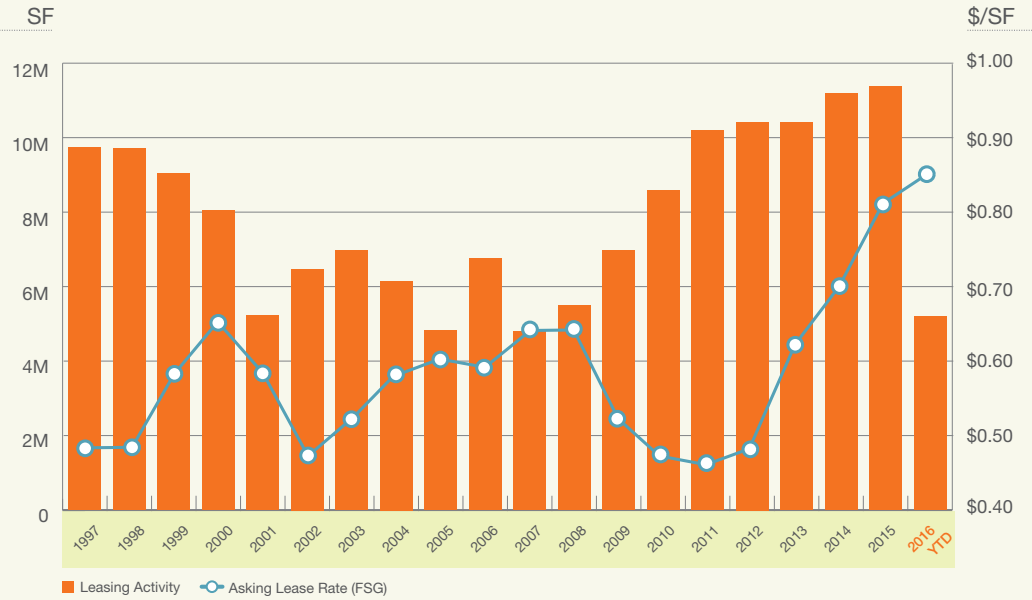
Reed Payne
Executive VP, Brokerage
Northern California
415.229.8888
rpayne@kiddermathews.com

Designated Broker
Reed Payne | LIC #00818935

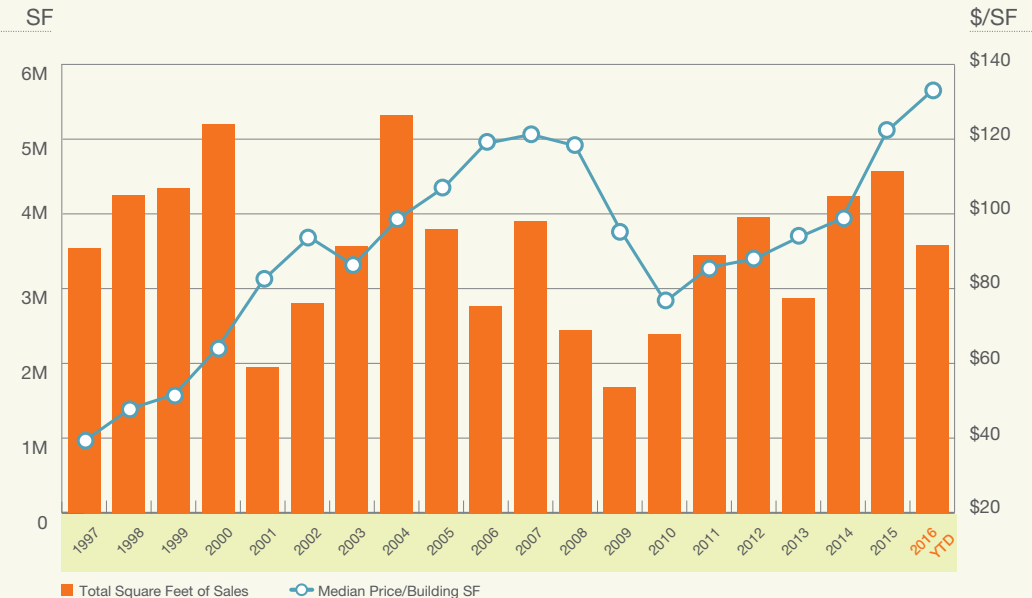
Market Breakdown

	Q3 2016	Q2 2016	Q3 2015	Annual % Change
Vacancy Rate	3.6%	3.8%	5.3%	-32.08%
Availability Rate	5.3%	5.6%	6.8%	-22.06%
Asking Lease Rate	\$0.85	\$0.84	\$0.76	11.84%
Leased SF	1,035,090	2,236,914	2,148,570	-51.82%
Sold SF	1,131,404	1,070,039	766,356	47.63%
Net Absorption	181,272	516,915	795,439	N/A

HISTORICAL LEASING ACTIVITY & ASKING LEASE RATES



HISTORICAL SALES SF & MEDIAN SALE PRICE



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