

# East Bay Industrial

## Market Forecast

Trends

Absorption



Vacancy



Rental Rate



Construction



## Notable Lease Transactions

UPS

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

Alameda Point Redevelopers, Inc.

2350 Saratoga Street, Alameda  
286,998 s.f. Leased

LA Specialty Produce

31775 Hayman Street, Hayward  
280,000 s.f. Leased

Friant

1936-1980 W Avenue 140th, San Leandro  
274,147 s.f. Leased

Amazon

6000 Giant Highway, Richmond  
224,154 s.f. Leased

## Notable Sales Transactions

JLL Income Property Trust

Pinole Point Business Park, Richmond  
476,529 s.f. | \$77.2M or \$162/s.f. (Investment)

11 West Partners

American Steel Studios (3 Bldgs), Oakland  
143,680 s.f. | \$29M or \$202/s.f.  
(Redevelopment)

Clarion Partners

1936-1980 West Avenue 140th, San Leandro  
312,866 s.f. | \$26.55M or \$87/s.f. (Investment)

A strong fourth quarter brought record-low vacancy rates to the East Bay industrial market, as demand continued to severely outstrip supply in the logistically superior region. This quarter's 736,330 square feet of positive net absorption brought the aggregate gain for the year to 2,375,152 square feet and shaved the vacancy rate to 3.2%. Many East Bay submarkets have experienced considerable declines in both vacancy and availability over the past 12 months, leading large-block users to ponder alternatives in Reno and Sacramento. Asking rents increased by 10.8% year over year, to a marketwide average of \$0.64 for bulk distribution spaces, \$0.68 for industrial product overall, and \$1.43 for flex listings. While four developments were under construction at year's end, two of them were fully preleased, and vacancies are unlikely to budge from cycle lows until significantly more new product is built to accommodate the demand for distribution facilities in the I-880 Corridor.

The East Bay's direct vacancy rate dove to 2.9% in the fourth quarter, its first descent below 3.0% in this real-estate cycle, while overall vacancies tumbled to 3.2%, a 150-basis-point decline year over year. Three submarkets registered direct vacancies below 2.0%, including Hayward, which saw its share of empty space nearly cut in half, from 4.4% in the fourth quarter of 2015 to 2.5% at the end of 2016. Richmond was the only city to report vacancies in excess of 5.0% heading into 2017, but its 7.1% vacancy rate represents a 440-basis-point drop from this time last year, after 630,142 square feet of positive net absorption over the last four quarters. Rental rates inched upward across the East Bay, to a marketwide average of \$0.82 per square foot, triple-net. Alameda remains the most affordable submarket, at \$0.52, while Emeryville, where most availabilities are R&D facilities smaller than 20,000 square feet, was at a market-high \$2.72, triple-net. Oakland asks fell to \$0.60, primarily because the few spaces still on the market there are poorly located or functionally obsolete.

Net absorption marketwide was positive 736,330 square feet in the fourth quarter, the best period of the year for the East Bay, with virtually all submarkets either holding their

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# Area Review

## Submarket Statistics

Submarket	Total Inventory	Direct Vacancy Rate	Total Vacancy Rate	Total Available Rate	Q4 Net Absorption	YTD Net Absorption	Quarterly Leasing Activity	YTD Leasing Activity	Rental Rate
Richmond/El Cerrito	14,298,525	7.10%	7.10%	7.70%	(15,776)	630,142	37,644	503,599	\$1.23
Berkeley/Albany	6,702,454	3.40%	3.40%	3.60%	14,621	(35,860)	15,321	77,916	\$1.19
Emeryville	4,581,362	1.50%	1.60%	5.00%	782	10,708	7,300	86,949	\$2.72
Oakland	32,565,013	2.40%	3.00%	4.10%	(62,205)	(55,903)	137,602	773,637	\$0.60
Alameda	6,577,952	4.30%	4.30%	6.40%	381,896	776,206	162,315	832,115	\$0.52
San Leandro/San Lorenzo	23,123,777	3.50%	3.60%	5.20%	(34,884)	(456,590)	369,112	1,081,324	\$0.63
Hayward	39,770,161	1.90%	2.50%	4.10%	406,877	1,007,499	263,633	3,008,689	\$0.81
Union City	14,126,106	1.20%	1.30%	6.20%	45,019	498,950	20,200	761,517	\$0.93
<b>Total</b>	<b>141,745,350</b>	<b>2.90%</b>	<b>3.20%</b>	<b>4.90%</b>	<b>736,330</b>	<b>2,375,152</b>	<b>1,013,127</b>	<b>7,125,746</b>	<b>\$0.82</b>
<b>All Industrial</b>	<b>123,245,152</b>	<b>2.70%</b>	<b>3.00%</b>	<b>4.70%</b>	<b>746,696</b>	<b>1,659,595</b>	<b>748,102</b>	<b>6,043,428</b>	<b>\$0.68</b>
<b>Warehouse/Distribution</b>	<b>92,679,711</b>	<b>2.50%</b>	<b>2.80%</b>	<b>4.20%</b>	<b>555,101</b>	<b>1,213,192</b>	<b>534,017</b>	<b>4,610,540</b>	<b>\$0.64</b>
<b>Flex</b>	<b>18,500,198</b>	<b>4.50%</b>	<b>4.50%</b>	<b>6.40%</b>	<b>(10,366)</b>	<b>715,557</b>	<b>265,025</b>	<b>1,082,318</b>	<b>\$1.43</b>

own or expanding considerably as 2016 came to a close. Hayward led the way with a 406,877 square foot gain in occupied industrial space, the majority of which came at 31775 Hayman Street, where LA Specialty Produce moved into a newly delivered, 280,000 square foot distribution building. Alameda, which added 381,896 square feet, was the fourth quarter's runner-up, as Alameda Point Redevelopers, Inc., took over a 300,000 square foot warehouse at 2350 Saratoga Street and Williams-Sonoma moved into 86,710 square feet at 1680 Viking Street. Across all submarkets, warehouse and distribution properties witnessed 555,101 square feet of positive net absorption while flex spaces dropped 10,366 square feet.

Leasing activity was down slightly in the fourth quarter, to 83 transactions covering 1,013,127 square feet, as the average deal size fell to 12,206 square feet, half the size of the first-quarter mean. Availabilities plunged to a cycle-low 4.9%, forcing some large-block tenants in the market to look eastward at alternatives like Sacramento and Reno. The office furniture manufacturer Friant was the only user to sign on for more than 100,000 square feet during the fourth quarter, taking 274,147 square feet at 1630-1980 W Avenue 140th in San Leandro, that city's largest transaction since the third quarter of 2013. Oakland reported a 4.1% availability rate in the fourth quarter, marking a 520-basis-point collapse over the past two years. No deals larger than 40,000 square feet were signed in the city, and two of the three biggest transactions in Oakland this quarter were subleases, underscoring the dearth of desirable direct availabilities in the city.

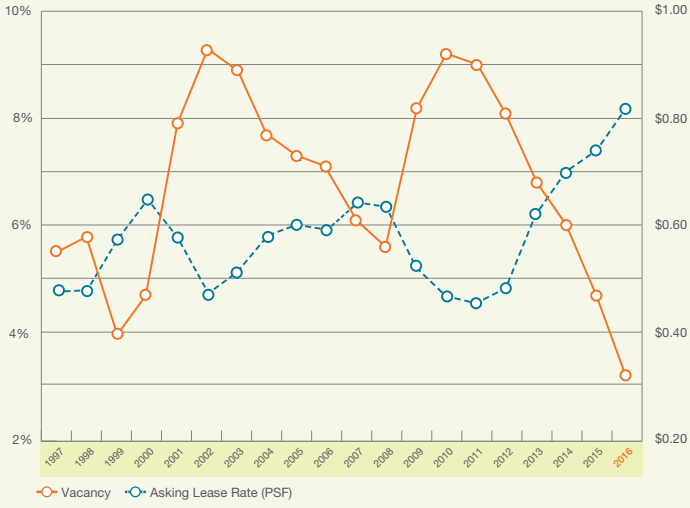
Thirty-five individual East Bay industrial properties traded during the fourth quarter for a total of \$90.2 million in dollar volume and 831,528 square feet. The average price tag rose to \$119.47 per square foot. Eleven buildings in San Leandro and Hayward were involved in a 102-property portfolio sale from LBA Realty to The Blackstone Group. The Ball Corporate Center in Hayward, a

214,172 square foot warehouse fully leased to Morgan Technical Ceramics, was the largest East Bay property in that fund, trading for an allocated \$27.35 million or \$128/sf. In San Leandro, Denver-based DCT Industrial Trust acquired the 66,000 square foot FedEx warehouse facility at 1400 Business Center Drive for \$14 million or \$212/sf. The largest Oakland sale was a redevelopment play by 11 West Partners, which acquired the three-building, six-acre American Steel Studios compound along Mandela Parkway for \$29 million. Currently occupied by an array of artists and makers, the American Steel Studios investment is a long-term play for 11 West, which intends to let the market dictate the enormous facility's future use.

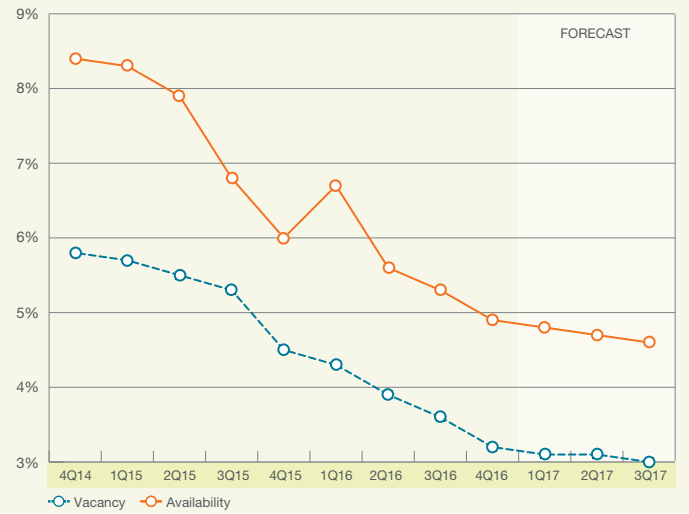
One industrial building was delivered in the fourth quarter: the 280,000 square foot Hayman Distribution Center at 31775 Hayman Street in Hayward, which was fully preleased to LA Specialty Produce in June. Four more deliveries, totaling 1,338,686 square feet, are anticipated in the next 12 months. The largest of these is the Bay Area Logistics Center at 2995 Atlas Road in Richmond, a speculative development by LDK Ventures where 707,820 square feet is on the market for lease. The Northeast Gateway facility at 277 Maritime Street in Oakland is that city's only high-end bulk space availability, and its developer, Prologis, was still seeking a tenant with delivery expected in the second quarter. Both of the other projects underway are fully preleased, with an unknown tenant scheduled to move into the 333,365 square foot Building 1 of the Hayward 92 Industrial Center in the third quarter and Sangamo BioSciences taking the entire Building 3 of the Pinole Point Business Park in April. With limited new supply coming to an extremely tight market, near-record-low vacancy rates and rising rents are likely to persist into the new year.

*Data Source: CoStar*

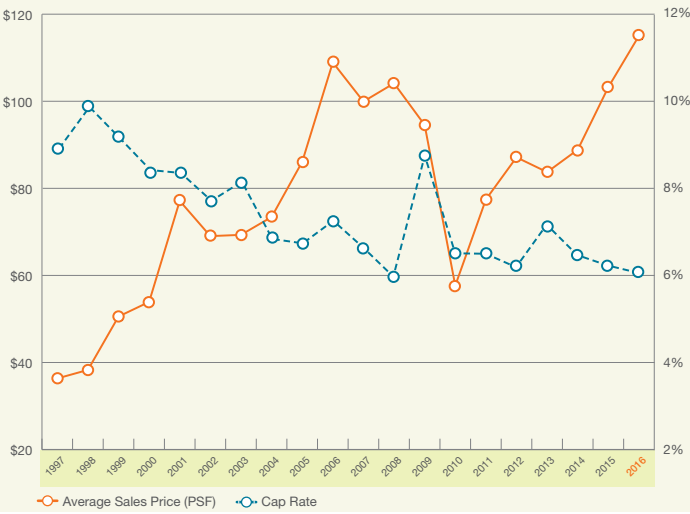
### VACANCY VS ASKING LEASE RATE



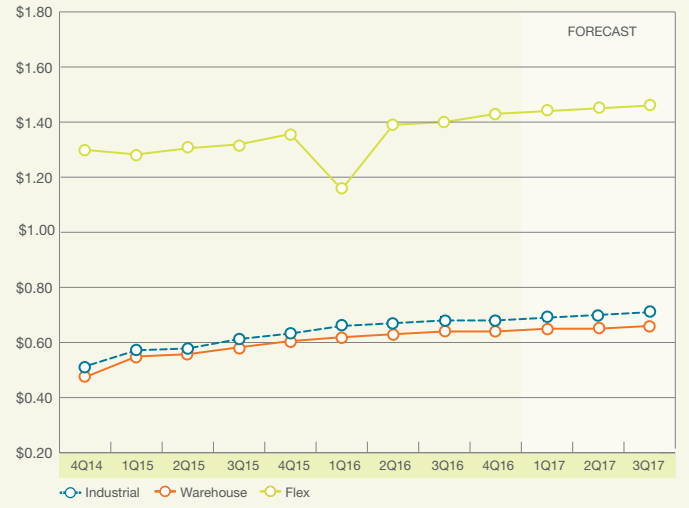
### VACANCY VS AVAILABILITY



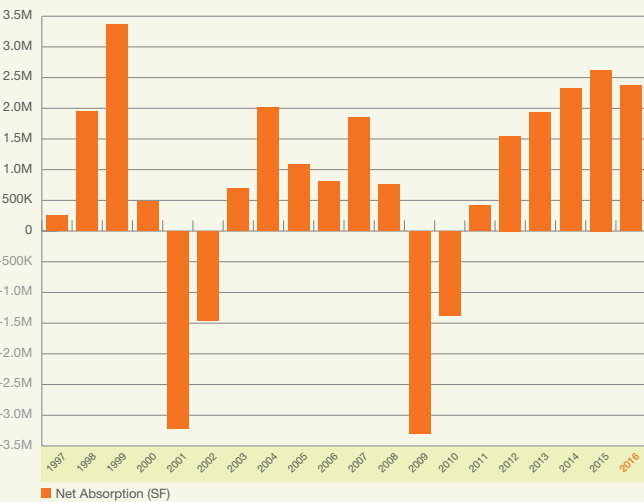
### AVERAGE SALES PRICE & CAPITALIZATION RATES



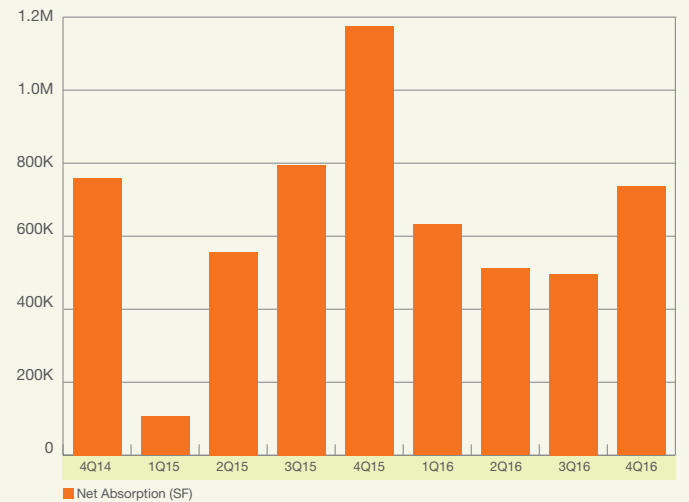
### ASKING LEASE RATE



### 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

Inland Empire  
909.764.6500

San Diego  
858.509.1200

Carlsbad  
760.430.1000

Reno  
775.301.1300

Phoenix  
602.513.5200

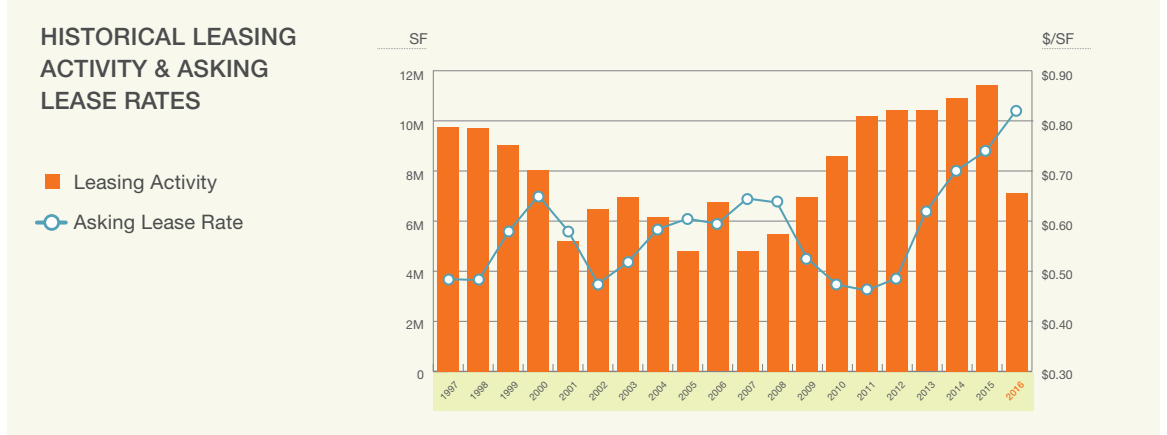
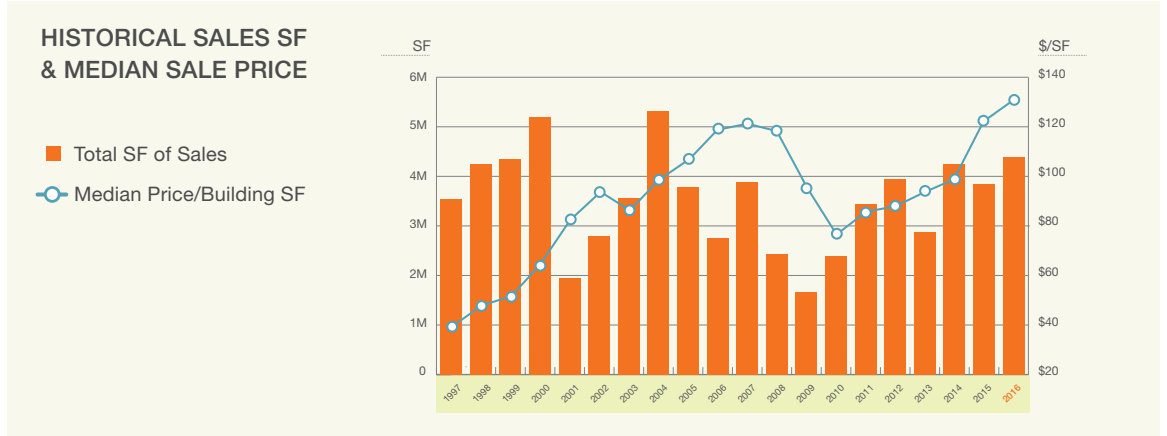
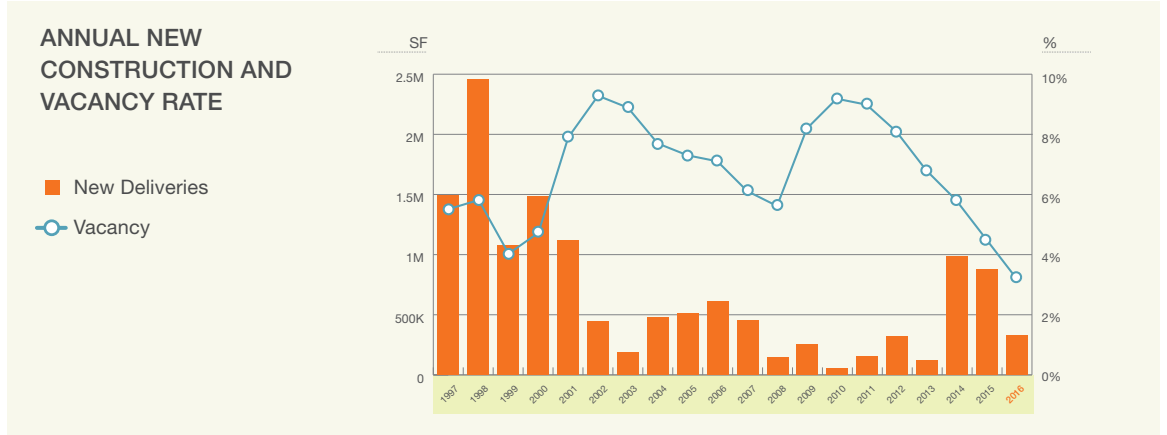
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**Market Breakdown**

	2016	2015	2014	Annual % Change
Vacancy Rate	3.2%	4.7%	6.0%	-31.9%
Availability Rate	4.9%	6.2%	8.5%	-21.0%
Asking Lease Rate	\$0.82	\$0.74	\$0.70	10.8%
Leased SF	7,125,746	11,437,659	10,913,712	-37.7%
Sold SF	4,398,186	3,836,742	4,257,692	14.6%
Net Absorption	2,375,152	2,624,722	2,325,429	N/A



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