

East Bay Industrial

Market Forecast

Trends

Absorption	↓
Vacancy	↑
Rental Rate	↑
Construction	↔

Notable Lease Transactions

Food Service Partners
211-213 W Cutting Blvd, Richmond
102,000 s.f. Leased

Unknown Tenant
2109 Frederick St, Oakland
75,217 s.f. Leased

Pacific Cargo
2802-2842 W Winton Ave, Hayward
63,592 s.f. Leased

Notable Sales Transactions

Mettler-Toledo International
7500 Edgewater Drive, Oakland
203,189 s.f.
Purchased for \$37M or \$182/s.f.

Principal Global Investors
100 Halcyon Drive, San Leandro
328,000 s.f.
Purchased for \$32.5M or \$99/s.f.
(Redevelopment)

Adel Park, LLC
350 Carlson Blvd, Richmond
128,000 s.f.
Purchased for \$8.8M or \$69/s.f.

After reaching record-low vacancies during the fourth quarter of 2016, the East Bay industrial market loosened slightly to begin 2017, but demand remains strong for the area's logistically superior product. This quarter's 325,845 square feet of negative net absorption brought the vacancy rate up to 3.4%, but the loss was a blip on the radar compared to the East Bay's 2.5 million square foot gain in occupied industrial space last year. Rental rates continued to rise throughout the region, to averages of \$0.71 for all industrial product, \$0.65 for bulk warehouse/distribution spaces, and \$1.55 for flex product. Leasing activity continues to be confined to spaces smaller than 50,000 square feet, chiefly due to a lack of large-scale availabilities, though four buildings totaling 1.34 million square feet were under construction at the end of the quarter. Low vacancies and rising rental rates are likely to remain the norm in the East Bay until significantly more product comes on line to accommodate the demand for distribution facilities in the I-880 corridor.

The East Bay's direct vacancy rate rose to 3.3% in the first quarter, after falling to a cycle-low 2.9% at the end of last year, and overall vacancies increased 30 basis points to 3.4%. A strong start to 2017 left Alameda as the tightest submarket, with just 1.8% vacancy at quarter's end. Despite multiple move-outs this quarter, Union City's direct vacancy rate remained below 2.0%, and Hayward was close behind at 2.1%. Oakland vacancies jumped from 2.5% to 3.4%, leaving the city's rate unchanged year over year after a brief plunge. Large warehouse and distribution spaces remain the tightest product type in the East Bay, reporting 2.9% vacancy, down 50 basis points from the first quarter of 2016. On the whole, industrial spaces showed a 3.2% vacancy rate, compared to 3.8% at this time last year. Rental rates were up across the East Bay, to a marketwide average of \$0.86 on a blended NNN basis. Warehouses were at \$0.65 NNN and flex landlords were asking \$1.55. Alameda remains the most affordable submarket, with an average price tag of \$0.49. Oakland asks increased to \$0.68 and Union City's rents jumped to \$0.93, as more desirable spaces became available in those submarkets.

Marketwide net absorption was negative 325,845 square feet in the first quarter, the East Bay's first period in the red since the second quarter of 2014. Oakland and Union

→ Continued, page 2

Area Review

Submarket Statistics

Submarket	Total Inventory	Direct Vacancy Rate	Total Vacancy Rate	Total Available Rate	Q1 Net Absorption	YTD Net Absorption	Quarterly Leasing Activity	YTD Leasing Activity	Rental Rate
Richmond/El Cerrito	14,270,525	7.2%	7.1%	7.70%	(2,914)	(2,914)	117,987	117,987	\$1.26
Berkeley/Albany	6,702,454	3.3%	3.3%	3.40%	5,274	5,274	36,933	36,933	\$1.25
Emeryville	4,611,297	2.9%	2.9%	4.70%	(61,755)	(61,755)	17,464	17,464	\$2.56
Oakland	32,562,813	2.9%	3.4%	4.30%	(309,968)	(309,968)	141,905	141,905	\$0.68
Alameda	6,506,208	1.8%	1.8%	5.60%	164,350	164,350	116,290	116,290	\$0.49
San Leandro/San Lorenzo	23,307,712	4.5%	4.5%	4.80%	32,374	32,374	436,002	436,002	\$0.62
Hayward	39,819,101	2.1%	2.4%	3.10%	14,253	14,253	605,129	605,129	\$0.87
Union City	14,126,250	1.9%	1.9%	5.80%	(167,459)	(167,459)	123,162	123,162	\$0.93
Total	141,881,750	3.3%	3.4%	4.60%	(325,845)	(325,845)	1,594,872	1,594,872	\$0.86
All Industrial	123,344,596	3.0%	3.2%	4.30%	(241,893)	(241,893)	1,408,526	1,408,526	\$0.71
Warehouse/Distribution	92,771,721	2.8%	2.9%	3.60%	(12,413)	(12,413)	1,230,943	1,230,943	\$0.65
Flex	18,537,154	5.0%	5.0%	6.30%	(83,952)	(83,952)	186,346	186,346	\$1.55

City suffered the biggest losses of occupied industrial space, at 309,968 and 167,459 square feet, respectively. The largest individual move-out occurred at 1699 W Grand Avenue in Oakland, where an unknown tenant vacated 161,500 square feet now listed for sublet. In Union City, Southern Wine & Spirits left 181,569 square feet at 33201-33301 Dowe Avenue. On the positive side, Alameda led all submarkets with a 164,350 square foot gain in occupied industrial space, following move-ins by unknown tenants at 2401 Monarch Street and 1550 Viking Street. Across all submarkets, industrial properties overall saw 241,893 square feet of negative net absorption, warehouses dropped 12,413 square feet, and flex spaces were down 83,952 square feet.

First-quarter leasing activity totaled 81 transactions covering 1,194,872 square feet, as the average deal size held at approximately 15,000 square feet. Availabilities declined to a cycle-low 4.6%, reflecting the tightness of the market, which has forced users searching for bulk spaces to consider eastward alternatives like Sacramento and Reno. Food Service Partners, a meal production and delivery company that serves hospitals and nursing facilities, signed the quarter's largest deal, taking 102,000 square feet at 211-213 W Cutting Blvd in Richmond. The largest pact south of the airport belonged to Pacific Cargo, which grabbed 63,592 square feet at 2802-2843 W Winton Avenue in Hayward. Coast Aluminum and Architectural, and AGH Group also signed new leases for more than 20,000 square feet in Hayward this quarter. Ferguson Enterprises took 48,563 square feet at 1934 Fairway Drive in San Leandro, which led all East Bay submarkets with 336,002 square feet of leasing activity over the past three months.

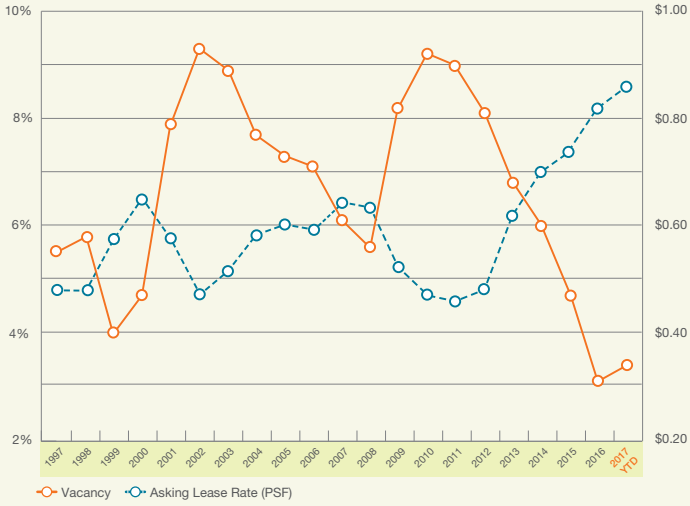
Forty-five East Bay industrial assets changed hands during the first quarter, totaling 1,014,588 square feet and \$113 million

in dollar volume. Excluding outliers, the average price tag per square foot rose to \$136.55, mainly because the properties sold this quarter were flex buildings or in the smaller size range. In the quarter's largest single transaction, the laboratory instruments manufacturer Mettler-Toledo International, an owner-user, acquired 7500 Edgewater Drive in Oakland for \$37M or \$182/sf. Kraft Foods sold its San Leandro plant, a 328,000 square foot facility on a 34.58 acre parcel at 100 Halcyon Drive, to Iowa-based Principal Global Investors, for \$32.5 million or \$99/sf. PGI is expected to embark on a large-scale redevelopment of the site, which was vacated amid the Kraft-Heinz merger in 2016. Finally, in Richmond, Adel Park LLC, an owner-user, acquired the 128,000 square foot Tradeway Carpet warehouse at 350 Carlson Blvd in Richmond for \$8.8 million or \$69/sf.

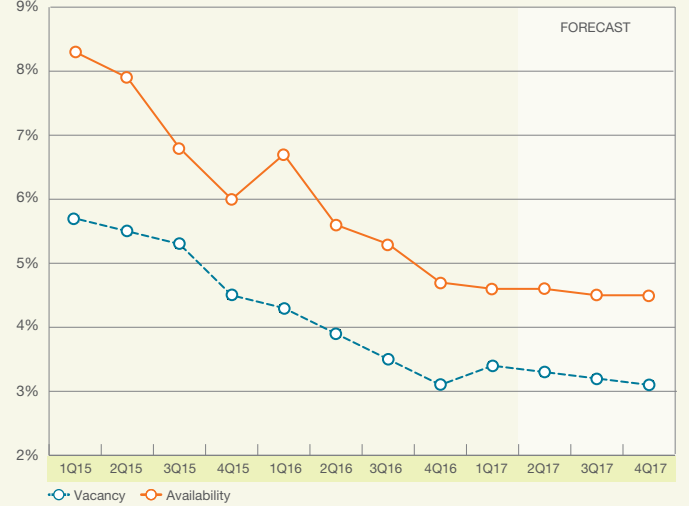
The first quarter's only industrial building delivery was 2388 Williams Street in San Leandro, a 161,483 square foot warehouse that was listed for lease at quarter's end. Four other industrial projects totaling approximately 1.34 million square feet were under construction, the largest of which was the Bay Area Logistics Center at 2995 Atlas Road in Richmond. LDK Capital is spearheading that project, adjacent to the UPS Hub, and expects delivery of the 707,820 square feet in December. In West Oakland, Prologis' Northeast Gateway project, the lone bulk-space availability within the Oakland city limits, will add 256,136 square feet of warehouse space at 277 Maritime Street during the second quarter. Finally, in the only active development in the southern reaches of the I-880 corridor, Conor Commercial Real Estate is nearing completion on Building 1 of the Hayward 92 Industrial Center at 3596 Baumberg Avenue in Hayward. That 333,365 square foot facility was fully preleased to an unknown tenant in June of 2016.

Data Source: CoStar

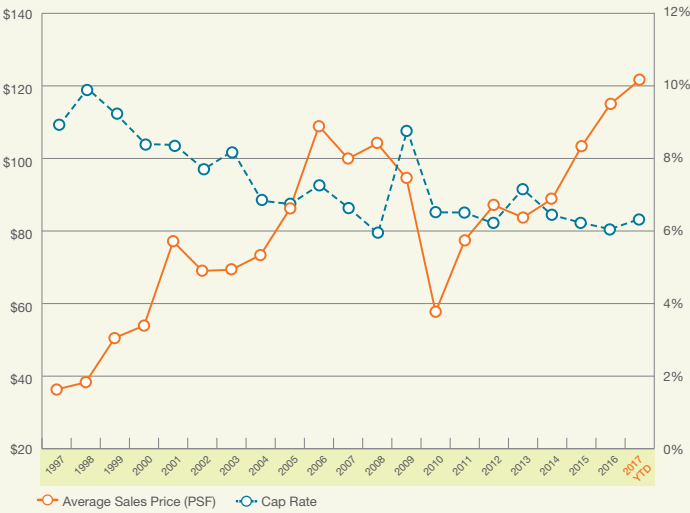
VACANCY VS ASKING LEASE RATE



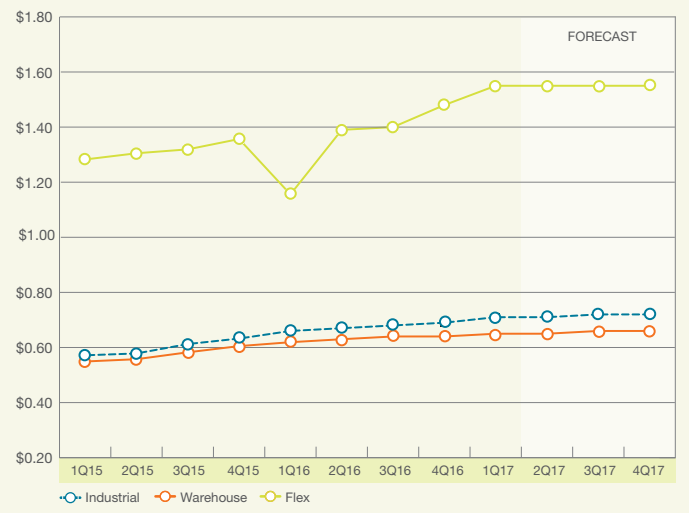
VACANCY VS AVAILABILITY



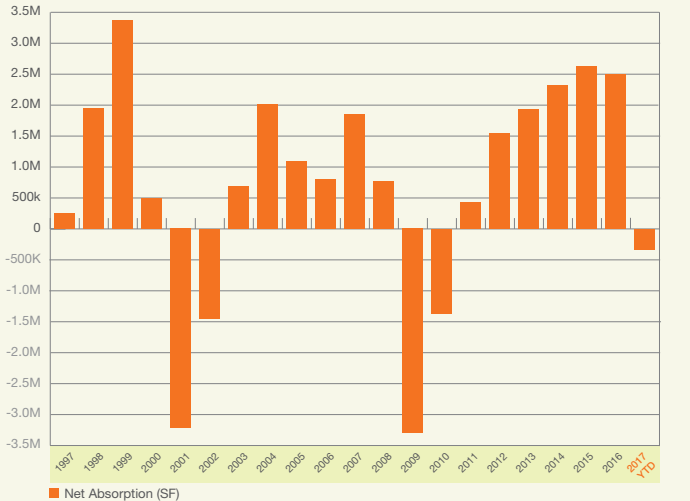
AVERAGE SALES PRICE & CAPITALIZATION RATES



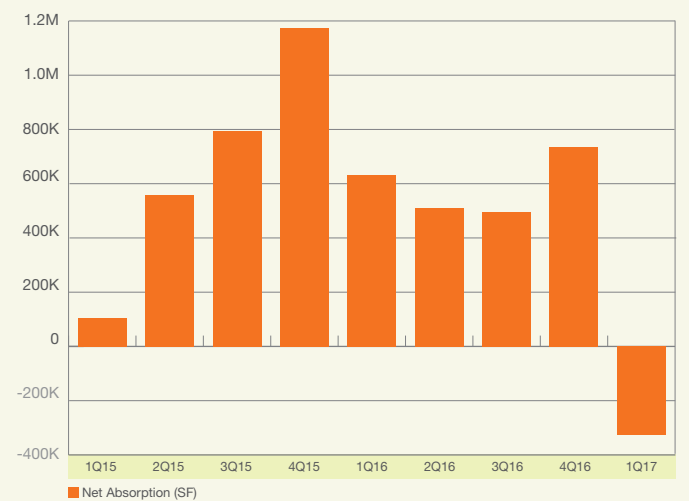
ASKING LEASE RATE



NET ABSORPTION - HISTORICAL



NET ABSORPTION - QUARTERLY



Offices

Seattle
206.296.9600

Bellevue
425.454.7040

South Seattle
206.248.7300

Tacoma
253.722.1400

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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

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213.880.5250

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562.472.0071

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909.764.6500

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858.509.1200

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760.430.1000

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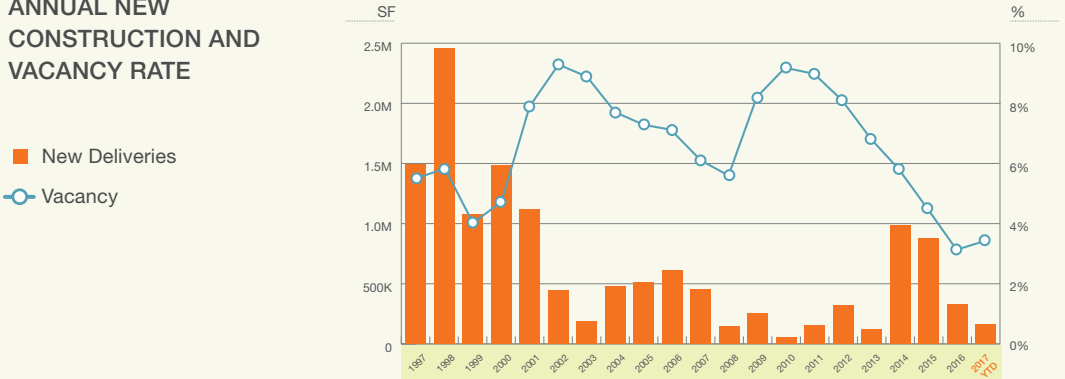
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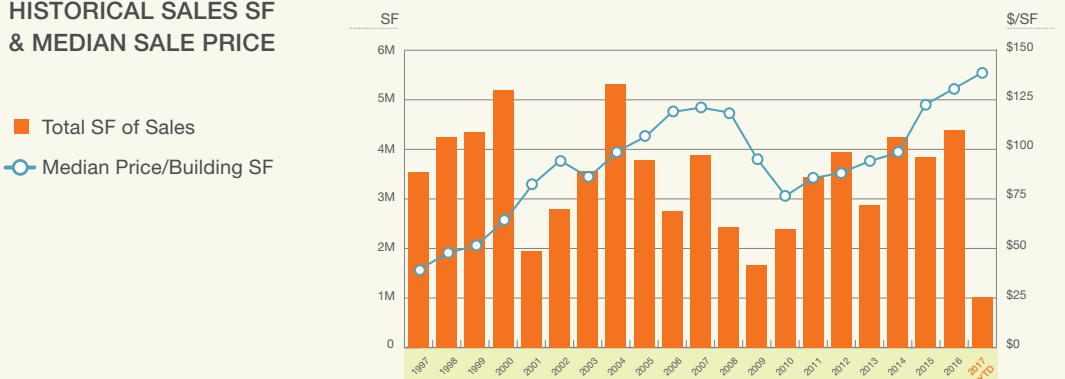
Market Breakdown

	1Q17	4Q16	1Q16	Annual % Change
Vacancy Rate	3.4%	3.1%	4.2%	-19.0%
Availability Rate	4.6%	4.7%	6.6%	-30.3%
Asking Lease Rate	\$0.86	\$0.82	\$0.76	13.2%
Leased SF	1,194,872	2,188,456	3,124,379	-61.8%
Sold SF	1,014,588	1,088,037	1,296,850	-21.8%
Net Absorption	-325,845	853,088	631,700	N/A

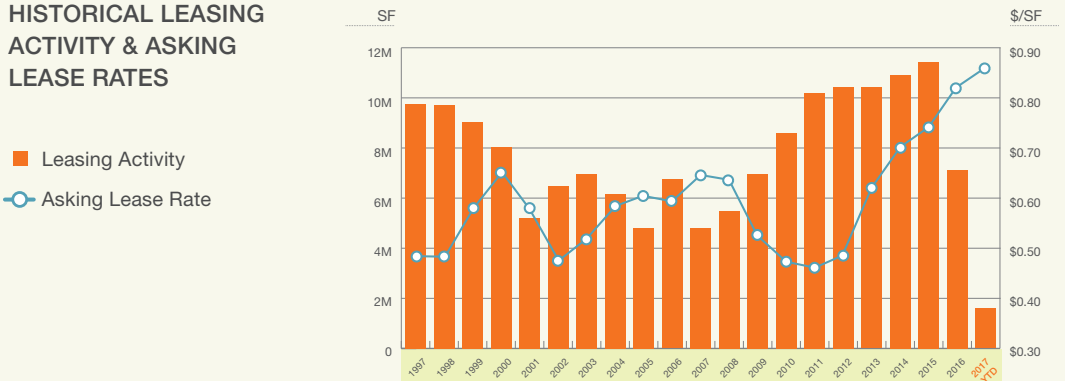
ANNUAL NEW CONSTRUCTION AND VACANCY RATE



HISTORICAL SALES SF & MEDIAN SALE PRICE



HISTORICAL LEASING ACTIVITY & ASKING LEASE RATES



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