

East Bay Industrial

Market Forecast

Trends

Absorption	↑
Vacancy	↓
Rental Rate	↑
Construction	↑

Notable Lease Transactions

Penske Logistics
33400 Dowe Avenue, Union City
235,447 s.f. leased

Unknown Tenant
31231-31281 Wiegman Road, Hayward
113,906 s.f. leased

Lead Task International
850-860 77th Avenue, Oakland
62,000 s.f. leased

Notable Sales Transactions

Peter N. Zolintakis
960 Atlantic Avenue, Alameda
40,124 s.f. purchased for \$10M or \$249/s.f.
(investment)

LBA Realty
33170 Central Avenue, Union City
32,720 s.f. purchased for \$5M or \$153/s.f.
(investment)

Panattoni Development Company,
27629-27569 Industrial Boulevard, Hayward
21,820 s.f. purchased for \$3.8M or \$174/s.f.
(redevelopment)

Record-low vacancies and soaring rents continue to rule the day in the East Bay industrial market, where tenant demand remains far ahead of new supply. The market's direct vacancy rate fell below 3% for the first time this cycle during the second quarter, while the average asking rent climbed to a cycle-high \$0.95/sf NNN. Those trends reflect exceptionally tight market conditions, following just 679,792 square feet of new deliveries in the last seven quarters, but developers are gradually responding to the East Bay's insatiable tenant demand, with more than 1.5 million square feet of industrial space now under construction. While rental rates may trend slightly downward in the coming quarters, as those state-of-the-art spaces priced near the top of the market are leased, sub-4% vacancies are likely to remain the norm in the logistically superior I-880 corridor for the foreseeable future.

The East Bay industrial market shook off a first-quarter loss with 398,900 square feet of positive net absorption over the past three months, its eighth quarterly gain in the last nine periods. Oakland led the way, gaining 353,320 square feet of occupied industrial space, followed by San Leandro/San Lorenzo at 154,843 square feet. The office furniture systems maker Friant was the largest tenant to move-in this quarter, taking over 274,147 square feet at 1936-1980 W Avenue 140th in San Leandro. Across all submarkets, warehouses enjoyed 315,513 square feet of positive net absorption, or nearly 80% of the quarterly gain in occupied space across the market. Warehouse and distribution vacancies are now at a cycle-low 2.5%, down 210 basis points over the past 24 months. Rental rates climbed to \$0.95/sf for all product types marketwide, ranging from \$0.70/sf NNN for bulk spaces to \$1.68/sf NNN for flex product. The average asking rent in Hayward jumped to \$1.01/sf NNN this quarter, because a large share of the availabilities there are in the state-of-the-art buildings now under construction. Among the core industrial submarkets, San Leandro/San Lorenzo was the most affordable, at \$0.64/NNN.

The quarter's six largest leases were all signed south of the O.co Coliseum, as bulk availabilities in the northern I-880 corridor were scant. Penske Logistics lapped the field with a 235,447 square foot commitment at 33400 Dowe Avenue in Union City, though the transportation and supply chain services firm immediately listed 120,818 square feet in

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Area Review

Submarket Statistics

Submarket	Total Inventory	Direct Vacancy Rate	Total Vacancy Rate	Total Available Rate	Q2 Net Absorption	YTD Net Absorption	Quarterly Leasing Activity	YTD Leasing Activity	Rental Rate
Richmond/El Cerrito	14,061,633	6.40%	6.40%	11.70%	(25,192)	(28,506)	106,763	227,216	\$1.28
Berkeley/Albany	6,767,900	2.80%	2.90%	4.30%	3,068	30,209	15,563	78,170	\$1.25
Emeryville	4,056,980	3.50%	3.60%	5.70%	(30,704)	(75,077)	24,052	69,626	\$2.16
Oakland	32,482,563	1.80%	2.40%	4.60%	352,320	38,352	144,800	209,145	\$0.84
Alameda	6,587,115	2.00%	2.00%	4.00%	(13,693)	150,657	16,467	34,572	\$0.54
San Leandro/San Lorenzo	23,378,159	3.50%	3.50%	5.40%	154,843	265,617	174,627	486,040	\$0.64
Hayward	39,960,926	1.80%	2.10%	3.90%	72,932	121,594	339,394	836,087	\$1.01
Union City	14,094,750	4.00%	4.00%	5.40%	(115,910)	(339,857)	11,426	306,920	\$0.88
Total	141,887,627	2.90%	3.10%	5.30%	398,900	146,843	834,532	2,253,230	\$0.95
General Industrial	27,347,660	3.30%	3.90%	6.60%	10,519	(59,162)	99,374	231,996	\$0.85
Warehouse/Distribution	93,741,481	2.30%	2.50%	4.00%	315,513	316,503	552,556	1,524,860	\$0.70
Flex	18,561,399	5.20%	5.30%	7.00%	27,788	(93,778)	120,602	434,374	\$1.68
10,000-24,999 s.f.	23,994,185	1.70%	1.80%	2.70%	45,010	848	139,816	318,342	\$1.03
25,000-49,999 s.f.	27,378,361	2.00%	2.00%	4.40%	181,672	195,626	172,465	403,792	\$1.13
50,000-99,999 s.f.	32,576,819	2.50%	2.50%	4.60%	252,643	179,042	104,954	472,584	\$0.84
100,000-199,999 s.f.	30,495,942	3.50%	4.20%	5.60%	109,354	8,325	251,474	540,205	\$1.11
200,000+ s.f.	27,207,827	4.60%	4.80%	9.20%	(189,779)	(262,898)	165,823	518,307	\$0.65

the building for sublease. An unknown tenant grabbed 113,906 square feet at 31231-31281 Wiegman Road in Hayward, driving a market-high 339,394 square feet of leasing activity in the city. Lead Task International turned in the largest Oakland deal, signing on for 62,000 square feet at 850-860 77th Avenue. All told, 834,532 square feet of industrial and flex space came off the market in leases signed this quarter, down from recent quarterly levels. However, the dip is chiefly attributable to a lack of quality supply, and strong demand coupled with an increase in new construction should generate more activity in the coming quarters.

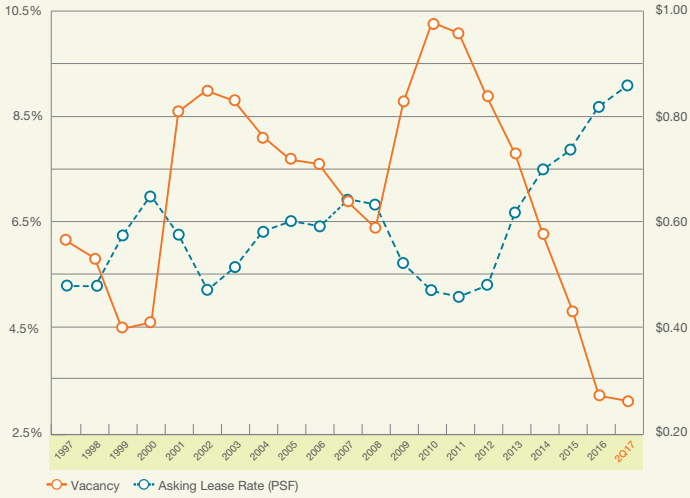
There were 54 industrial sales in the East Bay market over the past three months, amassing approximately \$27.2 million in dollar volume. The average price per square foot rose to \$145, largely because smaller buildings and flex assets comprised a larger share of the trading activity, and the average cap rate dipped to 5.9%. In Alameda, an individual investor bought 960 Atlantic Avenue, a 40,124 square foot flex property fully leased to MBH Architects, for \$10 million or \$249/sf. LBA realty, out of Irvine, California, obtained the 32,720 square foot light manufacturing building at 33170 Central Avenue in Union City for \$5 million or \$153/sf. On the redevelopment front, Panattoni Development Company acquired five buildings on 14.3 acres at 27629-27569 Industrial Boulevard in Hayward for their land value, spending \$3.8 million or just under \$266,000 per acre for the site. Panattoni, which is based in Newport Beach, California, last year began construction on a 261,000 square foot project on 16 acres in Silicon Valley, pitching it as an opportunity for warehouse users

to stay in the Bay Area instead of looking to the Central Valley or Reno. While Panattoni's Hayward plans are not yet known, the site's proximity to Interstate 880 and State Route 92 makes it an ideal location for large-scale warehouse or distribution users.

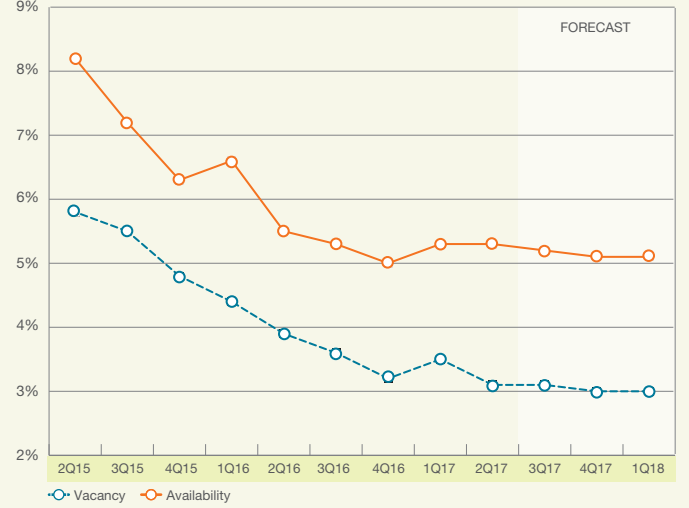
The quarter's lone industrial delivery was Building 3 of the Pinole Point Business Park, a 41,365 square foot distribution facility that was fully preleased to Sangamo Bio Sciences in January of 2016, offering no relief to the increasingly constrained market. However, construction starts were up during the second quarter, bringing the total volume of industrial space underway to 1,563,501 square feet in seven buildings. Approximately 1.23 million (79%) of that space was listed for lease at quarter's end, accounting for 18% of the direct availabilities in the market. The Bay Area Logistics Center, spearheaded by LDK Capital at 2995 Atlas Road in Richmond, is the largest individual project under construction, with 707,596 square feet on the market for lease and delivery set for February of 2018. Prologis' 256,136 square foot Northeast Gateway development at 277 Maritime Street in West Oakland will beat that project to the finish line, but it was still seeking a tenant just three months before its scheduled September 2017 completion. The largest preleased project under construction was Building 1 of the Hayward 92 Industrial Center at 3596 Baumberg Avenue in Hayward. Its developer, Conor Commercial, landed an unknown tenant for the entire 333,365 square foot building in June of 2016.

Data Source: CoStar

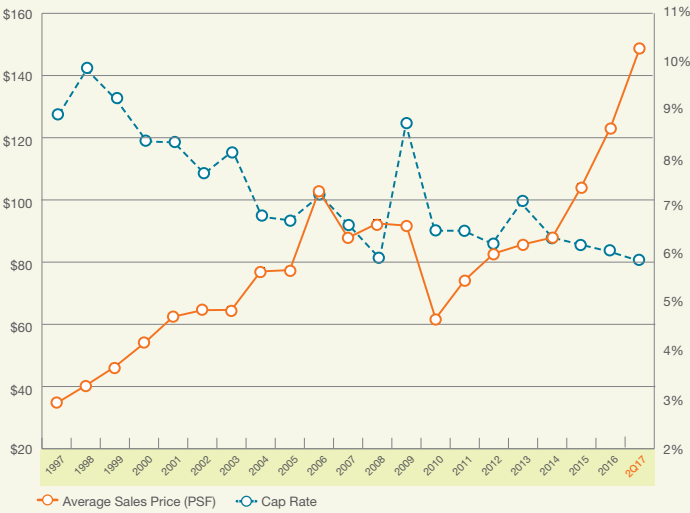
VACANCY VS ASKING LEASE RATE



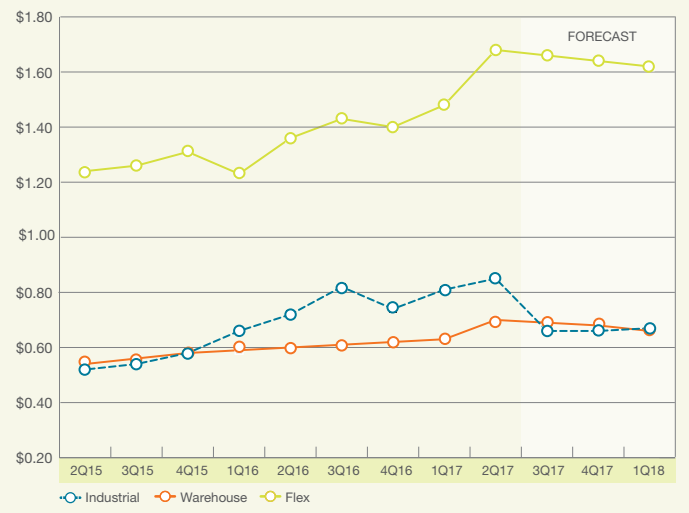
VACANCY VS AVAILABILITY



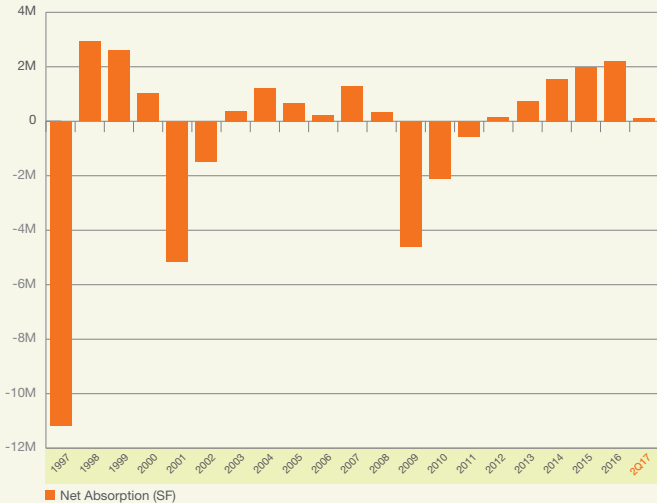
AVERAGE SALES PRICE & CAPITALIZATION RATES



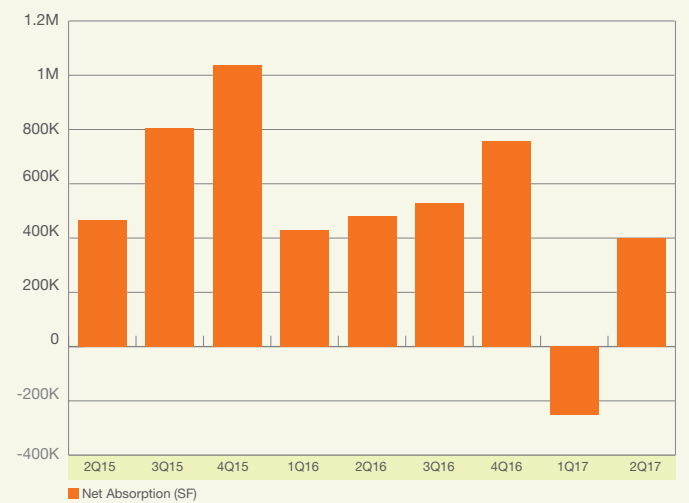
ASKING LEASE RATE



NET ABSORPTION - HISTORICAL



NET ABSORPTION - QUARTERLY



Offices

Seattle
206.296.9600

Bellevue
425.454.7040

South Seattle
206.248.7300

Tacoma
253.722.1400

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

Los Angeles
213.880.5250

Long Beach
562.472.0071

Commerce
323.727.1144

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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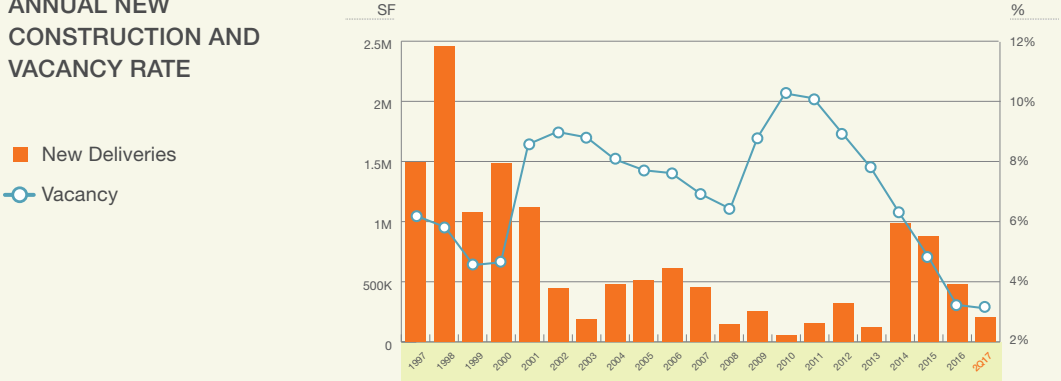
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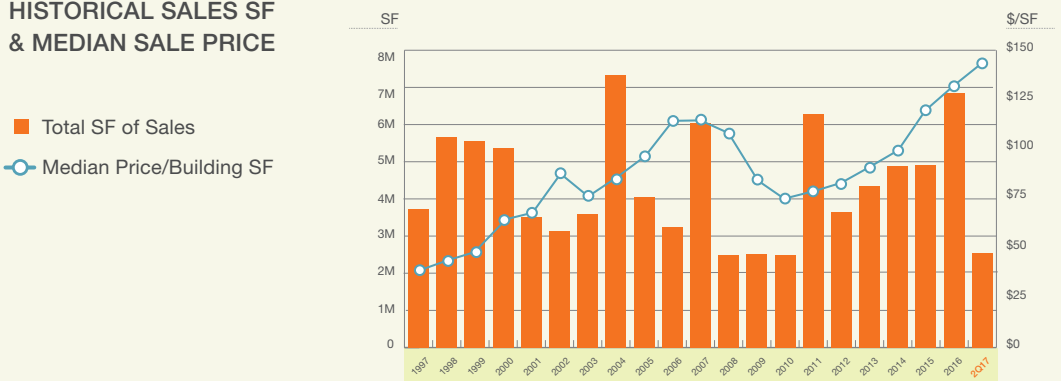
Market Breakdown

	Q2 2017	Q1 2017	Q2 2016	Annual % Change
Vacancy Rate	3.10%	3.50%	3.90%	-20.50%
Availability Rate	5.30%	5.30%	5.50%	-3.60%
Asking Lease Rate	\$0.95	\$0.77	\$0.73	13.70%
Leased SF	834,532	1,418,698	3,700,314	-77.40%
Sold SF	1,790,098	745,344	1,238,862	-30.50%
Net Absorption	398,900	-252,057	1,292,008	N/A

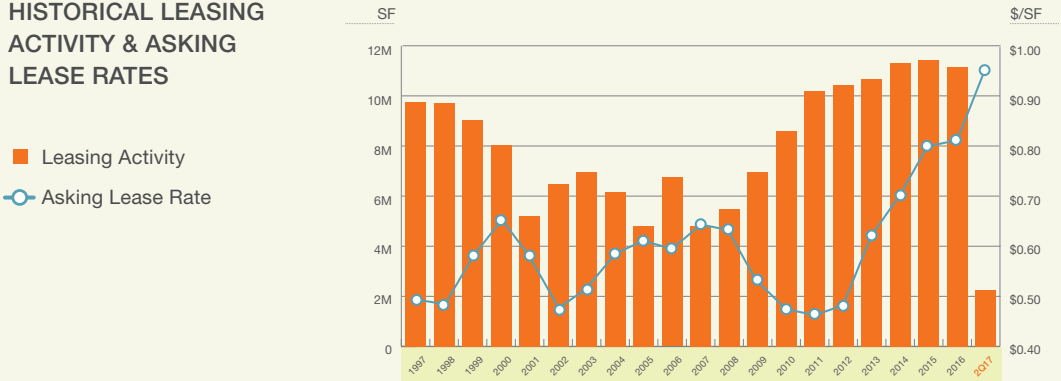
ANNUAL NEW CONSTRUCTION AND VACANCY RATE



HISTORICAL SALES SF & MEDIAN SALE PRICE



HISTORICAL LEASING ACTIVITY & ASKING LEASE RATES



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