

Real Estate Market Review

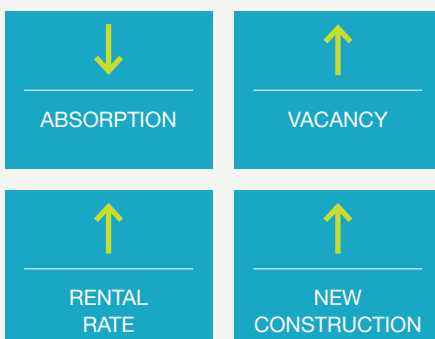
East Bay Industrial

The inner East Bay remains a hotbed of industrial activity, as strong demand and cycle-high construction levels signal the continued strength of the market. Even after several givebacks produced 435,980 square feet of negative net absorption, the area's vacancy rate is just 2.9%, and warehouse properties were even tighter at 2.3%. Rental rates in the East Bay continue to rise, reaching an average of \$1.04/sf NNN for all product types, and \$0.90-\$1.00/sf NNN for bulk warehouses. Developers have responded to the imbalance between demand and supply, with more than 1.6 million square feet of future industrial space being built at quarter's end, resulting in a brief uptick in availabilities. Leasing activity and absorption are likely to trend upward in the coming periods, as users satisfy their need for space along the logistically superior I-880 corridor.

Despite 435,980 square feet of negative net absorption this quarter, the East Bay industrial market has gained 286,619 square feet of occupied space in the year to date and has seen positive absorption in eight of the last 10 quarters. Most of this quarter's new vacancies stemmed from spaces listed for sublease after companies relocated, bringing sublease availability to 1.08 million square feet, its highest point since the end of 2014. A high volume

of industrial tenants in the market suggests that those spaces will be backfilled quickly, as direct availability in existing buildings remains at or near cycle lows around the East Bay. The soaring demand coupled with slowly increasing supply continues to push rental rates upward, to an average of \$1.04/sf for all product types. Bulk industrial spaces range from \$0.90-\$1.00/sf NNN, depending on features and proximity to I-880, while flex product is leasing

Market Forecast Trends



Notable Lease Transactions

Unknown Tenant
1501 Doolittle Drive, San Leandro
92,986 s.f. leased

Kairos Power, LLC
707 W Tower Avenue, Alameda
55,757 s.f. leased

ARGOS Material Distribution
34015 7th Street, Union City
40,820 s.f. leased

Notable Sale Transactions

Center Point Properties Trust
2230-2242 Davis Court, Hayward
142,372 s.f. | \$14.65M or \$103/s.f.

Ramorino Properties LP
30489-30509 San Antonio Street, Hayward
78,860 s.f. | \$8.53M or \$108/s.f.

Lippow Development Company
30527-30537 San Antonio Street, Hayward
64,458 s.f. | \$7M or \$108/s.f.

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	14,219,795	5.60%	5.60%	11.40%	(11,306)	15,418	55,560	362,793	\$1.62
Berkeley/Albany	6,738,099	2.40%	2.80%	4.20%	(7,820)	37,129	43,205	121,375	\$1.40
Emeryville	4,522,901	3.00%	3.10%	5.70%	12,799	(67,253)	25,566	111,817	\$2.24
Oakland	32,566,545	2.80%	2.90%	6.00%	(190,913)	(155,561)	185,166	490,630	\$1.11
Alameda	6,587,115	3.10%	3.10%	4.60%	7,126	158,783	57,949	92,521	\$0.70
San Leandro/San Lorenzo	23,032,155	1.30%	2.10%	3.30%	30,756	569,210	219,741	886,095	\$0.69
Hayward	39,995,689	1.70%	2.10%	6.30%	(181,521)	121,333	257,734	1,381,782	\$1.01
Union City	14,094,750	3.10%	4.00%	5.20%	(13,589)	(310,928)	124,487	470,727	\$0.96
Total	141,757,049	2.50%	2.90%	6.00%	(435,980)	286,619	969,408	3,917,740	\$1.04
General Industrial	26,945,023	2.20%	2.80%	6.60%	15,161	(15,453)	157,729	435,864	\$0.87
Warehouse/Distribution	94,018,282	2.20%	2.30%	5.60%	(384,369)	418,596	591,278	2,607,948	\$0.82
Flex	18,524,849	4.90%	5.10%	7.50%	8,948	(42,204)	220,401	811,928	\$1.64
10,000-24,999 SF	24,080,982	1.80%	1.80%	3.00%	(36,579)	(34,198)	172,009	570,420	\$1.19
25,000-49,999 SF	27,463,972	1.90%	2.20%	4.00%	(50,227)	221,134	203,482	737,438	\$1.16
50,000-99,999 SF	32,654,487	2.30%	2.40%	4.50%	30,442	210,884	244,050	748,345	\$0.95
100,000-199,999 SF	30,571,854	4.30%	3.70%	7.60%	(220,167)	223,385	148,640	1,030,112	\$1.30
200,000+ SF	26,985,754	2.10%	3.60%	10.40%	(79,449)	(254,586)	201,227	831,425	\$0.66

for \$1.60-\$1.70/sf NNN. Among the core industrial submarkets, San Leandro/San Lorenzo is the most affordable, with an average asking rate of \$0.69/sf NNN.

Leasing activity relaxed during the third quarter, to a total of 66 transactions covering 969,408 square feet, due to the typical summertime slowdown and a lack of a desirable bulk-space availabilities. The period's largest deal was a sublease, signed by an unknown tenant at 1501 Doolittle Drive in San Leandro, where the new user will take over 92,986 square feet in the coming months. In the biggest direct lease of the quarter, the nuclear energy and engineering company Kairos Power took 55,757 square feet of flex/R&D space at 707 W Tower Avenue in Alameda. Finally, ARGOS Metal Distribution signed on for 40,820 square feet in the Decoto Industrial Park at 34015 7th Street in Union City. As upcoming construction deliveries add sorely needed supply to the inner East Bay market, we anticipate an increase in lease transactions in the coming quarters.

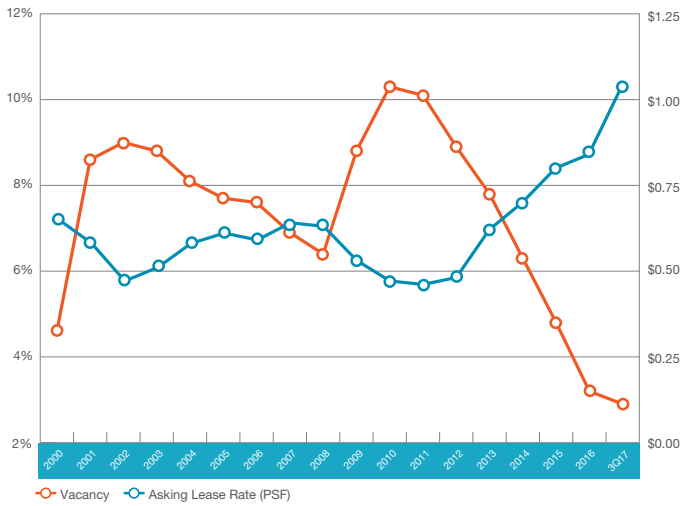
Fifty-two East Bay industrial assets changed hands in the third quarter, totaling nearly 1.36 million square feet and \$140 million in dollar volume, for an average price tag of \$157 per square foot. Investment activity has recently been confined to smaller buildings, but the inner East Bay continues to attract buyers from around California and beyond. Illinois-based Center Point Properties Trust made the quarter's biggest investment play, acquiring 2230-2242 Davis Court in Hayward, a 142,372 square

foot warehouse, for \$14.65 million or \$103 per square foot. The seller, owner/user Kortick Manufacturing, will briefly lease back a portion of the property, which Center Point intends to renovate and reposition. Two other notable transactions this quarter involved Roadstar Trucking. The Hayward-based company sold its former 64,458 square foot building at 30527-30537 San Antonio Avenue to Lippow Development Company, and is expanding into 78,860 square feet down the street at 30489-30509 San Antonio Avenue. Both properties sold for approximately \$108 per square foot.

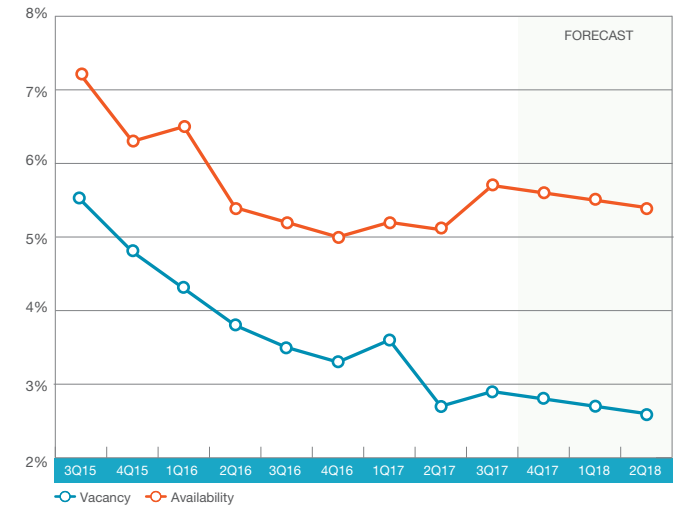
No industrial buildings were delivered during the third quarter, keeping the year's new supply at two buildings totaling 202,758 square feet. A cycle-high 1,613,731 square feet of future industrial space was under construction at quarter's end, and approximately 79% of that space was available for lease. The largest future availability is the 707,596 square foot Bay Area Logistics Center at 2995 Atlas Road in Richmond, where LDK Capital is anticipating delivery in the first quarter of 2018. Prologis is behind the East Bay's second-largest speculative project, the Northeast Gateway building at 277 Maritime Street in Oakland, which will add 256,136 square feet to that city's industrial stock by the end of the year. Finally, Building 1 of Conor Commercial's Hayward 92 Industrial Center at 3596 Baumberg Avenue, a 333,365 square foot warehouse fully preleased to FedEx, is expected to be ready for occupancy during the fourth quarter.

Data Source: CoStar

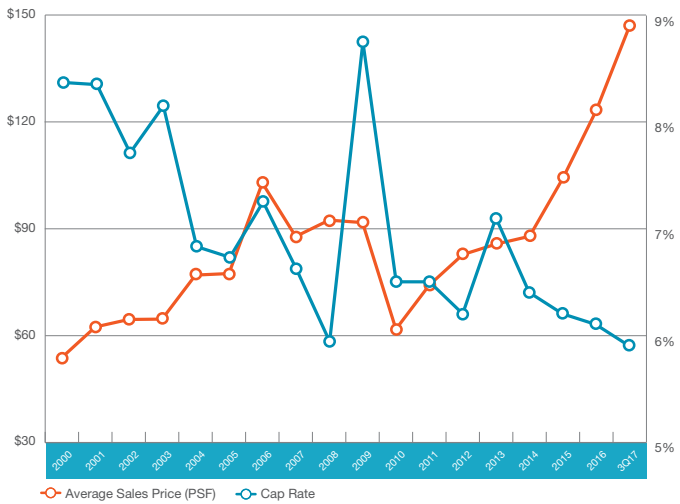
VACANCY VS ASKING LEASE RATE



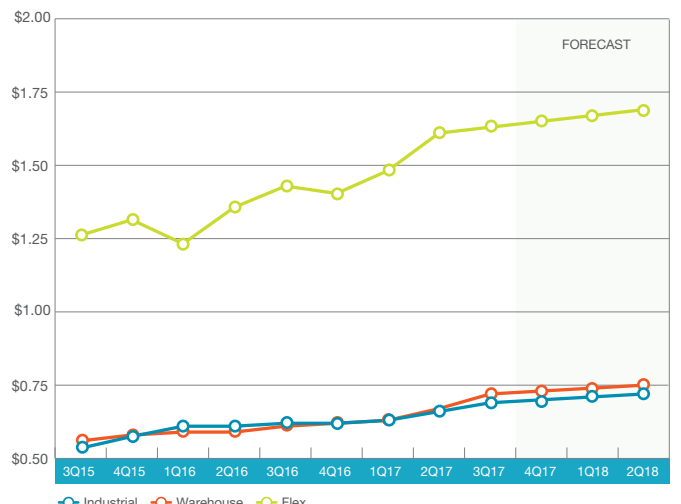
VACANCY VS AVAILABILITY



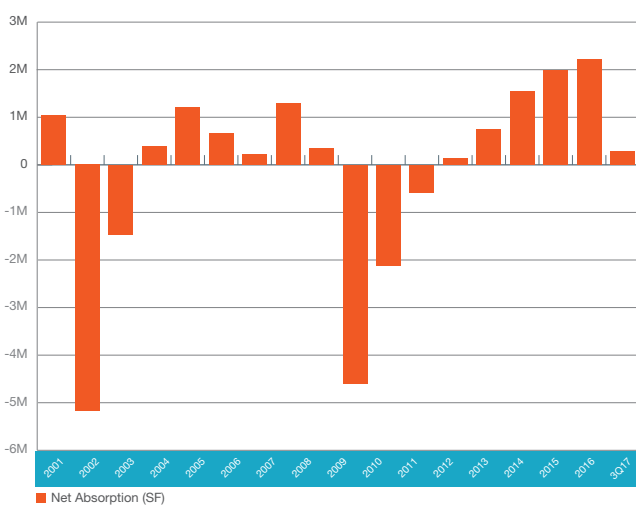
AVERAGE SALES PRICE & CAPITALIZATION RATES



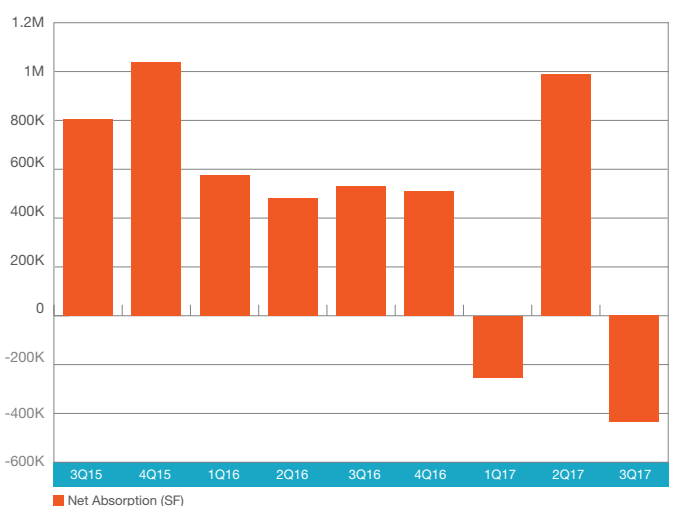
ASKING LEASE RATE



NET ABSORPTION - HISTORICAL



NET ABSORPTION - QUARTERLY



Market Breakdown

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

Commerce
323.727.1144

Long Beach
562.472.0071

Orange County
949.557.5000

Inland Empire
909.764.6500

San Diego
858.509.1200

Carlsbad
760.430.1000

Reno
775.301.1300

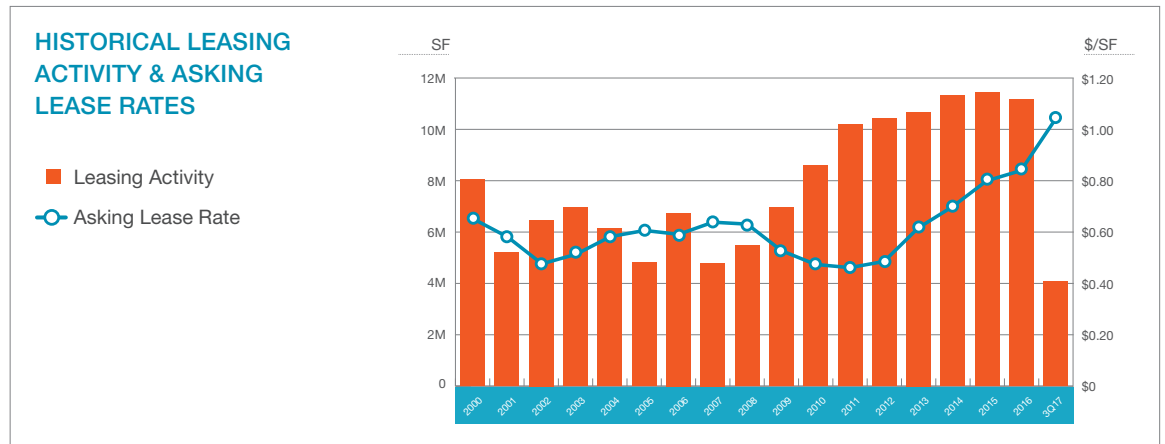
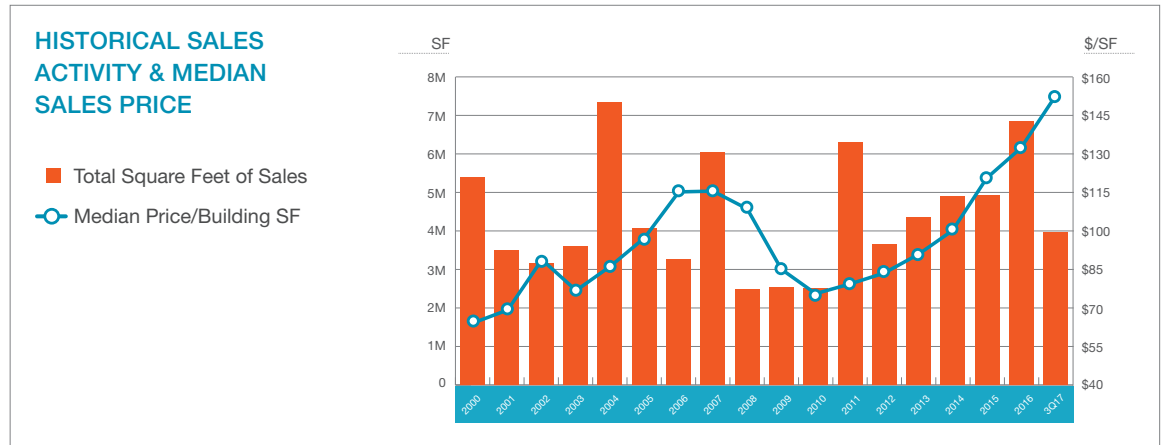
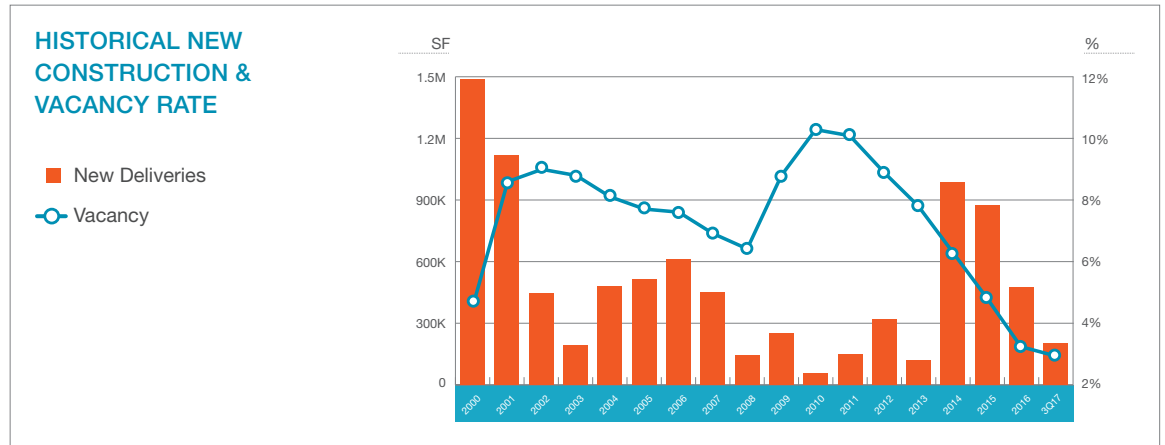
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	Q3 2017	Q2 2017	Q3 2016	Annual % Change
Vacancy Rate	2.9%	2.7%	3.5%	-17.1%
Availability Rate	5.6%	5.1%	5.2%	7.7%
Asking Lease Rate	\$1.04	\$0.95	\$0.82	26.9%
Leased SF	969,408	1,144,684	1,900,216	-48.9%
Sold SF	1,357,094	1,390,932	1,933,936	-29.8%
Net Absorption	-435,980	987,729	530,648	N/A



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