

# San Francisco Industrial

## Market Summary

	FORECAST
Absorption	↓
Vacancy	↑
Rental Rate	↑
New Construction	↔

### Notable 2016 Leases

**Unknown Tenant**  
1980-1990 Oakdale Avenue  
36,400 s.f. Leased

**Honda**  
1960 Folsom Street  
30,993 s.f. Leased

**Lady M Confections**  
2025-2045 McKinnon Avenue  
25,521 s.f. Leased

### Notable 2016 Sales

**Kilroy Realty Corp.**  
610 and 620 Brannan Street  
36,600 s.f.  
Purchased for \$87.25M or \$2,384/s.f.  
(Flower Mart Redevelopment)

**United Parcel Service Oasis Supply Corp.**  
220 and 290-298 San Bruno Avenue  
71,510 s.f.  
Purchased for \$32M or \$448/s.f.  
(Owner/User)

**SCAFCO Corp.**  
2177 Jerrold Avenue  
29,578 s.f.  
Purchased for \$9.7M or \$328/s.f.  
(Owner/User)

The San Francisco industrial market relaxed slightly in the fourth quarter of 2016, as 57,931 square feet of negative net absorption increased the vacancy rate to 3.6%. Nonetheless, asking rental rates rose to an average of \$17.92 per square foot, triple-net, amid limited availabilities and a growing trend of creative reuse of industrial spaces. A slowdown in land-value sales has stabilized the city's industrial stock for now, and most landlords marketing recently vacated spaces quickly secured replacement tenants, suggesting a return to positive absorption in the early quarters of the new year. Still, the region's largest traditional industrial leases are being consummated in San Mateo County and the East Bay, where available space and expansive facilities are in much greater supply. In early 2016, the San Francisco Planning Department began to engage in stricter enforcement of its Production, Distribution, and Repair (PDR) zoning, aiming to reinvigorate the manufacturing sector of the city's economy and prevent further conversion or demolition of the city's industrial buildings.

Net absorption, a measure of market strength, was negative 57,931 square feet in the fourth quarter of 2016, bringing the year-to-date drop in occupied industrial space to 146,160 square feet. While some of those losses are attributable to redevelopments that decreased the city's industrial stock, the majority will be recouped when new tenants take over spaces that were vacated in the fourth quarter. The Bayview/Hunters Point submarket suffered 129,621 square feet of negative net absorption during the year, but will recover much of that space in the early months of 2017, with several sizable move-ins on the way. Lady M Confections, a New York-based fine cake-maker, is set to occupy 25,521 square feet at 2025-2045 McKinnon Avenue in February.

Leasing activity in the fourth quarter totaled 177,180 square feet in 17 transactions. An unknown tenant signed on for 36,400 square feet at 1980-1990 Oakdale Avenue, refilling a warehouse space formerly used by the luxury consigner The RealReal. The Potrero East of 101 submarket led the city with 221,191 square feet taken over the past 12 months, accounting for nearly one-third of the city's total volume. San Francisco's yearly leasing total of 675,699 square feet was the city's lowest since 2012.

The vacancy rate for industrial spaces in San Francisco closed the year at 3.6%, up 70 basis points from the end of 2015. Bayview/Hunters Point experienced the greatest quarterly and annual increase in vacancy, going from 3.3% to 4.7%, after ending the previous year at just 1.2%. Meanwhile, the

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**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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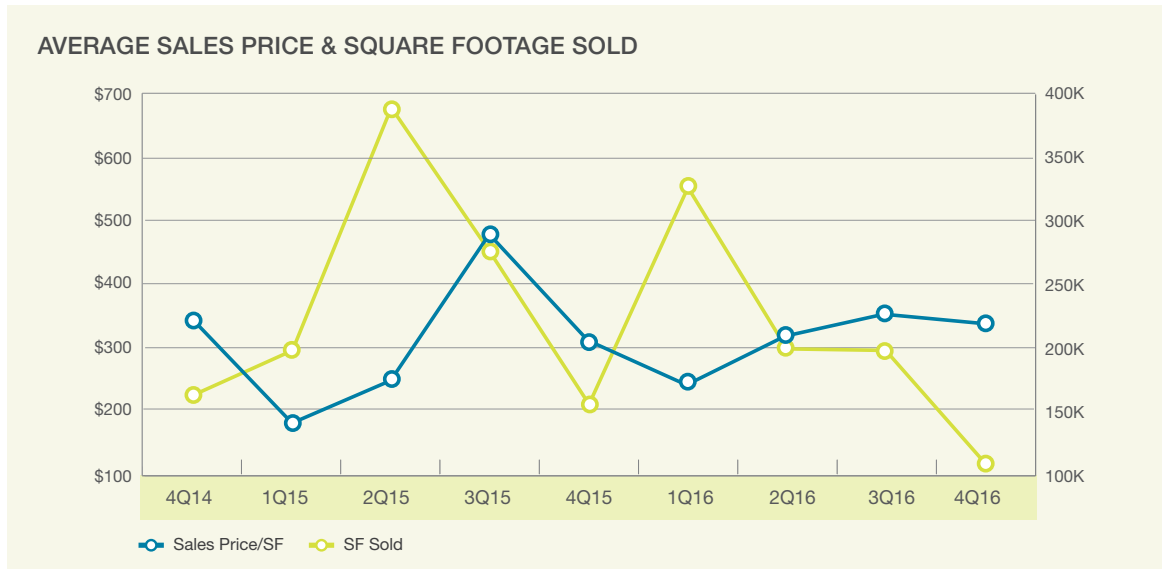
Potrero East of 101 submarket saw its vacancy rate fall to a cycle-low 2.1%, down from 3.8% in the first quarter of 2016, and Potrero West of 101 was at 1.1% vacancy, the lowest of the city's core industrial areas.

Rental rates inched upward in the fourth quarter, to a citywide average of \$17.92 NNN. That represents a 10% year-over-year hike in rents, driven in large part by the dearth of availabilities within the San Francisco city limits. In a trend that first emerged in 2014, many industrial spaces are entering the market unpriced, with landlords letting the market set the going rate. The asking-rent figure above can thus be swayed drastically by a few low or high price tags, particularly as industrial spaces are retrofitted for creative or non-traditional manufacturing uses. For instance, a 5,700 square foot second-floor space at 1543 Mission, previously used as a yoga studio, was being marketed for \$34 IG.

**Sales Activity**

The San Francisco industrial investment market remains relatively quiet, in part because of the lack of functionally superior product left within the city limits. In recent quarters, most of the industrial properties purchased were viewed as redevelopment opportunities, slated for demolition or refurbishment into creative space. The former was the story at 1335 Folsom Street, where SST Investments spent \$5 million to acquire a 9,000-square-foot building on a 0.13-acre lot, with plans to demolish the structure and replace it with 53 SRO units and four hotel rooms in a six-floor development. On the owner/user front, Sesan LLC bought the 7,500 square foot warehouse at 2089 Ingalls Street for \$2.3 million or \$307/sf. Excluding redevelopments, the median sale price this quarter was \$298.

*\*Figures and information for this report look only at industrial buildings larger than 15,000 s.f. Source: CoStar*



**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
Bayview/Hunters Point	3,799,089	4.70%	4.70%	2.50%	(51,721)	(129,621)	67,134	162,554	\$13.20
India Basin	1,190,437	0.00%	0.00%	0.00%	1,250	0	0	585	\$17.10
Lower SOMA	714,228	5.30%	7.90%	6.20%	37,000	(46,868)	9,311	70,730	\$19.44
Mission Bay/China Basin	2,887,762	7.20%	7.30%	6.70%	3,500	95,681	0	43,519	\$13.50
Potrero East of 101	4,525,960	1.90%	2.10%	4.60%	23,592	9,382	66,485	221,191	\$15.41
Potrero West of 101	2,174,487	1.10%	1.10%	2.00%	(17,493)	17,907	23,250	69,443	\$16.32
Rincon/South Beach	212,795	0.00%	0.00%	11.30%	0	0	0	2,500	N/A
Showplace Square	1,042,118	5.30%	5.60%	15.80%	(2,839)	(19,421)	0	57,717	\$26.18
SOMA	756,986	7.00%	8.40%	8.90%	(36,220)	(58,220)	11,000	25,700	\$27.00
Southern City	756,986	7.00%	8.40%	8.90%	(36,220)	(58,220)	11,000	25,700	N/A
Yerba Buena	102,200	0.00%	0.00%	3.10%	0	0	0	2,500	\$18.62
All Others	1,479,364	1.00%	1.00%	6.50%	(15,000)	(15,000)	0	19,260	\$19.47
<b>Total</b>	<b>19,292,931</b>	<b>3.40%</b>	<b>3.60%</b>	<b>4.90%</b>	<b>(57,931)</b>	<b>(146,160)</b>	<b>177,180</b>	<b>675,699</b>	<b>\$17.92</b>

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