

EAST BAY MARKET

YEAR-END 2016

Record Breaking Fundamentals

Industrial market more supply constrained than ever

The East Bay industrial market continued with positive growth in the fourth quarter. Rents increased to a record high of \$0.87 per square foot, per month. The industrial market has become more supply-constrained than ever, as vacancy rates surpassed previous record lows. Net absorption for 2016 outpaced last year by almost one million square feet. The fourth quarter hit the highest positive net absorption figure on record in the last decade. Projects under construction are expected to complete this year, accommodating the lack of industrial space in the East Bay. Overall, the East Bay industrial market appears to be growing at a healthy rate.

SUPPLY AND DEVELOPMENT

Various developments in proposal stage will potentially add another 850,000 SF to inventory

Total industrial East Bay inventory is over 160 million square feet. An additional 1.3 million square feet is currently under development, with three major facilities accounting for construction activity. LDK Venture's Bay Area Logistics Center, a 707,600 square foot distribution facility in Richmond broke ground and is expected to complete in the fourth quarter of 2017. Additionally, Conor Commercial and American Realty Advisor's Building 1 of the Hayward 92 Industrial Center, a multi-building industrial park consisting of 333,365 square feet will deliver at the end of the second quarter. Prologis' Northeast Gateway project in Oakland is in its final stages, and 256,136 square feet of warehouse space will complete in the second quarter as well.

Most notably, Goodrick Business Park in Richmond is awaiting groundbreaking in the first quarter of 2017. The project will create an additional 171,630 square feet of warehouse space along the I-80-880 corridor. As vacant space gets more constrained within the industrial market, these projects will be a welcomed addition to the East Bay.

TRENDLINES

5-YEAR TREND CURRENT QUARTER

VACANCY



4.2%

Vacancy becomes even more constrained

NET ABSORPTION



2,179,520 SF

Net absorption spikes

RENTAL RATE



\$0.87 NNN

Rents at record high

UNDER CONSTRUCTION



1,274,122 SF

Record projects under construction

PRICE PER SQUARE FOOT



\$126 PSF

Sale prices consistently increase

SALE VOLUME



\$2,358M

Sales volume consistent across all product types

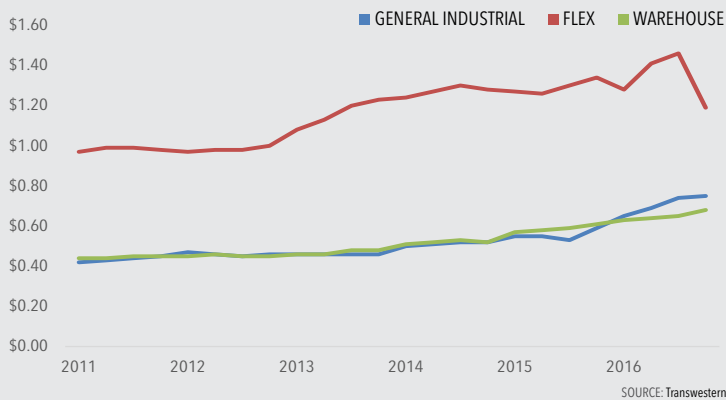
METHODOLOGY

The information in this report is the result of a compilation of information on industrial properties located in the greater East Bay. Transwestern obtained the information from a variety of primary and secondary sources including Costar. This report includes warehouse, manufacturing and flex properties 20,000 sq. ft. or larger, excluding data center and showroom buildings.

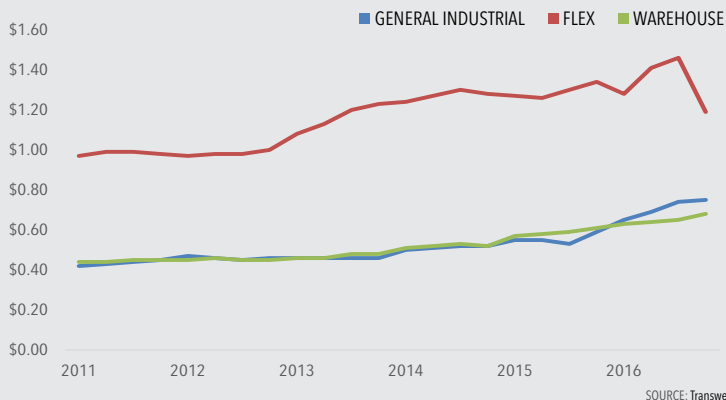
EAST BAY INDUSTRIAL MARKET

MID YEAR 2016

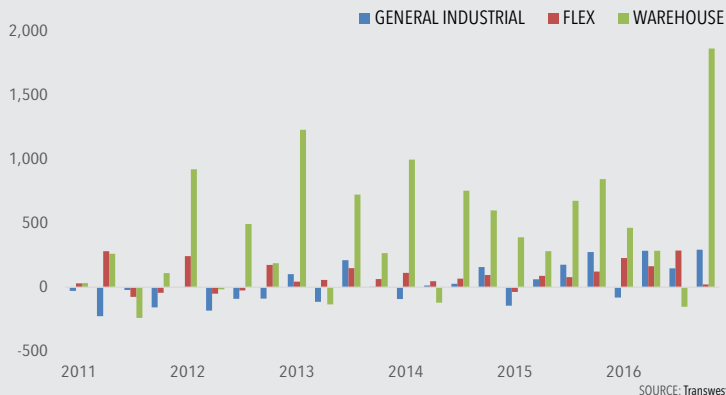
EAST BAY INDUSTRIAL VACANCY VACANT PERCENT (%)



EAST BAY INDUSTRIAL AVERAGE MONTHLY ASKING RENTS TRIPLE NET



EAST BAY INDUSTRIAL NET ABSORPTION AND VACANCY THOUSAND SF



DEMAND

Positive demand for 10th consecutive quarter

The last quarter had the highest positive net absorption seen to date in the past ten years, ending at an astounding 2,179,520 square feet, a volume not seen in any single quarter. Consequently, net absorption throughout all of 2016 surpassed the previous year considerably by almost one million square feet. The Tri-Valley accounted for much of the fourth quarter's positive net absorption, with velocity reaching 1,113,168 square feet, mostly in warehouse buildings. Friant & Associates, Anchor Distribution, and HD Supply also played a significant role in leasing activity, occupying a total of 524,275 square feet of warehouse space in San Leandro and Hayward.

VACANCY

Vacancy at historic low

The East Bay vacancy rate continued to dropped to a historical low of 4.2% as more tenants occupied industrial spaces. This number is down more than 22% from the previous quarter and almost 60% less than five years ago. Approximately 6,765,569 square feet of both direct and sublet space was left vacant in the fourth quarter, which is over 2.2 million square feet less than it was a year ago, further indicating that industrial product is becoming even more in demand than ever.

RENTAL RATES

Rents increase due to lack of space

The rental rates in the East Bay industrial sector were consistent with the demand and vacancy trends in the fourth quarter. Not surprisingly, rents experienced a steady increase in response

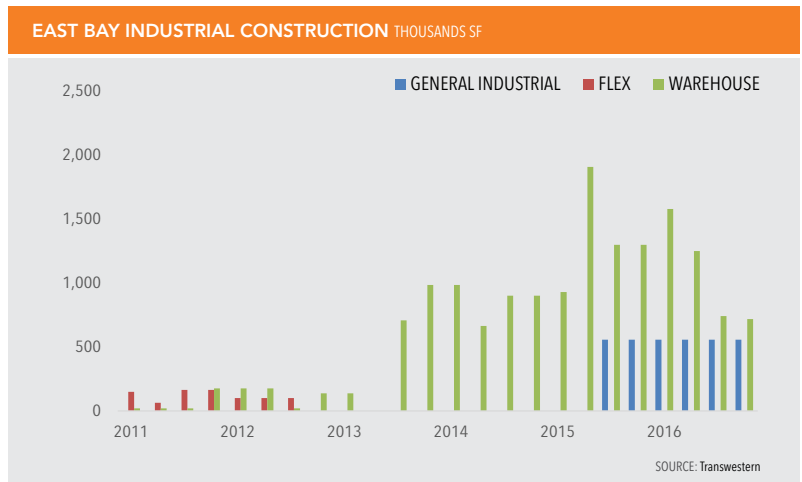
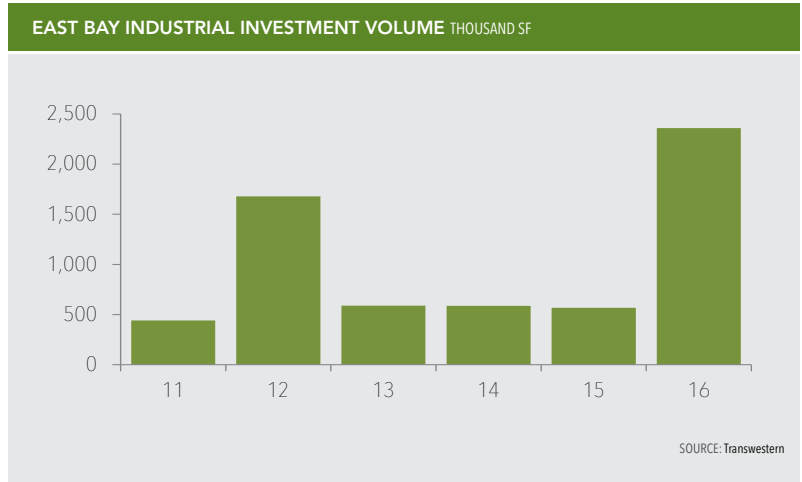


to limited vacant space at \$0.87 per square foot per month, another new record high. This rate is 30% above the five-year average of \$0.67 per square foot and is expected to increase further due to the lack of industrial space for tenants.

INVESTMENT

Warehouse investment activity high

Investment volume in 2016 reached more than \$2.6 billion in transactions. This figure is remarkably higher than investment totals over the last ten years. The Blackstone Group was a key player in the fourth quarter, partaking in three of the largest sales transactions amounting to \$110,600,000; an average of \$146 per square foot. Acquiring more than 780,078 square feet in the fourth quarter, purchases by Blackstone included Rainin Industries building at Edgewater Drive in Oakland, 2451 Polvorosa Drive in San Leandro, and San Leandro Business Park. The average price per square foot in 2016 was \$126 per square foot, outpacing the national average of \$82.00 to \$94 per square foot in the East Bay, hovering 18% above the national average of \$80 per square foot.



East Bay Industrial Lease Activity

PROPERTY	TENANT	SF	TYPE	SUBMARKET
1936-1980 W Avenue 140th, San Leandro	Friant	274,147	Warehouse	San Leandro
2050 Williams St., San Leandro	Anchor Distribution	136,422	Warehouse	San Leandro
31281 Wiegman Rd, Hayward	HD Supply	113,706	Warehouse	Hayward

East Bay Industrial Sales Activity

PROPERTY	SF	PRICE	PRICE PSF	BUYER
7500 Edgewater Dr, Oakland	203,183	\$37,100,000	\$182	BlackStone
2451 Polvorosa Dr, San Leandro	301,372	\$37,000,000	\$123	Blackstone
San Leandro Business Park, San Leandro	275,523	\$36,500,000	\$133	Blackstone

EAST BAY INDUSTRIAL MARKET

MID-YEAR 2016

EAST BAY INDUSTRIAL STATISTICS

SUBMARKET	INVENTORY	UNDER CONSTRUCTION	QTR NET ABSORPTION	YTD NET ABSORPTION	DIRECT VACANCY	SUBLEASE VACANCY	TOTAL VACANCY	AVERAGE NNN RATE PSF
General Industrial	23,732,073	-	321,857	631,729	3.8%	0.0%	3.8%	\$0.68
Flex	13,432,060	-	(26,285)	579,768	5.4%	0.0%	5.4%	\$1.47
Warehouse	85,677,486	630,866	587,517	1,162,666	2.6%	0.4%	2.9%	\$0.64
I-80/880 Corridor Total	122,841,619	630,866	883,089	2,374,163	3.1%	0.3%	3.4%	\$0.93
General Industrial	6,193,577	-	(9,378)	(28,111)	9.8%	0.1%	9.9%	\$0.75
Flex	2,788,462	-	39,244	22,852	20.7%	0.2%	20.9%	\$1.08
Warehouse	9,381,397	-	153,397	277,804	3.1%	0.0%	3.1%	\$0.81
North I-680 Corridor Total	18,363,436	-	183,263	0	8.0%	0.1%	8.1%	\$0.88
General Industrial	896,762	556,556	(19,518)	42,315	2.9%	0.0%	2.9%	\$0.82
Flex	4,953,622	-	8,949	98,397	2.7%	0.0%	2.7%	\$1.02
Warehouse	12,827,436	86,700	1,123,737	1,021,156	7.5%	0.0%	7.5%	\$0.60
Tri-Valley Total	18,677,820	643,256	1,113,168	1,161,868	6.0%	0.0%	6.0%	\$0.81
General Industrial	30,822,412	556,556	292,961	645,933	5.0%	0.0%	5.0%	\$0.75
Flex	21,174,144	0	21,908	701,017	6.8%	0.0%	6.8%	\$1.19
Warehouse	107,886,319	717,566	1,864,651	2,461,626	3.2%	0.3%	3.5%	\$0.68
EAST BAY TOTAL	159,882,875	1,274,122	2,179,520	3,808,576	4.0%	0.2%	4.2%	\$0.87



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