Bay Area Regional Shopping Center Quarterly Report

Q3 Power Centers Rebound One Year After Box Bankruptcies Disrupt the Market

John Cumbelich & Associates' quarterly survey of the Bay Area's flagship Power Center inventory reflects a slight overall rise in occupancy in Q3. The period ended with an occupancy rate of 97.11%, substantially higher than Q3 2016's occupancy rate of 95.73%. Q3 2016 experienced the closing of The Sports Authority and Sports Chalet, leaving 34 vacancies ranging from 15,000 SF – 50,000 SF throughout the Bay Area. Throughout the past year, retailers such as Nordstrom Rack, Dick's Sporting Goods, and Target have absorbed the majority of these vacancies. As a result, Q3 2017 experienced the third highest power center occupancy rate in the past two years.

For the second quarter in a row, the North Bay experienced a slight decrease in occupancy, moving from 98.00% to 97.89%. The San Francisco Peninsula experienced a decrease from 98.03 to 97.57% in Q3. Conversely, South Bay occupancy rose from 96.03% to 96.22%, while the East Bay experienced a slight increase from 96.27% to 96.65%.

Although minimal power center leasing activity took place in Q3, there were notable announcements surrounding the Bay Area's 25 Flagship Power Centers in Q3. -Cont'd-

About the Report

The attached survey of flagship assets studies 25 dominant Power Centers located in each of the San Francisco Bay Area's nine counties. The survey covers 13.1 million square feet of best in class inventory.

** The information in this report is for information purposes only.*

Q3 2017 Summary

GO CONSIDER STOP

LOW VACANCY
Thirteen of the twenty-five flagship Bay Area Power Centers remain at less than 1% vacancy, while eleven power centers are 100% occupied.

STRONG FUNDAMENTALS
The Bay Area Power Center occupancy rate increased from 95.73% to 97.11%

MINOR PULLBACKS
The North Bay and San Francisco Peninsula submarkets experienced minor increases in vacancy.

The City of Fremont recently approved 2.53 million SF of proposed industrial development and 100,000 SF of auto dealerships just south of the Pacific Commons power center. The City of Vacaville approved a 4,100 SF Direct Urgent Care at the Nut Tree power center, and Party City recently announced the opening of a new store at the Alameda South Shore Center.

The number of 100% occupied Power Centers has remained unchanged at eleven since Q2 2017, and the number of centers with vacancy rates less than 1% remained at thirteen.


Flagship assets included in the survey
Santa Rosa
North Bay
Inventory: 2,740,135 SF
Available: 57,932 SF
Occupancy Rate: 97.89%
Petaluma
Novato
Napa
Vacaville
Vallejo
Pittsburg
Pleasant Hill
Brentwood
East Bay
Inventory: 5,145,397 SF
Available: 172,116 SF
Occupancy Rate: 96.65%
Emeryville
Alameda
San Francisco
Daly City
Dublin
Union City
Fremont
San Mateo
San Francisco/ Peninsula
Inventory: 3,651,244 SF
Available: 88,892 SF
Occupancy Rate: 97.57%
Palo Alto
South Bay
Inventory: 1,660,758 SF
Available: 62,818 SF
Occupancy Rate: 96.22%
San Jose

Q3 2017 Results – Flagship Power Centers

North Bay

Inventory:	2,740,135 SF
Available:	57,932 SF
Occupancy Rate:	97.89%

San Francisco/Peninsula

Inventory:	3,651,244 SF
Available:	88,892 SF
Occupancy Rate:	97.57%

South Bay

Inventory:	1,660,758 SF
Available:	62,818 SF
Occupancy Rate:	96.22%

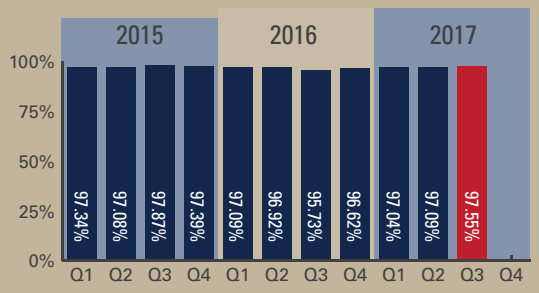
East Bay

Inventory:	5,145,397 SF
Available:	172,116 SF
Occupancy Rate:	96.65%

Bay Area Totals

Inventory:	**13,197,534 SF**
Available:	**323,883 SF**
Occupancy Rate:	**97.55%**

Overall Occupancy



Highest Occupancy

Power Center	SF	Vacancy %
Ravenswood 101	1,517,692	0.00%
Vintage Oaks	620,262	0.00%
Alameda South Shore	594,000	0.00%
Bridgepointe	550,331	0.00%
Santa Rosa Marketplace	541,693	0.00%
East Bay Bridge Center	453,500	0.00%
Pinole Vista Crossings	400,000	0.00%
San Jose Market Center	356,000	0.00%
South Napa Marketplace	349,530	0.00%
East Washington Place	341,411	0.00%
Village Oaks	313,276	0.00%

Highest Vacancy

Power Center	SF	SF Avail.	Vacancy %
Potrero Center	226,642	35,537	15.68%
Century Plaza	524,300	49,550	9.45%
Lone Tree Plaza	474,910	44,612	9.39%

Largest Vacant Spaces

Power Center	SF Avail.
Potrero Center	35,317
Century Plaza	31,300
El Paseo de Saratoga	28,251

Recent Transactions

Smart & Final consummated a 29,200 SF 10 year lease at

1266 W San Carlos Street
San Jose, CA

The firm exclusively represented the lessee in the transaction.

J. McLaughlin consummated a 1,590 SF, five year lease at

La Fiesta Square
Lafayette, CA

The firm exclusively represented the lessee in the transaction.

Fitness 19 consummated a 9,690 SF, 10 year lease at

Bay Hill Shopping Center
San Bruno, CA

The firm exclusively represented the lessee in the transaction.

Smart & Final consummated a 30,303 SF 10 year lease at

Yuba Sutter Mall
Yuba City, CA

The firm exclusively represented the lessee in the transaction.

Featured Listing

Lighthouse Marketplace
Suisun City, CA

A new retail destination

Contact
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Featured Retailer

FRESH FROM THE GRILL

2,300 – 3,200 SF
Sacramento & East Bay

Contact
Brandon Norton | Tim Seiler

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ABOUT THE FIRM

John Cumbelich & Associates is a San Francisco Bay Area firm that provides commercial real estate services to Fortune 500 retailers and select owners and developers of retail commercial properties. The firm's expertise is in developing store networks for retailers seeking to penetrate the Northern California marketplace, and the representation of premier power center and lifestyle developments.

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Better Real Estate Data | John Cumbelich

In the commercial real estate business, like all complex and sophisticated fields, every market participant relies on market data to succeed. Good data allows principals such as landlords and tenants to frame lease terms, or buyers and sellers to establish a fair price.

Good data also enables service providers such as real estate and mortgage brokers, appraisers, lenders and contractors both to advise their clients with superior market knowledge, and to price their services competitively. Data on lease and sale comparables, absorption, occupancy & vacancy rates, inventories, development pipelines, development costs and asking prices are but a few of the tools that market participants use on a daily basis to ply their craft and compete effectively in the marketplace.

In short, it's fair to say that real estate data is an indispensable tool that the industry can't function without. Thus, questions about the where the data comes from, who produces it, and exactly what data is being recorded are existential questions for the present and future of the industry and the individual principals and firms that make a living in the field.

As a real estate services firm that records data, drafts and publishes quarterly reports and advises our clientele based on the result of our findings, we have had to ask ourselves fundamental questions about what data to track and report on. Essentially, we've had to ask ourselves, "what data really matters?"

Thirty years ago I worked for the largest real estate services firm in the world, and I started in the research department. Their philosophy was simple: separate all commercial real estate into categories (office building, shopping centers, warehouses, etc.) and then build a database that included every property in a given city or submarket.

Visiting every property was tedious work that frequently left me and my cohort of college aged researchers asking ourselves if anyone was really going to use this stuff. A real estate lesson that I learned as a green rookie was that when looking at a market in total, the majority of the inventory – in every asset type – was dated, underpriced, functionally obsolete, junk. The owners of yesteryear's shopping centers and office buildings held assets that today's expanding brands wouldn't think of using – whether due to deferred maintenance, lack of amenities, changing market dynamics, or fundamental shifts in the size and shapes of users. These latent flaws were best affirmed through asking rents that were at times 50% or more below market, or the final insult, that no broker would agree to take as a listing. Why, I asked myself, would we track assets that none of the users we hoped to represent, would ever lease or purchase?

Years later when our firm began to grow, I knew two things for certain. First, we needed to tell our current and future clientele that our firm had a big commitment to market data. We wanted to be able to underpin our advice against real time market data that we had built ourselves. Second, we wanted to track and report on the most valuable, relevant and usable data. Otherwise, our data would be window dressing at best, or misleading at worst.

As we set out to build our database, the lessons I first observed thirty years before weighed heavily on my opinions about the meaning of good real estate data. Rather than tracking everything and calling ourselves experts, we blew up the model and determined to only count the best in class assets. Better to be a little bit right I thought, than all the way wrong.

We developed a database that tracks what we call Northern California's Flagship regional shopping centers. As a firm that has been deeply engaged in this market for decades and that has relationships with dozens of Fortune 500 users, Institutional owners and municipalities throughout the region, we feel that we have a very strong and sober handle on what "best in class" means. By choosing the most sought after retail assets in every one of the Bay Area's nine counties, we provide a geographically balanced snapshot that reports on the market's ability to secure the most active, best in class brands. Since these brands are almost always looking in multiple markets, our tool provides a yardstick that scores this market against others.

Today, when we report on the Bay Area marketplace and posit that overall occupancy is, say, 98%, while our peers claim it is only 92%, I take a sigh of relief and feel at ease because I know we are right, because we paid close attention to what we were counting. We've elected to look at the market like the premier owners and users do. After spending some thirty years in the car driving virtually every Northern California submarket with our clients, we know exactly what they look for and what they can get approved for a new store opening. Indeed, over the years, we have trained scores of real estate managers along the way, paying forward the timeless lessons about competitive, best in class retail real estate, that the savviest of our mentors taught us a few decades before.

When we say that the vacancy rate is 2%, while our peers claim that it is 8%, what we are really saying is that the market that Federal Realty or Regency Centers or GAP or Trader Joe's or Dick's Sporting Goods cares about is 2% vacant. The owners and users that drive the market, that are the catalysts for 100% of all new development, those who build and occupy more space than everyone else, don't care about the C class real estate any more than they care about the F class real estate. We've created a database that speaks to the availability and pricing of the kind of real estate that these premier users can reasonably hope to get approved through their real estate committee process.

Our methods clearly vary from those of the macro economist, but our goals do as well. We are providing powerful and timely data to the owners, users, developers, investors and lenders that push the market forward every day. We want to make sure that they have at least one place to find information that they can really use.

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