



## **Orchard Picks Some Plums**

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Lafayette-based Orchard Partners LLC has acquired another 1.7 million square feet of West Coast industrial properties in six transactions, buying on behalf of four institutional partners. Three properties are located in the Bay Area, two in the Los Angeles area and one in Washington state near Seattle.

Counting five of the six acquisitions, Orchard invested close to \$140 million, according to brokers and marketplace sources.

The flurry of acquisitions—the most recent completed Jan. 6 and the oldest in late September—marks a second round of West Coast industrial buys for Orchard and its financial partners, including Morgan Stanley Real Estate Investing, The James Campbell Co. and Angelo Gordon & Co, according to an Orchard news release. Sellers' names and prices were not disclosed in the Orchard document.

Most recently in the Bay Area, Orchard acquired 1200 Whipple Road in Union City. The property sold for approximately \$18 million, industry sources said. The 257,500 square-foot warehouse is leased to Macy's, according to Google Maps. Orchard bought the property on behalf of James Campbell Co., a separate-account client and large Hawaiian real estate company.

It was the third property that Orchard has helped James Campbell to buy. In September, Orchard bought a not-quite 310,000 square-foot warehouse complex in Cerritos, Calif., also on the Hawaiian company's behalf. The property, leased to Rock-Tenn Co., a

Georgia-based, publicly traded packaging-products maker, sold for about \$40 million, sources said.

Bay Area industrial brokers have reported an uptick in transaction activity over the last six months, saying sales were slowed only by the availability of projects on the market. Several of the acquisitions that Orchard completed were done on an off-market basis, and in the case of the Union City property, bought directly from the seller. The supply of industrial buildings in the region—particularly infill industrial—also is being reduced by the conversion of industrial properties to other uses and a dearth of new construction created by expensive land.

Industrial property ownership in the Bay Area has seen substantial consolidation, typically away from smaller private owners to larger institutional ownership, said Jeff Starkovich, a managing partner for Cassidy Turley Commercial Real Estate Services in Oakland who specializes in industrial properties. While opportunities remain for investors, he said, “The smaller ownership groups want to keep the properties for the same reasons that the institutional owners want to buy.”

Still, the pace of Bay Area industrial property sales accelerated in the second half of 2011, gaining a tremendous year-end boost with the late December acquisition of 5.3 million square feet by Glendale, Calif., -based PS Business Parks. Capitalization rates, a measure of yield based on net operating income and purchase price, have been falling, reflecting rising buyer competition for properties. PS Business Parks accepted a less than 6 percent cap rate in its acquisition, for instance. That compares to cap rates of more than 8 percent in 2008, “when no one knew where the market was going,” Starkovich said. He was not involved in any of the Orchard transactions.

Peninsula warehousing is by and large the oldest in the Bay Area, Starkovich said. Its users are often linked to the San Francisco International Airport. In the South Bay, technology companies such as Apple Inc. have historically helped fuel demand for warehousing, but that demand is lessening to some degree and is not shared by all technology companies such as social media. In the East Bay, users tend to be third-party logistics companies who manage the shipment of goods on behalf of others, as well as users themselves, such as companies shipping food stuffs and other products in and out of the Oakland port.

Tyler Higgins, managing partner for Orchard, and Joseph Russell, president and chief executive of PS Business Parks, sounded similar themes when discussing the attributes that draw investors to industrial properties—their relative simplicity and low expense. “Most warehousing projects are only 5 percent to 10 percent office, so there is less leakage of net operating income to tenant improvements,” Higgins said Jan. 9 in releasing news of his company’s acquisitions. “They also have a timeless design.”

Besides the Union City buy, Orchard bought 405 Victory Ave. in South San Francisco on behalf of an unnamed foreign pension fund. The price was approximately \$25 million for the 210,000 square-foot building. Orchard also finalized the recapitalization of the 581,000 square-foot SFO Logistics Center along with financial partner Angelo Gordon & Co., a deal originally announced in late August.

Both Peninsula deals involved multi-tenant buildings aimed at the air-freight sector. The other four complexes Orchard acquired are bulk warehousing.

South San Francisco industrial property owners saw more than 123,000 square feet of occupancy growth last year, the second-strongest Peninsula submarket, according to brokerage Colliers International. Only Burlingame was stronger, with not quite 170,000 square feet of occupancy gains. By way of comparison, at the end of 2009, South San Francisco recorded nearly 800,000 square feet of occupancy lost in the preceding year, and Burlingame not quite 220,000 square feet of occupancy losses.

In Union City, occupancy grew last year by not quite 125,000 square feet on an inventory of nearly 14 million square feet total. Union City is one of multiple submarkets in the Interstate 880 industrial corridor from Richmond to Newark, where Fremont, Hayward and Oakland are the largest with roughly 40 million square feet apiece. At 7.1 percent leased, the Union City industrial market is performing somewhat better than the I-880 market as a whole, where vacancy was 9 percent at year end, according to CB Richard Ellis.

Overall, East Bay industrial properties are enjoying their first year of occupancy growth after four years of rising vacancy, Starkovich said.

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