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## Orchard Buys East Bay Warehousing

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Sharon Simonson

Bay Area-based Orchard Partners has acquired two fully leased East Bay warehouses, hoping to cash in on rising recovery in the industrial sector both in the Bay Area and nationally.

Orchard completed its seventh industrial acquisition with Morgan Stanley Real Estate Investing with the purchase of the Huntwood Logistics Center in Hayward. The not-quite 325,000 square-foot property is leased to Mohawk Industries through 2013. Mohawk is one of the world's largest floor-covering manufacturers and distributors.



The price was in the neighborhood of \$70 a square foot, according to industry sources.

Orchard also has acquired a nearly 200,000 square-foot warehouse in Union City on behalf of its separate-account client, The James Campbell Co. The Dowe Industrial Center is leased to Southern Wine & Spirits, also through 2013. It is the first purchase Orchard has made on behalf of James Campbell, a large Hawaiian real estate company, according to an Orchard news release.

The price was about \$65 a square foot, according to industry sources.

The two purchases are part of nearly 1.5 million square feet of West Coast industrial space that Orchard has acquired in the last five months. The company helped acquire a more than 72,000 square-foot warehouse in Los Angeles County with DCT Industrial Trust and the nearly 900,000 square foot Auburn Logistics Center in the Seattle area. The Seattle purchase was also with Morgan Stanley.

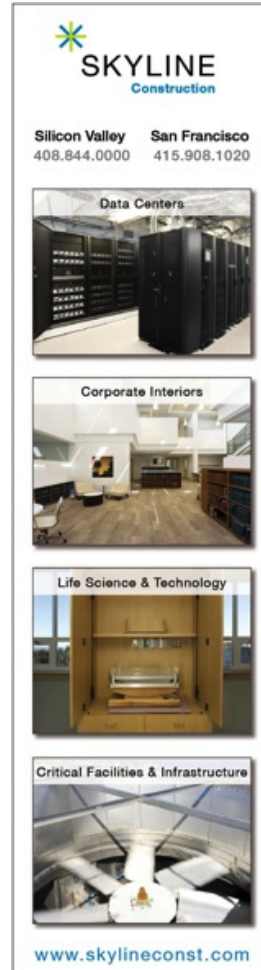
Tyler Higgins, managing partner for Orchard, said his investment philosophy was honed over 16 years doing acquisitions for San Francisco-based AMB Property Corp., which is now known as Prologis Inc. AMB and Prologis merged earlier this year.

Higgins said he is focused on West Coast infill submarkets near airports and seaports and is keying, in part, on the rising scarcity of large blocks of contiguous warehouse space in the East Bay. "I've looked at both of these properties over the last 20 years, and through relationships with the owners, I was able to pick up these deals off market," Higgins said.

He is prohibited from releasing purchase prices by sellers and under agreements with investment partners, he said.

Demand for space is coming from third-party logistics companies, food-related users as well as home improvement and electronics sellers, said Jeff Starkovich, managing partner for Cassidy

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Turley BT Commercial in Oakland. Starkovich and Jay Hagglund of Cassidy Turley represented Orchard in the Hayward acquisition.

The size of both Bay Area properties should give them longer-term competitive advantage, Starkovich said. Warehousing larger than 200,000 square feet is “hard to find in the East Bay, and tenants are left going farther east,” he said. “A lot of the 100,000 square-foot buildings have functional issues.”

Industrial occupancy rates have improved in the first half of the year, according to research from brokerages Cassidy Turley and Grubb & Ellis. Third-party logistics companies are expanding nationally, and the East Bay market should benefit from that, Grubb reports in a second-quarter note, citing a more than 150,000 square-foot lease for 3525 Arden Road in Hayward signed by Syncreon International Group, a contract logistics provider.

But both Grubb and Cassidy Turley also sound somewhat somber notes in their second-quarter industrial-property reviews. While the East Bay industrial market saw more than 469,000 square feet of occupancy growth in the second quarter, Cassidy Turley is predicting only modest occupancy gains for the rest of the year.

“ Amid a slowdown across all drivers of industrial demand during the quarter, the national industrial real estate market defied the odds and posted quarterly results on par with the first quarter,” Grubb said.

“This favorable performance, however, is not sustainable unless the U.S. economy picks up in the second half ... ,” Grubb concludes.

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