

OAKLAND METROPOLITAN AREA INDUSTRIAL Q1 2018

Accelerating success.

Strong Start To What Will Be A Record Year for Industrial

- > Gross Absorption remained historically low at 812,511 square feet this quarter
- > Vacancy this quarter remained historically low at 1.9%
- > Net Absorption for the first quarter was positive 89,306 square feet

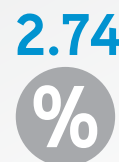
The economy continues to see modest expansion in the first quarter of 2018 reporting an annualized GDP of 2.8%. The historically low unemployment rate of 4.1% remained unchanged, as national non-farm payroll employment rose by 616,000 in the first quarter. The industrial sector also continues to expand with the value of final products increasing by 2.31% over the last quarter. The ISM Manufacturing Index shows that industry sentiments regarding new orders, inventories, production, and employment remain in expansionary territory. This translated into a strong industrial real estate market that in 2017 had the lowest vacancy rate on record. The National Real Estate Institute's fourth annual survey projects that the expansionary cycle will continue projecting that the West Coast will outperform the rest of the U.S. for the third consecutive year.

Market Indicators

United States
Unemployment Rate



10-Year Nominal
Interest Rate



Consumer
Confidence



Market Trends

Relative to prior period

Q1 2018

Q2 2018*

Vacancy



Rental Rate



Net Absorption



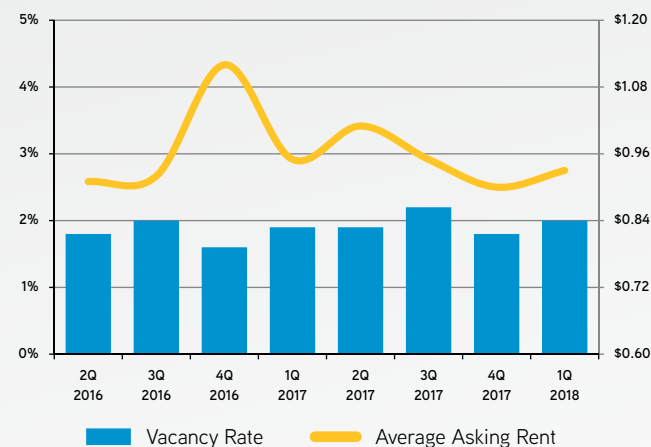
Construction



*Projected

Vacancy vs. Asking NNN Rental Rates

I-80/I-880 Corridor | Overall Industrial Market



Overall vacancy remained stable and historically low in the first quarter of 2018; rental rates increased from \$0.90 to \$0.93 NNN. Following the increase from fourth quarter to first quarter, we expect rents to stabilize with the potential of a slight increase. Overall vacancy rate should remain low and stable, as has been the trend for the past several quarters.

Summary Statistics

Q1 2018 I-80/I-880 Corridor Industrial Market	Previous Quarter	Current Quarter
Overall Vacancy	1.8%	1.9%
Quarterly Net Absorption	845,113	89,306
Construction Completed	256,136	274,724
Under Construction	2,004,816	2,469,252
Overall Asking Rents	\$0.90	\$0.93
Overall Industrial Asking Rents	\$0.86	\$0.89
Overall Warehouse Asking Rents	\$0.74	\$0.76
Overall R&D Flex Asking Rents	\$1.48	\$1.60

U.S. National Economic Indicators

Unemployment Rate	4.1%	4.1%
Labor Force Participation Rate	62.7%	62.9%
Consumer Price Index	2.47%	2.49%
Interest Rate - 10 Yr Treasury	2.40%	2.74%
Business Confidence	101.1	101.5
Consumer Confidence	122.1	127.7

* Data Source: EDD Labor Market Information Division

The East Bay industrial real estate market continues to be one of the most in-demand in the nation. The Port of Oakland is the seventh busiest port in the nation, and is in the process of redeveloping the former Oakland Army Base into a modern warehouse and distribution hub. Construction on Phase 1 of the Oakland Global Logistics Center (“OGLC”), a partnership with the Port of Oakland and Prologis finished at the end of last year and the building has already been leased. Personal On Demand Storage (“PODS”) leased Phase 1 of the OGLC in the first quarter. By the end of the year, Phase 2 of OGLC will provide an additional 231,660 square feet of redeveloped industrial property to the 256,216 feet already provided by Phase 1. Industrial property around the Port of Oakland remains highly coveted given its “last mile” location and immediate access to all major transportation.

Thanks in large part to the rise in e-commerce sales, redevelopment of previously undesirable real estate into state-of-the-art distribution centers is underway throughout the East Bay. Construction on a 274,724 square foot industrial park in Hayward known as the Shea Center was completed this quarter and, an additional 2.5 million square feet of industrial property is expected to complete construction in the East Bay before the year ends. As a result, 2018 is expected to deliver a total of roughly 2.8 million square feet of new industrial property, the largest amount in the last 20 years.

In the first quarter of 2018 the vacancy rate remained essentially static, from its historical low in the previous years. With only 2.8 million square feet of vacant industrial property, the strong demand for last mile delivery distribution centers is giving way to concerns over price and space availability. These concerns have led some larger tenants to indicate their preference for industrial properties in the Central Valley that have relatively lower asking rents.

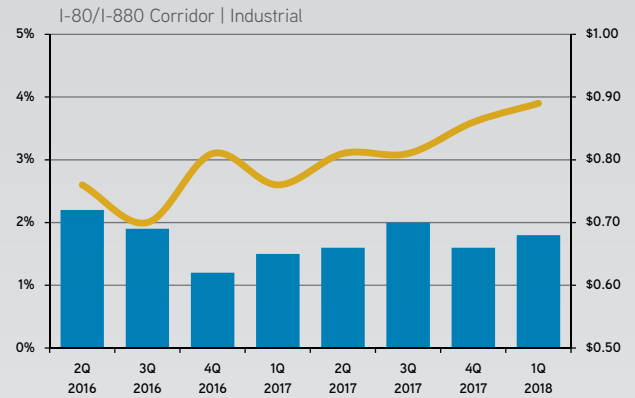
After a record year for industrial real estate along the I-880 corridor, asking rents continued to climb higher in the first quarter. Manufacturing triple-net (“NNN”) asking rents increased from \$0.86 to \$0.89 per square foot, while warehouses and distribution centers rose from \$0.74 to \$0.76 per square foot since last quarter. Oakland’s manufacturing properties experienced a particularly rapid increase in NNN asking rents, rising 27% in just one quarter. Asking rents will probably continue to rise, but it is unlikely that 2018 will replicate the rate of either of the last two years simply because rents are historically high.

First quarter gross absorption of 812,511 square feet represents a slowdown in leasing activity compared with last quarter and this time last year. With over 2.2 million square feet of construction to be completed in 2018, gross absorption should pick up considerably. Despite the slow start there were many notable deals this quarter. Along with the lease signed by PODS, Worldwide Parts and Accessories (World Pac) signed a lease to renew the 252,600 foot property lease on Hickory Street in Newark. On the purchase front, Deutsche Asset Management purchased the 236,976 square foot building FedEx Ground has been operating out of since 2016 at 3596 Baumberg Ave. in Hayward.

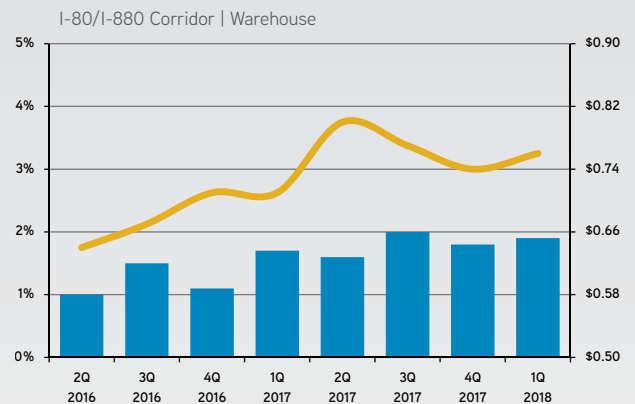
First quarter net absorption was almost 90,000 square feet, which is down overall from this time last year and last quarter. This is due to the many leases that ended in the beginning of 2018, and the relatively low gross absorption in the first quarter. Construction expected to be completed this year may temporarily have a negative impact on net absorption. Yet, in the long run the demand is expected to catch up as tenants in the market are demanding 3.3 million square feet of industrial property.

Demand continues to significantly outstrip supply, with the asking sale price for industrial land doubling since the fourth quarter of 2013 from \$20 per square foot to between \$40 and \$50 per square foot now. Asking NNN rental rates rose again, but the rate of increase has slowed. Vacancy is already so low that much of the property left on the market is not suitable for prospective tenant needs. 2018 projects to be a record setting year for construction, which should help ease demand by bringing new supply into the market.

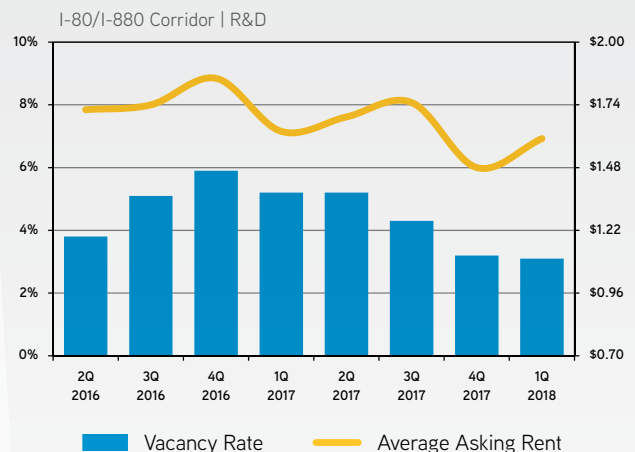
Vacancy vs. Asking NNN Rental Rates



Vacancy vs. Asking NNN Rental Rates



Vacancy vs. Asking NNN Rental Rates





Significant Lease Activity

- PODS**
277 Maritime Street, Oakland
Mar-2018
256,216 SF - Direct
- Zinus Inc.**
1951 Fairway Drive, San Leandro
Jan-2018
153,805 SF - Direct
- Maple Trade Corporation**
2660 West Winton Avenue Building 1, Hayward
Mar-2018
63,512 SF - Direct
- TEMCO Logistics**
2802 West Winton Avenue Building 2, Hayward
Mar-2018
64,916 SF - Direct
- Unisource Solutions**
31101 Wiegman Road Bldg. 2, Hayward
Jan-2018
71,600 SF - Direct
- Worldwide Parts and Accessories (World Pac)**
37137 Hickory Street, Newark
Feb-2018
252,600 SF - Direct

Significant Sale Activity

PROPERTY ADDRESS	SALE DATE	SIZE	BUYER	TYPE
3596 Baumberg Avenue Building 1, Hayward	March 2018	236,976	Deutsche Asset Management	Investment
8511 Blaine Street, Oakland	Feb-2018	205,927	LBA Realty	Investment

Market Comparisons

INDUSTRIAL MARKET

SUBTYPE	BLDGS	TOTAL INVENTORY SF	DIRECT VACANT SF	DIRECT VACANCY RATE	SUBLEASE VACANT SF	SUBLEASE VACANCY RATE	TOTAL VACANT SF	VACANCY RATE CURRENT QUARTER	VACANCY RATE PRIOR QUARTER	NET ABSORPTION CURRENT QTR SF	NET ABSORPTION YTD SF	COMPLETED CURRENT QTR SF	UNDER CONSTRUCTION SF	GROSS ABSORPTION CURRENT QTR	AVG ASKING NNN
RICHMOND															
Industrial	230	4,902,375	165,871	3.4%	2,500	0.1%	168,371	3.4%	4.6%	56,517	56,517	-	-	39,775	\$0.60
Warehouse	49	4,899,075	67,815	1.4%	-	0.0%	67,815	1.4%	0.8%	(26,450)	(26,450)	-	889,346	-	\$0.70
R&D/Flex	54	3,411,053	7,922	0.2%	42,896	1.3%	50,818	1.5%	1.7%	5,898	5,898	-	-	-	\$1.01
Total	333	13,212,503	241,608	1.8%	45,396	0.3%	287,004	2.2%	2.4%	35,965	35,965	-	889,346	39,775	\$0.70
OAKLAND															
Industrial	873	22,664,359	283,961	1.3%	-	0.0%	283,961	1.3%	1.3%	20,095	20,095	-	-	45,615	\$1.08
Warehouse	166	11,246,965	91,960	0.8%	281,638	2.5%	373,598	3.3%	4.4%	117,084	117,084	-	231,660	270,216	\$0.75
R&D/Flex	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total	1,039	33,911,324	375,921	1.1%	281,638	0.8%	657,559	1.9%	2.3%	137,179	137,179	-	231,660	315,831	\$0.89
SAN LEANDRO															
Industrial	476	11,902,478	94,176	0.8%	23,700	0.2%	117,876	1.0%	1.0%	(2,686)	(2,686)	-	-	17,160	\$0.83
Warehouse	133	14,704,891	101,854	0.7%	-	0.0%	101,854	0.7%	1.8%	158,478	158,478	-	955,098	172,383	\$0.62
R&D/Flex	53	847,380	2,160	0.3%	-	0.0%	2,160	0.3%	0.0%	(2,160)	(2,160)	-	-	2,600	\$1.30
Total	662	27,454,749	198,190	0.7%	23,700	0.1%	221,890	0.8%	1.4%	153,632	153,632	-	955,098	192,143	\$0.74
HAYWARD															
Industrial	793	16,856,309	451,088	2.7%	20,071	0.1%	471,159	2.8%	1.9%	117,672	117,672	274,724	93,345	110,204	\$0.89
Warehouse	228	21,678,059	485,441	2.2%	97,735	0.5%	583,176	2.7%	1.3%	(305,383)	(305,383)	-	626,501	69,696	\$0.78
R&D/Flex	109	4,502,794	230,582	5.1%	34,873	0.8%	265,455	5.9%	6.4%	20,515	20,515	-	-	31,674	\$1.46
Total	1,130	43,037,162	1,167,111	2.7%	152,679	0.4%	1,319,790	3.1%	2.1%	(167,196)	(167,196)	274,724	719,846	211,574	\$0.96
UNION CITY															
Industrial	168	7,883,678	80,296	1.0%	-	0.0%	80,296	1.0%	1.4%	29,820	29,820	-	-	33,744	\$0.77
Warehouse	87	7,488,110	18,900	0.3%	50,000	0.7%	68,900	0.9%	0.3%	(50,000)	(50,000)	-	-	-	\$0.78
R&D/Flex	14	870,672	17,633	2.0%	-	0.0%	17,633	2.0%	1.5%	(4,628)	(4,628)	-	-	-	\$1.35
Total	269	16,242,460	116,829	0.7%	50,000	0.3%	166,829	1.0%	0.9%	(24,808)	(24,808)	-	-	33,744	\$0.83
NEWARK															
Industrial	88	4,262,847	74,588	1.7%	2,700	0.1%	77,288	1.8%	0.8%	(43,637)	(43,637)	-	-	7,410	\$1.01
Warehouse	32	3,923,778	47,460	1.2%	-	0.0%	47,460	1.2%	1.5%	12,034	12,034	-	-	12,034	\$0.90
R&D/Flex	39	3,082,263	62,501	2.0%	-	0.0%	62,501	2.0%	1.6%	(13,863)	(13,863)	-	-	-	\$2.75
Total	159	11,268,888	184,549	1.6%	2,700	0.0%	187,249	1.7%	1.3%	(45,466)	(45,466)	-	-	19,444	\$1.56
MARKET TOTAL															
Industrial	2,628	68,472,046	1,149,980	1.7%	48,971	0.1%	1,198,951	1.8%	1.6%	177,781	177,781	274,724	93,345	253,908	\$0.89
Warehouse	695	63,940,878	813,430	1.3%	429,373	0.7%	1,242,803	1.9%	1.8%	(94,237)	(94,237)	-	2,702,605	524,329	\$0.76
R&D/Flex	269	12,714,162	320,798	2.5%	77,769	0.6%	398,567	3.1%	3.2%	5,762	5,762	-	-	34,274	\$1.60
Total	3,592	145,127,086	2,284,208	1.6%	556,113	0.4%	2,840,321	2.0%	1.8%	89,306	89,306	274,724	2,795,950	812,511	\$0.93
QUARTERLY COMPARISONS AND TOTALS															
Q1-18	3,592	145,127,086	2,284,208	1.6%	556,113	0.4%	2,840,321	2.0%	1.8%	89,306	89,306	274,724	2,795,950	812,511	\$0.93
Q4-17	3,591	144,852,362	2,277,114	1.6%	377,789	0.3%	2,654,903	1.8%	2.2%	845,113	1,040,758	256,136	2,004,816	1,392,485	\$0.90
Q3-17	3,583	144,596,226	2,790,603	1.9%	453,277	0.3%	3,243,880	2.2%	1.9%	(113,997)	195,645	333,365	1,912,682	1,064,811	\$0.95
Q2-17	3,583	144,262,861	2,468,411	1.7%	328,107	0.2%	2,796,518	1.9%	1.9%	122,208	309,642	161,483	2,127,046	762,588	\$1.01
Q1-17	3,584	144,101,378	2,478,657	1.7%	278,586	0.2%	2,757,243	1.9%	1.6%	137,434	187,434	143,373	2,133,324	1,023,550	\$0.95

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