

OAKLAND METROPOLITAN AREA INDUSTRIAL Q3 2017

Accelerating success.

E-Commerce Continues to Drive Demand

- Gross Absorption is 3,055,443 square feet year to date.
- Vacancy this quarter was 2.2 percent compared to 1.9 percent last quarter
- Net absorption (current quarter) is negative 113,997 square feet

Nine months into Trump's presidency, unexpected political gridlock has prevented a significant revision in outlook on the course of the US economy, which continues to expand at a moderate, steady pace. The labor market is closing in on full employment, stock markets continue to hit record highs, and consumer confidence remains strong. A recent Reuter's poll of 57 economists uncovered familiar sentiments about the current economic expansion: most think it has more than two years to go, while a minority think it has one to two years left. Should any of the anticipated policy changes or geopolitical tensions actualize, outlook could change dramatically, quickly.

The industrial real estate market is dealing with its own set of challenges but seems to be on more solid footing in the short term. The possible collapse of

Market Indicators

United States
Unemployment Rate

4.2%

10-Year Nominal
Interest Rate

2.33%

Consumer
Confidence

119.8 ↑

Market Trends

Relative to prior period

Q3 2017

Q4 2017*

Vacancy



Rental Rate



Net Absorption



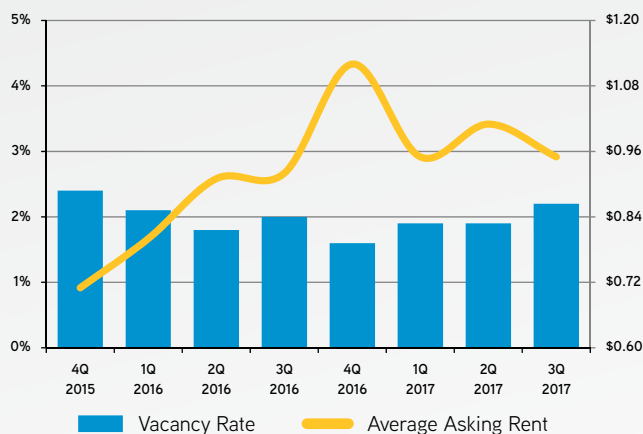
Construction



*Projected

Vacancy vs. Asking NNN Rental Rates

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



Overall vacancy increased by 0.3% in the third quarter of 2017; rental rates decreased from \$1.01 to \$0.95 NNN. Following the decrease from second quarter to third 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

Q3 2017 I-80/I-880 Corridor Industrial Market

Previous
Quarter

Current
Quarter

Overall Vacancy	1.9%	2.2%
Quarterly Net Absorption	122,208	-113,997
Construction Completed	161,483	333,365
Under Construction	2,127,046	1,912,682
Overall Asking Rents	\$1.01	\$0.95
Overall Industrial Asking Rents	\$0.81	\$0.81
Overall Warehouse Asking Rents	\$0.80	\$0.77
Overall R&D Flex Asking Rents	\$1.69	\$1.75

U.S. National Economic Indicators

Unemployment Rate	4.4%	4.2%
Labor Force Participation Rate	62.8%	63.1%
Consumer Price Index	2.44%	1.90%
Interest Rate - 10 Yr Treasury	2.31%	2.33%
Business Confidence	103.6	103.0
Consumer Confidence	118.9	119.8

* Data Source: EDD Labor Market Information Division

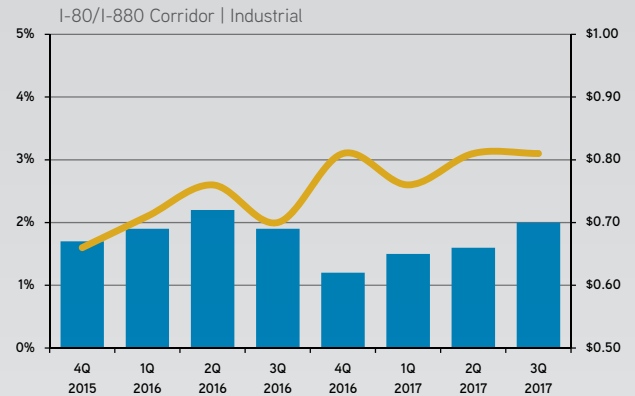
NAFTA continues to be a blip on the radar for logistics and manufacturing, though any changes to the trade pact will not go into effect until 2018. In addition, land in key locations is difficult to secure, and last-mile facilities do not seem to be built on pace with demand. As the US reaches full employment, negative effects could be seen in expansion plans if occupiers have difficulty finding adequate labor, though the use of automation and new technologies could be an offsetting factor. With the ISM Manufacturing Index rising to a 13-year high in September, strong consumer confidence, and e-commerce's 15.7% year-over-year growth compared with the third quarter of 2016, the market appears to have plenty of runway left in fueling space demand.

The I-880 Corridor industrial market, unsurprisingly, saw an active quarter with 1,064,811 square feet of total quarterly absorption, which was the highest seen this year but still well below figures seen in 2016. Hayward saw a significant amount of gross absorption, taking up more than half of the total quarterly leasing activity. Overall, warehouse/distribution product accounted for 50 percent of leasing activity, industrial product was responsible for roughly 45 percent and R&D/Flex remaining 15 percent. Roughly 2.0 million square feet of product is under construction in the I-880 Corridor, over 95 percent of which will be new warehouse/distribution space. Net absorption year to date (YTD) for 2017 fell from 309,642 square feet in the second quarter to 195,645 square feet. Over 1.0 million square feet of product came on the market this quarter, with roughly half popping up in Hayward. With the influx of space, continual demand, and at least 675,000 square feet of construction being completed next quarter, expect leasing activity to remain strong for the remainder of the year.

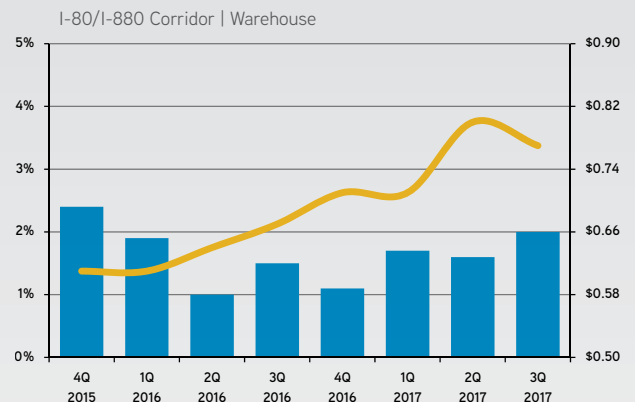
Rents are strong at \$0.95 per square foot per month triple net (NNN) but received some downward pressure from warehouse asking rates, which fell from \$0.80 to \$0.77 due to pricier product getting taken off the market. Industrial product asking rates remained stable from the previous quarter at \$0.81 per square foot per month NNN, and R&D/Flex product asking rates increased from \$1.69 to \$1.75 per square foot per month NNN. At 2.2 percent, vacancy continues to hover around a familiar margin, but did see a slight 0.3 percent uptick from the previous quarter, due in part to the addition of 333,365 square feet of new product at 3596 Baumberg Avenue in Hayward, which has yet to be leased. Of the 3.2 million square feet of vacant space on the market, about 17 percent of product is R&D/Flex, with industrial and warehouse/distribution product more or less splitting up the remaining 83 percent of vacant space. As such, leasing activity in the near future is expected to center around the latter two product types.

Investment and sale activity nationwide remain exceptionally strong. According to the second quarter 2017 Colliers Industrial Market Outlook, the national industrial real estate sales volume for the first half of 2017 increased by 10.0 percent year over year. In the I-880 market, sale transactions totaling over \$162 million transpired this quarter, a 179 percent jump from the \$58 million in sales completed in the previous quarter and a 62% increase from the \$100 million in sale transactions seen in the first quarter of 2017. Investments in U.S. industrial real estate assets from foreign capital, including Canada and China, are on the rise and is expected to continue as "demand reaches regional and secondary markets," according to a June BisNow article. Anticipating another strong quarter for sales in the I-880 Corridor is, it seems, only logical. Turning the corner into the final quarter of the year, the I-880 Corridor looks poised to finish strong.

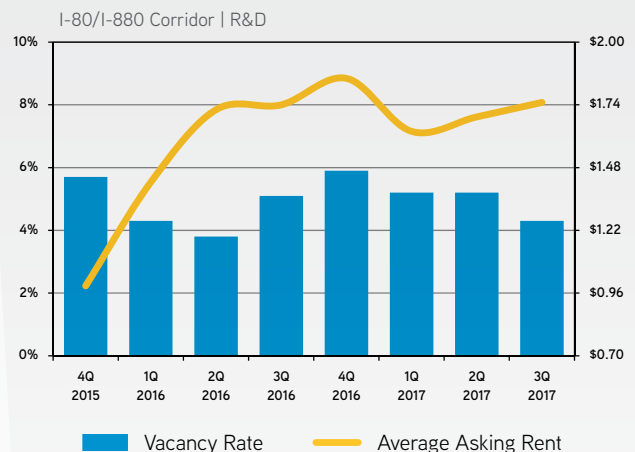
Vacancy vs. Asking NNN Rental Rates



Vacancy vs. Asking NNN Rental Rates



Vacancy vs. Asking NNN Rental Rates



Significant Lease Activity



Significant Sale Activity

PROPERTY ADDRESS	SALE DATE	SIZE	BUYER	TYPE
1905-1907 Dennison Street, Oakland	August 2017	166,484	Hager Pacific Properties	Investment
2230-2242 Davis Court, Hayward	July 2017	134,000	CenterPoint Properties Inc	Investment
2450 Alvarado Street, San Leandro	September 2017	126,624	Alvarado Industrial Center LLC	Investment
3701 Collins Avenue, Richmond	August 2017	83,000	Waldman Management Group, Inc	Investment
1951 Williams Street, San Leandro	July 2017	80,000	Zippy Shell	User
2300 Polvorosa Avenue, San Leandro	July 2017	75,414	4 FACEB Investment LLC	Investment
880 Harbour Way South, Richmond	July 2017	57,800	A&F Properties	Investment
1510 Zephyr Avenue, Hayward	July 2017	50,400	Chuck Chung Leung & Fung Ping Chan Leung	User

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	LEASING ACTIVITY CURRENT QTR	AVG ASKING NNN
RICHMOND															
Industrial	229	4,902,375	196,527	4.0%	19,481	0.4%	216,008	4.4%	1.6%	(154,267)	(85,904)	-	-	1,168	\$0.70
Warehouse	49	4,899,075	41,365	0.8%	-	0.0%	41,365	0.8%	2.1%	59,282	17,917	-	889,346	130,170	\$0.70
R&D/Flex	54	3,411,053	13,820	0.4%	42,896	1.3%	56,716	1.7%	2.0%	28,488	2,282	-	-	11,690	\$0.92
Total	332	13,212,503	251,712	1.9%	62,377	0.5%	314,089	2.4%	1.9%	(66,497)	(65,705)	-	889,346	143,028	\$0.74
OAKLAND															
Industrial	872	22,664,359	349,544	1.5%	-	0.0%	349,544	1.5%	1.2%	(74,259)	(269,388)	-	-	66,136	\$0.73
Warehouse	165	10,990,829	163,800	1.5%	-	0.0%	163,800	1.5%	1.5%	1,365	71,939	-	256,136	40,165	\$0.86
R&D/Flex	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total	1,037	33,655,188	513,344	1.5%	-	0.0%	513,344	1.5%	1.3%	(72,894)	(197,449)	-	256,136	106,301	\$0.77
SAN LEANDRO															
Industrial	475	11,902,478	228,760	1.9%	70,092	0.6%	298,852	2.5%	2.9%	50,910	205,511	-	-	122,079	\$0.86
Warehouse	133	14,704,891	70,399	0.5%	141,182	1.0%	211,581	1.4%	0.7%	(109,264)	60,514	-	229,900	14,565	\$0.68
R&D/Flex	53	847,380	2,610	0.3%	-	0.0%	2,610	0.3%	0.7%	3,588	2,430	-	-	12,359	\$1.30
Total	661	27,454,749	301,769	1.1%	211,274	0.8%	513,043	1.9%	1.7%	(54,766)	268,455	-	229,900	149,003	\$0.79
HAYWARD															
Industrial	789	16,581,585	349,867	2.1%	-	0.0%	349,867	2.1%	1.6%	(84,526)	(91,222)	-	93,345	208,789	\$0.89
Warehouse	228	21,678,059	334,590	1.5%	121,118	0.6%	455,708	2.1%	1.3%	146,564	330,711	333,365	443,955	297,494	\$0.73
R&D/Flex	108	4,502,794	230,091	5.1%	34,873	0.8%	264,964	5.9%	7.1%	56,901	111,800	-	-	98,835	\$1.38
Total	1,125	42,762,438	914,548	2.1%	155,991	0.4%	1,070,539	2.5%	2.0%	118,939	351,289	333,365	537,300	605,118	\$0.94
UNION CITY															
Industrial	168	7,883,678	136,532	1.7%	-	0.0%	136,532	1.7%	1.1%	(50,889)	(61,238)	-	-	16,875	\$0.77
Warehouse	86	7,488,110	330,609	4.4%	-	0.0%	330,609	4.4%	4.4%	-	(311,709)	-	-	18,539	\$0.81
R&D/Flex	14	870,672	13,005	1.5%	-	0.0%	13,005	1.5%	0.0%	(13,005)	(2,912)	-	-	-	\$1.35
Total	268	16,242,460	480,146	3.0%	-	0.0%	480,146	3.0%	2.6%	(63,894)	(375,859)	-	-	35,414	\$0.81
NEWARK															
Industrial	88	4,262,847	42,677	1.0%	2,700	0.1%	45,377	1.1%	1.5%	16,749	155,081	-	-	23,345	\$1.14
Warehouse	32	3,923,778	97,555	2.5%	-	0.0%	97,555	2.5%	1.3%	(47,460)	(41,941)	-	-	2,602	\$0.86
R&D/Flex	39	3,082,263	188,852	6.1%	20,935	0.7%	209,787	6.8%	8.6%	55,826	101,774	-	-	-	\$2.47
Total	159	11,268,888	329,084	2.9%	23,635	0.2%	352,719	3.1%	3.4%	25,115	214,914	-	-	25,947	\$1.85
MARKET TOTAL															
Industrial	2,621	68,197,322	1,303,907	1.9%	92,273	0.1%	1,396,180	2.0%	1.6%	(296,282)	(147,160)	-	93,345	438,392	\$0.81
Warehouse	693	63,684,742	1,038,318	1.6%	262,300	0.4%	1,300,618	2.0%	1.6%	50,487	127,431	333,365	1,819,337	503,535	\$0.77
R&D/Flex	268	12,714,162	448,378	3.5%	98,704	0.8%	547,082	4.3%	5.2%	131,798	215,374	-	-	122,884	\$1.75
Total	3,582	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
QUARTERLY COMPARISONS AND TOTALS															
Q3-17	3,582	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
Q4-16	3,578	143,401,188	2,029,033	1.4%	215,454	0.1%	2,244,487	1.6%	2.0%	727,306	1,209,828	-	688,168	1,252,090	\$1.12
Q3-16	3,578	143,409,822	2,570,787	1.8%	359,640	0.3%	2,930,427	2.0%	1.8%	(344,849)	482,522	-	637,938	1,916,693	\$0.92

MARKET CONTACTS:

Ken Meyersieck

Executive Managing Director | Oakland
CA License No. 00939525
+1 510 433 5802
ken.meyersieck@colliers.com

Russell Chang, CPRC

Senior Research Analyst | Oakland
+1 510 433 5836
russell.chang@colliers.com

William Chui

Research Analyst I | Oakland
+1 510 433 5838
william.chui@colliers.com

Copyright © 2017 Colliers International.

The information contained herein has been obtained from sources deemed reliable. While every reasonable effort has been made to ensure its accuracy, we cannot guarantee it. No responsibility is assumed for any inaccuracies. Readers are encouraged to consult their professional advisors prior to acting on any of the material contained in this report.

Colliers International | Oakland

1999 Harrison Street, Suite 1750
Oakland, CA 94612 | United States
+1 510 986 6770

colliers.com/oakland



Accelerating success.