

OAKLAND METROPOLITAN AREA INDUSTRIAL Q3 2016

Accelerating success.

Front Row Seats to the E-Commerce War

- > Gross Absorption is 6,099,727 square feet year to date.
- > Vacancy this quarter was 2.0 percent compared to 1.8 percent last quarter
- > Net absorption (current quarter) is negative 296,103 square feet

The industrial market along the I-80/I-880 Corridor continued its extraordinarily strong run through the third quarter of 2016, with strong demand, historically low vacancy, rising rents, and increased development activity bolstered by a bullish national economy with good economic fundamentals.

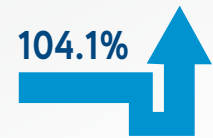
The rise of e-commerce has led companies and retailers to relocate distribution centers near population centers or ports suitable for reaching consumers quickly in order to secure the "last mile" in the supply chain and reduce delivery times. New warehouses and distribution centers are being leased prior to completion of construction. There is strong interest from developers for distribution development – however, the entitlement and approval process can be lengthy and challenging, and there are limited opportunities.

Market Indicators

United States
Unemployment Rate

10-Year Nominal
Interest Rate

Consumer
Confidence



Market Trends

Relative to prior period

Q3 2016

Q4 2016*

Vacancy



Rental Rate



Net Absorption



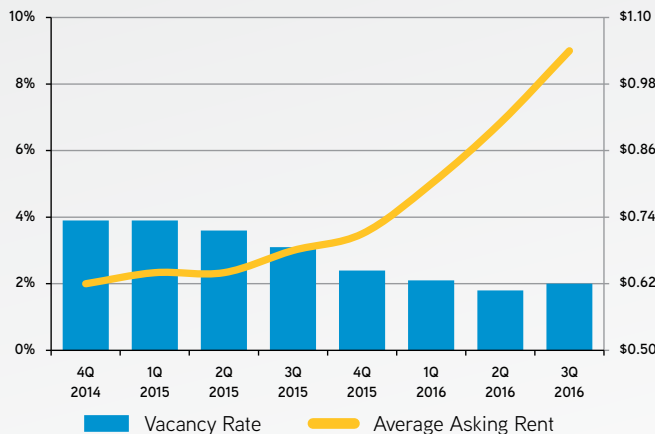
Construction



*Projected

Vacancy vs. Asking NNN Rental Rates

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



Overall vacancy increased by 0.2% since the second quarter in 2016; rental rates rose from \$0.92 to \$1.04. Continued demand and lack of available space in the coming months will result in flat vacancy rates with potential for a slight uptick, and stable or slightly increasing overall asking rates.

Summary Statistics

Q3 2016 I-80/I-880 Corridor Industrial Market

Previous
Quarter

Current
Quarter

Overall Vacancy	1.8%	2.0%
Quarterly Net Absorption	431,017	-296,103
Construction Completed	-	-
Under Construction	637,938	637,938
Overall Asking Rents	0.92	1.04
Overall Industrial Asking Rents	0.76	0.97
Overall Warehouse Asking Rents	0.65	0.67
Overall R&D Flex Asking Rents	1.72	1.74

U.S. National Economic Indicators

Unemployment Rate	4.9%	5.0%
Labor Force Participation Rate	62.7%	62.9%
Consumer Price Index	2.40%	2.41%
Interest Rate - 10 Yr Treasury	1.49%	1.60%
Business Confidence	99.70%	99.30%
Consumer Confidence	100.80%	104.10%

* Data Source: EDD Labor Market Information Division

Supported by steady demand and an overall vacancy rate at just 2.0 percent (up 20 basis points since the end of the previous quarter), the overall average asking triple net (“NNN”) rate for the I-80/I-880 Corridor industrial market continued its ascent, breaking the dollar mark and ending the quarter at \$1.04 per square foot per month NNN, up \$0.12 from the second quarter. High asking rates for R&D product in Newark, particularly at the Pacific Research Center, drove the 13.0 percentage point increase in asking rates. Net absorption for the quarter was negative 296,103 square feet, largely due to 200,000 square feet of space coming available in two buildings on Williams Street in San Leandro.

Transactions of note include the renewal of 320,000 square feet of warehouse/distribution space with Federal Express Ground in Newark, a 275,000 square foot lease to Friant Associates and a 175,000 square foot lease to Foamex in San Leandro, a 200,000 square foot lease to Rainin Instrument in Oakland, and a 130,000 square foot lease to MAMAC Investment, Inc. in Hayward.

On the sale-side, Prologis sold two buildings in Richmond, totaling 475,000 square feet, to LaSalle Investment Management. Another 41,000 square feet in the Pinole Point Business Park is under construction for a build-to-suit, and is expected to close at the end of the year when construction is complete.

Many factors contribute to the East Bay industrial market’s historically low vacancy rates. Proximity to the Port of Oakland allows businesses to serve customers in and around San Francisco, Richmond, and Redwood City, cities that have their own ports. Ease of access to both highways and the Oakland International Airport allows convenient intrastate, interstate, and international transport of product. On a building level, cross-docking capabilities and above-average ceiling heights of newer industrial product accommodate tenants with more sophisticated distribution operations, like Amazon.

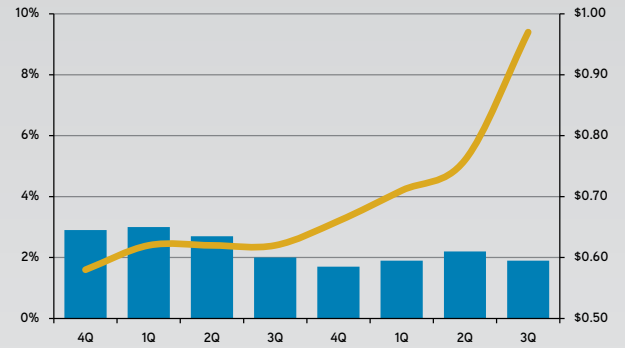
A further incentive of the I-80/I-880 Corridor is the proximity to dense and young population centers like San Francisco and Oakland, which are home to urban dwelling millennials that make up the largest e-commerce and same-day delivery consumer demographic. A robust residential housing market in the Bay Area means that the consumer population base will continue to grow.

On a macro level, further tailwinds for the industrial real estate markets are high consumer confidence and low unemployment, both of which have a positive effect on spending. All of these factors are contributing to the demand in the e-commerce industry for large warehouse/distribution space to meet large inventory requirements. According to the Q2 2016 U.S. Industrial Market Outlook, Wayfair, an online home store, has “expanded into large chunks of distribution spaces across the US.”

As such, low overall vacancy rates are expected to continue, with a potential for a slight increase. An exception is Newark, where vacancy rates are expected to decrease slightly over the next six months due to strong sublease activity and pending leases that are expected to close by year-end. However, with the lightest industrial footprint along the Corridor, this should have little effect on overall vacancy rates. With high demand and low vacancy, overall rents are expected to remain stable or rise slightly. Looking ahead to the home stretch of 2016, we expect the I-80/I-880 industrial market to finish strong.

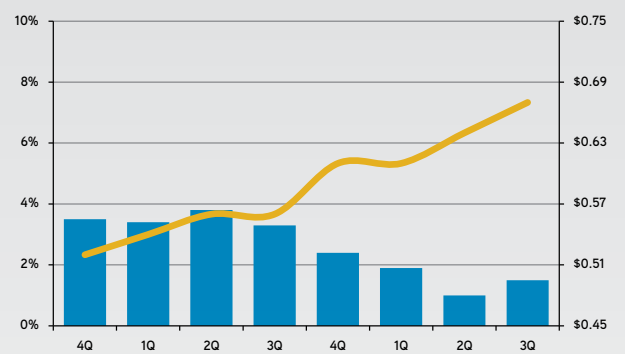
Vacancy vs. Asking NNN Rental Rates

I-80/I-880 Corridor | Industrial



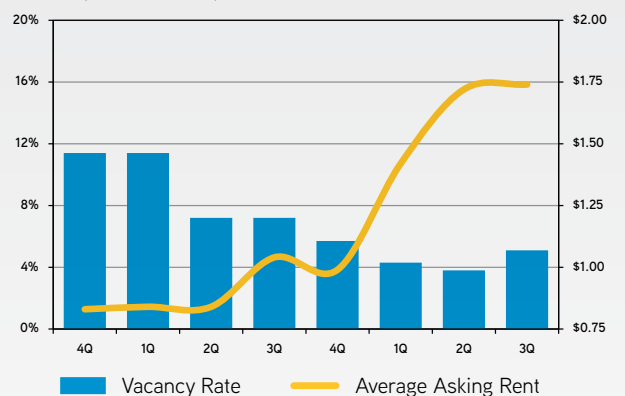
Vacancy vs. Asking NNN Rental Rates

I-80/I-880 Corridor | Warehouse



Vacancy vs. Asking NNN Rental Rates

I-80/I-880 Corridor | R&D



Significant Sale Activity



Significant Lease Activity

PROPERTY ADDRESS	LEASE DATE	SIZE	TENANT	TYPE
8333 Central Ave	Sep-2016	320,875	Federal Express Ground	Renewal
1980 W 140th Ave	Sep-2016	275,000	Friant Associates	Direct
7500 Edgewater Dr	Aug-2016	203,189	Rainin Instrument	Direct
2451-2465 Polvorosa Dr	Aug-2016	174,923	Foamex	Direct
3363-3375 Arden Rd Bldg. B	Aug-2016	129,920	MAMAC Investment, Inc.	Direct
7025-7055 Central Ave, Suite 7025-7091	Aug-2016	97,034	Javelin Logistics	Direct
1680 Viking St , Suite Bldg 169	Aug-2016	86,710	Williams Sonoma, Inc.	Direct
33463 Western Ave	Aug-2016	85,584	Amcor Packaging	Direct
23541-23547 Eichler St Bldg. 6, Suite A-G	Jul-2016	82,000	American Furniture Rental	Direct
1000 Whipple Rd	Aug-2016	74,360	Unisource Solutions	Direct
26545-26557 Danti Ct Bldg. K	Jul-2016	72,631	Pan Pacific	Renewal
30803-30805 Santana St Bldg. E	Jul-2016	64,800	Kuehne & Nagel	Direct
30180 Ahern Ave	Sep-2016	64,754	AMG Racing	Direct

Market Comparisons

INDUSTRIAL MARKET

SUBTYPE	BLDGS	TOTAL INVENTORY SF	DIRECT VACANT SF	DIRECT VACANCY RATE	SUBLEASE VACANT SF	SUBLEASE VACANCY RATE	TOTAL VACANT SF	VACANCLY RATE CURRENT QUARTER	VACANCLY RATE PRIOR QUARTER	NE-I ABSORPTION CURRENT QTR SF	NE-I ABSORPTION YTD SF	COMPLETED CURRENT QTR SF	UNDER CONSTRUCTION SF	Leasing Activity Current Qtr	AVG ASKING NNN
RICHMOND															
Industrial	225	4,920,275	73,880	1.5%	-	0.0%	73,880	1.5%	2.9%	68,240	129,158	-	-	6,500	\$0.63
Warehouse	44	4,857,710	14,000	0.3%	32,832	0.7%	46,832	1.0%	0.6%	(19,832)	203,322	-	-	476,529	\$0.65
R&D/Flex	100	3,393,153	12,237	0.4%	22,961	0.7%	35,198	1.0%	1.2%	4,567	164,322	-	-	7,521	\$0.95
Total	369	13,171,138	100,117	0.8%	55,793	0.4%	155,910	1.2%	1.6%	52,975	496,802	-	-	490,550	\$0.71
OAKLAND															
Industrial	834	22,664,359	357,457	1.6%	15,000	0.1%	372,457	1.6%	1.9%	62,469	(67,872)	-	-	129,555	\$1.55
Warehouse	157	10,990,829	119,061	1.1%	-	0.0%	119,061	1.1%	1.1%	(2,000)	75,195	-	-	33,160	\$0.69
R&D/Flex	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total	991	33,655,188	476,518	1.4%	15,000	0.0%	491,518	1.5%	1.6%	60,469	7,323	-	-	162,715	\$1.34
SAN LEANDRO															
Industrial	460	11,661,810	155,496	1.3%	-	0.0%	155,496	1.3%	1.4%	4,413	(62,730)	-	-	134,726	\$0.70
Warehouse	127	14,543,408	290,271	2.0%	120,524	0.8%	410,795	2.8%	0.9%	(284,745)	(315,815)	-	161,200	14,300	\$0.65
R&D/Flex	52	847,380	22,030	2.6%	-	0.0%	22,030	2.6%	2.2%	(3,658)	(5,375)	-	-	6,042	\$0.95
Total	639	27,052,598	467,797	1.7%	120,524	0.4%	588,321	2.2%	1.1%	(283,990)	(383,920)	-	161,200	155,068	\$0.67
HAYWARD															
Industrial	786	16,581,585	424,091	2.6%	43,000	0.3%	467,091	2.8%	3.1%	39,538	(53,099)	-	-	258,984	\$0.73
Warehouse	214	21,078,545	288,773	1.4%	49,600	0.2%	338,373	1.6%	1.1%	(116,728)	473,363	-	333,365	402,653	\$0.62
R&D/Flex	105	4,502,794	238,515	5.3%	30,000	0.7%	268,515	6.0%	3.8%	(97,678)	(80,722)	-	-	83,126	\$1.13
Total	1,105	42,162,924	951,379	2.3%	122,600	0.3%	1,073,979	2.5%	2.1%	(174,868)	339,542	-	333,365	744,763	\$0.79
UNION CITY															
Industrial	162	7,883,678	117,395	1.5%	-	0.0%	117,395	1.5%	2.1%	50,773	(4,389)	-	-	167,823	\$0.81
Warehouse	82	7,488,110	18,900	0.3%	-	0.0%	18,900	0.3%	0.0%	(18,900)	121,010	-	-	38,856	\$1.85
R&D/Flex	14	870,672	10,093	1.2%	-	0.0%	10,093	1.2%	0.8%	(3,269)	76,441	-	-	-	\$1.22
Total	258	16,242,460	146,388	0.9%	-	0.0%	146,388	0.9%	1.1%	28,604	193,062	-	-	206,679	\$0.98
NEWARK															
Industrial	139	4,119,474	52,605	1.3%	31,860	0.8%	84,465	2.1%	2.1%	560	(38,900)	-	143,373	32,840	\$0.83
Warehouse	29	3,923,778	25,592	0.7%	-	0.0%	25,592	0.7%	2.8%	83,408	(5,592)	-	-	124,078	\$0.60
R&D/Flex	43	3,082,263	301,645	9.8%	13,863	0.4%	315,508	10.2%	8.2%	(63,261)	(77,049)	-	-	-	\$2.42
Total	211	11,125,514	379,842	3.4%	45,723	0.4%	425,565	3.8%	4.0%	20,707	(121,541)	-	143,373	156,918	\$2.00

MARKET TOTAL

Industrial	2,606	67,831,181	1,180,924	1.7%	89,860	0.1%	1,270,784	1.9%	2.2%	225,993	(97,832)	-	143,373	730,428	\$0.97
Warehouse	653	62,882,380	756,597	1.2%	202,956	0.3%	959,553	1.5%	1.0%	(358,797)	551,483	-	494,565	1,089,576	\$0.67
R&D/Flex	314	12,696,262	584,520	4.6%	66,824	0.5%	651,344	5.1%	3.8%	(163,299)	77,617	-	-	96,689	\$1.74
Total	3,573	143,409,822	2,522,041	1.8%	359,640	0.3%	2,881,681	2.0%	1.8%	(296,103)	531,268	-	637,938	1,916,693	\$1.04

QUARTERLY COMPARISONS AND TOTALS

Q3-16	3,573	143,409,822	2,522,041	1.8%	359,640	0.3%	2,881,681	2.0%	1.8%	(296,103)	531,268	-	637,938	1,916,693	\$1.04
Q2-16	3,573	143,409,822	2,387,070	1.7%	198,508	0.1%	2,585,578	1.8%	2.1%	-	827,371	-	637,938	2,056,544	\$0.92
Q1-16	3,573	143,409,822	2,794,649	1.9%	221,946	0.2%	3,016,595	2.1%	2.4%	-	396,354	-	637,938	1,823,354	\$0.80
Q4-15	3,573	143,409,822	3,309,756	2.3%	103,193	0.1%	3,412,949	2.4%	3.0%	-	3,027,550	-	1,345,758	1,356,744	\$0.71
Q3-15	3,573	143,409,822	4,188,625	2.9%	182,539	0.1%	4,371,164	3.0%	3.6%	-	2,069,335	107,024	1,202,385	-	\$0.68
Q2-15	3,573	143,233,909	4,821,375	3.4%	326,478	0.2%	5,147,853	3.6%	3.9%	-	1,116,733	670,089	440,024	-	\$0.65
Q1-15	3,569	142,563,820	4,628,639	3.2%	923,770	0.6%	5,552,409	3.9%	3.9%	-	42,088	-	1,107,634	-	\$0.65

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