MARKET REPORT

INDUSTRIAL

Oakland-East Bay Metro Area

IPA INSTITUTIONAL PROPERTY ADVISORS

2H/19

Industrial Deliveries Escalate Along 880 Corridor; R&D Facilities Trade With Increased Frequency

Annual delivery volume reaches a cyclical high, placing upward pressure on vacancy. A thriving local economy and rising wages increased online spending by Oakland-East Bay residents over the past two years, influencing tech firms, retailers and third-party logistics providers to occupy additional warehouse and distribution space. Heightened demand from tenants supported the absorption of more than 2 million square feet of floor plans during the 24-month span, holding metro vacancy in the low-3 to low-4 percent range. Tight conditions and strong demand allowed for robust rent growth, as the region's average asking rate climbed nearly 30 percent during the stretch. Responding to the market's strength, developers broke ground on a collection of speculative projects. Many of these developments come to fruition in 2019, equating to the delivery of approximately 2.9 million square feet of space. The 880 Corridor is home to most of these supply additions, with the cities of Fremont, Newark and San Leandro all welcoming sizable completions at existing industrial parks. This influx of new space, roughly half of which is available for lease, will elevate metro vacancy beyond 5 percent for the first time in four years as net absorption turns negative.

Assets near Port of Oakland and Silicon Valley garner investor interest. Pricing in the East Bay continues to escalate at a strong clip as sizable rent gains and fewer acquisition opportunities bolster the value of available listings. Amid the rise in pricing, Class C warehouses near Oakland's ports remain available at discounted price points, attracting a number of local investors. Largely utilized by logistics firms, these buildings are commonly trading for $2 million to $8 million. Out-of-state capital is placing a focus on 1980s- to 1990s-built research and development properties in neighboring Alameda, where Class B assets command more than $300 per square foot. Slightly discounted pricing for facilities of similar vintage is available in Fremont, where opportunities to deploy more than $10 million per transaction are recurrent. The city's proximity to Silicon Valley also makes it a desired locale for light manufacturing and warehouse buyers searching for cap rates in the 5 percent range.

2019 Market Forecast

Employment up 1.6% — Job creation improves in 2019 as 19,000 workers will be added to payrolls. Last year, employment growth totaled 1.4 percent, equating to 15,900 new positions.

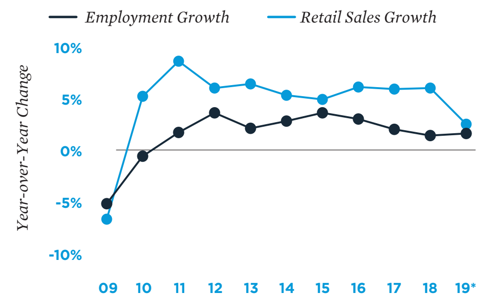
Construction 2.9 million sq. ft. — Project completions up the metro's industrial inventory by 1.2 percent this year, nearly doubling last year's total. Warehouse space accounts for roughly two-thirds of this year's supply additions.

Vacancy up 140 bps — Demand is unable to keep up with an influx of speculative deliveries this year, lifting vacancy to 5.5 percent. In 2018, an uptick of 30 basis points was noted.

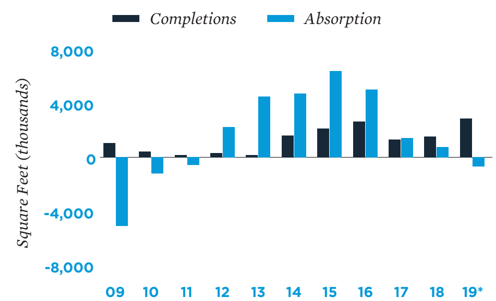
Rent up 3.4% — Following two years of double-digit rate gains, the pace of asking rent growth tempers in 2019, ending the year at an average of $14.62 per square foot.

Investment — Private investors seeking 6 percent-plus cap rates for Class B and C warehouses are drawn to Concord, a locale popular among logistics firms that service cities off Highway 4 and Interstate 680.

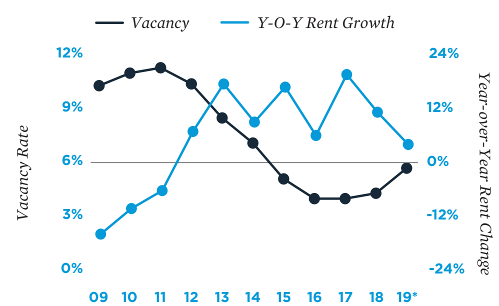
Employment vs. Retail Sales Trends



Industrial Completions



Asking Rent and Vacancy Trends



** Forecast*
Sources: CoStar Group, Inc.; Real Capital Analytics; Moody's Analytics

For information on national industrial trends, contact:

Alan L. Pontius *Senior Vice President | IPA National Office and Industrial Properties*
Tel: (415) 963-3070 | apontius@ipausa

John Chang *Senior Vice President | Research Services*
Tel: (602) 707-9700 | jchang@ipausa.com