

MARKET REPORT

INDUSTRIAL

East Bay/Oakland Metro Area

IPA
INSTITUTIONAL
PROPERTY
ADVISORS

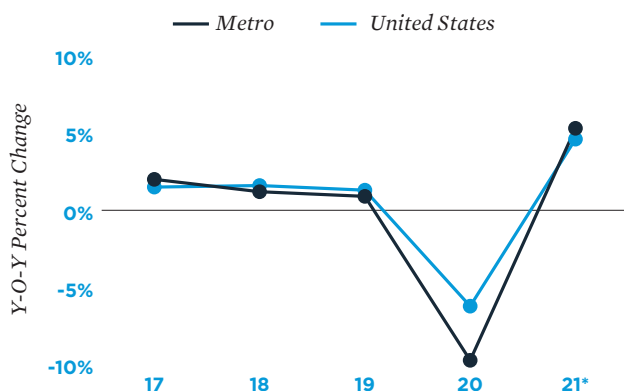
2Q/21

Bay Area's Reliance on Local Industrial Assets Keeps Space Demand Positive Through Health Crisis

East Bay industrial plays pivotal role in Bay Area recovery. As the anchor for the region's storage, distribution and importation, industrial properties will be among the first to recover following some of the longest COVID-19 restrictions in the nation. The Port of Oakland set a record for container traffic in the first quarter, bringing in 613,000 TEUs, besting the prior record in the first quarter of 2019. Furthermore, the unemployment rate in the East Bay dipped to 6.9 percent in this year's opening period, down 800 basis points from the recessionary peak. These gains are expected to accelerate in the second and third quarters as capacity restrictions are lifted further.

Fundamentals relatively resilient in wake of health crisis. The East Bay's large industrial inventory carried the burden of keeping people and stores stocked during stay-at-home orders. As a result, the sector weathered the downturn better than others, recording positive net absorption during each quarter in 2020 and the first quarter of this year. That trend should continue as online shopping remains prevalent and many brick-and-mortar stores begin ramping up inventory in anticipation of lifting COVID-19 restrictions. June 15 was the target date for all restrictions to be removed in California, which should lead to a surge in traffic at retailers. At the end of May, COVID-19 cases were below 200 per day in the Bay Area.

Employment Trends



* Forecast

Sources: BLS; CoStar Group, Inc.

Industrial 2021 Outlook



**57,000
JOBS**

will be created

EMPLOYMENT:

Employers expand payrolls 5.3 percent this year as more industries open. The additional workers will bring headcounts to within 5.3 percent of pre-recession levels. Another year or two will be necessary to reach the pre-pandemic count.



**800,000
SQ. FT.**

will be completed

CONSTRUCTION:

Development is in a lull after more than 4.9 million square feet was completed in 2020. This year, inventory is projected to tick up just 0.3 percent, giving existing properties an opportunity to compete for tenants seeking space.



**10
BASIS POINT**

decrease in vacancy

VACANCY:

Following a 140-basis-point rise in vacancy in 2020, the rate is expected to inch down to 6.4 percent this year. Limited new construction and more international trade will combine to contribute to the decrease in vacancy.



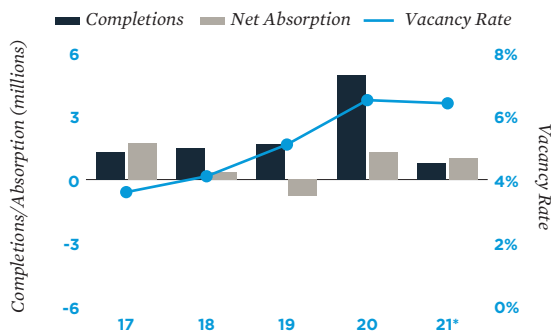
**1.6%
INCREASE**

in asking rent

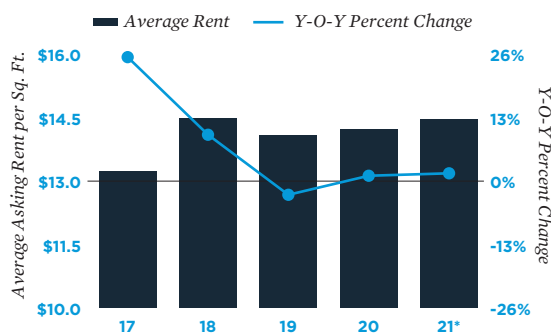
RENT:

Relatively healthy fundamentals will provide operators the impetus to lift rents modestly, though below the inflation rate. By year-end 2021, the average asking rent is expected to reach \$14.46 per square foot.

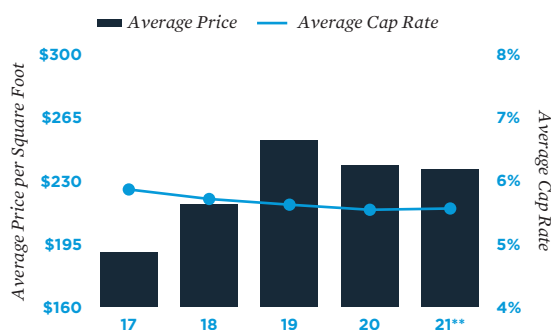
Supply and Demand



Rent Trends



Sales Trends



* Forecast ** Through 1Q

Sources: CoStar Group, Inc.; Real Capital Analytics

IPA Industrial

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1Q21 – 12-Month Period



CONSTRUCTION

1,977,000 square feet completed

- Inventory climbed 0.8 percent during the 12-month period ending in the first quarter of 2021, led by openings in the 880 Corridor.
- Nearly 1.4 million square feet of space is under construction, though most projects are slated for completion next year. Pre-leasing is at a scant 15 percent, but that number should climb this year.



VACANCY

40 basis point increase in vacancy Y-O-Y

- Vacancy ticked up to 6.4 percent in the first quarter. Supply-side pressure contributed to the entire increase in the rate over the past year as space demand rose 0.4 percent.
- Over the past year, the East Bay's largest submarket, the 880 Corridor, posted a 10-basis-point rise in vacancy to 6.4 percent.



RENT

2.3% increase in the average asking rent Y-O-Y

- In the first quarter, the average asking rent was \$14.44 per square foot. The climb can be attributed to an influx of new space coming online.
- The number of submarkets reporting an increase in rents relative to decreases was evenly split. An 11.1 percent rise in the average asking rent in the Highway 4 submarket was the largest change.

Investment Highlights

- Investors moved to the sidelines last year as ambiguity about the recovery throughout the Bay Area became a prominent concern. Overall, transaction velocity dipped more than 50 percent during 2020. Distribution centers, however, changed hands at an increased velocity despite the health crisis. Through the first few months of 2021, deal flow is on pace to eclipse last year's level but fall short of 2019 levels.
- Industrial assets traded at \$236 per square foot on average during the yearlong period ending in March, down 5 percent from the prior 12-month span. Buyers targeted larger properties in 2020, particularly for distribution space and to a lesser extent for warehouses. So far this year, property sizes have gravitated back to 2019 levels, indicative of a buyer pool that has shifted risk tolerance to pre-pandemic levels.
- First-year returns averaged 5.5 percent during the 12-month period ending in the winter quarter, down a modest 10 basis points from the prior year. The average cap rate has hovered in the mid-5 to high-5 percent range since 2017.