MARKET REPORT - I-880 CORRIDOR

By Steve Kapp, SIOR

The I-880 Corridor warehouse market continued to strengthen through the first quarter of 2015, as the overall vacancy rate declined to 6.5 percent from 7.0 percent year-over-year, and average asking rates increased to $0.54/SF from $0.46/SF during the same time period. In many submarkets, vacancy rates dropped to such low levels that they are now noticeably affected by single buildings coming onto the market. For example, in Newark, 95.0 percent of the warehouse vacancy was attributable to one building, which became available after the tenant, Coasters, moved to a newer building in Oakland. Indeed, one of the main drivers of tenant demand right now is the large floor plate user (more than 150,000 square feet). These large tenants are snapping up the new construction coming on line, often at top-of-the-market rents. These large tenants are willing to pay a premium for modern features, such as clear heights of 32 to 36 feet, ESFR sprinklers and more generous staging areas.

The R&D market also continued to improve in first-quarter 2015, although perhaps a bit more slowly than the warehouse sector. Vacancy dropped to 14.29 percent from 19.9 percent a year ago, and average asking rates increased to $1.04/SF. This marked a significant milestone for the R&D market, as rates have not surpassed $1.00/SF since 2007. Fremont, the primary driver of the I-880 Corridor market with 70.0 percent of the inventory, is being transformed. Marquee companies are expanding within the market (Thermos Fisher, Lam Research and Delta Products).

At the same time, the market is attracting significant new high-tech and clean-tech users (Tesla, Solar City and Apple). The opening of the new Warm Springs/South Fremont BART station, with transit links to the Silicon Valley, is slated for fall 2015. Already, a land rush is underway to capitalize on Fremont's "Innovation Center" concept, which combines high-density urban housing with high-tech industry and retail and park amenities. As the fourth-largest city in the Bay Area, and the city with the most industrially developable land in the Bay Area's inner core, Fremont is well-positioned to capitalize on the tech boom. Expect rental rates to continue to grow. Also expect to finally see some cap rate compression on the investment sale of R&D assets, which recently have been trading in the 7.0 percent to 7.5 percent cap rate range.

The industrial category, which includes both manufacturing and service/light industrial buildings, reported another quarter of low vacancy (below 4.0 percent) and steadily increasing asking rates. Expect this sector to perform strongly over the next 24 months, as the small and medium-size businesses that service the local economy prosper (contractors, material suppliers and repairs). There was also increased investment this sector by real estate investors who were priced out of the frothy warehouse market. This is a good sign for the market, as many of the light industrial buildings are in need of facelifts and code upgrades to attract top businesses. The wide variety of building types and ages in the industrial category makes it difficult to make comparisons across markets and even within markets. Rents can range from $0.50/SF on the low end to $0.85/SF on the high end, depending on age, infrastructure, improvements, etc. ■