

FAIRFIELD: SOLANO & NAPA COUNTIES | CALIFORNIA

RESEARCH & FORECAST REPORT



Industrial Market Review

Greatest Vacancy Decline in Several Years

In the second quarter of 2013, the industrial market in Solano and Napa counties experienced the greatest vacancy decline in several years. The vacancy rate declined to 8.7 percent, a 1.7 percentage point drop from the previous quarter and a 3.4 percentage point drop from a year ago. Net absorption for the quarter was positive 780,644 square feet. Ironically, average asking rates dipped marginally in the quarter by \$0.01 to \$0.54 per square foot per month (psf/mo) Triple Net (NNN). This dip does not suggest transaction prices are declining, but rather higher quality and better located and more expensive properties have recently leased, while less desirable and less expensive spaces linger on the market.

Sales activity of industrial buildings was not quite as strong as leasing with only two sales of 40,000 square feet or greater in the quarter. There have only been three sales of that range year to date in 2013, down significantly from 2012's pace when there were thirteen sales in that size range. In the largest sale of land for industrial development so far this year, McMorgan Northern California and Development Fund I purchased ±18.58 acres in the Greenwood Business Park in Napa. They plan to build three warehouses totaling ±375,000 square feet on the site.

BENICIA

Benicia had the greatest net absorption of any of the cities in this report at positive 303,813 square feet. This caused vacancy to plummet to 11.7 percent from 15.3 percent in the second quarter, a substantial drop for just one quarter of 3.6 percentage points. Two of the five largest leases in the region took place in Benicia: Santa Clara Warehouses leased a ±122,000 square foot warehouse at 539 Stone Road and FedEx Corporation leased a ±64,328 square foot warehouse at 601 Stone Road. Both of the leases took place in the Benicia Industrial Park.

FAIRFIELD

Fairfield's vacancy rate remained the lowest of any city in Solano County, now at 5.9 percent, down 1.2 percentage points in the second quarter. The largest sale in the region took place in Fairfield: S&T Real Estate Group, LLC purchased 2700 Maxwell Way in an owner/user transaction. The ±89,860 square foot manufacturing property sold for \$6,200,000 or \$71.30 per square foot.

MARKET INDICATORS

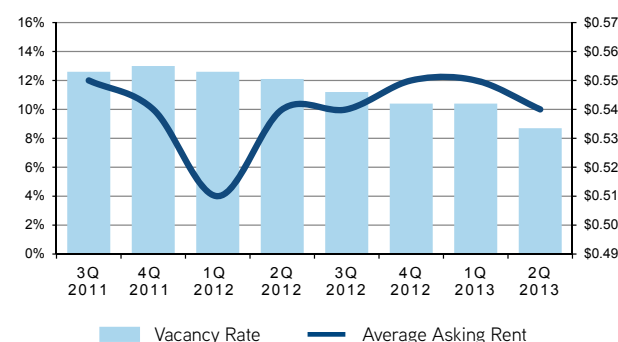
	Q2-13	Projected Q3-13
VACANCY RATE	↓	↓
RENTAL RATE	↔	↑
NET ABSORPTION	↑	↑
CONSTRUCTION	↑	↑

SELECTED MARKET STATISTICS

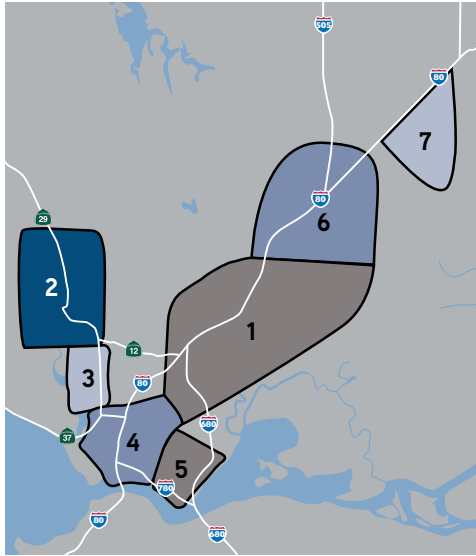
- > **INDUSTRIAL INVENTORY:**
±46,594,360 square feet
- > **CURRENT VACANCY:**
±8.7%
- > **AVERAGE ASKING NNN RENT*:**
\$0.54 psf/mo

* Average Asking NNN rents represent asking rents for all industrial product type and size. This number is used as a tool to track historical market rent trends only. Actual Asking NNN rents vary dramatically depending on numerous variables. Please contact our Brokers for actual asking NNN rents.

VACANCY VS. ASKING FULL SERVICE RENTAL RATES
SOLANO & NAPA COUNTIES | OVERALL INDUSTRIAL MARKET



Vacancy drops sharply in the second quarter, and rental rates appear to be stabilizing.



SUBMARKET MAP KEY

- 1 Fairfield
- 2 Napa
- 3 American Canyon
- 4 Vallejo
- 5 Benicia
- 6 Vacaville
- 7 Dixon

Construction has commenced on Buzz Oates Development's two-building $\pm 791,000$ square foot warehouse/distribution center on Cordelia Road. The first building, a $\pm 318,402$ square foot warehouse, is expected to be completed in the fourth quarter of this year. In the largest lease in the region covered in this report, Encore Glass has signed a lease for this entire $\pm 318,402$ square foot warehouse this quarter.

VACAVILLE

Vacaville experienced the greatest percentage vacancy rate decline of any city in this report in the second quarter of 2013. The vacancy rate dropped 3.9 percentage points to 10.3 percent. The greatest single factor in this decline was Pacific Cycle's lease of $\pm 135,750$ square feet of warehouse space at 400 Crocker Drive, which was the largest transaction in Vacaville in the quarter. Dex Products' lease of $\pm 69,000$ square feet of warehouse space at 2019 East Monte Vista Avenue was also a significant contributor to the vacancy decline.

NAPA

It was quiet again in Napa for the second consecutive quarter, in part because of the rapid drop of vacancy that already occurred at the end of 2012. Vacancy dropped fractionally from 8.7 percent to 8.2 percent in the second quarter. The low vacancy has spurred developer interest in Napa from several developers including Dennis Pauley who has planned a $\pm 103,400$ square foot warehouse on Technology Way in the Napa Valley Gateway Business Park.

AMERICAN CANYON

American Canyon, Napa's neighbor to the south, is experiencing similar market conditions as Napa, boasting an even lower vacancy rate of 2.2 percent, the lowest of any city covered in this report – only one vacant building! The rate was unchanged in the second quarter as there was no activity, partially a result of the extreme lack of available space.

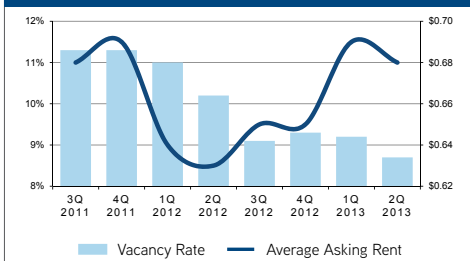
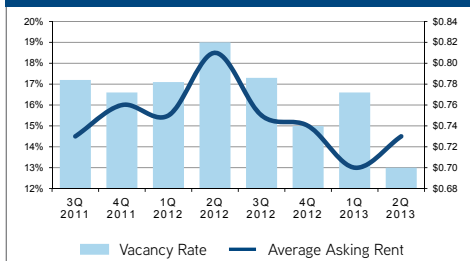
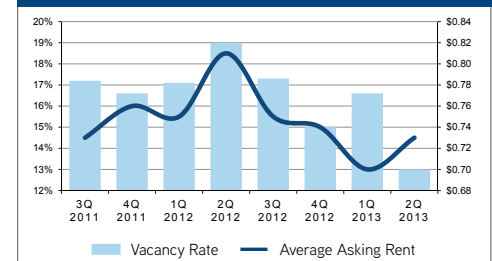
LEASE AND SALES ACTIVITY

LEASE ACTIVITY

PROPERTY ADDRESS	LEASE DATE	SIZE	TENANT	TYPE
Building B, Cordelia Road, Fairfield	June 2013	$\pm 318,402$ SF	Encore Glass	Warehouse/Distribution
400 Crocker Drive, Vacaville	June 2013	$\pm 135,750$ SF	Pacific Cycle, Inc.	Warehouse/Distribution
539 Stone Road, Benicia	April 2013	$\pm 122,000$ SF	Santa Clara Warehouses, Inc.	Warehouse/Distribution
5000 Fulton Drive, Fairfield	April 2013	$\pm 73,500$ SF	Saxco	Warehouse/Distribution
2019 East Monte Vista Avenue, Vacaville	May 2013	$\pm 69,000$ SF	Dex Products, Inc.	Warehouse/Distribution
601 Stone Road, Benicia	April 2013	$\pm 64,238$ SF	FedEx Corporation	Warehouse/Distribution
1101 Nimitz Avenue, Building 126, Vallejo	June 2013	$\pm 53,744$ SF	Enclos Corp	Manufacturing

SALES ACTIVITY

PROPERTY ADDRESS	SALE DATE	SIZE	BUYER	TYPE
1535 Airport Boulevard, Napa	June 2013	± 18.58 Acres	McMorgan Northern California Development Fund I, LP	Industrial Land
2700 Maxwell Way, Fairfield	April 2013	$\pm 89,860$ SF	S&T Real Estate Group, LLC	Manufacturing
2655 Napa Valley Corporate Drive, Napa	June 2013	$\pm 60,800$ SF	R & K North Bay LLC	Industrial
6940 Tremont Road, Dixon	May 2013	$\pm 15,100$ SF	Fremouw Environmental Services	Light Industrial
329 Couch Street, Vallejo	April 2013	$\pm 7,968$ SF	Gawfco Ents Inc	Industrial
4690 East 2nd Street, Suite 9, Benicia	April 2013	$\pm 7,470$ SF	Rock Path, LLC	Light Industrial Condo

VACANCY VS. ASKING NNN RENTAL RATES
SOLANO & NAPA COUNTIES | INDUSTRIALVACANCY VS. ASKING NNN RENTAL RATES
SOLANO & NAPA COUNTIES | R&D/FLEXVACANCY VS. ASKING NNN RENTAL RATES
SOLANO & NAPA COUNTIES | WAREHOUSE/DISTRIBUTION

SUMMARY

The continued strength in the wine industry is the leading driver for the continued low vacancy rate in Napa County, which decreased another 0.2 percentage points in the second quarter to a miniscule 5.2 percent. Wine sales in the United States increased by 2 percent in 2012 from the prior year to an estimated 360 million 9-liter cases, according to Gomberg, Fredrikson & Associates, a wine industry consultant. California wine accounts for 58 percent of this total or an estimated \$22 billion retail value.

Solano and Napa counties' combined overall vacancy rate has now decreased for six consecutive quarters and eight of the past nine quarters. The current vacancy rate of 8.7 percent has declined to nearly half of the 14.3 percent rate it was only two years ago. "The market continues to tighten and vacancy is dropping," said Phil Garrett, Managing Partner of Colliers International's Fairfield office. "Land and development are coming back into focus as result of the continued lack of inventory."

MARKET COMPARISONS

INDUSTRIAL MARKET

SUB-TYPE	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	AVG ASKING NNN
AMERICAN CANYON														
Industrial	32	732,884	9,980	1.4%	-	0.0%	9,980	1.4%	1.4%	-	8,370	-	-	\$0.75
R&D Flex		-	-	-	-	-	-	-	-	-	-	-	-	-
Warehouse	26	5,628,225	128,828	2.3%	-	0.0%	128,828	2.3%	2.3%	-	51,734	-	-	\$0.53
TOTAL	58	6,361,109	138,808	2.2%	-	0.0%	138,808	2.2%	2.2%	-	60,104	-	-	\$0.55
BENICIA														
Industrial	136	3,773,412	481,751	12.8%	-	0.0%	481,751	12.8%	13.2%	17,555	29,655	-	-	\$0.68
R&D Flex	8	281,509	4,000	1.4%	-	0.0%	4,000	1.4%	11.8%	29,316	29,316	-	-	\$0.59
Warehouse	36	4,422,676	504,320	11.4%	-	0.0%	504,320	11.4%	17.2%	256,942	256,942	-	-	\$0.42
Total	180	8,477,597	990,071	11.7%	-	0.0%	990,071	11.7%	15.3%	303,813	315,913	-	-	\$0.55
DIXON														
Industrial	31	835,017	9,340	1.1%	-	0.0%	9,340	1.1%	1.1%	-	-	-	-	\$0.60
R&D Flex		-	-	-	-	-	-	-	-	-	-	-	-	-
Warehouse	6	1,361,988	386,294	28.4%	-	0.0%	386,294	28.4%	28.4%	-	-	-	-	\$0.35
Total	37	2,197,005	395,634	18.0%	-	0.0%	395,634	18.0%	18.0%	-	-	-	-	\$0.36
FAIRFIELD														
Industrial	93	2,919,273	188,386	6.5%	-	0.0%	188,386	6.5%	6.5%	694	45,615	-	-	\$0.72
R&D Flex	13	340,459	38,143	11.2%	-	0.0%	38,143	11.2%	11.7%	1,700	6,325	-	-	\$0.67
Warehouse	57	8,651,222	471,029	5.4%	-	0.0%	471,029	5.4%	7.1%	146,106	227,931	-	318,402	\$0.50
Total	163	11,910,954	697,558	5.9%	-	0.0%	697,558	5.9%	7.1%	148,500	279,871	-	-	\$0.57
NAPA														
Industrial	100	2,561,380	169,308	6.6%	-	0.0%	169,308	6.6%	6.9%	6,580	(22,098)	-	-	\$0.87
R&D Flex	17	574,427	84,517	14.7%	-	0.0%	84,517	14.7%	16.8%	11,862	(1,088)	-	-	\$0.97
Warehouse	34	3,205,148	266,744	8.3%	-	0.0%	266,744	8.3%	8.7%	12,856	(22,725)	-	-	\$0.64
Total	151	6,340,955	520,569	8.2%	-	0.0%	520,569	8.2%	8.7%	31,298	(45,911)	-	-	\$0.77
SUISUN CITY														
Industrial	13	220,463	57,084	25.9%	-	0.0%	57,084	25.9%	26.1%	500	(2,529)	-	-	\$0.60
R&D Flex	1	29,000	-	0.0%	-	0.0%	-	0.0%	0.0%	-	-	-	-	-
Warehouse		-	-	-	-	0.0%	-	-	-	-	-	-	-	-
Total	14	249,463	57,084	22.9%	-	0.0%	57,084	22.9%	23.1%	500	(2,529)	-	-	\$0.60
VACAVILLE														
Industrial	65	1,475,223	188,069	12.7%	-	0.0%	188,069	12.7%	12.8%	950	(16,838)	-	-	\$0.71
R&D Flex	6	151,782	59,012	38.9%	-	0.0%	59,012	38.9%	44.3%	8,298	(5,627)	-	-	\$0.45
Warehouse	28	4,748,039	410,627	8.6%	-	0.0%	410,627	8.6%	13.7%	240,525	194,599	-	-	\$0.39
Total	99	6,375,044	657,708	10.3%	-	0.0%	657,708	10.3%	14.2%	249,773	172,134	-	-	\$0.49
VALLEJO														
Industrial	81	3,346,219	276,009	8.2%	-	0.0%	276,009	8.2%	9.6%	46,760	53,290	-	-	\$0.54
R&D Flex	4	49,641	-	0.0%	-	0.0%	-	0.0%	0.0%	-	-	-	-	-
Warehouse	15	1,286,373	315,043	24.5%	-	0.0%	315,043	24.5%	24.5%	-	-	-	-	\$0.39
Total	100	4,682,233	591,052	12.6%	-	0.0%	591,052	12.6%	13.6%	46,760	53,290	-	-	\$0.46

MARKET TOTAL

Industrial	551	15,863,871	1,379,927	8.7%	-	0.0%	1,379,927	8.7%	9.2%	73,039	95,465	-	-	\$0.68
R&D Flex	49	1,426,818	185,672	13.0%	-	0.0%	185,672	13.0%	16.6%	51,176	28,926	-	-	\$0.73
Warehouse	202	29,303,671	2,482,885	8.5%	-	0.0%	2,482,885	8.5%	10.7%	656,429	708,481	-	318,402	\$0.44
TOTAL	802	46,594,360	4,048,484	8.7%	-	0.0%	4,048,484	8.7%	10.4%	780,644	832,872	-	318,402	\$0.54

QUARTERLY COMPARISON AND TOTALS

Q2-13	802	46,594,360	4,048,484	8.7%	-	0.0%	4,048,484	8.7%	10.4%	780,644	832,872	-	318,402	\$0.54
Q1-13	802	46,594,360	4,745,800	10.2%	83,328	0.2%	4,829,128	10.4%	10.4%	52,228	52,228	48,133	-	\$0.55
Q4-12	801	46,546,227	4,732,787	10.2%	100,436	0.2%	4,833,223	10.4%	11.2%	379,773	1,403,999	-	48,133	\$0.55
Q3-12	801	46,546,227	4,828,170	10.4%	384,826	0.8%	5,212,996	11.2%	12.1%	436,936	1,024,226	-	48,133	\$0.54
Q2-12	801	46,546,227	5,330,636	11.5%	319,296	0.7%	5,649,932	12.1%	12.6%	298,424	587,290	72,558	48,133	\$0.54

MANAGING PARTNER

Phil Garrett, SIOR
Managing Partner/SVP
+1 707 863 8357
phil.garrett@colliers.com

INDUSTRIAL/OFFICE

Phil Garrett, SIOR
Managing Partner/SVP
+1 707 863 8357
phil.garrett@colliers.com

Jonathan Quick
Vice President
+1 707 863 8359
jonathan.quick@colliers.com

William Kampton
Senior Vice President
+1 707 863 8377
bill.kampton@colliers.com

Steve Crocker
Vice President
+1 707 863 8361
steve.crocker@colliers.com

Bret DeMartini
Vice President
+1 707 863 8397
bret.demartini@colliers.com

Chris Petrini
Vice President
+1 707 863 8387
chris.petrini@colliers.com

Eric Dakin
Senior Associate
+1 707 863 8364
eric.dakin@colliers.com

Tony Binswanger, MCRE
Senior Vice President
+1 707 863 8369
tony.binswanger@colliers.com

MULTI-FAMILY INVESTMENTS

Brett Johnson
Multi-Family Investment Group
+1 707 863 8451
brett.johnson@colliers.com

PROPERTY MANAGEMENT

Patrick Murray
Managing Partner/SVP
+1 925 279 5563
pat.murray@colliers.com

ADMINISTRATIVE

Brenda Rodrigues
Operations Manager
+1 707 863 0188
brenda.rodrigues@colliers.com

RESEARCH

Rob Gerard
Research Analyst
+1 707 863 8362
rob.gerard@colliers.com

482 offices in
62 countries on
6 continents

United States: 140
Canada: 42
Latin America: 20
Asia Pacific: 195
EMEA: 85

➤ \$2.0 billion in annual revenue

➤ 1.12 billion* square feet under management

➤ Over 13,500 professionals

*The combination of Colliers International and First Service results in 2.5 billion SF under management (2nd largest in the world.)

COLLIERS INTERNATIONAL | FAIRFIELD

360 Campus Lane
Suite 101
Fairfield, CA 94534
TEL +1 707 863 0188
FAX +1 707 863 0181

MANAGING PARTNER

Phil Garrett, SIOR
Managing Partner | Senior Vice President
CA License No. 00844836
TEL +1 707 863 8357

RESEARCHER

Rob Gerard
Research Analyst II
TEL +1 707 863 8362

TERMS

Cap Rate:

The ratio between the net operating income (NOI) produced by an asset and its capital cost (original sale price) or alternatively its current value, i.e., Cap Rate = NOI divided by Price.

Full Service:

Rental type generally used in office product where the landlord's rental rate contains all costs associated with occupying the premises inclusive of taxes, insurance, maintenance, janitorial, and utilities.

Negative Net Absorption:

The occupied square footage decreased from one period to another.

Net Absorption:

Measures the change in occupied square footage from one period to another.

Positive Net Absorption:

The occupied square footage increased from one period to another.

Triple Net (NNN):

Rental type where the tenant pays rent to the landlord and additionally assumes all costs regarding the operation, taxes and maintenance of the premises and building.

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