

FAIRFIELD: SOLANO & NAPA COUNTIES | CALIFORNIA RESEARCH & FORECAST REPORT



Office Market Review

SALES ACTIVITY RETURNS

Sales activity in the fourth quarter of 2013, especially investment sales, returned to the office market in Solano and Napa counties. At the same time, office leasing activity in the region remained soft. The vacancy rate declined 0.7 percentage points in the fourth quarter to 22.1 percent. Net absorption for the quarter was positive 34,733 square feet, which was more attributable to user sales activity than leasing activity. Average asking rates in the fourth quarter declined negligibly by \$0.01 to \$1.68 per square foot per month (psf/mo) full service (FS).

In the first three quarters of 2013, there were no 20,000 square feet or greater office buildings sold as investments, however, in the fourth quarter alone, there were three sales of this size and type.

FAIRFIELD

Fairfield's vacancy rate blipped upwards marginally from 25.6 percent to 26.0 percent in the fourth quarter. Even though four of the five largest leases in the quarter took place in Fairfield, they were all less than 3,000 square feet in size, and had a marginal impact on vacancy.

NAPA

Napa also experienced more sales activity than leasing activity in the fourth quarter as the vacancy rate declined by 2.7 percentage points to 19.1 percent. In the largest investment transaction in Napa in the quarter, Sequoia Investments purchased the 24,000 square foot Class B office building at 25 Executive Court from Savoy Corporation for \$4,850,000.00, or \$202.08 per square foot, which represents a cap rate of 7.15. North Bay Regional Center had approximately two and half years remaining on its lease at the time of the sale.

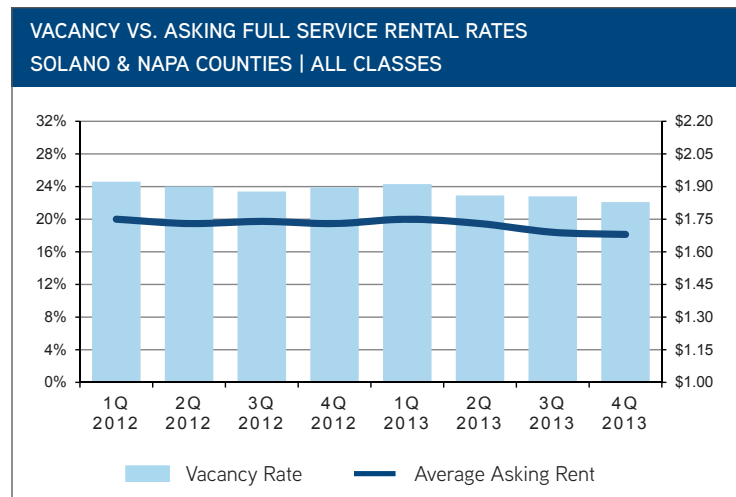
MARKET INDICATORS

	Q4-13	Projected Q1-14
VACANCY RATE	↓	↓
RENTAL RATE	↓	↔
NET ABSORPTION	↑	↑
CONSTRUCTION	↓	↓

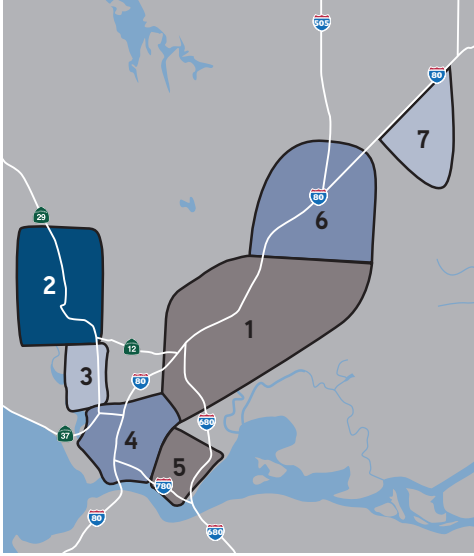
SELECTED MARKET STATISTICS

- > OFFICE INVENTORY: 4,809,756 square feet
- > CURRENT VACANCY: 22.1 percent
- > AVERAGE ASKING FULL SERVICE RENT*: \$1.68 psf/mo

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



Vacancy rates have begun to gradually decline after years of no clear direction.



SUBMARKET MAP KEY

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

SUMMARY

The brisk return of activity in the investment sector was an indicator that the office market may be turning around after several years of light activity. Leasing activity remains limited, even in the midst of a broader economic recovery and declining unemployment rates, which usually portend an uptick in leasing activity. Andrea Cross, Colliers International’s National Office Research Manager, posits that possible explanations for the contradiction of a recovered economy but slow office space absorption include:

- > **Economical:** a desire or need for cost savings, such as the GSA’s “Freeze the Footprint” mandate
- > **Technological:** increased usage of mobile devices (e.g., tablets, smartphones) in lieu of real estate and human resources; also, usage of workspace monitoring systems to track desk utilization rates, reducing the number of idle workstations
- > **Generational:** smaller footprints as a byproduct of tenants such as tech firms seeking to attract talented young workers with denser collaborative spaces and more flexible work arrangements

While the outlook for the greater economy is bright, particularly in the greater San Francisco Bay Area region, the above limiting factors lead us to surmise that any recovery in the office market should be gradual.

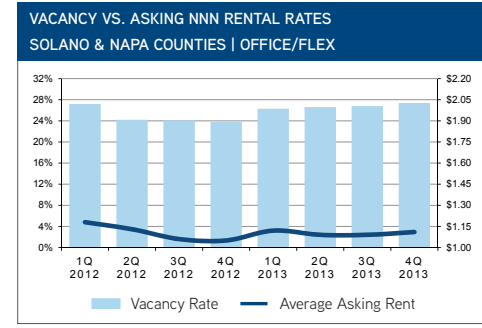
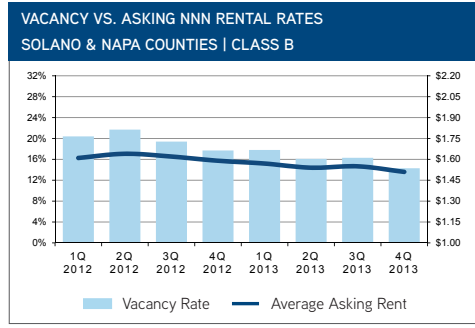
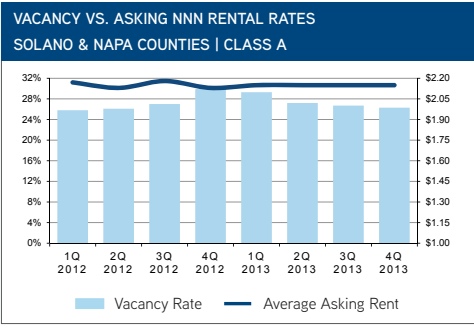
LEASE AND SALES ACTIVITY

LEASE ACTIVITY

PROPERTY ADDRESS	LEASE DATE	SIZE	TENANT	TYPE
5030 Business Center Drive, Fairfield	12/2013	2,981 SF	HomeStreet Bank	Class A Office
1190 Airport Road, Napa	10/2013	2,895 SF	Wine Direct	Office/Flex
2220 Boynton Avenue, Fairfield	12/2013	1,890 SF	Urban Park Concessioners	Class B Office
1455 Oliver Road, Fairfield	11/2013	1,681 SF	Brian Watson, Steve Rodderick, and Jorge A. Pichardo Jr	Class A Office
1455 Oliver Road, Fairfield	11/2013	1,542 SF	Garland and Associates	Class A Office

SALES ACTIVITY

PROPERTY ADDRESS	SALE DATE	SIZE	BUYER	TYPE
222-240 Gateway Road West, Napa	11/2013	39,924 SF	MKD City Villas LLC	Office/Flex
435-445 Devlin Road, Napa	11/2013	39,600 SF	MKD City Villas LLC	Office/Flex
809 Coombs Street, Napa	10/2013	24,000 SF	Keller Family Trust	Class B Office
25 Executive Court, Napa	12/2013	23,235 SF	Sequoia Investments, LP	Class B Office



MARKET COMPARISONS

OFFICE MARKET

CLASS	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 FULL SERVICE
BENICIA														
A	1	30,000	-	0.0%	-	0.0%	-	0.0%	0.0%	-	-	-	-	\$-
B	8	109,173	1,007	1.0%	-	0.0%	1,007	1.0%	0.0%	-	-	-	-	\$-
Flex	-	-	-	-	-	-	-	-	-	-	-	-	-	\$-
Total	9	139,173	1,007	0.8%	-	0.0%	1,007	0.8%	0.8%	-	-	-	-	\$-
FAIRFIELD														
A	24	887,921	192,919	21.7%	-	0.0%	192,919	21.7%	22.3%	4,688	61,403	-	-	\$2.30
B	28	636,604	140,679	22.1%	-	0.0%	140,679	22.1%	22.4%	2,111	1,742	-	-	\$1.44
Flex	11	504,230	193,401	38.4%	-	0.0%	193,401	38.4%	35.5%	(14,516)	(46,175)	-	-	\$1.20
Total	63	2,028,755	526,999	26.0%	-	0.0%	526,999	26.0%	25.6%	(7,717)	16,970	-	-	\$1.67
NAPA														
A	14	514,312	204,425	39.7%	-	0.0%	204,425	39.7%	40.5%	4,044	5,138	-	-	\$2.13
B	28	598,790	43,900	7.3%	-	0.0%	43,900	7.3%	12.4%	30,393	44,860	-	-	\$2.00
Flex	15	427,699	45,285	10.6%	-	0.0%	45,285	10.6%	12.5%	8,155	(2,745)	-	-	\$1.10
Total	57	1,540,801	293,610	19.1%	-	0.0%	293,610	19.1%	21.8%	42,592	47,253	-	-	\$1.95
VACAVILLE														
A	9	335,636	85,453	25.5%	-	0.0%	85,453	25.5%	25.5%	-	1,910	-	-	\$1.84
B	12	205,986	27,404	13.3%	-	0.0%	27,404	13.3%	13.3%	-	20,506	-	-	\$1.51
Flex	-	-	-	-	-	-	-	-	-	-	-	-	-	\$-
Total	21	541,622	112,857	20.8%	-	0.0%	112,857	20.8%	20.8%	-	22,416	-	-	\$1.76
VALLEJO														
A	2	70,286	-	0.0%	-	0.0%	-	0.0%	0.0%	-	-	-	-	\$-
B	6	232,815	42,989	18.4%	-	0.0%	42,989	18.5%	18.4%	(142)	(11,030)	-	-	\$1.25
Flex	8	256,304	86,317	33.7%	-	0.0%	86,317	33.7%	33.7%	-	5,883	-	-	\$0.90
Total	16	559,405	129,306	23.1%	-	0.0%	129,306	23.1%	23.1%	(142)	(5,147)	-	-	\$1.02

MARKET TOTAL

A	50	1,838,155	482,797	26.3%	-	0.0%	482,797	26.3%	26.7%	8,732	68,451	-	-	\$2.15
B	82	1,783,368	254,972	14.3%	-	0.0%	254,972	14.3%	16.1%	32,362	57,085	-	-	\$1.51
Flex	34	1,188,233	325,003	27.4%	-	0.0%	325,003	27.4%	26.8%	(6,361)	(43,037)	-	-	\$1.11
Total	166	4,809,756	1,062,772	22.1%	-	0.0%	1,062,772	22.1%	22.8%	34,733	82,499	-	-	\$1.68

QUARTERLY COMPARISON AND TOTALS

Q4-13	166	4,809,756	1,062,772	22.1%	-	0.0%	1,062,772	22.1%	22.8%	34,733	82,499	-	-	\$1.68
Q3-13	166	4,809,756	1,097,505	22.8%	-	0.0%	1,097,505	22.8%	22.9%	2,179	47,766	-	-	\$1.69
Q2-13	166	4,809,756	1,091,161	22.7%	8,523	0.2%	1,099,684	22.9%	24.2%	65,145	45,587	-	-	\$1.73
Q1-13	166	4,809,756	1,156,306	24.0%	8,523	0.2%	1,164,829	24.2%	23.8%	(19,558)	(19,558)	-	-	\$1.75
Q4-12	166	4,809,756	1,136,748	23.6%	8,523	0.2%	1,145,271	23.8%	23.4%	(20,746)	44,937	-	-	\$1.73

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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.)

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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.