

FAIRFIELD: SOLANO & NAPA COUNTIES | CALIFORNIA

RESEARCH & FORECAST REPORT



MARKET INDICATORS

	Q4-14	Projected Q1-15
VACANCY RATE	↑	↔
RENTAL RATE	↑	↑
NET ABSORPTION	↓	↔
CONSTRUCTION	↓	↓

SELECTED MARKET STATISTICS

- OFFICE INVENTORY:
5,012,086 square feet
- CURRENT VACANCY:
±20.0% percent
- AVERAGE ASKING FULL SERVICE RENT*:
\$1.72 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.

Office Market Review

LEASING REMAINED SOFT AMIDST SOME SIGNS OF OPTIMISM

The office leasing market in Solano and Napa counties remained soft in the fourth quarter as the vacancy rate increased from 19.1 to 20.0 percent. Net absorption for the quarter was negative 22,244 square feet; however for the entire year of 2014, it was positive 22,839 square feet. Average asking rates in the fourth quarter increased by \$0.05 to \$1.72 per square foot per month full service (FS).

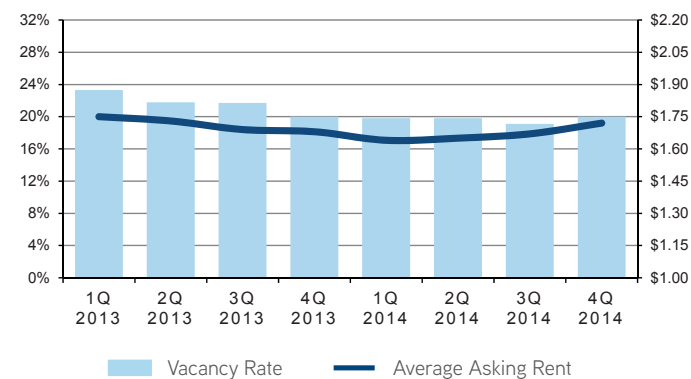
The single largest reason for this increase in vacancy was the completion of The Wiseman Company's 30,000 square foot Class A office building at 2470 Hilborn Road. However, 25,000 square feet of the building remained vacant at the end of the quarter. This was the first new office building constructed in several years in the region.

The sales market was significantly more active than leasing in the fourth quarter as there were two sales of greater than 25,000 feet, compared with no leases of greater than 5,000 square feet.

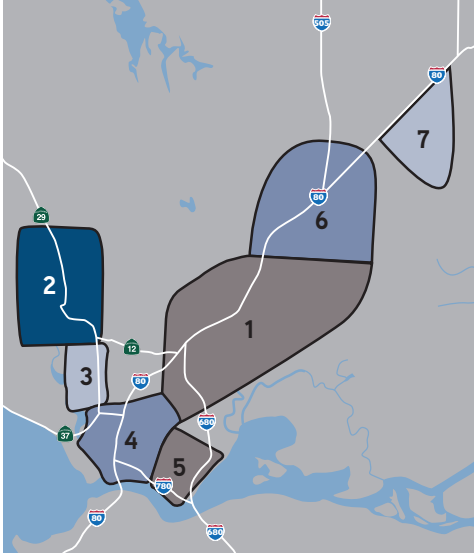
FAIRFIELD

The vacancy rate in Fairfield remained relatively flat at 25.6 percent in the fourth quarter, dipping fractionally by 0.1 percentage points. Fairfield was easily the most active city in the fourth quarter: not only was the aforementioned construction of 2470 Hilborn completed in the quarter, but all of the most significant leases in the quarter took place in Fairfield as well as the second largest sale in the regions covered in this report. The largest lease in the quarter was First American Title's lease of 4,133 square feet of Class A office space at 2500 Hilborn Road and the largest sale in the quarter was River Valley Investments' purchase of 2300 Boynton Avenue, a 26,238 square foot Class A office building for \$3,200,000, or \$121.96 per square foot. The building was approximately 68 percent occupied at the time of the sale.

VACANCY VS. ASKING FULL SERVICE RENTAL RATES
SOLANO & NAPA COUNTIES | ALL CLASSES



Vacancy increased for the first time in 8 quarters under 20 percent for consecutive quarters, asking rents continued their upward momentum.



SUBMARKET MAP KEY

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

NAPA

The vacancy rate increased from 11.9 percent to 13.1 percent in the fourth quarter as leasing activity cooled in Napa with no significant leases completed. However, the largest sale in the regions covered in this report took place in Napa: Milpitas Properties bought the 50,000 square foot Class A office building at 550 Gateway Drive in the Napa Valley Gateway Business Park as an investment transaction for \$8,700,000 or \$174 per square foot. The cap rate was 8.3 percent. The building was approximately 90 percent occupied at the time of sale.

SUMMARY

Despite the limited office leasing activity in Solano and Napa counties this quarter, there were some signs of optimism. Two investment sales of greater than 25,000 square feet occurred in the quarter and a new office building was constructed for the first time in several years. Napa County's outlook in the near and short term are positive given these three factors: the relatively low vacancy rate of 13.1 percent, the wine industry's recent success shows no signs of slowing down, and the high quality of life. While Solano County's vacancy rate is higher at 23.5 percent, there is optimism for the future given the County's close proximity to the strongest office markets in the country, San Francisco and Silicon Valley. Despite this proximity, Solano County remains an affordable, and therefore desirable option, for both residents and businesses.

LEASE AND SALES ACTIVITY

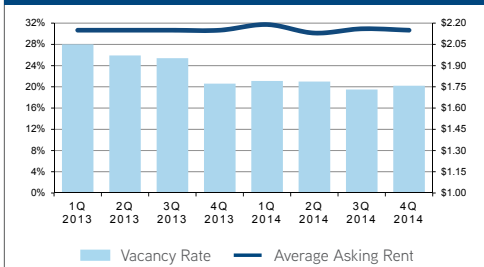
LEASE ACTIVITY

PROPERTY ADDRESS	LEASE DATE	SIZE	TENANT	TYPE
2500 Hilborn Road, Fairfield	11/2014	4,133	The First American Corporation	Class A Office
1499 Oliver Road, Fairfield	10/2014	3,841	Before The Movie	Class A Office
2470 Hilborn Road, Fairfield	12/2014	3,500	Retinal Medical Consultants	Class A Office
1261 Travis Boulevard, Fairfield	11/2014	2,128	Aerotek	Class A Office
2750 North Texas Street, Fairfield	11/2014	1,490	Garland & Associates	Class B Office

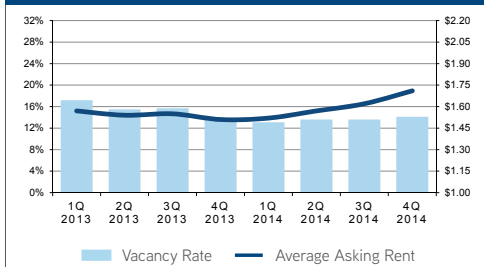
SALES ACTIVITY

PROPERTY ADDRESS	SALE DATE	SIZE	BUYER	TYPE
550 Gateway Drive, Napa	12/2014	50,000	Milpitas Properties	Class A Office
2300 Boynton Avenue, Fairfield	12/2014	26,238	River Valley Investments	Class A Office
2799 Napa Valley Corporate Drive, Napa	11/2014	4,206	Meritage Condos	Class A Office Condominium
2795 Napa Valley Corporate Drive, Napa	11/2014	3,603	Meritage Condos	Class A Office Condominium
2797 Napa Valley Corporate Drive, Napa	11/2014	3,540	Meritage Condos	Class A Office Condominium

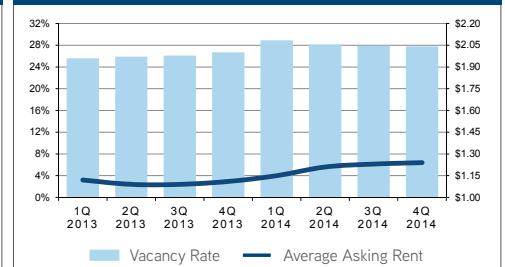
VACANCY VS. ASKING NNN RENTAL RATES SOLANO & NAPA COUNTIES | CLASS A



VACANCY VS. ASKING NNN RENTAL RATES SOLANO & NAPA COUNTIES | CLASS B



VACANCY VS. ASKING NNN RENTAL RATES SOLANO & NAPA COUNTIES | OFFICE/FLEX



MARKET COMPARISONS

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	UNDER CONSTRUCTION SF	AVG ASKING FULL SERVICE
BENICIA													
A	1	30,000	-	0.0%	-	0.0%	-	0.0%	0.0%	-	-	-	\$-
B	6	85,403	-	0.0%	-	0.0%	-	0.0%	0.0%	585	-	-	\$-
Flex	-	-	-	-	-	-	-	-	-	-	-	-	\$-
Total	7	115,403	-	0.0%	-	0.0%	-	0.0%	0.5%	585	-	-	\$-
FAIRFIELD													
A	25	917,921	209,926	22.9%	-	0.0%	209,926	22.9%	22.4%	(3,987)	12,993	-	\$2.27
B	28	636,604	141,882	22.3%	-	0.0%	141,882	22.3%	21.9%	(2,740)	(1,203)	-	\$1.65
Flex	11	504,230	175,777	34.9%	-	0.0%	175,777	34.9%	36.6%	8,552	5,919	-	\$1.35
Total	64	2,058,755	527,585	25.6%	-	0.0%	527,585	25.6%	25.7%	1,825	17,709	-	\$1.80
NAPA													
A	16	626,763	96,459	15.4%	-	0.0%	96,459	15.4%	15.4%	(17)	23,134	-	\$2.17
B	27	575,555	46,055	8.0%	-	0.0%	46,055	8.0%	7.2%	(4,826)	(2,165)	-	\$2.02
Flex	16	470,822	77,240	16.4%	-	0.0%	77,240	16.4%	13.2%	(15,185)	(27,797)	-	\$1.35
Total	59	1,673,140	219,754	13.1%	-	0.0%	219,754	13.1%	11.9%	(20,028)	(6,828)	-	\$1.85
VACAVILLE													
A	9	335,636	81,492	24.3%	-	0.0%	81,492	24.3%	24.7%	1,400	3,961	-	\$1.83
B	12	205,986	28,259	13.7%	-	0.0%	28,259	13.7%	13.7%	35	(855)	-	\$1.70
Flex	1	52,491	25,200	48.0%	-	0.0%	25,200	48.0%	48.0%	-	862	-	\$1.10
Total	22	594,113	134,951	22.7%	-	0.0%	134,951	22.7%	23.0%	1,435	3,968	-	\$1.67
VALLEJO													
A	2	70,286	13,144	18.7%	-	0.0%	13,144	18.7%	0.0%	(13,144)	(13,144)	-	\$-
B	7	244,085	29,634	0.0%	-	0.0%	29,634	12.1%	11.9%	(696)	13,355	-	\$1.50
Flex	8	256,304	78,538	30.6%	-	0.0%	78,538	30.6%	33.7%	7,779	7,779	-	\$0.95
Total	17	570,675	121,316	21.3%	-	0.0%	121,316	21.3%	20.2%	(6,061)	7,990	-	\$0.98

MARKET TOTAL

A	53	1,980,606	401,021	20.2%	-	0.0%	401,021	20.2%	19.5%	(15,748)	26,944	-	\$2.15
B	80	1,747,633	245,830	14.1%	-	0.0%	245,830	14.1%	13.6%	(7,642)	9,132	-	\$1.71
Flex	36	1,283,847	356,755	27.8%	-	0.0%	356,755	27.8%	27.9%	1,146	(13,237)	-	\$1.24
Total	169	5,012,086	1,003,606	20.0%	-	0.0%	1,003,606	20.0%	19.1%	(22,244)	22,839	-	\$1.72

QUARTERLY COMPARISON AND TOTALS

Q4-14	169	5,012,086	1,003,606	20.0%	-	0.0%	1,003,606	20.0%	19.1%	(22,244)	22,839	-	\$1.72
Q3-14	168	4,982,086	951,362	19.1%	-	0.0%	951,362	19.1%	19.8%	32,868	45,083	30,000	\$1.67
Q2-14	168	4,982,086	984,230	19.8%	-	0.0%	984,230	19.8%	19.8%	3,863	12,215	30,000	\$1.65
Q1-14	168	4,982,086	988,093	19.8%	-	0.0%	988,093	19.8%	20.0%	8,352	8,352	30,000	\$1.64
Q4-13	168	4,982,086	996,445	20.0%	-	0.0%	996,445	20.0%	21.7%	85,554	146,920	-	\$1.68



Milpitas Properties purchased 550 Gateway Drive

EXECUTIVE MANAGING DIRECTOR

Phil Garrett, SIOR
Executive Managing Director
+1 707 863 8357
phil.garrett@colliers.com

INDUSTRIAL/OFFICE

Phil Garrett, SIOR
Executive Managing Director
+1 707 863 8357
phil.garrett@colliers.com

Jon Quick
Senior Vice President
+1 707 863 8359
jon.quick@colliers.com

Bill 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

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

485 offices in
63 countries on
6 continents

United States: 146
Canada: 44
Latin America: 25
Asia Pacific: 186
EMEA: 84

➤ \$2.1 billion in annual revenue

➤ 1.46 billion* square feet under management

➤ Over 15,800 professionals

*Square footage includes office, industrial, and retail property under management. Residential property is excluded from this total. All statistics are for 2014.

COLLIERS INTERNATIONAL | FAIRFIELD

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

EXECUTIVE MANAGING DIRECTOR

Phil Garrett, SIOR
Executive Managing Director
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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