

STOCKTON | SAN JOAQUIN COUNTY, CALIFORNIA

RESEARCH & FORECAST REPORT

Northern California's Central Valley
Vacancy Rates Continue Decline

Northern California's Central Valley industrial market continues to experience a shortage of available space as we complete the first quarter of 2015. Industrial vacancy rates, on average from 2010, dropped approximately 200 basis points each year reaching 8.3 percent at year-end 2014. In an active first quarter, the vacancy rate in San Joaquin County dropped 90 basis points to 7.3 percent. Net absorption for the first quarter totaled 1,158,299 square feet with the majority of the remaining Class A, high-cube space being absorbed. Notable leases for the quarter include Medline (443,640 square feet), Allen Distribution (297,560 square feet), Ghirardelli (145,229 square foot expansion), KeHE Foods (452,083 square feet) and Mannington Mills (173,000 square feet). Notable sales include Spears Manufacturing (207,360 square feet) and Turkhan Foods (126,461 square feet).

Asking lease rates in San Joaquin County will continue to increase as the market experiences a shortage of space. New construction to be delivered in 2015 may not relieve the pressure on rising lease rates or demand as new speculative space is expected to lease at or close to the asking rates.

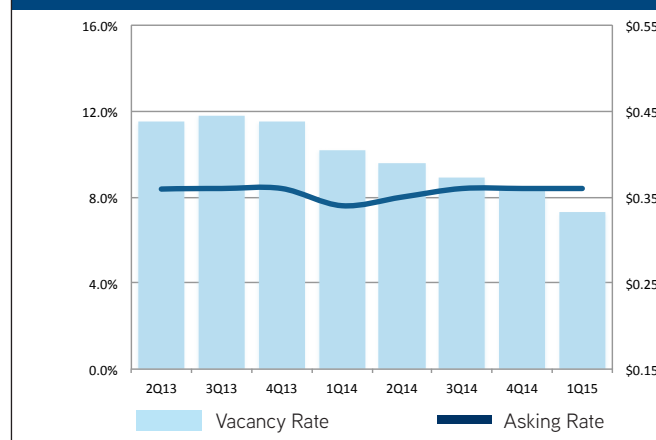
MARKET INDICATORS

	Q1-15	Projected Q2-15
VACANCY	↓	↓
NET ABSORPTION	↑	↑
CONSTRUCTION	↑	↑
LEASE RATES	↑	↑
CAP RATES	↔	↔
LAND PRICES	↔	↔

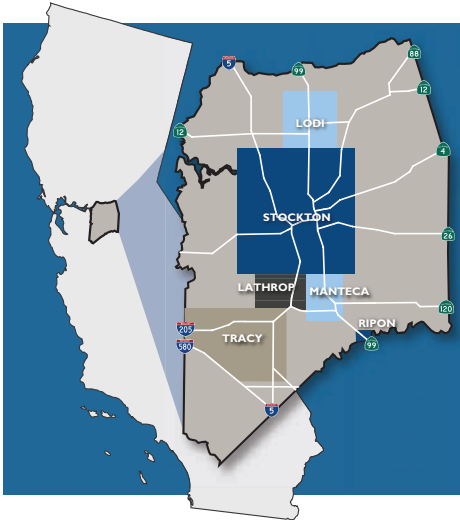
SELECTED MARKET HIGHLIGHTS:

- > Northern California's Central Valley Industrial market continues to experience a shortage of available space as we move into 2015.
- > Much of the remaining Class A, high-cube space will be absorbed by year end.
- > Few buildings to be delivered in 2015 may not relieve the pressure on rising lease rates or demand as new speculative space is expected to be leased at or close to asking rates.

HISTORICAL VACANCY AND ASKING RATES



Asking lease rates in San Joaquin County will continue to increase as the market experiences a shortage of space.



"Net absorption for the first quarter totaled 1,158,299 square feet with the majority of the remaining Class A, high-cube space being absorbed."

TRACY

Tracy's vacancy rate dropped from 5.0 percent to 3.7 percent overall at the end of the first quarter of 2015 with only one building able to accommodate a 100,000 square foot tenant. On the construction front, Prologis began tilting walls on a 40 foot clear, 1,001,378 square foot state-of-the-art cross-load facility at International Park of Commerce, which is scheduled for completion in the third quarter. Mannington Mills, an international flooring manufacturer with its' corporate headquarters located in New Jersey, closed a 173,262 square foot long term lease. In addition, Willis Supply Corp, a distributor of building materials, leased a 33,337 square foot building.

LATHROP/MANTECA

The vacancy rate in Lathrop at the end of the first quarter jumped to 11.7 percent, significantly higher than the year end rate of 6.3 percent. The surge in vacancy rate can be attributed to the former Pilkington Glass plant becoming available for lease, adding 750,000 square feet of negative net absorption. Notable lease transactions for Lathrop included the Ghirardelli Chocolate expansion, leasing 145,229 square feet from CalSTRS. Diamond Pet Food leased 65,600 square feet, while Lifestyle Solutions leased the remaining 65,600 square feet of the building they occupy. Manteca's industrial market experienced little activity during the first quarter ending with a vacancy rate of 7.2 percent.

STOCKTON

A very active first quarter in Stockton drove the vacancy rate from 12.3 percent at year-end 2014 to 9.3 percent for the first quarter of 2015. The warehouse sector experienced a significant drop in vacancy to 7.2 percent, absorbing 1.6 million square feet. Buzz Oates completed a speculative warehouse facility this quarter, the first development off its kind following the Great Recession. The 257,000 square foot cross-load warehouse is available for lease or sale in the Stockton Airport Business Center.

SIGNIFICANT DEALS

LEASE ACTIVITY

PROPERTY ADDRESS	LEASE DATE	SQUARE FEET	TENANT	TYPE
4650 Newcastle Road, Stockton, CA	2/2015	452,083	KeHE Foods	Warehouse/Distribution
1030 Runway Drive, Stockton, CA	3/2015	443,640	Medline	Warehouse/Distribution
4650 Newcastle Road, Stockton, CA	3/2015	297,560	Allen Distribution	Warehouse/Distribution
2020 N. MacArthur Drive, Tracy, CA	1/2015	173,000	Mannington Mills	Warehouse/Distribution
11960 Harlan Road, Lathrop, CA	3/2015	145,229	Ghirardelli	Warehouse/Distribution

SALE ACTIVITY

PROPERTY ADDRESS	SALE DATE	SQUARE FEET	BUYER	TYPE
555 Zephyr Street, Stockton, CA	1/2015	207,360	Spears Manufacturing	Warehouse/Distribution
1550 Industrial Drive, Stockton, CA	1/2015	126,461	Turkhan Foods	Warehouse/Distribution

UNDER CONSTRUCTION

PROJECT	SUBMARKET	SQUARE FEET	STATUS	DEVELOPER
International Park of Commerce	Tracy	1,001,378	Speculative-Under Construction	Prologis
Tesla Motors	Lathrop	65,000	Expansion	

KeHE Foods and Allen Distribution, both third party logistics providers (3PL) involved in the distribution of food and beverage product, absorbed space at NorCal Logistics Center. KeHE foods will occupy 452,083 square feet; while Medline, a medical supply distribution company, leased 443,640 square. Notable sales in Stockton for the quarter include purchases by Spears Manufacturing and Turkhan Foods, a walnut and almond processing company.

LODI

Following the announcement of the planned closure of the General Mills facility in November of 2014, the 1,123,000 square feet of improvements located on approximately 77 acres is projected to become available soon, with an asking price that is yet to be determined. This rail served property consists of multiple parcels and includes office/support (123,000 square feet), manufacturing/production (383,000 square feet) and warehouse/distribution (617,000 square feet) space. The availability of this property will push the vacancy rate of Lodi from 2.1 percent to 9.7 percent.

SAN JOAQUIN COUNTY GEOGRAPHICAL OVERVIEW

San Joaquin County is located directly to the east of the San Francisco/Oakland Bay Area in Northern California's Central Valley. It covers more than 1,400 square miles and bridges northern and central California. It's geographical position within the country's third largest state places the county within a dynamic growth corridor ideally situated for business and industry. There are five (5) submarkets in San Joaquin County comprised of Tracy, Lathrop, Manteca, Stockton and Lodi.

Due to the centralized location of San Joaquin County, it has cultivated extensive transportation facilities. These facilities include The Port of Stockton, Interstate 5 and Highway 99, Union Pacific Railroad and Burlington Northern Santa Fe Railroad, and The Stockton Metropolitan Airport. With these transportation systems in place, San Joaquin County is a central staging area and meeting place in California.

Prologis' International Park of Commerce – Walls Tilted



INDUSTRIAL DEFINITIONS

Average Sales Price: Calculated using a straight average of actual sales transactions.

Direct Vacancy: Space in existing buildings that are vacant and immediately available during the quarter for direct lease or for sale, plus space that is vacant but not available for direct lease or sublease (for example, that is being held for a future commitment).

High-Cube Warehouse Distribution: A sub-type of Warehouse buildings, high-cube buildings include buildings 50,000 square feet and greater with a minimum clear height of 26 feet. Typically the buildings provide dock-high doors at a ratio of one door per 10,000 square feet or more.

Incubator: Includes buildings designed to allow alternative uses by multiple tenants who occupy less than 4,000 square feet. Buildings range in size from 4,800-25,000 square feet.

Light Industrial Buildings: Includes buildings in which the space is used primarily for development, service, production, storage or distribution of goods. Buildings range in size from 10,000-100,000 square feet.

Manufacturing Buildings: Includes buildings designed for the conversion or fabrication of goods. Buildings range in size from 20,000-250,000 square feet.

Net Absorption: Net change in occupied square feet from one period to the next (includes the impact of change in vacant space available for sublease).

R&D Flex: Includes buildings designed to allow its occupants flexibility of alternative uses, in a building with multiple tenants, usually in an industrial park setting. Buildings range in size from 4,800-25,000 square feet.

Sales and Leasing Activity: Square feet sold or leased for all known transactions completed during the quarter. Includes lease renewals and includes investment sale transactions.

Total Rentable Square Feet: Industrial space in buildings with 4,800 SF or greater of industrial space. Includes speculative as well as owner-occupied buildings. Excludes buildings that are functionally obsolete in addition to space that is under construction or renovation.

Total Vacancy: Space in existing buildings that are vacant and immediately available during the quarter for direct lease, for sublease or for sale, plus space that is vacant but not available for direct lease or sublease.

Under-Construction/Renovation: Includes buildings that are in some phase of construction, beginning with foundation work and ending with the issuance of a Certificate of Occupancy. Also includes buildings that are undergoing substantial renovation.

Warehouse Buildings: Includes buildings of 50,000 square feet and greater with a minimum clear height of 16 feet. They have multiple dock-high doors and are primarily used for storage and/or distribution of goods.

Weighted Average Asking Rental Rates: Weighted by square feet available for direct lease. Data is based on triple net rents, and excludes expenses such as taxes, insurance, maintenance, janitorial service and utilities. Reported on a monthly per square foot basis.

INDUSTRIAL

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Canada: 31
Latin America: 24
Asia Pacific: 199
EMEA: 108

- > \$2.3 billion in annual revenue
- > \$1.7 billion square feet under management
- > Over 16,300 professionals

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