

Speculative Construction Continues

- Positive net absorption continues to drive the record low vacancy even lower in the Central Valley to 5.4 percent by the close of the third quarter.
- At the close of the quarter, only one million square feet of Class A logistics space remained available.
- New speculative logistics space under construction at the close of the quarter increased to 3,328,099 square feet with another 537,015 square feet breaking ground at the beginning of October.

Record low vacancy in Northern California's Central Valley industrial market has continued to drive rent growth and new speculative construction as we head into the fourth quarter of 2016.

The overall average asking lease rate for the Central Valley is now \$0.43 per square foot triple net (NNN), compared to \$0.38 per square foot triple net (NNN) the previous quarter. Warehouse and distribution rents for high-cube Class A space is now pushing above the \$0.40 per square foot triple net (NNN) as the last of the remaining available space is pursued. At the close of the quarter, just 1.0 million square feet of Class A logistics space remained available with 160,000 square feet of that possibly coming off market by the owner who may occupy the existing space and another 160,000 square feet only available for sale. New speculative logistics space under construction at the close of the quarter increased to 3,328,099 square feet with another 537,015 square feet breaking ground at the beginning of October. Positive net absorption continues to drive the record low vacancy even lower in the Central Valley to 5.4 percent by the close of the third quarter, an 80 basis point drop over the previous quarter.

Market Indicators

United States
Unemployment Rate

5.5%

10-Year Nominal
Interest Rate

1.60
%

Consumer
Confidence

104.1

Market Trends

Relative to prior period

Q3 2016

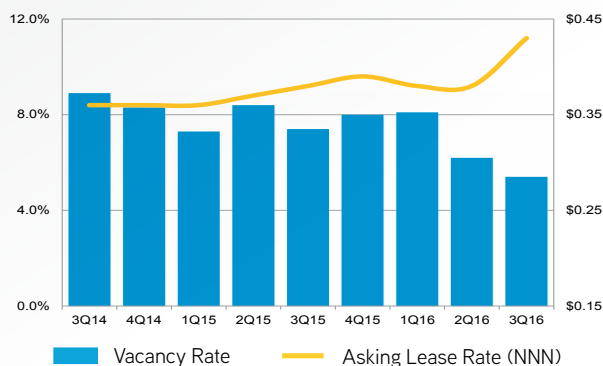
Q4 2016*

	Q3 2016	Q4 2016*
Vacancy	↓	↓
Net Absorption	↑	↑
Construction	↑	↑
Lease Rates	↑	↑
Cap Rates	↔	↔
Land Prices	↔	↔

*Projected

Historical Vacancy and Average Asking Rates

San Joaquin County | Overall



The overall average asking lease rate for the Central Valley is now \$0.43 per square foot (NNN), compared to \$0.38 per square foot (NNN) the previous quarter.

Summary Statistics

Q3 2016 San Joaquin County Industrial Market

Previous
Quarter

Current
Quarter

	Previous Quarter	Current Quarter
Vacancy Rate	6.2%	5.4%
Overall Asking Rate*	\$0.38	\$0.43
Light Industrial Asking Rate*	\$0.49	\$0.51
Warehouse Asking Rate*	\$0.39	\$0.39
R&D/Flex Asking Rate*	\$0.55	\$0.66
Manufacturing Asking Rate*	\$0.29	\$0.41
Special Purpose Asking Rate*	\$0.49	\$0.55
Net Absorption	3,086,711	864,674

*Asking rates are reported on a NNN monthly basis.

Tracy

The Tracy submarket, strategically located along Interstate 5 and the last stop headed to the East Bay of San Francisco, currently has an overall vacancy rate of 0.6 percent. Tracy has only one remaining warehouse and distribution vacancy in the entire submarket, with a total of 43,200 square feet available at a vacancy rate of 0.3 percent. Completions year-to-date for the submarket total 1,870,560 square feet with another 1,177,332 square feet of speculative warehouse currently under construction. An additional 537,015 square feet, located within the International Park of Commerce, is breaking ground in the beginning of October. As we roll in to October, Tracy will have four sites under construction. Average asking lease rates overall for the submarket increased to \$0.45 per square foot triple net (NNN), an increase of \$0.05 since the beginning of 2016. Year-to-date net absorption for the submarket totaled 3,074,714 square feet.

Lathrop/Manteca

Two Class A warehouse and distribution buildings were vacated by Medline during the second quarter in the Lathrop submarket, bringing 553,436 square feet of much needed space to the market. In addition to Medline vacating two large warehouses, Heinz leased the former Pilkington Glass manufacturing space removing 835,000 square feet from the market. Lathrop continues to be a hot spot for new speculative construction with five sites under construction totaling 1,699,156 square feet. Completions year-to-date in the submarket totaled 745,640 square feet with the completion of the I-5 Logistics Center in northern Lathrop with Interstate 5 exposure. The space was leased at completion to UPS. Average asking lease rates in the submarket have sharply increased over the previous quarter by \$0.08 to \$0.44 per square foot triple net (NNN). The submarket currently has a vacancy rate of 6.0 percent compared to 15.9 percent the previous quarter.

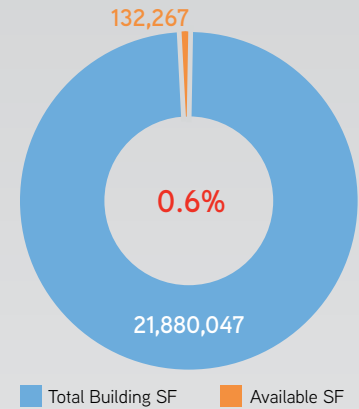
Fairview Distribution termed up at their current location within Manteca at 900 Spreckels Avenue driving the vacancy rate down to 1.3 percent at the close of the quarter. Little relief for the low vacancy rate in Manteca is expected, with no new construction currently set to break ground.

Stockton

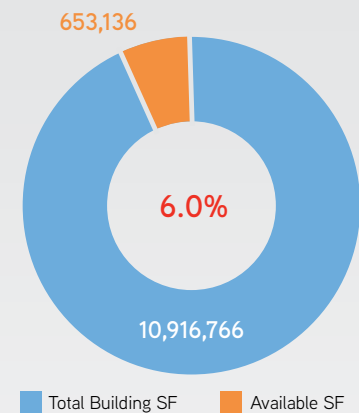
The Stockton industrial market vacancy rate increased in the third quarter with the addition of a new sublet space coming to market on Fite Court. The current vacancy rate for Stockton is at 7.2 percent with direct vacancy totaling 6.9 percent. High-cube, Class A warehouse and distribution vacancy is 3.1 percent currently with only three buildings available to accommodate a user greater than 100,000 square feet. A large multi-building institutional investment sale took place in the month of August on Gibraltar Court totaling 779,917 square feet when Highridge Provender purchased the C&S Grocers occupied buildings. Another large user sale took place at 1201 N. Gertrude Avenue in August totaling 100,000 square feet with Silkroad Oasis purchasing the distribution space.

Submarket Available Square Feet and Vacancy Rates

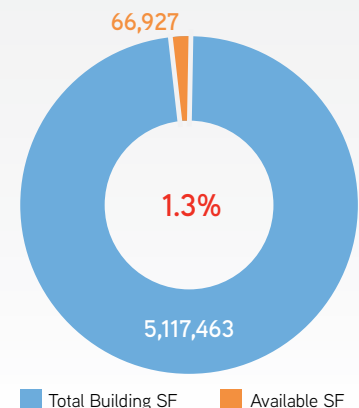
Tracy



Lathrop



Manteca



Year-to-date net absorption for the largest submarket in San Joaquin County totaled 1,027,289 square feet at the close of the quarter. One site remained under construction on Boeing way, a 451,611 square foot speculative project by Buzz Oates in the Stockton Airport Business Center, with an expected completion date in the first quarter of 2017. The average asking lease rate for the submarket remained at \$0.42 per square foot triple net (NNN).

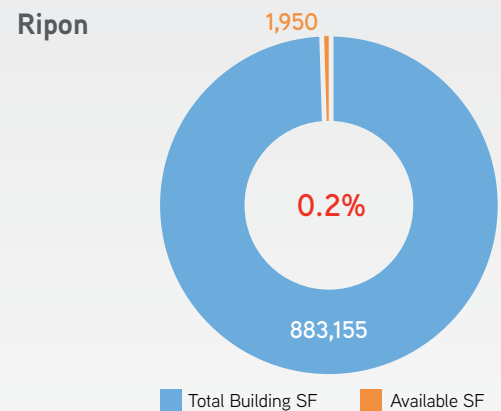
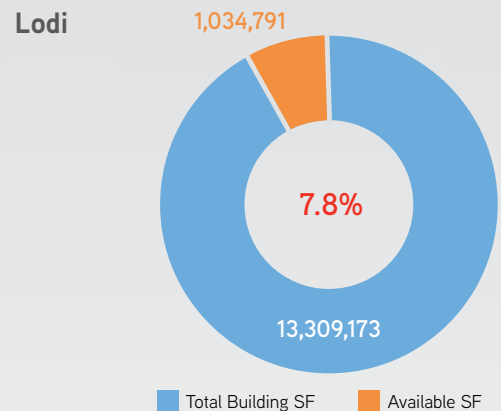
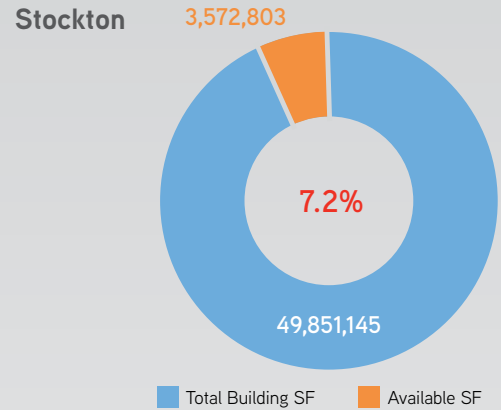
Lodi

The Lodi submarket vacancy rate remained relatively unchanged ending the third quarter at 7.8 percent, a 40 basis point increase. Year-to-date net absorption for the submarket totaled 250,569 square feet. The majority of vacant space in the submarket can be attributed to the former General Mills facility on Turner Road that was vacated at the end of 2015. Bond Manufacturing purchased the building in the first quarter of 2016 and occupies a portion of the space while the remainder is available for lease.

Ripon

Historically, the Ripon submarket has been a small industrial market with a low vacancy. At the close of the third quarter the vacancy rate totaled 0.2 percent with 1,950 square feet available on Dexter Way at an asking lease rate of \$0.70 per square foot industrial gross (IG).

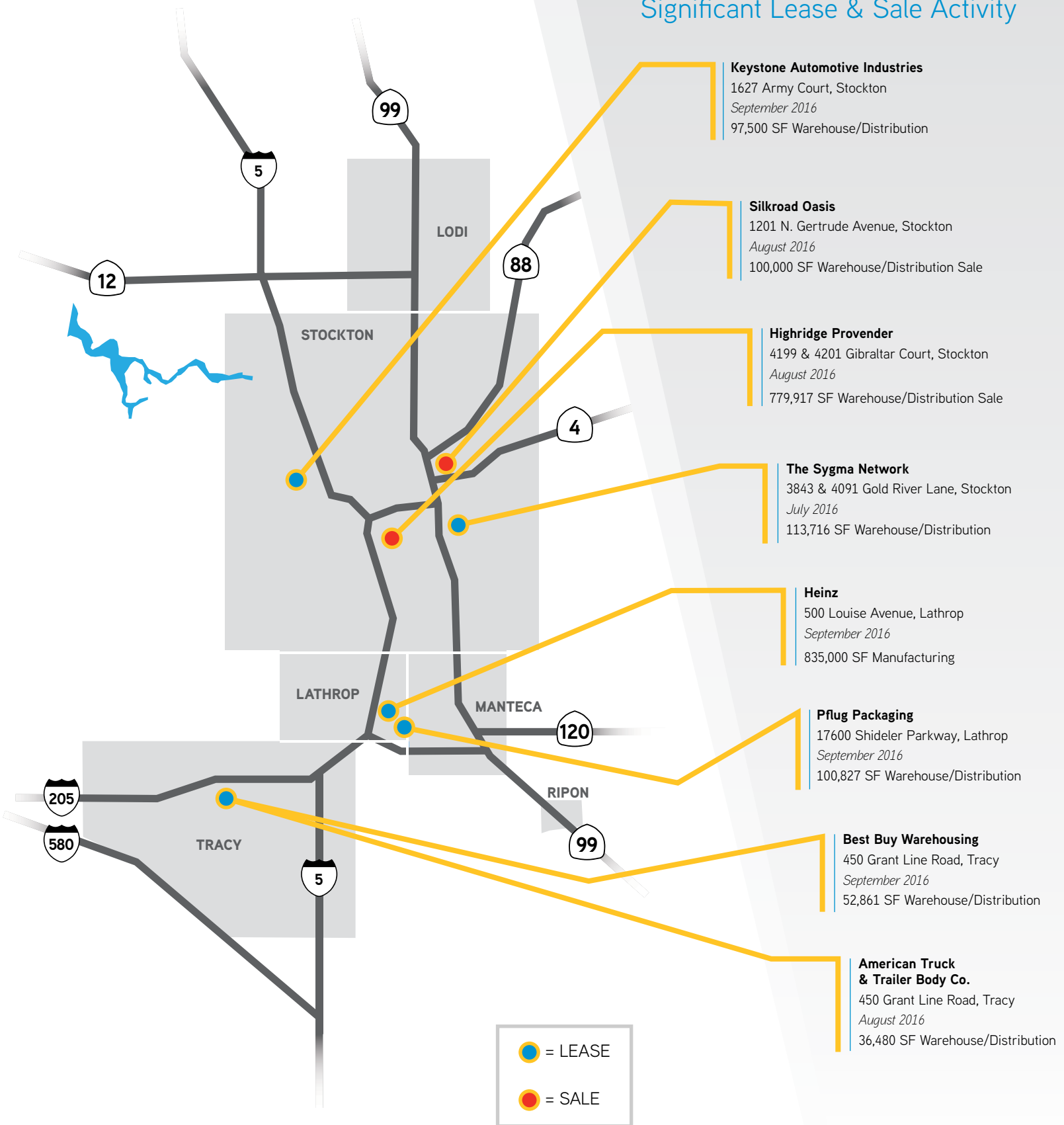
Submarket Available Square Feet and Vacancy Rates



1122 RUNWAY DRIVE IN STOCKTON, CALIFORNIA

Dollar Tree expanded its 550,000 square foot warehouse/distribution facility by 250,000 square feet, bringing the total square footage to 800,000 square feet.

Significant Lease & Sale Activity



554 offices in
66 countries on
6 continents

United States: **153**

Canada: **34**

Latin America: **24**

Asia Pacific: **231**

EMEA: **112**

\$2.5

billion in
annual revenue*

2.0

billion square feet
under management

16,000

professionals
and staff

*All statistics are for 2015 and include affiliates

About Colliers International

Colliers International Group Inc. (NASDAQ and TSX: CIGI) is a global leader in commercial real estate services with more than 16,000 professionals operating from 554 offices in 66 countries. With an enterprising culture and significant insider ownership, Colliers professionals provide a full range of services to real estate occupiers, owners and investors worldwide. Services include brokerage, global corporate solutions, investment sales and capital markets, project management and workplace solutions, property and asset management, consulting, valuation and appraisal services, and customized research and thought leadership. Colliers International has been ranked among the top 100 outsourcing firms by the International Association of Outsourcing Professionals' Global Outsourcing for 10 consecutive years, more than any other real estate services firm.

For the latest news from Colliers International, visit Colliers.com or follow us on Twitter (@ColliersIntl) and LinkedIn.

colliers.com

Copyright © 2016 Colliers International.

The information contained herein has been obtained from sources deemed reliable. While every reasonable effort has been made to ensure its accuracy, we cannot guarantee it. No responsibility is assumed for any inaccuracies. Readers are encouraged to consult their professional advisors prior to acting on any of the material contained in this report.

COLLIERS INTERNATIONAL | STOCKTON

3439 Brookside Road, Suite 108
Stockton, CA 95219 | USA

+1 209 475 5100

MANAGING DIRECTOR

Michael Goldstein, SIOR
Executive Managing Director
CA License No. 01319234
+1 209 475 5106
michael.goldstein@colliers.com

RESEARCHER

Kyle Mecker
Research Analyst
+1 209 475 5110
kyle.mecker@colliers.com



Accelerating success.