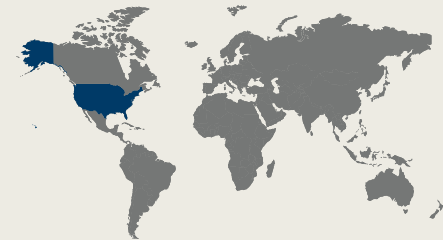


# Market Research

INDUSTRIAL | FOURTH QUARTER | 2009



## MARKET INDICATORS

	4Q 2009	1Q 2010*
VACANCY	↑	↑
NET ABSORPTION	↓	↓
CONSTRUCTION	↓	↔
LEASE RATES	↓	↓
CAP RATES	↑	↔
LAND PRICES	↓	↔

\*PROJECTED

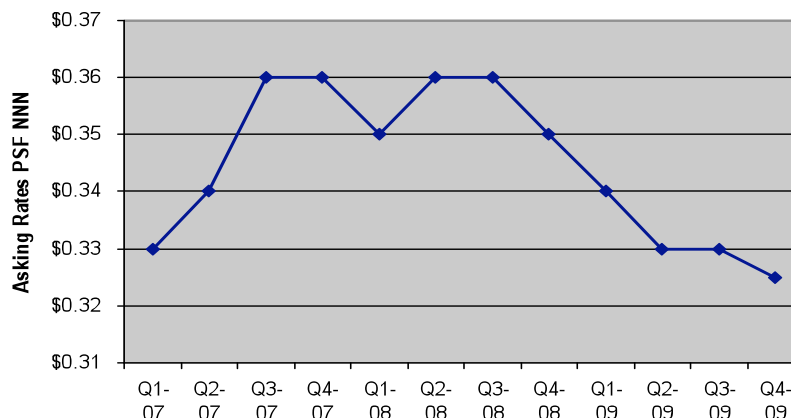
## Overview

The industrial momentum experienced in 2008 slowed considerably in 2009 as net absorption fell into negative territory, vacancy increased and construction activity slowed to a stop. The story is not all negative for 2009 as the third quarter produced bright spots with several Fortune 1000 companies taking advantage of the market conditions and leasing institutional quality buildings at competitive rates. Landlords throughout San Joaquin County offered incentives including free rent, full procuring commissions and attractive tenant improvement allowances. Building sales for 2009 were down from 2008 as sellers and buyers failed to bridge the gap on asset values. Seller expectations have begun to shift towards more realistic values as evidenced by several transactions that occurred in the fourth quarter of 2009.

## Warehouse Distribution

Warehouse Distribution building vacancy rose across San Joaquin County from 17.9% in the third quarter to 18.5% in the fourth quarter. The major contributing factor to this increase was Chrysler vacating their 430,770± square foot Northern California parts distribution facility in Lathrop. Following a third quarter that experienced nearly two million square feet of absorption, the fourth quarter remained relatively quiet with the exception of two notable transactions; Delicato Family Vineyards leased 141,120± square feet in the Lathrop Industrial Park and DBI Beverage purchased a 79,040± square foot building on 7.66± acres in the Arch Road Business Park, Stockton. Looking forward the overall vacancy will remain in question throughout 2010. Contributing to the uncertainty is the looming closure of the NUMMI General Motors and Toyota manufacturing facility in Fremont, CA.

### WAREHOUSE BUILDINGS- 50,000 SF AND GREATER



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## NUMMI Manufacturing Plant Closure

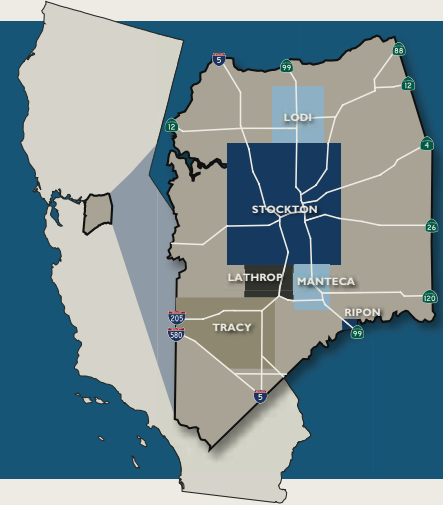
We estimate that approximately 3,000,000 square feet of industrial space is occupied by NUMMI suppliers located in the region and a portion of this space will come available. Many of the facilities that serve the NUMMI plant are special purpose manufacturing facilities. The impact of the closure as estimated by the University of the Pacific's Eberhardt School of Business is expected to cause the loss of 3,000 jobs for San Joaquin County residents. Only 900 residents work at the NUMMI facility and the remainder of the 3,000 positions are located in San Joaquin where various vehicle parts are manufactured and then shipped to Fremont.

## Light Industrial

The fourth quarter brought some positive news with an increase in sales activity for the light industrial sector. Notable transactions included Latitude 1, who purchased two buildings totaling 30,000± square feet from Panattoni Development at Airport Pointe, Franklin Templeton Investments who purchased two buildings totaling 25,000± square feet from Massie & Company in the Massie Industrial Park, RevChem who purchased a 22,750± square foot building on 2.91± acres from a private owner, and an investor who purchased a 24,000± square foot building from the United States Small Business Administration located in the Arch Road Business Park. Leasing in this product type remained slow as demand declined with the economic conditions. Landlords are eager to lease their vacant space and have reduced asking rents to the degree that tenants have the opportunity to lease Class "A" buildings at Class "B" rents.

## Condo/Incubator Units

The industrial condominium sector continued its trend from previous quarters with a lack of activity. Demand for this building sector is closely correlated with employment, and as employment has suffered so has demand for condominiums and incubator units. The tough economic conditions have brought a surge of distressed condominiums that have negatively affected developers and owners attempting to achieve proforma sales prices and lease rates. Market sales price per square foot (psf) ranged from \$125-\$150, three years ago, and now is in the \$80-\$120 psf range. Values for small buildings have suffered due to a lack of demand, a return to traditional lending practices, and ultra conservative appraisals. Looking into 2010 we anticipate an increase in condominium short-sales and foreclosures.



*"Seller expectations have begun to shift towards more realistic values as evidenced by several transactions that occurred in the fourth quarter of 2009."*

### MARKET ACTIVITY

#### SIGNIFICANT FOURTH QUARTER TRANSACTIONS

#### SIGNIFICANT LEASES

PROPERTY ADDRESS	DATE	SQUARE FEET	TENANT	TYPE
17600 Shideler Pkwy, Lathrop	12/2009	141,120	Delicato Family Vineyard	Warehouse/Distribution
1205 Moffat Blvd, Manteca	10/2009	32,710	NCS, Inc	Warehouse/Distribution

#### SIGNIFICANT SALES

PROPERTY ADDRESS	DATE	SQUARE FEET	BUYER/SELLER	TYPE
11900 Harlan Rd, Lathrop	12/2009	262,400	Lowenberg Corp/Panattoni	Warehouse/Distribution
4547 Frontier Way, Stockton	10/2009	79,040	DBI Beverage/Jeld Wen Inc	Warehouse/Distribution

## Construction

There were no new construction completions in the fourth quarter and only one 16,000 square foot construction start in Tracy by the Bricklayers Union. Construction activity reached record levels from 2007 through the first quarter 2009 but has since come to a stop with the rise in vacancy. Ample supply of quality warehouse space at below proforma lease rates has kept developers from building speculative product. In addition, we anticipate that construction will be stifled by civil polices whereby development impact fees and agricultural mitigation fees elevate proforma rents to a level that is not achievable.

## Trends

- Vacancy continues upward with stabilization not occurring until consumer demand shows a positive trend and the economy settles out.
- Landlords have been creative and willing to aggressively negotiate with credit tenants.
- Seller and landlord motivation continues to increase the longer we remain in this down economy.
- The volume of distressed assets and bank owned opportunities continues to be significantly less than anticipated in both warehouse/distribution and light industrial product.

## Outlook:

- Market conditions will remain favorable for tenants and buyers looking to negotiate attractive deals due to ample supply of product and motivated landlords and sellers.
- Investors with cash will continue to track distressed properties and selectively submit offers.
- Construction starts will remain limited until rent activity increases and vacancy rates retract to the mid to low teens.
- Demand for land will remain low as an ample supply of product and aggressive pricing provides many options for owner/users, other than ground up construction.
- Cities and counties that find ways to reduce development fees will have success attracting new construction and jobs when the market recovers. Cities that are resistant to this will see no new development.

## San Joaquin County Geographical Overview:

San Joaquin County is located directly east of the San Francisco/Oakland Bay Area. Its geographical position within the Central Valley is ideal for the distribution industry. San Joaquin County has cultivated extensive transportation systems which provide the means to distribute goods throughout California, the Western U.S., and the Nation. These systems include; The Port of Stockton, Interstate 5, Interstate 580, Highway 99, the Union Pacific Intermodal facility in Lathrop, the Burlington Northern Sante Fe Intermodal facility in Stockton, and the Stockton Metropolitan Airport. With these transportation systems in place, San Joaquin County is an ideal location for distribution centers and manufacturing facilities.

294 OFFICES IN 61 COUNTRIES ON 6 CONTINENTS

USA 94  
Canada 22  
Latin America 17  
Asia Pacific 64  
EMEA 97

48.1 billion in annual transaction volume  
1.1 billion square feet under management  
12,749 Professionals

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