

STOCKTON | SAN JOAQUIN COUNTY, CALIFORNIA

RESEARCH & FORECAST REPORT



Low Central Valley Vacancy Rates and Rent Growth Leads to New Speculative Construction

The vacancy rate for the San Joaquin County industrial market continued its' drop to historic lows. Availability rates during the first quarter hovered at 11.4 percent and continued to fall over 300 basis points, holding at 8.3 percent by year end. The Tracy, California industrial submarket continued to tighten to a 4.6 percent vacancy rate. Net absorption for 2014 totaled 4.8 million square feet, much higher than last years' total net absorption of 2.4 million square feet, however the market did absorb a 1.8 million square foot facility in Lodi. San Joaquin County's gross absorption totaled 6,738,805 square feet.

Unemployment rates for San Joaquin County decreased this year to 10.7 percent at year-end compared to 13.1 percent at the same time last year. The overall unadjusted unemployment rate in California increased slightly to 7.1 percent from 6.9 percent last year while the nations' unemployment rate is reporting 5.6 percent.

MARKET INDICATORS

	Q4-14	Projected Q1-15
VACANCY	↓	↓
NET ABSORPTION	↑	↑
CONSTRUCTION	↑	↔
LEASE RATES	↓	↑
CAP RATES	↔	↔
LAND PRICES	↔	↔

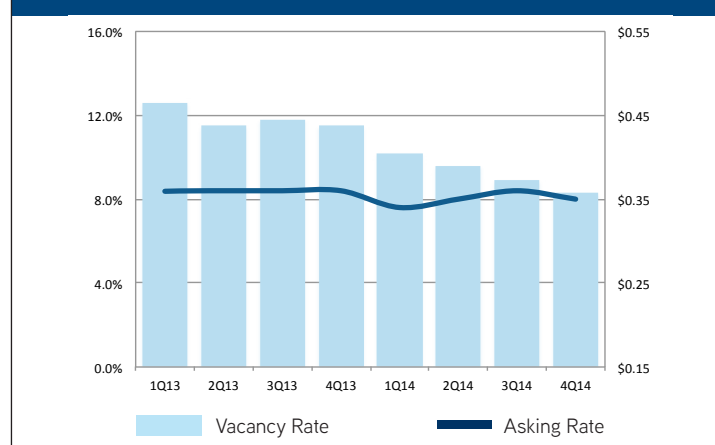
WAREHOUSE DISTRIBUTION

Warehouse and distribution space remained in high demand through the fourth quarter absorbing nearly 4 million square feet net for the year. The availability of warehouse space continued to dwindle, leading to a vacancy rate at the close of the fourth quarter of 8.4 percent, down from 9.0 percent the previous quarter. Institutional Class A industrial space has remained in low supply with only four buildings able to accommodate a tenant over 250,000 square feet. With the historically low vacancy and short supply of institutional Class A space, San Joaquin County has welcomed the start of new speculative construction in four of its' submarkets. Buzz Oates began construction on a speculative warehouse

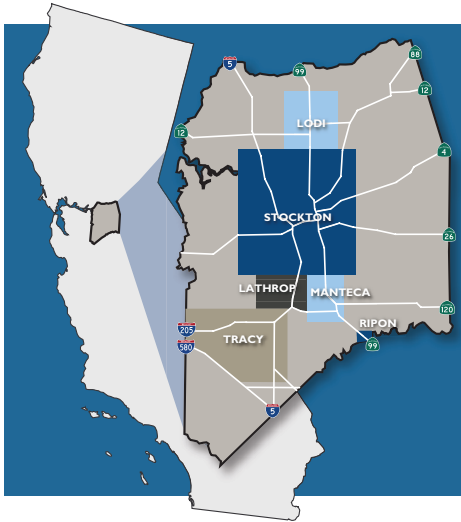
SELECTED MARKET HIGHLIGHTS:

- > Vacancy rates for the San Joaquin County industrial market continued to drop to historic lows
- > Institutional Class A industrial space continues to be in low supply with only four buildings able to accommodate a tenant over 250,000 square feet
- > San Joaquin County has welcomed the start of new speculative construction in four submarkets

HISTORICAL VACANCY AND ASKING RATES



San Joaquin County absorbed a total of 4.8 million square feet during 2014 driving the vacancy rate down over 300 basis points.



"Leading the market in positive absorption, the warehouse/distribution sector absorbed 344,749 square feet in the fourth quarter, bringing the total absorption of warehouse and distribution space to 3,987,552 square feet for the year."

facility totaling 257,000 square feet located north of the Stockton Airport on Boeing Way in Stockton. Laird Norton Properties and Seefried Industrial broke ground on the I-5 Logistics Center in Lathrop on Harlan Road, a speculative 746,383 square foot warehouse with Interstate 5 frontage. Prologis broke ground on a 1,001,683 square foot state-of-the-art speculative warehouse that will be one of the most advanced facilities of its kind in the U.S. The project, International Park of Commerce, will be Northern California's largest master-planned park and the closest location in San Joaquin County to the Port of Oakland. In its entirety, the full build-out is planned for more than 20 million square feet. IPC is located adjacent to Interstates 5, 205 and 580. Lastly, located in Patterson, Restoration Hardware began construction on their build-to-suit facility totaling 1,500,000 square feet.

MANUFACTURING

The manufacturing sector reported positive absorption for the quarter, ending the year absorbing 446,679 square feet and lowering the vacancy rate to 8.0 percent. As we enter into 2015, we will see additional manufacturing space come available due to the closure of multiple plants including Post (282,000 SF on 76.9 acres), Olam Foods (277,433 SF on 36.79 acres), Pilkington Glass (900,000 SF on 185 acres) and General Mills (838,425 SF on 74.6 acres). These facilities will add Class B & C space to the Lodi, Lathrop and Modesto submarkets.

LIGHT INDUSTRIAL

The vacancy rate for the light industrial sector of San Joaquin County fell to 11.9 percent from the previous quarters' vacancy rate of 12.4 percent. Tracy and Stockton continued to lead the sector in absorption for the quarter with Tracy's vacancy of light industrial dropping to 3.9 percent and Stockton reporting a vacancy of 16.7 percent. The majority of vacancy consists of spaces ranging in size from

SIGNIFICANT DEALS

LEASE ACTIVITY

PROPERTY ADDRESS	LEASE DATE	SQUARE FEET	TENANT	TYPE
2020 N. MacArthur Drive, Tracy CA	12/2014	173,262	Mannington Flooring	Warehouse/Distribution
25212 S. Schulte Road, Tracy CA	10/2014	110,538	Polycom	Warehouse/Distribution
601 Nestle Way, Lathrop CA	10/2014	92,400	Tesla Motors	Warehouse/Distribution
25176 S. Schulte Road, Tracy CA	11/2014	89,539	Musco Olive Products	Warehouse/Distribution

SALE ACTIVITY

PROPERTY ADDRESS	SALE DATE	SQUARE FEET	BUYER	TYPE
1030 Runway Drive, Stockton CA	10/2014	443,640	Prologis	Warehouse/Distribution
15000 W. Schulte Road, Tracy CA	11/2014	300,000	LBA Realty Trust	Warehouse/Distribution
606 Zephyr Street, Stockton CA	11/2014	70,642	Freeberg Family Trust	Warehouse/Distribution
1820 Industrial Drive, Stockton CA	11/2014	58,800	BoreTech	Warehouse/Distribution
4407 Giannecchini Lane, Stockton CA	12/2014	30,000	Shepard Bro's	Warehouse/Distribution
2051 E. Miner Avenue, Stockton CA	12/2014	22,500	Tony Duran	Warehouse/Distribution

UNDER CONSTRUCTION

PROJECT	SUBMARKET	SQUARE FEET	STATUS	DEVELOPER
Restoration Hardware	Patterson	1,500,000	Build to Suit-Under Construction	Weeks Robinson
International Park of Commerce	Tracy	1,001,378	Speculative-Under Construction	Prologis
CenterPoint Intermodal Center	Manteca	1,100,000	Pad Formed Site	CenterPoint
I-5 Logistics Center	Lathrop	746,383	Speculative-Under Construction	Seefried/Laird Norton
Buzz Oates	Stockton	257,000	Speculative-Under Construction	Buzz Oates

3,000 - 15,000 square feet of multi-tenant buildings and mainly located in the Stockton submarket. As the economy rebounds and business owners continue to gain confidence on the future outlook, owner/user building sales are becoming more active. This combined with low interest rates and a lack of available product in the East Bay and Bay Area has also fueled this activity.

LEASE RATES

Overall rental rates for the industrial sector of San Joaquin County decreased slightly to \$0.35 per square foot, triple net (NNN). Average rental rates for the five classes of product in San Joaquin County closed the quarter at:

Light Industrial:	\$0.42 NNN per square foot per month
Warehouse:	\$0.33 NNN per square foot per month
R&D/Flex:	\$0.69 NNN per square foot per month
Manufacturing:	\$0.30 NNN per square foot per month
Special Purpose:	\$0.48 NNN per square foot per month

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 Rendering



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 sub-lease).

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

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Canada: 44
Latin America: 25
Asia Pacific: 186
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- > \$2.1 billion in annual revenue
- > \$1.46 billion square feet under management
- > Over 15,800 professionals

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