Office Market Review

BOUNCING ALONG THE BOTTOM

San Joaquin County’s office market seems to have bottomed, but predicting the climb out will be challenging. Office leases are being executed, albeit not enough to show significant positive net absorption. Generally speaking, active tenants are moving into similar size space from their previous locations. There are two motivating factors contributing to the leases that are being executed: (1) lease rates are favorable for tenants (2) landlords are offering tenant improvement allowances on new space. With some positive net absorption and only a few new office spaces becoming available, we see a trend developing that indicates we may be bouncing along the bottom of the recession. The positive sign is that we are near the bottom and future activity will turn the market in a growth direction.

VACANCY

Vacancy rates have come down by nine basis points to 18.1 percent in the second quarter. There were no significant leases or owner-user sales that contributed to the decrease in vacancy; however there were spaces filled in the 1,000-5,000 square foot range that improved the occupancy rate. The submarkets outside of Stockton continued a trend from the previous two quarters whereby tenant activity has remained nominal, in both the vacancy and occupancy categories. The challenge for the market continues to be a lack of job creation in the private sector. The Bureau of Labor Statistics released their May unemployment rate and San Joaquin County posted positive growth in jobs reducing the unemployment from 17.6 percent in April to 16.2 percent in May. A closer look at the improvement shows that the county’s largest industry, agriculture, hired both temporary and seasonal positions. According to The Record, Stockton’s newspaper, 8,600 positions were added in the agriculture/seasonal work category. While all types of employment are welcomed throughout San Joaquin County, the majority of these positions will be eliminated this fall.
LEASE RATES

The average asking lease rate for all office product types was reduced by $0.05 to $1.25 PSF NNN, compared to the first quarter of 2010. The trend of downward movement of asking lease rates has continued. Class A office space average asking rent increased from quarter to quarter from $1.52 to $1.56 PSF NNN, while Class B space was reduced by $0.10 PSF to $0.99. Class A Full Service leases are being signed between $1.45-1.85 PSF.

SUBMARKET FOCUS - BROOKSIDE

The Brookside area of Stockton has become the warmest submarket as the majority of office leasing activity is taking place there. This market includes some of the newest office construction in Stockton and is home to local branches of national corporations like Bank of the West, Morgan Stanley, Fidelity Title, Wells Fargo, New York Life, Boboli International and the Social Security Administration. About two thirds of Brookside office is Class A and the remainder is categorized as Class B. This area has managed the economic downturn, from a vacancy perspective, much better than other submarkets throughout Stockton. Class A buildings in Brookside have a vacancy rate of 8.3 percent whereas Stockton’s Class A vacancy is 27.0 percent. As a whole, Brookside’s vacancy is 11.2 percent and Stockton’s vacancy is 16.1 percent. With Class A rents significantly lower than just two years ago, tenants that originally focused on Class B or C properties are now able to pay Class A rents without significantly altering their rental expenses. Brookside is in the central office corridor for the City of Stockton and due to its newer construction and its central location, with ready freeway access, it is the desired destination of most active tenants in the Stockton office market.

FORWARD LOOKING

Opportunities remain in the market for landlords to attract tenants by offering excellent rental rates and improvement allowances to businesses that have adapted to the economic times. Companies that have met the challenges of the Great Recession may soon be in a position to make decisions on their office facilities that they have been pushing off due to fear of the unknown future. Smart and well informed decision making processes will guide tenants to their real estate goals. An increase in leasing is expected but mostly from businesses relocating and occupying similar size space. A cautious optimism has seemed to take hold as companies operate and walk their businesses carefully through the recession.

SIGNIFICANT DEALS

LEASE ACTIVITY

<table>
<thead>
<tr>
<th>PROPERTY NAME</th>
<th>LEASE DATE</th>
<th>SQUARE FEET</th>
<th>TENANT</th>
<th>TYPE</th>
</tr>
</thead>
<tbody>
<tr>
<td>2800 W March Ln, Stockton</td>
<td>6/2010</td>
<td>3,000</td>
<td>American Micro Detection Systems</td>
<td>Office</td>
</tr>
</tbody>
</table>

SALES ACTIVITY

<table>
<thead>
<tr>
<th>PROPERTY NAME</th>
<th>SALE DATE</th>
<th>SQUARE FEET</th>
<th>SELLER</th>
<th>BUYER</th>
</tr>
</thead>
<tbody>
<tr>
<td>1503 E March Ln, Stockton</td>
<td>6/2010</td>
<td>5,600</td>
<td>Community Bank of San Joaquin</td>
<td>Focus Real Estate LLC</td>
</tr>
<tr>
<td>2160 Grant Line Rd, Tracy</td>
<td>4/2010</td>
<td>4,200</td>
<td>Bank of Stockton</td>
<td>Gnathic Enterprises LLC</td>
</tr>
</tbody>
</table>
## Market Comparisons

### office market

<table>
<thead>
<tr>
<th>Type</th>
<th>Blocks</th>
<th>Total Inventory SF</th>
<th>Direct Vacant SF</th>
<th>Direct Vacancy Rate</th>
<th>Sublease Vacant SF</th>
<th>Sublease Vacancy Rate</th>
<th>Total Vacant SF</th>
<th>Vacancy Rate Current Quarter</th>
<th>Vacancy Rate Prior Quarter</th>
<th>Net Absorption Current QTR SF</th>
<th>Net Absorption YTD SF</th>
<th>Completions Current QTR SF</th>
<th>Completions YTD SF</th>
<th>Under Const SF</th>
<th>Planned Const SF</th>
<th>Weighted Avg Asking Rental</th>
</tr>
</thead>
</table>
### Lathrop

- **A**
  - 3: 72,028 24,104 33.4% - 0.0% 24,104 33.4% 33.4% - 8,000 - - - - $1.65
- **B**
  - 2: 137,288 26,221 19.1% - 0.0% 26,221 19.1% 19.1% - (6,321) - - - - $1.42
- **C**
  - 2: 16,084 - 0.0% - 0.0% - 0.0% 0.0% - 0.0% - - - - $1.53
- **Total**
  - 7: 225,580 50,325 22.3% - 0.0% 50,325 22.3% 22.3% - 1,679 - - - - $1.53
### Lodi

- **A**
  - 25378 100,278 19.9% 3,081 0.6% 103,359 20.5% 20.9% 1,621 8,488 - - - - $1.38
- **B**
  - 32: 499,418 40,501 8.1% - 0.0% 40,501 8.1% 8.2% 697 24,773 - - - - $0.97
- **C**
  - 13: 137,661 - 0.0% - 0.0% - 0.0% 0% - - - - - - $0.81
- **Total**
  - 60: 1,140,357 140,779 12.3% 3,081 0.3% 143,860 12.6% 12.8% 2,318 33,261 - - - - $1.19
### Manteca

- **A**
  - 10: 98,844 45,986 46.5% - 0.0% 45,986 46.5% 51.2% 4,592 4,592 - - - - $1.34
- **B**
  - 21: 194,653 17,200 8.8% - 0.0% 17,200 8.8% 10.2% 2,700 19,300 - - - - $0.92
- **C**
  - 16: 150,099 6,114 4.1% 1,720 1.1% 7,834 5% 5% (246) (20,095) - - - - $0.81
- **Total**
  - 47: 443,786 69,300 15.6% 1,720 0.4% 71,020 16.0% 17.7% 7,046 3,797 - - - - $2.10
### Ripon

- **A**
  - 5: 52,844 9,215 17.4% - 0.0% 9,215 17.4% 17.4% - 6,289 - - - - $1.45
- **B**
  - 3: 16,930 - 0.0% - 0.0% - 0.0% 0% - - - - - - $1.40
- **C**
  - 1: 5,052 - 0.0% - 0.0% - 0.0% 0% - - - - - - $1.45
- **Total**
  - 9: 74,876 9,215 12.3% - 0.0% 9,215 12.3% 12.3% - 6,289 - - - - $1.45
### Stockton

- **A**
  - 45: 1,786,718 497,120 27.8% 16,171 0.9% 513,291 28.7% 30.9% 23,025 94,111 - - - - $1.63
- **B**
  - 174: 3,443,920 534,260 15.5% 5,529 0.2% 539,789 15.7% 14.8% (22,982) (84,744) - - - - $0.96
- **C**
  - 58: 854,500 126,251 14.8% - 0.0% 126,251 14.8% 17.3% 11,662 28,869 - - - - $0.77
- **Total**
  - 277: 6,085,138 1,157,631 19.0% 21,700 0.4% 1,179,331 19.4% 19.7% 11,755 38,236 - - - - $1.23
### Tracy

- **A**
  - 12: 259,198 53,707 20.7% - 0.0% 53,707 20.7% 28.5% 20,138 24,214 - - - - $1.55
- **B**
  - 15: 158,396 28,968 18.3% - 0.0% 28,968 18.3% 15.4% (4,590) (9,440) - - - - $1.25
- **C**
  - 15: 112,572 - 0.0% - 0.0% - 0.0% 0% - (3,900) - - - - $1.00
- **Total**
  - 42: 530,061 82,675 15.6% - 0.0% 82,675 15.6% 20.5% 21,443 10,874 - - - - $1.44

### Market Total

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### Quarterly Comparison and Totals

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<thead>
<tr>
<th>Quarter</th>
<th>Blocks</th>
<th>Total Inventory SF</th>
<th>Direct Vacant SF</th>
<th>Direct Vacancy Rate</th>
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| Q1-10   | 442    | 8,499,818 1,509,925 17.8% 26,501 0.3% 1,536,426 18.1% 18.8% 36,667 94,136 - - - - $1.25
| Q4-10   | 442    | 8,499,818 1,619,762 19.1% 40,381 0.5% 1,660,143 19.5% 18.7% (31,800) (86,484) - 24,000 - - - $1.10
| Q3-09   | 442    | 8,499,818 1,552,100 18.3% 40,381 0.5% 1,592,481 18.7% 18.8% 34,546 (20,138) - 24,000 - - - $1.32
| Q2-09   | 440    | 8,475,771 1,533,655 18.1% 59,460 0.7% 1,593,115 18.8% 18.2% (23,532) (78,216) 24,000 - - - $1.43

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SAN JOAQUIN COUNTY GEOGRAPHICAL OVERVIEW:

San Joaquin County is located directly to the east of the San Francisco/Oakland Bay Area. 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 Sante 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.

Definitions and Terms

TOTAL RENTABLE SQUARE FEET:
Office space in buildings with 5,000 Square foot or more of speculative office space. Includes competitive space in Class A, B and C single tenant, multi-tenant buildings and owner-occupied buildings. Buildings with 90 percent or greater of medical office, space that is under-construction, or off-market are excluded.

CLASS A SPACE:
Space that an image-conscious company would lease for its headquarters. Typically, this space has a very high level of finish and an excellent location, and commands the highest rents in the market.

CLASS B SPACE:
Highly functional, attractive space, but less prestigious than Class A Space, and commanding lower rental rates than Class A space.

CLASS C SPACE:
Functional, competitive space, but with a lower level of finish and/or a less desirable location than with Class B Space, and commanding lower rental rates.

DIRECT VACANCY:
Space in existing buildings that is vacant or could be made immediately available (ie. being marketed for lease but occupied on a month-to-month basis) during the quarter plus space that is vacant but not available for direct lease. Space that is vacant but being held for a future commitment is considered unavailable, and not included in vacancy.

SUBLEASE VACANCY:
Space that is being marketed as available for occupancy by the tenant (sub-lessor) who is in a direct lease contract with the landlord.

TOTAL VACANCY:
Space in existing buildings that is vacant or could be made immediately available during the quarter for direct lease or sublease.

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). Gross absorption refers to the total amount of space that was occupied in the quarter without the consideration or inclusion of space that was vacated in the same quarter.

480 offices in 61 countries on 6 continents

United States: 135
Canada: 39
Latin America: 17
Asia Pacific: 194
EMEA: 95
• $1.9 billion in annual revenue
• 2.4 million square feet under management
• Over 15,000 professionals

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