

STOCKTON | SAN JOAQUIN COUNTY, CALIFORNIA RESEARCH & FORECAST REPORT



Office Market Review

A dormant fourth quarter of absorption for office product has kept the overall vacancy rate for San Joaquin County at 14.1 percent. However, the market did see an increase in positive net absorption over the previous year for a year-end total of 169,751 square feet. Overall office rental rates decreased \$0.02 from the previous quarter to a county-wide average of \$1.27 per square foot.

LEASE ACTIVITY

The market continued to see positive net absorption of Class B office space through the fourth quarter. Class B office space represents 52 percent of the base inventory in San Joaquin County and represented the largest reduction of vacant space in the market with net absorption for the year totaling 165,337 square feet. Class A office reported negative absorption for the quarter of 7,724 square feet, but ended the year at positive 24,465 square feet. Class C space, representing the smallest portion of the base inventory, reported negative absorption of 20,051 square feet.

SALES ACTIVITY

San Joaquin County recorded 78 sales transactions for all of 2014 that we have classified into four categories. Private investors accounted for 70 percent of the purchases, private equity investor's accounted for 9 percent, 12 percent of the transactions were institutional owners, and only 9 percent were owner/users. Opportunities for investors and owner/users alike will continue through 2015 as financing remains favorable, interest rates remain low and buildings can still be purchased at or below replacement value.

MARKET INDICATORS

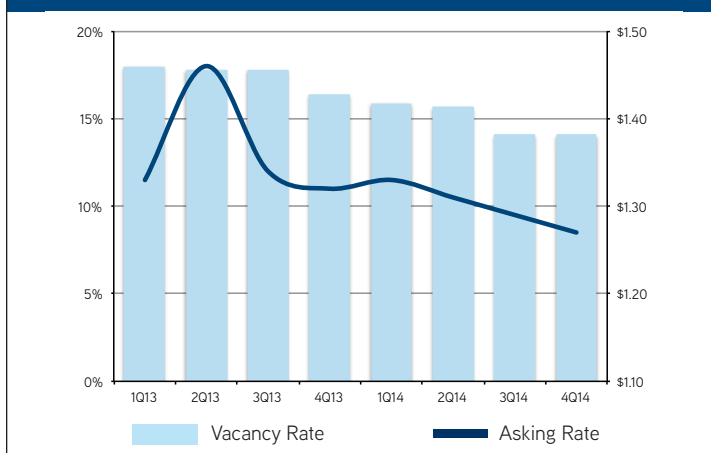
	Q4-14	Projected Q1-15
VACANCY	↔	↓
NET ABSORPTION	↔	↑
CONSTRUCTION	↔	↔
LEASE RATES	↓	↔
CAP RATES	↔	↔
LAND PRICES	↔	↔

SELECTED MARKET HIGHLIGHTS:

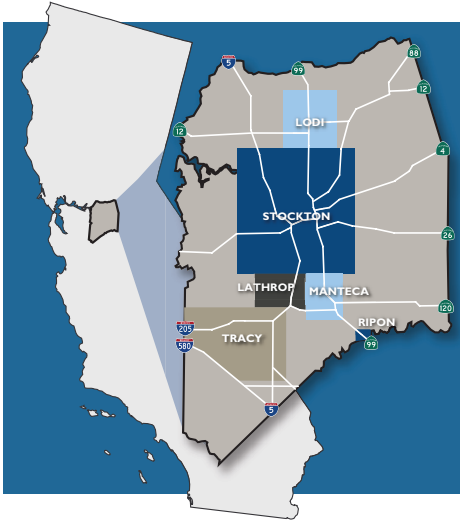
- > Overall vacancy rate for San Joaquin County Office product holds at 14.1%
- > County unemployment rates improved from previous year
- > Private investors account for majority of office sales transactions

*SOURCE: www.bls.gov

HISTORICAL VACANCY AND ASKING RATES



Leasing activity for the year totaled positive 169,751 net square feet.



“Overall, rental rates for office product in San Joaquin County for the fourth quarter fell to \$1.27 per square foot per month.”

EMPLOYMENT

Unemployment rates for San Joaquin County have fluctuated over the past year, decreasing from the previous year. Employment for the first quarter of 2014 began slowly reporting just a 0.1 percent decrease in the unemployment rate of 13.1 percent. By the end of the third quarter, unemployment had dropped significantly to 9.7 percent and vacancy rates reflected this decrease dropping from the previous years’ 16.4 percent to 14.1 percent at the end of the fourth quarter. Unemployment rates at the end of 2014 equaled 10.7 percent and absorption of office product remained stagnant for the quarter. The overall unadjusted unemployment rate in California increased slightly to 7.1 percent from 6.9 percent and decreased 0.1 percent to 5.6 percent for the nation.

OUTLOOK

Overall, San Joaquin County is in the process of stabilizing. 2015 should bring positive leasing absorption as existing tenants in the market expand and new tenants begin to re-enter the Central Valley. Class A rents have stabilized and Class B properties should see an increase in leasing activity as the year moves along. There are more leasing requirements in the market, both for new leases and relocations, than there have been in a number of years.

Leased investment sales activity continues to gain traction as well. Overall, the market should see an increase in transactions over the next twelve months.

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.

SIGNIFICANT DEALS

LEASE ACTIVITY

PROPERTY NAME	LEASE DATE	SQUARE FEET	TENANT	TYPE
400 E. Main Street, Stockton CA	11/2014	27,893	Confidential	Class A Office
1215 W. Center Street, Manteca CA	12/2014	5,100	Confidential	Class A Office
4533 Quail Lakes Drive, Stockton CA	12/2014	3,145	Carl Hultgren	Class B Office
5904 N. El Dorado Street, Stockton CA	12/2014	1,975	Dat On	Class B Office

SALES ACTIVITY

PROPERTY NAME	SALE DATE	SQUARE FEET	BUYER	TYPE
2680 Tracy Boulevard, Tracy CA	11/2014	9,000	Ntop LLC	Class C Office
4609 Quail Lakes Drive, Stockton CA	11/2014	8,430	Christopher Bennett	Class C Office
140 Grant Street, Tracy CA	10/2014	2,700	Timeshare Angels, Inc	Class B Office
4525 Quail Lakes Drive, Stockton CA	11/2014	2,040	Antonio Firinaiu	Class C Office
1805 N California Street, #206, Stockton CA	12/2014	2,000	Marie & Mabini Francisco	Class B Office
3133 W March Lane, Stockton CA	12/2014	1,631	Tudor Properties, LLC	Class B Office

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485 offices in 63 countries on 6 continents

United States: 146
Canada: 44
Latin America: 25
Asia Pacific: 186
EMEA: 84

- > \$2.1 billion in annual revenue
- > \$1.46 billion square feet under management
- > Over 15,800 professionals

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