MARKETBEAT INDUSTRIAL SNAPSHOT



Q4 2013

STOCKTON/TRACY, CA

A Cushman & Wakefield Research Publication



ECONOMIC OVERVIEW

As the Stockton area economy slowly improves, the unemployment rate continues to tick downwards, ending at 12.2% as of November, 190 basis points (bps) lower than one year ago, according to the California

Employment Development Department.

TENANT ACTIVITY

With over one million square feet (msf) of positive absorption this year, overall vacancy has dropped to 10.6% from its peak rate of 19.6% at the end of 2010. As asking rents have started to rise due to increasing demand in the market, fewer concessions are being offered on the more desirable spaces. The largest drivers of this demand are class A bulk distribution users, including third party logistics providers, retail distributors and food & beverage distributors. With only four class A spaces greater than 200,000 sf available, some tenants and users are beginning to turn to build-to-suit opportunities, such as Amazon in Tracy and Trinchero Family Estates in Lodi. Now that the City of Tracy has approved entitlements totaling 30 million square feet of development at Cordes Ranch, other users may soon be following suit.

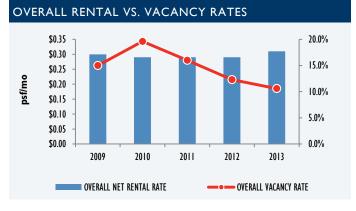
INVESTMENT ACTIVITY

After several quiet months in the beginning of the year, a surge of investment activity took place in the fourth quarter. Two portfolios traded hands: Exeter acquired three distribution centers, a manufacturing building and a 57-acre parcel in Manteca and Lodi, and Mahaffey Co. acquired the three-building portfolio on North Gertrude in Stockton. Additionally, Prologis added to its portfolio in the region with the acquisition of 1616 Boeing in Stockton. Other significant sales during the year included Lowenberg Corporation's first quarter acquisition of 1780 Industrial Drive in Stockton, which it subsequently leased to Noll/Norwesco in the latter part of the year, and Exeter's acquisition of a 374,976-sf building at 17400 Shideler Parkway in Lathrop which was 69.0% occupied at the time of sale with a lease to John Deere through November 2018. User sales during the year included Collins Electrical's purchase of 67,460 sf at 3412 Metro Drive in Stockton for just over \$3 million, or \$44.65 psf, and Universal Holding Extrusion Company purchase of 318,320 sf at 1320 Performance Drive in Stockton.

OUTLOOK

Jobs in the Stockton area are expected to grow by 3.4% in 2014 and 2.5% in 2015, according to the University of the Pacific's Business Forecasting Center. With a number of build-to-suit developments in the pipeline, we anticipate that new construction will break ground in 2014. The market has strong future rental rate growth potential due to the pent up demand for large blocks of space.

STATS ON THE GO								
	Q4 2012	Q4 2013	Y-O-Y Change	12 MONTH FORECAST				
Overall Vacancy	12.3%	10.6%	-1.7рр	•				
Direct Asking Rents (psf/mo)	\$0.29	\$0.31	6.9%	4				
YTD Leasing Activity (sf)	2,853,213	2,879,792	0.9%	<u> </u>				





STOCKTON	/TRACY, CA									
SUBMARKET	INVENTORY	OVERALL VACANCY RATE	YTD LEASING ACTIVITY	YTD USER SALES ACTIVITY	UNDER CONSTRUCTION	YTD CONSTRUCTION COMPLETIONS	YTD DIRECT NET Absorption	YTD OVERALL NET ABSORPTION		DIRECT WEIGHTED AVERAGE NET RENTAL RATE
									MF	W/D
Tracy	12,368,556	4.9%	1,267,303	84,000	0	1,000,000	1,018,053	1,124,787	\$0.32	\$0.32
Lodi	2,626,491	0.0%	81,000	0	1,324,000	0	81,000	81,000	N/A	N/A
Stockton	24,431,541	14.9%	1,282,550	390,580	0	0	239,626	205,426	\$0.18	\$0.31
Manteca	2,423,354	7.1%	77,400	0	60,150	0	17,250	17,250	N/A	\$0.31
Lathrop	6,450,487	10.5%	171,539	0	0	0	(131,200)	(131,200)	N/A	\$0.33
TOTALS	48,300,429	10.6%	2,879,792	474,580	1,384,150	1,000,000	1,224,729	1,297,263	\$0.22	\$0.32

^{*} RENTAL RATES REFLECT ASKING \$PSF/MONTH

MF = MANUFACTURING W/D = WAREHOUSE/DISTRIBUTION

MARKET HIGHLIGHTS				
SIGNIFICANT 2013 LEASE TRANSACTIONS	SUBMARKET	TENANT	PROPERTY TYPE	SQUARE FEET
1555 N. Chrisman Road	Tracy	Amazon	Warehouse/Distribution	1,000,000
1909 Zephyr Street	Stockton	Menlo Logistics	Warehouse/Distribution	375,000
4114 South Airport Way*	Stockton	TCP Incorporated	Warehouse/Distribution	264,418
2795 North Paradise Avenue	Tracy	Kuehne Nagel	Warehouse/Distribution	166,826
1780 Industrial Drive	Stockton	Noll/Norwesco	Warehouse/Distribution	111,160
SIGNIFICANT 2013 SALE TRANSACTIONS	SUBMARKET	BUYER	PURCHASE PRICE / \$PSF	SQUARE FEET
West Louise Portfolio Sale**	Manteca/Lodi	Exeter Property Group	\$43,500,000 / \$48	903,820
North Gertrude Portfolio Sale	Stockton	Mahaffey Co., LLC	\$6,375,000 / \$17	375,238
1780 Industrial Drive	Stockton	Lowenberg Corporation	\$3,890,600 / \$35	111,160
1616 Boeing Way	Stockton	Prologis	\$3,700,000 / \$36	103,968
SIGNIFICANT 2013 CONSTRUCTION COMPLETIONS	SUBMARKET	MAJOR TENANT	COMPLETION DATE	BUILDING SQUARE FEET
1555 N. Chrisman Road	Tracy	Amazon	Q3 2013	1,000,000
SIGNIFICANT PROJECTS UNDER CONSTRUCTION	SUBMARKET	MAJOR TENANT	COMPLETION DATE	BUILDING SQUARE FEET
18667 North Jacob Brack Road	Lodi	Trinchero Family Estates	Q3 2015	850,000
650 S. Guild Avenue	Lodi	Pacific Coast Producers	QI 2014	474,000

^{*} RENEWAL/EXPANSION **PORTFOLIO COMPRISED OF 4 BUILDINGS AND 57 ACRE PARCEL