

MARKETBEAT

Napa & Solano Counties

Office Q2 2018



NAPA & SOLANO COUNTIES OFFICE

Economics Indicators*

	Q2 17	Q2 18	12-Month Forecast
Napa & Solano Employment	211K	213K	▲
Napa & Solano Unemployment	4.3%	3.5%	▼
U.S. Unemployment	4.3%	3.8%	▼

*Q2 18 data based on the average of April and May values

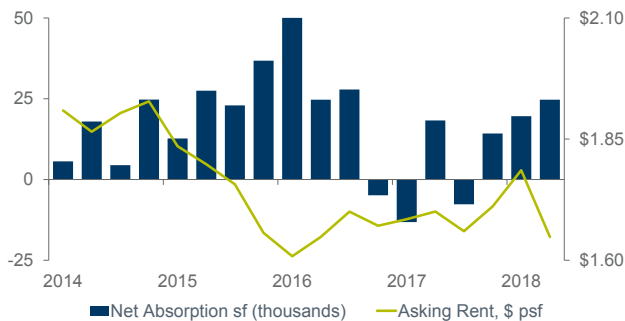
Market Indicators

	Q2 17	Q2 18	12-Month Forecast
Overall Vacancy	7.3%	9.0%	▼
Overall Net Absorption (SF)	4K	-41K	▲
Under Construction (SF)	0	0	■
Average Asking Rent*	\$1.84	\$1.82	■

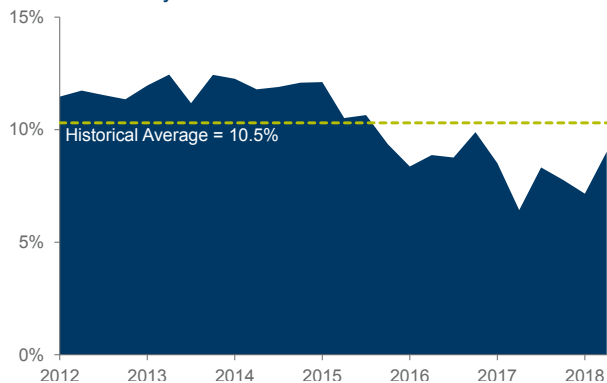
*Rental rates reflect full service asking \$PSF/month

Overall Net Absorption/Asking Rent (Full Service)

4-QTR TRAILING AVERAGE



Overall Vacancy



New Construction Pushes Vacancy Higher

- Napa and Solano counties observed a slight increase in employment, adding over 2,000 nonfarm payroll positions year-over-year (YoY). With this expanding job growth, unemployment now stands at just 3.5%, decreasing -80 basis points (bps) from the previous year and somewhat lower than the national figure of 3.8%. Expect employment to climb particularly in fields related to the wine industry. Even with increased employment, the Napa Solano Region is one of the last remaining Northern California markets with a labor surplus per recent Cushman & Wakefield labor studies.
- At the close of the second quarter of 2018, Napa and Solano counties reported a vacancy rate of 9.0%, a +180 basis points (bps) jump from 7.9% in the first quarter. The primary reason for this vacancy increase was because a new mixed-use office and retail building located at 1300 Main Street in Napa was completed in April 2018, adding 13,000 square feet (sf) to the market. The property had already preleased several units before completion. Additionally, several other scattered smaller vacancies occurred across the market.
- In the second quarter, net absorption totaled -41,098 sf, a considerable decline from +45,625 sf in the first quarter. New construction along with some smaller spaces given back to the market were the cause of this reversal. With much of the new space leased, net absorption is expected to turn positive when move-ins occur later this year.
- The average asking rent was reported at \$1.82 per square foot (psf) on a monthly full service basis in the second quarter, relatively flat from \$1.81 psf in the first quarter. The Napa submarket again had the highest asking rate of \$2.18 psf, still a large decrease from \$2.63 psf in the first quarter due to several high-priced spaces leased at 1040 Main Street for \$5.91 psf and 1303 Jefferson Street for \$3.59 psf. Vallejo's average asking rate was the lowest at \$1.48 psf.
- The number of deals that occurred in the second quarter was moderate, with the majority of them under 2,000 sf. The largest lease was 5,925 sf signed by Fairfield Suisun Unified School District at 4820 Business Center Drive in Fairfield. Another notable lease was 2,500 sf by V3 Electric at 555 Mason Street in Vacaville. Activity during the second quarter is constant, however the size of the deals has been quite small.
- Investment transactions in the Region proved to be minimal as well. Roetzer Family Trust sold 142 East D Street (5,477 sf) in Benicia to H & S Dental Properties for \$256 psf or a total of \$1,400,000 and G & K Properties sold 2202 West Texas Street (5,000 sf) in Fairfield to Gong Properties for \$260 psf or a total of \$1,300,000.

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SUBMARKET	INVENTORY (SF)	SUBLET VACANT (SF)	DIRECT VACANT (SF)	OVERALL VACANCY RATE	CURRENT QTR OVERALL NET ABSORPTION (SF)	YTD OVERALL NET ABSORPTION (SF)	UNDER CNSTR (SF)	OVERALL AVERAGE ASKING RENT* (ALL CLASSES)	OVERALL AVERAGE ASKING RENT* (CLASS A)
Napa	1,372,241	0	83,335	6.1%	-3,379	1,266	0	\$2.18	N/A
Benicia	254,641	0	8,807	3.5%	-7,407	-6,807	0	\$2.03	N/A
Fairfield	1,860,417	0	236,407	12.7%	-30,312	10,328	0	\$1.65	\$2.03
Vacaville	861,122	0	70,688	8.2%	0	-130	0	\$1.87	N/A
Vallejo	1,030,563	0	24,322	2.4%	3,465	-2,886	0	\$1.48	N/A
Class Breakdown									
Class A	738,110	0	72,280	9.8%	-46,024	-15,032	0		
Class B	4,471,433	0	397,645	8.9%	4,926	19,559	0		
TOTAL	5,209,543	0	469,925	9.0%	-41,098	4,527	0	\$1.82	\$2.03

*Rental rates reflect full service asking \$PSF/month

Key Lease Transactions Q2 2018

PROPERTY	SF	TENANT	LANDLORD	TRANSACTION TYPE	SUBMARKET
4820 Business Center Dr	5,925	Fairfield Suisun Unified School District	Partnership HealthPlan of California	New Lease	Fairfield
555 Mason St	2,500	V3 Electric	I80 Properties LLC	New Lease	Vacaville

Key Sale Transactions Q2 2018

PROPERTY	SF	BUYER	SELLER	SALE PRICE / \$PSF	SUBMARKET
142 E D St	5,477	H & S Dental Properties	Roetzer Family Trust	\$1,400,000 / \$256	Benicia
2202 W Texas St	5,000	Gong Investments	G & K Properties	\$1,300,000 / \$260	Fairfield

Cushman & Wakefield
1333 N. California Blvd
Suite 500
Walnut Creek, CA 94596

For more information, contact:
Natalie Wong
Research Analyst
Tel: +1 925 627 2489
natalie.wong@cushwake.com

Molly Herrick
Market Director - East Bay
Tel: +1 510 465 8000
molly.herrick@cushwake.com

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