

# MARKETBEAT

## Napa & Solano Counties

### Industrial Q2 2019



#### NAPA & SOLANO COUNTIES INDUSTRIAL

##### Economic Indicators\*

	Q2 18	Q2 19	12-Month Forecast
Napa & Solano Employment	216.2	217.1	▲
Napa & Solano Unemployment	3.7%	3.8%	▲
U.S. Unemployment	3.9%	3.6%	▼

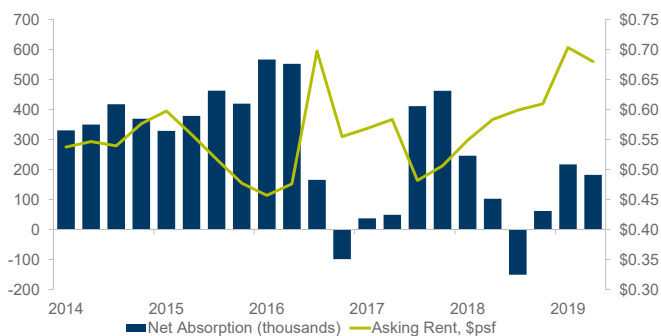
\*2019 Q2 data are based on latest available data  
Source: BLS, Moody's Analytics, C&W Research

##### Market Indicators (Overall, All Types)

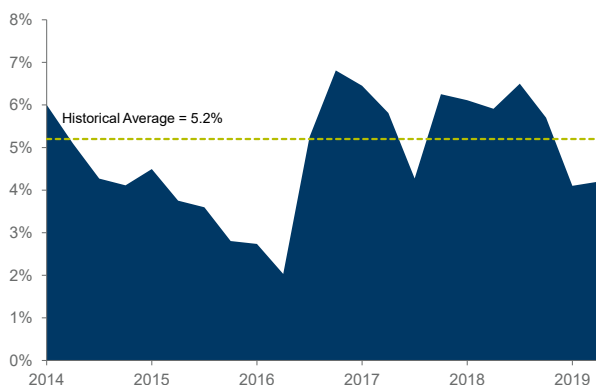
	Q2 18	Q2 19	12-Month Forecast
Overall Vacancy	5.8%	4.2%	▼
Net Absorption SF	114K	-45K	▲
Under Construction SF	292k	836K	▲
Average Asking Rent*	\$0.55	\$0.68	▲

\*Rental rates reflect NNN asking \$psf/month

##### Overall Net Absorption/Asking Rent 4-QTR TRAILING AVERAGE



##### Overall Vacancy



#### New Construction to Drive Occupancy Growth

Employment levels in the combined Napa and Vallejo-Fairfield MSAs ticked up year-over-year to 217,000 nonfarm payroll positions at the midpoint of 2019. This reflects a slight 0.5% increase over the past 12 months, up from 216,000 positions. Unemployment figures remained around historical lows and were virtually flat year-over-year as well, edging up just 10 basis points (bps) to 3.8%. The slight increase in this metric is due to labor force growth which is expected to continue to expand at a more moderate rate thanks to steady residential development occurring throughout the market. However, this is not expected to significantly impact unemployment levels as job growth will likewise continue to increase in the market as well as the greater region going forward.

Overall vacancy for industrial product in Napa and Solano counties was just 4.2% at the close of the second quarter of 2019, reflecting persistent supply constraints in the market. This compares to a vacancy rate of 5.7% at the outset of the year, translating to a 150-bps decrease in this metric, most of which occurred during the first quarter. Vacancy remained relatively flat quarter-over-quarter, ticking up by just 10 bps. Industrial supply is virtually non-existent in Napa County where vacancy was just 2.0% to close out the second quarter. Sublease space continues to account for a considerable amount of the total overall vacancy (approximately 29.9%). However, this figure is not indicative of a trend of space givebacks. Rather, the majority the total available sublease space can be accounted for by a single availability at 2950 Cordelia Road in Fairfield totaling 430,500 square feet (sf). The year-to-date decrease in vacancy correlated to 701,000 sf of occupancy growth following two previous years of significant growth figures. All told, the market has absorbed over 4.1 million square feet (msf) since 2017 or an astounding 8.8% of the total inventory of the market.

With a scant amount of modern industrial product currently available and demand persistently strong, we anticipate that space absorption will remain solidly in the black in the second half of 2019 though at somewhat of a measured pace compared to the breakneck pace of the past couple of years. This is more so due to a minimal amount of available modern warehouse product left to absorb, than it is a drop-off in demand. Leasing in newly delivered space, however, is expected to provide significant boosts to this figure going forward as demand levels remain strong, particularly for high quality industrial product.

There is approximately 836,000 sf of speculative warehouse space currently under construction in five projects. This space is expected to deliver at varying intervals over the next 12 months and will bring some much sought-after demand relief for tenants

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seeking modern product. Just after the close of the second quarter, Biagi Brothers signed a lease at Napa Logistics Park, Building Four in American Canyon for 336,000 sf of the proposed 702,000 sf building, slated for delivery in mid-2020. While this does not move the needle on absorption this quarter, it is central to the positive net absorption forecast in the coming year. DivcoWest/Orchard Partners is expected to break ground on the project within the next month.

### WE ANTICIPATE THAT SPACE ABSORPTION WILL REMAIN SOLIDLY IN THE BLACK IN THE SECOND HALF OF 2019

Asking rents continued to climb sharply in the first half of 2019 ending the second quarter at \$0.68 per square foot (psf) on a monthly triple net basis. This reflects a significant increase of 15.2%, up from \$0.59 psf at the close of 2018. Rents for industrial product in Napa County remain significantly higher than in Solano County. Napa County rents were \$1.34 psf at the end of the second quarter (up a staggering 31.4% year-to-date from \$1.02 psf); Solano County rents were \$0.55 psf, up 10.0% from \$0.50 over the same period. Persistent supply constraints alongside steady demand for modern product is expected to continue to put upward pressure on rents over the foreseeable future.

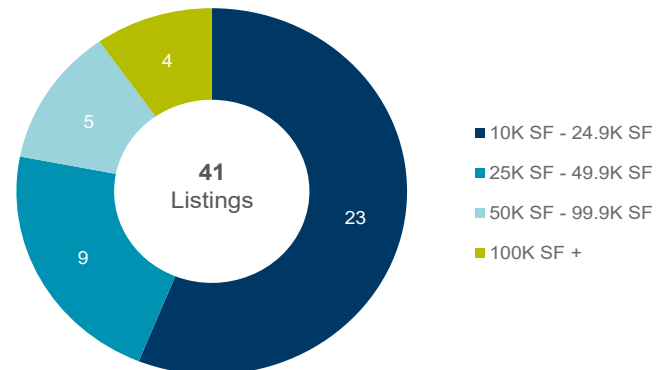
### Direct & Sublease Available Space

AVAILABLE SPACE INCREASES SLIGHTLY IN Q2



### Availabilities by Size Segment

SMALLER SPACES ENCOMPASS MAJORITY OF THE MARKET

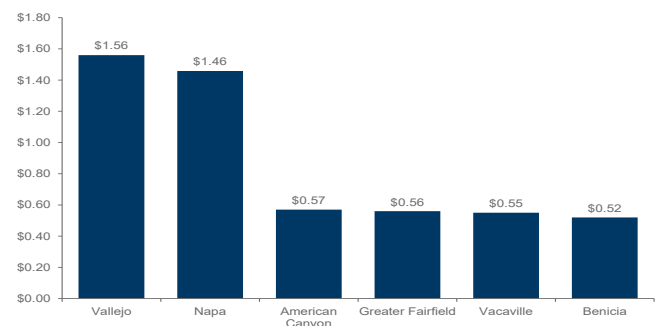


## Outlook

- Strong employment will continue to drive the market, with new deliveries to keeping vacancy level
- Asking rates may continue to rise, especially with new product coming online.
- The market will keep its steady demand, with no sign of slowing down.

### Average Asking Rate by Submarket (NNN)

NAPA ASKING RATE CONTINUES TO SOAR



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SUBMARKET	INVENTORY	SUBLET VACANT (SF)	DIRECT VACANT (SF)	OVERALL VACANCY RATE	CURRENT NET OVERALL ABSORPTION (SF)	YTD NET OVERALL ABSORPTION (SF)	UNDER CONSTRUCTION (SF)	OVERALL WEIGHTED AVERAGE ASKING RENT
Vallejo	953,875	0	4,800	0.5%	0	-4,800	0	\$1.56
Benicia	7,746,215	86,328	415,975	6.5%	11,297	-131,298	0	\$0.52
Greater Fairfield	13,058,763	430,500	476,605	6.9%	-87,950	-72,153	378,405	\$0.56
Vacaville	8,199,524	0	240,352	2.9%	-50,650	801,936	302,428	\$0.55
<b>Solano County Total</b>	<b>29,958,277</b>	<b>516,828</b>	<b>1,137,732</b>	<b>5.5%</b>	<b>-127,203</b>	<b>593,685</b>	<b>680,833</b>	<b>\$0.55</b>
American Canyon	7,856,341	0	43,530	0.6%	120,800	126,080	0	\$0.57
Napa	9,178,408	58,673	235,313	3.2%	-38,723	-18,583	155,293	\$1.46
<b>Napa County Total</b>	<b>17,034,749</b>	<b>58,673</b>	<b>278,843</b>	<b>2.0%</b>	<b>81,357</b>	<b>107,497</b>	<b>155,293</b>	<b>\$1.34</b>
Warehouse	33,142,816	566,888	1,094,378	5.0%	-3,296	741,000	836,126	\$0.59
Industrial	13,850,310	8,613	330,810	2.4%	-42,550	-39,818	0	\$1.05
<b>TOTAL</b>	<b>46,993,126</b>	<b>575,501</b>	<b>1,416,575</b>	<b>4.2%</b>	<b>-45,846</b>	<b>701,182</b>	<b>836,126</b>	<b>\$0.68</b>

\*Rental rates reflect asking \$psf/month converted to Triple Net

\*\*Entries not reflective of U.S. Marketbeat table

#### Key Lease Transactions Q2 2019

PROPERTY	SF	TENANT	LANDLORD	TRANSACTION TYPE	SUBMARKET
6500-6550 Goodyear Road	41,920	Blower Dempsey	GLP US Management LLC	Expansion	Benicia
6400-6440 Goodyear Road	18,406	Pullman SST Inc.	GLP US Management LLC	New Lease	Benicia

#### Key Sale Transactions Q2 2019

PROPERTY	SF	BUYER	SELLER	SALE PRICE / \$PSF	MARKET
1801 Walters Court	14,030	Haist Family Trust	Scannell Properties	\$3,633,000 / \$259	Fairfield
4882 E. 2nd Street	4,096	Mike Fregosi	John Everhart	\$714,000 / \$174	Benicia

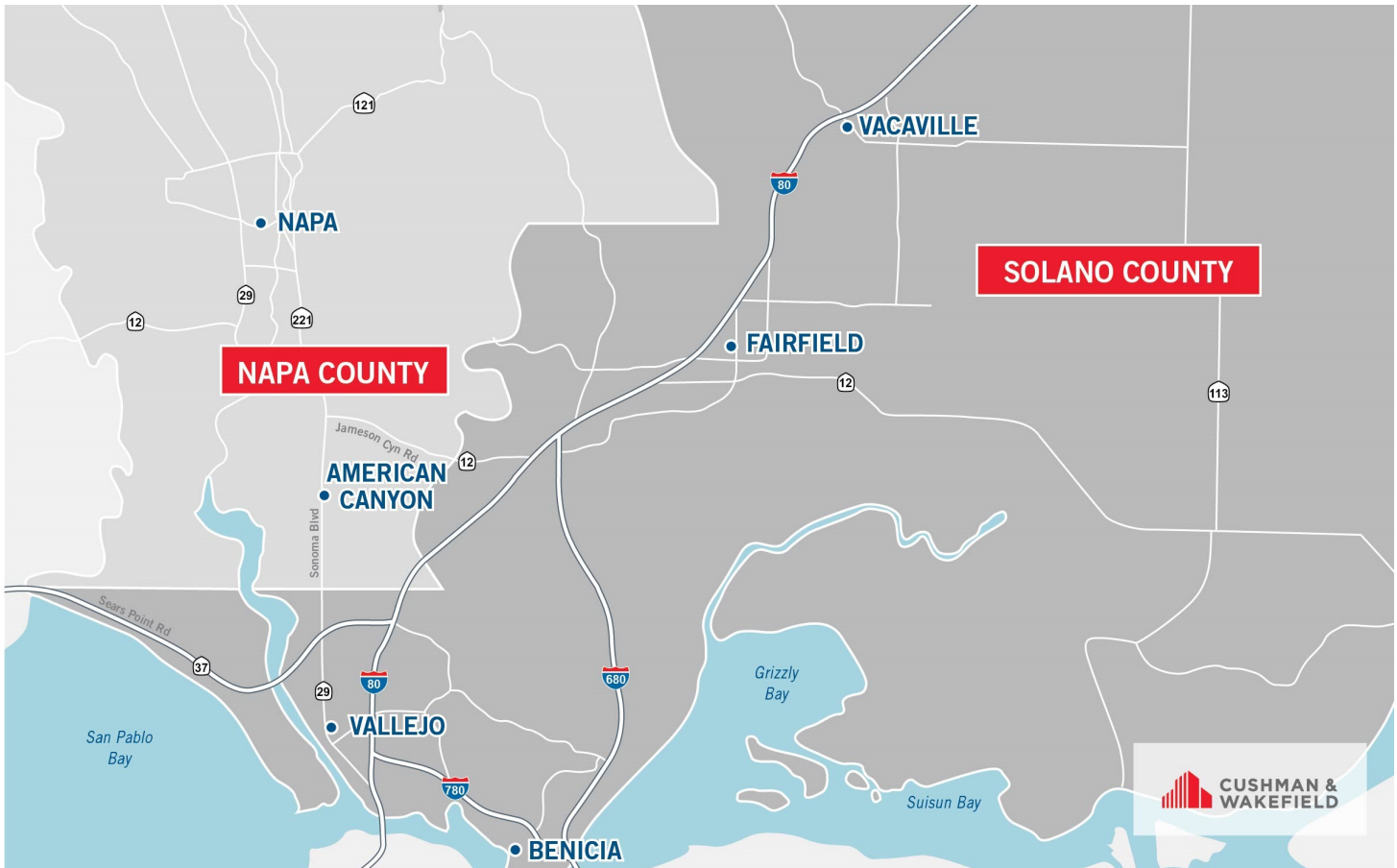
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### Industrial Submarkets Napa & Solano Counties



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