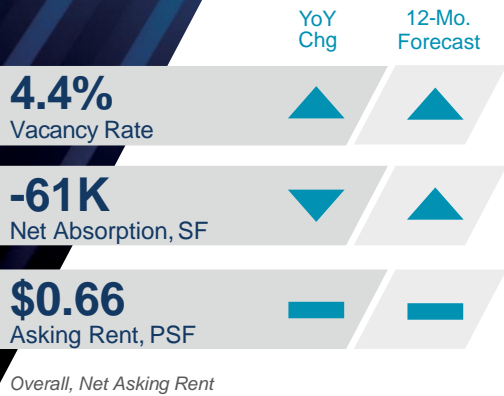


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ECONOMY: Employment Continues Steady Improvement

Employment levels in the combined Napa and Vallejo-Fairfield MSAs added 1,100 nonfarm payroll positions year-over-year (YOY) for a total of 216,600 at the close of 2019. This reflects a slight 0.5% increase over the past 12 months, up from 215,500 positions. The unemployment rate remained near the historical low down 10 basis points (bps) YOY to 3.4%, just below the national rate of 3.6%. Labor force growth is expected to continue thanks to steady residential development activity though at a somewhat more conservative rate than in the past few years. The area continues to offer a lower cost of living, compared to surrounding regions, while providing robust job opportunities.

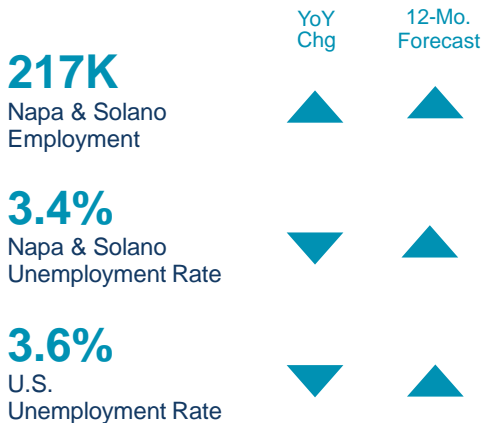
DEMAND: Vacancy Remains Stagnant

The overall vacancy rate for the market was just 4.4% at the close of the fourth quarter of 2019, continuing the trend of supply constraints in the market. This is a decrease from 5.5% at the end of 2018, translating to a 110-bps decline in this metric. Industrial supply continued to be difficult to find in Napa County where vacancy was a miniscule 1.7%, a 20-bps decrease from the third quarter. Vacancy is expected to remain low due to company relocations into Napa and Solano counties, where rental rates are more affordable compared to surrounding regions.

PRICING: Rents Remain Stagnant

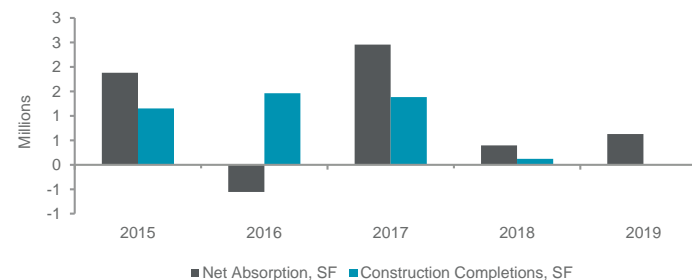
Rents in the fourth quarter held at \$0.66 per square foot (psf) on a monthly triple net basis. Rents have remained rather flat for smaller warehouse product since increasing 16.0% between the fourth quarter of 2018 and the first quarter of 2019. Pricing remains strong for larger blocks of warehouse space in the 100,000 SF or greater size range. There is definitely a performance disparity between smaller product remaining vacant and large blocks of space continuing to lease. Rents for industrial product in Napa County remain significantly higher than in Solano County due to an increase of \$0.08 psf in Napa County from the previous quarter and a decrease of \$0.02 in Solano County over the previous quarter. Napa County rents closed the year at \$1.33 psf compared to Solano County where rents closed at \$0.55 psf. Limited supply across the market will put additional pressure on rents in the future.

ECONOMIC INDICATORS Q4 2019



Source: BLS, Moody's Analytics
Footnote: 2019Q4 data are based on latest available data

SPACE DEMAND / DELIVERIES



OVERALL VACANCY & ASKING RENT



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New Supply Will Help Absorption

With a small amount of modern industrial product currently available and demand remaining strong, we anticipate that space absorption will be back in the black in 2020 after net absorption fell into the red in the fourth quarter of 2019. Net absorption did increase approximately 31,000 sf in fourth quarter from third quarter, due to Napa County recording 37,492 sf of positive absorption. Although we anticipate it will be back in the black in 2020, it will be at a more measured degree than the rapid pace of the past several years. This is more due to a small amount of available modern warehouse product left to absorb, than it is in a lack of demand. The negative absorption had more to do with the absence of quality supply available than it did with demand, which remains strong.

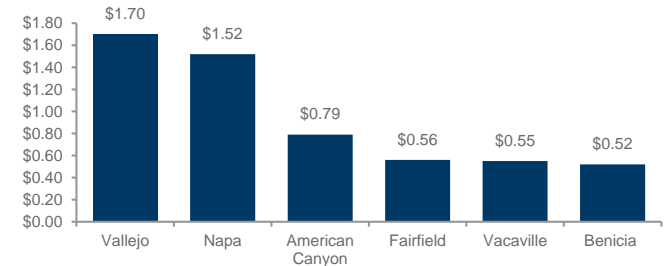
Projects Under Construction Increase Supply

There is currently approximately 1,064,880 sf of speculative warehouse space under construction across two projects. New construction this year comes from both Buildings 4 and 5 in the Napa Logistics Park in American Canyon. These are all slated for completion in 2020 and will supply the market with much needed modern space. Demand for this new space was demonstrated most clearly by Biagi signing for approximately half of Napa Logistics Park, Building 4, an approximately 702,000 sf building in American Canyon. Demand for this market has always been strong and we are forecasting the construction that will be completed in 2020 will continue that trend. Thanks to positive market pressure from e-Commerce there is strong demand for large product. The activity generated by a 700,000 SF warehouse may exceed the demand for 100,000 SF. It is becoming difficult to locate land suitable to build these larger facilities. If you are fortunate enough to develop this larger product, the pent up demand will flow to you. The larger inventory will be appearing soon in the Napa and Vacaville submarkets. As discussed earlier in the report, half of one of these opportunities in American Canyon leased over a year prior to project completion.

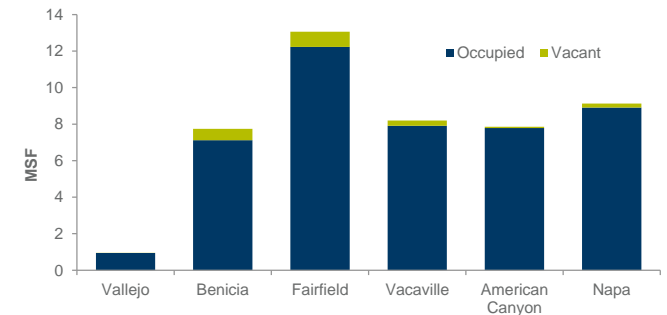
Outlook

- Demand for warehouse space will remain strong and will be at least temporarily sated by new construction completions in 2020.
- Asking rents for larger product are expected to follow positive trends thanks to both continued demand and new deliveries which will be priced at the top of the market.
- Absorption will move further into the black in 2020 thanks to move-ins within newly delivered projects.

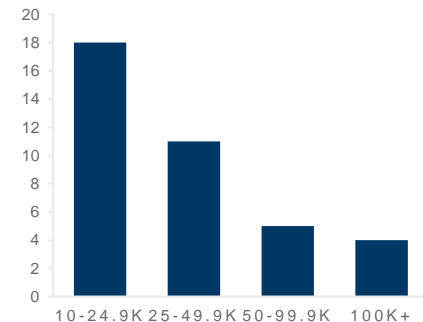
RENT BY MARKET (\$ PSF, NNN)



SUBMARKET COMPARISON



AVAILABILITIES BY SIZE SEGMENT



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MARKET STATISTICS

SUBMARKET	INVENTORY (SF)	SUBLET VACANT (SF)	DIRECT VACANT (SF)	VACANCY RATE	CURRENT NET ABSORPTION	YTD NET ABSORPTION	UNDER CONSTRUCTION	DIRECT AVERAGE ASKING RENT
Vallejo	953,875	0	8,550	0.9%	3,750	(8,550)	0	\$1.70
Benicia	7,746,215	91,318	535,972	8.1%	(54,691)	(256,285)	0	\$0.52
Fairfield	13,058,763	430,500	404,570	6.4%	15,727	(618)	378,405	\$0.56
Vacaville	8,199,524	0	292,266	3.6%	(63,350)	747,142	302,428	\$0.55
Solano County Total	29,958,377	521,818	1,241,358	5.9%	(98,564)	481,689	680,833	\$0.55
American Canyon	7,856,341	28,173	43,530	0.9%	45,142	97,907	1,064,880	\$0.79
Napa	9,123,126	11,493	200,819	2.3%	(7,650)	13,031	155,293	\$1.52
Napa County Total	16,979,467	39,666	244,349	1.7%	37,492	110,938	1,220,173	\$1.33
Warehouse	33,087,534	549,991	1,247,435	5.4%	(103,512)	554,780	1,901,006	\$0.56
Industrial	13,850,310	11,493	238,272	1.8%	42,440	37,847	0	\$1.21
Total	46,937,844	561,484	1,485,707	4.4%	(61,072)	592,627	1,901,006	\$0.66

**Rental rates reflect weighted net asking \$psf/year*

KEY LEASE TRANSACTIONS Q4 2019

PROPERTY	SUBMARKET	TENANT	RSF	TYPE
433-459 Industrial Way	Benicia	Alvah Contractors, Inc.	40,000	New Lease
391-477 E Channel Road	Benicia	Good Moves Delivery, Inc.	36,400	New Lease
801 Chadbourne Road	Fairfield	Cordelia Winery LLC	35,650	New Lease

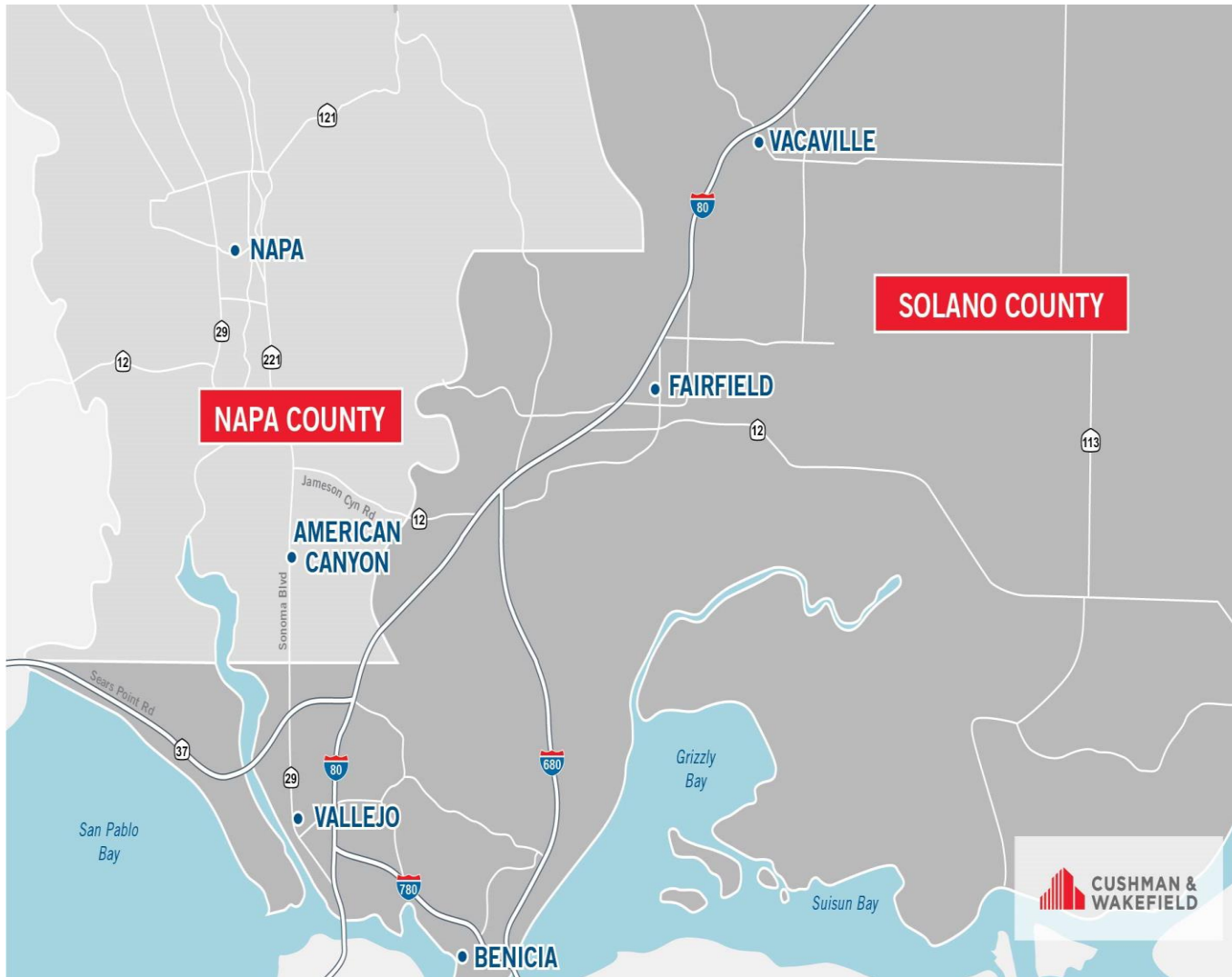
KEY SALES TRANSACTIONS Q4 2019

PROPERTY	SUBMARKET	SELLER / BUYER	SF	PRICE/\$ PSF
4901 Park Road	Benicia	Jeff & Paulette Carpott / Reynolds & Brown	101,242	\$12.5M/\$123
830 Latour Court	Napa	Dariouh Khaledi Winery / Lowenberg Corp	31,920	\$6.7M/\$211

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INDUSTRIAL SUBMARKETS



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