

Napa & Solano Counties

Industrial Q2 2020

	YoY Chg	12-Mo. Forecast
4.2% Vacancy Rate	▲	▲
40K Net Absorption, SF	▼	▲
\$0.63 Asking Rent, PSF	▼	▲

Overall, Net Asking Rent

ECONOMIC INDICATORS Q2 2020

	YoY Chg	12-Mo. Forecast
187K Napa & Solano Employment	▼	▲
15.1% Napa & Solano Unemployment Rate	▲	▼
13.0% U.S. Unemployment Rate	▲	▼

Source: BLS, Moody's Analytics

ECONOMY

Employment levels in the combined Napa and Vallejo-Fairfield MSAs recorded negative job growth with nearly 31,100 jobs (-14.4%) lost year-over-year (YOY), bringing regional employment to just over 187,300. This decline corresponded with the unemployment rate climbing 1,110 basis points (bps) to 14.2%, above the national average of 13.0%. The COVID-19 pandemic struck the U.S. in March 2020, late in the quarter but with enough time to have a significant impact on first quarter market fundamentals. In the second quarter of 2020, the U.S. economy felt its effects more fully, as government-mandated shutdowns along with shelter-in-place ordinances pushed the country deeper into recession. The situation remains very fluid. Access the most recent information specific to COVID [here](#).

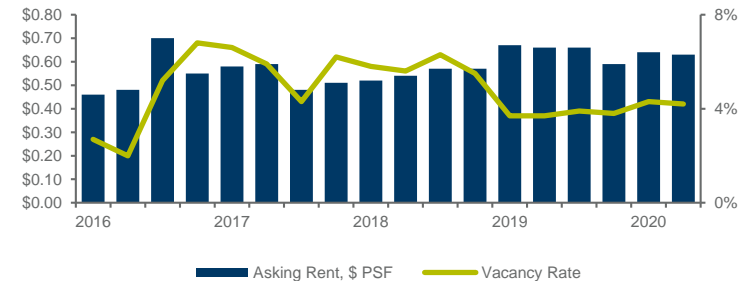
DEMAND: Vacancy Remains Stationary

The overall vacancy rate for Napa/Solano was just 4.2% at the close of the second quarter of 2020, continuing the trend of strong supply constraints in the market. This is a small decrease of 10 bps from 4.3% at the end of first quarter 2020. Industrial supply continued to be difficult to find in Napa County where vacancy was a miniscule 0.8%, with 37,890 square feet (sf) leased in Napa since the end of first quarter of 2020. In Solano, the vacancy rate increased to 6.1% in the second quarter of 2020, up 50 bps from 5.6% in the first quarter of 2020 and up 110 bps since the second quarter of 2019. This rise in vacancy in Solano County is due to the roughly 102,000 sf that came to the market in Fairfield this quarter. Vacancy is expected to remain low due to company relocations into Napa and Solano counties, where rental rates continue to be far below Greater Bay Area rents. Due to its excellent labor demographics and centrality to Northern California home deliveries, the region continues to attract strong eCommerce demand. This was recently evidenced by a 617,000-sf lease completed in Vacaville for a facility just entitled, but not yet under construction. For pricing, in spite of COVID-19, rents increased within each product type in the second quarter.

SPACE DEMAND / DELIVERIES



OVERALL VACANCY & ASKING RENT



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Absorption Remains Positive

Net absorption across the market remained positive for the third consecutive quarter, with the figure at 39,948 sf compared to 44,678 sf in first quarter 2020. Major leases at the newly constructed 891 Eubanks, totaling 263,400 sf, was a main reason for positive net absorption this quarter. Biagi Bros. signing and occupying the 106,050 sf space this quarter made the building fully occupied. Solano County's net absorption decreased significantly, going from 90,998 sf from first quarter 2020 to 2,058 sf in the second quarter 2020. Napa County, meanwhile, recorded a significant increase in net absorption, from negative 46,320 in first quarter 2020 to 37,890 sf in the second quarter of 2020. This is due to the 33,526 sf lease signed at 1560 Airport Blvd. Two major leases that impact net absorption next in the next few quarters are QX, who signed a 332,881 sf lease in Fairfield, which signed their lease in June, and the 617,000 SF pre-leased at LDK's Phase II facility in Vacaville.

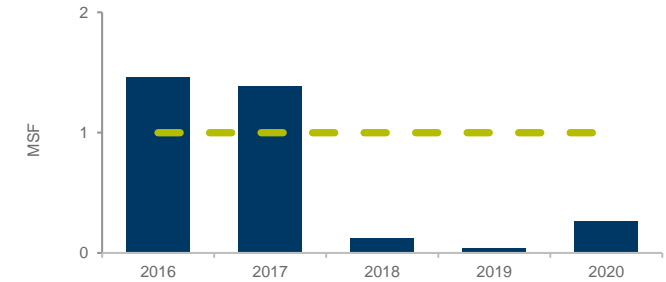
Projects Under Construction Increase Supply

There is currently approximately 2.5 million square feet (msf) of speculative space under construction across the Napa and Solano counties. This includes Building 4 in the Napa Logistics Park in American Canyon, which is half leased to Biagi Bros. and it's almost shell complete. This building is all slated for completion in the latter half of 2020 and will supply the market with much needed modern space. There are also two new warehouse/distribution buildings in Vacaville that were under construction as of May. One building is 306,000 SF at Cessna Drive near Aviator Drive, which has not broken ground yet. The other building is 205,000 sf at E Monte Vista Avenue near Aviator Drive, which will not have construction completed until 2022 or later. The two buildings will be known as Vacaville Business Park.

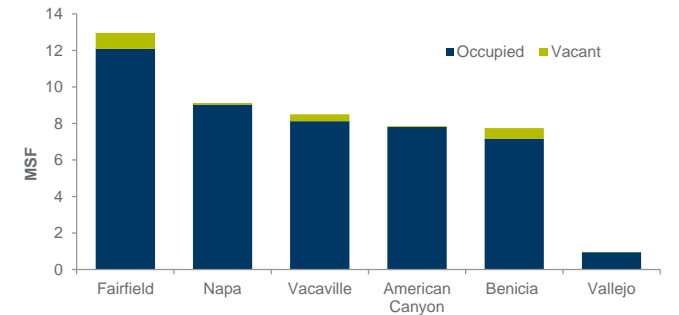
Outlook

- Demand is still very high in the Napa and Solano markets due to lower rents compared to surrounding areas and the 2.5 msf under construction. This will increase the supply in the market.
- Rents should increase as we near the end of 2020 as the Napa and Solano counties continue to be a competitive industrial market, especially for the eCommerce industry
- Net absorption will remain positive as QX's 332,881 sf space will be occupied this quarter. Leasing activity has remained strong in Napa and Solano County.

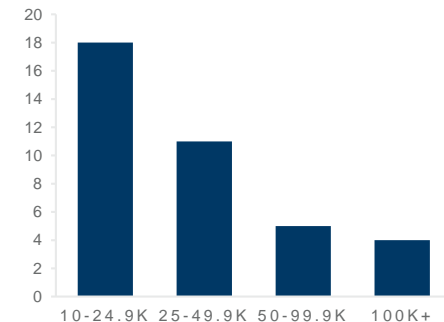
NEW SUPPLY



SUBMARKET COMPARISON



AVAILABILITIES BY SIZE SEGMENT



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MARKET STATISTICS

SUBMARKET	INVENTORY (SF)	OVERALL VACANT (SF)	OVERALL VACANCY RATE	CURRENT QTR OVERALL NET ABSORPTION (SF)	YTD OVERALL NET ABSORPTION (SF)	UNDER CNSTR (SF)	CONSTR COMPLETIONS (SF)	OVERALL WEIGHTED AVG NET RENT (MF)	OVERALL WEIGHTED AVG NET RENT (W/D)
Vallejo	953,875	3,750	0.4%	0	0	0	0	\$1.88	\$0.28
Benicia	7,746,215	581,027	7.5%	-2,631	27,317	0	0	\$0.40	\$0.57
Fairfield	13,058,763	867,335	6.7%	-101,361	-131,795	485,405	0	\$0.88	\$0.59
Vacaville	8,501,952	376,956	4.4%	106,050	197,504	996,856	263,400	\$0.94	\$0.58
Solano County Total	29,997,405	1,829,068	6.1%	2,058	93,056	1,479,361	263,400	\$0.75	\$0.58
American Canyon	7,856,341	45,142	0.6%	0	-45,142	702,000	0	\$0.83	\$0.70
Napa	9,123,126	92,194	1.0%	37,890	36,712	307,997	0	\$1.24	\$1.08
Napa County Total	16,979,467	137,336	0.8%	37,890	-8,430	1,009,997	0	\$1.08	\$0.99

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

MF = Manufacturing W/D = Warehouse/Distribution

KEY LEASE TRANSACTIONS Q2 2020

PROPERTY	SUBMARKET	TENANT	RSF	TYPE
Northbay Logistics Phase II	Vacaville	Undisclosed	617,700	New Lease
2950 Cordelia Road	Fairfield	QX	332,399	New Lease
363 Industrial Way	Benicia	Santa Clara Warehouses	261,754	Renewal*
891 Eubanks Drive	Vacaville	Biagi Bros.	106,050	New Lease
391-477 E Channel Road	Benicia	Undisclosed	60,400	New Lease

*Renewals not included in leasing statistics

KEY SALES TRANSACTIONS Q2 2020

PROPERTY	SUBMARKET	SELLER / BUYER	SF	PRICE/\$ PSF
2121 Icon Way	Vacaville	Dermody Properties/The Blackstone Group	252,423	\$26.8M/\$106
110 Mezzetta Court	American Canyon	James Brinton/URO, American Canyon, LLC	89,600	\$10.3M/\$114
2214 Cement Hill Road	Fairfield	Bonifacio Frances/Anvil Builders Inc.	15,000	\$2.8M/\$183

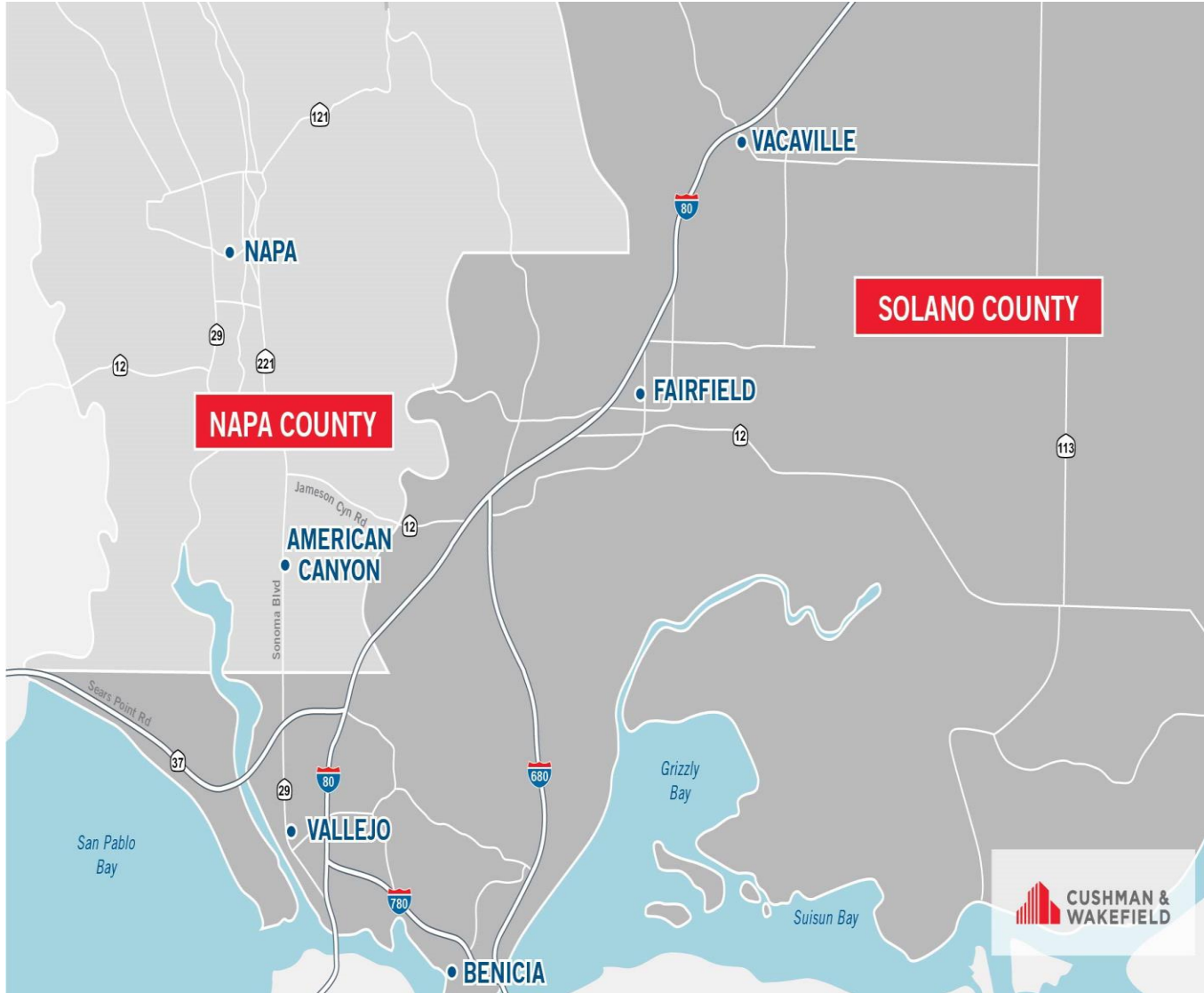
KEY CONSTRUCTION COMPLETIONS YTD 2020

PROPERTY	SUBMARKET	MAJOR TENANT	SF	OWNER/DEVELOPER
891 Eubanks Drive	Vacaville	Cosentino	263,400	Buzz Oates

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INDUSTRIAL SUBMARKETS



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