

Napa & Solano Counties

Industrial Q3 2020

YoY Chg 12-Mo. Forecast

3.8%
Vacancy Rate ▲ ▲

857K
Net Absorption, SF ▲ ▼

\$0.64
Asking Rent, PSF ▼ —

Overall, Net Asking Rent

ECONOMIC INDICATORS Q3 2020

YoY Chg 12-Mo. Forecast

195.2K
Napa & Solano Employment ▼ ▲

11.6%
Napa & Solano Unemployment Rate ▲ ▼

8.8%
U.S. Unemployment Rate ▲ ▼

Source: BLS, Moody's Analytics

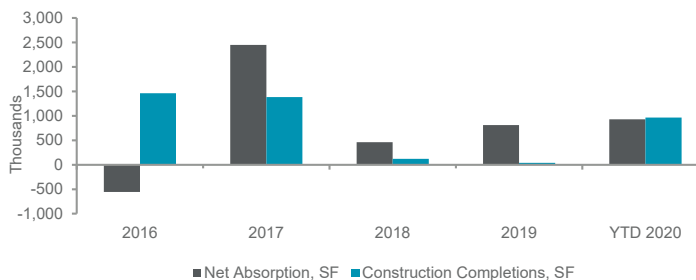
ECONOMY

The combined Napa and Solano MSAs closed the third quarter with an unemployment rate of 11.6%, a rise of 820 basis points (bps) year-over-year (YOY). This translates to a loss of 24,200 non-farm payroll positions YOY. Despite these negative economic indicators, the industrial sector has proven to be more resilient in the face of COVID-19 than many retail and office using industries. A surge in e-commerce has created a demand for well located, industrial inventory. Napa and Solano Counties' proximity to major metros, combined with functional new product, large contiguous land parcels and ideal labor demographics have made them major beneficiaries of this trend. Access the most recent research on CRE and the state of economy [here](#)

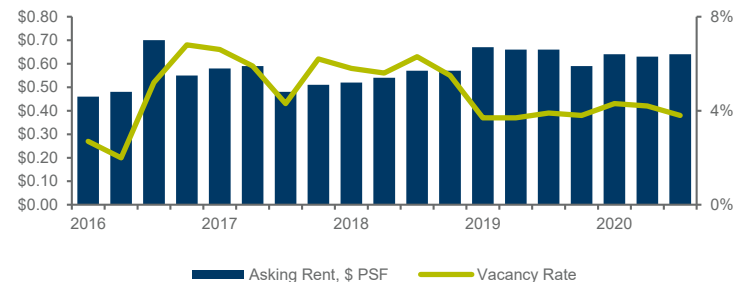
DEMAND: Vacancy Down and Rents Hold

The overall vacancy rate for the Napa and Solano market was just 3.8% at the close of the third quarter, a decline of 40 bps from the second quarter. Space continues to be even harder to find in Napa County, where vacancy was a scant 2.8%, the majority of that being a single, 365,040-square foot (sf), vacancy in the newly constructed Napa Logistics Park Building 4. Solano County saw vacancy decline 170 bps from the second quarter, closing with a vacancy rate of 4.4%. Driving this decline in vacancy was the Fairfield submarket which, after recording 113,624 sf of negative net absorption in the second quarter, had 444,118 sf of positive absorption this quarter. Even amidst the backdrop of COVID-19, the average asking rent for Napa and Solano Counties increased \$0.01 over the second quarter, closing at \$0.64 per square foot (psf) on a monthly triple net basis. This increase occurred across product types with warehouse and manufacturing registering increases of \$0.02 and \$0.08 psf respectively. Despite being near its all-time high, the market is still priced at a significant discount to the adjacent North and East Bay Markets. Given the relative affordability and strong geography, vacancy is expected to remain low going into 2021.

SPACE DEMAND / DELIVERIES



OVERALL VACANCY & ASKING RENT



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Absorption Remains Positive

The Napa and Solano County industrial market had its fourth consecutive quarter in the black, recording 857,301 sf of positive net absorption. At the submarket level, only Napa saw any negative net absorption and that value was just 1,529 sf. While leasing activity was strong across the market, two transactions in particular, drove most of the gains in absorption. The first was QX's occupancy of 332,399 sf at 2950 Cordelia Road in Fairfield. Signed in the second quarter, this transaction alone cut the Fairfield vacancy rate in half. The second major occupancy was Biagi Bros. who took possession of 336,960 sf in the newly delivered, 702,000-sf Napa Logistics Park Building 4, after they had inked a lease in July of 2019. Looking ahead, strong leasing activity this quarter will lead to positive absorption in the coming quarters.

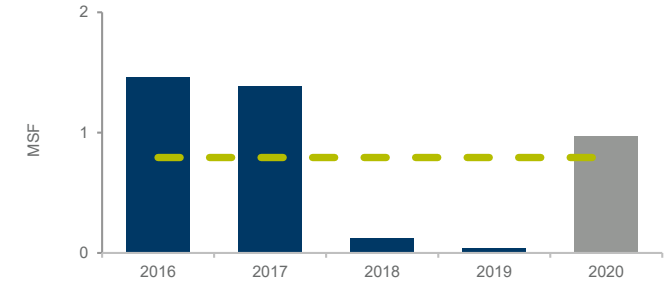
Strong Desire for New Supply

There is currently, approximately 1.8 million square feet (msf) of industrial space under construction in Napa and Solano counties, with additional projects in the pipeline. The market continues to see huge demand for new product, which has led to an uptick in preleasing. This quarter, a 617,760-sf lease was signed at Northbay Logistics Center II, a three-warehouse development totaling 744,696 sf, currently under construction in Vacaville. Also signed this quarter was a 200,000-sf lease on a 50-acre site for a build-to-suit within Napa Logistics Park, expected to deliver next year. This all speaks to a desire by tenants to be in the highest quality, modern product with large clear heights and well configured staging. With nearly a million square feet of positive net absorption year-to-date and a decline in vacancy, even amidst new deliveries, Napa and Solano counties are proving themselves to be the ideal place for modern industrial tenants.

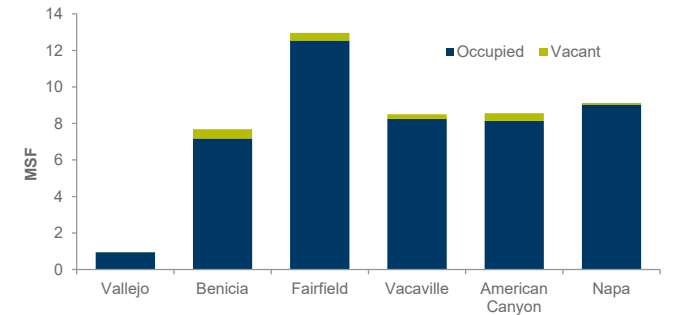
Outlook

- Demand is still very high in the Napa and Solano markets due to lower comparative rates and a steadily increasing inventory of modern product.
- Rents should hold firm into 2021 as Napa and Solano counties continue to be competitive industrial markets, especially for the e-commerce industry.
- Leasing activity has remained strong in Napa and Solano County, as such net absorption should remain positive into 2021.

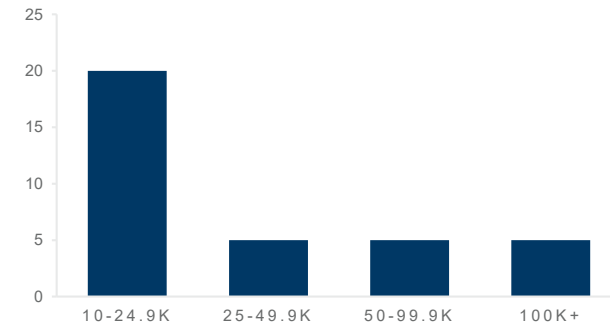
NEW SUPPLY



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	N/A
Benicia	7,685,120	532,206	6.9%	48,821	76,138	0	0	\$0.49	\$0.56
Fairfield	12,958,463	435,480	3.4%	444,118	300,090	485,405	0	\$1.02	\$0.59
Vacaville	8,501,952	348,025	4.1%	28,931	226,435	996,856	0	\$0.77	\$0.58
Solano County Total	30,099,410	1,319,461	4.4%	521,870	602,663	1,479,361	0	\$0.82	\$0.57
American Canyon	8,558,341	410,182	4.8%	336,960	291,818	0	702,000	\$0.83	\$0.70
Napa	9,123,126	93,723	1.0%	-1,529	35,183	307,997	0	\$1.18	\$1.24
Napa County Total	17,681,467	503,905	2.8%	335,431	327,001	307,997	0	\$1.18	\$0.76

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

FX = Flex MF = Manufacturing OS = Office Service/Flex W/D = Warehouse/Distribution

KEY LEASE TRANSACTIONS Q3 2020

PROPERTY	SUBMARKET	TENANT	RSF	TYPE
I-505 @ Midway Road	Vacaville	Confidential	617,760	New Lease
2299 Commerce Way	Dixon	Department of General Services	447,042	New Lease
300 Boone Drive	American Canyon	Confidential	200,000	New Lease
3110 Bayshore Road	Benicia	Sunstate Equipment Co.	33,500	New Lease
300 Channel Road W.	Benicia	Ryder Truck Rental	20,160	Renewal

*Renewals not included in leasing statistics

KEY SALES TRANSACTIONS Q3 2020

PROPERTY	SUBMARKET	SELLER / BUYER	SF	PRICE/\$ PSF
4280 Iowa Street	Benicia	Bohorquez Properties / Lowenberg Corp.	120,000	\$13.3M/\$111
398 W. Channel Road	Benicia	Bezco Enterprises / 398 W Channel Road LLC	15,269	\$2.2M/\$146

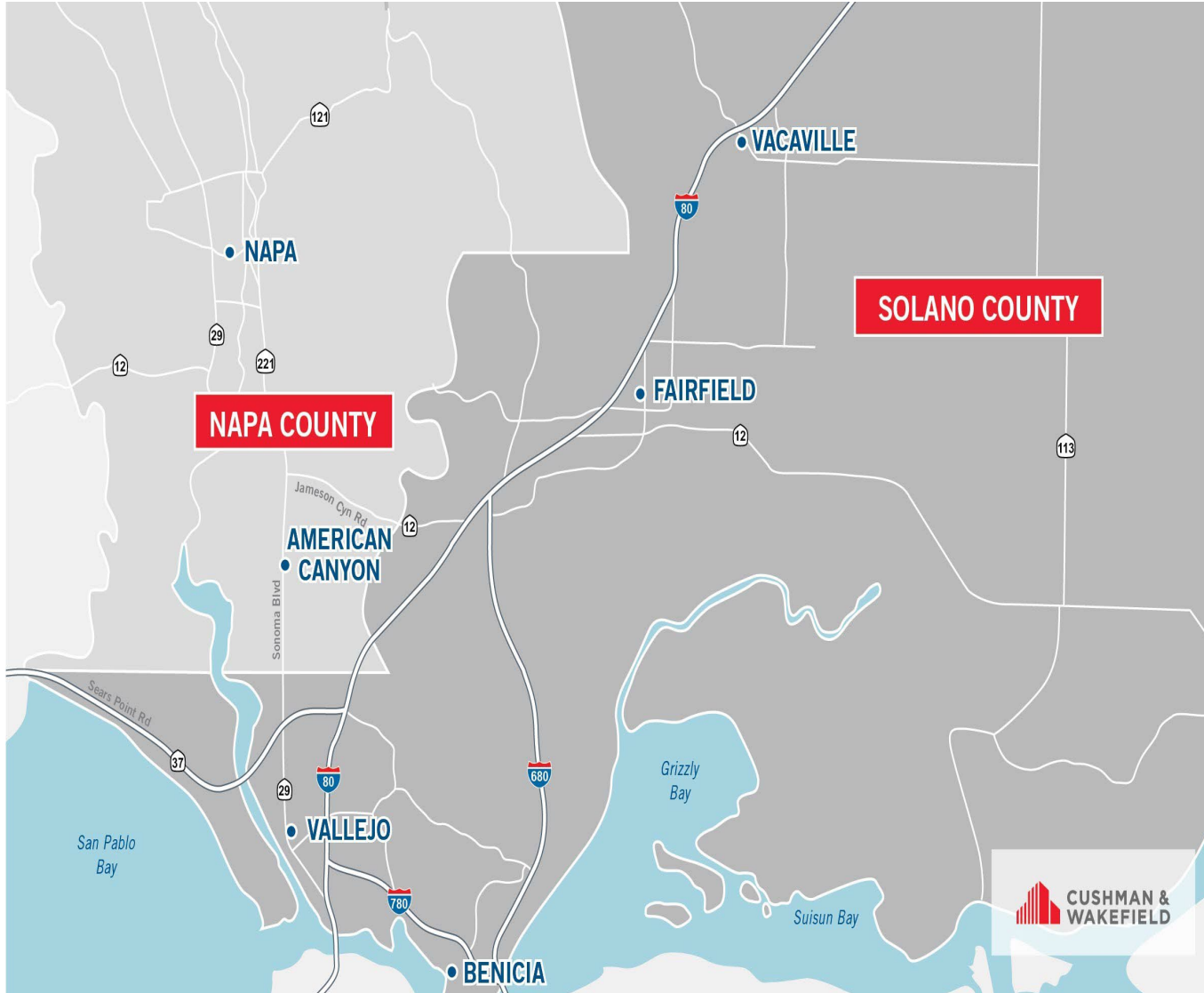
KEY CONSTRUCTION COMPLETIONS YTD 2020

PROPERTY	SUBMARKET	MAJOR TENANT	SF	OWNER/DEVELOPER
400 Boone Drive	American Canyon	Biagi Bros.	702,000	Divco West
891 Eubanks Drive	Vacaville	Cosentino	263,400	Buzz Oates

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INDUSTRIAL SUBMARKETS



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