

Napa & Solano Counties

Industrial Q1 2022

	YoY Chg	12-Mo. Forecast
2.6% Vacancy Rate	▼	▬
1.4K Net Absorption, SF	▼	▬
\$0.81* Asking Rent, PSF	▲	▬

*Overall, Net Asking Rent

ECONOMIC INDICATORS Q1 2022

	YoY Chg	12-Mo. Forecast
206.6K Napa & Solano Employment	▲	▲
5.7% Napa & Solano Unemployment Rate	▼	▼
3.6% U.S. Unemployment Rate	▼	▼

Source: BLS, Moody's Analytics

ECONOMY

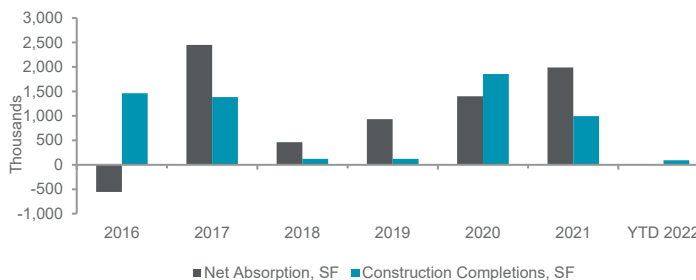
The combined Napa and Solano MSAs closed the first quarter with an unemployment rate of 5.7%, a decline of 230 basis points (bps) year-over-year (YOY). This translates to a gain of 11,500 non-farm payroll positions. After a spike in cases late in the fourth quarter of 2021 threatened to derail the Bay Area's recovery, the first quarter of 2022 brought significant improvement. The majority of mask and social distancing mandates were dropped and occupancy levels saw an increase across property types. While elevated vacancy has plagued the office and retail sectors, the industrial market recorded one of its strongest years on record in 2021 and has carried that momentum into 2022. In Napa and Solano counties, industrial vacancy held near historic lows as tenants have been drawn to new construction and convenient access to the region's major metros.

DEMAND: Strong Demand with Limited Opportunities

The overall vacancy rate for the combined Napa and Solano markets closed the first quarter at 2.6%, a decrease of 130 bps YOY. Vacancy in the market was approximately level with the prior quarter, with the market recording just 1,446 square feet (sf) of positive net absorption. Despite healthy leasing activity, net absorption was muted due to a new 338,000-sf vacancy at 2041 Cessna in Vacaville. This space was one of just two immediately available vacancies over 100,000 sf in the market, the other being 365,040-sf of availability in Building 4 of the Napa Logistics Park. These two blocks alone account for over 52% of total vacancy in the market, meaning that for larger tenants in the market, vacancy is even tighter than the scant 2.6% suggests. With approximately 4.0 msf of new development either proposed or under construction in the market, larger transactions are likely in the coming quarters.

The overall asking rate closed the first quarter at \$0.81 per square foot (psf) on a monthly triple net basis, up 6.7% YOY. This value was buoyed slightly by a number of higher priced, small availabilities, with vacancy limited for large block, traditional warehouse space. Asking rates in Solano and Napa counties were \$0.74 and \$0.92 psf, respectively. Napa continued to command a premium given both its proximity to the East Bay and target tenant base of wine related users which often have costly buildouts, not seen further north along I-80. New construction is expected to push asking rates in Solano County, although it would have to sit vacant long enough to affect rates. Napa and Solano counties offer new construction opportunities at a significant discount to core markets like the East Bay, where the average asking rate closed the first quarter at \$1.09. Amidst tight supply, asking rates are expected to hold near market highs.

SPACE DEMAND / DELIVERIES



OVERALL VACANCY & ASKING RENT



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New Construction Driving Demand

The market recorded its fourth consecutive quarter of 100% occupied construction deliveries, a testament to tenants' strong desire for new space. In the coming quarters, several new projects are set to deliver, likely leased, including 1051 Aviator Drive in Vacaville and Building B of Green Valley Corporate Park in Fairfield. Combined, these two projects are anticipated to create over 400,000 sf of occupancy growth. Given the lack of available vacancies over 100,000 sf in the market, large tenants have few options but new construction. As one of the few Bay Area markets with developable land, construction activity will continue through 2022.

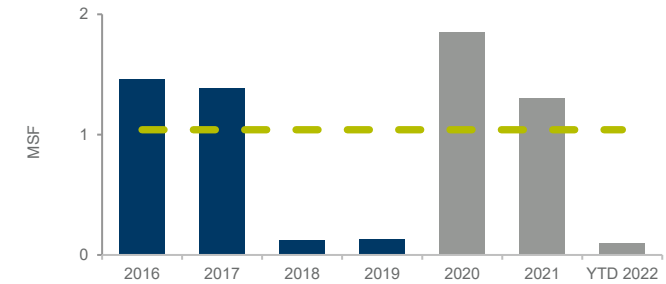
After a slow fourth quarter, leasing accelerated in the first quarter of 2022, recording over 438,000 sf of activity. New leases remained down YOY, but this is a symptom of limited vacancy and not a reflection of tenant demand. The largest lease of the quarter was signed by Owens Corning for all 252,000 sf at 2121 Icon Way, an industrial facility that delivered in late 2020. Also of note was Southern Glazer's 114,000-sf lease for the currently under construction Green Valley Corporate Park. As evidenced by demand this quarter, increases in new leasing activity and net absorption will depend heavily on new construction.

Sales activity was off to a strong start in 2022 as scant vacancy, rising rents, and strong demand have made the Napa and Solano industrial market attractive for investors and users alike. The largest sale of the quarter was Nuveen's acquisition of 4800 Midway from a joint venture of LDK and Pacific Coast Capital. They paid \$110.5 million for the 617,760-sf warehouse facility that was built in 2021 and fully leased to a Fortune 100 tenant. The second largest sale was CMP Acquisitions' purchase of 700 Eubanks, a 236,000-sf manufacturing facility sold by Johnson & Johnson, which occupied the property at the time of sale. They paid approximately \$117 psf for the facility; it was not clear if Johnson & Johnson would remain at the property. Strong market fundamentals and a robust tenant pipeline are expected to drive sales activity in the coming quarters.

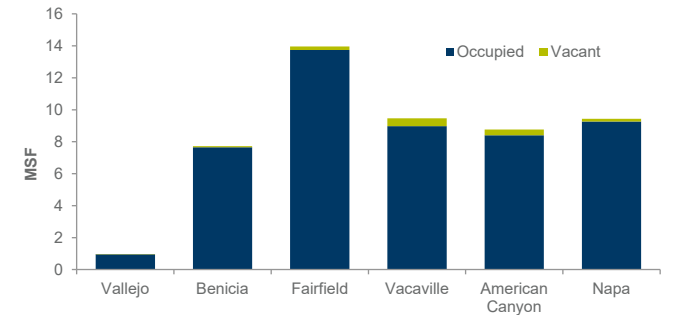
Outlook

- 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 through 2022 as Napa and Solano counties continue to be competitive industrial markets, especially for the e-commerce industry.
- Leasing activity has slowed given a lack of availabilities, but amidst strong demand is expected to increase along with supply

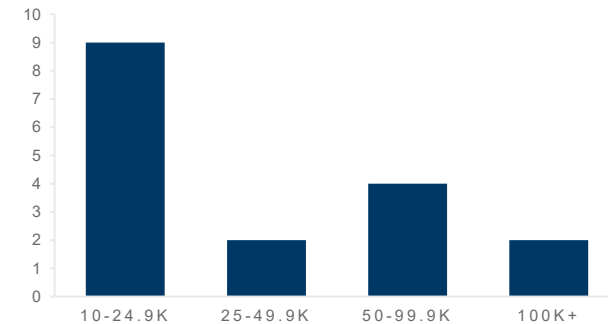
NEW SUPPLY



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	971,244	17,369	1.8%	-17,369	-17,369	0	0	\$1.88	\$1.88
Benicia	7,723,684	68,440	0.9%	49,920	49,920	0	0	\$1.00	\$0.85
Fairfield	13,962,347	226,781	1.6%	7,721	7,721	415,107	0	\$0.74	\$0.74
Vacaville	9,465,112	487,233	5.1%	6,174	6,174	304,655	93,240	\$0.91	\$0.65
Solano County Total	30,914,846	799,823	2.6%	46,446	46,446	719,762	93,240	\$0.82	\$0.66
American Canyon	8,766,839	365,040	4.2%	0	0	0	0	\$0.83	\$0.80
Napa	9,437,743	168,648	1.8%	-45,000	-45,000	83,163	0	\$1.52	\$1.00
Napa County Total	18,204,582	533,688	2.9%	-45,000	-45,000	83,163	0	\$1.52	\$0.86

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

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

KEY LEASE TRANSACTIONS Q1 2022

PROPERTY	SUBMARKET	TENANT	RSF	TYPE
2121 Icon Way	Vacaville	Owens Corning	252,160	New Lease
Business Center Dr	Fairfield	Southern Glazer	113,670	New Lease
521-531 Stone Rd	Benicia	ProForm Manufacturing	49,920	New Lease
825 Chadbourne Rd	Fairfield	Vin-Global, LLC	45,054	New Lease

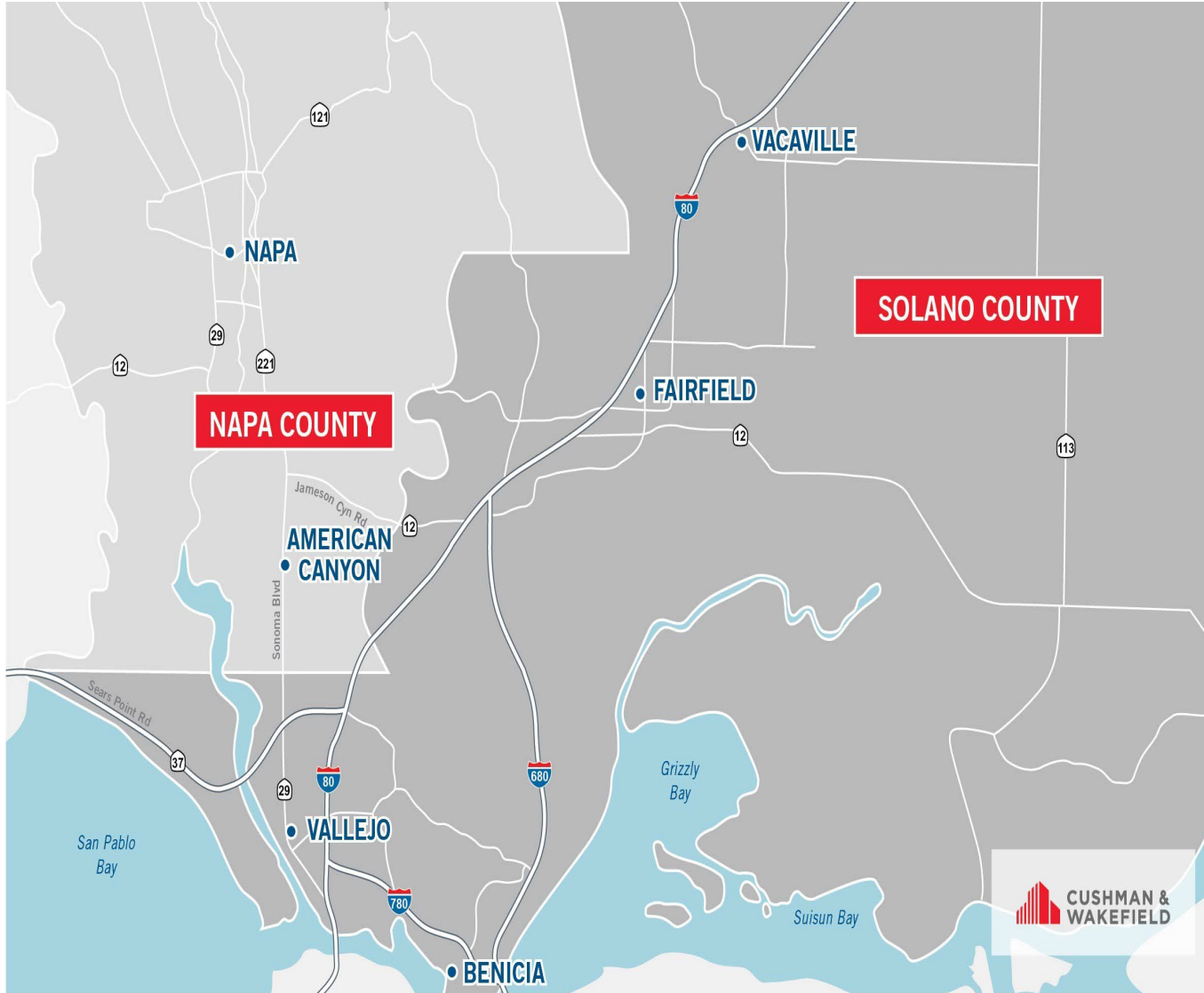
KEY SALES TRANSACTIONS Q1 2022

PROPERTY	SUBMARKET	SELLER / BUYER	SF	PRICE/\$ PSF
4800 Midway	Vacaville	LDK Ventures & Pacific Coast Capital / Nuveen	617,760	\$110.5M / \$179
700 Eubanks Dr (Portfolio)	Vacaville	Johnson & Johnson / CMP Acquisitions, LLC	236,000	\$27.5M / \$117
2010 Cessna Dr	Vacaville	RxD Nova Pharmaceuticals Inc / LDK Ventures	74,577	\$8.8M / \$118
2449 S Watney Way	Fairfield	Martin Brower / Main Electric Supply	59,843	\$10.7M / \$178

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INDUSTRIAL SUBMARKETS



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