

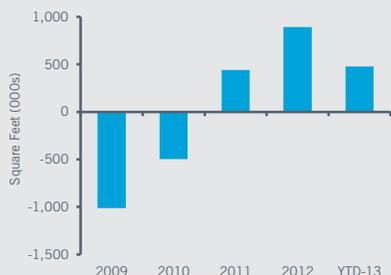


SOLANO COUNTY INDUSTRIAL

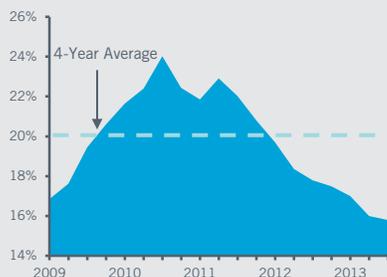
Economic Indicators

	Q3 13	Q3 12
Solano County Labor Force	218K	217K
Solano County Unemployment	8.2%	9.3%
U.S. Unemployment	7.4%	8.0%
U.S. CCI	80.8	65.0

Net Absorption



Vacancy



Market Tracker

*Arrows = Current Qtr Trend



Vacancy
14.6%



Net Absorption
(502) SF



Deliveries
0 SF



Asking Rent
\$0.44 NNN

Recent Trend of Growth Halts; Still Reason for Optimism

For the first time in nine quarters, the Solano County industrial market failed to post occupancy growth. As of the close of Q3, vacancy in the marketplace remained unchanged from the 14.6% rate that was recorded just three months ago. The market actually posted a slight occupancy decline of less than 1,000 square feet—a statistically insignificant amount—in what turned out to be a pause in the action. Despite this quarter's flat growth, year-to-date net absorption still stands at a respectable 479,000 square feet.

Slowing deal activity in Q3 was certainly a contributing factor to Q3's flat performance. We tracked just over 409,000 square feet of total deals this quarter, compared to 850,000 square feet of transactions in Q2. This quarter's deals were largely limited to renewals and relocations—transactions that don't necessarily translate into actual occupancy growth. That being said, we are still tracking more active expansion requirements in the deal pipeline now than we were one year ago and, as this report went to press, our brokers were reporting a slight uptick in touring activity. Last quarter, we reported that there is a continued demand from larger tenants seeking space over 50,000 square feet, and this is still true. Meanwhile, with a dwindling supply of product in Napa Valley, we continue to see beverage and food related tenants looking to Solano County for space. The completion of the Jamison Canyon and Highway 12 widening project in mid-2014 will only accelerate that trend as it reduces congestion between Napa and Fairfield. Q4 deal activity will increase significantly with the market resuming the pattern of occupancy growth and vacancy declines that has been in place since 2011.

The current average asking rent for industrial space in Solano County is \$0.44 per square foot (on a monthly triple net basis). This number has essentially held steady for the past nine months, though it is up slightly from the \$0.43 rate of exactly one year ago. Rents have only just begun to recover in the region having bottomed out in the post-recession period at \$0.42 per square foot in Q1 2012. We expect the current slow pace of rental rate growth to remain in place until local vacancy levels approach the 11.0% rate. However, modern distribution facilities in the region's most desirable locations should begin to post accelerated rental rate growth before then.

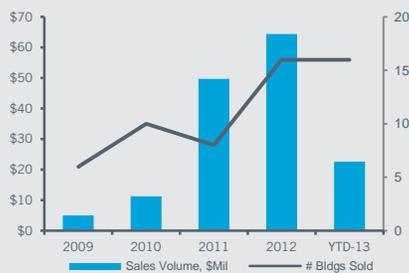
Highlights:

- Vacancy remained unchanged in Q3 and stands at 15.8%. The market posted flat growth this quarter as deal activity dropped and remained largely focused on renewals and relocations.
- The current average asking rent of \$0.44 per square foot has increased only slightly (from \$0.43) in the past year. The pace of rental rate growth will accelerate heading into 2014 as vacancy levels move into the low teens.
- The two largest leases of Q3 were inked in the Fairfield submarket, which absorbed a total of 133,000 square feet of previously vacant space this quarter.
- Deal activity will pick up in Q4 with the market returning to occupancy growth over the final three months of the year.
- Demand in Fairfield continues to be generated by tenants in the neighboring Napa marketplace where vacancy remains tight and lease rates higher. This trend will only accelerate as Napa market vacancy grows tighter and new highway connectors are completed in 2014.



SOLANO COUNTY INDUSTRIAL

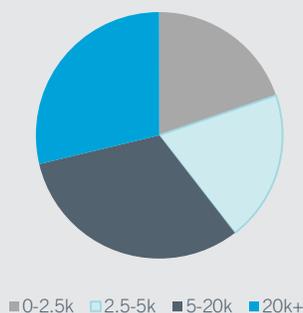
Industrial Sales



Average Asking Rate



Availabilities by Size (SF)



Submarket Review

Despite the fact that the market as a whole posted flat absorption in Q3, most of the region's individual submarkets actually experienced moderately strong growth. For instance, Fairfield rebounded after a poor showing last quarter. With over ten million square feet of industrial inventory, Fairfield is the largest submarket in Solano County. It closed Q3 with 133,000 square feet of occupancy growth—enough to drive local vacancy here downward from 8.5% to 7.2%. Demand remains robust here as demonstrated by the fully pre-leased 791,000 square foot Solano Logistics Center that is currently under construction. This two building project from Buzz Oates Development inked its first lease with Encore Glass (for 318,000 square feet) last quarter and signed a deal for 473,000 square feet with Saxco International this quarter. Saxco will be consolidating their Northern California operations to the site upon its completion in the next few months. Meanwhile, the new Jameson Canyon and Highway 12 widening project should also have a positive impact on Solano County industrial demand. It will significantly ease congestion between Fairfield and Napa, allowing for much faster commute times between the two markets.

The Vacaville submarket did not fare quite as well as last quarter (when it expanded local occupancy by over 182,000 square feet), but it still managed to post 11,000 square feet of positive net absorption. Vacaville's vacancy rate has fallen in three of the past four quarters. It now stands at 10.6%, compared to 14.3% one year ago.

Meanwhile, the Vallejo submarket posted its strongest occupancy growth numbers since 2011. Over 97,000 square feet of previously vacant space was backfilled in Q3 as local vacancy levels here fell to 39.2%. It should be acknowledged that even with several deals completed this quarter at Mare Island, the Vallejo submarket's numbers will continue being skewed by the remaining availabilities at this former naval base. Vallejo vacancy totals include more than one million square feet of space at Mare Island—most of which is suffering from varying degrees of functional obsolescence.

Despite solid levels of growth in nearly every other Solano County trade area, a few large space givebacks in the Benicia submarket were enough to outpace those gains. The Benicia marketplace posted 242,000 square feet of negative net absorption in Q3 as its local vacancy rate climbed from 15.8% to 18.9%. Most of the space that was given back originated from a new sublease at 4301 Industrial Way for 145,000 square feet as well as several new listings at 577-635 Indiana Street.

Look for the overall market to post occupancy gains in Q4 as vacancy returns to the pattern of gradual decreases that has been in place for the past two years. Fairfield and Vacaville will continue to drive growth in the region. With a much older industrial building base, the Benicia and Vallejo trade areas will continue to see much slower improvement.

Key Lease Transactions Q3 13

PROPERTY	SF	TENANT	TRANSACTION TYPE	SUBMARKET
2750 Maxwell Way	88,686	Bruni Glass Packaging, Inc.	Relocation	Fairfield
2260 Cordelia Rd.	33,000	Agfa Graphics	Relocation	Fairfield
251 Channel Rd.	13,920	Valaro	Relocation	Benicia

Cassidy Turley Industrial Market Snapshot

Solano County • Third Quarter 2013

	INVENTORY	SUBLET VACANT	DIRECT VACANT	VACANCY RATE	CURRENT NETABSORPTION	YTD NET ABSORPTION	UNDER CONSTRUCTION	AVERAGE ASKING RENT (NNN)
Submarket								
Vallejo	2,725,435	0	1,067,920	39.2%	97,416	57,404	0	\$0.28
Benicia	7,779,008	148,800	1,322,447	18.9%	(242,217)	(39,526)	0	\$0.45
Fairfield / Cordelia / Suisun City	10,067,590	46,253	678,871	7.2%	132,818	314,690	0	\$0.52
Vacaville	6,486,617	0	686,670	10.6%	11,481	146,088	0	\$0.37
TOTAL	27,058,650	195,053	3,755,908	14.6%	(502)	478,656	0	\$0.44

*Industrial asking rates converted to NNN

Key Sale Transactions Q3 13

PROPERTY	SF	Buyer	Submarket	Sale Price
707 Aldridge Rd	86,934	Blue Mountain Enterprises	Vacaville	\$5,640,000
2449 S Watney Way	59,843	DBI Beverage Napa, Inc.	Fairfield	\$5,200,000

Industrial Submarkets

Solano County

Kevin Smith

Research Analyst

1850 Mt. Diablo Blvd
Suite 540
Walnut Creek, CA 94596
Tel: 925.671.2882
Fax: 925.627.2899

Managing Editor:

Garrick Brown

Director of Research
Garrick.Brown@cassidyturley.com

About Cassidy Turley

Cassidy Turley is a leading commercial real estate services provider with more than 3,800 professionals in more than 60 offices nationwide. Based in Washington, DC, the company represents a wide range of clients—from small businesses to Fortune 500 companies, from local non-profits to major institutions. The firm completed transactions valued at \$22 billion in 2012, manages approximately 400 million square feet on behalf of institutional, corporate and private clients and supports more than 23,000 domestic corporate services locations. Cassidy Turley serves owners, investors and tenants with a full spectrum of integrated commercial real estate services—including capital markets, tenant representation, corporate services, project leasing, property management, project and development services, and research and consulting. Cassidy Turley enhances its global service delivery outside North America through a partnership with GVA, giving clients access to commercial real estate professionals in 65 international markets. Please visit www.cassidyturley.com for more information about Cassidy Turley.

The information contained within this report is gathered from multiple sources considered to be reliable. The information may contain errors or omissions and is presented without any warranty or representations as to its accuracy.

Copyright © 2013 Cassidy Turley.
All rights reserved.