

New Speculative Construction Thrives on Low Vacancy & Record-Breaking Rents

- › Eight industrial development sites are currently under construction in San Joaquin County totaling just under 3.0 million square feet.
- › San Joaquin County vacancy rate was at 6.3 percent at the close of the quarter.
- › The county added close to 1.0 million square feet to the industrial base this quarter.

The Northern California's Central Valley industrial market ended the first quarter of 2017 at 6.3 percent vacancy with net absorption in San Joaquin County totaling 478,705 square feet. Without much existing and functional available space ready to occupy, speculative construction has increased dramatically over the last twenty four months in order to meet demand. At the close of the first quarter, eight developments are under construction, totaling just under 3.0 million square feet. All eight of the projects are expected to be completed in 2017. By the close of the first quarter, San Joaquin County added 898,850 square feet to the industrial base due to the completion of the 518,927 square foot LBA Logistics Center in Lathrop and the 381,600 square foot Tracy Pescadero Distribution Center in Tracy. The overall average asking lease rate for San Joaquin County is \$0.45 NNN.

Market Indicators

United States
Unemployment Rate



10-Year Nominal
Interest Rate



Consumer
Confidence



Market Trends

Relative to prior period

Q1 2017

Q2 2017*

	Q1 2017	Q2 2017*
Vacancy	↓	↓
Net Absorption	↑	↑
Construction	↑	↑
Lease Rates	↑	↑
Cap Rates	↔	↔
Land Prices	↔	↔

*Projected

Historical Vacancy and Average Asking Rates

San Joaquin County | Overall



The overall average asking lease rate for San Joaquin County is \$0.45 NNN.

Summary Statistics

San Joaquin County Industrial Market

	Previous Quarter	Current Quarter
Vacancy Rate	6.0%	6.3%
Overall Asking Rate*	\$0.46	\$0.45
Light Industrial Asking Rate*	\$0.53	\$0.53
Warehouse Asking Rate*	\$0.39	\$0.39
R&D/Flex Asking Rate*	\$0.68	\$0.68
Manufacturing Asking Rate*	\$0.40	\$0.40
Special Purpose Asking Rate*	\$0.58	\$0.58
Net Absorption	(614,272)	478,705

*Asking rates are reported on a NNN monthly basis.

Available existing Class A high-cube logistics space in the county increased over the previous quarter, with the delivery of two new buildings, to just under 2.0 million square feet. With negotiations already underway, we expect the available square footage to decrease at least 25 percent, by the end of the second quarter.

Tracy

The vacancy rate in Tracy increased slightly at the close of the first quarter with the delivery of 381,600 square feet on Pescadero Avenue. That vacancy rate totaled 1.9 percent, a 150 basis point increase over the previous quarter. Three new buildings are currently under construction totaling 1.3 million square feet, and those facilities are slated for a second quarter delivery with one of those three buildings already pre-leased. Based upon demand for larger buildings, this submarket lacks product under 100,000 square feet that may be divisible. The 795,732 square foot I-205 Logistics Center, remains under construction with the tilting of walls expected in April. Net absorption for this submarket totaled a very minimal 49,416 square feet due to a lack of ready to occupy space. The average asking lease rate at the close of the second quarter was \$0.42, NNN.

Lathrop

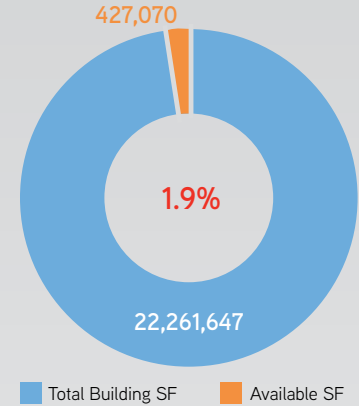
Lathrop's vacancy rate increased 100 basis points in the first quarter with the delivery of LBA Logistics Center, a 518,927 square foot logistics facility that is expected to be absorbed in the second quarter. Currently, there are four additional buildings under construction in the submarket, totaling close to 1.2 million square feet, of which three are slated for second quarter completion. The fourth building, located on Louise Avenue and McKinley Avenue, is expected to deliver sometime in the third quarter. The Lathrop submarket absorbed a net 343,508 square feet with the lease of one of Exeter Property Group's two available buildings on D'Arcy Parkway. The average asking lease rate for the submarket was \$0.40 per square foot, NNN.

Manteca

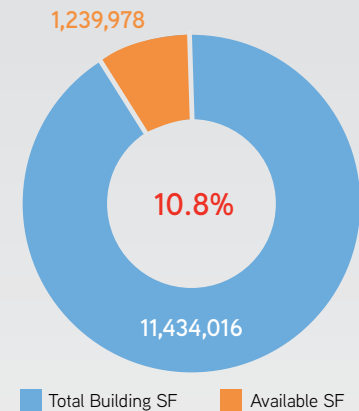
The Manteca vacancy rate decreased to 2.4 percent during the current quarter with the lease of Exeter Property Group's 91,134 square foot warehouse on Louise Avenue. Net absorption for the submarket totaled 114,455 square feet at the close of the first quarter. The average asking lease rate for the submarket dipped to \$0.29 per square foot per month which can be attributed to the smaller sample of vacant properties that we derive our weighted averages from.

Submarket Available Square Feet and Vacancy Rates

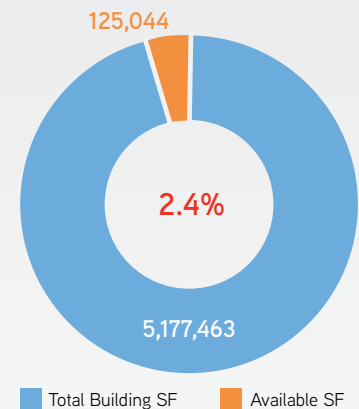
Tracy



Lathrop



Manteca



Stockton

The overall vacancy rate for Stockton stands at 7.5 percent at the close of the quarter. There are currently four Class A buildings available that can accommodate a user of 100,000 square feet and greater. One building, currently nearing completion by Buzz Oates, is expected to deliver in the second quarter bringing 451,611 square feet of logistics space to the inventory. Net absorption totaled negative 37,599 square feet while the average asking lease rate decreased slightly to \$0.38 per square foot per month. One notable sale traded for \$77.00 per square foot; and a six-building industrial complex totaling 877,648 square feet also traded.

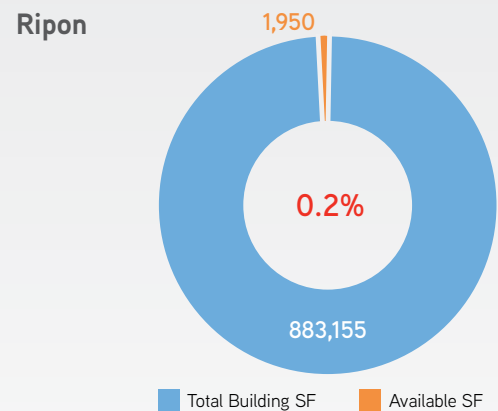
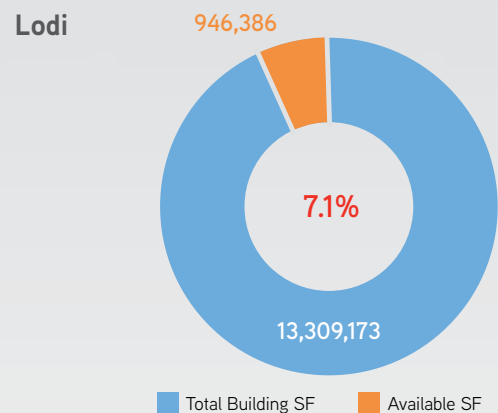
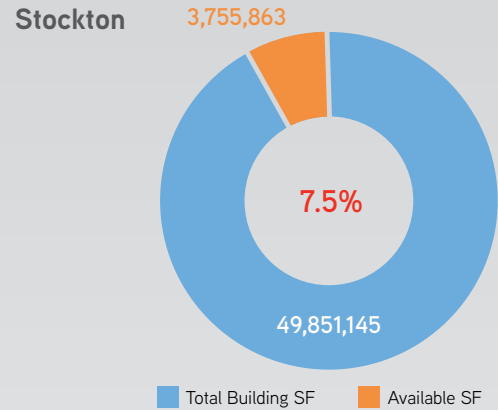
Lodi

The vacancy rate in the Lodi submarket remained at 7.1 percent, 0.6 percent not accounting for the large vacancy at General Mills, with only 2,225 square feet absorbed from the available space. The City of Lodi currently has no industrial product under construction and nothing in the pipeline planned. Just over 91 percent of the available industrial space in Lodi can be attributed to the former General Mills facility after operations there ceased during the fourth quarter of 2015. The building was purchased by Bond Manufacturing, who occupies a portion of the space and is leasing the remainder. The overall average asking lease rate for available space in Lodi was \$0.61 per square foot NNN at the close of the quarter.

Ripon

Historically, the Ripon submarket has been a small stable industrial market with a low vacancy. At the close of the first quarter the vacancy rate totaled 0.2 percent with only 1,950 square feet available at an asking lease rate of \$0.70 per square foot industrial gross (IG).

Submarket Available Square Feet and Vacancy Rates



LBA LOGISTICS CENTER

LBA Logistics Center is a ±518,927 square foot state-of-the-art logistics facility completed in the first quarter of 2017 with excellent I-5 exposure at the gateway to Northern California's Central Valley.

Significant Lease & Sale Activity



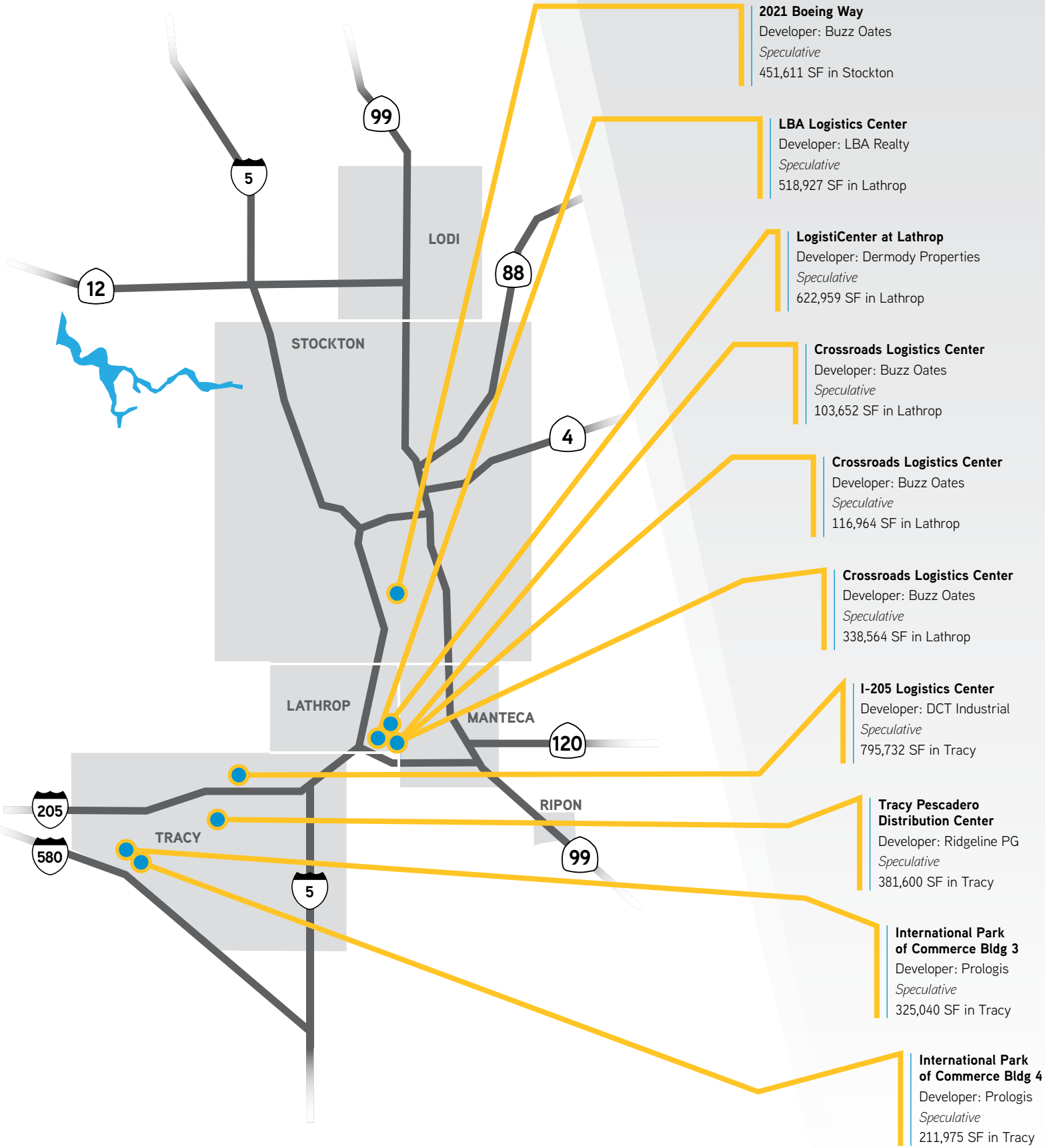
Significant Lease Activity Under 100,000 SF

PROPERTY ADDRESS	LEASE DATE	SIZE	TENANT	TYPE
2403 W. Louise Avenue, Manteca	March 2017	91,134 SF	Confidential	Warehouse/Distribution
1333 E. Kettleman Lane, Lodi	January 2017	80,000 SF	Calturas Wine & Brewery	Special Purpose
4212 Pock Lane, Stockton	March 2017	55,200 SF	KMM Telecommunications	Warehouse/Distribution

Significant Sale Activity Under 100,000 SF

PROPERTY ADDRESS	LEASE DATE	SIZE	BUYER	TYPE
2005 Washington Street, Stockton	February 2017	91,500 SF	M&L Commodities	Manufacturing
1747 E. Charter Way, Stockton	March 2017	63,000 SF	Ramiro Chavez	Manufacturing
4274 Pock Lane, Stockton	January 2017	55,200 SF	SJ Distributors	Warehouse/Distribution

Under Construction



Market Comparisons – San Joaquin County

INDUSTRIAL MARKET

CLASS	BLDGS	TOTAL INVENTORY SF	DIRECT VACANT SF	DIRECT VACANCY RATE	SUBLEASE VACANT SF	SUBLEASE VACANCY RATE	TOTAL VACANT SF	VACANCY RATE CURRENT QUARTER	VACANCY RATE PRIOR QUARTER	NET ABSORPTION CURRENT QTR SF	NET ABSORPTION YTD SF	COMPLETIONS CURRENT QTR SF	COMPLETIONS YTD SF	UNDER CONSTRUCTION SF	WEIGHTED AVG ASKING RATE NNN
TRACY															
Lt Ind	48	772,650	4,250	0.6%	-	0.0%	4,250	0.6%	1.9%	10,800	10,800	-	-	-	\$0.60
Whse	50	16,750,156	381,600	2.3%	-	0.0%	381,600	2.3%	0.0%	-	-	381,600	381,600	1,331,695	\$0.39
R&D/Fl	45	869,314	26,718	3.1%	-	0.0%	26,718	3.1%	1.7%	(11,743)	(11,743)	-	-	-	\$0.74
Mfg	13	2,318,961	12,000	0.5%	-	0.0%	12,000	0.5%	2.8%	52,861	52,861	-	-	-	-
Sp Purp	19	1,550,566	2,502	0.2%	-	0.0%	2,502	0.2%	0.0%	(2,502)	(2,502)	-	-	-	\$0.75
Total	175	22,261,647	427,070	1.9%	-	0.0%	427,070	1.9%	0.4%	49,416	49,416	381,600	381,600	1,331,695	\$0.42
LATHROP															
Lt Ind	14	466,046	-	0.0%	-	0.0%	-	0.0%	0.0%	-	-	-	-	-	-
Whse	22	8,477,145	803,155	9.5%	-	0.0%	801,478	9.5%	7.9%	342,808	342,808	518,927	518,927	1,182,139	\$0.41
R&D/Fl	7	215,100	8,400	3.9%	-	0.0%	8,400	3.9%	6.7%	6,000	6,000	-	-	-	\$0.90
Mfg	4	1,561,056	430,100	27.6%	-	0.0%	430,100	27.6%	26.8%	(12,500)	(12,500)	-	-	-	\$0.38
Sp Purp	18	716,346	-	0.0%	-	0.0%	-	0.0%	1.0%	7,200	7,200	-	-	-	-
Total	65	11,435,693	1,241,655	10.8%	-	0.0%	1,239,978	10.8%	9.8%	343,508	343,508	518,927	518,927	1,182,139	\$0.40
MANTECA															
Lt Ind	58	941,539	6,839	0.7%	-	0.0%	6,839	0.7%	0.0%	(6,839)	(6,839)	-	-	-	\$0.75
Whse	9	2,141,316	-	0.0%	5,824	0.3%	5,824	0.3%	5.2%	105,534	105,534	-	-	-	\$0.60
R&D/Fl	29	380,685	93,922	24.7%	-	0.0%	93,922	24.7%	28.9%	15,928	15,928	-	-	-	\$0.24
Mfg	8	733,935	-	0.0%	-	0.0%	-	0.0%	1.3%	9,600	9,600	-	-	-	-
Sp Purp	38	979,988	18,459	1.9%	-	0.0%	18,459	1.9%	0.9%	(9,768)	(9,768)	-	-	-	-
Total	142	5,177,463	119,220	2.3%	5,824	0.1%	125,044	2.4%	4.6%	114,455	114,455	-	-	-	\$0.29
STOCKTON															
Lt Ind	351	6,738,520	440,151	6.5%	14,134	0.2%	454,285	6.7%	8.7%	130,761	130,761	-	-	-	\$0.47
Whse	304	33,835,379	2,618,695	7.7%	370,986	1.1%	2,989,681	8.8%	7.8%	(348,385)	(348,385)	-	-	451,611	\$0.37
R&D/Fl	65	1,161,847	57,382	4.9%	-	0.0%	57,382	4.9%	5.2%	2,725	2,725	-	-	-	\$0.55
Mfg	78	5,701,008	204,006	3.6%	-	0.0%	204,006	3.6%	4.7%	61,400	61,400	-	-	-	\$0.25
Sp Purp	114	2,414,391	50,509	2.1%	-	0.0%	50,509	2.1%	6.9%	115,900	115,900	-	-	-	\$0.55
Total	912	49,851,145	3,370,743	6.8%	385,120	0.8%	3,755,863	7.5%	7.5%	(37,599)	(37,599)	-	-	451,611	\$0.38
LODI															
Lt Ind	124	1,840,759	55,775	3.0%	-	0.0%	55,775	3.0%	2.2%	(14,775)	(14,775)	-	-	-	\$0.59
Whse	28	6,183,532	-	0.0%	-	0.0%	-	0.0%	0.0%	-	-	-	-	-	-
R&D/Fl	70	773,497	13,011	1.7%	-	0.0%	13,011	1.7%	4.7%	23,000	23,000	-	-	-	\$1.03
Mfg	32	3,002,726	871,000	29.0%	-	0.0%	871,000	29.0%	28.8%	(6,000)	(6,000)	-	-	-	\$0.60
Sp Purp	27	1,508,659	6,600	0.4%	-	0.0%	6,600	0.4%	0.4%	-	-	-	-	-	-
Total	281	13,309,173	946,386	7.1%	-	0.0%	948,611	7.1%	7.8%	2,225	2,225	-	-	-	\$0.61
RIPON															
Lt Ind	6	107,041	-	0.0%	-	0.0%	-	0.0%	0.0%	-	-	-	-	-	-
Whse	7	185,664	-	0.0%	-	0.0%	-	0.0%	0.0%	-	-	-	-	-	-
R&D/Fl	2	49,125	1,950	4.0%	-	0.0%	1,950	4.0%	17.6%	6,700	6,700	-	-	-	\$0.70
Mfg	3	497,755	-	0.0%	-	0.0%	-	0.0%	0.0%	-	-	-	-	-	-
Sp Purp	2	43,570	-	0.0%	-	0.0%	-	0.0%	0.0%	-	-	-	-	-	-
Total	20	883,155	1,950	0.2%	-	0.0%	1,950	0.2%	1.0%	6,700	6,700	-	-	-	\$0.70
MARKET TOTAL															
Lt Ind	601	10,866,555	507,015	4.7%	14,134	0.1%	521,149	4.8%	5.9%	119,947	119,947	-	-	-	\$0.49
Whse	420	67,573,192	3,803,450	5.6%	376,810	0.6%	4,178,583	6.2%	5.1%	99,957	99,957	900,527	900,527	2,965,445	\$0.38
R&D/Fl	218	3,449,568	201,383	5.8%	-	0.0%	201,383	5.8%	7.1%	42,610	42,610	-	-	-	\$0.48
Mfg	138	13,815,441	1,517,106	11.0%	-	0.0%	1,517,106	11.0%	11.7%	105,361	105,361	-	-	-	\$0.49
Sp Purp	218	7,213,520	78,070	1.1%	-	0.0%	78,070	1.1%	2.6%	110,830	110,830	-	-	-	\$0.56
Total	1595	102,916,599	6,105,347	5.9%	390,944	0.4%	6,496,291	6.3%	6.0%	478,705	478,705	900,527	900,527	2,965,445	\$0.45
QUARTERLY COMPARISON AND TOTALS															
Q1-17	1595	102,916,599	6,105,347	5.9%	390,944	0.4%	6,496,291	6.3%	6.0%	478,705	478,705	900,527	900,527	2,965,445	\$0.45
Q4-16	1593	102,017,749	5,565,310	5.5%	510,836	0.5%	6,076,146	6.0%	5.4%	(614,272)	4,867,008	-	3,020,193	3,865,347	\$0.46
Q3-16	1593	102,017,749	5,332,648	5.2%	129,226	0.1%	5,461,874	5.4%	6.2%	861,374	4,619,906	-	3,020,193	3,328,099	\$0.43
Q2-16	1593	102,017,749	6,323,248	6.2%	-	0.0%	6,323,248	6.2%	8.1%	1,533,195	4,619,906	1,274,553	3,020,193	1,909,641	\$0.38
Q1-16	1590	100,743,196	8,105,824	8.0%	29,582	0.0%	8,135,406	8.1%	8.0%	1,533,195	1,533,195	1,745,640	1,745,640	1,791,803	\$0.38

396 offices in 68 countries on 6 continents

United States: **153**

Canada: **29**

Latin America: **24**

Asia Pacific: **36**

EMEA: **111**

ANZ: **43**

\$2.6

billion in
annual revenue*

2.0

billion square feet
under management

15,000

professionals
and staff

*All statistics are for 2016 and include affiliates

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COLLIERS INTERNATIONAL | STOCKTON

3439 Brookside Road, Suite 108
Stockton, CA 95219 | USA

+1 209 475 5100

MANAGING DIRECTOR

Michael Goldstein, SIOR
Executive Managing Director
CA License No. 01319234
+1 209 475 5106
michael.goldstein@colliers.com

RESEARCHER

Kyle Mecker
Research Analyst
+1 209 475 5110
kyle.mecker@colliers.com



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