



Market Research

INDUSTRIAL | SECOND QUARTER | 2007



MARKET INDICATORS

	2Q 2007	3Q 2007*
VACANCY	↔	↓
NET ABSORPTION	↑	↑
CONSTRUCTION	↑	↑
RENTAL RATE	↑	↔
CAP RATES	↔	↔
LAND PRICES	↑	↑

*PROJECTED

BUILDING SIZE & LEASE RATES

5,000 - 15,000	\$0.50 - 0.75 PSF
15,001 - 30,000	\$0.45 - 0.60 PSF
31,001 - 50,000	\$0.38 - 0.45 PSF
50,001 - 100,000	\$0.36 - 0.41 PSF
100,000 +	\$0.31 - 0.36 PSF

Overview

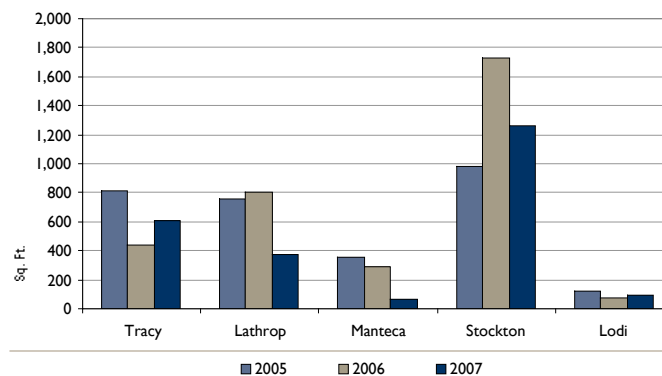
While demand for space in selected categories remains active, San Joaquin County experienced moderate expansion during the Second Quarter of 2007. Few large deals closed during this period and demand for space ranging in size from 15,000 square feet to 50,000 square feet were few. Industries related to the construction trades also softened as the housing market experienced a dramatic downturn.

In contrast, national tenants continue seeking well located general purpose warehouse space providing greater efficiencies to serve their supply chain. Manufacturing linked to consumer goods, household appliances and construction materials, continues an ongoing trend to move off-shore in order to remain competitive. The steady increase of inbound cargo will further impact West Coast ports based upon the demand to move product from point of origin to the point of consumption. With record low vacancies in the San Francisco Bay Area, specifically East Bay markets, San Joaquin County will experience added demand for warehouse space.

Local freeway arterials have gradually reached capacity at specific choke points throughout the county. As a result of the availability of Measure K funds combined with state and federal grants, improvements, long overdue, are well underway at fifteen locations throughout San Joaquin County which should help ease some of the congestion. Two key improvements include the widening of I-205 in Tracy (linking the Bay Area via I-580 to the Central Valley via I-5) and adding one additional lane of traffic in both the north and southbound directions along Highway 99 from Arch Road near the Stockton Metropolitan Airport to 8 Mile Road, north of Stockton.

The expanding Port of Stockton has become a larger participant in attracting new and expanding industries to San Joaquin County and the City of Stockton. The conversion of the former naval installation, Rough & Ready Island, to a hub of port and transportation related industries which has been in the planning works for over ten years has emerged. Lowes Home Improvement Center announced plans for a warehouse distribution center located on 23 acres earlier this year. Additional construction and logistics operations have also committed.

NEW CONSTRUCTION - SAN JOAQUIN COUNTY



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Second Quarter Vacancy

Second Quarter vacancy decreased nearly two tenths of a percentage point from the First Quarter of 2007. Activity remained relatively flat with a select number of large transactions taking place reflecting the downward change.

The vacancy rate in Tracy decreased a percentage point as Sacramento based Buzz Oats leased approximately 113,715 square feet of warehouse space to Restoration Hardware in the Stonebridge Industrial Park. Lathrop's vacancy rate decreased slightly as a handful of industrial condominium facilities were sold or leased primarily in the D'Arcy Business Park in Crossroads Commerce Center. The availability of space dropped in Manteca as well with users absorbing existing in-fill space and taking advantage of the city's proximity to key freeway arteries, Highway 99 and State Route 120. Stockton experienced a moderate level of activity but witnessed an increase in vacancy due in part to the relocation and consolidation of Cost Plus from the Port of Stockton to a location north of the Stockton Airport. Lodi had minimal activity during the quarter and availability rates remained largely unchanged.

New Construction

- Panattoni Development Company broke ground on a 165,474 square foot warehouse distribution building located in the Airport Gateway Center, Stockton, CA.
- Steve Martinez is nearing completion on his six (6) multi-tenant building project in the Valley Light Industrial Park in Manteca, CA. The project consists of four (4) 4,950 square foot buildings and two (2) 4,500 square foot buildings.
- ProLogis broke ground on the first of a four (4) building project at ProLogis Park Tracy. The high cube building totals 532,920 square feet and is expected to complete construction in the fourth quarter 2007.
- Buzz Oates broke ground on a 519,840 square foot building on Perlman Drive in the Central Valley Industrial Park in Stockton, CA.
- Kyoho Motors broke ground on a 175,000 square foot manufacturing center on 37

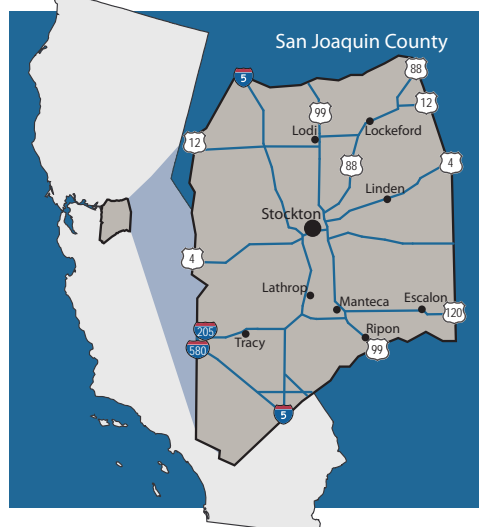
acres at ProLogis Park Duck Creek, in Stockton, CA.

- Tim Murphy broke ground on a 374,976 square foot warehouse distribution center at the Lathrop Business Park located north of State Route 120.

Market Outlook

- The industrial condominium market will once again remain cool as an abundance of supply currently outweighs demand.
- San Joaquin County will continue to attract larger users due in part to its proximity to a "tight" Bay Area Industrial market and major transportation corridors. As a result vacancy will decrease, and new construction and net absorption will increase in the short term.
- Due to the lack of available entitled industrial land, and the cost and timeframe to entitle, land prices will continue to spike as individual land owners and developers are reluctant to sell.
- Lease rates for space ranging in size from 5,000 to 35,000 square feet will remain flat as activity for this size range remains quiet.
- The Stockton General Plan will go before the Planning Commission this August. Approval could come as early as Fourth Quarter 2007.

SAN JOAQUIN COUNTY



267 OFFICES IN 57 COUNTRIES
ON 6 CONTINENTS

USA 95
Canada 17
Latin America 17
Asia Pacific 53
EMEA 85

\$63.5 billion in annual transaction volume
672.9 million square feet under management
10,171 Professionals

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