Solano County Economic Outlook 2009
Business Parks

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Colliers International

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THE RIGHT PLACE FOR COMMERCIAL REAL ESTATE

Solano County

Business Parks - Current Status

How are things? The glass is 40% half full

Answer:

- **Industrial Product**
  - Rents 15% lower/vacancy rates up to 12%. ±519,000 s/f of negative absorption in first half of year.
  - Only four (4) industrial leases all year.
  - Excellent inventories still sitting empty that would have pre-leased during construction 18 months ago.
- **Office Product**
  - Virtually no activity.
  - Declining rent values. Have seen deals offered by owners at well under $.80 NNN per square foot with turn-key build-out.
  - Highest vacancies ever - 25.9% (just under 1,000,000 s/f).
  - Lack of market diversity in this sector showed when the residential market tanked – mortgage, title and residential real estate operations shut down everywhere.

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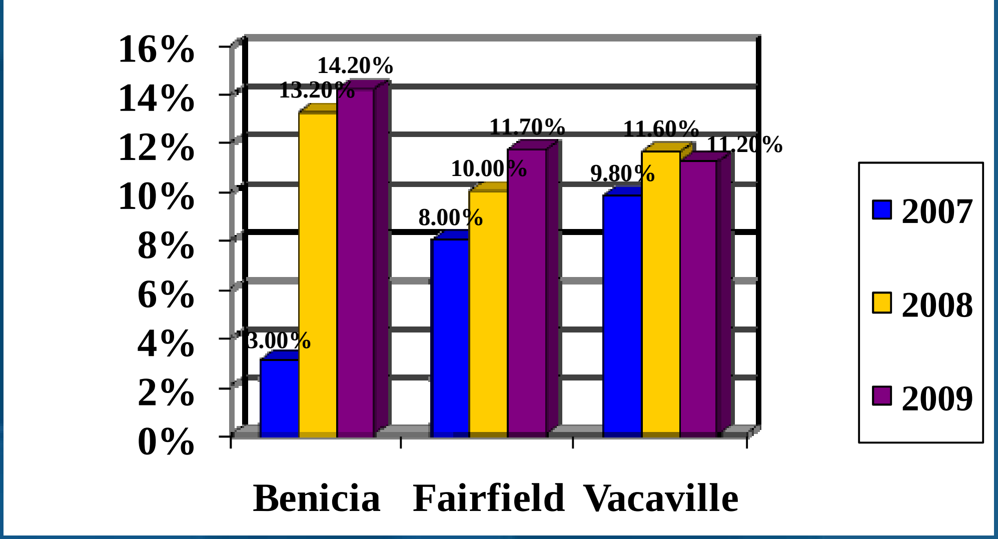
Industrial / Business Park

Approximate Vacancy Statistics

- **Benicia:** 14.2%
  Up from 13.2%
- **Fairfield:** 11.7%
  Up from 10%
- **Vacaville:** 11.2%
  Down from 11.6%



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Blended Industrial

vacancy for

Solano County: **12.2%**

Double the 6% vacancy rate in 2007!

Deal Velocity Chart*

Solano Industrial Market Analysis			
	YTD 2009	**2008**	**2007**
# of Deals	23	50	52
SF Deals	±916,695	±1,734,016	±2,716,664
Net Absorption	-519,996	-364,387	-
Market Vacancy	12.2%	10.6%	6%

Of the 23 deals YTD, only four (4) were new deals and nineteen (19) were lease renewals. The four (4) new deals represent ±150,000 total s/f and the lease terms are relatively short as early termination provisions were requested and granted. In a robust year we have seen up to ±2,000,000 s/f of new deals. That puts our YTD activity at 7.5% of normal. ***Says it all!***

** Over ±15,000 s/f & lease term of two (2) or more years*

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Industrial Land Inventory

Declining inventories have historically fueled upward pressure on existing inventories and land values.

Sluggish activity is placing **<u>NO</u>** pressure on land inventories – values have subjectively declined by ±30% in the past 18 – 24 months.

<u>NO</u> land sale activity in 2009.

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Industrial Land Value

(County Wide Range)

2005:	±$2.50 - ±$5.50
2007:	±$5.00 - ±$10.00 and rising
2008:	Holding
2009:	±$4.00 - ±7.00 (subjective, NO deals)

Industrial / Business Park

What happens next?

- Expect rents / value to continue to fall through most of 2010.
- Expect to see little to no land activity in 2010. The only buyers will be users (no speculative development for 2 - 3 years). To sell an industrial property, you will have to have some competitive advantage and have all entitlement work and due diligence complete.
- Expect office recovery to be slow (4 - 5 years).

Valuation

CAPITALIZATION RATES have dramatically risen since I last spoke to this group just over a year ago.

Institutional grade warehouse buildings were selling at a cap rate of 6.25% in the summer of 2008. The good old days were just over a year AGO. That same building would sell at a 9% to 10% cap today. Using $.45 NNN as the rent, here is what that increase in the cap rate does to value.

.45 x 12 ÷ .0625 x 95% (5% vacancy reserve) = $82.00 per square foot
.45 x 12 ÷ .09 x 95% (5% vacancy reserve) = $57.00 per square foot

That's a drop of 30% in just over one year!

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I'm not making this up completely, somebody else agrees:

According to the *California Real Estate Journal* (August 31, 2009), the prices of commercial properties only fell 1% for June but are 26.9% below year-ago levels.

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New Loan

On Our $.45 NNN Warehouse

Old Value:	$82.00 per square foot
Old loan @ 80% LTV:	$65.60 per square foot
New Value:	$57.00 per square foot
New loan @ 65% LTV:	$37.05 per square foot

Additional (equity required to keep the building):

Old Loan:	$65.60
New Loan:	<u>$37.05</u>
	$28.55

On a single ±240,000 s/f warehouse, we are talking $6,852,000.00.

Banks

3 Year Forecast

“The commercial real estate industry is going to be the next shoe to drop, said John Burns, president of John Burns Real Estate Consulting – ‘Banks have $300 billion in commercial real estate construction loans and more than a trillion in commercial real estate income property loans. They are going to lose at least $200 billion on that. The banks that specialize in commercial real estate and have a lot on their balance sheets may not survive,’ Burns said. The regional banks are far more exposed than the national banks with commercial real estate loans representing as much as 80 percent of the loans on some small bank balance sheets, he said,” *California Real Estate Journal* (September 8, 2009).

- 1,000 to 1,500 banks are expected to fail because of commercial loan defaults.
- Banks that will make loans require:
  - 60-65% LTV based on actual rental rates based on higher cap rates discussed earlier.
  - Lease term at least as long as the loan.
  - Excellent tenant credit.
  - Personal guarantee with borrower's substantial assets on the line.

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Jobs Are The Key

Rising unemployment is why our county wide vacancy has increased (over ±500,000 s/f of negative absorption so far this year). Silicon Valley Business Journal shows that California's loss of 732,700 jobs (new U.S. Bureau of Labor Statistics) is #1 in the USA. As a percentage (4.9%), California was in sixth place. Our official unemployment rate in California is 12.2% overall or 2.3 million are not working.

Senator Bob Dutton (October 20th, 2009)

"But a growing number of "underemployed" workers in California's labor force aren't included in the conventional unemployment statistic. These workers, who want full-time jobs but have settled for part-time work, now number more than 1.4 million. Add 2.3 million and 1.4 million and you get 3.7 million. That number, which exceeds the entire population of Oklahoma, represents a startling 20% of California labor force. Simply put, one in five California workers wants full-time work, but can't find it."

Vulture Funds

Those big black birds up in the sky circling around and around are actually commercial real estate vulture funds. The larger funds have raised hundreds of millions from both private and institutional sources. Specialized, focusing on one niche or another, such as California retail properties that are distressed, or medical office or industrial properties. Property acquisitions will be through direct purchase, or distressed debt purchase (at a discount) with the intention of potentially foreclosing. The current amount of distressed property hitting the market is just a trickle, but most agree the commercial property tsunami may hit by early 2010, *California Real Estate Journal* (September 8, 2009).

Cost of Doing Business in California

State Report "Cost of State Regulations on California Small Business Study" was just released September.

- Total cost of state regulations is $493 billion
- Employment loss of 3.8 million jobs
- Costs are borne by small businesses
- $234,000 per small business in 2007
- $4,300 of labor income not created per business
- $57,000 in business taxes not generated

Added to this, the California Air Resources Board's tens of millions in fees per Assembly Bill 32.

California Air Resources Board (CARB)

On road and off road diesel vehicle regulations from 2008 are in position to greatly add to our list of economic burdens. CARB's staff estimates this will cost the already reeling trucking industry in California $5.5 billion dollars.

- Over 90% of carrier members surveyed indicated that they would be unable to comply with the On-Road Truck and Bus rule in 2011.
- 98% of members who were approved for Proposition 1B funding have not yet received their approval grant funds.
- Overall mileage for those companies surveyed has declined by almost 20%.
- 80% have laid off employees in the past year, with an average of 5 layoffs per company surveyed. This represented a 12% loss of jobs in the trucking sector compared with an overall state job loss figure of 4.8%.
- Freight revenue has declined significantly; respondents indicated an average of 32% drop in overall revenue from the previous year with an even larger drop when compared to the year before that.

CARB

MTBE – they came up with this all by themselves.

$20 billion in ground water clean up all over state.

Some of the largest tenants in this county cannot extend their leases because of this looming crisis! Trucking industry has asked for a reasonable

2 year extension.

Marketing Tools We Still Need To Highlight

- Our over-abundance of inexpensive labor (±200,000 local commuters) and reduced facility costs.

- Captive Labor Pool: ±200,000 commuters traveling through Solano have an almost impossible commute (up to 1.5 hours per direction) and desperately want to stay close to home.

- Reverse Commute for Everyone

- Plummeting Housing Costs

- Strategic location midway between some very important places!

But this is still not enough!!

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What can we do to make Solano County stand out for job creating businesses? We can't control the financial market, state and federal hurdles. Since its extremely unlikely any new facilities (not already in the construction processing pipeline) are going to be built in the next 18 – 24 months, *why not reduce or waive impact fees.*

- Advantage over competing communities and cities.
- Waiving fees that cities were not likely going to get anyway.
- Creating jobs that cities weren't going to create anyway.
- If its an established restated fee structure, its likely exempt from prevailing wage requirements.

WHY NOT???

This will likely get much worse before it gets better. For Solano to remain relatively intact, we need to band together as a community like never before.

We need to support each other any way we can. By stabilizing our internal strengths as a community, we will remain vital and viable.

Support Solano!!!!

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Thank You

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