MARKETBEAT
Bakersfield Industrial Snapshot
Year-End 2016

CUSHMAN & WAKEFIELD
PACIFIC
COMMERCIAL REALTY ADVISORS

Economy

Throughout the last eight years, the predominant theme has been uncertainty; make that *more* uncertainty than usual. Growth on most levels was no better than anemic, and it continuously felt as though any good news would not last. This obviously affected moods in a negative direction, which negatively affected outlooks and planning—particularly expansion planning. We felt this along with most other cities across America. We were insulated somewhat by the mini oil boom that occurred between 2011 and mid-2014, but for the most part, we kept feeling like more expansion was held back than proceeded.

This theme appears to be changing, coincident with November's presidential election. Since then, new requirements have increased, and this during a year-end period when new requirements are notoriously few. It now feels like more positive moods exist, which we expect will soon be reflected in expansion planning.

We are still an oil town though, and oil has yet to rebound. It does, however, appear to be stabilizing, and most observers seem to expect recovery in 2018. Meanwhile, Kern County has somewhat quietly grown to among the nation's top providers of solar and wind energy—facts that are often overshadowed by our oil history.

Market Overview

Bakersfield's overall economy has been negatively affected by the continuing oil recession, but not to the degree experienced during previous oil recessions, owing to our growing diversification. Headlines like these still excite our market:

- Bakersfield State's No. 1 and Nation's No. 16 for Population and Wealth Growth
- Kern County Nation's No. 2 Best Oil and Gas Economy
- Kern County Nation's No. 2 Metro for Millennial Population and Job Growth
- Kern County Nation's No. 2 Metro for Retirees

During the 3-year run-up to oil's last peak value in July 2014, we averaged 1.7 million sf of industrial building absorption per year. Since then, we're averaging 1.9 million sf of absorption, including 1.56 million in 2016. We stood at a 3.7% vacancy rate at the end of 2015; we expected that to rise in 2016, and it did, ending at 5.6%—but that was still lower than year-end 2014, when it stood at 6.9%.

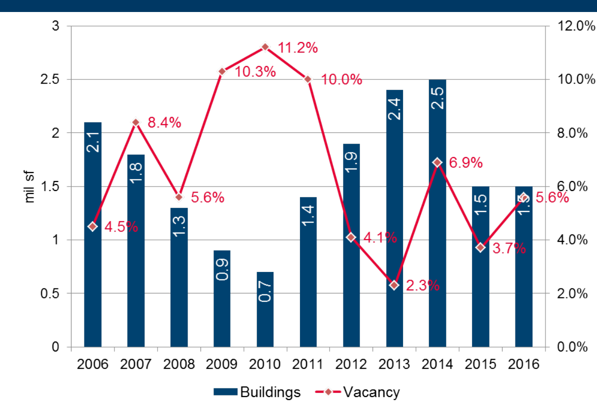
The most notable change over the last couple of years is the demand profile. During the oil run-up, 42% of the market's deals were oil-related, and construction uses accounted for 26% of the deals. Over the last two years, oil accounted for only 19% of the deals, while construction and transportation contributed 33% each. Another noticeable difference is the number of deals in the "other" category (like fitness clubs and churches), which doubled.

Sale prices are more than holding up; we have actually experienced record-breaking numbers. Lease rates, on the other hand have flattened or even declined in some areas, which last year's report projected.

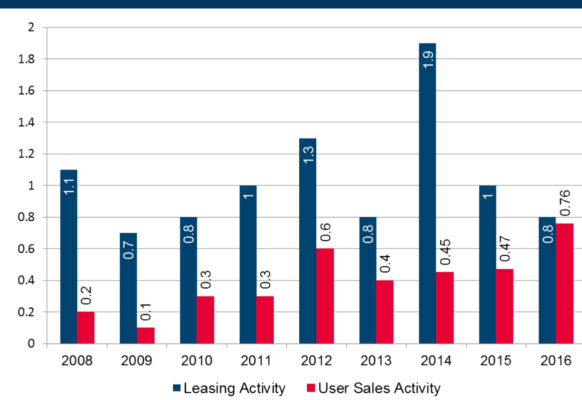
STATS ON THE GO

	Q4 2014	Q4 2015	Q4 2016	Y-o-Y Change	12 month Forecast
Overall Vacancy	6.9%	3.7%	5.6%	+1.9pp	▼
Overall Rents	$0.54	$0.71	$0.64	-9.9%	▲
Overal Sales Prices	$48.36	$64.85	$68.85	+6.2%	▲

OVERALL RENTAL VS. VACANCY RATES



OVERALL OCCUPIER ACTIVITY



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