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COMMERCIAL REAL ESTATE: Industrial markets start year on high note

by [Jeff Quackenbush](#)
Staff Reporter

NORTH BAY – The market for industrial properties in Napa and Sonoma counties is starting 2008 healthy, according to real estate experts.

More commercial buildings are set to rise in the industrial areas near Napa County Airport this year, while expanding Marin County companies are shopping Petaluma and other Sonoma County markets for available space.

"Next spring there is going to be an awful lot of construction here," said Keegan & Coppin/Oncor International's Randy Wood, who markets Napa Valley Gateway Business Park in south Napa.

One of the boons to that activity is an easing of the city of American Canyon's stance on providing water north of its boundary to the airport business parks, according to Michael Moffett of Coldwell Banker Commercial Brokers of the Valley and current president of the Napa Valley Economic Development Corp.

The city's disagreement with Napa County over control of areas at the north end of the city led American Canyon in late 2006 to decline to supply water to certain projects and new businesses in the unincorporated area south of Napa, effectively creating a moratorium on construction.

The overall vacancy rate for the business parks around Napa County was 6 percent for 11.2 million square feet of industrial space, including smaller warehouses and flex space, which can have office and light-industrial uses suitable for startup companies, according to Keegan & Coppin. The 720,000 square feet of heavy- and light-industrial space at the former Napa Pipe property on Kaiser Road in south Napa isn't included in that figure.

When warehouses larger than 30,000 square feet are considered, which accounts for many of the wine-related warehouses in south Napa Valley, less than 3 percent of the 9.8 million square feet of local industrial space is available, according to Chris Neeb of Cushman & Wakefield.

"Demand continues to be strong for warehouse space in the 10,000- to 100,000-square-foot range," he said. "The market tends to be flat for spaces smaller than 10,000 square feet."

A fresh example of that demand is the lease of 150,000 square feet of warehouse space at

880 Hanna Drive in the north American Canyon industrial area to wine hauler Western Wine Services. Textile maker Ramallah Inc. just finished shutting down in that space in November. A few other similarly sized deals are in the works, according to Mr. Neeb.

A significant lease about to be inked at press time was for a relatively major expansion of a wine processing business into 36,000 square feet in LBA Realty's The Vines Business Center on Napa Valley Corporate Center Drive.

Wine sales increased nearly 7 percent last year, according to ACNielsen. Much of the growth is coming from ultrapremium wines, for which the North Coast is known. A cyclical increase in wine production brings with it a wave of demand for wine-storage and distribution space.

Along those lines, Illinois-based Scannell Properties is undertaking environmental review of a 650,000-square-foot wine warehouse in the Green Island Industrial Area of north American Canyon. The building would be leased to Napa-based wine specialist Biagi Bros. Transportation & Warehousing on 36.5 acres in the northwest region of the industrial area.

On Hanna Court in the southeast portion of that industrial area, Madera-based Stravinsky Development has completed site work for 307,000- and 411,000-square-foot speculative wine warehouses and has a third of the slab for the larger building finished and is pursuing completion this summer.

Only five acres in two parcels remain available for purchase in Pacific Union Real Estate's 386-acre Napa Valley Gateway Business Park at the northwest corner of the junction of Highway 29 and Jamieson Canyon Road, according to Mr. Wood. A developer and a wine-related company have their eyes on the remainder, which is expected to sell this year.

One of the draws to the Napa Valley Gateway development is a new hotel and retail project. Mountain View-based Airport Boulevard Realty broke ground in early December on its \$52 million Napa Gateway Plaza project at the northwest corner of highways 12 and 29 in south Napa. The project, located in Napa Valley Gateway Business Park, includes a 100-room business hotel with convention center, 75,000 square feet of retail space and 45,000 square feet of offices. The hotel portion is set to be done by late this year or early in 2009.

Also set to be snatched up in the next month or two are 54 acres of vacant Greenwood-Gunn Estate land zoned for warehouses, offices and light-industrial uses just south of Napa Valley Gateway.

A Sacramento-area commercial developer purchased one of the two Gunn parcels in mid-January. Napa Gateway Holdings LLC acquired 20 acres on the westernmost side and plans to start construction on three warehouses there as soon as this summer. That group is made up of Gary Graves and Mark Davis of Sierra View General Contractors and Kris Pigman of The Pigman Companies. Sean Heaton of Cushman & Wakefield is marketing that property. The other Gunn parcel is about to enter escrow, according to Mr. Wood.

In addition to a 163,000-square-foot warehouse virtually complete at its Napa Crossroads project at the northeast corner of Highway 29 and Jamieson, Sacramento-based Panattoni Development Co. is gearing up to put in roads and utilities for its 50-acre Napa Airport Corporate Centre project at Highway 29 and South Kelly Road this spring, according to Mr. Neeb, who is part of the team marketing the project.

Configurations of the buildings in that development continue to change with tenant interest. Currently, the plan is to start construction late this year on a 230,000-square-foot wine warehouse along with a few smaller buildings.

Sonoma County also has benefited from demand for wine warehousing. A few of the largest leases and sales of industrial buildings in the county last year were to Adobe Creek Wine Storage for 110,000 square feet in Petaluma, 105,000 square feet for the eventual new home of Windsor Vineyards, 70,000 square feet in Healdsburg and Rohnert Park for Sonoma County Vintners Co-Op, and 23,000 square feet for startup Express Wine Delivery near Sonoma County Airport.

Those and several other deals for more than 20,000 square feet led to vacancy decreases in Petaluma and the airport area at year end of 11.7 percent and 6.1 percent, respectively, of 6.9 million square feet of space in both submarkets, according to NAI BT Commercial. A year before the vacancy rates were 17.4 percent and 18 percent.

One industrial project still under construction is Waldman Management's pending condominimization of 1129 Industrial Ave. in Petaluma. Several of the units are being eyed for sales.

Another project under construction is Sky Park Properties' Skylane Business Park, a three-building project with 30,000 square feet of small industrial condominiums near the county airport. A 40,000-square-foot industrial condo project called Carneros Business Condominiums is under way in south Sonoma at Carneros Business Park.

Trevor Buck of NAI BT Commercial said an increasing number of Marin County companies are looking for more industrial space than they have and that the limited Marin market can provide, so their interest is turning to Petaluma. Their space needs range from 12,000 to 120,000 square feet, with many looking for 12,000 to 30,000 square feet.

"If this trend continues we will see tenants growing out of Marin to Petaluma and north and the vacancy in Petaluma could drop significantly by the end of the year," he said.