



MARKET FUNDAMENTALS

	YOY Chg	Outlook
9.7% Vacancy Rate	▲	▼
-828K YTD Net Absorption, SF	▼	▲
\$0.70 Asking Rent, PSF <i>(Overall, Net Asking Rent)</i>	▼	▬

ECONOMIC INDICATORS

	YOY Chg	Outlook
478K Central Valley Employment*	▲	▲
6.8% Central Valley Unemployment Rate*	▲	▲
4.6% U.S. Unemployment Rate <i>Source: BLS *Q3 2025</i>	▲	▲

ECONOMY: HEADWINDS SLOWING GROWTH

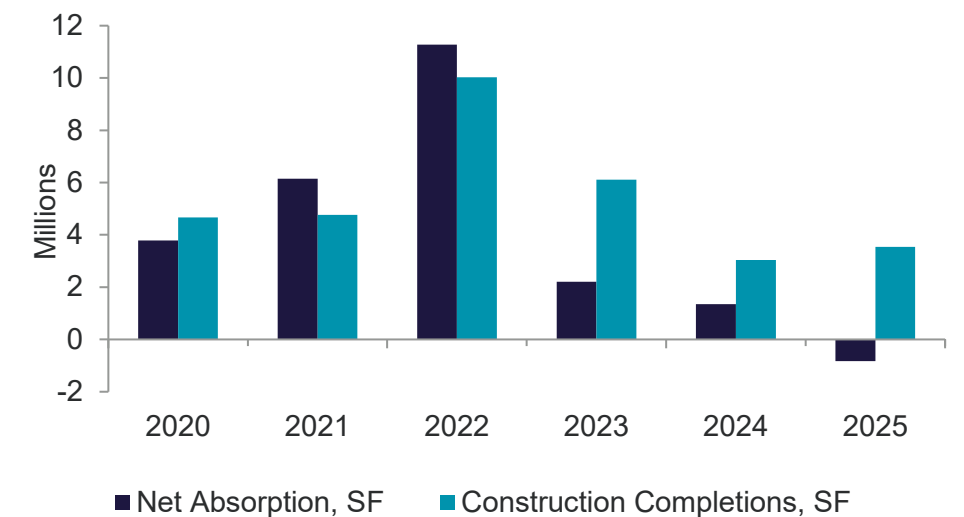
The Central Valley, encompassing San Joaquin and Stanislaus counties added 9,100 jobs year-over-year (YOY), bringing regional employment to 477,600 non-farm positions. However, industrial employment has lagged behind other sectors like government and healthcare with modest declines in transportation, warehousing, and manufacturing positions. Industrial demand has softened over the past year as elevated interest rates, tariff concerns, and global supply chain issues have created major headwinds for the market's diverse tenant base. Despite this slowdown, the Central Valley remains one of the hottest industrial markets in the country as many of the nation's largest industrial occupiers are drawn by the combination of developable land, convenient logistics infrastructure, and proximity to major metros.

SUPPLY: VACANCY MODERATES

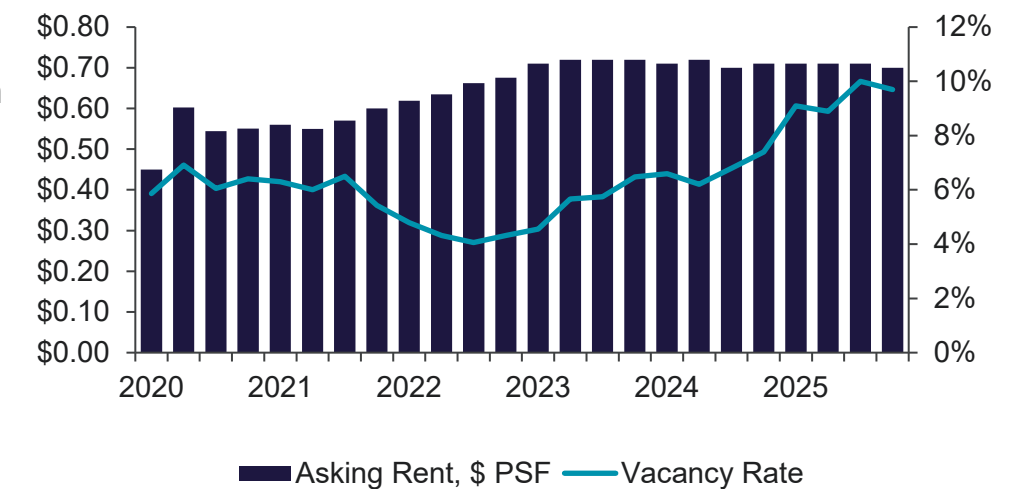
The vacancy rate for the Central Valley industrial market was 9.7% at the close of the fourth quarter, down 30 basis points (bps) from the prior quarter but still up 230 bps YOY. Net absorption for the quarter reached nearly 1.4 million square feet (msf), walking back some of the occupancy loss recorded in the prior quarter. Driving absorption was the delivery of Walmart's new 900,000-square-foot (sf) distribution center in Stockton. The build-to-suit (BTS) property was just one of several major pre-leased projects in the pipeline, the delivery of each will help drive occupancy gains into 2026. Despite ending on a positive note, full year net absorption for 2025 finished in the red at -828,351 sf. This moderate occupancy loss was not a uniform occurrence across submarkets, as modest occupancy gains in San Joaquin County were overshadowed by new vacancy in Stanislaus County. Full year net absorption for San Joaquin County was 284,497 sf, with Stockton leading the way with 2.3 msf of occupancy growth. The vacancy rate in Stockton was down YOY despite delivering over 2.5 msf of new construction. In contrast, Stanislaus County recorded -1.1 msf of net absorption, as vacancy rose rapidly in Modesto, an agricultural submarket that is particularly vulnerable to tariff-related impacts.

Sublease availability continued to weigh on the Central Valley, accounting for 4.0 msf or nearly a quarter of overall vacancy, a proportion significantly higher than the national average. Nowhere is this more apparent than the submarket of Tracy, where sublease space is up 377% YOY and makes up over half of overall vacancy. In the third quarter alone, two new subleases added 1.5 msf of vacancy, including Michaels' 925,475-sf distribution center, the largest vacancy in the region. Over the past year, tenant demand in the market has become bifurcated, with two distinct markets emerging; one for spaces over 500,000 sf and another for the mid-size spaces of 100,000-200,000 sf.

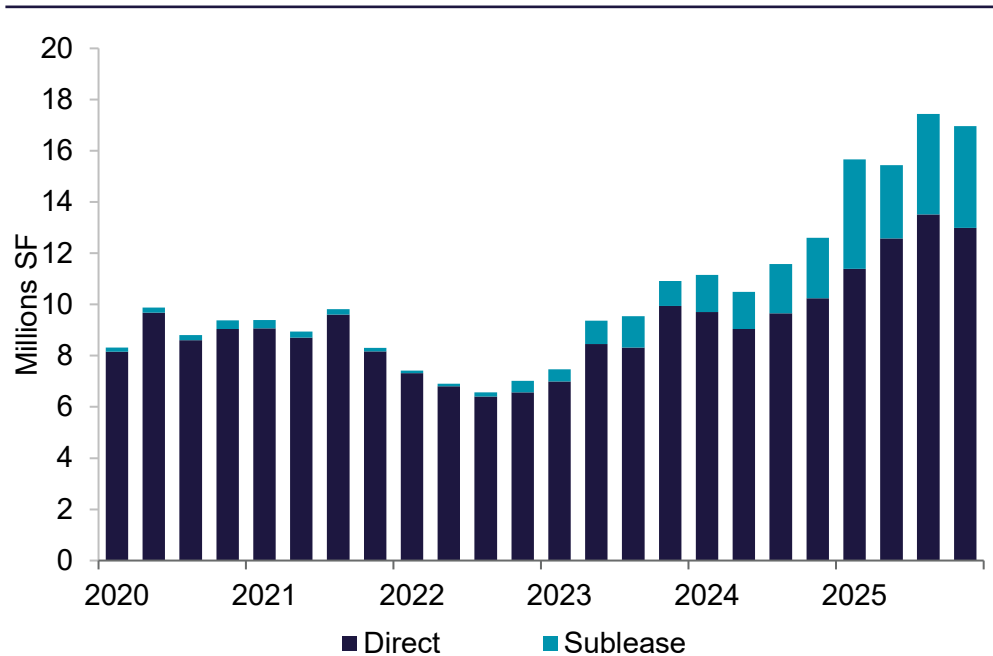
SPACE DEMAND / DELIVERIES



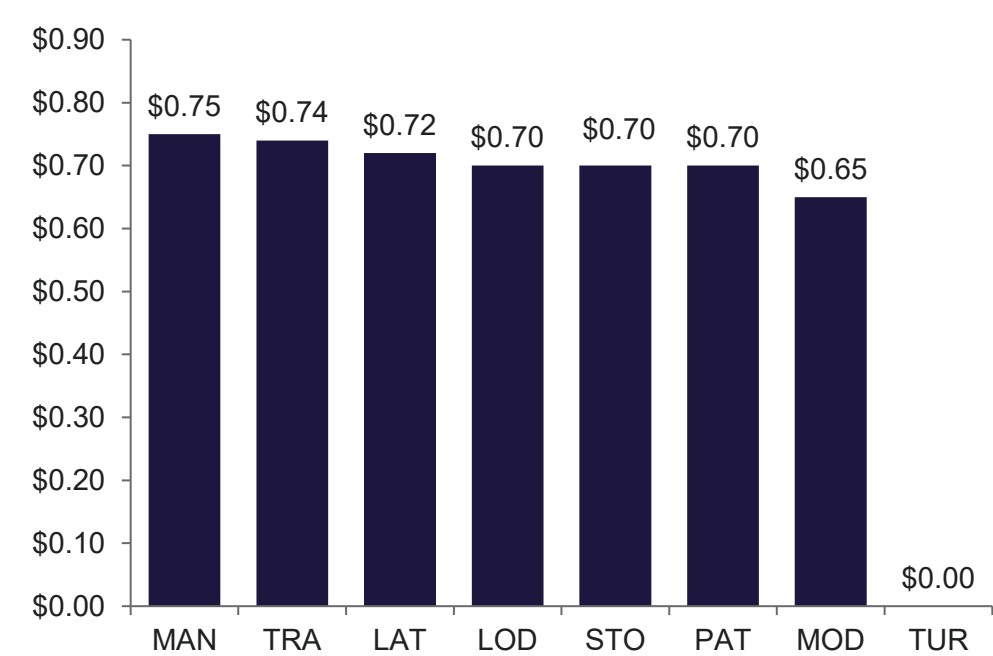
OVERALL VACANCY & ASKING RENT



DIRECT AND SUBLEASE AVAILABLE SPACE



OVERALL ASKING RATE BY SUBMARKET (NNN)



Northern California’s largest tenants have gravitated to the Central Valley, leasing and absorbing millions of square feet, leaving just six vacancies over 500,000 sf in the current quarter. Meanwhile, demand from mid-size tenants has pulled back significantly, driving up vacancy in a segment of inventory that has historically been a bright spot in the region.

DEMAND: NEW LEASING CONTINUES

Leasing activity in the fourth quarter totaled over 2.7 msf, up 12.9% from the prior quarter as several large renewals drove activity. Four of the five largest transactions this quarter were renewals, the largest of which was a 1.0 msf renewal by Amazon at 188 S. International Parkway in Tracy. The largest new lease was signed by Allen Distribution for the 419,609-sf warehouse at 6440 Aviation Drive in Stockton. There were two additional new leases for over 100,000 sf, a positive sign for demand heading into 2026. These new transactions mark a shift away from the flurry of BTS leases signed over the past year. While all leasing activity is positive for the market, BTS transactions can siphon demand away from existing vacancies, undercutting the effect that new demand has on lowering the vacancy rate.

Sales activity slowed in the fourth quarter, with transactions dominated by local investors and owner-users. The largest sale of the fourth quarter was a portfolio of four, fully leased industrial properties in Lodi. Tower Investments sold the 120,255-sf portfolio for \$13.6 million or \$113 per square foot (psf). Despite this relative slowdown, over 7.0 msf of industrial product traded hands in 2025, more than double 2024, as institutional capital continued to target the region’s growing inventory of Class A warehouses.

PRICING: RATES HOLD NEAR RECORD HIGH, CONCESSIONS RISING

The overall asking rate for Central Valley industrial product closed the fourth quarter at \$0.70 psf on a monthly triple-net basis. This was down \$0.01 psf from the prior quarter and YOY. Tracy and Manteca were tied for the region’s highest asking rate at \$0.73 psf. While some new spaces, particularly subleases, are hitting the market at a discount, there has been very little public repricing of existing listings. This is a sign that many landlords view the slowdown in demand as a consequence of external factors, not price sensitivity. This is also evident in transacting rates which, for quality spaces, remain near market highs. However, for more challenging inventory, the delta between asking and transacting rates is beginning to grow as landlords try to give themselves an edge in landing a tenant amidst weakened demand.

CONSTRUCTION: BUILDING OUT THE CENTRAL VALLEY

Construction deliveries totaled 3.5 msf in 2025 as a mix of speculative and BTS space delivered throughout the year. Even with these completions, the pipeline of active construction has grown significantly, with approximately 5.8 msf under construction at the end of the year. The Central Valley is no stranger to an active development pipeline, but the current ratio of speculative to BTS space is unprecedented. Speculative development makes up less than 2.0% of active construction, with Phelan’s 98,460-sf warehouse in Tracy the only speculative project underway. This gives tenants time to continue absorbing vacant construction from the prior cycle. The other 98.3% of space under construction is BTS projects; the most recent to have broken ground was a 1.7-msf facility for Pepsi that Prologis is developing in Tracy.

OUTLOOK

- Rent growth is expected to slow, particularly on existing inventory. Newer construction may continue to place some upward pressure on asking rates.
- Near term, vacancy may rise further as new sublease space hits the market. However, new large block users have the potential to buoy net absorption and offset smaller vacancies.
- Construction starts will remain muted in the short term with the exception of build-to-suit projects that will help drive absorption.

MARKET STATISTICS

SUBMARKET	INVENTORY (SF)	OVERALL VACANT (SF)	OVERALL VACANCY RATE	CURRENT QTR OVERALL NET ABSORPTION (SF)	YTD OVERALL NET ABSORPTION (SF)	YTD CONSTR COMPLETIONS (SF)	OVERALL WEIGHTED AVG NET RENT (W/D)	OVERALL WEIGHTED AVG NET RENT (MF)	OVERALL WEIGHTED AVG NET RENT
Lodi	10,064,454	476,354	4.7%	0	-233,834	0	\$0.76	\$0.70	\$0.70
Stockton	59,612,829	7,202,115	12.1%	1,478,734	2,331,172	2,509,065	\$0.70	\$0.54	\$0.69
Lathrop	19,477,298	2,217,613	11.4%	-66,216	-427,005	0	\$0.72	-	\$0.72
Tracy	37,002,566	3,866,588	10.4%	203,526	-1,294,843	0	\$0.73	\$0.78	\$0.73
Manteca	5,666,265	330,534	5.8%	19,768	-90,993	0	\$0.72	\$0.79	\$0.73
San Joaquin County	131,823,412	14,093,204	10.7%	1,635,812	284,497	2,509,065	\$0.71	\$0.69	\$0.71
Modesto	30,920,100	2,115,611	6.8%	-267,050	-1,176,783	0	\$0.62	\$0.62	\$0.62
Turlock	5,096,915	0	0.0%	0	0	0	-	-	-
Patterson	7,106,428	756,065	10.6%	0	63,935	820,000	\$0.70	-	\$0.70
Stanislaus County	43,123,443	2,871,676	6.7%	-267,050	-1,112,848	820,000	\$0.64	\$0.62	\$0.64
TOTAL	174,946,855	16,964,880	9.7%	1,368,762	-828,351	3,536,090	\$0.70	\$0.68	\$0.70

*Rental rates reflect weighted net asking \$psf/year

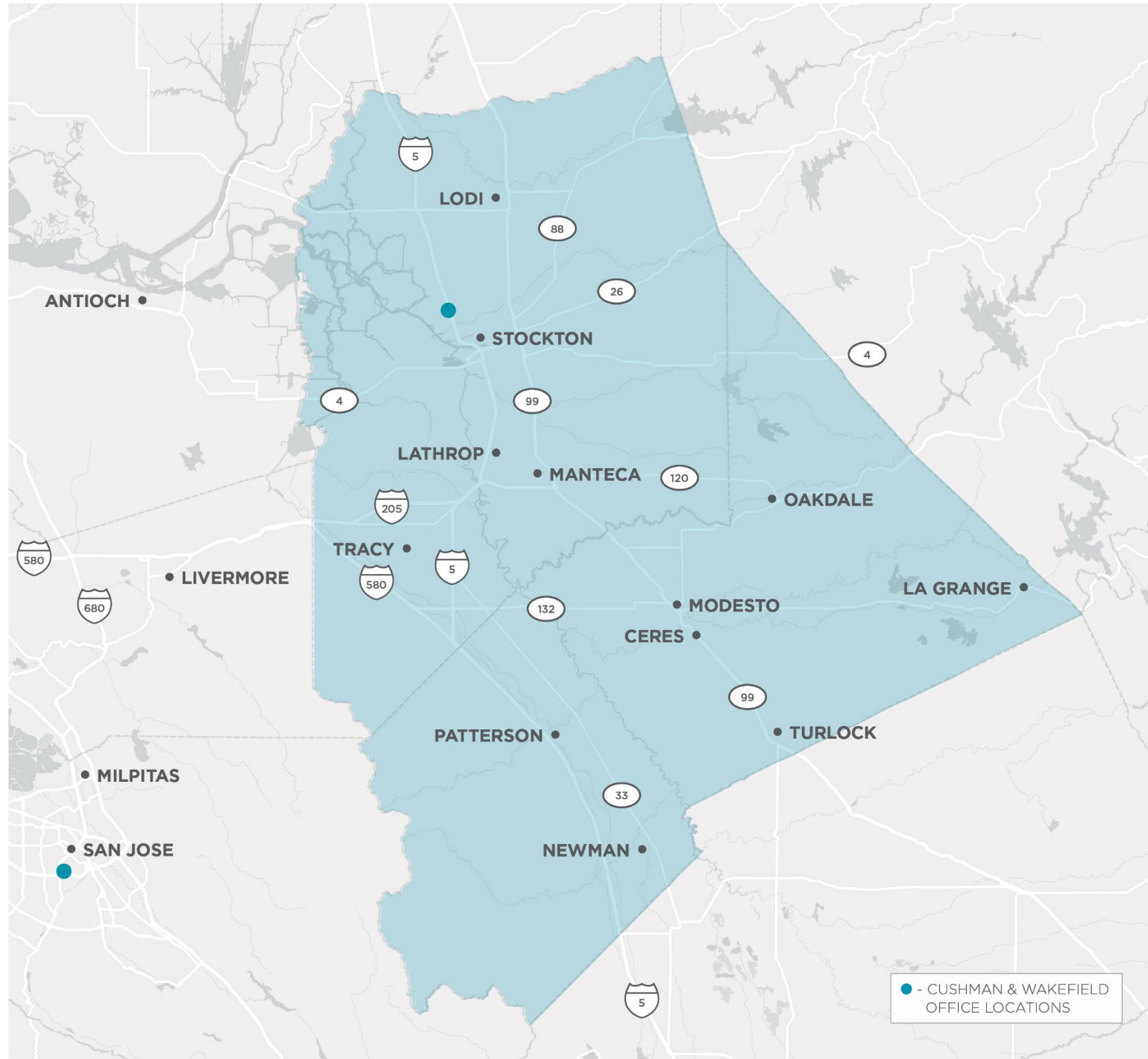
KEY LEASE TRANSACTIONS Q4 2025

PROPERTY	SUBMARKET	TENANT	RSF	TYPE
188 S. International Parkway	Tracy	Amazon	1,001,380	Renewal
931 Runway Drive	Stockton	BMW	434,900	Renewal
6440 Aviation Drive	Stockton	Allen Distribution	419,608	New Lease
2300 Chabot Court	Tracy	Hawthorne Hydroponics	388,971	Renewal
3800 Leckron Road	Modesto	Sonoco Products Company	202,550	Renewal

KEY SALES TRANSACTIONS Q4 2025

PROPERTY	SUBMARKET	SELLER / BUYER	RSF	PRICE/\$ PSF
213, 214, & 224 Kelly Street & 77 S. Cluff Avenue	Lodi	Tower Investments / Ricky Do	120,255	\$13.6M / \$113
1195 N Gertrude Avenue (Auction Sale)	Stockton	Mike & Sandy Chu / SRB Properties LLC	100,000	\$3.7M / \$37
23709 Brandt Road	Lodi	SKS Enterprises / Petaluma Egg Farm	55,000	\$10.0M / \$182
107 Val Dervin Parkway	Stockton	Two Setters LLC / Craig Walters Revocable Trust	43,200	\$4.5M / \$104

INDUSTRIAL SUBMARKETS



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