



MARKET FUNDAMENTALS

	YOY Chg	Outlook
10.2% Vacancy Rate	▲	▲
-2.5M YTD Net Absorption, SF	▼	▲
\$0.71 Asking Rent, PSF <i>(Overall, Net Asking Rent)</i>	▲	▬

ECONOMIC INDICATORS

	YOY Chg	Outlook
476K Central Valley Employment	▲	▲
6.8% Central Valley Unemployment Rate	▲	▲
4.3% U.S. Unemployment Rate <i>Source: BLS</i>	▲	▲

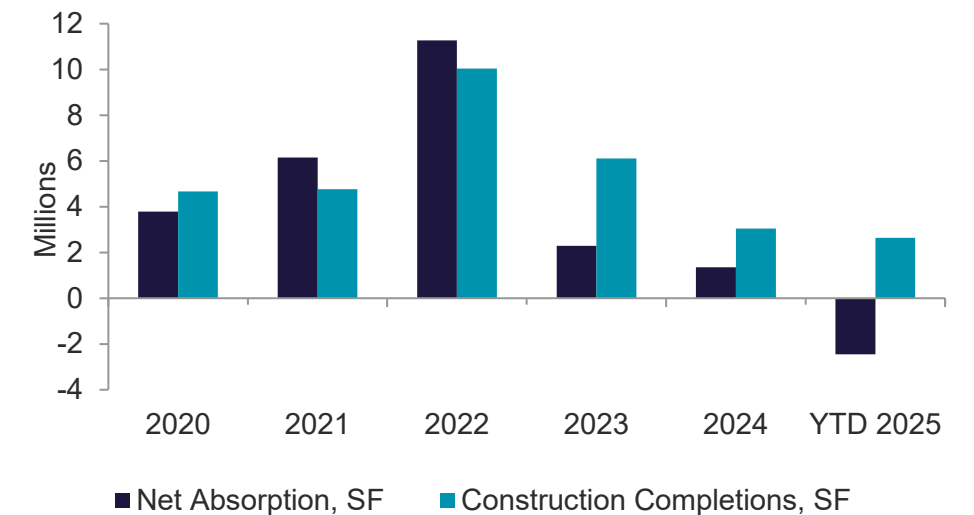
ECONOMY: HEADWINDS SLOWING GROWTH

The Central Valley, encompassing San Joaquin and Stanislaus counties added 7,600 jobs year-over-year (YOY), bringing regional employment to 476,100 non-farm positions. Industrial employment slowed its growth, with modest gains in transportation and warehousing being offset by a loss in manufacturing positions. The Central Valley has become 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. However, 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.

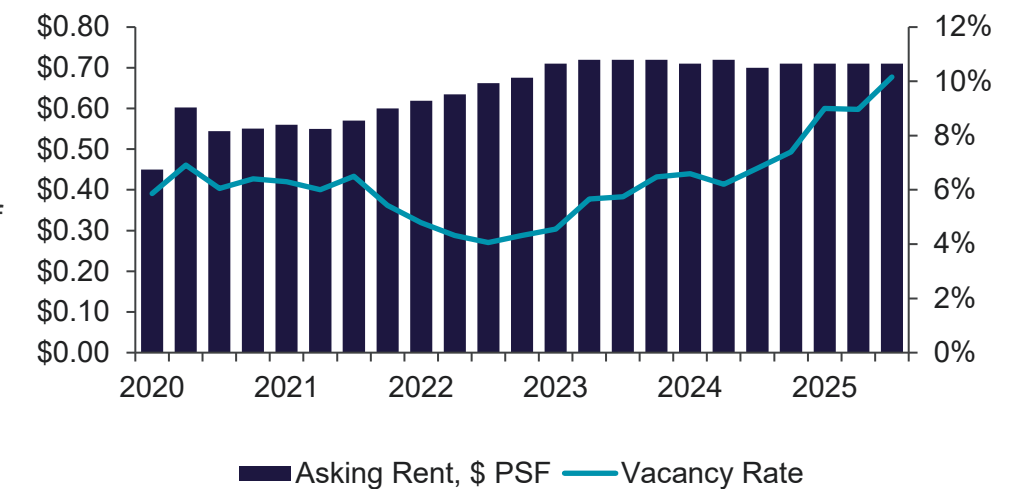
SUPPLY: SUBLEASES DRIVE VACANCY

The vacancy rate for the Central Valley industrial market was 10.2% at the close of the third quarter, up 120 basis points (bps) from the prior quarter and 340 bps YOY. Having regained some momentum in the prior quarter, net absorption swung back into the red in the third, totaling negative 1.9 million square feet (msf). Driving occupancy loss this quarter were two new subleases in the Tracy submarket that alone accounted for 1.5 msf of new vacancy. Retailer Michaels put their entire 925,000-square foot (sf) distribution facility up for sublease, a space that is now the largest existing availability in the Central Valley, and Republic National Distributing Company (Young's Market) vacated an additional 611,000 sf. Sublease space totaled 4.1 msf in the third quarter and accounted for nearly a quarter of overall vacancy, a proportion significantly higher than the national average. The significant negative absorption recorded in Tracy overshadowed the fact that absorption was flat or positive in the majority of the region's other submarkets. Stockton, Manteca and Modesto all recorded modest positive absorption in the third quarter, maintaining some of the momentum seen earlier in the year. 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. Northern California's largest tenants have flocked to the Central Valley, leasing and absorbing millions of square feet, leaving just six vacancies over 500,000 sf in the current quarter, including the two new subleases. At the same time, 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. Looking ahead, demand has to accelerate across size ranges for the market to see a meaningful decline in vacancy.

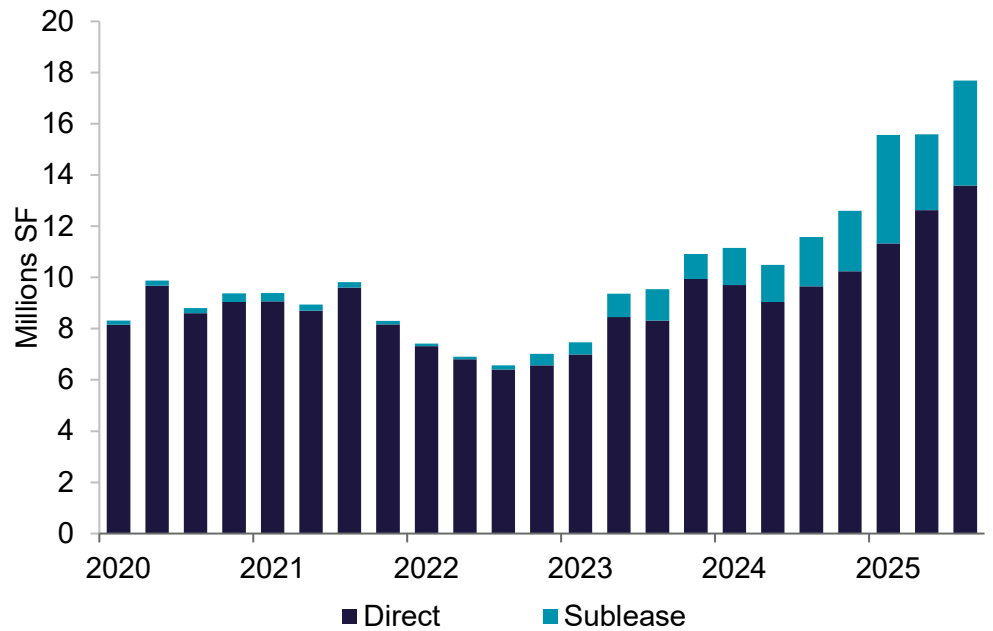
SPACE DEMAND / DELIVERIES



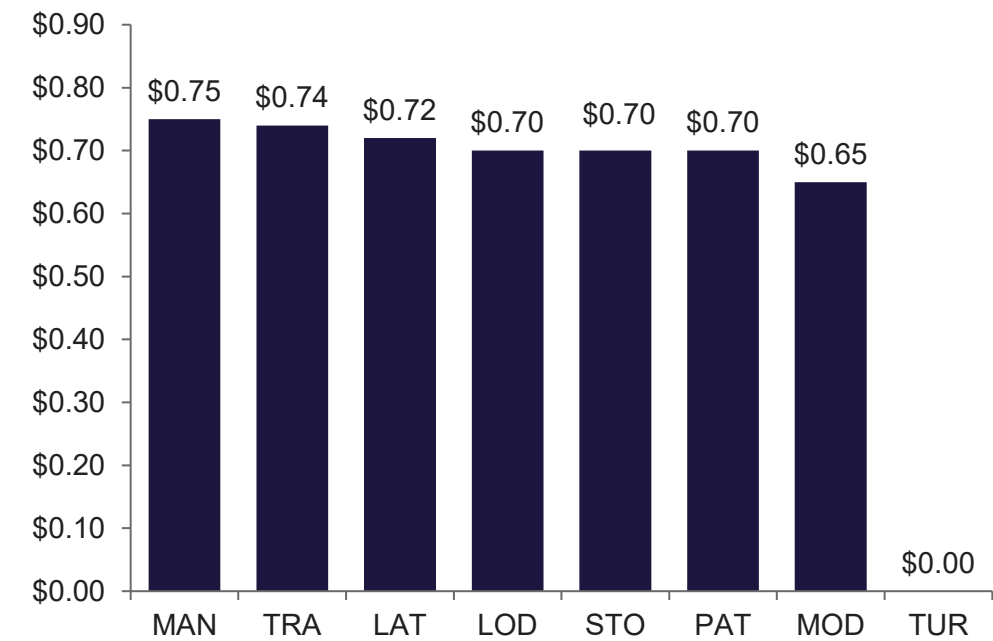
OVERALL VACANCY & ASKING RENT



DIRECT AND SUBLEASE AVAILABLE SPACE



OVERALL ASKING RATE BY SUBMARKET (NNN)



DEMAND: NEW LEASING CONTINUES

Leasing activity in the third quarter totaled over 2.2 msf, a pullback from the second quarter, but up 44.8% YOY. The largest lease of the quarter was signed by a confidential tenant for the 922,894-sf LogistiCenter at Mariposa Road in Stockton. The newly constructed warehouse was delivered by Dermody in late 2023 and had been the largest availability in the market until Michaels’ new sublease. Other new leases of note included Tesla for 344,654 sf and Kelly Spicers for 158,980 sf, both in Tracy. All of these new transactions absorbed existing inventory, a shift away from a relative flurry of build-to-suit (BTS) leases signed over the past year. While all leasing activity is positive for the market, BTS transactions can siphon demand away from the vacancies in existing inventory, undercutting the effect that new demand has on lowering the vacancy rate.

The Central Valley continued to see healthy sales activity, recording a mix of investment and owner-user transactions. The largest sale of the quarter was LBA Realty’s purchase of 2900 N. MacArthur Drive, a 284,000-sf warehouse in Tracy. They paid \$42.4 million or \$149 per square foot (psf) for the property which was fully leased to multiple tenants including Restoration Hardware and Gaatu. Also of note was the sale of 834 Performance Drive in Stockton to Southern Tire Mart. The user paid \$24.4 million or \$148 psf for the 165,000-sf warehouse. Approximately 6.0 msf of industrial product has traded year-to-date (YTD), double the full year total for 2024 as investors continued to look to the Central Valley as an attractive market to place capital.

PRICING: RATES HOLD NEAR RECORD HIGH, CONCESSIONS RISING

The overall asking rate for Central Valley industrial product closed the third quarter at \$0.71 psf on a monthly triple-net basis. This was level with the prior quarter and up \$0.01 psf YOY. Manteca had the region’s highest asking rate of \$0.75 psf, the result of both the limited quantity and high quality of availability in the relatively small submarket. 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

G3 completed work on their speculative 207,000-sf warehouse in Modesto, reducing the pipeline of speculative construction to just a single project, Phelan’s 98,460-sf warehouse in Tracy. In contrast, the overall pipeline continued to swell with yet another BTS breaking ground. Costco began work on their own two-building, 1.7-msf facility in Tracy, bringing total under construction square footage to 5.0 million. Other projects of note include a 1.3-msf BTS for Georgia Pacific that broke ground earlier this year and a 900,000-sf BTS for Walmart that is nearing completion. Looking ahead, Prologis is expected to break ground on a 1.7-msf facility in Tracy for Pepsi, having signed that lease earlier this 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 just 2.0% of active construction, giving tenants time to continue absorbing vacant construction from the prior cycle.

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%	-8,000	-233,834	0	\$0.76	\$0.70	\$0.70
Stockton	58,712,829	7,690,224	13.1%	96,165	943,063	1,609,065	\$0.71	\$0.54	\$0.70
Lathrop	19,477,298	2,151,397	11.0%	0	-360,789	0	\$0.72	\$0.60	\$0.72
Tracy	37,002,566	4,169,983	11.3%	-1,713,615	-1,589,238	0	\$0.73	\$0.78	\$0.74
Manteca	5,666,265	350,302	6.2%	31,232	-110,761	0	\$0.74	\$0.79	\$0.75
San Joaquin County	130,923,412	14,838,260	11.3%	-1,594,218	-1,360,559	1,609,065	\$0.72	\$0.70	\$0.72
Modesto	30,920,100	1,734,754	6.8%	58,075	-1,156,926	0	\$0.65	\$0.65	\$0.65
Turlock	5,096,915	0	0.0%	0	0	0	-	-	-
Patterson	7,106,428	756,065	10.6%	-356,065	63,935	820,000	\$0.70	-	\$0.70
Stanislaus County	43,123,443	2,851,819	6.6%	-297,990	-1,092,991	820,000	\$0.66	\$0.65	\$0.66
TOTAL	174,046,855	17,690,079	10.2%	-1,892,208	-2,453,550	2,636,090	\$0.71	\$0.69	\$0.71

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

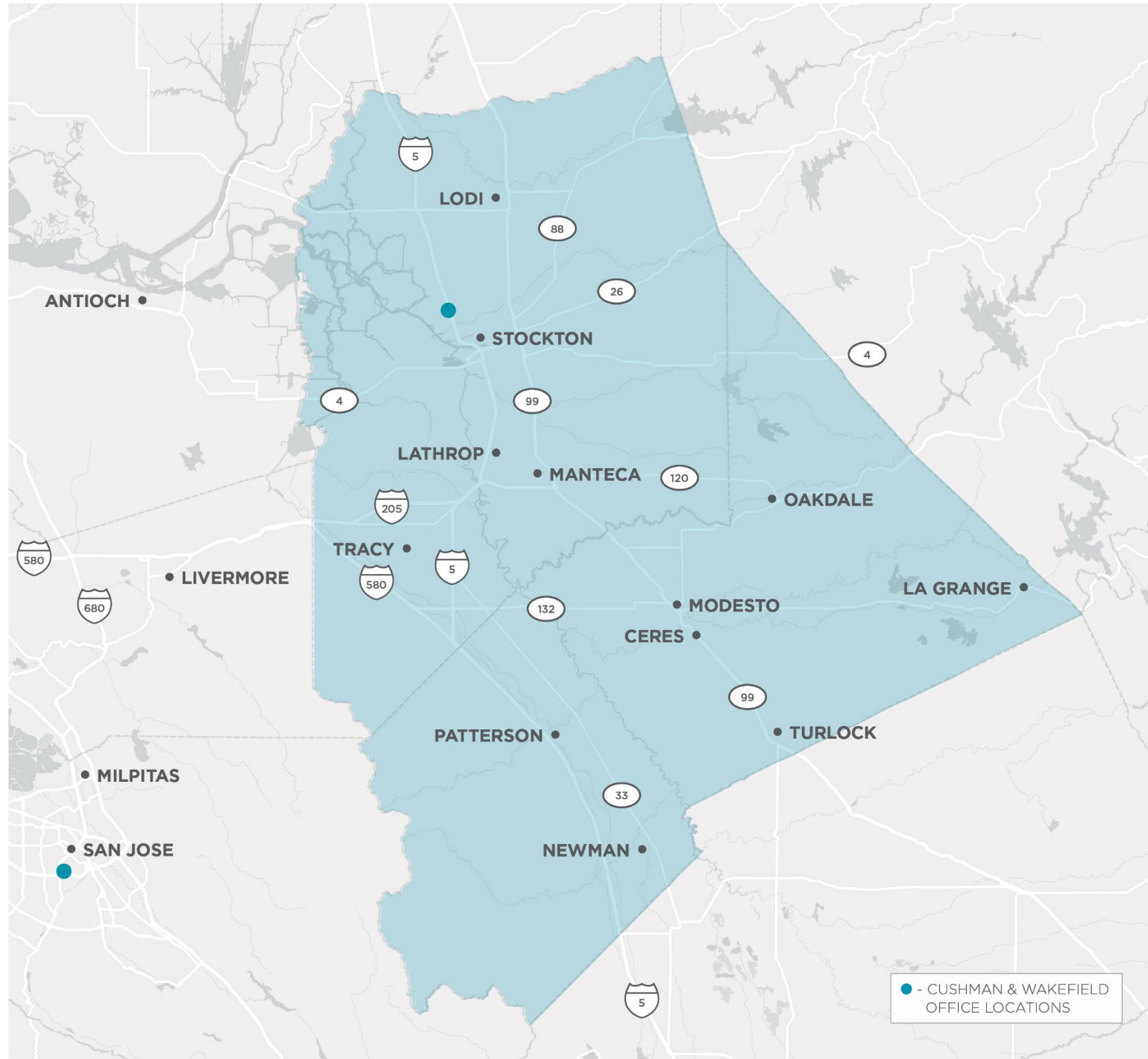
KEY LEASE TRANSACTIONS Q3 2025

PROPERTY	SUBMARKET	TENANT	RSF	TYPE
6440 E. Mariposa Road	Stockton	Confidential	922,894	New Lease
1015 Performance Drive	Stockton	Coastal Pacific Food Distributors	500,004	Renewal
1150 E. Arbor Road	Tracy	Tesla	344,654	New Lease
25201-25315 S. Schulte Road	Tracy	Kelly Spicers	158,980	New Lease
1505 Tillie Lewis Drive	Stockton	RTS Packaging	91,556	Renewal

KEY SALES TRANSACTIONS Q3 2025

PROPERTY	SUBMARKET	SELLER / BUYER	RSF	PRICE/\$ PSF
2900 N. MacArthur Drive	Tracy	Prologis, Inc. / LBA Realty	283,712	\$42.4M / \$149
834 Performance Drive	Stockton	LS Auto Mall Development, Inc. / Southern Tire Mart	165,474	\$24.4M / \$148
500 F Street	Turlock	Foster Farms / Ccbp Holdings LLC	144,800	\$11.8M / \$81

INDUSTRIAL SUBMARKETS



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