MARKETBEAT
CENTRAL VALLEY
INDUSTRIAL Q2 2025

CUSHMAN & WAKEFIELD

MARKET FUNDAMENTALS

	YOY Chg	Outlook
8.8% Vacancy Rate	▲	▲
631K Net Absorption, SF	▼	▼
$0.70 Asking Rent, PSF	▼	—

(Overall, Net Asking Rent)

ECONOMIC INDICATORS

	YOY Chg	Outlook
476.3K Central Valley Employment	▲	▲
6.7% Central Valley Unemployment Rate	—	▲
4.2% U.S. Unemployment Rate	▲	▲

Source:BLS

ECONOMY: HEADWINDS SLOWING GROWTH

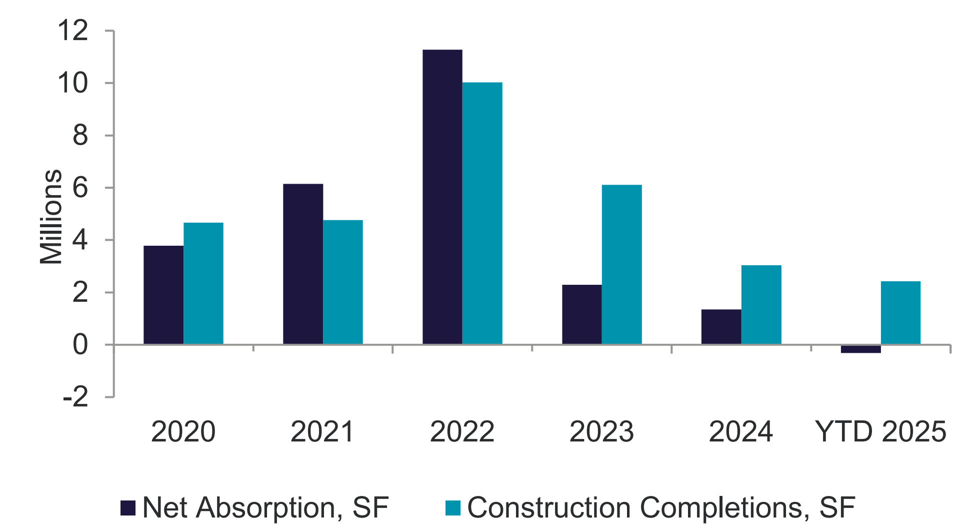
The Central Valley, encompassing San Joaquin and Stanislaus counties added 9,500 jobs year-over-year (YOY), bringing regional employment to 476,300 non-farm positions. Industrial employment was a bright spot in the region with YOY growth in the manufacturing, transportation, and warehousing sectors. 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 in the past year as elevated interest rates, fuel costs, and global supply chain issues have created major headwinds for the market's diverse tenant base.

DEMAND: LARGE TENANTS RETURN IN Q2

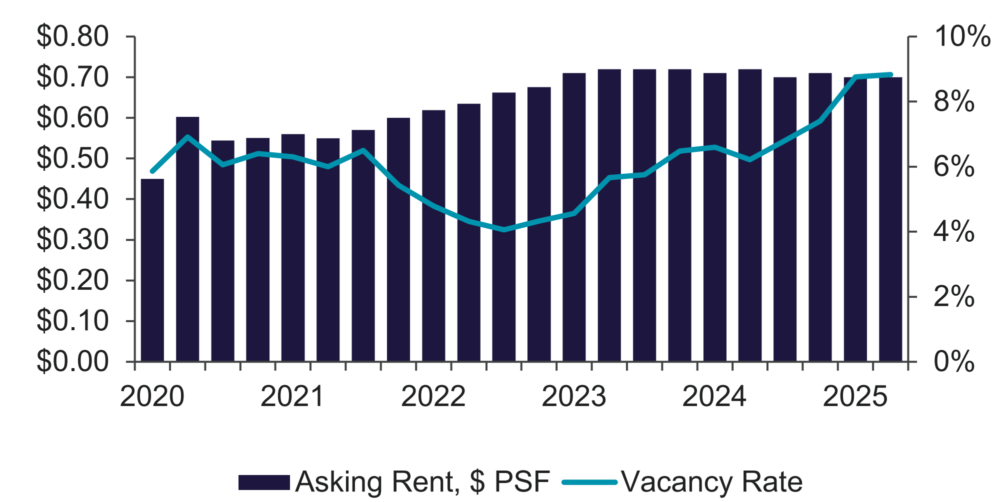
Leasing activity accelerated dramatically in the second quarter with over 4.3 million square feet (msf) in activity, up over 60% YOY and more than double the prior quarter. The largest new lease of the quarter was signed by PepsiCo. for an approximately 1.7-msf build-to-suit (BTS) distribution facility in Prologis' International Park of Commerce in Tracy. This new lease marks significant growth for Pepsi in the region; however, this project also means a consolidation of some existing facilities, a fact that may add to vacancy in other submarkets when they take possession. New leases for build-to-suit projects have grown in frequency over the past 12 months, at times, undercutting demand for the growing vacancy in existing inventory. These BTS leases were not exclusive to large tenants either; this quarter Frito-Lay signed a lease for a 200,000-sf BTS in Modesto and Sprouts inked a 175,906-sf BTS in Tracy. The choice to sign a BTS, rather than take one of the many existing vacancies in the region, shows the degree to which tenants of all sizes are putting quality and unique specifications above all else. In addition to the significant BTS activity, a new lease was executed on Buzz Oates' 506,000-sf warehouse at 6868 Arch Road in Stockton, another example of large tenants driving demand in the region.

Sales activity continued to gain momentum through the first half of the year, with many investors bullish on the region. In the largest transaction of the quarter, CenterPoint Properties sold a 2.0-msf, four-warehouse portfolio in Manteca to EQT Real Estate for $264.0 million. The portfolio was 100% leased at the time of sale. Also of note was Dermody's purchase of 5120 Glacier Street in Lathrop from BGO. The 1.1-msf distribution center sold for $145.2 million and was fully leased to Wayfair. Leased investments have drawn significant investor interest this year, but few investors appear ready to acquire any large-scale facilities with vacancy, given the recent softening in demand.

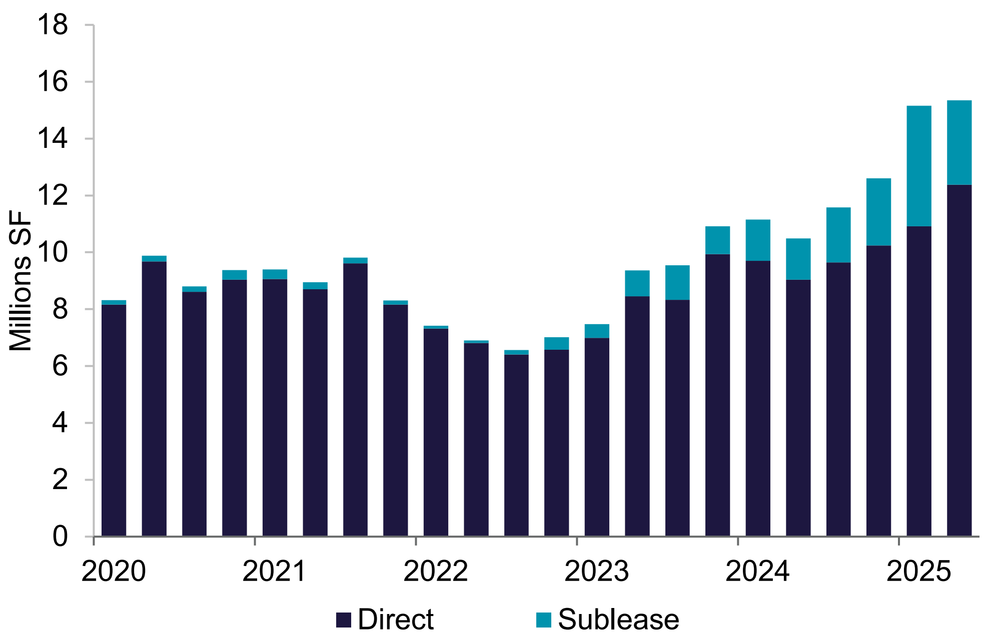
SPACE DEMAND / DELIVERIES



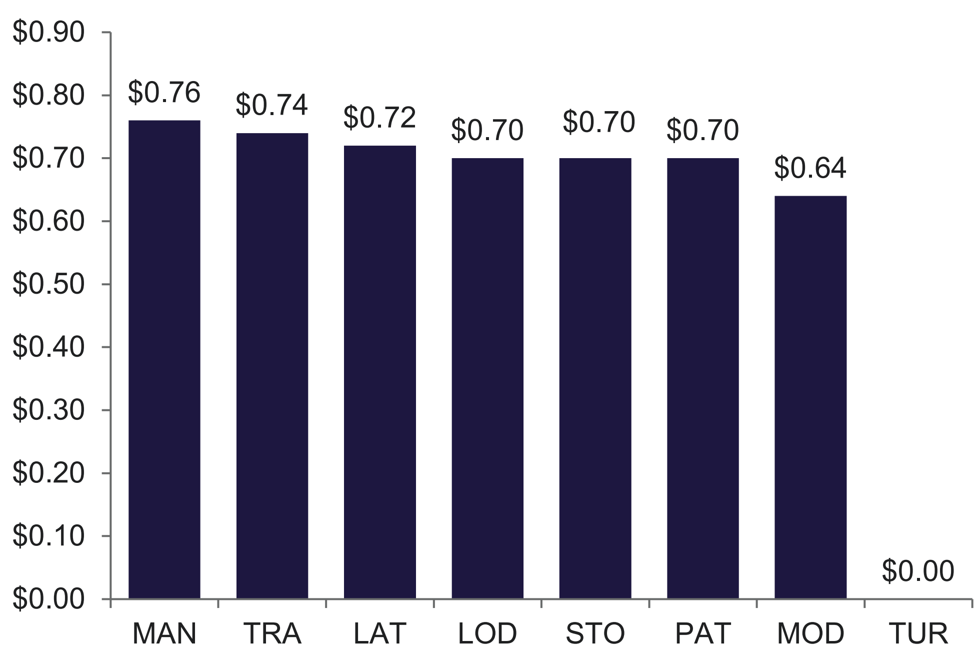
OVERALL VACANCY & ASKING RENT



DIRECT AND SUBLEASE AVAILABLE SPACE



OVERALL ASKING RATE BY SUBMARKET (NNN)



SUPPLY: BIG TENANTS HIDE SOFTNESS

The vacancy rate for the Central Valley industrial market was 8.8% at the close of the second quarter, approximately level with the prior quarter but up 260 basis points (bps) YOY. Net absorption regained some momentum in the second quarter, recording 631,238 sf of positive absorption. This is a major change from the prior two quarters, which each saw occupancy declines of nearly 1.0 msf. Driving positive absorption was the occupancy of Building 1 at Airpark 599 in Stockton, a 1.4-msf distribution facility that delivered in the first quarter as a full-building sublease opportunity. The property was subleased and occupied this quarter by CJ Logistics, removing the largest existing vacancy from the market. This one transaction offset modest rises in vacancy across the region's other submarkets as Lodi, Lathrop, Tracy, and Modesto each recorded more than 100,000 sf of negative absorption. Sublease vacancy will continue to play a major role in the near term, as two large occupiers announced facility closures in the region, whose spaces will hit the market in the coming quarters. This quarter perfectly illustrated a bifurcation in demand that has been occurring over the past several quarters. Northern California's largest tenants have flocked to the Central Valley, leasing and absorbing millions of square feet, leaving just five vacancies over 500,000 sf in the current quarter. At the same time, demand has softened dramatically for the mid-size tenants that had long made up the bulk of activity in the region. Looking ahead, demand has to accelerate across size ranges for the market to continue to see a meaningful decline in vacancy.

PRICING: RATES HOLD NEAR RECORD HIGH, CONCESSIONS RISING

The overall asking rate for Central Valley industrial closed the second quarter at $0.70 psf on a monthly triple-net basis. This was level with the prior quarter and down just $0.02 psf YOY. Manteca had the region's highest asking rate of $0.76 psf, the result of both the limited quantity and high quality of availabilities 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

Deliveries slowed in the second quarter with just one new property delivered. Construction was completed on Safavieh's new 820,000-sf BTS property in Patterson. Safavieh occupied just over half of the space, with 400,000 sf available for lease within the building. There was an additional 3.2 msf under construction at the close of the quarter. Build-to suit properties make up virtually all of the remaining pipeline, including 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. The pipeline for speculative product remains thin into 2026, as many developers wait for the cost of capital to fall and to see how tenants absorb the current 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	468,354	4.7%	-225,834	-225,834	0	-	$0.70	$0.70
Stockton	58,712,829	7,612,853	13.0%	1,028,466	1,020,434	1,609,065	$0.71	$0.54	$0.70
Lathrop	19,477,298	2,151,397	11.0%	-145,229	-360,789	0	$0.72	$0.60	$0.72
Tracy	37,002,566	2,386,590	6.4%	-125,919	185,155	0	$0.74	$0.74	$0.74
Manteca	5,666,265	381,534	6.7%	-49,769	-141,993	0	$0.76	$0.75	$0.76
San Joaquin County	**130,923,412**	**13,000,728**	**9.9%**	**481,715**	**476,973**	**1,609,065**	**$0.72**	**$0.67**	**$0.71**
Modesto	30,713,075	1,946,804	6.3%	-270,477	-1,215,001	0	$0.64	$0.65	$0.64
Turlock	5,096,915	0	0.0%	0	0	0	-	-	-
Patterson	7,106,428	400,000	5.6%	420,000	420,000	820,000	$0.70	-	$0.70
Stanislaus County	**42,916,418**	**2,346,804**	**5.5%**	**149,523**	**-795,001**	**820,000**	**$0.65**	**$0.65**	**$0.65**
TOTAL	**173,839,830**	**15,347,532**	**8.8%**	**631,238**	**-318,028**	**2,429,065**	**$0.71**	**$0.67**	**$0.70**

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

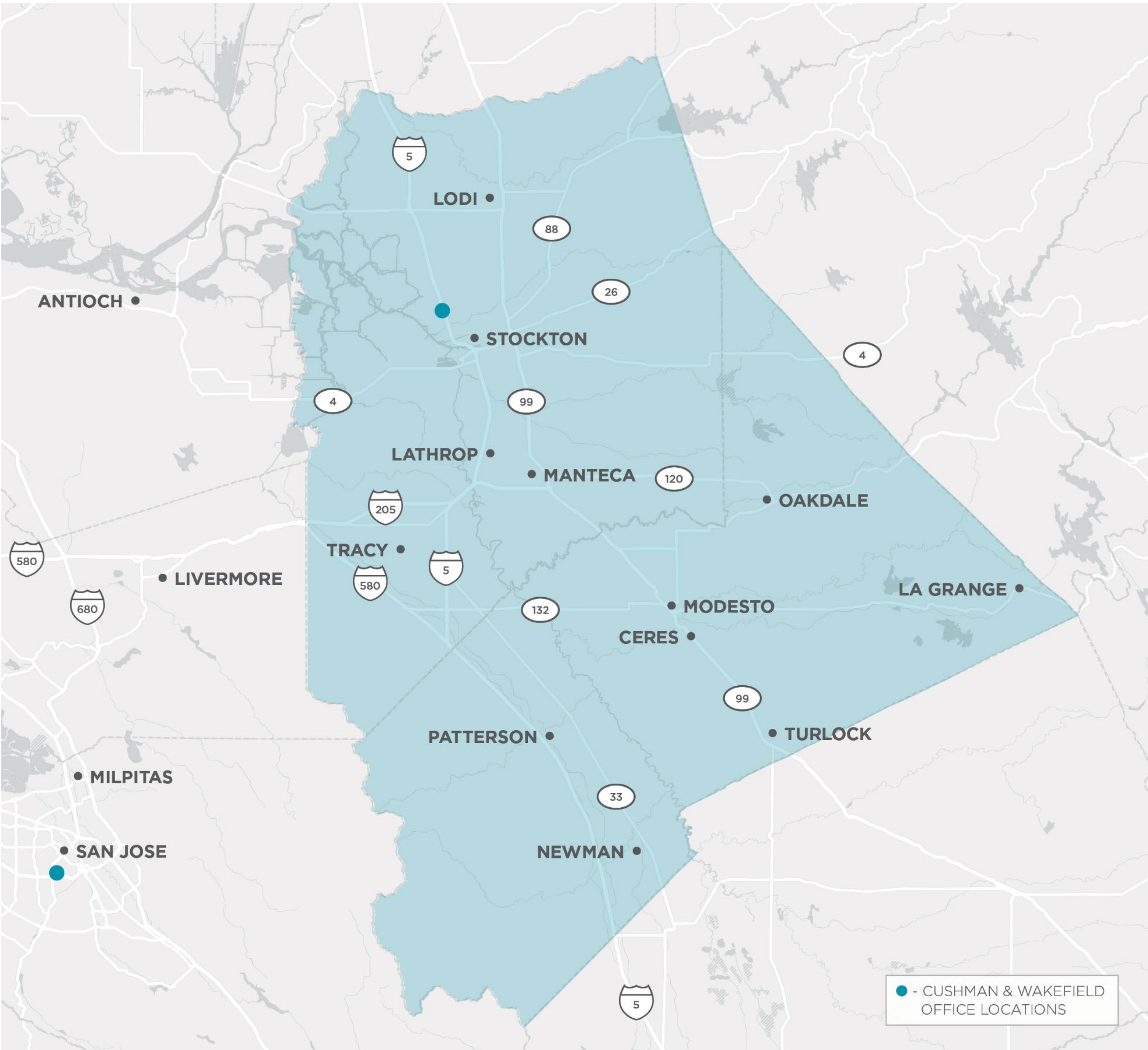
KEY LEASE TRANSACTIONS Q2 2025

PROPERTY	SUBMARKET	TENANT	RSF	TYPE
International Park of Commerce – BTS	Tracy	PepsiCo.	1,700,000	New Lease
Airpark 599 – Building 1	Stockton	CJ Logistics	1,391,610	Sublease
6868 Arch Road	Stockton	Confidential	506,844	New Lease
1200 Graphics Drive – BTS	Modesto	Frito-Lay	200,000	New Lease
International Park of Commerce –BTS	Tracy	Sprouts	175,906	New Lease

KEY SALES TRANSACTIONS Q2 2025

PROPERTY	SUBMARKET	SELLER / BUYER	RSF	PRICE/$ PSF
2226 Roth Rd, 3201-3565 N Airport, & 2365 S. Airport	Manteca	CenterPoint Properties / EQT Real Estate	2,041,772	$264.0M / $129
5120 Glacier Street	Lathrop	BGO / Dermody	1,135,653	$145.2M / $128
2518 Boeing Way	Stockton	Quest Industries / Buzz Oates	58,625	$6.8M / $116

INDUSTRIAL SUBMARKETS



WESCOTT OWEN
Research Manager
Tel: +1 415 451 2418
Wescott.Owen@cushwake.com

ALEXANDER BRANDT
Research Analyst
Tel: +1 510 267 6096
Alexander.Brandt@cushwake.com

CUSHMAN & WAKEFIELD
555 12th St
Suite 100
Oakland, CA 94607

A CUSHMAN & WAKEFIELD RESEARCH PUBLICATION

Cushman & Wakefield (NYSE: CWK) is a leading global commercial real estate services firm for property owners and occupiers with approximately 52,000 employees in nearly 400 offices and 60 countries. In 2024, the firm reported revenue of $9.4 billion across its core service lines of Services, Leasing, Capital markets, and Valuation and other. Built around the belief that Better never settles, the firm receives numerous industry and business accolades for its award-winning culture. For additional information, visit www.cushmanwakefield.com.