MARKETBEAT
CENTRAL VALLEY
INDUSTRIAL Q1 2025

CUSHMAN & WAKEFIELD

MARKET FUNDAMENTALS

	YOY Chg	Outlook
8.8% Vacancy Rate	▲	▲
-1.1M Net Absorption, SF	▼	▲
$0.70 Asking Rent, PSF	▼	▬

(Overall, Net Asking Rent)

ECONOMIC INDICATORS

	YOY Chg	Outlook
477.1K Central Valley Employment	▲	▲
6.6% Central Valley Unemployment Rate	▼	▲
4.1% U.S. Unemployment Rate	▲	▲

Source:BLS

ECONOMY: HEADWINDS SLOWING GROWTH

The Central Valley, encompassing San Joaquin and Stanislaus counties added 10,100 jobs year-over-year (YOY), bringing regional employment to 477,100 non-farm positions. This coincided with a modest decline in the unemployment rate, finishing the first quarter at 6.6%. Over the past few years, 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 weakened in the past several quarters as elevated interest rates, fuel costs, and global supply chain issues have created major headwinds for the market's diverse tenant base.

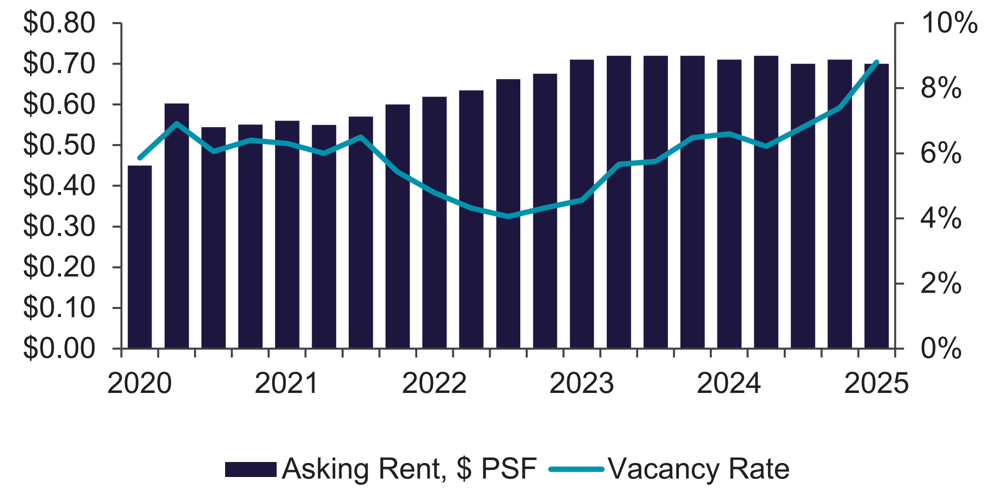
SUPPLY: SUBLEASES CREEP HIGHER

The vacancy rate in the Central Valley industrial market was 8.8% at the close of the first quarter, up 220 basis points (bps) YOY as net absorption fell into the red for the second consecutive quarter. Net absorption in the first quarter was negative 1.1 million square feet (msf), driven in large part by new vacancies in the submarket of Modesto. A historically tight market, vacancy in Modesto jumped 310 bps to 5.5% in the first quarter as a flurry of new vacancies led to over 900,000 sf of negative absorption. In San Joaquin County, the occupancy loss was more modest across submarkets with Stockton, Lathrop and Manteca each recording approximately 100,000-200,000 sf of negative absorption. The largest single contributing factor to new vacancy this quarter was the delivery of new construction, with over 1.6 msf delivered. While vacant new construction does not count as negative absorption, it places significant upward pressure on vacancy. In Stockton, work was completed on Building 1 of Catellus' Airpark 599, a 1.4 msf distribution facility, which finally received permanent power. The property, developed as a build-to-suit (bts), will no longer be occupied by the intended tenant and has hit the market as sublease space. Sublease vacancy has risen for 10 of the past 11 quarters, reaching 4.2 msf in the first quarter. This has more than doubled YOY and accounts for 27.8% of total vacancy in the market. The vacancy rate on a direct basis was 6.4% at the close of the quarter.

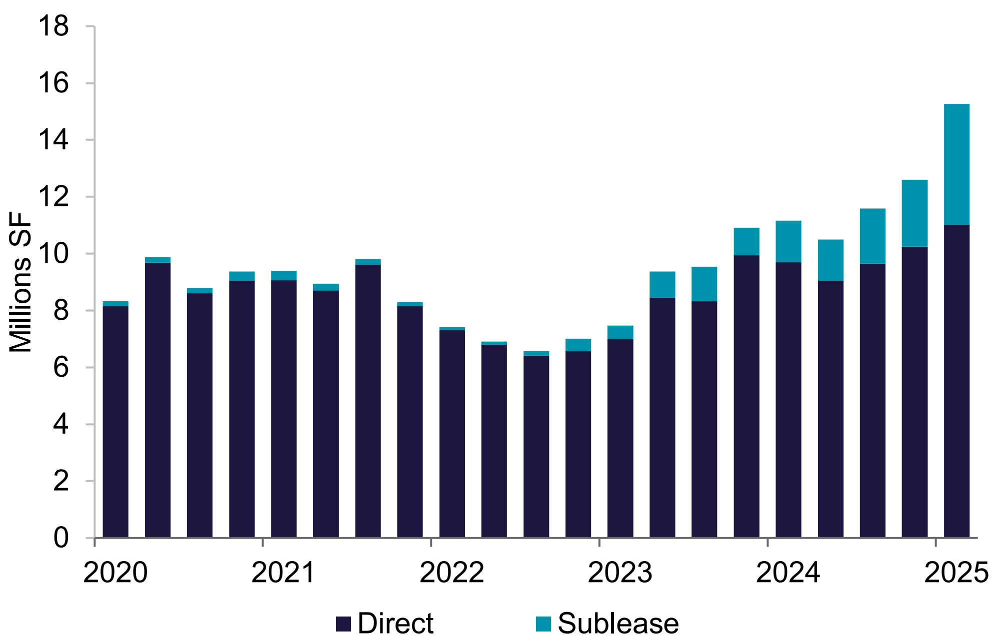
Last year was a tale of two markets in the Central Valley, one for tenants over 500,000 sf and one for those under. Northern California's largest tenants continued to flock to the Central Valley, leasing and absorbing millions of square feet, leaving just seven vacancies over 500,000 sf in the current quarter. Conversely, the market has continued to soften dramatically for the mid-size tenants that had long made up the bulk of activity in the region. At the end of the first quarter, there were approximately 33 vacancies between 100,000-200,000 sf, with options also growing in the 200,000-500,000-sf range.

SPACE DEMAND / DELIVERIES

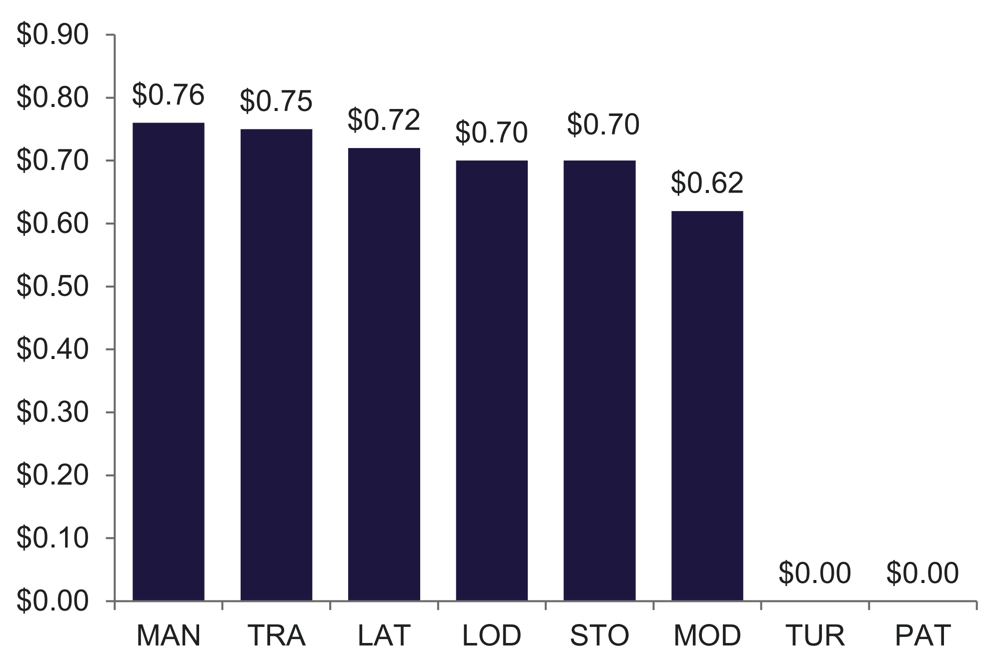
OVERALL VACANCY & ASKING RENT



DIRECT AND SUBLEASE AVAILABLE SPACE



OVERALL ASKING RATE BY SUBMARKET (NNN)



DEMAND: LARGE TENANTS QUIET IN Q1

Leasing activity slowed dramatically in the first quarter, down nearly 50% from both the prior quarter and YOY to just 1.9 msf. Three of the four largest leases this quarter were renewals, accounting for over 1.2 msf of transactions. For much of the past year, leasing activity was buoyed by a handful of +1.0-msf leases, at times masking an underlying lack of leasing volume. The largest new lease of the quarter was signed by Costco for 403,560 sf in Prologis' International Park of Commerce in Tracy. Largely absent from transaction activity this quarter were new deals in the previously mentioned mid-size segment of the tenant market. While national retailers and large e-commerce companies have grown, smaller tenants appear to have been the most impacted by the cost of capital and cracks in the supply chain, making them very cautious in taking new space. Another important note is that some companies may be digesting the space they took earlier in the pandemic. A surge in demand and limited supply led to record breaking leasing activity, as tenants fought for space in the years after 2020. This pulled demand forward and has now created a lull as companies expand into existing space, rather than taking more. With that said, the last few weeks of the quarter saw an increase of tenants in the market, with inquiries and tour activity gaining momentum. This will hopefully translate to increased activity later in the year.

Sales activity has maintained its momentum into 2025 with many investors still bullish on the region. The largest sale of the quarter was 18300 Harlan Road in Lathrop, a 935,120-sf distribution center, fully leased by The Home Depot. Kin Properties purchased the property from CenterPoint Properties for $85.0M or $91 per square foot (psf). Owner-Users were also active in the region with Estes Express Lines purchasing 1535 E. Pescadero Avenue, a 164,633-sf truck terminal from YRC Freight as part of a multi-market portfolio.

OUTLOOK

- Rent growth is expected to slow, particularly on existing inventory. New construction may continue to place some upward pressure on asking rates.
- Near term, vacancy will rise further due to a broader weakening of tenant demand. 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.

PRICING: RATES HOLD NEAR RECORD HIGH, CONCESSIONS RISING

The overall asking rate for Central Valley industrial closed the first quarter at $0.70 psf on a monthly triple-net basis. This was down just $0.01 psf from both the prior quarter and 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 ticked back up in the first quarter, with 1.6 msf delivered. Among new deliveries were the previously mentioned 1.4-msf Airpark 599 and Buzz Oates' two speculative warehouses on Boeing Way, totaling 217,455 sf. There was an additional 2.8 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 Prologis broke ground on this quarter. The pipeline for speculative product remains thin into 2026 as developers wait for the cost of capital to fall and to see how tenants absorb the current cycle.

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	242,520	2.4%	0	0	0	-	$0.70	$0.70
Stockton	58,712,829	8,747,183	14.9%	-113,896	-113,896	1,609,065	$0.70	$0.53	$0.70
Lathrop	19,477,298	2,006,168	10.3%	-215,560	-215,560	0	$0.72	$0.60	$0.72
Tracy	37,002,566	1,843,676	6.1%	311,074	311,074	0	$0.76	$0.73	$0.75
Manteca	5,666,265	331,765	5.9%	-92,224	-92,224	0	$0.76	$0.75	$0.76
San Joaquin County	**130,923,412**	**13,588,307**	**10.4%**	**-110,606**	**-110,606**	**1,609,065**	**$0.71**	**$0.69**	**$0.71**
Modesto	30,713,075	1,676,327	5.5%	-944,524	-944,524	0	$0.61	$0.65	$0.62
Turlock	5,096,915	0	0.0%	0	0	0	-	-	-
Patterson	6,286,428	0	0.0%	0	0	0	-	-	-
Stanislaus County	**42,096,418**	**1,676,327**	**4.0%**	**-944,524**	**-944,524**	**0**	**$0.61**	**$0.65**	**$0.62**
TOTAL	**173,019,830**	**15,264,634**	**8.8%**	**-1,055,130**	**-1,055,130**	**1,609,065**	**$0.70**	**$0.69**	**$0.70**

*Rental rates reflect weighted net asking $psf/year
*These values not reflective of the U.S. MarketBeat Tables

KEY LEASE TRANSACTIONS Q1 2025

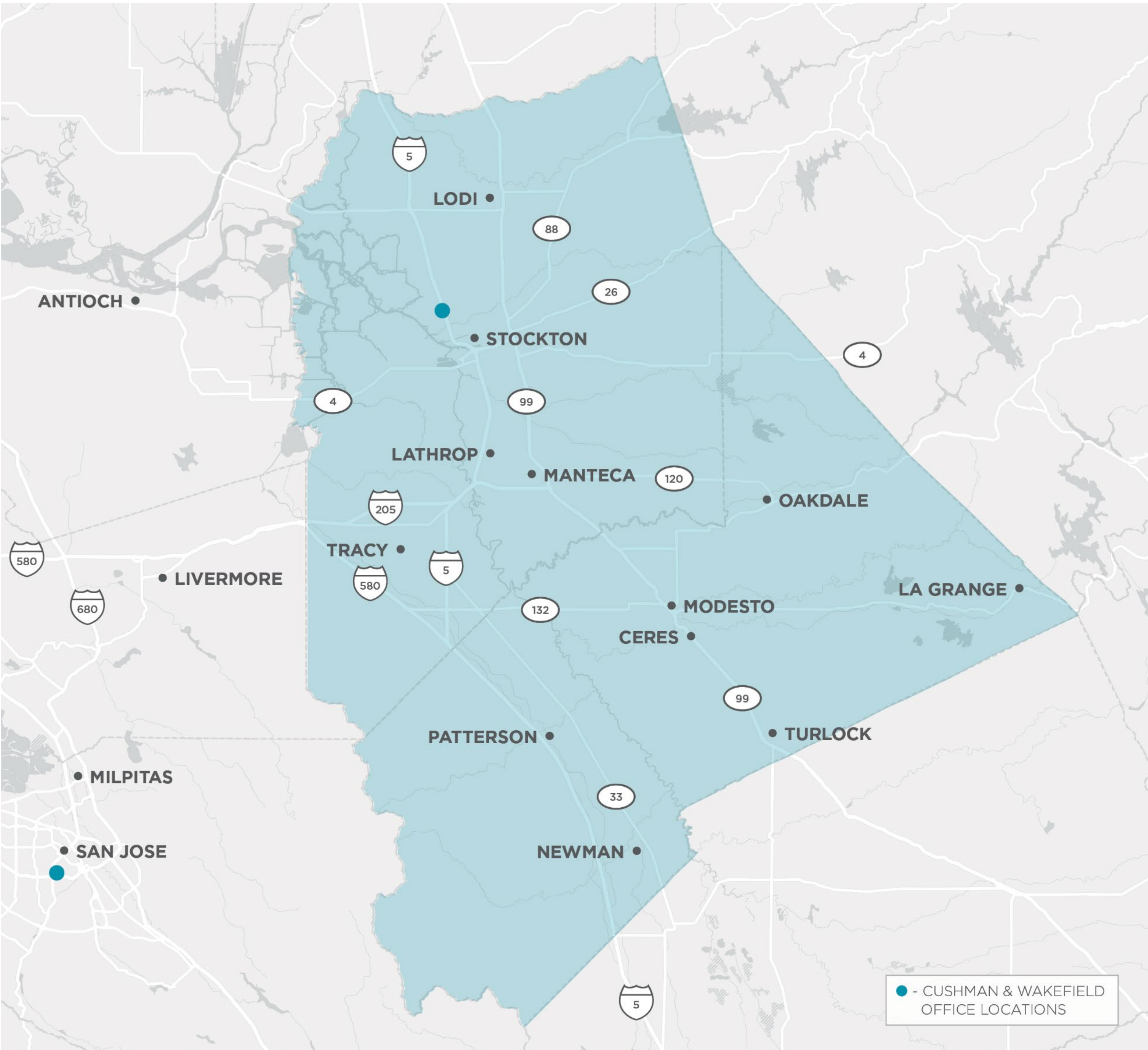
PROPERTY	SUBMARKET	TENANT	RSF	TYPE
25451 International Parkway	Tracy	Melissa & Doug	616,700	Renewal
4650 Newcastle Road	Stockton	KeHe Distribution	453,500	Renewal
6389 Hopkins Road	Tracy	Costco	403,560	New Lease
4747 Frontier Way	Stockton	Southwest Traders	150,000	Renewal
1627 Army Court	Stockton	Zad Services	67,500	New Lease

*Renewals not included in leasing statistics

KEY SALES TRANSACTIONS Q1 2025

PROPERTY	SUBMARKET	SELLER / BUYER	RSF	PRICE/$ PSF
18100-18300 Harlan Road	Lathrop	CenterPoint Properties / Kin Properties	935,120	$85.0M / $91
301 9th Street	Modesto	Cable Family / Graceada Partners	182,547	$11.0M / $60
1535 E. Pescadero Avenue (Part of Multi-Market Portfolio)	Tracy	YRC Worldwide Inc. / Estes Express Lines	164,633	$28.5M / $173
1001 Reno Avenue	Modesto	2004 Diane Pierson Revocable Trust / 1001 Reno Ave LLC	32,356	$3.8M / $117

INDUSTRIAL SUBMARKETS



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