MARKETBEAT

CENTRAL VALLEY

Industrial Q1 2024

	YoY Chg	12-Mo. Forecast
6.7% Vacancy Rate		
-6K Net Absorption, SF		
$0.70 Asking Rent, PSF		

Overall, Net Asking Rent

ECONOMIC INDICATORS Q1 2024

	YoY Chg	12-Mo. Forecast
472.1K Central Valley Employment		
6.9% Central Valley Unemployment Rate		
3.8% U.S. Unemployment Rate		

Source: BLS, Moody's Analytics.
2024Q1 data are based on latest available data.

ECONOMY: Future Headwinds

The Central Valley, encompassing San Joaquin and Stanislaus counties, recorded an increase in employment, adding 12,800 jobs year-over-year (YOY), bringing regional employment to 472,100 non-farm positions. The country's largest industrial occupiers continued to look to the Central Valley where the combination of developable land, convenient logistics infrastructure, and proximity to major metros has created one of the hottest industrial markets in the country. However, while the region remains in demand, elevated interest rates, fuel costs, and global supply chain issues have presented headwinds for some of the tenants that have driven growth over the past three years.

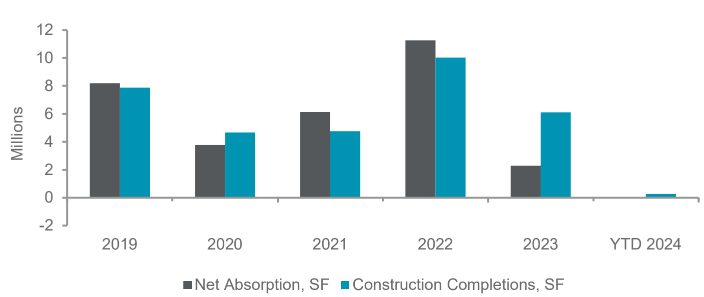
SUPPLY: Subleases Creep Higher

The vacancy rate in the Central Valley industrial market was 6.7% at the end of the first quarter, up a modest 20 basis points (bps) from the prior quarter as two large sublease spaces placed upward pressure on vacancy. Sublease space has been on the rise for four of the past five quarters, growing from 100,000 sf in early 2022 to 1.6 million square feet (msf) this quarter. While that number had started to trend down late last year, new subleases at 1909 Zephyr Street and 4650 Newcastle Road totaled 806,000 sf and overshadowed occupancy gains seen elsewhere in the market. On a direct basis, net absorption was positive 576,000 sf, the result of several notable tenant move-ins and the completion of Reyes Distribution's 280,983-sf build-to-suit facility in Manteca. Stockton, the region's largest submarket, saw vacancy rise to 12.0% this quarter as the two previously mentioned subleases hit the market, but that vacancy rate is set to drop in coming quarters as several large, recently leased spaces are absorbed. These new availabilities come as the submarket is continuing to absorb the approximately 3.2 msf of speculative new construction that delivered in 2023. Vacancy is expected to decline through the year as the current cycle of deliveries slows and tenants have an opportunity to absorb new space. Additionally, over 50% of space currently under construction is pre-leased, further mitigating the future effect of new deliveries on vacancy.

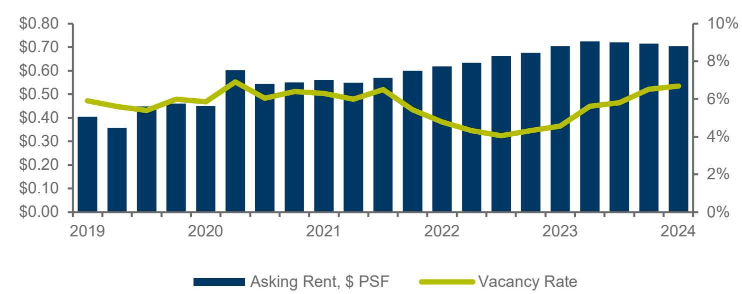
DEMAND: E-Commerce Drives Activity

Leasing activity was off to a strong start in 2024, with 3.6 msf of gross activity in the first quarter. Driving activity were two, new 1 million-square-foot leases, both signed by the same confidential e-commerce tenant. This level of new activity is a boon for the market, which had been driven by renewals for much of 2023. While renewals are a good sign of the region's largest occupiers solidifying their presence, it is new leases that drive positive absorption. The largest lease of the first quarter was signed by a confidential tenant for all 1,188,266 sf of IDI Logistics' Airpark 599 Building 4. Built in 2023, the facility was the largest speculative warehouse ever built in the Central Valley and once occupied in the coming quarters, will make a sizeable dent in vacancy.

SPACE DEMAND / DELIVERIES



OVERALL VACANCY & ASKING RENT



The second largest lease was signed by the same tenant for First Industrial's 1,015,791-sf warehouse, also located in the Stockton Airport submarket. Currently under construction, the property will represent significant positive absorption when delivered later this year. As the region continues to attract Northern California's largest tenants, there has been a noticeable drop in mid-size transactions, with fewer leases being signed from 100,000 to 200,000 sf. This has coincided with a dramatic rise in vacancy in this size range, with 30 available spaces in that segment of the market at the end of the first quarter.

Sales activity has yet to fully recover in the face of elevated interest rates, with just one transaction over 100,000 sf in the first quarter. A joint venture of DRA Advisors and Rising Realty Partners purchased a portfolio of industrial buildings from Blackstone, with five properties in Stockton and one in Tracy. The sale price was $65.5 million for the combined 531,308 sf or $123 per square foot (psf).

PRICING: Rates Hold Near Record High

The overall asking rate for Central Valley industrial closed the first quarter at $0.70 psf on a monthly triple-net basis. This is down just $0.02 from the prior quarter as the rise in sublease space put slight downward pressure on rates. On a direct basis, the asking rate closed the quarter at $0.73 psf. Tracy remained the region's most expensive submarket, as its proximity to the Bay Area and newer inventory have driven asking rates to $0.79 psf. Generally, rates are continuing to hold as a combination of new construction and years of elevated demand have allowed landlords to push pricing on existing inventory. Across submarkets, the region has recorded robust rental growth since the start of the pandemic, yet it still remains a relative discount when compared to neighboring markets such as East Bay Oakland, where the average asking rate was $1.37 psf in the first quarter. The rising quality of inventory is expected to keep placing upward pressure on rents; however, the rate of growth may slow as it adjusts to the rise in vacancy.

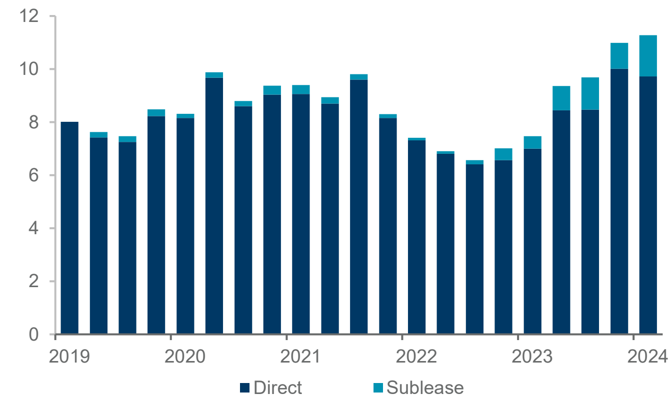
CONSTRUCTION: Building Out the Central Valley

Deliveries slowed briefly in the first quarter with just one property completed, Reyes Distribution's 280,983-sf build-to-suit in Manteca, but the pace of deliveries will pick up through 2024 with 5.2 msf still under construction. Of this, 54.3% is pre-leased, a factor that will help drive absorption in 2024. Ground breakings have started to slow as developers wait both to see how tenants absorb the current cycle and for the cost of capital to fall. Despite making up less of the pipeline, speculative construction will continue to place upward pressure on vacancy. However, this pressure is expected to be short lived, as tenants look for the elevated clear heights, high dock door ratios, and generous truck courts only found in newer inventory.

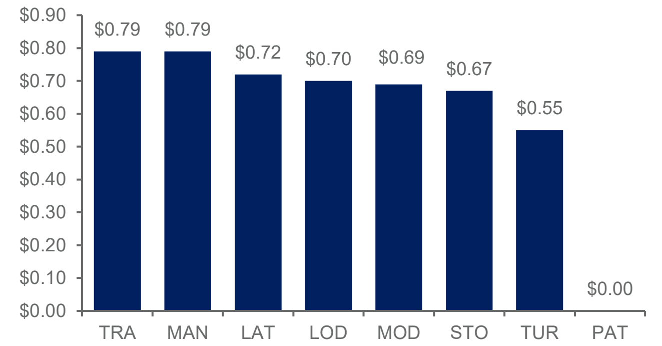
Outlook

- Rental growth is expected to slow but continue, as new construction places upward pressure on asking rates.
- Vacancy will rise with new deliveries, but net absorption is expected to remain positive as large occupiers look to the region for new inventory.
- Construction starts will remain muted in the short term, with the exception of build-to-suit properties

DIRECT AND SUBLEASE AVAILABLE SPACE



OVERALL AVERAGE ASKING RATE BY SUBMARKET (NNN)



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	91,016	0.9%	-32,154	-32,154	0	-	$0.70	$0.70
Stockton	55,011,686	6,621,284	12.0%	-677,026	-677,026	0	$0.67	$0.80	$0.67
Lathrop	19,477,298	1,767,953	9.1%	173,261	173,261	0	$0.72	$0.60	$0.72
Tracy	37,002,566	2,194,666	5.9%	267,445	267,445	0	$0.81	$0.76	$0.79
Manteca	5,666,265	144,598	2.6%	148,769	148,769	280,983	$0.79	-	$0.79
San Joaquin County	**127,222,269**	**10,819,517**	**8.5%**	**-119,705**	**-119,705**	**280,983**	**$0.70**	**$0.76**	**$0.71**
Modesto	30,045,950	398,263	1.3%	0	0	0	$0.72	$0.63	$0.69
Turlock	5,096,915	57,000	1.1%	0	0	0	-	$0.55	$0.55
Patterson	6,286,428	0	0.0%	113,550	113,550	0	-	$0.60	$0.60
Stanislaus County	**41,429,293**	**455,263**	**1.1%**	**113,550**	**113,550**	**0**	**$0.72**	**$0.60**	**$0.68**
TOTAL	**168,651,562**	**11,274,780**	**6.7%**	**-6,155**	**-6,155**	**280,983**	**$0.70**	**$0.73**	**$0.70**

**Rental rates reflect weighted net asking $psf/month*
***Stats are not reflective of U.S. Overview Tables*

MF = Manufacturing W/D = Warehouse/Distribution

KEY LEASE TRANSACTIONS Q1 2024

PROPERTY	SUBMARKET	TENANT	RSF	TYPE
Airpark 599: Building 4 (2690 E. Arch Airport Road)	Stockton	Confidential	1,188,266	New Lease
6201 S. Newcastle Road	Stockton	Confidential	1,015,791	New Lease
4611 Newcastle Road	Stockton	Fox Head, Inc.	388,000	Renewal
1224 Kiernan Avenue	Modesto	Confidential	316,800	New Lease

KEY SALES TRANSACTIONS Q1 2024

PROPERTY	SUBMARKET	SELLER / BUYER	RSF	PRICE/$ PSF
Blackstone Portfolio (6 Properties)	Stockton & Tracy	Blackstone / DRA Advisors & Rising Realty Partners	531,308	$65.5M / $123
Aquas Industrial Center (3 Properties)	Modesto	Golden Valley Industries / CoPen Capital Management	65,904	$5.7M / $87
1925 El Pinal Drive	Stockton	Indo Holdings LLC / Bernal's Mobile Auto & Truck Repair	20,000	$2.5M / $125

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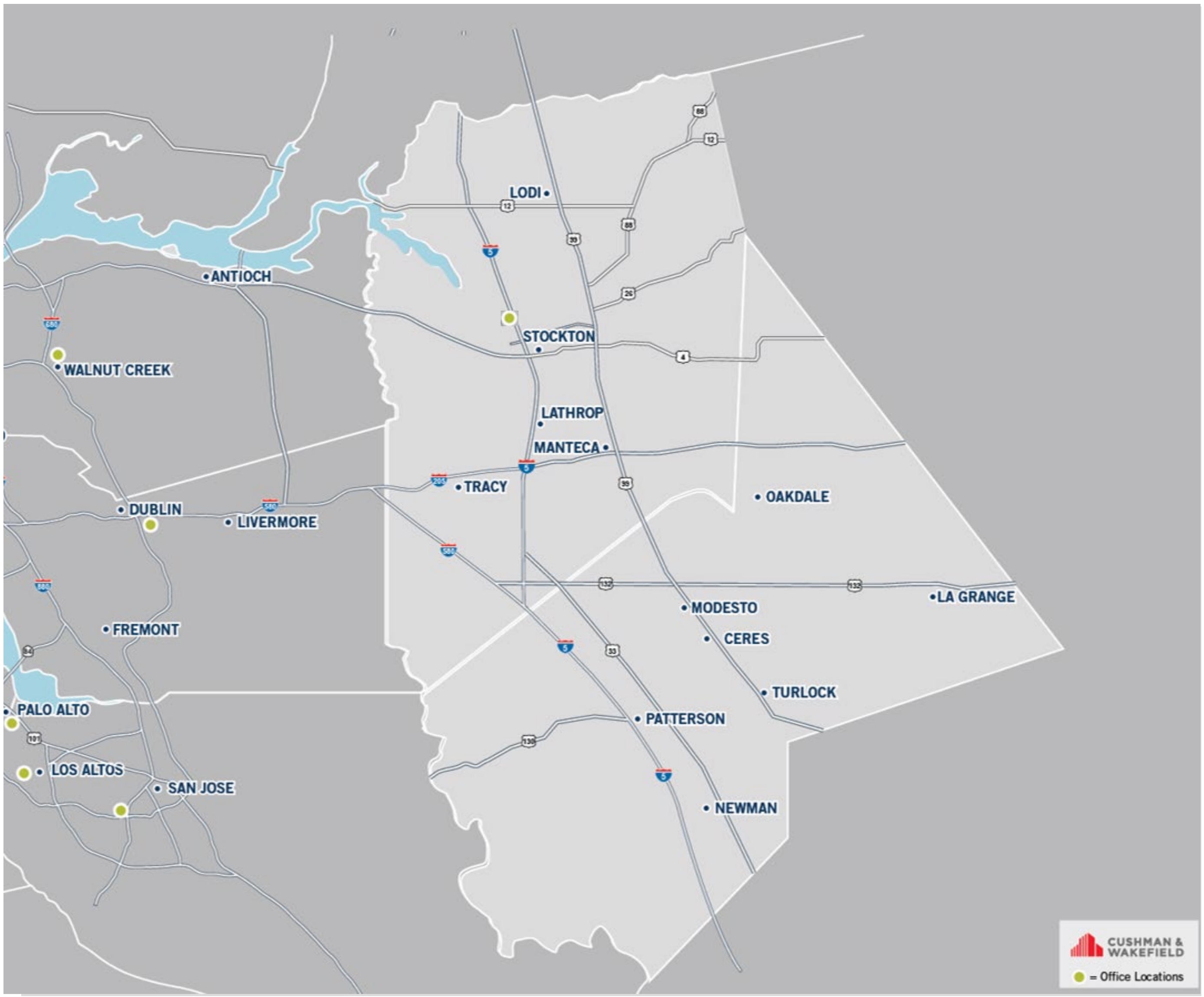
INDUSTRIAL SUBMARKETS



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