MARKETBEAT

CENTRAL VALLEY

INDUSTRIAL Q3 2024

CUSHMAN & WAKEFIELD

MARKET FUNDAMENTALS

	YOY Chg	12-Month Forecast
6.9% Vacancy Rate	▲	▲
1.2M Net Absorption, SF	▲	▲
$0.71 Asking Rent, PSF	▼	▬

(Overall, Net Asking Rent)

ECONOMIC INDICATORS

	YOY Chg	12-Month Forecast
480K Central Valley Employment	▲	▲
6.7% Central Valley Unemployment Rate	▲	▲
4.1% U.S. Unemployment Rate	▲	▼

Source:BLS

ECONOMY: FUTURE HEADWINDS

The Central Valley, encompassing San Joaquin and Stanislaus counties, recorded an increase in employment, adding 15,600 jobs year-over-year (YOY) and bringing regional employment to 480,000 non-farm positions. The country's largest industrial occupiers continue 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 strongest industrial markets in the country. However, elevated interest rates, fuel costs, and global supply chain issues have presented significant headwinds for the market's tenant base, weighing on demand.

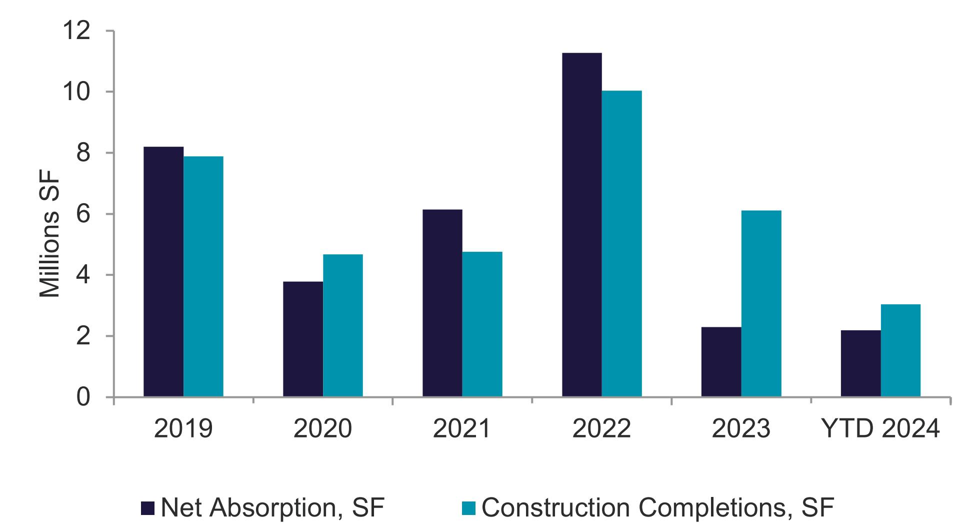
SUPPLY: SUBLEASES CREEP HIGHER

The vacancy rate in the Central Valley industrial market was 6.9% at the end of the third quarter, up 60 basis points (bps) from the prior quarter, as over 2.4 million square feet (msf) of new construction was completed. Fortunately, over half of this new space was pre-leased, softening its impact on vacancy and contributing to the 1.2 msf of positive net absorption recorded this quarter. The largest new delivery was First Industrial's 1.0-msf speculative warehouse in Stockton's Airport submarket. The property was pre-leased by a major e-commerce tenant that has leased a total of 2.5 msf in the Central Valley this year. Conor Commercial delivered a three-building, speculative development, adding 1.1 msf of new vacancy to the Stockton submarket. New construction helped push the vacancy rate in Stockton to 12.3% in the third quarter. While new projects continued to put upward pressure on vacancy, they have also drawn some of the region's largest leases and pushed year-to-date (YTD) net absorption in Stockton alone to over 1.0 msf. While large tenants and new inventory can cause drastic swings in absorption and vacancy, it is easy to overlook that since late 2023, there have been some cracks forming in broader tenant demand. Sublease space rose in eight of the past nine quarters, growing from 100,000 sf in early 2022 to 2.1 msf this quarter. Sublease space accounted for 18.2% of overall vacancy in the market, a sign that the challenges facing the region's tenant base are having an effect.

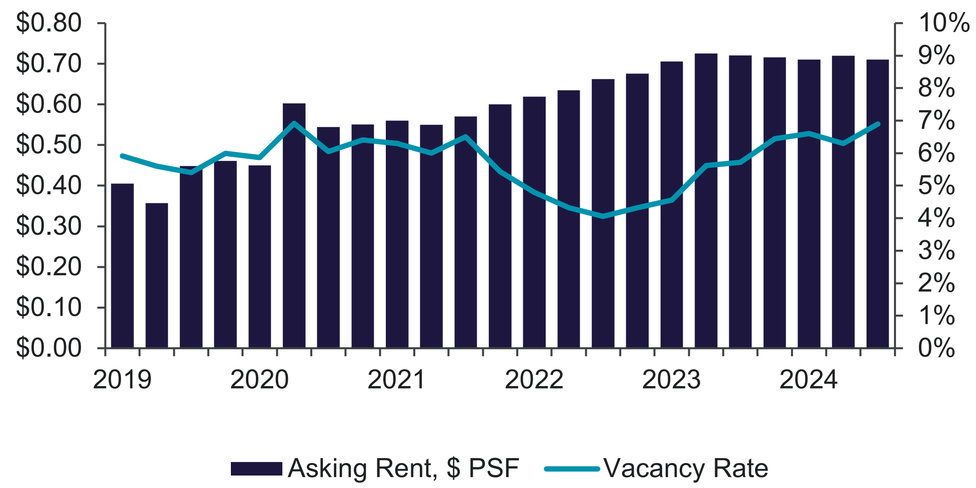
DEMAND: TENANTS PULLING BACK

Leasing activity totaled just over 1.5 msf in the third quarter, down from the prior quarter and just one third the level of activity from the same quarter last year. There are several factors weighing on demand across industrial sectors, from the cost of capital to cracks in the supply chain and as a result, tenants have been more cautious in taking new space.

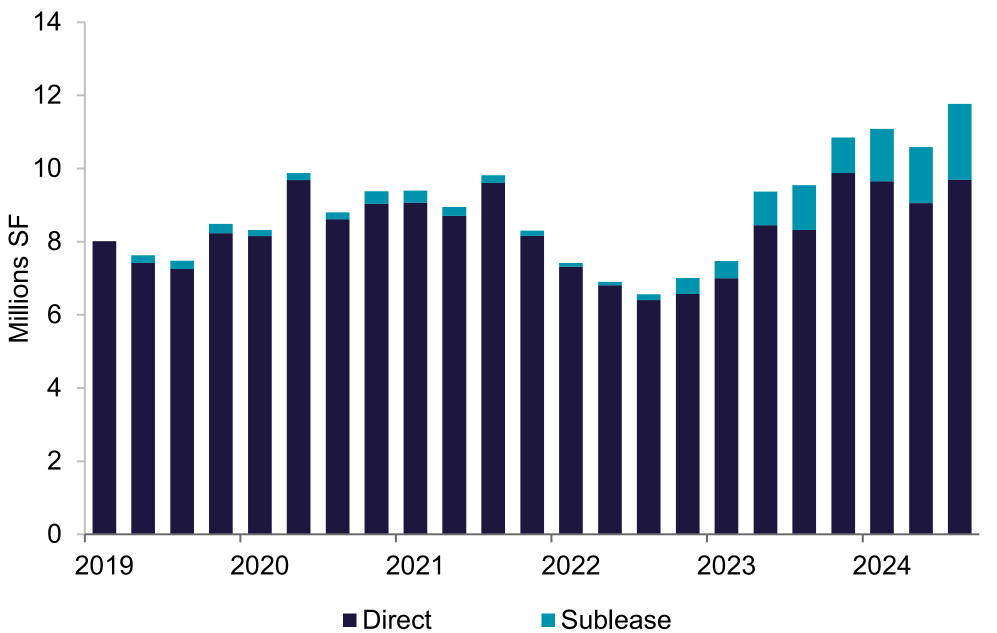
SPACE DEMAND / DELIVERIES



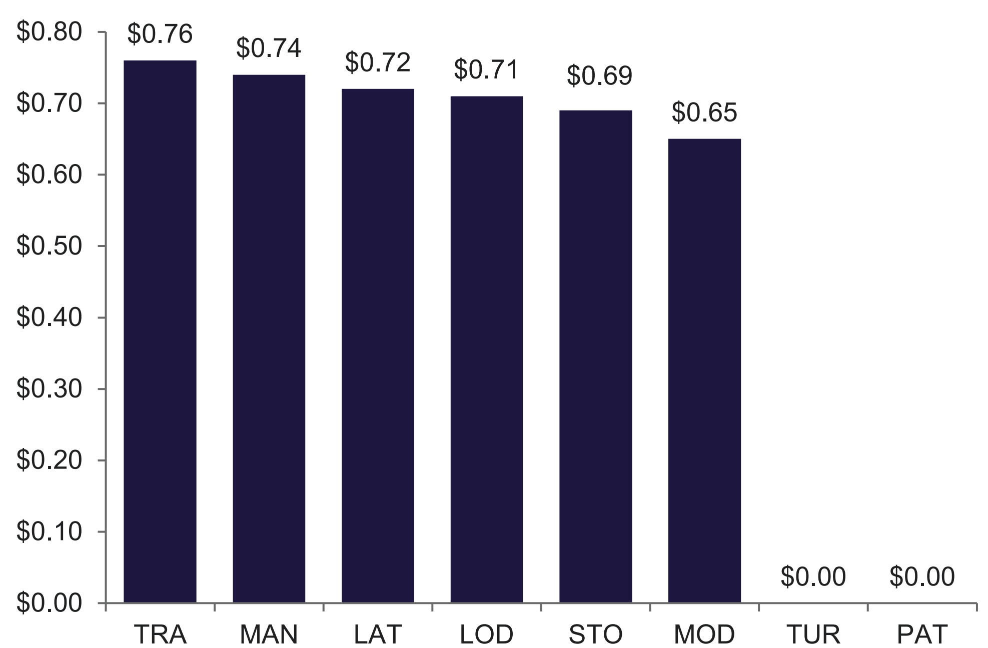
OVERALL VACANCY & ASKING RENT



DIRECT AND SUBLEASE AVAILABLE SPACE



OVERALL ASKING RATE BY SUBMARKET (NNN)



Another important note is that some companies are continuing to digest the space they took earlier in the pandemic. A surge in e-commerce and limited supply led to record breaking leasing activity, as tenants fought for space during that period. This pulled demand forward and has now created a lull as companies expand into existing space, rather than take more. Despite this slow down, leasing activity was on pace to match pre-pandemic levels on an annual basis. This quarter, there were several new leases over 100,000 sf, including Corrugated Supply Company for 350,000 sf at the newly constructed 504 E. Glenn in Modesto and Dollar Tree for 233,932 sf at 1919 Boeing Way. As the region has continued 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. Historically a healthy segment of the market, the drop in activity has coincided with a dramatic rise in vacancy. With approximately 30 available spaces in that size range, it will take an even greater surge in new activity to meaningfully bring down vacancy. Fortunately, active requirements have picked up significantly following the summer lull, which should lead to increased activity over the next few quarters.

Sales activity lost some of its momentum in the third quarter after several notable transactions in the second. Owner-users were the driving force behind activity this quarter with multiple transactions for properties between 15,000-50,000 sf. Of note was the sale of 4554 Qantas Lane in Stockton, a 47,346-sf warehouse that was purchased by Lawley's, an existing tenant, for $101 per square foot (psf).

OUTLOOK

- Rental growth is expected to slow, particularly on existing inventory. New construction may continue to place some upward pressure on asking rates.
- Vacancy will rise further due to new speculative supply, and a broader weakening of tenant demand. However, new, occupiers have the ability to buoy net absorption.
- Construction starts will remain muted in the short term, with the exception of build-to-suit properties.

PRICING: RATES HOLD NEAR RECORD HIGH, CONCESSIONS RISING

The overall asking rate for Central Valley industrial closed the third quarter at $0.71 psf on a monthly triple-net basis. This remained approximately level with the prior quarter and YOY. Tracy remained the region's most expensive submarket, as its proximity to the Bay Area and newer inventory have driven the asking rate to $0.76 psf. However, Tracy's asking rate has come down slightly from its peak of $0.79 psf last year. Across submarkets, the region had recorded robust rental growth since the start of the pandemic, yet it remained a relative discount when compared to neighboring markets like Oakland, where the average asking rate was $1.29 psf in the third quarter. Market rates have held as new construction continued to apply upward pressure, but in the face of rising vacancy, landlords that had been able to push pricing on existing inventory are seeing growth slow. For low quality inventory or spaces that have been sitting vacant, landlords may begin to soften on rates to land a tenant amidst weakened demand.

CONSTRUCTION: BUILDING OUT THE CENTRAL VALLEY

Deliveries accelerated in the third quarter, with five buildings completed for a total of 2.4 msf, bringing the YTD total to 3.0 msf. There was an additional 2.4 msf under construction at the close of the quarter. The pipeline, particularly for speculative product, will continue to thin into 2025 as ground breakings have slowed as developers wait for the cost of capital to fall and to see how tenants absorb the existing supply. Looking ahead, build-to suit properties will likely drive inventory growth because despite the recent rise in vacancy, opportunities for the region's largest tenants remain limited in existing product.

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	77,354	0.8%	0	-18,492	0	-	$0.70	$0.70
Stockton	57,103,764	7,027,082	12.3%	970,695	1,009,254	2,092,078	$0.69	$0.80	$0.69
Lathrop	19,477,298	1,794,779	9.2%	-126,085	146,435	0	$0.72	$0.60	$0.72
Tracy	37,002,566	1,980,571	5.4%	108,338	342,267	0	$0.80	$0.71	$0.76
Manteca	5,666,265	298,341	5.3%	-18,800	-4,974	280,983	$0.74	$0.74	$0.74
San Joaquin County	**129,314,347**	**9,175,753**	**8.6%**	**934,148**	**1,474,490**	**2,373,061**	**$0.71**	**$0.72**	**$0.71**
Modesto	30,713,075	588,582	1.9%	283,260	193,546	667,125	$0.65	$0.63	$0.65
Turlock	5,096,915	0	0.0%	0	57,000	0	-	-	-
Patterson	6,286,428	0	0.0%	0	113,550	0	-	-	-
Stanislaus County	**42,096,418**	**521,517**	**1.4%**	**283,260**	**709,998**	**667,125**	**$0.65**	**$0.63**	**$0.65**
TOTAL	**171,410,765**	**11,766,709**	**6.9%**	**1,217,408**	**2,184,488**	**3,040,186**	**$0.71**	**$0.71**	**$0.71**

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

KEY LEASE TRANSACTIONS Q3 2024

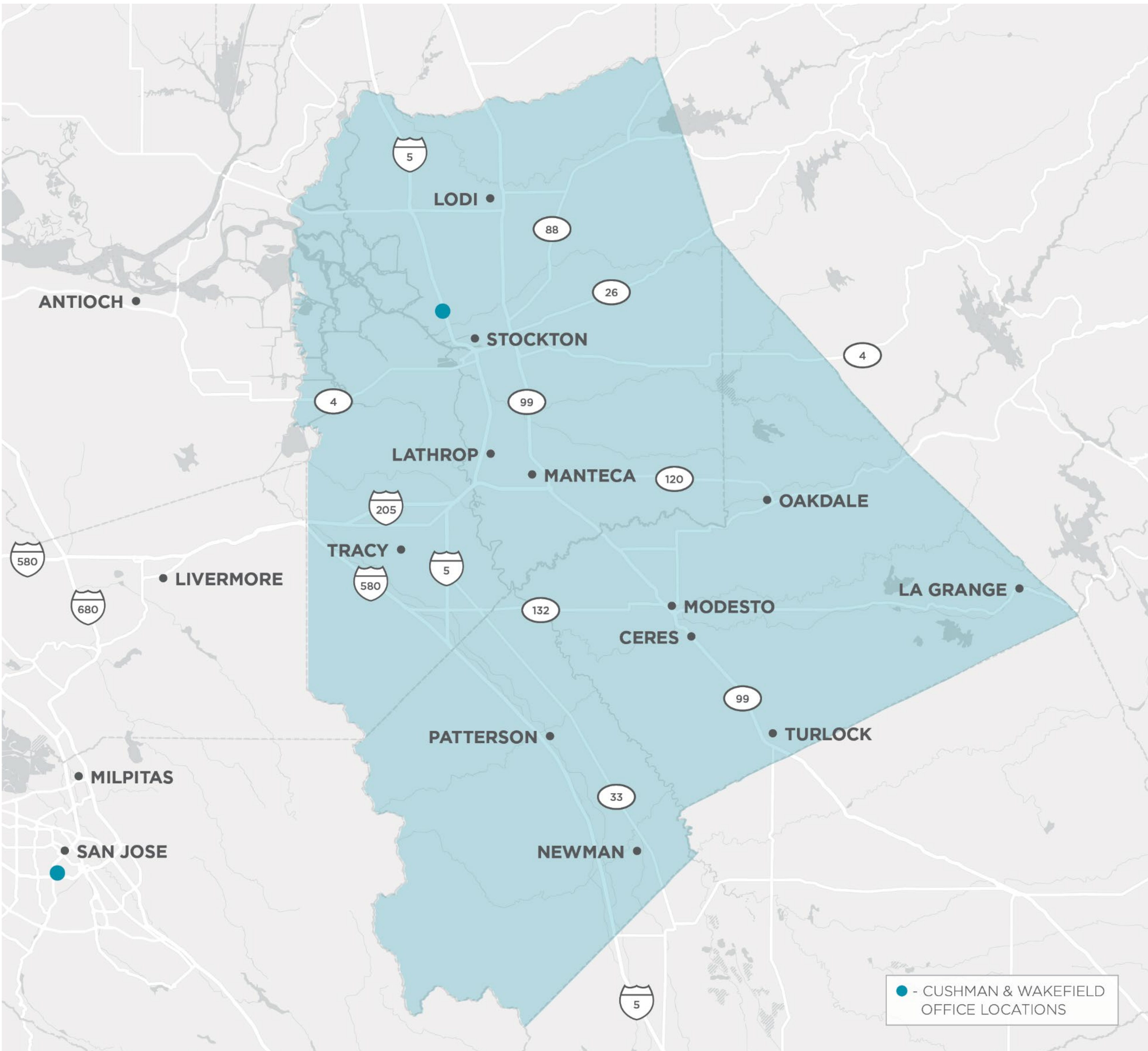
PROPERTY	SUBMARKET	TENANT	RSF	TYPE
1110 Performance Dr	Stockton	Pactiv Packaging Inc	452,000	Renewal
504 E Glen Avenue	Modesto	Corrugated Supply Company	350,325	New Lease
1919 Boeing Way	Stockton	Dollar Tree	233,932	New Lease
3400 Yosemite Ave	Lathrop	New Acme LLC	183,565	New Lease
700-724 Kiernan Ave	Stockton	Noble Rider LLC	96,800	Renewal
3834-3862 Duck Creek Dr	Stockton	Cal Micro Recycling	86,706	New Lease

**Renewals not included in leasing statistics*

KEY SALES TRANSACTIONS YTD 2024

PROPERTY	SUBMARKET	SELLER / BUYER	RSF	PRICE/$ PSF
16888 McKinley Avenue	Lathrop	Super Store Industries / SoftBank Group & Symbotic LLC	1,000,000	$146.0M / $146
1624 Army Court	Stockton	DRA Advisors / Intercontinental Real Estate Corp. & Kennedy Wilson	655,976	$71.8M / $109
8477 S. Airport Way	Stockton	Phelan Development Company / Ream Enterprises	97,085	$18.2M / $187

INDUSTRIAL SUBMARKETS



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