MARKETBEAT

CENTRAL VALLEY

Industrial Q3 2023

	YoY Chg	12-Mo. Forecast
5.9% Vacancy Rate	▲	▲
-244K Net Absorption, SF	▼	▲
$0.72 Asking Rent, PSF	▲	▬

Overall, Net Asking Rent

ECONOMIC INDICATORS Q3 2023

	YoY Chg	12-Mo. Forecast
463.7K Central Valley Employment	▲	▲
6.1% Central Valley Unemployment Rate	▲	▲
3.7% U.S. Unemployment Rate	▲	▲

Source: BLS, Moody's Analytics.
2023Q3 data are based on latest available data.

ECONOMY: Future Headwinds

The Central Valley, encompassing San Joaquin and Stanislaus counties recorded an increase in employment level, adding 1,200 jobs year-over-year (YOY), bringing regional employment to 463,700. 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. While the region remains in demand, elevated interest rates, fuel costs, and global supply chain issues could begin to weigh on the tenants that have driven growth over the past three years.

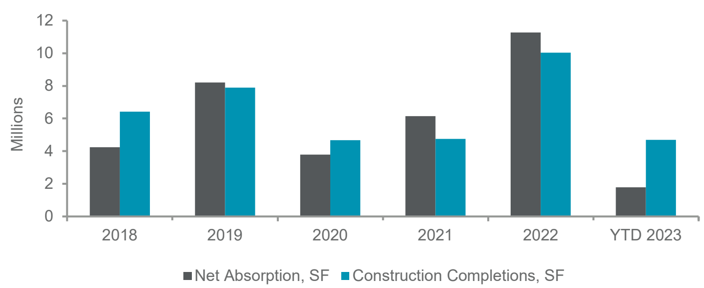
SUPPLY: Subleases Outpace Absorption

The vacancy rate in the Central Valley industrial market was 5.9% at the end of the third quarter, up 30 basis points (bps) from the prior quarter amidst a dramatic rise in sublease availability. There was just shy of 1.5 million square feet (msf) of sublease space on the market at the close of the third quarter, up 60% from the prior quarter. This rise in sublease led to the first quarter of occupancy decline since early 2020, with overall net absorption of -243,608 sf. This is not to say that demand has left the market; on a direct basis, the Central Valley recorded over 307,000 sf of positive net absorption and year-to-date (YTD) overall net absorption remains positive at 1.8 msf. The region is continuing to absorb new construction, but markets with the most active developments will experience temporary spikes in vacancy as the pipeline continues to deliver into 2024. Stockton, the region's largest submarket, has seen the most new development this year with over 2.6 msf in deliveries YTD. The result was a vacancy rate of 8.1% in the third quarter, which is expected to decline in 2024 as the current cycle of deliveries slows and tenants have an opportunity to absorb new space. New construction has been concentrated in San Joaquin County, but projects like Plastipak's 300,000-sf build-to-suit in Modesto, that delivered this quarter, demonstrate tenants' appetite for the limited new product in Stanislaus County where vacancy was just 1.5%.

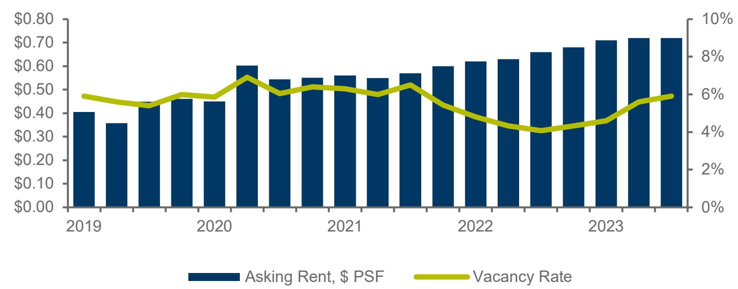
DEMAND: New Leasing Ticks Up

Following a record year for activity in 2022, leasing activity has pulled back slightly, as economic headwinds have forced some tenants to reconsider expansion plans. However, after a lull in the second quarter, leasing bounced back in the third, with gross activity up 45% from the prior quarter and the market still on pace to beat 2019 and 2020 leasing totals. There were numerous notable transactions this quarter, with two leases signed for more than 500,000 sf. The largest lease of the quarter was signed by Johnson Moving & Storage for 552,450 sf at 600 Spreckels Avenue in Manteca. Also of note was Veritiv's 507,869-sf new lease at 2820 N. Chrisman Road in Tracy.

SPACE DEMAND / DELIVERIES



OVERALL VACANCY & ASKING RENT



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There has been a noticeable recent decline in mid-size transactions, with fewer leases being signed from 75,000 to 150,000 sf, which has coincided with a rising number of availabilities in this size range. However, demand remains strong from larger requirements as they remain reliant on the Central Valley as the premier distribution market for the region.

Elevated interest rates continue to weigh on investment activity across the country, but the Central Valley has increasingly been able to draw investors. The largest sale of the quarter was Clarion Partners' purchase of 3458 Yosemite Avenue in Lathrop from Phelan Development, paying $54.8 million for the fully leased 382,380-sf warehouse. Also of note was the sale-leaseback of 1212 Performance Drive in Stockton, with Nearon purchasing and leasing the 203,000-sf warehouse back to Cal Sheets. They paid $28.8 million or $142 psf.

PRICING: Asking Rates At Record High

The overall asking rate for Central Valley industrial went unchanged in the third quarter at a record $0.72 per square foot (psf) on a monthly triple-net basis, up 8.5% YOY. Rates held as a combination of new construction and years of elevated demand have allowed landlords to push pricing on existing inventory. Warehouse and manufacturing specific rents both closed the quarter at $0.72 psf, respectively, with manufacturing rents rising this quarter amidst several new highly improved availabilities. Tracy remained the region's most expensive submarket, as its proximity to the Bay Area and new construction deliveries have driven asking rates to $0.76 psf. While Tracy commanded the highest price, asking rates have been climbing across submarkets, with Stockton asking $0.70 psf, remarkable for a market where asking rates were closer to $0.40 psf in 2019. Despite robust rental growth, the region remains a relative discount when compared to neighboring markets like the East Bay Oakland, where the average asking rate exceeded $1.30 psf in the third 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 a modest pullback in demand.

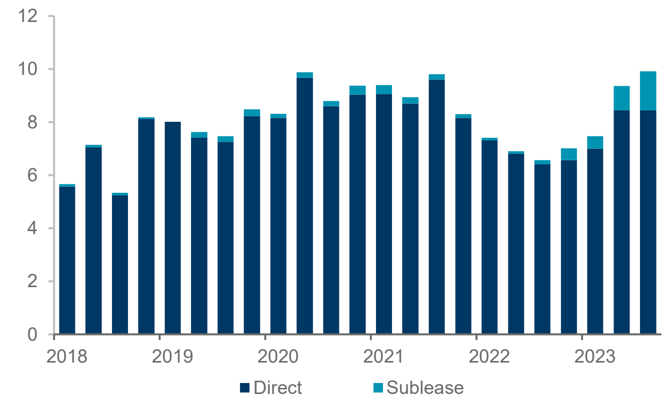
CONSTRUCTION: Building Out the Central Valley

Deliveries slowed in the third quarter, with just one project completed, allowing the market a pause to continue absorbing the 4.7 msf delivered YTD. There were an additional 5.5 msf under construction at the close of the quarter, the majority of which is being built on a speculative basis. Upon delivery, these new spaces will continue to place upward pressure on vacancy but also drive positive net absorption as tenants look for the elevated clear heights, high dock door ratios, and generous truck courts only found in newer inventory. Ground breakings are beginning to slow as developers wait both to see how tenants absorb the current cycle and for the cost of capital to fall.

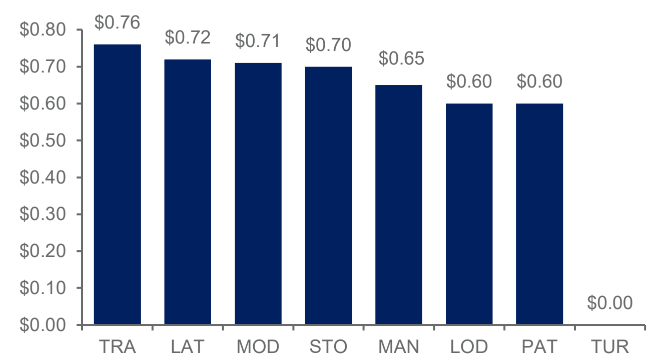
Outlook

- 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.

DIRECT AND SUBLEASE AVAILABLE SPACE



OVERALL AVERAGE ASKING RATE BY SUBMARKET (NNN)



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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	9,746,653	13,662	0.1%	9,000	23,338	0	-	$0.60	$0.60
Stockton	53,586,653	4,358,892	8.1%	-115,805	1,154,191	2,610,530	$0.70	$0.63	$0.70
Lathrop	19,477,298	2,355,714	12.1%	-10,920	388,336	846,908	$0.72	$0.60	$0.72
Tracy	37,002,566	2,565,798	6.9%	-61,913	-277,003	606,343	$0.76	$0.76	$0.76
Manteca	5,385,282	0	0.0%	0	0	0	-	-	$0.65
San Joaquin County	**125,198,452**	**9,294,066**	**7.4%**	**-188,638**	**1,288,862**	**4,063,781**	**$0.72**	**$0.75**	**$0.72**
Modesto	30,045,950	504,574	1.7%	-54,970	258,634	626,000	$0.63	$0.71	$0.71
Turlock	5,096,915	0	0.0%	0	0	0	-	-	-
Patterson	6,286,428	113,550	1.8%	0	242,515	0	-	$0.60	$0.60
Stanislaus County	**41,429,293**	**618,124**	**1.5%**	**-54,970**	**501,149**	**626,000**	**$0.63**	**$0.69**	**$0.69**
TOTAL	**166,627,745**	**9,912,190**	**5.9%**	**-243,608**	**1,790,011**	**4,689,781**	**$0.72**	**$0.72**	**$0.72**

**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 Q3 2023

PROPERTY	SUBMARKET	TENANT	RSF	TYPE
600 Spreckels Avenue	Manteca	Johnson Moving & Storage	552,450	New Lease
2820 N. Chrisman Road	Tracy	Veritiv	507,869	New Lease
5150 Glacier Street	Lathrop	Tesla	341,874	New Lease (Expansion)
3600 Leckron Road	Stockton	G3	218,000	New Lease

KEY SALES TRANSACTIONS Q3 2023

PROPERTY	SUBMARKET	SELLER / BUYER	RSF	PRICE/$ PSF
3458 Yosemite Avenue	Lathrop	Phelan Development / Clarion Partners	381,555	$54.8M / $143
1212 Performance Drive	Stockton	Cal Sheets LLC / Nearon	203,000	$28.8M / $142

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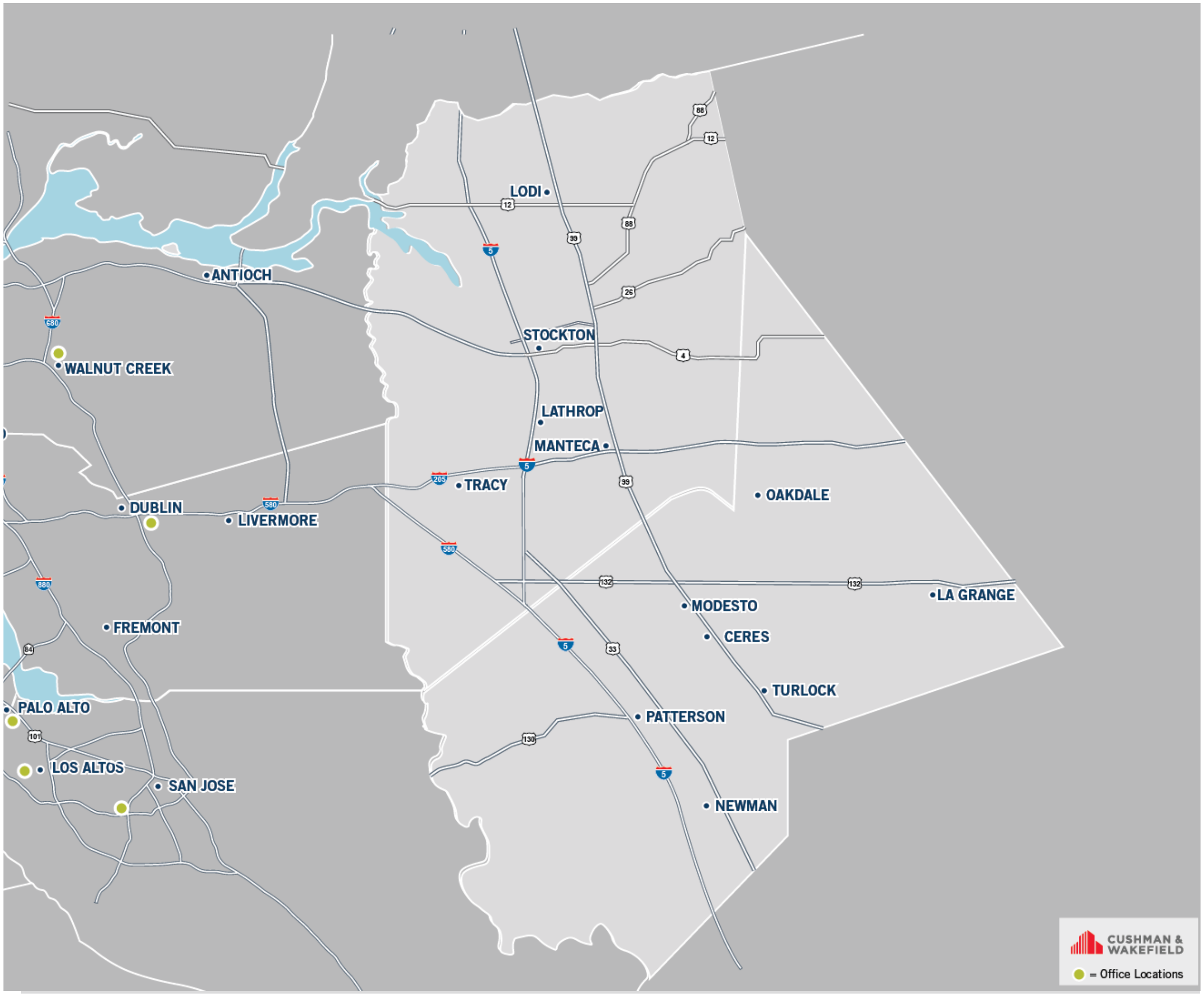
INDUSTRIAL SUBMARKETS



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