MARKETBEAT

CENTRAL VALLEY

Industrial Q1 2023

CUSHMAN & WAKEFIELD

	YoY Chg	12-Mo. Forecast
5.0% Vacancy Rate	▲	▲
271K Net Absorption, SF	▼	▲
$0.71 Asking Rent, PSF	▲	▲

Overall, Net Asking Rent

ECONOMIC INDICATORS Q1 2023

	YoY Chg	12-Mo. Forecast
466.6K Central Valley Employment	▲	▲
5.7% Central Valley Unemployment Rate	▼	▲
3.5% U.S. Unemployment Rate	▼	▲

Source: BLS, Moody's Analytics.
2023Q1 data are based on latest available data.

ECONOMY: Future Headwinds

The Central Valley, encompassing San Joaquin and Stanislaus counties recorded an increase in job growth, adding 13,000 jobs year-over-year (YOY), bringing regional employment to 466,600. This increase further propelled employment in the region past its pre-pandemic level. 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, rising interest rates, soaring fuel costs, and global supply chain issues could begin to weigh on the tenants that have driven growth over the past three years. Despite these headwinds, vacancy in the first quarter remained below historic levels and rental rates were at an all-time high.

SUPPLY: Vacancy Hinges on New Construction

The vacancy rate in the Central Valley industrial market was 5.0% at the end of the first quarter, up 70 basis points (bps) from the prior quarter as 1.5 million square feet (msf) of speculative new construction delivered. The driving force behind new vacancy this quarter was the completion of Building 4 at Catellus' Airpark 599 in Stockton, a 1.2 msf warehouse that is now the largest vacancy in the market. This caused vacancy in Stockton, the region's largest submarket, to jump to 8.1%. As a robust pipeline of speculative construction continues to deliver, Stockton is expected to record a temporary spike in vacancy. The submarket of Lathrop experienced a similar trend with completions and vacancy peaking at 15.9% in Q4 of 2021. In the five quarters since, vacancy has fallen by 48%, as tenants steadily absorb the new inventory. Vacancy for manufacturing product was just 2.6% at the end of the first quarter and has held below 3.0% since recording significant positive absorption in late 2021. New construction has been almost exclusively warehouse/distribution product, leaving the region's manufacturing tenants to vie for limited, fixed supply.

2022 was a record year for the market with leasing activity, net absorption, and construction deliveries all recording their highest totals since Cushman & Wakefield began tracking the region. This boom was concentrated in the first three quarters of the year with activity slowing in the fourth quarter as occupiers began to reevaluate growth projections amidst a shifting economy. Fortunately, new leasing activity regained momentum in the first quarter of 2023 with several large occupiers taking new space.

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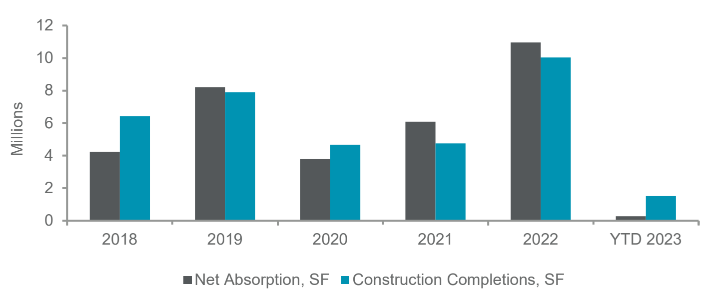
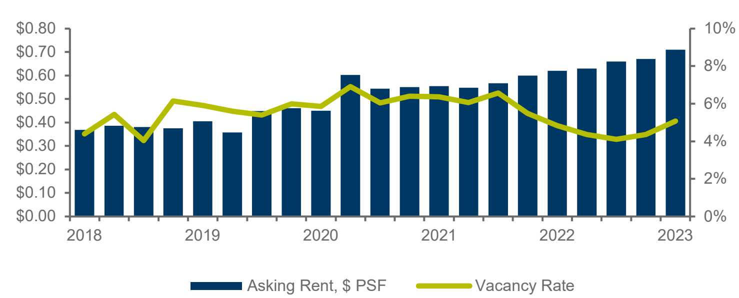
SPACE DEMAND / DELIVERIES



OVERALL VACANCY & ASKING RENT



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DEMAND: New Leasing Ticks Up

New leasing activity picked up in the first quarter of 2023, with three of the four largest transactions being new deals. This is a reversal from the fourth quarter where renewals made up three of the four largest transactions, and companies were slow to transact for new space. The largest lease of the quarter was signed by Tesla, for 579,859 sf at 5150 Glacier in Lathrop. The 921,000-sf distribution facility was built by Crow Holdings in 2021 and had been one of the largest vacancies in the market until Tesla took approximately two thirds of the space. Also of note was DHL's 351,788-sf new lease at 4512 Frontier Way in Stockton. The largest renewal of the quarter was signed by Applied Materials for the entirety of 1700 E. Pescadero in Tracy, a 381,600-sf warehouse.

PRICING: Asking Rates Continue Rise

The overall asking rate for Central Valley industrial closed the first quarter at $0.71 per square foot (psf) on a monthly triple-net basis, up 14.1% YOY. The overall rate continued to rise, a combination of new construction and years of elevated demand that have allowed landlords to push pricing on existing inventory. Warehouse and manufacturing specific rents closed the quarter at $0.70 and $0.76 psf, respectively. Tracy remained the region's most expensive submarket, as its proximity to the Bay Area and new construction deliveries have driven asking rates to $0.79 psf. While Tracy commanded the highest price, asking rates climbed across submarkets, with Stockton asking $0.68 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 first quarter. Strong demand and the rising quality of inventory are expected to keep placing upward pressure on rents.

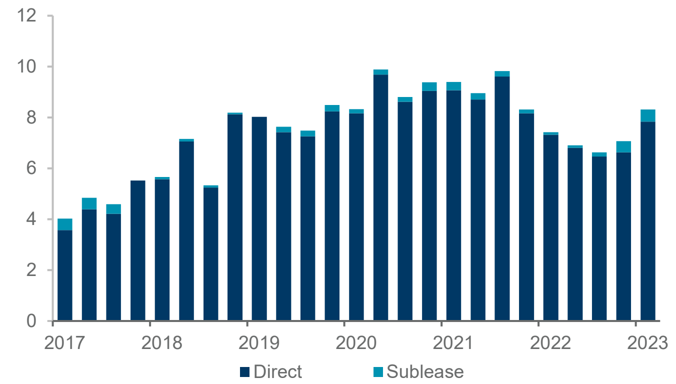
CONSTRUCTION: Building Out the Central Valley

Following a relative lull in the fourth quarter, deliveries picked up in the first with 1.5 msf delivered. There was an additional 7.4 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 place upward pressure on vacancy, but given the strength of demand over the past year, this space will likely continue to be absorbed. Tenants continue to look for the elevated clear heights, high dock door ratios, and generous truck courts only found in newer inventory. As projects continued to deliver, the pace of ground breakings slowed in the first quarter. On the heels of a record year for deliveries, developers are both allowing the market to absorb the current pipeline and waiting to see how demand responds to economic headwinds before kicking off the next cycle of development. That said, large requirements in Northern California remain reliant on the Central Valley which provides easy access to core Bay Area markets where larger scaled projects are no longer feasible.

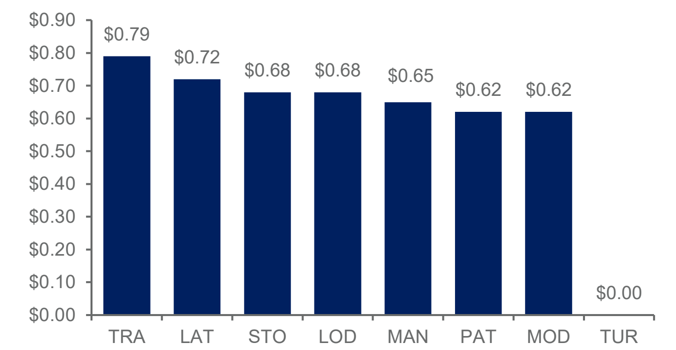
Outlook

- Net absorption is expected to remain positive in coming quarters as speculative developments provide desirable inventory for occupancy growth.
- Rental growth is expected to slow but continue, as new construction places upward pressure on asking rates.

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)	CURRENT QTR CONSTR COMPLETIONS (SF)	OVERALL WEIGHTED AVG NET RENT (W/D)	OVERALL WEIGHTED AVG NET RENT (MF)	OVERALL WEIGHTED AVG NET RENT
Lodi	9,750,993	22,662	0.2%	14,338	14,338	0	$0.78	$0.60	$0.68
Stockton	52,158,863	4,246,131	8.1%	-160,838	-160,838	1,182,740	$0.68	$0.63	$0.68
Lathrop	18,630,390	1,547,289	8.3%	349,853	349,853	0	$0.72	$0.60	$0.72
Tracy	36,396,223	1,780,082	4.9%	-97,630	-97,630	0	$0.78	$0.82	$0.79
Manteca	5,385,282	0	0.0%	0	0	0	-	-	-
San Joaquin County	**122,321,751**	**7,596,164**	**6.2%**	**105,723**	**105,723**	**1,182,740**	**$0.71**	**$0.79**	**$0.71**
Modesto	29,745,950	297,904	1.0%	165,304	165,304	326,000	$0.63	$0.60	$0.62
Turlock	5,096,915	0	0%	0	0	0	-	-	-
Patterson	6,286,428	356,065	5.7%	0	0	0	$0.62	$0.00	$0.62
Stanislaus County	**41,129,293**	**653,969**	**1.6%**	**165,304**	**165,304**	**326,000**	**$0.62**	**$0.60**	**$0.62**
TOTAL	**163,451,044**	**8,250,133**	**5.0%**	**271,027**	**271,027**	**1,508,740**	**$0.70**	**$0.76**	**$0.71**

**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 2023

PROPERTY	SUBMARKET	TENANT	RSF	TYPE
5150 Glacier Street	Lathrop	Tesla	579,859	New Lease
1700 E. Pescadero Avenue	Tracy	Applied Materials	381,600	Expansion/Renewal
4512 Frontier Way	Stockton	DHL	351,788	New Lease
3735 Imperial Way	Stockton	Cal Chef	164,702	New Lease

KEY SALES TRANSACTIONS Q1 2023

PROPERTY	SUBMARKET	SELLER / BUYER	RSF	PRICE/$ PSF
811 Wakefield Drive	Oakdale	Phimor Corporation / Trabuca LLC	31,967	$3.8M / $119
502 E. Fourth Street	Ripon	Guntert Family Real Estate LP / Elstob Realty Advisors	7.8 Acres	$2.9M / $8.43

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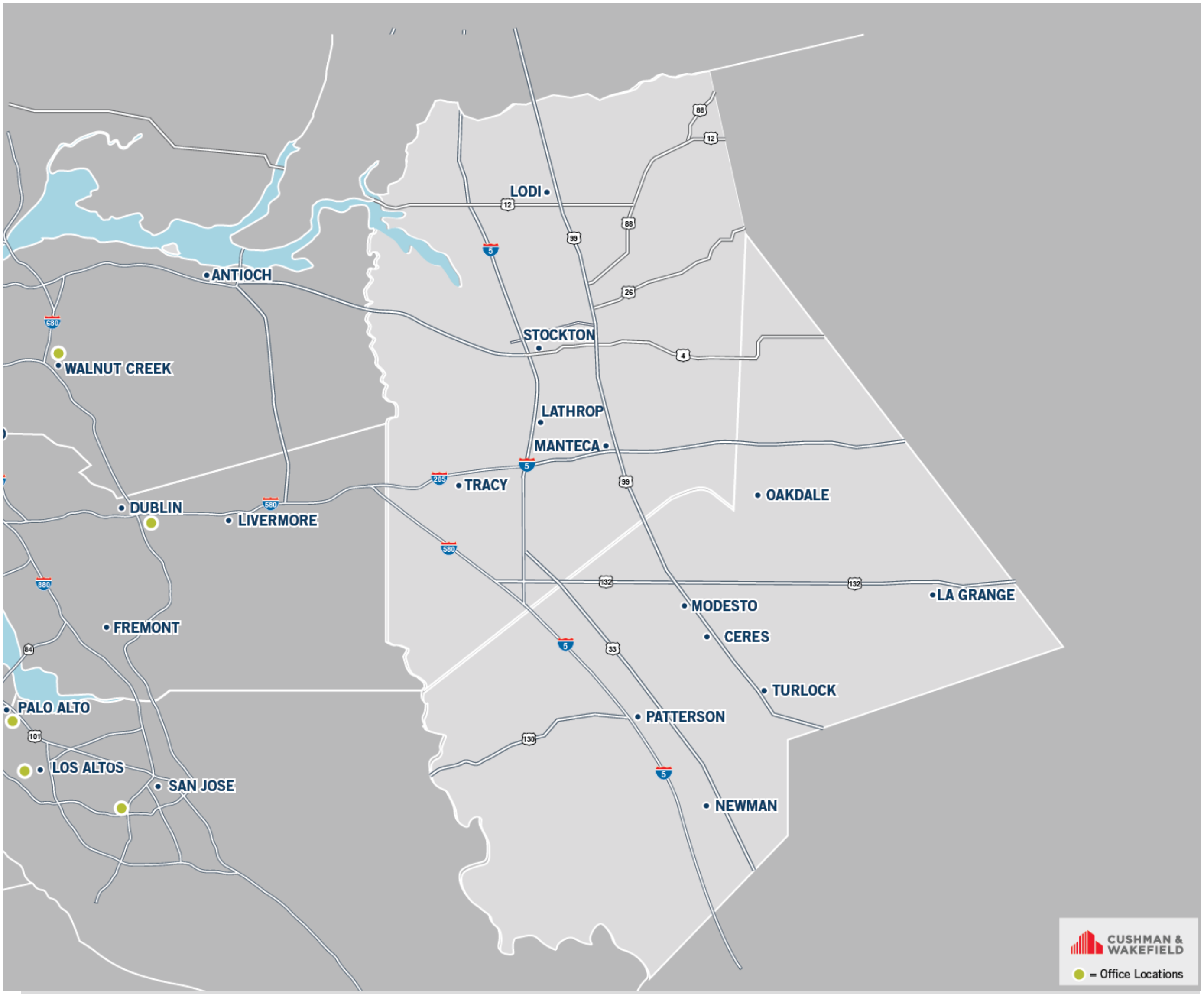
INDUSTRIAL SUBMARKETS



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

Jordan Howell
Research Analyst
Tel: +1 510 264 7962
Jordan.Howell@cushwake.com

CUSHMAN & WAKEFIELD
3255 W. March Lane
Suite 230
Stockton, CA 95219

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