MARKETBEAT
CENTRAL VALLEY
Industrial Q4 2023

	YoY Chg	12-Mo. Forecast
6.4% Vacancy Rate	▲	▲
258K Net Absorption, SF	▼	▼
$0.72 Asking Rent, PSF	▲	▬

Overall, Net Asking Rent

ECONOMIC INDICATORS
Q4 2023

	YoY Chg	12-Mo. Forecast
469.9K Central Valley Employment	▲	▲
6.4% Central Valley Unemployment Rate	▲	▲
3.7% U.S. Unemployment Rate	▲	▲

Source: BLS, Moody's Analytics.
2023Q4 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 6,300 jobs year-over-year (YOY), bringing regional employment to 469,900. 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 begun to weigh on the tenants that have driven growth over the past three years.

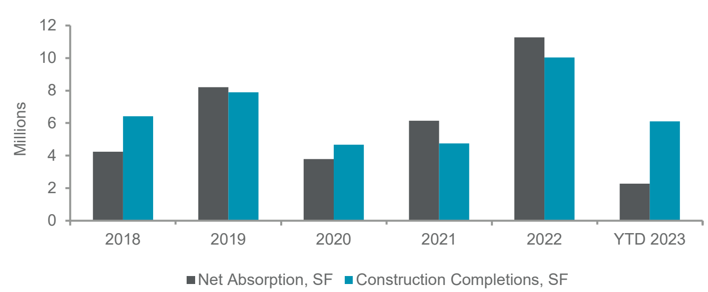
SUPPLY: Deliveries Outpace Absorption

The vacancy rate in the Central Valley industrial market was 6.4% at the end of the fourth quarter, up 60 basis points (bps) from the prior quarter as over 1.4 million square feet (msf) of speculative construction was delivered. While this new inventory put upward pressure on the vacancy rate, occupancy also rose, recording 258,000 sf of positive net absorption in the fourth quarter, bringing total net absorption for 2023 to 2.3 msf. Despite this growth, economic headwinds had an effect on demand this year, as net absorption fell significantly from 2022's 11.2 msf, the highest level on record. The 2.3 msf of net absorption fell short of the 6.1 msf of new construction that delivered in 2023, resulting in temporary spikes in vacancy for the submarkets with the most active development. Stockton, the region's largest submarket, saw the most new development this year with over 4.0 msf delivered. The result was a vacancy rate of 10.7% in the fourth quarter, which is expected to decline in 2024 as the current cycle of deliveries slows and tenants have an opportunity to absorb new space. Looking ahead, a positive sign for the market was a decline in sublease vacancy in the fourth quarter. Sublease space had been on the rise for five consecutive quarters, growing from 100,000 sf in early 2022 to 1.2 msf in the third quarter of this year. In the fourth quarter, multiple tenants either recommitted to their spaces or withdrew their subleases from the market.

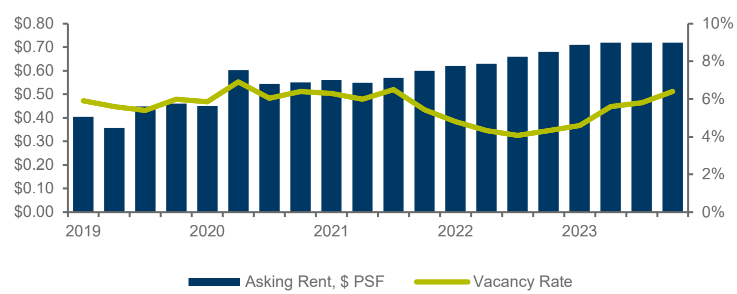
DEMAND: Renewals Drive Activity

Following a record 2022, leasing activity appeared to pull back slightly as shifting economic conditions forced some tenants to reconsider expansion plans. However, despite a slow second quarter, leasing accelerated in the back half of the year, bringing full year activity to 13.7 msf, the second highest level of activity since Cushman & Wakefield began tracking the market. While 2022 was a year of explosive growth, 2023 was driven by renewals, with many of the region's largest occupiers solidifying their presence in the market. In the last two quarters of the year, Crate & Barrel, Pepsi, Kellogg's, World Markets and Allen Distribution all signed renewals over 700,000 sf. The largest new lease of the fourth quarter was a sublease signed by Daiso for 552,450 sf at 600 Spreckels Avenue in Manteca.

SPACE DEMAND / DELIVERIES



OVERALL VACANCY & ASKING RENT



Johnson Moving & Storage had leased the building in the third quarter before turning around and placing it on the market for sublease. Daiso's leasing of the space prevented this sizeable vacancy from ever hitting the books and contributed to the decline in sublease. 2023 saw a noticeable drop in mid-size transactions, with fewer leases being signed from 100,000 to 200,000 sf, coinciding with a dramatic rise in the number of availabilities in this size range. At the end of the year, there were over 30 availabilities in that segment of the market. However, demand remains strong from larger requirements as they remain reliant on the Central Valley as the premier distribution market for Northern California.

Despite elevated interest rates, sales activity gained momentum in the fourth quarter. The largest sale of the quarter was EQT Exeter's purchase of Tripoint Logistics Center from Crow Holdings. This four building, newly constructed project totaled 1,479,310 sf and sold for $195.0 million or $132 psf. Also of note, Boise Cascade purchased the two buildings at 945 E. Whitmore in Modesto from G3 for $32.0 million. Totaling 209,078 sf, Boise Cascade plans to occupy the property which had previously been on the market for sublease.

PRICING: Asking Rates At Record High

The overall asking rate for Central Valley industrial went unchanged in the fourth quarter at a record $0.72 per square foot (psf) on a monthly triple-net basis, up 6.5% YOY. Rates held as a combination of new construction and years of elevated demand have allowed landlords to push pricing on existing inventory. 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. While Tracy commanded the highest price, asking rates have been climbing across all submarkets, with Stockton asking $0.70 psf, a significant rise over the past few years. Despite robust rental growth, the region remained a relative discount when compared to neighboring markets like the East Bay Oakland, where the average asking rate was $1.34 psf in the fourth 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.

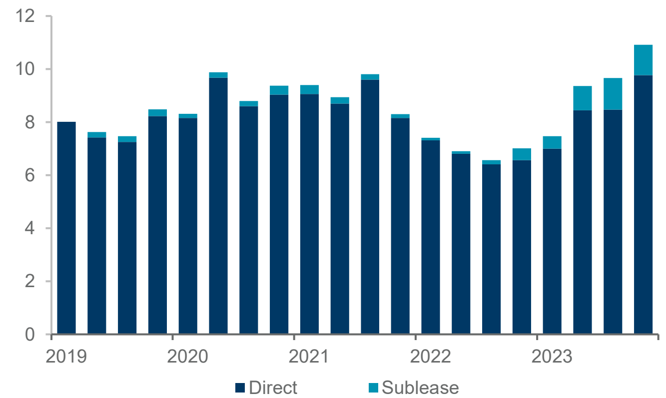
CONSTRUCTION: Building Out the Central Valley

Deliveries picked up in the fourth quarter with Dermody completing both of its speculative warehouses in Stockton for a combined 1.4 msf. Inventory grew 3.7% in 2023 with over 6.1 msf delivered. There were an additional 4.7 msf under construction at the end of the year, 36.1% of which is pre-leased, a factor that will help drive absorption in 2024. Upon delivery, unleased spaces will continue to place upward pressure on vacancy while also driving 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.

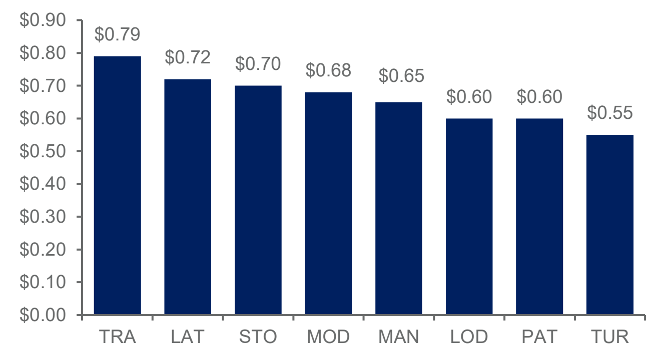
Outlook

- 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	26,862	0.3%	0	10,138	0	-	$0.60	$0.60
Stockton	55,011,686	5,866,558	10.7%	156,303	1,071,558	4,035,563	$0.70	$0.63	$0.70
Lathrop	19,477,298	1,871,013	9.6%	241,500	873,037	846,908	$0.72	$0.60	$0.72
Tracy	37,002,566	2,445,626	6.6%	-162,727	-156,831	606,343	$0.80	$0.76	$0.79
Manteca	5,385,282	34,500	0.6%	-34,500	-34,500	0	$0.65	-	$0.65
San Joaquin County	**126,623,485**	**10,244,559**	**8.1%**	**200,576**	**1,763,402**	**5,488,814**	**$0.72**	**$0.75**	**$0.72**
Modesto	30,045,950	422,833	1.4%	114,311	340,375	626,000	$0.72	$0.63	$0.68
Turlock	5,096,915	57,000	1.1%	-57,000	-57,000	0	-	$0.55	$0.55
Patterson	6,286,428	113,550	1.8%	0	242,515	0	-	$0.60	$0.60
Stanislaus County	**41,429,293**	**593,383**	**1.4%**	**57,311**	**525,890**	**626,000**	**$0.72**	**$0.61**	**$0.66**
TOTAL	**168,052,778**	**10,837,942**	**6.4%**	**257,887**	**2,289,292**	**6,114,814**	**$0.72**	**$0.71**	**$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 Q4 2023

PROPERTY	SUBMARKET	TENANT	RSF	TYPE
4580 Logistics Drive	Stockton	Allen Distribution	709,556	Renewal
600 Spreckels Avenue	Manteca	Daiso	552,450	Sublease
Lathrop Gateway: Building 3	Lathrop	Macy's	272,900	New Lease
2795 N. Paradise Avenue	Tracy	Lecangs	166,826	New Lease

KEY SALES TRANSACTIONS Q4 2023

PROPERTY	SUBMARKET	SELLER / BUYER	RSF	PRICE/$ PSF
Tripoint Logistics Center (Four Buildings)	Lathrop	Crow Holdings / EQT Exeter	1,479,310	$195.0M / $132
945 E. Whitmore Avenue	Modesto	G3 Enterprises / Boise Cascade	209,078	$32.0M / $153
1175 S. Guild Avenue	Lodi	Kubota Tractor Corp. / Cepheid	171,000	$26.0M / $152

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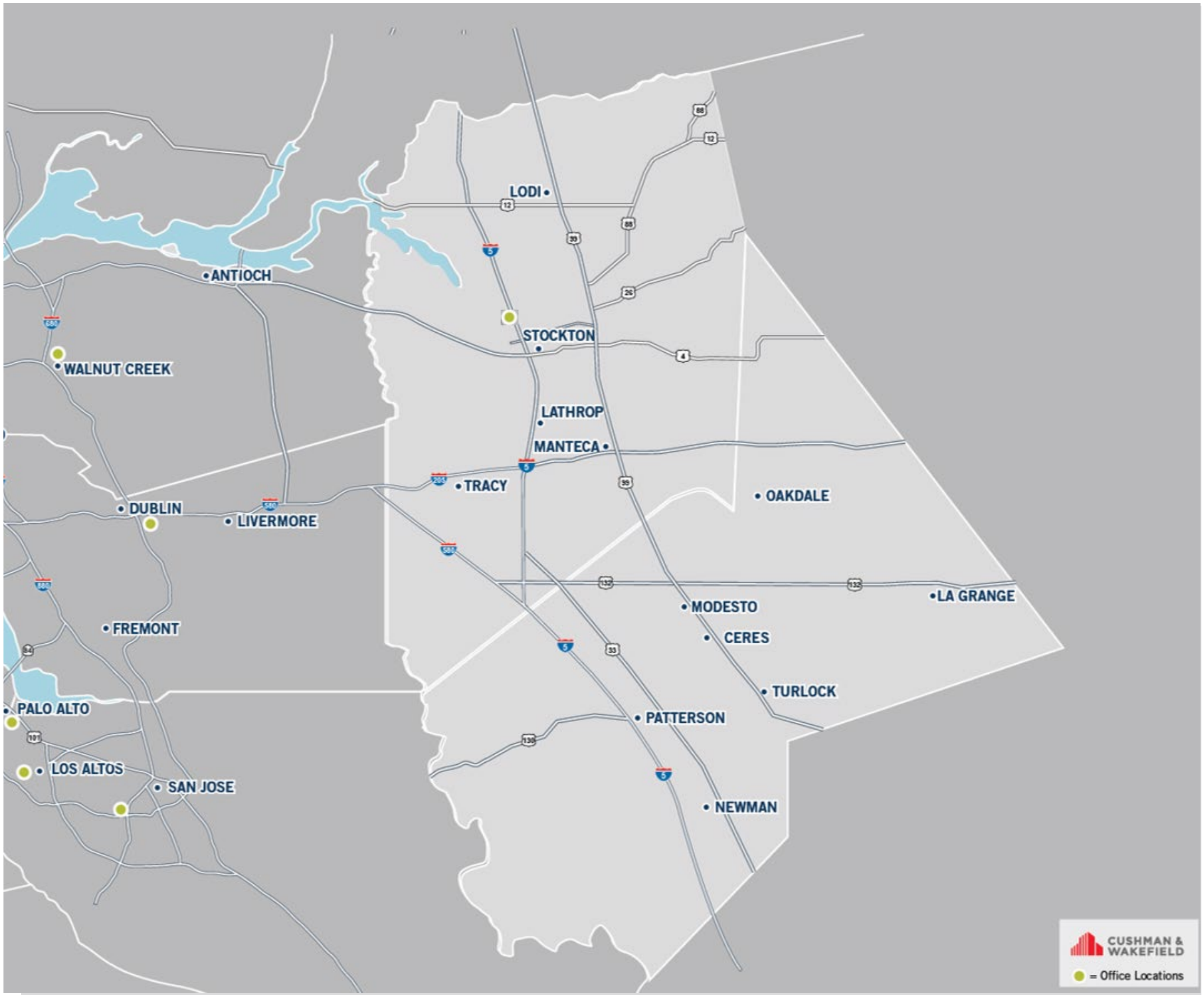
INDUSTRIAL SUBMARKETS



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