MARKETBEAT
CENTRAL VALLEY
Industrial Q1 2022

	YoY Chg	12-Mo. Forecast
4.9% Vacancy Rate	▼	▼
2.2M Net Absorption, SF	▲	▼
$0.62 Asking Rent, PSF	▲	▲

Overall, Net Asking Rent

ECONOMIC INDICATORS Q1 2022

	YoY Chg	12-Mo. Forecast
442.3 Central Valley Employment	▲	▲
7.1% Central Valley Unemployment Rate	▼	▼
3.6% U.S. Unemployment Rate	▼	▼

Source: BLS, Moody's Analytics.
2022Q1 data are based on latest available data.

ECONOMY: California Reopening Stumbles, Industrial Does Not

The Central Valley, encompassing San Joaquin and Stanislaus counties recorded an increase in job growth, adding 18,000 jobs year-over-year (YOY), bringing regional employment to just over 442,000. This increase returned the region to roughly its pre-pandemic employment level. Despite a slight rise in Covid-19 cases late in the fourth quarter, 2022 has seen California's reopening gain momentum, with mask and social distancing mandates eased across the state. Improved conditions should aid office and retail property markets that have struggled and pour additional fuel on an industrial market that never missed a beat. The largest headwind facing the industrial sector continued to come from disruptions to the global supply chain, but while this may affect individual tenants, the market continued to boom. Explosive growth in e-commerce has driven demand, particularly in the Central Valley where the combination of developable land and proximity to major metros has created one of the hottest industrial markets in the country.

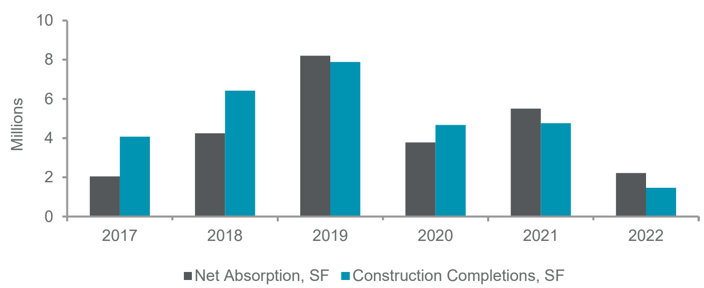
SUPPLY: Vacancy Declines Despite New Construction

The vacancy rate in the Central Valley industrial market was 4.9% at the end of the first quarter of 2022, down 150 basis points (bps) YOY, despite just over 5.0 million square feet (msf) of new construction delivering in the same period. Manufacturing product has seen a tremendous decline in vacancy, down 280 bps in just the last quarter. New construction has been dominated by Class A distribution facilities, leaving manufacturing tenants few options but to continue absorbing existing inventory. Demand for warehouse space has managed to keep pace with robust construction activity, with vacancy up just 10 bps YOY, despite a 420-bps increase in inventory. Demand for new construction was most apparent in the submarket of Lathrop. This relatively small submarket, which has seen a flurry of development, recorded all three of the quarter's largest new leases. Tracy was the only submarket to see a significant rise in vacancy this quarter with the delivery of a speculative, 1.12 msf distribution center at 689 Pavilion Parkway. This property is currently the largest existing vacancy in the market and must vie with several under construction or build to suit opportunities for the region's largest tenants.

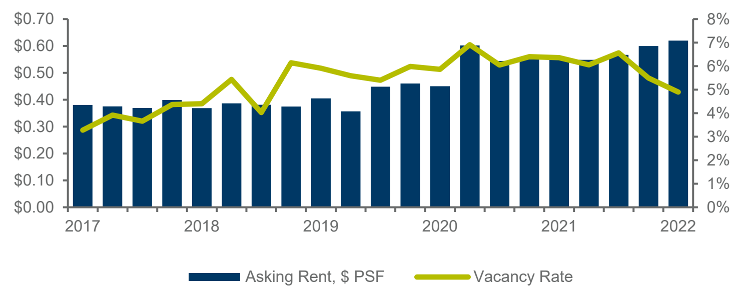
PRICING: Asking Rents Rise

The overall asking rate for Central Valley industrial closed the first quarter at $0.62 per square foot (psf) on a monthly triple-net basis. This is up 10.7 % YOY, as new construction in the region's most desirable submarkets continued to pull up the average. Warehouse and manufacturing specific rents closed the quarter at $0.63 psf, respectively.

SPACE DEMAND / DELIVERIES



OVERALL VACANCY & ASKING RENT



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Tracy remains the region's most expensive submarket, as its proximity to the Bay Area and newer manufacturing availabilities have driven asking rates to $0.68 psf. With no sign of demand slowing and new inventory on the way, asking rates are anticipated to continue their steady increase through 2022.

DEMAND: Occupancy Increases in First Quarter

Occupancy growth remained in the black during the first quarter of the year, recording 2.2 msf of positive net absorption, with approximately 1.7 msf coming from San Joaquin County. The first quarter recorded several notable leases, but what pushed positive absorption this quarter was a lack of new vacancy. Apart from vacant new construction, which is not counted against absorption, there were virtually no new major vacancies. Looking ahead there were several new listings with future availability dates, including a 747,000-sf sublease in Lathrop which could weigh on vacancy in the coming quarters. Despite this, the market is expected to record major occupancy growth in 2022 with several build-to-suits delivering later in the year. These include a 3.5-msf project being built for Amazon in Tracy, an additional 1.1msf being built for Amazon in Turlock and a 651,000-sf warehouse being built for Kraft in Lathrop. The largest new lease of the first quarter was Medline's 338,564-sf lease at 18601 Christopher way in Lathrop.

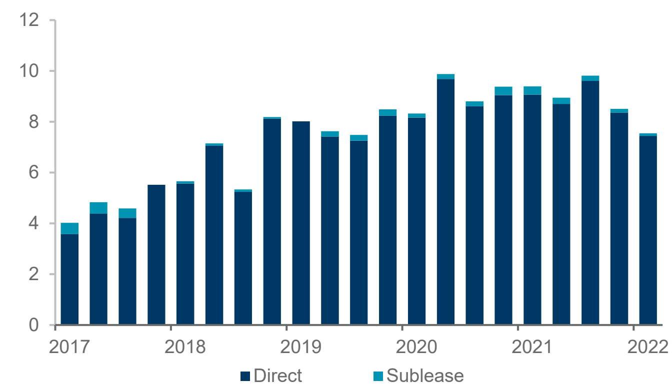
CONSTRUCTION: Building Out the Central Valley

Projects continued to break ground in the first quarter, with several major developments bringing the total under construction to over 13.3 msf. Conor Commercial broke ground on Central Industrial Center in Stockton, a three-building project totaling just over 1.0 msf. Also newly under construction was the Stockton Airport Logistics Center, one of several projects underway by Phelan development in the region. This four building, 705,000-sf project provides slightly smaller footprints than many of the large block buildings currently being built. The majority of space being built remains speculative, as developers hope to capture their share of 29.2 msf of tenant requirements in the market. Tenants have continued to choose the elevated clear heights, high dock door ratios and generous truck courts with ample trailer parking that are hard to find in existing inventory. Larger requirements seem to be increasingly more reliant on the Central Valley which provides access to core Bay Area markets where larger scaled projects are no longer feasible.

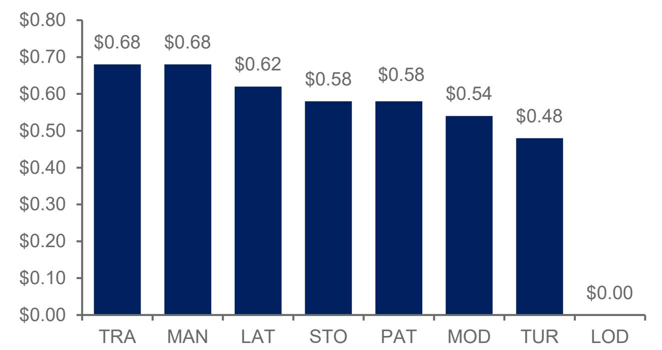
Outlook

- Net absorption totaled 2.2 msf in the first quarter and is expected to remain positive in the coming months as preleased new construction delivers.
- Asking rents closed the first quarter at $0.62 psf, marking a $0.06 YOY increase. Rents are expected to continue increasing modestly into 2022, due primarily to the delivery of vacant new construction.
- There are 112 requirements currently being tracked, totaling 29.2 msf. Demand is expected to hold in 2022, driven by e-commerce and 3PL users in the marketplace.

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)	CONSTR COMPLETIONS (SF)	OVERALL WEIGHTED AVG NET RENT (W/D)	OVERALL WEIGHTED AVG NET RENT (MF)	OVERALL WEIGHTED AVG NET RENT
Lodi	9,449,962	0	0.0%	170,000	170,000	0	$0.00	$0.50	$0.00
Stockton	49,597,660	2,128,966	4.3%	422,862	422,862	0	$0.59	$0.52	$0.58
Lathrop	17,979,390	2,326,515	12.9%	817,523	817,523	346,860	$0.62	$0.60	$0.62
Tracy	31,090,994	1,895,816	6.1%	289,642	289,642	1,120,082	$0.66	$0.75	$0.68
Manteca	5,380,235	153,858	2.9%	-1,550	-1,550	0	$0.68	$0.00	$0.68
San Joaquin County	**113,498,241**	**6,505,155**	**5.7%**	**1,698,477**	**1,698,477**	**1,466,942**	**$0.62**	**$0.68**	**$0.63**
Modesto	28,850,313	269,287	0.9%	520,370	520,370	0	$0.62	$0.45	$0.54
Turlock	4,016,607	54,156	1.3%	0	0	0	$0.00	$0.48	$0.48
Patterson	6,286,428	712,130	11.3%	0	0	0	$0.58	$0.00	$0.58
Stanislaus County	**39,153,348**	**1,035,573**	**2.6%**	**520,370**	**520,370**	**0**	**$0.59**	**$0.46**	**$0.56**
TOTAL	**152,651,589**	**7,540,728**	**4.9%**	**2,218,847**	**2,218,847**	**1,466,942**	**$0.62**	**$0.63**	**$0.62**

**Rental rates reflect weighted net asking $psf/month*
**These values not reflective of U.S MarketBeat Tables*

MF = Manufacturing W/D = Warehouse/Distribution

KEY LEASE TRANSACTIONS Q1 2022

PROPERTY	SUBMARKET	TENANT	RSF	TYPE
18601 Christopher Way	Lathrop	Medline	338,564	New Lease
550 Tesla Drive	Lathrop	Food 4 Less	197,124	New Lease
5050 Yosemite Avenue	Lathrop	Ryder	181,629	New Lease
6872 Promontory Parkway	Tracy	JIT Transportation	100,369	New Lease
898 S. De Anza Boulevard	Tracy	Sipi Asset Recovery	50,990	New Lease

KEY SALES TRANSACTIONS Q1 2022

PROPERTY	SUBMARKET	SELLER / BUYER	SF	PRICE/$ PSF
2230-2248 Stagecoach Rd	Stockton	Fairview Distribution Centers Inc / Dalfen Industrial	121,280	$13.3M / $110
102-148 N Wilson Way	Stockton	San Joaquin Marketing Association / Maneetpal Singh Deol & Amanpreet Kaur	57,652	$6.4M / $112
6220 E Victor Rd	Lodi	Russell Trovinger / Guy Yocom Construction, Inc.	31,400	$3.2M / $103
1109 W Anderson St	Stockton	Grupe Holding Company / Seattle-Tacoma Box Company	24,000	$5.3M / $221

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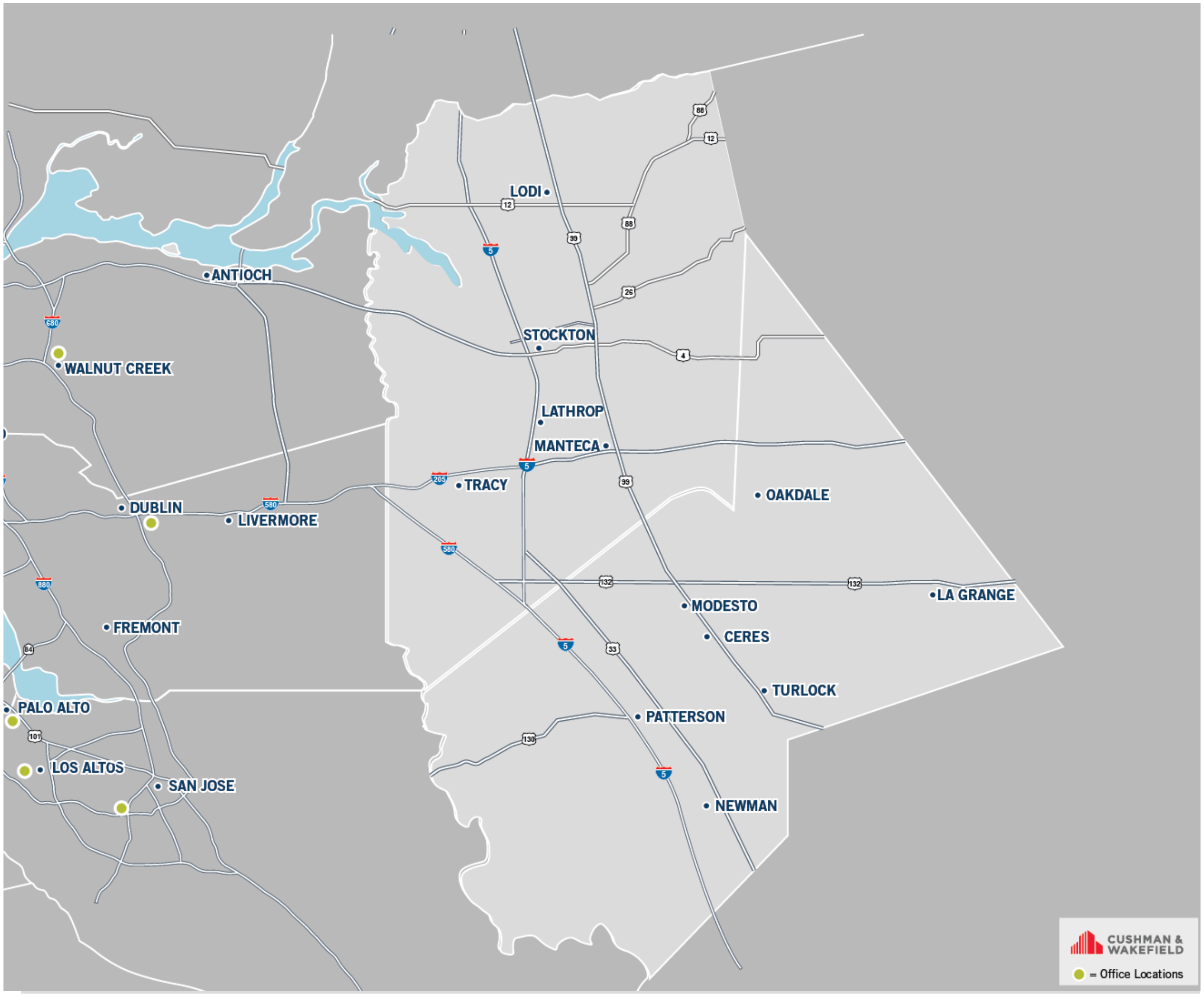
INDUSTRIAL SUBMARKETS



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

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

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