M A R K E T B E A T

CENTRAL VALLEY

Industrial Q3 2022

	YoY Chg	12-Mo. Forecast
4.1% Vacancy Rate	▼	▲
3.5M Net Absorption, SF	▲	▼
$0.64 Asking Rent, PSF	▲	▲

Overall, Net Asking Rent

ECONOMIC INDICATORS Q3 2022

	YoY Chg	12-Mo. Forecast
448.0K Central Valley Employment	▲	▲
5.1% Central Valley Unemployment Rate	▼	▲
3.5% U.S. Unemployment Rate	▼	▲

Source: BLS, Moody's Analytics.
2022Q3 data are based on latest available data.

ECONOMY: Future Headwinds

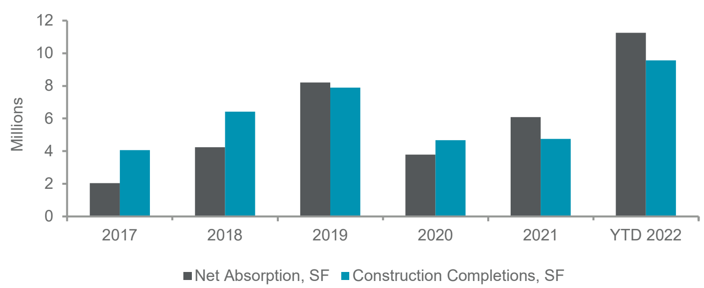
The Central Valley, encompassing San Joaquin and Stanislaus counties recorded an increase in job growth, adding 12,800 jobs year-over-year (YOY), bringing regional employment to just over 448,000. This increase returned the region to roughly its pre-pandemic employment level. As employment returned to normal, global supply chain issues and rising interest rates have created headwinds for both individual industrial tenants and the development pipeline. Despite this, the Central Valley industrial market is experiencing record occupancy growth, shedding vacancy amidst a flood of new construction. The region's largest occupiers continue to choose 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.

SUPPLY: Vacancy Declines Despite New Construction

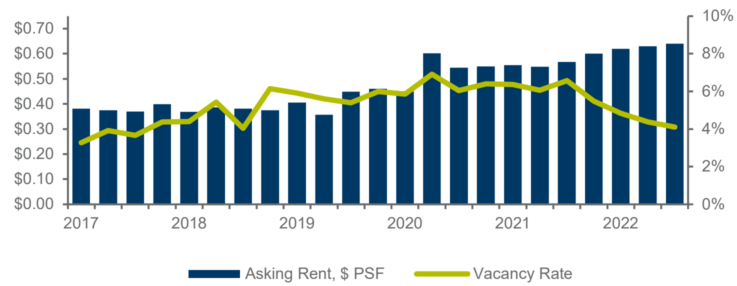
The vacancy rate in the Central Valley industrial market was 4.1% at the end of the third quarter, down 240 basis points (bps) YOY, despite over 11.2 million square feet (msf) of new construction delivering in the same period. Vacancy for manufacturing product was just 2.5% at the end of the third quarter and has been below 3.0% since recording significant positive absorption in late 2021. Demand for warehouse space has kept pace with robust construction activity, with vacancy closing the third quarter at 4.5%, a decline of 40 bps from Q2. The market's decline in vacancy was remarkable given that over 2.0 msf of speculative construction was delivered this quarter. This is a reversal from last quarter where over 82% of the 4.9 msf completed was build-to-suit. Vacancy in Stockton, the region's largest submarket, was 4.4% in the third quarter, ticking up just 20 bps from the prior quarter, as a new 118,000-sf warehouse delivered vacant at 4441 Alitalia Way.

Despite being only three quarters of the way through the year, the Central Valley has already surpassed the prior full year records for leasing activity, net absorption, and construction deliveries. Year-to-date (YTD) net absorption was just over 11.2 msf at the end of the third quarter, or 7.0% of the market's total inventory. A driving force behind this has been an increase in build-to-suit (BTS) deliveries, including a new 1.1 msf Amazon facility in Turlock that completed this quarter and Amazon's 3.5-msf "Project Big Bird" that delivered in Q2. In addition to BTS construction, tenant's have continued to lease up existing inventory and speculative new construction, with gross activity topping 11.7 msf YTD.

SPACE DEMAND / DELIVERIES



OVERALL VACANCY & ASKING RENT



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DEMAND: Occupancy Increases in Third Quarter

After a record second quarter, leasing activity showed no signs of slowing in the third. The largest lease of the quarter was signed by Prism Logistics for 751,021 sf at 2 Nestle Way in Lathrop, a full building sublease from Del Monte Foods. The second largest new lease of the quarter was signed by World Market for all 508,800 SF of 1909 Zephyr Street in Stockton. Also of note was ConAgra's renewal for 726,299 sf at 1000 Oates Court in Modesto. Modesto, a submarket that has recently seen less development than markets in San Joaquin County, had a particularly strong quarter as new supply was added to the market with a vacancy rate of just 0.5%. Two warehouses delivered in Modesto this quarter, fully leased. Saddle Creek leased all 405,201 sf of G3's project at 1235 E. Whitmore Avenue and PSC leased all 150,000 sf of Beard Land's new warehouse at 590 South McClure Road. Additionally, Plastipak entered into an agreement for a 300,000-sf BTS next to their existing facility on Leckron Road.

PRICING: Asking Rents Rise

The overall asking rate for Central Valley industrial closed the third quarter at $0.64 per square foot (psf) on a monthly triple-net basis. This is up 12.2% 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 $0.64 and $0.71 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 $0.71 psf. 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 was $1.20 psf in the third quarter. Strong demand and the rising quality of inventory are expected to keep placing upward pressure on rents.

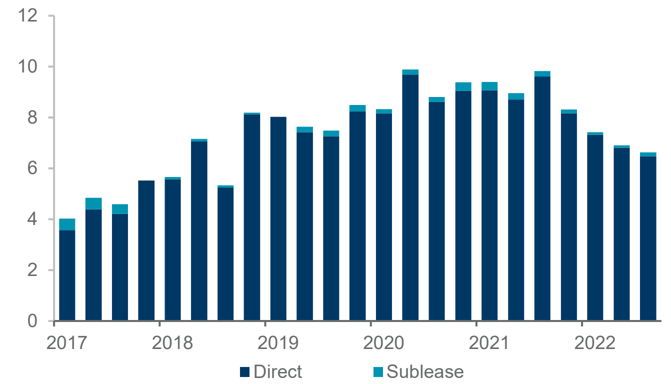
CONSTRUCTION: Building Out the Central Valley

Walls continued to go up across the Central Valley with 8.8 msf under construction at the close of the third quarter. Of the projects under construction, 77.2%, or about 6.8 msf, are speculative developments. Upon delivery, these new spaces could place upward pressure on vacancy, but demand remained strong, and this space will likely continue to be absorbed as tenants look for the elevated clear heights, high dock door ratios, and generous truck courts only found in newer inventory. Large requirements in Northern California are increasingly reliant on the Central Valley which provides easy access to core Bay Area markets where larger scaled projects are no longer feasible.

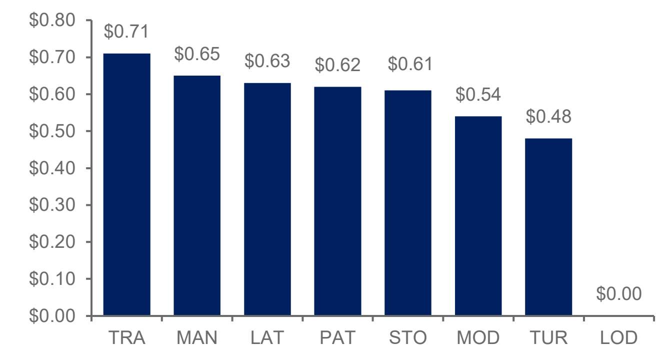
Outlook

- Net absorption totaled 3.5 msf in the third quarter and is expected to decline slightly in the coming quarters as speculative development projects outpace build-to-suits.
- Asking rents closed the first quarter at $0.64 psf, marking an $0.07 YOY increase. Rental growth is expected to slow but continue, as new construction places upward pressure on asking rates.
- Future supply, currently under construction, totals 8.8 msf of which 77% is speculative new construction, As a result, vacancy may increase in the short term.

DIRECT AND SUBLEASE AVAILABLE SPACE



OVERALL AVERAGE ASKING RATE BY SUBMARKET (NNN)



MARKETBEAT

CENTRAL VALLEY

Industrial Q3 2022

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	37,000	0.4%	-37,000	133,000	0	$0.00	$0.00	$0.00
Stockton	50,512,952	2,221,525	4.4%	83,498	1,244,753	207,296	$0.61	$0.50	$0.61
Lathrop	18,630,390	1,504,030	8.1%	455,430	2,303,370	0	$0.63	$0.60	$0.63
Tracy	35,993,163	2,139,641	5.9%	1,056,235	4,947,986	1,401,669	$0.68	$0.78	$0.70
Manteca	5,385,282	159,682	3.0%	-5,824	-7,374	0	$0.65	$0.00	$0.65
San Joaquin County	**120,272,780**	**6,061,878**	**5.0%**	**1,552,339**	**8,621,735**	**1,608,965**	**$0.64**	**$0.77**	**$0.65**
Modesto	29,473,850	156,844	0.5%	529,734	1,187,514	554,701	$0.40	$0.55	$0.54
Turlock	5,096,915	54,156	1.1%	1,080,308	1,080,431	1,080,308	$0.00	$0.48	$0.48
Patterson	6,286,428	356,065	5.7%	356,065	356,065	0	$0.62	$0.00	$0.62
Stanislaus County	**40,857,193**	**567,065**	**1.4%**	**1,966,107**	**2,624,010**	**1,635,009**	**$0.61**	**$0.53**	**$0.58**
TOTAL	**161,129,973**	**6,628,943**	**4.1%**	**3,518,446**	**11,245,745**	**3,243,974**	**$0.64**	**$0.71**	**$0.64**

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

MF = Manufacturing W/D = Warehouse/Distribution

KEY LEASE TRANSACTIONS Q3 2022

PROPERTY	SUBMARKET	TENANT	RSF	TYPE
2 Nestle Way	Lathrop	Prism Logistics	751,021	Sublease
1000 Oates Court	Modesto	ConAgra	726,299	Renewal
1909 Zephyr Street	Stockton	World Market	508,800	New Lease
1235 E. Whitmore Avenue	Modesto	Saddle Creek	405,201	New Lease
400 Park Center Drive	Patterson	G3	356,065	New Lease

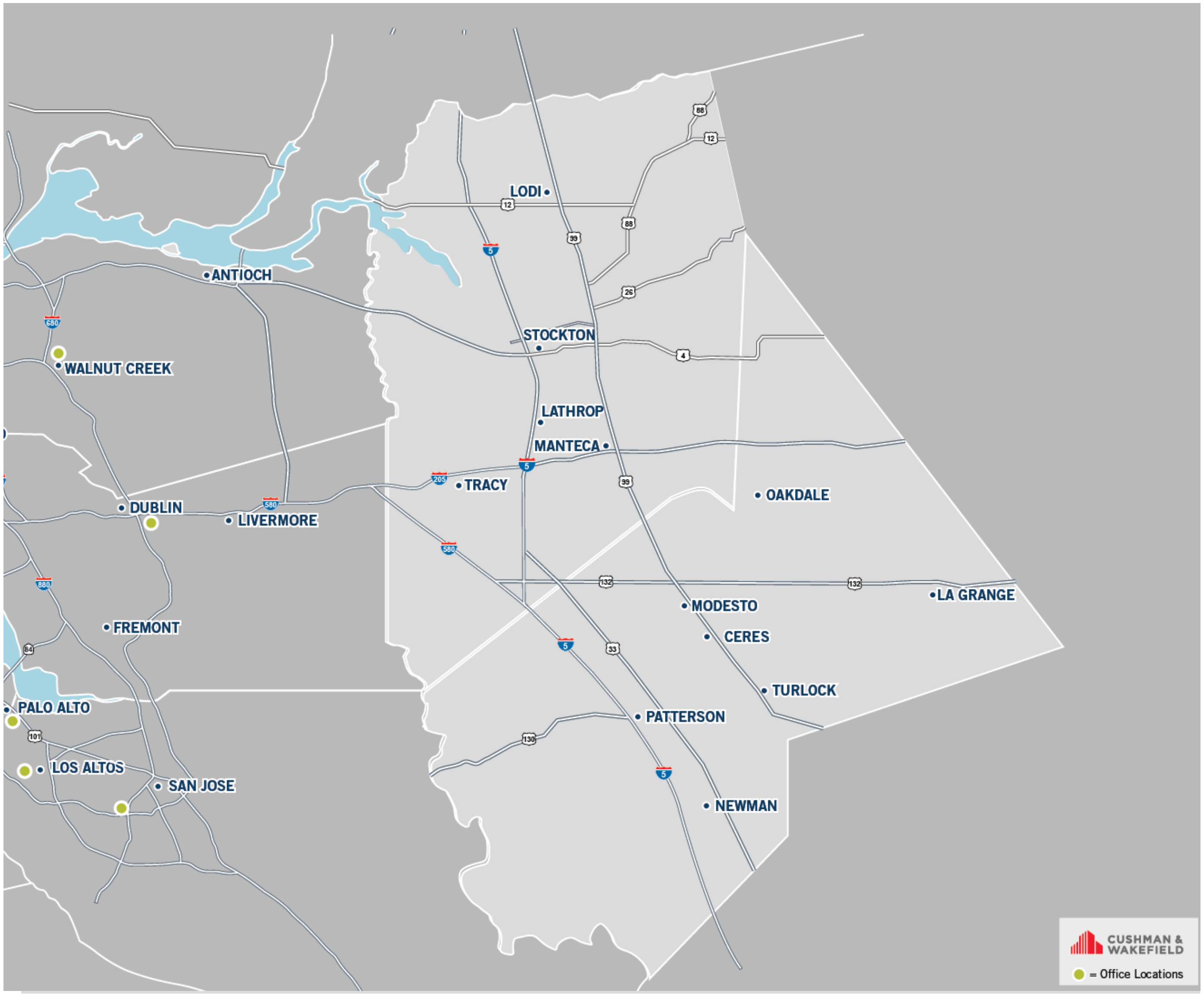
KEY SALES TRANSACTIONS Q3 2022

PROPERTY	SUBMARKET	SELLER / BUYER	SF	PRICE/$ PSF
Stockton Industrial Park	Stockton	Blackstone / Intercontinental & Kennedy Wilson	877,648	$84M / $96
17995 Murphy Parkway	Lathrop	Quinn Family Trust / Dalfen Industrial	119,024	$23.5M / $198
1880 N. MacArthur Drive	Tracy	Surtec, Inc. / Dalfen Industrial	86,136	$10.9M / $126
611 W. Fremont Street	Stockton	Barto & Donna Price / Leffingwell Plaza LLC	45,000	$4.5M / $100

MARKETBEAT
CENTRAL VALLEY
Industrial Q3 2022

CUSHMAN & WAKEFIELD

INDUSTRIAL SUBMARKETS



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