MARKETBEAT

CENTRAL VALLEY

Industrial Q4 2022

	YoY Chg	12-Mo. Forecast
4.6% Vacancy Rate	▼	▲
-208K Net Absorption, SF	▼	▲
$0.67 Asking Rent, PSF	▲	▲

Overall, Net Asking Rent

ECONOMIC INDICATORS Q4 2022

	YoY Chg	12-Mo. Forecast
449.9K Central Valley Employment	▲	▲
5.6% Central Valley Unemployment Rate	▼	▲
3.7% U.S. Unemployment Rate	▼	▲

Source: BLS, Moody's Analytics.
2022Q4 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 below 450,000. 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, in 2022, the Central Valley Industrial market experienced record occupancy growth, shedding vacancy amidst a flood of new construction. The region's largest occupiers continued 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 Hinges on New Construction

The vacancy rate in the Central Valley industrial market was 4.6% at the end of the fourth quarter, down 90 basis points (bps) YOY, despite over 10.0 million square feet (msf) of new construction delivering in the same period. Vacancy for manufacturing product was just 2.1% at the end of the fourth quarter and has been below 3.0% since recording significant positive absorption in late 2021. Warehouse vacancy recorded a slight uptick in the fourth quarter as vacant new construction and a modest rise in sublease space brought the vacancy rate to 5.1%. This remained down 40 bps YOY, remarkable given the amount of speculative construction that delivered over the course of the year. Vacancy in Stockton, the region's largest submarket, jumped to 5.7% as Overton Moore delivered a vacant 463,000 sf across two warehouses at Duck Creek Commerce Park. Over the course of 2022, vacancy declined in six of the region's eight submarkets, rising only in Stockton and Tracy where new construction was most active. Total inventory in Tracy grew by approximately 20% in 2022, delivering over 6.0 msf of new construction. Despite this growth, vacancy was just 5.3% in the fourth quarter.

The fourth quarter brought a record year to a close in the Central Valley, with 2022 recording the highest levels of leasing activity, net absorption, and new construction since Cushman & Wakefield began tracking the market. A rise in build-to-suit deliveries was a significant boost to net absorption, making up 5.3 msf of the region's 10.0 msf of new inventory. However, tenant demand for speculative product was equally important to the 11.0 msf of positive net absorption recorded this year. Major leases including Williams-Sonoma for 1.1 msf in Tracy and Niagara Bottling for 707,000 sf in Stockton limited new construction's effect on vacancy.

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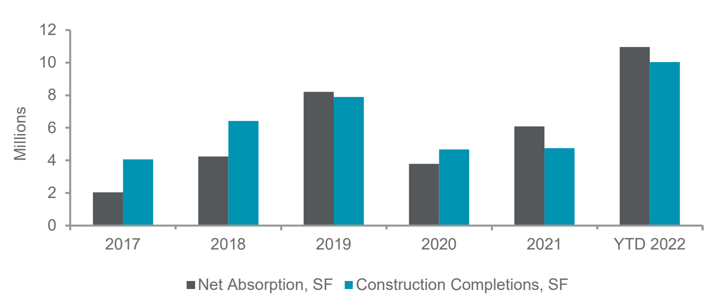
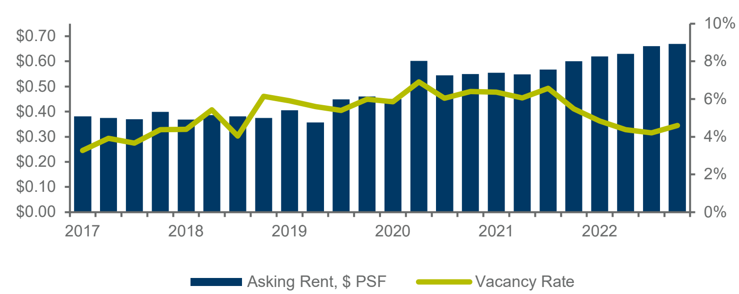
SPACE DEMAND / DELIVERIES



OVERALL VACANCY & ASKING RENT



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DEMAND: Renewals Drive Activity in Fourth Quarter

Leasing activity in the fourth quarter was driven by renewals, with several of the market's most notable tenants recommitting to the region. The largest lease of the quarter was signed by Costco, renewing their 780,000-sf distribution facility at Prologis Park Duck Creek in Stockton. Also of note was Del Monte's renewal for 711,335 sf across multiple buildings in the Beard Industrial Park in Modesto. The largest new lease of the quarter was signed by McCollister's Transportation for 195,599 sf at 6751 W. Schulte Road in Prologis' International Park of Commerce. The 375,369-sf building was delivered earlier this year and is now 100% leased. GXO Logistics also signed a notable new lease for 153,858 sf at 1340 Dupont Court in Manteca.

PRICING: Asking Hold at Market High

The overall asking rate for Central Valley industrial closed the fourth quarter at $0.67 per square foot (psf) on a monthly triple-net basis. This is up 12.1% 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 $0.66 and $0.72 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 $0.77 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 exceeded $1.25 psf in the fourth quarter. Strong demand and the rising quality of inventory are expected to keep placing upward pressure on rents.

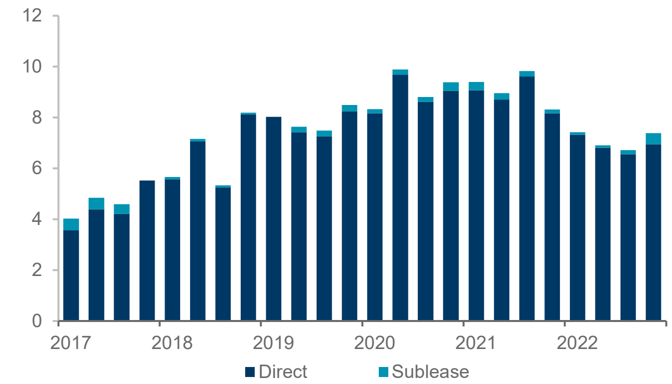
CONSTRUCTION: Building Out the Central Valley

Walls continued to go up across the Central Valley with 8.6 msf under construction at the end of 2022. The fourth quarter saw a relative lull in deliveries, but the market anticipates over 5.0 msf to deliver in the first half of 2023. Of the total projects under construction, 73.2%, or about 6.3 msf, are speculative developments. Upon delivery, these new spaces could place upward pressure on vacancy, but given the strength of demand this year, this space will likely continue to be absorbed. Tenants continued to 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.

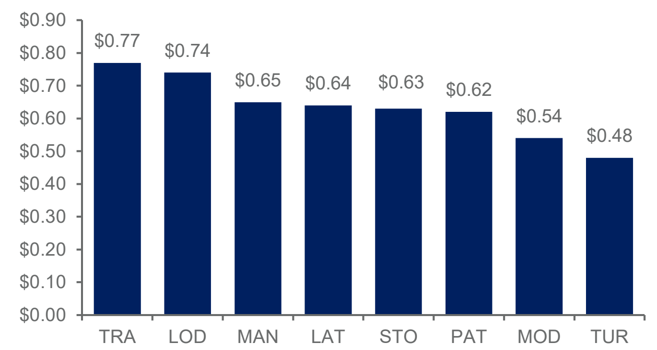
Outlook

- Net absorption is expected to remain positive in coming quarters as speculative developments provide desirable inventory for occupancy growth.
- Asking rents closed the fourth quarter at $0.64 psf. Rental growth is expected to slow but continue, as new construction places upward pressure on asking rates.
- Future supply, currently under construction, totals 8.6 msf of which 73% 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)



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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)	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	114,760	1.2%	0	55,240	0	$0.74	$0.00	$0.74
Stockton	50,976,123	2,902,553	5.7%	-217,857	1,026,896	463,171	$0.63	$0.50	$0.63
Lathrop	18,630,390	1,897,142	10.2%	-393,112	1,910,258	0	$0.64	$0.60	$0.64
Tracy	36,396,223	1,917,452	5.3%	222,189	5,169,675	0	$0.77	$0.80	$0.77
Manteca	5,385,282	0	0.0%	159,682	152,308	0	$0.00	$0.00	$0.00
San Joaquin County	**121,139,011**	**6,831,907**	**5.6%**	**-229,098**	**8,314,377**	**463,171**	**$0.67**	**$0.79**	**$0.67**
Modesto	29,419,950	135,408	0.5%	21,436	1,208,950	0	$0.40	$0.55	$0.54
Turlock	5,096,915	54,156	1.1%	0	1,080,431	0	$0.00	$0.48	$0.48
Patterson	6,286,428	356,065	5.7%	0	356,065	0	$0.62	$0.00	$0.62
Stanislaus County	**40,803,293**	**545,629**	**1.3%**	**21,436**	**2,645,446**	**0**	**$0.61**	**$0.53**	**$0.59**
TOTAL	**161,942,304**	**7,377,536**	**4.6%**	**-207,662**	**10,959,823**	**463,171**	**$0.66**	**$0.72**	**$0.67**

**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 2022

PROPERTY	SUBMARKET	TENANT	RSF	TYPE
Prologis Park Duck Creek	Stockton	Costco	780,371	Renewal
Beard Industrial Park	Modesto	Del Monte	711,335	Renewal
4611 Newcastle Road	Stockton	Fox Head	391,385	Renewal
6751 W. Schulte Road	Stockton	McCollister's Transportation	195,599	New Lease
1340 Dupont Court	Manteca	GXO Logistics	153,858	New Lease

KEY SALES TRANSACTIONS Q4 2022

PROPERTY	SUBMARKET	SELLER / BUYER	RSF	PRICE/$ PSF
4441 Alitalia Way	Stockton	Buzz Oates / Goodwill	200,000	$105.1M / $526
18231 Murphy Parkway	Lathrop	Overton Moore Properties / Lowenberg Corp.	198,183	$30.3M / $153
119 Val Dervin Parkway	Stockton	Michael G. Partington / 119 Val Dervin LLC	42,187	$4.8M / $114

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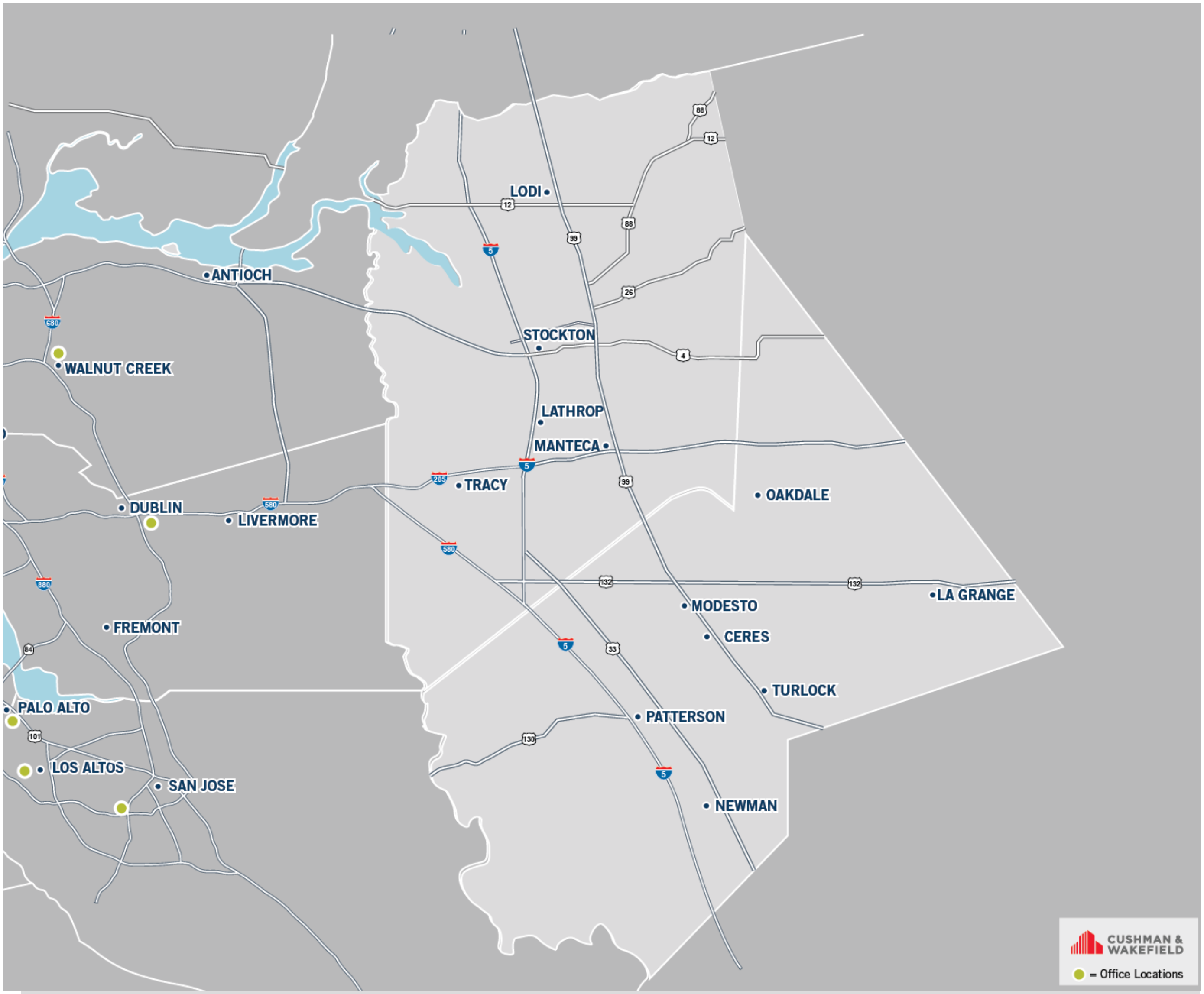
INDUSTRIAL SUBMARKETS



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