

Industrial Q2 2021

	YoY Chg	12-Mo. Forecast
6.0% Vacancy Rate	▼	▲
-180K Net Absorption, SF	▲	▲
\$0.51 Asking Rent, PSF	▼	▲
Overall, Net Asking Rent		

ECONOMIC INDICATORS
Q2 2021

	YoY Chg	12-Mo. Forecast
422K Central Valley Employment	▲	▲
8.4% Central Valley Unemployment Rate	▼	▼
5.9% U.S. Unemployment Rate	▼	▼

Source: BLS, Moody's Analytics.
2021Q2 data are based on latest available data.

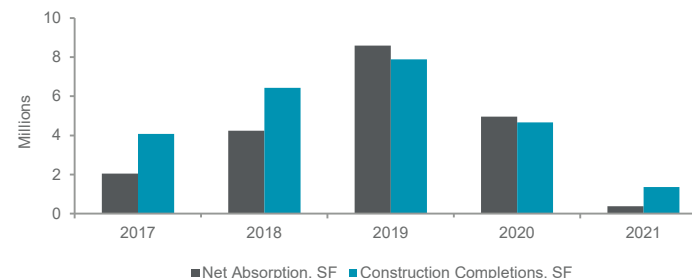
ECONOMY: California Reopening Commences

The Central Valley, encompassing Stockton and Modesto Metropolitan Statistical Areas (MSAs), recorded an increase in job growth with 27,400 jobs (+6.9%) added year-over-year (YOY), bringing regional employment to just over 422,000. After five quarters of annual employment losses, this increase indicates the region is on the way to full economic recovery in the aftermath of the COVID-19 pandemic, with the region nearly re-attaining the record pre-pandemic employment level of 425,000. With this increase, and with an increase in the size of the labor force, the unemployment rate correspondingly declined -740 basis points (bps) to 8.4%, still significantly above the national rate of 5.9%. Upon the arrival of COVID-19 in the U.S., the economy entered a historically unprecedented recession in March of 2020. In the Central Valley, consumer services industries were severely impacted, particularly the restaurant and retail sectors. The commercial real estate market saw a decline in office occupancy levels due to government shelter-in place orders, while the warehousing and distribution sector recorded consistent growth due to increasing consumer reliance on online marketplaces. With the advent of reliable vaccines in early 2021, the road to full recovery has come into focus and California began fully reopening its economy in June of 2021.

SUPPLY: Vacancy Declines as New Construction Absorbed

The vacancy rate in the Central Valley industrial market was 6.0% at the end of the quarter, recording a modest uptick of 20 bps from the first quarter though down 70 bps YOY. Both product types saw a decline, though only a minuscule 4,282 square feet (sf) of warehouse space was taken off the market in the past year, compared to a more pronounced decline of 645,0269 sf in the manufacturing sector. While the absorption of second-generation space was responsible for some of this decrease, the majority was due to the leasing of several large blocks of new construction that had delivered unleased which had the net effect of temporarily increasing vacancy. In recent years, new construction has been a major driver of fluctuations in the vacancy rate and of the 8.8 million sf (msf) presently on the market, 1.7 msf is in product delivered in the past year, with the most notable block being the 420,000 sf at 6440 Aviation Drive in Stockton, delivered in June of 2020. Though activity has declined somewhat in recent months due to the ongoing pandemic, these large blocks of space are attracting rising demand from e-commerce users due to their modern amenities and large clear heights which maximize distribution efficiency. Sublease space remains virtually nonexistent in the Central Valley with 249,269 sf currently available, up from 194,920 sf at this time last year. With 7.9 msf of product under construction, all slated for delivery in the next year, vacancy is forecasted to increase in the coming months, at least temporarily.

SPACE DEMAND / DELIVERIES



OVERALL VACANCY & ASKING RENT





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PRICING: Rents Dip in the Second Quarter

Despite the contraction in supply, asking rents have not seen much if any movement, closing at \$0.51 per square foot (psf) on a monthly triple-net basis, down \$0.03 YOY though recording no change from the first quarter. The decline was primarily due to the absorption of new construction commanding top-of-the-market rents and thus being removed from the average rent calculation, as well the fact that the majority of spaces in the Central Valley come to the market unpriced. Rents are forecasted to increase over the coming quarters as new product continues to deliver along with a rising demand from e-commerce users as well as more traditional industrial sectors.

DEMAND: Occupancy Declines, Will Rebound Soon

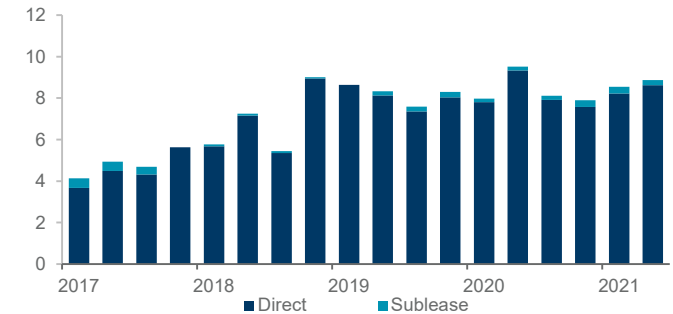
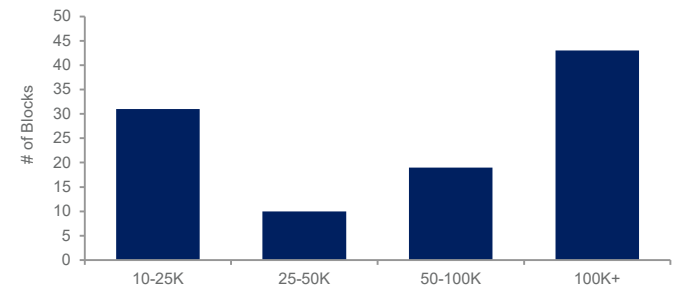
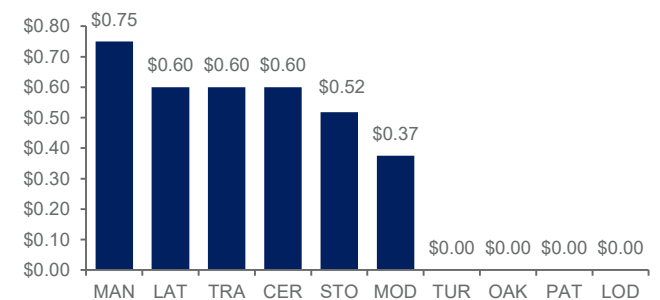
Occupancy growth was in the red in the first quarter, with net absorption totaling negative 180,078 sf, a pronounced decline from the positive 569,021 sf absorbed in the first quarter as well as the nearly 5.0 msf of occupancy growth over the course of 2020. Gross absorption totaled 978,538 sf in the second quarter, with San Joaquin County, which hosts 73% of the region's inventory, recording the bulk of all leasing activity across the market. The concentration in activity here during this business cycle can be tied back to its closer proximity to key trucking routes into the greater Bay Area, with the county being home to nearly all construction development occurring in the market. In recent years, the Central Valley has recorded consistent occupancy gains due to the development of in-demand industrial product, and occupancy has risen by 31.7 msf over the past five years. We expect occupancy to increase in the next year as the market captures spillover demand from the Bay Area, particularly from the e-commerce sector.

CONSTRUCTION: Building Out the Central Valley

Essential to the story of the Central Valley industrial market is the volume of new construction delivered in recent years, which is playing a major role in modernizing the region's building inventory. There has been 34.5 msf of deliveries since 2010, representing a 30.6% increase in the region's building base, while 7.9 msf is currently under construction. Of these projects, 5.8 msf is being built on a speculative basis, with the pipeline expected to increase further with new projects at various stages of planning. Though some of these projects will likely not deliver preleased, they will generate even more interest from large requirements in the region, especially those looking to leave the increasingly congested and tight Bay Area markets.

Outlook

- Net absorption totaled negative 180,078 sf in the second quarter, a decline from the positive 569,021 sf of occupancy growth in first quarter. Occupancy is expected to increase in the coming months as preleased new construction delivers.
- Asking rents closed the second quarter at \$0.51 psf, marking a \$0.03 YOY decrease. Rents are expected to increase over the next year due primarily to the delivery of vacant new construction.
- There are 106 requirements currently being tracked, totaling 24.0 msf. Demand is expected to increase in the next year, and the rise will be driven by e-commerce users in the marketplace.

DIRECT AND SUBLEASE AVAILABLE SPACE**AVAILABILITIES BY SIZE SEGMENT****OVERALL AVERAGE ASKING RATE BY SUBMARKET (NNN)**

Industrial Q2 2021

MARKET STATISTICS

SUBMARKET	INVENTORY (SF)	OVERALL VACANT (SF)	OVERALL VACANCY RATE	CURRENT QTR OVERALL NET ABSORPTION (SF)	YTD OVERALL NET ABSORPTION (SF)	UNDER CNSTR (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	97,600	1.0%	0	-97,600	3,013,969	0	\$0.00	\$0.00	\$0.00
Stockton	48,838,082	3,777,032	7.7%	-205,216	75,813	835,223	143,448	\$0.55	\$0.35	\$0.52
Lathrop	14,961,773	588,082	3.9%	-272,964	-338,564	0	0	\$0.00	\$0.60	\$0.60
Tracy	29,893,685	2,126,908	7.1%	201,222	759,304	3,712,082	0	\$0.60	\$0.00	\$0.60
Manteca	5,469,979	159,103	2.9%	0	0	0	0	\$0.75	\$0.36	\$0.75
San Joaquin County	108,613,481	6,748,725	6.2%	-276,958	398,953	7,561,274	143,448	\$0.57	\$0.45	\$0.56
Oakdale	1,890,543	0	0.0%	0	0	0	0	\$0.00	\$0.00	\$0.00
Modesto	26,575,428	1,292,496	4.9%	73,488	-63,123	369,000	0	\$0.51	\$0.15	\$0.37
Ceres	438,348	5,000	1.1%	0	12,000	0	0	\$0.60	\$0.00	\$0.60
Turlock	4,016,607	54,279	1.4%	23,392	41,113	0	0	\$0.00	\$0.00	\$0.00
Patterson	6,301,428	776,750	12.3%	0	0	0	0	\$0.00	\$0.00	\$0.00
Stanislaus County	39,222,354	2,128,525	5.4%	96,880	-10,010	369,000	0	\$0.51	\$0.15	\$0.38
TOTAL	147,835,835	8,877,250	6.0%	-180,078	388,943	7,930,274	143,448	\$0.56	\$0.37	\$0.51

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

MF = Manufacturing W/D = Warehouse/Distribution

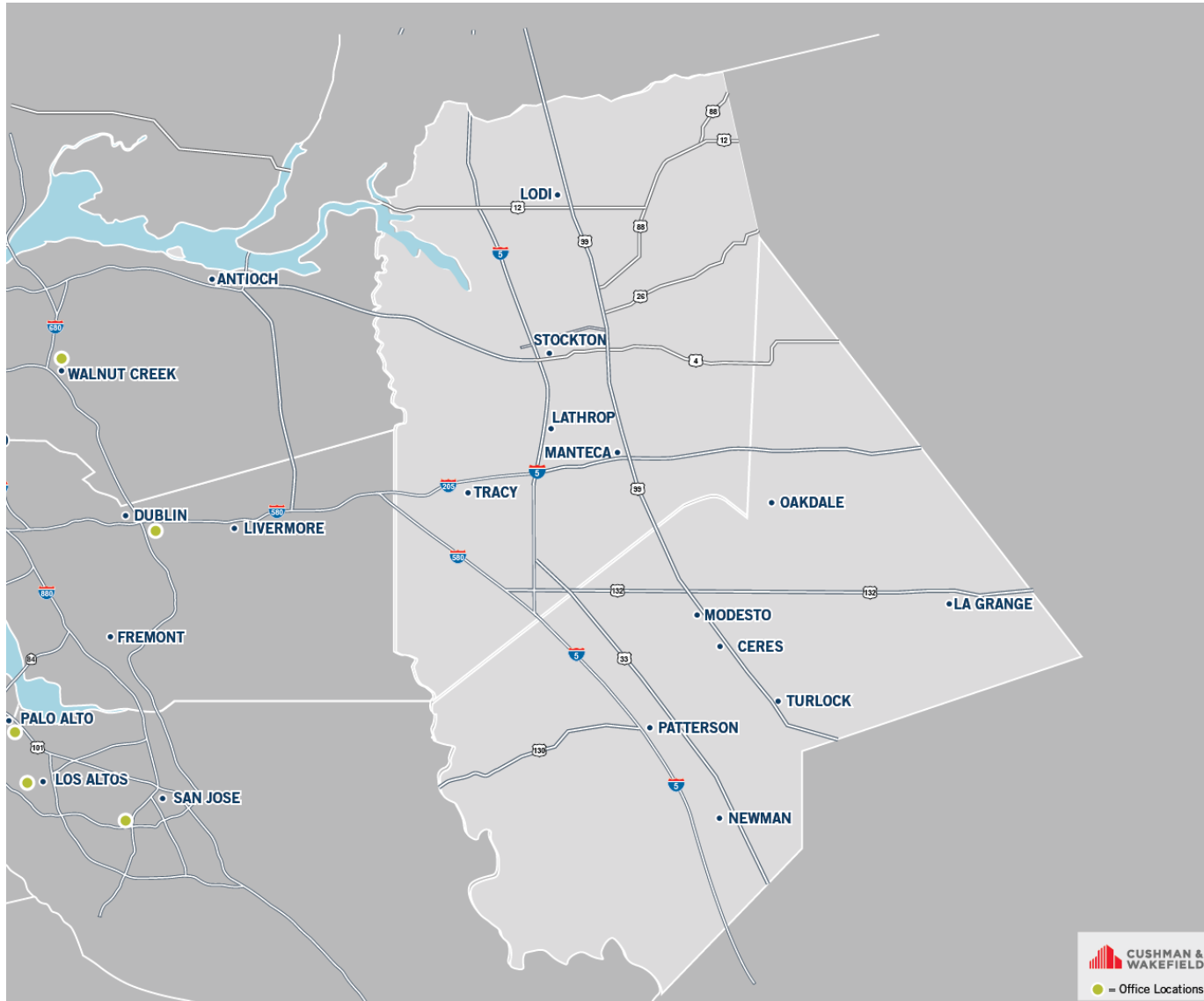
KEY LEASE TRANSACTIONS Q2 2021

PROPERTY	SUBMARKET	TENANT	RSF	TYPE
1815 Navy Drive	Stockton	Zuo Modern Inc	95,769	Sublease
1918 Industrial Dr	Stockton	White Glove Delivery	26,000	Sublease
1010 Industrial Dr	Stockton	Musket Corporation	21,430	New Lease
5256 Pirrone St	Manteca	Yzer Distribution	18,600	New Lease
212 Larch Rd W	Tracy	Lavoy Architectural Sales LLC	15,448	New Lease

KEY SALES TRANSACTIONS Q2 2021

PROPERTY	SUBMARKET	SELLER / BUYER	SF	PRICE/\$ PSF
1624 Army Ct	Stockton	Dermody Properties, Inc. / DRA Advisors LLC	655,976	\$53.8M / \$82
1400 Waterloo Rd (2 Properties)	Stockton	Morning Star Packing / L.B. Stone Properties	312,722	\$12.8M / \$41
2105 Nathan Ave	Modesto	Endsley Properties / US Spices Corp	126,000	\$9.1M / \$72
450 E Grant Line Rd	Tracy	First Class Service Trucking / Jasdeep Singh	101,101	\$9.0M / \$89
2025 W Hazelton Ave	Stockton	George Weinberger / US Concrete	92,200	\$8.2M / \$89

INDUSTRIAL SUBMARKETS



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