MARKETBEAT

CENTRAL VALLEY

Industrial Q4 2021

	YoY Chg	12-Mo. Forecast
5.6% Vacancy Rate		
3.0M Net Absorption, SF		
$0.59 Asking Rent, PSF		

Overall, Net Asking Rent

ECONOMIC INDICATORS Q4 2021

	YoY Chg	12-Mo. Forecast
425.9 Central Valley Employment		
8.2% Central Valley Unemployment Rate		
4.2% U.S. Unemployment Rate		

Source: BLS, Moody's Analytics.
2021Q4 data are based on latest available data.

ECONOMY: California Reopening Stumbles, Industrial Does Not

The Central Valley, encompassing Stockton and Modesto Metropolitan Statistical Areas (MSAs), recorded an increase in job growth, adding 8,300 jobs year-over-year (YOY), bringing regional employment to just below 426,000. This increase returned the region to roughly its pre-pandemic employment level. Despite widespread vaccinations, a spike in cases late in the fourth quarter driven by the new Omicron variant has led to the reintroduction of mask mandates and additional safety measures across much of the country. While this continued to weigh on office occupancy and retail property markets, industrial real estate has proven resilient. The largest headwind facing the industrial sector comes from disruptions to the global supply chain, but while this may affect individual tenants, the market continues 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.

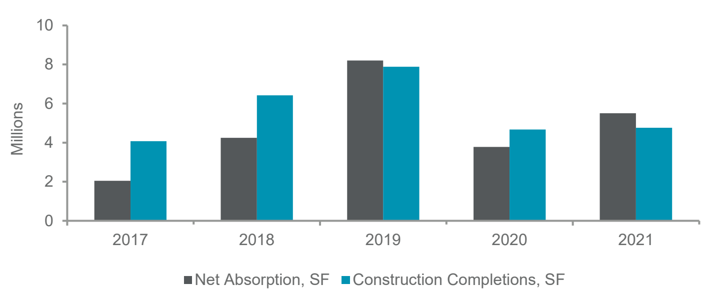
SUPPLY: Vacancy Declines Despite New Construction

The vacancy rate in the Central Valley industrial market was 5.6% at the end of 2021, down 80 basis points (bps) YOY despite over 4.8 million square feet (msf) of new construction delivering in the same period. The manufacturing product type drove a significant amount of this decline with vacancy down 420 bps YOY as tenants settled for second and third generation manufacturing space in lieu of more expensive warehouse space. New construction has been focused almost exclusively on Class A distribution space, leaving tenants to steadily absorb existing inventory. All 4.8 msf of new construction this year was warehouse/distribution space and the majority was delivered on a speculative basis. This new supply slightly outpaced net absorption and vacancy for warehouse increased a modest 10 bps in 2021. The effect of vacant new construction is most evident in the submarket of Lathrop, where 2.7 msf of new construction delivered in the latter half of 2021. This was a 17.8% increase in inventory for the submarket and drove vacancy from 4.4% in the first quarter to 17.1% in the fourth. Lathrop was the only submarket to record a YOY increase in vacancy. Looking ahead, vacancy may swing in individual submarkets based on construction completions but is expected to continue declining at the market level.

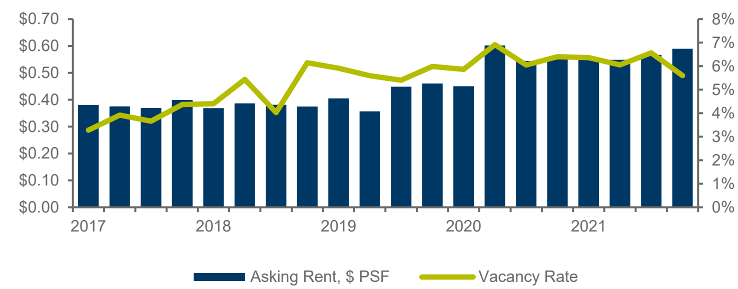
PRICING: Asking Rents Rise

The overall asking rate for Central Valley industrial closed the fourth quarter at $0.59 per square foot (psf) on a monthly triple-net basis. This is up 7.3% year over year, as new construction in the region's most desirable submarkets continued to pull up the average.

SPACE DEMAND / DELIVERIES



OVERALL VACANCY & ASKING RENT



Warehouse and manufacturing specific rents closed the quarter at $0.60 and $0.51 psf, respectively. The average asking rate has increased significantly in the past several years, a factor of both new construction and a significant uptick in demand. With no sign of demand slowing and new inventory on the way, asking rates are anticipated to continue their steady increase in 2022.

DEMAND: Occupancy Increases in Fourth Quarter

Occupancy growth remained in the black during the fourth quarter, recording 3.0 msf of positive net absorption, the highest level in 2021. What is more impressive is that there were no deliveries of pre-leased construction, something that has driven strong absorption in prior quarters. The fourth quarter was the culmination of a booming year for leasing activity, with several large tenants occupying space that had been leased earlier in the year. Young's Market completed its expansion, occupying the entire 610,914 sf at 1207 E Grant Line Road in Tracy. Costco also occupied their recently leased 419,608 sf at 6440 Aviation Drive and KiwiCo renewed for 343,832 sf in Lathrop. Manufacturing absorption benefited from significant occupancy growth at the 1.1-msf former General Mills facility at 2000 W Turner Avenue in Lodi, which is now almost fully leased. Net absorption is expected to remain positive in 2022 with two significant build-to-suits expected to deliver early next year. The largest is the multi-story, approximately 3.5-msf Project "Big Bird" being built for Amazon in Tracy and the second is a 651,000-sf warehouse being built for Kraft in Lathrop. The largest new lease of the fourth quarter was Costco at 2222 S. Sinclair Avenue in Stockton, inking a lease for the entire 262,000-sf manufacturing facility from Overton Moore.

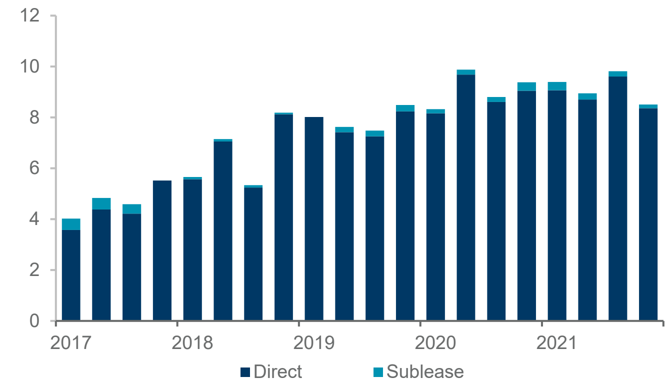
CONSTRUCTION: Building Out the Central Valley

New projects continued to break ground across the Central Valley in the fourth quarter with over 9.2 msf currently under construction in the region. Approximately half of that space is part of the previously mentioned build-to-suits, with just shy of 5.0 msf being built on a speculative basis. The most notable new project underway is Building 4 of Airpark 599, a 1,182,740-sf distribution center being developed by a joint venture between Catellus and IDI Logistics. In just four years, the Central Valley has grown inventory by 18.8% while only recording a 1.4% increase in vacancy. This is a testament to tenants' desire for the elevated clear heights, high dock door ratio and well configured truck courts that are hard to find in existing inventory. Large requirements are increasingly reliant on the Central Valley which provides access to the core Bay Area markets that have become more difficult to develop in.

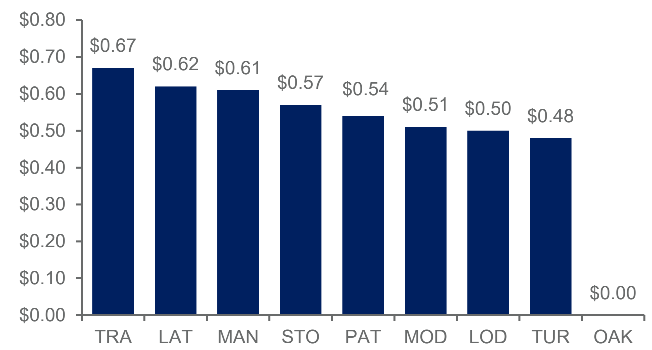
Outlook

- Net absorption totaled 3.0 msf in the fourth quarter and is expected to remain positive in the coming months as preleased new construction delivers.
- Asking rents closed the fourth quarter at $0.59 psf, marking a $0.04 YOY increase. Rents are expected to continue increasing modestly into 2022, due primarily to the delivery of vacant new construction.
- There are 102 requirements currently being tracked, totaling 29.7 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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Industrial Q4 2021

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	170,000	1.8%	527,600	430,000	0	$0.00	$0.50	$0.50
Stockton	49,536,764	2,551,828	5.2%	1,230,748	2,438,483	0	$0.58	$0.50	$0.57
Lathrop	17,632,650	3,009,660	17.1%	585,784	247,220	1,676,434	$0.62	$0.60	$0.62
Tracy	29,889,798	1,065,376	3.6%	547,880	1,820,836	0	$0.67	$0.00	$0.67
Manteca	5,380,235	152,308	2.8%	5,824	6,795	0	$0.61	$0.00	$0.61
San Joaquin County	**111,889,409**	**6,949,172**	**6.2%**	**2,897,836**	**4,943,334**	**1,676,434**	**$0.61**	**$0.53**	**$0.60**
Oakdale	1,890,543	0	0.0%	0	0	0	$0.00	$0.00	$0.00
Modesto	26,959,770	789,657	2.9%	21,557	456,716	0	$0.56	$0.48	$0.51
Turlock	4,016,607	54,279	1.4%	0	41,113	0	$0.00	$0.48	$0.48
Patterson	6,286,428	712,130	11.3%	64,620	64,620	0	$0.54	$0.00	$0.54
Stanislaus County	**39,153,348**	**1,556,066**	**4.0%**	**86,177**	**562,449**	**0**	**$0.55**	**$0.48**	**$0.52**
TOTAL	**151,042,757**	**8,505,238**	**5.6%**	**2,984,013**	**5,505,783**	**1,676,434**	**$0.60**	**$0.51**	**$0.59**

*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 Q4 2021

PROPERTY	SUBMARKET	TENANT	RSF	TYPE
11980 S. Harlan Road	Lathrop	KiwiCo	343,832	Renewal
2222 Sinclair Avenue	Stockton	Costco	262,844	New Lease
3458 Yosemite Avenue	Lathrop	Hollingsworth Logistics	205,664	New Lease
2020 N. MacArthur Drive	Tracy	Wagner Industries Inc.	174,882	New Lease
4545 Qantas Lane	Stockton	C&H Enterprises	110,025	New Lease
1195 N. Gertrude Avenue	Stockton	High Caliber	100,000	New Lease

KEY SALES TRANSACTIONS Q4 2021

PROPERTY	SUBMARKET	SELLER / BUYER	SF	PRICE/$ PSF
17100 S. Harlan Road	Lathrop	Vertical Ventures / Dalfen Industrial	417,720	$51.5M / $123
400 Gandy Dancer Drive	Tracy	First Class Service Trucking / Fortress	159,040	$25.5M / $160
4466 Pock Lane	Stockton	Buzz Oates / Heimark Distributing	143,448	$19.0M / $132
2205 N. Airport Way (Land)	Manteca	CenterPoint / Reyes Holdings	33.96 Acres	$13.7M / $9.27

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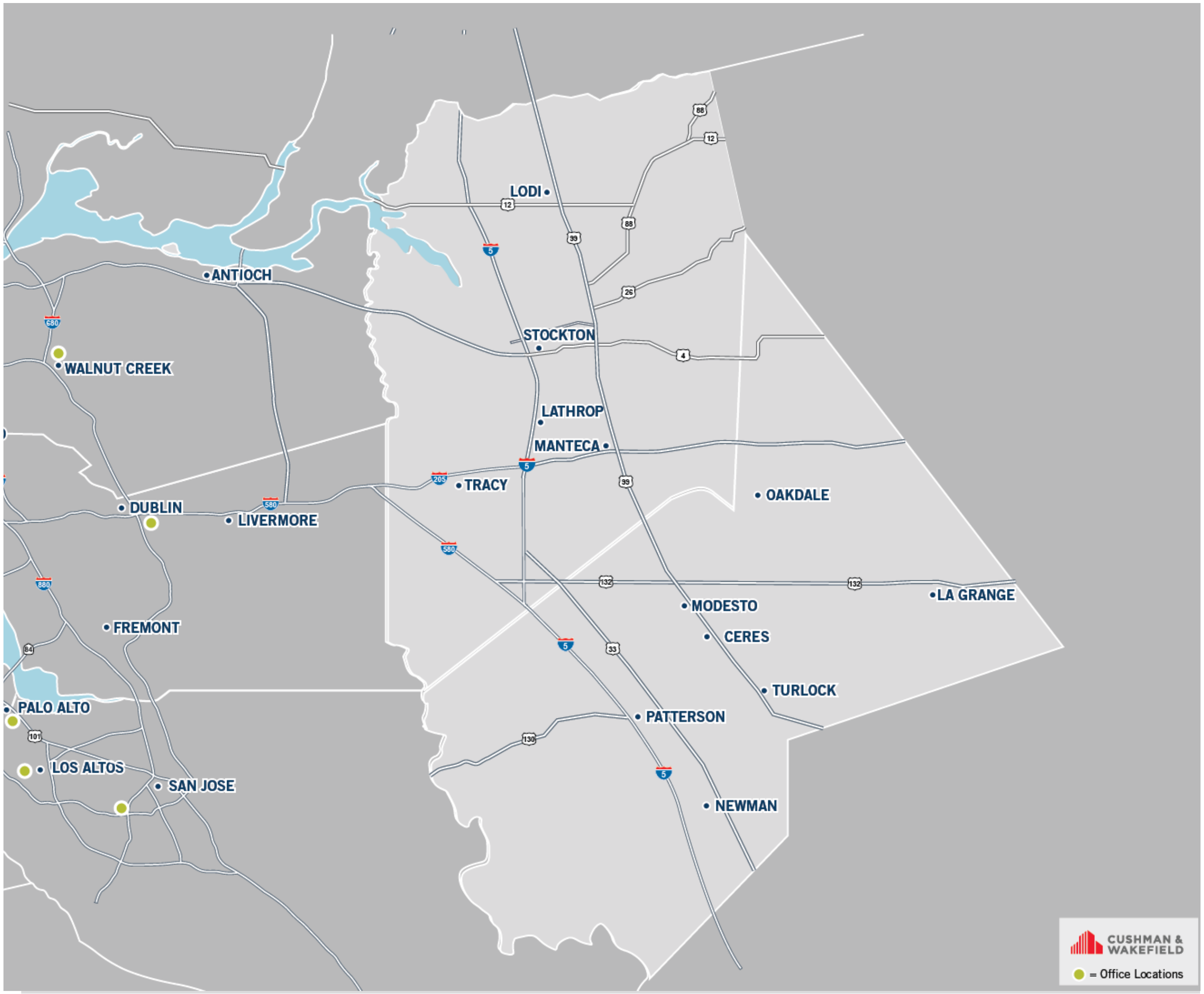
CUSHMAN & WAKEFIELD

INDUSTRIAL SUBMARKETS



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