MARKETBEAT
Central Valley
Industrial Q2 2019

CENTRAL VALLEY INDUSTRIAL

Economic Indicators

	Q2 18	Q2 19*	12-Month Forecast
Central Valley Employment	420K	421K	▲
Central Valley Unemployment	6.2%	6.3%	▲
U.S. Unemployment	3.9%	3.6%	▼

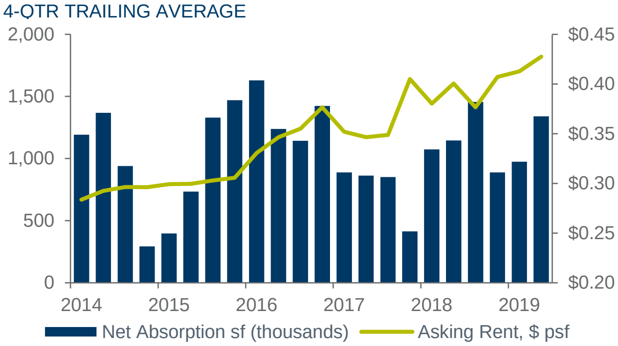
*2019 Q2 data are based on latest available data
Source: BLS, Moody's Analytics, C&W Research

Market Indicators

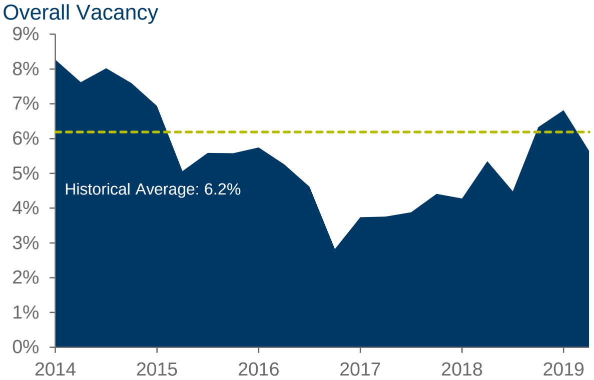
	Q2 18	Q2 19	12-Month Forecast
Overall Vacancy	5.3%	5.6%	▼
Overall Net Absorption (sf)	761K	2.2M	▲
Under Construction (sf)	2.1M	6.9M	▲
Average Asking Rent*	$0.42	$0.43	▲

*Rental rates reflect NNN asking $PSF/month

Overall Net Absorption/Asking Rent (NNN)
4-QTR TRAILING AVERAGE



Overall Vacancy



Construction Pipeline Continues to Swell

The Central Valley, encompassing the Stock and Modesto Metropolitan Statistical Areas (MSAs) recorded positive employment growth, with 1,600 non-farm payroll positions added to the region over the last year, bringing regional employment to just over 421,000. Due to a labor force that expanded slightly over the past year, the unemployment rate increased to 6.3%, representing a year over year (YOY) increase of 10 basis points (bps). The labor force growth rate is expected to rise in the coming year and corresponds with the large volume of companies that have moved to or expanded in the region recently due to the market's strong economic fundamentals, expanding industrial building base, and comparative affordability to the coastal markets.

Vacancy in the Central Valley industrial market was 5.6% at the end of the second quarter, having dropped 30 bps from the previous quarter though up 30 bps YOY. The YOY rise was manifested in both manufacturing and warehouse product with over 815,000 square feet (sf) added to the market in the past year. Givebacks in existing space were partially responsible for the YOY vacancy increase, as the majority of the 8.3 million square feet delivered since the second quarter of 2018 was preleased. Furthermore, all givebacks in the second quarter occurred in Stanislaus County, where 503,510 sf of existing product hit vacancy statistics. With the vacancy decline quarter over quarter (QOQ) and delivery of preleased new construction, occupancy growth was in the black, with net absorption totaling positive 2.0 msf. These gains are significant when considering net absorption totaled to negative 1.8 msf in the fourth quarter of 2018 and is a testament to continued strong demand for large blocks of modern distribution space. Indeed, occupancy growth totaled 6.1 msf in the past year, with strong and consistent annual expansion for the past nine years. Sublease space is virtually non-existent, with just 206,068 sf available in Lathrop and Tracy. While vacancy may rise in the short term due the volume of new construction slated for delivery, a healthy portion of these projects are build-to-suits or are preleased, and vacancy is ultimately forecasted to decline over the course of the next year. Net absorption is correspondingly expected to tick up in the coming months especially in Stockton, Tracy, Manteca, and Lathrop where the majority of new product has been delivered in the past two years and where all current construction is under way.

In recent years, the Central Valley has grown into a magnet for regional and national credit tenants and major distributors seeking large blocks of space in Northern California. With large tracts of developable land and competitive rents, the Central Valley is now a viable option for large users seeking to relocate from the comparatively more expensive Bay Area industrial markets where 100,000+ sf options have historically been much more limited. That said, while the Bay Area construction pipeline continues to swell, the Central Valley remains attractive due to lower pricing and proximity to larger consumer markets. Furthermore, users with requirements greater than 300,000 sf will necessarily continue to look to the Central Valley due to the fact that existing spaces in this size segment are essentially nonexistent in the Bay Area, and there are several new blocks in this size range that are shell complete and ready for occupancy in the Central Valley.

THE CENTRAL VALLEY WILL REMAIN ATTRACTIVE DUE TO LOWER PRICING AND PROXIMITY TO LARGER CONSUMER MARKETS…

Asking rents in the Central Valley industrial market closed the second quarter at $0.43 per square foot (psf) on a monthly triple net basis, down from $0.47 psf in the previous quarter though up from $0.42 psf YOY. The QOQ decline is not necessarily significant and is due to the fact that nearly all first quarter construction deliveries were preleased, and the space that did become available was mainly in second and third generation existing product. Rents will tick up over the next year as modern blocks of space hits the market and the portion of the pipeline that is unspoken for—totaling roughly 4.9 msf—delivers.

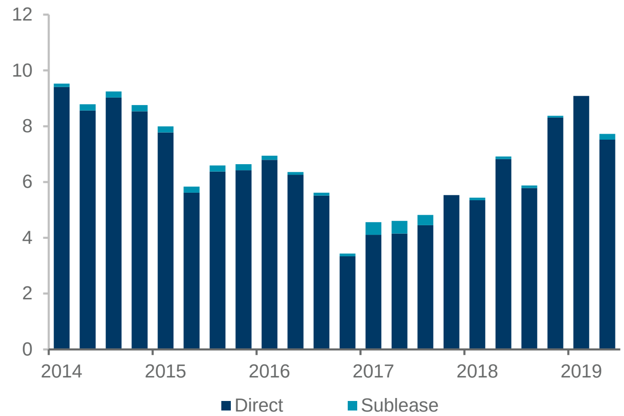
Essential to the story of the Central Valley industrial market is the volume of new construction delivered in recent years, which is fundamentally modernizing the market's building base. There has been 20.1 msf of deliveries since 2010, representing an 18.7% increase in the region's building base, while 6.9 msf is currently under construction. Of these projects, 5.8 msf is being built on a speculative basis, with the pipeline likely 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.

Outlook

- Net absorption totaled to 2.0 msf sf in the second quarter and occupancy growth is expected remain positive over the next year
- 3.8 msf of new product was delivered in 2019, while 6.9 msf is currently under construction

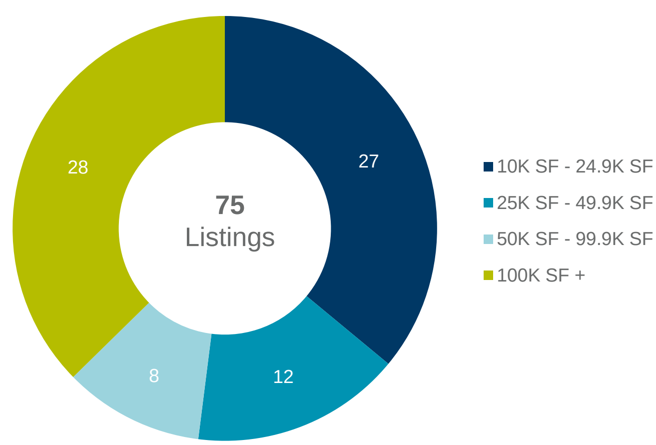
Direct & Sublease Available Space

SUBLEASE SPACE NONEXISTENT



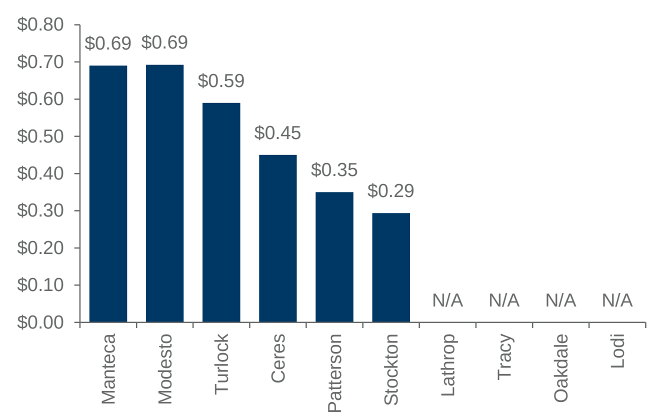
Availabilities by Size Segment

AMPLE SUPPLY IN ALL SIZE RANGES



Overall Average Asking Rate by Submarket (NNN)

MANTECA COMMANDS HIGHEST RENTS IN MARKET



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SUBMARKET	INVENTORY	SUBLET VACANT (SF)	DIRECT VACANT (SF)	OVERALL VACANCY RATE	CURRENT NET OVERALL ABSORPTION (SF)	YTD NET OVERALL ABSORPTION (SF)	UNDER CONSTRUCTION (SF)	OVERALL WEIGHTED AVERAGE ASKING RENT
Lodi	8,918,846	0	0	0.0%	0	0	0	$0.00
Stockton	45,875,019	0	2,569,110	5.6%	516,061	1,157,770	1,508,181	$0.29
Lathrop	12,121,044	115,776	417,610	3.8%	1,924,458	1,875,055	1,970,294	$0.00
Tracy	24,331,369	90,292	1,422,423	6.2%	286,544	644,124	2,698,613	$0.00
Manteca/Ripon	5,287,968	0	170,437	3.2%	0	1,130,396	747,975	$0.69
San Joaquin County	96,534,246	206,068	4,579,580	5.0%	2,727,063	4,807,345	6,925,063	$0.32
Oakdale	2,103,591	0	0	0.0%	0	0	0	$0.00
Modesto	25,718,082	0	2,141,749	8.3%	-509,210	-358,747	0	$0.69
Ceres	363,585	0	23,469	6.5%	0	0	0	$0.45
Turlock	3,887,867	0	62,279	1.6%	3,900	3,500	0	$0.59
Patterson	6,230,202	0	712,130	11.4%	0	0	0	$0.35
Stanislaus County	38,303,327	0	2,939,627	7.7%	-505,310	-355,247	0	$0.61
TOTAL	134,837,573	206,068	7,519,207	5.6%	2,221,753	4,452,098	6,925,063	$0.43

*Rental rates reflect asking $PSF/month converted to Triple Net

**Entries not reflective of U.S. MarketBeat table

Key Lease Transactions Q2 2019

PROPERTY	SF	TENANT	LANDLORD	TRANSACTION TYPE	SUBMARKET
Tri Point Logistics Center	1,100,000	Wayfair, Inc	Crow Holdings	New Construction	Lathrop
Crossroads Commerce Ctr.	870,294	Tesla Motors	Buzz Oates	New Construction	Lathrop
Airport Gateway Center	116,964	IPEX USA	Buzz Oates	New Construction	Stockton
25176-25224 Schulte Rd	110,538	McCollister's Moving & Storage	Clarion	New Lease	Tracy
1604 Tillie Lewis Dr	79,000	Wagner Industries, Inc.	Baywest Equities LLC	New Lease	Stockton

Key Sale Transactions Q2 2019

PROPERTY	SF	BUYER	SELLER	SALE PRICE / $PSF	MARKET
217 Daly Ave	196,000	TransCanna Holding Inc.	Cold Storage Mfg	$14,750,000 / $75.26	Modesto
213-224 Kelly & S. Cliff	118,760	Tower Investments LLC	213 Kelly LLC	$5,800,000 / $48.84	Lodi
4100 Bangs Ave	37,700	IEH Labratories	Cold Storage Mfg	$2,927,000 / $77.64	Modesto
4111 Brew Master Dr	22,020	Kase Manufacturing	The McBay Family Trust	$1,395,000 / $63.35	Ceres
705 E Lodi Ave	6,000	Hose Connection	City of Lodi	$415,000 / $69.17	Lodi

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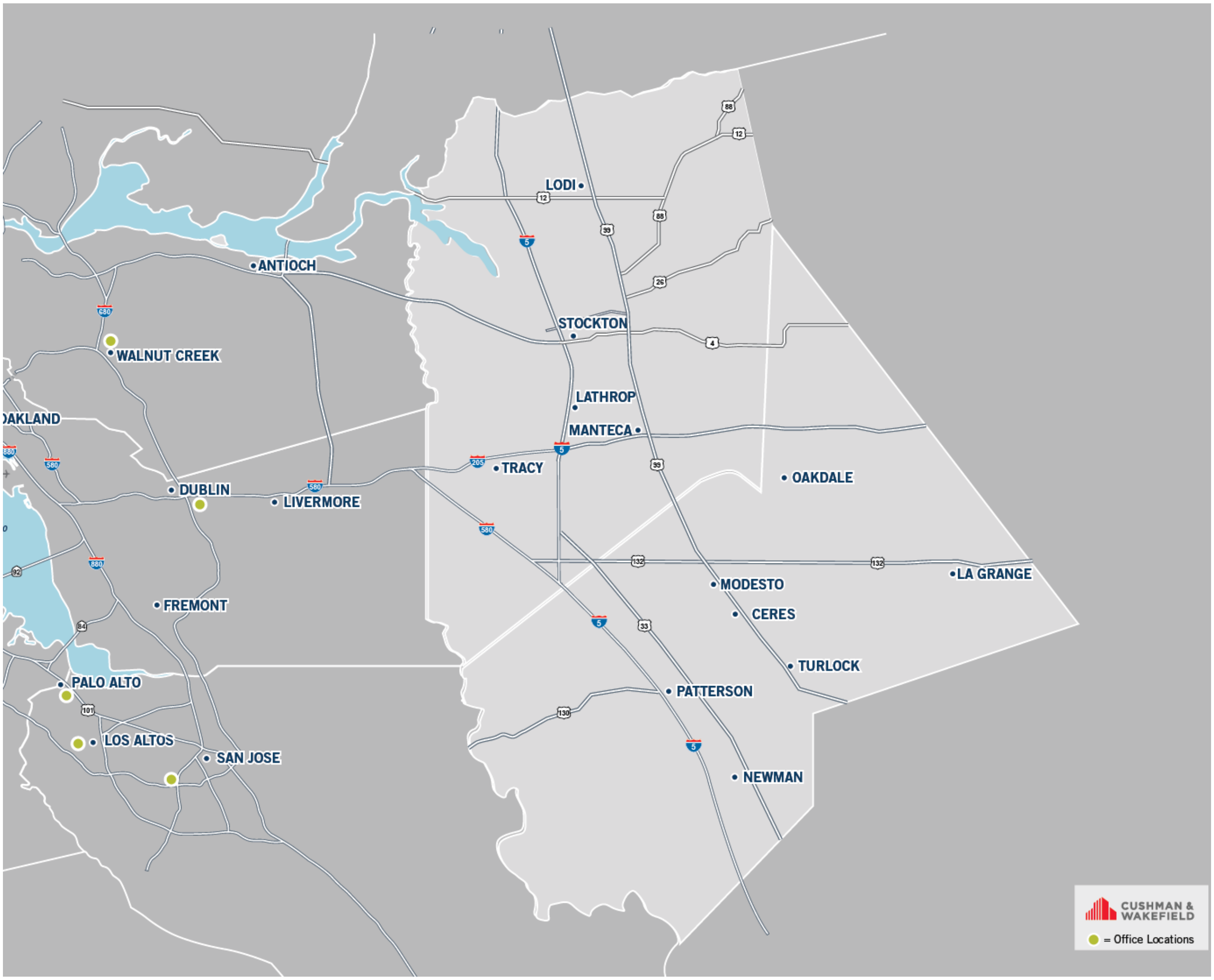
Industrial Submarkets
Central Valley



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