MARKETBEAT
Central Valley
Industrial Q3 2019

CENTRAL VALLEY INDUSTRIAL

Economic Indicators

	Q3 18	Q3 19*	12-Month Forecast
Central Valley Employment	420K	421K	▲
Central Valley Unemployment	6.2%	6.3%	▲
U.S. Unemployment	3.8%	3.7%	▲

*2019 Q3 data are based on latest available data
Source: BLS, Moody's Analytics, C&W Research

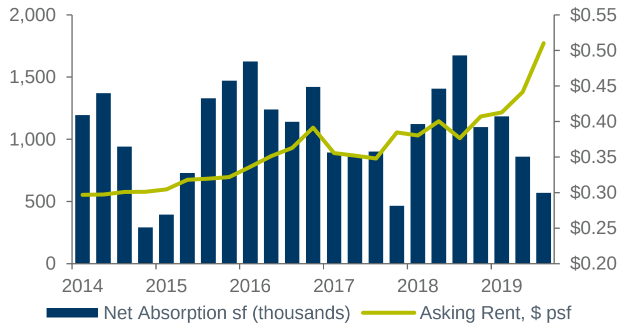
Market Indicators

	Q3 18	Q3 19	12-Month Forecast
Overall Vacancy	4.4%	5.5%	▼
Overall Net Absorption (sf)	2.8M	1.6M	▲
Under Construction (sf)	6.4M	6.0M	▲
Average Asking Rent*	$0.40	$0.51	▲

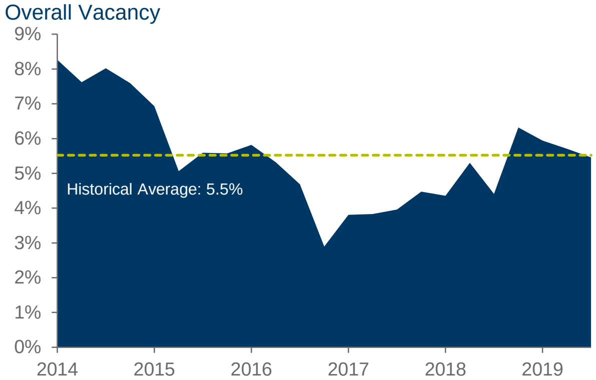
*Rental rates reflect NNN asking $PSF/month

Overall Net Absorption/Asking Rent (NNN)

4-QTR TRAILING AVERAGE



Overall Vacancy



Occupancy Growth Shows No Sign of Slowing

The Central Valley, comprising the Stockton and Modesto Metropolitan Statistical Areas (MSAs) logged positive employment growth, with 1,500 non-farm payroll positions added to the region over the last year, bringing regional employment to just over 421,000. Despite the job growth and in conjunction with an expanding labor force, unemployment increased slightly to 6.3%, representing a rise of 10 basis points (bps) from 6.2% year over year (YOY). The growing labor force corresponds with the large volume of companies that have moved to or expanded in the region over the last year 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 5.5% at the end of the third quarter, having dropped 20 bps from the previous quarter though up 110 bps YOY. The rise over the past yaer was manifested in both product types, with 630,000 square feet (sf) of warehouse product and 973,000 sf of manufacturing product added to the market, concentrated in San Joaquin County. The bulk of this increase was due to givebacks of existing space, as the majority of new construction delivered in the last year has been preleased, with givebacks totaling negative 1.9 million square feet (msf) in the fourth quarter of 2018 constituting the lion's share of this uptick in vacancy. With the quarter over quarter (QOQ) vacancy decrease and delivery of preleased new construction, occupancy growth was in the black in the third quarter, with net absorption totaling positive 1.6 msf. Despite the fourth quarter losses, occupancy has risen by positive 5.0 msf YOY, and the market has seen consistent gains over the last decade with occupancy rising by an astonishing 31.3 msf since 2010. Sublease space continues to be virtually nonexistent, with just 223,871 sf space currently on the market, constituting 3.0% of the available inventory. 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 expansive 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 third quarter at $0.51 per square foot (psf) on a monthly triple net basis, up from $0.44 psf in the second quarter and up from $0.40 psf one year ago. 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 5.2 msf—delivers.

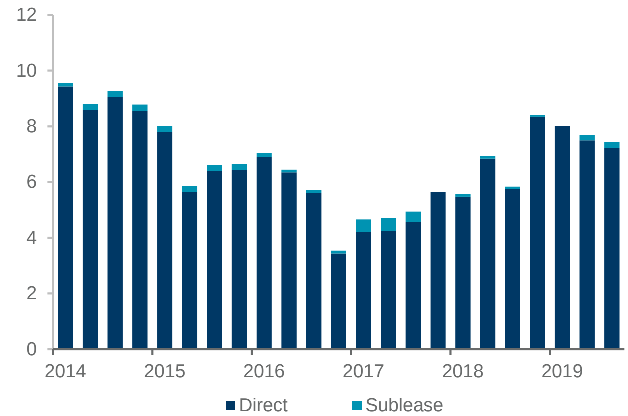
Essential to the story of the Central Valley industrial market is the volume of new construction delivered in recent years, which is fundamentally modernizing the region's building base. There has been 21.1 msf of deliveries since 2010, representing an 19.7% increase in the region's building base, while 5.9 msf is currently under construction. Of these projects, 5.2 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 1.6 msf sf in the second quarter and occupancy growth is expected remain positive over the next year
- 3.2 msf of new product has been delivered in 2019, while 6.0 msf is currently under construction
- Asking rents closed the third quarter at $0.51 psf and growth shows no signs of slowing

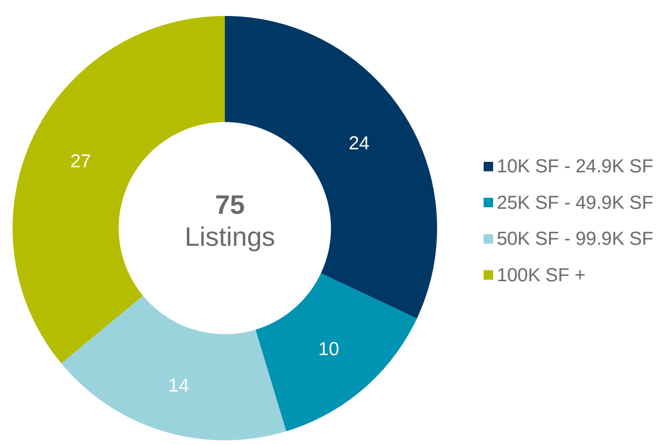
Direct & Sublease Available Space

SUBLEASE SPACE VIRTUALLY NONEXISTENT



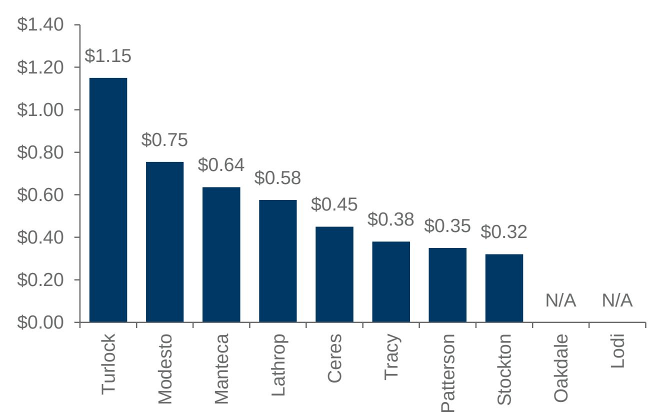
Availabilities by Size Segment

AMPLE SUPPLY IN ALL SIZE RANGES



Overall Average Asking Rate by Submarket (NNN)

TURLOCK COMMANDS HIGHEST RENTS IN MARKET



MARKETBEAT

Central Valley

Industrial Q3 2019

CUSHMAN & WAKEFIELD

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	46,006,239	77,979	1,801,752	4.1%	669,379	1,847,149	1,875,890	$0.32
Lathrop	13,256,697	65,600	522,372	4.4%	1,081,067	985,828	0	$0.58
Tracy	24,249,326	27,792	1,453,199	6.1%	34,771	710,648	3,356,063	$0.38
Manteca/Ripon	5,302,804	0	841,744	15.9%	-681,307	459,089	747,975	$0.64
San Joaquin County	97,733,912	171,371	4,619,067	4.9%	1,103,910	4,002,714	5,979,928	$0.43
Oakdale	2,105,820	0	0	0.0%	0	0	0	$0.00
Modesto	25,911,721	52,500	1,694,148	6.7%	588,740	229,993	0	$0.75
Ceres	363,585	0	39,669	10.9%	-16,200	-16,200	0	$0.45
Turlock	3,878,867	0	148,796	3.8%	-86,517	-83,017	0	$1.15
Patterson	6,230,202	0	712,130	11.4%	0	0	0	$0.35
Stanislaus County	38,490,195	52,500	2,594,743	6.9%	502,223	146,976	0	$0.66
TOTAL	136,224,107	223,871	7,213,810	5.5%	1,606,133	4,149,690	5,979,928	$0.51

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

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

Key Lease Transactions Q3 2019

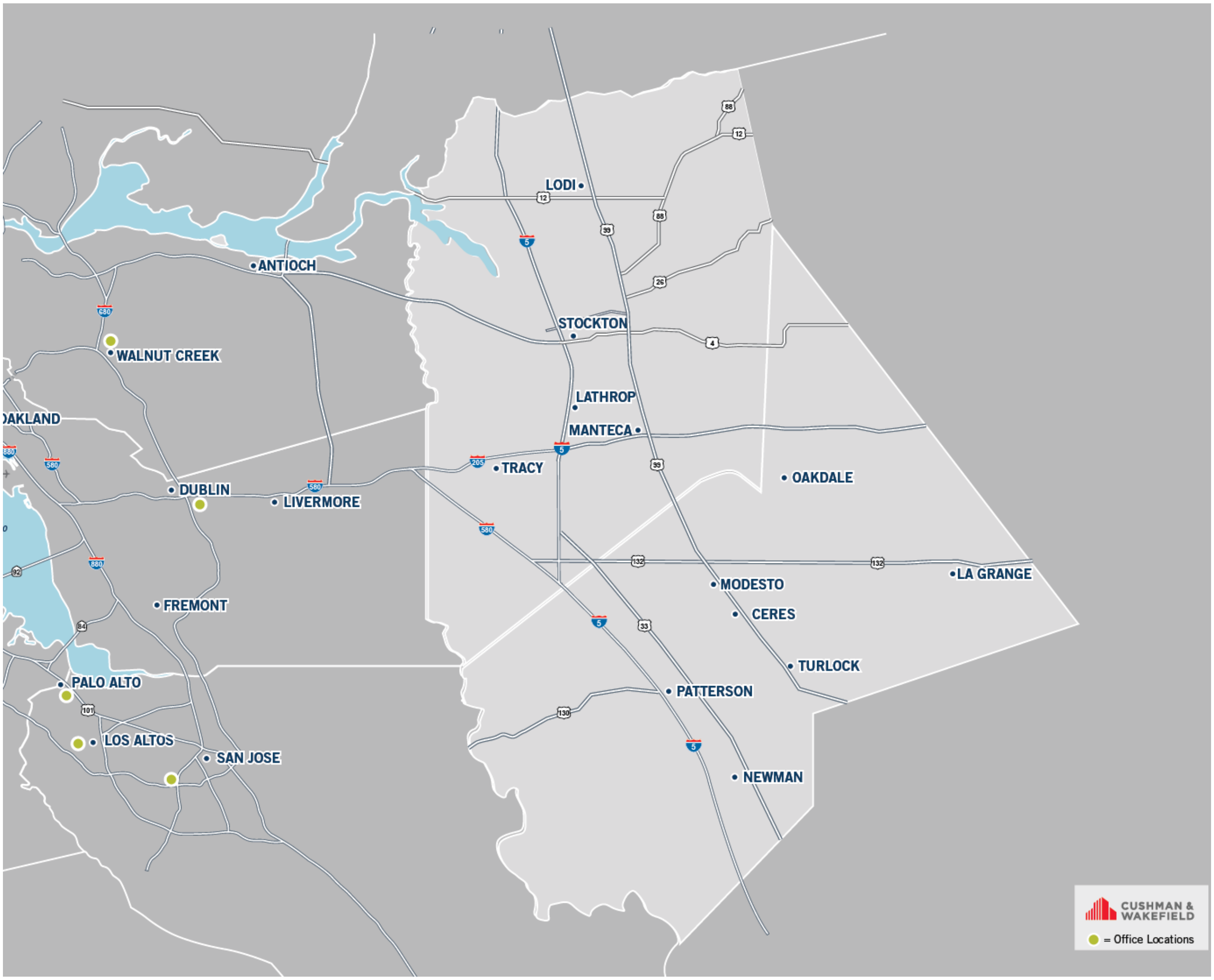
PROPERTY	SF	TENANT	LANDLORD	TRANSACTION TYPE	SUBMARKET
Newcastle Logistics Center	297,060	Allen Distribution	US Cactus Stockton LLC	Renewal	Stockton
Charter Way Industrial Center	282,954	RugsUSA	Dermody Properties	New Lease	Stockton
LBA Logistics Center	234,995	Melissa & Doug LLC	LBA Realty	New Lease	Tracy
11980 Harlan Road S	108,544	Ghirardelli Chocolate Company	Panattoni Development	Sublease	Lathrop

Key Sale Transactions Q3 2019

PROPERTY	SF	BUYER	SELLER	SALE PRICE / $PSF	MARKET
3400 Finch Road	241,831	Endsley Properties	Parker Properties	$11,000,000 / $45	Modesto
8600 Linne Road W	210,178	Glassfab Tempering Svc	Sunripe Certified Brands	$12,600,000 / $60	Tracy
401-501 Glen Avenue	204,801	Canopy Growth Corp.	Buzz Oates	$17,400,000 / $85	Modesto
107 Riverside Drive S	181,486	Davies-Torrance Trust	The Paskin Group	$9,075,000 / $50	Modesto
1324-1326 Coldwell Avenue	109,000	Grupe Holding Company	Centerra Capital	$4,250,000 / $39	Modesto

MARKETBEAT
Central Valley
Industrial Q3 2019

Industrial Submarkets
Central Valley



Cushman & Wakefield
3255 W March Lane, Suite 230
Stockton, CA 95219

For more information, contact:
Keith Reichert
Senior Research Analyst
Tel: +1 510 267 6059
keith.reichert@cushwake.com

About Cushman & Wakefield

Cushman & Wakefield (NYSE: CWK) is a leading global real estate services firm that delivers exceptional value for real estate occupiers and owners. Cushman & Wakefield is among the largest real estate services firms with approximately 51,000 employees in 400 offices and 70 countries. In 2018, the firm had revenue of $8.2 billion across core services of property, facilities and project management, leasing, capital markets, valuation and other services. To learn more, visit www.cushmanwakefield.com or follow @CushWake on Twitter.