

Industrial Q4 2019

YoY Chg 12-Mo. Forecast

6.3%
Vacancy Rate

—▲

-711K
Net Absorption, SF

▲▲

\$0.48
Asking Rent, PSF

▲▲

Overall, Net Asking Rent

ECONOMIC INDICATORS
Q4 2019

YoY Chg 12-Mo. Forecast

425K
Central Valley Employment

▲▲

5.8%
Central Valley Unemployment Rate

▼▲

3.6%
U.S. Unemployment Rate

▼▲

Source: BLS, Moody's Analytics
2019Q4 data are based in the latest available data

ECONOMY: Jobs Growth Continues in Healthy Labor Market

The Central Valley, comprising the Stockton and Modesto Metropolitan Statistical Areas (MSAs) recorded positive employment, with 2,500 non-farm payroll positions added to the region over the last year, bringing regional employment to just under 425,000. With this job growth, and with marginal change to the labor force, unemployment decreased to 5.8%, representing a modest decline of 20 basis points (bps) from 6.0% year-over-year (YOY). The unemployment rate is forecasted to increase over the next twelve months. The cause of the increase will be a growing labor force which 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.

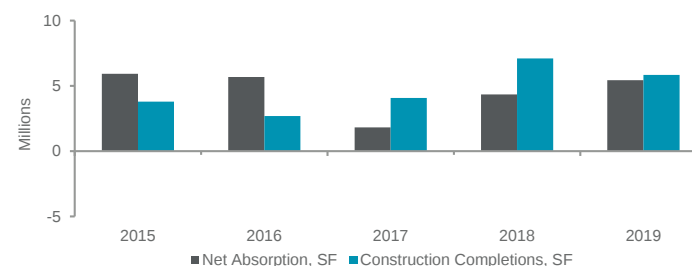
SUPPLY: New Construction Drives Vacancy Growth

Industrial vacancy in the Central Valley closed the quarter at 6.3%, reflecting a 120 bps increase from the third quarter, though flat YOY. The short-term rise was manifested in both product types, with 1.7 million square feet (msf) of warehouse product and 43,000 square feet (sf) of manufacturing product added to the market in the fourth quarter. In addition to givebacks, several blocks of newly delivered space drove this increase; most notably 500,000 sf at Tracy Distribution Center and 550,000 sf at the Tracy International Park of Commerce. However, these blocks are in the "sweet spot" in terms of demand and will likely be claimed in the coming months. Sublease space continues to be virtually non-existent across the market and accounts for a mere three percent of all available space. 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 slightly over the course of the next year.

PRICING: Asking Rents Continue to Rise

Asking rents in the Central Valley industrial market closed the fourth quarter at \$0.48 per square foot (psf) on a monthly triple-net basis, up \$0.01 from the third quarter and up \$0.03 YOY. Rent growth in the last year was due mainly to new construction commanding top-of-the-market rents. Rents are expected to tick up over the next year as modern blocks of space hit the market and new construction delivers.

SPACE DEMAND / DELIVERIES



OVERALL VACANCY & ASKING RENT



DEMAND: Fourth Quarter Losses, Though Market is Still Moving in Right Direction

Gross absorption totaled 1.8 msf in the fourth quarter, a step down from 2.8 msf in the third quarter. San Joaquin county, which hosts 73% of the market's inventory, recorded the lion's share of leasing activity, with gross absorption there totaling 1.7 msf. Activity has been concentrated in San Joaquin county during this business cycle due mainly 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. While net absorption was in the red for the quarter, totaling negative 711,234 sf, occupancy growth was positive over the course of 2019 with net absorption totaling 5.4 msf for the year. With occupancy levels having increased by 23.2 msf over the previous five years, fourth quarter losses do not portend the shape of the market to come, but rather indicate a slight, and likely temporary, correction.

CONSTRUCTION: An Expanding—and Evolving—Building Base

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 22.2 msf of deliveries since 2010, representing a 20.0% increase in the region's building base, while 5.8 msf is currently under construction. Of these projects, 5.1 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, especially those looking to leave the increasingly cramped Bay Area markets.

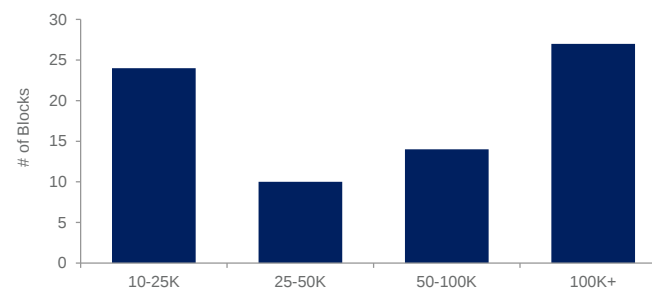
Outlook

- Net absorption totaled negative 711,234 sf in the fourth quarter, a significant drop off from the positive 2.6 msf absorbed in the third quarter. Looking forward, net absorption will rebound back into the black as preleased new construction delivers.
- Asking rents closed the fourth quarter at \$0.48 psf, marking a \$0.03 YOY increase. Rents will continue increasing in 2020 as the portion of the pipeline that is unspoken for delivers and other large, modern blocks hit the market.
- Demand tracking was consistently healthy in 2019, with 114 requirements currently being tracked, totaling 17.3 msf. Demand will likely decrease slightly in 2020 as these requirements begin leasing new space hitting the market.

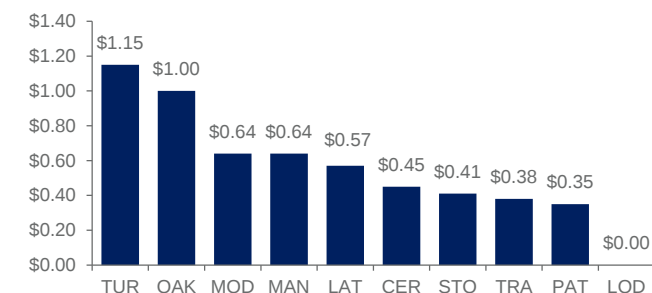
DIRECT & SUBLEASE AVAILABLE SPACE



AVAILABILITIES BY SIZE SEGMENT



OVERALL AVERAGE ASKING RATE BY SUBMARKET (NNN)



MARKETBEAT CENTRAL VALLEY



Industrial Q4 2019

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 (MF)	OVERALL WEIGHTED AVG NET RENT (W/D)
Lodi	8,918,846	0	0.0%	0	0	0	0	\$0.00	\$0.00
Stockton	45,928,793	2,937,206	6.4%	-771,995	1,036,734	1,456,179	285,480	\$0.55	\$0.40
Lathrop	14,975,337	696,446	4.7%	-108,474	2,595,994	0	0	\$0.60	\$0.51
Tracy	26,008,051	2,242,541	8.6%	34,115	1,207,823	3,256,525	796,915	\$0.48	\$0.38
Manteca/Ripon	4,717,304	835,165	17.7%	0	-119,832	747,975	0	\$0.39	\$0.68
SAN JOAQUIN COUNTY	100,548,331	6,711,358	6.7%	-846,354	4,720,719	5,460,679	1,082,395	\$0.55	\$0.43
Oakdale	2,105,820	100,000	4.7%	0	-100,000	0	0	\$1.00	\$0.00
Modesto	26,021,645	1,065,528	4.1%	135,120	920,213	348,500	0	\$1.00	\$0.35
Ceres	363,585	39,669	10.9%	0	-16,200	0	0	\$0.00	\$0.45
Turlock	3,878,867	148,796	3.8%	0	-83,017	0	0	\$1.15	\$0.00
Patterson	6,289,002	712,130	11.3%	0	0	0	0	\$0.00	\$0.35
STANISLAUS COUNTY	38,658,919	2,066,123	5.3%	135,120	737,196	348,500	0	\$1.03	\$0.35
Central Valley TOTALS	139,207,250	8,777,481	6.3%	-711,234	5,457,915	5,809,179	1,082,395	\$0.78	\$0.42

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

MF = Manufacturing W/D = Warehouse/Distribution

KEY LEASE TRANSACTIONS Q4 2019

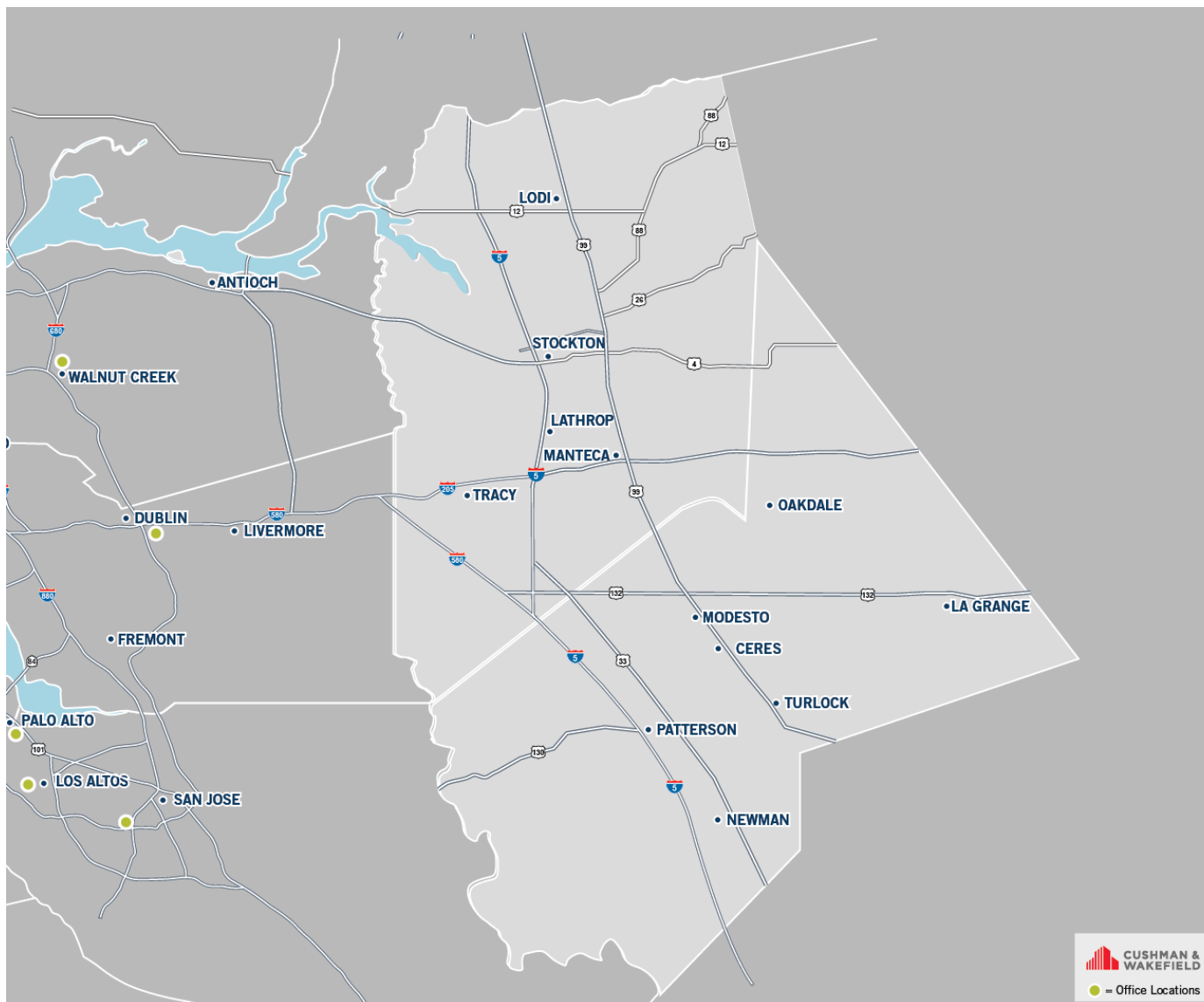
PROPERTY	SUBMARKET	TENANT	SF	TYPE
3305 Airport Way N	Manteca	Confidential	747,975	New Construction
International Park of Commerce	Tracy	Home Depot	726,277	New Construction
1624 Army Court	Stockton	Rugs, Inc	238,500	New Lease
4733 Newcastle Road	Stockton	Katerra	186,944	New Lease
15789 McKinley Avenue S	Lathrop	California Natural Products	117,600	Renewal

KEY SALES TRANSACTIONS Q4 2019

PROPERTY	SUBMARKET	SELLER / BUYER	SF	Price/\$ SF
5120 Madrugada Road	Lathrop	Crow Holdings / BentallGreenOak	1,135,653	\$129.0M/\$116
4580 Logistics Drive	Stockton	Stockton Bldg 7 LLC / Stockton Logistics CTR II LLC	709,556	\$62.9M/\$89
1919 Boeing Way	Stockton	LBA Realty / Clarion Partners	545,836	\$49.8M/\$91
4747 Logistics Drive	Stockton	USAA Real Estate / Donaghy Sales	285,480	\$29.5M/\$103
17700 Shideler Parkway	Lathrop	Heritage Solutions / Clarion Partners	231,840	\$20.9M/\$90



INDUSTRIAL SUBMARKETS

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