MARKETBEAT

Central Valley

Industrial Q1 2018

CENTRAL VALLEY INDUSTRIAL

Economic Indicators*

	Q1 17	Q1 18	12-Month Forecast
Central Valley Employment	404K	416K	▲
Central Valley Unemployment	7.7%	6.4%	▼
U.S. Unemployment	4.7%	4.1%	▼

*Q1 18 data based on the average of January and February values

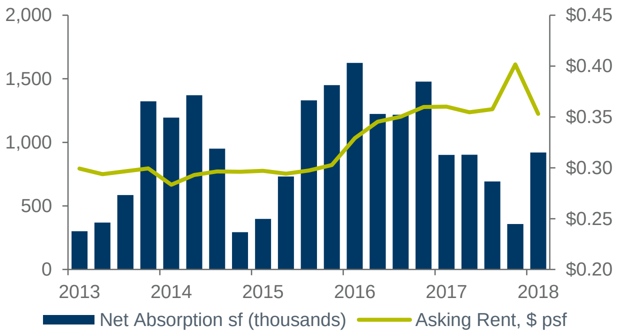
Market Indicators

	Q1 17	Q1 18	12-Month Forecast
Overall Vacancy	3.6%	4.0%	▲
Overall Net Absorption (sf)	-849K	1.4M	▲
Under Construction (sf)	4.7M	10.0M	▲
Average Asking Rent*	$0.36	$0.35	▲

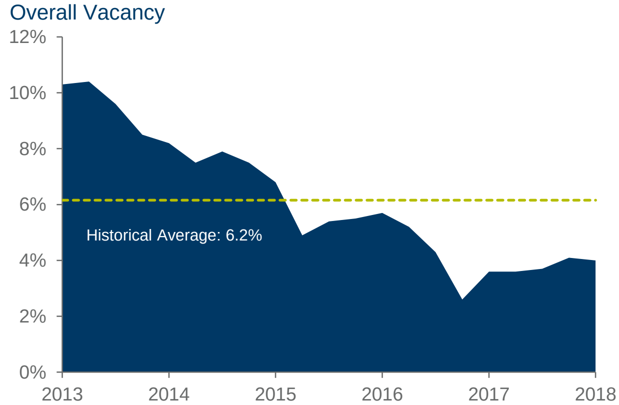
*Rental rates reflect NNN asking $PSF/month

Overall Net Absorption/Asking Rent (NNN)

4-QTR TRAILING AVERAGE



Overall Vacancy



Deluge of Development Continues in 2018

Economic fundamentals in the combined Modesto and Stockton-Lodi MSAs, which make up the Central Valley, remained sound over the last 12 months. The labor market posted a +3.0% increase bringing the regional total to 416,000 non-farm payroll positions. Accordingly, unemployment decreased -130 basis points (bps) to 6.4% from 7.7% year-over-year. With an increasing number of companies looking to the Central Valley to fill large warehouse/distribution requirements, the region is expected to continue to post increases to employment levels through the foreseeable future.

Vacancy in the Central Valley industrial market continued to reflect supply constraints in existing product and ended the first quarter of 2018 at 4.0%. This figure is up a modest +40 bps from 3.6% year-over-year. The relatively small increase in vacancy is particularly negligible considering that 4.3 million square feet (msf) of new product was delivered to the market over that time period, indicating that demand for large blocks modern warehouse space in the Central Valley remains strong. Accordingly, net absorption for the first quarter of 2018 alone was +1.4 msf. Given demand levels, strong occupancy gains are expected in the Central Valley throughout 2018, predominantly in newly constructed product. Thus, the 2018 year is expected to be the ninth consecutive year of occupancy growth for the region. Upticks in vacancy levels as a spate of new product delivers throughout the year are likely, though are still expected to be moderate and largely temporary.

The traditional tenant mix in the Central Valley has included agricultural-related, food processing users and a handful of regional distributors. However, the market has seen a significant increase in requirements from outside the region. Demand levels are up significantly in the Central Valley from both large, national distributors seeking space closer to the Bay Area population center or companies already located nearby and in need of expansion opportunities. Greater Bay Area industrial vacancy has hovered around 3.0% mark for over three years with new supply falling far short of demand levels there to-date. With persistent and extreme limitations on available, high quality space, particularly blocks over 100,000 sf, combined with rapidly rising Bay Area rents, many companies have looked, and will continue to look, to the Central Valley region as an option to fill large warehouse/distribution requirements.

Asking rents for existing product in the Central Valley ended the first quarter of 2018 at $0.35 per square foot (psf) on a monthly triple net

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basis. This is down just slightly from $0.36 psf year-over-year. However, this figure accounts only for existing available space where an asking rent is being marketed. Newly constructed warehouse/distribution space in San Joaquin County, where the majority of development activity has been thus far, commands rents in the $0.40 to $0.49 psf range (depending upon city, specific location, size, etc.) for spaces less than 500,000 sf constructed on a speculative basis. With strong positive absorption figures expected, rents will likely tick up modestly over the course of the next year for both existing and new product. However, the difference in rents between the Central Valley and Bay Area, where asking rents now average are over $1.00 psf, will remain solidly in place, ensuring the Central Valley remains a viable option for many users.

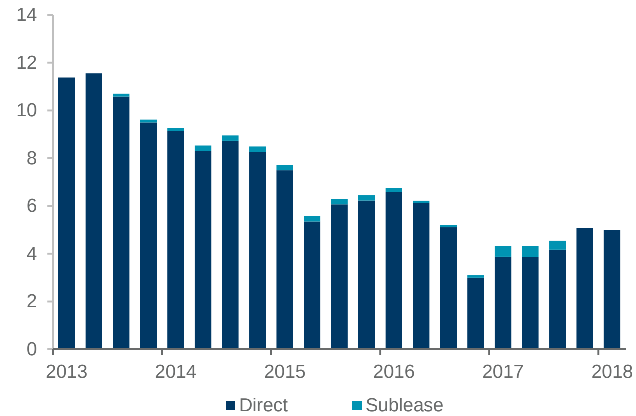
THERE IS A STAGGERING 10.0 MSF OF INDUSTRIAL PRODUCT CURRENTLY UNDER CONSTRUCTION…

Industrial development has exploded in the Central Valley over the past several years. There has been nearly 14.0 msf of new industrial product delivered to the region this cycle, with no end to the activity in sight. There is currently nearly 10.0 msf under construction, 6.1 msf of which commenced on a speculative basis, and most of which is expected to deliver in 2018. Notably, over half of the total 10.0 msf underway is already spoken for either because it has preleased or is a built-to-suit project. There are additional projects in various stages of planning, several of which will likely commence over the remainder of 2018. It is anticipated that development activity will continue while demand for large blocks of warehouse/distribution product remains strong. The supply of new product will, in turn, allow for velocity and occupancy growth to increase, putting upward pressure on rents as well.

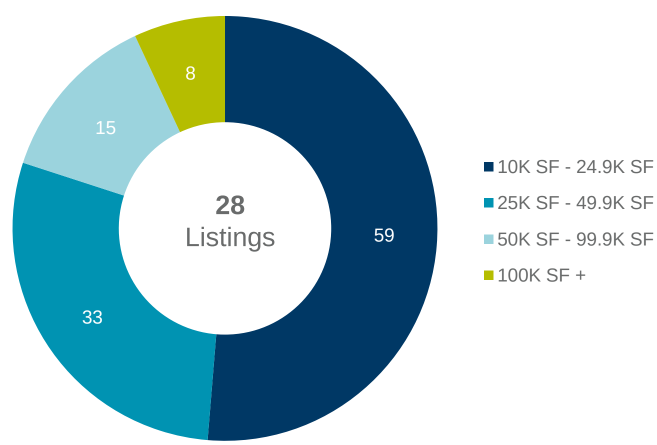
Outlook

- Occupancy growth is expected for the remainder of 2018 as solid demand results in occupancy growth, particularly in new construction
- New product delivered to the market throughout 2018 will provide much-needed options for users seeking high-quality warehouse/distribution product in the Central Valley

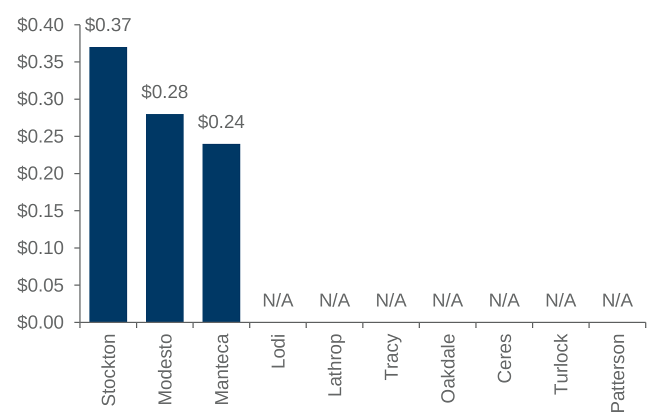
Direct & Sublease Available Space
AVAILABLE SPACE IN EXISTING PRODUCT TO REMAIN FLAT



Availabilities by Size Segment
LARGE BLOCKS OF MODERN WAREHOUSE SPACE SCARCE



Overall Average Asking Rate by Submarket (NNN)
NEW PRODUCT TO DRIVE RENTS UP IN THE REMAINDER OF 2018



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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	N/A
Stockton	42,667,743	0	2,302,759	5.4%	696,748	696,748	3,170,642	$0.37
Lathrop	12,120,934	0	638,226	5.3%	1,183,283	1,183,283	0	N/A
Tracy	20,847,601	0	974,315	4.7%	169,003	169,003	4,203,219	N/A
Manteca/Ripon	3,464,921	0	5,100	0.1%	5,824	5,824	1,403,047	$0.24
San Joaquin County	88,020,045	0	3,920,400	4.5%	2,054,858	2,054,858	8,776,908	$0.37
Oakdale	2,103,591	0	0	0.0%	0	0	0	N/A
Modesto	24,978,288	0	1,008,849	4.0%	-600,873	-600,873	553,301	$0.28
Ceres	309,579	0	0	0.0%	0	0	0	N/A
Turlock	3,884,506	0	54,279	1.4%	-54,279	-54,279	0	N/A
Patterson	5,516,685	0	0	0.0%	0	0	712,130	N/A
Stanislaus County	36,792,649	0	1,063,128	2.9%	-655,152	0	1,265,431	$0.28
TOTAL	124,812,694	0	4,983,528	4.0%	1,399,706	1,399,706	10,042,339	$0.35

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

Key Lease Transactions Q1 2018

PROPERTY	SF	TENANT	LANDLORD	TRANSACTION TYPE	SUBMARKET
18601 Christopher Way	338,564	Tesla Motors	Buzz Oates	New	Lathrop
671 Mariposa Rd	180,000	Pacific Southwest Container	L. Stephen & Ann Blair Endsley	New	Modesto
2610 Lycoming Ct	49,550	Terex	Buzz Oates	Renewal	Stockton
1925 N MacArthur Dr	26,280	Pacific Coast Seed	Mark O'Brien	New	Tracy

Key Sale Transactions Q1 2018

PROPERTY	SF	BUYER	SELLER	SALE PRICE / $PSF	MARKET
2467 French Camp Rd	91,334	John Kautz Farms	Lagorio Properties	$2,800,000 / $31	Manteca
4825 Stoddard Rd	68,125	Terra Roble, LLC	Kerry, Inc	$4,300,000 / $63	Modesto

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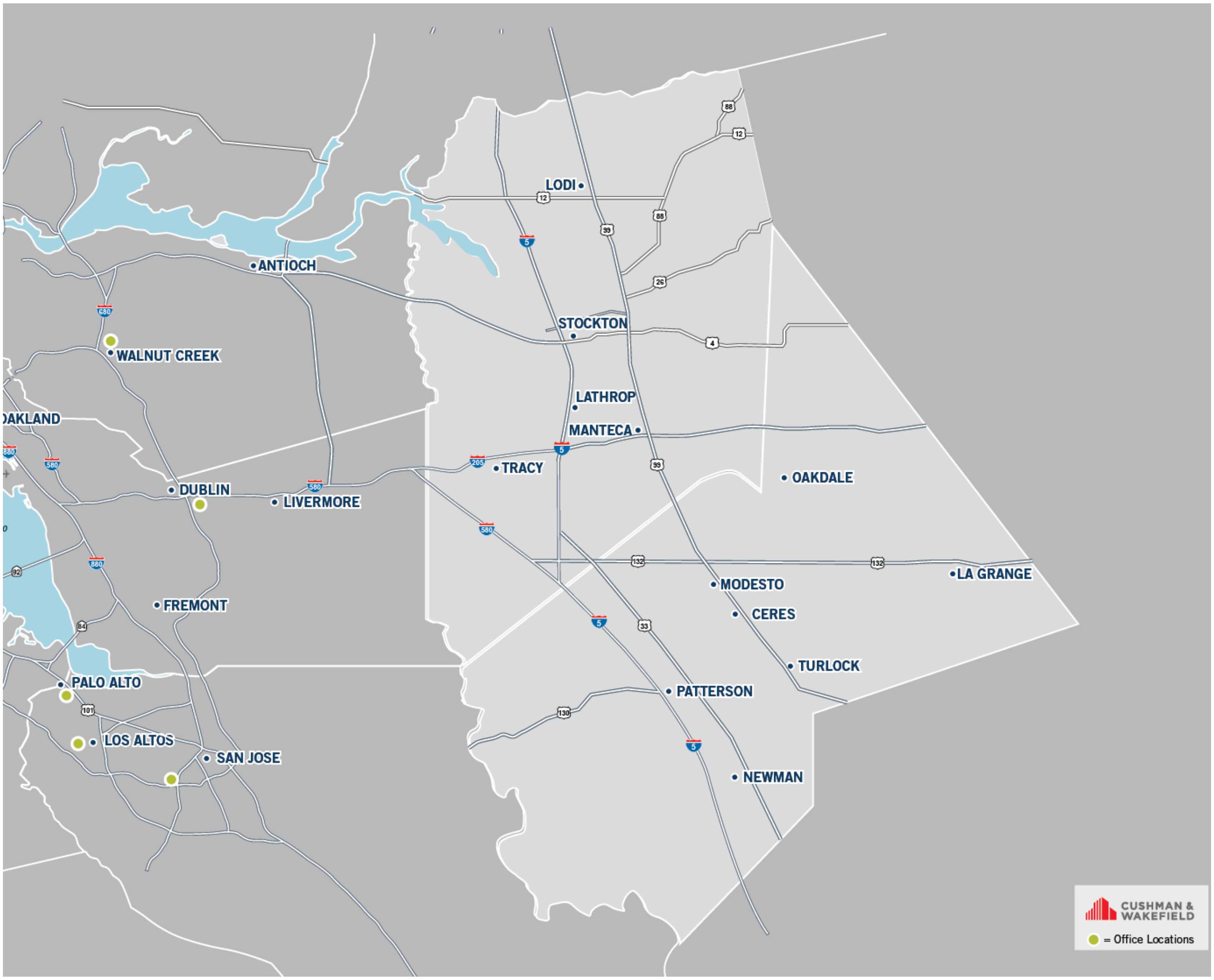
Industrial Submarkets
Central Valley



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