MARKETBEAT
Central Valley
Industrial Q2 2018

CUSHMAN & WAKEFIELD

CENTRAL VALLEY INDUSTRIAL

Economic Indicators*

	Q2 17	Q2 18	12-Month Forecast
Central Valley Employment	409K	419K	▲
Central Valley Unemployment	7.3%	6.2%	▼
U.S. Unemployment	4.3%	3.8%	▼

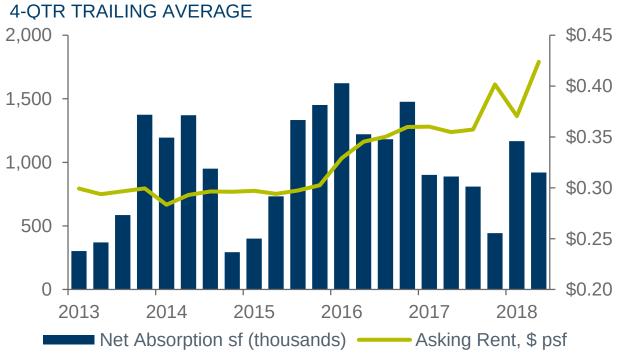
*Q2 18 data based on the average of April and May values

Market Indicators

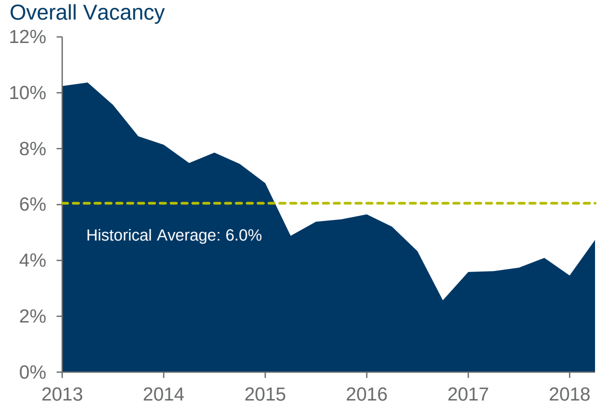
	Q2 17	Q2 18	12-Month Forecast
Overall Vacancy	3.6%	4.7%	▲
Overall Net Absorption (sf)	466K	-519K	▲
Under Construction (sf)	4.7M	8.2M	▲
Average Asking Rent*	$0.35	$0.42	▲

*Rental rates reflect NNN asking $PSF/month

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



Overall Vacancy



Development Pipeline Continues to Swell

Employment growth continued in the Central Valley (made up of the combined Modesto and Stockton-Lodi MSAs) over the last 12 months. The labor markets posted a solid 2.4% increase in non-farm payroll positions, bringing the regional total to 419,000 jobs. Accordingly, unemployment dropped over the past year to 6.2%, down 110 basis points (bps) from 7.3%. In addition, the labor force increased a modest 1.4% year-over-year. Going forward, we anticipate continued increases to the labor force, particularly from in-migration from Bay Area residents as housing availability there remains scarce and pricing remains sky high. In addition, employment levels are expected to continue to rise modestly as companies relocate to or expand with the Central Valley due a robust regional economy in Northern California and availability of modern industrial product in the Central Valley.

Vacancy in the Central Valley industrial market was 4.7% at midpoint of 2018. This reflects an uptick of 60 bps from 4.1% at the outset of the year. However, the increase in vacancy levels belies the true narrative of the market. Demand levels remain strong, particularly for large blocks of modern warehouse/distribution space. The increase to vacancy is largely due to delivery of new product rather than space givebacks. Rather, all told, there has been over 1.5 million square feet (msf) of occupancy growth thus far in 2018 which occurred during the first quarter. The second quarter saw a moderate amount of space returned to the market totaling 519,000 sf. This was primarily due to 489,000 sf of new sublease vacancy coming on at California Logistics Center in Lathrop. However, sublease space availability in a single project is not indicative of a market-wide trend. Though it is likely there will be continued upticks in vacancy levels due to construction completions, space absorption is expected remain strongly positive in the latter half of the year. Absorption has been concentrated in submarkets of Stockton and Lathrop, both of which are home to notable amounts of product newly constructed in 2017 and 2018.

Over the past several years, the Central Valley has become a magnet for national credit tenants and major distributors seeking large blocks of space in Northern California, particularly as the Bay Area industrial markets have remained extremely tight. The Central Valley is home to large tracts of developable land and comparatively attractive industrial rents. Though there is a notable amount of new speculative product under construction in the Bay Area, the Central Valley remains extreme attractive with lower pricing and multiple space options upcoming. Moreover,

MARKETBEAT
Central Valley
Industrial Q2 2018

users with requirements greater than 300,000 sf will necessarily continue to look to the Central Valley as such options will continue to remain scant in the Bay Area.

The Central Valley's rapidly expanding industrial base has been central to the story of the market over the past several years, both in terms of bulk square footage and redefining the quality of product available. There has been 18.8 msf of deliveries this cycle, increasing the industrial inventory in the region by an astounding 20.2% since 2009. There is an additional 8.2 msf currently under construction and additional projects in various stages of planning. Of this total under construction figure, 4.5 msf (or 54.2%) began on a speculative basis. While it is unlikely that all of this space will deliver preleased, new construction is expected to see strong interest from companies with large-size requirements in Northern California.

THERE IS A 8.2 MSF OF INDUSTRIAL PRODUCT UNDER CONSTRUCTION THROUGHOUT THE CENTRAL VALLEY…

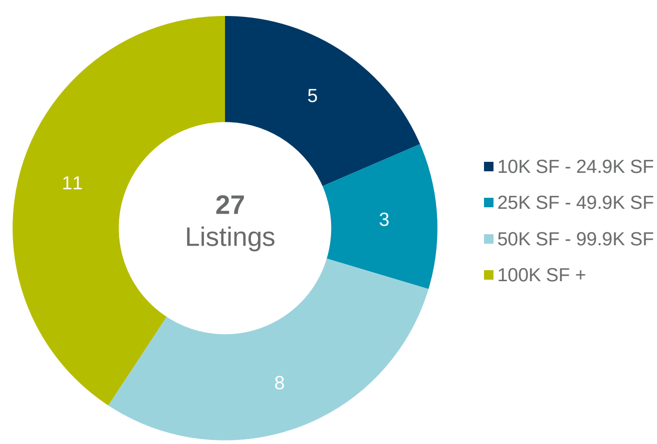
Industrial average asking rents in the Central Valley increased in 2018, ending the second quarter at $0.42 per square feet (psf) on a monthly triple net basis. This is up 5.5% from $0.40 psf over the last six months. With demand to remain strong and huge amounts of new product expected to deliver over the next 12 to 18 months, rents are anticipated to continue to show modest to moderate increases increase over that time period.

Outlook

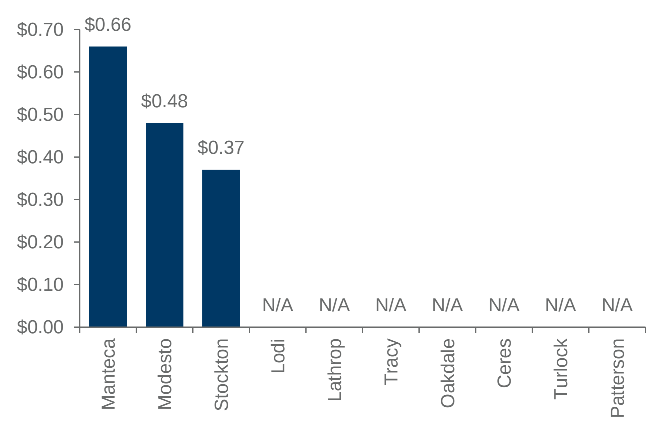
- Occupancy growth is expected for the remainder of 2018 as solid demand results in space absorption, particularly in modern warehouse/distribution product
- Rents are expected to increase due to strong demand and new product coming to the market due to construction completions

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

Availabilities by Size Segment
SPACE OPTIONS IN EXISTING PRODUCT LIMITED



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



MARKETBEAT

Central Valley

Industrial Q2 2018

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	22,120	0.2%	-22,120	-22,120	0	N/A
Stockton	43,209,801	0	2,562,498	5.9%	152,744	1,012,836	1,473,178	$0.37
Lathrop	12,120,934	488,961	0	3.5%	115,024	1,401,959	0	N/A
Tracy	21,536,601	92,000	974,315	5.0%	0	77,003	4,103,219	N/A
Manteca/Ripon	3,464,921	0	291,172	8.4%	-286,072	-280,248	1,403,047	$0.66
San Joaquin County	89,251,103	580,961	3,780,694	4.9%	-40,424	2,189,430	6,979,444	$0.40
Oakdale	2,103,591	0	0	0.0%	0	0	0	N/A
Modesto	25,290,738	0	1,560,205	6.2%	-416,055	-598,928	553,301	$0.48
Ceres	363,585	0	0	0.0%	0	0	0	N/A
Turlock	3,893,506	0	62,279	1.6%	-62,279	-62,279	0	N/A
Patterson	5,516,685	0	0	0.0%	0	0	712,130	N/A
Stanislaus County	37,168,105	0	1,622,484	4.4%	-478,334	-661,207	1,265,431	$0.48
TOTAL	126,419,208	580,961	5,403,178	4.7%	-518,758	1,528,223	8,244,875	$0.42

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

Key Lease Transactions Q2 2018

PROPERTY	SF	TENANT	LANDLORD	TRANSACTION TYPE	SUBMARKET
2115 Sinclair Ave S	780,371	Innovel Solutions, Inc	Prologis	New	Stockton
2300 Chabot Ct	390,416	Best Buy	Prologis	Renewal	Tracy
18601 Christopher Way Bldg 1	338,564	Tesla	Buzz Oates	New	Lathrop
3834-3862 Duck Creek Dr	158,400	XPO Logistics	Westcore Properties	New	Stockton
2301 Chabot Ct	135,860	CHEP USA	Prologis	Renewal	Tracy

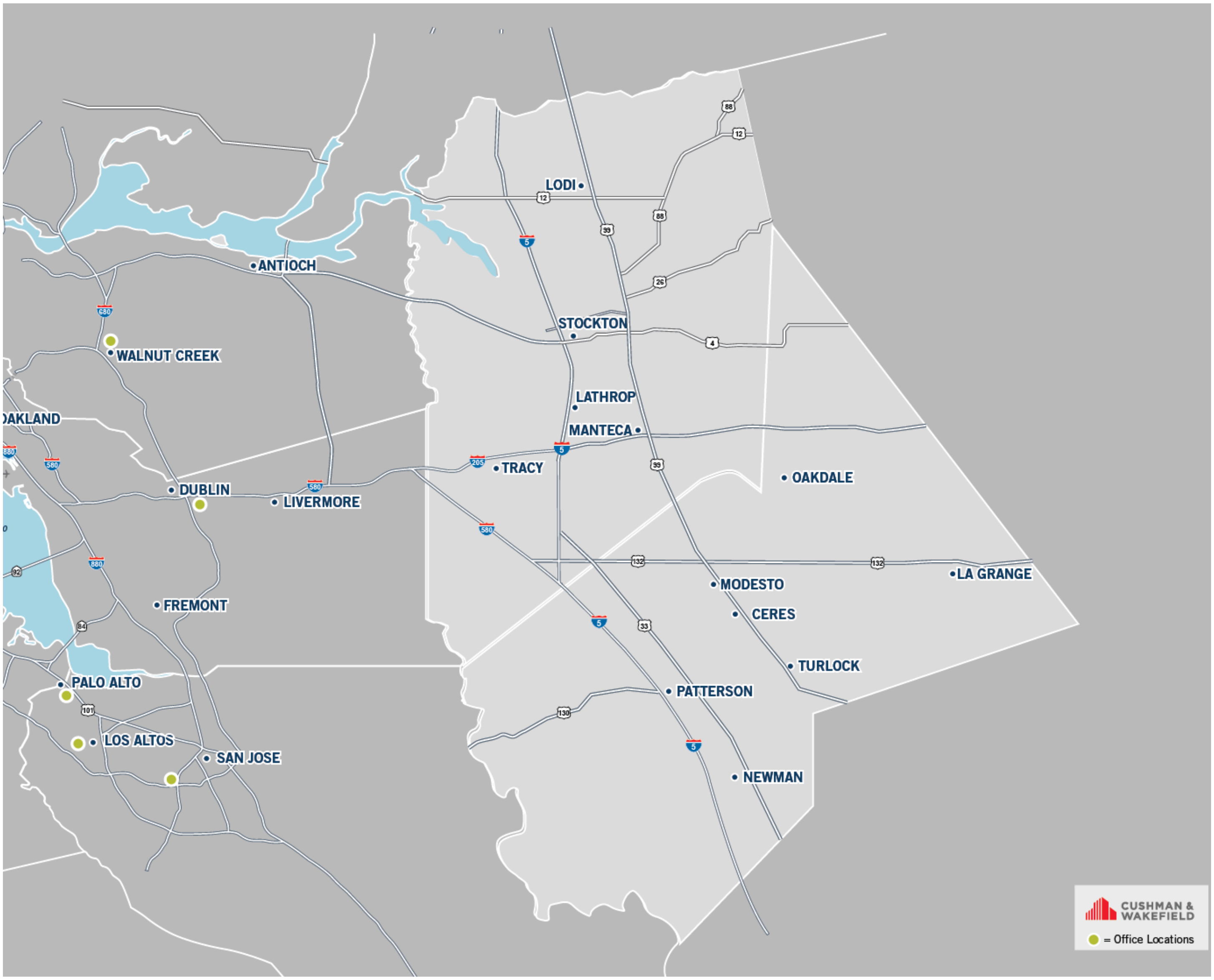
Key Sale Transactions Q2 2018

PROPERTY	SF	BUYER	SELLER	SALE PRICE / $PSF	MARKET
Gibraltar Ct & Imperial Way*	944,619	Blackstone REIT	Highridge Provender	$82,001,722 / $87	Stockton
4601-4733 Newcastle Rd	575.127	Prologis	CT Realty Investors	$47,160,500 / $82	Stockton
1700 E Pescadero Ave	381,600	Black Creek Group	Ridgeline Property Group	$45,750,000 / $120	Tracy
1324 Coldwell Ave	109,000	Centerra Capital	Philip Oberti	$2,800,000 / $26	Modesto
6800 West Ln	89,910	Merit Hill Capital	Wentworth Property Co	$9,200,000 / $102	Stockton

* Portfolio of 9 cold storage properties in multiple cities and states; three properties are in the Central Valley region. Sale price shown is allocated based on sf of those three properties.

MARKETBEAT
Central Valley
Industrial Q2 2018

Industrial Submarkets
Central Valley



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About Cushman & Wakefield

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