MARKETBEAT

Central Valley

Industrial Q3 2018

CENTRAL VALLEY INDUSTRIAL

Economic Indicators*

	Q3 17	Q3 18	12-Month Forecast
Central Valley Employment	409K	420K	▲
Central Valley Unemployment	7.0%	6.6%	▼
U.S. Unemployment	4.4%	3.9%	▼

*Q3 18 data based on the average of July and August values

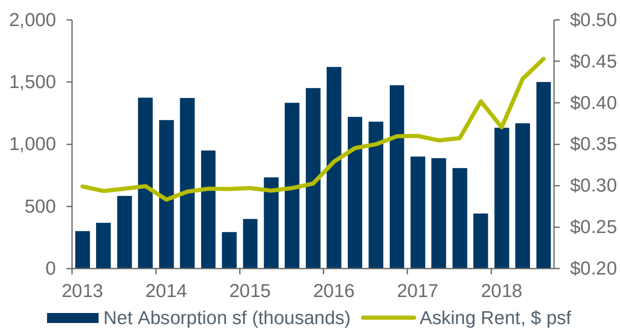
Market Indicators**

	Q3 17	Q3 18	12-Month Forecast
Overall Vacancy	3.7%	3.5%	▲
Overall Net Absorption (sf)	1.5K	2.8K	▲
Under Construction (sf)	4.7M	6.4M	▲
Average Asking Rent*	$0.36	$0.45	▲

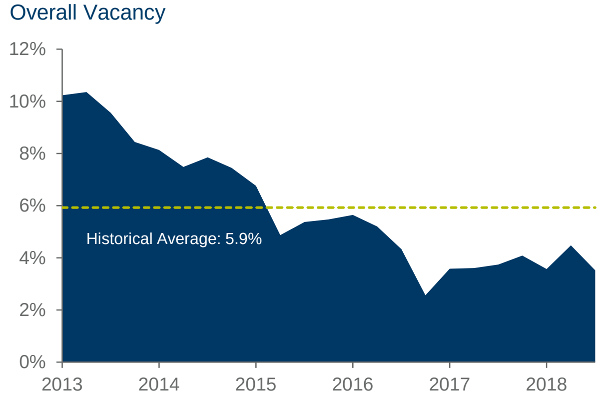
*Rental rates reflect NNN asking $PSF/month

Overall Net Absorption/Asking Rent (NNN)

4-QTR TRAILING AVERAGE



Overall Vacancy



Leasing Activity Heats Up as New Construction Delivers

The Central Valley, comprised of the Modesto and Stockton-Lodi MSAs, recorded positive employment growth, with 11,000 non-farm payroll positions added to the region over the last 12 months, bringing regional employment to 420,400 jobs. Accordingly, unemployment dropped over the past year to 6.6%, representing a decline of 40 basis points (bps) from 7.0%. Meanwhile, the labor force declined by a negligible 0.19% year over year (YoY); however growth is expected to return to the positive as companies relocate to or expand within the Central Valley due to Northern California's strong regional economy and the expansion of the market's industrial base.

Vacancy in the Central Valley industrial market was 3.5% at the end of the third quarter, having ticked down 100 bps from the previous quarter and down 20 bps YoY. Vacancy now hovers near historically low levels, and demand remains strong for large blocks of modern distribution space. Occupancy growth has been positive in every quarter of 2018, with net absorption totaling over 2.8 million square feet (msf) in the third quarter and 5.3 msf thus far for the year. San Joaquin County, hosting 71% of the Central Valley's industrial inventory, recorded the greatest gains to occupancy with net absorption totaling to 2.6 msf for the quarter, and 5.4 msf so far this year. Space givebacks have been minimal during this cycle with nearly all vacancy fluctuations due to the delivery of vacant new construction; meanwhile Pactra USA's 92,000 sf sublease at Tracy Pescadero Distribution Center is the only sublease space available market-wide, and has been for the last three quarters. While vacancy will likely rise in the next year due the volume of new construction slated for delivery, the majority of these projects are build-to-suits or are preleased. Thus, net absorption will continue to rise in the coming quarters, concentrated in the submarkets of Stockton and Lathrop, both of which are home to notable amounts of product newly constructed in 2017 and 2018.

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 becoming a viable option for large users seeking to relocate from the comparatively more expensive Bay Area industrial markets where 100,000+ square foot (sf) options are much more limited. Though the Bay Area construction pipeline continues to swell, the Central Valley remains attractive due to lower pricing and proximity to larger consumer markets. Moreover, users with requirements greater than

MARKETBEAT
Central Valley
Industrial Q3 2018

300,000 sf will necessarily continue to look to the Central Valley due to the fact there are currently several new blocks in this size range that are shell complete and ready for occupancy.

Industrial average asking rents in the Central Valley continued to climb in 2018, ending the third quarter at $0.45 per square feet (psf) on a monthly triple net basis, representing a 27% increase from $0.36 psf YoY. With strong demand that is expected to continue growing, rents are forecast to grow moderately over the next 12 to 18 months.

ESSENTIAL TO THE STORY OF THE CENTRAL VALLEY INDUSTRIAL MARKET IS THE VOLUME OF NEW CONSTRUCTION DELIVERED IN RECENT YEARS…

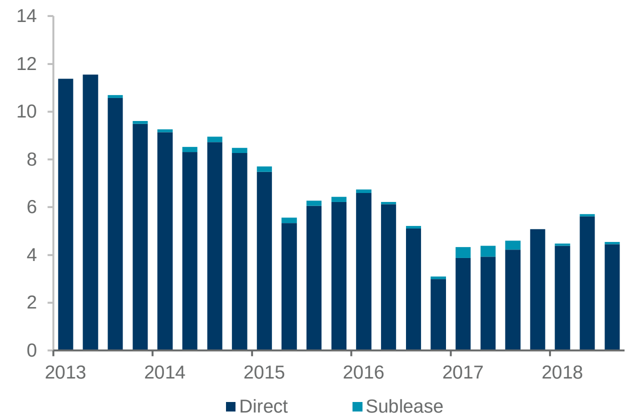
Essential to the story of the Central Valley industrial market is the volume of new construction delivered in recent years, which is fundamentally modernizing the market's building base. There has been 21.1 msf of deliveries this cycle, representing a 17.5% increase in the region's inventory, while 6.4 msf is currently under construction. Of these projects, 3.7 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 2.8 msf in the third quarter, and occupancy growth is expected over the next year due to strong and consistent demand
- New product delivered to the market in 2018 and going forward in 2019 will provide much-needed options for users seeking high-quality warehouse/distribution product in the Central Valley

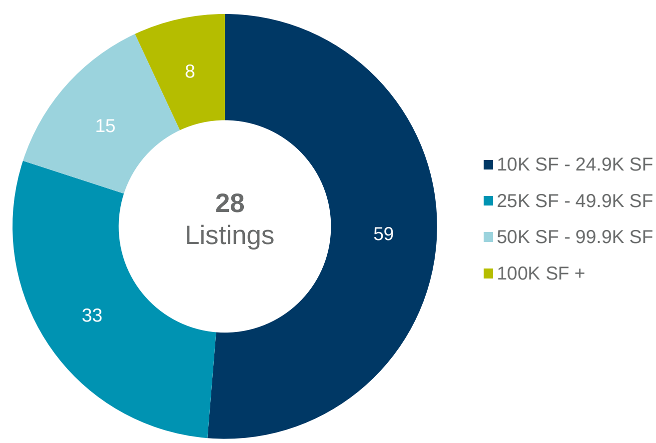
Direct & Sublease Available Space

SUBLEASE SPACE VIRTUALLY NONEXISTENT



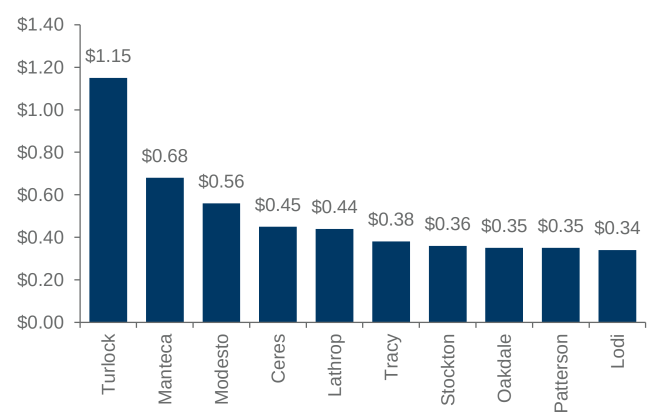
Availabilities by Size Segment

LARGE BLOCKS OF MODERN WAREHOUSE SPACE SCARCE



Overall Average Asking Rate by Submarket (NNN)

NEW PRODUCT TO DRIVE RENTS UP IN NEXT 12 MONTHS



MARKETBEAT

Central Valley

Industrial Q3 2018

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%	22,120	0	0	N/A
Stockton	43,874,445	0	1,335,278	3.0%	1,941,903	2,890,056	977,517	$0.36
Lathrop	12,120,934	0	417,610	3.4%	1,940	1,403,899	870,924	N/A
Tracy	22,244,681	92,000	795,732	4.0%	178,583	963,666	3,866,775	N/A
Manteca/Ripon	3,750,993	0	159,172	4.2%	418,072	137,824	731,128	$0.68
San Joaquin County	90,909,899	92,000	2,707,792	3.1%	2,562,618	5,395,445	6,446,344	$0.39
Oakdale	2,103,591	0	0	0.0%	0	0	0	N/A
Modesto	25,350,304	0	939,201	3.7%	274,604	22,076	0	$0.56
Ceres	363,585	0	23,469	6.5%	-23,469	-23,469	0	$0.45
Turlock	3,852,588	0	62,279	1.6%	0	-62,279	0	N/A
Patterson	6,228,815	0	712,130	11.4%	0	0	0	N/A
Stanislaus County	37,898,883	0	1,737,079	4.6%	274,604	-40,203	0	$0.56
TOTAL	128,808,782	92,000	4,444,871	3.5%	2,837,222	5,355,242	6,446,344	$0.45

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

**Market indicators are not reflective of U.S. MarketBeat Tables.

Key Lease Transactions Q3 2018

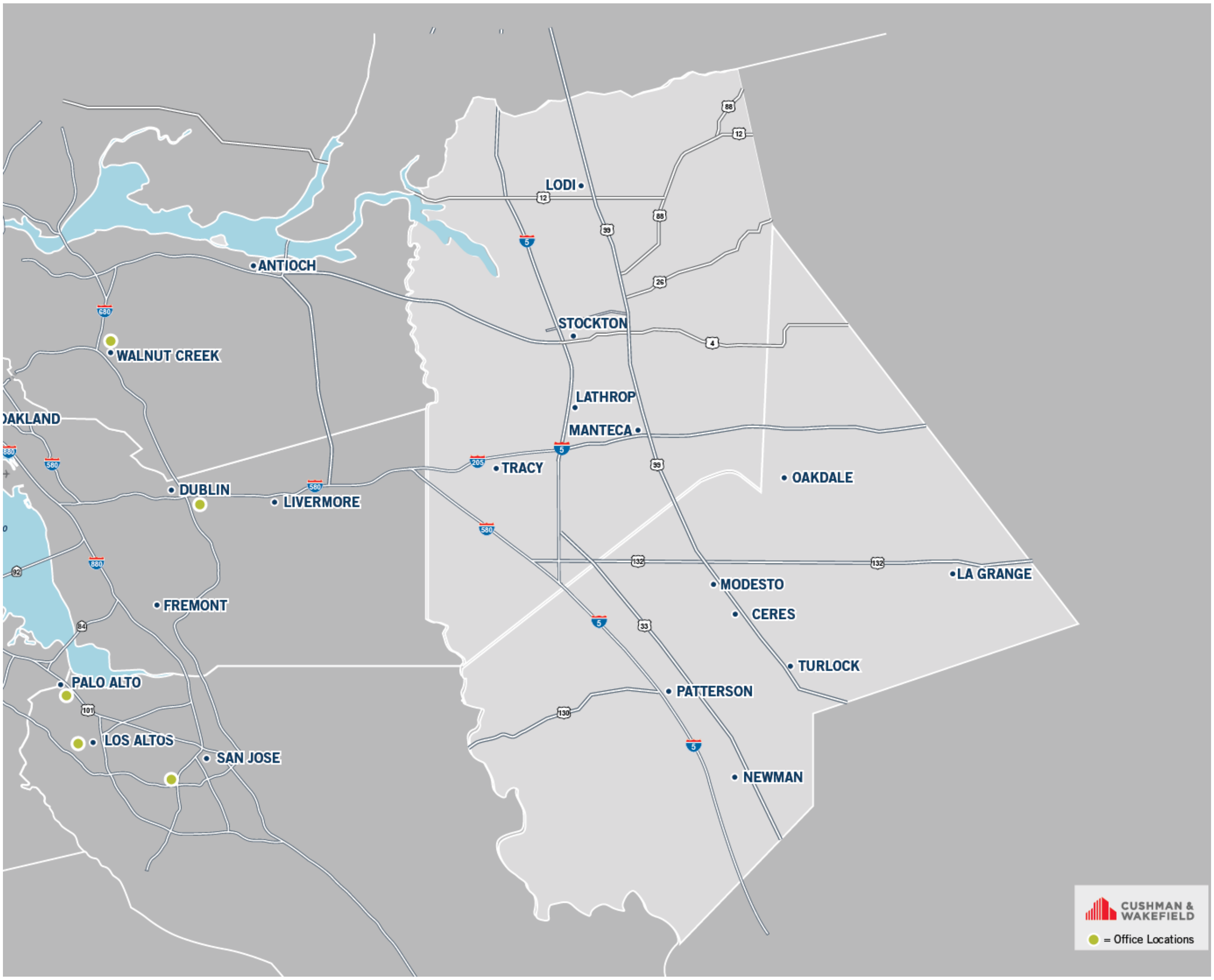
PROPERTY	SF	TENANT	LANDLORD	TRANSACTION TYPE	SUBMARKET
Norcal Logistics Center	1,122,341	Confidential	CT Realty	New	Stockton
440 Industrial Drive	522,405	Allen Distribution	Buzz Oates	New	Stockton
Lathrop Industrial Park	115,776	Heritage Paper	Exeter Property Group	New	Lathrop
6801 Longe Street	57,000	Vander Bend	Buzz Oates	New	Stockton

Key Sale Transactions Q3 2018

PROPERTY	SF	BUYER	SELLER	SALE PRICE / $PSF	MARKET
Safeway Distribution Center	1,888,627	Colony Capital	Safeway, Inc	$218,596,874 / $116	Tracy
Pacific Distribution Center	712,130	Westcore Properties	Keystone Corporation	$53,750,000 / $76	Patterson
Scannell Industrial Center	286,072	Dermody Properties	Scannell Properties	$24,603,000 / $86	Manteca

MARKETBEAT
Central Valley
Industrial Q3 2018

Industrial Submarkets
Central Valley



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About Cushman & Wakefield