MARKETBEAT
Central Valley
Industrial Q4 2018

CUSHMAN & WAKEFIELD

CENTRAL VALLEY INDUSTRIAL

Economic Indicators*

	Q4 17	Q4 18	12-Month Forecast
Central Valley Employment	414K	424K	▲
Central Valley Unemployment	6.7%	6.0%	▼
U.S. Unemployment	4.4%	3.9%	▼

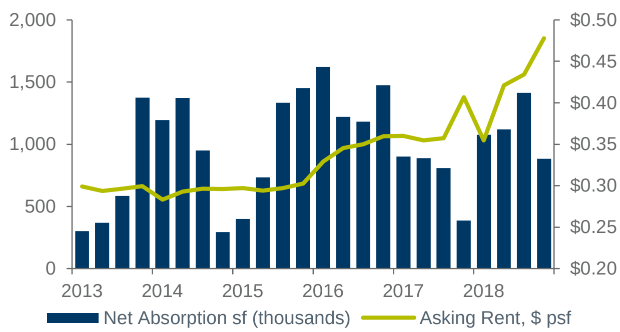
*Q4 18 data based on the average of October and November values

Market Indicators**

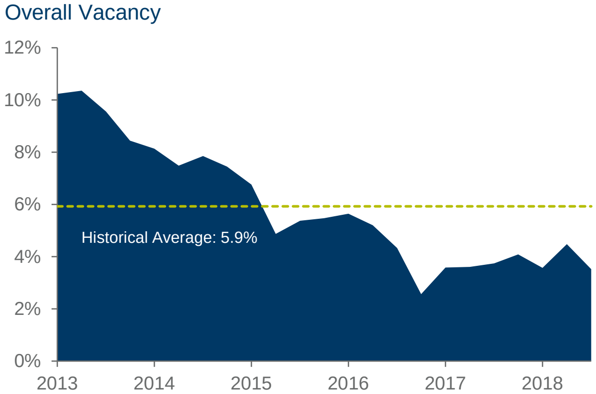
	Q4 17	Q4 18	12-Month Forecast
Overall Vacancy	4.4%	5.8%	▲
Overall Net Absorption (sf)	420K	-1,703K	▲
Under Construction (sf)	7.5M	7.0M	▲
Average Asking Rent*	$0.41	$0.48	▲

*Rental rates reflect NNN asking $PSF/month

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



Overall Vacancy



Occupancy Growth Stalls in the Fourth Quarter

The Central Valley, comprised of the Modesto and Stockton Metropolitan Statistical Areas (MSAs) recorded positive employment growth, with 10,000 non-farm payroll positions added to the region over the last 12 months, bringing regional employment to 424,350. Accordingly, unemployment dropped over the past year to 6.0%, representing a decline of 70 basis points (bps) from 6.7%. Meanwhile, the labor force increased 2.1% year over year (YOY), 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 and expanding industrial building base.

Vacancy in the Central Valley industrial market was 5.8% at the end of the fourth quarter, having risen 170 bps from the previous quarter and 140 bps YOY. The November completion of the 490,000 sf LBA Logistics Center in Tracy was partially responsible for the uptick this quarter; the building is currently 100% vacant and available. Additionally, the market saw -1.7 million square feet (msf) of negative net absorption in the fourth quarter of which roughly half was concentrated in Stockton further inflating the vacancy metric. Despite the rise, vacancy is at near historically low levels and demand remains strong for large blocks of modern distribution space. While the fourth quarter saw a significant downtick in net absorption, it was still positive for the full year, at+3.5 msf, compared to +1.7 msf in 2017, marking eight consecutive years of positive occupancy growth. Sublease space remains virtually nonexistent across the market, with Pactra USA's sublease of 62,500 sf at Tracy Pescadero Distribution Center representing the only such block ready for immediate occupancy, having been the case for the past year. While vacancy may rise in the short term due the volume of new construction slated for delivery, the majority of these projects are build-to-suits or are preleased, and vacancy is ultimately forecasted to decline over the course of the next year. A corresponding increase in net absorption is also expected, 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 has become 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

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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 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.

THE CENTRAL VALLEY REMAINS ATTRACTIVE DUE TO LOWER PRICING AND PROXIMITY TO CONSUMER MARKETS…

Industrial average asking rents in the Central Valley posted further gains over the course of 2018, ending the third quarter at $0.48 per square foot (psf) on a monthly triple net basis, representing a 17% increase from $0.41. With strong demand that is expected to continue growing due to significantly higher rents in the adjacent East Bay Oakland industrial market, rents are expected to continue growing at a measured pace in 2019.

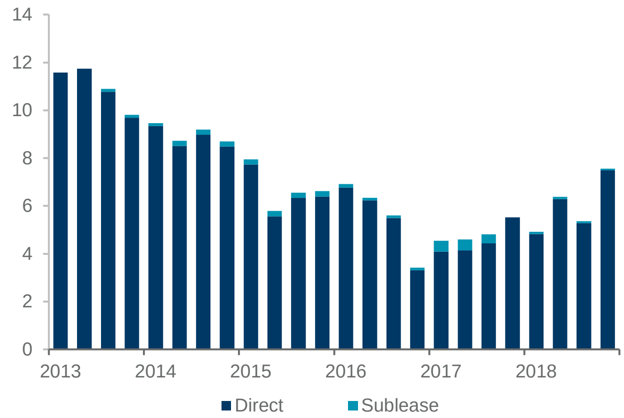
Essential to the story of the Central Valley industrial market is the volume of new construction delivered in recent years, which is fundamentally modernizing the market's building base. There has been 21.9 msf of deliveries this cycle, representing a 17.6% increase in the region's inventory, while 8.0 msf is currently under construction. Of these projects, 4.6 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 -1.7 msf in the fourth quarter and occupancy growth is expected to return to the positive in 2019
- 5.6 msf of new product was delivered in 2018, while 7.0 msf is currently under construction
- Asking rents closed 2018 at $0.48 psf on a monthly triple-net basis and are expected to rise as new modern product is delivered in 2019

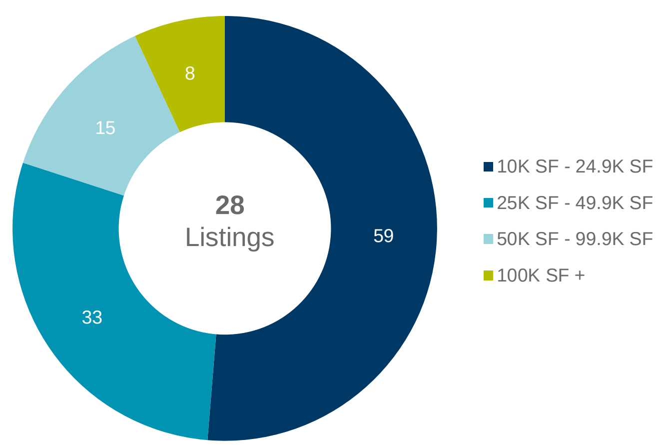
Direct & Sublease Available Space

SUBLEASE SPACE STILL IN SHORT SUPPLY



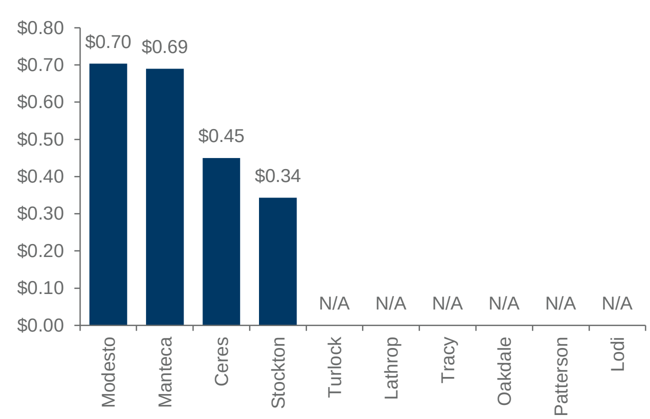
Availabilities by Size Segment

LARGE BLOCKS OF MODERN WAREHOUSE SPACE SCARCE



Overall Average Asking Rate by Submarket (NNN)

NEW PRODUCT TO DRIVE RENTS UP IN NEXT 12 MONTHS



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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	43,854,025	0	3,001,158	6.8%	-837,179	1,159,745	1,273,766	$0.34
Lathrop	12,121,044	0	438,147	3.6%	-20,537	1,383,362	1,970,294	N/A
Tracy	23,397,037	62,500	1,285,732	5.8%	30,750	1,258,806	3,053,914	N/A
Manteca/Ripon	4,150,993	0	163,858	3.9%	-4,686	367,138	731,128	$0.69
San Joaquin County	92,441,945	62,500	4,888,895	5.4%	-831,652	4,169,051	7,029,102	$0.36
Oakdale	2,103,591	0	0	0.0%	0	0	0	N/A
Modesto	25,376,128	0	1,810,522	7.1%	-871,321	-577,245	0	$0.70
Ceres	363,585	0	23,469	6.5%	0	-23,469	0	$0.45
Turlock	3,830,429	0	62,279	1.6%	0	-62,279	0	N/A
Patterson	6,230,202	0	712,130	11.4%	0	0	0	N/A
Stanislaus County	37,903,935	0	2,608,400	6.9%	-871,321	-662,993	0	$0.70
TOTAL	130,345,880	62,500	7,497,295	5.8%	-1,702,973	3,506,058	7,029,102	$0.48

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

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

Key Lease Transactions Q4 2018

PROPERTY	SF	TENANT	LANDLORD	TRANSACTION TYPE	SUBMARKET
Patterson Pass Business Park	261,018	Owens & Minor	Prolgis	New	Tracy
1440 Performance Drive	116,964	IPEX	Buzz Oates	New	Stockton
Internat'l Park of Commerce	38,947	SourceSelect, Inc.	Prologis	New	Tracy

Key Sale Transactions Q4 2018

PROPERTY	SF	BUYER	SELLER	SALE PRICE / $PSF	MARKET
2801 Finch Road	1,846,050	G3 Enterprises	Seneca Foods Corporation	$30,532,727 / $17	Modesto
1990 Piccoli Rd/2080 Wilcox Rd	986,509	Blackstone	Fortress Investment Group	$94,000,000 / $95	Stockton
Pacific Distribution Center	712,130	Westcore Properties	Keystone Corporation	$53,750,000 / $75	Patterson
2325 Louise Ave W	585,580	Mapletree Investments	Exeter Property Group	$67,600,000 / $115	Manteca
1718 Boeing Wat	103,968	Best Express Foods	Buzz Oates	$10,450,000 / $101	Stockton

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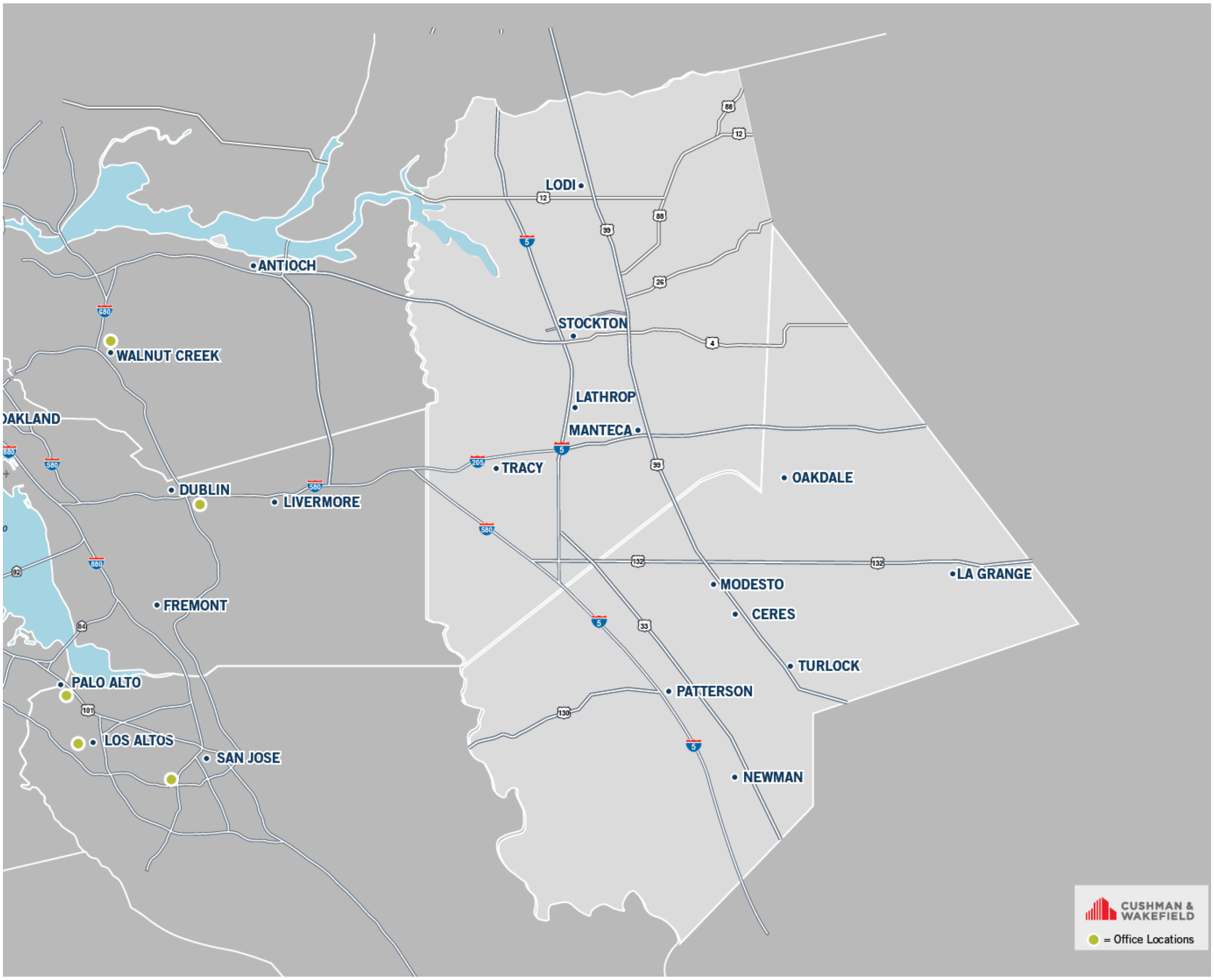
Industrial Submarkets
Central Valley



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