MARKETBEAT
Central Valley
Industrial Q2 2017

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CENTRAL VALLEY INDUSTRIAL

Economic Indicators

	Q2 16	Q2 17	12-Month Forecast
Central Valley Employment	396K	404K	▲
San Joaquin Unemployment	8.5%	7.3%	▼
U.S. Unemployment	4.9%	4.8%	▬

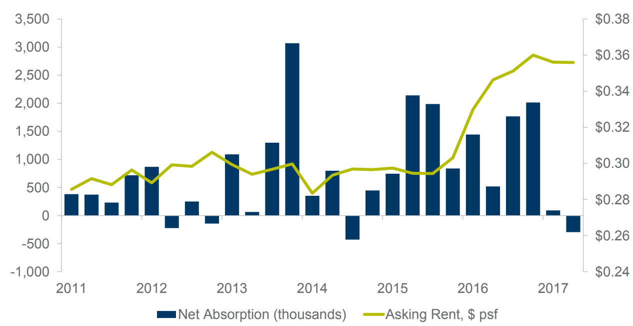
*Q2 17 data based on the average of April and May values

Market Indicators

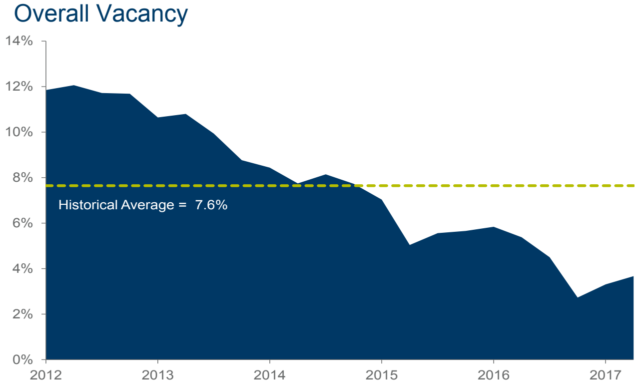
	Q2 16	Q2 17	12-Month Forecast
Overall Vacancy	5.4%	3.7%	▬
Net Absorption SF	520K	-295K	▲
Under Construction SF	1.3M	4.2M	▲
Overall Average Asking Rent*	$0.35	$0.36	▲

*Rental rates reflect NNN asking $PSF/month

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



Overall Vacancy



Development to Spur Occupancy and Rent Growth

The Central Valley region of California continues to see modest overall improvements to economic fundamentals. The combined MSAs of Modesto and Stockton-Lodi saw a +2.1% increase in nonfarm payroll positions year-over-year, bringing the employment figure to over 404,000 jobs, up from 396,000 at the midpoint of 2016. This increase in labor force pushed the unemployment rate to 7.3%, down -120 basis points (BPS) from 8.5%. Over this time period, the labor force has likewise risen to 5.5 million, up from 4.6 million over the same period. We anticipate both the labor force and employment levels in the region will continue to increase forward, as businesses continue to expand or relocate to the Central Valley, particularly from the Bay Area.

The Central Valley, made up of San Joaquin and Stanislaus Counties, continued to experience notable constraints on available space through the midpoint of 2017. Though the vacancy figure is up +100 BPS from the outset of the year, the current vacancy rate of just 3.7% reflects a market where space options remain extremely limited. Year-to-date net absorption totals -203,000 square feet (SF); though this reflects some occupancy loss, a large portion of the increase in vacancy was due to the delivery of much-needed new warehouse space, rather than users returning space to the market. The modest amount of space givebacks comes after several years of staggering absorption figures wherein the market saw 18.2 million square feet (MSF) of occupancy growth in a short four-year period. Over the past several years, Central Valley landlords and developers have benefited from an influx of users from the Bay Area region, particularly the I-80/I-880 Corridor (the Bay Area's primary warehouse/distribution hub), where vacancy has remained solidly below the 5.0% mark for the past three years. However, with vacancy now at such low levels in the Central Valley as well, it is expected that, from a statistical standpoint, the pace of occupancy growth here will be dramatically impacted as there is little space left to absorb. These figures are not wholly reflective of requirements in the marketplace, however, where demand remains extremely strong for large blocks of modern warehouse space with no signs of abating in the foreseeable future. Going forward, we anticipate that companies will continue to expand in or migrate to the Central Valley region with vacancy to remain at or near present levels and the bulk of space absorption will occur in new construction.

The industrial development pipeline continues to swell in the Central Valley, particularly for warehouse product in San Joaquin County. There has already been nearly 10.9 MSF of deliveries this cycle with an additional 4.2 MSF presently underway with more still in various stages of proposal or planning. During the second quarter, LBA completed construction on their 518,000 SF warehouse/distribution facility in Hayward. Just prior, Ashley Furniture purchased the property with the intent to occupy the entirety of the building. The third quarter will likely see a huge amount of space delivered with a staggering 2.3 MSF anticipated slated to complete. With regional demand expected to remain at

DEMAND IN THE CENTRAL VALLEY INDUSTRIAL MARKET IS EXPECTED TO REMAIN STRONG, PARTICULARLY FOR LARGE BLOCKS OF MODERN WAREHOUSE SPACE...

high levels, any well-located speculative projects are not expected to remain available or vacant for long. Thus, we anticipate additional projects will continue to be announced as newly completed projects successfully lease or sell.

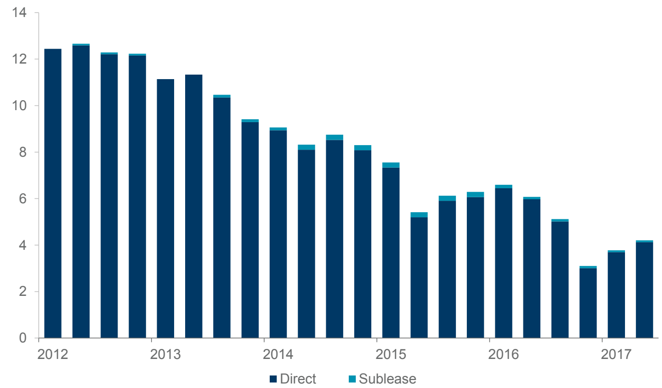
Overall asking rents in the Central Valley industrial market are now $0.36 per square foot (PSF) on a monthly triple net basis, flat compared to the beginning of 2017. These rents mostly reflect older, second generation space; many new speculative projects do not have formal asking rents, and therefore, their higher expected take rates are not included in these statistics. Rents began to rise mid-year 2016 after several years of stagnancy around the $0.30 PSF mark, preceding even the most recent recession. With the addition of significant amounts high quality, speculative warehouse space to the market warehouse rents have now eclipsed manufacturing rents, ending the quarter at $0.38 PSF. Strong demand drivers are anticipated to remain in place over the foreseeable future and with additional new speculative projects expected to deliver, we anticipate rents, particularly for modern warehouse product, will continue to rise going forward.

Outlook

- There is 2.3 MSF of warehouse deliveries anticipated during the third quarter of 2017. While new product continues to prelease or lease shortly after completion, additional projects will likewise continue to fill the pipeline.
- Rents are begun to increase over the past year; rent growth will persist as overall economic fundamentals remain strong and demand in the region is high.

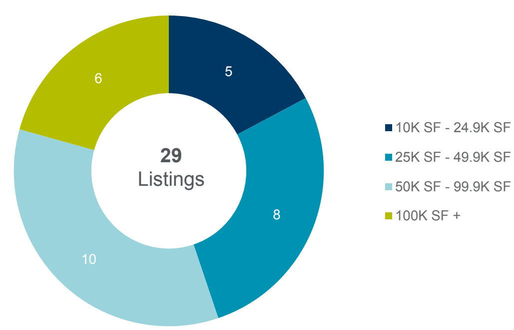
Direct & Sublease Available Space

SUPPLY OF EXISTING PRODUCT REMAINS LIMITED



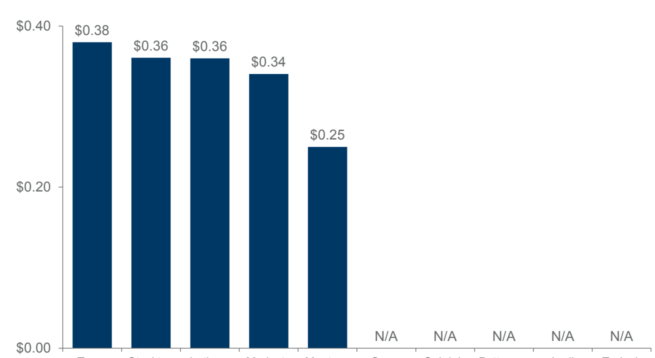
Availabilities by Size Segment

DWINDLING AMOUNT OF LARGE BLOCKS OF MODERN SPACE



Average Asking Rate by Submarket (NNN)

ASKING RENTS TO INCREASE AS NEW PROJECTS DELIVER



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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	8,127,771	0	0	0.0%	0	0	0	$0.00
Stockton	36,929,823	0	1,298,583	3.5%	131,836	82,415	1,724,353	$0.36
Lathrop	10,654,608	65,600	794,428	8.1%	-65,600	35,200	1,182,139	$0.36
Tracy	19,105,332	0	766,950	4.0%	62,466	-378,600	1,330,658	$0.38
Manteca/Ripon	3,286,421	0	92,533	2.8%	9,600	45,924	0	$0.25
San Joaquin County	78,103,955	65,600	2,952,494	3.9%	-243,298	-215,061	4,237,150	$0.36
Oakdale	2,100,591	0	0	0.0%	0	0	0	$0.00
Modesto	24,785,858	15,603	1,103,897	4.5%	-51,984	11,189	0	$0.34
Ceres	363,585	0	0	0.0%	0	0	0	$0.00
Turlock	3,727,618	0	67,800	1.8%	0	1,300	0	$0.00
Patterson	5,516,685	0	0	0.0%	0	0	0	$0.00
Stanislaus County	36,494,337	15,603	1,171,697	3.3%	-51,984	12,489	0	$0.34
TOTAL	114,598,292	81,203	4,124,191	3.7%	-295,282	-202,572	4,237,150	$0.36

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

Key Lease Transactions Q2 2017

PROPERTY	SF	TENANT	LANDLORD	TRANSACTION TYPE	SUBMARKET
2131 Louise Ave, E	627,620	Confidential	Dermody	New Lease	Lathrop
585 Garner Rd	219,570	SunOpta Foods, Inc.	Beard Land Imp Co	New Lease	Modesto
6551 Schulte Rd W	171,685	Confidentail	Prologis	New Lease	Tracy
6451 Schulte Rd, W	144,858	Bunzl Distribution, Inc.	Prologis	New Lease	Tracy
3838 Imperial Way	105,000	Allen Distribution	Buzz Oates Real Estate	New Lease	Stockton

Key Sale Transactions Q2 2017

PROPERTY	SF	BUYER	SELLER	SALE PRICE / $PSF	SUBMARKET
LBA Logistics Center	517,520	Ashley Homestore	LBA Realty	$44,109,000 / $85	Lathrop
Charter Way Industrial Park	277,500	Westcore Properties	MKD Investments, LP	$14,400,000 / $52	Stockton
107 S Kilroy Rd	259,433	Lactalis American Group, Inc	Karoun Dairies, Inc.	$11,200,000 / $43	Turlock
Stonebridge Industrial Park	219,500	Westcore Properties	Central Valley, LLC	$12,600,000 / $57	Tracy

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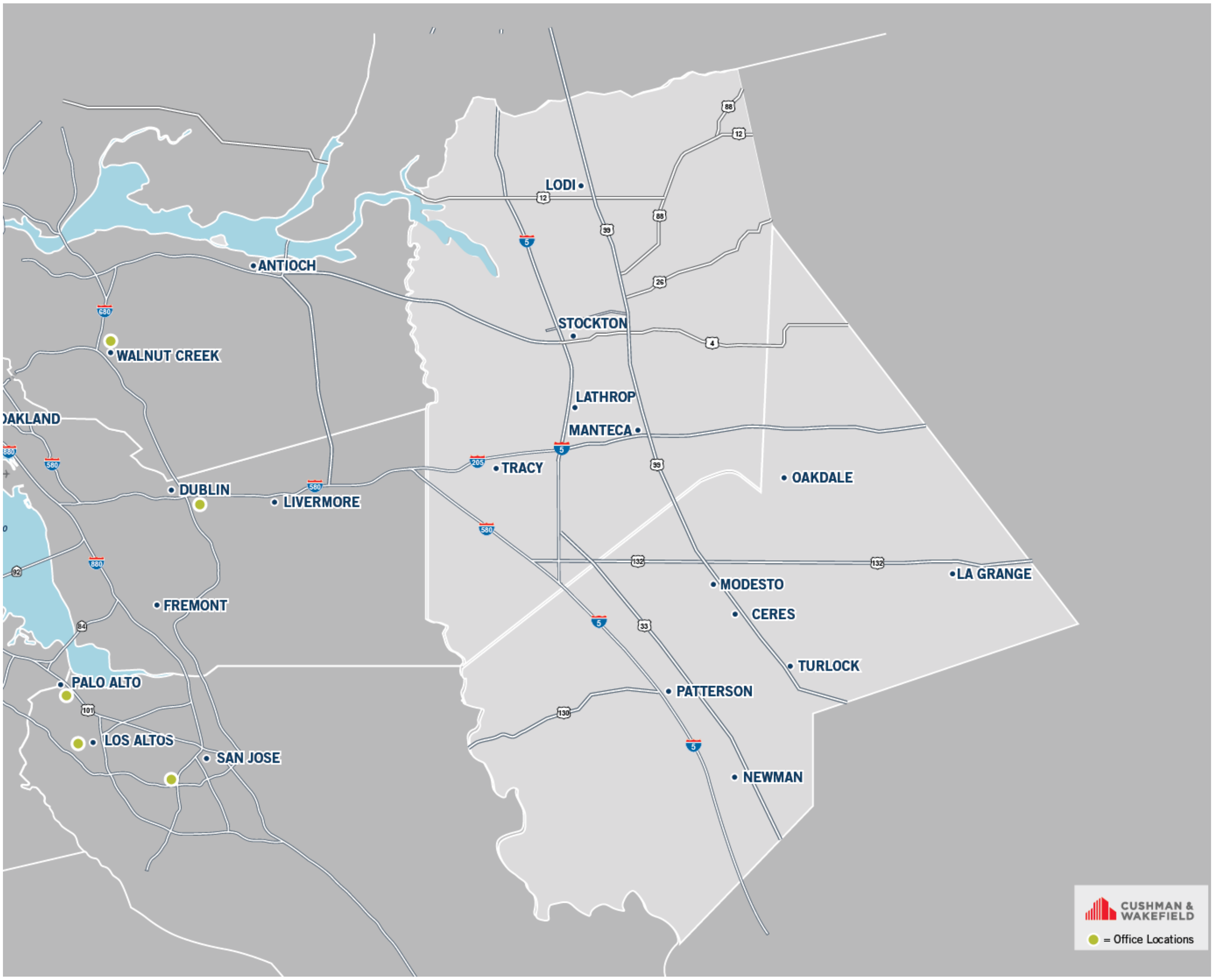
Industrial Submarkets
San Joaquin County



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