MARKETBEAT

Central Valley

Industrial Q3 2017

CENTRAL VALLEY INDUSTRIAL

Economic Indicators

	Q3 16	Q3 17	12-Month Forecast
Central Valley Employment	399K	406K	▲
San Joaquin Unemployment	8.2%	7.9%	▼
U.S. Unemployment	4.9%	4.4%	▼

*Q3 17 data based on the average of July and August values

Market Indicators

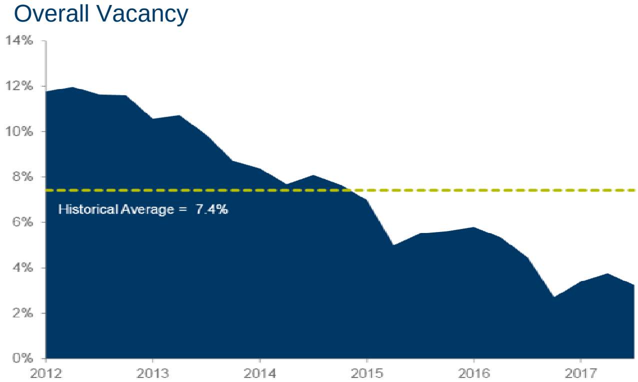
	Q3 16	Q3 17	12-Month Forecast
Overall Vacancy	4.5%	3.2%	▬
Net Absorption SF	1.8M	1.1M	▲
Under Construction SF	3.1M	6.7M	▲
Overall Average Asking Rent*	$0.35	$0.36	▲

*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, comprised of the Modesto and Stockton-Lodi MSAs, continued to see modest improvements to overall economic fundamentals in 2017. Employment ticked up +1.8% year-over-year to approximately 406,000 non-farm payroll positions in the third quarter. This increase corresponded with a decrease in the unemployment rate to 7.9% from 8.2% in the same time period. Over the past several years, national and Bay Area companies, particularly in the industrial and warehouse sectors, seeking space in or adjacent to the Bay Area region have increasingly looked to the Central Valley to fill large space requirements. Thus, we anticipate both the labor force and employment levels in the region will continue to increase as businesses expand or relocate to the region.

The Central Valley, spanning San Joaquin and Stanislaus Counties, continues to post extremely low industrial vacancy rates, closing the third quarter of 2017 with overall vacancy at just 3.2%. This is down -190 basis points from 5.1% one year prior and is reflective of a market where supply of warehouse product has been and remains extremely constrained in existing inventory, particularly in the higher quality category. Thus, the pace of absorption has slowed somewhat, more so due to the lack of space available to be absorbed, though still remains strongly positive. Net absorption totaled +1.1 million square feet (msf) during the third quarter bringing the year-to-date total to +786,000 square feet (sf). This comes after 2015 and 2016 where the market tallied +3.7 msf and +2.7 msf of occupancy growth, respectively. With such extreme supply constraints in existing product, space absorption in the foreseeable future will necessarily occur in newly constructed space.

Demand levels are expected to remain strong for large blocks of modern warehouse product for two reasons. First, while vacancy is incredibly low in the Central Valley, the constraint on available industrial space in the Bay Area is even tighter, closing the third quarter at 3.1% vacancy across an inventory of over 300 msf. Second, rents in the Central Valley market currently are currently 45% lower than in the Bay Area. Limited availability in the more urban markets coupled with the Valley's competitive rents offer a viable alternative for potential tenants.

The average asking rate in the Central Valley, in the third quarter of 2017, was $0.36 per square foot (psf) per month on a triple-net and has barely fluctuated for the last six quarters, mainly due to the slow delivery of new modern construction. By comparison, rents fluctuated between $0.28 and $0.31 psf in the previous cycle, from the first quarter of 2010 through the fourth quarter of 2015. We

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expect rents to tick up over the next year as demand increases and the velocity of pipeline deliveries picks up.

The development in the Central Valley continues to be predominant in the industrial narrative of the region. There is currently 6.7 msf of industrial product under construction on a speculative basis which is slated for delivery over the next 12 months. While development continues to be concentrated in San Joaquin County where 5.4 msf is presently under construction, during the third quarter, the first speculative projects broke ground in Stanislaus County. Several additional projects are in the planning phase, totaling 2.2 msf. We expect under construction inventory to increase in the next years as these projects break ground.

WE EXPECT RENTS TO TICK UP IN THE NEXT YEAR AS DEMAND INCREASES AND THE VELOCITY OF PIPELINE DELIVERIES PICKS UP...

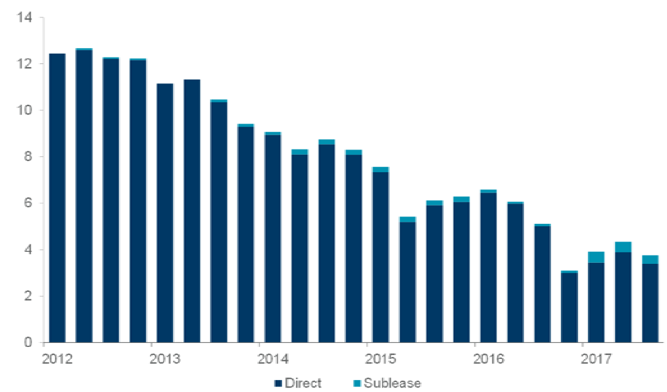
Sales activity remained strong this quarter, signaling long-term investor confidence in the market. One of the larger transactions was the sale of 1203 North Gertrude in Stockton to the BROE Group for $7,500,000 or $37 psf. While this not a high-watermark sale price for the market, this transaction, along with solid economic and real estate fundamentals, indicates that a continued stabilized trend is expected for the next 12 months.

Outlook

- There is 6.7 MSF of warehouse deliveries anticipated in the next 12 months. While new product continues to prelease or lease shortly after completion, additional projects will likewise continue to fill the pipeline.
- Rents have begun to increase over the past year; rent growth will persist as overall economic fundamentals remain strong and demand in the region is high.

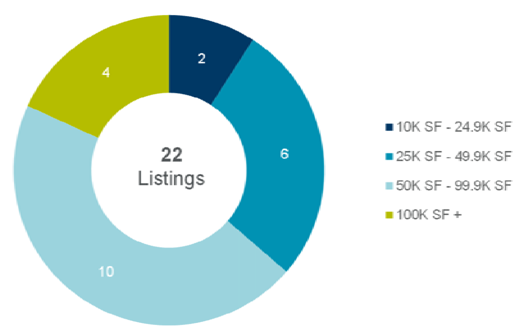
Direct & Sublease Available Space

SUPPLY OF EXISTING PRODUCT REMAINS LIMITED



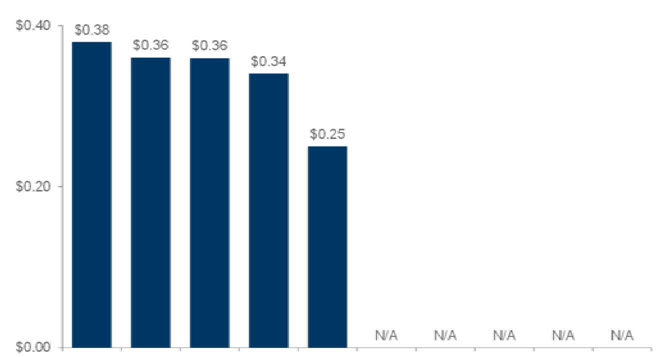
Availabilities by Size Segment

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	2,561,700	$0.36
Lathrop	10,654,608	65,600	794,428	8.1%	-65,600	35,200	0	$0.36
Tracy	19,105,332	0	766,950	4.0%	62,466	-378,600	2,012,450	$0.38
Manteca/Ripon	3,286,421	0	92,533	2.8%	9,600	45,924	837,547	$0.25
San Joaquin County	78,103,955	65,600	2,952,494	3.9%	-243,298	-215,061	5,411,697	$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	553,301	$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	716,400	$0.00
Stanislaus County	36,494,337	15,603	1,171,697	3.3%	-51,984	12,489	1,269,701	$0.34
TOTAL	114,598,292	81,203	4,124,191	3.7%	-295,282	-202,572	6,681,398	$0.36

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

Key Lease Transactions Q3 2017

PROPERTY	SF	TENANT	LANDLORD	TRANSACTION TYPE	SUBMARKET
25451 Mountain House Pkwy	708,080	Confidential	United Facilities Inc	New Lease	Tracy
2120 Boeing Way	451,611	Whirlpool	Buzz Oates	New Lease	Stockton
107 Riverside Dr, S	135,940	Westland Technologies Inc.	The Paskin Group	Renewal	Modesto
1604 Tillie Lewis Dr	120,000	GMA Garnet Corp	Blackstone Real Estate	Renewal	Stockton
2136 Pony Express Ct	90,625	Dart Container	GPS International	New Lease	Stockton

Key Sale Transactions Q3 2017

PROPERTY	SF	BUYER	SELLER	SALE PRICE / $PSF	SUBMARKET
1203 Gertrude Ave, N	200,238	The BROE Group	Jackon Grunksy	$7,500,000 / $37	Stockton
3834 Duck Creek Dr	158,400	Westcore Properties	WB Holdings Inc	$9,100,000 / $57	Stockton
2244 West Ln	143,325	Pacific Plaza USA LLC	Daniel Scwartz	$6,521,500 / $50	Stockton
Patterson Pass Business Park	92,400	Costco	Prologis	$8,782,000 / $95	Tracy

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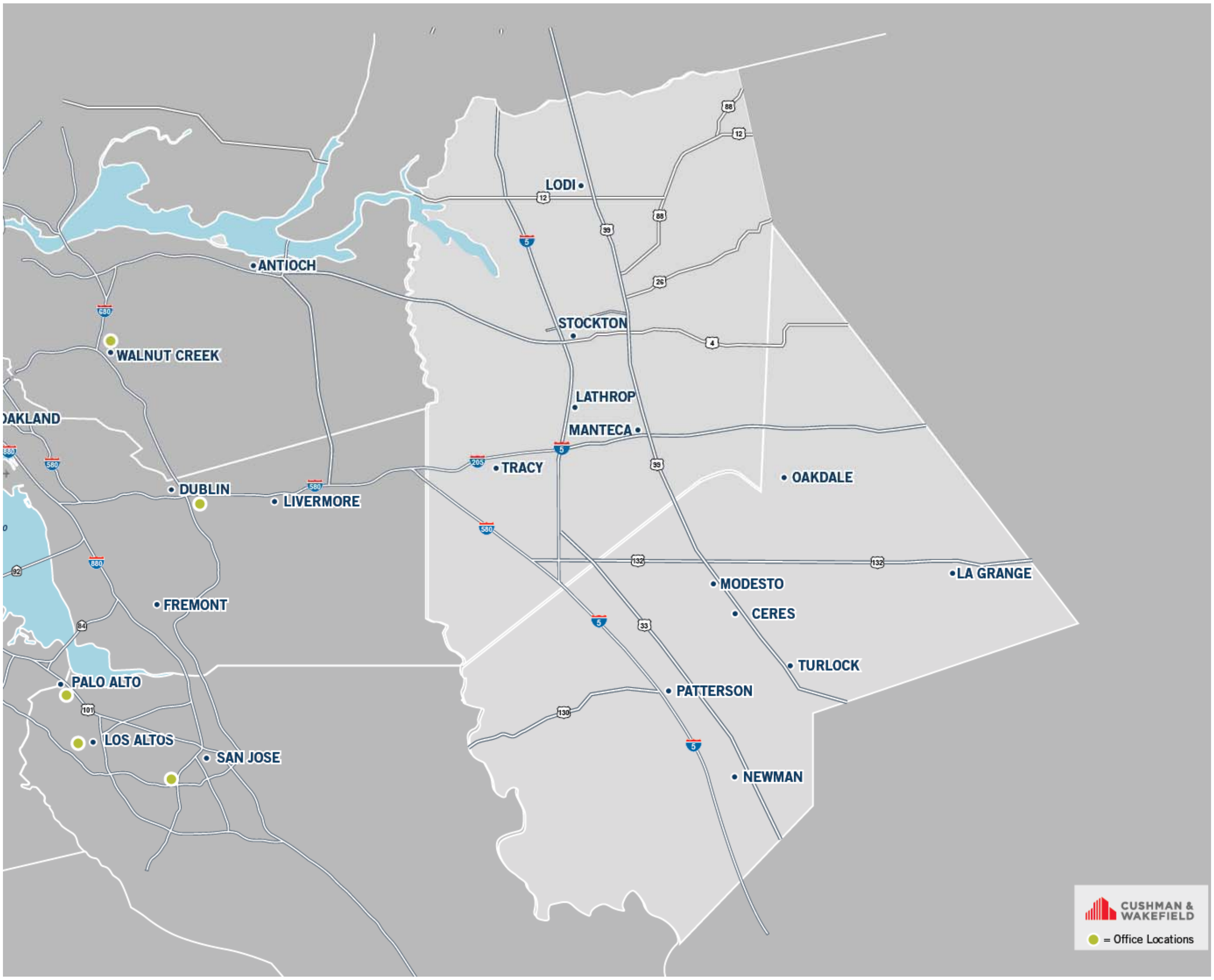
Industrial Submarkets
San Joaquin County



Cushman & Wakefield
3255 W March Lane, Suite 230
Stockton, CA 95219

5000 Hopyard Rd, Suite 205
Pleasanton, CA 94588

555 12th Street, Suite 1400
Oakland, CA 94607

For more information, contact:
Molly Herrick
Market Director - East Bay
Tel: +1 510 465 8000
molly.herrick@cushwake.com