MARKETBEAT
Central Valley
Industrial Q4 2017

CENTRAL VALLEY INDUSTRIAL

Economic Indicators

	Q4 16	Q4 17	12-Month Forecast
Central Valley Employment	402K	408K	▲
San Joaquin Unemployment	8.0%	7.4%	▼
U.S. Unemployment	4.7%	4.1%	▼

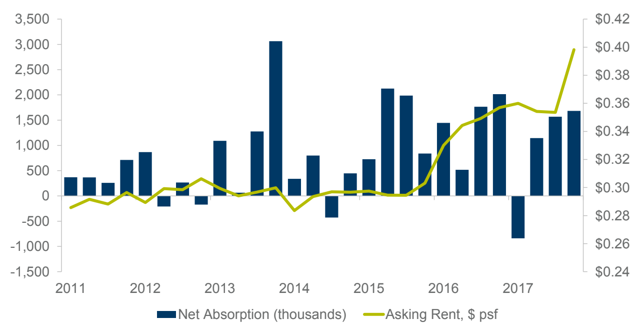
*Q4 17 data based on the average of October and November values

Market Indicators

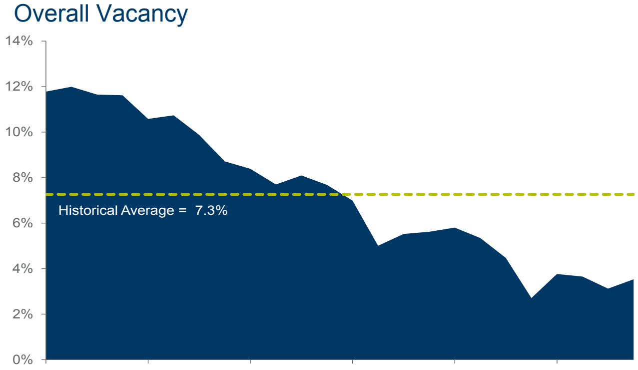
	Q4 16	Q4 17	12-Month Forecast
Overall Vacancy	2.7%	3.5%	▬
Net Absorption SF	2.0M	1.7M	▲
Under Construction SF	4.9M	7.5M	▲
Overall Average Asking Rent*	$0.36	$0.40	▲

*Rental rates reflect NNN asking $PSF/month

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



Overall Vacancy



Development to Drive Activity and Rent Growth

The Central Valley region, comprised of the combined Modesto and Stockton-Lodi MSAs, saw incremental improvements to overall economic fundamentals throughout 2017. Employment ticked up +1.5% year-over-year, bringing the total non-farm payroll positions in the region to approximately 408,000. Corresponding, unemployment decreased -60 basis points (bps) to 7.4% over that time period. Traditionally, the Central Valley industrial market had been home to local and national agricultural-related users, food processing, and a handful of regional distributors; however, over the past five years, an increasing number of Bay Area and national companies have or plan to move or open additional facilities in the Central Valley. While this trend continues, we will likewise see employment gains continue modestly to moderately along with potential increases to the labor force.

Vacancy in the Central Valley industrial market, which spans San Joaquin and Stanislaus counties, ended 2017 at a scant 3.5%. This is up +70 bps from just 2.7% at the end of 2016. Though vacancy has ticked up modestly, the market continues to experience extreme constraints on the supply of available space in existing buildings, particularly for modern product, despite 4.4 million square feet (msf) of new deliveries during 2017. Going forward, we anticipate vacancy to remain low, potentially with modest but temporary upticks as newly constructed space delivers of the course of the next year.

The market saw a significant 3.3 msf of occupancy growth in 2018. Though this figure pales in comparison to the two prior years where annual absorption totaled over 5.7 msf in each year, this is largely due to the lack of space available to absorb rather than any pull back in demand. Instead, demand remains strong and steady for large blocks of modern warehouse product. While space options are extremely limited in the Central Valley for such product, options in the Bay Area are even more so scarce with Bay Area industrial vacancy closing out 2017 at just 2.8%. Additionally, the Bay Area has seen skyrocketing industrial rents over the past several years. Average asking rents there are now more than twice those of the Central Valley. The lack of space and large and still-growing difference in rents between the two markets will continue to make the Central Valley an appealing option for many space users.

Asking rents in the Central Valley industrial market climbed over the course of the year to $0.40 per square foot (psf) on a monthly triple net basis. This represents a notable +11.1% increase compared to $0.36 psf at the end of 2016 and marks a historical high for this market. We anticipate rents will continue to rise similarly in 2018 as supply remains limited and new, modern product is delivered. However, we do not anticipate the difference in rents between the Central Valley and Bay Area will diminish, ensuring the Central Valley pricing remains attractive to Bay Area companies.

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

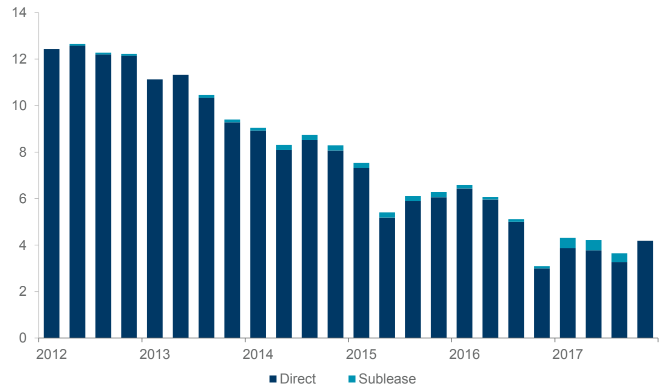
The Central Valley development pipeline continues to swell. There has been a total of 12.6 msf of new industrial product delivered this cycle to-date. There is an additional 7.0 msf presently under construction, the majority of which has commenced on a speculative basis. Furthermore, there are several million square feet in various stages of planning, some of which will likely go forward in 2018. While development activity continues to be concentrated in San Joaquin County, there are now three speculative projects underway in Stanislaus County which represent the first constructions starts there this cycle: two building in Modesto totaling approximately 553,000 sf; and approximately 700,000 sf in a single project in Patterson. We anticipate additional construction starts through the Central Valley region in 2018 with leasing activity in newly constructed product to remain strong. Development will remain the central story in the area, driving deal velocity and rents up over the next 12 months.

Outlook

- There is 7.0 msf of industrial product slated for delivery over the next 12 months, the bulk of which is speculative product. With demand to remain high for modern warehouse space, we anticipate strong leasing activity on newly constructed space.
- Meaningful rent growth is anticipated in 2018 as deal velocity picks up again and supply remains limited.

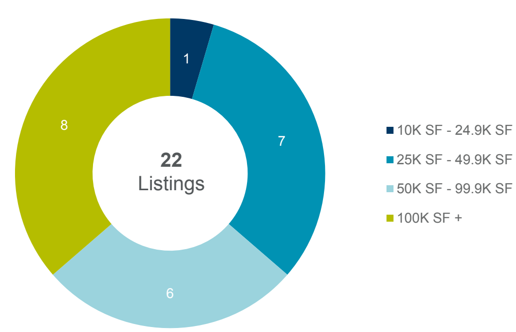
Direct & Sublease Available Space

SUPPLY OF EXISTING PRODUCT REMAINS CONSTRAINED



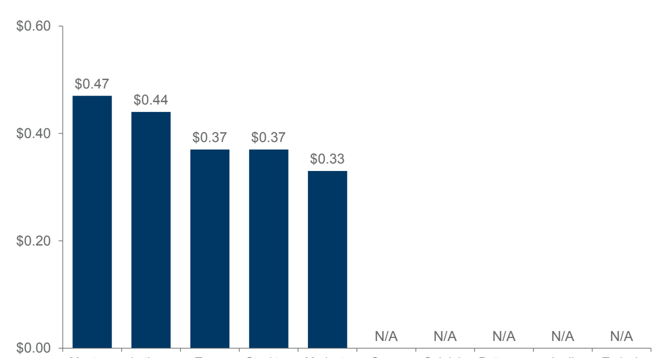
Availabilities by Size Segment

SPACE OPTIONS LIMITED ACROSS ALL SIZE SEGMENTS



Average Asking Rate by Submarket (NNN)

ASKING RENTS TO INCREASE AS NEW PROJECTS DELIVER



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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
Stockton	38,166,781	0	1,605,222	4.2%	59,972	227,387	2,746,700	$0.37
Lathrop	11,836,757	0	1,821,509	15.4%	54,468	255,858	510,000	$0.44
Tracy	20,972,273	0	342,886	1.6%	1,106,636	1,912,405	1,982,450	$0.37
Manteca/Ripon	3,286,421	0	10,924	0.3%	-10,924	127,533	956,475	$0.47
San Joaquin County	82,390,003	0	3,780,541	4.6%	1,463,020	2,776,051	6,195,625	$0.41
Modesto	24,581,358	0	407,976	1.7%	152,241	712,713	553,301	$0.33
TOTAL	118,625,834	0	4,188,517	3.5%	1,683,061	3,304,996	7,461,056	$0.40

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

Key Lease Transactions Q4 2017

PROPERTY	SF	TENANT	LANDLORD	TRANSACTION TYPE	SUBMARKET
4199-4201 Gibraltar Ct	750,000	Stockton Logistics LLC	Highridge Provender	Renewal	Stockton
Stockton Center Pointe	615,000	Confidential	Industrial Development Inc.	New Lease	Stockton
3656 Perlman Drive	369,875	Prism Logistics	Buzz Oates	Renewal	Stockton
18601 Cristopher Way	338,564	Tesla	Buzz Oates	New Lease	Lathrop
400 D'Arcy Parkway	277,208	Simwon	Exeter Properties	New Lease	Lathrop

Key Sale Transactions Q4 2017

PROPERTY	SF	BUYER	SELLER	SALE PRICE / $PSF	SUBMARKET
E & E Trading Building	1,000,000	E & E Trading Co, LTD.	Undisclosed	Undisclosed	Tracy
Lathrop Industrial Center	417,610	Vertical Ventures, LLC	Carpenter Co	$21,500,000 / $51	Lathrop
4343 Fremont St, E	295,000	Nancy A Wallace Trust	Pacific Southwest Container	$13,812,000 / $47	Stockton

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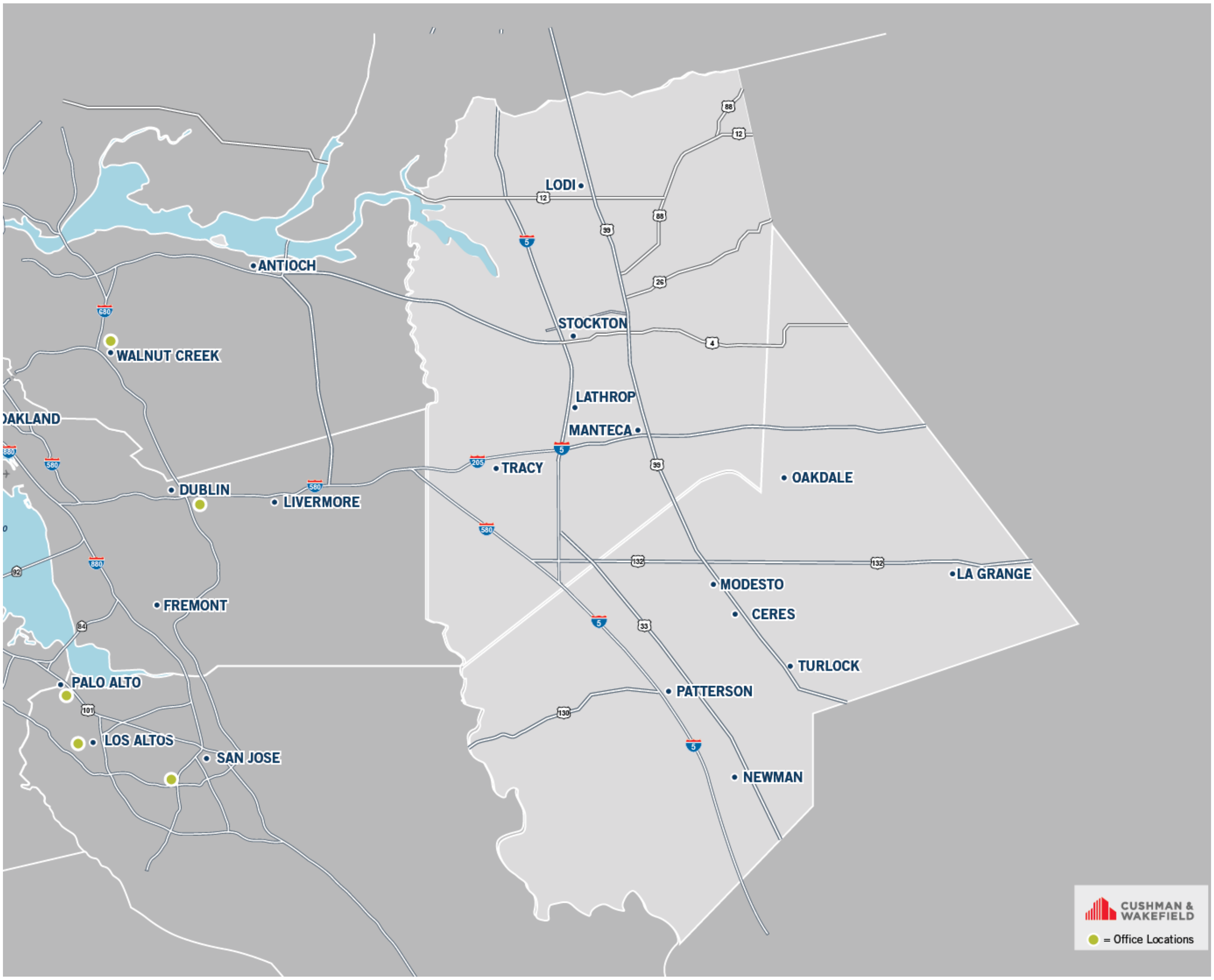
Industrial Submarkets

San Joaquin County



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