MARKETBEAT
CENTRAL VALLEY
INDUSTRIAL Q4 2024

MARKET FUNDAMENTALS

	YOY Chg	Outlook
7.8% Vacancy Rate	▲	▲
-1.7M Net Absorption, SF	▼	▲
$0.71 Asking Rent, PSF *(Overall, Net Asking Rent)*	▼	—

ECONOMIC INDICATORS

	YOY Chg	Outlook
486.3K Central Valley Employment	▲	▼
6.6% Central Valley Unemployment Rate	▼	▲
4.2% U.S. Unemployment Rate	▲	▲

Source:BLS

ECONOMY: HEADWINDS SLOWING GROWTH

The Central Valley, encompassing San Joaquin and Stanislaus counties added 14,900 jobs year-over-year (YOY) and bringing regional employment to 486,300 non-farm positions. This coincided with a modest decline in the unemployment rate, closing the year at 6.6%. The Central Valley continued to draw some of the country's largest industrial occupiers where the combination of developable land, convenient logistics infrastructure, and proximity to major metros has created one of the hottest industrial markets in the country. However, elevated interest rates, fuel costs, and global supply chain issues have created major headwinds for the market's diverse tenant base, weighing on demand throughout 2024.

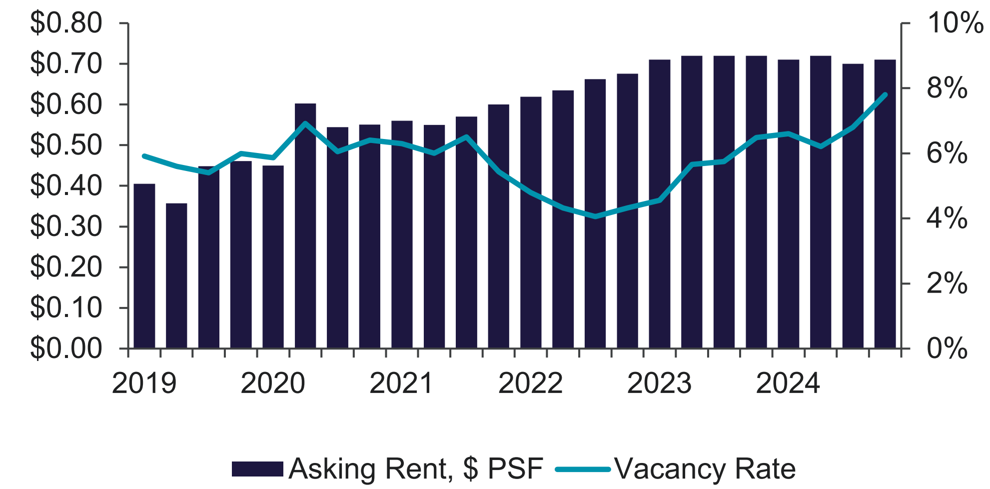
SUPPLY: SUBLEASES CREEP HIGHER

The vacancy rate in the Central Valley industrial market was 7.8% at the end of the fourth quarter, up 100 basis points (bps) from the prior quarter as net absorption slid into the red for the first time this year. Net absorption in the fourth quarter was -1.7 million square feet (msf), a portion of which had been expected, as tenants vacated space that had been on the market in prior quarters. While occupancy declined in neighboring markets over the past 12 months, the Central Valley benefited from several large tenant occupancies that kept absorption positive and offset the rise in smaller vacancies. Total net absorption for the year remained positive at 650,087 sf. While overall vacancy had held level for much of the year, there were some cracks forming in broader tenant demand, evidenced by the rise in sublease space. Sublease vacancy has risen for nine of the past 10 quarters, jumping to 2.3 msf in the fourth quarter. This more than doubled YOY and accounted for 17.1% of overall vacancy in the market. The rise in sublease space significantly outpaced new direct vacancies, in fact, net absorption for 2024 on a direct basis totaled 2.0 msf.

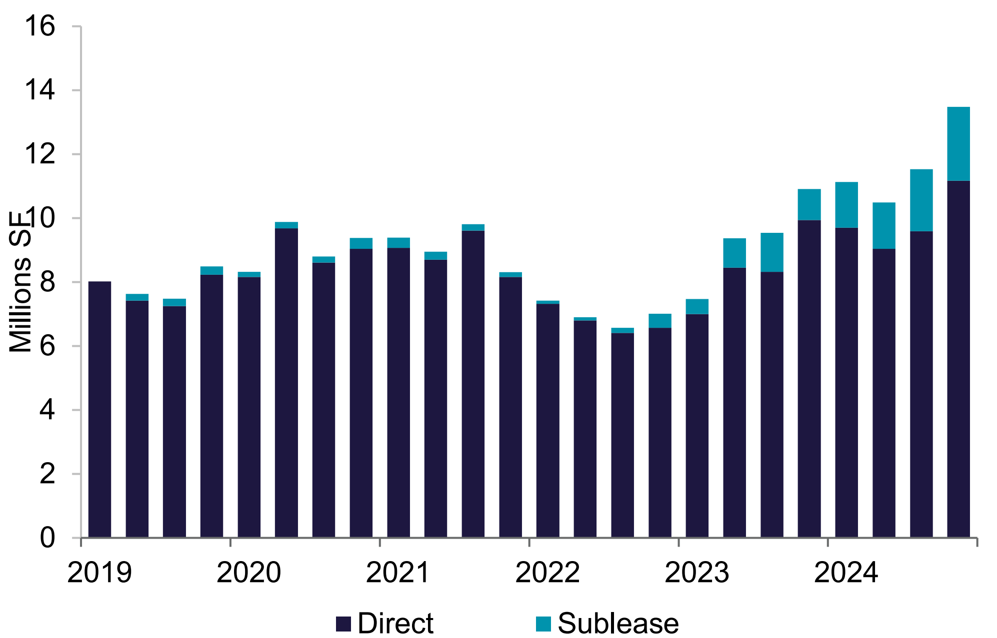
The past year was a tale of two markets in the Central Valley, one for tenants over 500,000 sf and one for those under. Northern California's largest tenants continued to flock to the Central Valley, leasing and absorbing millions of square feet and leaving just six vacancies over 500,000 sf at the close of the fourth quarter. Conversely, the market softened dramatically for the mid-size tenants that had long made up the bulk of activity in the region. At the end of the year, there were approximately 30 vacancies between 100,000-200,000 sf, with options also growing in the 200,000-500,000-sf range. Looking ahead, demand in this size range is going to be critical in reducing vacancy into 2025.

SPACE DEMAND / DELIVERIES

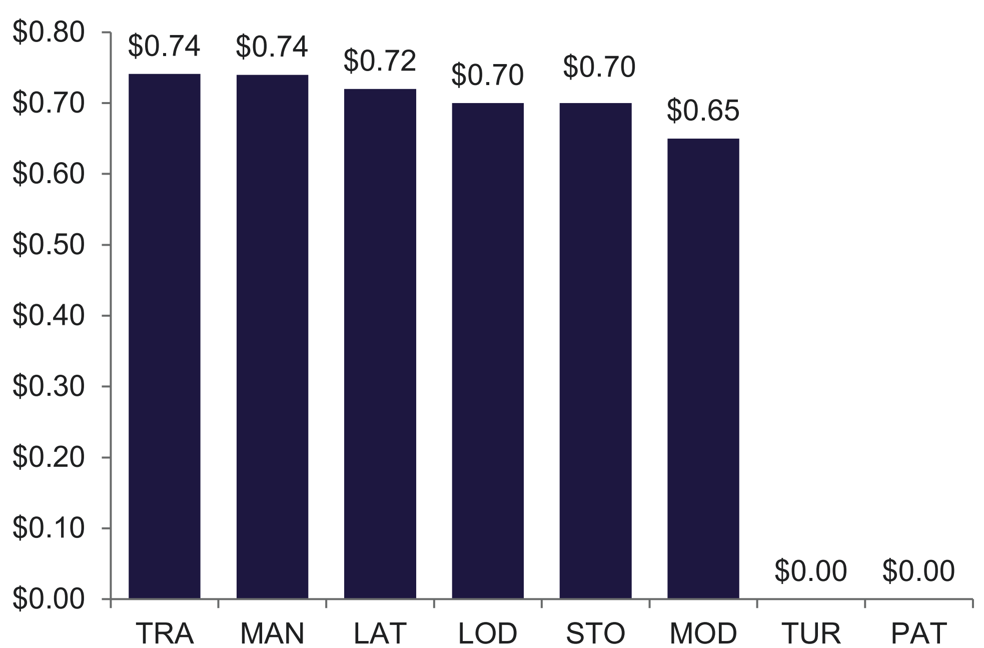
OVERALL VACANCY & ASKING RENT



DIRECT AND SUBLEASE AVAILABLE SPACE



OVERALL ASKING RATE BY SUBMARKET (NNN)



DEMAND: LARGE TENANTS DRIVE ACTIVITY

Leasing activity totaled 3.7 msf in the fourth quarter, more than double the activity from the prior quarter and down just 14.6% YOY. Two new leases made up over half of activity for the fourth quarter. The first was a lease by Georgia Pacific for a 1.3 msf build-to-suit (BTS) property in Prologis' International Park of Commerce in Tracy. The second was another BTS, this lease signed by Home Depot for 655,200 sf in Stockton. Activity was rounded out by several significant renewals. Largely absent from transaction activity this quarter were new deals in the previously mentioned mid-size segment of the tenant market. While national retailers and large e-commerce companies expanded, smaller tenants appear to have been the most impacted by the cost of capital and cracks in the supply chain, making them very cautious in taking new space. Another important note is that some companies are continuing to digest the space they took earlier in the pandemic. A surge in demand and limited supply led to record breaking leasing activity, as tenants fought for space in the years after 2020. This pulled demand forward and has now created a lull as companies expand into existing space, rather than take more. Despite a relative slowdown from the past two years, leasing activity in 2024 totaled 11.6 msf, surpassing pre-pandemic levels.

Sales activity regained some momentum in the fourth quarter, as owner-users recorded several notable transactions. The largest sale of the quarter was 400 Gandy Dancer Drive, a 159,040-sf property in Tracy. Fortress sold the property to the Finishing Trades Institute of Northern California and Nevada for a price of $36.1 million or $227 psf. Other notable sales included a 58,800-sf purchase by Manteca Unified School District and the disposition of two properties by Buzz Oates to PG&E.

PRICING: RATES HOLD NEAR RECORD HIGH, CONCESSIONS RISING

The overall asking rate for Central Valley industrial closed the fourth quarter at $0.71 psf on a monthly triple-net basis, holding approximately level over the course of 2024, down just $0.01 psf YOY. Tracy maintained its spot as the region's most expensive submarket, with an average asking rental rate of $0.74 psf in the fourth quarter. This is down slightly YOY, the result of several aggressively priced new vacancies. While some new spaces, particularly subleases, are hitting the market at a discount, there has been very little public repricing of existing listings. This is a sign that many landlords view the slowdown in demand as a consequence of external factors, not price sensitivity. This is also evident in transacting rates which, for quality spaces, remain near market highs. However, for more challenging inventory, the delta between asking and transacting rates is beginning to grow as landlords try to give themselves an edge in landing a tenant amidst weakened demand.

CONSTRUCTION: BUILDING OUT THE CENTRAL VALLEY

Deliveries slowed in the fourth quarter, with nothing completed on the heels of a blockbuster third quarter that recorded 2.4 msf in deliveries. There were an additional 3.0 msf under construction at the close of the quarter, some of which was left sitting shell-complete while struggling to receive power hookups; a trend that has created bottlenecks in pipelines across Northern California. The pipeline for speculative product will continue to thin into 2025 as developers wait for the cost of capital to fall and to see how tenants absorb the current cycle. That said, construction will push forward on BTS properties like Trammell Crow's 655,200-sf warehouse being built for Home Depot that broke ground in the fourth quarter.

OUTLOOK

- Rental growth is expected to slow, particularly on existing inventory. New construction may continue to place some upward pressure on asking rates.
- Near term, vacancy will rise further due to new speculative supply and a broader weakening of tenant demand. However, new large block users have the potential to buoy net absorption and offset smaller vacancies.
- Construction starts will remain muted in the short term with the exception of build-to-suit projects that will help drive absorption.

MARKET STATISTICS

SUBMARKET	INVENTORY (SF)	OVERALL VACANT (SF)	OVERALL VACANCY RATE	CURRENT QTR OVERALL NET ABSORPTION (SF)	YTD OVERALL NET ABSORPTION (SF)	YTD CONSTR COMPLETIONS (SF)	OVERALL WEIGHTED AVG NET RENT (W/D)	OVERALL WEIGHTED AVG NET RENT (MF)	OVERALL WEIGHTED AVG NET RENT
Lodi	10,064,454	242,520	2.4%	-165,166	-183,658	0	-	$0.70	$0.70
Stockton	57,103,764	7,547,086	13.2%	-558,800	489,250	2,092,078	$0.70	$0.60	$0.70
Lathrop	19,477,298	1,790,608	9.2%	-80,829	150,606	0	$0.72	$0.60	$0.72
Tracy	37,002,566	2,740,817	7.4%	-753,031	-417,979	0	$0.75	$0.73	$0.74
Manteca	5,666,265	298,341	5.3%	0	-4,974	280,983	$0.74	$0.74	$0.74
San Joaquin County	**129,314,347**	**12,619,372**	**9.8%**	**-1,557,826**	**33,245**	**2,373,061**	**$0.71**	**$0.70**	**$0.71**
Modesto	30,713,075	681,738	2.2%	-160,221	383,650	667,125	$0.65	$0.63	$0.65
Turlock	5,096,915	0	0.0%	0	57,000	0	-	-	-
Patterson	6,286,428	0	0.0%	0	176,192	0	-	-	-
Stanislaus County	**42,096,418**	**681,738**	**1.6%**	**-160,221**	**616,842**	**667,125**	**$0.65**	**$0.63**	**$0.65**
TOTAL	**171,410,765**	**13,301,110**	**7.8%**	**-1,718,047**	**650,087**	**3,040,186**	**$0.71**	**$0.69**	**$0.71**

**Rental rates reflect weighted net asking $psf/year*
**These values not reflective of the U.S. MarketBeat Tables*

KEY LEASE TRANSACTIONS Q4 2024

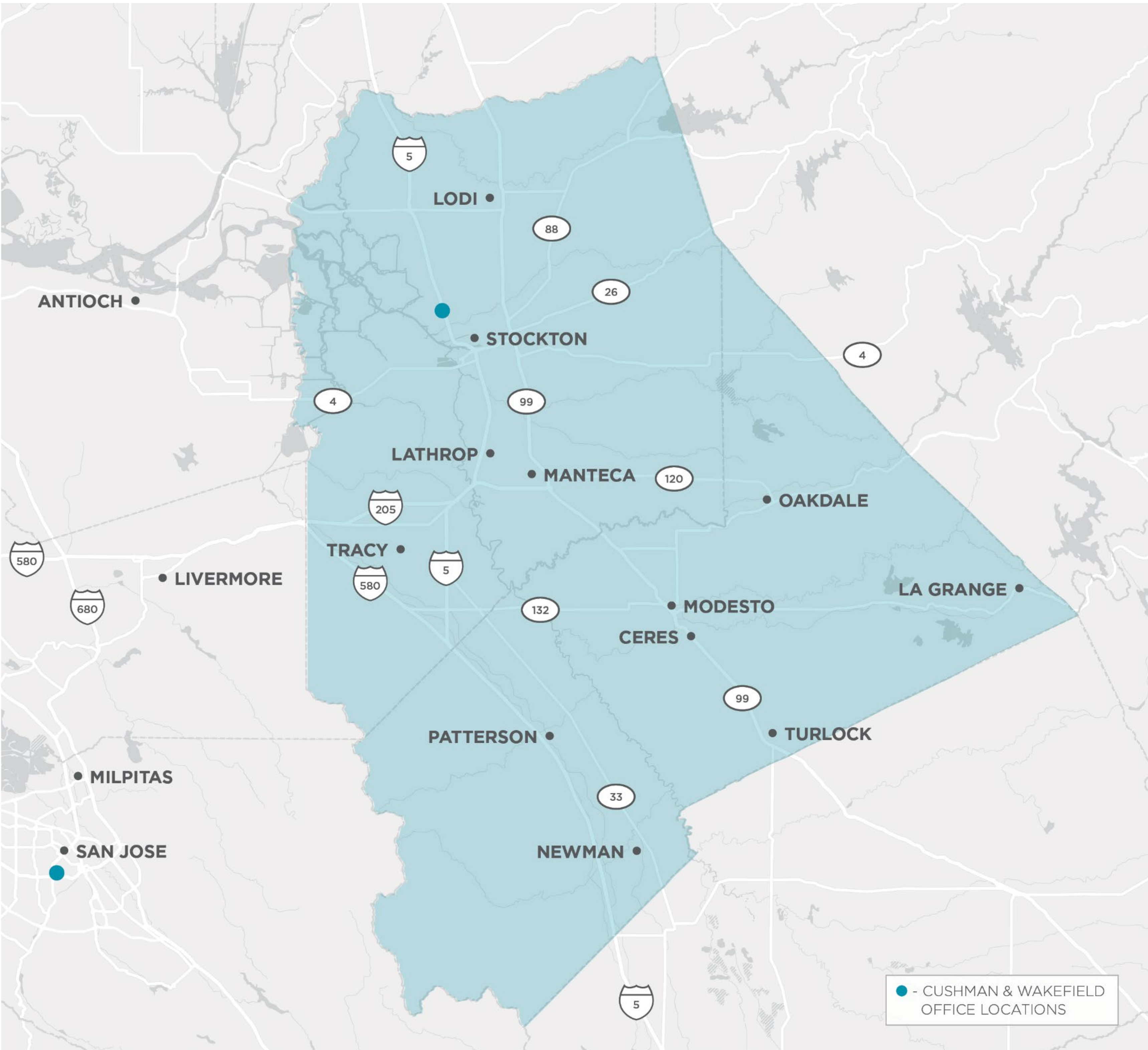
PROPERTY	SUBMARKET	TENANT	RSF	TYPE
5070 Promontory Parkway	Tracy	Georgia Pacific	1,300,000	New Lease
320 McCloy	Stockton	Home Depot	655,200	New Lease
2701 Keystone Pacific Parkway	Patterson	Brake Parts, Inc.	394,000	Renewal
17600 Shideler Parkway	Lathrop	Pflug Manufacturing	322,560	Renewal/Expansion
3021 Boeing Way	Stockton	Hardwoods, Inc.	150,000	New Lease

**Renewals not included in leasing statistics*

KEY SALES TRANSACTIONS Q4 2024

PROPERTY	SUBMARKET	SELLER / BUYER	RSF	PRICE/$ PSF
400 Gandy Dancer Drive	Tracy	Fortress / Finishing Trades Institute of Northern CA and NV	159,040	$36.1M / $227
550 Carnegie Street	Manteca	Dennee Properties / Manteca Unified School District	58,800	$6.8M / $115
1820 Industrial Drive	Stockton	Buzz Oates / PG&E	58,800	$11.2M / $190
1467 El Pinal Drive	Stockton	Buzz Oates / PG&E	34,767 (9.0 Acres)	$10.8M / $311 ($28 LSF)

INDUSTRIAL SUBMARKETS



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