MARKETBEAT
CENTRAL VALLEY
INDUSTRIAL Q2 2026

CUSHMAN & WAKEFIELD

MARKET FUNDAMENTALS

	YOY Chg	Outlook
9.3% Vacancy Rate	▲	▼
2.3M YTD Net Absorption, SF	▲	▲
$0.70 Asking Rent, PSF	▼	▲

(Overall, Net Asking Rent)

ECONOMIC INDICATORS

	YOY Chg	Outlook
481.1K Central Valley Employment	▲	▲
6.7% Central Valley Unemployment Rate	▼	▲
4.2% U.S. Unemployment Rate	—	▲

Source: BLS

ECONOMY: GROWTH DESPITE HEADWINDS

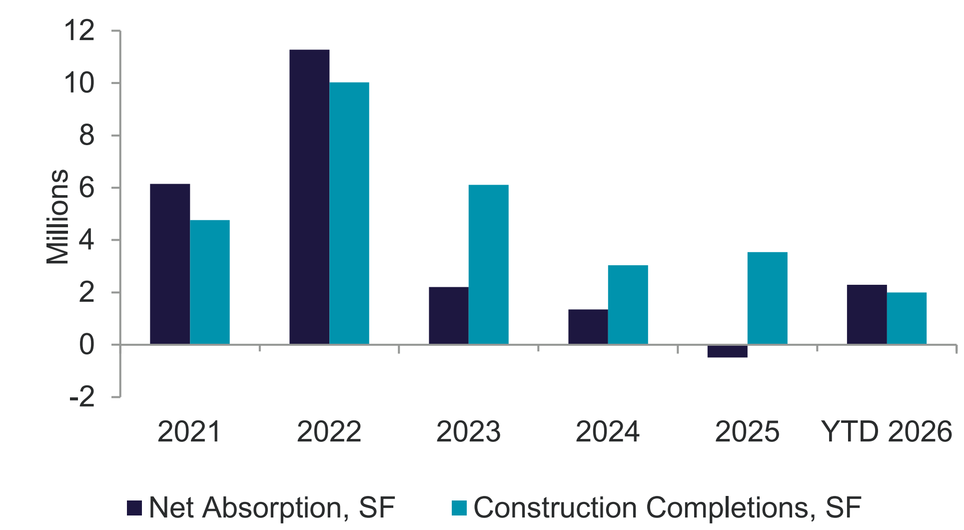
The Central Valley, encompassing San Joaquin and Stanislaus counties, added 4,600 jobs year-over-year (YOY), bringing regional employment to 481,100 non-farm positions. However, industrial employment has recently lagged behind other sectors like government and healthcare, with growth moderating in transportation and warehousing positions. Industrial demand has faced significant headwinds over the past year, from tariffs and shifting trade policy to rising fuel costs and supply chain disruption. Despite these forces, the Central Valley has continued to draw many of the nation's largest industrial occupiers with its combination of developable land, convenient logistics infrastructure, and proximity to major metros.

SUPPLY: VACANCY STABILIZES

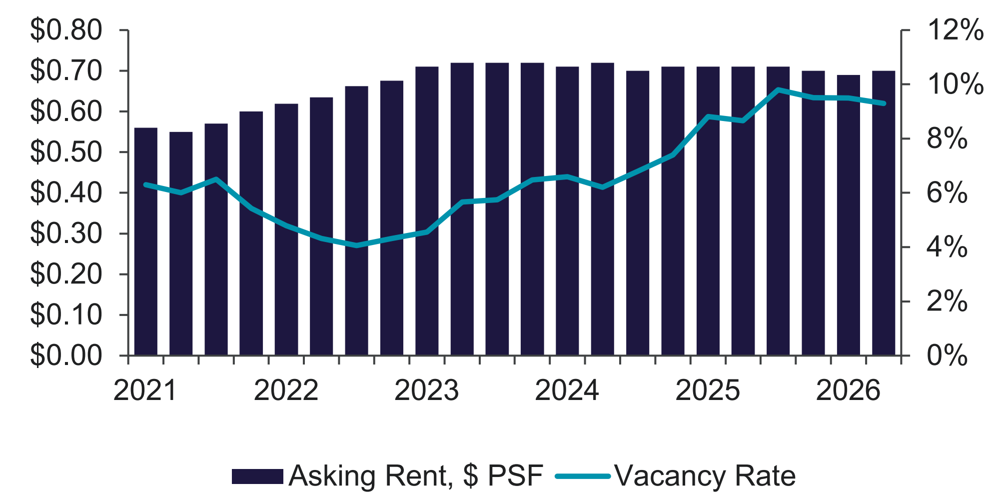
The Central Valley industrial vacancy rate was 9.3% at the close of the second quarter, down 20 basis points (bps) from the prior quarter and 50 bps below the market's 2025 peak. Net absorption for the quarter was just over 1.0 million square feet (msf), the third consecutive quarter with occupancy gains over 1.0 msf. This quarter benefited from a combination of robust leasing activity and build-to-suit construction deliveries. In San Joaquin County, year-to-date (YTD) net absorption was nearly 2.8 msf and vacancy fell for the fourth consecutive quarter to 9.6%. Vacancy is expected to continue falling in the coming quarters, as several large leases signed in the first half of the year commence and tenants occupy their space. While large new occupancies make headlines, the pace at which vacancies come to market is an equally important factor in determining net absorption and fortunately, that pace has slowed in 2026. This slowdown is evident in the region's sublease vacancy which began to decline in the second quarter, after rising persistently for four consecutive quarters. Sublease space still accounted for 23.0% of overall vacancy, but the leasing of Michaels' 925,475-sf sublease in Tracy at the close of the quarter will drop that figure in Q3. While submarkets like Tracy and Stockton continue to record occupancy gains amidst blockbuster leasing activity, the outlook for Stanislaus County is not quite as positive. Net absorption remained in the red YTD, despite 477,000 sf of positive absorption in the second quarter. In Modesto, the largest submarket in Stanislaus County, the vacancy rate has risen from 1.7% to 10.3% in just two years as the agricultural submarket remains particularly vulnerable to trade-related headwinds and other macro-economic factors.

A note on inventory, Tracy recorded a decline in building base in the second quarter as Medline's 1.0-msf distribution center was destroyed by a fire in mid-June. At a time when high-quality large-block space is highly in demand, Medline quickly signed two leases for a total of 1.6 msf to maintain their presence in the Central Valley.

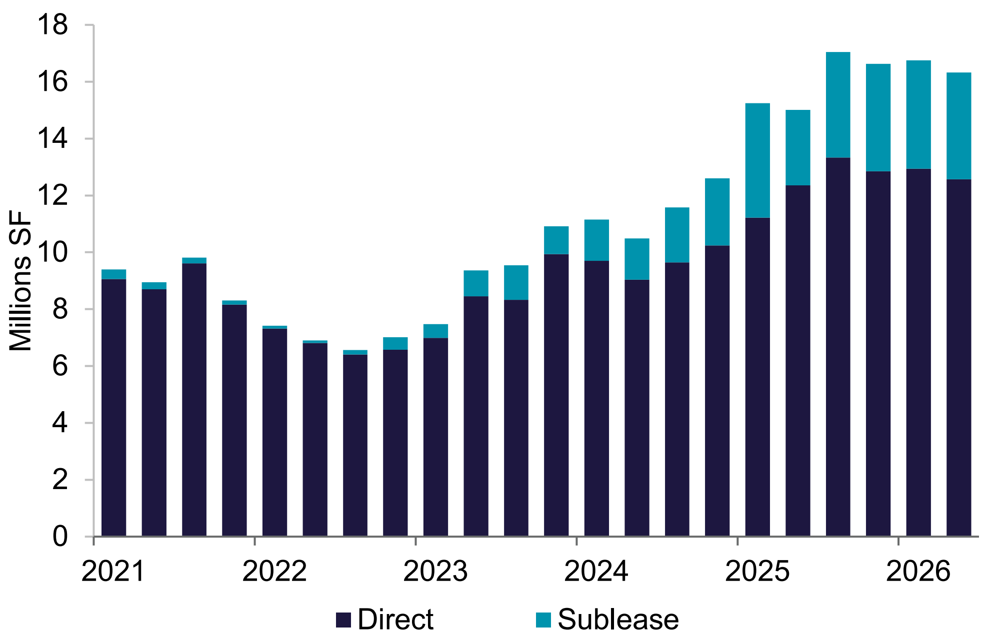
SPACE DEMAND / DELIVERIES



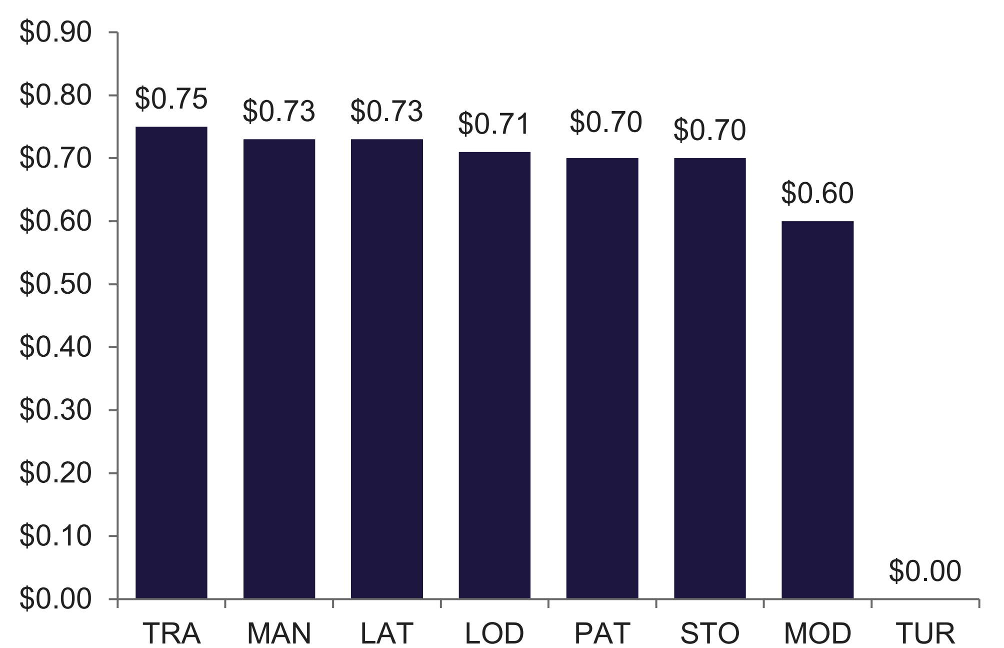
OVERALL VACANCY & ASKING RENT



DIRECT AND SUBLEASE AVAILABLE SPACE



OVERALL ASKING RATE BY SUBMARKET (NNN)



DEMAND: NEW LEASING GAINS MOMENTUM

Leasing activity surged in the second quarter to approximately 6.2 msf, nearly double the prior quarter and a 36.7% increase YOY. This quarter was particularly noteworthy in that new leasing and expansions made up the vast majority of overall activity. In total, nine tenants expanded their footprints by over 200,000 sf. IDI Logistics landed the largest lease of the quarter, with a confidential e-commerce company pre-leasing their 1.2 msf distribution facility that broke ground in Stockton earlier this year. As previously mentioned, Medline was forced to backfill the space lost to a fire and in doing so signed a 925,475-sf sublease at 9372 W. Sugar Road and a direct new deal for 709,556 sf at 4580 Logistics Drive in Stockton. Large new activity was rounded out by Maersk, Bunzl, Article.com and Silicon Valley Mechanical, all of which took more than 300,000 sf. The Central Valley has consistently landed the region's largest tenants but as that trend accelerated, there was still limited demand from the market's mid-size tenant base of 100,000-200,000 sf. Large new leases are driving positive absorption, but there remains a significant supply of mid-size vacancies. However, there were several noteworthy sub-100,000-sf leases, a sign that demand may become more balanced in the back half of the year.

Sales activity was moderate in the second quarter, driven by a mix of buyer types from institutional capital to owner-users and local investors. In the largest sale of the quarter, LBA Logistics purchased 11900-11928 S. Harlan Road in Lathrop, paying $36.0 million or $137 per square foot (psf) for the 262,400-sf warehouse. This quarter demonstrated that while quality product held its value, there are opportunities for owner-users and local investors to transact on more challenging buildings at steep discounts, with several transactions below $100 psf.

OUTLOOK

- Rent growth is expected to regain momentum, particularly on Class A inventory. Newer construction will continue to place upward pressure on asking rates.
- Vacancy is expected to decline, especially in San Joaquin County, following multiple quarters of positive absorption and continued strong demand.
- Speculative construction is returning to the region and will represent a growing share of the pipeline going forward. Build-to-suit projects underway will help drive absorption.

PRICING: RATES HOLD NEAR RECORD HIGH

The overall asking rate for Central Valley industrial product closed the second quarter at $0.70 psf on a monthly triple-net basis, up $0.01 from the prior quarter but nominally flat over the past two years. Tracy commanded the region's highest asking rate at $0.75 psf, followed by Manteca at $0.73 psf. Asking rates remained remarkably stable despite rising vacancy, reflecting landlord confidence that last year's pullback in demand was the result of external headwinds and not price sensitivity. While some sublease space is offered a discount, there has been limited repricing of direct listings. If demand holds near recent quarters, there will likely be renewed upward pressure on rents, particularly for Class A space.

CONSTRUCTION: BUILDING OUT THE CENTRAL VALLEY

Construction deliveries in the second quarter totaled 594,866 sf across three properties, as several smaller build-to-suit (BTS) projects delivered. The largest of the three was Frito-Lay's new 277,000-sf property in Modesto, followed by a 175,906-sf warehouse built for Sprouts in Tracy, and a 141,960-sf warehouse expansion in Manteca as Ford grew its footprint. New construction starts continued in the second quarter, with OMP breaking ground on a three-building speculative warehouse project in Tracy totaling 678,913 sf. This continued to add speculative projects to a pipeline that as recently as Q4 2025 was 95% BTS projects. That said, there remains 5.3 msf of BTS projects underway which will continue to drive occupancy growth into 2027.

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	621,314	6.2%	-77,760	-144,960	0	$0.74	$0.70	$0.71
Stockton	59,612,829	6,032,478	10.1%	-97,879	986,201	0	$0.71	$0.54	$0.70
Lathrop	19,477,298	1,958,431	10.1%	53,500	53,500	0	$0.73	-	$0.73
Tracy	37,543,122	3,891,932	10.4%	531,888	1,600,549	1,574,622	$0.74	$0.83	$0.75
Manteca	5,808,225	205,993	3.5%	141,960	266,501	141,960	$0.72	$0.79	$0.73
San Joaquin County	**132,505,928**	**12,710,148**	**9.6%**	**551,709**	**2,761,791**	**1,716,582**	**$0.72**	**$0.72**	**$0.72**
Modesto	31,197,100	3,203,076	10.3%	131,108	-810,465	277,000	$0.57	$0.72	$0.60
Turlock	5,096,915	9,780	0.2%	-9,780	-9,780	0	$0.70	-	$0.70
Patterson	7,106,428	400,000	5.6%	356,065	356,065	0	$0.70	-	$0.70
Stanislaus County	**43,400,443**	**3,612,856**	**8.3%**	**477,393**	**-464,180**	**277,000**	**$0.59**	**$0.72**	**$0.61**
TOTAL	**175,906,371**	**16,323,004**	**9.3%**	**1,029,102**	**2,297,611**	**1,993,582**	**$0.69**	**$0.72**	**$0.70**

**Rental rates reflect weighted net asking $psf/year*

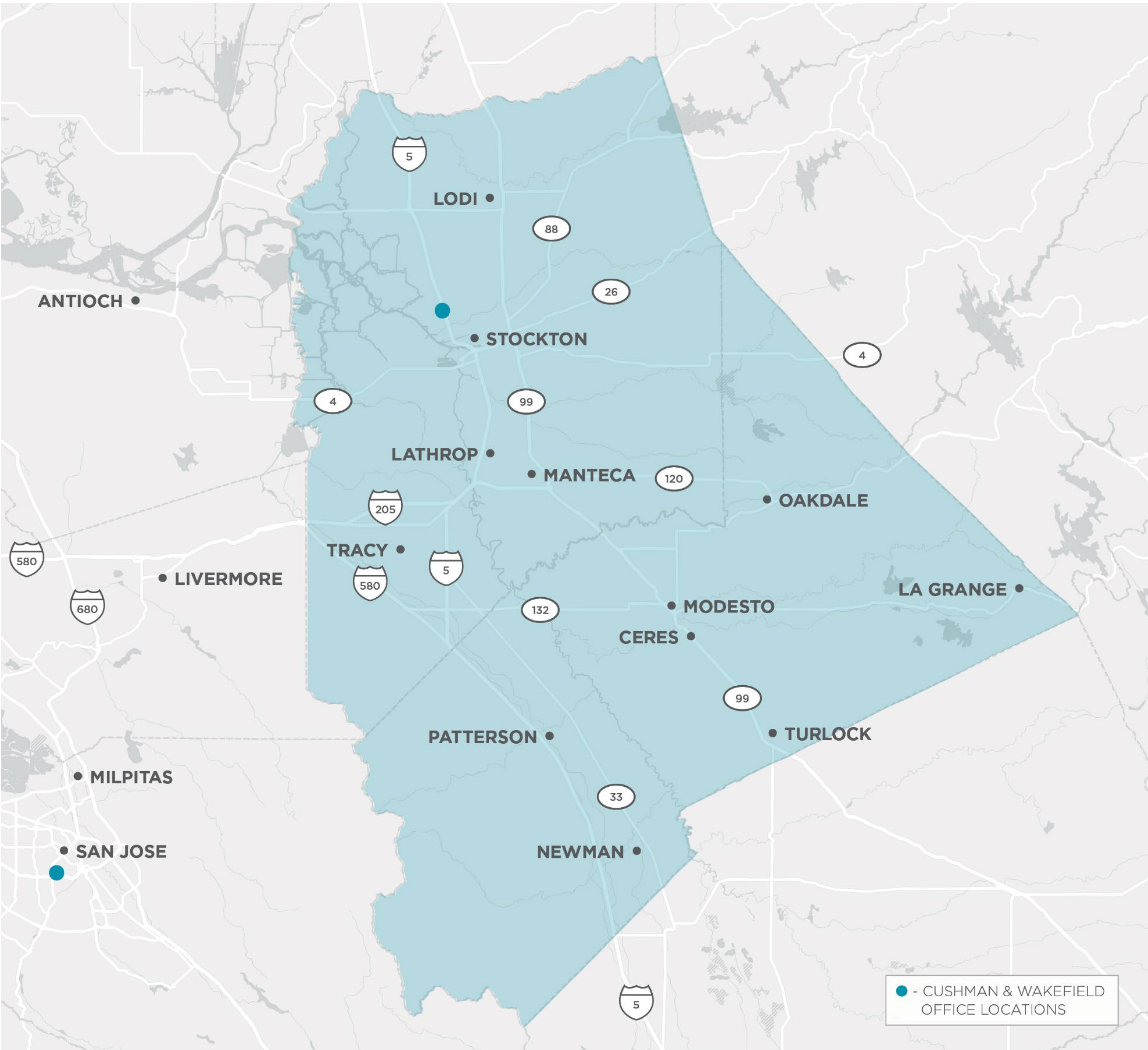
KEY LEASE TRANSACTIONS Q2 2026

PROPERTY	SUBMARKET	TENANT	RSF	TYPE
4591 Newcastle Road	Stockton	Confidential	1,201,726	New Lease
9375 W. Sugar Road	Tracy	Medline	925,475	Sublease
1565 N. MacArthur Drive	Tracy	Pepsi Co.	755,400	Renewal
4580 Logistics Drive	Stockton	Medline	709,556	New Lease
2120 Boeing Way	Stockton	Maersk	451,611	New Lease
4601 Newcastle Road	Stockton	Bunzl	388,183	New Lease
400 Park Center Drive	Patterson	Article.com	356,065	Expansion

KEY SALES TRANSACTIONS Q2 2026

PROPERTY	SUBMARKET	SELLER / BUYER	RSF	PRICE/$ PSF
11900-11928 S. Harlan Road	Lathrop	Lowenberg Corp. / LBA Logistics	262,400	$36.0M / $137
201 S. McClure Road (Distress Sale)	Modesto	Rizo Lopez Foods / Valley Milk	133,380	$10.0M / $75
2025 W. Hazelton Avenue	Stockton	US Concrete / CalPortland	92,200	$13.0M / $141
200 W. Valpico Road (Land)	Tracy	Wahid & Julie Tadros / Brookfield	27.0 Acres	$15.8M / $13

INDUSTRIAL SUBMARKETS



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