

	YoY Chg	12-Mo. Forecast
<b>7.2%</b> Vacancy Rate	▲	▲
<b>-1.1M</b> Net Absorption, SF	▼	▲
<b>\$0.44</b> Asking Rent, PSF	▲	▼

*Overall, Net Asking Rent*

**ECONOMIC INDICATORS  
Q2 2020**

	YoY Chg	12-Mo. Forecast
<b>372K</b> Central Valley Employment	▼	▲
<b>17.3%</b> Central Valley Unemployment Rate	▲	▼
<b>13.0%</b> U.S. Unemployment Rate	▲	▼

Source: BLS, Moody's Analytics.  
2020Q2 data are based on latest available data.

**ECONOMY: Employment Declines Due to Ongoing Pandemic**

The Central Valley, comprising the Stockton and Modesto Metropolitan Statistical Areas (MSAs), recorded negative employment growth, with nearly 55,000 non-farm payroll positions lost from the region over the last year, bringing regional employment to 372,000. With this decline, unemployment correspondingly increased to 17.3%, representing a significant jump of 1130 basis points (bps) from 6.0% year-over-year (YOY). The COVID-19 pandemic struck the U.S. in March 2020, late in the quarter but with enough time to have a significant impact on first quarter market fundamentals. In the second quarter of 2020, the U.S. economy felt its effects more fully, as government-mandated shutdowns along with shelter-in-place ordinances pushed the country deeper into recession. The situation remains very fluid. Access the most recent information specific to COVID [here](#).

**SUPPLY: Vacancy Rise Driven by New Construction**

Industrial vacancy in the Central Valley closed the quarter at 7.2%, reflecting an increase of 120 bps from the first quarter, and an uptick of 110 bps YOY. The rise was manifested in both product types, with 915,626 square feet (sf) of warehouse product and 843,827 sf of manufacturing product added to the market over the last twelve months. In addition to givebacks, new construction has also fueled the increase; most notably 710,000 sf at the NorCal Logistics Center in Stockton and 610,000 sf at the Tracy Distribution Center. While activity has tapered-off somewhat in recent months due to the ongoing pandemic, these blocks are in the “sweet spot” in terms of demand and offer the type of modern amenities sought after by eCommerce requirements. There is 324,920 sf of sublease space on the market, representing an increase of 118,852 sf YOY, though subleases account for only 3% of all available space on the market. Vacancy is forecasted to increase in the coming months as new construction delivers and givebacks occur particularly in the smaller size segments.

**PRICING: Asking Rents Continue to Rise**

Asking rents in the Central Valley industrial market closed the second quarter at \$0.56 per square foot (psf) on a monthly triple-net basis, up \$0.15 from the first quarter and up \$0.12 YOY. Rent growth in the last year was due mainly to new construction commanding top-of-the-market rents. Rents are expected to continue increasing as new construction delivers though growth will be more muted than in previous years.

**SPACE DEMAND / DELIVERIES**



**OVERALL VACANCY & ASKING RENT**



### DEMAND: Occupancy Growth Red in the Second Quarter

Gross absorption totaled 782,544 sf in the second quarter, a step down from 1.5 million sf (msf) in the first quarter. San Joaquin County, which hosts 73% of the market's inventory, recorded the majority of leasing activity, with gross absorption there totaling 646,344 sf. The concentration in activity here during this business cycle can be tied back to its closer proximity to key trucking routes into the greater Bay Area, with the county being home to nearly all construction development occurring in the market. On the occupancy side, significant losses were recorded in the second quarter, with net absorption totaling negative 1.1 msf with the year-to-date figure at negative 802,190 sf. Despite the losses, occupancy has risen by 24.0 msf in the past five years, due especially from rising demand from the eCommerce sector. The Central Valley may capture tenants migrating from the relatively more cramped Bay Area industrial markets, though occupancy is expected to decline over the next 12 months.

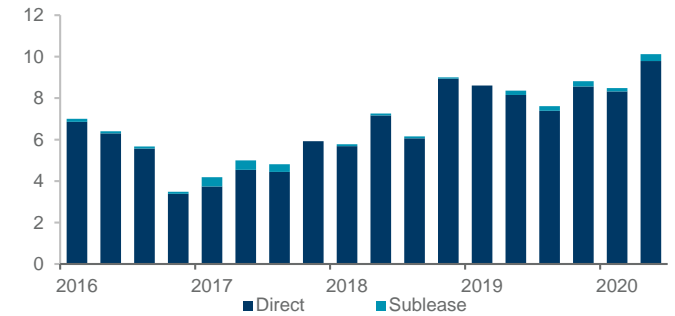
### CONSTRUCTION: Major Development Continues in the Central Valley

Key to the story of the Central Valley industrial market is the volume of new construction delivered in recent years, which is playing a major role in modernizing the region's building inventory. There has been 27.7 msf of deliveries since 2010, representing a 24.5% increase in the region's building base, while 3.2 msf is currently under construction. Of these projects, 2.4 msf is being built on a speculative basis, with the pipeline expected to increase further with new projects at various stages of planning. Though some of these projects will likely not deliver preleased, they will generate even more interest from large requirements in the region, especially those looking to leave the increasingly congested and tight Bay Area markets.

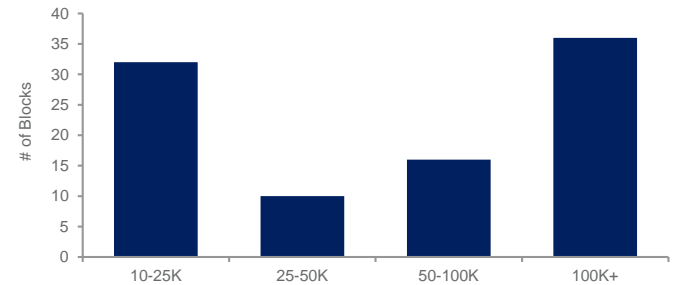
### Outlook

- Net absorption totaled negative 1.1 msf in the first quarter, a significant drop off from the positive 1.5 msf absorbed in the third quarter. Occupancy is likely to continue declining in the coming months, though at a more muted pace.
- Asking rents closed the second quarter at \$0.56 psf, marking a \$0.12 YOY increase. Though new construction delivery will prop up rents in the next year, rent growth is expected to decline due the continuing issues around the pandemic.
- There are 113 requirements currently being tracked, totaling 30.9 msf. Demand will likely decrease slightly over the next several quarters.

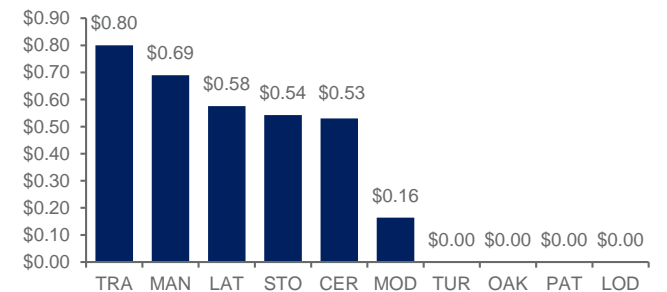
### DIRECT AND SUBLEASE AVAILABLE SPACE



### AVAILABILITIES BY SIZE SEGMENT



### OVERALL AVERAGE ASKING RATE BY SUBMARKET (NNN)



## Industrial Q2 2020

## MARKET STATISTICS

SUBMARKET	INVENTORY (SF)	OVERALL VACANT (SF)	OVERALL VACANCY RATE	CURRENT QTR OVERALL NET ABSORPTION(SF)	YTD OVERALL NET ABSORPTION (SF)	UNDER CNSTR (SF)	CONSTR COMPLETIONS (SF)	OVERALL WEIGHTEDAVG NET RENT (W/D)	OVERALL WEIGHTED AVG NET RENT (MF)	OVERALL WEIGHTED AVG NET RENT
Lodi	9,112,136	0	0.0%	0	0	0	0	\$0.00	\$0.00	\$0.00
Stockton	47,115,867	3,444,776	7.4%	-287,653	-528,297	1,036,571	0	\$0.55	\$0.50	\$0.54
Lathrop	14,975,337	588,082	3.9%	0	108,474	0	0	\$0.51	\$0.60	\$0.58
Tracy	26,905,304	3,063,094	11.4%	-772,223	-307,466	1,021,021	0	\$0.80	\$0.00	\$0.80
Manteca	4,718,532	835,165	17.7%	0	0	747,975	513,087	\$0.75	\$0.36	\$0.69
<b>San Joaquin County</b>	<b>102,827,176</b>	<b>7,931,117</b>	<b>7.8%</b>	<b>-1,059,876</b>	<b>-727,289</b>	<b>3,075,567</b>	<b>513,087</b>	<b>\$0.67</b>	<b>\$0.52</b>	<b>\$0.66</b>
Oakdale	1,890,543	100,000	5.3%	0	0	0	0	\$0.00	\$0.00	\$0.00
Modesto	26,135,675	1,096,995	4.2%	-58,010	-31,467	348,500	0	\$0.08	\$0.37	\$0.16
Ceres	363,585	33,000	9.1%	1,200	6,669	0	0	\$0.53	\$0.00	\$0.53
Turlock	3,888,387	134,279	3.5%	0	14,517	0	0	\$0.00	\$0.00	\$0.00
Patterson	6,294,002	776,750	12.3%	0	-64,620	0	0	\$0.00	\$0.00	\$0.00
<b>Stanislaus County</b>	<b>38,572,192</b>	<b>2,141,024</b>	<b>5.6%</b>	<b>-58,010</b>	<b>-74,901</b>	<b>348,500</b>	<b>0</b>	<b>\$0.39</b>	<b>\$0.08</b>	<b>\$0.17</b>
<b>TOTAL</b>	<b>141,399,368</b>	<b>10,072,141</b>	<b>7.2%</b>	<b>-1,117,886</b>	<b>-802,190</b>	<b>3,154,067</b>	<b>513,087</b>	<b>\$0.62</b>	<b>\$0.36</b>	<b>\$0.56</b>

\*Rental rates reflect weighted net asking \$psf/month

MF = Manufacturing W/D = Warehouse/Distribution

## KEY LEASE TRANSACTIONS Q2 2020

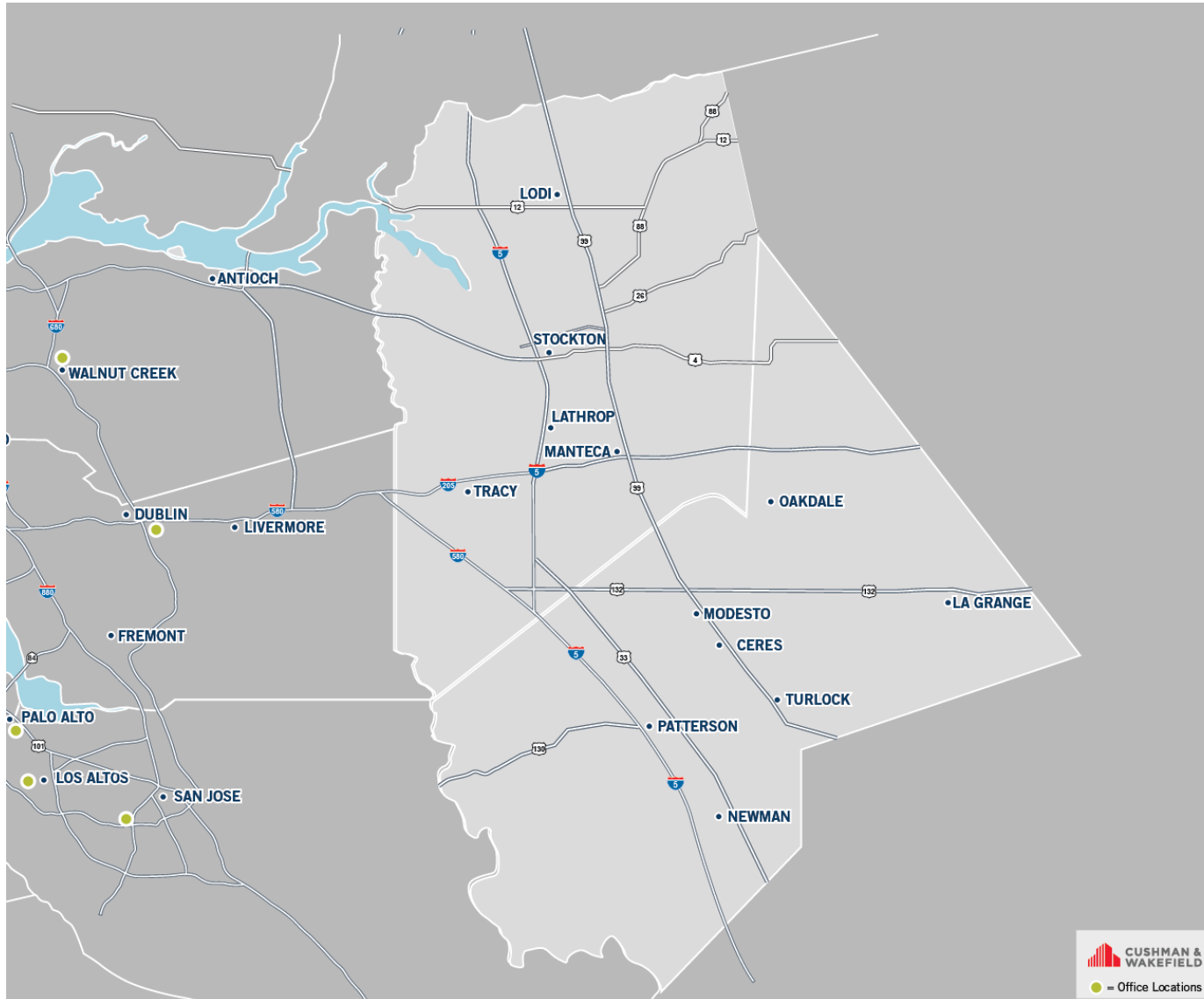
PROPERTY	SUBMARKET	TENANT	RSF	TYPE
4114 South Airport Way	Stockton	Elkay	129,360	New Lease
700 Kiernan Avenue	Modesto	Innov8	96,800	New Lease
2900 North MacArthur Drive	Tracy	Gaatu	88,644	New Lease
1300 East Vine Street	Lodi	USA Product Group	75,200	Renewal*
5300 Claus Road	Modesto	SAFE	19,999	New Lease

\*Renewals not included in leasing statistics

## KEY SALES TRANSACTIONS Q2 2020

PROPERTY	SUBMARKET	SELLER / BUYER	SF	PRICE/\$ PSF
1901 South Stockton Street	Lodi	Treehouse Foods / Rich's	345,000	\$7.8M/\$23
2991 North Navone Road	Stockton	Robert Mayman / Jerry Fan	201,400	\$10.2M/\$51
1447 Mariani Court	Tracy	Scannell Properties / Nearon Enterprises	155,945	\$21.3M/\$137
1111 Navy Drive	Stockton	Zachy Farms / Neil Hunt	103,988	\$3.6M/\$35

INDUSTRIAL SUBMARKETS



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