

CENTRAL VALLEY

Industrial Q3 2020

	YoY Chg	12-Mo. Forecast
7.2% Vacancy Rate	▲	▲
463K Net Absorption, SF	▼	▲
\$0.51 Asking Rent, PSF	▲	▲

Overall, Net Asking Rent

ECONOMIC INDICATORS Q3 2020

	YoY Chg	12-Mo. Forecast
387K Central Valley Employment	▼	▲
12.8% Central Valley Unemployment Rate	▲	▼
8.8% U.S. Unemployment Rate	▲	▼

Source: BLS, Moody's Analytics.
2020Q3 data are based on latest available data.

ECONOMY: Slowly But Surely, COVID-19 Recovery Continues

The Central Valley, comprising the Stockton and Modesto Metropolitan Statistical Areas (MSAs), recorded negative employment growth, with over 40,000 non-farm payroll positions lost from the region over the last year, bringing regional employment to 387,000. With this decline, unemployment correspondingly increased to 12.8%, representing a significant jump of 690 basis points (bps) from 5.9% year-over-year (YOY). Upon the arrival of COVID-19 in the U.S., the economy entered a recession in March 2020, recording the worst decline in post-war history in Q2 2020. Mounting evidence indicates that the recovery began in May or June with Q3 2020 data likely reflecting that. But, until there is a public health resolution to the pandemic, the recovery is likely to remain uncertain and gradual. Only then can households and businesses become more confident. Access the most recent research on CRE and the state of economy [here](#).

SUPPLY: Sublease Space Virtually Nonexistent in the Central Valley

Industrial vacancy in the Central Valley closed the quarter at 7.2%, reflecting an increase of 10 bps from the second quarter, and an uptick of 120 bps YOY. Both product types saw a rise, with 1.3 million square feet (msf) of warehouse product and 1.3 msf of manufacturing product added to the market over the last twelve months. While givebacks of existing space drove some of this increase, the lion's share was due to delivery of new construction, and of the 10.2 msf presently available in the market, 3.4 msf is in construction that has delivered in the past year, with the most notable block being the 710,000 sf at the NorCal Logistics Center in Stockton. While activity has tapered-off somewhat in recent months due to the ongoing pandemic, these large blocks of space are attracting rising demand from e-commerce users due to their modern amenities and large clear heights which maximize distribution efficiency. Unlike the East Bay Oakland industrial market which has recorded a stark rise in sublease vacancy, there is virtually no sublease space on the market in the Central Valley, with 194,290 square feet (sf) currently available, down from 223,871 sf at this time last year. Vacancy is forecasted to increase in the coming months due mainly to the delivery of new construction.

PRICING: Asking Rents Dip Down in the Third Quarter

Asking rents in the Central Valley industrial market closed the third quarter at \$0.51 per square foot (psf) on a monthly triple-net basis, down \$0.04 from the second quarter, though up \$0.05 YOY. The annual increase was mainly due to the delivery of new, modern product and their associated top-of-the-market asking rents. Rents are forecasted to increase over the coming quarters as new product continues to deliver and increasing demand is attracted from e-commerce users as well as more traditional industrial sectors.

SPACE DEMAND / DELIVERIES



OVERALL VACANCY & ASKING RENT



DEMAND: E-Commerce Drives Occupancy Growth

Gross absorption totaled 2.0 msf in the third quarter and 4.6 msf so far in 2020, putting the market on track to capture near the same level of activity as in 2019, in which gross absorption totaled 7.9 msf. San Joaquin County, which hosts 73% of the market's inventory, recorded nearly all of the leasing activity for the quarter, with gross absorption there totaling 1.7 msf. 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. After a lackluster second quarter, in which occupancy declined by 567,968 sf, net absorption rebounded in the third quarter, totaling positive 448,840 sf while occupancy has increased by 300,751 so far in 2020. In recent years, the Central Valley has recorded consistent occupancy gains due to the development of in-demand industrial product, and occupancy has risen by 25.1 msf over the past five years. We expect occupancy to increase in the next year as the market captures spillover demand from the Bay Area markets, particularly from the e-commerce sector.

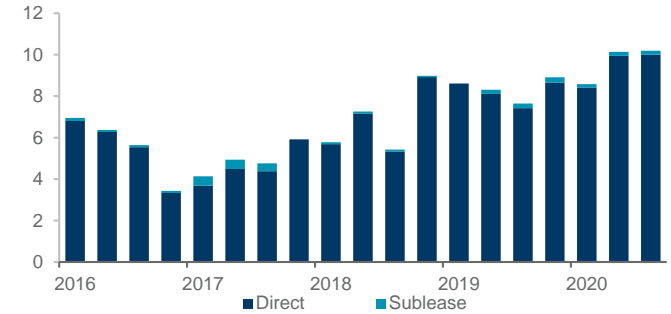
CONSTRUCTION: Building Out the Central Valley

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 nearly 30.0 msf of deliveries since 2010, representing a 26.3% increase in the region's building base, while 4.0 msf is currently under construction. Of these projects, 2.5 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.

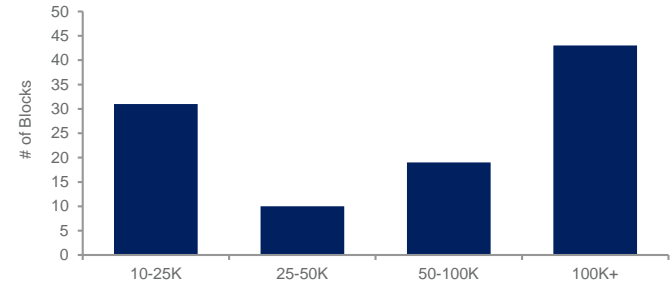
Outlook

- Net absorption totaled positive 463,402 sf in the third quarter, a significant rebound from the negative 625,978 sf of occupancy losses in the second quarter. Occupancy is likely to continue increasing in the coming months, though at a more muted pace.
- Asking rents closed the second quarter at \$0.51 psf, marking a \$0.05 YOY increase. Though new construction deliveries will prop up rents in the next year, rent is expected to decline due the continuing issues around the pandemic.
- There are 107 requirements currently being tracked, totaling 25.9 msf. Demand is expected to increase in the next year, and the rise will be driven by e-commerce users in the marketplace.

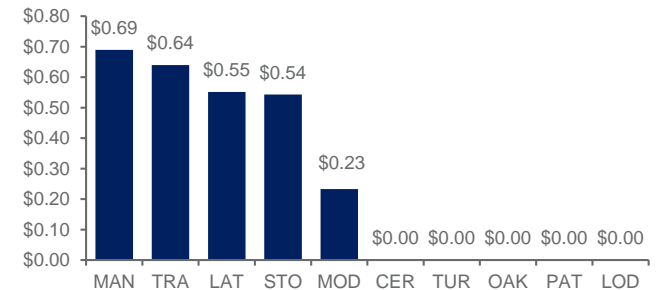
DIRECT AND SUBLEASE AVAILABLE SPACE



AVAILABILITIES BY SIZE SEGMENT



OVERALL AVERAGE ASKING RATE BY SUBMARKET (NNN)



Industrial Q3 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	9,135,105	0	0.0%	0	0	0	0	\$0.00	\$0.00	\$0.00
Stockton	47,753,851	4,080,392	8.5%	-122,134	-234,223	796,637	383,382	\$0.55	\$0.50	\$0.54
Lathrop	14,975,337	926,646	6.2%	-338,564	-230,090	990,904	0	\$0.51	\$0.60	\$0.55
Tracy	27,137,771	2,257,335	8.3%	909,538	732,072	1,872,221	0	\$0.64	\$0.00	\$0.64
Manteca	4,718,532	835,165	17.7%	0	0	0	233,779	\$0.75	\$0.36	\$0.69
San Joaquin County	103,720,596	8,099,538	7.8%	448,840	267,759	3,659,762	617,161	\$0.59	\$0.52	\$0.59
Oakdale	1,890,543	0	0.0%	100,000	100,000	0	0	\$0.00	\$0.00	\$0.00
Modesto	26,093,522	1,112,885	4.3%	-15,890	-47,357	369,000	0	\$0.40	\$0.15	\$0.23
Ceres	524,338	0	0.0%	100,000	100,000	0	0	\$0.00	\$0.00	\$0.00
Turlock	3,888,387	203,827	5.2%	-69,548	-55,031	0	0	\$0.00	\$0.00	\$0.00
Patterson	6,316,428	776,750	12.3%	0	-64,620	0	0	\$0.00	\$0.00	\$0.00
Stanislaus County	38,713,218	2,093,462	5.4%	14,562	32,992	369,000	0	\$0.40	\$0.15	\$0.23
TOTAL	141,399,368	10,072,141	7.2%	463,402	300,751	4,028,762	617,161	\$0.51	\$0.39	\$0.51

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

MF = Manufacturing W/D = Warehouse/Distribution

KEY LEASE TRANSACTIONS Q3 2020

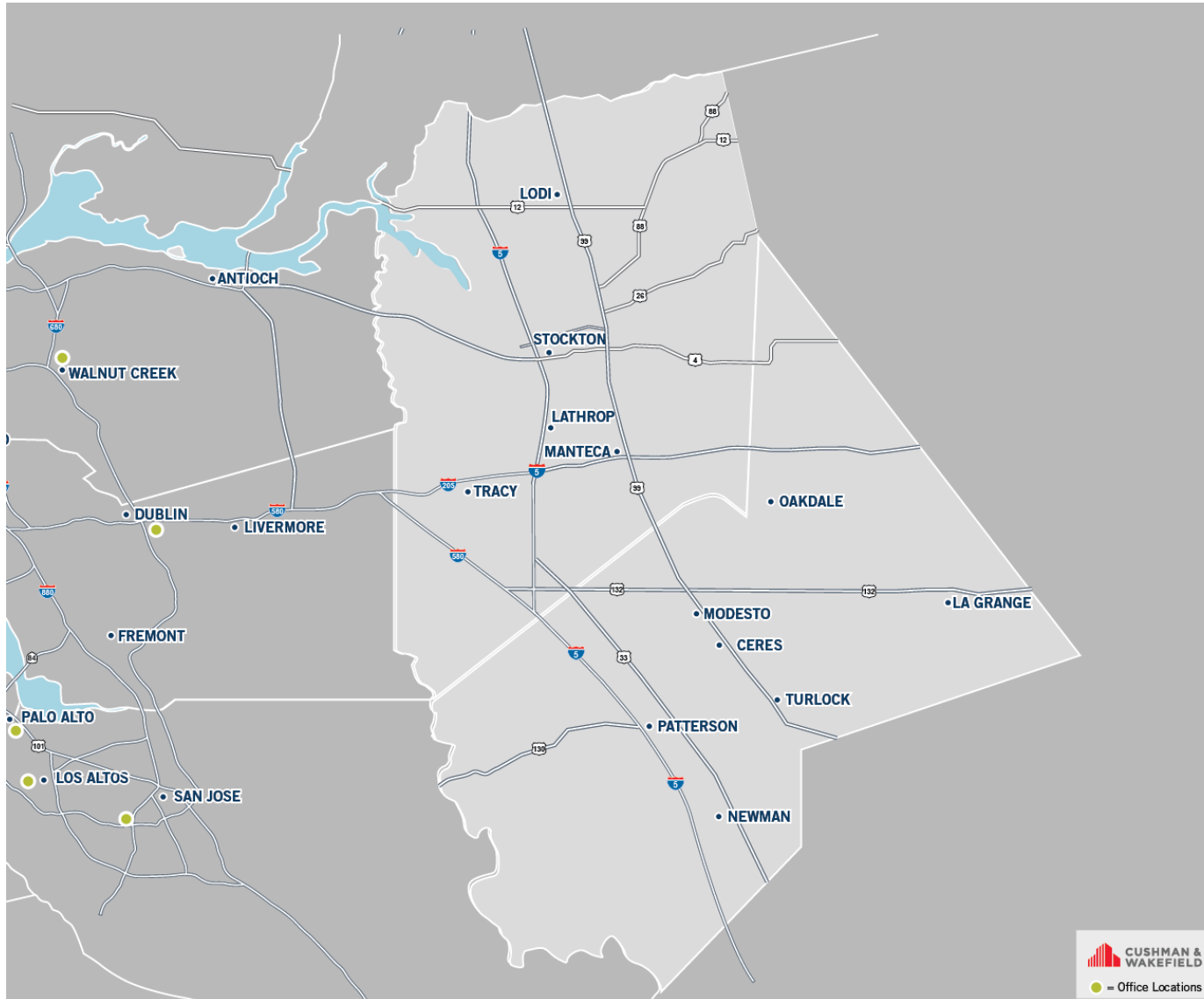
PROPERTY	SUBMARKET	TENANT	RSF	TYPE
9375 West Sugar Road	Tracy	Michael's	925,475	New Lease
1909 Zephyr Street	Stockton	XPO Logistics	508,800	Renewal*
1137 East Grant Line Road	Tracy	Young's Market Company LLC	295,956	New Lease
11960 Harlan Road	Lathrop	Alto Systems, Inc	194,632	Renewal*

*Renewals not included in leasing statistics

KEY SALES TRANSACTIONS Q3 2020

PROPERTY	SUBMARKET	SELLER / BUYER	SF	PRICE/\$ PSF
6440 Aviation Drive	Stockton	Panattoni / Clarion Partners	419,608	\$37.8M/\$90
18231 Murphy Parkway	Lathrop	RAD Urban / Overton Moore	118,056	\$13.6M/\$115
1443 Navy Drive	Stockton	AVG Automation / Webrestaurant Inc	84,610	\$1.7M/\$20
4140 Brew Master Drive	Ceres	Miller Investments / Fresno Bev. Co.	74,763	\$6.5M/\$86

INDUSTRIAL SUBMARKETS



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