

Industrial Q4 2020

	YoY Chg	12-Mo. Forecast
5.3% Vacancy Rate	▼	▲
1.02M Net Absorption, SF	▼	▲
\$0.50 Asking Rent, PSF	▲	▲

Overall, Net Asking Rent

ECONOMIC INDICATORS Q4 2020

	YoY Chg	12-Mo. Forecast
398K Central Valley Employment	▼	▲
9.6% Central Valley Unemployment Rate	▲	▼
6.7% U.S. Unemployment Rate	▲	▼

Source: BLS, Moody's Analytics.
2020Q4 data are based on latest available data.

ECONOMY: Slow Road to Pandemic Recovery

The Central Valley, comprising the Stockton and Modesto Metropolitan Statistical Areas (MSAs), recorded negative employment growth, with over 30,000 non-farm payroll positions lost from the region over the last year, bringing regional employment to 398,100. With this decline, unemployment correspondingly increased to 9.6%, representing a significant jump of 390 basis points (bps) from 5.7% 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 of 2020. But, until there is a public health resolution to the pandemic and vaccinations become widely available, the recovery is likely to remain uncertain and gradual. Only then can households and businesses become more confident.

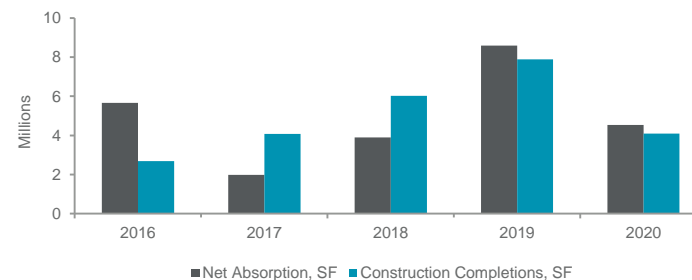
SUPPLY: New Construction Drives Vacancy Rise

The vacancy rate in the Central Valley industrial market was 5.3% at the end of the quarter, reflecting a decrease of 50 bps from the third quarter, and a downtick of 20 bps YOY. The decline was manifested exclusively in the warehouse sector, with 1.2 million square feet (msf) of warehouse space taken off the market in the past year, while manufacturing vacant space increased by 1.3 msf; the vacancy rate ultimately declined due to the delivery of preleased space. Of the 7.7 msf presently available in the market, 1.8 msf is in construction that has delivered in the past year, with the most notable block being the 420,000 sf at 6440 Aviation Drive in Stockton, delivered in June of 2020. 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 sharp rise in sublease vacancy, there is little sublease space on the market in the Central Valley, with 313,255 square feet (sf) currently available, up from 255,003 sf at this time last year. Vacancy is forecasted to increase in the coming months, at least temporarily, due mainly to the delivery of new construction.

PRICING: Asking Rents Continue Climbing in Fourth Quarter

Asking rents in the Central Valley industrial market closed the fourth quarter at \$0.50 per square foot (psf) on a monthly triple-net basis, recording no change from the previous quarter, and up \$0.07 YOY. The increase was mainly due to the delivery of new, modern product and their associated high-water mark 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: 2020 Records Positive Occupancy Growth Despite Fourth Quarter Losses

Leasing activity totaled 896,760 sf in the fourth quarter, and 7.3 msf for 2020, a step down from 8.6 msf in 2019, though just above the five-year historical average of 7.2 msf. San Joaquin County, which hosts 73% of the market's inventory, recorded the vast majority of leasing activity for the quarter, with gross absorption there totaling 693,563 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. After a red-letter third quarter, in which occupancy rose by 4.2 msf, net absorption continued rallying in the fourth quarter, totaling positive 1.0 msf; occupancy ultimately increased by 4.5 msf over the course of 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 21.1 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: Flurry of Deliveries Continue

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 32.1 msf of deliveries since 2010, representing a 28.6% increase in the region's building base, while 7.2 msf is currently under construction. Of these projects, 4.3 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.

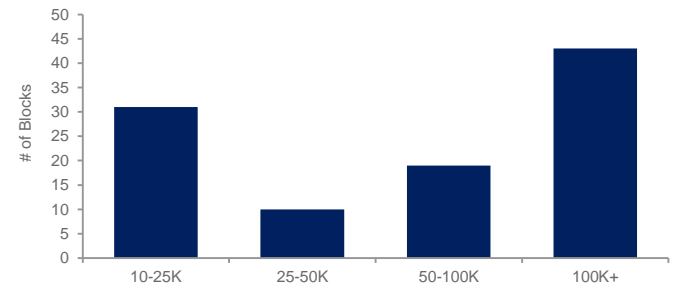
Outlook

- Net absorption totaled positive 1.0 msf in the fourth quarter, down from the positive 4.2 msf of occupancy growth in the third quarter. Occupancy is expected to increase in the coming months as preleased new construction delivers.
- Asking rents closed the fourth quarter at \$0.50 psf, marking a \$0.07 YOY increase. Rents are expected to increase over the next year due primarily to the delivery of vacant new construction.
- There are 122 requirements currently being tracked, totaling 24.9 msf. Demand is expected to increase in the next year, and the rise will be driven by e-commerce users in the marketplace.

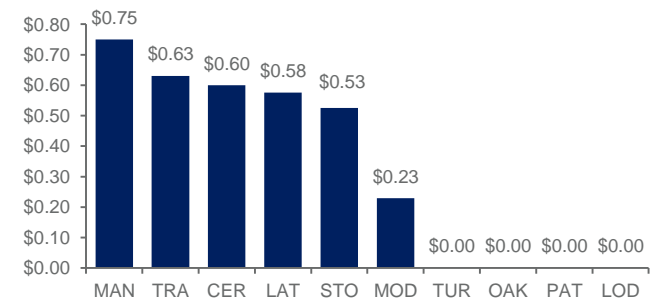
DIRECT AND SUBLEASE AVAILABLE SPACE



AVAILABILITIES BY SIZE SEGMENT



OVERALL AVERAGE ASKING RATE BY SUBMARKET (NNN)



Industrial Q4 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 WEIGHTED AVG NET RENT (W/D)	OVERALL WEIGHTED AVG NET RENT (MF)	OVERALL WEIGHTED AVG NET RENT
Lodi	9,449,962	0	0.0%	400,340	400,340	0	400,340	\$0.00	\$0.00	\$0.00
Stockton	47,893,514	3,177,277	6.6%	265,414	746,868	860,409	0	\$0.55	\$0.47	\$0.53
Lathrop	14,961,774	588,082	3.9%	0	108,474	2,671,779	0	\$0.51	\$0.60	\$0.58
Tracy	29,040,429	2,070,058	7.1%	51,988	2,097,232	3,316,775	0	\$0.75	\$0.36	\$0.75
Manteca	5,469,979	164,927	3.0%	194,162	863,028	0	0	\$0.63	\$0.00	\$0.63
San Joaquin County	106,815,658	6,000,344	5.6%	911,904	4,215,942	6,848,963	400,340	\$0.59	\$0.51	\$0.57
Oakdale	1,890,543	0	0.0%	0	100,000	0	0	\$0.00	\$0.00	\$0.00
Modesto	26,101,134	860,373	3.3%	3,189	205,155	369,000	0	\$0.45	\$0.15	\$0.23
Ceres	438,348	17,000	3.9%	69,763	22,669	0	0	\$0.60	\$0.00	\$0.60
Turlock	3,888,387	95,392	2.5%	108,435	53,404	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	38,634,840	1,749,515	4.5%	111,624	316,608	369,000	0	\$0.46	\$0.15	\$0.24
TOTAL	145,450,498	7,749,859	7.8%	1,023,528	4,532,550	7,217,963	400,340	\$0.56	\$0.41	\$0.50

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

MF = Manufacturing W/D = Warehouse/Distribution

KEY LEASE TRANSACTIONS Q4 2020

PROPERTY	SUBMARKET	TENANT	RSF	TYPE
6444 Arch Road	Stockton	FedEx	383,382	New Construction
3735 Imperial Way	Stockton	Kraft Foods	164,702	Renewal*
3537 Metro Drive	Stockton	Weber Distribution	94,420	New Lease

*Renewals not included in leasing statistics

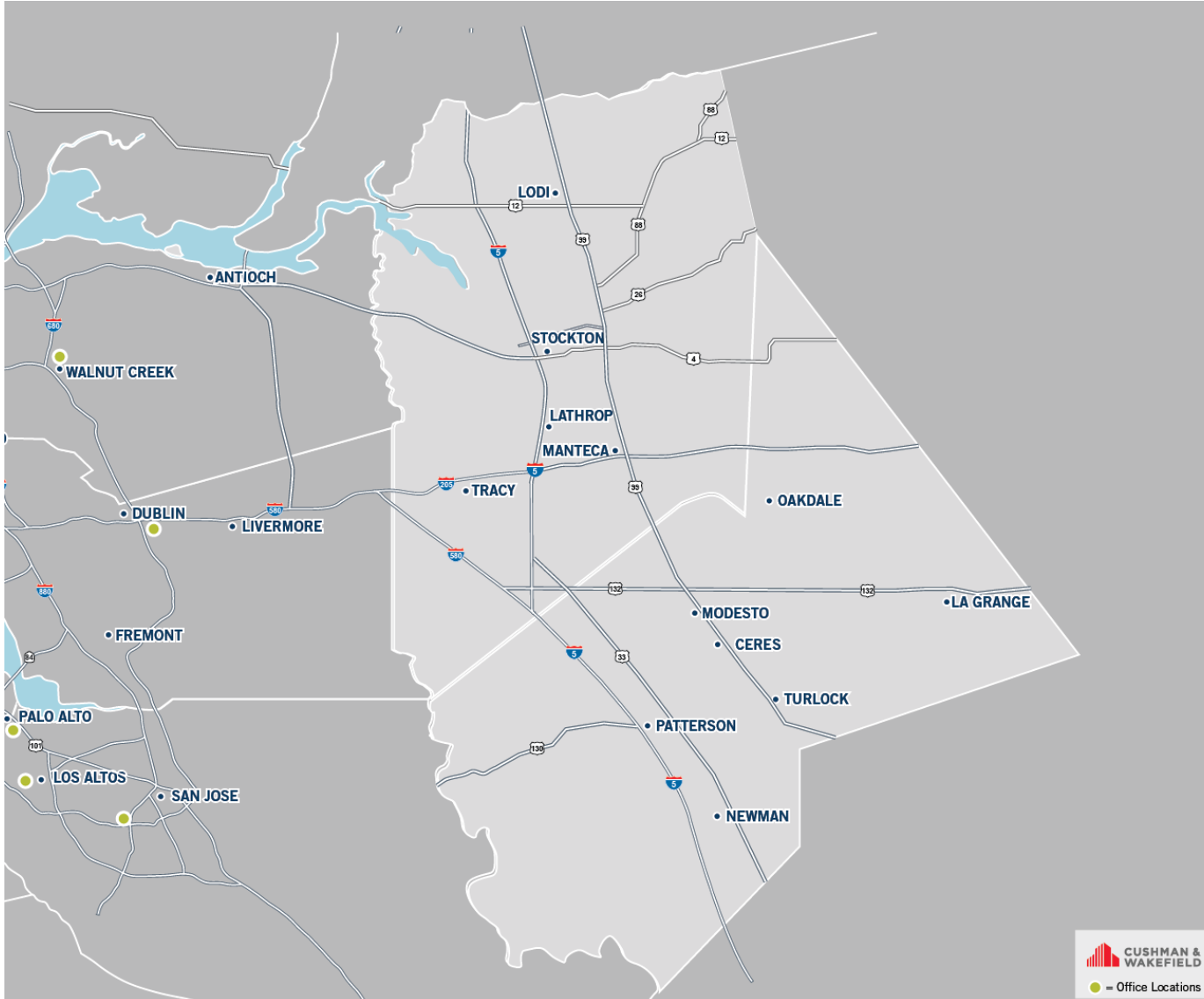
KEY SALES TRANSACTIONS Q4 2020

PROPERTY	SUBMARKET	SELLER / BUYER	SF	PRICE/\$ PSF
1170 S Guild Ave	Lodi	Panattoni / STAG Industrial	400,340	\$44.6M / \$111
2640 Yosemite Blvd	Modesto	CGKW LLC / G3 Ents Inc	105,000	\$7.5M / \$71
1616 Boeing Way	Stockton	Prologis / Best Express Foods	103,968	\$15.1M / \$145
4140 Brew Master Dr	Ceres	Fresno Beverage Co, Inc. / Rolling Hills Nut Co.	74,763	\$6.9M / \$92
4091 Gold River Ln	Stockton	Paisley Properties, Inc. / Stag CA Holdings LP	57,908	\$5.2M / \$89

CENTRAL VALLEY

Industrial Q4 2020

INDUSTRIAL SUBMARKETS



KEITH REICHERT

Senior Research Analyst

Tel: +1 510 267 6059

keith.reichert@cushwake.com

CUSHMAN & WAKEFIELD

555 12th St

Suite 1400

Oakland, CA 94607

A CUSHMAN & WAKEFIELD RESEARCH PUBLICATION

Cushman & Wakefield (NYSE: CWK) is a leading global real estate services firm that delivers exceptional value for real estate occupiers and owners. Cushman & Wakefield is among the largest real estate services firms with approximately 53,000 employees in 400 offices and 60 countries. In 2019, the firm had revenue of \$8.8 billion across core services of property, facilities and project management, leasing, capital markets, valuation and other services. To learn more, visit www.cushmanwakefield.com or follow @CushWake on Twitter.

©2021 Cushman & Wakefield. All rights reserved. The information contained within this report is gathered from multiple sources believed to be reliable. The information may contain errors or omissions and is presented without any warranty or representations as to its accuracy.

cushmanwakefield.com