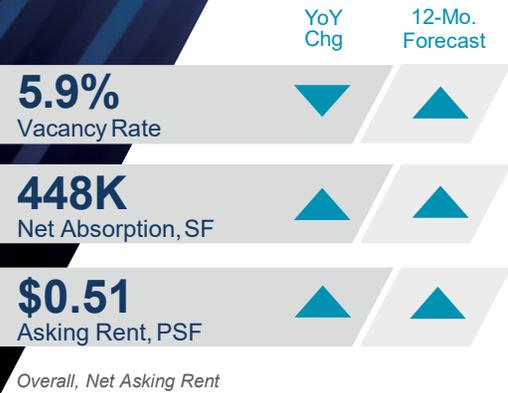
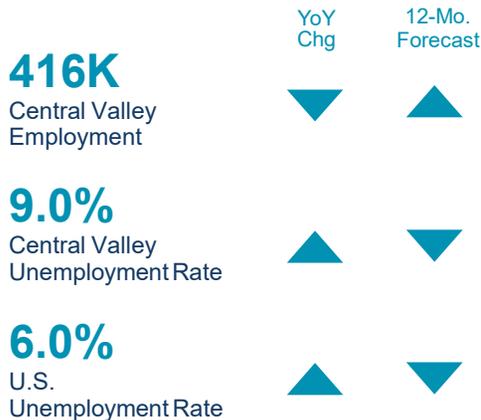


Industrial Q1 2021



ECONOMIC INDICATORS Q1 2021



Source: BLS, Moody's Analytics.
2021Q1 data are based on latest available data.

ECONOMY: Path to Recovery Comes Into Focus

The Central Valley, encompassing the Stockton and Modesto Metropolitan Statistical Areas (MSAs), recorded negative employment growth, with just under 19,000 non-farm payroll positions lost from the region over the last year, bringing regional employment to 416,450. With this decline, and with no significant change in the labor force, the unemployment rate increased to 9.0%, which translates to a prominent jump of 270 basis points (bps) from 6.3% year-over-year (YOY). Upon the arrival of COVID-19 in the U.S., the economy entered a historically unprecedented recession in March of 2020. In the Central Valley, consumer services industries were severely impacted, particularly the restaurant and retail sectors. The commercial real estate market saw a decline in office occupancy levels due to government shelter-in place orders, while the warehousing and distribution sector recorded consistent growth due to increasing consumer reliance on online marketplaces. The recovery began in the late Spring of 2020 at a slow clip because of uncertainty regarding a vaccine timeline for the novel disease. With the advent of reliable vaccines in early 2021, the road to full recovery has become clearer and California is expected to fully reopen by June of 2021.

SUPPLY: Sublease Space Remains Virtually Nonexistent

The vacancy rate in the Central Valley industrial market was 5.9% at the end of the quarter, corresponding to an increase of 50 bps from the end of 2020, and a smaller uptick of 30 bps YOY. Both product types saw a rise, though only a minuscule 31,116 square feet (sf) of warehouse space was added to the market in the past year, compared to a more pronounced increase of 744,894 in the manufacturing sector. While givebacks of existing space drove some of this increase, the majority was due to delivery of new construction. Of the 8.7 million sf (msf) presently available in the market, 2.2 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. Though activity has declined 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 328,783 sf currently available, up from 163,700 sf at this time last year. With 8.7 msf of product under construction, all slated for delivery by the end of the year, vacancy is forecasted to increase in the coming months, at least temporarily.

SPACE DEMAND / DELIVERIES



OVERALL VACANCY & ASKING RENT



PRICING: Rents Propped Up By New Construction

With the glut of modern space on the market, asking rents continued to climb, reaching \$0.51 per square foot (psf) on a monthly triple-net basis at the end of the first quarter, up \$0.12 YOY. The increase was mainly due to the delivery of new, modern product and their associated premium 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.

DEMAND: 2020 Momentum Continues

The momentum of 2020, in which occupancy rose by 4.9 msf, continued in the first quarter of 2021, with net absorption totaling positive 447,707 sf. This metric was boosted by the delivery of 851,200 of preleased warehouse space in San Joaquin County. Gross absorption totaled 2.4 msf in the first quarter with San Joaquin County, which hosts 73% of the markets inventory, recording nearly all leasing activity market wide. 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. 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 31.7 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.

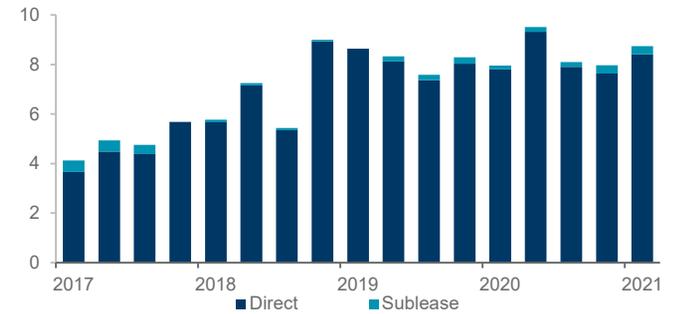
CONSTRUCTION: The Expanding Central Valley Building Base

Essential 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 34.3 msf of deliveries since 2010, representing a 31.1% increase in the region's building base, while 8.7 msf is currently under construction. Of these projects, 5.8 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.

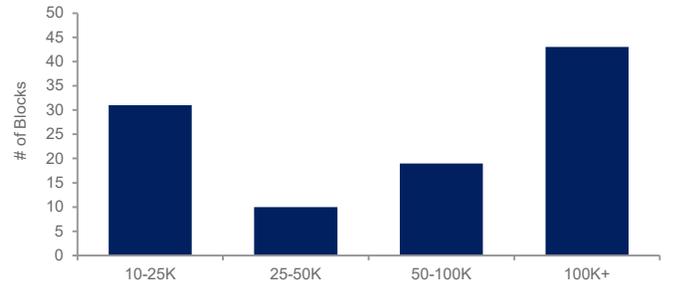
Outlook

- Net absorption totaled positive 435,707 sf in the first quarter, a decline from the positive 1.0 msf of occupancy growth in the fourth quarter of 2020. Occupancy is expected to increase in the coming months as preleased new construction delivers.
- Asking rents closed the fourth quarter at \$0.51 psf, marking a \$0.12 YOY increase. Rents are expected to increase over the next year due primarily to the delivery of vacant new construction.
- There are 111 requirements currently being tracked, totaling 25.8 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 Q1 2021

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	97,600	1.0%	-97,600	-97,600	0	0	\$0.00	\$0.00	\$0.00
Stockton	48,636,917	3,552,478	7.3%	219,359	219,359	835,223	0	\$0.55	\$0.36	\$0.50
Lathrop	14,961,773	315,118	2.1%	-65,600	-65,600	3,013,969	0	\$0.51	\$0.60	\$0.63
Tracy	29,892,339	2,315,774	7.7%	570,438	570,438	4,436,857	851,200	\$0.63	\$0.00	\$0.00
Manteca	5,469,979	159,103	2.9%	0	0	0	0	\$0.75	\$0.36	\$0.75
San Joaquin County	108,410,970	6,200,010	5.9%	626,597	626,597	8,286,049	851,200	\$0.59	\$0.44	\$0.56
Oakdale	1,890,543	0	0.0%	0	0	0	0	\$0.00	\$0.00	\$0.00
Modesto	26,467,265	1,365,984	5.2%	-136,611	-136,611	369,000	369,000	\$0.54	\$0.15	\$0.36
Ceres	438,348	5,000	1.1%	12,000	12,000	0	0	\$0.60	\$0.00	\$0.60
Turlock	4,016,607	149,671	3.7%	-54,279	-54,279	0	0	\$0.00	\$0.00	\$0.00
Patterson	6,316,428	776,750	12.3%	0	0	0	0	\$0.00	\$0.00	\$0.00
Stanislaus County	39,129,191	2,297,405	5.9%	-178,890	-178,890	369,000	369,000	\$0.54	\$0.15	\$0.36
TOTAL	147,540,161	8,737,478	5.9%	447,707	447,707	8,655,049	1,220,200	\$0.58	\$0.35	\$0.51

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

MF = Manufacturing W/D = Warehouse/Distribution

KEY LEASE TRANSACTIONS Q1 2021

PROPERTY	SUBMARKET	TENANT	RSF	TYPE
45820 Logistics Drive	Stockton	Allen Distribution	709,556	New Construction
2300 Chabot Court	Tracy	Scotts Miracle Gro	388,971	New Lease
2331 Stagecoach Road	Stockton	Del Ray Tire & Retreading	19,336	New Lease

*Renewals not included in leasing statistics

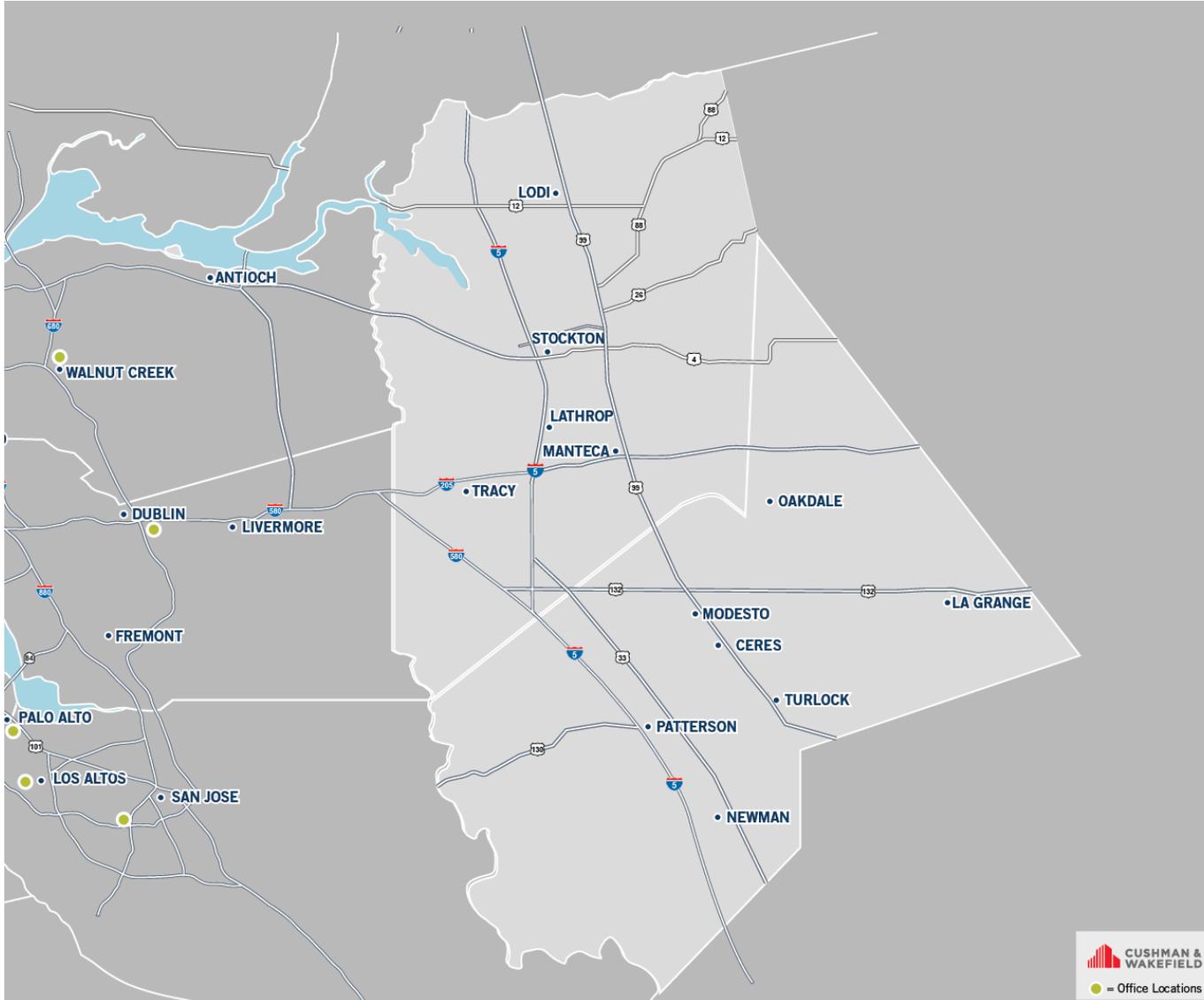
KEY SALES TRANSACTIONS Q1 2021

PROPERTY	SUBMARKET	SELLER / BUYER	SF	PRICE/\$ PSF
1836 Lapham Drive	Modesto	Mercer Foods / LCN Capital Partners	234,131	\$40.1M / \$171
340 West Scotts Avenue	Stockton	Masonite Corp / RNM Property Mgmt	93,725	\$2.5M / \$26
1444 Tillie Lewis Drive	Stockton	Via Del Oro Partners / Fuel Stops LLC	62,400	\$4.8M / \$77

CENTRAL VALLEY

Industrial Q1 2021

INDUSTRIAL SUBMARKETS



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