

4.5%
Vacancy Rate



5.4M
Net Absorption, SF



\$0.63
Asking Rent, PSF



Overall, Net Asking Rent

ECONOMIC INDICATORS Q2 2022

444.3
Central Valley
Employment



5.4%
Central Valley
Unemployment Rate



3.6%
U.S.
Unemployment Rate



Source: BLS, Moody's Analytics.
2022Q2 data are based on latest available data.

ECONOMY: Future Headwinds

The Central Valley, encompassing San Joaquin and Stanislaus counties recorded an increase in job growth, adding 14,500 jobs year-over-year (YOY), bringing regional employment to just over 444,300. This increase returned the region to roughly its pre-pandemic employment level. As employment returned to normal, global supply chain issues and rising interest rates have created headwinds for both individual industrial tenants and the development pipeline. Despite this, the Central Valley Industrial market has continued its boom, shedding vacancy amidst record construction. The region's largest occupiers continue to choose the Central Valley where the combination of developable land, convenient logistics infrastructure, and proximity to major metros has created one of the hottest industrial markets in the country.

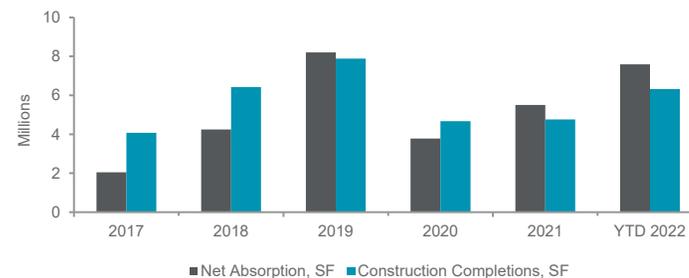
SUPPLY: Vacancy Declines Despite New Construction

The vacancy rate in the Central Valley industrial market was 4.5% at the end of the second quarter of 2022, down 150 basis points (bps) YOY, despite over 9.6 million square feet (msf) of new construction delivered in the same period. Manufacturing product has seen a tremendous decline in vacancy, down 630 bps YOY. New construction has been dominated by Class A distribution facilities, leaving manufacturing tenants few options but to continue absorbing existing inventory. Demand for warehouse space has managed to keep pace with robust construction activity, with vacancy down 30 bps YOY, despite inventory growing by 8.2%. New construction has had the largest affect in Lathrop, where vacancy increased from 3.9% to 15.9% in the back half of 2021. However, that number has steadily declined in 2022, closing the second quarter at 10.5%. Vacancy in Stockton, the region's largest submarket, was just 4.2% in the second quarter, the lowest recorded in over five years. It has seen a relatively small proportion of the new deliveries over the past year, but a robust pipeline of speculative development set to deliver over the coming quarters will likely push up vacancy in this submarket, and the region as a whole.

DEMAND: Occupancy Increases in Second Quarter

Leasing activity in the second quarter was one of the highest on record, with over 3.8 msf signed. The largest lease of the quarter was signed by Target for 1,400,000 sf at Airpark 599 in Stockton. Meanwhile, the Central Valley's largest speculative building is also under construction within the same development, a 1,182,740-sf building set to deliver by the end of the year. Williams-Sonoma leased 1,120,082 sf within the Prologis International Park of Commerce in Tracy, a Class A distribution facility that delivered in the first quarter of this year.

SPACE DEMAND / DELIVERIES



OVERALL VACANCY & ASKING RENT



Two leases over 1.1 msf are enough to make for a notable quarter but in addition, NFI leased 346,860 sf at 16825 Murphy Pkwy in Lathrop, and Customized Distribution Services leased 312,448 sf at 2018 Zephyr Street in Stockton. This level of activity will help to ensure positive absorption in the coming quarters. The Central Valley recorded 5.4 msf of positive net absorption in the second quarter, the highest level since Cushman & Wakefield began tracking the market. Of this, 90% came from the delivery of BTS and pre-leased construction. Most notable was the completion of “Project Big Bird”, a 3.5-msf, multi-story distribution facility built for Amazon in Tracy. Also delivered was a 651,000-sf facility built for Kraft in Lathrop and 4800 Logistics Drive, a 707,000-sf speculative warehouse that was pre-leased to Niagara Bottling, which is also under construction on a new production facility nearby. Looking ahead, 76% of the pipeline is being built on a speculative basis as developers hope to capture their share of the 31.2 msf of tenant requirements in the market.

PRICING: Asking Rents Rise

The overall asking rate for Central Valley industrial closed the second quarter at \$0.63 per square foot (psf) on a monthly triple-net basis. This is up 15.2% YOY, as new construction in the region’s most desirable submarkets continued to pull up the average. Warehouse and manufacturing specific rents closed the quarter at \$0.63 and \$0.67 psf, respectively. Tracy remains the region’s most expensive submarket, as its proximity to the Bay Area and new construction deliveries have driven asking rates to \$0.70 psf. Despite robust rental growth, the region remains a relative discount when compared to neighboring markets like the East Bay Oakland, where the average asking rate is over \$1.10 psf. Strong demand and the rising quality of inventory are expected to keep placing upward pressure on rents.

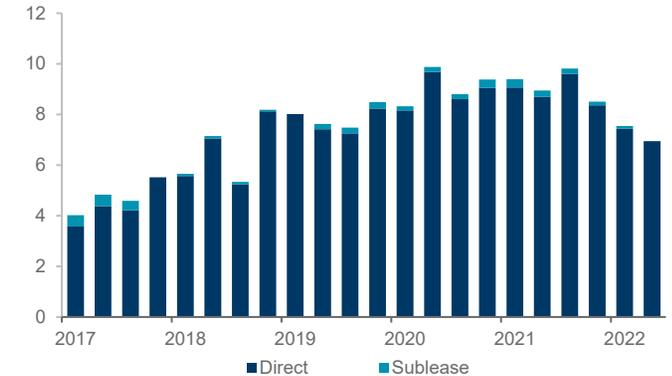
CONSTRUCTION: Building Out the Central Valley

Projects continued to break ground in the second quarter, with several major developments bringing the total under construction to 10.4 msf. Of the projects under construction, 76.2%, or about 7.9 msf, are speculative developments. Upon delivery, these new spaces could place upward pressure on vacancy but demand remains strong so this space will continue to be absorbed as tenants look for the elevated clear heights, high dock door ratios, and generous truck courts only found in newer inventory. Larger requirements seem to be increasingly more reliant on the Central Valley which provides access to core Bay Area markets where larger scaled projects are no longer feasible.

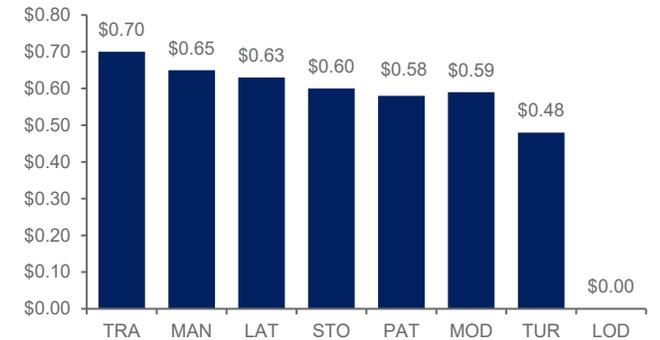
Outlook

- Net absorption totaled 5.4 msf in the second quarter and is expected to decline slightly in the coming quarters as speculative development projects outpace build-to-suits.
- Asking rents closed the first quarter at \$0.63 psf, marking an \$0.08 YOY increase. Rental growth is expected to slow but continue, as new construction places upward pressure on asking rates.
- Future supply, currently under construction, totals 10.40 msf of which 76% is speculative new construction, it is likely vacancy will increase in the short term.

DIRECT AND SUBLEASE AVAILABLE SPACE



OVERALL AVERAGE ASKING RATE BY SUBMARKET (NNN)



Industrial Q2 2022

MARKET STATISTICS

SUBMARKET	INVENTORY (SF)	OVERALL VACANT (SF)	OVERALL VACANCY RATE	CURRENT QTR OVERALL NET ABSORPTION(SF)	YTD OVERALL NET ABSORPTION (SF)	CURRENT QTR CONSTR COMPLETIONS (SF)	OVERALL WEIGHTEDAVG NET RENT (W/D)	OVERALL WEIGHTED AVG NET RENT (MF)	OVERALL WEIGHTED AVG NET RENT
Lodi	9,750,993	0	0.0%	0	170,000	0	\$0.00	\$0.00	\$0.00
Stockton	50,305,656	2,097,727	4.2%	738,393	1,161,255	707,154	\$0.60	\$0.52	\$0.60
Lathrop	18,630,390	1,959,460	10.5%	1,030,417	1,847,940	651,000	\$0.63	\$0.60	\$0.63
Tracy	34,590,994	1,793,707	5.2%	3,602,109	3,891,751	3,500,000	\$0.70	\$0.78	\$0.68
Manteca	5,380,235	153,858	2.9%	0	-1,550	0	\$0.65	\$0.00	\$0.65
San Joaquin County	118,658,268	6,004,752	5.1%	5,370,919	7,069,396	4,858,154	\$0.64	\$0.73	\$0.63
Modesto	28,919,149	268,877	0.9%	410	520,780	0	\$0.59	\$0.55	\$0.62
Turlock	4,016,607	54,156	1.3%	0	123	0	\$0.48	\$0.48	\$0.00
Patterson	6,286,428	712,130	11.3%	0	0	0	\$0.58	\$0.00	\$0.58
Stanislaus County	39,222,184	1,035,163	2.6%	410	520,903	0	\$0.58	\$0.53	\$0.59
TOTAL	157,880,452	7,039,915	4.5%	5,371,329	7,590,299	4,858,154	\$0.63	\$0.67	\$0.63

*Rental rates reflect weighted net asking \$psf/month
*These values not reflective of U.S MarketBeat Tables

MF = Manufacturing W/D = Warehouse/Distribution

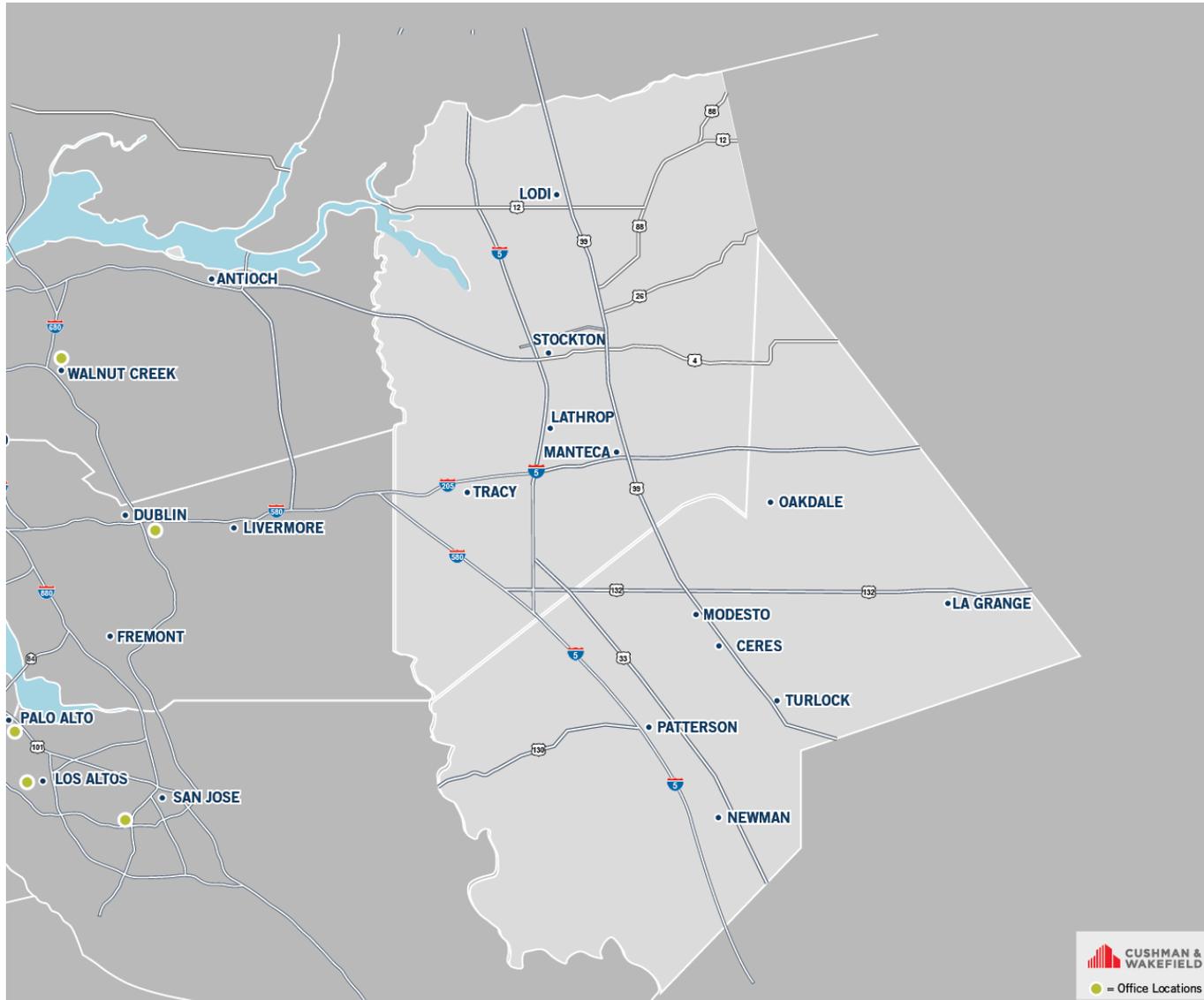
KEY LEASE TRANSACTIONS Q2 2022

PROPERTY	SUBMARKET	TENANT	RSF	TYPE
Airpark 599	Stockton	Target	1,400,000	New Lease
International Park of Commerce #23	Tracy	Williams-Sonoma	1,120,082	New Lease
16825 Murphy Pkwy	Lathrop	NFI	346,860	New Lease
2018 Zephyr Street	Stockton	Customized Distribution Services	312,448	New Lease

KEY SALES TRANSACTIONS Q2 2022

PROPERTY	SUBMARKET	SELLER / BUYER	SF	PRICE/\$ PSF
1990-1992 Rockefeller Drive	Ceres	MPM Properties / Graceada Partners	130,916	\$15.9M / \$121
157 Sloan Court	Tracy	Perine Property / Robert Eir	33,463	\$4.2M / \$125
633 San Juan Avenue	Stockton	Marc Berman; Gail Berman / San Juan Building LLC	33,964	\$4M / \$118
INDUSTRIAL LAND	SUBMARKET	SELLER / BUYER	AC	PRICE/\$ PSF
6599 W. Grant Line Road	Tracy	Ridge Capital / Dermody Properties	122.39	\$110.1M / \$20.65
2519 N Airport Way	Manteca	Red Chamber Company / Sunrise Trucking	28.66	\$10.3M / \$8.21

INDUSTRIAL SUBMARKETS



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