

Industrial Q2 2023

5.7%

Vacancy Rate

YoY
Chg12-Mo.
Forecast

984K

Net Absorption, SF



\$0.72

Asking Rent, PSF



Overall, Net Asking Rent

ECONOMIC INDICATORS
Q2 2023

468.7K

Central Valley
EmploymentYoY
Chg12-Mo.
Forecast

6.0%

Central Valley
Unemployment Rate

3.6%

U.S.
Unemployment RateSource: BLS, Moody's Analytics.
2023Q2 data are based on latest available data.

ECONOMY: Future Headwinds

The Central Valley, encompassing San Joaquin and Stanislaus counties recorded an increase in employment, adding 10,800 jobs year-over-year (YOY), bringing regional employment to 468,700. The country's largest industrial occupiers continued to look to 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. While the region remains in demand, elevated interest rates, fuel costs, and global supply chain issues could begin to weigh on the tenants that have driven growth over the past three years. As occupiers begin to face economic headwinds, the market continues to record new construction deliveries, placing upward pressure on vacancy.

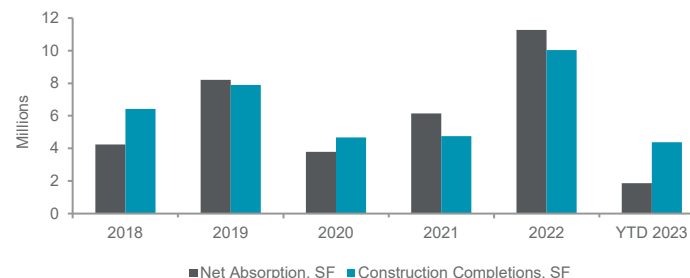
SUPPLY: Vacancy Hinges on New Construction

The vacancy rate in the Central Valley industrial market was 5.7% at the end of the second quarter, up 100 basis points (bps) from the prior quarter as 2.9 million square feet (msf) of new construction delivered, the majority of which was speculative. Stockton recorded the most new construction, with 1.4 msf delivered across multiple projects, including Phelan's four-building Stockton Airport Logistics Center, Buzz Oates' 122,000-sf warehouse on Fite Court, and Niagara Bottling's 600,000-sf build-to-suit. This caused vacancy in Stockton, the region's largest submarket, to jump to 7.9%. However, while new inventory pushed vacancy, the market continued to achieve positive net absorption as Niagara's build-to-suit and limited space give backs led occupancy growth. Tracy, a submarket that recorded record growth in 2022 has seen vacancy rise this year with a mix of new construction and 381,000 sf of negative net absorption. Sublease space was responsible for the majority of negative absorption in Tracy. Across the greater Central Valley market, total sublease vacancy nearly doubled in the second quarter to just shy of 1.0 msf, the first sign that some tenants may be pulling back on growth. Despite the rise, sublease space still accounts for less than 10% of overall vacancy. Stanislaus County continued to shed vacancy, closing the second quarter at just 0.6% after recording several notable leases. New construction has been largely focused in San Joaquin County, but tenants have demonstrated an appetite for the limited new product that has delivered in Stanislaus County as well.

DEMAND: New Leasing Ticks Up

Following a record year for activity in 2022, leasing activity has slowed in 2023, with gross activity for the second quarter down over 50% from the same quarter last year as occupiers pull back on growth plans.

SPACE DEMAND / DELIVERIES



OVERALL VACANCY & ASKING RENT



This slowdown was felt in markets across the country, but while down from 2022, the Central Valley continued to record significant transactions. The largest lease of the quarter was signed by Performance Food Group for 373,022 sf at 1624 Army Court in Stockton. Also of note was Article.com's 356,065-sf new lease at 400 Park Center Drive in Patterson, completing the lease up of the 712,000-sf warehouse that delivered in 2018. Looking ahead, several large transactions were pending at quarter close, which should result in continued positive absorption as the majority of large requirements considering Northern California remain reliant on the Central Valley as the premier distribution market for the region.

Sales activity picked up in the second quarter as interest rates began to plateau and investors returned to the market. The largest sale of the quarter was Panattoni/PCCP's purchase of a 204,801-sf warehouse at 401 E. Glenn Avenue in Modesto for \$20.1M. Traditional investment sales have recently returned to the market with three fully leased assets currently on the market for sale in Tracy & Stockton.

PRICING: Asking Rates Continue to Rise

The overall asking rate for Central Valley industrial closed the second quarter at a record \$0.72 per square foot (psf) on a monthly triple-net basis, up 14.3% YOY. The overall rate continued to rise, a combination of new construction and years of elevated demand that have allowed landlords to push pricing on existing inventory. Warehouse and manufacturing specific rents closed the quarter at \$0.72 and \$0.68 psf, respectively, with manufacturing rents falling amidst a rise in discounted sublease vacancy. Tracy remained the region's most expensive submarket, as its proximity to the Bay Area and new construction deliveries have driven asking rates to \$0.76 psf. While Tracy commanded the highest price, asking rates climbed across submarkets, with Stockton asking \$0.70 psf, remarkable for a market where asking rates were closer to \$0.40 psf in 2019. 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 exceeded \$1.30 psf in the second quarter. The rising quality of inventory is expected to keep placing upward pressure on rents.

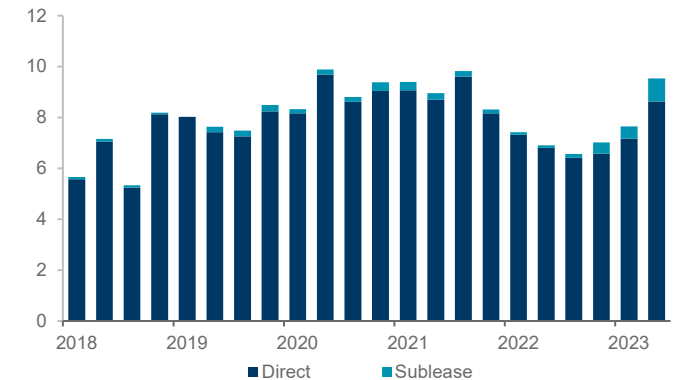
CONSTRUCTION: Building Out the Central Valley

Deliveries continued to pick up in the second quarter with 2.9 msf delivered, bringing the year-to-date total to 4.4 msf. There were an additional 5.8 msf under construction at the close of the quarter, the majority of which is being built on a speculative basis. Upon delivery, these new spaces will continue to place upward pressure on vacancy but also drive positive net absorption as tenants continue to look for the elevated clear heights, high dock door ratios, and generous truck courts only found in newer inventory. After a slow first quarter, ground breakings picked up in the second quarter as the current cycle of development extends into 2024. Future ground breakings may slow as developers wait and see how demand responds to the current economic headwinds and financing for new projects becomes more difficult.

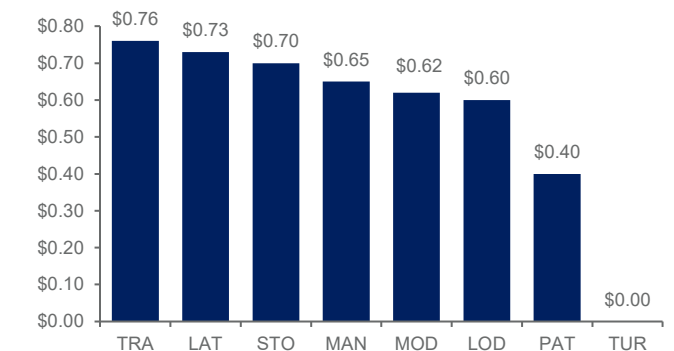
Outlook

- Rental growth is expected to slow but continue, as new construction places upward pressure on asking rates.

DIRECT AND SUBLEASE AVAILABLE SPACE



OVERALL AVERAGE ASKING RATE BY SUBMARKET (NNN)



Industrial Q2 2023

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 WEIGHTED AVG NET RENT (W/D)	OVERALL WEIGHTED AVG NET RENT (MF)	OVERALL WEIGHTED AVG NET RENT
Lodi	9,746,653	13,662	0.1%	9,000	23,338	0	-	\$0.60	\$0.60
Stockton	53,586,653	4,243,087	7.9%	868,307	1,269,996	1,427,790	\$0.70	\$0.63	\$0.70
Lathrop	19,477,298	2,344,794	12.0%	0	399,256	846,908	\$0.73	\$0.60	\$0.73
Tracy	37,002,566	2,670,711	7.2%	-284,286	-381,916	606,343	\$0.76	\$0.77	\$0.76
Manteca	5,385,282	0	0.0%	0	0	0	-	-	-
San Joaquin County	125,198,452	9,272,254	7.4%	593,021	1,310,674	2,881,041	\$0.72	\$0.73	\$0.72
Modesto	29,745,950	149,604	0.5%	148,300	313,604	0	\$0.63	\$0.62	\$0.62
Turlock	5,096,915	0	0.0%	0	0	0	-	-	-
Patterson	6,286,428	113,550	1.8%	242,515	242,515	0	-	\$0.40	\$0.40
Stanislaus County	41,129,293	263,154	0.6%	390,815	556,119	0	\$0.63	\$0.52	\$0.53
TOTAL	166,327,745	9,535,408	5.7%	983,836	1,866,793	2,881,041	\$0.72	\$0.68	\$0.72

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

**Stats are not reflective of U.S. Overview Tables

MF = Manufacturing W/D = Warehouse/Distribution

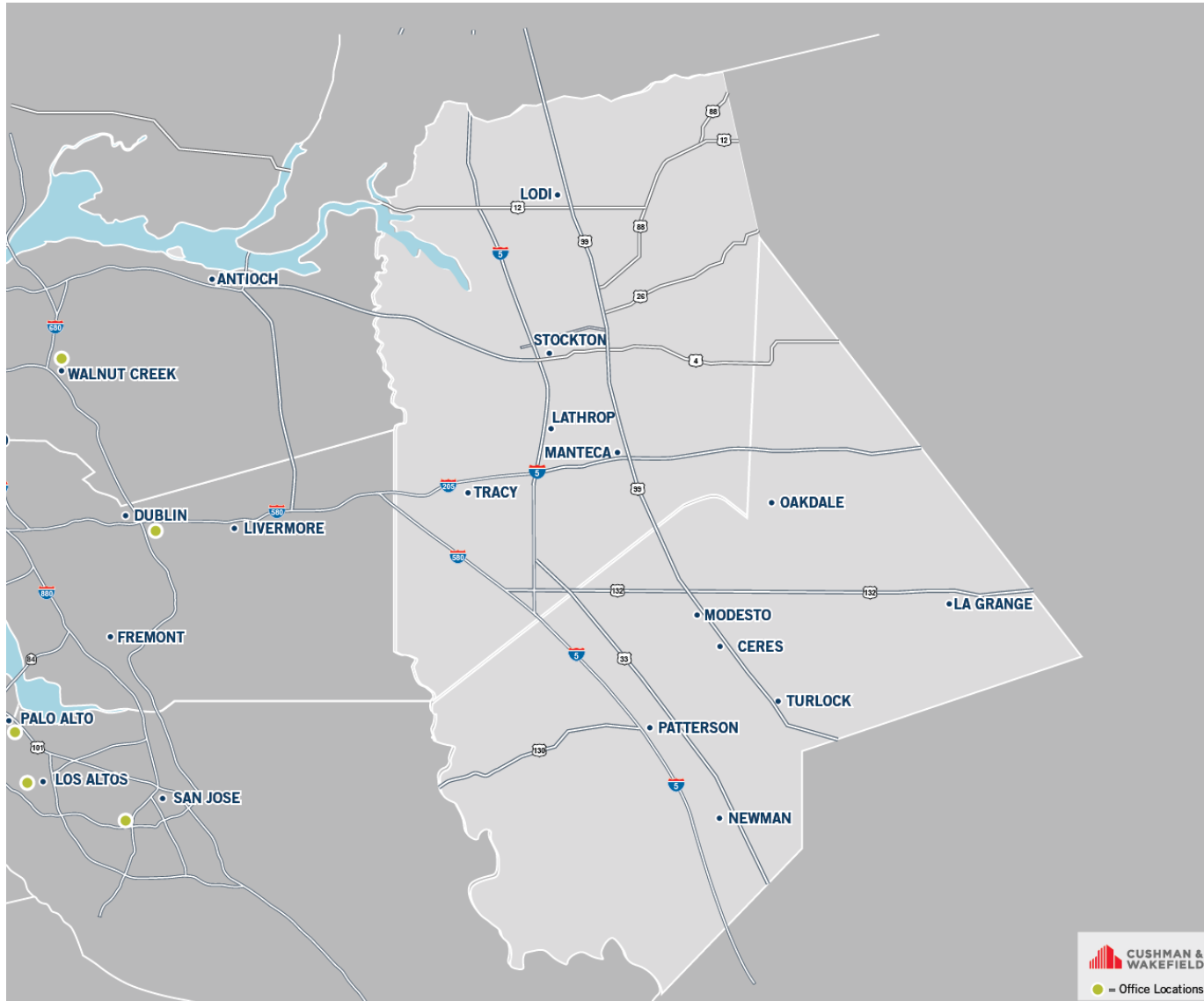
KEY LEASE TRANSACTIONS Q2 2023

PROPERTY	SUBMARKET	TENANT	RSF	TYPE
1624 Army Court	Stockton	Performance Food Group	373,022	New Lease
400 Park Center Drive	Patterson	Article.com	356,065	New Lease
1150 E. Arbor Road	Tracy	Peet's Coffee	240,201	New Lease
2612 Crows Landing Road	Modesto	Del Monte	200,000	New Lease

KEY SALES TRANSACTIONS Q2 2023

PROPERTY	SUBMARKET	SELLER / BUYER	RSF	PRICE/\$ PSF
401 E. Glenn Avenue	Modesto	Canopy Growth Corporation / PCCP & Panattoni	204,801	\$20.1M / \$98
567 S. Riverside Drive	Modesto	Lowenberg Corporation / Bridge Investment Group	148,000	\$14.0M / \$95

INDUSTRIAL SUBMARKETS



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