

CENTRAL VALLEY

Industrial Q2 2024

	YoY Chg	12-Mo. Forecast
6.3% Vacancy Rate	▲	▲
812K Net Absorption, SF	▼	▼
\$0.72 Asking Rent, PSF	▬	▬

Overall, Net Asking Rent

ECONOMIC INDICATORS Q2 2024

	YoY Chg	12-Mo. Forecast
476.1K Central Valley Employment	▲	▲
6.9% Central Valley Unemployment Rate	▲	▲
4.1% U.S. Unemployment Rate	▲	▲

Source: BLS, Moody's Analytics.
2024Q2 data are based on latest available data.

ECONOMY: Future Headwinds

The Central Valley, encompassing San Joaquin and Stanislaus counties, recorded an increase in employment level, adding 13,700 jobs year-over-year (YOY) and bringing regional employment to 476,100 non-farm positions. The country's largest industrial occupiers have 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. However, while the region remains in demand, elevated interest rates, fuel costs, and global supply chain issues have presented headwinds for some of the tenants that have driven growth over the past three years.

SUPPLY: Subleases Creep Higher

The vacancy rate in the Central Valley industrial market was 6.3% at the end of the second quarter, down 30 basis points (bps) from the prior quarter, the result of 812,322 square feet (sf) of positive net absorption. A flurry of large leasing activity at the end of the first quarter translated to a bump in positive net absorption this quarter. A single, e-commerce tenant drove much of this absorption as they occupied both the 1.2-million-square-foot (msf) Building Four at Airpark 599, the largest vacancy in the market, and a newly delivered, 316,800-sf warehouse in Modesto. This tenant will also occupy First Industrial's 1.0-msf warehouse, currently under construction in Stockton's airport submarket, bringing new occupancy to a total of 2.5 msf this year. While this will buoy year-to-date (YTD) net absorption through the coming quarters, it overshadows some cracks in broader tenant demand that have been forming since late 2023. Sublease space has been on the rise for five of the past six quarters, growing from 100,000 sf in early 2022 to 1.5 msf this quarter. In Stockton, the region's largest submarket, sublease space now accounts for 18.4% of overall vacancy in the market. Vacancy in Stockton closed the second quarter at 10.7%, shedding 120 bps with the absorption at Airpark 599. However, with multiple speculative projects expected to deliver later this year, Stockton may see vacancy resume its upward climb.

DEMAND: Renewals & E-Commerce Drive Activity

Leasing activity totaled 2.6 msf in the second quarter, up moderately YOY but a 28.6% decline from the prior quarter which had recorded two, new million-square-foot leases. Despite this slow down, leasing activity remained on pace to surpass pre-pandemic levels of annual activity but will likely fall short of the record-breaking leasing seen over the past several years. The largest lease of the quarter was signed by Zinus, renewing their 664,000-sf warehouse in Tracy's International Park of Commerce. Renewals made up six of the top seven leases this quarter, a positive sign that large tenants remain committed to the region. However, these have no affect on absorption levels. As the region has continued to attract Northern California's largest tenants, there has been a noticeable drop in mid-size transactions, with fewer leases being signed from 100,000 to 200,000 sf.

SPACE DEMAND / DELIVERIES



OVERALL VACANCY & ASKING RENT



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Historically a healthy segment of the market, the drop in activity has coincided with a dramatic rise in vacancy, with approximately 30 available spaces and just two new leases signed for that size range in the second quarter.

Sales activity gained significant momentum in the second quarter, following over a year of limited transactions in the face of elevated interest rates. The largest sale of the quarter was Super Store Industries' sale of their 1,000,000-sf warehouse in Lathrop for \$146.0 million or \$146 psf. The buyer was a joint venture between SoftBank Group and Symbotic LLC, a partnership which plans to offer warehouse as a service (WaaS) solutions utilizing AI driven automation. The groups have not disclosed any specific plans for the Lathrop property. Also of note, a joint venture between Intercontinental Real Estate and Kennedy Wilson purchased 1624 Army Court in Stockton, a 655,976-sf warehouse, for \$71.8 million from DRA Advisors.

PRICING: Rates Hold Near Record High, Concessions Rising

The overall asking rate for Central Valley industrial closed the second quarter at \$0.72 psf on a monthly triple-net basis. This is up \$0.01 from the prior quarter and level YOY. Tracy remained the region's most expensive submarket, as its proximity to the Bay Area and newer inventory have driven the asking rate to \$0.77 psf. However, Tracy's asking rate has ticked marginally lower from its peak of \$0.79 psf last year. Across submarkets, the region has recorded robust rental growth since the start of the pandemic, yet it still remains a relative discount when compared to neighboring markets like the East Bay Oakland, where the average asking rate was \$1.37 psf in the second quarter. Market rates are holding as new construction continues to apply upward pressure, but in the face of rising vacancy, landlords that had been able to push pricing on existing inventory are seeing growth slow and have been offering additional concessions to draw tenants.

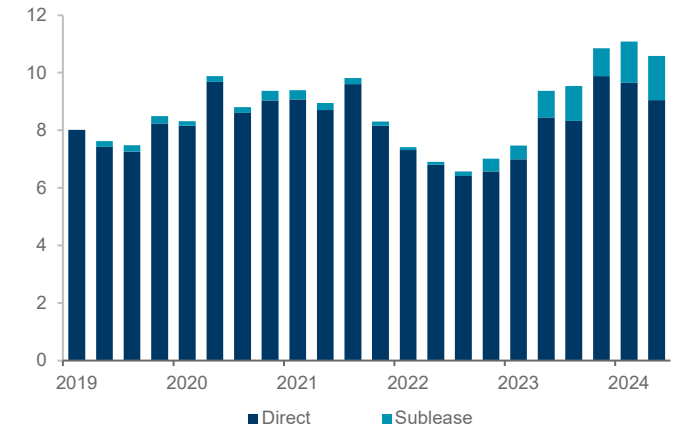
CONSTRUCTION: Building Out the Central Valley

Deliveries have slowed through the first half of the year with just one property delivering per quarter for a total of 597,783 sf YTD. In the second quarter, Libitzky Property Companies completed their 316,800-sf speculative warehouse in Modesto, which had been pre-leased in the prior quarter. The pace of deliveries will pick up in the back half of 2024 with 4.9 msf currently under construction. Of this, 57.8% is pre-leased, a factor that will help drive absorption in future quarters. Ground breakings remain slow as developers wait to see how tenants absorb the current cycle and for the cost of capital to fall. Despite making up less of the pipeline, speculative construction will continue to place upward pressure on vacancy. However, this pressure is often short lived, as tenants look for the elevated clear heights, high dock door ratios, and generous truck courts only found in newer inventory.

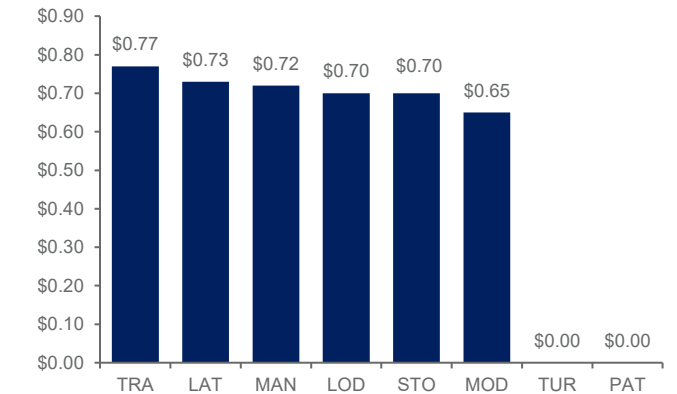
Outlook

- Rental growth is expected to slow but persist, as new construction places upward pressure on asking rates.
- Vacancy will rise further due to new speculative supply, but net absorption is expected to remain positive as large occupiers look to the region for new inventory.
- Construction starts will remain muted in the short term, with the exception of build-to-suit properties

DIRECT AND SUBLEASE AVAILABLE SPACE



OVERALL AVERAGE ASKING RATE BY SUBMARKET (NNN)



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MARKET STATISTICS

SUBMARKET	INVENTORY (SF)	OVERALL VACANT (SF)	OVERALL VACANCY RATE	CURRENT QTR OVERALL NET ABSORPTION (SF)	YTD OVERALL NET ABSORPTION (SF)	YTD CONSTR COMPLETIONS (SF)	OVERALL WEIGHTED AVG NET RENT (W/D)	OVERALL WEIGHTED AVG NET RENT (MF)	OVERALL WEIGHTED AVG NET RENT
Lodi	10,064,454	77,354	0.8%	13,662	-18,492	0	-	\$0.70	\$0.70
Stockton	55,011,686	5,905,699	10.7%	663,098	38,559	0	\$0.70	\$0.80	\$0.70
Lathrop	19,477,298	1,668,694	8.6%	99,232	272,520	0	\$0.73	\$0.60	\$0.73
Tracy	37,002,566	2,134,666	5.8%	-79,273	188,172	0	\$0.80	\$0.71	\$0.77
Manteca	5,666,265	279,541	4.9%	-134,943	13,826	280,983	\$0.72	-	\$0.72
San Joaquin County	127,222,269	10,065,954	7.9%	561,776	494,585	280,983	\$0.72	\$0.72	\$0.72
Modesto	30,362,750	521,517	1.7%	193,546	193,546	316,800	\$0.65	\$0.63	\$0.65
Turlock	5,096,915	0	0.0%	57,000	57,000	0	-	-	-
Patterson	6,286,428	0	0.0%	0	113,550	0	-	-	-
Stanislaus County	41,746,093	521,517	1.2%	250,546	364,096	316,800	\$0.65	\$0.63	\$0.65
TOTAL	168,968,362	10,587,471	6.3%	812,322	858,681	597,783	\$0.72	\$0.71	\$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 2024

PROPERTY	SUBMARKET	TENANT	RSF	TYPE
5731 Promontory Parkway	Tracy	Zinus	664,000	Renewal
1015 Performance Drive	Stockton	Coastal Pacific Food Distributors	500,004	Renewal
305 Codoni Avenue	Modesto	PepsiCo.	247,500	Renewal
17400 Shideler Parkway	Lathrop	John Deere	191,339	Renewal
2000 N. Chabot Court	Tracy	Big D Floor Covering Supplies	133,878	New Lease
1830 N. MacArthur Drive	Tracy	Orora Packaging	113,715	Renewal

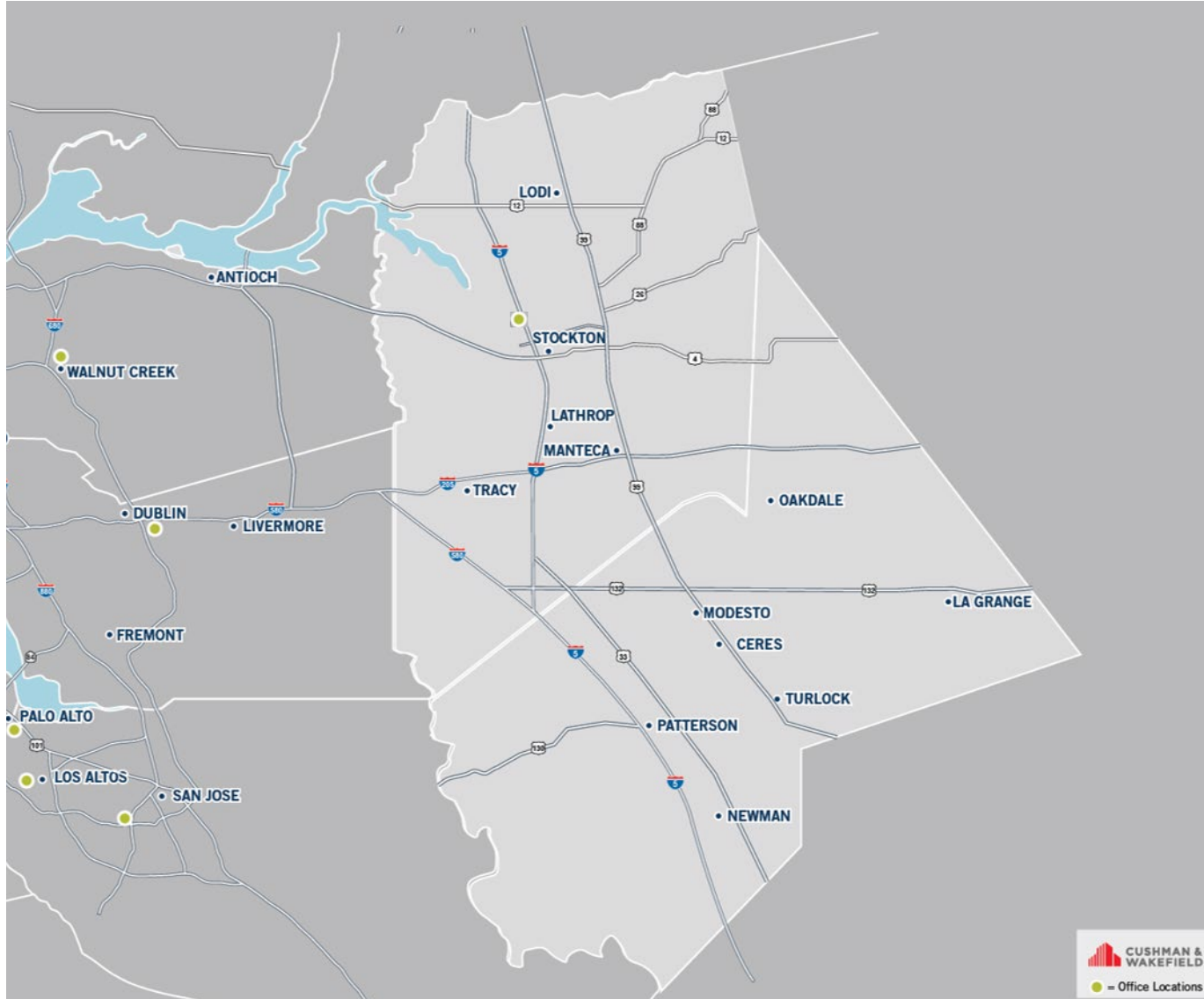
KEY SALES TRANSACTIONS Q2 2024

PROPERTY	SUBMARKET	SELLER / BUYER	RSF	PRICE/\$ PSF
16888 McKinley Avenue	Lathrop	Super Store Industries / SoftBank Group & Symbotic LLC	1,000,000	\$146.0M / \$146
1624 Army Court	Stockton	DRA Advisors / Intercontinental Real Estate Corp. & Kennedy Wilson	655,976	\$71.8M / \$109
8477 S. Airport Way	Stockton	Phelan Development Company / Ream Enterprises	97,085	\$18.2M / \$187

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INDUSTRIAL SUBMARKETS



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