

FIGURES | CENTRAL VALLEY | Q2 2023

Central Valley Industrial Figures

▲ 7.7%

Vacancy Rate

▼ (233K)

SF Net Absorption

▼ 5.7M

SF Under Construction

▲ \$0.73

NNN / Lease Rate
Existing Properties

▲ 151K

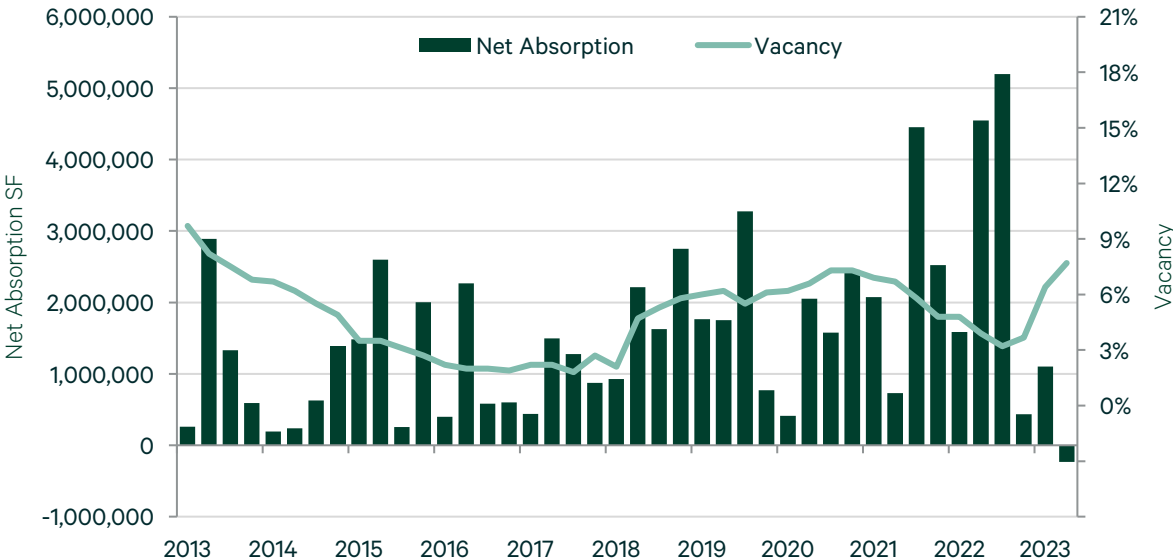
Industrial Using Employment
San Joaquin

Note: Arrows indicate change from previous quarter.

MARKET HIGHLIGHTS

- The Central Valley region is home to 1.3 million residents with a labor force of 585,400. The industrial sector provided 150,500 jobs, accounting for 32% of total employment in the region. The unemployment rate ended Q2 2023 at 5.7%, up 33 basis points (bps) from the previous quarter.
- The net absorption for the Central Valley industrial market closed Q2 2023 at -233,334 sq. ft. Due to several large lease turnovers, the Central Valley market finished the quarter with negative net absorption for the first time in over 41 consecutive quarters.
- New construction starts have slowed due to the continued high cost of construction, interest rate pressure, and supply chain delays.
- The average direct asking rate in the Central Valley has increased 11% YoY with expected continued moderate rental growth in 2023.

FIGURE 1: Vacancy & Net Absorption Trend



Source: CBRE Research

INDUSTRIAL OVERVIEW

The Central Valley industrial market is comprised of 133.4 million sq. ft. The market has substantially grown over the last five years, adding 40 million sq. ft. of new inventory. The construction pipeline remains plentiful, with a variety of projects totaling over 5.7 million sq. ft. currently underway and 4.1 million sq. ft. in planned in the pipeline. Both vacancy and availability rates increased quarter-over-quarter to 7.7% and 8.5%, respectively.

The overall average asking lease rates closed the quarter at \$0.73 per sq. ft. on a monthly, NNN basis. The Stockton, Lathrop and Tracy submarkets continued to achieve the highest average rents due to the new Class A product delivered in each submarket.

Industrial tenant demand remained stable in Q2 2023. Active tenant requirements have adjusted back to pre pandemic levels, which still remains historically high. Industrial sale activity remained sparse due the Fed's continued increase in interest rates. As a result, only two institutional sales transacted in Q2 2023. Additionally, the market experienced limited sublease & give-back space relative to neighboring large markets.

The Central Valley market totaled -233,334 sq ft. of net absorption for Q2 2023, breaking the streak of 41 consecutive quarters of positive net absorption. Total transactional activity remained healthy posting 1.3 million sq. ft. for the quarter and 5.9 million sq. ft. year to date. Deal volume in the first half of 2023 has weighed heavily towards renewals in comparison to previous quarters.

Looking forward, the Central Valley industrial market will continue to experience strong market fundamentals as newly delivered construction projects lease-up and create opportunities for occupiers to migrate and expand within the market. The heightened tour and deal activity experienced over the past two years will likely adjust back to what was seen in the years prior to the pandemic. Lease rates are expected to grow moderately while vacancy is momentarily elevated with the expectation that as vacancy and availability declines over the coming quarters more robust lease rate growth will return.

FIGURE 2: Submarket Statistics

Submarket	Net Rentable Area	Total Vacancy (%)	Total Availability (%)	Average Asking Rate NNN (\$)	Q2 Net Absorption	YTD Net Absorption
Ceres	6,486,708	8.2	8.3	0.67	0	0
Lathrop	18,240,950	12.0	12.8	0.72	0	579,859
Lodi	5,518,023	0	0	N/A	0	0
Manteca	6,411,159	8.6	8.6	0.64	(552,450)	(552,450)
Modesto	14,630,314	0	1.5	N/A	(204,801)	(204,801)
Oakdale	890,391	0	0	N/A	0	0
Patterson	5,008,183	0	0	N/A	356,065	356,065
Stockton	40,898,039	9.6	10.5	0.71	455,875	976,791
Tracy	32,476,758	9.7	10.5	0.81	(288,023)	(288,023)
Turlock	2,875,028	0	0	N/A	0	0
Market Totals	133,435,553	7.7	8.5	0.73	(233,334)	867,441

Source: CBRE Research

FIGURE 3: Notable Lease Transactions Q2 2023

Tenant	Address	Square Feet	Type
Performance Food	1624 Army Ct, Stockton	373,022	New Lease
Article.com	400 Park Center Dr, Patterson	356,065	New Lease
International Paper	1380 MacArthur Dr, Tracy	206,451	Renewal
Confidential	700 D'Arcy Pky, Lathrop	92,747	Renewal

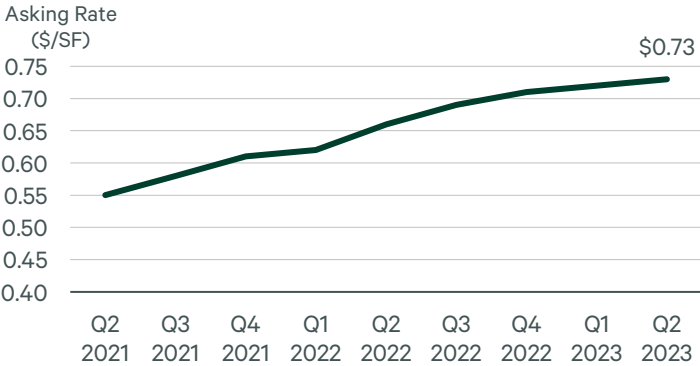
Source: CBRE Research

FIGURE 4: Notable Sale Transaction Q2 2023

Buyer	Address	Square Feet	Sale Price
Panattoni Development	401 E. Glenn Ave, Lathrop	204,800	\$20.1M
Bridge Investment Group	567 S. Riverside Dr, Modesto	148,000	\$14.0M

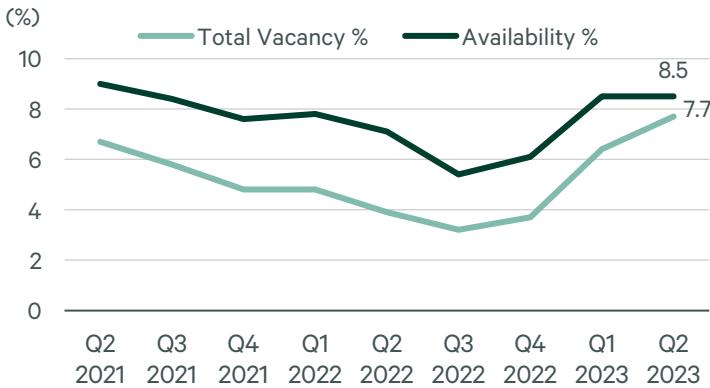
Source: CBRE Research

FIGURE 5: Lease Rates



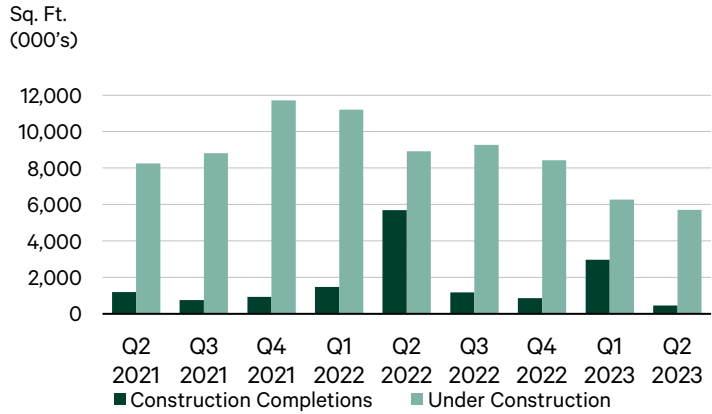
Source: CBRE Research

FIGURE 6: Vacancy & Availability



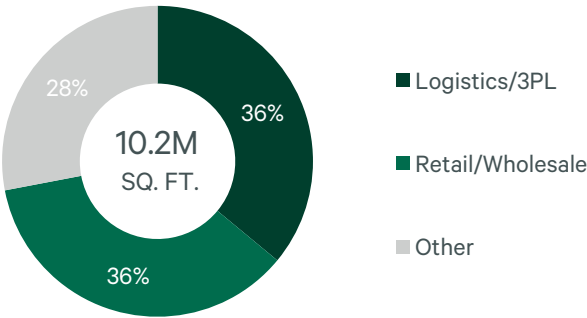
Source: CBRE Research

FIGURE 7: Construction Completions



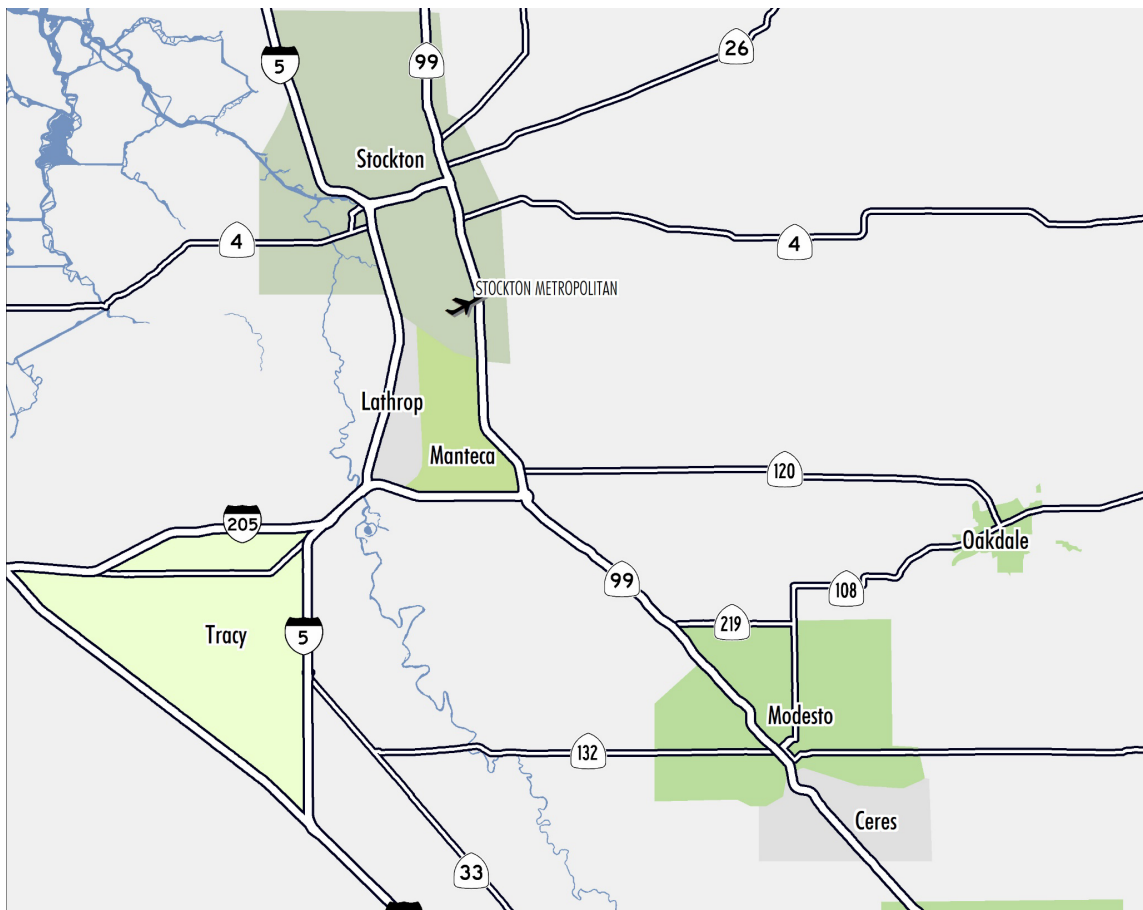
Source: CBRE Research

FIGURE 8: Top Leases of the Year by Industry (Q3 2022- Q2 2023)



Source: CBRE Research

Submarket Map



Source: CBRE Research, Location Intelligence

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Definitions

Average Asking Rate Direct Monthly Lease Rates, Triple Net (NNN). Availability All existing space being marketed for lease. Total Vacancy Rate Direct Vacancy + Sublease Vacancy.

CBRE's market report analyzes existing single- and multi-tenant industrial buildings that total 50,000+ sq. ft. within defined submarkets, including owner-occupied buildings. CBRE assembles all information through telephone canvassing, third-party vendors, and listings received from owners, tenants and members of the commercial real estate brokerage community.

Contacts

Angel Orozco

Research Analyst
+1 916 446 8787
Angel.ozco@cbre.com

Brandon Wilkinson

Research Analyst
+1 209 507 2307
brandon.wilkinson@cbre.com

Stockton Office

3247 W. March Lane #100
Stockton, CA 95219

Nick Cunningham

Research Analyst
+1 916 446 8786
Nick.cunningham@cbre.com

Konrad Knutsen

Associate Director, Northern CA
+1 916 446 8292
konrad.knutsen@cbre.com