MARKETBEAT

# CENTRAL VALLEY

INDUSTRIAL Q3 2026

CUSHMAN & WAKEFIELD

## MARKET FUNDAMENTALS

| | YOY Chg | Outlook |
|---|---|---|
| **7.5%** Vacancy Rate | ▼ | – |
| **4.0M** YTD Net Absorption, SF | ▲ | ▼ |
| **$0.71** Asking Rent, PSF *(Overall, Net Asking Rent)* | – | ▲ |

## ECONOMIC INDICATORS

| | YOY Chg | Outlook |
|---|---|---|
| **475.7K** Central Valley Employment | ▲ | ▲ |
| **6.6%** Central Valley Unemployment Rate | ▼ | ▲ |
| **4.2%** U.S. Unemployment Rate | ▼ | ▲ |

*Source: BLS*

## ECONOMY: GROWTH DESPITE HEADWINDS

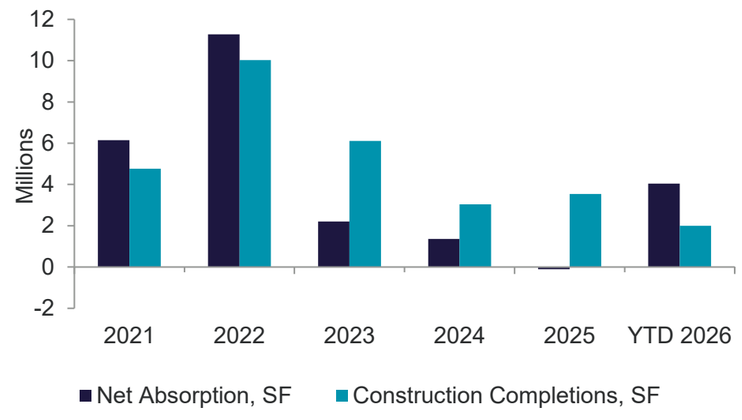
The Central Valley, encompassing San Joaquin and Stanislaus counties, continued to add jobs year-over-year (YOY), bringing regional employment to 475,700 non-farm positions and the unemployment rate down to 6.6%, compared with 4.2% nationally. However, industrial employment has recently lagged behind other sectors like government and healthcare, with growth moderating in transportation and warehousing positions. Industrial demand has faced significant headwinds over the past year, from tariffs and shifting trade policy to rising fuel costs and supply chain disruption. Despite these forces, the Central Valley continues to draw many of the nation's largest industrial occupiers with its combination of developable land, convenient logistics infrastructure, and proximity to major metros, as record first-half leasing and strong third-quarter occupancy gains demonstrate.

## SUPPLY: VACANCY DROPS

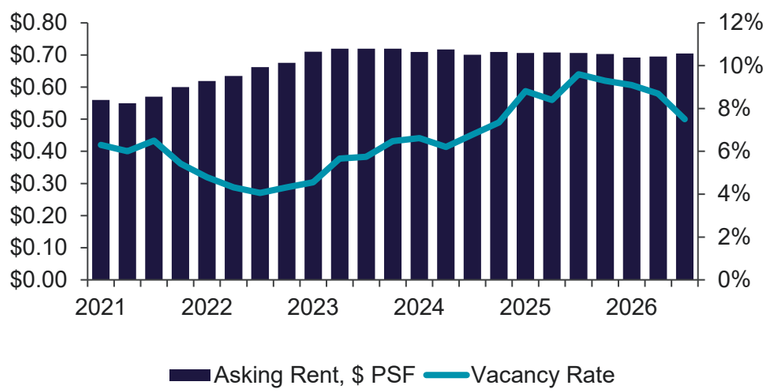
The Central Valley industrial vacancy rate was 7.5% at the close of the third quarter, down 120 basis points (bps) from the prior quarter and 210 bps YOY, its lowest level since the fourth quarter of 2024 and the fourth consecutive quarter of vacancy decline. Net absorption for the quarter was 2.2 million square feet (msf), the strongest result since the third quarter of 2022 and a direct reflection of the record 9.6 msf of leasing activity in the first half of the year. Several notable leases commenced that were signed in the first and second quarters, including Medline, which occupied a 925,475-sf sublease in Tracy and Niagara Bottling which took possession of 505,554 sf in Stockton. The combination of lease commencements this quarter and several build-to-suit (BTS) deliveries in the first half of the year drove year-to-date (YTD) net absorption to 4.0 msf, exceeding the combined total of the previous three years. Sublease space saw a sharp decline this quarter, falling nearly 30% to 2.7 msf, its lowest level in over one year. Despite this decline, it still accounted for a fifth of overall vacancy, lifting the overall rate 150 bps above the direct vacancy rate of 6.0%.

Stockton and Tracy led the region with 1.4 msf and 1.0 msf of positive net absorption, respectively, as vacancy fell to 7.4% in Stockton and 7.7% in Tracy, down from 12.9% and 11.0% a year ago. Overall, San Joaquin County vacancy fell to 7.7%, down 330 bps YOY. The picture in Stanislaus County has been less positive. Net absorption was negative 86,250 sf in the quarter and vacancy rose to 6.8%, up from 5.1% one year ago. In Modesto, the county's largest submarket, vacancy has risen from 1.9% to 9.1% in just two years as the agricultural submarket remains vulnerable to trade-related headwinds and other macroeconomic factors.

## SPACE DEMAND / DELIVERIES




## OVERALL VACANCY & ASKING RENT



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# CENTRAL VALLEY
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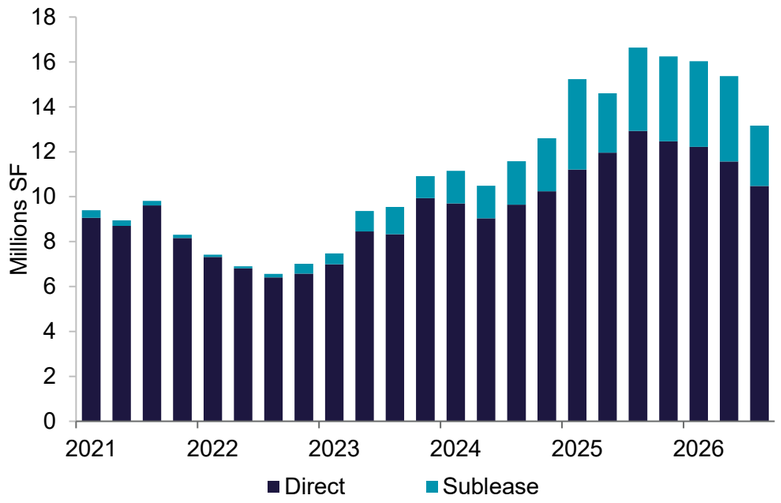
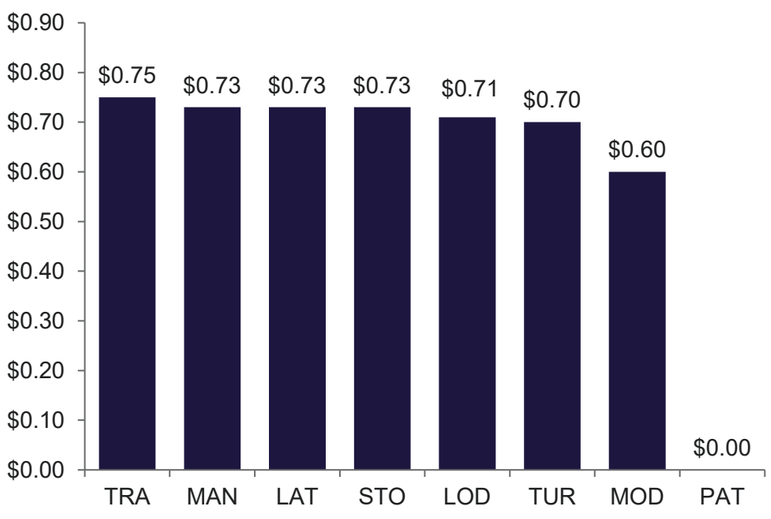
### DIRECT AND SUBLEASE AVAILABLE SPACE




### OVERALL ASKING RATE BY SUBMARKET (NNN)




### DEMAND: LEASING COOLS AFTER RECORD FIRST HALF

Leasing activity slowed significantly in the third quarter to approximately 2.5 msf but remained approximately level with the third quarter of 2025. The slowdown follows an exceptional first half of the year and activity is still significantly outpacing last year on a YTD basis. Renewals made up a larger share of activity this quarter, accounting for 49.6% of total activity as groups like Medline, 5.11 Tactical, RJ Schinner and Rexel USA recommitted to the region. Tesla signed the largest new lease of the quarter, 390,443 sf at 18700 Business Park Court in Lathrop, its third expansion within the Central Valley in 12 months. Notably, the quarter included several new leases in the 100,000-200,000-sf range, a segment that has lagged as demand concentrated among the market's largest tenants. Weber Distribution (135,200 sf) and O'Reilly Auto (129,630 sf) signed in Stockton, and Misfits Market (124,126 sf) signed in Tracy, a sign that demand may be becoming more balanced.

Institutional capital drove another strong quarter for sales in the Central Valley. The largest transaction was Blue Owl Capital's $214.7 million, or $114 per square foot (psf), acquisition of the Safeway Campus at 16900 W. Schulte Road in Tracy, a 1.9-msf property sold by BrightSpire Capital. The property sold as part of a two-property portfolio with both assets 100% leased to Albertsons (Safeway). Also of note, Dermody purchased 1269 E. Grant Line Road in Tracy for $79.1 million ($131 psf) and Bridge Logistics Properties acquired 1919 Boeing Way in Stockton for $74.0 million ($136 psf). The region's top transactions were rounded out by owner-user sales at 2518 Boeing Way in Stockton and 898 S. De Anza Boulevard in Tracy, as the market continued to see strong demand from users despite a challenging interest rate environment.

### PRICING: RATES EDGE HIGHER

The overall asking rate for Central Valley industrial product closed the third quarter at $0.71 psf on a monthly triple-net basis, up $0.01 psf from the prior quarter and in line with a year ago. The San Joaquin County rate rose to $0.74 psf, up $0.02 psf YOY, led by Tracy at $0.75 psf, while Stockton, Lathrop and Manteca each closed at $0.73 psf. Stockton recorded the largest quarterly increase, at $0.03 psf as landlords begin to push pricing on the region's quality inventory. In Stanislaus County, the $0.60 psf asking rate sits $0.14 psf below San Joaquin County and down $0.06 psf YOY as much of the county's new vacancy exists in older product. With overall vacancy now at its lowest level since late 2024, there will likely be renewed upward pressure on rents, particularly for Class A space.

### CONSTRUCTION: BUILDING OUT THE CENTRAL VALLEY

There were no construction deliveries in the third quarter, leaving YTD completions at 2.0 msf. However, the active pipeline has grown to 8.4 msf under construction, with speculative projects now representing 3.1 msf, or 37%, compared with just 5% as recently as Q4 2025. Prologis' 1.2-msf IPC Building 8 in Tracy and Crow Holdings' 1.2-msf project at 5130 Glacier Street in Lathrop join OMP's three-building, 678,913-sf project in Tracy, all scheduled for delivery in 2027. That said, 5.3 msf of BTS projects remain underway, as major projects for Home Depot, Pepsi and Costco are slated to deliver by the first half of 2027. These pre-committed deliveries will continue to drive positive net absorption into 2027.

### OUTLOOK

- Rent growth is expected to maintain momentum, particularly on Class A inventory. Newer construction will continue to place upward pressure on asking rates.
- Net absorption is expected to moderate from the third quarter's pace as the occupancy of first-half leases runs its course, with vacancy holding near current levels.
- Build-to-suit deliveries will support positive absorption into 2027, while a growing share of speculative construction will test demand for large-block space.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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 | 737,984 | 7.3% | -116,670 | -261,630 | 0 | $0.74 | $0.70 | $0.71 |
| Stockton | 59,612,829 | 4,386,141 | 7.4% | 1,397,086 | 2,648,783 | 0 | $0.74 | $0.59 | $0.73 |
| Lathrop | 19,477,298 | 1,997,419 | 10.3% | 0 | 14,512 | 0 | $0.73 | - | $0.73 |
| Tracy | 37,543,122 | 2,875,919 | 7.7% | 1,016,013 | 1,582,496 | 1,574,622 | $0.74 | $0.82 | $0.75 |
| Manteca | 5,808,225 | 205,993 | 3.5% | 0 | 266,501 | 141,960 | $0.72 | $0.79 | $0.73 |
| **San Joaquin County** | **132,505,928** | **10,203,456** | **7.7%** | **2,296,429** | **4,250,662** | **1,716,582** | **$0.74** | **$0.71** | **$0.74** |
| Modesto | 31,197,100 | 2,846,179 | 9.1% | 13,750 | -453,568 | 277,000 | $0.58 | $0.72 | $0.60 |
| Turlock | 5,096,915 | 109,780 | 2.2% | -100,000 | -109,780 | 0 | $0.70 | - | $0.70 |
| Patterson | 7,106,428 | 0 | 0.0% | 0 | 356,065 | 0 | - | - | - |
| **Stanislaus County** | **43,400,443** | **2,955,959** | **6.8%** | **-86,250** | **-207,283** | **277,000** | **$0.58** | **$0.72** | **$0.60** |
| **TOTAL** | **175,906,371** | **13,159,415** | **7.5%** | **2,210,179** | **4,043,379** | **1,993,582** | **$0.70** | **$0.71** | **$0.71** |

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

## KEY LEASE TRANSACTIONS Q3 2026

| PROPERTY | SUBMARKET | TENANT | RSF | TYPE |
|---|---|---|---|---|
| 2325 W. Louise Avenue | Manteca | Medline | 565,500 | Renewal |
| 3201 N. Airport Way | Manteca | 5.11 Tactical | 404,657 | Renewal |
| 18700 Business Park Court | Lathrop | Tesla | 390,443 | New Lease |
| 25000 S. Schulte Road | Tracy | RJ Schinner | 140,518 | Renewal |
| 2701 Keystone Pacific Parkway | Patterson | Rexel USA | 136,083 | Renewal |
| 621 Industrial Drive | Stockton | Weber Distribution | 135,200 | New Lease |
| 4114 S. Airport Way | Stockton | O'Reilly Auto | 129,630 | New Lease |

## KEY SALES TRANSACTIONS Q3 2026

| PROPERTY | SUBMARKET | SELLER / BUYER | RSF | PRICE/$ PSF |
|---|---|---|---|---|
| 16900 W. Schulte Road (Part of Portfolio) | Tracy | BrightSpire Capital / Blue Owl Capital | 1,877,295 | $214.7M / $114 |
| 1269 E. Grant Line Road | Tracy | Trammell Crow / Dermody | 606,343 | $79.1M / $131 |
| 1919 Boeing Way | Stockton | Clarion Partners / Bridge Logistics Properties | 545,836 | $74.0M / $136 |
| 2518 Boeing Way | Stockton | Buzz Oates / Proco Products | 58,625 | $10.7M / $183 |
| 898 S. De Anza Boulevard | Tracy | Panattoni / Greenwich RX | 50,990 | $9.7M / $190 |


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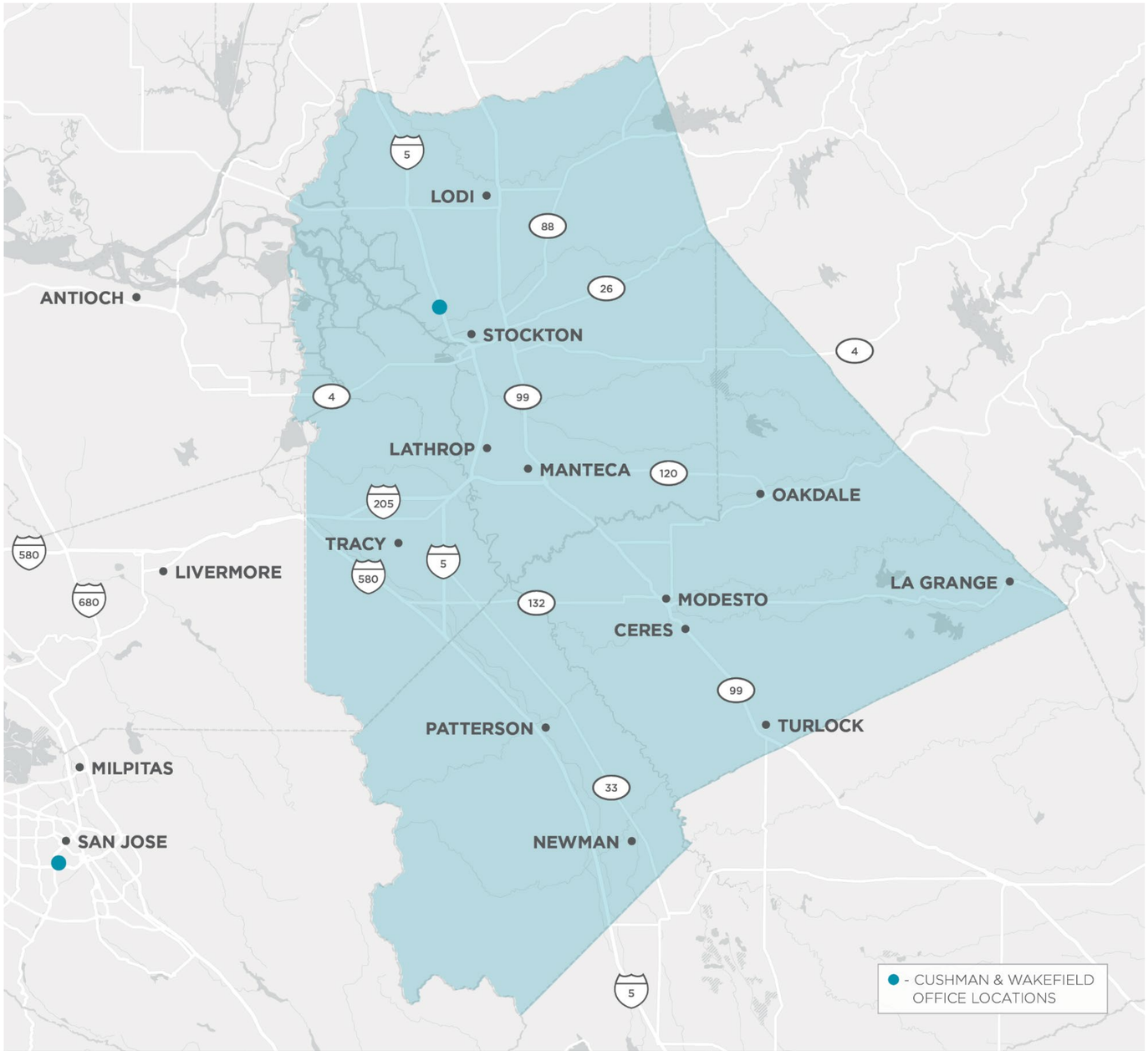
## INDUSTRIAL SUBMARKETS

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