

2020 North America Industrial Big Box

Review & Outlook

CBRE RESEARCH



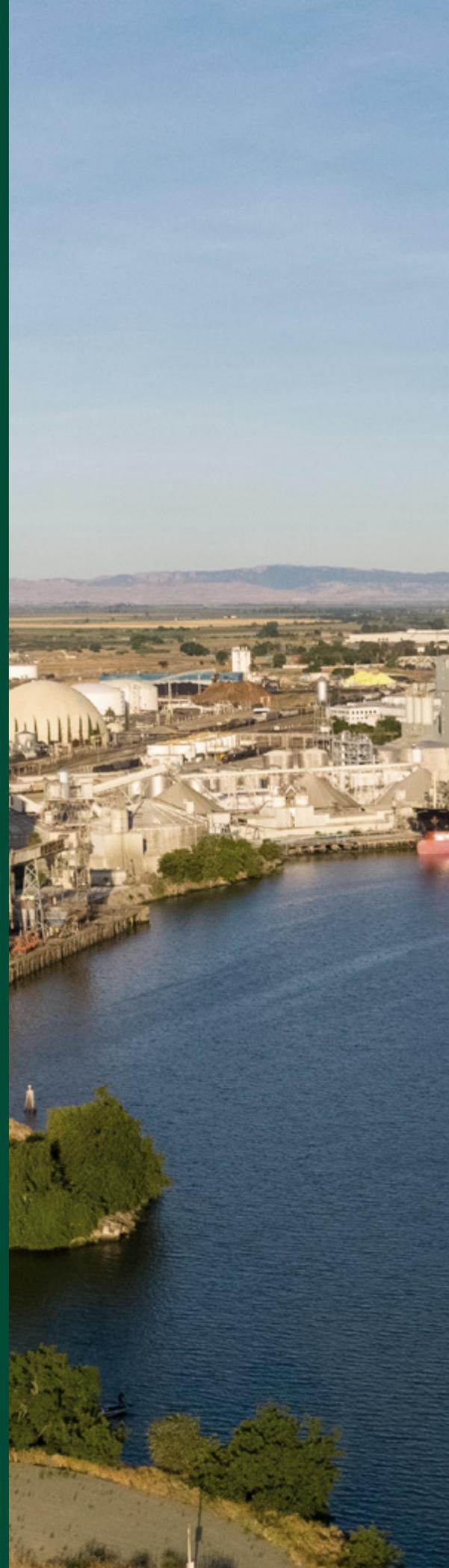
CBRE

Central Valley, CA



The Central Valley industrial market is performing exceptionally well, with a deepening pool of interest from e-commerce, food & beverage, 3PL and electric vehicle occupiers. Whether serving populous Northern California markets or the entire western U.S., the combination of location, transportation modalities and labor accessibility makes the Central Valley a vital component of the strategic supply chain. Q1 2021 momentum is outstanding and continued strong metrics are expected throughout the year.”

– Thomas Davis, Executive Vice President





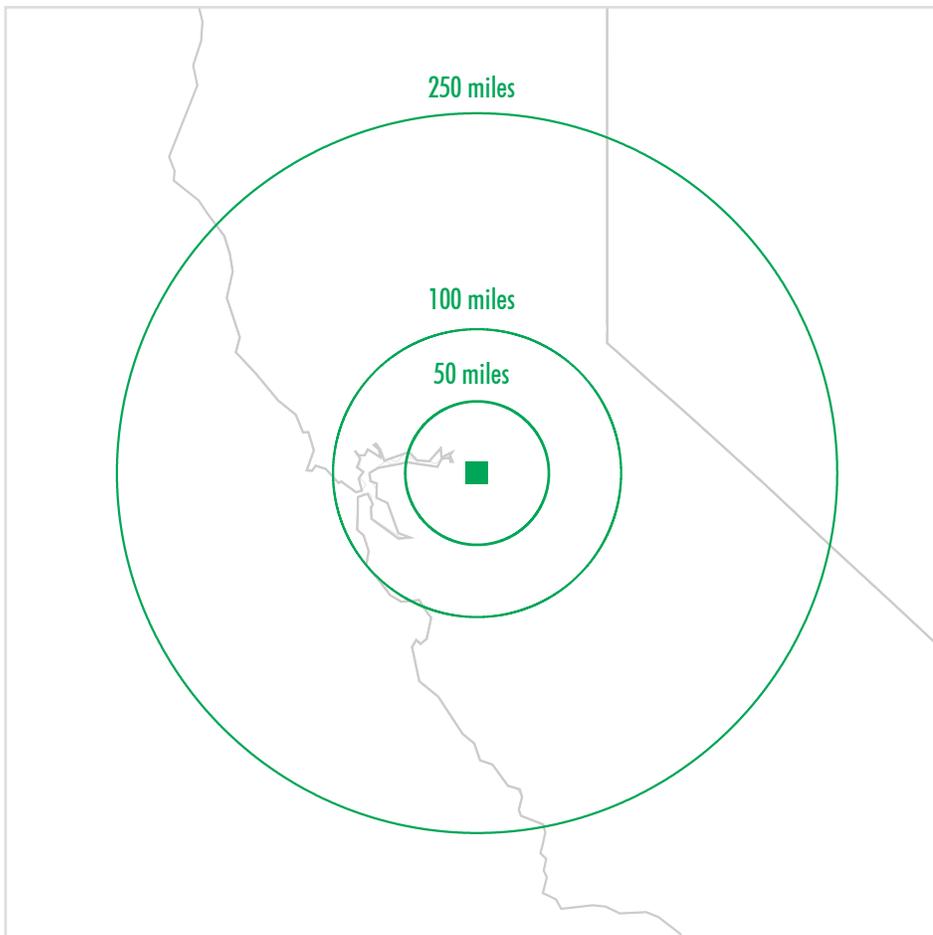
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Demographics

Central Valley’s proximity to the affluent Bay Area gives it convenient access to more than 6.7 million people within a 50-mile radius. Within 250 miles, the market reaches 17.6 million people, nearly 25% in the 18-to-34 age demographic.

According to [CBRE Labor Analytics](#), the local warehouse labor force of more than 21,000 is expected to grow by a nation-leading 28% over the next decade. The average wage for a non-supervisory warehouse worker is \$15.77 per hour, 12% higher than the national average.

Figure 1: Central Valley Population Analysis



Distance from Central Valley Core	2020 Total Population	5 Year Growth
50 miles	6,702,058	3.6%
100 miles	12,782,967	3.3%
250 miles	17,662,839	3.3%

Source: CBRE Location Intelligence.

Figure 2: Central Valley Warehouse & Storage Labor Fundamentals



Source: CBRE Labor Analytics.

*Median Wage (1 year experience); Non-Supervisory Warehouse Workers (forklift, warehouse workers).

Note: Warehouse worker labor fundamentals cover the Stockton-Lodi MSA only.

Location Incentives

Over the past five years, there have been 189 economic incentives deals totaling more than \$78 million at an average of \$9,035 per new job in the Central Valley metropolitan area, according to Wavteq.

According to [CBRE's Location Incentives Group](#), among the top incentive programs in Central Valley is the California Competes Tax Credit, a discretionary

income tax credit awarded to businesses that locate or expand in California. The program has \$180 million in tax credits available through 2023 for allocation to businesses that make capital investments, create new jobs and offer strategic importance to the region. The credits are non-refundable and companies can only apply during designated application periods three times each year.

Figure 3: Central Valley Top Incentive Programs

Program	Description
Employment Training Panel	Job training grant
California Competes Tax Credit	Discretionary tax credit program
Manufacturing M&E Sales Tax Exemption	100% exemption of State sales taxes on machinery and equipment for manufacturing and R&D

Source: CBRE Location Incentives Group.

Note: The extent, if any, of state and local offerings depends on location and scope of the operation.

Central Valley, CA

Logistics Driver

The Central Valley is one of the most rail-friendly logistics regions in California, served by two major lines: BNSF and Union Pacific. [Fresno Yosemite International Airport](#) provides daily cargo services by FedEx and UPS.

Perhaps the region's top logistics advantage is the [Port of Stockton](#), which is served by four major freeways, two transcontinental railroads an international waterway and a regional airport. The port boasts first-class warehouse storage and handling facilities for both dry and liquid bulk materials, facilities and equipment to handle break-bulk and containerized cargo by land or sea.

Capital Markets



The Central Valley's strong market fundamentals continue to attract core institutional capital. The region has undergone a tremendous shift toward long-term institutional ownership over the past few decades. Numerous build-to-suit developments are underway, which have limited opportunities for investors and created a supply/demand imbalance.

Notable transactions in 2020 include the \$86 million purchase of buildings in Lathrop and Stockton and a \$94 million purchase of a building with excess land in Stockton. Both transactions were part of larger portfolios. Investors were looking for returns in the 5% range for vacant properties and in the 4.75%-to-5% range for more stabilized properties. Class A cap rates are expected to head into the 4.25%-to-4.5% range for new stabilized product in 2021.”

– Rebecca Perlmutter Finkel, Executive Vice President

Figure 4: Cap Rate Comparison

	Class A	Class B
2020	4.90% - 5.50%	5.25% - 6.00%
2019	5.00% - 5.50%	5.50% - 6.25%

Source: CBRE Research.

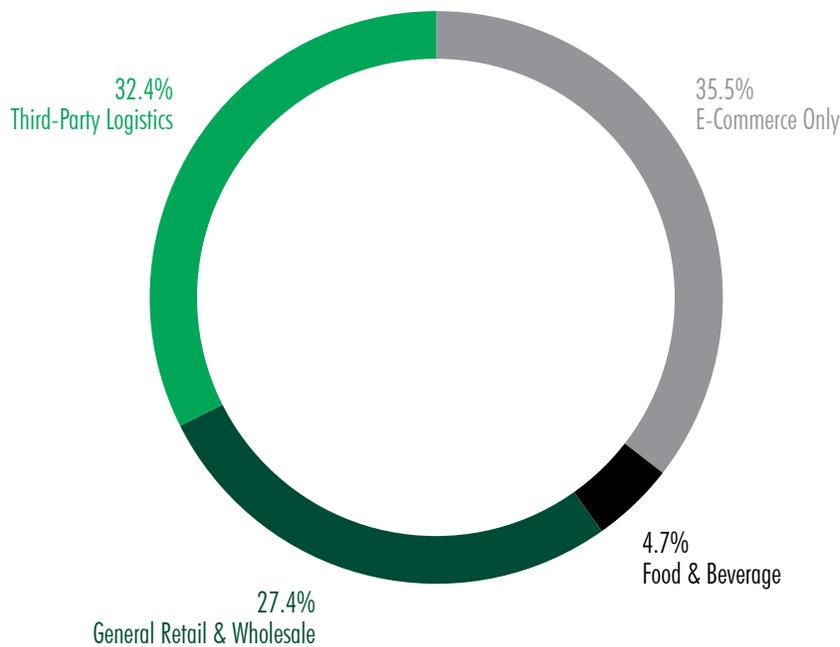
Supply & Demand

Central Valley was one of the top big-box growth markets in North America last year. Transaction volume totaled 9.2 million sq. ft. in 2020, 72% of which was for facilities of more than 500,000 sq. ft. This was up from transaction volume of 6.4 million sq. ft. in 2019, only 19.6% of which was for 500,000-sq.-ft. or greater facilities. Net absorption increased by 6.1% year-over-year to 5.5 million sq.

ft. in 2020, the highest rate (net absorption/existing inventory) of any other market in this report.

Construction completions totaled 5 million sq. ft last year. Another 4.8 million sq. ft. is currently under construction, 37% of which is preleased. Taking rents increased by 20.7% in 2020 to \$6.12 per sq. ft. E-commerce occupiers accounted for 35.5% of total transactions. The Valley is the top emerging market in California and will continue to grow at a robust pace in 2021.

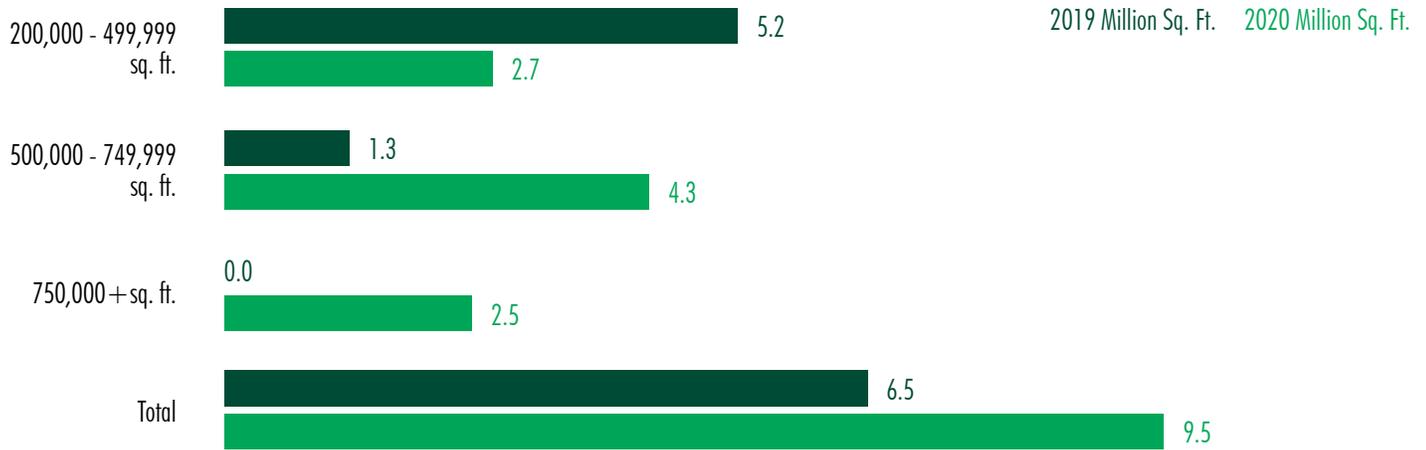
Figure 5: 2020 Occupier Transaction Market Share



Source: CBRE Research.

Central Valley, CA

Figure 6: Transaction Volume



Note: Includes new leases, renewals, and user sales transactions 200,000 sq. ft. and above.
Source: CBRE Research.

Figure 7: Big Box Year-Over-Year Data Comparison

2020						
	# of Existing Buildings	Existing Inventory SF	Direct Vacancy Rate	Overall Net Absorption	Construction Completions	First Year NNN Taking Rent psf/yr
200,000-499,999 SF	118	37,362,668	7.7%	2,223,888	2,074,134	\$6.12
500,000-749,999 SF	44	27,117,830	7.3%	2,113,070	2,047,630	\$5.88
750,000+ SF	24	24,309,085	0.8%	1,122,348	925,475	\$6.60
Total	186	88,789,583	5.7%	5,459,306	5,047,239	\$6.12
2019						
	# of Existing Buildings	Existing Inventory SF	Direct Vacancy Rate	Overall Net Absorption	Construction Completions	First Year NNN Taking Rent psf/yr
200,000-499,999 SF	94	29,294,733	4.1%	1,165,158	633,980	\$5.15
500,000-749,999 SF	37	22,120,742	10.0%	2,400,931	2,080,684	\$4.96
750,000+ SF	22	23,417,033	4.5%	1,220,294	1,135,653	N/A
Total	153	74,832,508	5.9%	4,786,383	3,850,317	\$5.07

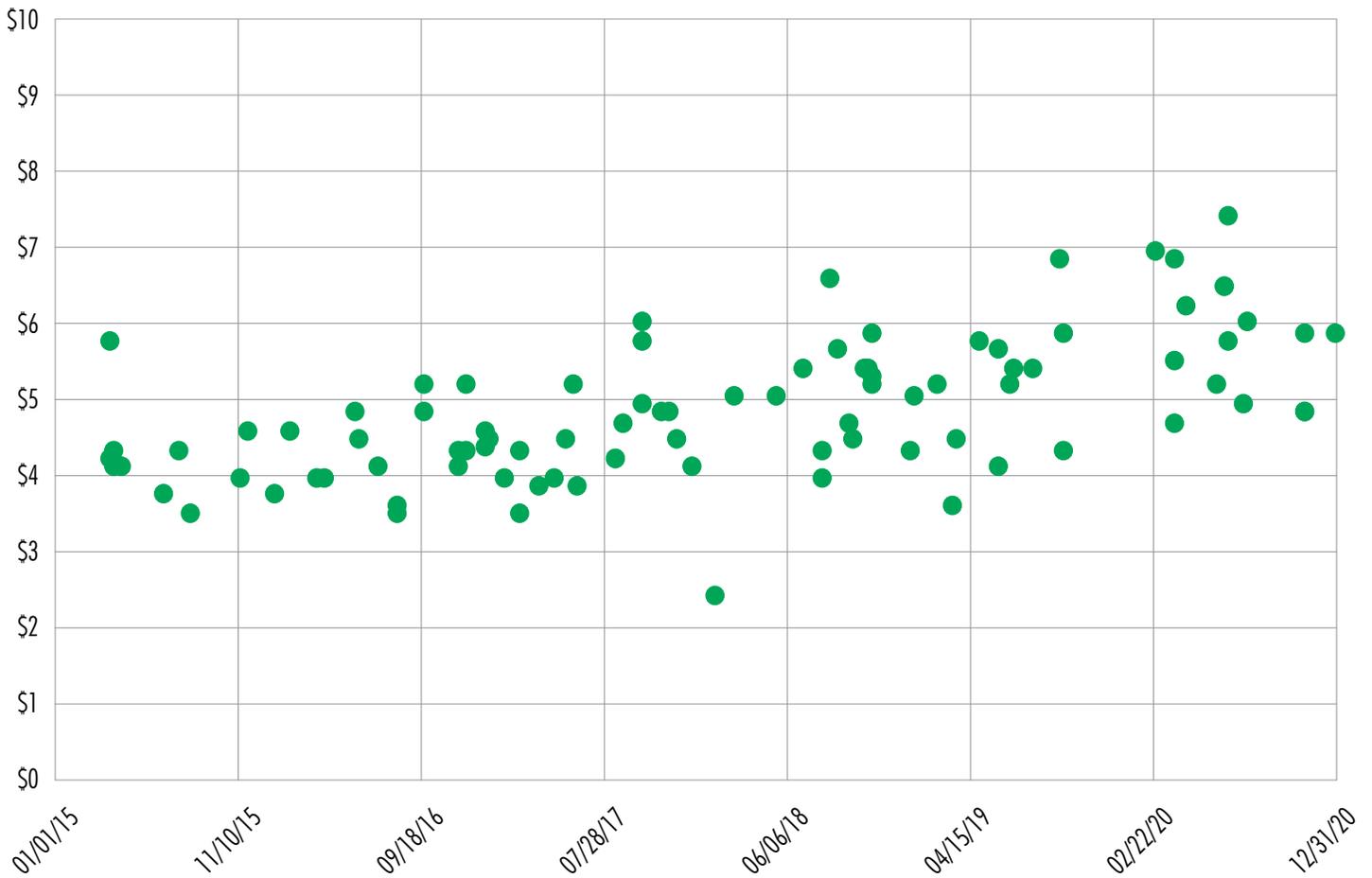
Source: CBRE Research.

Figure 8: Under Construction & Percentage Released

	2020 Under Construction Sq. Ft.	% Released
200,000-499,999 sq. ft.	1,294,271	0.0%
500,000-749,999 sq. ft.	1,724,000	0.0%
750,000+ sq. ft.	1,767,940	100.0%
Total	4,786,211	36.9%

Source: CBRE Research.

Figure 9: First Year Taking Rents (psf/yr)



Note: Includes first year taking rents for leases 200,000 sq. ft. and above.
Source: CBRE Research.

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