

Sacramento Industrial

Market Forecast

Trends

Absorption



Vacancy



Rental Rate



New Construction



Notable Lease Transactions

California Safe Soil
4700-4940 Lang Avenue, McClellan
80,000 s.f. leased

Granite Electrical Supply
1701 West National Drive, Sacramento
63,974 s.f. leased

Pewag, Inc.
3825 Cincinnati Avenue, Rocklin
38,000 s.f. leased

Notable Sales Transactions

Janet Anton
8417 Washington Blvd (Coastal/KMS
Commerce Center), Roseville
326,187 s.f. purchased

Dan Caputo Company
(3 Property Portfolio)
Sacramento/Rancho Cordova
245,541 s.f. purchased

Dennis Meinyer
3100 Orange Grove Ave, North Highlands
87,480 s.f. purchased

The Sacramento industrial real estate market expanded for the 11th consecutive quarter, with 521,861 s.f. of positive net absorption in the first three months of 2016 reducing the vacancy rate to a cycle-low 10.1%. Leasing activity slowed from previous quarters, to a total of 194 transactions covering 1,639,397 s.f., but market-wide industrial asking rents increased from \$0.37 to \$0.42 per s.f. on a triple-net basis. Direct-lease space vacancies were at 9.9% for all industrial property types market-wide, but declined to 7.0% when controlling for functionally obsolete product. Investment activity cooled to \$36.2 million over 61 deals after a cycle-high fourth quarter, but multiple large transactions were rumored to be in the works at quarter's end. Five new buildings were delivered, adding 96,152 s.f. to the market's industrial supply, which increased by nearly 1.3 million s.f. in 2015. The Sacramento market has gained 2.2 million s.f. of occupied industrial space year-over-year, which, coupled with a modest slowdown in construction starts, figures to sustain the upward trend in rental rates into the coming quarters.

Vacancies declined to 10.1% during the first quarter, as the vast majority of Sacramento area submarkets continued to tighten. The Natomas/Northgate submarket registered the largest vacancy rate decline, tumbling from 10% in the fourth quarter of 2015 to 8.8% this quarter. Northeast Sacramento and Power Inn also saw 50-basis-point or greater dips in vacancy, to 7.5% and 6.3%, respectively, joining Natomas/Northgate in setting new cycle lows. The South Sacramento submarket, which has the highest vacancy rate in the area, ticked down to 26.3%, a 10.7 percentage point year-over-year drop. Folsom/El Dorado, which has held the market's lowest vacancy rate for eight quarters running, dropped to 2.9% this quarter, down from 3.5% one year ago.

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This quarter's 1.64 million s.f. of leasing activity snapped a streak of 10 straight quarters above two million s.f., but deal volume was only eight percent lower than in the fourth quarter of 2015. A paucity of large-scale transactions was behind the decline in square footage leased. Only two of the deals signed this quarter cleared the 50,000 s.f. plateau, compared to seven such transactions in the previous three months, and no 100,000-plus s.f. tenants put pen to paper this quarter, after four did so toward the end of 2015. California Safe Soil turned in the largest deal of the quarter, an 80,000 s.f. pact at 4700-4940 Lang Avenue in the McClellan submarket. The largest lease in the city of Sacramento belonged to Granite Electrical Supply, which took 63,974 s.f. at 1701 West National Drive in Natomas/Northgate. Warehouse users accounted for just 53% of the transactions consummated this quarter, down from 60% in the fourth quarter, a change consistent with the decline in square footage per deal, since distribution and storage facilities typically have a larger footprint.

Investment activity declined to 61 sale transactions worth \$36.2 million, down from a fourth quarter surge that saw

131 properties totaling nearly \$180 million change hands. Janet Anton recorded the quarter's largest buy, grabbing the 326,187 s.f. Coastal/KMS Commerce Center at 8417 Washington Boulevard in Roseville from Baumgarten Trust for \$19 million, or \$58 per s.f. The runner-up was a portfolio sale in which Dan Caputo Company took three properties—totaling 245,541 s.f. in warehouse and flex space in Sacramento and Rancho Cordova—from Berkeley Capital Trust for \$15 million, or \$61 per s.f.

Market-wide industrial asking rents held at around \$0.37 per s.f. while flex asks ticked up from \$0.72 to \$0.73, both on a triple-net basis. No individual submarkets registered a substantial rise or decline in price tags this quarter. West Sacramento had the most available industrial space at quarter's end, with nearly 2.5 million s.f. listed as developers sought tenants for the newly delivered facilities in that submarket. Conversely, the Elk Grove/Laguna and Natomas/Northgate submarkets reported cycle-low availabilities.

Source: Costar

Submarket Statistics

Submarket	Number of Buildings	Total Inventory	Direct Available	Sublease Available	Total Vacancy	Direct Availability Rate	Sublease Availability Rate	Total Vacancy Rate	Net Absorption YTD
Auburn/Newcastle	85	2,221,167	143,782	0	86,488	6.50%	0.00%	3.90%	(6,829)
Davis/Woodland	185	16,027,974	1,864,950	50,400	1,657,950	11.60%	0.30%	10.30%	(6,836)
Downtown	87	2,675,438	106,936	0	90,936	4.00%	0.00%	3.40%	0
East Sacramento	25	593,920	37,176	0	37,176	6.30%	0.00%	6.30%	0
Elk Grove/Laguna	116	5,705,192	456,665	8,062	353,035	8.00%	0.10%	6.20%	29,814
Folsom/El Dorado	104	3,109,841	209,692	0	91,332	6.70%	0.00%	2.90%	23,429
Marysville/Yuba City	144	5,904,862	623,424	14,790	575,024	10.60%	0.30%	9.70%	(76,500)
Mather	125	3,801,303	565,560	6,400	415,390	14.90%	0.20%	10.90%	2,017
McClellan	287	13,519,962	2,273,040	155,128	2,157,426	16.80%	1.10%	16.00%	6,533
Natomas/Northgate	203	11,778,530	1,061,769	99,835	1,034,046	9.00%	0.80%	8.80%	139,069
NE Sacramento	192	5,016,799	422,794	20,000	377,690	8.40%	0.40%	7.50%	30,073
Power Inn	565	24,389,007	2,105,206	128,976	1,526,761	8.60%	0.50%	6.30%	127,000
Richards	86	4,178,645	168,011	0	255,091	4.00%	0.00%	6.10%	1,045
Roseville/Rocklin	286	16,597,670	2,122,618	0	2,015,858	12.80%	0.00%	12.10%	-2,747
South Sacramento	119	3,942,842	1,059,227	0	1,036,727	26.90%	0.00%	26.30%	3115
Sunrise	335	9,801,126	678,663	23,200	387,909	6.90%	0.20%	4.00%	9,498
West Sacramento	319	17,841,023	2,466,754	30,240	1,824,740	13.80%	0.20%	10.20%	-2,696
Total	3,935	165,871,515	19,989,601	733,027	16,761,861	12.10%	0.40%	10.10%	521,861

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1st Quarter 2016 Sacramento Industrial Submarket Statistics

Industrial

Submarket	Number of Buildings	Total Inventory	Direct Available	Sublease Available	Total Vacancy	Direct Availability Rate	Sublease Availability Rate	Total Vacancy Rate	Net Absorption YTD
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Davis/Woodland	185	16,027,974	1,864,950	50,400	1,657,950	11.60%	0.30%	10.30%	(6,836)
Downtown	87	2,675,438	106,936	0	90,936	4.00%	0.00%	3.40%	0
East Sacramento	25	593,920	37,176	0	37,176	6.30%	0.00%	6.30%	0
Elk Grove/Laguna	116	5,705,192	456,665	8,062	353,035	8.00%	0.10%	6.20%	29,814
Folsom/El Dorado	104	3,109,841	209,692	0	91,332	6.70%	0.00%	2.90%	23,429
Marysville/Yuba City	144	5,904,862	623,424	14,790	575,024	10.60%	0.30%	9.70%	(76,500)
Mather	125	3,801,303	565,560	6,400	415,390	14.90%	0.20%	10.90%	2,017
McClellan	287	13,519,962	2,273,040	155,128	2,157,426	16.80%	1.10%	16.00%	6,533
Natomas/Northgate	203	11,778,530	1,061,769	99,835	1,034,046	9.00%	0.80%	8.80%	139,069
NE Sacramento	192	5,016,799	422,794	20,000	377,690	8.40%	0.40%	7.50%	30,073
Power Inn	565	24,389,007	2,105,206	128,976	1,526,761	8.60%	0.50%	6.30%	127,000
Richards	86	4,178,645	168,011	0	255,091	4.00%	0.00%	6.10%	1,045
Roseville/Rocklin	286	16,597,670	2,122,618	0	2,015,858	12.80%	0.00%	12.10%	-2,747
South Sacramento	119	3,942,842	1,059,227	0	1,036,727	26.90%	0.00%	26.30%	3115
Sunrise	335	9,801,126	678,663	23,200	387,909	6.90%	0.20%	4.00%	9,498
West Sacramento	319	17,841,023	2,466,754	30,240	1,824,740	13.80%	0.20%	10.20%	-2,696
Total	3,935	165,871,515	19,989,601	733,027	16,761,861	12.10%	0.40%	10.10%	521,861

Warehouse

Submarket	Number of Buildings	Total Inventory	Direct Available	Sublease Available	Total Vacancy	Direct Availability Rate	Sublease Availability Rate	Total Vacancy Rate	Net Absorption YTD
Auburn/Newcastle	51	1,603,260	113,832	0	59,532	7.10%	0.00%	3.70%	(6,829)
Davis/Woodland	142	12,905,666	1,798,970	50,400	1,626,970	13.90%	0.40%	12.60%	(1,856)
Downtown	75	1,782,545	99,889	0	83,889	5.60%	0.00%	4.70%	0
East Sacramento	14	380,783	0	0	0	0.00%	0.00%	0.00%	0
Elk Grove/Laguna	78	3,799,609	300,385	8,062	216,503	7.90%	0.20%	5.70%	33,588
Folsom/El Dorado	60	1,189,593	110,956	0	78,828	9.30%	0.00%	6.60%	5,871
Marysville/Yuba City	69	2,765,463	300,620	0	261,220	10.90%	0.00%	9.40%	(77,000)
Mather	103	13,519,962	381,129	155,128	367,300	12.50%	1.10%	12.00%	(7,583)
McClellan	232	9,912,881	1,772,220		1,604,403	17.90%	1.40%	16.20%	5,403
Natomas/Northgate	180	10,867,847	976,609	99,835	948,886	9.00%	0.90%	8.70%	139,069
NE Sacramento	156	3992082	309,996	0	250,092	7.80%	0.00%	6.30%	30,073
Power Inn	476	20741001	1,728,436	128,976	1,451,015	8.30%	0.60%	7.00%	-23
Richards	80	3833413	168,011	0	255,091	4.40%	0.00%	6.70%	1,045
Roseville/Rocklin	213	11859148	1,801,720	0	1,694,960	15.20%	0.00%	14.30%	-3,247
South Sacramento	69	1455814	41,779	0	41,779	2.90%	0.00%	2.90%	3115
Sunrise	295	8319884	545,466	23,200	324,652	6.60%	0.30%	3.90%	7,023
West Sacramento	233	14072892	2,345,954	30,240	1,657,384	16.70%	0.20%	0.20%	-5,696
Total	2,526	112,536,018	12,795,972	490,091	10,922,504	11.40%	0.40%	9.70%	122,953

Flex

Submarket	Number of Buildings	Total Inventory	Direct Available	Sublease Available	Total Vacancy	Direct Availability Rate	Sublease Availability Rate	Total Vacancy Rate	Net Absorption YTD
Auburn/Newcastle	18	526,739	213,444	0	213,444	40.50%	0.00%	40.50%	0
Davis/Woodland	28	752,898	67,178	2,887	61,794	8.90%	0.40%	8.20%	60,124
Downtown	11	485,452	30,949	0	30,949	6.40%	0.00%	6.40%	0
East Sacramento	3	87,379	56,832	0	45,903	65.00%	0.00%	52.50%	0
Elk Grove/Laguna	20	391,174	39,958	24,412	39,958	10.20%	6.20%	10.20%	6,361
Folsom/El Dorado	70	1,901,265	200,635	15,000	140,405	10.60%	0.80%	7.40%	14,114
Marysville/Yuba City	7	132,154	13,428	0	9,228	10.20%	0.00%	7.00%	1,600
Mather	58	1502597	421,525	7,040	380,393	28.10%	0.50%	25.30%	-10,387
McClellan	49	1,775,273	522,771	0	412,819	29.40%	0.00%	23.30%	26,330
Natomas/Northgate	73	1965707	437,479	11,870	392,602	22.30%	0.60%	20.00%	29,616
NE Sacramento	51	1005973	166,083	0	87,133	16.50%	0.00%	8.70%	22,420
Power Inn	49	1244038	239,481	4,137	212,239	19.30%	0.30%	17.10%	4,001
Richards	8	266426	27,813	0	22,573	10.40%	0.00%	8.50%	-4,320
Roseville/Rocklin	107	2976591	301,447	12,601	191,932	10.10%	0.40%	6.40%	51,477
South Sacramento	14	340391	61,641	0	61,641	18.10%	0.00%	18.10%	13,000
Sunrise	69	1877433	527,358	0	349,521	28.10%	0.00%	18.60%	-2,657
West Sacramento	37	1534724	295,312	118,049	185,748	19.20%	7.70%	12.10%	34,197
Total	672	18,766,214	3,623,334	195,996	2,838,282	19.30%	1.00%	15.10%	245,876