

Sacramento Industrial

Market Forecast

Trends

Absorption



Vacancy



Rental Rate



New Construction



Notable Lease Transactions

Tri-State Store Fixtures
1370 Furneaux Road, Olivehurst
125,250 s.f.

Earthsavers Erosion Control
1425 E Beamer Street, Woodland
108,000 s.f.

Roadtex Transportation Corporation
6261 Florin Perkins Road, Sacramento
33,000 s.f.

Notable Sale Transactions

WP Carey REIT
7020 Tokay Avenue
(Forterra Pipe & Precast), Sacramento
120,868 s.f.

Samra Trucking
8180 Signal Court
107,768 s.f.

The Sacramento industrial market kept on rolling in the second quarter of 2016, with 395,943 square feet of positive net absorption marking its 16th consecutive quarterly gain. Direct-lease vacancies fell to a cycle-low 9.7% market wide and declined to 6.9% when controlling for functionally obsolete product in outer-lying areas. Leasing activity slowed modestly from the previous quarter to 206 transactions totaling 1,648,379 square feet, but investment activity increased to \$40.4 million in dollar volume over 34 deals. There were no new building deliveries this quarter after five new structures came online in the first three months of 2016. The Sacramento market has gained 2.4 million square feet of occupied industrial space year over year, and the robust demand for space in the market figures to sustain the upward trend in rental rates into the coming quarters.

Vacancies declined to 9.7% during the second quarter, with virtually all submarkets across the Sacramento area tightening over the past three months. The Richards submarket enjoyed its strongest quarter of the cycle, reporting 150,282 square feet of positive net absorption, which trimmed its vacancy rate to a market-low 2.5%, down 3.5 percentage points year over year. South Sacramento remains the loosest area in the market, coming in at 25.8% vacancy in the second quarter, but has seen a 10-point plunge in vacancy from this time a year ago. West Sacramento snapped a streak of three negative-net-absorption periods with a gain of 102,894 square feet this quarter, and its vacancy rate ticked down to 9.7%. Power Inn, which remains the largest submarket in Sacramento with 24.4 million square feet of industrial inventory, recorded 116,601 square feet of negative net absorption this quarter after some 126,000 square feet of manufacturing space at 6000-6001 Power Inn Road became vacant.

Leasing activity was down slightly this quarter, to 206 transactions covering 1.65 million square feet. Two tenants signed leases in excess of 100,000 square feet this quarter after no such spaces came off the market during the first three months of 2016. Tri-State Store Fixtures made the biggest move, grabbing 125,250 square feet at 1370 Furneaux Road in Olivehurst, the largest deal in the Marysville/Yuba City submarket since the recession. Earthsavers Erosion Control was the runner-up, with a 108,000-square-foot warehouse

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Area Review

Submarket Statistics

Submarkets	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	126,809	0	57,809	5.70%	0.00%	2.60%	18,879
Davis/Woodland	185	16,107,130	1,840,067	0	1,667,227	11.40%	0.00%	10.40%	(9,277)
Downtown	87	2,675,438	202,936	0	202,936	7.60%	0.00%	7.60%	0
East Sacramento	24	582,317	37,176	0	37,176	6.40%	0.00%	6.40%	0
Elk Grove/Laguna	116	5,716,461	453,296	0	350,715	7.90%	0.00%	6.10%	2,320
Folsom/El Dorado	104	3,109,841	169,221	0	76,305	5.40%	0.00%	2.50%	15,027
Marysville/Yuba City	144	5,814,942	470,174	0	449,774	8.10%	0.00%	7.70%	125,250
Mather	125	3,801,303	432,381	6,400	390,739	11.40%	0.20%	10.30%	36,503
McClellan	286	13,504,762	2,190,718	155,128	2,106,782	16.20%	1.10%	15.60%	37,467
Natomas/Northgate	202	11,670,530	863,608	99,835	870,115	7.40%	0.90%	7.50%	44,275
NE Sacramento	192	5,013,085	369,194	20,000	340,490	7.40%	0.40%	6.80%	37,200
Power Inn	563	24,432,243	2,301,251	118,976	1,661,362	9.40%	0.50%	6.80%	-116,601
Richards	86	4,178,645	130,729	0	104,809	3.10%	0.00%	2.50%	150,282
Roseville/Rocklin	286	16,597,670	2,033,179	2000	1,984,915	12.20%	0.00%	12.00%	28,234
South Sacramento	119	3,958,610	1,009,707	0	1,021,535	25.50%	0.00%	25.80%	15072
Sunrise	335	9,801,126	659,225	23,200	347,121	6.70%	0.20%	3.50%	24,546
West Sacramento	318	17,841,404	2,482,687	665,240	1,725,526	13.90%	3.70%	9.70%	102,894
Total	3,930	165,756,078	19,203,561	1,183,306	16,317,409	11.60%	0.70%	9.70%	395,943

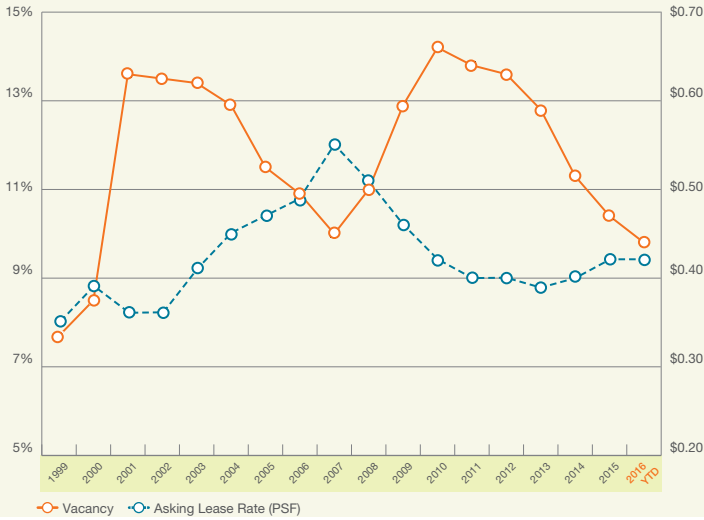
pact at 1425 E Beamer Street in Woodland. Within the city of Sacramento, MasTec renewed its 50,000-square-foot space at 3443 Airport Road in the Natomas/Northgate submarket, and Roadtex Transportation Corporation secured 33,000 square feet at 6261 Florin Perkins Road in Power Inn. Warehouse users accounted for 58% of the transactions consummated in the quarter, up from 53% in the first quarter, and average deal size rose slightly, to 8,002 square feet, as a result.

There were 34 sale transactions in the second quarter, totaling 911,017 square feet and \$40.4 million in dollar volume, both representing a small increase from the first quarter but still well below the activity recorded in late 2015. The largest transaction was a sale-leaseback deal turned in by the WP Carey REIT, which bought Forterra Pipe & Precast's 120,868-square-foot building at 7020 Tokay Avenue in Sacramento as part of a 49-property portfolio, allocating \$3.9 million or \$32 per square foot. Samra Trucking made the largest owner/user purchase, taking 8180 Signal Court, a 107,768-square-foot distribution facility in Sacramento, from Teichert Construction & Materials for \$3 million or \$28 per square foot.

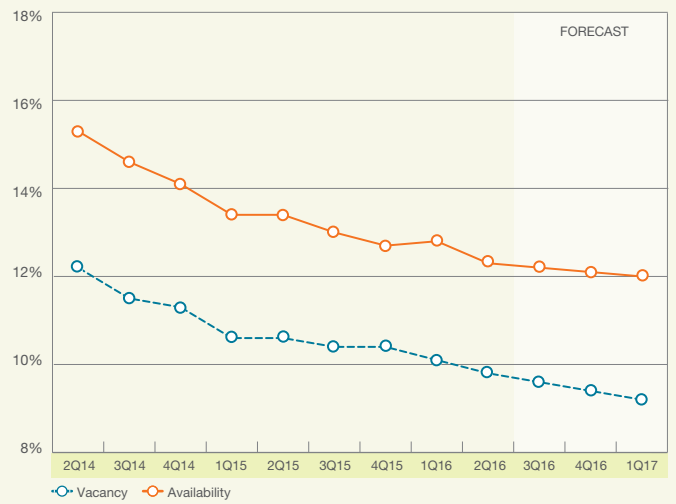
Market-wide industrial asking rents held at around \$0.37 per square foot while flex asks ticked down from \$0.73 to \$0.72, both on a triple-net basis. No individual submarkets saw a significant rise or decline in price tags this quarter. West Sacramento had the most available industrial space at quarter's end, with about 2.5 million square feet listed as developers sought tenants for recently delivered facilities. Power Inn, McClellan, and Roseville/Rocklin also had more than 2 million square feet on the market. Conversely, the Natomas/Northgate submarket, which has 11.7 million square feet of industrial inventory, had just 863,608 square feet of availabilities this quarter, a cycle-low 7.4% rate, and availabilities in the Richards submarket were at a market-low 3.1%.

Source: CoStar

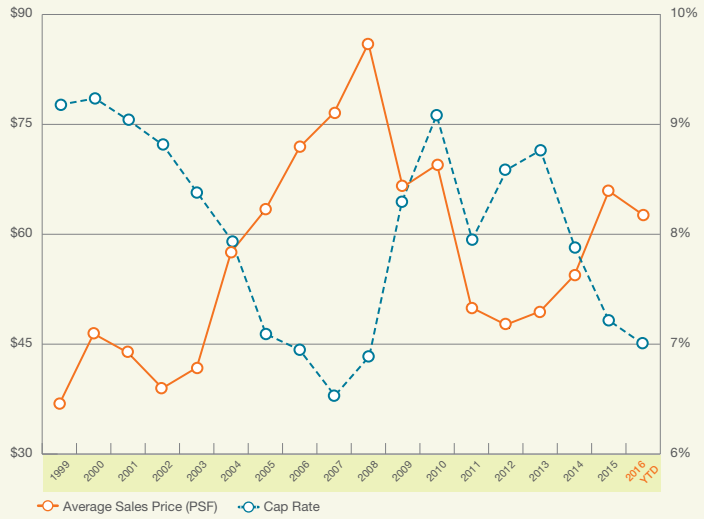
VACANCY VS ASKING LEASE RATE



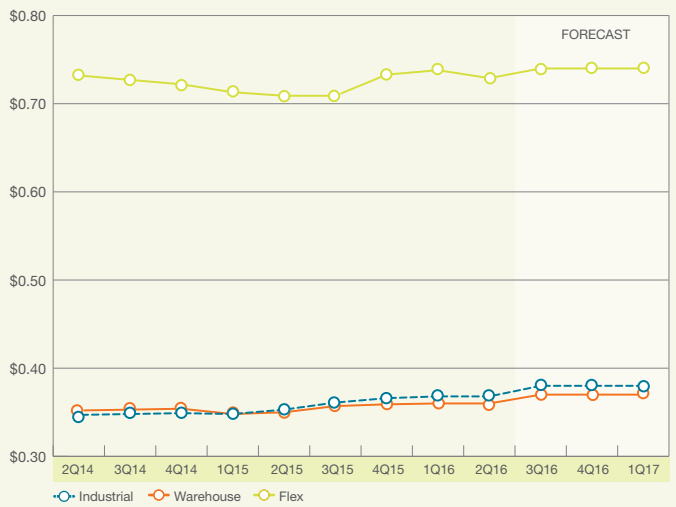
VACANCY VS AVAILABILITY



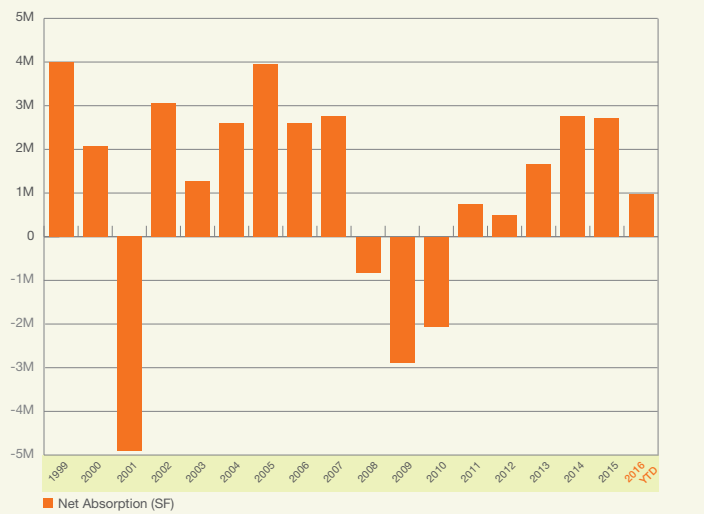
AVERAGE SALES PRICE & CAPITALIZATION RATES



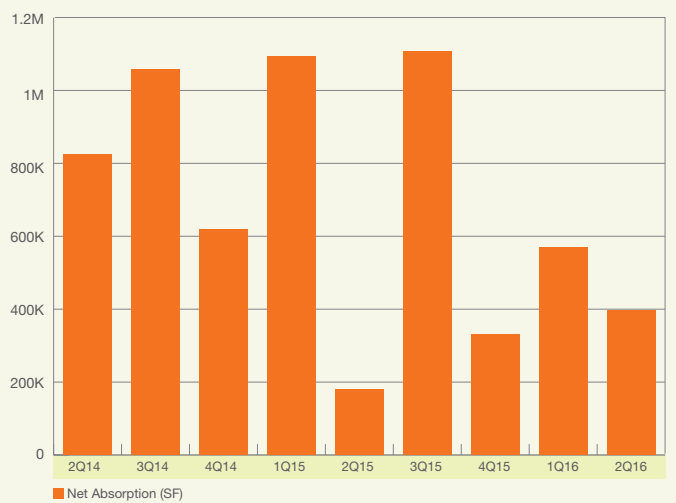
ASKING LEASE RATE



NET ABSORPTION - HISTORICAL



NET ABSORPTION - QUARTERLY



Offices

Seattle
206.296.9600

Bellevue
425.454.7040

South Seattle
206.248.7300

Tacoma
253.722.1400

Olympia
360.705.2800

Portland
503.221.9900

San Francisco
415.229.8888

Redwood Shores
650.769.3600

Silicon Valley
408.970.9400

Sacramento
916.751.3600

San Diego
858.509.1200

Orange County
949.557.5000

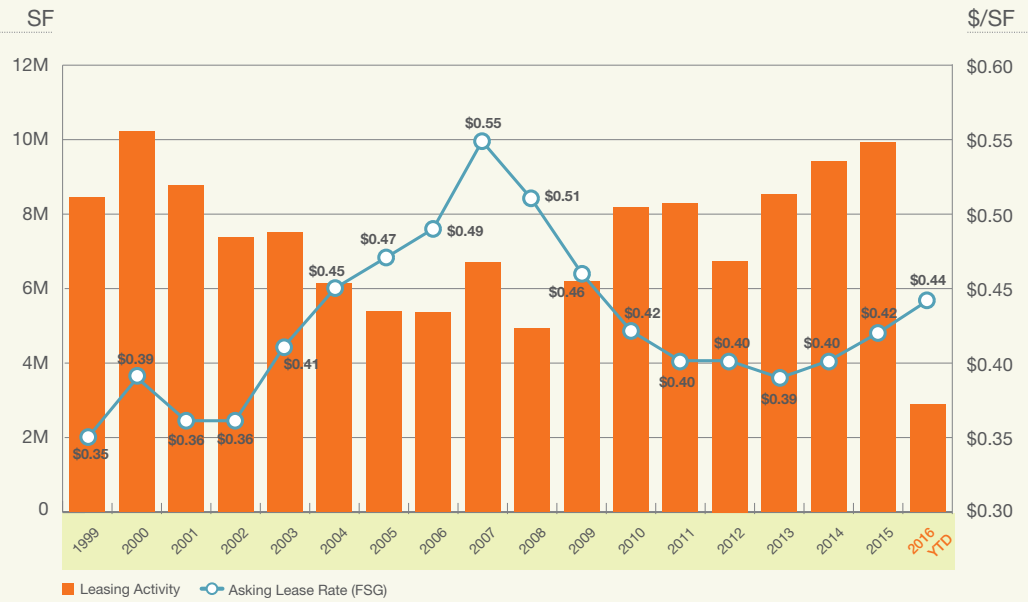
Phoenix
602.513.5200

Reno
775.301.1300

Market Breakdown

	2Q 2016	1Q 2016	2Q 2015	Annual % Change
Vacancy Rate	9.70%	9.90%	10.40%	-6.73%
Availability Rate	12.30%	12.80%	13.40%	-8.21%
Asking Lease Rate	\$0.44	\$0.43	\$0.41	7.31%
Leased SF	1,648,379	1,827,220	2,194,531	-24.89%
Sold SF	4,645,540	6,092,819	4,656,544	-0.24%
Net Absorption	395,943	569,930	179,528	N/A

HISTORICAL LEASING ACTIVITY & ASKING LEASE RATES

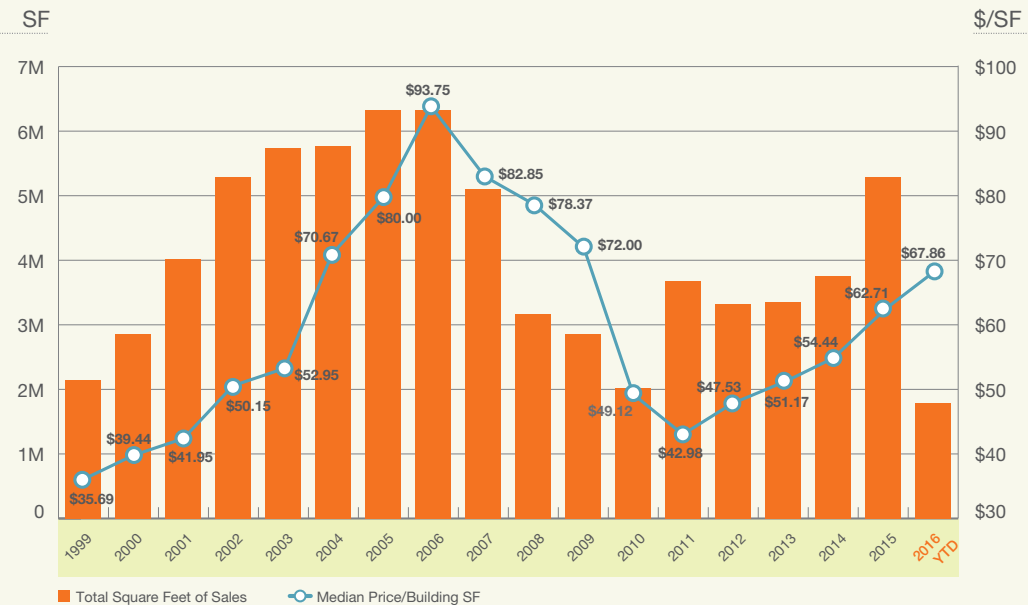


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