Kidder Mathews

Real Estate Market Review

NORTHERN CALIFORNIA | Sacramento

3rd Quarter 2016

# Sacramento Industrial

## Market Forecast

| | Trends |
|---|---|
| Absorption | ↑ |
| Vacancy | ↓ |
| Rental Rate | ↑ |
| New Construction | ↔ |

### Notable Lease Transactions

**ESL Technologies**
10000 Alantown Drive, Roseville
170,686 s.f. Leased

**Unknown Tenant**
8640 Fruitridge Road, Sacramento
117,000 s.f. Leased

**Prologix**
1464 Enterprise Blvd, Sacramento
110,022 s.f. Leased (Renewal)

### Notable Sale Transactions

**7001 East Parkway LLC**
7001 East Parkway, Sacramento
95,427 s.f.
Purchased for $15.75M or $165/s.f.

**ARB Investments**
South Point Business Park
(6520-6600 44th Street), Sacramento
83,454 s.f.
Purchased for $6.75M or $81/s.f.

**Warren Lortie Investments, Inc.**
F Street Commerce Center (879 F Street)
Sacramento
55,000 s.f.
Purchased for $3.94M or $72/s.f.

The Sacramento industrial and flex real estate market stayed full speed ahead in the third quarter of 2016, with 621,721 s.f. of positive net absorption giving the area its 17th consecutive quarterly gain. Direct-lease vacancies in industrial buildings fell to 8.4% marketwide and declined to 6.7% when controlling for functionally obsolete product in outlying areas. Leasing activity totaled 185 transactions spanning just over two million s.f., while investments perked up to 53 deals for a combined 1.16 million s.f. There were no new building deliveries this quarter, leaving the market without any added supply since the first quarter of the year, though that should change in the fourth quarter. The Sacramento market has gained 2,106,952 s.f. of occupied industrial space year-over-year, and unyielding demand for space in the market figures to keep vacancies dropping and rental rates rising for the foreseeable future.

Vacancies for all industrial and flex product types across all submarkets fell to 9.3% during the third quarter, but were considerably lower in preferred locations such as Natomas/Northgate (6.9%) and Power Inn (5.7%). Among the core industrial submarkets, McClellan (12.9%) had the highest vacancy rate at quarter's end and Sunrise (2.8%) had the lowest. While the McClellan submarket reported 12.9% vacancy, it is the most rapidly tightening segment of the Sacramento market; consecutive quarters with more than 150,000 s.f. of positive net absorption have shaved its vacancy rate by 2.5 points over the last six months. Power Inn, the largest submarket in Sacramento with nearly 24.5 million s.f. of industrial inventory, recorded 130,051 s.f. of positive net absorption this quarter, as Liqui-Box Corporation moved into a 53,750 s.f. space at 6311 Florin Perkins Road. Warehouses accounted for nearly all of the gain in occupied industrial space in Power Inn during the third quarter and enjoyed 69.8% of the positive net absorption marketwide.

Leasing activity decreased modestly from the second quarter, to 185 transactions covering 2,000,550 s.f. ESL Technologies, a computer maintenance and repair firm, made the biggest move, taking 170,868 s.f. at 10000 Alantown Road in Roseville, the biggest lease transaction in the city in more than a decade, and one of two new leases in excess of 100,000 s.f. signed marketwide this quarter. The second-largest deal was struck by an unknown tenant at 8640 Fruitridge Road in Power Inn, a future 117,000 s.f. facility set to be delivered sometime next year.

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# Area Review

## Submarket Statistics

| Submarkets | Total Inventory | Direct Vacancy Rate | Total Vacancy Rate | Total Available Rate | Q3 Net Absorption | YTD Net Absorption | Quarterly Leasing Activity | YTD Leasing Activity | Rental Rate |
|---|---|---|---|---|---|---|---|---|---|
| Auburn/Newcastle | 2,221,167 | 2.40% | 2.40% | 5.60% | 4,322 | 16,619 | 0 | 21,051 | $0.51 |
| Davis/Woodland | 16,107,019 | 10.80% | 10.90% | 11.20% | (53,675) | (74,136) | 102,942 | 423,861 | $0.29 |
| Downtown | 2,643,118 | 7.40% | 7.40% | 7.40% | 7,047 | 7,047 | 0 | 23,047 | $0.70 |
| East Sacramento | 582,317 | 6.40% | 6.40% | 8.30% | 0 | 0 | 0 | 0 | N/A |
| Elk Grove/Laguna | 5,716,461 | 5.30% | 5.30% | 8.00% | 12,546 | 82,529 | 10,879 | 100,790 | $0.38 |
| Folsom/El Dorado | 3,181,590 | 4.50% | 4.50% | 5.00% | 12,675 | 65,330 | 57,525 | 112,338 | $0.67 |
| Marysville/Yuba City | 5,849,848 | 6.00% | 6.00% | 7.30% | 9,500 | 179,150 | 81,432 | 291,082 | $0.44 |
| Mather | 3,800,367 | 8.50% | 8.70% | 9.90% | 16,567 | 62,719 | 30,017 | 80,285 | $0.36 |
| McClellan | 13,518,380 | 12.90% | 13.90% | 14.90% | 152,638 | 251,964 | 226,840 | 596,578 | $0.39 |
| Natomas/Northgate | 11,669,170 | 6.30% | 6.90% | 9.60% | 12,347 | 197,301 | 142,894 | 604,631 | $0.39 |
| NE Sacramento | 5,013,075 | 6.30% | 6.70% | 6.90% | 8,812 | 70,085 | 54,702 | 140,052 | $0.33 |
| Power Inn | 24,488,618 | 5.70% | 5.70% | 7.90% | 130,051 | 274,376 | 397,114 | 1,070,090 | $0.35 |
| Richards | 4,181,703 | 5.90% | 5.90% | 7.20% | 3,505 | 154,832 | 15,800 | 38,810 | $0.33 |
| Roseville/Rocklin | 16,567,274 | 11.50% | 11.50% | 11.50% | 82,720 | 151,134 | 248,793 | 472,726 | $0.35 |
| South Sacramento | 3,958,610 | 25.50% | 25.50% | 25.50% | 6,448 | 29,455 | 5,100 | 55,873 | $0.44 |
| Sunrise | 9,788,588 | 2.80% | 2.80% | 5.30% | 35,086 | 119,091 | 94,524 | 325,410 | $0.49 |
| West Sacramento | 17,851,904 | 8.50% | 8.50% | 16.50% | 143,302 | 297,495 | 219,984 | 776,098 | $0.38 |
| **Total** | **165,823,576** | **9.10%** | **9.30%** | **11.40%** | **621,721** | **2,106,952** | **2,000,550** | **6,168,488** | **$0.42** |

Prologix turned in the largest warehouse deal of the past three months, renewing its pact at 1464 Enterprise Boulevard in West Sacramento, a 110,022 s.f. facility that it first occupied in 2007. Warehouse users accounted for about 51% of the space leased this quarter, down from 58% in the second quarter, and average deal size fell slightly, to 7,970 s.f., as a result.

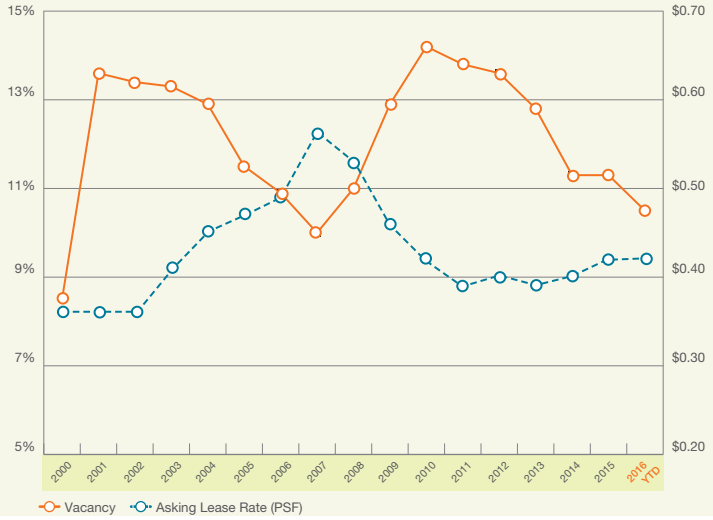
There were 53 sale transactions in the third quarter, totaling 1,164,331 s.f. and $71.6 million in dollar volume, both bringing the market closer to the investment activity recorded in 2015. The largest transaction involved 7001 East Parkway in South Sacramento; the 95,391 s.f. flex building went from Griffin Capital Corporation to 7001 East Parkway LLC for $15.75 million or $165/sf. In the Power Inn submarket, ARB Investments bought the South Point Business Park, a four-property, 83,454 s.f. portfolio, from Western Village LP for $6.75 million or $81/sf. Finally, the 55,000 s.f. warehouse building at 879 F Street in West Sacramento, which is leased to multiple tenants including Peterson Dean, went to Warren Lortie Investments from Michael E Diepenbrock for $3.94 million or $72/sf.

Market-wide industrial asking rents stayed at approximately $0.37 per s.f. while flex asks averaged $0.73 per s.f., giving the overall inventory an average of $0.42 per s.f., all on a triple-net basis. The McClellan submarket registered the largest increase in asking rents, going from $0.38 to $0.39, while no other areas showed a substantial change in price tags. West Sacramento had the most available space at quarter's end, with nearly 3 million s.f. listed as developers sought tenants for facilities delivered earlier this year. Conversely, the Power Inn submarket, which has almost 24.5 million s.f. of inventory, had just 1.9 million s.f. of availabilities this quarter, a cycle-low 7.9% rate that has been sliced in half since the third quarter of 2014.

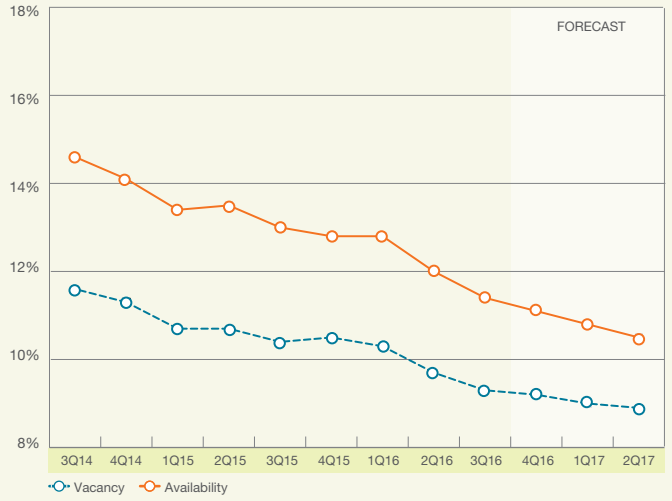
There were three industrial projects under construction in the Sacramento market at quarter's end. The largest of these was the first phase of a multi-building complex in the works for United States Cold Storage, a 225,000 s.f. facility that will eventually grow to 625,000 s.f. at 4186 Forcum Avenue in McClellan, which is set for delivery in December. Within the city of Sacramento, Mitsubishi Rayon Carbon Fiber and Composites is working on a roughly 32,000 s.f. expansion for its manufacturing facility at 5900 88th Street in Power Inn. That project, which should open by year's end, will enable the company to hire 50 additional workers, contributing to the growth of the manufacturing sector in Greater Sacramento, which has seen about 1,100 new jobs created since July 2015.

Source: CoStar

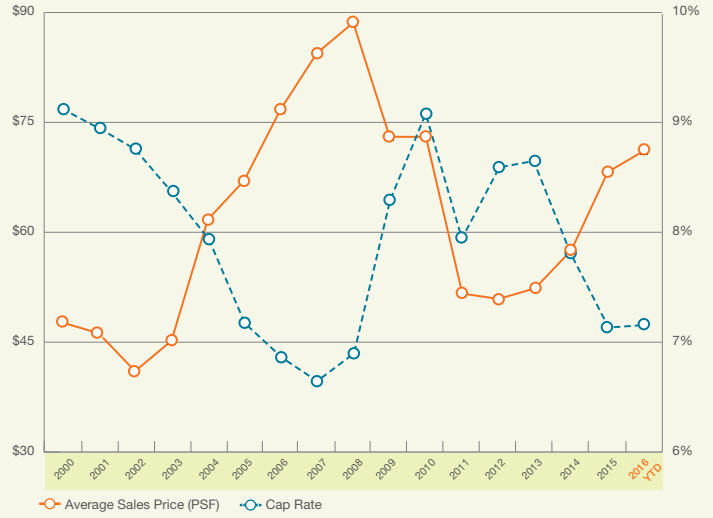
## VACANCY VS ASKING LEASE RATE



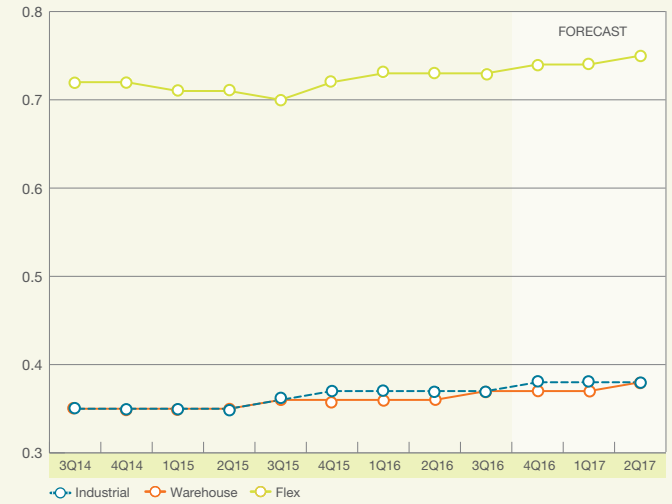

## VACANCY VS AVAILABILITY



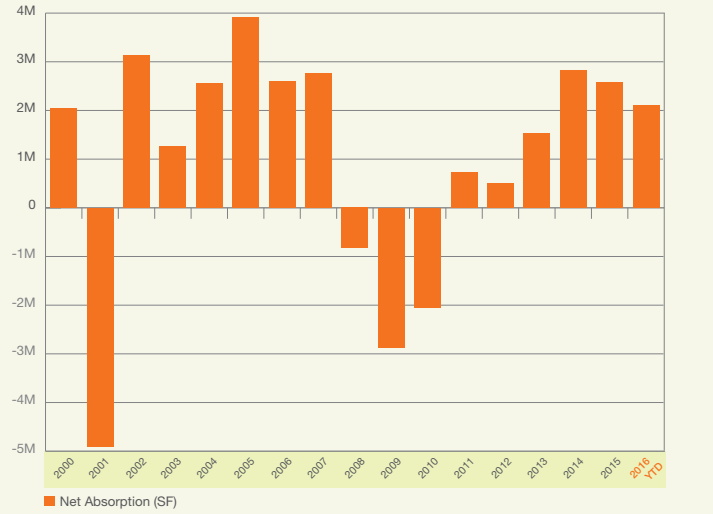

## AVERAGE SALES PRICE & CAPITALIZATION RATES



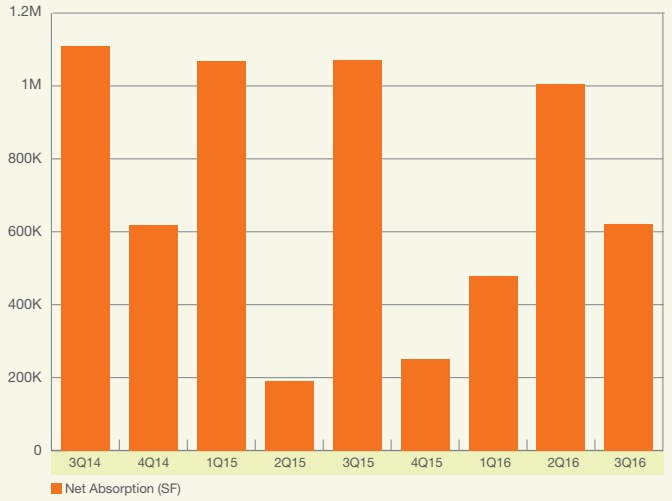

## ASKING LEASE RATE




## NET ABSORPTION - HISTORICAL




## NET ABSORPTION - QUARTERLY



Kidder Mathews

kiddermathews.com

## 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
916.970.9700

Roseville
916.751.3600

Orange County
949.557.5000

San Diego
858.509.1200

Carlsbad
760.430.1000

Reno
775.301.1300

Phoenix
602.513.5200

## Contact

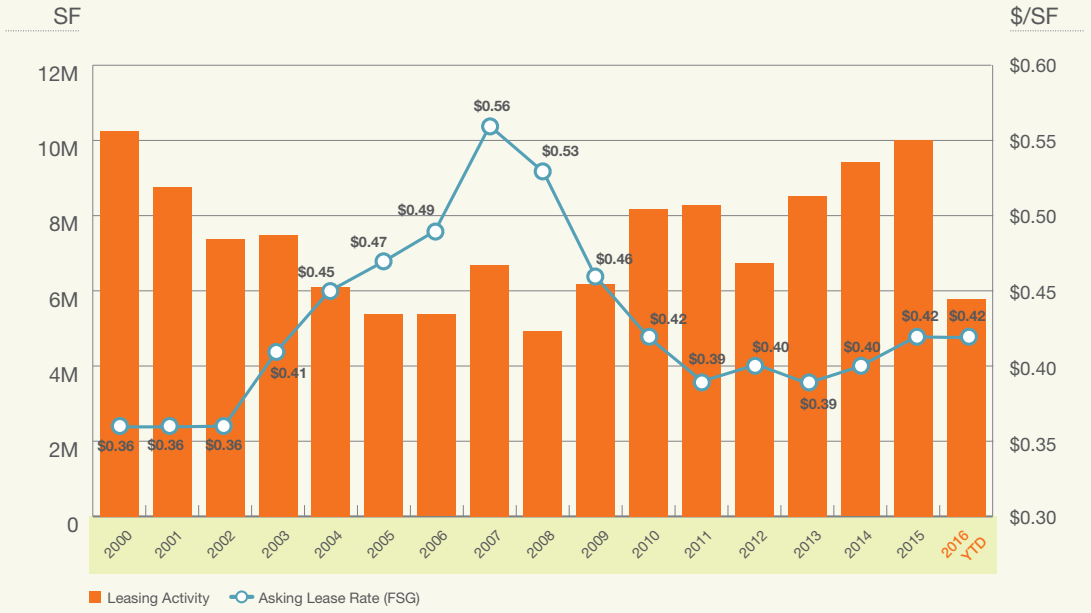
**Reed Payne**
Executive VP, Brokerage
Northern California
415.229.8888
rpayne@kiddermathews.com

Designated Broker
Reed Payne | LIC #00818935

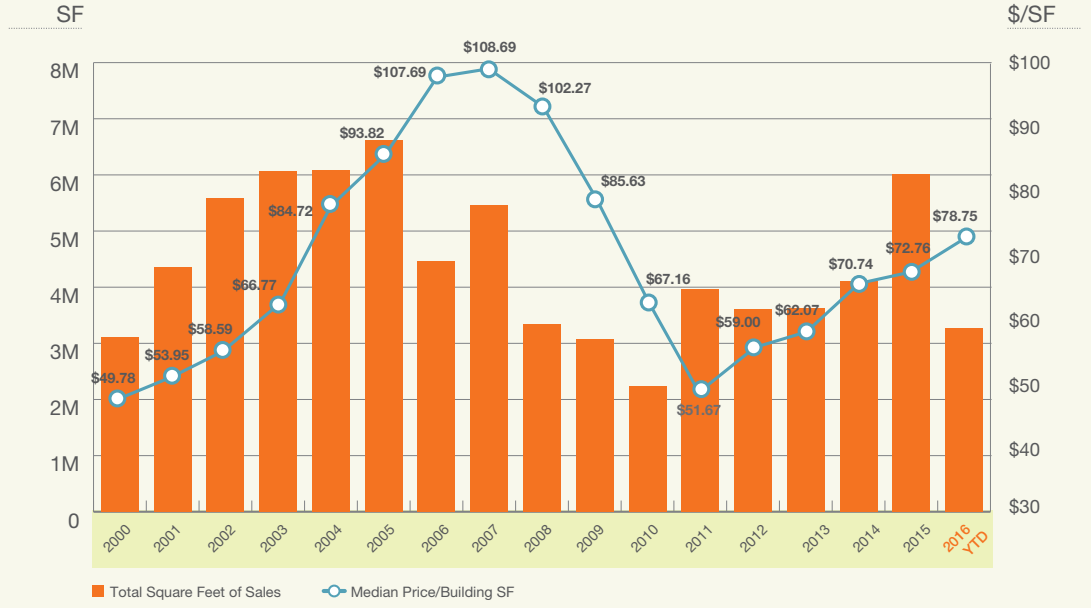
## Market Breakdown

| | 3Q 2016 | 2Q 2016 | 3Q 2015 | Annual % Change |
|---|---|---|---|---|
| Vacancy Rate | 9.30% | 9.70% | 10.40% | -10.58% |
| Availability Rate | 11.40% | 12.00% | 13.00% | -12.31% |
| Asking Lease Rate | $0.42 | $0.42 | $0.41 | 2.44% |
| Leased SF | 2,000,550 | 2,239,957 | 2,247,533 | -10.09% |
| Sold SF | 1,164,331 | 998,106 | 1,491,919 | -21.96% |
| Net Absorption | 621,721 | 1,005,932 | 1,071,252 | N/A |

### HISTORICAL LEASING ACTIVITY & ASKING LEASE RATES




### HISTORICAL SALES SF & MEDIAN SALE PRICE

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