

# Sacramento Industrial

## Market Forecast

Trends

Absorption



Vacancy



Rental Rate



New Construction



## Notable 2016 Lease Transactions

**BMC**  
1351 E Beamer Street, Woodland  
240,000 s.f. leased

**ESL Technology**  
10000 Alantown Drive, Roseville  
170,686 s.f. leased

**Prologix**  
1464 Enterprise Boulevard, Sacramento  
110,022 s.f. leased

## Notable 2016 Sale Transactions

**Gramercy Property Trust**  
260 & 280 N Pioneer Avenue, Woodland  
260,400 s.f. | \$39.35M or \$76/s.f. (part of  
17-property national portfolio)

**Pacific Properties Group**  
Norwood Industrial Park (4 properties)  
Sacramento  
167,555 s.f. | \$21.65M or \$129/s.f.

**Symphony Dreams LLC**  
8413-8417 Washington Boulevard &  
8250-8292 Industrial Avenue, Roseville,  
366,506 s.f. | \$18.85M or \$51/s.f.

The Sacramento industrial and flex real estate market continued to tighten in the fourth quarter of 2016, as 388,713 s.f. of positive net absorption gave the area its 18th straight quarterly gain. Direct-lease vacancies in industrial buildings slipped below 7% for the first time this cycle and declined to 6.5% when controlling for functionally obsolete product in outlying areas. Leasing activity was dominated by smaller users leasing less than 50,000 s.f., amounting to 189 transactions covering 1,374,415 s.f. market wide. Likewise, investments were confined to smaller properties, several of which changed hands in portfolio sales involving buyers from outside of Northern California. No new industrial buildings were delivered this quarter, and all four of the projects under construction are either owner/user developments or already fully preleased. Following nearly 3.25 million s.f. of absorption gains in 2016, the Sacramento market figures to see even more competitive conditions in the new year.

Vacancies across all product types and submarkets fell to 8.6% during the fourth quarter, and preferred submarkets such as Power Inn (5.6%) and Sunrise (3.2%) were substantially tighter than the average. McClellan had the highest share of vacant space at year's end, at 12.5%, but that was down 220 basis points year over year. Fourth-quarter industrial absorption gains, which totaled 388,713 s.f., were largely shared among three submarkets: Natomas/Northgate (122,386 s.f.), West Sacramento (121,096 s.f.), and Davis/Woodland (120,122 s.f.). The largest new tenant was Earthsavers Erosion Control, which occupied 108,000 s.f. of warehouse space at 1425 E Beamer Street in Woodland, after signing a 10-year deal in April. Worm's Way, Inc., a gardening supplies distributor, is now up and running at 2959 Thomas Place in West Sacramento. On the other side of the coin, Roseville/Rocklin reported 134,872 s.f. of negative net absorption, as United Natural Foods left 103,000 s.f. at 10000 Alantown Drive in Roseville and Gulfstream vacated 79,200 s.f. at the Lincoln Air Center.

Approximately 1,374,415 s.f. of Sacramento industrial space came off the market in leases during the fourth quarter. The average deal size tumbled to 7,280 s.f., as smaller users led the way, with a total of 189 leases signed. PRIDE Industries, a nonprofit that creates employment opportunities for the disabled, made the biggest move, signing on for 75,000 s.f. at 3015-3071

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# Area Review

## Submarket Statistics

Submarkets	Total Inventory	Direct Vacancy Rate	Total Vacancy Rate	Total Available Rate	Q4 Net Absorption	YTD Net Absorption	Quarterly Leasing Activity	YTD Leasing Activity	Rental Rate
Auburn/Newcastle	2,222,057	1.20%	1.20%	4.00%	2,800	42,382	15,300	41,751	\$0.51
Davis/Woodland	16,107,019	10.20%	10.20%	9.50%	120,122	45,986	158,077	721,938	\$0.29
Downtown	2,620,118	6.90%	6.90%	6.90%	15,000	22,047	7,500	38,047	\$0.55
East Sacramento	582,317	6.40%	6.40%	8.30%	0	0	0	0	N/A
Elk Grove/Laguna	5,716,111	4.90%	4.90%	9.40%	(8,823)	73,380	10,000	136,550	\$0.40
Folsom/El Dorado	3,181,590	5.10%	5.10%	6.00%	(18,945)	46,385	7,991	77,280	\$0.67
Marysville/Yuba City	5,853,648	4.10%	4.10%	4.60%	69,512	275,362	56,300	338,332	\$0.44
Mather	3,827,405	7.70%	7.90%	7.70%	23,971	92,190	57,642	177,437	\$0.36
McClellan	13,406,635	11.40%	12.50%	13.90%	50,973	287,493	111,755	808,333	\$0.42
Natomas/Northgate	11,656,570	4.90%	5.00%	8.00%	122,386	445,633	201,023	840,527	\$0.40
NE Sacramento	5,023,450	5.10%	5.10%	6.60%	72,473	142,558	10,494	263,246	\$0.38
Power Inn	24,494,109	5.60%	5.60%	6.80%	(8,928)	298,123	200,062	1,310,263	\$0.36
Richards	4,172,183	5.60%	5.60%	6.70%	15,800	170,632	0	38,810	\$0.33
Roseville/Rocklin	16,429,503	11.30%	11.30%	10.70%	(134,872)	205,588	138,224	693,680	\$0.38
South Sacramento	3,958,610	25.40%	25.40%	26.00%	4,140	33,595	25,588	83,201	\$0.41
Sunrise	9,718,304	3.20%	3.20%	4.90%	(57,992)	89,607	69,810	347,625	\$0.49
West Sacramento	17,851,904	8.00%	8.00%	16.40%	121,096	397,479	184,563	1,047,274	\$0.39
<b>Total</b>	<b>165,677,067</b>	<b>8.50%</b>	<b>8.60%</b>	<b>10.60%</b>	<b>388,713</b>	<b>3,249,746</b>	<b>1,374,415</b>	<b>8,332,977</b>	<b>\$0.44</b>

Venture Drive in Lincoln. Next Phase Holdings struck the largest new pact in Sacramento proper, taking 57,100 s.f. at 8110 Power Ridge Road in Power Inn. The most notable renewal belonged to Special Distribution CA, a subsidiary of Houston-based Special Logistics, which kept 72,000 s.f. at 440 N Pioneer Road in Woodland.

Sale activity was characterized by smaller buildings in the fourth quarter, when 68 industrial properties totaling 1,619,461 s.f. changed hands, amassing \$53.1 million in dollar volume. Two buildings in Woodland, at 260 and 280 N Pioneer Avenue, went to New York-based Gramercy Trust as part of a 17-property national portfolio, drawing \$39.35 million in total, or \$76/s.f. In the Power Inn submarket of Sacramento, Pacific Properties Group, out of Los Angeles, acquired the four-building Norwood Industrial Park for \$21.65 million or \$129/s.f. Lastly, on the individual property front, Corsair Management, an Anaheim-based investor, bought 11380 White Rock Road in Rancho Cordova, a 108,441 s.f. building fully leased by the elevator manufacturer Motion Control Engineering. The tenant, which utilizes the building's specialized features, including a pair of elevator test towers, extended its lease through 2026 shortly before the sale, pushing the price to \$11.95 million or \$110/s.f.

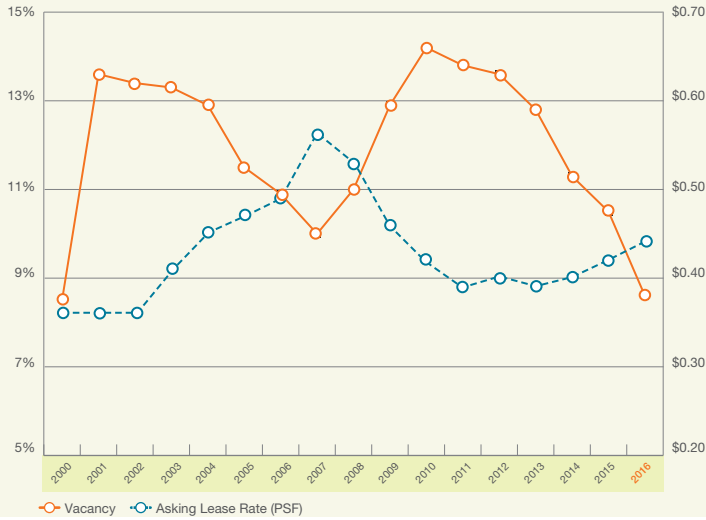
Market-wide industrial asking rents rose to \$0.40/s.f., while flex asks averaged \$0.73/s.f., giving the overall inventory an average price tag of \$0.44/s.f., all on a triple-net basis. Rents have risen most rapidly in Northeast Sacramento, which was at \$0.38 to end the year, compared

to \$0.33 at the close of 2015, a 15% hike that tracks its 240-basis-point decline in vacancy. West Sacramento had the most available space on the market, with more than 2.9 million s.f. listed in total and six separate listings offering more than 100,000 square feet apiece. By contrast, the 24.5 million s.f. Power Inn submarket reported a cycle-low 6.8% availability rate, down from 12.1% just seven quarters ago.

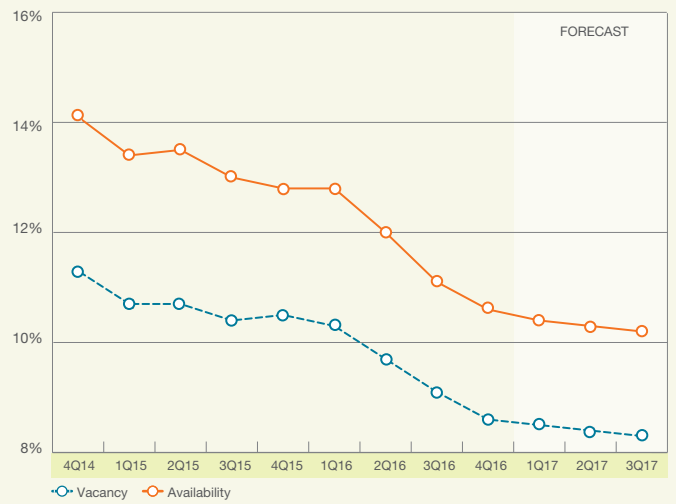
Four noteworthy industrial projects were under construction in the Sacramento market as the year ended, but all of them were either preleased or developed by their future users. Amazon's future distribution center at Metro Air Park in Natomas/Northgate, an 855,000 s.f. facility developed by USAA Real Estate Company, should open in March and will eventually house some 1,000 workers. United States Cold Storage will open a 220,000 s.f. freezer-box building at 4186 Forcum Avenue in McClellan in early 2017, and fellow owner/user Mitsubishi Rayon Carbon Fiber and Composites is working on a 62,254 s.f. expansion at 5900 88th Street in Sacramento. A future 75,000 s.f. structure at 3942 Sandstone Drive in El Dorado Hills was fully preleased by Aerometals. With no significant additions to the market's industrial inventory on the immediate horizon, the trend of lower vacancies and higher rental rates is likely to continue into 2017.

Data Source: CoStar

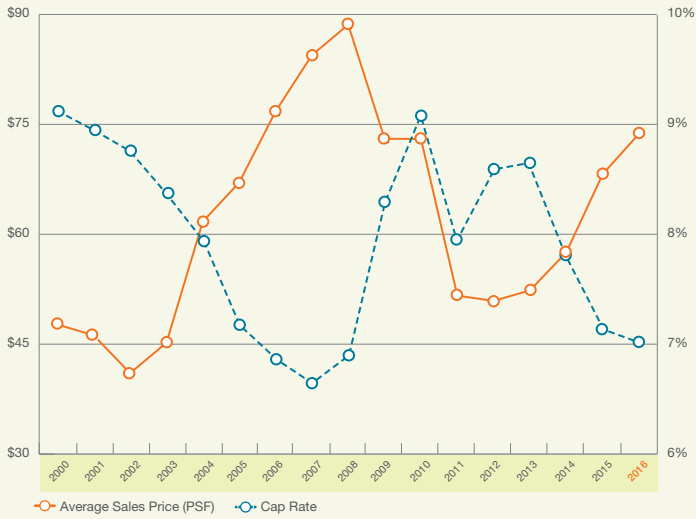
### VACANCY VS ASKING LEASE RATE



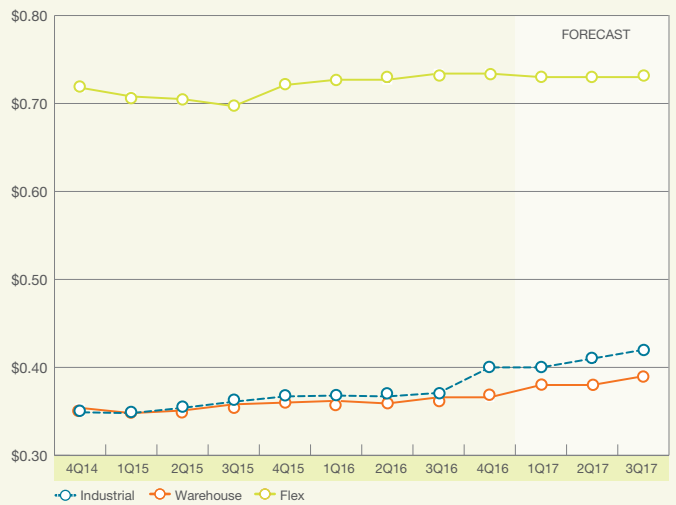
### VACANCY VS AVAILABILITY



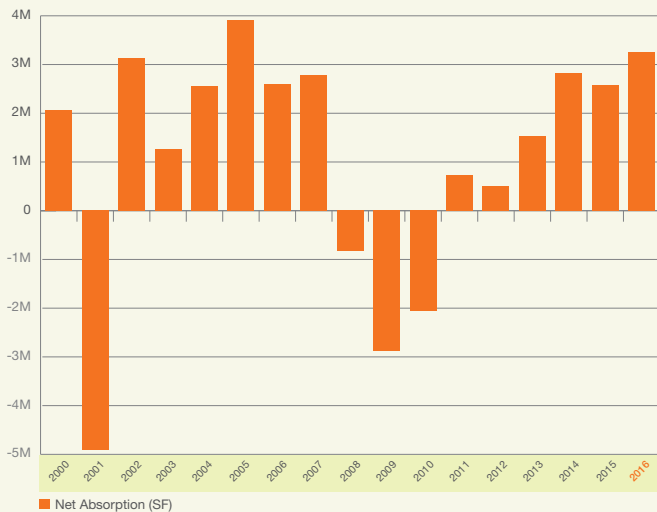
### AVERAGE SALES PRICE & CAPITALIZATION RATES



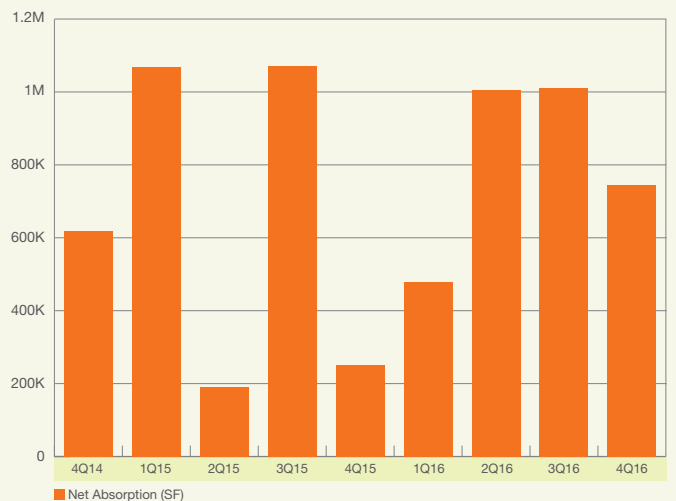
### ASKING LEASE RATE



### 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  
916.970.9700

Roseville  
916.751.3600

Orange County  
949.557.5000

Inland Empire  
909.764.6500

San Diego  
858.509.1200

Carlsbad  
760.430.1000

Reno  
775.301.1300

Phoenix  
602.513.5200

**Contact**

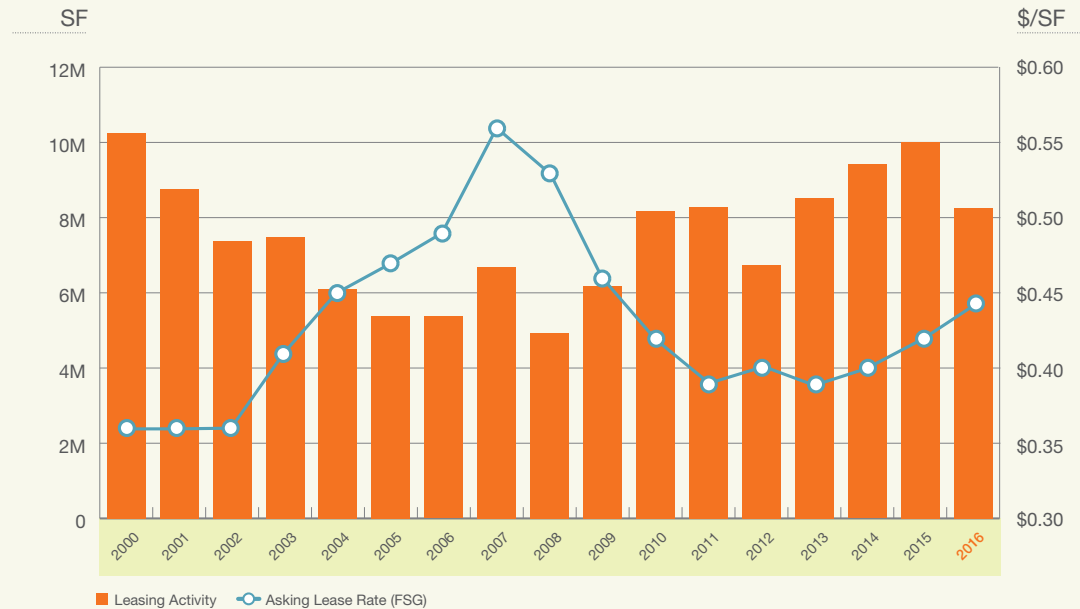
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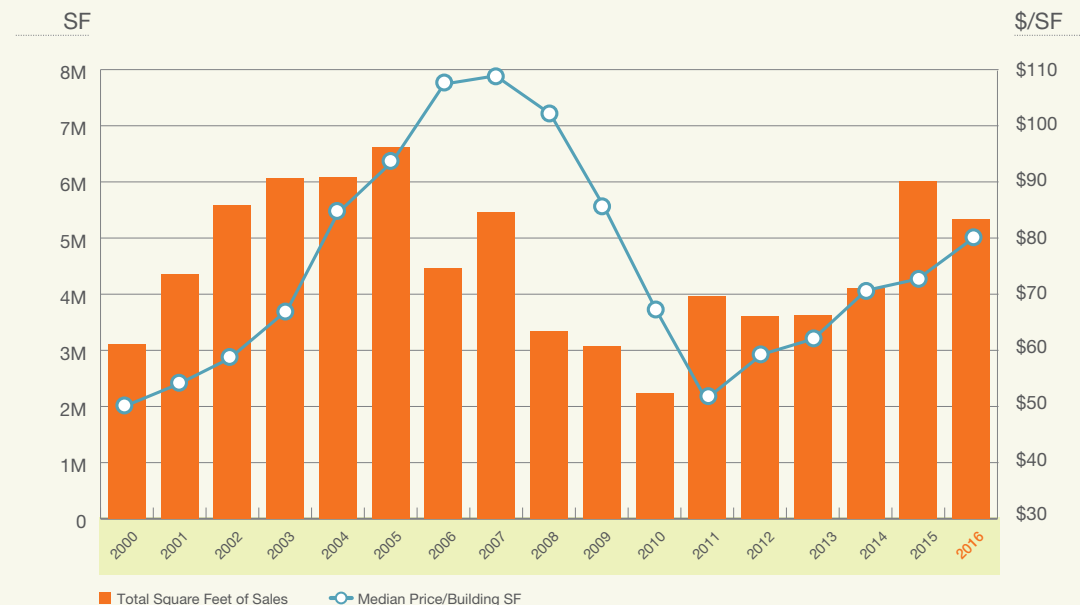
**Market Breakdown**

	2016	2015	2014	Annual % Change
Vacancy Rate	8.6%	10.5%	11.4%	-18.1%
Availability Rate	10.6%	12.8%	14.2%	-14.1%
Asking Lease Rate	\$0.44	\$0.42	\$0.40	4.8%
Leased SF	8,332,977	9,961,564	9,294,181	-16.3%
Sold SF	5,320,469	9,211,063	4,084,573	-22.0%
Net Absorption	3,249,746	2,627,630	2,821,862	N/A

**HISTORICAL LEASING ACTIVITY & ASKING LEASE RATES**



**HISTORICAL SALES SF & MEDIAN SALE PRICE**



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