

Sacramento Industrial

Market Forecast

Trends

Absorption



Vacancy



Rental Rate



New Construction



Notable Lease Transactions

China Sunergy
2031 Idzorek Street, McClellan
139,100 s.f. Leased

Unknown Tenant
10000 Alantown Drive, Roseville
100,000 s.f. Leased

Anderson Logistics
8496 Rovana Circle, Sacramento
72,000 s.f. Leased (Renewal)

Notable Sale Transactions

Wang Brothers Inc.
3689 Industrial Boulevard, W Sacramento
302,400 s.f.
Purchased for \$9.4M or \$31/s.f.

Terra Enterprises, Inc.
2561 Mercantile Drive, Rancho Cordova
71,608 s.f.
Purchased for \$5M or \$70/s.f.

Javier Mercado
11391 Sunrise Gold Circle
Rancho Cordova
80,000 s.f.
Purchased for \$4.9M or \$61/s.f.

The Sacramento industrial and flex real estate market started 2017 with a bang, as 1,374,529 square feet of positive net absorption brought vacancies across the area to new cycle lows. Direct-lease vacancies in industrial buildings fell to 7.2%, despite 423,734 square feet of new deliveries, underscoring users' insatiable appetite for space in the logistically superior corners of the market. Rental rates overall held at \$0.44 per square foot, but newer, Class A buildings were achieving well over \$0.50/sf as bulk space became increasingly hard to come by. The Sacramento market has enjoyed absorption gains in 13 consecutive quarters, adding more than 10 million square feet of occupied industrial space since the beginning of 2014. Transportation, Warehousing, and Utilities employment has grown by 4.4% in the Sacramento region year over year, as more distributors, including Amazon, set up shop in the area. Demand for space continues to race ahead of new supply, which portends higher rental rates and new cycle low vacancies in the coming quarters.

The overall vacancy rate fell to 8.1% during the first quarter, down 60 basis points from the end of 2016 and 220 basis points year over year, with most submarkets setting new cycle lows amid 1,374,529 square feet of positive net absorption. Preferred submarkets, such as Natomas/Northgate and Power Inn, have seen vacancies sliced in half since late 2014, as distributors and manufacturers have flocked to the Sacramento area for its logistical advantages, most notably easy access to Interstates 80 and 5. Four submarkets (Davis/Woodland, Power Inn, West Sacramento, and McClellan) reported more than 240,000 square feet of positive net absorption this quarter. The largest individual occupancy occurred at 1351 E Beamer Street in Woodland, where BMC took over 240,000 square feet that they leased in August. United States Cold Storage, an owner/user, occupied a newly delivered 220,000 square foot freezer box building at 4186 Forcum Avenue in McClellan.

Some 200 industrial leases were signed this quarter, covering 1.73 million square feet of space across the Sacramento market. China Sunergy, a Nanjing-based manufacturer of solar-cell products, signed the biggest lease, taking 139,100 square feet at 2031 Idzorek Street in McClellan, commencing in May. Anderson Logistics retained its space at 8496 Rovana Circle in the Power Inn submarket of Sacramento, a 72,273 square foot deal that represented the quarter's largest renewal. All told, leasing activity was down approximately 19% from last year's first-quarter volume, largely because of the marketwide decline in availabilities, as demand for functionally superior space continues to outpace supply.

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Area Review

Submarket Statistics

Submarket	Total Inventory	Direct Vacancy Rate	Total Vacancy Rate	Total Available Rate	Q1 Net Absorption	YTD Net Absorption	Quarterly Leasing Activity	YTD Leasing Activity	Rental Rate
Auburn/Newcastle	2,222,057	0.90%	0.90%	4.20%	114	114	0	0	\$0.51
Davis/Woodland	16,107,019	8.50%	8.50%	9.70%	305,724	305,724	102,400	102,400	\$0.29
Downtown	2,620,118	6.90%	6.90%	5.10%	30,000	30,000	47,091	47,091	\$0.55
East Sacramento	571,117	6.50%	6.50%	6.50%	0	0	0	0	-
Elk Grove/Laguna	5,737,039	5.10%	5.10%	9.70%	(60,389)	(60,389)	54,909	54,909	\$0.41
Folsom/El Dorado	3,060,594	5.20%	5.20%	6.00%	14,232	14,232	4,600	4,600	\$0.68
Marysville/Yuba City	5,833,647	2.90%	2.90%	3.00%	70,360	70,360	21,000	21,000	\$0.38
Mather	3,805,441	8.60%	8.80%	7.30%	45,495	45,495	88,692	88,692	\$0.40
McClellan	13,626,635	10.90%	12.00%	13.30%	260,009	260,009	185,294	185,294	\$0.44
Natomas/Northgate	11,656,698	4.70%	4.70%	8.20%	(38,895)	(38,895)	230,297	230,297	\$0.43
NE Sacramento	5,032,676	5.60%	5.60%	6.40%	(20,408)	(20,408)	13,500	13,500	\$0.37
Power Inn	24,330,852	5.30%	5.30%	5.40%	270,604	270,604	378,503	378,503	\$0.37
Richards	4,172,183	4.40%	4.40%	6.20%	20,370	20,370	11,000	11,000	\$0.33
Roseville/Rocklin	16,478,306	10.40%	10.40%	9.20%	145,209	145,209	317,774	317,774	\$0.39
South Sacramento	3,958,610	25.20%	25.20%	25.80%	7,015	7,015	0	0	\$0.41
Sunrise	9,715,650	2.30%	2.50%	5.20%	32,739	32,739	83,943	83,943	\$0.49
West Sacramento	17,988,184	7.00%	7.00%	15.10%	292,350	292,350	187,359	187,359	\$0.40
Total	165,668,496	7.90%	8.10%	10.10%	1,374,529	1,374,529	1,726,362	1,726,362	\$0.44
General Industrial	35,164,291	10.00%	10.00%	9.50%	423,010	423,010	324,292	324,292	\$0.46
Warehouse and Distribution	111,752,535	7.00%	7.20%	9.80%	795,428	795,428	1,162,076	1,162,076	\$0.38
Flex	18,751,670	13.90%	14.10%	17.40%	93,262	93,262	239,994	239,994	\$0.75

First-quarter sale activity totaled 101 transactions, 1.84 million square feet, and \$91 million in dollar volume. The average price per square foot dipped to \$81, as investments were chiefly limited to older assets or buildings outside of the core industrial areas. For instance, Dallas-based Wang Brothers, Inc., acquired 3689 Industrial Blvd in West Sacramento, a 302,400 square foot Class C distribution facility, for less than \$9.4 million or \$31/sf, after the seller initially priced the asset at around \$13 million. Wang Brothers is expected to occupy an undisclosed portion of the property while leasing out the balance. Farther afield, two mid-size properties in Rancho Cordova changed hands this quarter. Los Angeles-based Terra Enterprises bought the 71,608 square foot warehouse at 2561 Mercantile Drive for \$5 million or \$70/sf, with the intention of recapturing the space from its subtenant, the Rancho Cordova Event Center, and securing a new direct tenant. In the other Rancho Cordova transaction, a family trust registered to Javier R. Mercado spent \$4.9 million (\$61/sf) on 11391 Sunrise Gold Circle, an 80,000 square foot Class C warehouse leased to multiple tenants.

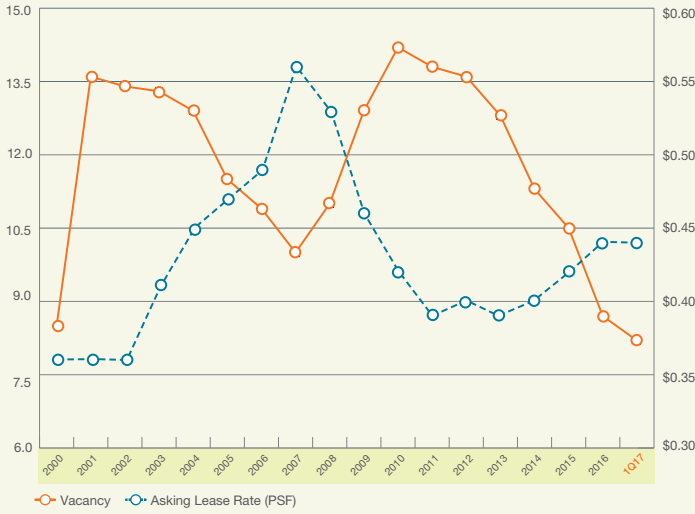
Asking rates were unchanged on the whole during the first quarter, but new projects and Class A facilities in desirable locations continued to set new cycle highs. Industrial rents averaged \$0.44/sf on a blended triple-net basis, bulk warehouse spaces averaged \$0.38/sf, and flex asks ticked up to \$0.75/sf. The Natomas/Northgate submarket has witnessed a rapid increase in asking rents, up 8.7% year over year from \$0.39/sf to \$0.43/sf, owing to its location near the junction of

Interstates 80 and 5. Industrial space is also increasingly difficult to come by in the Power Inn area, where availabilities are down 450 basis points year over year, to a cycle low 5.4%, and rents have surged by nearly 12% since the start of 2016, to \$0.37/sf. Of the core industrial submarkets, only McClellan and West Sacramento showed greater than 10% availability, but neither offered much rent relief for cost-conscious tenants. A newly delivered, 141,480 square foot building at 1060 Riverside Parkway in West Sacramento approached the high-water mark for bulk distribution space in the Sacramento market, asking \$0.54/sf at quarter's end.

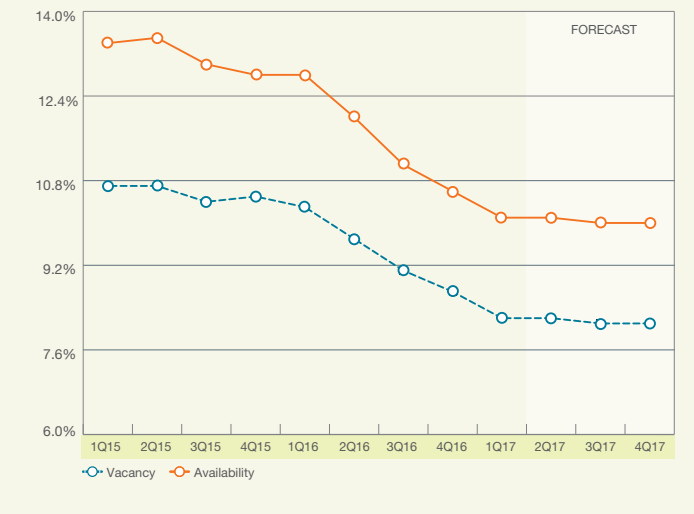
Three large industrial projects were under construction at quarter's end. USAA Real Estate neared completion on the future Amazon distribution hub at Powerline Road and Elkhorn Blvd in the Natomas/Northgate submarket, an 855,000 square foot behemoth just off Interstate 5 that will bring some 1,000 jobs to the area when it's completed later this spring. In the Power Inn submarket, Buzz Oates anticipates a second-quarter delivery on its 123,255 square foot speculative warehouse development at 8670 Fruitridge Road and is still seeking a tenant for the building. Finally, a 75,000 square foot property is rising at 3942 Sandstone Drive in El Dorado Hills, but the space was fully preleased to Aerometals. The construction underway lags behind the demand for industrial facilities in the Sacramento market, and barring an onrush of new projects, rising rates and low vacancies are likely to remain the norm in the coming quarters.

Data Source: CoStar

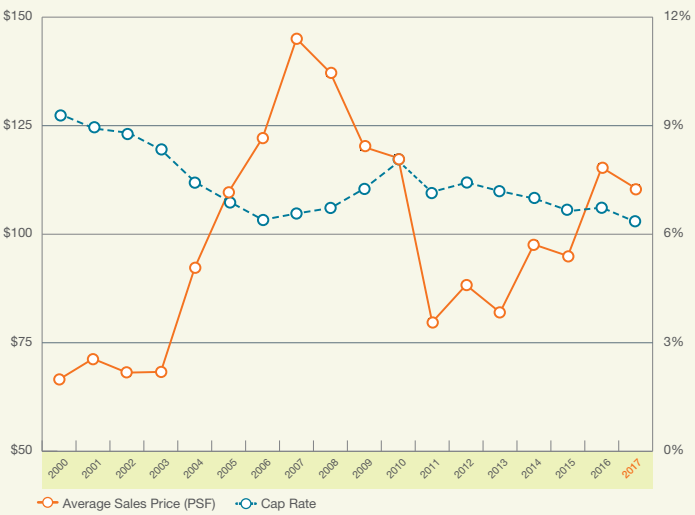
VACANCY VS ASKING LEASE RATE



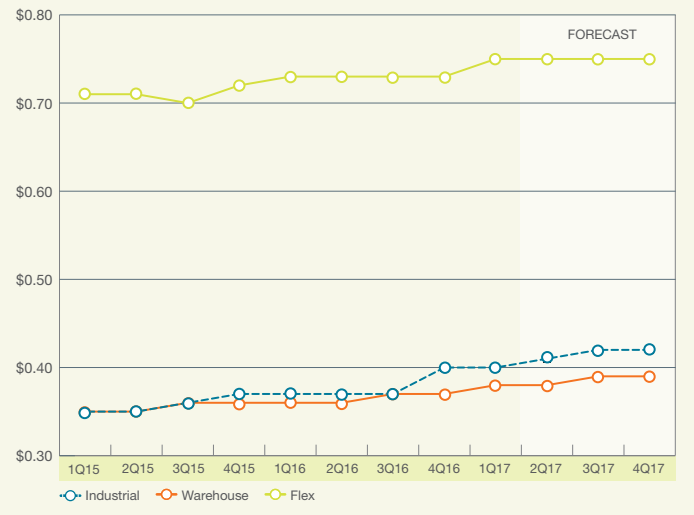
VACANCY VS AVAILABILITY



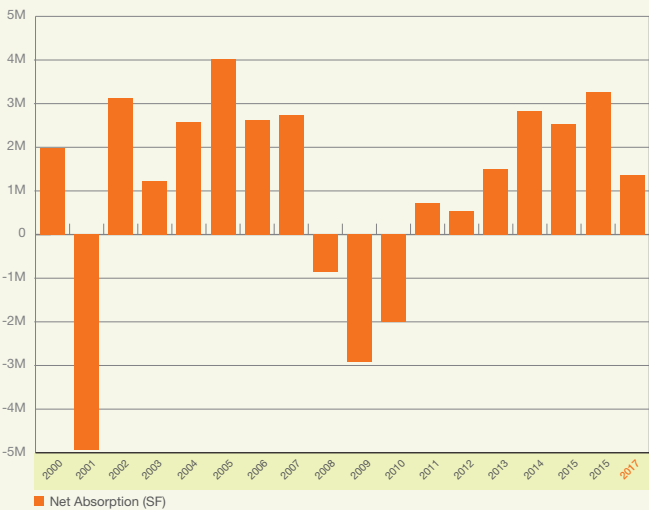
AVERAGE SALES PRICE & CAPITALIZATION RATES



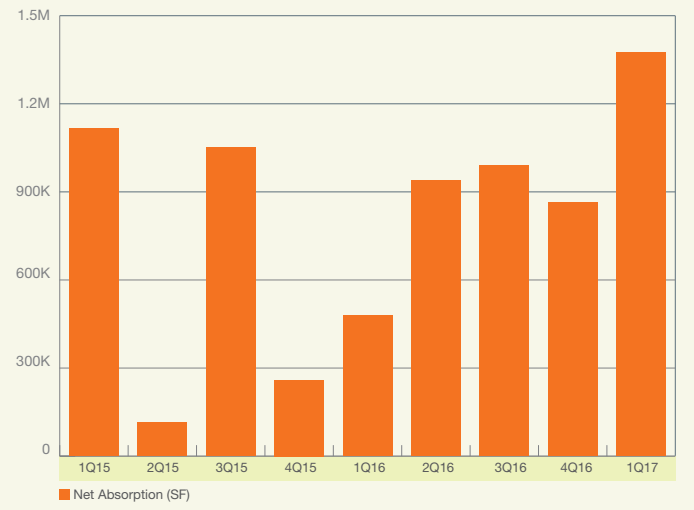
ASKING LEASE RATE



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

Los Angeles
213.880.5250

Commerce
323.727.1144

Long Beach
562.472.0071

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

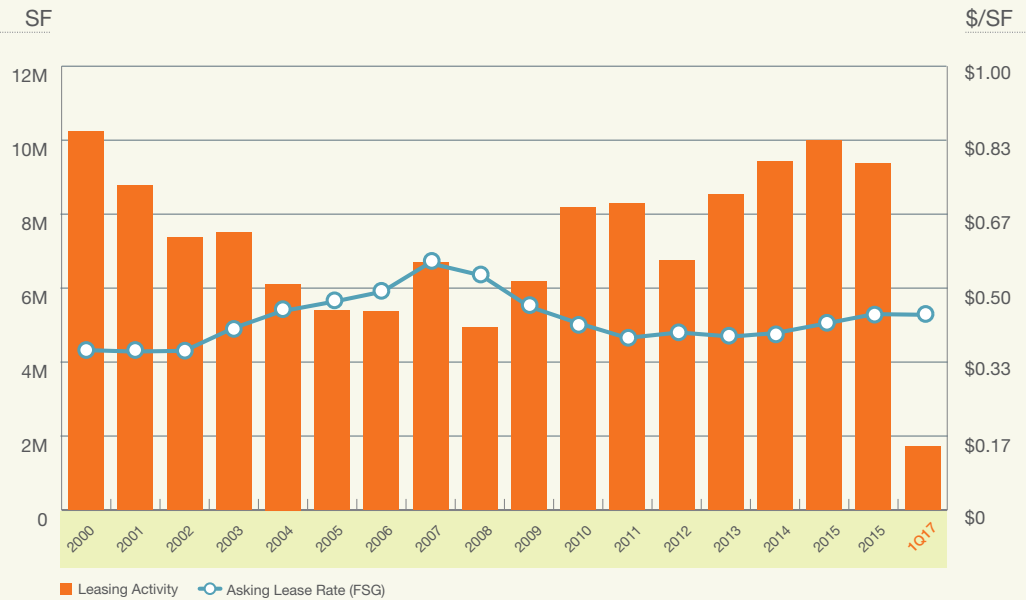
Reed Payne
Executive VP, Brokerage
Northern California
415.229.8888
rpayne@kiddermathews.com

Designated Broker
Reed Payne | LIC #00818935

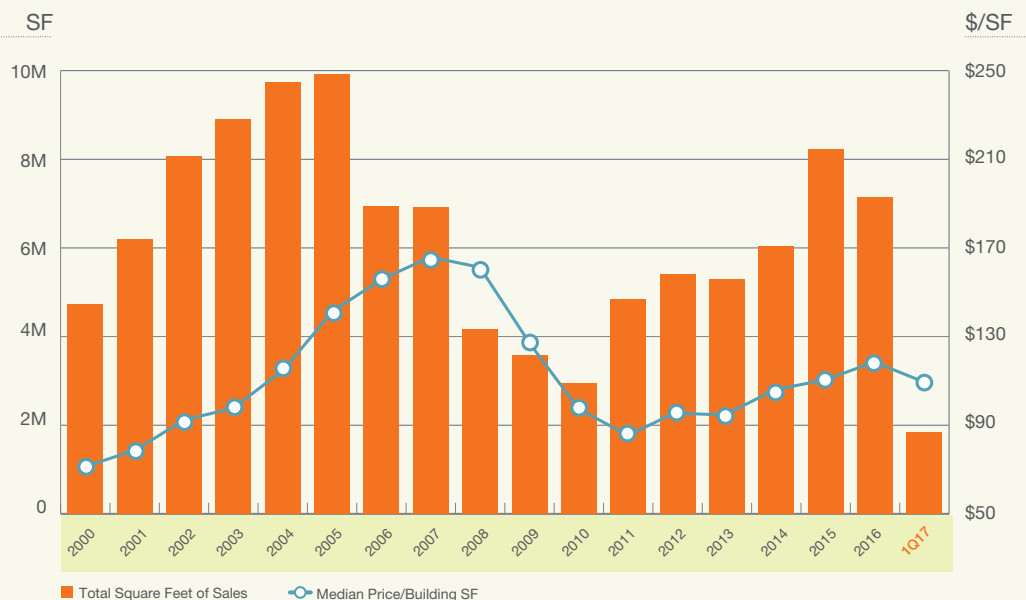
Market Breakdown

	Q1 2017	Q4 2016	Q1 2016	Annual % Change
Vacancy Rate	8.1%	8.7%	10.3%	-21.3%
Availability Rate	10.1%	10.6%	11.1%	-9.0%
Asking Lease Rate	\$0.44	\$0.44	\$0.43	2.3%
Leased SF	1,726,362	2,205,179	2,050,082	-18.8%
Sold SF	1,835,712	2,176,316	1,619,889	13.3%
Net Absorption	1,374,529	864,648	478,499	N/A

HISTORICAL LEASING ACTIVITY & ASKING LEASE RATES



HISTORICAL SALES SF & MEDIAN SALE PRICE



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