

Sacramento Industrial

Market Forecast

Trends

Absorption



Vacancy



Rental Rate



New Construction



Notable Lease Transactions

Dome Printing
2031 Optisolar Lane, McClellan
243,095 s.f. leased

Unknown Tenant
8670 Fruitridge Road, Sacramento
117,000 s.f. leased

Pine Mountain Brands
2031 Optisolar Lane, McClellan
90,000 s.f. leased

Notable Sale Transactions

Sisler and Sisler Construction
Prospect Center (3140-3164 Gold Camp Drive, 3035 Prospect Park Drive)
Rancho Cordova
128,650 s.f. purchased | \$12.4M or \$96/s.f.

Strada Investment Group
HP Roseville (8030 Foothills Blvd)
Roseville
151,423 s.f. purchased | \$12.1M or \$80/s.f.

San Francisco Spice Co.
1660 Tide Court, Woodland
263,328 s.f. purchased | \$8.7M or \$33/s.f.

The Sacramento industrial and flex real estate market kept on rolling in the second quarter of 2017, with 403,324 s.f. of positive net absorption, bringing the year-to-date gain in occupied space to nearly 2 million s.f. Direct-lease vacancies in warehouse and distribution buildings fell to 6.5%, as users continued to flock to Sacramento’s logistically superior submarkets, and new construction lagged behind ever-rising demand. Rental rates ticked up to \$0.46/s.f. on average, but newer Class A product was going for well over \$0.50/s.f., as availabilities dipped to a cycle-low 9.3%. The Sacramento market has seen positive net absorption in 14 consecutive quarters and is poised for even greater gains in the periods to come, as premium firms such as Amazon set up distribution hubs in the area. Strong demand and limited supply of bulk spaces will continue to favor landlords, as rental rates figure to keep rising in the coming quarters.

Vacancies continued to tumble to new cycle lows this quarter, as the market’s overall vacancy rate fell to 7.5%, down 210 basis points year-over-year. The McClellan submarket has experienced a 320 basis point decline in vacancy since the second quarter of last year, a trend that continued with 128,864 s.f. of positive net absorption over the past three months, as Sunergy America moved into 149,000 s.f. at 2031 Optisolar Lane. Power Inn, where vacancies have fallen from 7.2% to 4.5% over the last 12 months, led all submarkets with 270,322 s.f. of positive net absorption in the second quarter. Warehouses and distribution facilities remain the Sacramento market’s bread and butter, showing a 6.6% total vacancy rate, as users’ unyielding demand for space near the area’s Interstate highways ensures that any openings are quickly refilled.

Second-quarter leasing activity totaled 167 transactions for 1.86 million s.f. of industrial and flex space. Three of the quarter’s biggest deals were struck at 2031 Optisolar Lane in McClellan, where more than 400,000 s.f. came off the market and another 323,940 s.f. was still available. Dome Printing, currently operating out of two Sacramento facilities and another in Richmond, is consolidating its 250 employees under one roof at the McClellan Park warehouse, after signing a 15-year commitment for 321,095 s.f. that runs through December 2032. Pine Mountain Brands, a fireplace products manufacturer headquartered in Indiana, took 90,000 s.f. in the same building. The largest Sacramento lease was done

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Area Review

Submarket Statistics

Submarket	Total Inventory	Direct Vacancy Rate	Total Vacancy Rate	Total Available Rate	Q2 Net Absorption	YTD Net Absorption	Quarterly Leasing Activity	YTD Leasing Activity	Rental Rate
Auburn/Newcastle	2,751,496	2.40%	2.40%	4.30%	(13,241)	(13,127)	28,249	32,633	\$0.70
Davis/Woodland	16,859,682	9.00%	9.00%	12.20%	(110,105)	196,839	19,623	26,280	\$0.30
Downtown	3,201,190	6.60%	6.60%	4.70%	0	27,142	15,949	63,040	\$0.55
East Sacramento	658,496	9.40%	9.40%	9.90%	17,000	17,000	0	0	\$2.00
Elk Grove/Laguna	6,128,654	7.10%	7.10%	9.40%	(63,948)	(134,460)	76,414	136,457	\$0.50
Folsom/El Dorado	4,987,552	5.70%	5.70%	6.30%	(13,612)	(5,502)	32,230	46,906	\$0.81
Marysville/Yuba City	5,959,951	2.10%	2.10%	4.80%	49,860	110,220	5,000	24,660	\$0.35
Mather	5,253,836	11.20%	11.30%	10.10%	(22,777)	43,016	32,130	159,256	\$0.53
McClellan	15,586,497	11.40%	11.40%	10.20%	128,864	432,969	437,642	525,133	\$0.47
Natomas/Northgate	13,609,129	6.30%	6.40%	8.00%	14,783	4,999	203,183	401,442	\$0.50
NE Sacramento	6,023,515	5.90%	5.90%	7.30%	22,508	2,100	38,705	54,370	\$0.53
Power Inn	25,569,954	4.50%	4.50%	6.00%	270,322	511,151	327,003	980,711	\$0.47
Richards	4,450,269	3.60%	3.60%	3.90%	107,873	108,600	10,156	36,856	\$0.40
Roseville/Rocklin	19,504,620	9.10%	9.10%	8.60%	126,200	286,886	293,858	623,779	\$0.44
South Sacramento	4,217,388	25.30%	25.30%	26.20%	(5,331)	2,784	7,864	10,264	\$0.50
Sunrise	11,576,533	4.30%	5.00%	7.90%	(3,144)	53,703	89,796	249,373	\$0.56
West Sacramento	19,486,937	7.30%	7.40%	14.80%	(101,928)	313,873	243,659	476,775	\$0.44
Total	165,825,699	7.40%	7.50%	9.30%	403,324	1,958,193	1,861,461	3,847,935	\$0.46
General Industrial	35,077,953	9.70%	9.80%	9.80%	7,464	389,699	49,735	387,927	\$0.45
Warehouse and Distribution	111,923,465	6.50%	6.60%	8.90%	273,854	1,249,354	1,477,097	2,907,515	\$0.40
Flex	18,824,281	13.00%	13.10%	15.30%	122,006	256,590	317,448	532,692	\$0.76

at 8670 Fruitridge Road, where an unknown tenant grabbed 117,000 s.f. out of a 240,255 s.f. warehouse that is set for delivery this December.

Seventy-one investment and owner/user sale transactions were completed during the past three months, as 1.82 million s.f. of Sacramento industrial and flex real estate changed hands at an average price of \$64/s.f. The largest sale by dollar volume involved the Prospect Center, a four-building flex complex in Rancho Cordova, which went from Connecticut-based UBS Realty Investors to the local developer Sisler and Sisler Construction for \$12.35 million or \$96/s.f., underwritten at an 8.5% cap rate. In Roseville, San Francisco's Strada Investment Group acquired the Hewlett Packard campus in a sale-leaseback deal with the struggling former tech giant; approximately \$12.1 million of the \$105.1 million sale price was allocated to a warehouse building at 8030 Foothills Blvd, which comes out to \$80/s.f. Finally, in the quarter's largest owner/user transaction, San Francisco Spice Company bought the 263,328 distribution facility at 1660 Tide Court in Woodland from USAA Real Estate for \$8.7 million or \$33/s.f.

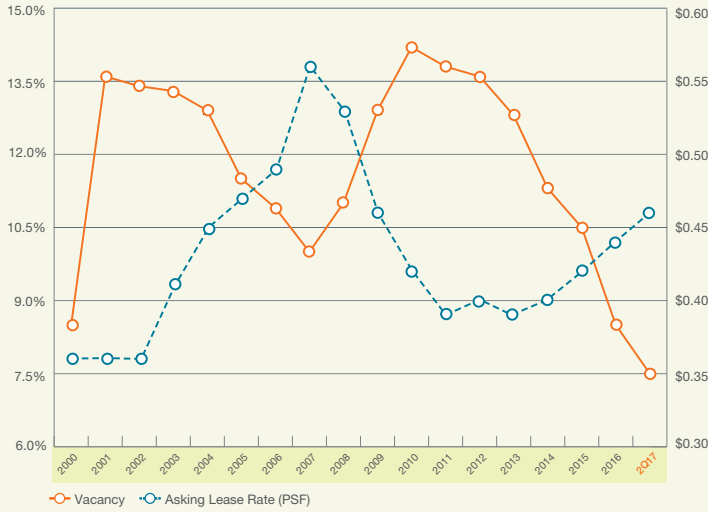
Asking lease rates rose during the second quarter to an average of \$0.46/s.f. NNN, up 9.5% year over year. Bulk warehouse and distribution spaces were priced at \$0.40/s.f. NNN on average, while general industrial landlords were seeking \$0.45/s.f. NNN and flex availabilities were marketed at \$0.76/s.f. NNN. Rents continued to

soar in Sacramento's most coveted submarkets, particularly those with convenient access to Interstates 80 and 5. The Natomas/Northgate area, which is located near the junction of those two highways, saw its average price tag eclipse \$0.50/s.f. NNN for the first time this cycle. Direct availabilities were at a cycle low at the end of the second quarter, with just over 14.5 million s.f. listed for lease, down 27% from the beginning of 2016, when nearly 20 million s.f. of industrial space was on the market. Of the core industrial submarkets, only Davis/Woodland, McClellan, and West Sacramento reported greater than 10% availability, while Natomas/Northgate, Power Inn, and Sunrise were all at or below 8%.

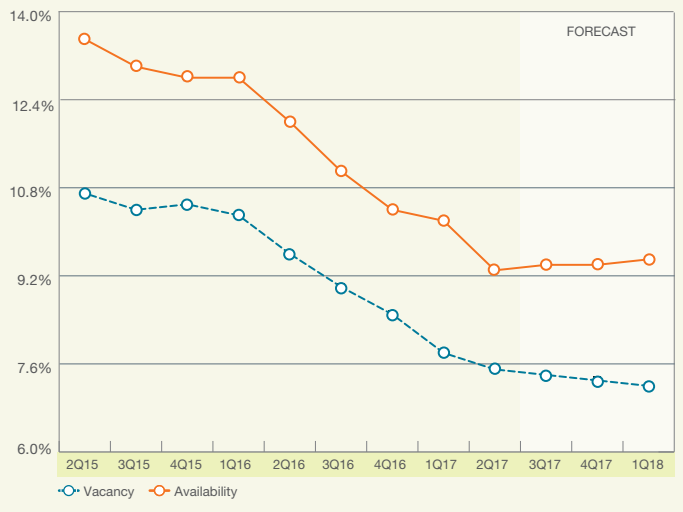
Construction in the Sacramento market continues to trail the demand for industrial facilities, but cycle-low vacancies and rising rental rates offer plenty of incentives for developers to build. The five projects under construction at quarter's end will bring a total of 1.23 million s.f. of new space to the market, but the future 855,000 s.f. Amazon distribution hub at Powerline Road and Elkhorn Blvd in Natomas/Northgate accounts for more than two-thirds of that future inventory. Buzz Oates is the developer behind the largest speculative project, a 240,255 s.f. warehouse at 8670 Fruitridge Road in the Power Inn submarket. While about half of the space was leased to an unknown tenant in April, Buzz Oates was still marketing 123,255 s.f. at an asking rent of \$0.42/s.f. NNN.

Data Source: CoStar

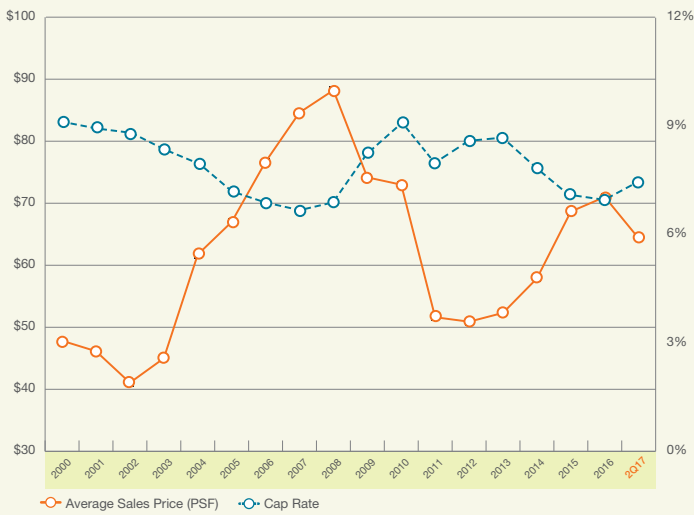
VACANCY VS ASKING LEASE RATE



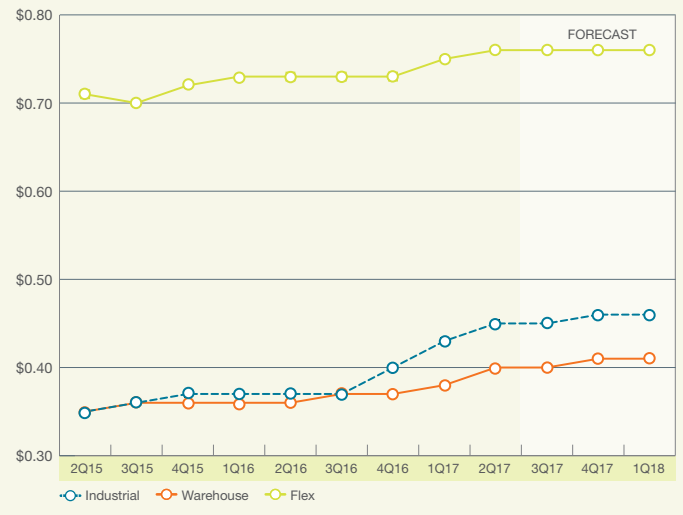
VACANCY VS AVAILABILITY



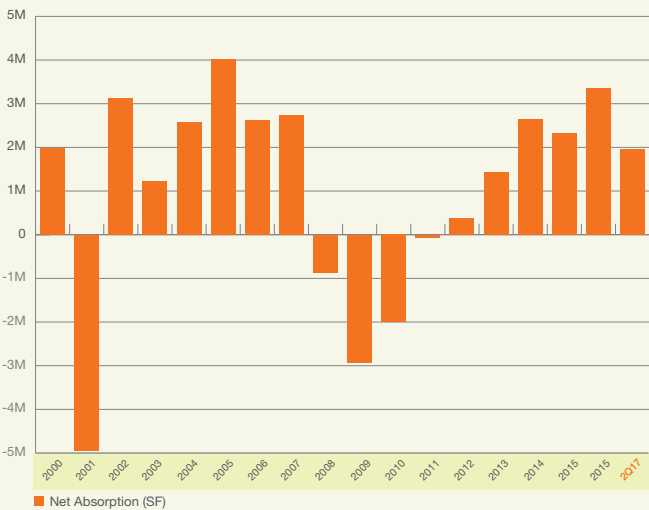
AVERAGE SALES PRICE & CAPITALIZATION RATES



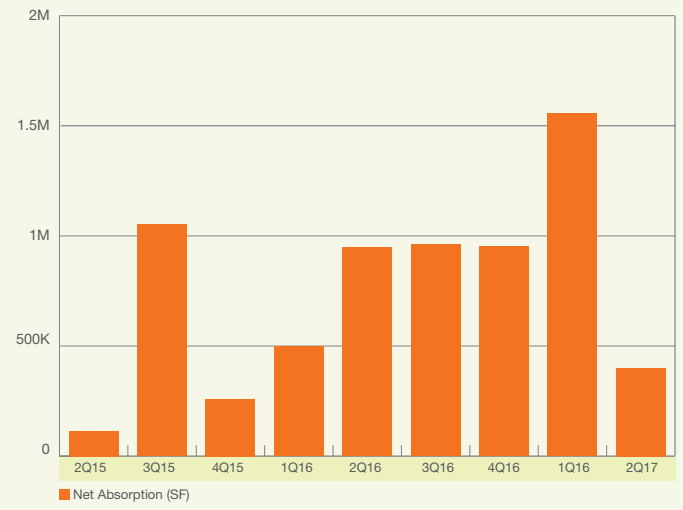
ASKING LEASE RATE



NET ABSORPTION - HISTORICAL



NET ABSORPTION - QUARTERLY



Offices

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206.296.9600

Bellevue
425.454.7040

South Seattle
206.248.7300

Tacoma
253.722.1400

Olympia
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Portland
503.221.9900

San Francisco
415.229.8888

Redwood Shores
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Silicon Valley
408.970.9400

Sacramento
916.970.9700

Roseville
916.751.3600

Los Angeles
213.880.5250

Commerce
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Orange County
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Inland Empire
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San Diego
858.509.1200

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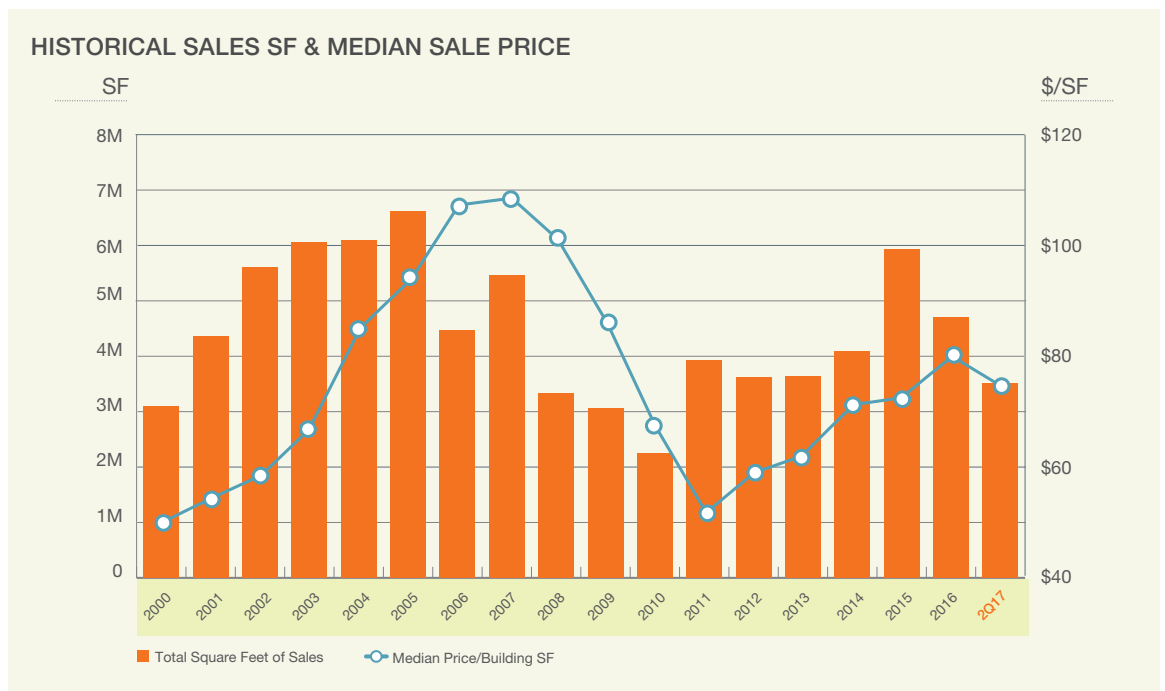
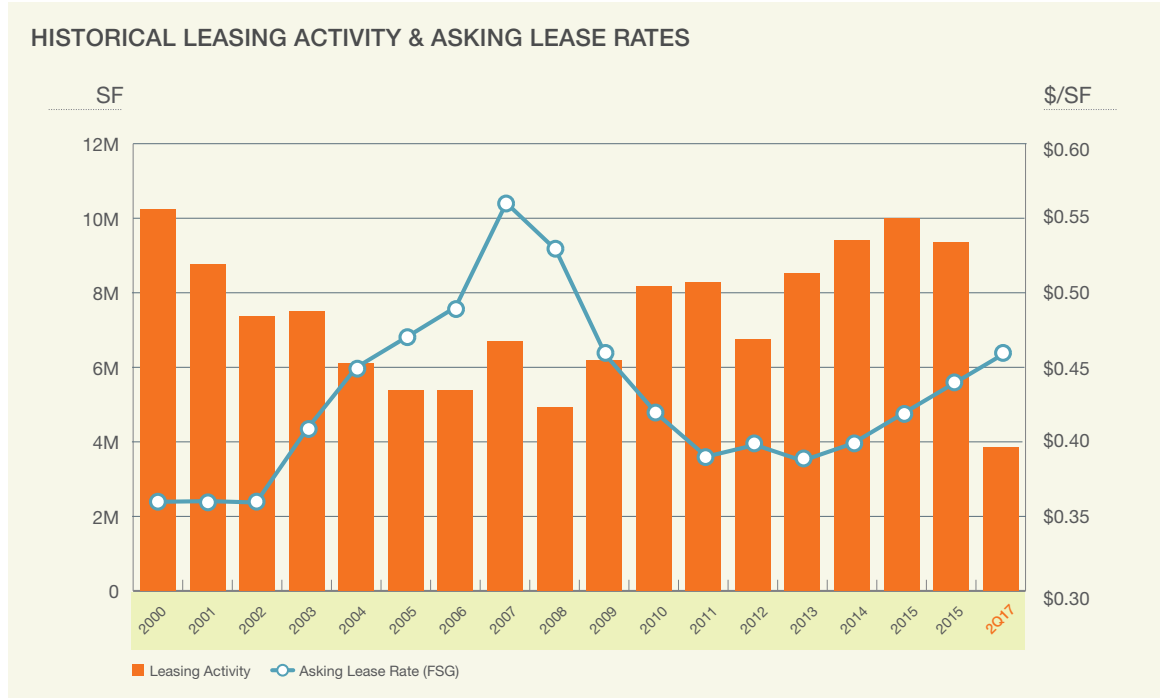
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Market Breakdown

	Q2 2017	Q1 2017	Q2 2016	Annual % Change
Vacancy Rate	7.5%	7.8%	9.6%	-21.9%
Availability Rate	9.3%	10.2%	11.7%	-20.5%
Asking Lease Rate	\$0.46	\$0.44	\$0.42	9.5%
Leased SF	1,861,461	1,986,474	2,457,791	-18.8%
Sold SF	1,819,908	1,683,763	1,488,781	25.0%
Net Absorption	403,324	1,554,869	945,824	N/A



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