

Real Estate Market Review

Sacramento Industrial

The industrial real estate market in the greater Sacramento area ended 2017 with a great quarter. NNN overall lease rates rise year after year to a record high of \$0.47 since 2013 while vacancy tightens its grip on the market. 2017 saw a 25.88% decrease in vacancy by the strength of 5,001,884 square feet in positive net absorption. With vacancy dropping to 6.3%, and availability at 5.6% developers try to keep up with warehouse and distribution space in demand. Anticipating more lease rate increases, investors continue to bet on Sacramento for the industrial supply and demand.

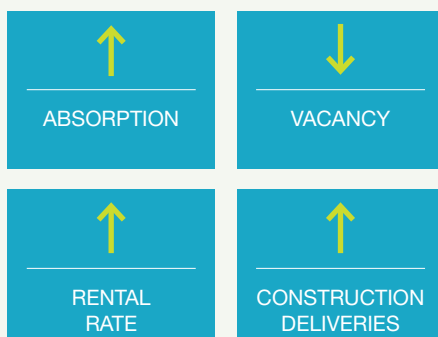
The Sacramento industrial real estate market witnessed 1,846,000 square feet of positive net absorption in the fourth quarter, making it the third consecutive quarter of an increase of positive net absorption. Natomas/Northgate submarket exceeded 1 million square feet of positive net absorption; over 900,000 square feet more than reported in the third quarter.

Backed with a positive net absorption of 1,846,000 square feet, warehouse and distribution space continues to dwindle in greater Sacramento area dropping vacancy

to a marketwide average of 6.3%; the lowest vacancy rate the market has seen in 12 consecutive quarters. With record low vacancies, new construction deliveries will likely be fully leased prior to completion.

There were 149 lease deals during the fourth quarter totaling 1,188,090 square feet in the greater Sacramento area; the majority being direct leases as there is minimal sublease space available. While the Natomas/Northgate submarket reported the most leasing activity in the fourth quarter at 263,431 square feet, Rogers Family Coffee leased 85,500

Market Forecast Trends



Notable Lease Transactions

Rogers Family Coffee
3130 Venture Dr., Lincoln
85,500 s.f. leased

Undisclosed Tenant
820 Riverside Pkwy., West Sacramento
59,900 s.f. leased (sublease)

Undisclosed Tenant
4291 Pell Dr., Sacramento
54,060 s.f. leased

Notable Sale Transactions

Pacific Coast Office Furniture
2951 Thomas Pl., West Sacramento
153,830 s.f. / \$12,922,000 | \$84.00 per s.f.

Buzz Oates
555 Capitol Mall, Sacramento
323,475 s.f. / \$12,000,000 | \$37.10 per s.f.

AMERCO Real Estate Company
3979 N Freeway Blvd., Sacramento
74,645 s.f. / \$8,300,000 | \$114.25 per s.f.

Area Review

Submarket Statistics

Submarket	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	2,751,368	1.60%	1.60%	4.60%	2,749	8,252	5,766	4,500	\$0.72
Davis/Woodland	16,853,912	7.20%	7.20%	9.80%	18,333	454,424	19,522	975,337	\$0.32
Downtown	3,218,580	5%	5%	5%	7,949	44,233	15,000	62,091	\$0.62
East Sacramento	658,496	7.10%	7.10%	9.80%	-5,000	37,176	0	0	\$2.00
Elk Grove/Laguna	6,126,302	6%	6%	8.50%	17,726	-58,697	27,305	178,780	\$0.56
Folsom/El Dorado	5,036,891	5.40%	5.40%	7.60%	18,326	14,802	13,172	41,258	\$0.83
Marysville/Yuba City	6,039,279	1.90%	1.90%	5.90%	-23,920	157,820	0	51,160	\$0.34
Mather	5,253,836	7.50%	7.60%	8.50%	62,448	148,659	57,288	150,056	\$0.54
McClellan	15,364,317	8.70%	8.70%	6.70%	12,520	943,507	52,289	1,106,710	\$0.46
Natomas/Northgate	14,510,914	4.20%	4.20%	6.50%	1,027,879	1,138,108	263,431	699,718	\$0.49
NE Sacramento	6,022,333	5.30%	5.30%	7.30%	65,875	29,270	72,217	121,420	\$0.61
Power Inn	25,691,865	3.60%	3.60%	7.50%	174,462	848,784	225,117	1,640,609	\$0.54
Richards	4,306,751	3.20%	3.20%	3.90%	0	-26,750	0	27,600	\$0.38
Roseville/Rocklin	19,018,353	6%	6.20%	6.80%	132,857	879,283	152,943	1,241,024	\$0.46
South Sacramento	4,217,448	24.50%	24.50%	24.50%	38,408	-7,200	1,377	59,400	\$0.61
Sunrise	11,547,543	4.50%	5.10%	7.10%	56,802	-46,610	60,853	374,882	\$0.52
West Sacramento	19,452,273	7.40%	8.40%	13.90%	238,586	32	224,060	784,198	\$0.45
Total	166,070,461	6.40%	6.50%	8.50%	1,846,000	4,565,093	1,129,548	7,518,743	\$0.61
General Industrial	25,911,604	7.90%	7.90%	8.90%	9,039	1,015,745	50,649	1,387,666	\$0.46
Warehouse and Distribution	112,642,894	5.10%	5.30%	7.80%	1,679,036	3,483,687	855,719	6,101,096	\$0.41
Flex	18,753,264	11.70%	11.80%	14.30%	164,463	431,778	278,206	1,085,489	\$0.78

square feet at 3130 Venture Drive (Roseville/Rocklin submarket) along with another undisclosed tenant leasing 59,900 square feet at 820 Riverside Parkway (West Sacramento submarket).

Asking lease rates in the industrial real estate market continue to climb as vacancy drops and demand rises. The average marketwide NNN overall lease rate dropped one penny compared to \$0.48 reported last quarter. General industrial spaces of 15,000 square feet and above increased to \$0.48 compared to the \$0.46 reported in 2016. While warehouse/distribution remained stagnant at \$0.41 over the year, flex space lease rates increased to \$0.77 compared to the \$0.76 reported last year.

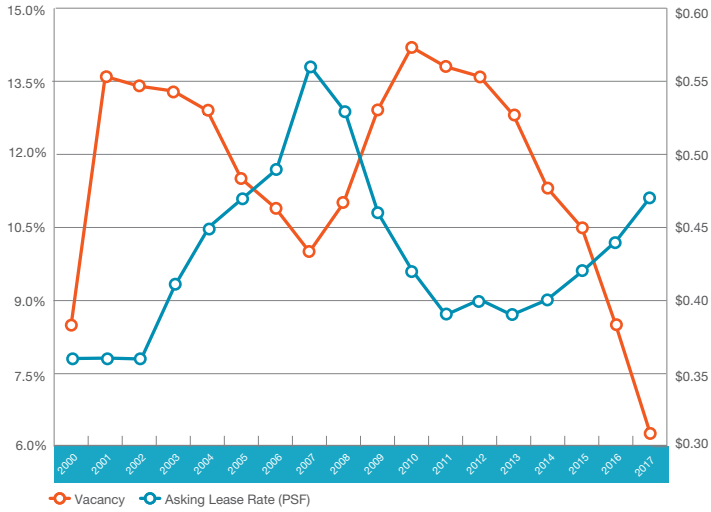
In the final quarter of 2017, there was 14,116,836 square feet available in the greater Sacramento industrial market; a 4.32% reduction from the previous quarter. 1,095,255 square feet was delivered to the market this quarter in new deliveries. Developers have six buildings under construction estimated to total 547,350 square feet. McKesson Corp. has

316,100 square feet under construction at 7701 Foothills Boulevard set to come to the market in the second quarter of 2018 (owner/user). Riverside Commerce Center has 104,800 square feet under construction at 920 Stillwater Road, set to be delivered to the market in the second quarter of 2018. Aerometals has 75,000 under construction at 3942 Sandstone Drive, set to be delivered in the first quarter of 2018 (no space available).

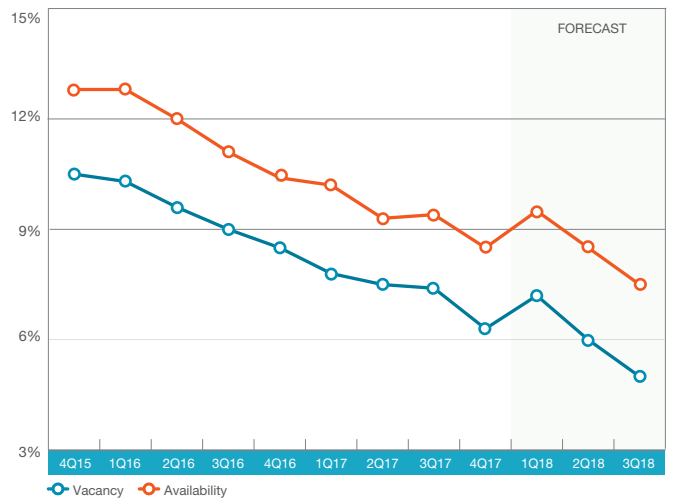
The industrial market saw a 125.52% increase in investment and owner/user sales from 2016 with \$371,666,427 in sales volume. Out of the ninety-five sale transactions in the fourth quarter, twenty four of them were in the Roseville/Rocklin area. Notable sales transactions would include Pacific Coast Office Furniture purchasing 153,830 square feet at 2951 Thomas Place for \$84.00 per square foot, and Buzz Oates purchasing 323,475 square feet at 555 Capitol Mall for \$84.00 per square foot.

Data Source: CoStar

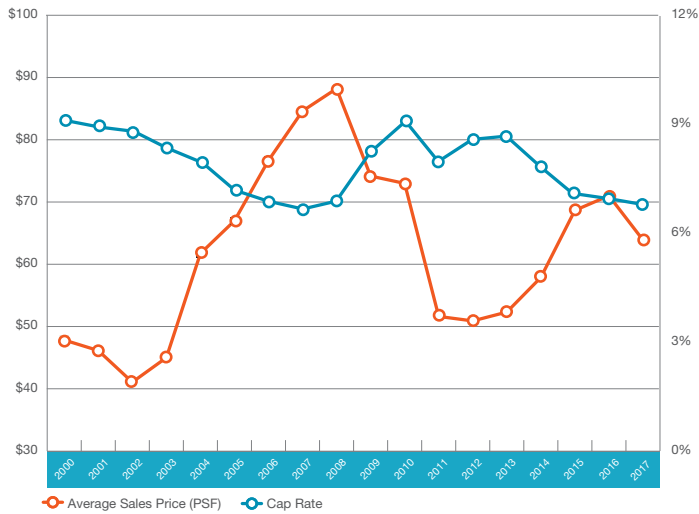
VACANCY VS ASKING LEASE RATE



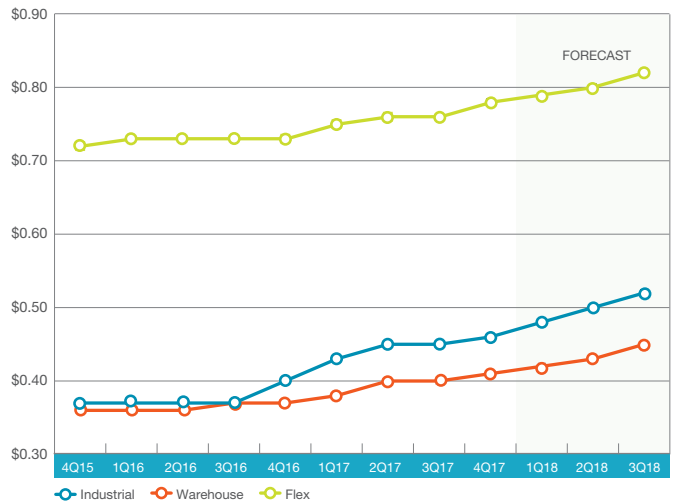
VACANCY VS AVAILABILITY



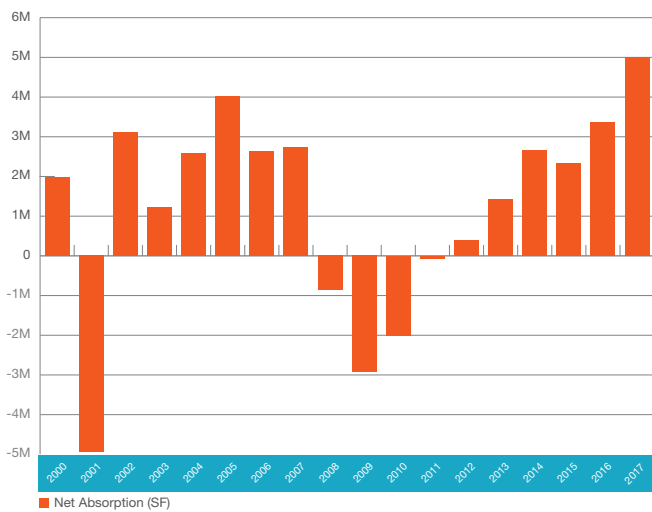
AVERAGE SALES PRICE & CAPITALIZATION RATES



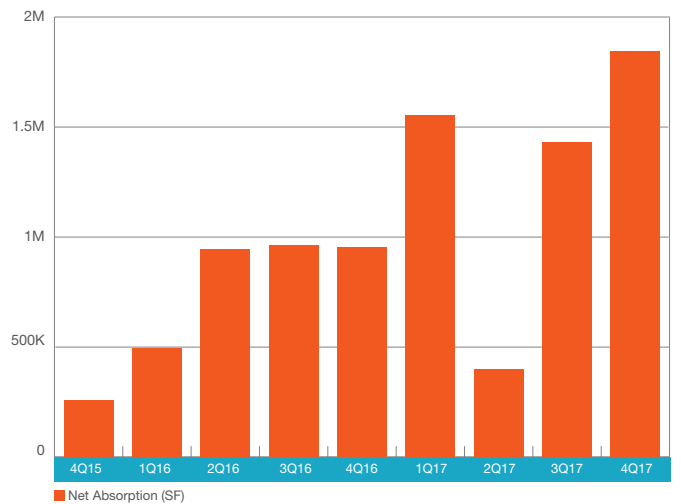
ASKING LEASE RATE



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

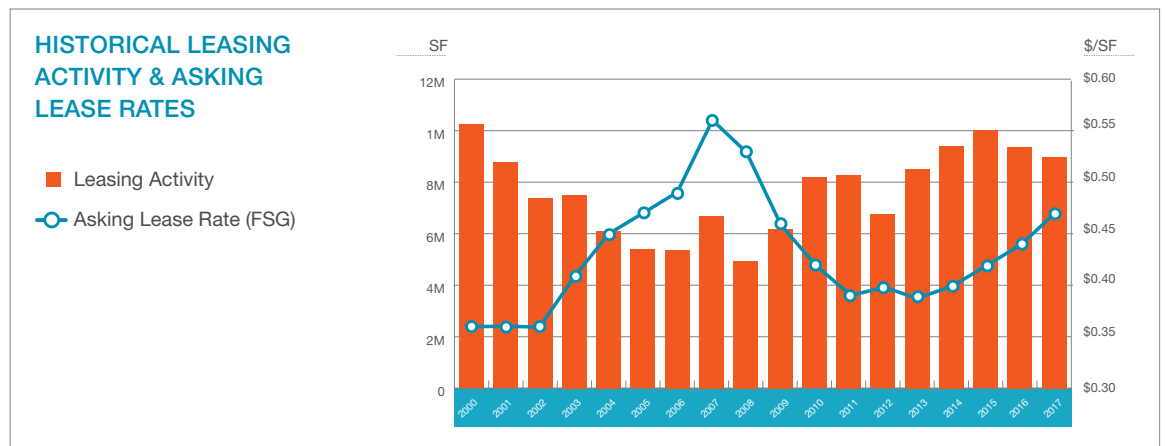
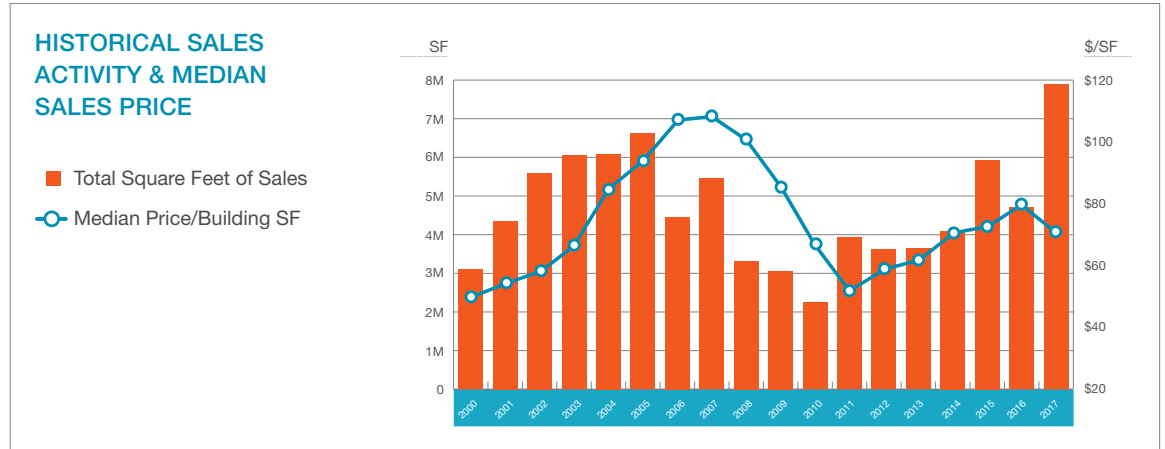
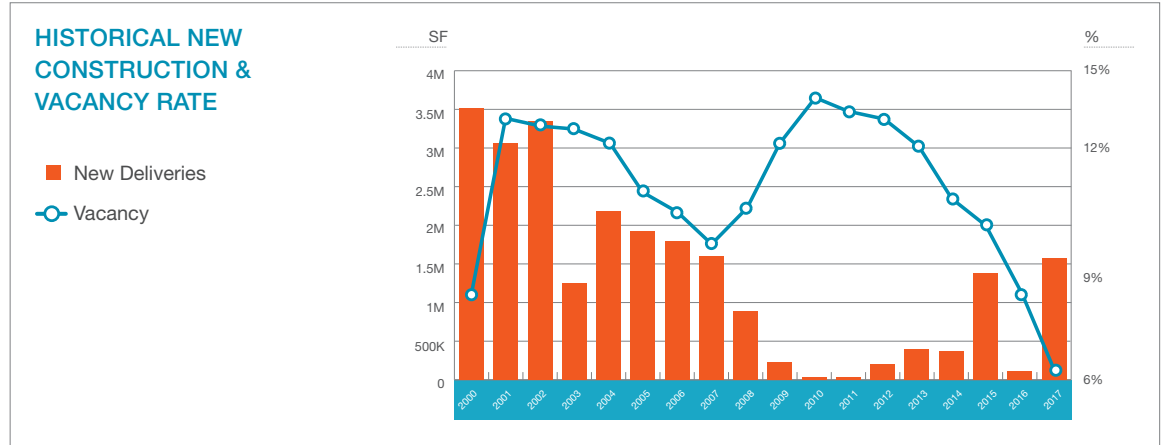
Contact

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Market Breakdown

	2017	2016	2015	Annual % Change
Vacancy Rate	6.30%	8.60%	10.50%	-0.40%
Availability Rate	8.50%	10.60%	12.80%	-33.59%
Asking Lease Rate	\$0.47	\$0.44	\$0.42	11.90%
Leased SF	8,987,319	8,332,977	9,961,564	-9.78%
Sold SF	7,882,858	5,320,469	9,211,063	-14.42%
Net Absorption	5,001,884	3,249,746	2,627,630	N/A



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