

**Real Estate Market Review**

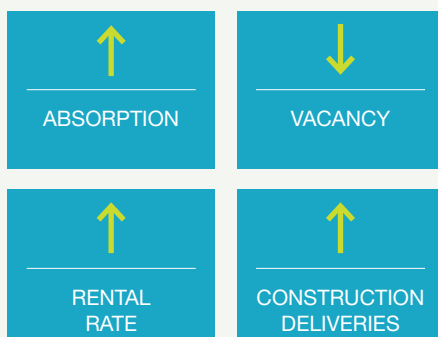
# Sacramento Industrial

The industrial market in the greater Sacramento area showed no signs of slowing down in the first quarter with 1,560,102 sf of positive net absorption. NNN overall lease rates have risen to a record high of \$0.45 while vacancy reached a record low of 4.5%. The first quarter of 2018 saw a 37.5% decrease in vacancy by the strength of 1,560,102 square feet in positive net absorption. With vacancy dropping to 4.5%, and availability at 6.5% 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.

There was 1,560,102 sf of positive net absorption in the Sacramento industrial market for the first quarter. Tenant requirements for mid-size to large warehouse and distribution spaces showed their skin in the game leasing over 1.7 million sf in the first quarter alone. A few of the notable leases included TK Classics (an outdoor furnishing firm) who leased 389,000 sf at 3771 Channel Drive, Goodman Manufacturing leased 80,000 sf at 4700-4940 Lang Avenue, Suite D, and

River City Indoor RV and Boat Storage subleased 66,000 sf at 3900 Florin Perkins Road.

Vacancy for industrial spaces in excess of 10,000 sf in the greater Sacramento area fell to 4.5% in the first quarter. The market had a reported 117 newly executed lease transactions totaling 1.9 million sf. The Auburn/Newcastle submarket had a slight increase in vacancy, but still leads the market with the

**Market Forecast**

**Notable Lease Transactions**

<b>TK Classics</b> 3771 Channel Drive, West Sacramento 389,000 s.f. leased
<b>Goodman Manufacturing</b> 4700-4940 Lang Avenue, McClellan Park 80,000 s.f. leased
<b>River City Indoor RV and Boat Storage</b> 3900 Florin Perkins Road, Sacramento 66,000 s.f. subleased

**Notable Sale Transactions**

<b>Mi Rancho</b> 10115 Iron Rock Way, Elk Grove 150,000 s.f.   \$8,100,000 or \$54.00/s.f.
<b>AMERCO Real Estate Company</b> 1324 Arden Way, Sacramento 89,220 s.f.   \$6,000,000 or \$67.25/s.f.
<b>5801 Warehouse Holdings LLC</b> 5801 Warehouse Way, Sacramento 76,800 s.f.   \$5,112,500 or \$67.25/s.f.

# 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	2,234,921	1.10%	1.10%	4.10%	(7,491)	(7,491)	5,438	5,438	\$0.49
Davis/Woodland	16,189,096	6.20%	6.20%	7%	158,823	158,823	21,255	21,255	\$0.32
Downtown	2,640,421	5.20%	5.20%	5.70%	0	0	0	0	\$0.55
East Sacramento	571,117	0%	0%	3%	0	0	0	0	\$0.00
Elk Grove/Laguna	5,727,591	5.70%	5.70%	5.40%	(9,654)	(9,654)	95,265	95,265	\$0.53
Folsom/EI Dorado	3,081,128	4.50%	4.50%	5.70%	3,159	3,159	3,516	3,516	\$0.66
Marysville/Yuba City	6,295,528	2%	2%	3.70%	3,800	3,800	0	0	\$0.32
Mather	3,840,941	3.60%	3.80%	4.70%	62,006	62,006	7,348	7,348	\$0.48
McClellan	13,666,210	2.40%	2.40%	2.40%	448,420	448,420	174,224	174,224	\$0.42
Natomas/Northgate	12,523,006	2.60%	2.60%	4.90%	141,849	141,849	90,257	90,257	\$0.49
NE Sacramento	5,012,809	4.30%	4.40%	5.20%	38,868	38,868	86,198	86,198	\$0.69
Power Inn	24,448,274	3.50%	3.70%	7.80%	65,161	65,161	326,413	326,413	\$0.61
Richards	4,028,765	4.40%	4.40%	1.90%	(55,678)	(55,678)	178,722	178,722	\$0.83
Roseville/Rocklin	16,005,429	5%	5%	5.70%	260,697	260,697	106,755	106,755	\$0.38
South Sacramento	4,007,397	21.90%	21.90%	22.20%	7,200	7,200	7,200	7,200	\$0.61
Sunrise	9,704,966	2%	2.40%	4.20%	50,658	50,658	153,294	153,294	\$0.49
West Sacramento	18,010,128	4.40%	5%	10.30%	675,982	675,982	675,568	675,568	\$0.44
<b>Total</b>	<b>147,987,727</b>	<b>4.35%</b>	<b>4.50%</b>	<b>6.50%</b>	<b>1,843,800</b>	<b>1,843,800</b>	<b>1,931,453</b>	<b>1,931,453</b>	<b>\$0.49</b>
General Industrial	25,941,210	6.90%	6.90%	8.30%	86,422	86,422	241,042	241,042	\$0.50
Warehouse and Distribution	121,745,950	3.80%	4%	6.10%	1,463,080	1,463,080	1,715,933	1,715,933	\$0.45
Flex	18,690,948	10.20%	10.20%	12.80%	282,472	282,472	301,729	301,729	\$0.79

lowest vacancy rate at 1.1%. With an inventory of over 18 million sf, West Sacramento closed the first quarter having leased 675,568 sf, dropping their overall vacancy rate to 5%.

Triple net lease rates ended the quarter at \$0.45 per square foot market-wide; just over a 15% increase from this time last year. Industrial triple net lease rates in the submarkets of the greater Sacramento area range from \$0.32 to \$0.83 per sf, and triple net lease rates for flex spaces in the greater Sacramento area averaged at \$0.79 per sf at the end of the first quarter.

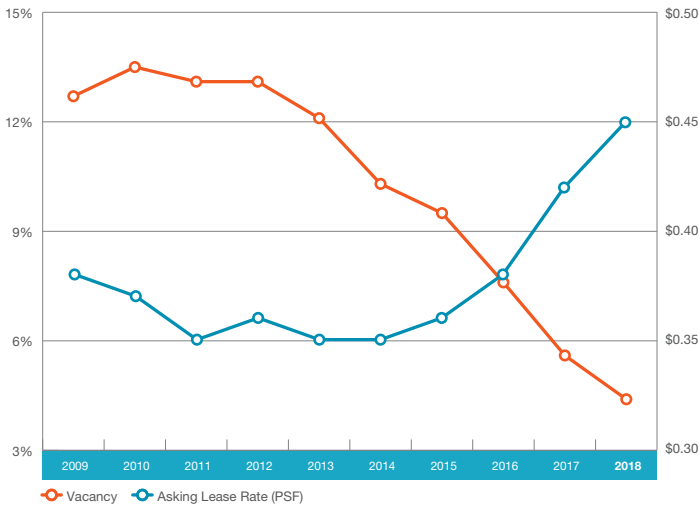
The industrial market had 30 sale transactions in the first quarter, 14 of which were owner/user sales, all totaling 1,580,959 square feet. In 2018 (YTD), the median price per sf has increased to \$85.17 with an average cap rate of 6.22% market-wide. The most notable purchases for the quarter were Mi Rancho - 150K sf at 10115 Iron Rock Way, AMERCO Real Estate Company - 89,200 SF at 1324 Arden

Way, and 5801 Warehouse Holdings LLC – 76,800 sf at 5801 Warehouse Way.

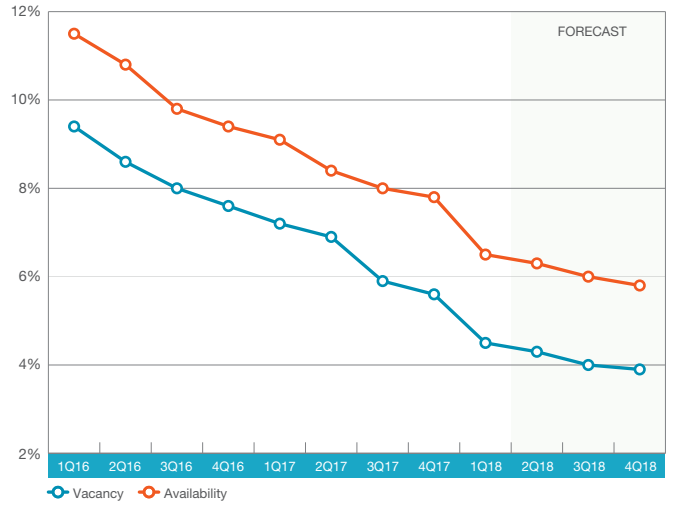
Sacramento has 147,987,727 sf in industrial inventory, of which 9,619,137 sf of that is available. With an availability rate of 6.5% in the first quarter, we believe the new construction deliveries for the second quarter won't be on the market for lease for too long. Mac Millan Partners added 22,500 sf of new construction to the Roseville Commerce Center at 10608 Industrial Avenue, and was fully leased by the end of the first quarter. An additional 912,270 sf is under construction in the Sacramento industrial market; including 316,100 sf at McKesson Corp, 104,800 sf at Riverside Commerce Center, and 75,000 sf at Aerometals speculated to be delivered in the second quarter. Of the 912,270 sf speculated to be completed in the second quarter, only 116,575 sf of that is available.

*Data Source: Kidder Mathews Market Research & CoStar*

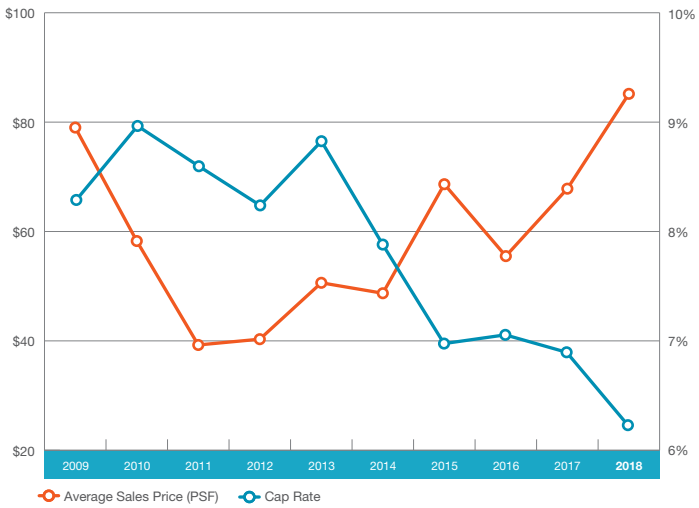
### VACANCY VS ASKING LEASE RATE



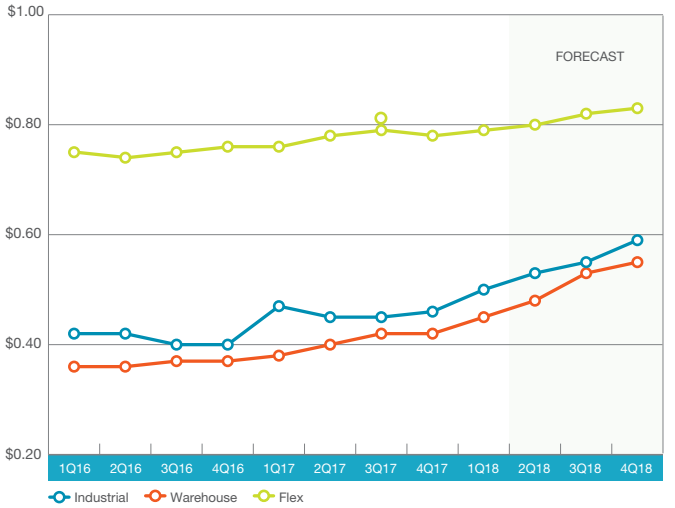
### VACANCY VS AVAILABILITY



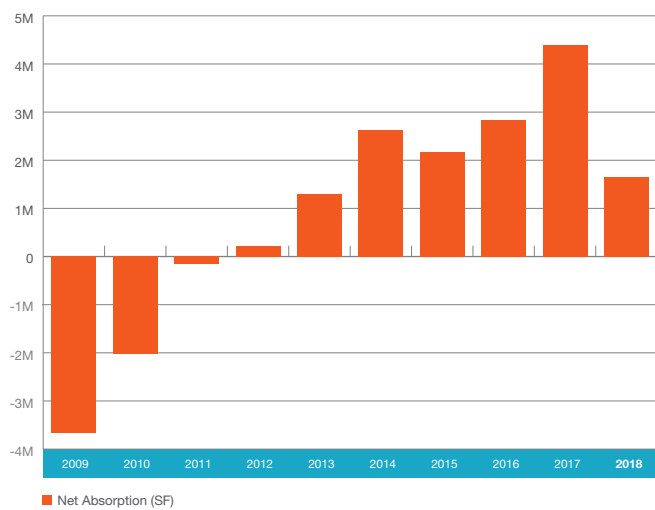
### AVERAGE SALES PRICE & CAPITALIZATION RATES



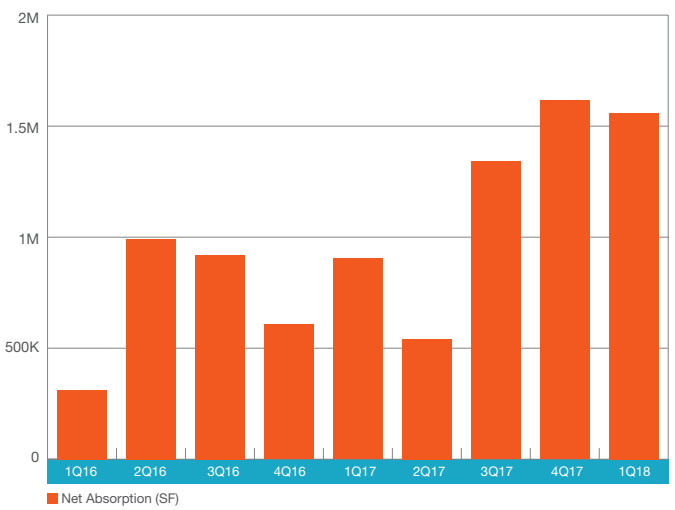
### ASKING LEASE RATE



### 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

**El Segundo**  
310.807.0880

**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**

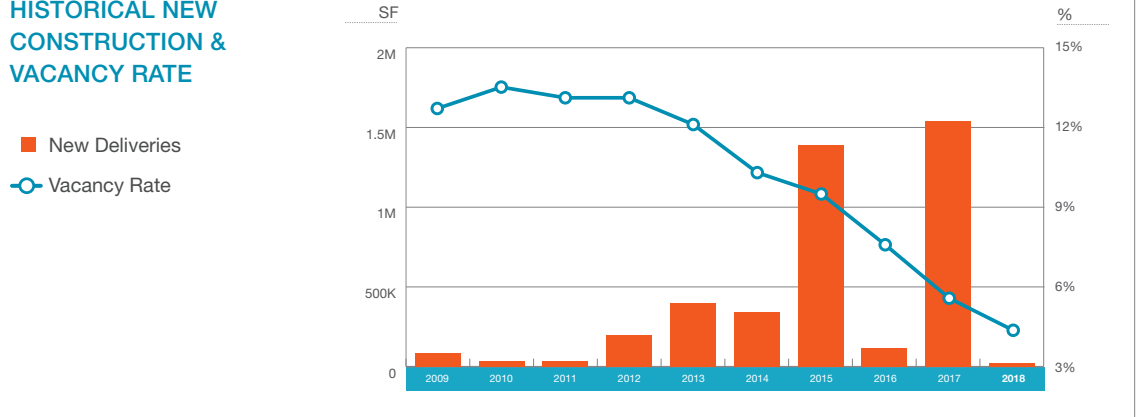
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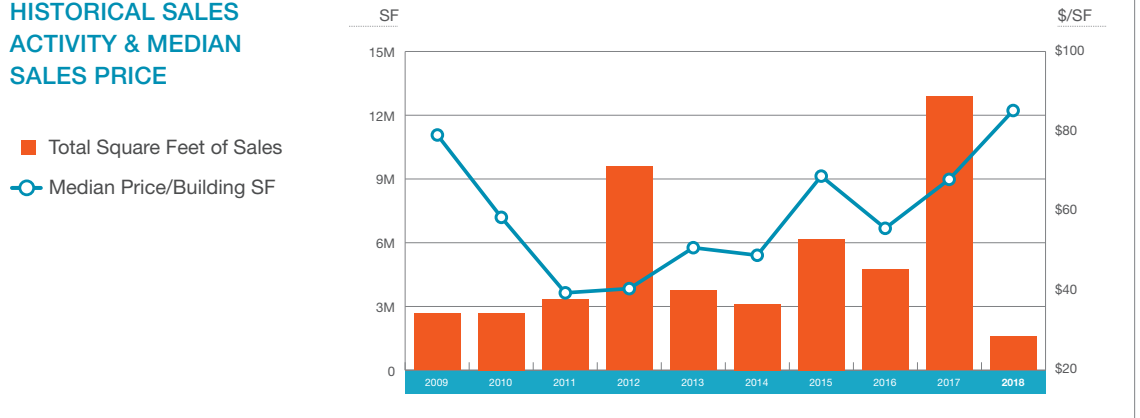
**Market Breakdown**

	1Q18	4Q17	1Q17	Annual % Change
Vacancy Rate	4.50%	5.60%	7.20%	-37.50%
Availability Rate	6.50%	7.80%	9.10%	-28.57%
Asking Lease Rate	\$0.45	\$0.42	\$0.38	15.38%
Leased SF	1,956,975	1,307,556	2,162,990	-9.52%
Sold SF	1,580,959	1,601,100	1,349,977	17.11%
Net Absorption	1,560,102	1,615,878	2,523,179	N/A

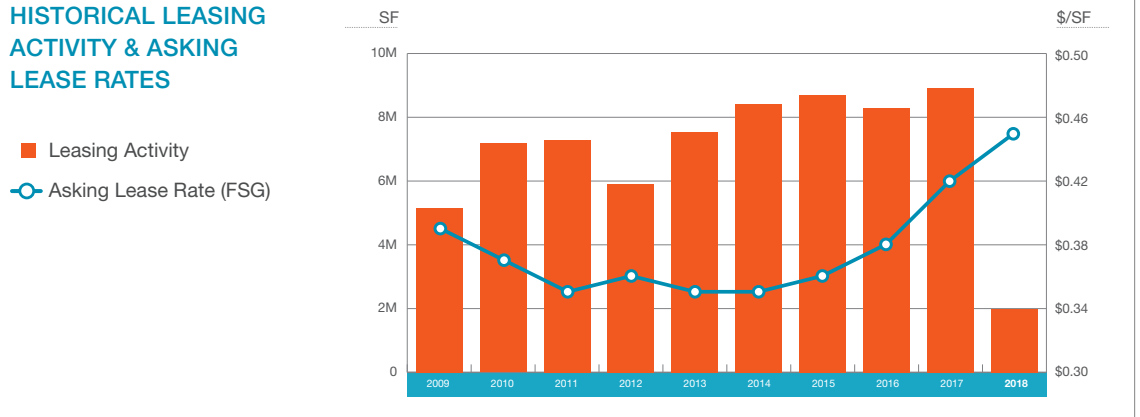
**HISTORICAL NEW CONSTRUCTION & VACANCY RATE**



**HISTORICAL SALES ACTIVITY & MEDIAN SALES PRICE**



**HISTORICAL LEASING ACTIVITY & ASKING LEASE RATES**



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