

Real Estate Market Review

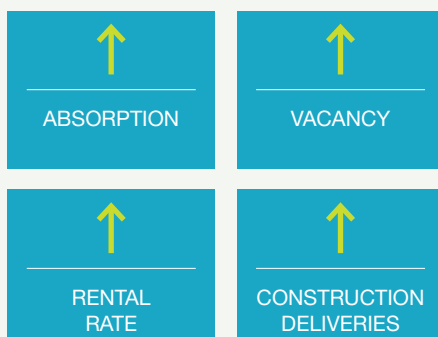
Sacramento Industrial

Greater Sacramento remained a highly coveted location for warehouse and distribution users during the third quarter, as the market reached new cycle lows in vacancy amid 1.16 million s.f. of positive net absorption. Sacramento industrial and flex properties have gained 3.33 million s.f. of occupied office space over the past nine months, bringing vacancies below 7% for the first time this cycle. Inbound demand from tenants remains well ahead of new construction, and big-name newcomers such as Amazon and McKesson are a testament to the market's regional strength. National investors continue to bet on Sacramento's industrial assets, anticipating further increases in the already cycle-high rental rates because of the widening gap between demand and supply.

Vacancies around the Sacramento market slipped to new cycle lows this quarter, as the overall rate in the area fell to 6.7%, down 240 basis points year-over-year. Warehouses and distribution facilities are the most rapidly tightening product types, as users covet space near the junction of Interstates 80 and 5. Marketwide warehouse vacancies were at 5.7% in the third quarter, or about half of the 10.3% vacancy rate reported at this time three years ago, and many of the spaces still available are poorly located or functionally obsolete. Of greater Sacramento's core industrial submarkets, McClellan has seen the sharpest drop in vacancy over the past year, from 13.5% to 9.3%. Sunrise is the only major submarket to show a year-over-year increase in vacancies, from 5.1% to 5.7%.

Approximately 1.8 million s.f. of Sacramento-area industrial offerings came off the market in leases signed this quarter, down from previous periods because of limited availabilities and the usual summertime siesta. Olam Tomato Processors turned in the quarter's largest transaction, a 569,401 s.f. renewal, keeping its space at 1400 Churchill Downs Avenue in Woodland. The most noteworthy new deal was McKesson Medical-Surgical's 316,100 s.f. lease of Panattoni Development's build-to-suit project at 7701 Foothills Boulevard in Roseville. A subsidiary of the San Francisco-based pharmaceutical giant McKesson Corporation, McKesson Medical-Surgical will consolidate two smaller distribution facilities into the Roseville hub, generating approximately 166 jobs. Convenient access to

Market Forecast Trends



Notable Lease Transactions

Olam Tomato Processors
1400 Churchill Downs Avenue, Woodland
569,401 s.f. leased (renewal)

McKesson Corporation
7701 Foothills Blvd, Roseville
316,100 s.f. leased

Hydra Logistics
2031 Optisolar Lane, McClellan
156,000 s.f. leased (renewal)

Notable Sale Transactions

The Blackstone Group
100 property portfolio (58 in Sacramento)
8,766,791 s.f. | \$590M or \$67/s.f.

Bixby Land Company
Building K, Southport Business Park
(2959 Thomas Place), West Sacramento
138,455 s.f. | \$12.3M or \$89/s.f.

RagingWire Data Centers
1625 W National Drive, Sacramento
152,214 s.f. | \$10.655M or \$70/s.f.

Area Review

Submarket Statistics

Submarket	Total Inventory	Direct Vacancy Rate	Total Vacancy Rate	Total Available Rate	Q3 Net Absorption	YTD Net Absorption	Quarterly Leasing Activity	YTD Leasing Activity	Rental Rate
Auburn/Newcastle	2,764,496	1.6%	1.6%	4.2%	22,824	11,047	5,000	40,033	\$0.70
Davis/Woodland	16,852,912	8.0%	8.2%	11.1%	43,574	333,353	92,350	286,023	\$0.31
Downtown	3,221,493	5.3%	5.3%	4.8%	(4,300)	69,933	0	63,040	\$0.62
East Sacramento	658,496	6.4%	6.4%	9.8%	0	37,176	0	0	\$2.00
Elk Grove/Laguna	6,129,302	6.2%	6.2%	8.1%	14,971	(80,849)	50,986	187,443	\$0.57
Folsom/El Dorado	4,993,576	5.2%	5.2%	6.4%	28,584	20,831	59,253	131,604	\$0.81
Marysville/Yuba City	5,995,071	1.5%	1.5%	5.3%	36,800	151,020	34,800	59,460	\$0.34
Mather	5,253,836	8.6%	8.8%	9.3%	94,102	178,740	43,246	224,781	\$0.55
McClellan	15,608,432	9.3%	9.3%	7.0%	299,055	749,487	250,517	1,009,336	\$0.49
Natomas/Northgate	13,609,334	5.8%	5.8%	7.7%	90,140	80,708	179,983	634,785	\$0.51
NE Sacramento	6,024,845	7.1%	7.1%	9.1%	(55,939)	(66,814)	60,125	131,399	\$0.65
Power Inn	25,558,219	3.8%	3.9%	6.4%	95,352	663,293	369,349	1,585,008	\$0.52
Richards	4,453,709	3.1%	3.1%	3.8%	162,858	129,316	0	36,856	\$0.38
Roseville/Rocklin	19,053,639	7.8%	7.8%	7.7%	349,478	617,438	236,452	874,330	\$0.46
South Sacramento	4,217,448	25.4%	25.4%	25.3%	(7,200)	(4,416)	45,800	56,064	\$0.54
Sunrise	11,577,562	5.0%	5.7%	7.1%	(77,914)	(25,964)	182,252	469,336	\$0.54
West Sacramento	19,487,757	6.1%	6.9%	12.2%	66,776	470,517	185,166	889,502	\$0.44
Total	165,460,127	6.4%	6.7%	8.5%	1,159,161	3,334,816	1,795,277	6,678,998	\$0.47
General Industrial	34,940,640	7.9%	7.9%	8.6%	350,773	765,837	178,013	802,496	\$0.45
Warehouse and Distribution	111,660,978	5.4%	5.7%	7.9%	792,971	2,207,305	1,304,954	4,945,845	\$0.42
Flex	18,858,509	13.0%	13.0%	15.0%	39,556	305,218	292,310	879,356	\$0.77

McKesson's customer base, coupled with an accelerated permitting process and support from the Greater Sacramento Economic Council, enabled Roseville to prevail over several nationwide competitors angling to host the facility.

Investment and owner/user sale activity spiked to 5,295,928 square feet during the third quarter, as The Blackstone Group acquired a 100-property national portfolio from Westcore Properties. Fifty-eight of the 100 properties sold were in greater Sacramento, and the total price tag for the portfolio was \$590 million or \$67/sf. Blackstone, which invested heavily in Sacramento's residential market earlier this decade, signaled confidence in the medium-term strength of the area's industrial assets with this purchase. The New York-based investor is now positioned to be a market driver in submarkets like West Sacramento, where it acquired six properties for \$77.1 million in the deal. West Sacramento also played host to the quarter's largest single-building sale, in which Bixby Land Company obtained 2959 Thomas Place from the local developer Ridge Capital for \$12.3 million or \$89/sf. Part of the Southport Business Park, where Ridge Capital controls more than 200 acres for future development, 2959 Thomas place is a 138,455 square foot warehouse built in 2015. The asset is fully leased to wholesalers BWGS and Core-Mark International through early 2022.

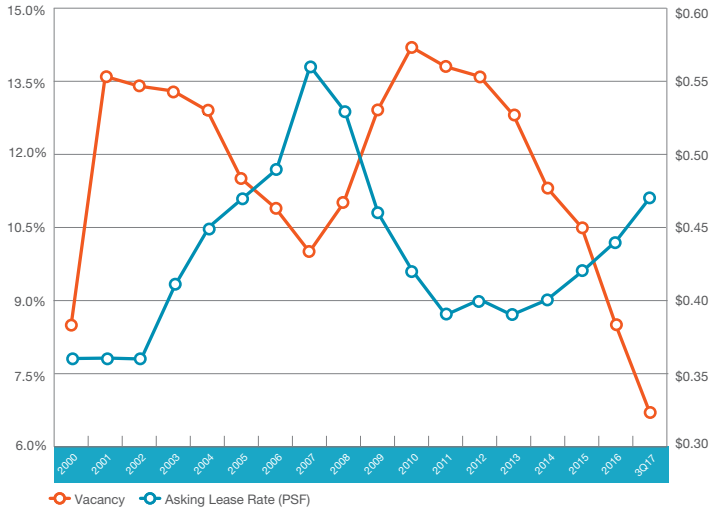
Industrial availabilities were down 250 basis points year over year, to 14.17 million square feet, and the dwindling supply of functionally viable space sent the average asking lease rate up to a cycle-high \$0.47/sf NNN. Rental rates are up 9.3% year over year across the market, and landlords offering spaces with high ceilings, clear dock space, top-end power, or other modern features were pushing

rents up by more than 12% from a year ago. Bulk warehouse and distribution space was priced at \$0.42/sf NNN on average, though areas with direct access to Interstates 80 and 5, such as Natomas/Northgate, were well above the market mean. General industrial offerings ranged from \$0.43-\$0.48/sf NNN, depending on size and location, while flex asks averaged \$0.77/sf NNN. As users from around the region flock to Sacramento, frugal tenants are being pushed to the outskirts of the market, pondering alternatives like Davis/Woodland, where adequate space is still available for less than \$0.40/sf NNN.

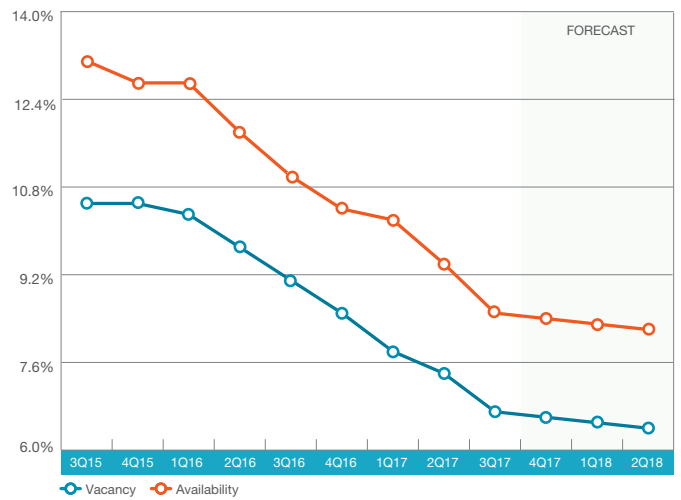
As demand for industrial space in Sacramento remains well ahead of the available supply of frontline facilities, developers have strong incentives to build. Five projects totaling nearly 1.6 million square feet were under construction at the end of the third quarter, almost triple the construction volume seen at this time last year. Amazon's fulfillment center in Natomas/Northgate accounts for more than half of the future space, with 855,000 square feet set to be delivered early in the fourth quarter. Another 391,000 square feet is spoken for by McKesson and Aerometals. Buzz Oates is anticipating a fourth-quarter delivery on its speculative 240,255 square foot warehouse development at 8670 Fruitridge Road in Power Inn, where 120,128 square feet was still available at an asking rent of \$0.42/sf NNN. Harsch Investment Properties broke ground this quarter on a 104,800 square foot project at 920 Stillwater Road in West Sacramento, marketing the property to smaller tenants, including biotech and engineering firms, with completion expected in the first quarter of 2018.

Data Source: CoStar

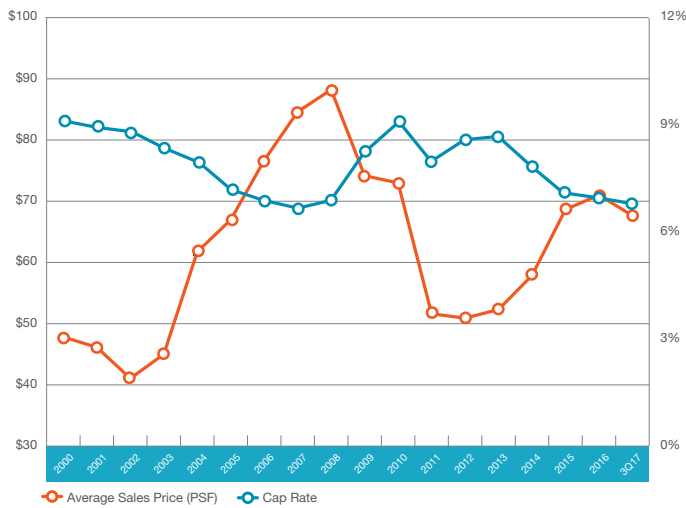
VACANCY VS ASKING LEASE RATE



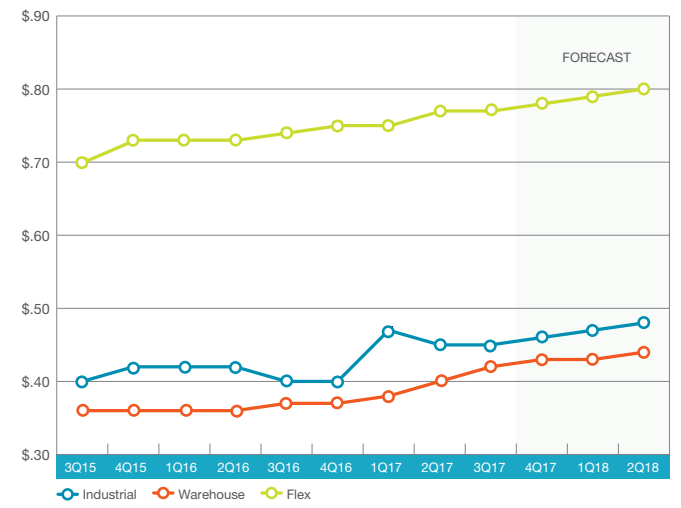
VACANCY VS AVAILABILITY



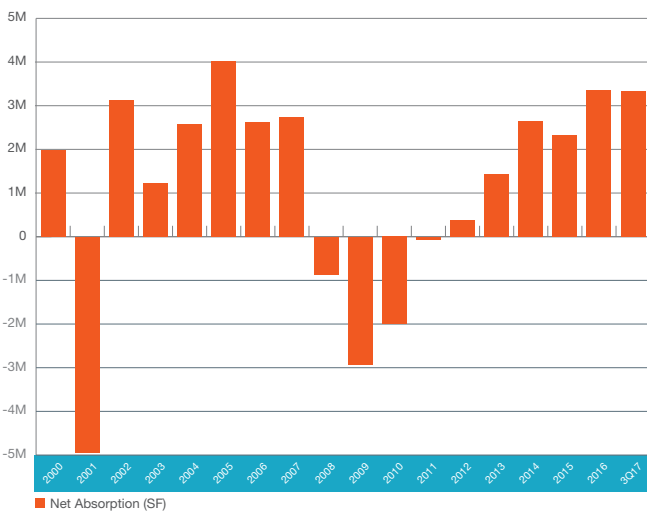
AVERAGE SALES PRICE & CAPITALIZATION RATES



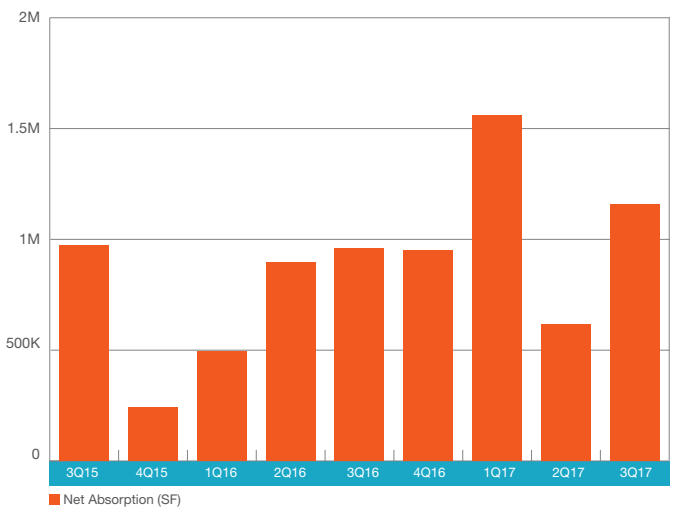
ASKING LEASE RATE



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

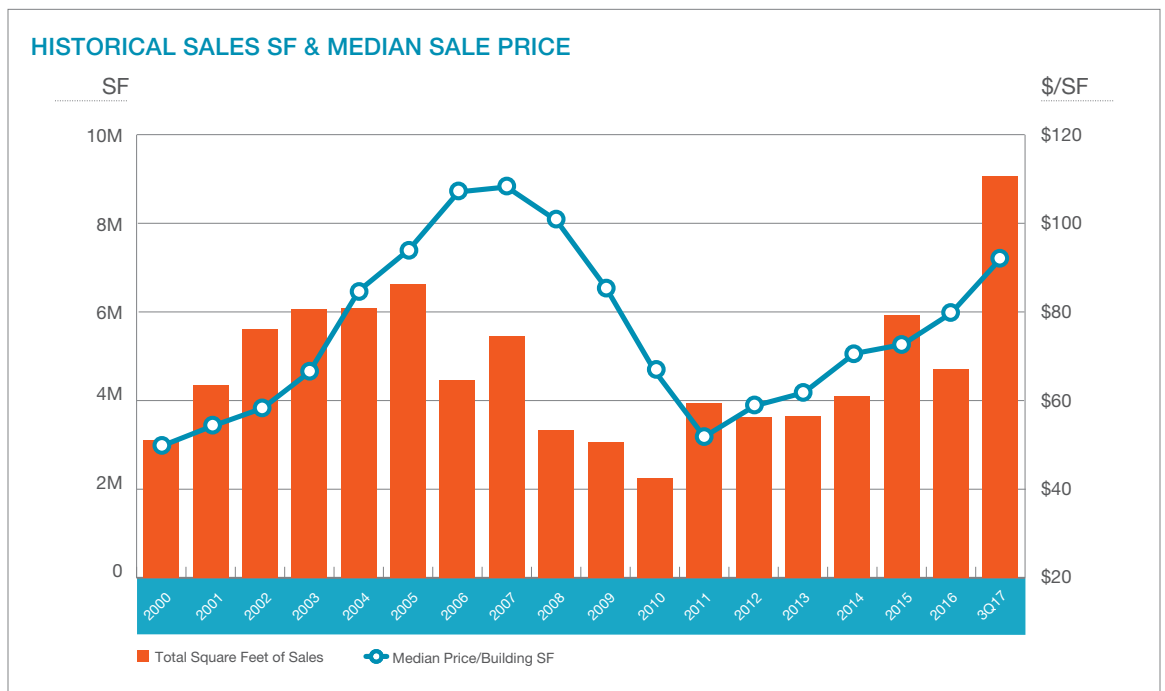
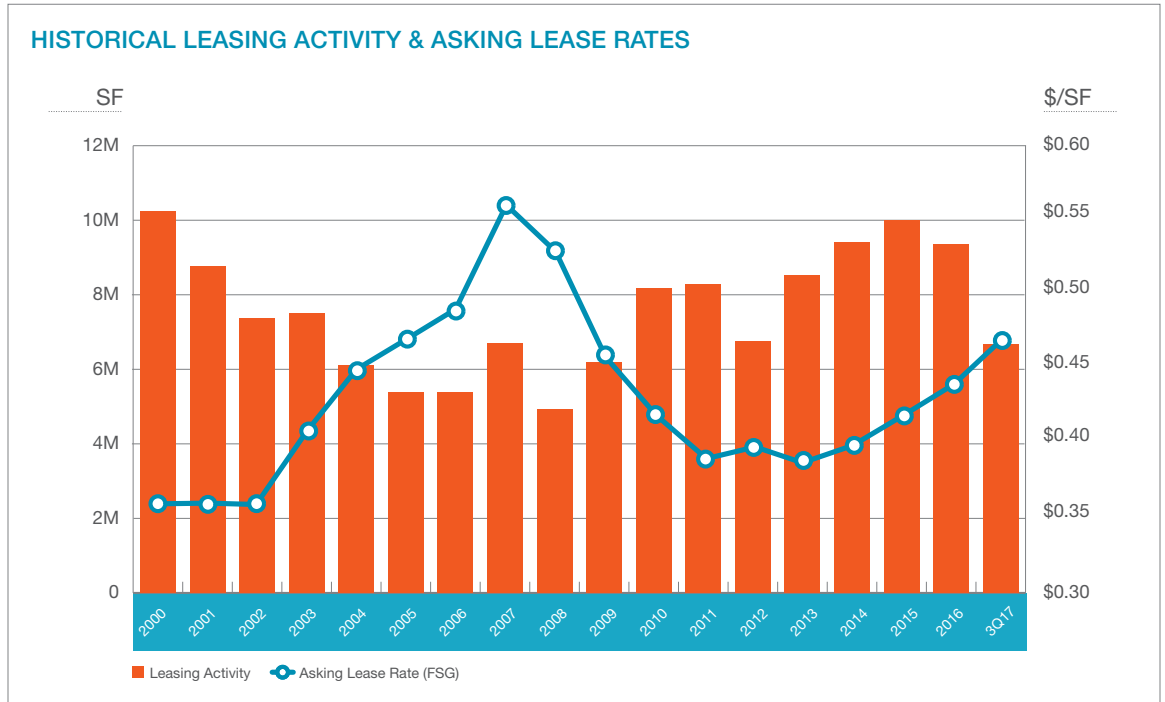
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Market Breakdown

	Q3 2017	Q2 2017	Q3 2016	Annual % Change
Vacancy Rate	6.7%	7.4%	9.1%	-26.4%
Availability Rate	8.5%	9.4%	11.0%	-22.7%
Asking Lease Rate	\$0.47	\$0.46	\$0.43	9.3%
Leased SF	1,795,277	2,582,651	2,855,040	-37.1%
Sold SF	5,295,928	3,058,600	879,255	502.3%
Net Absorption	1,159,161	615,486	960,936	N/A



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