

# MARKETBEAT

## Sacramento

### Industrial Q1 2019



#### SACRAMENTO INDUSTRIAL

##### Economic Indicators

	Q1 18	Q1 19	12-Month Forecast
Sacramento MSA Employment	989.4k	1,017k	▲
Sacramento MSA Unemployment	4.0%	3.6%	▼
U.S. Unemployment	4.1%	3.8%	▼

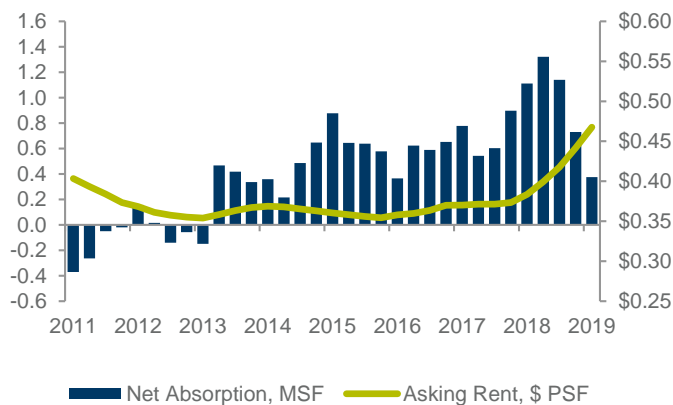
##### Market Indicators (Overall, All Classes)

	Q1 18	Q1 19	12-Month Forecast
Vacancy	4.9%	4.4%	▼
Net Absorption (sf)	1,657k	238k	▲
Under Construction (sf)	935k	987k	▲
Average Asking Rent*	\$0.48	\$0.68	▲

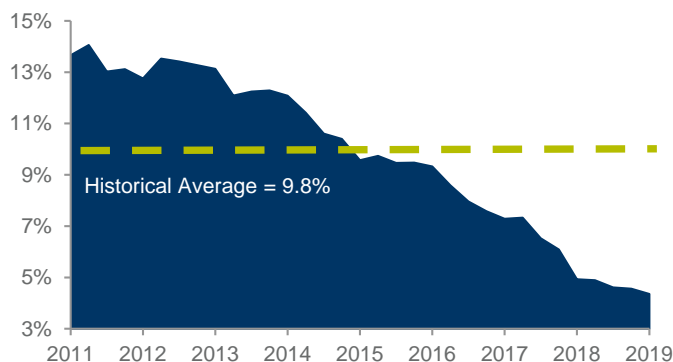
\*Rental rates reflect NNN asking \$psf/month. \*\*Not reflective of U.S. MarketBeat tables

##### Overall Net Absorption/Overall Asking Rent

###### 4Q TRAILING AVERAGE



##### Overall Vacancy



## Economy

Sacramento's economy remained strong in the first quarter with signs of continued expansion across all major industries. The metropolitan area recorded a 40-basis point (bps) decrease in the unemployment rate over the past year as total employment increased by 27,100 jobs. During this economic cycle the market has seen significant job growth in the construction and transportation industries. The need for strong logistics infrastructure will only increase and expand as a competitive advantage for industrial occupiers.

## Record Territory

Strong market fundamentals rules the Sacramento industrial market in the first quarter of 2019 led by a low vacancy rate. Net absorption settled at 238,000 square feet (sf) to start the year and the vacancy rate fell 20 basis points (bps) to 4.4%. This marks the 13<sup>th</sup> consecutive quarter setting a new record low vacancy rate. Limited availability in the market is curtailing net absorption numbers with tenants having few options for either entering or expanding in the market.

Record low vacancy combined with continued high levels of demand have led to rapid growth in asking lease rates, which finished the quarter at \$0.68 per square foot per month on a triple net basis (psf). However this number is likely inflated by landlord's seeking out cannabis-related industries. Building owners have been demanding higher rents to offset increased legal risk from leasing to such a tenant. While legalization of this product accounted for initial lease rate growth, demand has plateaued and current rises in pricing are fueled by sustained levels of low vacancy.

With that said, there is significant construction in the market. Currently there is 987,000 sf of active projects, all of which is speculative and all is almost all scheduled to complete during the second quarter. The two largest projects are the 418,000 sf at McClellan Park and two buildings totaling 408,000 sf in West Sacramento developed by NorthPoint. The next wave of industrial construction is likely to take place at Metro Air Park in Natomas with Buzz Oates and NorthPoint positioned to break ground on large buildings. One sector of the market that continues to be under-developed are small, multi-tenant industrial buildings where there has been significant demand with the issue being that lease rates for this product hasn't met up with the sharply higher cost of construction.

Leasing activity was strong to start the year reaching 1.1 million square feet (msf). West Sacramento, Northeast Sacramento and Downtown Sacramento led the market in terms of net absorption for the quarter recording, 162,000sf, 49,000 sf and 44,000 sf, respectively. Net absorption is not expected to reach 2018 levels and will likely be tied to construction completions.

Almost 1.7 msf of industrial properties sold in the first quarter, for nearly \$121 million in total consideration. The largest single building sale was the 624,000 sf of 3771 Channel Dr in West Sacramento. The building was 62% leased to TK Classics at the time of sale with approximately 200,000 sf still available. While sales volume is fairly consistent from quarter to quarter, property values are increasingly steadily. Buildings sold for an average of \$85 per square foot, up 6.6% quarter-over-quarter.

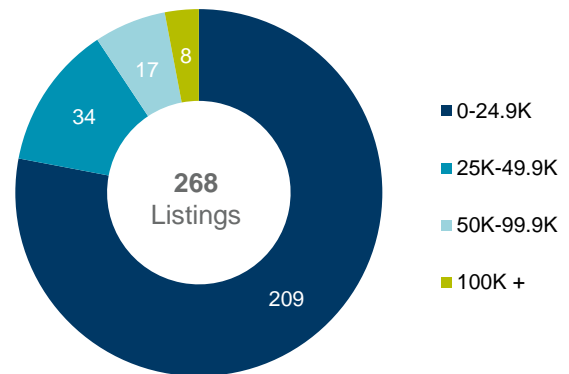
**“THIS MARKS THE 13<sup>TH</sup> CONSECUTIVE QUARTER SETTING A NEW RECORD FOR LOW VACANCY. LIMITED AVAILABILITY IN THE MARKET IS CURTAILING NET ABSORPTION NUMBERS...”**

The industrial market is poised for another strong year with risk coming primarily from external, macro-economic conditions. As mentioned above, construction costs, permits and fees remain too high to justify new smaller buildings. The large projects nearing completion are seeing strong interest from prospective tenants. Overall, market activity is robust with no signs of deceleration in the short-term.

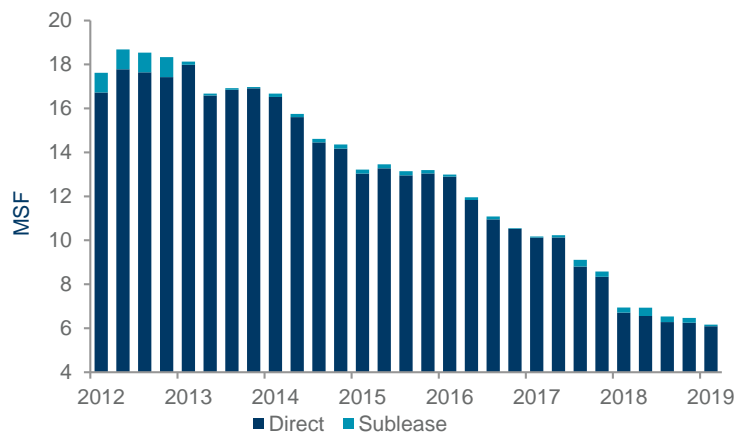
## Outlook

- Vacancy will remain low putting upward pressure on lease rates.
- Construction activity will accelerate as tenant demand greatly outpaces current supply.
- Net absorption will be tied to construction completions as there is little available existing product left to absorb.

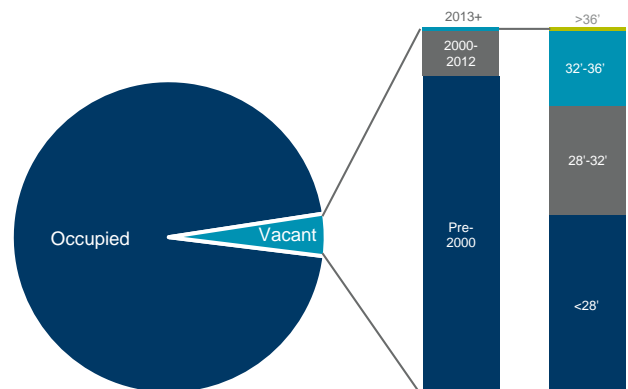
Availabilities by Size Segment  
OVERALL AVAILABILITIES IN ONE UNIT



Direct vs. Sublease Space Available Comparison  
SUBLEASE SPACE A NON-FACTOR



Vacant Industrial Product (By Age and Clear Height)  
60% OF VACANT SPACE FUNCTIONALLY OBSOLETE



# MARKETBEAT

## Sacramento

### Industrial Q1 2019



SUBMARKET	INVENTORY	SUBLET VACANT	DIRECT VACANT	VACANCY RATE	CURRENT NET ABSORPTION	YTD NET ABSORPTION	UNDER CONSTRUCTION	AVERAGE ASKING RENT (NNN)
Woodland	15,469,748	0	711,202	4.6%	40,890	40,890	0	\$0.36
Downtown Sacramento	6,994,911	0	111,193	1.6%	44,300	44,300	0	\$0.49
Folsom / El Dorado Hills	3,199,360	0	147,654	4.6%	15,123	15,123	0	\$0.70
McClellan	13,492,746	0	205,982	1.5%	13,605	13,605	462,737	\$0.42
Natomas	12,489,784	0	451,926	3.6%	-3,333	-3,333	0	\$0.62
NE Sacramento	4,991,466	0	172,389	3.5%	49,267	49,267	0	\$0.72
Placer County	18,688,705	0	547,998	2.9%	-3,116	-3,116	0	\$0.48
Power Inn	24,379,339	0	1,054,023	4.3%	-135,683	-135,683	0	\$0.72
South Sacramento	4,025,595	0	915,607	22.7%	21,720	21,720	0	\$0.75
Elk Grove	5,827,026	0	308,848	5.3%	4,999	4,999	0	\$0.49
Sunrise / Rancho Cordova	13,441,256	46,800	229,829	2.1%	28,448	28,448	51,134	\$0.64
West Sacramento	18,576,522	26,000	1,235,056	6.8%	161,675	161,675	473,016	\$0.60
<b>TOTAL</b>	<b>141,576,458</b>	<b>72,800</b>	<b>6,091,707</b>	<b>4.4%</b>	<b>237,895</b>	<b>237,895</b>	<b>986,887</b>	<b>\$0.68</b>

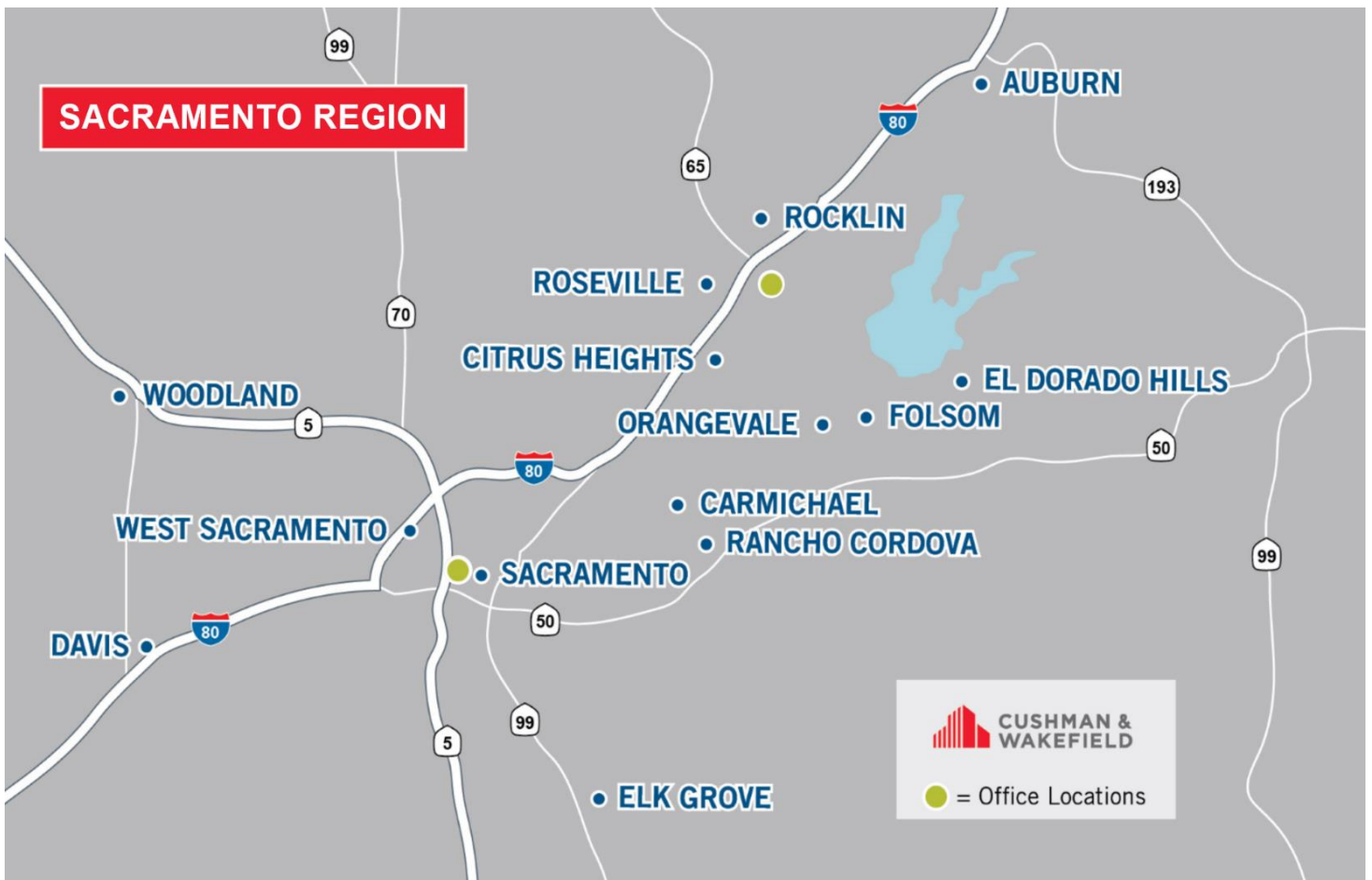
\*Rental rates reflect NNN asking \$psf/month.

### Key Lease Transactions Q1 2019

PROPERTY	SF	TENANT	TRANSACTION TYPE	SUBMARKET
5961 Outfall Cir, Sacramento	96,658	Interline Brands	Renewal	Power Inn
3250-3270 Reed Ave, West Sacramento	52,800	CHP Telecommunications	Renewal	West Sacramento
8286 Industrial Ave, Roseville	43,709	HD Construction Supply	Renewal	Roseville/Rocklin
1122 Joellis Way, Sacramento	35,199	TNT Drives	New Lease	NE Sacramento
1000 Vine St, Sacramento	30,300	Sacramento Valley Produce	New Lease	Downtown Sacramento

### Key Sales Transactions Q1 2019

PROPERTY	SF	SELLER/BUYER	PRICE / \$PSF	SUBMARKET
3771 Channel Dr, West Sacramento	624,356	Transpacific Development Co/LBA Realty	\$39,300,000 / \$62.94	West Sacramento
4500 Pell Dr, Sacramento	63,823	Western Feed & Pet Supply/Miekos	\$5,897,000 / \$92.40	Natomas/Northgate
3290 Monier Circle, Rancho Cordova	45,000	Urata & Sons/TJ Management, LLC	\$3,024,000 / \$67.20	Sunrise/Rancho Cordova
8351 Rovana Circle, Sacramento	44,800	Harmac Development/Ranker AMG	\$4,415,000 / \$98.55	Power Inn
1 Light Sky Ct, Sacramento	43,200	Kenneth J O'Brien / Innovative Industrial Properties, Inc	\$6,664,000 / \$154.26	Power Inn



Cushman & Wakefield  
400 Capitol Mall, Suite 1800  
Sacramento, CA 95814 | USA

For more information, contact:  
Will Austin  
Senior Research Analyst  
Sacramento Research  
Tel: +1 916 228 4562  
will.austin@cushwake.com

\*Due to data sourcing local market statistics vary from those reported nationally.

#### About Cushman & Wakefield

Cushman & Wakefield (NYSE: CWK) is a leading global real estate services firm that delivers exceptional value by putting ideas into action for real estate occupiers and owners. Cushman & Wakefield is among the largest real estate services firms with 48,000 employees in approximately 400 offices and 70 countries. In 2017, the firm had revenue of \$6.9 billion across core services of property, facilities and project management, leasing, capital markets, valuation and other services. To learn more, visit [www.cushmanwakefield.com](http://www.cushmanwakefield.com) or follow @CushWake on Twitter.

©2019 Cushman & Wakefield. All rights reserved. The information contained within this report is gathered from multiple sources believed to be reliable. The information may contain errors or omissions and is presented without any warranty or representations as to its accuracy.