

# MARKETBEAT

## Sacramento

### Industrial Q3 2019



#### SACRAMENTO INDUSTRIAL

##### Economic Indicators

	Q3 18	Q3 19	12-Month Forecast
Sacramento MSA Employment	1,003.2k	1,019.2k	▲
Sacramento MSA Unemployment	3.6%	3.8%	▼
U.S. Unemployment	3.8%	3.7%	▼

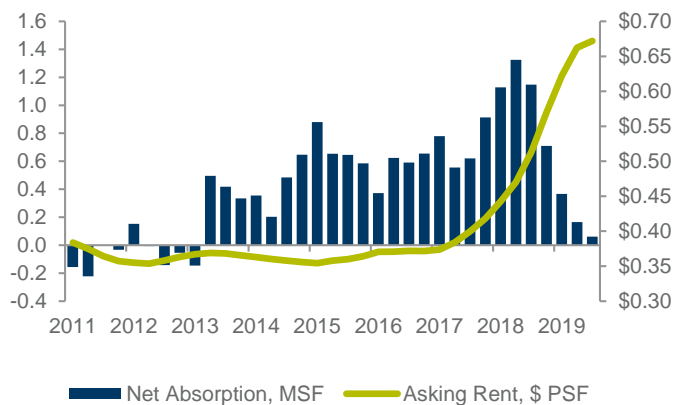
##### Market Indicators (Overall, All Classes)

	Q3 18	Q3 19	12-Month Forecast
Vacancy	4.6%	4.6%	▼
Net Absorption (sf)	430k	13k	▲
Under Construction (sf)	919k	1.2M	▲
Average Asking Rent*	\$0.61	\$0.65	▲

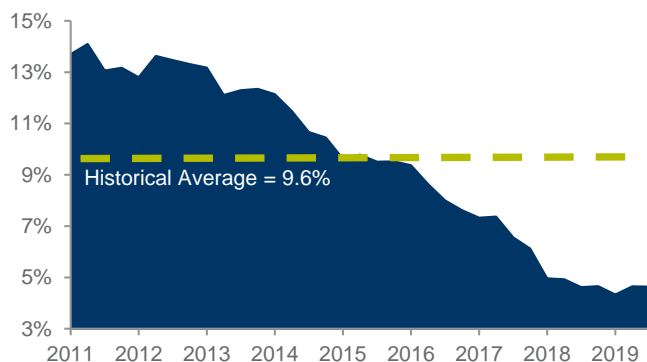
\*Rental rates reflect NNN asking \$psf/month. \*\*Not reflective of U.S. MarketBeat tables

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

###### 4Q TRAILING AVERAGE



##### Overall Vacancy



## Economy

Sacramento's economy remains healthy with opportunities for continued expansion throughout the region. The unemployment rate rose slightly year-over-year (YOY), increasing 20 basis points (bps) to 3.8%. Nevertheless, the market remains at near full-employment with a growing highly skilled, highly educated workforce. Additionally, the Sacramento labor market continues to diversify away from the traditional government employment base, with healthy increases in both cyclical and defensive labor sectors; balancing growth while reducing the risk of job loss in future economic downturns.

## Market Overview

Industrial market fundamentals returned to form as the vacancy rate fell by 10 bps during the third quarter to 4.6%, representing no change YOY. Current levels of vacancy remain just above the market record low of 4.3% achieved in the first quarter of 2019, marking the sixth consecutive quarter below 5.0%. Consistent levels of low vacancy have allowed lease rates to rise by \$0.13 (25.0%) per square foot per month on a triple net basis (NNN), during that time period. This is despite a decrease in lease rates during the third quarter of \$0.03 NNN.

As expected in a market near full occupancy, net absorption was depressed totaling 13,000 square feet (sf) of positive net absorption bringing the year-to-date (YTD) total to 295,000 sf. High levels of demand persist but tenant options are severely limited by a lack of supply. Speculative construction has yet to meet market needs. And despite the 1.2 million sf under construction, no buildings completed during the third quarter. However, construction is expected to begin on Metro Air Park in the Natomas/Northgate submarket as soon as the fourth quarter of 2019.

Additionally, significant completions are expected before the end of the year, the largest of which is the 418,000 sf building at McClellan Park being developed by LDK Ventures. No new projects broke ground but, as mentioned above, more speculative construction is expected at Metro Air Park where a number of large distribution centers are planned, entitled and near breaking ground. However, the market remains unable to service the need for small, multi-tenant industrial buildings where there is significant demand. The economics of these buildings have yet to pencil despite lease rates, in some cases, meeting or exceeding \$1.15 NNN.

Net absorption rose quarter-over-quarter (QOQ) but was still hindered by low vacancy throughout the region. Power Inn, West Sacramento, and Woodland posted the strongest net absorption totals for the quarter recording, 198,000 sf, 126,000 sf and 56,000 sf, respectively. Despite the low net absorption figures market activity has been strong, as gross absorption reached 1.3 million square feet (msf) for the second consecutive quarter.

More than 654,000 sf of industrial properties sold in the second quarter, for nearly \$76 million in total consideration. The largest sale was the Sacramento portion of the \$13.4 billion portfolio sale from GLP to Blackstone. Locally, that sale comprised of seven buildings totaling 725,000 sf. User sales outpaced investment deals in both quantity and total sf, indicating that investors are content to hold their properties and capitalize on the rent growth throughout the market.

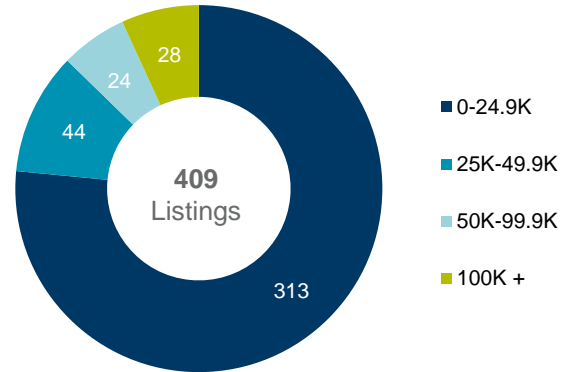
**“CONSISTENT LEVELS OF LOW VACANCY HAVE ALLOWED LEASE RATES TO RISE BY \$0.13 (25.0%) NNN DURING [THE LAST SIX QUARTERS].”**

For the balance of the year, expect an increase in net absorption though the vacancy rate will likely tick upward as speculative construction is completed. Asking rates will likely rise as well as these new projects enter inventory. With speculative construction lagging behind market demand the risk of over building remains very low.

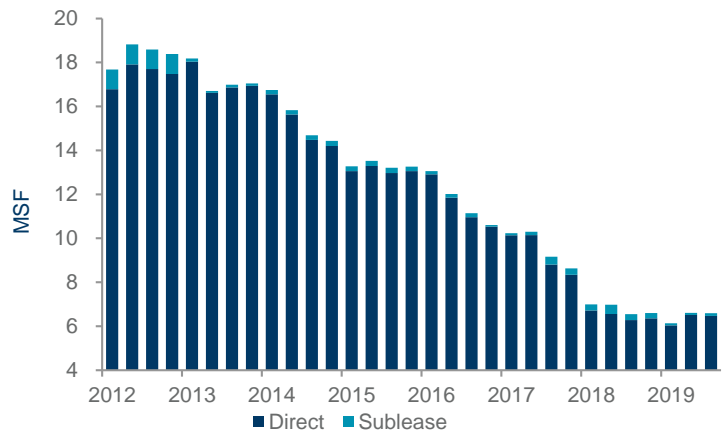
### Outlook

- Vacancy may rise temporarily due to new product delivering – lease rates expected to rise further.
- 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.

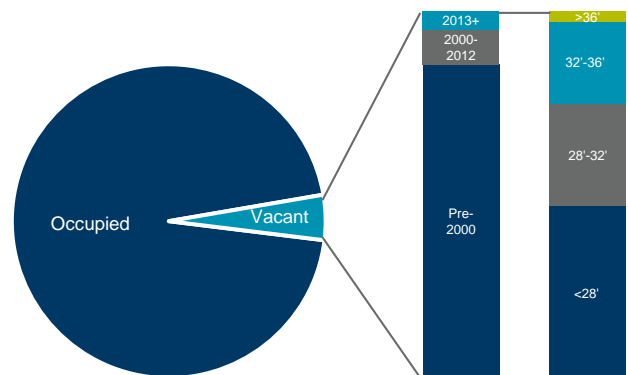
Availabilities by Size Segment  
OVERALL AVAILABILITIES IN ONE UNIT



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 Q3 2019**



SUBMARKET	INVENTORY	SUBLET VACANT	DIRECT VACANT	VACANCY RATE	CURRENT NET ABSORPTION	YTD NET ABSORPTION	UNDER CONSTRUCTION	AVERAGE ASKING RENT (NNN)
Woodland	15,445,303	0	640,419	4.1%	55,622	109,763	0	\$0.37
Downtown Sacramento	6,995,335	0	92,744	1.3%	-21,781	62,749	0	\$0.56
Folsom / El Dorado Hills	3,192,147	0	74,607	2.3%	-19,446	88,670	0	\$0.70
McClellan	13,511,986	20,600	340,390	2.7%	-90,506	-141,403	417,637	\$0.00
Natomas	12,578,014	0	691,725	5.5%	-166,101	-243,132	0	\$0.64
NE Sacramento	4,988,844	0	162,706	3.3%	26,880	58,950	0	\$1.25
Placer County	18,470,335	1,850	504,781	2.7%	-97,990	16,871	0	\$0.56
Power Inn	24,299,988	0	994,619	4.1%	198,321	-74,679	277,000	\$0.87
South Sacramento	4,012,963	45,818	944,909	24.7%	-3,526	-7,582	0	\$0.76
Elk Grove	5,807,909	0	290,327	5.0%	4,207	23,520	0	\$0.48
Sunrise / Rancho Cordova	13,564,081	43,200	327,962	2.7%	2,044	12,647	51,134	\$0.67
West Sacramento	19,033,632	15,875	1,399,789	7.4%	125,519	388,783	473,016	\$0.70
<b>TOTAL</b>	<b>141,900,537</b>	<b>127,343</b>	<b>6,464,978</b>	<b>4.6%</b>	<b>13,243</b>	<b>295,157</b>	<b>1,218,787</b>	<b>\$0.65</b>

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

**Key Lease Transactions Q3 2019**

PROPERTY	SF	TENANT	TRANSACTION TYPE	SUBMARKET
3575 Ramos Dr, West Sacramento	120,000	Pitco	New Lease	West Sacramento
1630 Terminal St, West Sacramento	101,800	Quad Graphics	Renewal	West Sacramento
7651 Foothills Blvd, Roseville	66,367	Restaurant Depot	New Lease	Roseville/Rocklin
6261 Florin Perkins Rd, Sacramento	57,000	Hydra Trucking & Warehousing	New Lease	Power Inn
8430 Rovana Cir, Sacramento	54,000	Capitol City Healthcare	New Lease	Power Inn

**Key Sales Transactions Q3 2019**

PROPERTY	SF	SELLER/BUYER	PRICE / \$PSF	SUBMARKET
7 Property Portfolio	725,015	GLP/The Blackstone Group	\$146,779,287 / \$202.45	Multiple
3500 Carlin Dr, West Sacramento	129,328	Ingram Entertainment, Inc/Reyes Holdings, LLC	\$14,117,457 / \$109.16	West Sacramento
1455 E Kentucky Ave, Woodland	76,934	Gayle Manufacturing Co/Gerlinger Steel & Supply	\$7,336,000 / \$101.74	Woodland
6271 Florin Perkins Rd, Sacramento	57,000	Ravizza Living Trust/Yusol International Foods	\$5,225,000 / \$91.67	Power Inn
6261 Florin Perkins Rd, Sacramento	57,000	Charlies Urata/Brandon Dodd	\$4,447,000 / \$78.02	Power Inn



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

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