

ECONOMY OVERVIEW: Local Economy Remains Strong

Sacramento's economy remains healthy with continued optimism for further growth. The unemployment rate fell slightly year-over-year (YOY), decreasing by 20 basis points (bps) to 3.4%. The market remains at near full-employment with a growing highly skilled, highly educated workforce. Additional job growth is expected in the near term as Centene nears completion of its new regional headquarters with hiring to begin in early 2020.

DEMAND: Net Absorption slows as supply dwindles

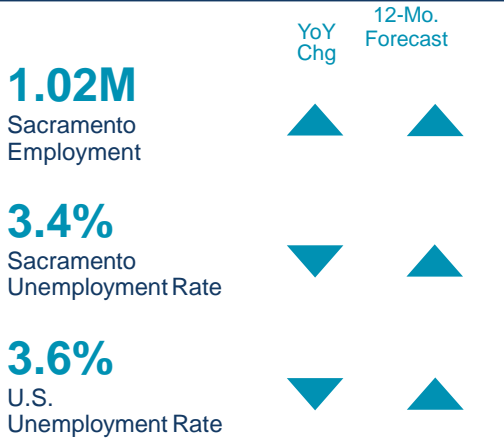
The fourth quarter of 2019 finished strong, with 423,000 square feet (sf) of positive net absorption recorded. In contrast to that healthy figure, the annual total of 688,000 sf was the lowest since 2012, driven primarily by a lack of available product in the market. Looking into 2020, net absorption will be increasingly tied to the completion of new construction deliveries such as the nearly complete 417,000 sf building at McClellan Air Park along with 500,000 sf building at Metro Air Park which is expected the break ground in early 2020.

Overall, tenant requirements have remained in-line with the historical average but the lack of available space along with additional real estate costs and moving expenses are causing existing tenants to seek renewals. Most tenants are only willing to risk going to market if additional space is needed to accommodate significant growth.

SUPPLY: Market remains near full occupancy

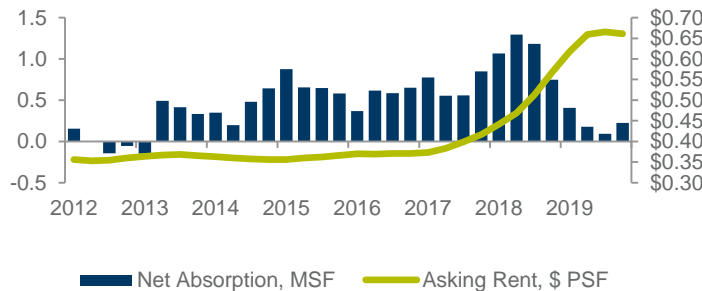
The vacancy rate fell 40 bps during the fourth quarter to 3.7% a record low for Sacramento. The YOY change is only slightly higher at 50 bps but supply is so impacted that the market essentially has been at full occupancy for the past eight quarters. The market had some relief during the year with the completion of several high-cube buildings, mostly in West Sacramento, however those will likely serve only the region's larger users.

ECONOMIC INDICATORS Q4 2019

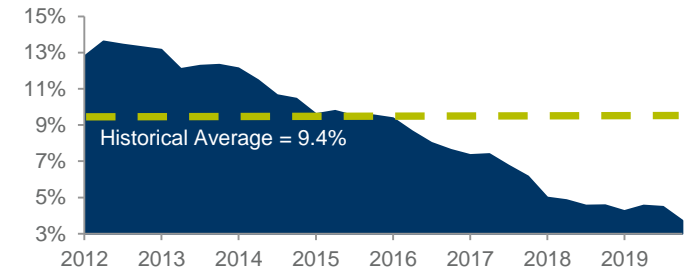


Source: BLS

Overall Net Absorption/Overall Asking Rent 4Q TRAILING AVERAGE



OVERALL VACANCY



PRICING: Lease rates fall, temporarily

The average asking lease rate fell quarter-over-quarter (QOQ) by \$0.04 to \$0.64 per square foot per month on a triple net basis (NNN) and is down \$0.02 YOY. There several factors contributing to the decline in rents including the aforementioned lack of quality space on the market, a decline in marijuana tenant demand as companies either fold or are acquired by competitors, and tenants pushing back on what have been record high asking rents. Lease rates will likely grow in the new year, as the market remains at record low vacancy and is still well below replacement cost for small buildings.

CAPITAL MARKETS: Sales down overall but user sales remain strong

Industrial sales had little impact on quarterly activity as sales volume barely exceeded \$50 million, bringing the annual total to \$417 million, well below 2017 and 2018 totals. Generally speaking, investors are content to hold onto their properties as lease rates remain well below replacement cost, indicating significantly more room for growth. User sales, on the other hand reached \$115 million surpassing both 2017 and 2018 in terms of percentage of overall sales volume.

MARKET OVERVIEW: Lack of new product bodes well for rent growth

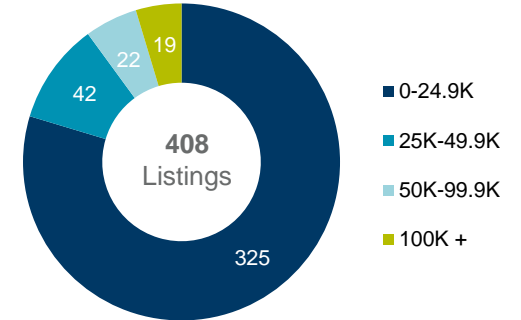
Looking ahead, the same dynamics that existed in 2019 are expected to remain in place in 2020. Tenant requirements will be consistent with historic averages though it will be a struggle to meet that demand with minimal new supply expected. Unfortunately for tenants, particularly smaller tenants, there is little relief in sight with most of the new supply designed to service the larger occupiers in the market. Current owners will likely to continue to hold their property while pushing both lease rates and length of term. With that said, the market will remain largely stable with little risk derived from any fluctuating economic conditions.

OUTLOOK

- Lease rates will stabilize and begin to grow again as desirable space will remain hard to locate.
- Demand will remain consistent with 2019 activity, however the air freight synergies offered at Metro Air Park may entice new occupiers to the region that had previously looked past Sacramento
- Space for smaller companies will continue to be difficult to source as new construction will likely continue to be in excess of 100,000 sf footprint for the foreseeable future.

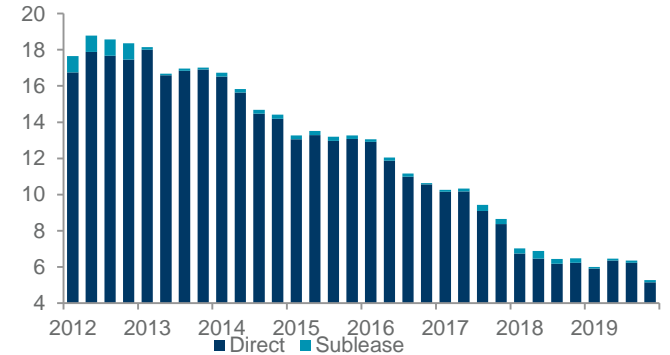
Availabilities by Size Segment

OVERALL AVAILABILITIES IN ONE UNIT



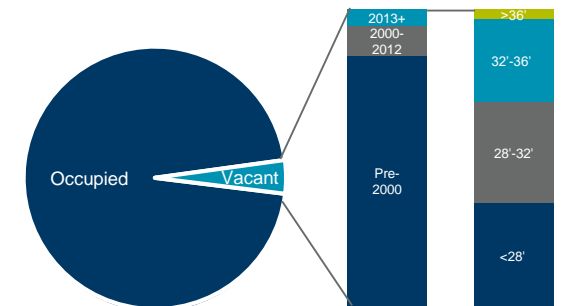
Direct vs. Sublease Space Available Comparison

SUBLEASE SPACE A NON-FACTOR



Vacant Industrial Product (By Age and Clear Height)

60% OF VACANT SPACE FUNCTIONALLY OBSOLETE



Industrial Q4 2019

MARKET STATISTICS

SUBMARKET	INVENTORY (SF)	SUBLET VACANT (SF)	DIRECT VACANT (SF)	OVERALL VACANCY RATE	CURRENT QTR OVERALL NET ABSORPTION (SF)	YTD OVERALL NET ABSORPTION (SF)	UNDER CNSTR (SF)	OVERALL WEIGHTED AVG NNN RENT
Woodland	15,456,311	0	563,445	3.6%	23,925	139,863	0	\$0.36
Downtown Sacramento	6,687,020	0	64,400	1.0%	25,744	51,093	0	\$0.56
Folsom / El Dorado Hills	3,192,147	0	86,825	2.7%	-18,393	76,452	0	\$0.73
McClellan	13,509,774	20,600	280,290	2.2%	7,148	-128,177	462,737	\$0.52
Natomas	12,728,292	52,725	404,401	3.6%	45,371	-57,087	500,000	\$0.63
NE Sacramento	4,985,607	0	151,260	3.0%	11,446	70,396	0	\$0.68
Placer County	18,436,010	1,850	449,351	2.4%	8,556	25,427	0	\$0.56
Power Inn	24,298,246	0	740,483	3.0%	173,263	85,709	262,000	\$0.83
South Sacramento	4,021,943	45,818	849,164	22.3%	-4,177	-5,584	0	\$0.69
Elk Grove	5,807,909	0	234,893	4.0%	5,034	78,954	0	\$0.48
Sunrise / Rancho Cordova	13,622,355	0	334,679	2.5%	17,218	24,440	28,950	\$0.64
West Sacramento	18,963,805	9,020	986,490	5.2%	128,549	536,217	413,234	\$0.64
SACRAMENTO TOTALS	141,709,419	130,013	5,145,681	3.7%	423,684	688,021	1,666,921	\$0.64

*Rental rates reflect weighted net asking \$psf/month

KEY LEASE TRANSACTIONS Q4 2019

PROPERTY	SUBMARKET	TENANT	RSF	TYPE
2935 Ramco St, West Sacramento	West Sacramento	Undisclosed	155,695	New Lease
1701 W National Dr, Sacramento	Natomas/Northgate	Undisclosed	146,019	New Lease
4225 Pell Dr, Sacramento	Natomas/Northgate	Capital Lumber Company	89,000	New Lease
8288 Industrial Ave, Roseville	Roseville/Rocklin	Arena Baseball, LLC	44,009	Renewal

*Renewals not included in leasing statistics

KEY SALES TRANSACTIONS Q4 2019

PROPERTY	SUBMARKET	SELLER / BUYER	SF	PRICE/\$ PSF
7728 Wilbur Way, Sacramento	Power Inn	Massie & Co. / STAG Industrial, Inc.	147,840	\$10.6M/\$72
3 Property Portfolio, Sacramento	Downtown	Northwest Land Park, LLC / 29sc Mill V Property Owner LLC	100,430	\$4.2M/\$42
3233 Dwight Rd, Elk Grove	Elk Grove/Laguna	Oracle Property Development, Inc / Abbey Flooring	46,059	\$4.1M/\$89
2 Property Portfolio, Sacramento	Power Inn	7400 -14th LLC / Equipmentssharecom, Inc	43,889	\$5.4M/\$124

INDUSTRIAL SUBMARKETS



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