

	YoY Chg	12-Mo. Forecast
5.6% Vacancy Rate	▲	▼
-1.1M Net Absorption, SF	▼	▲
\$0.54 Asking Rent, PSF	▼	▲

Overall, NNN Asking Rent

ECONOMY OVERVIEW: Bouncing back

With the full impact of the COVID-19 pandemic still unknown, Sacramento's economy is beginning to reopen after months of shutdown. As a result, the region's unemployment rate reached 13.7% during the second quarter before falling to 11.2% in the third quarter. Decreasing unemployment is just one reason to be optimistic. According to Redfin, Sacramento ranked first in the nation in residents seeking new homes from outside the region with more than 8,000 people searching in the month of July, a year-over-year (YOY) increase of 79.5%.

DEMAND: Net Absorption slows as supply dwindles

The third quarter of 2020 recorded -1.1 million square feet (msf) of net absorption bringing the year-to-date (YTD) total to -1.2 msf. The large negative figure was driven by activity in the Woodland submarket, which had three new vacancies of at least 100,000 square feet (sf) including 570,000 sf at 1400 Churchill Downs Ave. Notably, the new, large vacancies are located in older, low clear-height product, similar to much of what was already on the market. Removing those three products from the mix resulted in a negative figure of -122,000 sf. McClellan and West Sacramento had the highest positive absorption, recording 260,000 sf and 185,000 sf, respectively.

Despite the overall negative absorption figures, tenant requirements have remained fairly consistent with the historical average, with 2.8 msf of active requirements seeking at least 50,000 sf. Strong demand numbers combined with continued build-to-suit activity point to occupiers' continued interest in the market. Sacramento's comparable real estate costs and cheaper labor offer a stronger value proposition than the market had previously presented.

ECONOMIC INDICATORS Q3 2020

	YoY Chg	12-Mo. Forecast
927.4K Sacramento Employment	▼	▲
11.2% Sacramento Unemployment Rate	▲	▼
8.8% U.S. Unemployment Rate	▲	▼

Source: BLS

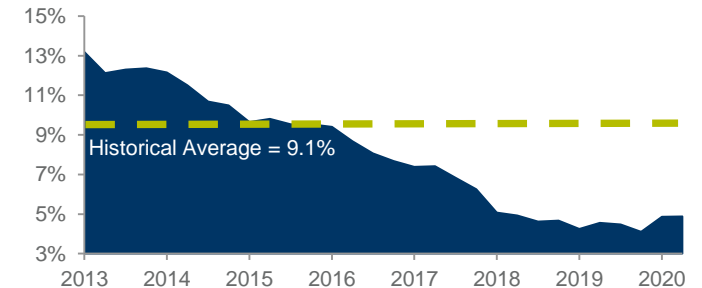
SUPPLY: Market remains near full occupancy

The vacancy rate rose 70 basis points (bps) during the second quarter to 5.6%, largely due to the aforementioned vacancies entering the market. YOY vacancy has climbed by 110 bps but remains just above full occupancy. Construction remains a dominant market theme, with 4.6 msf of product currently being built, 1.9 msf of which is build-to-suit. The largest of the speculative construction project is the 602,000 sf distribution building being developed by Buzz Oates at Metro Air Park in the Natomas/Northgate submarket.

OVERALL NET ABSORPTION/OVERALL ASKING RENT 4Q Trailing Average



OVERALL VACANCY



PRICING

The average asking lease rate fell by \$0.03 since the second quarter of 2020, reaching \$0.54 per square foot per month on a triple net basis (psf). The trends affecting lease rate stabilization have not changed from prior quarters and include a reduction in tenant demand from: marijuana users, traditional industrial tenants refusing to pay the rent premium associated with marijuana buildings, and an increase in low-quality product entering the market. Lease rates are now approaching development pro forma for large distribution buildings, similar to those being built in West Sacramento and Metro Air Park.

CAPITAL MARKETS

Industrial sale activity increased quarter-over-quarter (QOQ), totaling \$106 million a 28.4% increase. YTD sales volume totaled \$295 million, 69.2% of last year's total. Overall, sale activity was in line with quarterly figures from the past two years. The largest sale of the second quarter was the user purchase of 3600 Massie Ct in West Sacramento by Nor-Cal Beverage, Co. Nor-Cal was occupying the entire building at the time of sale. Owners of industrial product in Sacramento seem content to hold onto their properties and few investment opportunities came to the market in during the third quarter of 2020. As a result, user sales outpaced investment sales at a rate of two to one.

MARKET OVERVIEW

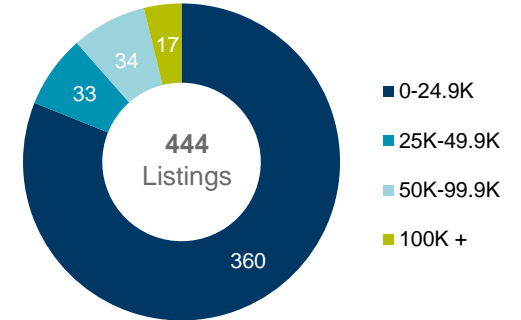
Market fundamentals remain strong, overall, despite the poor net absorption figures. Sacramento remains near full occupancy as the vacancy rate is only 5.6%. The market asking rate settled at \$0.54 NNN, which is near replacement cost for large distribution buildings in the region. Overall, the outlook for upcoming quarters is becoming clearer. Industrial properties, in general, appear well-positioned to weather the pandemic and that combined with the comparatively cheap warehouse labor in Sacramento could continue to lure large users to the region.

OUTLOOK

- Vacancy rate will likely tick upward as speculative construction completes and economic uncertainty remains.
- Demand will remain consistent, however the timeline for completing deals will likely increase spreading leasing activity over a number of quarters.
- Overall Sacramento is well positioned to weather the economic downturn having demonstrated sustainable growth during the prior economic cycle.

Availabilities by Size Segment

OVERALL AVAILABILITIES IN ONE UNIT



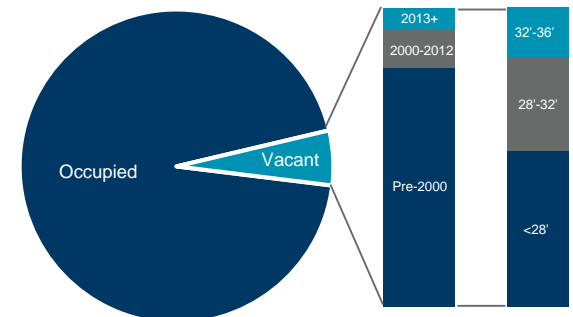
Direct vs. Sublease Space Available Comparison

SUBLEASE SPACE REMAINS NON-FACTOR



Vacant Industrial Product (By Age and Clear Height)

60% OF VACANT SPACE FUNCTIONALLY OBSOLETE



Industrial Q3 2020

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	15,391,622	65,185	1,292,457	8.8%	-1,026,199	-747,323	20,000	\$0.36
Downtown Sacramento	6,687,610	0	295,363	4.4%	-167,597	-238,010	0	\$0.56
Folsom / El Dorado Hills	3,099,996	0	79,737	2.6%	-748	-81,912	23,746	\$0.74
McClellan	13,995,425	17,720	541,928	4.0%	260,278	273,053	336,964	\$0.52
Natomas	12,678,356	55,784	515,819	4.5%	-218,583	-67,603	3,075,636	\$0.60
NE Sacramento	5,049,967	0	267,453	5.3%	-59,231	-128,077	0	\$0.69
Placer County	18,508,498	2,700	594,516	3.2%	38,714	9,648	149,900	\$0.54
Power Inn	24,733,044	57,747	1,404,018	5.9%	-365,745	-345,034	0	\$0.60
South Sacramento	4,011,743	45,818	917,067	24.0%	6,690	15,544	0	\$0.73
Elk Grove	5,821,239	0	143,292	2.5%	87,238	104,921	111,489	\$0.48
Sunrise / Rancho Cordova	13,604,816	47,669	414,611	3.4%	112,477	-34,277	99,055	\$0.62
West Sacramento	19,428,233	10,040	1,294,151	6.7%	185,129	186,893	854,161	\$0.65
SACRAMENTO TOTALS	143,010,549	302,663	7,760,412	5.6%	-1,147,577	-1,052,177	4,649,790	\$0.54

KEY LEASE TRANSACTIONS Q3 2020

*Rental rates reflect weighted net asking \$psf/month **Not reflective of U.S. MarketBeat Tables

PROPERTY	SUBMARKET	TENANT	RSF	TYPE
8825 Elder Creek Rd, Sacramento	Power Inn	Undisclosed	428,000	New Lease
3771 Channel Dr, West Sacramento	West Sacramento	Dollar General	199,156	New Lease
7701 Foothills Blvd, Roseville	Placer County	Undisclosed	149,900	New Lease
1675 Overland Ct, West Sacramento	West Sacramento	Prism Logistics	98,443	New Lease

*Renewals not included in leasing statistics

KEY SALES TRANSACTIONS Q3 2020

PROPERTY	SUBMARKET	SELLER / BUYER	SF	PRICE/\$ PSF
3600 Massie Ct, West Sacramento	West Sacramento	Panattoni / Nor-Cal Beverage Co.	474,792	\$25.6M/\$54
5150 Florin Perkins Rd, Sacramento	Power Inn	Benjamin Atkins / Atlas Properties, Inc	30,301	\$6.8M/\$224
1501 Aviation, Blvd, Lincoln	Placer County	Weygandt & Assoc. / Phillip D Rolla	51,175	\$6.6M/\$129

INDUSTRIAL SUBMARKETS



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