



Sacramento Industrial Market

Sacramento Industrial Market Holds Strong Amid Rising Economic Uncertainty

While reports of continued high inflation and aggressive rate hikes from the Federal Reserve have many worried about the future of the national and local economy, the Sacramento industrial market seems poised to weather any upcoming storm. Even though rising interest rates will undoubtedly put upward pressure on cap rates and some tenants will be particularly affected by the profit margin squeeze brought about by high inflation levels, the overall market leasing fundamentals remain strong. Evidence of this can be found in the continued record levels of interest from institutional investors looking to either enter or grow their holdings within the market. Furthermore, developers, both locally and nationally, also remain bullish on the local industrial market, with over 4.5 million square feet of industrial product currently under construction in the Sacramento region, an all-time high.

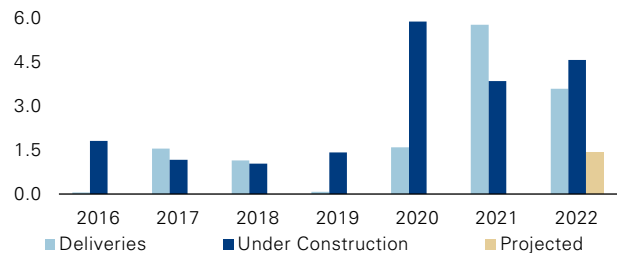
Over the last quarter, the Sacramento region saw its vacancy rate increase slightly to 2.7%, 40-basis-point increase from a quarter ago, but still far below the historical average for the region. Much of this increase can be attributed to the 1.1 million square feet of new industrial product delivered to the market over the last quarter. Despite the high levels of industrial deliveries, net absorption once again remained positive at 440,000 square feet, bringing year-to-date net absorption north of 2.0 million square

Market Summary

| | Current Quarter | Prior Quarter | Year Ago Period | 12-Month Forecast |
|-------------------------|-----------------|---------------|-----------------|-------------------|
| Total Inventory (SF) | 168.1M | 166.9M | 164.4M | ↑ |
| Vacancy Rate | 2.7% | 2.3% | 2.1% | ↔ |
| Qtr Net Absorption (SF) | 440K | 750K | 1.7M | ↔ |
| Avg NNN Asking Rent/SF | \$0.79 | \$0.78 | \$0.74 | ↑ |
| Under Construction (SF) | 4.6M | 3.5M | 2.7M | ↔ |

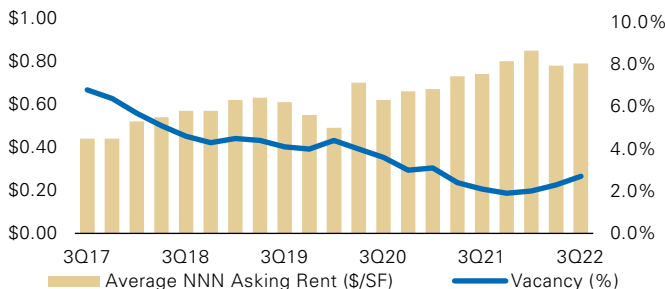
Construction and Deliveries

SQUARE FEET, MILLIONS

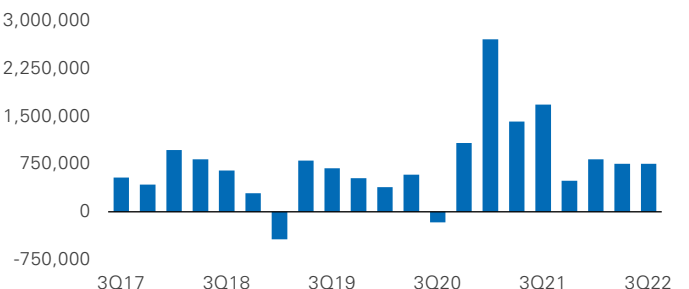


Market Analysis

ASKING RENT AND VACANCY RATE



NET ABSORPTION



RESEARCH Q3 2022

feet. Two of the region's largest submarkets, Power Inn and McClellan/Hwy. 80, ended the quarter with some of lowest vacancy rates at 1.1% and 1.7%, respectively. Meanwhile, the West Sacramento submarket wrapped up the third quarter of 2022 with one of the region's highest vacancy rates, 5.1%. Unsurprisingly, West Sacramento also saw the highest-level of new industrial deliveries over the last quarter, with 604,000 square feet of new product delivered in the past quarter.

The third quarter of 2022 also saw lease rates tick up slightly, with the average asking rent for the region finishing the quarter at \$0.79/SF, up \$.01/SF from last quarter. While it may appear the rapid increase in lease rates over the last few years may be slowing down, these figures have become relatively misleading in the last few months, as many of the region's largest landlords have stopped quoting asking rents. This is particularly true in the Northgate submarket, where the average asking rent came in at \$0.74/SF, yet several lease comps show numerous deals in this submarket being signed at rents north of \$0.90/SF. These high rents have done little in the way of slowing leasing activity from strong credit tenants. In the last quarter, TK Classics penned a renewal for 401,767 square feet at 3771 Channel Dr. in West Sacramento. Around the same time, HD Supply signed a 157,287-square-foot lease directly across the port at Dermody Properties' new development at 2925 Ramco St. The rapidly growing Metro Air Park development to the east of the

Sacramento International Airport continues to grow its tenant base with the addition of Infinity Global Logistics, which signed a 164,631-square-foot lease at the recently completed NorthPoint Development project at 7461 Metro Air Pkwy.

Despite the rapidly changing interest rate environment, the past quarter brought about several notable investment sales. One noteworthy example is Schnitzer Properties' acquisition of three properties on Seaport Boulevard in West Sacramento, which totaled 225,626 square feet and traded for \$138.61/SF, coming in at a 4.0% cap. Other notable sales include a 72,000-square-foot property at 4601 Beloit Dr., which sold for \$163/SF to a San Francisco-based investor, and Graceada Partners' acquisition of 2510 Evergreen Ave. for \$160/SF. These sales represent a clear example of investors' continued bullishness on the local industrial market.

Even though concern abounds about what the future will bring to the economy, it seems the Sacramento industrial market is still positioned to hold strong. One should expect to see cap rates rise as debt becomes more expensive and investor underwriting becomes more stringent but leasing activity should remain solid as vacancy rates still hover near all-time lows. While many have been saying for years that we are in the "ninth inning" of the current cycle, one can safely assume the local industrial market still has some runway left before any true slowdown is felt.

Select Lease Transactions

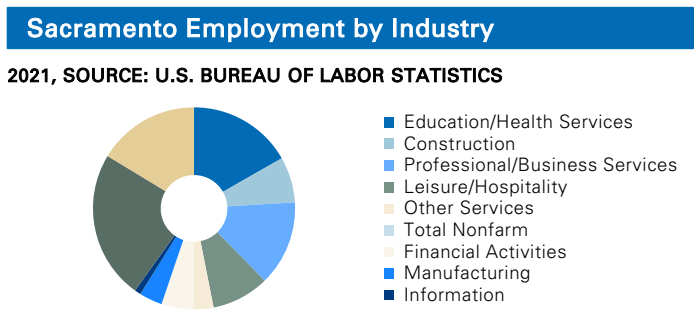
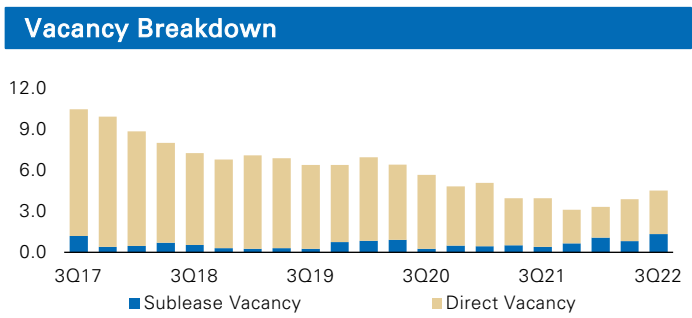
| Tenant | Building(s) | Submarket | Type | Square Feet |
|-----------------------------------|--------------------------|--------------------|---------------|-------------|
| TK Classics | 3771 Channel Dr | West Sacramento | Lease Renewal | 401,767 |
| Infinity Global Logistics | 7461 Metro Air Pkwy | Northgate | Direct Lease | 164,631 |
| HD Supply | 2925 Ramco St | West Sacramento | Direct Lease | 157,287 |
| State of California | 401 N 3 rd St | Downtown | Lease Renewal | 120,880 |
| Roadtex Transportation Management | 6101 Midway St | Power Inn Florin | Direct Lease | 114,175 |

Select Sale Transactions

| Building(s) | Submarket | Sale Price | \$/SF | Square Feet |
|--------------------------|--------------------|--------------|-------|-------------|
| 3910 – 3940 Seaport Blvd | West Sacramento | \$31,275,000 | \$139 | 225,625 |
| 4601 Beloit Dr | McClellan Hwy 80 | \$11,700,000 | \$163 | 72,000 |
| 4335 Pacific St | Rocklin | \$7,250,000 | \$179 | 40,460 |
| 411 N Pioneer Ave | Woodland | \$7,200,000 | \$124 | 58,100 |
| 2510 Evergreen Ave | West Sacramento | \$5,760,000 | \$160 | 36,000 |

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| Overall Submarket Statistics | | | | | | | | | | |
|------------------------------------|--------------|----------------------|------------------|--------------------|-----------------|----------------------|----------------------|-------------------------|---------------------|----------------------------------|
| | Total Bldgs | Total Inventory (SF) | Under Const.(SF) | Total Vacancy (SF) | Total Vac. Rate | Total Available (SF) | Total Available Rate | Quarter Absorption (SF) | YTD Absorption (SF) | Total NNN Asking Rent (Price/SF) |
| Sacramento | 3,288 | 101,273,297 | 3,183,524 | 2,213,843 | 2.2% | 3,849,027 | 3.8% | 426,711 | 1,959,437 | \$0.81 |
| Downtown | 453 | 11,124,834 | 0 | 420,304 | 3.8% | 897,396 | 8.1% | -61,703 | -35,749 | \$1.02 |
| Northgate | 348 | 20,493,557 | 2,325,283 | 602,395 | 2.9% | 785,242 | 3.8% | 195,690 | 811,504 | \$0.75 |
| South Sacramento | 206 | 3,395,050 | 0 | 18,411 | 0.5% | 55,911 | 1.6% | -973 | -5,477 | \$0.69 |
| Power Inn Florin | 866 | 29,597,763 | 0 | 336,268 | 1.1% | 921,016 | 3.1% | 56,386 | 660,601 | \$0.73 |
| 50 Corridor West | 236 | 5,559,293 | 0 | 309,452 | 5.6% | 372,716 | 6.7% | -39,084 | -68,081 | \$0.79 |
| 50 Corridor East | 547 | 10,164,276 | 717,346 | 184,590 | 1.8% | 369,265 | 3.6% | -34,595 | -97,308 | \$0.83 |
| McClellan Hwy 80 | 569 | 20,037,183 | 140,895 | 335,783 | 1.7% | 440,841 | 2.2% | 309,390 | 683,997 | \$0.69 |
| Carmichael Citrus Heights | 63 | 901,341 | 0 | 6,640 | 0.7% | 6,640 | 0.7% | 1,600 | 9,950 | \$1.04 |
| West Sacramento | 475 | 23,348,099 | 705,001 | 1,190,194 | 5.1% | 1,814,945 | 7.8% | 48,872 | 140,017 | \$0.75 |
| Folsom | 16 | 856,235 | 0 | 11,837 | 1.4% | 20,795 | 2.4% | 0 | -4,962 | \$1.63 |
| El Dorado Hills | 96 | 2,235,657 | 0 | 105,056 | 4.7% | 124,075 | 5.5% | 0 | 6,214 | \$1.06 |
| Roseville | 173 | 7,456,618 | 26,685 | 382,114 | 5.1% | 604,235 | 8.1% | -13,480 | -197,634 | \$0.71 |
| Rocklin | 272 | 7,237,388 | 0 | 132,670 | 1.8% | 180,229 | 2.5% | -5,780 | 142,398 | \$1.16 |
| Loomis Auburn Newcastle | 131 | 2,172,210 | 42,440 | 11,193 | 0.5% | 17,093 | 0.8% | 0 | -8,000 | \$0.87 |
| Lincoln | 45 | 2,679,013 | 0 | 293,270 | 10.9% | 312,470 | 11.7% | 7,910 | -99,845 | \$0.51 |
| Woodland | 202 | 14,909,263 | 0 | 125,307 | 0.8% | 290,908 | 2.0% | -13,549 | 130,933 | \$0.53 |
| Davis | 30 | 861,385 | 0 | 13,141 | 1.5% | 15,014 | 1.7% | -8,350 | -9,107 | \$1.51 |
| Elk Grove Laguna | 173 | 5,067,902 | 631,465 | 61,360 | 1.2% | 94,521 | 1.9% | -1,875 | -50,041 | \$0.85 |
| SACRAMENTO REGION | 4,901 | 168,097,067 | 4,589,115 | 4,539,985 | 2.7% | 7,323,312 | 4.4% | 440,459 | 2,009,410 | \$0.79 |



For more information:

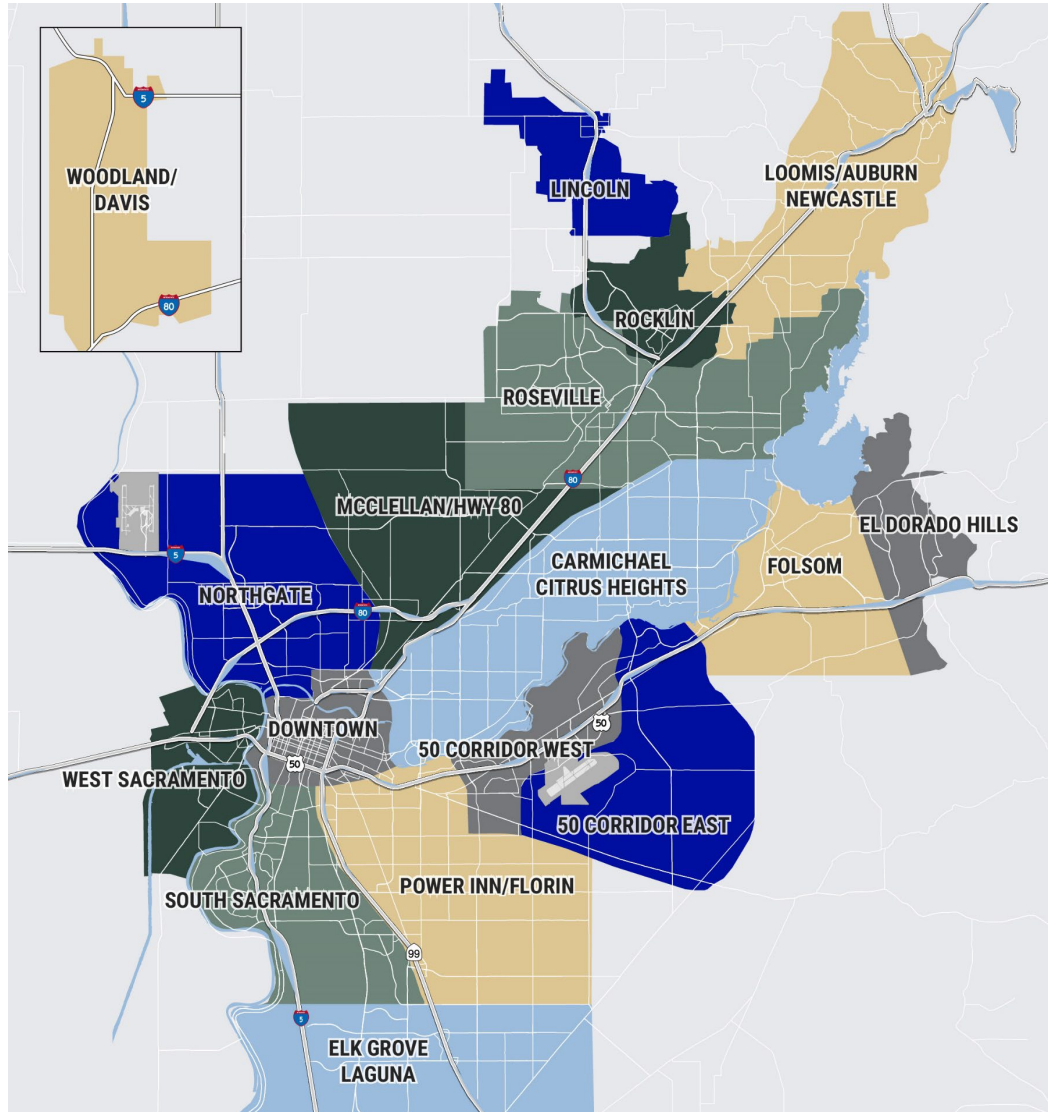
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