



Sacramento Industrial Market

Another Record Performance for the Sacramento Industrial Market

As we enter our third calendar year of dealing with COVID-19, it has become very clear that the Sacramento industrial market has not only survived during the pandemic but has thrived. Among the various sectors of commercial real estate, industrial real estate is uniquely positioned to take advantage of the pandemic situation. Even prior to the pandemic, ecommerce was reshaping the warehousing and distribution markets around the country, leading to dramatic growth for the industrial market. Now with the recent logistic problems in the ports, many companies have started reshoring products to be less affected by future possible pandemic disruptions. The Bay Area migration to more affordable housing markets like Sacramento due to more remote work has also led to solid gains for the construction industry. All these factors have combined to create one of the hottest industrial real estate markets Sacramento has ever seen.

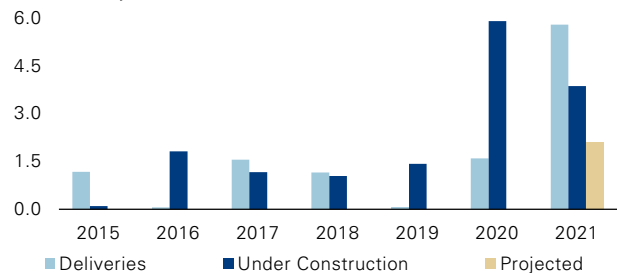
The Sacramento industrial market hit a new record low vacancy rate of 1.9% to end 2021. A year ago, that vacancy rate figure was 3.0%, so there has been a 36.7% decline in the vacancy rate over the last 12 months. Currently, none of the larger Sacramento area submarkets with a base inventory of over 5.0 million square feet have a vacancy rate higher than 4.7%. As one would expect with such a dramatic decrease in the vacancy rate, net absorption was a record-setting 6.3 million square feet in 2021. Comparably, the

Market Summary

| | Current Quarter | Prior Quarter | Year Ago Period | 12-Month Forecast |
|-------------------------|-----------------|---------------|-----------------|-------------------|
| Total Inventory (SF) | 164.2M | 164.4M | 159.5M | ↑ |
| Vacancy Rate | 1.9% | 2.1% | 3.0% | ↔ |
| Qtr Net Absorption (SF) | 487K | 1.7M | 1.08M | ↔ |
| Avg NNN Asking Rent/SF | \$0.80 | \$0.74 | \$0.66 | ↑ |
| Under Construction (SF) | 3.8M | 2.7M | 5.9M | ↑ |

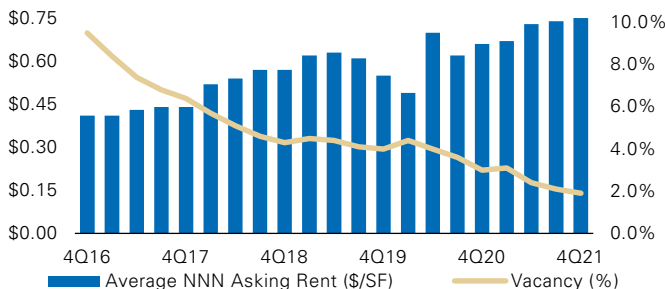
Construction and Deliveries

SQUARE FEET, MILLIONS

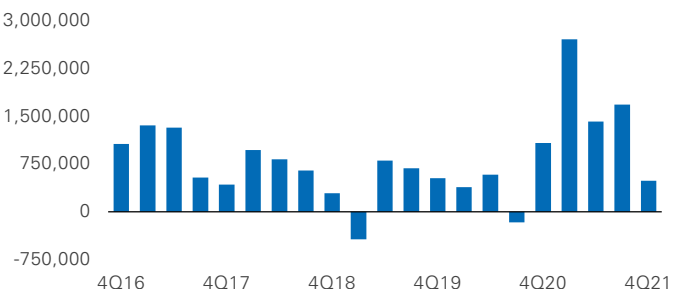


Market Analysis

ASKING RENT AND VACANCY RATE



NET ABSORPTION



RESEARCH Q4 2021

next highest annual net absorption total ever recorded in the Sacramento industrial market was 4.1 million square feet in 2014. Some of the larger industrial lease transactions occurring in 2021 that contributed to the net absorption total were Amazon leasing 602,516 square feet and 500,770 square feet in Metro Air Park, Updike leasing 396,000 square feet in Woodland, Matheson Trucking leasing 265,000 square feet in Metro Air Park, and Siemens leasing 248,000 square feet in Depot Business Park.

Given the rapid decline in available inventory, landlords have taken advantage by increasing asking lease rates to the current record high of \$0.80/SF. This represents a 21.2% increase over the \$0.66/SF asking lease rate at the end of 2020. In addition, landlords are offering far fewer concessions with limited amounts of free rent, minimal (if any) tenant improvements and some are even pushing for more than the previous average annual base rent increase of 3.0%.

With such strong rent growth and demand, developers have been eager to secure suitable land sites for industrial developments. Currently, there are almost 3.9 million square feet of industrial space under construction, with many more projects in the planning and permitting stages. Despite the huge increase in demand for new industrial development opportunities, there have not been a lot of new industrial land sales, as there are

simply few available industrial land sites remaining. At the current pace of development, the Sacramento industrial market could be very land constrained within the next three to five years.

Combine strong rent growth, strong leasing demand, limited available land and relatively low interest rates and you have a red-hot sellers' market for existing industrial buildings in Sacramento. Outside investors are now starting to appreciate the unique opportunities the Sacramento industrial market offers. This quarter alone, investors purchased a 204,000-square-foot fully leased industrial building in the Northgate area for a reported 4.0% cap rate, as well as a 182,000-square-foot Amazon facility on 36 acres in West Sacramento, which sold for an astounding \$504/SF. Institutional investors have certainly found Sacramento and our industrial market may never be the same again.

Expect many of the current trends to continue, as there is no foreseeable reason to doubt that the current market momentum will end any time soon. The only unknown may be the pace of the increases, considering the record low territory the area is already in for lease rates, prices, absorption and so on. Either way, 2022 should be another solid year for the Sacramento industrial market.

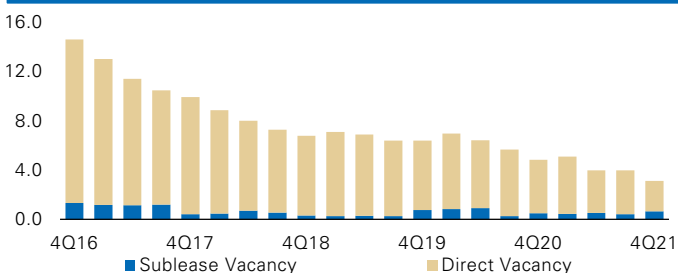
Select Lease Transactions

| Tenant | Building(s) | Submarket | Type | Square Feet |
|----------------------------|----------------------|--------------------|---------------------------|-------------|
| Edges Electrical Group LLC | 1701 W National Dr | Northgate | Lease Renewal Expansion | 203,974 |
| Matheson | 3689 Industrial Blvd | West Sacramento | Direct Lease | 132,100 |
| Ross Stores | 6101 Midway St | Power Inn Florin | Direct Lease | 114,175 |
| Cubework | 1500 Overland Ct | West Sacramento | Direct Lease | 105,493 |
| Quick Quack Car Wash | 8860 Industrial Ave | Roseville | Direct Lease | 100,800 |

Select Investment Sale Transactions

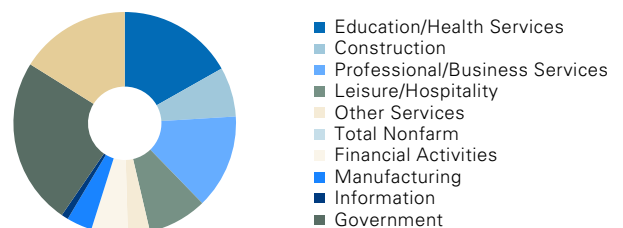
| Building(s) | Market | Sale Price | \$/SF | Square Feet |
|-------------------------------|--------------------|--------------|-------|-------------|
| 3620 Ramos Drive | West Sacramento | \$91,900,000 | \$504 | 182,226 |
| 1701 W National Dr | Northgate | \$36,900,000 | \$181 | 203,974 |
| 4700-4720-4740 Northgate Blvd | Northgate | \$11,500,000 | \$130 | 88,220 |
| 4225 Pell Dr | Northgate | \$10,400,000 | \$117 | 89,000 |
| 5601-5671 Warehouse Wy | Power Inn Florin | \$9,875,000 | \$124 | 79,776 |

Vacancy Breakdown



Sacramento Employment by Industry

2020, SOURCE: U.S. BUREAU OF LABOR STATISTICS



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| Overall Submarket Statistics | | | | | | | | | | |
|------------------------------------|--------------|----------------------|-------------------------|--------------------|--------------------|----------------------|----------------------|-------------------------|---------------------|----------------------------------|
| | Total Bldgs | Total Inventory (SF) | Under Construction (SF) | Total Vacancy (SF) | Total Vacancy Rate | Total Available (SF) | Total Available Rate | Quarter Absorption (SF) | YTD Absorption (SF) | Total NNN Asking Rent (Price/SF) |
| Sacramento | 3,272 | 98,556,400 | 2,837,909 | 1,835,832 | 1.9% | 3,307,847 | 3.4% | 185,651 | 4,767,098 | \$0.86 |
| Downtown | 451 | 11,174,639 | 0 | 403,542 | 3.6% | 866,158 | 7.8% | 36,743 | 75,074 | \$1.17 |
| Northgate | 342 | 19,268,706 | 1,472,782 | 234,996 | 1.2% | 332,993 | 1.7% | 122,256 | 3,977,271 | \$0.67 |
| South Sacramento | 206 | 3,393,430 | 0 | 20,434 | 0.6% | 32,166 | 0.9% | 8,831 | 6272 | \$0.91 |
| Power Inn Florin | 863 | 29,028,041 | 477,020 | 563,849 | 1.9% | 779,775 | 2.7% | -9,640 | 94,562 | \$0.84 |
| 50 Corridor West | 235 | 5,549,023 | 0 | 241,371 | 4.3% | 334,795 | 6.0% | -18,063 | 119,877 | \$0.74 |
| 50 Corridor East | 545 | 10,100,811 | 0 | 88,242 | 0.9% | 256,020 | 2.5% | 18,568 | 122,747 | \$0.75 |
| McClellan Hwy 80 | 566 | 19,132,729 | 888,107 | 272,568 | 1.4% | 695,110 | 3.6% | 25,656 | 372,175 | \$0.53 |
| Carmichael Citrus Heights | 64 | 909,021 | 0 | 10,830 | 1.2% | 10,830 | 1.2% | 1,300 | -880 | \$1.20 |
| West Sacramento | 467 | 22,400,953 | 1,018,233 | 452,997 | 2.0% | 762,788 | 3.4% | 293,217 | 829,407 | \$0.59 |
| Folsom | 15 | 849,360 | 0 | 0 | 0.0% | 0 | 0.0% | 0 | 0 | \$0.00 |
| El Dorado Hills | 96 | 2,235,797 | 0 | 111,410 | 5.0% | 167,144 | 7.5% | -69,381 | -32,813 | \$1.00 |
| Roseville | 174 | 7,466,587 | 0 | 184,480 | 2.5% | 207,756 | 2.8% | 84,673 | 92,302 | \$0.70 |
| Rocklin | 270 | 7,036,213 | 5,775 | 77,293 | 1.1% | 131,350 | 1.9% | 36,786 | 118,405 | \$0.98 |
| Loomis Auburn Newcastle | 131 | 2,172,210 | 0 | 3,193 | 0.1% | 3,193 | 0.1% | 43,952 | 43,952 | \$0.98 |
| Lincoln | 45 | 2,679,013 | 0 | 193,425 | 7.2% | 212,625 | 7.9% | -57,591 | 139,610 | \$0.47 |
| Woodland | 202 | 14,909,263 | 0 | 256,240 | 1.7% | 423,430 | 2.8% | -89,413 | 102,201 | \$0.47 |
| Davis | 30 | 861,385 | 0 | 4,034 | 0.5% | 80,214 | 9.3% | 0 | 29,791 | \$1.35 |
| Elk Grove Laguna | 173 | 4,992,217 | 0 | 11,319 | 0.2% | 53,380 | 1.1% | 58,666 | 181,117 | \$0.73 |
| SACRAMENTO | 4,875 | 164,159,398 | 3,861,917 | 3,130,223 | 1.9% | 5,349,727 | 3.3% | 486,560 | 6,271,070 | \$0.80 |

For more information:

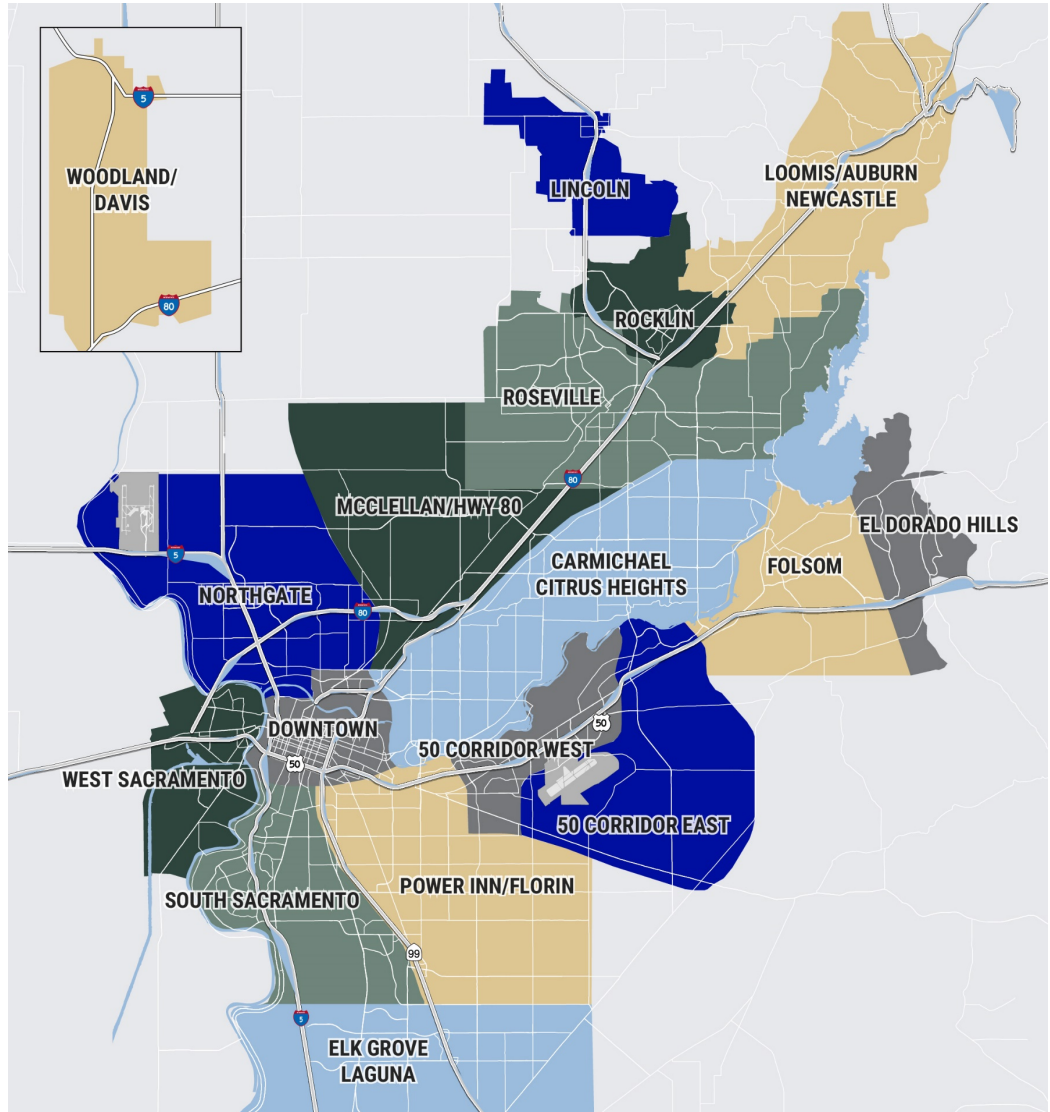
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Newmark has implemented a proprietary database and our tracking methodology has been revised. With this expansion and refinement in our data, there may be adjustments in historical statistics including availability, asking rents, absorption and effective rents. Newmark Research Reports are available at nrmk.com/research.
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