

Sacramento Industrial Market

Sacramento Industrial Market Weathers the Storm

The Sacramento industrial market continued to outperform all other property types, despite the economic uncertainty, rising debt costs and inflation during the fourth quarter of 2022, and remains poised to weather the storm as 2023 begins. The market continued to persevere in the fourth quarter of 2022, posting positive net absorption stemming from strong leasing and sales activity. Last quarter, leasing activity remained stable. Owner-user sales and investment sales continue to endure, despite the challenges of rising rates and limited inventory.

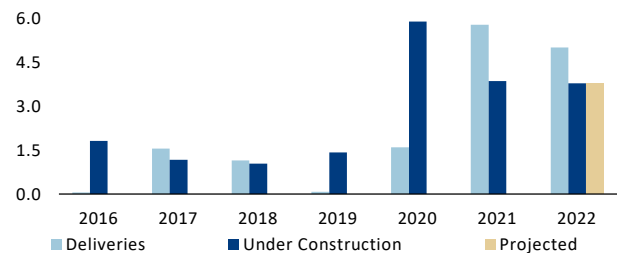
The Sacramento industrial market continued the positive momentum through the fourth quarter of 2022, ending the year with a vacancy rate of 2.9%, over 1.0% lower than the national level of 4.0%. While this is a 20-basis point increase from last quarter, it is still far below the historical average for the region. The Sacramento industrial market ended the quarter with 907,173 square feet of positive net absorption and a year-to-date total of 2.9 million square feet of positive net absorption. The average asking lease rate in the Sacramento region is currently \$0.76/SF per month triple net. The healthy lease rate is a function of sustained levels of low vacancy, as well as the positive absorption maintained in the Sacramento industrial market.

Market Summary

	Current Quarter	Prior Quarter	Year Ago Period	12-Month Forecast
Total Inventory (SF)	169.4M	168.1M	164.2M	↑
Vacancy Rate	2.9%	2.7%	1.9%	↑
Qtr Net Absorption (SF)	907K	440K	487K	↑
Avg NNN Asking Rent/SF	\$0.76	\$0.79	\$0.80	↔
Under Construction (SF)	3.8M	4.6M	3.8M	↔

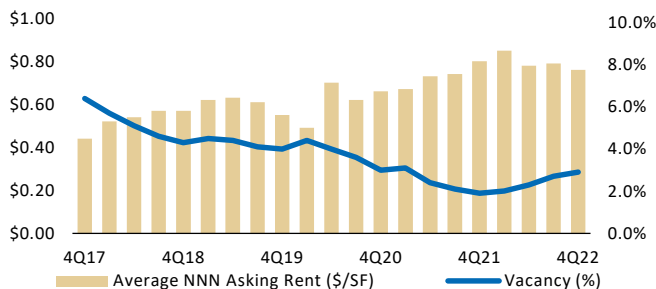
Construction and Deliveries

SQUARE FEET, MILLIONS

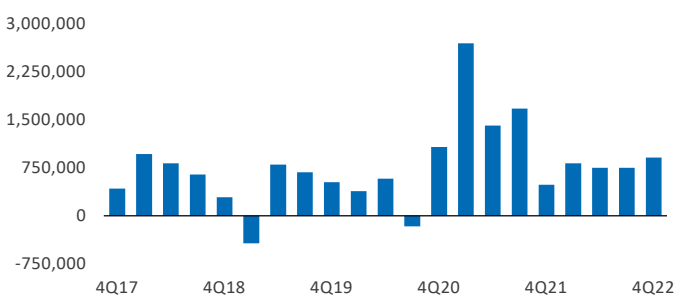


Market Analysis

ASKING RENT AND VACANCY RATE



NET ABSORPTION



Limited inventory in the market and historic low vacancy present tenants with few to no options for space, leaving landlords to remain bullish on rental rates and concessions. Landlords are offering minimal concessions, including limited free rent, higher annual rent escalations of 4.0% to 5.0% and often no tenant improvements. Despite the increase in rental rates and decrease in concessions, there were several notable lease transactions in the fourth quarter of 2022, including 236,716 square feet leased by Hydra Warehousing in the Power Inn submarket and 103,208 square feet leased by Terabase Energy in the Woodland submarket.

Given the rent growth in the Sacramento industrial market, along with the all-time low vacancy rate, investors are still actively pursuing industrial properties. Investors are confident that industrial real estate offers the most stability of all sectors. BentallGreenOak purchased two recently completed empty buildings at 7120 & 7180 Badiee Dr., totaling around 308,800 square feet for \$55.4 million, or \$179/SF. Invesco closed on a 148,021-square-foot building for \$25.9 million, or \$175/SF. While investment demand has remained strong, deal flow in the industrial sector is slowing due to rising interest rates and the lack of inventory in the market.

In recent years, Sacramento's construction pipeline has soared. Over the past three years, more than 12.3 million square feet have been delivered to the Sacramento market. More than 1.4 million square feet of industrial space was delivered in the fourth quarter of 2022. The low vacancy rate in these deliveries is impressive and illustrates the strength of the market to absorb new inventory during record levels of construction. Overall durable demand in the market has given developers the confidence to remain active, providing product that meet the demand for new construction of modern Class A buildings with excellent clear height, multiple docks and high sprinkler calcs. Patient developers have been careful not to oversupply the market in a slowing economy by way of breaking ground on the next project once the previous build has been leased or sold.

While there are a few signs that show there will be some cooling compared with past years of record-setting numbers, the Sacramento industrial market is positioned to weather the storm. Economic uncertainty and interest rates will push the cap rates up, making some investments more difficult to underwrite; however, the low vacancy and stable tenant demand will continue to provide steady leasing and sales activity.

Select Lease Transactions

Tenant	Building(s)	Submarket	Type	Square Feet
Hydra Warehousing Inc	3525 Carlin Dr	West Sacramento	Direct Lease	236,716
River City RV & Boat Storage	8301 Belvedere Ave	Power Inn Florin	Lease Renewal	232,800
Terabase Energy	109 N Pioneer Ave	Woodland	Direct Lease	103,208
Convoy of Hope	7860 Metro Air Pkwy	Northgate	Direct Lease	69,256
Shop Heroic	7728 Wilbur Way	Power Inn Florin	Lease Renewal	57,752

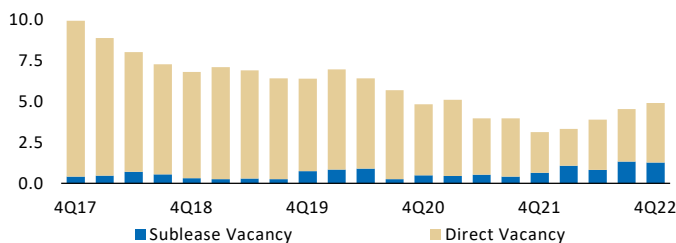
Select Sale Transactions

Building(s)	Submarket	Sale Price	\$/SF	Square Feet
7120 & 7180 Badiee Dr	Northgate	\$55,380,500	\$179	308,780
3095 Mary Pl	West Sacramento	\$25,904,000	\$175	148,021
161 Main Ave	Northgate	\$14,000,000	\$119	117,600
8516 Fruitridge Rd	Power Inn Florin	\$8,250,000	\$212	38,970
2701 Citrus Rd	50 Corridor East	\$3,900,000	\$138	28,307

Overall Submarket Statistics

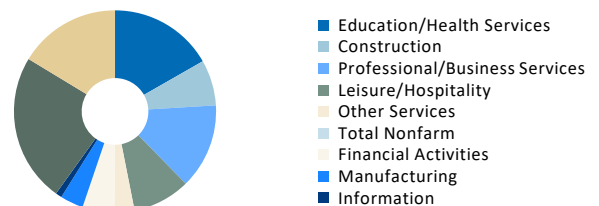
	Total Bldgs	Total Inventory (SF)	Under Const.(SF)	Total Vacancy (SF)	Total Vac. Rate	Total Available (SF)	Total Available Rate	Quarter Absorption (SF)	YTD Absorption (SF)	Total NNN Asking Rent (Price/SF)
Sacramento	3,294	102,268,865	2,455,096	2,941,407	2.9%	4,685,925	4.6%	266,677	2,226,421	\$0.77
Downtown	454	11,146,514	0	367,287	3.3%	807,970	7.2%	62,645	26,848	\$1.04
Northgate	353	21,475,240	1,737,750	1,395,864	6.5%	1,682,156	7.8%	188,214	1,000,073	\$0.68
South Sacramento	206	3,390,316	0	41,477	1.2%	41,477	1.2%	-23,540	-29,017	\$0.96
Power Inn Florin	867	29,604,255	0	280,808	0.9%	994,716	3.4%	55,460	716,061	\$0.71
50 Corridor West	236	5,556,336	0	338,586	6.1%	392,193	7.1%	-29,134	-97,215	\$0.78
50 Corridor East	546	10,146,276	717,346	128,121	1.3%	248,582	2.4%	48,469	-48,839	\$0.83
McClellan Hwy 80	569	20,048,587	0	382,624	1.9%	507,391	2.5%	-35,437	648,560	\$0.71
Carmichael Citrus Heights	63	901,341	0	6,640	0.7%	11,440	1.3%	0	9,950	\$1.04
West Sacramento	477	23,689,211	414,741	975,406	4.1%	1,516,823	6.4%	505,048	645,065	\$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	103,239	4.6%	105,378	4.7%	1,817	8,031	\$1.08
Roseville	173	7,456,618	26,685	373,226	5.0%	597,937	8.0%	8,888	-188,746	\$0.70
Rocklin	272	7,237,884	0	138,872	1.9%	276,523	3.8%	-6,202	136,196	\$1.05
Loomis Auburn Newcastle	131	2,172,210	42,440	11,193	0.5%	11,193	0.5%	0	-8,000	\$0.96
Lincoln	45	2,679,013	0	276,270	10.3%	295,470	11.0%	17,000	-82,845	\$0.55
Woodland	202	14,909,263	223,888	20,466	0.1%	612,446	4.1%	104,841	235,774	\$0.59
Davis	30	861,385	0	8,274	1.0%	8,274	1.0%	4,867	-4,240	
Elk Grove Laguna	172	5,026,577	631,465	57,123	1.1%	89,134	1.8%	4,237	-45,804	\$0.90
SACRAMENTO REGION	4,908	169,392,918	3,794,315	4,917,313	2.9%	8,219,898	4.9%	907,173	2,916,890	\$0.76

Vacancy Breakdown



Sacramento Employment by Industry

2021, SOURCE: U.S. BUREAU OF LABOR STATISTICS



For more information:

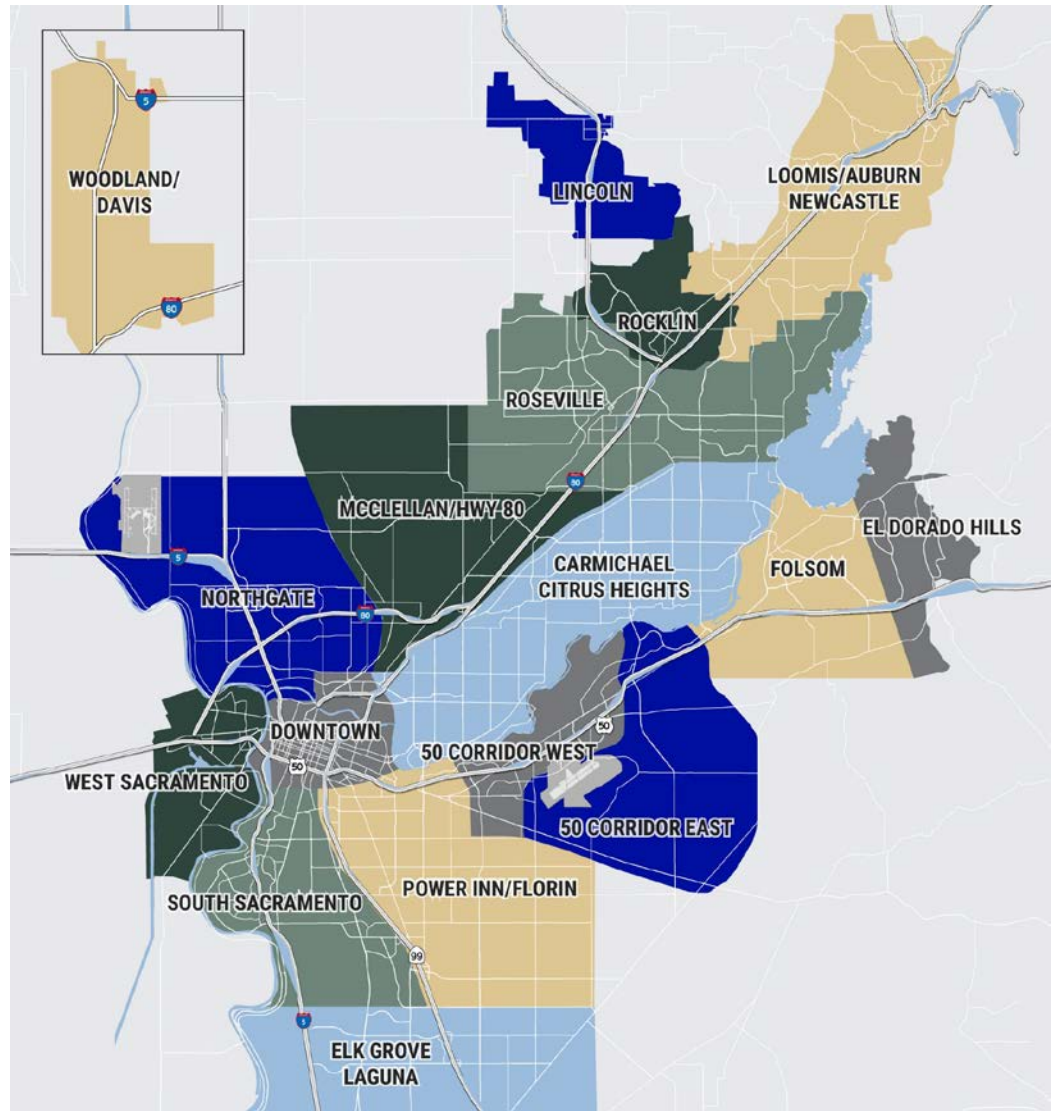
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Newmark has implemented a proprietary database and our tracking methodology has been revised. With this expansion and refinement in our data, there may be adjustments in historical statistics including availability, asking rents, absorption and effective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

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