

MARKET TRENDS

SACRAMENTO INDUSTRIAL

MARKET DRIVERS

The direct vacancy rate was 3.7% in 2Q23, lower than 4.1% in 1Q23, and at the same level as 2Q22. The highest direct vacancy rate was in the South Sacramento submarket at 23.5% and the lowest direct vacancy rate was in Auburn/Newcastle at 0.8%.

The total availability rate increased 17.8% YOY from 5.5% in 2Q22 to 6.5% in 2Q23 with the highest rate at 12.6% in the Natomas/Northgate submarket and the lowest rate at 0.7% in the Auburn/Newcastle submarket.

The asking lease rate increased from \$0.80 in 1Q23 to \$0.83 in 2Q23. This was a \$0.10 increase from 2Q22. The asking lease rate was highest in the East Sacramento submarket at \$1.55 and lowest in the Davis/Woodland submarket at \$0.63.

Total leasing activity saw a YOY 59.0% decrease from 2.5M SF to 1.0M SF in 2Q23, and there was a 35.6% decrease YOY in total sales volume from 2.3M to 1.5M SF in 2Q23.

Direct net absorption increased 97.0% from 509.2k SF in 2Q22 to 1.0M SF in 2Q23. The largest negative total was in the South Sacramento submarket at negative 73.7K SF and the largest positive total was in the Natomas/ Northgate submarket at 398.7k SF.

ECONOMIC REVIEW

Sacramento County unemployment rates decreased from 4.5% in 1Q23 to 4.1% in 2Q23. This is up from the 3.8% unemployment rate from 2Q22.

Industrial sector regional employment has been between largely stagnant, with some bright spots. Trade, transportation, and utilities added 300 jobs, manufacturing added 300 jobs, and construction most significantly added 4,900 jobs.

Despite being the strongest performer compared to last quarter Construction jobs are still down 4.5% from this time last year. In contrast, trade, transportation, and utilities, and manufacturing are up 1.3% and 0.5% respectively in the same time frame.

continued on page 3

Market Summary

	2Q23	1Q23	2Q22	Annual Change
Direct Vacancy Rate	3.73%	4.10%	3.70%	0.78%
Availability Rate	6.48%	6.00%	5.50%	17.77%
Asking Lease Rate	\$0.83	\$0.80	\$0.73	13.70%
Leasing Activity (SF)	1,022,597	1,701,465	2,494,136	-59.00%
Sale Volume (SF)	1,482,004	965,846	2,299,702	-35.56%
Net Absorption (SF)	1,003,061	843,970	509,207	96.98%

↓ **1.0M SF**
LEASING ACTIVITY

↑ **1.0M SF**
NET ABSORPTION

↑ **3.73%**
VACANCY RATE

↑ **\$0.83**
ASKING RENT (AVG)

↓ **366K SF**
NEW DELIVERIES

Year-Over-Year Trend

Market Highlights

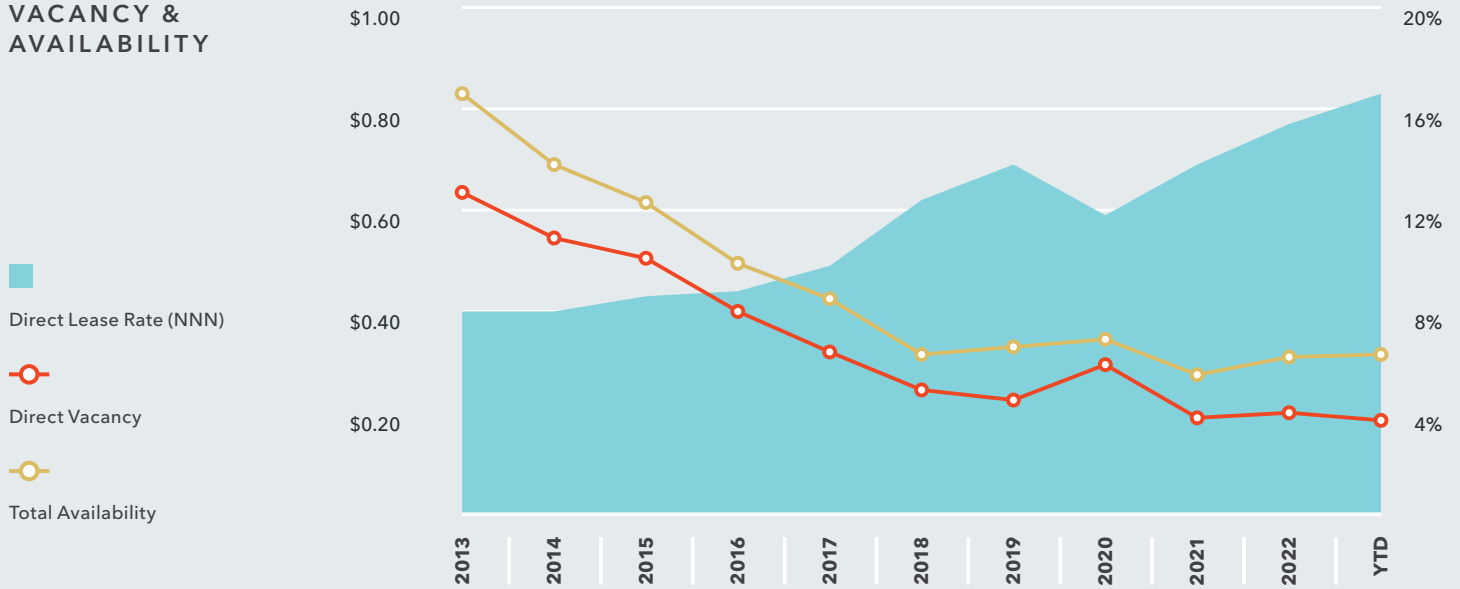
AVERAGE asking lease rates are \$0.83/SF, up from \$0.73/SF in 2Q22

DIRECT VACANCY rates rose YOY from 4.1% to 3.7%

SALES TRANSACTIONS increased by 53.4% QOQ from 965.8k SF to 1.5M SF

DIRECT NET ABSORPTION increased YOY from 509.2k to 1M SF in 2Q23, a 160k increase from 1Q23

LEASE RATE, VACANCY & AVAILABILITY

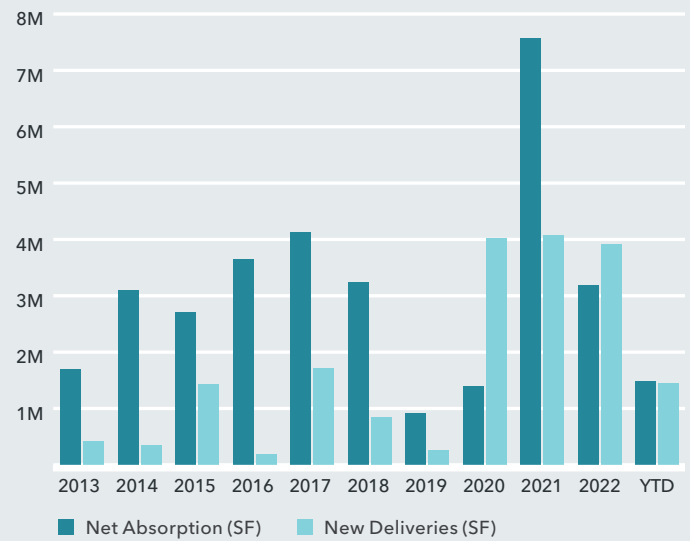


BIGGEST SALE OF THE QUARTER

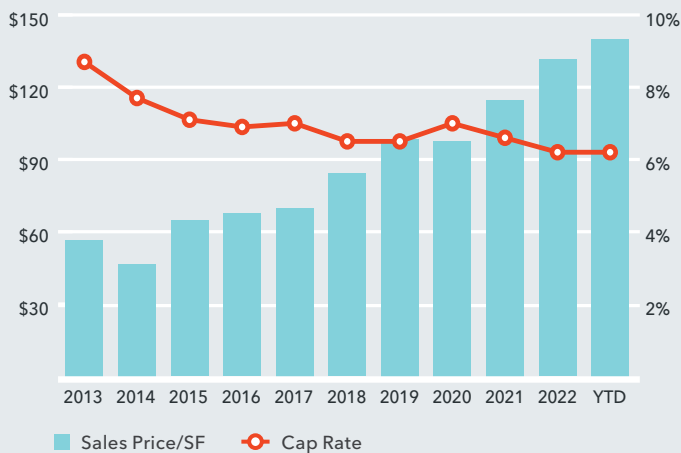
2370 E Main St, Woodland



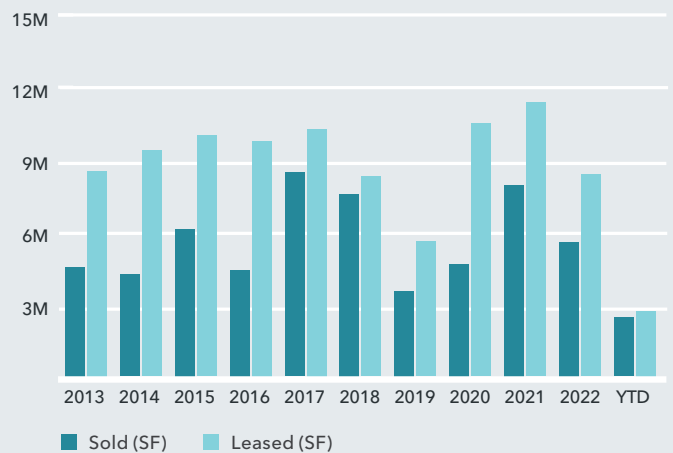
NET ABSORPTION & NEW DELIVERIES



AVERAGE SALES PRICE/SF & CAP RATE



SALE VOLUME & LEASING ACTIVITY



SUBMARKET STATISTICS

Submarket	Total Inventory	Direct Vacancy Rate	Total Vacancy Rate	Total Available Rate	Q2 2023 Direct Net Absorption	YTD Direct Net Absorption	Q2 2023 Leasing Activity	YTD Leasing Activity	Average Rental Rate (NNN)
Auburn/Newcastle	2,693,011	0.8%	0.8%	0.7%	-2,678	1,415	8,323	8,323	\$0.65
Davis/Woodland	16,665,885	1.6%	1.6%	3.4%	224,332	94,529	38,500	370,709	\$0.63
Downtown	2,463,646	5.4%	5.4%	7.4%	17,929	32,444	0	17,929	\$0.94
East Sacramento	539,688	6.0%	6.0%	4.4%	0	13,200	0	0	\$1.55
Elk Grove/Laguna	6,428,999	0.9%	0.9%	1.6%	-3,546	25,800	47,430	61,579	\$1.08
Folsom/El Dorado	5,153,142	5.0%	5.0%	5.1%	-68,789	-63,771	57,485	88,113	\$1.00
Marysville/Yuba City	7,212,447	1.2%	1.2%	1.7%	33,366	-34,450	3,150	29,025	\$0.80
Mather	5,337,399	6.2%	6.6%	8.6%	-63,057	-39,040	29,776	156,552	\$0.82
McClellan	17,349,357	4.0%	4.2%	4.7%	41,843	157,714	45,380	120,435	\$0.78
Natomas/ Northgate	21,079,390	5.7%	5.7%	12.6%	398,729	649,178	250,182	506,706	\$0.73
NE Sacramento	6,088,677	5.4%	5.4%	9.4%	-21,560	-91,204	31,464	86,084	\$0.86
Power Inn	26,737,172	1.6%	1.9%	4.9%	9,962	-20,286	103,026	221,471	\$0.92
Richards	3,989,692	4.5%	4.7%	8.0%	24,582	51,628	0	18,432	\$0.69
Roseville/Rocklin	18,997,370	1.7%	2.2%	3.3%	33,494	20,917	35,409	322,696	\$0.74
South Sacramento	4,288,805	23.5%	24.5%	4.5%	-73,741	-27,124	5,200	10,400	\$0.90
Sunrise	12,049,260	3.2%	3.2%	9.5%	143,315	229,958	92,670	210,992	\$0.83
West Sacramento	23,513,135	4.2%	7.0%	9.9%	308,880	846,123	274,602	493,416	\$0.87
Sacramento Total	180,587,075	3.73%	4.24%	6.48%	1,003,061	1,847,031	1,022,597	2,722,862	\$0.83
General Industrial	26,981,948	4.7%	4.7%	2.2%	23,508	-52,090	13,800	252,010	\$1.01
Warehouse & Distribution	133,716,950	3.1%	3.8%	6.7%	902,010	1,808,147	818,456	2,024,497	\$0.77
Flex	19,195,183	6.8%	6.9%	8.2%	-4,522	-84,601	174,178	308,990	\$1.01

ECONOMIC REVIEW CONTINUED

Construction is known for being a cyclical industry, so YOY numbers are vital to getting an accurate picture on how the industry is going. The added jobs are not enough to offset losses from a year ago, indicating that this industry has been hit hard by the higher interest rates. With that said, it's good to see trade, transportation, and utilities, and manufacturing staying afloat despite the increased unemployment rate and tough economy.

NEAR-TERM OUTLOOK

High inventory, especially in sublease space, hasn't slowed sales transactions or efforts to further develop the Sacramento industrial sector. Investment groups have been keen on the industrial markets and have been buying properties when they are available. One owner, Ethan Conrad, was even able to sell his property despite it being 40% vacant at \$152/SF. On top of success stories like this, there are many projects being reviewed for approval. The two biggest projects in the news this quarter are a 2 million-square-foot industrial park being reviewed by Roseville and a 2.6 million square-foot industrial space in Woodland that has received final approvals for design review.

Demand for buildings focused on distribution and warehousing has been surging with the rise of e-commerce. The ideal location for such centers is near residential areas, which has received backlash from Sacramento locals. Other industrial projects have been approved and built in areas zoned for industrial locations, but residents are concerned that these warehousing and distribution centers will increase traffic and pollution in local neighborhoods which is why they've begun to pushback on these projects. One neighborhood group has gone as far as to file suit against the approved 155,000 square-foot LogistiCenter project site at Rancho Cordova. Despite approvals and area demand, residents are hesitant with expansions and are looking for projects to be done in a way that doesn't disrupt their daily lives.

Beyond the realm of e-commerce, there is more demand for warehouse and distribution space. U-Haul has recognized the Sacramento-Roseville market as one of the top two growth markets in the nation for three consecutive years. To further solidify their presence, the Phoenix-based moving company has acquired a 144,000-square-foot building on a 6.85-acre lot adjacent to their existing truck rental hub and storage site at 1324 Arden Way. While the initial plan is to utilize the space for storage and expand the production of "U-Box" containers, it also has the potential to serve as long-term storage for boats and RVs. U-Haul's investment shows that they expect storage and moving to be key needs in the Sacramento area, and as the metro grows, so too will the storage and distribution demands.

TOP SALE TRANSACTIONS 2Q 2023

Property	Submarket	SF	Sale Price	\$/SF	Buyer	Seller
2370 E Main St, Woodland	Davis/Woodland	461,000	\$67,075,088	\$145.50	Realty Income Corporation	Davis/Woodland
531 Quality Dr, Woodland	NE Sacramento	144,000	\$50,400,000	\$350.00	Amerco Real Estate Company	Davis/Woodland
7021 Roseville Rd, Sacramento	Davis/Woodland	248,190	\$30,587,912	\$123.24	Realty Income Corporation	McClellan
1200 Blumenfeld Dr, Sacramento	McClellan	250,000	\$16,925,000	\$67.70	Bunker Wilson LLC	NE Sacramento
8732 Fruitridge Rd, Sacramento	Power Inn	16,440	\$14,250,000	\$866.79	Crest Partners	Power Inn

TOP LEASE TRANSACTIONS 2Q 2023

Property	Submarket	SF	Transaction Date	Landlord	Tenant
7860 Metro Air Pkwy, Sacramento	Natomas/Northgate	169,884	March 2023	Buzz Oates	Undisclosed
2921 Ramco St, West Sacramento	West Sacramento	99,287	January 2023	Dermody Properties, Inc.	ILG
1740-1760 Enterprise Blvd, West Sacramento	West Sacramento	43,200	January 2023	Link Logistics Real Estate	Cameron Ashley Bldg.Products
1660 Tide Ct, Woodland	Davis/Woodland	38,250	March 2023	Bright People Foods	Yolo Transfer Moving & Storage
2510 Evergreen Ave, West Sacramento	West Sacramento	36,000	January 2023	Graceada Partners	Undisclosed

TOP UNDER CONSTRUCTION

Property	Submarket	SF	Owner	Delivery
7320 Power Line Rd, Sacramento	Natomas/Northgate	567,000	Buzz Oates	July 2023
3100 Ramco St, West Sacramento	West Sacramento	414,741	AT Southport LP	August 2023
4525 W Elkhorn Blvd, Sacramento	Natomas/Northgate	190,525	Pak Family Trust	September 2023
10765 N Mather Blvd, Rancho Cordova	Mather	155,076	Dermody Properties, LLC	April 2024
7325 Lone Tree Rd, Sacramento	Natomas/Northgate	149,235	Buzz Oates	July 2023
7425 Lone Tree Rd, Sacramento	Natomas/Northgate	135,736	Buzz Oates	July 2023

Data Source: www.bls.gov, www.labormarketinfo.edd.ca.gov, bizjournals.com, sacbusinessreview.com



Kidder Mathews is the largest, independent commercial real estate firm on the West Coast, with 900 real estate professionals and staff in 20 offices in Washington, Oregon, California, Nevada, and Arizona. We offer a complete range of brokerage, appraisal, asset services, consulting, project and construction management, and debt equity finance services for all property types.

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COMMERCIAL
BROKERAGE

\$12B

TRANSACTION
VOLUME ANNUALLY

32.1M

ANNUAL
SALES SF

41.2M

ANNUAL
LEASING SFASSET
SERVICES

53M

MANAGEMENT
PORTFOLIO SF

771+

ASSETS UNDER
MANAGEMENT

250+

ASSET SERVICES
CLIENTSVALUATION
ADVISORY

2,600+

ASSIGNMENTS
ANNUALLY

46

TOTAL
APPRAISERS

23

WITH MAI
DESIGNATIONS