Kidder Mathews

4Q 2023

MARKET TRENDS

SACRAMENTO *INDUSTRIAL*

MARKET DRIVERS

THE DIRECT VACANCY RATE reached 4.6% in 4Q23, up 70-bps from both 3Q23 and 4Q22. The South Sacramento submarket had the highest direct vacancy rate at 25.7%, while the Davis/Woodland and Elk Grove/Laguna submarkets had the lowest rates at 0.5%.

THE TOTAL AVAILABILITY RATE rose 60-bps YOY, rising from 6.1% in 4Q22 to 6.7% in 4Q23. The Natomas/Northgate submarket registered the highest rate at 14.2%, whereas the Elk Grove/Laguna submarket had the lowest rate at 1.6%.

THE ASKING LEASE RATE increased from $0.84 in 3Q23 to $0.85 in 4Q23, this was a 10.4% increase from 4Q22. The East Sacramento submarket had the highest asking lease rate at $1.55, while the Davis/Woodland submarket had the lowest at $0.64.

TOTAL LEASING ACTIVITY experienced a YOY decrease of 40.5%, falling from 2.6M SF to 1.4M SF in 4Q23. Additionally, there was a 2.4% YOY decrease in total sales volume, dropping from 1.2M SF to 1.1M SF in 4Q23.

DIRECT NET ABSORPTION saw a significant decrease from 595.8k SF in 4Q22 to -643.6k SF in 4Q23. The Power Inn submarket recorded the largest negative total at -343.9K SF, while the West Sacramento submarket had the largest positive total at 575.6k SF.

ECONOMIC REVIEW

THE UNEMPLOYMENT RATE in Sacramento County remained steady at 4.5% from 3Q23 to 4Q23, however this is a 90-bps increase from rate recorded in 4Q22.

THE REGIONAL EMPLOYMENT in the industrial sector has shown growth over the last quarter. The trade, transportation, and utilities sector added 4.5k jobs, while manufacturing saw a small dip of 600 jobs lost, and construction added 2.1k jobs.

ON TOP OF THE STRONG PERFORMANCE LAST QUARTER, construction jobs are also up 5.1k since this time last year. This increase which is much larger than the increases to trade, transportation, utilities and manufacturing which are up 1,600 and 300 jobs respectively in the same period.

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Market Summary

	4Q23	3Q23	4Q22	Annual Change
Direct Vacancy Rate	4.64%	3.90%	3.90%	**18.86%**
Availability Rate	6.67%	6.60%	6.10%	**9.32%**
Asking Lease Rate	$0.85	$0.84	$0.77	**10.39%**
Leasing Activity (SF)	1,403,467	1,309,658	2,554,499	**-45.06%**
Sale Volume (SF)	1,124,038	902,004	1,151,325	**-2.37%**
Net Absorption (SF)	-643,590	-144,502	595,756	**-208.03%**

↓ *1.4M SF*
LEASING ACTIVITY

↓ *-643K SF*
NET ABSORPTION

↑ *4.64%*
VACANCY RATE

↑ *$0.85*
ASKING RENT (AVG)

↓ *659K SF*
NEW DELIVERIES

Year-Over-Year Trend

Market Highlights

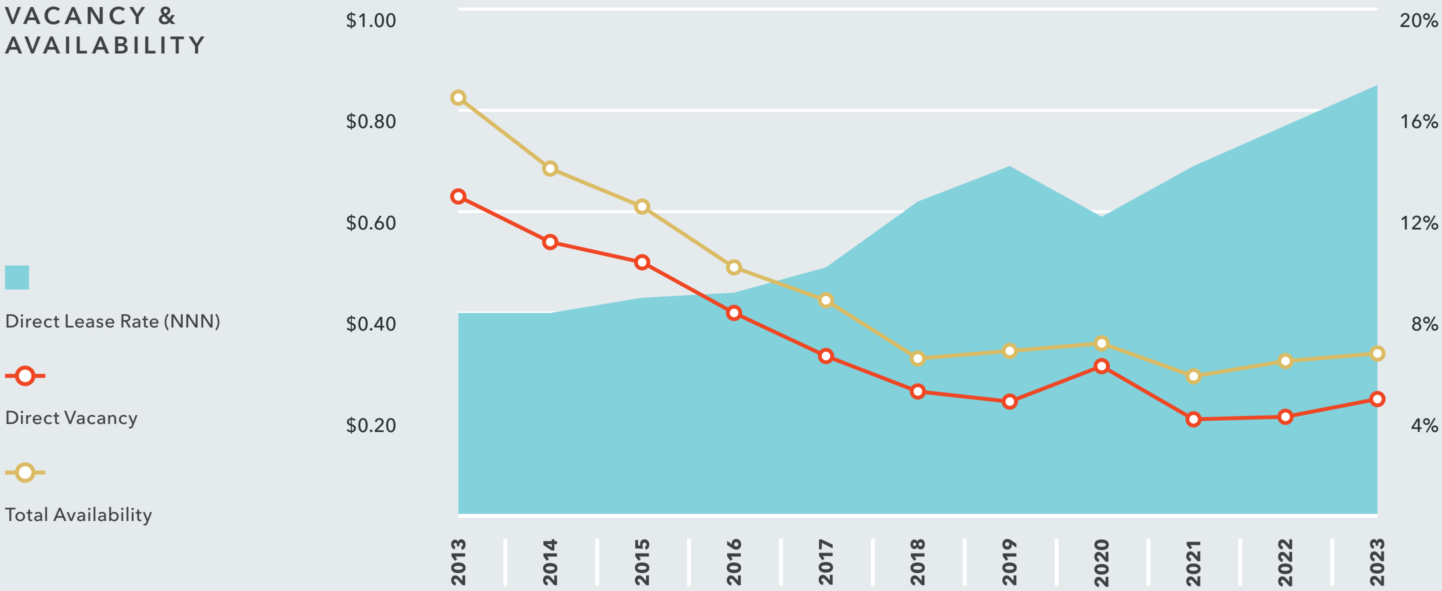
THE AVERAGE ASKING LEASE RATES climbed to $0.85/SF, an increase from $0.77/SF in 4Q22

DIRECT VACANCY rates rose from 3.9% to 4.6% QOQ

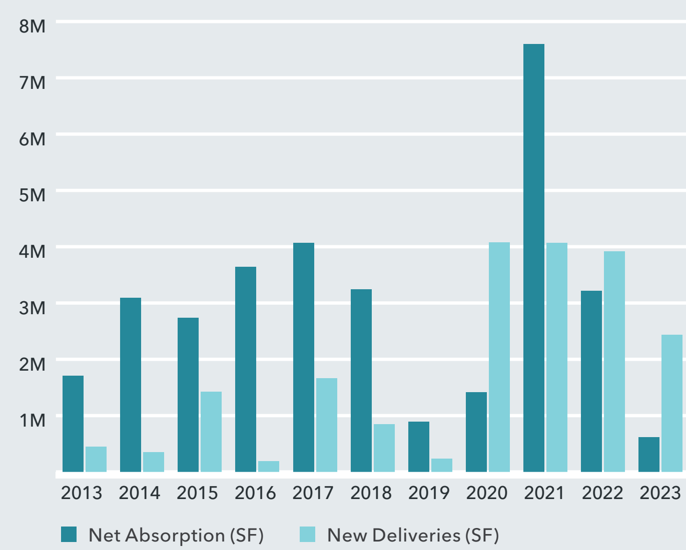
SALES VOLUME saw a 24.6% QOQ increase, from 902.0k SF to 1.1M SF

DIRECT NET ABSORPTION declined YOY, from 595.8k SF to -643.6k SF in 4Q23

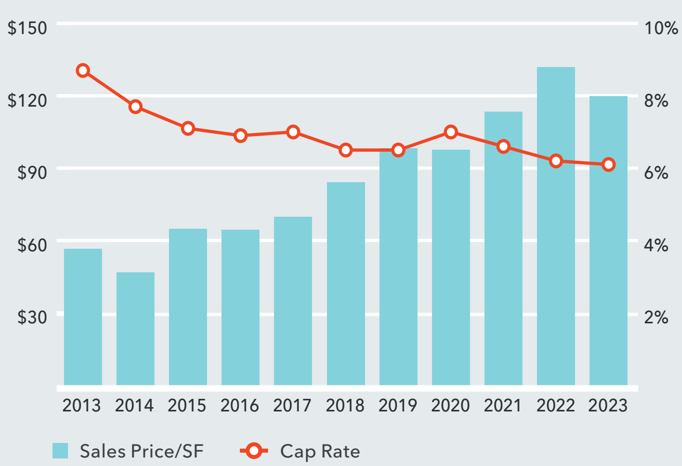
LEASE RATE, VACANCY & AVAILABILITY



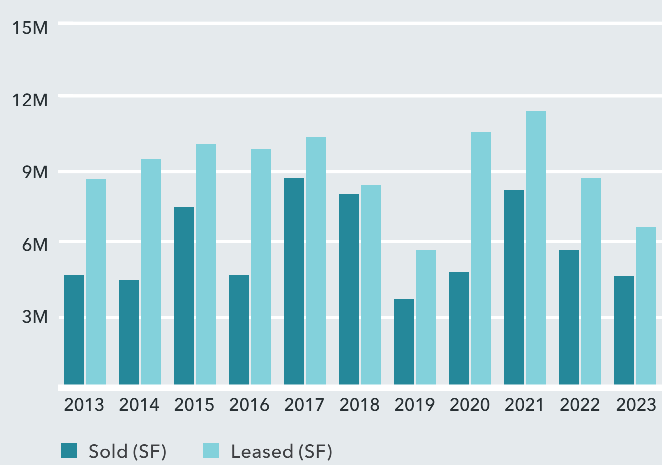
NET ABSORPTION & NEW DELIVERIES



AVERAGE SALES PRICE/SF & CAP RATE



SALE VOLUME & LEASING ACTIVITY



SUBMARKET STATISTICS

Submarket	Total Inventory	Direct Vacancy Rate	Total Vacancy Rate	Total Available Rate	Q4 2023 Direct Net Absorption	YTD Direct Net Absorption	Q4 2023 Leasing Activity	YTD Leasing Activity	Average Rental Rate (NNN)
Auburn/Newcastle	2,704,771	1.7%	1.7%	2.2%	-23,064	-21,887	8,572	45,024	$0.97
Davis/Woodland	16,757,346	0.5%	0.7%	3.4%	107,941	277,377	7,647	490,000	$0.64
Downtown	2,434,896	5.6%	5.6%	7.2%	0	29,067	0	17,929	$0.88
East Sacramento	539,688	6.0%	6.0%	4.4%	0	13,200	0	0	$1.55
Elk Grove/Laguna	6,404,870	0.5%	0.5%	1.6%	-1,983	52,608	16,153	136,590	$1.11
Folsom/El Dorado	5,174,612	4.3%	4.4%	5.0%	-11,211	-35,037	16,475	158,459	$0.94
Marysville/Yuba City	7,335,679	1.4%	1.4%	2.6%	4,985	-55,255	6,025	45,480	$0.76
Mather	5,341,667	6.4%	6.9%	9.4%	-49,726	-49,727	24,094	255,573	$0.87
McClellan	17,456,322	5.0%	5.1%	4.2%	3,590	-39,773	327,595	507,296	$0.97
Natomas/ Northgate	21,833,999	8.6%	9.0%	14.2%	-80,643	538,468	85,285	780,754	$0.77
NE Sacramento	6,064,585	5.0%	5.0%	7.6%	7,762	-63,680	38,321	168,647	$0.83
Power Inn	26,949,269	2.7%	3.3%	5.8%	-192,510	-343,865	87,474	483,872	$0.88
Richards	4,015,194	4.7%	4.9%	8.4%	120	38,621	120	35,122	$0.68
Roseville/Rocklin	19,050,159	1.2%	1.8%	2.6%	23,655	117,144	46,130	1,467,021	$0.99
South Sacramento	4,367,815	25.7%	26.4%	7.4%	-140,425	-142,032	9,616	101,563	$0.79
Sunrise	12,162,330	3.7%	3.9%	10.6%	-14,395	190,069	98,747	373,586	$0.92
West Sacramento	24,013,740	6.9%	9.1%	8.3%	-277,686	575,577	631,213	1,490,124	$0.85
Sacramento Total	**182,606,942**	**4.6%**	**5.2%**	**6.7%**	**-643,590**	**1,080,875**	**1,403,467**	**6,557,040**	**$0.85**
General Industrial	28,257,532	5.3%	5.3%	4.8%	-83,941	-78,918	92,951	707,702	$1.04
Warehouse & Distribution	135,242,624	4.1%	4.8%	6.6%	-580,576	1,398,033	1,096,672	5,106,887	$0.79
Flex	18,995,186	7.5%	7.6%	8.6%	20,927	-226,810	213,844	742,451	$1.00

ECONOMIC OVERVIEW CONTINUED

THE CONSTRUCTION INDUSTRY is well-known for its cyclicality, underscoring the importance of YOY figures for obtaining an accurate assessment of its trajectory. The newly added jobs this quarter have reached their highest point since this time last quarter and could reach new heights as the year closes. Although they didn't grow significantly, sectors such as trade, transportation, utilities, and manufacturing are showing resilience during these economic challenges which is a great sign in the face of interest rate hikes.

NEAR-TERM OUTLOOK

IN THE RESILIENT SACRAMENTO INDUSTRIAL MARKET, sales have surged, particularly in the multi-tenant sector. Turo Partners capitalized on the demand for smaller spaces, successfully closing a deal on two Rancho Cordova buildings totaling 43,000 square feet for $5.5 million. Despite a slower commercial real estate market and challenges such as interest rates and business issues in California, the 90% leased buildings exemplify the enduring appeal of the industrial real estate asset class, fueled by e-commerce and warehousing demands. Meanwhile, Graceada Partners demonstrated strategic acumen with the $30.5 million acquisition of a three-building property in Elk Grove, emphasizing their focus on the high-demand 12,000- to 25,000-square-foot multi-tenant industrial range. The well-maintained property eliminates the immediate need for capital improvements, and Graceada plans to proactively address below-market lease rates. These acquisitions highlight the demand for smaller spaces and were significant drivers in the sales volume increase seen this quarter.

INCREASED ASKING RATES for leases has also pushed some tenants to explore going the route of becoming owner users. Cable Cisco was facing a planned rent hike but elected to purchase a 36,000-square-foot building for $4.55 million instead. This move, amidst a competitive market where demand for smaller industrial spaces is high, underscores the lengths businesses are willing to go to secure their operational needs. The purchase also involved negotiating an early move-out with an existing tenant paying below-market rent. Cable Cisco's decision aligns with the trend of companies strategically navigating challenges in the industrial real estate market.

IN A SIGNIFICANT DEVELOPMENT, Buzz Oates is gearing up for its first major project in Placer County, the Placer Commerce Center. Spanning 393 acres, the project is expected to host up to 6.4 million square feet of industrial space. While trends indicate a preference for smaller buildings, the Placer Commerce Center plans include structures ranging from 162,000 square feet to over a million square feet. Despite a shift in industrial leasing interest towards smaller spaces, Buzz Oates remains optimistic, attributing the slower activity in 2023 to the robust industrial real estate market in 2021 and 2022. The company views Placer County as a promising trade area due to its availability of large contiguous land, positioning it strategically for future industrial development.

TOP SALE TRANSACTIONS 4Q 2023

Property	Submarket	SF	Sale Price	$/SF	Buyer	Seller
3689 Industrial Blvd	West Sacramento	302,500	$33,250,000	$109.92	The McLellan Company	Investcorp | The Bendetti Company
3132-3200 Dwight Rd	Elk Grove/Laguna	297,950	$30,500,000	$102.37	Graceada Partners	Skepner Development Corporation
11115 Folsom Blvd	Sunrise	104,970	$13,600,000	$129.56	Reese Real Estate & Investment Company	William C. Cummings
1501 Aviation Blvd	Roseville/Rocklin	79,200	$9,333,500	$117.85	AT Industrial	GPR Ventures
879 F St	West Sacramento	55,000	$9,000,000	$163.64	Zurich Investment Company	The Bendetti Company

TOP LEASE TRANSACTIONS 4Q 2023

Property	Submarket	SF	Transaction Date	Landlord	Tenant
3771 Channel Dr, West Sacramento	West Sacramento	397,077	November 2023	LBA Logistics	Encore Glass
1630 Terminal St, West Sacramento	West Sacramento	143,480	November 2023	Keysight Technologies, Inc.	Cubework
3650 Dudley Blvd, Mcclellan	Mcclellan	140,895	November 2023	Denman of California	Undisclosed
2063 Dome Ln, Mclellan	Mcclellan	90,000	November 2023	Discovery Boat & RV Storage	Undisclosed
Roseville Rd @ Stationers Way, Sacramento	Mcclellan	82,000	December 2023	Bouldin & English, Inc.	Lund Equipment

TOP UNDER CONSTRUCTION

Property	Submarket	SF	Owner	Delivery
Metro Air Pky	Natomas/Northgate	998,000	Buzz Oates	May 2024
Nimbus Rd	Rancho Cordova	441,515	NorthPoint Development	January 2024
4905 Serna Dr	Natomas/Northgate	235,890	NorthPoint Development	January 2024
2975 Ramco St	Mather	189,916	Reyes Holdings LLC	October 2024
10765 N Mather Blvd	Mather	155,076	Dermody Properties, Inc.	April 2024

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

Kidder Mathews

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.

COMMERCIAL BROKERAGE	$12B TRANSACTION VOLUME ANNUALLY	32.1M ANNUAL SALES SF	41.2M ANNUAL LEASING SF
ASSET SERVICES	53M MANAGEMENT PORTFOLIO SF	771+ ASSETS UNDER MANAGEMENT	250+ ASSET SERVICES CLIENTS
VALUATION ADVISORY	2,800+ ASSIGNMENTS ANNUALLY	42 TOTAL APPRAISERS	23 WITH MAI DESIGNATIONS

The information in this report was composed by the Kidder Mathews Research Group.

GARY BARAGONA
Vice President of Research
415.229.8925
gary.baragona@kidder.com

DAVID NELSON
Regional President, Brokerage
Northern California & Nevada
775.301.1300
david.nelson@kidder.com
LIC N° 01716942