

Research &
Forecast Report

SACRAMENTO | INDUSTRIAL

Q2 2015



Accelerating success.



SACRAMENTO | INDUSTRIAL

Q2 2015

Accelerating success.

Slow and Steady

Progress remains slow and steady for the Sacramento industrial market. Rental rates and vacancy remained virtually flat, but positive absorption and new construction show promise. With over 1 million SF of construction in the pipeline, completions are slowly trickling into the market, possibly making 2015 a record year for new deliveries post-recession. Leasing activity remains healthy and land sales are beginning to pick up steam, hinting at more build-to-suit construction in the near future.

Net Absorption

- Net absorption remained positive at 206,818 SF in Q2, but decreased from the nearly 1 million SF of absorption in Q1.
- The Roseville/Rocklin submarket had the largest positive absorption of the quarter, attributable to 24 Hour Recreation Storage moving into 180,000 SF of vacant space.
- The Davis/Woodland submarket saw negative 217,000 SF of net absorption as a result of Genco and Continental Warehouse vacating a combined 350,000 SF of space.

Vacancy

- The overall vacancy rate remained flat at 10.3%, with new deliveries offsetting the positive absorption.
- Flex space posted the lowest vacancy rate it has seen in over 10 years, falling 100 basis quarter-over-quarter.
- The warehouse vacancy rate has decreased 140 basis points year-over-year, showing slow but steady progress

Rental Rate

- Overall asking rates remained relatively flat with only a slight uptick from \$0.40 in Q1 to \$0.41 in Q2.
- Warehouse asking rental rates increased 2.9% quarter-over-quarter.
- Flex space average asking rates decreased from \$0.71 in Q1 to \$0.70 in Q2.

Activity

- Sales volume YTD is at \$114.1 million dollars from 88 flex and warehouse transactions.
- While dollar volume and number of transactions are down year-over-year, the average price per SF increased by 5%.
- Construction remains high at 1.1M SF, a 132% increase year-over-year.
- West Sacramento remain the most in-demand market with nearly 800,000 SF under construction and 250,000 SF delivered in Q2.

Market Indicators Relative to prior period	Flex 2015 Q2	Flex 2015 Q3*	Warehouse 2015 Q2	Warehouse 2015 Q3*
VACANCY	↓	↔	↑	↓
NET ABSORPTION	↓	↓	↓	↑
CONSTRUCTION	↔	↔	↑	↑
RENTAL RATE**	↓	↑	↓	↑

Note: Construction is the change in Under Construction.
*Projected

Summary Statistics

Q2 2015 Regional Industrial Market	Flex	Warehouse	Overall
Vacancy Rate	16.5%	9.5%	10.3%
Change From Q1-15 (basis points)	-100	10	0
Absorption (Thousand Square Feet)	198,919	7,899	206,818
New Construction (Thousand Square Feet)	0	271,147	271,147
Under Construction (Thousand Square Feet)	0	1,104,041	1,104,014

Asking Rents

Per Square Foot Per Month	Flex	Warehouse	Overall
All Class Types	\$0.70	\$0.36	\$0.41
Change From Q1-15	-1.4%	2.9%	2.5%

Vacancy & Absorption Performance

Overall vacancy rates remained stable in Sacramento at 10.3%. However, net absorption for the area is down from nearly 1 million SF in Q1 to a mere 206,818 SF in Q2. The low Q2 absorption number is due in part to the 217,000 SF vacated in Davis. Despite the negative absorption in Davis this quarter, the Davis/Woodland submarket remains the best performing submarket with year-over-year vacancy falling 3.6%. Expect to see absorption rebound in Q3 as highly anticipated new construction is delivered to the market and the vacant space in the desirable Davis submarket fills up.

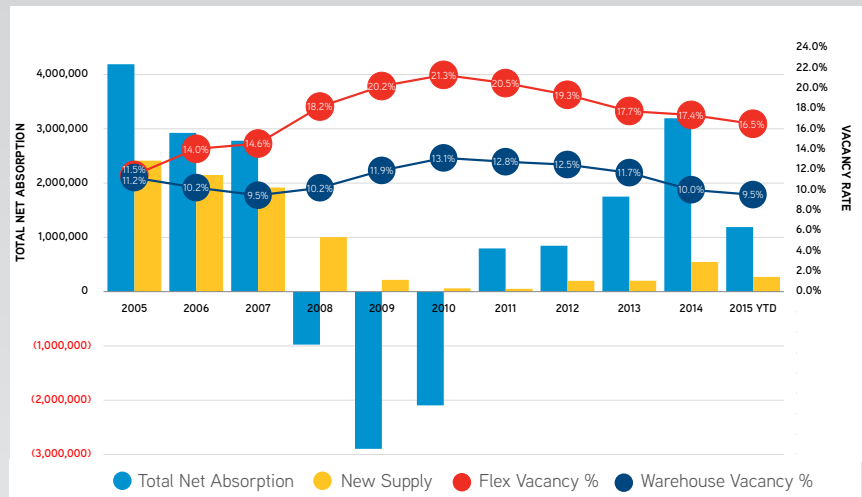
Rental Rates

There was virtually no fluctuation in rental rates increasing slightly from \$0.40 in Q1 to \$0.41 in Q2. Flex space average asking rates decreased from \$0.71 in Q1 to \$0.70 in Q2. However, warehouse rates remain strong when compared year-over-year, increasing 2.9% since 2014. As construction floods the market with new square footage for the remainder of 2015, expect to see rental rates finally break the stagnation we've seen since 2010. New space is generally more desirable and demands higher rates, in turn bringing up the market average.

Investment Volume

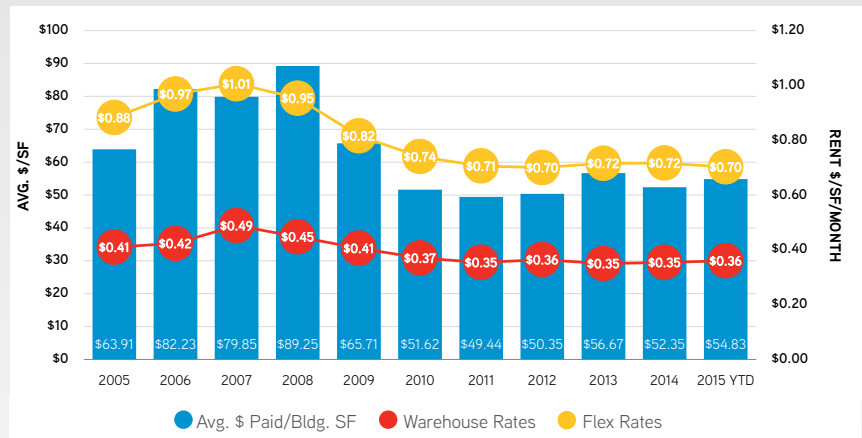
A scarcity of quality supply and fewer owner-users in the market continue to take a toll on 2015 investment volume. Q2 finished off at \$53.6 million dollars in purchases spread amongst 52 transactions, bringing the YTD sales volume to \$114.1 million. The number of sale transactions increased 42% quarter-over-quarter, resulting in a total of 88 transactions YTD. Despite the low numbers posted this quarter, we still witnessed a few major transactions. 8110 Power Ridge Road and 660 North Pioneer Avenue were both purchased in Q2 as part of multimillion dollar portfolio deals, proving investors remain confident in the Sacramento market.

Vacancy & Absorption Performance



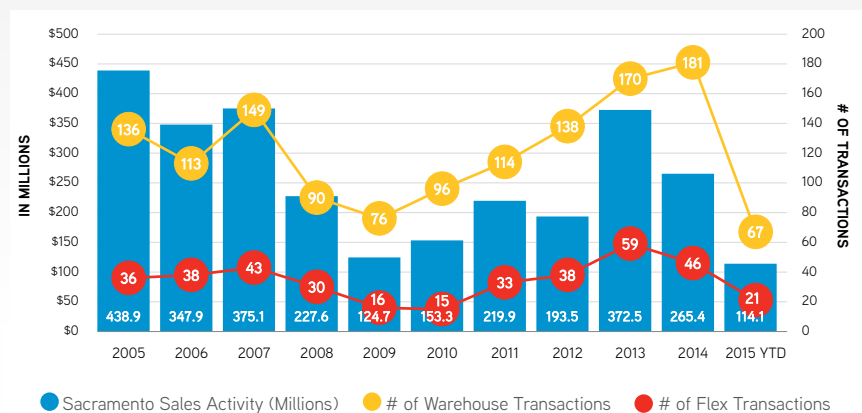
Source: Colliers International, CoStar

Rental Rates



Source: Colliers International, CoStar

Investment Volume



Source: Colliers International, CoStar

Lease and Investment Transactions

Significant Leases Q2 2015

SIGNED DATE	ADDRESS	SQUARE FEET	CLASS/TYPE	SUBMARKET	LANDLORD	TENANT
2Q-15	3500 Cincinnati Ave	180,000	B/New	Roseville/Rocklin	Coastal Partners, LLC	24 Hour Recreational Storage
2Q-15	5870 88th St	54,000	C/New	Power Inn	RTH Property Management LLC	RoofLine Supply & Delivery
2Q-15	1326-1332 N Market Blvd	52,541	B/New	Natomas/Northgate	Mallard North Market LP	IBS Sacramento
2Q-15	8331 Demetre Ave	21,780	C/New	Power Inn	U.S. National Leasing	Dynamex Operations West, LLC
2Q-15	5209 Luce Ave	19,887	C/New	McClellan	McClellan Park	Berger Steel Inc.

Significant Sales Q2 2015

SALE DATE	ADDRESS	SQUARE FEET/CLASS	PRICE/SF	SALE PRICE	SELLER	BUYER
Apr-15	181 Main Ave	60,000/C	\$48.33	\$2,900,000	Christine M O'Gara Trust	Artemis Real Estate Partners
Apr-15	879 F St	55,000/B	\$47.00	\$2,585,000	Bankruptcy Estate of International Mfg Group Inc	Ridge Capital Inc.
May-15	*3434 52nd Ave*	44,920/C	\$46.29	\$2,079,486	Tesco Controls, Inc.	Crown Enterprises, Inc.
Apr-15	10481 Grant Line Rd	45,420/B	\$42.93	\$1,950,000	KeyBank Real Estate Capital	Ethan Conrad Properties
Apr-15	1237-1251 Blumenfeld Dr	29,389/C	\$49.34	\$1,450,000	Norman D Kauffman Trust	Paul H Snider Trust

Construction Summary

EST. DELIVERY	ADDRESS	SQUARE FEET	CLASS/TYPE	SUBMARKET	LANDLORD	TENANT
Oct-15	3600 Massie Court	474,792	A/Warehouse	West Sacramento	Ridge Capital Inc.	AVAILABLE Space SPEC Project
Aug-15	2951 Thomas Pl	153,830	B/Warehouse	West Sacramento	Ridge Capital Inc.	AVAILABLE Space SPEC Project
Aug-15	2959 Thomas Pl	138,455	A/Warehouse	West Sacramento	Ridge Capital Inc.	AVAILABLE Space SPEC Project
Aug-15	5350 Raley Blvd	116,964	B/Distribution	McClellan	Buzz Oates Group of Co.	AVAILABLE Space SPEC Project
Jul-15	700 Industrial Ave	220,000	B/Distribution	Elk Grove/Laguna	El & El Wood Products Corp.	El & El Wood Products Corp.

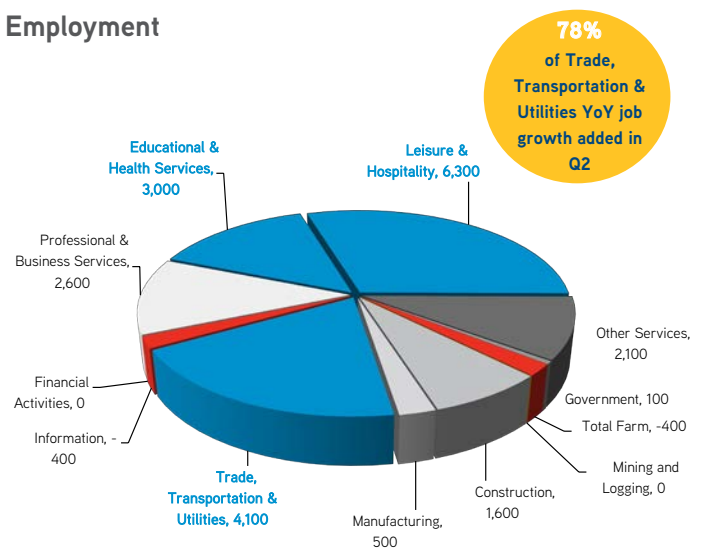
*Part of Portfolio Sale

Economy and Tenant Demand

The Sacramento MSA unemployment rate for May was 5.7%, beating the Bureau of Labor Statistics projection of 6.8%. Trade, transportation, and utilities exhibited the second largest job growth of any sector in the Sacramento market, adding 4,100 jobs year-over-year. An astonishing 78% of those jobs were added in Q2 2015, fueled by the growth of e-commerce in the industrial market. However, economists are concerned the decrease in unemployment is partially due to discouraged employment seekers dropping out of the market or settling for part time positions.

Tenants continue to demand high quality mid-size space, but find the options lacking, while landlords struggle to find credit worthy tenants, cutting their margins, and offering aggressive terms to rent out their properties. While the supply of brand new Class A properties increases, tenant demand continues to fill the Spec space, often prior to delivery.

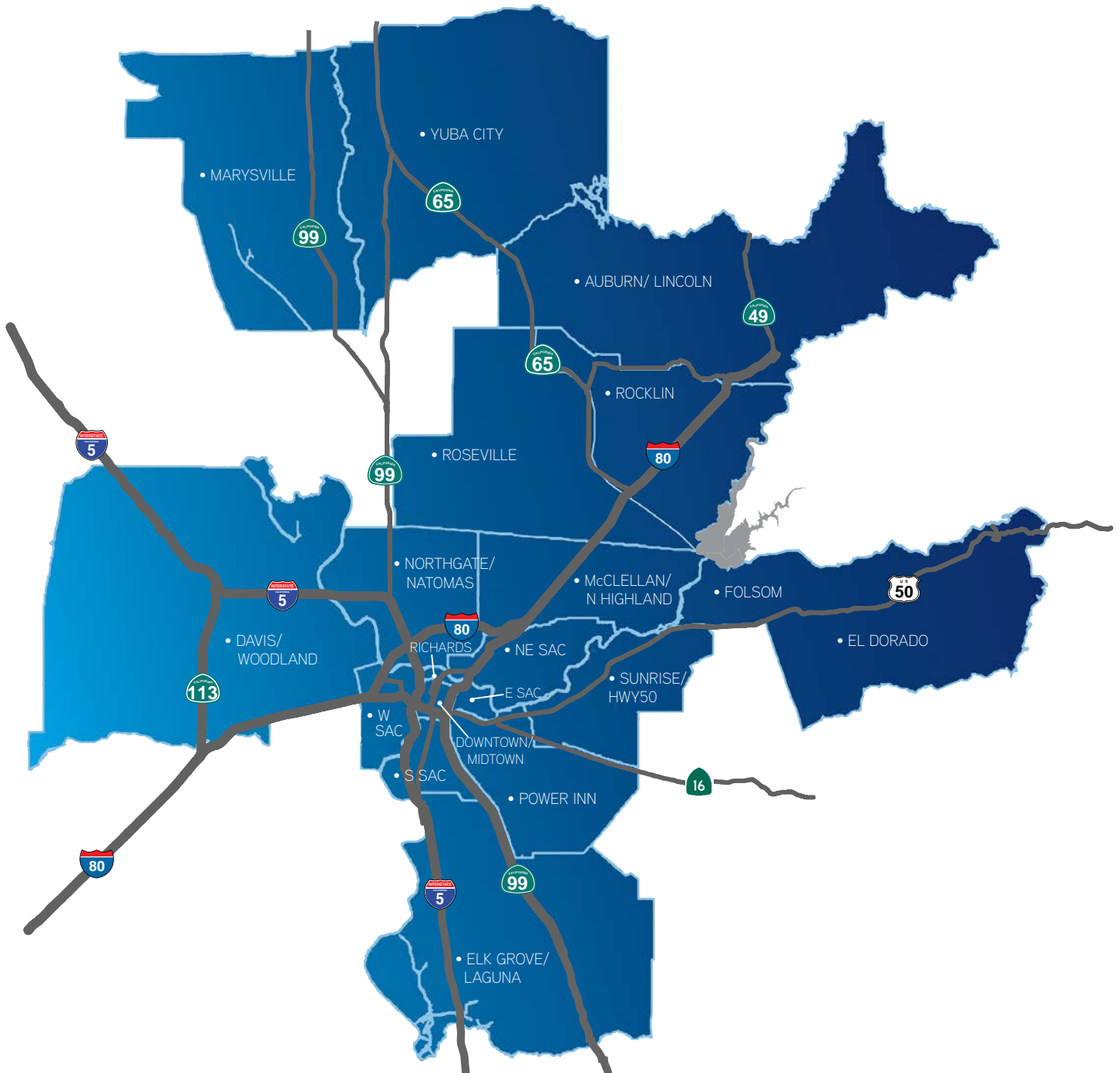
Employment



Source: BLS, CA Employment Development Department



Sacramento Industrial Submarkets



Sacramento Industrial Submarket Analysis

Existing Properties						Vacancy				Absorption			Construction Rents			
SUBMARKET	# OF BUILDINGS	TOTAL INVENTORY SF	DIRECT VACANT SF	DIRECT VACANCY RATE	SUBLEASE VACANT SF	SUBLEASE VACANCY RATE	TOTAL VACANT SF	TOTAL VACANCY RATE	VACANCY RATE PRIOR QTR	CURRENT OCCUPIED SPACE SF	NET ABSORPTION CURRENT QTR SF	NET ABSORPTION YTD SF	COMPLETIONS CURRENT QTR SF	COMPLETIONS YTD SF	UNDER CONSTRUCTION SF	DIRECT AVG ASKING RATE
Industrial Submarkets																
Auburn/Lincoln	176	2,667,707	95,941	3.6%	-	0.0%	95,941	3.6%	3.6%	2,571,766	(300)	(9,100)	-	-	-	\$0.53
Davis/Woodland	305	16,644,259	1,374,946	8.3%	-	0.0%	1,374,946	8.3%	6.4%	15,269,313	(302,837)	(226,867)	-	-	-	\$0.26
Downtown/Midtown	176	3,123,646	130,836	4.2%	-	0.0%	130,836	4.2%	5.0%	2,992,810	25,400	19,022	-	-	-	\$0.77
East Sacramento	59	759,441	57,105	7.5%	-	0.0%	57,105	7.5%	7.5%	702,336	-	(2,880)	-	-	-	\$0.50
Elk Grove/Laguna	203	5,991,454	460,208	7.7%	8,062	0.1%	468,270	7.8%	6.0%	5,523,184	(107,857)	(64,603)	-	-	220,000	\$0.33
Folsom/El Dorado	217	3,380,443	139,242	4.1%	-	0.0%	139,242	4.1%	4.7%	3,241,201	20,673	5,492	-	-	-	\$0.65
Marysville/Yuba City	258	6,517,710	582,234	8.9%	-	0.0%	582,234	8.9%	8.9%	5,935,476	(2,383)	(24,003)	-	-	-	\$0.42
McClellan/North Highlands	526	14,693,870	2,076,174	14.1%	142,978	1.0%	2,219,152	15.1%	15.3%	12,474,718	30,739	94,825	-	-	116,964	\$0.38
Northeast	393	6,002,627	496,320	8.3%	-	0.0%	496,320	8.3%	6.5%	5,506,307	(109,023)	(110,591)	-	-	-	\$0.36
Northgate/Natomas	239	11,921,610	1,324,012	11.1%	10,100	0.1%	1,334,112	11.2%	10.9%	10,587,498	(37,971)	(44,003)	-	-	-	\$0.39
Power Inn	882	26,310,989	1,990,760	7.6%	106,049	0.4%	2,096,809	8.0%	7.8%	24,214,180	(42,971)	599,976	-	-	-	\$0.35
Richards	127	4,418,653	271,189	6.1%	-	0.0%	271,189	6.1%	7.3%	4,147,464	51,418	112,600	-	-	-	\$0.33
Roseville/Rocklin	539	17,748,231	2,242,434	12.6%	1,494	0.0%	2,243,928	12.6%	14.0%	15,504,303	231,142	221,513	-	-	-	\$0.34
South Sacramento	256	4,702,661	1,452,063	30.9%	-	0.0%	1,452,063	30.9%	31.4%	3,250,598	23,621	20,374	-	-	-	\$0.51
Sunrise/Highway 50	706	14,924,882	1,024,377	6.9%	6,400	0.0%	1,030,777	6.9%	7.4%	13,894,105	95,295	219,690	20,000	20,000	-	\$0.42
West Sacramento	464	17,698,468	969,374	5.5%	38,168	0.2%	1,007,542	5.7%	5.1%	16,690,926	132,953	200,266	251,147	251,147	767,077	\$0.41
Flex Submarkets																
Auburn/Lincoln	27	593,321	236,210	39.8%	-	0.0%	236,210	39.8%	39.6%	357,111	(1,066)	(5,602)	-	-	-	\$0.70
Davis/Woodland	36	792,379	154,006	19.4%	-	0.0%	154,006	19.4%	19.8%	638,373	2,631	9,163	-	-	-	\$0.93
Downtown/Midtown	29	581,486	32,949	5.7%	-	0.0%	32,949	5.7%	5.7%	548,537	-	-	-	-	-	\$0.86
East Sacramento*	8	112,561	53,963	47.9%	-	0.0%	53,963	47.9%	47.9%	58,598	-	(1,277)	-	-	-	\$2.00
Elk Grove/Laguna	21	396,339	53,485	13.5%	-	0.0%	53,485	13.5%	14.4%	342,854	3,637	4,309	-	-	-	\$0.83
Folsom/El Dorado	94	1,965,715	157,180	8.0%	-	0.0%	157,180	8.0%	8.4%	1,808,535	7,741	3,944	-	-	-	\$0.73
Marysville/Yuba City	19	193,300	18,220	9.4%	-	0.0%	18,220	9.4%	12.9%	175,080	6,800	7,220	-	-	-	\$0.42
McClellan/North Highlands	109	2,006,335	464,909	23.2%	-	0.0%	464,909	23.2%	23.1%	1,541,426	(1,123)	(15,407)	-	-	-	\$0.51
Northeast	67	1,073,974	110,057	10.2%	-	0.0%	110,057	10.2%	11.2%	963,917	10,700	13,140	-	-	-	\$0.90
Northgate/Natomas	123	2,298,340	506,758	22.0%	-	0.0%	506,758	22.0%	25.6%	1,791,582	82,744	85,872	-	-	-	\$0.66
Power Inn	69	1,355,041	207,409	15.3%	-	0.0%	207,409	15.3%	17.7%	1,147,632	33,042	52,396	-	-	-	\$0.54
Richards	13	302,026	27,373	9.1%	-	0.0%	27,373	9.1%	8.7%	274,653	(966)	5,034	-	-	-	\$0.68
Roseville/Rocklin	133	3,155,535	282,266	8.9%	5,672	0.2%	287,938	9.1%	10.0%	2,867,597	26,317	46,571	-	-	-	\$0.89
South Sacramento*	29	393,987	80,613	20.5%	-	0.0%	80,613	20.5%	22.4%	313,374	7,488	1,152	-	-	-	\$0.64
Sunrise/Highway 50	161	3,602,283	750,412	20.8%	-	0.0%	750,412	20.8%	21.1%	2,851,871	10,071	38,749	-	-	-	\$0.59
West Sacramento	43	1,647,078	234,031	14.2%	-	0.0%	234,031	14.2%	14.9%	1,413,047	10,903	(66,890)	-	-	-	\$0.67
Market Total																
Industrial	5,526	157,506,651	14,687,215	9.3%	313,251	0.2%	15,000,466	9.5%	9.4%	142,506,185	7,899	1,011,711	271,147	271,147	1,104,041	\$0.36
Flex	981	20,469,700	3,369,841	16.5%	5,672	0.0%	3,375,513	16.5%	17.5%	17,094,187	198,919	178,374	-	-	-	\$0.70
Total	6,507	177,976,351	18,057,056	10.1%	318,923	0.2%	18,375,979	10.3%	10.3%	159,600,372	206,818	1,190,085	271,147	271,147	1,104,041	\$0.41

Quarterly Comparison and Totals

SUBMARKET	# OF BUILDINGS	TOTAL INVENTORY SF	DIRECT VACANT SF	DIRECT VACANCY RATE	SUBLEASE VACANT SF	SUBLEASE VACANCY RATE	TOTAL VACANT SF	TOTAL VACANCY RATE	VACANCY RATE PRIOR QTR	CURRENT OCCUPIED SPACE SF	NET ABSORPTION CURRENT QTR SF	NET ABSORPTION YTD SF	COMPLETIONS CURRENT QTR SF	COMPLETIONS YTD SF	UNDER CONSTRUCTION SF	DIRECT AVG ASKING RATE
2Q-15	6,507	177,976,351	18,057,056	10.1%	318,923	0.2%	18,375,979	10.3%	10.3%	159,600,372	206,818	1,190,085	271,147	271,147	1,104,041	\$0.41
1Q-15	6,503	177,696,804	17,952,100	10.1%	359,550	0.2%	18,311,650	10.3%	10.9%	159,385,154	983,267	983,267	-	-	1,375,188	\$0.40
4Q-14	6,503	177,696,804	18,930,045	10.7%	364,872	0.2%	19,294,917	10.9%	11.1%	158,401,887	689,818	3,195,999	250,000	548,014	1,082,903	\$0.40
3Q-14	6,502	177,446,804	19,389,135	10.9%	345,600	0.2%	19,734,735	11.1%	11.8%	157,712,069	1,314,160	2,506,181	198,744	298,014	498,000	\$0.41
2Q-14	6,501	177,248,060	20,549,866	11.6%	300,285	0.2%	20,850,151	11.8%	12.2%	156,397,909	807,746	1,192,021	99,270	99,270	476,744	\$0.40

The information contained in this report was provided by sources deemed to be reliable, however, no guarantee is made as to the accuracy or reliability.

As new, corrected or updated information is obtained, it is incorporated into both current and historical data, which may invalidate comparison to previously issued reports.

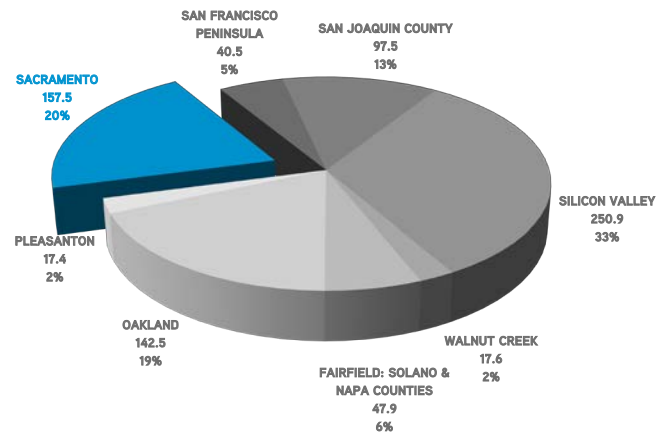
Statistics include Industrial and Flex buildings of any size including owner-occupied and Government buildings in the Sacramento MSA. Rents are nnn weighted averages. Market total rent is the blended average between Flex and Industrial properties.

*Average rents used reflect most recent asking rents available.

New Construction and Outlook

SPEC construction still remains the hot topic of conversation for the Sacramento industrial market as tenant demand remains strong, but the availability of quality space remains low. Four SPEC projects are currently in the queue totaling over 800K SF, all of which are expected to deliver in 2015. Three of the four SPEC projects are located in West Sacramento, capitalizing on the area's location, infrastructure plans, and housing developments. One build-to-suit project remains under construction in Elk Grove, while Bogle Vineyards delivered and occupied its build-to-suit project of 223K SF in Q2. If construction for these five projects remains on track, 2015 will post the highest square footage delivered since 2007. With stagnant rental rates and a low volume of sale transactions, this flood of construction will be a significant market driver for the large space industrial market.

Northern CA Industrial Markets: Million Square Feet



Source: Colliers International



502 offices in 67 countries on 6 continents

United States: **140**

Canada: **31**

Latin America: **24**

Asia Pacific: **199**

EMEA: **108**

\$2.3

billion in
annual revenue

1.7

billion square feet
under management

16,300

professionals
and staff

About Colliers International

Colliers International is a global leader in commercial real estate services, with more than 16,300 professionals operating out of 502 offices in 67 countries. A subsidiary of FirstService Corporation, Colliers International delivers a full range of services to real estate occupiers, owners and investors worldwide, including global corporate solutions, brokerage, property and asset management, hotel investment sales and consulting, valuation, consulting and appraisal services, mortgage banking and insightful research. Colliers International has been recognized and ranked by the International Association of Outsourcing Professionals' Global Outsourcing 100 for 10 consecutive years, more than any other real estate services firm.

colliers.com/sacramento

Copyright © 2015 Colliers International.

The information contained herein has been obtained from sources deemed reliable. While every reasonable effort has been made to ensure its accuracy, we cannot guarantee it. No responsibility is assumed for any inaccuracies. Readers are encouraged to consult their professional advisors prior to acting on any of the material contained in this report.

MARKET CONTACT:

Randy Dixon
Managing Director | Sacramento
+1 916 929 5999
randy.dixon@colliers.com

REGIONAL AUTHORS:

Tana Giffen
Research Analyst
Sacramento
+1 916 563 3001
tana.giffen@colliers.com

Blake Bouldin
Research Associate
+1 916 563 3055
blake.bouldin@colliers.com

CONTRIBUTORS:

Colliers International | Sacramento
301 University Avenue, Suite 100
Sacramento, CA | Unites States

+1 916 929 5999



Accelerating success.