



## MARKET CHANGE

Compared to the Previous Quarter:

Vacancy

DOWN

Net Absorption

POSITIVE

Lease Rates

UP

Transactions

DOWN

Deliveries

UP

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## HIGHLIGHTS

- **Market Status** - The Sacramento industrial market has continued to improve as demand has gained momentum, which has led to a further decrease in vacancy rates. During the third quarter, vacancy decreased to 10.08%, which is the lowest vacancy rate since 2008. What's more, positive net absorption posted an impressive 1.3 million plus square feet. Assuming construction remains at a minimum, vacancies are expected to fully recover by 2016.
- **Construction** - During the third quarter, there were three industrial buildings under construction in the Sacramento market, which totaled 781,219 square feet. One of those buildings is a 473,136 square foot Class B distribution center in the Fairfield submarket, which is expected to be delivered this year in October. There is also a 250,000 square foot building under construction in West Sacramento, a Class A distribution center that is expected to be delivered in March of 2015. At the close of the third quarter, there was 6.71 million square feet of proposed industrial space for the Sacramento market. The slowdown in construction, however, will continue to force downward pressure on vacancy, which will allow for further stabilization.
- **Vacancy** - Total vacancy came in at 10.08%, which is a decrease of 64 basis points compared to the previous quarter. In addition, this quarter's rate is lower than the third quarter of 2008. Within the major submarkets, Fairfield and West Sacramento had the lowest vacancy rates at 4.11% and 6.05%, while the South Sacramento area remained high at 36.92% with the large 1.6-million-square-foot vacancy of the Campbell's Soup facility.
- **Availability** - The rate of available space being marketed was 13.31% at the close of the third quarter, a decrease of 51 basis points from the previous quarter. The South Sacramento submarket remained high at 36.82%, while the Fairfield submarket had the lowest availability rate in the region at 5.33%.
- **Lease Rates** - The average asking triple-net lease rate was \$0.35 per square foot per month at the end of the third quarter. Asking rates have remained flat, but are stabilizing. We expect lease rates to increase slowly and steadily throughout 2014.
- **Absorption** - The Sacramento industrial market posted just over 1.3 million square feet of positive net absorption in the third quarter of

the year, most of which was in the Davis/Woodland submarket that posted just over 594,000 square feet. These figures give the market a net total of almost 2.8 million square feet of positive net absorption throughout 2014.

- **Transaction Activity** - The total volume of industrial lease and sale transaction activity was just over two million square feet for the third quarter. Sales activity came in at just over 735,000 square feet while leasing activity was just over 1.3 million square feet during the same time period. This statistic can have some lag time in being reported, so look for third quarter figures to end up somewhat higher in the next report. Details of the largest transactions for the third quarter can be found on the back page of this report.
- **Employment** - The unemployment rate in the Sacramento-Arden Arcade-Roseville MSA was 7.0% in August 2014, down from a revised 7.4% in July 2014, and below the year-ago estimate of 8.5%. This compares with an unadjusted unemployment rate of 7.4% for California and 6.3% for the nation during the same period. According to the State of California Employment Development Department, the Sacramento-Arden Arcade-Roseville MSA saw a net increase of 17,000 payroll jobs from August 2013 to August 2014. While most sectors showed gains in employment, the largest gains were 7,200 jobs in professional and business services, 6,000 jobs in educational and health services, and 1,600 jobs in manufacturing during that same time period.
- **Overall** - The long-term outlook for the Sacramento industrial market is positive. Demand for warehouse space in Sacramento is improving and will continue to turn around as homebuilding picks up and as local incomes rise. The lack of supply of new industrial space will also prove favorable for vacancy rates. In particular, the positive effects of Tesla's gigafactory in Reno are expected to trickle down to Sacramento. Since Sacramento is the largest metro area west of Nevada along Highway 80, there may be manufacturing suppliers and warehousing companies that choose to locate along the highway 80 corridor. Thus, West Sacramento may quickly become a popular spot for tenants since it has good highway access, among other factors. In the meantime, buying for occupancy or purchasing fully-leased, single-tenant assets are still the popular investment choice.

## FORECAST

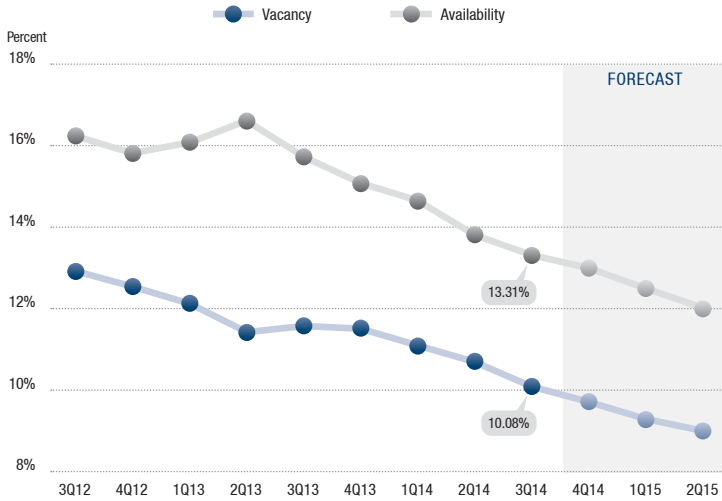
- **Construction** - At the close of the third quarter, over 780,000 square feet of industrial space was under construction, the most construction seen in this market in years, but still below historical levels. We anticipate construction remaining minimal, comprised of mostly build-to-suit projects in coming quarters.
- **Employment** - We anticipate job growth of around 2.1%, or 17,000 jobs, in the Sacramento area by 2015. Expect growth in educational services, health care, social assistance, professional & business services, leisure & hospitality, and retail trade sectors.
- **Lease Rates** - Expect average asking lease rates to increase by another 2% to 3% over the next four quarters.
- **Vacancy** - We anticipate the vacancy rate continuing to descend in coming quarters, dropping to around 9.0%, by the end of the second quarter of 2015.

## OVERVIEW

	3Q14	2Q14	3Q13	% of Change vs. 3Q13
Vacancy Rate	10.08%	10.72%	11.54%	(12.65%)
Availability Rate	13.31%	13.82%	15.73%	(15.38%)
Average Asking Lease Rate	\$0.35	\$0.34	\$0.36	(2.78%)
Sale & Lease Transactions	2,051,124	3,348,253	4,024,704	(49.04%)
Gross Absorption	2,146,610	1,847,238	2,734,885	(21.51%)
Net Absorption	1,330,839	717,449	(209,144)	N/A

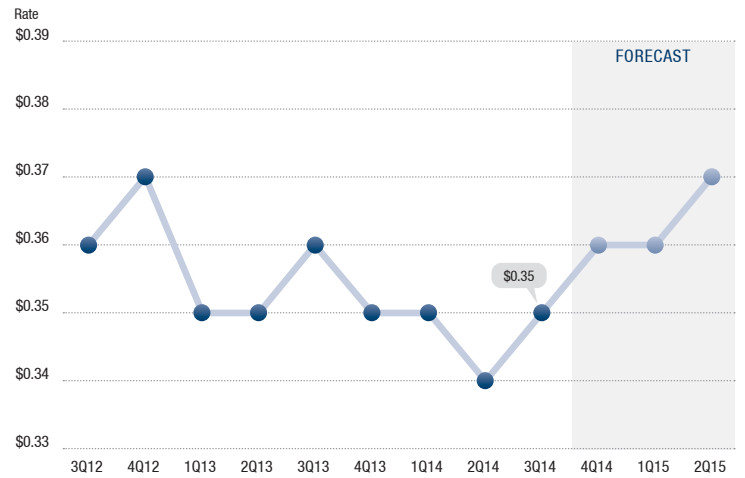
## VACANCY & AVAILABILITY RATE

VACANCY – UNOCCUPIED SPACE | AVAILABILITY – ALL SPACE BEING MARKETED



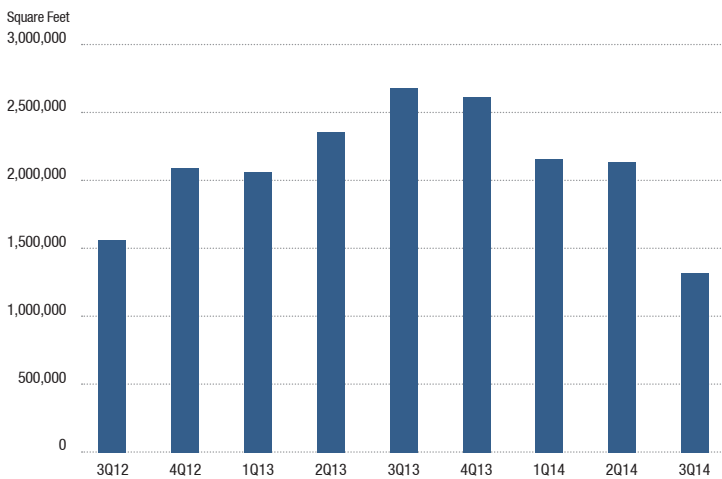
## AVERAGE ASKING TRIPLE-NET LEASE RATE

MONTHLY OCCUPANCY COST ON A PER SQ. FT. BASIS



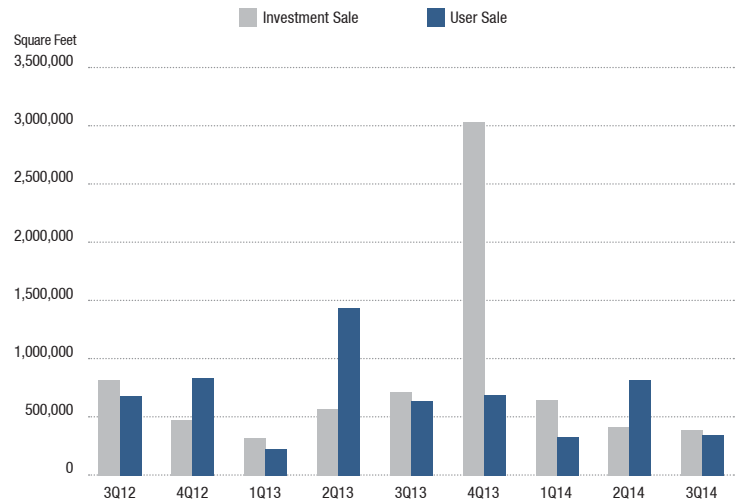
## LEASE TRANSACTIONS

TOTAL AMOUNT OF SPACE THAT LEASED IN A QUARTER



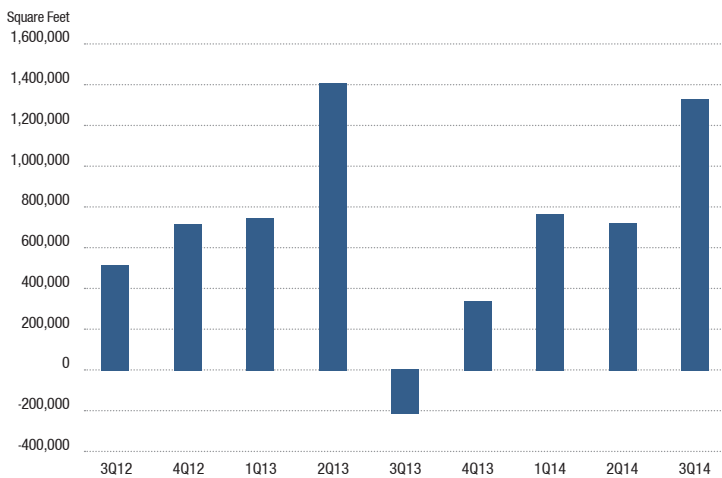
## SALES TRANSACTIONS

TOTAL AMOUNT OF SPACE THAT SOLD IN A QUARTER



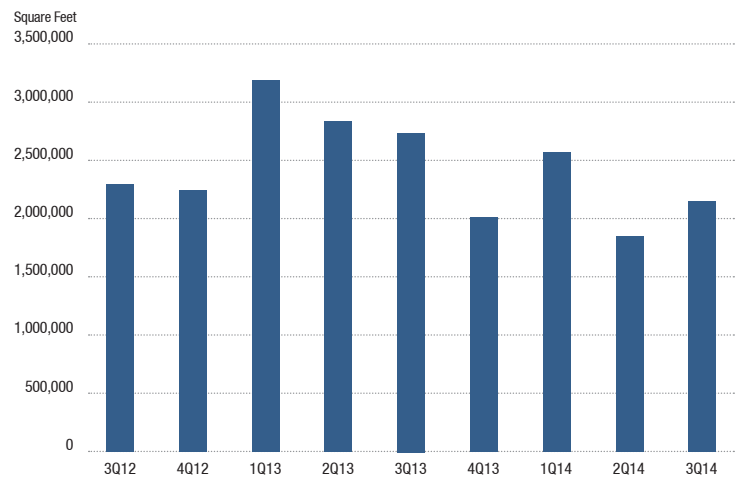
## NET ABSORPTION

CHANGE IN THE AMOUNT OF OCCUPIED SPACE FROM ONE QUARTER TO THE NEXT



## GROSS ABSORPTION

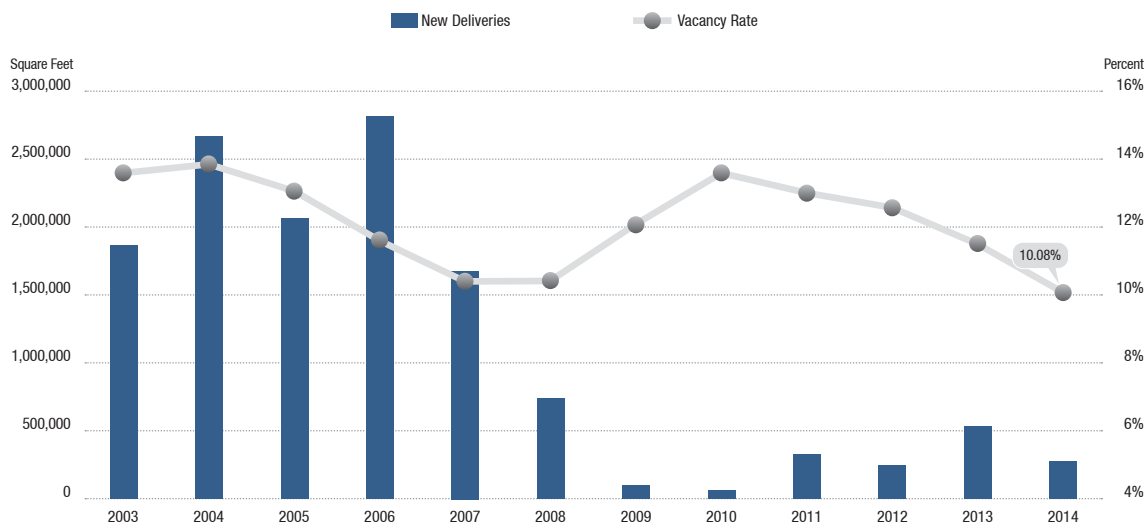
TOTAL AMOUNT OF SPACE THAT BECAME OCCUPIED IN A QUARTER



	INVENTORY				VACANCY & LEASE RATES					ABSORPTION			
	Number of Bldgs.	Net Rentable Square Feet	Square Feet U / C	Square Feet Planned	Square Feet Vacant	Vacancy Rate 3Q2014	Square Feet Available	Availability Rate 3Q2014	Average Asking Lease Rate	Net Absorption 3Q2014	Net Absorption 2014	Gross Absorption 3Q2014	Gross Absorption 2014
<b>Sacramento Market</b>													
Auburn/Newcastle	84	2,205,491	0	0	75,393	3.42%	230,443	10.45%	\$0.78	(8,400)	40,128	0	49,528
Benicia	155	8,113,335	0	0	839,066	10.34%	1,110,808	13.69%	\$0.50	21,717	(166,811)	116,739	298,647
Davis/Woodland	186	16,354,976	0	15,040	1,366,647	8.36%	1,827,477	11.17%	\$0.27	594,947	815,406	681,494	967,458
Downtown	87	2,650,149	0	0	125,765	4.75%	189,159	7.14%	\$0.70	(30,671)	(39,136)	0	23,633
East Sacramento	24	583,674	0	0	44,376	7.60%	44,376	7.60%	\$0.00	0	6,000	0	6,000
Elk Grove/Laguna	104	4,974,527	0	249,450	363,955	7.32%	689,852	13.87%	\$0.35	81,425	77,001	86,016	130,246
Fairfield	159	12,452,538	473,136	1,163,586	511,651	4.11%	663,276	5.33%	\$0.35	4,945	436,958	12,655	562,621
Folsom/El Dorado	98	2,753,385	0	0	121,202	4.40%	208,256	7.56%	\$0.74	(2,193)	(13,675)	5,191	25,788
Marysville/Yuba City	140	5,842,088	0	0	336,363	5.76%	462,699	7.92%	\$0.43	(5,000)	29,366	0	72,216
Mather	124	3,750,265	0	70,393	519,481	13.85%	737,575	19.67%	\$0.38	91,153	55,866	110,687	206,525
McClellan	285	13,404,242	0	159,464	2,447,078	18.26%	2,884,702	21.52%	\$0.34	69,743	208,062	118,665	391,380
Natomas/Northgate	201	11,664,249	0	629,394	1,225,803	10.51%	1,686,140	14.46%	\$0.39	(9,675)	368,854	123,283	749,347
NE Sacramento	192	5,030,112	0	0	396,789	7.89%	605,302	12.03%	\$0.38	25,248	(9,147)	31,815	90,522
Outer El Dorado County	9	197,707	0	10,000	3,500	1.77%	0	0.00%	\$0.00	0	1,600	0	1,600
Outer Placer County	2	20,705	0	0	0	0.00%	0	0.00%	\$0.00	0	0	0	0
Outer Sacramento County	3	79,588	0	0	12,000	15.08%	12,000	15.08%	\$0.00	0	(12,000)	0	0
Outer Sutter County	2	141,040	0	0	0	0.00%	0	0.00%	\$0.00	0	0	0	0
Outer Yolo County	5	142,356	0	0	0	0.00%	0	0.00%	\$0.00	0	0	0	0
Outer Yuba County	4	178,387	0	0	0	0.00%	0	0.00%	\$0.00	0	0	0	0
Power Inn	561	24,296,585	0	1,034,281	2,350,114	9.67%	3,763,519	15.49%	\$0.33	91,043	41,565	208,558	726,771
Richards	87	4,075,487	0	0	370,307	9.09%	430,177	10.56%	\$0.34	(72,281)	(22,930)	0	66,092
Roseville/Rocklin	279	16,646,486	0	294,773	2,228,903	13.39%	2,585,962	15.53%	\$0.33	273,896	370,306	377,658	617,240
South Sacramento	125	4,028,478	0	1,077,600	1,487,117	36.92%	1,483,283	36.82%	\$0.24	17,510	22,945	22,850	57,065
Sunrise	329	9,383,067	0	0	655,621	6.99%	904,244	9.64%	\$0.43	24,342	97,067	57,959	322,604
Vacaville	149	9,908,835	0	1,211,311	728,169	7.35%	1,121,880	11.32%	\$0.35	53,093	(40,993)	62,773	228,915
Vallejo	109	5,202,491	0	0	961,579	18.48%	964,064	18.53%	\$0.29	17,175	182,524	17,175	187,494
West Sacramento	308	15,657,468	308,083	797,077	946,917	6.05%	1,308,923	8.36%	\$0.42	92,822	364,456	113,092	776,333
<b>Sacramento Market Total</b>	<b>3,811</b>	<b>179,737,711</b>	<b>781,219</b>	<b>6,712,369</b>	<b>18,117,796</b>	<b>10.08%</b>	<b>23,914,117</b>	<b>13.31%</b>	<b>\$0.35</b>	<b>1,330,839</b>	<b>2,813,412</b>	<b>2,146,610</b>	<b>6,558,025</b>
10,000-29,999	2,294	38,377,719	0	539,318	2,726,044	7.10%	3,808,180	9.92%	\$0.50	23,301	234,492	350,398	1,246,041
30,000-49,999	593	22,558,263	0	189,918	2,198,798	9.75%	2,715,281	12.04%	\$0.44	134,576	163,993	264,026	894,427
50,000-99,999	547	36,579,010	58,083	451,074	3,516,237	9.61%	4,597,799	12.57%	\$0.36	245,357	578,452	387,201	1,276,976
100,000-199,999	237	30,908,929	0	2,090,728	2,363,098	7.65%	3,992,150	12.92%	\$0.33	243,399	1,301,147	398,119	1,720,359
200,000-299,999	82	19,757,305	250,000	1,204,461	2,604,753	13.18%	2,995,384	15.16%	\$0.27	370,384	77,321	394,430	687,364
300,000 Plus	58	31,556,485	473,136	2,236,870	4,708,866	14.92%	5,805,323	18.40%	\$0.30	313,822	458,007	352,436	732,858
<b>Sacramento Market Total</b>	<b>3,811</b>	<b>179,737,711</b>	<b>781,219</b>	<b>6,712,369</b>	<b>18,117,796</b>	<b>10.08%</b>	<b>23,914,117</b>	<b>13.31%</b>	<b>\$0.35</b>	<b>1,330,839</b>	<b>2,813,412</b>	<b>2,146,610</b>	<b>6,558,025</b>

This survey consists of buildings greater than 10,000 square feet. Lease rates are on a triple-net basis.

## ANNUAL NEW DELIVERIES VS. VACANCY RATE



## MAJOR TRANSACTIONS

### Sales Transactions

Property Address	Submarket	Square Feet	Sale Price Per SF	Buyer	Seller
California Redwood 22 N. Pioneer St.	Davis/Woodland	60,000	\$40.00	Pacific States Industries	California Redwood Company
3790 Omec Cir.	Sunrise	22,620	\$59.68	Vitaly Yanchuk	Omec, LLC
Roseville Industrial Park 650 Commerce Dr.	Roseville/Rocklin	11,220	\$119.96	J.D.C. Enterprises, LP	Richard B. & Julie Chowdry
11354 White Rock Rd.	Sunrise	40,516	\$33.02	Shafika Mangal	Jamal, LLC
10291 Iron Rock Way	Elk Grove/Laguna	36,000	\$33.33	Maita 2500 Auburn Blvd, LLC	Trotter G E Jr Trust

### Lease Transactions

Property Address	Submarket	Square Feet	Transaction Date	Tenant	Owner
5001 Industrial Way	Benicia	220,000	Jul-14	Undisclosed	5001 LLC
Ventura Industrial Park 700 Santa Anita Dr.	Davis/Woodland	71,000	Aug-14	Pioneer Seed	Sac Valley Cold Storage, LLC
2340 E. Main St.	Davis/Woodland	68,229	Aug-14	Undisclosed	Buzz Oates Group of Companies
Sierra View Industrial Building 8875 Washington Blvd.	Roseville/Rocklin	62,400	Jul-14	Undisclosed	Roseville Development II, LLC
524 Stone Rd.	Benicia	40,020	Aug-14	Undisclosed	The Blackstone Group, LP
433-459 Industrial Way	Benicia	40,000	Jul-14	Undisclosed	The Blackstone Group, LP

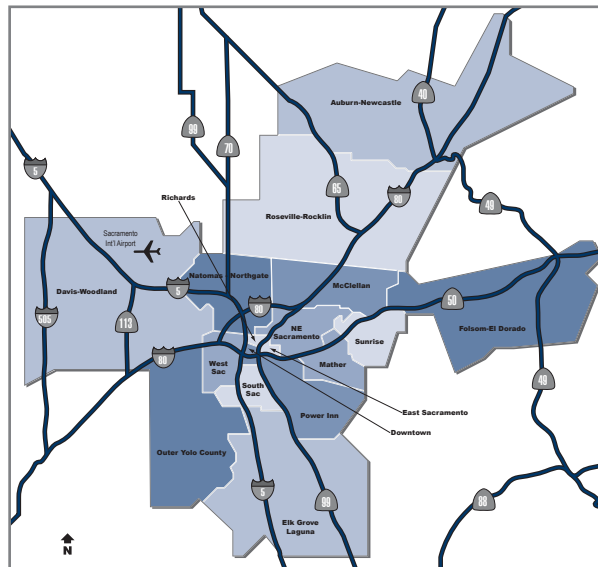
## PRODUCT TYPE

### MFG./DIST.

Manufacturing/Distribution/Warehouse facilities with up to 29.9% office space.

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