



Industrial Report

Q2 2016
GALLELLI REAL ESTATE MARKET REPORT

Overview

The Sacramento industrial market saw an uptick in momentum during Q2 2016, with the market experiencing moderate occupancy growth and a notable decline in vacancy. Industrial vacancy declined from 13.6% in Q1 to 12.9% during Q2, which is the lowest vacancy rate the local industrial market has seen since Q4 2008. Though the rate has wavered at times, local vacancy continues to trend downward and has declined 4.2% over the last five years. Net absorption was positive for the quarter, recording just over 702,000 square feet of growth, which is much improved over the 103,000 square feet that was recorded during the previous quarter. Year-to-date net absorption currently stands at nearly 806,000 square feet.

Industrial demand and leasing activity continues to be strong in the region - we tracked just over 1.3 million square feet of industrial deals signed during Q2. This marks a notable increase over the 934,000 square feet of deals seen in the previous quarter. While a number of larger (50K+ square feet) deals were signed during the quarter, the majority of industrial demand continues to be focused on smaller spaces, typically under 20K square feet.



Market Trends

- Quarterly net absorption was overwhelmingly positive across the local submarkets, with West Sacramento, McClellan and Richards Boulevard all experiencing occupancy gains in excess of 100,000 square feet. Occupancy losses were negligible, with just Davis/Woodland and Northeast Sacramento recording negative absorption during the quarter.
- The current average asking rate for industrial space across all product classes stood at \$0.40 per square foot NNN at the end of Q2. Industrial rental rates will likely remain flat until vacancy falls even further.
- Industrial demand and leasing activity remain strong - Q2 saw a notable uptick in leasing activity, with a number of larger (50K+ SF) deals being signed. While there was also a slight increase in the number of requirements over 50,000 square feet, the majority of demand continues to be focused on smaller (under 20K SF) industrial spaces.

Industrial Q22016

Year-to-date, the market has recorded nearly \$70 million in industrial transactional volume.

Vacancy
12.9%



Net Absorption
702,329



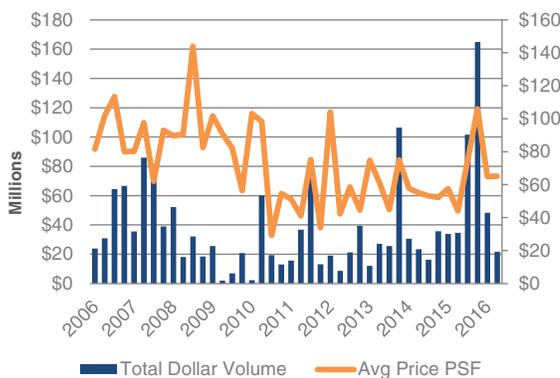
Avg. Rent PSF
\$0.40 PSF



Investment Highlights

- Industrial investment activity declined during Q2 2016, with the market recording \$21.7 million in transactional volume over 18 transactions. This is down from Q1 2016, which saw 20 transactions totaling \$48.2 million. Year-to-date, the market has recorded nearly \$70 million in industrial transactional volume.
- The average price per square foot remained flat at \$65 per square foot.
- The average asking CAP rate saw a slight increase over Q1, ending the quarter at 7.8%.
- Class B and C warehouse and manufacturing buildings comprised the majority of investment sales during the quarter.
- The largest investment sale of the quarter was the sale of the 83,000-square-foot South Point Business Center on 44th Street in the Power Inn Submarket. This property sold for \$6.7 million at a 8.50% CAP rate.

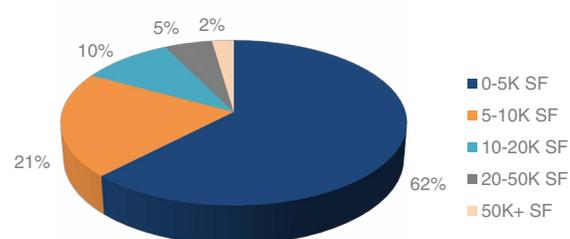
Industrial Investment Sales Volume

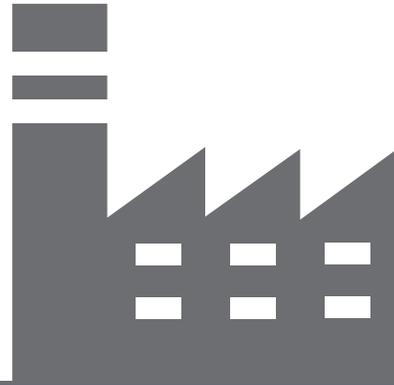


Industrial Vacancy vs. Net Absorption



Q2 Industrial Leasing Volume by SF





Construction

0_{SF}
-

Sacramento Unemployment

5.6%
▲

US Unemployment

4.9%
▼

Spotlight: Current and Future Industrial Business Parks

The second quarter of 2016 brought some big news for one existing and one future industrial business park in the Sacramento region. Firstly, McClellan Park, the former air force based turned mixed-use business park, announced plans for a massive new data center, which would include a 66,000 square foot building to be completed next winter, as well as another 100,000 square foot building, which would be completed a year later. The data center is being backed by a group of European investors and has also received \$1.2 million in tax credits from the State of California to go forward with construction. In addition to the data center, another build-to-suit project is currently underway at McClellan Park - a 225,000 square foot industrial building for US Cold Storage. The building is scheduled to be completed by year's end. Once completed, these two projects would add 391,000 square feet to McClellan Park.

As far as future industrial parks, the long-planned Metro Air Park, located in Natomas near Sacramento International Airport, also had some big news during the quarter, with Amazon officially confirming that they will be building an 855,000-square-foot warehouse within the future development project. This will be Amazon's first entry into the Sacramento region and will add over 1,500 jobs to the area.

Outlook

The Sacramento industrial market continues to improve, and Q2 saw a healthy increase in market momentum, with vacancy falling into the 12.0% range for the first time in six years. With the market continuing to see strong demand and leasing activity, we anticipate that vacancy will continue to decline throughout the year. The 1.3 million square feet of deals signed during the quarter should help to push vacancy down into the 12.0% range once these tenants occupy in the upcoming quarters. Rental rates remain flat and upward growth is unlikely until we see vacancy decline further.

Research

Our team focuses on providing high quality, data driven, accurate market information to our clients. We provide in-depth commercial real estate market analysis and insight into market trends in order to help optimize our clients' real estate decisions.



Industrial Q22016

Market Statistics

Submarket	Inventory	Direct	Available Space Sublease	Total	Vacancy Q2-16	Net Absorption		SF Under Construction	Avg. Asking Rate (NNN)
						Q2-16	Q2-15		
Auburn	1,188,993	44,063	0	44,063	3.7%	7,825	0	0	\$0.50
Davis/Woodland	7,913,467	1,577,886	25,400	1,603,286	20.3%	(13,162)	(322,315)	0	\$0.29
Downtown	862,838	112,000	0	112,000	13.0%	0	0	0	-
East Sacramento	175,668	0	0	0	0.0%	0	0	0	-
Elk Grove/Laguna	3,029,467	188,708	8,062	196,770	6.5%	19,005	(95,710)	0	\$0.36
Folsom/El Dorado Hills	1,519,269	24,990	0	24,990	1.6%	7,475	(1,465)	0	\$0.65
Mather	2,593,339	273,499	6,400	279,899	10.8%	63,487	12,882	0	\$0.37
McClellan	10,112,863	1,907,684	142,978	2,050,662	20.3%	167,861	13,323	0	\$0.37
Northgate/Natomas	9,061,394	736,274	75,100	811,374	9.0%	66,654	(30,702)	0	\$0.37
Northeast Sacramento	2,749,171	185,478	20,000	205,478	7.5%	(6,120)	(135,495)	0	\$0.36
Power Inn	16,316,643	1,357,742	0	1,357,742	8.3%	14,157	60,729	0	\$0.32
Richards	2,799,610	103,809	0	103,809	3.7%	150,282	30,618	0	\$0.33
Roseville/Rocklin	8,926,441	1,859,284	0	1,859,284	20.8%	20,572	120,338	0	\$0.34
South Sacramento	2,489,269	1,009,766	0	1,009,766	40.6%	11,482	26,969	0	\$0.53
Sunrise	5,931,646	316,733	0	316,733	5.3%	20,923	24,850	0	\$0.49
West Sacramento	14,371,105	1,597,431	0	1,597,431	11.1%	171,888	123,913	0	\$0.38
Totals	90,041,183	11,295,347	277,940	11,573,287	12.9%	702,329	(172,065)	0	\$0.40

About Gallelli Real Estate

Gallelli Real Estate is a boutique firm that specializes in commercial estate services and property management. We believe that as a boutique firm whose understanding of the business runs as deep as our core values, our advantage is large. We take pride in our unique approach to offer more individual solutions that address the ever changing needs of our clients and the industry. After all, our success is measured by the success of our clients and the strength and longevity of our relationships. For the latest news from Gallelli Real Estate, visit GallelliRE.com, or follow us on Twitter @Gallelli_RE and LinkedIn.

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