

# INVESTMENT FORECAST

Industrial  
Sacramento

IPA  
INSTITUTIONAL  
PROPERTY  
ADVISORS

2022

## Sacramento Evolves Beyond a Local Service Market; Metro's Enhanced Role in Supply Chain Attracts Capital

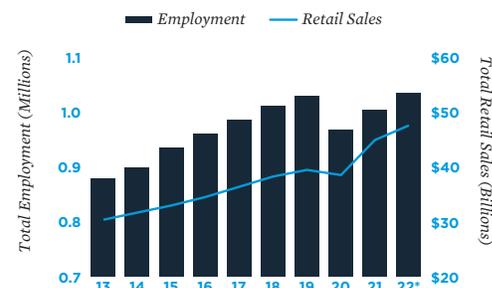
**Vacancy remains regionally tight, despite rapid stock expansion.** Proximity to the Bay Area, Central Valley and Reno, paired with local population growth, is motivating industrial users to establish or expand their presence in Sacramento. Robust demand for available warehouse and distribution space is demonstrated by metro vacancy compressing 80 basis points over the past two years to 3.4 percent, despite the delivery of more than 10 million square feet — a volume of supply additions that eclipsed the prior 14-year total. An increase in 100,000-square-foot-plus lease commitments by e-commerce firms, suppliers and logistics providers is largely to credit for demand outpacing completions, highlighted by the absorption of 7.5 million square feet last year. While notable inventory expansion continues in 2022, more than half of the 4.4 million square feet slated for delivery is accounted for. This will limit the impact of speculative space on overall availability, allowing Sacramento to remain the tightest market in Northern California.

**Strong fundamentals broaden investor roster.** Deal flow spiked in Sacramento last year, as low interest rates, sparse vacancy and double-digit rent growth across all submarkets fueled buyer demand. The metro's expanding role in the regional supply chain is drawing more investors to the area, as is its average cap rate, which is at least 50 basis points above all other major West Coast markets. A high volume of sub-\$200 per square foot listings are also attracting investors to Sacramento. Institutional buyers active in the metro are pursuing 50,000- to 200,000-square-foot warehouses and select larger distribution centers in industrial-heavy Power Inn, as well as areas proximate to Interstate 80 and Highway 50, including Sunrise. Private investors and owner-users are also present in these locales, exhibiting a preference for warehouses at mid-5 to high-6 percent returns.

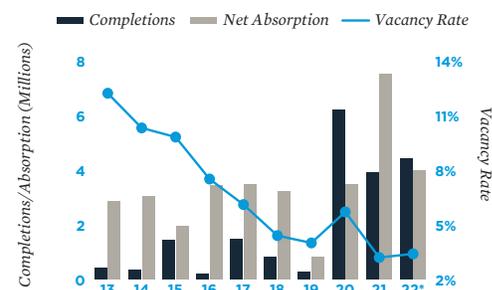
### 2022 Market Forecast

- Employment** up 3.0%  Sacramento's job count surpasses the pre-pandemic recording, as employers create 30,000 positions in 2022.
- Construction** 4.4 million sq. ft.  Inventory rises by 2.8 percent in 2022 — an uptick in construction after the delivery of 3.9 million square feet last year. Metro Air Park represents the epicenter of supply additions.
- Vacancy** up 20 bps  Industrial users absorb nearly 4 million square feet of space in 2022. This demand translates to a minimal change in vacancy, as the metro's year-end rate reaches 3.4 percent.
- Rent** up 7.4%  The pace of local rent growth exceeds the U.S. rate of increase, lifting the mean marketed rent to \$9.20 per square foot.
- Investment**  Sacramento's buyer pool remains diversified in 2022. Relatively rapid inventory expansion appeals to institutional firms that target newer assets, while an abundance of sub-\$150 per square foot listings and 6 percent-plus cap rates attract private buyers.

### Economic Trends



### Supply and Demand



### Rent Trends



\* Estimate; \*\* Forecast  
Sources: CoStar Group, Inc.; Real Capital Analytics; RealPage, Inc.

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Metro-level employment, vacancy and effective rents are year-end figures and are based on the most up-to-date information available as of February 2022. Average prices and cap rates are a function of the age, class and geographic area of the properties trading and therefore may not be representative of the market as a whole. Forecasts for employment and retail data are made during the first quarter and represent estimates of future performance. No representation, warranty or guarantee, express or implied may be made as to the accuracy or reliability of the information contained herein. This is not intended to be a forecast of future events and this is not a guaranty regarding a future event. This is not intended to provide specific investment advice and should not be considered as investment advice.