

INVESTMENT OUTLOOK

Industrial
Sacramento Metro Area

IPA
INSTITUTIONAL
PROPERTY
ADVISORS

MIDYEAR 2025

Vacancy Climbs as Market Rebalances, While Smaller Deals Drive Investor Activity

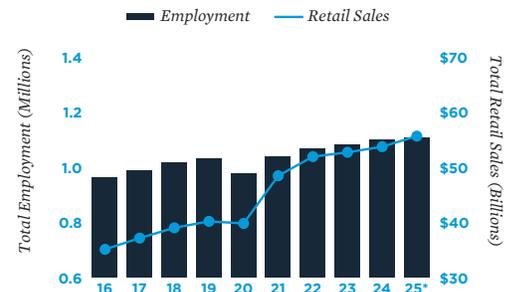
Construction slowdown eases supply pressure amid softening demand. Sacramento is expected to record negative net absorption in 2025 – the first time since 2011 – as the post-pandemic e-commerce boom fades but excess supply persists. Demand remains tight for spaces under 50,000 square feet, where speculative development is limited and vacancy held near 4 percent as of June. In contrast, larger properties over 200,000 square feet experienced vacancy of about 10 percent. Moreover, the recent construction wave has pushed vacancy in properties delivered since 2024 to nearly 50 percent. That said, supply-side pressure is beginning to ease. Nearly three-quarters of this year’s already reduced pipeline is tied to Amazon’s new distribution center in Rancho Cordova, signaling a sharp drop in speculative builds. As a metro supported by strong job gains and ongoing in-migration, Sacramento maintains a generally positive long-term outlook, especially as the market gradually absorbs the surplus supply.

Investor interest shifts toward smaller deals. While transaction velocity in Sacramento rose over 50 percent in the 12 months ended in March, total dollar volume declined, driven by a doubling of deals under \$10 million. Private buyers – especially owner-users – have become more active, pursuing smaller listings in prime areas. Transactions over \$10 million fell by half, reflecting greater caution among large investors. This dynamic may persist as the average price per square foot has climbed over 50 percent. The average cap rate also reached 7.5 percent – the highest among major Western markets and the only one above the national average. Shifting valuations and elevated vacancy among larger spaces is prompting institutional buyers to hold back, creating an opening for more flexible private investors focused on long-term value.

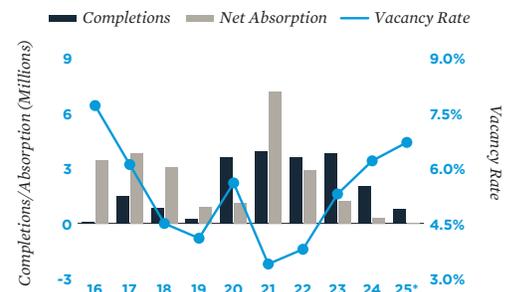
2025 MARKET FORECAST

- +1.0%**  **EMPLOYMENT:** Sacramento will add 11,000 jobs in 2025 – the largest gain among major West Coast metros, despite having one of the region’s smallest employment bases.
 - 800,000 sq. ft.**  **CONSTRUCTION:** Deliveries this year will amount to just a quarter of the metro’s five-year average of 3.4 million square feet, with inventory expanding by only 0.5 percent.
 - +50 bps**  **VACANCY:** As demand is still soft, the vacancy rate will edge up to 6.7 percent, even as supply pressures ease. The metric remains the second lowest among major West Coast markets.
 - 5.2%**  **RENT:** The average asking rent is projected to decline further to \$8.92 per square foot by the end of 2025, which is about 12 percent below the metro’s 2023 peak of \$10.12 per square foot.
- INVESTMENT:** *Sacramento County posted a year-over-year vacancy decline, bucking the broader metro trend. Sales activity is increasing in the area, particularly near Sacramento Mather Airport.*

Economic Trends



Supply and Demand



Rent Trends



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

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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 December 2023. Effective rent is equal to asking rent less concessions. 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. Sales data includes transactions valued at \$1,000,000 and greater unless otherwise noted. Forecasts for employment and apartment data are made during the fourth 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 guarantee regarding a future event. This is not intended to provide specific investment advice and should not be considered as investment advice.