

INVESTMENT FORECAST

INDUSTRIAL
Sacramento Metro Area

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2019

Vacancy Reaches Historical Low; Investors Throughout California Attracted to Listings

Expanding populace warrants industrial expansion. Sacramento witnessed the net migration of 55,000 individuals over the past three years, largely driven by job creation and the metro's regionally low cost of living. Resident growth generated an increased need for consumer products, heightening demand for industrial space among companies that store and distribute these goods. Those combined market conditions equated to the absorption of 10 million square feet over the three-year span, lowering metro vacancy more than 500 basis points to the low-4 percent band. Leasing activity was widespread as more than 2 million square feet was filled in each Sacramento, Yolo and Placer counties. Amid the lack of available space, more than 1 million square feet will be absorbed in 2019, an indication that the speculative supply slated for delivery will be occupied and users with expiring contracts renew their leases. As vacancy reaches 4 percent this year, the high cost of construction will continue to limit new supply growth.

Warehouses of various vintages dictate transaction velocity. A solid economic outlook coupled with continued net migration bolster local and in-state buyers' confidence in Sacramento while price points remain well below other primary and secondary California metros. As vacancy further compresses, Class B and C warehouses priced between \$1 million and \$5 million remain in high demand, including listings with upcoming lease expirations. These properties trade at mid-5 percent minimum returns, yet opportunities to obtain 6 to mid-7 percent cap rates can be implied through rising rates. The Power Inn Road market represents a top locale for late 1970s- to early-1990s-built assets, with most listed at below-average pricing. Buyers with an eye for newer warehouses pay a premium for properties near primary transportation routes in Roseville and West Sacramento.

2019 Market Forecast

- Employment up 1.7%

Hiring velocity rises slightly in 2019 as employers create 17,000 positions after adding 15,900 jobs last year.
- Construction 940,000 sq. ft.

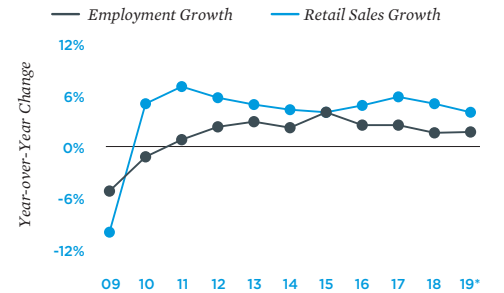
Annual delivery volume increases by more than 100,000 square feet this year. Completions in West Sacramento and a large distribution center at McClellan Park account for most of the new supply.
- Vacancy down 30 bps

Metro vacancy will fall for a seventh straight year, reaching 4 percent on net absorption of 1.3 million square feet.
- Rent up 4.3%

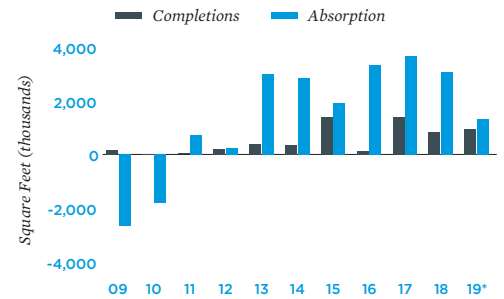
After rising by nearly 50 percent over the past two years, the average asking rent growth will rise at a more subdued pace, reaching \$7.95 per square foot this year.
- Investment

The proximity to the Bay Area and Central Valley has regional and out-of-state investors eyeing large distribution centers that warrant capital commitments of more than \$10 million.

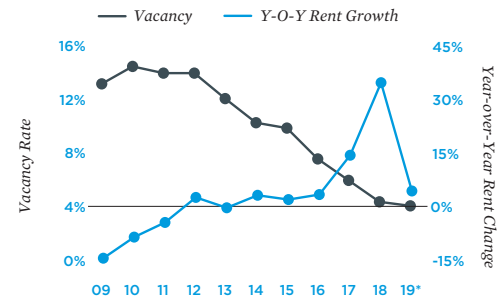
Employment vs. Retail Sales Trends



Industrial Completions



Asking Rent and Vacancy Trends



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

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Metro-level employment, vacancy and asking rents are year-end figures and are based on the most up-to-date information available as of December 2018. Asking rent is based on the full-service marketed rental rate. 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 office data are made during the fourth quarter and represent estimates of future performance. No representation, warranty or guaranty, 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.