



# Industrial Report

Q3 2016  
GALLELLI REAL ESTATE MARKET REPORT

## Overview

Sacramento's industrial market continued to see strong momentum in Q3 2016, with the market experiencing healthy gains in occupancy and a notable decline in vacancy. Industrial vacancy fell from 12.9% to 12.0% during Q3, which is the lowest vacancy rate the industrial market has seen in six years. One year ago, this metric stood at 13.4%. The market recorded nearly 807,000 square feet of positive net absorption during the quarter, which is the second largest amount of quarterly net absorption the market has recorded in the last three years. Year-to-date net absorption figures currently stand at just under 1.6 million square feet. As long as the current pace of growth continues, the industrial market is on track to surpass 2015's 1.7 million square feet of net absorption.

Industrial leasing activity remained strong, with the market seeing just over 1.2 million square feet of industrial deals signed during Q3. This marks the second consecutive quarter of industrial deal volume in excess of 1 million square feet. While industrial demand continues to be focused on smaller spaces, 20K square feet or less, Q3 saw a number of larger deals signed, including two deals over 100,000 square feet. ESL Technology signed a 171,000-square-foot lease at 10000 Alantown Drive in Roseville and an unnamed tenant signed a 117,000-square-foot lease at 8640 Fruitridge Rd, which is a proposed development slated to start construction this fall.



## Market Trends

- Activity across the local submarkets was largely positive, with Roseville/Rocklin, Power Inn, West Sacramento and McClellan all seeing occupancy gains in excess of 100,000 square feet. Occupancy losses were minimal, with only Davis Woodland and Northeast Sacramento recording negative net absorption during the quarter.
- The average asking rent for industrial space remains flat at \$0.41 per square foot NNN, where it has stood for the last five consecutive quarters. However, with vacancy currently at 12.0%, rent growth is not much further off; as the amount of available space continues to decline, industrial landlords will likely begin upping rents, especially in low-vacancy submarkets such as Sunrise, Power Inn, and Elk Grove/Laguna, where current vacancy rates are under 10%.
- Industrial demand remains high and leasing activity continues to be strong, with Q3 seeing over 1.2 million square feet of deal activity. Though industrial demand continues to be focused on smaller spaces under 20K square feet, Q3 saw a slight increase in activity from larger industrial users, with seven deals being signed in excess of 50,000 square feet.

# Industrial Q3 2016

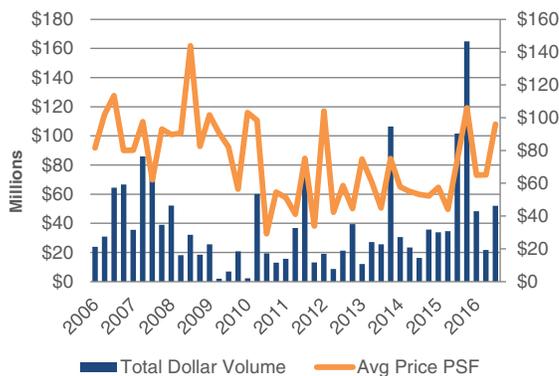
...the region has seen a rise in both commercial and residential construction projects over the last few years.

<p>Vacancy</p> <h1>12.0%</h1> <p>▼</p>	<p>Net Absorption</p> <h1>806,847</h1> <p>▲</p>	<p>Avg. Rent PSF</p> <h1>\$0.41</h1> <p>PSF</p> <p>—</p>
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## Investment Highlights

- Investment activity increased during Q3, with the market recording \$40.3 million in industrial and flex transactional volume over 15 transactions. Though Q2 saw slightly more transactions, total dollar volume in Q3 was significantly increased over the \$25.3 million in transactions recorded in Q2.
- The average price per square foot also increased during Q3, going from \$65 per square foot in Q2 to \$101 per square foot in Q3. This was primarily due to four warehouse/flex deals that sold for over \$100 per square foot, the largest of which sold for \$283 per square foot.
- The three largest investment sales of the quarter were:
  - F Street Commerce Center at 879 F Street in West Sacramento. This 55,000-square-foot, Class B warehouse building sold for \$3.9 million or \$72 per square foot.
  - 8135-8137 Elder Creek Road, a 52,000-square-foot Class C warehouse that sold for \$2.5 million or \$48 per square foot.
  - 4635 Power Inn Road, a 7,000-square-foot Class C warehouse that sold for \$1.9 million square feet or \$283 per square foot.

Industrial Investment Sales Volume



Industrial Vacancy vs. Net Absorption





Construction

0<sub>SF</sub>  
—

Sacramento Unemployment

5.5%  
▼

US Unemployment

5.0%  
▲

### Spotlight: The Return of Construction

For a long while, commercial and residential construction was practically non-existent in the Sacramento region. As construction dwindled, so did construction-related companies such as contractors, equipment suppliers, building suppliers, etc, all of which were located in industrial space throughout the region. Many of these companies disappeared during the recession, contributing to increased industrial vacancy rates. But as market fundamentals have continued to improve in all property types, the region has seen a rise in both commercial and residential construction projects over the last few years. This has led to a notable increase in the number of construction jobs - in the last five years, the Sacramento MSA has added 19,800 construction jobs, an increase of 48.9% since the recession. It has also led to the return of construction-related businesses to the marketplace, with the region seeing 100 new or expanding construction-related companies (roofing/electric/flooring/etc.) moving into regional industrial space since 2015. This trend is likely to continue through the end of 2016 and into 2017, as the region sees more commercial and residential construction projects added to the development pipeline.

### Outlook

The Sacramento industrial market continues to grow at a healthy pace, with market momentum picking up steam in Q3 and vacancy falling to its lowest level in six years. While the market has seen a few new speculative projects complete since 2015, the majority of new construction has primarily been build-to-suit projects. With no new speculative construction projects on the horizon and the market continuing to see strong demand and leasing activity, we anticipate that vacancy will continue to decline through the rest of the year and into the next. As vacancy rates continue to decline, rental rate growth is not much further away and we should begin to see landlords testing market with minimal rent increases, especially in low-vacancy submarkets.

### 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.

## Market Statistics

Submarket	Inventory	Direct	Available Space Sublease	Total	Vacancy Q3-16	Net Absorption		SF Under Construction	Avg. Asking Rate (NNN)
						Q3-16	Q3-15		
Auburn	1,188,993	21,100	0	21,100	1.8%	22,963	(4,700)	0	\$0.50
Davis/Woodland	7,976,089	1,669,361	25,400	1,694,761	21.2%	(53,675)	(405,771)	0	\$0.29
Downtown	830,518	112,000	0	112,000	13.5%	0	0	0	-
East Sacramento	175,668	0	0	0	0.0%	0	0	0	-
Elk Grove/Laguna	3,029,467	167,462	0	167,462	5.5%	9,459	256,932	0	\$0.36
Folsom/El Dorado Hills	1,519,269	113,990	0	113,990	7.5%	0	4,300	0	\$0.65
Mather	2,567,383	257,947	6,400	264,347	10.3%	14,616	84,792	0	\$0.38
McClellan	10,127,381	1,754,540	142,978	1,897,518	18.7%	128,674	2,952	0	\$0.39
Northgate/Natomas	8,790,812	686,441	71,800	758,241	8.6%	43,133	177,802	0	\$0.38
Northeast Sacramento	2,749,171	196,194	20,000	216,194	7.9%	(10,716)	154,525	0	\$0.36
Power Inn	16,277,843	1,147,883	10,000	1,157,883	7.1%	177,410	76,522	0	\$0.33
Richards	2,822,610	100,304	0	100,304	3.6%	3,505	(24,987)	0	\$0.33
Roseville/Rocklin	8,892,492	1,610,040	0	1,610,040	18.1%	245,792	178,463	0	\$0.36
South Sacramento	2,489,269	995,786	0	995,786	40.0%	13,980	372,939	0	\$0.53
Sunrise	5,931,646	225,627	0	225,627	3.8%	70,639	32,313	0	\$0.47
West Sacramento	14,371,105	1,456,364	0	1,456,364	10.1%	141,067	6,939	0	\$0.38
<b>Totals</b>	<b>89,739,716</b>	<b>10,515,039</b>	<b>276,578</b>	<b>10,791,617</b>	<b>12.0%</b>	<b>806,847</b>	<b>913,021</b>	<b>0</b>	<b>\$0.41</b>

## 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](http://GallelliRE.com), or follow us on Twitter @Gallelli\_RE and LinkedIn.

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