



# Industrial Report

Q1 2017  
GALLELLI REAL ESTATE MARKET REPORT

## Overview

The Sacramento industrial market continued to see strong momentum during Q1 2017, with the market recording healthy occupancy gains and vacancy falling to its lowest level in years. Industrial leasing activity also remained strong, with the market recording the fifth consecutive quarter of deal volume in excess of 1 million square feet.

## Market Trends

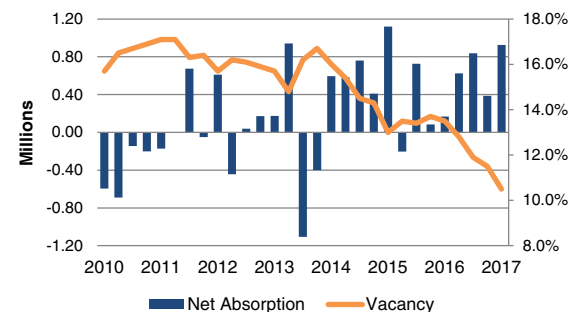
- Quarterly market vacancy fell from 11.5% to 10.5%, which is **the lowest vacancy rate the industrial market has seen in 16 years**. One year ago, this metric stood at 13.5%.
- The market recorded just over 926,000 square feet of positive net absorption during the quarter, which is **the largest amount of occupancy growth the industrial market has seen in the last two years**.
- Industrial leasing activity remained strong, with the market seeing over 1.7 million square feet of leases signed during the quarter. The majority of leasing demand continues to be focused on smaller spaces, typically 20,000 square feet or less.
- Though there have been a few larger leases signed, large blocks of available industrial distribution and/or manufacturing space are beginning to decline. Currently, there are only 25 existing buildings available within the four-county region that can accommodate users 100,000 square feet or greater. Of these availabilities, only nine are located within Class A industrial



buildings, meaning 68% of the available large blocks of space are located within older, Class B or obsolete Class C industrial buildings.

- Activity across the local submarkets was largely positive, with West Sacramento, Davis/Woodland, Power Inn, and Roseville/Rocklin all seeing occupancy gains in excess of 100,000 square feet. West Sacramento and Davis/Woodland saw the largest gains during the quarter, recording nearly 389,000 square feet and 266,000 square feet of positive net absorption, respectively.
- The average asking rent for industrial space remains at \$0.41 per square foot, NNN. Though the industrial market continues to tighten, rental rates have been flat, hovering within the \$0.40 to \$0.41 range for the last six consecutive quarters.

## Industrial Vacancy vs. Net Absorption



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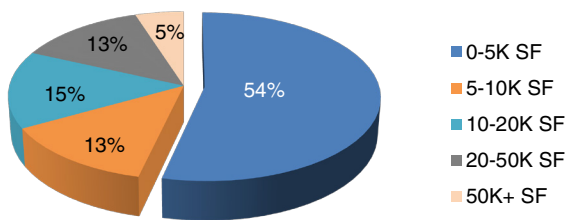
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# Industrial Q1 2017

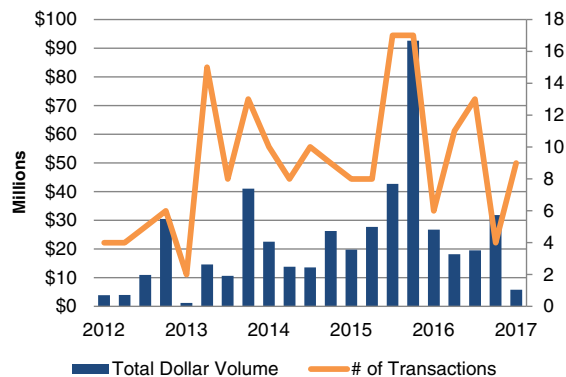
The Sacramento industrial market continues to see healthy momentum and Q1 continued the trend of high occupancy growth and falling vacancy.

Vacancy <b>10.5%</b> ▼	Net Absorption <b>926,287</b> SF ▲	Avg. Rent PSF <b>\$0.41</b> PSF —
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Q1-2017 Industrial Leasing Volume by SF

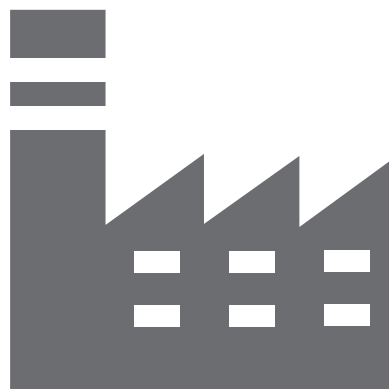


Industrial Investment Sales Volume by Quarter



## Investment Highlights

- Industrial investment activity declined during Q1, with the market recording \$5.8 million in total volume over 4 transactions. This is decreased over Q4 2016, which experienced \$31.8 million in total sales volume over 9 transactions.
- The average price per square foot also decreased during Q1, going from \$97 per square foot in Q4 to \$71 per square foot in Q1. This is primarily attributable to the lack of transactions during the quarter, as well as the fact that the majority of sales were for Class C product, which typically average a lower price per square foot.
- The average asking cap rate for industrial product has hovered within the 6-7% range for the last nine consecutive quarters.
- The two largest investment sales of the quarter were:
  - Two buildings at Northgate Business Center, located at 900 N Market Boulevard in the Natomas/Northgate industrial submarket. These Class B buildings traded for \$2.2 million (\$77 per square foot) at a 6.40% cap rate.
  - Kelly-Moore Paint Company at 5101 Raley Boulevard in the McClellan industrial submarket. This Class C, 35,200-square-foot building sold for \$2.1 million (\$61 per square foot) at an 8.40% cap rate.



Construction

1,142,699<sup>SF</sup>

Sacramento Unemployment

5.1%



US Unemployment

4.9%



### Spotlight: Industrial Investments

While industrial leasing demand has remained strong within the Sacramento region, industrial investments have been minimal over the last few years. Investors are interested in the region, especially with the tightening market conditions – however, the problem is primarily a lack of assets for them to purchase. Nationally, newly-constructed, Class A industrial buildings are the product of choice for institutional investors. Unfortunately, local industrial construction has remained minimal over the last few years, primarily due to perpetually increasing costs of construction. As local industrial investments remain flat, with no movements in pricing, existing Class A industrial owners have not been motivated to sell, leaving investors to look elsewhere for quality Class A assets.

However, this doesn't mean that industrial investment has been entirely non-existent in the region. Local and regional investors such as Ridge Capital, Buzz Oates and Westcore Properties have been very active in the regional marketplace over the last 10 years. Class B and C industrial and warehouse product located in heavily industrial submarkets such as Power Inn, Sunrise, and Davis/Woodland have been and continue to be the primary product of choice of local investors.

### Outlook

The Sacramento industrial market continues to see healthy momentum and Q1 continued the trend of high occupancy growth and falling vacancy that has been in place for the last few years. New construction remains limited, with build-to-suits making up the majority of projects currently under construction. With little new speculative projects on the horizon and the market continuing to see strong demand and leasing activity, we expect this strong momentum to continue through the rest of the year. Though rental rate growth has been flat the last two years, but with vacancy edging towards the 9% range (which will likely happen by the end of the year), we anticipate that movement in rental rates is not much further off.

### 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 Q1-17	Net Absorption		SF Under Construction	Avg. Asking Rate (NNN)
						Q1-17	Q1-16		
Auburn	1,188,993	6,000	0	6,000	0.5%	9,700	(6,805)	0	\$0.50
Davis/Woodland	7,976,089	1,308,099	0	1,308,099	16.4%	266,520	(8,980)	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	175,313	12,391	187,704	6.2%	(71,755)	24,237	8,500	\$0.39
Folsom/El Dorado Hills	1,446,657	122,330	0	122,330	8.5%	4,600	(4,800)	0	\$0.65
Mather	2,570,865	297,750	6,400	304,150	11.8%	21,948	2,197	0	\$0.40
McClellan	9,866,108	1,402,047	142,978	1,545,025	15.7%	(21,358)	(75,645)	0	\$0.39
Northgate/Natomas	8,821,249	463,284	0	463,284	5.3%	(22,476)	85,894	855,000	\$0.41
Northeast Sacramento	2,751,343	150,335	0	150,335	5.5%	(1,800)	50,393	0	\$0.30
Power Inn	16,115,954	1,142,600	0	1,142,600	7.1%	129,195	3,576	240,255	\$0.34
Richards	2,969,568	201,678	0	201,678	6.8%	11,352	1,045	0	\$0.33
Roseville/Rocklin	8,892,492	1,634,241	0	1,634,241	18.4%	194,286	44,572	20,000	\$0.39
South Sacramento	2,489,269	995,786	0	995,786	40.0%	(2,400)	3,115	0	\$0.50
Sunrise	5,842,252	176,115	30,369	206,484	3.5%	18,982	13,780	18,944	\$0.46
West Sacramento	14,370,085	958,970	0	958,970	6.7%	389,493	(20,622)	0	\$0.38
<b>Totals</b>	<b>89,336,577</b>	<b>9,146,548</b>	<b>192,138</b>	<b>9,338,686</b>	<b>10.5%</b>	<b>926,287</b>	<b>111,957</b>	<b>1,142,699</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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