



Sacramento industrial market report

Q4 2023

**AVISON
YOUNG**

Sacramento industrial market trends

\$138 psf

Sales volume remains strong but has plateaued.

In the last decade, Sacramento's industrial and flex sales have experienced an impressive surge, doubling in valuations fueled by strong demand for logistics space. This heightened demand, driven by logistics firms and the growing necessity for last-mile delivery facilities in the flourishing e-commerce sector, has prompted substantial construction efforts to address limited supply. However, valuations for industrial space has since plateaued as demand falls.

-467k sf

Q4 extends the negative absorption of previous quarter.

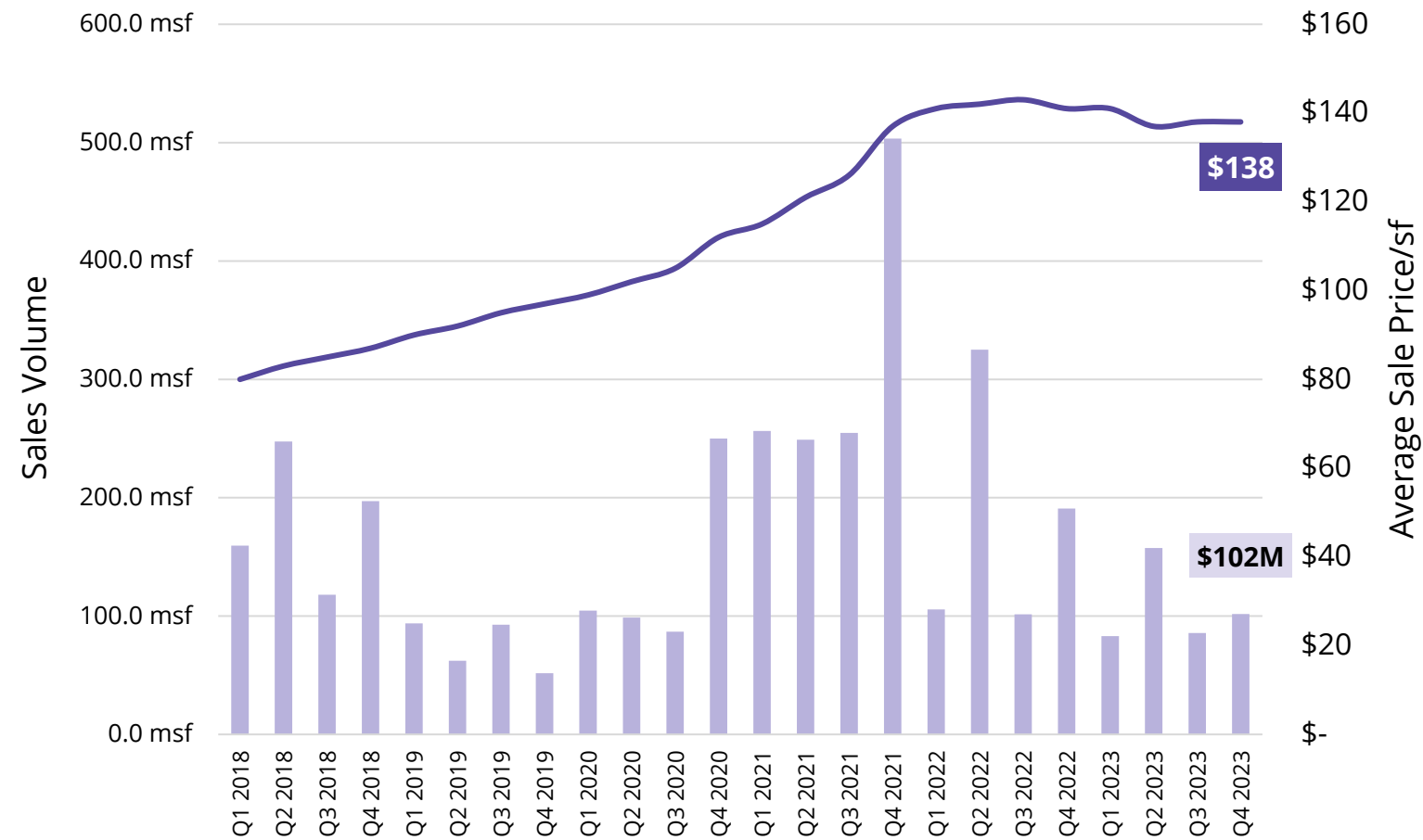
Throughout the pandemic, the Sacramento industrial market demonstrated remarkable resilience, consistently recording positive absorption each quarter since the crisis began. However, the latest quarter marked a departure from this trend, signaling a continuation of the negative absorption trend into Q4. The industrial sector might be facing challenges as weaknesses in the broader commercial real estate market start to exert a more significant influence.

1.2 msf

Sublease availability is rising to historical highs.

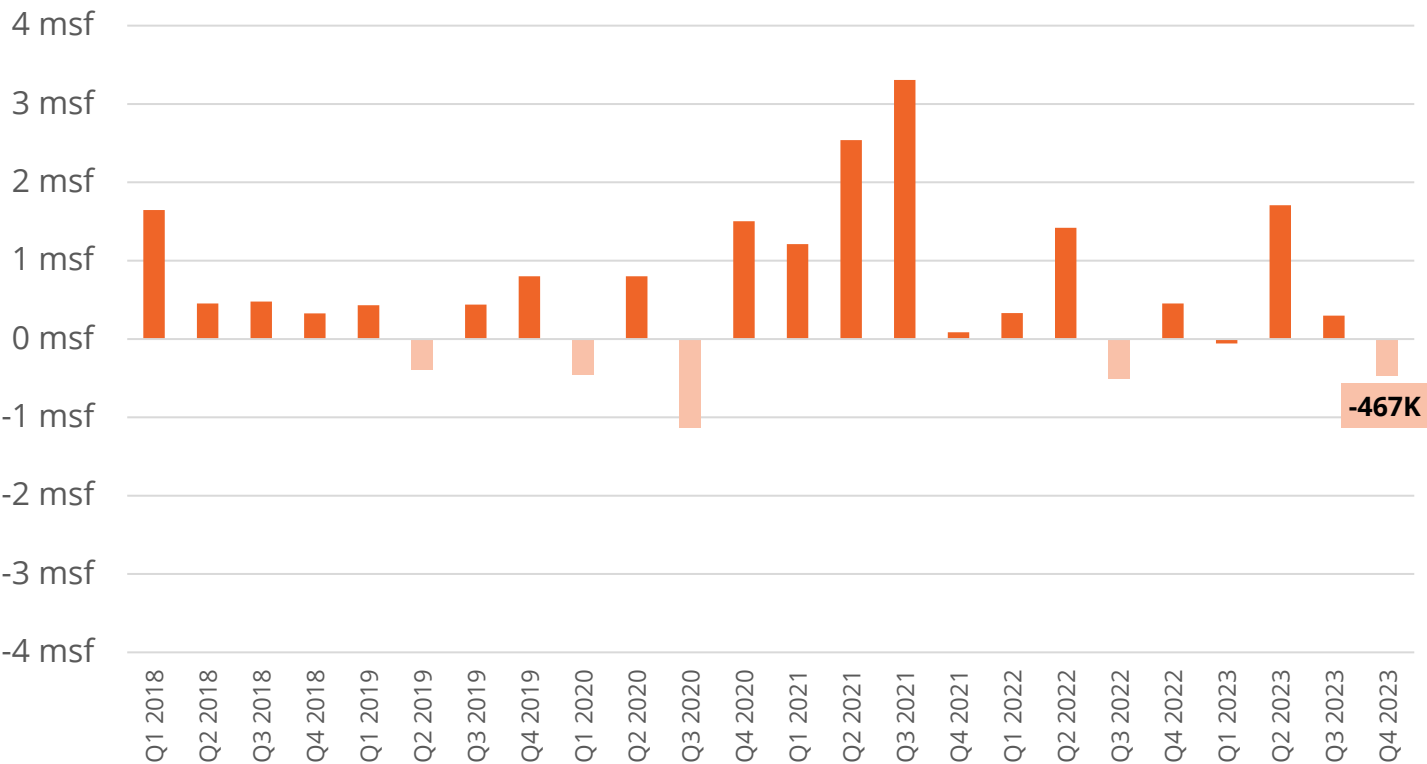
Despite an overall decline in total available industrial space in 2023 compared to 2022, the noteworthy increase in sublease space, now constituting 16% of the total available space as opposed to 5% in 2020, is a notable trend. The surplus sublease space primarily stems from tenants who had over-leased during the pandemic, now downsizing due to a slowing business environment. This presents a unique opportunity for companies seeking affordable space at unprecedented bargains.

Sacramento market investment sales



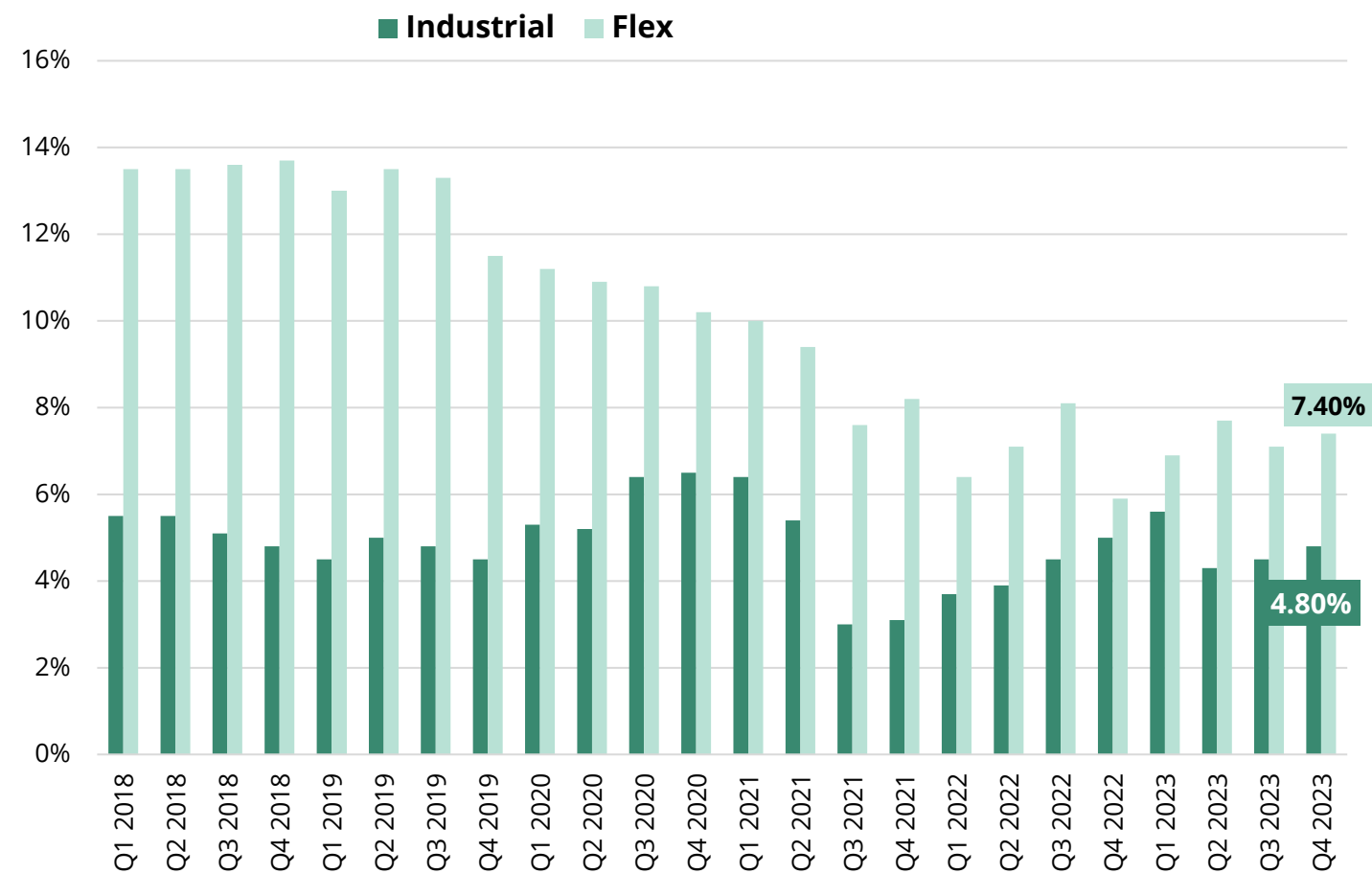
Sales volume remain weak for Q4, and while sales valuation remains strong, it appears to have plateaued.

Sacramento market net absorption



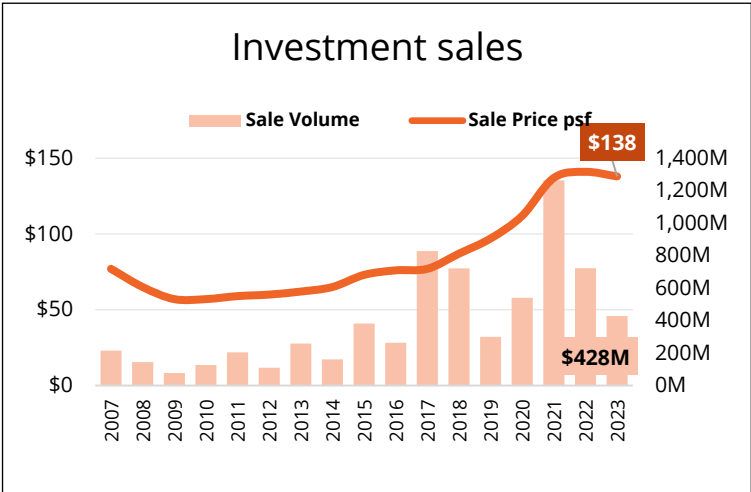
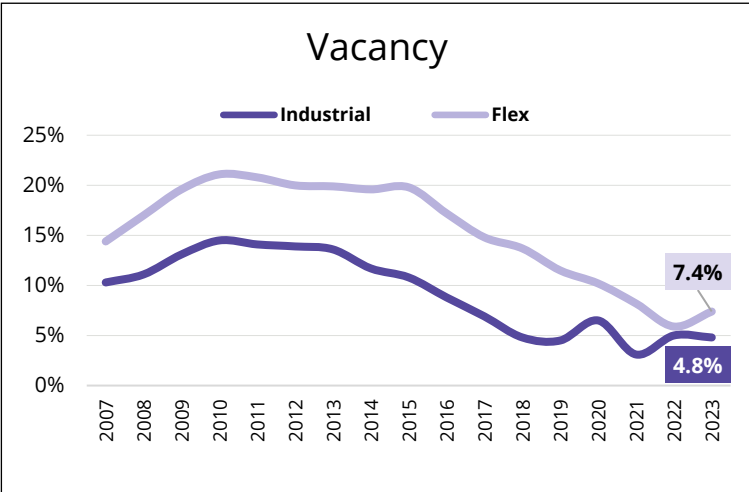
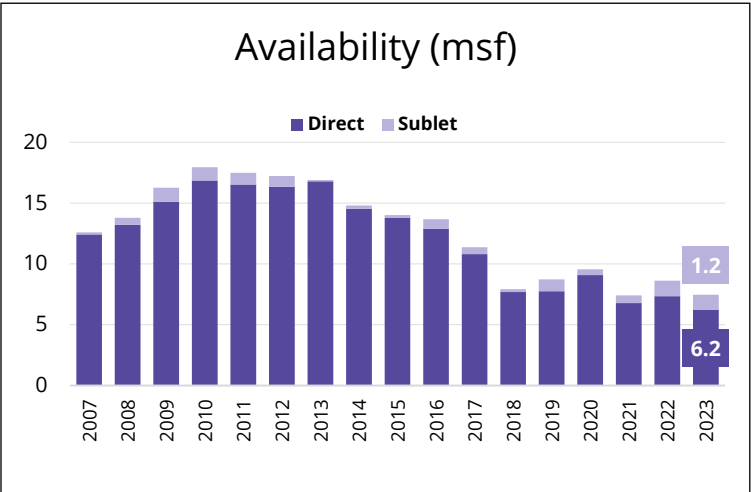
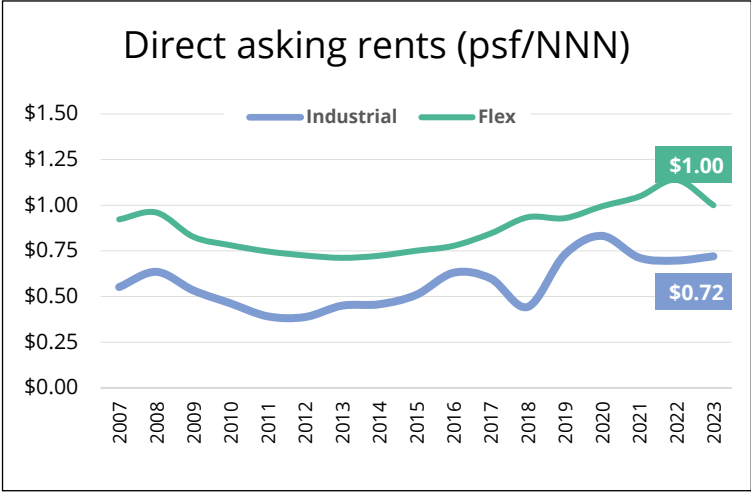
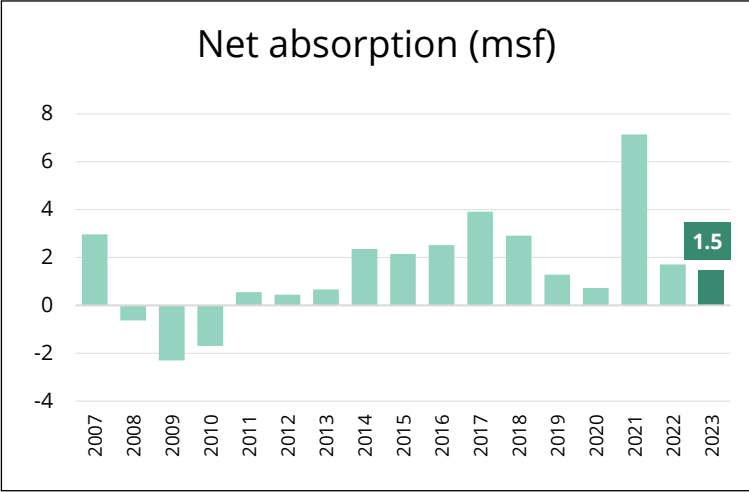
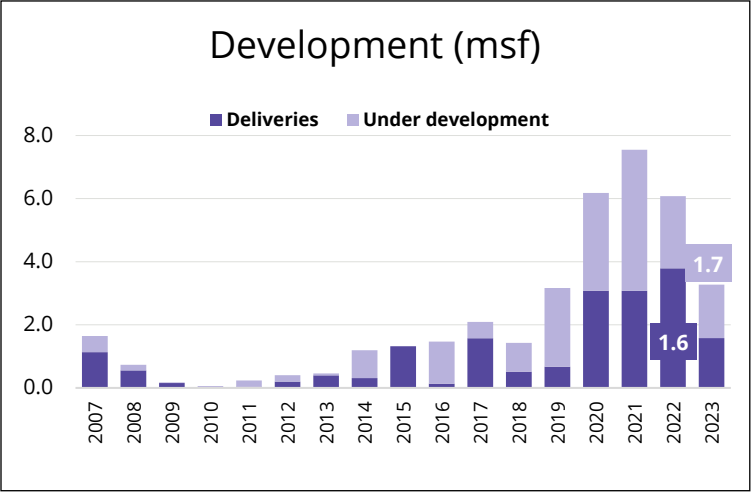
Despite the strength shown through the pandemic, Sacramento industrial market is showing signs of slowing down.

Sacramento market vacancy



Traditional industrial space and flex space are both showing signs of rising vacancy.

Sacramento industrial market indicators



Sacramento industrial market stats

	Existing Inventory	Under Construction	YTD Delivery	Direct Vacancy	Sublet Vacancy	Total Vacancy	Industrial Vacancy	Flex Vacancy	Net absorption sf (QTD)	Net absorption sf (YTD)	Industrial Rent (Direct/NNN)	Flex Rent (Direct/NNN)
Auburn/Lincoln	4,962,499	0	0	3.3%	3.3%	3.3%	3.2%	3.6%	-12,526	-12,900	\$1.05	\$1.14
Davis/Woodland	15,645,470	0	212,970	0.4%	0.6%	0.6%	0.5%	5.2%	72,800	256,374	\$0.59	-
Downtown	3,216,627	0	0	5.8%	6.1%	6.1%	5.8%	8.3%	0	49,797	\$0.74	\$0.83
Folsom	2,158,612	0	0	2.8%	2.8%	2.8%	0.1%	9.4%	-3,852	-37,102	-	-
Highway 50 Corridor	17,223,500	0	155,040	4.3%	4.5%	4.5%	3.1%	11.6%	-260,358	83,440	\$0.92	\$0.93
North Natomas	17,352,344	764,903	1,298,000	4.5%	5.0%	5.0%	5.4%	0.8%	-21,726	793,136	\$0.76	\$0.86
Point West	3,282,780	0	0	4.9%	4.9%	4.9%	4.8%	5.8%	28,359	-9,837	\$0.72	-
Rio Linda/North Highlands	14,419,376	0	0	4.8%	4.9%	4.9%	3.2%	17.1%	49,475	167,317	\$1.05	-
Roseville/Rocklin	13,502,094	0	30,000	0.3%	1.1%	1.1%	1.1%	1.3%	21,262	409,238	\$0.95	\$1.22
South Sacramento	22,438,557	0	0	7.1%	7.8%	7.8%	7.7%	11.6%	-43,158	-458,186	\$0.71	\$0.95
West Sacramento	21,117,008	814,237	0	6.7%	9.2%	9.2%	9.6%	1.8%	-297,131	241,297	\$0.74	\$1.31
Overall	135,318,867	1,696,010	4.4%	0.7%	5.1%	4.7%	4.6%	7.4%	-466,855	1,482,574	\$0.72	\$1.00

Industrial insights glossary of terms

Demand

- **Leasing activity:** total square footage of relocations, renewals, expansions and subleases expressed when the leases are signed, not when tenants take physical occupancy of the space
- **Absorption:** period-over-period change in occupied square footage

Supply

- **Direct vacancy rate:** space operated by landlords that is ready for immediate occupancy
- **Sublease vacancy rate:** space operated by sublandlords that is ready for immediate occupancy
- **Total vacancy rate:** sum of direct vacancy rate and sublease vacancy rate
- **Availability rate:** space that is vacant plus space that will become vacant over an indefinite time horizon, including spaces that are occupied by vacating tenants and under-construction properties

Industrial rents and concessions

- **Triple net rents:** tenant is responsible for paying rent, utilities, taxes, operating expenses and common area maintenance
- **Asking rents:** pricing guidance provided by landlords to tenants for available space expressed as triple net (NNN)
- **Base rents:** fair market value of market-level lease pricing based on representative executed leases, expressed as triple net (NNN)
- **Free rent period:** months of free rent that are typically provided upfront by landlords to tenants as a concession to offset the total cost of a lease and/or the construction timeline of an industrial suite
- **Tenant improvement allowance:** an allowance expressed in dollars per square foot provided from landlords to tenants to offset build-out, engineering, space planning and related permit costs
- **Net effective rent:** base rents discounted by the dollar values of tenant improvement allowance and free rent concessions expressed as full service (FS)

Capital markets

- **Investment volume:** industrial sales dollars expressed when the transactions close and based on inventory thresholds; partial-interest sale dollar amounts are not grossed-up to reflect the 100% value of the sale
- **Asset pricing:** unweighted average per-square-foot asset pricing of market-level closed sales
- **Cap rate:** net operating income divided by sale price; this measurement of market-level investment returns is calculated as an unweighted average based on closed investment sales

For more market insights and
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