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# Sacramento industrial market report

Q3 2021

**AVANT**  
by AVISON YOUNG





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# U.S. industrial drivers

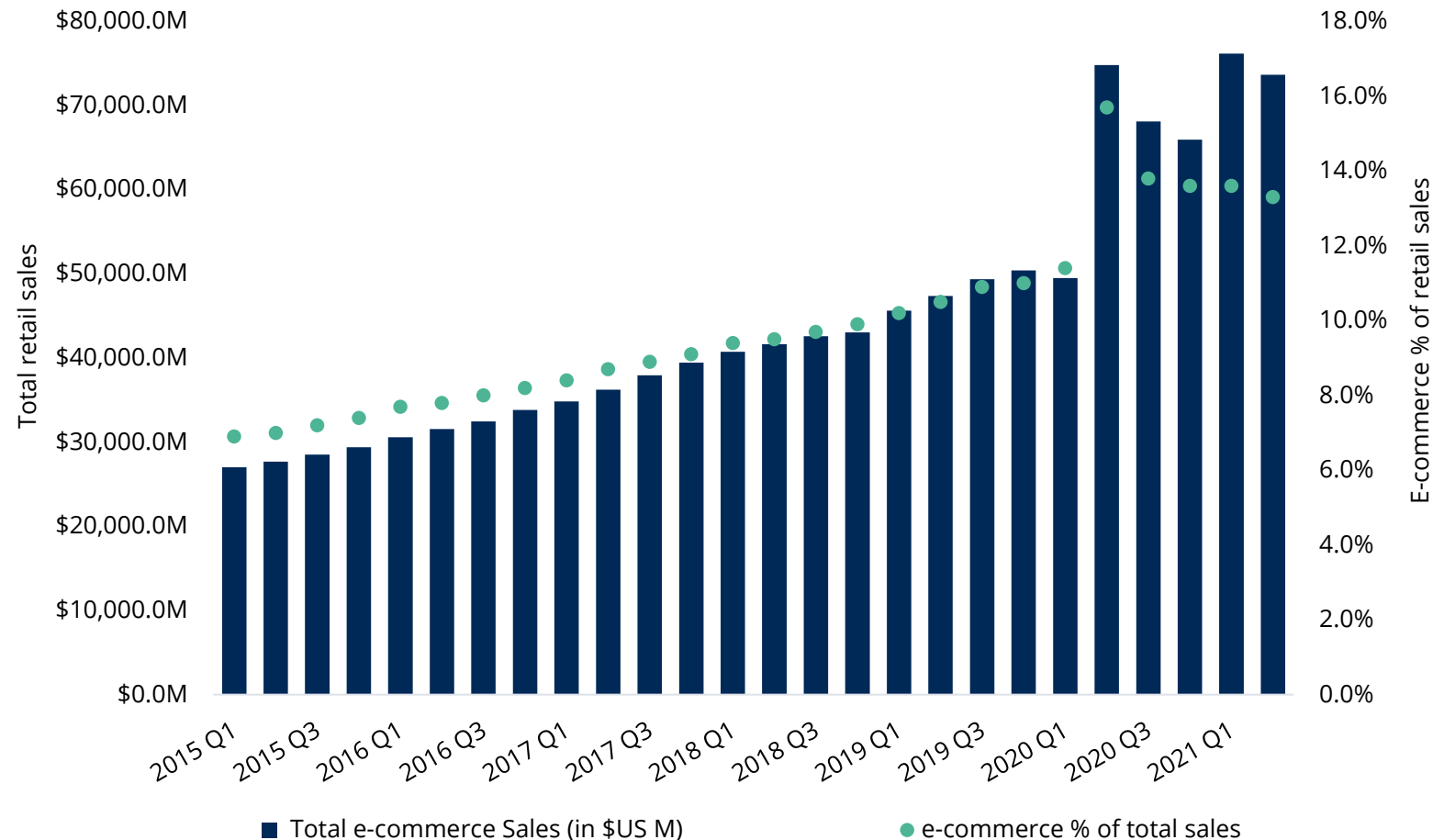
NORTHERN CALIFORNIA INDUSTRIAL  
INSIGHT REPORT  
**Q3 2021**

# U.S. total retail and e-commerce sales

# 13.3%

## E-commerce share of overall retail sales in Q2 2021

Demand for e-commerce surged during the initial shock of lockdowns, driving industrial demand to record levels. As the economy begins to reopen, the rate of e-commerce growth is nearly double pre-COVID levels, suggesting accelerated e-commerce demand is sustainable.



Source: Federal Reserve Bank of St. Louis  
\*Most recent update August 17, 2021

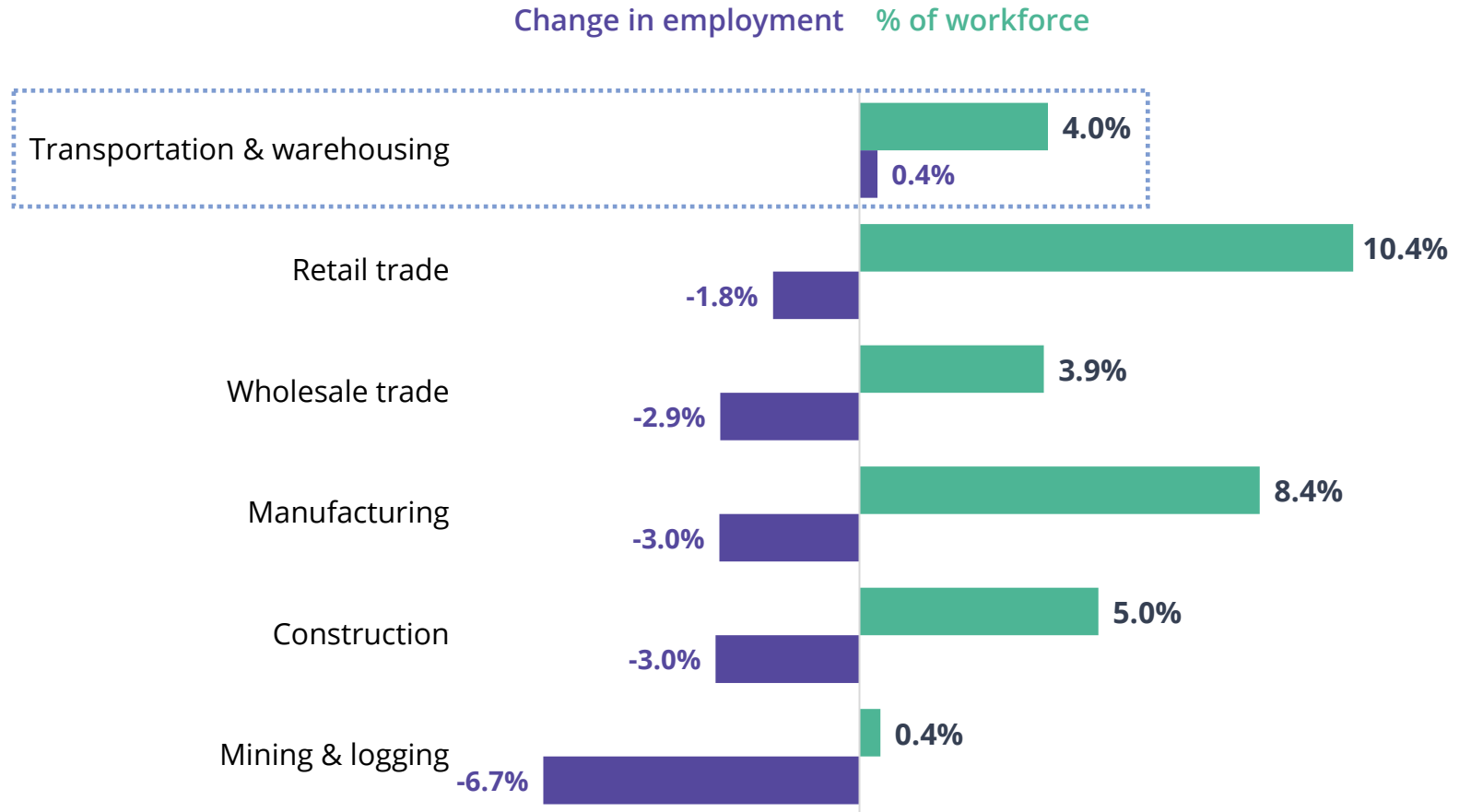


# Industrial sector job gains and losses

# +0.4%

**Change in transportation and warehousing employment, February 2020 to July 2021**

The transportation and warehousing employment sector has been resilient throughout the pandemic. Manufacturing, construction and wholesale trade comprise similar proportions of total U.S. employment but have contracted since February 2020.



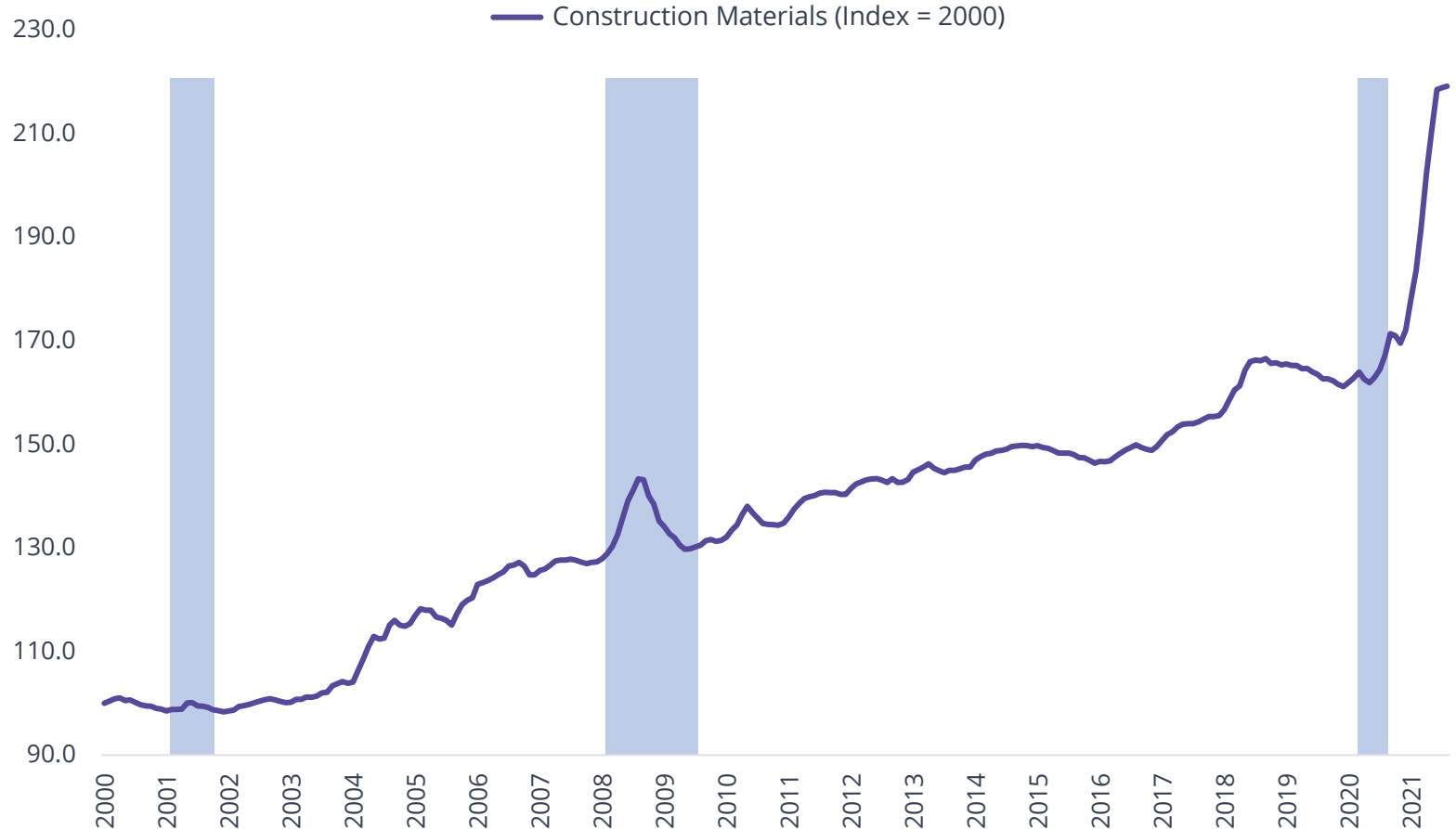
Note: Seasonally adjusted data.  
Source: Bureau of Labor Statistics

# Cost of construction materials

**+35.3%**

**Construction Material  
Index cost from year-end  
2020 to August 2021**

Construction material costs have surged to start 2021, applying upward pressure on industrial pro forma rents. However, recent activity in August and September suggest that pricing is poised to moderate to 2020 levels in the coming months.



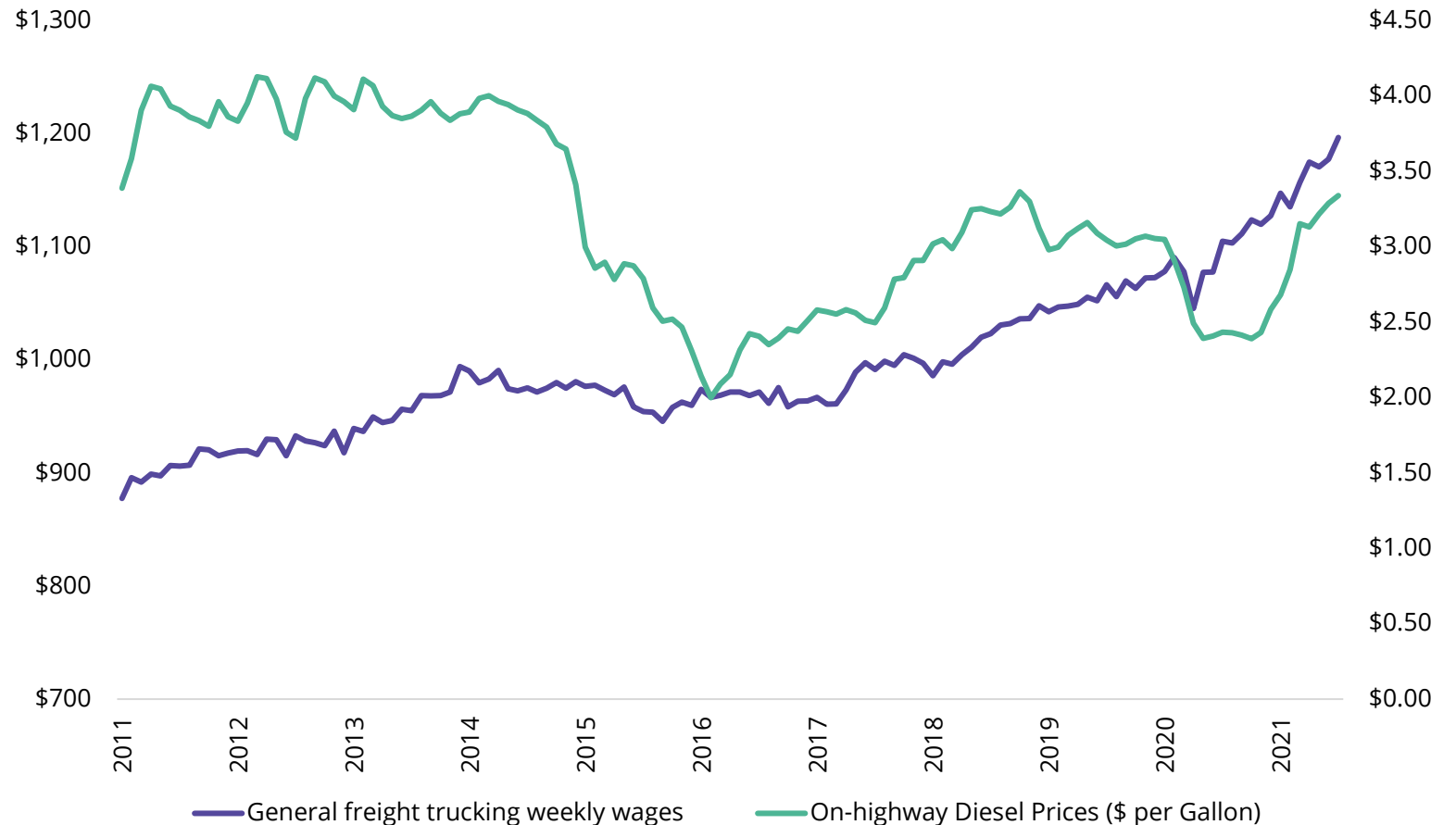
Source: Bureau of Labor Statistics

# Fuel costs and freight trucking driver wages

**+39.8%**

**Diesel prices since  
May 2020**

Rising diesel fuel prices and wage rates, for short- and long-haul trucking, are exacerbating pressures on shipping costs for companies that may have also faced international supply chain disruptions.



Source: Bureau of Labor Statistics, U.S. Energy Information Administration, AVANT by Avison Young

# Sacramento market fundamentals

NORTHERN CALIFORNIA INDUSTRIAL INSIGHT REPORT  
Q3 2021



# Key industrial takeaways



## Economic conditions

- Essential workers, a logistics hub and a sharp but entrenched rise in e-commerce spending have helped bring the Sacramento Metropolitan area unemployment figures down to **6.4 percent**. Other supply chain shocks throughout 2021 have done little to impede growth in leasing fundamentals, especially for Class A space.
- Local employment has increased by **7.2 percent** year-to-date as of July, led by the manufacturing sector.



## Recovery rate

- The Sacramento metropolitan area began to reopen in the second quarter, as vaccination rates surpassed the national average to **55.5 percent**.
- Although office workers across the metropolitan area just now begin to return to the office, the industrial workforce has grown by **1.3 percent** since the beginning of the pandemic in February 2020.



## Industrial demand

- Overall leasing activity has seen a rebound since the peaks of the Covid-19 pandemic, seeing decreases of **3.3 percent** when compared to 2020.
- YTD net absorption is **5.1 percent** which is unprecedented growth at levels never seen in the area.

# Key industrial takeaways



## Industrial supply

- The industrial development pipeline remains robust in Sacramento, with **64 industrial properties** totaling **14.9 million square feet** either proposed or under construction throughout the market.
- The largest development in the Sacramento area, Metro Air Park, could be completed as early as **Q2 2022** and has pre-leased over **3 million square feet** in the last 18 months.
- After a brief uptick in vacancy due to the pandemic in 2020, industrial vacancy returned to its downward trend in Q2 2021, which is now **5.3 percent**.



## Pricing trends

- Base rents have decreased by **1.9 percent** since the start of the pandemic but have still seen significant increases over the past 5 years.
- With only **43 spaces** available over 100,000 square feet throughout the Sacramento and minimal large block leases expiring, Bay Area rents stand to continue to recover.
- Rent escalations of **4 percent** are becoming a more common occurrence, with major landlords, like Link, making this their new market standard.



## Capital markets

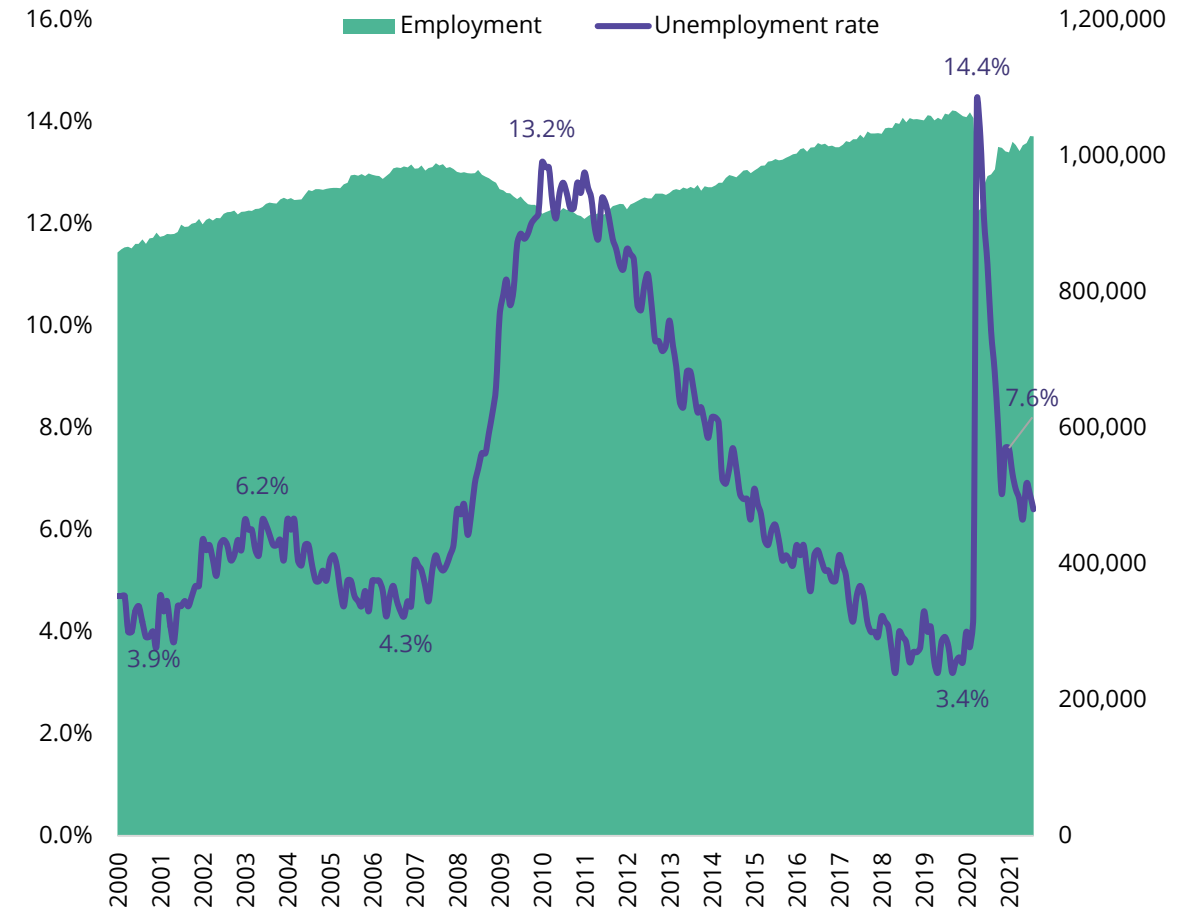
- Sacramento Industrial investment activity surges to **\$942.4 million since 2020** as investors are attracted to the sector fundamentals largely benefited from the COVID environment.
- It also translated into higher valuations for Sacramento industrial assets, with a **52.2 percent** higher per-square-foot rate than the trailing five-year average, to \$121 per square foot in the first half of 2021.

# Employment and unemployment

# 6.4%

**Sacramento unemployment rate as of May 2021, nearing levels last experienced in 2014**

Before the pandemic, unemployment was at historical lows. While the economy has added back nearly 100,000 jobs since last year, up 10.8%, unemployment has only recovered to 2014 levels.



Note: Not seasonally adjusted data. Metropolitan statistical area.  
Source: Bureau of Labor Statistics



# Industrial job gains and losses

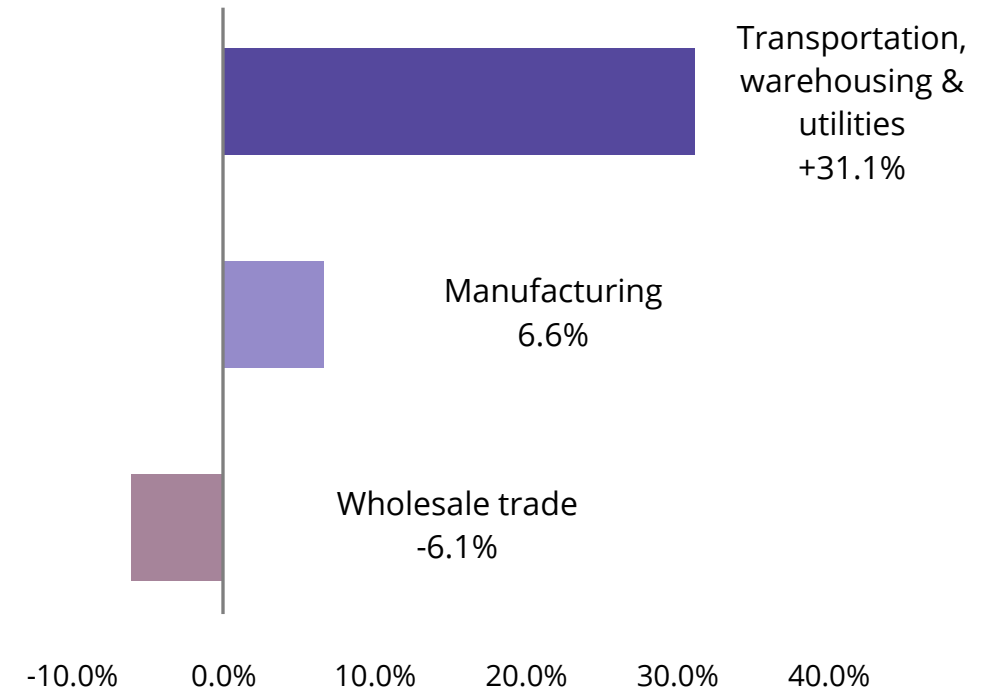
# +3.1%

## Change in industrial-centric employment during the pandemic

The Sacramento metro area gained 3.1% of industrial employment since the pandemic began, as evidenced by a steady increase in jobs after an initial dip at the beginning of the pandemic lockdowns. The most growth has been in the transportation, warehousing, & utilities sector.

### Total change in Sacramento MSA\* job gains/(losses)

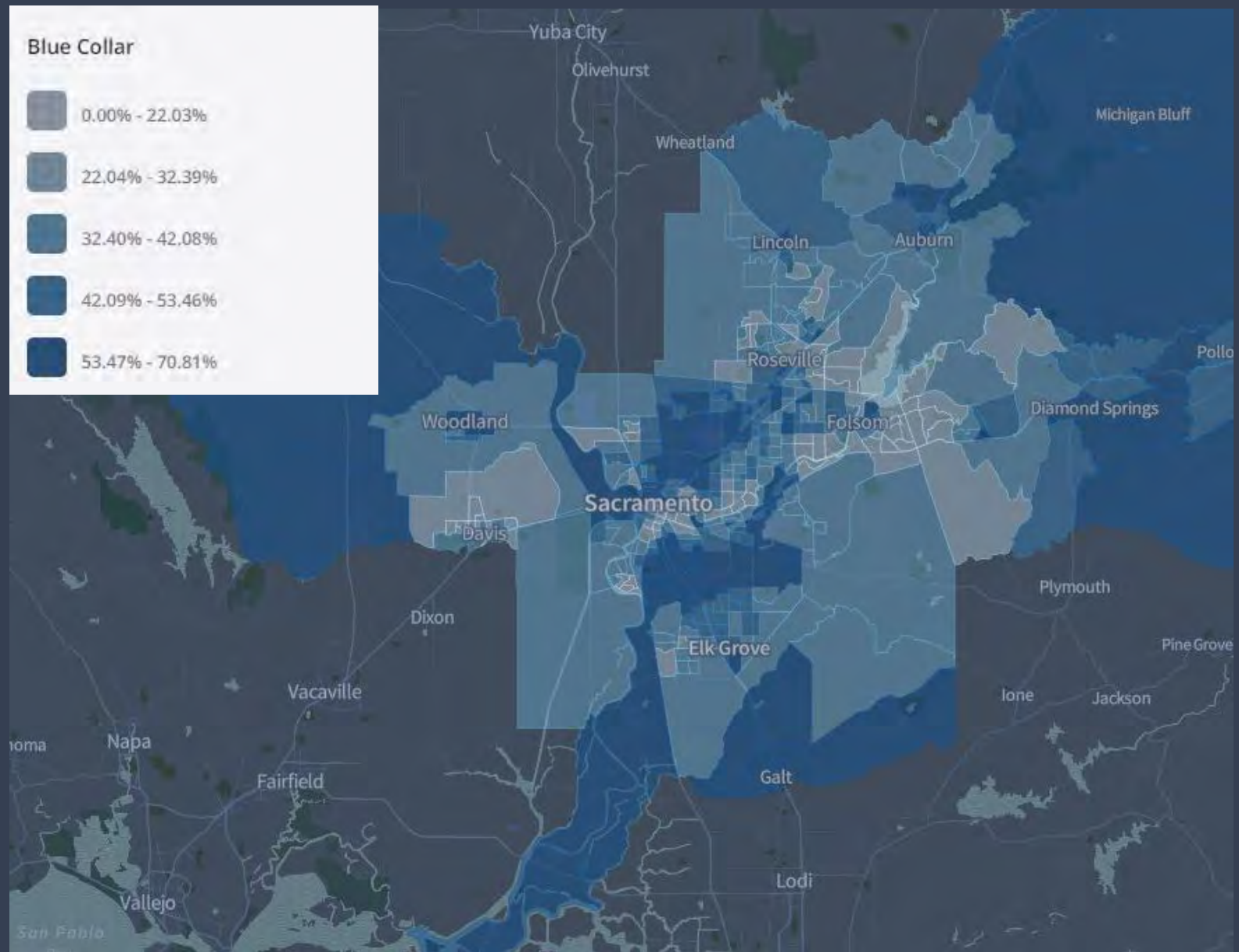
July 2020 to July 2021



Note: Not seasonally adjusted data. Metropolitan statistical area.  
Source: Bureau of Labor Statistics

# Blue-collar workforce concentration

Source: AVANT by Avison Young, ESRI  
Large pockets of blue-collar workforce are found throughout the Sacramento Area's largest Industrial submarkets

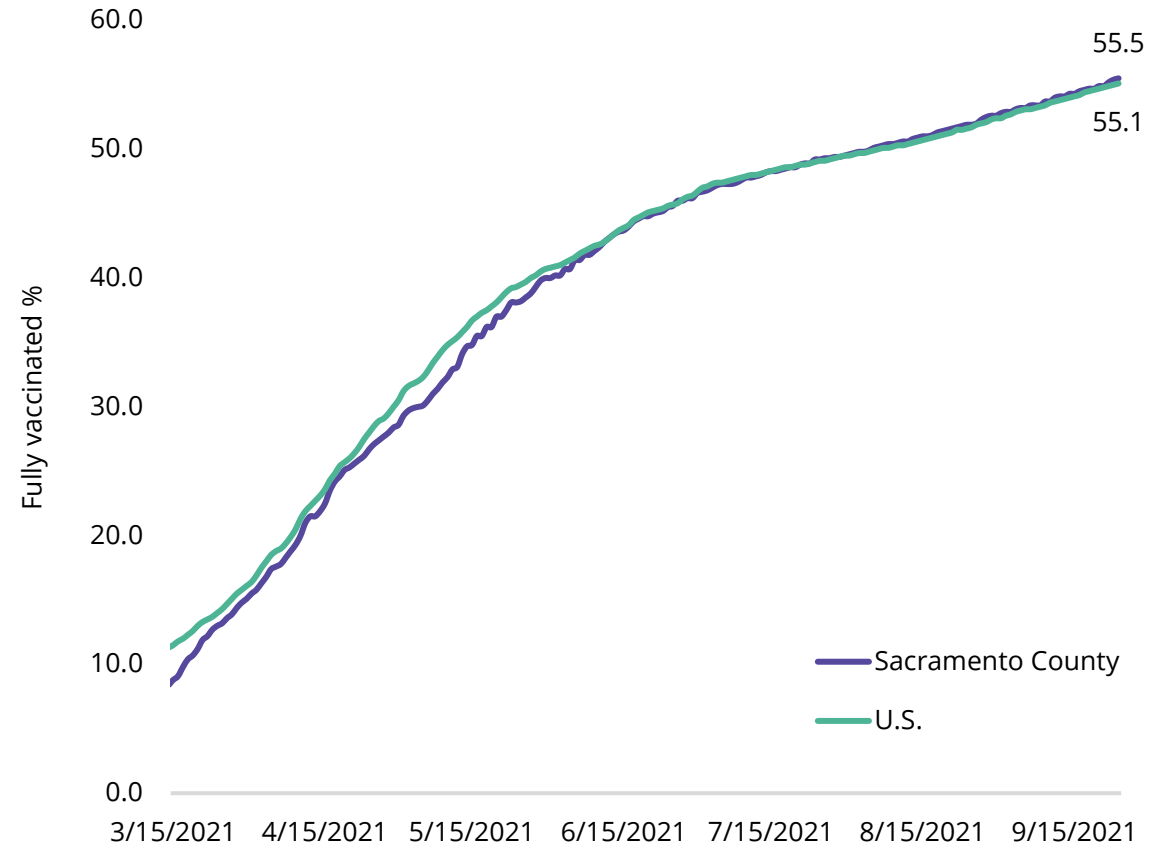


# Vaccination rates

# 55.5%

**Share of total Sacramento County population that is fully vaccinated**

Sacramento County proportionate vaccination rate closely mirrors, and has recently moved ahead of, the U.S. average. This is an important metric that has allowed the county to loosen restrictions.



Source: CDC

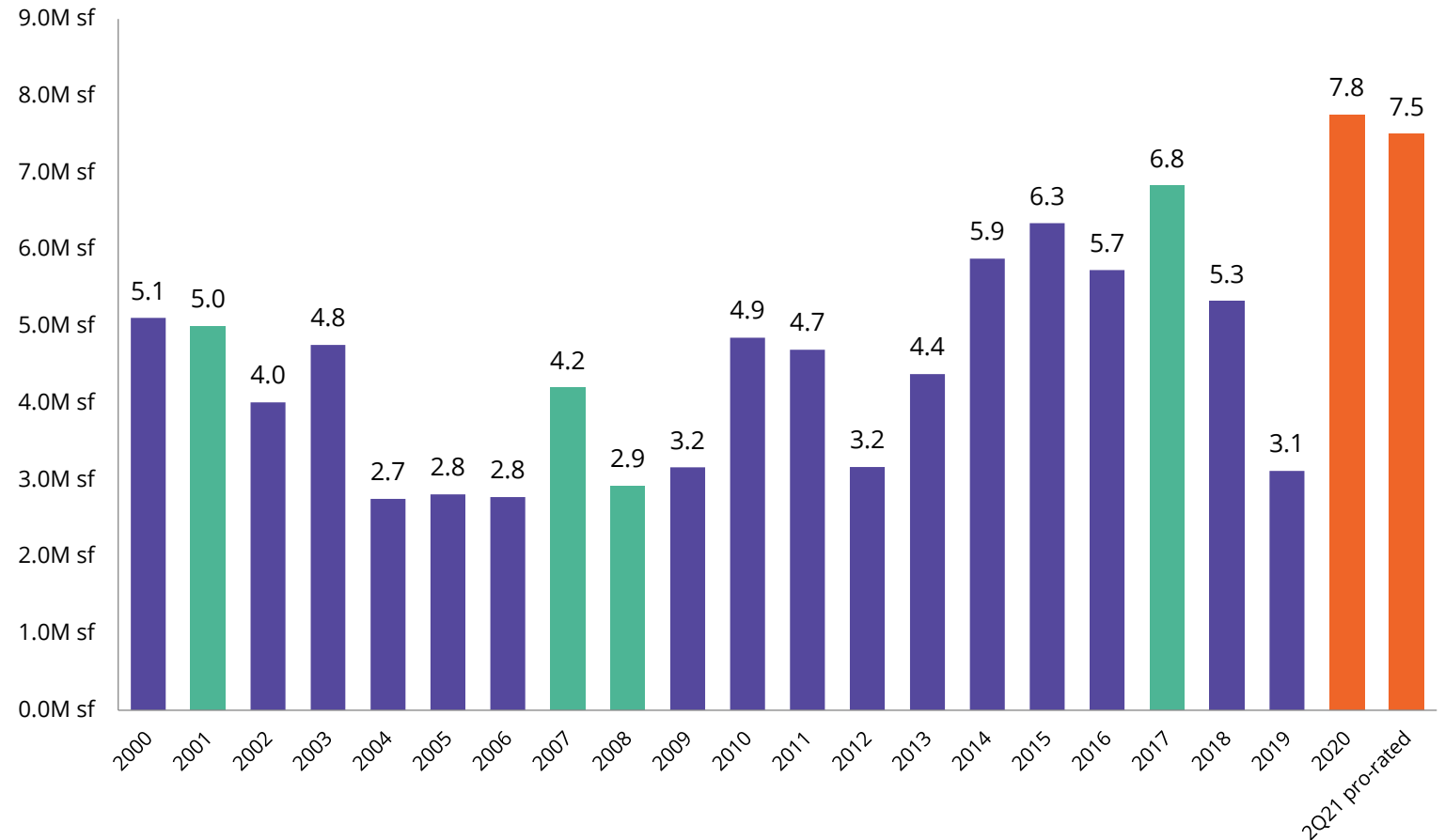


# Industrial leasing activity

# -3.3%

## 2020 vs pro-rated 2021 leasing activity

While leasing is not expected surpass the record leasing that took place in 2020, total leasing in 2021 has surpassed the totals of any other year in recent history.



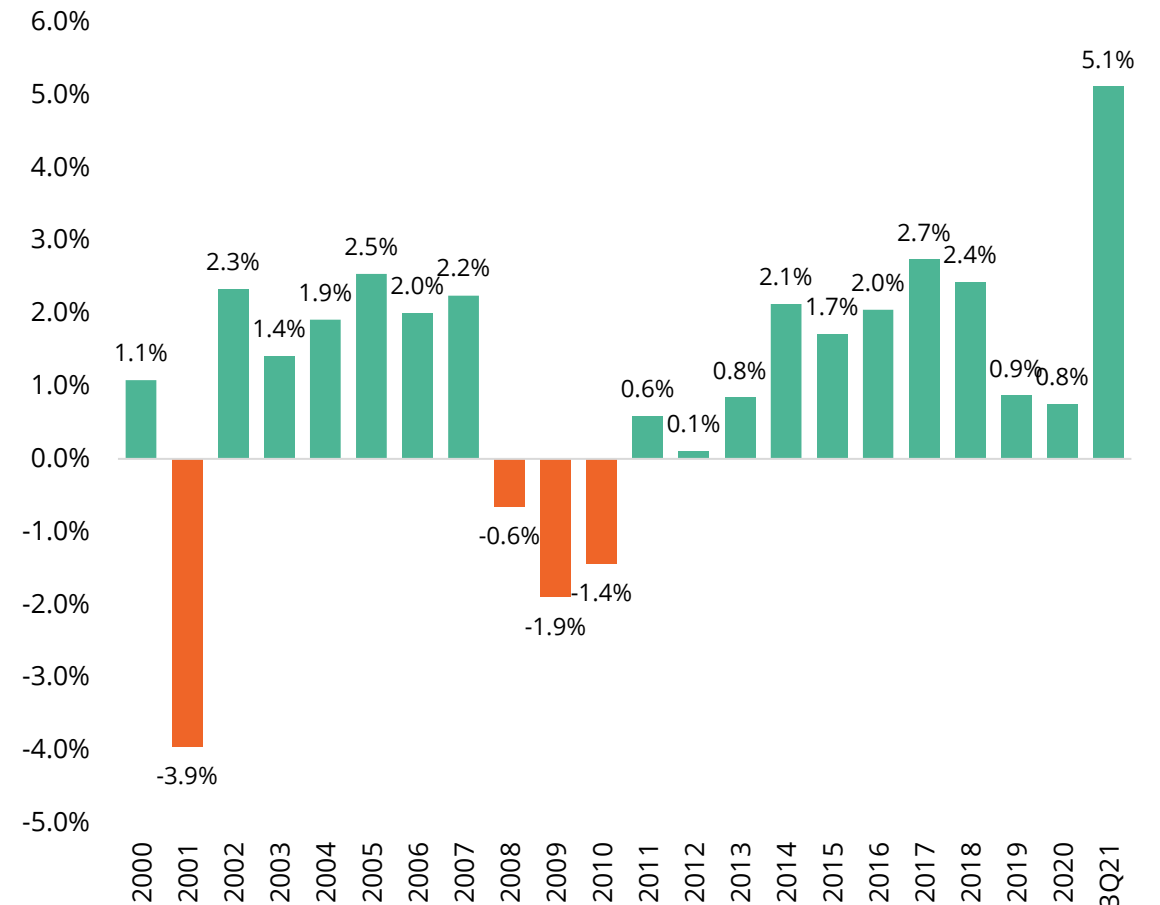
Source: CoStar

# Industrial net absorption

# 5.1%

## YTD Net absorption as a percentage of inventory through Q3 2021

Absorption through the 3<sup>rd</sup> quarter is continuing to show signs of extreme growth. The market is not overbuilding and creating opportunities to avoid market inertia and movement to high-quality new development. Many projects under construction are pre-leased.



Note: Absorption is measured as the year-over-year change in occupied square feet.

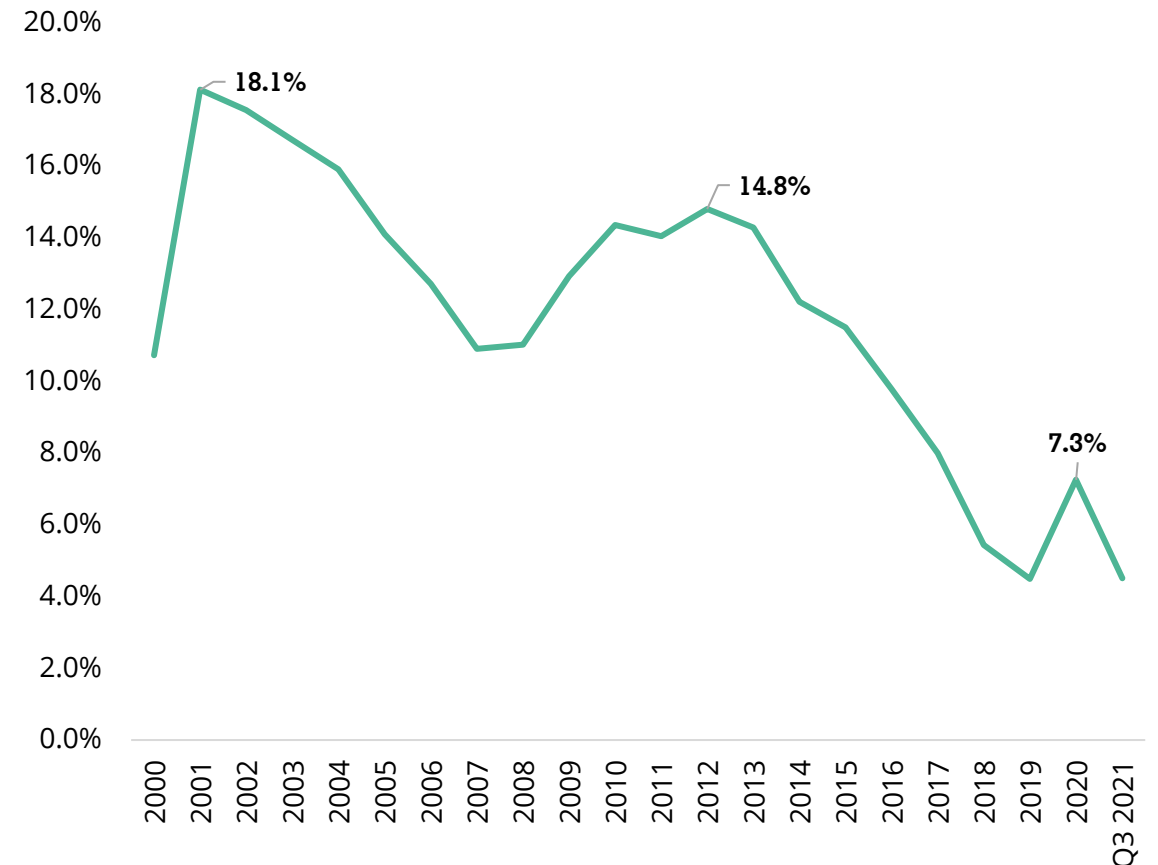
Source: CoStar

# Industrial vacancy rate

# 4.5%

## Industrial Vacancy continues to increase in Q3 2021

Industrial vacancy had been on a steady decline since the peak of the financial crisis in 2012 until it reach historic lows in 2019. Due to the Covid-19 pandemic, vacancy took a temporary uptick in 2020 before continuing on its downward trend in 2021.



Source: CoStar



# Big-box demand drives construction

**68 properties**

Proposed, under construction  
or under renovation

**16.0 msf**

proposed or under  
construction

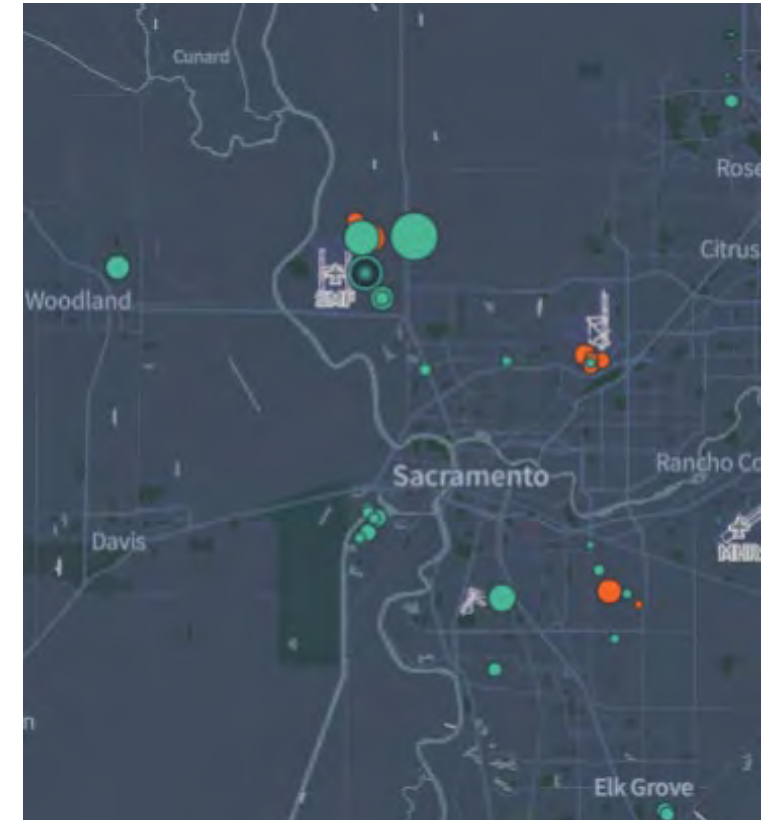
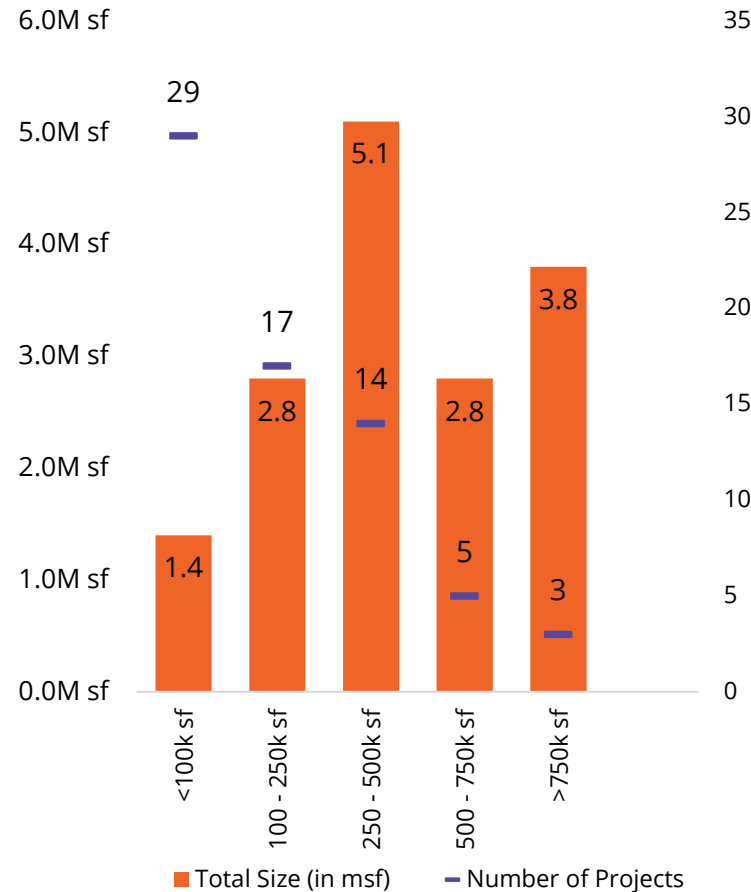
**12.9%**

share of industrial  
inventory

**North**

**Sanatomas**

Submarket with most  
ground-broken projects at 21



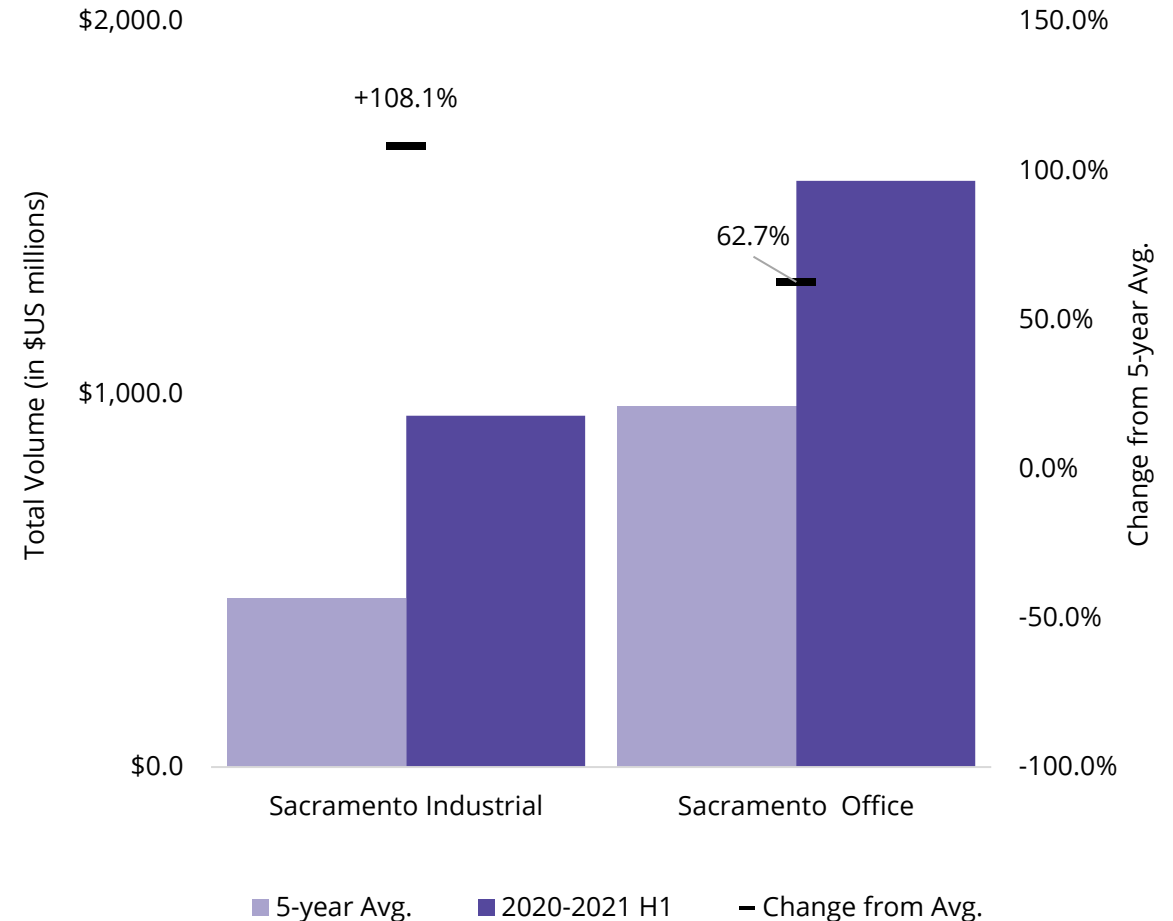
Source: AVANT by Avison Young

# Investment dollar volume

# \$942.4M

## Industrial dollar volume, 2020 to Q2 2021

Office sales activity in the Sacramento Area has seen a surge of 62.7% against the five-year average dollar value. Industrial volumes have surged +108.1% against the prior five-year average due to stronger fundamentals and strong demand for e-commerce and logistics uses.



Source: AVANT by Avison Young  
RCA

# Get in touch



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# Let's talk

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