

Research &
Forecast Report

SACRAMENTO | INDUSTRIAL

Q1 2015



Accelerating success.



Spec Construction Back on the Menu

Regional Summary

We are seeing an improving economy with continued job growth, absorption staying positive for the 11th consecutive quarter, and vacancy at the lowest level since the Great Recession began. We will have our first substantial new construction supply turning over before the end of the year, comprised primarily of speculative development and build to suit. This new supply will provide opportunity to draw in tenant demand that requires large Class A warehouse space with limited options in this market.

Net Absorption

- > 1Q 2015 net absorption is 1,080,700 SF – highest level reported 1st quarter since 2006.
- > Power Inn had the largest amount of absorption for the year at 642,947 square feet.
- > Over 450,000 additional square feet was absorbed in Q1 2015 over Q4 2014.
- > 6% of the total available vacant square footage reported last quarter was absorbed this quarter.

Vacancy

- > Warehouse Vacancy continued to drop to 9.2% - levels not seen since beginning of 2008.
- > ±12.8M square feet of direct vacant warehouse space remains available with Class A making up ±2.7M square feet and Class B at ±5.1M.
- > Available vacant Flex space in the market currently stands at ±3.3M square feet; a 9.4% decrease over the last 12 months.

Rental Rate

- > Warehouse average asking rental rates Q1 2015 remained relatively unchanged at a market average of \$0.35/SF.
- > Leasing incentives have remained stable over the last 12 months with warehouse NNN charges averaging \$0.09 - \$0.12/SF.
- > Asking lease rates are projected to slowly increase in the coming months with speculative projects being delivered to the market and vacancy levels dipping below healthy pre-recession levels.

Activity

- > Leasing activity continued to be strong amongst warehouse properties this quarter with approximately 1.8M SF of new and renewal lease transactions reported this quarter.
- > The largest lease transaction of the quarter was Macy's Corporate Services who leased ±385,077 SF at the former Campbell's Soup facility in South Sacramento. Macy's new

Activity Continued

- facility plans to bring ±350 new jobs to Sacramento and add ±\$10.5M in building improvements to the facility.
- > More than 1.3M SF of industrial space is currently under construction throughout the Sacramento region – over 880,000 is spec development set to be delivered this year.

Market Indicators Relative to prior period	Flex 2015 Q1	Flex 2015 Q2*	Warehouse 2015 Q1	Warehouse 2015 Q2*
VACANCY	↑	↔	↓	↔
NET ABSORPTION	↓	↑	↑	↓
CONSTRUCTION	↔	↔	↑	↑
RENTAL RATE**	↓	↔	↔	↔

Note: Construction is the change in Under Construction.
*Projected

Summary Statistics

Q1 2015 Regional Industrial Market	Flex	Warehouse	Overall
Vacancy Rate	17.4%	9.2%	10.2%
Change From Q4 2014 (basis points)	10	-70	-60
Absorption (Thousand Square Feet)	-14,456	1,096,433	1,081,977
New Construction (Thousand Square Feet)	0	0	0
Under Construction (Thousand Square Feet)	0	1,376,099	1,376,099

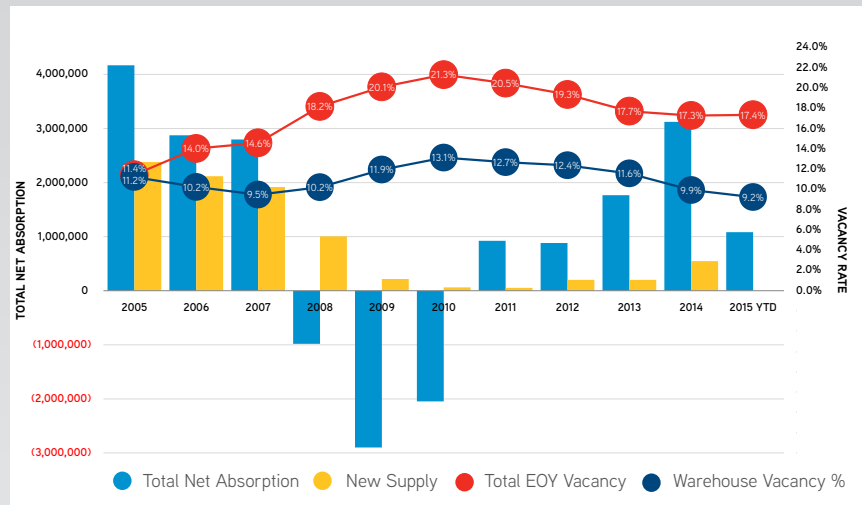
Asking Rents

Per Square Foot Per Month			
All Class Types	\$0.70	\$0.35	\$0.40
Change From Q4 2014	-1.4%	0.0%	0.0%

Vacancy & Absorption Performance

The Sacramento industrial market continues to see significant absorption velocity resulting in a continued decline in the overall vacancy. First Quarter 2015 saw 1,080,700 SF of net absorption compared to 396,338 in first quarter 2014. The past four quarters have averaged over 950,000 square feet in net absorption. This marks 11 straight quarters of positive absorption. The vacancy rate is down 60 basis points in the first quarter 2015 to 10.2%, down 180 basis points since first quarter 2014. This puts vacancy at the lowest level since the Great Recession began in 2008.

Vacancy & Absorption Performance

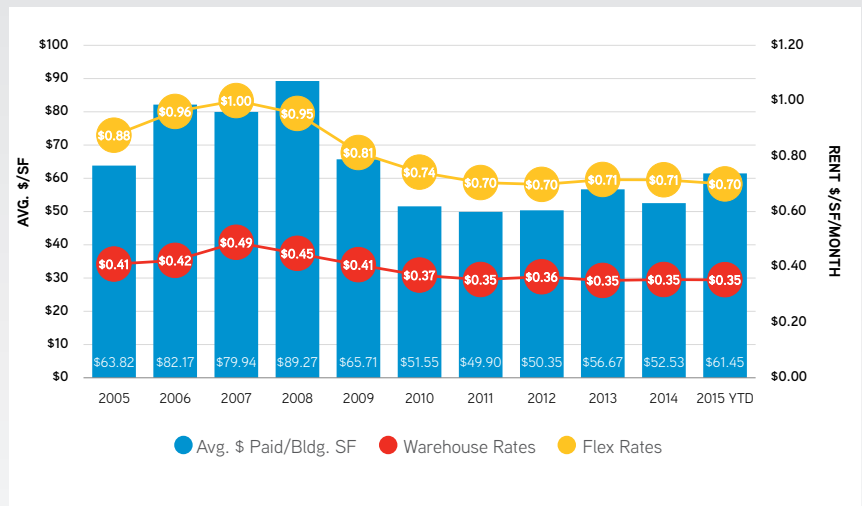


Source: Colliers International, CoStar

Rental Rates

Average asking rents have remained flat for the past 17 quarters, since 2011. While this is a 23% decline from the peak in 2007, we don't expect this number to continue indefinitely. With the healthy absorption and the decline in vacancy, we will see asking rates begin to increase where there are limited options available. The low vacancy submarkets continue to have the highest asking rates. The Downtown/Midtown vacancy for warehouse is 5% with the highest asking rates of \$.90 SF. Folsom/El Dorado is at 4.7% vacancy with asking rates of \$.66 SF.

Rental Rates

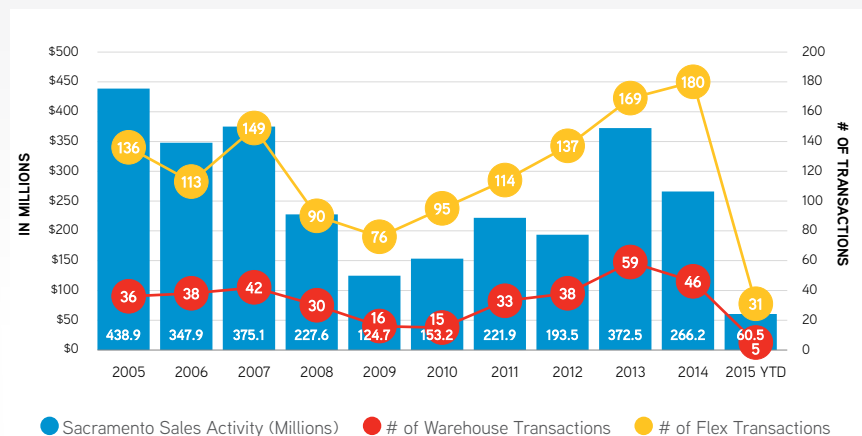


Source: Colliers International, CoStar

Investment Volume

Investment volume is down in first quarter 2015. While the average sales price is up to \$61.45 SF from \$52.53 SF in 2014, the overall number of deals and total investment dollars is down compared to 2014. We would attribute this more to the buyers having limited options available to purchase that meets their criteria. Most of the volume continues to be owner/occupied buyers who can afford to purchase. As lenders continue to offer favorable rates with limited fees, we expect to see a continued healthy trend of investment sales volume.

Investment Volume



Source: Colliers International, CoStar

Sacramento Comparables

Lease Comps

SIGNED DATE	ADDRESS	SQUARE FEET	CLASS/TYPE	SUBMARKET	LANDLORD	TENANT
1Q-15	6200 Franklin Blvd	385,077	B/New	South Sacramento	6200 Franklin LLC	Macy's
1Q-15	3130 Venture Dr	156,750	B/New	Roseville / Rocklin	O K & B	The Rodgers Family Co
1Q-15	1100 Tinker Rd	143,000	A/New	Roseville / Rocklin	Westcore Properties	VW America
1Q-15	4040 Vista Park Ct	68,640	B/New	Natomas / Northgate	Harsch Investment Properties	Oakland Packaging
1Q-15	6240 88th St	22,500	B/New	Power Inn	Gustafson Family Trust	Milgard Manufacturing Inc.

Sale Comps

SALE DATE	ADDRESS	SQUARE FEET/CLASS	PRICE/SF	SALE PRICE	SELLER	BUYER
Feb-15	1100 Tinker Rd	200,000/A	\$56.08	\$11,215,000	1100 Tinker Road, LLC	Westcore Properties
Jan-15	10115 Iron Rock Way	150,000/B	\$43.00	\$6,450,000	Fite Development Company	Bronco Enterprises LLC
Feb-15	1584 Enterprise Blvd	85,000/B	\$55.29	\$4,700,000	Siemens Healthcare	Beckman Coulter, Inc.
Feb-15	3735 Bradview Dr	64,980/C	\$53.43	\$3,472,000	Robert Erickson 2001 Revocable Trust	Larry E Allbaugh
Jan-15	8111 Fruitridge Rd	50,000/C	\$46.50	\$2,325,000	Hensler Family Trust	Thompson Building Materials Inc.

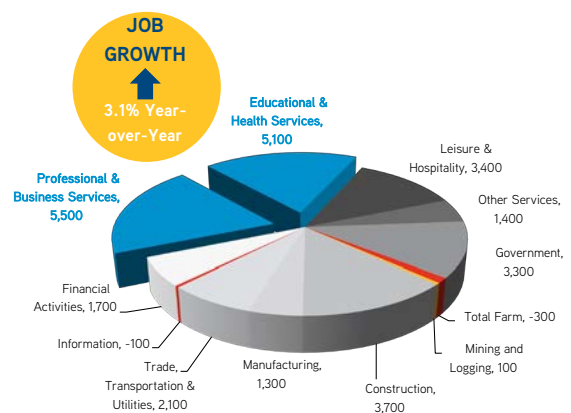
Construction Summary

EST. DELIVERY	ADDRESS	SQUARE FEET	CLASS/TYPE	SUBMARKET	LANDLORD	TENANT
Oct-15	3600 Massie Court	474,792	A/Warehouse	West Sacramento	Ridge Capital Inc.	AVAILABLE Space SPEC Project
Aug-15	2951 Thomas Pl	153,830	B/Warehouse	West Sacramento	Ridge Capital Inc.	AVAILABLE Space SPEC Project
Aug-15	2959 Thomas Pl	138,455	A/Warehouse	West Sacramento	Ridge Capital Inc.	AVAILABLE Space SPEC Project
Jun-15	5350 Raley Blvd	116,964	B/Distribution	McClellan	Buzz Oates Group of Co.	AVAILABLE Space SPEC Project
May-15	3015 Ramco St	28,000	B/Manufacturing	West Sacramento	Potter-Taylor & Company	Shinmei
Jun-15	3470 Sunrise Blvd	20,000	B/Warehouse	Sunrise	N/A	N/A
Jun-15	3530 Carlin Drive	224,058	B/Warehouse	West Sacramento	Bogle Vineyards, Inc.	Bogle/68,333 SF Future Avail. Space
May-15	700 Industrial Ave	220,000	B/Distribution	Elk Grove/Laguna	El & El Wood Products Corp.	El & El Wood Products Corp.

Economy and Tenant Demand

Employment in the region continues to show improvement with an increase of over 27,200 jobs over the past 12 months, led by Professional and Business services and followed by Education and Health Services. The unemployment level dropped 30 basis points from the previous quarter, 6.0%. Most of the tenant demand remains in the 5,000 to 20,000 SF size, however we continue to see expansion and new business in the over 100,000 SF size. The largest being the recent lease signed by Macy's taking 385,077 SF at the former Campbell's Soup location in South Sacramento. And absorption being led by Rex Moore Electric occupying 260,000 SF at 8825 Elder Creek Road and Hydra Warehouse occupying 160,000 SF at 4601 Florin Perkins Road.

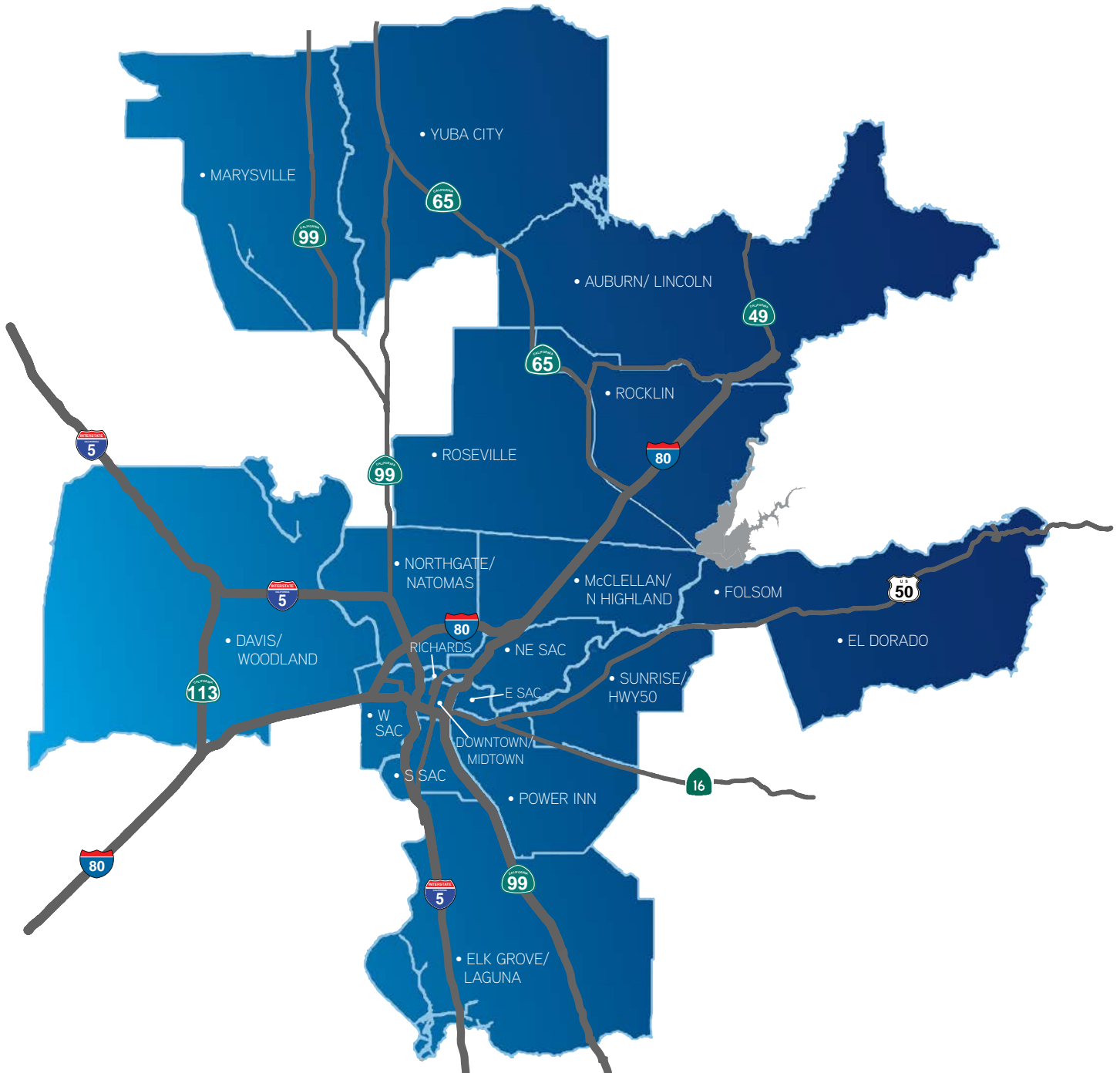
Employment



Source: BLS, CA Employment Development Department



Sacramento Industrial Submarkets



Market Analysis

Existing Properties						Vacancy				Absorption			Construction Rents			
SUBMARKET	# OF BUILDINGS	TOTAL INVENTORY SF	DIRECT VACANT SF	DIRECT VACANCY RATE	SUBLEASE VACANT SF	SUBLEASE VACANCY RATE	TOTAL VACANT SF	TOTAL VACANCY RATE	VACANCY RATE PRIOR QTR	CURRENT OCCUPIED SPACE SF	NET ABSORPTION CURRENT QTR SF	NET ABSORPTION YTD SF	COMPLETIONS CURRENT QTR SF	COMPLETIONS YTD SF	UNDER CONSTRUCTION SF	DIRECT AVG ASKING RATE
Industrial Submarkets																
Auburn/Lincoln	171	2,640,592	95,141	3.6%	-	0.0%	95,141	3.6%	3.3%	2,545,451	(8,800)	(8,800)	-	-	-	\$0.53
Davis/Woodland	303	16,590,298	1,095,149	6.6%	-	0.0%	1,095,149	6.6%	7.3%	5,495,149	110,530	110,530	-	-	-	\$0.27
Downtown/Midtown	176	3,123,646	156,236	5.0%	-	0.0%	156,236	5.0%	4.8%	2,967,410	(6,378)	(6,378)	-	-	-	\$0.90
East Sacramento	59	759,441	57,105	7.5%	-	0.0%	57,105	7.5%	7.1%	702,336	(2,880)	(2,880)	-	-	-	\$0.50
Elk Grove/Laguna	203	5,999,511	375,623	6.3%	-	0.0%	375,623	6.3%	7.0%	5,623,888	44,838	44,838	-	-	220,000	\$0.35
Folsom/El Dorado	213	3,363,411	157,915	4.7%	-	0.0%	157,915	4.7%	4.2%	3,205,496	(15,181)	(15,181)	-	-	-	\$0.66
Marysville/Yuba City	254	6,469,892	431,101	6.7%	-	0.0%	431,101	6.7%	6.7%	6,038,791	1,880	1,880	-	-	-	\$0.44
McClellan/North Highlands	525	14,694,526	2,105,313	14.3%	142,978	1.0%	2,448,291	15.3%	15.7%	2,446,235	64,086	64,086	-	-	116,964	\$0.36
Northeast	393	6,008,750	387,297	6.4%	-	0.0%	387,297	6.4%	6.4%	5,621,453	(1,568)	(1,568)	-	-	-	\$0.36
Northgate/Natomas	239	11,920,480	1,274,626	10.7%	21,515	0.2%	2,296,141	10.9%	10.8%	0,624,339	(6,032)	(6,032)	-	-	-	\$0.39
Power Inn	881	26,241,245	1,950,789	7.4%	106,049	0.4%	2,056,838	7.8%	10.3%	24,184,407	642,947	642,947	-	-	-	\$0.33
Richards	126	4,268,005	301,807	7.1%	-	0.0%	301,807	7.1%	8.5%	3,966,198	59,082	59,082	-	-	-	\$0.33
Roseville/Rocklin	533	7,882,943	2,347,737	13.1%	1,494	0.0%	2,349,231	13.1%	13.4%	5,533,712	54,471	54,471	-	-	-	\$0.33
South Sacramento	255	4,696,835	1,475,684	31.4%	-	0.0%	1,475,684	31.4%	31.3%	3,221,151	(3,247)	(3,247)	-	-	-	\$0.27
Sunrise/Highway 50	704	4,550,705	1,083,780	7.4%	6,400	0.0%	1,090,180	7.5%	8.1%	3,460,525	95,372	95,372	-	-	20,000	\$0.43
West Sacramento	462	17,446,585	851,180	4.9%	38,168	0.2%	889,348	5.1%	5.5%	6,557,237	67,313	67,313	-	-	1,019,135	\$0.41
Flex Submarkets																
Auburn/Lincoln	27	590,320	235,144	39.8%	-	0.0%	235,144	39.8%	39.1%	355,176	(4,536)	(4,536)	-	-	-	\$0.70
Davis/Woodland	35	788,948	156,637	19.9%	-	0.0%	156,637	19.9%	20.7%	632,311	6,532	6,532	-	-	-	\$1.01
Downtown/Midtown	29	581,486	32,949	5.7%	-	0.0%	32,949	5.7%	5.7%	548,537	-	-	-	-	-	\$0.86
East Sacramento*	7	71,557	43,506	60.8%	-	0.0%	43,506	60.8%	60.8%	28,051	-	-	-	-	-	\$1.00
Elk Grove/Laguna	20	350,919	45,676	13.0%	-	0.0%	45,676	13.0%	12.8%	305,243	(912)	(912)	-	-	-	\$0.90
Folsom/El Dorado	94	1,990,127	164,921	8.3%	-	0.0%	164,921	8.3%	8.1%	1,825,206	(3,797)	(3,797)	-	-	-	\$0.76
Marysville/Yuba City	19	193,300	25,020	12.9%	-	0.0%	25,020	12.9%	13.2%	168,280	420	420	-	-	-	\$0.40
McClellan/North Highlands	109	2,006,775	463,786	23.1%	-	0.0%	463,786	23.1%	22.4%	1,542,989	(14,284)	(14,284)	-	-	-	\$0.53
Northeast	67	1,073,974	116,277	10.8%	4,480	0.4%	120,757	11.2%	11.5%	953,217	2,440	2,440	-	-	-	\$0.88
Northgate/Natomas	123	2,309,540	555,399	24.0%	39,150	1.7%	594,549	25.7%	25.9%	1,714,991	3,128	3,128	-	-	-	\$0.67
Power Inn	69	1,355,041	234,055	17.3%	-	0.0%	234,055	17.3%	19.2%	1,120,986	25,750	25,750	-	-	-	\$0.53
Richards	13	302,026	26,407	8.7%	-	0.0%	26,407	8.7%	10.7%	275,619	6,000	6,000	-	-	-	\$0.73
Roseville/Rocklin	133	3,158,972	305,439	9.7%	8,816	0.3%	314,255	9.9%	10.6%	2,844,717	20,254	20,254	-	-	-	\$0.92
South Sacramento*	29	393,987	88,101	22.4%	-	0.0%	88,101	22.4%	20.8%	305,886	(6,336)	(6,336)	-	-	-	\$0.64
Sunrise/Highway 50	161	3,628,072	760,483	21.0%	-	0.0%	760,483	21.0%	21.8%	2,867,589	28,678	28,678	-	-	-	\$0.57
West Sacramento	43	1,610,703	234,630	14.6%	-	0.0%	234,630	14.6%	9.7%	1,376,073	(77,793)	(77,793)	-	-	-	\$0.63
Market Total																
Industrial	5,497	156,656,865	14,146,483	9.0%	316,604	0.2%	14,463,087	9.2%	9.9%	142,193,778	1,096,433	1,096,433	-	-	1,376,099	\$0.35
Flex	978	20,405,747	3,488,430	17.1%	52,446	0.3%	3,540,876	17.4%	17.3%	16,864,871	(14,456)	(14,456)	-	-	-	\$0.70
Total	6,475	177,062,612	17,634,913	10.0%	369,050	0.2%	18,003,963	10.2%	10.8%	159,058,649	1,081,977	1,081,977	-	-	1,376,099	\$0.40

Quarterly Comparison and Totals																
SUBMARKET	# OF BUILDINGS	TOTAL INVENTORY SF	DIRECT VACANT SF	DIRECT VACANCY RATE	SUBLEASE VACANT SF	SUBLEASE VACANCY RATE	TOTAL VACANT SF	TOTAL VACANCY RATE	VACANCY RATE PRIOR QTR	CURRENT OCCUPIED SPACE SF	NET ABSORPTION CURRENT QTR SF	NET ABSORPTION YTD SF	COMPLETIONS CURRENT QTR SF	COMPLETIONS YTD SF	UNDER CONSTRUCTION SF	DIRECT AVG ASKING RATE
1Q-15	6,475	177,062,612	17,634,913	10.0%	369,050	0.2%	18,003,963	10.2%	10.8%	159,058,649	1,081,977	1,081,977	-	-	1,376,099	\$0.40
4Q-14	6,475	177,062,612	18,711,568	10.6%	374,372	0.2%	19,085,940	10.8%	11.0%	157,976,672	627,222	3,123,507	250,000	548,014	1,083,814	\$0.40
3Q-14	6,474	176,812,612	19,108,062	10.8%	355,100	0.2%	19,463,162	11.0%	11.6%	157,349,450	1,291,896	2,496,285	198,744	298,014	498,000	\$0.41
2Q-14	6,473	176,613,868	20,256,029	11.5%	300,285	0.2%	20,556,314	11.6%	12.0%	156,057,554	808,051	1,204,389	99,270	99,270	476,744	\$0.40
1Q-14	6,469	176,514,598	20,951,978	11.9%	313,117	0.2%	21,265,095	12.0%	12.3%	155,249,503	396,338	396,338	-	-	298,014	\$0.39

The information contained in this report was provided by sources deemed to be reliable, however, no guarantee is made as to the accuracy or reliability. As new, corrected or updated information is obtained, it is incorporated into both current and historical data, which may invalidate comparison to previously issued reports. Statistics include Industrial and Flex buildings of any size including owner-occupied and Government buildings in the Sacramento MSA. Rents are nnn weighted averages. Market total rent is the blended average between Flex and Industrial properties.

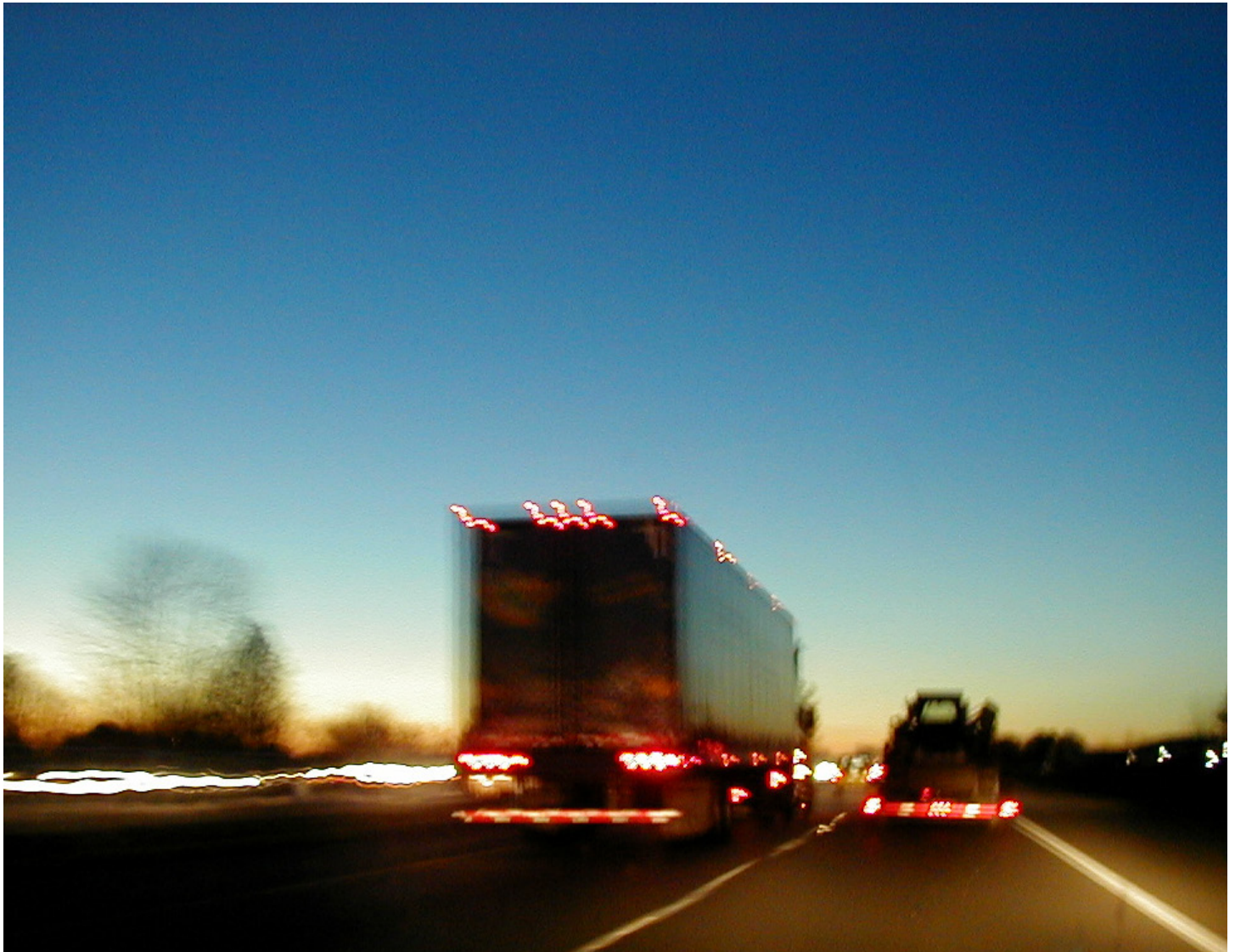
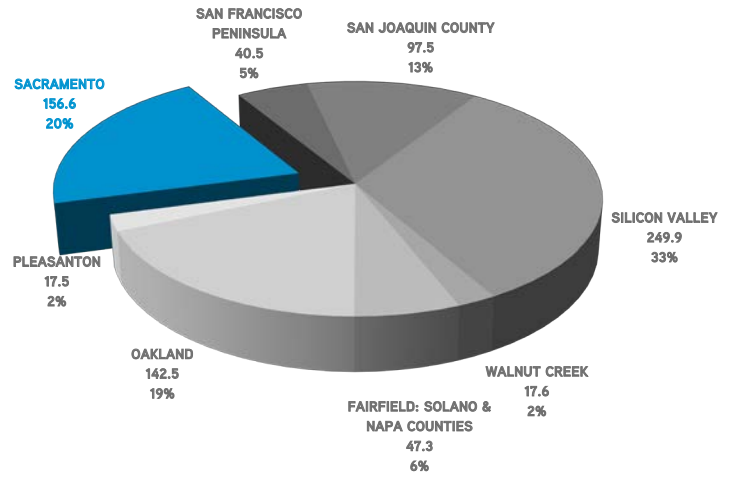
*Average rents used reflect most recent asking rents available.

New Construction and Outlook

Construction this quarter consists of 4 spec projects in West Sacramento and McClellan by Ridge Capital Inc. and Buzz Oates Group of Companies totaling 884,041 SF. Another 4 built-to-suit projects are currently underway in West Sacramento, Elk Grove and Sunrise/Highway 50 Corridor totaling 492,058 SF.

The latest supply delivered to the Sacramento market was a 250,000 SF BTS facility for Core Mark International Inc. at 3030 Mulvany Place at the end of 4Q-2014. We anticipate asking lease rates will gradually increase throughout the coming quarters as vacancy remains at healthy levels and more Class A speculative projects are delivered to the market. Sales activity is projected to remain strong throughout the year as financing remains favorable and more investor demand is placed in value-add investment opportunities and large distribution facilities throughout Northern California.

Northern CA Industrial Markets: 769.6 Million Square Feet



502 offices in 67 countries on 6 continents

United States: **140**

Canada: **31**

Latin America: **24**

Asia Pacific: **199**

EMEA: **108**

\$2.3

billion in
annual revenue

1.7

billion square feet
under management

16,300

professionals
and staff

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Accelerating success.