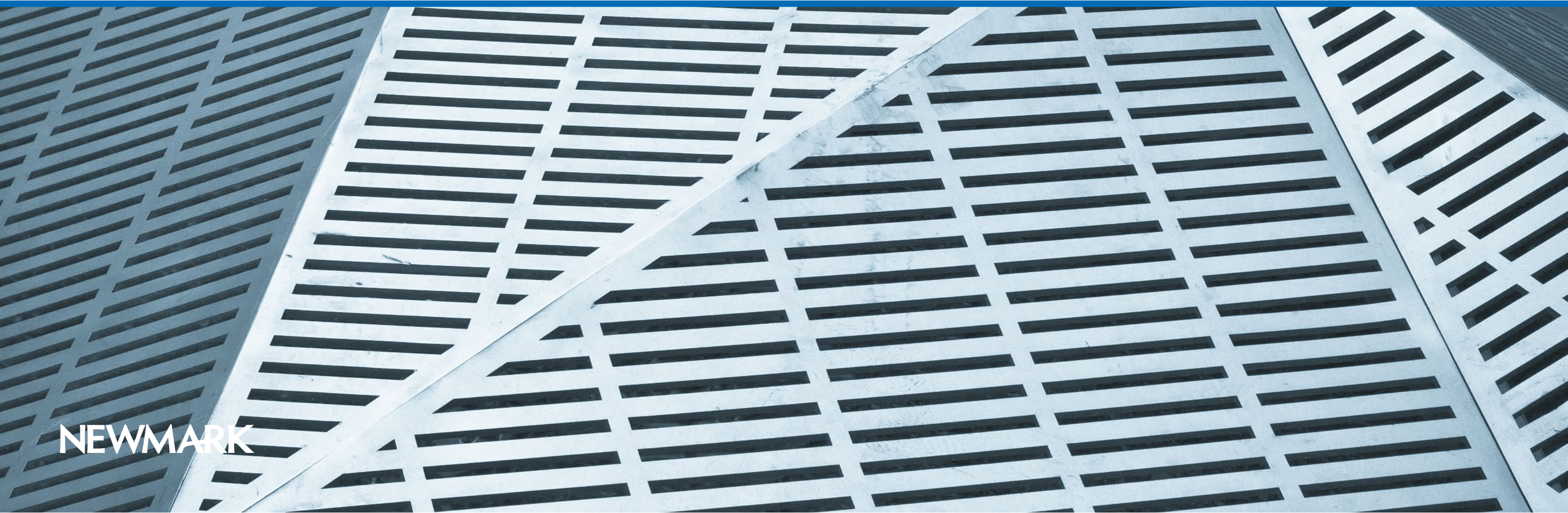


# Sacramento Industrial Market Overview



# Market Observations

## Economy

- Sacramento’s economy appears to be stabilizing as job losses leveled off. Employment growth in Sacramento followed a similar path of the U.S. with growth appearing to be flattening out after a period of deceleration. In fact, the latest figures in August point to possible signs of improvement.
- Sacramento’s unemployment rate has hovered in the 4.7% range for the past three months, inching down 30 bps from March 2024.
- The manufacturing sector has been slowly shedding jobs the past two years, although it did have a one-time bump up in December 2023. The Trade/Transportation & Utilities sector posted an uptick in employment during August 2024 after seven months of straight decline.

## Major Transactions

- The industrial market posted a negative 395,000 square feet of net absorption during the third quarter of 2024, bringing the year-to-date net absorption total to negative 541,000 square feet.
- The largest leases of the quarter included PacFul’s expansion into 320,000 square feet in McClellan Park, in a long-term sublease from PM Packaging.
- The largest sale transaction in the quarter was an investment sale of 3750 Zinfandel Drive, a 163,639 square foot building in Rancho Cordova which sold for \$24.3 million.

## Leasing Market Fundamentals

- The industrial vacancy rate ticked-up 20 basis points quarter-over-quarter to 5.7%. This is also up from one year ago where the vacancy rate stood at 3.5%.
- For the first time since 2010, annual absorption is dropping into the negative. Year-to-date net absorption stood at slightly more than negative 540,700 square feet.
- Leasing activity picked up in the third quarter 2024 at just under 1.8 million square feet.
- Industrial average asking rents dropped during the third quarter of 2024 at \$0.79/SF compared to \$.81/SF in the second quarter and \$0.85 one year ago.

## Outlook

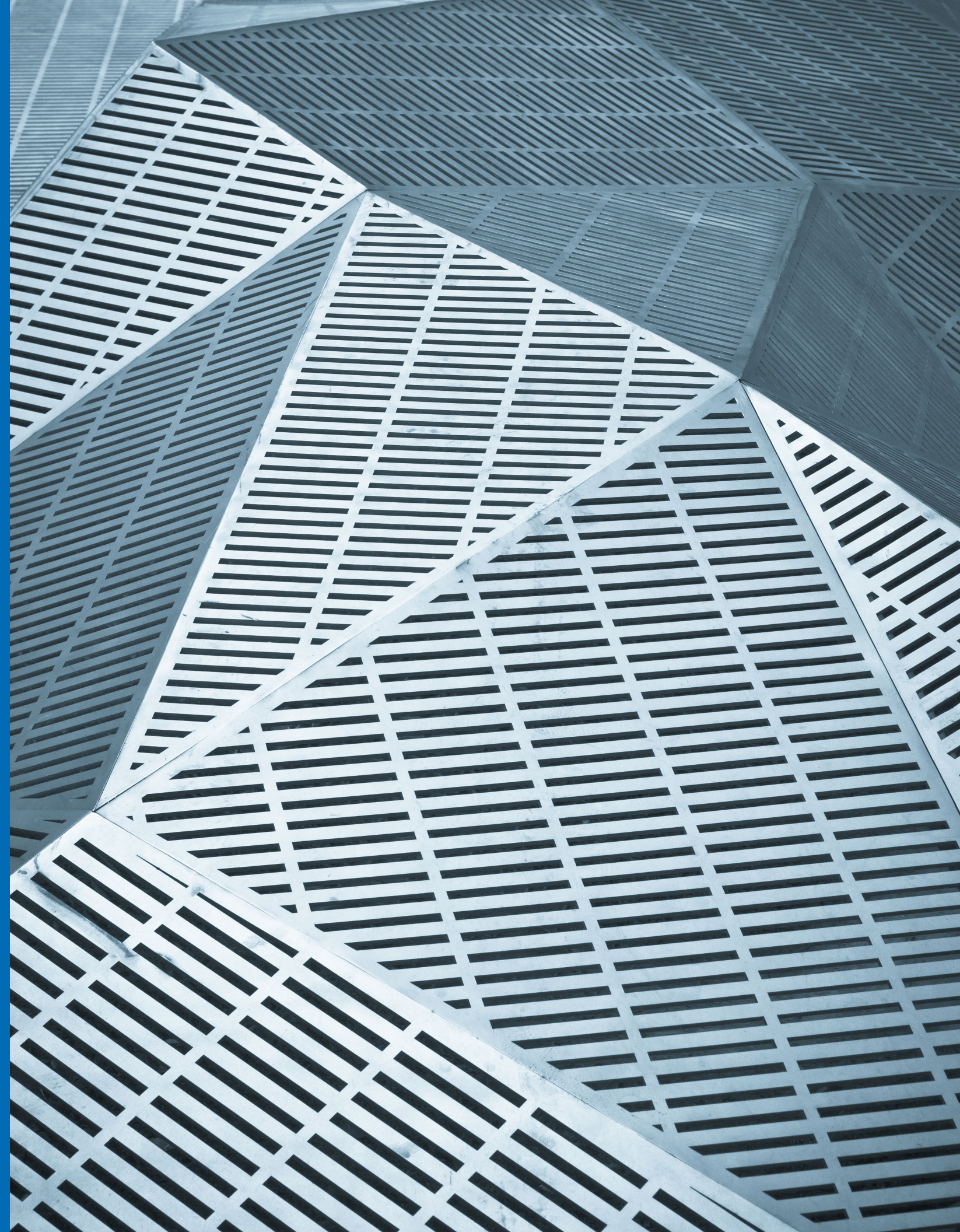
- Sacramento’s economy looks to be flattening out after a period of job losses. We expect the unemployment rate to tick down as the economy improves.
- The industrial vacancy rate, while up from a recent low, is still well below its long-term average of 9.2%. As the market starts markedly improving, rents are expected to stabilize in the medium term.
- The overall outlook for Sacramento’s industrial market over the medium to longer term is positive, given the area’s strategic location to major freeways and to the ports of Oakland and Stockton. In addition, the area is more affordable than nearby Bay Area, offering businesses lower labor and real estate costs.

1. Economy
2. Leasing Market Fundamentals
3. Appendix / Tables

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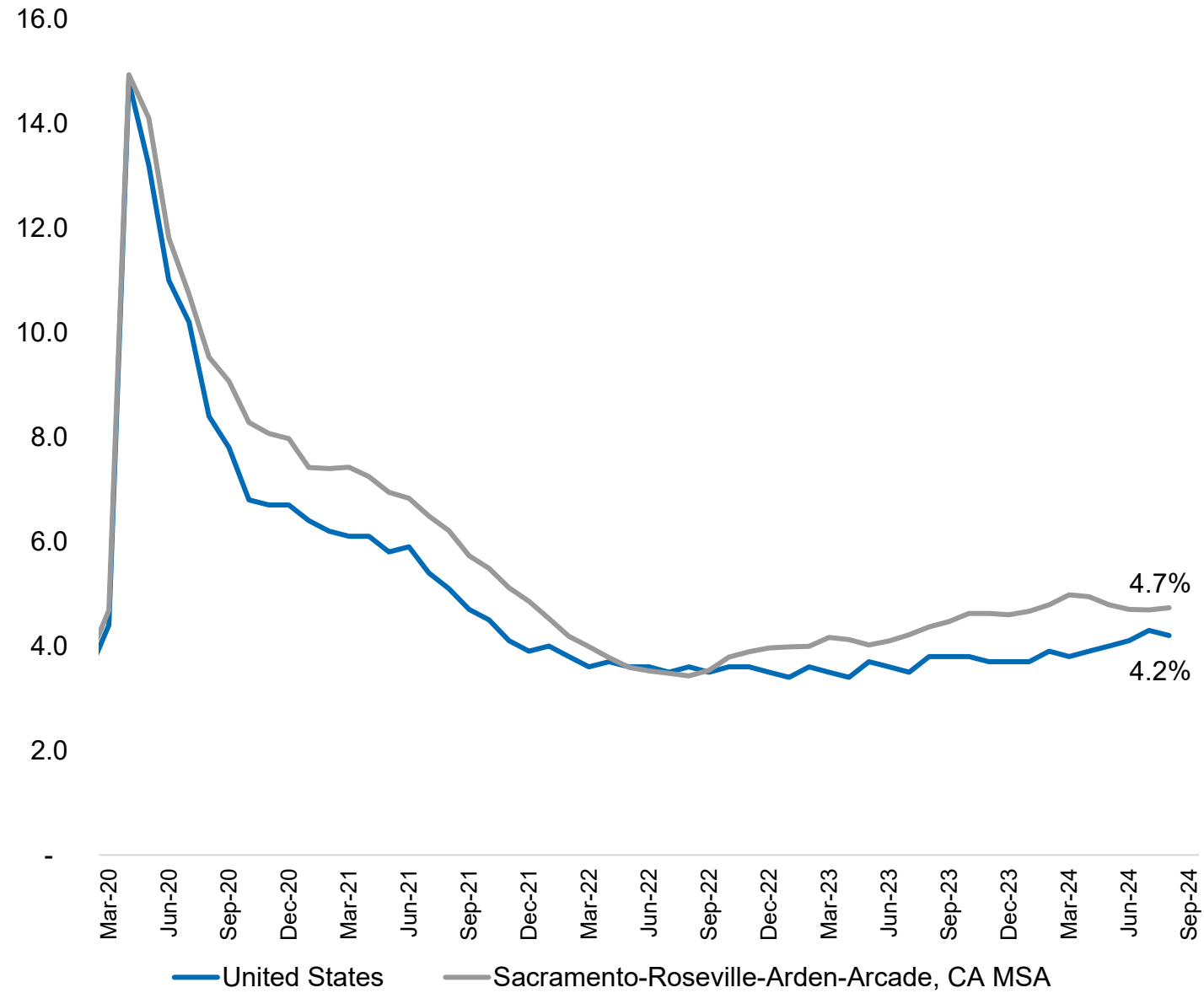
# Economy



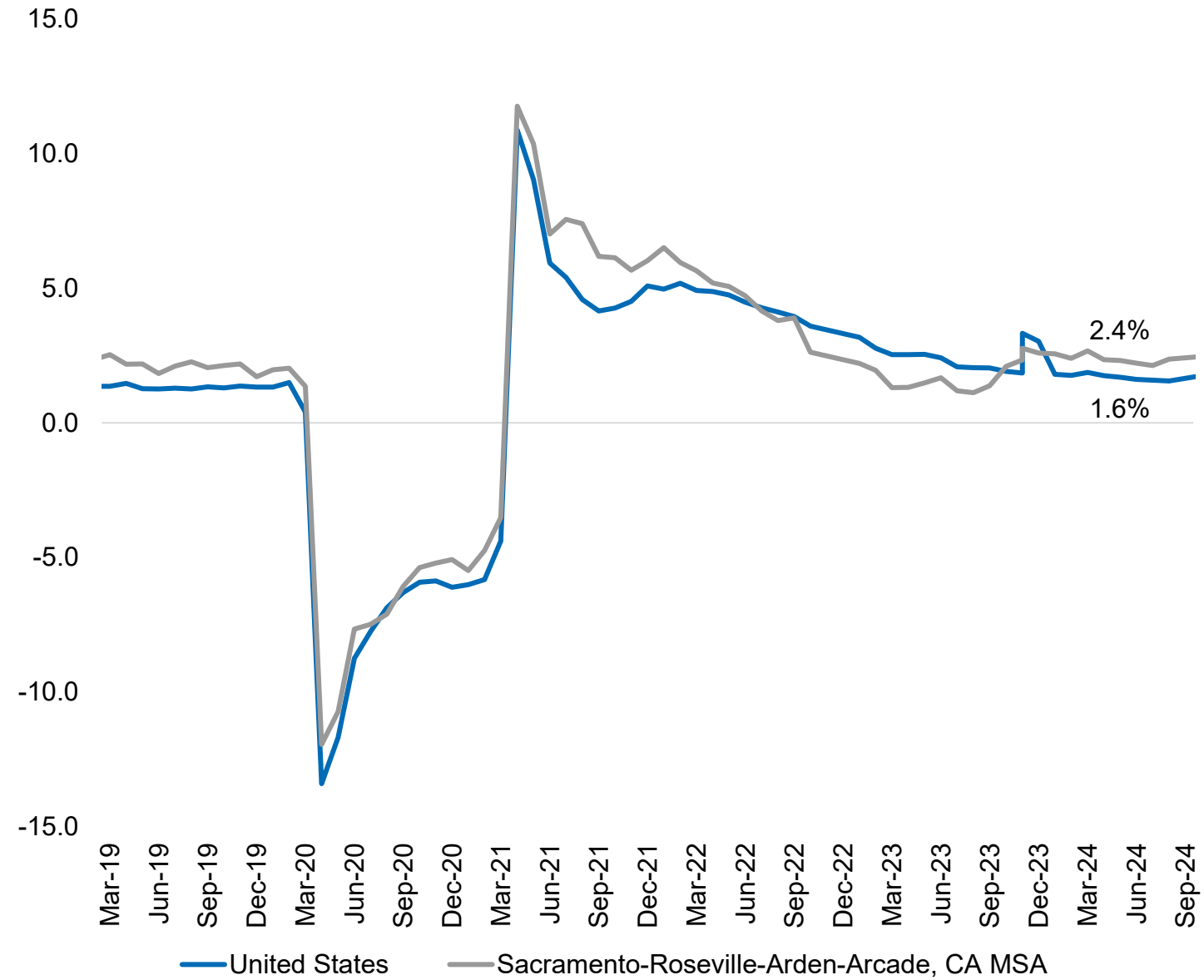
# Sacramento Has Closely Tracked US Employment Trends

Sacramento's economy appears to be stabilizing as job losses leveled off. Sacramento's unemployment rate has hovered in the 4.7% range for the past three months, inching down 30 bps from March 2024. Employment growth in Sacramento followed a similar path of the U.S. with growth appearing to be flattening out after a period of deceleration. In fact, the latest figures in August point to possible signs of improvement.

**Unemployment Rate, Seasonally Adjusted**



**Nonfarm Payroll Employment, Non-Seasonally Adjusted, 12-Month % Change**

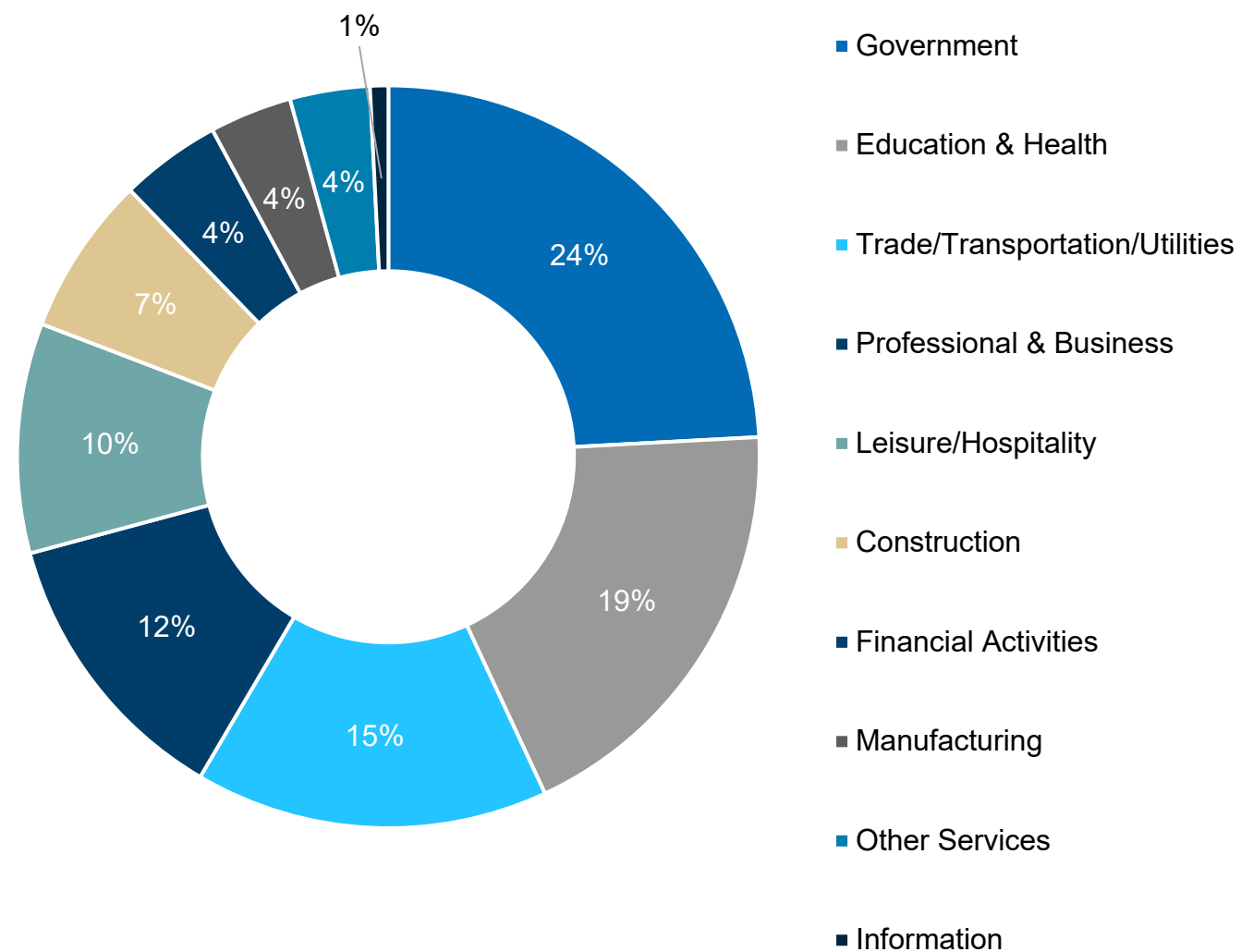


Source: U.S. Bureau of Labor Statistics, Sacramento-Roseville-Arden-Arcade, CA MSA

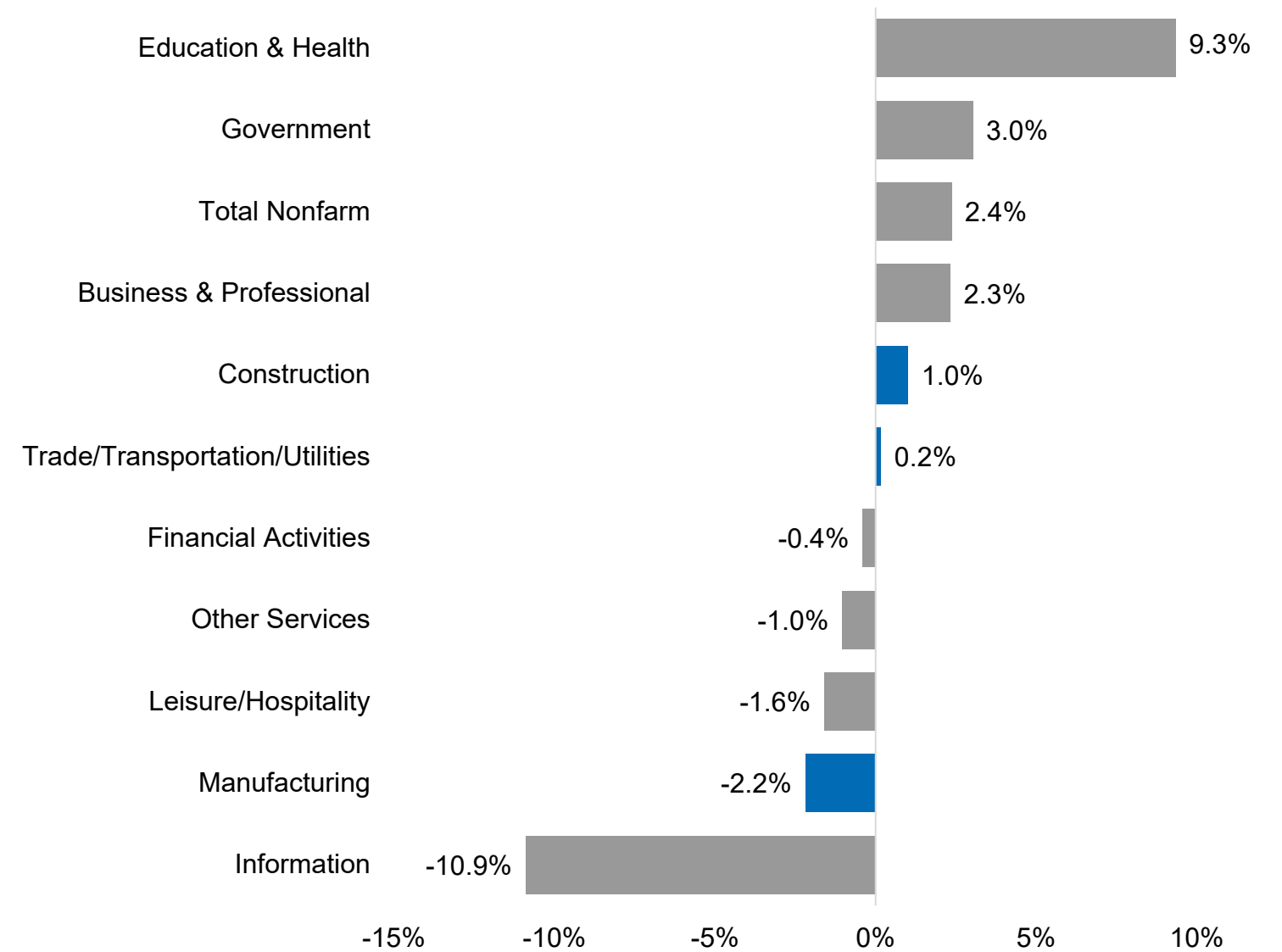
# Job Gains in Larger Sectors Outpaced Losses in Smaller Sectors

On both a relative and absolute basis, the Education & Health Care Services sector recorded the largest gains followed by the Government sector. On a relative basis, the losses look more severe than they were given the size of some of these sectors. Luckily, these strong gains were enough to surpass losses in the Information, Financial Activities, and Leisure & Hospitality sectors.

Employment by Industry, August 2024



Employment Growth by Industry, 12-Month % Change, August 2024

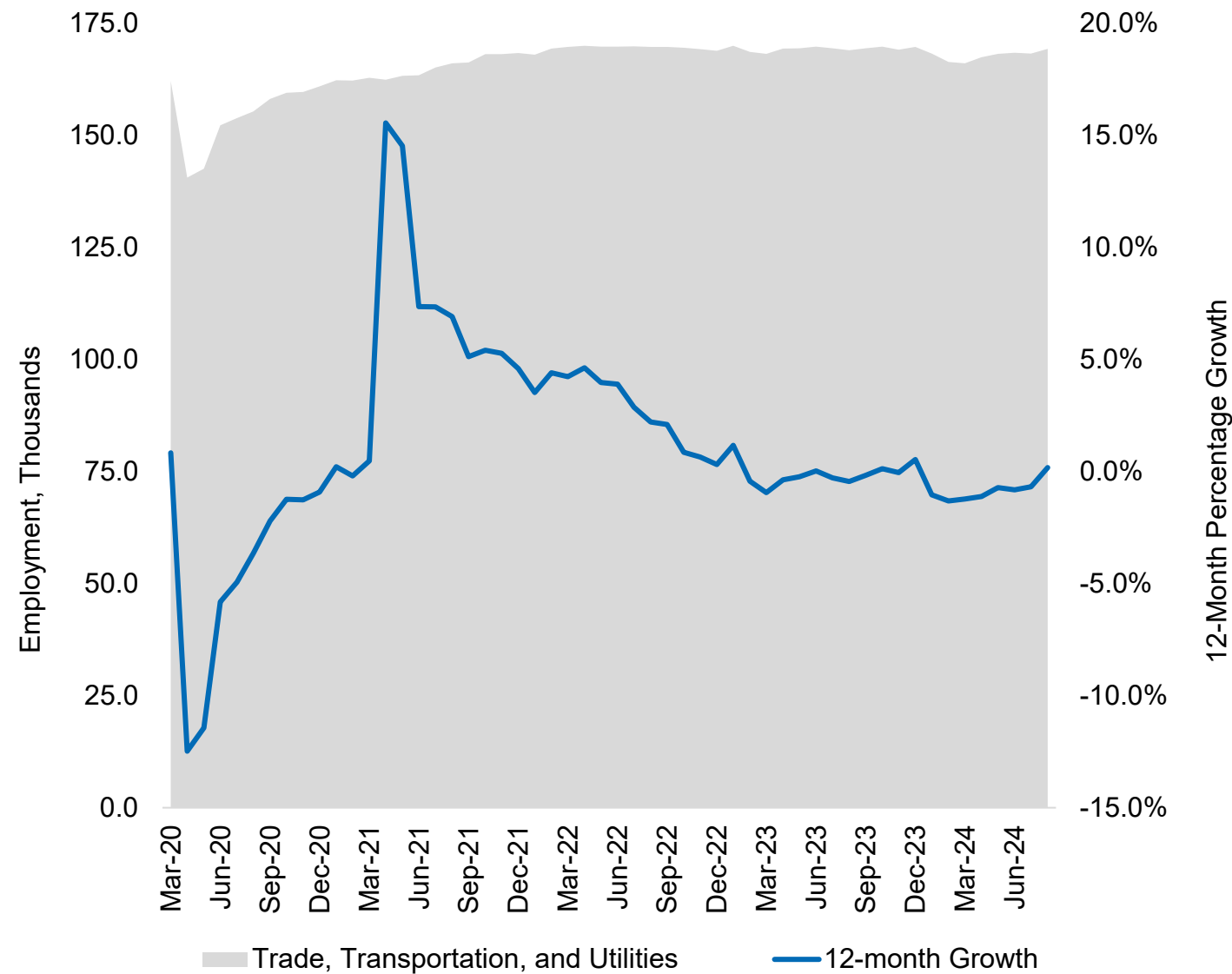


Source: U.S. Bureau of Labor Statistics, Sacramento-Roseville-Arden-Arcade, CA MSA

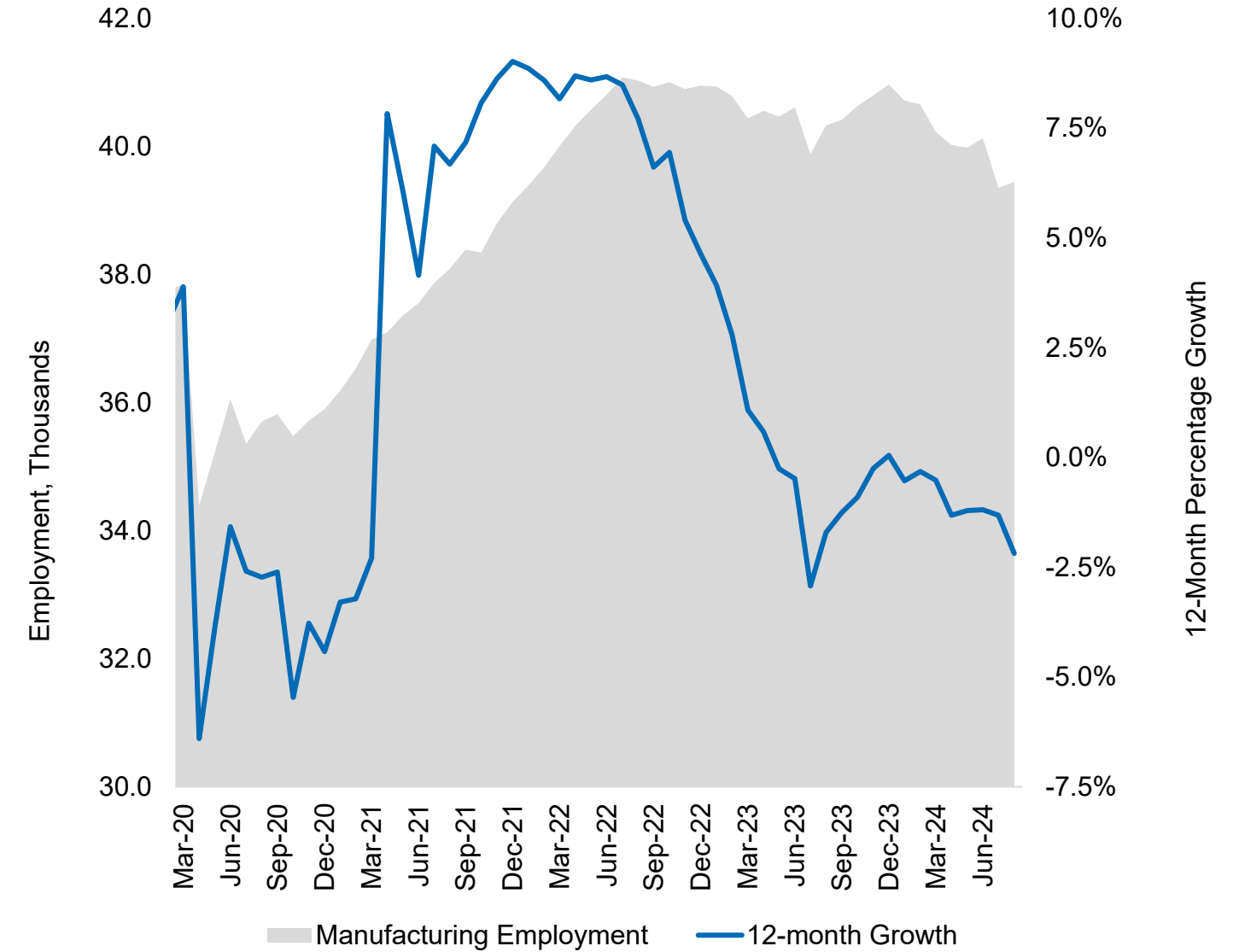
# Employment in Industrial Sectors Still Weak

The manufacturing sector has been slowly shedding jobs the past two years, although it did have a one-time bump up in December 2023. The Trade/Transportation & Utilities sector posted an uptick in employment during August 2024 after seven months of straight decline. However, competition for labor is still a challenge for many occupiers here.

Total Employment and 12-Month Growth Rate, Trade/Transportation/Utilities



Total Employment and 12-Month Growth Rate, Manufacturing

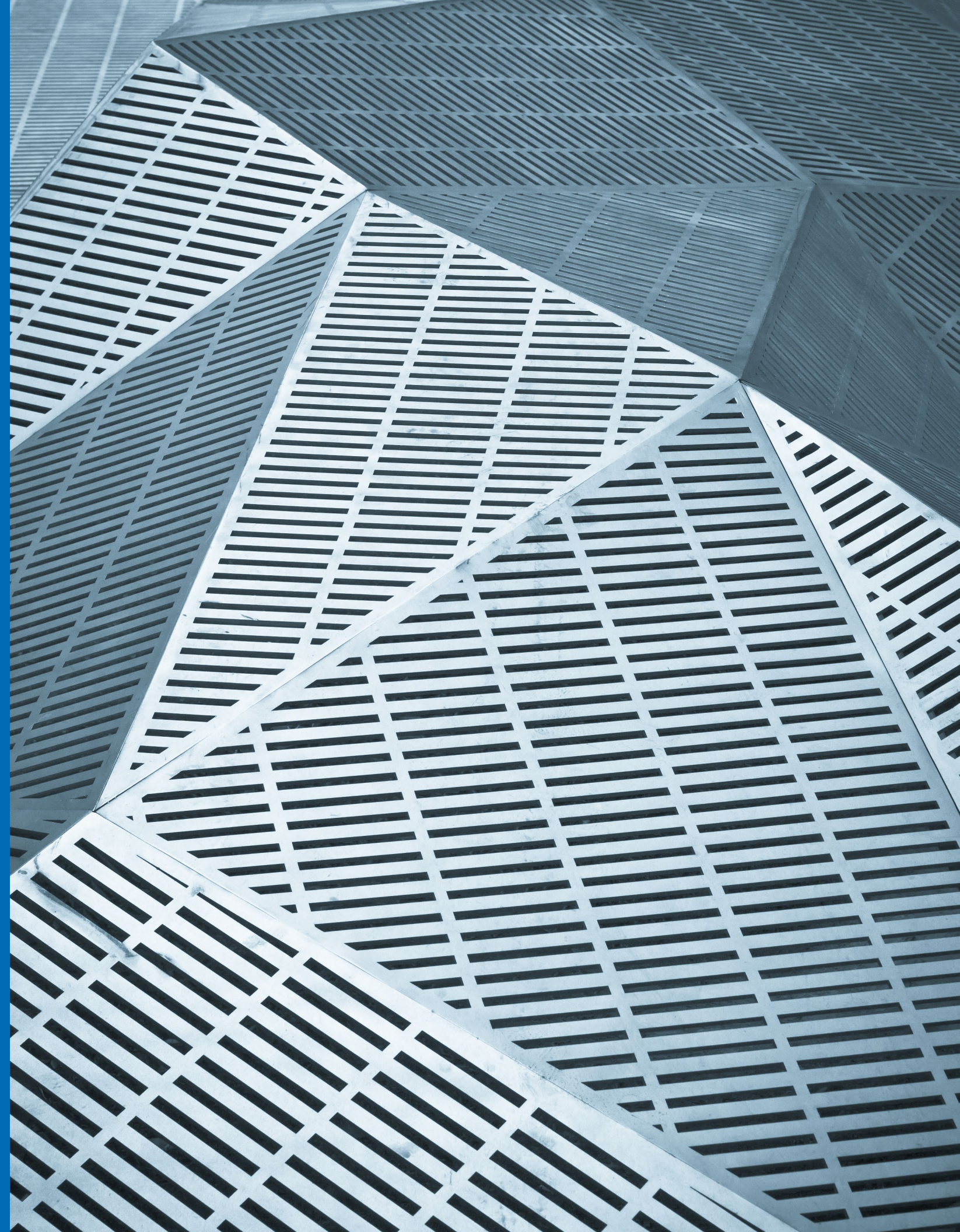


Source: U.S. Bureau of Labor Statistics, Sacramento-Roseville-Arden-Arcade, CA MSA

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# Leasing Market Fundamentals

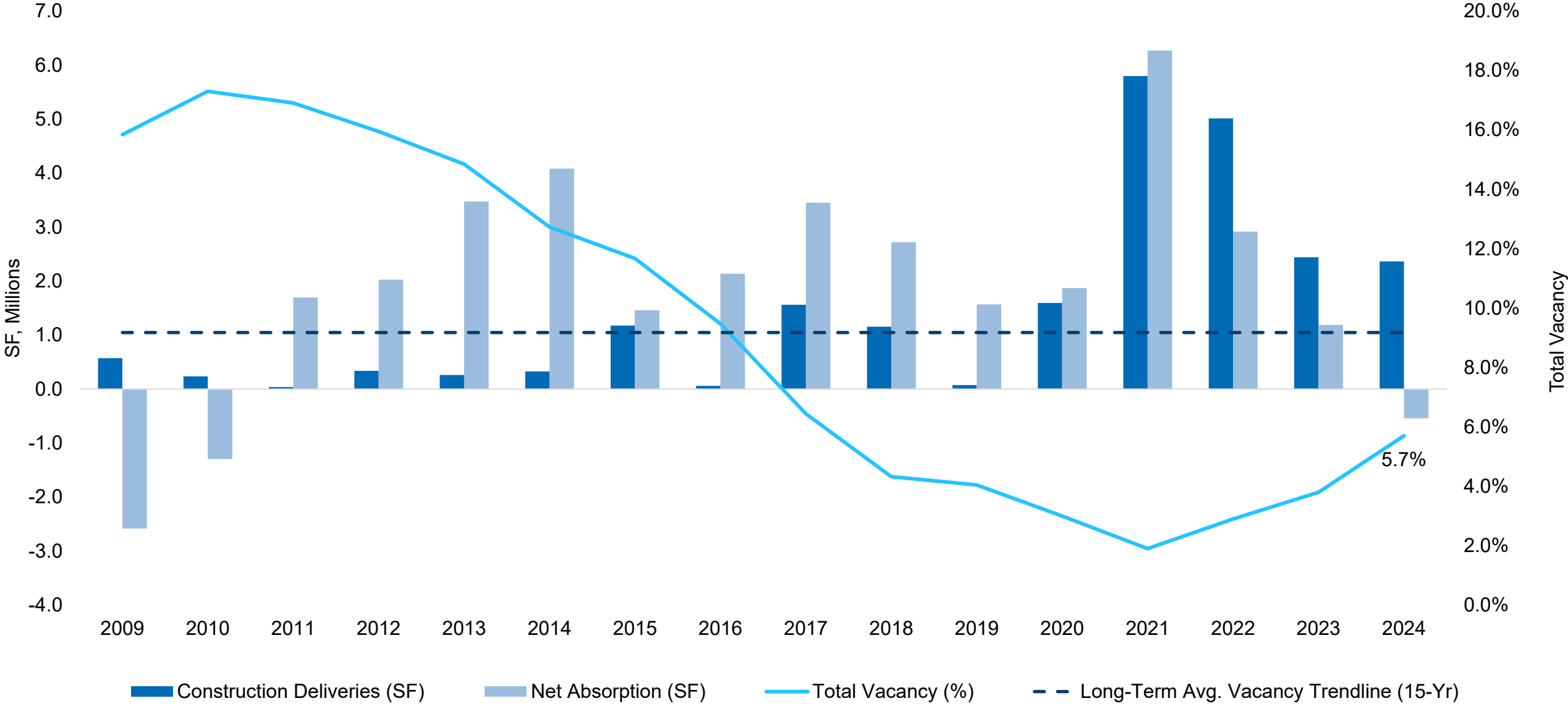




# Vacancy Increased Slightly Again

While the industrial vacancy rate ticked-up 20 basis points quarter-over-quarter to 5.7% and up 220 basis points from its recent low of 3.5% one year ago, the rate is still below its long-term historic average of 9.2%. For the first time since 2010, annual absorption is dropping into the negative, and year-to-date net absorption stood at -540,713 square feet.

Historical Construction Deliveries, Net Absorption, and Vacancy

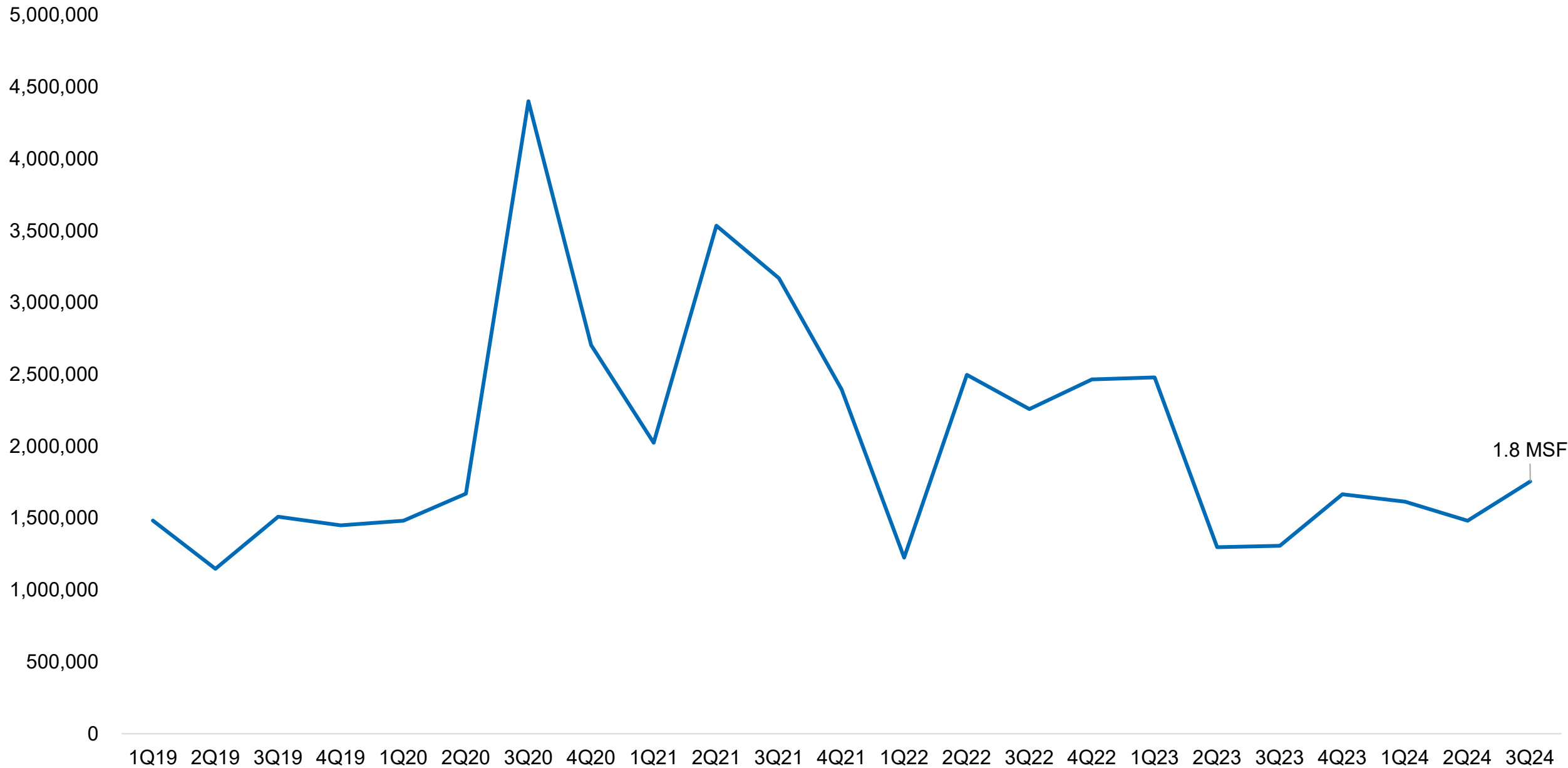


Source: Newmark Research

# The Pace of Leasing Activity is Picking Up

Leasing activity picked up in the third quarter 2024 at just under 1.8 million square feet. The largest leases of the quarter included PacFul's expansion into 320,000 square feet in McClellan Park, in a long-term sublease from PM Packaging.

Total Leasing Activity (SF)



Source: CoStar

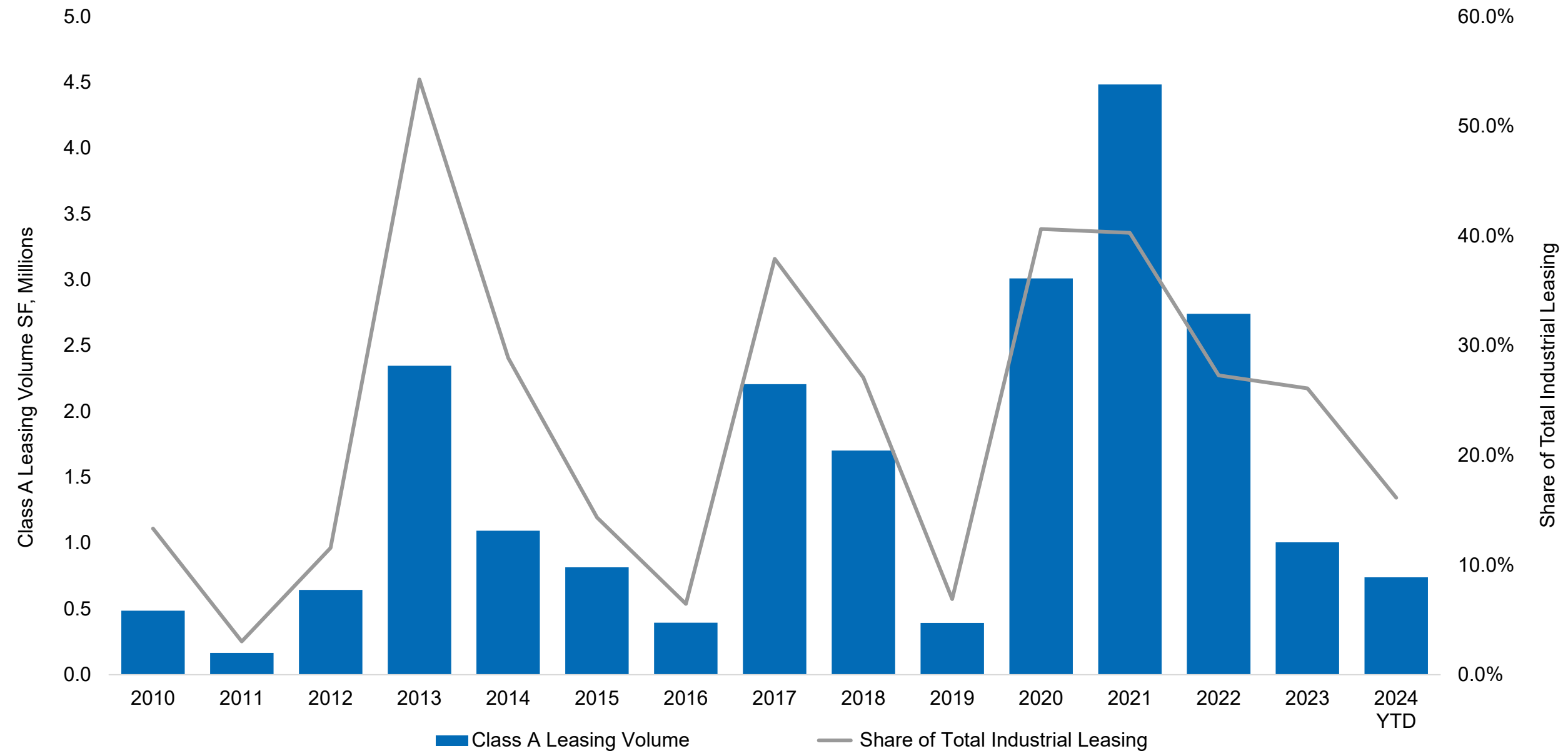


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# Class A Warehouse Posted Modest Leasing Activity

Industrial Class A leasing activity in 2024 is on track to surpass 2023 totals, but it still well below levels recorded in 2021 and 2022. Leasing as a percentage of total inventory dropped so far into 2024.

Industrial Class A Leasing Volume and Percentage of Total Industrial Leasing Volume



Source: Newmark Research, CoStar

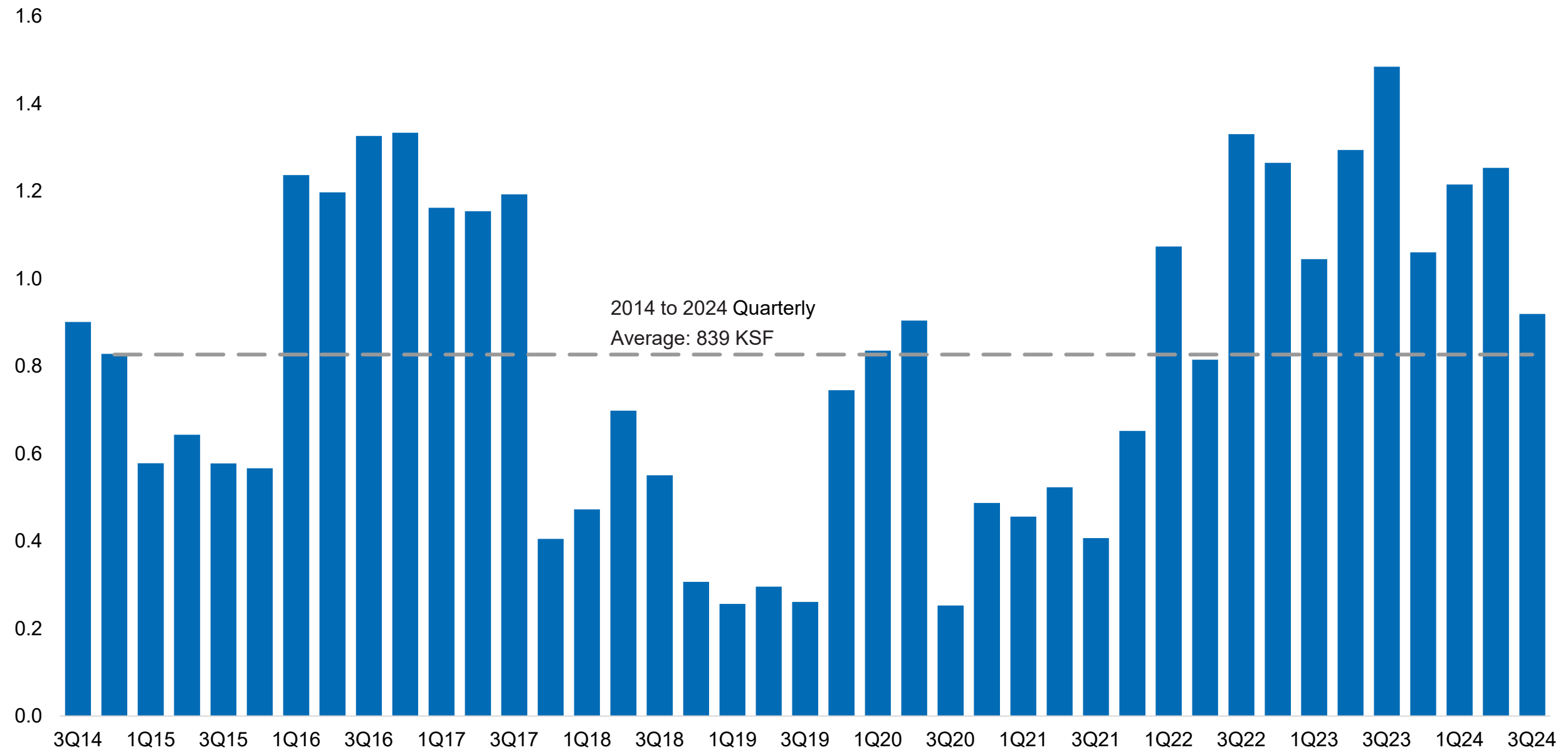


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# Industrial Sublease Availability Decreased

There was a significant drop in the amount of sublease space on the market during the third quarter, dropping from nearly 1.3 million square feet to 920,000 square feet. While this total is still above the 10-year-average, it is the first time in nine quarters it dropped below 1.0 million square feet. However, as mentioned before, the drop in sublease space has not translated to a drop in total available space yet.

Available Industrial Sublease Volume (msf)



Source: Newmark Research

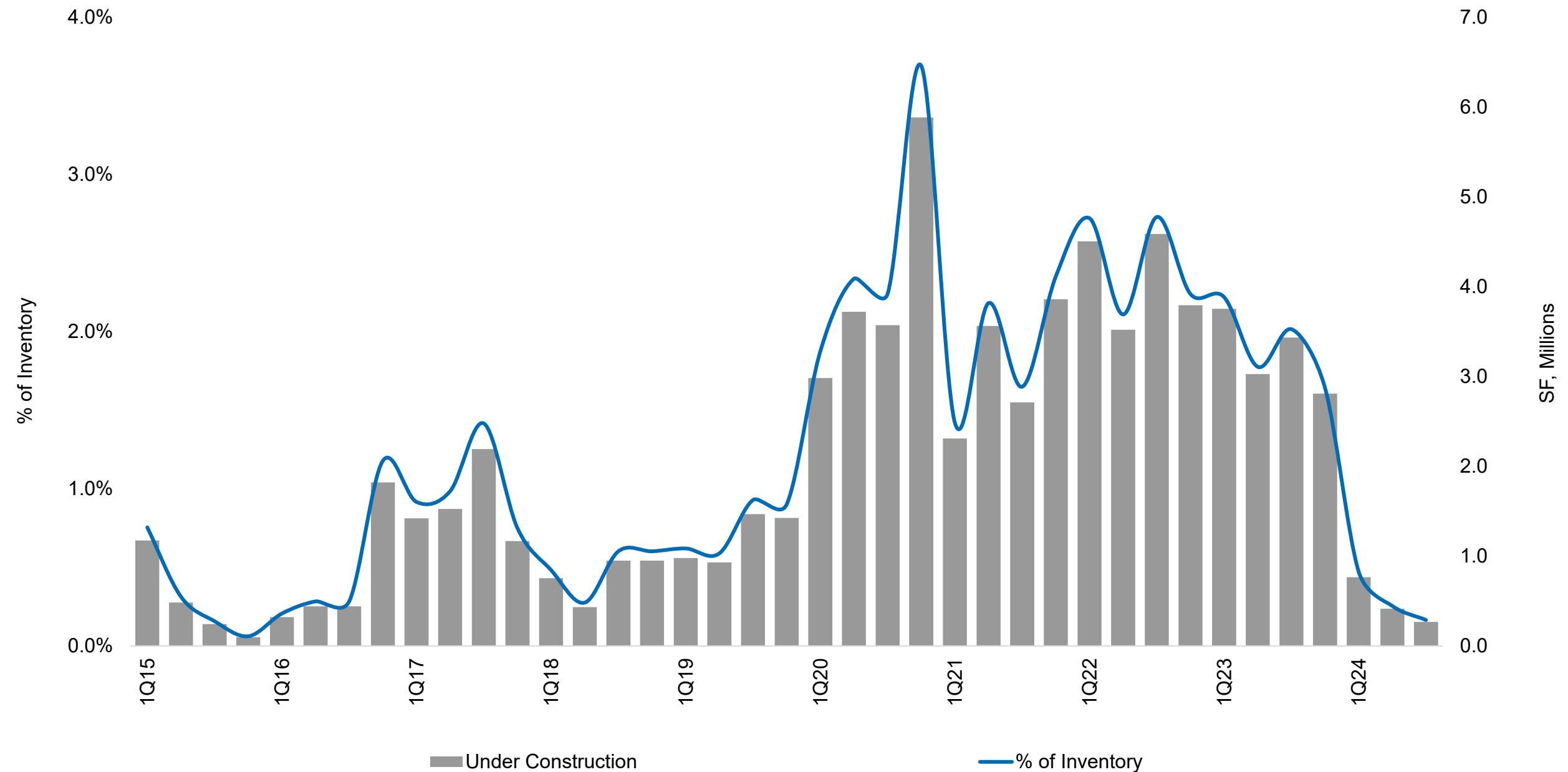


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# Industrial Construction Pipeline Slowing Down

The Sacramento industrial market has continued to see an active construction pipeline up through 2023 but has since dropped off given the weakness in market fundamentals as well as the lending environment. At the end of the quarter there was 268,500 square feet under construction.

## Industrial Under Construction and % of Inventory



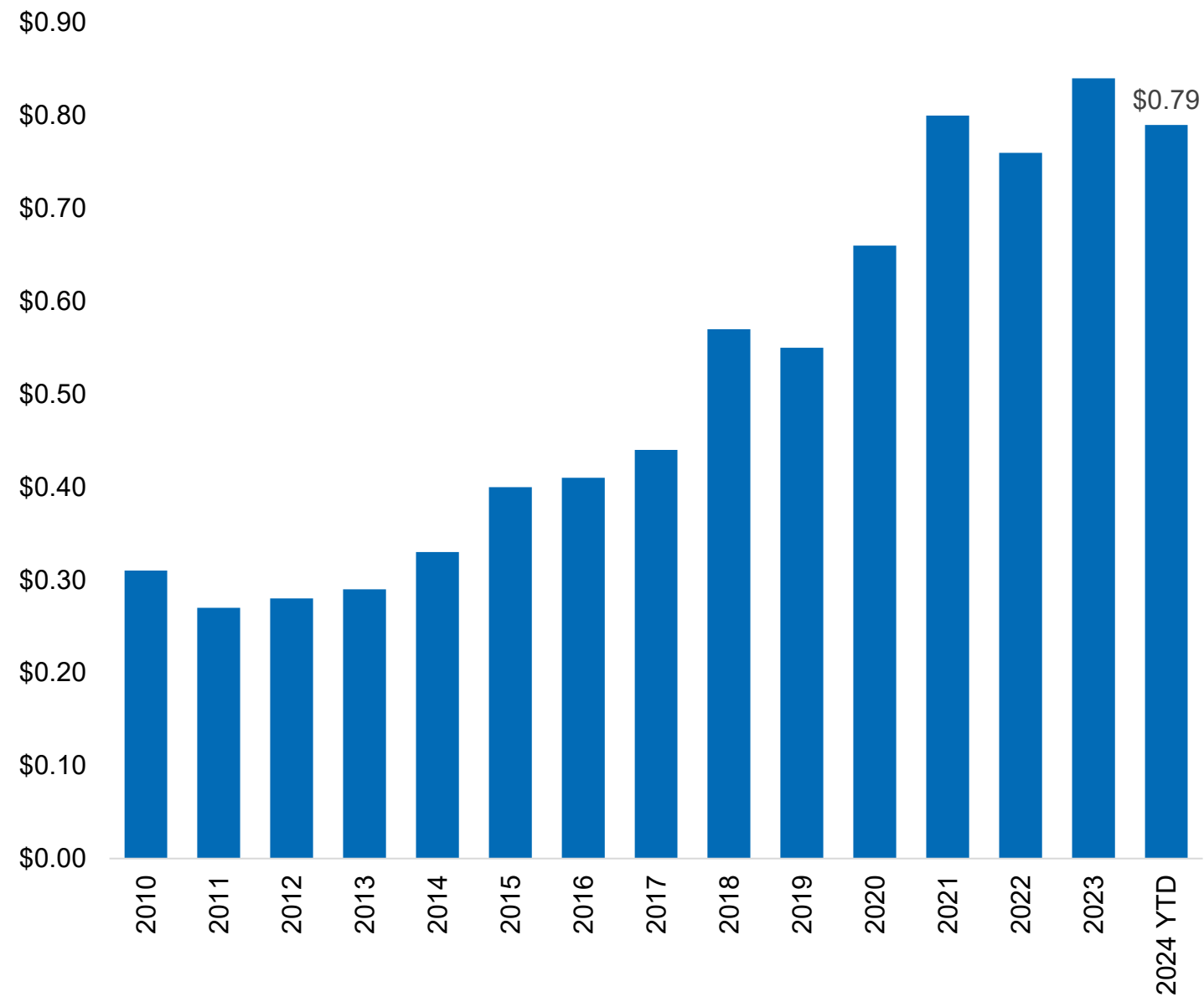
Source: Newmark Research



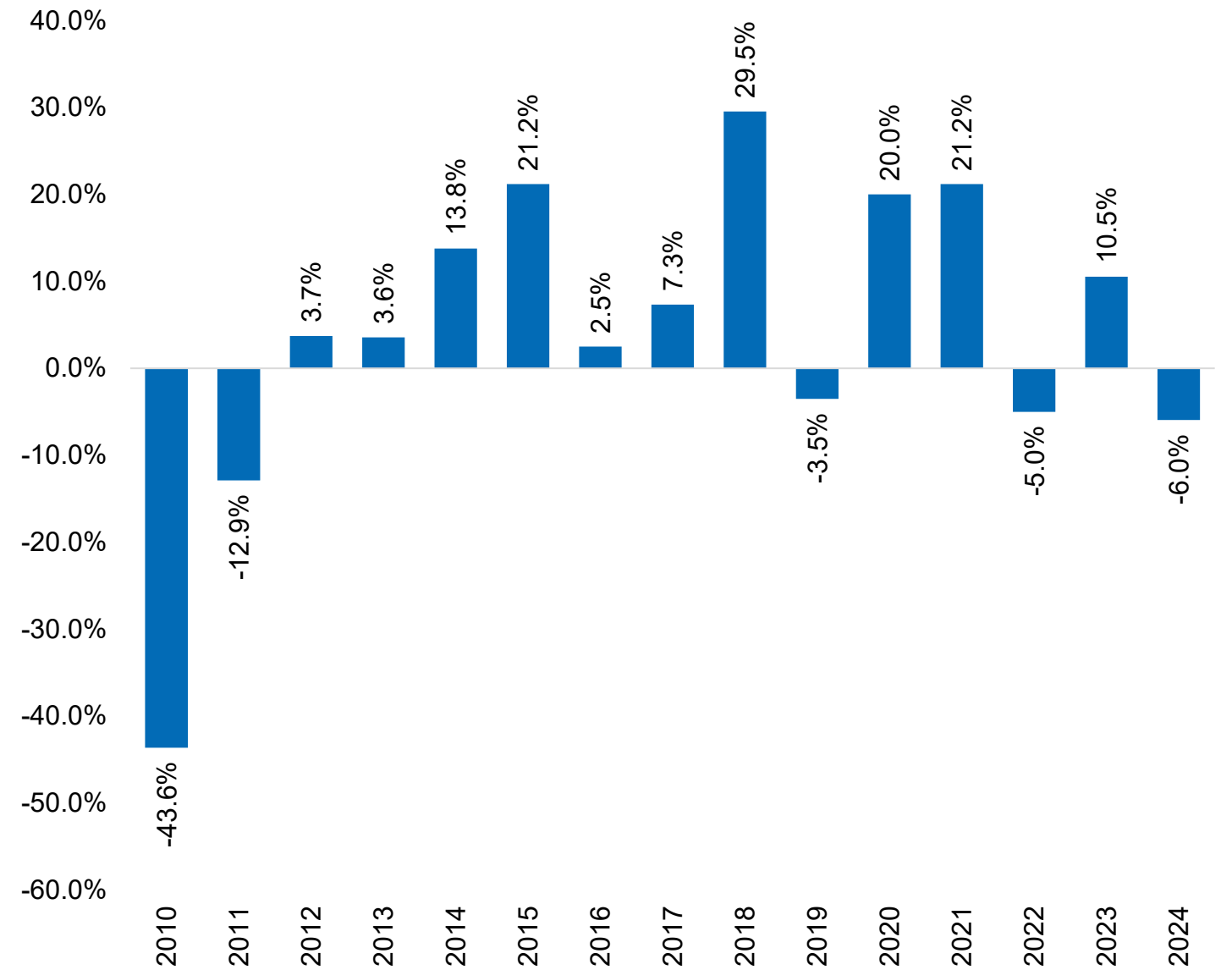
# Industrial Asking Rent Decreased in 3Q24

Industrial average asking rents dropped during the third quarter of 2024 at \$0.79/SF compared to \$.81/SF in the second quarter and \$0.85 one year ago. Rents are anticipated to stabilize in the coming year.

Industrial Average Asking Rent, \$/SF, NNN



Year-over-Year Asking Rent Growth Rate % Change



Source: Newmark Research



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# Notable 3Q24 Lease Transactions

The industrial market posted a negative 395,000 square feet of net absorption during the third quarter of 2024, bringing the year-to-date net absorption total to negative 541,713 square feet. The largest sale transaction in the quarter was an investment sale of 3750 Zinfandel Drive, a 163,639 square foot building in Rancho Cordova which sold for \$24.3 million.

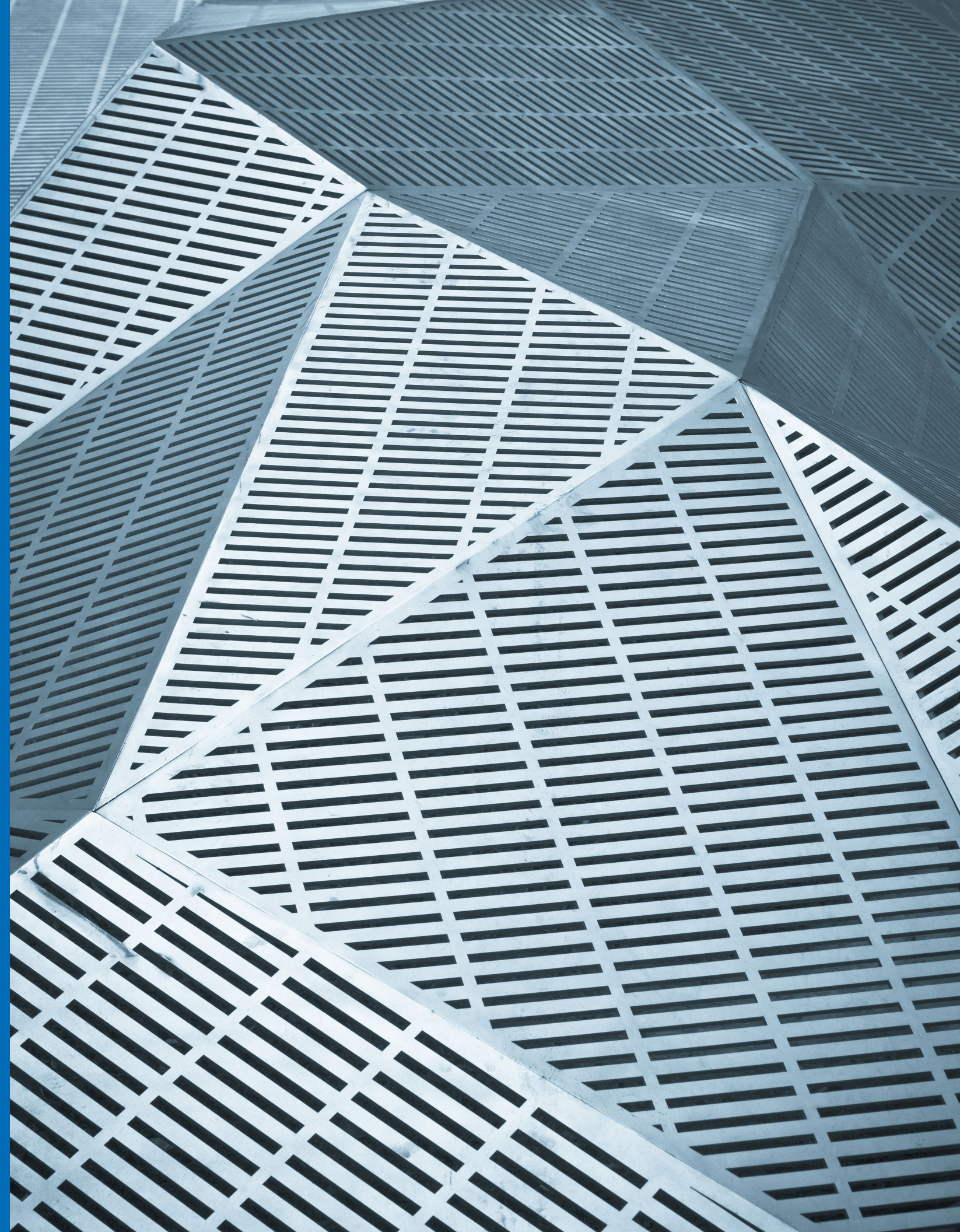
## Select Lease Transactions

Tenant	Building	Submarket	Type	Square Feet
PacFul <i>PacFul is expanding into a long-term sublease from PM Packaging.</i>	2031 Optisolar Lane	McClellan Park	Sublease	320,000
Guardian Bikes <i>Guardian Bikes is a new tenant to the market.</i>	3783 Channel Dr	West Sacramento	Direct Lease	68,000
Cambridge Commodities <i>The nutritional ingredients supplier has been in the building since 2019.</i>	2975-3071 Venture Drive	Lincoln	Renewal	66,300
Siemens Corporation <i>Expansion of current space.</i>	5224 Luce Ave	McClellan	Direct Space	60,000
Taylor Metal Products <i>Includes 1.3 acres of fenced and concrete yard.</i>	3443 Airport Road	Northgate	Direct Lease	50,000

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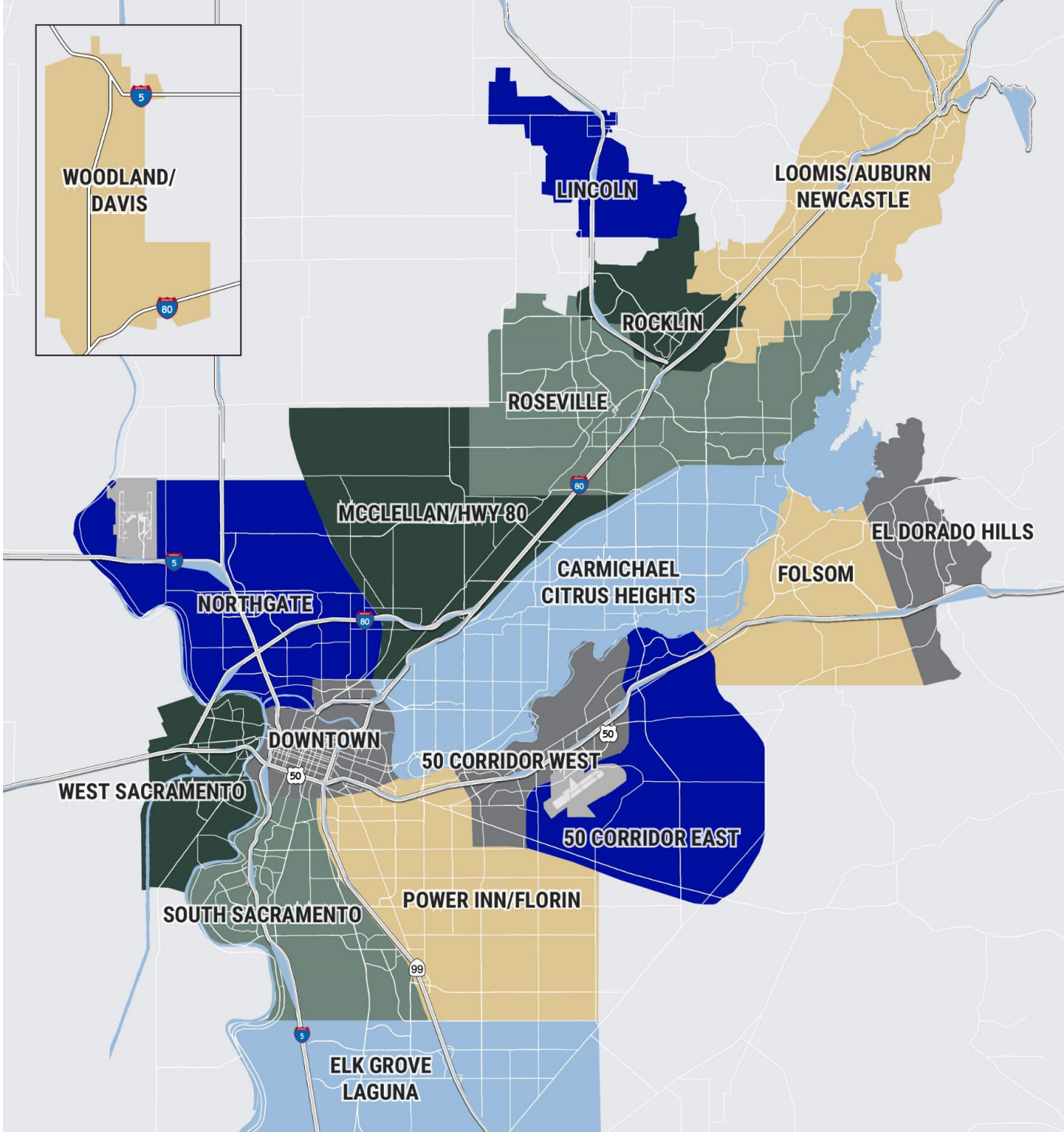
# Appendix / Tables





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# Sacramento Industrial Submarket Map



Source: Newmark Research

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