

## Key Takeaways

- Warehouse/distribution market vacancy rate ticked up 40 basis points from its all-time low last quarter to 4.1% as 552k SF of spec product delivered.
- Quarterly industrial net absorption of 367k SF decelerated from the pace of the last four quarters but is expected to escalate in the near term as new construction is occupied.
- Market average warehouse/distribution asking rents rose 17.6% year-over-year to an all-time high of \$0.70/SF NNN.
- Quarterly sales volume more than doubled from the first quarter to \$315.8 million and the average warehouse/distribution sale price of \$147/SF jumped 47% year-over-year.



Sacramento  
**Industrial**  
**22Q2**



## Resilient Market Fundamentals Spike Sales Volume

Sacramento's industrial market is still on solid ground as tenant demand holds strong throughout the first half of 2022. The vacancy rate rose due to new speculative product hitting the market though rising construction costs and interest rates are starting to give some developers pause on starting new developments. Amazon's pull back from the market has impacted a couple of future projects but overall tenant demand from expanding local occupiers is keeping pace with new supply. Market average warehouse/distribution asking rents hit another record-high this quarter as vacancy is 90 basis points below where it was two years ago. There are several large blocks of space at newly delivered projects that will be absorbed next quarter, placing downward pressure on vacancy. Robust quarterly sales volume revealed strong buyer demand and pricing continues to rise to record highs. The significant bump in interest rates will likely soften sales activity in the second half of the year, but there is still an enormous amount of capital allocated to industrial due to the sector's resilient fundamentals and positive outlook. While the market will not match last year's record pace of new supply and absorption, it will still achieve a stable 2022 with rising rents, low vacancy, and a manageable amount of supply.

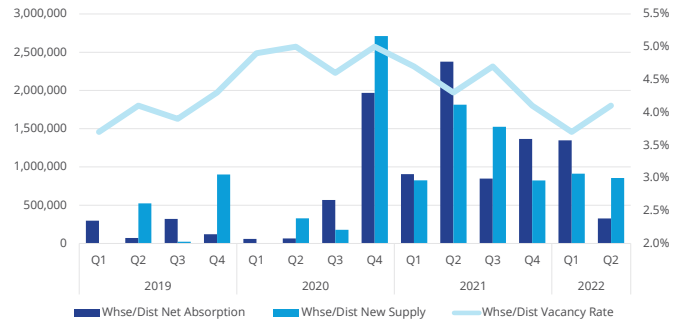
## Market Indicators



## Historic Comparison (Whse/Dist)

	21Q2	22Q1	22Q2
Total Inventory SF	135,543,479	139,341,152	139,931,919
New Supply SF	1,813,001	910,434	854,662
Net Absorption SF	2,375,715	1,348,647	325,939
Overall Vacancy	4.3%	3.7%	4.1%
Under Construction SF	2,883,660	3,031,119	2,592,105
Overall Asking Lease Rates (NNN)	\$0.60	\$0.68	\$0.70

## Market Fundamentals



Occupancy gains slowed in the second quarter with 325,939 square feet of net absorption recorded across the region's warehouse/distribution properties. The vacancy rate rose due to a significant amount of new speculative product hitting the market as new supply outpaced demand for the first time since Q3 2021. Though leasing activity at new construction properties has lessened and Amazon is significantly scaling back its massive local expansion, there is more than 878,000 square feet of leased space at recently delivered properties that will be occupied in the second half of this year. Out of the 1.78 MSF delivered in the first half of the year, only 33% of that new space is leased.

## Recent Transactions



**Renewal/Expansion**  
3765-3771 Channel Drive  
West Sacramento  
556K SF



**Pre-Lease**  
7461 Metro Air Parkway  
Metro Air Park  
132K SF



**Lease**  
25 Wayne Court  
Power Inn  
110K SF



**Sale**  
3085 Mary Place & 3065  
Ramco Street  
West Sacramento  
\$60.96M



**Sale**  
8301 Belvedere  
Avenue  
Power Inn  
\$42.8M

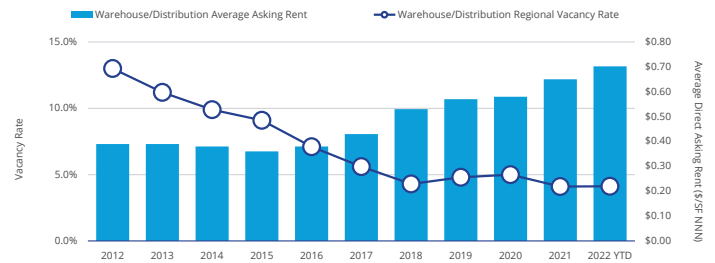


**Sale**  
3200 Reed Avenue & 1600  
Cerbrian Street  
West Sacramento  
\$40.4M

## Vacancy & Rents

After hitting an all-time low last quarter, the regional warehouse/distribution vacancy rate rose 40 basis points during the quarter to 4.1 percent. Warehouse/distribution vacancy is still down 20 basis points year-over-year. West Sacramento's warehouse/distribution vacancy rate increased 150 basis points during the quarter because of the delivery of Dermody Properties' two-building speculative project. Natomas/Northgate's warehouse/distribution vacancy rate also increased as a result of Panattoni's new speculative project delivering. There is a slight softening of pre-leasing at new construction projects, but there is still a steady amount of demand from expanding tenants and new entrants to the market to absorb the new product underway in the next year. With new leases set to be occupied in the next six months, vacancy will likely begin to fall again in the second half of the year. The regional average warehouse/distribution asking rent soared to \$0.70 per square foot triple net, another record high and a substantial 17.6 percent increase year-over-year. Power Inn's warehouse/distribution rents spiked 29.6 percent year-over-year to \$0.78 per square foot triple net. Regional rent growth is likely to begin lessening over the next six months from its unsustainable record pace over the last two years.

**Sacramento Regional Warehouse / Distribution Asking Rent & Vacancy Rate**  
Market Average Asking Rents & Vacancy Rate - 2012 to 2022

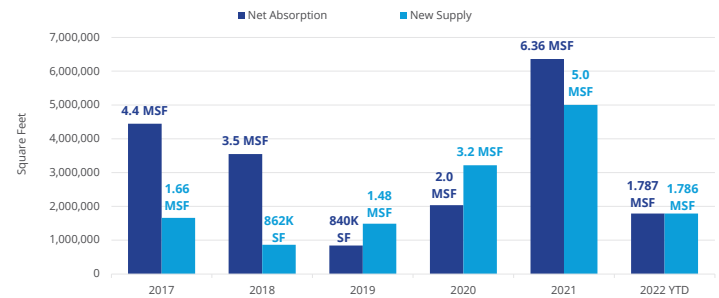


Source: Colliers Sacramento Research

## Supply & Demand

Supply outstripped demand this quarter with 854,662 square feet of deliveries pushing year-to-date new supply to 1,786,096 square feet. Out of the new supply delivered so far this year, 82 percent has been built on a speculative basis. Developers are starting to pump the brakes on starting new projects as construction costs escalate and material shortages persist. Only one new 415,648 square foot project broke ground this quarter. There is 887,117 square feet of space under construction in Metro Air Park, which is currently 18.6 percent pre-leased. Buzz Oates and NorthPoint Development have another 2.7 million square feet of projects ready to start in Metro Air Park. Tenant demand is keeping pace with supply and there was no summer slowdown in leasing activity this year. Since Q2 2020, 10.0 million square feet of new supply has delivered which is currently 85 percent leased. There is 2.59 million square feet under construction of which about 41 percent pre-leased. Though absorption slowed this quarter, it is set to rise again next quarter as several previously signed leases will be occupied across new construction projects in Metro Air Park, Power Inn, and McClellan.

**Sacramento Industrial Market - Annual Supply vs. Demand**  
Annual Industrial Net Absorption & Annual New Supply Delivered (All Property Types)



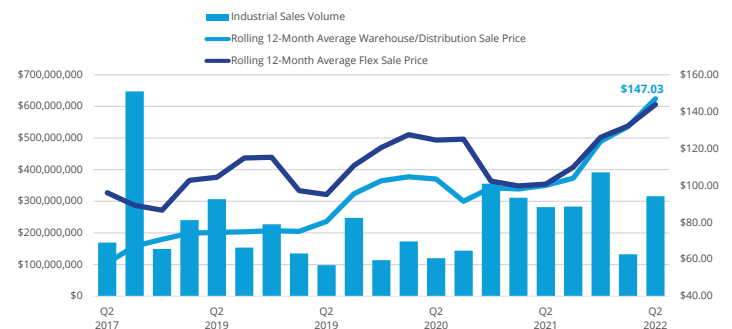
Source: Colliers Sacramento Research

## Sales

Industrial is still a top sector for investors due to its strong fundamentals and bullish outlook. While rising interest rates and runaway inflation are sure to impact sales activity in the second half of the year and cap rates are set to tick up slightly, there is still an enormous amount of capital searching for industrial assets. Sacramento's sales volume spiked during the quarter with \$315.8 million of sales volume, more than double the first quarter's total. Warehouse/distribution properties sold at a quarterly average of \$161 per square foot, which is only nine percent below office's quarterly sale price. The rolling 12-month average warehouse/distribution sale price of \$147 per square foot jumped 47 percent year-over-year. Year-to-date industrial sales volume is up to \$448 million, which is 15 percent off 2021's record-high of \$1.26 billion but still proceeding at an encouraging rate. There were four investment sales closed during the quarter for \$35 million or more, led by Invesco's acquisition of two 2019-delivered Southport properties for \$60.9 million (\$175/SF).

**Sacramento Industrial Sales Activity**

Industrial Sales Volume (Quarterly) & Average Sale Prices (12-Month Trailing Average Warehouse vs. Flex)



Source: Colliers Sacramento Research

## Q2 2022 Industrial Leases Signed

Tenant	SF Leased	Property	Submarket	Landlord
<b>TK Classics *</b>	<b>401,767</b>	<b>3771 Channel Drive</b>	<b>West Sacramento</b>	<b>LBA Logistics</b>
<b>TK Classics</b>	<b>154,580</b>	<b>3765 Channel Drive</b>	<b>West Sacramento</b>	<b>LBA Logistics</b>
Infinity Global Logistics	164,631	NorthPoint at Metro Air Park - Bldg. 6	Metro Air Park	NorthPoint Development
Ferguson Enterprises	109,668	25 Wayne Court	Power Inn	Buzz Oates
Aro Homes ***	85,500	1790 Bell Avenue	McClellan	Peloton ****

Transactions in blue were brokered by Colliers | Sacramento      \* Renewal      \*\*\* Sublease      \*\*\*\* Sublessor

## Q2 2022 Industrial Investment Sales

Property   Submarket	RBA	Sale Price	Price/SF	Year Built   Type	Buyer	Seller
<b>3085 Mary Pl &amp; 3065 Ramco St   West Sacramento</b>	<b>348,360</b>	<b>\$60,961,600</b>	<b>\$175.00</b>	<b>2019   Warehouse</b>	<b>Invesco</b>	<b>Buzz Oates</b>
8301 Belvedere Ave   Power Inn	345,600	\$42,800,000	\$433.04	1966   Warehouse	Dalfern Industrial	LDK Ventures
3200 Reed Ave & 1600 Cebrían St   West Sacramento	329,110	\$40,400,000	\$122.76	1990   Warehouse	EastGroup Properties	Tulloch Construction
8301 Fruitridge Road   Power Inn	261,350	\$37,750,000	\$144.44	1977   Warehouse	Realty Income	C&S Wholesale Grocers
Antelope West   McClellan	101,780	\$16,250,000	\$159.66	1989   Warehouse	Graceada Partners	GPR Ventures

Transactions in blue were brokered by Colliers | Sacramento

## Projects Under Construction

Project	Bldg. SF	Delivery Date	Submarket	% Leased	Owner/Developer	Tenant
<b>Kubota Tractor - Western Distribution Center</b>	<b>701,465</b>	<b>Q4 2022</b>	<b>Elk Grove/Laguna</b>	<b>100%</b>	<b>Kamilos Cos.</b>	<b>Kubota Tractor</b>
<b>3100 Ramco Street</b>	<b>415,648</b>	<b>Q1 2023</b>	<b>West Sacramento</b>	<b>0%</b>	<b>AT Industrial</b>	<b>N/A</b>
<b>Buzz Oates at Metro Air Park - Bldg. 5</b>	<b>339,337</b>	<b>Q3 2022</b>	<b>Metro Air Park</b>	<b>0%</b>	<b>Buzz Oates</b>	<b>N/A</b>
<b>Metro Air Park Logistics Center I - Bldg. One</b>	<b>183,088</b>	<b>Q3 2022</b>	<b>Metro Air Park</b>	<b>0%</b>	<b>Badiee Development</b>	<b>N/A</b>
<b>Metro Air Park Logistics Center I - Bldg. Two</b>	<b>125,692</b>	<b>Q3 2022</b>	<b>Metro Air Park</b>	<b>0%</b>	<b>Badiee Development</b>	<b>N/A</b>
<b>3765 Channel Drive - Bldg. One</b>	<b>154,580</b>	<b>Q3 2022</b>	<b>West Sacramento</b>	<b>100%</b>	<b>LBA Logistics</b>	<b>TK Classics</b>
<b>3783 Channel Drive - Bldg. Two</b>	<b>135,680</b>	<b>Q3 2022</b>	<b>West Sacramento</b>	<b>0%</b>	<b>LBA Logistics</b>	<b>N/A</b>
<b>NorthPoint at Metro Air Park - Bldg. 6</b>	<b>239,000</b>	<b>Q3 2022</b>	<b>Metro Air Park</b>	<b>69%</b>	<b>NorthPoint Development</b>	<b>Infinity Global Logistics</b>
<b>3095 Mary Place</b>	<b>148,021</b>	<b>Q3 2022</b>	<b>West Sacramento</b>	<b>0%</b>	<b>Buzz Oates</b>	<b>N/A</b>
<b>3105 Ramco Street</b>	<b>72,554</b>	<b>Q3 2022</b>	<b>West Sacramento</b>	<b>0%</b>	<b>Metropolitan Van &amp; Storage</b>	<b>N/A</b>
<b>Locksley Lane Industrial Park - Bldgs. A-D</b>	<b>42,440</b>	<b>Q4 2022</b>	<b>Auburn/Newcastle</b>	<b>0%</b>	<b>Jeffrey Cheung</b>	<b>N/A</b>
<b>6650 Asher Lane Cannabis Cultivation Facility</b>	<b>34,600</b>	<b>Q4 2022</b>	<b>Power Inn</b>	<b>100%</b>	<b>The High Way Claire LLC</b>	<b>N/A</b>
<b>Total</b>	<b>2,592,105</b>			<b>41%</b>		

## 2022 YTD Delivered Projects

Project	Bldg. SF	Delivery Date	Submarket	% Leased	Owner/Developer	Tenant
<b>LogistiCenter at West Sacramento - Bldg. Two</b>	<b>267,053</b>	<b>Q2 2022</b>	<b>West Sacramento</b>	<b>0%</b>	<b>Dermody Properties</b>	<b>N/A</b>
<b>LogistiCenter at West Sacramento - Bldg. One</b>	<b>99,287</b>	<b>Q2 2022</b>	<b>West Sacramento</b>	<b>0%</b>	<b>Dermody Properties</b>	<b>N/A</b>
<b>McClellan Logistics Center - Bldg. A</b>	<b>172,212</b>	<b>Q1 2022</b>	<b>McClellan</b>	<b>59%</b>	<b>LDK Ventures</b>	<b>Confidential</b>
<b>McClellan Logistics Center - Bldg. C</b>	<b>140,895</b>	<b>Q1 2022</b>	<b>McClellan</b>	<b>0%</b>	<b>LDK Ventures</b>	<b>N/A</b>
<b>Buzz Oates at Metro Air Park - Bldg. 4</b>	<b>239,124</b>	<b>Q1 2022</b>	<b>Metro Air Park</b>	<b>0%</b>	<b>Buzz Oates</b>	<b>N/A</b>
<b>3525 Carlin Drive</b>	<b>236,761</b>	<b>Q1 2022</b>	<b>West Sacramento</b>	<b>0%</b>	<b>STAG/Ridge Capital</b>	<b>N/A</b>
<b>US Cold Storage McClellan Expansion</b>	<b>220,000</b>	<b>Q2 2022</b>	<b>McClellan</b>	<b>100%</b>	<b>US Cold Storage</b>	<b>US Cold Storage</b>
<b>Natomas Advanced Logistics Center - 3900 Duckhorn</b>	<b>122,400</b>	<b>Q2 2022</b>	<b>Natomas/Northgate</b>	<b>0%</b>	<b>Panattoni &amp; PCCP</b>	<b>N/A</b>
<b>Natomas Advanced Logistics Center - 3950 Duckhorn</b>	<b>63,572</b>	<b>Q2 2022</b>	<b>Natomas/Northgate</b>	<b>100%</b>	<b>Panattoni &amp; PCCP</b>	<b>Nivagen Pharmaceuticals</b>
<b>Buzz Oates at Metro Air Park - Bldg. 3</b>	<b>94,442</b>	<b>Q1 2022</b>	<b>Metro Air Park</b>	<b>100%</b>	<b>Buzz Oates</b>	<b>Orca Bio</b>
<b>3755 Pell Circle   Mainline Sales BTS</b>	<b>82,350</b>	<b>Q2 2022</b>	<b>Natomas/Northgate</b>	<b>100%</b>	<b>Mainline Sales</b>	<b>Mainline Sales</b>
<b>181 Lathrop Way</b>	<b>27,000</b>	<b>Q1 2022</b>	<b>Northeast Sacramento</b>	<b>0%</b>	<b>Reserve Capital</b>	<b>N/A</b>
<b>4994 Hillsdale Circle *</b>	<b>21,000</b>	<b>Q1 2022</b>	<b>Folsom/El Dorado</b>	<b>100%</b>	<b>Tri Square Construction</b>	<b>Tri Square Construction</b>
<b>Total</b>	<b>1,786,096</b>			<b>33%</b>		

\* Flex property



## Sacramento Industrial Development Pipeline

Q2 2020 - Q1 2023  
Quarterly Deliveries

Submarket/ Subtype	Total Inventory SF	Direct Availability Rate	Sublease Availability Rate	Availability Rate	Vacancy Rate	Vacancy Rate Previous	Net Absorption Current	Net Absorption YTD	Under Construction	Deliveries YTD	Avg Direct Asking Rate (NNN)
<b>Warehouse/Distribution</b>											
Power Inn	22,561,177	2.2%	0.2%	2.4%	2.7%	2.5%	-26,493	597,749	34,600	0	\$0.78
West Sacramento	20,119,903	5.5%	0.5%	6.0%	6.0%	4.5%	65,141	140,741	926,483	603,101	\$0.68
Davis/Woodland	14,037,318	1.2%	0.0%	1.2%	1.9%	1.9%	0	102,927	0	0	\$0.41
Roseville/Rocklin	13,972,462	3.0%	3.5%	6.4%	3.1%	3.3%	13,831	-106,078	0	0	\$0.70
McClellan	12,496,831	3.8%	0.0%	3.8%	4.1%	4.4%	254,872	231,576	0	533,107	\$0.68
Sunrise/Highway 50	11,543,345	4.1%	0.2%	4.3%	3.2%	3.3%	5,249	-33,225	0	0	\$0.68
Natomas/Northgate	11,366,712	5.0%	0.1%	5.1%	4.1%	2.5%	48,553	78,239	0	268,322	\$0.71
Elk Grove/Laguna	5,270,495	1.5%	0.4%	1.9%	2.3%	2.3%	-2,576	211,203	701,465	0	\$0.70
Metro Air Park	5,929,668	4.0%	0.0%	4.0%	14.2%	14.2%	0	412,509	887,117	333,566	\$0.61
Marysville/Yuba City	5,637,907	6.2%	0.0%	6.2%	5.2%	5.6%	26,720	28,120	0	0	\$0.53
Northeast Sacramento	4,600,804	8.4%	0.0%	8.4%	4.5%	2.9%	-17,570	-23,516	0	27,000	\$0.87
South Sacramento	2,268,845	1.9%	0.0%	1.9%	1.8%	0.2%	-37,268	-30,159	0	0	\$0.62
Richards	3,361,343	7.1%	0.4%	7.4%	5.0%	4.8%	-7,335	48,584	0	0	\$0.61
Folsom/El Dorado	2,283,464	0.9%	0.0%	0.9%	0.8%	0.9%	2,815	234	0	0	\$1.00
Downtown/Midtown	2,094,805	3.5%	0.0%	3.5%	7.5%	7.5%	0	8,572	0	0	\$0.81
Auburn/Newcastle	1,921,899	3.1%	0.0%	3.1%	3.1%	3.1%	0	7,110	42,440	0	\$0.78
East Sacramento	464,941	2.8%	0.0%	2.8%	0.0%	0.0%	0	0	0	0	--
<b>Total</b>	<b>139,931,919</b>	<b>3.7%</b>	<b>0.5%</b>	<b>4.2%</b>	<b>4.1%</b>	<b>3.7%</b>	<b>325,939</b>	<b>1,674,586</b>	<b>2,592,105</b>	<b>1,765,096</b>	<b>\$0.70</b>
<b>Sacramento Regional Totals</b>											
Warehouse/Distribution	139,931,919	3.7%	0.5%	4.2%	4.1%	3.7%	325,939	1,674,586	2,592,105	1,765,096	\$0.70
Manufacturing	15,647,939	2.0%	0.3%	2.3%	1.6%	1.8%	43,037	37,685	0	0	\$0.58
Flex	18,729,114	8.0%	0.3%	8.4%	7.2%	7.1%	-1,982	75,359	0	21,000	\$0.99
<b>Total</b>	<b>174,308,972</b>	<b>4.0%</b>	<b>0.5%</b>	<b>4.5%</b>	<b>4.2%</b>	<b>3.9%</b>	<b>366,994</b>	<b>1,787,630</b>	<b>2,592,105</b>	<b>1,786,096</b>	<b>\$0.77</b>
<b>Sacramento Regional Warehouse/Distribution Quarterly Comparisons and Totals</b>											
Q2 2022	139,931,919	3.7%	0.5%	4.2%	4.1%	3.7%	325,939	1,674,586	2,592,105	1,765,096	\$0.70
Q1 2022	139,341,152	3.1%	0.5%	3.6%	3.7%	4.1%	1,348,647	1,348,647	3,031,119	910,434	\$0.68
Q4 2021	137,571,950	3.0%	0.3%	3.3%	4.1%	4.7%	1,366,915	5,495,520	2,981,652	4,985,928	\$0.65
Q3 2021	137,018,834	3.2%	0.1%	3.3%	4.7%	4.3%	847,722	4,128,605	2,736,279	4,162,555	\$0.61
Q2 2021	135,543,479	3.3%	0.1%	3.4%	4.3%	4.7%	2,375,715	3,278,488	2,883,660	2,635,700	\$0.60



## Colliers-brokered sale transaction in West Sacramento's Southport area near new construction start this quarter

Spokane Valley-based AT Industrial started construction on its first Sacramento area project this quarter. 3100 Ramco Street (pictured left) in West Sacramento's Southport area will bring 415,648 square feet to the market by early 2023. Just around the corner, Colliers represented the buyer, Invesco, on the acquisition of two new fully leased Southport buildings for \$60.96 million (\$175/SF). The properties include 3085 Mary

Place, a 229,130 square foot building delivered in Q4 2019 and occupied by CEVA Logistics, Knite Future, and Pitney Bowes, and 3065 Ramco Street, a 119,230 square foot building leased by SafeLight Auto Glass and Valley Relocation and Storage. This sale is the largest by dollar volume so far this year and the highest sale price recorded since December 2021 when ElmTree Funds acquired Amazon's Southport delivery station for \$91.9 million.

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