



# Sacramento industrial market report

Q1 2024

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**AVISON  
YOUNG**

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# Sacramento industrial market trends

## 9.7 msf

**Availability increased significantly in Q1 2024.**

After nearly a decade of declining inventory in Sacramento's industrial market, Q1 2024 marked a significant increase in availability without the delivery of new construction, a departure from previous instances. Construction in the market has almost ceased due to rising construction costs driven by interest rates, resulting in no new projects starting in several years to replace previous deliveries.

## -160k sf

**Q1 2024 marks the second quarter of negative absorption.**

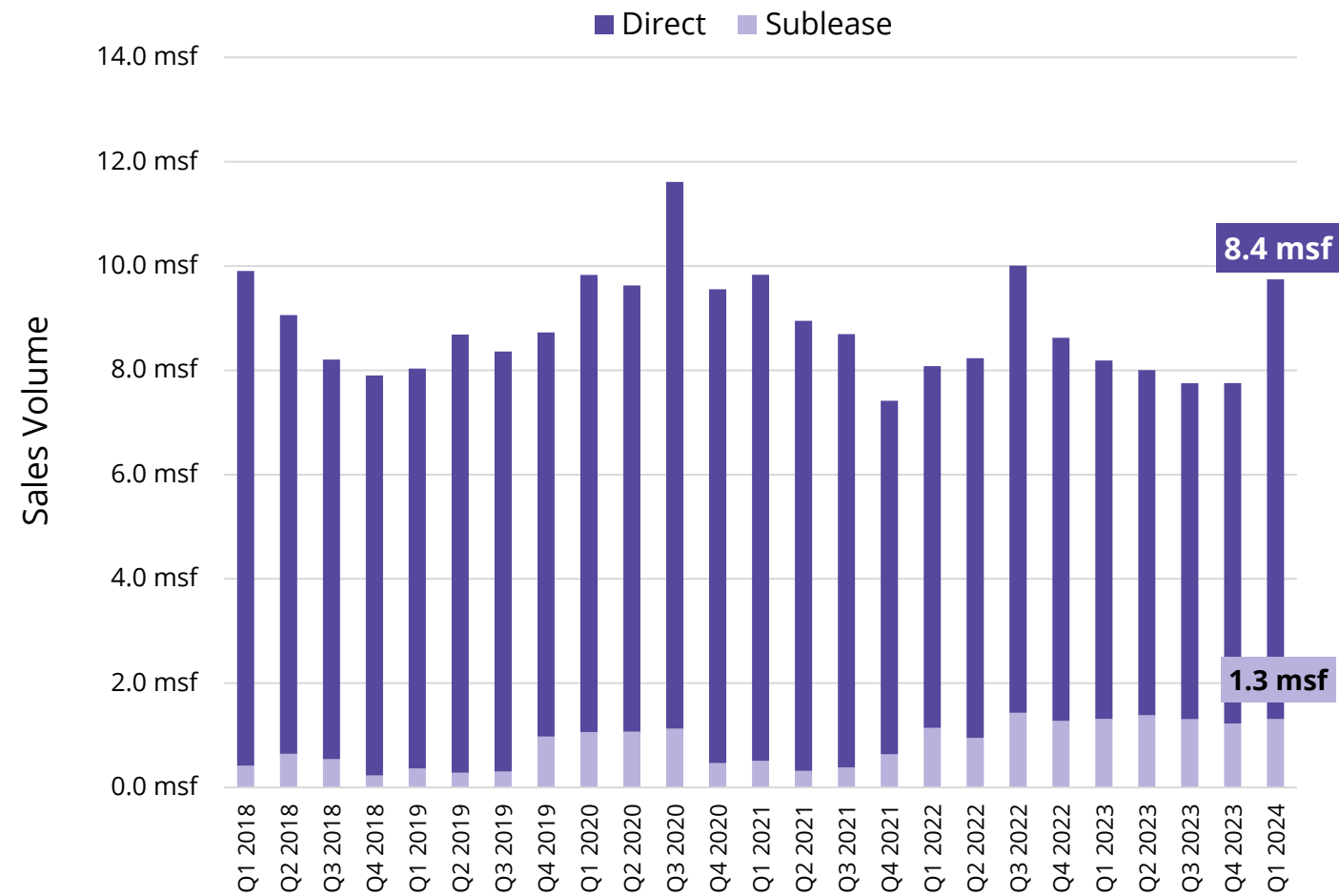
From 2018 to the third quarter of 2023, there were only five quarters of negative net absorption, and none occurred consecutively. However, Q1 2024 marks the second consecutive quarter of negative net absorption. While the decrease is small, it suggests that the previous robust growth of Sacramento's industrial market is now being affected by economic pressures that it had previously been immune to, even during the COVID-19 pandemic.

## \$136 psf

**Valuation remains high despite low sales volume.**

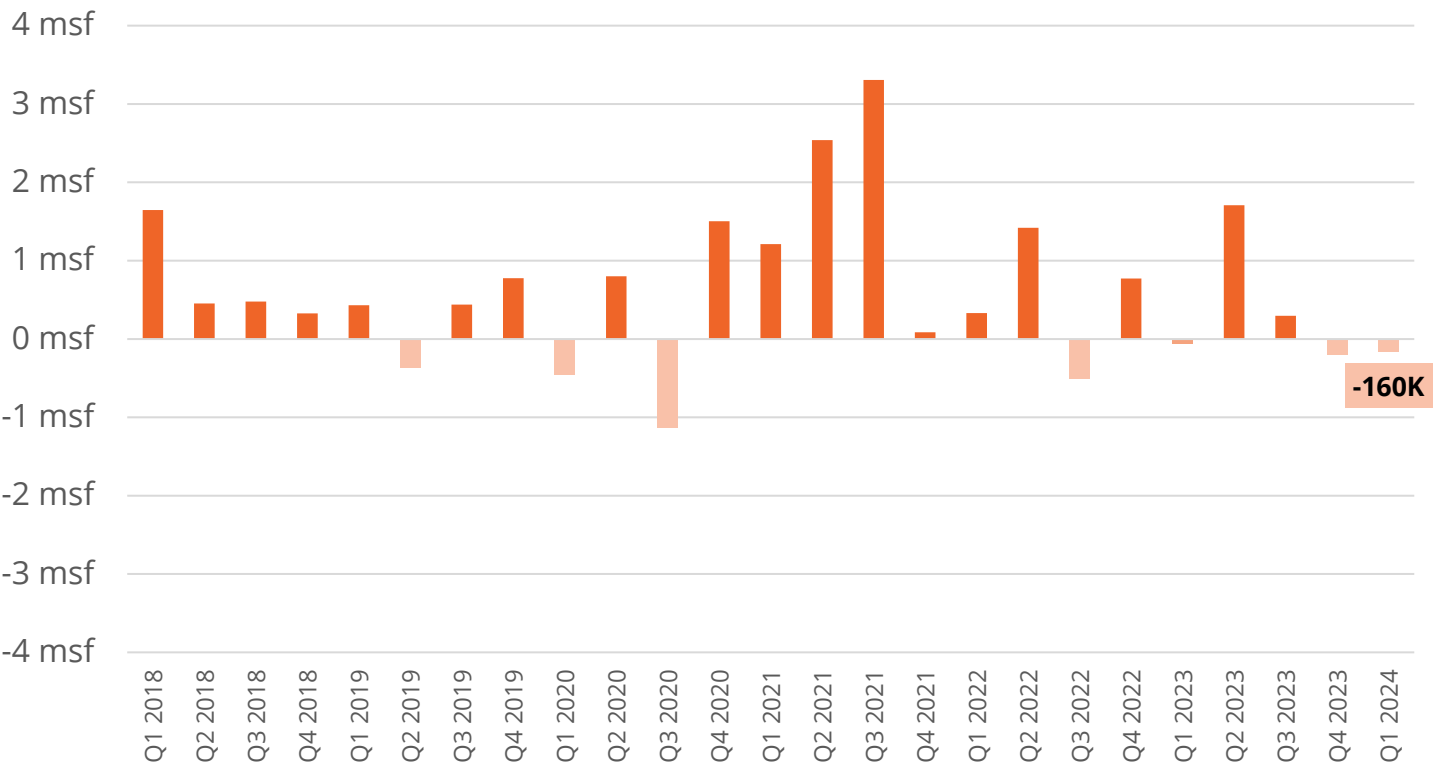
Despite the surge in sales transactions and declining valuations observed in office properties, the industrial market has experienced a significant slowdown in sales activity. However, in the relatively few transactions that do occur, industrial properties maintain resiliently high valuations. This reluctance of industrial property owners to sell amidst market turbulence suggests a strong confidence in the long-term stability of industrial assets.

# Sacramento market availability



In previous years, the industrial real estate market performed remarkably well despite the challenges of the COVID-19 pandemic and its aftermath, contrasting with the surge in office vacancy rates. However, the industrial sector may now be feeling the impact of persistently high interest rates and geopolitical instability. Total available space increased significantly in Q1 despite no new deliveries, suggesting potential challenges ahead.

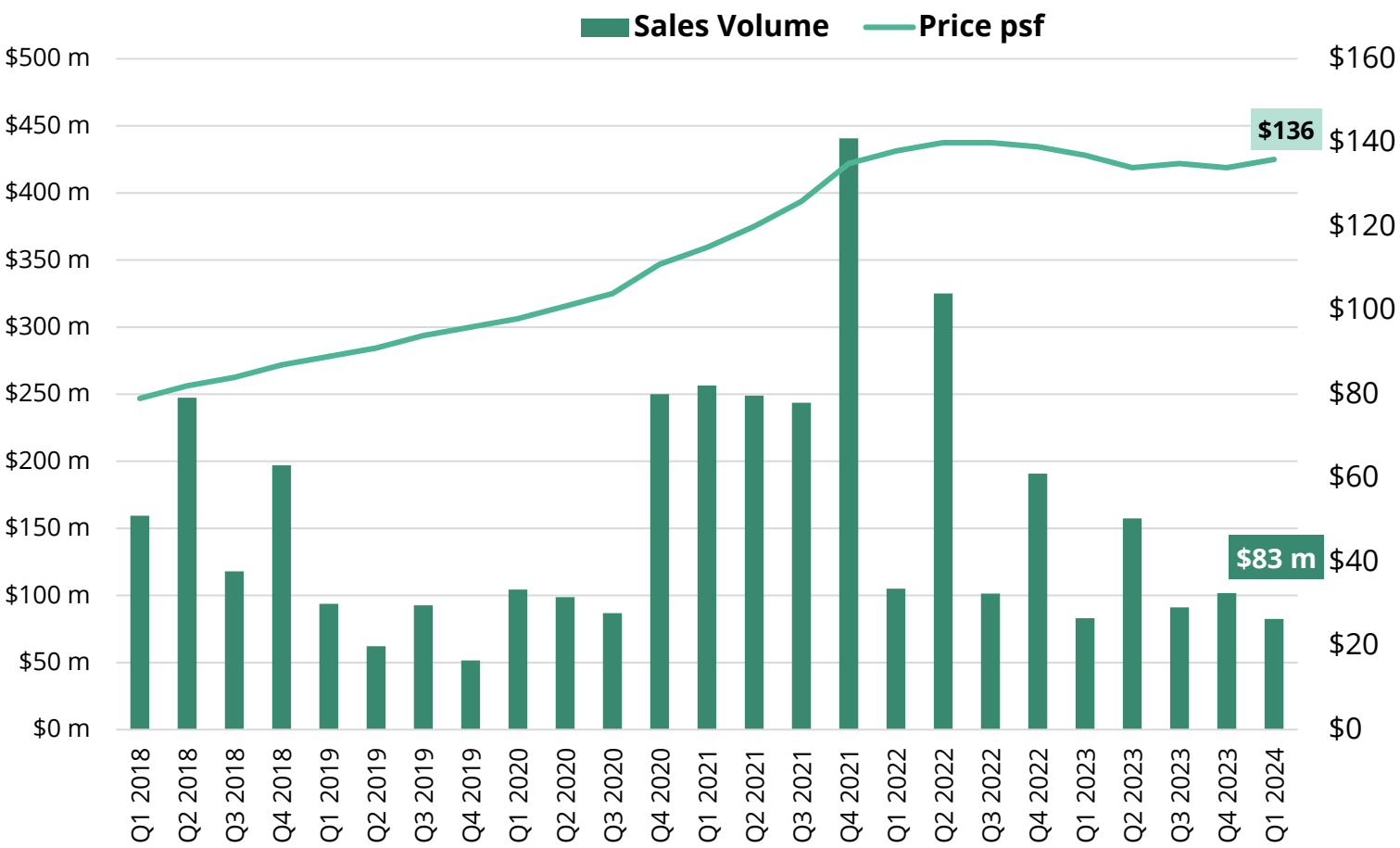
# Sacramento market net absorption



Sacramento's industrial market has experienced its second consecutive quarter of negative net absorption, albeit by a small margin. This is a significant indicator as there have been only five total quarters of negative net absorption since 2018, and none of them occurred consecutively.

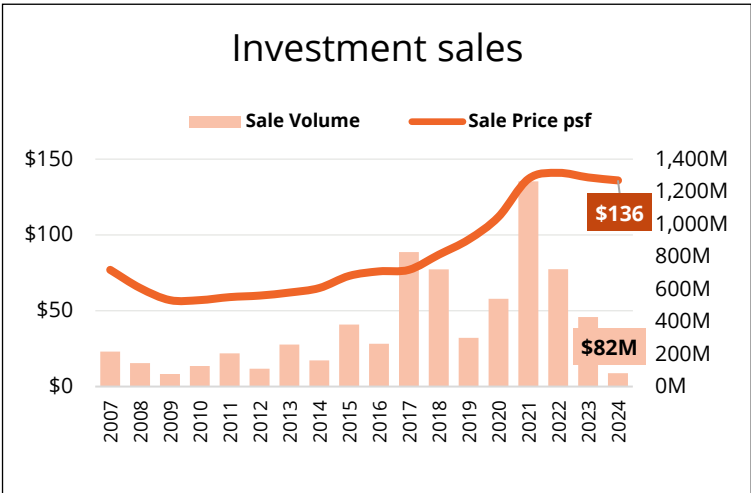
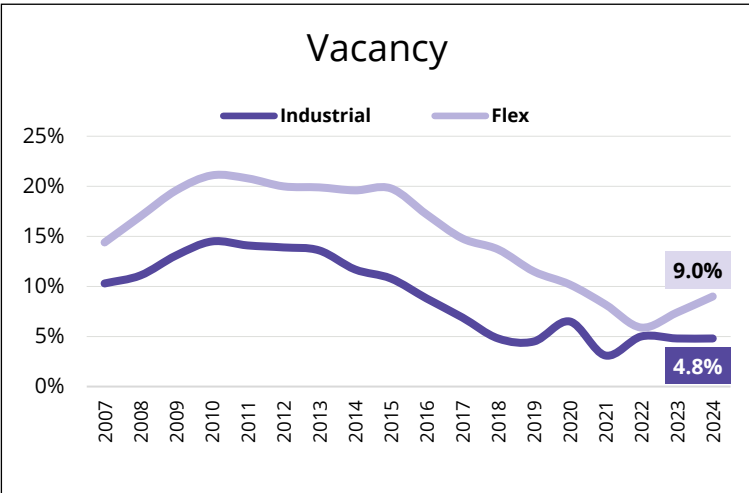
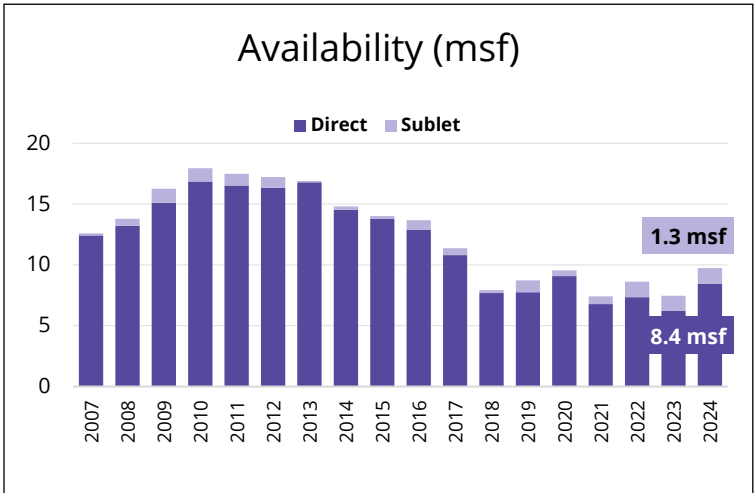
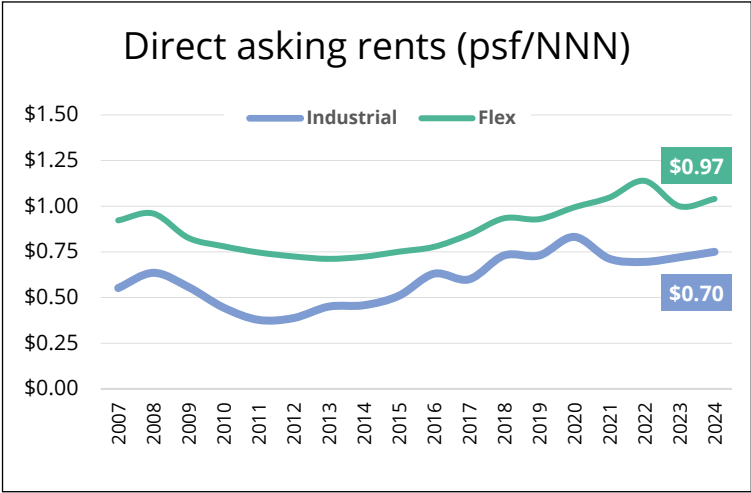
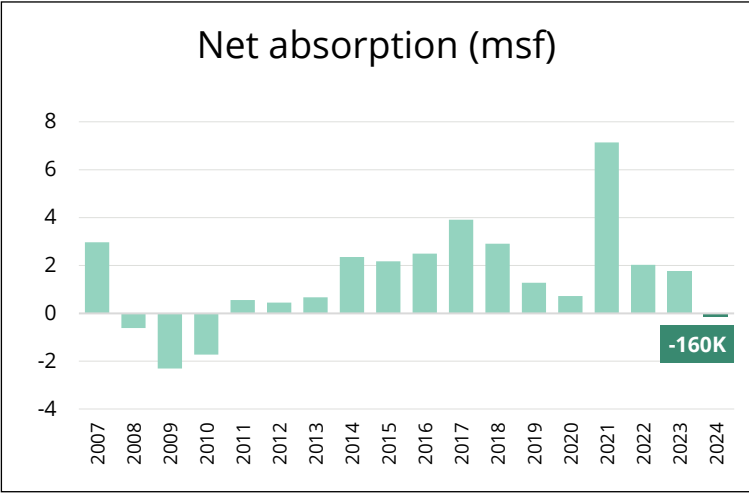
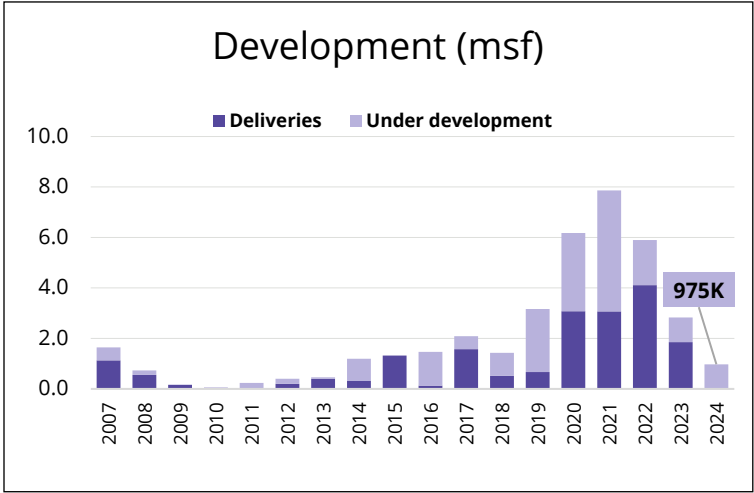


# Sacramento market vacancy



Despite low sales volume, industrial sales valuation remains high. Industrial sales activity peaked between late 2020 and mid-2022 as industrial properties served as a safe haven for investors seeking diversification away from struggling office properties during the pandemic, while demand from industrial tenants remained high.

# Sacramento industrial market indicators



# Sacramento industrial market stats

	Existing Inventory	Under Construction	YTD Delivery	Direct Vacancy	Sublet Vacancy	Total Vacancy	Net absorption sf (QTD)	Net absorption sf (YTD)	Asking Rent (Direct/NNN)
Auburn/Lincoln	4,468,055	0	0	2.8%	0.0%	2.8%	20,000	20,000	\$0.95
Davis/Woodland	15,265,848	212,970	0	1.0%	0.3%	1.3%	-129,284	-129,284	\$0.52
Downtown	2,855,282	0	0	6.9%	1.2%	8.1%	-67,144	-67,144	\$0.73
Folsom	1,813,167	0	0	15.2%	0.0%	15.2%	-273,801	-273,801	-
Highway 50 Corridor	14,651,649	155,076	0	1.8%	0.1%	1.9%	179,893	179,893	\$0.95
North Natomas	16,284,210	525,000	0	3.6%	0.6%	4.2%	166,737	166,737	\$0.77
Point West	2,984,606	0	0	4.8%	0.5%	5.3%	-10,417	-10,417	\$0.74
Rio Linda/North Highlands	12,796,851	82,000	0	2.7%	0.0%	2.7%	67,906	67,906	\$1.00
Roseville/Rocklin	10,751,549	0	0	1.0%	0.0%	1.0%	3,255	3,255	\$0.93
South Sacramento	21,599,071	0	0	8.2%	0.4%	8.6%	-208,425	-208,425	\$0.73
West Sacramento	19,686,282	0	0	7.2%	1.0%	8.2%	300,026	300,026	\$0.75
<b>Overall</b>	<b>123,156,570</b>	<b>975,046</b>	<b>0</b>	<b>4.4%</b>	<b>0.4%</b>	<b>4.8%</b>	<b>48,746</b>	<b>48,746</b>	<b>\$0.70</b>

# Sacramento flex market stats

	Existing Inventory	Under Construction	YTD Delivery	Direct Vacancy	Sublet Vacancy	Total Vacancy	Net absorption sf (QTD)	Net absorption sf (YTD)	Asking Rent (Direct/NNN/mo)
Auburn/Lincoln	494,444	0	0	1.7%	0.0%	1.7%	9,450	9,450	\$1.19
Davis/Woodland	379,622	0	0	5.2%	0.0%	5.2%	0	0	-
Downtown	361,345	0	0	8.3%	0.0%	8.3%	0	0	\$0.85
Folsom	621,276	0	0	3.8%	0.0%	3.8%	35,072	35,072	\$0.00
Highway 50 Corridor	2,571,851	0	0	14.1%	0.5%	14.6%	-58,523	-58,523	\$0.81
North Natomas	1,386,342	0	0	1.6%	0.0%	1.6%	-10,342	-10,342	-
Point West	302,372	0	0	6.0%	0.0%	6.0%	-455	-455	-
Rio Linda/North Highlands	1,622,525	0	0	15.3%	4.0%	19.3%	-13,926	-13,926	\$0.98
Roseville/Rocklin	2,750,545	0	0	8.5%	0.0%	8.5%	-199,060	-199,060	\$1.19
South Sacramento	839,771	0	0	9.5%	0.0%	9.5%	17,201	17,201	\$0.92
West Sacramento	1,216,990	0	0	0.9%	0.0%	0.9%	10,982	10,982	\$0.75
<b>Overall</b>	<b>12,547,083</b>	<b>0</b>	<b>0</b>	<b>8.4%</b>	<b>0.6%</b>	<b>9.0%</b>	<b>-209,601</b>	<b>-209,601</b>	<b>\$0.97</b>



# 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

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