

INVESTMENT FORECAST

Marcus & Millichap

SELF-STORAGE

Sacramento Metro Area

2019

Subdued Construction Aids Vacancy in Sacramento

Economic Overview

Employment growth slowed in California's capital during 2018 as multiple sectors suffered job losses. Hiring for roles in information, education, health and government offset other vacated positions for a net 11,500 new jobs. Additional opportunities in traditionally office-using industries will boost employment gains for 2019.

Demographic Overview

Improving incomes are supporting the formation of households as well as an uptick in discretionary spending. The market is expected to welcome 11,000 new households this year, about 1,000 more than in 2018. Greater discretionary spending is reflected in higher total retail sales, which are anticipated to improve 2.7 percent this year. Both household formation and consumer spending are positive signals for future self-storage demand.

Construction Overview

Approximately 200,000 fewer square feet of self-storage space will arrive in the market this year than came online in 2018. This year's construction pipeline consists primarily of two projects underway in the city of Sacramento, each over 100,000 square feet in size. An existing storage facility in Elk Grove is also expanding by about 17,600 square feet.

Vacancy/Rent Overview

A contracting development pipeline is aiding operations as the vacancy rate dips 10 basis points, undoing an increase from 2018 when the rate was 7.5 percent. Less available space is fostering rent growth. After falling less than a percentage point last year, the average asking rent for the market will appreciate by 2.9 percent this year.

2019 Market Forecast

- Employment up 1.7%

About 17,000 jobs will come to the market in 2019, building on a 1.2 percent rate of employment growth from last year.
- Population up 0.6%

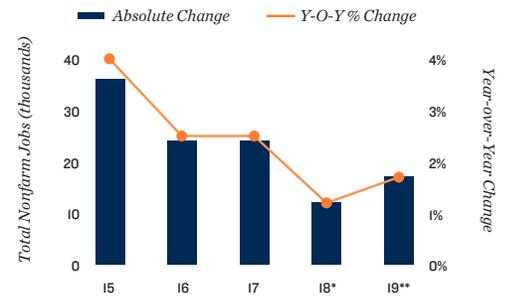
The metro's total population will grow by an almost identical proportion as last year, with some new residents relocating from the Bay Area where living expenses are higher.
- Construction 279,300 sq. ft.

Development activity slows year over year, following the completions of 481,000 square feet in 2018.
- Vacancy down 10 bps

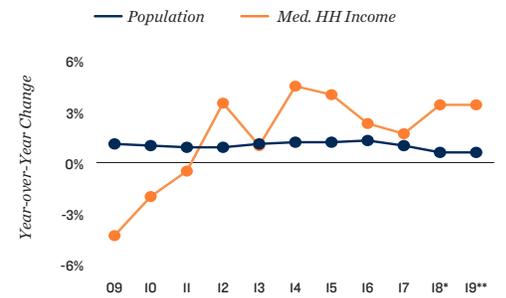
The marketwide vacancy rate drops down to 7.4 percent, returning to its 2017 level after a small rise last year.
- Rent up 2.9%

After a brief period of declining rents, the average asking rate increases to \$1.41 per square foot this year. In 2018, rents fell by an average of 0.7 percent.

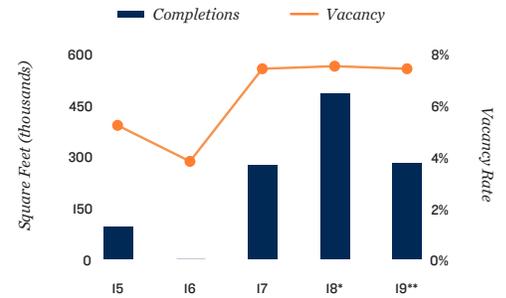
Employment Trends



Demographic Trends



Supply and Demand Trends



* Estimate; ** Forecast;
Sources: CoStar Group, Inc.; Real Capital Analytics

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Metro-level employment, vacancy and effective rents are year-end figures and are based on the most up-to-date information available as of January 2019. Average prices and cap rates are a function of the age, class and geographic area of the properties trading and therefore may not be representative of the market as a whole. Sales data includes transactions valued at \$1,000,000 and greater unless otherwise noted. Forecasts for employment and self-storage data are made during the fourth quarter and represent estimates of future performance. No representation, warranty or guarantee, express or implied may be made as to the accuracy or reliability of the information contained herein. This is not intended to be a forecast of future events and this is not a guaranty regarding a future event. This is not intended to provide specific investment advice and should not be considered as investment advice.