

# MARKET TRENDS | SACRAMENTO

# OFFICE

4TH QUARTER  
2019

▲ ABSORPTION | ▼ VACANCY | ▲ RENTAL RATE | ▲ CONSTRUCTION DELIVERIES

Sacramento's office market remains attractive and considerably stable. Data companies, innovative office tenants and the ability to retain top government firms makes for a unique recipe. Vacancies are trending below the national average. Rental rates are moving upward as expected.

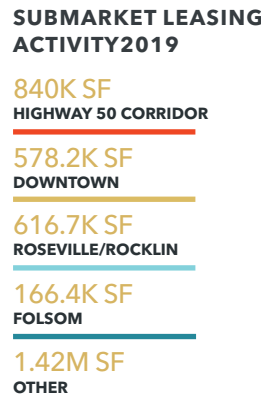
In addition, the amount of new space for lease is on a steady rise while lease renewals give way for a wave of subleases. In fact, 670,000 s.f. of deals during the year were subleases. On the other hand, Sacramento has begun to pick up the pace with development. Even so, buildings that were built in the last ten years are selling fast at satisfying prices. It is true, developers responded to an appetite for new product and in 2019 increased the construction pipeline by an average of 44% from the year prior.

Overall leasing activity appears healthy, despite the dip in leasing volume over the past two years. Contrary to the total number of transactions, the Sacramento office market gained enough momentum to record 1,221,696 s.f. in positive absorption. This is the first time in 5 years where the year over year trend increased. Half of 2019's absorption happened in the submarket of Roseville/Rocklin, which reported 421,976K s.f. of positive absorption. The only submarkets to experience an overall negative absorption was Watt Avenue (30.5K s.f.) and South Natomas (27.3K s.f.)

Leasing activity increased in Rio Linda/N Highlands and North Natomas. North Natomas saw a spike in demand and now vacancy sits 50% lower than 10 years ago. Overall vacancy in Sacramento has decreased 8.0% year over year. Government leases are one of the main drivers of office activity. In 2019 alone, the largest lease signed by State of California DOJ occurred.

Department of Child Support Services, and the Department of Housing committed to new leases. Professional firms such as insurance companies, VSP, Delta Dental, and Allstate committed leases. We Work signed its biggest lease of the year this past summer, with over 96,300 s.f. committed at 660 J Street, Suites 2-4 in Downtown. In West Sacramento, Cal Fire committed to 44,000 s.f. and the County of Sacramento Environmental Department committed, in August, to 40,000 s.f.

The highest rents have been achieved in Downtown at \$32.62. In addition, Downtown has also achieved over 6% rent growth followed by South Natomas. Over 6% of Downtown's inventory is under construction which should prove desirable in the year to come. It is no understatement to assume that existing assets are performing well. Year over year sales growth has soared 330%. With all positive fundamentals in place, Sacramento remains one of the most attractive office markets across the entire



### 2019 MARKET HIGHLIGHTS

**RENTAL RATES** are up 2.19% since a year ago.

**VACANCY** has declined 8% since a year ago.

**SALES** saw largest sale transact for \$397.07 per s.f.

**CONSTRUCTION** in State of California saw 1.2 million s.f. of space in Downtown

nation. Sacramento is also one of the most affordable markets in the US. With a total vacancy rate of 8.9%, Sacramento ranks as a top 5 market across the nation for occupancy growth and rent growth. Steady demand and few inventory additions have allowed landlords to push rents. The average asking rate is \$22.44 (annual). Year over year, this 2.19% increase is higher than the past 10 years.

Some of the most active buyers include Boyd Watterson Asset Management, The Evergreen Company, Pappas Investments and Manulife Financial Corporation. REITS and publicly traded companies account for less than 2% of all sales during 2019. The average sales price of \$196.43 is the highest ever achieved and a cap rate of 7.1% continues to fuel confidence in the market. In the third quarter, Singapore-based Manulife US Real Estate Investment Trust purchased the downtown asset Wells Fargo Center located at 400 Capitol Mall for \$198.8 million (\$397 psf.) at a reported cap rate of 7.2%.

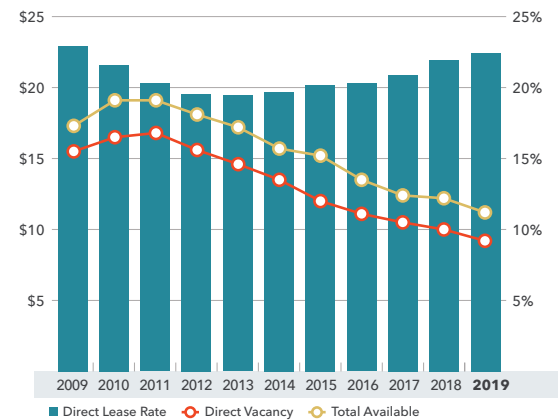
The pace of construction picked up as 501,579 s.f. delivered in 2019. More projects underway are not planned to deliver until the second half of 2020 and will pick up tremendously into 2022. With unemployment rates trending low and household income on the rise, top talent may be retained easily. The Sacramento office market has transformed itself from being primarily known for housing government tenants to being a top destination for many private companies to set up shop. As a result, it has now become a top five in growth for a metro area.

Source: CoStar and KM Research

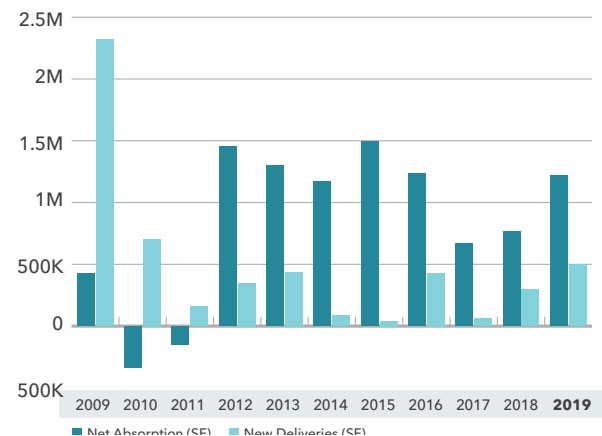
## Market Breakdown

	2019	2018	2017	Annual % Change
Vacancy Rate	9.2%	10.0%	10.5%	<b>-8.00%</b>
Availability Rate	11.2%	12.2%	12.4%	<b>-8.20%</b>
Asking Lease Rate	\$22.44	\$21.96	\$20.88	<b>2.19%</b>
Leased SF	3,630,566	4,395,713	6,058,226	<b>-17.41%</b>
Sold SF	5,921,884	6,830,126	6,912,919	<b>-13.30%</b>
Total Net Absorption	1,221,696	768,263	671,767	<b>N/A</b>

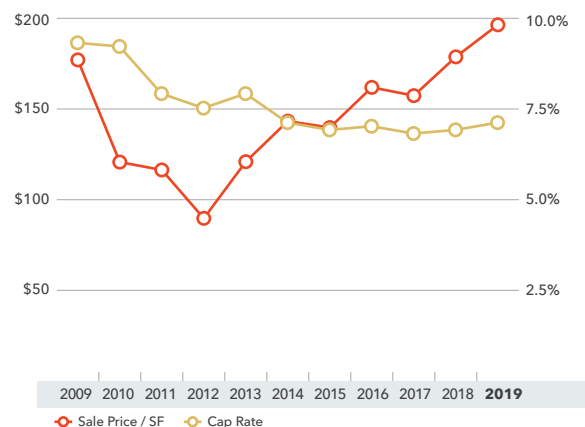
### LEASE RATE, VACANCY & AVAILABILITY



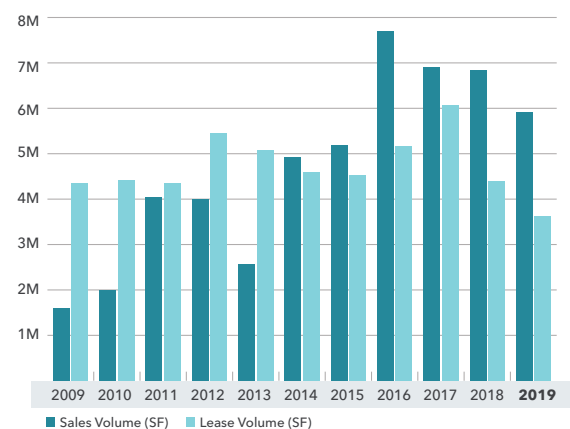
### NET ABSORPTION & NEW DELIVERIES



### AVERAGE SALE PRICE & CAP RATES

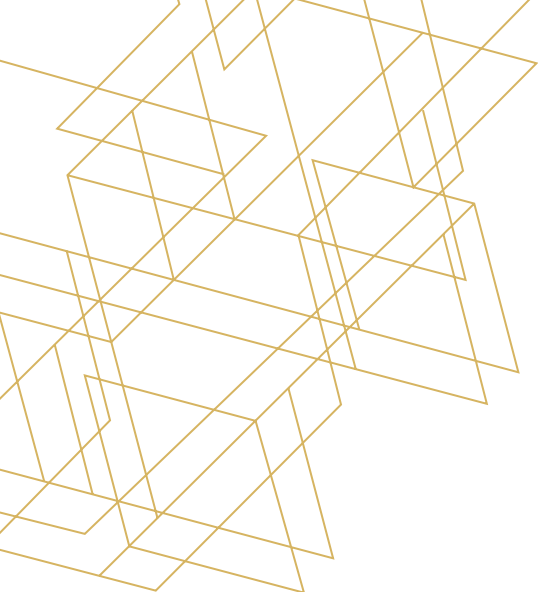


### SALES VOLUME VS. LEASE VOLUME



## SACRAMENTO SUBMARKET STATISTICS

Submarket	Total Inventory	Direct Vacancy Rate	Total Vacancy Rate	Total Available Rate	4Q19 Net Absorption (Direct)	2019 Net Absorption (Direct)	4Q19 Leasing Activity	2019 Leasing Activity	Rental Rate (Office Base Rent Direct)
<b>Downtown</b>	<b>20,689,000</b>	<b>6.9%</b>	<b>6.9%</b>	<b>7.0%</b>	<b>68,704</b>	<b>136,896</b>	<b>51,297</b>	<b>578,151</b>	<b>\$32.64</b>
Auburn/Lincoln	1,726,312	3.9%	3.9%	6.3%	314	14,607	15,271	35,370	\$18.60
Campus Commons	1,761,122	15.0%	15.9%	19.3%	9,415	466	20,201	102,958	\$26.40
Carmichael/Fair Oaks	1,548,007	15.3%	15.1%	17.9%	5,223	19,294	7,856	46,205	\$15.24
Citrus Heights/Orangevale	1,863,309	8.7%	8.7%	11.3%	21,348	46,103	22,420	96,803	\$18.00
Davis/Woodland	2,645,905	4.3%	4.6%	5.6%	7,573	21,576	18,355	127,185	\$22.20
East Sacramento	2,619,281	0.9%	0.9%	1.1%	-516	24,097	1,938	22,627	\$26.40
El Dorado	2,159,743	13.7%	13.7%	15.4%	3,314	11,150	13,856	89,746	\$21.36
Elk Grove	2,047,874	4.6%	4.8%	5.7%	21,925	56,178	14,421	91,204	\$24.72
Folsom	5,188,702	4.6%	4.7%	8.2%	16,150	87,066	16,233	166,380	\$24.96
Highway 50 Corridor	17,924,989	10.6%	11.2%	15.3%	-120,533	54,486	167,634	840,023	\$20.16
Howe Ave/Fulton Ave	5,347,696	16.3%	16.5%	18.5%	24,614	-30,585	42,846	176,928	\$18.24
Midtown	4,407,557	8.3%	8.50%	10.4%	-1,064	11,400	29,541	87,715	\$28.20
North Natomas	3,053,991	12.4%	12.5%	10.8%	101,872	155,120	51,284	136,730	\$18.12
Point West	2,886,512	11.9%	13.1%	17.9%	-16,019	57,543	28,231	119,249	\$23.64
Rio Linda/N Highlands	1,144,998	18.5%	18.5%	23.9%	-	74,924	-	29,972	\$14.52
Roseville/Rocklin	12,375,752	9.4%	9.6%	12.7%	175,768	421,976	145,857	616,651	\$22.32
South Natomas	3,686,779	7.7%	8.3%	16.3%	-18,948	-27,341	10,016	107,893	\$27.24
South Sacramento	3,605,622	6.5%	6.5%	8.4%	18,023	120,965	3,469	20,625	\$17.52
West Sacramento	2,193,926	7.5%	7.5%	8.0%	13,927	-5,838	-	138,151	\$20.76
<b>Sacramento Total</b>	<b>98,877,077</b>	<b>8.9%</b>	<b>9.2%</b>	<b>11.2%</b>	<b>331,090</b>	<b>1,250,083</b>	<b>660,726</b>	<b>3,630,566</b>	<b>\$22.44</b>
Class A	26,681,886	7.0%	7.3%	8.9%	-9,099	493,440	176,374	1,093,251	\$28.32
Class B	46,735,607	10.4%	10.7%	13.6%	227,260	499,054	334,773	1,975,491	\$21.96
Class C	25,459,584	8.2%	8.3%	10.3%	112,929	257,589	149,579	561,824	\$17.64



## Notable Sale Transactions

**MANULIFE US REAL ESTATE INVESTMENT TRUST** Wells Fargo Center, Downtown  
500,662 s.f. | \$198.8M or \$397.07/s.f.

**THE EVERGREEN COMPANY & UNITED AUBURN INDIAN COMMUNITY**  
Emerald Tower, Downtown  
385,844 s.f. | \$127M or \$329.15/s.f.

**BOYD WATTERSON ASSET MANAGEMENT** 1515 S Street - North Building, Downtown  
259,775 s.f. | \$42.1M or \$162.06/s.f.

## Notable Lease Transactions

**STATE OF CALIFORNIA DEPT OF JUSTICE** 3068 Kilgore Road, Highway 50 Corridor  
104,042 s.f.

**CALIFORNIA DEPARTMENT OF CHILD SUPPORT SERVICES** 11120 International Drive, Highway 50 Corridor  
96,631 s.f.

**WEWORK** 660 J Street, Downtown  
96,300 s.f.



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The information in this report was composed by the Kidder Mathews Research Group.

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### COMMERCIAL BROKERAGE

<b>20M</b>	<b>ANNUAL SALES SF</b>	<b>420+</b>	<b>NO. OF BROKERS</b>
<b>\$9B</b>	<b>ANNUAL TRANSACTION VOLUME</b>	<b>40M</b>	<b>ANNUAL LEASING SF</b>

### VALUATION ADVISORY

<b>1,600+</b>	<b>APPRAISALS ANNUALLY</b>	<b>39/24</b>	<b>TOTAL NO. APPRAISERS/MAI'S</b>
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### PROPERTY MANAGEMENT

<b>70M+</b>	<b>MANAGEMENT PORTFOLIO SF</b>
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