

# MARKETBEAT

## Sacramento

### Office Q3 2019



#### SACRAMENTO OFFICE

##### Economic Indicators

	Q3 18	Q3 19	12-Month Forecast
Sacramento MSA Employment	1,003.2k	1,019.2k	▲
Sacramento MSA Unemployment	3.6%	3.8%	▲
U.S. Unemployment	3.8%	3.7%	▲

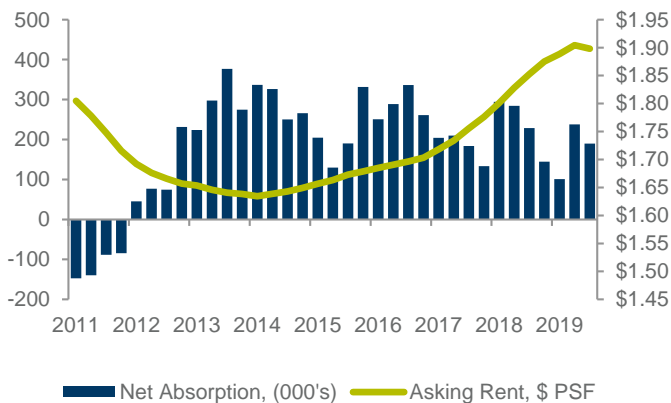
##### Market Indicators (Overall, All Classes)

	Q3 18	Q3 19**	12-Month Forecast
Vacancy	9.5%	8.2%	▼
Net Absorption (sf)	256k	63k	▲
Under Construction (sf)	1,760k	2,156k	▼
Average Asking Rent*	\$1.90	\$1.88	▲

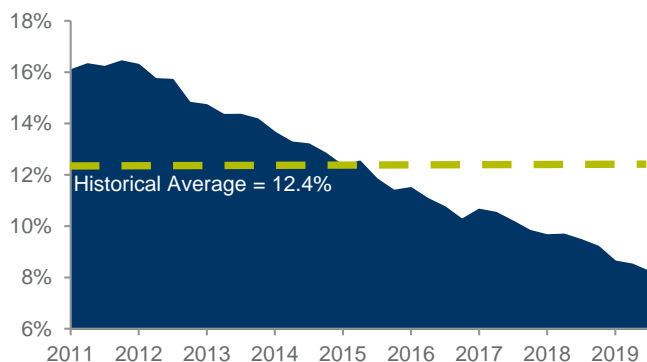
\*Rental rates reflect gross asking \$psf/month.  
 \*\*Not Reflective of U.S. Marketbeat

##### Overall Net Absorption/Overall Asking Rent

###### 4-QTR TRAILING AVERAGE



##### Overall Vacancy



## Economy

Sacramento's economy remains healthy with opportunities for continued expansion throughout the region. The unemployment rate rose slightly year-over-year (YOY), increasing 20 basis points (bps) to 3.8%. Nevertheless, the market remains at near full-employment with a growing highly skilled, highly educated workforce. Additionally, the Sacramento labor market continues to diversify away from the traditional government employment base, with healthy increases in both cyclical and defensive labor sectors; balancing growth while reducing the risk of job loss in future economic downturns.

## Sustained Growth

Through the first three quarters of 2019, the Sacramento office market has recorded 890,000 square feet (sf) of positive net absorption. The vacancy rate fell by 30 bps during the third quarter and 130 bps YOY to close at 8.2%. Net absorption will be buoyed by build-to-suit construction completions during the fourth quarter. The average asking lease rate fell during the quarter by \$0.07 per square foot (psf), though down just \$0.02 psf YOY, to \$1.88 psf per month on a full service gross basis.. This is likely a short-term anomaly as a number of large, expensive blocks of space leased at the end of the period leaving building owners little time to react to reduced supply, given sustained demand and low levels of supply the true market asking rate is likely near \$1.93 FSG.

Sacramento's Central Business District (CBD) recorded 20,000 sf of positive net absorption during the third quarter, bringing the year-to-date (YTD) total to 82,000 sf. The overall vacancy rate fell by 90 bps to 6.1%, a record low for the CBD. Class A space remains in high demand as strong leasing activity led to a 120 bps decrease in the vacancy rate which now rests at only 3.0%. Correspondingly, asking rates in class A properties have continued their rapid growth, up \$0.06 (1.9%) psf during the quarter and \$0.20 (6.6%) psf since the fourth quarter of 2018.

Another solid quarter of Downtown activity was augmented by strong activity in the suburban markets totaling 44,000 sf of positive net absorption. Highway 50 and Roseville/Rocklin led the market posting 94,000 and 86,000 sf, respectively. Five of the twenty submarkets recorded negative net absorption for the first three quarters. Class A space remains the most popular market segment with a vacancy rate of just 6.6%, well below the overall market average of 8.3%.

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Construction remains a major story in the office market, with no projects completed during the quarter, but active projects totaled 2.2 million sf. Despite all of this activity, the only active speculative projects in the region are a three-story, 90,000 sf project at 2555 Natomas Park Dr. in South Natomas and a two-story 20,000 sf project at 2960 Advantage Way in North Natomas. There is one major proposed project at 301 Capitol Mall which has been slated for redesign with Hines now partnering with CalPERS to develop the site.

### “...SALES VOLUME IS EXPECTED TO SURPASS THE \$1 BILLION THRESHOLD FOR THE SECOND CONSECUTIVE YEAR”

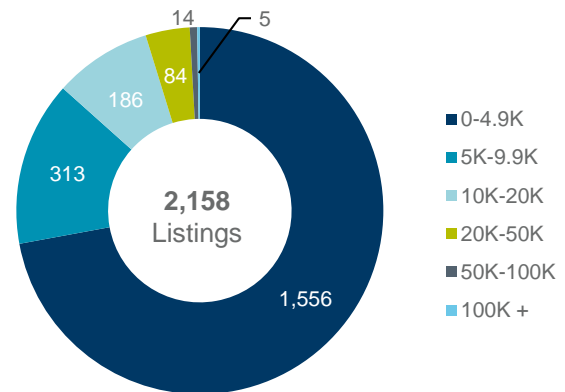
Strong sales activity during the period totaled \$199 million bringing the YTD total to \$670 million. With the sale of 400 Capitol Mall and the Ziggurat likely to close in the fourth quarter, sales volume is expected to surpass the \$1 billion threshold for the second consecutive year. The most significant sale of the quarter was 2868 Prospect Park Dr. by Hines to RC Asset BB, LLC for \$25 million.

Sacramento’s continued economic growth is reflected in the office market fundamentals. The region’s lack of available supply continues to drive lease rates up. While minimal new product is expected to deliver in 2020. However, that is not expected to alter market dynamics significantly. Lack of supply will continue to put upward pressure on lease rates and with few large blocks available, market fundamentals suggest more speculative construction is in the near future.

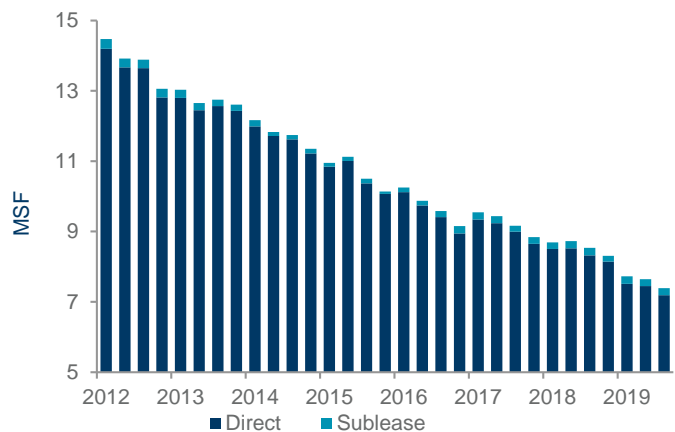
### Outlook

- Rents will continue to grow quickly as landlords capitalize on a lack of supply.
- Demand will remain strong throughout the region with a number of large requirements seeking space
- Class A , Downtown space will become more scarce as vacancy rates push down below 3.0%.

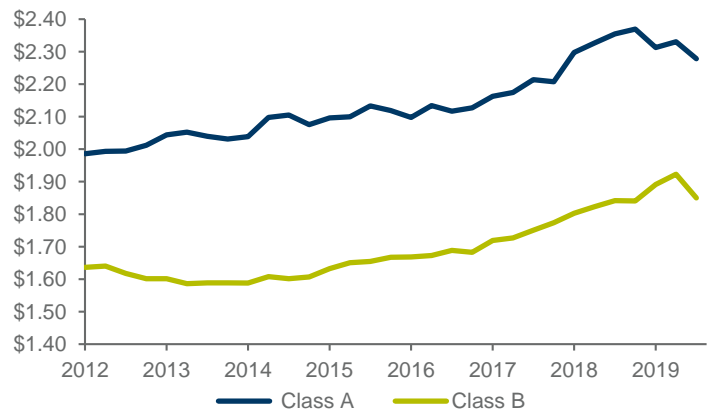
Availabilities by Size Segment  
OVERALL AVAILABILITIES IN ONE SUITE



Direct vs. Sublease Space Available Comparison  
SUBLEASE SPACE A NON-FACTOR



Average Asking Rate by Class (Full Service)  
CLASS A AND CLASS B RENTS SHOWING HEALTHY GROWTH.



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SUBMARKET	INVENTORY (SF)	SUBLET VACANT (SF)	DIRECT VACANT (SF)	OVERALL VACANCY RATE	CURRENT QTR NET ABSORPTION (SF)	OVERALL NET ABSORPTION (SF)	YTD OVERALL NET ABSORPTION (SF)	UNDER CNSTR (SF)***	OVERALL AVERAGE ASKING RENT (ALL CLASSES)*	OVERALL AVERAGE ASKING RENT (CLASS A)*
Downtown Sacramento	20,264,818	13,933	1,213,595	6.1%	19,668	82,417	1,198,000	\$2.58	\$3.24	
Campus Commons	1,285,841	2,408	168,064	13.3%	20,862	10,260	0	\$2.21	\$2.75	
Carmichael / Fair Oaks	979,661	1,099	133,274	13.7%	7,916	31,870	0	\$1.26	N/A	
Citrus Heights / Orangeville	1,502,796	0	149,620	10.0%	4,141	23,837	0	\$1.51	\$2.65	
Auburn / Lincoln	1,391,211	0	61,857	4.4%	6,202	1,144	0	\$1.61	N/A	
Davis/Woodland	2,090,569	3,598	66,651	3.4%	21,937	22,397	32,000	\$1.77	\$2.70	
East Sacramento	2,487,959	0	10,344	0.4%	17,468	27,695	0	\$2.71	N/A	
El Dorado Hills	1,698,739	0	208,285	12.3%	14,795	19,763	44,716	\$1.81	\$1.85	
Elk Grove	1,806,813	3,025	100,488	5.7%	15,031	17,465	36,862	\$2.06	\$2.36	
Folsom	4,768,185	12,330	208,121	4.6%	47,519	65,443	0	\$2.11	\$2.39	
Highway 50 / Rancho Cordova	17,492,302	54,196	1,559,536	9.2%	94,338	274,828	0	\$1.71	\$1.98	
Howe Ave / Fulton Ave	2,724,533	0	420,768	15.4%	-10,923	31,883	0	\$1.66	\$1.95	
Midtown	3,776,457	920	297,222	7.9%	-42,317	20,097	0	\$2.19	\$2.90	
North Natomas	2,752,861	4,111	309,311	11.4%	13,526	64,832	545,989	\$1.53	\$2.01	
Point West	2,709,881	16,516	304,375	11.8%	11,589	72,351	14,484	\$1.09	\$2.09	
Roseville / Rocklin	10,999,530	38,148	952,481	9.0%	86,054	337,337	194,000	\$1.82	\$2.09	
South Natomas	3,730,084	37,097	261,936	9.0%	-15,074	-19,730	90,000	\$2.23	\$2.24	
South Sacramento	3,037,065	878	200,367	6.6%	-15,479	88,582	0	\$1.54	N/A	
Watt Avenue	2,329,316	8,415	454,803	19.9%	-223,241	-257,600	0	\$1.58	N/A	
West Sacramento	2,074,728	0	108,763	5.2%	6,833	-24,789	0	\$1.73	\$0.00	
<b>Sacramento Totals</b>	<b>89,903,349</b>	<b>196,674</b>	<b>7,189,861</b>	<b>8.2%</b>	<b>80,845</b>	<b>890,082</b>	<b>2,156,051</b>	<b>\$1.88</b>	<b>\$2.28</b>	
SUBMARKET	INVENTORY (SF)	SUBLET VACANT (SF)	DIRECT VACANT (SF)	OVERALL VACANCY RATE	CURRENT QTR NET ABSORPTION (SF)	OVERALL NET ABSORPTION (SF)	YTD OVERALL NET ABSORPTION (SF)	UNDER CNSTR (SF)	OVERALL AVERAGE ASKING RENT (ALL CLASSES)*	OVERALL AVERAGE ASKING RENT (CLASS A)*
Class A	26,593,296	73,793	1,692,526	6.6%	124,472	258,539	1,453,900	\$2.28		
Class B	43,521,166	113,296	3,900,315	9.2%	58,278	557,187	573,422	\$1.85		
Class C	19,788,887	9,585	1,597,020	8.1%	-101,905	74,356	0	\$1.51		

\*Rental rates reflect gross asking \$/psf/month. \*\*Does not include Renewals. \*\*\*Not reflective of U.S. Marketbeat

### Key Lease Transactions Q3 2019

PROPERTY	SF	TENANT	TRANSACTION TYPE	SUBMARKET
660 J St. Sacramento**	96,300	WeWork	New Lease	Downtown
11120 International Dr. Rancho Cordova**	91,149	CA – Dept of Child Support Services	Renewal	Highway 50
2300 River Plaza Dr. Sacramento**	78,960	Sutter Health	Renewal	South Natomas
710 Riverpoint Ctr. West Sacramento	67,956	CalFire	New Lease	West Sacramento
11080 White Rock Rd. Rancho Cordova	40,285	County of Sacramento	New Lease	Highway 50

### Key Sales Transactions Q3 2019

PROPERTY	SF	SELLER/BUYER	PRICE / \$PSF	SUBMARKET
3 Property Portfolio, Sacramento**	231,890	AT&T, Inc/Ethan Conrad Properties	\$6,885,000 / \$29.69	Watt Ave
2868 Prospect Park Dr. Rancho Cordova	168,000	Hines Securities, Inc./RC Asset BB, LLC	\$25,000,000 / \$148.81	Highway 50
1130 K St. Sacramento	140,908	The Regents of the University of California/Fox Creek Fund, LLC	\$19,500,000 / \$138.39	Downtown
2882 Prospect Park Dr. Rancho Cordova	115,593	Metcalf Family Trust / Rohit Kumar & Nidhi Tull	\$20,700,000 / \$179.08	Highway 50

\*\*Denotes Cushman & Wakefield Transaction

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