



## Office Q4 2019

YoY Chg 12-Mo. Forecast

**8.3%**  
Vacancy Rate



**368K**  
\*Net Absorption, SF



**\$1.92**  
Asking Rent, PSF



\*Not Reflective of U.S. MarketBeat  
(Overall, All Property Classes)

### ECONOMIC INDICATORS Q4 2019

YoY Chg 12-Mo. Forecast

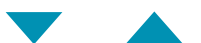
**1.02M**  
Sacramento MSA  
Employment



**3.4%**  
Sacramento MSA  
Unemployment Rate



**3.6%**  
U.S.  
Unemployment Rate



Source: BLS

### ECONOMY OVERVIEW: Local Economy Remains Strong

Sacramento's economy remains healthy with continued optimism for further growth. The unemployment rate fell slightly year-over-year (YOY), decreasing by 20 basis points (bps) to 3.4%. The market remains at near full-employment with a growing highly skilled, highly educated workforce. Additional job growth is expected in the near term as Centene nears completion of their new regional headquarters and will begin hiring early in 2020.

### DEMAND: Demand remains strong throughout 2019

The market maintained high levels of demand recording 368,000 square feet (sf) of positive net absorption during the fourth quarter. This activity brought the annual total to 1.2 million square feet (msf), exceeding the combined totals from 2017 and 2018. The central business district (CBD) remains a popular destination for tenants, as net absorption reached 167,000 sf for the year, similar to the 2018 totals.

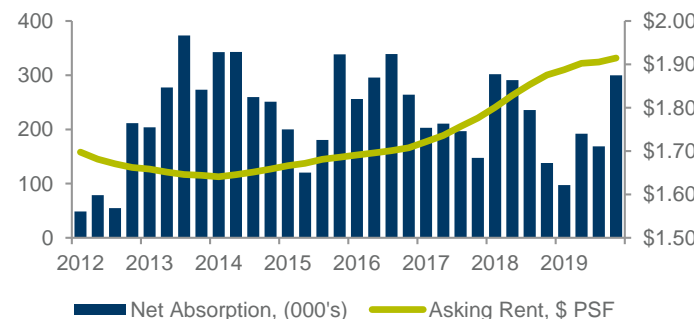
Demand remains strong throughout Sacramento with 2.1 msf of tenants currently seeking space, exceeding the historical average of 1.9 msf. While interest in the market is robust, net absorption could be hindered in the coming year by a lack of supply, particularly large blocks which are increasingly sparse throughout the region.

### PRICING: Asking rents continue steady growth

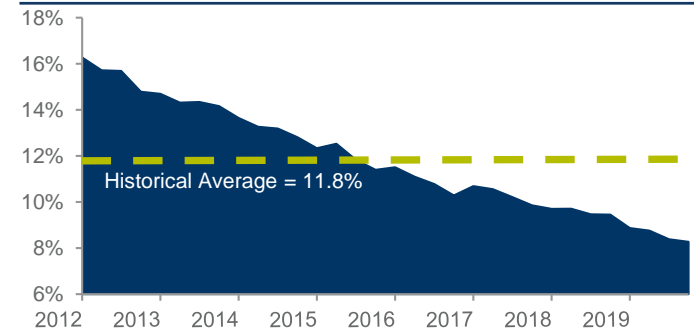
Lease rates continue to tick upwards with the market average reached \$1.92 per square foot per month on a full services gross basis (FSG), up \$0.01 quarter-over-quarter (QOQ) and sits just below the market record on \$1.93 FSG set during the second quarter of 2019. Overall rates are up \$0.04 YOY with class B and C properties increasing by \$0.05 and \$0.08, respectively. Class A lease rates, on the other hand, have fallen by \$0.07, indicating that tenants will sacrifice quality and location for lower lease rates as the market remains at or near record high rental rates.

Downtown appears to be the exception with this most expensive Sacramento submarket continuing to record ever higher rents, with an all-time high of \$2.65 FSG, while Class A rents reached \$3.27 FSG. All product classes recorded increases in lease rates during the period. Interestingly, the Class B average asking rate of \$2.63 FSG now exceeds the Class A asking rate from the first quarter of 2015, which was \$2.61 FSG.

### Overall Net Absorption/Overall Asking Rent / 4 Qtr Trailing Average



### Overall Vacancy



# SACRAMENTO

Office Q4 2019



## Supply

The vacancy rate finished the year at 8.3%, down 110 bps YOY and 10 bps QOQ. The story is similar in the CBD, as the vacancy rate fell by 170 bps YOY and 30 bps QOQ. Lack of available supply, particularly for large blocks of space, will likely continue as there is only one speculative construction project underway in the market, the three-story, 86,500 sf, Class A building at 2555 Natomas Park Drive in South Natomas. While there are other projects like The Foundry in The Railyards and the new CalSTRS tower that could break ground in early 2020, nothing has yet begun.

## Capital Markets

Office sales played a major role in market activity during the quarter, as 400 Capitol Mall sold for \$199 million to Manulife, the second highest price ever paid for an office building in Sacramento. The impact of the Golden1 Center is becoming ever clearer, especially when reviewing at office property values. Sacramento has had only eight building sales of \$100 million or more in its history, and four of them have taken place since the Golden1 Center opened in September 2016.

## Market Overview

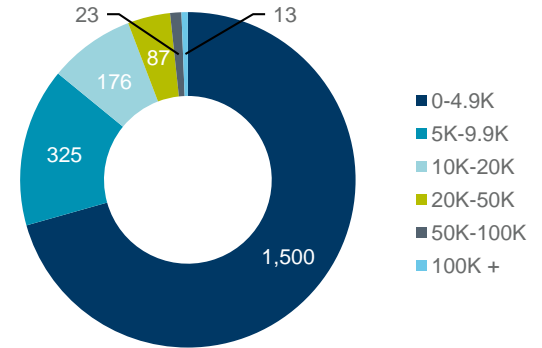
Sacramento's continued economic growth can be seen throughout the office market fundamentals. The increasing willingness to invest large sums in the city's urban core, record low vacancy rates, record high lease rates and the largest urban infill project in the nation, The Railyards, combine to create a vibrant and dynamic office landscape. Optimism continues looking forward to 2020 as the lack of new speculative construction protects the market from exposure to oversupply.

## Outlook

- Lack of supply will continue to place upward pressure on rents, causing further growth until building replacement cost is achieved and new speculative construction becomes a less risky option.
- Demand will remain strong and large requirements will struggle to find competitive options, particularly for tenants Downtown.
- Class A space in the CBD will be particularly hard to source as tenants remain willing to pay a premium to be close to the increasing amenities in the surrounding area.

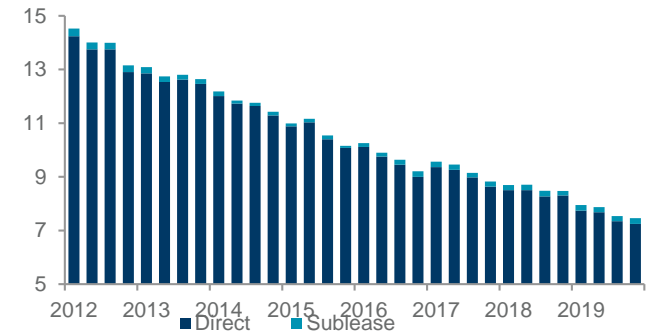
## Availabilities by Size Segment

OVERALL AVAILABILITIES IN ONE SUITE



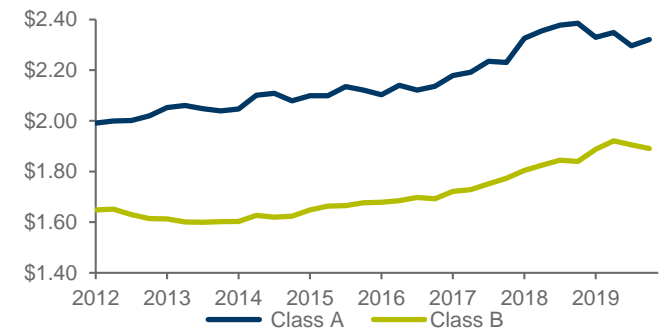
## Direct vs. Sublease Space Available Comparison

SUBLEASE SPACE A NON-FACTOR



## Average Asking Rate by Class (Full Service)

CLASS A & CLASS B RENTS SHOWING HEALTH GROWTH





## Office Q4 2019

## MARKET STATISTICS

SUBMARKET	INVENTORY (SF)	SUBLET VACANT (SF)	DIRECT VACANT (SF)	OVERALL VACANCY RATE	*CURRENT QTR OVERALL NET ABSORPTION	*YTD OVERALL NET ABSORPTION (SF)	YTD GROSS ABSORPTION (SF)***	UNDER CNSTR (SF)*	OVERALL AVG ASKING RENT (ALL CLASSES)**	OVERALL AVG ASKING RENT (CLASS A)**
Downtown Sacramento	20,343,942	6,585	1,174,680	5.8%	86,302	167,332	644,906	1,670,000	\$2.65	\$3.27
Campus Commons	1,573,670	16,384	237,415	16.1%	943	-5,111	117,468	0	\$2.21	\$2.75
Carmichael / Fair Oaks	980,243	1,099	184,990	19.0%	5,594	36,086	161,118	0	\$1.23	N/A
Citrus Heights / Orangeville	1,483,285	0	125,971	8.5%	21,168	39,695	117,783	0	\$1.52	\$2.65
Auburn / Lincoln	1,403,130	0	50,348	3.6%	10,474	11,818	46,568	0	\$1.57	N/A
Davis/Woodland	2,145,766	3,598	84,239	4.1%	9,868	24,865	110,263	0	\$1.96	\$3.00
East Sacramento	2,487,959	0	13,522	0.5%	-4,316	23,379	29,214	0	\$2.56	N/A
El Dorado Hills	1,726,744	0	244,905	14.2%	-314	12,914	139,476	0	\$1.83	\$1.85
Elk Grove	1,806,813	5,107	67,427	4.0%	17,859	40,764	101,963	0	\$2.20	\$2.60
Folsom	4,770,995	4,946	189,515	4.1%	31,566	97,009	235,255	0	\$2.09	\$2.38
Highway 50 / Rancho Cordova	17,492,914	92,949	1,732,640	10.4%	-155,782	39,046	879,923	0	\$1.69	\$1.98
Howe Ave / Fulton Ave	4,728,821	6,610	769,363	16.4%	46,840	756	303,105	0	\$1.54	\$1.95
Midtown	3,789,262	920	288,257	7.6%	7,042	36,118	195,192	0	\$2.24	\$2.90
North Natomas	2,782,861	2,281	275,437	10.0%	90,888	155,720	266,478	536,989	\$1.60	\$2.17
Point West	2,711,095	34,600	308,938	12.7%	-34,103	37,300	149,895	14,484	\$1.96	\$2.08
Roseville / Rocklin	11,035,804	17,814	889,299	8.2%	205,495	398,838	1,144,704	0	\$1.80	\$2.08
South Natomas	3,673,165	20,896	280,603	8.2%	-9,042	-28,726	144,796	86,500	\$2.26	\$2.27
South Sacramento	3,142,829	0	209,327	6.7%	24,001	123,118	161,779	0	\$1.52	N/A
West Sacramento	2,074,728	0	119,030	5.7%	13,607	-11,182	69,985	0	\$1.73	N/A
<b>Market Totals Totals</b>	<b>90,154,026</b>	<b>213,789</b>	<b>7,245,906</b>	<b>8.3%</b>	<b>368,090</b>	<b>1,199,739</b>	<b>5,019,871</b>	<b>2,307,973</b>	<b>\$1.92</b>	<b>\$2.32</b>

\*Not Reflective of U.S. MarketBeat \*\*Rental rates reflect full service asking \*\*\*Gross Absorption includes all tenant move ins, including completion of build-to-suit projects

## KEY LEASE TRANSACTIONS Q4 2019

PROPERTY	SUBMARKET	TENANT	RSF	TYPE
3241 Kilgore Rd, Rancho Cordova	Hwy 50	Delta Dental	54,741	New Lease
3640 Northgate Blvd, Sacramento	North Natomas	ABM Industry Groups	21,219	New Lease
400 Capitol Mall, Sacramento	Downtown	DLA Piper, LLP	19,732	Renewal
860 Stillwater Rd, West Sacramento	West Sacramento	Clear Blue Commercial	17,706	New Lease

## KEY SALES TRANSACTIONS Q4 2019

PROPERTY	SUBMARKET	SELLER / BUYER	SF	PRICE/\$ PSF
400 Capitol Mall, Sacramento	Downtown	Starwood Capital Group, LP / Manulife US REIT	500,662	\$198.8M/\$397
4 Property Portfolio	Multiple	Lum Yip Kee, LTD / Pappas Investments	239,612	\$43.5M/\$182
2365 Iron Point Rd, Folsom	Folsom	Swift Real Estate Partners / Basin Street Properties	148,534	\$31.9M/\$215
950 Iron Point Rd, Folsom	Folsom	Buzz Oates / Mountain G Enterprises	105,300	\$23.7M/\$225



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CUSHMAN & WAKEFIELD

OFFICE SUBMARKETS



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