



Office Q3 2020

YOY Chg 12-Mo. Forecast

**8.1%**

Vacancy Rate



**-13K**

Net Absorption, SF



**\$1.97**

Asking Rent, PSF



(Overall, All Property Classes)

## ECONOMIC INDICATORS Q3 2020

YOY Chg 12-Mo. Forecast

**927.4K**

Sacramento MSA Employment



**11.2%**

Sacramento MSA Unemployment Rate



**8.8%**

U.S. Unemployment Rate



Source: BLS

## ECONOMY OVERVIEW: Local Economy Outlook is Cautiously Optimistic

With the full impact of the COVID-19 pandemic still unknown, Sacramento's economy is beginning to reopen after months of shutdown. As a result, the region's unemployment rate reached 13.7% during the second quarter before falling to 11.2% in the third quarter. Decreasing unemployment is just one reason to be optimistic. According to Redfin, Sacramento ranked first in the nation in residents seeking new homes from outside the region with more than 8,000 people searching in the month of July, a year-over-year (YOY) increase of 79.5%.

## DEMAND: Demand slows with economic shutdown

Demand increased slightly during the third quarter but net absorption remained negative, totaling -13,000 square feet (sf), marking the first time Sacramento recorded consecutive quarters of negative net absorption since the first quarter of 2011. Year-to-date (YTD) figures remain positive, totaling 206,000 sf, as a strong first quarter buoyed the annual total. Leasing activity increased quarter-over-quarter to reach 823,000 sf, but remains well below the average of 1.0 million sf that became the norm prior to the start of the pandemic.

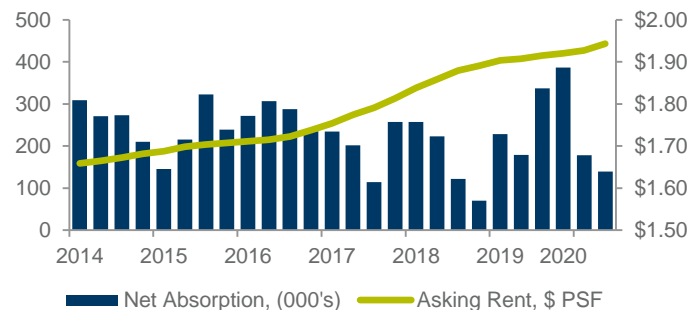
Active tenant requirements have declined as well totaling 1.5 million square feet (msf), below the historical average of 1.8 msf. Tenant leasing strategies have shifted as their long-term need for office space remains somewhat murky. Over the past six months, nearly 50,000 sf of tenants have opted for 1-2 year short-term renewals instead of testing the market and considering relocation or investing in a long-term lease.

## PRICING: Asking rents show signs of stabilization

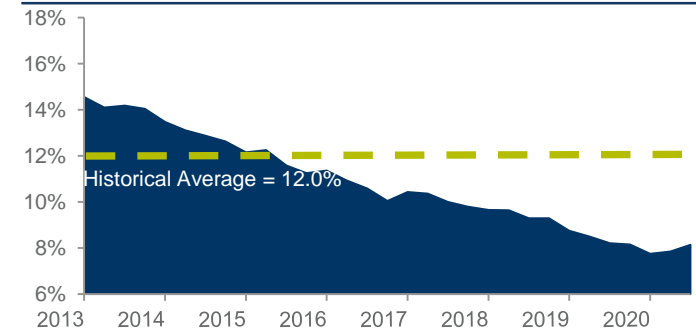
Lease rates appear to be stabilizing as they increased by \$0.01 during the quarter to \$1.97 per square foot per month on a full service gross basis (FSG). Year-over-year rates are up \$0.06 (3.1%). Given the uncertainty of demand, lease rates are not expected to continue the rapid growth seen in prior quarters; however, a significant decline is not expected either as little new supply has entered the market over the past two quarters.

Downtown rates followed suit increasing by \$0.01 quarter-over-quarter (QOQ) to \$2.75 FSG. Class A rents declined by \$0.04 to \$3.32 but are up \$0.07 YOY. However, the decrease in class A rates cannot be associated with an increase in supply as the vacancy rate is only 3.6%.

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



## Overall Vacancy



# SACRAMENTO

Office Q3 2020



## SUPPLY

The vacancy rate finished the quarter at 8.1%, up 20 basis points (bps) QOQ but down 10 bps YOY. The story is similar in the CBD as the vacancy rate ticked up by 30 bps during the third quarter but up only 10 bps since last year.

There has been an increase in sublease space coming to market, but interestingly, the majority of tenants seem to be marketing their space while occupying. As a result, subleases only account for 0.4% of total market vacancy.

## CAPITAL MARKETS

Sales volume climbed since the second quarter of 2020, totaling \$159 million for an increase of \$30 million, with investment sales accounting for 88.0% of quarterly activity. Property values have remained in line with pre-pandemic levels on a per square foot (psf) basis, averaging \$195 psf.

The largest acquisition of the quarter was by KBS Property Advisors which purchased 2901 Douglas Blvd in Roseville for \$30.0 million and was 96% leased to multiple tenants at the time of sale.

## MARKET OVERVIEW

Market activity remained slow due to the pandemic; however, fundamentals are strong with vacancy just above 8.0% and positive net absorption for the year. While the true impact of COVID-19 is not yet fully reflected in the market fundamentals, the effect has been more muted than anticipated so far.

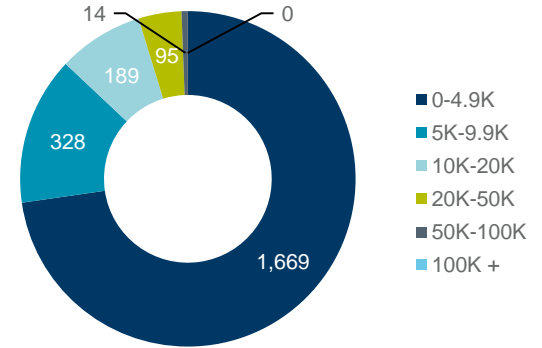
Looking forward, Sacramento is well-positioned to benefit from a low-density office market, with much of the product distributed throughout the suburbs. In addition, we expect continued interest in residents relocating from the more expensive and densely packed Bay Area.

## OUTLOOK

- Lease rates will likely remain stable as little new supply has entered the market.
- As the local economy reopens further, tenants will develop a clearer picture of their office needs for the near- and long-term.
- Migration from the Bay Area could result in an increase in highly skilled employees to the region, improving its attractiveness to tenants that have yet to enter the market.

## Availabilities by Size Segment

OVERALL AVAILABILITIES IN ONE SUITE



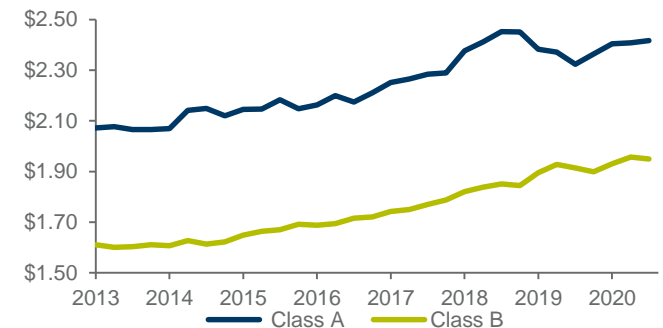
## Direct vs. Sublease Space Available Comparison

SUBLEASE SPACE STARTING TO INCREASE



## Average Asking Rate by Class (Full Service)

CLASS A & CLASS B RENTS STABILIZING



## Office Q3 2020

## 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 LEASING ACTIVITY (SF)	UNDER CNSTR (SF)	OVERALL AVG ASKING RENT (ALL CLASSES)*	OVERALL AVG ASKING RENT (CLASS A)*
Downtown Sacramento	20,300,732	24,982	1,188,279	6.0%	-24,436	-64,525	230,527	1,670,000	\$2.75	\$3.32
Campus Commons	1,580,280	19,391	182,668	12.8%	3,766	14,999	70,179	0	\$2.17	\$2.65
Carmichael / Fair Oaks	1,000,176	0	162,337	16.2%	5,875	6,504	52,776	0	\$1.25	N/A
Citrus Heights / Orangeville	1,431,055	9,030	137,142	10.2%	-12,779	-8,463	51,077	0	\$1.53	N/A
Auburn / Lincoln	1,381,022	0	64,667	4.7%	-20,515	-33,656	48,467	0	\$1.46	N/A
Davis/Woodland	2,267,066	14,044	88,008	4.5%	23,888	28,385	81,973	16,200	\$2.06	\$3.00
East Sacramento	2,486,959	0	10,754	0.4%	0	-4,096	20,076	0	\$2.76	N/A
El Dorado Hills	1,740,151	0	182,115	10.5%	17,435	71,872	101,624	0	\$1.80	\$1.78
Elk Grove	2,010,764	5,684	73,873	4.0%	-2,651	6,293	44,038	0	\$2.25	\$1.89
Folsom	4,957,548	59,807	185,981	5.0%	-52,696	-41,664	145,263	0	\$2.07	\$2.36
Highway 50 / Rancho Cordova	17,400,912	70,490	1,527,232	9.2%	102,009	101,286	630,989	285,000	\$1.73	\$1.99
Howe Ave / Fulton Ave	4,684,609	5,335	664,506	14.3%	-25,623	32,579	137,510	0	\$1.59	\$2.00
Midtown	3,754,846	1,000	306,397	8.2%	6,172	-9,322	60,429	0	\$2.26	\$2.92
North Natomas	2,793,508	7,273	311,568	11.4%	-20,144	37,501	154,325	555,273	\$1.66	\$2.16
Point West	2,722,114	73,557	270,503	12.6%	-25,548	11,944	135,139	14,484	\$2.05	\$2.16
Roseville / Rocklin	11,200,532	39,668	975,628	9.1%	31,026	25,762	463,567	0	\$1.77	\$2.13
South Natomas	3,774,312	11,101	423,545	11.5%	-12,142	-51,154	115,054	0	\$2.27	\$2.28
South Sacramento	3,196,660	0	188,354	5.9%	-6,432	28,187	62,051	0	\$1.64	N/A
West Sacramento	2,080,162	0	112,242	5.4%	0	53,664	76,206	0	\$1.80	N/A
<b>Market Totals</b>	<b>90,763,408</b>	<b>341,362</b>	<b>7,055,799</b>	<b>8.1%</b>	<b>-12,795</b>	<b>206,096</b>	<b>2,681,260</b>	<b>2,540,957</b>	<b>\$1.97</b>	<b>\$2.42</b>

## KEY LEASE TRANSACTIONS Q3 2020

PROPERTY	SUBMARKET	TENANT	RSF	TYPE
1325 J St, Sacramento	Downtown	Army Corp of Engineers	230,139	Renewal
3701 Power Inn Rd, Sacramento	Hwy 50	Sacramento County : Child Support Services	112,172	New Lease
9750 Goethe Rd, Sacramento	Hwy 50	DealerTrac	84,900	Renewal
3636-3640 American River Dr, Sacramento	Campus Commons	County of Sacramento	47,664	New Lease

## KEY SALES TRANSACTIONS Q3 2020

PROPERTY	SUBMARKET	SELLER / BUYER	SF	PRICE/\$ PSF
2901 Douglas Blvd, Roseville	Roseville/Rocklin	Barker Pacific Group / Kingsbarn Realty Capital	110,791	\$30.0M/\$271
660 J St, Sacramento	Downtown	JMA Ventures / Argosy Capital	124,471	\$20.2M/\$162
3241 Kilgore Rd, Rancho Cordova	Hwy 50	DWS / The Wonderful Company	107,768	\$20.0M/\$186
11919 Foundation Pl, Gold River	Hwy 50	James R. Carlsen / Davis-Torrance Trust	63,206	\$14.3M/\$226



# SACRAMENTO

Office Q3 2020

## OFFICE SUBMARKETS



### Will Austin

Senior Analyst

Tel: +1 916 288 4562

[will.austin@cushwake.com](mailto:will.austin@cushwake.com)

### Ron Thomas

Executive Managing Director

Tel: +1 916 288 4800

[ron.thomas@cushwake.com](mailto:ron.thomas@cushwake.com)

### A CUSHMAN & WAKEFIELD RESEARCH PUBLICATION

Cushman & Wakefield (NYSE: CWK) is a leading global real estate services firm that delivers exceptional value for real estate occupiers and owners. Cushman & Wakefield is among the largest real estate services firms with approximately 53,000 employees in 400 offices and 60 countries. In 2019, the firm had revenue of \$8.8 billion across core services of property, facilities and project management, leasing, capital markets, valuation and other services.

*©2020 Cushman & Wakefield. All rights reserved. The information contained within this report is gathered from multiple sources believed to be reliable. The information may contain errors or omissions and is presented without any warranty or representations as to its accuracy.*