

Sacramento Valley



Market Facts

5.9%

Class A Vacancy

9.1%

Class B Vacancy

\$2.30 FS

Class A

Average Monthly Asking Rate

\$1.98 FS

Class B

Average Monthly Asking Rate

The third quarter of 2019 proved that the Sacramento Valley office market is as healthy as ever. Over the past couple of years, the total amount of vacant space has been decreasing at the same rate that asking rents have been increasing. In Q3, vacancy reached a fifteen-year low, prompting Sacramento to experience some of the nation's strongest rent growth. It is becoming more apparent each quarter that the demand for office space within Sacramento Valley is getting stronger.

Vacancy

Available office space within Sacramento Valley has been on the decline due to the increasing demand for renovated spaces and the limited availability among the rest of the Bay Area. The vacancy rate for the office market has remained under 10% for two years with no signs that it will increase beyond that any time soon. This quarter, Sacramento Valley had a total of 7.1 million square feet of vacant office space translating to an overall vacancy rate of just 7.9%.

Asking Rates

Overall asking rates in Sacramento Valley have increased 11% over the past three years. The quarter ended with an average asking rate of \$1.97 per square foot (psf), full service, while Downtown Sacramento continued to command the highest rents at \$2.70 psf, full service. Because of the new deliveries next quarter, overall asking rates for the market should finally exceed \$2.00 psf, full service.

Demand

The office market within Sacramento Valley has consistently recorded positive net absorption over the last two years. At the close of this quarter, the overall net absorption for Sacramento Valley was 411,486 square feet. Much of this activity resulted from co-working giant WeWork leasing 96,300 square feet at 660 J Street in Downtown Sacramento. In recent years, we have seen outside tenants expressing more and more interest within Sacramento Valley.



Investment Activity

Although the office market performed well this quarter with sale transactions totaling \$172M, total sales volume was down 110% from the \$363M in sale transactions recorded last quarter.

Trends to Watch



Skyline

More developers are looking to build up, instead of out, which will ultimately change the Sacramento skyline.



Downtown

Retailers in downtown are struggling with high rents and plenty of competition, forcing them to rethink their business strategies.



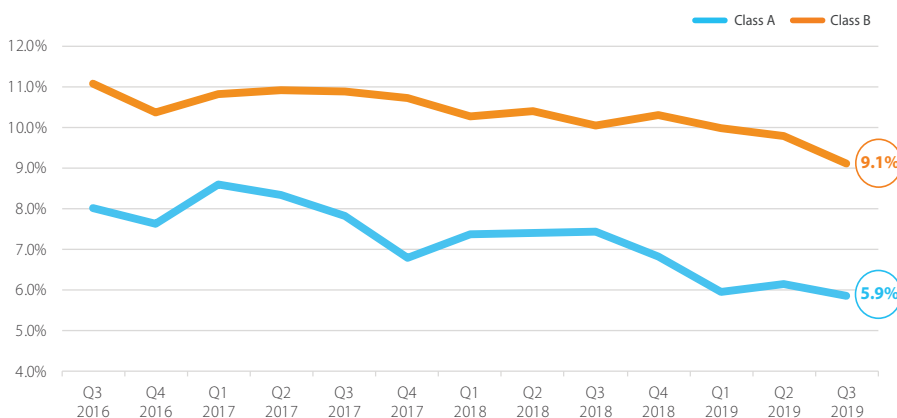
Rent Control

The Sacramento City Council passed a rent control measure to help with affordable housing throughout the county.

7.9 MILLION SQUARE FEET

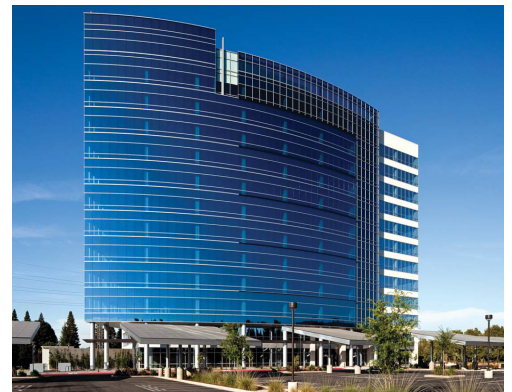
of proposed office developments currently in the pipeline

Historical Vacancy



Construction

Tenants, landlords, and residents alike are all eagerly awaiting the completion of the mega-project at the Railyards that will transform 244 acres into an urban mixed-use area including office, retail, housing, medical care, a MLS soccer stadium, and many other amenities. While this project may end up taking decades to complete, it does not seem impossible anymore due to the fact that the utilities and infrastructure are already nearing completion.



Deliveries

South Natomas is redeveloping nicely with a couple of notable projects currently in the pipeline. Two of those projects worth mentioning are 2555 Natomas Park Drive and 2030 Gateway Tower which will bring a combined 417,000 square feet of office space to the South Natomas submarket in 2020 and 2021, respectively.



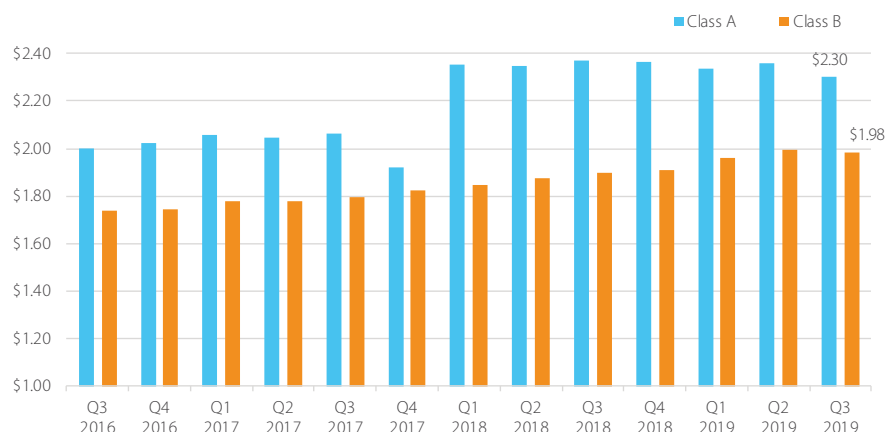
Sublease Space

Quarter after quarter, office tenants are successfully growing their companies within Sacramento Valley leaving a virtually nonexistent sublease market. The total amount of sublease space has remained low making up only 0.2% of the total office market.

Looking Forward

Even though there are some developments nearing completion within the next couple of quarters, most of that space has been preleased. Because of this lack of new vacant product, tenants are facing the daunting issue of higher rents and fewer options. While we cannot expect this to be a significant problem in the immediate future, it is something to keep an eye on, especially if any other residents or tenants are looking towards Sacramento as a possible destination for their business.

Historical Asking Rates



Notable Lease Transactions

Tenant	Building	Submarket	Square Feet	Type
WeWork	660 J Street	Sacramento	96,300	Direct Lease
Cal Fire	710 Riverpoint Center	West Sacramento	67,956	Direct Lease
County of Sacramento	11080 White Rock Road	Rancho Cordova	40,285	Direct Lease
Delta Conveyance Design	980 9th Street	Sacramento	23,380	Direct Lease
UC Davis	1 Capitol Mall	Sacramento	21,591	Direct Lease
Accenture	11290 Pyrites Way	Gold River	16,115	Direct Lease
Association of CA Water Agencies	980 9th Street	Sacramento	12,769	Direct Lease

Notable Sale Transactions

Building	Buyer	Submarket	Square Feet	Sale Price	PSF
2868 Prospect Park Drive	Brent Lee	Rancho Cordova	223,028	\$25,000,000	\$112
1130 K Street	Fox Creek Fund LLC	Sacramento	112,816	\$19,500,500	\$173
2882 Prospect Park Drive	Victor M Ma	Rancho Cordova	111,031	\$20,700,000	\$186
3001 Lava Ridge Court	Desimoni Family	Roseville	110,381	\$24,900,000	\$226
10961 Sun Center Drive	GPR Ventures	Rancho Cordova	90,000	\$11,070,000	\$123
2300 River Plaza Drive	Sutter Health	Sacramento	78,960	\$22,000,000	\$279
1100 Investment Boulevard	Nady Trust	El Dorado Hills	71,566	\$10,600,000	\$148

Construction Pipeline

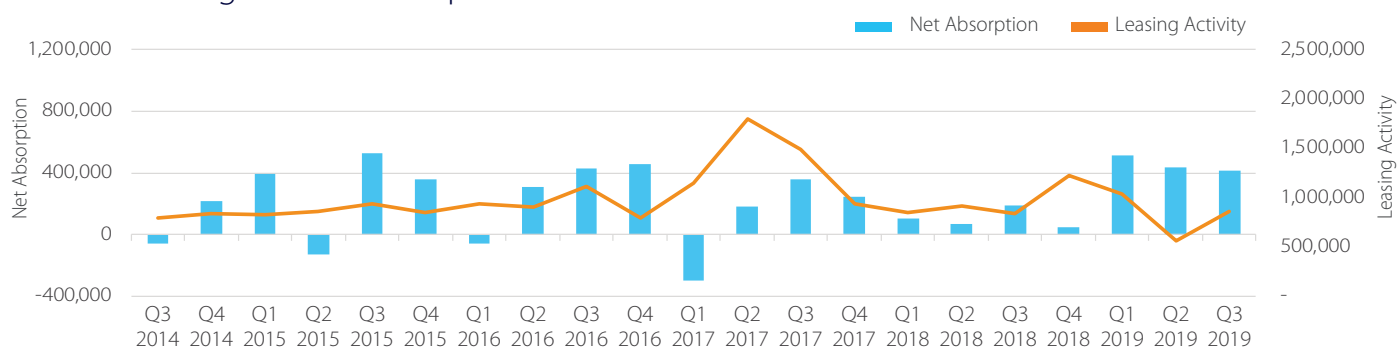
Building	Developer	Submarket	Square Feet	% Leased	Delivery
P Street	AC Martin Partners, Inc	Sacramento	838,000	100%	Q2 2022
Centene Campus - Bldg A & B	Hines Securities, Inc	Sacramento	511,800	100%	Q2 2020
1215 O Street	Rudolph and Sletten, Inc	Sacramento	360,000	100%	Q1 2022
1001 Riverside Avenue	Kaiser Permanente	Roseville	194,000	100%	Q4 2019
2555 Natomas Park Drive*	Bannon Investors Ltd, LLC	Sacramento	90,000	0%	Q4 2019
4699 Alhambra Drive	Tei Eat 112 LLC	Davis	64,620	100%	Q4 2020
1262 Hawks Flight Court	Avanti Ents LLC	El Dorado Hills	30,216	50%	Q4 2019

*Denotes Avison Young Involvement

Market By The Numbers

Submarket	Total RBA (SF)	Direct Avail Space (SF)	Sublet Avail Space (SF)	Vacancy Rate		Avail Rate		Net Absorp. (SF)	Avg. Asking Rent (F\$)		
				Class A	Class B	Class A	Class B		Total	Class A	Class B
Auburn/Lincoln	1,391,211	61,702	-	-	5.1%	-	7.8%	2,604	\$1.85	-	\$2.21
Roseville/Rocklin	10,999,538	954,885	38,148	9.8%	8.5%	14.5%	13.3%	68,383	\$1.93	\$2.09	\$1.88
North Natomas	2,752,861	309,311	4,111	7.2%	11.9%	8.1%	16.8%	29,560	\$1.67	\$2.01	\$1.56
South Natomas	3,693,008	257,506	30,802	10.3%	3.7%	23.1%	6.5%	-17,929	\$2.22	\$2.24	\$2.17
Rio Linda/North Highlands	1,018,415	210,437	-	-	1.6%	-	2.3%	-	\$1.69	-	\$1.45
Citrus Heights/Orangevale	1,502,796	149,620	-	-	13.3%	-	16.6%	6,335	\$1.57	-	\$1.78
Folsom	4,768,185	208,121	12,330	4.7%	5.1%	4.9%	12.2%	33,888	\$2.11	\$2.39	\$1.97
Watt Ave	2,329,316	455,027	8,415	-	21.8%	-	26.2%	-46,653	\$1.59	-	\$1.74
El Dorado Hills	1,374,833	154,467	-	13.4%	11.3%	24.6%	14.8%	13,837	\$2.07	\$1.85	\$2.10
Sacramento-Midtown	5,101,448	344,842	7,240	8.0%	5.4%	11.0%	8.7%	-9,257	\$2.28	\$2.34	\$2.11
Sacramento-Downtown	20,265,391	1,214,982	13,933	3.0%	11.8%	4.1%	14.2%	189,022	\$2.70	\$3.24	\$2.55
Point West	2,709,881	303,612	16,516	13.7%	12.9%	16.9%	16.3%	26,247	\$1.98	\$2.09	\$1.93
West Sacramento	2,074,728	108,763	-	-	11.0%	-	15.5%	46,364	\$1.78	-	\$1.81
East Sacramento	2,487,959	10,344	-	-	0.5%	-	0.5%	17,468	\$2.69	-	\$2.71
Highway 50 Corridor	979,661	130,323	1,099	-	10.1%	-	11.7%	11,837	\$1.36	-	\$1.55
Howe Ave	17,492,302	1,559,536	54,196	9.4%	8.5%	12.0%	15.5%	19,460	\$1.73	\$1.98	\$1.70
Campus Commons	2,724,533	420,768	-	44.9%	12.6%	44.9%	14.5%	-22,932	\$1.68	\$1.95	\$1.56
South Sacramento	1,285,841	168,064	2,408	13.1%	14.6%	13.1%	20.7%	29,597	\$2.21	\$2.65	\$2.21
Davis/Woodland	3,037,065	200,881	878	-	8.7%	-	8.9%	-13,933	\$1.76	-	\$1.79
Carmichael/Fair Oaks	2,090,569	66,651	3,598	5.4%	2.4%	5.4%	4.6%	14,125	\$1.75	\$2.70	\$1.82
Sacramento Valley Total	90,079,541	6,950,332	160,591	5.9%	9.1%	9.9%	13.2%	411,486	\$1.97	\$2.30	\$1.98

Historical Leasing vs Net Absorption


avisonyoung.com

For more information, please contact:

Tom Aguer, CCIM, SIOR
Principal & Managing Director
916.563.7827
tom.aguer@avisonyoung.com

Ava Jensen
Senior Research Analyst
408.913.6911
ava.jensen@avisonyoung.com



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