

Sacramento Valley



Market Facts

5.6%

Class A Vacancy

9.6%

Class B Vacancy

\$2.35 FS

Class A

Average Monthly Asking Rate

\$2.00 FS

Class B

Average Monthly Asking Rate

Sacramento Valley continues to be an attractive alternative to the Bay Area, despite the historically low vacancy rates and rising asking rents. Tenant demand is still strong and construction is booming with many projects breaking ground within the next few years. Perhaps the most notable project to affect Sacramento will be the 244-acre Railyards project, which is finally progressing forward with road improvements and the Major League Soccer stadium underway.

Vacancy

The amount of vacant office space within Sacramento Valley has been historically low over the past few years. At the end of 2019, the office market measured 7,196,789 square feet of available space, which is a 24.8% decrease in vacant space from four years ago. The strong tenant demand and increasing pressure for new construction has been pushing vacancy rates to dip below 10% for the past couple of years, with Sacramento ending 2019 with an 8.0% vacancy rate.

Asking Rates

Office asking rates in Sacramento have increased exponentially year-over-year. The declining vacancies and constant need from tenants has been increasing rents to around the \$2.00 per square foot (psf), full service threshold. At the end of the fourth quarter, the entire Sacramento Valley office market noted a \$1.97 psf, full service asking rent, with Downtown commanding the highest asking rate at \$2.70 psf, full service.

Demand

Sacramento Valley's office market has consistently recorded a positive net absorption over the last two years, due to vacancies declining at a steady pace quarter-over-quarter. The net absorption total for all of 2019 was 1,353,235 square feet, which is more than double the 472,751 square foot net absorption noted for all of 2018. Despite the shrinking amount of available space within the market, the Sacramento Valley office sector is expected to remain active.



Investment Activity

There was a lot of investment activity within Sacramento this quarter. Sale transactions totaled \$301M, which is a 75% increase from the \$172M in sale transactions noted last quarter.

+75%

Trends to Watch



Parking Lots

Developers and owners have been acquiring surface parking lots due to their prime locations within the city.



Amenities

Many owners have observed higher leasing activity after making improvements to the available amenities on-site.



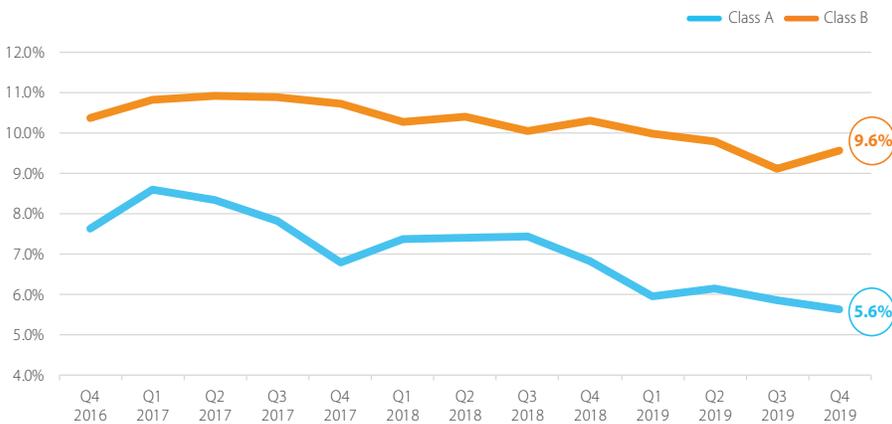
Rancho Cordova

The higher amount of leasing and sales activity recorded within Rancho Cordova suggests that it is a market to watch.

8.1 MILLION SQUARE FEET

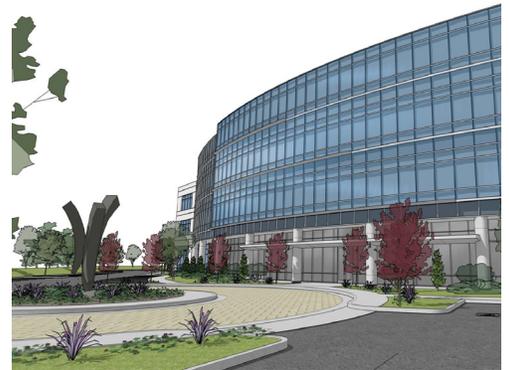
of proposed office developments currently in the pipeline

Historical Vacancy



Construction

All eyes remain on the long-awaited Railyards project which is expected to double the amount of downtown space within Sacramento. In late 2019, Sacramento was able to secure a Major League Soccer expansion team which is expediting the plans for five major projects this year. With new roads, grading and underground work already underway, we can expect more exciting construction updates about this 244 acre mega-development throughout 2020.



Deliveries

Tenants within South Natomas are eagerly awaiting the completion of 2555 Natomas Park Drive, a brand new office project located in an amenity-rich area. With an estimated completion date of February 2020, this project will bring 90,000 square feet of Class A office space to the South Natomas submarket.



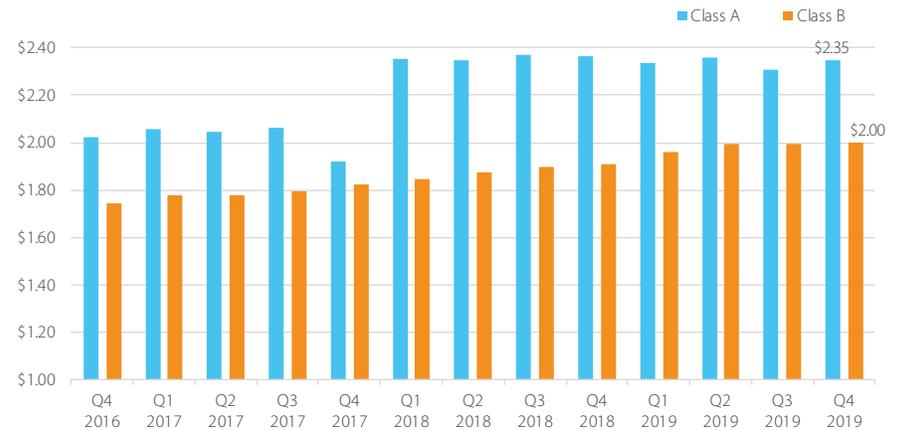
Sublease Space

Sacramento Valley's office market continues to thrive with high demand and limited availability. At the end of the quarter, there was only 192,857 square feet of vacant sublease space, which translates to just 2.8% of the available office space.

Looking Forward

Sacramento Valley's development pipeline keeps moving forward with many new projects expected to break ground in 2020. Despite the high number of these projects already preleased, the office market should see some relief in the amount of available office space within Sacramento. Landlords will continue to push asking rents to their limits due to the constant demand from current tenants and the increasing interest in relocation to Sacramento from outside Bay Area companies.

Historical Asking Rates



Notable Lease Transactions

Tenant	Building	Submarket	Square Feet	Type
Clear Blue Commercial	820-840 Stillwater Road	West Sacramento	215,946	Direct Lease
Delta Dental	3241 Kilgore Road	Rancho Cordova	54,714	Direct Lease
Edgewood Partners	10877 White Rock Road	Rancho Cordova	19,354	Direct Lease
Graybar Electric	2251 Harvard Street	Sacramento	15,362	Direct Lease
Bar None Action	2440 Gold River Road	Rancho Cordova	12,500	Direct Lease
Woodard & Curran	801 T Street	Sacramento	10,969	Direct Lease
eScreenLogic	11344 Coloma Road	Gold River	9,100	Direct Lease

Notable Sale Transactions

Building	Buyer	Submarket	Square Feet	Sale Price	PSF
Wells Fargo Center	Manulife US Real Estate Investment	Sacramento	500,662	\$198,800,000	\$397
Creekside Oaks	Pappas Investments	Roseville/Rancho Cordova	239,612	\$43,518,500	\$182
Folsom Corporate Center	Basin Street Properties	Folsom	148,534	\$31,900,000	\$215
3068 Kilgore Road	Boyd Watterson Asset Management	Rancho Cordova	104,042	\$25,200,000	\$242
950 Iron Point Road	Mountain G. Enterprises	Folsom	105,300	\$23,700,000	\$225
Prospect Corporate Center	Toor Capital, LLC	Rancho Cordova	159,760	\$23,000,000	\$144
1000 G Street	John Mourier Construction Inc.	Sacramento	81,094	\$17,000,000	\$210

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
* 2555 Natomas Park Drive	Bannon Investors Ltd, LLC	Sacramento	90,000	0%	Q1 2020
4699 Alhambra Drive	Buzz Oates	Davis	64,620	100%	Q4 2020
Natomas Pointe Plaza - Bldg C	Kobra Properties	Sacramento	20,000	0%	Q1 2020
965 El Camino Avenue	Health and Life Organization, Inc.	Sacramento	14,484	100%	Q1 2020

*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	53,508	-	-	4.4%	-	7.8%	8,194	\$1.86	-	\$2.30
Roseville/Rocklin	10,841,804	845,513	50,171	7.7%	9.8%	12.3%	15.0%	97,349	\$1.92	\$2.08	\$1.89
North Natomas	2,752,861	318,677	7,574	7.8%	11.8%	8.8%	16.0%	(12,829)	\$1.59	\$2.17	\$1.53
South Natomas	3,694,019	270,469	20,896	10.3%	4.3%	23.2%	7.0%	(3,057)	\$2.25	\$3.27	\$2.18
Rio Linda/North Highlands	1,018,415	210,437	-	-	1.6%	-	2.3%	-	\$1.69	-	\$1.45
Citrus Heights/Orangevale	1,483,285	153,822	-	-	12.5%	-	16.6%	(4,202)	\$1.58	-	\$1.75
Folsom	4,770,995	227,936	6,278	4.8%	5.4%	4.9%	12.2%	(13,763)	\$2.11	\$2.38	\$1.98
Watt Ave	2,263,518	410,090	11,852	-	22.2%	-	26.4%	39,073	\$1.58	-	\$1.73
El Dorado Hills	1,374,833	183,398	-	13.4%	14.2%	24.6%	14.8%	(28,931)	\$2.05	\$1.85	\$2.07
Sacramento-Midtown	5,113,860	347,445	7,240	8.0%	5.4%	10.9%	8.7%	(2,603)	\$2.34	\$2.46	\$2.13
Sacramento-Downtown	20,343,936	1,168,595	6,585	3.0%	10.6%	4.2%	14.0%	54,635	\$2.70	\$3.33	\$2.65
Point West	2,711,095	300,761	1,154	12.6%	12.8%	16.9%	16.3%	18,213	\$2.00	\$2.09	\$1.91
West Sacramento	2,074,728	108,763	-	-	11.0%	-	15.5%	-	\$1.80	-	\$1.82
East Sacramento	2,487,959	11,482	-	-	0.5%	-	0.5%	(1,138)	\$2.54	-	\$2.63
Highway 50 Corridor	979,617	153,712	1,099	-	11.9%	-	11.7%	(23,466)	\$1.23	-	\$1.43
Howe Ave	17,568,772	1,622,271	79,843	9.4%	9.4%	11.9%	15.4%	(88,382)	\$1.74	\$1.99	\$1.74
Campus Commons	2,769,831	450,444	-	44.9%	12.7%	44.9%	14.1%	(27,249)	\$1.68	\$1.95	\$1.59
South Sacramento	1,573,670	234,632	11,349	13.1%	17.3%	13.1%	23.6%	1,345	\$2.19	\$2.65	\$2.20
Davis/Woodland	3,142,829	207,550	-	-	8.7%	-	8.9%	(491)	\$1.58	-	\$1.71
Carmichael/Fair Oaks	2,090,569	78,784	3,598	5.4%	3.8%	5.4%	4.6%	(12,133)	\$1.98	\$3.00	\$2.13
Sacramento Valley Total	90,447,807	7,003,932	192,857	5.6%	9.6%	9.7%	13.5%	7,836	\$1.97	\$2.35	\$2.00

Historical Leasing vs Net Absorption



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