



AVISON
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Sacramento Office Insight Report

Q3 2021

AVANT
by AVISON YOUNG

Key takeaways



Economic conditions

- Unemployment in the Sacramento MSA is now at **6.7 percent**, only slightly elevated since last quarter, after declining from a pandemic high of 14.4 percent.
- Office-using job totals are **down 5.1 percent** during the pandemic. Hardest hit sectors include information, down 20.2%, and local government, down 13.1%.



Recovery rate

- Private sector activity has been limited since the start of the pandemic and will take time to recover.
- Office activity is lagging the region's overall recovery suggesting that employer mandates may be needed for office utilization to return to pre-pandemic levels.



Office demand

- Year-to-date leasing activity is down **51.0 percent** compared with the same period in 2020.
- The largest lease of the quarter was signed by Penumbra, a biotech company headquartered in Alameda, CA. They expanded their footprint in Roseville with a 96,505-sf lease at 620 Roseville Parkway.

Key takeaways



Office supply

- Direct and sublease vacancy totaled **10.8 percent**. This represents only a slight increase from the second quarter.
- Vacant sublease space totaled **561,161 sf**. The growth of sublease space has been limited since the second quarter.
- The under construction and renovation pipeline totals **2.5 msf**, of which 82% is owned by the Government of the State of California. Recently completed state government-owned projects totaled 1.2 msf.



Pricing trends

- Tenant-favorable market conditions persist as rent growth has remained suppressed and concession packages have become more generous in recent months.



Capital markets

- Sacramento total office sales volume stands at **\$400M year-to-date**, lagging 2020's total volume.
- The largest single building sale during the quarter was the Ziggurat, at 701-707 3rd Street, in West Sacramento. Nome Capital Partners and CalSTRS purchased the office building and accompanying parking garage for \$90M or \$241 psf.
- The largest portfolio sale was by the Cherng Family Trust with its purchase of a 10-building, 919,156-sf, office portfolio totaling just north of \$138M.

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Economic and demographic trends

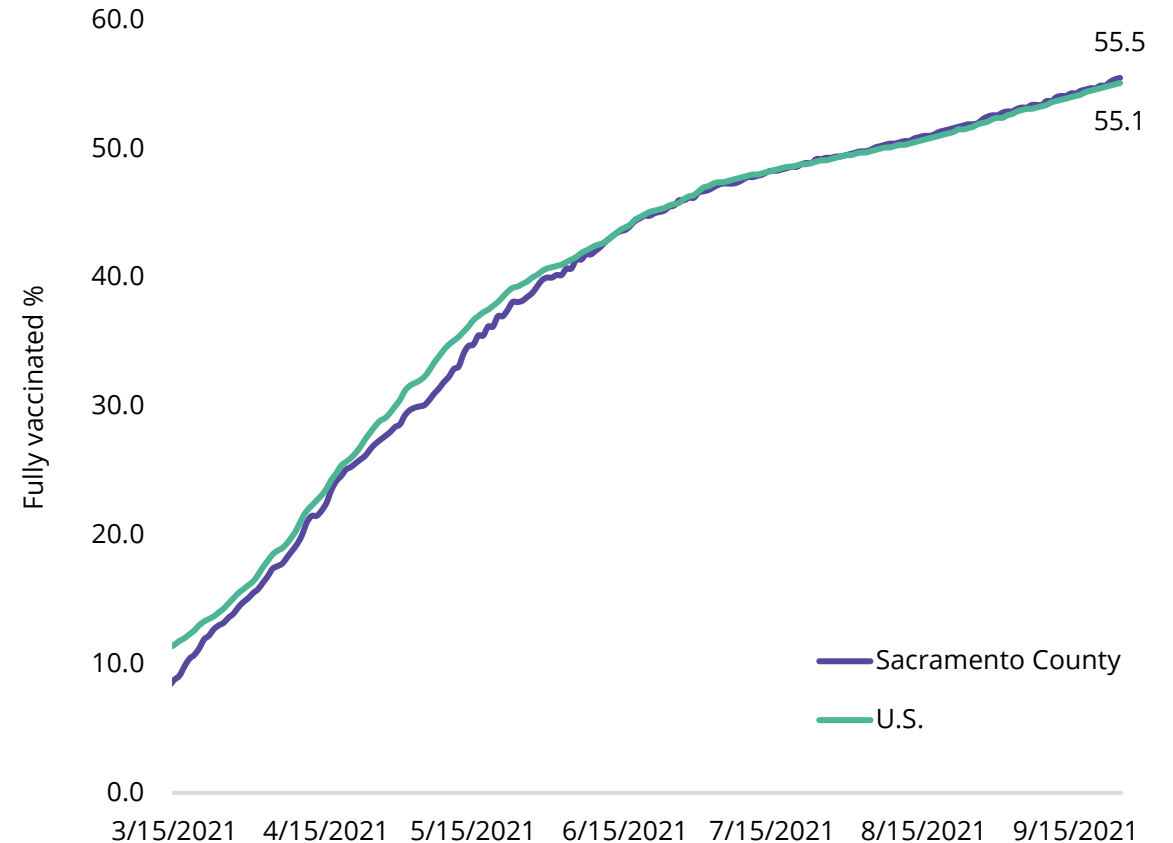
The pandemic has hampered the Sacramento economy but incremental signs of recovery are spreading across the region.

Vaccination rates

55.5%

Share of total Sacramento County population that is fully vaccinated

Sacramento County proportionate vaccination rate closely mirrors, and has recently moved ahead of, the U.S. average. This is an important metric that has allowed the county to loosen restrictions.



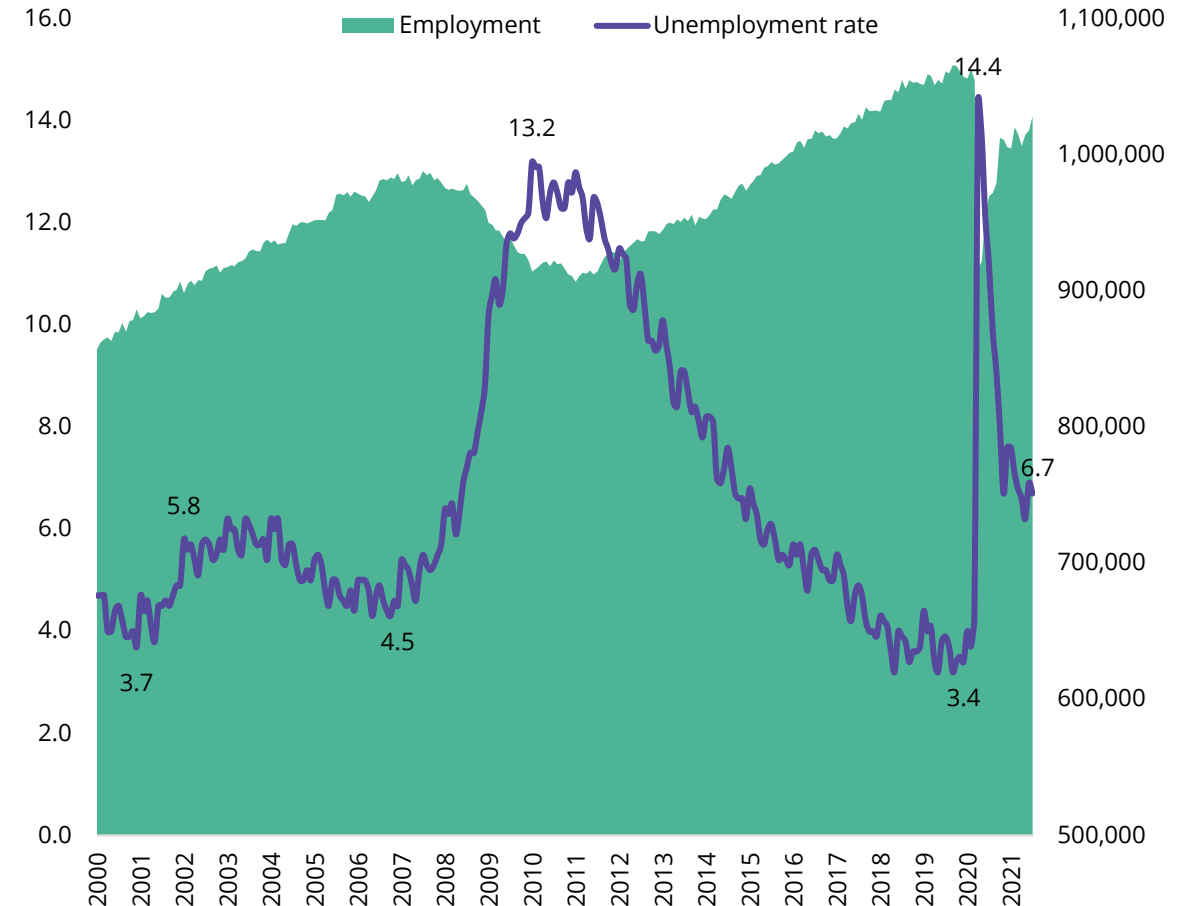
Source: CDC

Employment and unemployment rate

6.7%

Sacramento MSA unemployment rate as of July 2021, dramatically below the height of the financial crisis

Historically tightened labor market conditions were halted by the pandemic with 146,624 job losses between February and April 2020. However, reopening efforts enabled the economy to add 112,239 more jobs since April 2020.



Note: Not seasonally adjusted data.
Source: Bureau of Labor Statistics

Office-using job gains and losses

-5.1%

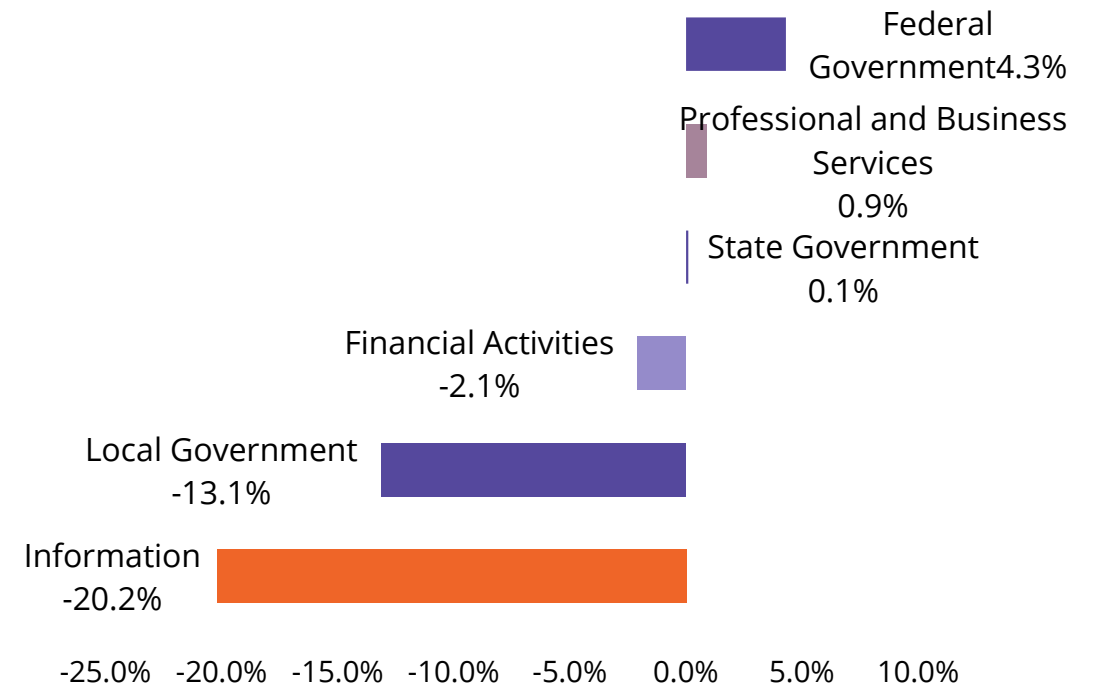
Change in office-using employment during the pandemic

Sacramento MSA total jobs declined by 3.2% since the start of the pandemic, but office-using jobs contracted by 5.1%. This recession's impact on the office-using labor market has been less severe than the global financial crisis, when Financial Activities job losses totaled 10.9%.

[VIEW DASHBOARD](#)

Total change in Sacramento MSA job gains/(losses)

February 2020 to July 2021



Note: Not seasonally adjusted data. Metropolitan statistical area.
Source: Bureau of Labor Statistics

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Office occupier conditions

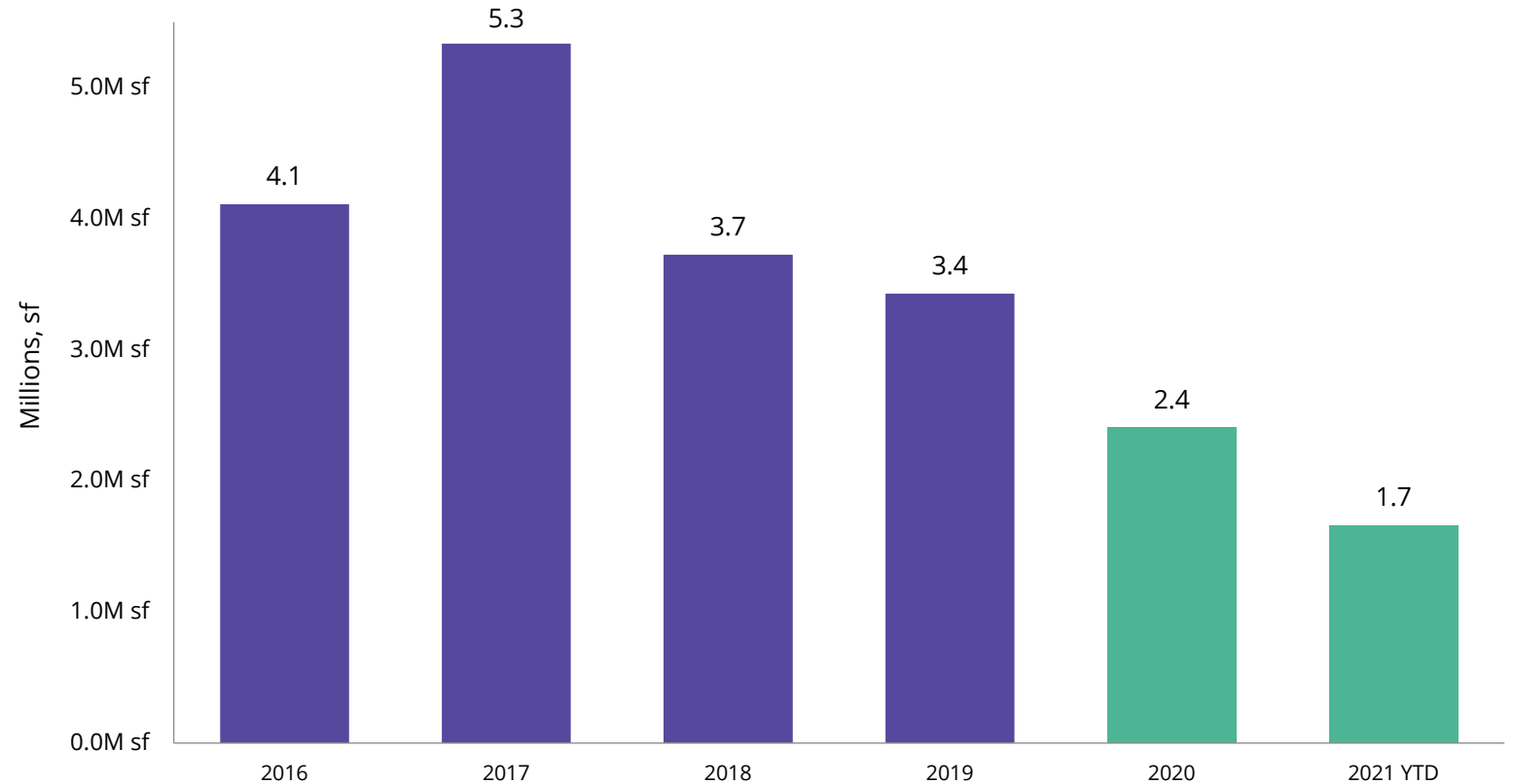
Tenants and landlords continue to navigate an evolving return-to-work and work-from-home environment as leasing demand sputters.

Office leasing activity

-51.0%

2020-3Q 2021 vs. 2016-2019 change annual average leasing activity

There is no modern precedent for the post-COVID slowdown in leasing activity due to the sudden change in office occupiers' future workplace strategies and the 2020 recession.



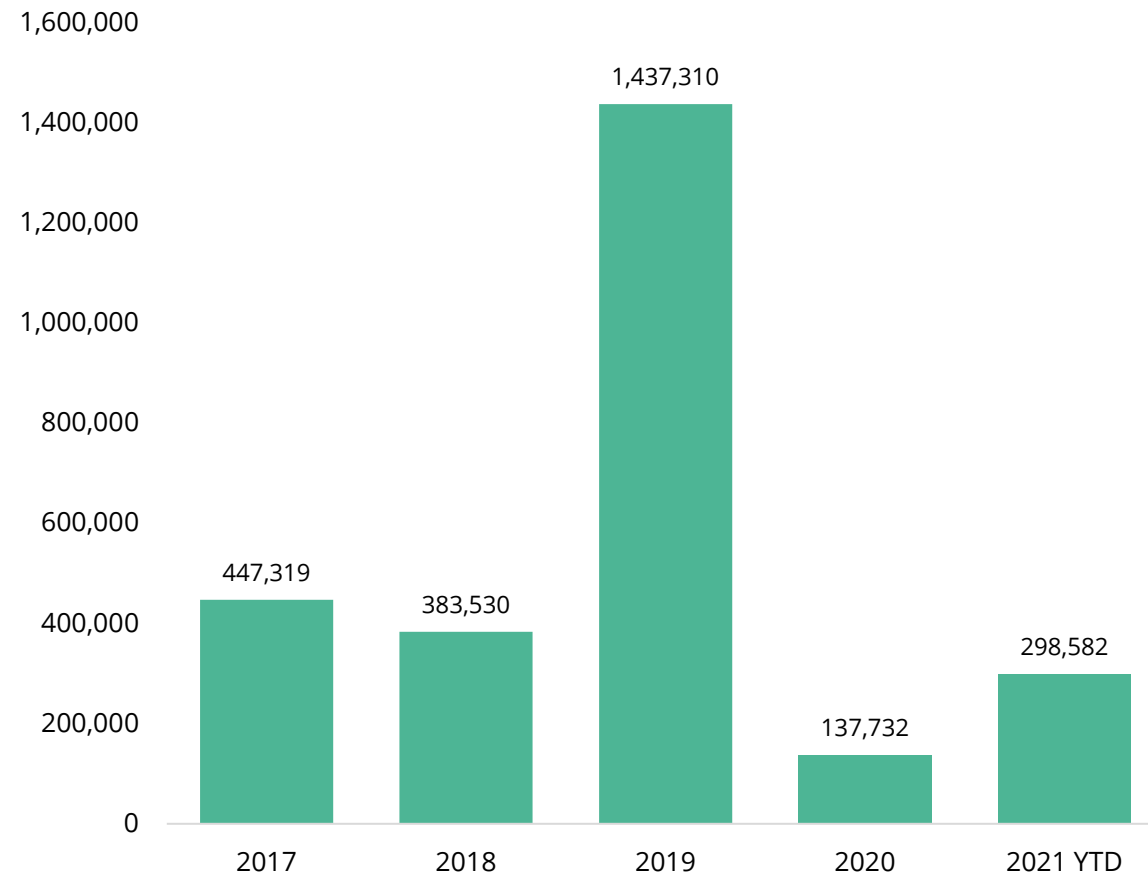
Source: AVANT by Avison Young

Absorption

436,314 sf

Net absorption from 2020 through Q3 2021

Occupancy gains from 2020 to 3Q21 totaled 436,314 sf, 70% below 2019 levels.



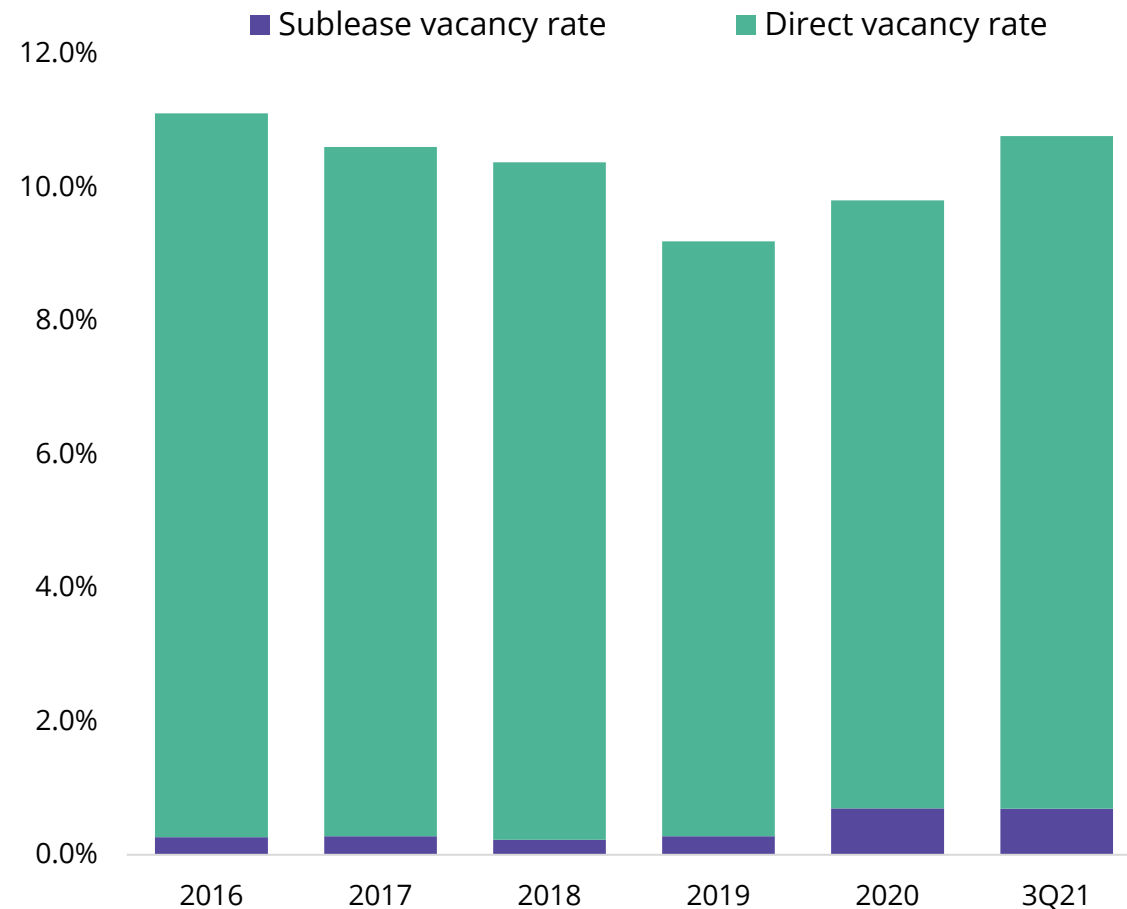
Source: AVANT by Avison Young

Vacancy rate

10.8%

Sacramento vacancy as of Q3 2021

The mild uptick in vacancy during the quarter was partly due to the rightsizing of State of California agencies into state-owned building that have recently delivered.



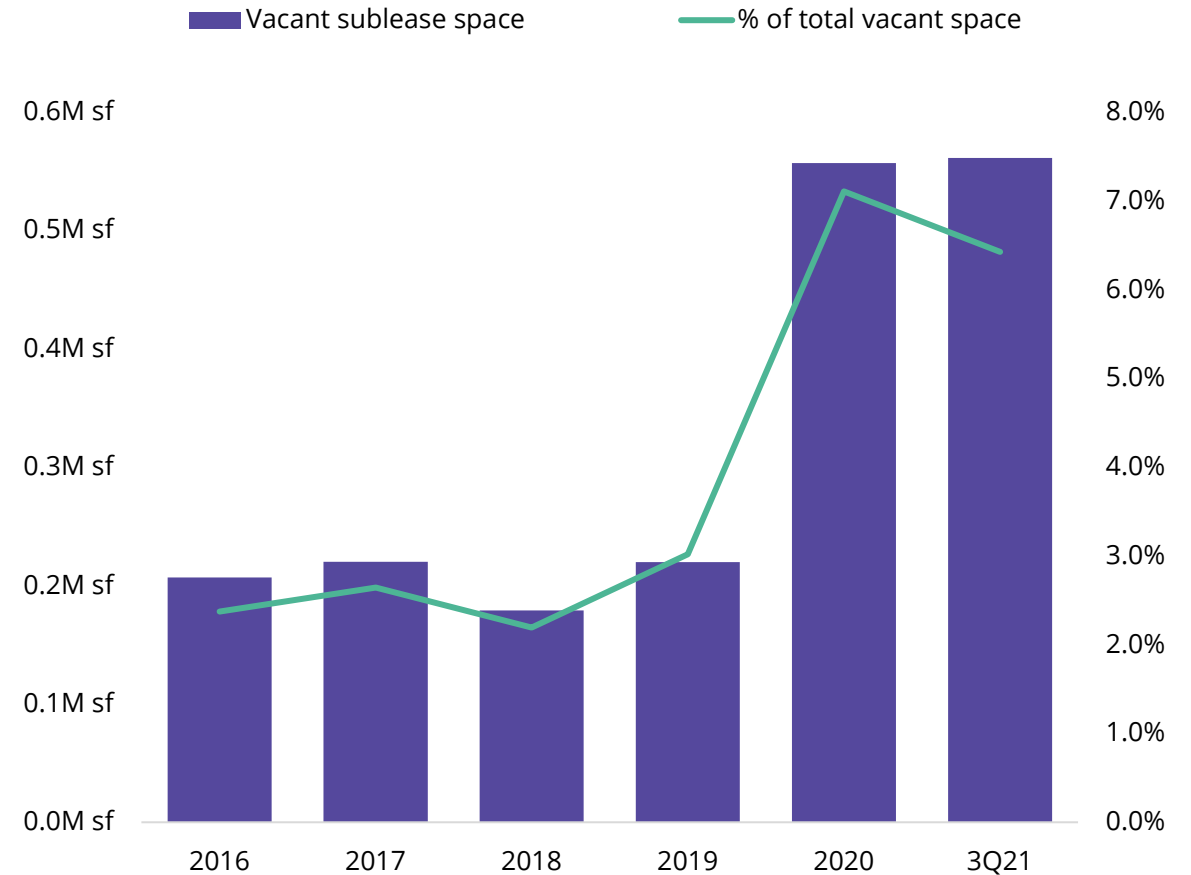
Source: AVANT by Avison Young

Vacant sublease space

536,867 sf

of vacant sublease space

The share of sublease-to-total vacant space was 6.4% for 3Q21. The growth of sublease space on the market has been limited since the end of 2020.



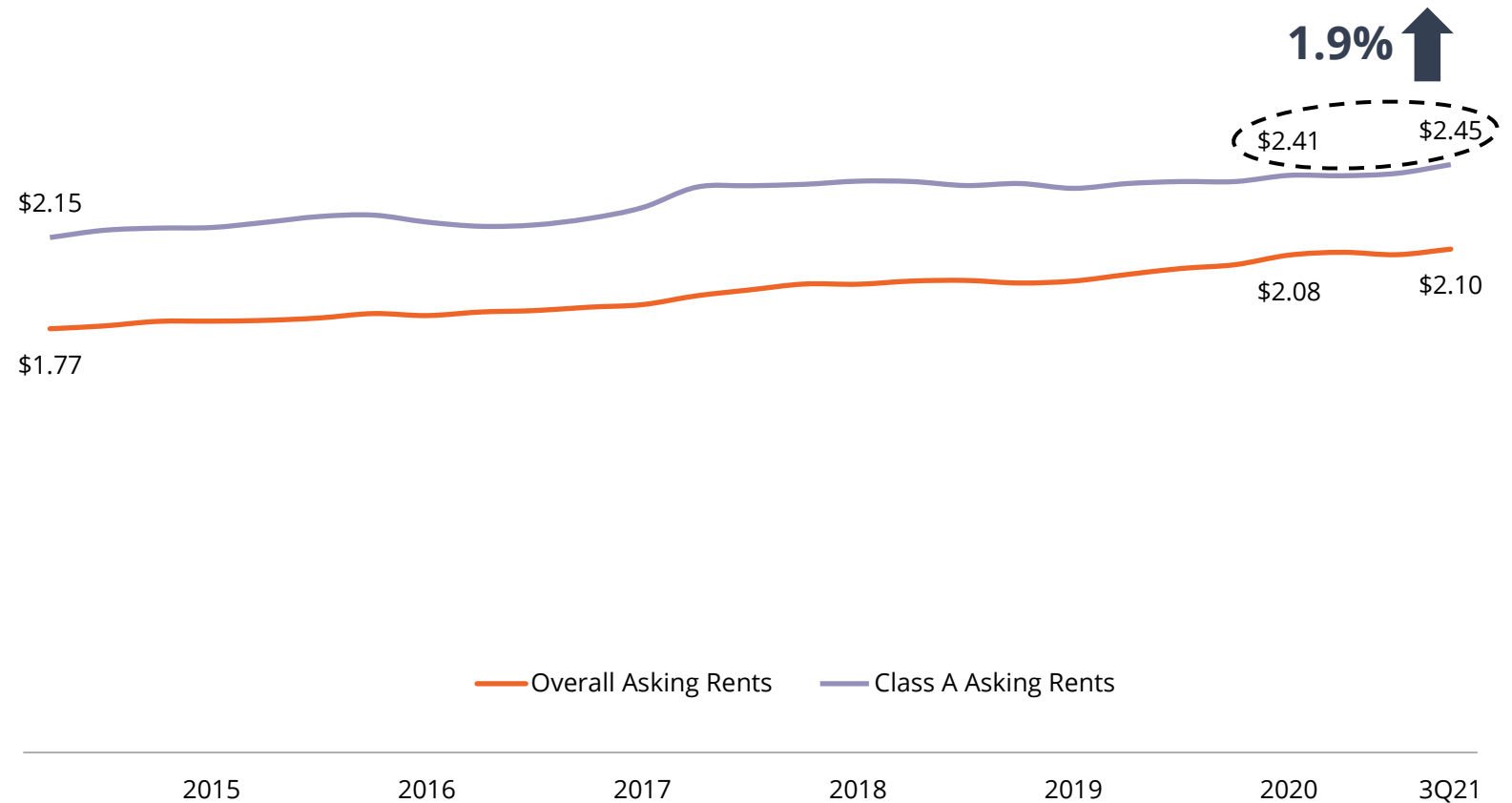
Source: AVANT by Avison Young

Asking rents

1.9%

Year-to-date change in Sacramento Class A asking rents

Tenant-favorable market conditions persist as rent growth has remained suppressed and concession packages have become more generous in recent months.



Source: AVANT by Avison Young, CoStar

Sacramento's inventory makeup

55 properties

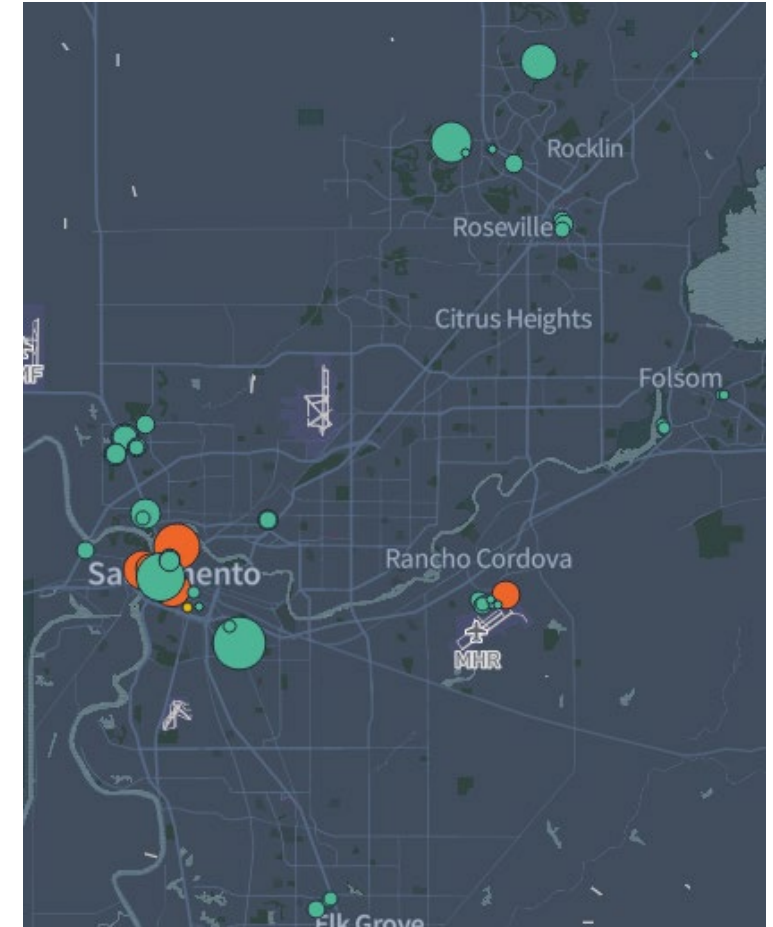
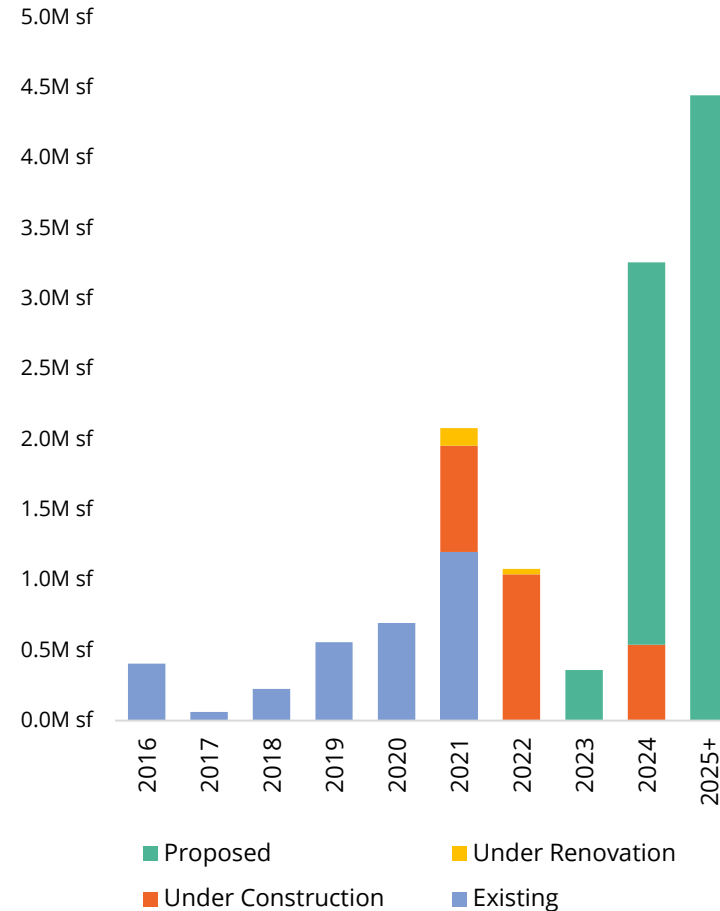
proposed, under renovation,
or under construction

10 msf

proposed, under renovation,
or under construction

12.3%

share of office
inventory that is proposed,
under renovation, or under
construction



Source: AVANT by Avison Young

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Capital market conditions

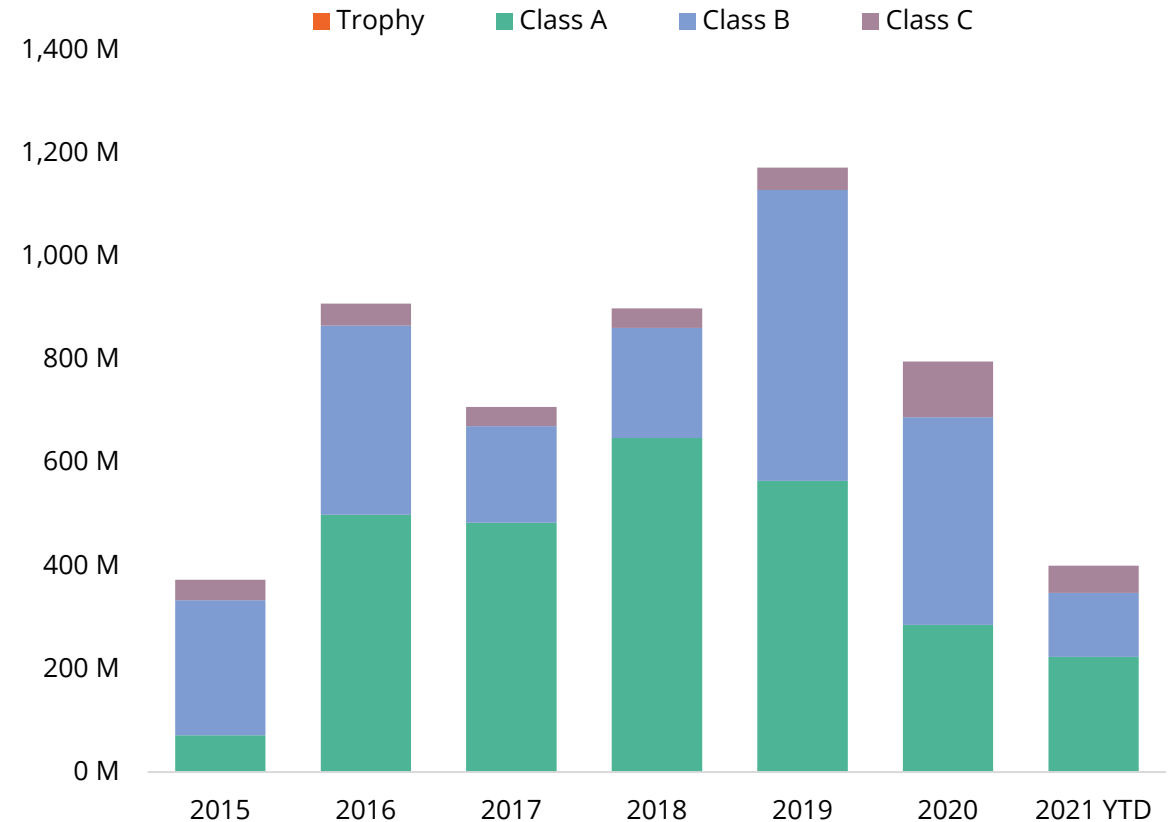
Capital markets activity has been suppressed compared to 2020 but the Sacramento office market continues to hold the interest of investors.

Office investment dollar volume

\$1.2B

Sacramento office dollar volume 2020 to present

Office sales activity was adversely affected during the risk-pricing crisis, decreasing by an annualized rate of 15.8% compared with the prior five-year average dollar volume.



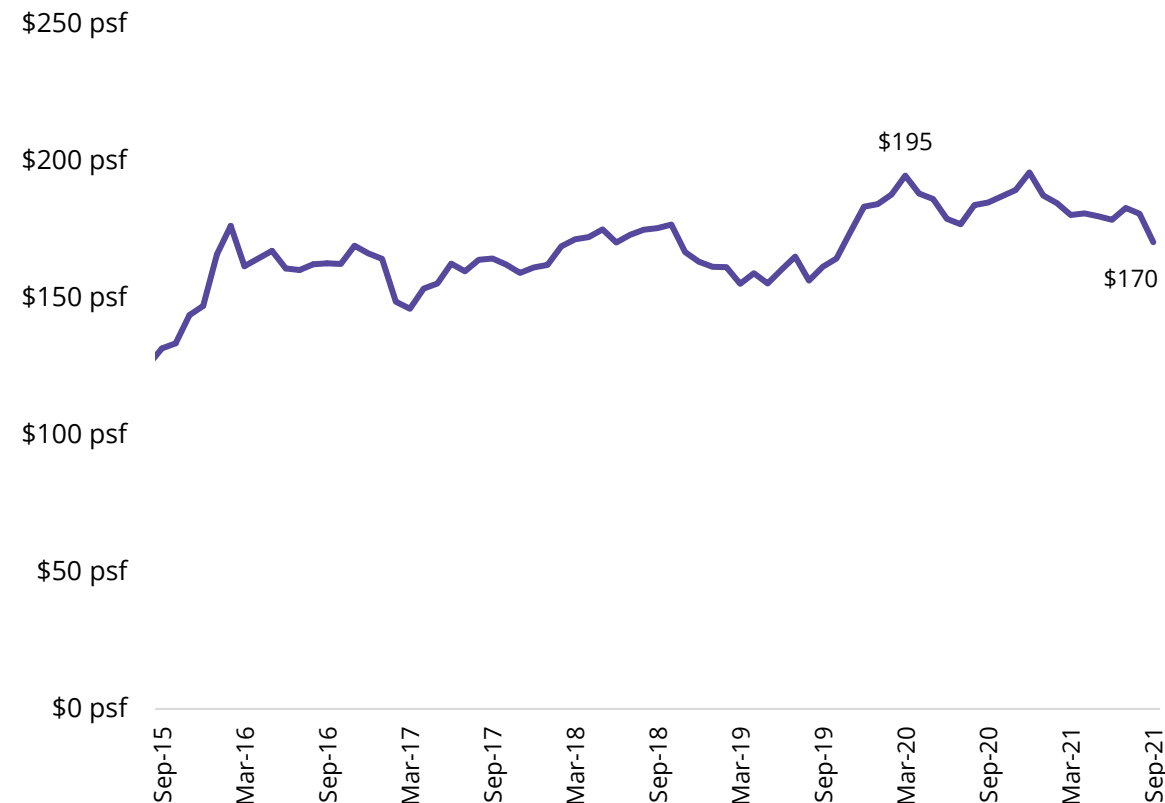
Source: AVANT by Avison Young, RCA

Office asset pricing

-12.5%

Sacramento office pricing from March 2020 to present

Average sales pricing psf dropped from \$195 psf in March 2020 to \$170 psf in September as investors have adopted more conservative underwriting approaches.



Source: AVANT by Avison Young (12-month moving average)

Looking forward



Here's what we can expect

- As employers move toward mandated vaccinations and we see an uptick in the county's vaccination rate, office occupiers will be more decisive in making decisions around return to office strategies and provide more clarity around the future demand environment.
- Construction activity has been largely driven by the California state government agencies and the desire to relocate to state-owned properties.
- Today's leasing environment continues to favor tenants and flexibility. Expect shorter lease terms and higher concession as tenants try to determine their new occupancy path going forward.



Get in touch



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Let's talk

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