

INSIGHTS2020

GAME CHANGERS





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Message from the Managing Director

2020...The Year of Focus

Not an original thought but a significant one for our new decade! On behalf of Avison Young Northern California, Happy New Year to all and thank you for attending our second annual INSIGHTS event. Once again, we have an incredible agenda featuring a truly relevant keynote speaker, wonderful Avison Young participants, outstanding sponsors and all of you...our clients, acquaintances and friends. We are excited to host you all, twist the INSIGHTS lense and aspire for you to pick up a few gems to either use for yourself or pass along.

2019 was a great year for the Northern California commercial real estate industry as well as Avison Young. Our industry saw another significant growth curve, once again mostly spurred by technology, and robust velocity in all types of transactions. Virtually every major market in the Bay Area saw an increase in rental rates and reduction in vacancy. When will it stop? Seems to be the \$60,000 question.

What we know is...the FAANGS (Facebook, Apple, Amazon, Netflix, Google & Salesforce) are beyond healthy. Google has their focus on 'other bets' (e.g. Nest, Waymo, Verily) and the others are not too far behind with *their* 'other bets', incubators and VC activity. This phenomenon promotes growth for all financial service companies and, more importantly, other technology companies. Legal, banking, VC, PE, consulting, accounting, you name it, they touch it. Yes, the legal industry is very different from yesteryear, taking less space and becoming more efficient, but most are also making money. Same goes for most, if not all, of the other financial services companies. Plain and simple, FAANGS are the Bay Area's engine. How they go, the local economy (commercial real estate industry) goes. And now for something you may not know...things are about to dramatically change.

We are all familiar that change begets change. Innovation. Data. Research. Pure and simple these are the key ingredients for evolution. Robots are no longer a part of the Jetsons or Lost in Space...they are very real and coming at us quickly. They already clean our homes and they will do a lot more. Automating the commercial real estate business will force us into major change and disrupt our 'normal.' It will transform how we acquire, dispose, develop, manage, lease, and use commercial real estate. We will need to adapt to the **New**, New, New Thing (next Michael Lewis book? :) or else be left behind. Amazon didn't even interview brokers for their HQ2 project. They just interviewed data and innovation experts to get to a broker. Says a lot...

Well today, not only will you get the latest and greatest on the geopolitical landscape, but also leading-edge information on the subjects that will propel and sustain our industry into the next decade. Avison Young is committed to embracing innovation, data collection and reborn research in order to better serve you, the client, in the years to come. INSIGHTS2020 is meant for you to understand AY's commitment, both intellectually and by capital investment, to taking our clients, and ourselves, to the next level.

We remain fiercely loyal and FOCUSED on your success. Thank you, once again, for attending INSIGHTS2020 and, hopefully, you can see things a bit more clearly now.



Best Regards,

A handwritten signature in black ink, appearing to read 'Nick Slonek'. The signature is fluid and cursive.

DOMINIK "NICK" SLONEK
Principal and Managing Director
NORTHERN CALIFORNIA

Northern California High Demand Continues

As economic expansion continued throughout U.S. markets in 2019, it is no surprise that the Northern California markets were front and center. Considered to be the tech capital of the world and one of the most competitive economies in the U.S. based on a productive and educated workforce, deep venture capital pool, and longstanding reputation for cutting edge innovation. With an extremely tight job market, unemployment in the region has remained below the national and state averages and job growth continues to outpace the nation. San Mateo County takes claim to the lowest unemployment rate in the state of just 1.8% according to November numbers released by the U.S. Bureau of Labor Statistics.

The Northern California office market measured continued growth in 2019, a familiar headline for the region throughout this current cycle. As one of the country's most sought after real estate markets, Northern California proved that tenant demand remains strong and all five regions tracked by Avison Young in Northern California measured positive occupancy growth, bringing the total for the region to 9.7 million square feet (msf) of positive net absorption. Leasing volume was strong as tech companies in Northern California continue to have a sensational appetite for office space. Vacancy dipped below the 10% mark in all five regions, and total vacancy in the Northern California office market fell 110 basis points to 6.5%. Cranes continue to fill the skyline throughout the Northern California office markets. Total office space under construction at the close of 2019 totaled more than 14.0 msf with more than 75% of it already spoken for in the form of preleasing or build to suits.

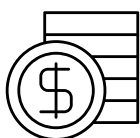
As we move into 2020, there are no signals or warning flares of a major slowdown on the horizon. Investment activity is expected to continue at a modest pace in 2020 as investors take advantage of the low interest rate environment. The region remains a preferred investment location with stable returns, which will continue to draw increased capital flow in the coming year. Expect to see leasing volume temper slightly as vacancy remains tight. Demand will continue to outpace supply as many large tenant requirements have gone unfulfilled and asking rates will level off as available quality space is scooped up.

Key Office Market Statistics

Market	Total RBA (SF)	Direct Vacant Space (SF)	Sublet Vacant Space (SF)	Vacancy Rate (Q4 2019)	2019 Net Absorption (SF)	Under Construction (SF)	Class A Vacancy Rate (Q4 2019)	Class B Vacancy Rate (Q4 2019)
San Francisco	89,199,077	2,653,516	669,429	3.7%	2,520,476	2,791,369	3.2%	5.5%
San Mateo	47,557,554	2,481,125	606,663	6.5%	1,744,246	3,130,311	6.6%	6.8%
Silicon Valley	108,638,693	6,011,737	1,488,554	6.9%	3,741,713	6,350,875	7.0%	7.4%
East Bay	30,294,869	2,379,233	343,808	9.0%	424,971	396,725	10.0%	8.5%
Sacramento	90,447,807	7,003,932	192,857	8.0%	1,353,235	2,122,900	5.6%	9.6%
Region Total	366,138,000	20,529,543	3,301,311	6.5%	9,784,641	14,792,180	5.7%	7.7%

Population, jobs & economic indicators

Venture Capital & Investment



\$47.2B

DOLLARS INVESTED INTO
THE BAY AREA IN 2019

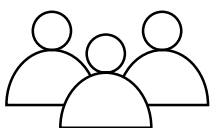


43.7 %

OF TOTAL U.S. FUNDING
RECEIVED BY BAY AREA
COMPANIES

The Bay area took claim to nearly 44% of total U.S. Venture Capital funding in 2019, with a total of \$47.2 billion invested across 1,722 deals. Although VC funding was down slightly year over year, the Bay Area continues to receive the lion share of capital in the U.S.

Population & Economy



7.7M

RESIDENTS IN
THE BAY AREA

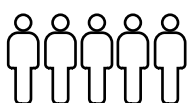


\$74,815

GDP PER CAPITA

While California would be an economic force as its own nation, so too would the Bay Area alone. With a GDP of \$535 billion, the San Francisco Bay Area would rank 19th in the world when ranked against national economies.

Employment & Education



4.8M

TOTAL LABOR FORCE
IN THE BAY AREA



2.5%

UNEMPLOYMENT
RATE DECEMBER 2019

Bay Area job growth continues to outpace the national and state averages. Unemployment in the Bay Area was 2.5% in November 2019 according to preliminary numbers released by the U.S. Bureau of Labor Statistics, compared to the state's unemployment rate of 3.9% and the national unemployment rate of 3.5%.

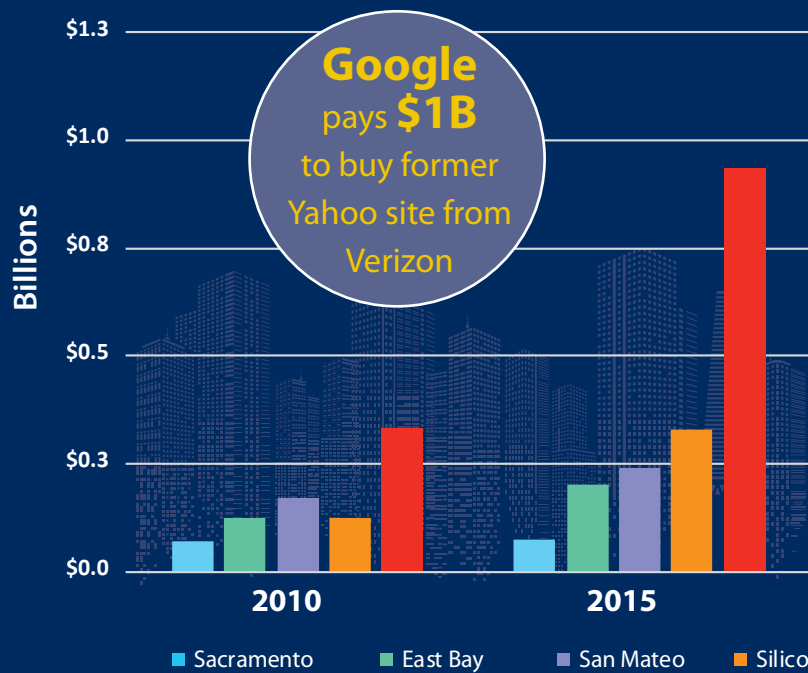
DECADE by the NUMBERS

As the decade came to a close and the Bay Area sets sail into a new era, here is a look back on some of the biggest headlines, deals and political uproars over the past 10 years.

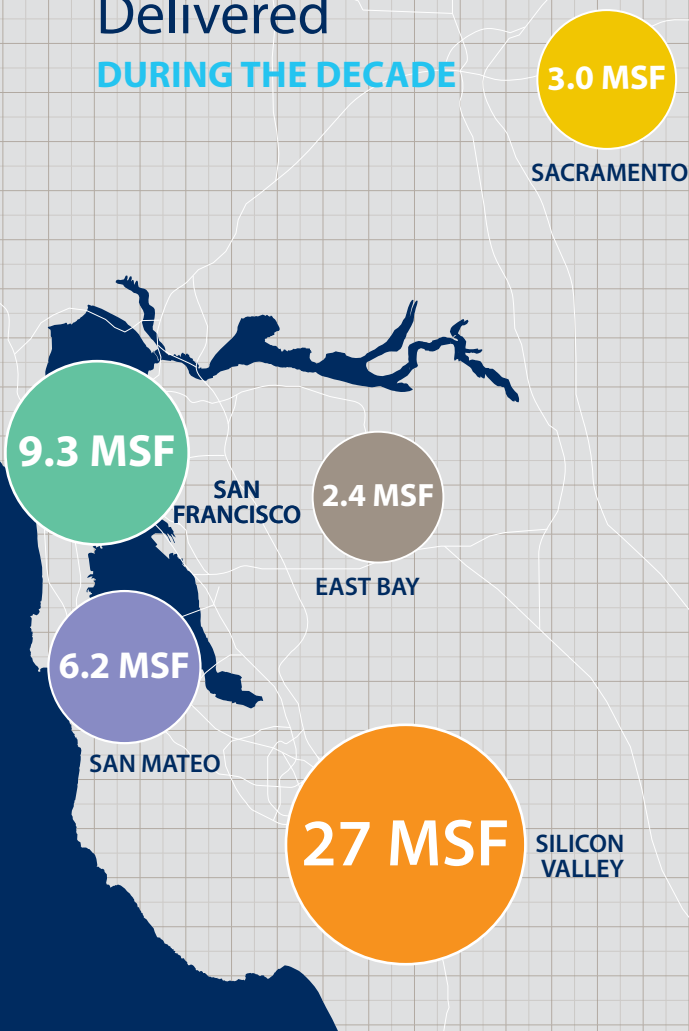
2010 - 2019

Biggest Investment Deals Through

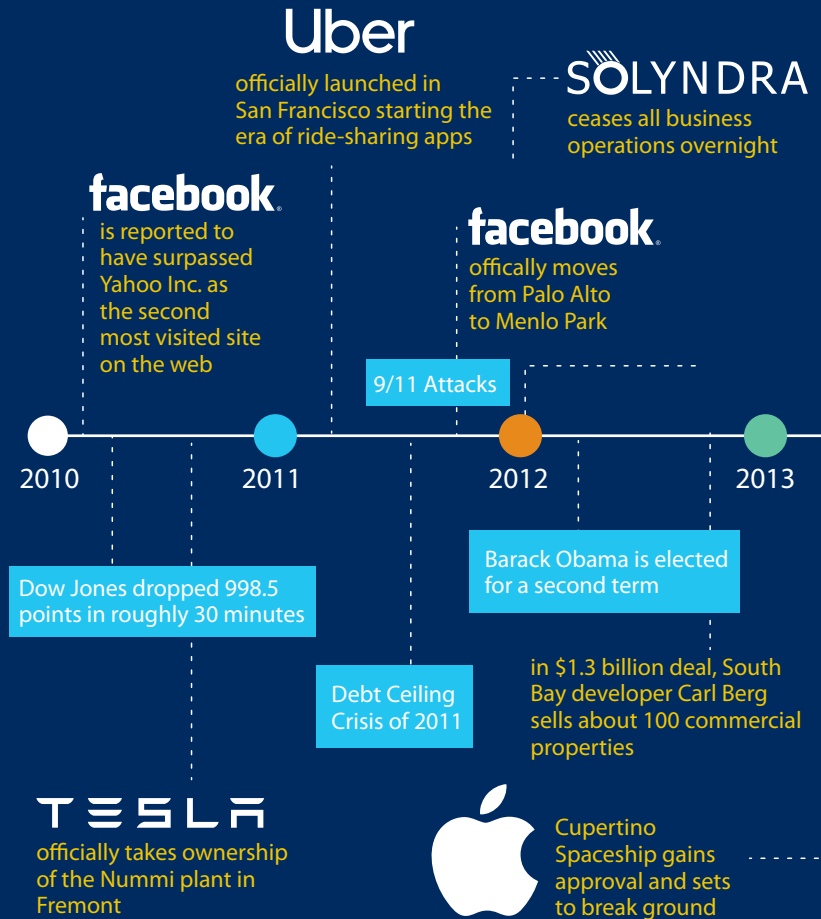
LARGEST INVESTMENT SALE PRICE BY BAY AREA



Total Construction Delivered DURING THE DECADE



NOTABLE HEADLINES OF THE DECADE



gh the Decade

AREA MARKET



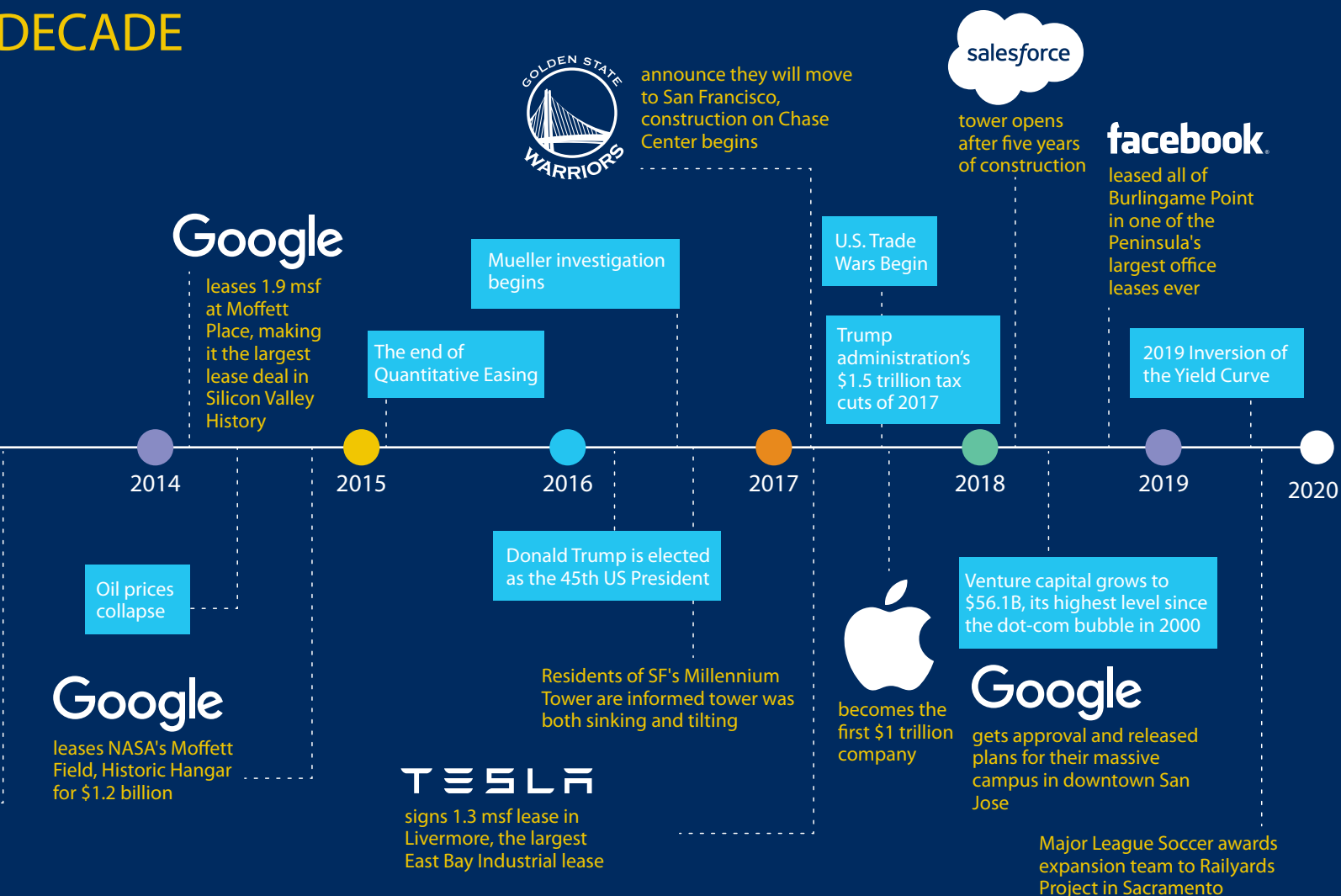
n Valley ■ San Francisco

Notable IPO's throughout the Decade

WHERE THEY ARE THEN AND NOW

Year	Company	Valuation Then (Billions)	Valuation Now (% Change)
2010	Tesla	\$2.2	1638%
2011	LinkedIn	\$4.5	Acquired by Microsoft in 2016
2012	Facebook	\$16.0	423%
2013	Twitter	\$14.2	-27%
2014	Alibaba Group Holding	\$26.0	107%
2015	FitBit	\$4.1	-49%
2016	Nutanix	\$2.2	0%
2017	Snap	\$23.8	-46%
2018	Spotify	\$23.0	-4%
2019	Pinterest	\$12.7	-22%

DECADE





SAN FRANCISCO

Supply Demand Imbalance

Key Takeaways



Exodus

There has been an increase in large corporations relocating out of the city after Prop C's business tax vote



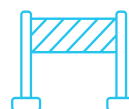
Legislation

Prop E 2020 ballot measure where future office entitlements will be subject to the number of affordable housing units built



Skyline

Salesforce's Parcel F and 725 Harrison get the go-ahead with entitlements which will dramatically change San Francisco's horizon



Construction

Prop M continues to put pressure on existing inventory by limiting the amount of new construction allowed into the city per year



Demand

Limited availability and an increasing demand from tenants are putting a substantial amount of pressure onto the office market

Vacancy

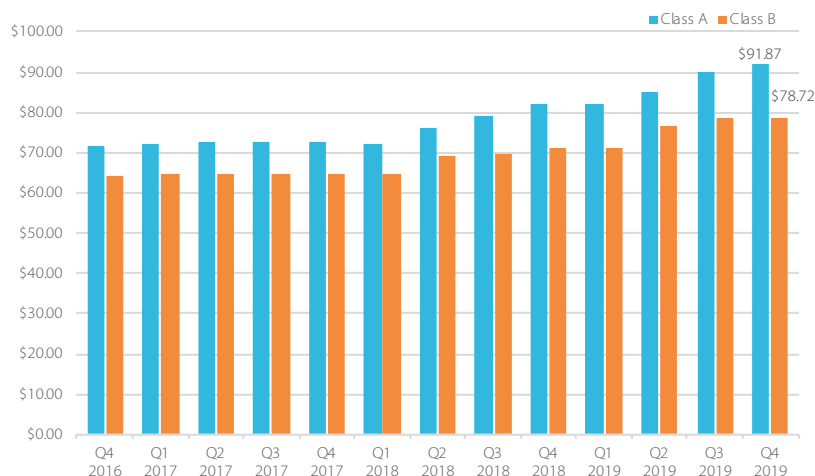
San Francisco's office market remains highly competitive as continued tenant demand puts mounting pressure on supply. The amount of available vacant space in San Francisco's office market fell 22% in 2019 to measure an overall vacancy rate of just 3.7% at the close of the year. This is down from the 4.6% vacancy rate measured at the close of 2018 and 6.2% in 2017. Sublease space within the city's office market totals just under 700,000 square feet (sf). Sublease space accounts for 20.1% of total space on the market, potentially offering tenants a discount and some relief from the competitive office market.

Demand

Leasing activity in San Francisco remained strong throughout 2019. Totalling 9.3 million square feet (msf) of leasing in 2019, this was down from 2018 when annual leasing activity totaled 13.7 msf, and down from the 12.7 msf measured in 2017. The slowing rate of leasing activity is likely a result of the limited number of large blocks of space available in the city and the ever-increasing imbalance in the supply demand ratio. Prop M continues to limit the amount of new construction that can be built each year in the city and is continuing to put pressure on the existing inventory.

Asking Rates

Overall asking rates climbed 10.9% in 2019 to close the year at an average annual asking rate of \$89.48 per square foot (psf), full service in San Francisco. Average asking rates for class A office space followed a similar trend during the year, reaching \$91.87 psf full service, an 11.9% increase year over year. The submarkets commanding the highest rates include the North Financial District which commands \$89.65 psf, a 14.1% increase year over year. South Financial District ended the year with an average asking rate of \$89.47 psf, an increase of 7.2% from the fourth quarter of 2018. Limited available space in the market and ever-increasing demand from tech companies is largely responsible for the continued growth in asking rates recorded in San Francisco.



↓ 3.7%
Vacancy Rate
(4.6%*)

↓ 2.5 MSF
Absorption
(3.79 MSF*)

↑ \$89.48 FS
Asking Rent
(\$80.60 FS*)

↑ 9.3 MSF
Leasing Activity
(7.76 MSF*)

**compared to one year earlier*

Looking Forward

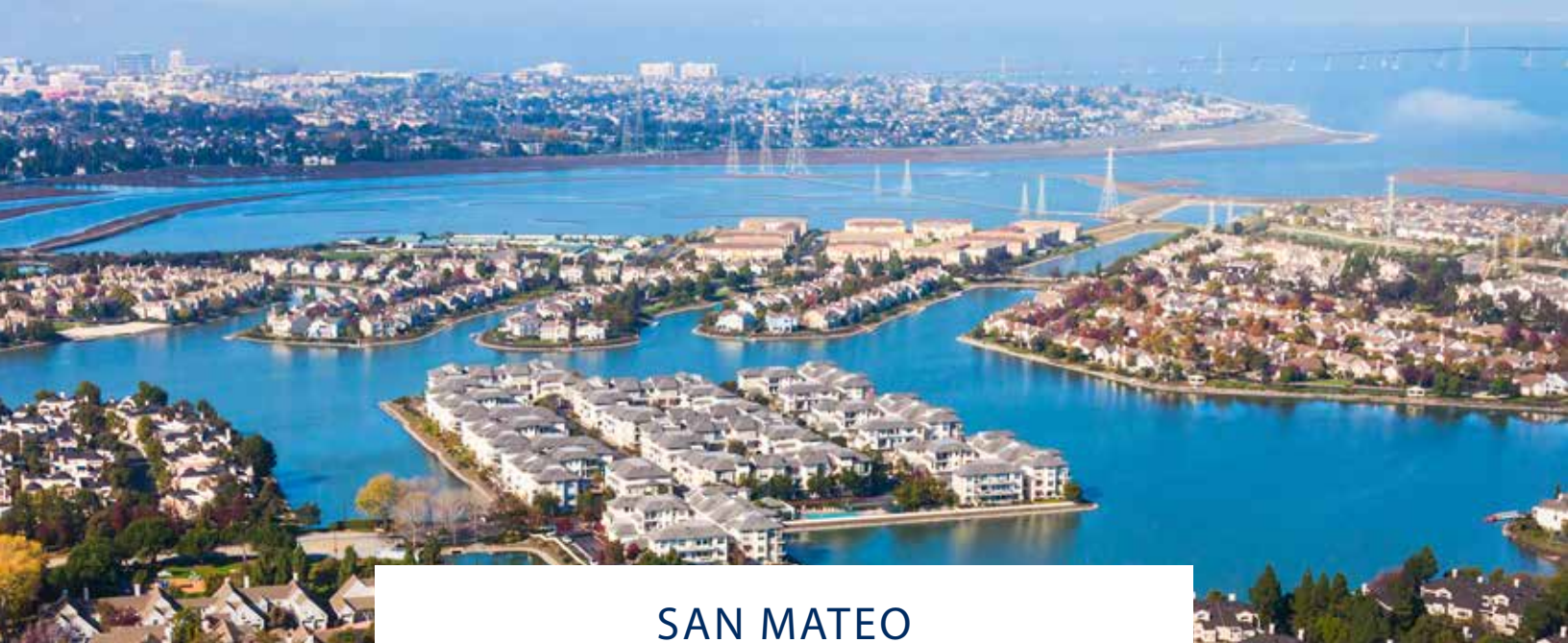
Looking into 2020, the San Francisco office market is likely to maintain the steady pace from 2019. As new office projects move forward with entitlements, the potential new space may bring some much needed relief to the current pressure of tenant demand in the market. Despite the high demand by tech companies, traditional office using occupiers, such as professional services, are realizing San Francisco's political and business climate and increasing costs make it difficult for them to continue to operate within the city. It is likely the market will see additional migration of these tenants to neighboring markets.

Notable Leases of 2019

Tenant	Building	Submarket	Square Feet	Signed Date	Type
Pinterest	88 Bluxome Street	SOMA	490,000	Q1 2019	Prelease
Visa	Mission Rock	Mission Bay/China Basin	300,000	Q4 2019	New Lease
Asana	633 Folsom Street	SOMA	271,640	Q1 2019	Prelease
First Republic Bank	One Front Street	North Financial District	265,000	Q2 2019	Renewal/Expansion
Slack	45 Fremont Street	South Financial District	205,566	Q1 2019	New Lease

Notable Sales of 2019

Building	Buyer	Submarket	Square Feet	Purchase Date	Sale Price
Levi's Plaza	Jamestown, L.P.	Waterfront/North Beach	931,160	Q3 2019	\$825,999,500
555-575 Market Street	Paramount Group	South Financial District	770,000	Q4 2019	\$722,000,000
650 Townsend Street	Beacon Capital Partners	Showplace Square	670,000	Q2 2019	\$602,700,000
215 Fremont Street	LPC/Clarion Partners	South Financial District	373,500	Q1 2019	\$335,500,000
600 California Street	The We Company	North Financial District	363,000	Q3 2019	\$331,750,000



SAN MATEO

New Expansion Opportunities

Key Takeaways



Preleases

Tech companies continue to seize all possible expansion opportunities by preleasing entire campuses



Asking Rents

Despite the small dip in average asking rates year over year, average annual asking rents should continue their upward climb



Activity

Office tenants remain active in their search for more space, with over 3.4 million square feet of leasing activity recorded in all of 2019



Demand

Tenants remain active despite the limited availability and rising asking rents; demand should not ease up any time soon



Placemaking

The demand for placemaking has been influencing Bay Area developers to design and build more elaborate developments

Vacancy

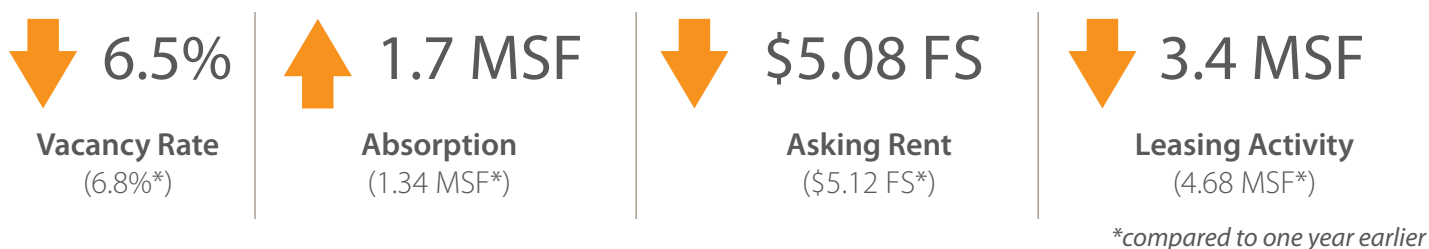
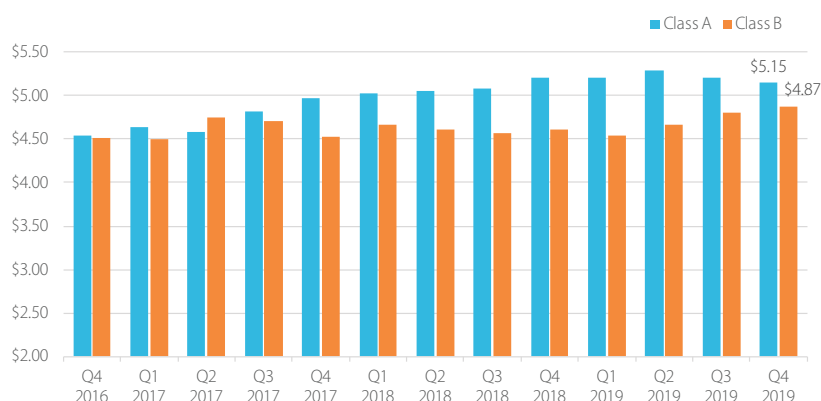
Total available office space within San Mateo County measured just over 3.0 million square feet (msf) at the close of 2019, translating to a 6.5% overall vacancy rate. The total amount of available space has decreased by 2.8% since the beginning of 2019, while Class A space has reduced the most by 10.1%. Sublease space makes up 19.6% of the total available space ending the year with a sum of 606,663 square feet. Even though approximately 1.3 msf of new office product has been delivered to the Peninsula in 2019, the office market has barely seen a change in vacancy rate which has been hovering between 6% and 7% for the past few years.

Demand

As a result of strong tenant demand, San Mateo County recorded an occupancy gain totaling 1.7 msf in 2019, while total leasing activity measured 3.4 msf. Despite the minimal change in vacancy over the past couple of years, there is still a lot of activity occurring within San Mateo County. At the close of the year, there was 2.9 msf of new office developments currently under construction along the Peninsula market, with roughly 2.0 msf of that to be delivered in 2020. Due to the high demand for placemaking, developers are continuously upgrading their campuses with the newest amenities that appear to be attracting many of the larger tech tenants.

Asking Rates

Overall asking rates within San Mateo County have finally slowed down. The office market measured an overall asking rate of \$5.08 per square foot (psf), full service at the end of 2019, which is a 1.0% decrease from the \$5.12 psf, full service rate noted at the end of 2018, but is still a 4.1% increase from the \$4.88 psf, full service asking rate measured at the end of 2017. Redwood City and Menlo Park continue to command the highest rents within a submarket on the Peninsula. At the end of 2019, both submarkets noted an asking rate of \$7.17 psf, full service and \$6.49 psf, full service, respectively.



Looking Forward

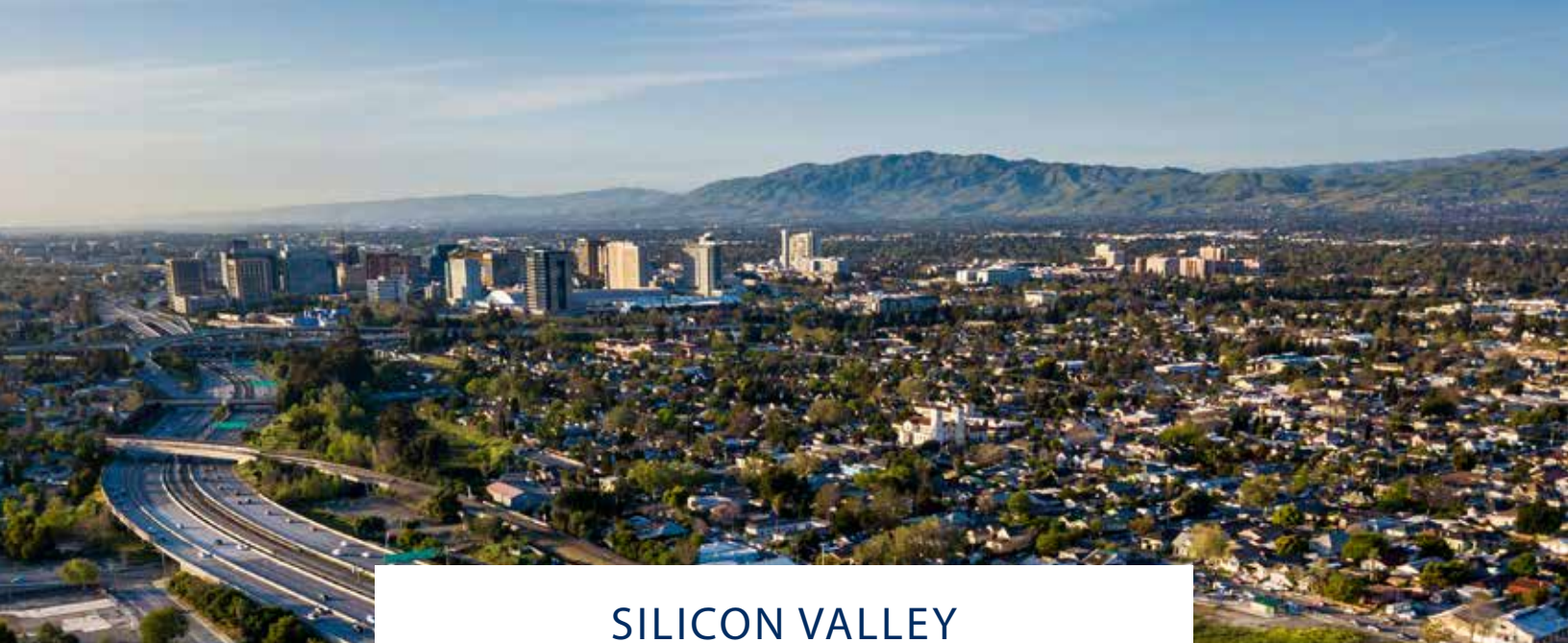
2020 should be a successful year for the San Mateo County office market. Placemaking has been pushing demand for new development along the Peninsula, and should continue to do so for the new few years. Although, these new developments will probably not affect the amount of available supply due to the high number of preleases occurring months before the project completion dates. Nevertheless, these projects will continue to keep asking rates at premium levels as tenants continue looking for any expansion opportunities.

Notable Leases of 2019

Tenant	Building	Submarket	Square Feet	Signed Date	Type
Stripe, Inc.	Kilroy Realty Oyster Point	South San Francisco	421,000	Q4 2019	Prelease
Genomic Health	Seaport Centre	Redwood City	180,660	Q4 2019	Renewal/Expansion
Softbank	500 El Camino Real	Menlo Park	154,000	Q3 2019	New Lease
Snowflake Computing	450 Concar Drive	San Mateo	102,000	Q1 2019	New Lease
Zuora	101 Redwood Shores Parkway	Redwood Shores	100,328	Q1 2019	New Lease

Notable Sales of 2019

Building	Buyer	Submarket	Square Feet	Purchase Date	Sale Price
Bayshore Technology Park	Longellow Real Estate Partners	Redwood Shores	997,680	Q1 2019	\$650,000,000
400-450 Concar Drive	Diamond Investment Properties	San Mateo	304,885	Q2 2019	\$320,000,000
The Crossroads	C-III Capital Partners	San Mateo	406,085	Q2 2019	\$269,000,000
800 Marina Blvd & 2000 Sierra Point Pky	HCP, Inc.	Brisbane	427,284	Q2 2019	\$245,000,000
901 Cherry Avenue	Google, LLC	San Bruno	184,000	Q2 2019	\$220,550,000



SILICON VALLEY

Steady As It Goes

Key Takeaways



Asking Rents

Look for asking rates to remain at high levels in Silicon Valley so long as strong demand for office space persists



Construction

Office construction continues to thrive with many new projects coming to Downtown San Jose, the first in over a decade



Demand

Demand will maintain momentum and positive occupancy gains are expected to continue in 2020



Investment

Volume in 2020 will remain stable as the Silicon Valley continues to provide investors with potential growth on investment



Downtown

Downtown San Jose will see record setting deals as new projects offer tech companies campus options for the first time in years

Vacancy

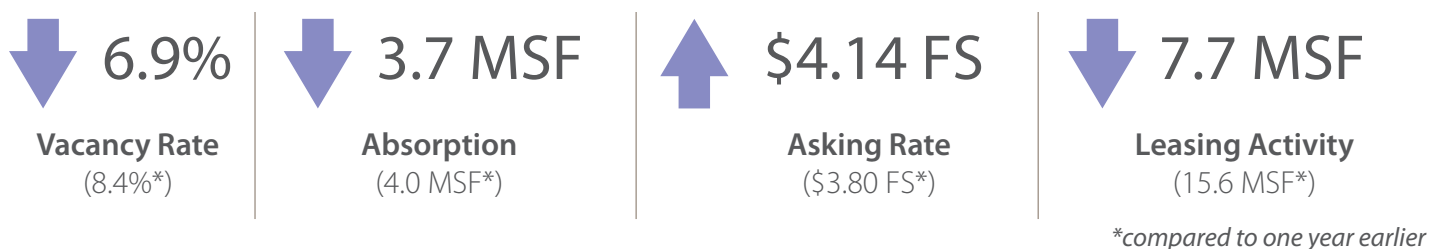
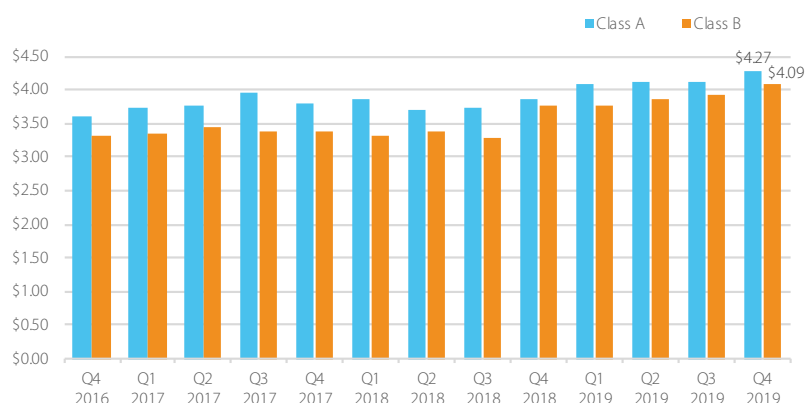
The Silicon Valley office market remains highly competitive with strong tenant demand that is fueled by one of the most competitive job markets in the country. Available office space fell 16% over the course of 2019, to rest at 6.9% at the close of the year. This is down from the 8.4% vacancy rate measured at the close of 2018 and 9.3% in 2017. Office vacancy in the Silicon Valley market has remained below the 10% mark since the third quarter of 2013 and it is expected to remain at these historically low levels throughout 2020. Available sublease space on the market totals just over 1.4 million square feet (msf). This amount of space accounts for 19.8% of total availability, offering tenants alternative space options at a discounted rate.

Demand

Tech tenants and their growing headcounts continue to drive demand for the Silicon Valley office market. Construction in the Silicon Valley continues to boom, although struggles to keep pace with demand from both the residential and commercial markets. At the close of 2019, there was more than 6.3 msf of office construction underway, of which more than 75% was preleased. Occupancy rates in the office sector continue to grow in the Silicon Valley, measuring more than 20 msf of positive net absorption over the most recent five-year period. On an annualized basis, the Silicon Valley office market has measured positive net absorption since the end of the recession in 2010, a ten-year streak that is likely to continue in 2020.

Asking Rates

Rental rates have continued to increase in the Silicon Valley office market as sustained demand puts pressure on supply. At the close of the year, average asking rates for office space in the Silicon Valley measured \$4.14 per square foot, full service. This is a 9.8% increase over the rates recorded at the close of 2018 and 15.6% from those measured at the close of 2017. Rates for premium class A buildings have followed the same trend, climbing 10.3% year over year while asking rates for class B office space have grown by 9.1% since the end of 2018.



Looking Forward

With an extremely tight job market, unemployment in the region has remained below the national and state averages while job growth continues to outpace the nation. Growth in the job market is likely to continue, albeit at somewhat of a slower pace in 2020. However, recent surges of economic growth in the area have caused an imbalance within the region and affordability poses a real threat to sustained progress. However, the Silicon Valley has withstood many challenges over the years and will continue to thrive as one of the most competitive markets in the country in 2020 and beyond.

Notable Leases of 2019

Tenant	Building	Submarket	Square Feet	Signed Date	Type
Google	60 East Brokaw Road	North San Jose	728,335	Q2 2019	Prelease
Verizon	Coleman Highline	North San Jose	643,990	Q3 2019	Prelease
Uber	190 & 200 South Mathilda Avenue	Sunnyvale	289,181	Q2 2019	Direct Lease
Google	600 Clyde Avenue	Mountain View	189,974	Q1 2019	Prelease
Microsoft Corporation	599-755 Mathilda Avenue	Sunnyvale	181,031	Q1 2019	Renewal

Notable Sales of 2019

Building	Buyer	Submarket	Square Feet	Purchase Date	Sale Price
Yahoo Campus	Google	Sunnyvale	977,848	Q3 2019	\$1,000,000,000
HQ@First Campus	Mori Trust Co., Ltd	North San Jose	728,689	Q1 2019	\$429,000,000
115-155 N McCarthy Road	PCCP LLC, Embarcadero Capital	Milpitas	464,749	Q3 2019	\$70,250,000
Pruneyard Office Towers	Oaktree Capital Management, LP	Campbell	365,229	Q1 2019	\$141,500,000
50 West San Fernando Street	Jay Paul Company	Downtown San Jose	354,486	Q2 2019	\$238,000,000



EAST BAY

Tech Migrates East

Key Takeaways



Asking Rents

Little relief from continued rent growth; vacant, quality space will demand higher rents in this tightening market



Construction

As significant multi-family construction continues, we expect office construction to grow in late 2020



Demand

Biotech demand is expanding into Berkeley and Emeryville with few options for large-block users to occupy



Investment

Recent institutional investment has elevated Oakland to a prime market ripe with competition for office buildings



Relocation

Oakland's vibrant and evolving community will continue to entice more San Francisco tenants to the East Bay

Vacancy

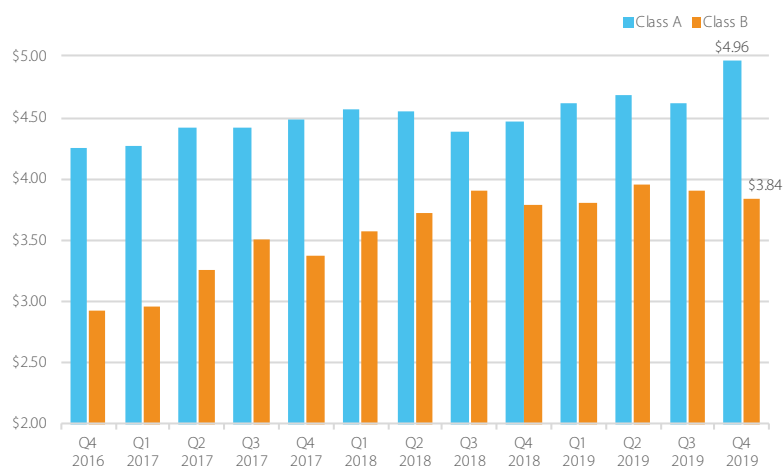
The office market in the East Bay has maintained an overall vacancy rate below 10% throughout all of 2019. The total amount of available vacant space grew 9.4% over the course of the year to 1.5 million square feet (msf), which translates to an overall vacancy rate of 9.0% within the East Bay office market. The increase in overall vacancy, measured over the course of the year, was largely due to new Central Business District (CBD) availabilities while non-CBD submarkets have remained tight. Sublease space in East Bay Office market has remained low totaling only 343,808 square feet (sf), which accounts for 12.6% of the total available office supply.

Demand

The East Bay office market continues to measure strong tenant demand. Office tenant migration from San Francisco to Oakland and the greater East Bay continues to be a trend, as tenants escape steep pricing in neighboring markets. Vacancy will remain low in the neighboring San Francisco and demand is still at historic highs, so expect more deals to land in the Oakland office market. Net absorption totaled 424,971 sf in 2019 which is nearly half the 881,553 sf measured in 2018. Despite the slow down in the rate of absorption, 2019 marked the second consecutive year that the East Bay office market has measured an increase in overall occupancy rates.

Asking Rates

Rental rates have continued to increase across all office classes in the East Bay office market. At the close of 2019, average asking rents climbed to \$4.27 per square foot (psf), full service. This is an 8.9% increase year over year and a nearly 20% increase since the end of 2017 when asking rates stood at only \$3.56 psf, full service. Recent increases are most evident in the recently completed 601 City Center and the other top tier class A buildings, including 1999 Harrison and 1111 Broadway in the Oakland CBD. Asking rents in these three buildings range from \$5.50 to \$6.00 psf, full service. Overall CBD asking rents grew 7.8%, to \$5.01 psf, full service over the year as new class A space heightened demand and competition remained strong among tenants and landlords.



9.0%

Vacancy Rate
(8.4%*)



425 KSF

Absorption
(881 KSF*)



\$4.27 FS

Asking Rent
(\$3.93 FS*)



2.1 MSF

Leasing Activity
(2.48 MSF*)

**compared to one year earlier*

Looking Forward

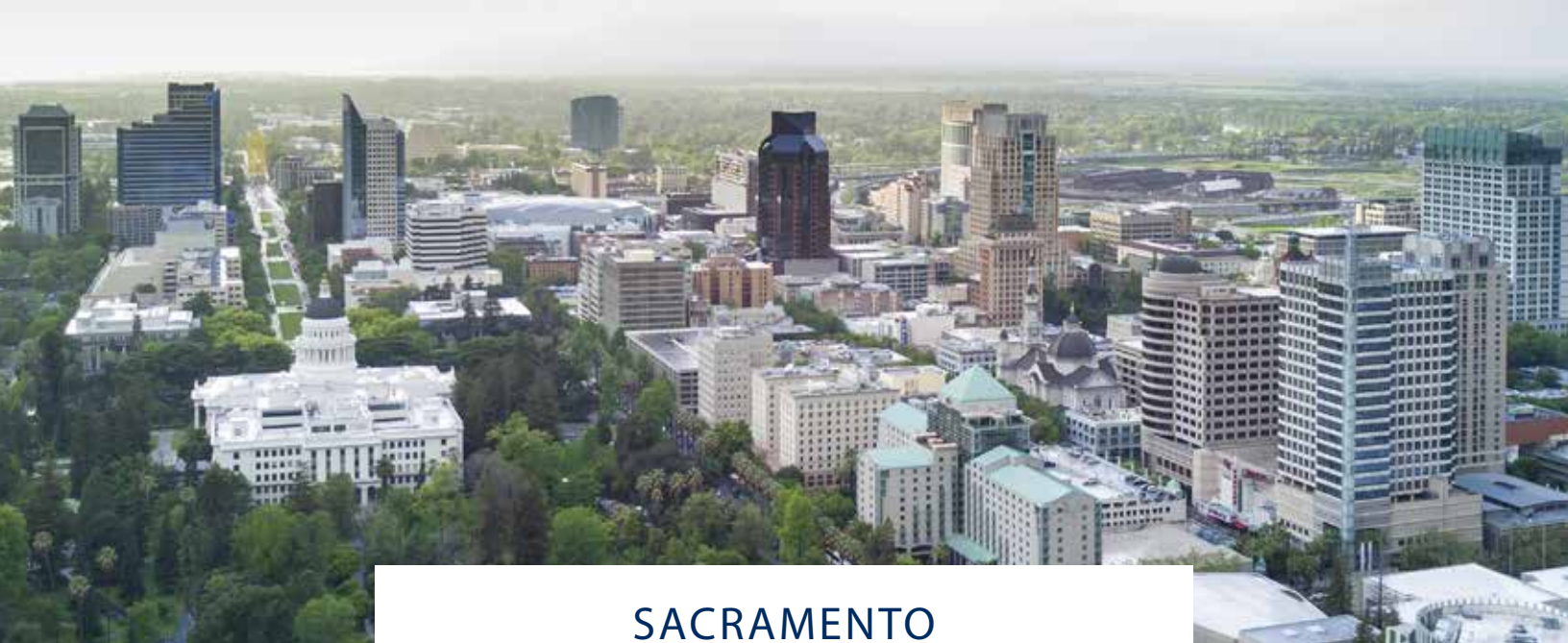
Tenant demand is expected to remain at healthy levels going into 2020 and as a result, expect to see vacancy rates move downward; however, fewer large lease deals are expected over the short term. Investment activity will continue, although at somewhat of a slower pace as most prime office properties have traded in recent years leaving little room for new deal viability. Many landlords have been preparing for the next recession by securing occupancy in their buildings rather than holding out for higher rents. We can expect more company relocations out of San Francisco to the East Bay, as some technology companies look eastward to take advantage of the vibrant community created in downtown Oakland.

Notable Leases of 2019

Tenant	Building	Submarket	Square Feet	Signed Date	Type
Zymergen	5300 Chiron Way	Emeryville	285,000	Q4 2019	New Lease
Credit Karma	1100 Broadway	Oakland-City Center	166,600	Q3 2019	New Lease
Novartis	EmeryStation West	Emeryville	62,144	Q1 2019	New Lease
Spaces	66 Franklin Street	Oakland-Jack London Square	45,661	Q2 2019	New Lease
Alliant University	1145 Atlantic Avenue	Alameda	39,420	Q1 2019	New Lease

Notable Sales of 2019

Building	Buyer	Submarket	Square Feet	Purchase Date	Sale Price
Center 21 / 1901 Harrison Webster Garage	Starwood Capital Group	Oakland-Lake Merritt/Uptown	1,188,011	Q1 2019	\$512,016,483
Marina Village	DRA Advisors & Local Capital Group	Alameda	1,011,396	Q2 2019	\$265,000,000
180 Grand Avenue	AXA Investment Managers (recapitalization)	Oakland-Lake Merritt/Uptown	278,596	Q3 2019	\$175,000,000
1333 Broadway	Swift Real Estate Partners	Oakland-City Center	252,080	Q2 2019	\$115,000,000
2150 Webster Street	Bay Area Rapid Transit	Oakland-Lake Merritt/Uptown	244,000	Q4 2019	\$140,000,000



Increasing Interest in Relocation

Key Takeaways



Relocation

Tenants express interest in moving to Sacramento to escape the high pressures seen elsewhere in the Bay Area



Sublease Space

Office tenants within the Sacramento Valley remain highly active leaving behind a virtually nonexistent sublease market



Asking Rents

Class A construction continues to propel annual average asking rents higher with no signs of slowing down



Construction

Development keeps pushing forward as the demand for more office space in Sacramento Valley continues to increase



Demand

Sacramento should expect positive occupancy gains in 2020 as tenants continue snatching up new opportunities

Vacancy

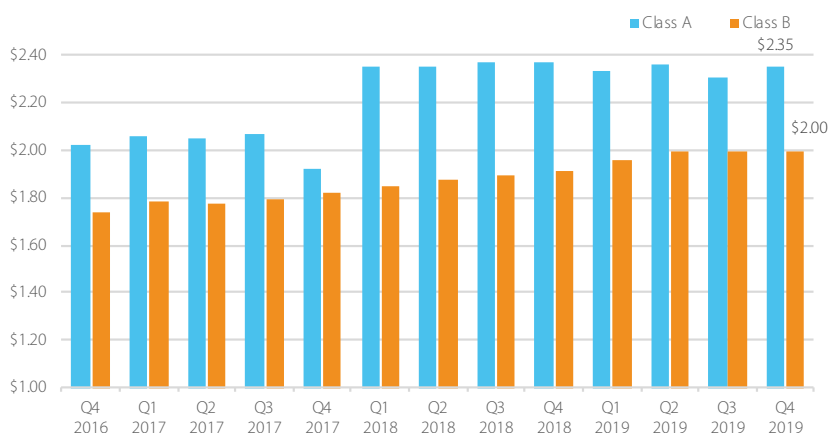
Sacramento Valley's office market continues to be healthy and active with high tenant demand and limited office availability. At the end of 2019, the market recorded 7.1 million square feet (msf) of available office space, a 12.8% decrease from the 8.2 msf measured at the end of 2018 and a 14.9% decline from the fourth quarter of 2017. Sublease space in Sacramento Valley totaled only 192,857 square feet (sf), translating to a virtually nonexistent 0.2% sublet vacancy rate. The increasing pressure for more office space continues to put pressure on supply, pushing vacancy rates below 10% for the past couple of years, with the Sacramento Valley closing the book on 2019 at an overall office vacancy rate of 8.0%.

Demand

Sacramento Valley's office market has measured positive net absorption on an annual basis for two consecutive years, attributing to the steady pace of increase in occupancy quarter-over-quarter. Total net absorption in 2019 was 1.3 msf, which is more than double the net absorption measured in 2018. Tenants view Sacramento as a viable option for expansion and continue to put pressure on supply, despite the high number of developments in the pipeline. The office market in the Sacramento Valley is expected to gain 8.1 msf of new office product over the next ten years. However, this pipeline of new supply is expected to give little relief to demand, as much of it is already spoken for in the form of a prelease or build to suit.

Asking Rates

Office asking rates continue increasing year over year. The growing amount of Class A developments within Sacramento Valley are slowly forcing asking rents higher as landlords are seeing more tenant demand. At the end of 2019, Sacramento Valley noted an overall asking rate of \$1.97 per square foot (psf), full service, which is only marginally higher than the \$1.95 psf, full service asking rate recorded at the end of 2018. Downtown and East Sacramento commanded the highest submarket rents at the end of 2019, with both markets recording a \$2.70 psf, full service and \$2.54 psf, full service asking rates, respectively.



↓ 8.0%
Vacancy Rate
(9.1%*)

↑ 1.3 MSF
Absorption
(472 KSF*)

↑ \$1.97 FS
Asking Rent
(\$1.95FS*)

↓ 3.1 MSF
Leasing Activity
(3.66 MSF*)

*compared to one year earlier

Looking Forward

Sacramento Valley's development pipeline keeps moving forward with many new projects expected to break ground in 2020. At the end of 2019, there are 8.1 msf of proposed office developments within the pipeline for Sacramento. However, many of these projects are already preleased, which will not provide that much 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.

Notable Leases of 2019

Tenant	Building	Submarket	Square Feet	Signed Date	Type
Clear Blue Commercial	820-840 Stillwater Road	West Sacramento	215,946	Q4 2019	New Lease
State of California	3068 Kilgore Road	Rancho Cordova	104,042	Q1 2019	New Lease
Cal Department of Child Support	11120 International Drive	Rancho Cordova	96,631	Q3 2019	Renewal
WeWork	660 J Street	Sacramento	96,300	Q2 2019	New Lease
Sutter Physician Services	10470 Old Placerville Road	Sacramento	87,854	Q1 2019	Renewal

Notable Sales of 2019

Building	Buyer	Submarket	Square Feet	Purchase Date	Sale Price
Wells Fargo Center	Manulife US Real Estate Investment	Sacramento	500,662	Q4 2019	\$198,800,000
Emerald Tower	Evergreen Co Development Corp	Sacramento	383,238	Q2 2019	\$127,000,000
Benvenuti Plaza	Boyd Watterson	Sacramento	399,636	Q2 2019	\$114,600,000
Parkway Corporate Plaza	Anchor Health Properties	Roseville	287,000	Q1 2019	\$79,000,000
3341 Power Inn Road	Boyd Watterson	Sacramento	164,981	Q4 2019	\$40,500,000

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