

MARKET REPORT

OFFICE

Sacramento Metro Area

IPA
INSTITUTIONAL
PROPERTY
ADVISORS

4Q/21

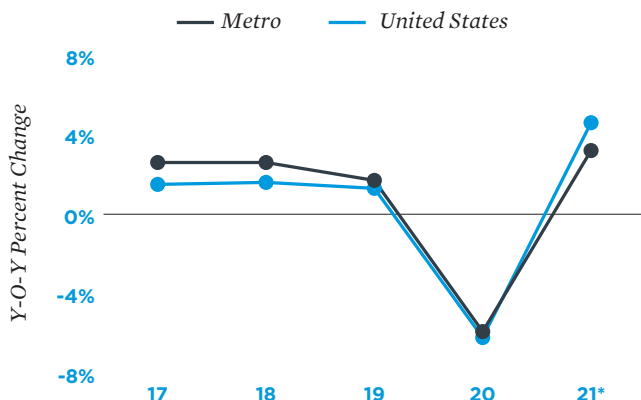
Private Sector's Recent Performance Partially Eases Concerns Surrounding State's Future Space Needs

Government agencies' movement clouds near-term outlook.

Prior to the health crisis, office vacancy in Sacramento was at a more than 10-year low. Since, the volume of available space has increased by more than 3 million square feet. Nevertheless, metro fundamentals are outperforming the national as a whole. Entering the second half of 2021, vacancy was 170 basis points below the U.S. average and the local mean asking rent was near a record level. Still, uncertainty looms. Government agencies, which are the keystone of the local tenant base, added just 200 positions in the first eight months of this year. Additionally, state agencies' future office needs are hazy. Six government buildings totaling 3 million square feet are slated for delivery by the end of 2022. If agencies that occupy these properties no longer require their current floor plans an influx of space could re-enter the market.

Positive signs emerge during the second half. The performance of Sacramento's private sector is generating reasons for optimism. Medical device maker Penumbra committed to 100,000 square feet of office and lab space in Roseville this July marking the largest lease in more than a year. In August, General Dynamics agreed to occupy 31,000 square feet in Folsom. Expected to have a larger economic impact, Kubota Tractor Corp. is finalizing a deal with the city of Elk Grove for a 630,000-square-foot office and distribution center. The campus could potentially attract smaller firms to the area that support the manufacturer.

Employment Trends



* Forecast

Sources: BLS; CoStar Group, Inc.

Office 2021 Outlook



**31,000
JOBS**

will be created

EMPLOYMENT:

Sacramento is expected to recapture half of the 61,100 positions lost last year, equating to a 3.2 percent rate of job growth. At 5.9 percent in August, the local unemployment rate will remain above the national average during the remainder of 2021.



**1,700,000
SQ. FT.**

will be completed

CONSTRUCTION:

Deliveries surpasses the 1-million-square-foot mark for the first time since 2009, growing the metro's office inventory by 1.9 percent. Buildings for state agencies comprise most of this volume, with other supply additions totaling just 100,000 square feet.



**120
BASIS POINT**

increase in vacancy

VACANCY:

Vacancy rises by more than 100 basis points for a second straight year as the volume of available office space grows by 1.3 million square feet. The metro will finish 2021 with a rate of 14.6 percent, a figure 200 basis points above the prior five-year average.



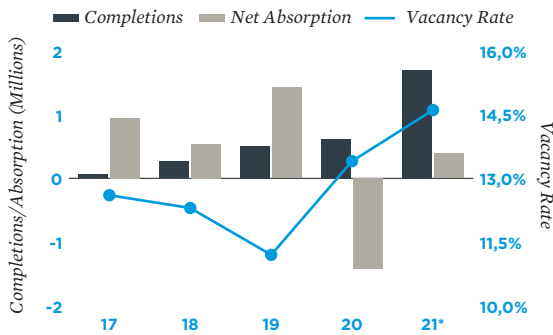
**0.3%
INCREASE**

in asking rent

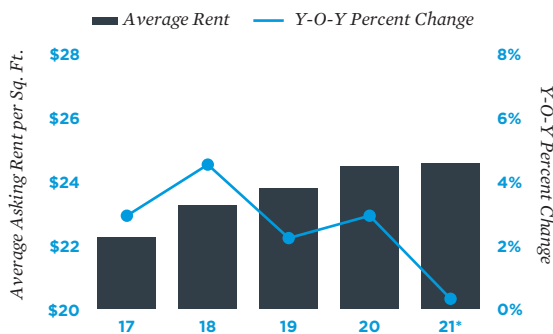
RENT:

The average asking rent reaches a new high of \$24.55 in 2021, largely driven by an uptick in Class B/C marketed rates. While nominal, the gain registered this year extends a stretch of positive annual rent growth that commenced in 2014.

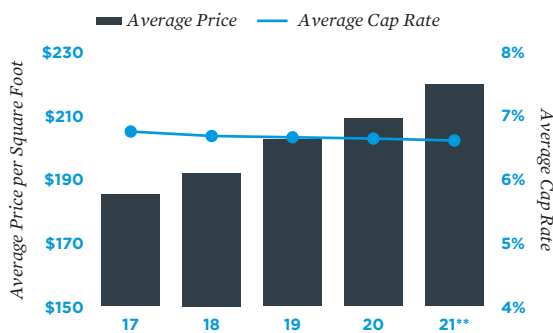
Supply and Demand



Rent Trends



Sales Trends



* Forecast ** Through 2Q
Sources: CoStar Group, Inc.; Real Capital Analytics

IPA Office
Alan L. Pontius
Senior Vice President, National Director
Tel: (415) 963-3000 | apontius@ipausa.com

For information on national office trends, contact:
John Chang
Senior Vice President, National Director | Research Services
Tel: (602) 707-9700 | jchang@ipausa.com

2Q21 – 12-Month Period

CONSTRUCTION
564,000 sq. ft. completed

- Driven by the completion of two buildings at Centene’s new regional headquarters in North Natomas, the metro’s inventory grew by 0.6 percent over the past four quarters ended in June.
- As of September, construction was underway on an additional 3 million square feet with deliveries extending into 2022.

VACANCY
320 basis point increase in vacancy Y-O-Y

- Sacramento’s vacant stock expanded by nearly 2.9 million square feet over the past 12 months, pushing office availability up to 14.5 percent.
- Vacancy increases of more than 500 basis points were recorded in both Placer County and the Highway 50 Corridor, raising local availability to 17.9 percent and 18.2 percent, respectively.

RENT
1.4% increase in the average asking rent Y-O-Y

- Despite a sizable increase in vacancy, the average asking rent improved over the past year, reaching \$24.40 per square foot in June.
- Supported by more than 300,000 square feet of Class A space returning to the market over the past 12 months, Sacramento County’s mean marketed rate jumped 2.5 percent to \$26.12 per square foot.

Investment Highlights

- Sales activity declined by more than 20 percent over the past 12 months ended in June with one-third of all transactions occurring during the second quarter of 2021.
- Despite a 7 percent boost to the metro’s average pricing over the past year, Sacramento remains the lowest-cost major California market for office investment with a mean sales price of \$219 per square foot. Furthermore, the area’s average cap rate of 6.6 percent is the highest in the state, with first-year returns below 5 percent rare.
- While overall deal flow slowed over the last 12 months, medical office trading was unchanged, accounting for 20 percent of all closings. Local buyers are focusing on sub-\$3 million properties outside the city of Sacramento, with transactions most frequent in Roseville-Rocklin, which houses several major medical centers and healthcare firms. Here, pricing above \$250 per square foot is not uncommon.
- Midtown represents the most active locale within the city of Sacramento for Class B/C office trades followed by North Natomas, Point West and South Sacramento. In these neighborhoods, 6 percent to mid-7 percent returns are available for assets of various vintages.