

INVESTMENT FORECAST

Office
Sacramento

IPA
INSTITUTIONAL
PROPERTY
ADVISORS

2022

Private Sector Aids Outlook Amid Agency Ambiguity; Migration Trends Fuel Medical Office Investment

Metro projected to record positive absorption for the first time in three years. The volume of vacant office space in Sacramento has grown by roughly 4.5 million square feet since the onset of the health crisis. Nevertheless, fundamentals are outperforming the national market. Entering 2022, vacancy was nearly 100 basis points below the U.S. average, with the local mean asking rent holding at a record high. Other reasons for optimism are emerging as government agencies, which are the keystone of the market's tenant base, added nearly 5,000 positions last year, bringing headcounts in the sector to within 1 percent of the pre-pandemic mark. The private sector has also shown signs of improvement. For example, Penumbra recently committed to nearly 100,000 square feet of office and lab space in Roseville, with General Dynamics, Progressive Insurance and Child Action, Inc. inking midsize leases in the suburbs. While uncertainty looms over state agencies' future office plans, government tenants continued to make on-time rent payments last year. This and private sector growth will lift demand for recently vacated spaces at a time when the metro lacks speculative development.

Subsector interest lifts investment activity. Deal flow improved notably in California's lowest-cost market for office investment during the second half of 2021. Medical office trades played a significant role in lifting transaction velocity beyond pre-pandemic levels, with investor expectations for future population growth fueling competition for listings. Home to major medical centers for Sutter Health and Kaiser Permanente, Roseville is receiving the most buyer attention. Here, most assets trade well above the metro's average price point. Investors focused on traditional office properties are also returning after a period of uncertainty. Smaller Class B and C buildings in Midtown Sacramento, Folsom and Roseville are providing buyers with cap rates in the low-5 to low-7 percent range, with 2000s-vintage assets accounting for a larger share of overall sales activity.

2022 Market Forecast

- Employment**
up 2.9%

The number of office-using jobs rises by 3,500 in 2022, with 29,000 total positions added across employment sectors.
- Construction**
760,000 sq. ft.

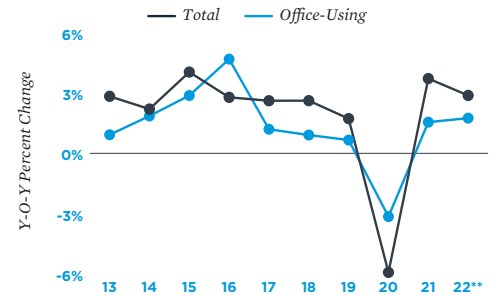
Delivery volume declines in 2022 after more than 1.2 million square feet was finalized last year. Two build-to-suit projects for government agencies account for most of the space added.
- Vacancy**
up 30 bps

Tenant demand for office space improves, slowing the recent pace of vacancy increases. Still, office availability ends the year at 15.8 percent, the highest rate since 2013.
- Rent**
up 1.6%

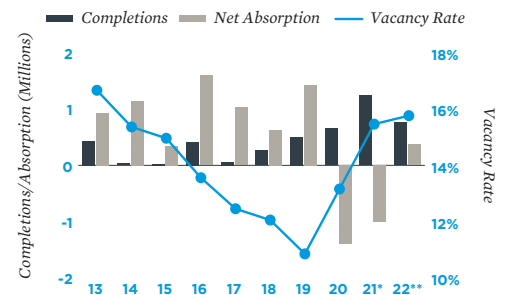
After nominal adjustment last year, the average asking rent reaches a record mark of \$24.85 per square foot in 2022, supported by positive absorption.
- Investment**

The lack of private development in Sacramento appeals to upside-seeking investors who target properties positioned for significant upgrades and retenanting.

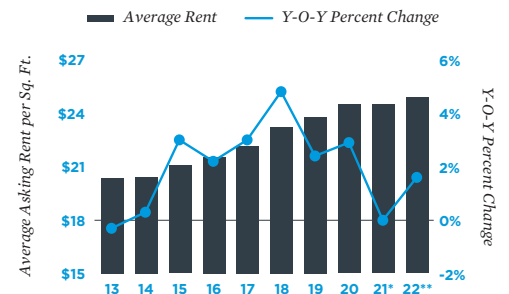
Employment Trends



Supply and Demand



Rent Trends



* Estimate; ** Forecast
Sources: CoStar Group, Inc.; Real Capital Analytics; RealPage, Inc.

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Metro-level employment, vacancy and effective rents are year-end figures and are based on the most up-to-date information available as of December 2021. Effective rent is equal to asking rent less concessions. Average prices and cap rates are a function of the age, class and geographic area of the properties trading and therefore may not be representative of the market as a whole. Sales data includes transactions valued at \$1,000,000 and greater unless otherwise noted. Forecasts for employment and apartment data are made during the fourth quarter and represent estimates of future performance. No representation, warranty or guarantee, express or implied may be made as to the accuracy or reliability of the information contained herein. This is not intended to be a forecast of future events and this is not a guaranty regarding a future event. This is not intended to provide specific investment advice and should not be considered as investment advice.