

MARKET REPORT

Office
Sacramento Metro Area

IPA
INSTITUTIONAL
PROPERTY
ADVISORS

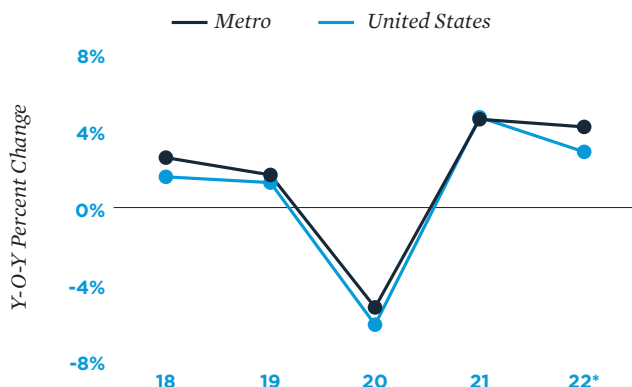
2Q/22

Public Sector Expands Skyline; Healthcare Deepens its Ground-Level Infrastructure

Demand for offices buoyed by government sector. Sacramento appears to be on the road to recovery, following two years of persistent negative net absorption and rising vacancy. The final three months of 2021 were a historic span for the metro, as tenants absorbed a net of 930,000 square feet of space, the highest quarterly total on record. While momentum stalled in the first quarter of this year, the effects of the omicron variant were just a temporary blip in the recovery. State and local government move-ins are driving a demand rebound, with agencies occupying more than 1 million square feet over the past 12 months via recently completed projects and select new leases. The metro's dependence on its government sector, however, is not without caveats. If certain departments adopt hybrid or remote work models over the long term, the potential for an increase in available sublease space exists.

Ageing population accelerates medical office construction. Sacramento's age 65-plus subset rose by nearly 11,000 people over the past 12 months, outpacing overall population growth. In response, developers are focusing on the future needs of this expanding cohort. Spanning the past year, medical offices accounted for a substantial share of new properties that are spread out across various suburban locales. Another six projects are slated for completion by year-end. Together, these deliveries will account for 107,000 square feet of space, a two-year total that expands the metro's medical office inventory by 2 percent, the fastest growth rate on record.

Employment Trends



* Forecast

Sources: BLS; CoStar Group, Inc.

Office 2022 Outlook



**43,000
JOBS**
will be created

EMPLOYMENT:

The local workforce will grow by 4.2 percent during 2022, aided by the expansion of its construction sector. Recent hiring has bolstered the labor market, reducing unemployment to 4.1 percent in April, the lowest it has been since February 2020.



**1,250,000
SQ. FT.**
will be completed

CONSTRUCTION:

Sacramento records a second consecutive year of elevated development, as deliveries again surpass the 1 million-square-foot mark. By the end of this year, 2021 and 2022 will be the only periods to have exceeded the milestone since 2009.



**40
BASIS POINT**
increase in vacancy

VACANCY:

Vacant stock growth tempers, following two sequential years of at least 150-basis-point hikes. Positive net absorption returns to the metro in 2022 as tenants absorb nearly 700,000 square feet. This activity places year-end availability at 15.0 percent.

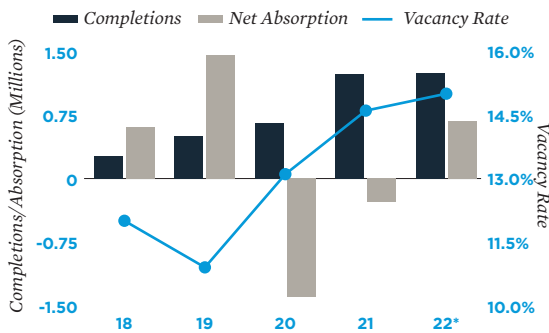


**1.4%
INCREASE**
in asking rent

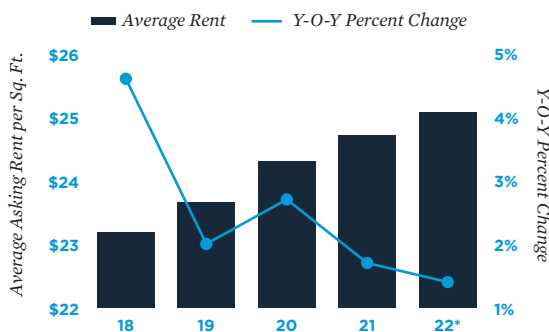
RENT:

Amid an elevated volume of available Class A space, the average asking rent grows to \$25.07 per square foot. Furthermore, the arrival of new builds to the market will provide an additional boost to the metrowide mean.

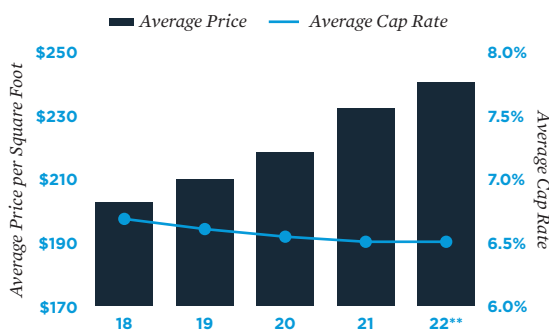
Supply and Demand



Rent Trends



Sales Trends



* Forecast ** Through 1Q

Sources: CoStar Group, Inc.; Real Capital Analytics

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Price: \$250

1Q 2022 - 12-Month Period



CONSTRUCTION

1,212,000 sq. ft. completed

- Two state agency deliveries – the California Natural Resources Agency and Clifford L. Allenby buildings – comprised over 95 percent of supply additions through the 12 months preceding April.
- This past year's 1.2 million-square-foot injection of Class A space surpassed the total volume of top-tier deliveries over the previous nine years.



VACANCY

100 basis point increase in vacancy Y-O-Y

- Although net absorption has been positive through the past four quarters ending in March, office development has slightly outpaced leasing activity, lifting vacancy up to 14.7 percent.
- Class A availability grew 300 basis points over the past year to 14.7 percent, aligning sector vacancy with the Class B/C segment.



RENT

1.5% increase in the average asking rent Y-O-Y

- Decade-high Class A vacancy shifted the metro's asset mix and raised the average asking rent to its highest figure to date at \$24.79 per square foot.
- An influx of available Class A space in Yolo County lifted the local asking rent up to an average of \$27.50 per square foot. This marked the first time that the submarket's mean exceeded that of Sacramento County.

Investment Highlights

- Acquisitions by Bay Area-based and out-of-state buyers accounted for 50 percent of total deal flow over the past 12-month period, with these investors attracted to Sacramento's regionally higher returns and discounted pricing. Buyer pool diversity has heightened competition for listings, driving the average price point up 8 percent over the last year to \$240 per square foot. Despite this increase, the metro's average first-year yield held at 6.5 percent, a rate at least 80 basis points above that of Bay Area metros.
- Although out-of-market competition has intensified, with Bay Area and out-of-state buyers paying about \$20 more per square foot than the metro's average asking price, buyer groups competed in differing subsectors. While Bay Area buyers targeted traditional listings in central submarkets, such as the Highway 50 Corridor, out-of-state buyers focused investment on suburban, medical office space in Folsom and Roseville/Rocklin.
- Medical offices remain a target for Sacramento-focused investors, with the subsector registering a 70 percent improvement in trading over the past four quarters. Most buildings that have recently transacted have been acquired at below-market yields, with activity concentrated in Midtown Sacramento and the Roseville/Rocklin submarkets.

The information contained in this report was obtained from sources deemed to be reliable. Every effort was made to obtain accurate and complete information; however, no representation, warranty or guarantee, express or implied, may be made as to the accuracy or reliability of the information contained herein. Metro-level employment growth is calculated based on the last month of the quarter/year. Sales data includes transactions sold for \$1 million or greater unless otherwise noted. 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. Sources: Marcus & Millichap Research Services; Bureau of Labor Statistics; CoStar Group, Inc.; Real Capital Analytics

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