

INVESTMENT FORECAST

Office
Sacramento Metro Area

IPA
INSTITUTIONAL
PROPERTY
ADVISORS

2024

Vacancy in Sacramento Holds Near Typical Levels, Which Continue to Range High Nationally

The metro's retail sector enters 2024 in line with historical norms. Sacramento entered the year with one of the highest retail vacancy rates in the country; yet, the local metric has been relatively consistent since 2017, staying roughly between 6 to 7 percent. The single- and multi-tenant sectors are balancing to create this effect. Single-tenant vacancy has been high compared to other major markets, but was improving entering 2024. Meanwhile, properties with multiple tenants are performing better than usual as the sector matched its record-low rate exiting 2023. Limited new supply over the last half-decade has prompted many retailers seeking space to backfill vacated floor plans, like Grocery Outlet moving into a former 24 Hour Fitness space. Some other larger vacant spaces are slated for renovation, including the former Sears at Arden Fair Mall, potentially drawing tenants with modern upgrades. A high level of pre-leasing in this year's pipeline will likely maintain consistent vacancy and benefit existing space.

Higher yields in Sacramento encourage in-state investment. Trades along Interstate 80 and in inner-ring suburbs were common last year. This trend may continue in 2024 as anchored shopping centers and single-tenant assets leased to restaurants, fast food and convenience store tenants along major travel routes offer limited risk exposure. While overall single-tenant vacancy is higher than the multi-tenant segment, the sector also holds a higher average cap rate than any other major California market, potentially drawing in-state, yield-driven investors to triple-net assets in the coming year. Portfolio sales involving multi-tenant assets were also common as institutions stayed active in Placer County, which exited 2023 with a segment vacancy rate around 4 percent, buoyed by tight multifamily rental markets like adjacent Roseville and Rocklin.

2024 MARKET FORECAST

+1.2%



EMPLOYMENT: Total employment will expand by 13,000 positions this year, bringing the number of jobs in Sacramento to more than 70,000 roles above the February 2020 mark.

300,000
sq. ft.



CONSTRUCTION: Completions fall below 400,000 square feet for the sixth straight year, expanding inventory by just 0.3 percent. Two Costco's and an LA Fitness account for most of the new space.

+20 bps



VACANCY: Sacramento will hold the second-highest vacancy rate among major U.S. markets in 2024 at 6.7 percent. Single-tenant properties contribute the most to elevated vacancy.

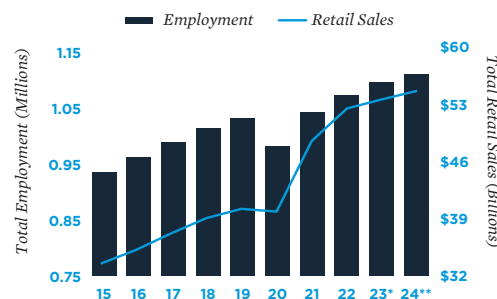
+0.5%



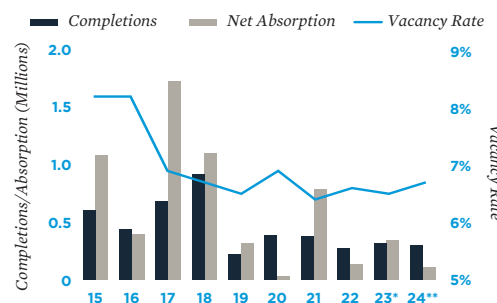
RENT: The average asking rent will rise to \$18.45 per square foot this year. This marks a new record-high mean marketed rate; however, it will be only 5 percent above the 2019 mark.

INVESTMENT: Investors targeting value-add opportunities may focus in Sacramento County this year, where vacancy is higher, offering a range of below-average price points around downtown and close-in suburbs.

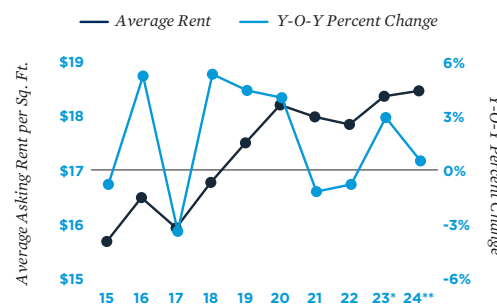
Economic Trends



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 January 3/2024. 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. Forecasts for employment and retail data are made during the first 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.