

# INVESTMENT FORECAST

OFFICE

Sacramento Metro Area

IPA

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PROPERTY  
ADVISORS

2020

## Vacancy Reaches Cycle-Low Rate; Extended Rent Growth Momentum Encourages Investment

**Solid demand persists amid dearth of construction.** Spanning the past four years, Sacramento's employment base expanded by approximately 90,000 jobs, 20 percent of which were traditional office positions. Expansions and relocations by private and corporate users during this stretch translated to strong office leasing velocity. The resulting absorption of 4.5 million square feet of space coincided with steady rent growth, elevating the metro's average asking rate nearly 12 percent. With vacancy at a cycle-low level entering this year and historically above-average rent gains occurring, speculative construction seems warranted, yet a lack of this development persists. Instead, the completion of Centene's 68-acre campus in Natomas comprises nearly all the space set to be finalized in 2020. A consistent pace of office-using job creation is slated for this year, suggesting companies will need additional or larger floor plans to support larger staffs. With the stock of available space unchanged by construction activity, existing floor plans in core Sacramento and office-heavy suburbs remain in high demand, slashing metro vacancy below 11 percent.

**Regionally discounted pricing and solid fundamentals drive investor competition.** High occupancy is translating to healthy rent growth in the metro, generating buyer demand for listings in areas of employment growth. Properties in these locales with upcoming lease expirations or renovation potential present investors with opportunities to achieve notable NOI growth in a relatively short time frame. Home to concentrations of government, tech and medical firms, Rancho Cordova and Roseville represent top targets for Class B transactions. Here, 1031-exchange buyers are active, targeting 6 percent to 8 percent returns. In core Sacramento, 6 percent to low-7 percent cap rates are prevalent, with pricing in Midtown typically ranging from \$200 to \$300 per square foot. Investors seeking a larger inventory of higher-tier listings target downtown Sacramento, where pricing can exceed \$300 per square foot.

## 2020 Market Forecast

**Employment**  
up 1.1%



Organizations bolster staffs by 11,000 positions in 2020, with office-using job creation accounting for 30 percent of total employment growth.

**Construction**  
603,000 sq. ft.



Aside from Centene's new campus in Natomas, three smaller properties are finalized in Davis this year. In 2019, supply additions totaled 500,000 square feet.

**Vacancy**  
down 50 bps



On absorption of 1 million square feet of office space, metro vacancy falls to 10.8 percent in 2020.

**Rent**  
up 3.8%



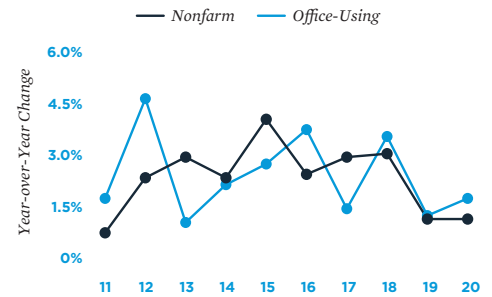
Positive rent growth is noted for a seventh consecutive year, elevating the average asking rent to \$25.04 per square foot.

**Investment**

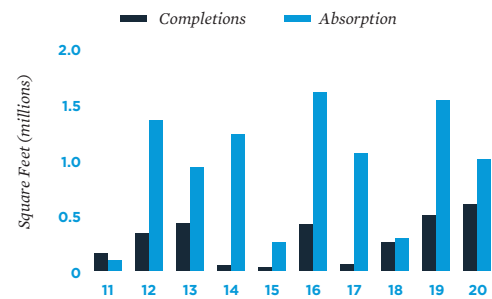


Bay Area-based buyers seeking notably higher yields than those available in their home market will continue to stoke competition for Class B/C assets, lifting asset values and driving deal flow. In 2019, trades involving these properties accounted for nearly \$1.5 billion in sales volume.

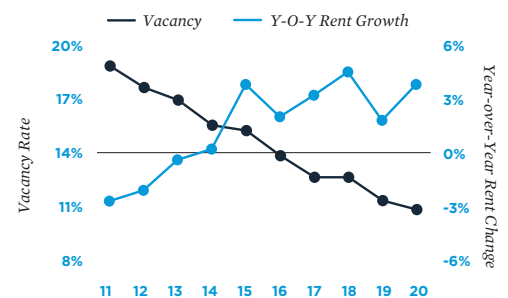
### Employment Trends



### Office Supply and Demand



### Vacancy and Rent Trends



\* Forecast

Sources: CoStar Group, Inc.; Real Capital Analytics

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Metro-level employment, vacancy and asking rents are year-end figures and are based on the most up-to-date information available as of December 2020. Asking rent is based on the full-service marketed rental rate. 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 office data are made during the fourth quarter and represent estimates of future performance. No representation, warranty or guaranty, 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.