

Sacramento Valley



Market Facts

4.4%

Class A Vacancy

9.5%

Class B Vacancy

\$2.41 FS

Class A

Average Monthly Asking Rate

\$2.01 FS

Class B

Average Monthly Asking Rate

The Sacramento Valley continues to be an attractive alternative to the Bay Area. Tenants remain active within the market and construction continues to push forward with many projects slated to break ground within the next few years. However, we may see some issues due to the current health pandemic being commonly referred to as the Coronavirus or COVID-19. This pandemic has put the majority of commercial construction to a halt and has forced a "shelter-in-place" ordinance for all residents.

Vacancy

Sacramento Valley has recorded a slight decrease in vacancy rates over the past couple of quarters. The office market within Sacramento Valley recorded a 7.6% vacancy rate at the end of the first quarter, which is 40 basis points lower than the 8.0% vacancy rate noted last quarter and 100 basis points from the 8.6% vacancy rate noted this time last year. The low rates may be due to the large amount of preleased developments paired with a high amount of tenant activity.

Asking Rates

Asking rents within the office sector have remained consistent quarter-over-quarter hovering around the \$2.00 per square foot (psf) threshold. At the end of the first quarter, Sacramento Valley's office market recorded a \$1.99 psf, full service asking rent with Class A space commanding a \$2.41 psf, full service rate. Downtown Sacramento continues to hold the highest submarket asking rate of \$2.83 psf, full service.

Demand

Tenants continue to demand space within Sacramento Valley with many deals moving forward in the transaction process. At the end of the first quarter, the entire office sector recorded a positive net absorption of 712,131 square feet which can be attributed to the increasing amount of tenants leasing up all available space within the market. Leasing activity remains high despite the lower-than-average amount of space available within Sacramento Valley.



Investment Activity

Investment activity during the first quarter of 2020 remained high. Sale transactions totaled \$398M, which is a 32% increase from the \$301M in sale transactions noted last quarter.

Trends to Watch



Healthcare

Tenants within the healthcare industry continue to move forward with leasing and investments during this time.



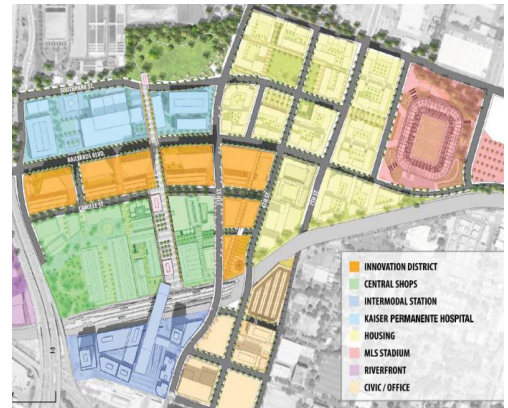
Construction

As construction moves forward, the industry is worried about the shortage of labor and the growing demand for work.



UC Davis Health

During the first quarter of 2020, UC Davis Health leased over 292,000 square feet of office/medical space for immediate use.



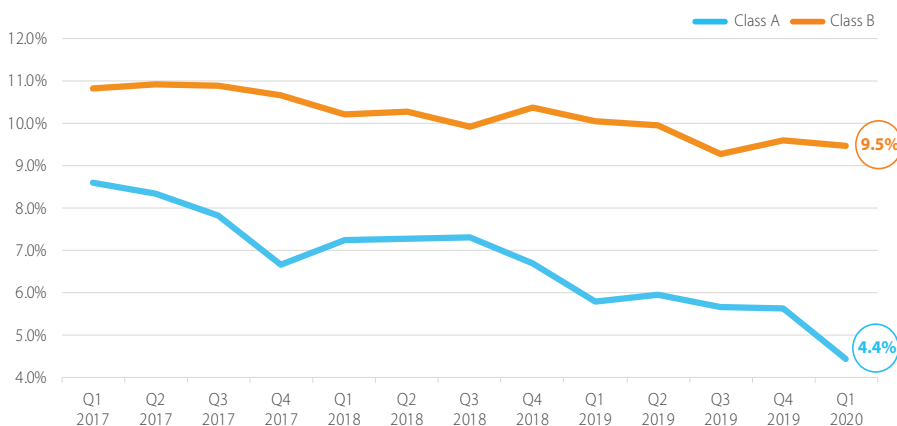
Construction

Due to the current circumstances, a number of commercial projects have been put on pause within Sacramento Valley. However, there are also some projects, mostly classified as residential or healthcare, that continue pushing along. Both the first residential project and the proposed Kaiser Permanente medical facility located within Sacramento's Railyards project are still on track to break ground within the summer of 2020.

OVER 8.1 MILLION SQUARE FEET

of proposed office developments currently in the pipeline

Historical Vacancy



Deliveries

Sacramento County may have to wait a while before new space can be delivered. There are seven commercial projects that were scheduled to be completed within the next couple of months, but due to the current shelter-in-place measures have been delayed until the end of 2020 or the beginning of next year, 2021.



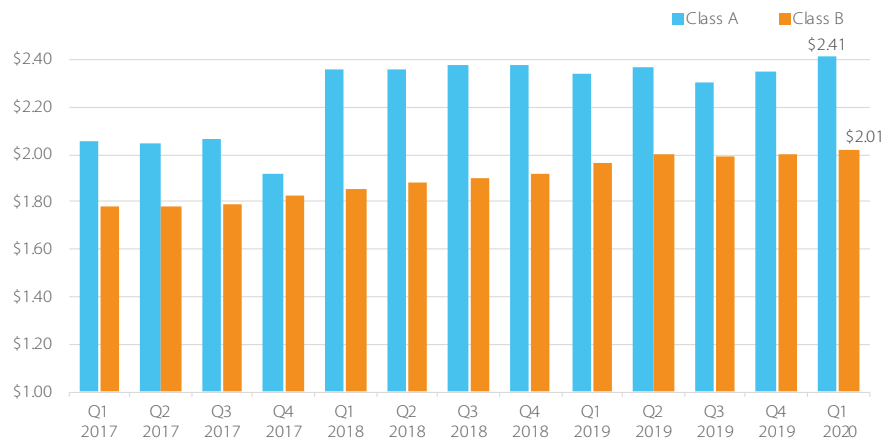
Sublease Space

Sacramento Valley's office market saw a slight increase in sublease space quarter-over-quarter. At the end of Q1 2020, the office market measured over 243,000 square feet of sublease space, a 23% increase from the amount measured last quarter.

Looking Forward

Sacramento Valley's development pipeline keeps moving forward despite the current COVID-19 situation. Since the Sacramento Valley is home to many government and healthcare sectors, we may expect only these projects to continue as planned. Asking rents for commercial projects should remain fairly consistent during this time while vacancy may see a slight decrease due to the expansion of current healthcare tenants and the relocation of other medical tenants into the Sacramento Valley.

Historical Asking Rates



Notable Lease Transactions

Tenant	Building	Submarket	Square Feet	Type
UC Davis Health	10850-10888 White Rock Road	Rancho Cordova	262,150	Direct Lease
* eHealth, Inc.	11919 Foundation Place	Gold River	63,202	Direct Lease
Magellan Health Services	11000 White Rock Road	Rancho Cordova	55,366	Direct Lease
* Deloitte	2329 Gateway Oaks Drive	Sacramento	38,111	Direct Lease
Benefit & Risk Management Services	80 Iron Point Circle	Folsom	33,075	Renewal
UC Davis Health	1535 River Park Drive	Sacramento	30,000	Direct Lease
Sutter Health	2951 Benefit Way	Sacramento	20,000	Prelease

Notable Sale Transactions

Building	Buyer	Submarket	Square Feet	Sale Price	PSF
Park Tower & 1010 8th St. & 801 J St.	Prime US REIT	Sacramento	938,780	\$165,500,000	\$177
Roseville Innovation Park	Dimah Capital Investment	Roseville	447,364	\$101,500,000	\$227
630 Roseville Parkway	Harbor Group International LLC	Roseville	157,520	\$39,450,000	\$250
3000-3010 Lava Ridge Court	Kingsbarn Real Estate Capital LLC	Roseville	139,000	\$29,307,000	\$211
Arena Gateway	New York Life	Sacramento	85,153	\$28,100,000	\$330
The Landmark	Ethan Conrad Properties	Sacramento	185,859	\$16,127,000	\$87
Venture Oaks	Buzz Oates Real Estate	Sacramento	50,500	\$11,575,000	\$229

Construction Pipeline

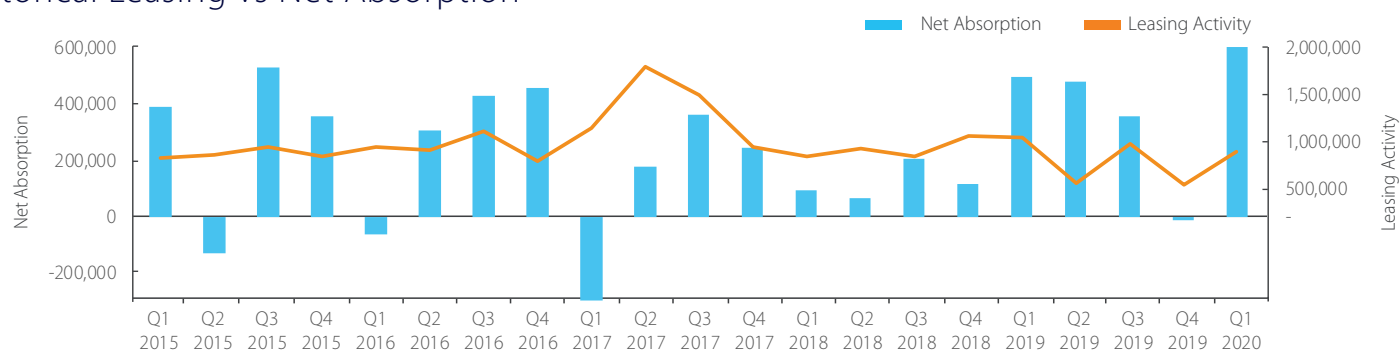
Building	Developer	Submarket	Square Feet	% Leased	Delivery
P Street	AC Martin Partners, Inc	Sacramento	838,000	100%	Q2 2022
Centene Campus - Bldg A & B	Hines Securities, Inc	Sacramento	511,800	100%	Q2 2020
1021 O Street	Hensel Phelps	Sacramento	472,000	100%	Q3 2021
1215 O Street	Rudolph and Sletten, Inc	Sacramento	360,000	100%	Q1 2022
* 2555 Natomas Park Drive	Bannon Investors Ltd, LLC	Sacramento	90,000	0%	Q2 2020
4699 Alhambra Drive	Buzz Oates	Davis	32,400	100%	Q4 2020
Natomas Pointe Plaza - Bldg C	Kobra Properties	Sacramento	20,000	0%	Q2 2020

*Denotes Avison Young Involvement

Market By The Numbers

Submarket	Total RBA (SF)	Direct Avail Space (SF)	Sublet Avail Space (SF)	Vacancy Rate		Avail Rate		Net Absorp. (SF)	Avg. Asking Rent (F5)		
				Class A	Class B	Class A	Class B		Total	Class A	Class B
Auburn/Lincoln	1,398,514	79,143	-	-	7.4%	-	7.7%	(18,332)	\$2.08	-	\$2.24
Roseville/Rocklin	11,203,410	917,954	24,179	6.5%	9.5%	12.3%	14.1%	315,157	\$1.92	\$2.09	\$1.90
North Natomas	2,802,655	302,425	2,281	8.3%	11.1%	8.9%	15.4%	71,339	\$1.65	\$2.18	\$1.50
South Natomas	3,704,608	304,724	5,100	10.5%	5.4%	19.0%	7.7%	(7,069)	\$2.25	\$2.28	\$2.18
Rio Linda/North Highlands	1,018,526	218,565	-	-	4.9%	-	2.3%	(8,017)	\$1.70	-	\$1.20
Citrus Heights/Orangevale	1,483,285	132,746	-	-	11.1%	-	16.6%	21,076	\$1.62	-	\$1.79
Folsom	4,775,687	174,589	6,146	2.0%	5.5%	4.9%	12.2%	58,171	\$2.11	\$2.36	\$1.99
Watt Ave	2,278,099	412,792	13,976	-	22.5%	-	26.4%	2,953	\$1.58	-	\$1.72
El Dorado Hills	1,405,049	137,409	-	13.4%	10.1%	24.6%	14.4%	76,205	\$1.94	\$1.78	\$1.98
Sacramento-Midtown	5,060,210	316,108	6,320	7.5%	4.8%	11.1%	8.7%	(21,393)	\$2.29	\$2.34	\$2.23
Sacramento-Downtown	20,336,344	1,120,213	4,685	2.7%	10.0%	4.1%	14.4%	42,690	\$2.83	\$3.40	\$2.82
Point West	2,711,987	243,238	40,111	18.0%	7.8%	16.9%	16.3%	19,458	\$2.03	\$2.13	\$1.89
West Sacramento	2,074,728	112,242	-	-	11.3%	-	14.6%	9,582	\$1.84	-	\$1.84
East Sacramento	2,486,959	4,967	-	-	0.2%	-	0.5%	5,515	\$2.56	-	\$2.59
Highway 50 Corridor	983,465	174,047	21,486	-	18.6%	-	10.9%	(36,874)	\$1.28	-	\$1.50
Howe Ave	17,500,312	1,542,150	91,069	4.9%	11.0%	12.4%	15.1%	435	\$1.76	\$2.03	\$1.76
Campus Commons	2,759,685	326,751	8,935	34.8%	8.4%	44.9%	14.2%	104,612	\$1.71	\$1.98	\$1.61
South Sacramento	1,575,280	232,366	16,384	13.1%	17.3%	13.1%	23.6%	(1,159)	\$2.19	\$2.65	\$2.19
Davis/Woodland	3,183,200	188,384	-	-	8.3%	-	8.9%	59,537	\$1.56	-	\$1.70
Carmichael/Fair Oaks	2,145,766	95,705	7,989	7.3%	4.5%	5.4%	4.4%	33,885	\$1.97	\$3.00	\$2.24
Sacramento Valley Total	90,887,769	6,688,458	243,380	4.4%	9.5%	9.4%	13.3%	712,131	\$1.99	\$2.41	\$2.01

Historical Leasing vs Net Absorption


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Properties

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