

SACRAMENTO | OFFICE

Q1 2019

SPEC CONSTRUCTION IN SOUTH NATOMAS AND WEWORK COMING TO CAPITOL MALL

REGIONAL SUMMARY

Sacramento's office market is on track to post another strong year despite the first quarter's negative absorption. The market vacancy rate ticked up 10 basis points since the end of 2018, but there were a number of new leases signed last year that will drop the vacancy rate over the next three quarters. Downtown's Class A market remains especially tight as average asking rates have ticked up \$0.15/SF in the last twelve months and the vacancy rate has fallen to its lowest point since Q1 2008. With momentum building at the Railyards and WeWork taking down the last large block on Capitol Mall this quarter, LDK Ventures' two proposed buildings in between 5th & 6th on Railyards Blvd will be the next option for Downtown tenants looking to relocate or expand. After the Ice Blocks leased up last year, Bannon Investors started construction on a 90,000 square foot speculative office development in South Natomas, which has been below 10 percent vacancy for the last 21 months.

Net Absorption

- Q1 2019's negative absorption was largely due to HP's 160,000 SF move-out from 8040 Foothills Blvd. Penumbra will occupy the building in the second quarter and bring 200 jobs to the region.
- The State of California continues to be an active tenant throughout the region with two 20,000 SF-plus occupancies in two submarkets this quarter.
- Downtown Sacramento has seen the most tenant activity in the last twelve months with 217,000 square feet of net absorption since April 2018.

Vacancy

- Market vacancy increased in the first quarter, but is still down 20 basis points year-over-year. Downtown's vacancy rate is at its lowest in almost 13 years.
- South Natomas has the lowest vacancy rate of the largest submarkets at 8.6 percent, which is why a new spec project is under construction there, the first new building since the end of 2009.

Rents

- Rent growth has been accelerating across the market as average rents are now \$2.02 per square foot, the highest market average since early 2009.
- Year-over-year rent growth has surpassed 5 percent for the past two quarters after averaging 2.9 percent per year from Q4 2016 to Q3 2018.

Sales Activity

- Sales volume for the first quarter recorded 23 transactions totaling more than \$187 million. Average price per building sold was \$164.48 per square foot.



-129,444 SF
Q1 2019 Market
Net Absorption



498,545 SF
12-Month Trailing
Net Absorption



14.1%
Market Vacancy Rate
(down from 14.3% Q1 2018)



8.1%
Downtown Class A
Vacancy Rate
(down from 11.1% Q1 2018)



\$2.02/SF
Avg. Market
Asking Rate
(+5.1% YOY)



\$3.15/SF
Downtown Class A
Asking Rate
(+4.8% YOY)



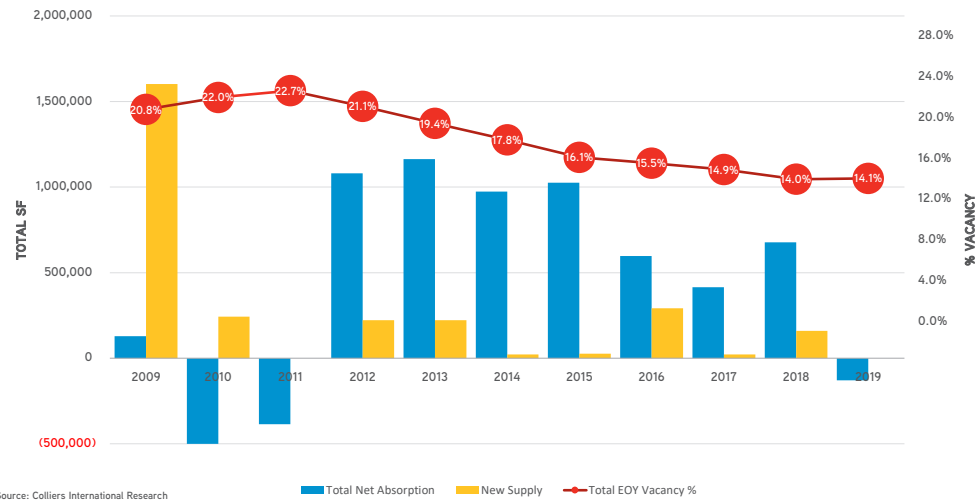
\$187 Million
Q1 2019 Sales Volume



2.5 Million SF
Under Construction

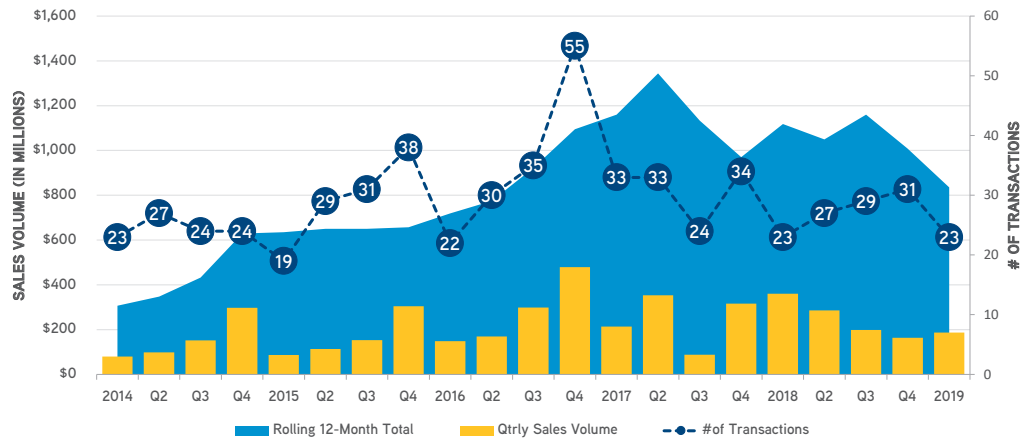
OFFICE MARKET FUNDAMENTALS

New Supply, Vacancy, and Absorption



Source: Colliers International Research

Quarterly Sales Volume & Rolling 12-Month Sales Volume



Source: Colliers International Research

Q1 2019 Significant Leases Signed

SIGNED	ADDRESS	SQ. FT.	CLASS	SUBMARKET	LANDLORD	TENANT
Feb-19	3068 Kilgore Rd	104,042	B	Highway 50 East	Strada	CA Department of Justice
Mar-19	400 Capitol Mall	47,316	A	Downtown	Starwood Capital	WeWork
Feb-19	400 R St	42,304	A	Downtown	CalPERS	CPUC
Mar-19	3100 Zinfandel Dr	35,540	A	Highway 50 East	Ethan Conrad	VSP
Jan-19	710 Riverpoint Ct	28,142	A	West Sacramento	Pac West Office Equities	Clark Pacific

Q1 2019 Significant Sales

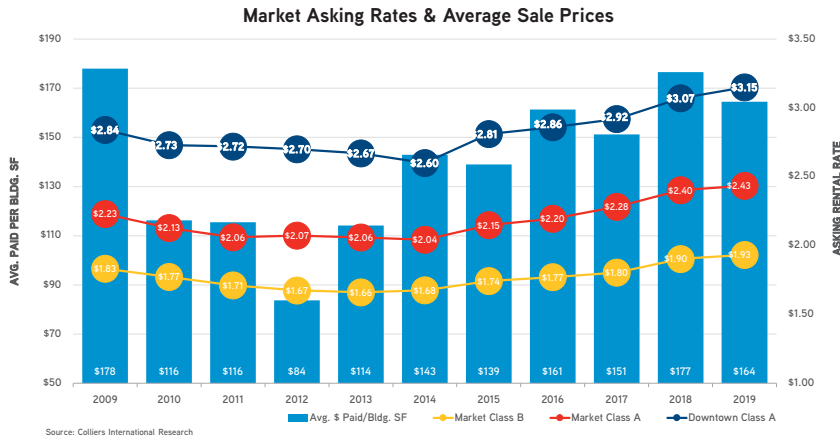
DATE	ADDRESS	SF / CLASS	PRICE/SF	PRICE	SELLER	BUYER
2/14/2019	Parkway Corporate Plaza	288,284 / A	\$274.04	\$79,000,000	The Broe Group	Anchor Health Properties
2/1/2019	10730-10734 International Dr	178,555 / A	\$207.22	\$37,000,000	RREEF	The Wonderful Company
1/11/2019	8745 Folsom Blvd	83,750 / B	\$93.72	\$8,100,000	Stephen Endsley	Lane-Kashian & Co.
3/12/2019	4420 Auburn Blvd	33,170 / B	\$174.00	\$5,771,500	Ibrahim Salama	Daniel Lee
3/14/2019	830 K St*	62,991 / B	\$87.31	\$5,500,000	Zinfandel Acquisitions	Florian Barth

*Opportunity Zone investment

MARKET RATES

Market Asking Rates & Average Sale Prices

Q1 2019 Asking Rates



	Avg. Asking Rate (Full Service, Per Month)	YOY Change
Market - ALL CLASSES	\$2.02/SF	+5.0%
Market - Class A	\$2.43/SF	+3.2%
Market - Class B	\$1.93/SF	+7.2%
Downtown - Class A	\$3.15/SF	+4.8%
Suburban - Class A	\$2.16/SF	+2.4%
Downtown - Class B	\$2.51/SF	+12.1%
Suburban - Class B	\$1.85/SF	+6.3%

MARKET ANALYSIS

Class	EXISTING PROPERTIES						VACANCY			ABSORPTION			CONSTRUCTION / RENTS			
	# of Buildings	Total Inventory SF	Direct Vacant SF	Direct Vacancy Rate	Sublease Vacant SF	Sublease Vacancy Rate	Total Vacant SF	Total Vacancy Rate	Vacancy Rate Prior Qtr	Current Occupied Space SF	Net Absorption Current Qtr SF	Net Absorption YTD SF	Completions Current Qtr SF	Completions YTD SF	Under Construction SF	Direct Avg Asking Rate
DOWNTOWN TOTAL																
A	18	5,074,177	396,883	7.8%	14,663	0.3%	411,546	8.1%	8.8%	509,117	34,811	34,811	0	0	1,355,000	\$3.15
B	57	3,482,546	701,012	20.1%	2,462	0.1%	703,474	20.2%	19.0%	2,779,072	-43,491	-43,491	0	0	0	\$2.51
Total	141	10,202,344	1,322,839	13.0%	17,125	0.2%	1,339,964	13.1%	13.1%	8,862,380	-5,646	-5,646	0	0	1,355,000	\$2.76
SUBURBAN TOTAL																
A	144	13,602,071	1,742,406	12.8%	54,396	0.4%	1,796,802	13.2%	13.4%	11,805,269	27,051	27,051	0	0	629,960	\$2.17
B	623	24,332,342	3,491,468	14.3%	104,110	0.4%	3,595,578	14.8%	14.2%	20,736,764	-133,744	-133,744	0	0	503,062	\$1.85
Total	1,202	48,660,548	6,772,403	13.9%	161,263	0.3%	6,933,666	14.2%	14.2%	41,726,882	-123,798	-123,798	0	0	1,133,022	\$1.87
MARKET TOTAL																
A	162	18,676,248	2,139,289	11.5%	69,059	0.4%	2,208,348	11.8%	12.2%	12,314,386	61,862	61,862	0	0	1,984,960	\$2.43
B	680	27,814,888	4,192,480	15.1%	106,572	0.4%	4,299,052	15.5%	14.8%	23,515,836	-177,235	-177,235	0	0	503,062	\$1.93
Total	1,343	58,862,892	8,095,242	13.8%	178,388	0.3%	8,273,630	14.1%	14.0%	50,589,262	-129,444	-129,444	0	0	2,488,022	\$2.02
QUARTERLY COMPARISON AND TOTALS																
1Q-19	1,343	58,862,892	8,095,242	13.8%	178,388	0.3%	8,273,630	14.1%	14.0%	50,589,262	-129,444	-129,444	0	0	2,488,022	\$2.02
4Q-18	1,343	58,862,892	8,059,675	13.7%	161,711	0.3%	8,221,386	14.0%	14.0%	50,641,506	19,968	676,896	11,500	159,154	270,384	\$1.99
3Q-18	1,342	58,851,392	8,040,778	13.7%	189,076	0.3%	8,229,854	14.0%	14.2%	50,621,538	96,751	656,928	11,242	159,154	25,984	\$1.97
2Q-18	1,341	58,840,150	8,131,063	13.8%	202,302	0.3%	8,333,365	14.2%	14.3%	50,506,785	195,748	560,177	136,412	147,654	37,226	\$1.95
1Q-18	1,340	58,703,738	8,208,050	14.0%	186,742	0.3%	8,394,792	14.3%	14.9%	50,308,946	364,429	364,429	0	136,412	173,638	\$1.92
ADJUSTED STATISTICS - *Includes Government & Owner-Occupied Buildings 10,000+ SF*																
1Q-19	1,856	86,796,954	8,536,887	9.8%	177,446	0.2%	8,714,333	10.0%	10.2%	78,082,621	171,328	171,328	0	0	2,212,862	\$1.93

The information contained in this report was provided by sources deemed to be reliable, however, no guarantee is made as to the accuracy or reliability.

As new, corrected or updated information is obtained, it is incorporated into both current and historical data, which may invalidate comparison to previously issued reports.

Statistics include all office buildings 10,000+ SF while excluding owner-occupied and government owner-occupied buildings in the Sacramento MSA. Total rents are weighted Full Service averages across all class types.

Please note the criteria used for buildings tracked this quarter differs from previous quarters before 2015.

For additional statistics, analytics, and insights into the Sacramento office market's 23 submarkets, please see our



Q1 2019 Sacramento Office Statistics

NEW CONSTRUCTION & FORECAST:

With a massive budget surplus at its disposal, the State of California is making some significant changes to its dated office space in Downtown Sacramento. The State is now building three separate Downtown office developments totaling more than 1.3 million square feet combined (with another 1 million SF proposed at 7th & Richards). The 10th & O Capitol Annex swing space project started this quarter and will complete in 2021. The State will be relocating departments from aging office buildings into these new buildings and will then renovate and reconstruct much of the mid-twentieth century buildings that are no longer up to the State's standards.

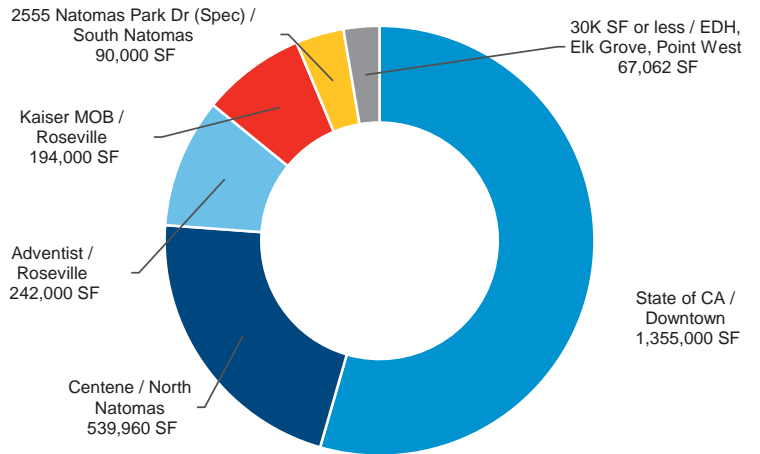
Walls were tilted up at Centene's North Natomas campus this quarter. Hines has been making significant progress on the first phase of construction at the 1.2 million square foot development despite the wet winter we've had. Approximately 2,000 employees will relocate there from Woodland Hills, while the other 3,000 will be coming from existing Rancho Cordova locations along Highway 50.

Adventist Health is putting the finishing touches on its new 242,000 square foot headquarters in Roseville. The new campus will consolidate 1,000 employees from five locations for the Roseville-based healthcare group, which will increase the Placer County submarket's vacancy later this year with approximately 200,000 square feet of currently leased space on the market.

With tenants running out of space Downtown, many have moved north to South Natomas, where rents are cheaper and parking more plentiful. Current submarket fundamentals support the construction of the only significant speculative development in the region at Bannon Investors' three-story, 90,000 square foot project on Natomas Park Drive, slated for completion by early next year.

Bay Area companies continue to look at Sacramento with San Francisco-based CPUC leasing 42,000 square feet this quarter. While coworking has not been much of a factor in the Sacramento market, the sector has become a significant player in the last 12 months. Spaces will be opening a 34,000 square foot Midtown location at the Ice Blocks this summer. In addition, WeWork decided on 400 Capitol Mall for its first Sacramento location, due to open in the fall. WeWork's 47,000 square foot lease validates Sacramento as an emerging secondary office market. With 17 new leases above 25,000 square feet commencing before the end of this year, Sacramento's vacancy rate will continue to trend downward.

Under Construction Projects



Construction has started at 2555 Natomas Park Drive in South Natomas, a 90,000 SF spec development due to complete by the end of this year.

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