

AN ENCOURAGING START TO THE YEAR HINDERED BY AN UNPRECEDENTED CALAMITY

REGIONAL SUMMARY

Sacramento's office market started off 2020 on quite a positive note. From Penumbra's medical device manufacturing facility opening in Roseville in January to the sale of Park Tower Downtown to KBS in February, Sacramento seemed poised for another banner year. The market vacancy rate fell to an 18-year low and tenant activity throughout the region has unveiled still strong demand. However, everything changed in March. The COVID-19 pandemic has now shut down much of the economy and businesses are being forced to make tough decisions to trim costs and stay solvent. While the future outlook for Sacramento's office market is unclear, it is important to remember the solid fundamentals that were in place prior to the lockdowns. The average square feet occupied per employee was already declining prior to the pandemic, but as employees work remotely, employers may be further inclined to reevaluate office space needs. The full impact of COVID-19 is not reflected in the first quarter numbers, but a significant slowdown in leasing and sales in the second quarter will likely be followed by a healthy rebound later in the year. Office landlords have received a growing number of rent relief requests from tenants and many are deciding to work collaboratively to address these massive disruptions.

Net Absorption

- › Roseville led all submarkets in quarterly net absorption with 228,957 SF, primarily driven by Penumbra's 160,000 SF occupancy of 630 Roseville Pkwy.
- › While net absorption points to strong tenant demand throughout the region with 183,938 SF recorded in the first quarter, the next three to six months will likely see a significant drop in demand due to business disruptions from COVID-19.

Vacancy

- › The market vacancy rate dropped to an 18-year low of 13.3 percent. However, it remains to be seen how much, if at all, COVID-19 will increase vacancy rates over the next two quarters after layoffs or closures take effect.
- › The Downtown Class A vacancy rate of 5.2 percent is down 80 basis points quarter over quarter and now at its lowest point since June 2002.

Rents

- › Downtown Class A average asking rates set its ninth straight record high this quarter, rising to \$3.40/SF, up 12.6% from the previous cycle's high set in 2007.
- › Rent growth across the market ticked up significantly from last quarter, with average market asking rates of \$2.02/SF increasing 1.8 percent year over year.

Sales Activity

- › 12-month trailing sales volume of \$1.5 billion is the highest total since 2007. However, sales activity will significantly taper off in the second quarter.



+182,938 SF
Q1 2020
Net Absorption



+795,616 SF
12-Month Trailing
Net Absorption



13.3%
Q1 2020 Market
Vacancy Rate
(14.1% in Q1 2019)



5.2%
Downtown Class A
Vacancy Rate
(8.1% in Q1 2019)



\$2.02/SF
Market Average
Asking Rate
(+1.8% YOY)



\$3.40/SF
Downtown Class A
Average Asking Rate
(+5.3% YOY)



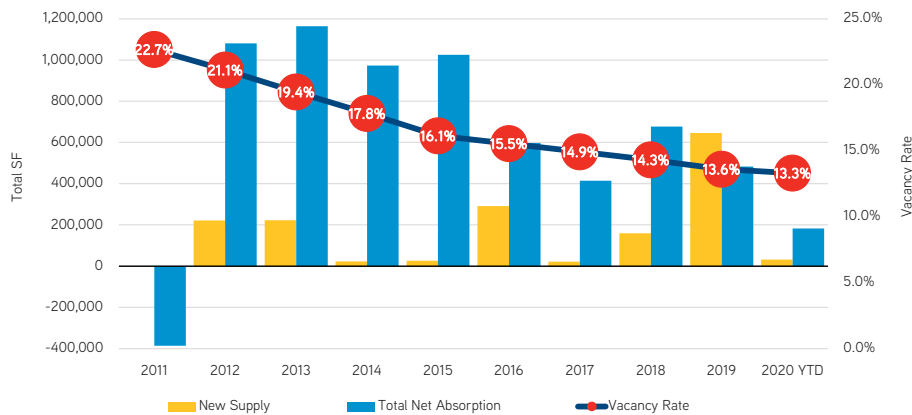
\$483.5M
Q1 2020 Sales Volume
(\$1.5B Trailing 12-Month
Sales Volume)



2.2 MSF
Under Construction
(646K SF 2019 Deliveries)

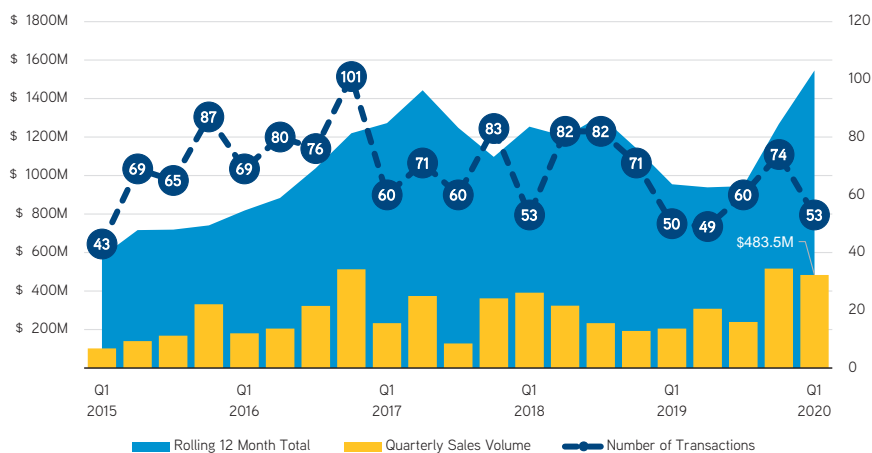
OFFICE MARKET FUNDAMENTALS

10-Year Annual New Supply, Vacancy, and Absorption

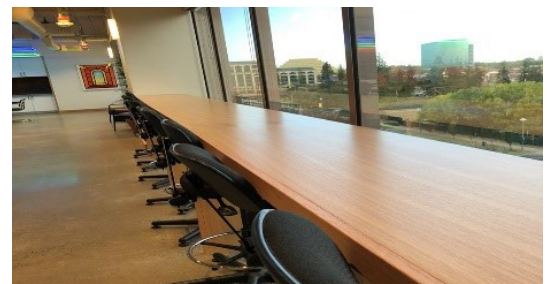


Park Tower was the latest Downtown Class A high rise office building to trade hands when KBS acquired from Hines for \$165.5 million in February. In 2019, both 300 Capitol Mall (Evergreen Co.) and 400 Capitol Mall (Manulife) sold to new owners. In 2018, 621 Capitol Mall (Shorenstein), The Senator (Seagate), and 770 L Street (NY Life) also sold. These six trophy assets sold since January 2018 amount to 2.1 MSF and \$688.8 million in total sales volume.

Quarterly Sales Volume & Rolling 12-Month Sales Volume



WeWork opened its first Sacramento location last November (pictured below). In this new age of social distancing, the coworking industry's outlook looks increasingly uncertain. WeWork laid off 250 employees in March after eliminating 2,400 staff in November. SoftBank announced in March it will be backing out of a \$3 billion purchase of shares as a part of WeWork's rescue plan.



Q1 2020 Significant Leases Signed

SIGNED	ADDRESS	SQ. FT.	CLASS	SUBMARKET	LANDLORD	TENANT
March 2020	10850 White Rock Rd	194,150	B	Highway 50 East	Transpacific Development	UC Davis Health
January 2020	10888 White Rock Rd	68,000	A	Highway 50 East	Chavez Management Group	UC Davis Health
March 2020	11000 White Rock Rd	55,366	B	Highway 50 East	Karlin Real Estate	Magellan Health
January 2020	2329 Gateway Oaks Dr	38,111	A	South Natomas	Lassner Law Firm	Deloitte
January 2020	2951 Benefit Way	20,000	B	North Natomas	Tower Investments	Sutter Health
February 2020	340 Palladio Pkwy	19,945	A	Folsom	Elliott Homes	Allworth Financial

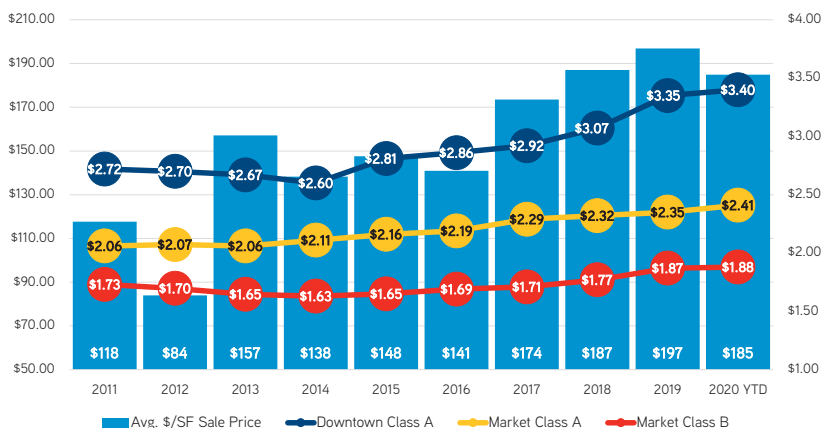
Q1 2020 Significant Sales Closed

SALE DATE	ADDRESS	SF / CLASS	PRICE/SF	SALE PRICE	SELLER	BUYER
2/21/2020	980 9th St	489,171 / A	\$343.44	\$165,500,000	Hines	KBS Realty Advisors
2/21/2020	8000-8050 Foothills Blvd (HP)	446,941 / B	\$226.65	\$101,300,000	Stonemont Financial Group	Dlmah Capital Investment Company
3/3/2020	630 Roseville Pkwy	157,518 / B	\$250.50	\$39,450,000	Strada Investment Group	Harbor Group International
1/31/2020	3000-3010 Lava Ridge Ct	138,863 / A	\$211.11	\$29,307,000	Barker Pacific Group	Kingsbarn Real Estate Capital
2/2/2020	630 K St*	87,140 / B	\$322.47	\$28,100,000	Swift Real Estate	New York life Real Estate Investors
1/21/2020	1750 Howe Ave	189,427 / A	\$85.14	\$16,127,000	Colony Capital	Ethan Conrad Properties

* 630 K's retail is 100% leased but the 60,000 SF of office space is completely vacant, recently vacated by ICF International

MARKET RATES

Market Asking Rates & Sale Prices



Q1 2020 Asking Rates

(Full Service, Per Month, Direct Available Space)	Avg. Asking Rate	YOY Change
Market - OVERALL	\$2.02/SF	+1.8%
Market - Class A	\$2.41/SF	-0.4%
Market - Class B	\$1.88/SF	+1.6%
Downtown - Class A	\$3.40/SF	+5.3%
Suburban - Class A	\$2.17/SF	-0.9%
Downtown - Class B	\$2.83/SF	+13.7%
Suburban - Class B	\$1.89/SF	+2.2%

MARKET STATISTICS

Submarket	Existing Buildings	Total Inventory SF	Q1 Direct Vacant SF	Q1 Sublease Vacant SF	Q1 Direct Vacancy Rate	Q1 Total Vacancy Rate	Q4 Total Vacancy Rate	Q1 Net Absorption	2020 YTD Total Absorption	Average Asking Rate
Downtown Sacramento	139	10,193,021	1,232,570	4,685	12.1%	12.1%	12.4%	29,279	29,279	\$2.87
Downtown Sacramento *	217	20,336,344	1,326,974	4,685	6.5%	6.5%	6.8%	44,212	44,212	\$2.81
Highway 50 Corridor - East	182	9,271,483	1,531,583	55,540	16.5%	17.1%	17.0%	-7,394	-7,394	\$1.82
Roseville	132	6,568,327	701,691	16,847	10.7%	10.9%	14.4%	228,957	228,957	\$1.97
South Natomas	50	3,273,709	413,141	5,100	12.6%	12.8%	12.3%	-16,270	-16,270	\$2.27
Folsom	68	2,668,134	172,570	6,146	6.5%	6.7%	6.7%	459	459	\$2.11
Midtown Sacramento	63	2,239,766	249,264	0	11.1%	11.1%	11.4%	6,360	6,360	\$2.35
North Natomas	46	2,385,043	387,038	2,281	16.2%	16.3%	15.6%	-16,094	-16,094	\$1.64
Rocklin	58	1,499,304	153,205	6,032	10.2%	10.6%	9.4%	-18,232	-18,232	\$1.92
PRIMARY SUBMARKETS	738	38,098,787	4,841,062	96,631	12.7%	13.0%	13.5%	207,065	207,065	\$2.17
Highway 50 Corridor - West	39	2,250,893	376,234	8,735	16.7%	17.1%	14.2%	-65,745	-65,745	\$1.67
Point West	38	2,391,592	303,059	40,111	12.7%	14.3%	14.5%	4,712	4,712	\$2.04
South Sacramento	54	1,266,129	128,615	0	10.2%	10.2%	10.0%	-2,250	-2,250	\$1.49
Davis/Woodland	54	1,372,065	87,438	7,989	6.4%	7.0%	5.7%	-17,192	-17,192	\$1.98
El Dorado	54	1,317,177	173,984	0	13.2%	13.2%	13.9%	9,011	9,011	\$1.83
Elk Grove	35	1,165,182	55,782	5,327	4.8%	5.2%	5.8%	6,728	6,728	\$2.37
West Sacramento	26	1,366,735	112,242	0	8.2%	8.2%	13.7%	74,744	74,744	\$1.84
Campus Commons	31	994,035	149,041	2,408	15.0%	15.2%	15.7%	4,583	4,583	\$2.19
SECONDARY SUBMARKETS	331	12,123,808	1,386,395	64,570	11.4%	12.0%	12.1%	14,591	14,591	\$1.87
Howe/Fulton/Watt Ave	98	3,539,318	722,874	25,822	20.4%	21.2%	20.8%	-12,522	-12,522	\$1.57
Citrus Heights/Orangevale	31	856,108	95,623	0	11.2%	11.2%	11.3%	1,513	1,513	\$1.39
East Sacramento	6	748,736	4,580	0	0.6%	0.6%	0.9%	1,885	1,885	\$2.85
Rio Linda/North Highlands	25	965,071	218,565	0	22.6%	22.6%	21.8%	-8,128	-8,128	\$1.70
Auburn/Lincoln	38	750,958	51,801	0	6.9%	6.9%	4.5%	-18,296	-18,296	\$1.68
Carmichael/Fair Oaks	33	681,814	142,351	21,486	20.9%	24.0%	23.6%	-3,170	-3,170	\$1.28
OTHER SUBMARKETS	231	7,542,005	1,235,794	47,308	16.4%	17.0%	16.5%	-38,718	-38,718	\$1.56
SACRAMENTO OFFICE MARKET SUMMARY										
CLASS A TOTAL	162	18,842,633	2,056,599	75,085	10.9%	11.3%	11.8%	88,854	88,854	\$2.41
CLASS B TOTAL	658	27,324,365	3,785,143	100,259	13.9%	14.2%	14.8%	150,574	150,574	\$1.88
CLASS C TOTAL	480	11,597,602	1,608,346	34,085	13.9%	14.2%	13.8%	-40,252	-40,252	\$1.60
SUBURBAN TOTAL	1,172	48,399,518	6,580,232	111,026	13.6%	13.8%	13.9%	45,921	45,921	\$1.83
MARKET TOTAL	1,300	57,764,600	7,463,251	208,509	12.9%	13.3%	13.6%	182,938	182,938	\$2.02
MARKET TOTAL *	1,913	91,363,103	7,938,493	237,523	8.7%	8.9%	9.3%	296,104	296,104	\$1.97

* Lines in red above include owner-occupied buildings, government-occupied buildings, and medical office buildings, in addition, the vacancy rate and net absorption totals are not verified

For additional statistics, analytics, and insights into the Sacramento office's market's 22 submarkets, please see our



Q1 2020 Sacramento Office Statistics

NEW CONSTRUCTION & FORECAST

As of this writing, commercial construction is still considered an essential service. However, the six-county Bay Area shut down most construction projects in late March. Whether or not these stringent standards arrive in Sacramento remains to be seen, but for the time being, new construction is proceeding throughout the region. In addition to the State of California's 1.3 million square feet of new office developments under construction, it also completed demolition of the former printing plant at 7th & Richards in the River District where it will soon start building a three-building, one million square foot campus.

Sacramento's new office development continues to be dominated by the public sector with little new speculative development delivering in recent years. In West Sacramento, CalSTRS started construction on its new 275,000 square foot expansion building adjacent to its existing headquarters, where it has recently put 150,000 square foot on the market for lease with occupancy available by Q3 2022.

In Davis, Nugget Market opened its 32,000 square foot headquarters this quarter. Adjacent to Nugget are two 16,200 square foot buildings at the Offices @ Mace Ranch delivering in the second quarter (with one building still available for lease). Across Mace is the 2.8 MSF Aggie Research Campus proposed by Buzz Oates and Ramco Enterprises, which is likely going to a city vote for approval in November 2020.

The recent strength of the Sacramento economy has resulted in a healthy office market in recent years. With little office development occurring, the market will be far from oversupplied. That being said, the future has never been so unclear. In the span of three weeks leading up to April 4, nearly 17 million Americans filed for unemployment. The University of the Pacific reported that the Sacramento region's unemployment rate could reach 18.6% by May, up from 3.6% in May of 2019. Looking ahead, many office landlords will work collaboratively with tenants requesting rent deferment during these difficult times. While many companies and owners adapt to this new reality, California's infection curve is being flattened. With shutdowns in place through the end of April, the economic impact will be significant in the second quarter. However, due to the solid fundamentals in place prior to the shutdowns, the office market could pick up where it left off if tenant demand resumes and does not drop off too precipitously.

Projects Currently Under Construction

Submarket	Project	Est. Completion	Office SF	Developer/Owner
Downtown	Natural Resources Building*	Q4 2021	700,000	State of California
North Natomas	Centene Natomas Campus - Phase I	Q3 2020	539,960	Hines
Downtown	Capitol Annex Swing Space - 1021 O Street*	Q4 2021	400,000	State of California
West Sacramento	CalSTRS HQ Expansion*	Q2 2022	275,000	Ridge Capital
Downtown	1215 O Street*	Q3 2021	255,000	State of California
Davis	Offices @ Mace Ranch	Q2 2020	32,400	Buzz Oates
North Natomas	Natomas Pointe Plaza - Bldg C*	Q2 2020	20,000	Tower Investments
			2,222,360	TOTAL SF U/C



The new CalSTRS office building in West Sacramento is under construction and on track for delivery by mid-2022. There is now 150,000 SF of office space available in its current headquarters building, making it by far the largest Class A availability in the Sacramento region. The new 275,000 SF building could cost up to \$300 million to construct and is being developed by Ridge Capital and DPR Construction.

In the midst of the COVID-19 outbreak, information and data is emerging at a quick and uneven rate. The information contained herein has been obtained from sources deemed reliable at the time the report was written. While every reasonable effort has been made to ensure its accuracy, we cannot guarantee it. No responsibility is assumed for any inaccuracies. Readers are encouraged to consult their professional advisors prior to acting on any of the material contained in this report. This publication is the copyrighted property of Colliers International and/or its licensor(s). Real estate officer license number 01908588. © 2020. All rights reserved.

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