

# Sacramento Office

## Market Forecast

Trends

<b>Absorption</b>	↓
<b>Vacancy</b>	↔
<b>Rental Rate</b>	↔
<b>New Construction</b>	↔

## Notable Lease Transactions

**Wells Fargo Advisors**  
400 Capitol Mall, Sacramento  
40,247 s.f. leased

**Child Action, Inc.**  
9800 Old Winery Pl, Sacramento  
35,000 s.f. leased

**Citrus Heights City Hall**  
6360 Fountain Square Dr, Citrus Heights  
35,000 s.f. leased

## Notable Sale Transactions

**GPT Properties Trust**  
801 K Street (Renaissance Tower)  
Sacramento  
336,752 s.f.  
Purchased for \$80M, or \$237.56/s.f.

**Boyd Watterson Asset Management**  
4330 Watt Avenue  
(North Pointe Corporate Center)  
Sacramento  
136,858 s.f.  
Purchased for \$32.9M, or \$240.40/s.f.

**Positive Investments, Inc.**  
3310 El Camino Avenue (Liberty Centre)  
128,285 s.f.  
Purchased for \$13.6M, or \$106.01/s.f.

The Sacramento office market held its own in the first quarter of 2016, reporting 47,366 s.f. of negative net absorption after cycle-high gains in the fourth quarter. Vacancies remained at 13% market-wide, but were considerably lower in coveted submarkets such as Midtown and Elk Grove. Leasing activity inched up from the previous quarter, with 294 deals spanning 738,860 s.f., while asking rental rates stayed at \$1.73 per s.f., fully serviced, their highest perch since 2011. Unemployment in Sacramento MSA dipped to 5.2% in the first quarter, down 0.9 percentage points year-over-year, and the robust local economy was reflected in the demand for office space. The October 2016 opening of the Golden 1 Center, the new Sacramento Kings arena that will serve as the centerpiece of the city's new Downtown Commons entertainment and sports complex, may further boost office demand in the downtown submarket in the coming quarters.

This quarter's 47,366 s.f. of negative net absorption comes on the heels of a 1.3 million s.f. gain in occupied space in 2015. The downtown submarket registered 20,404 s.f. of positive absorption during the past three months, while suburban submarkets shed a total of 67,770 s.f. Roseville/Rocklin enjoyed the market's strongest quarter, adding 126,790 s.f. of occupied office space, with Folsom coming in second at positive 98,665 s.f. The Highway 50 corridor dropped 179,110 s.f., as Bank of America closed and vacated its back-office facility in Rancho Cordova. East Sacramento and West Sacramento had the lowest vacancy rates at quarter's end, both hovering around 6%, while the El Dorado and Howe Avenue/Fulton Avenue submarkets had the highest at about 25%. The Point West submarket, where asking rents averaged \$1.63, fully serviced, remains a popular destination for frugal tenants seeking space in close proximity to downtown.

Leasing activity picked up modestly in the Sacramento market this quarter, with 294 transactions covering 738,860 s.f., up from 714,083 s.f. leased in the fourth quarter but down from the 1.1 million s.f. grabbed in the first quarter of 2015. The quarter's largest lease deals were turned in by an array of users, from nonprofits to state agencies to financial-services firms. Wells Fargo Advisors set the high-water mark, grabbing the first, seventh, 17th, and 21st floors of the 400 Capitol Mall tower for a

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total of 40,247 s.f. The Roseville/Rocklin submarket reported the most leasing activity this quarter, with 173,907 s.f. taken in 56 transactions, up 45% from the same period a year ago.

Investment activity stayed hot in the first quarter, with \$147 million of Sacramento office real estate changing hands at an average cap rate of 7.2%. In the market's largest single-property office sale since 2014, GPT Properties Trust bought the Class A Renaissance Tower in Sacramento from USAA Real Estate Company for \$80 million, or \$237.56 per s.f., underwritten at a 6% cap rate. The North Pointe Corporate Centre in the Watt Avenue submarket also traded this quarter for a sub-7% cap rate, going to Boyd Watterson Asset Management for \$32.9 million, or \$240.40 per s.f.

The Sacramento MSA economy continued to show strong job growth. Unemployment dropped to 5.2%, down 0.9 percentage

points year-over-year, completing a return to pre-recession levels. Construction was the fastest growing sector, reporting a 10.6% annual increase in jobs, followed by education and health care at 5.2%, and financial activities and leisure and hospitality, both at 3.2%. The Information sector, down 1.2%, was the only industry to suffer a year-over-year decline in employment. Roseville enjoyed a particularly promising quarter, attracting commitments from companies in sectors ranging from solar energy to banking. The publicly traded Solar3D announced in February that it would be moving its corporate headquarters from Santa Barbara to Roseville, previously home to Sunworks, which Solar3D acquired in 2014. Roseville will also soon become home to the regional headquarters of Tri Counties Bank, which bought a 40,000 s.f. building on Douglas Boulevard in February.

Source: Costar

## Submarket Statistics

Submarket	Number of Buildings	Total Inventory	Direct Available	Sublease Available	Total Vacancy	Direct Availability Rate	Sublease Availability Rate	Total Vacancy Rate	Net Absorption YTD
<b>Downtown</b>	<b>268</b>	<b>19,209,502</b>	<b>2,119,965</b>	<b>74,336</b>	<b>2,070,602</b>	<b>11.00%</b>	<b>0.40%</b>	<b>10.80%</b>	<b>20,404</b>
<b>Suburban</b>	<b>2,708</b>	<b>75,840,336</b>	<b>12,285,014</b>	<b>420,672</b>	<b>10,309,840</b>	<b>16.20%</b>	<b>0.60%</b>	<b>13.60%</b>	<b>(67,770)</b>
Auburn/Lincoln	110	1,632,337	162,689	0	157,327	10.00%	0.00%	9.60%	13,456
Campus Commons	75	1,485,053	227,149	0	223,883	15.30%	0.00%	15.10%	(3,948)
Carmichael/Fair Oaks	141	1,605,507	293,177	0	170,578	18.30%	0.00%	10.60%	(14,773)
Citrus Heights/Orangevale	107	1,807,534	283,918	19,725	236,002	15.70%	1.10%	13.10%	(98)
Davis/Woodland	149	2,455,538	268,185	11,067	260,782	10.90%	0.50%	10.60%	(26,640)
East Sacramento	54	2,215,493	148,605	0	127,078	6.70%	0.00%	5.70%	50
El Dorado	132	2,082,815	601,235	63,519	526,246	28.90%	3.00%	25.30%	(157,169)
Elk Grove	86	1,892,131	200,027	2,797	142,169	10.60%	0.10%	7.50%	12,537
Folsom	154	4,924,341	650,681	21,532	603,226	13.20%	0.40%	12.20%	98,665
Highway 50 Corridor	358	17,748,396	2,921,774	173,413	2,448,109	16.50%	1.00%	13.80%	-179,110
Howe Ave/Fulton Ave	128	2,786,701	797,897	2,811	708,049	28.60%	0.10%	25.40%	-3,395
Midtown	187	4,260,296	399,913	0	340,261	9.40%	0.00%	8.00%	2,334
Natomas/Northgate	151	6,780,876	1,356,605	35,863	1,135,079	20.00%	0.50%	16.70%	54,638
Point West	75	2,903,884	526,806	15,629	494,661	18.10%	0.50%	17.00%	36,516
Rio Linda/N Highlands	45	1,127,237	432,717	0	355,034	38.40%	0.00%	31.50%	-1,412
Roseville/Rocklin	450	11,775,411	1,872,983	58,917	1,488,546	15.90%	0.50%	12.60%	126,790
South Sacramento	165	3,540,065	566,821	3,852	452,187	16.00%	0.10%	12.80%	-53,299
Watt Ave	88	2,666,098	366,310	224	305,094	13.70%	0.00%	11.40%	41,347
West Sacramento	53	2,150,623	207,522	11,323	135,529	9.60%	0.50%	6.30%	-14,259
<b>Total</b>	<b>2,976</b>	<b>95,049,838</b>	<b>14,404,979</b>	<b>495,008</b>	<b>12,380,442</b>	<b>15.16%</b>	<b>0.52%</b>	<b>13.03%</b>	<b>(47,366)</b>

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