

Sacramento Valley

Market Facts

4.9%

Class A Vacancy

9.6%

Class B Vacancy

\$2.46 FS

Class A
Average Asking Rate

\$2.03 FS

Class B
Average Asking Rate

Tenants Hesitant To Move Forward With Leasing Due To Uncertainty of COVID-19

- The commercial real estate market within the Sacramento Valley has started to show the effects of the current COVID-19 pandemic that has been affecting the nation since December of last year. Many businesses have continued to operate with very strict restrictions and numerous social distancing protocols. Some companies have chosen to have all employees work remotely for the near future, while other companies have plans in place on how to return to the workplace, safely and efficiently.
- Asking rates for Sacramento Valley have stayed fairly consistent quarter-over-quarter. Rents have finally crossed the \$2.00 threshold, ending the quarter with a \$2.02 per square foot, full service asking rate. However, as the pandemic continues, we may see these rates decline due to the lack of leasing activity.
- While tenant demand has definitely slowed down within Sacramento Valley, it has not completely stopped. At the close of the second quarter, the office market measured 414,210 square feet of leasing activity, a 55% decrease from last quarter and a 61% decrease from this time last year. Many tenants are hesitant to sign new leases due to the current restrictions and social distancing protocols set in place by the COVID-19 pandemic.
- Vacancy levels have plateaued in most of the submarkets within the Sacramento Valley. The total office market noted approximately 7 million square feet of vacant space with only 228,675 square feet of sublease space. However, we may expect to see an increase in sublease space within the near future due to some companies fully transitioning their employees to work remotely.
- The investment market in Sacramento Valley was very active in the second quarter of 2020 with the most notable portfolio transaction occurring in Gold River and Sacramento. Robert Cook acquired the eight building investment, totaling 205,688 square feet, for \$23.05 Million from WHAL Properties LP.

Trends to Watch



Rents

Overall average asking rents have continued to increase despite the pandemic. We should expect rents to stabilize or decrease within the next few quarters.



Construction

Even though construction has not been halted, the industry is worried about delayed delivery dates due to restrictions set in place by the pandemic.



Demand

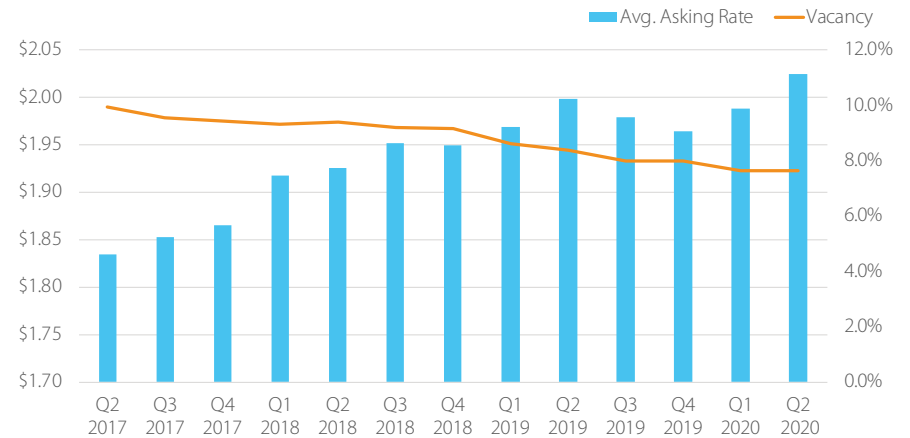
Some industry types, such as healthcare, show a modest leasing activity while other industry types are forced to halt leasing until conditions return to normal levels.

The spread of COVID-19 and the containment policies throughout California and the U.S. continue to change rapidly. While information in this report is current as of the date written, the views expressed herein are subject to change and may not reflect the latest opinion of Avison Young. We are committed to you, our clients, and remain available for discussions and advice as your partners and to offer our latest insights.

Looking Forward

Sacramento Valley's development pipeline will continue to keep moving forward despite the current pandemic. Vacancy levels are expected to increase as some companies are forced to close down or fully transition to a remote workplace. Overall asking rates have hit record highs and are not expected to remain at these levels as it is not sustainable. Office leasing activity should stay moderately active, albeit at lower levels than what we are used to seeing within the Sacramento Valley.

Historical Asking Rates



Notable Lease Transactions

Tenant	Building	Submarket	Square Feet	Type
California Employment Development	9815 Goethe Road	Sacramento	80,000	Renewal
Anthem BlueCross BlueShield	11030 White Rock Road	Rancho Cordova	54,161	Renewal
Lionakis	2025 19th Street	Sacramento	39,980	New Lease
George Hills Insurance	10940 White Rock Road	Rancho Cordova	13,070	New Lease

Notable Sale Transactions

Building	Buyer	Submarket	Square Feet	Sale Price	PSF
Gold Country Blvd & Fair Oaks Blvd Portfolio	Robert Cook	Gold River/Sacramento	205,688	\$23,050,000	\$112
11150 International Drive	The Wonderful Company	Rancho Cordova	90,111	\$21,650,000	\$240
11000-11050 Olson Drive	Nome Investments LLC	Rancho Cordova	148,919	\$20,400,000	\$137
11120 International Drive	The Wonderful Company	Rancho Cordova	100,967	\$18,750,000	\$186
3310 El Camino Avenue	Nome Investments LLC	Sacramento	128,285	\$17,700,000	\$138
Sunrise Blvd & Fairway Dr Portfolio	Ethan Conrad Properties	Rancho Cordova/Roseville	315,173	\$17,100,000	\$109

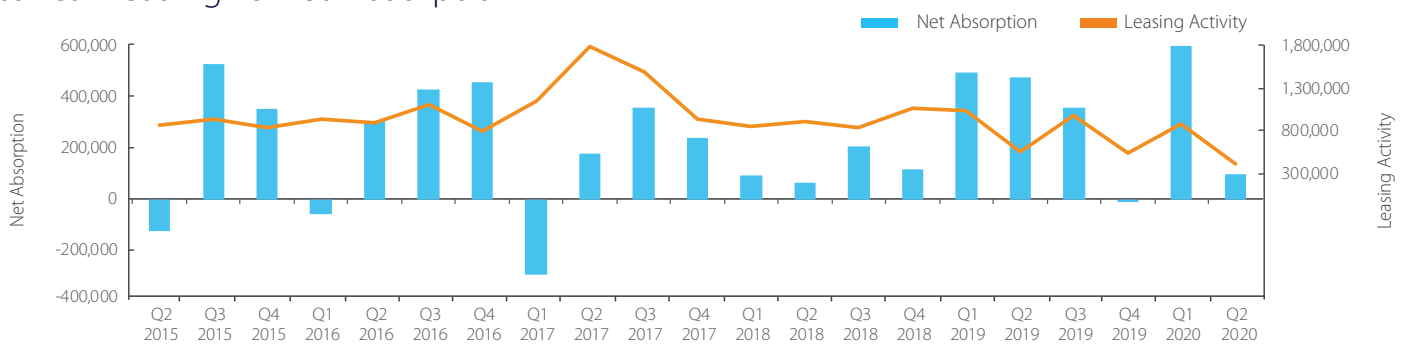
Construction Pipeline

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%	Q3 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
10601 Bear Hollow Drive	State of California	Rancho Cordova	285,000	100%	Q1 2021
Natomas Pointe Plaza - Bldg D & F	Kobra Properties	Sacramento	40,000	50%	Q1 2021
4699 Alhambra Drive	Buzz Oates	Davis	32,400	50%	Q3 2020

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 (F\$)		
				Class A	Class B	Class A	Class B		Total	Class A	Class B
Auburn/Lincoln	1,398,514	66,189	-	-	5.5%	-	8.2%	12,954	\$2.20	-	\$2.27
Roseville/Rocklin	11,212,990	970,373	23,721	8.1%	9.3%	12.3%	14.1%	(51,961)	\$1.94	\$2.11	\$1.91
North Natomas	2,797,985	301,403	7,273	9.2%	12.7%	8.7%	15.3%	16,030	\$1.65	\$2.15	\$1.50
South Natomas	3,794,608	402,568	4,047	13.8%	6.3%	18.3%	7.7%	(6,791)	\$2.27	\$2.30	\$2.22
Rio Linda/North Highlands	1,018,526	244,335	-	-	21.9%	-	17.3%	(25,770)	\$1.70	-	\$1.20
Citrus Heights/Orangevale	1,485,055	133,393	-	-	10.6%	-	16.6%	(647)	\$1.58	-	\$1.75
Folsom	4,956,099	159,459	8,249	2.0%	4.6%	4.9%	11.3%	13,027	\$2.13	\$2.35	\$2.02
Watt Ave	2,257,492	430,970	13,976	-	23.5%	-	26.3%	(19,483)	\$1.59	-	\$1.75
El Dorado Hills	1,405,273	147,791	-	13.4%	10.7%	24.6%	14.4%	(10,382)	\$1.96	\$1.78	\$2.01
Sacramento-Midtown	5,062,181	366,124	7,320	8.9%	5.3%	11.0%	9.1%	(51,016)	\$2.41	\$2.53	\$2.26
Sacramento-Downtown	20,292,761	1,155,700	7,551	3.3%	10.2%	3.9%	13.3%	(38,753)	\$2.84	\$3.37	\$2.81
Point West	2,722,114	268,106	40,111	19.7%	8.6%	16.9%	13.7%	(24,868)	\$2.05	\$2.13	\$1.93
West Sacramento	2,074,728	112,242	-	-	11.3%	-	14.6%	-	\$1.83	-	\$1.84
East Sacramento	2,486,959	16,321	2,435	-	0.8%	-	0.5%	(13,789)	\$2.72	-	\$2.75
Highway 50 Corridor	986,560	184,777	1,099	-	17.7%	-	10.9%	9,596	\$1.30	-	\$1.50
Howe Ave	17,455,969	1,398,333	88,828	4.3%	10.1%	8.1%	17.8%	146,058	\$1.79	\$2.00	\$1.80
Campus Commons	2,750,554	298,023	5,335	36.2%	8.5%	44.9%	14.0%	12,528	\$1.77	\$1.98	\$1.67
South Sacramento	1,580,280	221,159	15,675	13.1%	16.2%	13.1%	23.5%	11,916	\$2.20	\$2.65	\$2.21
Davis/Woodland	3,183,200	182,312	-	-	8.0%	-	8.9%	6,072	\$1.56	-	\$1.69
Carmichael/Fair Oaks	2,177,766	86,449	11,775	4.9%	5.2%	5.3%	5.4%	31,870	\$1.98	\$3.00	\$2.29
Sacramento Valley Total	91,099,614	6,727,773	228,675	4.9%	9.6%	8.5%	13.8%	96,880	\$2.02	\$2.46	\$2.03

Historical Leasing vs Net Absorption



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