



# Q3 OFFICE MARKET REPORT

## MARKET OVERVIEW

Sacramento's office market had another impressive quarter as it maintained an upward trajectory in virtually all aspects. Sustained positive net absorption and steady demand have led to shrinking Class A and B vacancy rates, driving rents to their highest levels in a decade. Investor activity slowed slightly from the first two quarters of 2018 and most new development remained limited to the government and healthcare sectors, but interest should return as the tightening market further boosts industry confidence.

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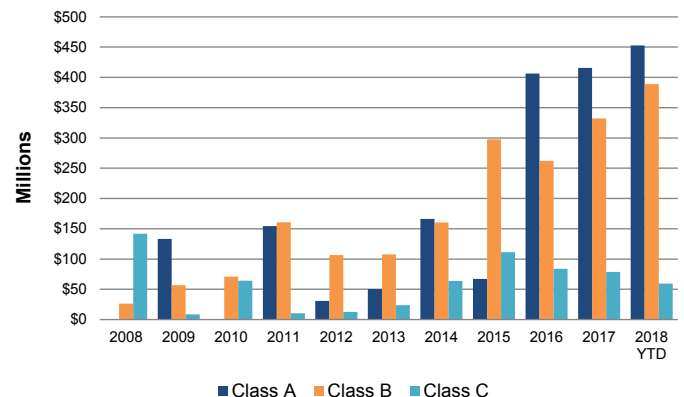
## MARKET TRENDS

- Vacancy rates fell to the lowest level since 2002, dropping for the eleventh consecutive quarter falling 12.4%. South Sacramento had the lowest Class A and C vacancy, while Midtown/East Sacramento recorded the lowest Class B vacancy and Auburn/Lincoln led the way with 5.3% vacancy overall.
- The region saw nearly ±210,000 square feet of positive net absorption in Q3, most of which was Class-B, but all classes were positive. This is the sixth consecutive quarter to record positive absorption, with the region only seeing negative net absorption three times over the past six years as demand for space remains strong.
  - Sutter Health had the largest move-in of the quarter, occupying ±45,430 square feet Downtown at 444 N 3rd Street.
- UC Davis Health signed the largest lease of Q3, taking on ±52,240 square feet in the Roseville/Rocklin submarket with plans to be moved in by the start of 2020.
- The average full service monthly asking rent for office space in Sacramento jumped to \$1.85 per square foot, increasing for the sixteenth quarter in a row and hitting a level not seen in over ten years.
  - Downtown had the highest asking rents across all classes at \$2.53 per square foot and continued to lead the Class A office market at \$2.98 per square foot monthly. Neighboring Midtown/East Sacramento is commanding the highest average Class B and C rents, bringing in \$2.50 and \$2.02 per square foot respectively.
  - Suburban office rents have continued to steadily climb averaging \$1.73 per square foot. Class A space is bringing \$2.12, Class B \$1.69, and Class C is currently asking \$1.38 per square foot.

## INVESTMENT HIGHLIGHTS

- Sacramento's office market had another active investment quarter with 20 transactions totaling \$206,400,000 at an average of \$144 per square foot. This figure is the lowest so far in 2018, but combines to bring the year-to-date total up to a respectable \$914,600,000.
- As in previous quarters, nearly every office sale occurred in suburban submarkets, as Midtown recorded just two small transactions while Downtown saw no activity. The largest sale was Point West Corporate Center I in the Arden/Arcade submarket, a ±351,746 square foot Class-A complex purchased by Basin Street Properties in September for \$45,262,500 at \$129 per square foot. Additionally, The Summit at Douglas Ridge was acquired by Vectra Management Group for \$44,500,000 in the Roseville/Rocklin submarket at a cost of \$238 per square foot.

Historical Office Sales Volume by Class



12.4%



Vacancy

±209,631 SF



Net Absorption

\$1.85



Avg. Asking Rate

±31,500 SF



Construction

3.4%



Sacramento  
Unemployment

3.7%



United States  
Unemployment

## SPOTLIGHT ON: THE ASCENT OF AGILE SPACE

A new trend has been flipping the script on traditional office design and usage – agile space. The work environment has been going through a revolution over the past 20 years, with endless rows of cubicles being replaced by sprawling open-plan layouts, but it has now become apparent that flexibility and balance are the true keys to an effective office. Agile workspaces strip away the constraints of assigned desks in favor of fluid office designs and flexible leases, allowing businesses to easily adapt to evolving workforce dynamics.

Technological advances have made it so we can work practically anywhere, making desktop computers feel like a ball and chain and enabling unprecedented mobility for employees. This unconstrained office concept also allows for creative optimization of spaces via short-term occupiers thanks to coworking companies like WeWork, allowing for the utilization of space when needed and retaining flexibility. The Ice Blocks in Midtown will soon feature just such a use, with Spaces agreeing to lease ±34,800 square feet at the project. The agility of office space is rooted in its ability to evolve with the dynamic business environment, increasing employee engagement and eliminating the constraints of the traditional workplace.

## OUTLOOK

The Sacramento office market had another encouraging quarter and enters the final months of 2018 with a full head of steam. Vacancies continue to compress as more businesses are drawn to the region's affordability relative to other areas, further tightening the market as construction remains limited. Landlords are reaping the benefits of this competitive environment as demand seems un-phased by steadily rising rents, leading many to avoid the excessive costs of new development for the moment. One of the few exceptions is health insurance provider Centene, breaking ground on their future 1.2 million square foot corporate campus in Natomas in Q4 which will consolidate their 3,000 existing Sacramento employees as well as create up to 5,000 new jobs.

Virtually all other current office construction is owner-user, with Government and healthcare leading the charge. The State of California has nearly one million square feet of projects in the works downtown, expected to deliver in 2021, and Roseville will see both Adventist Health and Kaiser Permanente open new campuses over the next year. There may be a shift towards speculative office development in coming years, but expect the current climate to persist until lease rates rise to a point where it justifies new construction.



# OFFICE Q32018

Submarket	Inventory	Available Space			Vacancy Q3-18	Net Absorption		Avg. Asking Rate (FS) Weighted
		Direct	Sublease	Total		Q3-18	Q3-17	
Arden/Arcade								
Class A	1,092,779	221,180	25,696	246,876	22.6%	(26,380)	4,880	\$1.95
Class B	3,048,387	523,748	10,756	534,504	17.5%	(20,092)	(61,037)	\$1.86
Class C	1,776,756	254,825	0	254,825	14.3%	(6,080)	422	\$1.62
<b>Total</b>	<b>5,917,922</b>	<b>999,753</b>	<b>36,452</b>	<b>1,036,205</b>	<b>17.5%</b>	<b>(52,552)</b>	<b>(55,735)</b>	<b>\$1.80</b>
Auburn/Lincoln								
Class A	-	-	-	-	-	-	-	-
Class B	446,730	27,236	0	27,236	6.1%	5,110		\$1.61
Class C	500,866	22,650	0	22,650	4.5%	2,774	(6,302)	\$1.12
<b>Total</b>	<b>947,596</b>	<b>49,886</b>	<b>0</b>	<b>49,886</b>	<b>5.3%</b>	<b>7,884</b>	<b>(6,302)</b>	<b>\$1.35</b>
Downtown Sacramento								
Class A	5,805,347	502,527	15,937	518,464	8.9%	4,103	30,324	\$2.98
Class B	4,768,586	686,310	2,462	688,772	14.4%	9,459	32,795	\$2.36
Class C	2,723,244	229,634	0	229,634	8.4%	42,799	30,049	\$1.88
<b>Total</b>	<b>13,297,177</b>	<b>1,418,471</b>	<b>18,399</b>	<b>1,436,870</b>	<b>10.8%</b>	<b>56,361</b>	<b>93,168</b>	<b>\$2.53</b>
El Dorado Hills/Folsom								
Class A	1,243,752	163,081	0	163,081	13.1%	61,468	79,883	\$2.09
Class B	2,495,338	250,744	4,050	254,794	10.2%	42,458	(31,575)	\$1.78
Class C	781,577	58,595	0	58,595	7.5%	3,740	(11,456)	\$1.45
<b>Total</b>	<b>4,520,667</b>	<b>472,420</b>	<b>4,050</b>	<b>476,470</b>	<b>10.5%</b>	<b>107,666</b>	<b>36,852</b>	<b>\$1.81</b>
Highway 50/Rancho Cordova								
Class A	3,421,879	550,012	0	550,012	16.1%	5,981	(1,732)	\$1.95
Class B	7,244,201	982,948	44,298	1,027,246	14.2%	72,901	160,184	\$1.60
Class C	2,076,895	457,084	10,000	467,084	22.5%	13,094	6,934	\$1.33
<b>Total</b>	<b>12,742,975</b>	<b>1,990,044</b>	<b>54,298</b>	<b>2,044,342</b>	<b>16.0%</b>	<b>91,976</b>	<b>165,386</b>	<b>\$1.65</b>
Midtown/East Sacramento								
Class A	468,139	94,332	13,063	107,395	22.9%	3,114	1,093	\$2.90
Class B	3,205,961	116,298	3,360	119,658	3.7%	(14,912)	57,690	\$2.50
Class C	1,209,668	205,050	0	205,050	17.0%	10,518	4,868	\$2.02
<b>Total</b>	<b>4,883,768</b>	<b>415,680</b>	<b>16,423</b>	<b>432,103</b>	<b>8.8%</b>	<b>(1,280)</b>	<b>63,651</b>	<b>\$2.42</b>
Northgate/Natomas								
Class A	3,211,622	311,136	20,721	331,857	10.3%	35,908	93,110	\$2.13
Class B	2,260,701	208,109	0	208,109	9.2%	7,393	4,175	\$1.70
Class C	499,503	135,016	0	135,016	27.0%	(20,022)	0	\$1.22
<b>Total</b>	<b>5,971,826</b>	<b>654,261</b>	<b>20,721</b>	<b>674,982</b>	<b>11.3%</b>	<b>23,279</b>	<b>97,285</b>	<b>\$1.89</b>
Northeast Sacramento								
Class A	79,163	0	0	0	0.0%	0	0	\$0.00
Class B	1,813,288	370,965	5,504	376,469	20.8%	37,270	21,579	\$1.43
Class C	2,959,496	445,116	0	445,116	15.0%	(20,392)	36,040	\$1.22
<b>Total</b>	<b>4,851,947</b>	<b>816,081</b>	<b>5,504</b>	<b>821,585</b>	<b>16.9%</b>	<b>16,878</b>	<b>57,619</b>	<b>\$1.30</b>
Roseville/Rocklin								
Class A	3,274,113	347,990	1,913	349,903	10.7%	(45,578)	21,193	\$2.21
Class B	5,222,159	492,566	16,941	509,507	9.8%	9,585	27,369	\$1.63
Class C	1,316,136	177,057	0	177,057	13.5%	(7,568)	(228)	\$1.42
<b>Total</b>	<b>9,812,408</b>	<b>1,017,613</b>	<b>18,854</b>	<b>1,036,467</b>	<b>10.6%</b>	<b>(43,561)</b>	<b>48,334</b>	<b>\$1.79</b>
South Sacramento								
Class A	595,870	51,376	0	51,376	8.6%	(1,066)	20,082	\$2.62
Class B	1,743,101	196,602	1,467	198,069	11.4%	10,378	(4,782)	\$1.79
Class C	1,410,481	156,275	0	156,275	4.5%	(3,303)	7,489	\$1.36
<b>Total</b>	<b>3,749,452</b>	<b>404,253</b>	<b>1,467</b>	<b>405,720</b>	<b>10.8%</b>	<b>6,009</b>	<b>22,789</b>	<b>\$1.76</b>
Yolo County								
Class A	702,685	51,484	0	51,484	8.9%	2,339	0	\$1.92
Class B	1,525,326	153,819	5,876	159,695	14.4%	(5,710)	8,690	\$1.79
Class C	883,163	40,996	1,000	41,996	8.4%	342	(1,340)	\$1.68
<b>Total</b>	<b>3,111,174</b>	<b>246,299</b>	<b>6,876</b>	<b>253,175</b>	<b>8.1%</b>	<b>(3,029)</b>	<b>7,350</b>	<b>\$1.79</b>
<b>Totals</b>	<b>69,806,912</b>	<b>8,484,761</b>	<b>183,044</b>	<b>8,667,805</b>	<b>12.4%</b>	<b>209,631</b>	<b>530,397</b>	<b>\$1.85</b>
<b>Class A</b>	<b>19,895,349</b>	<b>2,293,118</b>	<b>77,330</b>	<b>2,370,448</b>	<b>11.9%</b>	<b>39,889</b>	<b>248,833</b>	<b>\$2.37</b>
<b>Class B</b>	<b>33,773,778</b>	<b>4,009,345</b>	<b>94,714</b>	<b>4,104,059</b>	<b>12.2%</b>	<b>153,840</b>	<b>208,786</b>	<b>\$1.70</b>
<b>Class C</b>	<b>16,137,785</b>	<b>2,182,298</b>	<b>11,000</b>	<b>2,193,298</b>	<b>13.6%</b>	<b>15,902</b>	<b>66,476</b>	<b>\$1.51</b>