JLL

News Release

Competition Soars: Investors Seek to Dominate Sacramento Skyline

JLL predicts Sacramento Skyline to be increasingly landlord-friendly landscape

SACRAMENTO, **March 19, 2014** – "Game on" seems to be the sentiment of buyers aggressively seeking office properties across the skyline markets of the United States. From local High Net Worth Investors (HNWIs) to international sovereign wealth funds (SWFs), competition is fierce for those planting their stake in iconic properties towering over American cities. While the Sacramento office market is still emerging from the recession, leasing activity among Skyline buildings in 2013 accounted for 82.3 percent of all CBD leasing activity by volume.

In short: it's a relatively good time to be a landlord in downtown Sacramento and the market is well positioned for future growth. Thanks to intense capital demand, rents among Trophy assets nationwide are soaring, even more so than rising leasing demand, according to JLL's Spring 2014 U.S. Skyline Review.

"Although the overall vacancy rate for office product in the CBD is about the same as last year and asking rates flat, the dwindling availability of large blocks of existing space and continued leasing activity from current and new users will likely result in rents being pushed higher this year," said Jason Goff, Managing Director in the Sacramento office of JLL.

JLL's proprietary Skyline report identifies and tracks micro-segments of 43 city centers across the nation. The Skyline features Trophy and Class A buildings where tenants and investors alike focus demand for office space in a flight to quality and efficiency. Check out the themes that shape the U.S. skyline.

Competition for office properties across skyline cities in 2013 propelled vacancy levels to an average 13.4 percent and 170 basis points below the U.S. office sector.

"Transaction activity has been limited, especially in comparison to other Skyline markets. However, looking ahead, we see the proposed development of the downtown sports arena as well as overall improving market fundamentals igniting capital transaction activity in Sacramento Skyline assets as investors seek opportunities in markets that are next to recover," said Michel Seifer, Managing Director in charge of JLL's Capital Markets Group in the West Region.

In spite of tightening market fundamentals, construction remains limited. Ten Skylines have vacancy levels below 10 percent, with seven showing no current development and two seeing just one proposed project.

The constrained development pipeline has led to climbing rents: over the past three years, rates in the skylines increased 17.1 percent compared to the 9.8 percent increase seen by the broader market.

"The lack of development is causing a space crunch on each end of the spectrum," said John Sikaitis, Managing Director of Research at JLL. "Trophy properties are far outperforming the broader market with respect to occupancy

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levels and rents and a similar tightening exists in value-add properties. This squeeze from both ends is expected to have a significant impact on the properties in the middle as tenants are being priced out of their former go-to options."

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