



## **Mind the Gap: Sacramento Office Rental Rates Narrow at the Top**

*Demand for Trophy buildings highest in eight years but tightening fundamentals could draw attention to other asset classes, according to JLL's 2015 Skyline Review*

**SACRAMENTO, June 9, 2015** – There's no space like Trophy space, but that attitude is changing slightly in Sacramento's office market these days. The premiere office towers that make up Sacramento's skyline still boast the most expensive office space to rent and the sector witnessed a positive increase in rent growth in the first quarter, but the price gap between Trophy space and the rest of the market is narrowing, according to JLL's 2015 Digital Skyline. Average Trophy rates in the first quarter of 2015 were \$2.90 to 3.25 per square foot compared to \$2.45- 2.60 per square foot in non-Trophy buildings. This diminishing gap between Trophy and non-Trophy space is the narrowest since 2010.

"Asking rates for office space throughout the Sacramento CBD rose 6.8 percent between January and March, the largest single annual increase in the last seven years. This increase in rates is in addition to shrinking concessions, such as free rent. A typical lease would include one month of free rent per year of the Lease term. This has also been cut in half. Historically, Trophy properties, typically built in the last 15 years, have outperformed the rest of the market, but that gap has clearly narrowed as more diverse tenants have migrated downtown seeking less expensive alternatives," said John Sheaffer, JLL Research.

JLL's proprietary 2015 Digital Skyline identifies and tracks micro-segments of 47 city centers across North America. 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.

In Sacramento, office demand has been buoyed by employment gains in key sectors such as healthcare, professional services and government, where the State of California is adding more than 3,200 jobs year-over-year. The biggest direct impact on the CBD office market, however, has been the downtown construction of the new Sacramento Kings basketball arena. This has spurred new hotel, condominium, apartment and retail construction.

"The economic impact on the CBD of moving the Kings arena downtown has been significant, and we are seeing office tenant demand for space in the area around the arena at an all-time high," said Greg Levi, managing director, JLL. The traditional downtown tenants, including large law firms, professional corporation, lobbyists and State of CA, have continued their occupancy and, in many cases, expanded. We are now seeing migration from the suburbs of more law firms, engineering/architectural firms, medical and entrepreneurial businesses. "With no new construction in the market over the last five years, space availability is set to tighten further this year," he added.

Larger blocks of space are also leasing. At the beginning of the 2015, JLL tracked 11 full floor vacancies in the Sacramento Skyline. In the past six months, this number has been reduced to 7 full floors. This may

reduce the leverage larger tenants have had in the downtown area. With fewer relocation alternatives, rates will likely climb.

### **A diminishing “home-team” advantage**

If office rental rates are rising, so too is the price tag to buy an office building in Sacramento. Economic growth, business expansion and improving market fundamentals have resulted in two consecutive years of increased sales activity, and 2014 saw the most transactions by dollar volume (\$394 million) since 2009.

“Investors have taken note of the positive conditions created by the construction of the new arena. In fact, three quarters of the deals completed last year took place in the fourth quarter of the year after construction of the arena began,” said Rob Cole, Senior Vice President of the Capital Markets Group. “The anticipated affect that the arena will have and has already had on our downtown is absolutely driving interest.”

Sales activity was centered outside the Skyline set, with just 21 percent of sales volume in 2013 and 2014 attributable to Skyline buildings, because these prime assets are rarely available for sale. It is important to note the Senator Office Building, located just north of the California State Capitol building, is currently in escrow for nearly \$32 million to Bay Area investor Swift Realty Partners. This is their second major investment this year in the downtown, following the purchase of 630 K Street, which is set directly adjacent to the arena site. Both assets are prime examples of value-add and repositioning opportunities that are transacting in this rising market.

### **About the Skyline Review**

For the first time, investors and tenants alike can now access JLL’s Skyline Review via a digital platform. The fully interactive website will feature JLL’s proprietary market insights regarding office supply, demand, rents, leverage and investment into 47 markets across the United States and Canada, with the ability to compare and contrast individual markets or multiples of markets. In addition, the site will offer videos and infographics. All information will also be available via mobile access. Users can also directly access information about Sacramento’s Skyline.

-Ends-

### **About JLL**

JLL (NYSE: JLL) is a professional services and investment management firm offering specialized real estate services to clients seeking increased value by owning, occupying and investing in real estate. A Fortune 500 company with annual fee revenue of \$4.7 billion and gross revenue of \$5.4 billion, JLL has more than 230 corporate offices, operates in 80 countries and has a global workforce of approximately 58,000. On behalf of its clients, the firm provides management and real estate outsourcing services for a property portfolio of 3.4 billion square feet, or 316 million square meters, and completed \$118 billion in sales, acquisitions and finance transactions in 2014. Its investment management business, LaSalle Investment Management, has \$55.3 billion of real estate assets under management. JLL is the brand name, and a registered trademark, of Jones Lang LaSalle Incorporated. For further information, visit [www.jll.com](http://www.jll.com).

Contact: Andrew Neilly  
Phone: +1 925 915 0759  
Email: Andrew@gallen.com

Tim Gallen  
+1 925 930 9848  
tim@gallen.com