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DEPARTMENT OF
PLANNING AND DEVELOPMENT

CITY OF SACRAMENTO
CALIFORNIA

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SACRAMENTO, CA

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January 21, 1991

Transportation and Community Development Committee
Sacramento, California

Honorable Members in Session:

SUBJECT: UPDATE ON STATE LEASING ACTIVITY DOWNTOWN AND STATE OF CALIFORNIA OFFICE DEMAND

SUMMARY

This is an update report on state leasing activity in the downtown area of the City of Sacramento and on State of California office demand.

COMMITTEE ACTION

None

STAFF RECOMMENDATION

This report is for Committee information only.

FINANCIAL CONSIDERATIONS

The leasing of space by the State of California in the City's downtown area has an impact on the City's economy including sales tax paid by state workers and property tax paid by private offices who lease space.

POLICY CONSIDERATIONS

The City Council has adopted a Resolution encouraging State of California agencies to locate in the downtown and Central Business District.

MBE/WBE

There are no goods or services purchased in this item.

Respectfully submitted,

TIM JOHNSON
Economic Development Coordinator

Approved:

David R. Martinez

DAVID R. MARTINEZ
Deputy City Manager

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For T&CD Committee Meeting of January 30, 1992

UPDATE ON STATE LEASING ACTIVITY DOWNTOWN

The State of California is the largest office user and employer in the downtown area. Nearly two-thirds of the State-leased office space is located in the Central City area, which equates to 3,733,407 square feet. The following charts indicate the square footage of state-owned and leased facilities. As of 1990, there were over 35,000 state employees working in the downtown area. State facility planners forecast total demand for office space based upon further demand of employees. Based on a survey by the State, their demand for office space will be over 1.6 million square feet of office space in the ten-year period from 1990 to 2000. Nevertheless, City staff could not pinpoint a forecast for exact State leasing demand in the Central City due to State planning decisions on whether to build nearly two million square feet of space.

STATE OF CALIFORNIA OFFICE DEMAND

As noted, one of the reasons for the growth has been the continuing demand for office space by the State of California. The State currently leases approximately 5.7 million net square feet of office space in the Sacramento Metropolitan area (Tables 8, 9 and 10). The State of California is the largest office user and employer in the downtown area. Nearly two-thirds of the State leased office space (3,733,407 sq.ft.) is in the combined Core/Central City area (Tables 8 and 9). Since 1984 the State has leased 2,360,344 net square feet of office space, 77 percent of which has been in the combined Core/Central City areas. This equates to an average of 312,235 net square feet of leased office space downtown per year since 1984.

State-Leased Facilities and Leasing Activity
Sacramento, 1984-1990

Leased Space, Net Square Feet

	1984	1988	1990
Core Area	1,080,000	1,340,034	1,624,953
Central City	840,000	1,228,144	2,108,454
Metropolitan	1,400,000	1,595,883	1,946,977
Total Sacramento	3,320,000	4,174,061	5,680,384

	1988-1990 Change			1984-1990 Change		
Core Area	+284,919	*	+142,459/yr	+544,953	*	+90,826/yr
Central City	+880,310	*	+440,155/yr	+1,268,454	*	+211,409/yr
Metropolitan	+351,094	*	+175,547/yr	+546,927	*	+91,155/yr
Total Sacramento	+1,516,323		+758,161/yr	+2,360,334		+393,390/yr

Source: 1988 Sacramento Facilities Plan, State of California, Department of General Services, Office of Project Development and Management.

Survey Results, Department of General Services, Office of Project Development and Management, 1990.

The State's Department of General Services indicates it currently leases 20 percent to 25 percent of the available Class A office space in the downtown area. The State leases approximately 300,000 square feet in the downtown area per year. State of California's facility planners predict that the State will need nearly 1.5 million net square feet of office space in the ten-year period from 1990 to 2000.

Table 9
State-Owned and Leased Office Space
in Sacramento, By Planning Area, 1990
(Net Square Feet)

	State-Owned (%)	Leased (%)	Total
Core Area G-R Streets, 5th-17th Streets	3,075,806 (65)	1,624,953 (35)	4,700,759
Central City** Area outside of the core, between I-5, I-80 and the Sacramento and American Rivers	806,857 (28)	2,108,454 (72)	2,915,311
Metropolitan Area*** Area outside the Central City area, yet within the Greater Sacramento area	1,600,366 (42)	1,946,977 (58)	3,341,137
Total	5,276,823 (48)	5,680,384 (52)	10,957,207

** For planning purposes, the space occupied by the Public Employees Retirement System in Lincoln Plaza (400 F Street) is considered State-owned

*** Because these facilities are permanent, for planning purposes the Franchise Tax Board and the State Teacher's Retirement facilities are being considered State-owned; these facilities are occupied under a lease-purchase agreement and will ultimately be owned by the State.

Note: Figures represent net square feet of office space only. Auditoriums, cafeterias, child care centers, labs and warehouses are not included. One exception to this is the Franchise Tax Board operation which is included in the metropolitan planning area figures.

Source: Department of General Services, Office of Project Development and Management.
Survey of State agency managers, January 1988, 1990.

Table 10
State-Occupied Office Space in Sacramento
1977-1990
Net Square Feet
(In Millions)

Year	State-Owned Buildings	Leased Facilities	State Occupied Office Space
1977	3.6	2.1	5.7
1978	3.6	2.4	6.0
1979	3.6	2.6	6.2
1980	3.6	2.9	6.5
1981	3.8	3.4	7.2
1982	3.8	3.2	7.0
1983	Data not available		
1984	4.3	3.4	7.7
1985	4.8	3.2	8.0
1986	4.8	3.6	8.4
1987	Data not available		
1988	5.3*	4.2	9.4**
1989	Data not available		
1990	5.3	5.7	11.0

* Although no additional State-owned buildings have been occupied since 1986, a square foot increase is attributed to more effective use of space in existing State-owned buildings. This is combined with a correction in the size of the Franchise Tax Board facilities. The size of the FTB facilities is 466,000 square feet rather than the 310,000 which had previously been recorded incorrectly.

** Rounding error

Source: Department of General Services, Office of Project Development and Management. Survey of State Agency Managers, January 1990

STATE DEMAND FORECAST

State facility planners forecast total demand for office space based upon calculations for future demand of employees. As presented in Table 11, the current State office employee population in Sacramento is 49,867. Based on a survey of State department directors, this number is expected to increase to 55,478 by 1995 and to 60,835 by the year 2000. The State calculates one employee per 150 net square feet. Given that forecast through 1995 adds 5,611 more employees, which means that the State will need 841,650 net square feet of office space to meet their needs. For the next five years, 1995 to 2000, there will be an additional 5,357 employees, needing 803,550 net square feet of office space. This represents a demand for over 1.6 million net square feet of office space in the ten-year period from 1990 to the year 2000. This forecast is based on existing conditions and current planning assumptions. It should be recognized that this estimate serves as a basis from which preliminary office space programming begins. It does not, for example, include a building's shared facilities and common areas such as cafeterias, hearing rooms, auditoriums and child care facilities.

Table 11
State Employees in Sacramento, By Planning Area
1977 - 2000

Year	Core Area	Central City	Metropolitan	Total
1977	20,100	8,200	5,800	34,100
1978	21,200	7,600	8,800	37,600
1979	22,275	2,850	14,200	39,325
1980	22,625	3,400	15,625	41,650
1981	23,440	4,025	16,635	44,100
1982	24,330	3,560	15,700	43,590
1983	Data not available			
1984	25,300	4,300	15,100	44,700
1985	26,000	4,300	15,700	46,000
1986	Data not available			
1987	Data not available			
1988	26,793	6,917	14,205	47,915
1989	Data not available			
*1990	22,936	12,366	14,565	49,867
**1995	23,922	15,150	16,406	55,478
**2000	26,027	16,630	18,177	60,835***

Note: The figures presented in this table were gathered from previous Sacramento Facilities Plan supplements. The computerized facilities database provides a more precise accounting of State employees and square feet of office space as reflected in the 1988 data.

This number includes an estimate of 2,000 legislative office employees. This estimate was calculated based on data collected for the 1984 Supplement to the Sacramento Facilities Plan with a 2 percent increase per year

Source: Department of General Services, Office of Project Development and Management, Survey of State Agency Managers, January 1988

* Adjusted Survey Results, Department of General Services Office of Project Development and Management, 1990

** Adjusted Forecasted Survey Results, Department of General Services, Office of Project Development and Management

*** Row does not sum due to rounding

OTHER FACTORS

No matter if the State builds or leases, it is evident that there exists a demand for State office space. Nevertheless, the Audit could not pinpoint a forecast for exact State leasing demand in the combined Core/Central City area due to State facilities planning decisions whether nearly 2 million square feet of State-owned space proposed or planned for downtown will be built. According to State planners and commercial brokers, the following general criteria are incorporated in the State's evaluation of a site or building.

- Market lease rates. State leases for downtown office space are currently at a maximum rate of $1.25 per square foot per month. Typical office space rents on the Capitol Mall currently averages $2.10 gross. Brokers estimate that the new high-rise office buildings located within the C-3 Zone/Central Business District currently command gross rents of approximately $2.25 to $2.50.

- Proximity to State Capitol. Most agencies are seeking to consolidate within the combined Core/Central City areas.

- Cost of parking. Downtown commuters who park in city-owned garages spend an average of $5.30 per day in the downtown (according to a June 1989 Cambridge Systematics, Inc. study). Parking for the private office buildings along L Street and the Capitol Mallhave ranged in cost from $80 to $100 per month.
- Public transit corridor. State facilities must be located within a public transit corridor, defined as a maximum one-quarter mile from a transit route with average or above-average level of service. Potential expansion of existing light rail in the downtown will increase number of options for State General Services decision makers.

- Amenities. The availability of office-serving retail stores, restaurants and other amenities has little or no impact on State office space leasing considerations.

Table 12 points out the changes in the annual leasing costs by the State of California.

Table 12
Annual Leasing Costs of State-Occupied Private Office Space
1977-1990

Year	Area (nsf)[1]	Annual Rent Millions	Average Cost Per Sq.Ft. Per Month	Increase in CPI[2] (%)	Percent of Total State Space
1977	2,100,000	$10.0	$0.40	N/A	37%
1978	2,400,000	12.1	0.42	9.0	40
1979	2,600,000	14.0	0.45	13.3	42
1980	2,900,000	19.1	0.55	12.5	46
1981	3,400,000	24.9	0.61	8.9	49
1982	3,200,000	24.6	0.64	3.8	46
1983	2,950,000	28.7	0.81	3.8	40
1984	3,300,000	33.7	0.85	3.9	45
1985	3,442,270	35.9	0.87	3.8	45
1986[3]					
1987[3]					
1988	4,164,061	55.5	1.04	4.4	44
1989[3]					
1990	5,500,000	81.5	1.19	6.1	52

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1 Net Square Feet

2 Consumer Price Index, December to December from U.S. Bureau of Statistics, based on U.S. City Average (1967 base)

3 Supplements to the Sacramento Facilities Plan were not prepared in 1986, 1987 and 1989

Source: Department of General Services, Office of Real Estate and Design Services, Planning Area Building Report, Report FPA 12A.

THE FUTURE OF DOWNTOWN OFFICE DEVELOPMENT

The Audit has brought to the surface some very interesting information. The information presented on office demand for downtown is a good example. The Audit illustrated two demand forecasts, one by EIP Associates, and the other by the ULI. The forecasted range was given to be 396,000 square feet to 462,000 square feet to be built annually.

These forecasts are well documented, based on historic trends. Yet there are other elements which suggest that these demand-based forecasts may be too conservative. Staff researchers found that other variables are impacting the office building market. Even though Sacramento has been a hot spot for development in the nation, area developers are beginning to face difficulties in finding lenders. With the weak US economy of the early 90's, banks and other financial institutions are being more stringent on the furnishing of large loans to developers. However, institutional investors such as pension funds and insurance companies are very knowledgeable about the current growth cycle, especially in downtown Sacramento. These institutional investors turn to long-range investments. They still feel that real estate is currently a strong investment for them. They assume the risk, fully realizing that the building they have financed may remain vacant, but they are confident that it will fill. They do not worry about this, however, for they are financially strong enough to carry the loss over a period of time. An economist with the philosophy of the supply side would agree that as prices rise, so does the quantity of the product produced. These investors know that the value of today's downtown land prices and building prices will increase over the next five to ten years and beyond, thus enhancing the investment. With the current building trends in Sacramento, it is evident that the investors see the market operating this way in Sacramento.

What does this mean for the millions of square feet of proposed private office space downtown? The two demand forecasts calculated absorption to be in the range of 15 to 17 years (assuming current vacancy factors). However, looking at the marketplace from the supply side, this space, and even more, may be built much sooner. No matter if one is looking from the demand or supply side, all involved try to predict . . . and many times imperfectly.