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Office market hangs hopes on state prison system deal

Premium content from Sacramento Business Journal - by Michael Shaw, Staff writer

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A potential blockbuster state office deal could be the last of its kind for a while.

The receivership running the state's prison medical system, which employs about 800, is testing the market for office space, officials said this week.

If the receiver decides to go forward with a move, it could require as much as 250,000 square feet. That's huge in Sacramento, where the largest deal last year involved about 180,000 square feet.

"Right now, all we're doing is a market survey," said **Nancy Kincaid**, spokeswoman for receiver **J. Clark Kelso**. "There is no bid out there."

Observers say there are few potential deals like this one.

State government is the Sacramento region's largest tenant, leasing about 7 million square feet. But many of its leases have been renegotiated over the past two years under a program to capitalize on falling rent rates. The idea was to lock in those lower rates for agencies in the "soft" term of their leases, typically the last four years of an eight-year lease that are optional.

A total of 246 leases statewide have been renegotiated for a savings of \$111.8 million, said **Eric Lamoureux**, spokesman for the state's Department of General Services, which handles real estate needs for most of state government.

"We feel like we've hit most of them," Lamoureux said. "When we first started the program, we saw pretty significant savings. We will continue to do this, and I think we'll see some additional savings."

He said the only other large state deal being sought in the local market is a space for the Department of Parks and Recreation, which needs a temperature-controlled warehouse of about 250,000 square feet to store thousands of artifacts from Civil War-era canteens to silk dresses and hats worn by California settlers.

For years, state leasing has driven the Sacramento market.

When the [California Department of Transportation](#) unexpectedly moved out of a large south Natomas office building in September to consolidate in Marysville, brokers wondered who could backfill a large space. The answer, naturally, was another state agency.

"We thought we were going to be renewing Caltrans at that location," said **Kevin Partington**, broker with Cushman & Wakefield in Sacramento who represents building owner Mapleton Investments. "We were working on a renewal with the state and Cornish & Carey. They were caught by surprise, too. We asked 'What other agencies do you have that could backfill this?'"

The California Department of Food and Agriculture, which needed to consolidate offices, ended up signing a 10-year lease for 76,000 square feet at the building at 2800 Gateway Oaks Drive. Additional terms were not disclosed but **Ron Thomas**, Partington's partner at Cushman, said the rate was "a good representation of where the market is."

While government will remain a force in the industry, Sacramento can no longer count on the state to buoy the market, said **John Frisch**, who heads the local office of Cornish & Carey Commercial. The firm holds the contract to represent state interests in deals, and its brokers often represent the state on office and warehouse leases.

"A lot of 'right-sizing' already has been accomplished," Frisch said. "There will be fewer deals and few big deals especially. We've renegotiated leases in an effort to save money, and most of that has been accomplished."

Whether the California Prison Receivership decides to make a move may come down to whether it can cut rent costs. The receivership was established in 2005 after the state failed to bring medical care up to standards in the 33 prisons. The receiver reports to the federal court, but the state pays the bills. The receivership, based at 501 J St., is examining potential locations around Sacramento while working on creating a central pharmacy, updating electronic medical records and making other technology improvements.

Sources said possible destinations include large office buildings such as the Natomas Gateway Tower, a 12-story building along Interstate 5 in south Natomas that hasn't had a major tenant since it opened two years ago.

The market study should be complete within three or four months, Kincaid said.

mshaw@bizjournals.com | 916-558-7861