
3Q24

Sacramento Office Market Overview



NEWMARK

Market Observations

Economy

- Sacramento’s economy appears to be stabilizing as job losses leveled off. Employment growth in Sacramento followed a similar path of the U.S. with growth appearing to be flattening out after a period of deceleration. In fact, the latest figures in August point to possible signs of improvement.
- Sacramento’s unemployment rate has hovered in the 4.7% range for the past three months, inching down 30 bps from March 2024.
- Office-using employment levels have hovered in the same range since mid-2020 at approximately 195,000 employed. Job gains in the Professional & Business Service sector outpaced small losses in Information (technology) Services and Financial Activities.

Major Transactions

- New leasing activity accounted for the largest share of both transaction size and the total number of transactions. Lease renewals and expansions were a close second. Sublease activity was a small share, which is good news for the market in its recovery.
- The largest new lease was the State of California’s deal in South Natomas. Sales volumes was muted in the third quarter with only one building larger than 100,000 sf that traded hands, 770 L Street was sold for \$22.5 million or \$134/psf.
- The largest two office buildings totaling 569,000 square feet are currently under construction and have a completion date scheduled for the first quarter of 2025.

Leasing Market Fundamentals

- Sacramento’s office market showed signs of stabilizing in the third quarter. The total vacancy rate stood at 16.8%, an improvement from last quarter’s vacancy rate of 17.2%.
- The office market recorded the highest net absorption since the start of the pandemic at nearly 259K square feet during the third quarter, however it was not enough to offset contractions earlier in the year.
- Leasing activity was at its highest level in a year with year-to-date leasing activity on par with total 2023 levels, and if the pace continues, total leasing in 2024 could match or even surpass 2020 total leasing levels. While there is still quite a gap to full recovery, the market is trending in a better direction.

Outlook

- Sacramento’s economy looks to be flattening out after a period of job losses. We expect the unemployment rate to tick downward as the economy improves.
- The demand and supply equation should return to a more balanced outlook over the longer term once the companies start expanding once again and taking larger blocks of space.
- We anticipate that leasing fundamentals will improve in the medium to longer term, with the vacancy rate ticking down as asking rents continue to get pushed up. Once the market starts tightening, we expect concessions should back off, putting upward pressure on effect rental rates.

1. Economy
2. Leasing Market Fundamentals
3. Appendix / Tables

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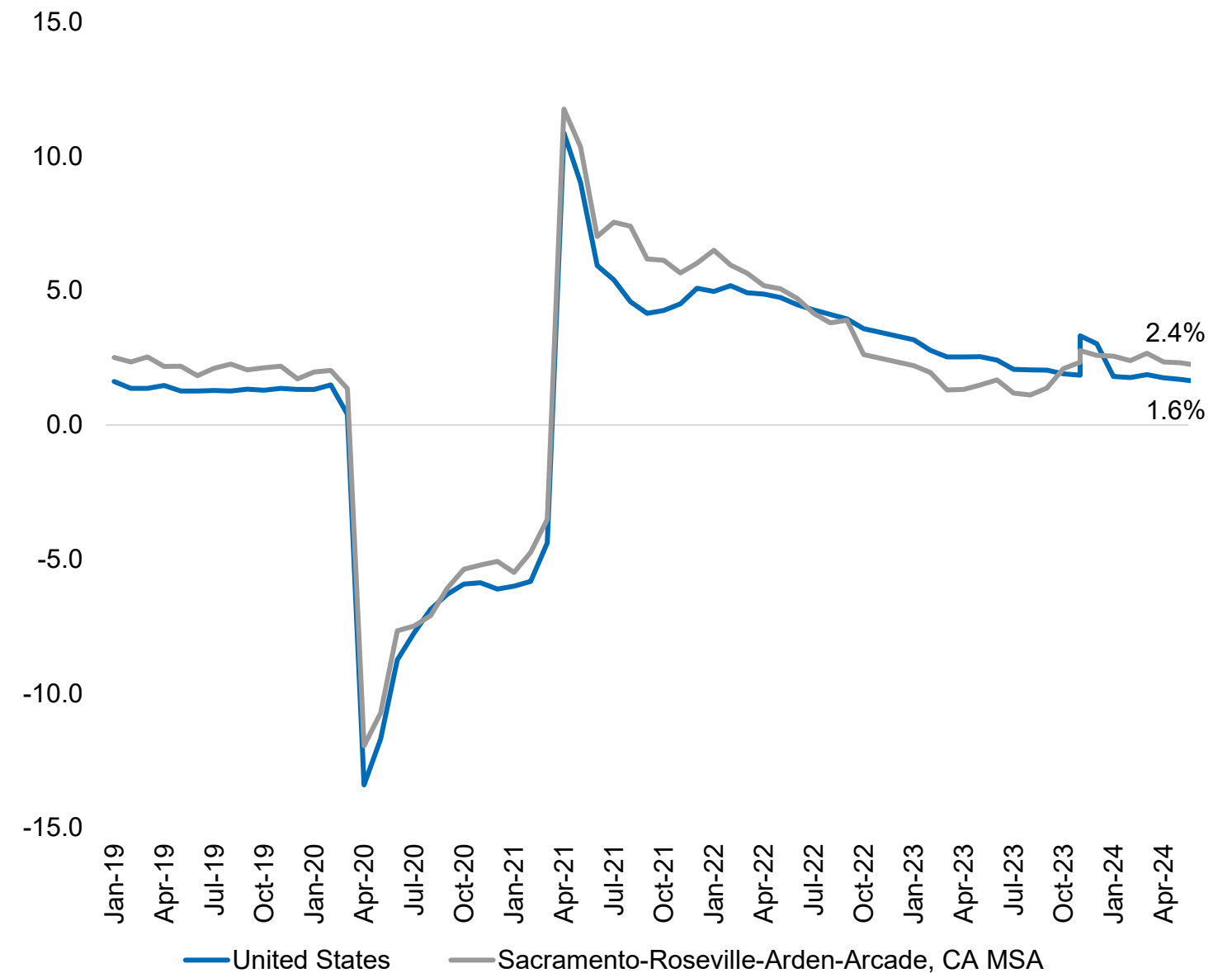
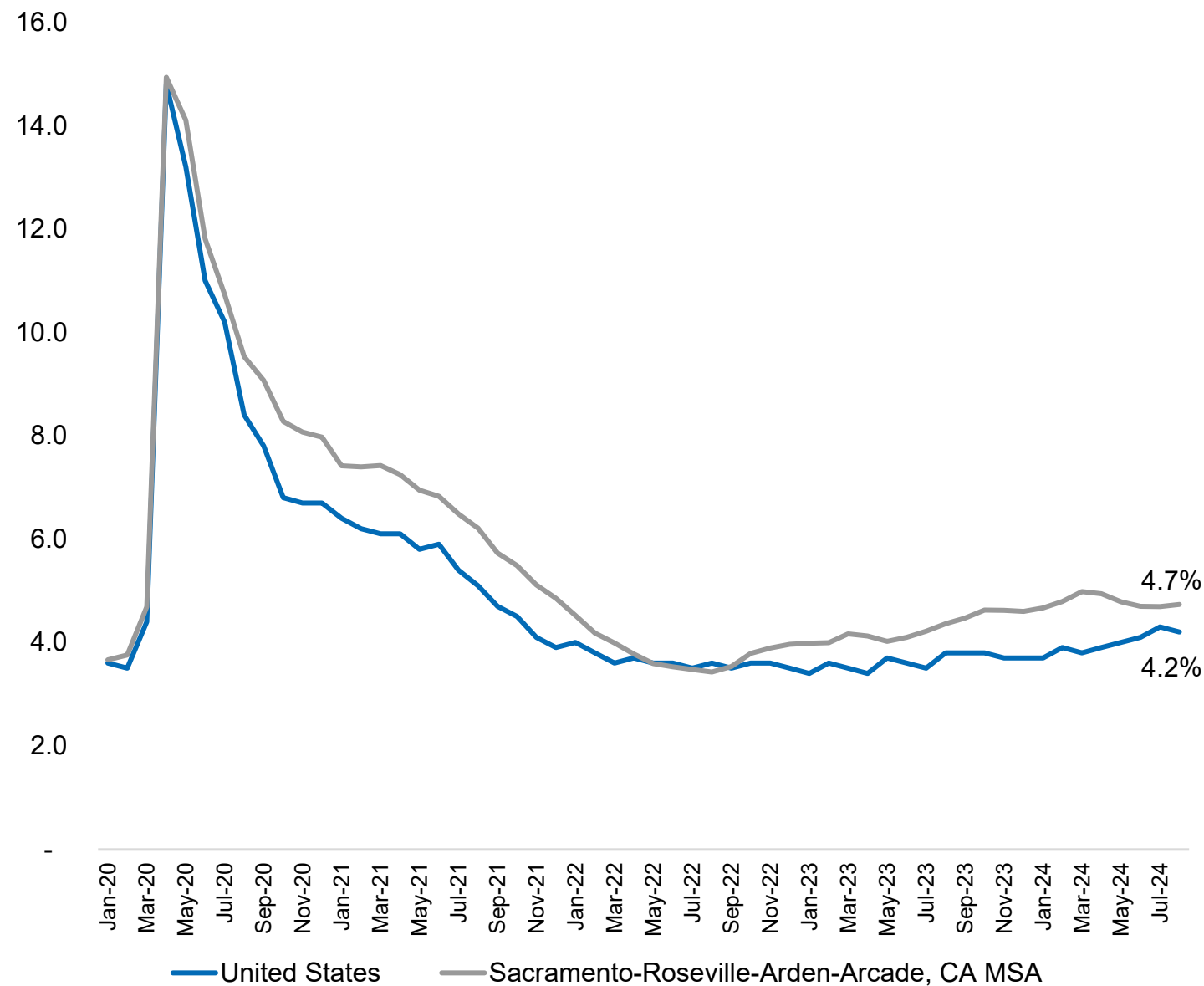
Economy



Sacramento has Closely Tracked US Employment Trends

Sacramento's economy appears to be stabilizing as job losses leveled off. Sacramento's unemployment rate has hovered in the 4.7% range for the past three months, inching down 30 bps from March 2024. Employment growth in Sacramento followed a similar path of the U.S. with growth appearing to be flattening out after a period of deceleration. In fact, the latest figures in August point to possible signs of improvement.

Unemployment Rate, Seasonally Adjusted **Nonfarm Payroll Employment, Non-Seasonally Adjusted, 12-Month % Change**

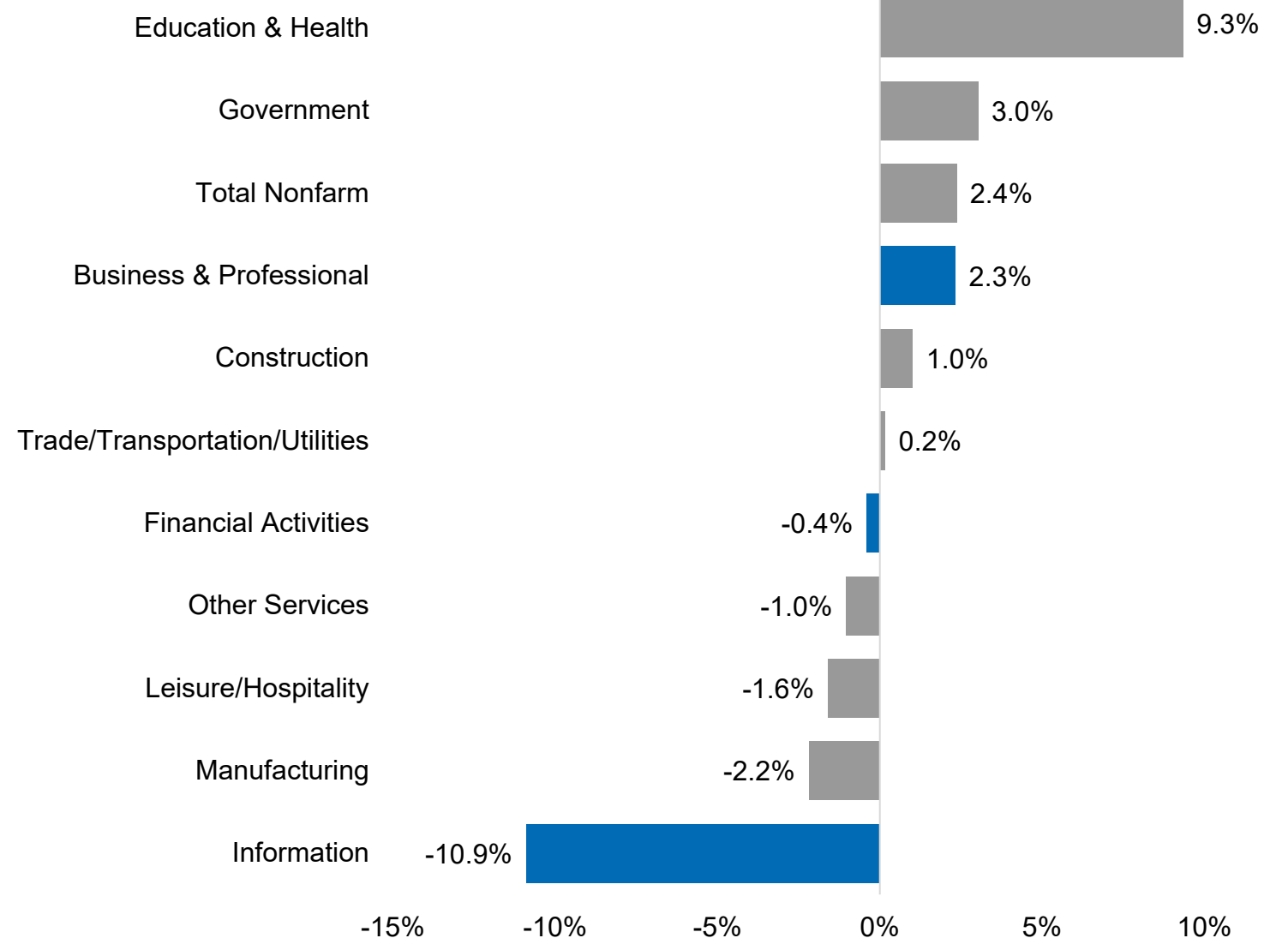
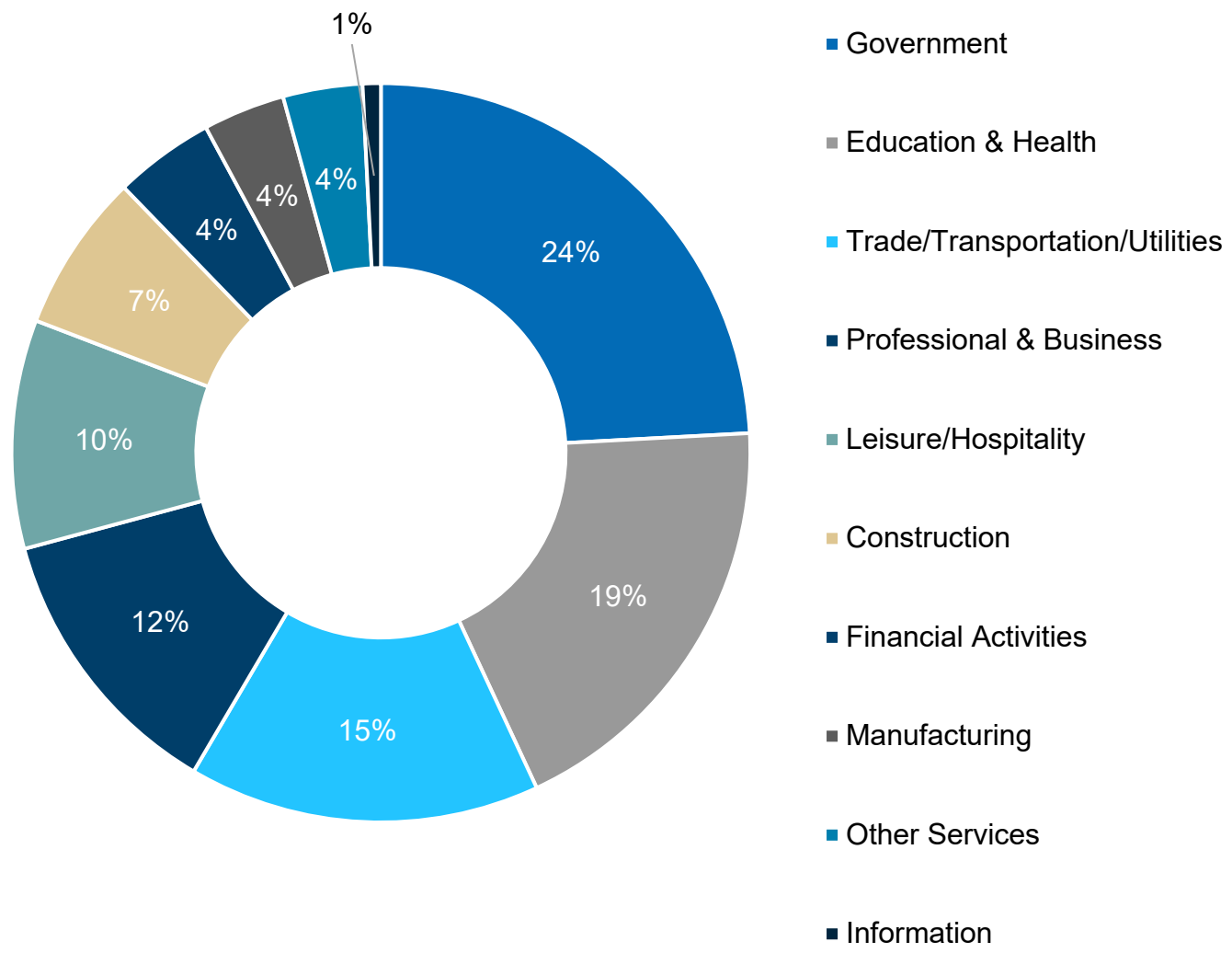


Source: U.S. Bureau of Labor Statistics, Sacramento-Roseville-Arden-Arcade, CA MSA

Job Gains in Larger Sectors Outpaced Losses in Smaller Sectors

On both a relative and absolute basis, the Education & Health Care Services sector recorded the largest gains followed by the Government sector. On a relative basis, the losses look more severe than they were given the size of some of these sectors. Luckily, these strong gains were enough to surpass losses in the Information, Financial Activities, and Leisure & Hospitality sectors.

Employment by Industry, May 2024 Employment Growth by Industry, 12-Month % Change, May 2024

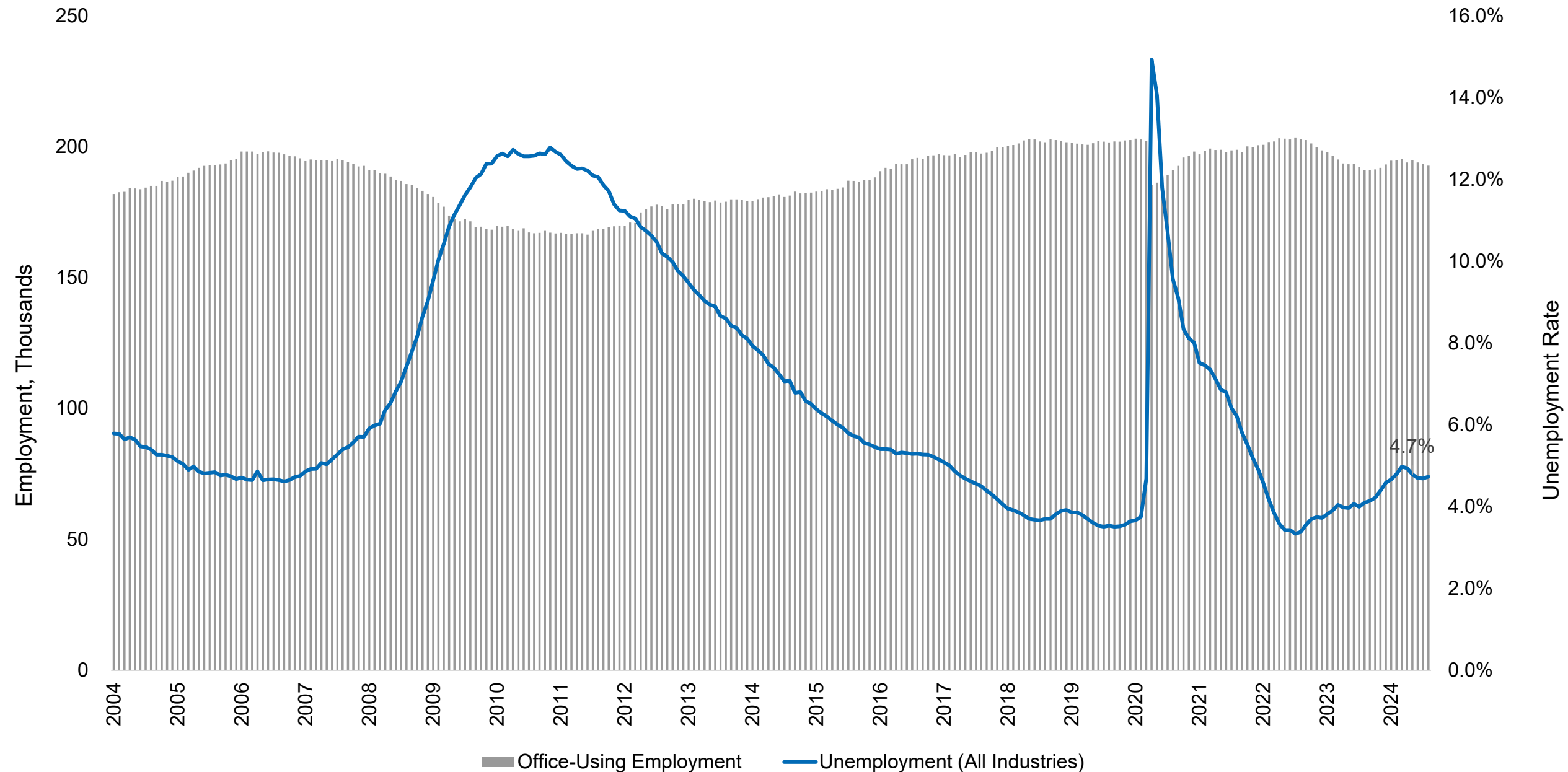


Source: U.S. Bureau of Labor Statistics, Sacramento-Roseville-Arden-Arcade, CA MSA

Office-Using Employment Holds Relatively Stable

Office-using employment levels have hovered in the same range since mid-2020 at approximately 195,000 employed. Job gains in the Professional & Business Service sector has outpaced small losses in Information (technology) Services and Financial Activities. The unemployment rate has followed a similar path, with sharp job cuts in the office sector aligning with a jump in unemployment. As job growth returned, the unemployment rate has ticked down.

Office-Using Employment* and Unemployment Across All Industries



Source: U.S. Bureau of Labor Statistics, Sacramento-Roseville-Arden-Arcade, CA MSA

*Office-using employment includes employment in the following industry sectors: Professional & Business Services, Financial Activities and Information.

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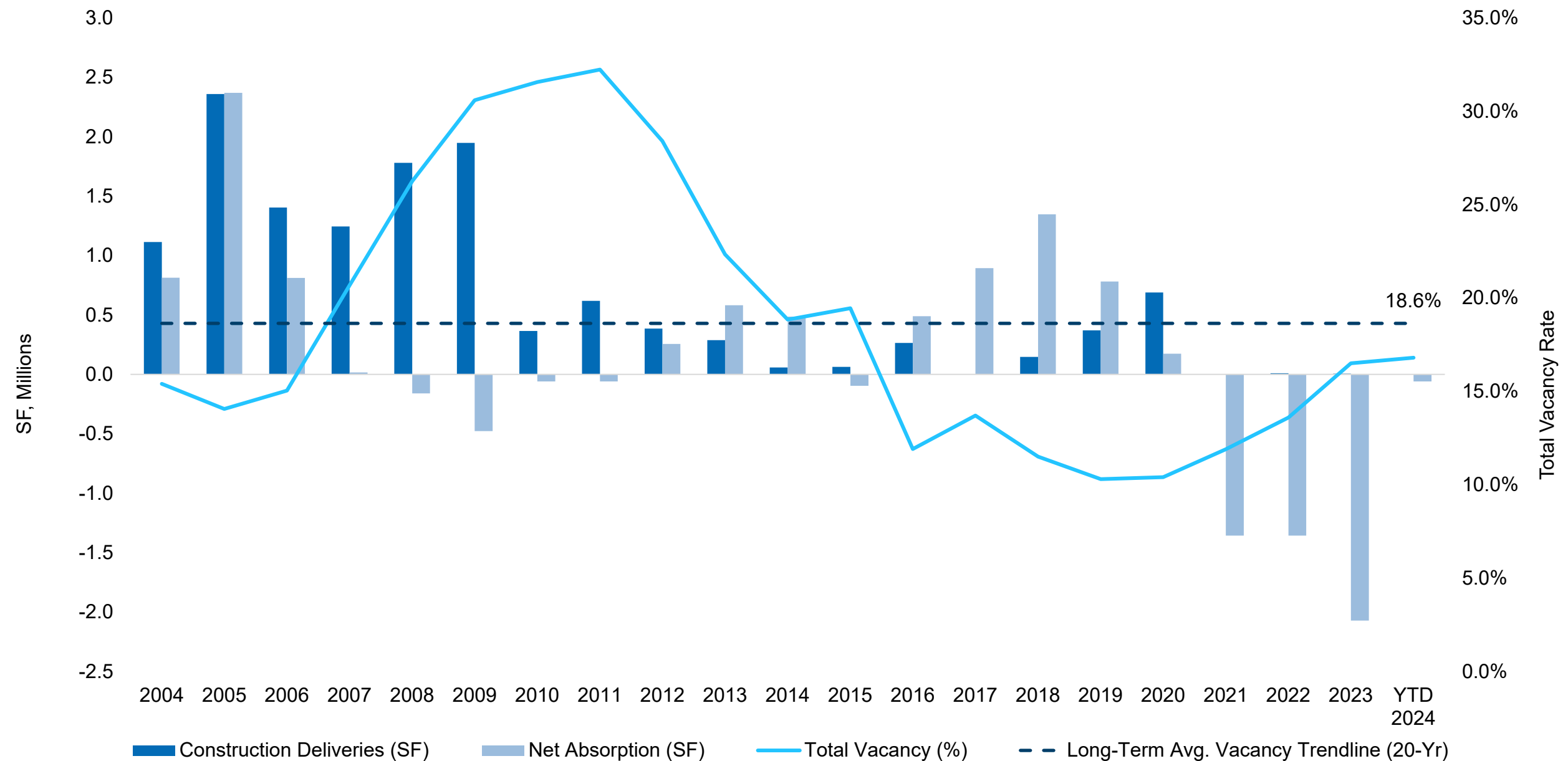
Leasing Market Fundamentals



Highest Net Absorption Recorded in the Third Quarter Since 2020

Sacramento's office market showed signs of stabilizing in the third quarter. The total vacancy rate stood at 16.8%, an improvement from last quarter's vacancy rate of 17.2%. The office market recorded the highest net absorption since the start of the pandemic at 258,719 square feet during the third quarter, however it was not enough to offset contractions earlier in the year. Construction continued on two buildings (314,000 square feet & 255,000 square feet) in the Aggie Square project in the South Sacramento submarket.

Historical Construction Deliveries, Net Absorption, and Vacancy

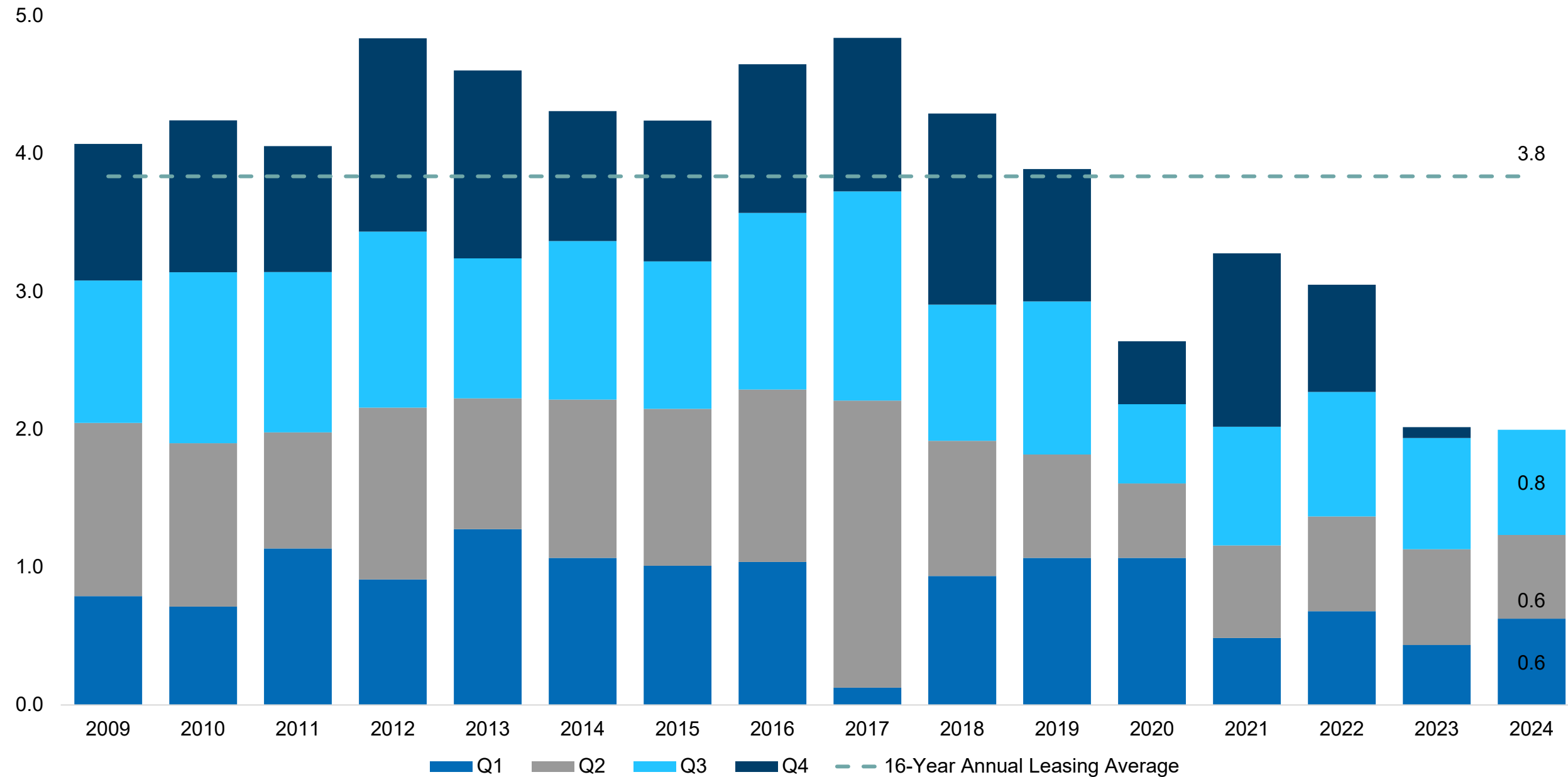


Source: Newmark Research

The Pace of Leasing Activity Picked Up

Third quarter leasing activity was at its highest level in a year. Year-to-date leasing activity was on par with total 2023 leasing levels, and if the pace continues, total leasing in 2024 could match or even surpass 2020 total leasing levels. While there is still quite a gap to full recovery, the market is trending in a better direction.

Total Leasing Activity (msf)



Source: CoStar



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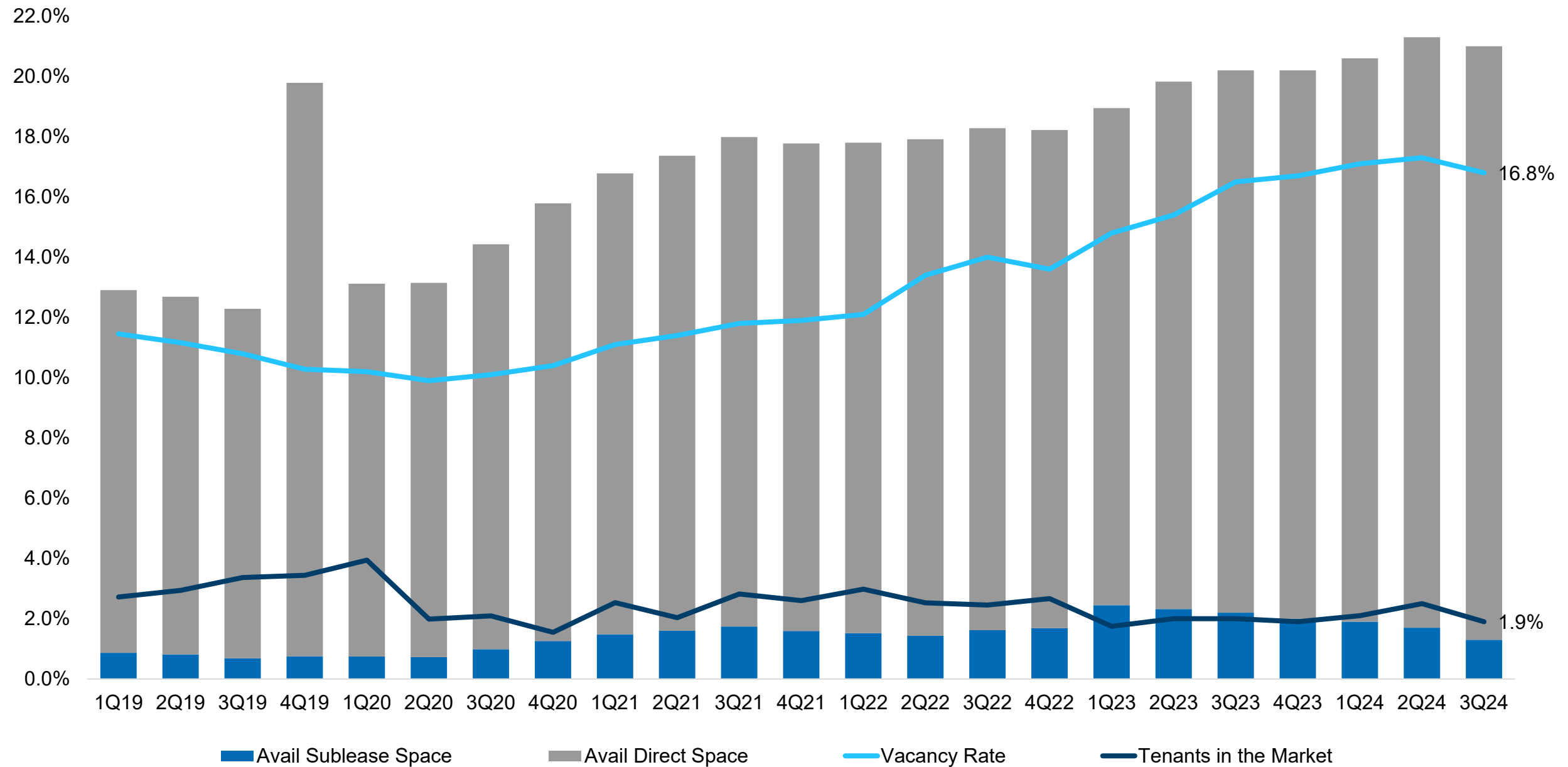


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The Vacancy Rate is Starting to Trend Down

After peaking in early 2024 above 17%, the vacancy rate appears to be inching down as the amount of available space in the market declined through the third quarter. The vacancy rate stood at 16.8%. Another positive sign for the market is the amount of available sublease space is shrinking from a recent high in the first quarter of 2023.

Available Space and Tenant Demand as Percent of Overall Market



Source: Newmark Research

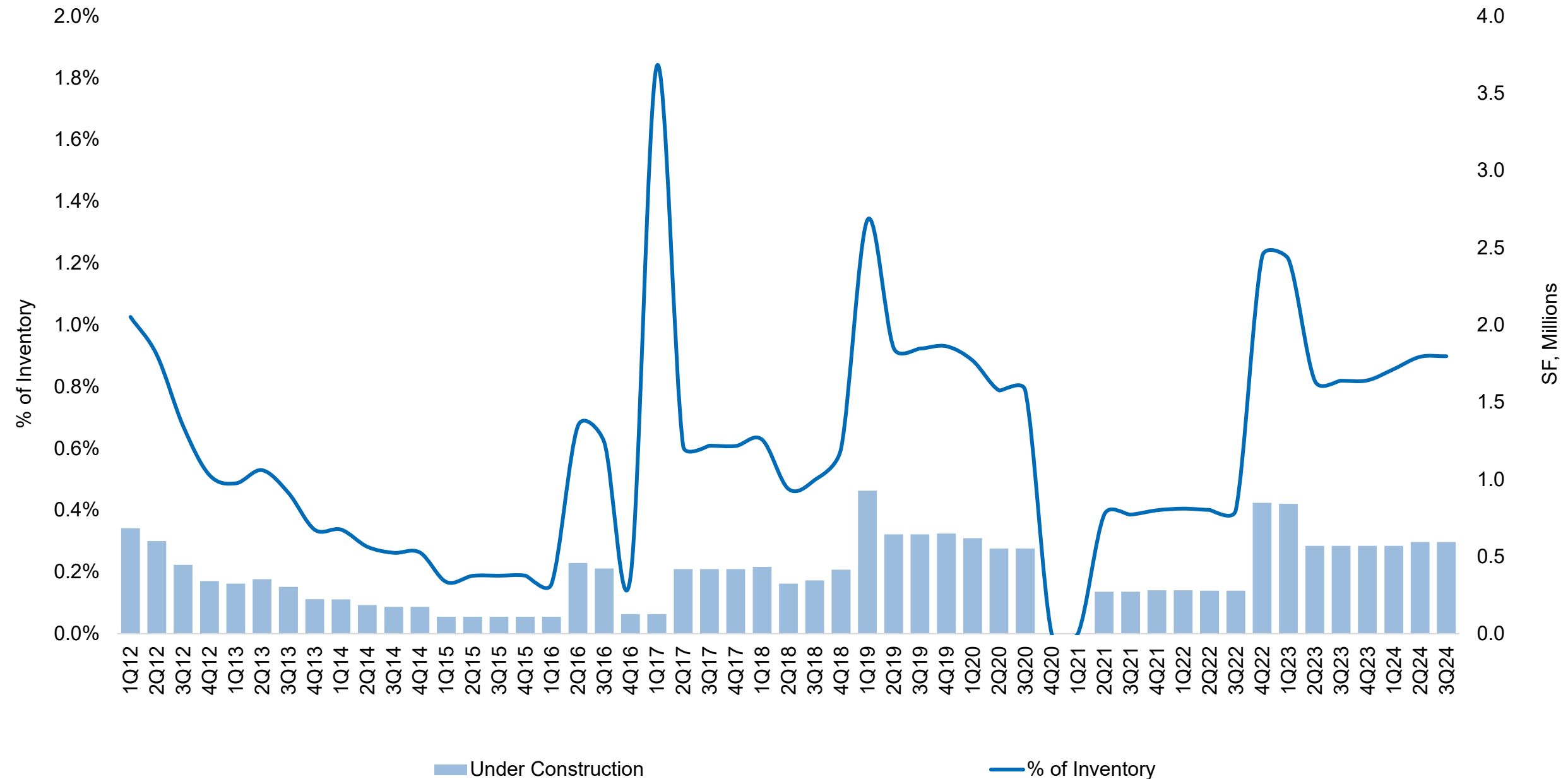


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Construction is Muted but Still Underway

The construction pipeline has leveled off since a recent peak in late 2022 and early 2023, but there are still two buildings currently under construction with delivery slated for first quarter 2025. There are medical and government office buildings under construction as well, but we do not currently track those subtypes. Construction levels will likely remain muted given the demand / supply imbalance as well as construction lending at low levels.

Office Under Construction and % of Inventory



Source: Newmark Research,

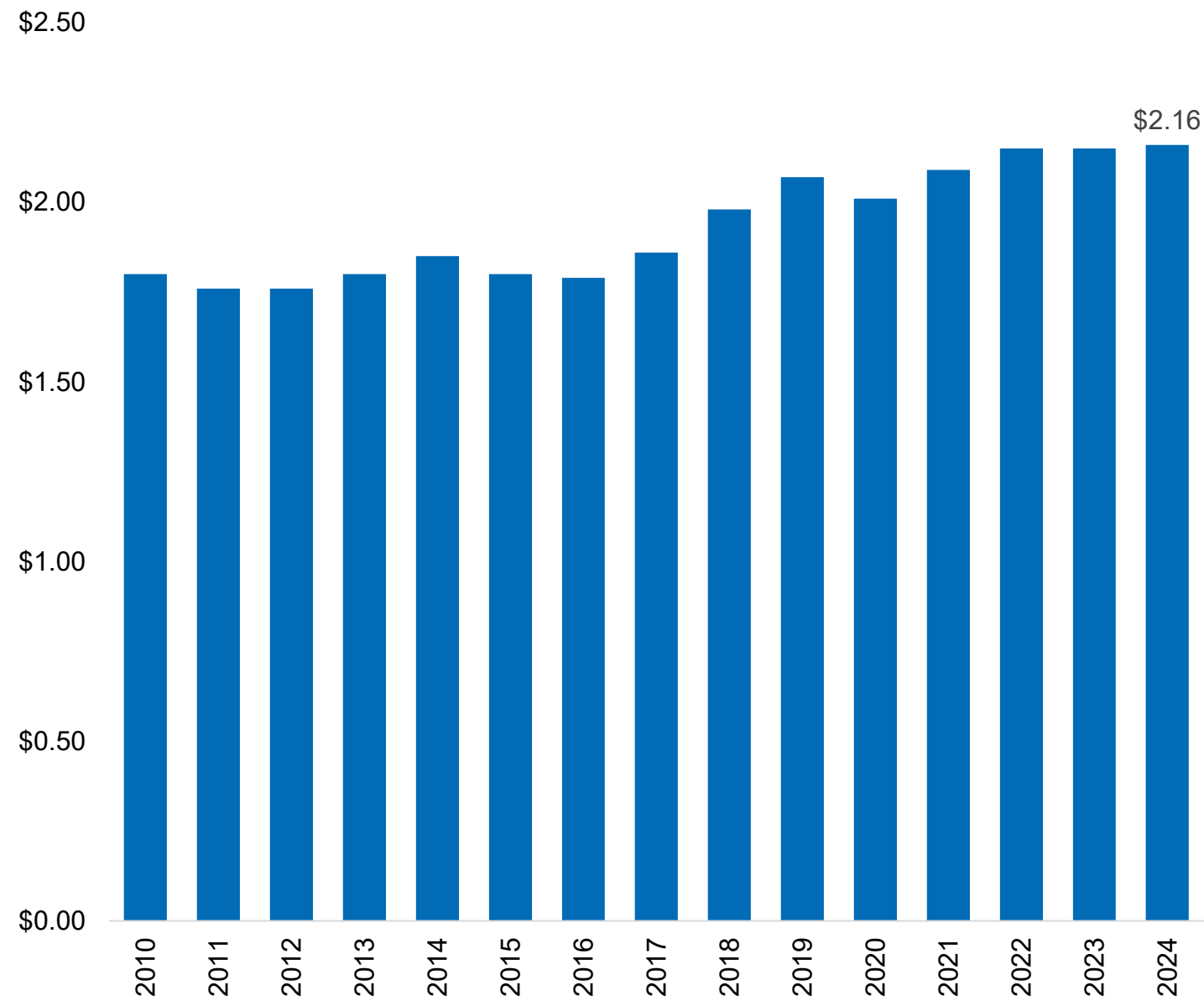


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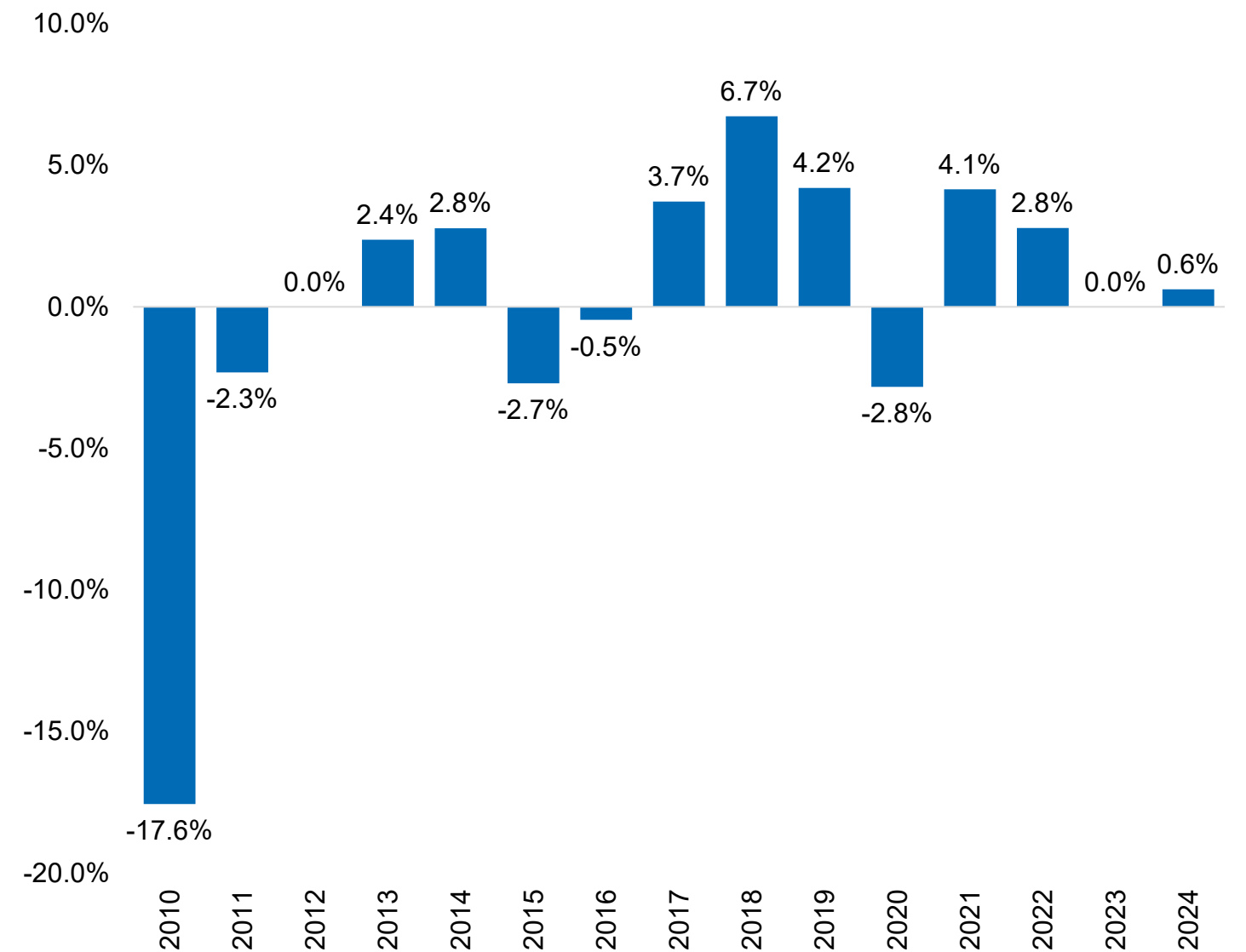
Overall Rents Remained Stable

Following trends in the various submarkets, the overall asking rent in Sacramento has held steady over the past three years at \$2.16/SF Full Service per month despite an increase in available space throughout the market.

Office Average Asking Rent, \$/SF, FS



Year-over-Year Asking Rent Growth Rate

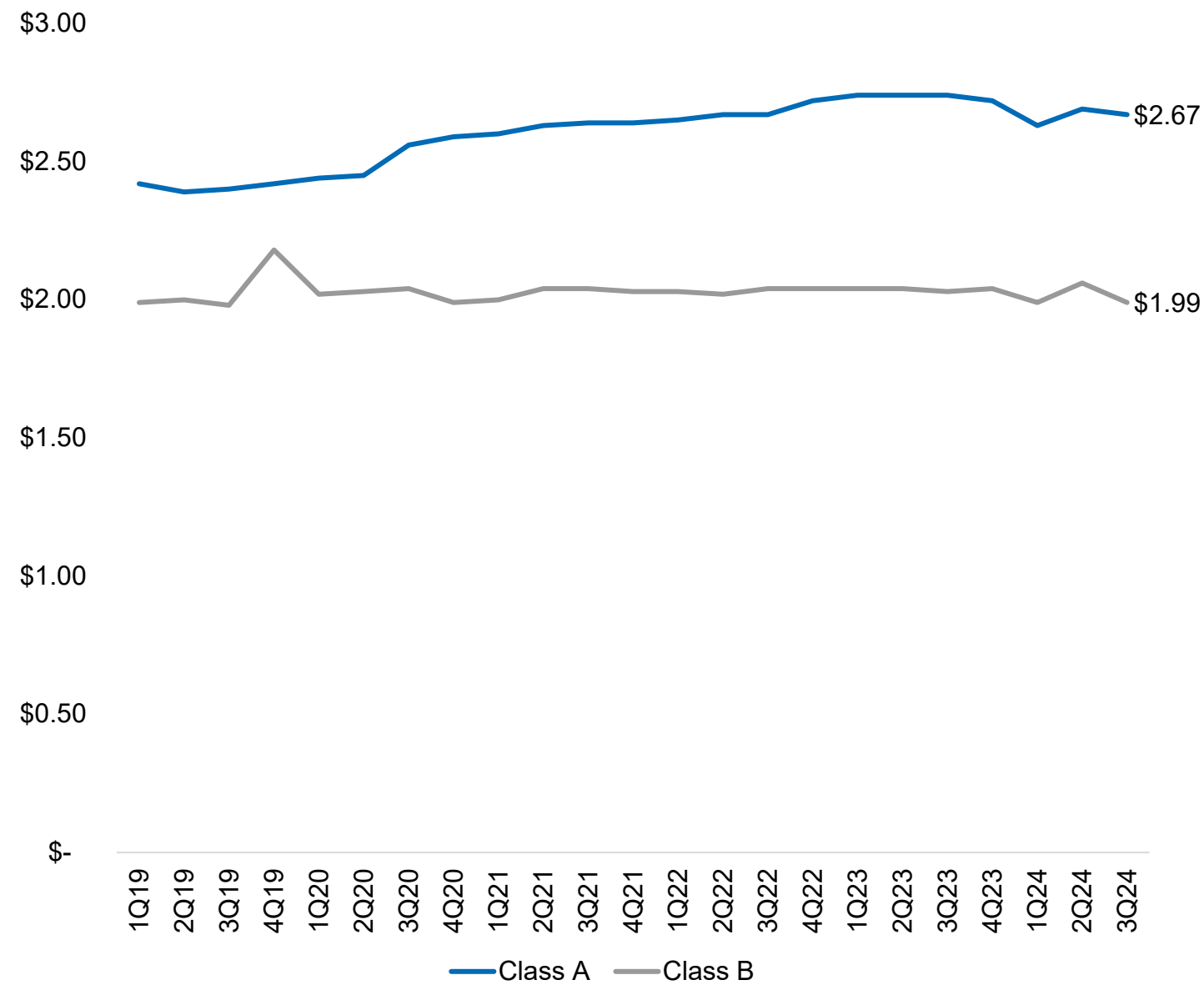


Source: Newmark Research

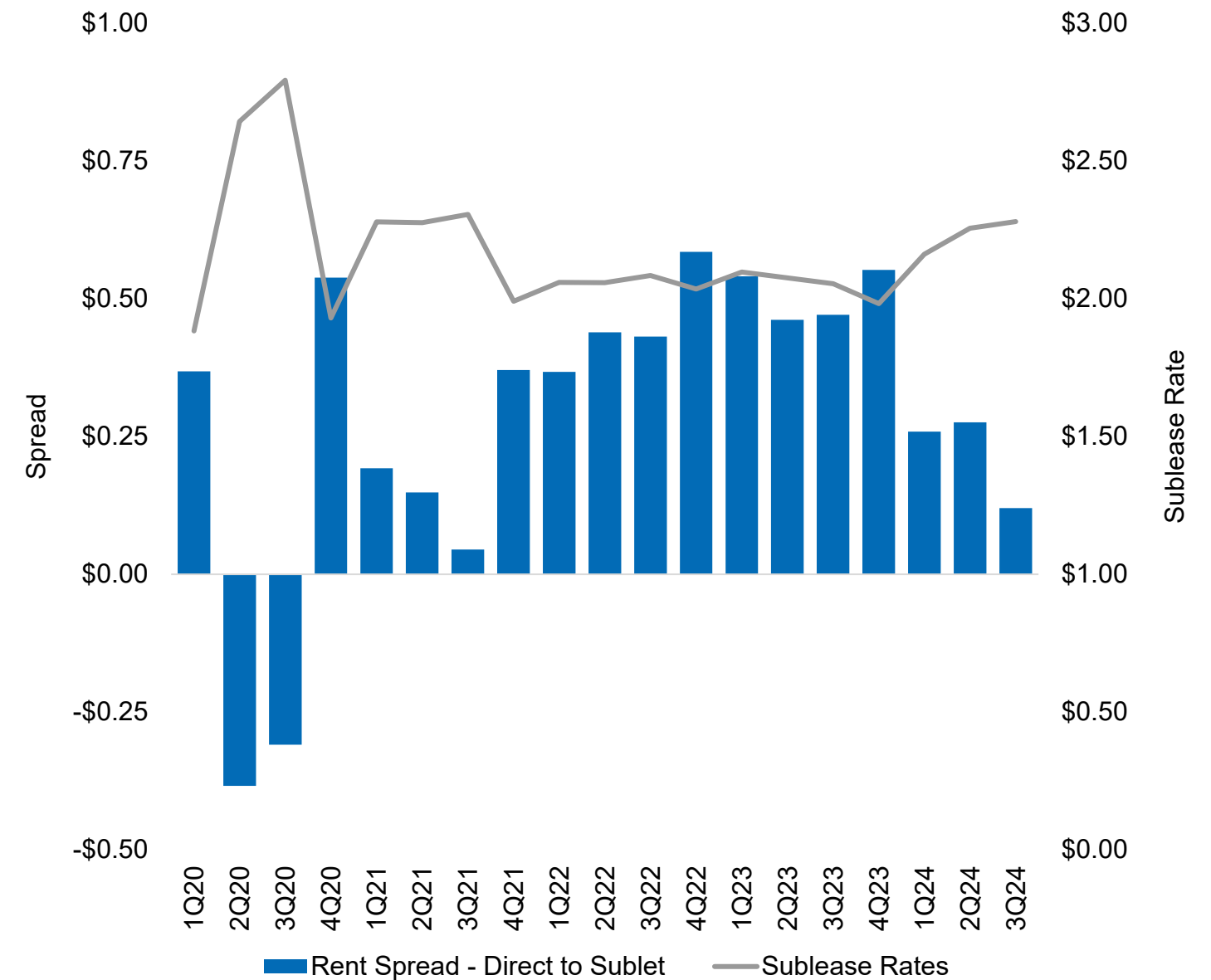
Asking Rents Stable, Effective Rents Likely Down

Class A and Class B rents have been relatively flat since late 2021 but effective rents have likely declined given an increase in concessions (TIs and free rent) by landlords. Since the beginning of Covid, Class A asking rents have increased more rapidly than Class B rents.

Class A and Class B Asking Rents



Sublease Rates



Source: Newmark Research, CoStar

New Leases Outpaced Renewals/Extensions

New leasing activity accounted for the largest share of both transaction size and the total number of transactions. Lease renewals and expansions were a close second. Sublease activity was a small share, which is good news for the market in its recovery. Sales volumes were muted. The largest new lease was the State of California's deal in South Natomas.

Notable 3Q24 Lease Transactions

Tenant	Building(s)	Submarket	Type	Square Feet
ALLDATA	9650 W Taron Dr	Elk Grove / Laguna / Galt	Lease Renewal	60,498
Law Office of Dan Koukol	3785 Placer Corporate Dr	Rocklin	Lease Renewal	26,017
State of California	2329 Gateway Oaks Dr	South Natomas	New Lease	23,890
William L. Lyon & Associates	2220 Douglas Blvd	Roseville-Douglas Corridor	Lease Renewal	10,994
ScanSource	3010 Lava Ridge Ct	Roseville-Douglas Corridor	New Lease	10,336

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Appendix



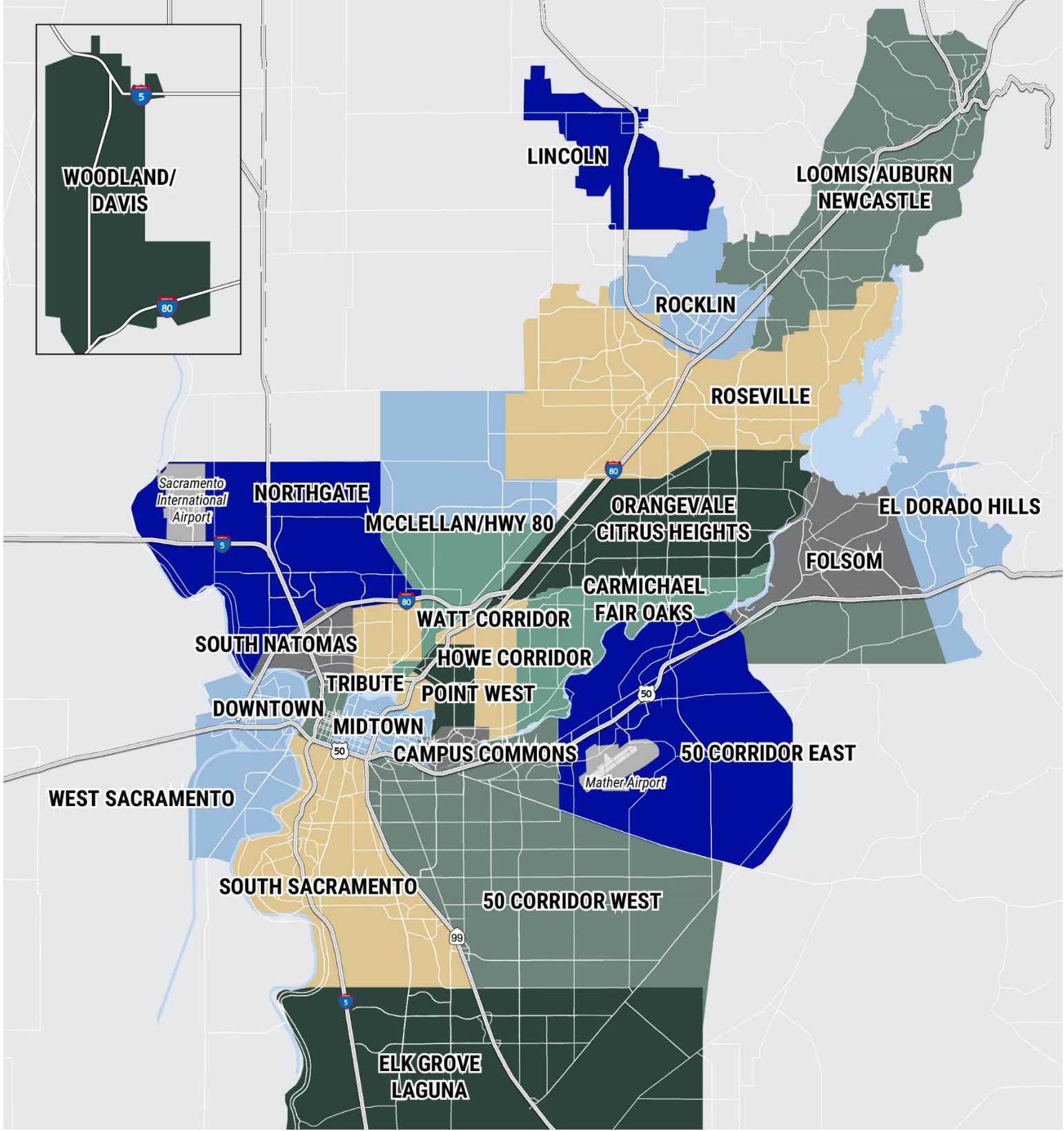


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Sacramento Submarket Map



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