

MARKET TRENDS | **SACRAMENTO**

# OFFICE

**MARKET DRIVERS**

**DIRECT LEASE RATES** grew 2.4% year-over-year in 1Q22 to \$2.13/SF. 1Q22 demonstrated the highest lease rate for the area in the last decade. However, the rate of change for the 1Q22 compared to the 2021 average rates demonstrate a steadier change compared to previous years.

**SUBLEASE ACTIVITY** seems to be trending down from 33,242 SF in 4Q21 to 22,463 SF in 1Q22.

**THE DIRECT NET ABSORPTION** for the 1Q22 was 47,175 SF.

**SINCE 1Q21**, leasing activity has decreased 2.35% from 517,648 SF in the 1Q21 to 505,496 SF in 1Q22. The most active submarkets of 1Q22 were Highway 50 Corridor with 124,901 SF leased and Roseville/Rockling with 121,681 SF leased. In 4Q21, the Downtown submarket was the most active for the quarter with 569,299 SF leased.

**THE SALES VOLUME** for the Sacramento region was markedly up by 86.82% with 866,004 SF sold in 1Q22 compared to 463,538 SF sold in 1Q21.

**THE VACANCY RATE GREW** 2.9% from 10% in 1Q21 to 10.3% in 1Q22.

**ECONOMIC OVERVIEW**

**RECOVERY FROM THE PANDEMIC'S** scourge can be seen in in the Sacramento-Roseville-Arden-Arcade area's employment rates. As the job market recovers, fewer Americans are filing for unemployment benefits. While the employment rate is not yet back to pre-pandemic levels, it has demonstrated marked improvement with an 8% unemployment rate in the first quarter of 2021 compared to a 5.0% unemployment rate in the first quarter of 2022.

**EMPLOYMENT POSITIONS** in education and health services have demonstrated a consistent increase both quarterly (up 2,400 jobs) and year-over-year (up 6,100 jobs). Jobs in retail trade, wholesale trade, and transportation/warehousing/utilities have also increased year-over-year (by 2,200, 400, and 3,200 jobs, respectively) in the Sacramento-Roseville-Arden Arcade.

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## Market Summary

	1Q22	4Q21	1Q21	% Change From A Year Ago
Vacancy Rate	10.3%	10.3%	10.0%	<b>2.99%</b>
Availability Rate	14.9%	14.1%	13.3%	<b>11.77%</b>
Asking Lease Rate (FS)	\$2.13	\$2.12	\$2.08	<b>2.40%</b>
Leasing Activity (SF)	505,496	1,482,868	517,648	<b>-2.35%</b>
Sale Volume (SF)	866,004	1,160,300	463,538	<b>86.82%</b>
Net Absorption (SF)	47,175	605,251	(691,968)	<b>N/A</b>

▼ **505K**

LEASING ACTIVITY

▲ **47K**

NET ABSORPTION (SF)

▲ **10.3%**

VACANCY RATE

▲ **\$2.13**

AVERAGE ASKING RENT

▲ **866K**

SALES VOLUME (SF)

CHANGE FROM PRIOR YEAR

## Market Highlights

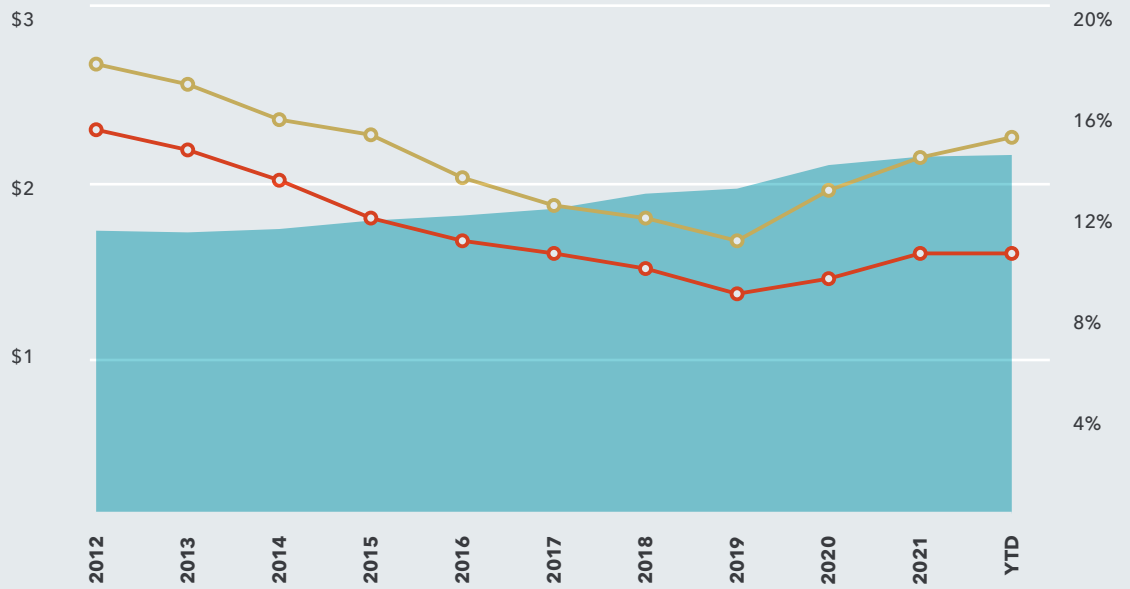
**ASKING** lease rates are \$2.13/SF FS.

**TOTAL** vacancy rates stood at 10.3%.

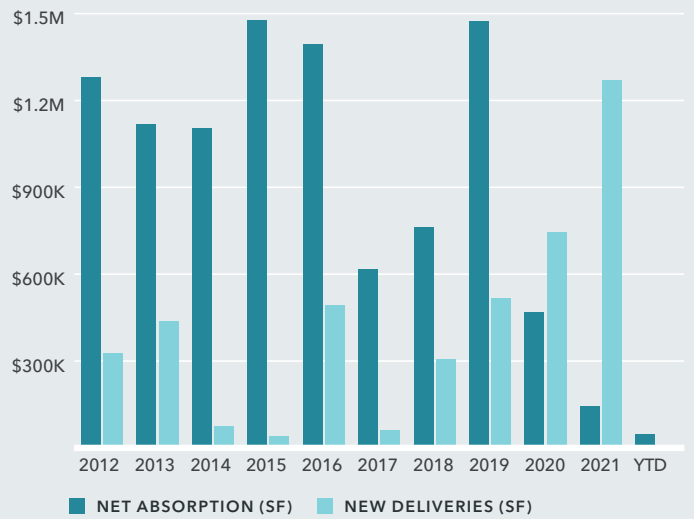
**SALES VOLUME** up 86.82% YOY to 866K SF

# Lease Rate, Vacancy & Availability

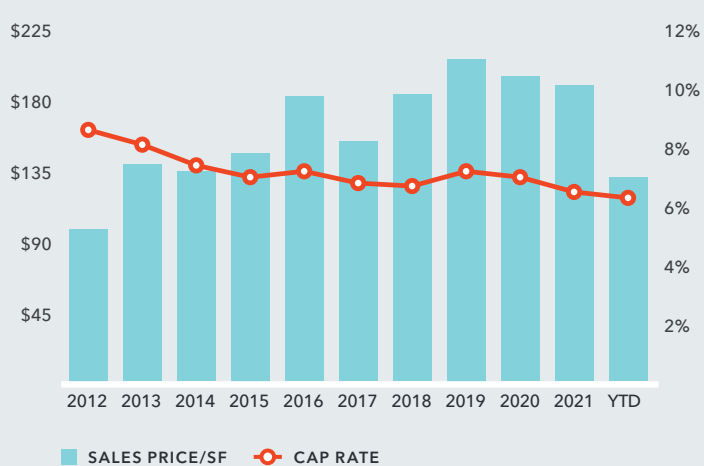
■ DIRECT LEASE RATE (FSG)  
○ DIRECT VACANCY  
○ TOTAL AVAILABILITY



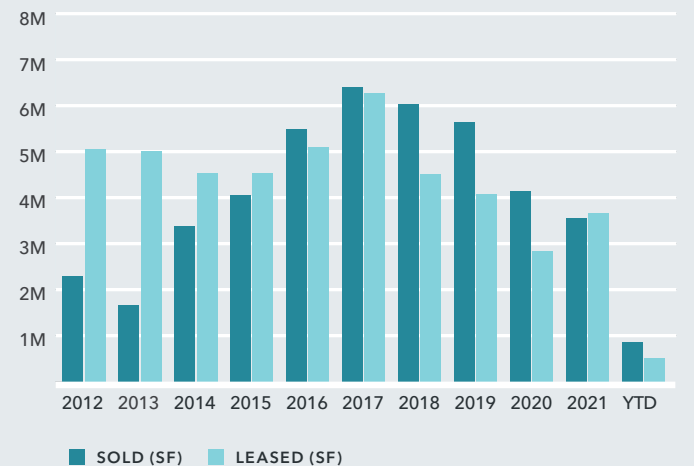
# Net Absorption & New Deliveries



# Average Sales Price/SF & Cap Rate



# Sale Volume & Leasing Activity



## SUBMARKET STATISTICS

Submarket	Total Inventory	Direct Vacancy Rate	Total Vacancy Rate	Total Available Rate	1Q22 Net Absorption (Direct)	2021 Net Absorption (Direct)	1Q22 Leasing Activity	2021 Leasing Activity	Rental Rate (Office Base Rent Direct)
Downtown	21,754,098	7.6%	7.9%	9.9%	86,872	860,547	65,500	797,129	\$2.95
Auburn/Lincoln	1,682,946	5.7%	6.1%	5.3%	20,774	(12,278)	3,297	46,678	\$2.04
Campus Commons	1,767,362	8.9%	9.2%	17.4%	3,756	99,494	7,350	125,888	\$2.24
Carmichael/Fair Oaks	1,578,662	14.6%	14.7%	15.8%	21,508	(56,304)	8,446	20,128	\$1.58
Citrus Heights/Orangevale	1,828,049	12.5%	12.7%	14.7%	(13,822)	(26,964)	7,831	59,607	\$1.65
Davis/Woodland	2,757,138	5.6%	6.0%	12.4%	(27,730)	38,641	7,527	62,271	\$2.00
East Sacramento	2,610,503	1.4%	1.4%	2.6%	252	(17,831)	0	8,789	\$2.87
El Dorado	2,195,628	9.4%	9.4%	19.3%	6,851	52,298	8,081	59,836	\$2.05
Elk Grove	2,262,745	3.2%	3.8%	4.7%	6,348	54,107	10,964	49,039	\$2.51
Folsom	5,396,453	4.0%	4.6%	13.0%	(23,369)	15,503	26,069	103,996	\$2.25
Highway 50 Corridor	17,874,844	12.8%	13.8%	20.0%	60,647	(458,817)	124,901	420,226	\$1.85
Howe Ave/Fulton Ave/Watt	5,265,210	16.1%	16.1%	15.4%	(7,727)	(6,570)	17,722	124,426	\$1.60
Midtown	4,519,951	10.3%	10.3%	17.0%	(47,434)	(2,906)	16,678	78,919	\$2.30
North Natomas	3,617,697	8.8%	9.8%	14.8%	21,519	(8,862)	14,673	209,304	\$1.71
Point West	2,911,143	16.8%	17.5%	25.2%	18,902	(162,576)	21,968	189,293	\$2.00
Rio Linda/N Highlands	1,064,826	11.7%	11.7%	22.2%	524	4,762	3,817	10,947	\$1.20
Roseville/Rocklin	12,366,607	10.7%	12.5%	17.7%	27,757	(289,507)	121,681	626,850	\$2.10
South Natomas	3,790,652	14.8%	15.6%	22.1%	(5,581)	(128,621)	21,211	143,745	\$2.21
South Sacramento	3,678,483	4.7%	4.8%	8.0%	(2,711)	36,617	5,513	60,149	\$1.77
West Sacramento	2,178,620	6.4%	6.4%	15.7%	(100,161)	74,914	12,267	292,478	\$2.80
<b>Sacramento Total</b>	<b>101,101,617</b>	<b>9.7%</b>	<b>10.3%</b>	<b>14.9%</b>	<b>47,175</b>	<b>65,647</b>	<b>505,496</b>	<b>3,489,698</b>	<b>\$2.13</b>
Class A	27,727,242	9.1%	10.0%	16.2%	(23,996)	527,742	154,199	1,056,577	\$2.51
Class B	48,218,671	11.1%	11.8%	16.1%	(15,683)	(278,328)	253,569	1,997,257	\$2.02
Class C	25,155,704	7.6%	7.7%	11.1%	86,854	(183,767)	97,728	435,864	\$1.79

**ON PAR WITH RECOVERING** from the pandemic, the average household income in the Sacramento MSA has increased 4.3% since the first quarter of 2021, but the increase isn't keeping up with inflation.

**TENANTS** don't seem to be downsizing as much as previously recorded but some are still subleasing or trying to sell their buildings.

**AS INTEREST** rates go up, cap rates are softening.

## NEAR-TERM OUTLOOK

**FOR 1Q22**, brokers are seeing consolidation into high rise buildings and a slight increase in vacancies. They expect that as the consequences of COVID subside, people will return to the office for work.

**AS ENGINEERING** and financial institutions grow, more workable space is needed.

**THE AMOUNT OF AVAILABLE LAND** is not proportional to the increased demand by the engineering and financial institutions that are looking to expand.

**STATE OF CALIFORNIA** government tenants are looking at hybrid work schedules which may lead to reduced need for space.

## TOP SALE TRANSACTIONS FOR 1Q22

Property	Submarket	SF	Sale Price	Price / SF	Buyer	Seller
Gateway Oaks Corporate Campus	South Natomas	322,612	\$58,000,000	\$179.78	Basin Street Properties	Broadshore Capital Partners
Laguna West Business Ctr	Elk Grove	50,492	\$11,900,000	\$235.68	Kingsbarn Realty Capital	Laguna West Investment LLC
South Valley Centre	South Sacramento	27,191	\$9,900,000	\$364.09	Kaiser Foundation Hospitals	South Valley Centre Llc
520-530 9th St	Downtown Sacramento	20,000	\$4,825,000	\$241.25	Graceada Partners	Buzz Oates
10590 Armstrong Ave	Highway 50 Corridor	35,855	\$3,840,000	\$107.10	ACCO Engineered Systems, Inc.	WHAL Properties LP

## TOP LEASE TRANSACTIONS FOR 1Q22

Property	Submarket	SF	Transaction Date	Landlord	Tenant
3078 Prospect Park Dr	Highway 50 Corridor	61,358	February 2022	Ravel Rasmussen Properties	Confidential
1101 Creekside Ridge Dr	Roseville/Rocklin	22,126	March 2022	Beard Land Improvement Co	Confidential
1325 J St	Downtown	12,442	January 2022	The Bluestone Group & Princeton Real Estate Partners	Confidential
428 J St	Downtown	11,590	January 2022	Friedman Investment Management Corp.	PAC Sacramento
1025 Creekside Ridge	Roseville/Rocklin	9,720	March 2022	Mima Capital LLC	TRC Health Care

## TOP UNDER CONSTRUCTION

Property	Address	Submarket	SF	Owner	Delivery Date
344 N 7th St	344 N 7th St	Downtown	474,500	State of California	June 2022
Capitol Annex Expansion	1021 O St	Downtown	472,000	State of California	March 2022
10601 Bear Hollow Dr.	10601 Bear Hollow Dr.	Highway 50 Corridor	285,000	State of California	March 2022
CalSTRS Expansion	100 Waterfront Place	West Sacramento	275,000	CalSTRS	October 2022
Riverpoint North Corporate Center Building B	700 Riverpoint Dr	West Sacramento	110,000	Buzz Oats	June 2023

DATA SOURCE: CoStar; edd.ca.gov; sacbusinessreview.com, sacbee.com

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The information in this report was composed by the Kidder Mathews Research Group.

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**Commercial  
 Brokerage**

**\$10.9B**  
 TRANSACTION  
 VOLUME (ANNUAL)

**49.7M** **43.7M**  
 SALES SF (ANNUAL) LEASING SF (ANNUAL)

**Valuation  
 Advisory**

**2,600+**  
 ASSIGNMENTS  
 ANNUALLY

**51/24**  
 TOTAL NO.  
 APPRAISERS/MAI'S

**Asset  
 Services**

**62M**  
 MANAGEMENT  
 PORTFOLIO SF

**\$11B**  
 IN ASSETS UNDER  
 MANAGEMENT

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