

MARKET TRENDS

SACRAMENTO OFFICE

MARKET DRIVERS

Office vacancy rates increased 6.38% year-over-year (YOY) from 10.1% in 4Q21 to 10.7% in 4Q22. This was also a slight increase from 10.5% in 3Q22.

The asking lease rate rose 2.99% YOY from \$2.12 in 4Q21 to \$2.18 in 4Q22 and only a 1% increase quarter-over-quarter (QOQ).

The availability rate increased 5.43% from 13.8% in 4Q21 to 14.5% in 4Q22.

Total leasing activity decreased by 67.24% YOY from 1,896,095 SF in 4Q21 to 621,150 SF in 4Q22. Similarly, sublease activity decreased from 128,318 SF to 83,233 SF YOY.

Total sales volume decreased 57% YOY from \$1.16 million in 4Q21 to 533k in 4Q22 suggesting buyer caution in the current economy.

Direct net absorption reduced from 612k SF in 4Q21 to 102k SF in 4Q22 as lessors decreased their office space usage.

ECONOMIC REVIEW

The unemployment rate in Sacramento County was down from 5.7% in 4Q21 to 4% this quarter, but this is higher than the 3.4% reported in 3Q22.

The Sacramento Metro Area added 34,700 non-farming jobs since 4Q21. The largest gains were made in Education and Health Services which added 11.6k jobs. The next two largest gains made were 6.8k jobs added in Leisure and Hospitality, and 5.1k jobs added in the Government sector.

The average weekly wages of all industries in Sacramento County was \$1,360. This is 5% higher than the national average of \$1,294.

In November, total nonresidential building construction starts declined by 25% - encompassing sectors like offices, warehouses, hotels, and shopping centers.

continued on page 3

MARKET SUMMARY

	4Q22	3Q22	4Q21	Annual Change
Direct Vacancy Rate	10.7%	10.5%	10.1%	6.38%
Total Availability Rate	14.5%	13.9%	13.8%	5.43%
Direct Asking Lease Rate	\$2.18	\$2.16	\$2.12	2.99%
Total SF Leased	621,150	931,774	1,896,095	-67.24%
Total SF Sold	533,481	1,222,692	1,157,741	-53.92%
Direct Net Absorption	102,832	70,897	612,733	N/A

621K SF
LEASING ACTIVITY

102K SF
NET ABSORPTION

10.7%
VACANCY RATE

\$2.18
ASKING RENT (AVG)

285K SF
NEW DELIVERIES

Year-Over-Year Trend

MARKET HIGHLIGHTS

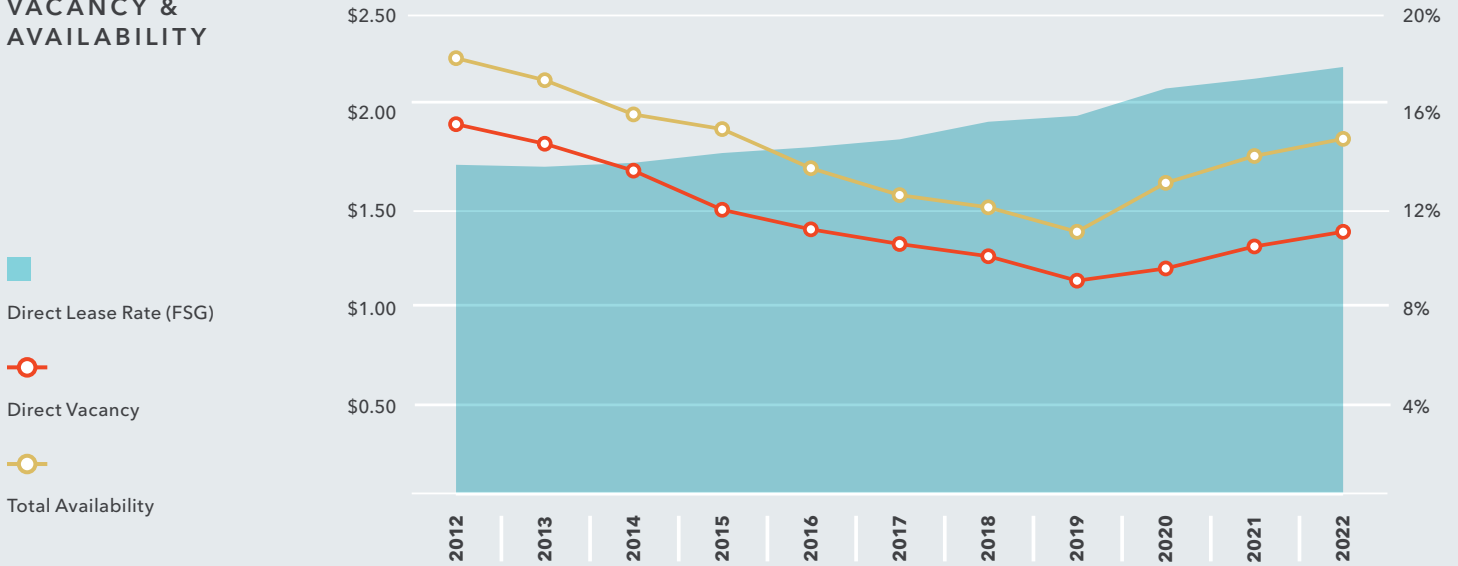
Asking lease rates have increased to \$2.18/SF.

Direct net absorption increased to 102,832 SF QOQ.

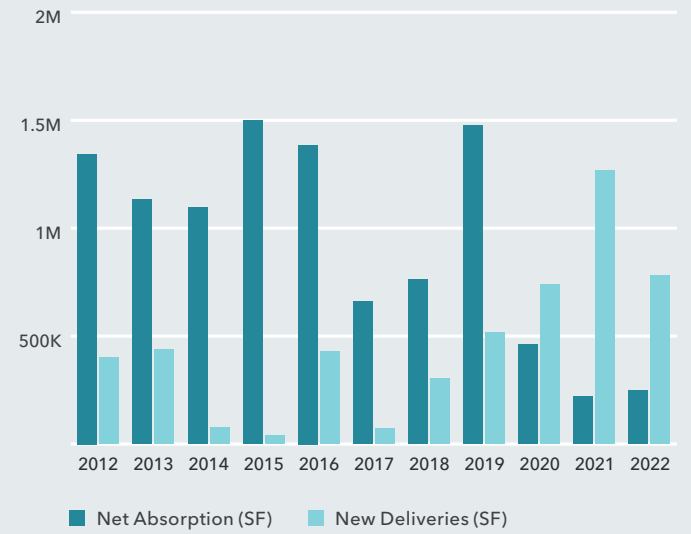
Vacancy rates have increased 6.38% YOY.

Availability rates have increased 5.43% YOY.

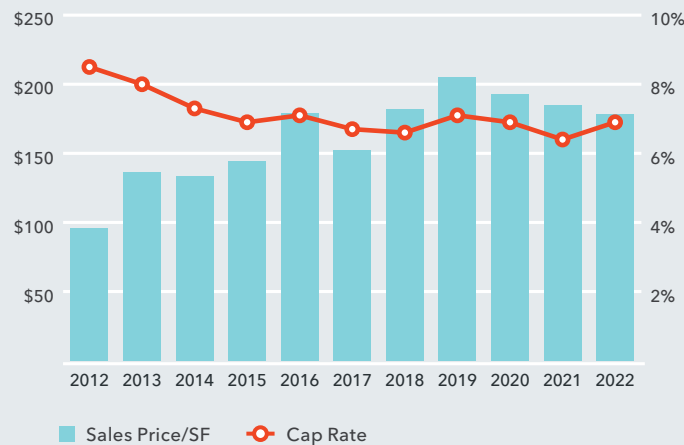
LEASE RATE, VACANCY & AVAILABILITY



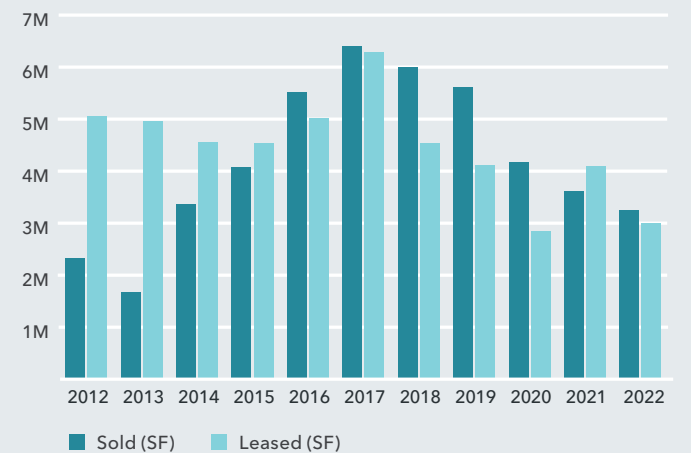
NET ABSORPTION & NEW DELIVERIES



AVERAGE SALES PRICE/SF & CAP RATE



SALE VOLUME & LEASING ACTIVITY



SUBMARKET STATISTICS

Submarket	Total Inventory	Direct Vacancy Rate	Total Vacancy Rate	Total Available Rate	4Q22 Direct Net Absorption	YTD Direct Net Absorption	4Q22 Total Leasing Activity	YTD Leasing Activity	Average Rental Rate (FS)
Downtown	22,338,798	8.4%	8.6%	10.3%	(83,090)	326,143	50,842	333,257	\$3.04
Auburn/Lincoln	1,695,424	5.2%	5.9%	5.1%	8,484	27,715	11,522	34,088	\$2.00
Campus Commons	1,765,706	10.8%	11.9%	17.4%	(17,601)	(30,810)	33,974	106,166	\$2.32
Carmichael/Fair Oaks	1,586,306	17.0%	17.0%	17.8%	(2,553)	(27,070)	8,326	41,675	\$1.55
Citrus Heights/Orangevale	1,797,846	12.2%	12.4%	12.4%	7,462	(3,298)	22,822	63,780	\$1.69
Davis/Woodland	2,759,506	6.6%	7.2%	8.1%	21,714	(54,861)	2,112	47,631	\$2.26
East Sacramento	2,610,503	1.4%	1.8%	2.1%	24,471	(1,309)	1,933	32,800	\$2.64
El Dorado	2,200,545	7.2%	7.2%	15.9%	(16,484)	55,548	6,329	42,349	\$2.12
Elk Grove	2,332,745	2.6%	3.6%	4.3%	3,665	16,555	14,881	42,815	\$2.54
Folsom	5,630,552	7.1%	8.8%	19.2%	(968)	(208,557)	54,310	200,786	\$2.39
Highway 50 Corridor	18,077,067	13.2%	14.4%	19.0%	116,219	166,408	129,382	548,471	\$1.86
Howe Ave/Fulton Ave/Watt	5,263,465	16.4%	16.5%	16.3%	(11,197)	(23,398)	31,749	160,550	\$1.64
Midtown	4,691,190	6.8%	6.9%	10.1%	147,317	99,618	12,995	97,342	\$2.27
North Natomas	3,762,052	10.6%	10.8%	15.5%	(37,276)	(42,731)	35,687	95,488	\$1.83
Point West	2,908,445	18.6%	19.1%	24.1%	(27,532)	(31,996)	38,680	172,388	\$2.00
Rio Linda/N Highlands	1,064,826	9.9%	9.9%	19.5%	14,272	19,167	8,123	26,359	\$1.20
Roseville/Rocklin	12,448,245	10.2%	12.1%	17.3%	(47,087)	103,320	123,024	684,860	\$2.14
South Natomas	3,791,735	14.4%	15.5%	21.4%	37,409	7,308	31,965	187,977	\$2.23
South Sacramento	3,700,179	6.0%	6.1%	9.4%	(34,742)	(52,496)	1,242	56,468	\$1.83
West Sacramento	2,154,370	6.1%	6.1%	16.0%	349	(95,849)	1,252	18,117	\$2.83
Sacramento Total	102,579,505	10.0%	10.7%	14.5%	102,832	249,407	621,150	2,993,367	\$2.18
Class A	28,373,342	10.4%	11.3%	16.1%	151,517	(169,902)	174,157	869,628	\$2.58
Class B	49,024,418	11.1%	12.0%	15.9%	8,836	408,427	329,233	1,566,792	\$2.04
Class C	25,181,745	7.6%	7.7%	10.2%	(57,521)	10,882	117,760	556,947	\$1.87

NEAR-TERM OUTLOOK

Companies are continuing to realize they require less space with hybrid work options and are downsizing. Massive layoffs in the tech industry do not help with the stagnation of this market.

It is expected that commercial real estate leasing and investment activity will be significantly slowed by higher interest rates and the prospect of a recession.

Some borrowers will face hardship because of higher vacancy rates, pressure on rents, slower leasing activity, and loans maturing in an environment with relatively high interest rates. One such group will be lower-grade office buildings that could fail to receive refinancing.

Despite the downturn there are still opportunities in the market; mezzanine debt, bridge loans and project finance can help close the gap on refinancing. There also are instances of properties that were undesirable as a lease moving quickly once being offered to be purchased.

TOP SALE TRANSACTIONS 4Q 2022

Property	Submarket	SF	Sale Price	\$/SF	Buyer	Seller
2201 Broadway & 2200 X St	Midtown	77,351	\$7,705,926	\$99.62	California Northstate University College	Buzz Oates
1050 Iron Point Rd	Folsom	16,038	\$7,400,000	\$461.40	Panattoni Development Company, Inc.	Stonebriar Commercial Finance
7700 College Town Dr	Campus Commons	34,000	\$7,300,000	\$214.71	Srcf Supporting Organization	Fontana Ledyard Properties, Inc
7880 Alta Valley Way	South Sacramento	31,897	\$5,500,000	\$172.43	495 22nd Street Associates LLC	Palomar Llc
2200 X St	Midtown	47,863	\$5,044,074	\$105.39	West Taron Holdings LLC	Xebec Management Services Inc

TOP LEASE TRANSACTIONS 4Q 2022

Property	Submarket	SF	Transaction Date	Landlord	Tenant
10951 White Rock Rd	Highway 50 Corridor	35,950	November 2022	Basin Street Properties	Undisclosed
4207 Town Center Blvd	Folsom	24,427	December 2022	ProEquity Asset Management ; Solaris Capital	Undisclosed
1765 Challenge Way	Point West	16,950	October 2022	Samuel Yarmagyan	Undisclosed
406 Sunrise Ave	Roseville/Rocklin	15,272	November 2022	Ethan Conrad Properties	Undisclosed
2150 River Plaza Dr	South Natomas	14,482	December 2022	Lowe	Undisclosed

TOP UNDER CONSTRUCTION

Property	Address	Submarket	SF	Owner	Delivery
Aggie Square	2751 Stockton Blvd	East Sacramento	500,000	The Regents of the University of California	March 2025
Richards Boulevard Office Complex	344 N 7th St - 1-4	Downtown	312,500	State of California	June 2024
CalSTRS Expansion	100 Waterfront Pl	West Sacramento	275,000	CA State Teachers Retirement Sys	February 2023
8105 Saratoga Way	8105 Saratoga Way	Folsom	33,000	Kfg & Four Cs Llc	March 2023
Iron Point Rd	2195 Iron Point Rd	Folsom	20,000	Folsom DV II LLC	March 2023

Data Source: www.labormarketinfo.edd.ca.gov, bizjournals.com, bls.gov



Kidder Mathews is the largest, independent commercial real estate firm on the West Coast, with 900 real estate professionals and staff in 20 offices in Washington, Oregon, California, Nevada, and Arizona. We offer a complete range of brokerage, appraisal, asset services, consulting, project and construction management, and debt equity finance services for all property types.

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

GARY BARAGONA
 Director of Research
 415.229.8925
gary.baragona@kidder.com

DAVID NELSON
 Regional President, Brokerage
 Northern California & Nevada
 775.301.1300
david.nelson@kidder.com
 LIC N° 01716942

COMMERCIAL BROKERAGE	\$10.9B TRANSACTION VOLUME ANNUALLY	49.7M ANNUAL SALES SF	43.7M ANNUAL LEASING SF
ASSET SERVICES	52M MANAGEMENT PORTFOLIO SF	875+ ASSETS UNDER MANAGEMENT	270+ ASSET SERVICES CLIENTS
VALUATION ADVISORY	2,600+ ASSIGNMENTS ANNUALLY	48 TOTAL APPRAISERS	25 WITH MAI DESIGNATIONS

This information supplied herein is from sources we deem reliable. It is provided without any representation, warranty or guarantee, expressed or implied as to its accuracy. Prospective Buyer or Tenant should conduct an independent investigation and verification of all matters deemed to be material, including, but not limited to, statements of income and expenses. Consult your attorney, accountant, or other professional advisor.