

MARKET TRENDS

SACRAMENTO OFFICE

MARKET DRIVERS

OFFICE VACANCY RATES in Sacramento demonstrated an 11.4% YOY and a 6.3% QOQ increase, rising to 11.7% in 2Q23 from 10.5% in 2Q22 and 11% in 1Q23. This shows the continued relinquishing of office space in businesses' aim to consolidate and conserve spending.

THE ASKING LEASE RATE has generally remained stable for the past 3 quarters at \$2.18/SF, however this steady lease rate was a 1.9% increase YOY.

THE AVAILABILITY RATE rose to 15.6% in 2Q23, up from 13.9% in 2Q22 and 14.6% in 1Q23 which demonstrated a YOY increase of 12% and a QOQ increase of 6.6%. A surge in sublease space has resulted from tenant desire to prune unnecessary space while seeing some return on investment.

TOTAL LEASING ACTIVITY fell by 42.4% YOY from 714.1K SF in 2Q22 and by 60.8% QOQ from 1.1M SF in 1Q23 to 411.1k SF in 2Q23. Conversely, sublease activity saw a YOY increase of 70.4% from 992.3k SF in 2Q22. However, QOQ activity decreased by 4.2% from 1.8M SF in 1Q23 to 1.7M SF in 2Q23.

TOTAL SALES VOLUME for 2Q23 witnessed a significant 61.8% decrease YOY from 1.2M SF in 2Q22 yet remained steady QOQ at 468.1k SF in 2Q23. This stability in sales volume suggests that investors are adopting a restrained approach in anticipation of maturing loans and the prevailing economic uncertainties.

DIRECT NET ABSORPTION experienced a significant YOY decrease of 146.1% and a substantial QOQ decrease of 269%. In 2Q23, it declined to negative 665.7k SF, compared to negative 270.5k SF in 2Q22 and negative 180.4k SF in 1Q23. This downward trend in direct net absorption reflects the prevailing preference for remote work, leading to office downsizing.

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Market Summary

	2Q23	1Q23	2Q22	Annual Change
Direct Vacancy Rate	11.7%	11.0%	10.5%	11.41%
Total Availability Rate	15.6%	14.6%	13.9%	11.96%
Direct Asking Lease Rate	\$2.18	\$2.18	\$2.14	1.87%
Total SF Leased	411,112	1,049,537	714,120	-42.43%
Total SF Sold	468,083	468,083	1,224,692	-61.78%
Direct Net Absorption	(665,653)	(180,372)	(270,484)	N/A

411K SF
LEASING ACTIVITY

-665K SF
NET ABSORPTION

11.7%
VACANCY RATE

\$2.18
ASKING RENT (AVG)

35K SF
NEW DELIVERIES

Year-Over-Year Trend

Market Highlights

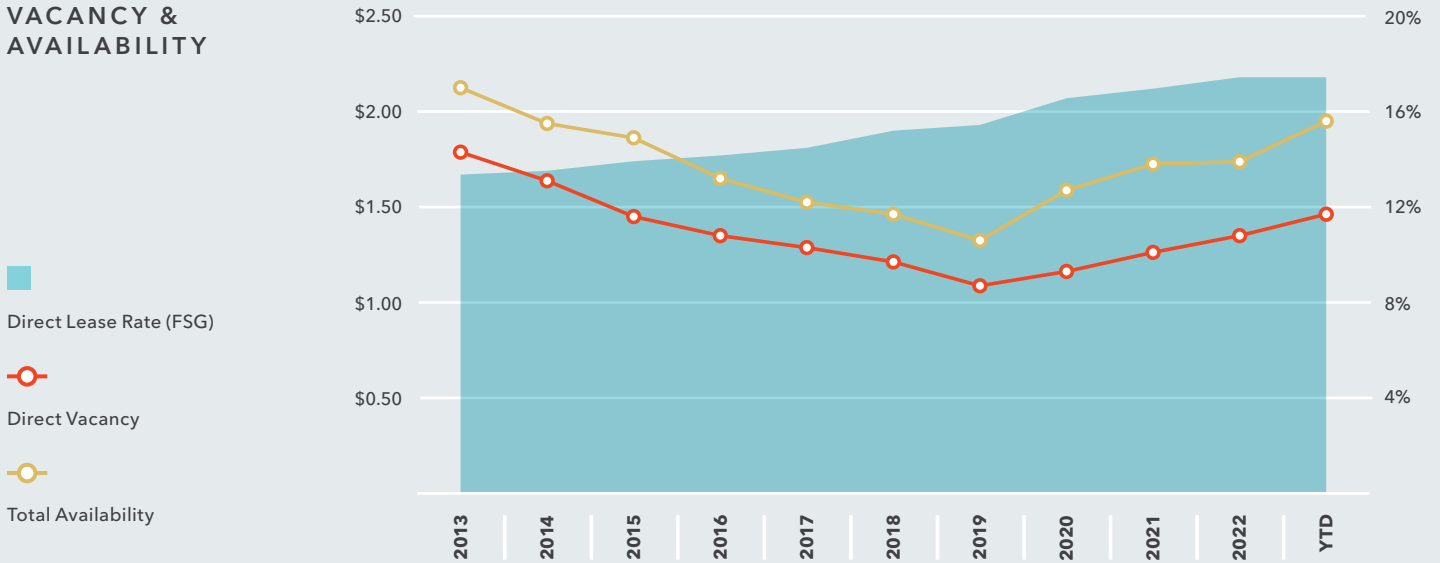
ASKING LEASE RATES rose to \$2.18/SF YOY.

VACANCY RATES rose by 11.4% YOY.

AVAILABILITY RATES increased by 12% YOY.

DIRECT NET ABSORPTION reduced to negative 665.7k SF YOY.

LEASE RATE, VACANCY & AVAILABILITY

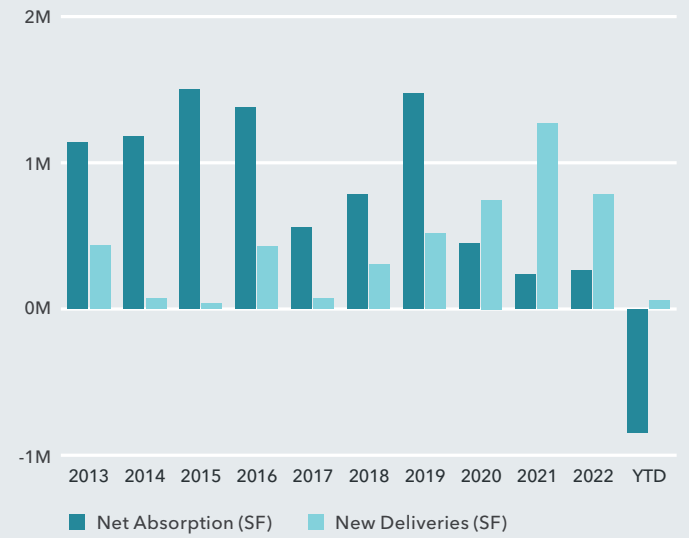


BIGGEST SALE OF THE QUARTER

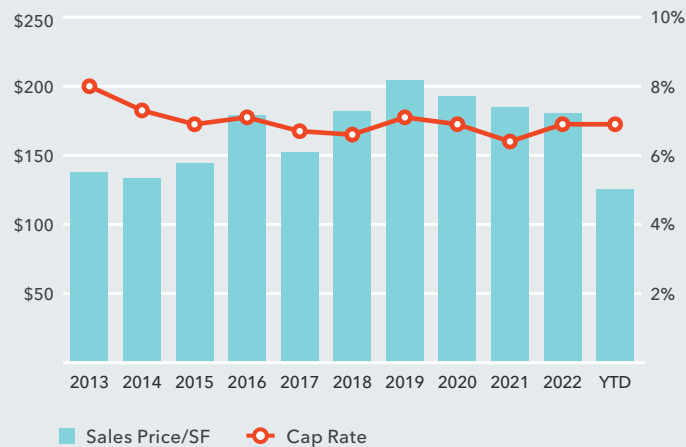
2868 Prospect Park Dr



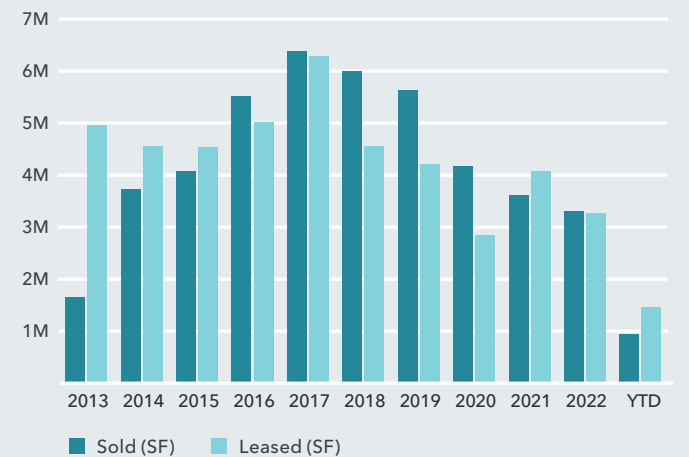
NET ABSORPTION & NEW DELIVERIES



AVERAGE SALES PRICE/SF & CAP RATE



SALE VOLUME & LEASING ACTIVITY



SUBMARKET STATISTICS

Submarket	Total Inventory	Direct Vacancy Rate	Total Vacancy Rate	Total Available Rate	2Q23 Direct Net Absorption	YTD Direct Net Absorption	2Q23 Total Leasing Activity	YTD Leasing Activity	Average Rental Rate (FS)
Downtown	22,503,449	9.8%	9.9%	10.9%	(156,320)	(200,526)	90,640	463,960	\$3.04
Auburn/Lincoln	1,693,758	5.4%	5.4%	4.7%	(6,581)	(2,677)	2,266	17,619	\$1.95
Campus Commons	1,766,706	11.5%	13.1%	16.6%	750	(11,907)	24,397	57,838	\$2.35
Carmichael/Fair Oaks	1,584,763	15.5%	15.6%	17.2%	(4,131)	21,787	2,726	25,393	\$1.48
Citrus Heights/Orangevale	1,797,880	10.0%	10.1%	10.3%	29,821	39,831	9,297	11,895	\$1.57
Davis/Woodland	2,765,553	6.2%	6.3%	7.1%	(11,247)	10,291	8,996	19,635	\$2.20
East Sacramento	2,542,954	1.6%	1.6%	6.2%	(859)	(2,267)	5,011	9,769	\$2.62
El Dorado	2,226,093	10.1%	10.1%	14.9%	7,052	(67,193)	7,520	35,242	\$2.11
Elk Grove	2,326,551	1.7%	2.8%	2.7%	15,636	21,701	4,304	25,073	\$2.54
Folsom	5,628,844	7.0%	8.8%	19.4%	(10,975)	5,854	27,874	51,863	\$2.37
Highway 50 Corridor	18,035,937	15.2%	16.5%	20.1%	(297,026)	(396,177)	22,713	103,265	\$1.85
Howe Ave/Fulton Ave/Watt	5,254,116	16.5%	16.8%	16.6%	(15,522)	(15,917)	37,556	67,255	\$1.63
Midtown	4,790,411	7.7%	7.9%	11.1%	(21,718)	(58,383)	9,585	30,078	\$2.36
North Natomas	3,789,357	11.7%	12.0%	25.8%	(14,370)	(25,980)	28,421	71,394	\$1.84
Point West	2,910,442	17.3%	17.8%	23.0%	43,272	37,876	26,479	109,419	\$1.97
Rio Linda/N Highlands	1,064,826	9.5%	9.5%	19.4%	(1,680)	4,775	558	2,895	\$1.20
Roseville/Rocklin	12,455,779	11.2%	13.3%	18.2%	(232,969)	(119,128)	87,938	318,253	\$2.20
South Natomas	3,786,388	18.2%	19.2%	27.8%	(10,987)	(122,057)	10,633	28,790	\$2.17
South Sacramento	3,744,345	5.4%	5.5%	9.0%	32,122	48,076	2,941	6,347	\$1.85
West Sacramento	2,161,552	6.8%	6.8%	15.6%	(9,921)	(14,004)	1,257	3,571	\$2.79
Sacramento Total	102,829,704	10.9%	11.7%	15.6%	(665,653)	(846,025)	411,112	1,459,554	\$2.18
Class A	28,794,072	12.7%	13.8%	19.7%	(418,151)	(572,289)	132,217	417,783	\$2.54
Class B	48,966,323	11.7%	12.6%	16.0%	(172,391)	(286,068)	187,959	862,039	\$2.03
Class C	25,069,309	7.4%	7.5%	10.0%	(75,111)	12,332	90,936	180,827	\$1.85

ECONOMIC REVIEW

THE UNEMPLOYMENT RATE in Sacramento County saw a decline to 3.8% this quarter, compared to the previous rate of 4.4% in 1Q23. Furthermore, there was a slight increase in unemployment across California, as the rate increased from 4.3% in 1Q23 to 4.5% this quarter.

THE SACRAMENTO-ARDEN-ARCADE-ROSEVILLE MSA's Professional Business Sector gained 3.9k jobs YOY and 980 jobs QOQ, totaling 151k jobs in 2Q23. This is compared to 147.1k jobs in 2Q22 and 150k jobs in 1Q23. These job increases potentially signify signs of recovery from the impacts of the pandemic.

NEAR-TERM OUTLOOK

IN THE SACRAMENTO AREA, there are multiple ongoing construction projects aimed at revitalizing the office market. Despite these projects having desirable attributes such as high-quality spaces, prime locations, and long-term investment potential that attract investors, developers have faced delays in their construction due to various factors. These factors include the rising interest rates, increased construction costs, post-pandemic downtown market conditions, and higher insurance expenses.

THE VACANCY RATES in office spaces have shown a correlation with commuting times and the influence of the technology industry, where remote work has become more prevalent due to its convenience. However, in light of challenging economic conditions, there is a need for sublease income, which may lead to an increase in sublease space and directly impact vacancy rates. With an estimated \$8.9 billion worth of fixed-rate commercial mortgage-backed securities loans that are scheduled to mature in 2023, this increase in sublease space could also exert additional pressure on the office market.

BASIN STREET PROPERTIES in Sacramento's Point West area have showcased their success by securing over 36k SF of new office leases in 2023. This achievement was accomplished through the execution of 7 leases, resulting in an average lease size of slightly over 5k SF. The prevailing office trend leans towards a reduction in space requirements, 5k SF or less, favoring newer Class A properties equipped with amenities. While some companies may opt for minimal or no physical office space, others will still necessitate a certain amount of space, albeit in smaller quantities. It is worth noting that while some landlords may hold out for larger tenants, others have found success by catering to smaller enterprises.

TOP SALE TRANSACTIONS 2Q 2023

Property	Submarket	SF	Sale Price	\$/SF	Buyer	Seller
2868 Prospect Park Dr	Highway 50 Corridor	168,000	\$12,650,000	\$75.30	Chavez Management Group, Inc.	Brent Lee
3200 Bell Rd	Auburn/Lincoln	18,862	\$7,050,000	\$373.77	Mcfarlane Investment Group	American Healthcare REIT, Inc.
4805 Golden Foothill Pky	El Dorado	16,125	\$5,031,000	\$312.00	Summitview Child & Family Services Inc	Missouri Station LLC
9424 Big Horn Blvd	Elk Grove	23,533	\$4,900,000	\$208.22	Turner Impact Capital LP	TDA Investment Group
2730 Gateway Oaks Dr	South Natomas	54,851	\$4,550,000	\$82.95	Ethan Conrad Properties	Gateway Oaks Center LLC

TOP LEASE TRANSACTIONS 2Q 2023

Property	Submarket	SF	Transaction Date	Landlord	Tenant
3830 Atherton Rd	Roseville/Rocklin	40,496	June 2023	Modiv Inc.	Undisclosed
980 9th St	Downtown	15,911	May 2023	Prime US REIT	California Infrastructure & Econ Dev Bank
1211 H St	Downtown	12,800	April 2023	Chris Bagatelos	Undisclosed
4049 Marconi Ave	Howe Ave/Fulton Ave/Watt Ave	12,369	April 2023	Town & Country Lutheran Church	Marconi Montessori School
2180 Harvard St	Point West	11,368	June 2023	Ethan Conrad Properties	Regus

TOP UNDER CONSTRUCTION

Property	Address	Submarket	SF	Owner	Delivery
Aggie Square	200 Aggie Square Way	East Sacramento	314,000	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	September 2023
Aggie Square	300 Aggie Square Way	East Sacramento	255,000	The Regents of the University of California	March 2025
Sutter Roseville Medical Center	7 Medical Plaza Dr	Roseville/Rocklin	100,000	Sutter Health	June 2024

Data Source: Costar; data.bls.gov, bizjournals.com



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.

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COMMERCIAL BROKERAGE	<i>\$12B</i> TRANSACTION VOLUME ANNUALLY	<i>32.1M</i> ANNUAL SALES SF	<i>41.2M</i> ANNUAL LEASING SF
ASSET SERVICES	<i>53M</i> MANAGEMENT PORTFOLIO SF	<i>771+</i> ASSETS UNDER MANAGEMENT	<i>250+</i> ASSET SERVICES CLIENTS
VALUATION ADVISORY	<i>2,600+</i> ASSIGNMENTS ANNUALLY	<i>46</i> TOTAL APPRAISERS	<i>23</i> WITH MAI DESIGNATIONS

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