

## MARKET TRENDS

# SACRAMENTO OFFICE

### MARKET DRIVERS

**SACRAMENTO'S OFFICE VACANCY RATE** rose to 11.7% in 3Q23. This figure was up 2.2% QOQ compared to 11.4% in 2Q23, and up 11% YOY from 10.5% in 3Q22. Amid economic uncertainty, surplus office space and limited demand suggest challenges, yet future residential conversions offer hope for reducing high vacancy rates.

**THE AVERAGE ASKING LEASE RATE** remained steady between 2Q22 and 2Q23 at \$2.18/SF, but experienced a 0.9% increase compared to last quarters rate of \$2.16/SF.

**THE AVAILABILITY RATE** climbed to 15.6%, an increase of 12.3% YOY and 5.5% QOQ. As office leases expire, some tenants are choosing not to renew in favor of reducing their office space needs and exploring subleasing options.

**TOTAL LEASING ACTIVITY** declined from 2.5M SF year-to-date 2022 to 2.2M SF year-to-date 2023 demonstrating lessee re-evaluation of space needs. In contrast, sublease activity consistently decreased both QOQ, falling from 39.2k SF in 2Q23, and YOY, declining from 29.5k SF in 3Q22.

**INVESTORS HAVE BECOME** more cautious in the office property market, as demonstrated by a significant decline in year-to-date total sales volume, dropping from 2.7 million SF in 2022 to 1.8 million SF in 2023, representing a decrease of approximately 910.2k SF. Despite a cautious approach to office property investments, investors have recognized promising investment prospects in office-to-multifamily conversions and Class A office properties.

**IN 3Q23, DIRECT NET ABSORPTION** reached -272.7k SF, contributing to a year-to-date total of -903.2k SF in 2023, marking a significant decline of 746.3k SF compared to the year-to-date net absorption of 156.9k SF in 2022. This trend indicates that more square footage is being vacated than occupied when compared to the previous year, likely due to the ongoing reassessment of space requirements.

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## Market Summary

	3Q23	2Q23	3Q22	Annual Change
Direct Vacancy Rate	11.7%	11.4%	10.5%	<b>11.00%</b>
Total Availability Rate	15.6%	14.8%	13.9%	<b>12.30%</b>
Direct Asking Lease Rate	\$2.18	\$2.18	\$2.16	<b>0.93%</b>
Total SF Leased	604,483	562,402	1,034,147	<b>-41.55%</b>
Total SF Sold	797,275	525,176	1,224,692	<b>-34.90%</b>
Direct Net Absorption	(272,701)	(450,124)	77,019	<b>N/A</b>

↓ **604K SF**  
LEASING ACTIVITY

↓ **-272K SF**  
NET ABSORPTION

↑ **11.7%**  
VACANCY RATE

↑ **\$2.18**  
ASKING RENT (AVG)

↑ **20K SF**  
NEW DELIVERIES

Year-Over-Year Trend

## Market Highlights

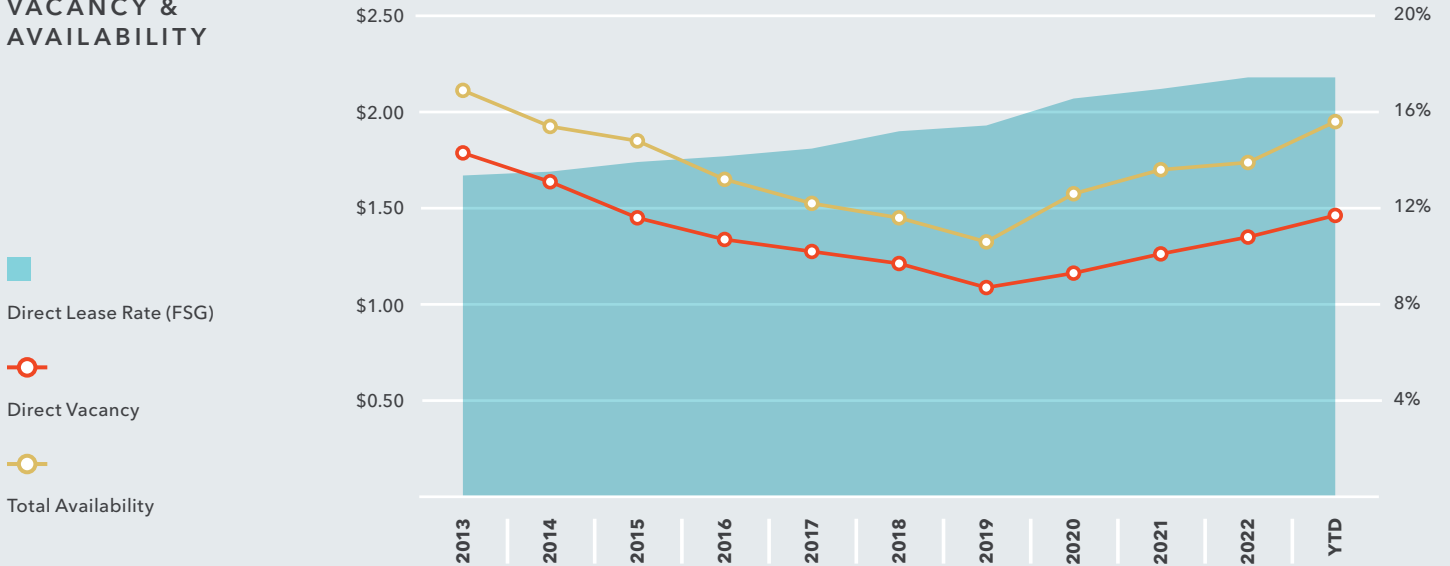
**ASKING LEASE RATES** remained steady QOQ at \$2.18/SF but rose YOY from \$2.16/SF

**VACANCY RATES** increased YOY from 10.5% to 11.7%

**AVAILABILITY RATES** rose YOY to 15.6%

**NET ABSORPTION** was -272.7k SF in 3Q23, bringing the year-to-date total to -903.2k

## LEASE RATE, VACANCY & AVAILABILITY

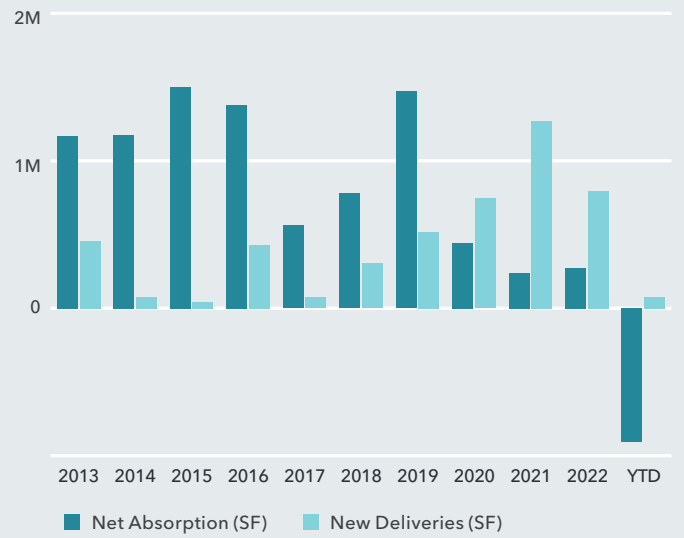


## BIGGEST SALE OF THE QUARTER

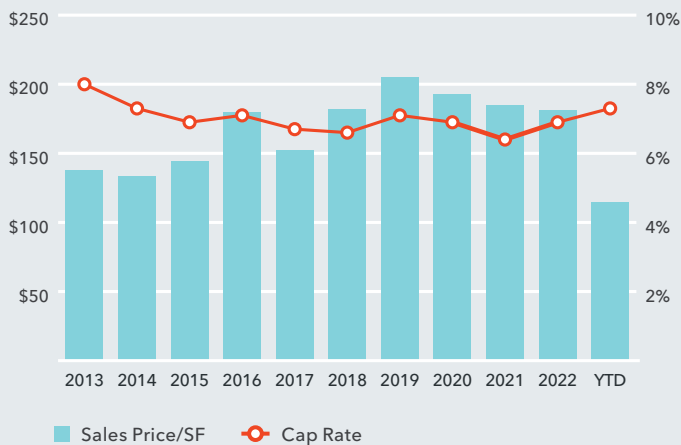
*2288 Auburn Blvd, Sacramento*



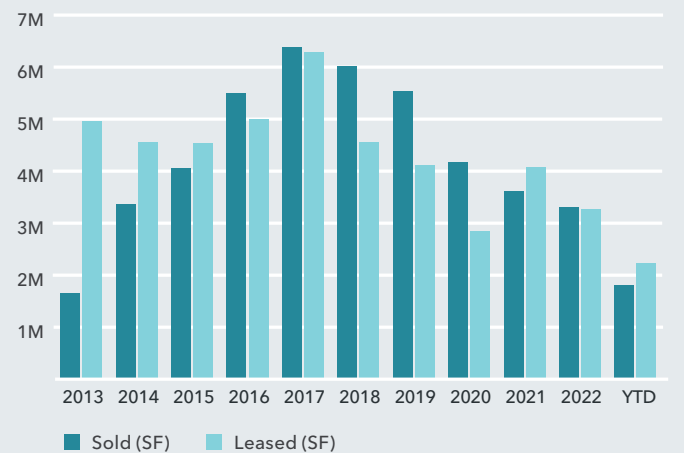
## NET ABSORPTION & NEW DELIVERIES



## AVERAGE SALES PRICE/SF & CAP RATE



## SALE VOLUME & LEASING ACTIVITY



## SUBMARKET STATISTICS

Submarket	Total Inventory	Direct Vacancy Rate	Total Vacancy Rate	Total Available Rate	3Q23 Direct Net Absorption	YTD Direct Net Absorption	3Q23 Total Leasing Activity	YTD Leasing Activity	Average Rental Rate (FS)
Downtown	22,501,424	9.6%	9.7%	10.9%	11,678	(158,299)	74,095	536,144	\$3.05
Auburn/Lincoln	1,699,008	5.3%	5.3%	4.3%	(8,104)	(2,135)	2,500	21,974	\$1.98
Campus Commons	1,766,706	10.7%	12.3%	17.9%	(22,572)	1,993	38,538	99,608	\$2.33
Carmichael/Fair Oaks	1,601,910	13.8%	13.9%	14.9%	29,112	45,964	3,505	29,854	\$1.46
Citrus Heights/Orangevale	1,809,626	10.9%	11.0%	10.9%	(10,338)	21,193	14,504	29,763	\$1.61
Davis/Woodland	2,732,096	6.2%	6.4%	6.7%	1,674	11,965	12,930	33,298	\$2.20
East Sacramento	2,542,954	1.4%	1.4%	6.1%	647	1,091	3,464	13,586	\$2.58
El Dorado	2,208,837	10.9%	11.1%	19.1%	(27,356)	(79,533)	3,003	38,245	\$2.04
Elk Grove	2,340,551	1.7%	2.7%	3.0%	(3,902)	20,119	2,835	36,702	\$2.53
Folsom	5,959,565	7.5%	8.2%	17.7%	(33,820)	(25,781)	22,400	88,867	\$2.43
Highway 50 Corridor	17,958,988	16.2%	17.6%	20.4%	(270,203)	(574,165)	71,575	240,286	\$1.86
Howe Ave/Fulton Ave/Watt	5,242,658	15.5%	15.6%	14.0%	57,006	39,643	88,744	159,259	\$1.62
Midtown	4,809,160	7.4%	7.6%	10.1%	13,493	(46,014)	7,227	37,305	\$2.30
North Natomas	3,797,539	12.1%	12.4%	26.5%	(12,066)	(41,821)	19,534	98,949	\$1.84
Point West	2,910,675	16.8%	17.0%	22.0%	10,511	52,299	45,680	158,047	\$1.94
Rio Linda/N Highlands	1,064,826	10.3%	10.3%	20.3%	(9,442)	(4,667)	384	3,279	\$1.20
Roseville/Rocklin	12,478,263	10.6%	12.6%	16.9%	27,547	(53,941)	129,004	509,872	\$2.19
South Natomas	3,793,178	18.7%	19.6%	37.4%	(20,723)	(142,793)	43,510	67,380	\$2.17
South Sacramento	3,719,860	5.7%	5.8%	9.0%	(12,652)	38,880	15,175	22,892	\$1.86
West Sacramento	2,161,552	6.5%	6.5%	15.5%	6,809	(7,195)	5,876	9,447	\$2.81
<b>Sacramento Total</b>	<b>103,099,376</b>	<b>11.0%</b>	<b>11.7%</b>	<b>15.6%</b>	<b>(272,701)</b>	<b>(903,197)</b>	<b>604,483</b>	<b>2,234,757</b>	<b>\$2.18</b>
Class A	28,723,466	13.2%	14.1%	20.7%	(224,176)	(758,023)	177,261	618,300	\$2.54
Class B	49,141,460	11.4%	12.1%	15.4%	59,431	(34,531)	330,398	1,314,959	\$2.03
Class C	25,234,450	7.8%	7.9%	10.2%	(107,956)	(110,643)	96,824	301,498	\$1.85

## ECONOMIC REVIEW

**THE SACRAMENTO COUNTY** unemployment rate for the current quarter increased to 4.4%, an increase from the previous year at 3.7% and the previous quarter at 4.1%. Likewise, California's unemployment rate rose slightly from 4.5% in the previous quarter to 4.6% in the current 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.

**IN A POSITIVE DEVELOPMENT** for the office market, the number of jobs in the Profession and Business Services Sector within the Sacramento-Arden-Arcade-Roseville MSA experienced growth. In 3Q23, it reached 154.2k jobs, reflecting a YOY rise of 3.1k jobs from 151k in 3Q22 and an increase of 2.5k jobs from the 151.7k observed in 2Q23.

## NEAR-TERM OUTLOOK

**THE DIMINISHED DEMAND** for office space has led to reduced inventory in several U.S. markets. Slower construction, building conversions, and demolitions have all contributed to this reduction in office supply, although there remains a surplus of unwanted product. Governments are pushing for additional conversion incentives, while prospective tenants are seeking reduced square footage and shorter leases in Class A properties to align with their post-COVID needs. Reduced office supply may benefit areas with high vacancy rates, but challenges such as rising capital costs persist. The success of repurposing offices into new uses will vary by region, creating uncertainty about which areas can effectively transform office spaces.

**CLASS B AND C OFFICE BUILDINGS** in Sacramento offer potential for residential conversion, with approximately 1.3M square feet of space across 33 eligible buildings meeting conversion-specific criteria. The economic challenges of such conversions are particularly relevant in Sacramento, where rental rates closely align with construction costs. While these conversions have yet to materialize in Sacramento, a development company has been selected to transform three state office buildings into affordable housing, highlighting the untapped potential of local office space.

TOP SALE TRANSACTIONS 3Q 2023

Property	Submarket	SF	Sale Price	\$/SF	Buyer	Seller
2288 Auburn Blvd	Howe Ave/Fulton Ave/Watt Ave	54,069	\$10,475,000	\$193.73	River City Medical Group	Omni Medical
11971 Foundation Pl	Highway 50 Corridor	145,869	\$8,348,000	\$57.23	Ethan Conrad Properties	Peakstone Realty Trust
1651 Exposition Blvd	Point West	62,700	\$7,500,000	\$119.62	Sutter Medical Foundation	Real Estate Donations Usa, Inc.
11931 Foundation Pl	Highway 50 Corridor	63,387	\$6,690,000	\$105.54	Visions in Education	Rpro152n3 LLC
1730 I St	Midtown	20,186	\$5,800,000	\$287.33	CAL FIRE Local 2881	Dhs Properties LLC

TOP LEASE TRANSACTIONS 3Q 2023

Property	Submarket	SF	Transaction Date	Landlord	Tenant
3021 - 3034 Peacekeeper Way	Rio Linda/N Highlands	105,000	July 2023	McClellan Park LLC	Perimeter Solutions
3707 Kings Way	Howe Ave/Fulton Ave/Watt Ave	57,368	August 2023	Ethan Conrad Properties	County of Sacramento
2379 Gateway Oaks Dr	South Natomas	30,465	July 2023	Lassner Law Firm	Undisclosed
1 Capitol Mall	Downtown	26,929	July 2023	AKT Development Corporation	Undisclosed
730 I St	Downtown	18,804	July 2023	D & S Development, Inc.	Undisclosed

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	November 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



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

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<b>COMMERCIAL BROKERAGE</b>	<i>\$12B</i> TRANSACTION VOLUME ANNUALLY	<i>32.1M</i> ANNUAL SALES SF	<i>41.2M</i> ANNUAL LEASING SF
<b>ASSET SERVICES</b>	<i>53M</i> MANAGEMENT PORTFOLIO SF	<i>771+</i> ASSETS UNDER MANAGEMENT	<i>250+</i> ASSET SERVICES CLIENTS
<b>VALUATION ADVISORY</b>	<i>2,800+</i> ASSIGNMENTS ANNUALLY	<i>41</i> TOTAL APPRAISERS	<i>23</i> WITH MAI DESIGNATIONS

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