

MARKET TRENDS

SACRAMENTO OFFICE

MARKET DRIVERS

Sacramento's office vacancy rate rose to 11.6% in 4Q23. This figure was up 10-bps QOQ compared to 11.5% in 3Q23, and up 110-bps YOY from 10.7% in 4Q22. In the face of economic uncertainty, the presence of excess office space and restrained demand poses challenges. Nevertheless, prospects for future residential conversions emerge as a hopeful avenue to alleviate elevated vacancy rates.

The average asking lease rate grew slightly to \$2.19/SF in 4Q23, a 0.5% increase from the \$2.18/SF views last quarter and in 4Q22.

The availability rate climbed to 15.4%, an increase of 1,050-bps YOY and 550-bps QOQ. This climb over the year can be attributed to tenants looking to downsize as work from home policies continue in the market.

Total leasing activity for the year increased from 2.4M SF in 2022 to 2.7M SF in 2023. Sublease activity is also up; from 78.2k SF in all of 2022, to 127.1k SF for the year in 2023. Although these numbers are up for the year, the availability rate rising demonstrates that there is excess product on the market due to vacated properties that have not found new tenants, and that companies who are able to receive financing for new leases are electing for smaller spaces through subleases.

Interest rate hikes have taken their toll on investors as well. This can be seen by the significant decline in year-to-date total sales volume, from 2.7M SF in 2022 to 1.9M SF in 2023, representing a decrease of approximately 818.2k SF. Sales are down for the market, but investors are still purchasing Class-A properties and have taken chances on office to multi-family conversion opportunities.

In 4Q23, direct net absorption reached -119.3k SF, contributing to a year-to-date total of -922.5k SF in 2023, marking a significant decline from the 304.5k SF net absorption throughout all of 2022. This further confirms that tenants were being hurt by the tight lending practices of 2023 despite the increase in leasing activity.

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Market Summary

| | 4Q23 | 3Q23 | 4Q22 | Annual Change |
|--------------------------|-----------|-----------|---------|----------------|
| Direct Vacancy Rate | 11.6% | 11.5% | 10.7% | 8.34% |
| Total Availability Rate | 15.4% | 14.9% | 13.9% | 10.51% |
| Direct Asking Lease Rate | \$2.19 | \$2.18 | \$2.18 | 0.46% |
| Total SF Leased | 439,684 | 808,495 | 985,901 | -55.40% |
| Total SF Sold | 689,550 | 863,141 | 598,940 | 15.13% |
| Direct Net Absorption | (119,291) | (172,936) | 117,936 | N/A |

4Q 2023

↓ **439K SF**
LEASING ACTIVITY

↓ **-119K SF**
NET ABSORPTION

↑ **11.6%**
VACANCY RATE

↑ **\$2.19**
ASKING RENT (AVG)

↓ **15K SF**
NEW DELIVERIES

Year-Over-Year Trend

Market Highlights

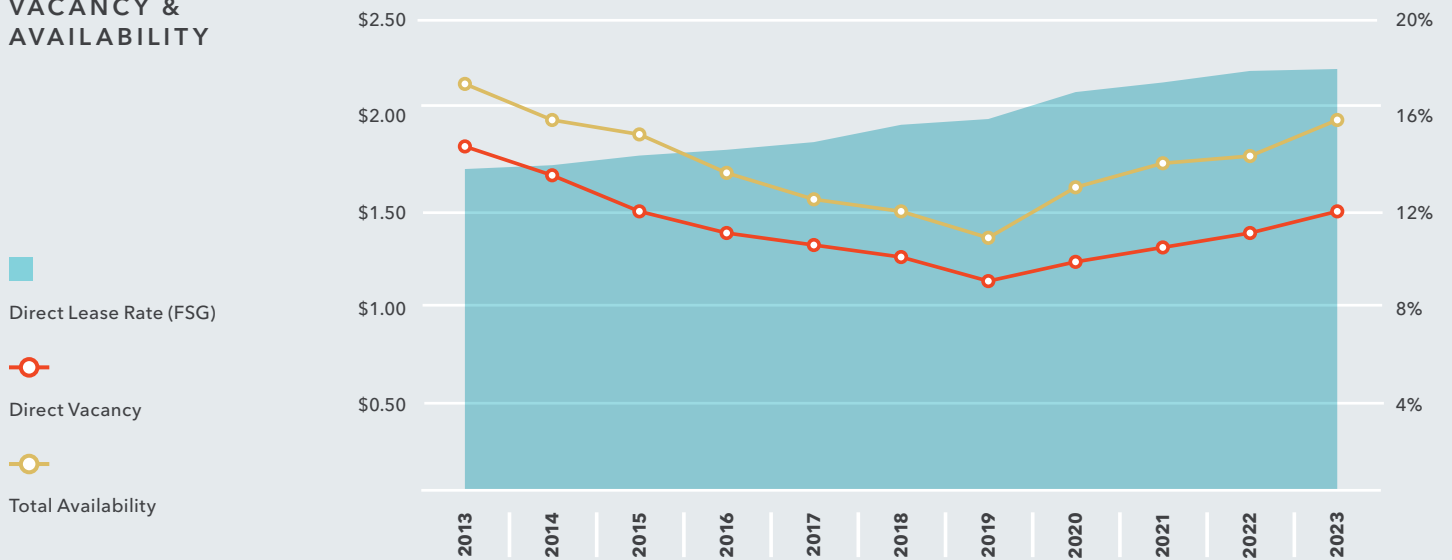
ASKING LEASE RATES
slightly increased YOY
and QOQ from \$2.18/SF
to \$2.19/SF

VACANCY RATES
continued to rise YOY
from 10.7% to 11.6%

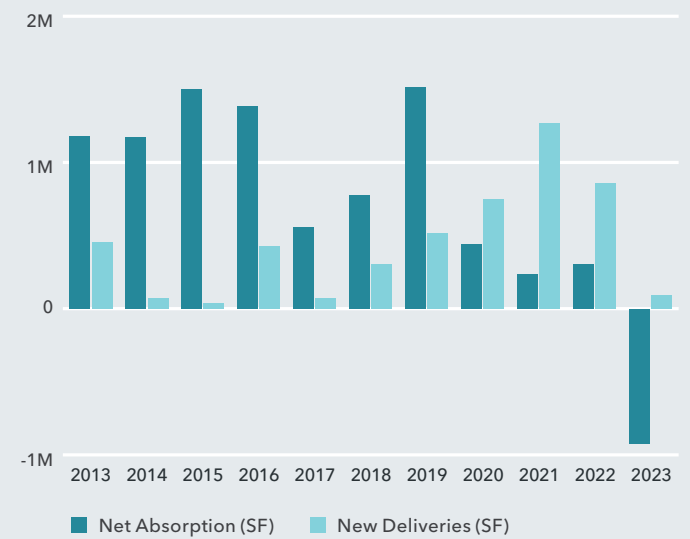
AVAILABILITY RATES
grew YOY from 13.9%
to 15.4%

NET ABSORPTION for
4Q23 was -119.3k SF,
contributing to the 2023
total of -922.5k

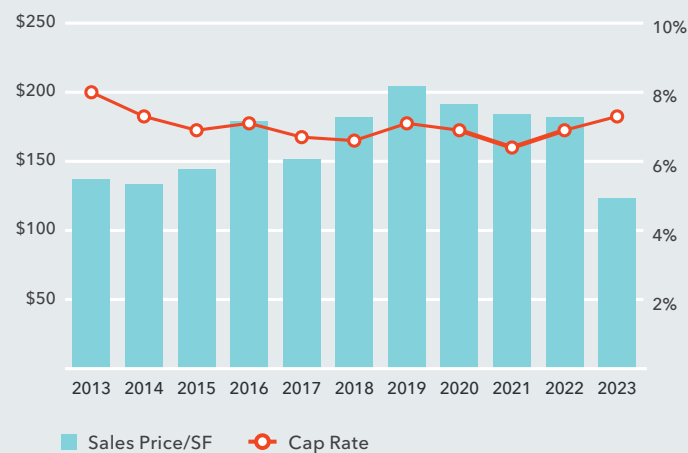
LEASE RATE, VACANCY & AVAILABILITY



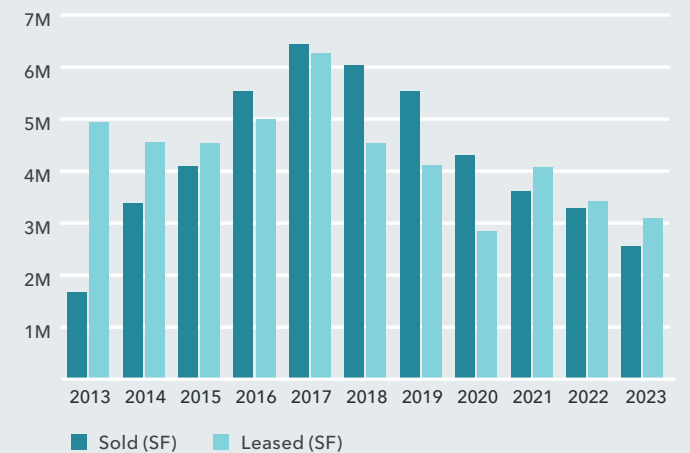
NET ABSORPTION & NEW DELIVERIES



AVERAGE SALES PRICE/SF & CAP RATE



SALE VOLUME & LEASING ACTIVITY



SUBMARKET STATISTICS

| Submarket | Total Inventory | Direct Vacancy Rate | Total Vacancy Rate | Total Available Rate | 4Q23 Direct Net Absorption | YTD Direct Net Absorption | 4Q23 Total Leasing Activity | YTD Leasing Activity | Average Rental Rate (FS) |
|---------------------------|--------------------|---------------------|--------------------|----------------------|----------------------------|---------------------------|-----------------------------|----------------------|--------------------------|
| Downtown | 22,680,770 | 9.1% | 9.2% | 10.8% | 98,989 | (60,510) | 47,038 | 627,473 | \$3.07 |
| Auburn/Lincoln | 1,713,753 | 5.5% | 5.5% | 4.6% | 7,419 | (6,222) | 2,977 | 24,951 | \$2.01 |
| Campus Commons | 1,768,491 | 11.7% | 12.3% | 18.5% | (19,338) | (16,337) | 17,566 | 122,319 | \$2.32 |
| Carmichael/Fair Oaks | 1,587,684 | 14.0% | 14.1% | 17.7% | (3,133) | 45,583 | 5,287 | 35,141 | \$1.55 |
| Citrus Heights/Orangevale | 1,785,710 | 8.6% | 8.6% | 8.6% | 41,091 | 64,531 | 10,159 | 40,622 | \$1.62 |
| Davis/Woodland | 2,724,955 | 7.1% | 7.3% | 7.7% | (28,393) | (12,810) | 5,703 | 40,209 | \$2.64 |
| East Sacramento | 2,542,954 | 2.1% | 2.1% | 6.8% | (16,175) | (15,084) | 535 | 14,669 | \$2.83 |
| El Dorado | 2,204,799 | 12.2% | 12.3% | 18.1% | (28,933) | (108,466) | 6,301 | 56,896 | \$2.06 |
| Elk Grove | 2,317,893 | 1.7% | 2.4% | 3.4% | 864 | 20,983 | 11,493 | 50,445 | \$2.62 |
| Folsom | 5,967,732 | 7.9% | 8.7% | 18.3% | (33,477) | (51,739) | 18,555 | 119,654 | \$2.42 |
| Highway 50 Corridor | 17,917,841 | 16.7% | 18.1% | 20.8% | (82,702) | (654,315) | 76,839 | 624,396 | \$1.84 |
| Howe Ave/Fulton Ave/Watt | 5,243,702 | 13.1% | 13.2% | 11.9% | 70,699 | 164,396 | 14,269 | 183,911 | \$1.62 |
| Midtown | 4,791,693 | 7.6% | 7.6% | 7.9% | (23,210) | (69,224) | 23,915 | 61,720 | \$2.31 |
| North Natomas | 3,789,034 | 12.3% | 12.7% | 26.1% | (14,414) | (46,686) | 26,206 | 128,629 | \$1.85 |
| Point West | 2,903,315 | 16.0% | 16.1% | 19.2% | 24,772 | 77,071 | 24,236 | 181,932 | \$1.97 |
| Rio Linda/N Highlands | 1,064,826 | 12.6% | 12.6% | 21.5% | (23,643) | (28,310) | 0 | 3,279 | \$1.20 |
| Roseville/Rocklin | 12,462,231 | 10.4% | 12.1% | 17.0% | 21,864 | (3,941) | 92,274 | 610,077 | \$2.21 |
| South Natomas | 3,793,178 | 17.8% | 18.3% | 35.3% | 34,124 | (108,669) | 51,442 | 125,903 | \$2.17 |
| South Sacramento | 3,704,856 | 5.0% | 5.0% | 8.4% | 28,982 | 67,862 | 2,530 | 27,864 | \$1.88 |
| West Sacramento | 2,191,414 | 14.4% | 14.4% | 15.3% | (174,677) | (180,644) | 2,359 | 12,306 | \$2.81 |
| Sacramento Total | 103,156,831 | 11.0% | 11.6% | 15.4% | (119,291) | (922,531) | 439,684 | 3,092,396 | \$2.19 |
| Class A | 28,668,395 | 13.7% | 14.6% | 21.0% | (186,277) | (940,511) | 96,449 | 775,322 | \$2.54 |
| Class B | 49,392,817 | 11.5% | 12.2% | 15.3% | (73,872) | (100,755) | 253,590 | 1,874,080 | \$2.05 |
| Class C | 25,095,619 | 6.9% | 7.0% | 9.1% | 140,858 | 118,735 | 89,645 | 442,994 | \$1.91 |

ECONOMIC REVIEW

The Sacramento County unemployment rate increased 10-bps from 4.3% to 4.4% over the last quarter. This is up 90-bps from the 3.5% seen in the final quarter of 2022. California's unemployment rate also saw an uptick from 4.6% to 4.9% over the past quarter.

The Sacramento-Arden-Arcade-Roseville MSA's Professional Business Sector lost 2.0k jobs since last quarter, but only 800 jobs since this time last year. The 1.3% drop from 153.1k SF to 151.1k SF over the past quarter is not insignificant, but it doesn't fall outside the trends seen throughout the California and National markets.

NEAR-TERM OUTLOOK

Sacramento is undergoing a wave of office-to-residential conversions, exemplified by the proposed redevelopment of a 1970s single-story office building at 5250 Date Ave. into 18 apartments. Additionally, Sutter Capital Group's acquisition of the three-story Ticon III office

building at 2730 Stockton Blvd., near Aggie Square, signals a potential office-to-multifamily conversion following UC Davis's departure. These projects align with the broader transformation in the Sacramento office market, highlighted by the conversion of CalPERS-owned 1800 Third St. into a mixed-use space by Heller Pacific. This shift, backed by the city's updated memorandum of understanding, reflects a dynamic change in Sacramento's real estate landscape.

Despite these opportunities the Sacramento office market faces challenges, including pricing barriers and a 30% cumulative year-to-year decline in commercial real estate investment volume. Buyers are exercising caution, awaiting favorable price points. The impending wave of debt maturities and potential distress in the office market are additional concerns. The impact of WeWork's Chapter 11 bankruptcy filing further adds complexity, with repercussions expected to vary across locations, potentially presenting opportunities for value investing and discounted asset prices. As the Sacramento office market undergoes significant changes, it remains a dynamic environment with both challenges and potential opportunities.

TOP SALE TRANSACTIONS 4Q 2023

| Property | Submarket | SF | Sale Price | \$/SF | Buyer | Seller |
|-----------------------|----------------|--------|--------------|----------|-------------------------------|---|
| 4201 Town Center Blvd | Folsom | 49,077 | \$14,723,500 | \$300.01 | Marshall Medical Center | ProEquity Asset Management |
| 604 Sutter St | Folsom | 30,120 | \$10,750,000 | \$356.91 | Biddle Consulting Group, Inc. | Fit Development |
| 1507 21st St | Midtown | 55,906 | \$9,400,000 | \$168.14 | One Community Health | Realty Advisors, Inc. |
| 7700 College Town Dr | Campus Commons | 34,000 | \$7,500,000 | \$220.59 | University Enterprises, Inc. | Srcf Supporting Organization A California |
| 1100 Investment Blvd | El Dorado | 71,516 | \$7,000,000 | \$97.88 | Kingsbarn Realty Capital | Nady Trust |

TOP LEASE TRANSACTIONS 4Q 2023

| Property | Submarket | SF | Transaction Date | Landlord | Tenant |
|----------------------|---------------------|--------|------------------|---|--------------------------|
| 2379 Gateway Oaks Dr | South Natomas | 30,465 | October 2023 | Lassner Law Firm | Western Health Advantage |
| 921 11th St | Downtown | 15,428 | October 2023 | Armour Steel Co, Inc. | Undisclosed |
| 1520 Eureka Rd | Roseville/Rocklin | 14,900 | October 2023 | Trust A Ralph J & Geraldine/Jackson Rev Trust | Undisclosed |
| 2800 Nicolaus Rd | Roseville/Rocklin | 13,450 | November 2023 | The Jaeger Family Trust | Tamraloo Studios |
| 9323 Tech Center Dr | Highway 50 Corridor | 13,313 | November 2023 | Ethan Conrad Properties | Empyreal Logistics |

TOP UNDER CONSTRUCTION

| Property | Address | Submarket | SF | Owner | Delivery |
|-----------------------------------|----------------------|-------------------|-----------|---|--------------|
| Richards Boulevard Office Complex | 344 N 7th St - 1-4 | Downtown | 1,248,000 | State of California | June 2024 |
| Aggie Square | 200 Aggie Square Way | East Sacramento | 314,000 | The Regents of the University of California | March 2025 |
| CalSTRS Expansion | 100 Waterfront Pl | West Sacramento | 275,000 | CA State Teachers Retirement System | January 2024 |
| 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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COMMERCIAL
BROKERAGE

\$12B

TRANSACTION
VOLUME ANNUALLY

32.1M

ANNUAL
SALES SF

41.2M

ANNUAL
LEASING SFASSET
SERVICES

53M

MANAGEMENT
PORTFOLIO SF

771+

ASSETS UNDER
MANAGEMENT

250+

ASSET SERVICES
CLIENTSVALUATION
ADVISORY

2,800+

ASSIGNMENTS
ANNUALLY

42

TOTAL
APPRAISERS

23

WITH MAI
DESIGNATIONS

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