

## MARKET TRENDS

# SACRAMENTO OFFICE

### MARKET DRIVERS

Sacramento's office vacancy rate increased to 11.8% in 1Q24, marking a 40-basis points (bps) quarter-over-quarter (QOQ) rise from 11.4% in 4Q23, and an 80-bps year-over-year (YOY) increase from 11% in the 1Q23. The office market has been significantly affected by the aftermath of the pandemic, leading to increased vacancy rates as more companies reassess their space requirements upon lease expiration, taking into account prevailing economic challenges.

The average asking lease remained steady YOY at \$2.18/SF in 1Q24, however there was a 0.5% decrease from \$2.19/SF from the previous quarter.

The availability rate rose to 15.3% in 1Q24 from 14.4% in 1Q23 and 14.6% in 4Q23, demonstrating a YOY rise of 90-bps and a QOQ increase of 70-bps. Outside of Class A offices with amenities, tenants are not interested in office spaces, mostly electing to downsize which is flooding the market with product.

Total leasing activity declined by 49.8% YOY, from 1.2M SF in 1Q23, and by 36.4% QOQ, from 486.7K SF in 4Q23 to 626K SF in 1Q24. Despite the overall decline in leasing activity since the pandemic, sublease activity has increased by 13% YOY and 22.7% QOQ. In the current office market, subleases are favored because they offer smaller spaces for shorter terms, which are more suitable for companies still evaluating their space requirements.

Total sales volume for 1Q24 witnessed a 35% decrease YOY from 475.9K SF in 1Q23 and a 68% decrease QOQ from 977.7K SF in 4Q23 to 309.6K SF in 1Q24. Amid shifting market conditions, certain investors are contemplating repurposing office buildings, yet the broader trend of declining office sales since the pandemic reflects evolving real estate dynamics and investor sentiment towards office properties in the current economic landscape.

The direct net absorption reached -468K SF in 1Q24, down from -180.4K SF and 70.1K SF in 4Q23. As tenants' leases come to term, they continue to reevaluate their space needs in response to evolving work trends, such as work from home policies.

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### Market Summary

	1Q24	4Q23	1Q23	YOY Change
Direct Vacancy Rate	11.8%	11.4%	11.0%	<b>7.2%</b>
Total Availability Rate	15.3%	14.6%	14.4%	<b>90 bps</b>
Direct Asking Lease Rate	\$2.18	\$2.19	\$2.18	<b>0.0%</b>

	1Q24	2023 Total	1Q23	YOY Change
Leased SF	625,955	3,502,101	1,247,553	<b>-49.8%</b>
Sold SF	309,582	2,773,675	475,898	<b>-35.0%</b>
Net Absorption	(468,042)	(632,610)	(180,372)	<b>-159.5%</b>



↓ **626K SF**  
LEASING ACTIVITY

↓ **-468K SF**  
NET ABSORPTION

↑ **11.8%**  
VACANCY RATE

↔ **\$2.18**  
ASKING RENT (AVG)

↓ **0 SF**  
NEW DELIVERIES

Year-Over-Year Trend

### Market Highlights

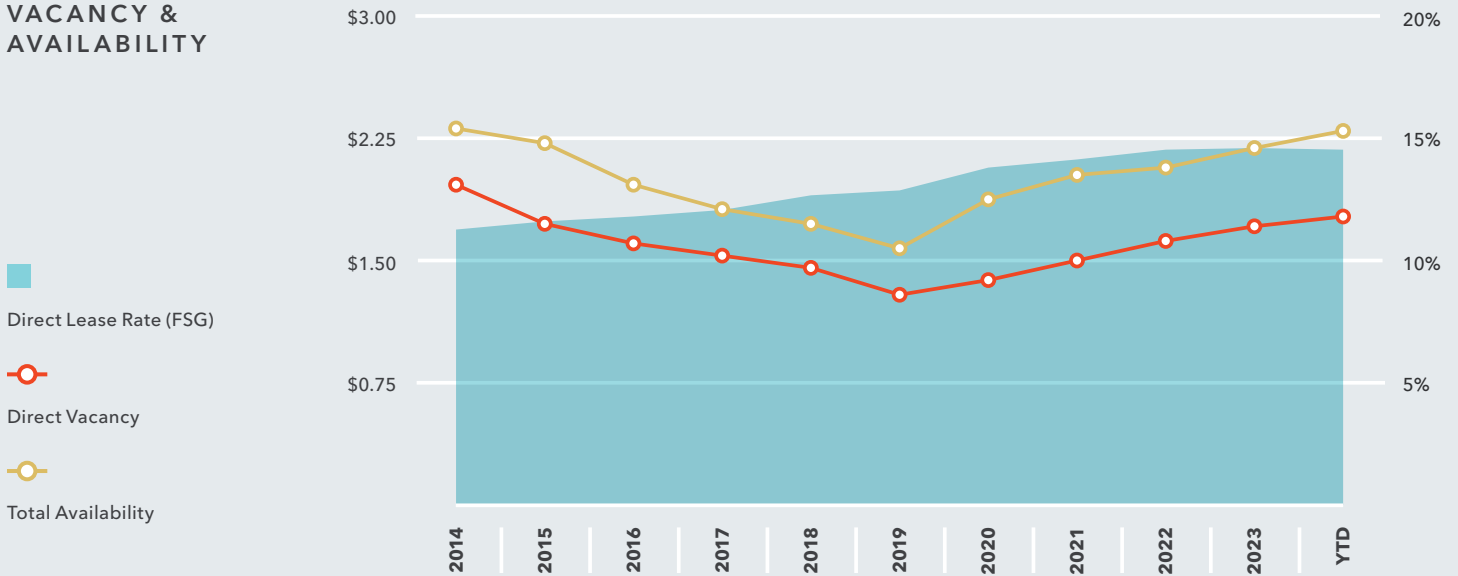
**VACANCY RATES** grew YOY and QOQ to 11.8%

**AVAILABILITY RATES** increased by 90-bps YOY and 70-bps QOQ to 15.3%

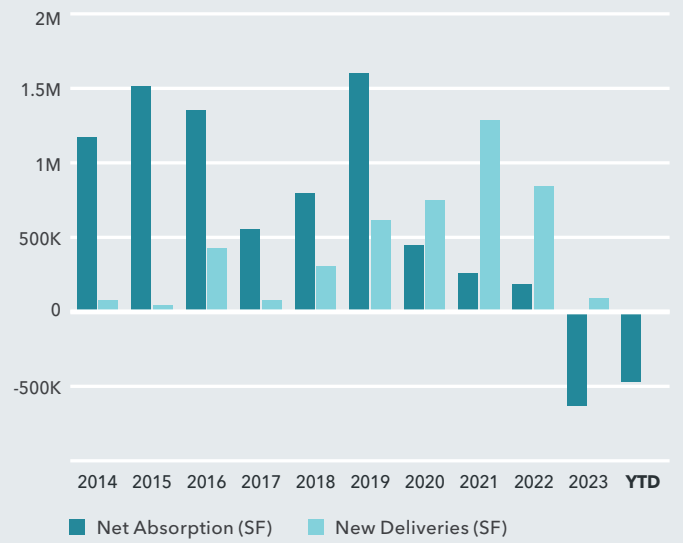
**ASKING LEASE RATES** fell QOQ from \$2.19/SF to \$2.18/SF but remained stable YOY

**NET ABSORPTION** fell to -468K SF YOY, a sizable decrease from -180.3K SF

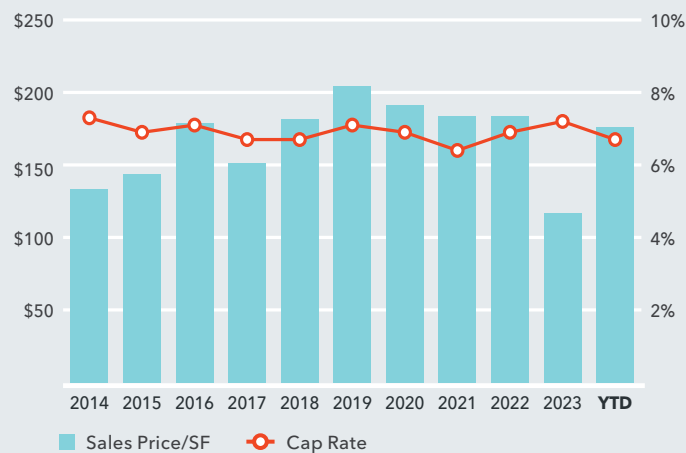
## LEASE RATE, VACANCY & AVAILABILITY



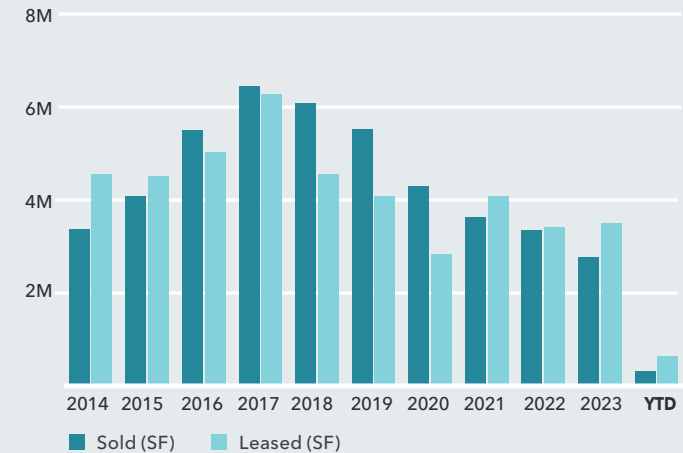
## NET ABSORPTION & NEW DELIVERIES



## AVERAGE SALES PRICE/SF & CAP RATE



## SALE VOLUME & LEASING ACTIVITY



## SUBMARKET STATISTICS

Submarket	Total Inventory	Direct Vacancy Rate	Total Vacancy Rate	Total Available Rate	1Q24 Direct Net Absorption	YTD Direct Net Absorption	1Q24 Total Leasing Activity	YTD Leasing Activity	Average Rental Rate (FS)
Downtown	22,700,447	8.8%	9.0%	10.4%	51,991	51,991	121,998	121,998	\$3.06
Auburn/Lincoln	1,715,229	6.3%	6.3%	5.6%	(14,922)	(14,922)	3,330	3,330	\$1.94
Campus Commons	1,767,165	11.1%	11.6%	16.6%	(14,970)	(14,970)	17,425	17,425	\$2.36
Carmichael/Fair Oaks	1,576,815	14.3%	14.5%	16.4%	(4,514)	(4,514)	6,923	6,923	\$1.63
Citrus Heights/Orangevale	1,816,578	7.5%	7.5%	8.2%	18,643	18,643	9,144	9,144	\$1.64
Davis/Woodland	2,717,055	7.6%	7.7%	8.7%	(13,792)	(13,792)	17,831	17,831	\$2.71
East Sacramento	2,542,954	2.7%	2.7%	7.3%	(14,865)	(14,865)	1,937	1,937	\$2.65
El Dorado	2,204,798	16.1%	16.4%	21.2%	(85,491)	(85,491)	13,086	13,086	\$2.15
Elk Grove	2,358,069	2.2%	2.9%	3.6%	(12,867)	(12,867)	3,335	3,335	\$2.72
Folsom	5,978,248	8.0%	8.8%	18.3%	(6,859)	(6,859)	46,570	46,570	\$2.39
Highway 50 Corridor	17,936,263	16.6%	17.8%	20.6%	16,305	16,305	74,992	74,992	\$1.80
Howe Ave/Fulton Ave/Watt	5,251,542	12.7%	12.8%	12.9%	21,738	21,738	22,044	22,044	\$1.62
Midtown	4,785,913	8.1%	8.2%	9.5%	(25,981)	(25,981)	14,417	14,417	\$2.33
North Natomas	3,789,034	12.7%	12.9%	26.8%	(16,149)	(17,305)	16,603	16,603	\$1.82
Point West	2,859,197	17.4%	17.5%	20.6%	(34,109)	(34,109)	36,035	36,035	\$1.97
Rio Linda/N Highlands	1,070,520	12.6%	12.6%	21.3%	(577)	(577)	522	522	\$1.20
Roseville/Rocklin	12,458,842	12.4%	14.0%	16.4%	(258,533)	(258,533)	157,404	157,404	\$2.19
South Natomas	3,803,268	18.8%	19.3%	33.3%	(40,025)	(40,025)	40,381	40,381	\$2.17
South Sacramento	3,690,819	5.2%	5.3%	8.2%	(7,576)	(7,576)	18,965	18,965	\$1.93
West Sacramento	2,191,414	7.4%	7.4%	14.9%	(25,489)	(25,489)	3,013	3,013	\$2.76
<b>Sacramento Total</b>	<b>103,214,170</b>	<b>11.2%</b>	<b>11.8%</b>	<b>15.3%</b>	<b>(468,042)</b>	<b>(469,198)</b>	<b>625,955</b>	<b>625,955</b>	<b>\$2.18</b>
Class A	28,740,101	14.1%	14.9%	20.7%	(304,234)	(305,390)	252,307	252,307	\$2.52
Class B	49,489,564	11.7%	12.3%	15.4%	(114,862)	(114,862)	255,073	255,073	\$2.03
Class C	24,984,505	7.1%	7.2%	9.0%	(48,946)	(48,946)	118,575	118,575	\$1.88

## ECONOMIC OVERVIEW

The unemployment rate in Sacramento County rose to 5.2% this quarter, a 70-bps increase QOQ and a 90-bps increase YOY. In a similar vein, the unemployment rate for California rose from 4.5% in 1Q23 and 5.1% in 4Q23 to 5.3% in 1Q24.

The Professional Business Sector for the Sacramento-Arden-Arcade-Roseville MSA gained 300 jobs from the previous quarter and lost 400 jobs from the previous year. The QOQ increase in jobs is a nice change of pace for the professional Business Sector which has been struggling since the pandemic.

## NEAR-TERM OUTLOOK

Smaller banks, which are predominant in commercial real estate lending, are encountering notable hurdles as larger banks reduce their exposure to commercial real estate. Shifting office usage patterns due to remote work and decreased leasing activity have led to high office vacancy rates and declining property values. Coupled with a higher interest rate environment, these factors have contributed to increased loan defaults and delinquencies

in the commercial real estate market. The slow-moving nature of this crisis provides banks with time to adjust their strategies and address challenges arising from nonperforming loans and distressed properties. Some banks are extending maturing loans, while others are selling troubled assets or restructuring portfolios to mitigate losses. The impact of the commercial real estate downturn varies across different asset classes. Experts anticipate a gradual resolution of these challenges over several years as banks navigate through distressed commercial real estate loans and assets.

In recent quarters, the office market experienced a shift towards quality Class A buildings, with a focus on amenities. Post-Covid-19, corporate decisions regarding office locations are increasingly influenced by the appeal of neighborhoods rather than solely the amenities within office buildings. This shift underscores the importance of location over building quality, reflecting employee preferences for vibrant neighborhoods with amenities. The flight-to-quality trend observed in newer, amenity-rich buildings may also indicate a broader movement towards desirable urban neighborhoods.

**SIGNIFICANT SALE TRANSACTIONS 1Q 2024**

Property	Submarket	SF	Sale Price	\$/SF	Buyer	Seller
629 J St	Downtown	49,906	\$8,500,000	\$170.32	Snl Family Trust	Cameron & Associates
1730 Prairie City Rd	Folsom	21,900	\$7,350,000	\$335.62	IRA Capital LLC	1730 Prairie City Road
2260 Douglas Blvd	Roseville/Rocklin	47,000	\$7,200,000	\$153.19	2260 Douglas LLC	Eightdungjpc LLC
901 H St	Downtown	51,340	\$5,375,000	\$104.69	Hernon Group	Bowman & Associates
9727 Elk Grove Florin Rd	Elk Grove	20,604	\$4,775,000	\$231.75	Northwest Investment Group LLC	Elk Grove Medical Dental Ass.

**SIGNIFICANT LEASE TRANSACTIONS 1Q 2024**

Property	Submarket	SF	Transaction Date	Landlord	Tenant
1325 J St	Downtown	17,472	March 2024	The Bluestone Group/PREP Capital Holdings LLC	Undisclosed
1410 Rocky Ridge Dr	Roseville/Rocklin	16,864	January 2024	Bunker Wilson LLC	Undisclosed
202 Cousteau Pl	Davis/Woodland	16,000	January 2024	Buzz Oates	Oobli, Inc.
5008 - 5050 Luce Ave	McClellan	15,907	January 2024	McClellan Park LLC	Undisclosed
1 Adventist Health Way	Roseville/Rocklin	14,880	March 2024	Adventist Health	Sutter Health

**SIGNIFICANT 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	April 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: data.bls.gov, bizjournals.com



Kidder Mathews is the largest independent commercial real estate firm on the West Coast, with over 900 real estate professionals and staff in 19 offices in Washington, Oregon, California, Nevada, and Arizona. We offer a complete range of brokerage, appraisal, asset services, consulting, and debt & equity finance services for all property types.

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

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<b>COMMERCIAL BROKERAGE</b>	<i>\$10B</i> 3-YEAR AVERAGE TRANSACTION VOLUME	<i>31.7M</i> ANNUAL SALES SF	<i>42.4M</i> ANNUAL LEASING SF
<b>ASSET SERVICES</b>	<i>51M SF</i> MANAGEMENT PORTFOLIO SIZE	<i>750+</i> ASSETS UNDER MANAGEMENT	<i>250+</i> CLIENTS SERVED
<b>VALUATION ADVISORY</b>	<i>2,600+</i> 3-YEAR AVERAGE ASSIGNMENTS	<i>43</i> TOTAL APPRAISERS	<i>25</i> WITH MAI DESIGNATIONS

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