

MARKET TRENDS

SACRAMENTO OFFICE

MARKET DRIVERS

Sacramento's office vacancy rate fell to 11.4% in 2Q24, marking a 30-basis points (bps) quarter-over-quarter (QOQ) and a 10-bps year-over-year (YOY) increase. In the wake of the pandemic, many companies are re-evaluating their office space needs as leases expire. This, combined with current economic issues, is driving vacancy rates up in the office market.

The average asking lease remained steady QOQ at \$2.19/SF in 2Q24, which is up from \$2.18/SF since 2Q23.

The availability rate rose to 15.5% in 2Q24, demonstrating a YOY rise of 80-bps and a QOQ increase of 70-bps. Demand has shifted away from standard office space, with tenants in non-Class A buildings downsizing. This downsizing is creating a surplus of vacant office space.

Total leasing activity declined by 30.9% YOY, from 782.1k SF in 2Q23, and by 26.2% QOQ to 540.5K SF in 2Q24. Uncertainty about future space needs is driving demand for subleases. These temporary arrangements offer smaller footprints and flexible terms, allowing companies to adapt as they re-evaluate their office requirements. Even with these factors, subleases have seen a decline YOY and QOQ.

Sales volume for 2024 has so far kept pace with 2023, trailing only by 2.1% at 950.6K SF of product sold cumulatively this year. This quarter didn't help much, however, as the 230.1K SF sold this quarter was 53.5% lower than 2Q23's marks. While some investors eye office building conversions due to a changing market, the ongoing slump in office sales paints a broader picture of how the pandemic has reshaped real estate dynamics and investor confidence.

The direct net absorption reached 1.3M SF in 2Q24, up from -309.3K SF in 2Q23. Deliveries are nearing a 10-year high, already nearly reaching 1.3M SF. This unprecedented level of deliveries will not affect net absorption because the entirety of the square footage is due to the May Lee State Office Complex which is housing seven state agencies.

ECONOMIC OVERVIEW

Unemployment rates in Sacramento County rose by 80-bps over the past year but fell by 70-bps from the previous quarter to 4.5% in 2Q24. Similarly, California's unemployment rates increased by 70-bps over the past year and decreased by 10-bps from the previous quarter.

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Market Summary

	2Q24	1Q24	2Q23	YOY Change
Direct Vacancy Rate	11.4%	11.7%	11.3%	10-bps
Total Availability Rate	15.5%	14.8%	14.7%	80-bps
Direct Asking Lease Rate	\$2.19	\$2.19	\$2.18	0.5%

	2Q24	2024 YTD	2023 YTD	YOY Change
Leased SF	540,475	1,272,814	1,563,477	-18.6%
Sold SF	230,067	950,625	970,601	-2.1%
Net Absorption	1,338,609	880,019	(490,194)	N/A

↓ **540K SF**
LEASING ACTIVITY

↑ **1.34M SF**
NET ABSORPTION

↑ **11.4%**
VACANCY RATE

↑ **\$2.19**
ASKING RENT (AVG)

↑ **1.3M SF**
NEW DELIVERIES

Year-Over-Year Trend

Market Highlights

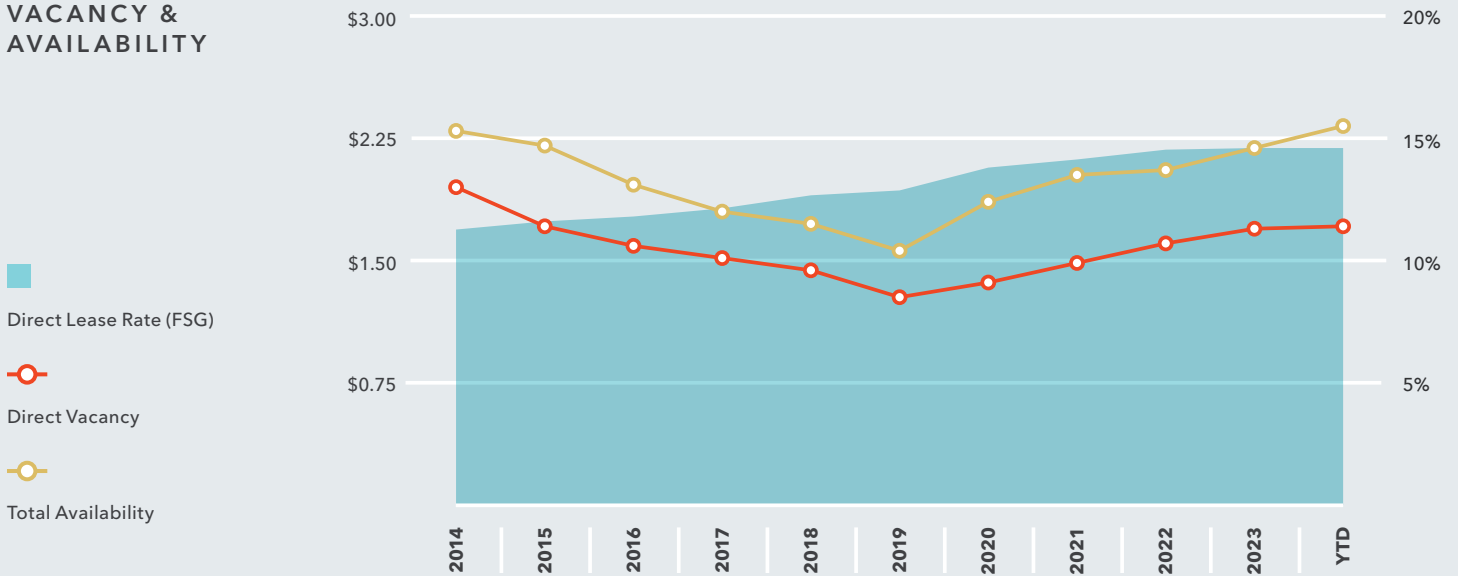
VACANCY RATES grew YOY and to 11.4%.

AVAILABILITY RATES increased by 80-bps YOY and 70-bps QOQ to 15.5%.

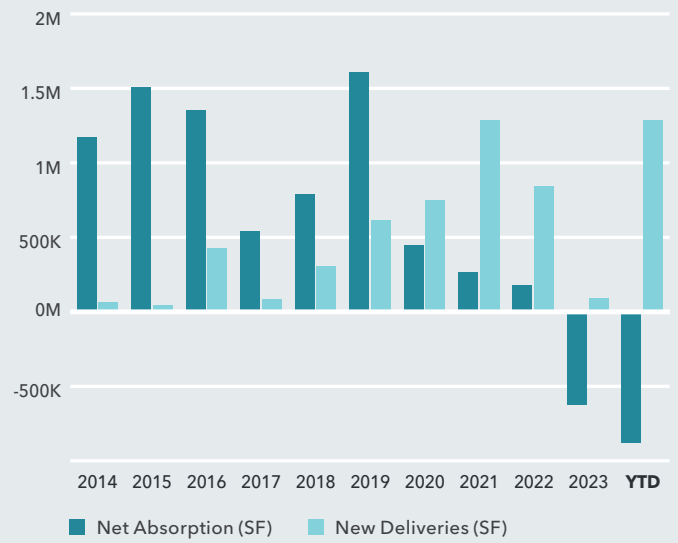
ASKING LEASE RATES remained at \$2.19/SF QOQ, up from \$2.18/SF in 2Q23.

NET ABSORPTION rose to 1.3M SF YOY, a sizable increase from -309.3K SF.

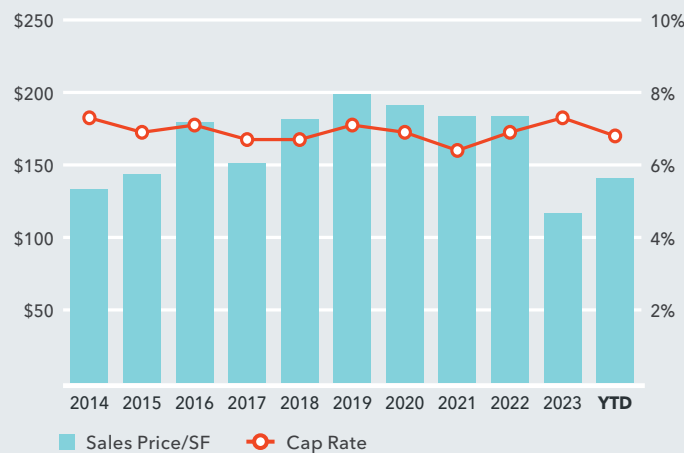
LEASE RATE, VACANCY & AVAILABILITY



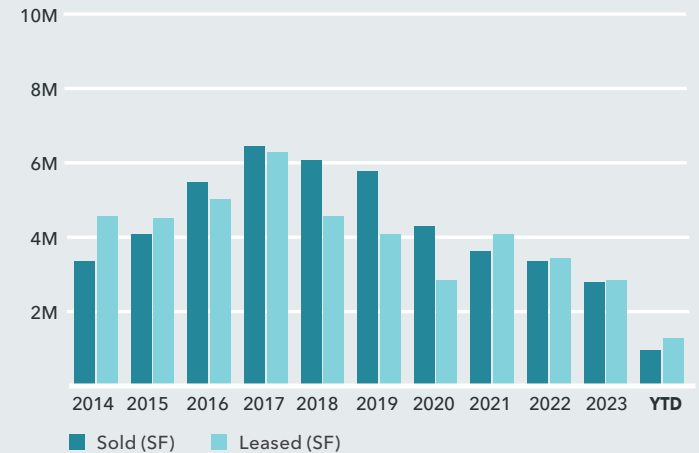
NET ABSORPTION & NEW DELIVERIES



AVERAGE SALES PRICE/SF & CAP RATE



SALE VOLUME & LEASING ACTIVITY



SUBMARKET STATISTICS

Submarket	Total Inventory	Direct Vacancy Rate	Total Vacancy Rate	Total Available Rate	2Q24 Direct Net Absorption	YTD Direct Net Absorption	2Q24 Total Leasing Activity	YTD Leasing Activity	Average Rental Rate (FS)
Downtown	23,889,493	7.9%	8.0%	11.0%	1,314,654	1,358,481	65,878	190,455	\$3.07
Auburn/Lincoln	1,715,229	6.0%	6.0%	5.2%	3,798	(9,502)	5,698	9,028	\$1.89
Campus Commons	1,761,712	12.3%	12.8%	17.8%	(3,469)	(35,429)	10,551	34,837	\$2.37
Carmichael/Fair Oaks	1,576,820	12.5%	12.6%	14.8%	29,204	24,590	6,801	13,724	\$1.70
Citrus Heights/Orangevale	1,809,037	7.8%	7.8%	10.2%	(5,469)	13,763	11,635	22,267	\$1.64
Davis/Woodland	2,716,012	8.1%	8.2%	8.6%	(9,814)	(26,254)	9,488	28,737	\$2.68
East Sacramento	2,542,954	2.7%	2.7%	7.4%	(1,268)	(16,133)	1,406	3,343	\$2.65
El Dorado	2,178,523	15.8%	15.9%	19.7%	(633)	(74,957)	35,586	50,695	\$2.12
Elk Grove	2,367,663	2.8%	2.8%	3.2%	(14,044)	(26,191)	9,962	19,542	\$2.70
Folsom	6,076,877	6.8%	7.5%	17.6%	101,433	94,574	49,447	105,548	\$2.36
Highway 50 Corridor	17,938,588	16.4%	17.4%	20.6%	36,405	46,316	114,718	206,968	\$1.78
Howe Ave/Fulton Ave/Watt	5,248,917	12.5%	12.7%	12.7%	4,248	31,088	19,693	53,784	\$1.60
Midtown	4,781,914	8.7%	8.8%	11.7%	(31,021)	(55,466)	10,957	28,865	\$2.53
North Natomas	3,790,642	11.9%	12.1%	27.1%	23,973	12,829	39,628	63,821	\$1.81
Point West	2,826,222	17.1%	17.2%	21.9%	5,717	(20,545)	434	36,469	\$1.94
Rio Linda/N Highlands	1,060,220	11.7%	11.7%	20.6%	0	(577)	0	522	\$1.20
Roseville/Rocklin	12,463,262	12.3%	13.9%	16.3%	(3,853)	(250,426)	99,441	295,891	\$2.17
South Natomas	3,807,422	18.3%	18.8%	33.6%	21,935	(21,580)	46,758	80,151	\$2.35
South Sacramento	3,696,655	5.3%	5.3%	8.7%	(4,575)	(11,561)	875	23,635	\$1.92
West Sacramento	2,215,837	13.1%	13.1%	13.5%	(127,694)	(152,083)	1,519	4,532	\$2.71
Sacramento Total	104,463,999	11.0%	11.4%	15.5%	1,339,527	880,937	540,475	1,272,814	\$2.19
Class A	27,597,854	13.1%	13.9%	19.6%	2,164	(324,616)	170,562	456,016	\$2.62
Class B	51,353,982	11.8%	12.2%	16.5%	1,337,912	1,243,836	297,871	618,062	\$2.00
Class C	25,512,163	7.0%	7.1%	9.1%	(549)	(38,283)	72,042	198,736	\$1.89

ECONOMIC OVERVIEW CONTINUED

The Professional Business Sector for the Sacramento-Arden-Arcade-Roseville MSA gained 1,700 jobs from the previous quarter and 2,200 jobs from the previous year. The 136.9K jobs are the most recorded since December 2022.

NEAR-TERM OUTLOOK

While the conversion of underutilized commercial space to housing was anticipated to be a significant post-pandemic trend, this approach remains in its early stages within Sacramento. Only one noteworthy conversion project involving office buildings was completed in 2023, and this was a hotel-to low-income housing conversion. The lower costs associated with these adaptations have made them more common than office conversions. Government support is necessary for a broader adoption of office conversions. Some existing state and local incentives, but more widespread reform, is needed. Specifically, recommends revisions to land-use ordinances to permit increased residential development in commercial areas, alongside the creation of overlay zones and streamlined permitting processes. Ultimately,

the success of office-to-housing conversions hinges on proactive measures undertaken by city governments.

Work-from-home policies have been the biggest driver for downsizing in the office market. Some reports have found that workers are slowly beginning to return to work, while others are showing that in-person numbers are plateauing. Until there are major changes in the work-from-home and hybrid numbers, the demand for office product will remain low, forcing landlords and owners to look in unorthodox place to get a return on their investment. Conversions to housing might be difficult in the current climate, but there are other opportunities for conversion that are easier to pull off. A recent success story was at 3780 Rosin Ct, which sold to Tarbiya Institute, an Islamic group that plans on holding services there. Although the property sold for \$82.59/SF, this was considerably higher than a nearly identical neighboring property which sold for about \$55/SF three years ago. With work-from-home trends persisting and roadblocks in housing conversions, creativity is pivotal for office owners and landlords alike.

SIGNIFICANT SALE TRANSACTIONS 2Q 2024

Property	Submarket	SF	Sale Price	\$/SF	Buyer	Seller
4124 E Commerce Way	North Natomas	20,000	\$5,485,000	\$274.25	Undisclosed	V20 Investments, LLC
4750 Grove St	Roseville/Rocklin	10,584	\$4,000,000	\$377.93	Acton Academy Placer	Placer County Assoc. of Realtors, Inc.
3780 Rosin Ct	North Natomas	46,009	\$3,800,000	\$82.59	Tarbiya Institute	Child Development
5072 Hillsdale Cir	El Dorado	19,200	\$3,700,000	\$192.71	Shingle Springs Band of Miwok Indians	El Dorado County Office Of Education
4355 Golden Center Dr	El Dorado	11,640	\$2,100,000	\$180.41	El Dorado County Office Of Education	CKMD

SIGNIFICANT LEASE TRANSACTIONS 2Q 2024

Property	Submarket	SF	Transaction Date	Landlord	Tenant
11090 White Rock Rd	Highway 50 Corridor	28,090	May 2024	Karlin Real Estate	Undisclosed
11010 White Rock Rd	Highway 50 Corridor	21,750	May 2024	Karlin Real Estate	GEI Consultants, Inc.
925 Highland Pointe Dr	Roseville/Rocklin	18,884	June 2024	Mourier Land Investment Corporation	Undisclosed
400 Capitol Mall	Downtown	18,507	April 2024	Manulife US Real Estate Investment Trust	Undisclosed
2220 Douglas Blvd	Roseville/Rocklin	7,624	May 2024	Pappas Investments	Redwood Electric Group

SIGNIFICANT 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
CalSTRS Expansion	100 Waterfront Pl	West Sacramento	275,000	CA State Teachers Retirement System	August 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 2025
Channel 24	1800 24th St	Midtown	22,147	1800 24th Street, LLC	March 2025

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



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COMMERCIAL BROKERAGE	\$10B 3-YEAR AVERAGE TRANSACTION VOLUME	31.7M ANNUAL SALES SF	42.4M ANNUAL LEASING SF
ASSET SERVICES	55M SF MANAGEMENT PORTFOLIO SIZE	800+ ASSETS UNDER MANAGEMENT	260+ CLIENTS SERVED
VALUATION ADVISORY	2,600+ 3-YEAR AVERAGE ASSIGNMENTS	43 TOTAL APPRAISERS	27 WITH MAI DESIGNATIONS

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