

## MARKET TRENDS

# SACRAMENTO OFFICE

### MARKET DRIVERS

Sacramento's office vacancy rate rose to 11.3% in 4Q24, marking an increase of 20-basis points (bps) quarter-over-quarter (QOQ). Additionally, the availability rate increased to 15.1% in 4Q24, demonstrating a YOY rise of 90-bps and a QOQ increase of 40-bps. The state government has been moving their agencies from leased office space into state-owned buildings as part of their 2019 plan. This new supply from government-occupied spaces and smaller requirements from other office tenants have put upward pressure on vacancy and availability rates.

The average asking lease rate has remained steady at the record high rate of \$2.19/SF in 4Q24. Rent growth has slowed over the past couple years as vacancies and availabilities are on the rise. Although rents have held still at high rates, landlords have been increasing concessions and incentives considerably to attract tenants and secure deals.

Total leasing activity was up 13% YOY, ending the year with 3.4M SF in volume. Although the total number of transactions were lower than the past three years, the volume was more as market experiences some momentum from larger occupiers. Almost double the amount of transactions were inked with tenants in the 25K+ SF requirement than last year, but still remains rare for larger deals as small leases continue to dominate office leasing throughout Sacramento.

After a slow three quarters of 2024, sales volume picked up considerably in 4Q. Approx. 1.5M SF sold in just 4Q 2024 alone compared to a cumulative 1.4M SF in the first three quarters combined. This quarter's figure helped drive the annual volume to 2.9M SF, up 4% from 2.8M SF year-end 2023. Additionally, three of the top five largest transactions of the year took place in 4Q which pushed the average sale price up to \$191/SF, a 64% increase from \$119/SF year-end 2023.

The direct net absorption posted -184K SF in 4Q24 but ended the year at 720K SF of positive net absorption cumulatively for the year. Despite the 15-year record high of new deliveries in 2024, it did not affect net absorption because the entirety of the square footage is attributable to the May Lee State Office Complex which will be occupied by seven state agencies.

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## Market Summary

	4Q24	3Q24	4Q23	YOY Change
Direct Vacancy Rate	11.3%	11.1%	10.7%	<b>60 bps</b>
Total Availability Rate	15.6%	15.2%	14.7%	<b>90 bps</b>
Direct Asking Lease Rate	\$2.19	\$2.20	\$2.19	<b>0.0%</b>
	4Q24	2024	2023	YOY Change
Leased SF	824,780	3,449,019	3,045,908	<b>13.3%</b>
Sold SF	1,511,201	2,915,204	2,800,715	<b>4.1%</b>
Net Absorption	(184,272)	720,837	(605,317)	<b>N/A</b>

↑ **3.4M SF**  
LEASING ACTIVITY

↓ **-184K SF**  
NET ABSORPTION

↑ **11.3%**  
VACANCY RATE

↔ **\$2.19**  
ASKING RENT (AVG)

↓ **0 SF**  
NEW DELIVERIES

Year-Over-Year Trend

## Market Highlights

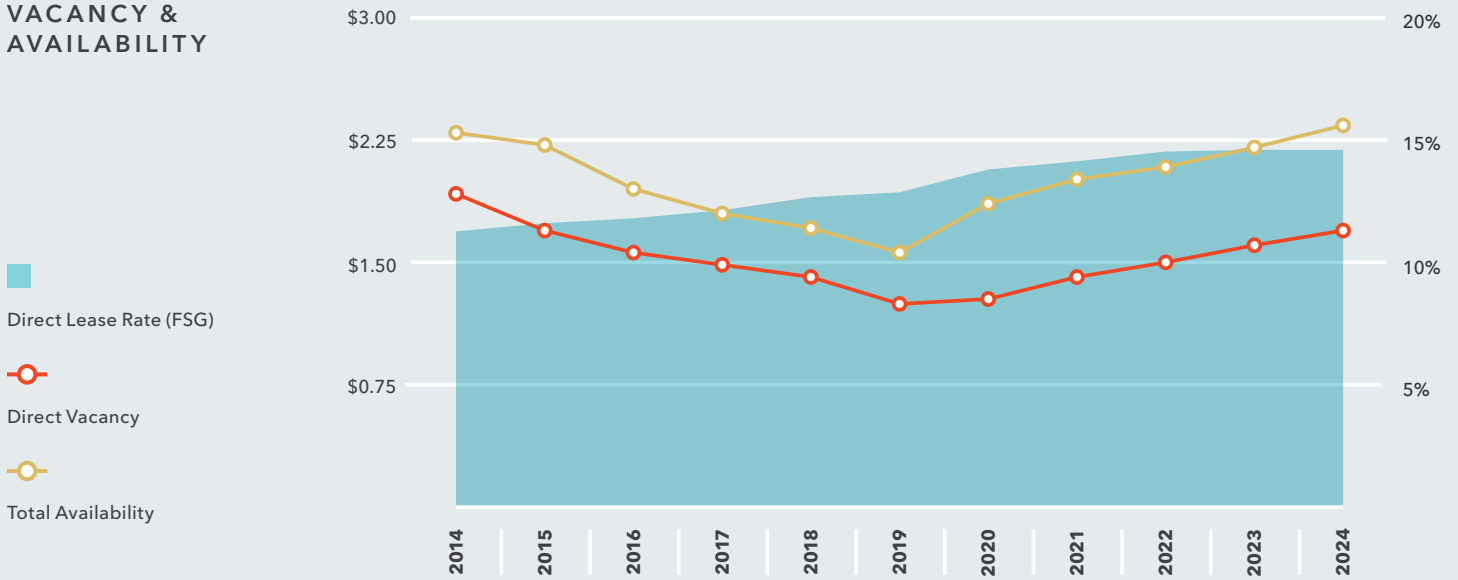
**VACANCY RATES** grew YOY and QOQ to 11.3%.

**AVAILABILITY RATES** increased by 90-bps YOY to 15.6%.

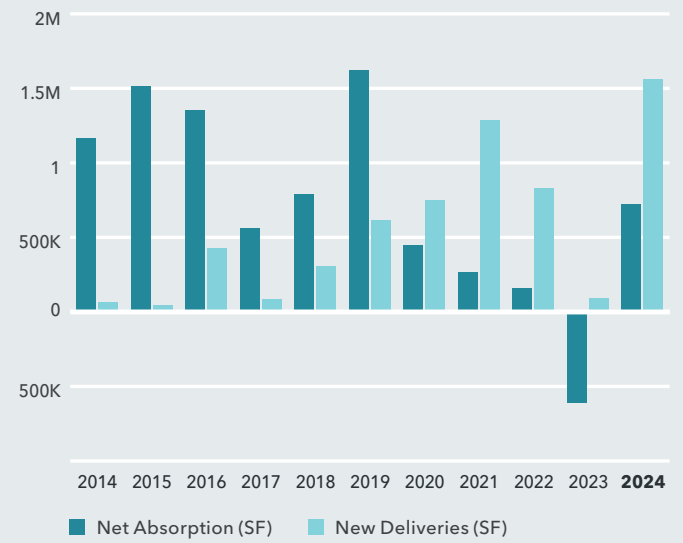
**ASKING LEASE RATES** remained at \$2.19/SF YOY, down from \$2.20/SF in 3Q24.

**SALES VOLUME** jumped to 1.5M SF.

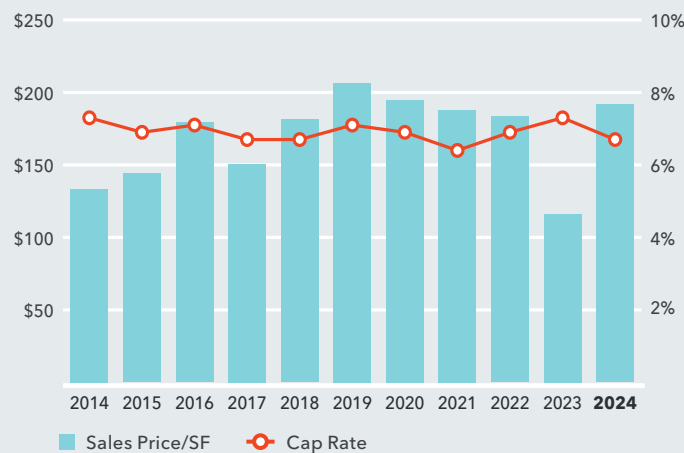
## LEASE RATE, VACANCY & AVAILABILITY



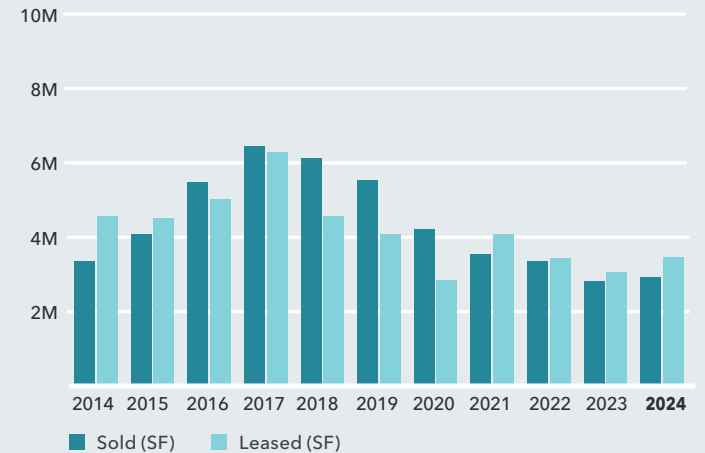
## NET ABSORPTION & NEW DELIVERIES



## AVERAGE SALES PRICE/SF & CAP RATE



## SALE VOLUME & LEASING ACTIVITY



## SUBMARKET STATISTICS

Submarket	Total Inventory	Direct Vacancy Rate	Total Vacancy Rate	Total Available Rate	4Q24 Direct Net Absorption	2024 Direct Net Absorption	4Q24 Total Leasing Activity	2024 Leasing Activity	Average Rental Rate (FS)
Downtown	23,807,173	9.2%	9.4%	11.8%	(148,004)	1,062,836	43,178	345,750	\$2.97
Auburn/Lincoln	1,701,919	6.3%	6.3%	5.1%	(1,045)	(14,281)	4,595	22,187	\$2.01
Campus Commons	1,730,554	8.8%	9.8%	14.9%	58,958	18,249	10,426	94,499	\$2.26
Carmichael/Fair Oaks	1,585,869	11.1%	11.3%	14.7%	11,266	44,706	2,178	23,814	\$1.75
Citrus Heights/Orangevale	1,819,996	6.9%	6.9%	10.2%	14,694	33,672	6,423	51,034	\$1.76
Davis/Woodland	2,738,578	7.5%	7.5%	8.0%	1,258	(12,189)	2,357	73,959	\$2.81
East Sacramento	2,580,466	2.7%	2.7%	18.6%	(2,074)	(16,109)	144,457	173,977	\$2.69
El Dorado	2,244,709	12.6%	12.7%	15.1%	14,782	935	10,412	87,555	\$2.12
Elk Grove	2,365,539	4.0%	4.0%	4.8%	7,033	(53,689)	3,158	38,963	\$2.75
Folsom	6,097,550	6.6%	7.1%	17.9%	(11,510)	109,303	30,762	200,802	\$2.34
Highway 50 Corridor	17,920,850	17.1%	17.7%	20.6%	(128,985)	(109,041)	135,520	581,693	\$1.78
Howe Ave/Fulton Ave/Watt	5,257,275	12.9%	12.9%	12.2%	(18,447)	9,409	23,442	157,508	\$1.63
Midtown	4,807,284	8.8%	9.5%	12.3%	13,825	(63,076)	14,909	165,971	\$2.51
North Natomas	3,751,114	12.3%	12.5%	24.7%	(47,398)	1,934	8,899	204,237	\$1.81
Point West	2,826,808	16.8%	16.9%	20.3%	22,706	(12,727)	28,125	112,243	\$1.95
Rio Linda/N Highlands	1,016,558	12.7%	12.7%	19.8%	(7,415)	(5,167)	0	9,087	\$1.20
Roseville/Rocklin	12,462,704	12.2%	13.7%	16.3%	32,599	(238,318)	109,897	664,976	\$2.19
South Natomas	3,844,541	21.4%	22.3%	33.2%	22,102	(149,180)	20,773	173,647	\$2.37
South Sacramento	3,767,746	5.7%	5.7%	7.2%	(19,538)	(30,468)	5,440	41,256	\$1.81
West Sacramento	2,507,567	10.7%	10.7%	11.9%	921	144,038	219,829	225,861	\$2.67
<b>Sacramento Total</b>	<b>104,834,800</b>	<b>11.3%</b>	<b>11.8%</b>	<b>15.6%</b>	<b>(184,272)</b>	<b>720,837</b>	<b>824,780</b>	<b>3,449,019</b>	<b>\$2.19</b>
Class A	25,835,325	15.6%	16.1%	21.6%	(84,743)	839,761	168,996	1,134,817	\$2.58
Class B	53,571,465	11.3%	11.9%	15.9%	(96,412)	(96,873)	613,830	1,930,151	\$1.99
Class C	25,428,010	7.0%	7.0%	8.7%	(3,117)	(22,051)	41,954	384,051	\$1.86

## ECONOMIC OVERVIEW

The unemployment rate in the Sacramento MSA was 4.8% in November, unchanged from the month prior, and 30 bps above the year-ago estimate of 4.5%. This compares to California's unemployment rate of 5.3% and 4.0% for the nation during the same period.

## NEAR-TERM OUTLOOK

The office market continues to face substantial challenges, driven by increased vacancies and the rising cost of debt. Many lenders are choosing to allocate more of their portfolios to more reliable sectors and steering away from this asset class. Additionally, the growing trend among tenants to embrace long-term hybrid work models has further intensified the oversupply issue within the office market.

Fortunately, large-scale office construction has been minimal in Sacramento over the past 10 years. The lack of speculative projects in the past decade has positioned the region for a quicker turnaround and minimizes any further upward pressure to vacancy and availability rates. The past three years have held steady at the record high rental rate but rent growth has slowed. It's expected that rent growth in real dollars will fall and continue through the end of 2025. As companies continue to scrutinize their space needs closely, occupancy remains below pre-pandemic levels and will likely continue to fall into the coming year.

**SIGNIFICANT SALE TRANSACTIONS 4Q 2024**

Property	Submarket	SF	Sale Price	\$/SF	Buyer	Seller
400 Capitol Mall	Downtown	501,308	\$117,000,000	\$233.39	Buzz Oates	Manulife US R.E. Inv. Trust
1625 Stockton Blvd	East Sacramento	143,210	\$52,000,000	\$363.10	Hines	Ventas, Inc.
6550-6554 Lonetree Blvd	Roseville/Rocklin	102,591	\$38,000,500	\$370.41	The Rocklin Academy	John Foggy Trust
3600-3620 American River Dr	Campus Commons	121,994	\$37,300,000	\$305.75	Teichert, I c.	Jackson Properties, Inc.
2261 Douglas Blvd	Roseville/Rocklin	25,000	\$9,205,000	\$368.20	Montecito Medical Real Estate	Kristen Pigman

**SIGNIFICANT LEASE TRANSACTIONS 4Q 2024**

Property	Submarket	SF	Transaction Date	Landlord	Tenant
1625 Stockton Blvd	East Sacramento	141,210	October 2024	Ventas	Sutter Health (Renewal)
840 Stillwater Rd	West Sacramento	71,982	October 2024	Schnitzer Properties	Clear Blue Commercial (Renewal)
830 Stillwater Rd	West Sacramento	71,892	December 2024	Schnitzer Properties	Clear Blue Commercial (Renewal)
11971 Foundation Pl	Highway 50 Corridor	54,517	October 2024	Ethan Conrad Properties	Gainwell Technologies
630 K St	Downtown	15,622	November 2024	Ethan Conrad Properties	S+B James Construction

**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
Aggie Square	300 Aggie Square Way	East Sacramento	255,000	The Regents of the University of California	March 2025
Aggie Square	100 Aggie Square Way	East Sacramento	228,141	The Regents of the University of California	June 2025
E Bidwell St	E Bidwell St	Folsom	123,000	The Regents of the University of California	June 2025
Sutter Roseville Medical Center	7 Medical Plaza Dr	Roseville/Rocklin	100,000	Sutter Health	January 2025

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>\$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>57M SF</i> MANAGEMENT PORTFOLIO SIZE	<i>850+</i> ASSETS UNDER MANAGEMENT	<i>260+</i> CLIENTS SERVED
<b>VALUATION ADVISORY</b>	<i>2,600+</i> 3-YEAR AVERAGE ASSIGNMENTS	<i>43</i> TOTAL APPRAISERS	<i>27</i> WITH MAI DESIGNATIONS

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