

Sacramento Office Market Overview

Market Observations

Economy

- While Sacramento’s job losses have leveled off, so has employment growth. The current unemployment rate of 4.7% fits solidly within the 4.5%-4.9% range where it has hovered for the past 18 months. Year-over-year job growth tapered down to just 0.9% as of February.
- Office-using employment levels have been slowly dropping since the post-pandemic peak during the summer of 2022 and are currently close to the lows seen in the second quarter of 2020. The unemployment rate has followed a similar path, with sharp job cuts in the office sector aligning with a jump in unemployment. Government jobs, on the other hand, are not included in office-using employment, but the sector remains strong in Sacramento, growing at a faster pace year-over-year than the overall market.

Major Transactions

- Mechanics Bank signed the largest lease of the quarter in Roseville, renewing over 33,000 square feet at 915 Highland Point Drive.
- Sales volumes were muted in the first quarter with the largest sale being Kader Investments’ acquisition of 107 Woodmere in Folsom for \$13.5M, or \$235/SF. The building is 100% leased to Stellant Systems.
- There are two office buildings totaling 569,000 square feet currently under construction, the Aggie Square complex in South Sacramento. The two buildings have a completion date scheduled for 2025.

Leasing Market Fundamentals

- Sacramento’s office market continued showing signs of stabilization in the first quarter, with the total vacancy rate increasing just 10 basis points over the quarter to 16.0%, an improvement from the end of last year when vacancy was 16.5%. Availability ticked up 30 basis points to 19.9%, a drop of 10 basis points from one year ago.
- Net absorption was negative 314,624 square feet, following two consecutive quarters of positive absorption.
- Leasing activity in the first quarter slowed down to a level not seen since the fourth quarter 2023 as occupiers appear to be waiting on the sidelines as they wait out recent fluctuations in the overall market. We anticipate seeing leasing activity pick up once the markets settle down.

Outlook

- The demand and supply equation should return to a more balanced outlook over the longer term once the economy settles and companies start expanding and taking larger blocks of space again.
- We anticipate that leasing fundamentals will improve in the medium to longer term, with the vacancy rate ticking down as asking rents continue to get pushed up. Once the market starts tightening, we expect concessions should back off, putting upward pressure on effective rental rates.

1. Economy
2. Leasing Market Fundamentals
3. Appendix / Tables

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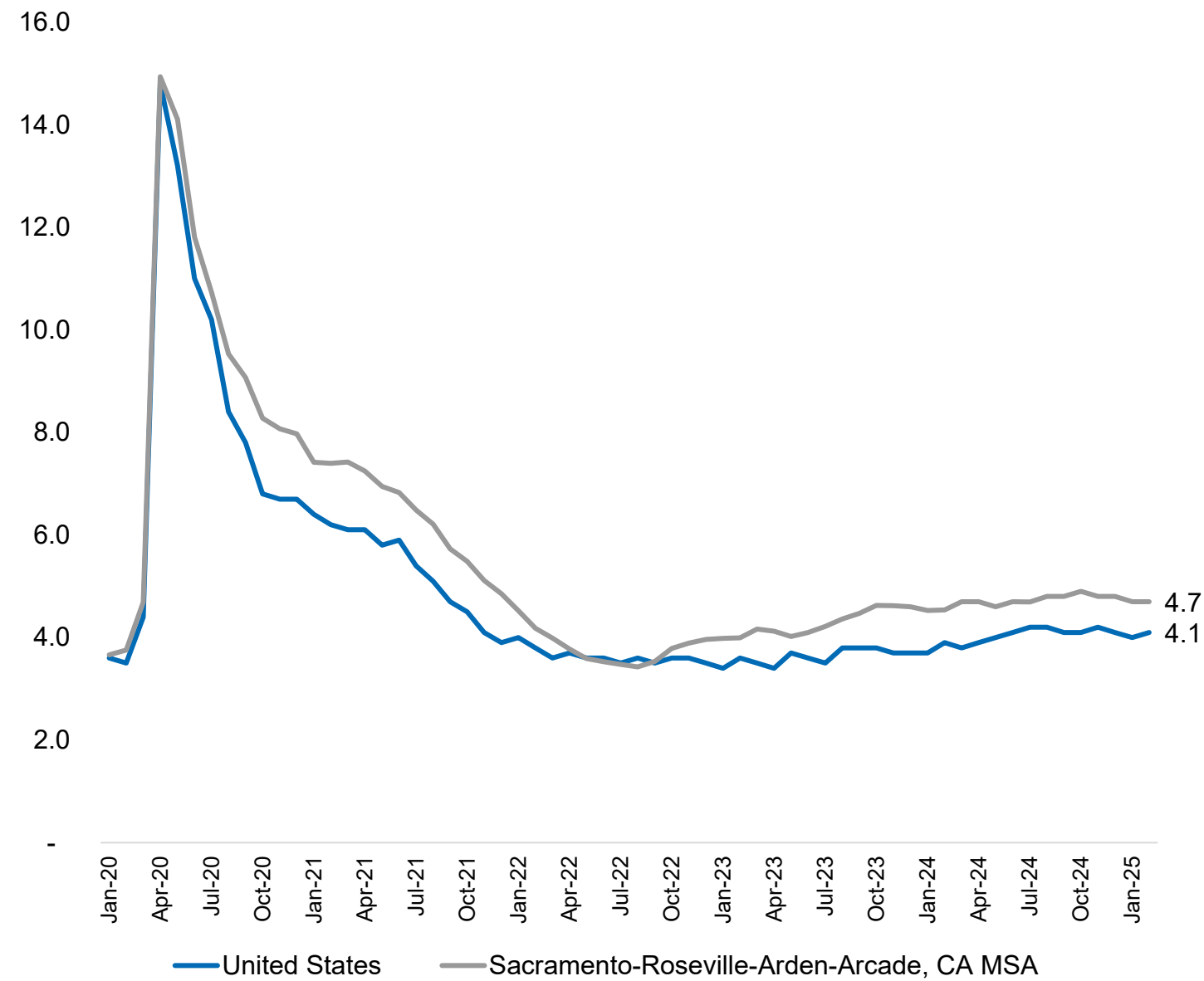
Economy



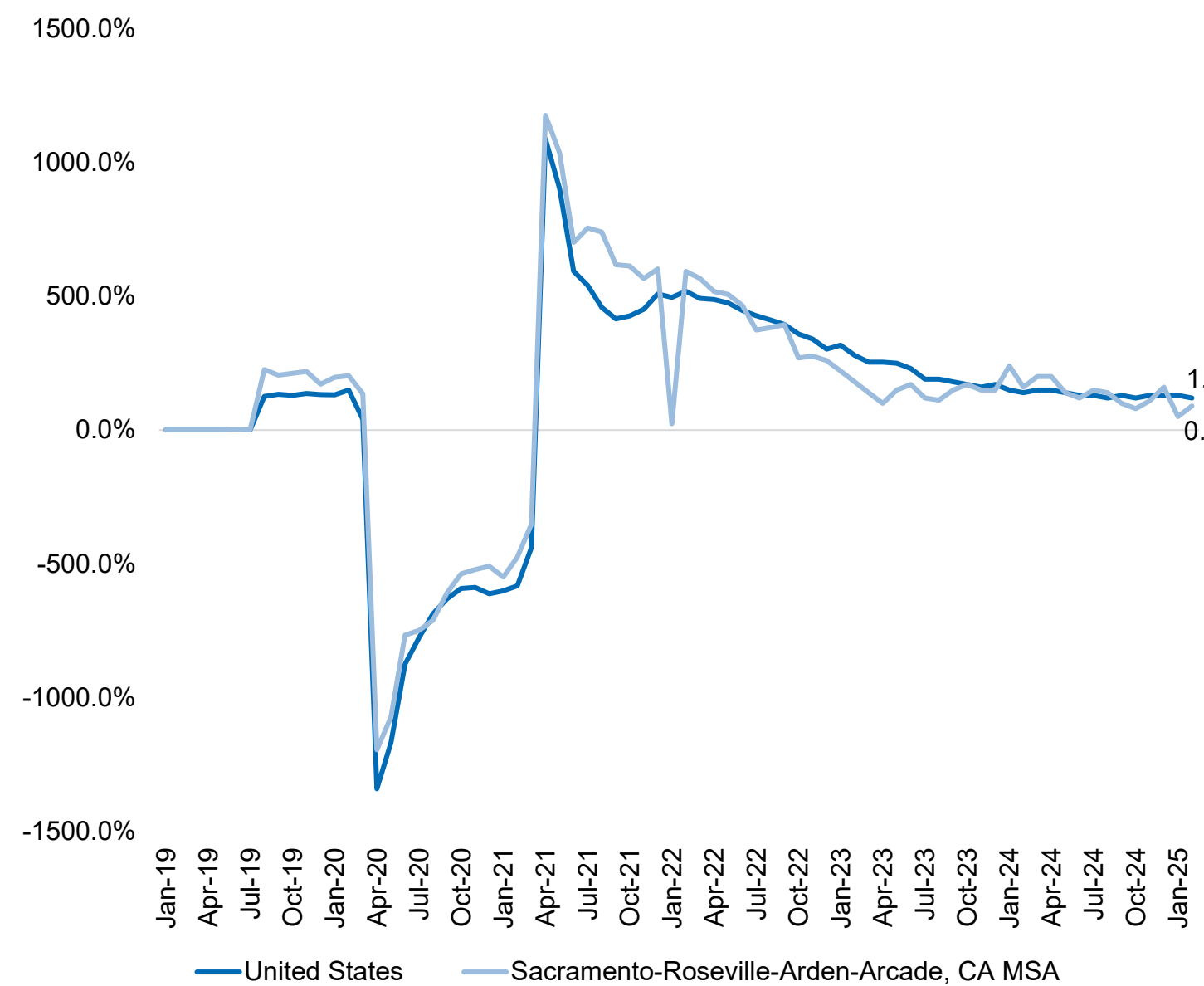
Sacramento Has Closely Tracked US Employment Trends

Sacramento’s economy appears to be stabilizing as job losses have leveled off. Sacramento’s unemployment rate has hovered in the 4.5-4.9% range for the past 18 months. Employment growth in Sacramento had been following a similar path of the U.S. with growth flattening out after a period of deceleration.

Unemployment Rate, Seasonally Adjusted



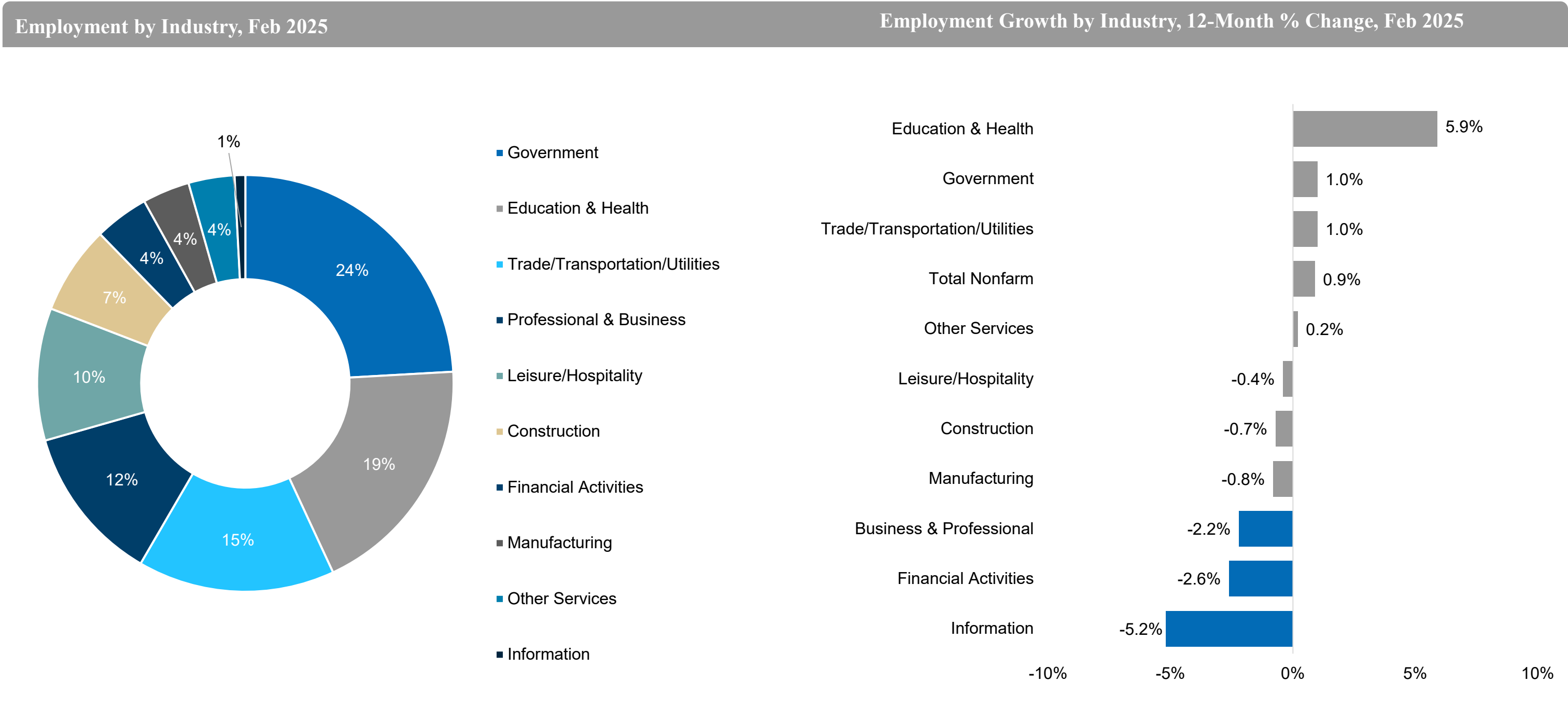
Nonfarm Payroll Employment, Seasonally Adjusted, 12-Month % Change



Source: U.S. Bureau of Labor Statistics, Sacramento-Roseville-Arden-Arcade, CA MSA

Job Gains in Larger Sectors Outpaced Losses in Smaller Sectors

The Education & Health Care Services sector recorded the largest gains year-over-year ending in February. While the traditional “office-using” job sectors of Business & Professional Services, Financial Activities and Information saw combined losses of 2.5% during the period, on a relative basis, the losses look more severe than they were given the relative size of these sectors in the Sacramento market.

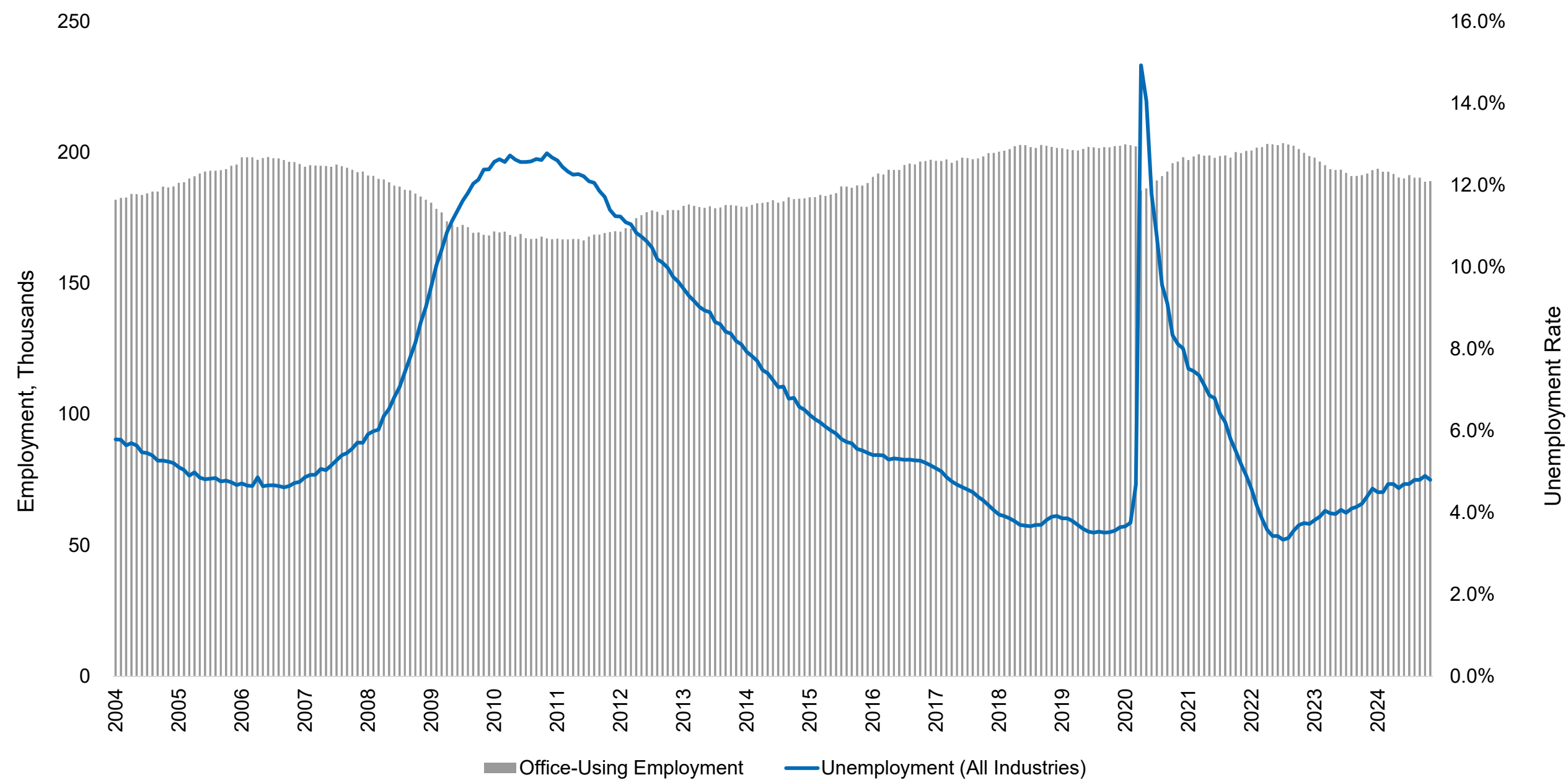


Source: U.S. Bureau of Labor Statistics, Sacramento-Roseville-Arden-Arcade, CA MSA

Office-Using Employment Has Been Slowly Dropping

Office-using employment levels have been slowly dropping since the post-pandemic peak during the summer of 2022 and are currently close to the lows seen in the second quarter of 2020. The unemployment rate has followed a similar path, with sharp job cuts in the office sector aligning with a jump in unemployment. Government jobs, on the other hand, are not included in office-using employment, but the sector remains strong in Sacramento.

Office-Using Employment* and Unemployment Across All Industries



Source: U.S. Bureau of Labor Statistics, Sacramento-Roseville-Arden-Arcade, CA MSA
*Office-using employment includes employment in the following industry sectors: Professional & Business Services, Financial Activities and Information.

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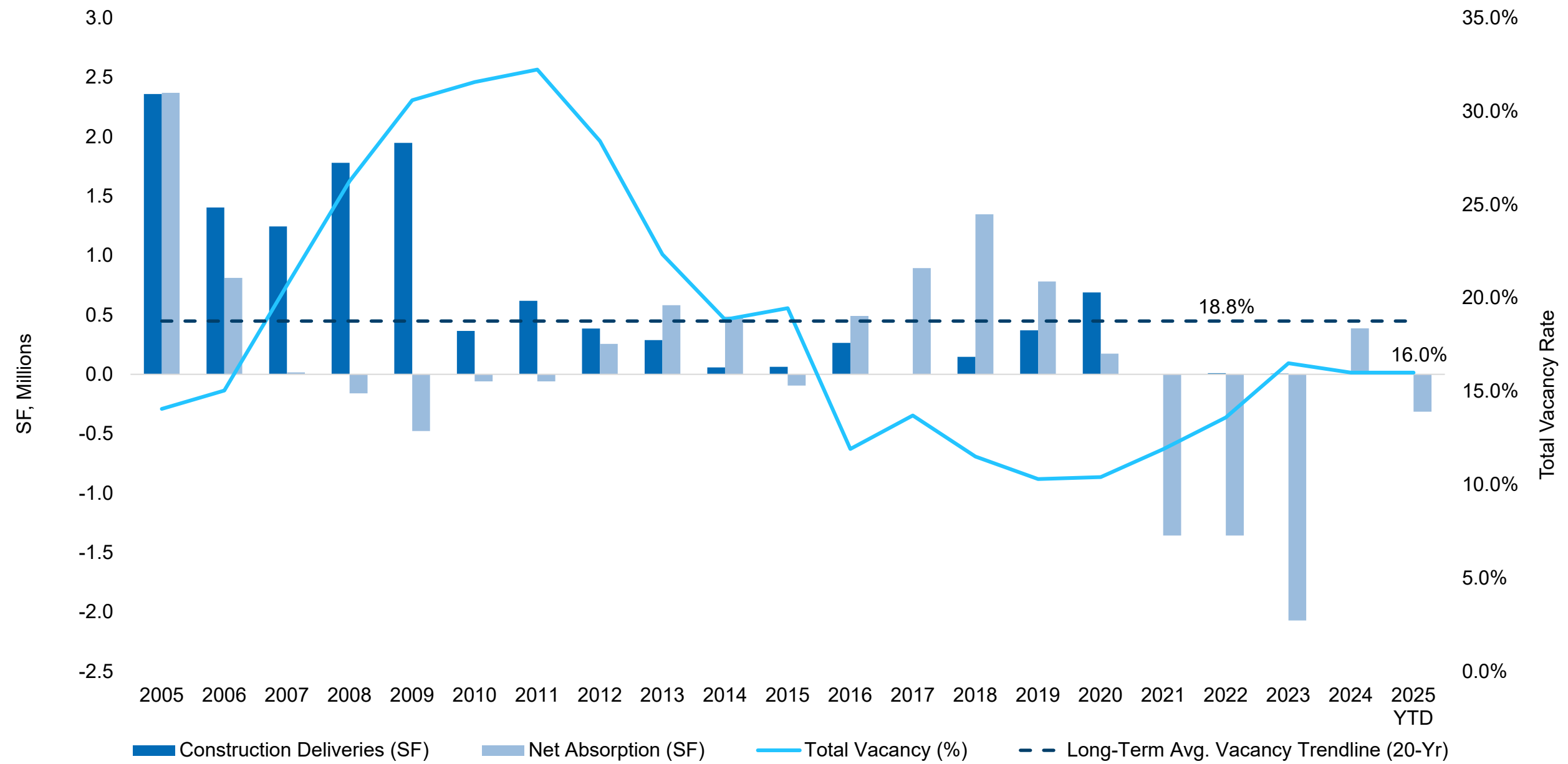
Leasing Market Fundamentals



Slow First Quarter Lead to Negative Absorption

After showing signs of stabilization in the second half of 2024, Sacramento’s office market slowed in the first quarter. The total vacancy rate stood at 16.0%, bumping up slightly from last quarter’s rate of 15.9%, but a considerable improvement from 16.9% one year ago. Construction continued on two buildings (314,000 square feet & 255,000 square feet) in the Aggie Square project in the South Sacramento submarket.

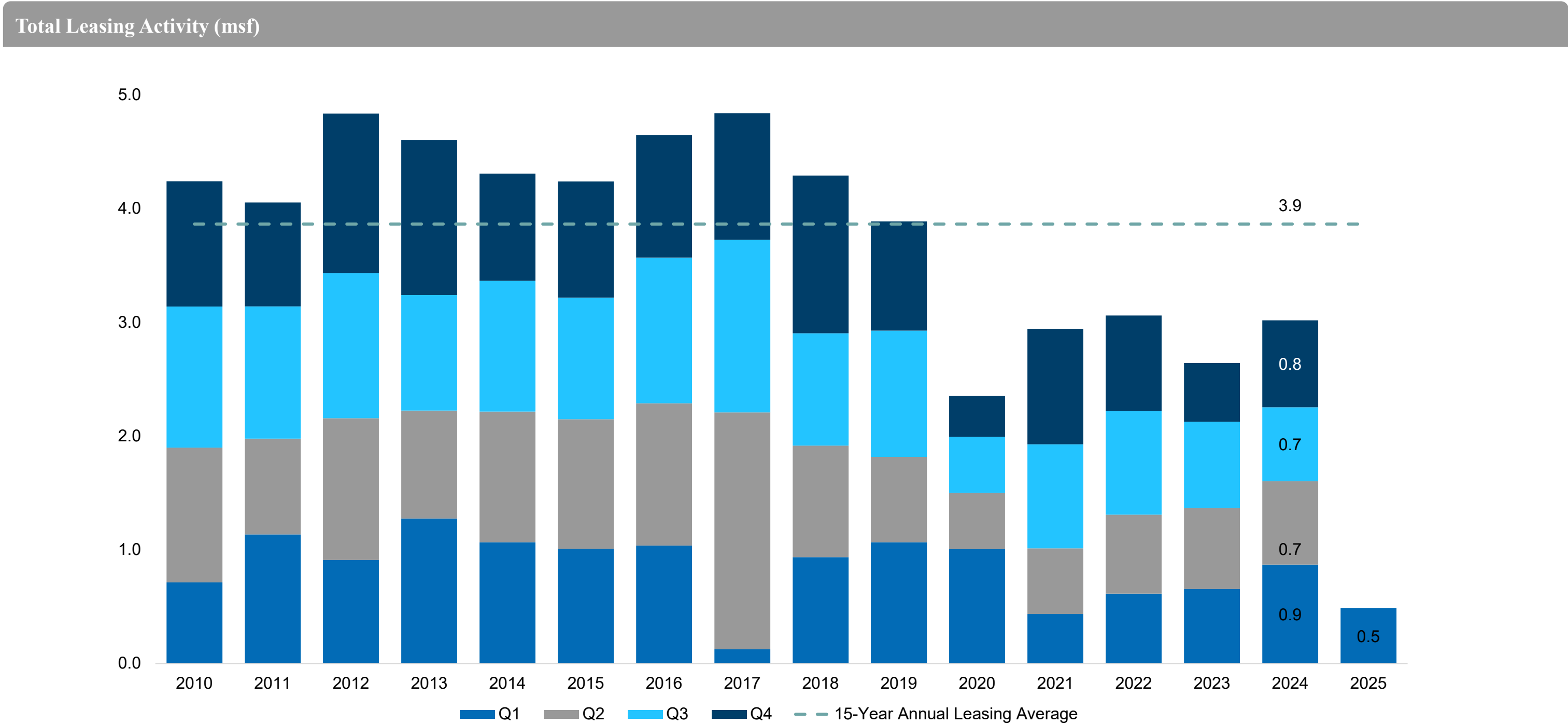
Historical Construction Deliveries, Net Absorption, and Vacancy



Source: Newmark Research, CoStar

Pace of Leasing Activity Slowed

Leasing activity in the first quarter slowed down to a level not seen since the fourth quarter 2023 as occupiers appear to be waiting on the sidelines as they wait out recent fluctuations in the overall market. We anticipate seeing leasing activity pick up once the markets settle down.



Source: Newmark Research, CoStar

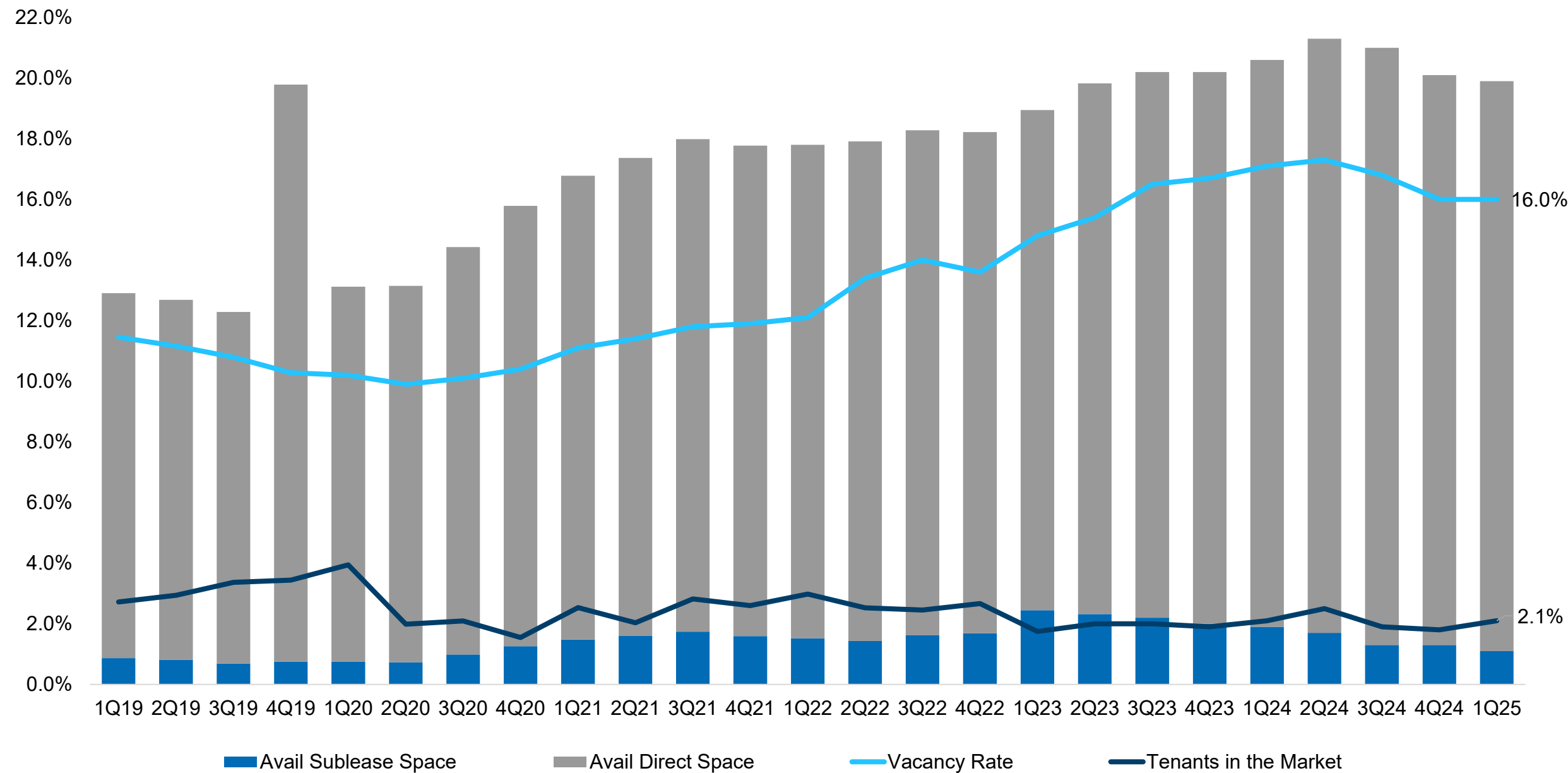


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Vacancy Rate Remained Stable

Vacancy rate remained relatively stable during the first quarter, bumping up 10 basis points to 16.0%. The amount of available sublease space has been slowly decreasing since reaching recent high in the first quarter of 2023 and has dropped to mid-year 2020 levels..

Available Space and Tenant Demand as Percent of Overall Market



Source: Newmark Research, CoStar

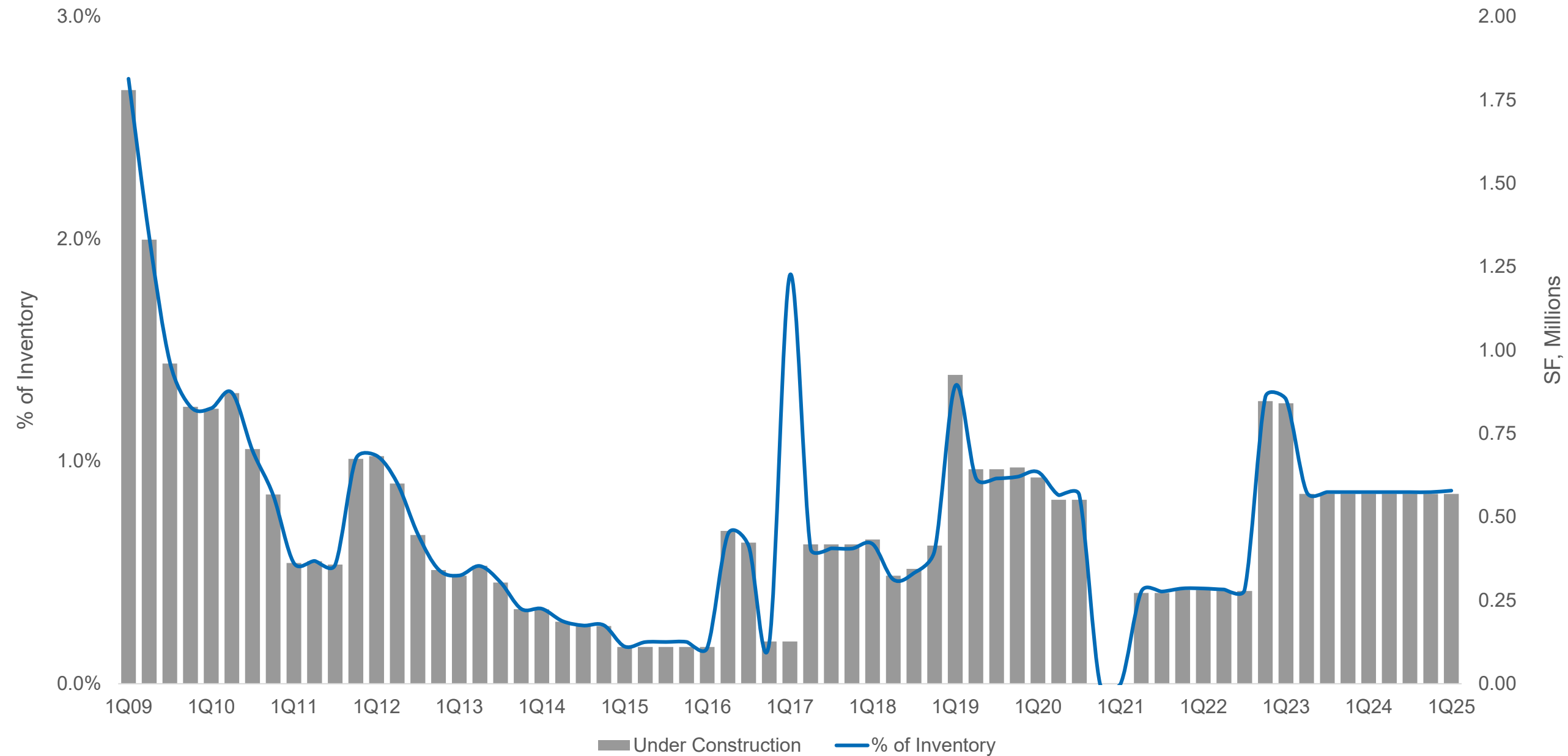


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Construction Remained Muted but Still Underway

The construction pipeline has leveled off since a recent peak in late 2022 and early 2023, but there are still two buildings currently under construction with delivery slated for 2025. There are medical and government office buildings under construction as well, but we do not currently track those subtypes. Construction levels will likely remain muted given the demand / supply imbalance as well as construction lending at low levels.

Office Under Construction and % of Inventory



Source: Newmark Research, CoStar

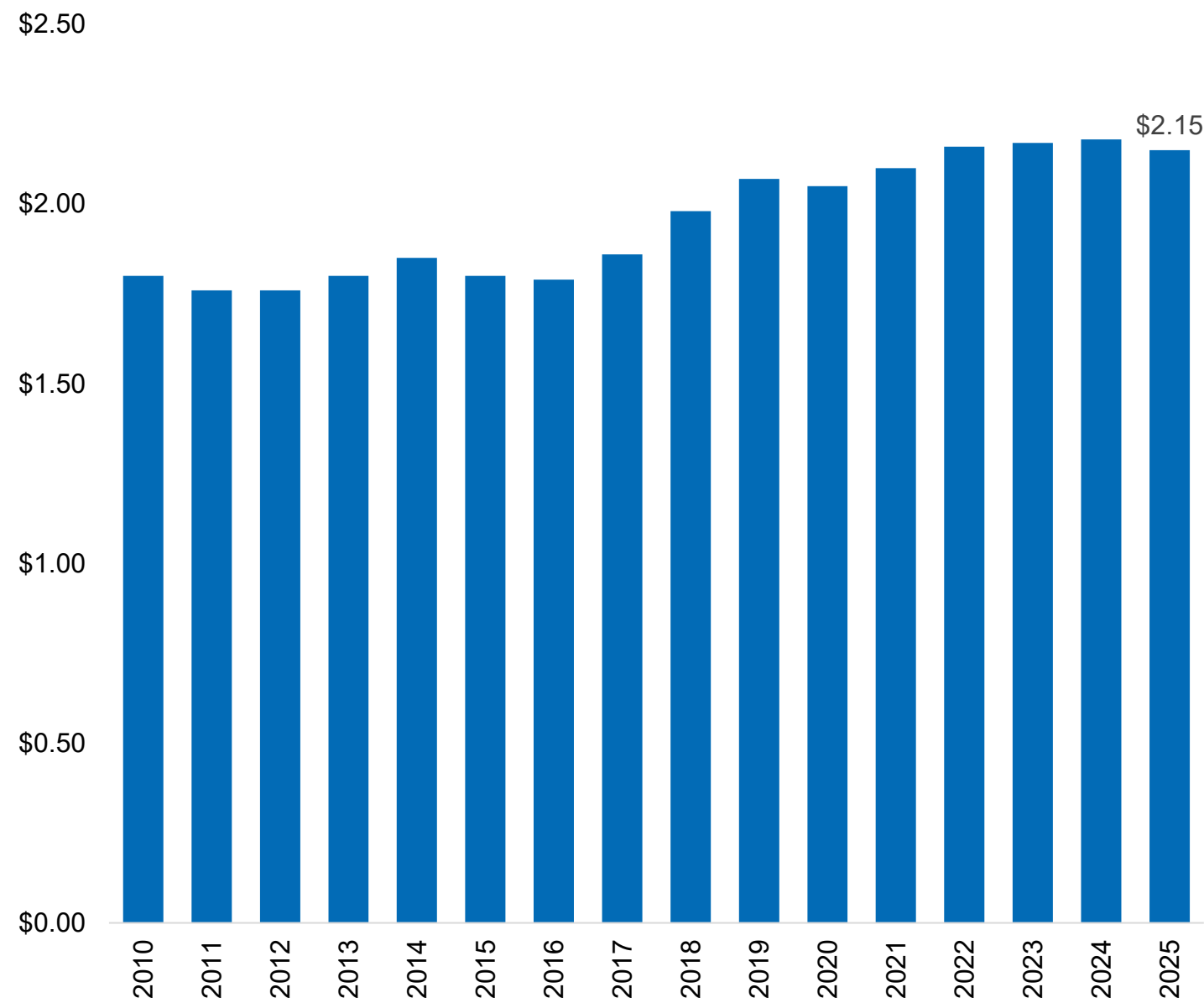


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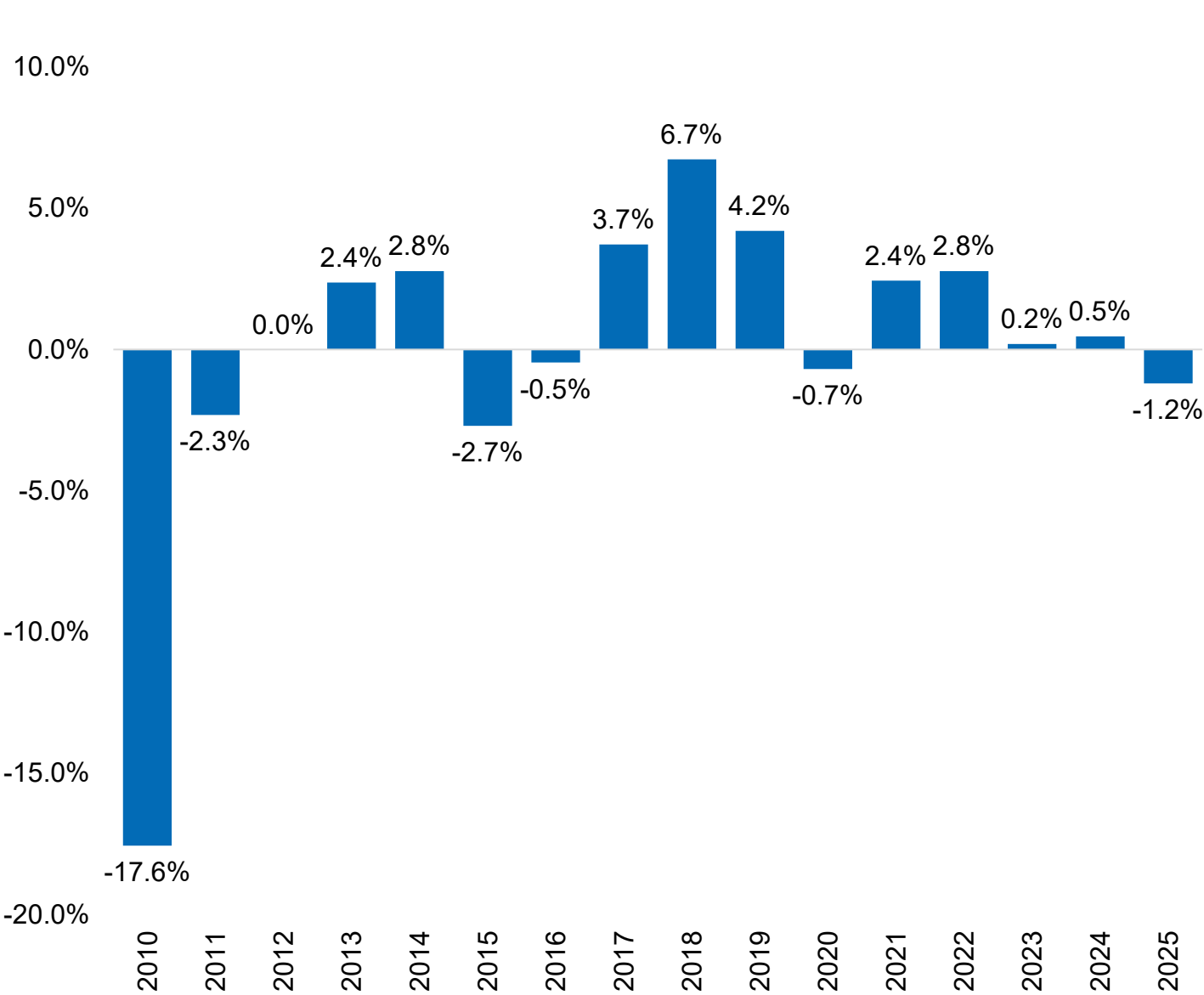
Overall Rents Dropped Slightly

Following trends in the various submarkets, the overall direct asking rent in Sacramento has held relatively steady over the past three years and stood at \$2.15/SF Full Service per month as of the end of the first quarter, matching the rate mid-year 2024.

Office Average Asking Rent, \$/SF, FS



Year-over-Year Asking Rent Growth Rate

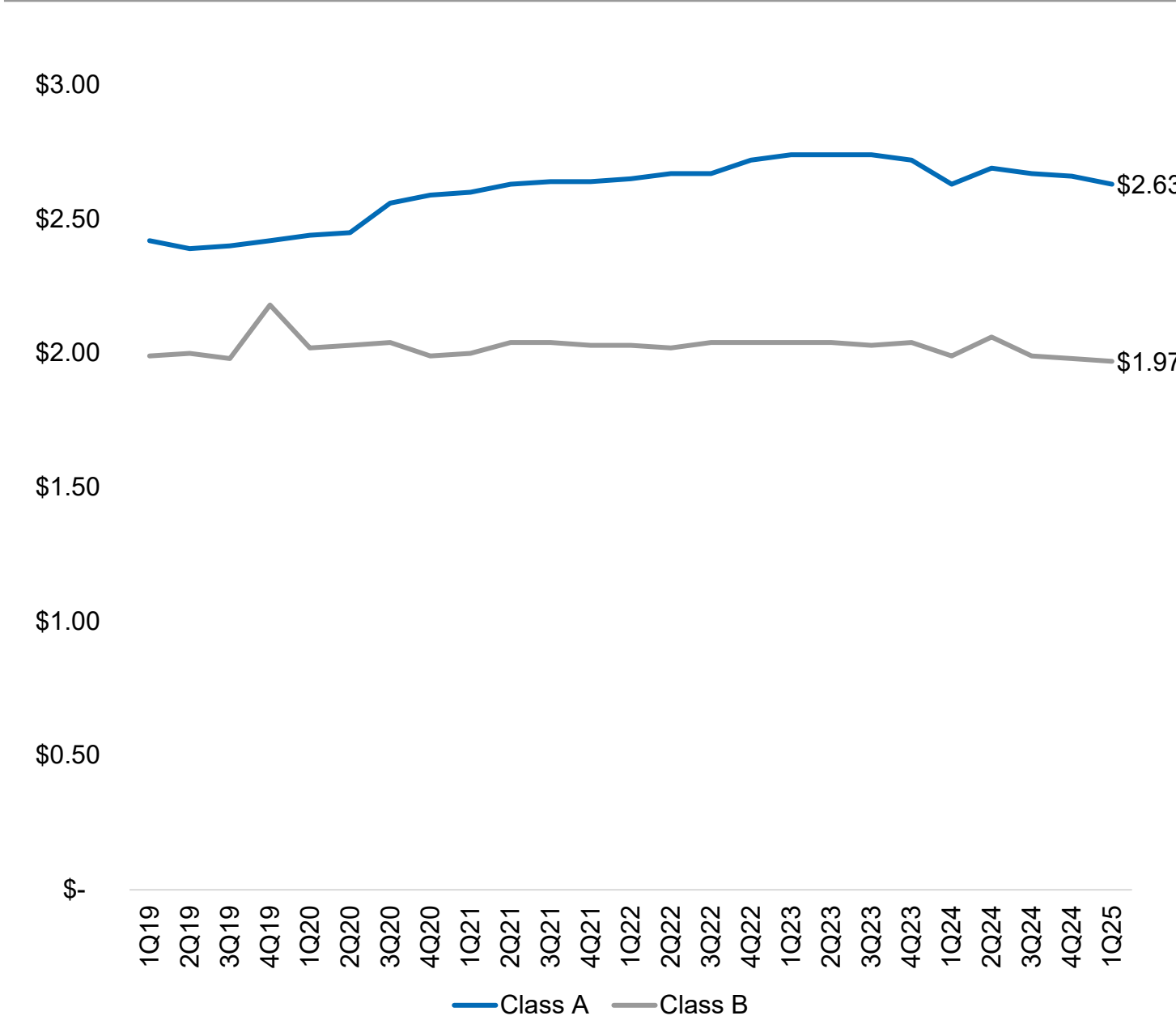


Source: Newmark Research, CoStar

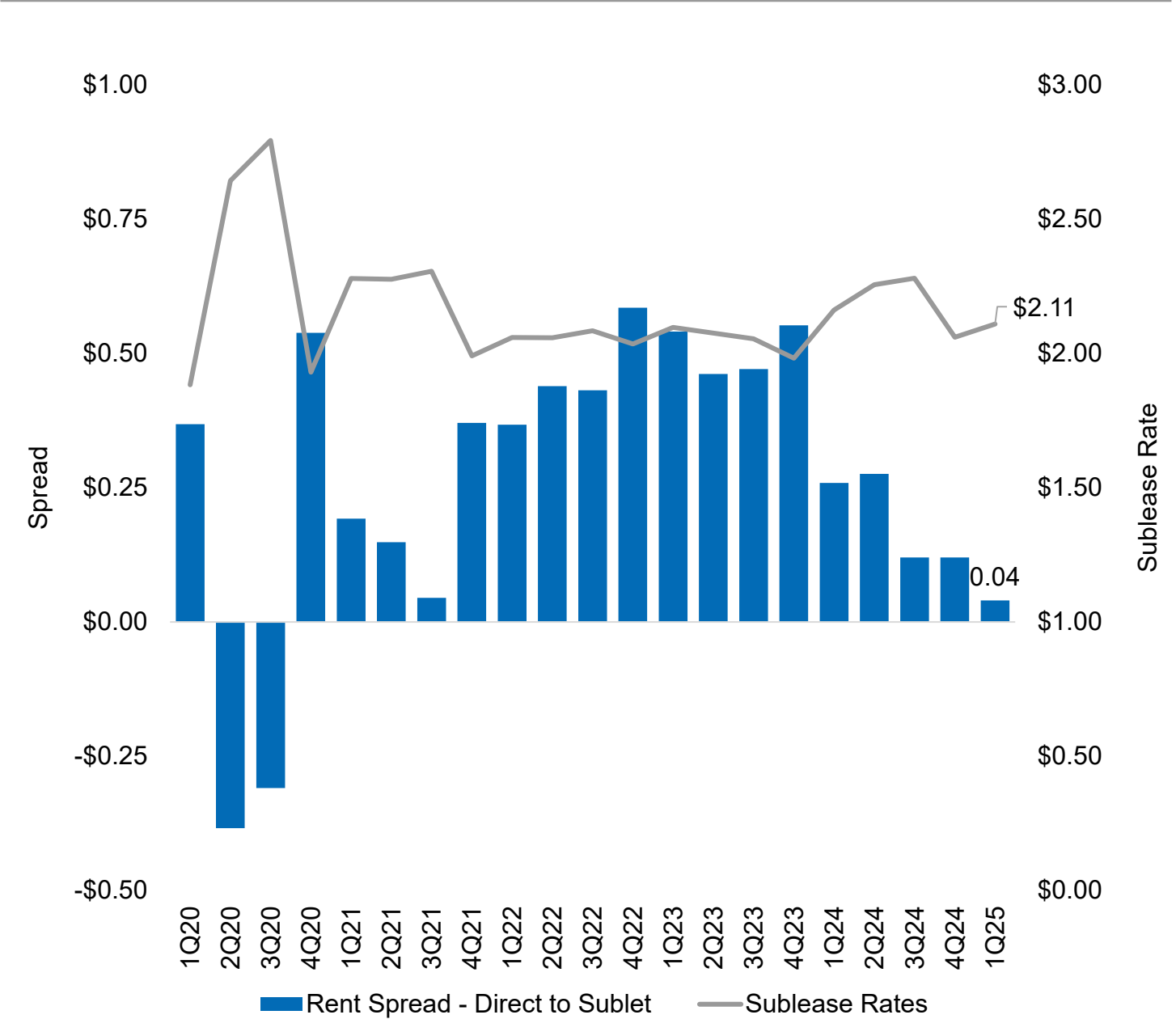
Asking Rents Stable, Effective Rents Likely Down

Class A rents have been dropping slowly since peaking midway through 2023, while Class B rents have been relatively flat since the onset of the pandemic. However, effective rents have likely declined given an increase in concessions (TIs and free rent) by landlords.

Class A and Class B Asking Rents



Sublease Rates



Source: Newmark Research, CoStar

Select 1Q25 Leases

Notable 1Q25 Lease Transactions

Tenant	Building(s)	Submarket	Type	Square Feet
Mechanics Bank	915 Highland Pointe Drive	Roseville	Renewal	33,317
Lozano Smith	400 Capitol Mall	Sacramento - Downtown	New Lease	21,026
Turning Point	3810 Rosin Court	Sacramento - North Natomas	Lease Extension	20,806
Safe Credit Union	2295 Iron Point Road	Folsom	Lease Renewal	18,713
Accenture	3343 Capital Center Drive	Sacramento - 50 Corridor East	New Lease	15,994
Hesion Technology	1788 Tribute Road	Point West	New Lease	14,286
DPR Construction	830 K Street	Sacramento – Downtown	Lease Extension	12,912
USKO	1101 Creekside Ridge Drive	Roseville	New Lease	10,532

Source: Newmark Research, CoStar

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Appendix



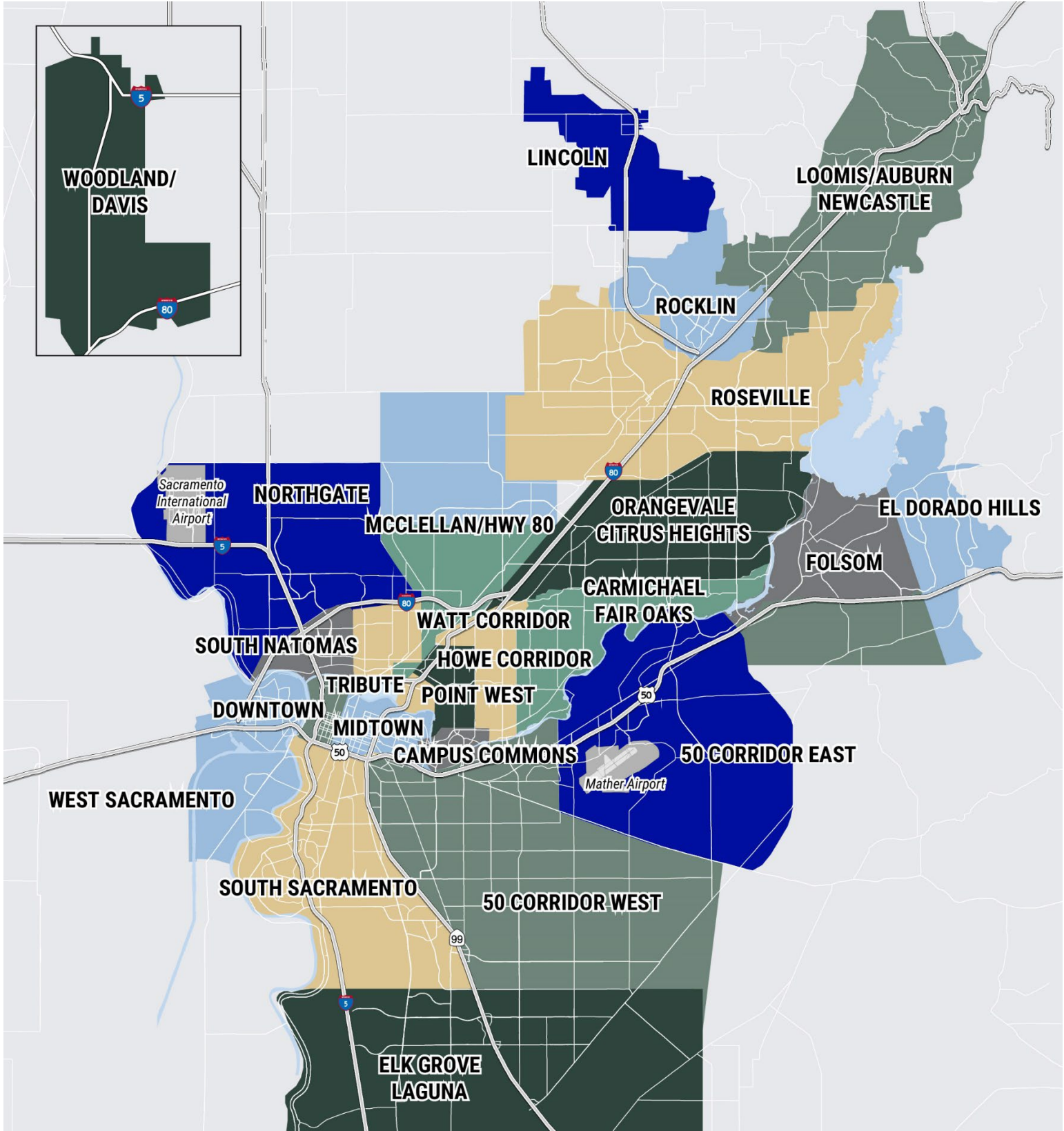


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Sacramento Submarket Map



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Newmark has implemented a proprietary database and our tracking methodology has been revised. With this expansion and refinement in our data, there may be adjustments in historical statistics including availability, asking rents, absorption and effective rents. Newmark Research Reports are available at nmrk.com/insights.

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