NEWMARK

Sacramento Office

Market Overview

1Q26

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Sacramento Market Observations

Economy

- The Sacramento unemployment rate increased slightly in the first quarter landing at 5.2%, a modest 20 basis point increase year-over-year. Job growth accelerated to a 1.0% 12-month gain, the strongest rate of expansion since mid-2025. The market's resilience is anchored by Education and Health Care Services, which has led employment gains for six consecutive quarters. These indicators paint a picture of a market that is moderating from a post-pandemic pace while retaining a fundamentally sound economic foundation.
- Office-using employment edged down 0.7% year-over-year, reflecting an ongoing, though measured, recalibration from the sector's five-year peak in the third quarter of 2022. This gradual normalization is consistent with the broader structural shift in how occupiers are right-sizing their footprints, a trend observed across most major markets nationwide.

Leasing Market Fundamentals

- The total vacancy rate held firm at 15.9% in the first quarter, unchanged from the previous quarter. Tenant demand increased 20 basis points quarter-over-quarter and 80 basis points year-over-year, signaling occupier re-engagement.
- Leasing activity in the first quarter posted a 10.9% increase over the same period in 2025, a meaningful year-over-year gain that signals occupier interest remains intact despite a broader climate of uncertainty.
- Sacramento's office market recorded a modest negative absorption of 19,157 SF in the first quarter of 2026, a figure that, while worth noting, should be viewed within the context of a broader stabilization trend.

Major Transactions

- The County of Sacramento District Attorney's Office signed the largest lease of the quarter, at 980 9th Street in the Downtown submarket for 121,074 SF.
- The California Department of Cannabis Control renewed 47,172 SF at 2920 Kilgore Road in the 50 Corridor East submarket.
- The largest sale in the first quarter was a private sale of a 83,783 SF medical office building at 2825-2829 Watt Avenue for $12.1M or $143.82/SF. An investor purchased a 12,800 SF building at 1211 H Street for $2.6M or $203.13/SF.

Outlook

- Near term, leasing activity is likely to remain renewal-heavy as occupiers continue to finalize space strategies and capital budgets in an environment where cost certainty is taking priority over expansion. This posture reflects a deliberate, wait-and-see approach rather than a lack of underlying demand, tenants are not exiting the market, they are extending in place while longer-term occupancy decisions come into clearer focus.
- In the longer run, as broader economic conditions settle and business confidence firms up, supply and demand fundamentals in the Sacramento office market are expected to gradually move back toward equilibrium. The path to rebalancing will be driven primarily by the demand side — as firms resume hiring, extend their planning horizons, and shift from preservation mode to growth mode, space requirements should expand accordingly.

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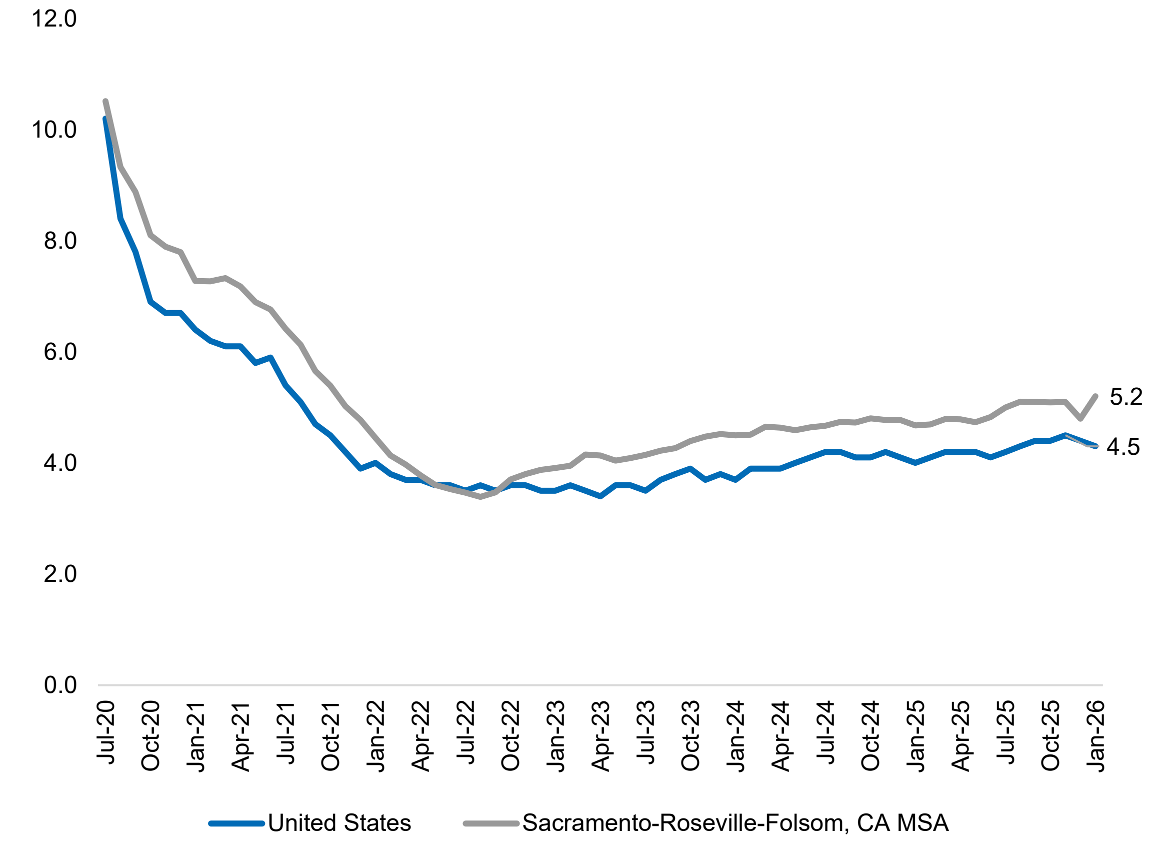
Economy

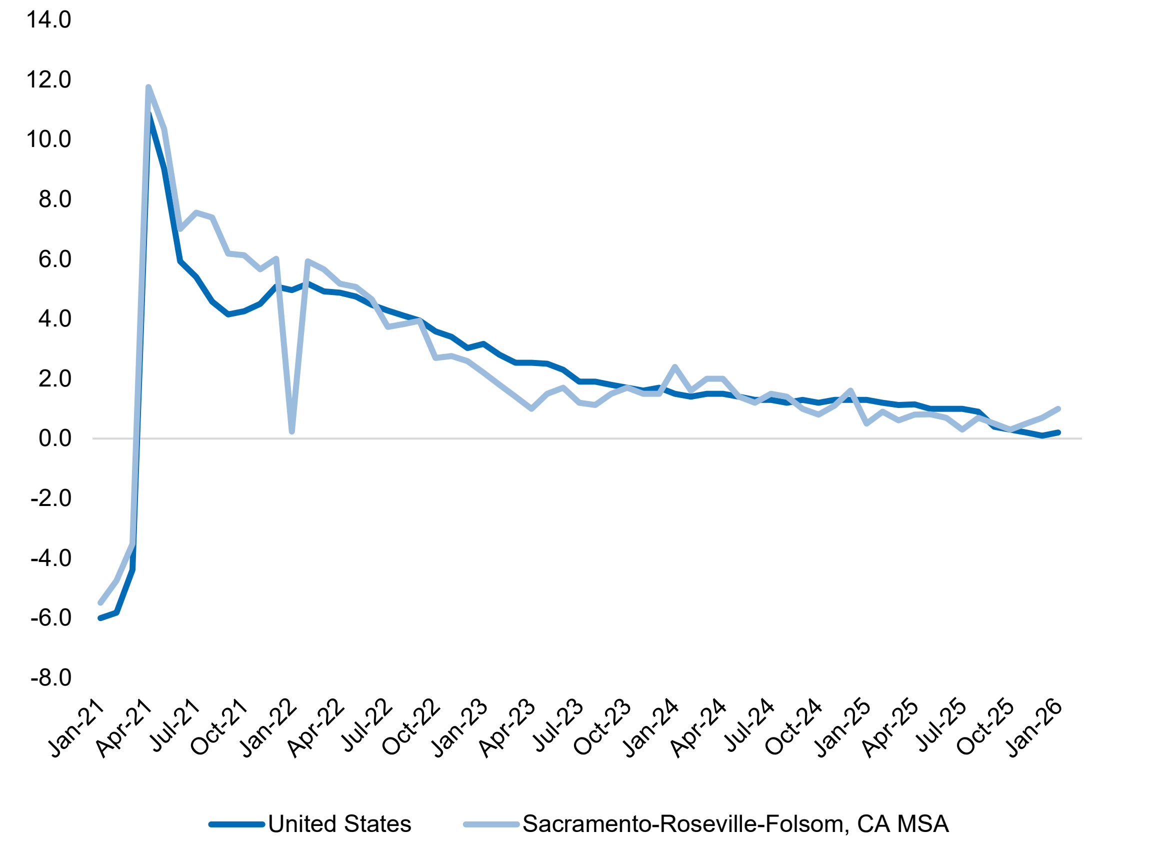
Sound Economic Outlook for Sacramento

Sacramento's labor market continued to stabilize in the first quarter of 2026, with the unemployment rate settling at 5.2%, a modest 20 basis point increase year-over-year that reflects a normalizing employment environment rather than structural weakness. Job growth in Sacramento maintained positive momentum with the 12-month change increasing 1.0%, the strongest rate of expansion since June 2025. Taken together, these indicators paint a picture of a market that is moderating from a post-pandemic pace while retaining a fundamentally sound economic foundation.

Unemployment Rate, Seasonally Adjusted



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



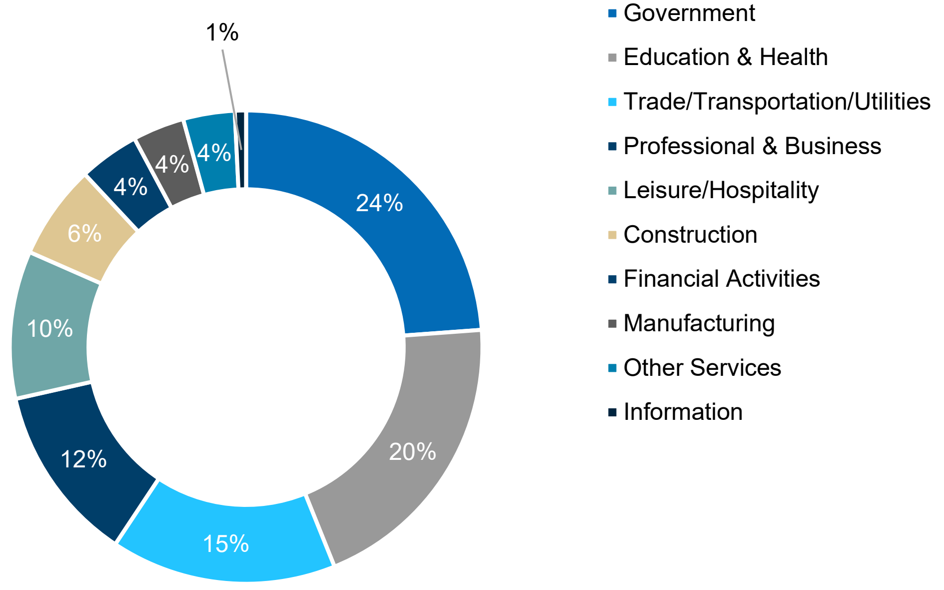
Source: U.S. Bureau of Labor Statistics, Sacramento-Roseville-Folsom, CA

*October 2025 data unavailable due to lapse in appropriations- used average between previous and subsequent month. January 2026 statistics are preliminary.

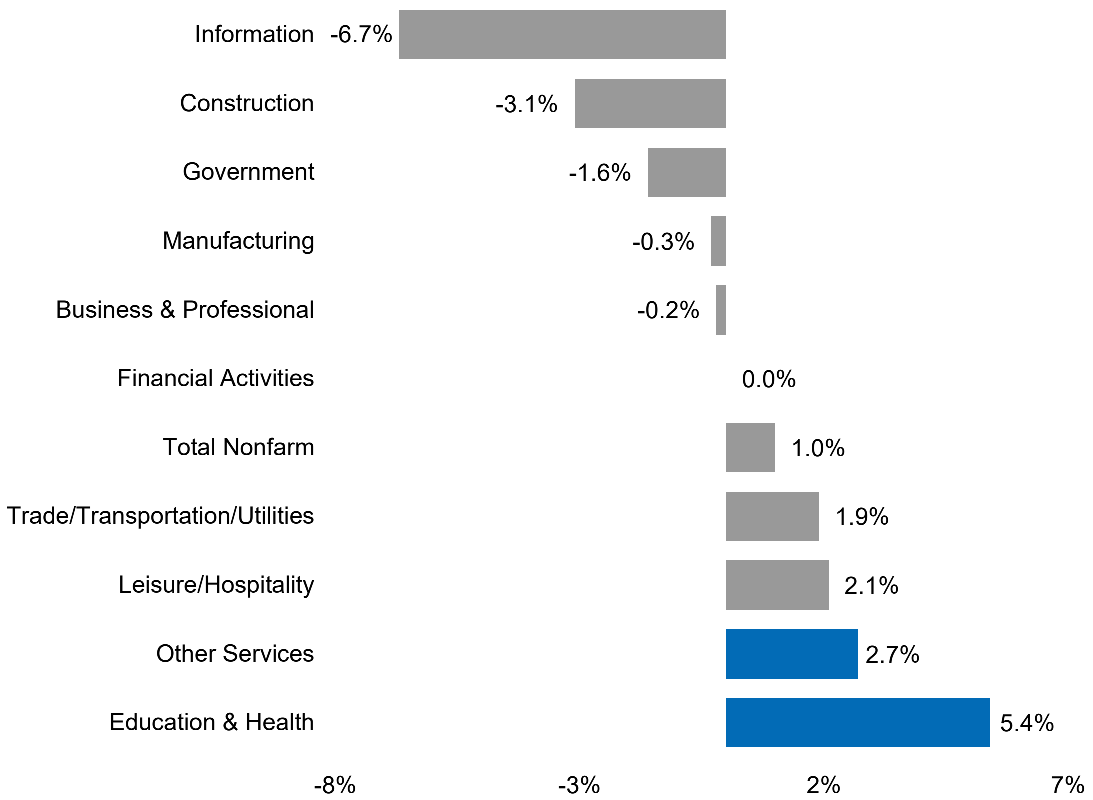
Education & Health Care Lead Sacramento Job Growth for Sixth Straight Quarter

Education & Health Care Services delivered the strongest year-over-year gains for the sixth consecutive quarter, underscoring the durability of this sector as a cornerstone of Sacramento's employment base. Traditional office-using job sectors of Business & Professional Services, Financial Activities and Information posted a combined decline of 0.2% with the Information sector seeing the largest loss at 6.7%. Sacramento's labor market continued to demonstrate sector-driven resilience, anchored by sustained growth in Education and Health Services while absorbing modest softness in traditional office-using industries.

Employment by Industry, January 2026



Employment Growth by Industry, 12-Month % Change, January 2026

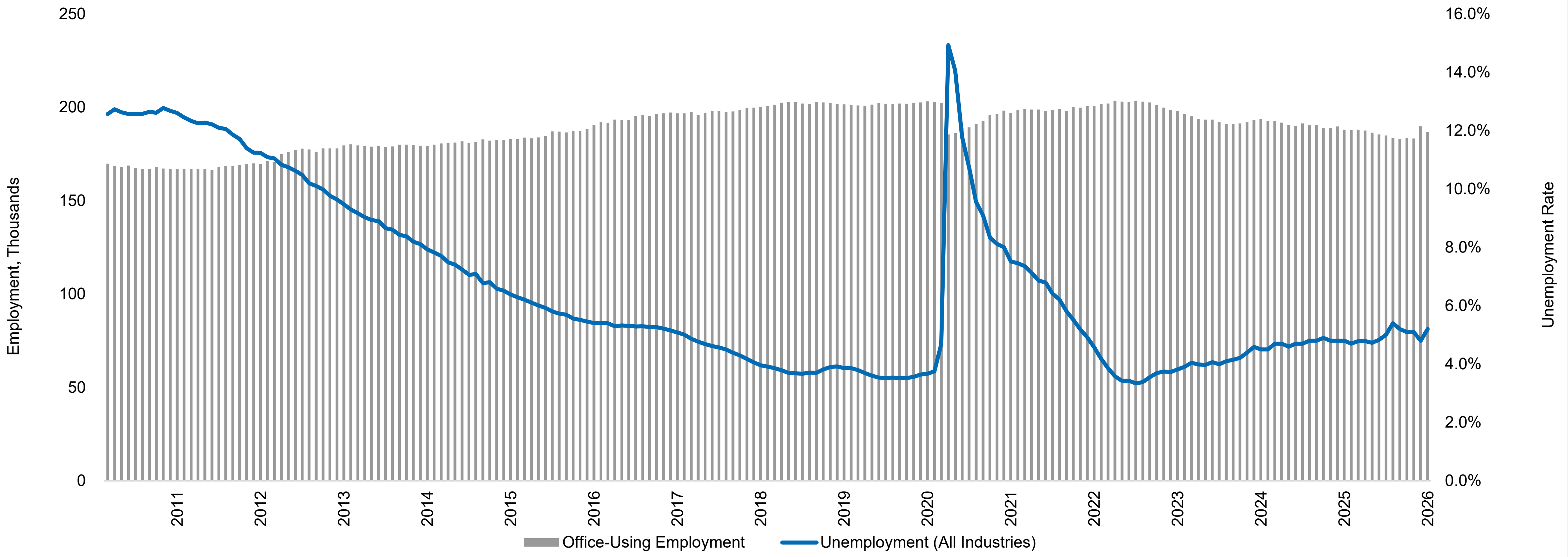


Source: U.S. Bureau of Labor Statistics, Sacramento-Roseville-Folsom, CA MSA
January 2026 data is preliminary

Office-Using Employment Softness Continued – Sacramento Market Held Its Ground

Office-using employment edged down 0.7% year-over-year, reflecting an ongoing, though measured, recalibration from the sector's five-year peak in the third quarter of 2022. This gradual normalization is consistent with the broader structural shift in how occupiers are right-sizing their footprints, a trend observed across most major markets nationwide. While office-using employment continues to navigate a gradual recovery, the broader labor market context suggests stabilization is underway and demand fundamentals remain intact.

Office-Using Employment* and Unemployment Across All Industries



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

*Office-using employment includes employment in the following industry sectors: Professional & Business Services, Financial Activities and Information. January 2026 data is preliminary.

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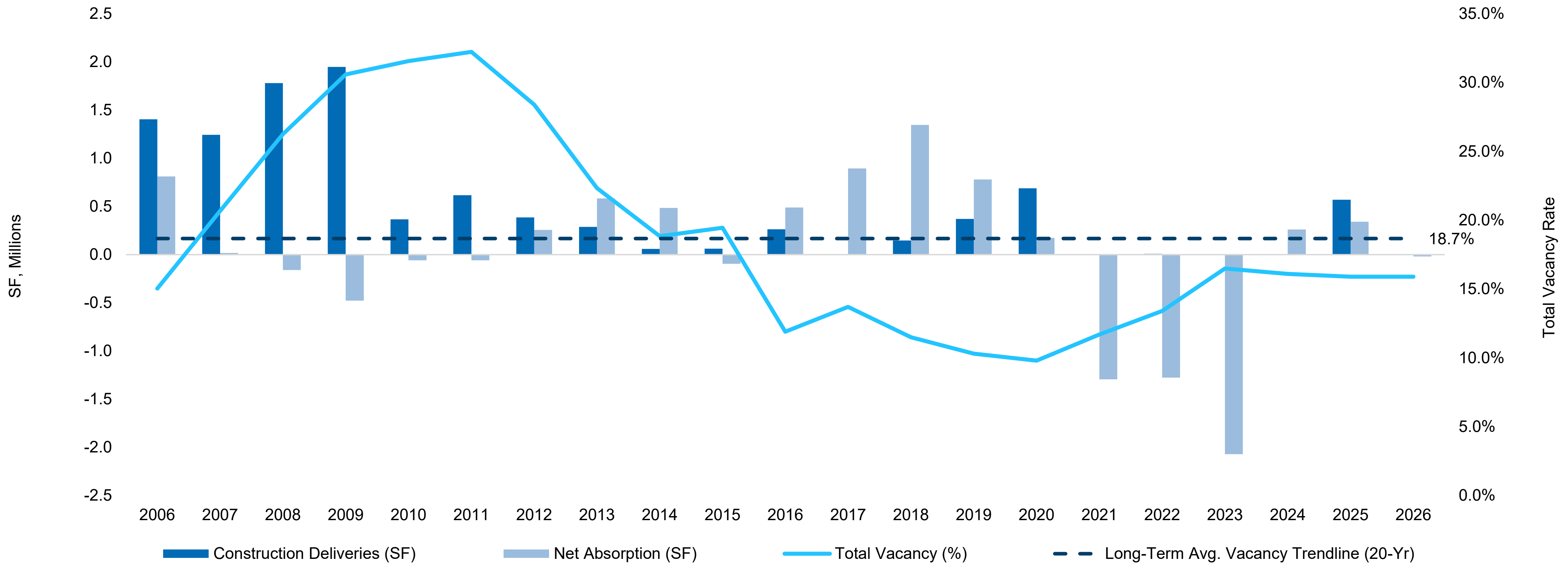
Leasing Market Fundamentals

Office Vacancy Held Below Historical Levels

Sacramento's office market recorded a modest negative absorption of 19,157 SF in the first quarter of 2026, a figure that, while worth noting, should be viewed within the context of a broader stabilization trend. The total vacancy rate held firm at 15.9%, unchanged from the previous quarter and 20 basis points lower than the same quarter in 2025. It is notable that current vacancy remains well below the 20-year average of 18.7%. Sacramento's office market is poised to continue its gradual recovery, supported by limited new construction, steady occupancy gains, and vacancy levels that remain well below long-term historical benchmarks.

Historical Construction Deliveries, Net Absorption, and Vacancy

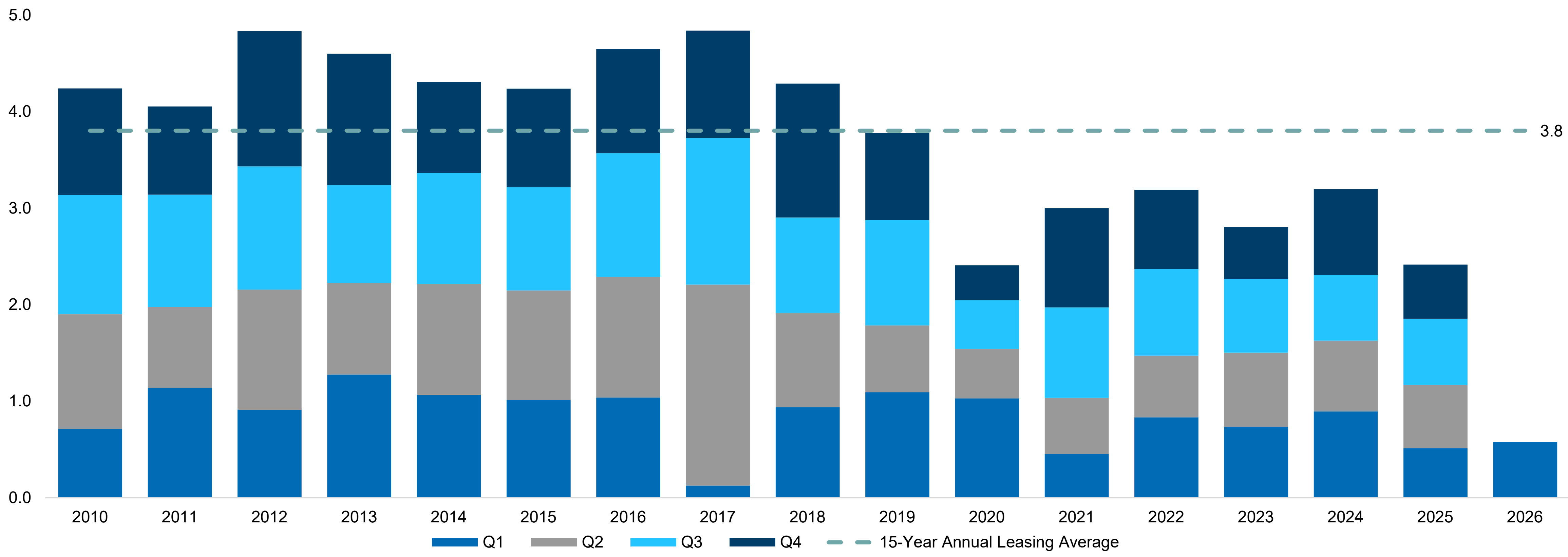


Source: Newmark Research, CoStar

Year-Over-Year Leasing Uptick Despite Cautious Sentiment

Leasing activity in Q1 2026 posted a 10.9% increase over the same period in 2025, a meaningful year-over-year gain that signals occupier interest remains intact despite a broader climate of uncertainty. Volume has not yet recovered to pre-pandemic 2019 levels, as macroeconomic headwinds, including tariff pressures, geopolitical uncertainty, inflation, and AI's evolving impact on office-using employment, continue to weigh on capital decision-making and intensify deliberation while tenants actively access options and position for next moves.

Total Leasing Activity (msf)

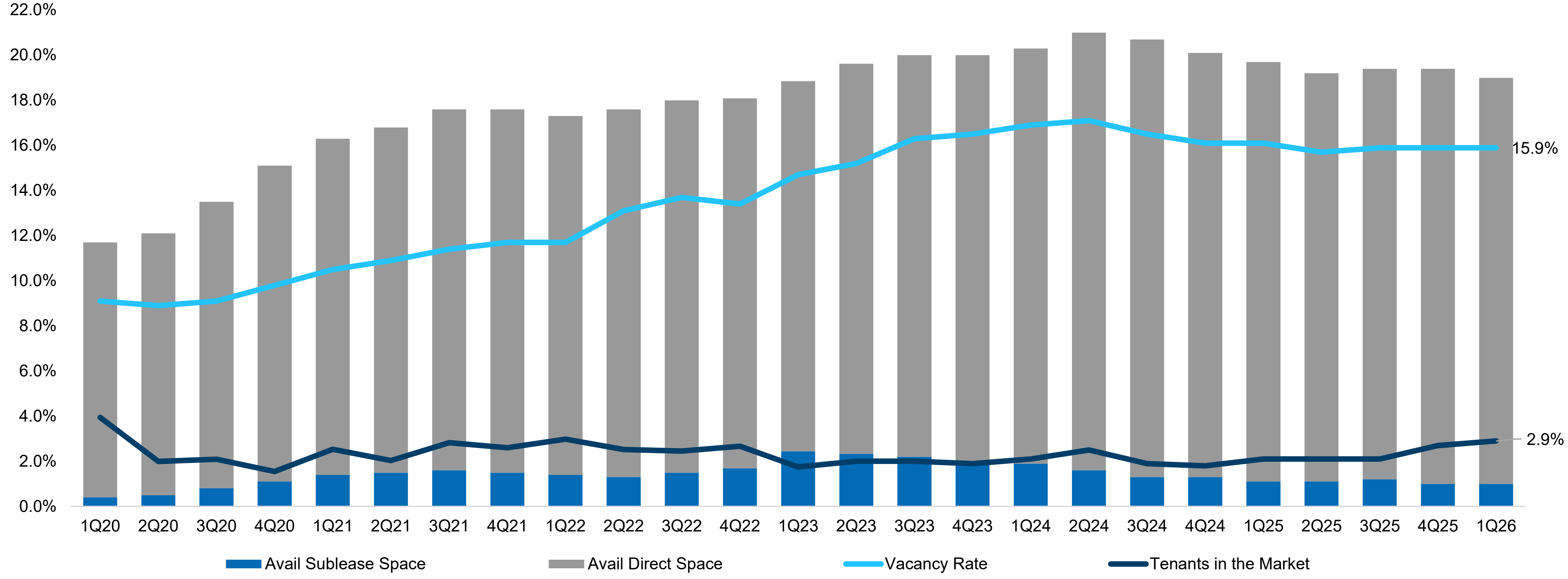


Source: Newmark Research, CoStar

Sacramento Office Market Signaled Steady Progress as Key Indicators Improved

The first quarter vacancy rate held steady at 15.9% for the third consecutive quarter. Sublease availability fell 10 basis points year-over-year, extending a steady pullback from its five-year peak in the first quarter of 2023 as excess supply continued to be absorbed. Tenant demand increased 20 basis points quarter-over-quarter and 80 basis points year-over-year, signaling occupier re-engagement. Stabilizing vacancy, declining sublease availability and improving tenant demand collectively suggest a market finding its balance.

Available Space and Tenant Demand as Percent of Overall Market

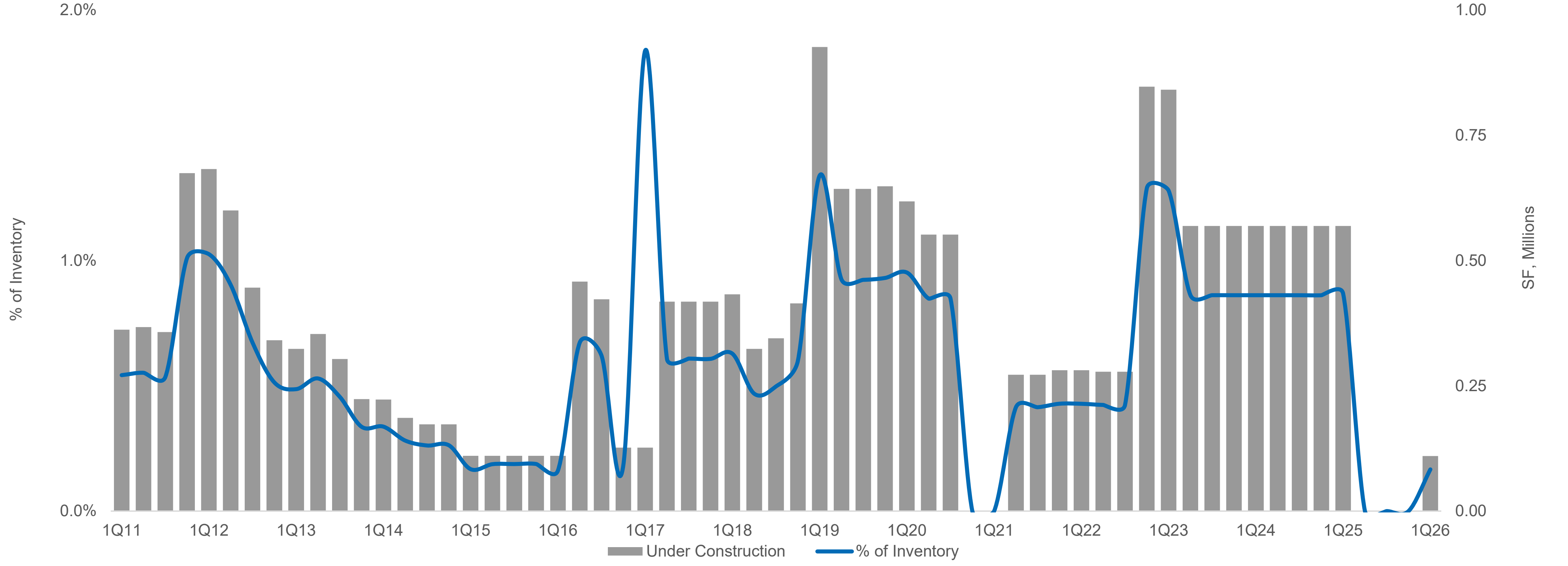


Source: Newmark Research, CoStar

Sacramento Office Pipeline Hits Pause — A Stabilizing Force for Existing Inventory

Following a post-pandemic construction peak in late 2022 and early 2023, Sacramento's office development pipeline has moderated significantly; a natural and healthy recalibration given current market conditions. The 110,000 SF that broke ground in the first quarter marks the first new construction activity since the delivery of 569,000 SF in the second quarter of 2025. With vacancy continuing to outpace demand, construction levels are expected to remain measured in the near term.

Office Under Construction and % of Inventory

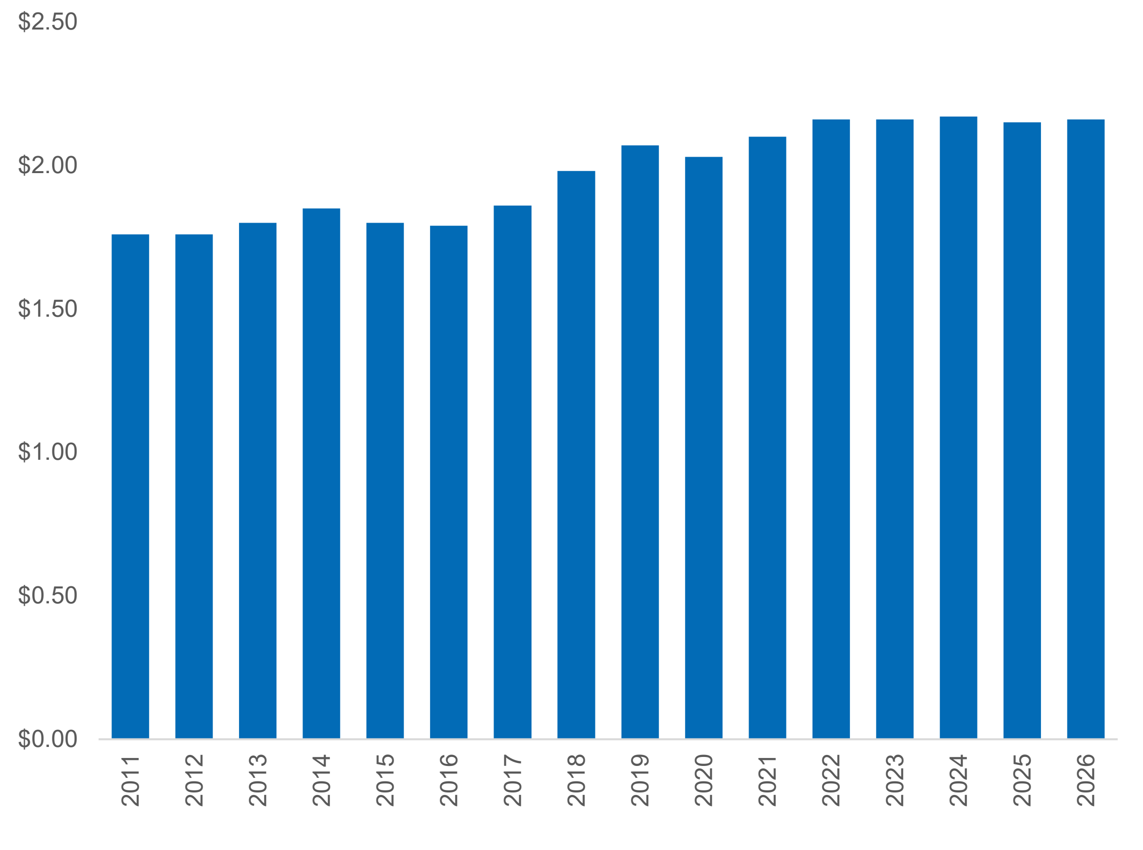


Source: Newmark Research, CoStar

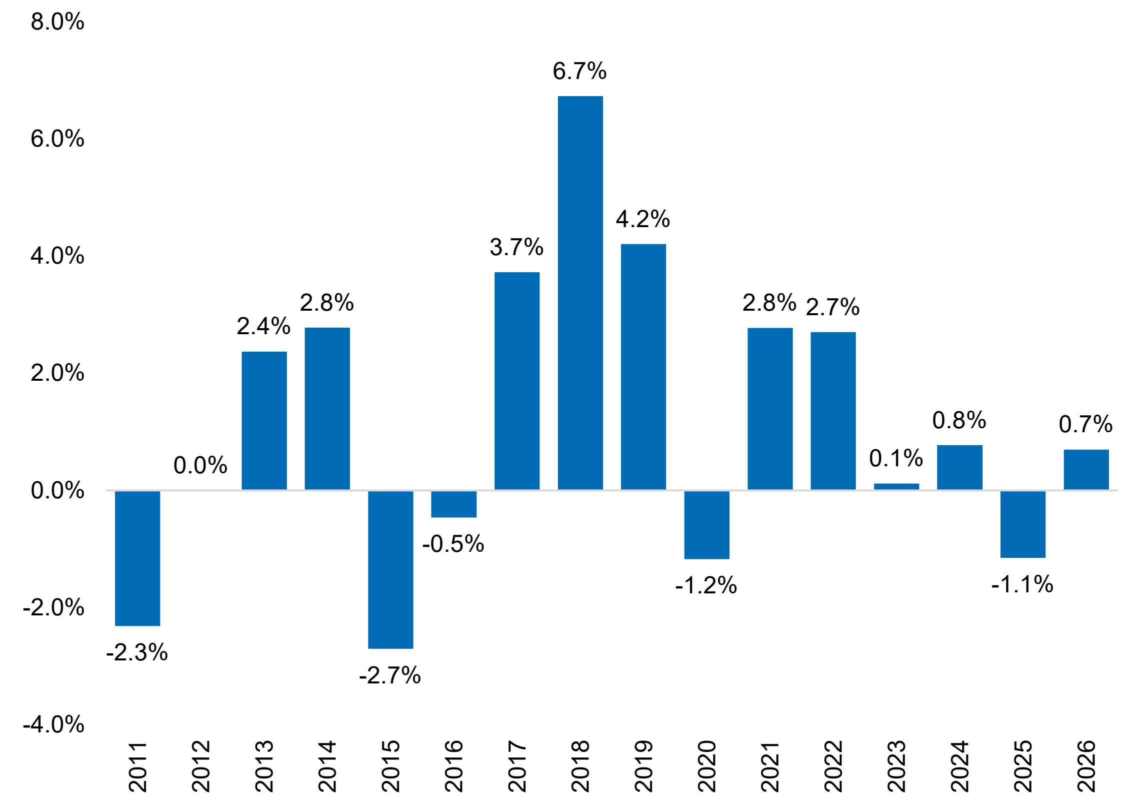
Asking Rents Remained Grounded

Sacramento's average asking rent closed the first quarter at $2.16 per square foot Full Service per month, sustaining the stability that has defined the market since 2022. The 0.7% year-over-year increase, while modest, is a constructive signal that rents are holding their ground rather than retreating amid ongoing vacancy and cautious occupier sentiment. This period of rent equilibrium reflects a market where supply and demand forces are gradually aligning.

Office Average Asking Rent, $/SF, FS



Year-over-year Asking Rent Growth Rate

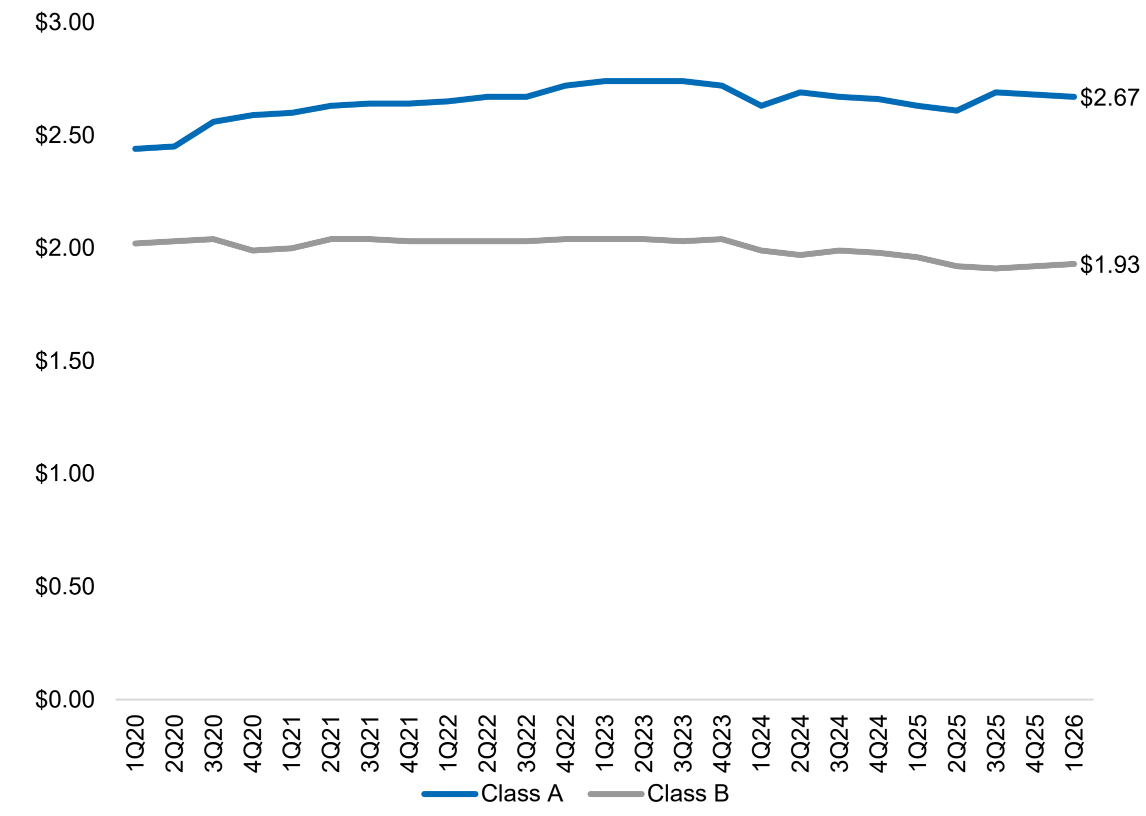


Source: Newmark Research, CoStar

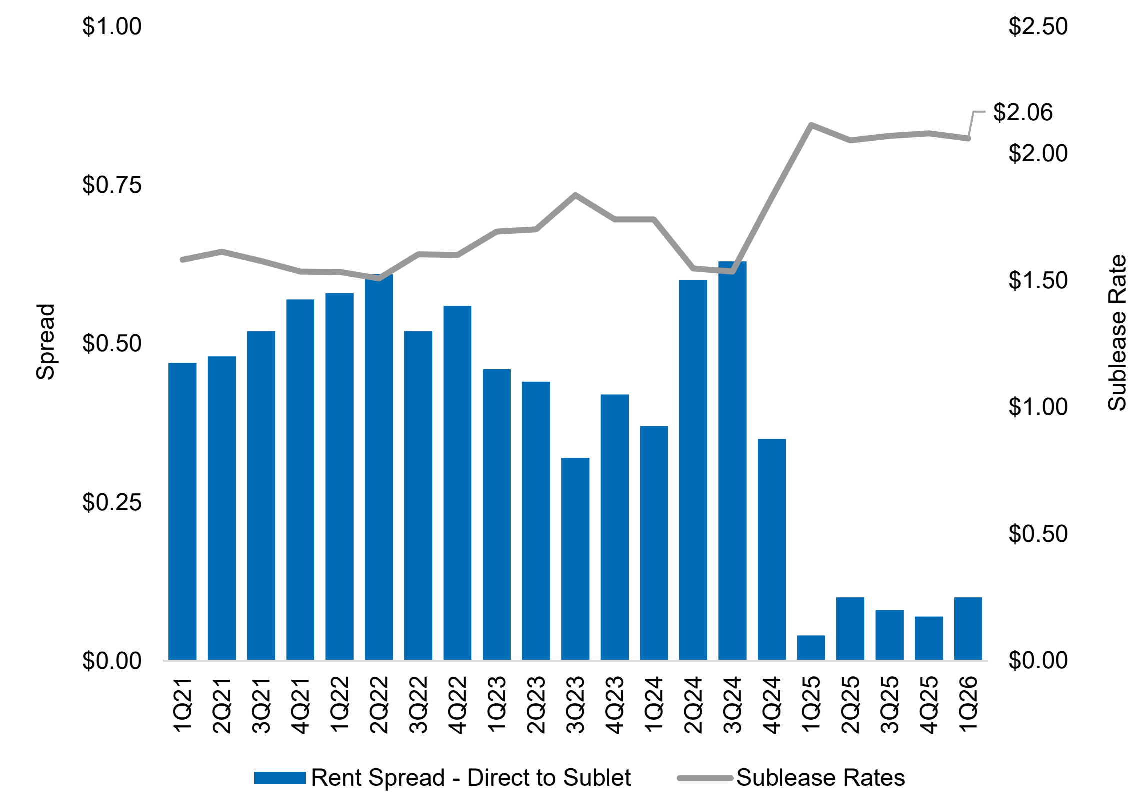
Narrow Sublease Spread and Class B Growth Signal a Competitive Rent Environment

While Class A rents have been on a slow decline since their peak in 2023, they continue to show resilience ending the first quarter at $2.67/SF Full Service and maintained a 38.3% premium over Class B rents. Landing at $1.93/SF Full Service in the first quarter, Class B rents were up 1.5% year-over-year. Competitive sublease spaces kept the spread between direct and sublease rent to a minimum with the difference of a mere $0.10/SF in the first quarter and ending at $2.06/SF Full Service. Tenant preference for quality space and active sublease competition are constraining rent growth while defining a market that rewards assets aligned with evolving occupier priorities.

Class A and Class B Asking Rents



Sublease Rates



Source: Newmark Research, CoStar

Significant Leases

Notable Leases 1Q26

Tenant	Building(s)	Submarket	Type	Square Feet
County of Sacramento District Attorney's Office	980 9th Street	Downtown	New Lease	121,074
California Department of Cannabis Control	2920 Kilgore Road	50 Corridor East	Lease Renewal	47,172
State of California Public Utilities Commission	300 Capitol Mall	Downtown	Lease Renewal	25,692
Lumens	2020 L Street	Midtown	Lease Renewal	18,557
Sedgwick Claims	1750 Creekside Oaks Drive	South Natomas	Lease Renewal	17,082

Source: Newmark Research, CoStar

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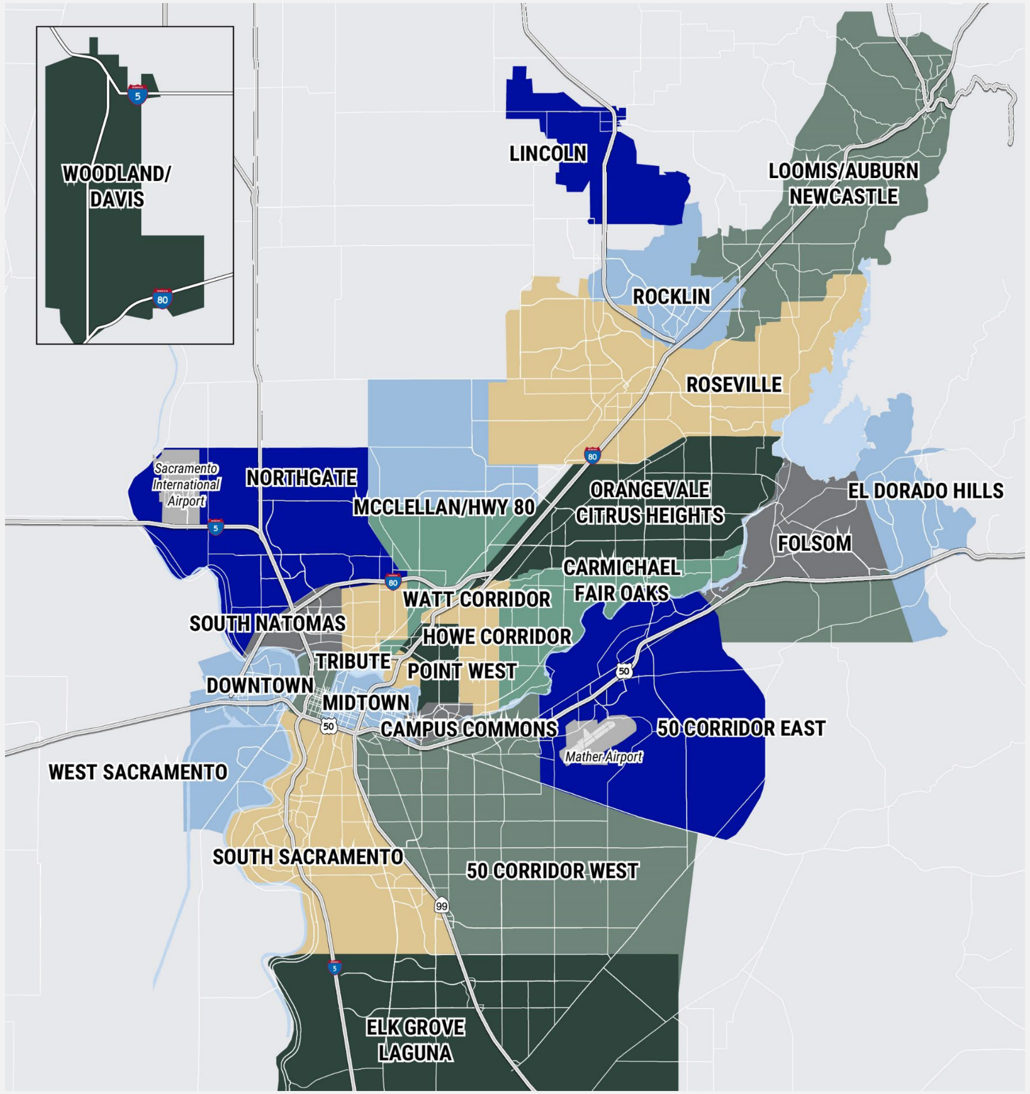
Appendix

Sacramento Submarket Map



Source: Newmark Research

Access the Extended 1Q26 Sacramento Office Report

The extended version of this report includes:

- **Leasing activity by submarket**
- **Availability by submarket**
- **Asking rents by submarket**
- **Market statistics for the overall market and each class**

To access, please reach out to your Newmark contact.

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