
4Q24

Sacramento Office Market Overview



NEWMARK

Market Observations

Economy

- While Sacramento’s job losses have leveled off, so has employment growth. Sacramento’s unemployment rate has hovered in the 4.7%-4.8% range for the past six months, while year-over-year job growth tapered down to just 1.0% as of November.
- Office-using employment levels have hovered in the same range since mid-2020 at approximately 195,000 employed. Job gains in the Professional & Business Services sector outpaced small losses in Information (technology) Services and Financial Activities.
- Overall, Government is the largest employment sector in the region, and this sector grew at a faster pace year-over-year than the overall market.

Major Transactions

- Gainwell Technologies signed the largest new lease of the quarter in 50 Corridor East, taking over 52,000 square feet at 11971 Foundation Place. Sales volumes was muted in the third quarter with only one building larger than 100,000 sf trading hands, 770 L Street was sold for \$22.5 million or \$134/psf.
- 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 the first quarter of 2025.

Leasing Market Fundamentals

- Sacramento’s office market continued showing signs of stabilization in the fourth quarter, with the total vacancy rate dropping 50 basis points over the quarter to 16.0%, an improvement from the end of last year when vacancy was 16.4%.
- Net absorption was positive 292,596 square feet, marking the first time since the first half of 2020 in which absorption was net positive for two consecutive quarters. Net absorption for the year was positive for the first time since 2020, totaling 387,813 square feet.
- Leasing activity in 2024 surpassed 2023 leasing levels, and it was nearly on par with 2021 and 2022 leasing. However leasing levels remain nearly 25% lower than the 15-year annual leasing average and nearly 34% lower than the 10-year pre-pandemic leasing average. While there is still quite a gap to full recovery, the market trended in a better direction in 2024.

Outlook

- The demand and supply equation should return to a more balanced outlook over the longer term once 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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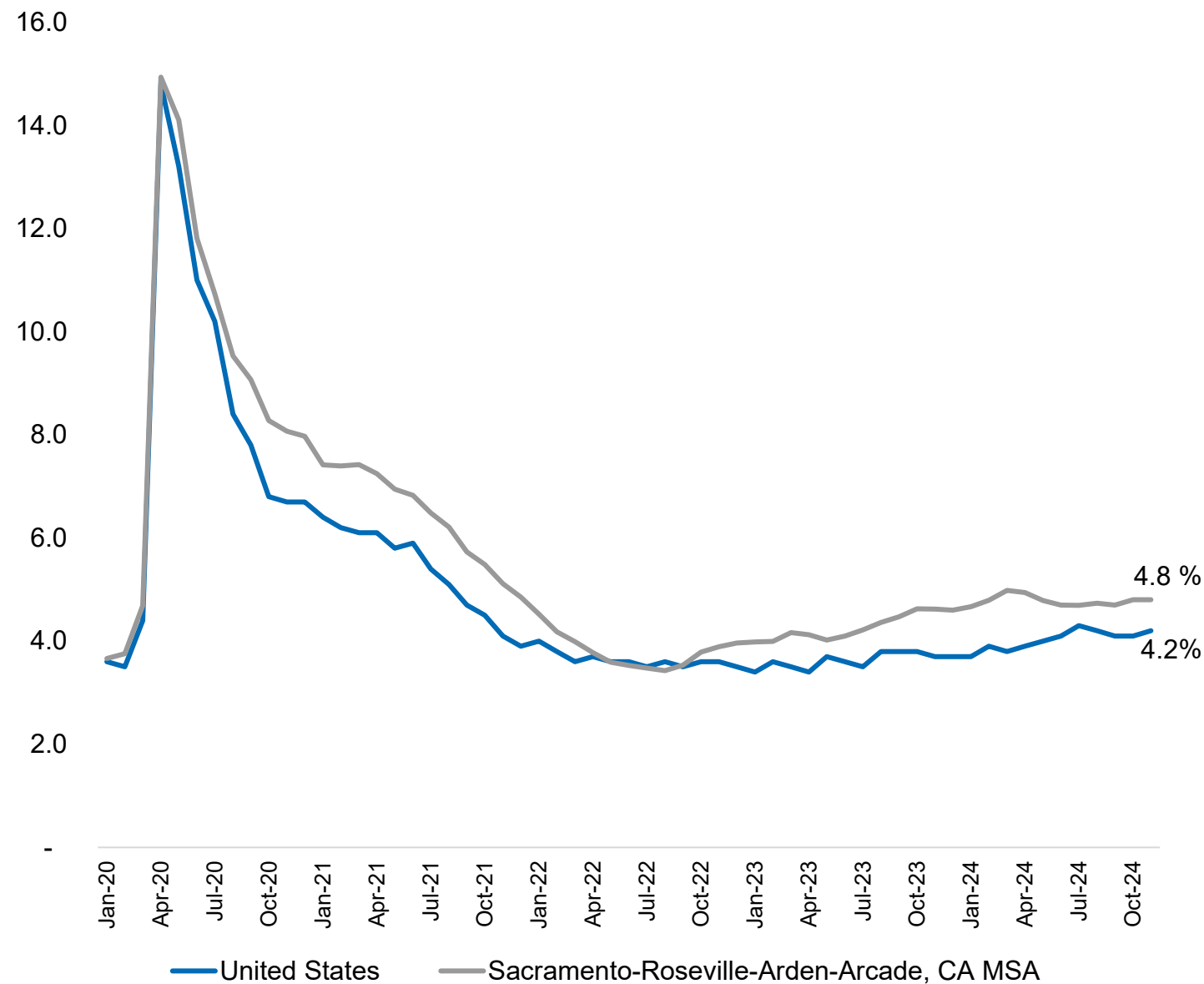
Economy



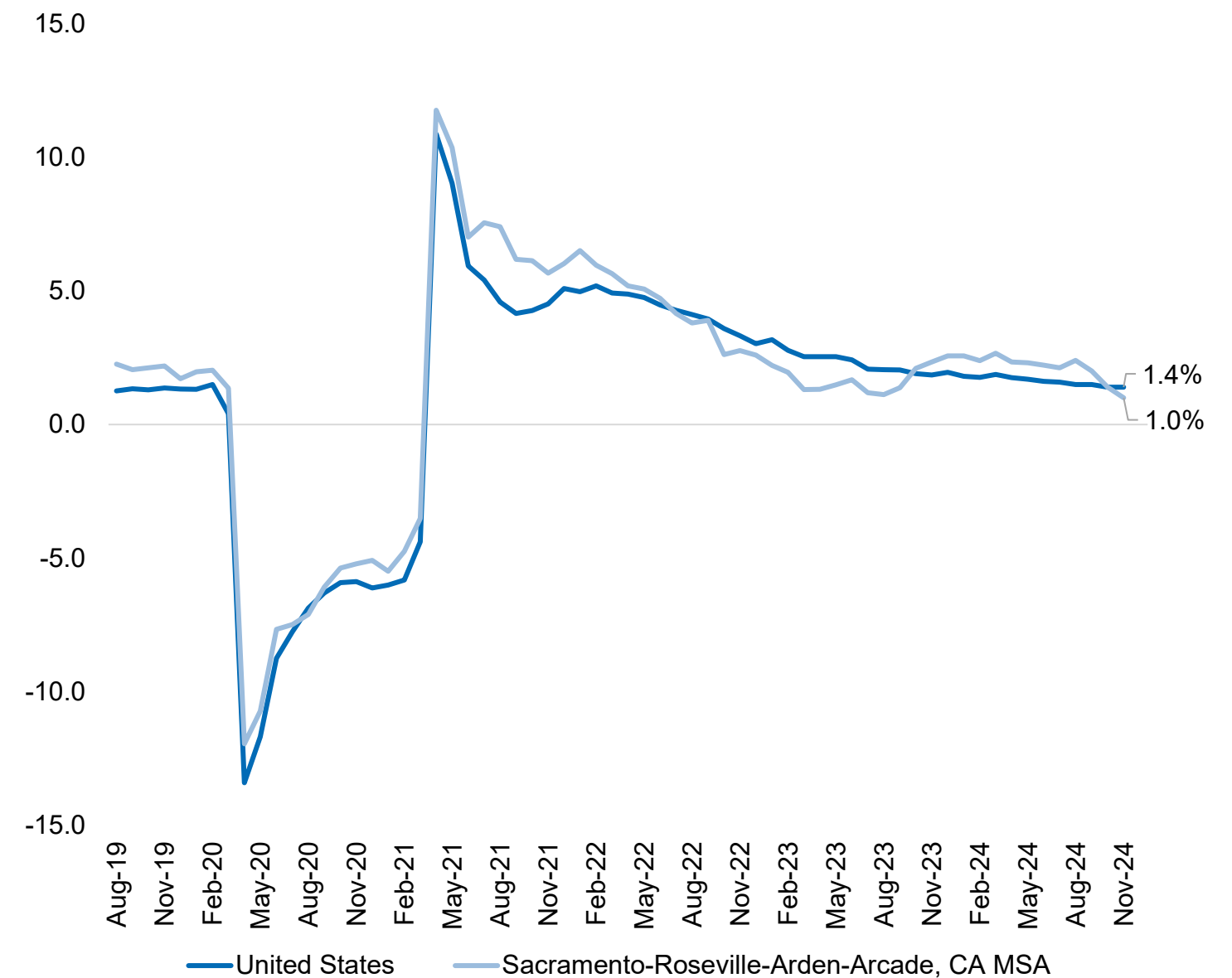
Sacramento Has Closely Tracked US Employment Trends

Sacramento's economy appears to be stabilizing as job losses have leveled off. Sacramento's unemployment rate has hovered in the 4.7-4.8% range for the past six months. Employment growth in Sacramento had been following a similar path of the U.S. with growth flattening out after a period of deceleration, although growth now appears to be slowing locally.

Unemployment Rate, Seasonally Adjusted



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

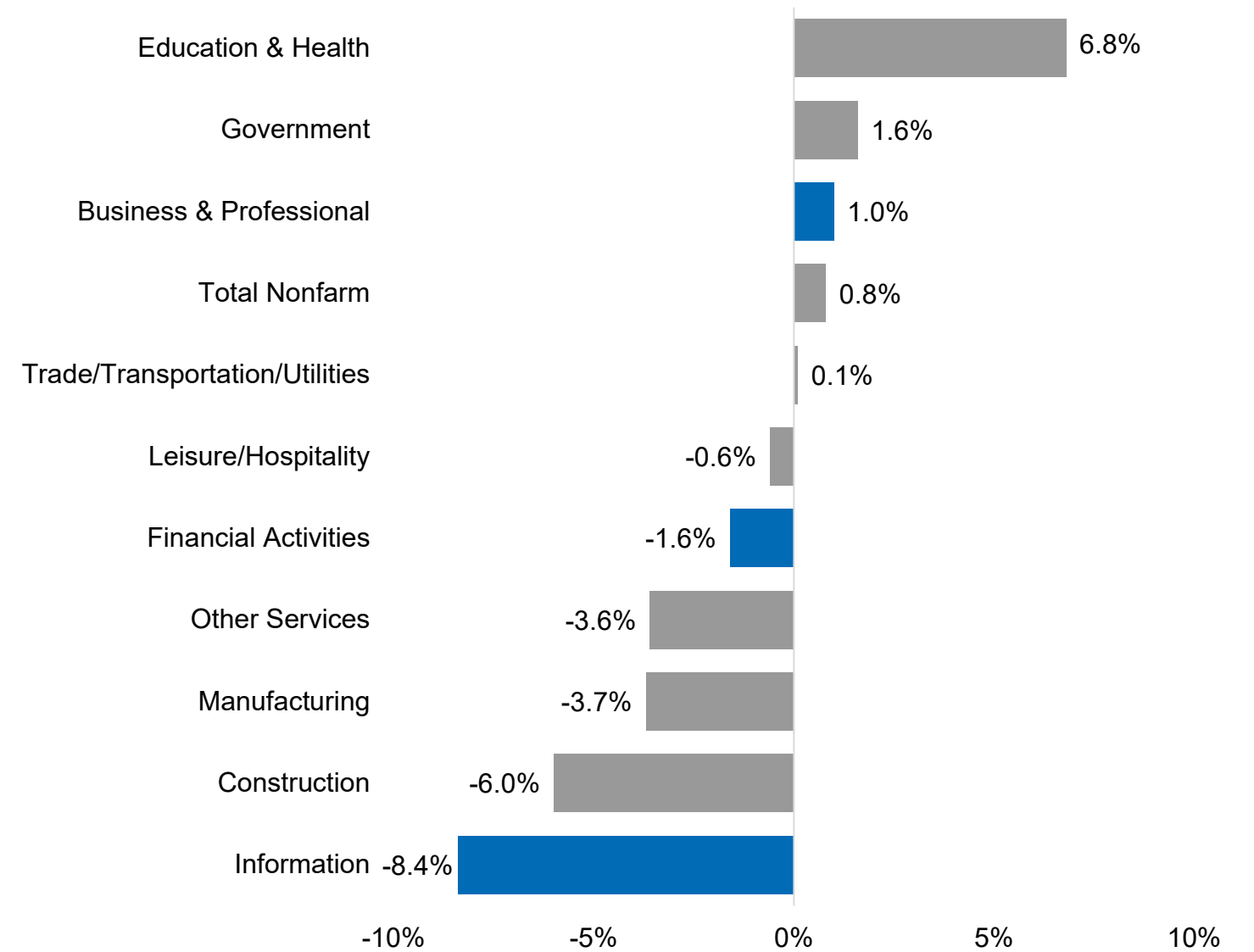
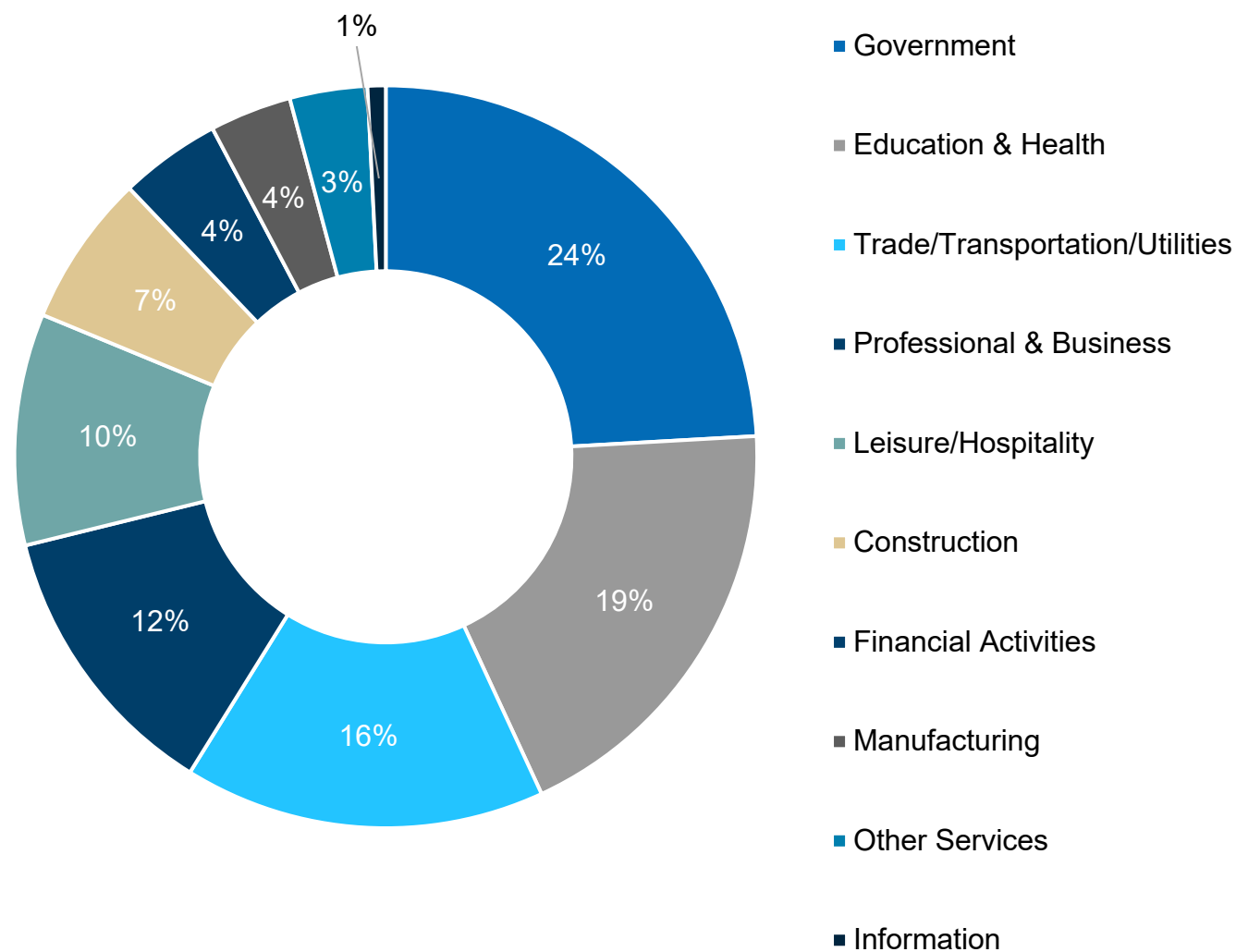


Source: U.S. Bureau of Labor Statistics, Sacramento-Roseville-Arden-Arcade, CA MSA

Job Gains in Larger Sectors Outpaced Losses in Smaller Sectors

The Education & Health Care Services sector recorded the largest gains followed by the Government sector. On a relative basis, the losses look more severe than they were given the size of some of these sectors. Actual year-over-year job losses in the Information sector totaled about 800 jobs while the Education & Health Care Services sector gained 13,400 jobs and Government gained 4,100 jobs.

Employment by Industry, May 2024 **Employment Growth by Industry, 12-Month % Change, May 2024**

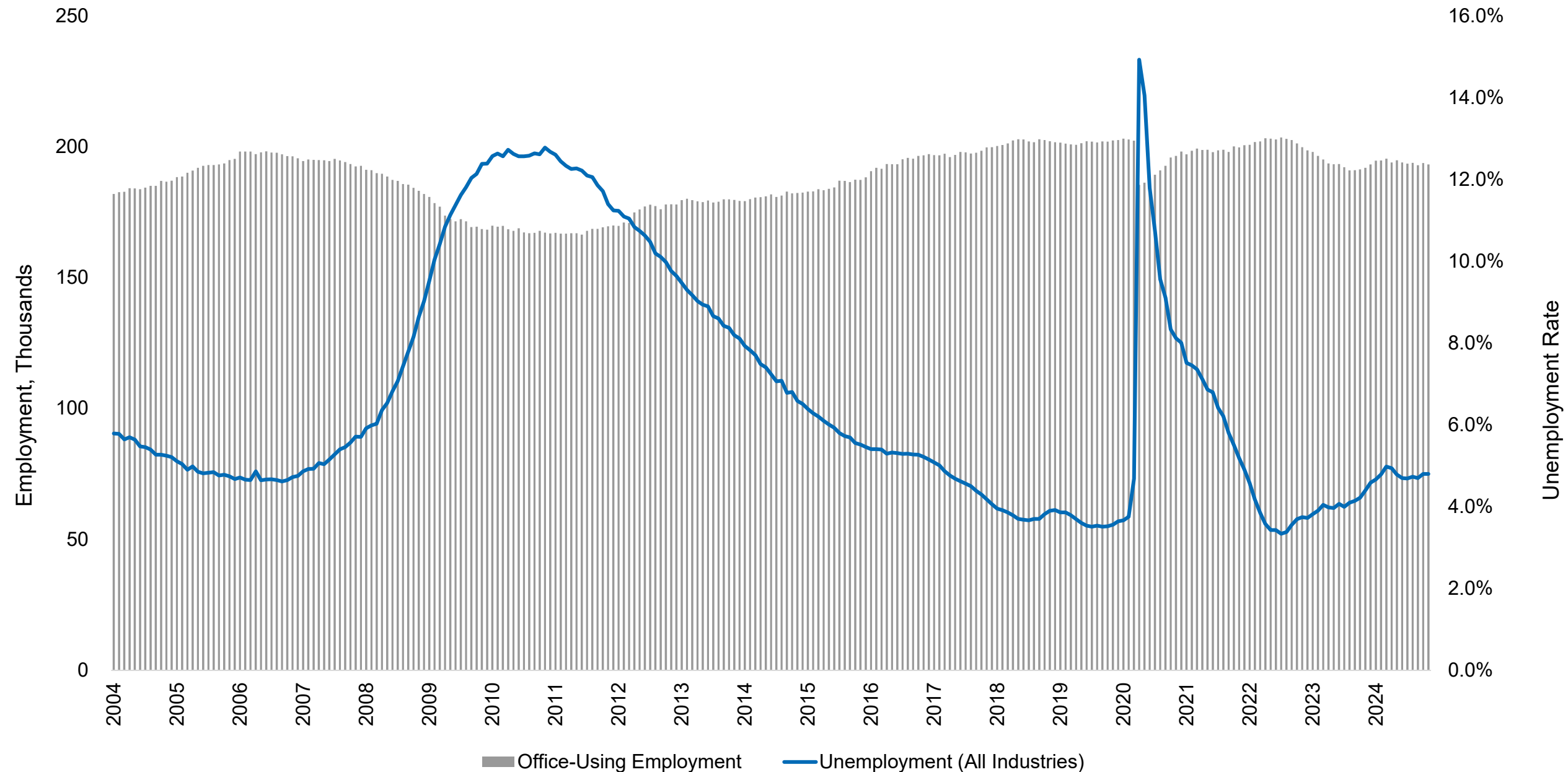


Source: U.S. Bureau of Labor Statistics, Sacramento-Roseville-Arden-Arcade, CA MSA

Office-Using Employment Holds Relatively Stable

Office-using employment levels have hovered in the same range since mid-2020 at approximately 195,000 employed. Job gains in the Professional & Business Service sector has outpaced small losses in Information (technology) Services and Financial Activities. The unemployment rate has followed a similar path, with sharp job cuts in the office sector aligning with a jump in unemployment.

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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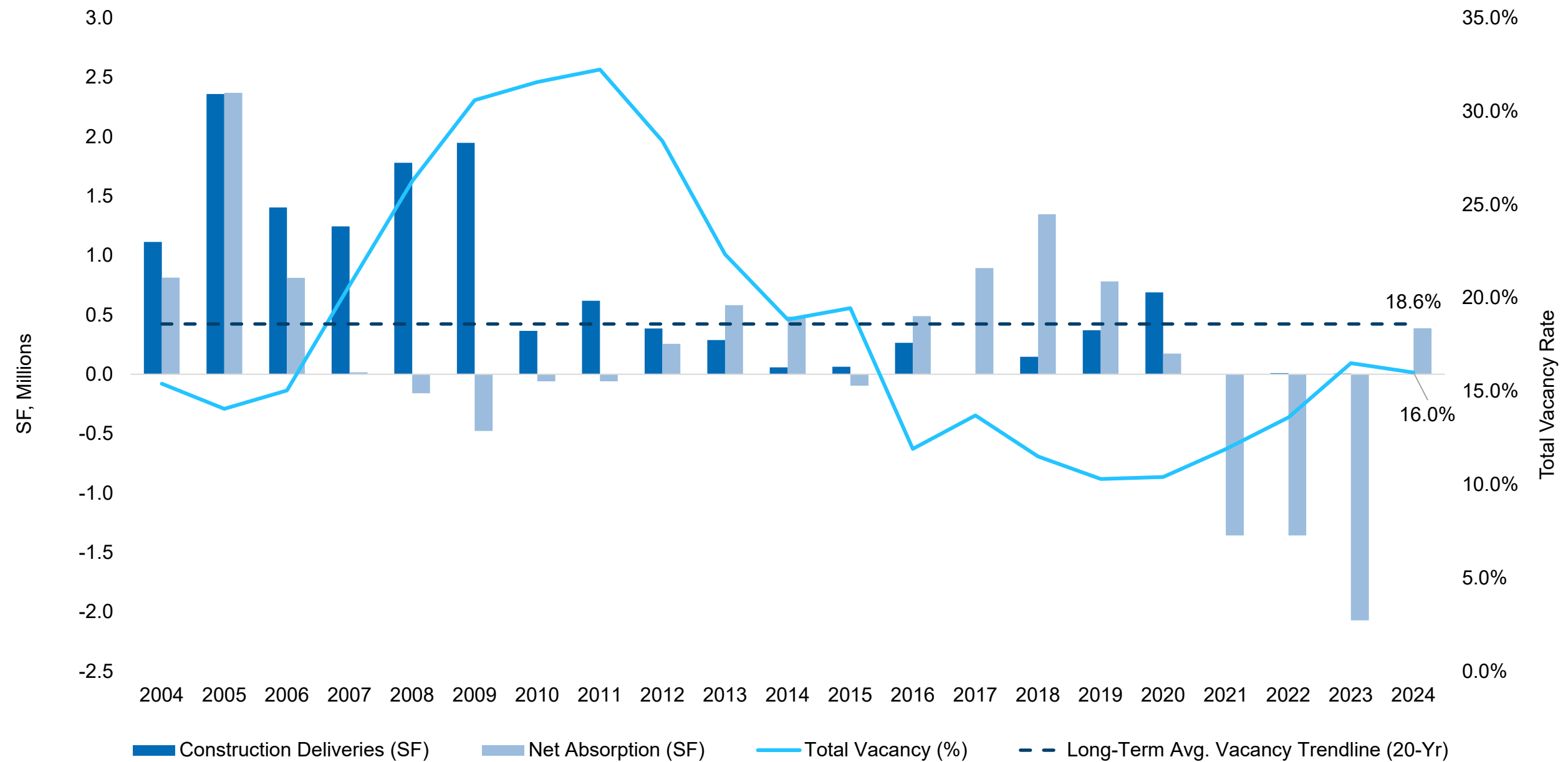
Leasing Market Fundamentals



Annual Net Absorption Turned Positive in 2024

Sacramento's office continued showing signs of stabilizing in the fourth quarter. The total vacancy rate stood at 16.0%, an improvement from last quarter's vacancy rate of 16.5%. Net absorption for the year was positive for the first time since 2020, totaling 387,813 square feet. 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

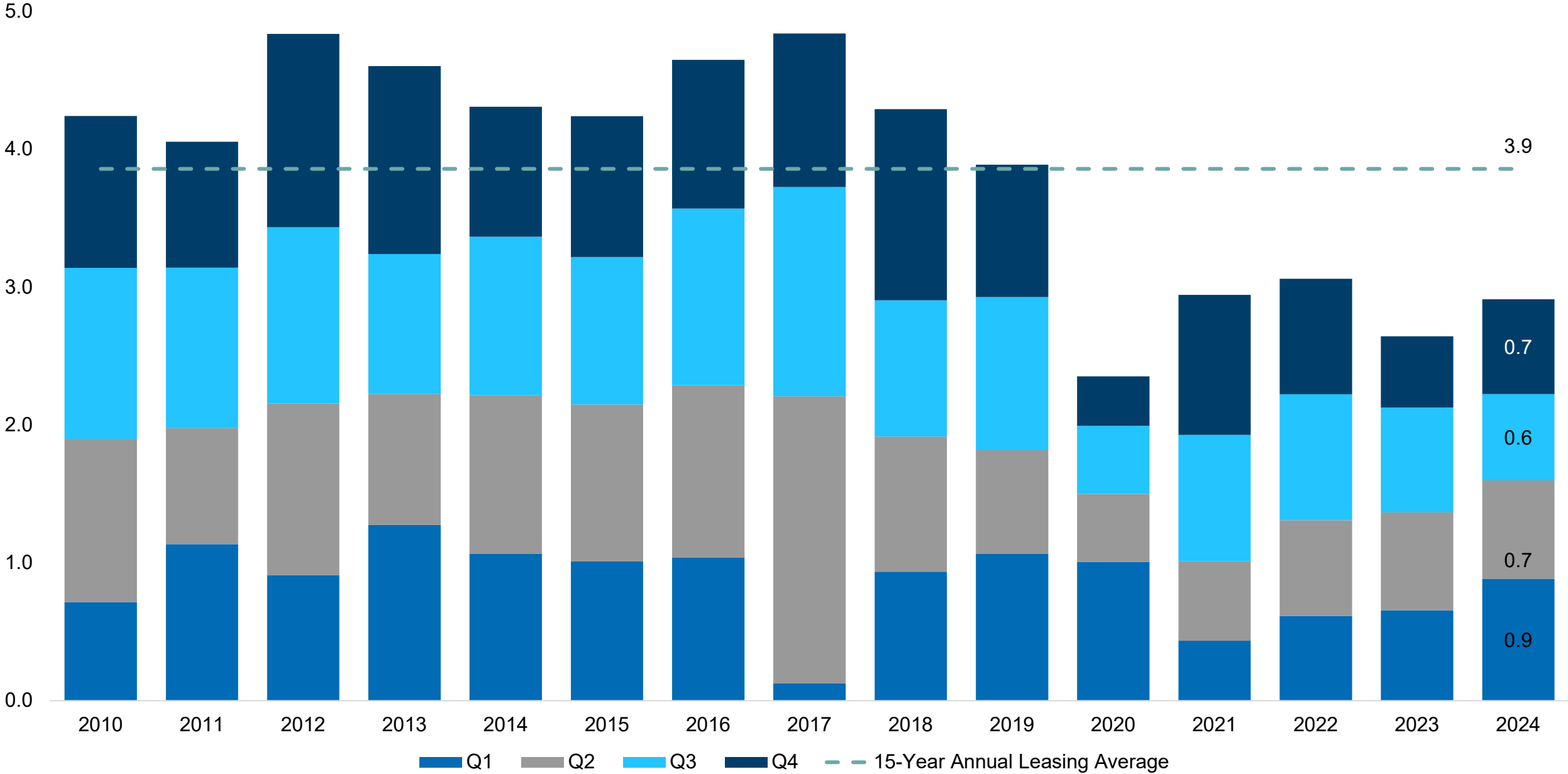


Source: Newmark Research, CoStar

The Pace of Leasing Activity Improved

Leasing activity in 2024 surpassed 2023 leasing levels, and it was nearly on par with 2021 and 2022 leasing. However leasing levels remain nearly 25% lower than the 15-year annual leasing average and nearly 34% lower than the 10-year pre-pandemic leasing average. While there is still quite a gap to full recovery, the market trended in a better direction in 2024.

Total Leasing Activity (msf)



Source: Newmark Research, CoStar



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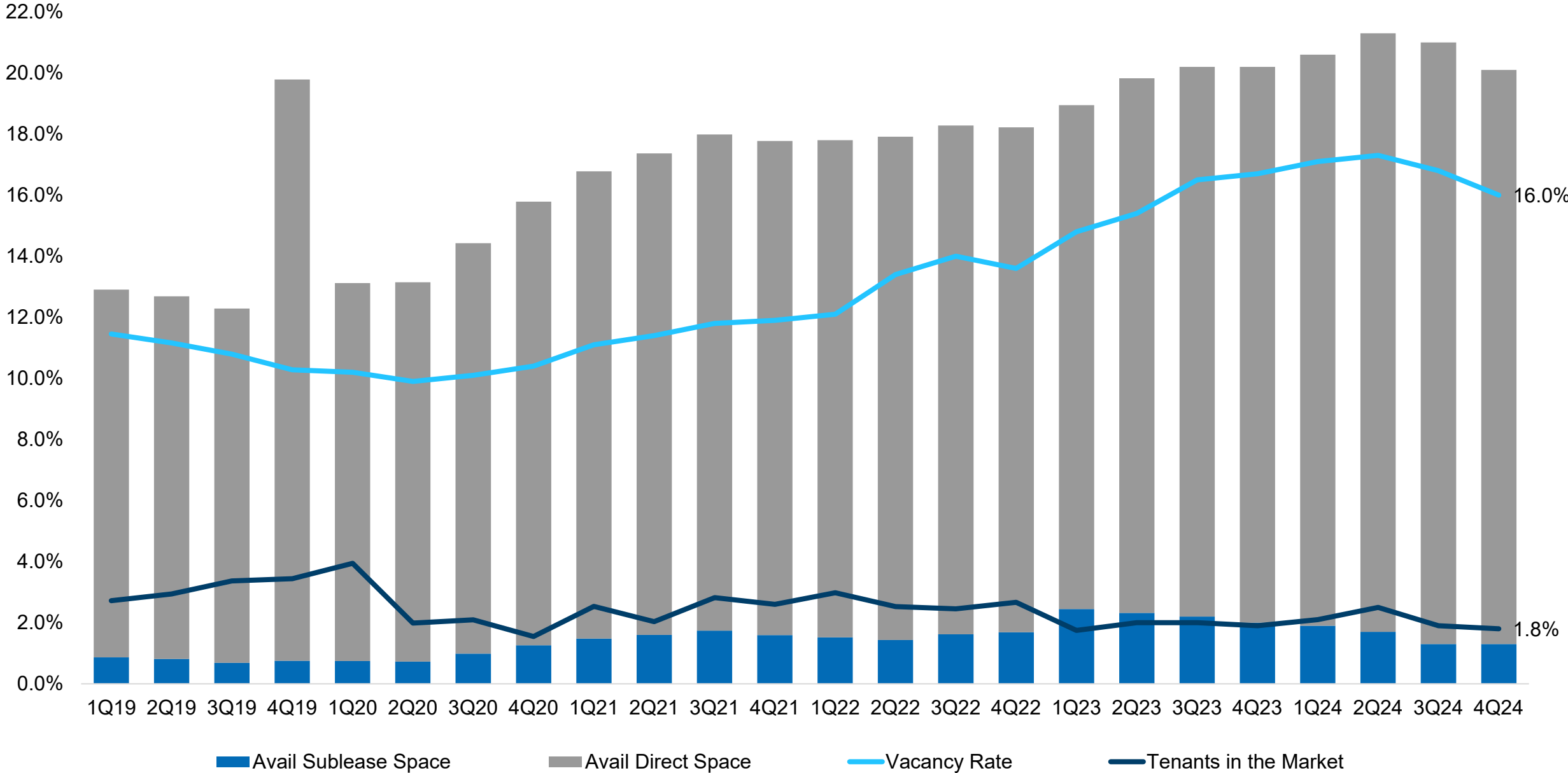


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The Vacancy Rate Continued to Trend Down Slowly

After peaking midyear above 17%, the vacancy rate appears to be inching down as the amount of available space in the market declined through the fourth quarter. The vacancy rate stood at 16.0%. Another positive sign for the market is the amount of available sublease space has continued to decrease from a recent high in the first quarter of 2023.

Available Space and Tenant Demand as Percent of Overall Market



Source: Newmark Research, CoStar

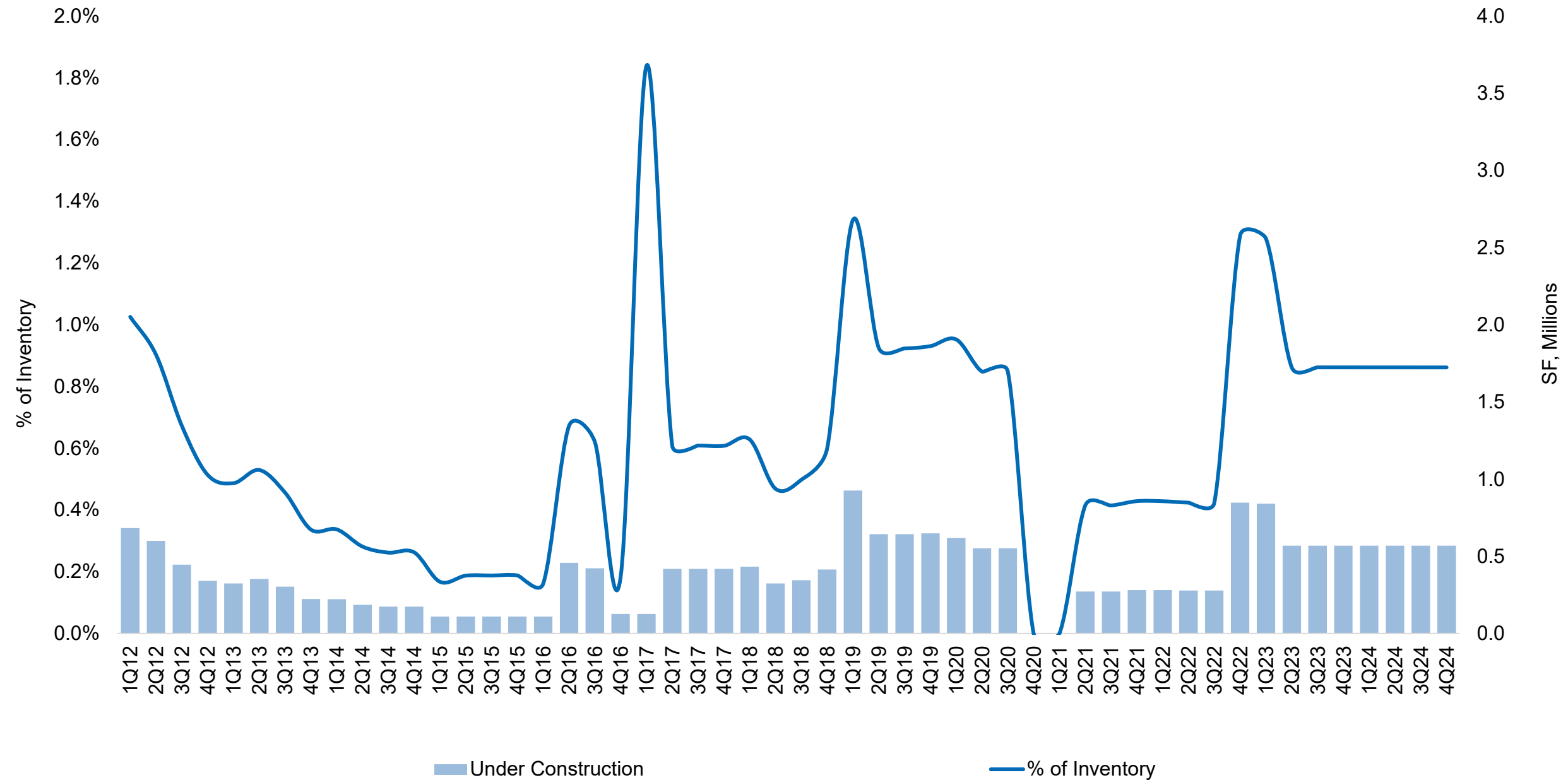


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Construction Remained Muted but Still Underway

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 first quarter 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

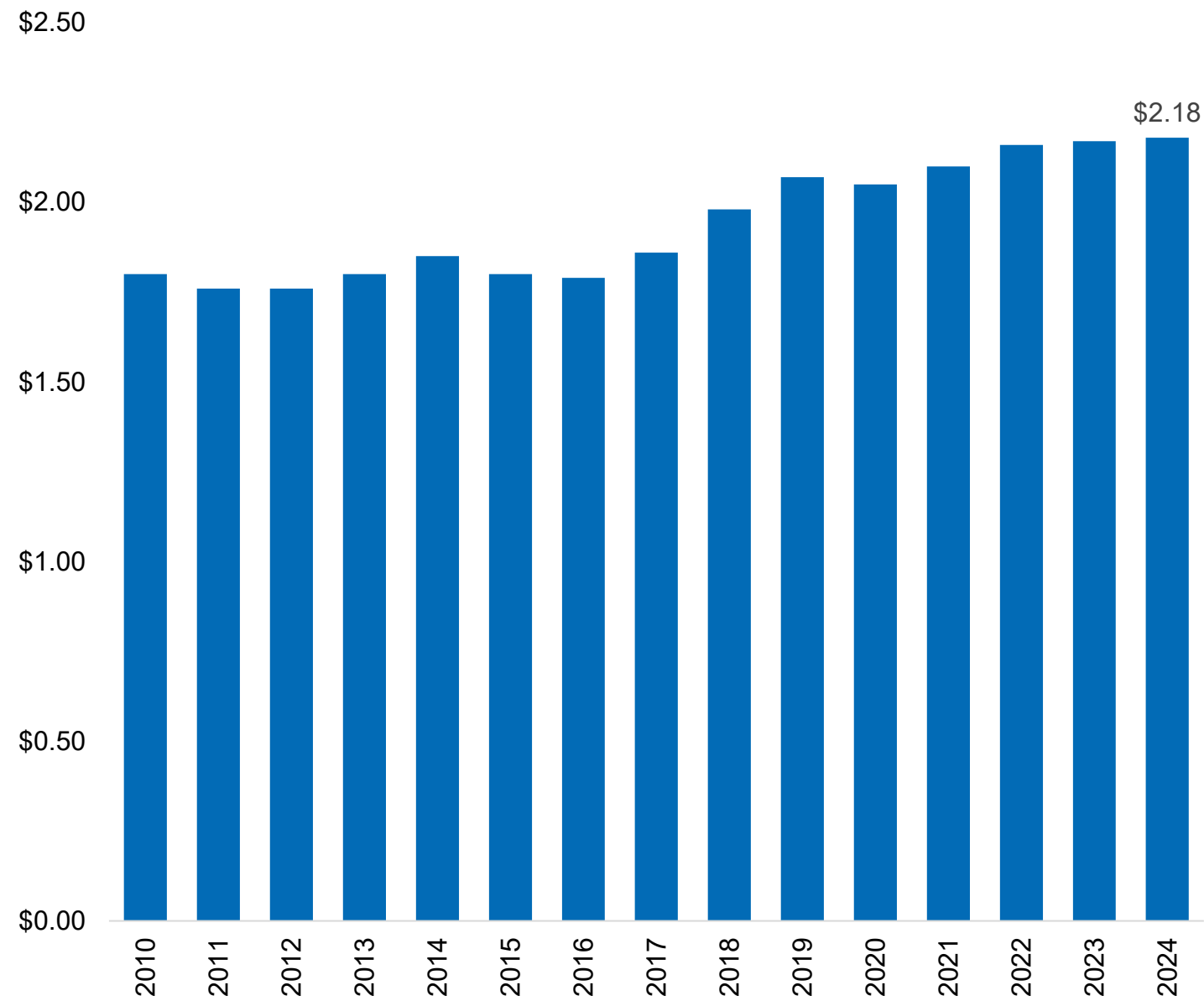


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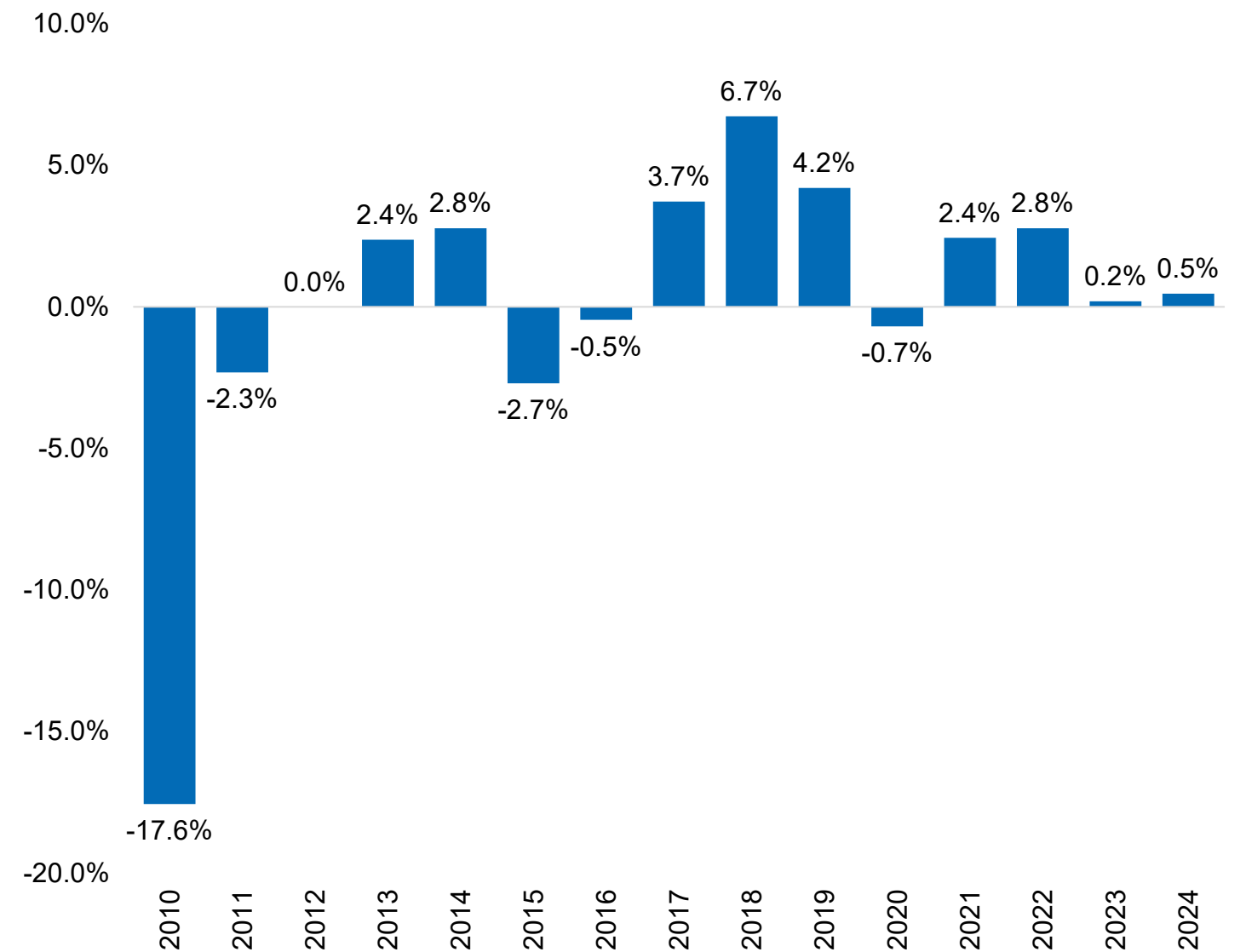
Overall Rents Remained Stable

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 \$2.18/SF Full Service per month as of the end of the year.

Office Average Asking Rent, \$/SF, FS



Year-over-Year Asking Rent Growth Rate

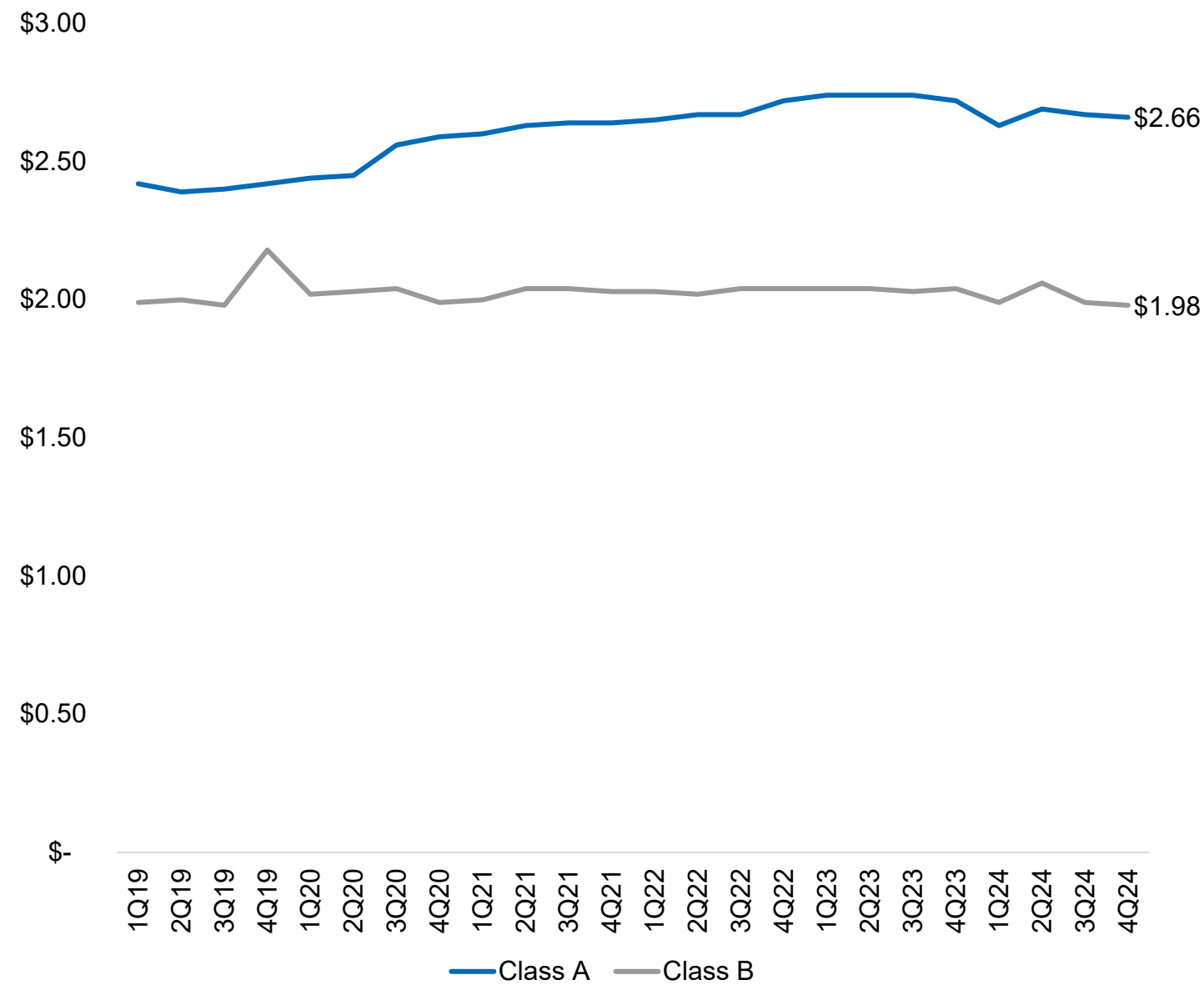


Source: Newmark Research, CoStar

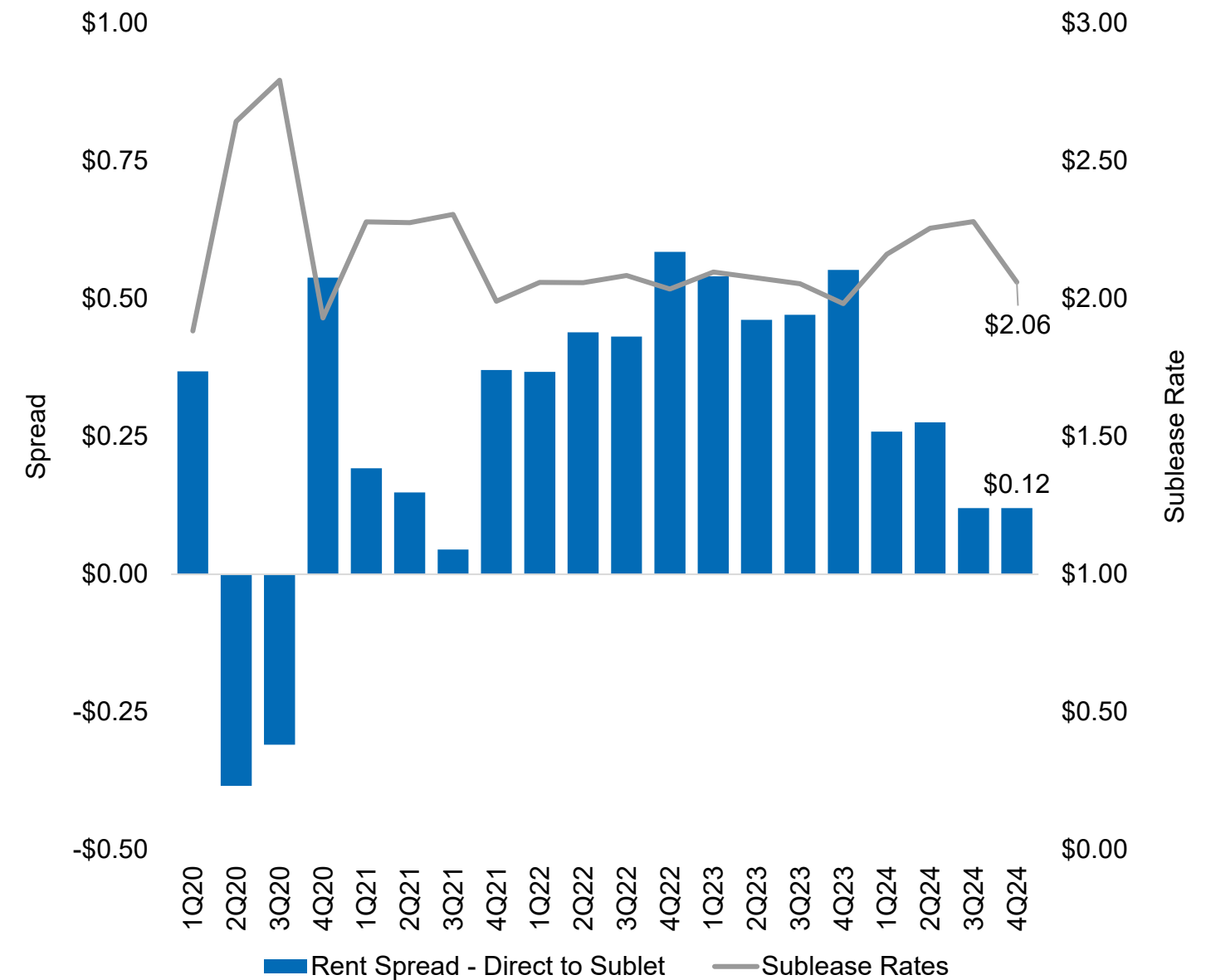
Asking Rents Stable, Effective Rents Likely Down

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 4Q24 Leases

Notable 4Q24 Lease Transactions

Tenant	Building(s)	Submarket	Type	Square Feet
Clear Blue Commercial	820, 830 & 840 Stillwater Road	West Sacramento	Renewal	213,320
Gainwell Technologies	11971 Foundation Place	50 Corridor East	New Lease	52,282
Gainwell Technologies	620 Roseville Parkway	Roseville	Renewal	49,581
Child Action	10540 White Rock Road	50 Corridor East	Lease Expansion	22,384
Acrisure of California	3010 Lava Ridge Court	Roseville - Douglas	New Lease	17,612
S&B James Construction	630 K Street	Sacramento – Downtown	New Lease	15,622
County of Sacramento Workers Compensation	8880 Cal Center Drive	Sacramento – 50 Corridor West	New Lease	10,549
Three Gear Hitting	4821 Golden Foothill Parkway	El Dorado Hills	New Lease	10,500

Source: Newmark Research, CoStar

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Appendix



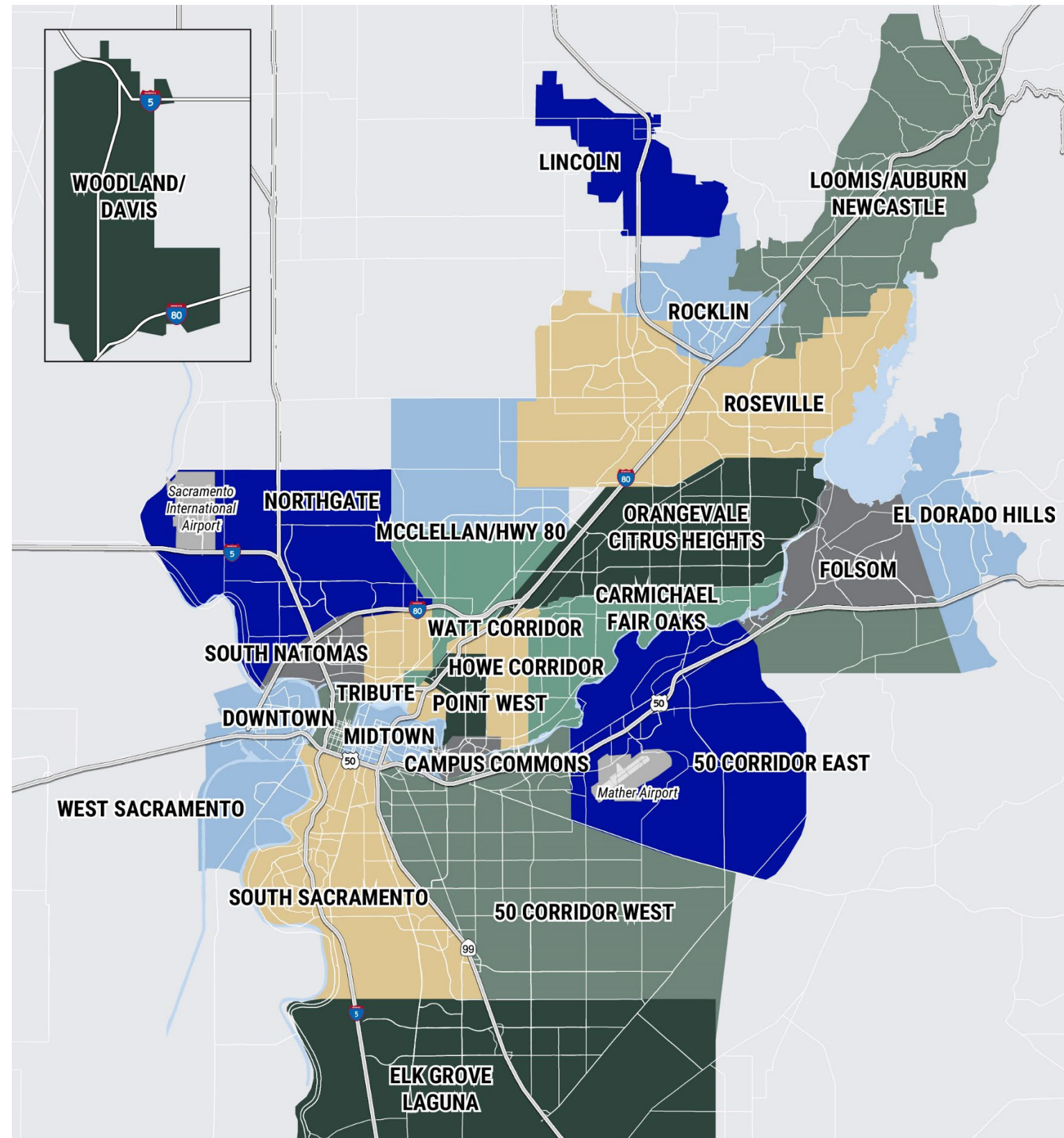


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Sacramento Submarket Map



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