NEWMARK

Sacramento Office

Market Overview

4Q25

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Sacramento Market Observations

Economy

- The Sacramento unemployment rate increased slightly in 2025 landing at 5.0% in the fourth quarter. Job growth in Sacramento was minimal with the 12-month change only increasing 0.01%. Sacramento's economy appears to be cooling rather than contracting—signaling cautious hiring and spending but a resilient base, which points to steadier near-term activity and measured leasing demand rather than sharp declines.
- Office-using employment levels remained steady in the fourth quarter but still significantly lower than its 5-year peak in the third quarter of 2022, underscoring slow recovery in office-centric jobs. The increase in unemployment corresponds with earlier office-sector downsizing, highlighting continued softness in traditional office demand. Although excluded from office-using metrics, government employment continues to be a pivotal driver of Sacramento office leasing, providing stability to the market.

Leasing Market Fundamentals

- Vacancy rate remained the same as the previous quarter at 15.9% for the fourth quarter. Tenant demand increased 60 basis points quarter-over-quarter although is still lower than pre-pandemic levels.
- Leasing activity slowed down in the fourth quarter as many occupiers continued to assess space needs and operating budgets. While some organizations opted to renew leases, others may have simply delayed making a move as they wait for more economic clarity thus leaving room for a potential rebound as deferred deals re-enter the pipeline in 2026.
- Sacramento's 2025 office market has seen fluctuations but landed with net positive absorption of 341,876 SF for the year. Vacancy staying below historical norms and occupancy strengthening over the previous two years suggest a continued but gradual stabilization of the market.

Major Transactions

- The State of California Department of Public Health signed the two of the largest leases of the quarter, one at 3701 N Freeway Blvd for 42,025 SF and the second location at 1415 L Street for 16,316 SF.
- Commercial Security Systems company Rhombus signed a sublease for 30,000 SF in Midtown at 1610 R Street.
- The largest sale in the fourth quarter was California Housing Finance Agency's acquisition of 80,572 SF at 520 Capitol Mall for $22.3M, or $409.55/SF. Bardis & Mir Development LLC purchased a 16,997 SF building at 400 University Avenue for $4.28M or $251.78/SF.

Outlook

- Near term, leasing is likely to remain renewal-heavy as occupiers finalize space strategies and budgets, implying modest-to-flat absorption and essentially stable vacancy; as deferred decisions unlock, the deal pipeline sets up for a healthier activity run in 2026.
- In the longer run, as the economy settles and conditions stabilize, we expect supply and demand to move back toward equilibrium as firms resume growth and renewed expansion.

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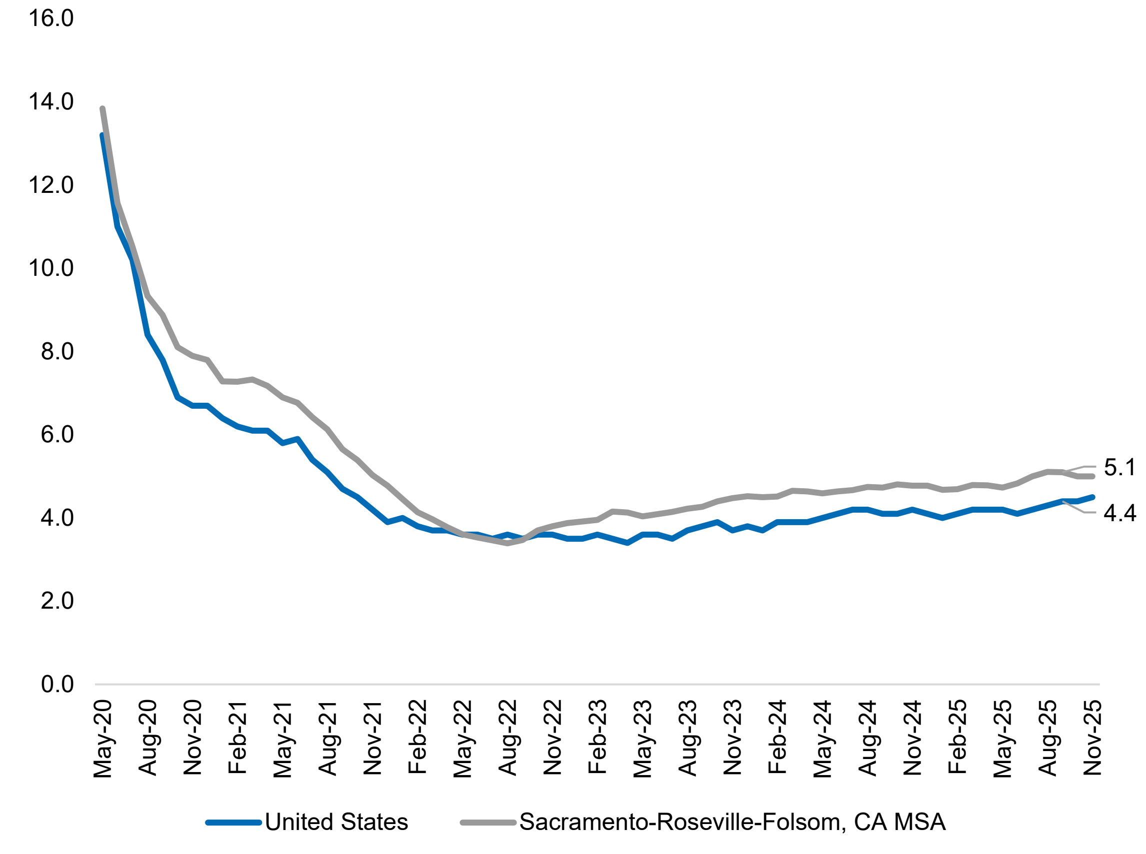
Economy

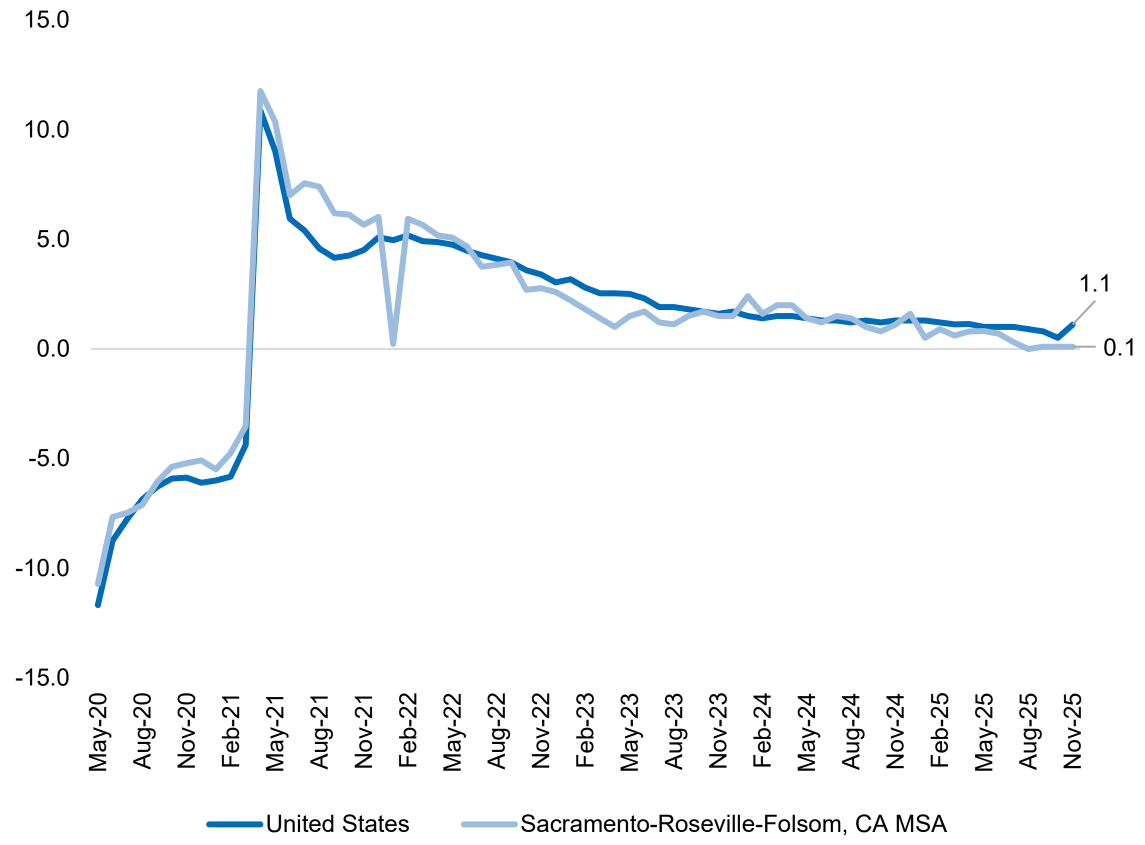
Sacramento Economy Cools, Resilient Base Supports Stable Demand

The Sacramento unemployment rate increased slightly in 2025 landing at 5.0% in the fourth quarter which is 20 basis points higher than the same time the previous year. Job growth in Sacramento was minimal with the 12-month change only increasing 0.01%. Sacramento's economy appears to be cooling rather than contracting—signaling cautious hiring and spending but a resilient base, which points to steadier near-term activity and measured leasing demand rather than sharp declines.

Unemployment Rate, Seasonally Adjusted



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



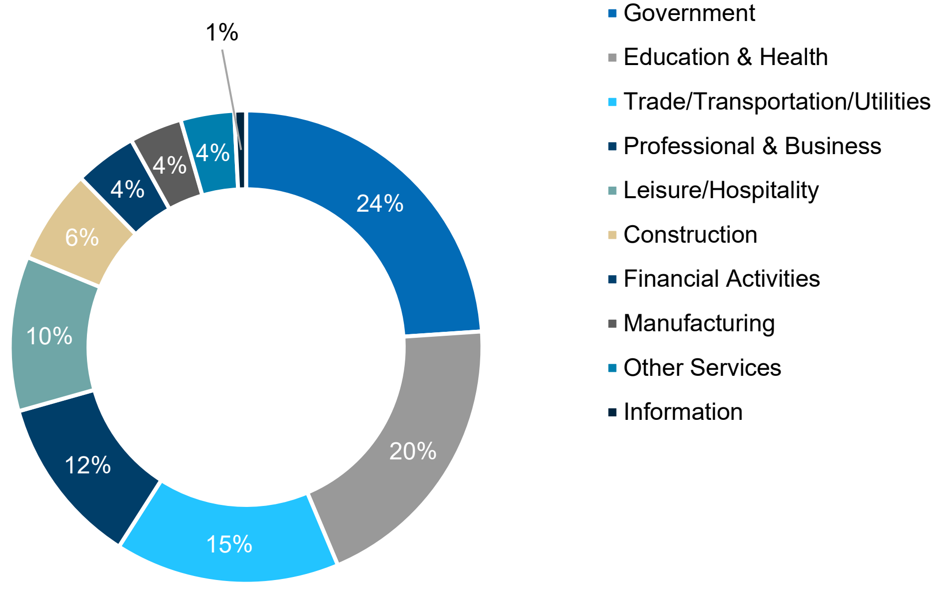
Source: U.S. Bureau of Labor Statistics, Sacramento-Roseville-Folsom, CA MSA , State of California Employment Development Department

*October and November 2025 statistics are preliminary

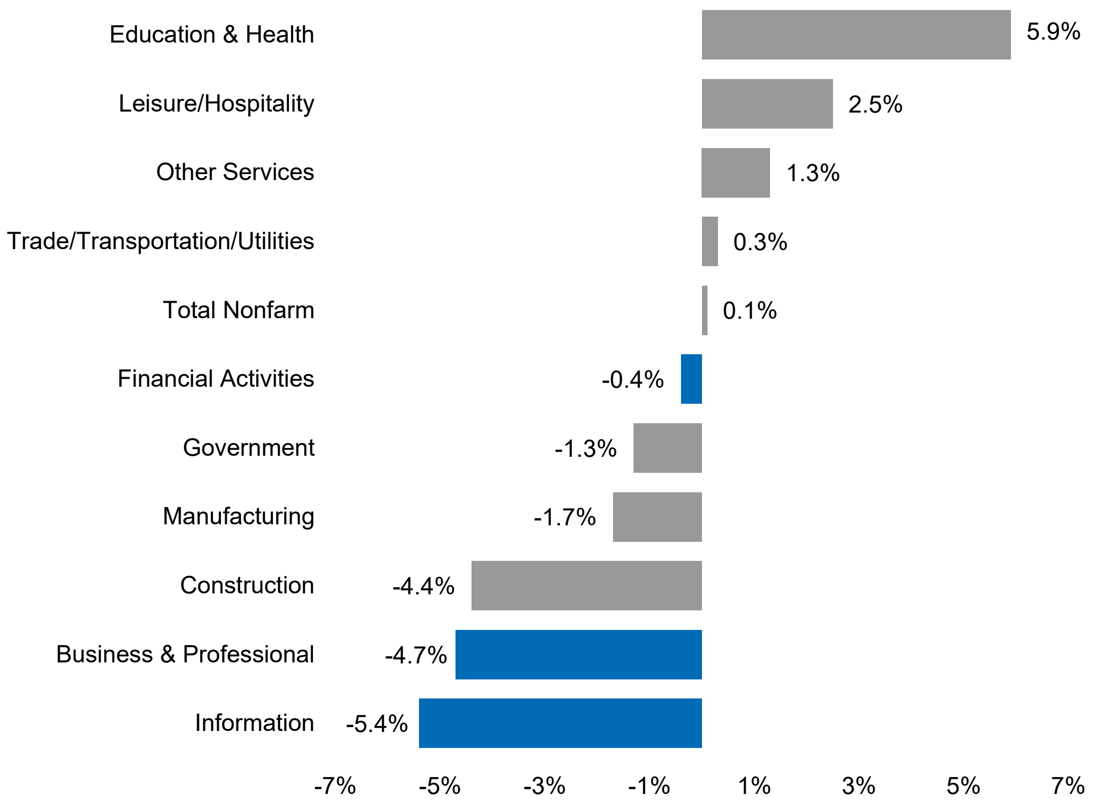
Education & Health Care Services Continued Growth Trend

The Education & Health Care Services sector recorded the largest gains year-over-year ending for the fifth consecutive quarter. Traditional office-using job sectors of Business & Professional Services, Financial Activities and Information saw combined losses of 3.9% during the period. However, given their smaller relative size, these losses have a muted impact overall, leaving Sacramento's labor market comparatively resilient and increasingly service-led.

Employment by Industry, October 2025



Employment Growth by Industry, 12-Month % Change, October 2025

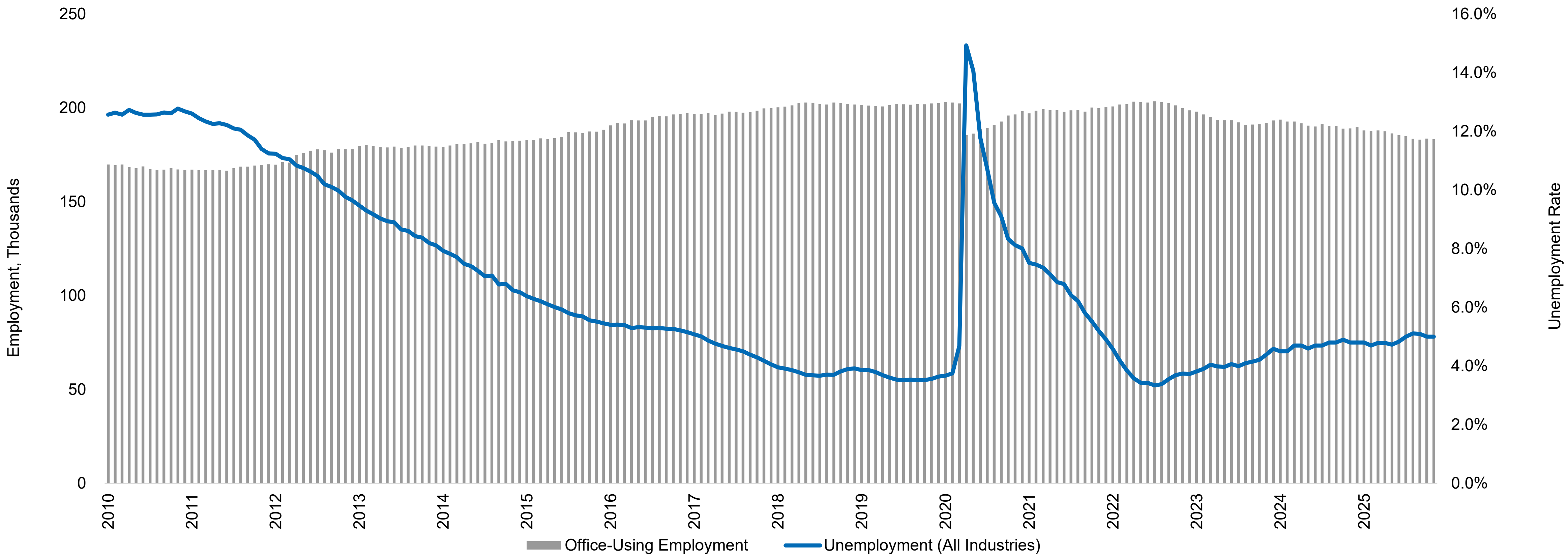


Source: U.S. Bureau of Labor Statistics, Sacramento-Roseville-Folsom, CA MSA

Sacramento Office-Using Jobs Steady but Below 5-Year Peak

Office-using employment levels remained steady in the fourth quarter but still significantly lower than its 5-year peak in the third quarter of 2022, underscoring slow recovery in office-centric jobs. The increase in unemployment corresponds with earlier office-sector downsizing, highlighting continued softness in traditional office demand. Although excluded from office-using metrics, government employment continues to be a pivotal driver of Sacramento office leasing, providing stability to the market.

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. October and November 2025 statistics are preliminary.

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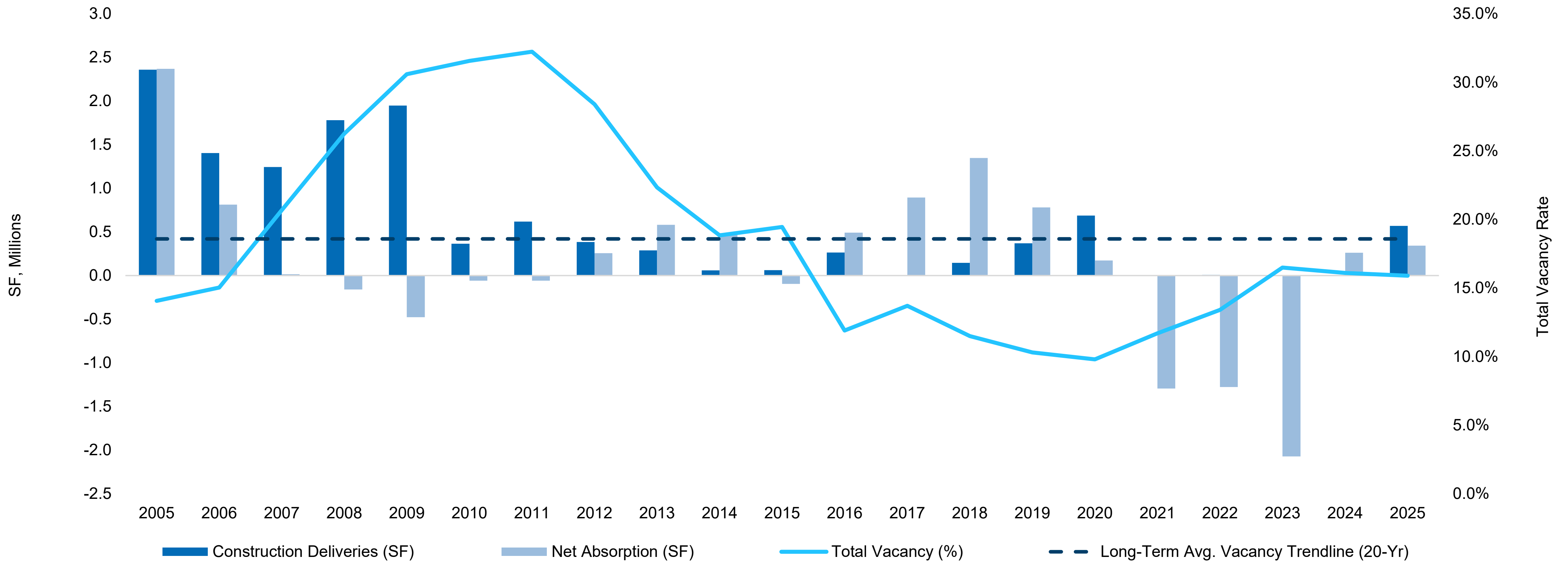
Leasing Market Fundamentals

Positive Absorption and Steady Vacancy Signal Ongoing Stabilization

Sacramento's 2025 office market has seen fluctuations but landed with net positive absorption of 341,876 SF for the year. This is a 23.7% increase in positive absorption from the fourth quarter of 2024. The total vacancy rate remained steady in 2025 and ended the year at 15.9% . This is well below the 20-year average of 18.6%. Vacancy staying below historical norms and occupancy strengthening over the previous two years suggest a continued but gradual stabilization of the market.

Historical Construction Deliveries, Net Absorption, and Vacancy

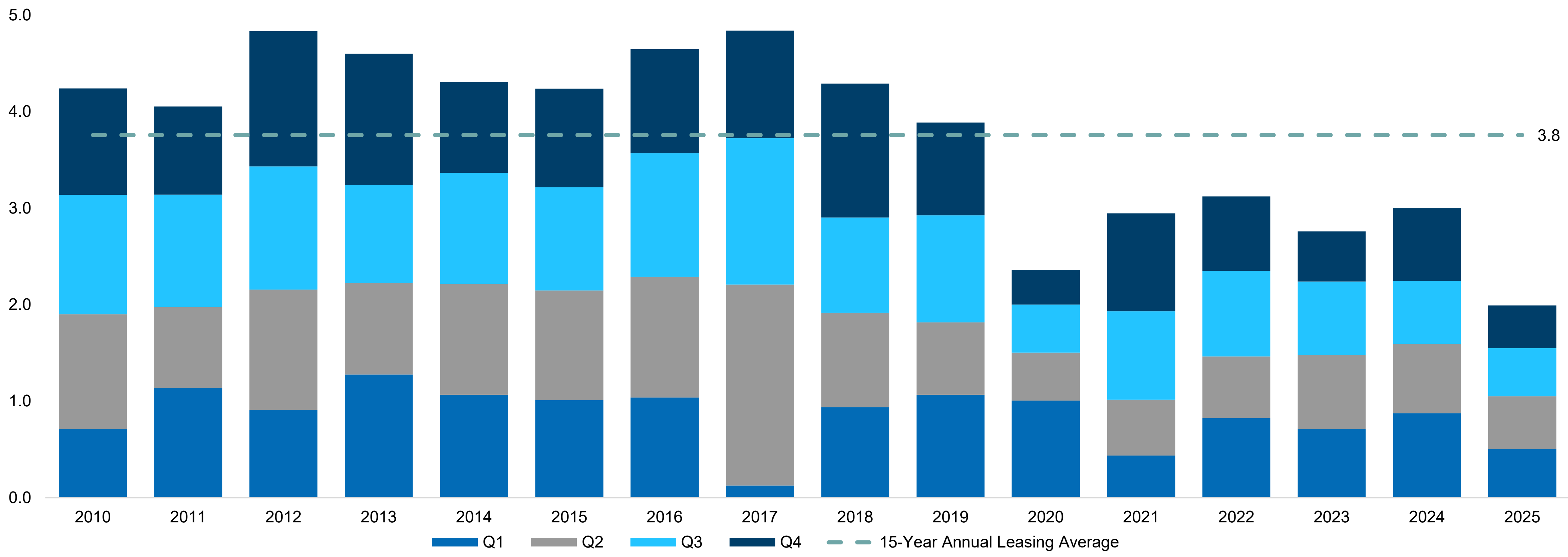


Source: Newmark Research, CoStar

Leasing Activity Further Slowed by Economic Uncertainties

Leasing activity slowed down in the fourth quarter as many occupiers continued to assess space needs and operating budgets. Shifting interest rates, inflation and rising construction costs are among the many considerations influencing decision-making. While some organizations opted to renew leases, others may have simply delayed making a move as they wait for more economic clarity thus leaving room for a potential rebound as deferred deals re-enter the pipeline in 2026.

Total Leasing Activity (msf)

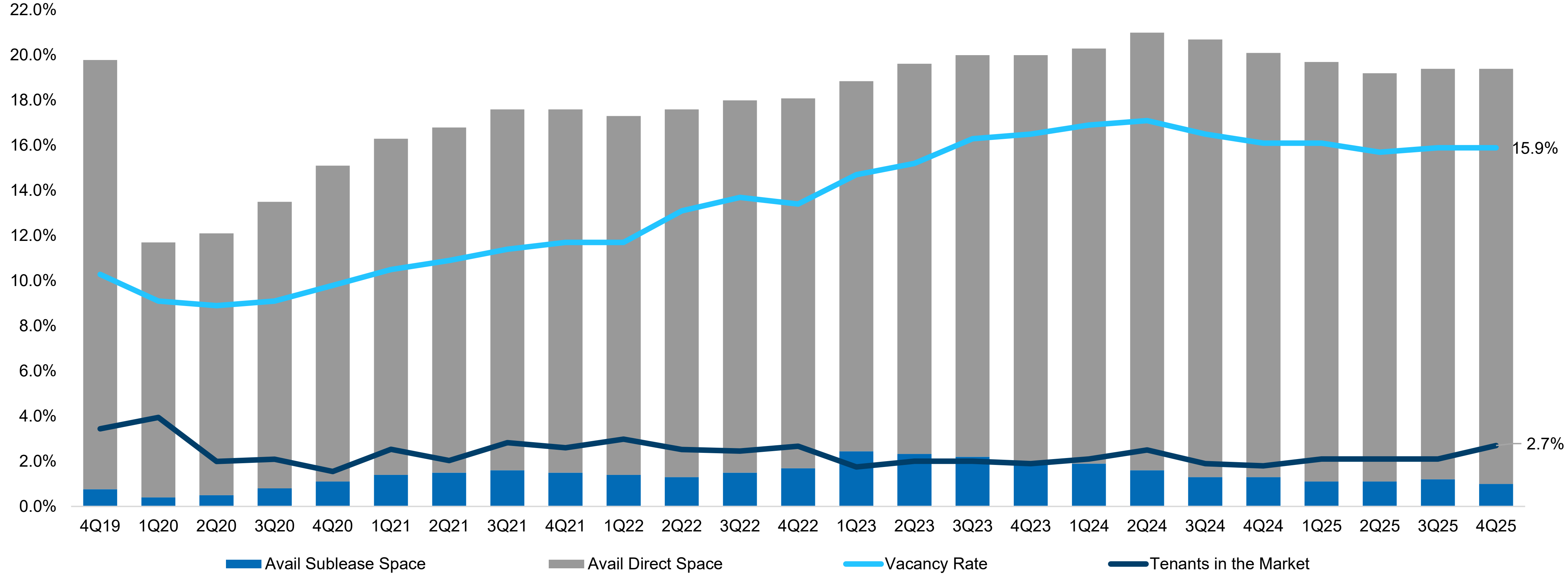


Source: Newmark Research, CoStar

Vacancies Steady as Demand Ticks Up

Vacancy rate remained the same as the previous quarter at 15.9% for the fourth quarter. Sublease availability has been declining since its 5-year historical high in the first quarter of 2023 and landed 30 basis points lower than the same time last year. Tenant demand increased 60 basis points quarter-over-quarter although is still lower than pre-pandemic levels. The combination of flat vacancies and shrinking sublease space suggests excess supply is being absorbed, while the demand uptick points to tenants re-engaging—even if activity remains below pre-pandemic levels.

Available Space and Tenant Demand as Percent of Overall Market

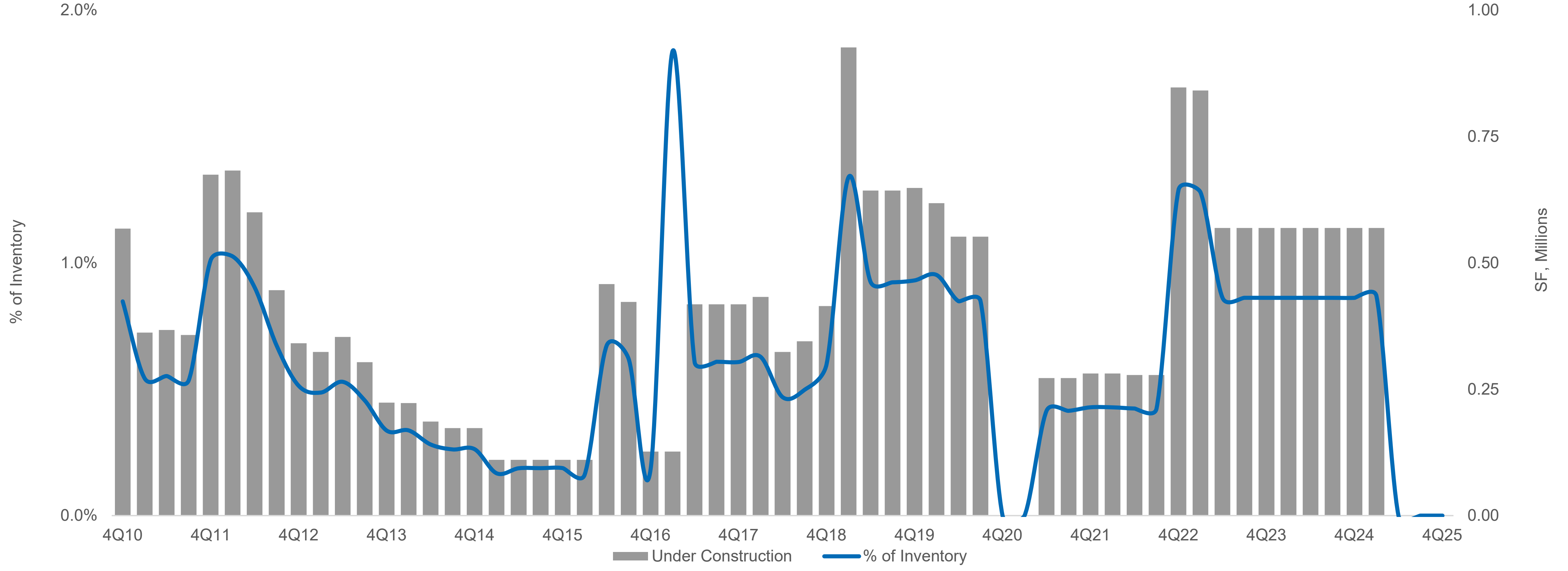


Source: Newmark Research, CoStar

Construction Pipeline Plateaued

The construction pipeline has leveled off since a recent post-pandemic peak in late 2022 and early 2023. Since the delivery of 569,000 SF in the second quarter of this year, the market has not seen any new construction get underway. Construction levels will likely remain muted given the demand / supply imbalance compounded by the current economic uncertainty. Any incremental increase in demand should translate into vacancy compression rather than new construction.

Office Under Construction and % of Inventory

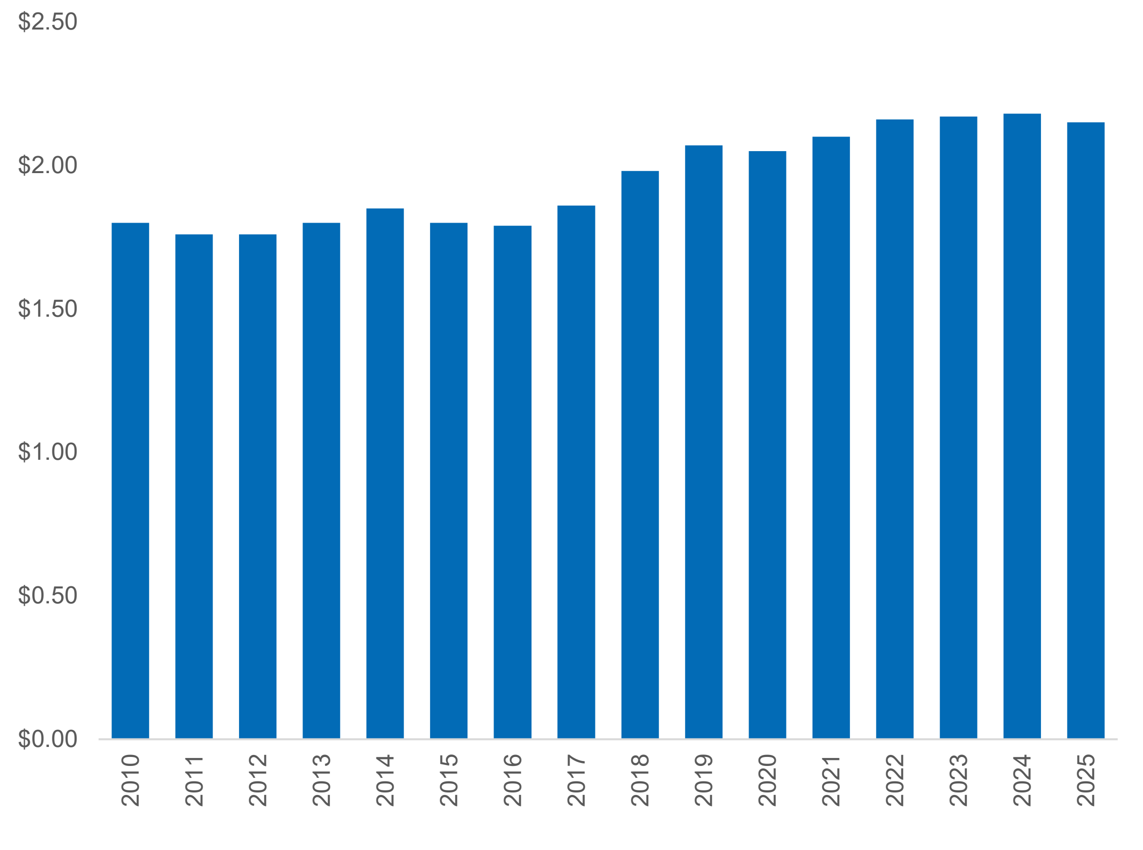


Source: Newmark Research, CoStar

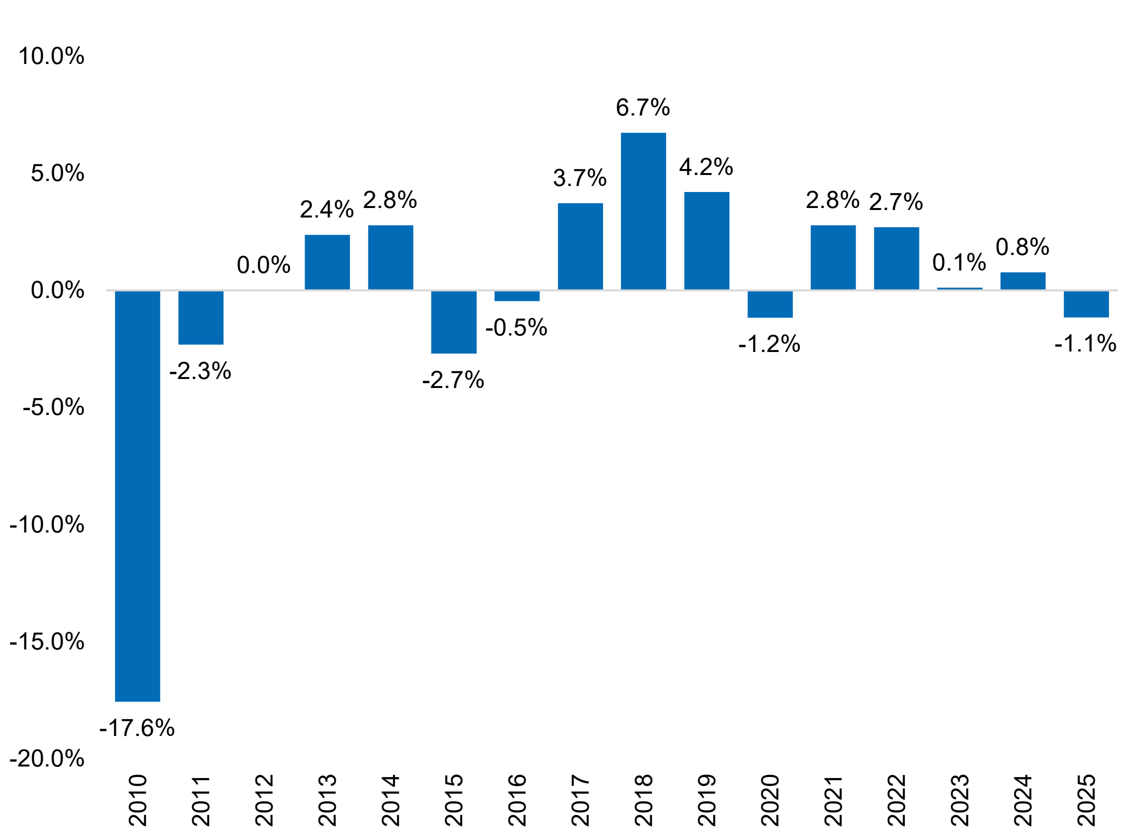
Rents Hold Steady as Market Balances

Sacramento market rents have held relatively steady and stood at $2.15/SF Full Service per month at the end of the fourth quarter. While down 1.1% year-over-year, rents have continued to increase over the last five years. The flat-to-slightly-down movement suggests demand and vacancy are roughly in balance.

Office Average Asking Rent, $/SF, FS



Year-over-year Asking Rent Growth Rate

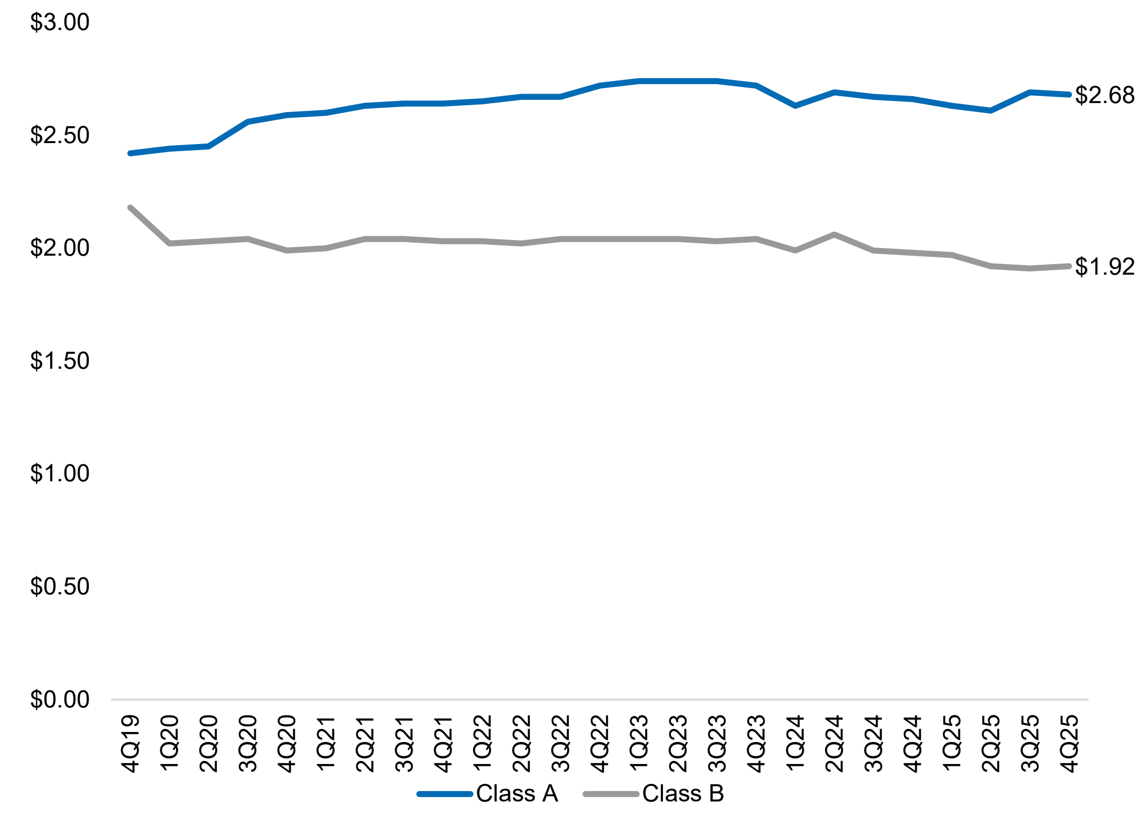


Source: Newmark Research, CoStar

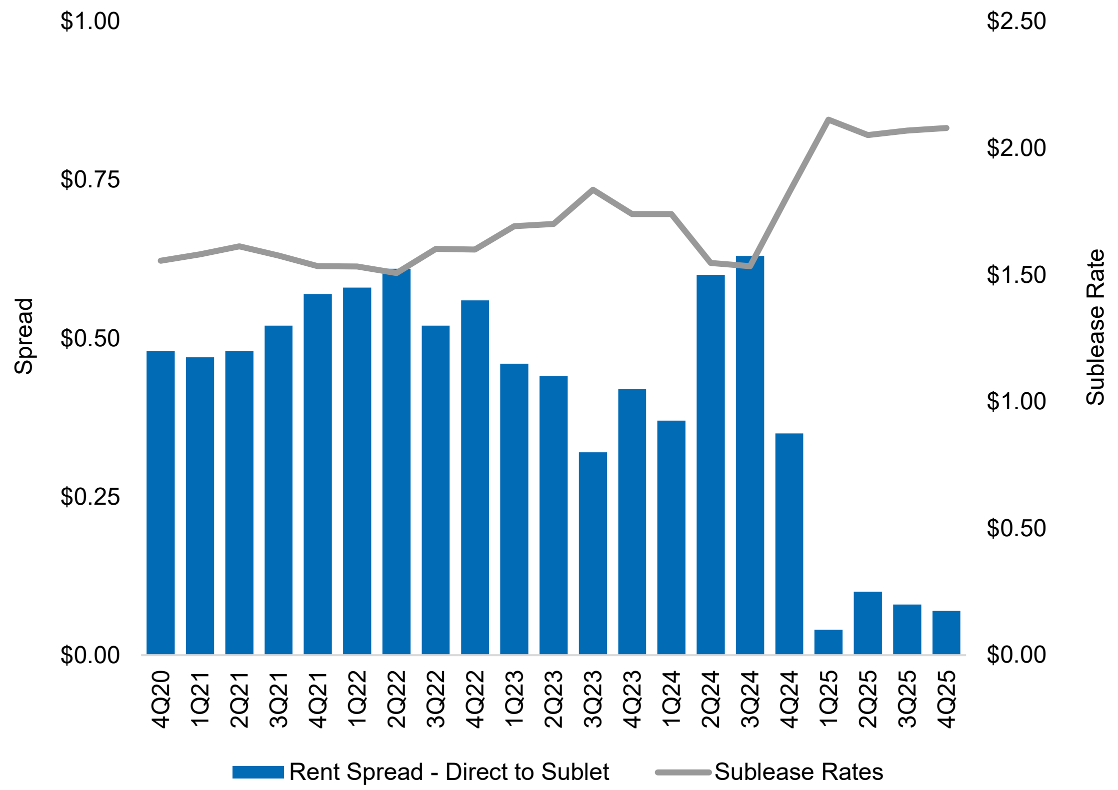
Class & Sublease Rates

While Class A rents have been on a slow decline since their peak in 2023, they remained steady the last half of the year ending at $2.68/SF Full Service in the fourth quarter and still held a 40.0% premium over Class B rents. Landing at $1.92/SF Full Service in the fourth quarter, Class B rents were down 3.1% year over year. Competitive sublease spaces kept the spread between direct and sublease rent to a minimum with the difference of a mere $0.07/SF in the fourth quarter and ending at $2.08/SF Full Service. Continued tenant preference for newer, higher-quality space and ample sublease options are constraining market-wide rent growth.

Class A and Class B Asking Rents



Sublease Rates



Source: Newmark Research, CoStar

Significant Leases

Notable Leases 4Q25

Tenant	Building(s)	Submarket	Type	Square Feet
California Department of Public Health	3701 N Freeway	Northgate/Natomas	New	42,293
Rhombus	1610 R Street	Midtown	Sublease	30,000
InterWest Insurance Services	3001 Lava Ridge Court	Roseville	New	27,148
California Department of General Services	10969 Trade Center Drive	Hwy 50 East	Renewal	24,995
California Department of Public Health	1415 L Street	Downtown	New	16,316

Source: Newmark Research, CoStar

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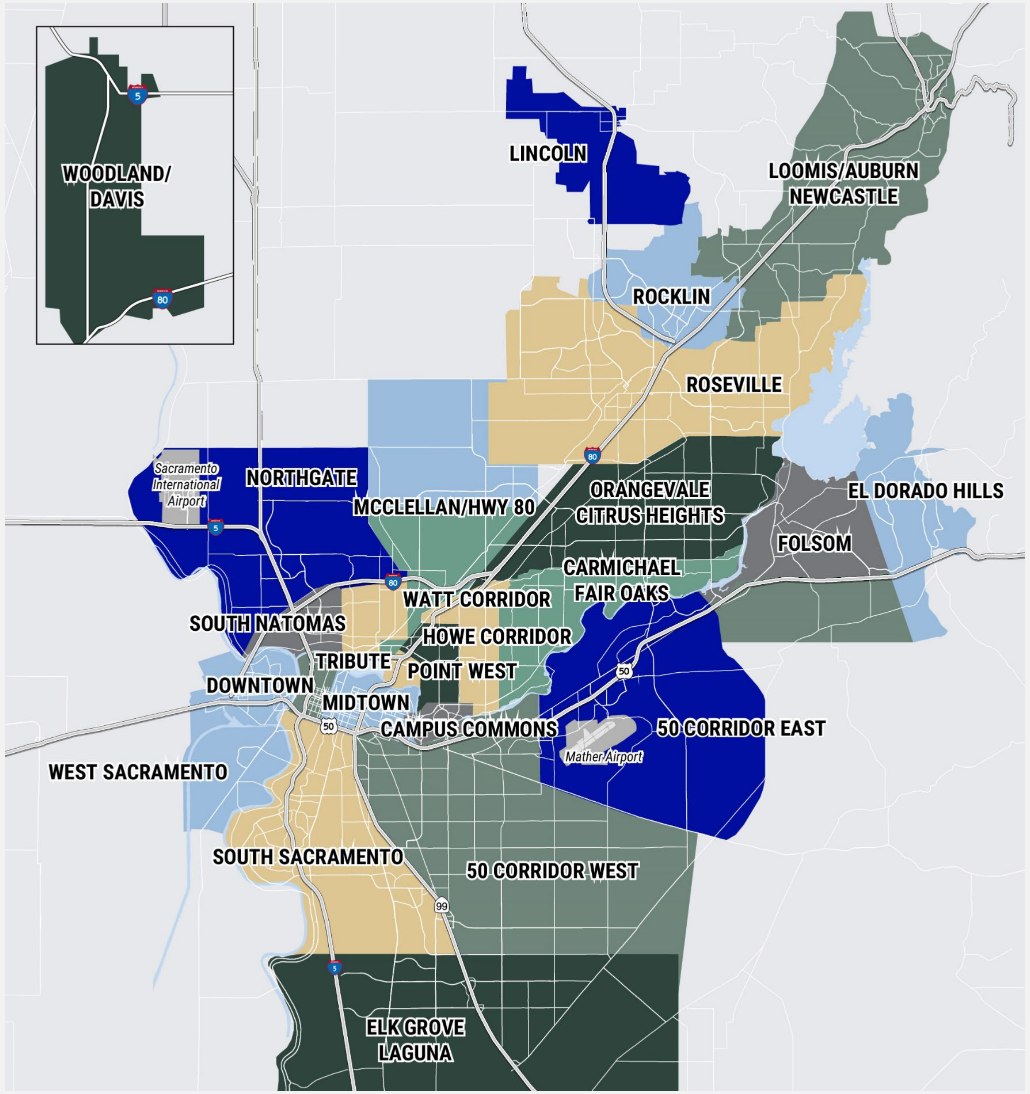
Appendix

Sacramento Submarket Map



Source: Newmark Research

Access the Extended 4Q25 Sacramento Office Report

The extended version of this report includes:

- **Data on leasing trends**
  - Deal count and average lease size
  - Leasing by submarket
- **Further insight into tenant demand**
- **Availability and rent data by submarket**
- **Market statistics for the overall market and Class A**

To access, please reach out to your Newmark contact.

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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.