

Sacramento Office Market

Activity Increases but Minimal Changes So Far

At the end of the first quarter of 2022, as the country is lifting restrictions and adjusting to a new normal, more companies are beginning to establish a more definitive workplace policy of either coming back to the office, working from home or a hybrid of both. The Sacramento office market ended the quarter with little change from the previous quarter, despite seeing an uptick in activity.

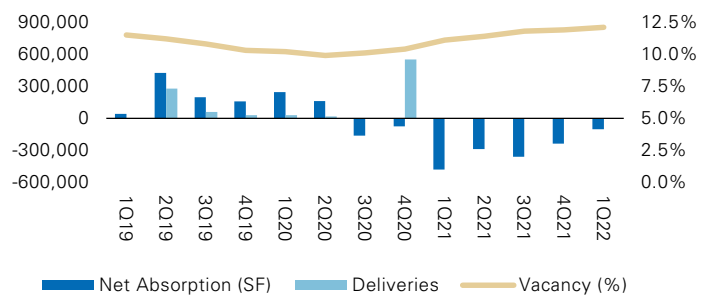
The Sacramento office market posted a slight increase in vacancy from 11.9% in the fourth quarter of 2021 to 12.1% in the first quarter of 2022. Over the past two years, the quarterly office vacancy rate has experienced minimal fluctuations. The largest space to become vacant was 100,338 square feet at 750 Riverpoint Drive in West Sacramento. The quarter ended with the office market's overall average full-service asking rent at \$2.09/SF, with Class A rents at \$2.65/SF, Class B rents at \$2.03/SF and Class C rents at \$1.63/SF. For comparison, the same overall average full-service rent was \$2.02/SF a year ago in the first quarter of 2021.

Net absorption again ended in the negative territory. The office market posted a net absorption of negative 100,289 square feet, making this the sixth consecutive quarter of negative net absorption. The negative net absorption total in the first quarter of

Market Summary

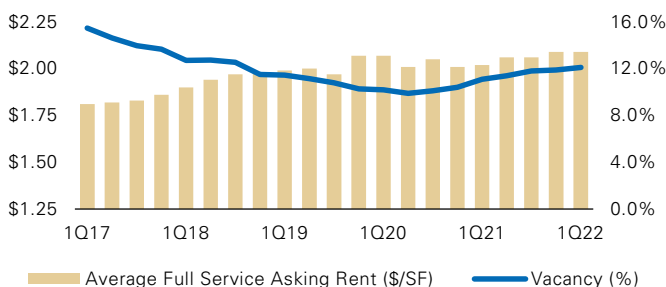
	Current Quarter	Prior Quarter	Year Ago Period	12-Month Forecast
Total Inventory (SF)	69.5M	70.4M	70.6M	↔
Vacancy Rate	12.1%	11.9%	11.4%	↓
Qtr Net Abs. (SF)	-101K	-236K	-477K	↑
Avg FS Asking Rent/SF	\$2.09	\$2.09	\$2.02	↑
Under Constr. (SF)	281K	281K	0M	↔

Net Absorption, New Construction, Vacancy Rate

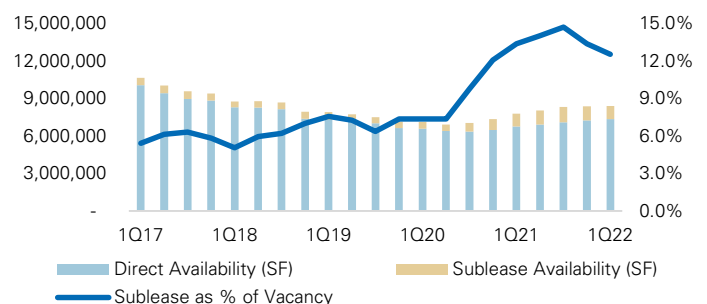


Market Analysis

ASKING RENT AND VACANCY RATE



SUBLEASE V. DIRECT AVAILABILITY (sf)



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2022 is far less than the fourth quarter 2021's net absorption total of negative 236,321 square feet and the first quarter 2021's net absorption total of negative 477,201 square feet. Despite this, tenants seem to be more active than they have been in the past two years. The largest lease transaction occurred in the 50 Corridor East submarket with a confidential tenant that is new to the market, who signed a lease for 194,591 square feet.

Tenant activity continues to increase in the market each week. Most of the suburban markets, like Roseville, Folsom and El Dorado Hills, are ahead of the curve. Markets like Downtown and South Natomas are anxiously awaiting the State of California government agencies' return to the office. Overall concessions are increasing but the major challenge facing landlords is the rising tenant improvement costs due to supply constraints, labor shortage, inflation and how to adjust rents to account for these rising costs. For the first time in a long time, landlords are contemplating increasing asking rental rates, raising annual increases, or both.

No office buildings completed construction during the quarter. During the last year, four State of California build-to-suits have completed construction, for a total of 1.9 million square feet. The State of California has been gradually moving agencies from private sector buildings into these state-owned buildings.

Three of the largest office buildings that are still currently under construction are: the California State Teachers' Retirement System expansion in West Sacramento (272,000 square feet); the new Sacramento County Courthouse at 500 G St. (543,290 square feet); and the State of California's Richards Boulevard Office Complex at 4468 Richards Blvd. (1.25 million square feet). Owner-occupied buildings developed by the State of California are not included in our market statistics.

Sacramento continues to be an attractive market to investors, due to the market's proven resiliency to the pandemic and lack of new inventory added to the market over the last 14 years. Basin Street Properties added to its Sacramento portfolio with the purchase of Gateway Oaks, a four-building complex in South Natomas, for \$58.0 million. This was the largest sale transaction during the quarter.

Activity in the Sacramento office market should continue to pick up during 2022 as most companies implement physical reentry plans to office buildings. Outside influences, like the conflict in the Ukraine, inflation, the upcoming election and the pandemic, will continue to impact companies' use of dedicated space office and expansions, but overall, it seems like the majority of Sacramento companies are dedicated to office workspace and working to reboarding the office.

Select Lease Transactions

Tenant	Building(s)	Submarket	Type	Square Feet
Confidential	White Rock Corporate Campus	50 Corridor East	Direct Lease	194,592
Confidential	3078 Prospect Park Dr	50 Corridor East	Direct Lease	61,358
State of California	980 9 th St	Downtown	Lease Renewal	48,073
State of California	2752 Kilgore Rd	50 Corridor East	Lease Renewal	41,532
Trifecta	428 J St	Downtown	Lease Renewal	20,584

Select Investment Sale Transactions

Building(s)	Market	Sale Price	\$/SF	Square Feet
2150 & 2151 River Plaza Dr 2520 Venture Oaks Wy 2295 Gateway Oaks Dr	South Natomas	\$58,000,000	\$183	316,689
2208 & 2218 Kausen Dr	Elk Grove	\$11,900,000	\$236	50,429
8241 & 8247 E Stockton Blvd	South Sacramento	\$9,899,500	\$364	27,191
1050 Iron Point Rd	Folsom	\$6,579,929	\$410	16,038
905-915 S St	Downtown	\$5,000,000	\$250	20,000

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Overall Submarket Statistics									
	Total Bldgs	Total Inventory (SF)	Under Construction (SF)	Total Vacancy (SF)	Total Vacancy Rate	Total Available (SF)	Total Available Rate	Quarter Absorption (SF)	Total FS Asking Rent (Price/SF)
Sacramento	776	32,214,753	-	3,910,437	12.1%	5,486,053	17.0%	(50,666)	\$2.31
Downtown	179	11,616,929		1,421,311	12.2%	2,041,178	17.6%	(36,241)	\$2.87
Midtown	130	3,644,049		302,265	8.3%	456,114	12.5%	3,179	\$2.31
South Natomas	56	3,748,146		540,126	14.4%	798,100	21.3%	(22,952)	\$2.32
North Natomas	83	3,552,921		384,042	10.8%	438,482	12.3%	17,946	\$1.67
Point West	48	2,443,064		316,457	13.0%	486,628	19.9%	(17,341)	\$2.05
Campus Commons	70	1,679,885		194,475	11.6%	253,702	15.1%	(2,916)	\$2.26
Howe Corridor	81	1,660,959		220,751	13.3%	248,455	15.0%	10,440	\$1.62
Watt Corridor	66	1,822,278		343,297	18.8%	436,197	23.9%	160	\$1.49
South Sacramento	51	1,661,465		125,922	7.6%	180,053	10.8%	4,559	\$1.30
Tribute Road Woodlake	12	385,057		61,791	16.0%	147,144	38.2%	(7,500)	\$1.79
50 Corridor West	58	3,101,017		445,027	14.4%	605,707	19.5%	(11,960)	\$1.65
50 Corridor East	245	11,672,880		1,899,816	16.3%	2,925,783	25.1%	15,258	\$1.77
Folsom	114	4,509,004		282,301	6.3%	509,820	11.3%	(12,122)	\$2.15
El Dorado Hills	57	1,555,280		235,805	15.2%	262,761	16.9%	1,530	\$2.11
Roseville	254	8,640,864		1,017,390	11.8%	1,597,681	18.5%	46,644	\$1.95
Douglas Corridor	99	3,797,453		359,766	9.5%	520,536	13.7%	6,932	\$2.27
Roseville – Other	155	4,843,411	9,244	657,624	13.6%	1,077,145	22.2%	39,712	\$1.70
Rocklin	67	1,665,318		174,598	10.5%	239,343	14.4%	7,785	\$1.96
Carmichael Fair Oaks	54	571,073		43,013	7.5%	55,141	9.7%	(434)	\$1.50
Orangevale Citrus Heights	64	1,412,015		188,540	13.4%	198,441	14.1%	1,857	\$1.29
Elk Grove Laguna	64	1,640,705		69,775	4.3%	90,338	5.5%	(1,303)	\$2.34
West Sacramento	39	2,060,506	272,000	135,085	6.6%	371,858	18.0%	(97,106)	\$2.05
North Sacramento	9	410,147		9,942	2.4%	19,034	4.6%	(72)	\$1.35
SACRAMENTO REGION	1,801	69,453,562	281,244	8,411,729	12.1%	12,361,960	17.8%	(100,589)	\$2.09

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Class A Submarket Statistics										
	Total Bldgs	Inventory (SF)	Vacancy (SF)	Direct Vacancy (SF)	Sublease Vacancy (SF)	Class A Vacancy Rate	Available (SF)	Class A Available Rate	Qtr Net Absorp (SF)	Avg FS Ask Rent (Price/SF)
Sacramento	63	9,808,372	1,032,174	936,829	95,345	10.5%	1,683,994	17.2%	(80,168)	\$2.87
Downtown	19	5,516,081	461,473	428,308	33,165	8.4%	860,493	15.6%	(44,845)	\$3.35
Midtown	5	334,796	11,988	11,988	0	3.6%	15,113	4.5%	0	\$2.89
South Natomas	17	1,768,455	331,006	294,448	36,558	18.7%	407,248	23.0%	(20,886)	\$2.50
North Natomas	5	805,636	23,144	14,123	9,021	2.9%	32,508	4.0%	0	\$2.31
Point West	10	1,123,065	184,366	176,237	8,129	16.4%	331,827	29.5%	(19,941)	\$2.14
Campus Commons	6	245,833	20,197	11,725	8,472	8.2%	36,805	15.0%	5,504	\$2.67
Howe Corridor	1	14,506	0	0	0	0.0%	0	0.0%	0	\$0.00
Watt Corridor	0	0	0	0	0	0.0%	0	0.0%	0	\$0.00
South Sacramento	0	0	0	0	0	0.0%	0	0.0%	0	\$0.00
Tribute Road Woodlake	0	0	0	0	0	0.0%	0	0.0%	0	\$0.00
50 Corridor West	12	1,162,515	168,992	115,847	53,145	14.5%	187,627	16.1%	(6,772)	\$2.04
50 Corridor East	12	1,433,488	295,962	280,962	15,000	20.6%	484,044	33.8%	6,641	\$2.16
Folsom	19	2,185,662	111,430	42,371	69,059	5.1%	161,427	7.4%	(22,981)	\$2.45
El Dorado Hills	15	617,343	33,735	33,735	0	5.5%	52,971	8.6%	3,210	\$2.67
Roseville	10	1,222,662	118,323	93,805	24,518	9.7%	170,773	14.0%	(21,703)	\$2.44
Douglas Corridor	8	991,980	76,305	51,787	24,518	7.7%	120,829	12.2%	(21,703)	\$2.49
Roseville - Other	2	230,682	42,018	42,018	0	18.2%	49,944	21.7%	0	\$2.35
Rocklin	5	514,509	101,728	101,728	0	19.8%	149,289	29.0%	4,491	\$2.22
Carmichael Fair Oaks	0	0	0	0	0	0.0%	0	0.0%	0	\$0.00
Orangevale Citrus Heights	0	0	0	0	0	0.0%	0	0.0%	0	\$0.00
Elk Grove Laguna Galt	12	799,751	35,616	20,378	15238	4.5%	47,121	5.9%	(7,993)	\$2.79
West Sacramento	2	800,000	0	0	0	0.0%	227,813	28.5%	0	\$0.00
North Sacramento	0	0	0	0	0	0.0%	0	0.0%	0	\$0.00
SACRAMENTO REGION	150	18,544,302	1,897,960	1,625,655	272,305	10.2%	3,165,059	17.1%	(125,275)	\$2.65

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Class B Submarket Statistics										
	Total Bldgs	Inventory (SF)	Vacancy (SF)	Direct Vacancy (SF)	Sublease Vacancy (SF)	Class B Vacancy Rate	Available (SF)	Class B Available Rate	Qtr Net Absorp (SF)	Avg FS Ask Rent (Price/SF)
Sacramento	354	13,953,843	1,644,735	1,574,545	70,190	11.8%	2,221,819	15.9%	4,516	\$2.18
Downtown	40	3,338,508	491,414	457,645	33,769	14.7%	596,635	17.9%	4,444	\$2.80
Midtown	22	1,110,922	91,587	91,587	0	8.2%	143,097	12.9%	0	\$2.35
South Natomas	38	1,973,691	209,120	199,696	9,424	10.6%	390,852	19.8%	(2,066)	\$2.13
North Natomas	52	1,602,289	199,781	190,188	9,593	12.5%	227,130	14.2%	2,211	\$1.72
Point West	38	1,319,999	132,091	124,712	7,379	10.0%	154,801	11.7%	2,600	\$1.83
Campus Commons	64	1,434,052	174,278	165,444	8,834	12.2%	216,897	15.1%	(8,420)	\$2.20
Howe Corridor	51	1,131,499	176,548	175,357	1,191	15.6%	201,069	17.8%	1,444	\$1.64
Watt Corridor	17	786,593	115,492	115,492	0	14.7%	145,756	18.5%	4,303	\$1.69
South Sacramento	30	998,446	7,633	7,633	0	0.8%	23,791	2.4%	0	\$1.62
Tribute Road Woodlake	2	257,844	46,791	46,791	0	18.1%	121,791	47.2%	0	\$1.85
50 Corridor West	18	1,185,185	90,080	79,007	11,073	7.6%	186,087	15.7%	0	\$1.66
50 Corridor East	162	8,445,470	1,269,731	954,582	315,149	15.0%	2,102,216	24.9%	5,996	\$1.81
Folsom	89	2,250,140	169,671	165,154	4,517	7.5%	347,193	15.4%	10,859	\$2.04
El Dorado Hills	40	900,437	202,070	125,020	77,050	22.4%	209,790	23.3%	(1,680)	\$1.95
Roseville	158	5,482,973	603,636	428,291	175,345	11.0%	1,070,418	19.5%	14,429	\$2.01
Douglas Corridor	82	2,530,175	243,431	192,687	50,744	9.6%	359,677	14.2%	15,992	\$2.24
Roseville - Other	76	2,952,798	360,205	235,604	124,601	12.2%	710,741	24.1%	(1,563)	\$1.77
Rocklin	53	1,051,255	66,047	66,047	0	6.3%	83,231	7.9%	1,270	\$1.58
Carmichael Fair Oaks	1	38,360	0	0	0	0.0%	0	0.0%	0	\$0.00
Orangevale Citrus Heights	8	208,040	31,167	22,137	9,030	15.0%	31,167	15.0%	1,504	\$1.59
Elk Grove Laguna Galt	36	664,735	29,862	24,340	5,522	4.5%	38,920	5.9%	2,425	\$2.04
West Sacramento	21	1,041,702	129,149	129,149	0	12.4%	138,109	13.3%	(99,867)	\$2.07
North Sacramento	0	0	0	0	0	0.0%	0	0.0%	0	\$0.00
SACRAMENTO REGION	940	35,222,140	4,236,148	3,568,272	667,876	12.0%	6,428,950	18.3%	(60,548)	\$2.03

RESEARCH Q1 2022

Class C Submarket Statistics										
	Total Bldgs	Inventory (SF)	Vacancy (SF)	Direct Vacancy (SF)	Sublease Vacancy (SF)	Class C Vacancy Rate	Available (SF)	Class C Available Rate	Qtr Net Absorp (SF)	Avg FS Ask Rent (Price/SF)
Sacramento	359	8,452,538	1,233,528	1,174,537	58,991	14.6%	1,580,240	18.7%	24,986	\$1.85
Downtown	120	2,762,340	468,424	468,424	0	17.0%	584,050	21.1%	4,160	\$2.20
Midtown	103	2,198,331	198,690	189,676	9,014	9.0%	297,904	13.6%	3,179	\$2.24
South Natomas	1	6,000	0	0	0	0.0%	0	0.0%	0	\$0.00
North Natomas	26	1,144,996	161,117	123,862	37,255	14.1%	178,844	15.6%	15,735	\$1.38
Point West	0	0	0	0	0	0.0%	0	0.0%	0	\$0.00
Campus Commons	0	0	0	0	0	0.0%	0	0.0%	0	\$0.00
Howe Corridor	29	514,954	44,203	44,203	0	8.6%	47,386	9.2%	8,996	\$1.55
Watt Corridor	49	1,035,685	227,805	222,583	5,222	22.0%	290,441	28.0%	(4,143)	\$1.42
South Sacramento	21	663,019	118,289	118,289	0	17.8%	156,262	23.6%	4,559	\$1.25
Tribute Road Woodlake	10	127,213	15,000	7,500	7500	11.8%	25,353	19.9%	(7,500)	\$1.39
50 Corridor West	28	753,317	185,955	185,955	0	24.7%	231,993	30.8%	(5,188)	\$1.39
50 Corridor East	71	1,793,922	334,123	334,123	0	18.6%	339,523	18.9%	2,621	\$1.27
Folsom	6	73,202	1,200	1,200	0	1.6%	1,200	1.6%	0	\$1.50
El Dorado Hills	2	37,500	0	0	0	0.0%	0	0.0%	0	\$0.00
Roseville	86	1,935,229	295,431	242,168	53,263	15.3%	356,490	18.4%	53,918	\$1.41
Douglas Corridor	9	275,298	40,030	28,806	11,224	14.5%	40,030	14.5%	12,643	\$1.52
Roseville - Other	77	1,659,931	255,401	213,362	42,039	15.4%	316,460	19.1%	41,275	\$1.40
Rocklin	9	99,554	6,823	6,823	0	6.9%	6,823	6.9%	2,024	\$1.38
Carmichael Fair Oaks	53	532,713	43,013	43,013	0	8.1%	55,141	10.4%	(434)	\$1.50
Orangevale Citrus Heights	56	1,203,975	157,373	155,290	2,083	13.1%	167,274	13.9%	353	\$1.25
Elk Grove Laguna Galt	16	176,219	4,297	4,297	0	2.4%	4,297	2.4%	4,265	\$1.30
West Sacramento	16	218,804	5,936	5,936	0	2.7%	5,936	2.7%	2,761	\$1.47
North Sacramento	9	410,147	9,942	9,942	0	2.4%	19,034	4.6%	(72)	\$1.35
SACRAMENTO REGION	711	15,687,120	2,277,621	2,163,284	114,337	14.5%	2,767,951	17.6%	85,234	\$1.63

For more information:

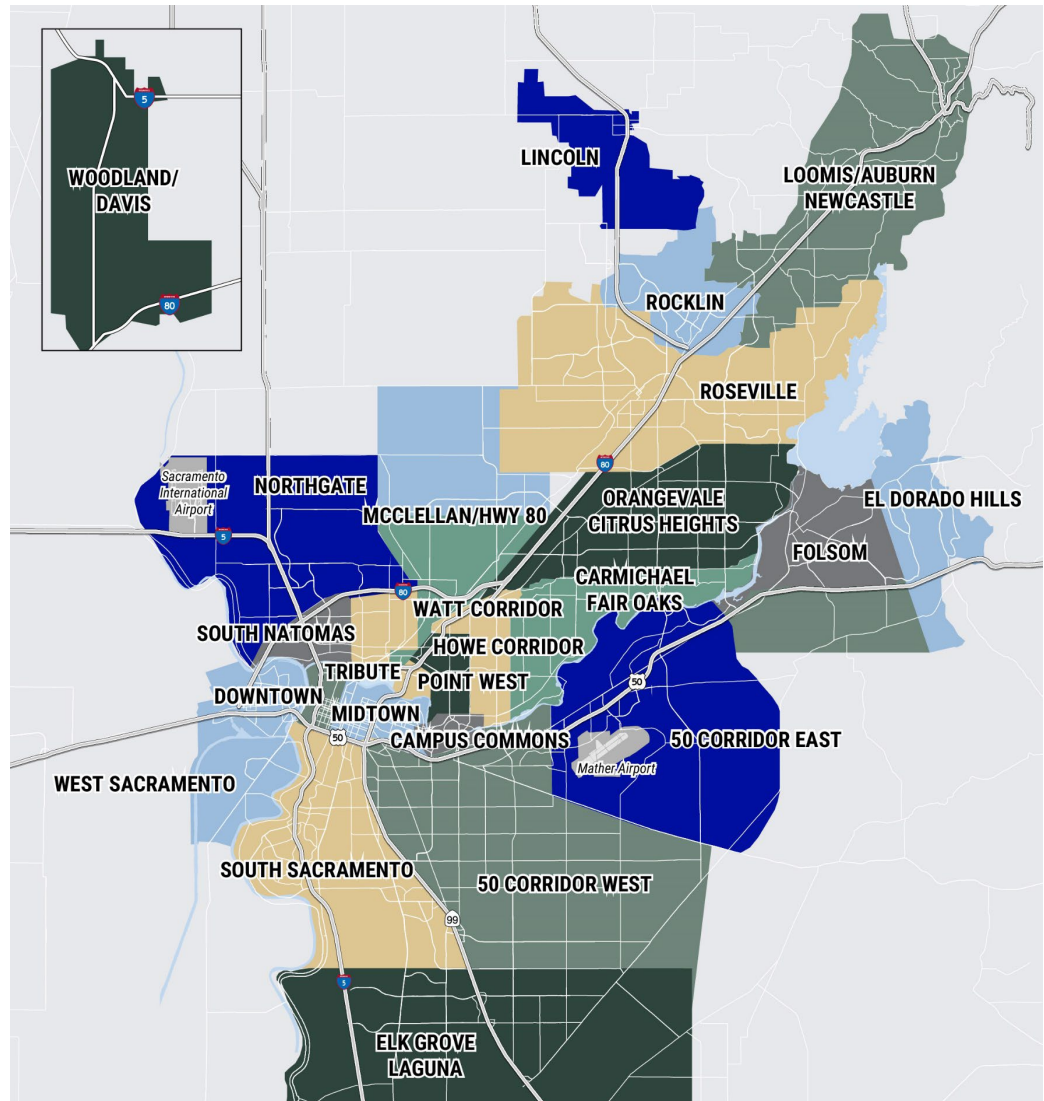
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Newmark has implemented a proprietary database and our tracking methodology has been revised. With this expansion and refinement in our data, there may be adjustments in historical statistics including availability, asking rents, absorption and effective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

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