
1Q24

Sacramento Office Market Overview



NEWMARK

Market Observations

Economy

- The unemployment rate increased slightly in the Sacramento Metro during the fourth quarter of 2023. The unemployment rate for the Sacramento Metro recorded at 4.4%, which is slightly higher than the national average of 3.7%.
- The Construction sector saw the largest 12-month change, followed by the education and health sector. The financial activities and information sectors both recorded a decrease in growth over the past year.
- While the office-using employment sectors decreased year-over-year, they have been increasing each month since August.

Major Transactions

- The top five office transactions for the quarter were all lease renewals and all under 92,000 square feet. The largest was a State of California renewal of 91,400 square feet.
- Notable sale transactions included three buildings purchased by Ethan Conrad Properties – 3215 Prospect Park Drive (105,000 square feet), 2525 Natomas Park Drive (97,153 square feet) and 10961 Sun Center Drive (43,882 square feet).
- Only two large office buildings are currently under construction and have a completion date scheduled for the first quarter of 2025.

Leasing Market Fundamentals

- The Sacramento office vacancy rate rose to 16.7% in the fourth quarter from the previous quarter's vacancy rate of 16.5%.
- Net absorption posted a negative 211,022 square feet during the quarter bringing the year-to-date net absorption total to just over negative 2.0 million square feet.
- Only two large buildings (255,000 square feet and 314,000 square feet) in the Aggie Square project are currently under construction. It should be noted that an additional 1.9 million square feet of government or medical buildings are currently under construction but will not be included in the office study inventory.

Outlook

- The office vacancy will rise in 2024 as a State of California office building (1.3 million square feet) will complete construction and will see multiple State agencies vacate private sector buildings.
- The Sacramento office sale market should remain active.
- With challenging economic conditions continuing through 2024, the Sacramento office market should be able to ride out any waves along the way.

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

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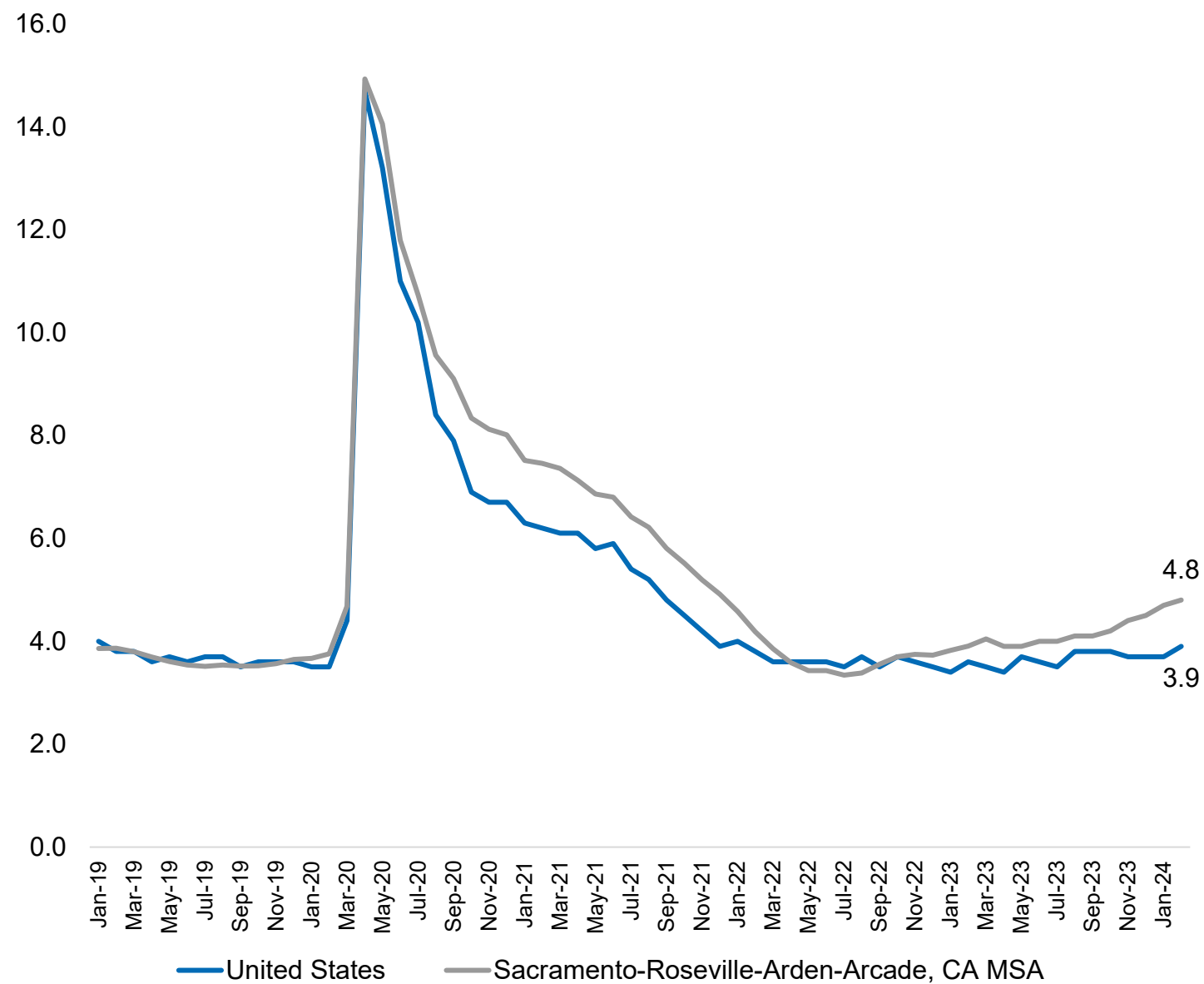
Economy



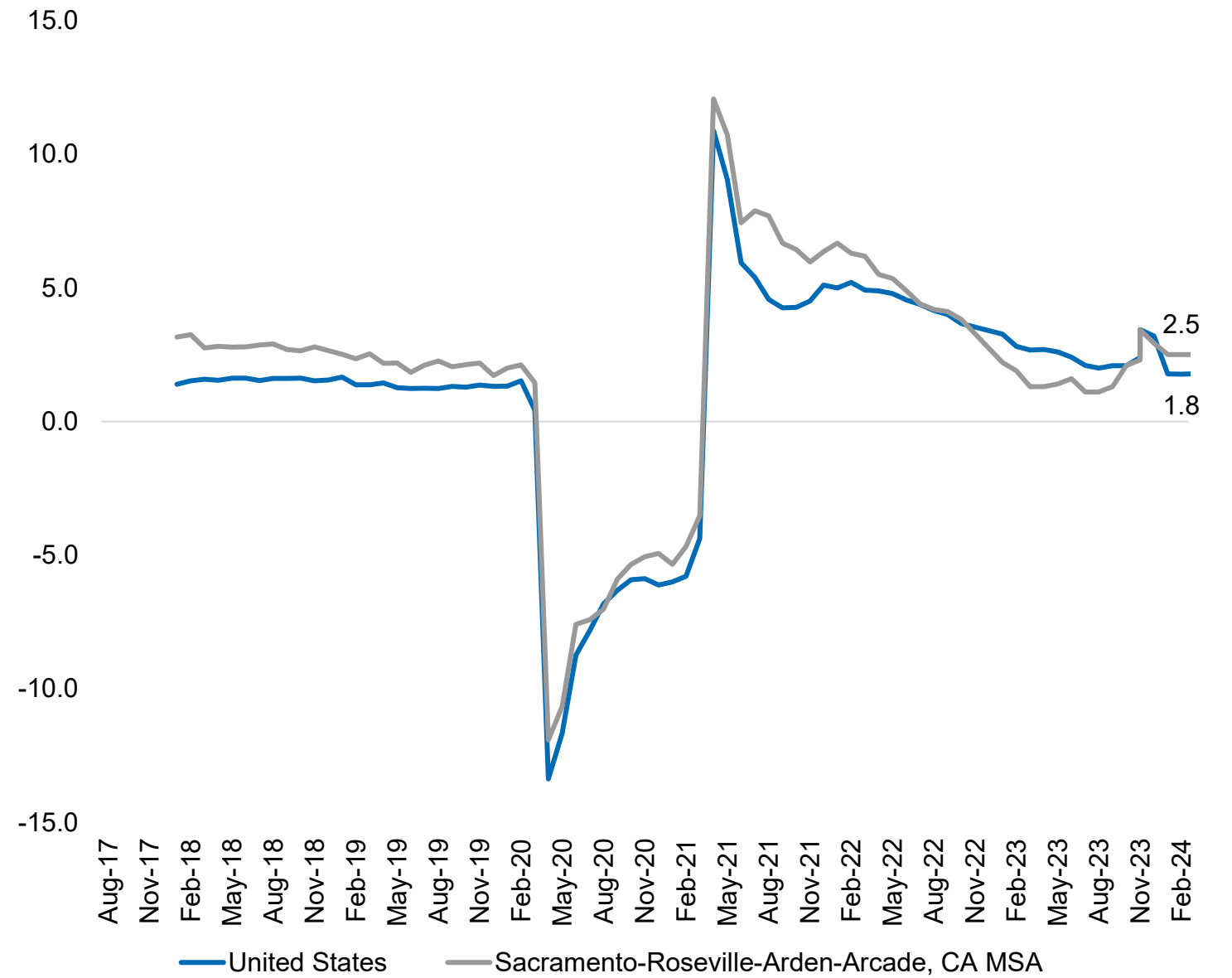
Metro Employment Increases

The unemployment rate increased slightly in the Sacramento Metro during the first quarter of 2024. The unemployment rate for the Sacramento Metro recorded at 4.8%, which is higher than the national average of 3.9%.

Unemployment Rate, Seasonally Adjusted



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

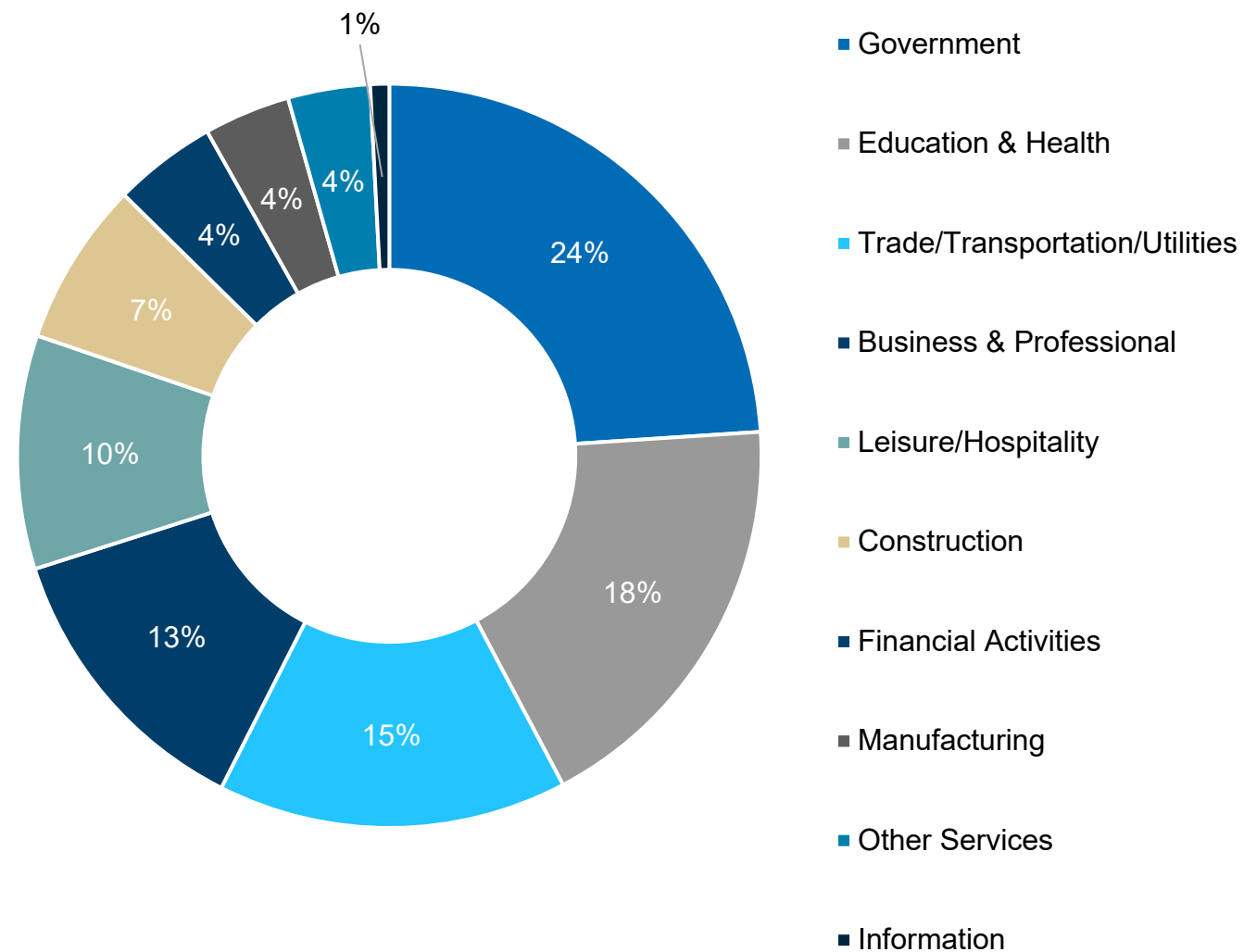


Source: U.S. Bureau of Labor Statistics, Sacramento-Roseville-Arden-Arcade, CA MSA

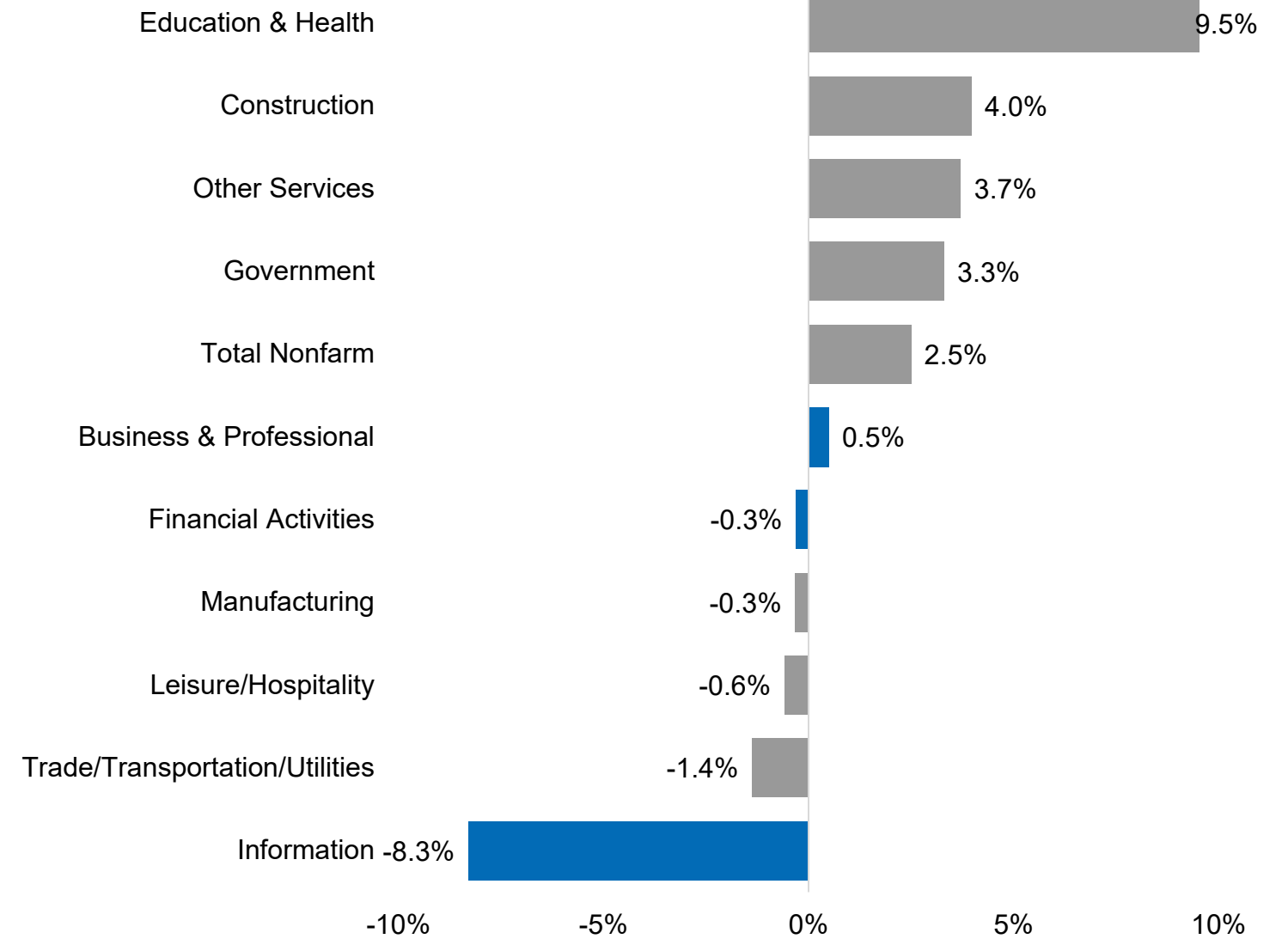
Government Sector Showed A Slight Increase In Job Growth

The Education & Health sector saw the largest 12-month change, followed by the Information sector. The office-using sectors of financial activities and information sectors both recorded a decrease in growth over the past year.

Employment by Industry, Feb 2024



Employment Growth by Industry, 12-Month % Change, Feb 2024

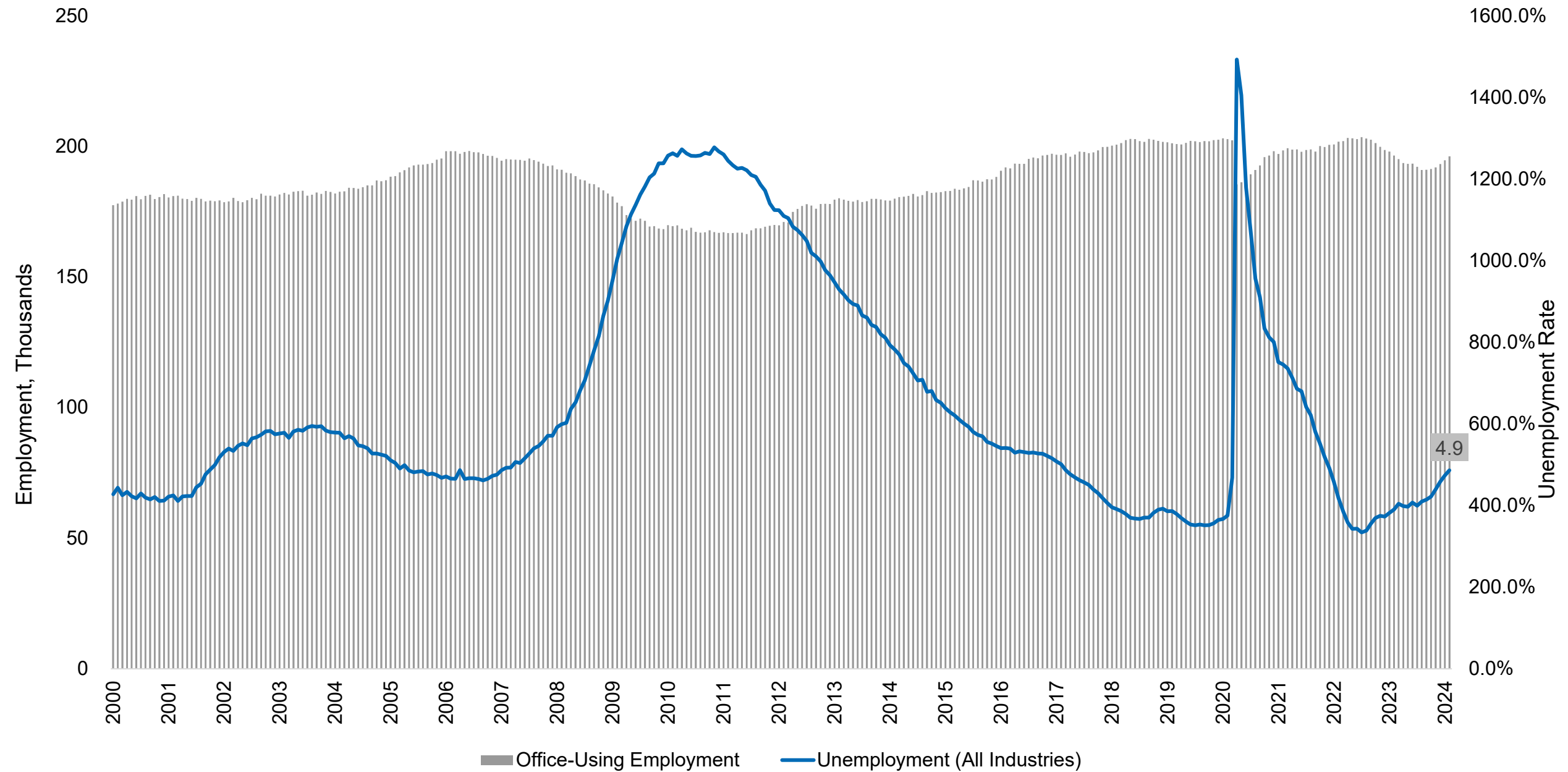


Source: U.S. Bureau of Labor Statistics, Sacramento-Roseville-Arden-Arcade, CA MSA

Overall Office-Using Employment Increases Slightly

The overall office-using employment increased slightly over the last two quarters.

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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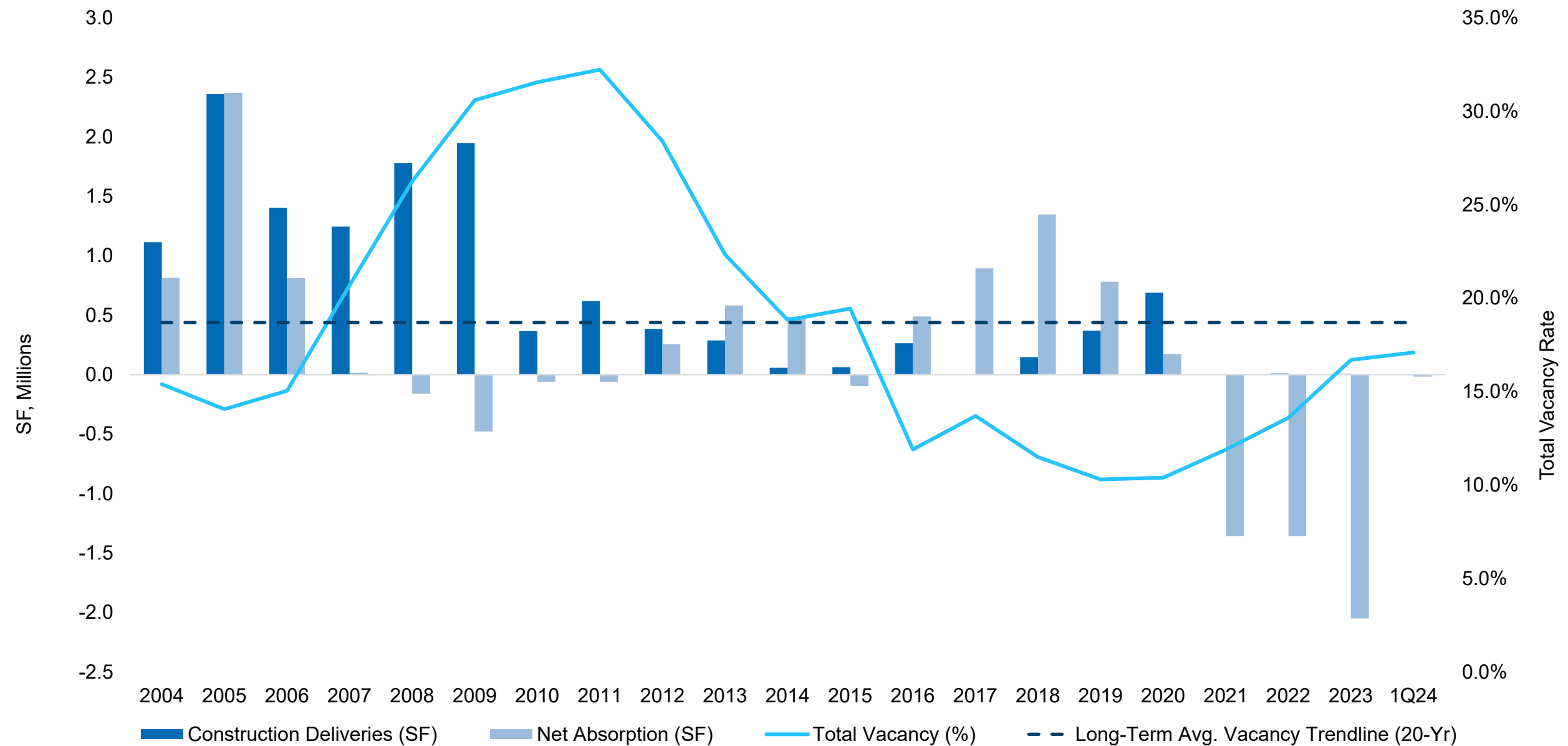
Leasing Market Fundamentals



Vacancy Increases Slightly as Net Absorption Records Another Negative Quarter

The Sacramento office ended the first quarter 2024 with a vacancy rate of 17.1% up slightly from the fourth quarter's vacancy rate of 16.7%. The office market recorded another quarter of negative net absorption with negative 15,438 square feet, making it the fifth consecutive quarter of negative net absorption. Construction continues 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

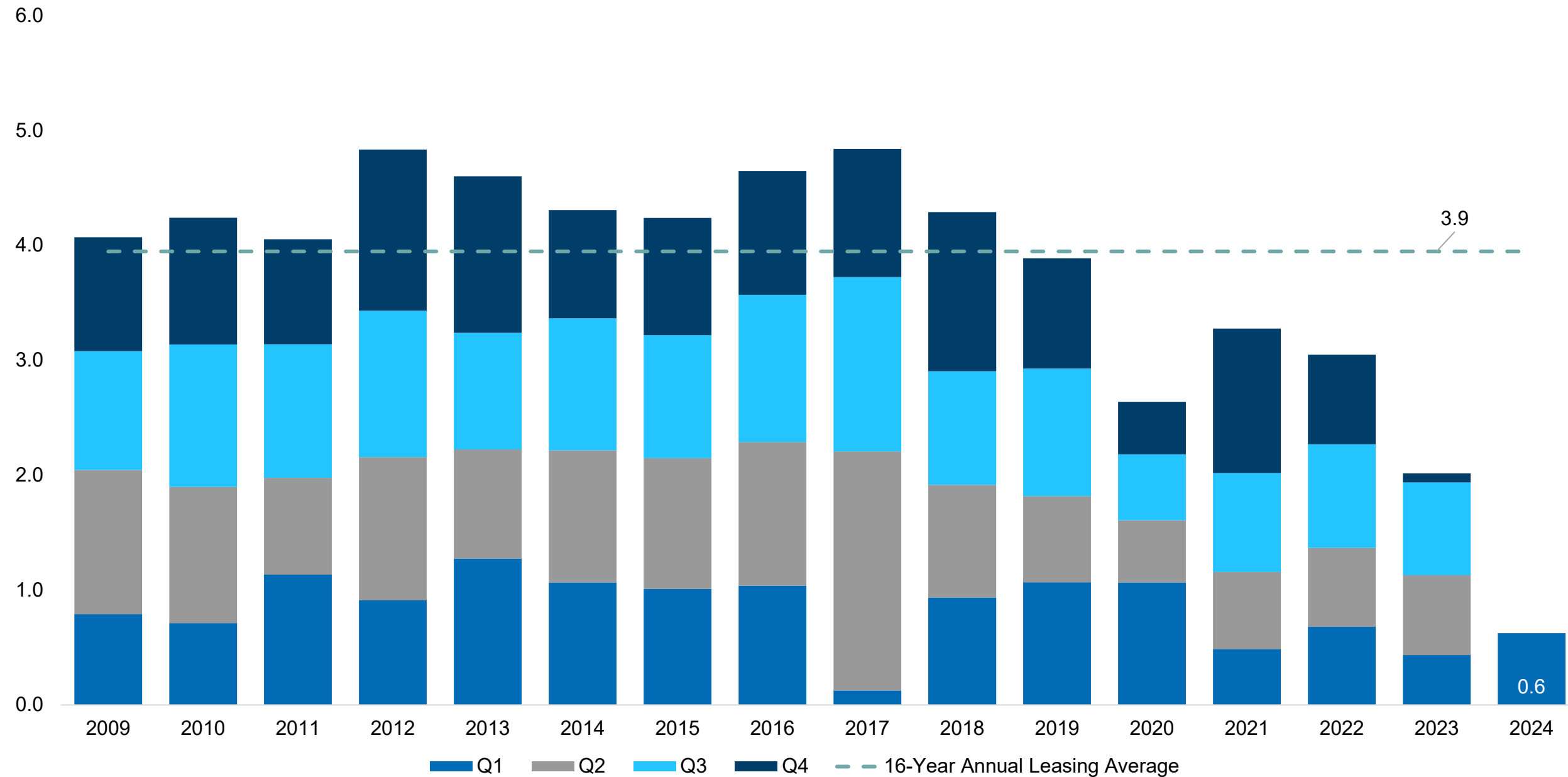


Source: Newmark Research

Leasing Activity Pace Has Slightly Increased

Leasing activity slightly increased in the first quarter of 2024 compared to the fourth quarter of 2023 and same quarter a year ago.

Total Leasing Activity (msf)



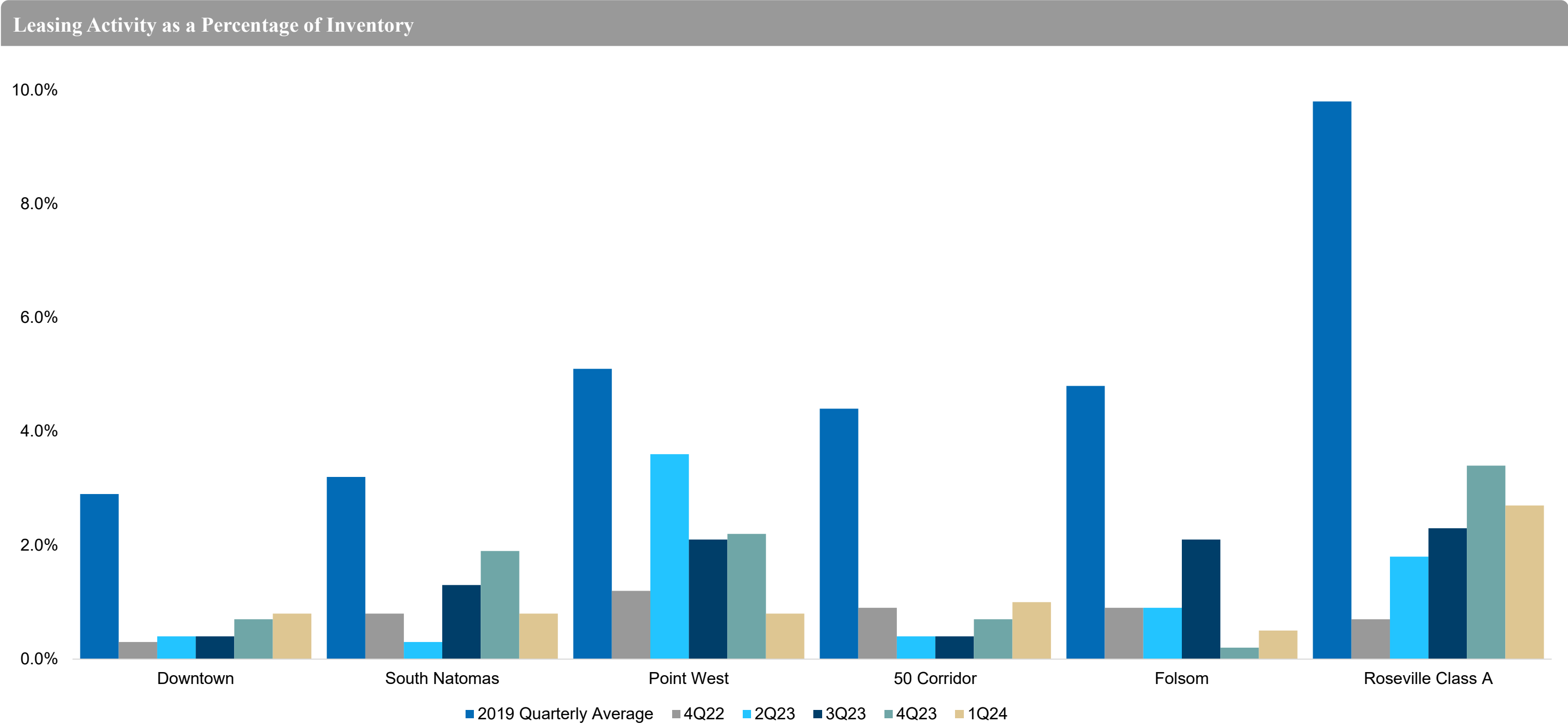
Source: CoStar



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Submarkets Continue To Make Small Improvements

Submarket leasing activity as a percentage of inventory continue to perform much lower than pre-pandemic levels.



Source: Newmark Research, CoStar

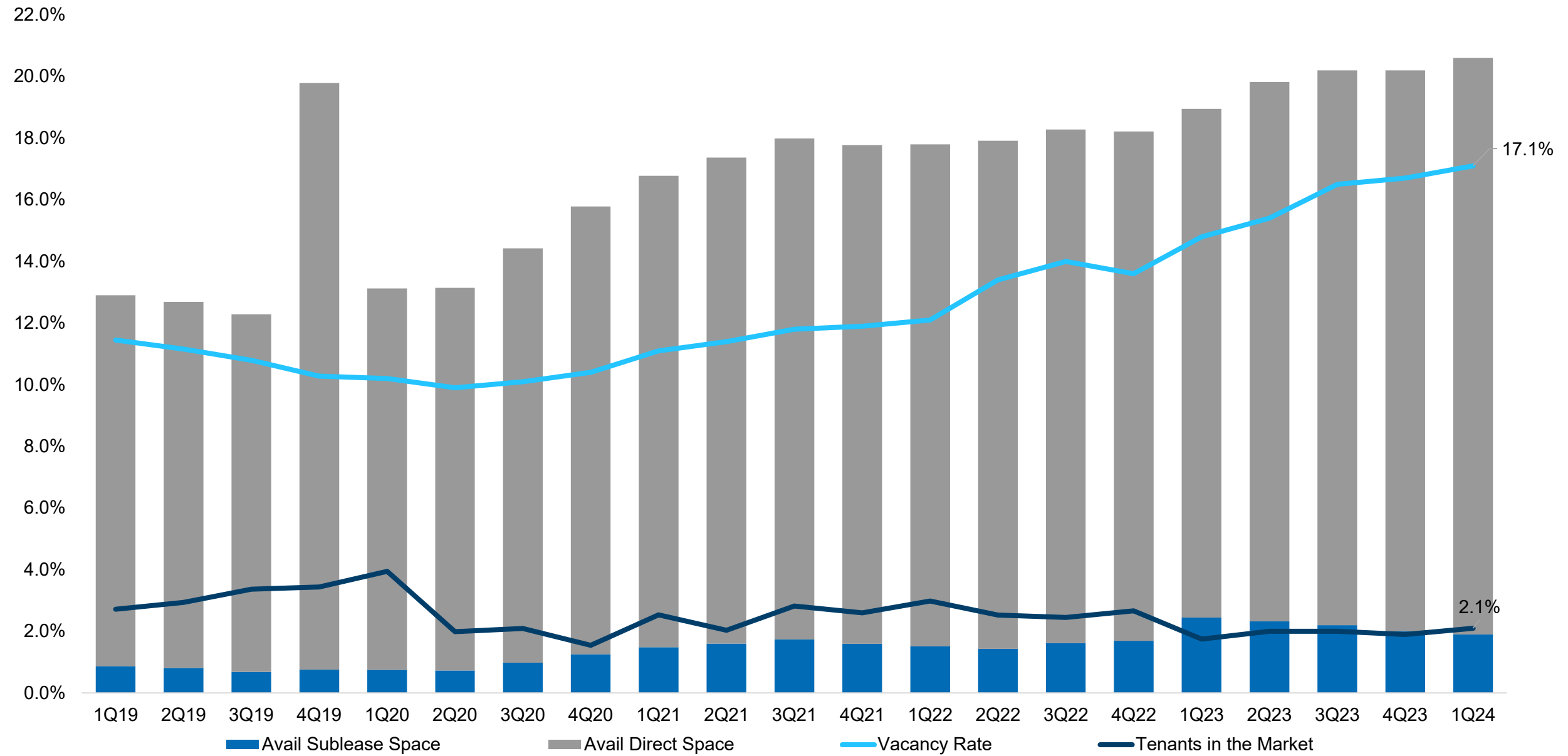


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Availability and Tenant Demand Holds Steady

The vacancy rate and tenant demand remains steady in the first quarter 2024. The vacancy rate for the first quarter of 2024 was 17.1% compared with 16.7% in the fourth quarter of 2023 and 13.6% in the fourth quarter of 2022.

Available Space and Tenant Demand as Percent of Overall Market



Source: Newmark Research

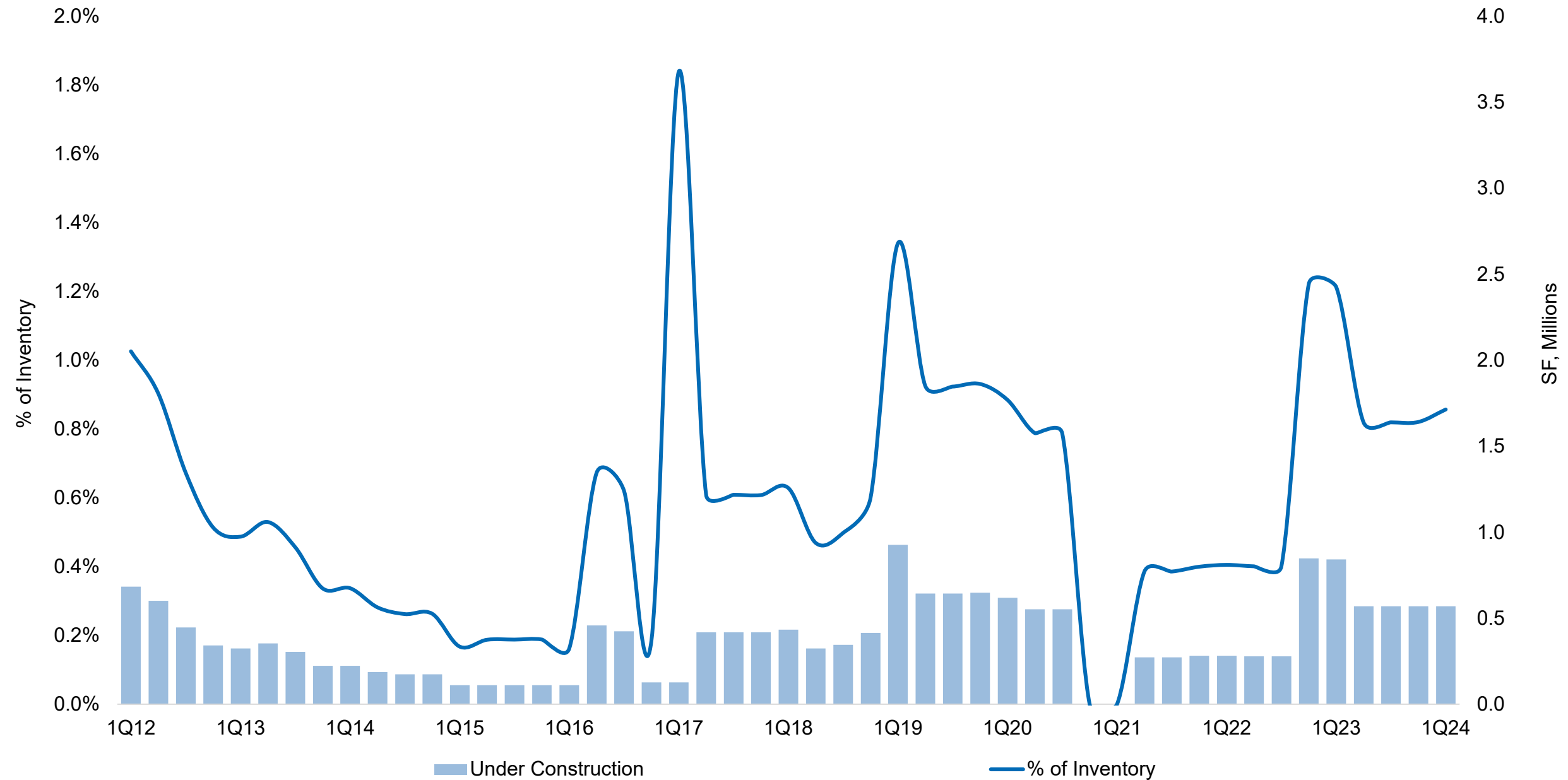


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No New Construction But Construction Still Active

In the past four quarters, only two large office buildings are currently under construction and have a completion date scheduled for the first quarter of 2025. However, the construction pipeline remains active with government and medical buildings, which are not included in our inventory.

Office Under Construction and % of Inventory



Source: Newmark Research,

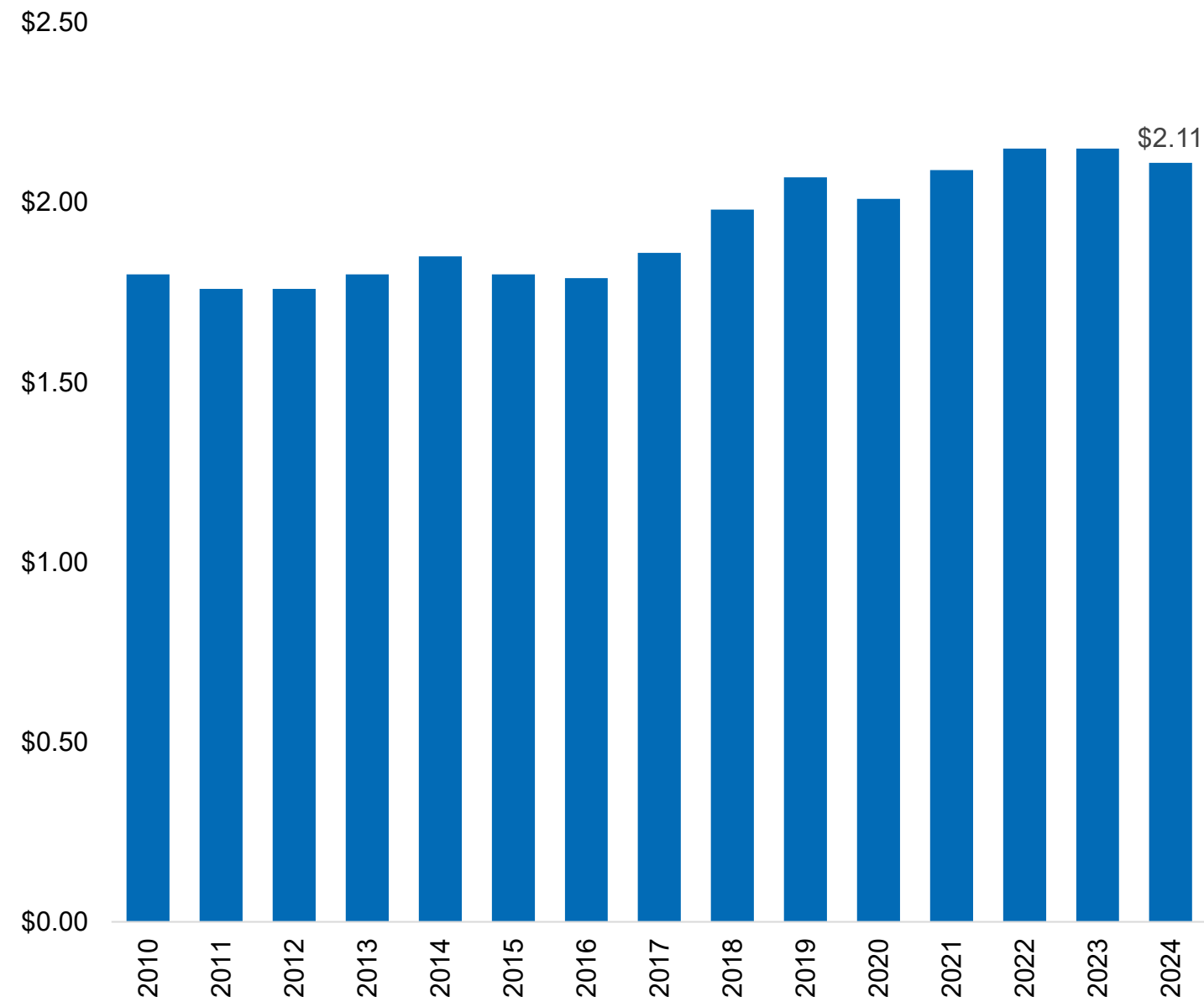


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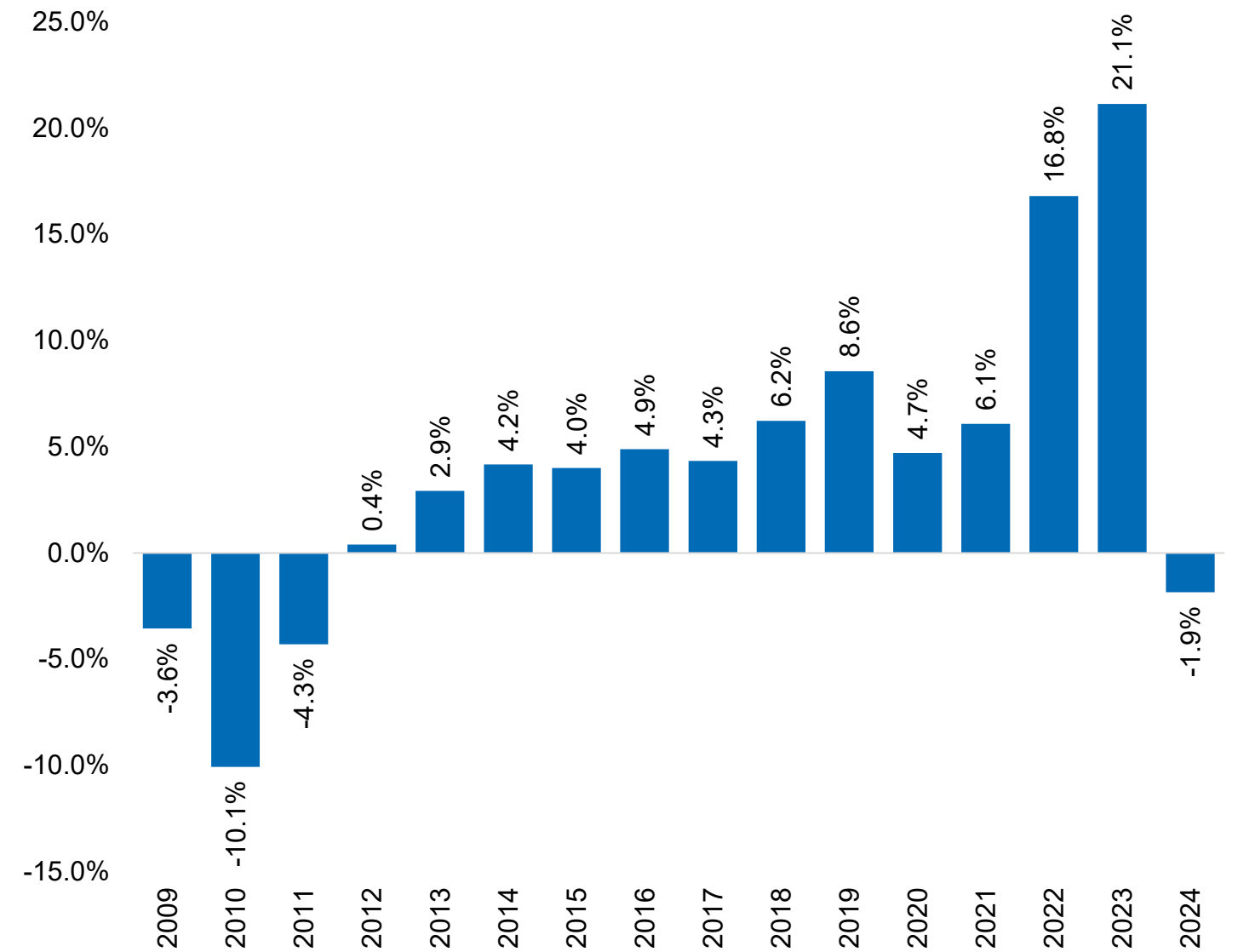
Overall Rents Decreased Slightly

Office rental rates decreased slightly in the first quarter with the asking rents at \$2.11/SF. All class rents posted a minimal decrease from the fourth quarter of 2023, with Class A rents at \$2.63/SF, Class B rents at \$1.99/SF and Class C rents at \$1.61/SF.

Office Average Asking Rent, \$/SF, FS



Year-over-Year Asking Rent Growth Rate

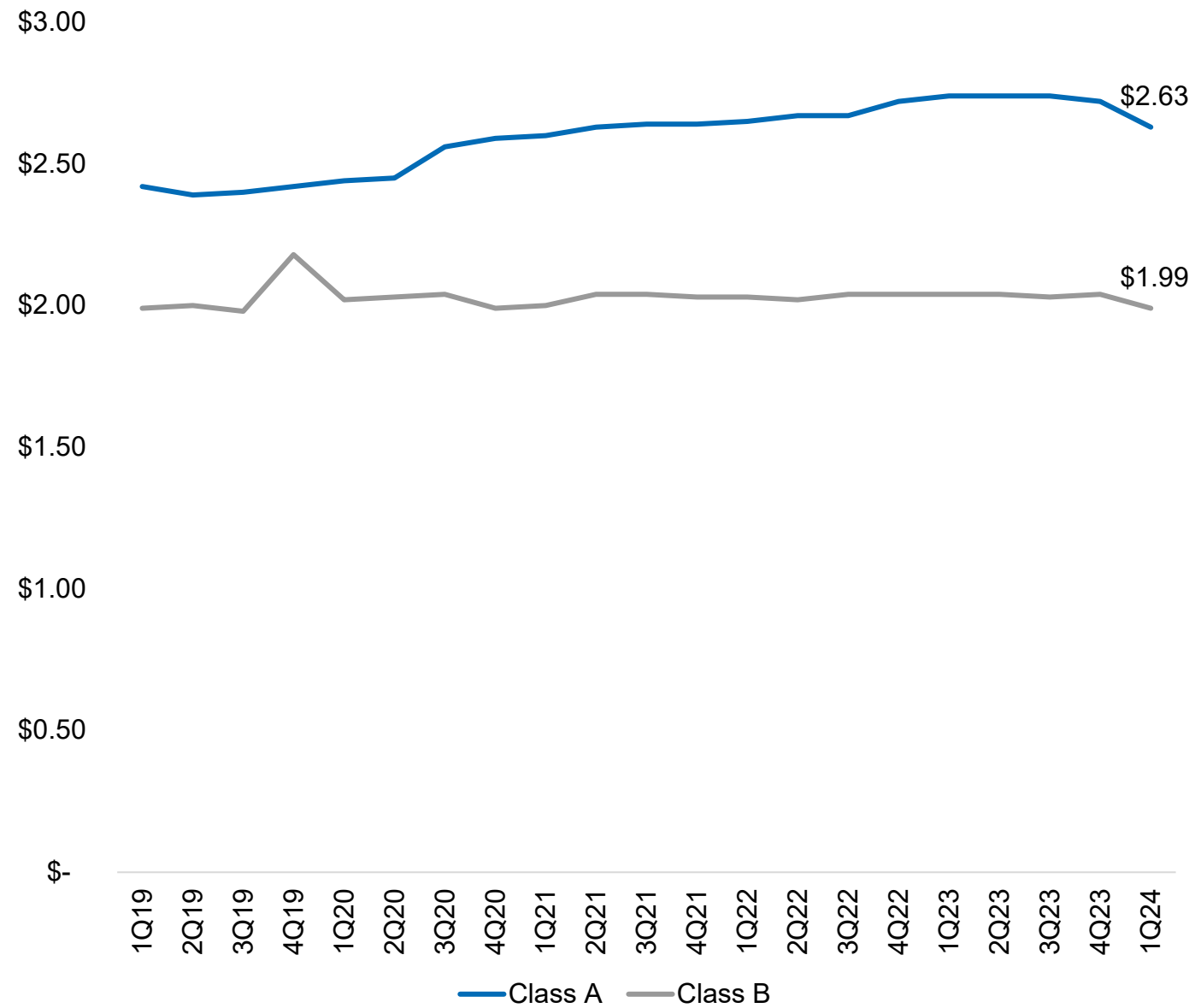


Source: Newmark Research

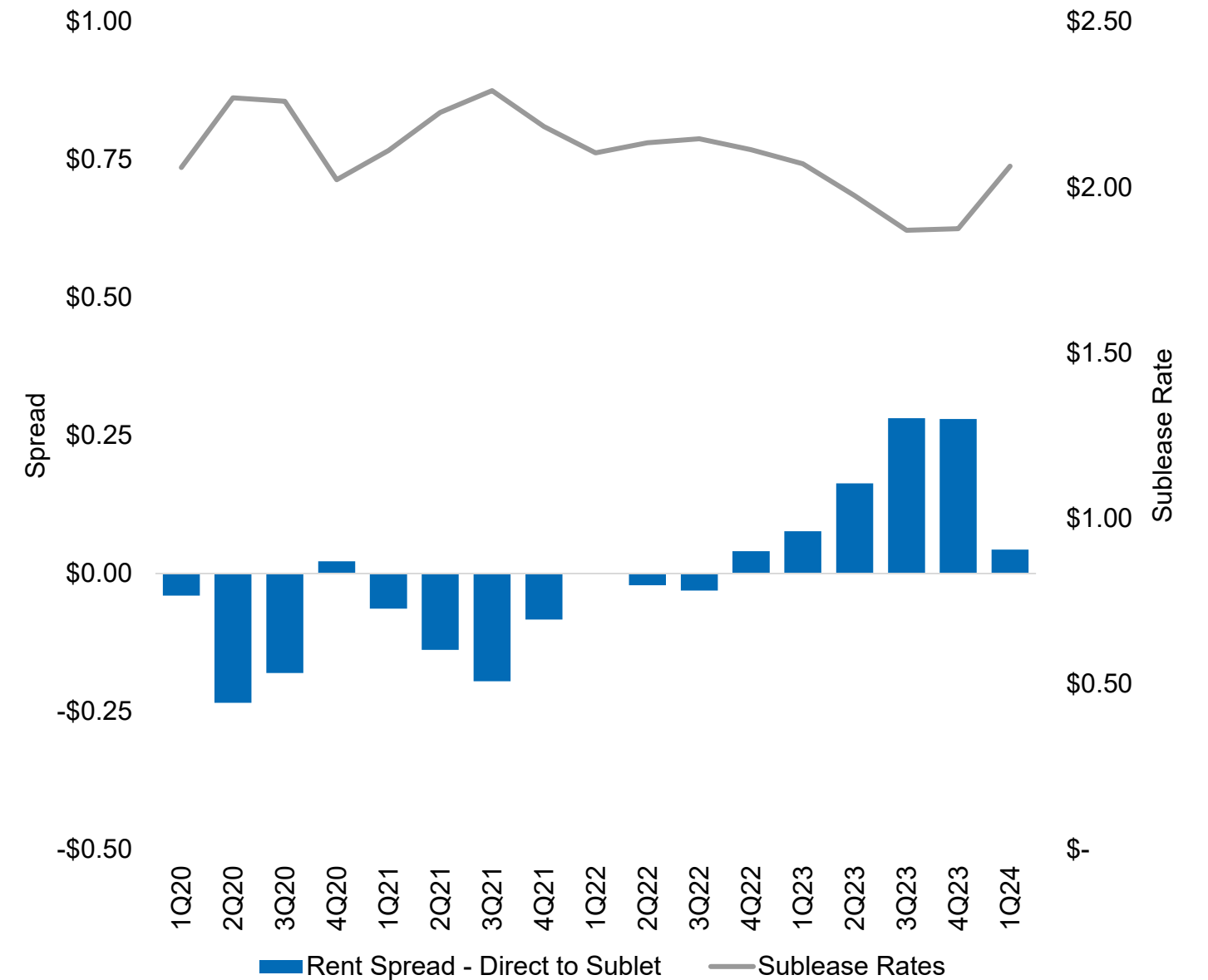
Sublease Asking Rents Increased

Office rents in the Sacramento region have remained steady over the last year and decreased slightly in the first quarter 2024. Sublease rents have decreased over the last two quarter but increased in the first quarter 2024.

Class A and Class B Asking Rents



Sublease Rates



Source: Newmark Research, CoStar

Leasing Activity Still Steady

Lease and sale transactions remain active in the Sacramento office market. During the first quarter, the top four lease transactions were all lease renewals while the fifth transaction was a new lease. Sacramento office sales continues to be active but with smaller transaction sizes. All sales during the first quarter were under \$10 million and under 50,000 square feet.

Notable 1Q24 Lease Transactions

Tenant	Building(s)	Submarket	Type	Square Feet
State of CA California Highway Patrol	1300 U St	Downtown	Lease Renewal	49,126
<i>The is the first renewal for the California Highway Patrol in this building.</i>				
State of California	3927 Lennane Dr	North Natomas	Lease Renewal	39,666
<i>The State of California has been in this building since 2003.</i>				
PowerSchool Group	150 Parkshore Dr	Folsom	Lease Renewal	36,138
<i>This tenant moved into this building in 2015.</i>				
Wells Fargo Bank	1620 E Roseville Pkwy	Roseville	Lease Renewal	26,433
<i>Wells Fargo Bank has been a tenant in this building since 2013.</i>				
Anthem Properties Group Inc	1410 Rocky Ridge Dr	Roseville	Direct Lease	18,796
<i>This tenant will occupy over half of the second floor.</i>				

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Appendix



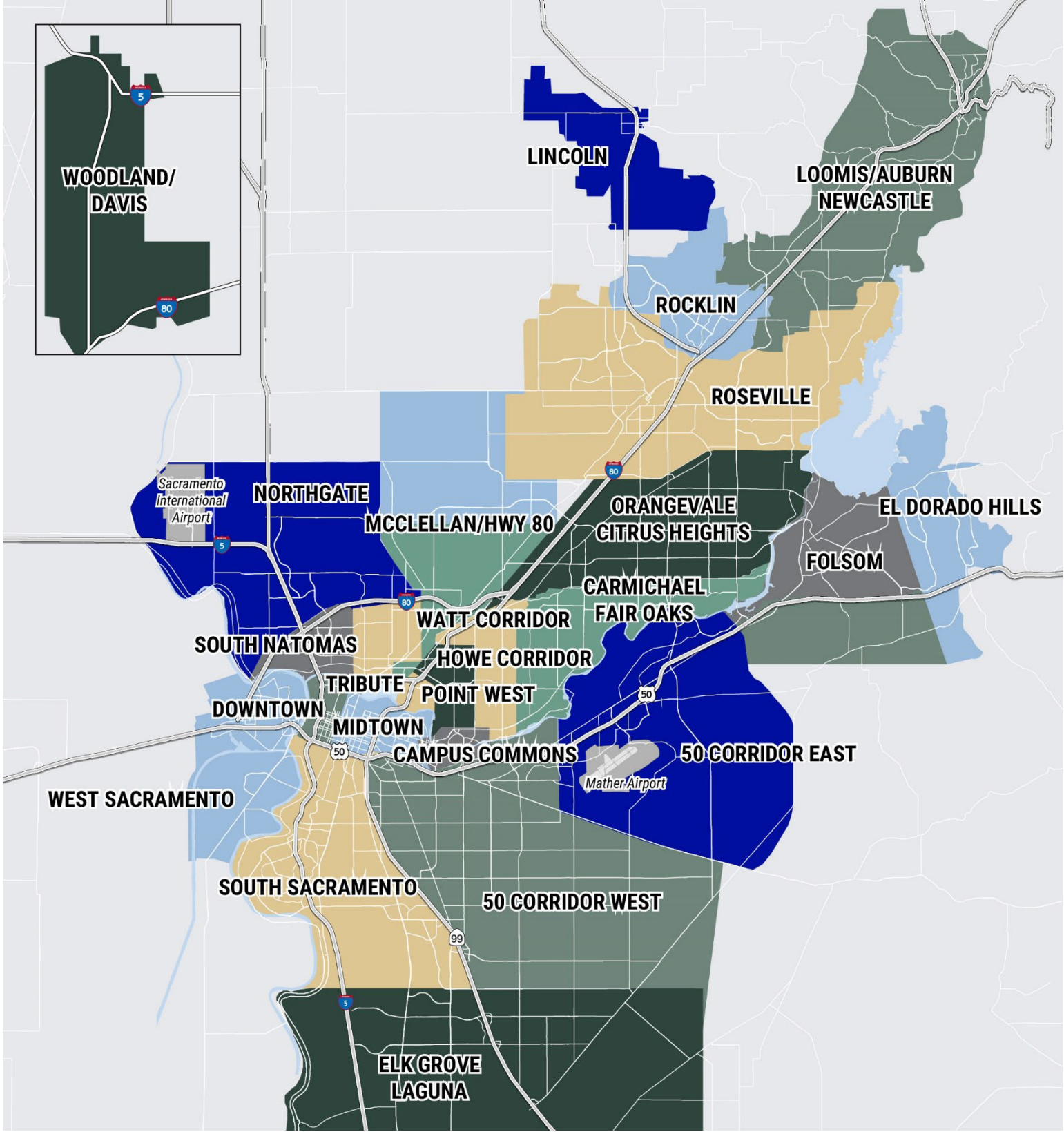


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Sacramento Submarket Map



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