

Sacramento Office Market

Sacramento Office Market Remains Stable

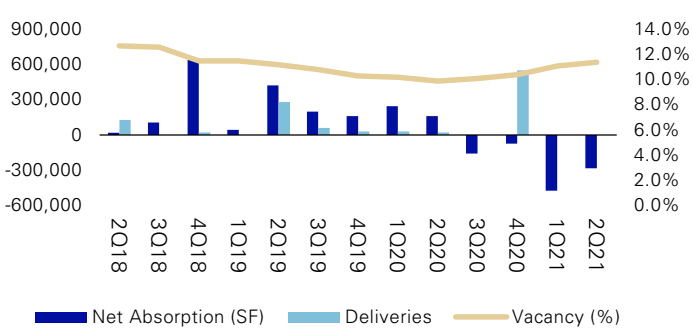
After 15 months of pandemic limitations, the United States has gradually moved into a new phase of reopening. California has fully reopened with no restrictions that were put in place because of the pandemic. Most restrictions that were put in place in March 2020 have been phased out: no more physical distancing, no capacity limits for businesses and no county tiers. Mask-wearing is still required in some instances and for those people who are not vaccinated. Now that businesses can operate without any restrictions, it has been a challenge for some, especially in the restaurant industry, as it has been difficult to find employees needed to fully open. Companies are cautiously finding a new normal with either gradually bringing workers back to the office, adopting a work-from-home scenario or a hybrid of both.

The office vacancy rate increased slightly to 11.4% in the second quarter of 2021 from 11.1% in the first quarter. This is the fourth consecutive quarter that the office market has recorded a modest increase in vacancy. Over the past year, the increase quarter-to-quarter has been between 20 to 70 basis points, which amounts to less than a 1.0% increase. The sublease vacancy rate also

Market Summary

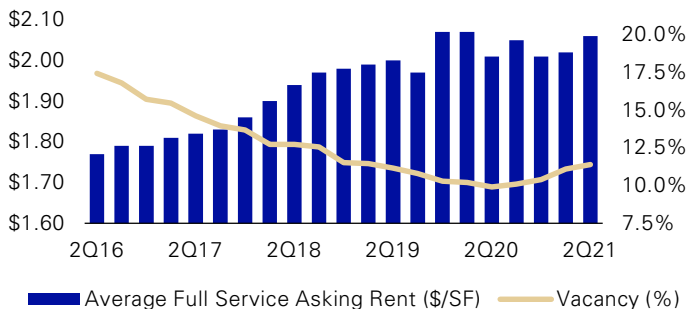
	Current Quarter	Prior Quarter	Year Ago Period	12-Month Forecast
Total Inventory (SF)	70.6M	70.6M	70.0M	↔
Vacancy Rate	11.4%	11.1%	9.9%	↑
Qtr Net Abs (SF)	-287K	-477K	161K	↓
Avg FS Ask Rent/SF	\$2.06	\$2.02	\$2.01	↑
Under Const (SF)	272K	0M	552K	↔

Net Absorption v New Construction & Vacancy Rate



Market Analysis

ASKING RENT AND VACANCY RATE



SUBLEASE V. DIRECT AVAILABILITY (SF)



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rose slightly to 1.6% in the second quarter from 1.5% in the first quarter. Although sublease space has minimally increased over the past year, the Sacramento office market has not been hit as hard when compared to other markets in Northern California. The office market should see an increase in vacancy over the next year as State of California agencies move from private sector buildings to new state-owned buildings that are currently under construction.

The office market also posted a fourth consecutive quarter of negative net absorption. Net absorption ended second-quarter 2021 with -286,529 square feet, bringing the year-to-date net absorption total to -763,730 square feet. During the quarter, the largest lease transactions were all State of California lease renewals, with the largest being just over 72,000 square feet. As companies continue to figure out the new normal, the office market should see an increase in either renewals or new deals in the coming year.

Two buildings completed construction during the quarter. Both were State of California built-to-suits. One is the California Military Department Headquarters (285,000 square feet) in the 50 Corridor East submarket, and the second is the Health & Human Services Agency's building (370,000 square feet) in the Downtown submarket. Only one office building under construction will be added to the office study inventory upon completion. The California State Teachers' Retirement System (CalSTRS) is currently under construction with a 272,000-square-foot expansion building in West Sacramento. All four government

buildings under construction are in the Downtown submarket and total almost 3.4 million square feet. The Richards Boulevard Office Complex is 1.25 million square feet, The Natural Resources Headquarters is 838,000 square feet, the new County of Sacramento Courthouse is 543,290 square feet and the California Legislator's Swing Space Annex is 472,000 square feet.

The Sacramento office investment market's pace has slowed but deals are still happening. The largest sale in the second quarter was a two-building (1625 North Market Boulevard and 1747 North Market Boulevard) portfolio of 305,775 square feet in North Natomas for \$57.5 million, or \$188/SF. Despite this sale, activity was still down due to the pandemic until recently, when activity increased due to investor fear of missing out on well-priced assets given the rising economy and return to office. This activity has significantly increased in the last few months as properties like Slate Creek Corporate Centre in Roseville, 100 Howe Avenue, Ridge Capital's University properties and the California Collection from Buzz Oates all look to change hands in the coming weeks and months.

During the remainder of the year, the Sacramento office market may not see any big fluctuations as companies will continue to determine a new normal. As companies begin to make and implement future workplace plans, activity should increase over the next year.

Select Lease/User Transactions

Tenant	Building(s)	Submarket	Type	Square Feet
State of California	1515 K St	Downtown	Lease Renewal	72,376
State of California	2400 Venture Oaks Wy	South Natomas	Lease Renewal	70,771
State of California	1651 Exposition Blvd	Point West	Lease Renewal	62,765
State of California	1747 N Market Blvd	North Natomas	Lease Renewal	56,090
Blue Cross of California	11030 White Rock Rd	50 Corridor East	Lease Renewal	54,161

Select Investment Sale Transactions

Building(s)	Market	Sale Price	\$/SF	Square Feet
1625 & 1747 N Market Blvd	North Natomas	\$57,500,000	\$188	305,775
1900-1960 Birkmont Dr	50 Corridor East	\$19,000,000	\$198	96,000
9825 Goethe Rd	50 Corridor East	\$8,675,000	\$191	45,500
785 Orchard Dr	Folsom	\$7,100,000	\$175	40,499
3000 L St	Midtown	\$3,300,000	\$149	22,164

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Overall Submarket Statistics

	Total Bldgs	Total Inventory (SF)	Under Const. (SF)	Total Vacancy (SF)	Total Vacancy Rate	Total Available (SF)	Total Available Rate	Qtr Net Absorp. (SF)	Ytd Net Absorp. (SF)	Total FS Asking Rent (Price/SF)
Sacramento	776	33,146,560		3,716,058	11.2%	5,223,509	15.8%	-81,246	-320,246	\$2.29
Downtown	180	12,546,198		1,376,747	11.0%	1,888,077	15.0%	-94,772	-223,254	\$2.84
Midtown	129	3,638,155		293,458	8.1%	455,334	12.5%	-10,937	-43,287	\$2.25
South Natomas	56	3,748,146		465,688	12.4%	663,810	17.7%	-7,519	-46,629	\$2.36
North Natomas	83	3,552,921		315,287	8.9%	426,346	12.0%	15,326	-20,681	\$1.58
Point West	48	2,441,453		310,288	12.7%	528,337	21.6%	-1,685	-10,929	\$2.03
Campus Commons	70	1,679,885		227,141	13.5%	281,310	16.7%	-7,239	4,265	\$2.23
Howe Corridor	81	1,671,002		220,320	13.2%	260,511	15.6%	-13,739	-18,865	\$1.60
Watt Corridor	66	1,822,278		350,111	19.2%	444,531	24.4%	3,809	3,624	\$1.50
South Sacramento	51	1,661,465		122,023	7.3%	169,905	10.2%	11,736	11,736	\$1.35
Tribute Road Woodlake	12	385,057		34,995	9.1%	105,348	27.4%	23,774	23,774	\$2.00
50 Corridor West	56	3,043,665		409,006	13.4%	529,256	17.4%	9,244	38,231	\$1.64
50 Corridor East	245	11,675,404		1,689,565	14.5%	2,990,625	25.6%	-76,820	-285,744	\$1.81
Folsom	114	4,508,590		335,171	7.4%	454,706	10.1%	-25,804	-82,212	\$2.04
El Dorado Hills	57	1,563,362		156,567	10.0%	183,523	11.7%	0	1,121	\$1.98
Roseville	255	8,724,555		1,043,287	12.0%	1,740,215	19.9%	-123,420	-148,510	\$1.92
Douglas Corridor	99	3,797,453		391,423	10.3%	567,435	14.9%	-109,742	-117,481	\$2.20
Roseville - Other	156	4,927,102		651,864	13.2%	1,172,780	23.8%	-13,678	-31,029	\$1.68
Rocklin	67	1,663,418		171,665	10.3%	292,482	17.6%	19,384	19,449	\$2.04
Carmichael / Fair Oaks	54	571,073		46,970	8.2%	48,288	8.5%	1,128	-2,072	\$1.52
Orangevale Citrus Heights	64	1,412,015		193,283	13.7%	208,122	14.7%	-19,960	-14,409	\$1.30
Elk Grove Laguna	64	1,640,705		74,340	4.5%	82,855	5.0%	8,172	27,869	\$2.27
West Sacramento	39	2,060,168	272,000	87,979	4.3%	362,846	17.6%	3,592	3,592	\$1.86
North Sacramento	10	540,087		139,810	25.9%	140,681	26.0%	-799	-799	\$1.16
SACRAMENTO REGION	1,801	70,549,602	272,000	8,063,701	11.4%	12,257,108	17.4%	-286,529	-763,730	\$2.06

Notes: This survey measures office buildings larger than 5,000 square feet and excludes government-owned buildings and medical office buildings.

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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)	Ytd Net Absorp. (SF)	Avg FS Ask Rent (Price/SF)
Sacramento	64	10,744,372	964,326	828,648	135,678	9.0%	1,472,226	13.7%	-85,361	-216,766	\$2.83
Downtown	20	6,452,081	423,457	367,818	55,639	6.6%	671,772	10.4%	-92,937	-188,488	\$3.39
Midtown	5	334,796	13,211	7,848	5363	3.9%	26,391	7.9%	0	-11094	\$2.94
South Natomas	17	1,768,455	302,856	263,806	39,050	17.1%	362,426	20.5%	-7,882	-15,096	\$2.52
North Natomas	5	805,636	21,003	11,982	9021	2.6%	30,367	3.8%	0	0	\$2.37
Point West	10	1,123,065	170,510	162,381	8,129	15.2%	334,627	29.8%	13,779	-3,767	\$2.12
Campus Commons	6	245,833	33,289	14,813	18,476	13.5%	46,643	19.0%	1,679	1,679	\$2.61
Howe Corridor	1	14,506	0	0	0	0.0%	0	0.0%	0	0	
Watt Corridor	0	0	0	0	0	0.0%	0	0.0%	0	0	
South Sacramento	0	0	0	0	0	0.0%	0	0.0%	0	0	
Tribute Road Woodlake	0	0	0	0	0	0.0%	0	0.0%	0	0	
50 Corridor West	12	1,162,515	160,541	102,717	57,824	13.8%	171,866	14.8%	7,628	4,433	\$2.07
50 Corridor East	12	1,437,619	158,587	137,527	21,060	11.0%	380,621	26.5%	-22718	-5709	\$2.16
Folsom	19	2,185,662	105,969	51,185	54,784	4.8%	121,651	5.6%	1,656	-14,780	\$2.43
El Dorado Hills	15	625,405	16,960	16,960	0	2.7%	36,196	5.8%	0	5056	\$2.20
Roseville	10	991,980	51,740	27,222	24,518	5.2%	166,711	16.8%	-511	3,077	\$2.44
Douglas Corridor	8	991,980	51,740	27,222	24,518	5.2%	118,281	11.9%	-3,941	-3,941	\$2.49
Roseville - Other	2	230,682	1,412	1,412	0	0.6%	48,430	21.0%	3430	7018	\$2.35
Rocklin	5	514,509	83,162	83,162	0	16.2%	185,902	0.0%	10,198	10,198	\$2.25
Carmichael Fair Oaks	0	0	0	0	0	0.0%	0	0.0%	0	0	
Orangevale Citrus Heights	0	0	0	0	0	0.0%	0	0.0%	0	0	
Elk Grove Laguna Galt	12	799,751	33,891	33,891	0	4.2%	39,815	5.0%	1,234	5,741	\$2.67
West Sacramento	2	800,000	0	0	0	0.0%	223,639	0.0%	0	0	
North Sacramento	0	0	0	0	0	0.0%	0	0.0%	0	0	
SACRAMENTO	151	19,492,495	1,576,588	1,282,24	293,864	8.1%	2,798,627	14.4%	-87,874	-208,750	\$2.63

Notes: This survey measures office buildings larger than 5,000 square feet and excludes government-owned buildings and medical office buildings.

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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)	Ytd Net Absorp. (SF)	Avg FS Ask Rent (Price/SF)
Sacramento	353	13,941,032	1,607,016	1,557,080	49,936	11.5%	2,179,650	15.6%	3,886	-36,739	\$2.24
Downtown	40	3,335,308	507,089	487,422	19,667	15.2%	635,612	19.1%	-2,237	-15,653	\$2.86
Midtown	21	1,102,922	106,885	97,487	9,398	9.7%	136,571	12.4%	-9,133	-15,133	\$2.18
South Natomas	38	1,973,691	162,832	155,844	6,988	8.3%	301,384	15.3%	363	-31,533	\$2.15
North Natomas	52	1,602,289	162,631	160,350	2,281	10.1%	211,513	13.2%	17,504	9,839	\$1.81
Point West	38	1,318,388	139,778	134,957	4,821	10.6%	193,710	14.7%	-15,464	-7,162	\$1.87
Campus Commons	64	1,434,052	193,852	188,262	5,590	13.5%	234,667	16.4%	-8,918	7,668	\$2.18
Howe Corridor	51	1,131,499	170,939	169,748	1,191	15.1%	207,947	18.4%	-13,739	-21,170	\$1.63
Watt Corridor	17	786,593	125,377	125,377	0	15.9%	157,161	20.0%	0	895	\$1.66
South Sacramento	30	998,446	7,633	7,633	0	0.8%	22,304	2.2%	11,736	11,736	\$1.59
Tribute Road Woodlake	2	257,844	30,000	30,000	0	11.6%	90,000	34.9%	23,774	23,774	\$2.15
50 Corridor West	17	1,148,185	82,288	64,244	18,044	7.2%	164,193	14.3%	752	34,941	\$1.66
50 Corridor East	162	8,443,863	1,233,021	835,109	397,912	14.6%	2,213,078	26.2%	-54,042	-264,382	\$1.88
Folsom	89	2,249,726	225,502	219,785	5,717	10.0%	329,355	14.6%	-27,460	-67,432	\$1.93
El Dorado Hills	40	900,457	139,607	124,253	15,354	15.5%	147,327	16.4%	0	-3,935	\$1.94
Roseville	159	5,507,706	655,586	445,476	210,110	11.9%	984,837	17.9%	-115,818	-139,304	\$1.90
Douglas Corridor	82	2,530,175	290,032	210,837	79,195	11.5%	385,883	15.3%	-108,225	-113,964	\$2.20
Roseville - Other	77	2,977,531	365,554	234,639	130,915	12.3%	729,284	24.5%	-7,593	-25,340	\$1.65
Rocklin	53	1,051,255	80,771	70,160	10,611	7.7%	98,848	9.4%	5,298	5,363	\$1.69
Carmichael Fair Oaks	1	38,360	0	0	0	0.0%	0	0.0%	0	0	
Orangevale Citrus Heights	8	208,040	22,496	13,466	9,030	10.8%	24,592	11.8%	0	2,884	\$1.38
Elk Grove Laguna Galt	36	664,735	31,887	26,365	5,522	4.8%	34,478	5.2%	601	1,776	\$2.00
West Sacramento	21	1,041,364	79,282	79,282	0	7.6%	130,510	12.5%	1,095	1,095	\$1.87
North Sacramento	0	0	0	0	0	0.0%	0	0.0%	0	0	
SACRAMENTO	939	35,194,723	4,157,456	3,435,220	722,236	11.8%	6,448,417	18.3%	-185,688	-465,733	\$2.04

Notes: This survey measures office buildings larger than 5,000 square feet and excludes government-owned buildings and medical office buildings.

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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)	Ytd Net Absorp. (SF)	Avg FS Ask Rent (Price/SF)
Sacramento	359	8,461,156	1,144,716	1,111,108	33,608	13.5%	1,568,567	18.5%	229	-61,659	\$1.82
Downtown	120	2,758,809	446,201	446,201	0	16.2%	580,693	21.0%	402	-19,113	\$2.18
Midtown	103	2,200,437	173,362	166,138	7,224	7.9%	292,372	13.3%	-1,804	-17,060	\$2.23
South Natomas	1	6,000	0	0	0	0.0%	0	0.0%	0	0	
North Natomas	26	1,144,996	131,653	105,269	26,384	11.5%	184,466	16.1%	-2,178	-30,520	\$1.17
Point West	0	0	0	0	0	0.0%		0.0%	0	0	
Campus Commons	0	0	0	0	0	0.0%		0.0%	0	0	
Howe Corridor	29	524,997	49,381	49,381	0	9.4%	52,564	10.0%	0	2,305	\$1.48
Watt Corridor	49	1,035,685	224,734	224,734	0	21.7%	287,370	27.7%	3,809	2,729	\$1.44
South Sacramento	21	663,019	114,390	114,390	0	17.3%	147,601	22.3%	0	0	\$1.32
Tribute Road Woodlake	10	127,213	4,995	4,995	0	3.9%	15,348	12.1%	0	0	\$1.14
50 Corridor West	27	732,965	166,177	166,177	0	22.7%	193,197	26.4%	864	-1,143	\$1.38
50 Corridor East	71	1,793,922	297,957	297,957	0	16.6%	396,926	22.1%	-60	-15,653	\$1.34
Folsom	6	73,202	3,700	3,700	0	5.1%	3,700	5.1%	0	0	\$1.77
El Dorado Hills	2	37,500	0	0	0	0.0%	0	0.0%	0	0	
Roseville	86	1,994,187	334,549	278,904	55,645	16.8%	458,337	23.0%	-7,091	-12,283	\$1.57
Douglas Corridor	9	275,298	49,651	38,427	11,224	18.0%	63,271	23.0%	2,424	424	\$1.65
Roseville - Other	77	1,718,889	284,898	240,477	44,421	16.6%	395,066	23.0%	-9,515	-12,707	\$1.55
Rocklin	9	97,654	7,732	7,732	0	7.9%	7,732	7.9%	3,888	3,888	\$1.42
Carmichael Fair Oaks	53	532,713	46,970	46,970	0	8.8%	48,288	9.1%	1,128	-2,072	\$1.52
Orangevale Citrus Heights	56	1,203,975	170,787	147,589	23,198	14.2%	183,530	15.2%	-19,960	-17,293	\$1.29
Elk Grove Laguna Galt	16	176,219	8,562	8,562	0	4.9%	8,562	4.9%	6,337	20,352	\$1.33
West Sacramento	16	218,804	8,697	5,936	2,761	4.0%	8,697	4.0%	2,497	2,497	\$1.47
North Sacramento	10	540,087	139,810	139,810	0	25.9%	140,681	26.0%	-799	-799	\$1.16
SACRAMENTO	711	15,862,384	2,329,657	2,214,445	115,212	14.7%	3,010,064	19.0%	-12,967	-84,165	\$1.62

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For more information:

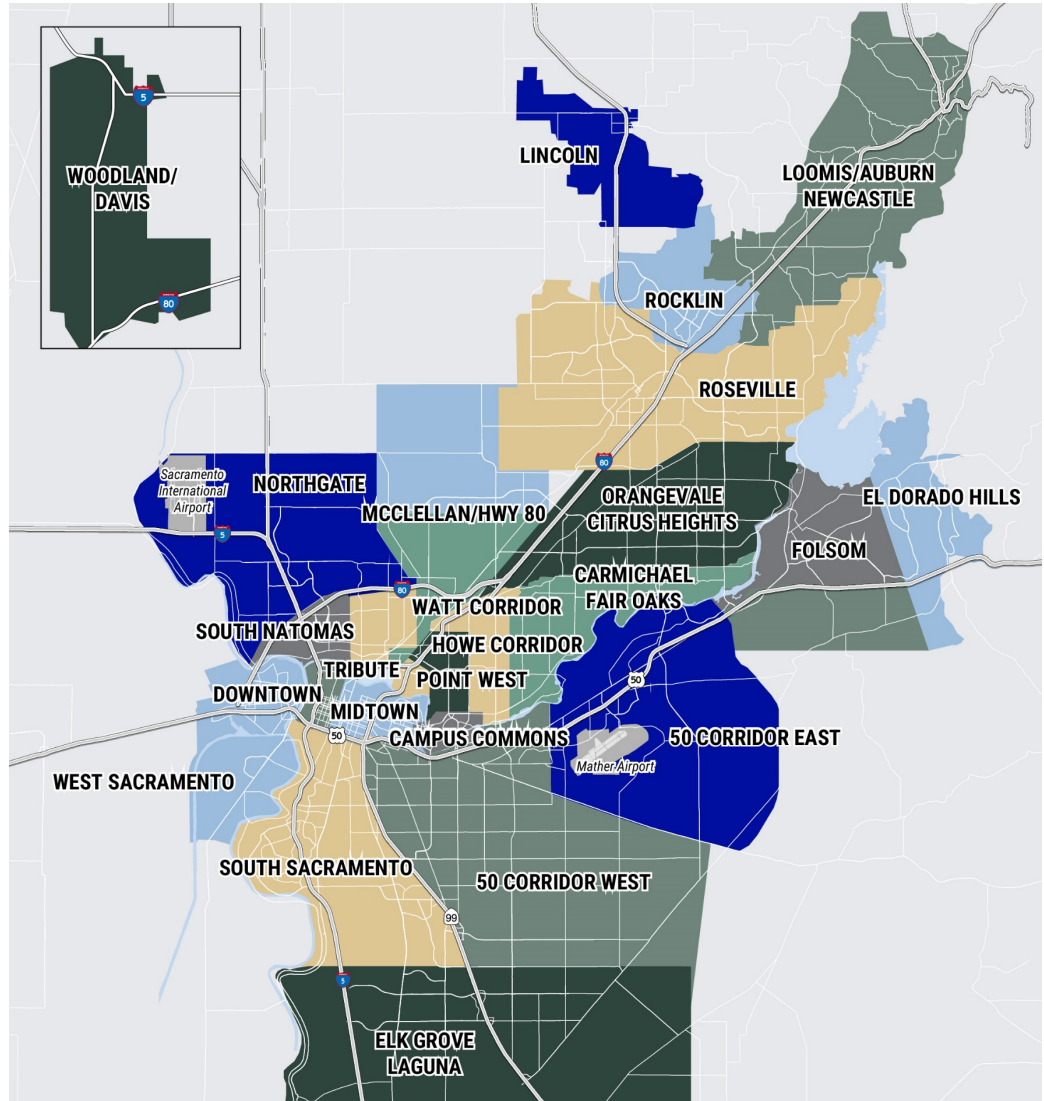
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