



Sacramento Office Market

Sacramento Office Market Sees More Space Opportunities

At the end of the third quarter of 2022, the country continues to deal with inflation, as well as talk of a potential recession in the coming months. Economic challenges, such as rising prices and interest rates, have bypassed the concern of the pandemic. During the third quarter of 2022, more companies have required employees to report back to the office, but an increasing number of companies have implemented a hybrid or remote work policy, resulting in a continuation of 2020 and 2021's trends of space coming back on the market.

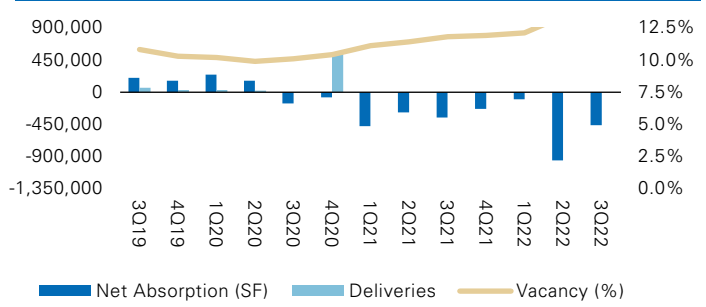
The office vacancy rate rose slightly to 14.0% in the third quarter of 2022. In the third quarter of 2021, the office market recorded a vacancy rate of 11.8%; the current vacancy rate of 14.0% is the highest vacancy rate since the fourth quarter of 2016. A mix of direct space and sublease space came on the market this quarter; unfortunately, more space is expected to hit the market in the next two quarters, and the vacancy rate could increase by nearly 200 basis points.

For the fifth straight quarter, the office market posted a negative net absorption. The third quarter of 2022's net absorption total of negative 464,803 square feet brings the year-to-date net absorption total to negative 1.5 million square feet, surpassing the 2021 net absorption total of negative 1.3 million square feet.

Market Summary

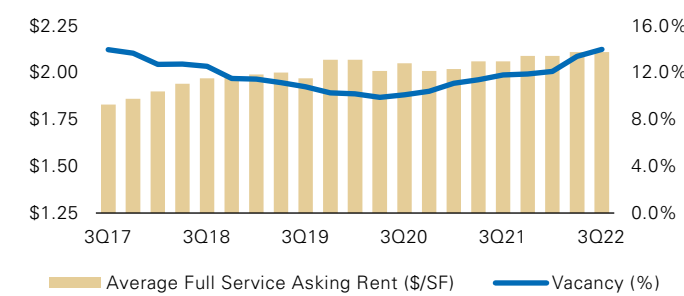
	Current Quarter	Prior Quarter	Year Ago Period	12-Month Forecast
Total Inventory (SF)	69.5M	69.4M	70.5M	↔
Vacancy Rate	14.0%	13.4%	11.8%	↑
Qtr Net Abs. (SF)	-465K	-957K	-356K	↓
Avg FS Asking Rent/SF	\$2.11	\$2.11	\$2.06	↑
Under Constr. (SF)	278K	278K	272K	↔

Net Absorption, New Construction, Vacancy Rate

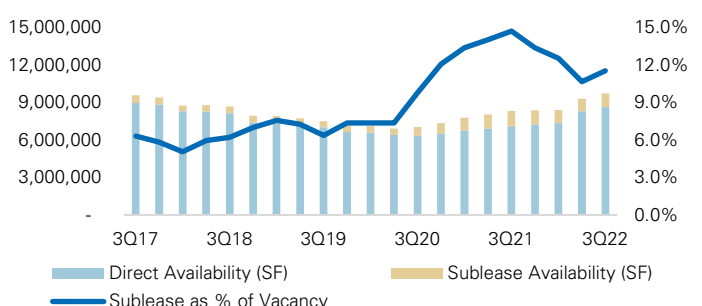


Market Analysis

ASKING RENT AND VACANCY RATE



SUBLEASE V. DIRECT AVAILABILITY (sf)



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Four of the top five lease transactions were lease renewals, three transactions with the State of California in the Downtown and Midtown submarkets and one transaction with PowerSchool Group in the Folsom submarket. The largest new lease was at 10481 Armstrong Ave. with the County of Sacramento for 42,395 square feet in the 50 Corridor East submarket. The office market should continue to be active, even with more space options coming available. The Suburban markets, like Folsom, Roseville, Highway 50 East and El Dorado Hills, tend to see the majority of tenant activity, given their proximity to both workforce and executive level housing.

No office buildings completed construction during the quarter as construction continues on three large office buildings: the California State Teachers' Retirement System (CalSTRS) 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. (1.3 million square feet). Owner-occupied buildings developed by the State of California are not included in market statistics. The CalSTRS expansion building is scheduled for completion in the fourth quarter of 2022, which will affect the market as just over 198,000 square feet in CalSTRS's current building will be added to the market as the company

adopted a work-from-home policy. No speculative office buildings are slated for construction at this time.

Sacramento's office sales market continues to be an attractive market to investors due to the lack of new construction inventory added during the last market cycle and solid fundamentals that underline the market. The largest sale transactions occurred in the Downtown submarket with the \$55.1 million sale of 925 L St., which included the assumption of debt (165,919 square feet); the El Dorado Hills submarket, with the \$49.3-million sale of Blue Cross's four-building campus at 4201-4207 Town Center Blvd. (244,983 square feet); and the Point West submarket with the \$22.5 million sale of 2180 Harvard St. (157,375 square feet). With interest rates continuing to rise, uncertainty in the market and leasing velocity slowing, large sales will likely slow down for the fourth quarter of 2022 and the first quarter of 2023.

With uncertain economic conditions continuing into 2023, companies will cautiously navigate through it to overcome any obstacles. Although more space is projected to come back on the market for the next two quarters, the Sacramento office market should remain on a somewhat steady course and is well situated to weather future hard times.

Select Lease Transactions

Tenant	Building(s)	Submarket	Type	Square Feet
State of California	1727 & 1801 30 th St, 1820 Alhambra Blvd	Midtown	Lease Renewal	373,522
State of California	300 Capitol Mall	Downtown	Lease Renewal	77,800
County of Sacramento	10481 Armstrong Ave	50 Corridor East	Direct Lease	42,395
State of California	1102 Q St	Downtown	Lease Renewal	37,466
PowerSchool Group LLC	150 Parkshore Dr	Folsom	Lease Renewal	36,138

Select Investment Sale Transactions

Building(s)	Market	Sale Price	\$/SF	Square Feet
925 L St	Downtown	\$55,100,000	\$332	165,919
4201 – 4207 Town Center Blvd	El Dorado Hills	\$49,300,000	\$201	244,983
2180 Harvard St	Point West	\$22,500,000	\$143	157,372
1860 Howe Ave	Point West	\$13,542,000	\$133	102,000
12009 Foundational Pl	50 Corridor East	\$13,250,000	\$120	110,000

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Overall Submarket Statistics

	Total Inventory (SF)	Under Constr (SF)	Total Vacancy (SF)	Total Vacancy Rate	Total Available (SF)	Total Available Rate	Quarter Absorption (SF)	YTD Absorption (SF)	Total FS Asking Rent (Price/SF)
Sacramento	32,207,522		4,610,829	14.3%	5,620,164	17.4%	(136,556)	(761,185)	\$2.34
Downtown	11,647,302		1,798,686	15.4%	2,164,351	18.6%	(32,727)	(408,125)	\$2.90
Midtown	3,629,427		288,485	7.9%	454,869	12.5%	23,151	16,959	\$2.26
South Natomas	3,748,484		638,318	17.0%	797,939	21.3%	8,356	(121,144)	\$2.33
North Natomas	3,552,921		349,391	9.8%	405,294	11.4%	(4,845)	48,820	\$1.70
Point West	2,416,737		473,959	19.6%	520,549	21.5%	(122,722)	(174,843)	\$2.05
Campus Commons	1,666,985		186,074	11.2%	210,467	12.6%	(7,466)	(3,452)	\$2.23
Howe Corridor	1,660,959		262,016	15.8%	262,016	15.8%	10,534	(31,668)	\$1.61
Watt Corridor	1,822,278		416,986	22.9%	440,853	24.2%	(8,816)	(75,590)	\$1.51
South Sacramento	1,677,372		135,123	8.1%	227,035	13.5%	(2,021)	(4,642)	\$1.30
Tribute Road Woodlake	385,057		61,791	16.0%	136,791	35.5%	0	(7,500)	\$1.84
50 Corridor West	3,101,017		495,841	16.0%	611,366	19.7%	4,056	(62,774)	\$1.56
50 Corridor East	11,676,480		2,238,923	19.2%	3,145,789	26.9%	(137,335)	(333,398)	\$1.79
Folsom	4,498,788		423,254	9.4%	588,915	13.1%	(128,565)	(159,211)	\$2.14
El Dorado Hills	1,595,364		265,888	16.7%	280,255	17.6%	68,078	(24,823)	\$2.34
Roseville	8,653,512		1,025,998	11.9%	1,509,322	17.4%	(71,586)	(4,576)	\$2.01
Douglas Corridor	3,797,453		413,812	10.9%	548,060	14.4%	(87,787)	(64,726)	\$2.28
Roseville – Other	4,856,059	6,300	612,186	12.6%	961,262	19.8%	16,201	60,150	\$1.79
Rocklin	1,665,556		197,272	11.8%	233,437	14.0%	(5,845)	(14,889)	\$1.87
Carmichael Fair Oaks	571,073		56,477	9.9%	56,477	9.9%	(13,995)	(20,586)	\$1.47
Orangevale Citrus Heights	1,412,612		199,333	14.1%	199,333	14.1%	(21,543)	(8,936)	\$1.29
Elk Grove Laguna	1,640,705		89,204	5.4%	95,798	5.8%	(10,540)	(20,732)	\$2.35
West Sacramento	2,060,506	272,000	135,737	6.6%	343,336	16.7%	(1,880)	(97,758)	\$2.04
North Sacramento	410,147		18,078	4.4%	18,078	4.4%	(9,092)	(8,208)	\$1.38
SACRAMENTO REGION	69,493,282	278,300	9,756,834	14.0%	12,702,270	18.3%	(464,803)	(1,517,076)	\$2.11

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Class A Submarket Statistics

	Inventory (SF)	Vacancy (SF)	Direct Vacancy (SF)	Sublease Vacancy (SF)	Class A Vacancy Rate	Class A Available Rate	Qtr Net Absorp (SF)	YTD Net Absorp (SF)	Avg FS Ask Rent (Price/SF)
Sacramento	9,808,372	1,454,988	1,352,020	102,968	14.8%	18.8%	(142,318)	(506,483)	\$2.89
Downtown	5,516,081	746,462	702,976	43,486	13.5%	17.4%	(20,513)	(333,335)	\$3.34
Midtown	334,796	7,265	7,265	0	2.2%	13.5%	2,606	4,723	\$2.85
South Natomas	1,768,455	325,029	287,014	38,015	18.4%	23.4%	15,049	(14,909)	\$2.52
North Natomas	805,636	30,578	21,487	9,091	3.8%	5.0%	(3,070)	(7,434)	\$2.32
Point West	1,123,065	325,300	312,924	12,376	29.0%	30.9%	(129,435)	(160,875)	\$2.15
Campus Commons	245,833	20,354	20,354	0	8.3%	13.1%	(6,955)	5,347	\$2.70
Howe Corridor	14,506	0	0	0	0.0%	0.0%	0	0	
Watt Corridor	0	0	0	0	0.0%	0.0%	0	0	
South Sacramento	0	0	0	0	0.0%	0.0%	0	0	
Tribute Road Woodlake	0	0	0	0	0.0%	0.0%	0	0	
50 Corridor West	1,162,515	173,365	129,400	43,965	14.9%	14.9%	1,845	(11,145)	\$2.02
50 Corridor East	1,433,488	333,680	318,680	15,000	23.3%	35.6%	3,230	(31,077)	\$2.16
Folsom	2,175,446	132,969	78,185	54,784	6.1%	9.7%	(38,367)	(44,520)	\$2.48
El Dorado Hills	617,343	133,942	133,942	0	21.7%	23.9%	(12,468)	(96,997)	\$2.67
Roseville	1,222,662	114,671	108,381	0	9.4%	12.0%	15,838	(18,051)	\$2.35
Douglas Corridor	991,980	64,505	58,215	6,290	6.5%	9.2%	15,838	(9,903)	\$2.51
Roseville - Other	230,682	50,166	50,166	0	21.7%	23.9%	0	(8,148)	\$2.35
Rocklin	514,509	116,318	107,521	8,797	22.6%	29.6%	(5,286)	(10,099)	\$2.10
Carmichael Fair Oaks	0	0	0	0	0.0%	0.0%	0	0	
Orangevale Citrus Heights	0	0	0	0	0.0%	0.0%	0	0	
Elk Grove Laguna Galt	799,751	50,750	29,267	21,483	6.3%	7.0%	(6,245)	(23,127)	\$2.76
West Sacramento	800,000	0	0	0	0.0%	24.8%	0	0	
North Sacramento	0	0	0	0	0.0%	0.0%	0	0	
SACRAMENTO REGION	18,534,086	2,510,683	2,257,396	253,287	13.5%	18.5%	(183,771)	(741,499)	\$2.67

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Class B Submarket Statistics									
	Inventory (SF)	Vacancy (SF)	Direct Vacancy (SF)	Sublease Vacancy (SF)	Class B Vacancy Rate	Class B Available Rate	Qtr Net Absorp (SF)	YTD Net Absorp (SF)	Avg FS Ask Rent (Price/SF)
Sacramento	13,977,518	1,824,445	1,778,193	46,252	13.1%	16.1%	(3,431)	(151,213)	\$2.20
Downtown	3,378,508	503,522	489,961	13,561	14.9%	18.1%	3,975	29,874	\$2.89
Midtown	1,110,922	88,996	79,598	9,398	8.0%	12.5%	(367)	2,591	\$2.20
South Natomas	1,974,029	313,289	310,402	2,887	15.9%	19.5%	(6,693)	(106,235)	\$2.12
North Natomas	1,602,289	189,678	189,678	0	11.8%	13.9%	(1,775)	8,537	\$1.74
Point West	1,293,672	148,659	141,280	7,379	11.5%	13.4%	6,713	(13,968)	\$1.84
Campus Commons	1,421,152	165,720	152,693	13,027	11.7%	12.5%	(511)	(8,799)	\$2.13
Howe Corridor	1,131,499	221,806	221,806	0	19.6%	19.6%	4,043	(44,657)	\$1.65
Watt Corridor	786,593	123,680	123,680	0	15.7%	18.4%	(8,816)	(3,885)	\$1.81
South Sacramento	1,021,010	22,304	22,304	0	2.2%	4.5%	0	(14,671)	\$1.62
Tribute Road Woodlake	257,844	46,791	46,791	0	18.1%	47.2%	0	0	\$1.85
50 Corridor West	1,185,185	138,331	127,258	11,073	11.7%	15.5%	164	(48,251)	\$1.57
50 Corridor East	8,449,070	1,581,122	1,214,399	366,723	18.7%	27.3%	(153,391)	(314,944)	\$1.82
Folsom	2,250,140	288,495	234,926	53,569	12.8%	16.7%	(90,198)	(114,101)	\$1.97
El Dorado Hills	940,521	131,946	54,896	77,050	14.0%	14.1%	80,546	72,174	\$2.05
Roseville	5,482,973	664,332	474,142	190,190	12.1%	19.5%	(107,691)	(63,879)	\$1.97
Douglas Corridor	2,530,175	311,222	237,218	74,004	12.3%	16.0%	(99,243)	(69,411)	\$2.26
Roseville - Other	2,952,798	353,110	236,924	116,186	12.0%	22.5%	(8,448)	5,532	\$1.79
Rocklin	1,051,255	76,112	76,112	0	7.2%	7.2%	(4,059)	(8,795)	\$1.47
Carmichael Fair Oaks	38,360	0	0	0	0.0%	0.0%	0	0	
Orangevale Citrus Heights	208,040	22,869	22,869	0	11.0%	11.0%	3,129	9,802	\$1.59
Elk Grove Laguna Galt	664,735	34,157	28,635	5,522	5.1%	5.4%	(4,295)	(1,870)	\$2.03
West Sacramento	1,041,702	129,149	129,149	0	12.4%	13.3%	(1,228)	(99,867)	\$2.07
North Sacramento	0	0	0	0	0.0%	0.0%	0	0	
SACRAMENTO REGION	35,289,499	4,890,958	4,140,579	750,379	13.9%	18.7%	(280,454)	(720,944)	\$2.04

RESEARCH Q3 2022

Class C Submarket Statistics									
	Inventory (SF)	Vacancy (SF)	Direct Vacancy (SF)	Sublease Vacancy (SF)	Class C Vacancy Rate	Class C Available Rate	Qtr Net Absorp (SF)	YTD Net Absorp (SF)	Avg FS Ask Rent (Price/SF)
Sacramento	8,421,632	1,331,396	1,280,321	51,075	15.8%	18.2%	9,193	(103,489)	\$1.83
Downtown	2,752,713	548,702	548,702	0	19.9%	21.5%	(16,189)	(104,664)	\$2.19
Midtown	2,183,709	192,224	185,904	6,320	8.8%	12.4%	20,912	9,645	\$2.16
South Natomas	6,000	0	0	0	0.0%	0.0%	0	0	
North Natomas	1,144,996	129,135	91,880	37,255	11.3%	12.4%	0	47,717	\$1.37
Point West	0	0	0	0	0.0%	0.0%	0	0	\$0.00
Campus Commons	0	0	0	0	0.0%	0.0%	0	0	\$0.00
Howe Corridor	514,954	40,210	40,210	0	7.8%	7.8%	6,491	12,989	\$1.42
Watt Corridor	1,035,685	293,306	293,306	0	28.3%	28.6%	0	(71,705)	\$1.43
South Sacramento	656,362	112,819	112,819	0	17.2%	27.5%	(2,021)	10,029	\$1.25
Tribute Road Woodlake	127,213	15,000	7,500	7,500	11.8%	11.8%	0	(7,500)	\$1.65
50 Corridor West	753,317	184,145	184,145	0	24.4%	33.8%	2,047	(3,378)	\$1.30
50 Corridor East	1,793,922	324,121	318,230	5,891	18.1%	18.2%	12,826	12,623	\$1.27
Folsom	73,202	1,790	1,790	0	2.4%	2.4%	0	(590)	\$2.00
El Dorado Hills	37,500	0	0	0	0.0%	0.0%	0	0	
Roseville	1,947,877	246,995	183,529	63,466	12.7%	15.1%	20,267	77,354	\$1.57
Douglas Corridor	275,298	38,085	26,861	11,224	13.8%	18.7%	(4,382)	14,588	\$1.70
Roseville - Other	1,672,579	208,910	156,668	52,242	12.5%	14.5%	24,649	62,766	\$1.51
Rocklin	99,792	4,842	4,842	0	4.9%	4.9%	3,500	4,005	\$1.23
Carmichael Fair Oaks	532,713	56,477	56,477	0	10.6%	10.6%	(13,995)	(20,586)	\$1.47
Orangevale Citrus Heights	1,204,572	176,464	174,381	2,083	14.6%	14.6%	(24,672)	(18,738)	\$1.25
Elk Grove Laguna Galt	176,219	4,297	4,297	0	2.4%	2.4%	0	4,265	\$1.30
West Sacramento	218,804	6,588	6,588	0	3.0%	3.0%	(652)	2,109	\$1.48
North Sacramento	410,147	18,078	18,078	-	4.4%	4.4%	(9,092)	8,208	\$1.38
SACRAMENTO REGION	15,669,697	2,355,193	2,232,678	122,515	15.0%	17.1%	(578)	(54,633)	\$1.62

For more information:

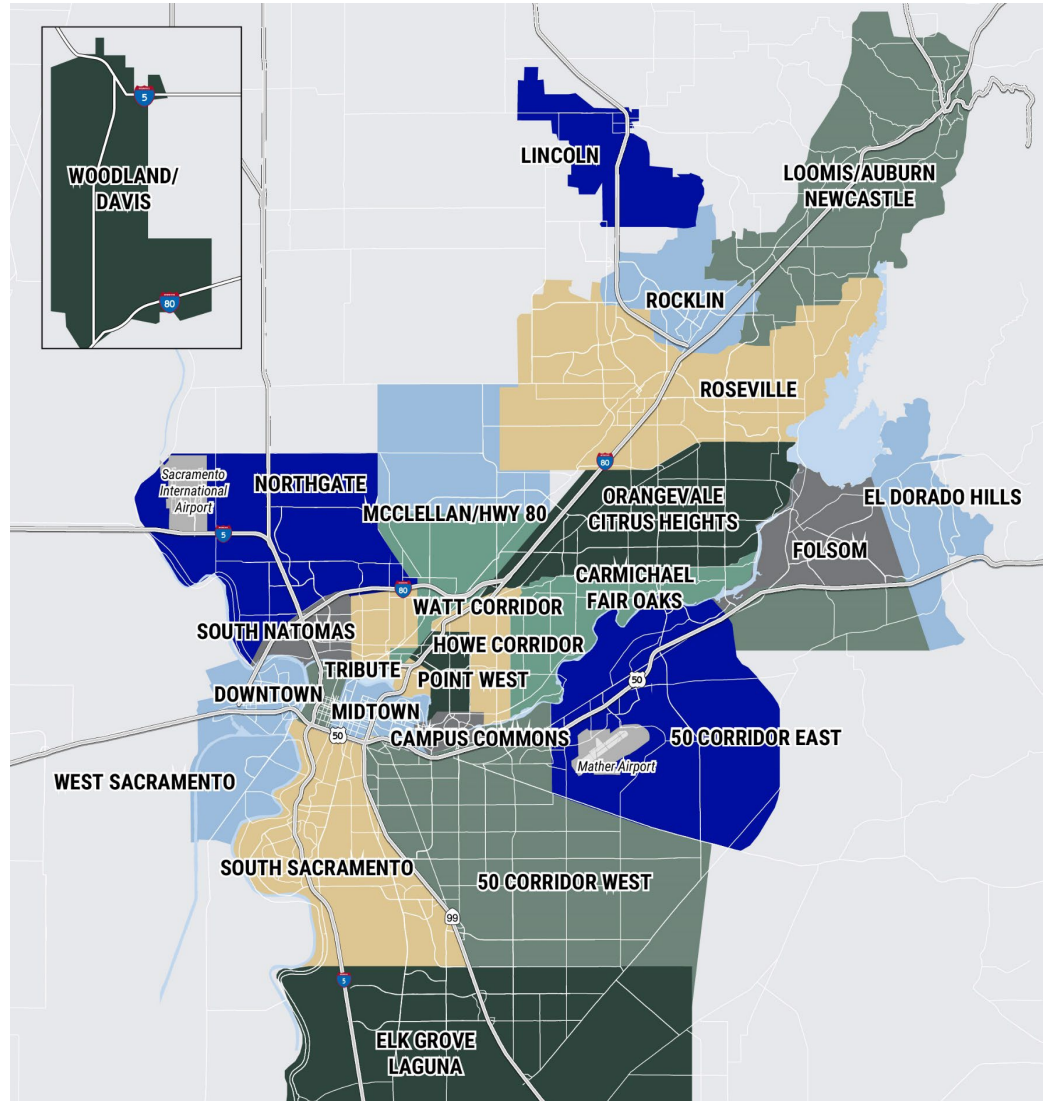
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Newmark has implemented a proprietary database and our tracking methodology has been revised. With this expansion and refinement in our data, there may be adjustments in historical statistics including availability, asking rents, absorption and effective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