

Sacramento Office Market Overview

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.
- The overall office-using employment decreased slightly over the last three quarters of 2023.

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 (1.25 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

4Q23

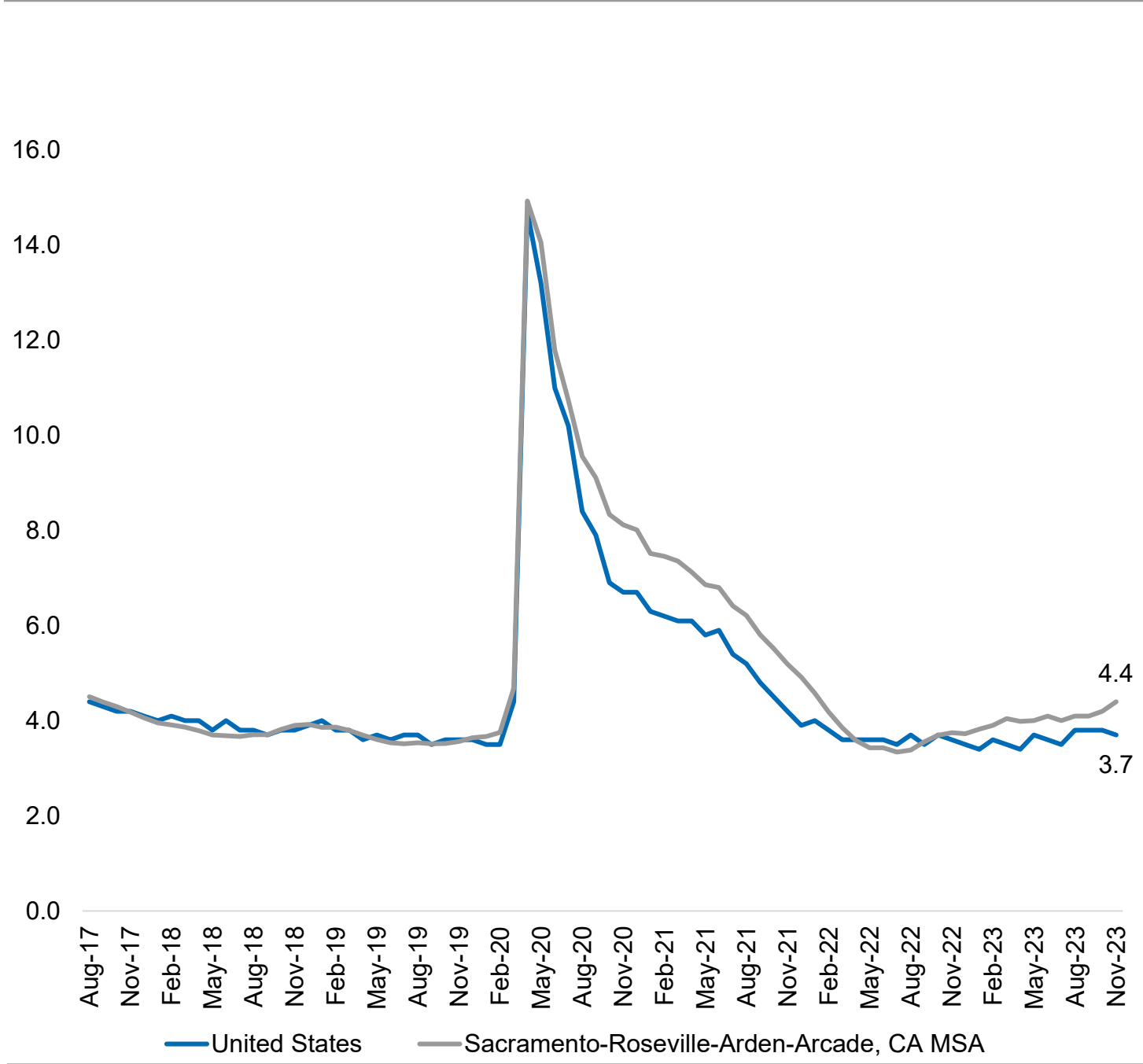
Economy



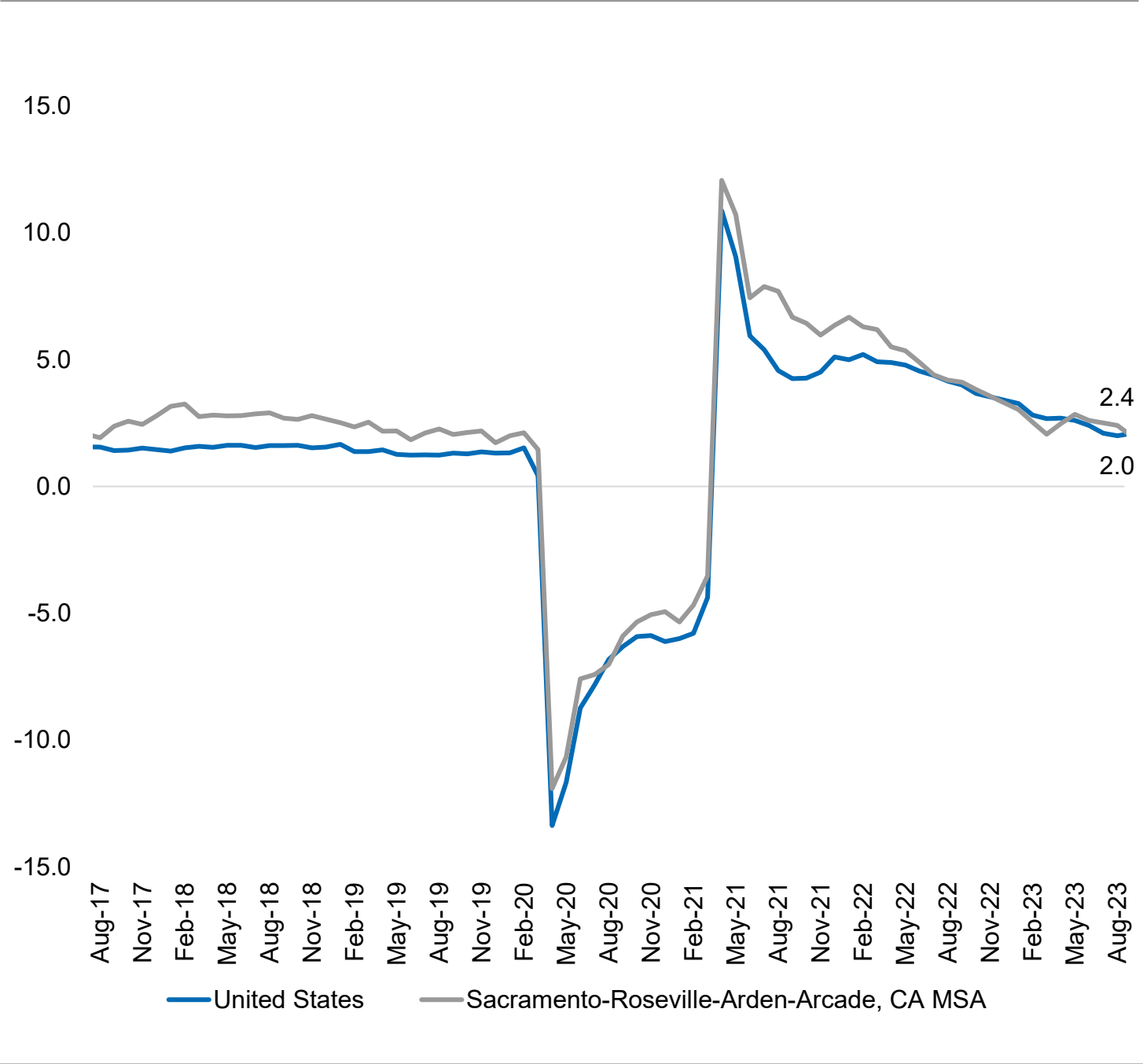
Metro Employment Increases Slightly

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%.

Unemployment Rate, Seasonally Adjusted



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

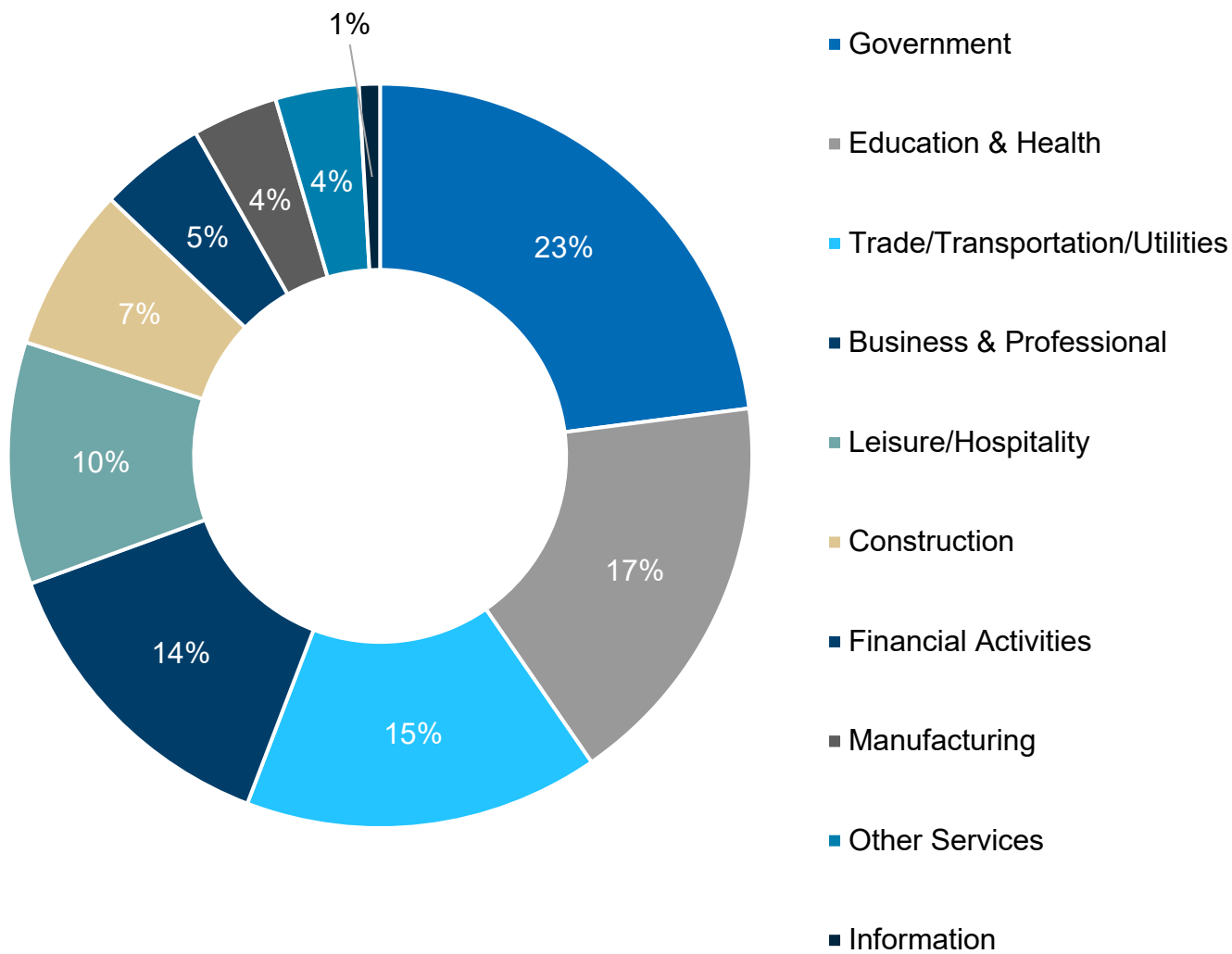


Source: U.S. Bureau of Labor Statistics, Sacramento-Roseville-Arden-Arcade, CA MSA

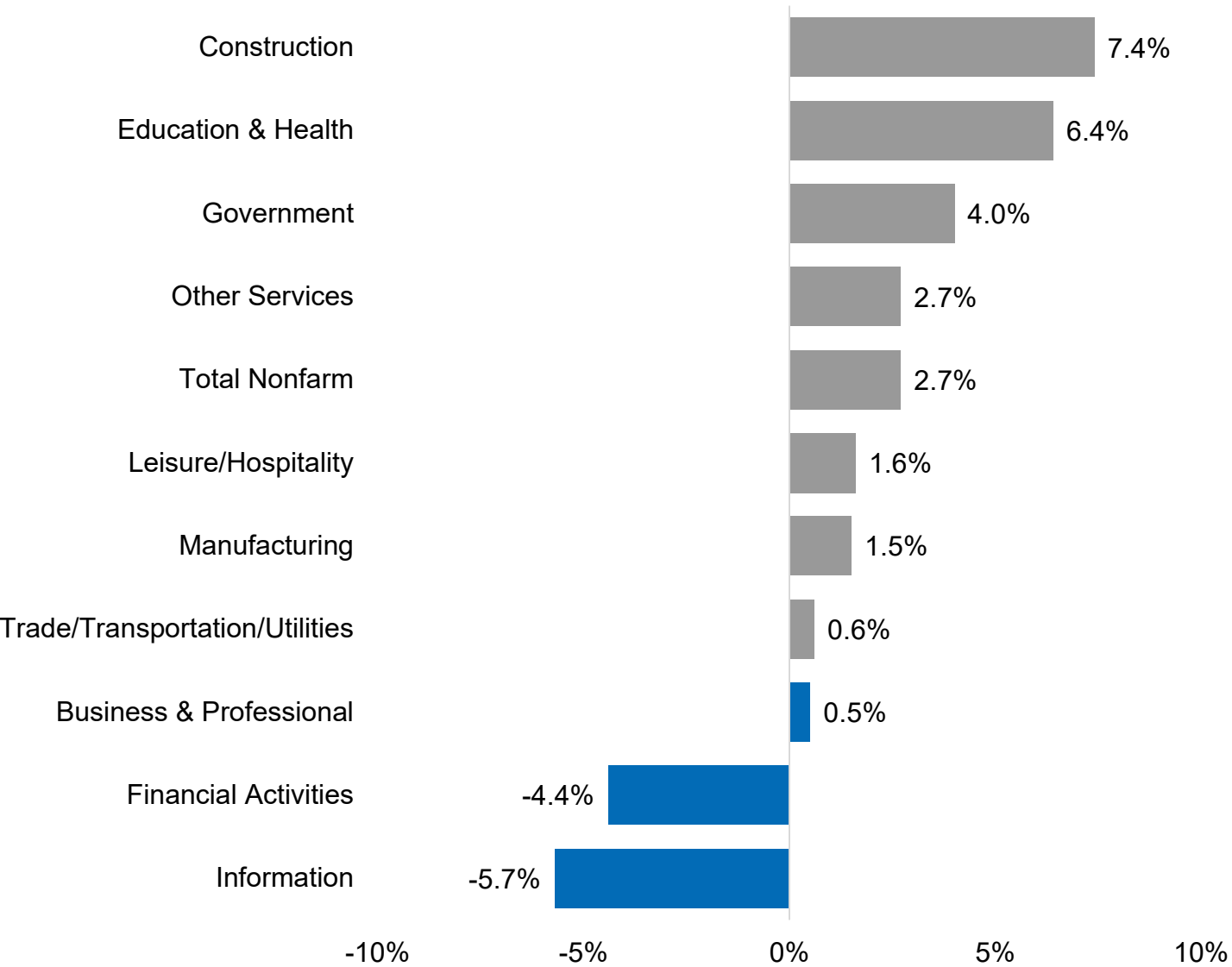
Government Sector Showed A Slight Increase In Job Growth

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

Employment by Industry, Nov 2023



Employment Growth by Industry, 12-Month % Change, Nov 2023

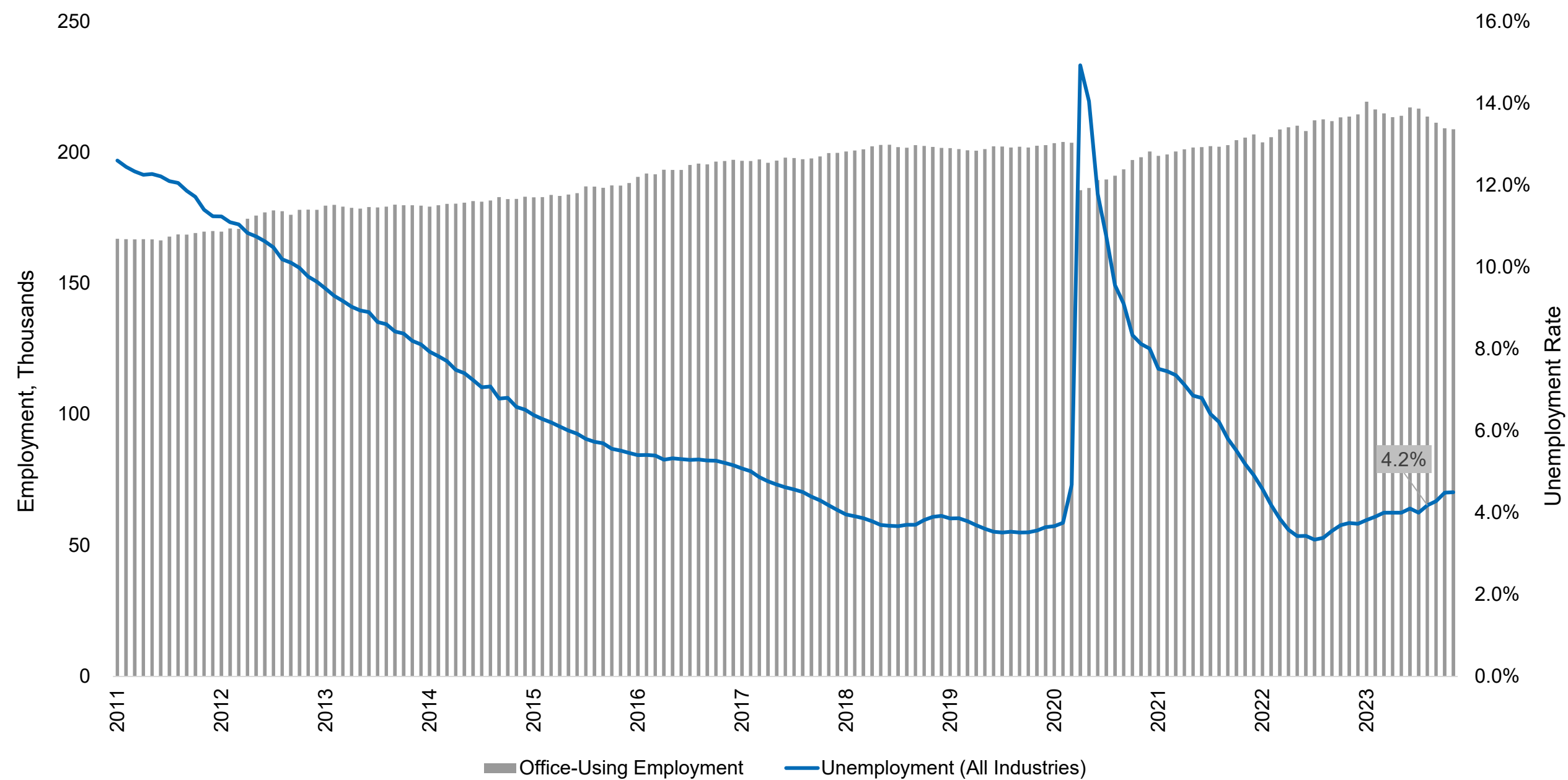


Source: U.S. Bureau of Labor Statistics, Sacramento-Roseville-Arden-Arcade, CA MSA

Overall Office-Using Employment Decreases Slightly

The overall office-using employment decreased slightly over the last three quarters of 2023.

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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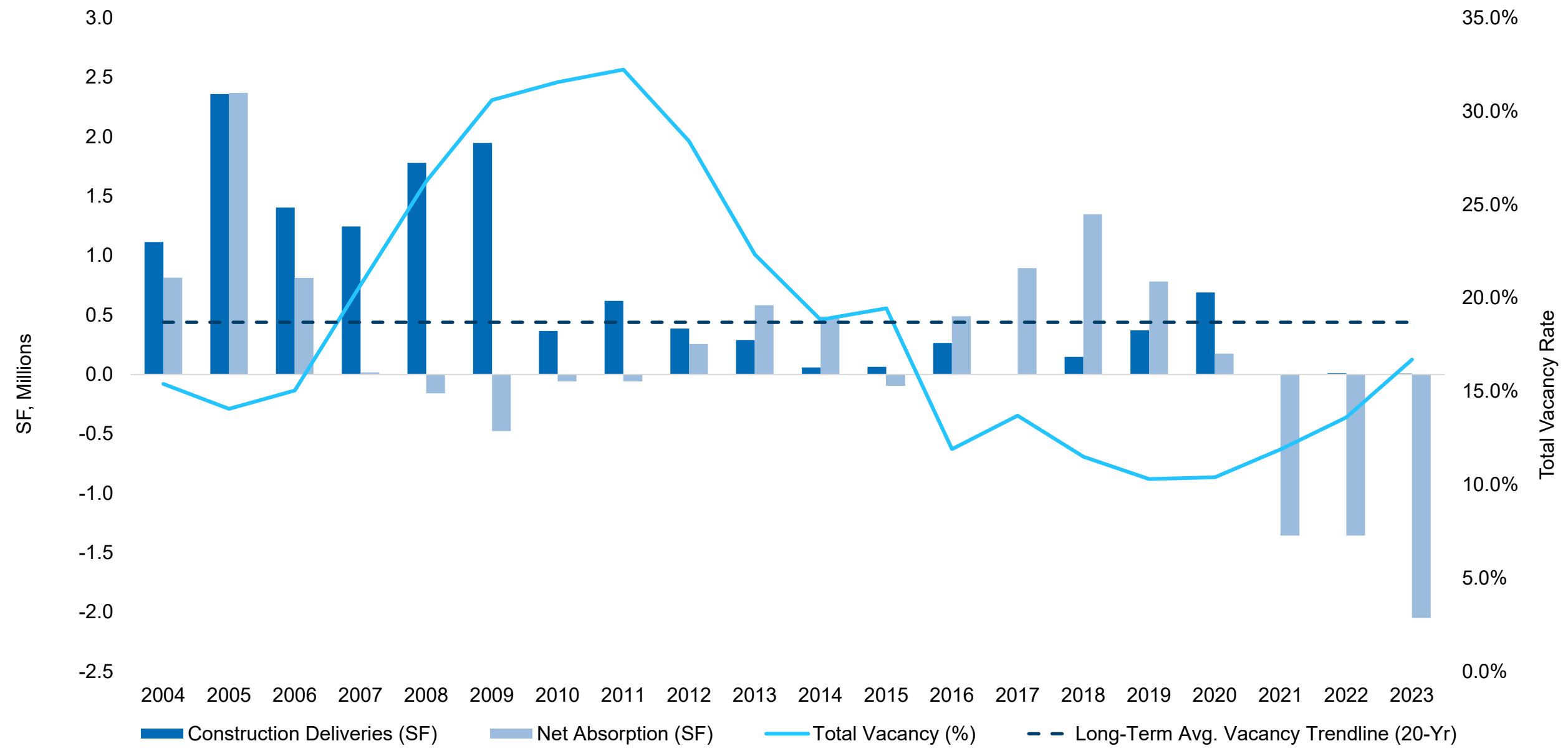
Leasing Market Fundamentals



Vacancy Increases Slightly as Net Absorption Records Another Negative Quarter

The Sacramento office ended 2023 with a vacancy rate of 16.7% up slightly from the third quarter’s vacancy rate of 16.5%. Net absorption posted a negative 211,022 square feet during the fourth quarter bringing the year-to-date net absorption total to just over negative 2.0 million square feet. Construction continues on two buildings (314,000 square feet & 255,000 square feet) in the Aggie Square project in the South Sacramento submarket.

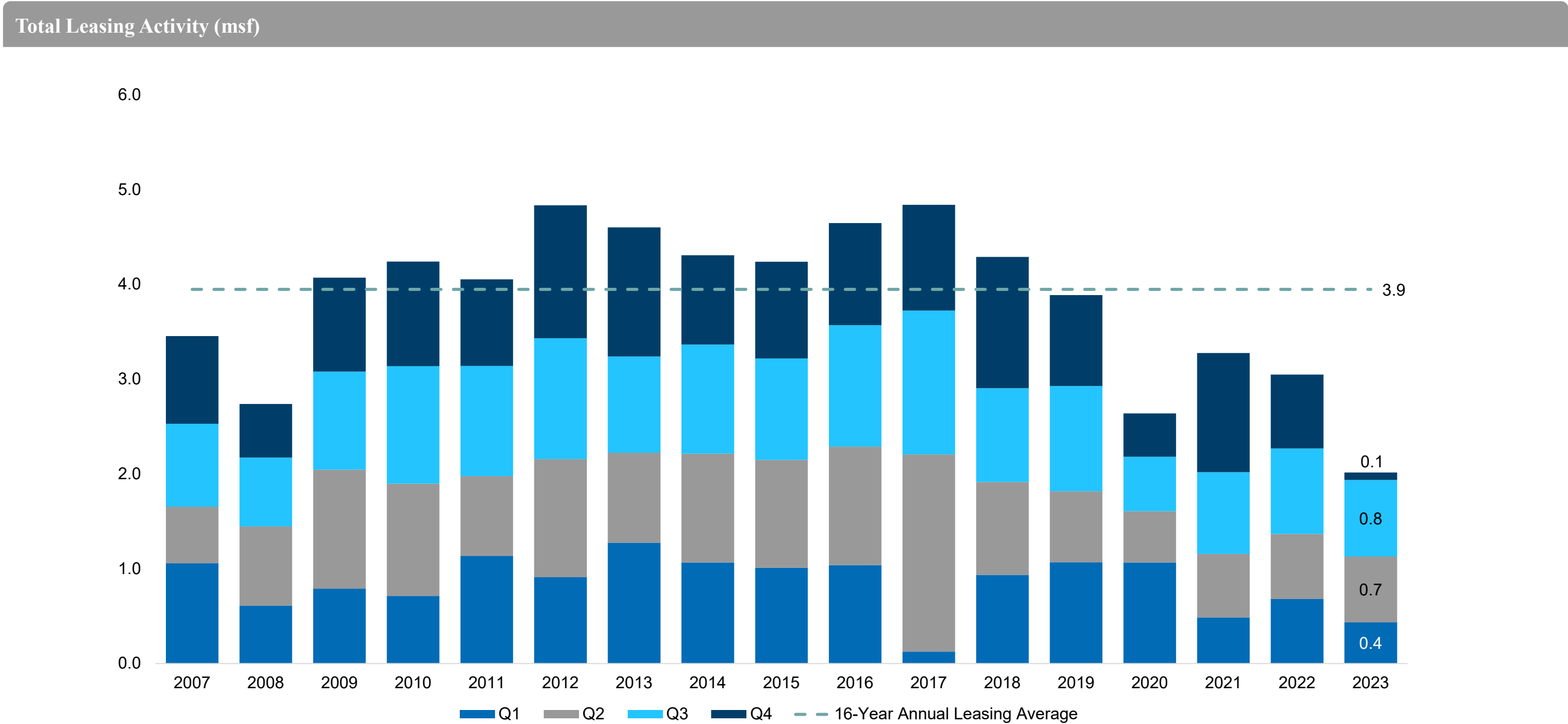
Historical Construction Deliveries, Net Absorption, and Vacancy



Source: Newmark Research

Leasing Activity Pace Has Dramatically Slowed

Leasing activity in the fourth quarter the lowest quarter for 2023. The 2023 year recorded the lowest leasing activity in the last 16 years.



Source: CoStar

A low-angle, upward-looking shot of a modern building's interior or exterior structure. The image features a complex network of steel beams and girders forming a grid-like pattern. Large glass panels are visible, reflecting the sky and other parts of the structure. The perspective creates a sense of height and architectural scale. A solid blue horizontal band is overlaid across the middle of the image, containing white text.

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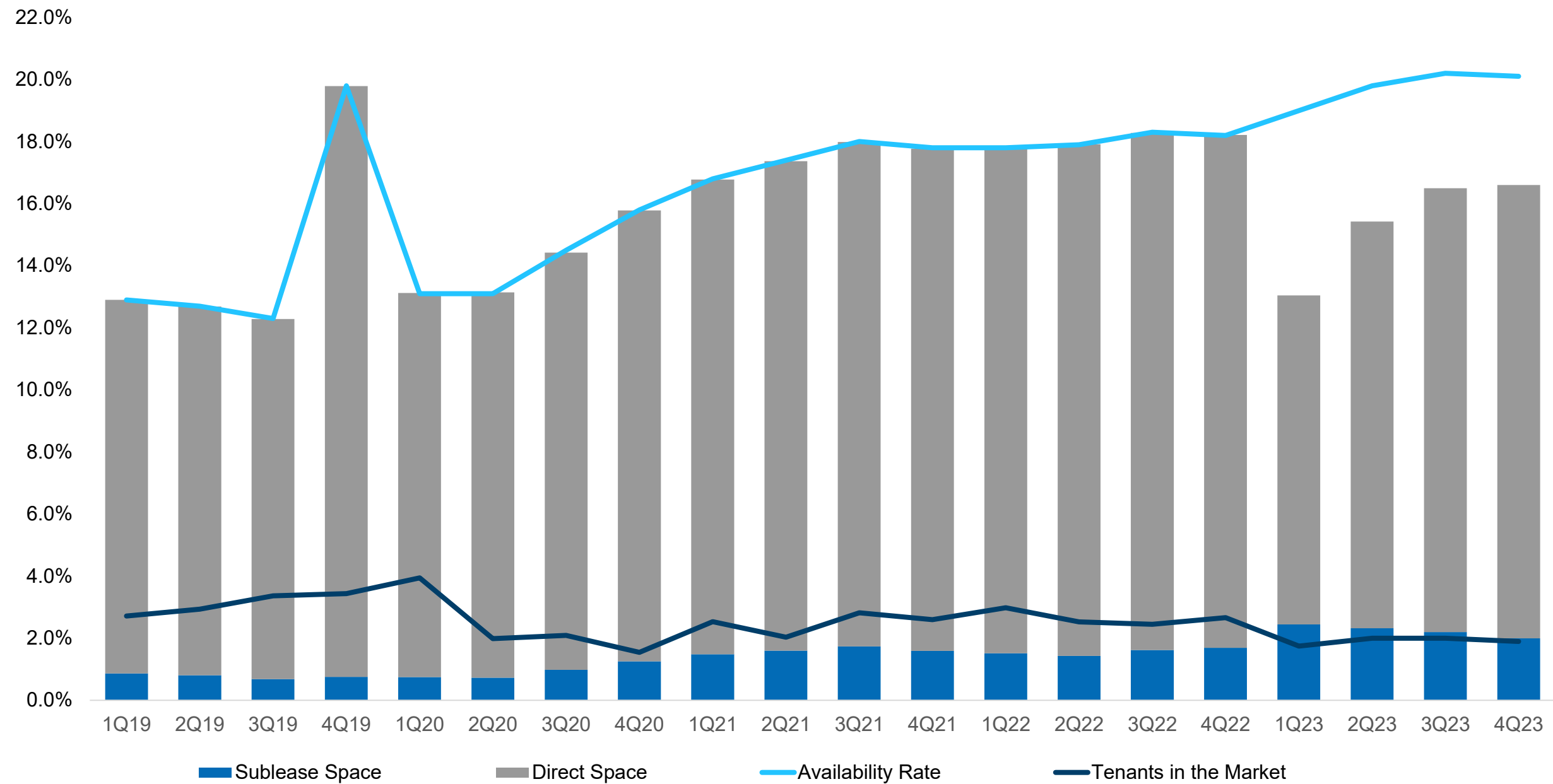


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Availability Continues to Increase While Tenant Demand Holds Steady

The availability rate decreased slightly in the fourth quarter of 2023, while tenant demand remains steady. The availability rate for the fourth quarter of 2023 was 20.1% compared with 20.2% in the thrid quarter of 2023 and 18.2% in the fourth quarter of 2022..

Available Space and Tenant Demand as Percent of Overall Market



Source: Newmark Research

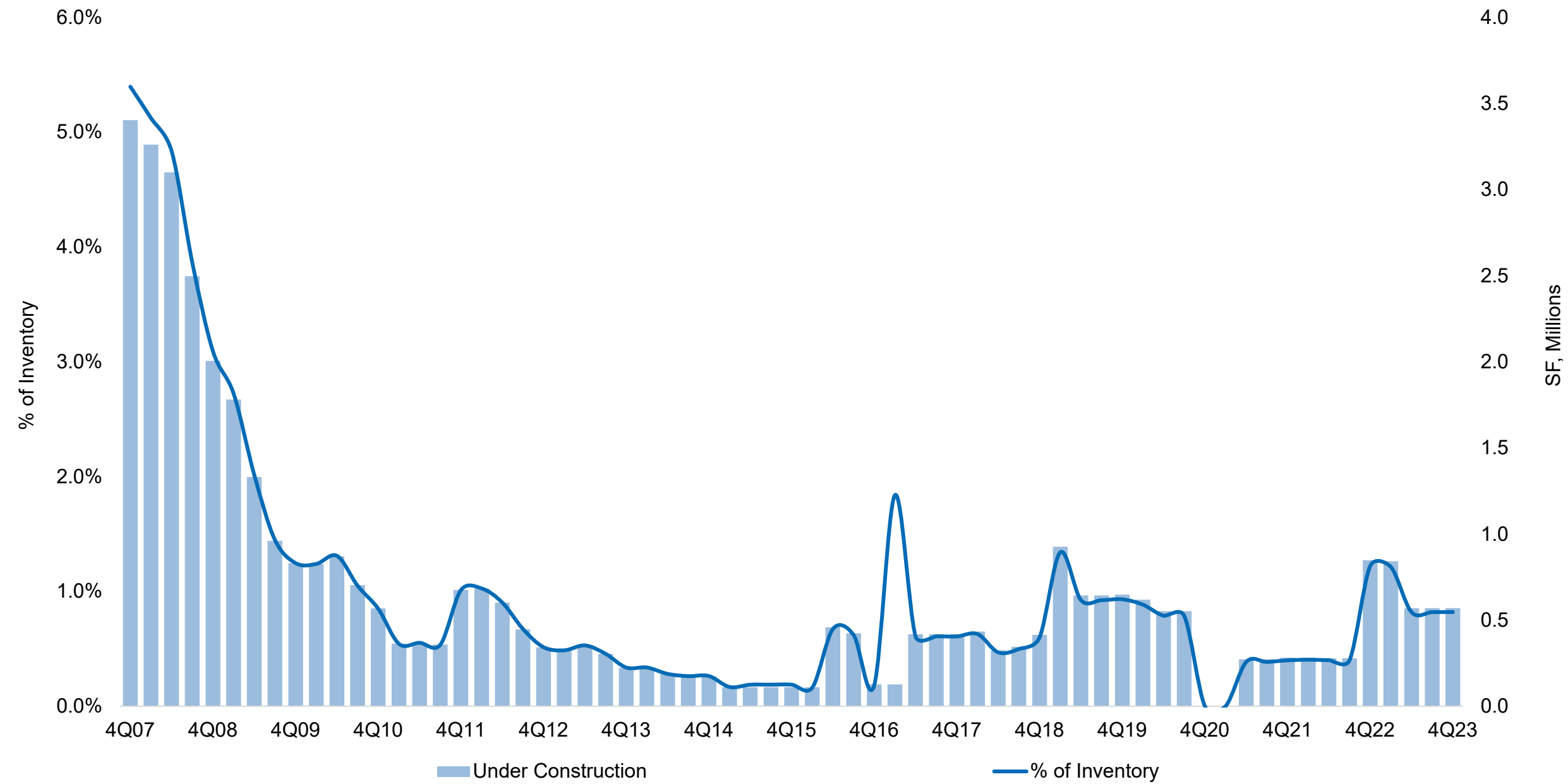


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No New Construction But Construction Still Active

In the fourth quarter of 2023, 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,

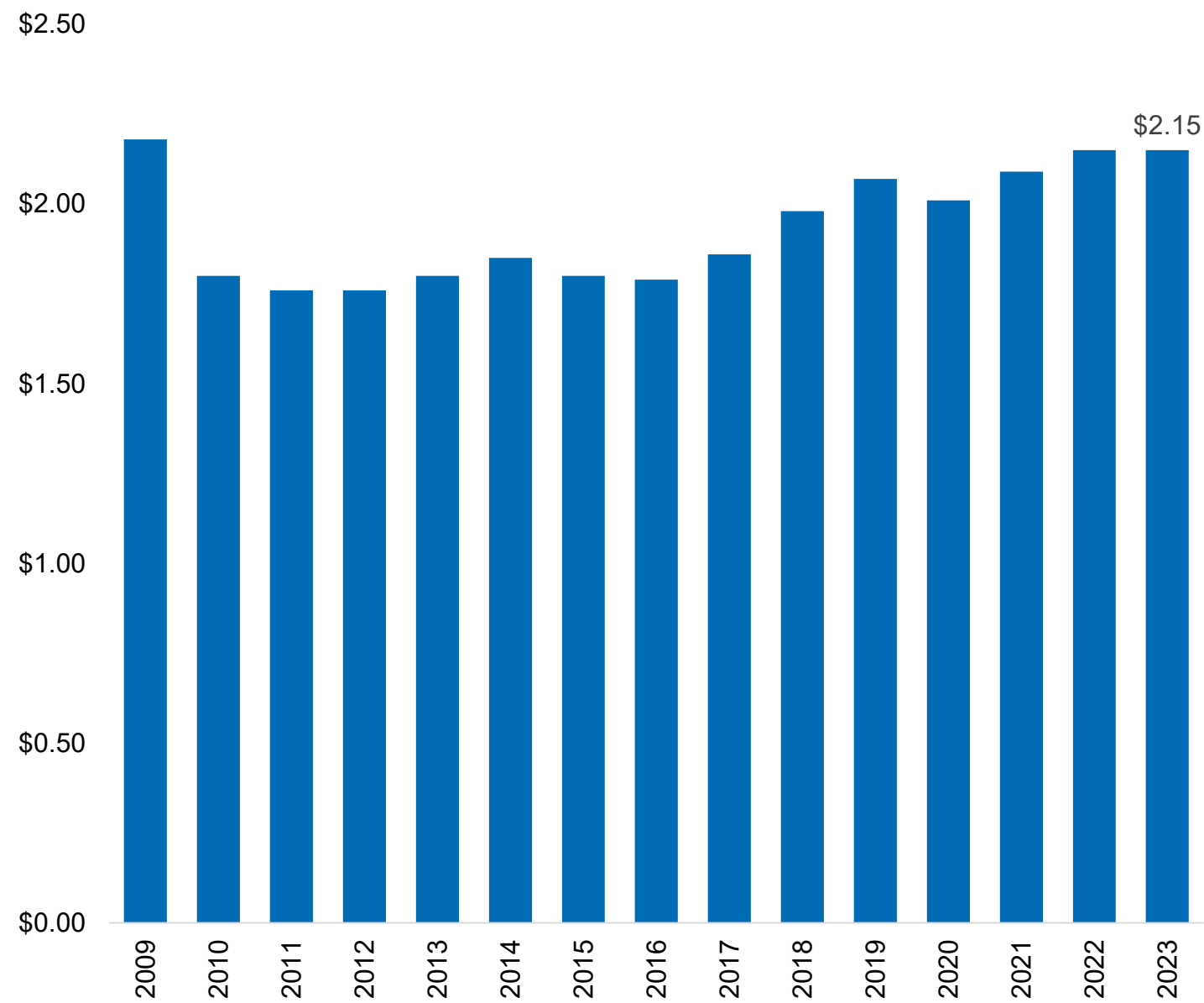


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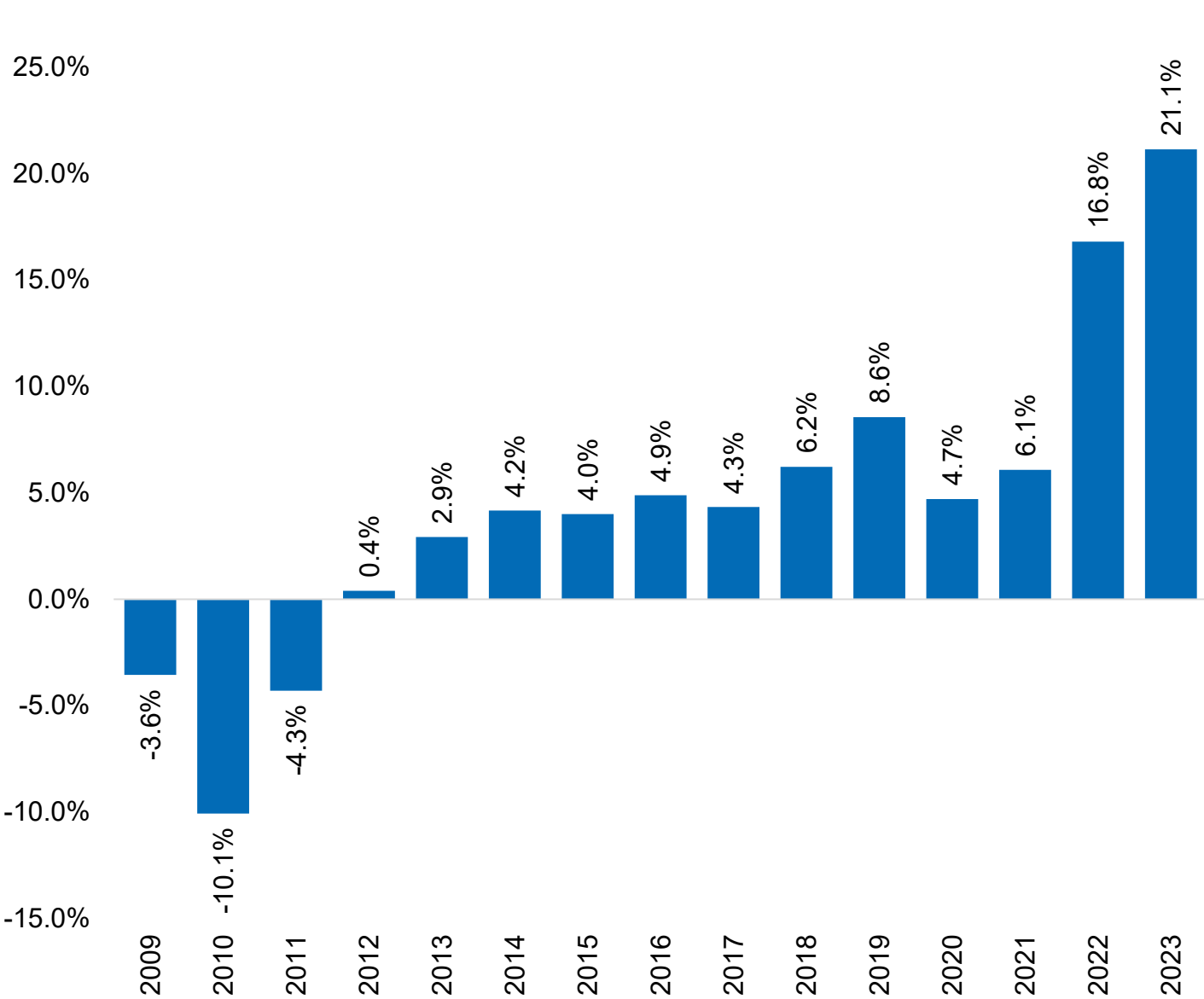
Overall Rents Remain Stable

Office rental rates remain unchanged for the past four quarters, with the asking rents at \$2.15/SF at the end of 2023. All class rents posted minimal changes from the third quarter of 2023, with Class A rents at \$2.72/SF, Class B rents at \$2.04/SF and Class C rents at \$1.62/SF.

Office Average Asking Rent, \$/SF, FS



Year-over-Year Asking Rent Growth Rate

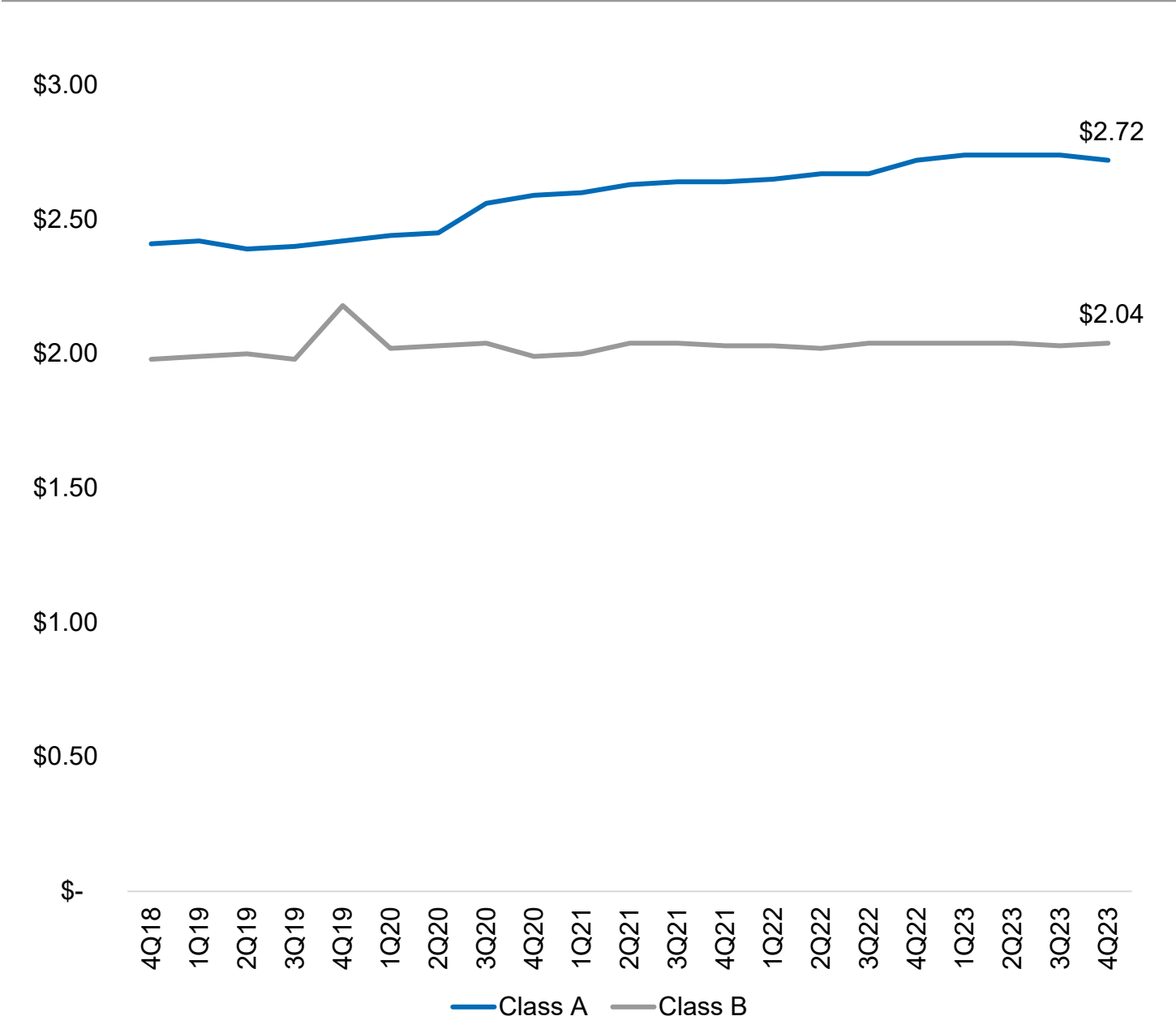


Source: Newmark Research

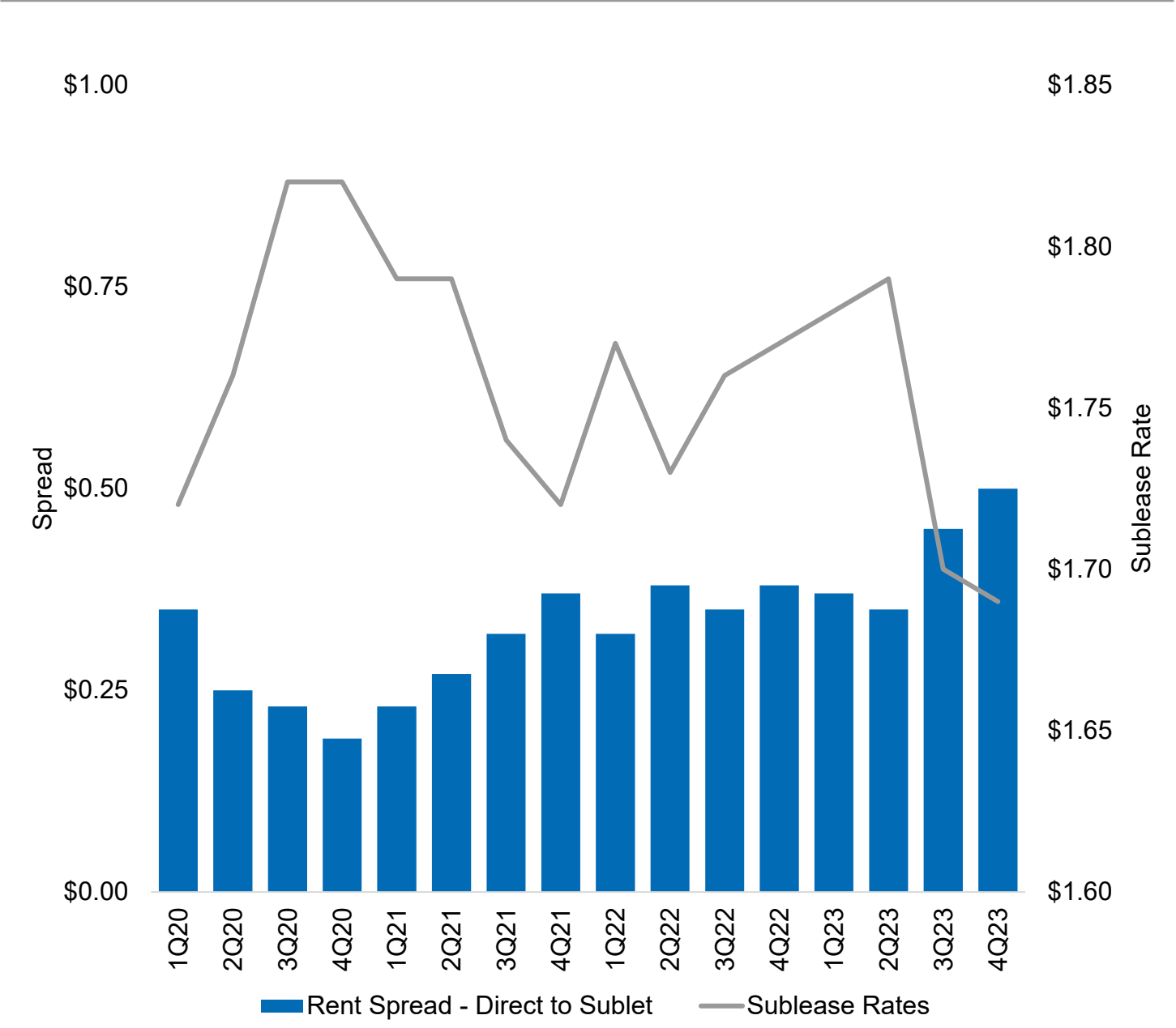
Sublease Asking Rents Decreased

Office rents in the Sacramento region have remained steady over the last year, only increasing slightly every few quarters. Sublease rents have decreased over the last two quarter as the number of sublease spaces have increased slightly.

Class A and Class B Asking Rents



Sublease Rates



Source: Newmark Research, CoStar

Leasing Activity Slows

Lease and sale transactions remain active in the Sacramento office market. During the fourth quarter, the top five lease transactions were all lease renewals and all under 92,000 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).

Notable 4Q23 Lease Transactions				
Tenant	Building(s)	Submarket	Type	Square Feet
State of California	9821 Business Park Dr, Sacramento	50 Corridor East	Lease Renewal	91,400
The State of California has been in this building since 1999.				
State of California	3701 N Freeway Blvd, Sacramento	North Natomas	Lease Renewal	42,293
The State of California has been in this building since 2009.				
Pacific, Gas & Electric	6030 West Oaks Blvd, Rocklin	Rocklin	Lease Renewal	38,,590
This tenant moved into this building in 2014.				
Western Health Advantage	2379 Gateway Oaks Dr, Sacramento	South Natomas	Lease Renewal	30,465
Western Health Advantage has been a tenant in this building since 2016.				
American Pacific Mortgage Corporation	3000 Lava Ridge Ct, Roseville	Roseville	Lease Renewal	28,871
This tenant first moved into this building in 2002.				

Source: Newmark Research

Appendix





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