



Sacramento office market report

Q2 2024

**AVISON
YOUNG**

Sacramento office market trends

253K sf

Positive net absorption breaks five-quarter streak.

After five consecutive quarters of negative absorption, Q2 2024 finally marks a break in that streak, driven by increased leasing activity from the government and professional services industries. The Sacramento office market has faced significant challenges over the past several years, with only three other quarters showing positive net absorption since the beginning of 2020. This recent uptick in leasing activity suggests renewed confidence and potential stabilization in the market, reflecting a hopeful trend for future growth and recovery.

13.2 msf

Total available office space have stabilized.

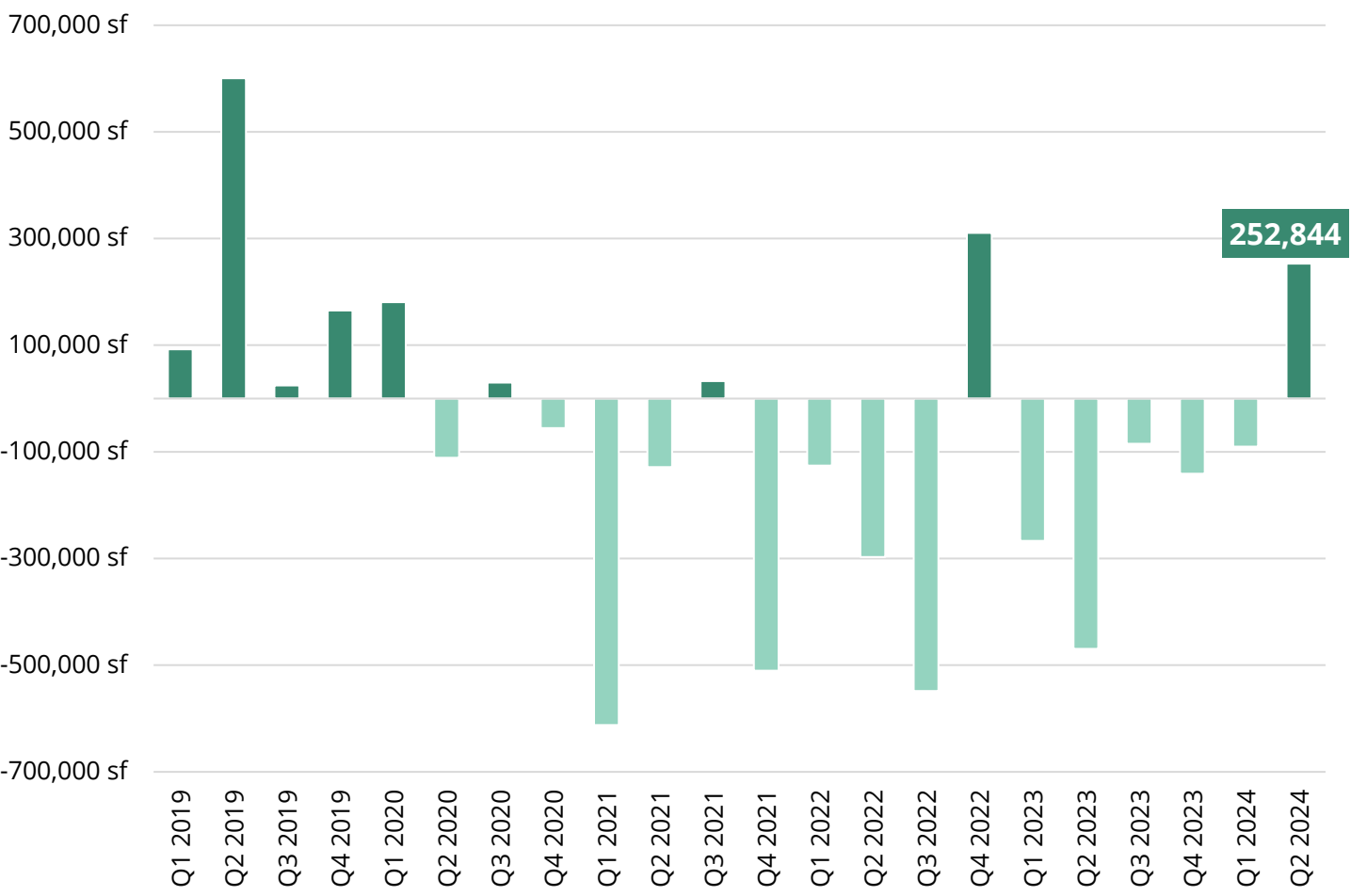
The Sacramento office market continues to face challenges with high vacancy rates and reduced demand. Factors such as elevated interest rates, ongoing economic uncertainty, and changes in employee work habits have contributed to tenants' reluctance to lease office space. Office availability reached all-time highs in 2023, but rates have shown signs of stabilization in recent quarters. This suggests a potential leveling off in the market, though the timeline of the recovery to pre-pandemic levels remains uncertain.

\$2.55 FS

Class A office rates have begun to decrease.

Asking rates reached all-time highs in 2023 despite the challenging state of the office market and landlords have finally begun to soften rates in recent quarters. This adjustment is driven by the ongoing high availability of office spaces and subdued tenant activity. The lower rental rates, combined with future potential cuts to interest rates may contribute to a resurgence in leasing activity.

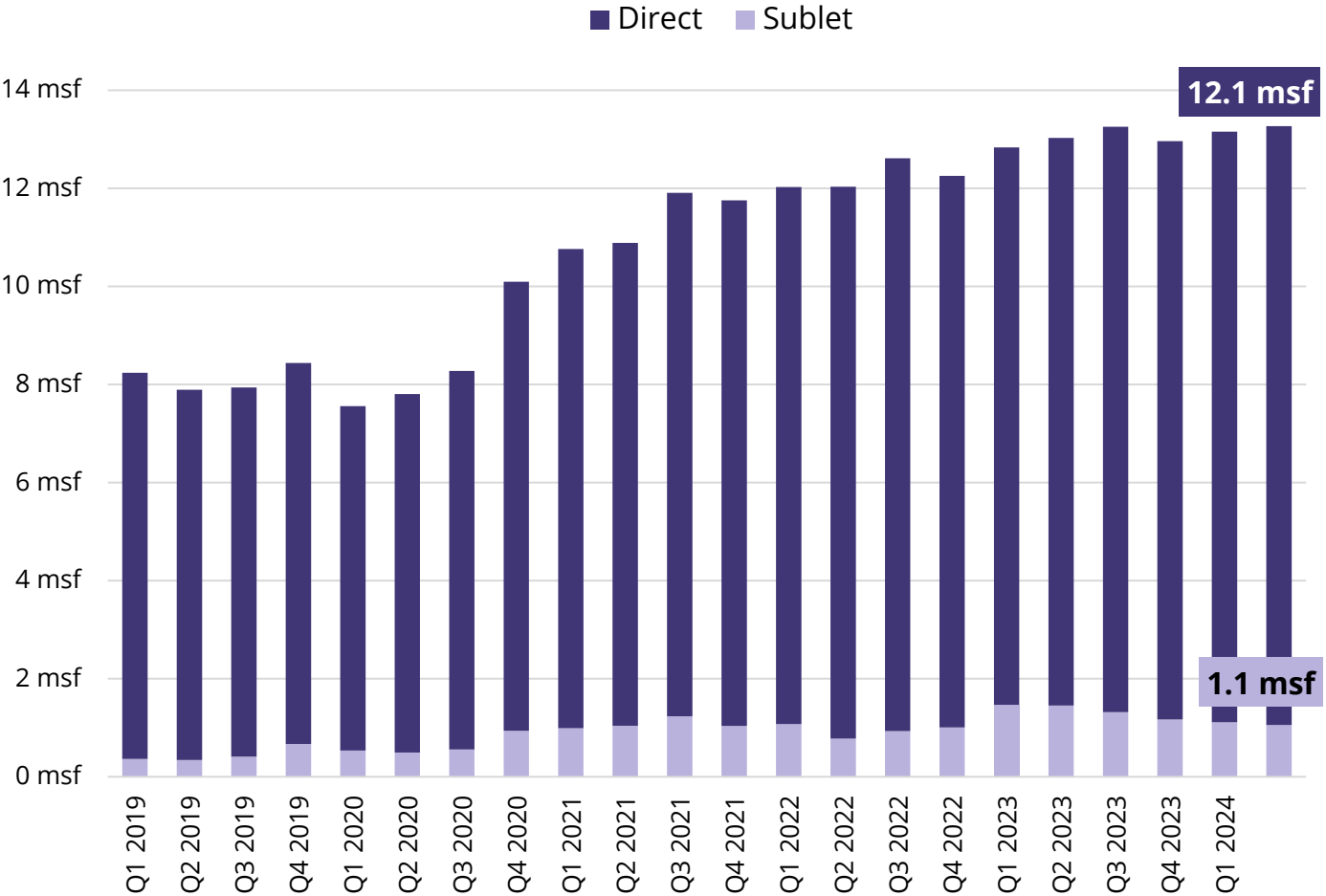
Net Absorption



After five consecutive quarters of negative absorption, Q2 2024 brought a significant and unexpected positive shift. This improvement is a highly encouraging sign for the market, suggesting that recovery may be on the horizon.

Source: AVANT by Avison Young

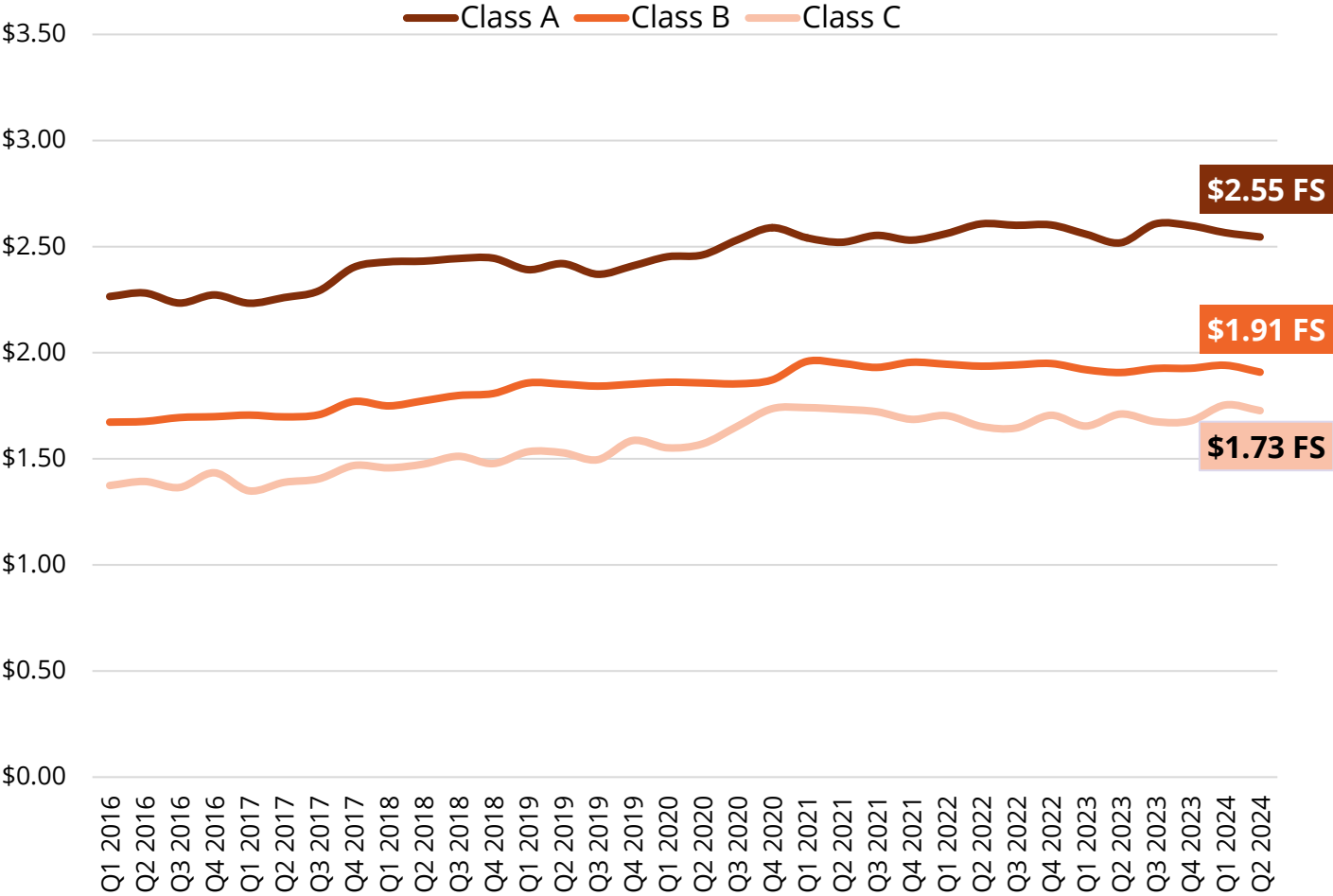
Availability



Over the past several quarters, availability has plateaued, staying just above 20% of the total market inventory, which may suggest that the worst of the downturn is behind us. In Q2 2024, availability remained relatively stable compared to the previous quarter.

Source: AVANT by Avison Young

Asking Rates



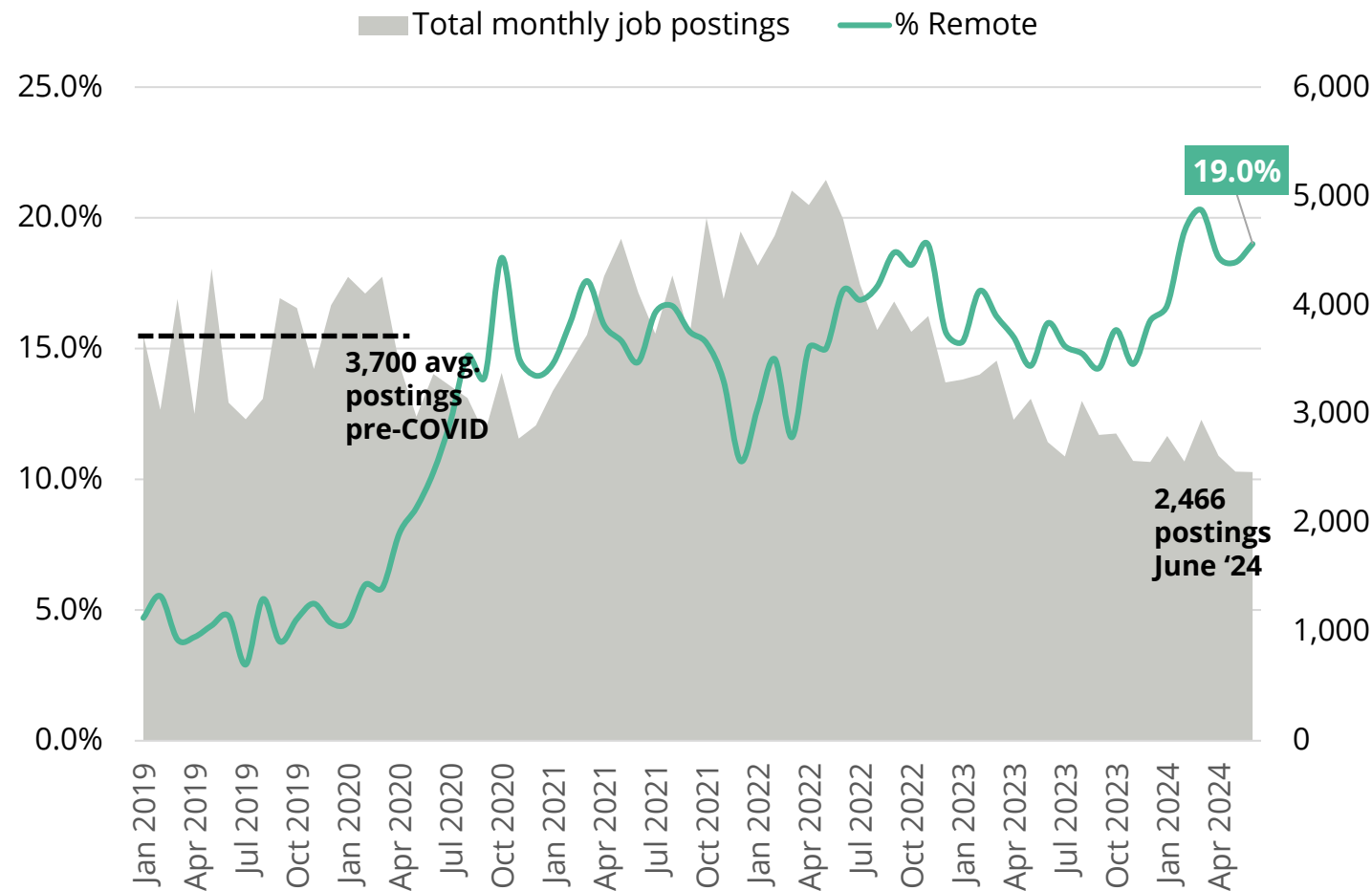
Despite weak performance, the office market saw asking rates steadily rise in the last several years, peaking at multi-decade highs in 2023. Rates have finally begun to decrease in recent quarters under pressure from high vacancy and low leasing demand.

Source: AVANT by Avison Young

Economic Trends



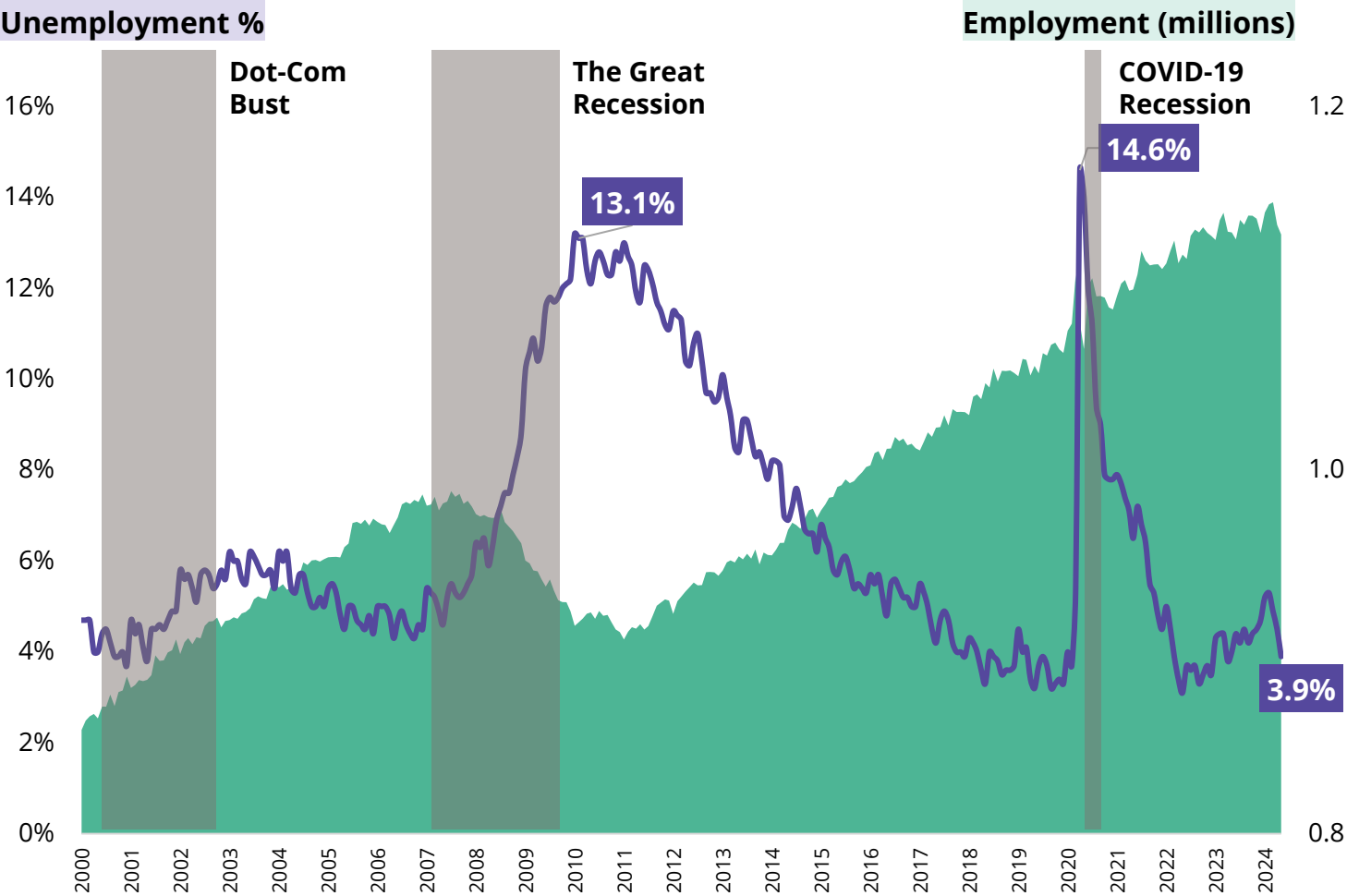
Job postings



Despite some improvement in the previous quarter, Q2 2024 saw a slowdown in total job postings entering the summer months. Remote jobs continue to hold a large share of postings, indicating that the return-to-office remains a challenge for the office market.

Source: AVANT by Avison Young

Employment



Unemployment rates saw a significant drop in Q2 2024, signaling a strengthening economy. The most substantial employment growth occurred in the private education and health services, government, and professional and business services industries. The decline in unemployment rates is a positive indicator for the overall economic outlook, potentially stimulating growth in the office recovery.

Note: Sacramento-Roseville-Arden-Arcade MSA
Source: Bureau of Labor Statistics

Market Activity



Sacramento office market activity

Recent leasing activity

Tenant	Address	Submarket	Sign date	Size (sf)	Transaction type	Lease type
Deloitte	2329 Gateway Oaks Dr	South Natomas	April 2024	38,111	Renewal	Direct
State of CA – POST	860 Stillwater Rd	West Sacramento	May 2024	24,500	Expansion	Direct
GEI Consultants	11010 White Rock Rd	Rancho Cordova	June 2024	21,750	New Lease	Direct

Recent sales activity

Buyer	Address	Submarket	Sale date	Building RSF	Building Class	Sale price	Sale price psf	Seller
IRA Capital, LLC	3160 Folsom Blvd	East Sacramento	Jun 2024	91,527	B	\$52,000,000	\$568	Healthpeak Properties
Welltower Inc.	1201 Alhambra Blvd	East Sacramento	Jun 2024	101,133	B	\$45,555,000	\$450	Heitman
Dialysis Clinic, Inc.	4124 E Commerce Way	North Natomas	May 2024	20,000	B	\$5,485,000	\$274.25	Vectra Capital

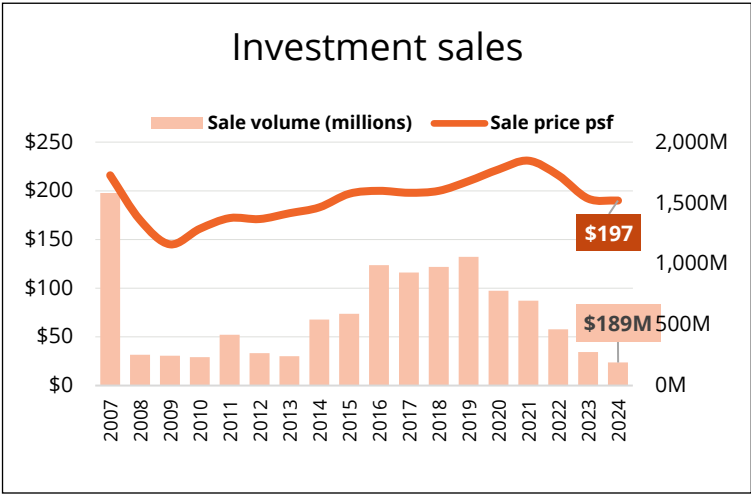
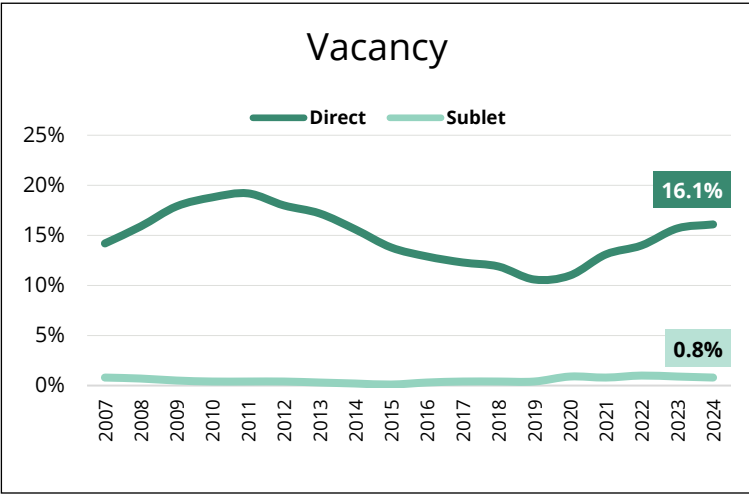
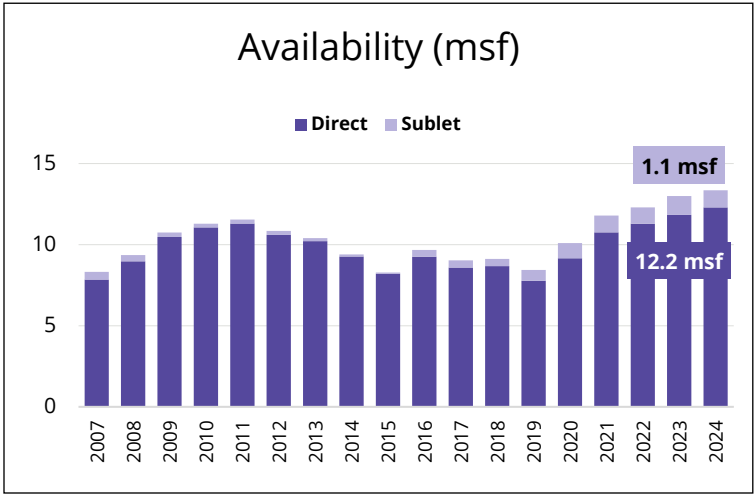
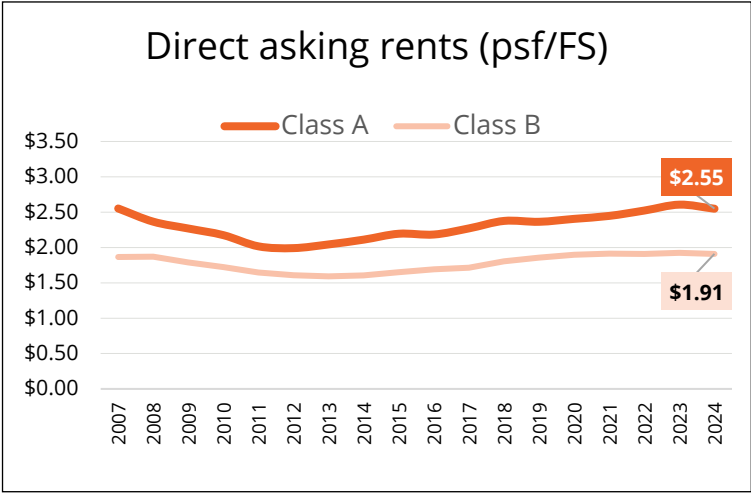
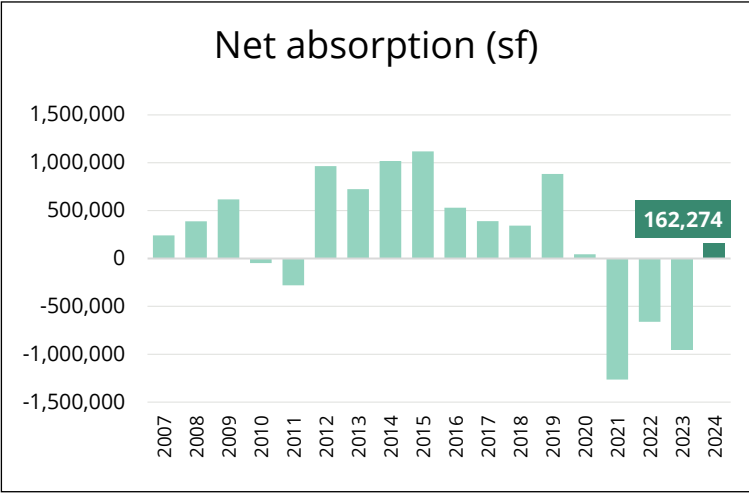
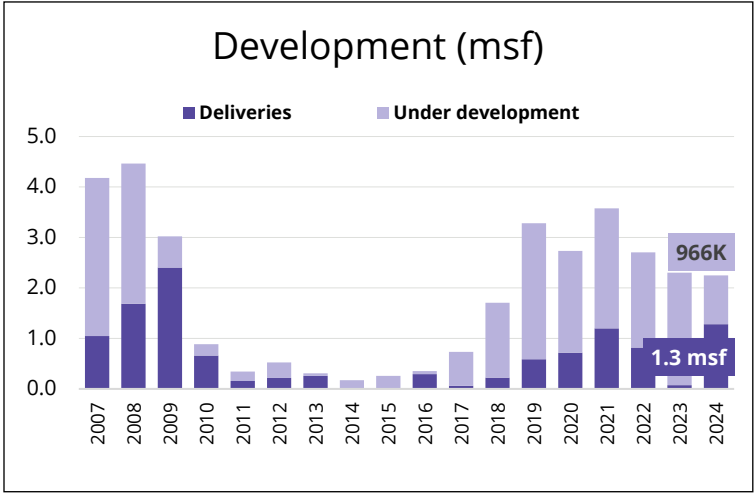
Top projects under development

Address	Submarket	Delivery date	Building size sf	% Preleased	Developer
Aggie Square (2 buildings)	East Sacramento	2025	569,000	80.4%	The Regents of the UC
100 Waterfront PI - CalSTRS Expansion	West Sacramento	2024	275,000	100.0%	CalSTRS

Appendix



Sacramento office market indicators



Sacramento office market stats

	Inventory			Vacancy					Absorption		Direct Asking Rent (F\$)		
	Existing inventory	YTD Deliveries	Under development	Direct %	Sublet %	Total %	Class A %	Class B %	Net absorption sf (QTD)	Net absorption sf (YTD)	Class A	Class B	Total
Auburn/Lincoln	421,277	0	0	10.8%	0.0%	10.8%	-	12.5%	1,622	-25,337	-	\$1.54	\$1.40
Campus Commons	1,209,003	0	750,000	2.1%	0.0%	2.1%	7.5%	1.5%	-904	-369	-	\$3.15	\$2.83
Carmichael/Fair Oaks	413,945	0	0	8.5%	0.0%	8.5%	-	1.1%	2,568	-1,923	-	\$1.60	\$1.48
Citrus Heights/Orangevale	541,351	0	0	16.5%	0.6%	17.1%	-	18.8%	-8,325	-9,425	-	\$1.52	\$1.40
Davis/Woodland	1,254,245	0	0	10.9%	0.1%	11.0%	29.3%	4.4%	-1,688	-26,371	-	\$2.24	\$2.30
Downtown	11,967,589	0	1,250,000	14.7%	0.2%	14.9%	15.9%	20.2%	113,987	218,708	\$3.67	\$2.84	\$3.12
East Sacramento	1,176,803	0	0	12.2%	0.0%	12.2%	3.2%	13.7%	-12,483	8,319	\$3.25	\$2.14	\$2.15
El Dorado Hills	1,061,809	0	0	23.7%	0.2%	23.9%	55.0%	22.4%	59,248	-37,871	\$2.00	\$1.91	\$1.92
Folsom	3,926,846	0	0	8.2%	1.1%	9.3%	21.0%	8.4%	19,034	17,695	\$2.43	\$2.04	\$2.25
Highway 50 Corridor	11,827,358	0	0	23.3%	1.3%	24.6%	37.7%	21.4%	199,410	176,481	\$2.02	\$1.60	\$1.72

Sacramento office market stats

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	Existing inventory	Deliveries	Under development	Direct %	Sublet %	Total %	Class A %	Class B %	Net absorption sf (QTD)	Net absorption sf (YTD)	Class A	Class B	Total
Howe Ave	2,183,048	0	0	15.6%	0.3%	15.9%	23.3%	21.2%	-602	19,039	\$1.84	\$1.52	\$1.62
Midtown	1,611,802	0	0	10.7%	0.0%	10.7%	18.9%	9.8%	1,234	-23,958	\$2.90	\$2.42	\$2.42
North Natomas	3,004,568	0	0	13.4%	0.2%	13.6%	42.7%	18.5%	3,910	23,369	\$2.12	\$1.64	\$1.74
Point West	2,337,701	0	0	17.9%	0.1%	18.0%	26.7%	12.2%	22,984	-2,874	\$2.13	\$1.78	\$1.93
Rio Linda/North Highlands	643,266	0	0	18.7%	0.0%	18.7%	-	17.3%	0	0	-	\$1.20	\$1.20
Roseville/Rocklin	7,526,178	0	0	15.2%	2.3%	17.5%	23.5%	15.9%	-21,324	-271,227	\$2.23	\$1.94	\$2.06
South Natomas	3,539,687	0	0	19.7%	0.6%	20.2%	37.8%	20.2%	14,119	11,983	\$2.51	\$2.03	\$2.39
South Sacramento	2,765,254	0	0	5.5%	0.0%	5.5%	4.9%	7.2%	-6,180	12,335	\$2.75	\$2.11	\$2.13
Watt Ave	1,267,062	0	0	13.8%	0.7%	14.5%	-	17.2%	-8,791	46,746	-	\$1.59	\$1.59
West Sacramento	1,771,905	0	275,000	14.1%	0.0%	14.1%	14.2%	12.0%	-124,975	27,354	\$3.25	\$2.10	\$2.79
Overall	60,450,697	0	2,275,000	16.1%	0.8%	17.0%	19.3%	16.2%	252,844	162,674	\$2.55	\$1.91	\$2.16

Market statistics in this report consists of office 20,000 sf and greater in these listed submarkets.

Sacramento submarket map

Office insights glossary of terms

Demand

- **Leasing activity:** total square footage of relocations, renewals, expansions and subleases expressed when the leases are signed, not when tenants take physical occupancy of the space
- **Absorption:** period-over-period change in occupied square footage

Supply

- **Direct vacancy rate:** space operated by landlords that is ready for immediate occupancy
- **Sublease vacancy rate:** space operated by sublandlords that is ready for immediate occupancy
- **Total vacancy rate:** sum of direct vacancy rate and sublease vacancy rate
- **Availability rate:** space that is vacant plus space that will become vacant over an indefinite time horizon, including spaces that are occupied by vacating tenants and under-construction properties

Office rents and concessions

- **Asking rents:** pricing guidance provided by landlords to tenants for available space expressed as full service (FS)
- **Base rents:** fair market value of market-level lease pricing based on representative executed leases, expressed as full service (FS)
- **Free rent period:** months of free rent that are typically provided upfront by landlords to tenants as a concession to offset the total cost of a lease and/or the construction timeline of an office suite
- **Tenant improvement allowance:** an allowance expressed in dollars per square foot provided from landlords to tenants to offset build-out, engineering, space planning and related permit costs
- **Net effective rent:** base rents discounted by the dollar values of tenant improvement allowance and free rent concessions expressed as full service (FS)

Capital markets

- **Investment volume:** office sales dollars expressed when the transactions close and based on inventory thresholds; partial-interest sale dollar amounts are not grossed-up to reflect the 100% value of the sale
- **Asset pricing:** unweighted average per-square-foot asset pricing of market-level closed sales
- **Cap rate:** net operating income divided by sale price; this measurement of market-level investment returns is calculated as an unweighted average based on closed investment sales

For more market insights and
information visit **avisonyoung.com**

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