



Sacramento office market report

Q3 2024

**AVISON
YOUNG**

Sacramento office market trends

-207K sf

Net absorption turns negative as the State consolidates.

After a brief reprieve in Q2, the Sacramento office market has plunged back into negative absorption in Q3. This has primarily been driven by the State of California consolidating its office footprint into newly developed, state-owned buildings, and letting existing large-footprint leases expire. These developments, initiated during the pandemic, have added nearly 2 million square feet of office space to a market already grappling with high vacancy, further exacerbating the strain on Sacramento's office market.

533K sf

Leasing activity sees small improvements over Q2.

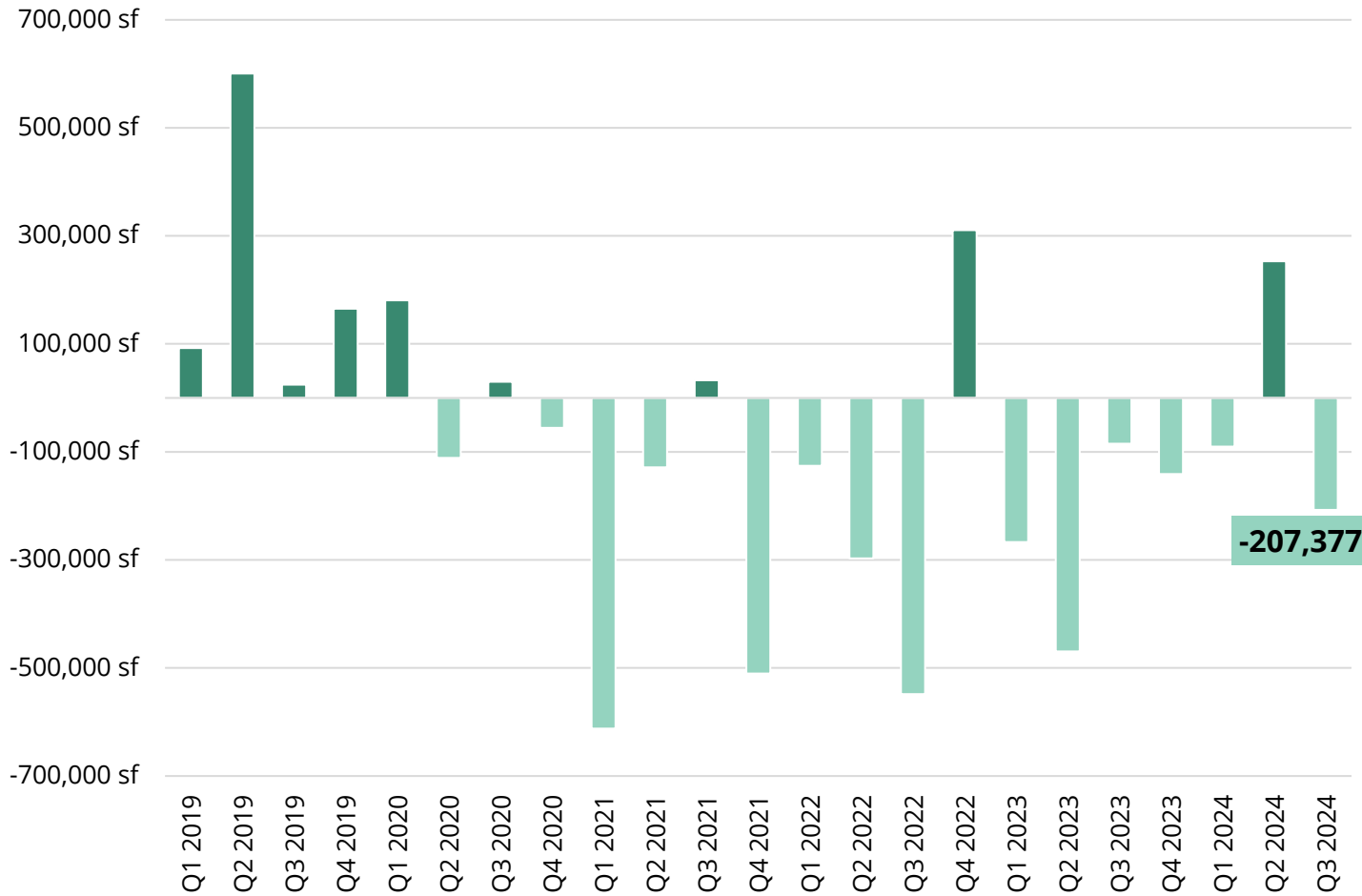
Leasing activity improved slightly in the previous quarter, though there has yet to be a consistent trend to signal the start of a recovery. Despite this, total availability increased as the State of California vacated several leases upon their expiration, moving into new state-owned office developments. However, the pace of new developments has finally tapered off, and with the Federal Reserve softening on interest rates and signaling further cuts, a turnaround in the office market may soon be on the horizon.

39.4%

Recovery lags for government occupied offices.

Avison Young's Busyness Index reveals that office properties occupied by tech, government, and sectors like banking, finance, insurance, and real estate are still trailing in office utilization. This trend is particularly worrisome for Sacramento, where the government, the region's largest employer, is struggling to drive employees back to the office. Despite a state-mandated hybrid work model introduced in June, requiring at least two days in the office each week, tangible improvements in office occupancy have yet to materialize.

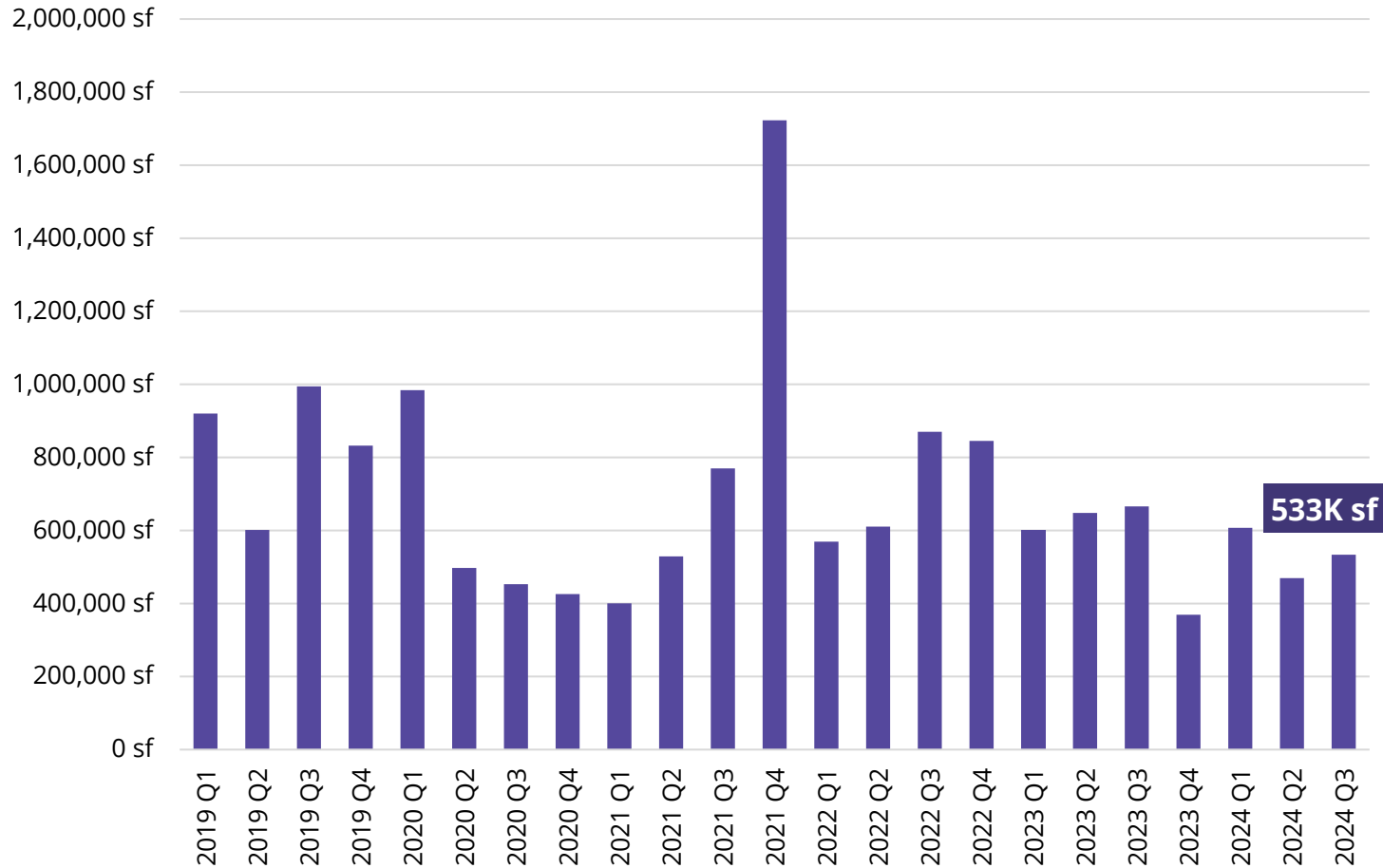
Net Absorption



Net absorption has plunged back into negative territory after a brief positive quarter in Q2. This reversal comes as the State of California consolidates its office footprint, shifting occupancy from privately owned buildings to newly developed government-owned properties in Downtown Sacramento. This move has created additional vacancies in the office market, further straining the office market.

Source: AVANT by Avison Young

Leasing Activity

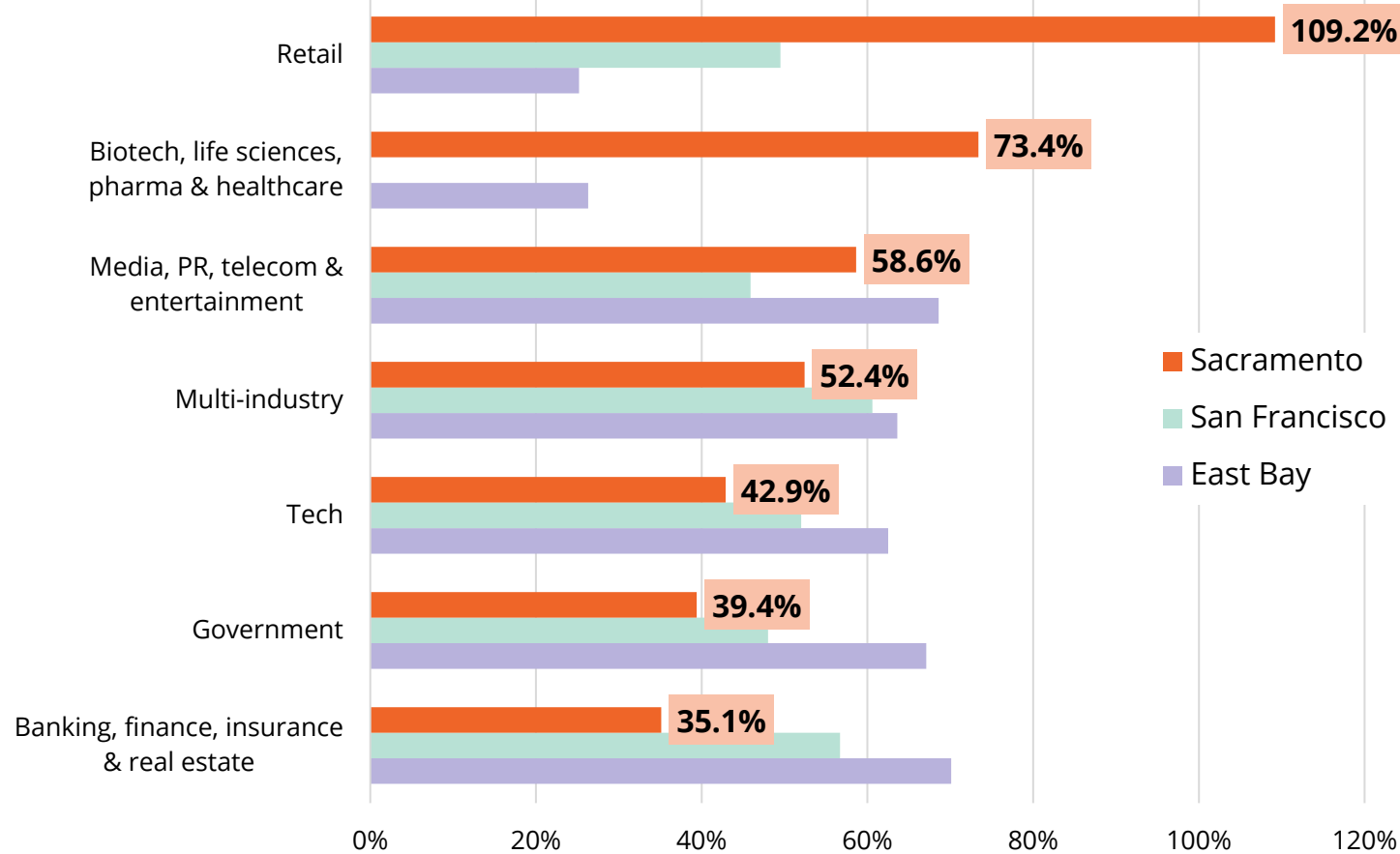


Source: AVANT by Avison Young

Leasing activity in the Sacramento office market has begun to stabilize, recovering slightly from recent lows. Q3 2024 showed a modest uptick in leasing activity compared to the previous quarter. However, there has yet been a definitive trend toward sustained improvement.

Office Recovery by Industry

Office Utilization in August 2024 Compared to August 2019



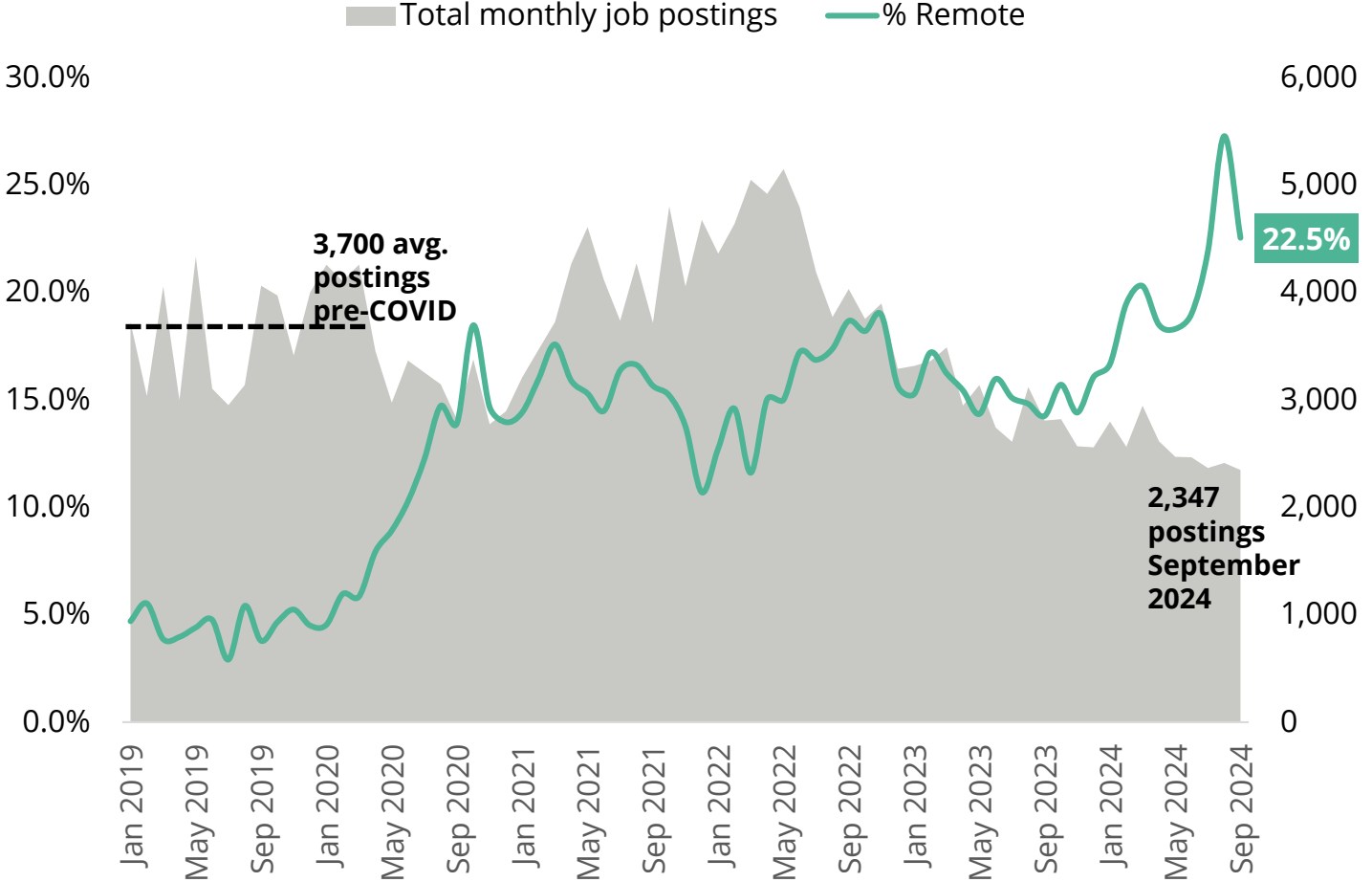
Source: Busyness Index by Avison Young

Avison Young's Busyness Index leverages mobility data from cellular devices to provide an accurate snapshot of office utilization recovery. In Sacramento, the recovery has been uneven across sectors. Offices occupied by retail companies have seen a remarkable rebound, while those in life sciences and healthcare follow behind. However, tech, government, and banking, finance, insurance, and real estate sectors continue to lag significantly in their return to office activity.

Economic Trends



Job postings

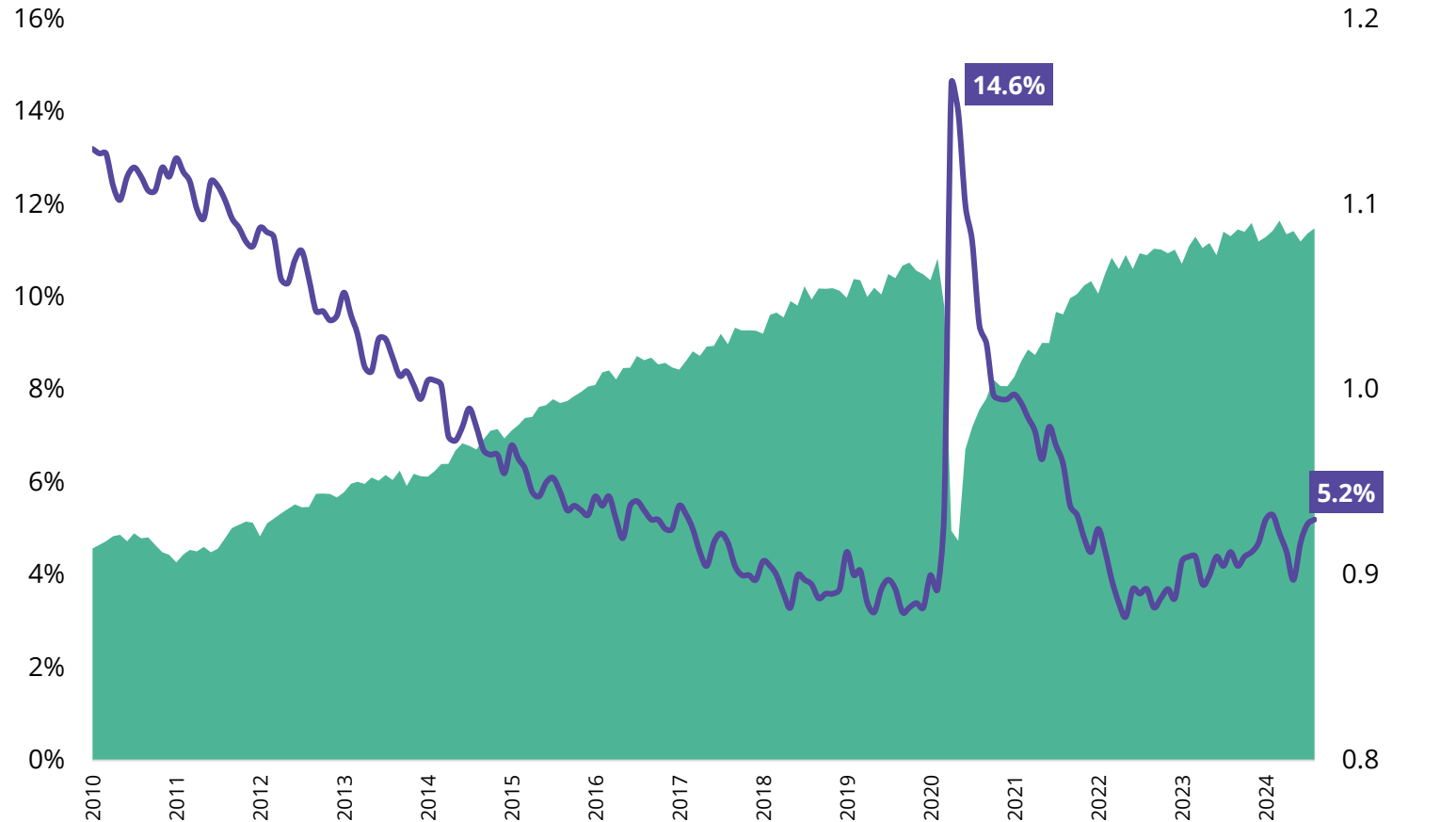


Sacramento’s labor demand continues to face challenges, with total monthly job postings hitting a new post-pandemic low in September. The share of remote job postings reached an all-time high in August, highlighting the ongoing struggle for a full return-to-office, which continues to impact the office market.

Source: AVANT by Avison Young

Employment

Unemployment %



Unemployment rates have rebounded after a sharp decline in Q2, nearing the highest levels since 2022. The leisure and hospitality sectors experienced the largest job losses, while private education and health services saw the most significant growth. These two sectors continue to lead year-over-year employment gains, contributing 1.56% growth to the region.

Note: Sacramento-Roseville-Arden-Arcade MSA, Seasonally unadjusted
Source: Bureau of Labor Statistics, CA EDD

Market Activity



Sacramento office market activity

Recent leasing activity

Tenant	Address	Submarket	Sign date	Size (sf)	Transaction type	Lease type
Alta Regional	4151 E Commerce Way	North Natomas	Sep 2024	118,934	New	Direct
Department of General Services	2329 Gateway Oaks Dr	South Natomas	July 2024	23,890	Renewal	Direct
Oak River Insurance	3301 C St	Campus Commons	Sep 2024	20,751	Renewal	Direct

Recent sales activity

Buyer	Address	Submarket	Sale date	Building RSF	Building Class	Sale price	Sale price psf	Seller
Ethan Conrad Properties	770 L St	Downtown	Sep 2024	170,000	A	\$22,500,000	\$132	New York Life
Ethan Conrad Properties	630 K St	Downtown	Jul 2024	86,244	A	\$10,300,000	\$119	New York Life

Top projects under development

Address	Submarket	Delivery date	Building size sf	% Preleased	Developer
100-300 Aggie Square Way (3 buildings)	East Sacramento	2025	797,141	80.4%	The Regents of the UC

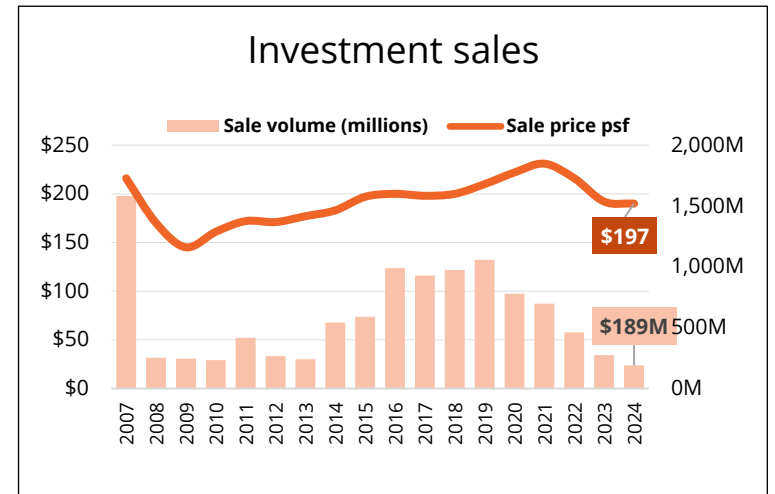
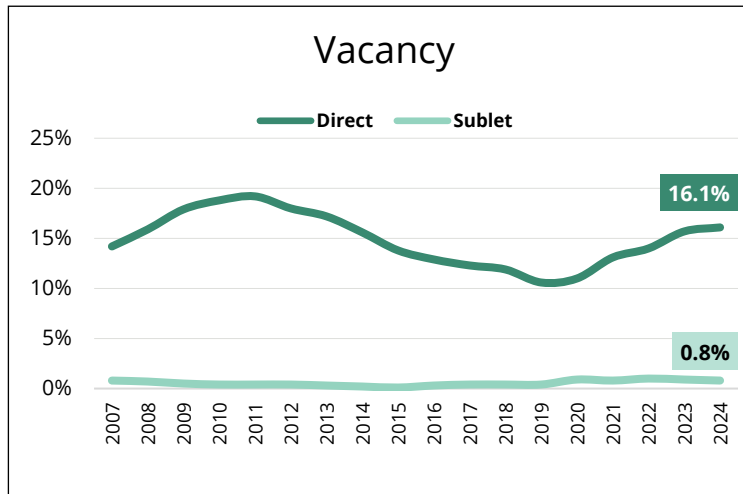
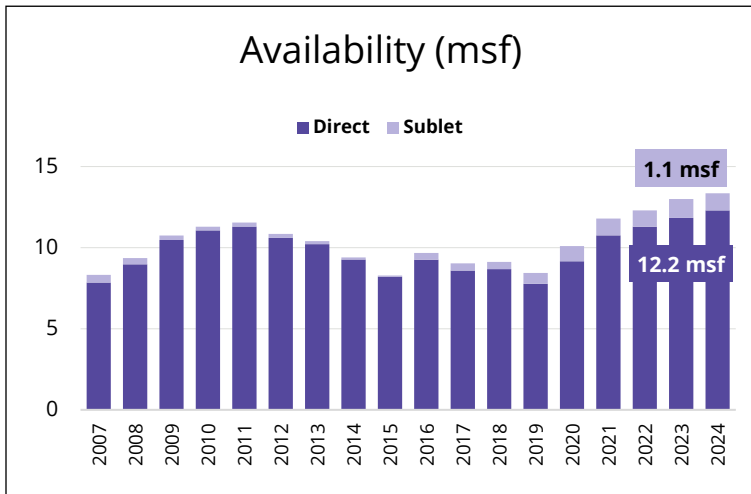
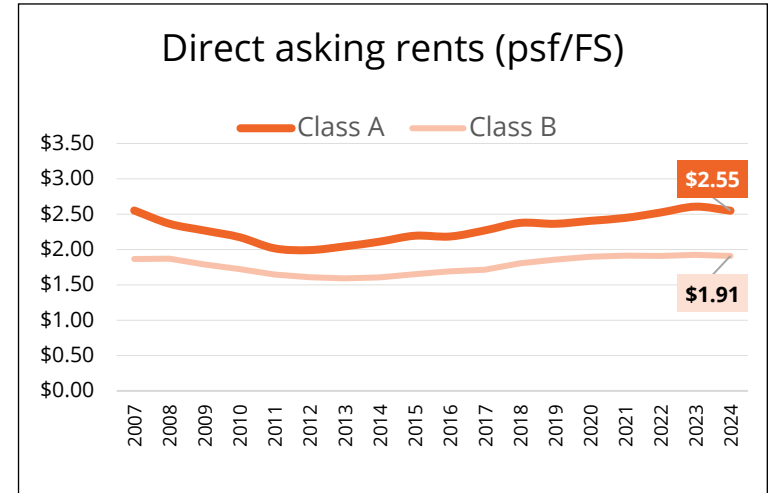
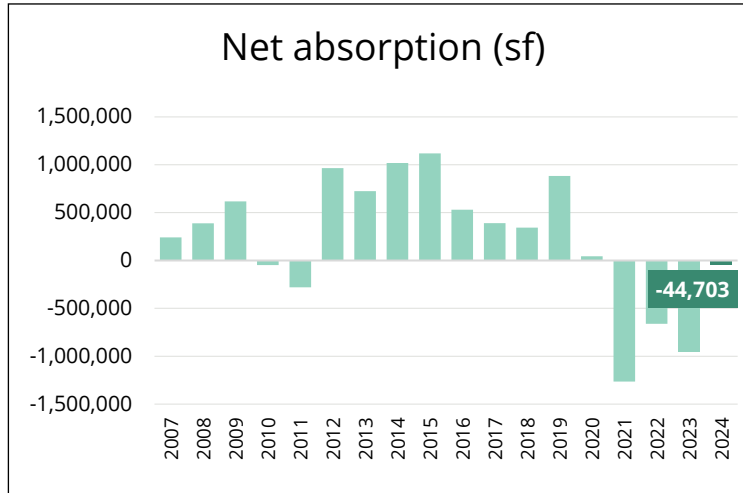
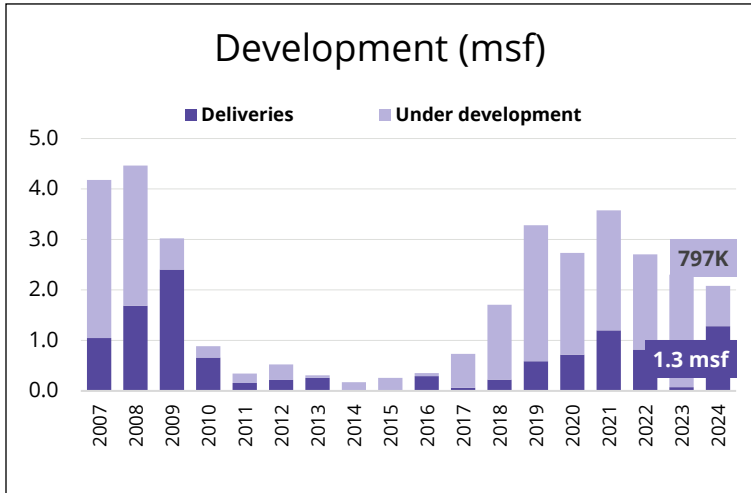
Recently delivered

Address	Submarket	Delivery date	Building size sf	% Leased	Developer
100 Waterfront Pl - CalSTRS Expansion	West Sacramento	Aug 2024	275,000	100%	CalSTRS
Richards Blvd/May Lee State Office Complex	Downtown	May 2024	1,250,000	100%	State of California

Appendix



Sacramento office market indicators



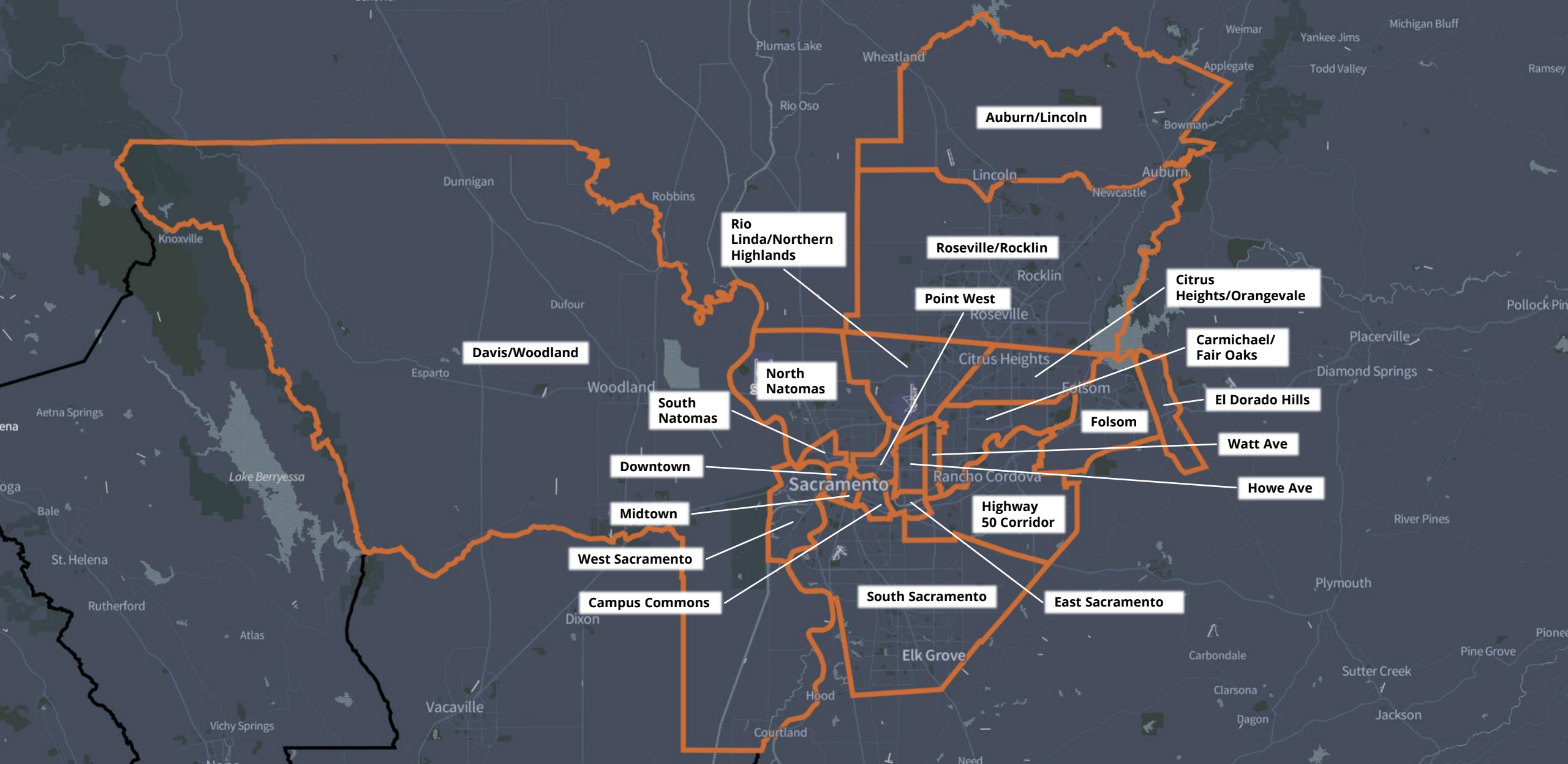
Sacramento office market stats

	Inventory			Vacancy					Absorption		Direct Asking Rent (FS)		
	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	6.6%	0.0%	6.6%	-	13.0%	-960	-26,297	-	\$ 1.62	\$ 1.41
Campus Commons	1,209,003	0	0	6.3%	0.0%	6.3%	-	1.5%	2,586	2,217	-	\$ 3.15	\$ 2.89
Carmichael/Fair Oaks	413,945	0	0	8.8%	0.0%	8.8%	-	1.1%	2,030	107	-	\$ 1.60	\$ 1.47
Citrus Heights/Orangevale	541,351	0	0	11.5%	0.4%	11.9%	-	17.8%	27,837	18,412	-	\$ 1.55	\$ 1.44
Davis/Woodland	1,254,245	0	0	10.9%	0.0%	10.9%	29.3%	4.0%	6,162	-20,209	\$2.75	\$ 2.25	\$ 2.40
Downtown	11,650,214	0	0	18.3%	0.3%	18.6%	15.8%	22.4%	-148,280	12,828	\$ 3.37	\$ 2.73	\$ 3.07
East Sacramento	1,176,803	0	797,141	15.5%	2.2%	17.7%	3.2%	13.2%	3,113	11,432	\$ 3.25	\$ 2.12	\$ 2.13
El Dorado Hills	1,061,809	0	0	19.5%	0.5%	20.0%	47.3%	18.2%	45,644	7,773	\$ 2.33	\$ 2.25	\$ 2.23
Folsom	3,926,846	0	0	22.1%	2.1%	24.2%	10.3%	7.9%	21,541	39,236	\$ 2.41	\$ 2.05	\$ 2.24
Highway 50 Corridor	11,827,358	0	0	27.9%	1.1%	28.6%	34.5%	20.5%	72,968	249,449	\$ 1.98	\$ 1.58	\$ 1.70

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	13.8%	0.4%	14.2%	22.9%	20.3%	10,760	29,799	\$ 1.84	\$ 1.51	\$ 1.62
Midtown	1,611,802	0	0	13.4%	1.9%	15.2%	-	15.0%	-43,156	-67,114	\$ 2.88	\$ 2.42	\$ 2.40
North Natomas	3,004,568	0	0	16.3%	16.6%	32.3%	9.1%	16.8%	21,818	45,187	\$ 2.13	\$ 1.67	\$ 1.76
Point West	2,337,701	0	0	23.3%	.3%	23.6%	18.8%	12.6%	-15,519	-18,393	\$ 2.13	\$ 1.77	\$ 1.94
Rio Linda/North Highlands	610,266	0	0	34.6%	0.0%	34.6%	-	17.3%	0	0	-	\$ 1.20	\$ 1.20
Roseville/Rocklin	7,526,178	0	0	17.2%	2.8%	20.1%	24.0%	16.6%	-79,095	-350,322	\$ 2.24	\$ 1.97	\$ 2.09
South Natomas	3,539,687	0	0	35.0%	1.1%	36.0%	26.5%	21.0%	-139,260	-127,277	\$ 2.49	\$ 2.03	\$ 2.38
South Sacramento	2,765,254	0	0	7.3%	0.1%	7.4%	3.4%	7.5%	-3,652	8,683	\$ 2.75	\$ 2.13	\$ 2.15
Watt Ave	1,267,062	0	0	15.2%	0.9%	16.1%	-	18.5%	-13,061	33,685	-	\$ 1.58	\$ 1.58
West Sacramento	1,771,905	0	0	11.2%	0.0%	11.2%	16.0%	12.0%	21,147	48,501	\$ 3.25	\$ 2.10	\$ 2.74
Overall	60,100,322	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
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