

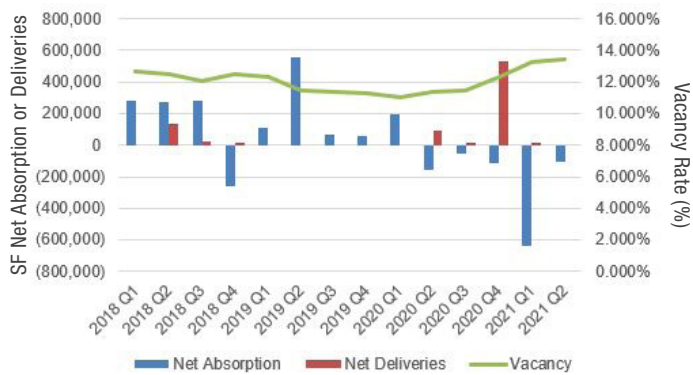


OFFICE MARKET REPORT

MARKET OVERVIEW

Vaccination rates have picked up across the country, people are returning to work and there is optimism the coronavirus pandemic may be nearing its end. These developments, however, have done minimally towards boosting demand in the Sacramento office market. Office vacancies have continued to rise in 2021 as demand, after landing in negative territory last year, is again trending in the red. Economic uncertainty is likely to remain for some time, and a further increase in vacancies may be on the horizon. Availabilities have notably expanded since the outburst of the virus, and sublease space continues to increase above the most recent quarters all-time metro high.

Office Net Absorption vs. Deliveries vs. Vacancy Rate



MARKET TRENDS

Local leasing activity sees stagnant momentum as the region reaches its mid way point through 2021. Net absorption remains in negative territory after over 640,000 square feet of negative net absorption was captured in Sacramento during the first quarter. Most notably, Q2 saw a majority within Class C space within the Northeast Sacramento, Yolo County, and Highway 50/Rancho Cordova submarkets. On a positive note, four out of the 11 submarkets remained above water attributed by Arden/Arcade and Natomas both supporting more than 60,000 square feet of positive net absorption totals.

Overall, asking lease rates averaged \$1.93 full service gross across all classes on a local level. Downtown held the highest rent across all classes at \$2.95 and continued to lead the Class A market at \$3.38 monthly. Neighboring submarket, Midtown/East Sacramento highlighted the highest average Class B and C rents, reflecting a \$2.24 and \$1.83 rate. Meanwhile, the Suburban outskirts showcased a slight uptick in Q2 rent with a \$1.86 average. Class A space remains strong at \$2.56, Class B at \$1.74, and Class C is currently asking \$1.58 full service gross.

INVESTMENT HIGHLIGHTS

Sacramento's office sales market remains in a modest position as it ended the first half of 2021. Few high-priced deals have recorded, and deal flow is inline with 2020's tepid figure. The average transactional sale price over the past 12 months is \$181 per square foot, compared to the 3-year average of \$191 per square foot. Transactional cap rates have landed in the mid-6% to low-7% range since 2014.

However, Q2 experienced one of the largest deals year to date for two North Natomas assets that are home to several government entities. In April, Milpitas-based Nome Capital Partners acquired 1625 and 1747 N Market Boulevard from Buzz Oates for \$57.5 million (\$182 per square foot) at a reported cap rate of 6.9%. The Department of Consumer Affairs occupies 1625 N Market Boulevard, a 210,400 square foot property, while tenants including the Veterinary Medical Board, California Acupuncture Board, and California Board of Registered Nursing occupy 1747 N Market Boulevard, a 105,000 square foot asset.

NEWS BULLETIN



Interest in Sacramento's relative affordability has remained a draw from Bay Area and Southern California residents, and the pandemic has only accelerated that trend. Apartment vacancies have fallen to an all-time low, while the single-family home market has seen inventory fall and prices significantly rise.

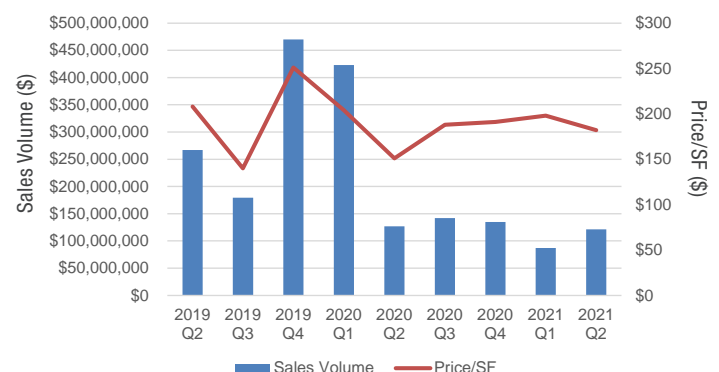
Interest rates remain low and eye catching. Based on Freddie Mac 30 year fixed figures, June rounded out a 2.98% mortgage rate, down 15 basis points from the prior year.

An extension of the stimulus package relief was secured and continues to be distributed for:

- Federal unemployment bonuses
- IRS tax refunds provided for claimed taxes tied to 2020 unemployment compensation
- Child tax credit sends qualifying families up to \$3,600 for each child.
- Eviction moratorium and new rent relief program

Employment levels continue to recover in Sacramento as the economy gradually reopens. Between February and April of last year, the metro shed 133,000 jobs, but 84,000 jobs have returned.

Office Sales Volume vs. Price/SF



*Quarter Over Quarter Change

13.4%



Vacancy
Rate

(±108,184) SF



Net
Absorption

\$1.93



Average Asking Rate

\$530,594



Median Home Value in
Sacramento MSA
(Source: Zillow)

6.8%



Sacramento
Unemployment

7.7%



United States
Unemployment

OUTLOOK

The region continues to navigate through the effects of the coronavirus pandemic given the office market's deteriorating fundamentals over the course of the prior year plus. Over the past 12 months, Sacramento has seen over 1.2 million square feet of negative net absorption and further vacancy expansion may be on the horizon.

Occupiers across California's capital are also continuing to reevaluate their space needs. Total available sublease space, after rising to a record high in Q1, has again increased to a new peak this quarter, with above 1.2 million square feet on the market. The percentage of available sublease space, at 1.6% of total inventory, is also a record figure for the market. In positive light, just under half of all available sublease space, or 603,398 square feet, is physically vacant. Some of that available space could potentially get pulled off the market as employees continue filtering back into the office. However, it appears that the economic uncertainty continues to loom over the office market as no local sector has been more damaged by the pandemic and its resulting dislocation.



Office Market Statistics (Criteria based on: 10,000 SF and above, does not include owner occupied, Existing, Under Construction, Proposed, Final Planning))

Submarket	Total Number of Buildings	Inventory	Vacant Space			Vacancy Q2-21	Net Absorption		Avg. Asking Rate (FSG) Weighted
			Direct	Sublease	Total		Q2-21	Q2-20	
Arden/Arcade									
Class A	9	945,445	189,483	5,511	194,994	20.6%	24,918	(18,778)	\$2.13
Class B	86	3,882,437	694,221	10,392	704,613	18.1%	30,431	(14,730)	\$1.84
Class C	92	2,494,477	317,488	4,703	322,191	12.9%	8,196	34,642	\$1.71
Total	187	7,322,359	1,201,192	20,606	1,221,798	16.7%	63,545	1,134	\$1.83
Auburn/Lincoln									
Class A	-	-	-	-	-	-	-	-	-
Class B	26	438,591	50,316	0	50,316	11.5%	(891)	12,907	\$1.71
Class C	23	489,949	35,554	0	35,554	7.3%	(12,237)	(6,393)	\$1.30
Total	49	928,540	85,870	0	85,870	9.2%	(13,128)	6,514	\$1.49
Downtown Sacramento									
Class A	20	5,546,343	470,277	40,407	510,684	9.2%	(25,522)	(22,387)	\$3.38
Class B	58	3,760,563	621,924	0	621,924	16.5%	(17,096)	(2,928)	\$2.85
Class C	84	2,532,616	208,598	9,485	218,083	8.6%	14,431	21,401	\$2.20
Total	162	11,839,522	1,300,799	49,892	1,350,691	11.4%	(28,187)	(3,914)	\$2.96
El Dorado Hills/Folsom									
Class A	11	893,069	60,076	7,480	67,556	7.6%	4,749	7,178	\$2.24
Class B	90	2,801,210	265,876	30,763	296,639	10.6%	5,393	(2,153)	\$2.07
Class C	38	781,751	40,369	0	40,369	5.2%	2,716	(7,160)	\$1.61
Total	139	4,476,030	366,321	38,243	404,564	9.0%	12,858	(2,135)	\$2.02
Highway 50/Rancho Cordova									
Class A	31	2,958,603	265,331	71,716	337,047	11.4%	(42,421)	(15,832)	\$1.95
Class B	143	7,854,300	1,586,926	144,639	1,731,565	22.0%	(42,140)	35,898	\$1.77
Class C	73	1,910,195	274,632	0	274,632	14.4%	(13,724)	19,686	\$1.40
Total	247	12,723,098	2,126,889	216,355	2,343,244	18.4%	(98,285)	39,752	\$1.76
Midtown/East Sacramento									
Class A	4	465,701	11,882	5,363	17,245	3.7%	0	920	\$2.91
Class B	53	3,336,236	235,184	3,700	238,884	3.7%	26,382	(41,721)	\$2.24
Class C	45	910,805	77,920	0	77,920	8.6%	1,619	(6,243)	\$1.83
Total	102	4,712,742	324,986	9,063	334,049	7.1%	28,001	(47,044)	\$2.23
Natomas									
Class A	35	3,557,625	516,549	39,080	555,629	15.6%	44,513	(19,859)	\$2.20
Class B	53	2,234,715	259,330	3,374	262,704	11.8%	22,503	(23,422)	\$1.89
Class C	15	521,500	41,470	0	41,470	8.0%	0	0	\$1.06
Total	103	6,313,840	817,349	42,454	859,803	13.6%	67,016	(43,281)	\$2.00
Northeast Sacramento									
Class A	1	79,163	0	0	0	0.0%	0	0	-
Class B	37	1,272,230	233,004	9,030	242,034	19.0%	(5,766)	(32,487)	\$1.60
Class C	73	1,720,689	391,182	0	391,182	22.7%	(70,122)	2,443	\$1.23
Total	111	3,072,082	624,186	9,030	633,216	20.6%	(75,888)	(30,044)	\$1.35
Roseville/Rocklin									
Class A	39	3,336,452	498,606	48,204	546,810	16.4%	15,927	(75,163)	\$2.22
Class B	151	5,120,513	606,684	150,135	756,819	14.8%	(10,727)	(23,987)	\$1.69
Class C	44	971,554	66,608	2,382	68,990	7.1%	(5,729)	(6,739)	\$1.38
Total	234	9,428,519	1,171,898	200,721	1,372,619	14.6%	(529)	(105,889)	\$1.85
South Sacramento/Elk Grove									
Class A	5	405,431	4,386	0	4,386	1.1%	1,234	(2,496)	\$2.21
Class B	73	2,249,301	182,173	2,795	184,968	8.2%	(4,790)	1,973	\$2.07
Class C	51	1,191,716	38,438	0	38,438	7.3%	(334)	(1,543)	\$1.34
Total	129	3,846,448	224,997	2,795	227,792	5.9%	(3,890)	(2,066)	\$1.86
Yolo County									
Class A	6	652,467	17,310	3,465	20,775	9.2%	(4,341)	1,578	\$2.95
Class B	46	1,704,428	193,592	7,571	201,163	16.5%	(37,130)	(11,071)	\$1.87
Class C	41	853,113	60,474	3,203	63,677	8.6%	(18,226)	(818)	\$1.25
Total	93	3,210,008	271,376	14,239	285,615	8.9%	(59,697)	(10,311)	\$1.92
Totals	1,556	67,873,188	8,515,863	603,398	9,119,261	13.4%	(108,184)	(197,284)	\$1.93
Class A	161	18,840,299	2,033,900	221,226	2,255,126	12.0%	19,057	(144,839)	\$2.56
Class B	813	34,654,524	4,929,230	362,399	5,291,629	15.3%	(33,831)	(121,821)	\$1.74
Class C	582	14,378,365	1,552,733	19,773	1,572,506	10.9%	(33,410)	49,276	\$1.58
Downtown	162	11,839,522	1,300,799	49,892	1,350,691	11.4%	(28,187)	(3,914)	\$2.96
Suburban	1,394	56,033,666	7,215,064	553,506	7,768,570	13.9%	(79,997)	(193,370)	\$1.86