



# Q3

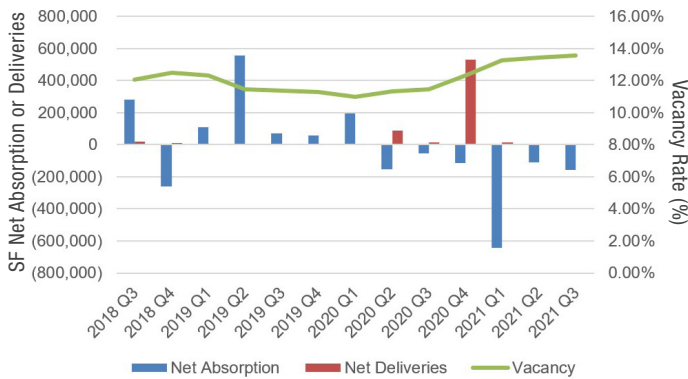
# OFFICE MARKET REPORT

## MARKET OVERVIEW

The Sacramento office market has experienced a stable year thus far and is slowly showing signs of recovery. Vacancies have remained near 13% for the past three consecutive quarters and office lease rates have begun to level at \$1.93/SF, full service; a growth of \$0.02/SF from Q3 2020. Tenant activity continues to pick up with increased interest from Bay Area and Southern California businesses looking to relocate. While nearly 157,000 square feet of negative net absorption was reported in Q3, higher lease rates are still present in the region. For suburban markets, the highest lease rates were reported in Midtown/East Sacramento, \$2.32/SF FS, Natomas, \$2.00/SF FS, and El Dorado Hills \$1.99/SF FS. As expected, the Downtown submarket again experienced the highest lease rate at \$2.95/SF FS due to its abundance of product and strong leasing activity.

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## Office Net Absorption vs. Deliveries vs. Vacancy Rate



## MARKET TRENDS

Leasing activity totaled 1.9 million square feet at the end of Q3, producing the largest figure witnessed since April 2020. Net absorption, however, has yet to catch up as the annual total equaled close to 935,000 SF in negative territory. While small to mid-range tenants are active throughout the market, large corporate deals have remained relatively sparse during the year. To date, the largest was Penumbra signing 97,000 SF at 620 Roseville Parkway in the Roseville/Rocklin submarket. The expansion comes two years after the medical device company entered the market by leasing 160,000 SF. Most businesses evaluating their needs are generally willing to relocate if lease rates and concessions are favorable.

## INVESTMENT HIGHLIGHTS

While Sacramento's office market witnessed modest sales activity, most active buyers have been from outside the region. This movement suggests confidence in the region's underlying fundamentals and position for future growth. Q3 sale prices averaged at \$183/SF while total sales volume year to date amounted to \$509 million for the region, indicating exchanges are occurring within a normal range. Meanwhile, purchase demand continues to be fueled by low interest rates and aggressive incentives for financially stable businesses.

The year's largest deal to date was the sale of The Ziggurat building at 701-703 3rd St. in West Sacramento for \$90 million (\$241/SF), which is fully occupied by the State of California's Department of General Services. The buyer, Nome Capital Partners, has been active in the market and has already purchased two additional government occupied office buildings earlier this year.

## NEWS BULLETIN



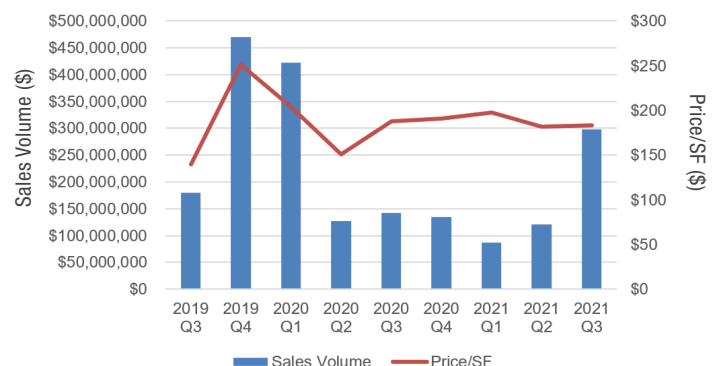
An exciting new development underway just north of Downtown Sacramento, is the Railyards Project. Set to be complete in 2022, the transformative urban development will bring 514,270 SF of retail and over 3,000,000 SF of office space along with hotels, a medical campus, and a state-of-the-art mass transit hub.  
source: [cityofsacramento.org](http://cityofsacramento.org)

Both existing and new extensions of the stimulus package relief remain secure and continues to be distributed for:

- Unemployment 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 rent relief program
- Bonus payments to educators up to \$1,000 (select states participating including CA)
- The first and second round of Golden State Stimulus II payments
- As of September all pandemic federal unemployment benefits have lapsed.

Sacramento employment levels are still recovering but increased by 8,300 jobs in Q3 in large part due to government and professional and business services. Yet year over year growth stemmed from sectors including both leisure and hospitality.

## Office Sales Volume vs. Price/SF





\*Quarter Over Quarter Change

13.6%



Vacancy  
Rate

(±156,632) SF



Net  
Absorption

\$1.93



Average Asking Rate  
(FSG)

\$554,083



Median Home Value in  
Sacramento MSA  
*(Source: Zillow)*

5.5%



Sacramento  
Unemployment

7.5%



United States  
Unemployment

## OUTLOOK

Despite the setbacks that came with the pandemic, Sacramento's fundamentals remain strong compared to much of the national office market, with the state government as the cornerstone of a large, stable tenant base. The region is well-positioned to take advantage of possible incoming tenants at either the Downtown Railyards project for traditional office users, or at Aggie Square in East Sacramento for lab users. Office employment overall is trending upwards, recording an increase of 5.7% year over year, bringing the number of office jobs to 190,000.

While government remains the metro's largest office employer, the private sector has been responsible for nearly all recent growth within professional services, information services, and education/health services all experiencing gains of 7.6%, 5.3%, and 4.6%, respectively. Increases in office sector employment are leading positive indicators for the Sacramento economy, which has long been home to back-office operations. As a result, the local office market recovery will likely lead with a steady, positive pace for the foreseeable future. Anticipate many positive indicators to remain present with continued strong demand for medical space, an increase in employees returning to in-person work, and expansion from outside the region.



## 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 Rate Q3-21 | Availability Rate Q3-21 | Net Absorption |          | Avg. Asking Rate (FSG) Weighted |
|----------------------------|---------------------------|------------|--------------|----------|-----------|--------------------|-------------------------|----------------|----------|---------------------------------|
|                            |                           |            | Direct       | Sublease | Total     |                    |                         | Q3-21          | Q3-20    |                                 |
| Arden/Arcade               |                           |            |              |          |           |                    |                         |                |          |                                 |
| Class A                    | 9                         | 945,445    | 173,732      | 5,511    | 179,243   | 19.0%              | 22.6%                   | 15,751         | (1,755)  | \$2.13                          |
| Class B                    | 87                        | 3,906,162  | 730,880      | 11,148   | 742,028   | 19.0%              | 22.9%                   | (37,415)       | (2,870)  | \$1.85                          |
| Class C                    | 94                        | 2,529,481  | 351,602      | 3,301    | 354,903   | 14.0%              | 18.8%                   | (12,912)       | (5,023)  | \$1.67                          |
| Total                      | 190                       | 7,381,088  | 1,256,214    | 19,960   | 1,276,174 | 17.3%              | 21.5%                   | (34,576)       | (9,648)  | \$1.82                          |
| Auburn/Lincoln             |                           |            |              |          |           |                    |                         |                |          |                                 |
| Class A                    | -                         | -          | -            | -        | -         | -                  | -                       | -              | -        | -                               |
| Class B                    | 23                        | 438,591    | 51,616       | 8,585    | 60,201    | 13.7%              | 11.2%                   | (9,885)        | (20,537) | \$1.66                          |
| Class C                    | 26                        | 489,949    | 37,767       | 0        | 37,767    | 7.7%               | 7.7%                    | (2,213)        | (5,291)  | \$1.32                          |
| Total                      | 49                        | 928,540    | 89,383       | 8,585    | 97,968    | 10.6%              | 9.3%                    | (12,098)       | (25,828) | \$1.48                          |
| Downtown Sacramento        |                           |            |              |          |           |                    |                         |                |          |                                 |
| Class A                    | 20                        | 5,470,288  | 489,761      | 42,907   | 532,668   | 9.7%               | 15.8%                   | 15,223         | (31,059) | \$3.35                          |
| Class B                    | 58                        | 3,814,403  | 575,157      | 1,240    | 576,397   | 15.1%              | 17.8%                   | 8,320          | (10,345) | \$2.89                          |
| Class C                    | 83                        | 2,501,876  | 238,071      | 9,485    | 247,556   | 9.9%               | 15.4%                   | (11,073)       | (7,043)  | \$2.16                          |
| Total                      | 161                       | 11,786,567 | 1,302,989    | 53,632   | 1,356,621 | 11.5%              | 16.4%                   | 12,470         | (48,447) | \$2.95                          |
| El Dorado Hills/Folsom     |                           |            |              |          |           |                    |                         |                |          |                                 |
| Class A                    | 11                        | 893,069    | 66,444       | 7,480    | 73,924    | 8.3%               | 14.1%                   | (6,368)        | 21,678   | \$2.29                          |
| Class B                    | 90                        | 2,801,137  | 241,609      | 29,004   | 270,613   | 9.7%               | 23.6%                   | 8,685          | (45,934) | \$1.99                          |
| Class C                    | 37                        | 759,517    | 39,153       | 0        | 39,153    | 5.2%               | 5.2%                    | 1,216          | 7,164    | \$1.63                          |
| Total                      | 138                       | 4,453,723  | 347,206      | 36,484   | 383,690   | 8.6%               | 18.5%                   | 3,533          | (17,092) | \$1.99                          |
| Highway 50/Rancho Cordova  |                           |            |              |          |           |                    |                         |                |          |                                 |
| Class A                    | 31                        | 2,958,603  | 381,762      | 71,716   | 453,478   | 15.3%              | 32.9%                   | (116,431)      | 71,466   | \$1.94                          |
| Class B                    | 145                       | 7,935,767  | 1,587,982    | 137,119  | 1,725,101 | 21.7%              | 28.0%                   | 65,126         | 18,423   | \$1.77                          |
| Class C                    | 72                        | 1,902,484  | 245,291      | 0        | 245,291   | 12.9%              | 16.6%                   | 15,477         | 4,861    | \$1.35                          |
| Total                      | 248                       | 12,796,854 | 2,215,035    | 208,835  | 2,423,870 | 18.9%              | 27.4%                   | (35,828)       | 94,750   | \$1.75                          |
| Midtown/East Sacramento    |                           |            |              |          |           |                    |                         |                |          |                                 |
| Class A                    | 4                         | 465,701    | 11,882       | 0        | 11,882    | 2.6%               | 7.3%                    | 5,363          | 0        | \$2.97                          |
| Class B                    | 54                        | 3,348,826  | 237,777      | 12,098   | 249,875   | 3.7%               | 12.9%                   | (2,177)        | 5,545    | \$2.34                          |
| Class C                    | 44                        | 898,097    | 92,191       | 0        | 92,191    | 10.3%              | 17.6%                   | (22,771)       | 0        | \$1.89                          |
| Total                      | 102                       | 4,712,624  | 341,850      | 12,098   | 353,948   | 7.5%               | 13.2%                   | (19,585)       | 5,545    | \$2.32                          |
| Natomas                    |                           |            |              |          |           |                    |                         |                |          |                                 |
| Class A                    | 35                        | 3,557,625  | 548,118      | 32,436   | 580,554   | 16.3%              | 18.9%                   | (24,925)       | (19,300) | \$2.23                          |
| Class B                    | 52                        | 2,209,026  | 299,950      | 11,400   | 311,350   | 14.1%              | 22.6%                   | (48,646)       | (12,986) | \$1.88                          |
| Class C                    | 15                        | 521,500    | 31,330       | 0        | 31,330    | 6.0%               | 21.7%                   | 10,140         | 0        | \$0.94                          |
| Total                      | 102                       | 6,288,151  | 879,398      | 43,836   | 923,234   | 14.7%              | 20.4%                   | (63,431)       | (32,286) | \$2.00                          |
| Northeast Sacramento       |                           |            |              |          |           |                    |                         |                |          |                                 |
| Class A                    | 1                         | 79,163     | 0            | 0        | 0         | 0.0%               | 0.0%                    | 0              | 0        | -                               |
| Class B                    | 37                        | 1,273,953  | 212,533      | 9,030    | 221,563   | 17.4%              | 19.0%                   | 8,528          | 6,346    | \$1.60                          |
| Class C                    | 72                        | 1,587,616  | 269,441      | 0        | 269,441   | 17.0%              | 24.2%                   | (7,750)        | 168      | \$1.29                          |
| Total                      | 110                       | 2,940,732  | 481,974      | 9,030    | 491,004   | 16.7%              | 21.3%                   | 778            | 6,514    | \$1.39                          |
| Roseville/Rocklin          |                           |            |              |          |           |                    |                         |                |          |                                 |
| Class A                    | 39                        | 3,336,452  | 504,846      | 58,246   | 563,092   | 16.9%              | 28.8%                   | (16,282)       | 44,635   | \$2.14                          |
| Class B                    | 151                       | 5,189,409  | 623,399      | 140,332  | 763,731   | 14.7%              | 19.6%                   | (6,912)        | (14,439) | \$1.68                          |
| Class C                    | 44                        | 971,554    | 107,618      | 2,382    | 110,000   | 11.3%              | 18.5%                   | (41,010)       | (11,758) | \$1.62                          |
| Total                      | 234                       | 9,497,415  | 1,235,863    | 200,960  | 1,436,823 | 15.1%              | 22.7%                   | (64,204)       | 18,438   | \$1.84                          |
| South Sacramento/Elk Grove |                           |            |              |          |           |                    |                         |                |          |                                 |
| Class A                    | 6                         | 481,431    | 4,303        | 0        | 4,303     | 0.9%               | 0.9%                    | 22,476         | (1,454)  | \$2.62                          |
| Class B                    | 72                        | 2,163,462  | 134,642      | 2,795    | 137,437   | 6.4%               | 8.3%                    | 25,138         | (4,800)  | \$1.97                          |
| Class C                    | 51                        | 1,173,012  | 40,848       | 0        | 40,848    | 7.7%               | 11.5%                   | (2,410)        | (2,687)  | \$1.35                          |
| Total                      | 129                       | 3,817,905  | 179,793      | 2,795    | 182,588   | 4.8%               | 8.3%                    | 45,204         | (8,941)  | \$1.86                          |
| Yolo County                |                           |            |              |          |           |                    |                         |                |          |                                 |
| Class A                    | 6                         | 652,467    | 20,919       | 3,465    | 24,383    | 9.7%               | 3.4%                    | (3,608)        | (707)    | \$2.75                          |
| Class B                    | 46                        | 1,703,288  | 176,983      | 7,571    | 184,554   | 15.1%              | 11.7%                   | 16,609         | 9,704    | \$1.91                          |
| Class C                    | 40                        | 800,113    | 64,270       | 1,303    | 65,573    | 9.9%               | 8.3%                    | (1,896)        | (2,566)  | \$1.39                          |
| Total                      | 92                        | 3,155,868  | 262,172      | 12,338   | 274,510   | 8.7%               | 9.1%                    | 11,105         | 6,431    | \$1.95                          |
| Totals                     | 1555                      | 67,759,467 | 8,591,877    | 608,553  | 9,200,430 | 13.6%              | 19.5%                   | (198,832)      | (10,886) | \$1.93                          |
| Class A                    | 162                       | 18,840,244 | 2,201,767    | 221,760  | 2,423,527 | 12.9%              | 20.6%                   | (198,801)      | 83,504   | \$2.54                          |
| Class B                    | 815                       | 34,784,024 | 4,872,528    | 370,322  | 5,242,850 | 15.1%              | 20.3%                   | 27,371         | (58,847) | \$1.74                          |
| Class C                    | 578                       | 14,135,199 | 1,517,582    | 16,471   | 1,534,053 | 10.9%              | 16.2%                   | (75,202)       | (22,178) | \$1.60                          |
| Downtown                   | 161                       | 11,786,567 | 1,302,989    | 53,632   | 1,356,621 | 11.5%              | 16.4%                   | 12,470         | (48,447) | \$2.95                          |
| Suburban                   | 1,394                     | 55,972,900 | 7,288,888    | 554,921  | 7,843,809 | 14.0%              | 20.2%                   | (198,102)      | 37,883   | \$1.87                          |