



Q1

OFFICE MARKET REPORT

MARKET OVERVIEW

The commercial real estate industry experienced a positive outlook at the start of 2022. Although there were still some lower fundamentals, the office market continued to perform well. The net absorption was (75,284 SF), a difference of 182,307 SF from the end of 2021. The vacancy rate for the Sacramento Office market remained level quarter over quarter at 14.1%, which is an increase of 0.1% from Q4 2021 and 0.94% increase from Q1 2021. Despite obvious setbacks during the pandemic in 2020 and 2021, market activity remained steady in the first quarter and showed acceleration, particularly Downtown, Roseville/Rocklin and Highway 50, which all had a handful of medium-sized leases signed early in 2022. Average lease rates leveled off since the start of the pandemic at \$1.95/ SF for the greater Sacramento market, up \$0.01/SF from Q4 2021 and, as expected, the highest rates remain in Downtown at \$2.94/SF, \$2.33/SF for Midtown/ East Sacramento, and \$2.02/SF in Yolo County (Davis, Woodland, West Sacramento). While businesses navigate through the economic impact of the Ukraine crisis, growing inflation concerns, and remaining effects of the Covid-19 pandemic, the 2022 commercial real estate market will likely feature a more even balance of optimism and uncertainty.

Source: CoStar

Gallelli Real Estate
3005 Douglas Blvd #200
Roseville, CA 95661
P 916 784 2700
www.GallelliRE.com

14.1%



Vacancy
Rate

(±75,284) SF



Net
Absorption

\$1.95



Average Asking Rate
(FSG)

HYBRID WORK MODEL

Market activity has largely stabilized as tenants have a better idea of their future real estate needs, including embracing the idea of a hybrid work model. The Department of Motor Vehicles, the Employment Development Department, Caltrans, and California Highway Patrol continue to offer telework options, to those eligible. Some departments, however, including the Franchise Tax Board, have told employees they will require everyone to spend half of their work hours in the office. Tech companies, who were committed to 100% remote work, are now leasing office properties in major U.S. cities again

- Meta's US offices began returning to in-person work on March 28th.
- Google's Bay Area employees returned to the office on April 4th in a hybrid work model with at least three days a week in the office.
- Twitter's corporate offices reopened March 15th, although Twitter is allowing employees to decide if they want to continue to work from home or in the office. Twitter is the first major U.S. company to let its employees work from home permanently.
- Apple employees are required to return to the office at least one day per week starting April 11th. Three weeks after that, they will have to go into the office twice a week, and starting May 23rd, they'll need to be in-person on Mondays, Tuesdays and Thursdays.
- Microsoft offices opened to in-person work on March 28 on a hybrid work model.

Current employment numbers have led other, more traditional businesses to use hybrid work as a recruitment and retention tool. Unemployment rates are back to full employment level. According to the U.S. Bureau of Labor Statistics, a total of 49 areas had jobless rates of less than 3.0 percent. The largest unemployment rate decreases since January 2021 occurred in Nevada, at -5.0 percentage points, Hawaii (-3.9 percentage points), New York (-3.3 percentage points), and California (-3.0 percentage points).

Source: Protocol.com, The Sacramento Bee, US Labor and Statistics

OFFICE MARKET LEASING

Demand for office space is beginning to return with 189 direct leasing deals reported in the first quarter of the year versus 143 transactions reported in the first quarter of 2021, an increase of 32%, for an total of 499,765 SF of leased space. The vacancy rate in Sacramento has stabilized at 14.1%, only 0.01% change quarter over quarter. Office lease rates have also remained constant, growing slightly from \$1.94/SF at the end of the year in 2021 to \$1.95/SF in Q1 2022. The Sacramento office availability rate increased slightly from 19.1% to 19.7% with just over 9.5 million SF of direct and sublease space on the market.

There are signs of leasing activity accelerating, particularly Downtown, which has had a handful of medium-sized leases signed early in 2022. One of these took place at 428 J St., where PAC Sacramento committed to 11,600 SF. Another notable transaction occurred within the Highway 50 submarket. The biotech firm, Thermogenesis, is expanding from its current location, a 28,000 SF flex property, also in the Highway 50 submarket, to a new facility, which includes 30,000 SF of space.

Source: US Bureau of Labor Statistics and CoStar

OFFICE MARKET SALES

Sacramento's office market experienced an increase in sales volume in the first quarter as compared to the first quarter of 2021. The total sales volume for Q1 2022 was \$108 million and \$86 million in Q1 2021, an increase of over 25%. The largest single building sale in Q1 was 2150 River Plaza Drive, in the South Natomas Submarket, which sold at over \$21mm as part of a four-project portfolio acquisition. While average price per square foot dropped in the first quarter to \$170/SF from \$201/SF in Q1 2021, the number of transactions increased from 22 total transactions to 27.

The average Cap Rate reported was 7.1% with approximately 82% percent leased at the time of the investment sale. The average sales price by transaction type was approximately \$180/SF for portfolio sales and \$168/SF for individual sales.

Source: CoStar

\$502,228



Median Home Value in Sacramento MSA
(Source: Zillow, March 2022)

3.7%



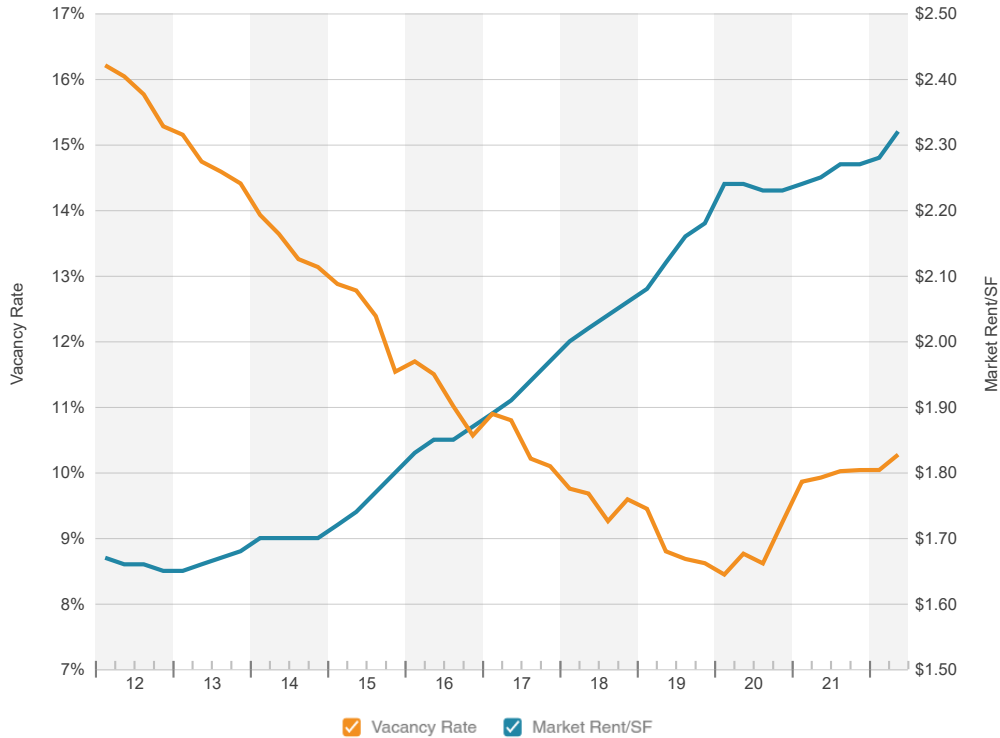
Sacramento Unemployment

3.6%



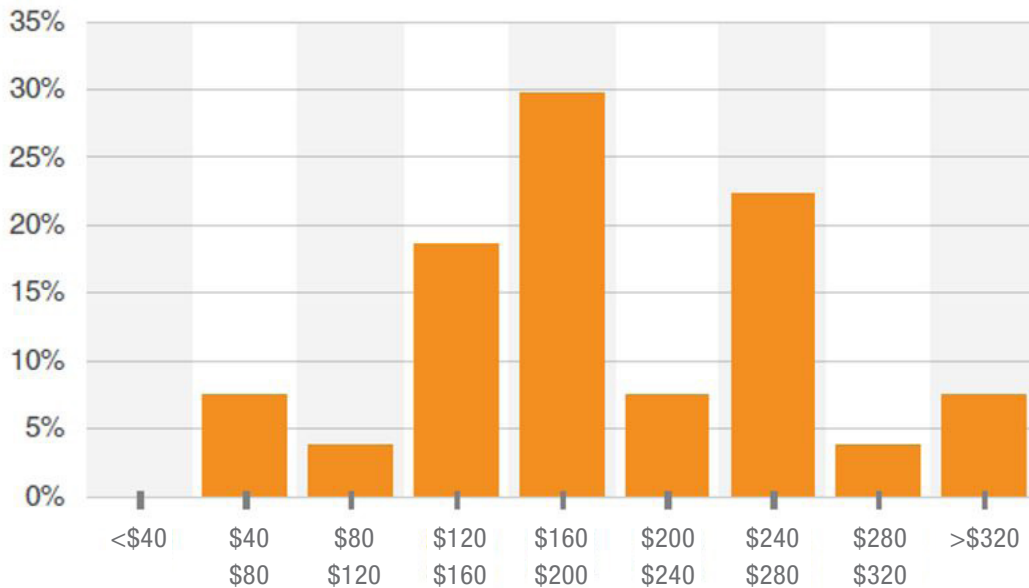
United States Unemployment

OFFICE VACANCY RATE VS. MARKET RENT/SF



Source: CoStar

SALE PRICE PER SF DISTRIBUTION



Source: CoStar

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 Q1-22	Availability Rate Q1-22	Net Absorption		Avg. Asking Rate (FSG) Weighted
			Direct	Sublease	Total			Q1-22	Q1-21	
Arden/Arcade										
Class A	8	871,752	184,456	10,554	195,010	22.4%	27.4%	(2,068)	(6,537)	\$2.14
Class B	85	3,767,115	730,987	9,920	740,907	19.7%	25.4%	(29,034)	(25,204)	\$1.83
Class C	97	2,769,313	456,788	1,617	458,405	16.6%	18.4%	(7,313)	9,178	\$1.70
Total	190	7,408,180	1,372,231	22,091	1,394,322	18.8%	23.1%	(38,415)	(22,563)	\$1.82
Auburn/Lincoln										
Class A	-	-	-	-	-	-	-	-	-	-
Class B	21	404,791	19,648	7,812	27,460	6.8%	6.8%	10,678	(5,711)	\$1.70
Class C	27	506,584	37,580	-	37,580	7.4%	7.5%	4,564	9,106	\$1.33
Total	48	911,375	57,228	7,812	65,040	7.1%	7.2%	15,242	3,395	\$1.49
Downtown Sacramento										
Class A	20	5,481,306	650,946	50,165	701,111	12.8%	16.7%	(18,029)	(101,726)	\$3.41
Class B	61	3,919,378	691,202	2,347	693,549	17.7%	19.4%	20,746	(24,855)	\$2.77
Class C	82	2,475,106	169,112	9,114	178,226	7.2%	13.7%	58,349	(2,688)	\$2.18
Total	163	11,875,790	1,511,260	61,626	1,572,886	13.2%	17.0%	61,066	(129,269)	\$2.94
El Dorado Hills/Folsom										
Class A	10	884,519	55,038	29,650	84,688	9.6%	18.9%	(21,922)	23,672	\$2.29
Class B	91	2,819,688	248,221	2,758	250,979	8.9%	21.6%	(10,030)	8,019	\$1.88
Class C	37	759,537	30,584	-	30,584	4.0%	4.1%	4,792	(8,304)	\$1.59
Total	138	4,463,744	333,843	32,408	366,251	8.2%	18.1%	(27,160)	23,387	\$1.91
Highway 50/Rancho Cordova										
Class A	31	2,958,603	436,174	71,716	507,890	17.2%	34.6%	(25,535)	10,961	\$1.97
Class B	146	7,924,610	1,562,605	100,427	1,663,032	21.0%	26.6%	76,975	(245,503)	\$1.80
Class C	71	1,888,620	235,459	-	235,459	12.5%	16.0%	(2,862)	(4,201)	\$1.37
Total	248	12,771,833	2,234,238	172,143	2,406,381	18.8%	26.9%	48,578	(238,743)	\$1.78
Midtown/East Sacramento										
Class A	4	465,701	10,925	0	10,925	2.3%	6.8%	-	1,183	\$2.94
Class B	54	3,376,216	301,275	373	301,648	3.7%	13.5%	(14,989)	(29,811)	\$2.33
Class C	44	893,396	115,059	0	115,059	12.9%	17.3%	(24,422)	1,396	\$1.99
Total	102	4,735,313	427,259	373	427,632	9.0%	13.6%	(39,411)	(27,232)	\$2.33
Natomas										
Class A	36	3,602,525	552,154	39,043	591,197	16.4%	20.4%	(130)	(142,827)	\$2.20
Class B	50	2,140,566	280,879	22,271	303,150	14.2%	23.3%	(16,677)	(7,928)	\$1.80
Class C	15	521,500	31,330	-	31,330	6.0%	21.7%	-	-	\$0.94
Total	101	6,264,591	864,363	61,314	925,677	14.8%	21.5%	(16,807)	(150,755)	\$1.96
Northeast Sacramento										
Class A	1	79,163	-	-	-	-	-	-	-	-
Class B	36	1,209,777	195,173	2,083	197,256	16.3%	16.7%	(500)	(5,088)	\$1.73
Class C	71	1,625,065	274,496	-	274,496	16.9%	25.0%	3,992	25,032	\$1.38
Total	108	2,914,005	469,669	2,083	471,752	16.2%	20.9%	3,492	19,944	\$1.49
Roseville/Rocklin										
Class A	38	3,226,429	521,536	42,951	564,487	17.5%	25.7%	34,476	(150,695)	\$2.21
Class B	149	5,171,217	537,209	173,324	710,533	13.7%	19.9%	(9,788)	(41,516)	\$1.73
Class C	45	994,360	137,113	-	137,113	13.8%	14.6%	26,341	(649)	\$1.43
Total	232	9,392,006	1,195,858	216,275	1,412,133	15.0%	21.4%	51,029	(192,860)	\$1.86
South Sacramento/Elk Grove										
Class A	6	481,431	8,082	-	8,082	1.7%	1.4%	(3,436)	8,011	\$2.48
Class B	71	2,150,095	138,237	18,033	156,270	7.3%	8.6%	(7,029)	17,521	\$2.20
Class C	51	1,172,822	42,685	-	42,685	7.4%	11.8%	(3,861)	(9,244)	\$1.41
Total	128	3,804,348	189,004	18,033	207,037	5.4%	8.6%	(14,326)	16,288	\$1.99
Yolo County										
Class A	7	706,467	35,440	3,464	38,904	12.8%	19.7%	18,293	4,797	\$2.75
Class B	48	1,721,368	180,799	5,996	186,795	17.7%	12.1%	(132,865)	30,236	\$2.06
Class C	37	761,799	40,350	1,303	41,653	7.2%	5.5%	(4,000)	(7,814)	\$1.26
Total	92	3,189,634	256,589	10,763	267,352	8.4%	12.2%	(118,572)	27,219	\$2.02
Totals	1550	67,730,819	8,911,542	604,921	9,516,463	14.1%	19.7%	(73,384)	(971,189)	\$1.95
Class A	161	18,757,896	2,454,751	247,543	2,702,294	14.4%	21.8%	(18,351)	(353,161)	\$2.57
Class B	812	34,604,821	4,886,235	345,344	5,231,579	15.1%	20.3%	(132,513)	(329,840)	\$1.75
Class C	577	14,368,102	1,570,556	12,034	1,582,590	11.0%	15.5%	55,580	11,812	\$1.61
Downtown	163	11,875,790	1,511,260	61,626	1,572,886	13.2%	17.0%	61,066	(129,269)	\$2.94
Suburban	1,387	55,855,029	7,400,282	543,295	7,943,577	14.2%	20.3%	(138,350)	(941,920)	\$1.89