



OFFICE MARKET REPORT

MARKET OVERVIEW Source: CoStar

The Sacramento office market ended the second quarter with little change in vacancy from 14.1% to 14.6%. Moderate leasing activity throughout the quarter offered a stable and stationary performance. Likewise, the availability rate also demonstrated a slight decrease from 19.7% to 19.4%, quarter over quarter, with forecasts expecting a similar progression throughout the remainder of the year. While the US faces many issues like increasing interest rates, the shocking increase of oil prices, Russian/Ukraine impact on available goods, and continued impact of the pandemic, a downturn could happen, but the remainder of the year and into the beginning of 2023 looks to be relatively balanced.

14.6%



Vacancy
Rate

(±438,766) SF



Net
Absorption

\$1.96

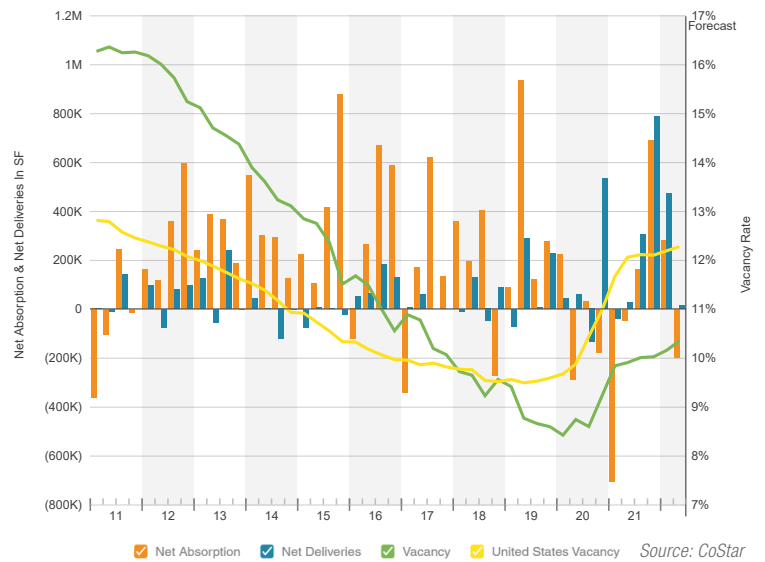


Average Asking Rate
(FSG)

LEASING

The Sacramento office market is beginning to show signs of recovery, as the vacancy rate sits at 10.4% largely flat over the past 12 months. The space that has returned to market is largely a result of firms downsizing and shifting toward a hybrid real estate strategy. Much of the vacancy is among 3 Star properties, which is currently 11.8%, while 4 & 5 Star properties compare favorably, with vacancy of only 9.3%. Demand for office space is beginning to return, as leasing activity totaled 3.7 million SF in 2021, increasing by 24% compared to 2020 figures but still off the pre-pandemic pace. Net absorption, however, has yet to catch up, as the 12-month total is only 810,000 SF but has been flat over the past six months and 2021 totals reached 117,000 SF. Private sector demand in the urban core has been very slow to return. This trend will likely continue as office-using tenants must remain nimble as the pandemic lingers and work from home policies remain in flux. Sacramento is seeing demand from biotech companies and are positioned for rapid growth in the coming periods.

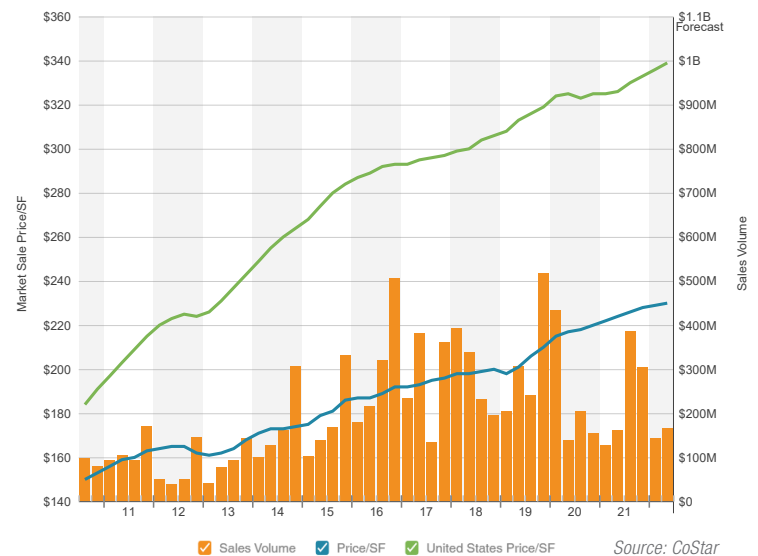
NET ABSORPTION, NET DELIVERIES & VACANCY



SALES

The increasing willingness among tenants to adopt a long-term hybrid work strategy has put increasing pressure on the office market. While this is not immediately apparent in Sacramento when looking at market fundamentals, more space is expected to enter the market. Professional firms, which have been the core of the Sacramento markets' private sector, are finding success in a work from home model. Total sales volume decreased in the second quarter from just over \$144 mm in Q1 to \$119 mm in Q2, and down from \$162 mm in Q2 of 2021. The average price per square foot has remained steady and slightly increased from \$230 to \$231 from Q1 to Q2, while average CAP Rates also remain very consistent with the prior three quarters at 7.04%.

SALES VOLUME MARKET SALE PRICE PER SF



\$521,288



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

4.3%



Sacramento
Unemployment

3.6%



United States
Unemployment



LOCAL ECONOMIC OUTLOOK

Employment has returned to healthy levels throughout Sacramento as the unemployment continues to fall, reaching 4.3%, with total employment reaching 1.0 million jobs. Sacramento has long trailed national unemployment figures, but there has been significant expansion over the past year, growing by 3.9%. Initially, job figures were buoyed by construction and the return of leisure employees, but the region's economic diversification efforts are showing early returns with a number of firms expanding in the region.

Overall, office employment is trending upward, recording an increase of 4.1% year over year, bringing the number of office using jobs to 190,000. While government remains the metro's largest office-using employer, it has only grown by 0.2% during the same period of time. Private sector office jobs have been responsible for nearly all recent growth, with professional services, information services, and education/health services all seeing gains of 3.5%, 6%, and 2%, respectively. Increases in office sector employment are a great sign for the Sacramento economy, which has long been home to back-office operations.

Population growth during and post-lockdown can be attributed to Sacramento's relative affordability. Bay Area and Southern California residents continue to show interest in Sacramento to escape exorbitant housing costs, and the pandemic has only accelerated that trend. With many people working from home and the expectation of this trend to continue, apartment vacancies have fallen to an all-time low, while the single-family home market has seen inventory fall and prices increase.

With the influx of new residents comes a shift in the skill base of the local labor force. Historically, tech tenants from San Francisco and the Bay Area have been reluctant to relocate to Sacramento, leaving the synergies brought by the Bay Area's proximity to venture capital, engineering school, and innovative culture behind. Recently there have been a growing number of indicators this trend might be changing with decentralized workforces forcing employers into hub and spoke models to keep in contact with their talent base.

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 Q2-22	Availability Rate Q2-22	Net Absorption		Avg. Asking Rate (FSG) Weighted
			Direct	Sublease	Total			Q2-22	Q2-21	
Arden/Arcade										
Class A	8	871,752	201,567	13,404	214,971	24.7%	23.4%	(19,961)	18,164	\$2.14
Class B	88	3,870,378	794,839	8,955	803,794	20.8%	26.4%	(5,519)	37,986	\$1.81
Class C	96	2,693,368	371,650	965	372,615	13.8%	15.7%	(6,295)	7,395	\$1.78
Total	192	7,435,498	1,368,056	23,324	1,391,380	18.7%	22.2%	(31,775)	63,545	\$1.84
Auburn/Lincoln										
Class A	-	-	-	-	-	-	-	-	-	-
Class B	21	408,275	10,781	7,812	18,593	4.6%	6.6%	8,867	-	\$1.70
Class C	28	518,721	36,215	-	36,215	7.0%	7.2%	1,365	(13,128)	\$1.36
Total	49	926,996	46,996	7,812	54,808	5.9%	6.9%	10,232	(13,128)	\$1.51
Downtown Sacramento										
Class A	20	5,481,238	712,243	26,398	738,641	13.5%	17.6%	(37,530)	(27,119)	\$3.38
Class B	62	3,936,440	718,179	2,347	720,526	18.3%	20.0%	(26,977)	(15,499)	\$2.77
Class C	84	2,506,602	195,646	-	195,646	7.8%	12.6%	(12,420)	14,431	\$2.15
Total	166	11,924,280	1,626,068	28,745	1,654,813	13.9%	17.3%	(76,927)	(28,187)	\$2.92
El Dorado Hills/Folsom										
Class A	11	925,911	82,402	7,895	90,297	9.8%	17.1%	(5,609)	4,749	\$2.34
Class B	91	2,825,415	292,386	9,209	301,595	10.7%	23.5%	(50,616)	5,393	\$1.99
Class C	37	759,537	40,915	-	40,915	5.4%	5.3%	(10,331)	2,716	\$1.61
Total	139	4,510,863	415,703	17,104	432,807	9.6%	19.1%	(66,556)	12,858	\$2.00
Highway 50/Rancho Cordova										
Class A	31	2,958,603	542,338	71,716	614,054	20.8%	35.0%	(106,164)	(42,421)	\$1.97
Class B	146	7,917,075	1,785,827	68,693	1,854,520	23.4%	25.0%	(219,524)	(42,140)	\$1.76
Class C	71	1,894,753	210,146	-	210,146	11.1%	15.4%	10,208	(11,695)	\$1.29
Total	248	12,770,431	2,538,311	140,409	2,678,720	21.0%	25.9%	(315,480)	(96,256)	\$1.74
Midtown/East Sacramento										
Class A	4	465,701	13,124	-	13,124	2.8%	5.0%	(2,199)	-	\$2.94
Class B	55	3,393,116	319,272	-	319,272	3.7%	13.1%	(5,685)	26,382	\$2.33
Class C	43	876,735	93,719	-	93,719	10.7%	15.6%	17,901	1,619	\$1.87
Total	102	4,735,552	426,115	-	426,115	9.0%	12.8%	10,017	28,001	\$2.30
Natomas										
Class A	36	3,602,525	546,652	36,698	583,350	16.2%	21.3%	7,847	40,412	\$2.22
Class B	51	2,152,650	272,052	10,871	282,923	13.1%	22.2%	9,041	23,886	\$1.84
Class C	16	569,884	55,466	-	55,466	9.7%	24.5%	987	-	\$1.18
Total	103	6,325,059	874,170	47,569	921,739	14.6%	21.9%	17,875	64,298	\$2.00
Northeast Sacramento										
Class A	1	79,163	-	-	-	-	-	-	-	-
Class B	38	1,261,422	174,138	2,083	176,221	14.0%	14.6%	22,235	(5,766)	\$1.74
Class C	68	1,563,141	274,461	-	274,461	17.6%	24.3%	(1,165)	(70,787)	\$1.37
Total	107	2,903,726	448,599	2,083	450,682	15.5%	19.4%	21,070	(76,553)	\$1.49
Roseville/Rocklin										
Class A	38	3,210,554	547,049	42,951	590,000	18.4%	24.6%	(45,308)	5,357	\$2.28
Class B	149	5,181,657	506,737	183,208	689,945	13.3%	19.0%	40,383	(157)	\$1.74
Class C	47	1,017,008	157,414	10,203	167,617	16.5%	18.2%	(30,379)	(5,479)	\$1.41
Total	234	9,409,219	1,211,200	236,362	1,447,562	15.4%	20.8%	(35,304)	(279)	\$1.89
South Sacramento/Elk Grove										
Class A	6	481,431	6,505	-	6,505	1.4%	1.4%	1,577	(410)	\$2.52
Class B	70	2,135,499	138,353	18,033	156,386	7.3%	9.2%	(116)	(3,146)	\$2.25
Class C	51	1,177,192	41,742	-	41,742	7.0%	14.3%	943	(334)	\$1.47
Total	127	3,794,122	186,600	18,033	204,633	5.4%	9.8%	2,404	(3,890)	\$2.04
Yolo County										
Class A	7	706,467	21,423	3,464	24,887	13.5%	14.8%	14,017	(6,089)	\$2.30
Class B	48	1,721,368	165,870	8,081	173,951	18.3%	11.1%	12,844	(40,369)	\$2.07
Class C	37	761,799	41,533	1,303	42,836	7.8%	5.6%	(1,183)	(13,239)	\$1.44
Total	92	3,189,634	228,826	12,848	241,674	7.6%	10.6%	25,678	(59,697)	\$1.97
Totals	1559	67,925,380	9,370,644	534,289	9,904,933	14.6%	19.4%	(438,786)	(199,288)	\$1.96
Class A	162	18,783,345	2,673,303	202,526	2,875,829	15.3%	21.6%	(193,330)	(7,367)	\$2.56
Class B	819	34,803,295	5,178,434	319,292	5,497,726	15.8%	20.0%	(219,887)	(13,430)	\$1.77
Class C	578	14,338,740	1,518,907	12,471	1,531,378	10.7%	15.1%	(30,389)	(88,801)	\$1.62
Downtown	166	11,924,280	1,626,068	28,745	1,654,813	13.9%	17.3%	(76,927)	(28,187)	\$2.92
Suburban	1,393	56,001,100	7,744,576	505,544	8,250,120	14.7%	19.8%	(361,859)	(81,105)	\$1.89