Q1 OFFICE

market report

2025 | GALLELLI REAL ESTATE

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

market overview

Market Report produced in collaboration with The Osborne Group | OSBORNE GROUP

Q1 25

▽ **16.5%** Direct Vacancy Rate	△ **±91,000 SF** Quarterly Net Absorption	▽ **(±-356,000) SF** Annual Net Absorption (Last Four Quarters)

△ **$2.11 PSF** Average Asking Rate (NNN)	▽ **±593,000 SF** Under Construction	△ **4.8%** Sacramento Unemployment *(February 2025)*	△ **4.2%** United States Unemployment *(March 2025)*

**To provide the most accurate snapshot of market conditions, we revise our historical data in cases where new information is uncovered after the fact.*

HIGH PRICE OF UNCERTAINTY

Heading into 2025, the US economy was poised for growth. The Federal Reserve had pulled off what many economists thought impossible; a soft landing for the economy in their battle to contain inflation. In January, business optimism was improving. The Conference Board's Measure of CEO Confidence stood at 6.31 out of 10 for current conditions and 6.93 for future conditions, their highest readings in three years. Office leasing both nationally and locally was picking up as return-to-office movements gained momentum (though in Sacramento, space givebacks from the State of California were creating their own headwinds to net absorption and vacancy levels).

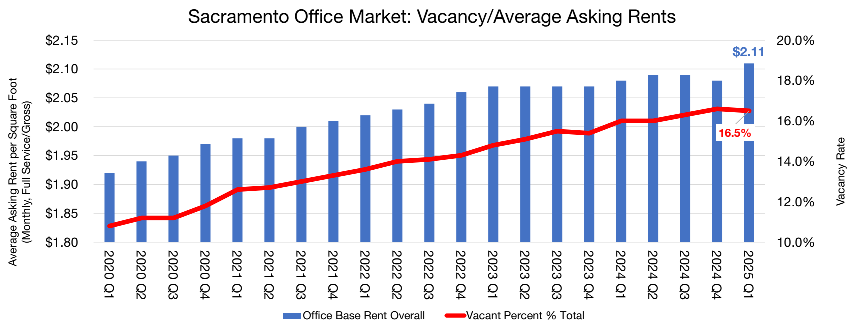
Business leaders were generally positive about the incoming Trump administration knowing that the traditional Republican economic approach of corporate tax cuts and deregulation were on the agenda. But so were tariffs.

In our last report, we warned that "promised 'across-the-board' tariffs of 20% or more would certainly have an inflationary impact if enacted." But we also stated that it remained to be seen how much of Trump's rhetoric was simply a negotiation tactic for revisiting trade deals or reshaping foreign policy. We concluded by stating, "We believe much of the current uncertainty regarding policy shifts will dissipate over the first three months of the new administration with the impacts of those policy shifts becoming clearer by the midyear mark."

But three months later, economic uncertainty has only increased thanks largely to Trump's on-again, off-again

JKG GALLELLI REAL ESTATE

Sacramento Office Market
All Classes of Product
Q1 2025



Source: Gallelli Real Estate; Costar Group

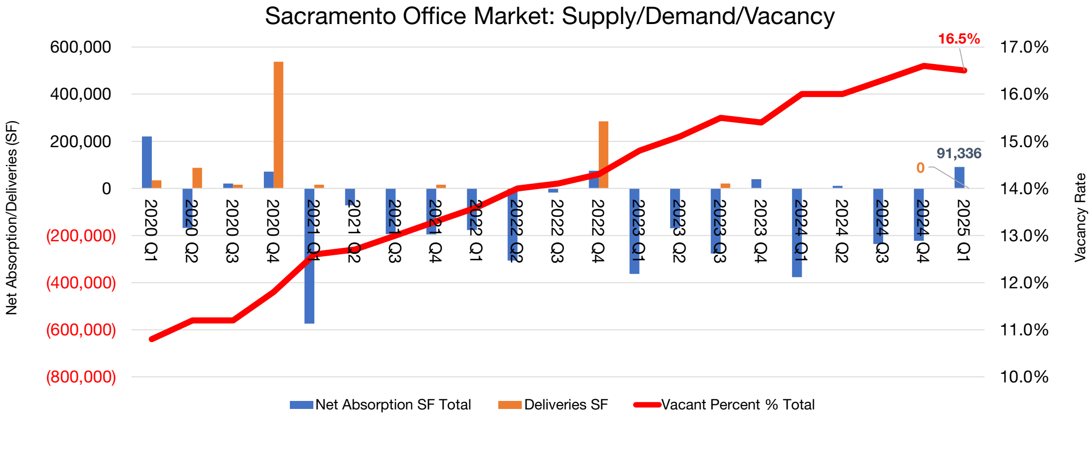
tariffs. As this report went to press, Trump's "Liberation Day" tariffs were largely on hold, but our three largest trade partners were all still facing steep taxes on their exports (25% to Mexico and Canada, and a whopping 145% on China). But even these remain in flux with the administration hinting in a White House press conference on April 22nd that Chinese tariffs would "come down substantially, but it won't be zero."

With the policy landscape seemingly changing daily, business leaders are postponing making any moves. Uncertainty is the true kryptonite of the economy. Businesses can handle a lot if they can plan on it and have reasonable certainty. Even with a reasonably bad certainty, businesses can make plans, shift strategies and plot course for the best possible outcomes given the circumstances. But with pure uncertainty all that comes is a paralysis of decision making that usually ends up inadvertently providing its own certainty of a bad outcome ahead. And this is where we find the global macroeconomy at the close of Q1 2025.

So far, despite heightened uncertainty and downside risks, the US economy remains in a solid position. The labor market remains at, or near, maximum employment (4.2% in March). Job openings data from the Bureau of Labor Statistics indicates that open positions fell by 200,000 in February to 7.6 million available jobs—that number corresponds exactly with the 10-year average for this metric. The job market is still healthy.

Meanwhile, March retail sales surged 4.6% year-over-year, though much of this is attributable to consumers making major purchases before tariffs went through. Inflation eased down to

Sacramento Office Market
All Classes of Product
Q1 2025



Source: Gallelli Real Estate; Costar Group

2.4% in March, its best reading since September 2024. But this is likely to be calm before the storm.

The Conference Board's Consumer Confidence Index fell by 7.9 points in April to 86.1—its lowest mark since October 2011 when the country was still recovering from the GFC. More troubling is the Expectations Index, which fell 12.5 points to 54.4., Over the past 50 years, whenever this metric has fallen below ***the threshold of 80 a recession has followed within one year***. The data strongly suggests a sharp pullback in consumer spending has already begun. Meanwhile, both the stock and bond markets remain highly volatile, and most economists have sharply lowered their growth forecasts. Goldman Sachs economists now put the odds of a recession before the end of the year at 45%. Deutsche Bank rates it at 50%. JP Morgan places it at 60%. Moody's places it at 65%.

A quickly negotiated settlement to Trump's multifront trade war could obviously change all of this. Likewise, an escalation will certainly guarantee a recession by the second half of 2025, if not sooner.

PRIVATE SECTOR GAINS NARROWLY EDGE OUT PUBLIC SECTOR OCCUPANCY DECLINES

At of the close of Q1 2025, Sacramento's office vacancy stood at 16.5%. This is down slightly from the 16.6% rate posted just three months ago, though it remains above the 16.0% reading of a year ago. The market recorded 91,000 square feet (SF) of positive net absorption in Q1, as growth from private sector tenants in a handful of markets narrowly outpaced space givebacks from the public sector in a few select trade areas.

Though Q1's occupancy gains were modest, they reflect the strongest performance the market has recorded since 2020. Net absorption has been in negative territory for 13 of the past 17 quarters. While the space givebacks of 2020 through 2023 were exclusively the result of space users downsizing in the wake of hybrid and remote work trends, those the Sacramento market experienced in 2024 were markedly different. Though we continue to see some private sector users downsizing, that trend is behind us. Most of 2024's negative net absorption has come because of

990 Reserve Drive, Roseville

long-planned moves from the region's largest single office user, the State of California. In 2019, the California Department of General Services launched a plan to relocate much of their local leased real estate into state-owned new construction.

Last year saw the completion of the second phase of that plan with the delivery of the 1.25 MSF May S. Lee Office Complex at 651 Bannon Street in Q2 2024. Multiple departments including the Department of Tax and Fee Administration, the Department of Health Care Access and Information, the Department of Housing and Community Development, the state's Civil Rights Department, the Department of Real Estate and others relocated out of leased space elsewhere in moves that continued during Q1 2025.

State relocations helped to drive negative net absorption Downtown (-72,000 SF) and Natomas (-105,000 SF) submarkets in Q1. Those were outpaced by strong activity in the Roseville/Rocklin (+169,000 SF), Highway 50 (+81,000 SF), and Yolo County/Davis (+45,000 SF) trade areas.

The good news is that the market will get a respite from State consolidation for much of the remainder of the year. Work continues at the historic State Resources Building at 1416 9th Street in Downtown Sacramento.

The 657,000 SF 17-story building (once the tallest in Sacramento) has been undergoing extensive renovations since 2022. That project is expected to be completed in Q4 2025, at which point there will be an additional final and smaller wave of governmental relocations.

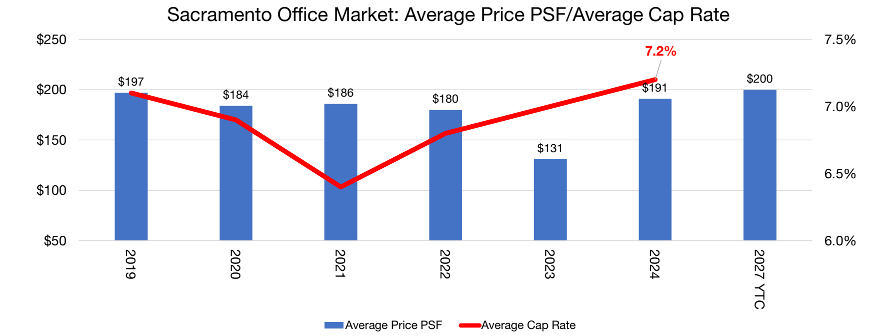
SUBMARKET REVIEW

The Sacramento office market is home to 12 distinct submarkets. Downtown Sacramento is home to 11.9 million square feet (MSF) of office space. Downtown has been disproportionately impacted by the move of State of California tenants out of leased multitenant projects to their new owned campus over the past year. Vacancy now stands at 19.1%, up from 16.2% one year ago. The average asking rent for all classes of office space Downtown currently stands at $2.88 per square foot (PSF) on a monthly full-service basis. This metric has fallen by 4.0% over the past year, though much of this has been driven by discounting from Class B and C space. With state relocations done until Q4 of this year, we see this market stabilizing in 2025 if the overall economy cooperates.

With 12.6 MSF of office space, the Highway 50 submarket is technically the region's largest trade area in terms of inventory. Highway 50 has long been one of the premier suburban submarkets for large block space users in the region and has a long history as being the preferred location in the region for call centers, large insurance companies and other tenants that utilize large block office space. That last fact made it vulnerable to the space consolidation wave brought about with the widespread adaptation of remote and hybrid work models. Office vacancy stood at 15.4% at the end of Q1 2020 (when the pandemic hit). By the end of 2023, it stood at 24.7%. But the outlook for landlords here has improved over the past year. The Highway 50 market now reports 24.0% vacancy, down from 24.5% a year ago. The current average asking rent of $1.69 PSF has remained flat over the past year.

Roseville/Rocklin is the region's third largest trade area with 9.4 MSF of space. It also has been one of the region's premier areas for start-ups and smaller, professional services firms. Over the past two decades, it has consistently ranked among the top producing office submarkets for occupancy growth and Q1 was no exception. This trade area saw its vacancy rate drop from 15.6% to 13.8% over the past three months with users occupying 169,000 SF of space in Q1 2025. Not surprisingly, rent growth here has led the region. The current average asking rent for office space in Roseville/Rocklin is $2.06 PSF, up 9.0% from last year's reading of $1.80 PSF.

Sacramento Office Market
All Product Types
Q1 2025



While we tracked multiple sales that were transacted in Q1 2025, they were all owner/user sales. We are not aware of any investment transactions that have taken place in the past three months, much less enough deals to produce reliable averages.

Source: Gallelli Real Estate; Costar Group

RETURN TO OFFICE MOMENTUM ACCELERATES

The trend over the past 18 months has been steadily increasing momentum from employers to being workers back into the office. That momentum finally has carried over to the public sector; Governor Newsom ordered state agencies to return to at least four in-office days per week starting July 1, 2025. What remains to be seen is whether the drive towards more traditional in-office work patterns will continue if there is an economic downturn.

One of the reasons remote and hybrid work has had such a profound impact on the office market has been historically low unemployment giving skilled labor (in particular) immense leverage. A recession and significant uptick in unemployment could change that with remote and hybrid workers facing the very real potential that out of the office could potentially mean out of a job first.

Conversely, a full-blown downturn could lead some tenants to double down on remote and hybrid models so that they can cut costs on their real estate. We are not sure that would be a major trend, as most tenants that shifted to remote or hybrid work approaches already have downsized. But the gradual return to more traditional in-office work could be upended by a downturn.

LOOKING AHEAD

In our last report we had said that uncertainty would dissipate as the impacts of the Trump administration's policy shifts became clearer. While we were clearly wrong in our timelines, we still believe this will prove to be the case eventually. The challenge in the meantime is this uncertainty may prove to be the biggest threat to the economy of all. In the meantime, buckle up. It's going to be a bumpy ride.

Select Sacramento Region Office Leases
Past Six Months (Q4 2024/Q1 2025)

Address	Project Name	Submarket	SF Footage	Tenant
1625 Stockton Boulevard	1625 Stockton Boulevard	Midtown/East Sacramento	141,210	Sutter Health
820 Stillwater Road	Riverside Office Centre	Yolo County	75,000	Clear Blue Commercial
840 Stillwater Road	Riverside Office Centre	Yolo County	71,982	Clear Blue Commercial
820 Stillwater Road	Riverside Office Centre	Yolo County	71,106	Clear Blue Commercial
11971 Foundation Place	Gold Pointe Corporate Center	Highway 50	54,517	Gainwell Technologies
620 Roseville Parkway	Roseville Innovation Center	Roseville/Rocklin	50,000	Gainwell Technologies
730 I Street	730 I Street	Downtown	22,000	Urban Hive
10901 Gold Center Drive	Prospect West Business Park	Highway 50	17,791	Arizona College of Nursing
1240 High Street	Courtyard Professional Center	Auburn/Lincoln	16,637	Town Center Dental
630 K Street	630 K Street	Downtown	16,000	S+B James Construction
1788 Tribute Road	Tribute Corporate Center	Arden/Howe/Watt	14,286	Hesion Technology
3526 Penryn Road	Pennryn Plaza	Roseville/Rocklin	7,000	Immaculate Heart Radio
6020 W. Oaks Blvd	Rocklin Corporate Plaza	Roseville/Rocklin	6,438	Liberty Insurance
1508 Eureka Road	Eureka Corporate Center	Roseville/Rocklin	5,002	Penny Law Firm
3721 Douglas Boulevard	Summit at Douglas Ridge	Roseville/Rocklin	3,916	K. Hovnanian Homes
2270 Douglas Boulevard	2270 Douglas Boulevard	Roseville/Rocklin	3,894	HCS
7777 Greenback Lane	Suncreek Corporate Center	Citrus Heights/Orangevale	3,769	National Home Health Services
2200 Douglas Boulevard	Capital Professional Center	Roseville/Rocklin	2,698	Placer County
2998 Douglas Boulevard	Roseville Corporate Centre	Roseville/Rocklin	2,665	Taylor Pacheco Getz
8150 Sierra College Boulevard	Sierra Douglas Center	Roseville/Rocklin	2,656	CE Contractors


Eureka!
234
PARKING ONLY


970

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				Net Absorption		Current Avg Asking Rent PSF	Avg Asking Rent PSF One Year Ago	Average Asking Rent % Change Annually
			Vacancy SF	Vacancy %	Vacancy Last Quarter	Vacancy One Year Ago	Total Quarterly	Total Last Four Quarters			
Arden/Howe Watt											
Class A	6	690,465	179,069	25.9%	13.1%	15.8%	(88,571)	(70,019)	$2.02	$2.03	(0.5%)
Class B	85	4,377,497	810,278	18.5%	19.1%	19.5%	25,574	45,150	$1.83	$1.79	2.2%
Class C	94	2,727,465	277,244	10.2%	12.1%	11.9%	51,841	48,027	$1.87	$1.83	2.2%
Total	**185**	**7,795,427**	**1,266,591**	**16.2%**	**16.1%**	**16.3%**	**(11,156)**	**23,158**	**$1.86**	**$1.82**	**2.2%**
Auburn/Lincoln											
Class A	-	-	-	-	-	-	-	-	-	-	-
Class B	31	686,890	38,307	5.6%	5.9%	4.6%	2,154	(6,691)	$1.52	$1.46	4.1%
Class C	26	458,638	22,922	5.0%	5.9%	7.6%	3,943	12,131	$1.63	$1.54	5.8%
Total	**57**	**1,145,528**	**61,229**	**5.3%**	**5.9%**	**5.8%**	**6,097**	**5,440**	**$1.56**	**$1.49**	**4.7%**
Downtown Sacramento											
Class A	23	5,481,853	1,302,564	23.8%	23.9%	20.4%	5,482	(184,730)	$3.24	$3.30	(1.8%)
Class B	61	3,952,640	766,495	19.4%	17.8%	16.9%	(62,746)	(99,681)	$2.44	$2.54	(3.9%)
Class C	86	2,484,793	203,905	8.2%	7.6%	6.1%	(14,699)	(53,501)	$1.76	$2.17	(18.9%)
Total	**170**	**11,919,286**	**2,272,964**	**19.1%**	**18.5%**	**16.2%**	**(71,963)**	**(337,912)**	**$2.88**	**$3.00**	**(4.0%)**
El Dorado Hills											
Class A	1	28,564	3,096	10.8%	16.0%	32.3%	1,471	6,131	$2.60	$2.50	4.0%
Class B	37	994,758	183,873	18.5%	16.6%	24.3%	(18,887)	58,112	$2.16	$2.11	2.4%
Class C	26	474,461	73,889	15.6%	17.8%	11.6%	10,733	(18,683)	$1.45	$1.45	-
Total	**64**	**1,497,783**	**260,858**	**17.4%**	**17.0%**	**20.5%**	**(6,683)**	**45,560**	**$2.00**	**$2.01**	**(0.5%)**
Elk Grove/South Sacramento											
Class A	1	75,080	-	-	-	-	-	-	-	-	-
Class B	78	2,493,386	167,628	6.7%	6.6%	6.0%	(1,884)	(18,038)	$2.31	$2.49	(7.2%)
Class C	52	1,238,672	52,817	4.3%	4.4%	3.4%	2,094	(11,274)	$1.66	$1.72	(3.5%)
Total	**131**	**3,807,138**	**220,445**	**5.8%**	**5.8%**	**5.0%**	**210**	**(29,312)**	**$2.03**	**$2.13**	**(4.7%)**
Folsom											
Class A	8	626,686	67,883	10.8%	13.7%	12.6%	18,115	11,222	$2.35	$2.37	(0.8%)
Class B	64	2,584,147	296,182	11.5%	10.9%	12.0%	(14,879)	13,907	$2.33	$2.33	-
Class C	15	445,997	5,792	1.3%	1.3%	1.6%	-	1,550	$2.07	$1.95	6.2%
Total	**87**	**3,656,830**	**369,857**	**10.1%**	**10.2%**	**10.8%**	**3,236**	**26,679**	**$2.33**	**$2.33**	**-**
Highway 50/Rancho Cordova											
Class A	23	2,577,627	947,111	36.7%	37.7%	39.4%	24,013	69,268	$1.93	$1.96	(1.5%)
Class B	148	8,189,815	1,885,307	23.0%	23.9%	23.6%	74,647	44,177	$1.66	$1.65	0.6%
Class C	69	1,862,971	194,550	10.4%	9.5%	7.7%	(17,478)	(50,196)	$1.24	$1.24	-
Total	**240**	**12,630,413**	**3,026,968**	**24.0%**	**24.6%**	**24.5%**	**81,182**	**63,249**	**$1.69**	**$1.68**	**0.6%**
Midtown/East Sacramento											
Class A	3	358,312	2,886	0.8%	-	-	(2,886)	(2,886)	$3.34	$3.34	-
Class B	55	3,201,814	303,588	9.5%	9.6%	7.8%	3,066	(54,730)	$2.54	$2.51	1.2%
Class C	40	750,568	155,954	20.8%	19.8%	18.1%	(7,610)	(20,187)	$1.89	$1.92	(1.6%)
Total	**98**	**4,310,694**	**462,428**	**10.7%**	**10.6%**	**8.9%**	**(7,430)**	**(77,803)**	**$2.52**	**$2.51**	**0.4%**
Natomas											
Class A	31	3,283,945	816,138	24.9%	22.7%	17.8%	(72,267)	(231,186)	$2.39	$2.23	7.2%
Class B	56	2,647,829	509,112	19.2%	18.4%	18.7%	(21,081)	(14,594)	$1.83	$1.84	(0.5%)
Class C	17	548,655	72,638	13.2%	11.2%	11.2%	(11,353)	(11,353)	$1.33	$1.37	(2.9%)
Total	**104**	**6,480,429**	**1,397,888**	**21.6%**	**20.0%**	**17.6%**	**(104,701)**	**(257,133)**	**$2.16**	**$2.02**	**6.9%**
Northeast Sacramento											
Class A	1	90,909	-	-	-	-	-	-	-	-	-
Class B	38	1,254,704	177,900	14.2%	12.5%	12.9%	(20,474)	(15,744)	$1.62	$1.62	-
Class C	65	1,517,194	180,061	11.9%	12.4%	13.8%	8,581	28,953	$1.37	$1.35	1.5%
Total	**104**	**2,862,807**	**357,961**	**12.5%**	**12.1%**	**13.0%**	**(11,893)**	**13,209**	**$1.48**	**$1.44**	**2.8%**
Roseville/Rocklin											
Class A	36	3,094,835	711,626	23.0%	23.8%	25.0%	25,308	61,155	$2.32	$2.33	(0.4%)
Class B	145	4,886,588	451,856	9.2%	12.1%	11.1%	140,516	88,648	$2.04	$1.72	18.6%
Class C	51	1,396,925	128,831	9.2%	9.5%	13.7%	3,363	62,930	$1.38	$1.42	(2.8%)
Total	**232**	**9,378,348**	**1,292,313**	**13.8%**	**15.6%**	**16.0%**	**169,187**	**212,733**	**$2.06**	**$1.89**	**9.0%**
Yolo County											
Class A	7	746,152	164,191	22.0%	28.5%	14.9%	48,520	(53,325)	$3.00	$3.08	(2.6%)
Class B	43	1,932,936	172,662	8.9%	9.2%	9.3%	4,773	7,571	$2.16	$2.12	1.9%
Class C	41	892,505	67,454	7.6%	6.7%	7.7%	(8,043)	940	$2.06	$2.05	0.5%
Total	**91**	**3,571,593**	**404,307**	**11.3%**	**12.6%**	**10.1%**	**45,250**	**(44,814)**	**$2.41**	**$2.58**	**(6.6%)**
Totals	**1,563**	**69,056,276**	**11,393,809**	**16.5%**	**16.6%**	**16.0%**	**91,336**	**(356,946)**	**$2.11**	**$2.08**	**1.4%**
Class A	**140**	**17,054,428**	**4,194,564**	**24.6%**	**24.4%**	**22.3%**	**(40,815)**	**(394,370)**	**$2.56**	**$2.61**	**(1.9%)**
Class B	**841**	**37,203,004**	**5,763,188**	**15.5%**	**15.8%**	**15.6%**	**110,779**	**48,087**	**$1.94**	**$1.89**	**2.6%**
Class C	**582**	**14,798,844**	**1,436,057**	**9.7%**	**9.8%**	**9.6%**	**21,372**	**(10,663)**	**$1.62**	**$1.65**	**(1.8%)**

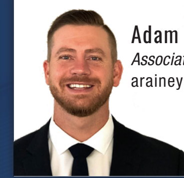
GALLELLI BROKER TEAMS

INVESTMENT

Gary Gallelli
CEO - Partner
gary@gallellire.com

Pat Ronan
Vice President
pat@gallellire.com

Aman Bains
Associate Vice President
abains@gallellire.com



Adam Rainey
Associate Vice President
arainey@gallellire.com

RETAIL

Kevin Soares
Executive Vice President | Partner
ksoares@gallellire.com

Bob Berndt
Executive Vice President | Partner
bberndt@gallellire.com

Jeff Hagan
Senior Vice President | Partner
jhagan@gallellire.com

Phillip Kyle
Senior Vice President
pkyle@gallellire.com

Matt Goldstein
Vice President
mgoldstein@gallellire.com

Kurt Conley
Senior Associate
kconley@gallellire.com

OFFICE

Robb Osborne
Executive Vice President
rosborne@gallellire.com

Brandon Sessions
Senior Vice President
bsessions@gallellire.com

Kannon Kuhn
Associate
kkuhn@gallellire.com

INDUSTRIAL

Rick Phillips
Managing Director
rphillips@gallellire.com

LAND

Ed Benoit
Land/Investments
ebenoit@gallellire.com

RESEARCH

Garrick Brown
VP, Real Estate Intelligence & Business Development
gbrown@gallellire.com

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