



# Q2 OFFICE

*market report*

2025 | GALLELLI REAL ESTATE

Gallelli Real Estate  
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Q2  
25

△  
**16.7%**

Direct  
Vacancy Rate

▽  
**±109,000 SF**

Quarterly Net  
Absorption

▽  
**(±212,000) SF**

Annual Net Absorption  
(Last Four Quarters)

—  
**\$2.11 PSF**

Average Asking Rate  
(NNN)

▽  
**±0 SF**

Under  
Construction

▽  
**4.3%**

Sacramento  
Unemployment  
(May 2025)

▽  
**4.1%**

United States  
Unemployment  
(June 2025)

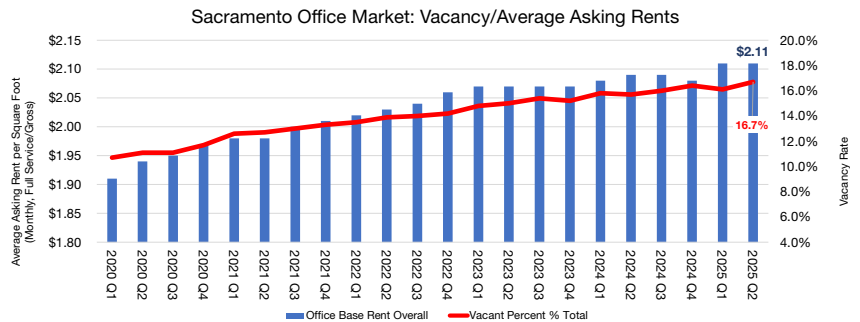
*\*To provide the most accurate snapshot of market conditions, we revise our historical data in cases where new information is uncovered after the fact.*

## VACANCY CREEPS UP AGAIN, DESPITE POSITIVE NET ABSORPTION

As of the close of Q2 2025, office vacancy in the Sacramento region stood at 16.7%, reflecting an increase over the 16.1% rate of three months ago and the 15.7% rate of a year ago. Five years ago, in Q2 2020, office vacancy ticked upward from 10.7% to 11.1% as the impacts of the pandemic first began to play out both locally and nationally. Office vacancy has increased in 17 of the 20 quarters since, with a wave of space user consolidation that has returned nearly 2.6 million square feet (MSF) of space to market over the past five years. Initially, these occupancy declines were almost entirely driven by the pandemic shift to hybrid and remote work models, which has largely peaked. Though hybrid work has become the dominant model for many organizations, particularly in the tech sector, concerns about productivity, maintenance of company culture, cybersecurity and employee burnout due to blurred work-life boundaries, have driven an increasing number of companies to push for reduced remote work or mandated office returns, even if only partial ones. For example, a recent survey from the job search platform ResumeBuilder indicated that 50% of companies now are asking employees to be in office four or five days a week, compared to 30% two years ago and that 70% of the firms surveyed will maintain or increase days required in-office in 2025. Though not dramatic, there is a shift occurring nationally and locally. For example, in Q2 Adventist Health decided to reoccupy 78,000 square feet (SF) of space at their Roseville headquarters that they had been marketing as a sublease availability since Q2 2023.



Sacramento Office Market  
All Classes of Product  
Q2 2025



Source: Gallelli Real Estate, Costar Group

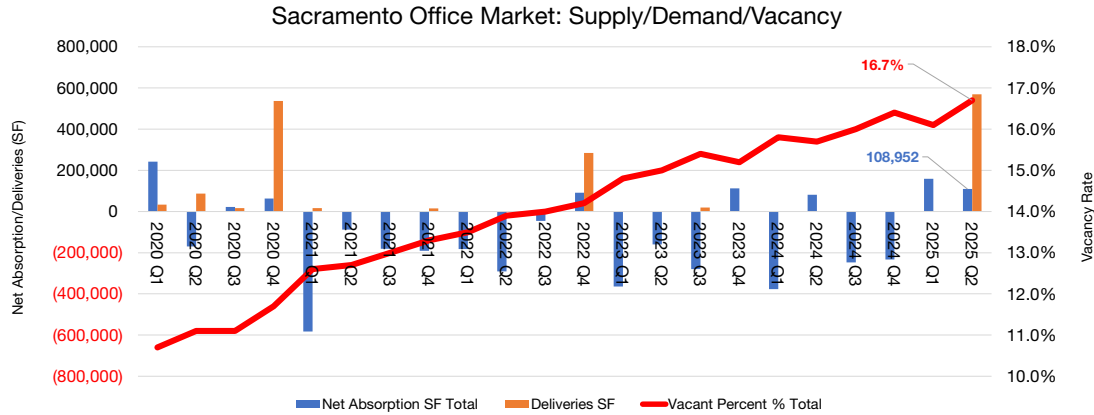
Meanwhile, the Sacramento region's largest single employer, the State of California, is also looking to bring its workers back into the office—though their efforts have been delayed. Earlier this year, Governor Newsom had issued a return-to-work mandate that would have required State office workers to be in office at least four days per week starting on July 1st. But after facing union opposition, the implementation of that mandate has been delayed for one year as part of a negotiated contract settlement. Regardless, the remote and hybrid work trend has clearly peaked (though no one anticipates a full return to pre-pandemic work styles).

The challenge locally since 2024 hasn't been about remote or hybrid work, but about the consolidation of the State of California into its new 1.25 MSF owned campus Downtown. The May S. Lee Office Complex came online in Q2 2024 with multiple State Departments vacating leased offices across multiple submarkets over the final half of last year (Downtown, Midtown, Natomas, Highway 50, Arden/Howe/watt and South Sacramento all were impacted).

The good news is that Q2 2025 was the first time in more than a year that there were no large public sector vacancies impacting occupancy growth. In fact, net absorption through the first half of 2025 has remained in positive territory to the tune of 268,000 square feet (SF), with 109,000 SF of that occurring over the past three months. But this was not enough to outpace the largest delivery of new product that the market has experienced since 2020.



## Sacramento Office Market All Classes of Product Q2 2025



Source: Gallelli Real Estate; Costar Group

In May, the first two buildings of the region's new science and technology incubator, Aggie Square, were delivered in the Midtown/East Sacramento submarket. This project, backed by the University of California at Davis and Wexford Science & Technology, is looking to create the region's first biotech hub and will, upon full completion, add over 1.0 MSF of office, medical office and life science space. The delivery of 200 Aggie Square (314,000 SF) and 300 Aggie Square (255,000 SF) effectively emptied the region's office development pipeline with 569,000 SF of space coming online this quarter. While this helped propel net occupancy growth for the Midtown/East Sacramento submarket to a whopping 376,000 SF this quarter, occupancy losses elsewhere resulted in tepid overall market-wide net absorption of 109,000 SF. Ultimately that level of demand did not keep pace with the 569,000 SF of deliveries (supply) this quarter and vacancy crept upward from 16.1% to 16.7%.

One of the largest deals of the past few years was also inked in Q2; Sutter Health leased 113,000 SF at 660 J Street Downtown. This project, which was recently renovated and rebranded as SixSixty at DoCo, demonstrates one of the subsets of office demand that has not been negatively impacted by the rise of hybrid work—medical office. The building will become Sutter's Advanced Orthopedics & Sports Medicine Center but because they will not be taking occupancy of the building until 2027, this deal has yet to be translated into net absorption. Continued strong medical office demand across the region has been a bright spot in an otherwise challenging marketplace—spurring conversions to medical office from buildings like 660 J Street as well as projects like 1507 21st Street (the Midtown project that One Community Health is repurposing to medical use) and others.

Additionally, there are some ongoing notable office conversions to multifamily occurring in the Downtown and Midtown markets. Near the new Aggie Square project, Sutter Capital is converting 2730 Stockton Boulevard to a 38-unit development called the Residency while Heller Pacific is converting a former Thompson Diggs office building at 3rd and R Streets

to a 133-unit multifamily/mixed-use (the project will contain some ground floor retail and a self-storage component) called The Diggs.

Other major deals include Alliant International University's relocation into 17,000 SF at 2484 Natomas Park Drive (in Natomas) from the nearly 2030 W. El Camino Avenue as well as law firm Murphy Austin's 30,000 SF renewal and expansion Downtown at Plaza Five Fifty Five. However, deal activity continues to be driven by smaller leases of 10,000 SF or less. In addition to medical retail, smaller professional users have been the other bright spot in the market in recent years. While local submarkets that had catered to large block corporate users (Highway 50, Natomas, Downtown, Arden/Howe/Watt), those with a strong presence of smaller professional users and startups (Roseville/Rocklin, Folsom, El Dorado Hills, Elk Grove/Sacramento, Yolo County) were largely spared major space givebacks and boast significantly lower vacancy rates.

## SUBMARKET REVIEW

Across the Sacramento region's 12 distinct office submarkets, eight recorded negative net absorption in Q2 2025—though only the Downtown and Natomas submarkets experienced space give backs of more than 35,000 SF. The Midtown/East Sacramento (+376,000), Highway 50 (+56,000 SF), and Folsom (+49,000 SF) trade areas all posted positive occupancy gains, but most trade areas locally experienced relatively flat quarters in terms of both net absorption and deal activity.

In terms of overall vacancy, five of the region's 12 trade areas currently report vacancy rates above the market's overall level of 16.7%. For nearly a decade, the Highway 50 submarket led all local trade areas in terms of availability, it already had elevated vacancy levels when the pandemic hit. But two consecutive quarters of occupancy gains here have brought vacancy downward to its current reading of 23.2%. The opposite trend, fueled largely by State of California relocations, has sent vacancy skyward in the Natomas submarket, which now leads the region with a



1972 Del Paso Road, Sacramento, CA

24.1% vacancy rate. El Dorado Hills (18.7%), and Downtown (18.6%) also have higher levels of available space than the overall market. Meanwhile, vacancy in the Arden/Howe/Watt (16.7%) trade area currently aligns with the market average.

On the other end of the spectrum, the region's lowest vacancy rate can be found in the Elk Grove/South Sacramento submarket (5.8%), followed by Auburn/Lincoln (6.0%), Folsom (8.8%), Yolo County (11.8%), Roseville/Rocklin (13.0%), and the Northeast (14.1%) trade areas all compare favorably to the regional rate. The factor that unites all of these trade areas is the strong presence of medical and smaller professional office users.

Our brokers report that leasing activity was sluggish in Q2 and the numbers support this. Gross absorption (total deal activity) fell from 1.2 MSF in Q1 to just over 1.0 MSF in Q2 as economic uncertainty continued to drag on activity. While most of the tenants we query are positive about the policy landscape in terms of corporate tax cuts and deregulation, the potential looming negative impact of tariffs remains a major headwind injecting an abundance of caution into the marketplace.

The current average asking rent in the region of \$2.11 per square foot (PSF), on a monthly full-service basis. This metric is up a modest 1.0% year-over-year, despite recent challenges. Downtown remains the region's priciest market, with an average asking rate of \$2.88 PSF (though this metric has fallen -5.0% over the past year). The Midtown/East Sacramento submarket follows with an average asking rent of \$2.48 PSF, which has been buoyed by the rents at Aggie Square, which is leasing at rates ranging from \$2.90 to \$3.50 PSF.

## LOOKING AHEAD

Office landlords have faced an incredibly challenging landscape the past five years. Just as space givebacks from major private sector tenants were ending, the long-planned move of the State of California from leased to owned space started to take its toll. But looking to the final half of the year, with both of those trends largely behind us, the greater economy continues

to face challenges from a tariff policy that, at best, will continue to create strong headwinds for growth through the remainder of the year but that, at worst, could result in a serious recession.

Through the first half of 2025, uncertainty surrounding the effects of tariffs initially left many industry leaders cautious. Economists and pundits issued dire warnings, and the stock market fell sharply following the tariff announcement. However, as of this report, the three major indices—the Dow, Nasdaq, and S&P—are all trading well above their pre-announcement level.

Despite early concerns, little increase in the cost of goods has been observed since tariffs were imposed so far. Meanwhile, though recent data from outplacement firm Challenger, Grey & Christmas showed U.S. employers announced 744,000 layoffs through the first half of 2025. Notably, nearly 287,000 of those were attributed to cuts by the Department of Governmental Efficiency (DOGE), skewing the headline number.

While the short-term impact of tariffs remains in flux, some longer-term benefits are beginning to take shape. Tariffs have boosted tax revenues on foreign products, and, more importantly, they are encouraging reinvestment in domestic operations that should ultimately result in the creation of solid, middle-class jobs. Numerous corporations have committed to expanding U.S. facilities and manufacturing capacity. For instance, Apple has pledged more than \$600 billion towards building U.S. based facilities, while TSMC has committed \$100 billion to semiconductor manufacturing on American soil. Many other companies have made similar commitments or are actively evaluating new investments.

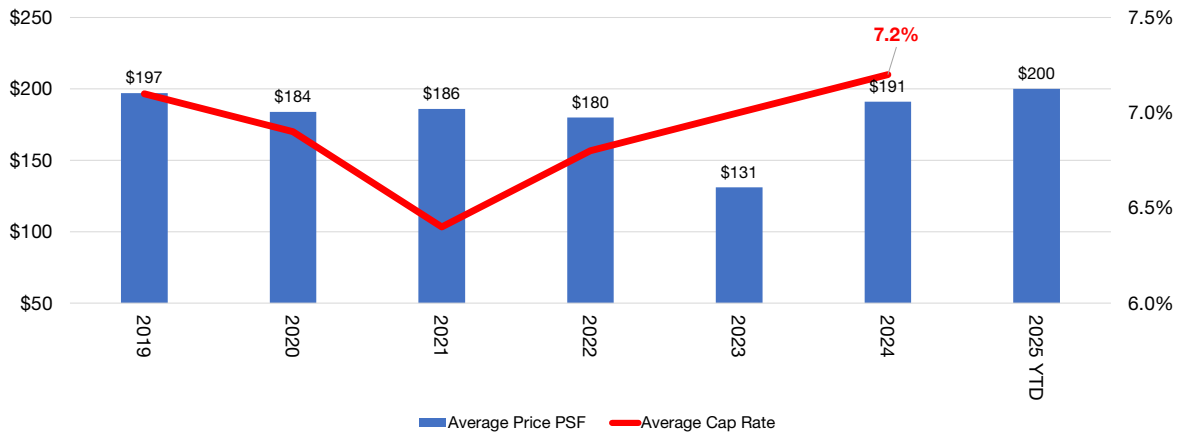
Ultimately, the level of headwinds the tariff policy creates for the greater economy remains in flux. Looking to the final half of the year, barring any unforeseen “black swan” events, the state of the overall economy will depend overwhelmingly on the kind of trade deals the administration is able to cut in the months ahead.

For the region's office sector this is likely all bad news. With most State of California relocations out of the way, the continued increase of return-to-office mandates, and an empty development pipeline, the market appears to finally be at, or near, bottom.



# Sacramento Office Market All Product Types Q2 2025

### Sacramento Office Market: Average Price PSF/Average Cap Rate



While we tracked multiple sales transacted in 1H 2025, nearly all were owner/user sales with not enough investment transactions (fewer than five) to produce reliable cap rate averages.

Source: Gallelli Real Estate; Costar Group

**Select Sacramento Region Office Leases  
Past Six Months (Q1 2025/Q2 2025)**

<b>Address</b>	<b>Project Name</b>	<b>Submarket</b>	<b>SF Footage</b>	<b>Tenant</b>
660 J Street	SixSixty at DoCo	Downtown	113,000	Sutter Health
10540 White Rock Road	10540 White Rock Road	Highway 50	24,000	Child Action
730 I Street	730 I Street	Downtown	22,000	Urban Hive
Building A	Prospect West Business Park	Highway 50	21,884	Arizona College of Nursing
2295 Iron Point Road	2295 Iron Point Road	Folsom	18,713	SAFE Credit Union
1240 High Street	Courtyard Professional Center	Auburn/Lincoln	16,637	Town Center Dental
2999 Douglas Boulevard	Douglas Corporate Centre I	Roseville/Rocklin	14,626	The New Home Company
1788 Tribute Road	Tribute Corporate Center	Arden/Howe/Watt	14,286	Hesion Technology
1111 Howe Avenue	1111 Howe Avenue	Arden/Howe/Watt	13,565	CCWRO
1025 Creekside Ridge Drive	Creekside Ridge	Roseville/Rocklin	10,532	USKO Realty
11010 White Rock Road	Parmer West	Highway 50	10,000	V3
1420 Rocky Ridge Drive	Stone Point Plaza	Roseville/Rocklin	7,400	Asset Preservation Inc.
2270 Douglas Boulevard	2270 Douglas Boulevard	Roseville/Rocklin	3,894	HCS
2365 Iron Point Road	Folsom Gateway	Folsom	3,560	Scan Disk Technologies
8150 Sierra College Boulevard	Sierra Douglas Center	Roseville/Rocklin	2,656	CE Contractors
925 Highland Pointe Drive	925 Highland Pointe Drive	Roseville/Rocklin	2,600	Better Homes & Gardens Real Estate
3009 Douglas Boulevard	Olympus Corporate Centre	Roseville/Rocklin	2,365	Greyscale Architecture
5252 Sunrise Boulevard	5252 Sunrise Boulevard	Northeast	2,364	Healthy Hair
3741 Douglas Boulevard	Summit at Douglas Ridge	Roseville/Rocklin	2,349	Mercer Advisors
785 Orchard Drive	Riley Professional Center	Folsom	2,035	App Orchid

**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	58	1,160,826	69,398	6.0%	5.4%	5.2%	(7,169)	(9,290)	\$1.52	\$1.50	1.3%
Class B	-	-	-	-	-	-	-	-	-	-	-
Class C	32	702,188	38,849	5.5%	5.6%	4.2%	458	(9,593)	\$1.52	\$1.48	2.7%
<b>Total</b>	<b>26</b>	<b>458,638</b>	<b>30,549</b>	<b>6.7%</b>	<b>5.0%</b>	<b>6.7%</b>	<b>(7,627)</b>	<b>303</b>	<b>\$1.53</b>	<b>\$1.53</b>	<b>-</b>
Auburn/Lincoln											
Class A	184	7,776,695	1,302,312	16.7%	16.3%	17.3%	(31,618)	(45,503)	\$1.85	\$1.80	2.8%
Class B	6	690,465	190,800	27.6%	26.5%	11.9%	(7,628)	(108,608)	\$2.01	\$1.99	1.0%
Class C	85	4,412,802	803,248	18.2%	18.3%	18.5%	4,240	12,018	\$1.81	\$1.76	2.8%
<b>Total</b>	<b>93</b>	<b>2,673,428</b>	<b>308,264</b>	<b>11.5%</b>	<b>10.5%</b>	<b>13.4%</b>	<b>(28,230)</b>	<b>51,087</b>	<b>\$1.89</b>	<b>\$1.88</b>	<b>0.5%</b>
Downtown Sacramento											
Class A	169	12,001,988	2,229,242	18.6%	17.5%	15.7%	(134,486)	(348,839)	\$2.88	\$3.03	(5.0%)
Class B	21	5,303,609	1,116,778	21.1%	22.1%	18.5%	53,484	(133,755)	\$3.26	\$3.32	(1.8%)
Class C	64	4,241,503	893,899	21.1%	17.0%	18.1%	(173,310)	(127,327)	\$2.48	\$2.72	(8.8%)
<b>Total</b>	<b>84</b>	<b>2,456,876</b>	<b>218,565</b>	<b>8.9%</b>	<b>8.3%</b>	<b>5.3%</b>	<b>(14,660)</b>	<b>(87,757)</b>	<b>\$1.77</b>	<b>\$2.17</b>	<b>(18.4%)</b>
El Dorado Hills											
Class A	64	1,497,783	280,243	18.7%	17.4%	17.5%	(19,385)	(18,853)	\$2.06	\$1.96	5.1%
Class B	1	28,564	3,096	10.8%	10.8%	10.8%	-	-	\$2.60	\$2.46	5.7%
Class C	37	994,758	201,454	20.3%	18.5%	19.6%	(17,581)	(6,205)	\$2.23	\$2.10	6.2%
<b>Total</b>	<b>26</b>	<b>474,461</b>	<b>75,693</b>	<b>16.0%</b>	<b>15.6%</b>	<b>13.3%</b>	<b>(1,804)</b>	<b>(12,648)</b>	<b>\$1.46</b>	<b>\$1.45</b>	<b>0.7%</b>
Elk Grove/South Sacramento											
Class A	131	3,805,688	222,098	5.8%	5.8%	5.0%	(1,653)	(31,086)	\$2.02	\$2.10	(3.8%)
Class B	1	75,080	-	-	-	-	-	-	-	-	-
Class C	78	2,491,936	163,671	6.6%	6.7%	5.6%	3,957	(25,059)	\$2.31	\$2.40	(3.8%)
<b>Total</b>	<b>52</b>	<b>1,238,672</b>	<b>58,427</b>	<b>4.7%</b>	<b>4.3%</b>	<b>4.2%</b>	<b>(5,610)</b>	<b>(6,027)</b>	<b>\$1.67</b>	<b>\$1.70</b>	<b>(1.8%)</b>
Folsom											
Class A	86	3,644,327	319,128	8.8%	10.1%	10.3%	49,229	56,615	\$2.34	\$2.33	0.4%
Class B	8	626,686	37,436	6.0%	10.8%	11.2%	30,447	32,985	\$2.35	\$2.31	1.7%
Class C	63	2,571,644	275,900	10.7%	11.5%	11.5%	18,782	19,501	\$2.35	\$2.35	-
<b>Total</b>	<b>15</b>	<b>445,997</b>	<b>5,792</b>	<b>1.3%</b>	<b>1.3%</b>	<b>2.2%</b>	<b>-</b>	<b>4,129</b>	<b>\$2.07</b>	<b>\$1.87</b>	<b>10.7%</b>
Highway 50/Rancho Cordova											
Class A	241	12,636,360	2,929,605	23.2%	23.6%	23.4%	55,974	27,125	\$1.68	\$1.69	(0.6%)
Class B	23	2,577,627	928,707	36.0%	36.7%	37.5%	18,404	39,151	\$1.92	\$1.96	(2.0%)
Class C	148	8,234,318	1,794,651	21.8%	22.2%	22.3%	35,607	45,268	\$1.65	\$1.66	(0.6%)
<b>Total</b>	<b>70</b>	<b>1,824,415</b>	<b>206,247</b>	<b>11.3%</b>	<b>11.4%</b>	<b>8.2%</b>	<b>1,963</b>	<b>(57,294)</b>	<b>\$1.25</b>	<b>\$1.25</b>	<b>-</b>
Midtown/East Sacramento											
Class A	101	4,901,510	662,456	13.5%	10.8%	10.4%	375,831	358,074	\$2.48	\$2.54	(2.4%)
Class B	4	861,660	186,937	21.7%	1.0%	-	384,949	382,063	\$3.35	\$3.35	-
Class C	56	3,257,332	325,233	10.0%	9.3%	9.2%	(21,645)	(26,888)	\$2.48	\$2.57	(3.5%)
<b>Total</b>	<b>41</b>	<b>782,518</b>	<b>150,286</b>	<b>19.2%</b>	<b>20.8%</b>	<b>19.6%</b>	<b>12,527</b>	<b>2,899</b>	<b>\$1.85</b>	<b>\$1.99</b>	<b>(7.0%)</b>
Natomas											
Class A	103	6,420,640	1,547,786	24.1%	21.6%	17.9%	(160,323)	(399,198)	\$2.16	\$2.18	(0.9%)
Class B	31	3,283,945	951,398	29.0%	24.9%	18.4%	(135,260)	(348,006)	\$2.38	\$2.41	(1.2%)
Class C	55	2,588,040	523,750	20.2%	19.3%	18.7%	(25,063)	(39,839)	\$1.83	\$1.84	(0.5%)
<b>Total</b>	<b>17</b>	<b>548,655</b>	<b>72,638</b>	<b>13.2%</b>	<b>13.2%</b>	<b>11.2%</b>	<b>-</b>	<b>(11,353)</b>	<b>\$1.33</b>	<b>\$1.33</b>	<b>-</b>
Northeast Sacramento											
Class A	106	2,882,848	407,044	14.1%	13.5%	12.3%	(18,204)	(53,837)	\$1.55	\$1.46	6.2%
Class B	1	90,909	-	-	-	-	-	-	-	-	-
Class C	39	1,273,620	213,502	16.8%	15.8%	12.1%	(11,912)	(59,320)	\$1.68	\$1.57	7.0%
<b>Total</b>	<b>66</b>	<b>1,518,319</b>	<b>193,542</b>	<b>12.7%</b>	<b>12.3%</b>	<b>13.1%</b>	<b>(6,292)</b>	<b>5,483</b>	<b>\$1.45</b>	<b>\$1.39</b>	<b>4.3%</b>
Roseville/Rocklin											
Class A	232	9,496,419	1,239,113	13.0%	13.1%	15.3%	7,212	211,909	\$2.08	\$1.88	10.6%
Class B	37	3,141,789	631,083	20.1%	20.4%	21.6%	9,228	47,504	\$2.36	\$2.32	1.7%
Class C	143	4,900,597	455,402	9.3%	9.7%	12.2%	21,781	141,469	\$2.06	\$1.71	20.5%
<b>Total</b>	<b>52</b>	<b>1,454,033</b>	<b>152,628</b>	<b>10.5%</b>	<b>8.9%</b>	<b>12.1%</b>	<b>(23,797)</b>	<b>22,936</b>	<b>\$1.35</b>	<b>\$1.42</b>	<b>(4.9%)</b>
Yolo County											
Class A	93	3,540,972	419,137	11.8%	11.7%	13.0%	(6,456)	40,534	\$2.40	\$2.51	(4.4%)
Class B	6	702,797	159,122	22.6%	23.4%	30.0%	5,069	51,724	\$3.00	\$3.03	(1.0%)
Class C	45	1,979,425	184,548	9.3%	9.0%	9.0%	(6,179)	(6,093)	\$2.16	\$2.10	2.9%
<b>Total</b>	<b>42</b>	<b>858,750</b>	<b>75,467</b>	<b>8.8%</b>	<b>8.2%</b>	<b>8.2%</b>	<b>(5,346)</b>	<b>(5,097)</b>	<b>\$2.04</b>	<b>\$2.10</b>	<b>(2.9%)</b>
<b>Totals</b>	<b>1,568</b>	<b>69,766,056</b>	<b>11,627,562</b>	<b>16.7%</b>	<b>16.1%</b>	<b>15.7%</b>	<b>108,952</b>	<b>(212,349)</b>	<b>\$2.11</b>	<b>\$2.09</b>	<b>1.0%</b>
<b>Class A</b>	<b>139</b>	<b>17,383,131</b>	<b>4,205,357</b>	<b>24.2%</b>	<b>23.8%</b>	<b>21.4%</b>	<b>358,693</b>	<b>(36,942)</b>	<b>\$2.56</b>	<b>\$2.60</b>	<b>(1.5%)</b>
<b>Class B</b>	<b>845</b>	<b>37,648,163</b>	<b>5,874,107</b>	<b>15.6%</b>	<b>15.1%</b>	<b>15.4%</b>	<b>(170,865)</b>	<b>(82,068)</b>	<b>\$1.94</b>	<b>\$1.90</b>	<b>2.1%</b>
<b>Class C</b>	<b>584</b>	<b>14,734,762</b>	<b>1,548,098</b>	<b>10.5%</b>	<b>10.0%</b>	<b>9.9%</b>	<b>(78,876)</b>	<b>(93,339)</b>	<b>\$1.62</b>	<b>\$1.68</b>	<b>(3.6%)</b>

# GALLELLI BROKER TEAMS

## INVESTMENT



## RETAIL



## OFFICE



## INDUSTRIAL

