



Q4 OFFICE

market report

2025 | GALLELLI REAL ESTATE

Gallelli Real Estate
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Q4
25

16.7%

Direct
Vacancy Rate

(±176,000) SF

Quarterly Net
Absorption

±120,000 SF

Annual Net Absorption
(Last Four Quarters)

\$2.11 PSF

Average Asking Rate
(NNN)

±130,000 SF

Under
Construction

5.0%

Sacramento
Unemployment
(Aug 2025)

4.4%

United States
Unemployment
(Aug 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.
**Typically, state and local unemployment data lags federal data by one month. However, the 2025 federal government shutdown (October/November 12, 2025) resulted in a disruption of normally scheduled data releases. This reflects the most current data available as of the time of this report.*

2025 COMES TO SLUGGISH END

Office vacancy in the Sacramento region stood at 16.7% at the close of 2025, reflecting an uptick both from the 16.4% rate of three months ago and the 16.2% reading posted at the end of 2024.

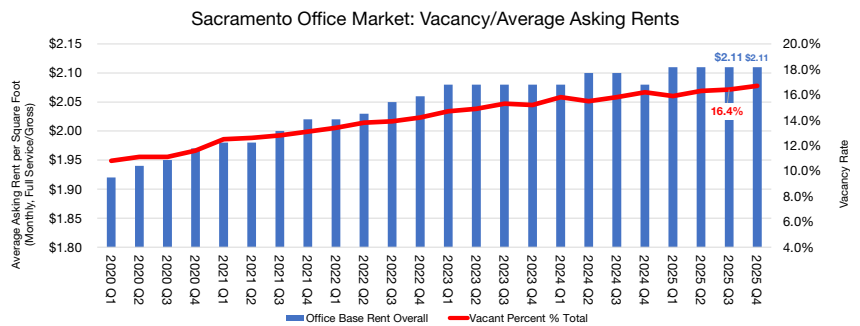
Leasing activity in 2025 outpaced what we recorded in 2024 but has been on a slowing trend since the start of the year. We recorded just under 3.7 million square feet (MSF) of total leasing activity (gross absorption) over the past year, compared to 3.5 MSF in 2024. But on a quarterly basis, the trend has been downward. Since 2000, the Sacramento office market has averaged just under 1.1 MSF of deal activity per quarter. In Q1 2025, the market posted more than 1.3 MSF of leasing activity, but that number fell to 1.0 MSF in Q2, 757,000 square feet (SF) in Q3 and finished with just 547,000 SF of deal activity in a sluggish Q4.

In terms of overall occupancy growth, the Sacramento market closed the year in the black, having recorded 120,000 SF of total positive net absorption. But all this growth came in the first half of the year. As of the midyear 2025 mark, the market had recorded more than 417,000 SF of positive net absorption. Most of these occupancy gains came from medical and healthcare users, insurance companies and smaller, professional tenants. Not surprisingly, the local submarkets that cater most to these types of users (Elk Grove, Folsom, Roseville/Rocklin) continue to outperform most of the region's other trade areas.

But these numbers turned negative over the final half of the year as space givebacks started to outpace new deals and deal activity became increasingly focused on lease



Sacramento Office Market All Classes of Product Q4 2025



Source: Gallelli Real Estate, Costar Group

renewals. The market recorded negative net absorption of -122,000 SF in Q3 and -176,000 SF in Q4, with Franklin Templeton (Highway 50), UCSB (Elk Grove), and Magnit Global (Folsom) among the tenants that gave back space over the final three months of the year.

Despite a sluggish end, 2025 saw sublease availability in the region fall from nearly 1.1 MSF a year ago to just over 787,000 SF as of the close of the year. Likewise, the total amount of available space in the market (this includes both vacant and occupied space being marketed) has fallen from 14.3 MSF a year ago to 13.8 MSF currently. Total space availability in the Sacramento region peaked in Q2 2024 at 20.7%. This metric stood at 20.3% entering 2025 and now stands at 19.6%.

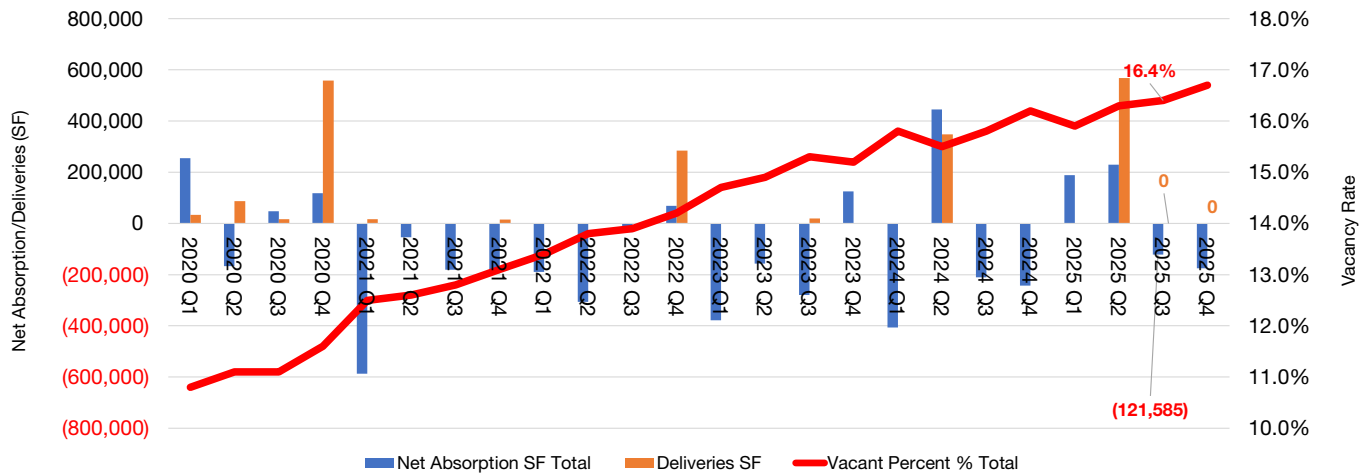
Despite declining overall availability and modestly positive occupancy growth for the year of 120,000 SF, vacancy inched up over the course of 2025 due to the delivery of the region's new 568,000 SF science and technology incubator, Aggie Square, in the Midtown/East Sacramento market. That project has been leasing briskly and is the reason why that submarket led all others in the region in 2025 in terms of occupancy growth. But ultimately, deliveries outpaced net absorption over the past year, with year-end vacancy levels increasing for the seventh consecutive year.

There is only 130,000 SF of new office space under development in the region currently; consisting of two build-to-suit projects that already have tenants in tow. In October, NexCore Group began construction of the Folsom Advanced Surgery Center in Folsom. The project



Sacramento Office Market All Classes of Product Q4 2025

Sacramento Office Market: Supply/Demand/Vacancy



Source: Gallelli Real Estate; Costar Group

is being developed for CommonSpirit Health, who is planning on occupying the space upon its completion in 2027. The other major project underway is Buzz Oates' 38,350 SF Riverpoint North Corporate Center in West Sacramento, which will also be completed in 2027.

The average current asking rent in the region for office space now stands at \$2.11 per square foot (PSF), on a monthly full-service basis. One year ago, this metric stood at \$2.08 PSF, reflecting an increase of just 1.4%. While rents have essentially remained flat, concession packages have generally increased with free rent or increased tenant improvement allowances increasingly common across the marketplace.

SUBMARKET REVIEW

The final three months of 2025 saw little in the way of occupancy swings in either direction across the Sacramento region's 12 distinct submarkets. None experienced significant movement in either direction in terms of either net absorption or vacancy. The Roseville/Rocklin submarket led all other trade areas in terms of Q4 net absorption with 48,000 SF of occupancy gains, while the El Dorado Hills submarket, with -69,000 SF of negative net absorption led the region in terms of losses. But nearly every other trade area saw swings of 50,000 SF or less in either direction.

But over the course of the entire year, only three submarkets drove the

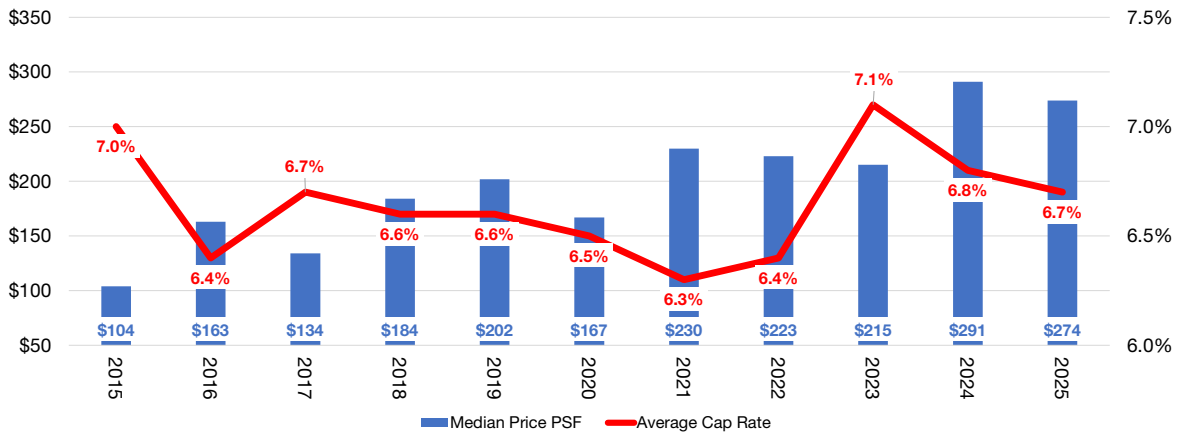
region's overall occupancy gains (+120,000 SF). Thanks to the impact of Aggie Square, the Midtown/East Sacramento submarket led all others with 413,000 SF of positive net absorption, though vacancy in this trade area increased with the delivery of this project from 10.8% to 12.7% over the course of 2025. Roseville/Rocklin, still the region's dominant market for small professional users and startups, recorded 186,000 SF of positive net absorption in 2025 as vacancy in this trade area fell from 14.6% to 12.6%. Lastly, the Yolo County submarket recorded 38,000 SF of gains (primarily in West Sacramento) as vacancy here fell from 12.7% to 11.6%.

The Highway 50 submarket led all trade areas in terms of occupancy declines. This trade area, historically the home to many of the region's larger block space users, has bore the brunt of many of the region's post-pandemic challenges from the general trend of remote and hybrid work. Once home to many of the region's larger call centers and insurance company tenants, it has recorded negative net absorption in five of the past six years and, after a 2024 that saw it modestly in the black, closed 2025 back in the red. Highway 50 recorded negative net absorption to the tune of 109,000 SF in 2025 as vacancy backslid from 23.8% to 24.7%. That said, the city of Rancho Cordova is buying a 101,000 SF vacant office building at 3215 Prospect Park Drive with plans to convert it into a new high school, while also enacting a plan to create a vibrant downtown area around a proposed \$175 million indoor soccer arena that will host two



Sacramento Office Market
All Product Types
Q4 2025

Sacramento Office Market: Median Price PSF/Average Cap Rate



Source: Gallelli Real Estate; Costar Group

newly awarded Major Arena Soccer League teams (men’s and women’s) that will break ground this spring. This new project (“DOVA”) we think will be a catalyst in this office submarket’s rebound heading into 2026 and beyond.

LOOKING AHEAD

The Sacramento region continues to work through an overhang of space that came back to market in the aftermath of the pandemic and shifting office work trends. The good news is that we continue to see a reversion towards more traditional in-office work patterns, though hybrid work is a substantial and permanent part of the landscape now. The state of California’s return-to-work mandate (requiring in-office work at least four days a week), which had been delayed by labor unions, is set to finally take place on July 1, 2026. This will certainly give the Downtown submarket a shot in the arm, as well as a boost to retail, restaurant and service businesses that were dependent upon the daytime office population.

That said, we anticipate many of the leasing trends currently at play to continue. Smaller deals of 5,000 SF or less will likely continue to dominate activity. Medical/healthcare and smaller professional users are likely to remain the most active segment of tenants. Minimal new supply and an effectively empty development pipeline (at least, the absence of any speculative building) bodes well for declining levels of vacancy and availability heading into 2026, though uncertainty in the economy is likely to continue to create headwinds impeding growth.

The good news is that initial economic uncertainty regarding tariff impacts appears to be fading, though heightened geopolitical tensions threaten to ratchet up another round of trade discord. Consumer spending held up better in 2025 than most early economist predictions, though there are some concerning warning signs. According to the Federal judiciary, personal and

business bankruptcies were up 10.6% annually through November 2025 (the latest data available) and consumer debt levels exceeded a record \$18.5 trillion in Q3 2025 according to the Federal Reserve. The good news is some of this was driven by mortgage originations (i.e. “good debt”) with residential real estate picking up slightly. The bad news is this also reflects an increase in credit card balances (i.e. “bad debt”) of more than \$24 billion in Q3 2025 with American consumers now holding a record \$1.23 trillion in credit card debt. Worse yet, the average interest rate on that debt is now at 24% (up from 16% four years ago). The Trump administration has floated the idea of an interest rate cap of 10.0% on credit cards, though that idea is sure to face immense resistance from the banking community and likely major challenges in the courts if implemented.

The good news is that unemployment remains near 50-year lows. The bad news is it has been slowly ticking upward with employment growth having virtually flatlined over the final half of 2025. While US stock indices are all at or near historic highs, nearly all the gains of 2025 have been driven by more than \$1.2 trillion in AI investment over the past year. To put this in perspective, that is roughly the annual GDP of Saudi Arabia. This has sparked growing concerns of a potential AI investment bubble akin to what we saw with internet businesses in the tech wreck of 2000. That said, dot.com stocks at that time were trading more than 50X annual earnings, while AI stocks today are trading at roughly 35X to 40X earnings. Those values are decidedly frothy, but not necessarily in the danger zone now. Lastly, heightened geopolitical tensions and internal political division have emerged at the top of most economist concerns heading into 2026.

In other words, the only thing certain with any economic forecast for the year ahead **is uncertainty**. Against this backdrop we anticipate a continued subdued office environment in 2026.



**Select Sacramento Region Office Leases
Select Deals 2025**

Address	Project Name	Submarket	SF Footage	Tenant
660 J Street	SixSixty at DoCo	Downtown	113,000	Sutter Health
100 Waterfront Place	Raley's Landing	West Sacramento	49,000	California State Auditor
10860 Gold Center Drive	White Rock Corporate Campus	Highway 50	35,000	California Department of Motor Vehicles
1700 Tribute Road	1700 Tribute Road	Arden/Howe/Watt	33,000	CommonSpirit Health
1024 Iron Point Road	Iron Point Business Park	Folsom	28,000	Advanced Micro Devices
1410 – 1420 Rocky Ridge Drive	Stoneview Plaza	Roseville/Rocklin	27,000	InterWest Insurance Services
6425 Capitol Avenue	6425 Capitol Avenue	El Dorado Hills	22,000	Marshall Medical Center
10540 White Rock Road	10540 White Rock Road	Highway 50	22,000	Child Action
730 I Street	730 I Street	Downtown	22,000	Urban Hive
10901 Gold Center Drive	Prospect West Business Park	Highway 50	22,000	Arizona College of Nursing
400 Capitol Mall	Wells Fargo Center	Downtown	21,000	Lozano Smith Attorneys at Law
2295 Iron Point Road	2295 Iron Point Road	Folsom	19,000	SAFE Credit Union
2484 Natomas Park Drive	2484 Natomas Park Drive	South Natomas	17,000	Cole Partners Development
1240 High Street	Courtyard Professional Center	Auburn/Lincoln	17,000	Town Center Dental
1180 Iron Point Road	Iron Point Business Park	Folsom	16,000	Outlet Coworking
200 Vernon Street	200 Vernon Street	Roseville/Rocklin	16,000	Bennett Engineering Services
455 Capitol Mall	455 Capitol Mall	Downtown	15,000	Ascent
2020 L Street	2020 L Street	Midtown/East Sacramento	15,000	Southland Industries
2999 Douglas Boulevard	Douglas Corporate Centre I	Roseville/Rocklin	15,000	Riswell Homes
1788 Tribute Road	Tribute Corporate Center	Arden/Howe/Watt	14,000	Hesion Technology
1111 Howe Avenue	1111 Howe Avenue	Arden/Howe/Watt	14,000	CCWRO
1025 Creekside Ridge Drive	Creekside Ridge	Roseville/Rocklin	11,000	USKO Realty
11010 White Rock Road	Parmer West	Highway 50	10,000	V3
980 9th Street	Park Tower	Downtown	10,000	State Farm
2998 Douglas Boulevard	Roseville Corporate Center	Roseville/Rocklin	8,000	AeroTek

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	7	706,959	200,529	28.4%	29.1%	15.0%	5,505	(94,329)	\$2.00	\$1.95	2.6%
Class B	88	4,480,730	875,471	19.5%	19.3%	18.5%	(9,782)	(48,245)	\$1.82	\$1.82	-
Class C	89	2,600,904	274,626	10.6%	10.7%	12.1%	4,903	41,049	\$1.80	\$1.87	(3.7%)
Total	184	7,788,593	1,350,626	17.3%	17.3%	17.8%	626	(101,525)	\$1.83	\$1.84	(0.5%)
Auburn/Lincoln											
Class A	-	-	-	-	-	-	-	-	-	-	-
Class B	31	674,231	36,227	5.4%	5.2%	6.1%	(1,360)	5,234	\$1.54	\$1.51	2.0%
Class C	26	458,638	33,554	7.3%	6.8%	5.9%	(2,501)	(6,689)	\$1.45	\$1.65	(12.1%)
Total	57	1,132,869	69,781	6.2%	5.8%	6.0%	(3,861)	(1,455)	\$1.51	\$1.56	(3.2%)
Downtown Sacramento											
Class A	22	5,699,155	1,143,843	20.1%	18.8%	20.4%	(74,717)	21,279	\$3.23	\$3.27	(1.2%)
Class B	65	4,318,796	906,176	21.0%	21.5%	18.3%	21,236	(115,383)	\$2.48	\$2.48	-
Class C	84	2,426,507	219,120	9.0%	8.8%	8.4%	(4,555)	(14,514)	\$1.93	\$1.93	-
Total	171	12,444,458	2,269,139	18.2%	17.8%	17.4%	(58,036)	(108,618)	\$2.88	\$2.89	(0.3%)
El Dorado Hills											
Class A	1	28,564	3,096	10.8%	10.8%	16.0%	-	1,471	\$2.60	\$2.60	-
Class B	36	982,822	215,099	21.9%	15.3%	16.6%	(64,754)	(51,866)	\$2.30	\$2.18	5.5%
Class C	25	448,013	91,376	20.4%	19.6%	18.8%	(3,779)	(7,339)	\$1.47	\$1.51	(2.6%)
Total	62	1,459,399	309,571	21.2%	16.5%	17.3%	(68,533)	(57,734)	\$2.12	\$1.98	7.1%
Elk Grove/South Sacramento											
Class A	1	75,080	-	-	-	-	-	-	-	-	-
Class B	78	2,530,154	183,244	7.2%	6.5%	6.6%	(19,316)	(17,500)	\$2.34	\$2.32	0.9%
Class C	51	1,178,261	55,339	4.7%	5.5%	4.7%	9,446	(428)	\$1.49	\$1.66	(10.2%)
Total	130	3,783,495	238,583	6.3%	6.0%	5.8%	(9,870)	(17,928)	\$2.02	\$2.03	(0.5%)
Folsom											
Class A	8	604,113	91,526	15.2%	8.6%	15.2%	(39,814)	334	\$2.33	\$2.32	0.4%
Class B	64	2,636,312	312,230	11.8%	12.2%	10.7%	9,129	(30,927)	\$2.37	\$2.32	2.2%
Class C	16	531,903	7,093	1.3%	1.3%	2.3%	(376)	5,399	\$2.15	\$1.72	25.0%
Total	88	3,772,328	410,849	10.9%	10.1%	10.2%	(31,061)	(25,194)	\$2.35	\$2.31	1.7%
Highway 50/Rancho Cordova											
Class A	24	2,629,319	939,969	35.7%	36.7%	36.9%	24,659	31,155	\$1.92	\$1.94	(1.0%)
Class B	147	8,296,197	1,995,027	24.0%	23.6%	22.8%	(37,715)	(104,661)	\$1.66	\$1.66	-
Class C	68	1,762,884	200,030	11.3%	9.4%	9.3%	(34,271)	(35,958)	\$1.21	\$1.27	(4.7%)
Total	239	12,688,400	3,135,026	24.7%	24.3%	23.8%	(47,327)	(109,464)	\$1.69	\$1.72	(1.7%)
Midtown/East Sacramento											
Class A	4	860,660	180,592	21.0%	21.0%	-	-	387,408	\$3.60	\$3.35	7.5%
Class B	57	3,308,553	324,404	9.8%	9.1%	9.7%	(23,925)	(2,450)	\$2.45	\$2.58	(5.0%)
Class C	40	762,419	120,120	15.8%	16.8%	19.4%	7,681	28,153	\$1.84	\$1.97	(6.6%)
Total	101	4,931,632	625,116	12.7%	12.3%	10.8%	(16,244)	413,111	\$2.34	\$2.56	(8.6%)
Natomas											
Class A	31	3,299,651	784,303	23.8%	23.3%	22.5%	(15,635)	(40,432)	\$2.38	\$2.42	(1.7%)
Class B	57	2,707,827	510,591	18.9%	19.6%	18.4%	20,581	(11,850)	\$1.86	\$1.81	2.8%
Class C	17	548,655	72,638	13.2%	13.2%	11.2%	-	(11,353)	\$1.33	\$1.33	-
Total	105	6,556,133	1,367,532	20.9%	20.9%	19.9%	4,946	(63,635)	\$2.17	\$2.15	0.9%
Northeast Sacramento											
Class A	1	90,909	-	-	-	-	-	-	-	-	-
Class B	41	1,294,695	210,486	16.3%	16.4%	12.9%	1,572	(43,806)	\$1.61	\$1.57	2.5%
Class C	67	1,594,810	174,507	10.9%	11.3%	11.7%	5,312	12,224	\$1.44	\$1.38	4.3%
Total	109	2,980,414	384,993	12.9%	13.1%	11.9%	6,884	(31,582)	\$1.52	\$1.47	3.4%
Roseville/Rocklin											
Class A	35	3,030,493	632,751	20.9%	20.4%	20.1%	(13,335)	(22,925)	\$2.39	\$2.35	1.7%
Class B	143	4,953,587	422,917	8.5%	9.6%	12.9%	54,656	215,105	\$2.12	\$1.70	24.7%
Class C	52	1,457,523	138,553	9.5%	9.9%	9.1%	6,424	(6,359)	\$1.31	\$1.47	(10.9%)
Total	230	9,441,603	1,194,221	12.6%	13.2%	14.6%	47,745	185,821	\$2.11	\$1.87	12.8%
Yolo County											
Class A	6	718,712	134,859	18.8%	18.6%	29.6%	(1,172)	77,852	\$2.82	\$3.03	(6.9%)
Class B	45	1,979,425	196,996	10.0%	9.9%	9.0%	(563)	(19,561)	\$2.18	\$2.14	1.9%
Class C	42	849,015	80,862	9.5%	9.6%	7.1%	761	(20,365)	\$2.02	\$2.03	(0.5%)
Total	93	3,547,152	412,717	11.6%	11.6%	12.7%	(974)	37,926	\$2.28	\$2.49	(8.4%)
Totals	1,569	70,526,476	11,768,154	16.7%	16.4%	16.2%	(175,705)	119,723	\$2.11	\$2.08	1.4%
Class A	140	17,743,615	4,111,468	23.2%	22.5%	22.7%	(114,509)	361,813	\$2.54	\$2.55	(0.4%)
Class B	852	38,163,329	6,188,868	16.2%	16.1%	15.6%	(50,241)	(225,910)	\$1.95	\$1.89	3.2%
Class C	577	14,619,532	1,467,818	10.0%	10.0%	9.9%	(10,955)	(16,180)	\$1.62	\$1.67	(3.0%)

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