



Sacramento office market report

Q4 2023

**AVISON
YOUNG**

Sacramento office market trends

332K sf

Leasing activity marks a new multi-year low.

The Sacramento office market faces persistent challenges with rising vacancy rates and reduced demand, evident in the lowest leasing activity of the pandemic during the fourth quarter. Elevated interest rates and ongoing economic uncertainty are discouraging tenant demand and impacting the commercial real estate market. Adding to these challenges, the State of California, historically a major tenant, is introducing a 1.25 million square foot project in Downtown Sacramento in 2024, further exacerbating the decrease in demand and contributing to increased inventory.

16.1%

Remote jobs continue to make up a big part of job postings.

The Sacramento office market faces challenges with low occupancy and the ongoing prevalence of remote work. Monthly job postings have declined to new multi-year lows, and despite discussions of returning to the office, remote jobs remain at early-pandemic levels. This trend particularly affects the Class A office segment, where tech, government, finance, and similar sectors—known for their higher likelihood of remote work—historically dominate. Consequently, Class A offices in urban submarkets exhibit the highest vacancy rates.

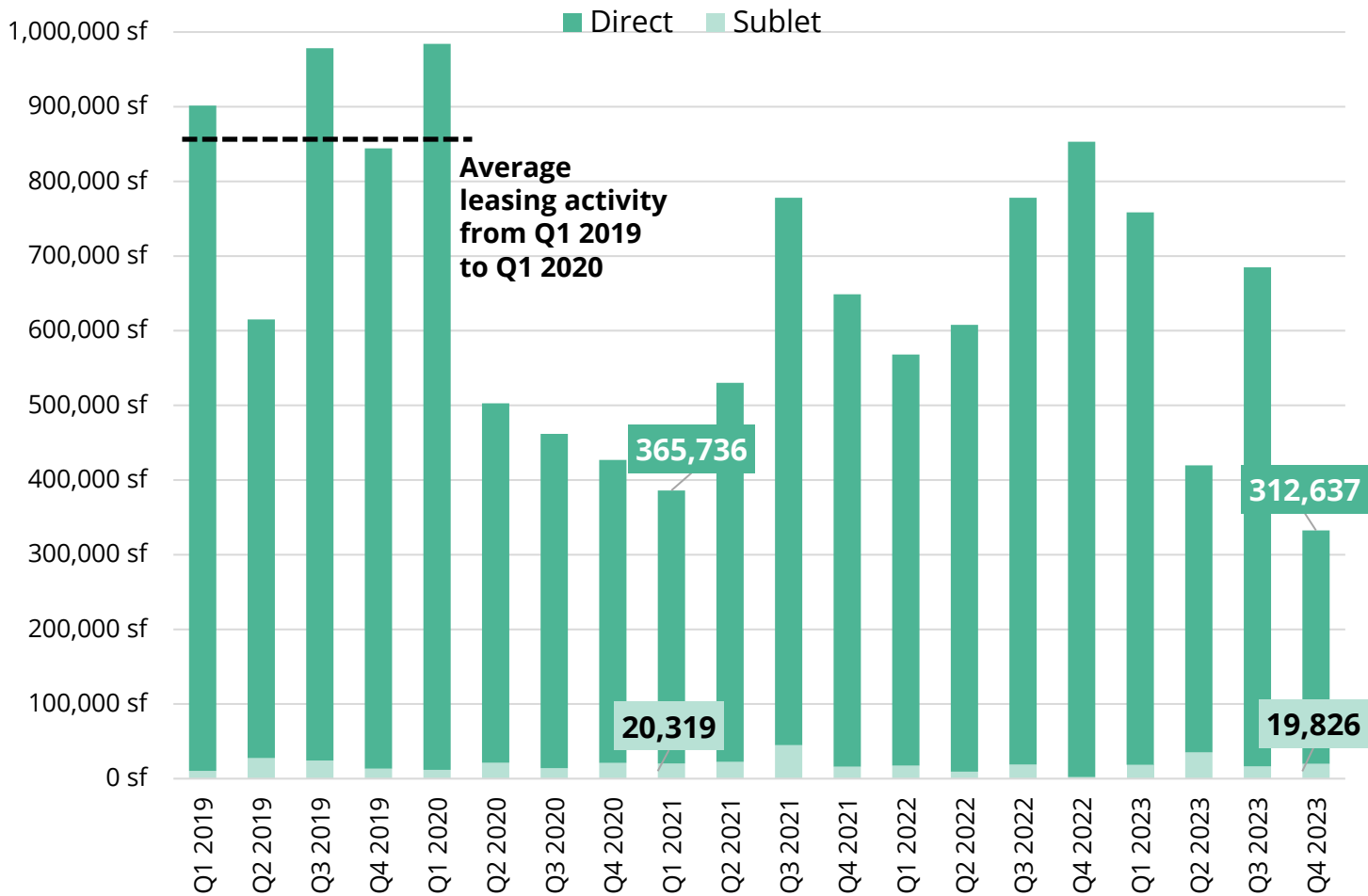
4.5%

Unemployment is low but slowly rising.

Unemployment rates are at healthy levels, having recovered rapidly from the highs of the pandemic, which saw a peak of 14.6% in the early half of 2020. However, it has been slowly creeping upwards since early 2022, in a pattern that is familiar in prior recessions. However, if a recession does come to light, it is not yet definite its effect on the office market.

Of course, it will bring about even further slowing of economic activity, yet it brings the silver lining that it will make a more dovish Fed that will lower interest rates to bring about a recovery in economic activity.

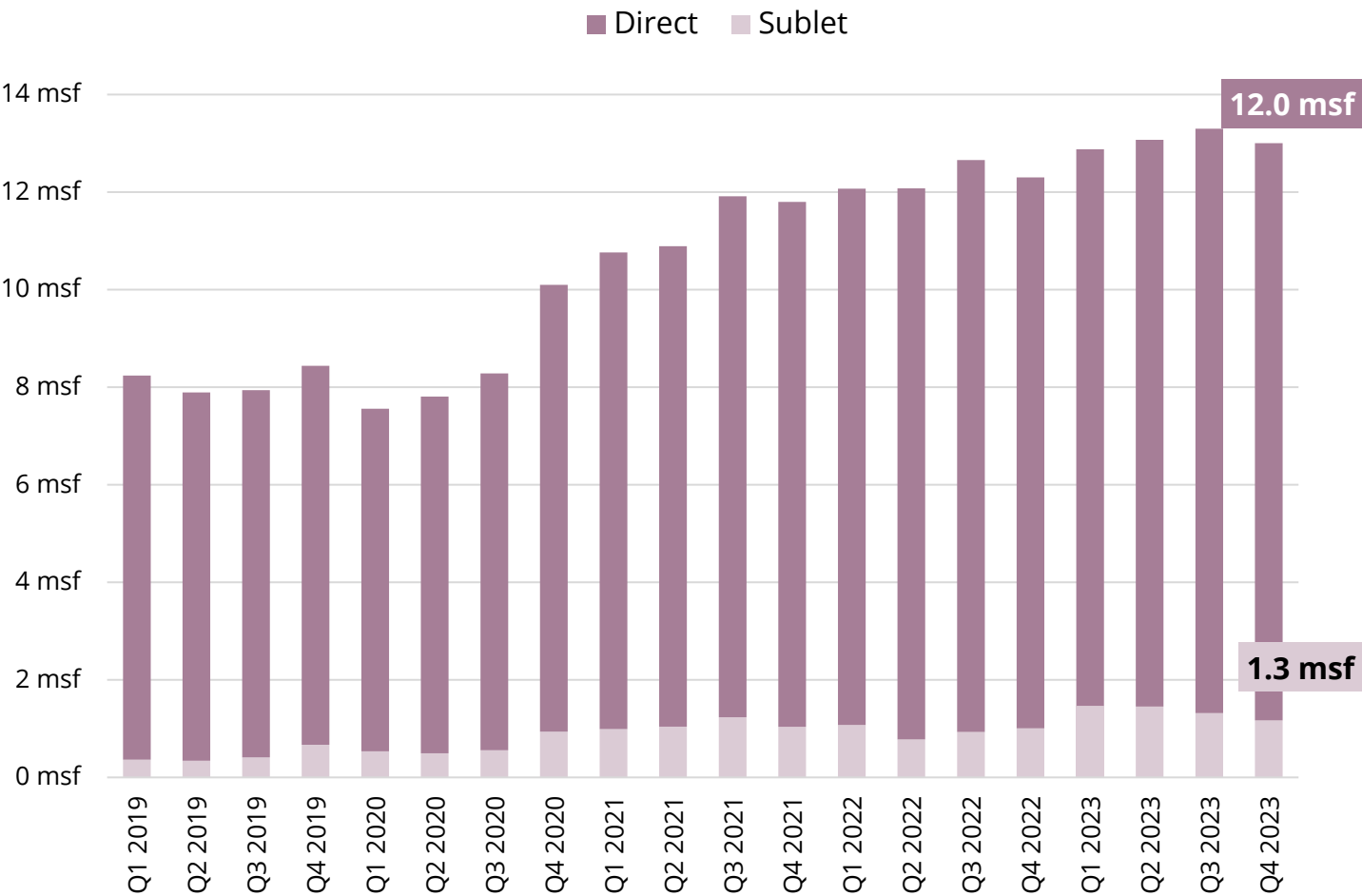
Leasing activity



Source: CoStar

Leasing activity in late 2024 has decelerated, reaching just half of the levels observed in Q3.

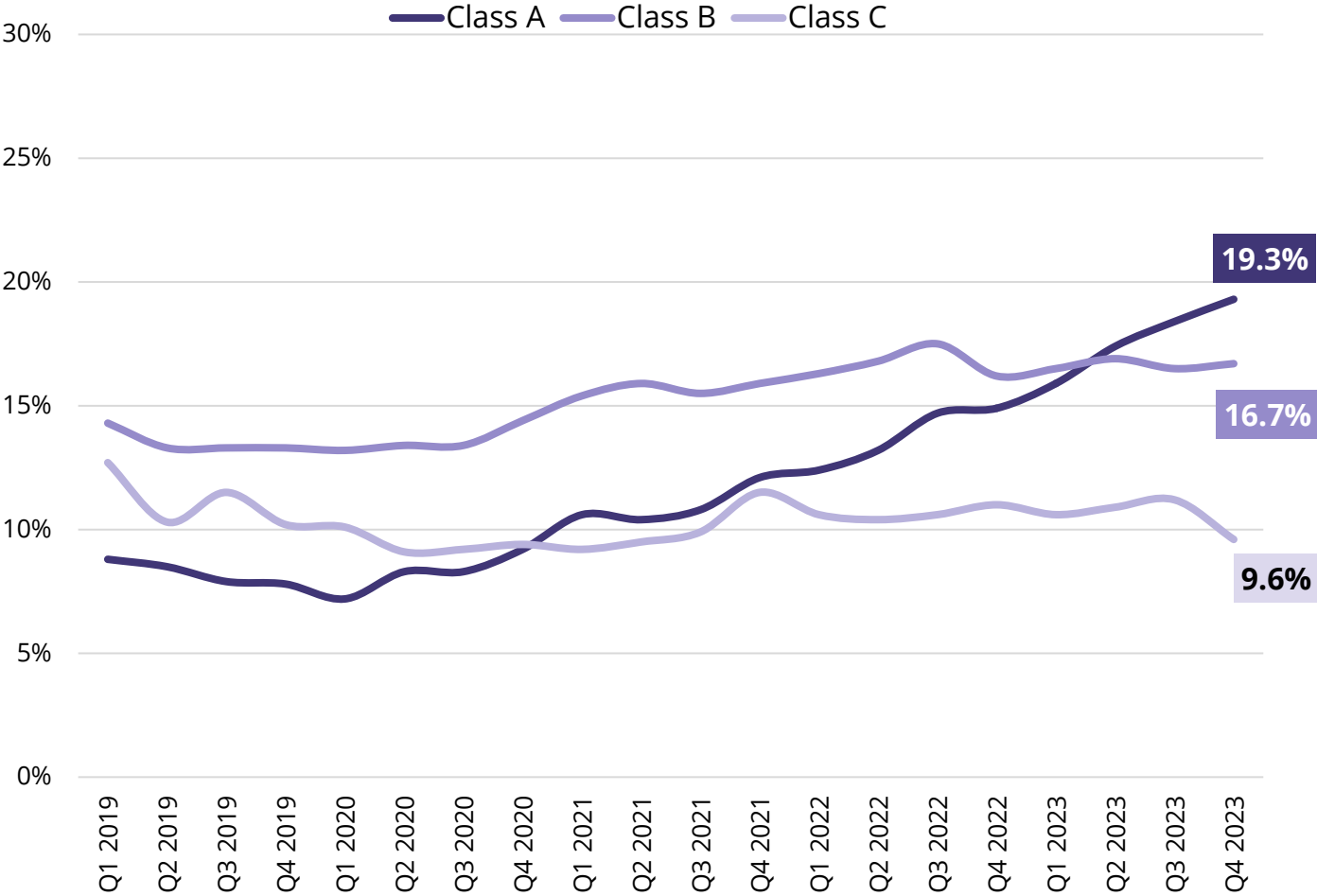
Availability



Source: AVANT by Avison Young

Total available office space in has fallen slightly from the previous quarter.

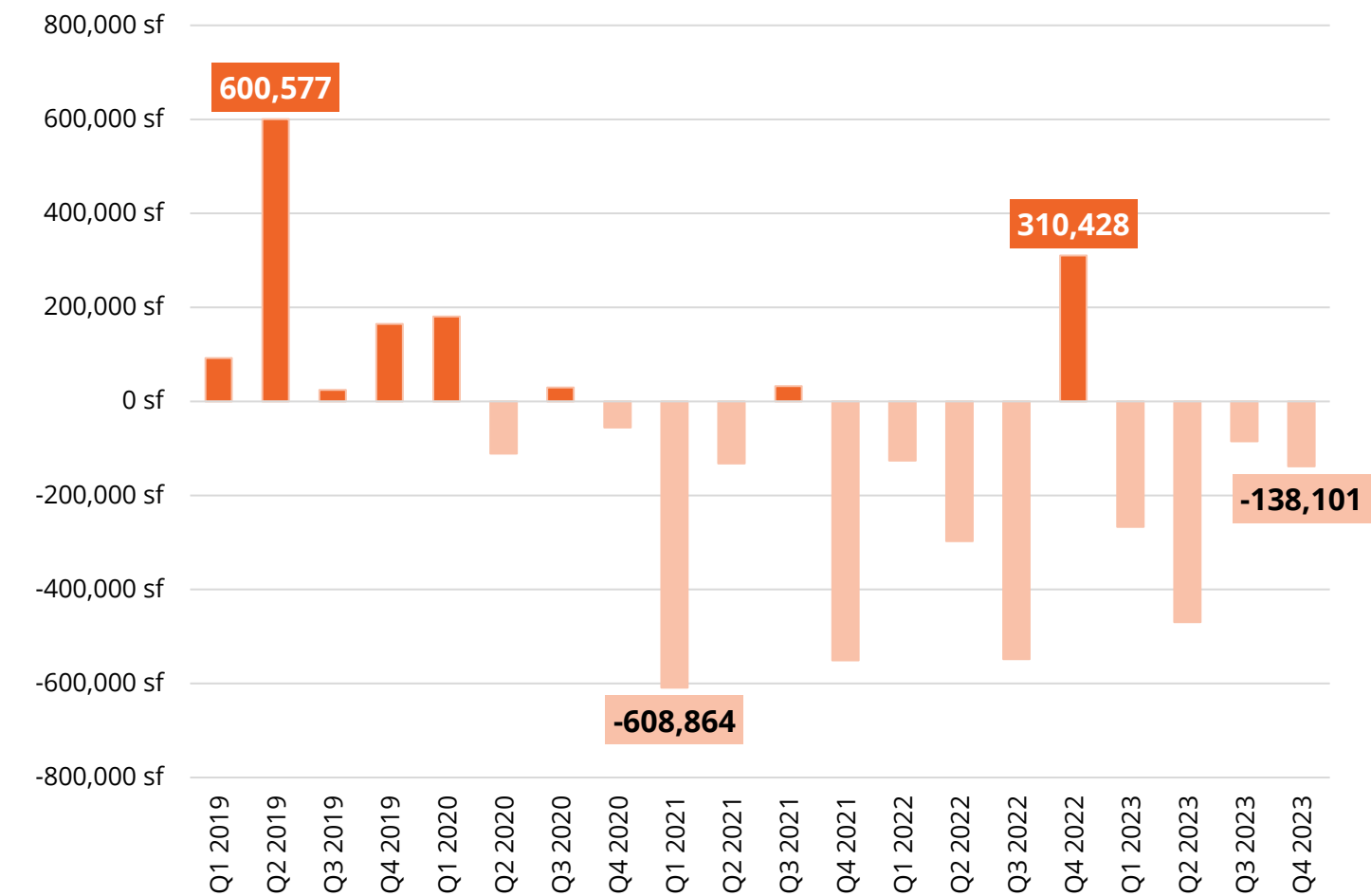
Vacancy



Source: AVANT by Avison Young

Reversing historical trends, Class A office vacancy has risen above Class B and C.

Net absorption



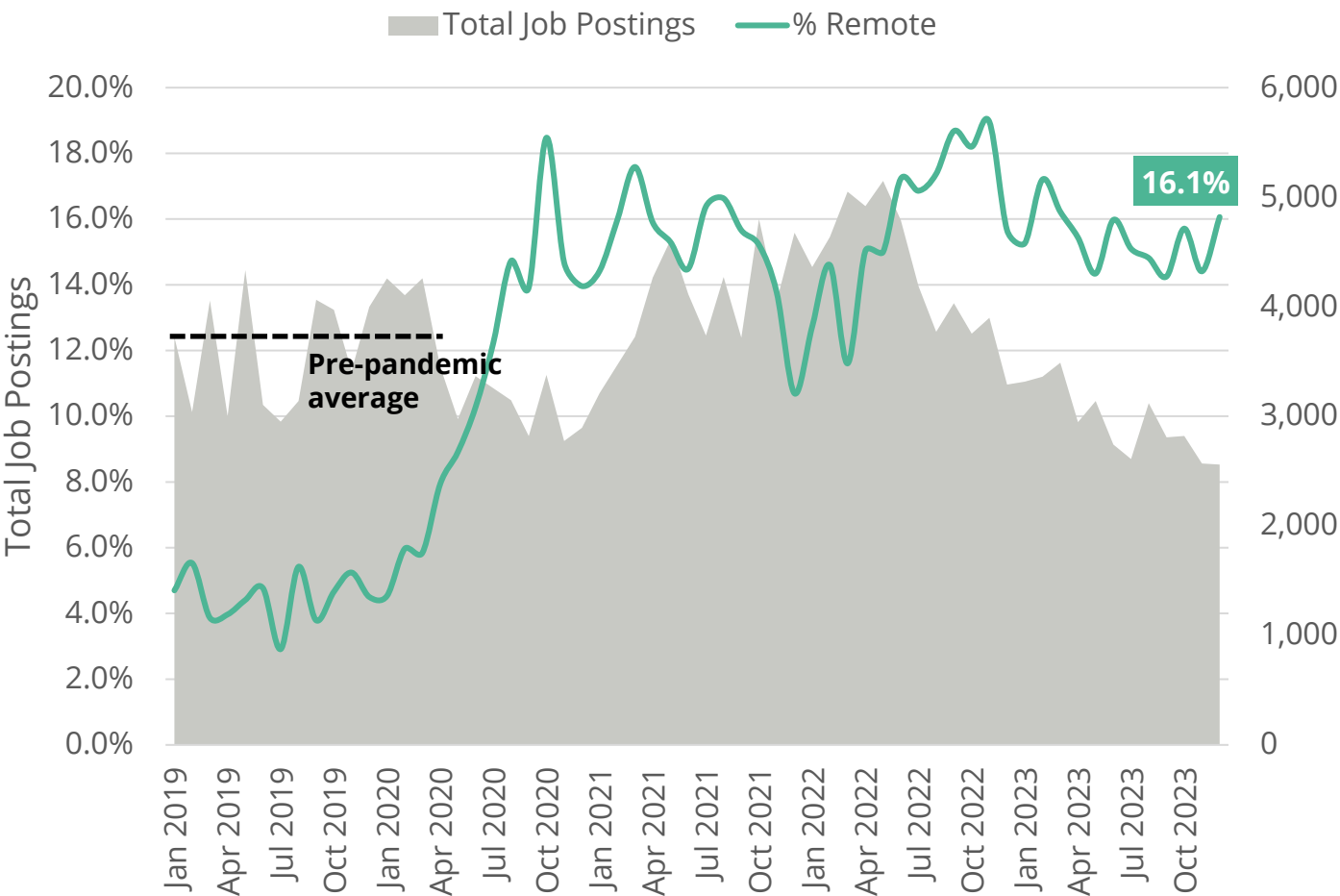
Source: AVANT by Avison Young

Throughout 2023, net absorption has consistently been negative, and Q4 recorded a further decline compared to Q3.

Economic Trends



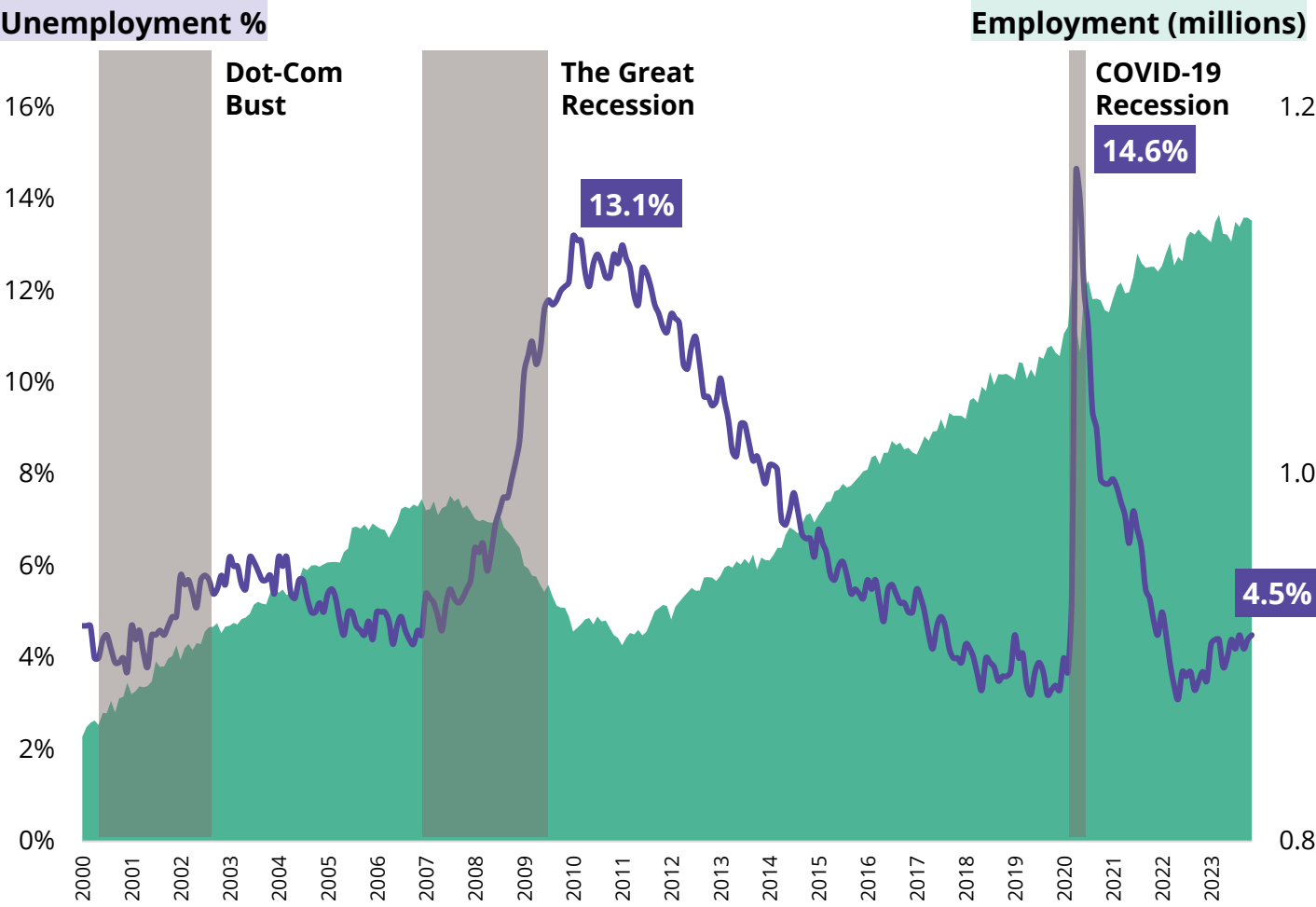
Remote job postings



Source: AVANT by Avison Young

Job postings remain below pre-pandemic average. Work-from-home trends remain persistent as share of remote jobs of total job postings are still high.

Employment



Sacramento's unemployment rate has been steadily increasing since the second half of 2022, possibly influenced by rising interest rates and signaling potential economic challenges.

Note: Sacramento—Roseville—Arden-Arcade MSA
Source: Bureau of Labor Statistics

Market Activity



Sacramento office market activity

Recent leasing activity

Tenant	Address	Submarket	Sign date	Size (sf)	Transaction type	Lease type
Western Health Advantage	2379 Gateway Oaks Dr	South Natomas	Oct 2023	30,465	New	Direct
Tamraloo Studios	2800 Nicolaus Rd	Roseville/Rocklin	Nov 2023	13,450	New	Direct
Empyrean Logistics	9323 Tech Center Dr	Highway 50 Corridor	Nov 2023	13,313	New	Direct

Recent sales activity

Buyer	Address	Sale date	Building size (sf)	Building Class	Sale price	Sale price psf	Seller
Marshall Medical Center	4201 Town Center Blvd	Nov 2023	49,077	B	\$14,723,500	\$300.01	ProEquity Asset Management
Biddle Consulting Group	604 Sutter St	Nov 2023	30,120	A	\$10,750,000	\$356.91	Fit Development
One Community Health	1507 21 st St	Oct 2023	55,906	C	\$9,400,000	\$168.14	Wanda Fong-Jerriitt

Top projects under development

Address	Submarket	Delivery date	Building size sf	% Preleased	Developer
Richards Boulevard Office Complex (4 buildings)	Downtown	2024	1,250,000	100.0%	State of California
Aggie Square (2 buildings)	East Sacramento	2025	569,000	80.4%	The Regents of the UC
100 Waterfront Pl - CalSTRS Expansion	West Sacramento	2024	275,000	100.0%	CalSTRS

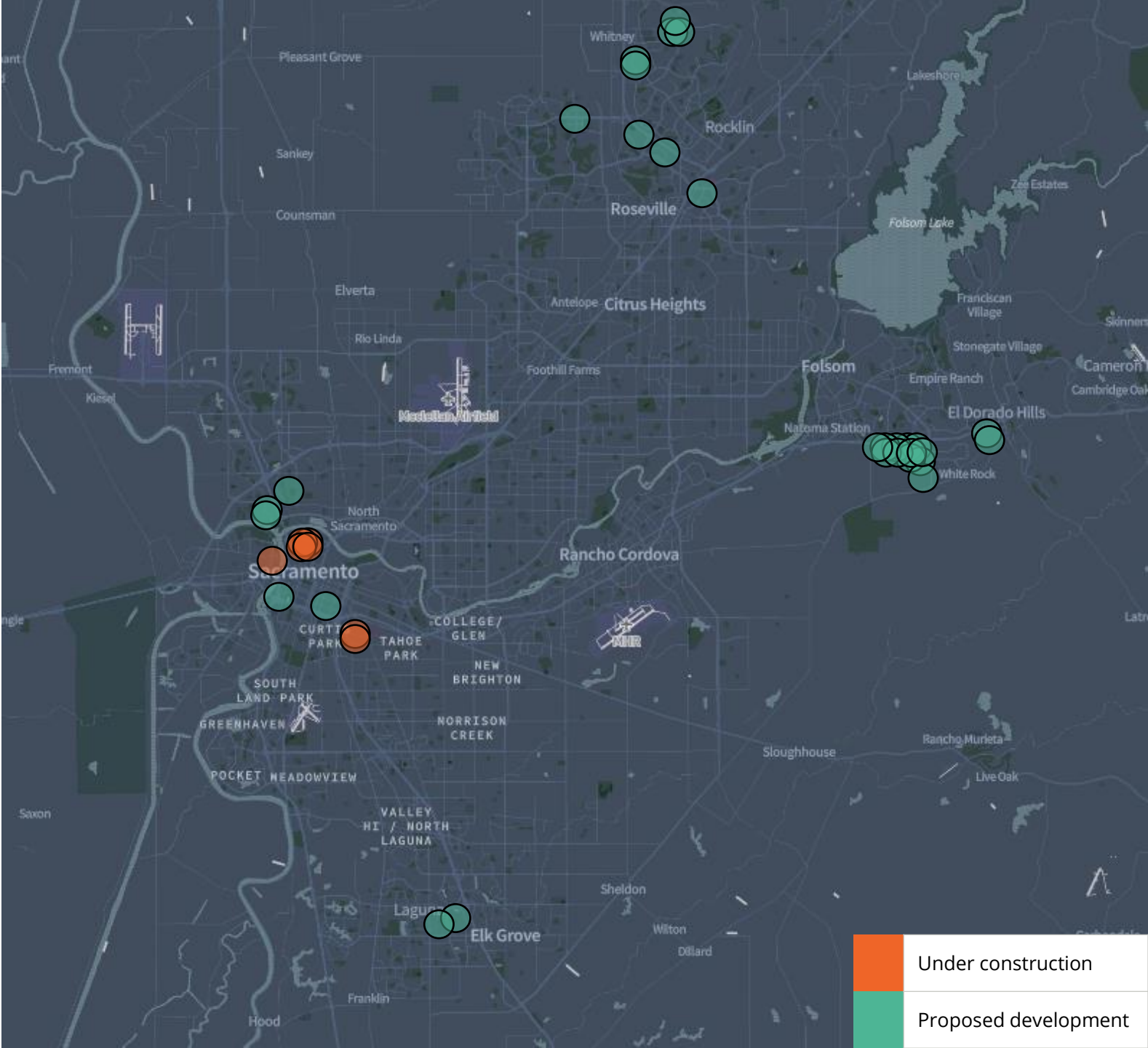
Office development pipeline

7 properties, 2.09 msf
under construction

3.4%
estimated increase to inventory

2024
average delivery date

34 properties, 4.45 msf
proposed

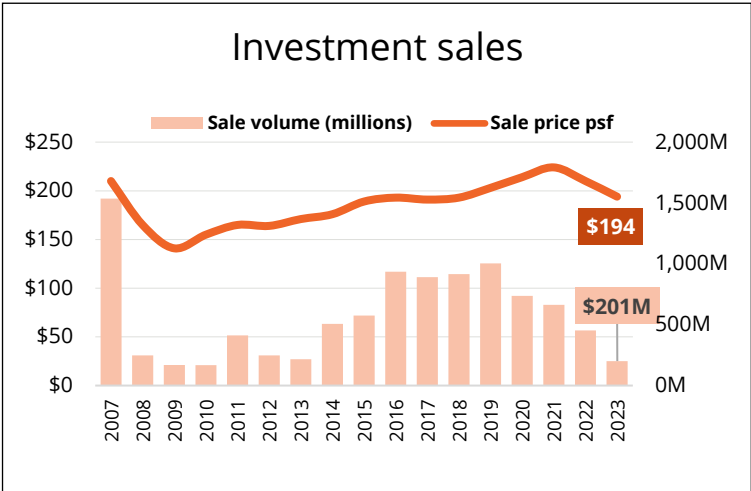
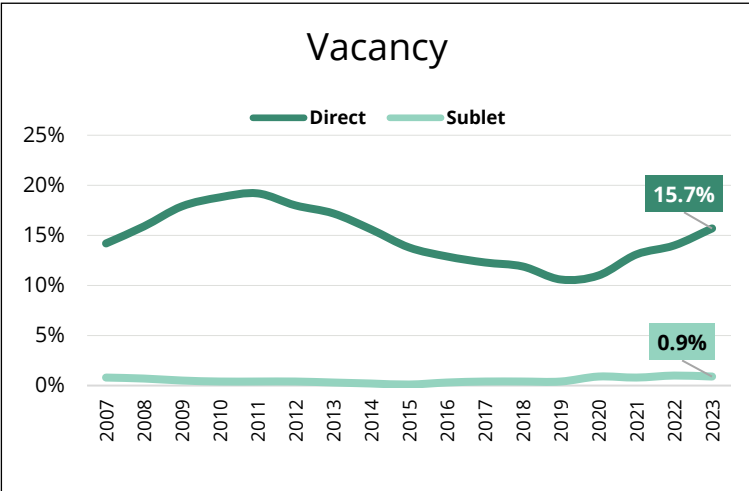
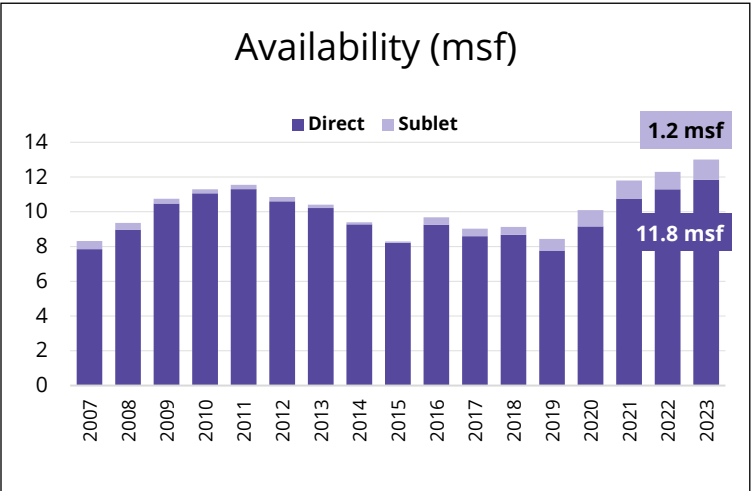
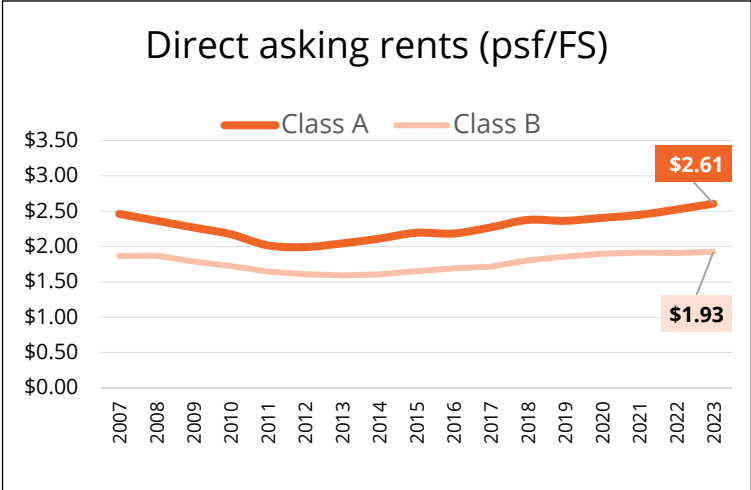
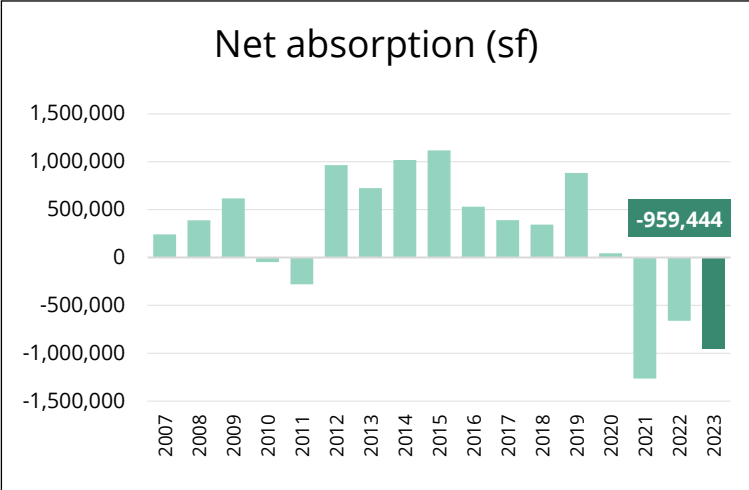
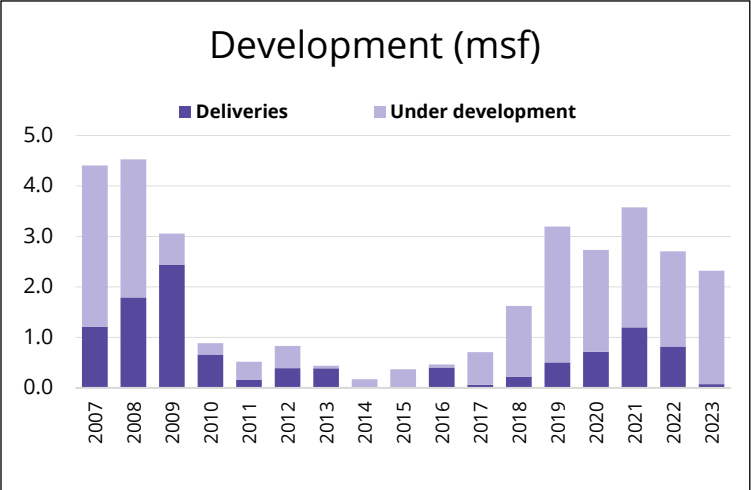


Source: AVANT by Avison Young, CoStar

Appendix



Sacramento office market indicators



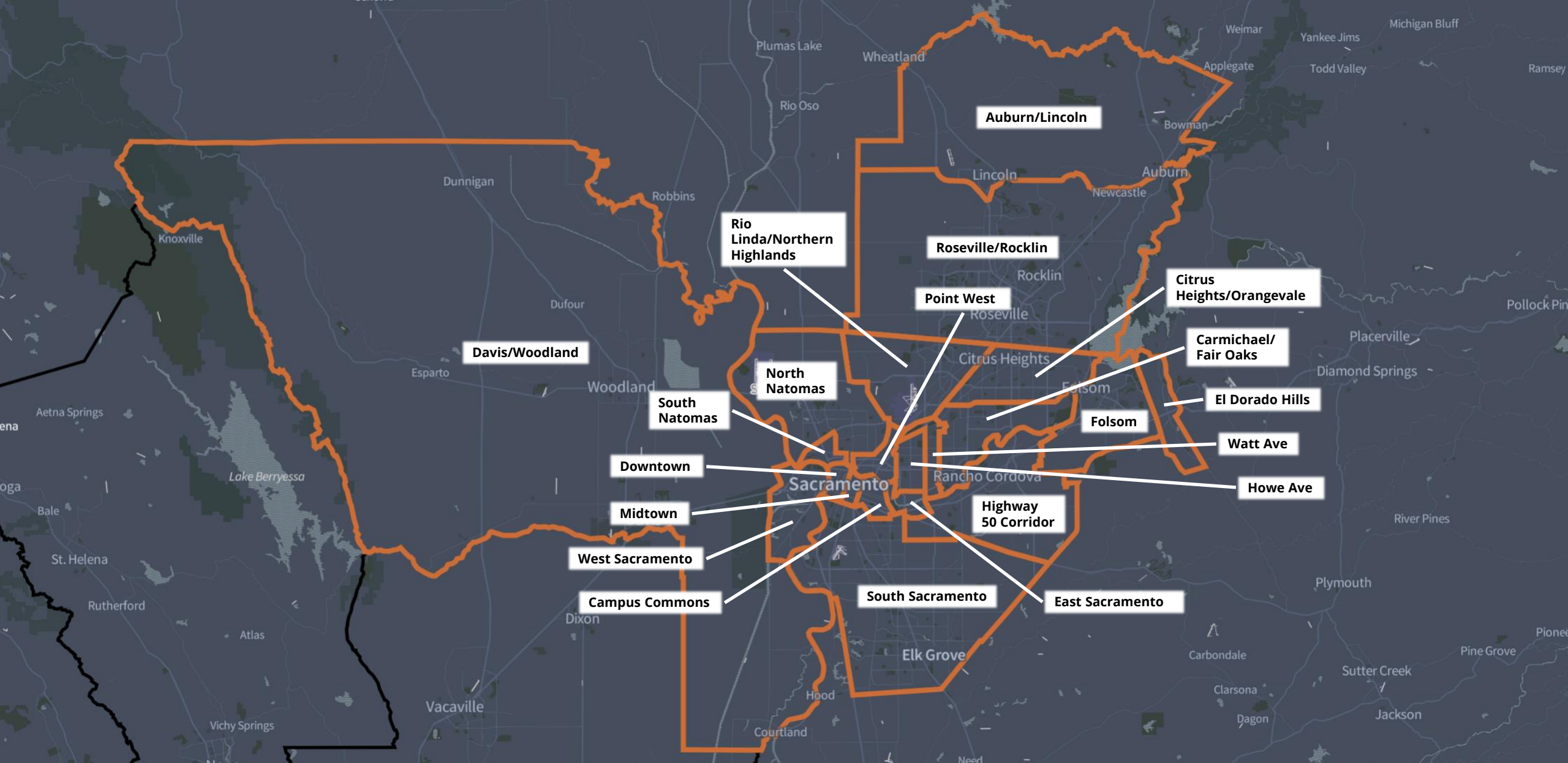
Sacramento office market stats

	Inventory			Vacancy						Absorption		Direct Asking Rent (FS)			
	Existing inventory	YTD Deliveries	Under development	Direct %	Sublet %	Total %	Class A %	Class B %	Class C %	Net absorption sf (QTD)	Net absorption sf (YTD)	Class A	Class B	Class C	Total
Auburn/Lincoln	421,277	0	0	4.8%	0.0%	4.8%	-	9.8%	0.7%	6,598	23,907	-	-	\$1.01	\$1.01
Campus Commons	1,209,003	0	750,000	2.0%	0.0%	2.0%	-	1.5%	7.9%	8,306	-9,894	-	\$3.00	\$1.70	\$2.62
Carmichael/Fair Oaks	413,945	0	0	8.0%	0.0%	8.0%	-	0.9%	16.7%	16,629	37,951	-	\$1.77	\$1.32	\$1.37
Citrus Heights/Orangevale	541,351	0	0	14.9%	0.4%	15.3%	-	15.1%	22.4%	22,056	36,561	-	\$1.57	\$1.06	\$1.43
Davis/Woodland	1,254,245	0	0	8.8%	0.1%	8.9%	30.1%	4.7%	4.6%	-3,532	27,899	-	\$2.24	\$2.01	\$2.11
Downtown	11,960,260	0	1,250,000	16.6%	0.2%	16.8%	16.0%	22.3%	4.4%	6,619	-128,511	\$3.38	\$2.82	\$2.53	\$3.13
East Sacramento	1,176,803	0	569,000	12.4%	0.5%	12.9%	-	14.0%	8.8%	3,135	-5,132	-	\$2.50	\$2.09	\$2.10
El Dorado Hills	1,062,955	0	0	20.1%	0.2%	20.3%	47.3%	19.0%	-	22,732	-69,931	\$2.30	\$2.00	-	\$2.25
Folsom	3,926,846	20,000	0	8.6%	1.1%	9.7%	10.5%	10.0%	2.3%	-51,540	-15,744	\$2.46	\$2.07	\$1.85	\$2.25
Highway 50 Corridor	11,908,237	0	0	24.4%	1.9%	26.3%	35.3%	23.9%	11.7%	-45,774	-750,705	\$2.05	\$1.62	\$1.21	\$1.74

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Howe Ave	2,177,972	0	0	16.5%	0.3%	16.8%	24.3%	22.0%	7.2%	-6,291	-6,797	\$1.93	\$1.57	\$1.36	\$1.56
Midtown	1,611,802	0	0	9.2%	0.0%	9.2%	16.5%	5.3%	14.4%	-5,636	-17,106	\$2.85	\$2.35	\$2.15	\$2.36
North Natomas	3,004,568	0	0	14.0%	0.4%	14.5%	7.5%	22.6%	15.5%	-34,017	-104,685	\$2.10	\$1.59	\$1.37	\$1.69
Point West	2,381,819	0	0	17.5%	0.1%	17.6%	17.3%	12.2%	30.4%	35,356	83,341	\$2.15	\$1.82	\$1.78	\$1.95
Rio Linda/North Highlands	643,266	0	0	18.7%	0.0%	18.7%	-	17.3%	20.0%	-13,343	-10,983	-	\$1.20	-	\$1.20
Roseville/Rocklin	7,530,257	0	0	11.4%	2.5%	13.8%	16.6%	13.4%	1.7%	47,964	160,210	\$2.26	\$1.93	\$1.49	\$2.10
South Natomas	3,548,353	0	0	20.0%	0.6%	20.5%	22.2%	18.3%	-	-906	-141,313	\$2.63	\$2.03	-	\$2.46
South Sacramento	2,794,650	0	0	5.6%	0.3%	5.9%	0.7%	8.6%	2.3%	-17,463	52,807	\$2.75	\$2.17	\$1.64	\$2.18
Watt Ave	1,267,062	0	0	17.5%	0.7%	18.2%	-	16.3%	27.1%	43,464	53,498	-	\$1.52	\$1.45	\$1.52
West Sacramento	1,771,905	0	275,000	15.7%	0.0%	15.7%	22.4%	12.0%	1.5%	-172,458	-174,817	\$3.25	\$2.10	-	\$2.83
Overall	60,606,565	20,000	2,094,000	15.7%	0.9%	16.6%	19.3%	16.7%	9.6%	-138,101	-959,444	\$2.60	\$1.92	\$1.69	\$2.17

Market statistics in this report consists of office 20,000 sf and greater in these listed submarkets. Life science and medical use offices are not included.



Sacramento submarket map

Office insights glossary of terms

Demand

- **Leasing activity:** total square footage of relocations, renewals, expansions and subleases expressed when the leases are signed, not when tenants take physical occupancy of the space
- **Absorption:** period-over-period change in occupied square footage

Supply

- **Direct vacancy rate:** space operated by landlords that is ready for immediate occupancy
- **Sublease vacancy rate:** space operated by sublandlords that is ready for immediate occupancy
- **Total vacancy rate:** sum of direct vacancy rate and sublease vacancy rate
- **Availability rate:** space that is vacant plus space that will become vacant over an indefinite time horizon, including spaces that are occupied by vacating tenants and under-construction properties

Office rents and concessions

- **Asking rents:** pricing guidance provided by landlords to tenants for available space expressed as full service (FS)
- **Base rents:** fair market value of market-level lease pricing based on representative executed leases, expressed as full service (FS)
- **Free rent period:** months of free rent that are typically provided upfront by landlords to tenants as a concession to offset the total cost of a lease and/or the construction timeline of an office suite
- **Tenant improvement allowance:** an allowance expressed in dollars per square foot provided from landlords to tenants to offset build-out, engineering, space planning and related permit costs
- **Net effective rent:** base rents discounted by the dollar values of tenant improvement allowance and free rent concessions expressed as full service (FS)

Capital markets

- **Investment volume:** office sales dollars expressed when the transactions close and based on inventory thresholds; partial-interest sale dollar amounts are not grossed-up to reflect the 100% value of the sale
- **Asset pricing:** unweighted average per-square-foot asset pricing of market-level closed sales
- **Cap rate:** net operating income divided by sale price; this measurement of market-level investment returns is calculated as an unweighted average based on closed investment sales

For more market insights and
information visit **avisonyoung.com**

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