

YOY Chg 12-Mo. Forecast

**14.2%**  
Vacancy Rate ▲ ▲

**-557K**  
YTD Net Absorption, SF ▼ ▼

**\$2.08**  
Asking Rent, PSF ▼ ▬

(Overall, All Property Classes)

**ECONOMIC INDICATORS Q1 2022**

YOY Chg 12-Mo. Forecast

**1,034.6K**  
Sacramento MSA Employment ▲ ▲

**4.9%**  
Sacramento MSA Unemployment Rate ▼ ▼

**3.6%**  
U.S. Unemployment Rate ▼ ▼

Source: BLS, Moody's Analytics  
2022 Q1 data are based on latest available data.

**ECONOMY: Jobs Numbers Continuing to Rise**

As COVID-19 protocols and guidelines are loosened, specifically the recently lifted mask mandate, Sacramento's economic recovery picked up pace to start 2022. More of the local workforce is back in the office, at least part time and spending on services is growing. The unemployment rate for metropolitan Sacramento closed the year at 4.9%, down from 7.2% year-over-year (YOY). Nonfarm employment closed the year with the addition of over 48,000 jobs, a 4.9% increase from a year ago.

**DEMAND: Leasing Activity and Tenant Requirements Remain Healthy**

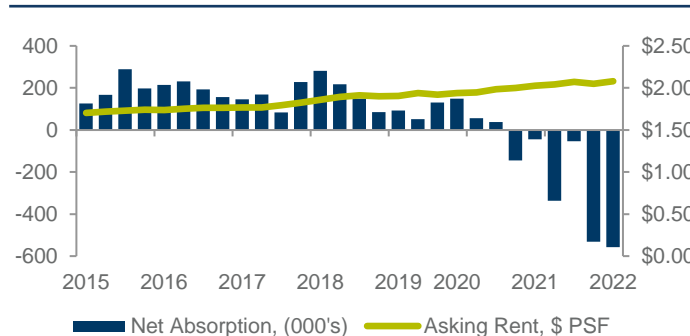
The first quarter of 2022 ended with net absorption totaling negative 557,000 square feet (sf). Absorption for the region may have remained in the red, but across submarkets, leasing activity is beginning to show renewed signs of life. Weighing heavily on net absorption is the State continuing to take steps in its Sequencing Plan, moving to swing space or downsizing all together. However, beyond government activity, the Downtown submarket is seeing many short-term renewals and an increase in new tenants touring the market for space. Leasing activity outpaced the figure from one year ago by 58%, with 719,000 sf of deals done in the first quarter of 2022. In addition, there is a healthy list of active tenant requirements which totals 1.4 million square feet (msf).

After the Omicron variant delayed the return to office, occupiers now appear more committed than ever to move forward with plans regarding their space, despite possible future variants of COVID-19. Lease term flexibility is important to occupiers as they look to either reconfigure their existing space to make it safer and more inviting for their employees or ultimately give up a portion of their space. Smaller footprints across the board appears to be the trend. For those occupiers on the move, there is a trend to relocate from dated space to more modern work environments that better entice employees back into the office. The result is a flight to quality, with move-in ready space leasing more quickly and top buildings in high demand. In the Downtown submarket, office employee daytime occupancy remains below pre-pandemic levels but has noticeably been on the rise.

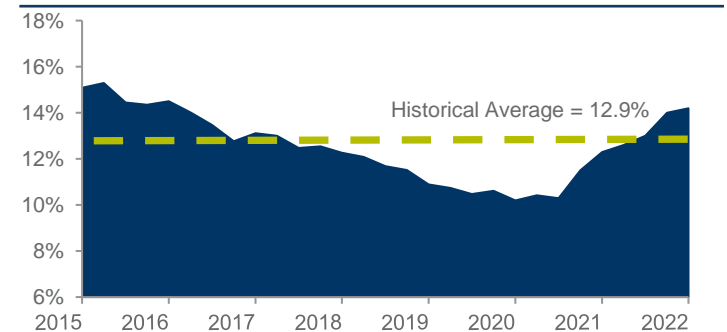
**PRICING: Asking Rents Relatively Stable**

Average asking rates continue to remain stable, closing the first quarter at \$2.08 per square foot (psf) on a monthly full-service basis. This is down only \$0.07 from a year ago, but when compared to 24 months ago, rents are slightly up as they closed the first quarter of 2020 at \$2.05 psf. Concessions continue to rise in the form of tenant improvement allowances, free rent, parking discounts and relocation allowances. However, the tenant improvements are more challenging than ever as material costs have skyrocketed and construction timelines grow, contributing to landlords' reluctance to soften rates.

**OVERALL NET ABSORPTION OVERALL ASKING RENT / 4 QTR TRAILING AVERAGE**



**OVERALL VACANCY**



# SACRAMENTO

Office Q1 2022



## Supply

The vacancy rate continued to climb, albeit at a slower pace more recently, increasing 20 basis points (bps) quarter-over-quarter (QOQ) and up 160 bps YOY, closing the first quarter of 2022 at 14.2%. Although supply has increased over the past two years, vacancy remains below historical highs of the Great Financial Crisis. In addition to the pandemic adding to the local vacancy, the State's Sequencing Plan continues to progress, as many of their departments and agencies give back portions of their leased space

## Capital Markets

Sales activity continued at a healthy clip in the first quarter, nearly doubling the volume from 12 months ago, totaling over \$151 million. Remarkably, no sales activity has taken place in Downtown since the start of the pandemic. All office properties that have traded have been in non-CBD submarkets.

Gateway Oaks Corporate Campus, located at Gateway Oaks Drive and Venture Oaks Way in the South Natomas submarket, was purchased by Basin Street Properties for \$58 million (\$180 psf). The four-building property totals 322,612 sf and was over 80% occupied at the time of the transaction with a healthy mix of state agency and professional services tenants. The purchase by Basin Street adds to their large Sacramento metro portfolio. Investor activity is expected to rotate back to the office sector in over the next few quarters.

## Market Overview

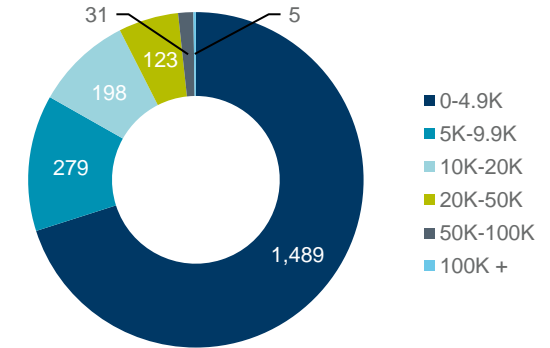
The Sacramento office market remains healthy. Many occupiers have opted for short-term renewals as they solidify their plans, but others have moved forward with new leases as COVID-19 protocols are updated and the mask mandate was recently lifted. The workspace and work environment are not expected to function like it did pre-COVID-19, but the share of employees returning to the office in some capacity is expected to rise throughout the year.

## Outlook

- As the recent short-term renewals expire, occupiers look to make more permanent plans and expect move-in ready space that is open and inviting for their employees.
- New life science, bio manufacturing and technology tenants are expected to enter the market from the Bay Area and other markets as they recognize the Sacramento metro's talented workforce.
- The State's Sequencing Plan, will continue contributing to the slowly rising vacancy as it vacates space, making it available to the market

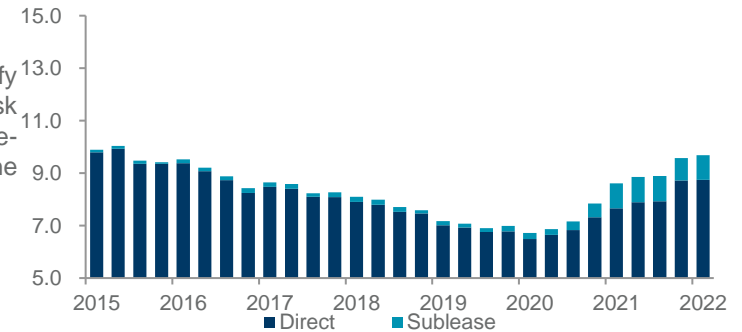
## AVAILABILITIES BY SIZE SEGMENT

Overall Availabilities in One Suite



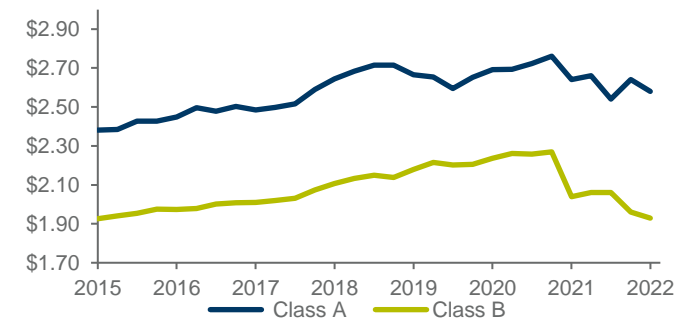
## DIRECT VS. SUBLEASE SPACE AVAILABLE COMPARISON

Sublease Space (MSF)



## AVERAGE ASKING RATE BY CLASS (FULL SERVICE)

Class A & Class B Rents



## Office Q1 2022

## MARKET STATISTICS

SUBMARKET	INVENTORY (SF)	SUBLET VACANT (SF)	DIRECT VACANT (SF)	OVERALL VACANCY RATE	CURRENT QTR OVERALL NET ABSORPTION	YTD OVERALL NET ABSORPTION (SF)	YTD LEASING ACTIVITY (SF)**	UNDER CNSTR (SF)	OVERALL AVG ASKING RENT (ALL CLASSES)*	OVERALL AVG ASKING RENT (CLASS A)*
Downtown Sacramento	11,716,353	97,206	1,580,623	14.3%	-118,990	-118,990	94,307	0	\$3.02	\$3.58
Campus Commons	1,555,623	11,804	185,887	12.7%	-11,073	-11,073	13,650	0	\$2.23	\$2.75
Carmichael / Fair Oaks	864,171	0	150,440	17.4%	1,204	1,204	19,912	0	\$1.32	N/A
Citrus Heights / Orangevale	1,361,040	0	138,829	10.2%	-16,314	-16,314	6,327	0	\$1.41	N/A
Auburn / Lincoln	1,253,531	0	65,478	5.2%	12,132	12,132	11,305	0	\$1.58	N/A
Davis/Woodland	1,921,610	12,764	169,425	9.5%	-73,557	-73,557	1,700	0	\$1.64	N/A
East Sacramento	1,214,549	0	21,104	1.7%	0	0	2,500	0	\$1.53	N/A
El Dorado Hills	1,544,881	0	156,537	10.1%	14,876	14,876	24,124	0	\$2.52	N/A
Elk Grove	1,298,603	0	16,236	1.3%	12,604	12,604	6,307	12,678	\$2.01	N/A
Folsom	3,362,240	32,408	237,376	8.0%	-106,563	-106,563	110,505	0	\$2.21	\$2.41
Highway 50 / Rancho Cordova	12,812,032	351,099	2,275,086	20.5%	-149,031	-149,031	171,834	0	\$1.78	\$2.12
Howe Ave / Fulton Ave	3,372,364	0	648,164	19.2%	18,612	18,612	21,036	0	\$1.59	\$2.05
Midtown	2,817,890	2,700	367,689	13.1%	-34,915	-34,915	26,563	0	\$2.46	N/A
North Natomas	3,086,071	58,054	307,360	11.8%	-6,507	-6,507	11,020	0	\$1.78	\$2.15
Point West	2,538,320	5,511	399,812	16.0%	-15,718	-15,718	24,289	0	\$1.96	\$2.19
Roseville / Rocklin	10,040,774	353,618	1,135,223	14.8%	-33,208	-33,208	111,193	0	\$1.97	\$2.24
South Natomas	3,305,867	25,030	645,304	20.3%	-54,322	-54,322	55,224	0	\$2.29	\$2.30
South Sacramento	2,136,710	2,795	126,369	6.0%	-1,717	-1,717	5,463	0	\$1.64	N/A
West Sacramento	2,006,062	0	126,620	6.3%	5,936	5,936	1,699	0	\$2.05	N/A
<b>Market Totals</b>	<b>68,208,391</b>	<b>952,989</b>	<b>8,753,562</b>	<b>14.2%</b>	<b>-556,551</b>	<b>-556,551</b>	<b>718,958</b>	<b>12,678</b>	<b>\$2.08</b>	<b>\$2.58</b>

\*Rental rates reflect full service asking

## KEY LEASE TRANSACTIONS Q1 2022

PROPERTY	SUBMARKET	TENANT	RSF	TYPE
White Rock Corporate Campus, Rancho Cordova	Highway 50	Undisclosed	194,592	New Deal
3078 Prospect Park Drive, Rancho Cordova	Highway 50	Undisclosed	61,358	New Deal
980 9 <sup>th</sup> Street, Sacramento	Downtown	State of California	48,073	Renewal
2752 Kilgore Road, Rancho Cordova	Highway 50	State of California	41,532	Renewal

## KEY SALES TRANSACTIONS Q1 2022

PROPERTY	SUBMARKET	SELLER / BUYER	SF	PRICE/\$ PSF
Gateway Oaks Corporate Campus, Sacramento	South Natomas	Broadshore Capital Partners / Basin Street Properties	322,612	\$58M/\$180
Laguna West Business Center, Elk Grove	Elk Grove	Gongyuan Ding / Kingsbarn Realty Capital	50,429	\$11.9M/\$236
520-530 9 <sup>th</sup> Street, Sacramento	Downtown	Buzz Oates / Graceada Partners	20,000	\$4.8M/\$241

# SACRAMENTO

Office Q1 2022



OFFICE SUBMARKETS



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**METHODOLOGY**

Cushman & Wakefield’s quarterly statistics are derived from a variety of data sources, including its own proprietary database, third party data sources and members of the commercial real estate community. The market statistics are calculated by analyzing building inventory consisting of office properties 10,000 + square feet, all classes and market wide. Owner-occupied, government-owned, and medical buildings are not included.