MARKETBEAT

SACRAMENTO

Office Q3 2022

CUSHMAN & WAKEFIELD

	YOY Chg	12-Mo. Forecast
14.5% Vacancy Rate	▲	▲
-653K YTD Net Absorption, SF	▼	▼
$2.18 Asking Rent, PSF	▼	▬

(Overall, All Property Classes)

ECONOMIC INDICATORS Q3 2022

	YOY Chg	12-Mo. Forecast
1,053.4K Sacramento MSA Employment	▲	▲
3.4% Sacramento MSA Unemployment Rate	▼	▼
3.5% U.S. Unemployment Rate	▼	▲

Source: BLS, Moody's Analytics
2022 Q3 data are based on latest available data.

ECONOMY: Jobs Numbers Continuing to Rise

Sacramento's economic recovery remained on track in the third quarter 2022. The unemployment rate for metropolitan Sacramento closed the third quarter at 3.4%, down from 6.2% year-over-year (YOY). The office sector closed the quarter with over 34,000 new jobs, a 3.3% increase from a year ago.

DEMAND: Leasing Activity Slows, But Tenant Requirements Remain Healthy

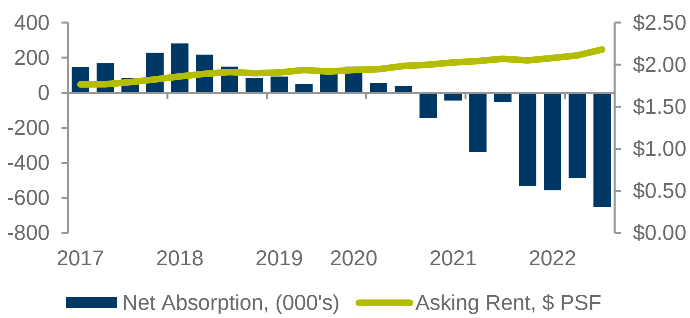
The third quarter of 2022 added 384,000 square feet (sf) of negative net absorption, bringing the total absorption to negative 653,000 sf year-to-date (YTD). This marks seven consecutive quarters of negative net absorption, dating back to Q1 2021 when the market recorded 51,000 sf of positive absorption and this was after three previous consecutive quarters in the red. As the market attempts to stabilize, short-term renewals continue to be the bulk of the market activity. Remote and hybrid work schedules remain for much of the local workforce resulting in consolidated workspace. The State of California's Sequencing Plan has remained a factor in the Downtown increasing vacancy and low absorption statistics. The State's new construction continued to make progress; agencies await to move into their new space. We are tracking more than 60,000 sf that the State is expected to vacate by the end of the year and an additional 1.3 million square feet (msf) of term expiring by 2025. A healthy list of active tenant requirements totaling 2.1 msf was tracked in the third quarter, which is roughly 15% more than that of pre-Pandemic activity levels. YTD leasing activity recorded 1.9 msf leased space. This is down 6% from a year ago, when Q3 2021 recorded slightly more than 2 msf of leasing activity YTD.

Despite a decrease in leasing across the market, demand from tech firms looking to expand within or relocate to the region has grown. Life science and biotech occupiers are also tracked with local requirements. While not being known as a tech or life science market, these new to Sacramento occupiers are looking to recruit the recently relocated workforce that now calls the Sacramento area home.

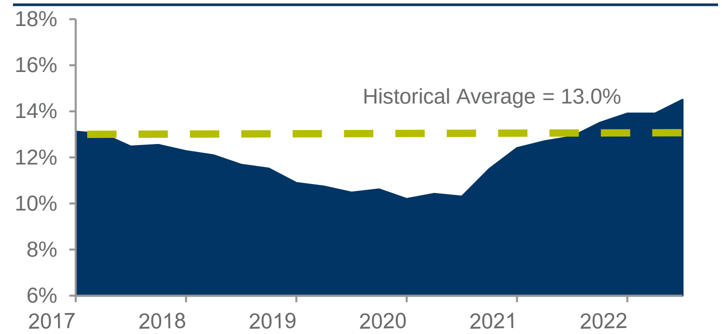
PRICING: Asking Rents Stable, For Now…

Average asking rates continued to remain stable, closing the third quarter at $2.18 per square foot (psf) on a monthly full-service basis. From a year ago asking rates have increased $0.11 and when compared to 24 months ago, it is a $0.21 increase. However, due to the high cost of tenant improvements, landlords have offered free rent and other concessions as to offset the asking rents.

OVERALL NET ABSORPTION/OVERALL ASKING RENT 4 QTR TRAILING AVERAGE



OVERALL VACANCY



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Supply

The vacancy rate remained relatively unchanged quarter-over-quarter (QOQ) closing the third quarter at 14.5%, while also increasing 150 basis points (bps) YOY. Vacancy remains relatively low, especially when compared to that of the 2008-2009 Great Financial Crisis when vacancy peaked at 20.7%.

Aggie Square broke ground and commenced construction more than 500,000 sf in the East Sacramento submarket. The first two buildings are expected to deliver Q1 2025, while the third building expected to commence construction in Q1 of next year. Also, in the pipeline is California Northstate University's Innovation Park. Located in the North Natomas submarket, on the site of the former Sacramento Kings arena, construction is anticipated to commence before the end of 2022.

Capital Markets

For the first time since the start of the Pandemic, a trophy building in the Downtown submarket traded. Seagate Properties purchased 925 L Street from Soma Capital Partners. The 168,844-sf building sold for $55.1 million or $326 per square foot. 925 L Street was 94% occupied at the time of the sale with a larger portion occupied by the State. It is located one block off Capitol Mall and kitty corner to the Capitol. Sales activity was strong in the third quarter with sales volume; totaling approximately $167 million.

4201-4207 Town Center Boulevard was acquired by ProEquity Asset Management from Blue Shield for $49.3 million or $201 per square foot on a partial sale-leaseback transaction. Located in El Dorado Hills, with Highway 50 frontage, Blue Shield is expected to remain in two of the four buildings with occupancy at roughly 60%.

Market Overview

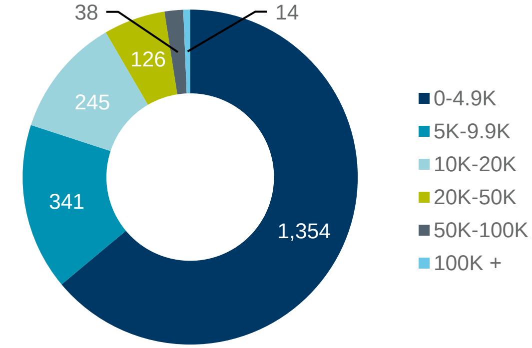
While many occupiers continue to solidify long term plans, others are still settling for short term renewals. The Sacramento office market has remained relatively healthy thanks in part to a migration of highly skilled employees to the region as well as technology and life science occupiers looking to take advantage of the reduced operation costs.

Outlook

- As the slate of short-term renewals expire over the next 12-24 months, occupiers will look to make more permanent plans and expect highly amenitized, high-quality space that is designed to be the "next gen" work experience to entice and encourage employees back to the office.
- 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 the Department of General Services vacates space, making it available to the market.

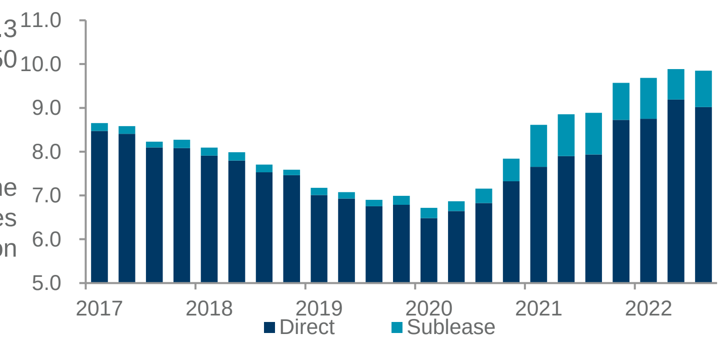
AVAILABILITIES BY SIZE SEGMENT

Overall Availabilities in One Suite



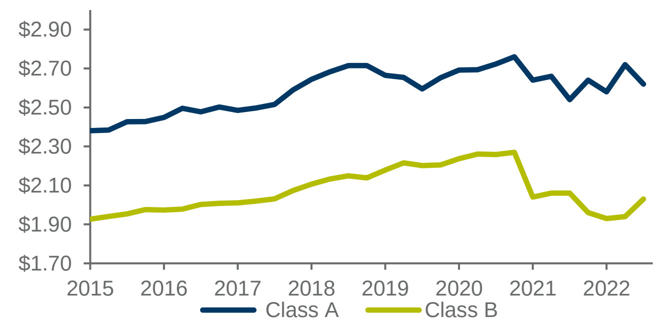
DIRECT VS. SUBLEASE SPACE AVAILABLE COMPARISON

Sublease Space (MSF)



AVERAGE ASKING RATE BY CLASS (FULL SERVICE)

Class A & Class B Rents



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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	61,092	1,645,717	14.6%	-2,681	-162,201	243,140	0	$3.16	$3.58
Campus Commons	1,555,623	22,570	186,673	13.5%	-32,022	-30,344	57,477	0	$2.27	$2.75
Carmichael / Fair Oaks	864,768	0	159,009	18.4%	6,918	-7,365	32,849	0	$1.30	N/A
Citrus Heights / Orangevale	1,361,040	0	144,379	10.6%	4,451	-21,014	19,242	0	$1.52	N/A
Auburn / Lincoln	1,253,531	11,718	46,449	4.6%	-107	21,788	22,060	0	$1.56	N/A
Davis/Woodland	1,921,610	12,764	144,203	8.2%	6,292	-55,365	21,351	0	$1.93	$2.33
East Sacramento	1,214,549	0	3,933	0.3%	0	17,171	26,209	500,000	$2.90	N/A
El Dorado Hills	1,544,881	490	85,812	5.6%	-9,179	82,701	37,227	0	$2.00	$2.08
Elk Grove	1,420,495	15,238	50,130	4.6%	12,028	-16,941	28,387	12,678	$2.64	$2.90
Folsom	3,362,529	81,314	359,656	13.1%	-94,548	-277,749	174,777	0	$2.30	$2.51
Highway 50 / Rancho Cordova	12,749,689	161,608	2,220,715	18.7%	19,689	129,429	288,886	0	$1.84	$2.09
Howe Ave / Fulton Ave	3,372,364	2,336	668,205	19.9%	-14,518	7,109	118,864	0	$1.61	$2.07
Midtown	2,817,590	0	310,647	11.0%	30,220	504	53,626	0	$2.44	$3.05
North Natomas	3,086,071	49,688	289,869	11.0%	11,208	10,230	42,652	20,000	$1.78	$2.08
Point West	2,538,320	32,231	487,851	20.5%	-71,564	-119,174	135,813	0	$1.96	$2.18
Roseville / Rocklin	9,845,302	342,066	1,157,328	15.2%	-46,226	-8,643	395,577	0	$1.99	$2.22
South Natomas	3,305,867	33,277	616,020	19.6%	-5,972	-36,095	146,345	0	$2.26	$2.39
South Sacramento	2,136,710	2,795	118,603	5.7%	1,017	6,421	27,359	0	$1.52	N/A
West Sacramento	2,006,062	0	325,550	16.2%	-198,639	-192,994	10,914	0	$2.85	$3.25
Market Totals	**68,073,354**	**829,187**	**9,020,749**	**14.5%**	**-383,633**	**-652,532**	**1,882,755**	**532,678**	**$2.18**	**$2.62**

Rental rates reflect full service asking

KEY LEASE TRANSACTIONS Q3 2022

PROPERTY	SUBMARKET	TENANT	RSF	TYPE
300 Capitol Mall, Sacramento	Downtown	Department of Insurance	77,800	Renewal
2890 Gateway Oaks Drive, Sacramento	South Natomas	Fortune School	29,135	Renewal/Expansion
1620 E Roseville Parkway, Roseville	Roseville/Rocklin	Sutter Health	24,472	Expansion
548 Gibson Drive, Roseville	Roseville/Rocklin	Keller Williams	24,464	Renewal

KEY SALES TRANSACTIONS Q3 2022

PROPERTY	SUBMARKET	SELLER / BUYER	SF	PRICE/$ PSF
4201-4207 Town Center Boulevard	El Dorado Hills	Blue Shield of California / ProEquity Asset Management	244,982	$49.3M/$201
925 L Street, Sacramento	Downtown	Soma Capital Partners / Seagate Properties	168,844	$55.1M/$326
2180 Harvard Street, Sacramento	Point West	Insight Realty Company / Ethan Conrad Properties	158,704	$22.5M/$142

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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.

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