

# INVESTMENT FORECAST

Office  
Sacramento Metro Area

IPA  
INSTITUTIONAL  
PROPERTY  
ADVISORS

2025

## New Entertainment and Education Endeavors Fuel Urban Retail as Investors Target Expanding Suburbs

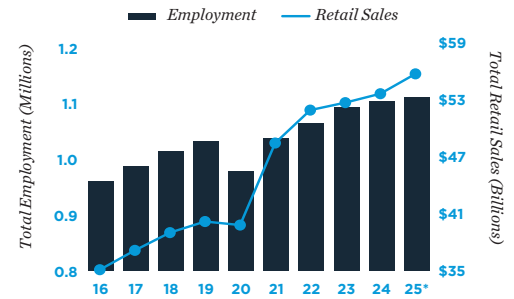
**Economic catalysts drive retail leasing across the metro.** Despite elevated store closures in 2024, the metro's retail vacancy stayed largely stable, as leasing activity surged to a post-pandemic high. Sacramento County is set to sustain strong tenant demand after recording the only vacancy decline last year. Opening in spring 2025, Aggie Square — a new public-private innovation district near the UC Davis Medical Campus — will serve as an incubator for medical and tech firms, driving job creation. Meanwhile, the Athletics' relocation to Sutter Health Park through 2027 should boost tourism and foot traffic in nearby downtown, prompting retailers to expand. Last year's record multifamily absorption will also fuel retailer demand, particularly among health and grocery tenants. Outside the urban core, affluent residents and steady household formation should draw businesses to Placer County, where vacancy is more than 200 basis points below Sacramento County. Bosch's planned \$1.9 billion semiconductor plant in Roseville should further accelerate demand for local retail space.

**Investors favor suburbs for steady returns.** While transaction activity remained subdued last year, higher-income suburbs like Roseville continued to gain momentum. Private investors are expected to stay active here, targeting net-leased assets with national credit tenants as they prioritize stable cash flows. With multi-tenant vacancy declining across all submarkets last year, demand for grocery-anchored centers could strengthen. Buyers targeting infill neighborhoods are likely to focus on centers anchored by discount retailers to align with these areas' more price-sensitive demographic. Value-add investors, meanwhile, may look to convert larger properties into multiple floor plans, as leasing remains more stable among small-format tenants.

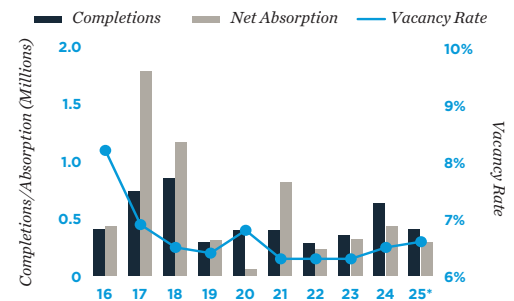
### 2025 MARKET FORECAST

- +0.6%**  **EMPLOYMENT:** While 7,000 positions will be added this year, job growth is still about half the metro's long-term average. Increased tourism should bolster hiring in the leisure and hospitality sector.
- 400,000 sq. ft.**  **CONSTRUCTION:** Completions will stay in line with the past decade's average, with most projects being single-tenant, build-to-suit properties in Sacramento and Placer counties.
- +10 bps**  **VACANCY:** Modest supply additions help limit vacancy expansion this year. At 6.6 percent, the metro's rate will align with its 2019 level, yet remain the third highest among major U.S. markets.
- +1.2%**  **RENT:** Stable vacancy allows asking rents to inch up. Still, the metro's rent growth will lead all major California markets, as the average rate is set to reach \$18.20 per square foot by year-end.
- INVESTMENT:** *Investment in Downtown Sacramento may strengthen. Last year's post-pandemic office absorption high and the ongoing Railyards development are brightening the outlook for local retail.*

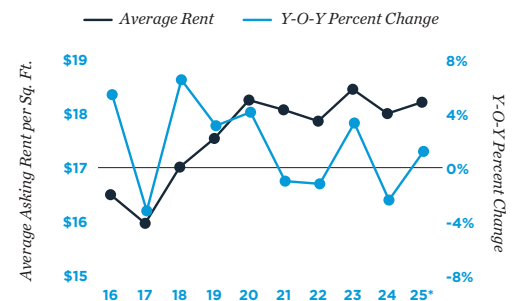
### Economic Trends



### Supply and Demand



### Rent Trends



\* Forecast  
Sources: CoStar Group, Inc.; Real Capital Analytics

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Metro-level employment, vacancy and effective rents are year-end figures and are based on the most up-to-date information available as of December 2024. Effective rent is equal to asking rent less concessions. Average prices and cap rates are a function of the age, class and geographic area of the properties trading and therefore may not be representative of the market as a whole. Sales data includes transactions valued at \$1,000,000 and greater unless otherwise noted. Forecasts for employment and apartment data are made during the fourth quarter and represent estimates of future performance. No representation, warranty or guarantee, express or implied, may be made as to the accuracy or reliability of the information contained herein. This is not intended to be a forecast of future events and this is not a guarantee regarding a future event. This is not intended to provide specific investment advice and should not be considered as investment advice.