

INVESTMENT FORECAST

Office
Sacramento Metro Area

IPA
INSTITUTIONAL
PROPERTY
ADVISORS

2025

Well-Leased New Supply Aids Vacancy Compression as Tenant Demand Grows Across the Metro

State-led developments bolster market stability. The 2024-2025 delivery slate is set to exceed 2 million square feet – the largest two-year total in over a decade – yet completions remain driven by public-sector projects. Last year, CalSTRS’ headquarters and a government complex were the only notable deliveries, while Aggie Square – UC Davis’ 1.2 million-square-foot mixed-use innovation district – stands as the only major project under construction. With much of this space accounted for, vacancy compression should accelerate as demand flows to existing inventory. After recording its strongest net absorption since before the pandemic last year, Sacramento is well positioned to attract firms, offering the lowest office rents among major Northern California metros and a well-educated workforce. Lower operating costs than urban locales and a growing population should continue drawing tenants to suburbs in Placer and El Dorado counties.

Tightening vacancy brings investors to key business districts. While annual transaction volumes continued to decline amid rising vacancy pressures last year, preliminary data suggests an upswing in investor confidence. Deal flow picked up in the last quarter of 2024, particularly for fully leased Class B spaces. Local buyers, who are primarily driving market trades, have shifted their focus toward smaller, lower-tier properties. This may translate into greater activity in Placer County, especially near Roseville, where Class B/C vacancy enters 2025 at the lowest level among metro submarkets with over 5 million square feet of inventory. However, Sacramento County should capture the bulk of trades, as investors continue to be drawn by the lowest overall vacancy of California’s 10 largest office submarkets. Last year, buyers here primarily targeted suburban spaces below 50,000 square feet, Class B medical offices and assets renovated after 1999.

2025 MARKET FORECAST

+1.6%



EMPLOYMENT: Sacramento’s total workforce will expand by 7,000 positions this year, yet the traditionally office-using sector is set to lose 1,600 jobs on net, marking its fourth straight year of decline.

650,000
sq. ft.



CONSTRUCTION: Office inventory growth will slow to 0.7 percent. Deliveries will fall to less than half of last year’s total, aligning with the metro’s long-term annual average of 700,000 square feet.

-50 bps



VACANCY: Strong pre-leasing and more stable tenant demand drive the first decline in vacancy since 2019. At 14.2 percent, the metro remains Northern California’s least vacant major market.

+0.6%

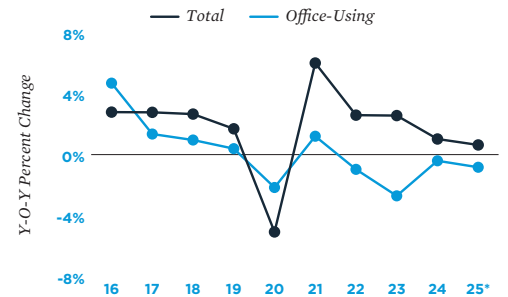


RENT: With vacancy still nearly 400 basis points above 2019 levels, rent growth will stay minimal. The metro’s average asking rate will inch up to \$25.11 per square foot by year-end.

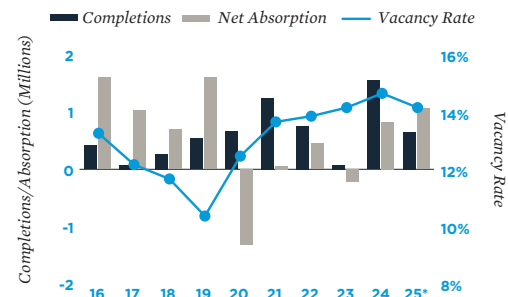
INVESTMENT:

Investors may be drawn to downtown Sacramento following a \$46 million revitalization announced in late 2024, in addition to the ongoing Railyards development adding housing, offices and a medical campus.

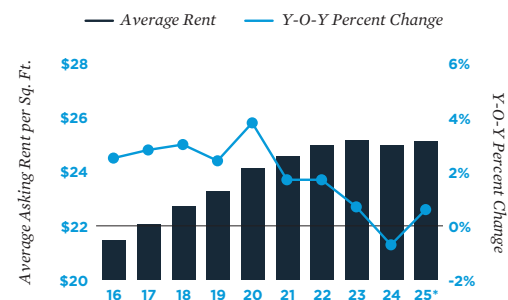
Employment Trends



Supply and Demand



Rent Trends



* Forecast

Sources: CoStar Group, Inc.; Real Capital Analytics; RealPage, Inc.

Sacramento Office:

Daniel A. Kapic

Senior Vice President, Regional Manager

3741 Douglas Boulevard, Suite 200

Roseville, CA 95661

Tel: (916) 724-1400 | Danny.Kapic@marcusmillichap.com

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.