

## Office Market Report

Compared to the Previous Quarter:

Vacancy



UP

Net Absorption

NEGATIVE



Lease Rates

DOWN



Transactions

DOWN



Construction

DOWN



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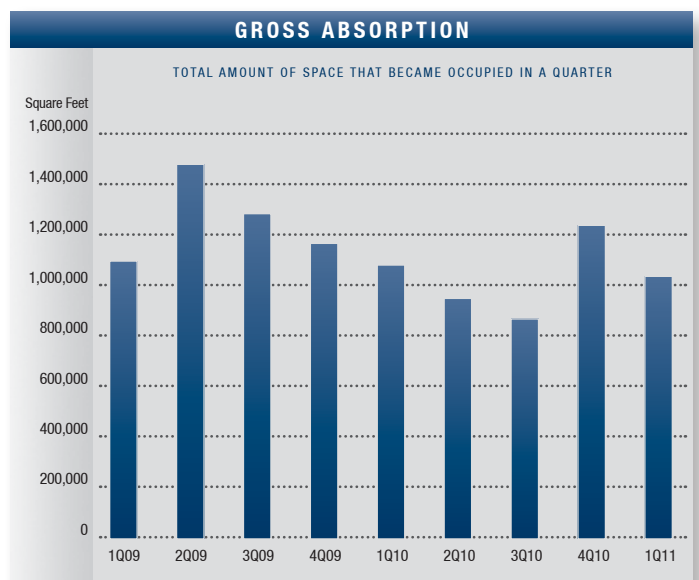
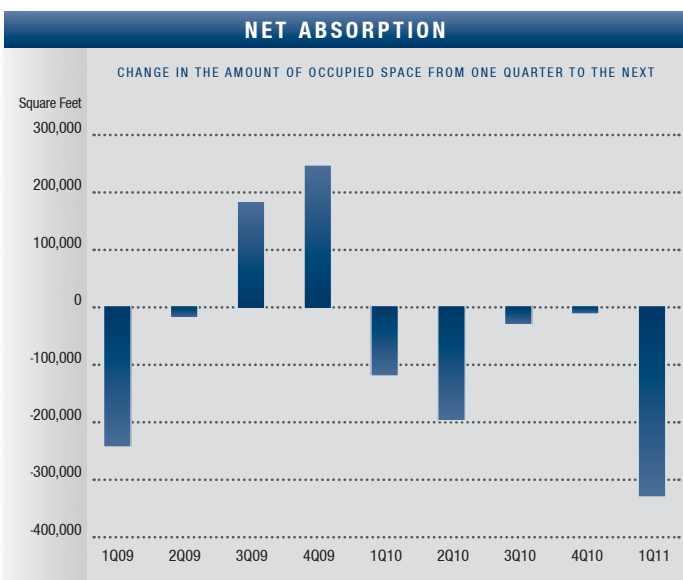
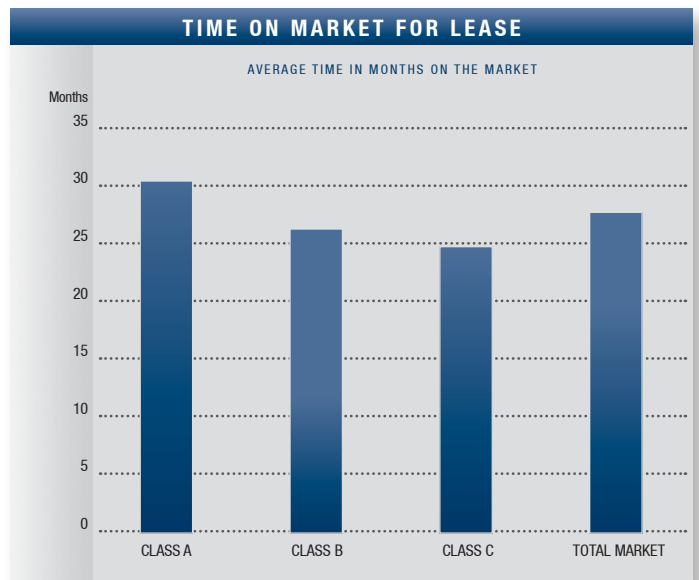
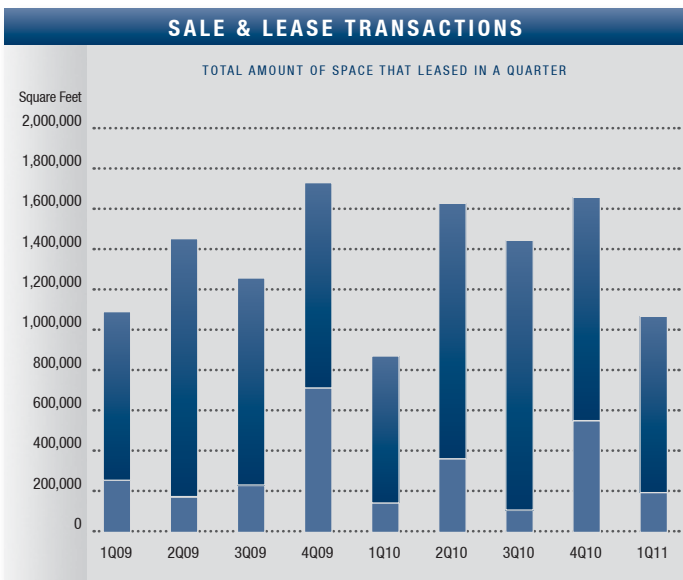
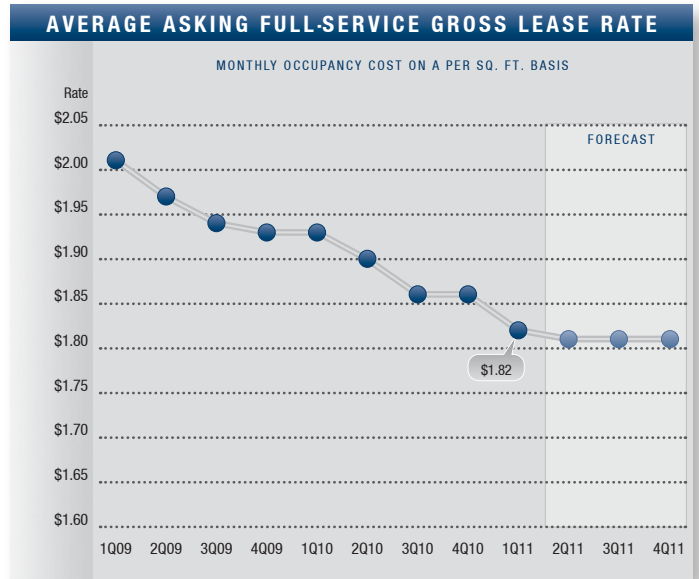
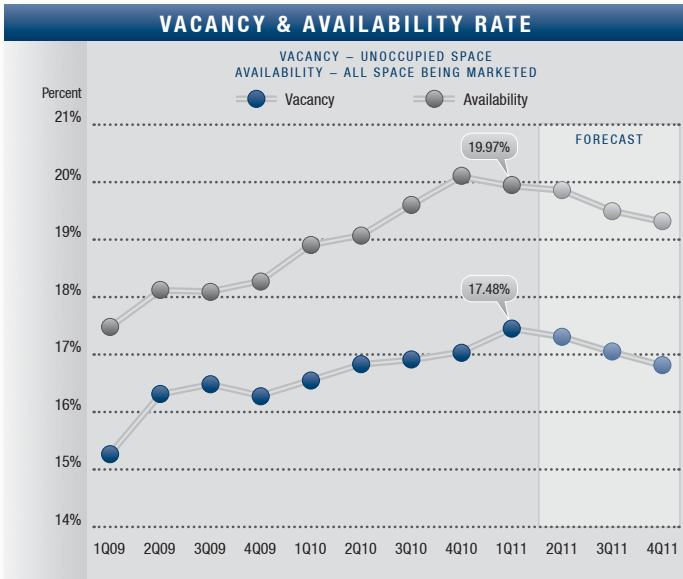
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### Market Highlights

- Market Challenges** - The market appears to be heading in the direction of recovery, with vacancy stabilizing in the later half of 2011. However, many users/investors still have concerns with vacancy, tenant delinquencies, and economic uncertainty. Another challenge for the office market is a lack of tenant demand. The slow economic environment is forcing tenant contractions/consolidations and failures, which in turn put an upward pressure on vacancy rates. To avoid failures, many tenants are requesting rent relief from landlords, which leads landlords to seek their own relief from lenders.
- Construction** - Total space under construction checked in at 302,000 square feet in the first quarter of 2011. The slowdown in construction has and will ease the upward pressure on vacancy going forward.
- Vacancy** - Direct/sublease space (unoccupied) finished the first quarter of 2011 at 17.48%, an increase over 2010's rate of 16.56% and above the previous quarter's figure of 17.01%. The Downtown market, the largest submarket in the county, posted a rate of 10.13%.
- Availability** - Direct/sublease space being marketed was at 19.97% this quarter, an increase of 5.55% when compared to the 18.92% availability rate of the first quarter of 2010.
- Lease Rates** - The average asking full-service gross (FSG) lease rate per square foot per month in the Sacramento office market was \$1.82 – a 5.7% decrease from 2010's first quarter rate of \$1.93 and four cents lower than 2010's fourth quarter rate. The record high rate of \$2.14 was established in the first quarter of 2008. Class A rates for the county averaged \$2.13 FSG, with Downtown noting the highest average asking rate of \$2.28 FSG.
- Absorption** - The Sacramento office market posted 328,806 square feet of negative net absorption in the first quarter of 2011, giving the market a total of 688,072 square feet of negative absorption over the past five quarters.
- Transaction Activity** - Leasing activity checked in at 867,941 square feet in the first quarter of 2011, which is an increase over 2010's first quarter rate of 727,732 square feet. Sales activity also showed an increase, posting 192,000 square feet of activity in 2011 compared to 135,000 square feet in the first quarter of 2010. Details of the largest transactions can be found on the back page of this report.
- Employment** - The unemployment rate in the Sacramento–Arden–Arcade–Roseville Metropolitan area (MSA) was 12.6% in February 2011, down from a revised 12.9% in January 2011 and below the year-ago estimate of 12.9%. The unemployment rate was 12.9% in El Dorado, 11.4% in Placer, 12.6% in Sacramento and 15% in Yolo counties. This compares with an unadjusted unemployment rate of 12.3% for California and 9.5% for the nation during the same period. According to the State of California Employment Development Department, the Sacramento MSA lost 13,000 payroll jobs from February 2010 to February 2011 – 4,800 in government and 3,300 in financial activities. Between January 2011 and February 2011 the Sacramento MSA increased overall by 1,400 jobs – mostly in government 1,700.
- Overall** - Absorption was negative beginning 2011, but with few new deliveries in the pipeline to drive up vacancy, the market may be beginning to stabilize. We foresee an increase in investment activity in the coming quarters as lenders continue to dispose of distressed assets. Lease rates are expected to remain soft for the near future, and concessions in the forms of free rent, reduced parking fees, relocation funds and tenant improvement allowances should continue to increase to incentivize tenants to act immediately. We should also see an increase in leasing activity as many short-term deals come up for renewal and as job creation continues in 2011. As unemployment rates drop and consumer confidence stabilizes, the Sacramento office market will regain equilibrium.

### OFFICE MARKET OVERVIEW

	1Q2011	4Q2010	1Q2010	% Change vs. 1Q2010
Vacancy Rate	17.48%	17.01%	16.56%	5.56%
Availability Rate	19.97%	20.16%	18.92%	5.55%
Average Asking Lease Rate	\$1.82	\$1.86	\$1.93	(5.70%)
Sale & Lease Transactions	1,059,880	1,651,979	862,903	22.83%
Gross Absorption	1,031,178	1,236,249	1,074,660	(4.05%)
Net Absorption	(328,806)	(10,059)	(119,998)	N/A



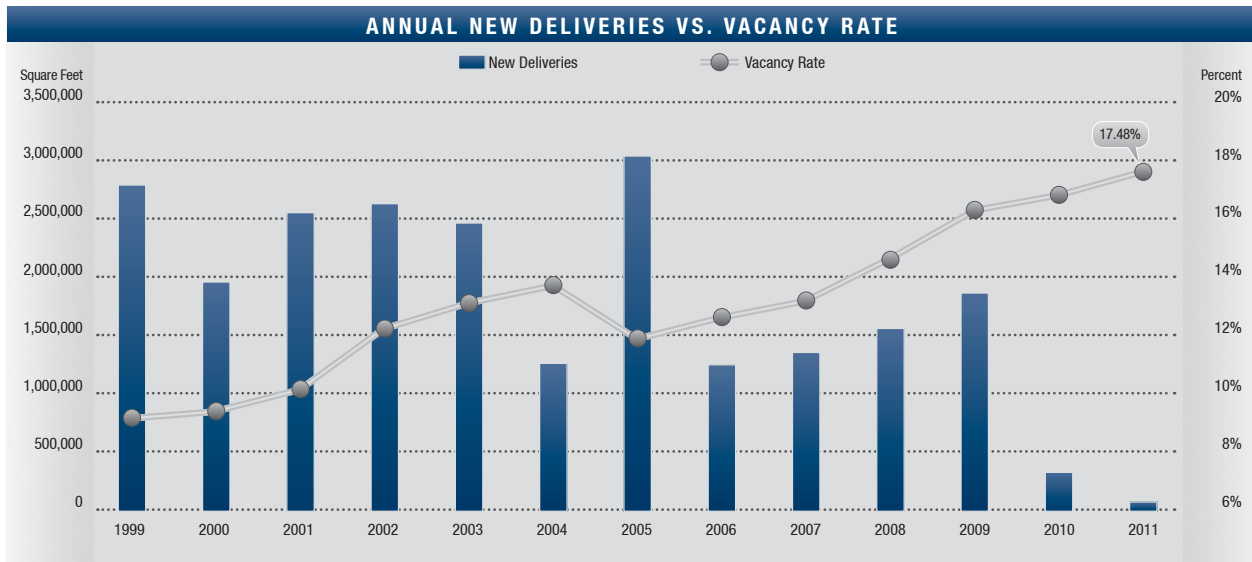
	INVENTORY				VACANCY & LEASE RATES					ABSORPTION			
	Number of Bldgs.	Net Rentable Square Feet	Square Feet U / C	Square Feet Planned	Square Feet Vacant	Vacancy Rate 1Q2011	Square Feet Available	Availability Rate 1Q2011	Average Asking Lease Rate	Net Absorption 1Q2011	Net Absorption 2011	Gross Absorption 1Q2011	Gross Absorption 2011

**Sacramento County**

Auburn/Lincoln	58	1,156,879	22,000	73,921	156,306	13.51%	165,325	14.29%	\$1.36	(2,554)	(2,554)	0	0
Campus Commons	43	1,309,648	0	120,000	275,972	21.07%	312,211	23.84%	\$1.91	(13,664)	(13,664)	17,283	17,283
Carmichael/Fair Oaks	52	1,178,298	0	0	124,015	10.52%	180,601	15.33%	\$1.29	9,993	9,993	31,899	31,899
Citrus Heights/Orangevale	50	1,345,861	0	0	240,314	17.86%	263,139	19.55%	\$1.20	1,824	1,824	9,542	9,542
Davis/Woodland	73	1,823,565	0	48,290	227,095	12.45%	257,738	14.13%	\$2.16	(24,096)	(24,096)	7,676	7,676
Downtown	213	17,915,756	155,000	0	1,814,887	10.13%	2,065,425	11.53%	\$2.28	(106,811)	(106,811)	85,550	85,550
East Sacramento	33	1,811,888	0	0	273,345	15.09%	284,205	15.69%	\$1.73	27,320	27,320	31,715	31,715
Folsom	100	4,667,059	72,000	107,687	675,828	14.48%	820,990	17.59%	\$1.96	24,690	24,690	89,433	89,433
Highway 50	278	15,628,179	0	1,253,600	2,871,524	18.37%	3,462,332	22.15%	\$1.68	(111,088)	(111,088)	247,990	247,990
Howe Ave/Fulton Ave	84	2,614,782	0	0	497,080	19.01%	575,817	22.02%	\$1.58	(62,001)	(62,001)	13,958	13,958
Midtown	105	4,128,415	0	63,600	298,519	7.23%	397,129	9.62%	\$1.90	(11,967)	(11,967)	16,971	16,971
Natomas/Northgate	103	5,943,290	0	437,725	1,482,128	24.94%	1,645,235	27.68%	\$1.78	637	637	109,363	109,363
Point West	50	2,681,310	0	0	742,173	27.68%	779,879	29.09%	\$1.70	132,845	132,845	156,747	156,747
Rio Linda/North Highlands	29	1,051,708	0	0	290,237	27.60%	444,162	42.23%	\$1.10	12,832	12,832	17,432	17,432
Roseville/Rocklin	270	10,530,208	53,000	980,673	3,232,834	30.70%	3,417,342	32.45%	\$1.88	(172,995)	(172,995)	125,762	125,762
South Sacramento	127	3,602,473	0	238,293	656,533	18.22%	791,853	21.98%	\$1.79	33,062	33,062	43,820	43,820
Watt Ave	52	2,453,182	0	45,858	281,408	11.47%	303,581	12.37%	\$1.44	(62,466)	(62,466)	14,500	14,500
West Sacramento	36	2,205,322	0	110,000	203,541	9.23%	214,088	9.71%	\$1.59	(4,367)	(4,367)	11,537	11,537
<b>Sacramento County Total</b>	<b>1,756</b>	<b>82,047,823</b>	<b>302,000</b>	<b>3,479,647</b>	<b>14,343,739</b>	<b>17.48%</b>	<b>16,381,052</b>	<b>19.97%</b>	<b>\$1.82</b>	<b>(328,806)</b>	<b>(328,806)</b>	<b>1,031,178</b>	<b>1,031,178</b>

Class A	185	25,061,417	208,000	2,347,978	4,858,726	19.39%	5,174,249	20.65%	\$2.13	190,533	190,533	475,001	475,001
Class B	837	37,600,475	94,000	1,131,669	6,796,060	18.07%	7,672,620	20.41%	\$1.74	(269,816)	(269,816)	417,238	417,238
Class C	734	19,385,931	0	0	2,688,953	13.87%	3,534,183	18.23%	\$1.38	(249,523)	(249,523)	138,939	138,939
<b>Class Total</b>	<b>1,756</b>	<b>82,047,823</b>	<b>302,000</b>	<b>3,479,647</b>	<b>14,343,739</b>	<b>17.48%</b>	<b>16,381,052</b>	<b>19.97%</b>	<b>\$1.82</b>	<b>(328,806)</b>	<b>(328,806)</b>	<b>1,031,178</b>	<b>1,031,178</b>

This survey consists of properties 10,000 square feet and larger in size, representing both single tenant and multi-tenant buildings. The lease rates are based on a full-service gross basis.



RECENT TRANSACTIONS

Sale Transactions

Property Address	Submarket	Class	Square Feet	Sale Price PSF	Buyer	Seller
180 Promenade Cir. – 2 Properties	Sacramento/Natomas	A	232,052	\$204.26	KBSII Gateway Corporate Center, LLC	Opus Real Estate CA VII SG, LLC
11017 Coblerock Rd. – 2 Properties	Highway 50	B	92,000	\$43.48	Howard N. Goldenberg & Kathi Roisen 2008 Trust	Biesheuev T R & L H Trust
720 Yuba St.	Yuba County	B	55,400	\$84.84	County of Yuba	Aztec Real Estate Developers
9401 E. Stockton Blvd.	South Sacramento	B	45,000	\$400.00	Corrie C. & Janet E. Leisen	Gold Sunrise, LLC
3695 Bleckely St.	Highway 50	C	47,000	\$79.79	Western Electrical Contractors Association, Inc.	Wells Fargo & Company
7777 Greenback Ln.	Citrus Heights	B	64,063	\$48.39	Ethan Conrad Properties	Buddy Parsons

Lease Transactions

Property Address	Submarket	Class	Square Feet	Transaction Date	Tenant	Owner
2243 Harvard St.	Point West	A	99,555	Feb-11	Nationwide Insurance	USAA Real Estate Company
2800 Gateway Oaks Dr.	Natomas/Northgate	B	76,000	Feb-11	California Department of Food & Agriculture	2800 Gateway Oaks, LLC
11092 Sun Center Dr.	Highway 50	B	40,800	Jan-11	Coram Healthcare	Encina Investment Group
3721 Douglas Blvd.	Roseville/Rocklin	A	18,935	Feb-11	Intel-GE Care Innovations	Hines Summit at Douglas, LP
3640 Northgae Blvd. – Renewal	Natomas/Northgate	C	18,684	Mar-11	Wells Fargo	Hammonds James M. Living Trust
1108 Investment Blvd.	El Dorado	B	17,603	Feb-11	Frontier Dental Laboratories	Frontier Dental Laboratories

Product Type

CLASS A

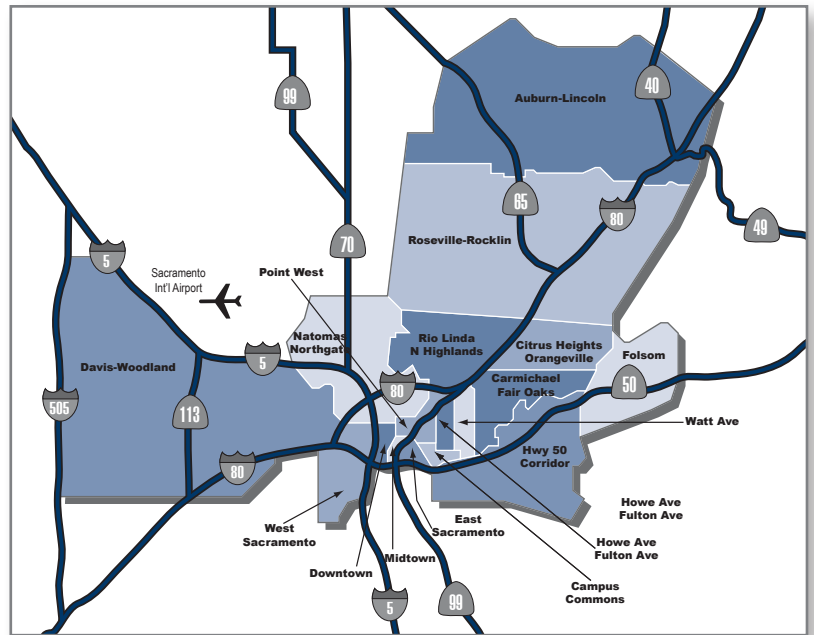
Most prestigious buildings competing for premier office users with rents above average for the area. Buildings have high-quality standard finishes, state-of-the-art systems, exceptional accessibility and a definite market presence.

CLASS B

Buildings competing for a wide range of users with rents in the average range for the area. Building finishes are fair to good for the area, and systems are adequate. However, Class B buildings cannot compete with Class A buildings of the same price.

CLASS C

Buildings competing for tenants requiring functional space at rents below the area average.



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