

## Office Market Report

Compared to the Previous Quarter:

Vacancy



UP

Net Absorption

NEGATIVE



Lease Rates



UP

Transactions

DOWN



Deliveries

DOWN



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### Market Highlights

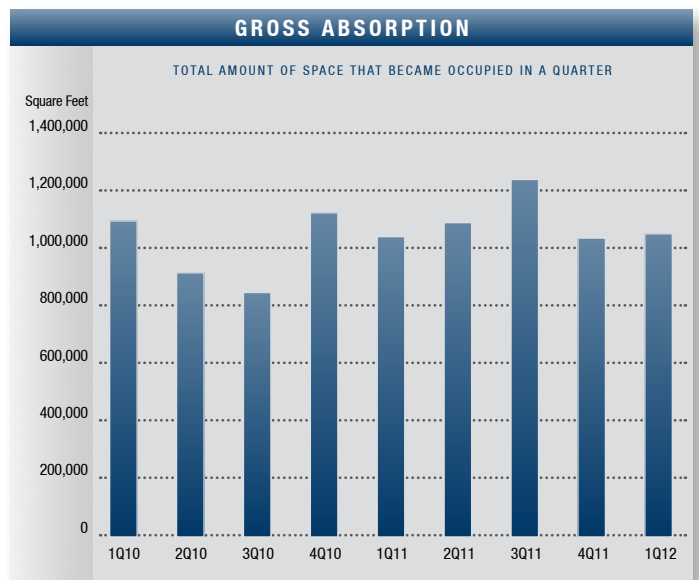
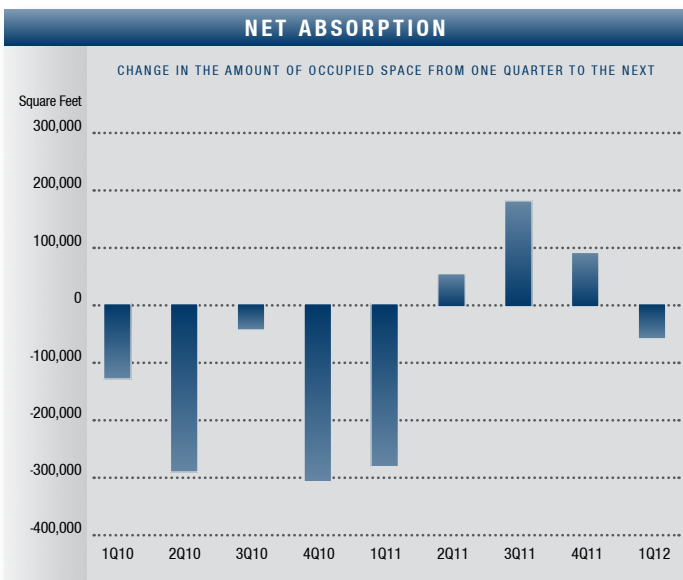
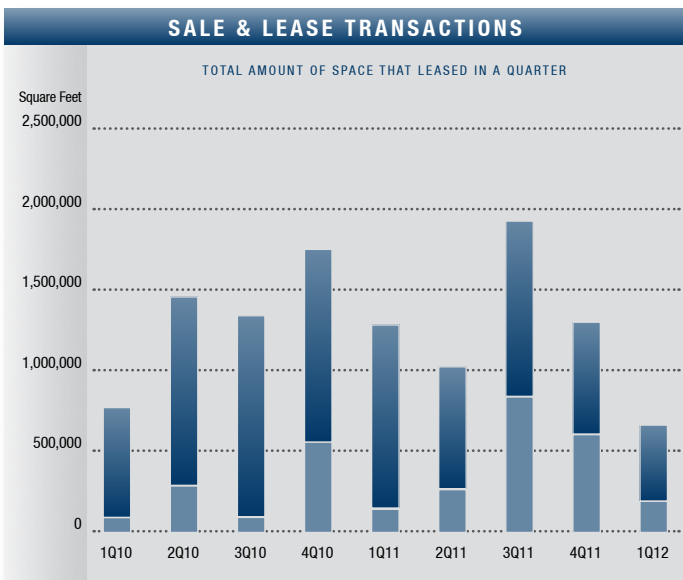
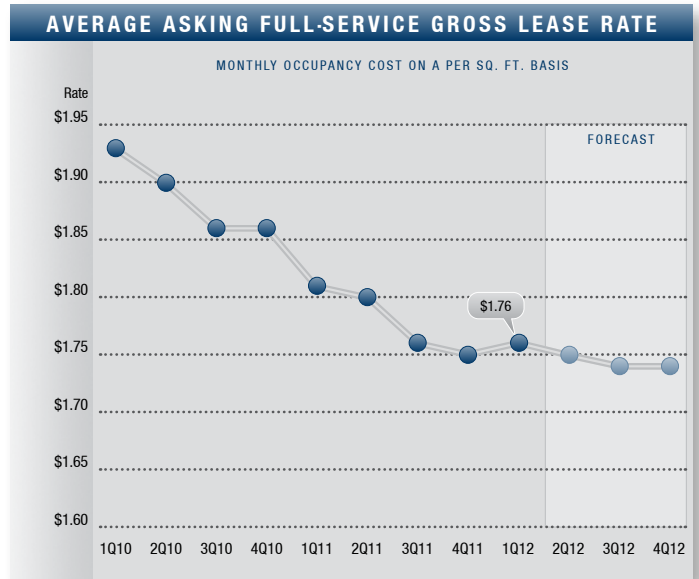
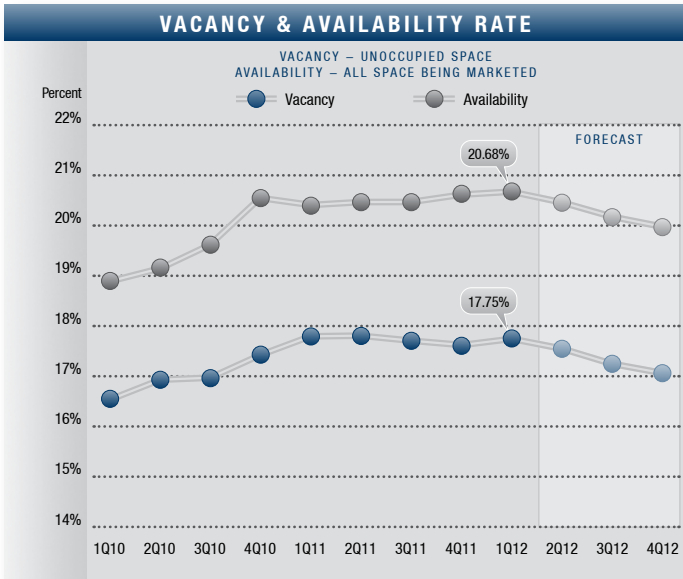
- Market Challenges** - While the Sacramento office sector posted slight negative net absorption during the first quarter, the previous three consecutive quarters of positive net absorption show that the office market has stabilized. Confidence and job growth are surfacing, yet full recovery remains in a nascent stage. Although vacancy and availability rates basically stayed flat, they do remain high compared to the height of the market during the mid 2000's.
- Construction** - There was only one office building delivered in the first quarter — 1965 Birkmont Drive in Folsom. The 72,000 square foot building will be occupied by the Folsom Cordova Unified School District. At the close of the first quarter of 2012, there were no other office properties under construction in the Sacramento region.
- Vacancy** - The vacancy rate rose only 14 basis points from the fourth quarter of 2011 to 17.75% during the first quarter of 2012. Overall, the rate has basically stayed flat since the beginning of 2011 when it was at 17.77%.
- Availability** - The rate of direct/sublease space being marketed was 20.68%, an increase of only 6 basis points from the previous quarter. The availability rate, for the majority of 2011, was around 20.50%.
- Lease Rates** - The average asking lease rate across all three building classes and 18 submarkets was \$1.76 per square foot per month at the close of the quarter, marking the first time in years that any increase occurred. The region's highest average asking rate of \$2.24 per square foot per month was found in the Downtown submarket. The region's lowest rates were found in the Auburn/Lincoln submarket at \$1.04 per

square foot per month.

- Absorption** - The Sacramento office market posted 57,683 square feet of negative net absorption during the first quarter. The previous three consecutive quarters displayed positive net absorption, giving 2011 an overall total of 47,059 square feet of positive net absorption, indicative of stability.
- Transaction Activity** - Sale and lease transactions totaled 658,459 square feet in the first quarter of 2012, a decrease from the previous quarter's 1,296,916 square feet.
- Employment** - The unemployment rate in the Sacramento-Arden Arcade-Roseville MSA was 11.4% in February 2012, up from a revised 11.3 % in January 2012, and below the year-ago estimate of 12.5%. This compares with an unadjusted unemployment rate of 11.4 percent for California and 8.7% for the nation during the same period. The largest monthly gain occurred in professional and business services, with an increase of 2,300 jobs.
- Overall** - The fundamentals of the Sacramento office market reflect stabilization with recovery on the horizon. While a few larger submarkets (i.e. Roseville/Rocklin & the Highway 50 Corridor) continue to struggle with high vacancy rates and declining lease rates, the region's overall numbers for the first quarter can be taken positively. While it appears that the crisis of confidence that has gripped office users for the last two-plus years may be loosening its hold, multiple consecutive quarters of positive job growth and declining vacancy remain, ultimately, necessary to precipitate a significant change in local leasing market fundamentals. Look for increased evidence of this in the coming 12 months.

### OFFICE MARKET OVERVIEW

	1Q12	4Q11	1Q11	% of Change vs. 1Q2011
Total Vacancy Rate	17.75%	17.61%	17.77%	(0.11%)
Availability Rate	20.68%	20.62%	20.29%	1.92%
Average Asking Lease Rate	\$1.76	\$1.75	\$1.81	(2.76%)
Sale & Lease Transactions	658,469	1,296,916	1,286,451	(48.82%)
Gross Absorption	1,048,546	1,030,623	1,041,309	0.69%
Net Absorption	(57,683)	87,487	(276,195)	N/A



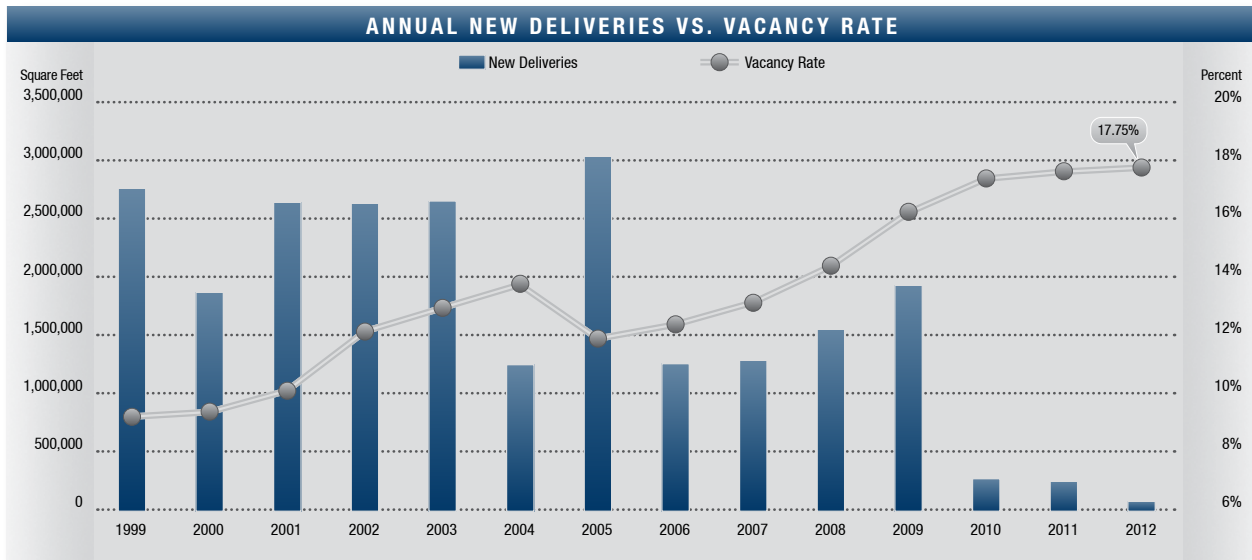
	INVENTORY				VACANCY & LEASE RATES					ABSORPTION			
	Number of Bldgs.	Net Rentable Square Feet	Square Feet U / C	Square Feet Planned	Square Feet Vacant	Vacancy Rate 1Q2012	Square Feet Available	Availability Rate 1Q2012	Average Asking Lease Rate	Net Absorption 1Q2012	Net Absorption 2012	Gross Absorption 1Q2012	Gross Absorption 2012

**Sacramento Market**

Auburn/Lincoln	63	1,224,789	0	73,921	144,881	11.83%	151,079	12.34%	\$1.04	4,343	4,343	13,380	13,380
Campus Commons	43	1,290,985	0	120,000	277,514	21.50%	298,019	23.08%	\$1.75	(8,570)	(8,570)	16,547	16,547
Carmichael/Fair Oaks	50	1,154,142	0	–	159,697	13.84%	206,656	17.91%	\$1.30	2,155	2,155	16,728	16,728
Citrus Heights/Orangevale	52	1,428,024	0	–	244,297	17.11%	274,132	19.20%	\$1.96	5,927	5,927	17,313	17,313
Davis/Woodland	74	1,814,882	0	48,500	219,093	12.07%	248,871	13.71%	\$2.01	(11,553)	(11,553)	6,503	6,503
Downtown	215	18,317,071	0	–	1,859,563	10.15%	2,292,698	12.52%	\$2.24	86,543	86,543	164,884	164,884
East Sacramento	32	1,811,442	0	–	184,715	10.20%	187,792	10.37%	\$1.96	67,398	67,398	67,398	67,398
Folsom	99	4,687,038	0	107,687	619,348	13.21%	867,420	18.51%	\$1.89	80,148	80,148	118,151	118,151
Highway 50	277	15,564,797	0	1,253,600	2,995,443	19.24%	3,688,102	23.70%	\$1.63	(61,655)	(61,655)	251,623	251,623
Howe Ave/Fulton Ave	80	2,503,364	0	–	510,432	20.39%	604,990	24.17%	\$1.55	(5,372)	(5,372)	54,475	54,475
Midtown	106	4,160,862	0	63,600	334,327	8.04%	414,403	9.96%	\$1.90	(15,598)	(15,598)	13,794	13,794
Natomas/Northgate	107	6,086,265	0	437,725	1,571,378	25.82%	1,739,934	28.59%	\$1.71	(76,085)	(76,085)	39,234	39,234
Point West	51	2,707,533	0	–	845,595	31.23%	922,118	34.06%	\$1.73	(55,641)	(55,641)	27,096	27,096
Rio Linda/North Highlands	31	1,079,032	0	–	542,548	50.28%	620,044	57.46%	\$1.28	(132,198)	(132,198)	0	0
Roseville/Rocklin	263	10,336,016	55,140	713,531	2,832,191	27.40%	3,096,991	29.96%	\$1.74	51,942	51,942	162,008	162,008
South Sacramento	126	3,882,470	171,840	323,293	791,624	20.39%	879,013	22.64%	\$1.65	22,245	22,245	73,507	73,507
Watt Ave	52	2,427,117	0	45,858	353,372	14.56%	376,674	15.52%	\$1.33	(11,378)	(11,378)	5,905	5,905
West Sacramento	37	2,242,642	0	110,000	196,194	8.75%	238,518	10.64%	\$1.56	(334)	(334)	0	0
<b>Sacramento Market Total</b>	<b>1,758</b>	<b>82,718,471</b>	<b>226,980</b>	<b>3,297,715</b>	<b>14,682,212</b>	<b>17.75%</b>	<b>17,107,454</b>	<b>20.68%</b>	<b>\$1.76</b>	<b>(57,683)</b>	<b>(57,683)</b>	<b>1,048,546</b>	<b>1,048,546</b>

Class A	182	24,989,151	171,840	2,200,976	4,575,194	18.31%	5,085,545	20.35%	\$2.04	(96,827)	(96,827)	264,781	264,781
Class B	835	38,044,646	55,140	1,096,739	6,724,812	17.68%	7,813,613	20.54%	\$1.68	198,982	198,982	636,161	636,161
Class C	741	19,684,674	0	–	3,382,206	17.18%	4,208,296	21.38%	\$1.34	(159,838)	(159,838)	147,604	147,604
<b>Sacramento Market Total</b>	<b>1,758</b>	<b>82,718,471</b>	<b>226,980</b>	<b>3,297,715</b>	<b>14,682,212</b>	<b>17.75%</b>	<b>17,107,454</b>	<b>20.68%</b>	<b>\$1.76</b>	<b>(57,683)</b>	<b>(57,683)</b>	<b>1,048,546</b>	<b>1,048,546</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
1900-1960 Alabama Ave.	Folsom	B	96,000	\$96.75	Orton Development, Inc.	CDECRE, LLC
4875 Broadway	East Sacramento	B	67,227	\$114.54	UC Davis Health System	K & H Sutter Company
1687 Eureka Rd.	Roseville/Rocklin	B	12,512	\$127.88	Infinite Solutions, Inc.	Wells Fargo Bank
3850 Atherton Rd.	Roseville/Rocklin	B	25,000	\$57.00	American Health Care	Rosenberg Trust
2368 Maritime Dr.	Outer Sacramento County	B	17,894	\$78.24	990 Reserve Drive, LLC	Roseville Bank of Commerce

Lease Transactions

Property Address	Submarket	Class	Square Feet	Transaction Date	Tenant	Owner
2910 Prospect Park Dr.	Highway 50 Corridor	C	45,816	Feb-12	Heald College	Store Capital
2400 Del Paso Rd.	Natomas/Northgate	B	38,229	Feb-12	Heald College	Buzz Oates Companies
260 Cousteau Pl.	Davis/Woodland	A	23,616	Feb-12	UC Davis Dept. of Shared Services	Buzz Oates Companies
11050 Olson Dr.	Highway 50 Corridor	B	12,000	Feb-12	San Joaquin Valley College	Inemanson Enterprises
400 Capital Mall	Downtown	A	25,000	Feb-12	Segal & Kirby, LLP	Hines

Product Type

CLASS A

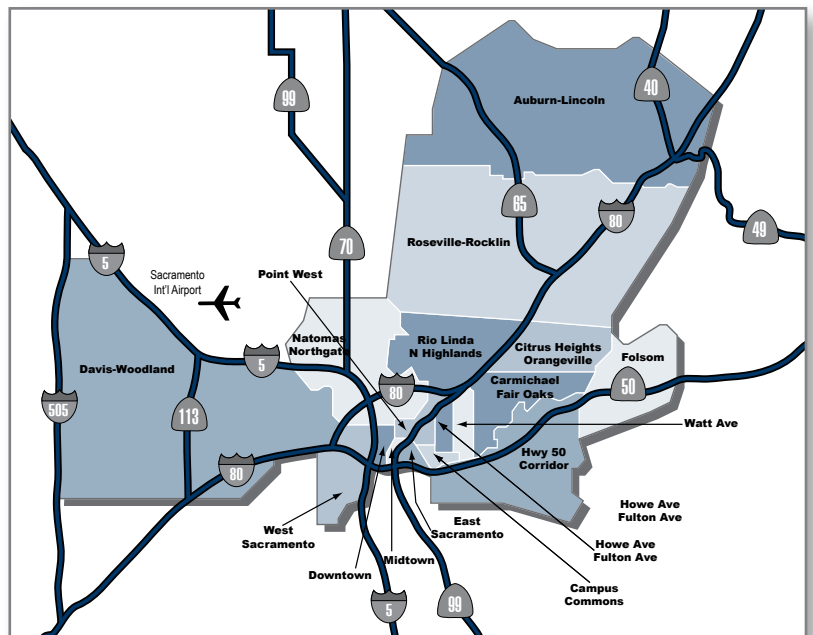
Most prestigious buildings competing for premier office users with rents above average for the area. Buildings have high-quality standard finishes, state-of-the-art systems, exceptional accessibility and a definite market presence.

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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