

Office Market Report

Compared to the Previous Quarter:

Vacancy

DOWN

Net Absorption

POSITIVE

Lease Rates

DOWN

Transactions

DOWN

Deliveries

DOWN

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Market Highlights

- Market Status** - While positive absorption has gained momentum in Sacramento, the downturn devastated this office market. The combination of negative absorption and the delivery of several major projects raised vacancies to a level not seen since the 1980s. The good news is that demand has gained considerable strength in recent quarters and development has been low, pushing fundamentals into recovery mode.
- Absorption** - The Sacramento office market posted 78,605 square feet of positive net absorption during the first quarter, giving the market its third consecutive quarter, and seventh of the last eight quarters, of positive net absorption.
- Transaction Activity** - Sale and lease transaction volume totaled 1.18 million square feet in the first quarter. Typically, this statistic does have some lag time to post final numbers, so look for the first quarter numbers to end up over 1.5 million square feet. Details of the largest transactions during the first quarter of 2013 can be found on the back page of this report.
- Employment** - The unemployment rate in the Sacramento-Arden Arcade-Roseville MSA was 9.6% in Feb. 2013, down from 10.3% in Jan. 2013. This compares with an unadjusted unemployment rate of 9.7% for California and 8.1% for the nation during the same period. According to the State of California Employment Development Department, the Sacramento-Arden Arcade-Roseville MSA saw a net increase of 6,300 payroll jobs from Jan. 2013 to Feb. 2013. The largest gains were 2,400 jobs in leisure and hospitality, with 2,000 jobs in accommodation and food services. The government also picked up 1,700 jobs over the past month, 1,400 of those within the local government.
- Overall** - While the Sacramento office market posted only minimally positive numbers in the first quarter of 2013, these positive figures follow up an explosive third and fourth quarter of 2012 and are vital to the market's recovery. As we enter further into 2013, positive absorption should continue and with few new deliveries in the pipeline to apply any upward pressure on vacancy. We foresee an overall increase in investment activity in the coming quarters, a result of some major governmental issues, such as the sequestration cuts and massive lay offs of government workers, being resolved. Lease rates are expected to firm up with the possibility of increasing during 2013. As job creation continues and consumer confidence stabilizes, the office market will continue to recover.
- Construction** - There were no office buildings delivered in the first quarter of 2013, despite there being five office buildings totaling 344,275 square feet delivered in 2012. At the end of the first quarter, there were only five office buildings under construction in the Sacramento region, including a 130,000-square-foot building in South Sacramento.
- Vacancy** - The vacancy rate decreased 9 basis points from the previous quarter to 16.23%. This was the third consecutive quarter of vacancy decreases in the region. Within the major submarkets, Downtown and Midtown performed the best with vacancy rates of 10.69% and 8.00%, respectively, while the Natomas/Northgate submarket struggled at 21.59%.
- Availability** - The rate of space being marketed was 18.70%, a decrease of 52 basis points from the previous quarter. Similar to the vacancy, this was the fifth consecutive quarter of decreases in the availability rate. Downtown and Midtown had the least percentage of available square footage at 12.35% and 11.92%, respectively, while Natomas/Northgate submarket had the largest percentage of available square footage at 24.11%.
- Lease Rates** - The average asking lease rate across all building classes and submarkets at the close of the first quarter was \$1.74 per square foot per month, full-service gross. This was a decrease of \$0.01 from the previous quarter. The region's highest average asking rate of \$2.25 per square foot was located in the Downtown submarket. The region's lowest rates were found in the Benicia/Vallejo submarket at \$1.18 per square foot.

Prepared by:

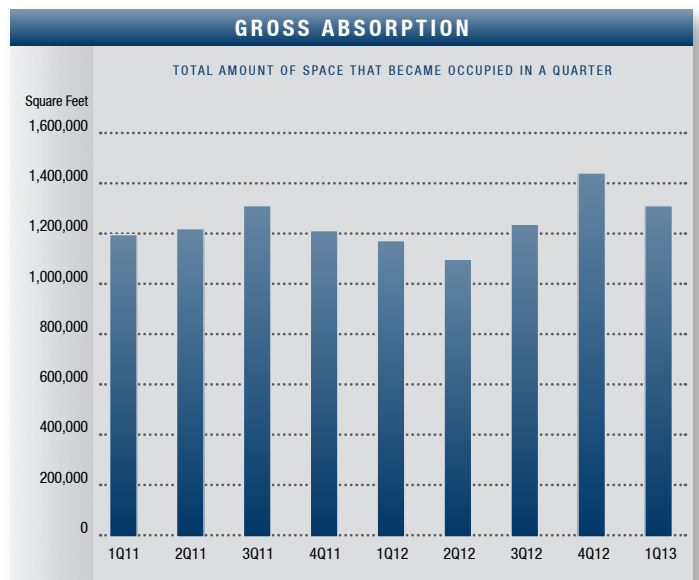
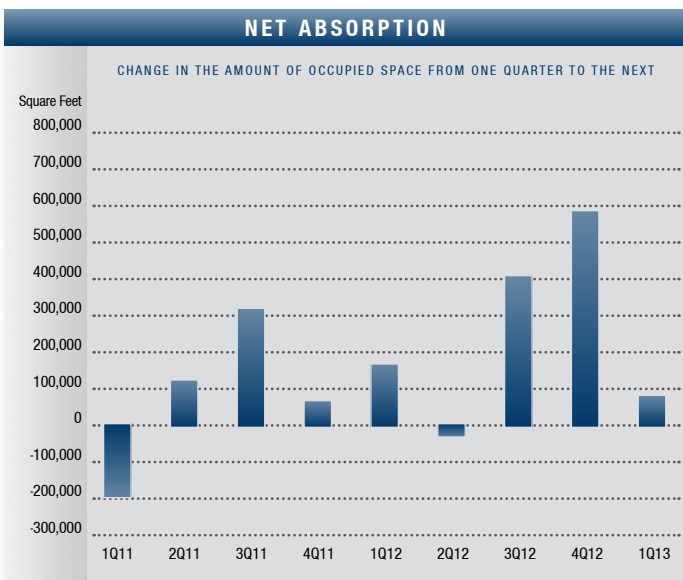
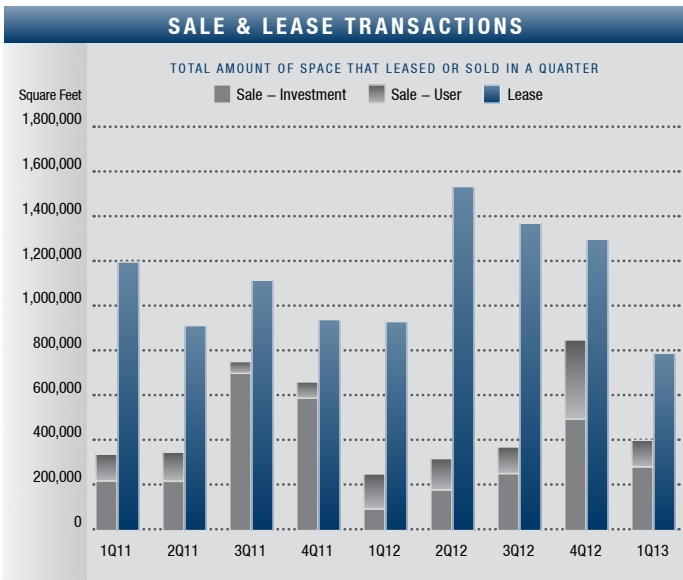
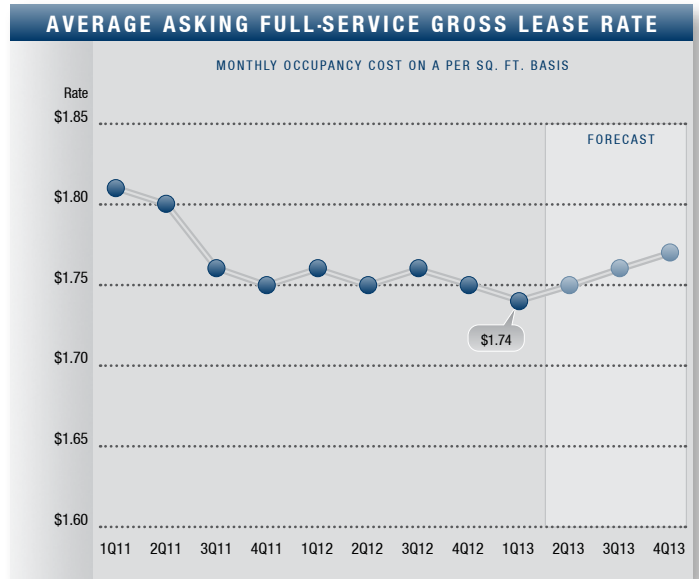
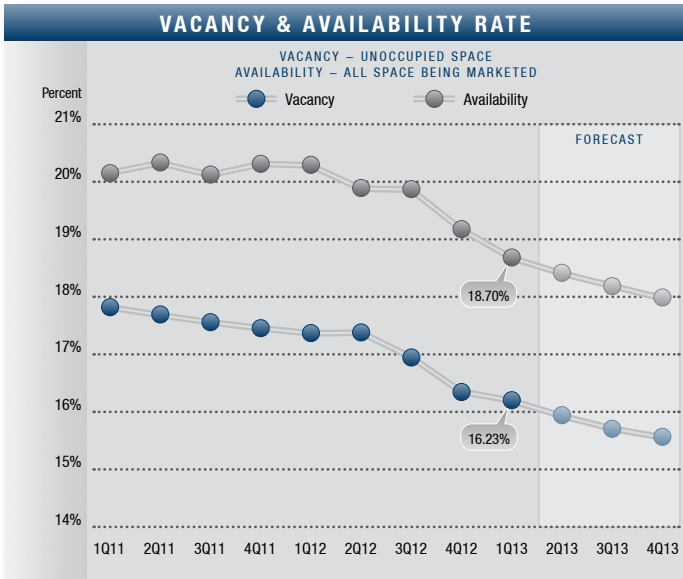
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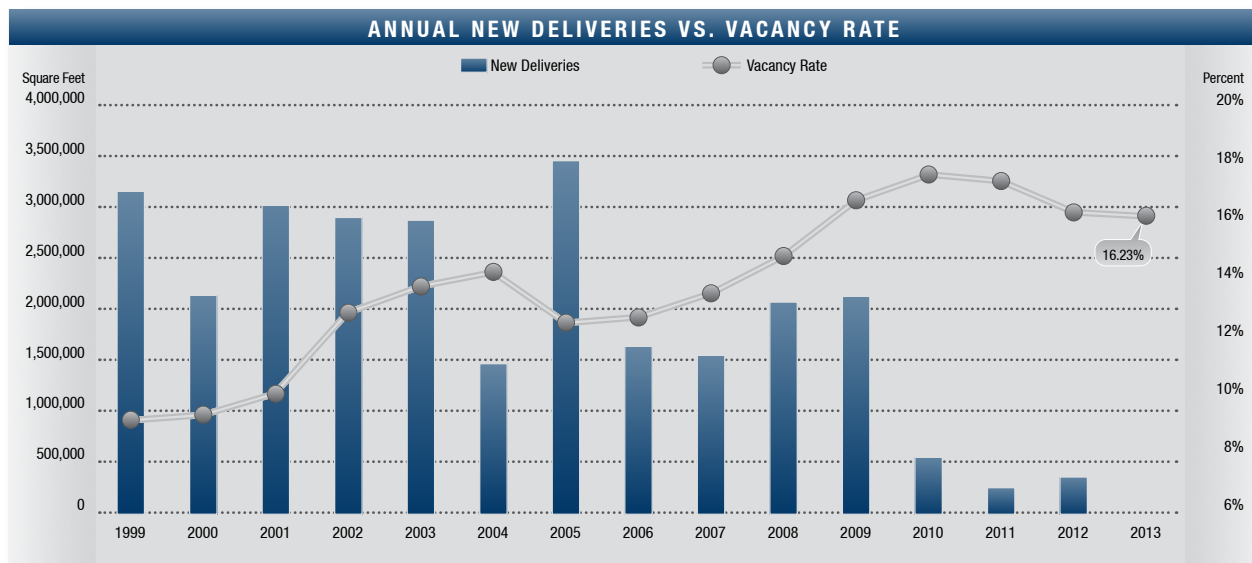
OFFICE MARKET OVERVIEW

	1Q13	4Q12	1Q12	% of Change vs. 1Q12
Total Vacancy Rate	16.23%	16.32%	17.36%	(6.51%)
Availability Rate	18.70%	19.22%	20.28%	(7.79%)
Average Asking Lease Rate	\$1.74	\$1.75	\$1.76	(1.14%)
Sale & Lease Transactions	1,184,947	2,144,010	1,176,270	0.74%
Gross Absorption	1,303,635	1,439,993	1,168,027	11.61%
Net Absorption	78,605	684,142	168,064	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 1Q2013	Square Feet Available	Availability Rate 1Q2013	Average Asking Lease Rate	Net Absorption 1Q2013	Net Absorption 2012	Gross Absorption 1Q2013	Gross Absorption 2012
Sacramento Market													
Auburn / Lincoln	65	1,346,694	0	93,921	219,402	16.29%	231,542	17.19%	\$1.22	(12,012)	(37,314)	6,470	41,270
Benicia / Vallejo	90	2,759,479	0	0	759,910	27.54%	759,910	27.54%	\$1.18	(22,722)	14,606	1,634	41,958
Campus Commons	42	1,272,579	0	160,000	285,270	22.42%	316,223	24.85%	\$1.71	(114)	1,769	5,815	82,670
Carmichael / Fair Oaks	49	1,008,232	0	0	118,616	11.76%	159,159	15.79%	\$1.21	11,901	23,045	37,050	59,440
Citrus Heights / Orangevale	53	1,445,804	0	0	211,939	14.66%	236,789	16.38%	\$1.23	(12,102)	57,487	20,482	138,562
Davis / Woodland	75	1,872,857	0	52,685	206,179	11.01%	199,828	10.67%	\$1.99	8,652	(5,191)	28,606	77,020
Downtown	216	18,596,364	0	0	1,987,334	10.69%	2,297,359	12.35%	\$2.25	(209,285)	64,913	78,740	584,671
East Sacramento	32	1,838,442	0	0	219,941	11.96%	224,156	12.19%	\$1.98	(28,383)	60,555	2,320	80,760
El Dorado	70	1,613,553	0	432,000	366,491	22.71%	504,564	31.27%	\$1.74	8,867	(10,135)	29,324	82,726
Fairfield / Suisun City	64	1,985,965	0	87,133	325,698	16.40%	396,503	19.97%	\$2.27	(66,365)	(3,770)	10,235	65,170
Folsom	99	4,707,114	0	107,687	501,914	10.66%	762,804	16.21%	\$1.81	34,562	162,520	56,617	339,488
Highway 50	281	15,994,246	0	1,079,252	2,728,493	17.06%	3,464,767	21.66%	\$1.61	111,106	210,176	190,146	871,470
Howe Ave / Fulton Ave	77	2,456,016	19,311	0	581,222	23.67%	605,722	24.66%	\$1.53	(13,574)	17,386	39,026	174,484
Midtown	103	3,947,868	0	63,600	315,705	8.00%	470,470	11.92%	\$1.87	(16,473)	(10,937)	9,280	54,873
Natomas / Northgate	107	6,083,496	0	177,525	1,461,382	24.02%	1,466,722	24.11%	\$1.71	104,935	(5,942)	126,636	270,237
Outer El Dorado County	8	142,249	0	0	25,659	18.04%	25,659	18.04%	\$2.17	0	(6,752)	0	1,284
Outer Placer County	4	48,360	0	0	20,316	42.01%	20,316	42.01%	\$0.00	0	(19,716)	0	100
Outer Sacramento County	14	344,888	0	123,102	47,888	13.89%	56,272	16.32%	\$1.48	0	(398)	0	14,948
Point West	51	2,749,207	0	0	709,567	25.81%	762,387	27.73%	\$1.72	69,046	31,653	93,126	193,563
Rio Linda / North Highlands	29	1,008,934	0	0	313,693	31.09%	387,128	38.37%	\$1.22	10,126	81,931	10,174	91,804
Roseville / Rocklin	263	10,590,573	108,140	794,728	2,286,106	21.59%	2,423,677	22.89%	\$1.80	132,248	450,218	509,875	907,930
South Sacramento / Elk Grove	133	4,164,458	202,640	211,593	560,389	13.46%	707,328	16.98%	\$1.37	(7,642)	372,701	44,441	493,261
Sutter County	27	496,830	0	20,000	64,830	13.05%	64,830	13.05%	\$1.45	(70)	(1,267)	1,600	35,096
Vacaville / Dixon	41	1,179,906	0	0	141,999	12.03%	156,473	13.26%	\$1.86	(1,567)	14,145	1,831	22,402
Watt Ave	53	2,456,206	0	45,858	337,042	13.72%	382,367	15.57%	\$1.27	(8,107)	14,275	207	56,817
West Sacramento	37	2,224,572	0	110,000	238,629	10.73%	242,071	10.88%	\$1.59	(9,949)	(32,820)	0	6,815
Yuba County	6	370,198	0	0	4,973	1.34%	4,973	1.34%	\$1.25	(4,473)	0	0	0
Sacramento Market Total	2,089	92,705,090	330,091	3,559,084	15,040,587	16.23%	17,329,999	18.69%	\$1.74	78,605	1,443,138	1,303,635	4,788,819
Class A	197	26,206,405	183,000	1,860,563	3,888,442	14.84%	4,439,348	16.94%	\$2.03	369,020	483,943	668,586	1,479,484
Class B	1,011	43,315,956	147,091	1,698,521	7,130,876	16.46%	8,211,020	18.96%	\$1.68	(184,299)	670,688	365,398	2,295,913
Class C	881	23,182,729	0	0	4,021,269	17.35%	4,679,631	20.19%	\$1.36	(106,116)	288,507	269,651	1,013,422
Sacramento Market Total	2,089	92,705,090	330,091	3,559,084	15,040,587	16.23%	17,329,999	18.69%	\$1.74	78,605	1,443,138	1,303,635	4,788,819

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 Per SF	Buyer	Seller
8801 Folsom Blvd.	Highway 50	B	72,539	\$45.15	Fifty West Folsom, LLC	US Bank
605 Coolidge Dr.	Folsom	B	22,500	\$131.11	AgreeYa Solutions, Inc.	Rabobank
9719 Lincoln Village Dr.	Highway 50	C	93,921	\$27.00	FH1 Investments, Inc.	Bank of the West
1800-1814 15th St.	Downtown	C	15,000	\$166.67	Cordano Company	Bay Hill Development
2440 Professional Dr.	Roseville/Rocklin	B	10,500	\$147.62	PenSys, Inc.	USA Properties Fund, Inc.

Lease Transactions

Property Address	Submarket	Class	Square Feet	Transaction Date	Tenant	Owner
9750 Goethe Rd. – Renewal	Highway 50	B	88,734	Jan-13	Dealertrack Technologies, Inc.	Goldenberg & Associates
1601-1675 Alhambra Blvd.	South Sacramento	C	52,000	Feb-13	UC Davis	Cannery Venture, LP
9700 Goethe Rd.	Highway 50	B	40,202	Mar-13	County of Sacramento	Goldenberg & Associates
830 Stillwater Rd.	West Sacramento	B	36,925	Jan-13	Affiliated Computer Services	Harsch Investment Properties
3851 N. Freeway Blvd.	Natomas/Northgate	C	26,384	Feb-13	PennyMac	PS Business Parks, Inc.

Product Type

CLASS A

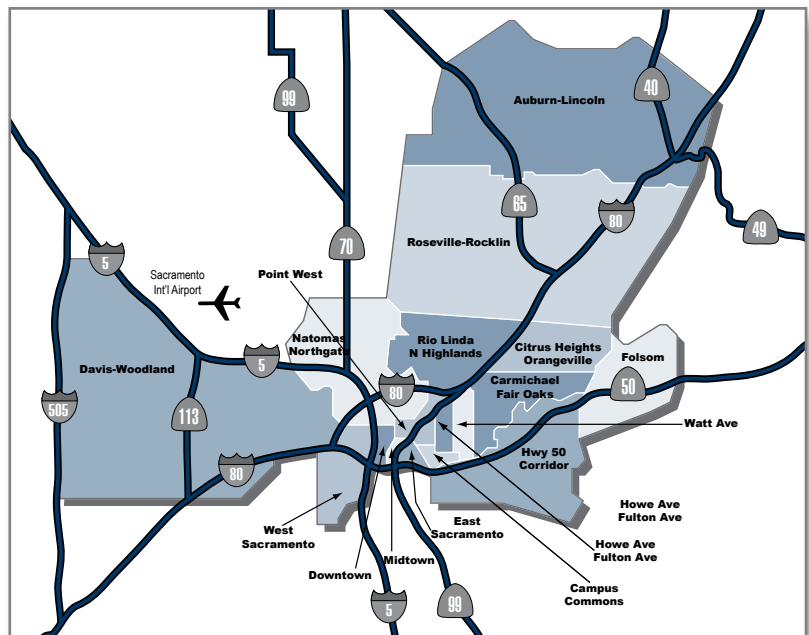
Most prestigious buildings competing for premier office users with rents above average for the area. Buildings have high-quality standard finishes, state-of-the-art systems, exceptional accessibility and a definite market presence.

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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