

## MARKET CHANGE

*Compared to the Previous Quarter:*

**Vacancy**

**DOWN**



**Net Absorption**

**POSITIVE**



**Deliveries**

**UP**



**Lease Rates**

**FLAT**



**Transactions**

**DOWN**



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## HIGHLIGHTS

- **Market Status** - The Sacramento office market continues to gain strength as demand has increased in recent quarters while development has remained minimal, pushing fundamentals further into recovery mode. Net absorption has been positive for nine consecutive quarters now, averaging 257,172 square feet a quarter, while vacancy and availability continue to trend downward. These statistics bode well for the future of the Sacramento office market. As the unemployment rate continues to decrease and overall economic stability strengthens, a full recovery is expected.
- **Construction** - At the close of the first quarter, there were three office buildings under construction in the Sacramento region, totaling 126,000 square feet. The largest of the three is a 55,140-square-foot, Class-B office building in the Roseville/Rocklin submarket. During the first quarter of 2014, no product was delivered. The minimal construction will continue to force downward pressure on vacancy.
- **Vacancy** - The vacancy rate decreased 9 basis points from the previous quarter to 15.36%, marking the tenth consecutive quarter of vacancy decreases in the region. Within the major submarkets, Midtown and Davis/Woodland performed the best with vacancy rates of 7.47% and 7.68%, respectively, while the Howe Ave/Fulton Ave submarket struggled at 25.09%.
- **Availability** - The rate of space being marketed was 17.91%, a decrease of 30 basis points from the previous quarter. Of the major submarkets, Midtown and Davis/Woodland had the lowest percentage of available square footage at 9.63% and 9.83%, respectively, while the El Dorado submarket had the largest percentage of available square footage at 28.63%.
- **Lease Rates** - The average asking lease rate across all building classes and submarkets at the close of the first quarter was \$1.75 per square foot per month, full-service gross, unchanged from the previous quarter, indicating stability. Within the major submarkets, Downtown had the highest asking rate at \$2.23 per square foot per month, while the region's lowest rates were found in the Citrus Heights/Orangevale submarket at \$1.14.
- **Absorption** - The Sacramento office market posted 113,441 square feet of positive net absorption during the first quarter, giving the market its ninth consecutive quarter of positive net absorption for a total of 2.6 million square feet.
- **Transaction Activity** - Sale and lease transaction volume totaled 1.5 million square feet in the first quarter. Sales activity came in at just over 725,000 square feet for the first quarter, which compares to an average of 714,573 square feet per quarter in 2013. This statistic typically does have some lag time to post final numbers, so look for the first quarter numbers to end up around 775,000 square feet. Details of the largest transactions for the first quarter can be found on the back page of this report.
- **Employment** - The unemployment rate in the Sacramento-Arden Arcade-Roseville MSA was 8.2% in February 2014, down from a revised 8.3% in January 2014, and below the year-ago estimate of 9.4%. This compares with an unadjusted unemployment rate of 8.5% for California and 7.0% 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 11,900 payroll jobs from February 2013 to February 2014. While most sectors showed gains in employment, the largest gains were 4,800 jobs in educational & health services and 3,200 jobs in government. Leisure and hospitality posted the largest year-over-year loss, dropping by 2,300 jobs.
- **Overall** - The first quarter of 2014 was another step in the right direction for the recovery of the Sacramento office market. It marked the ninth consecutive quarter of drops in vacancy and positive net absorption. Even though lease rates remained flat from the previous quarter, it shouldn't be long before they begin to rise. As we conclude the first quarter of 2014, positive absorption should continue and with few new deliveries, the market should see further growth.

## FORECAST

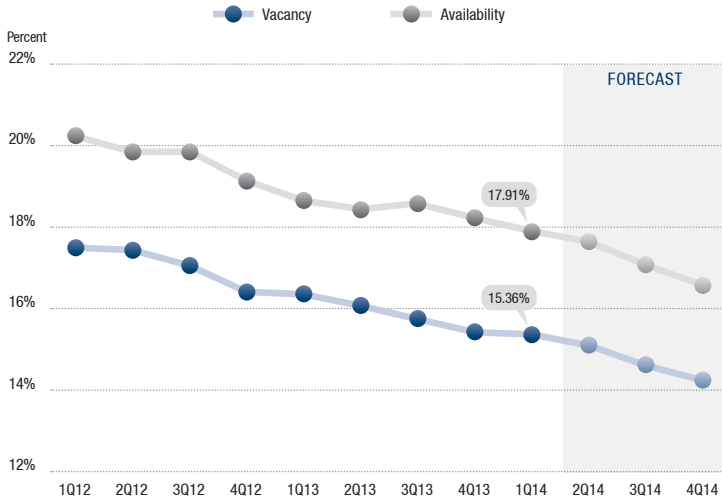
- **Construction** - We anticipate construction remaining minimal, giving demand an opportunity to catch up with supply.
- **Employment** - We anticipate job growth of around 2.1%, or 17,008 jobs, in the Sacramento area by 2015. Expect growth in educational services, health care, social assistance, professional & business services, leisure & hospitality, and retail trade.
- **Lease Rates** - Expect average asking lease rates to increase by 1%–3% by 2015.
- **Vacancy** - We anticipate the vacancy rate continuing to descend in coming quarters, dropping by over 100 basis points, to around 14.25%, by 2015.

## OVERVIEW

	1Q14	4Q13	1Q13	% of Change vs. 1Q13
Vacancy Rate	15.36%	15.45%	16.37%	(6.17%)
Availability Rate	17.91%	18.21%	18.65%	(3.97%)
Average Asking Lease Rate	\$1.75	\$1.75	\$1.74	0.57%
Sale & Lease Transactions	1,540,217	2,283,814	1,712,447	(10.06%)
Gross Absorption	726,664	927,787	1,499,057	(51.53%)
Net Absorption	113,441	306,740	178,137	N/A

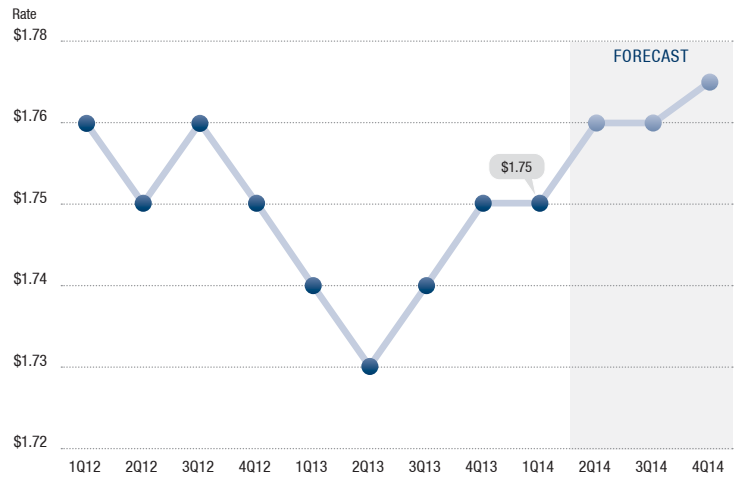
VACANCY & AVAILABILITY RATE

VACANCY – UNOCCUPIED SPACE | AVAILABILITY – ALL SPACE BEING MARKETED



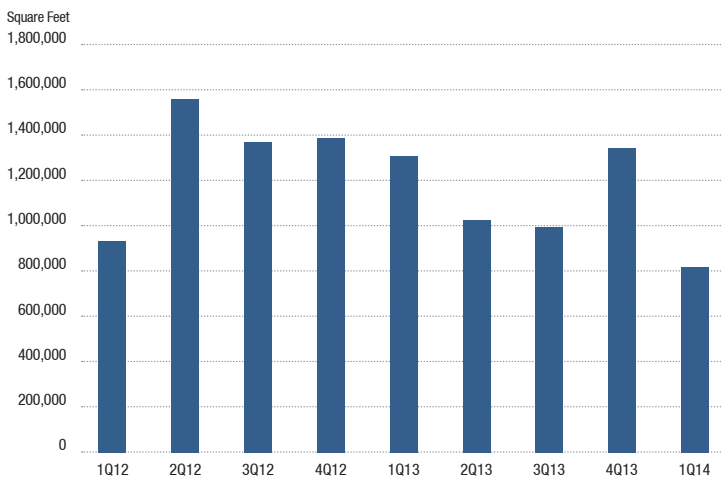
AVERAGE ASKING FULL-SERVICE GROSS LEASE RATE

MONTHLY OCCUPANCY COST ON A PER SQ. FT. BASIS



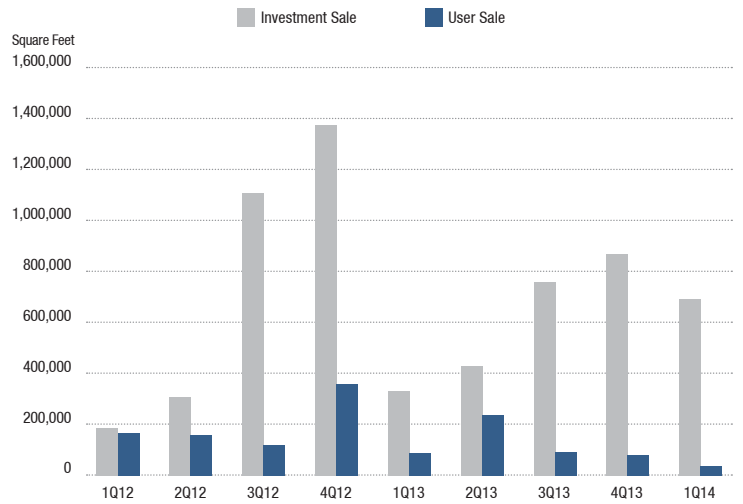
LEASE TRANSACTIONS

TOTAL AMOUNT OF SPACE THAT LEASED IN A QUARTER



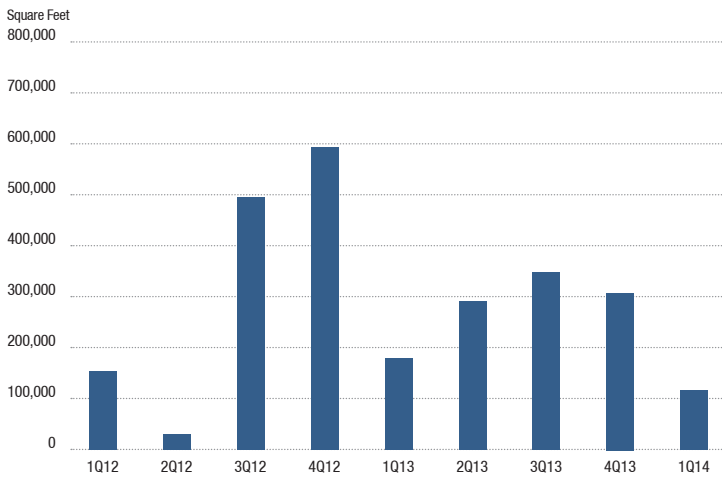
SALES TRANSACTIONS

TOTAL AMOUNT OF SPACE THAT SOLD IN A QUARTER



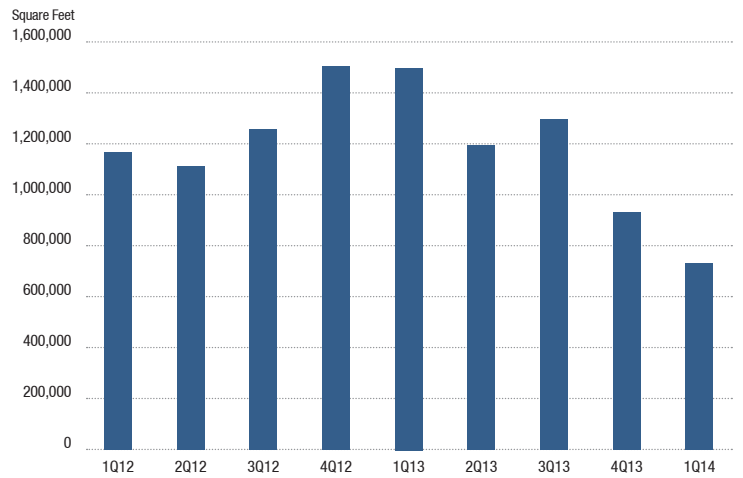
NET ABSORPTION

CHANGE IN THE AMOUNT OF OCCUPIED SPACE FROM ONE QUARTER TO THE NEXT



GROSS ABSORPTION

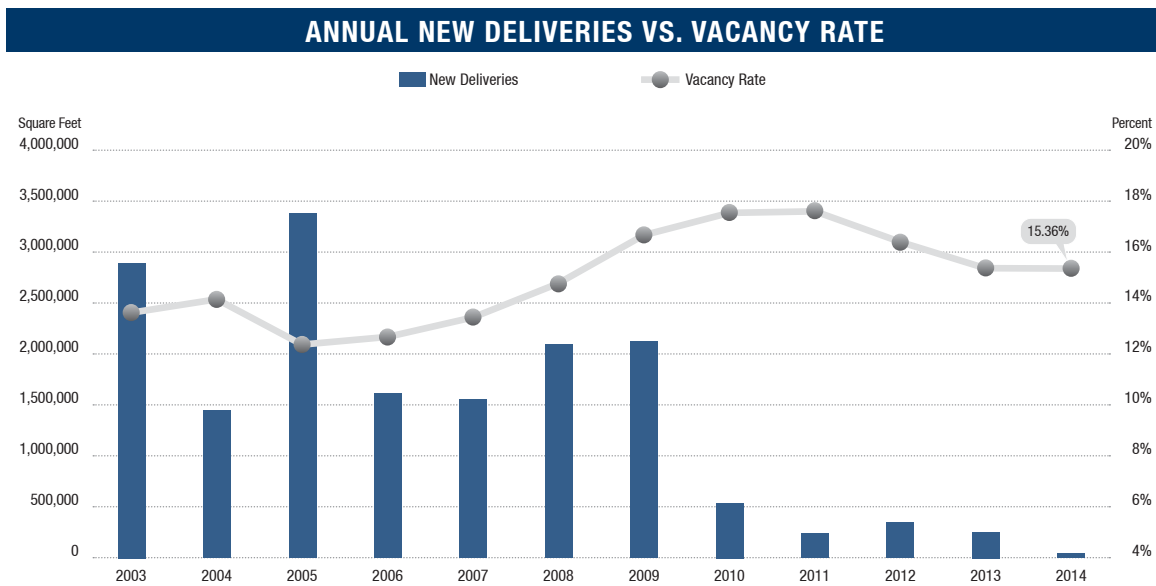
TOTAL AMOUNT OF SPACE THAT BECAME OCCUPIED IN A QUARTER



	INVENTORY				VACANCY & LEASE RATES					ABSORPTION			
	Number of Bldgs.	Net Rentable Square Feet	Square Feet U/C	Square Feet Planned	Square Feet Vacant	Vacancy Rate 1Q2014	Square Feet Available	Availability Rate 1Q2014	Average Asking Lease Rate	Net Absorption 1Q2014	Net Absorption 2013	Gross Absorption 1Q2014	Gross Absorption 2013
<b>Sacramento Market</b>													
Auburn / Lincoln	65	1,379,776	0	93,921	211,899	15.36%	218,680	15.85%	\$1.30	4,775	(6,619)	13,801	47,921
Benicia / Vallejo	88	2,688,514	0	0	756,279	28.13%	757,425	28.17%	\$1.25	2,095	2,854	6,504	68,469
Campus Commons	42	1,255,511	0	160,000	264,969	21.10%	286,341	22.81%	\$1.73	(13,067)	33,254	2,251	67,738
Carmichael / Fair Oaks	45	969,245	0	0	93,898	9.69%	180,199	18.59%	\$1.30	(17,708)	56,105	700	99,933
Citrus Heights / Orangevale	51	1,419,585	0	0	189,822	13.37%	210,074	14.80%	\$1.14	(8,825)	6,672	6,425	68,927
Davis / Woodland	78	1,982,646	0	71,600	152,236	7.68%	194,797	9.83%	\$1.91	11,100	93,147	23,591	172,249
Downtown	216	18,594,922	0	0	2,172,333	11.68%	2,554,216	13.74%	\$2.23	19,227	(240,063)	138,541	553,053
East Sacramento	32	1,840,496	0	0	241,781	13.14%	245,996	13.37%	\$1.98	2,509	(3,732)	5,867	13,565
El Dorado	71	1,646,430	0	432,000	356,342	21.64%	471,411	28.63%	\$1.72	9,075	14,367	15,520	82,314
Fairfield / Suisun City	61	1,986,619	49,000	57,133	304,106	15.31%	407,308	20.50%	\$2.28	(4,629)	(21,127)	7,261	77,453
Folsom	102	4,766,113	21,860	85,827	520,664	10.92%	723,858	15.19%	\$1.79	15,832	83,943	47,656	216,543
Highway 50	297	17,234,479	0	1,079,252	2,527,137	14.66%	3,237,870	18.79%	\$1.57	26,680	294,892	79,738	745,340
Howe Ave / Fulton Ave	78	2,458,939	0	0	616,965	25.09%	677,285	27.54%	\$1.54	(44,469)	18,541	25,207	136,481
Midtown	100	3,585,804	0	15,600	268,017	7.47%	345,308	9.63%	\$1.87	(15,313)	46,528	18,857	125,032
Natomas / Northgate	110	6,405,899	0	177,525	1,346,576	21.02%	1,586,376	24.76%	\$1.73	(32,394)	219,194	36,421	469,008
Outer El Dorado County	11	186,978	0	0	27,945	14.95%	33,945	18.15%	\$2.28	0	514	0	7,516
Outer Placer County	4	48,360	0	0	20,316	42.01%	22,412	46.34%	\$0.00	0	0	0	0
Outer Sacramento County	1	10,794	0	0	0	0.00%	0	0.00%	\$0.00	0	10,885	0	13,541
Point West	50	2,713,040	0	0	732,493	27.00%	634,424	23.38%	\$1.69	20,896	47,521	40,537	173,576
Rio Linda / North Highlands	29	1,009,080	0	0	314,951	31.21%	438,391	43.44%	\$0.90	(1,258)	10,126	297	10,174
Roseville / Rocklin	260	10,376,564	55,140	644,728	1,996,948	19.24%	1,921,727	18.52%	\$1.78	106,366	388,448	198,280	1,148,792
South Sacramento / Elk Grove	149	4,679,781	0	271,319	588,389	12.57%	761,039	16.26%	\$1.70	19,876	223,249	33,276	456,147
Sutter County	27	503,172	0	20,000	51,127	10.16%	51,127	10.16%	\$1.45	7,742	(4,909)	7,748	4,404
Vacaville / Dixon	40	1,160,804	0	101,000	120,714	10.40%	139,861	12.05%	\$1.85	7,181	12,537	7,181	24,091
Watt Ave	49	2,323,327	0	45,858	294,522	12.68%	337,866	14.54%	\$1.40	(3,571)	3,848	2,688	48,552
West Sacramento	36	1,983,136	0	110,000	198,927	10.03%	314,751	15.87%	\$1.65	1,321	28,432	8,317	45,811
Yuba County	6	370,198	0	0	4,973	1.34%	4,973	1.34%	\$1.25	0	(4,473)	0	0
<b>Sacramento Market Total</b>	<b>2,098</b>	<b>93,580,212</b>	<b>126,000</b>	<b>3,365,763</b>	<b>14,374,329</b>	<b>15.36%</b>	<b>16,757,660</b>	<b>17.91%</b>	<b>\$1.75</b>	<b>113,441</b>	<b>1,314,134</b>	<b>726,664</b>	<b>4,876,630</b>

Class A	201	27,096,288	0	1,662,563	3,565,250	13.16%	3,900,749	14.40%	\$2.07	34,783	879,556	258,469	1,883,087
Class B	1,026	43,602,461	126,000	1,703,200	6,902,199	15.83%	8,130,759	18.65%	\$1.66	89,890	233,779	350,212	2,005,995
Class C	871	22,881,463	0	0	3,906,880	17.07%	4,726,152	20.65%	\$1.37	(11,232)	200,799	117,983	987,548
<b>Sacramento Market Total</b>	<b>2,098</b>	<b>93,580,212</b>	<b>126,000</b>	<b>3,365,763</b>	<b>14,374,329</b>	<b>15.36%</b>	<b>16,757,660</b>	<b>17.91%</b>	<b>\$1.75</b>	<b>113,441</b>	<b>1,314,134</b>	<b>726,664</b>	<b>4,876,630</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.



**MAJOR TRANSACTIONS**

**Sales Transactions**

Property Address	Submarket	Class	Square Feet	Sale Price Per SF	Buyer	Seller
2241-3200 Douglas Blvd. (2 Properties)	Placer County/ Roseville/ Rocklin	B	83,329	\$136.81	Mourier Land Investment Corp.	CW Capital Asset Management, LLC
Greater Sacramento Medical Center 2288 Auburn Blvd.	Watt Ave	B	54,000	\$187.65	Omni Medical	Massie & Company
2031 Howe Ave.	Sacramento County/ Howe Ave/ Fulton Ave	B	107,334	\$66.58	Starwood Capital Group	U.S. Bank
1500 Expo Pkwy.	Point West	C	34,717	\$172.83	Sutter Health Medical Ctr. Fnd.	Radiological Associates of Sacramento
3785 Placer Corporate Dr.	Roseville/ Rocklin	B	62,034	\$90.27	Amazing Facts, Inc.	U.S. Bank

**Lease Transactions**

Property Address	Submarket	Class	Square Feet	Transaction Date	Tenant	Owner
1601 Exposition Blvd.	Point West	B	132,408	Jan-14	Covered California	CW Capital Asset Management, LLC
Hewlett Packard Campus 9000 Foothills Blvd.	Roseville/ Rocklin	B	120,000	Jan-14	Quest Supplies	Coveka, Inc.
3001 Lava Ridge Ct.	Roseville/ Rocklin	A	27,412	Jan-14	Sutter Health	C-III Asset Management
3009 Douglas Blvd.	Roseville/ Rocklin	A	19,626	Mar-14	Direct Technology, Inc.	Ellis Partners, LLC
2225 19th St.	Midtown	C	16,800	Jan-14	Bayside Church	Steve Schroeder

**PRODUCT TYPE**

**CLASS A**

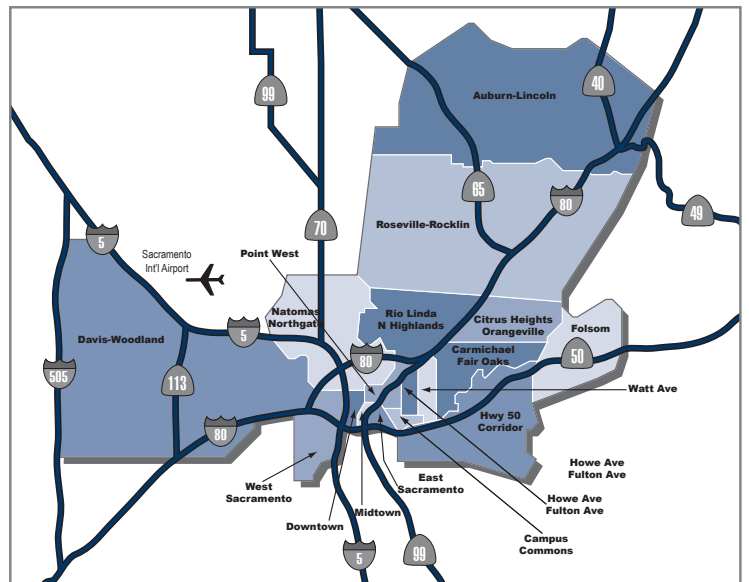
Most prestigious buildings competing for premier office users with rents above average for the area. Buildings have high-quality standard finishes, state-of-the-art systems, exceptional accessibility and a definite market presence.

**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.



**Please Contact Us for Further Information**

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