



MARKET CHANGE

Compared to Previous Quarter:

Vacancy

DOWN



Net Absorption

POSITIVE



Deliveries

FLAT



Lease Rates

FLAT



Transactions

DOWN



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Prepared by:
Jerry J. Holdner, Jr.
Vice President of Market Research
e-mail: jholdner@voitco.com
VOIT Real Estate Services

HIGHLIGHTS

- **Market Status** - The Sacramento office market continues to vastly improve as demand has remained steady in recent quarters while development has come to a halt. Net absorption has been positive for thirteen consecutive quarters now, averaging 265,000 square feet a quarter, while vacancy and availability continue to trend downward. These trends bode well for the future of the Sacramento office market.
- **Construction** - At the close of the first quarter, there was nothing under construction in the Sacramento region. There were 85,140 square feet delivered in the fourth quarter of 2014 and 185,376 square feet delivered in the entire year. Currently, there is 4.4 million square feet of planned office space for the Sacramento region. The lack of construction will continue to force downward pressure on vacancy.
- **Vacancy** - The vacancy rate decreased 14 basis points from the previous quarter to 14.36%, which is the lowest vacancy rate for the Sacramento office market since 2008. Within the major submarkets, Midtown and Downtown performed the best with vacancy rates of 6.19% and 10.50%, respectively, while the Natomas/Northgate and the Benicia/Vallejo submarkets struggled at 19.97% and 27.36%, respectively.
- **Availability** - The rate of space being marketed was 17.13%, an increase of 26 basis points from the previous quarter. Of the major submarkets, East Sacramento and Midtown had the lowest percentage of available square footage at 7.17% and 9.79%, respectively, while the Rio Linda/North Highlands submarket had the largest percentage of available square footage at 41.88%.
- **Lease Rates** - The average asking lease rate across all building classes and submarkets at the close of the first quarter was \$1.77 per square foot per month, full-service gross, which is the same as the previous quarter, but a \$0.02 increase from the previous year. Within the major submarkets, Downtown and the East Sacramento submarkets had the highest asking rates at \$2.28 and \$2.29 per square foot per month, while the region's lowest rates were found in the Rio Linda/North Highlands and Citrus Heights/Orangevale submarkets at \$0.90 and \$1.13 per square foot per month.
- **Absorption** - The Sacramento office market posted 146,997 square feet of positive net absorption during the first quarter, giving the market its 13th consecutive quarter of positive net absorption totaling 3.4 million square feet. Of the major submarkets, Natomas/Northgate posted the highest net absorption of 59,729 square feet, while the Folsom submarket had the second highest net absorption of 48,533 square feet.
- **Transaction Activity** - Sale and lease transaction volume totaled just over 1.2 million square feet for the quarter, which is a decrease when compared to last quarter's figure of just over 2.1 million square feet. This statistic can have some lag time in being reported, so look for these figures to end up somewhat higher in the next report. Details of the largest transactions for the quarter can be found on the back page of this report.
- **Employment** - The unemployment rate in the Sacramento-Arden Arcade-Roseville MSA was 6.3% in February 2015, down from a revised 6.7% in January 2015, but still below the year-ago estimate of 8.1%. This compares with an unadjusted unemployment rate of 6.8% for California and 5.8% 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 25,900 payroll jobs from February 2014 to February 2015. While most sectors showed gains in employment, the largest gains were 6,000 jobs in education and health services, 5,000 jobs in government, and 3,700 jobs in professional and business services during that same time period.
- **Overall** - The first quarter of 2015 marked the lowest vacancy rate since 2008 and 13th consecutive quarter of positive net absorption, which are clear indicators that the Sacramento office market is continually improving. Demand for good quality office space has a strong potential to increase given new developments around Sacramento. Over the next five years, the changes that the Sacramento market will experience will lead to greater investment activity, especially as job creation continues and consumer confidence increases.

FORECAST

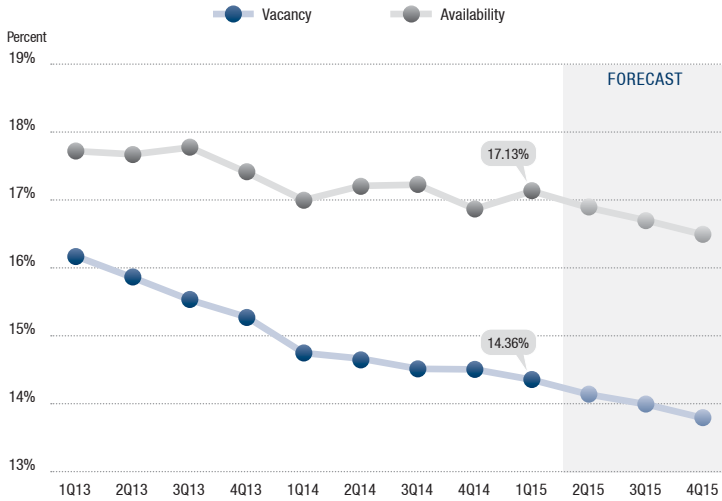
- **Construction** - We anticipate construction remaining minimal, giving demand an opportunity to catch up with supply.
- **Employment** - We anticipate job growth of around 2.6%, or 23,000 jobs, in the Sacramento area in 2015. Expect growth in professional & business services, educational services, health care, social assistance, leisure & hospitality, and retail trade sectors.
- **Lease Rates** - Expect average asking lease rates to increase by 1% to 3% over the next four quarters.
- **Vacancy** - We anticipate the vacancy rate continuing to descend in coming quarters, dropping to around 13.80% by the end of the fourth quarter of 2015.

OVERVIEW

	1Q15	4Q14	1Q14	% of Change vs. 1Q14
Total Vacancy Rate	14.36%	14.50%	14.75%	(2.64%)
Availability Rate	17.13%	16.87%	17.00%	0.76%
Average Asking Lease Rate	\$1.77	\$1.77	\$1.75	1.14%
Sale & Lease Transactions	1,213,553	2,187,321	2,642,558	(54.08%)
Gross Absorption	769,980	870,848	1,162,961	(33.79%)
Net Absorption	146,997	92,469	548,222	N/A

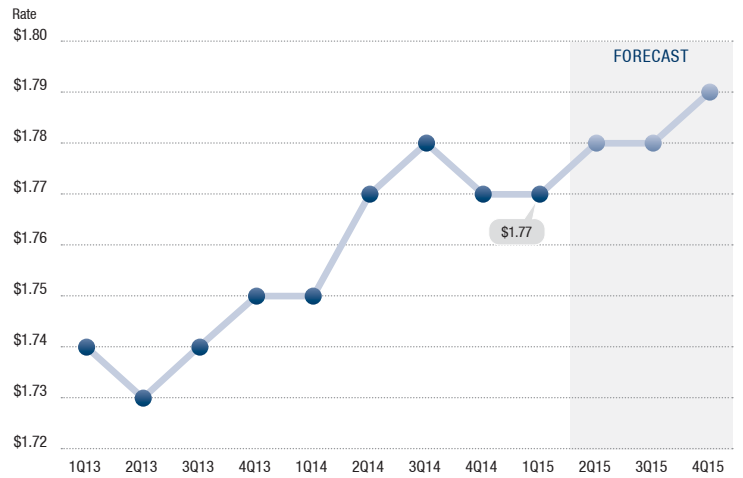
VACANCY & AVAILABILITY RATE

VACANCY – UNOCCUPIED SPACE | AVAILABILITY – ALL SPACE BEING MARKETED



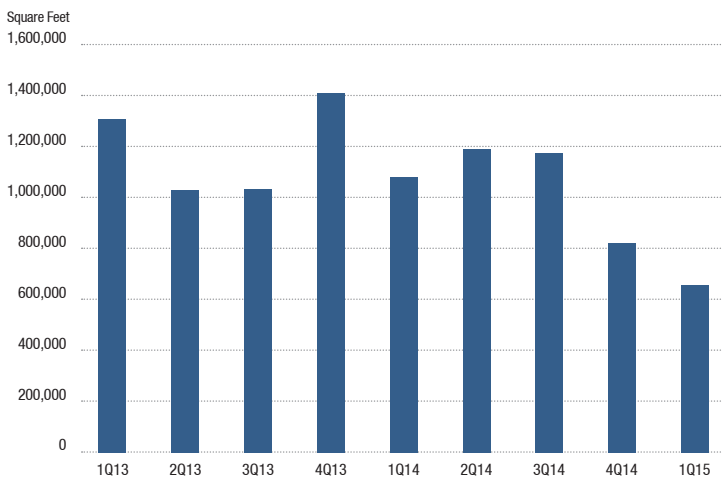
AVERAGE ASKING FULL-SERVICE GROSS LEASE RATE

MONTHLY OCCUPANCY COST ON A PER SQ. FT. BASIS



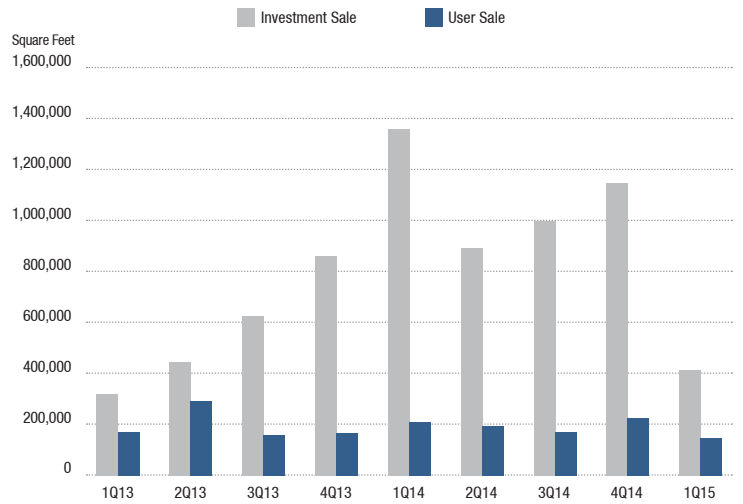
LEASE TRANSACTIONS

TOTAL AMOUNT OF SPACE THAT LEASED IN A QUARTER



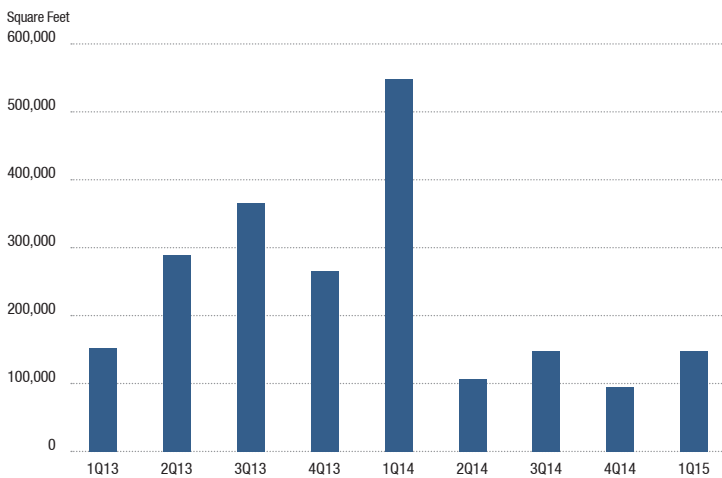
SALES TRANSACTIONS

TOTAL AMOUNT OF SPACE THAT SOLD IN A QUARTER



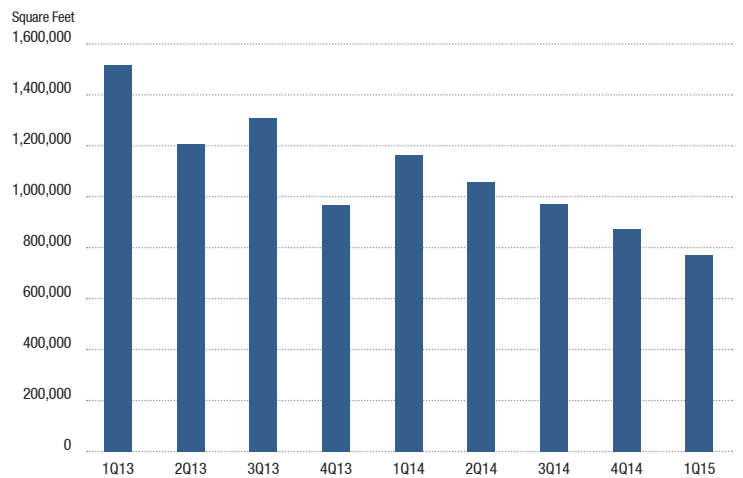
NET ABSORPTION

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



GROSS ABSORPTION

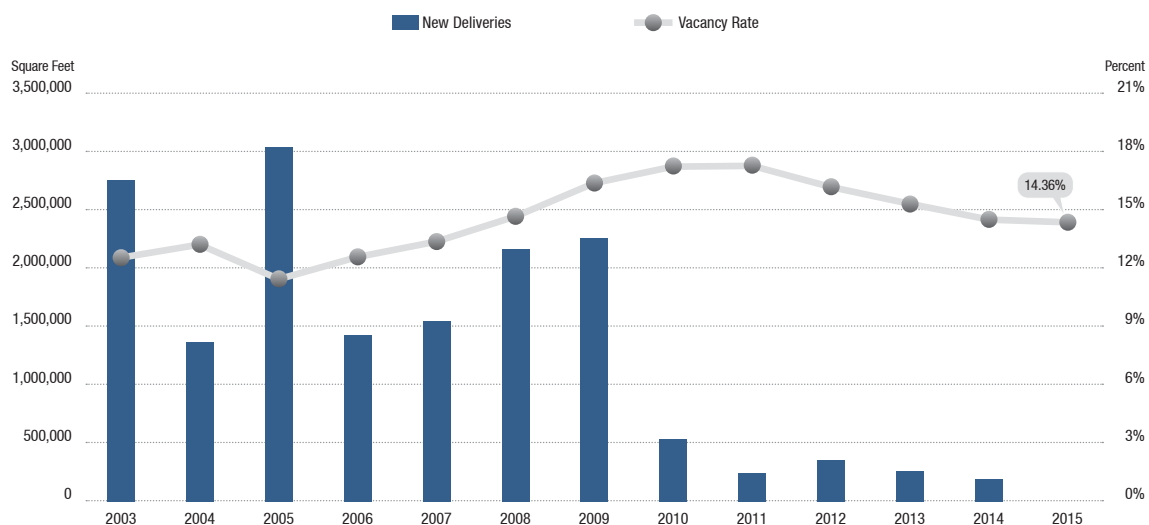
TOTAL AMOUNT OF SPACE THAT BECAME OCCUPIED IN A QUARTER



	INVENTORY				VACANCY & LEASE RATES					ABSORPTION			
	Number of Bldgs.	Net Rentable Square Feet	Square Feet U/C	Square Feet Planned	Square Feet Vacant	Vacancy Rate 1Q2015	Square Feet Available	Availability Rate 1Q2015	Average Asking Lease Rate	Net Absorption 1Q2015	Net Absorption 2014	Gross Absorption 1Q2015	Gross Absorption 2014
Sacramento Market													
Auburn / Lincoln	63	1,299,036	0	80,921	133,502	10.28%	150,831	11.61%	\$1.30	823	59,544	4,796	86,049
Benicia / Vallejo	87	2,662,555	0	522,100	728,421	27.36%	768,746	28.87%	\$1.09	19,011	4,442	22,438	44,052
Campus Commons	42	1,256,560	0	160,000	214,690	17.09%	238,454	18.98%	\$1.80	6,697	28,779	14,679	115,154
Carmichael / Fair Oaks	47	993,204	0	0	89,649	9.03%	143,516	14.45%	\$1.25	(8,148)	(4,011)	7,769	73,784
Citrus Heights / Orangevale	51	1,425,859	0	0	177,120	12.42%	196,065	13.75%	\$1.13	8,619	(3,695)	11,407	31,821
Davis / Woodland	80	2,007,200	0	71,600	198,336	9.88%	197,277	9.83%	\$1.92	7,835	(42,477)	17,361	105,537
Downtown	216	18,824,651	0	572,000	1,977,257	10.50%	2,285,487	12.14%	\$2.28	(959)	205,359	129,761	676,439
East Sacramento	33	2,071,070	0	0	235,979	11.39%	148,530	7.17%	\$2.29	(2,863)	11,174	0	14,532
El Dorado	72	1,655,721	0	408,000	320,198	19.34%	391,146	23.62%	\$1.65	208	39,611	12,069	105,126
Fairfield / Suisun City	67	2,133,847	0	57,133	330,981	15.51%	413,906	19.40%	\$2.23	14,888	47,553	18,622	88,842
Folsom	102	4,784,732	0	85,827	569,597	11.90%	830,723	17.36%	\$1.79	48,533	12,948	96,667	206,115
Highway 50	299	17,261,788	0	892,452	2,678,217	15.52%	3,149,441	18.25%	\$1.56	(7,649)	(167,070)	86,379	330,736
Howe Ave / Fulton Ave	79	2,467,772	0	0	597,879	24.23%	777,733	31.52%	\$1.60	3,419	(22,875)	17,544	157,739
Midtown	99	3,719,152	0	63,600	230,161	6.19%	364,122	9.79%	\$1.95	1,720	21,723	20,528	99,824
Natomas / Northgate	111	6,487,588	0	177,525	1,295,311	19.97%	1,508,569	23.25%	\$1.68	59,729	4,380	82,978	281,516
Outer El Dorado County	11	186,978	0	0	24,184	12.93%	30,184	16.14%	\$2.28	0	3,761	0	4,167
Outer Placer County	5	64,360	0	0	24,766	38.48%	28,862	44.84%	\$2.00	0	(4,450)	0	0
Outer Sacramento County	1	10,794	0	0	0	0.00%	0	0.00%	\$0.00	0	0	0	0
Point West	50	2,712,258	0	0	575,072	21.20%	597,157	22.02%	\$1.67	6,333	171,646	46,388	345,177
Rio Linda / North Highlands	29	1,010,004	0	0	351,445	34.80%	422,982	41.88%	\$0.90	(51,928)	2,080	0	4,533
Roseville / Rocklin	262	10,376,986	0	761,928	1,599,808	15.42%	2,124,336	20.47%	\$1.79	47,600	524,253	149,632	914,160
South Sacramento / Elk Grove	150	4,713,171	0	271,319	516,540	10.96%	657,080	13.94%	\$1.65	5,446	79,272	14,191	209,325
Sutter County	28	554,564	0	20,000	51,050	9.21%	59,550	10.74%	\$1.45	(3,083)	20,402	0	20,454
Vacaville / Dixon	40	1,160,804	0	140,000	117,646	10.13%	139,292	12.00%	\$1.87	(3,260)	13,509	1,700	22,099
Watt Ave	49	2,328,263	0	45,858	326,012	14.00%	358,749	15.41%	\$1.40	(1,948)	(33,113)	13,323	23,559
West Sacramento	36	1,983,326	0	110,000	155,270	7.83%	162,193	8.18%	\$1.74	(4,026)	58,933	1,748	132,848
Yuba County	7	424,878	0	0	59,653	14.04%	59,653	14.04%	\$1.25	0	(54,680)	0	0
Sacramento Market Total	2,116	94,577,121	0	4,440,263	13,578,744	14.36%	16,204,584	17.13%	\$1.77	146,997	976,998	769,980	4,093,588
Class A	203	27,491,752	0	2,305,763	3,239,774	11.78%	3,822,653	13.90%	\$2.16	100,188	337,038	271,074	1,365,393
Class B	1,038	43,935,895	0	2,134,500	6,345,880	14.44%	7,672,172	17.46%	\$1.67	(5,563)	771,650	328,686	2,164,615
Class C	875	23,149,474	0	0	3,993,090	17.25%	4,709,759	20.34%	\$1.40	52,372	(131,690)	170,220	563,580
Sacramento Market Total	2,116	94,577,121	0	4,440,263	13,578,744	14.36%	16,204,584	17.13%	\$1.77	146,997	976,998	769,980	4,093,588

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.

ANNUAL NEW DELIVERIES VS. VACANCY RATE



MAJOR TRANSACTIONS

Sales Transactions

Property Address	Submarket	Class	Square Feet	Sale Price Per SF	Buyer	Seller
2825-2829 Watt Ave.	Watt Ave.	C	83,783	\$91.07	John Foggy	Limar Realty Corp 10
Heritage Lane 1851 Heritage Ln.	Point West	B	56,221	\$123.62	Ingemanson Enterprises	Balboa Funds
6610-6620 Sierra College Blvd. 2 Properties	Roseville/Rocklin	B	17,500	\$317.14	AmTrust Financial Services, Inc.	Hohlbein Trust
Commerce Way 4450 E. Commerce Way	Natomas/Northgate	B	81,225	\$67.50	Ravel Rasmussen Properties	Comcast Corporation
3820 Chiles Rd.	Davis/Woodland	C	53,000	\$15.50	Shepard Family Holding, LLC	Roe William C

Lease Transactions

Property Address	Submarket	Class	Square Feet	Transaction Date	Tenant	Owner
Zinfandel I 3300 Zinfandel Dr.	Highway 50 Corridor	B	128,075	Feb-2015	Blue Shield of California	Strada Investment Group
Prospect Business Park 2870 Kilgore Rd.	Rancho Cordova	B	75,626	Jan-2015	Volcano Corporation	Gkii Rancho Cordova, LLC
Zinfandel II 10834 International Dr.	Highway 50 Corridor	B	46,384	Feb-2015	Blue Shield of California	Strada Investment Group
Renaissance Tower 801 K St.	Downtown	A	28,500	Jan-2015	California Earthquake Authority	USAA Real Estate Company
Mather Commerce Center 10370 Peter A McCuen Blvd.	Highway 50 Corridor	B	27,242	Jan-2015	Sutter Ccnnect	Fulcrum Property Company

PRODUCT TYPE

CLASS A

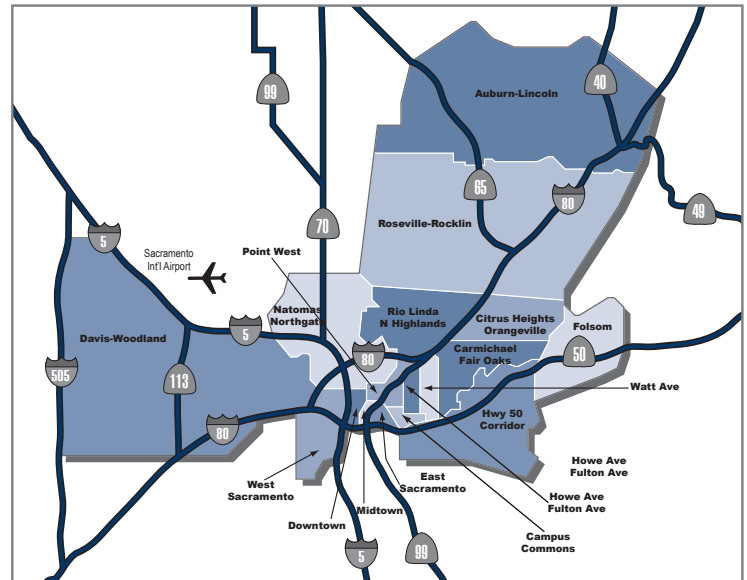
Most prestigious buildings competing for premier office users with rents above average for the area. Buildings have high-quality standard finishes, state-of-the-art systems, exceptional accessibility and a definite market presence.

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

101 Shipyard Way, Newport Beach, CA 92663 949.644.8648 Lic.#01333376 www.voitco.com



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