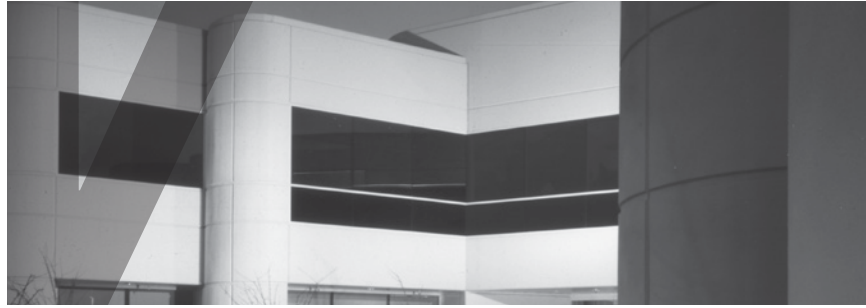




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REAL ESTATE SERVICES

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Office Market Report

Compared to last quarter:

Vacancy



UP

Net Absorption

NEGATIVE



Lease Rates

DOWN



Transactions



UP

Market Highlights

- ◆ **Market Challenges** - The market appears to be heading in the direction of recovery, with the amount of space coming on to the market beginning to decrease in velocity. 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 in turn is leading landlords to seek their own relief from lenders.
- ◆ **Construction** - Total space under construction checked in at 367,516 square feet this quarter. The slowdown in construction has and will ease the upward pressure on vacancy going forward.
- ◆ **Vacancy** - Direct/sublease space (unoccupied) finished the quarter at 16.55%, a slight increase over last year's rate of 16.22% and nearly equal to last quarter's figure of 16.45%. The Downtown market, the largest submarket in the county, posted a rate of 8.91%.
- ◆ **Availability** - Direct/sublease space being marketed was at 19.01% this quarter, an increase of only 1.93% when compared to the 18.65% availability rate of the second quarter of last year.
- ◆ **Lease Rates** - The average asking Full-Service Gross (FSG) lease rate per square foot per month in Sacramento was \$1.90 — a 3.55% decrease over last year's rate of \$1.97 and three cents lower than last quarter's rate. The record high rate of \$2.14 was established in the first quarter of 2008. Class A rates for the county are averaging \$2.19 FSG, with Downtown noting the highest asking rates, averaging \$2.35 FSG.
- ◆ **Absorption** - Net absorption for the county posted a negative 75,116 square feet for the second quarter of 2010, giving the office market a total of 185,701 square feet of negative absorption for the first half of 2010.
- ◆ **Transaction Activity** - Leasing activity checked in at 859,025 square feet this quarter, an increase over last quarter's 538,876 which can be attributed to the recent trend of short-term deals coupled with lease renegotiations. Details of the largest transactions can be found on the back page of this report.
- ◆ **Employment** - The unemployment rate in Sacramento-Arden-Arcade-Roseville Metropolitan (MSA) was 12% in May 2010, down from a revised 12.3% in April 2010 and above the year ago estimate of 10.6%. The unemployment rate was 12.8% in El Dorado, 11.2% in Placer, 12.1% in Sacramento and 11.7% in Yolo Counties. This compares with an unadjusted unemployment rate of 11.9% for California and 9.3% for the nation during the same period. According to the State of California Employment Development Department, the Sacramento MSA lost 24,100 payroll jobs over the last twelve months — 7,900 in construction and 4,000 in professional & business services. Between April 2010 and May 2010 the Sacramento MSA gained 3,800 jobs overall.
- ◆ **Overall** - We are beginning to see a decrease in the amount of available space being added per quarter. Absorption is still negative, but the rate of increase has slowed. With few new deliveries in the pipeline to drive vacancy up, the market may be beginning to stabilize. We foresee an increase in investment activity in the coming quarters as lenders begin 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 see an increase in leasing activity as many short-term deals come up for renewal and as job creation begins in the second half of 2010. Once job creation turns positive and consumer confidence stabilizes, the office market will regain equilibrium.

To view available properties, electronic versions of current or past market reports, please visit:

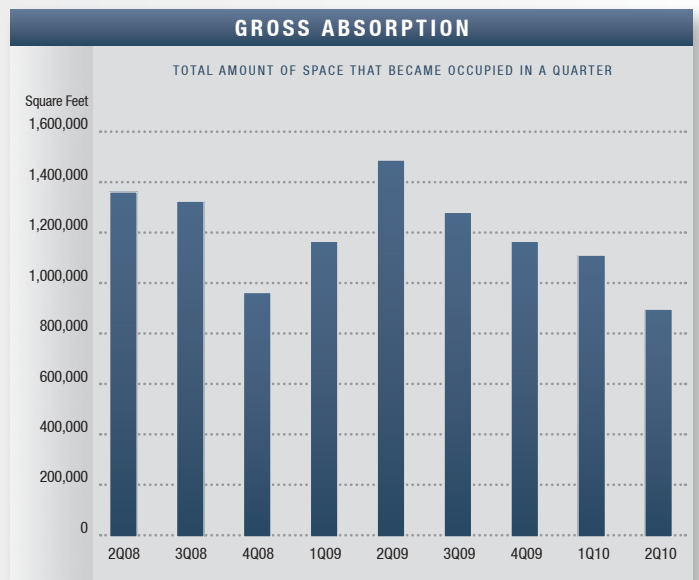
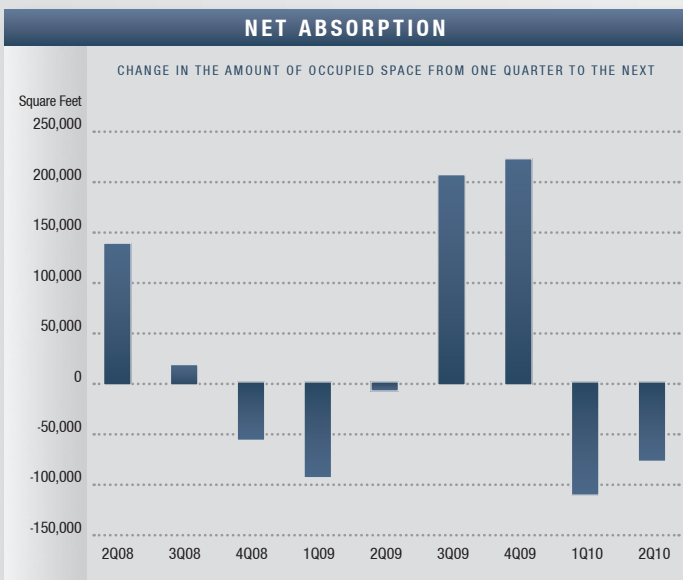
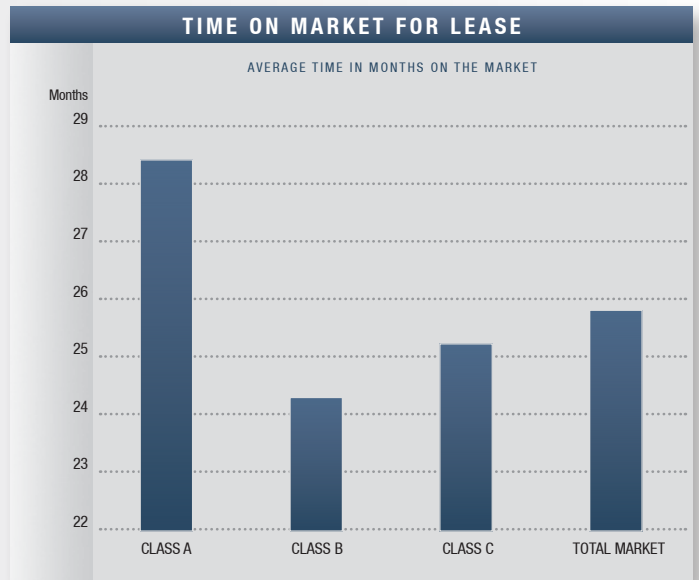
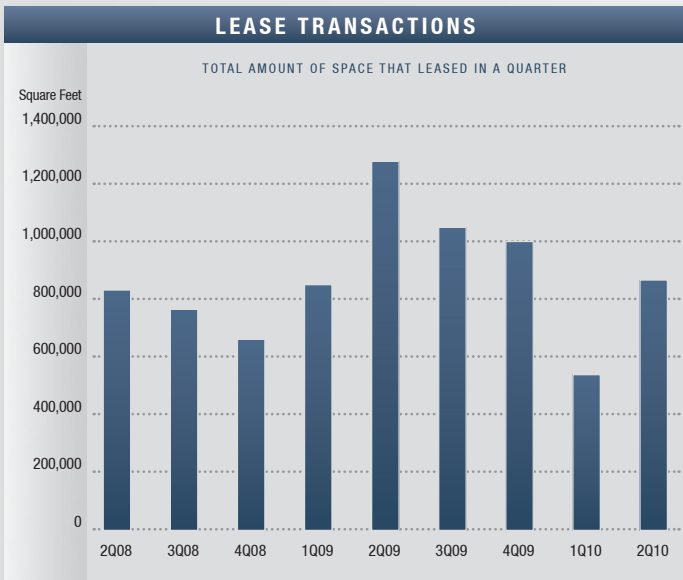
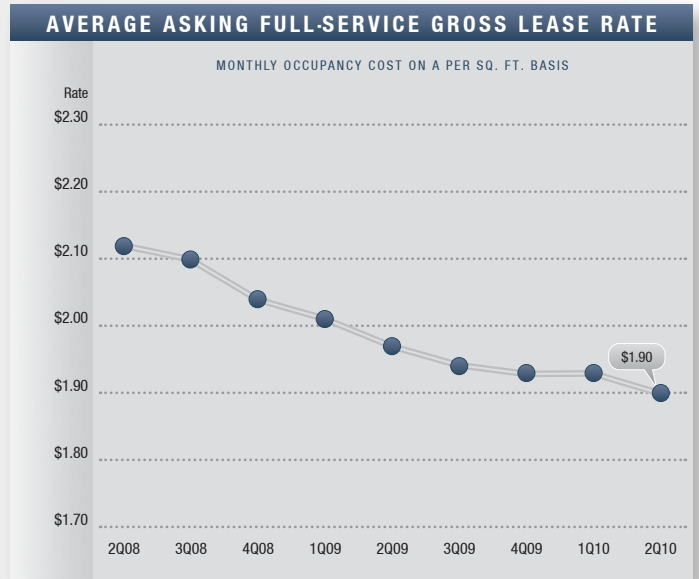
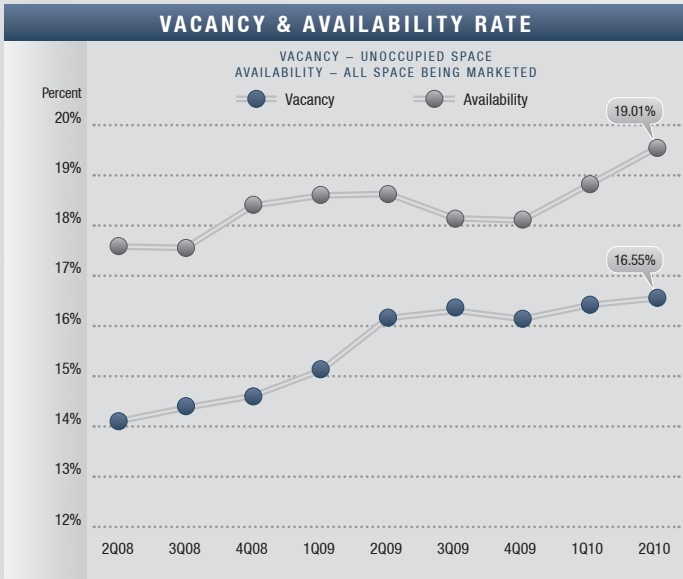
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OFFICE MARKET OVERVIEW

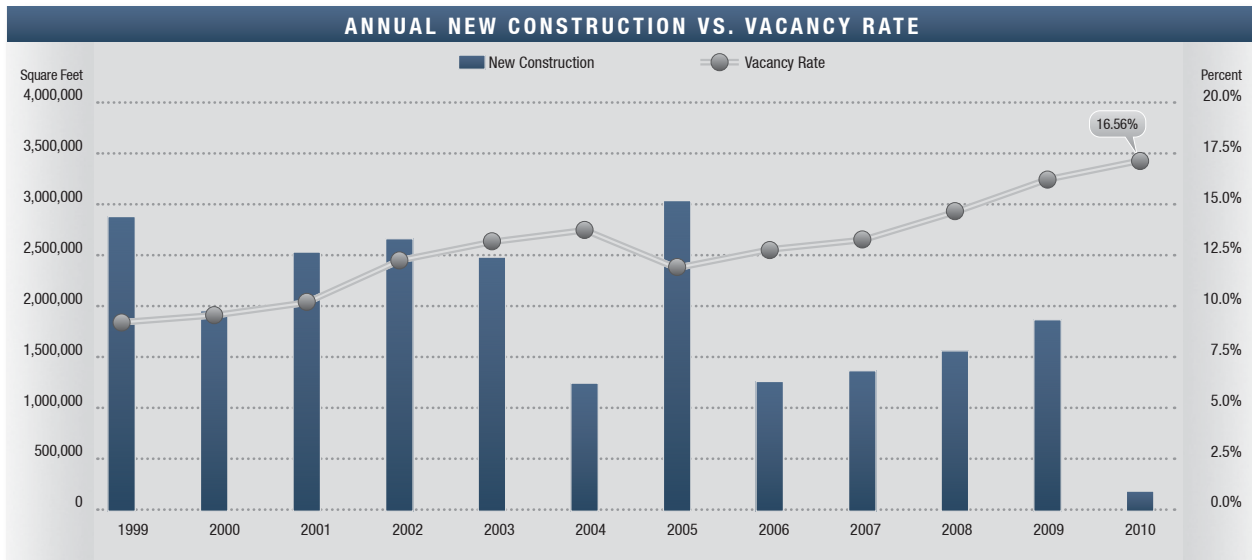
	2Q2010	1Q2010	2Q2009	% CHANGE vs. 2Q2009
Vacancy Rate	16.55%	16.45%	16.22%	2.03%
Availability Rate	19.01%	18.80%	18.65%	1.93%
Average Asking Lease Rate	\$1.90	\$1.93	\$1.97	(3.55%)
Lease Transactions	859,025	538,876	1,271,118	(32.42%)
Gross Absorption	898,052	1,065,566	1,484,031	(39.49%)
Net Absorption	(75,116)	(110,585)	(7,596)	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 2Q2010	Total Availability 2Q2010	Availability Rate 2Q2010	Average Asking Lease Rate	Net Absorption 2Q2010	Net Absorption 2010	Gross Absorption 2Q2010	Gross Absorption 2010
Sacramento County													
Auburn/Lincoln	56	1,109,773	0	109,421	156,095	14.07%	163,674	14.75%	\$1.10	7,108	9,330	10,922	25,210
Campus Commons	43	1,309,388	0	120,000	241,841	18.47%	259,707	19.83%	\$1.96	5,152	15,110	20,762	45,854
Carmichael/Fair Oaks	51	1,118,171	0	0	132,975	11.89%	138,275	12.37%	\$1.35	7,545	4,853	14,742	22,823
Citrus Heights/Orangevale	50	1,335,294	0	45,000	287,377	21.52%	297,268	22.26%	\$1.20	(22,378)	(32,786)	12,762	35,334
Davis/Woodland	61	1,537,077	0	48,290	222,774	14.49%	267,945	17.43%	\$2.06	4,190	(1,826)	23,606	27,656
Downtown	214	17,949,058	18,000	300,000	1,599,034	8.91%	1,901,708	10.60%	\$2.35	(67,029)	(112,632)	65,131	148,088
East Sacramento	32	1,705,663	0	0	131,231	7.69%	144,091	8.45%	\$1.98	0	140,504	0	141,417
Folsom	100	4,496,337	80,000	107,687	619,167	13.77%	722,721	16.07%	\$1.92	15,240	70,038	81,505	222,156
Highway 50	274	15,487,653	0	1,298,600	2,367,066	15.28%	3,044,654	19.66%	\$1.71	41,372	37,830	220,148	396,771
Howe Ave/Fulton Ave	85	2,784,057	0	0	438,554	15.75%	527,016	18.93%	\$1.67	(1,558)	(34,941)	23,756	57,485
Midtown	106	4,142,760	0	63,600	322,241	7.78%	350,877	8.47%	\$1.98	40,440	27,227	98,991	130,449
Natomas/Northgate	103	5,850,253	108,000	659,369	1,406,887	24.05%	1,740,799	29.76%	\$1.93	(5,895)	(1,394)	92,711	225,925
Point West	50	2,667,841	0	0	815,587	30.57%	822,420	30.83%	\$1.85	(5,092)	(23,079)	26,362	69,158
Rio Linda/North Highlands	29	1,051,708	0	0	312,478	29.71%	339,082	32.24%	\$1.35	(50,895)	(80,650)	21,237	21,237
Roseville/Rocklin	273	10,528,046	53,000	1,072,345	3,162,248	30.04%	3,479,604	33.05%	\$1.99	(27,400)	(64,143)	151,225	308,054
South Sacramento	124	3,671,921	0	368,493	607,000	16.53%	716,244	19.51%	\$1.93	(11,831)	(30,696)	27,128	55,353
Watt Ave	53	2,464,392	0	0	207,550	8.42%	269,053	10.92%	\$1.39	(5,630)	(29,001)	4,005	27,589
West Sacramento	31	1,828,957	108,516	25,000	378,189	20.68%	221,299	12.10%	\$1.49	1,545	(70,457)	3,059	3,059
Sacramento County Total	1,735	81,038,349	367,516	4,217,805	13,408,294	16.55%	15,406,437	19.01%	\$1.90	(75,116)	(176,713)	898,052	1,963,618

Class A	181	24,722,323	349,516	2,537,978	4,824,014	19.51%	5,326,909	21.55%	\$2.19	(147,434)	(152,588)	223,329	515,630
Class B	825	36,661,247	18,000	1,679,827	6,280,682	17.13%	7,247,449	19.77%	\$1.79	131,525	204,145	517,860	1,140,611
Class C	729	19,654,779	0	0	2,303,598	11.72%	2,832,079	14.41%	\$1.42	(59,207)	(228,270)	156,863	307,377
Class Total	1,735	81,038,349	367,516	4,217,805	13,408,294	16.55%	15,406,437	19.01%	\$1.90	(75,116)	(176,713)	898,052	1,963,618

This survey consists of properties 25,000 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

Lease Transactions

Property Address	Submarket	Class	Square Feet	Transaction Date	Tenant	Owner
11150 International Dr. – Renewal	Highway 50	A	100,000	April–10	CA State Child Support Services	Bentley Forbes
2241 Harvard St.	Point West	A	77,145	June–10	Alta California Regional Center	USAA Real Estate Company
820 Stillwater Rd.	West Sacramento	B	71,982	May–10	Affiliated Computer Services, Inc.	Harsch Investment Properties, LLC
840 Stillwater Rd.	West Sacramento	B	71,982	May–10	Affiliated Computer Services, Inc.	Harsch Investment Properties, LLC
500 Capitol Mall	Downtown	A	70,803	May–10	California Housing Finance Agency	Tsakopoulos Investments
160 Promenade Cir.	Natomas	A	69,824	May–10	California Board of Equalization	Opus West Corporation
3695 Bleckely	Highway 50	C	47,000	May–10	WECA Apprenticeship & Training	WECA Trust
1101 Creekside Ridge Dr.	Roseville	A	44,700	May–10	York Insurance	RREEF America, LLC
6020 W. Oaks Blvd.	Rocklin	A	40,000	June–10	SMA Solar Technology	Opus Architects & Engineers
830 Stillwater Rd.	West Sacramento	B	37,436	May–10	Affiliated Computer Services, Inc.	Harsch Investment Properties, LLC
2868 Prospect Park Dr. – Renewal	Highway 50	A	20,777	May–10	State of California	A&B Properties, 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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This survey consists of properties representing both single tenant and multi-tenant buildings. The lease rates are based on a full-service gross basis. The information contained in this report is gathered from sources that are deemed reliable, but no guarantees are made as to its accuracy. This information is for Voit Real Estate Services' use only and cannot legally be reproduced without prior written consent from the management of Voit Real Estate Services.