

Office Market Report

Compared to the Previous Quarter:

Vacancy



Net Absorption



Lease Rates



Transactions



Deliveries



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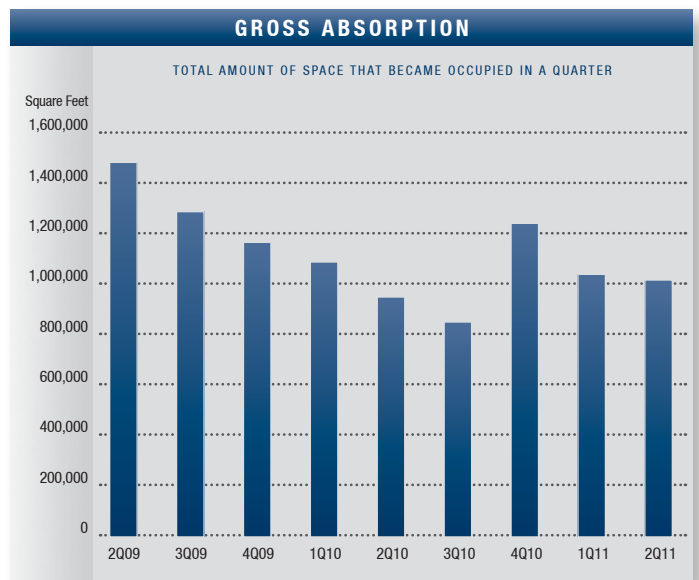
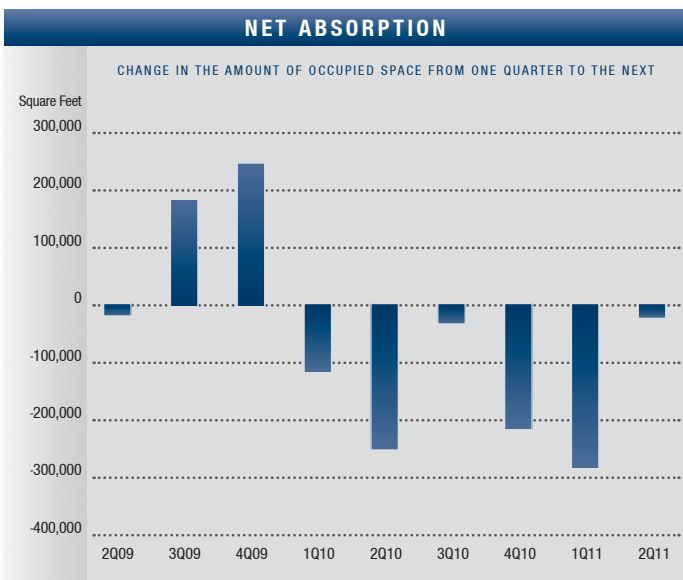
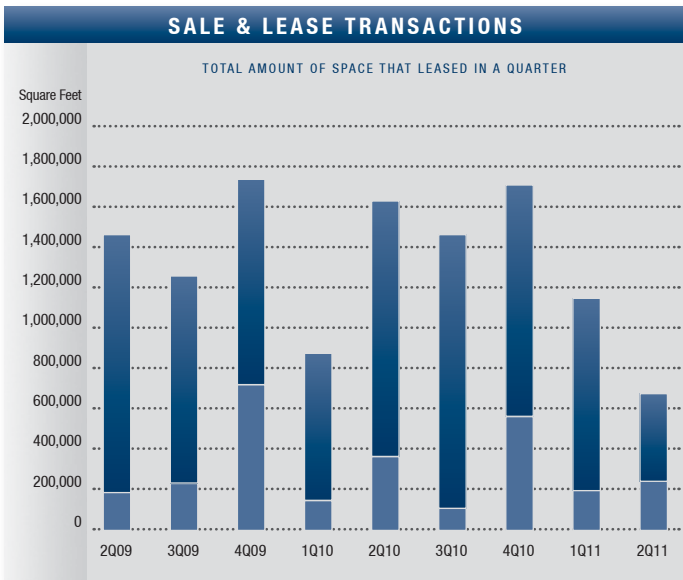
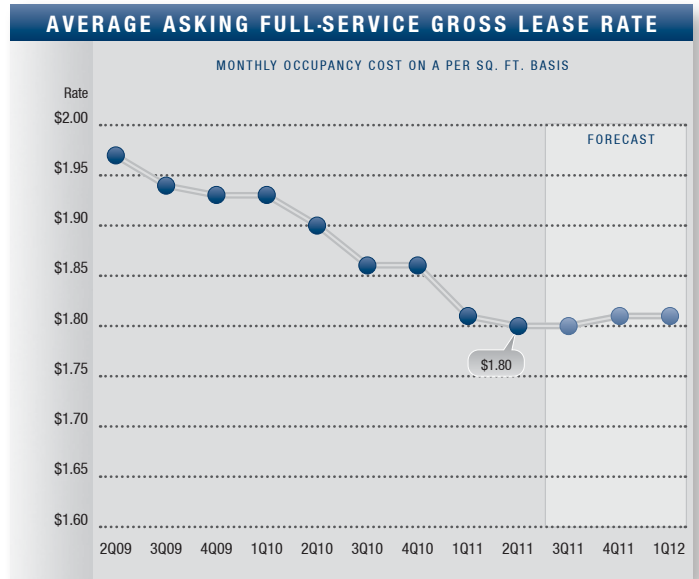
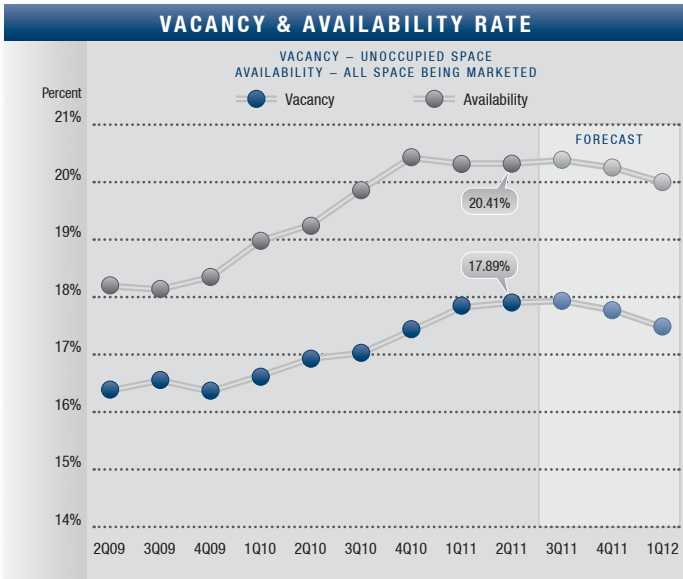


Market Highlights

- Market Challenges** - While the region continues to see negative net absorption, the rate at which vacant space is being returned to the competitive inventory has decreased dramatically. The vacancy rate rose a mere three basis points during the second quarter of 2011. In addition, average asking rates, while not static, conveyed more stability, as the second quarter rate of \$1.80 per square foot per month, across all product types and submarkets, marked a decrease of less than one-half of a percent from the first quarter's rate. Fortunately, there was very little speculative construction underway in the second quarter of 2011 to roll and exert upward pressure on vacancy and availability or move asking rates markedly higher in coming quarters.
- Absorption** - The Sacramento office market posted 23,198 square feet of negative net absorption during the second quarter and just over 300,000 square feet of negative net absorption overall in 2011 thus far. Over the last five quarters, the market has posted an average of 166,000 square feet of negative net absorption per quarter.
- Transaction Activity** - Total lease and sale activity measured in square feet checked in at 663,000 square feet in the second quarter of 2011, representing nearly 50% decrease from the first quarter 2011 and an even greater decrease in comparison to last year. Details of the largest transactions can be found on the back page of this report.
- Employment** - The unemployment rate in the Sacramento-Arden-Arcade-Roseville Metropolitan area (MSA) was 11.7% in May 2011. The unemployment rate was 12.6% in El Dorado, 10.8% in Placer, 11.8% in Sacramento and 11.8% in Yolo counties. This compares with an unadjusted unemployment rate of 11.4% for the state and 8.7% for the nation during the same period. According to the State of California Employment Development Department, the Sacramento MSA lost 12,300 payroll jobs from May 2010 to May 2011 — 7,900 in government and 1,800 in financial activities, among others. However, between April and May 2011, the number of jobs in the region actually increased by 5,300 jobs — 2,400 of which occurred in the construction field, the largest increase the sector has seen in the month of April in over 20 years, a statistic that bodes very well for the area.
- Overall** - While confidence is slowly returning to the region's office users, their overall tentative posture continues to drag on demand and renders net absorption, while improved over prior quarters, virtually anemic. Only through job growth and decreased unemployment will the market resume healthy, stable fundamentals. Recent survey evidence suggests that at least several of the region's employers are recommending hiring in the second half of the year, which will ultimately boost confidence, create jobs and strengthen office market conditions.
- Construction** - Total space under construction checked in at 280,000 square feet in the second quarter of 2011. The slowdown in construction has and will ease the upward pressure on vacancy going forward.
- Vacancy** - Direct/sublease space (unoccupied) finished the second quarter of the year at 17.89%, a single-digit basis point increase over the prior quarter and less than a full percent increase over the prior year's rate of 16.98%. The vacancy rate in the Downtown CBD submarket rose 40 basis points during the quarter, closing the second quarter at 10.54%.
- Availability** - The rate of direct/sublease space being marketed was 20.41% in the second quarter, up from 19.28% at the end of the second quarter 2010.
- Lease Rates** - The average asking full-service gross (FSG) lease rate per square foot per month in the Sacramento office market was \$1.80 at the end of the quarter — a \$0.07 or 3.7% decrease from the same time last year. Class A and B asking rates across all submarkets averaged \$2.07 and \$1.72 per square foot, respectively. The region's highest average asking rate of \$2.21 per square foot per month was found in the Downtown submarket and marked a roughly 3.0% decrease from the prior quarter and a 7.0% decrease from the same time last year.

OFFICE MARKET OVERVIEW

	2Q2011	1Q2011	2Q2010	% Change vs. 2Q2010
Total Vacancy Rate	17.89%	17.86%	16.98%	5.37%
Availability Rate	20.41%	20.35%	19.28%	5.84%
Average Asking Lease Rate	\$1.80	\$1.81	\$1.90	(5.26%)
Sale & Lease Transactions	663,208	1,144,223	1,627,265	(59.24%)
Gross Absorption	1,009,514	1,037,340	942,036	7.16%
Net Absorption	(23,198)	(282,646)	(252,963)	N/A



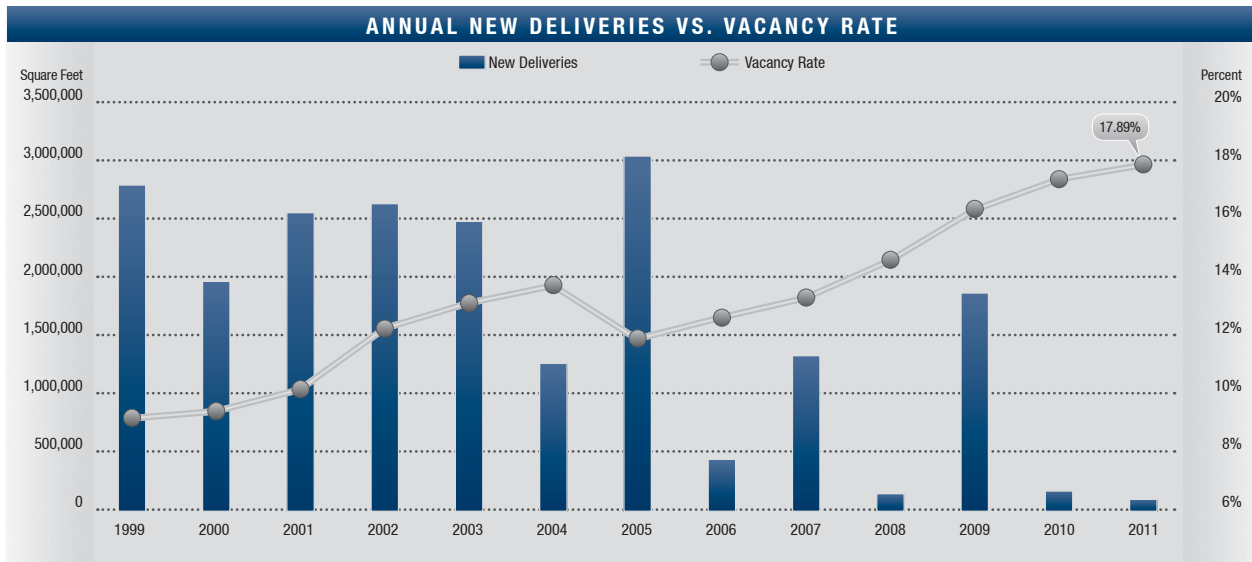
	INVENTORY				VACANCY & LEASE RATES					ABSORPTION			
	Number of Bldgs.	Net Rentable Square Feet	Square Feet U / C	Square Feet Planned	Square Feet Vacant	Vacancy Rate 2Q2011	Square Feet Available	Availability Rate 2Q2011	Average Asking Lease Rate	Net Absorption 2Q2011	Net Absorption 2011	Gross Absorption 2Q2011	Gross Absorption 2011

Sacramento Market

Auburn/Lincoln	59	1,167,879	0	95,921	145,934	12.50%	154,267	13.21%	\$1.23	10,372	7,818	11,372	11,372
Campus Commons	43	1,309,648	0	120,000	305,835	23.35%	331,035	25.28%	\$1.89	(29,863)	(43,527)	5,916	23,199
Carmichael/Fair Oaks	51	1,164,298	0	0	131,639	11.31%	188,110	16.16%	\$1.29	(7,075)	2,369	6,210	38,720
Citrus Heights/Orangevale	50	1,345,024	0	0	240,535	17.88%	274,255	20.39%	\$1.20	(221)	1,603	7,367	16,909
Davis/Woodland	74	1,843,699	0	48,290	233,232	12.65%	232,636	12.62%	\$2.12	(2,137)	(26,833)	21,580	29,256
Downtown	211	17,868,873	155,000	2,400,000	1,882,571	10.54%	2,181,104	12.21%	\$2.21	(25,299)	(81,884)	152,937	237,947
East Sacramento	32	1,800,135	0	0	270,100	15.00%	282,960	15.72%	\$1.71	3,245	30,565	3,899	35,614
Folsom	100	4,668,459	72,000	107,687	714,149	15.30%	876,088	18.77%	\$1.92	(23,558)	(13,631)	49,642	140,043
Highway 50	277	15,582,671	0	1,253,600	3,027,196	19.43%	3,579,414	22.97%	\$1.66	(89,440)	(208,718)	218,124	464,516
Howe Ave/Fulton Ave	80	2,503,364	0	0	486,776	19.44%	571,517	22.83%	\$1.56	10,304	(51,697)	51,236	65,194
Midtown	105	4,128,415	0	63,600	279,078	6.76%	368,554	8.93%	\$1.90	19,441	7,474	69,263	86,234
Natomas/Northgate	103	5,943,381	0	437,725	1,458,110	24.53%	1,590,040	26.75%	\$1.74	27,099	70,225	65,592	174,955
Point West	50	2,687,929	0	0	659,701	24.54%	790,206	29.40%	\$1.70	74,365	211,338	122,191	285,326
Rio Linda/North Highlands	29	1,051,914	0	0	419,261	39.86%	595,295	56.59%	\$1.27	6	12,838	1,709	19,141
Roseville/Rocklin	271	10,560,366	53,000	705,673	3,203,650	30.34%	3,372,228	31.93%	\$1.84	41,600	(136,311)	173,603	299,828
South Sacramento	127	3,603,689	0	238,293	682,319	18.93%	789,894	21.92%	\$1.80	(25,786)	7,276	24,898	68,718
Watt Ave	53	2,470,045	0	45,858	308,933	12.51%	312,878	12.67%	\$1.46	(5,860)	(89,991)	16,546	31,046
West Sacramento	36	2,205,322	0	110,000	203,932	9.25%	223,820	10.15%	\$1.62	(391)	(4,758)	7,429	18,966
Sacramento Market Total	1,751	81,905,111	280,000	5,626,647	14,652,951	17.89%	16,714,301	20.41%	\$1.80	(23,198)	(305,844)	1,009,514	2,046,984

Class A	186	25,135,651	208,000	4,447,978	4,838,487	19.25%	5,300,176	21.09%	\$2.07	98,525	314,084	389,753	875,146
Class B	839	37,573,076	72,000	1,178,669	6,936,819	18.46%	7,780,744	20.71%	\$1.72	(130,054)	(409,619)	464,733	870,444
Class C	726	19,196,384	0	0	2,877,645	14.99%	3,633,381	18.93%	\$1.36	8,331	(210,309)	155,028	301,394
Square Footage Total	1,751	81,905,111	280,000	5,626,647	14,652,951	17.89%	16,714,301	20.41%	\$1.80	(23,198)	(305,844)	1,009,514	2,046,984

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
Parkshore Plaza I & II – 255 Parkshore Dr.	Folsom	A	269,853	\$174.17	Commonwealth REIT	McCarthy Cook & Co. & JP Morgan JV
River Plaza Corp. Ctr. – 2566 River Plaza Dr. – 6 Bldgs.	Natomas/Northgate	B	75,885	\$85.66	CA Farm Bureau Federation	Bank of America
Heritage Lane – 1851 Heritage Ln.	Point West	C	56,217	\$76.49	Heritage Lane Partners, LLC	Marin County Employees Retr. Assn.
Former AAA Call Center – 9700 W. Taron	S. Sac/Elk Grove	B	108,780	\$65.27	CA Northstate College of Pharmacy	CA State Automobile Assoc
1010 Hurley & 1111 Howe – 2 Properties	Howe Ave./Fulton Ave.	B	168,046	\$57.72	Karlin Real Estate	Pacific Real Estate Partners
The Kress Bldg – 818 K St.	Downtown	B	54,745	\$32.42	K & R DEV INC	Lerob, LLC

Lease Transactions

Property Address	Submarket	Class	Square Feet	Transaction Date	Tenant	Owner
1747 N. Market Blvd.	Natomas/Northgate	A	52,500	May-11	Department of Consumer Affairs	Buzz Oates, LLC
1 Sierra Gate Plaza	Roseville/Rocklin	C	51,000	Apr-11	John Adams Academy	O'Brien Interests
500 Capitol Mall	Downtown	A	14,000	Apr-11	Locke Lord Bissell & Liddell, LLP	Tsakopoulos Investments
2240 Douglas Blvd.	Roseville/Rocklin	B	11,275	Apr-11	Solar Power Inc.	Lum Yip Kee, Ltd
4090 Truxel Rd.	Natomas/Northgate	B	10,461	May-11	US Armed Forces Recruiting Center	Truxel Office Ventures, LLC
1010 Hurley Way	Howe Ave/Fulton Ave	B	9,979	Jun-11	Maximum Security Alarm	UCM/Prep-Howe, LLC

Product Type

CLASS A

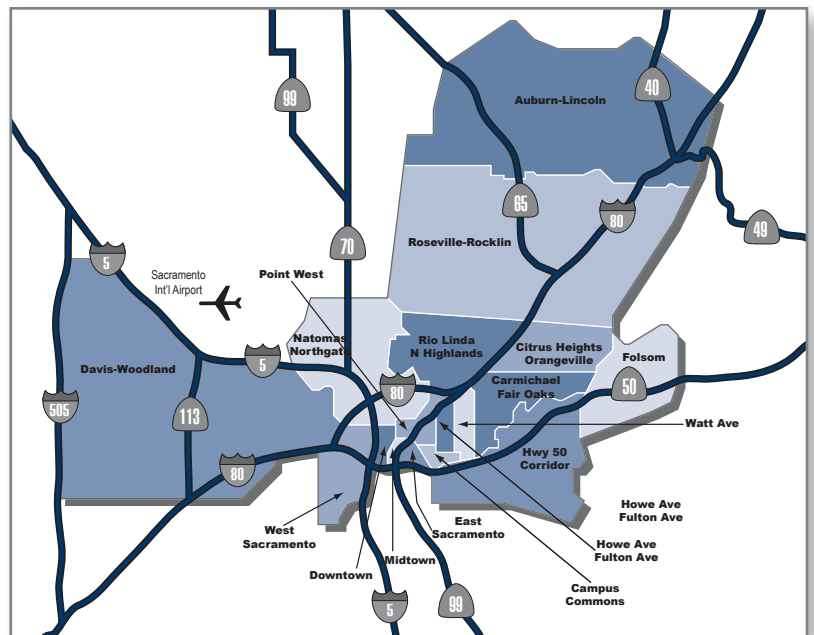
Most prestigious buildings competing for premier office users with rents above average for the area. Buildings have high-quality standard finishes, state-of-the-art systems, exceptional accessibility and a definite market presence.

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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