

Office Market Report

Compared to the Previous Quarter:

Vacancy



UP

Net Absorption



NEGATIVE

Lease Rates



DOWN

Transactions



UP

Deliveries



DOWN

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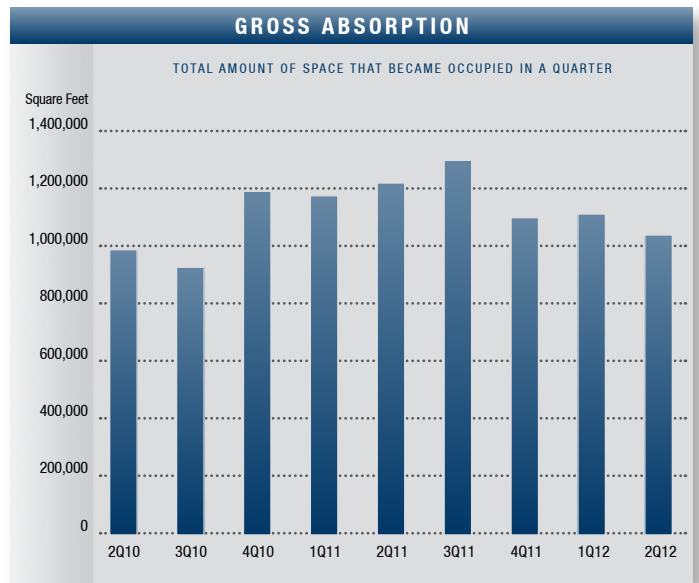
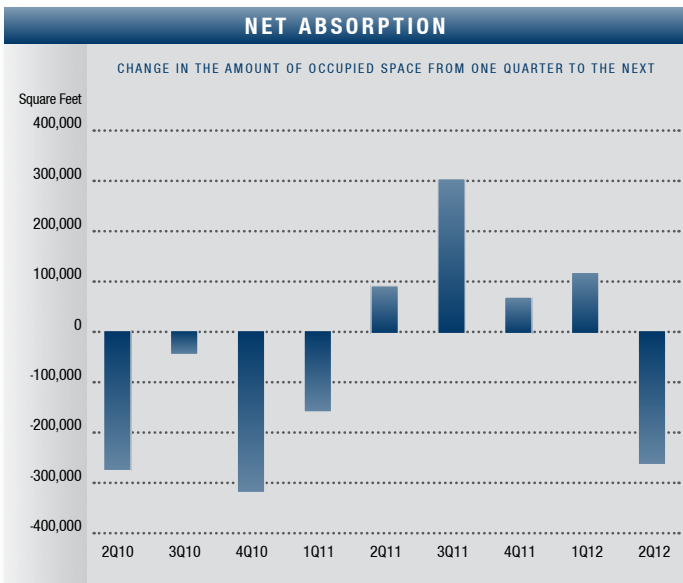
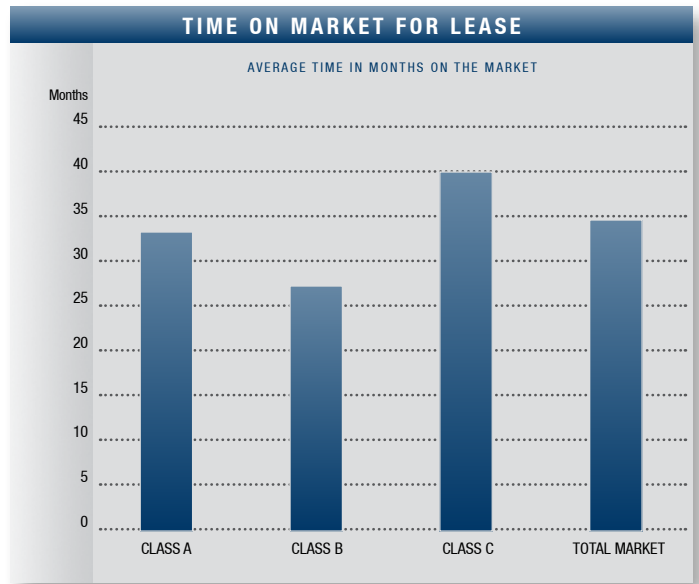
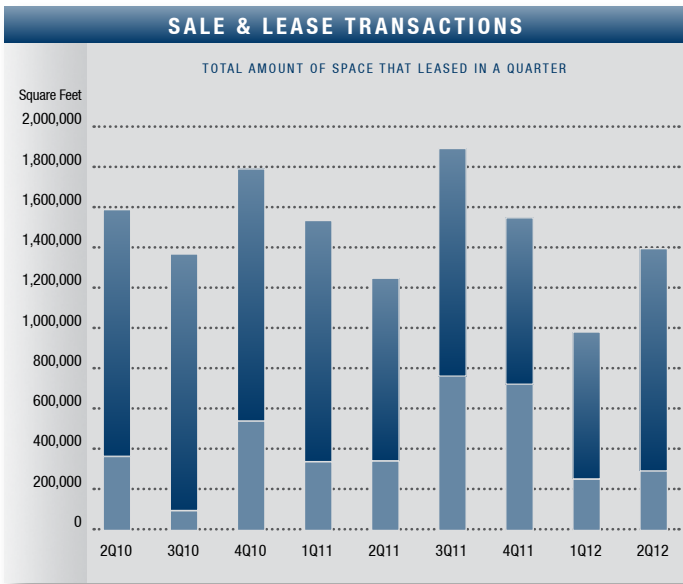
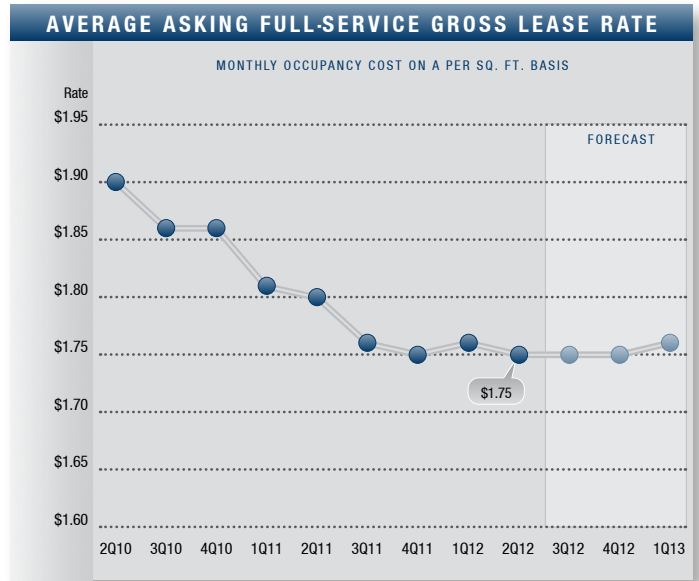
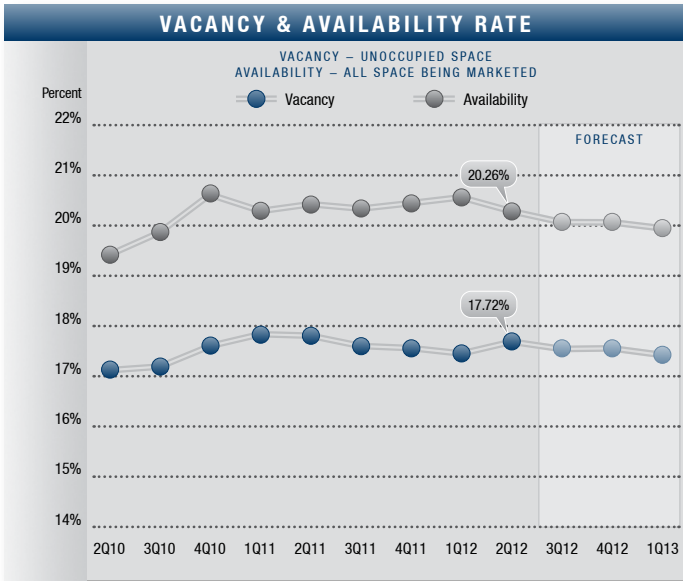
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Market Highlights

- Market Status** - The Sacramento office market hit a bump on its path to recovery in the second quarter of 2012. Vacancy rose while availability dropped — a result of more shadow space coming onto the market. While this negatively impacted the second quarter — with an increase vacancy rate and negative net absorption — it will eventually produce positive statistical changes. Sale and lease transaction volume displayed an increase both from the previous quarter and the previous year. While overall the market took a step back in the second quarter of 2012, none of the changes were extreme, an indication that the changes were just fluctuations of the market on its path to recovery.
- Absorption** - The Sacramento office market posted 261,538 square feet of negative net absorption during the second quarter. The previous four consecutive quarters displayed a minimum of 68,000 square feet of positive net absorption.
- Transaction Activity** - Sale and lease transaction volume totaled about 1.4 million square feet in the second quarter of 2012, an increase from the previous quarter's approximate 1 million square feet. Typically, this statistic does have some lag time to post final numbers, so look for the second quarter numbers end up a bit higher.
- Employment** - The unemployment rate in the Sacramento-Arden Arcade-Roseville MSA was 10.4% in May 2012, up from 11.5% in March 2012. This compares with an unadjusted unemployment rate of 10.4% for California and 7.9% for the nation during the same period.
- Overall** - The fundamentals of the Sacramento office market reflect stabilization with recovery on the horizon. While a few larger submarkets (i.e. Roseville/Rocklin and Natomas/Northgate) continue to struggle with high vacancy rates and declining lease rates, the region's overall numbers for the second quarter still show signs of consistency. The recovery is a long road and one quarter won't dictate or derail the market's return. While it appears that the crisis of confidence that has gripped office users for the last three years may be slightly loosening its hold, multiple consecutive quarters of positive job growth and declining vacancy remain, ultimately, necessary to precipitate a significant change in local leasing market fundamentals.
- Construction** - There were no office buildings delivered in the second quarter of 2012. However, there were 5 office buildings under construction in the Sacramento region, including three, 110,000 square foot buildings in South Sacramento.
- Vacancy** - The vacancy rate rose 24 basis points from the first quarter of 2012 to 17.72% during the second quarter. Overall, the rate has remained flat since the beginning of 2011 when it reached 17.81%. Within the major submarkets, Downtown and Midtown performed the best with vacancy rates of 9.90% and 8.26%, respectively, while the Roseville/Rocklin and Natomas/Northgate submarkets struggled at 26.22% and 25.46%.
- Availability** - The rate of space being marketed was 20.26%, a decrease of 30 basis points from the previous quarter. The availability rate has been in the 20th percentile since the fourth quarter of 2010. Like the vacancy statistics for the second quarter, Downtown and Midtown had the least available square footage, while Roseville/Rocklin and Natomas/Northgate had the most available square footage.
- Lease Rates** - The average asking lease rate across all building classes and submarkets at the close of the

OFFICE MARKET OVERVIEW

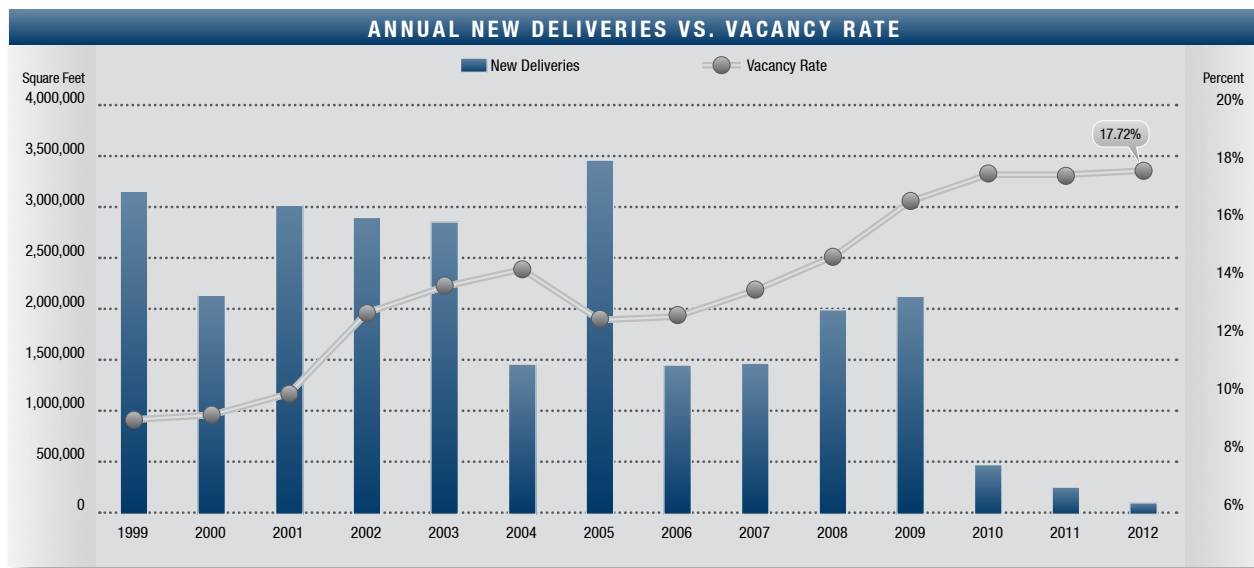
	2Q12	1Q12	2Q11	% of Change vs. 2Q11
Total Vacancy Rate	17.72%	17.48%	17.79%	(0.39%)
Availability Rate	20.26%	20.56%	20.44%	(0.88%)
Average Asking Lease Rate	\$1.75	\$1.76	\$1.80	(2.78%)
Sale & Lease Transactions	1,390,038	972,054	1,247,807	11.40%
Gross Absorption	1,032,183	1,110,114	1,211,666	(14.81%)
Net Absorption	(261,538)	119,616	92,111	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 2Q2012	Square Feet Available	Availability Rate 2Q2012	Average Asking Lease Rate	Net Absorption 2Q2012	Net Absorption 2012	Gross Absorption 2Q2012	Gross Absorption 2012
Sacramento Market													
Auburn/Lincoln	64	1,240,063	0	73,921	157,969	12.74%	179,722	14.49%	\$1.17	(11,443)	(7,100)	7,574	20,954
Benicia/Vallejo	91	2,779,948	0	0	747,908	26.90%	747,908	26.90%	\$0.71	(8,206)	8,321	5,971	28,995
Campus Commons	43	1,292,579	0	160,000	284,403	22.00%	308,032	23.83%	\$1.74	(9,473)	(15,478)	16,412	32,959
Carmichael/Fair Oaks	49	995,891	0	0	156,770	15.74%	207,333	20.82%	\$1.33	2,927	5,082	5,055	21,783
Citrus Heights/Orangevale	51	1,410,168	0	0	234,229	16.61%	278,597	19.76%	\$1.20	10,068	15,995	15,425	32,738
Davis/Woodland	75	1,838,463	0	52,685	233,094	12.68%	254,594	13.85%	\$2.03	(12,047)	(23,954)	34,940	41,443
Downtown	216	18,575,844	0	0	1,839,457	9.90%	2,204,913	11.87%	\$2.23	(60,942)	(11,513)	133,296	284,148
East Sacramento	32	1,811,442	0	0	188,011	10.38%	192,226	10.61%	\$1.96	(3,296)	64,102	3,528	70,926
El Dorado	69	1,608,627	0	432,000	356,657	22.17%	483,578	30.06%	\$1.78	(159)	(1,219)	19,683	28,300
Fairfield/Suisun City	64	1,929,594	0	87,133	252,146	13.07%	375,786	19.47%	\$2.28	(9,528)	2,972	13,707	27,306
Folsom	99	4,708,614	0	107,687	585,445	12.43%	869,601	18.47%	\$1.84	33,903	114,051	100,650	218,801
Highway 50	277	15,583,061	0	1,253,600	3,069,899	19.70%	3,543,542	22.74%	\$1.65	(106,681)	(149,209)	167,303	419,035
Howe Ave/Fulton Ave	79	2,485,423	0	0	530,219	21.33%	592,125	23.82%	\$1.53	(53,222)	(43,028)	47,479	94,958
Midtown	104	3,961,046	0	63,600	327,304	8.26%	466,132	11.77%	\$1.91	2,158	(10,503)	15,652	29,446
Natomas/Northgate	108	6,101,972	0	322,525	1,553,301	25.46%	1,698,663	27.84%	\$1.71	18,077	(58,008)	89,174	128,408
Outer El Dorado County	8	142,249	0	0	18,907	13.29%	18,907	13.29%	\$2.28	0	0	0	0
Outer Placer County	4	52,533	0	0	16,416	31.25%	16,416	31.25%	\$0.00	880	(15,536)	880	880
Outer Sacramento County	13	329,820	0	123,102	48,254	14.63%	56,638	17.17%	\$1.66	(8,750)	(2,064)	0	13,282
Point West	51	2,722,261	0	0	842,603	30.95%	876,435	32.20%	\$1.75	13,200	(37,471)	76,458	103,554
Rio Linda/North Highlands	30	1,035,005	0	0	546,994	52.85%	552,753	53.41%	\$1.22	(133,476)	(136,644)	2,259	2,259
Roseville/Rocklin	263	10,456,477	108,140	794,728	2,741,833	26.22%	3,041,924	29.09%	\$1.73	53,987	107,595	196,849	358,857
South Sacramento / Elk Grove	126	3,877,970	330,000	223,293	748,423	19.30%	782,543	20.18%	\$1.42	38,248	65,446	49,035	122,542
Sutter County	26	483,593	0	20,000	54,712	11.31%	51,222	10.59%	\$1.51	(3,211)	11,544	13,744	28,499
Vacaville/Dixon	42	1,209,232	0	0	151,977	12.57%	166,454	13.77%	\$1.85	1,639	2,600	5,291	7,505
Watt Ave	53	2,456,206	0	45,858	363,828	14.81%	375,562	15.29%	\$1.28	(10,456)	(21,834)	8,354	14,259
West Sacramento	37	2,242,642	0	110,000	201,929	9.00%	241,082	10.75%	\$1.57	(5,735)	(6,069)	3,464	3,464
Yuba County	6	379,952	0	0	0	0.00%	0	0.00%	\$0.00	0	0	0	0
Sacramento Market Total	2,080	91,710,675	438,140	3,870,132	16,252,688	17.72%	18,582,688	20.26%	\$1.75	(261,538)	(141,922)	1,032,183	2,142,297

Class A	194	25,931,894	383,000	2,179,911	4,507,521	17.38%	5,161,744	19.91%	\$2.02	119,443	25,030	394,831	662,515
Class B	999	42,641,863	55,140	1,690,221	7,366,022	17.27%	8,453,514	19.82%	\$1.70	(150,371)	104,114	462,379	1,140,567
Class C	887	23,136,918	0	0	4,379,145	18.93%	4,967,430	21.47%	\$1.35	(230,610)	(271,066)	174,973	339,215
Sacramento Market Total	2,080	91,710,675	438,140	3,870,132	16,252,688	17.72%	18,582,688	20.26%	\$1.75	(261,538)	(141,922)	1,032,183	2,142,297

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
400 Sunrise Ave.	Roseville/Rocklin	A	53,000	\$51.89	Mourier Land Investment Corp.	Far East National Bank
1788 Tribute Rd.	Point West	B	28,572	\$84.50	Los Rios Community College District	Ksidakis Family Trust
2150 Capitol Ave.	Midtown	B	12,876	\$194.16	Center of Praise Ministries	Capital Program Management, Inc.
350 Del Norte Ave.	Sutter County	B	13,340	\$176.16	Picadilly Capitol, Inc.	Peppercorn Turst
2330 Glendale Ln.	Howe Ave/Fulton Ave	B	26,050	\$76.78	Strategies to Empower People, Inc.	Gallaway Commercial, Inc.

Lease Transactions

Property Address	Submarket	Class	Square Feet	Transaction Date	Tenant	Owner
3310 El Camino Ave.	Watt Ave	C	106,419	Jun-12	State of California	Buzz Oates Companies
3215 Prospect Park Dr.	Highway 50 Corridor	C	101,400	May-12	Dignity Health	Kendall Raleigh, LLC
4837 Watt Ave.	Rio Linda/N. Highlands	C	87,543	Jun-12	Advanced Call Center Technologies	Elliott Homes, Inc.
1180 Iron Point Rd.	Folsom	A	29,166	May-12	Sierra Pacific Mortgage	KBS Realty Advisors
500 Capitol Mall	Downtown	A	18,000	Apr-12	KPMG, LLP	Tsakopoulos Investments

Product Type

CLASS A

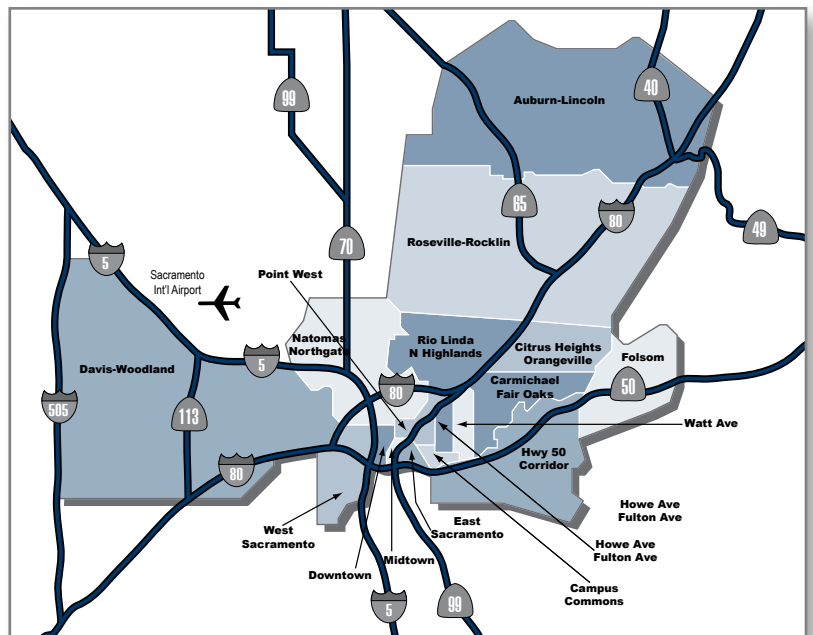
Most prestigious buildings competing for premier office users with rents above average for the area. Buildings have high-quality standard finishes, state-of-the-art systems, exceptional accessibility and a definite market presence.

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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