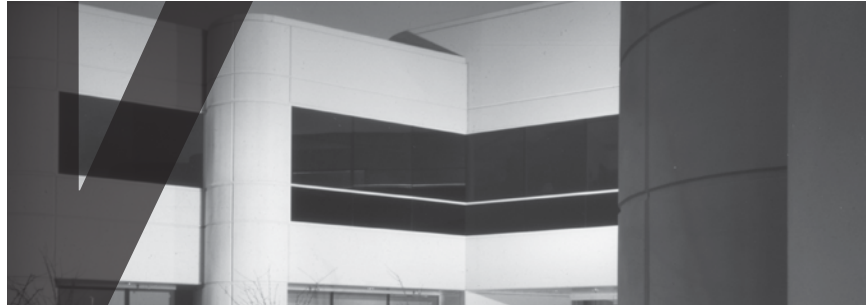




REAL ESTATE SERVICES

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Office Market Report

Compared to the Previous Quarter:

Vacancy

DOWN

Net Absorption

POSITIVE

Lease Rates

DOWN

Transactions

FLAT

Deliveries

DOWN

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Market Highlights

- Market Status** - While positive absorption has gained significant momentum in Sacramento, the recession absolutely devastated this office market. The combination of negative absorption and the delivery of several major projects raised vacancies to a level not seen since the 1980s. The good news is that demand has gained considerable strength in recent quarters and development has been low, pushing fundamentals into recovery mode.
- Absorption** - The Sacramento office market posted 407,197 square feet of positive net absorption during the second quarter, giving the market its fourth consecutive quarter, and eighth of the last nine quarters, of positive net absorption.
- Transaction Activity** - Sale and lease transaction volume totaled 1.21 million square feet in the second quarter. Typically, this statistic does have some lag time to post final numbers, so look for the quarter's numbers to end up over 1.5 million square feet. Details of the largest transactions during the second quarter of 2013 can be found on the back page of this report.
- Employment** - The unemployment rate in the Sacramento-Arden Arcade-Roseville MSA was 7.8 percent in May 2013, down from a revised 8.2 percent in April 2013, and below the year-ago estimate of 10.3 percent. This compares with an unadjusted unemployment rate of 8.1 percent for California and 7.3 percent 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 4,900 payroll jobs from April 2013 to May 2013. The largest gains were 1,400 jobs in professional and business services and 700 jobs in leisure and hospitality. The government picked up 600 jobs over the past month with 200 of those within the local government.
- Overall** - Sacramento's second quarter of 2013 was a huge step in the recovery of this market. The second quarter marked the fourth consecutive quarter with drops in vacancy and positive net absorption; it shouldn't be long before this translates into the rising of asking rates. As we enter further into 2013, positive absorption should continue and with few new deliveries in the pipeline to apply any upward pressure on vacancy. We foresee an overall increase in investment activity in the coming quarters, a result of some major governmental issues, such as the sequestration cuts and massive lay offs of government workers, being resolved. As job creation continues and consumer confidence stabilizes, the office market will continue to recover.
- Construction** - There were no office buildings delivered in the second quarter of 2013, but there was a 18,625 square foot building delivered during the first quarter. At the end of the second quarter, there were only four office buildings under construction in the Sacramento region — two in South Sacramento and two in the Roseville/Rocklin submarket. The slowdown in construction has eased and will continue to ease upward pressure on vacancy.
- Vacancy** - The vacancy rate decreased 35 basis points from the previous quarter to 15.94%. This was the fourth consecutive quarter of vacancy decreases in the region and the first time vacancy has reached the 15% mark since beginning of 2009. Within the major submarkets, Midtown and Folsom performed the best with vacancy rates of 6.66% and 10.68%, respectively, while the Natomas/Northgate submarket struggled at 21.97%.
- Availability** - The rate of space being marketed was 18.49%, a decrease of 34 basis points from the previous quarter. Similar to the vacancy, this was the third consecutive quarter of decreases in the availability rate. Midtown and Downtown had the least percentage of available square footage at 9.83% and 13.11%, respectively, while Natomas/Northgate submarket had the largest percentage of available square footage at 25.55%.
- Lease Rates** - The average asking lease rate across all building classes and submarkets at the close of the second quarter was \$1.73 per square foot per month, full-service gross. This was a decrease of \$0.01 from the previous quarter. Downtown had one of the highest asking rates at \$2.18 per square foot, while the region's lowest rates were found in the Auburn/Lincoln submarket at \$1.18 per square foot.

Prepared by:

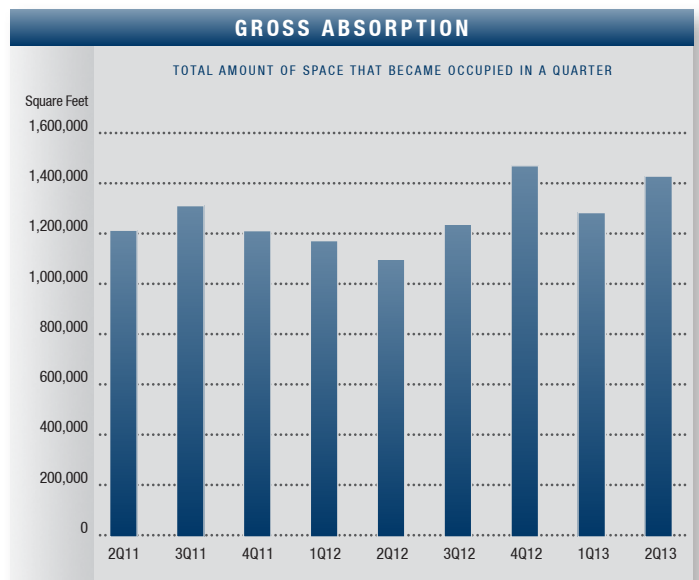
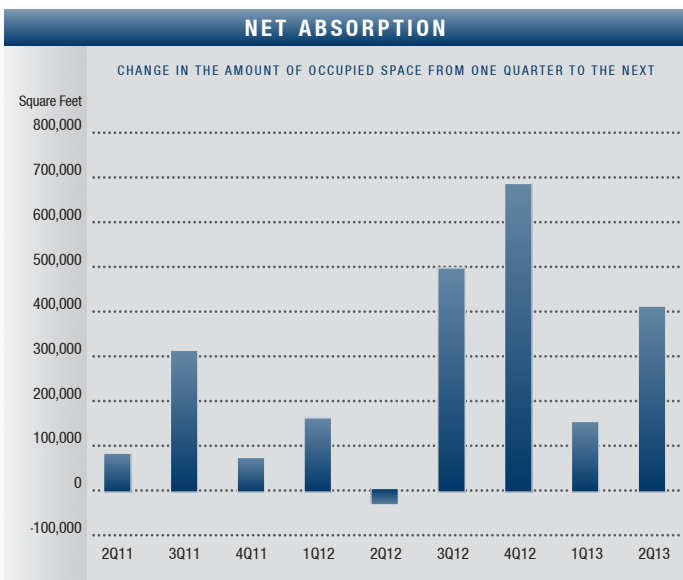
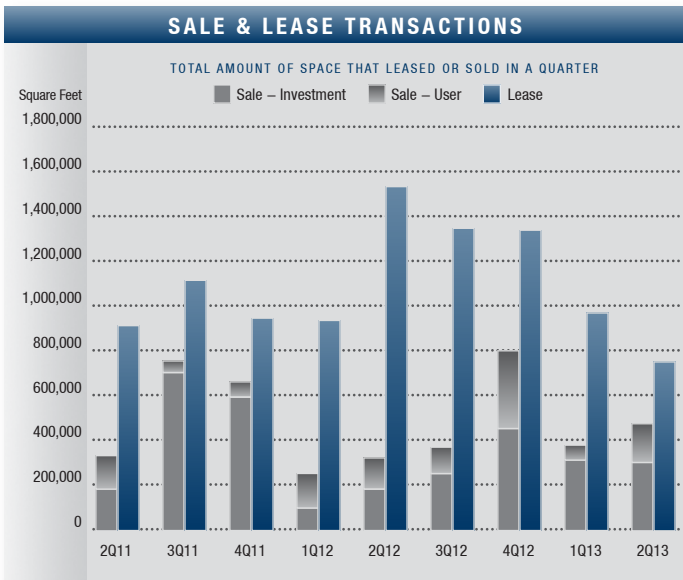
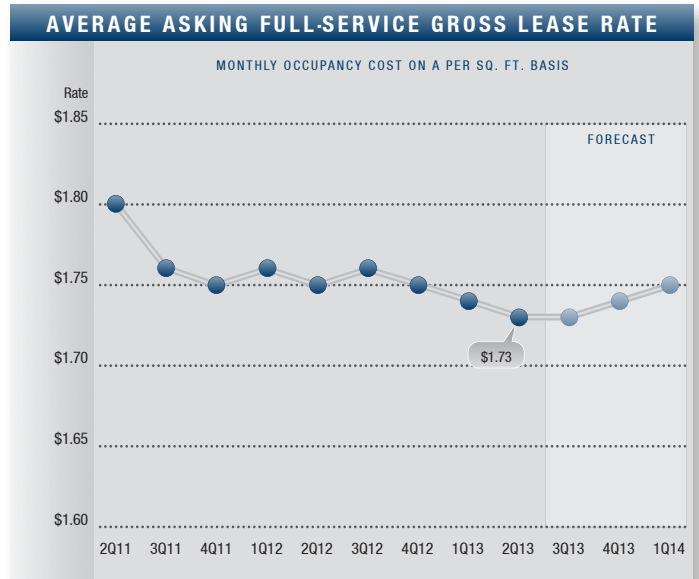
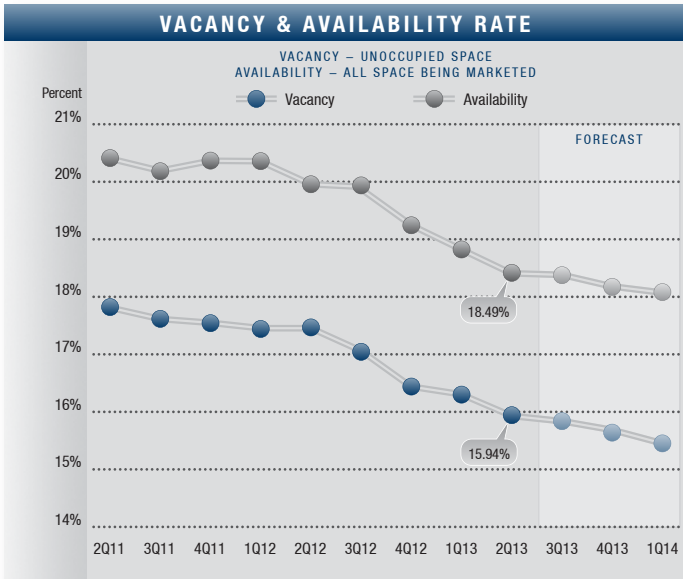
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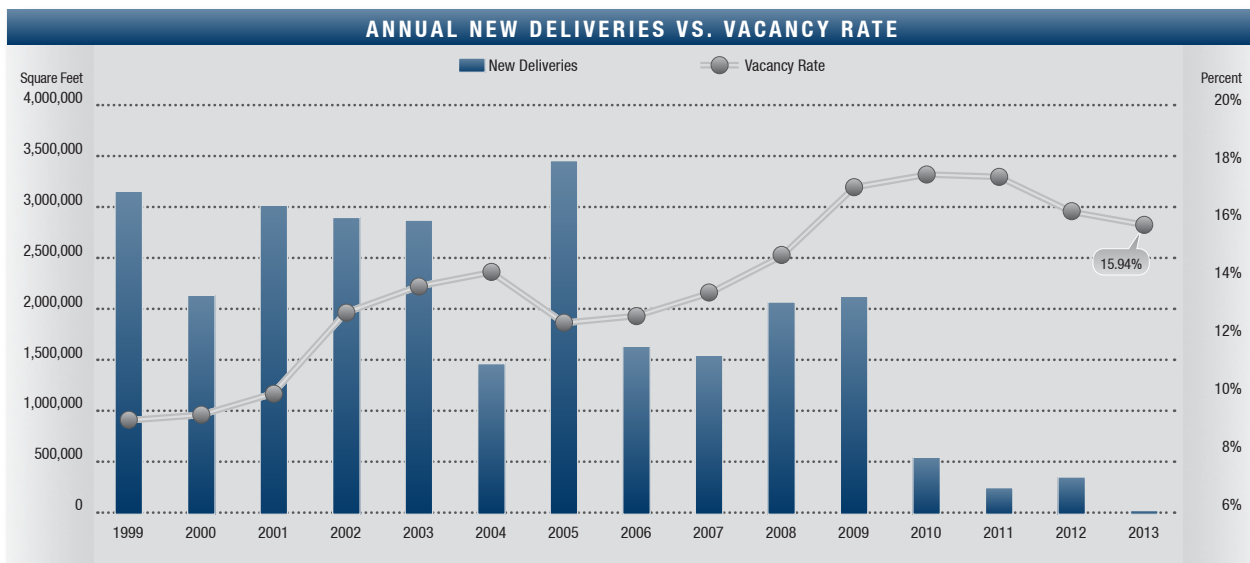
OFFICE MARKET OVERVIEW

	2Q13	1Q13	2Q12	% of Change vs. 2Q12
Total Vacancy Rate	15.94%	16.29%	17.48%	(8.81%)
Availability Rate	18.49%	18.83%	19.97%	(7.41%)
Average Asking Lease Rate	\$1.73	\$1.74	\$1.75	(1.14%)
Sale & Lease Transactions	1,212,904	1,332,889	1,843,799	(34.22%)
Gross Absorption	1,423,502	1,277,302	1,095,293	29.97%
Net Absorption	407,197	150,089	(28,020)	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 2Q2013	Square Feet Available	Availability Rate 2Q2013	Average Asking Lease Rate	Net Absorption 2Q2013	Net Absorption 2013	Gross Absorption 2Q2013	Gross Absorption 2013
Sacramento Market													
Auburn / Lincoln	65	1,352,430	0	93,921	228,210	16.87%	235,696	17.43%	\$1.18	(8,808)	(20,820)	14,966	21,436
Benicia / Vallejo	90	2,770,479	0	0	760,558	27.45%	765,558	27.63%	\$1.27	12,752	670	18,244	19,878
Campus Commons	42	1,276,758	0	160,000	263,383	20.63%	304,347	23.84%	\$1.72	21,887	21,773	35,725	41,540
Carmichael / Fair Oaks	48	1,030,802	0	0	120,560	11.70%	169,942	16.49%	\$1.20	(6,832)	9,957	10,818	47,868
Citrus Heights / Orangevale	52	1,431,387	0	0	214,311	14.97%	246,118	17.19%	\$1.23	(2,372)	(14,474)	10,556	31,038
Davis / Woodland	76	1,916,719	0	52,685	179,438	9.36%	199,075	10.39%	\$2.00	24,795	41,493	41,952	72,058
Downtown	215	18,565,278	0	0	2,124,244	11.44%	2,434,329	13.11%	\$2.18	(94,171)	(233,456)	175,113	247,863
East Sacramento	32	1,838,442	0	0	220,741	12.01%	224,956	12.24%	\$1.98	0	(1,183)	0	2,320
El Dorado	71	1,641,937	0	432,000	378,534	23.05%	504,136	30.70%	\$1.76	15,106	1,250	23,055	30,705
Fairfield / Suisun City	62	1,998,477	0	106,133	317,007	15.86%	391,771	19.60%	\$2.26	17,891	(48,774)	27,004	37,239
Folsom	102	4,753,044	0	107,687	507,862	10.68%	786,986	16.56%	\$1.82	18,478	47,053	81,905	139,722
Highway 50	290	16,319,865	0	1,079,252	2,777,997	17.02%	3,311,739	20.29%	\$1.56	(34,304)	75,502	145,361	348,007
Howe Ave / Fulton Ave	79	2,495,267	0	0	597,464	23.94%	644,881	25.84%	\$1.53	2,383	(8,527)	42,273	81,299
Midtown	101	3,919,873	0	63,600	260,962	6.66%	385,215	9.83%	\$1.79	54,663	38,270	59,421	68,701
Natomas / Northgate	107	6,086,799	0	177,525	1,337,312	21.97%	1,555,204	25.55%	\$1.76	114,288	206,568	197,823	318,119
Outer El Dorado County	8	142,249	0	0	28,470	20.01%	28,470	20.01%	\$2.17	(2,811)	(2,811)	0	0
Outer Placer County	4	48,360	0	0	20,316	42.01%	20,316	42.01%	\$0.00	0	0	0	0
Outer Sacramento County	14	344,888	0	123,102	39,504	11.45%	39,504	11.45%	\$1.48	8,384	8,384	8,384	8,384
Point West	51	2,749,329	0	0	714,878	26.00%	740,781	26.94%	\$1.72	(10,244)	63,735	9,741	103,694
Rio Linda / North Highlands	29	1,009,080	0	0	313,693	31.09%	386,128	38.27%	\$1.22	0	10,126	0	10,174
Roseville / Rocklin	261	10,540,730	108,140	794,728	2,099,405	19.92%	2,281,118	21.64%	\$1.75	118,144	256,083	267,735	780,054
South Sacramento / Elk Grove	132	4,236,359	82,640	160,793	577,393	13.63%	631,813	14.91%	\$1.42	137,942	110,607	179,882	213,523
Sutter County	27	495,820	0	20,000	67,240	13.56%	67,240	13.56%	\$1.45	(2,410)	(2,480)	0	1,600
Vacaville / Dixon	40	1,166,220	0	0	142,076	12.18%	161,550	13.85%	\$1.86	(77)	(1,644)	380	2,211
Watt Ave	52	2,449,800	0	45,858	353,154	14.42%	388,620	15.86%	\$1.29	(16,112)	(24,219)	34,539	34,746
West Sacramento	37	2,224,572	0	110,000	200,004	8.99%	321,895	14.47%	\$1.65	38,625	28,676	38,625	38,625
Yuba County	6	370,198	0	0	4,973	1.34%	4,973	1.34%	\$1.25	0	(4,473)	0	0
Sacramento Market Total	2,093	93,175,162	190,780	3,527,284	14,849,689	15.94%	17,232,361	18.49%	\$1.73	407,197	557,286	1,423,502	2,700,804
Class A	198	26,315,356	53,000	1,860,563	3,818,727	14.51%	4,177,667	15.88%	\$2.02	142,238	530,086	560,994	1,244,524
Class B	1,021	43,738,455	137,780	1,666,721	7,084,811	16.20%	8,436,648	19.29%	\$1.65	156,033	(50,907)	594,279	938,555
Class C	874	23,121,351	0	0	3,946,151	17.07%	4,618,046	19.97%	\$1.34	108,926	78,107	268,229	517,725
Sacramento Market Total	2,093	93,175,162	190,780	3,527,284	14,849,689	15.94%	17,232,361	18.49%	\$1.73	407,197	557,286	1,423,502	2,700,804

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 Per SF	Buyer	Seller
3249 Quality Dr.	Highway 50	A	75,000	\$42.70	VSP, Inc.	Belle Haven Realty Company
2000 O St.	Midtown	B	28,899	\$249.14	Center For Aids Research	O Street Partners, LLC
5750 W. Oaks Blvd.	Roseville / Rocklin	B	54,000	\$110.64	Educational Media Foundation	Farmers Insurance Group
7551 Madison Ave.	Citrus Heights	B	21,172	\$259.78	Davies-Torrance Trust	Plant Bros. Corporation
8775 Folsom Blvd.	Highway 50	B	36,002	\$118.05	Pathway Strategic Advisors	Valley Realty Holdings, LLC

Lease Transactions

Property Address	Submarket	Class	Square Feet	Transaction Date	Tenant	Owner
10877 White Rock Rd.	Highway 50	A	66,126	Apr-13	California Health Benefit Exchange	DivcoWest
925 Highland Pointe Dr.	Roseville / Rocklin	A	19,421	May-13	Zenith	Mourier Land Investment Corporation
6030 W. Oaks Blvd.	Roseville / Rocklin	A	19,000	Apr-13	5th Planet Games	The Opus Group
10850 Gold Center Dr.	Highway 50	A	16,199	May-13	Trinity River Mortgage	DivcoWest
3200 Douglas Blvd.	Roseville / Rocklin	B	14,365	May-13	USA Properties	Morgan Stanley

Product Type

CLASS A

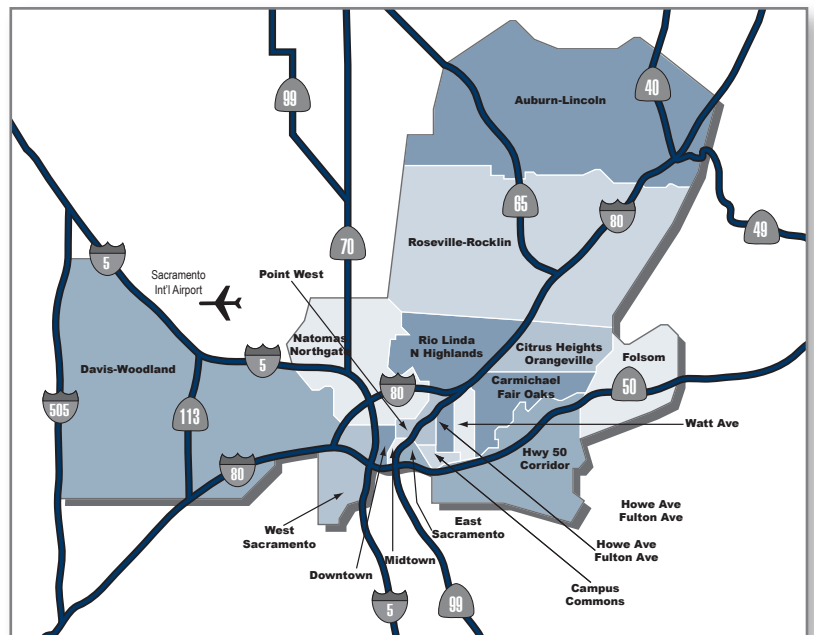
Most prestigious buildings competing for premier office users with rents above average for the area. Buildings have high-quality standard finishes, state-of-the-art systems, exceptional accessibility and a definite market presence.

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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