

MARKET CHANGE

Compared to the Previous Quarter:

Vacancy

DOWN



Net Absorption

POSITIVE



Deliveries

DOWN



Lease Rates

UP



Transactions

DOWN



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HIGHLIGHTS

- **Market Status** - The Sacramento office market continues to vastly improve as demand has increased in recent quarters while development has remained minimal. Net absorption has been positive for ten consecutive quarters now, averaging 289,748 square feet a quarter, while vacancy and availability continue to trend downward. These impressive statistics bode well for the future of the Sacramento office market. As the unemployment rate continues to decrease and overall economic stability strengthens, a full recovery is expected.
- **Construction** - At the close of the second quarter, there were three office buildings under construction in the Sacramento region, totaling 104,140 square feet. The largest of the three is a 55,140 square foot, Class B office building in the Roseville/Rocklin submarket, which is expected to be delivered in 2014. During the second quarter of 2014, there was a total of 28,760 square feet delivered. The minimal construction will continue to force downward pressure on vacancy.
- **Vacancy** - The vacancy rate decreased 20 basis points from the previous quarter to 15.09%. This was the 14th consecutive quarter of vacancy decreases in the region. Within the major submarkets, Midtown and Davis/Woodland performed the best with vacancy rates of 6.32% and 8.15%, respectively, while the Howe Ave/Fulton Ave submarket struggled at 25.36%.
- **Availability** - The rate of space being marketed was 17.75%, a decrease of 8 basis points from the previous quarter. Of the major submarkets, Midtown and Davis/Woodland had the lowest percentage of available square footage at 9.66% and 11.80%, respectively, while the Natomas/Northgate submarket had the largest percentage of available square footage at 23.72%.
- **Lease Rates** - The average asking lease rate across all building classes and submarkets at the close of the second quarter was \$1.77 per square foot per month, full-service gross, which is a \$0.02 increase from the previous quarter and a \$0.04 increase from the previous year. Within the major submarkets, Downtown had the highest asking rate at \$2.28 per square foot per month, while the region's lowest rates were found in the Citrus Heights/Orangevale submarket at \$1.16 per square foot per month.
- **Absorption** - The Sacramento office market posted 208,632 square feet of positive net absorption during the second quarter, giving the market its 10th consecutive quarter of positive net absorption totaling 2.8 million square feet. Of the major submarkets, Point West posted the highest net absorption of 167,111 square feet, while the Roseville/Rocklin submarket had the second highest net absorption of 120,422 square feet.
- **Transaction Activity** - Sale and lease transaction volume totaled nearly 1.4 million square feet in the second quarter. Sales activity came in at just over 614,000 square feet for the second quarter, which compares to an average of 709,918 square feet for all of 2013. This statistic can have some lag time in being reported, so look for second quarter figures to end up somewhat higher in the next report. Details of the largest transactions for the first quarter can be found on the back page of this report.
- **Employment** - The unemployment rate in the Sacramento-Arden Arcade-Roseville MSA was 6.7% in May 2014, down from a revised 7.1% in April 2014, and below the year-ago estimate of 8.3%. This compares with an unadjusted unemployment rate of 7.1% for California and 6.1% 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 20,000 payroll jobs from May 2013 to May 2014. While most sectors showed gains in employment, the largest gains were 5,800 jobs in educational & health services, 5,200 jobs in professional and business services, and 3,400 jobs in government during that same time period.
- **Overall** - The second quarter of 2014 was yet another leap in the right direction for the recovery of the Sacramento office market. It marked the 14th consecutive quarter of drops in vacancy and 10th consecutive quarter of positive net absorption. Even though lease rates are on the rise, they are still their lowest in decades, which makes Sacramento attractive to tenants. As we conclude the second quarter of 2014, the Sacramento office market can look forward to a bright future. Over the next five years, deliveries will remain at a minimum and as hiring accelerates, vacancies will continue to decrease. These factors will lead to greater investment activity in the coming quarters, as job creation continues and consumer confidence stabilizes.

FORECAST

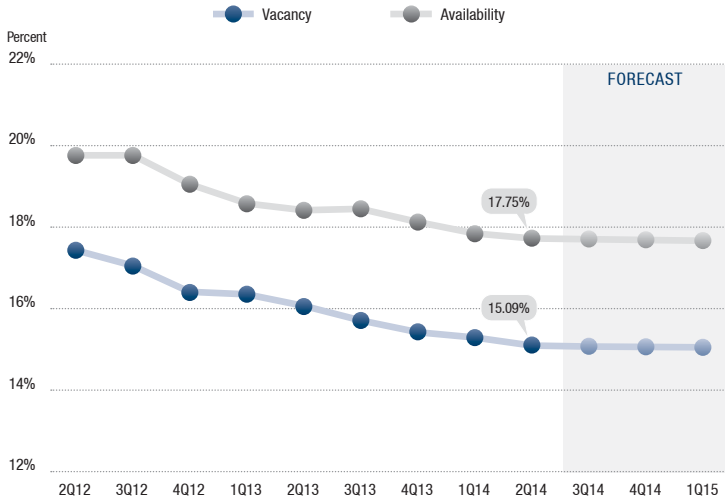
- **Construction** - We anticipate construction remaining minimal, giving demand an opportunity to catch up with supply.
- **Employment** - We anticipate job growth of around 2.1%, or 17,000 jobs, in the Sacramento area by 2015. Expect growth in educational services, health care, social assistance, professional & business services, leisure & hospitality, and retail trade.
- **Lease Rates** - Expect average asking lease rates to increase by 2%-4% by 2015.
- **Vacancy** - We anticipate the vacancy rate continuing to descend in coming quarters, dropping to around 15.03% by 2015.

OVERVIEW

	2Q14	1Q14	2Q13	% of Change vs. 2Q13
Vacancy Rate	15.09%	15.29%	16.01%	(5.75%)
Availability Rate	17.75%	17.83%	18.36%	(3.32%)
Average Asking Lease Rate	\$1.77	\$1.75	\$1.73	2.31%
Sale & Lease Transactions	1,367,245	2,569,349	1,698,199	(19.49%)
Gross Absorption	1,043,532	797,517	1,193,283	(12.55%)
Net Absorption	208,632	202,459	292,392	N/A

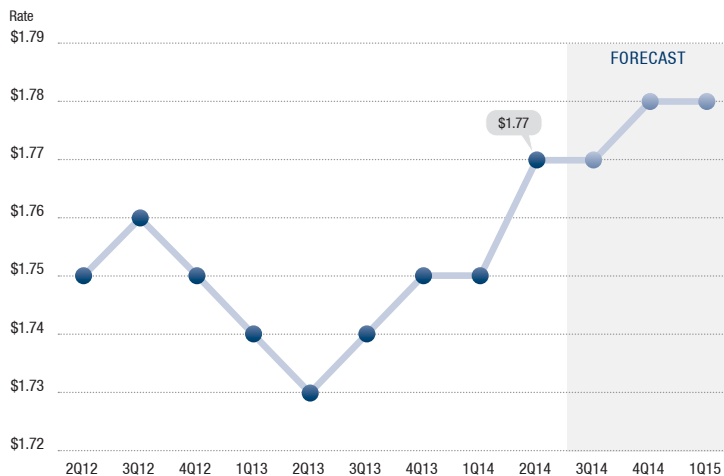
VACANCY & AVAILABILITY RATE

VACANCY – UNOCCUPIED SPACE | AVAILABILITY – ALL SPACE BEING MARKETED



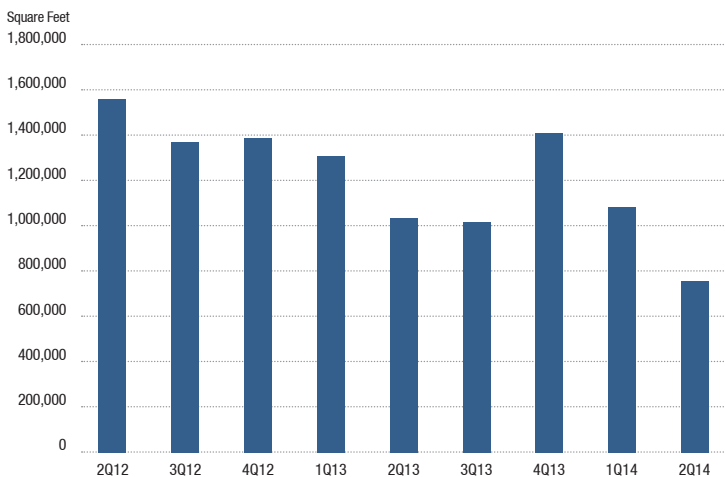
AVERAGE ASKING FULL-SERVICE GROSS LEASE RATE

MONTHLY OCCUPANCY COST ON A PER SQ. FT. BASIS



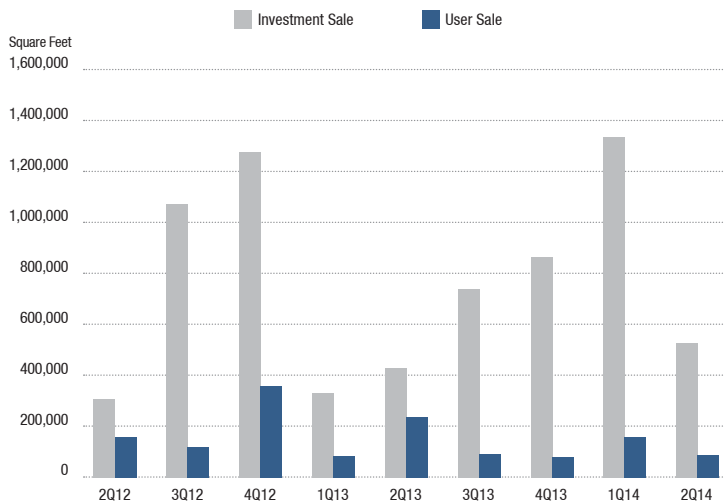
LEASE TRANSACTIONS

TOTAL AMOUNT OF SPACE THAT LEASED IN A QUARTER



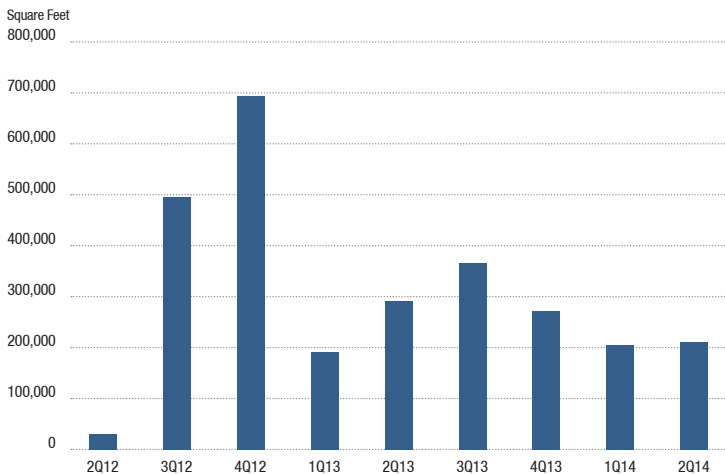
SALES TRANSACTIONS

TOTAL AMOUNT OF SPACE THAT SOLD IN A QUARTER



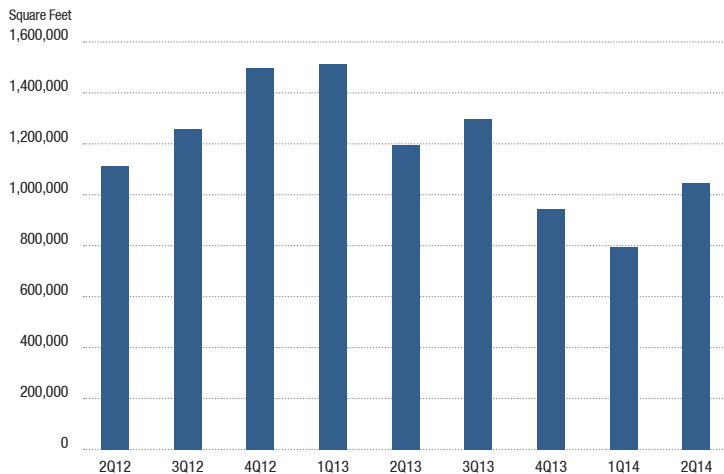
NET ABSORPTION

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 2Q2014	Square Feet Available	Availability Rate 2Q2014	Average Asking Lease Rate	Net Absorption 2Q2014	Net Absorption 2014	Gross Absorption 2Q2014	Gross Absorption 2014
Sacramento Market													
Auburn / Lincoln	66	1,358,736	0	93,921	174,272	12.83%	177,138	13.04%	\$1.52	37,627	42,402	42,683	56,484
Benicia / Vallejo	88	2,685,199	0	462,100	748,806	27.89%	778,482	28.99%	\$1.36	7,473	9,568	19,950	26,454
Campus Commons	42	1,255,511	0	160,000	253,202	20.17%	287,250	22.88%	\$1.73	11,767	(1,300)	13,417	15,668
Carmichael / Fair Oaks	45	969,245	0	0	90,488	9.34%	132,297	13.65%	\$1.34	3,410	(14,298)	15,540	16,240
Citrus Heights / Orangevale	52	1,437,185	0	0	196,522	13.67%	212,011	14.75%	\$1.16	(6,700)	(15,525)	3,506	9,931
Davis / Woodland	78	1,975,100	0	71,600	160,919	8.15%	233,013	11.80%	\$1.92	(14,983)	(3,783)	30,500	54,191
Downtown	217	18,880,893	0	1,320,000	2,230,829	11.82%	2,679,026	14.19%	\$2.28	(78,418)	(39,269)	67,075	218,216
East Sacramento	32	1,840,496	0	0	234,566	12.74%	235,704	12.81%	\$2.02	7,215	9,724	7,215	13,082
El Dorado	71	1,646,430	0	432,000	324,359	19.70%	391,944	23.81%	\$1.62	8,535	26,638	59,744	84,292
Fairfield / Suisun City	64	2,043,199	49,000	57,133	297,029	14.54%	401,769	19.66%	\$2.31	9,077	39,228	13,369	55,410
Folsom	102	4,777,945	0	85,827	560,816	11.74%	721,579	15.10%	\$1.79	(15,035)	(2,460)	52,909	100,565
Highway 50	297	17,219,679	0	1,079,252	2,523,152	14.65%	3,141,658	18.24%	\$1.57	22,886	49,526	100,430	190,225
Howe Ave / Fulton Ave	78	2,459,066	0	0	623,661	25.36%	762,655	31.01%	\$1.58	(6,696)	(51,165)	19,324	44,531
Midtown	100	3,704,755	0	63,600	234,309	6.32%	357,862	9.66%	\$1.87	33,708	18,395	48,845	67,702
Natomas / Northgate	110	6,405,899	0	177,525	1,403,356	21.91%	1,519,190	23.72%	\$1.73	(35,739)	(43,936)	69,946	106,367
Outer El Dorado County	11	186,978	0	0	27,515	14.72%	33,515	17.92%	\$2.28	430	430	430	430
Outer Placer County	4	48,360	0	0	24,766	51.21%	26,862	55.55%	\$0.00	(4,450)	(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	2,706,619	0	0	565,082	20.88%	605,270	22.36%	\$1.68	167,411	181,886	207,799	241,915
Rio Linda / North Highlands	29	1,009,080	0	0	314,951	31.21%	438,391	43.44%	\$0.90	0	(1,258)	0	297
Roseville / Rocklin	260	10,348,117	55,140	644,728	1,865,817	18.03%	2,049,284	19.80%	\$1.78	120,422	237,497	212,591	421,580
South Sacramento / Elk Grove	149	4,681,281	0	271,319	594,996	12.71%	723,046	15.45%	\$1.71	(6,607)	13,269	45,488	78,764
Sutter County	27	503,172	0	20,000	51,173	10.17%	51,173	10.17%	\$1.45	(46)	7,696	0	7,748
Vacaville / Dixon	40	1,160,804	0	101,000	120,276	10.36%	140,826	12.13%	\$1.85	438	7,619	1,438	8,619
Watt Ave	49	2,321,883	0	45,858	295,102	12.71%	332,859	14.34%	\$1.47	(580)	(4,151)	7,158	9,846
West Sacramento	36	1,983,326	0	110,000	262,763	13.25%	248,540	12.53%	\$1.56	(52,513)	(51,192)	4,175	12,492
Yuba County	6	370,198	0	0	4,973	1.34%	4,973	1.34%	\$1.25	0	0	0	0
Sacramento Market Total	2,104	93,989,950	104,140	5,195,863	14,183,700	15.09%	16,686,317	17.75%	\$1.77	208,632	411,091	1,043,532	1,841,049
Class A	201	27,112,190	0	3,030,563	3,580,590	13.21%	3,899,693	14.38%	\$2.14	16,241	76,004	312,114	579,939
Class B	1,033	43,868,045	104,140	2,165,300	6,804,061	15.51%	8,186,741	18.66%	\$1.67	163,459	304,587	517,094	916,003
Class C	870	23,009,715	0	0	3,799,049	16.51%	4,599,883	19.99%	\$1.37	28,932	30,500	214,324	345,107
Sacramento Market Total	2,104	93,989,950	104,140	5,195,863	14,183,700	15.09%	16,686,317	17.75%	\$1.77	208,632	411,091	1,043,532	1,841,049

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

