

SECOND QUARTER 2014

SACRAMENTO



MARKET CHANGE

Compared to the Previous Quarter:



Net Absorption



Deliveries DOWN

Lease Rates



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

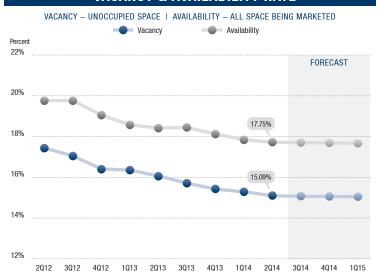
- Construction We anticipate construction remaining minimal, giving demand an opportunity to catch up with supply.
- **Employment** We anticipate job growth of around 2.1%, or 17,000 jobs, in the Sacramento area by 2015. Expect growth in educational services, health care, social assistance, professional & 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 guarters, dropping to around 15.03% by 2015.

OVERVIEW

	2014	1014	2013	% 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

OFFICE

VACANCY & AVAILABILITY RATE



AVERAGE ASKING FULL-SERVICE GROSS LEASE RATE

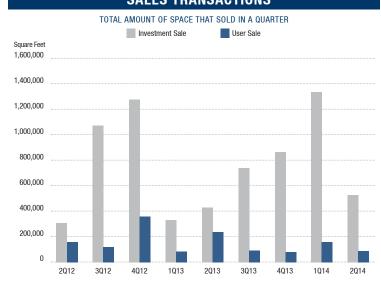
MONTHLY OCCUPANCY COST ON A PER SQ. FT. BASIS



LEASE TRANSACTIONS

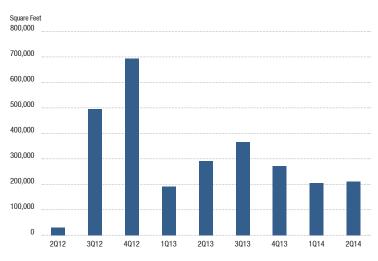


SALES TRANSACTIONS



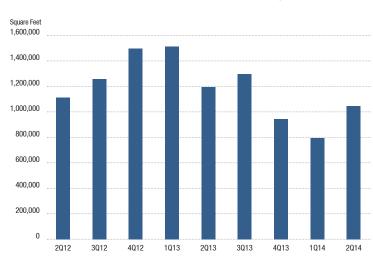
NET ABSORPTION

CHANGE IN THE AMOUNT OF OCCUPIED SPACE FROM ONE QUARTER TO THE NEXT



GROSS ABSORPTION

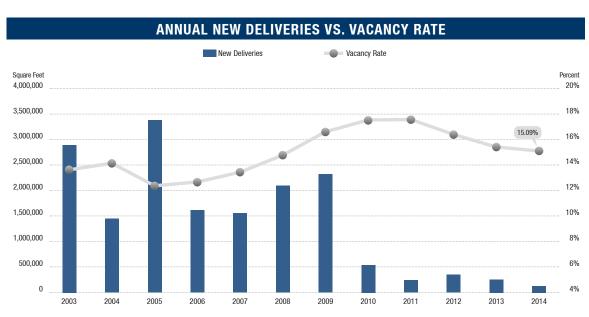
TOTAL AMOUNT OF SPACE THAT BECAME OCCUPIED IN A QUARTER





	INVENTORY				VACANCY & LEASE RATES				ABSORPTION				
	Number of Bldgs.	Net Rentable Square Feet	Square Feet U/C	Square Feet Planned	Square Feet Vacant	Vacancy Rate 202014	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.



MAJOR TRANSACTIONS

Sales Transactions						
Property Address	Submarket	Class	Square Feet	Sale Price Per SF	Buyer	Seller
3300 Zinfandel Dr. – 2 Properties	Highway 50 Corridor	В	174,459	\$70.00	Strada Investment Group	Rubino Zinfandel I, LLC
1544 Eureka Rd.	Roseville/Rocklin	Α	51,337	\$112.00	1544 Dani-Tal, LLC	Pacific Coast Building Products, Inc.
1900 Point West Way	Point West	С	56,686	\$71.21	Point West GPR Partners 8, LLC	Vertical Equity Partners
3461 Fair Oaks Blvd. – 2 Properties	Sacramento County/Watt Ave	B/C	37,841	\$86.02	Vista Office Partners, LLC	LNR Property Corporation
12150 Tributary Point Dr.	Highway 50 Corridor	В	35,134	\$89.94	Clinton Polley Group, Inc.	Longmeadow Development

Lease Transactions						
Property Address	Submarket	Class	Square Feet	Transaction Date	Tenant	Owner
710 Riverpoint Circle	West Sacramento	Α	77,490	May-14	Calpers	Buzz Oates Real Estate
2101 Arena Blvd.	Natomas/Northgate	Α	54,234	Jun-14	Sacramento Co. Dept. of Human Assistance	Realty Advisors, Inc.
1104 Investment Blvd.	El Dorado	В	37,352	Apr-14	Blue Cross & Blue Shield	LBA Realty
5030 El Camino Ave.	Carmichael/Fair Oaks	В	36,360	Jun-14	Visions in Education Charter School	River Oak Center for Children
10971 Sun Center Dr.	Highway 50 Corridor	В	35,000	May-14	DeVry University	Hines

PRODUCT TYPE

CLASS A

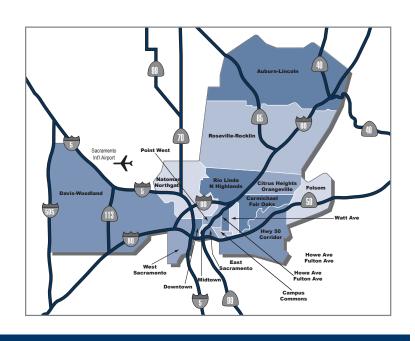
Most prestigious buildings competing for premier office users with rents above average for the area. Buildings have high-quality standard finishes, state-of-the-art systems, exceptional accessibility and a definite market presence.

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.

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