



MARKET CHANGE

Compared to Previous Quarter:

Vacancy

DOWN



Net Absorption

POSITIVE



Deliveries

FLAT



Lease Rates

UP



Transactions

UP



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HIGHLIGHTS

- **Market Status** - The Sacramento office market continues to vastly improve as demand has remained steady in recent quarters while development has come to a halt. Net absorption has been positive for fourteen consecutive quarters now, averaging 270,000 square feet a quarter, while vacancy and availability continue to trend downward. These trends bode well for the future of the Sacramento office market.
- **Construction** - At the close of the second quarter, there was nothing under construction in the Sacramento region. There was 85,140 square feet delivered in the fourth quarter of 2014 and 185,376 square feet delivered in the entire year. Currently, there is 4.6 million square feet of planned office space for the Sacramento region. The lack of construction will continue to force downward pressure on vacancy.
- **Vacancy** - The vacancy rate decreased 29 basis points from the previous quarter to 14.03%, which is the lowest vacancy rate for the Sacramento office market since 2008. Within the major submarkets, Midtown and Downtown performed the best with vacancy rates of 6.55% and 10.46%, respectively, while the Natomas/Northgate and the Benicia/Vallejo submarkets struggled at 18.32% and 26.97%, respectively.
- **Availability** - The rate of space being marketed was 17.44%, an increase of 32 basis points from the previous quarter. Of the major submarkets, East Sacramento and Midtown had the lowest percentage of available square footage at 7.07% and 10.16%, respectively, while the Rio Linda/North Highlands submarket had the largest percentage of available square footage at 41.88%.
- **Lease Rates** - The average asking lease rate across all building classes and submarkets at the close of the second quarter was \$1.78 per square foot per month, full-service gross, which is one cent higher than the previous quarter and from the previous year. Within the major submarkets, Downtown and the East Sacramento submarkets had the highest asking rates at \$2.30 and \$2.29 per square foot per month, while the region's lowest rates were found in the Rio Linda/North Highlands and Citrus Heights/Orangevale submarkets at \$1.30 and \$1.19 per square foot per month.
- **Absorption** - The Sacramento office market posted 280,201 square feet of positive net absorption during the second quarter, giving the market its 14th consecutive quarter of positive net absorption totaling 3.8 million square feet. Of the major submarkets, Natomas/Northgate posted the highest net absorption of 76,541 square feet, while the Highway 50 Corridor submarket had the second highest net absorption of 55,007 square feet.
- **Transaction Activity** - Sale and lease transaction volume totaled just over 1.6 million square feet for the quarter, which is an increase when compared to last quarter's figure of just over 1.5 million square feet. This statistic can have some lag time in being reported, so look for these figures to end up somewhat higher in the next report. Details of the largest transactions for the quarter can be found on the back page of this report.
- **Employment** - The unemployment rate in the Sacramento-Arden Arcade-Roseville MSA was 5.7% in May 2015, up from a revised 5.5% in April 2015, but still below the year-ago estimate of 6.8%. This compares with an unadjusted unemployment rate of 6.2% for California and 5.3% 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 22,900 payroll jobs from May 2014 to May 2015. While most sectors showed gains in employment, the largest gains were 6,200 jobs in leisure and hospitality, 4,600 jobs in trade, transportation and utilities, and 3,300 jobs in education and health services during that same time period.
- **Overall** - The second quarter of 2015 marked the lowest vacancy rate since 2008 and 14th consecutive quarter of positive net absorption, which are clear indicators that the Sacramento office market is continually improving. Demand for good quality office space has a strong potential to increase given new developments around Sacramento. Over the next five years, the changes that the Sacramento market will experience will lead to greater investment activity, especially as job creation continues and consumer confidence increases.

FORECAST

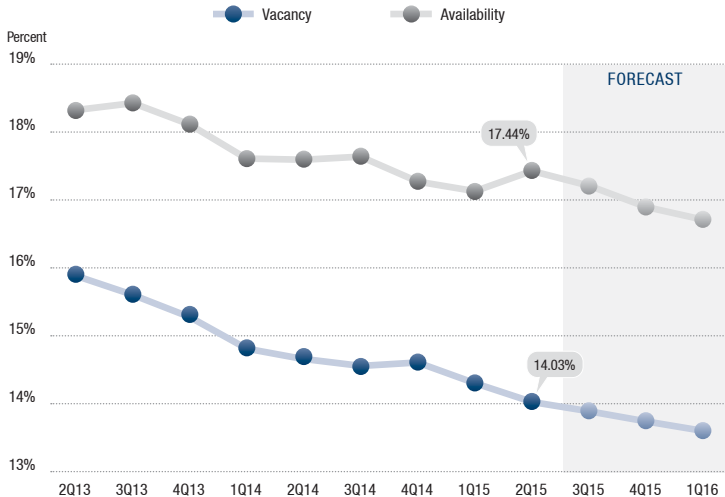
- **Construction** - We anticipate construction remaining minimal, giving demand an opportunity to catch up with supply.
- **Employment** - We anticipate job growth of around 2.6%, or 23,000 jobs, in the Sacramento area in 2015. Expect growth in professional & business services, educational services, health care, social assistance, leisure & hospitality, and retail trade sectors.
- **Lease Rates** - Expect average asking lease rates to increase by 1% to 3% over the next four quarters.
- **Vacancy** - We anticipate the vacancy rate continuing to descend in coming quarters, dropping to around 13.60% by the end of the first quarter of 2016.

OVERVIEW

	2Q15	1Q15	2Q14	% of Change vs. 2Q14
Total Vacancy Rate	14.03%	14.32%	14.68%	(4.43%)
Availability Rate	17.44%	17.12%	17.59%	(0.85%)
Average Asking Lease Rate	\$1.78	\$1.77	\$1.77	0.56%
Sale & Lease Transactions	1,624,412	1,555,360	2,298,786	(29.34%)
Gross Absorption	1,112,866	801,364	1,079,061	3.13%
Net Absorption	280,201	268,559	124,602	N/A

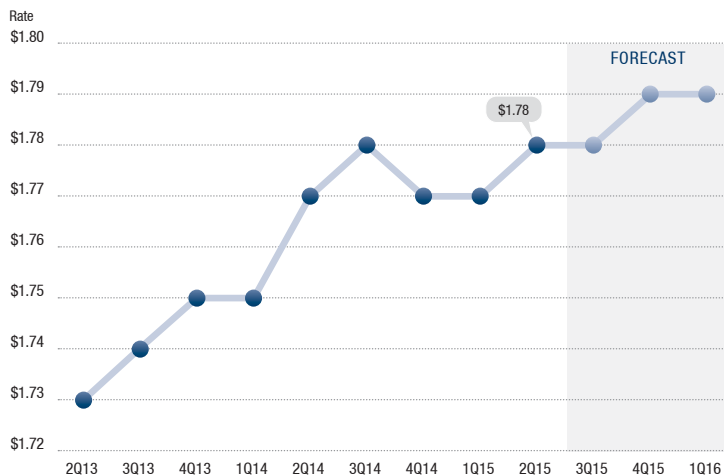
VACANCY & AVAILABILITY RATE

VACANCY – UNOCCUPIED SPACE | AVAILABILITY – ALL SPACE BEING MARKETED



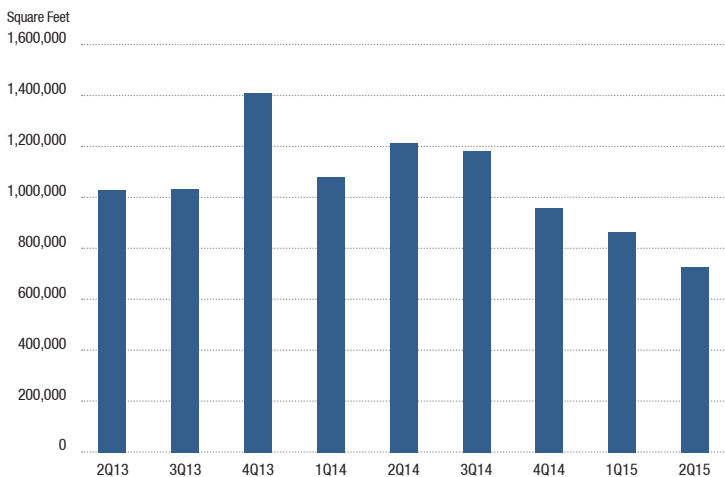
AVERAGE ASKING FULL-SERVICE GROSS LEASE RATE

MONTHLY OCCUPANCY COST ON A PER SQ. FT. BASIS



LEASE TRANSACTIONS

TOTAL AMOUNT OF SPACE THAT LEASED IN A QUARTER



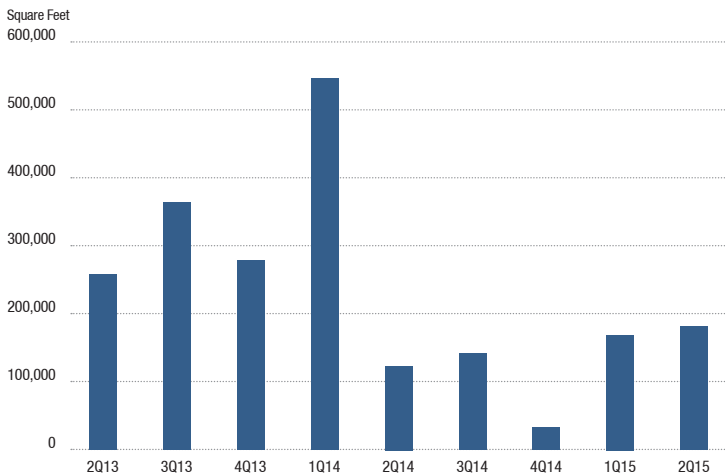
SALES TRANSACTIONS

TOTAL AMOUNT OF SPACE THAT SOLD IN A QUARTER



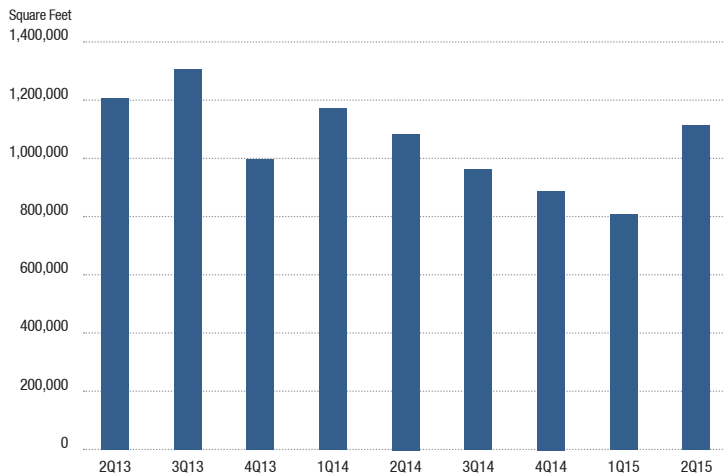
NET ABSORPTION

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



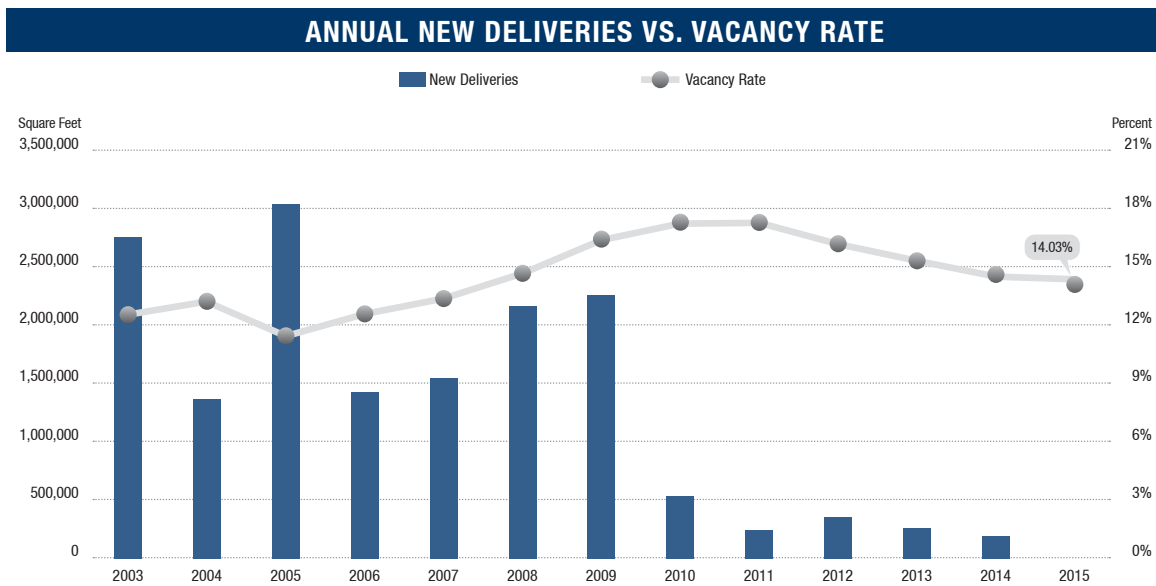
GROSS ABSORPTION

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 2Q2015	Square Feet Available	Availability Rate 2Q2015	Average Asking Lease Rate	Net Absorption 2Q2015	Net Absorption 2015	Gross Absorption 2Q2015	Gross Absorption 2015
Sacramento Market													
Auburn / Lincoln	63	1,298,756	0	80,921	135,876	10.46%	156,366	12.04%	\$1.30	(2,374)	(1,551)	7,805	12,601
Benicia / Vallejo	87	2,665,457	0	522,100	718,870	26.97%	660,964	24.80%	\$1.06	9,551	18,562	12,593	35,031
Campus Commons	42	1,256,560	0	160,000	212,826	16.94%	242,147	19.27%	\$1.86	(8,369)	8,561	14,526	39,438
Carmichael / Fair Oaks	47	993,204	0	0	90,779	9.14%	142,363	14.33%	\$1.27	(1,130)	(9,278)	10,099	17,868
Citrus Heights / Orangevale	51	1,413,170	0	0	179,236	12.68%	208,939	14.79%	\$1.19	2,357	6,503	7,482	14,416
Davis / Woodland	80	2,002,390	0	49,600	181,532	9.07%	199,874	9.98%	\$1.91	13,487	24,639	21,152	41,830
Downtown	216	18,844,198	0	566,900	1,970,506	10.46%	2,268,619	12.04%	\$2.30	51,599	70,954	174,564	299,463
East Sacramento	33	2,071,070	0	0	235,979	11.39%	146,362	7.07%	\$2.29	0	(2,863)	2,940	2,940
El Dorado	73	1,671,842	0	408,000	304,531	18.22%	550,618	32.93%	\$1.63	18,967	19,175	29,719	41,788
Fairfield / Suisun City	67	2,134,107	0	57,133	334,092	15.65%	406,616	19.05%	\$2.21	(3,111)	11,777	35,772	54,394
Folsom	101	4,620,828	0	85,827	535,307	11.58%	817,236	17.69%	\$1.81	43,841	82,823	86,807	183,474
Highway 50	298	17,207,238	0	1,038,300	2,602,210	15.12%	3,281,374	19.07%	\$1.58	55,007	64,583	174,730	261,318
Howe Ave / Fulton Ave	79	2,464,822	0	0	628,654	25.51%	781,690	31.71%	\$1.57	(30,775)	(27,356)	13,645	31,189
Midtown	100	3,727,874	0	63,600	244,323	6.55%	378,651	10.16%	\$1.90	(14,162)	(12,442)	14,435	34,963
Natomas / Northgate	111	6,487,432	0	157,525	1,188,690	18.32%	1,494,518	23.04%	\$1.68	76,541	166,350	132,542	240,088
Outer El Dorado County	12	197,168	0	0	23,073	11.70%	31,595	16.02%	\$2.28	1,111	1,721	3,400	4,010
Outer Placer County	4	47,944	0	0	12,796	26.69%	16,892	35.23%	\$2.00	(4,446)	(4,446)	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	2,712,412	0	84,470	560,323	20.66%	594,278	21.91%	\$1.66	(2,595)	5,096	24,713	71,101
Rio Linda / North Highlands	29	1,010,004	0	0	351,445	34.80%	422,982	41.88%	\$1.30	0	0	0	0
Roseville / Rocklin	262	10,395,558	0	773,928	1,591,962	15.31%	2,158,617	20.76%	\$1.78	(9,962)	47,559	214,503	364,135
South Sacramento / Elk Grove	149	4,721,797	0	271,319	490,001	10.38%	697,141	14.76%	\$1.65	31,157	38,385	46,020	61,993
Sutter County	28	554,564	0	20,000	51,640	9.31%	60,140	10.84%	\$1.45	(590)	(3,673)	2,608	2,608
Vacaville / Dixon	40	1,160,804	0	140,000	118,083	10.17%	141,542	12.19%	\$1.87	(437)	(3,697)	1,600	3,300
Watt Ave	48	2,318,190	0	45,858	325,929	14.06%	358,762	15.48%	\$1.47	(7,535)	(1,865)	7,467	20,790
West Sacramento	36	2,038,281	0	110,000	119,212	5.85%	206,699	10.14%	\$1.81	36,058	32,032	44,744	46,492
Yuba County	8	535,161	0	0	62,642	11.71%	62,642	11.71%	\$1.10	26,011	17,211	29,000	29,000
Sacramento Market Total	2,115	94,561,625	0	4,635,481	13,270,517	14.03%	16,487,627	17.44%	\$1.78	280,201	548,760	1,112,866	1,914,230
Class A	203	27,503,773	0	2,446,511	2,996,333	10.89%	3,976,761	14.46%	\$2.17	226,598	325,981	395,140	661,322
Class B	1,040	44,035,011	0	2,188,970	6,223,982	14.13%	7,693,330	17.47%	\$1.67	137,273	231,046	541,156	879,928
Class C	872	23,022,841	0	0	4,050,202	17.59%	4,817,536	20.93%	\$1.43	(83,670)	(8,267)	176,570	372,980
Sacramento Market Total	2,115	94,561,625	0	4,635,481	13,270,517	14.03%	16,487,627	17.44%	\$1.78	280,201	548,760	1,112,866	1,914,230

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
Stoneview Plaza 3001 Lava Ridge Ct.	Roseville / Rocklin	A	108,624	\$152.82	Pacific Coast Capital Partners, LLC	C-III Asset Management
Government HQ – State of CA 11150 International Dr.	Highway 50 Corridor	A	90,111	\$183.11	Kumar Rohit & Tull Nidhi	Peter D & Marion M Danna Trust
Evergreen Zinfandel 11185 International Dr. – Building C	Highway 50 Corridor	B	71,817	\$183.10	Oddo Family Trust	Brunetti Family Trust
2920 Kilgore Rd. & 11130 Sun Center Dr.	Rancho Cordova	B	79,427	\$89.52	Briggs Development Corporation	Ridge Capital, Inc.
1900-1906 Capitol Ave.	Midtown	B	36,800	\$183.97	Voit Oceanside Partners, LLC	Gately Enterprises, LLC

Lease Transactions

Property Address	Submarket	Class	Square Feet	Transaction Date	Tenant	Owner
Mare Island Vallejo 1060 Walnut Ave. – Bldg 521	Benicia/Vallejo	C	77,100	Apr-2015	Undisclosed	Lennar Partners
Rocklin Corporate Plaza 6020 W. Oaks Blvd.	Roseville/Rocklin	A	31,040	Jun-2015	Intercare Holdings, Inc.	KBS REIT III, Inc.
Prospect Park 11130 Sun Center Dr.	Highway 50 Corridor	C	30,096	Apr-2015	The Golden 1 Credit Union	Briggs Development Corporation
Mare Island – Building 47 8th Street & Walnut Ave.	Benicia/Vallejo	C	26,900	Apr-2015	Undisclosed	Lennar Partners
Maritime Corporate Center 2400 Maritime Dr.	Elk Grove	B	19,000	Apr-2015	Undisclosed	Richard G Barton Trust

PRODUCT TYPE

CLASS A

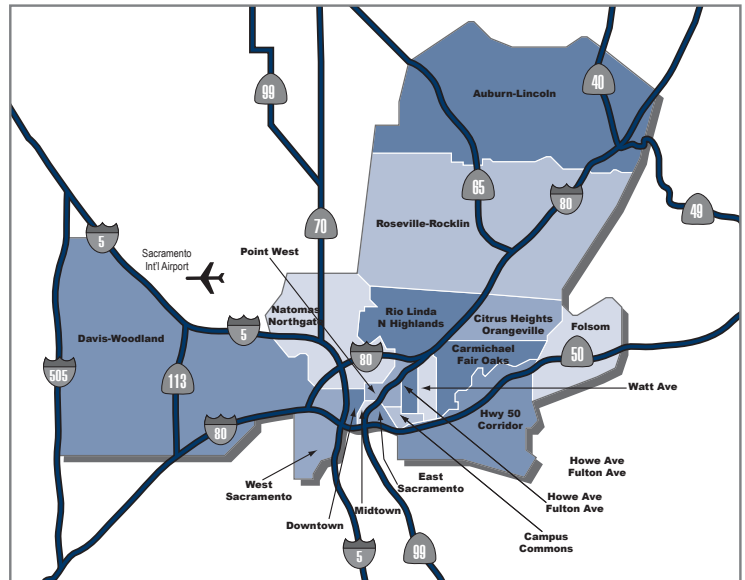
Most prestigious buildings competing for premier office users with rents above average for the area. Buildings have high-quality standard finishes, state-of-the-art systems, exceptional accessibility and a definite market presence.

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.



Please Contact Us for Further Information

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