

Office Market Report

Compared to last quarter:

Vacancy



UP

Net Absorption

NEGATIVE



Lease Rates

DOWN



Transactions

DOWN



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Market Highlights

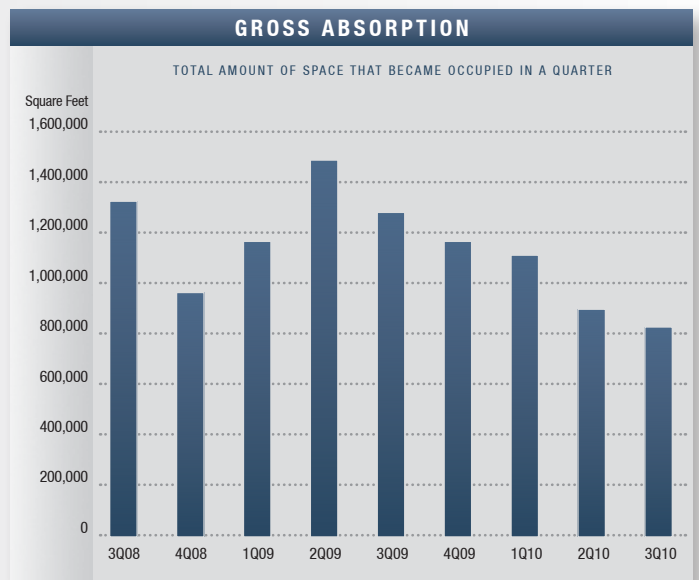
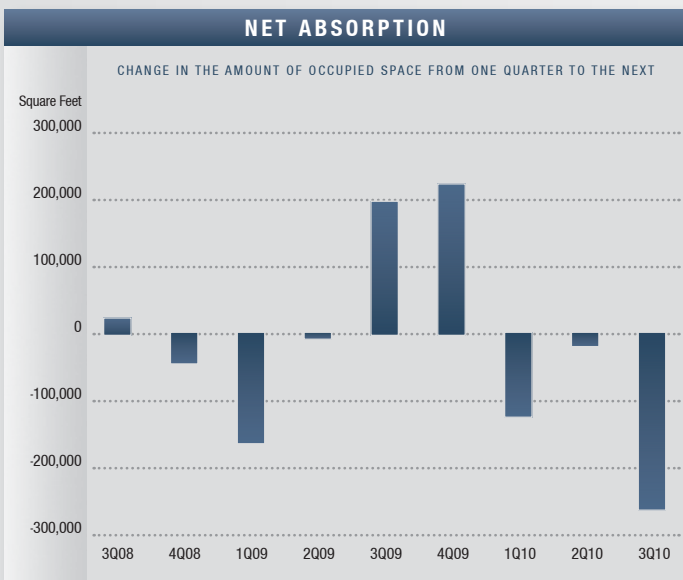
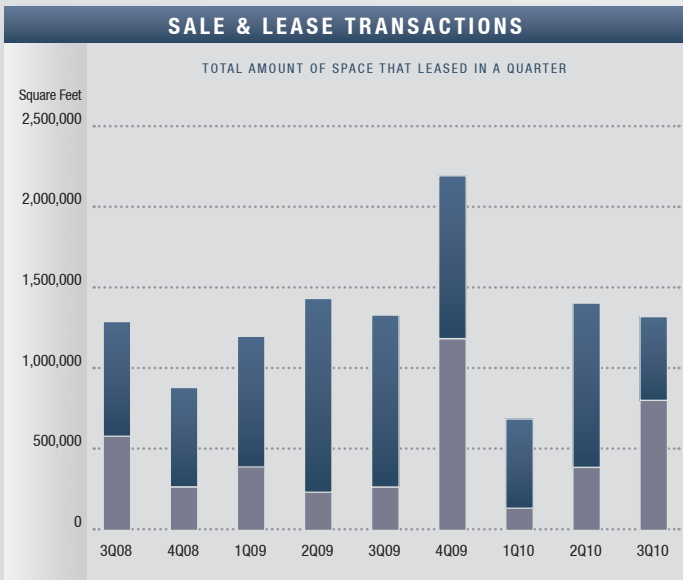
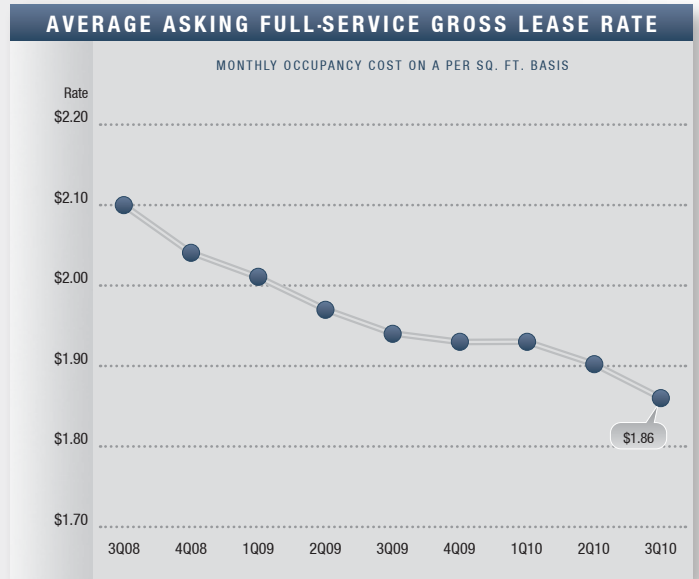
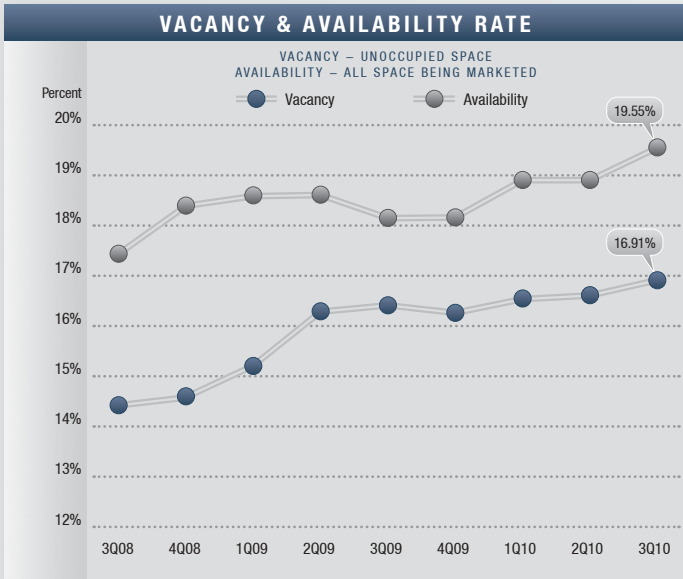
- Market Challenges** – The market appears to be heading in the direction of recovery, with the rate at which space is being added to the market beginning to decrease in velocity. However, many users/investors still have concerns with vacancy, tenant delinquencies, and economic uncertainty. Another challenge for the office market is a lack of tenant demand. The slow economic environment is forcing tenant contractions/consolidations and failures, which in turn put an upward pressure on vacancy rates. To avoid failures, many tenants are requesting rent relief from landlords, which in turn is leading landlords to seek their own relief from lenders.
- Construction** – Total space under construction checked in at 215,000 square feet this quarter. The slowdown in construction has and will ease the upward pressure on vacancy going forward.
- Vacancy** – Direct/sublease space (unoccupied) finished the quarter at 16.91%, a slight increase over last year's rate of 16.42% and last quarter's figure of 16.59%. The Downtown market, the largest submarket in the county, posted a rate of 8.90%.
- Availability** – Direct/sublease space being marketed was at 19.55% this quarter, an increase of 7.71% when compared to the 18.15% availability rate of the third quarter of last year.
- Lease Rates** – The average asking Full-Service Gross (FSG) lease rate per square foot per month in Sacramento was \$1.86 — a 4.12% decrease over last year's rate of \$1.94 and four cents lower than last quarter's rate. The record high rate of \$2.14 was established in the first quarter of 2008. Class A rates for the county are averaging \$2.14 FSG, with Downtown noting the highest asking rates, averaging \$2.31 FSG.
- Absorption** – Net absorption for the county posted a negative 263,861 square feet for the third quarter of 2010, giving the office market a total of 391,241 square feet of negative absorption for the first three quarters of 2010.
- Transaction Activity** – Leasing activity checked in at 432,474 square feet this quarter, which is a decrease

over last quarter's 1,053,792 square feet. This decrease can be attributed to a slow summer season coupled with the upcoming election concerns. Sales activity showed an increase since last quarter, posting 820,000 square feet of activity as compared to last quarter's 350,000 square feet. Details of the largest transactions can be found on the back page of this report.

- Employment** – The unemployment rate in Sacramento–Arden–Arcade–Roseville Metropolitan area (MSA) was 12.4% in August 2010, down from a revised 12.7% in July 2010 and above the year-ago estimate of 11.6%. The unemployment rate was 11.9% in El Dorado, 11.5% in Placer, 12.8% in Sacramento and 11.6% in Yolo Counties. This compares with an unadjusted unemployment rate of 12.4% for California and 9.5% for the nation during the same period. According to the State of California Employment Development Department, the Sacramento MSA lost 25,900 payroll jobs over the last twelve months — 6,100 in construction and 4,600 in professional & business services. Between July 2010 and August 2010 the Sacramento MSA decreased by 3,200 jobs overall.
- Overall** – We are beginning to see a decrease in the amount of available space being added per quarter. Absorption is still negative, but the rate of increase has slowed. With few new deliveries in the pipeline to drive vacancy up, the market may be beginning to stabilize. We foresee an increase in investment activity in the coming quarters as lenders begin to dispose of distressed assets. Lease rates are expected to remain soft for the near future, and concessions in the forms of free rent, reduced parking fees, relocation funds and tenant improvement allowances should continue to increase to incentivize tenants to act immediately. We should see an increase in leasing activity as many short-term deals come up for renewal and as job creation begins going into 2011. Once employment turns positive and consumer confidence stabilizes, the office market will regain equilibrium.

OFFICE MARKET OVERVIEW

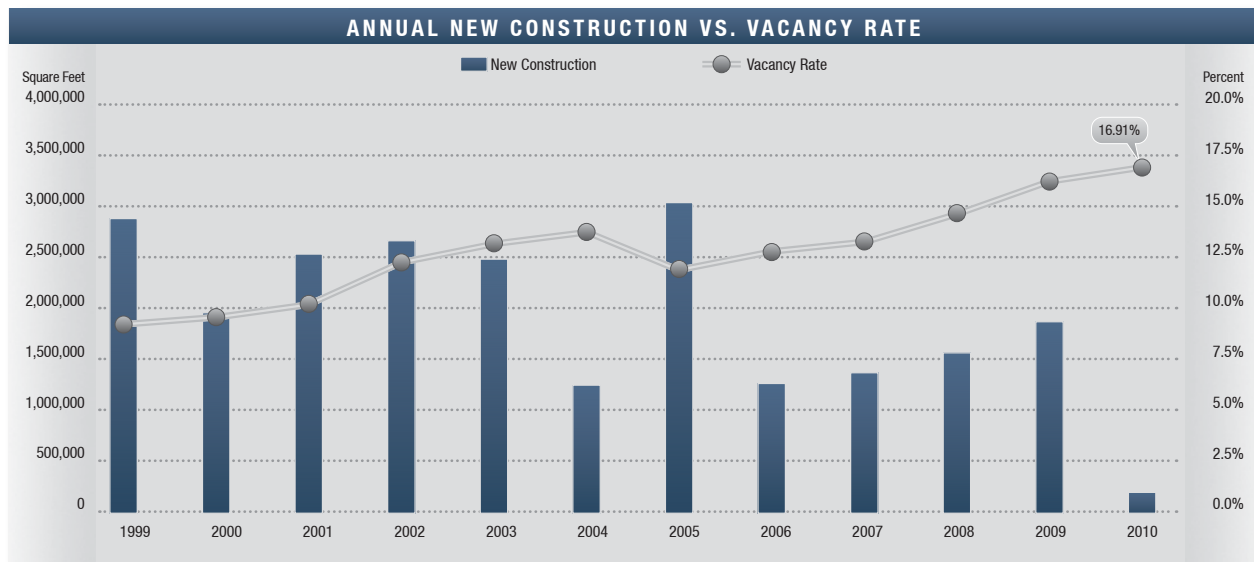
	3Q2010	2Q2010	3Q2009	% CHANGE vs. 3Q2009
Vacancy Rate	16.91%	16.59%	16.42%	2.98%
Availability Rate	19.55%	18.86%	18.15%	7.71%
Average Asking Lease Rate	\$1.86	\$1.90	\$1.94	(4.12%)
Sale & Lease Transactions	1,251,484	1,401,146	1,265,226	(1.09%)
Gross Absorption	818,897	945,350	1,279,440	(36.00%)
Net Absorption	(263,861)	(17,987)	191,991	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 3Q2010	Square Feet Available	Availability Rate 3Q2010	Average Asking Lease Rate	Net Absorption 3Q2010	Net Absorption 2010	Gross Absorption 3Q2010	Gross Absorption 2010
Sacramento County													
Auburn/Lincoln	58	1,153,473	0	109,421	163,564	14.18%	174,880	15.16%	\$1.10	(2,383)	5,044	4,868	30,528
Campus Commons	43	1,309,648	0	120,000	260,381	19.88%	277,722	21.21%	\$1.95	(17,396)	(3,430)	5,637	50,875
Carmichael/Fair Oaks	51	1,118,582	0	0	139,182	12.44%	201,896	18.05%	\$1.33	(6,207)	(1,354)	7,515	30,338
Citrus Heights/Orangevale	50	1,335,294	0	45,000	243,216	18.21%	262,391	19.65%	\$1.23	44,161	11,375	45,820	81,154
Davis/Woodland	62	1,612,033	0	48,290	217,597	13.50%	259,689	16.11%	\$2.06	6,777	18,051	30,737	73,093
Downtown	214	17,969,059	0	0	1,599,590	8.90%	1,910,281	10.63%	\$2.31	9,236	(95,188)	132,429	280,517
East Sacramento	34	1,820,336	0	0	286,839	15.76%	299,699	16.46%	\$1.77	(63,735)	74,369	8,727	150,144
Folsom	99	4,488,347	0	107,687	624,373	13.91%	733,279	16.34%	\$1.88	(7,977)	64,832	23,394	246,010
Highway 50	274	15,482,153	0	1,253,600	2,557,448	16.52%	3,378,090	21.82%	\$1.70	(178,234)	(152,552)	93,108	489,879
Howe Ave/Fulton Ave	84	2,657,144	0	0	443,735	16.70%	526,778	19.82%	\$1.66	(5,181)	(40,122)	17,993	75,478
Midtown	106	4,146,932	0	63,600	303,792	7.33%	414,277	9.99%	\$1.89	18,449	45,676	35,831	166,280
Natomas/Northgate	103	5,853,201	105,000	627,903	1,406,350	24.03%	1,625,928	27.78%	\$1.89	(12,288)	(857)	80,678	314,457
Point West	50	2,678,359	0	0	792,122	29.57%	763,936	28.52%	\$1.83	22,330	386	45,275	114,433
Rio Linda/North Highlands	29	1,051,708	0	0	312,797	29.74%	339,401	32.27%	\$1.25	(319)	(80,969)	2,648	23,885
Roseville/Rocklin	270	10,473,823	0	974,505	3,129,146	29.88%	3,362,779	32.11%	\$1.94	5,299	(40,626)	241,962	561,158
South Sacramento	123	3,539,288	0	383,493	672,401	19.00%	820,278	23.18%	\$1.88	(62,289)	(86,097)	28,310	93,963
Watt Ave	53	2,466,382	0	0	212,880	8.63%	335,186	13.59%	\$1.44	(3,968)	(34,331)	4,377	31,966
West Sacramento	36	2,205,322	110,000	25,000	393,725	17.85%	216,617	9.82%	\$1.54	(10,136)	(75,421)	9,588	20,319
Sacramento County Total	1,739	81,361,084	215,000	3,758,499	13,759,138	16.91%	15,903,107	19.55%	\$1.86	(263,861)	(391,214)	818,897	2,834,477

Class A	182	24,795,192	215,000	2,290,978	4,857,163	19.59%	5,260,816	21.22%	\$2.14	37,905	(122,136)	318,614	834,244
Class B	831	37,269,476	0	1,467,521	6,384,403	17.13%	7,395,981	19.84%	\$1.78	(89,315)	170,622	356,507	1,548,530
Class C	726	19,296,416	0	0	2,517,572	13.05%	3,246,310	16.82%	\$1.43	(212,451)	(439,700)	143,776	451,703
Class Total	1,739	81,361,084	215,000	3,758,499	13,759,138	16.91%	15,903,107	19.55%	\$1.86	(263,861)	(391,214)	818,897	2,834,477

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	Tenant	Owner
10860 Gold Center Dr. – 6 Properties	Highway 50	A & B	642,247	\$105.88	DivcoWest Real Estate	Lowe Enterprises
1402 Blue Oaks Blvd. – 15 Properties	Roseville/Rocklin	Mixed	79,942	\$90.07	Gemperle Farms	Bank of the West
3063 Gold Canal Dr.	Highway 50	B	12,000	\$400.00	Corrie C. & Janet E. Leisen	Gold Sunrise, LLC
3017 Gold Canal Dr.	Highway 50	C	13,660	\$124.45	Tristar Gold Canal Properties, LLC	CSAC Excess Ins Authority
1400 S. St.	Downtown	C	9,689	\$159.98	Ascent Builders Inc.	Ironstone Bank

Lease Transactions

Property Address	Submarket	Class	Square Feet	Transaction Date	Tenant	Owner
11031 Sun Center Dr. – Renewal	Highway 50	B	112,142	Jul–10	Health Net Associates	Great Scene Ventures, Ltd.
1700 K St. – Renewal	Midtown	B	77,742	Aug–10	CA Dept. of Alcohol & Drugs Programs	Din Moor Group
201 N. Sunrise Ave. – Renewal	Roseville/Rocklin	C	26,000	Aug–10	Radiological Associates, Inc.	RM/RNA Properties, LLC
9323 Tech Center Dr.	Highway 50	C	21,539	Sep–10	State of California – EDD	NBS Real Estate Capital
2901 Douglas Blvd. – Renewal	Roseville/Rocklin	A	18,629	Jul–10	Bank of America Corporation	Hines

Product Type

CLASS A

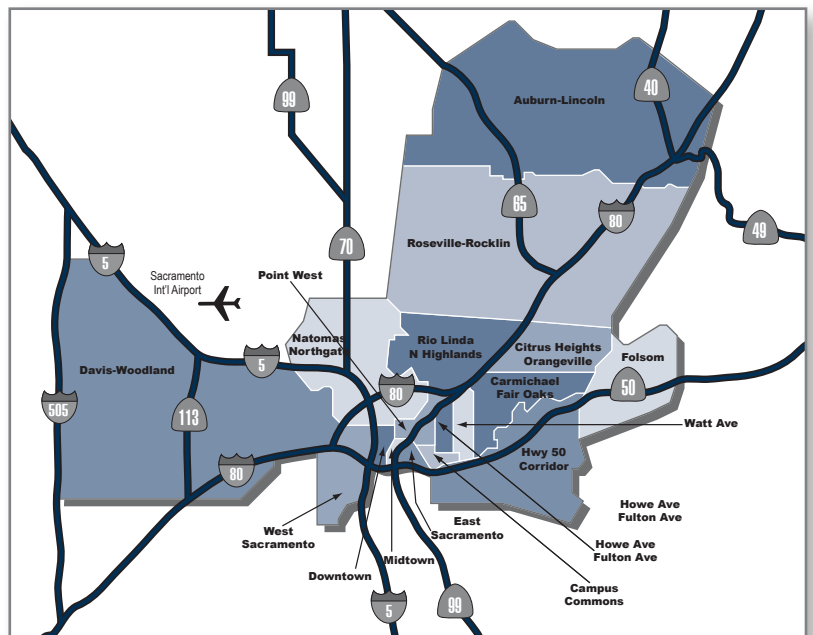
Most prestigious buildings competing for premier office users with rents above average for the area. Buildings have high-quality standard finishes, state-of-the-art systems, exceptional accessibility and a definite market presence.

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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