

## Office Market Report

Compared to the Previous Quarter:

Vacancy

DOWN

Net Absorption

POSITIVE

Lease Rates

DOWN

Transactions

UP

Deliveries

UP

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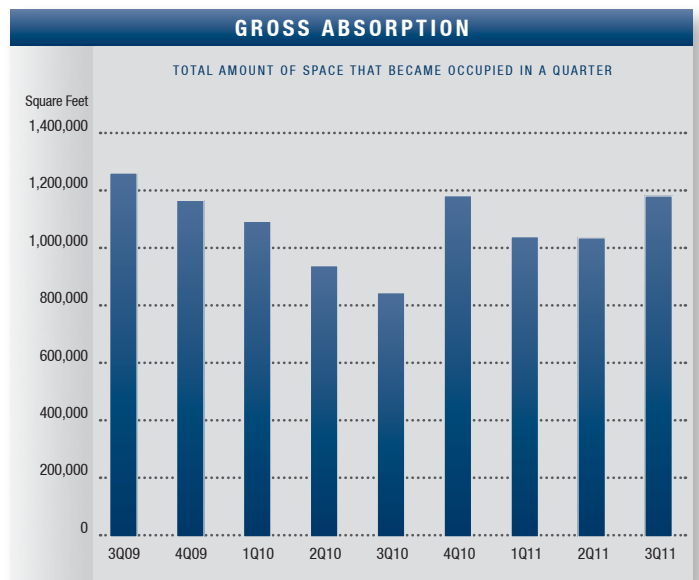
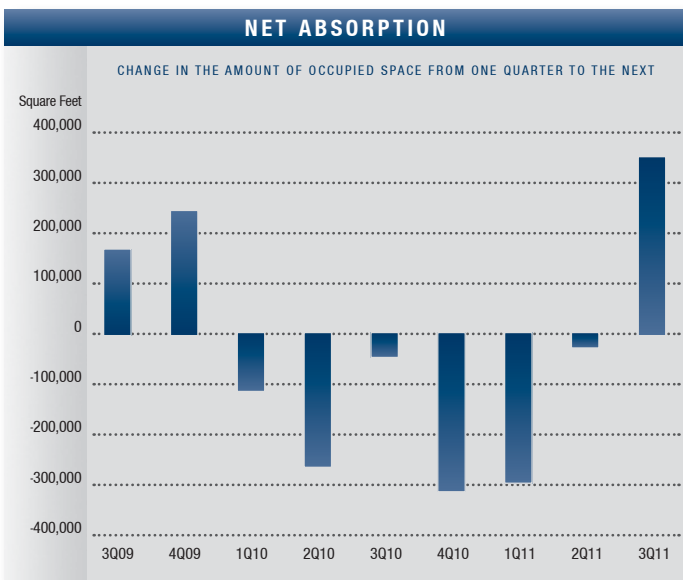
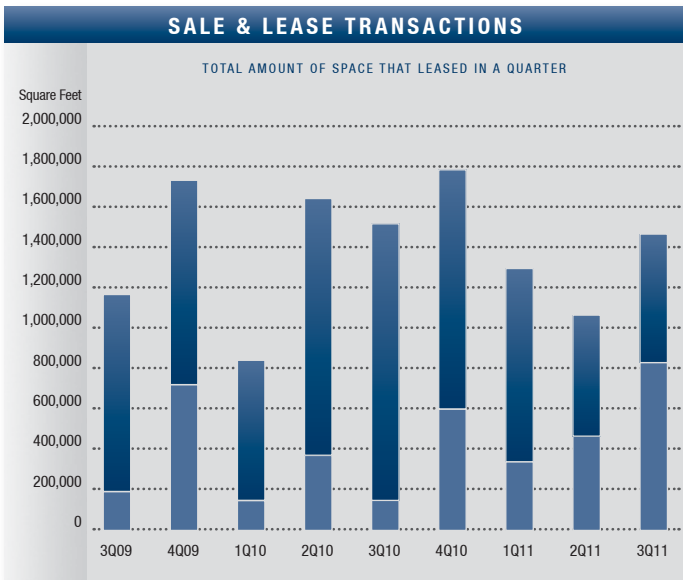
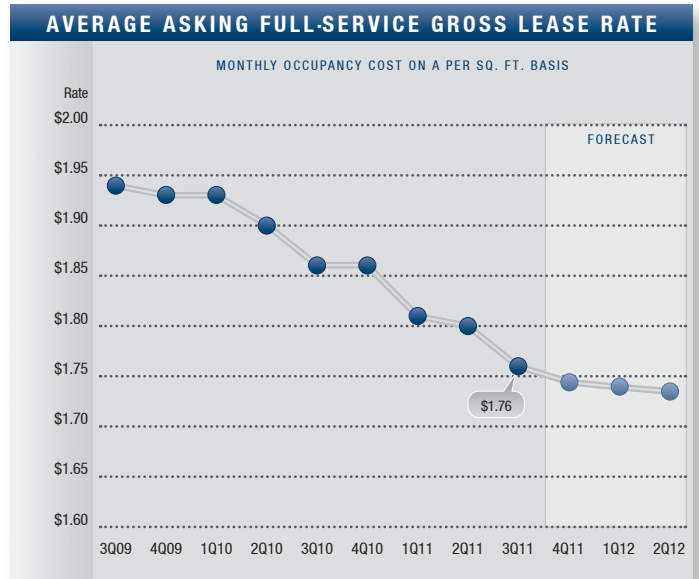
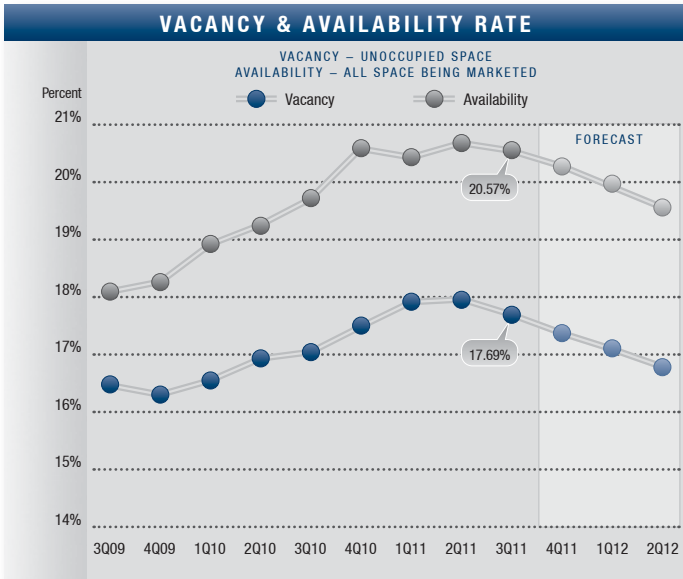


### Market Highlights

- Market Challenges** - While the office sector did post positive net absorption during the quarter, the fact remains that multiple consecutive quarters of positive growth are a prerequisite to the market's health and stability. Confidence and job growth are both required bases to office market equilibrium. On the positive side, the current statistics indicate three consecutive quarters of static or declining vacancy rates after almost two years of stagnant or increasing vacancy rates. Also, sale transaction volume is at its highest level in the last nine quarters, which bodes well for the remainder of the year.
- Construction** - There was no speculative or owner-user construction in the Sacramento market in the third quarter of 2011. The one building completed during the quarter was the new 155,000-square-foot CA State Lottery building on N. 7th Street, which was 100% occupied by the end of the quarter and did not contribute to the vacancy or availability rates.
- Vacancy** - The vacancy rate dropped almost 30 basis points to 17.69% during the third quarter. The main driver behind the vacancy reduction was 350,000 square feet of positive net absorption, the bulk of which occurred on the Highway 50 Corridor. 41,000 square feet of positive net absorption was seen in the Downtown submarket, bringing the vacancy rate in the region's core down to 10.93 percent.
- Availability** - The rate of direct/sublease space being marketed was 20.57%, within single digits of its value at the close of the previous quarter and up slightly from the close of the third quarter of 2010.
- Lease Rates** - The average asking lease rate across all three building classes and 18 submarkets was \$1.76 per square foot per month at the close of the quarter. The region's highest average asking rate of \$2.18 per square foot per month was found in the Downtown submarket. The region's lowest rates were found in Auburn/Lincoln.
- Absorption** - The Sacramento office market posted 350,000 square feet of positive net absorption during the third quarter and just over 30,000 square feet of positive net absorption to date this year, marking the first quarter of positive net absorption for the region since the fourth quarter 2009.
- Transaction Activity** - Total square footage of lease and sale transaction volume reached its highest level this year during the third quarter. Almost 1.5 million square feet of office property was leased or sold, almost 500,000 square feet more than during the second quarter.
- Employment** - The unemployment rate in the Sacramento-Arden-Arcade-Roseville Metropolitan area (MSA) was 11.9% in August 2011. This compares with an unadjusted unemployment rate of 11.9% for the state and 9.1% for the nation during the same period. The largest monthly gains occurred in local government (teachers) and construction. Of note, the construction sector has added over 2,000 jobs during the past 12 months.
- Overall** - While it appears that the crisis of confidence that has gripped office users for the last two-plus years may be loosening its hold, multiple consecutive quarters of positive job growth and declining vacancy are necessary to precipitate a change in local leasing market fundamentals. Look for increased evidence of this in the coming 12 months as the positive activity trend started this year gathers momentum, the office market begins a concentrated motion toward equilibrium, and the region's health begins to return.

### OFFICE MARKET OVERVIEW

	3Q2011	2Q2011	3Q2010	% Change vs. 3Q2010
Total Vacancy Rate	17.69%	17.96%	17.01%	4.00%
Availability Rate	20.57%	20.66%	19.72%	4.31%
Average Asking Lease Rate	\$1.76	\$1.80	\$1.86	(5.38%)
Sale & Lease Transactions	1,457,214	1,053,608	1,509,970	(3.49%)
Gross Absorption	1,170,972	1,032,424	840,958	39.24%
Net Absorption	350,472	(25,972)	(47,285)	N/A



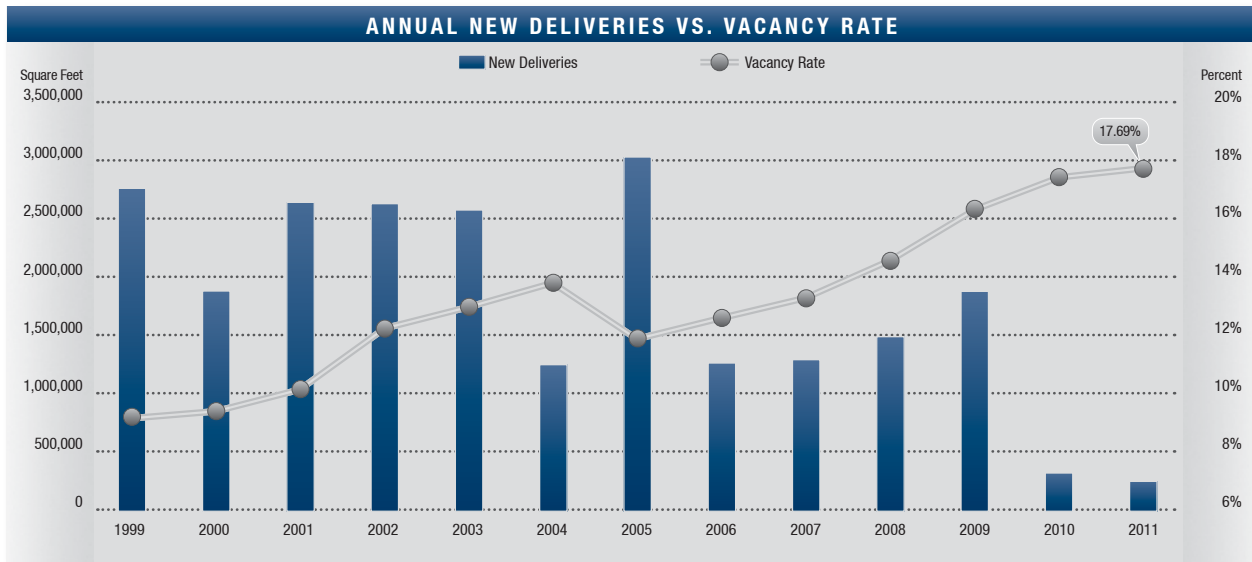
	INVENTORY				VACANCY & LEASE RATES					ABSORPTION			
	Number of Bldgs.	Net Rentable Square Feet	Square Feet U / C	Square Feet Planned	Square Feet Vacant	Vacancy Rate 3Q2011	Square Feet Available	Availability Rate 3Q2011	Average Asking Lease Rate	Net Absorption 3Q2011	Net Absorption 2011	Gross Absorption 3Q2011	Gross Absorption 2011

**Sacramento Market**

Auburn/Lincoln	60	1,178,379	0	163,277	141,399	12.00%	147,762	12.54%	\$1.21	5,635	12,353	5,635	17,007
Campus Commons	42	1,278,146	0	120,000	291,005	22.77%	308,066	24.10%	\$1.90	6,321	(28,697)	13,990	37,189
Carmichael/Fair Oaks	50	1,152,298	0	0	141,609	12.29%	181,303	15.73%	\$1.29	(10,720)	(7,601)	17,590	56,353
Citrus Heights/Orangevale	51	1,418,024	0	0	263,957	18.61%	286,758	20.22%	\$1.20	(9,411)	(11,569)	9,843	27,161
Davis/Woodland	74	1,814,882	0	48,290	212,291	11.70%	248,520	13.69%	\$2.10	21,198	(5,892)	37,977	67,376
Downtown	214	18,290,869	0	0	1,998,546	10.93%	2,268,145	12.40%	\$2.18	41,598	(38,335)	257,500	495,899
East Sacramento	32	1,811,442	0	0	252,290	13.93%	262,452	14.49%	\$1.72	16,833	48,375	17,007	52,944
Folsom	100	4,655,067	72,000	172,894	692,574	14.88%	847,149	18.20%	\$1.91	35,221	16,744	49,310	190,555
Highway 50	278	15,646,356	0	1,282,058	2,794,837	17.86%	3,747,919	23.95%	\$1.63	202,576	41,797	308,924	787,934
Howe Ave/Fulton Ave	80	2,503,364	0	0	475,656	19.00%	591,856	23.64%	\$1.56	9,225	(40,577)	22,534	89,151
Midtown	106	4,163,804	0	63,600	319,650	7.68%	394,375	9.47%	\$1.91	(4,632)	(43,076)	11,077	80,073
Natomas/Northgate	106	6,007,342	0	437,725	1,515,837	25.23%	1,736,170	28.90%	\$1.73	72,641	82,013	173,749	348,704
Point West	50	2,675,125	0	1,500	661,338	24.72%	786,546	29.40%	\$1.68	1,420	209,701	25,813	311,732
Rio Linda/North Highlands	30	1,064,010	0	0	446,757	41.99%	562,646	52.88%	\$1.27	(18,443)	(5,605)	5,000	24,141
Roseville/Rocklin	266	10,380,877	0	872,023	3,070,284	29.58%	3,215,137	30.97%	\$1.75	51,484	(33,907)	153,985	474,763
South Sacramento	126	3,550,002	0	322,873	777,052	21.89%	818,471	23.06%	\$1.78	(86,704)	(87,457)	43,330	112,648
Watt Ave	52	2,418,836	0	53,058	297,027	12.28%	306,392	12.67%	\$1.35	11,906	(78,085)	12,552	43,598
West Sacramento	37	2,241,989	0	110,000	199,702	8.91%	209,933	9.36%	\$1.59	4,324	(528)	5,156	24,028
<b>Sacramento Market Total</b>	<b>1,754</b>	<b>82,250,812</b>	<b>72,000</b>	<b>3,647,298</b>	<b>14,551,811</b>	<b>17.69%</b>	<b>16,919,600</b>	<b>20.57%</b>	<b>\$1.76</b>	<b>350,472</b>	<b>29,654</b>	<b>1,170,972</b>	<b>3,241,256</b>

Class A	185	25,164,466	0	2,158,111	4,692,439	18.65%	5,144,464	20.44%	\$2.01	286,693	612,686	412,629	1,297,564
Class B	830	37,420,727	72,000	1,489,187	6,801,485	18.18%	7,983,619	21.33%	\$1.71	154,042	(253,391)	561,679	1,436,892
Class C	739	19,665,619	0	0	3,057,887	15.55%	3,791,517	19.28%	\$1.33	(90,263)	(329,641)	196,664	506,800
<b>Square Footage Total</b>	<b>1,754</b>	<b>82,250,812</b>	<b>72,000</b>	<b>3,647,298</b>	<b>14,551,811</b>	<b>17.69%</b>	<b>16,919,600</b>	<b>20.57%</b>	<b>\$1.76</b>	<b>350,472</b>	<b>29,654</b>	<b>1,170,972</b>	<b>3,241,256</b>

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 PSF	Buyer	Seller
9815 Goethe Rd.	Highway 50 Corridor	B	87,863	\$154.79	Gov. Properties Income Trust, LLC	KBS Real Estate Investment Trust
2000 O St.	Midtown	B	22,899	\$249.12	Duke Development Company	Fox Creek Fund, LLC
2500 Venture Oaks Way	Natoms/Northgate	A	52,207	\$93.86	Capital Builders	The Heller Company
2267 Lave Ridge Ct.	Roseville/Rocklin	B	11,747	\$117.05	Majdi Kanaan	RORI Property Holdings
6560 Lonetree	Roseville/Rocklin	B	9,999	\$79.23	990 Reserve Dr., LLC	Bank of America

Lease Transactions

Property Address	Submarket	Class	Square Feet	Transaction Date	Tenant	Owner
9260/9272 Laguna Springs Dr.	South Sacramento	B	85,745	Sep-11	CA Correctional Health Care Services	Pappas Investments
621 Capitol Mall	Downtown	B	20,399	Sep-11	Nossaman, LLP	David Taylor Interests
609 9th St.	Downtown	C	14,250	Sep-11	Sacramento County Law Library	LBNJ
2295 Iron Point	Folsom	A	10,257	Sep-11	Waste Connections	The Evergreen Company
2450 Venture Oaks	Natomas/Northgate	A	8,030	Sep-11	Surgical Care Affiliates	KBS Real Estate Investment Trust, Inc.

Product Type

CLASS A

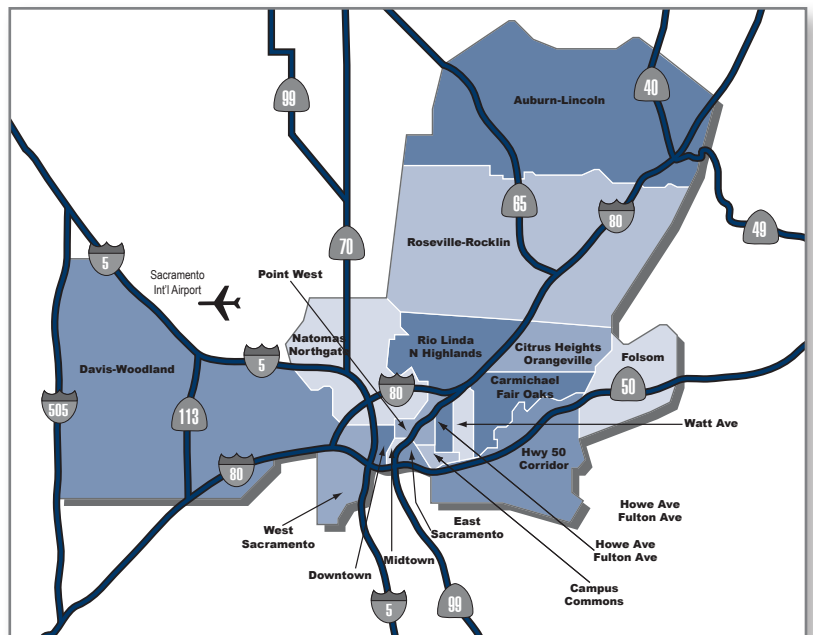
Most prestigious buildings competing for premier office users with rents above average for the area. Buildings have high-quality standard finishes, state-of-the-art systems, exceptional accessibility and a definite market presence.

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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