

Office Market Report

Compared to the Previous Quarter:

Vacancy

DOWN

Net Absorption

POSITIVE

Lease Rates

UP

Transactions

DOWN

Deliveries

FLAT

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Market Highlights

- Market Status** - The Sacramento office market had a very successful third quarter of 2012. Vacancy dropped slightly and net absorption posted the largest figure since the third quarter of 2008. Sale and lease transaction volume did sag compared to the previous quarter, but landlords will definitely welcome the increase, albeit minimal, in asking lease rates.
- Absorption** - The Sacramento office market posted 362,475 square feet of positive net absorption during the third quarter, giving the market an average of around 156,000 square feet of positive absorption per quarter over the last six quarters.
- Transaction Activity** - Sale and lease transaction volume totaled 960,491 million square feet in the third quarter of 2012, a significant decrease from the previous quarter's approximate 1.7 million square feet. Typically, this statistic does have some lag time to post final numbers, so look for the third quarter numbers end up around 1.1 million.
- Employment** - The unemployment rate in the Sacramento-Arden Arcade-Roseville MSA was 10.7% in Aug 2012, up from 10.4% in April 2012. This compares with an unadjusted unemployment rate of 10.4% for California and 8.2% for the nation during the same period. According to the State of California Employment Development Department, Sacramento-Arden Arcade-Roseville MSA saw a net increase of 17,600 payroll jobs from August 2011 to August 2012. The largest gains were 4,900 in professional & business services and 3,900 in trade, transportation, and utilities; however, Sacramento-Arden Arcade-Roseville MSA lost 900 leisure and hospitality jobs during that same period.
- Overall** - We are beginning to see a decrease in the amount of vacant space being added per quarter. As we enter into the last quarter of 2012, positive absorption should continue, and with few new deliveries in the pipeline to apply upward pressure on vacancy, the market will continue to stabilize. We foresee an overall increase in investment activity in the coming quarters as lenders dispose of distressed assets. Lease rates are expected to firm up with the possibility of increasing going into 2013. We should also see an increase in leasing activity as many short-term deals come up for renewal. As job creation continues and consumer confidence stabilizes, the office market will continue to recover.
- Construction** - There were no office buildings delivered in the third quarter of 2012. However, there were five office buildings under construction in the Sacramento region at the close of the third quarter, including two 130,000 square foot buildings in South Sacramento.
- Vacancy** - The vacancy rate decreased 39 basis points from the second quarter of 2012 to 17.17%. Overall, the rate has remained in the 17th percentile since the first quarter of 2010. Within the major submarkets, Downtown and Midtown performed the best with vacancy rates of 9.83% and 8.36%, respectively, while the Roseville/Rocklin struggled at 25.64%.
- Availability** - The rate of space being marketed was 20.13%, an increase of 2 basis points from the previous quarter. The availability rate has been in the 20th percentile since the fourth quarter of 2010. Like the vacancy statistics, Downtown and Midtown had the least available square footage, while Roseville/Rocklin had the most available square footage.
- Lease Rates** - The average asking lease rate across all building classes and submarkets at the close of the third quarter was \$1.76 per square foot per month, full-service. This was an increase of one cent from the previous quarter. The region's highest average asking rate of \$2.32 per square foot per month was located in the Downtown submarket. The region's lowest rates were found in the Benicia/Vallejo submarket at \$0.69 per square foot per month.

Prepared by:

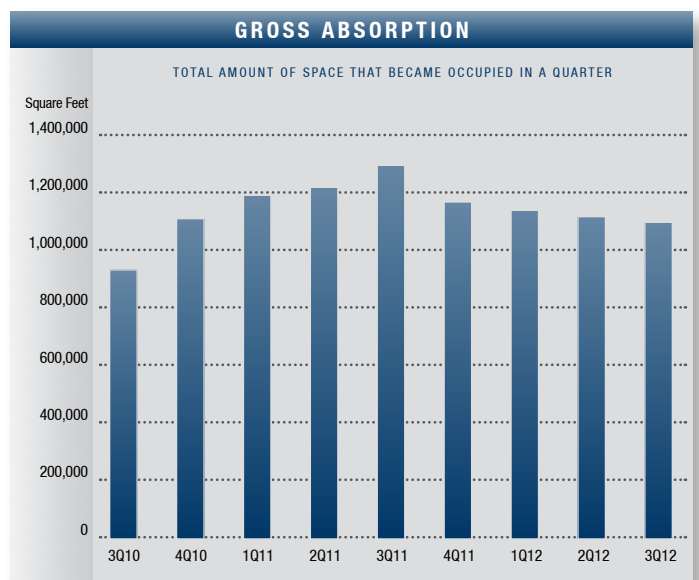
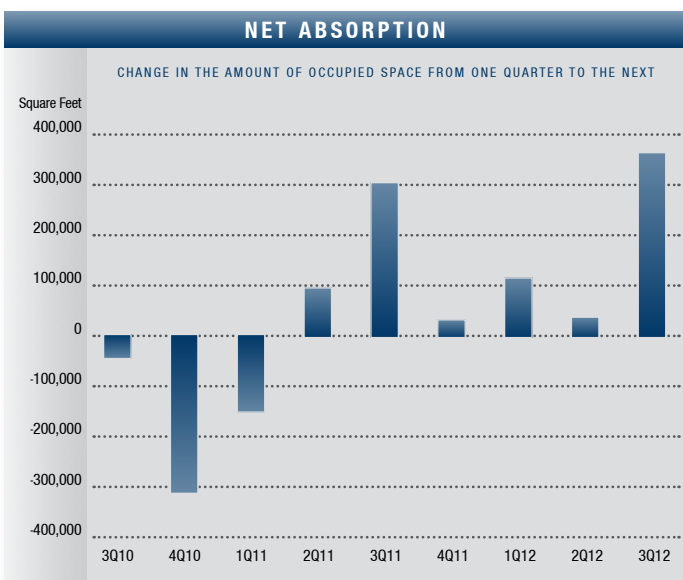
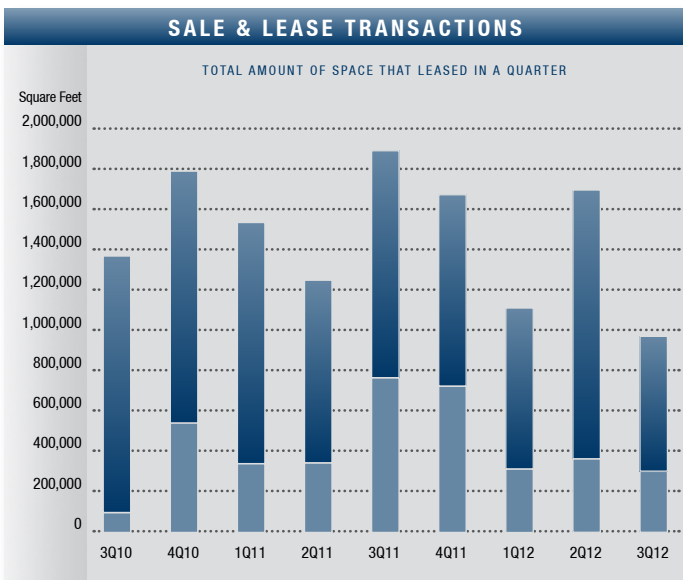
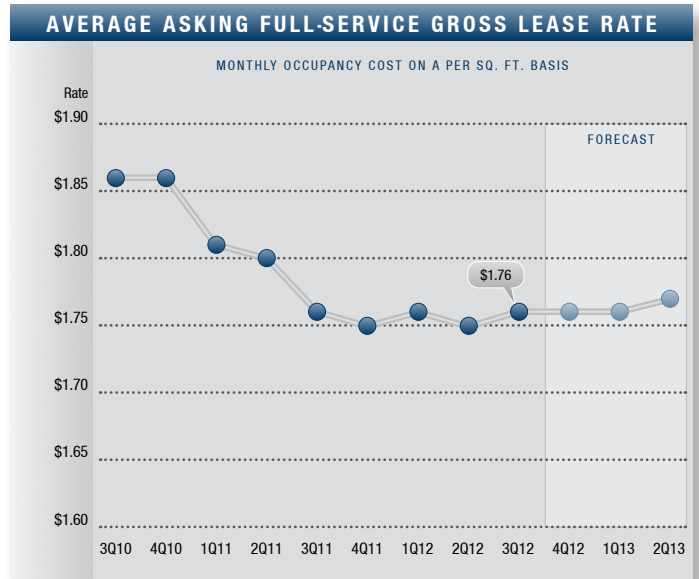
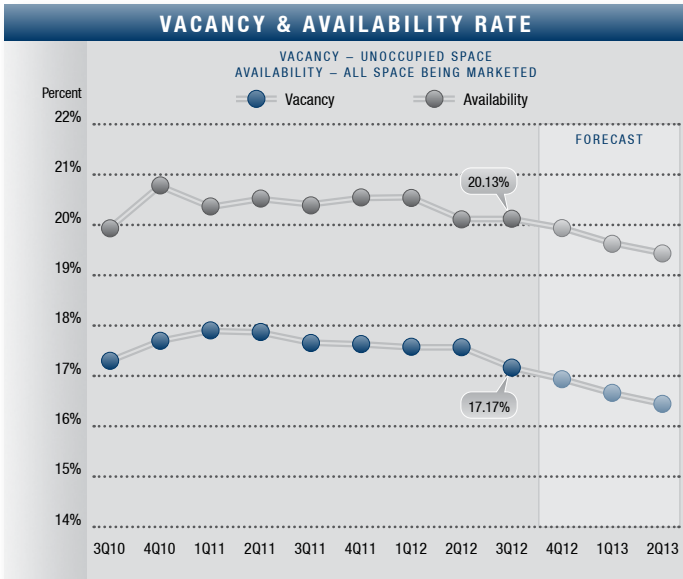
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OFFICE MARKET OVERVIEW

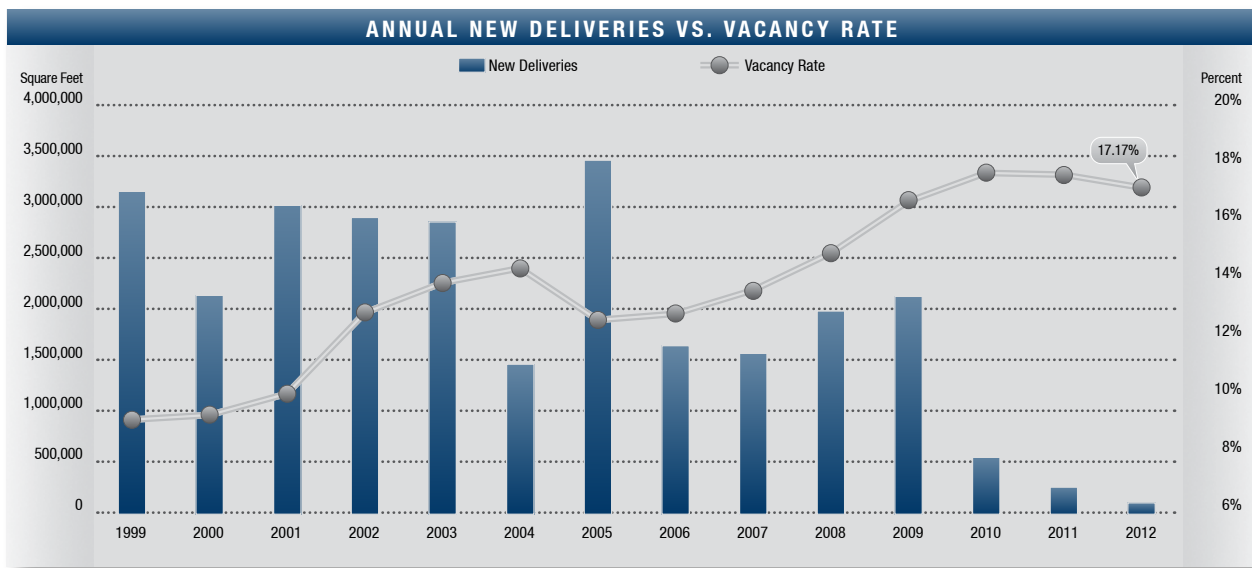
	3Q12	2Q12	3Q11	% of Change vs. 3Q11
Total Vacancy Rate	17.17%	17.56%	17.67%	(2.83%)
Availability Rate	20.13%	20.11%	20.37%	(1.18%)
Average Asking Lease Rate	\$1.76	\$1.75	\$1.76	0.00%
Sale & Lease Transactions	960,491	1,692,069	1,878,666	(48.87%)
Gross Absorption	1,096,683	1,114,249	1,292,127	(15.13%)
Net Absorption	362,475	35,404	300,794	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 3Q2012	Square Feet Available	Availability Rate 3Q2012	Average Asking Lease Rate	Net Absorption 3Q2012	Net Absorption 2012	Gross Absorption 3Q2012	Gross Absorption 2012
Sacramento Market													
Auburn / Lincoln	64	1,328,903	0	73,921	188,559	14.19%	206,051	15.51%	\$1.22	(30,050)	(37,690)	8,882	29,836
Benicia / Vallejo	91	2,779,948	0	0	746,058	26.84%	746,058	26.84%	\$0.69	1,850	10,171	3,700	32,695
Campus Commons	43	1,292,579	0	160,000	270,290	20.91%	300,764	23.27%	\$1.74	14,113	(1,365)	24,027	56,986
Carmichael / Fair Oaks	50	1,018,054	0	0	150,244	14.76%	206,888	20.32%	\$1.34	8,826	13,094	22,792	43,861
Citrus Heights / Orangevale	54	1,449,494	0	0	212,438	14.66%	243,137	16.77%	\$1.28	5,876	44,886	19,261	97,429
Davis / Woodland	74	1,823,112	0	52,685	203,935	11.19%	235,028	12.89%	\$2.03	21,891	3,605	24,429	65,872
Downtown	217	18,598,431	0	0	1,829,047	9.83%	2,150,416	11.56%	\$2.32	10,410	(1,085)	172,121	456,269
East Sacramento	32	1,811,442	0	0	189,292	10.45%	188,407	10.40%	\$1.98	(1,281)	62,821	1,504	72,430
El Dorado	69	1,607,479	0	432,000	351,934	21.89%	497,876	30.97%	\$1.74	4,723	3,504	33,224	61,524
Fairfield / Suisun City	64	1,929,594	0	87,133	250,656	12.99%	383,769	19.89%	\$2.31	(5,585)	(2,093)	24,391	52,217
Folsom	99	4,708,614	0	107,687	540,488	11.48%	840,956	17.86%	\$1.85	44,957	159,008	83,912	302,713
Highway 50	272	15,323,694	0	1,253,600	3,010,644	19.65%	3,480,214	22.71%	\$1.64	82,498	(31,312)	163,160	565,923
Howe Ave / Fulton Ave	78	2,469,423	19,311	0	534,722	21.65%	634,879	25.71%	\$1.53	(10,695)	16,282	39,178	141,132
Midtown	103	3,947,655	0	63,600	330,103	8.36%	487,839	12.36%	\$1.90	(20,957)	(14,158)	11,160	56,736
Natomas / Northgate	108	6,100,369	0	177,525	1,514,770	24.83%	1,761,381	28.87%	\$1.72	35,184	(20,211)	82,160	219,514
Outer El Dorado County	8	142,249	0	0	26,319	18.50%	26,319	18.50%	\$2.17	(7,412)	(7,412)	624	624
Outer Placer County	4	48,360	0	0	20,316	42.01%	20,316	42.01%	\$0.00	(1,600)	(19,716)	0	100
Outer Sacramento County	13	329,820	0	123,102	48,254	14.63%	56,638	17.17%	\$1.66	0	(2,064)	0	13,282
Point West	51	2,722,261	0	0	793,615	29.15%	857,482	31.50%	\$1.76	48,988	22,082	59,622	163,103
Rio Linda / North Highlands	30	1,032,934	0	0	415,962	40.27%	409,833	39.68%	\$1.22	2,002	(5,612)	2,002	4,261
Roseville / Rocklin	266	10,589,288	108,140	794,728	2,715,481	25.64%	3,102,460	29.30%	\$1.74	56,865	150,117	155,212	549,897
South Sacramento / Elk Grove	130	3,912,773	260,000	211,593	650,936	16.64%	772,425	19.74%	\$1.44	91,543	156,487	128,588	251,230
Sutter County	27	496,830	0	20,000	65,800	13.24%	65,800	13.24%	\$1.45	(15,588)	(2,307)	3,490	33,726
Vacaville / Dixon	42	1,209,232	0	0	147,597	12.21%	165,074	13.65%	\$1.85	4,380	6,980	5,322	12,827
Watt Ave	54	2,471,206	0	45,858	341,323	13.81%	385,229	15.59%	\$1.27	21,345	13,271	24,571	52,030
West Sacramento	37	2,242,642	0	110,000	201,737	9.00%	245,881	10.96%	\$1.57	192	(5,877)	3,351	6,815
Yuba County	5	358,160	0	0	0	0.00%	0	0.00%	\$0.00	0	0	0	0
Sacramento Market Total	2,085	91,744,546	387,451	3,713,432	15,750,520	17.17%	18,471,120	20.13%	\$1.76	362,475	511,406	1,096,683	3,343,032

Class A	195	25,963,157	313,000	2,034,911	4,331,935	16.68%	5,070,893	19.53%	\$2.03	154,756	180,307	367,803	1,040,501
Class B	1,004	42,800,205	74,451	1,678,521	7,217,956	16.86%	8,795,504	20.55%	\$1.69	207,137	350,277	514,688	1,688,532
Class C	886	22,981,184	0	0	4,200,629	18.28%	4,604,723	20.04%	\$1.36	582	(19,178)	214,192	613,999
Sacramento Market Total	2,085	91,744,546	387,451	3,713,432	15,750,520	17.17%	18,471,120	20.13%	\$1.76	362,475	511,406	1,096,683	3,343,032

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
Elk Grove Corporate Center 9355 E. Stockton Blvd.	South Sacramento	B	52,963	\$95.35	Mima Capital, LLC	NWK2, Inc.
Riverpark Business Center 444 N. 3rd St.	Downtown	C	76,158	\$35.78	Orton Development, Inc.	ORIX USA Corporation
110 Blue Ravine Rd.	Folsom	C	39,912	\$66.01	Namat Hosseinian	House Family Trust
1460 N. Camino Alto	Benicia / Vallejo	B	27,860	\$80.33	Wayne Chan Trust	Edward Louie Trust
655 Menlo Dr.	Roseville / Rocklin	C	22,464	\$64.41	Placer County Board of Education	Grassia Trust

Lease Transactions

Property Address	Submarket	Class	Square Feet	Transaction Date	Tenant	Owner
300 Capital Mall – Renewal	Downtown	A	191,000	Jul-12	State of CA Controller’s Office	Hines / Sterling Equities
200 Vernon St.	Roseville / Rocklin	C	65,481	Aug-12	SureWest Communications	SureWest Communications
1800 3rd St.	Downtown	B	43,584	Jul-12	CalPERS	CalPERS
11919 Foundation Pl. – Renewal	Highway 50 Corridor	A	38,897	Aug-12	eHealth	Panattoni
1025 Creekside Ridge Dr.	Roseville / Rocklin	A	20,830	Aug-12	Adventist Health	RREEF America, LLC

Voit RES deal

Product Type

CLASS A

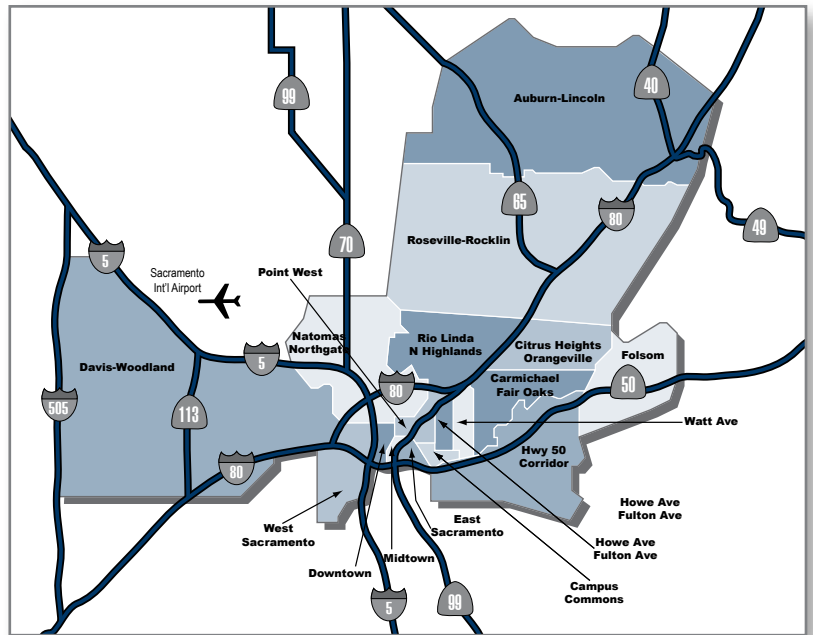
Most prestigious buildings competing for premier office users with rents above average for the area. Buildings have high-quality standard finishes, state-of-the-art systems, exceptional accessibility and a definite market presence.

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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