

Office Market Report

Compared to 2009:

Vacancy



Net Absorption

NEGATIVE



Lease Rates

DOWN



Transactions

DOWN



Construction

DOWN



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Market Highlights

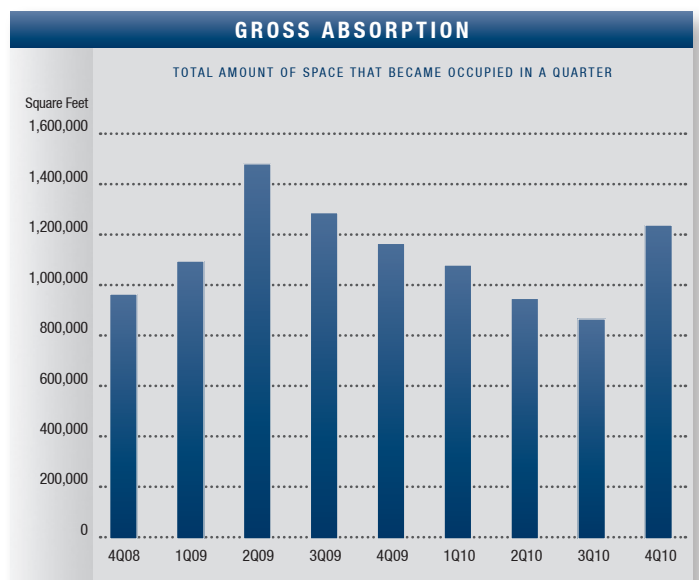
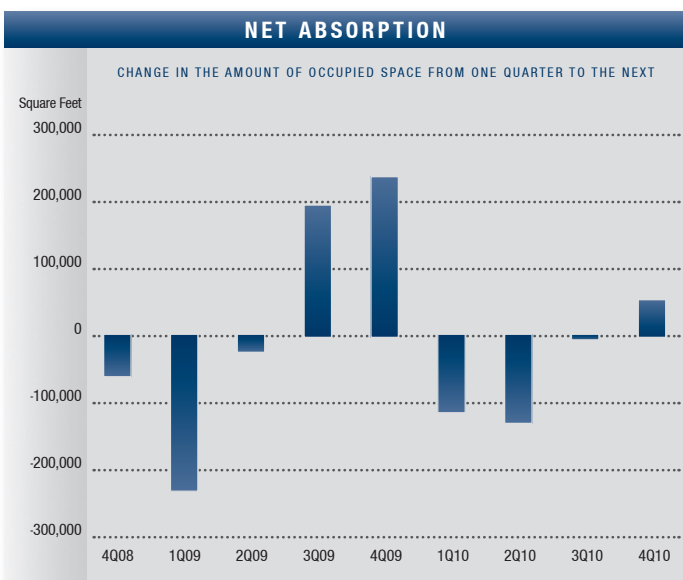
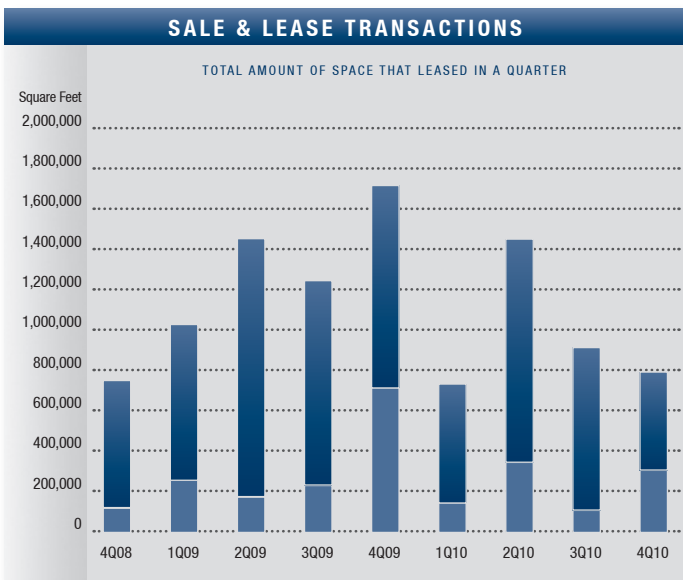
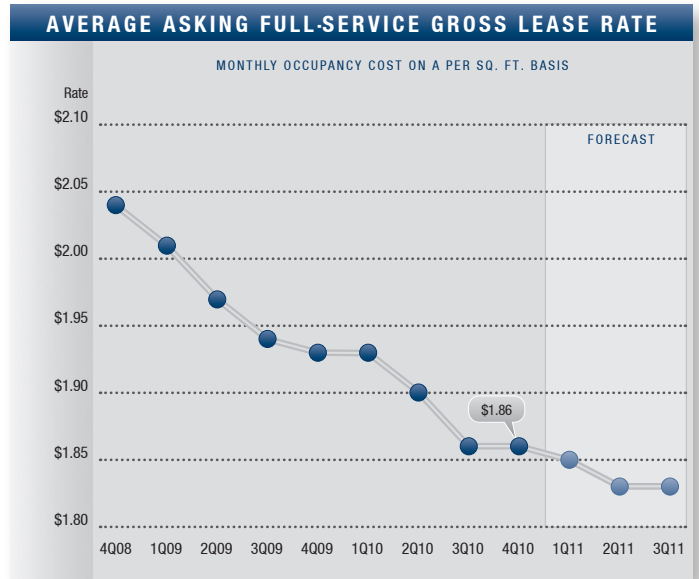
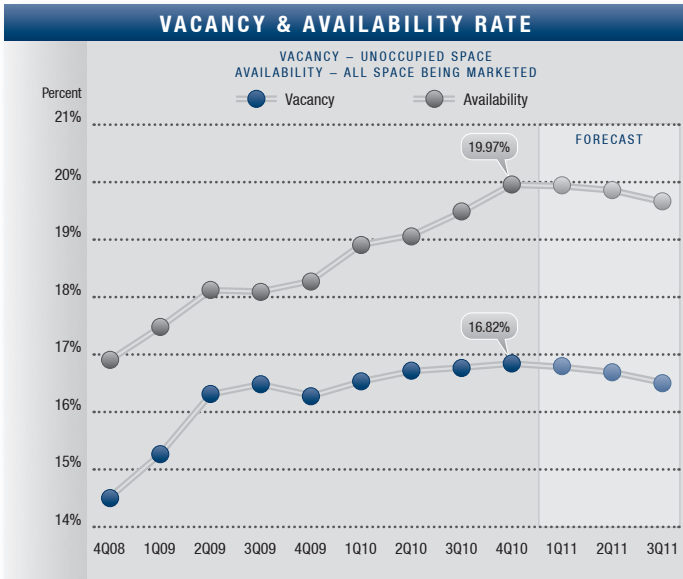
- Market Challenges** - The market appears to be heading in the direction of recovery, with vacancy stabilizing in the later half of 2010. However, many users/investors still have concerns with vacancy, tenant delinquencies, and economic uncertainty. Another challenge for the office market is a lack 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 leads landlords to seek their own relief from lenders.
- Construction** - Total space under construction checked in at 398,000 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 2010 at 16.82%, a slight increase over 2009's rate of 16.27% and about the same as last quarter's figure of 16.79%. The Downtown market, the largest submarket in the county, posted a rate of 9.0%.
- Availability** - Direct/sublease space being marketed was at 19.97% this quarter, an increase of 9.42% when compared to the 18.25% availability rate of the fourth quarter of 2009.
- Lease Rates** - The average asking Full Service Gross (FSG) lease rate per square foot per month in Sacramento was \$1.86 — a 3.63% decrease over 2009's rate of \$1.93 and the same as 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 averaged \$2.15 FSG, with Downtown noting the highest average asking rate of \$2.32 FSG.
- Absorption** - Net absorption for the county posted a positive 57,175 square feet for the fourth quarter of 2010, giving the office market a total of 199,841 square feet of negative absorption for 2010.
- Transaction Activity** - Leasing activity checked in at just under three million square feet for 2010, which is a decrease from 2009's 4.2 million square feet. Sales activity

also showed a decrease since 2009, posting 880,000 square feet of activity in 2010 as compared to 2009's 1.4 million 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 12.6% in November 2010, up from a revised 12.0% in October 2010 and above the year-ago estimate of 12.0%. The unemployment rate was 12.7% in El Dorado, 11.5% in Placer, 12.8% in Sacramento and 13.3% in Yolo Counties. This compares with an unadjusted unemployment rate of 12.4% for California and 9.3% for the nation during the same period. According to the State of California Employment Development Department, the Sacramento MSA lost 22,300 payroll jobs from November 2009 through November 2010 — 4,300 in construction and 3,600 in professional and business services. Between July 2010 and August 2010 the Sacramento MSA decreased by 2,800 jobs overall.
- Overall** - We are beginning to see a decrease in the amount of vacant space being added per quarter. Absorption was still negative in 2010, but we did see positive absorption in the last quarter of the year. 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 continue 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 in 2011. Once employment turns positive and consumer confidence stabilizes, the office market will regain equilibrium.

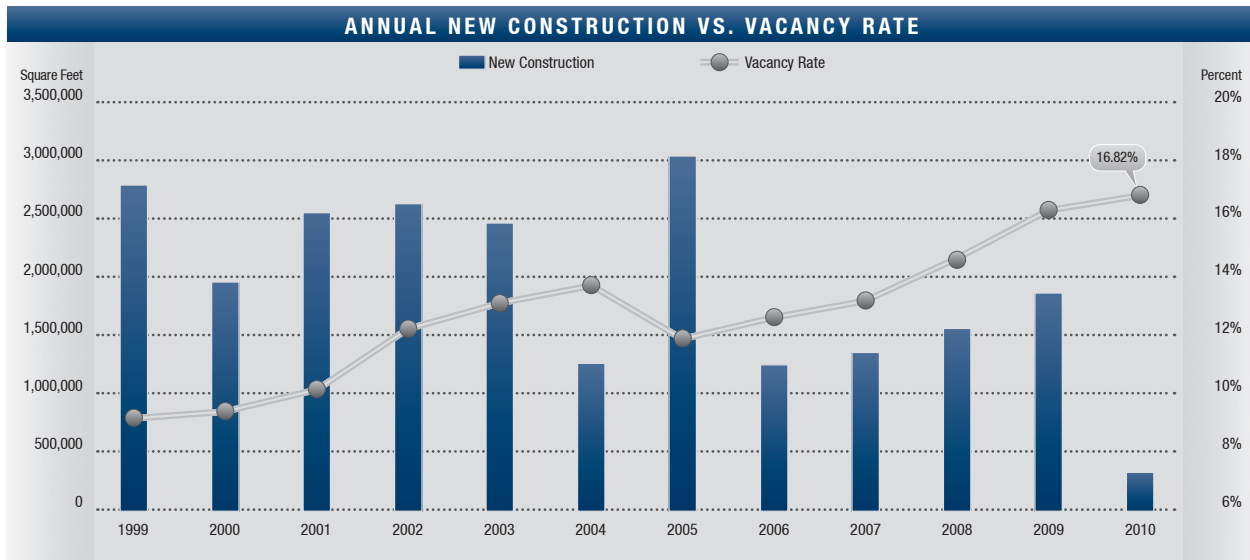
OFFICE MARKET OVERVIEW

	2010	2009	2008	% CHANGE vs. 2009
Vacancy Rate	16.82%	16.27%	14.53%	3.38%
Availability Rate	19.97%	18.25%	16.93%	9.42%
Average Asking Lease Rate	\$1.86	\$1.93	\$2.04	(3.63%)
Sale & Lease Transactions	3,862,460	5,534,859	4,973,469	(30.22%)
Gross Absorption	4,119,353	5,019,509	4,959,104	(17.93%)
Net Absorption	(199,841)	170,022	271,713	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 4Q2010	Square Feet Available	Availability Rate 4Q2010	Average Asking Lease Rate	Net Absorption 4Q2010	Net Absorption 2010	Gross Absorption 4Q2010	Gross Absorption 2010
Sacramento County													
Auburn/Lincoln	59	1,164,693	0	95,921	172,836	14.84%	181,855	15.61%	\$1.10	(8,372)	(4,228)	19,080	49,608
Campus Commons	43	1,309,648	0	120,000	262,308	20.03%	284,317	21.71%	\$1.89	(1,927)	(5,357)	7,607	58,482
Carmichael/Fair Oaks	52	1,172,582	0	0	134,008	11.43%	196,847	16.79%	\$1.33	5,174	3,820	18,415	48,753
Citrus Heights/Orangevale	51	1,355,861	0	0	240,789	17.76%	263,002	19.40%	\$1.20	1,916	13,802	13,901	95,566
Davis/Woodland	71	1,792,948	0	48,290	208,974	11.66%	270,073	15.06%	\$2.14	10,544	28,774	29,362	107,855
Downtown	213	17,877,875	155,000	0	1,608,659	9.00%	1,987,756	11.12%	\$2.32	(9,069)	(104,257)	153,974	435,096
East Sacramento	34	1,821,563	0	0	300,665	16.51%	313,525	17.21%	\$1.77	(79,826)	60,543	1,208	151,352
Folsom	99	4,591,337	80,000	107,687	618,963	13.48%	729,102	15.88%	\$1.89	5,410	70,242	45,042	291,052
Highway 50	275	15,531,705	0	1,253,600	2,780,054	17.90%	3,456,309	22.25%	\$1.70	(240,080)	(386,128)	128,582	628,701
Howe Ave/Fulton Ave	84	2,607,900	0	0	435,079	16.68%	521,416	19.99%	\$1.65	8,656	(31,466)	30,435	105,913
Midtown	106	4,140,069	0	63,600	287,502	6.94%	405,117	9.79%	\$1.92	11,683	61,966	30,589	196,869
Natomas/Northgate	103	5,942,472	0	437,725	1,406,765	23.67%	1,740,370	29.29%	\$1.83	100,031	89,510	193,613	507,007
Point West	50	2,678,359	0	0	875,018	32.67%	964,101	36.00%	\$1.79	(58,399)	(82,510)	9,783	98,764
Rio Linda/North Highlands	29	1,051,708	0	0	303,069	28.82%	329,673	31.35%	\$1.27	9,728	(71,241)	10,975	34,860
Roseville/Rocklin	271	10,524,463	53,000	925,533	3,050,212	28.98%	3,365,611	31.98%	\$1.91	83,449	117,898	272,009	834,767
South Sacramento	126	3,581,368	0	307,493	654,850	18.28%	813,621	22.72%	\$1.85	28,422	(68,546)	71,251	165,614
Watt Ave	52	2,453,182	0	0	218,942	8.92%	292,485	11.92%	\$1.47	(4,716)	(40,393)	7,244	39,581
West Sacramento	36	2,205,322	110,000	0	199,174	9.03%	217,388	9.86%	\$1.50	194,551	147,730	195,894	269,513
Sacramento County Total	1,754	81,803,055	398,000	3,359,849	13,757,867	16.82%	16,332,568	19.97%	\$1.86	57,175	(199,841)	1,238,964	4,119,353
Sacramento County by Class													
Class A	184	24,969,245	398,000	2,237,978	4,994,407	20.00%	5,324,502	21.32%	\$2.15	38,765	(86,563)	507,986	1,346,007
Class B	838	37,567,422	0	1,121,871	6,328,386	16.85%	7,680,803	20.45%	\$1.77	67,250	246,385	585,409	2,170,992
Class C	732	19,266,388	0	0	2,435,074	12.64%	3,327,263	17.27%	\$1.41	(48,840)	(359,663)	145,569	602,354
Class Total	1,754	81,803,055	398,000	3,359,849	13,757,867	16.82%	16,332,568	19.97%	\$1.86	57,175	(199,841)	1,238,964	4,119,353

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 Drive – 6 Properties	Highway 50	A & B	642,247	\$105.88	DivcoWest Real Estate	Lowe Enterprises
75 Iron Point Circle	Folsom	B	48,591	\$166.39	CSAC Excess Insurance Authority	Teton II
1402 Blue Oaks Boulevard – 15 Properties	Roseville/Rocklin	Mixed	79,942	\$90.07	Gemperle Farms	Bank of the West
3063 Gold Canal Drive	Highway 50	B	12,000	\$400.00	Corrie C. & Janet E. Leisen	Gold Sunrise, LLC
3695 Bleckely Street	Highway 50	C	47,000	\$79.79	Western Electrical Contractors Association, Inc.	Wells Fargo & Co.
7777 Greenback Lane	Citrus Heights	B	64,063	\$48.39	Ethan Conrad Properties	Buddy Parsons

Lease Transactions

Property Address	Submarket	Class	Square Feet	Transaction Date	Tenant	Owner
11031 Sun Center Drive – Renewal	Highway 50	B	112,142	July 3rd	Health Net Associates	Great Scene Ventures, Ltd.
11150 International Drive – Renewal	Highway 50	A	100,000	April 29th	State of California	The Evergreen Company
9815 Goethe Road – Renewal	Highway 50	B	80,000	August 1st	CA Employment Development Dept.	KBS Real Estate Investment Trust, Inc.
1700 K Street – Renewal	Midtown	B	77,742	August 1st	CA Dept. of Alcohol & Drugs Programs	Din Moor Group
10860 Gold Center Drive	Highway 50	A	77,511	October 1st	State Chief Information Officer	DivcoWest Real Estate
2241 Harvard Street	Point West	A	77,145	June 30th	Regional Center of Orange County, Inc.	USAA Real Estate Company

Product Type

CLASS A

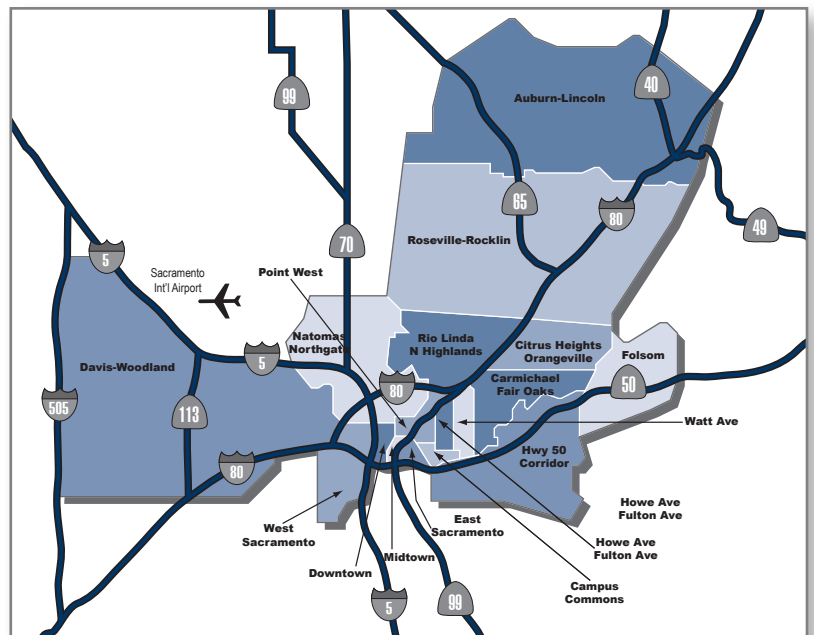
Most prestigious buildings competing for premier office users with rents above average for the area. Buildings have high-quality standard finishes, state-of-the-art systems, exceptional accessibility and a definite market presence.

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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