

MARKET CHANGE

Compared to the Previous Quarter:

Vacancy

DOWN



Net Absorption

POSITIVE



Deliveries

UP



Lease Rates

UP



Transactions

DOWN



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HIGHLIGHTS

- **Market Status** - The Sacramento office market continues to vastly improve as demand has increased in recent quarters while development has remained minimal. Net absorption has been positive for eleven consecutive quarters now, averaging 280,000 square feet a quarter, while vacancy and availability continue to trend downward. These impressive statistics bode well for the future of the Sacramento office market. As the unemployment rate continues to decrease and overall economic stability strengthens, a full recovery is expected.
- **Construction** - At the close of the third quarter, there were two office buildings under construction in the Sacramento region, totaling 85,140 square feet. The larger of the two is a 55,140 square foot, Class B office building in the Roseville/Rocklin submarket, which is expected to be delivered in October of this year. During the third quarter of 2014, there was a total of 19,000 square feet delivered. The minimal construction will continue the downward pressure on vacancy.
- **Vacancy** - The vacancy rate decreased 10 basis points from the previous quarter to 14.89%, which is the lowest vacancy rate for the Sacramento office market since 2008. Within the major submarkets, Midtown and Davis/Woodland performed the best with vacancy rates of 6.23% and 10.35%, respectively, while the Natomas/Northgate and the Howe Ave/Fulton Ave submarket struggled at 21.14% and 24.67%, respectively.
- **Availability** - The rate of space being marketed was 17.49%, a decrease of 12 basis points from the previous quarter. Of the major submarkets, Midtown and West Sacramento had the lowest percentage of available square footage at 10.28% and 10.36%, respectively, while the Rio Linda/North Highlands submarket had the largest percentage of available square footage at 36.77%.
- **Lease Rates** - The average asking lease rate across all building classes and submarkets at the close of the third quarter was \$1.78 per square foot per month, full-service gross, which is a \$0.01 increase from the previous quarter and a \$0.04 increase from the previous year. Within the major submarkets, Downtown and the Fairfield/Suisun City submarkets had the highest asking rates at \$2.25 and \$2.27 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 \$0.90 and \$1.17 per square foot per month.
- **Absorption** - The Sacramento office market posted 83,097 square feet of positive net absorption during the third quarter, giving the

market its 11th consecutive quarter of positive net absorption at 3 million square feet. Of the major submarkets, Roseville/Rocklin posted the highest net absorption of 172,412 square feet, while the Natomas/Northgate submarket had the second highest net absorption of 46,588 square feet.

- **Transaction Activity** - Sale and lease transaction volume totaled just over 1.4 million square feet in the third quarter. Sales activity came in at just over 828,000 square feet for the third quarter, which compares to an average of one million square feet for all of 2014. This statistic can have some lag time in being reported, so look for third quarter figures to end up somewhat higher in the next report. Details of the largest transactions for the third quarter can be found on the back page of this report.
- **Employment** - The unemployment rate in the Sacramento-Arden Arcade-Roseville MSA was 7.0% in August 2014, down from a revised 7.4% in July 2014, and below the year-ago estimate of 8.5%. This compares with an unadjusted unemployment rate of 7.4% for California and 6.3% 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 17,000 payroll jobs from August 2013 to August 2014. While most sectors showed gains in employment, the largest gains were 7,200 jobs in professional and business services, 6,000 jobs in educational and health services, and 1,600 jobs in manufacturing during that same time period.
- **Overall** - The third quarter of 2014 marked the lowest vacancy rate since 2008 and the 11th consecutive quarter of positive net absorption, which are clear indicators that the Sacramento office market is moving in the right direction. Even though lease rates are on the rise, they are still at their lowest in decades, which has kept Sacramento more attractive to tenants in comparison to other more expensive West Coast metros. Demand for good quality office space has a strong potential to increase given new developments around Sacramento. For example, Tesla's new gigafactory has led economists to anticipate the emergence of white collar jobs in accounting and marketing in the Sacramento area. 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 stabilizes.

FORECAST

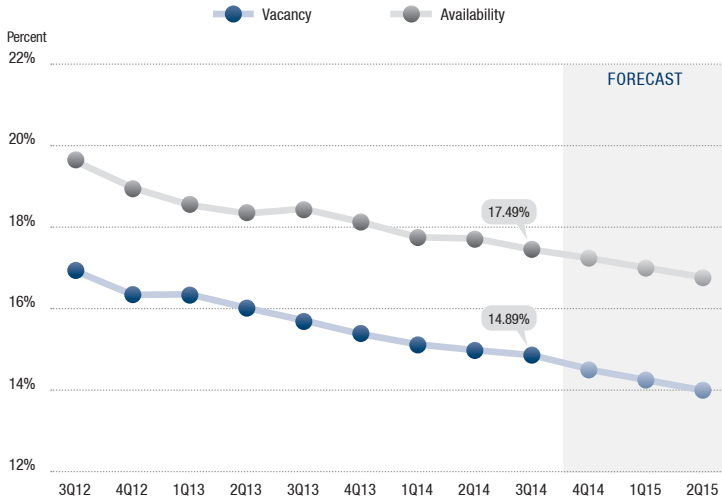
- **Construction** - We anticipate construction remaining minimal, giving demand an opportunity to catch up with supply.
- **Employment** - We anticipate job growth of around 2.1%, or 17,008 jobs, in the Sacramento area by 2015. Expect growth in educational services, health care, social assistance, professional & business services, leisure & hospitality, and retail trade.
- **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 14.0% by the end of the second quarter of 2015.

OVERVIEW

	3Q14	2Q14	3Q13	% of Change vs. 3Q13
Vacancy Rate	14.89%	14.99%	15.69%	(5.10%)
Availability Rate	17.49%	17.61%	18.42%	(5.05%)
Average Asking Lease Rate	\$1.78	\$1.77	\$1.74	2.30%
Sale & Lease Transactions	1,440,575	1,992,697	1,858,946	(22.51%)
Gross Absorption	1,055,072	1,065,525	1,314,053	(19.71%)
Net Absorption	83,097	129,284	377,687	N/A

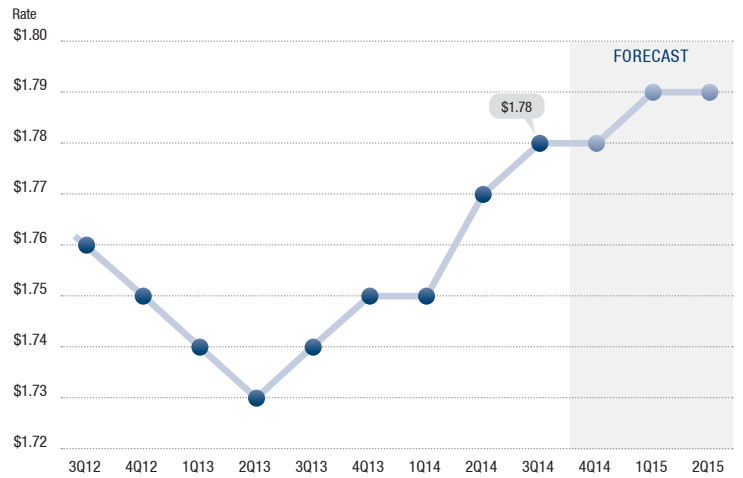
VACANCY & AVAILABILITY RATE

VACANCY – UNOCCUPIED SPACE | AVAILABILITY – ALL SPACE BEING MARKETED



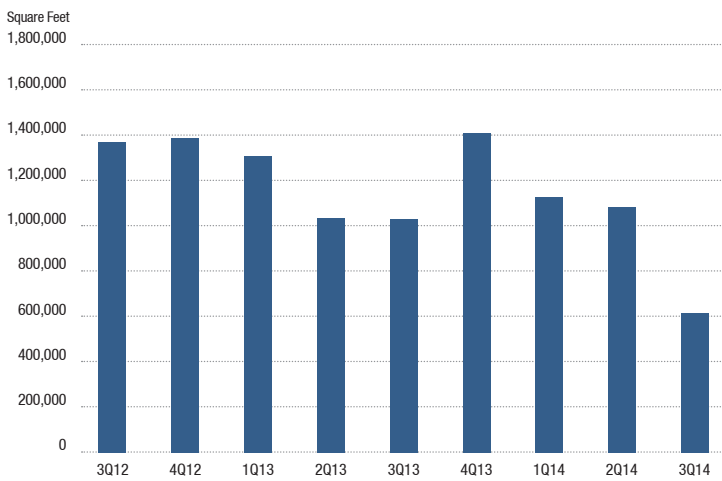
AVERAGE ASKING FULL-SERVICE GROSS LEASE RATE

MONTHLY OCCUPANCY COST ON A PER SQ. FT. BASIS



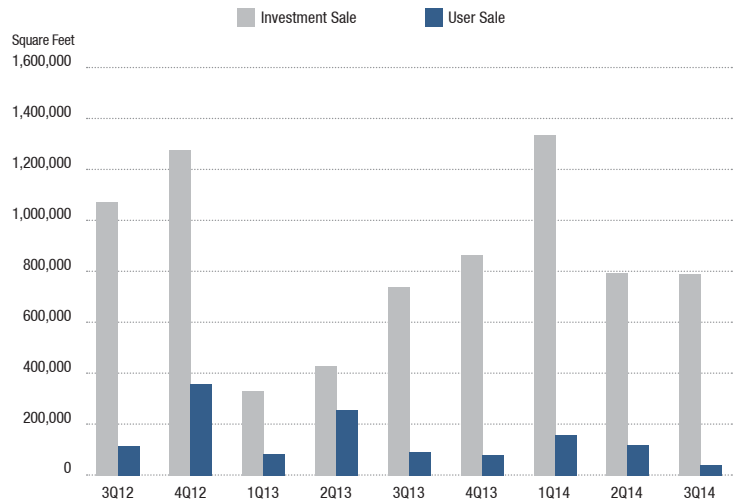
LEASE TRANSACTIONS

TOTAL AMOUNT OF SPACE THAT LEASED IN A QUARTER



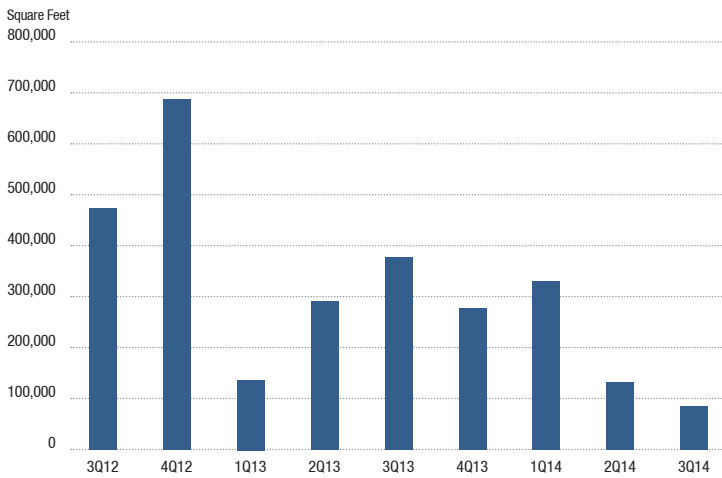
SALES TRANSACTIONS

TOTAL AMOUNT OF SPACE THAT SOLD IN A QUARTER



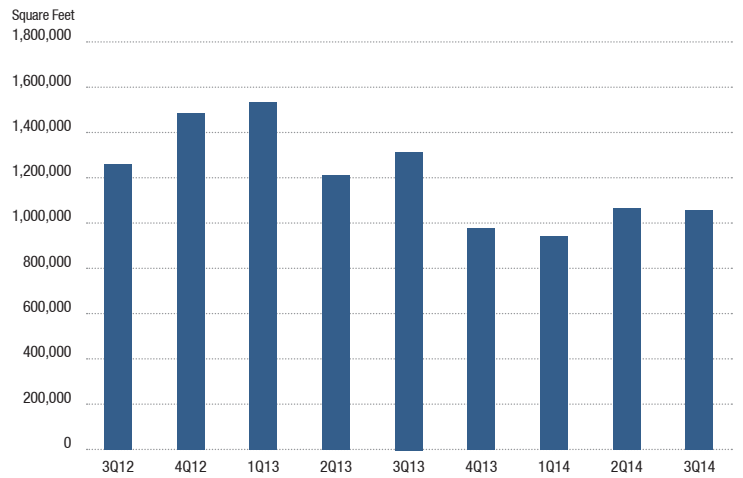
NET ABSORPTION

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



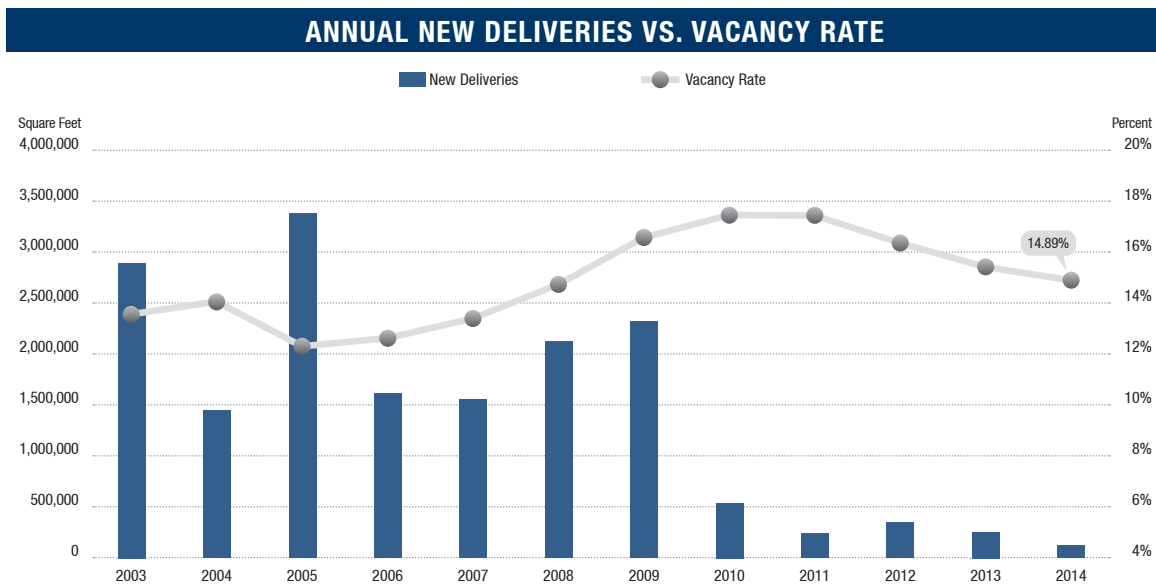
GROSS ABSORPTION

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 3Q2014	Square Feet Available	Availability Rate 3Q2014	Average Asking Lease Rate	Net Absorption 3Q2014	Net Absorption 2014	Gross Absorption 3Q2014	Gross Absorption 2014
Sacramento Market													
Auburn / Lincoln	66	1,358,736	0	80,921	170,441	12.54%	174,333	12.83%	\$1.52	3,831	46,233	9,545	66,029
Benicia / Vallejo	88	2,684,299	0	462,100	744,749	27.74%	780,099	29.06%	\$1.36	4,057	13,625	9,907	36,361
Campus Commons	42	1,256,321	0	160,000	229,678	18.28%	242,851	19.33%	\$1.67	24,349	20,488	54,952	68,359
Carmichael / Fair Oaks	46	979,225	0	0	81,986	8.37%	137,755	14.07%	\$1.29	9,502	(4,496)	52,219	69,759
Citrus Heights / Orangevale	52	1,436,051	0	0	191,676	13.35%	209,106	14.56%	\$1.17	4,755	(9,632)	11,390	22,117
Davis / Woodland	78	1,978,399	0	71,600	204,750	10.35%	223,332	11.29%	\$2.02	12,292	(47,614)	30,627	95,695
Downtown	216	18,827,911	0	0	2,102,987	11.17%	2,481,840	13.18%	\$2.25	(48,808)	27,475	79,912	455,940
East Sacramento	32	1,925,683	0	0	233,116	12.11%	234,254	12.16%	\$2.02	1,450	11,174	1,450	14,532
El Dorado	72	1,656,483	0	432,000	326,066	19.68%	427,291	25.80%	\$1.59	6,213	33,951	13,474	97,966
Fairfield / Suisun City	66	2,102,199	30,000	57,133	327,219	15.57%	399,298	18.99%	\$2.27	(3,025)	36,203	19,464	74,874
Folsom	101	4,762,945	0	85,827	551,897	11.59%	706,656	14.84%	\$1.79	3,205	4,555	12,295	116,670
Highway 50	297	17,216,662	0	947,452	2,741,445	15.92%	3,257,507	18.92%	\$1.58	(165,438)	(148,396)	74,839	248,307
Howe Ave / Fulton Ave	79	2,469,890	0	0	609,416	24.67%	772,096	31.26%	\$1.60	17,849	(30,993)	32,411	76,942
Midtown	101	3,747,748	0	63,600	233,560	6.23%	385,311	10.28%	\$1.89	3,543	22,044	22,369	94,681
Natomas / Northgate	110	6,406,363	0	177,525	1,354,578	21.14%	1,469,358	22.94%	\$1.72	46,588	4,842	120,408	226,775
Outer El Dorado County	11	186,978	0	0	27,515	14.72%	30,184	16.14%	\$2.28	406	430	406	836
Outer Placer County	5	64,360	0	0	24,766	38.48%	28,862	44.84%	\$2.00	0	(4,450)	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	2,706,640	0	0	553,060	20.43%	602,903	22.27%	\$1.68	11,023	193,908	71,486	315,675
Rio Linda / North Highlands	29	1,009,080	0	0	299,517	29.68%	371,054	36.77%	\$0.90	3,338	2,080	3,338	3,635
Roseville / Rocklin	260	10,347,694	55,140	654,928	1,674,273	16.18%	2,013,166	19.46%	\$1.78	172,412	423,945	351,074	776,004
South Sacramento / Elk Grove	149	4,680,136	0	271,319	575,254	12.29%	720,991	15.41%	\$1.76	20,231	33,011	39,186	117,950
Sutter County	27	503,172	0	20,000	49,967	9.93%	58,467	11.62%	\$1.45	1,206	8,902	1,206	8,954
Vacaville / Dixon	40	1,160,804	0	101,000	122,408	10.55%	143,157	12.33%	\$1.85	(2,132)	5,487	5,458	14,077
Watt Ave	49	2,323,453	0	45,858	300,910	12.95%	341,043	14.68%	\$1.48	(4,238)	(9,959)	9,502	19,348
West Sacramento	36	1,983,326	0	110,000	239,157	12.06%	205,533	10.36%	\$1.59	15,168	(36,024)	28,154	40,646
Yuba County	7	424,878	0	0	59,653	14.04%	59,653	14.04%	\$1.25	(54,680)	(54,680)	0	0
Sacramento Market Total	2,110	94,210,230	85,140	3,741,263	14,030,044	14.89%	16,476,100	17.49%	\$1.78	83,097	542,109	1,055,072	3,062,132
Class A	203	27,495,476	0	1,578,763	3,333,219	12.12%	3,824,035	13.91%	\$2.14	258,255	339,116	468,034	1,081,427
Class B	1,032	43,615,770	85,140	2,162,500	6,587,184	15.10%	7,830,107	17.95%	\$1.67	92,090	459,831	479,509	1,545,540
Class C	875	23,098,984	0	0	3,989,441	17.27%	4,800,547	20.78%	\$1.38	(147,048)	(136,638)	107,529	435,165
Sacramento Market Total	2,110	94,210,230	85,140	3,741,263	14,030,044	14.89%	16,476,100	17.49%	\$1.78	83,097	542,109	1,055,072	3,062,132

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
8110 Laguna Blvd.	Sacramento County/Elk Grove	B/C	67,793	\$405.65	American Realty Capital Healthcare Trust II, Inc.	Jackson Properties
10030 Goethe Rd.	Highway 50 Corridor	B	30,000	\$203.33	Bralely, LLC	M.H. Sherman Company
Orchard Professional Center 190 S. Orchard Ave.	Vacaville/Dixon	B	33,490	\$131.83	Granite Bay Capital Group	McCall Family Trust
Lake Forest Tech Center 101 Blue Ravine Rd.	Folsom	C	53,000	\$66.04	Tesoro Blue Ravine, LLC	CRP Properties, Inc.
1515 River Park Dr.	Point West	B	31,984	\$78.32	GPR Ventures, LLC	JSSP Partners, LLC

Lease Transactions

Property Address	Submarket	Class	Square Feet	Transaction Date	Tenant	Owner
Natomas Corporate Center 2495 Natomas Park Dr.	Natomas/Northgate	A	68,047	Sep-14	State Street Bank and Trust	PRIM Natomas, LLC
Rocklin 65 Corporate Center 6550 Lonetree Blvd.	Roseville/Rocklin	A	56,000	Aug-14	Rocklin Academy	John S. Foggy
Park Centre Plaza 1700 9th Street	Downtown	B	44,000	Jul-14	State of California	Nishikawa Y & S 1996 Trust
Stoneview Plaza 3001 Lava Ridge Court	Roseville/Rocklin	A	29,766	Jul-14	CLC Incorporated	C-III Asset Management
Wells Fargo Center 400 Capitol Mall	Downtown	A	19,908	Aug-14	Undisclosed	Hines

PRODUCT TYPE

CLASS A

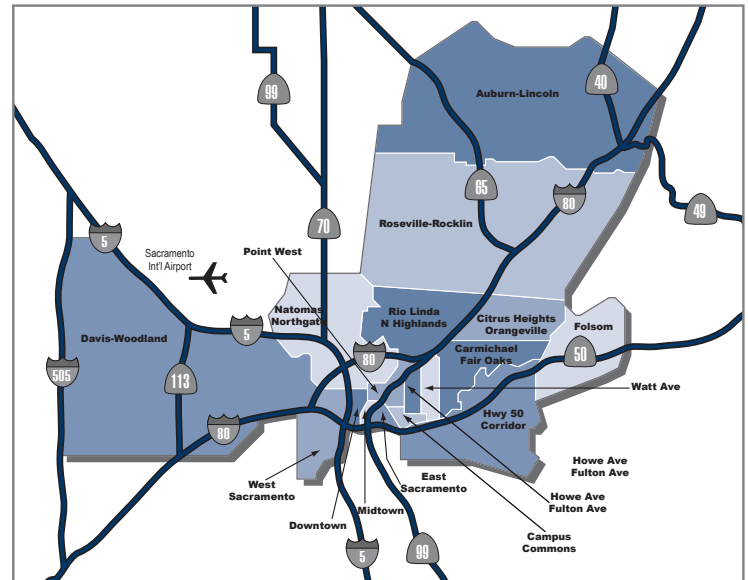
Most prestigious buildings competing for premier office users with rents above average for the area. Buildings have high-quality standard finishes, state-of-the-art systems, exceptional accessibility and a definite market presence.

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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