

Office Market Report

Compared to 2010:

Vacancy



Net Absorption



Lease Rates



Transactions



Deliveries



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Market Highlights

- Market Challenges** - The Sacramento office market continued to display signs of a slow recovery in 2011, still a marked improvement from 2010. Job losses continued to weigh on Sacramento; however, from March to the end of the fourth quarter, the metro added roughly 10,000 jobs. Despite the positive job growth on the year, the metro area may be adversely affected in the near term by the current fiscal condition of the state government. The longer-term outlook for Sacramento is favorable—supported by a growing population and growth in sectors such as education and health services, professional and business services, and construction.
- Construction** - At the end of 2011, there were two buildings under construction, totaling 127,140 square feet. Two office buildings delivered during 2011—the new 155,000-square-foot California State Lottery building at 700 North 10th Street (which immediately became 100% occupied and therefore did not affect vacancy or availability rates) in the third quarter and, in the second quarter, an 80,000 square foot building with ground level retail at the Palladio at Broadstone in Folsom (which was still only 25% occupied at the close of the year).
- Vacancy** - The market's vacancy rate increased slightly, 6 basis points, to finish 2011 at 17.86%. The Highway 50 corridor and Roseville/Rocklin submarkets' vacancy rates remained very high during the fourth quarter at 19.13% and 28.06%, respectively, and contributed greatly to the overall high vacancy rate in the market. Meanwhile, the downtown and midtown submarkets posted the lowest rates, at around 10%.
- Availability** - The percentage of direct/sublease space being marketed came in at 20.75% in the fourth quarter of 2011— an increase of 21 basis points compared to 2010 and 23 basis points compared to the third quarter of 2011. The Roseville/Rocklin area posted very high vacancy rate of 30.72% in the fourth quarter, while the Downtown area looked good at 12.35%.
- Lease Rates** - At the end of 2011, the average asking full-service gross lease rate across all three building classes and 18 submarkets came in at \$1.75 per square foot per month—a drop from the \$1.82 seen in 2010. The region's highest average asking rate (within the major submarkets) was \$2.20 in the Downtown area, while the lowest was \$1.62 in the Highway 50 corridor.
- Absorption** - The Sacramento office market posted a small amount of 148,165 square feet of negative net absorption in 2011—still a significant improvement compared 2010's negative 727,166 square feet. The small amount in 2011 can be attributed to the minor changes in overall vacancy and availability.
- Transaction Activity** - Total square footage of lease and sale transaction volume remained fairly steady from 2009 to the end of 2011, at just under 5 million square feet. The most activity occurred in the third quarter of 2011, when the market recorded over 1.76 million square feet leased or sold. Details of the largest transactions for 2011 can be found on the back page of this report.
- Employment** - The unemployment rate in the Sacramento-Arden-Arcade-Roseville Metropolitan area (MSA) was 10.9% in November 2011, down from a revised 11.4% in October 2011, and below the year-ago estimate of 12.8%. Over 2011, the total wage and salary employment in the region advanced by 7,000 jobs or 0.86%. The largest years gains occurred in Education and Health Services (4,700 jobs), Construction (2,200 jobs), and Financial Activities (1,700 jobs).
- Overall** - In the near future, unresolved fiscal trouble for the state of California, turmoil in the financial markets, and low demand will keep the office market's recovery nascent. With what seemed to be a complete free fall in recent years past, the Sacramento office market finally appears be close to bottoming out. The drops in asking rates and increases in vacancy/availability have steadied in comparison to years past, and investors have begun to carefully sift through Sacramento in search of attractive yields, with mid-size deals dominating the headlines in 2011.

OFFICE MARKET OVERVIEW

	2011	2010	2009	% of Change vs. 2010
Total Vacancy Rate	17.86%	17.44%	16.25%	2.41%
Availability Rate	20.75%	20.54%	18.22%	1.02%
Average Asking Lease Rate	\$1.75	\$1.82	\$1.91	(3.85%)
Sale & Lease Transactions	5,036,359	5,252,983	5,036,359	(4.12%)
Gross Absorption	4,264,583	4,056,048	5,013,178	5.14%
Net Absorption	(148,165)	(727,166)	145,324	N/A

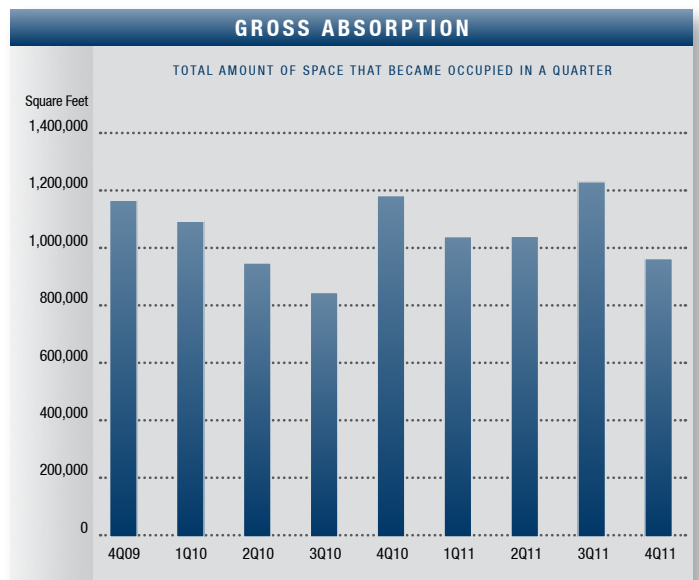
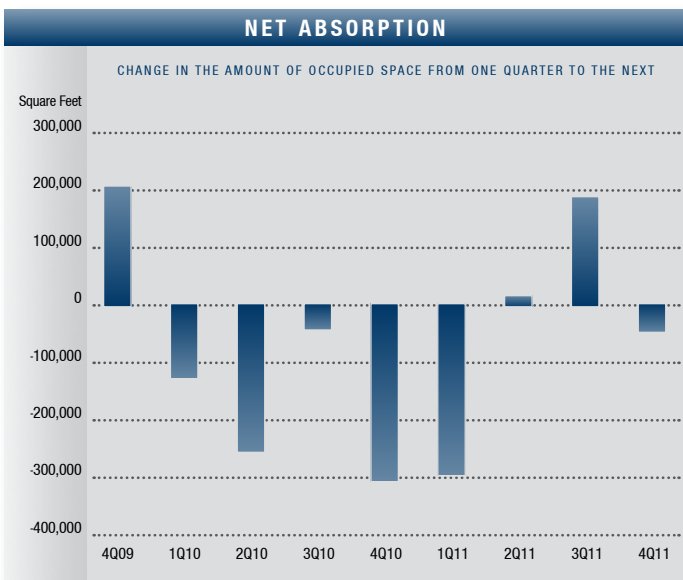
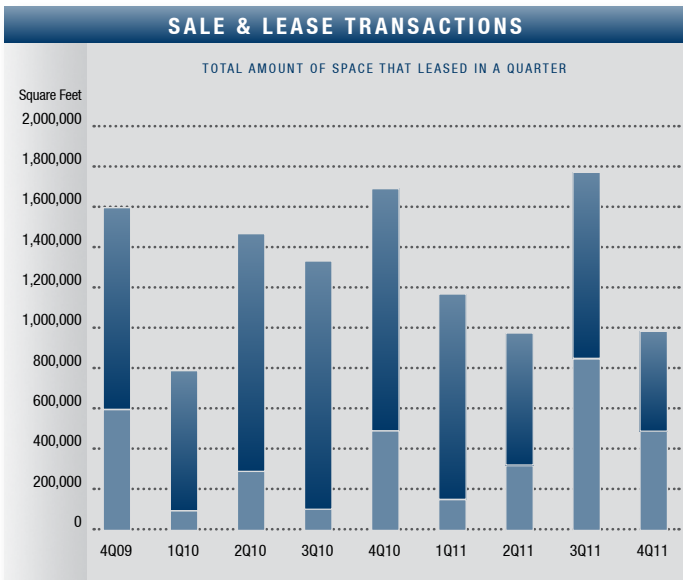
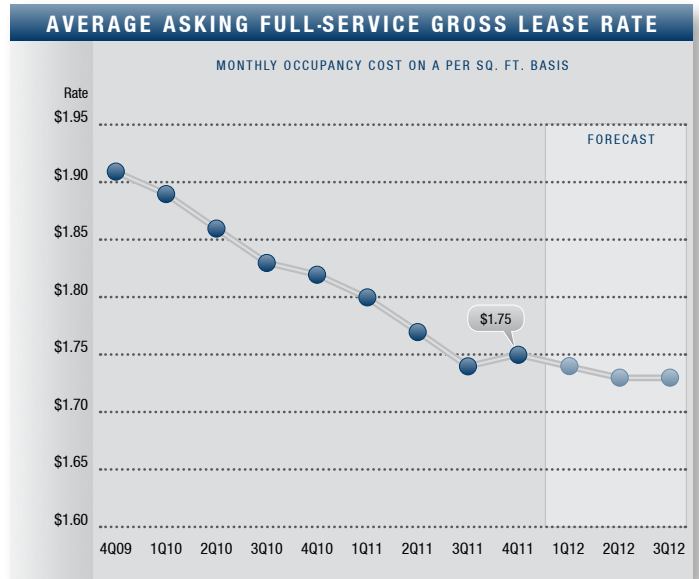
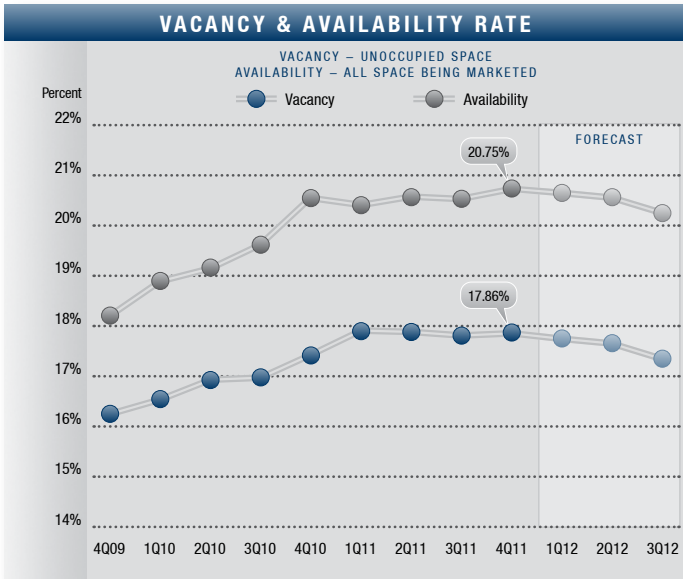
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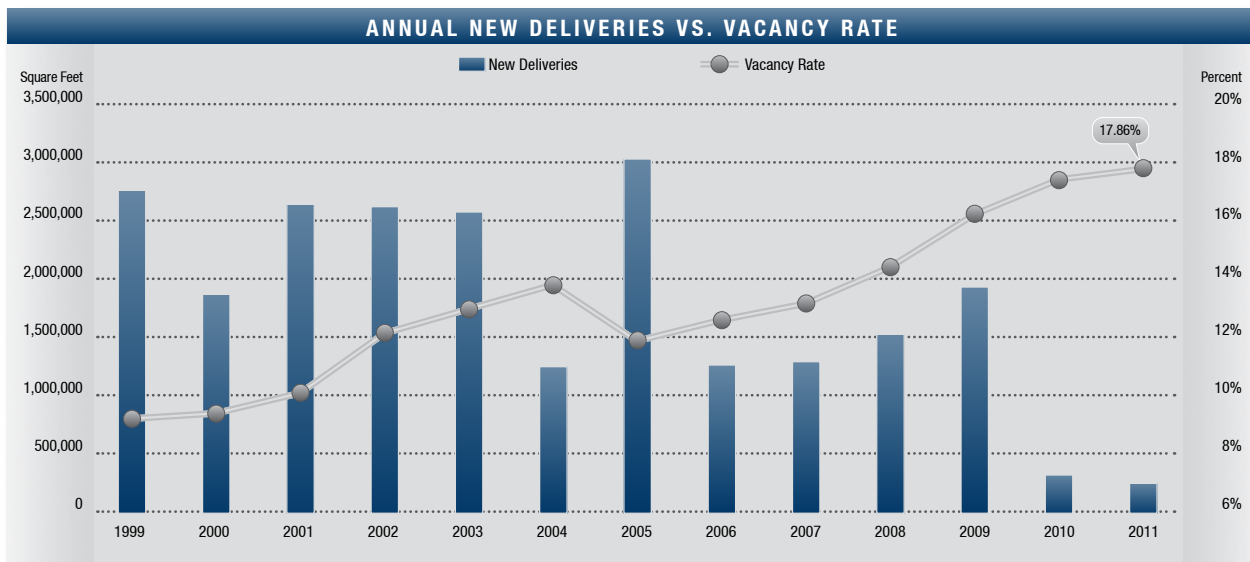
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	INVENTORY				VACANCY & LEASE RATES					ABSORPTION			
	Number of Bldgs.	Net Rentable Square Feet	Square Feet U / C	Square Feet Planned	Square Feet Vacant	Vacancy Rate 4Q2011	Square Feet Available	Availability Rate 4Q2011	Average Asking Lease Rate	Net Absorption 4Q2011	Net Absorption 2011	Gross Absorption 4Q2011	Gross Absorption 2011
Sacramento Market													
Auburn/Lincoln	62	1,210,539	0	73,921	147,724	12.20%	180,574	14.92%	\$1.09	375	7,128	23,661	40,768
Campus Commons	42	1,278,146	0	120,000	268,944	21.04%	289,466	22.65%	\$1.81	17,413	(7,757)	41,014	78,203
Carmichael/Fair Oaks	50	1,154,158	0	0	161,852	14.02%	201,546	17.46%	\$1.32	(18,989)	(27,844)	15,036	71,389
Citrus Heights/Orangevale	51	1,418,024	0	0	249,878	17.62%	270,280	19.06%	\$1.20	14,702	2,510	21,413	47,974
Davis/Woodland	74	1,814,882	0	48,290	207,808	11.45%	257,784	14.20%	\$2.05	1,555	(1,409)	11,148	83,524
Downtown	215	18,305,479	0	0	1,962,119	10.72%	2,260,617	12.35%	\$2.20	41,279	16,092	151,443	649,904
East Sacramento	32	1,811,442	0	0	252,113	13.92%	255,397	14.10%	\$1.71	1,521	48,552	2,702	55,646
Folsom	101	4,668,067	72,000	107,687	633,244	13.57%	870,638	18.65%	\$1.86	59,205	80,490	80,211	271,710
Highway 50	276	15,577,801	0	1,253,600	2,980,486	19.13%	3,739,592	24.01%	\$1.62	(202,083)	(134,635)	76,721	898,816
Howe Ave/Fulton Ave	80	2,503,364	0	0	507,222	20.26%	612,820	24.48%	\$1.56	(30,491)	(72,143)	13,417	102,568
Midtown	106	4,155,869	0	63,600	318,729	7.67%	410,814	9.89%	\$1.92	994	(42,155)	13,925	95,638
Natomas/Northgate	106	6,035,853	0	437,725	1,475,672	24.45%	1,763,317	29.21%	\$1.67	42,179	120,575	104,939	453,746
Point West	51	2,700,500	0	0	789,954	29.25%	824,218	30.52%	\$1.68	11,226	81,085	48,490	360,871
Rio Linda/North Highlands	31	1,079,032	0	0	539,380	49.99%	594,564	55.10%	\$1.27	(89,523)	(97,128)	42,845	67,486
Roseville/Rocklin	267	10,376,153	55,140	703,531	2,911,441	28.06%	3,187,568	30.72%	\$1.75	173,225	126,836	283,568	777,798
South Sacramento	127	3,897,470	0	410,133	813,869	20.88%	837,716	21.49%	\$1.68	(26,260)	(128,624)	16,382	129,030
Watt Ave	52	2,427,117	0	45,858	341,994	14.09%	371,706	15.31%	\$1.34	(44,967)	(123,052)	5,981	49,579
West Sacramento	37	2,242,399	0	110,000	195,860	8.73%	221,191	9.86%	\$1.60	746	3,314	2,809	29,933
Sacramento Market Total	1,760	82,656,295	127,140	3,374,345	14,758,289	17.86%	17,149,808	20.75%	\$1.75	(47,893)	(148,165)	955,705	4,264,583

Class A	185	25,143,606	0	2,272,816	4,531,883	18.02%	5,180,568	20.60%	\$2.01	142,757	773,242	324,855	1,674,960
Class B	832	37,753,734	127,140	1,101,529	6,840,338	18.12%	7,815,311	20.70%	\$1.69	105,932	(284,651)	470,362	1,908,385
Class C	743	19,758,955	0	0	3,386,068	17.14%	4,153,929	21.02%	\$1.33	(296,582)	(636,756)	160,488	681,238
Sacramento Market Total	1,760	82,656,295	127,140	3,374,345	14,758,289	17.86%	17,149,808	20.75%	\$1.75	(47,893)	(148,165)	955,705	4,264,583

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.



LARGEST TRANSACTIONS OF 2011

Sale Transactions

Property Address	Submarket	Class	Square Feet	Sale Price PSF	Buyer	Seller
160-180 Promenade Cir.	Natomas/Northgate	A	233,836	\$202.74	KBS	The Opus Group
Parkshore Plaza	Folsom	A	269,853	\$171.57	CommonWealth REIT	McCarthy Cook/ JP Morgan Chase
1201 Alhambra Blvd.	East Sacramento	B	101,133	\$427.16	Heitman, LLC	AKT Development Corp
South Placer Business Park	Roseville/Rocklin	B	207,604	\$101.15	STG Group	Nelson Properties/Panatoo
9100 Foothills Blvd.	Roseville/Rocklin	A	312,403	\$51.22	Quality Group of Companies	Hewlett-Packard Company

Lease Transactions

Property Address	Submarket	Class	Square Feet	Transaction Date	Tenant	Owner
2251 Harvard St.	Point West	A	99,555	11-Feb	Nationwide Insurance	USAA
2800 Gateway Oaks Dr.	Natomas/Northgate	B	76,000	11-Feb	California Dept. of Food & Agriculture	Mapleton Investments, LLC
11290 Pyrites Way	Gold River	A	54,857	11-Dec	Zurich Insurance	Cable & Kilpatrick
1747 N. Market Blvd.	Natomas/Northgate	A	52,500	11-Sep	Dept. of Consumer Affairs	Buzz Oates Companies
10940 White Rock Rd.	Highway 50 Corridor	B	51,000	11-Dec	Wells Fargo Insurance	Lexington Lion Rancho Cordova

Product Type

CLASS A

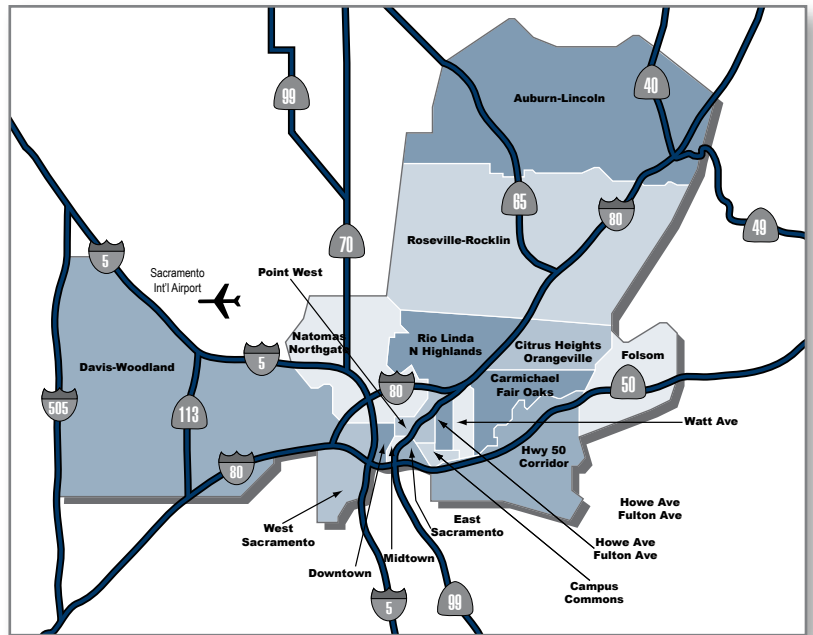
Most prestigious buildings competing for premier office users with rents above average for the area. Buildings have high-quality standard finishes, state-of-the-art systems, exceptional accessibility and a definite market presence.

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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