

## Office Market Report

Compared to 2011:

Vacancy

DOWN

Net Absorption

POSITIVE

Lease Rates

FLAT

Transactions

DOWN

Deliveries

UP

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### Market Highlights

- Market Status** - While the Great Recession devastated the Sacramento office market, it has gradually been stabilizing since, and 2012 proved to be a year of significant improvement. Vacancy and availability both decreased compared to both the previous quarter and the previous year. The market posted a net total of over 1.4 million square feet of positive absorption for 2012, the most positive absorption seen in a year since 2005. While the market still contends with high vacancy and availability, limited construction and overall improving market fundamentals poise the Sacramento office market for continued recovery and growth.
- Construction** - There was only one 130,000 square foot office building delivered in the fourth quarter and five office buildings totaling 344,275 square feet delivered in all of 2012. There are four office buildings under construction in the Sacramento region at the close of the fourth quarter, including a 130,000 square foot building in South Sacramento.
- Vacancy** - The vacancy rate decreased 77 basis points, from the previous quarter, to 16.33%. This was the first time the vacancy rate has been under 17% since the first quarter of 2010. Within the major submarkets, Downtown and Midtown performed the best with vacancy rates of 9.48% and 7.58%, respectively, while the Roseville/Rocklin struggled at 22.83%.
- Availability** - The rate of space being marketed was 19.32%, a decrease of 74 basis points from the previous quarter. Similar to the vacancy, this is the first time the availability rate has been under 20% since the third quarter of 2010. Downtown and Midtown had the least percentage of available square footage, while Roseville/Rocklin had the largest percentage of available square footage.
- Lease Rates** - The average asking lease rate across all building classes and submarkets at the close of the fourth quarter was \$1.75 per square foot per month, full-service. This was a decrease of \$0.01 from the previous quarter but unchanged from the previous year — the trend indicating that lease rates have likely hit bottom. The region's highest

average asking rate of \$2.29 per square foot was located in the Downtown submarket. The region's lowest rates were found in the Benicia/Vallejo submarket at \$0.79 per square foot.

- Absorption** - The Sacramento office market posted 820,344 square feet of positive net absorption during the fourth quarter, the most positive absorption seen in a single quarter since 2005.
- Transaction Activity** - Sale and lease transaction volume totaled 1.25 million square feet in the fourth quarter of 2012, giving the year a total of nearly 5.5 million square feet, down some from the previous year. Typically, this statistic does have some lag time to post final numbers, so look for the fourth quarter numbers to end up around 1.5 million square feet.
- Employment** - The unemployment rate in the Sacramento-Arden Arcade-Roseville MSA was 9.8% in Nov. 2012, down from 10.3% in Aug. 2012. This compares with an unadjusted unemployment rate of 9.6% for California and 7.4% 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 5,900 payroll jobs from Nov. 2011 to Nov. 2012. The largest gains were 4,500 in trade, transportation, and utilities and 2,700 in professional and business services; however, Sacramento-Arden Arcade-Roseville MSA lost 2,300 government jobs during that same period.
- Overall** - The fourth quarter ended 2012 with a bang and gave some much needed optimism to the region. As we enter into 2013, positive absorption should continue and with few new deliveries in the pipeline to apply any upward pressure on vacancy, the market should continue to improve. We foresee an overall increase in investment activity in the coming quarters due to the election being over and investors now knowing what rate of returns to expect. Lease rates are expected to further firm up with the possibility of increasing going into 2013. As long as job creation continues and consumer confidence stabilizes, the office market will continue to recover.

Prepared by:

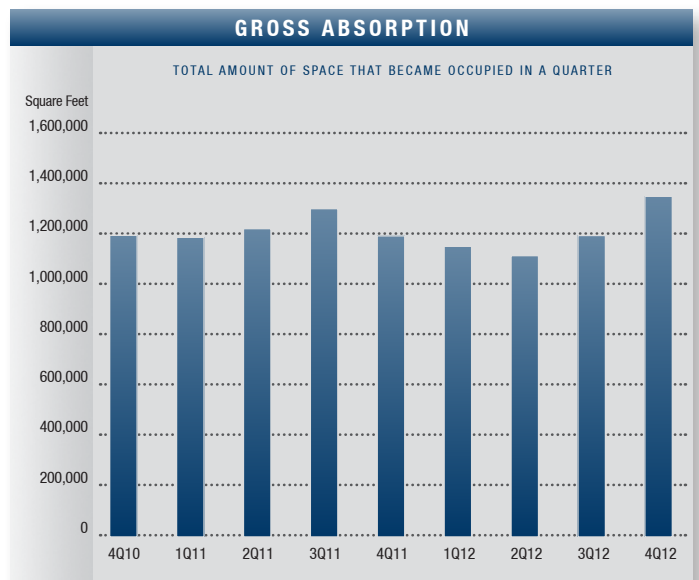
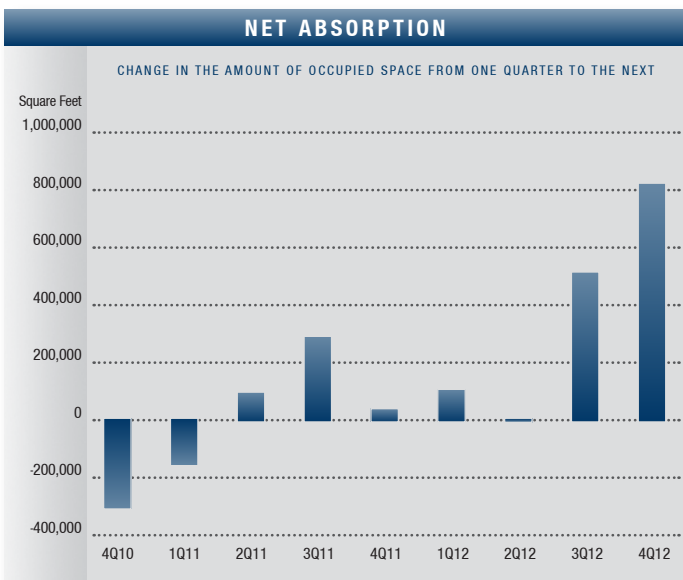
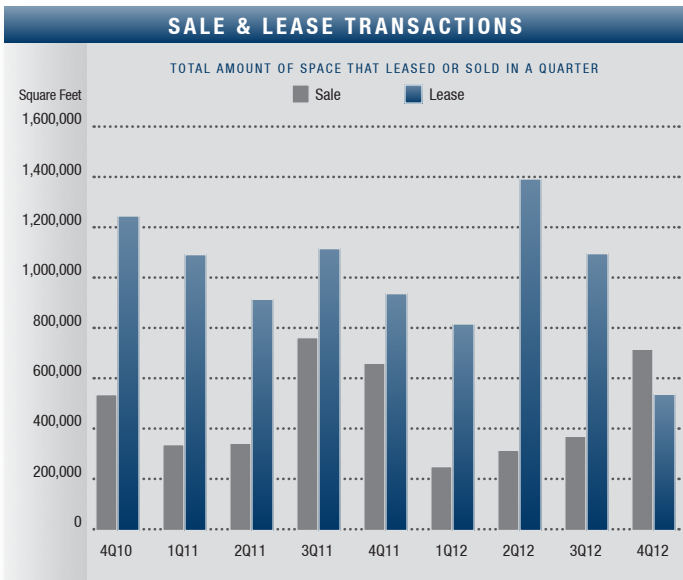
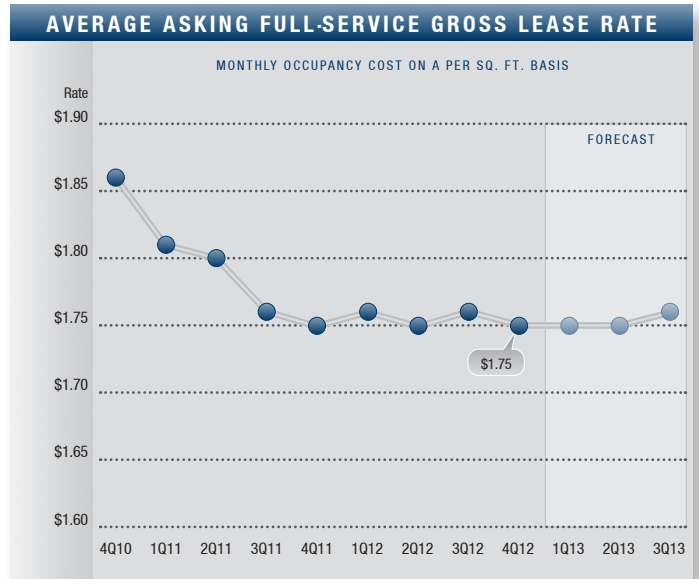
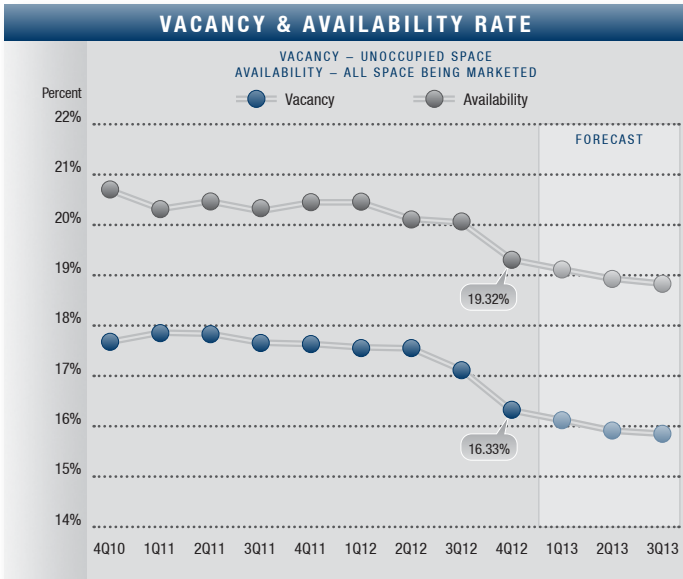
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### OFFICE MARKET OVERVIEW

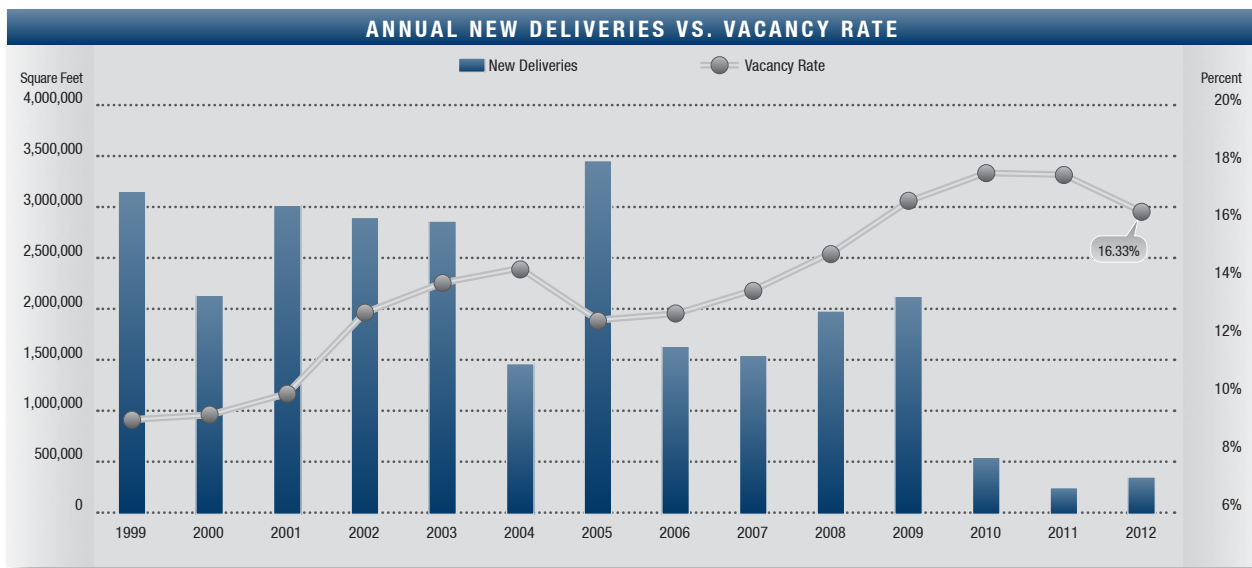
	2012	2011	2010	% of Change vs. 2011
Vacancy Rate	16.33%	17.61%	17.67%	(7.27%)
Availability Rate	19.32%	20.54%	20.70%	(5.94%)
Average Asking Lease Rate	\$1.75	\$1.75	\$1.86	0.00%
Sale & Lease Transactions	5,477,438	6,234,588	6,163,532	(12.14%)
Gross Absorption	4,788,819	4,886,495	4,530,854	(2.00%)
Net Absorption	1,443,138	251,962	(438,935)	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 4Q2012	Square Feet Available	Availability Rate 4Q2012	Average Asking Lease Rate	Net Absorption 4Q2012	Net Absorption 2012	Gross Absorption 4Q2012	Gross Absorption 2012
<b>Sacramento Market</b>													
Auburn / Lincoln	64	1,333,653	0	93,921	204,890	15.36%	219,400	16.45%	\$1.22	(9,346)	(37,314)	12,184	41,270
Benicia / Vallejo	91	2,778,714	0	0	737,188	26.53%	736,088	26.49%	\$0.79	5,335	14,606	10,163	41,958
Campus Commons	43	1,292,579	0	160,000	285,156	22.06%	312,270	24.16%	\$1.73	3,134	1,769	25,684	82,670
Carmichael / Fair Oaks	49	1,008,232	0	0	130,517	12.95%	189,839	18.83%	\$1.26	9,951	23,045	16,524	59,440
Citrus Heights / Orangevale	53	1,445,804	0	0	199,837	13.82%	237,079	16.40%	\$1.26	12,601	57,487	41,133	138,562
Davis / Woodland	74	1,852,127	0	52,685	214,831	11.60%	233,068	12.58%	\$2.02	1,469	(5,191)	11,048	77,020
Downtown	216	18,591,449	0	0	1,763,049	9.48%	2,176,534	11.71%	\$2.29	55,774	64,913	118,178	584,671
East Sacramento	32	1,811,442	0	0	191,558	10.57%	195,773	10.81%	\$1.99	(2,266)	60,555	8,330	80,760
El Dorado	69	1,614,694	0	432,000	370,398	22.94%	513,878	31.83%	\$1.75	(16,601)	(10,135)	17,695	82,726
Fairfield / Suisun City	63	1,917,678	0	87,133	259,333	13.52%	405,979	21.17%	\$2.27	(1,677)	(3,770)	12,953	65,170
Folsom	99	4,708,614	0	107,687	536,976	11.40%	786,821	16.71%	\$1.85	17,431	162,520	36,775	339,488
Highway 50	275	15,508,219	0	1,253,600	2,832,434	18.26%	3,479,895	22.44%	\$1.61	147,681	210,176	211,740	871,470
Howe Ave / Fulton Ave	77	2,463,943	19,311	0	543,281	22.05%	645,977	26.22%	\$1.54	(9,001)	17,386	33,352	174,484
Midtown	103	3,947,696	0	63,600	299,232	7.58%	469,280	11.89%	\$1.86	2,551	(10,937)	14,267	54,873
Natomas / Northgate	107	6,083,130	0	177,525	1,500,501	24.67%	1,693,300	27.84%	\$1.70	17,616	(5,942)	50,723	270,237
Outer El Dorado County	8	142,249	0	0	25,659	18.04%	25,659	18.04%	\$2.17	660	(6,752)	660	1,284
Outer Placer County	4	48,360	0	0	20,316	42.01%	20,316	42.01%	\$0.00	0	(19,716)	0	100
Outer Sacramento County	14	344,888	0	123,102	47,888	13.89%	56,272	16.32%	\$1.66	1,366	(398)	1,366	14,948
Point West	51	2,755,407	0	0	784,044	28.45%	843,577	30.62%	\$1.77	9,571	31,653	30,460	193,563
Rio Linda / North Highlands	29	1,008,934	0	0	323,819	32.10%	405,233	40.16%	\$1.22	87,543	81,931	87,543	91,804
Roseville / Rocklin	265	10,610,861	108,140	794,728	2,422,067	22.83%	2,516,148	23.71%	\$1.78	299,801	450,218	355,423	907,930
South Sacramento / Elk Grove	132	4,175,408	130,000	211,593	592,056	14.18%	776,530	18.60%	\$1.42	204,485	372,701	235,255	493,261
Sutter County	27	496,830	0	20,000	64,760	13.03%	64,760	13.03%	\$1.45	1,040	(1,267)	1,370	35,096
Vacaville / Dixon	41	1,179,906	0	0	140,432	11.90%	154,909	13.13%	\$1.86	7,165	14,145	9,575	22,402
Watt Ave	54	2,471,206	0	45,858	328,935	13.31%	377,724	15.29%	\$1.27	1,004	14,275	4,787	56,817
West Sacramento	37	2,224,572	0	110,000	228,680	10.28%	272,824	12.26%	\$1.59	(26,943)	(32,820)	0	6,815
Yuba County	5	358,160	0	0	0	0.00%	0	0.00%	\$0.00	0	0	0	0
<b>Sacramento Market Total</b>	<b>2,082</b>	<b>92,174,755</b>	<b>257,451</b>	<b>3,733,432</b>	<b>15,047,837</b>	<b>16.33%</b>	<b>17,809,133</b>	<b>19.32%</b>	<b>\$1.75</b>	<b>820,344</b>	<b>1,443,138</b>	<b>1,347,188</b>	<b>4,788,819</b>

Class A	197	26,194,680	183,000	2,034,911	4,262,893	16.27%	4,538,425	17.33%	\$2.05	199,605	483,943	332,842	1,479,484
Class B	1,003	42,851,836	74,451	1,698,521	6,871,539	16.04%	8,445,436	19.71%	\$1.68	324,458	670,688	598,595	2,295,913
Class C	882	23,128,239	0	0	3,913,405	16.92%	4,825,272	20.86%	\$1.37	296,281	288,507	415,751	1,013,422
<b>Sacramento Market Total</b>	<b>2,082</b>	<b>92,174,755</b>	<b>257,451</b>	<b>3,733,432</b>	<b>15,047,837</b>	<b>16.33%</b>	<b>17,809,133</b>	<b>19.32%</b>	<b>\$1.75</b>	<b>820,344</b>	<b>1,443,138</b>	<b>1,347,188</b>	<b>4,788,819</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 Per SF	Buyer	Seller
11971 Foundation Pl.	Highway 50	A	145,869	\$155.28	Griffin Capital Corporation	John Hancock Real Estate Finance
9000 Foothills Blvd.	Roseville/Rocklin	B	326,173	\$38.32	Cokeva, Inc.	Hewlett-Packard Company
1900-1960 Alabama Ave.	Folsom	B	96,000	\$93.75	Orton Development, Inc.	CDECRC, LLC
4875 Broadway	East Sacramento	B	67,227	\$114.54	UC Davis Health System	K & H California, LLC
1544 Eureka Rd.	Roseville/Rocklin	A	51,337	\$106.65	Whal Properties, LP	The Miller Family Companies

Lease Transactions

Property Address	Submarket	Class	Square Feet	Transaction Date	Tenant	Owner
9100 Foothills Blvd.	Roseville/Rocklin	A	295,360	Sep-12	Sutter Health	Quality Group of Companies, Inc.
10730 & 10734 International Dr. – Renewal	Highway 50	A	166,550	Mar-12	Verizon Wireless	RREEF
300 Capital Mall – Renewal	Downtown	A	164,588	Jul-12	State of CA Controller’s Office	Hines/Sterling Equities
11971 Foundation Pl. – Renewal	Highway 50	A	145,869	Feb-12	Health Net, Inc.	John Hancock Real Estate Finance
3310 El Camino Ave. – Renewal	Watt Ave	C	106,419	Jun-12	State of CA	Country Club Centre, LLC

Product Type

CLASS A

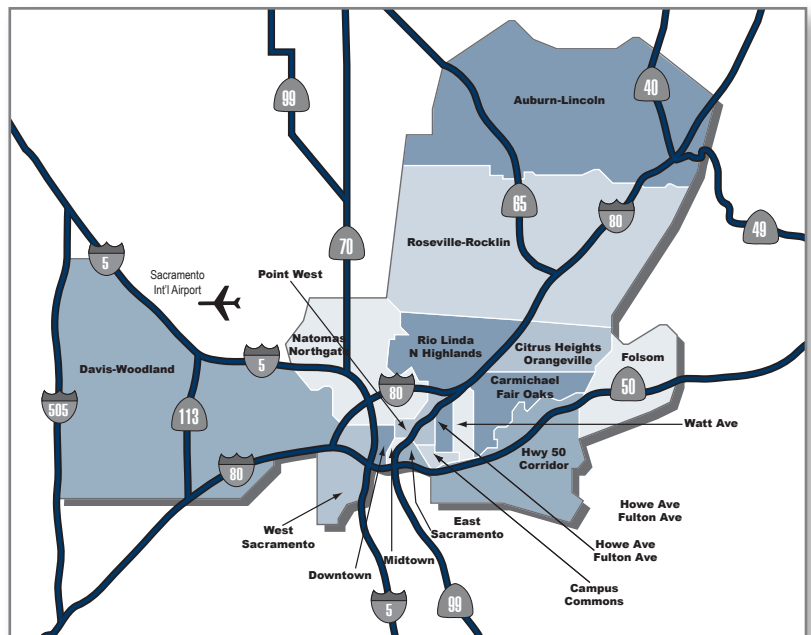
Most prestigious buildings competing for premier office users with rents above average for the area. Buildings have high-quality standard finishes, state-of-the-art systems, exceptional accessibility and a definite market presence.

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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