



Office Market Report

Compared to 2012:

Vacancy

DOWN

Net Absorption

POSITIVE

Lease Rates

FLAT

Transactions

DOWN

Deliveries

FLAT

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Market Highlights

- Market Status** - The recession absolutely devastated the Sacramento office market. The combination of negative absorption and the delivery of several major projects raised vacancies to a level not seen since the 1980's. The good news is that demand has gained strength in recent quarters while development has remained minimal, pushing fundamentals into recovery mode. Net absorption has been positive for 11 consecutive quarters now, averaging 285,000 square feet a quarter, while vacancy and availability have trended down. While these statistics bode well for the future of the Sacramento office market, employment growth and overall economic stability will be needed for a full recovery.
- Construction** - There was one office building delivered in the fourth quarter of 2013 — a 10,000 square foot project in the South Sacramento submarket. Overall, during all of 2013, five properties were delivered totaling 253,625 square feet. At the end of the 2013, there were only four office buildings, totaling 115,761 square feet, under construction in the Sacramento region. The minimal construction will continue to force downward pressure on vacancy.
- Vacancy** - The vacancy rate decreased 36 basis points from the previous quarter to 15.15%. This was the 11th consecutive quarter of vacancy decreases in the region. Within the major submarkets, Midtown and Folsom performed the best with vacancy rates of 7.05% and 9.89%, respectively, while the Natomas/Northgate submarket struggled at 20.72%.
- Availability** - The rate of space being marketed was 18.10%, a decrease of 37 basis points from the previous quarter. Of major submarkets, Midtown and Downtown had the lowest percentage of available square footage at 10.33% and 13.45%, respectively, while Natomas/Northgate submarket had the largest percentage of available square footage at 24.97%.
- 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 gross. This was an increase of one cent from the previous quarter and the second increase in as many quarters. Within the major submarkets, Downtown had the highest asking rate at \$2.19 per square foot, while the region's lowest rates

were found in the South Sacramento/Elk Grove submarket at \$1.39 per square foot.

- Absorption** - The Sacramento office market posted 340,936 square feet of positive net absorption during the fourth quarter, giving the market its 11th consecutive quarter of positive net absorption. The market totaled 1.3 million square feet of positive net absorption for all of 2013.
- Transaction Activity** - Sale and lease transaction volume totaled 5.4 million square feet in the fourth quarter. Typically, this statistic does have some lag time to post final numbers, so look for the quarter's numbers to end up over 5.6 million square feet. Details of the largest transactions for all of 2013 can be found on the back page of this report.
- Employment** - The unemployment rate in the Sacramento-Arden Arcade-Roseville MSA was 8.0 percent in November 2013, down from a revised 8.1 percent in October 2013, and below the year-ago estimate of 9.6 percent. This compares with an unadjusted unemployment rate of 8.3 percent for California and 6.6 percent for the nation during the same period. The unemployment rate was 7.6 percent in El Dorado County, 7.1 percent in Placer County, 8.1 percent in Sacramento County, and 9.4 percent in Yolo County. According to the State of California Employment Development Department, the Sacramento-Arden Arcade-Roseville MSA saw a net increase of 3,100 payroll jobs from October 2013 to November 2013. The largest gains were 4,500 jobs in trade, transportation, and utilities. The government also picked up 1,100 jobs.
- Overall** - The fourth quarter of 2013 was another step in the right direction for the recovery of the Sacramento office market. It marked the 11th consecutive quarter of drops in vacancy and positive net absorption; it shouldn't be long before this translates into the solid rising of asking rates. As we enter 2014, positive absorption should continue and with few new deliveries in the pipeline to apply any upward pressure, vacancy should continue descending. We foresee an overall increase in investment activity in the coming quarters, a result of some major governmental issues, such as the sequestration cuts and massive lay offs of government workers, being resolved. As job creation continues and consumer confidence stabilizes, the office market will progress in its recovery.

Prepared by:

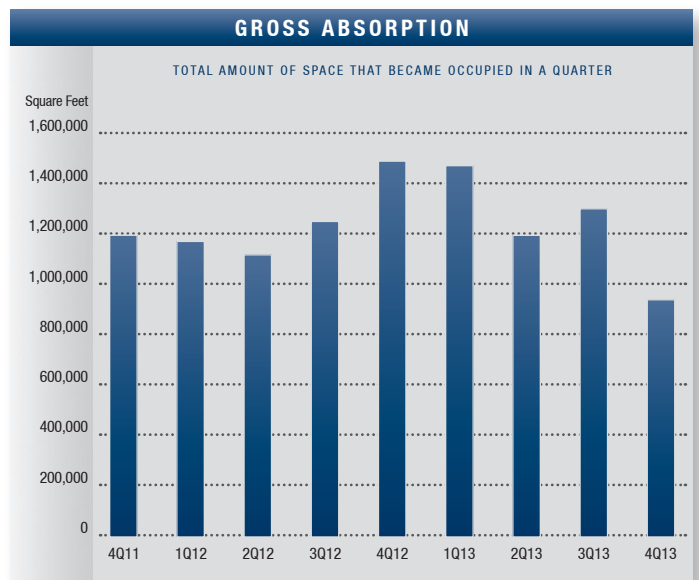
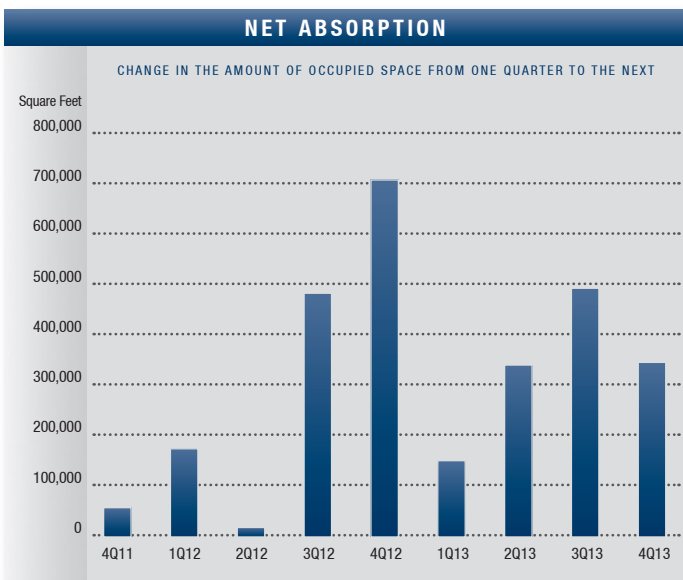
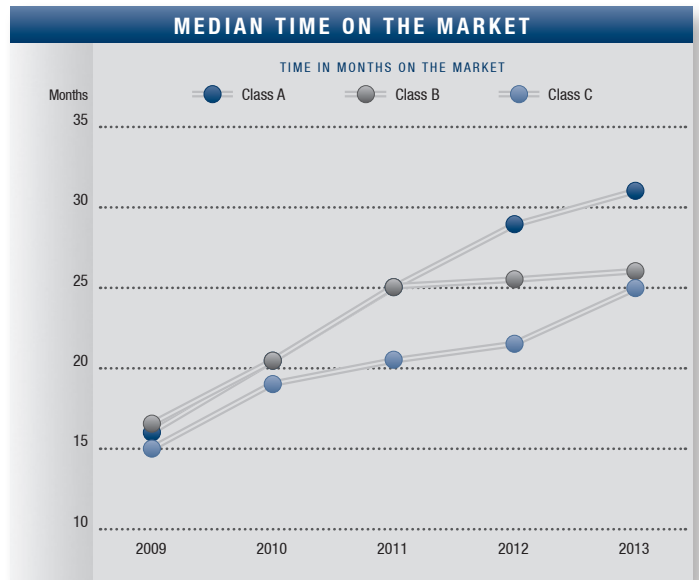
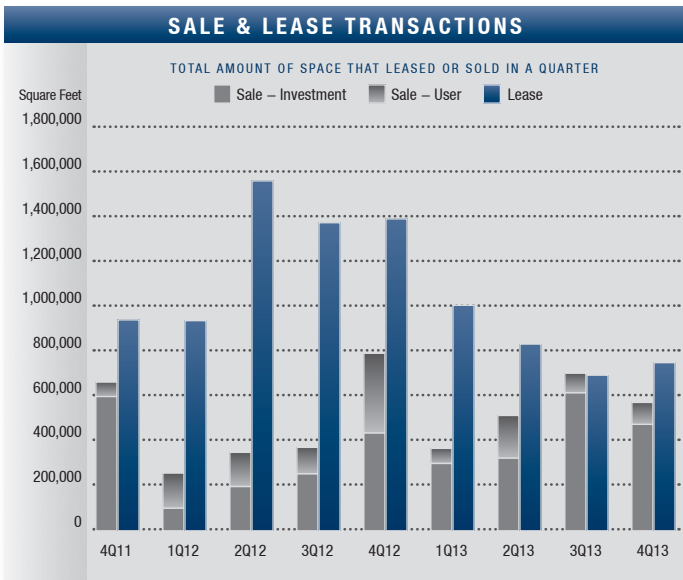
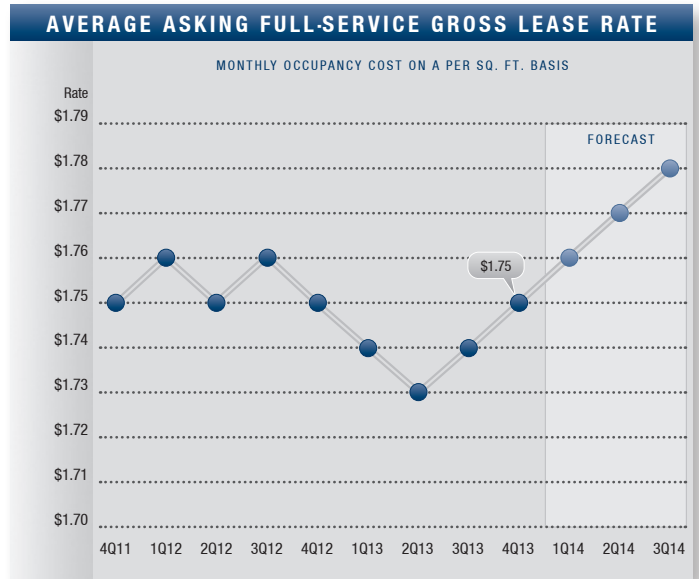
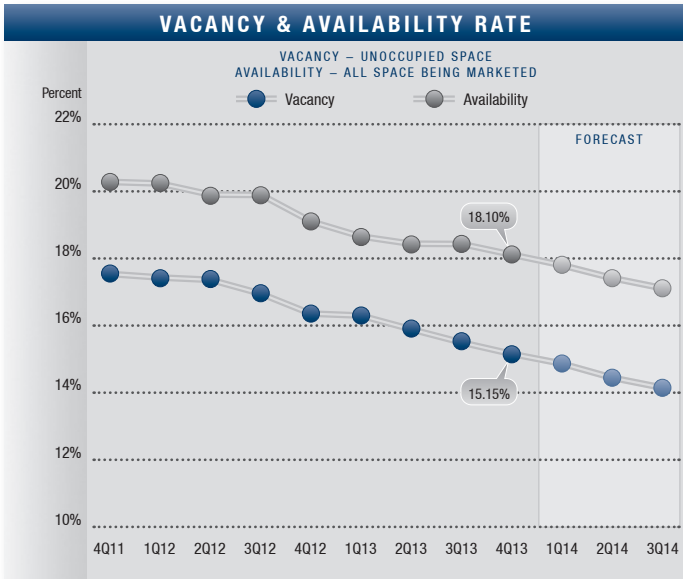
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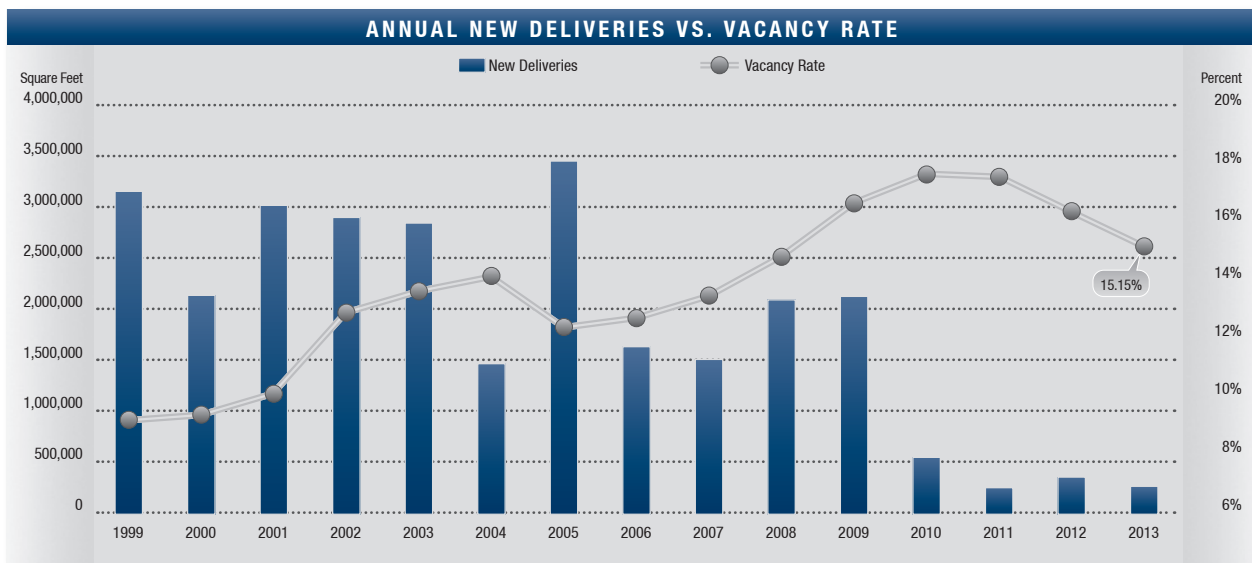
OFFICE MARKET OVERVIEW

	2013	2012	2011	% of Change vs. 2012
Vacancy Rate	15.15%	16.33%	17.51%	(7.23%)
Availability Rate	18.10%	19.12%	20.28%	(5.33%)
Average Asking Lease Rate	\$1.75	\$1.75	\$1.75	0.00%
Sale & Lease Transactions	5,370,948	6,969,040	6,201,516	(22.93%)
Gross Absorption	4,876,630	5,006,522	4,907,274	(2.59%)
Net Absorption	1,314,134	1,384,034	246,653	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 4Q2013	Square Feet Available	Availability Rate 4Q2013	Average Asking Lease Rate	Net Absorption 4Q2013	Net Absorption 2013	Gross Absorption 4Q2013	Gross Absorption 2013
Sacramento Market													
Auburn / Lincoln	64	1,339,776	0	93,921	214,009	15.97%	220,275	16.44%	\$1.34	14,506	(6,619)	25,217	47,921
Benicia / Vallejo	88	2,688,514	0	0	758,374	28.21%	763,374	28.39%	\$1.27	41,867	2,854	42,388	68,469
Campus Commons	42	1,277,203	0	160,000	251,902	19.72%	295,126	23.11%	\$1.72	4,361	33,254	14,599	67,738
Carmichael / Fair Oaks	46	987,445	0	0	74,412	7.54%	163,916	16.60%	\$1.28	35,704	56,105	37,428	99,933
Citrus Heights / Orangevale	51	1,420,852	0	0	185,722	13.07%	205,032	14.43%	\$1.14	5,793	6,672	21,154	68,927
Davis / Woodland	78	1,982,462	0	28,500	163,336	8.24%	227,209	11.46%	\$1.97	8,202	93,147	23,647	172,249
Downtown	214	18,555,299	0	0	2,157,404	11.63%	2,495,648	13.45%	\$2.19	88,161	(240,063)	183,782	553,053
East Sacramento	32	1,840,496	0	0	223,290	12.13%	227,505	12.36%	\$1.96	2,416	(3,732)	9,143	13,565
El Dorado	71	1,645,951	0	432,000	365,417	22.20%	470,809	28.60%	\$1.71	10,509	14,367	33,716	82,314
Fairfield / Suisun City	61	1,986,191	19,000	87,133	289,360	14.57%	403,229	20.30%	\$2.27	23,522	(21,127)	28,658	77,453
Folsom	102	4,764,177	21,860	85,827	470,972	9.89%	718,063	15.07%	\$1.79	27,616	83,943	61,747	216,543
Highway 50	296	17,190,442	0	1,079,252	2,513,120	14.62%	3,141,811	18.28%	\$1.58	(19,099)	294,892	99,589	745,340
Howe Ave / Fulton Ave	78	2,458,949	0	0	570,396	23.20%	630,506	25.64%	\$1.55	(406)	18,541	16,395	136,481
Midtown	100	3,585,804	0	15,600	252,704	7.05%	370,243	10.33%	\$1.77	(2,410)	46,528	6,763	125,032
Natomas / Northgate	109	6,325,899	0	177,525	1,310,919	20.72%	1,579,583	24.97%	\$1.75	36,104	219,194	72,256	469,008
Outer El Dorado County	11	186,978	0	0	27,945	14.95%	33,945	18.15%	\$2.28	1,030	514	1,460	7,516
Outer Placer County	4	48,360	0	0	20,316	42.01%	20,316	42.01%	\$0.00	0	0	0	0
Outer Sacramento County	14	344,888	0	123,102	37,003	10.73%	37,003	10.73%	\$1.78	0	10,885	0	13,541
Point West	51	2,749,329	19,761	0	736,770	26.80%	769,241	27.98%	\$1.72	(6,435)	47,521	15,749	173,576
Rio Linda / North Highlands	29	1,009,080	0	0	313,693	31.09%	386,128	38.27%	\$1.22	0	10,126	0	10,174
Roseville / Rocklin	259	10,375,336	55,140	644,728	2,051,558	19.77%	2,186,568	21.07%	\$1.77	34,430	388,448	140,000	1,148,792
South Sacramento / Elk Grove	136	4,337,922	0	160,793	484,558	11.17%	714,571	16.47%	\$1.39	159	223,249	40,188	456,147
Sutter County	27	495,930	0	20,000	69,669	14.05%	62,721	12.65%	\$1.45	(1,508)	(4,909)	1,934	4,404
Vacaville / Dixon	40	1,160,804	0	101,000	127,895	11.02%	145,869	12.57%	\$1.86	15,731	12,537	18,910	24,091
Watt Ave	50	2,392,968	0	45,858	291,407	12.18%	339,882	14.20%	\$1.37	20,927	3,848	29,062	48,552
West Sacramento	36	1,983,136	0	110,000	200,248	10.10%	313,593	15.81%	\$1.63	(244)	28,432	7,186	45,811
Yuba County	6	370,198	0	0	4,973	1.34%	4,973	1.34%	\$1.25	0	(4,473)	0	0
Sacramento Market Total	2,095	93,504,389	115,761	3,365,239	14,167,372	15.15%	16,927,139	18.10%	\$1.75	340,936	1,314,134	930,971	4,876,630
Class A	201	27,086,536	0	1,662,563	3,557,383	13.13%	4,030,075	14.88%	\$2.06	107,259	879,556	268,647	1,883,087
Class B	1,018	43,262,152	115,761	1,702,676	6,840,202	15.81%	8,214,986	18.99%	\$1.66	124,305	233,779	475,723	2,005,995
Class C	876	23,155,701	0	0	3,769,787	16.28%	4,682,078	20.22%	\$1.34	109,372	200,799	186,601	987,548
Sacramento Market Total	2,095	93,504,389	115,761	3,365,239	14,167,372	15.15%	16,927,139	18.10%	\$1.75	340,936	1,314,134	930,971	4,876,630

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
770 L St.	Downtown	A	169,078	\$173.88	AMP Capital	Alaska Permanent Fund
271-277 Turn Pike Dr.	Folsom	B	36,918	\$256.24	AR Capital	Spence Enterprises, LLC
604 Sutter St.	Folsom	B	28,500	\$315.09	Ridge Park Enterprises, Inc.	Sutter Street Development Partners, LLC
6620 Coyle Ave.	Citrus Heights/Orangevale	B	54,800	\$159.76	Azusa Housing Partners, LP	US Bank
3249 Quality Dr.	Highway 50 Corridor	A	75,000	\$113.33	VSP, Inc.	Belle Haven Realty Company

Lease Transactions

Property Address	Submarket	Class	Square Feet	Transaction Date	Tenant	Owner
9750 Goethe Rd. – Renewal	Highway 50 Corridor	B	88,734	Jan-13	Dealertrack Technologies, Inc.	Goldenberg & Associates
10877 White Rock Rd.	Highway 50 Corridor	A	66,126	Apr-13	CA Health Benefit Exchange	DivcoWest Properties
1651 Exposition Blvd.	Point West	A	62,763	Jan-13	CA Department of Real Estate	Mourier Land Investment Corporation
1601-1675 Alhambra Blvd.	South Sacramento	B	52,020	Feb-13	UC Davis	Cannery Venture, LP
2241 Harvard St.	Point West	A	50,083	Dec-13	Summit Funding, Inc.	USAA Real Estate Company

Product Type

CLASS A

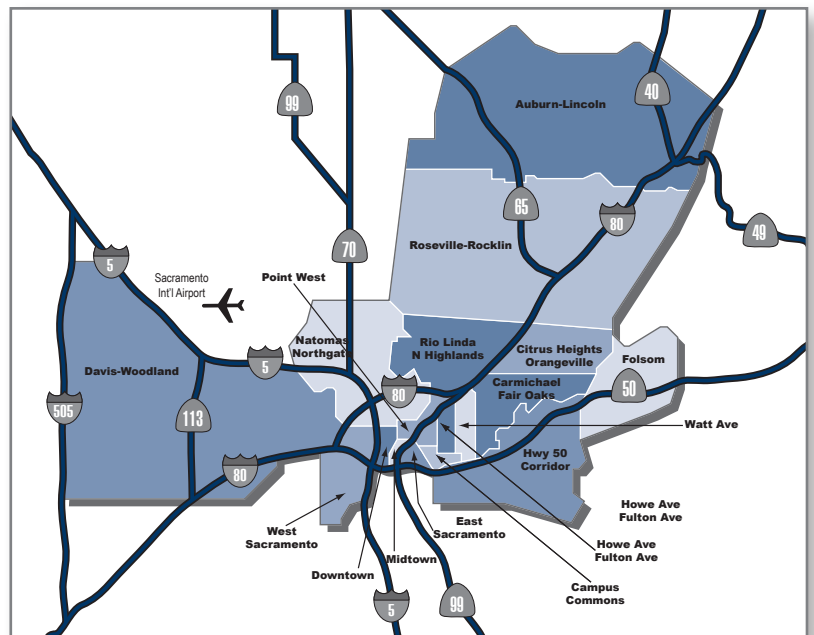
Most prestigious buildings competing for premier office users with rents above average for the area. Buildings have high-quality standard finishes, state-of-the-art systems, exceptional accessibility and a definite market presence.

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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