

## MARKET CHANGE

*Compared to 2013:*

**Vacancy**  
**DOWN**

**Net Absorption**  
**POSITIVE**

**Deliveries**  
**UP**

**Lease Rates**  
**UP**

**Transactions**  
**UP**

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## HIGHLIGHTS

- **Market Status** - The Sacramento office market continues to vastly improve as demand has remained steady in recent quarters while development has come to a halt. Net absorption has been positive for twelve consecutive quarters now, averaging 280,000 square feet a quarter, while vacancy and availability continue to trend downward. These trends bode well for the future of the Sacramento office market.
- **Construction** - At the close of the fourth quarter, there was only one office building under construction in the Sacramento region—a 6,092 square foot, Class B building in the Davis/Woodland submarket. There were 85,140 square feet delivered in the fourth quarter of 2014 and 216,926 square feet delivered in the entire year. Currently, there is 4.1 million square feet of planned office space for the Sacramento region. The minimal construction will continue to force downward pressure on vacancy.
- **Vacancy** - The vacancy rate decreased 23 basis points from the previous quarter to 14.46%, which is the lowest vacancy rate for the Sacramento office market since 2008. Within the major submarkets, Midtown and Downtown performed the best with vacancy rates of 6.24% and 10.31%, respectively, while the Natomas/Northgate and the Howe Ave/Fulton Ave submarket struggled at 21.15% and 24.35%, respectively.
- **Availability** - The rate of space being marketed was 17.14%, a decrease of 35 basis points from the previous quarter. Of the major submarkets, Midtown and East Sacramento had the lowest percentage of available square footage at 9.57% and 7.03%, respectively, while the Rio Linda/North Highlands submarket had the largest percentage of available square footage at 41.88%.
- **Lease Rates** - The average asking lease rate across all building classes and submarkets at the close of the fourth quarter was \$1.77 per square foot per month, full-service gross, which is a \$0.01 decrease from the previous quarter, but a \$0.02 increase from the previous year. Within the major submarkets, Downtown and the East Sacramento submarkets had the highest asking rates at \$2.25 and \$2.29 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 293,720 square feet of positive net absorption during the fourth quarter, giving the market its 12th consecutive quarter of positive net absorption totaling 3.3 million square feet. Of the major submarkets, Roseville/Rocklin posted the highest net absorption of 106,084 square feet, while the Downtown submarket had the second highest net absorption of 88,805 square feet.
- **Transaction Activity** - Sale and lease transaction volume totaled just over 8.8 million square feet at the close of 2014, which is an increase of 16% of total transaction activity in comparison to last year. Sale and lease transactions came in at just over 1.9 million square feet for the fourth quarter, which compares to an average of 2.2 million square feet for all of 2014. This statistic can have some lag time in being reported, so look for fourth quarter figures to end up somewhat higher in the next report. Details of the largest transactions for 2014 can be found on the back page of this report.
- **Employment** - The unemployment rate in the Sacramento-Arden Arcade-Roseville MSA was 6.7% in November 2014, which is a slight increase from last month's figure of 6.6% in October 2014, but still below the year-ago estimate of 7.9%. This compares with an unadjusted unemployment rate of 7.1% for California and 5.5% 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 23,100 payroll jobs from November 2013 to November 2014. While most sectors showed gains in employment, the largest gains were 7,200 jobs in professional and business services, 4,500 jobs in construction, and 3,700 jobs in educational and health services during that same time period.
- **Overall** - The fourth quarter of 2014 marked the lowest vacancy rate since 2008 and 12th consecutive quarter of positive net absorption, which are clear indicators that the Sacramento office market is continually improving. Demand for good quality office space has a strong potential to increase given new developments around Sacramento. 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

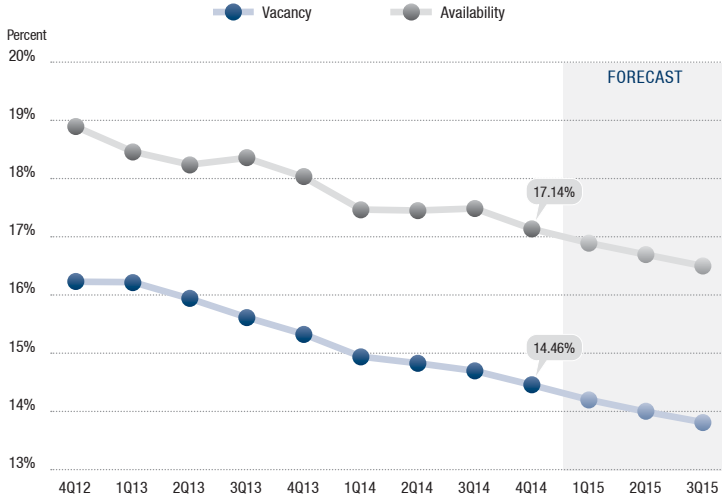
- **Construction** - We anticipate construction remaining minimal, giving demand an opportunity to catch up with supply.
- **Employment** - We anticipate job growth of around 2.6%, or 23,000 jobs, in the Sacramento area by 2015. Expect growth in professional & business services, educational services, health care, social assistance, leisure & hospitality, and retail trade sectors.
- **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 13.80% by the end of the third quarter of 2015.

## OVERVIEW

	2014	2013	2012	% of Change vs. 2013
Total Vacancy Rate	14.46%	15.33%	16.24%	(5.68%)
Availability Rate	17.14%	18.04%	18.89%	(4.99%)
Average Asking Lease Rate	\$1.77	\$1.75	\$1.75	1.14%
Sale & Lease Transactions	8,813,255	7,570,710	8,996,639	16.41%
Gross Absorption	4,093,588	4,997,702	5,022,067	(18.09%)
Net Absorption	976,998	1,066,917	1,339,505	N/A

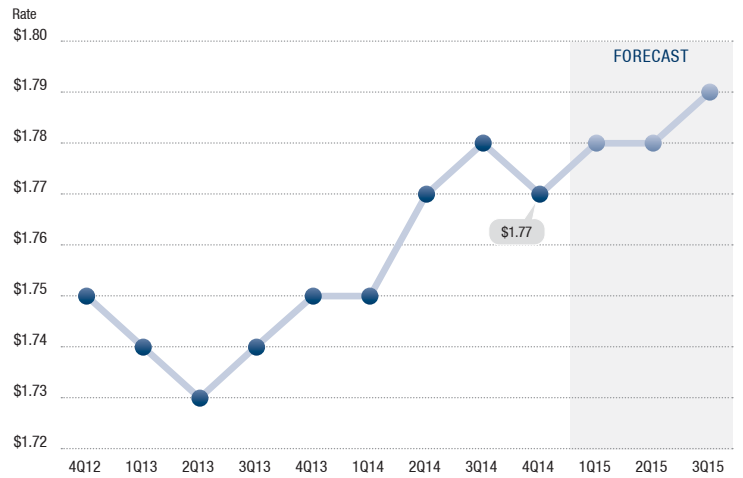
**VACANCY & AVAILABILITY RATE**

VACANCY – UNOCCUPIED SPACE | AVAILABILITY – ALL SPACE BEING MARKETED



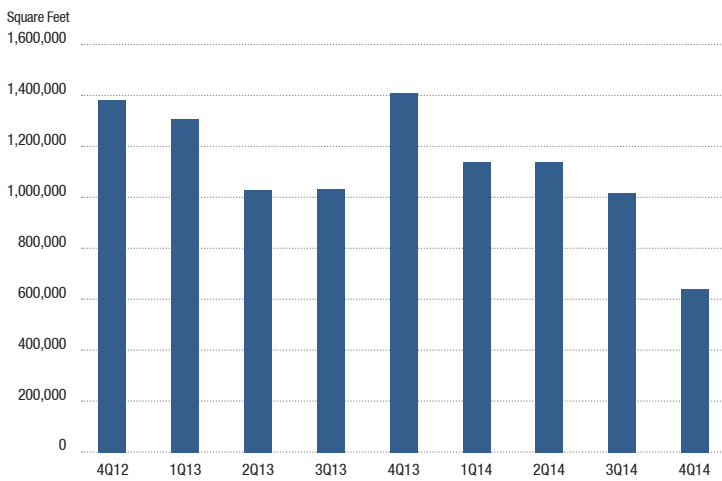
**AVERAGE ASKING FULL-SERVICE GROSS LEASE RATE**

MONTHLY OCCUPANCY COST ON A PER SQ. FT. BASIS



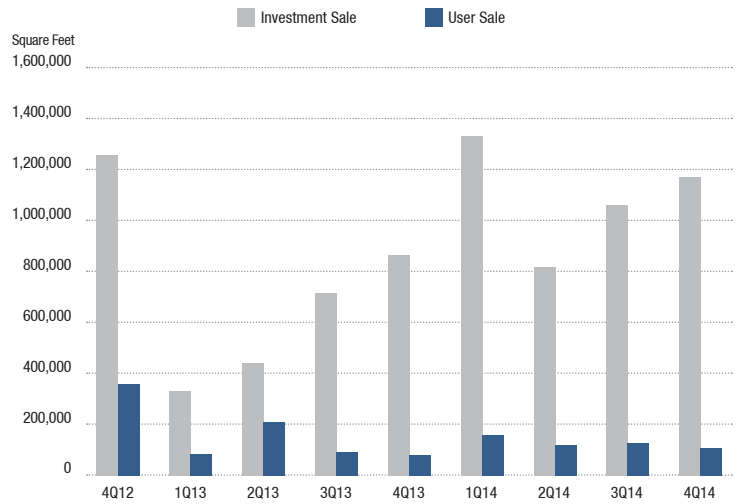
**LEASE TRANSACTIONS**

TOTAL AMOUNT OF SPACE THAT LEASED IN A QUARTER



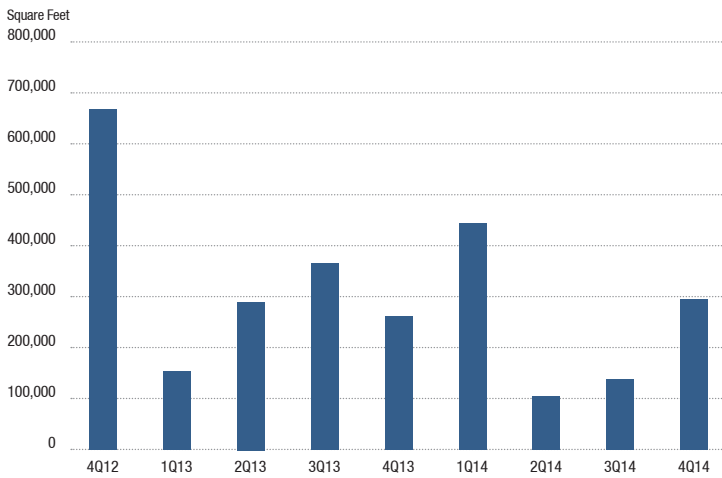
**SALES TRANSACTIONS**

TOTAL AMOUNT OF SPACE THAT SOLD IN A QUARTER



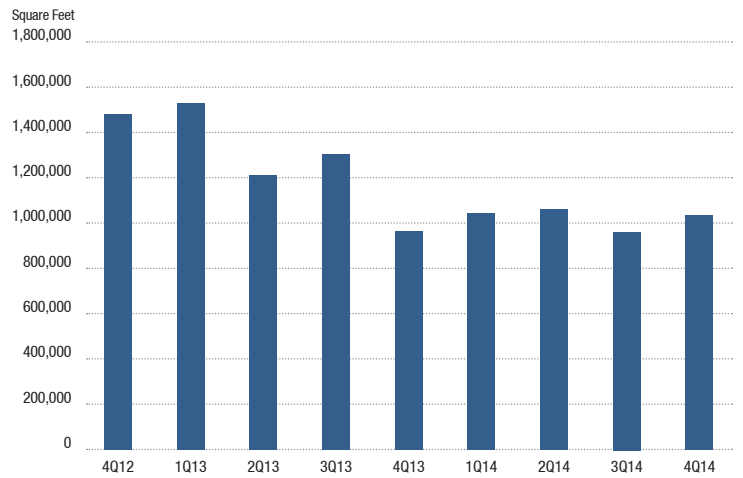
**NET ABSORPTION**

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



**GROSS ABSORPTION**

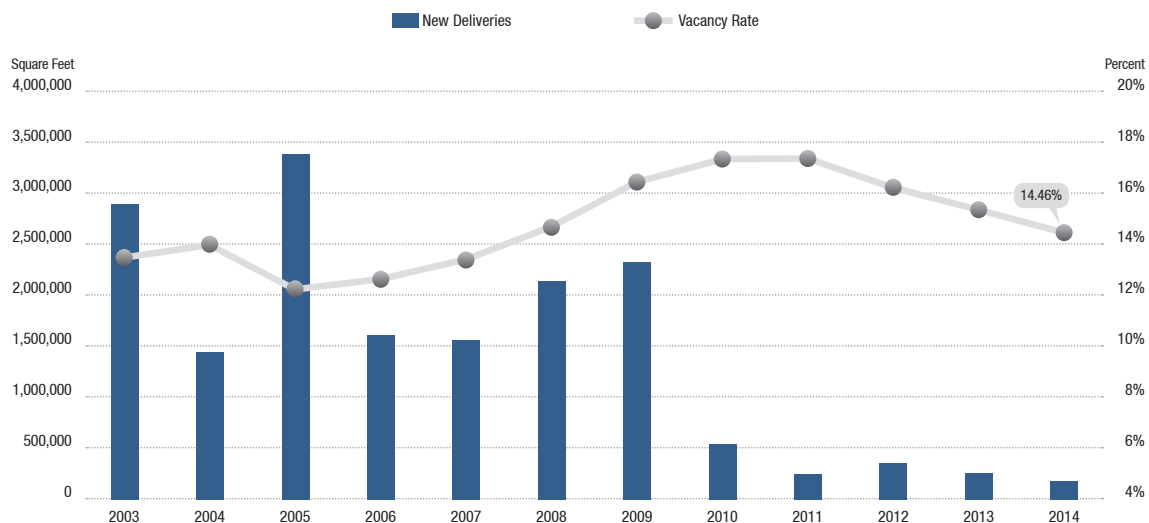
TOTAL AMOUNT OF SPACE THAT BECAME OCCUPIED IN A QUARTER



	INVENTORY				VACANCY & LEASE RATES					ABSORPTION			
	Number of Bldgs.	Net Rentable Square Feet	Square Feet U/C	Square Feet Planned	Square Feet Vacant	Vacancy Rate 4Q2014	Square Feet Available	Availability Rate 4Q2014	Average Asking Lease Rate	Net Absorption 4Q2014	Net Absorption 2014	Gross Absorption 4Q2014	Gross Absorption 2014
<b>Sacramento Market</b>													
Auburn/Lincoln	64	1,310,036	0	80,921	134,325	10.25%	150,266	11.47%	\$1.52	18,473	59,544	26,302	86,049
Benicia/Vallejo	87	2,672,199	0	462,100	747,432	27.97%	795,926	29.79%	\$1.39	(9,712)	4,442	7,162	44,052
Campus Commons	42	1,256,524	0	160,000	221,387	17.62%	238,565	18.99%	\$1.70	8,291	28,779	46,795	115,154
Carmichael/Fair Oaks	46	979,225	0	0	81,501	8.32%	137,270	14.02%	\$1.23	485	(4,011)	4,025	73,784
Citrus Heights/Orangevale	52	1,436,051	0	0	185,739	12.93%	204,684	14.25%	\$1.17	5,937	(3,695)	9,704	31,821
Davis/Woodland	79	1,992,859	6,092	71,600	205,271	10.30%	212,369	10.66%	\$1.99	3,545	(42,477)	7,950	105,537
Downtown	215	18,798,277	0	372,000	1,938,001	10.31%	2,267,751	12.06%	\$2.25	88,805	205,359	140,981	676,439
East Sacramento	33	2,071,070	0	0	233,116	11.26%	145,590	7.03%	\$2.29	0	11,174	0	14,532
El Dorado	72	1,654,747	0	432,000	320,406	19.36%	420,131	25.39%	\$1.58	5,660	39,611	7,160	105,126
Fairfield/Suisun City	67	2,133,847	0	57,133	345,869	16.21%	436,339	20.45%	\$2.25	11,350	47,553	13,968	88,842
Folsom	101	4,751,085	0	85,827	526,111	11.07%	789,014	16.61%	\$1.79	33,822	12,948	98,651	206,115
Highway 50	300	17,346,988	0	892,452	2,752,022	15.86%	3,319,770	19.14%	\$1.59	(32,871)	(167,070)	82,429	330,736
Howe Ave/Fulton Ave	79	2,469,647	0	0	601,298	24.35%	688,999	27.90%	\$1.57	8,118	(22,875)	80,797	157,739
Midtown	99	3,717,738	0	63,600	231,881	6.24%	355,848	9.57%	\$1.80	(6,629)	21,723	5,143	99,824
Natomas/Northgate	110	6,406,363	0	177,525	1,355,040	21.15%	1,411,197	22.03%	\$1.69	(462)	4,380	54,741	281,516
Outer El Dorado County	11	186,978	0	0	24,184	12.93%	30,184	16.14%	\$2.28	3,331	3,761	3,331	4,167
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	2,712,258	0	0	582,521	21.48%	628,884	23.19%	\$1.68	(25,347)	171,646	39,969	345,177
Rio Linda/North Highlands	29	1,010,004	0	0	299,517	29.66%	422,982	41.88%	\$0.90	0	2,080	898	4,533
Roseville/Rocklin	262	10,389,755	0	666,928	1,641,956	15.80%	2,066,153	19.89%	\$1.77	106,084	524,253	251,932	914,160
South Sacramento/Elk Grove	148	4,657,323	0	271,319	525,608	11.29%	661,310	14.20%	\$1.81	44,454	79,272	91,521	209,325
Sutter County	28	554,564	0	20,000	47,967	8.65%	56,467	10.18%	\$1.45	8,000	20,402	8,000	20,454
Vacaville/Dixon	40	1,160,804	0	140,000	114,386	9.85%	135,135	11.64%	\$1.86	5,992	13,509	5,992	22,099
Watt Ave	49	2,322,181	0	45,858	324,064	13.96%	365,978	15.76%	\$1.53	(23,154)	(33,113)	4,211	23,559
West Sacramento	36	1,983,326	0	110,000	134,251	6.77%	162,127	8.17%	\$1.74	39,548	58,933	39,548	132,848
Yuba County	7	424,878	0	0	59,653	14.04%	59,653	14.04%	\$1.25	0	(54,680)	0	0
<b>Sacramento Market Total</b>	<b>2,112</b>	<b>94,473,881</b>	<b>6,092</b>	<b>4,109,263</b>	<b>13,658,272</b>	<b>14.46%</b>	<b>16,191,454</b>	<b>17.14%</b>	<b>\$1.77</b>	<b>293,720</b>	<b>976,998</b>	<b>1,031,210</b>	<b>4,093,588</b>
Class A	203	27,484,887	0	1,950,763	3,338,246	12.15%	3,837,565	13.96%	\$2.14	(48,024)	337,038	252,603	1,365,393
Class B	1,035	43,845,581	6,092	2,158,500	6,351,080	14.49%	7,590,227	17.31%	\$1.67	331,126	771,650	648,874	2,164,615
Class C	874	23,143,413	0	0	3,968,946	17.15%	4,763,662	20.58%	\$1.39	10,618	(131,690)	129,733	563,580
<b>Sacramento Market Total</b>	<b>2,112</b>	<b>94,473,881</b>	<b>6,092</b>	<b>4,109,263</b>	<b>13,658,272</b>	<b>14.46%</b>	<b>16,191,454</b>	<b>17.14%</b>	<b>\$1.77</b>	<b>293,720</b>	<b>976,998</b>	<b>1,031,210</b>	<b>4,093,588</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.

### ANNUAL NEW DELIVERIES VS. VACANCY RATE



**MAJOR TRANSACTIONS OF 2014**

**Sales Transactions**

Property Address	Submarket	Class	Square Feet	Sale Price Per SF	Buyer	Seller
Plaza Five Fifty Five 555 Capitol Mall	Downtown	A	376,432	\$167.63	New Legacy 555, LLC	Westlake Realty Group, Inc.
6020 W. Oaks Blvd. – 2 Properties	Roseville/Rocklin	A	228,000	\$148.25	KBS REIT III	The Opus Group
8110 Laguna Blvd. – 3 Properties	Elk Grove	B/C	67,793	\$405.65	American Realty Capital Healthcare Trust II, Inc.	Jackson-Big Horn, LLC
777 Campus Commons Dr.	Campus Commons	B/C	120,569	\$135.48	Jackson Properties	Core Commercial
Creekside Ridge ** 1025 Creekside Ridge Dr.	Roseville/Rocklin	A	71,075	\$218.08	MIMA Capital, LLC	RREEF America REIT II, Inc.

**Lease Transactions**

Property Address	Submarket	Class	Square Feet	Transaction Date	Tenant	Owner
1601 Exposition Blvd.	Point West	B	132,408	Jan-14	Covered California	U.S. Bank N.A.
Hewlett Packard Campus 9000 Foothills Blvd.	Roseville/Rocklin	B	120,000	Jan-14	Quest Supplies	Cokeva, Inc.
Capitol Medical Center 3160 Folsom Blvd.	East Sacramento	B	91,527	Dec-14	UC Davis Medical	HCP, Inc.
Riverpoint Marketplace 710 Riverpoint Center	West Sacramento	A	77,490	May-14	Calpers	Excel Trust, Inc.
Natomas Corporate Center 2495 Natomas Park Dr.	Natomas/Northgate	A	68,047	Sep-14	State Street Bank & Trust Company of California	TA Associates Realty

\*\* VRES Deal \*\*

**PRODUCT TYPE**

**CLASS A**

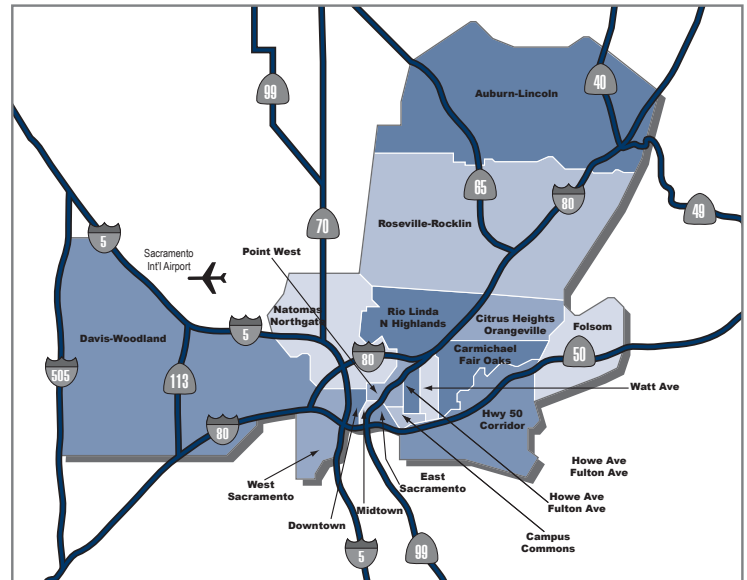
Most prestigious buildings competing for premier office users with rents above average for the area. Buildings have high-quality standard finishes, state-of-the-art systems, exceptional accessibility and a definite market presence.

**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.



**Please Contact Us for Further Information**

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Irvine, CA 949.851.5100	Newport Beach, CA 949.644.8648	Sacramento, CA 916.772.8648	

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