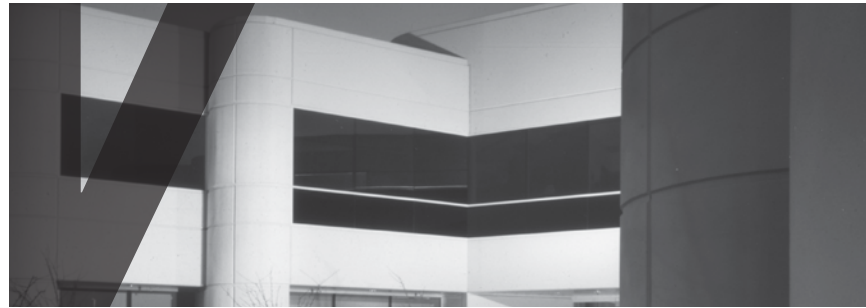




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# Office Market Report

Compared to the Previous Quarter:

Vacancy

DOWN

Net Absorption

POSITIVE

Lease Rates

UP

Transactions

FLAT

Deliveries

UP

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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 considerable strength in recent quarters and development has been minimal, pushing fundamentals into recovery mode. Absorption has been positive for five consecutive quarters now, averaging 400,000 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 third quarter of 2013 — a 53,000 square-foot project in the Roseville/Rocklin submarket. At the end of the third quarter, there were only three office buildings, totaling 84,000 square feet, under construction in the Sacramento region. The slowdown in construction will continue to force downward pressure on vacancy.
- Vacancy** - The vacancy rate decreased 38 basis points from the previous quarter to 15.59%. This was the fifth consecutive quarter of vacancy decreases in the region. Within the major submarkets, Midtown and Folsom performed the best with vacancy rates of 6.64% and 10.47%, respectively, while the Natomas/Northgate submarket struggled at 22.18%.
- Availability** - The rate of space being marketed was 18.56%, an increase of 6 basis points from the previous quarter. This increase was only minimal, and with the good amount of positive net absorption in the region, this should be of no concern to landlords. Midtown and Downtown had the lowest percentage of available square footage at 9.53% and 13.65%, respectively, while Natomas/Northgate submarket had the largest percentage of available square footage at 26.07%.
- Lease Rates** - The average asking lease rate across all building classes and submarkets at the close of the third quarter was \$1.74 per square foot per month, full-service gross. This was an increase of one cent from the previous quarter and the first increase seen in four quarters. Within the major submarkets, Downtown had the highest asking rate at \$2.20 per square foot, while the region's lowest rates were found in the South Sacramento/Elk Grove submarket at \$1.43 per square foot.
- Absorption** - The Sacramento office market posted 393,820 square feet of positive net absorption during the third quarter, giving the market its fifth consecutive quarter, and ninth of the last ten quarters, of positive net absorption.
- Transaction Activity** - Sale and lease transaction volume totaled 1.06 million square feet in the third quarter. Typically, this statistic does have some lag time to post final numbers, so look for the quarter's numbers to end up over 1.3 million square feet. Details of the largest transactions during the third quarter of 2013 can be found on the back page of this report.
- Employment** - The unemployment rate in the Sacramento-Arden Arcade-Roseville MSA was 8.5% in August 2013, down from a revised 8.9 % in July 2013 and below the year-ago estimate of 10.4%. This compares with an unadjusted unemployment rate of 8.8% for California and 7.3% 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 1,800 payroll jobs from July 2013 to August 2013. The largest gains were 600 jobs in manufacturing and 500 jobs in farming. The government also picked up 300 jobs.
- Overall** - The third quarter of 2013 was another big step in the recovery of the Sacramento office market. It marked the fifth 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 into the last quarter of 2013, 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:

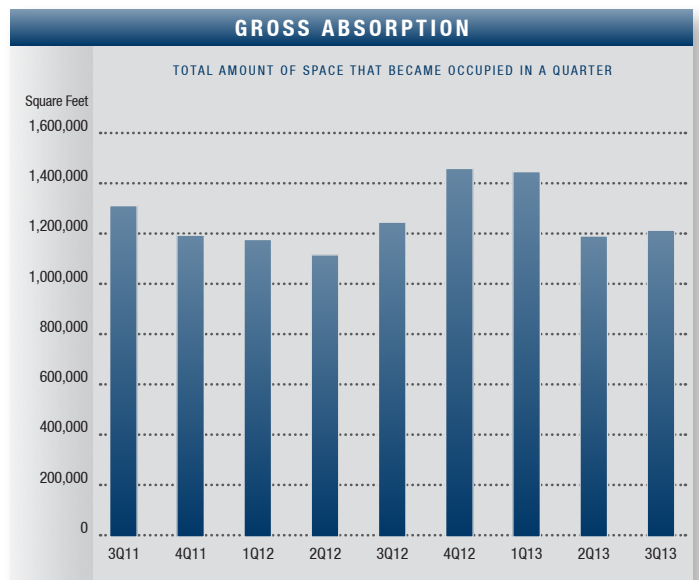
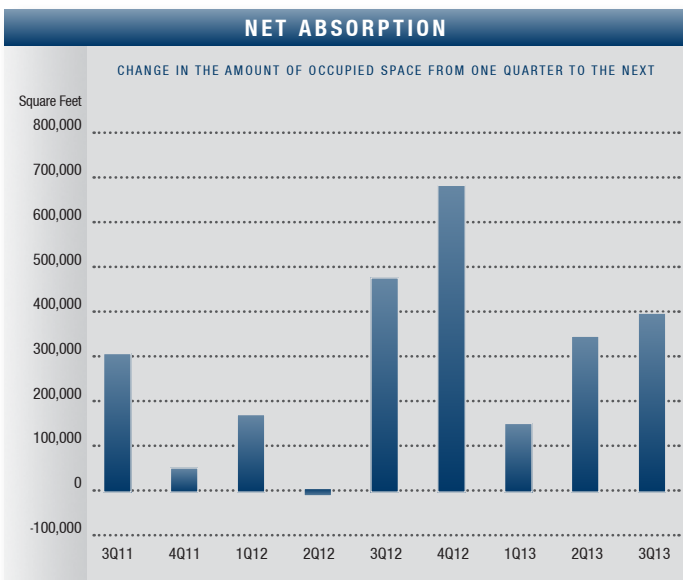
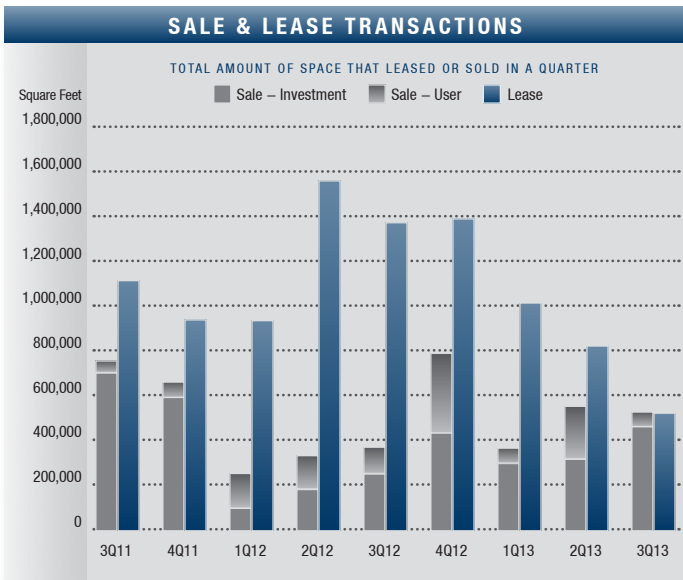
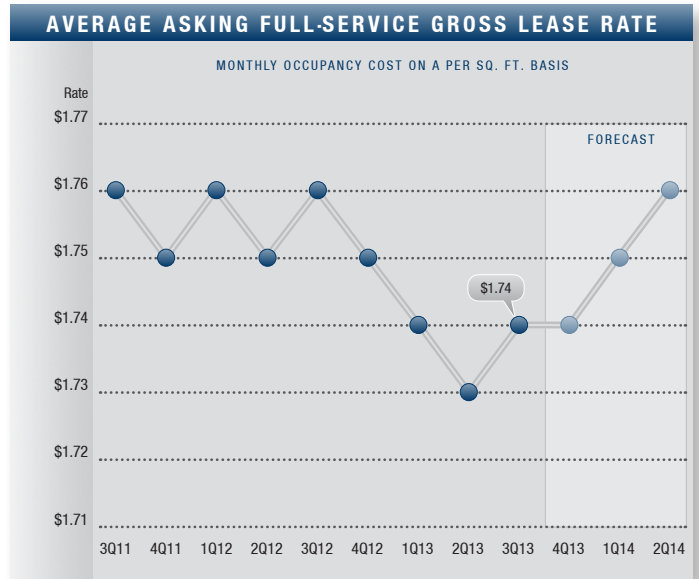
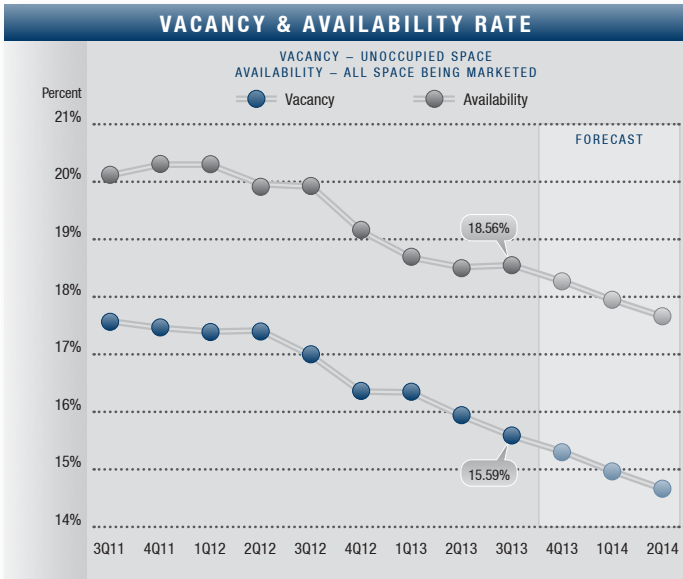
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## OFFICE MARKET OVERVIEW

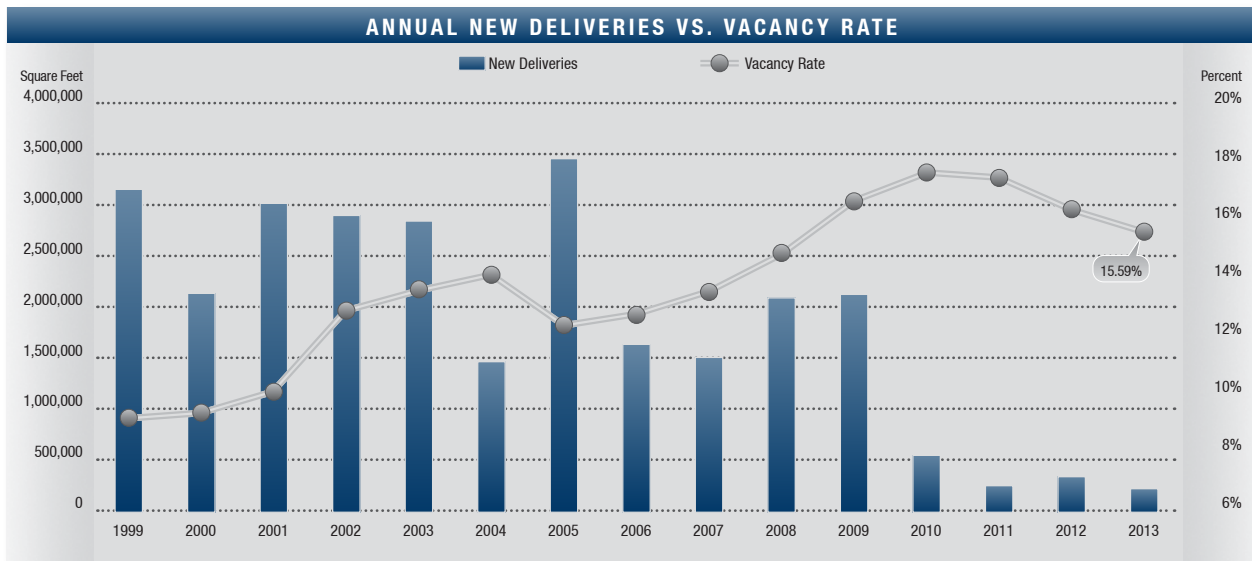
	3Q13	2Q13	3Q12	% of Change vs. 3Q12
Total Vacancy Rate	15.59%	15.97%	17.00%	(8.29%)
Availability Rate	18.56%	18.50%	19.92%	(6.83%)
Average Asking Lease Rate	\$1.74	\$1.73	\$1.76	(1.14%)
Sale & Lease Transactions	1,060,585	1,361,119	1,731,493	(38.75%)
Gross Absorption	1,209,622	1,187,351	1,241,523	(2.57%)
Net Absorption	393,820	340,721	474,578	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 3Q2013	Square Feet Available	Availability Rate 3Q2013	Average Asking Lease Rate	Net Absorption 3Q2013	Net Absorption 2013	Gross Absorption 3Q2013	Gross Absorption 2013
<b>Sacramento Market</b>													
Auburn / Lincoln	64	1,338,180	0	93,921	228,515	17.08%	239,583	17.90%	\$1.21	(2,827)	(21,125)	1,268	22,704
Benicia / Vallejo	88	2,688,514	0	0	800,241	29.77%	805,241	29.95%	\$1.27	(39,683)	(39,013)	6,203	26,081
Campus Commons	42	1,277,203	0	160,000	256,263	20.06%	296,342	23.20%	\$1.73	4,075	28,893	11,599	53,139
Carmichael / Fair Oaks	48	1,030,802	0	0	114,267	11.09%	161,913	15.71%	\$1.23	6,293	16,250	15,766	63,634
Citrus Heights / Orangevale	53	1,446,127	0	0	198,730	13.74%	218,156	15.09%	\$1.17	15,431	1,107	16,813	48,001
Davis / Woodland	78	1,944,652	0	28,500	172,918	8.89%	230,118	11.83%	\$1.99	602	42,095	7,060	79,118
Downtown	214	18,569,635	0	0	2,231,079	12.01%	2,534,294	13.65%	\$2.20	(79,022)	(334,646)	137,002	362,846
East Sacramento	32	1,840,496	0	0	225,706	12.26%	234,921	12.76%	\$1.95	(4,965)	(6,148)	2,102	4,422
El Dorado	71	1,645,705	0	432,000	375,926	22.84%	514,752	31.28%	\$1.71	4,365	3,858	16,720	48,598
Fairfield / Suisun City	61	1,986,191	19,000	87,133	312,882	15.75%	416,085	20.95%	\$2.27	470	(44,649)	11,556	48,795
Folsom	102	4,760,134	0	107,687	498,588	10.47%	796,345	16.73%	\$1.81	2,868	56,327	15,074	154,796
Highway 50	298	17,252,928	0	1,079,252	2,553,726	14.80%	3,233,671	18.74%	\$1.55	201,986	302,623	292,796	637,944
Howe Ave / Fulton Ave	79	2,493,949	0	0	575,951	23.09%	641,413	25.72%	\$1.54	14,600	12,986	37,126	118,425
Midtown	100	3,619,531	0	63,600	240,294	6.64%	345,122	9.53%	\$1.73	79,531	58,938	102,188	118,269
Natomas / Northgate	107	6,086,799	0	177,525	1,350,100	22.18%	1,586,655	26.07%	\$1.74	15,129	180,013	66,247	398,133
Outer El Dorado County	11	186,978	0	0	28,975	15.50%	34,975	18.71%	\$2.28	2,295	(516)	6,056	6,056
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	2,572	10,885	5,157	13,541
Point West	51	2,749,329	0	0	725,064	26.37%	803,176	29.21%	\$1.71	(18,735)	53,549	57,637	161,331
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	260	10,383,936	55,140	794,728	2,075,616	19.99%	2,277,552	21.93%	\$1.77	111,174	350,798	222,849	1,006,842
South Sacramento / Elk Grove	133	4,246,359	10,000	160,793	489,650	11.53%	634,985	14.95%	\$1.43	73,996	199,457	165,066	392,402
Sutter County	27	495,820	0	20,000	68,161	13.75%	68,161	13.75%	\$1.45	(921)	(3,401)	870	2,470
Vacaville / Dixon	40	1,160,804	0	101,000	143,626	12.37%	145,100	12.50%	\$1.86	(1,550)	(3,194)	2,970	5,181
Watt Ave	51	2,398,411	0	45,858	312,334	13.02%	338,861	14.13%	\$1.31	6,136	(17,079)	9,497	19,490
West Sacramento	36	1,983,136	0	110,000	200,004	10.09%	321,895	16.23%	\$1.65	0	28,676	0	38,625
Yuba County	6	370,198	0	0	4,973	1.34%	4,973	1.34%	\$1.25	0	(4,473)	0	0
<b>Sacramento Market Total</b>	<b>2,099</b>	<b>93,358,145</b>	<b>84,140</b>	<b>3,585,099</b>	<b>14,554,601</b>	<b>15.59%</b>	<b>17,327,736</b>	<b>18.56%</b>	<b>\$1.74</b>	<b>393,820</b>	<b>882,337</b>	<b>1,209,622</b>	<b>3,841,017</b>

Class A	201	27,084,666	0	1,860,563	3,679,389	13.58%	4,239,009	15.65%	\$2.06	249,696	746,358	368,682	1,596,909
Class B	1,017	43,006,125	84,140	1,724,536	6,972,025	16.21%	8,397,878	19.53%	\$1.65	147,020	63,007	564,630	1,463,273
Class C	881	23,267,354	0	0	3,903,187	16.78%	4,690,849	20.16%	\$1.35	(2,896)	72,972	276,310	780,835
<b>Sacramento Market Total</b>	<b>2,099</b>	<b>93,358,145</b>	<b>84,140</b>	<b>3,585,099</b>	<b>14,554,601</b>	<b>15.59%</b>	<b>17,327,736</b>	<b>18.56%</b>	<b>\$1.74</b>	<b>393,820</b>	<b>882,337</b>	<b>1,209,622</b>	<b>3,841,017</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
770 L St.	Downtown	A	169,078	\$173.88	AMP Capital	Alaska Permanent Fund
2575 E. Bidwell St.	Folsom	B	36,235	\$126.95	Azusa Housing Partners, LP	JPMorgan Chase
8001 Folsom Blvd.	Highway 50 Corridor	B	28,879	\$100.00	Goodwill Industries	Gallina, LLP
1517 L St.	Downtown	B	12,000	\$233.33	California New Car Dealers Association	AKT Development Corporation
1710 Prairie City Rd.	Folsom	B	14,461	\$145.22	Pro-Led Company, LLC	Sierra Vista Bank

Lease Transactions

Property Address	Submarket	Class	Square Feet	Transaction Date	Tenant	Owner
1000 Sunset Blvd.	Roseville/Rocklin	B	31,653	Sep-13	Placer County	Buzz Oates Companies
3100 Zinfandel Dr. – Renewal	Highway 50 Corridor	A	17,249	Aug-13	Navigant Consulting	DivcoWest
1180 Iron Point Rd.	Folsom	A	14,822	Jul-13	AeroJet	KBS Realty
1011 Sunset Blvd. – Renewal	Roseville/Rocklin	A	14,128	Aug-13	Esurance Insurance Services	The Evergreen Company
2180 Harvard St.	Point West	A	14,073	Aug-13	Molina Healthcare	TA Associates Realty

Product Type

CLASS A

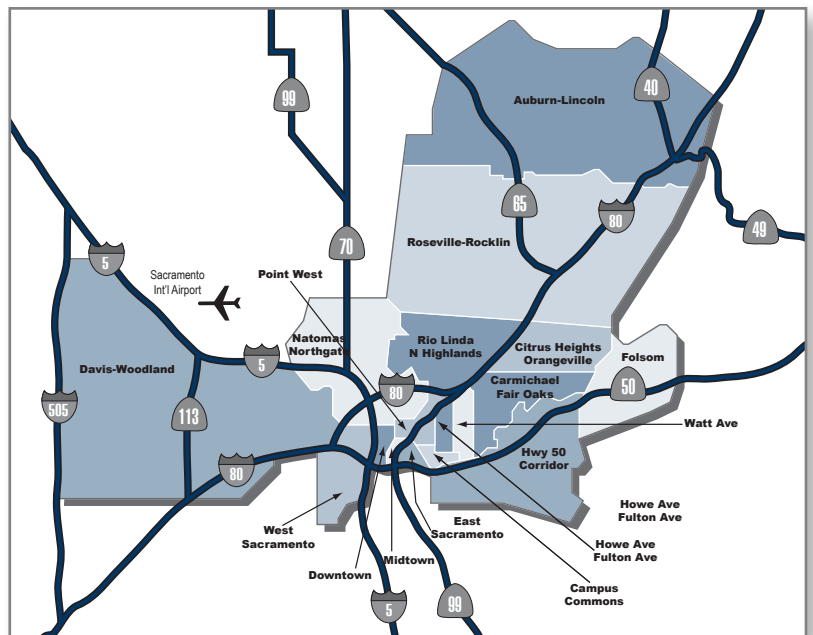
Most prestigious buildings competing for premier office users with rents above average for the area. Buildings have high-quality standard finishes, state-of-the-art systems, exceptional accessibility and a definite market presence.

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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