

Sacramento Office

Market Forecast

Trends

Absorption



Vacancy



Rental Rate



New Construction



Notable Lease Transactions

Volcano Corporation
2870 Kilgore Road, Rancho Cordova
76,000 s.f. Leased (Renewal)

Skyslope
831 K Street, Sacramento
24,000 s.f. Leased

Kitchell Cem, Inc.
2450 Venture Oaks Way, Sacramento
18,189 s.f. Leased

Notable Sale Transactions

Basin Street Properties
2201, 2241, and 2251 Harvard Streets
(Harvard Corporate Center)
290,000 s.f.
Purchased for \$38M or \$134/s.f.

CEGM Rancho Cordova LLC
3300 Zinfandel Drive and
10834 International Drive
(Zinfandel I and II), Rancho Cordova
174,459 s.f.
Purchased for \$39.725M or \$228/s.f.

Dignity Health
3400 Data Drive
(Dignity Health Headquarters)
Rancho Cordova
149,662 s.f.
Purchased for \$26M or \$173/s.f.

The Sacramento office real estate market enjoyed its strongest period of the year to date, with 360,783 square feet of positive net absorption during the third quarter. Vacancies tumbled to a cycle-low 12.2% market-wide, and were considerably lower in coveted submarkets such as Midtown and Elk Grove. Downtown vacancies fell below 10% for the first time this cycle, as the central business district built momentum toward the October 2016 opening of the Golden 1 Center, the new Sacramento Kings arena that will serve as the centerpiece of the burgeoning Downtown Commons entertainment and sports complex. Asking rental rates inched upward to \$1.76 per square foot, fully serviced, amid 815,516 square feet of leasing activity. Unemployment in Sacramento MSA was 5.8% in the third quarter, and steady regional job gains continued to boost office demand across the market.

This quarter's 360,783 square feet of positive net absorption brought the year-to-date increase in occupied office space to 443,595 square feet. The Roseville/Rocklin submarket accounted for nearly 40 percent of the positive net absorption recorded during the past three months, with 140,445 square feet, and the downtown area was second, adding 69,967 square feet. Roseville/Rocklin has now reported positive net absorption in 19 of the last 20 quarters, with an aggregate gain of 2,167,443 square feet shooting vacancy down from 26.3% in the fourth quarter of 2011 to 10.5% this quarter. Rio Linda/N Highlands had the highest vacancy rate at quarter's end, at 31.7%, while East Sacramento had the lowest, at 5.4%. Rental rates for all submarkets and building classes ticked up to \$1.76 per square foot this quarter, Class A spaces came in at \$2.19 per square foot, and downtown asks averaged \$2.37, all fully serviced. The Point West submarket, where asking rents are around \$1.72, fully serviced, remains a popular destination for frugal tenants seeking space near downtown.

Leasing activity slipped to 280 transactions covering 815,516 square feet during the third quarter, but demand remains robust. The pool of tenants in the market is diversifying, as economic development efforts to attract startup and early-stage technology companies reap benefits for local real estate. Skyslope, which operates an online transaction management platform, has grown steadily in Sacramento and

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Area Review

Submarket Statistics

Submarket	Total Inventory	Direct Vacancy Rate	Total Vacancy Rate	Total Available Rate	Q3 Net Absorption	YTD Net Absorption	Quarterly Leasing Activity	YTD Leasing Activity	Rental Rate
Downtown	19,774,239	9.80%	9.90%	10.30%	69,967	121,584	99,622	361,335	\$2.37
Suburban	76,103,351	12.50%	12.80%	16.00%	290,816	322,011	715,894	2,454,645	\$1.67
Auburn/Lincoln	1,717,359	6.50%	6.50%	5.90%	11,358	58,721	18,929	50,990	\$1.48
Campus Commons	1,473,352	13.30%	13.30%	16.30%	7,887	17,698	10,932	34,615	\$2.00
Carmichael/Fair Oaks	1,587,390	16.30%	16.30%	18.70%	(65,524)	(56,674)	12,818	37,083	\$1.18
Citrus Heights/Orangevale	1,812,534	12.90%	12.90%	16.00%	(8,150)	2,235	31,484	86,059	\$1.38
Davis/Woodland	2,525,871	9.70%	9.70%	10.50%	35,164	22,808	11,453	85,294	\$1.81
East Sacramento	2,215,369	5.40%	5.40%	6.40%	121	6,638	0	1,138	\$2.10
El Dorado	2,056,213	19.90%	19.90%	26.60%	29,874	(56,029)	26,702	85,472	\$1.55
Elk Grove	1,875,611	7.00%	7.00%	8.40%	11,567	3,835	34,272	80,159	\$1.97
Folsom	4,943,201	10.40%	11.00%	12.40%	23,466	146,993	35,696	150,050	\$1.87
Highway 50 Corridor	17,828,176	13.20%	13.80%	18.60%	61,358	(241,337)	67,798	385,885	\$1.60
Howe Ave/Fulton Ave	2,786,701	22.40%	22.40%	22.80%	28,657	53,873	119,873	182,945	\$1.57
Midtown	4,265,889	6.80%	6.80%	9.00%	7,370	38,441	38,921	125,540	\$1.99
Natomas/Northgate	6,784,147	13.90%	14.70%	18.80%	26,850	69,358	100,736	370,268	\$1.75
Point West	2,899,987	18.00%	18.10%	22.20%	(45,221)	(14,591)	17,498	70,690	\$1.72
Rio Linda/N Highlands	1,143,944	31.70%	31.70%	36.10%	6,612	(8,717)	34,831	37,308	\$1.37
Roseville/Rocklin	11,852,842	10.40%	10.50%	14.70%	140,445	343,444	138,090	579,359	\$1.76
South Sacramento	3,529,633	13.60%	13.60%	15.50%	7,373	(83,079)	23,500	54,187	\$1.58
Watt Ave	2,660,909	11.10%	11.20%	13.70%	7,662	48,785	5,194	34,483	\$1.35
West Sacramento	2,144,223	8.80%	9.30%	8.90%	3,947	(30,391)	22,167	38,120	\$1.74
Class A	26,194,194	10.80%	11.20%	12.40%	51,603	(118,294)	133,006	732,510	\$2.19
Class B	44,189,129	12.00%	12.30%	16.00%	203,382	297,450	408,276	1,409,613	\$1.71
Class C	25,494,267	13.00%	13.00%	15.30%	105,798	264,439	274,234	673,857	\$1.45
Total	95,877,590	11.90%	12.20%	14.80%	360,783	443,595	815,516	2,815,980	\$1.76

turned in one of this quarter's largest lease deals, taking 24,000 square feet on the second floor of 831 K Street, as it grows from about 80 to 140 employees. In the Natomas submarket, preleasing has begun for a potential 12-story office development across I-5 from the 2020 Gateway building, an area that could see growing demand because of its proximity to both downtown and Sacramento International Airport. The construction company Kitchell Cem, Inc., grabbed 18,189 square feet at 2450 Venture Oaks Way in Natomas/Northgate, about a mile from that site.

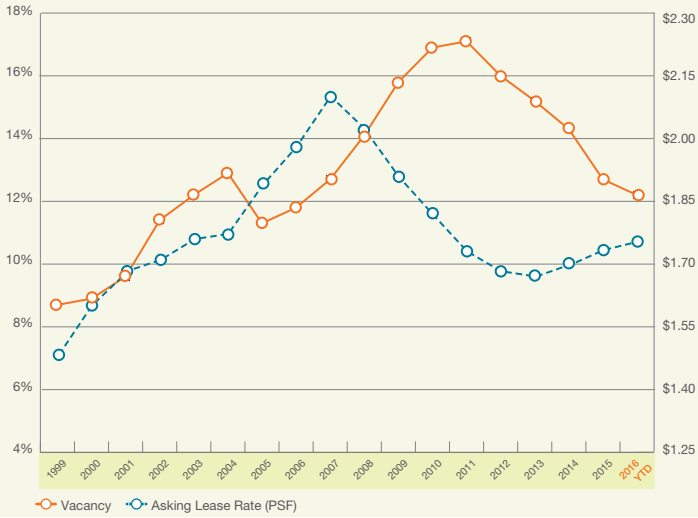
Approximately 873,000 square feet of Sacramento office real estate changed hands this quarter at a median cap rate of 6.25%. Both that square footage and the \$136 million in dollar volume were up from the second quarter, as several significant assets traded during the past three months. Basin Street Properties acquired the Harvard Corporate Center in Point West from USAA Real Estate for \$38 million or \$134 per square foot.

Outside of Sacramento, Equity Global Management bought 3300 Zinfandel Drive in Rancho Cordova, fully occupied by Blue Shield of California, from a joint venture between Strada and Farallon Capital for \$39.7 million or \$228 per square foot. Finally, Dignity Health obtained its headquarters, 3400 Data Drive in Rancho Cordova, from Hines for \$26 million or \$173 per square foot.

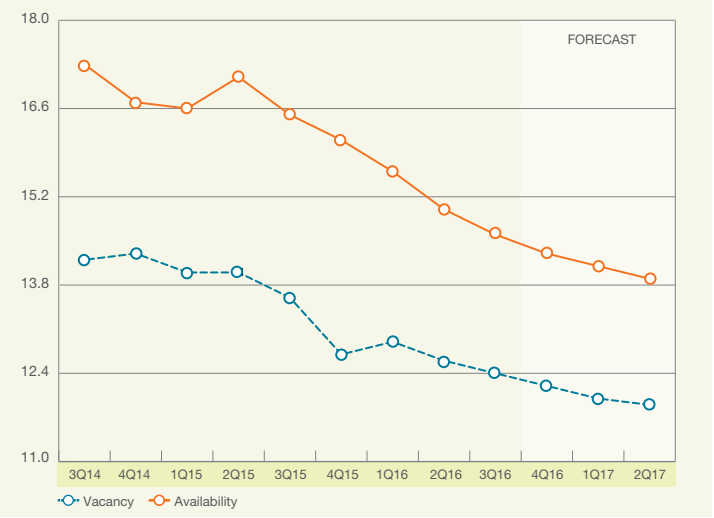
Office-based sectors are likely to keep growing in Sacramento as the area's economic development agencies aim to attract technology firms, citing local talent and relative affordability. The opening of the Golden 1 Center and the availability of on-site parking figure to boost demand in and around downtown Sacramento. Meanwhile, in the suburbs, the tech giant Apple has reaffirmed its commitment to Elk Grove over the past year, raising its worker count there from 2,500 to 4,000 jobs since July 2015.

Source: CoStar

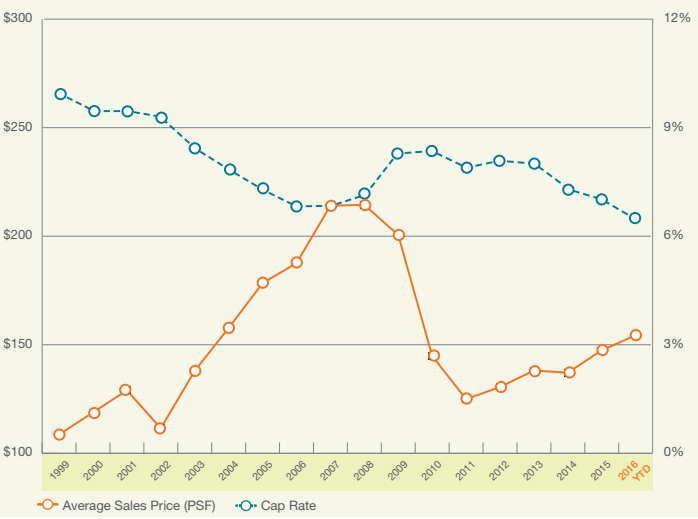
VACANCY VS ASKING LEASE RATE



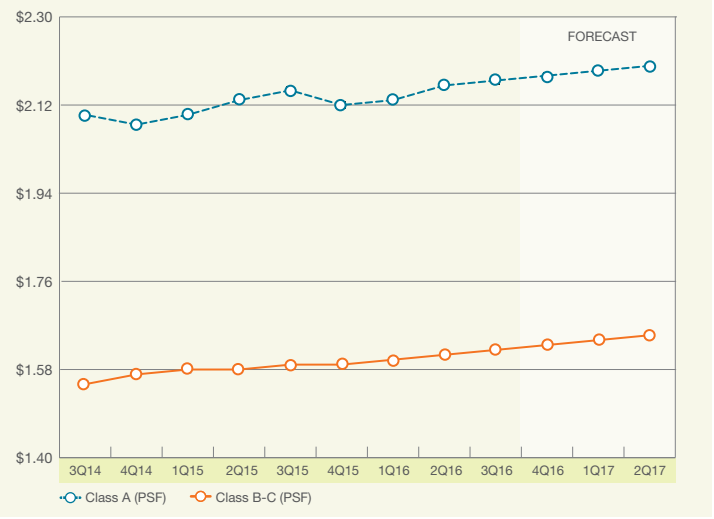
VACANCY VS AVAILABILITY



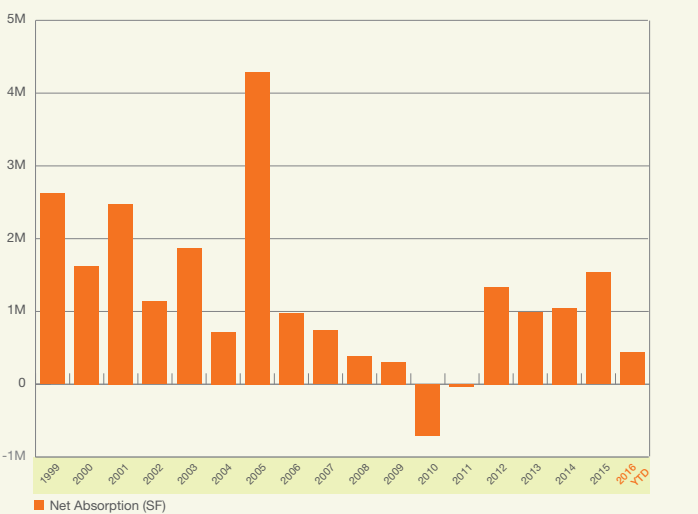
AVERAGE SALES PRICE & CAPITALIZATION RATES



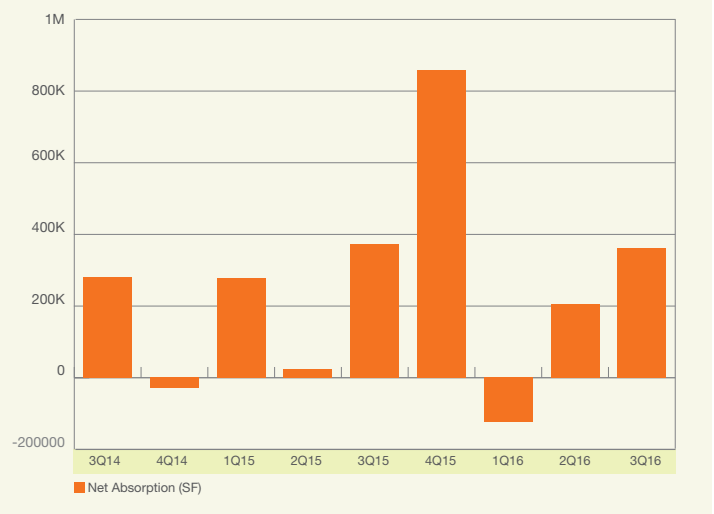
ASKING LEASE RATE



NET ABSORPTION - HISTORICAL



NET ABSORPTION - QUARTERLY



Offices

Seattle
206.296.9600

Bellevue
425.454.7040

South Seattle
206.248.7300

Tacoma
253.722.1400

Olympia
360.705.2800

Portland
503.221.9900

San Francisco
415.229.8888

Redwood Shores
650.769.3600

Silicon Valley
408.970.9400

Sacramento
916.970.9700

Roseville
916.751.3600

Orange County
949.557.5000

San Diego
858.509.1200

Carlsbad
760.430.1000

Reno
775.301.1300

Phoenix
602.513.5200

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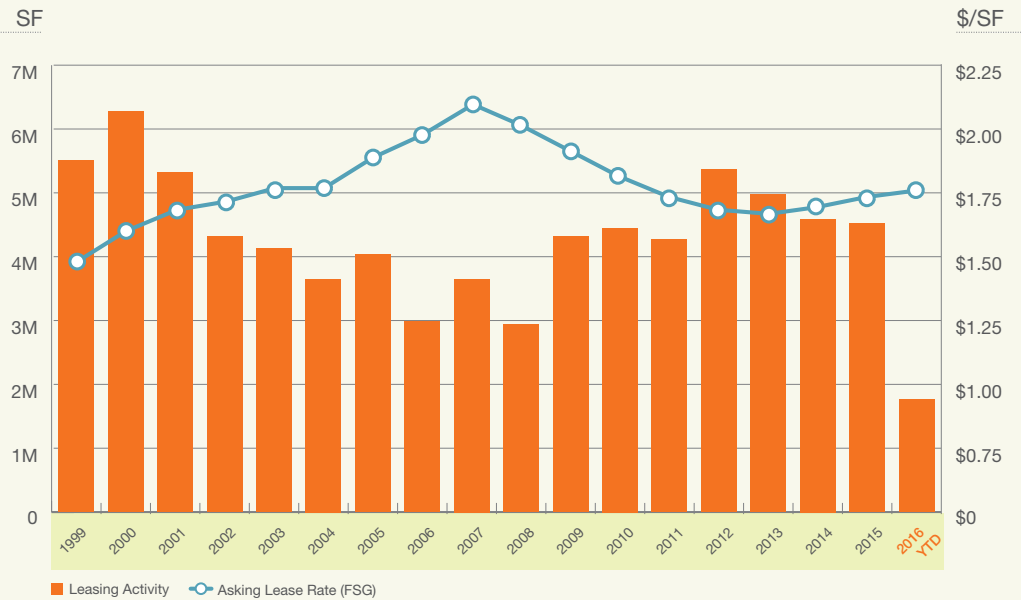
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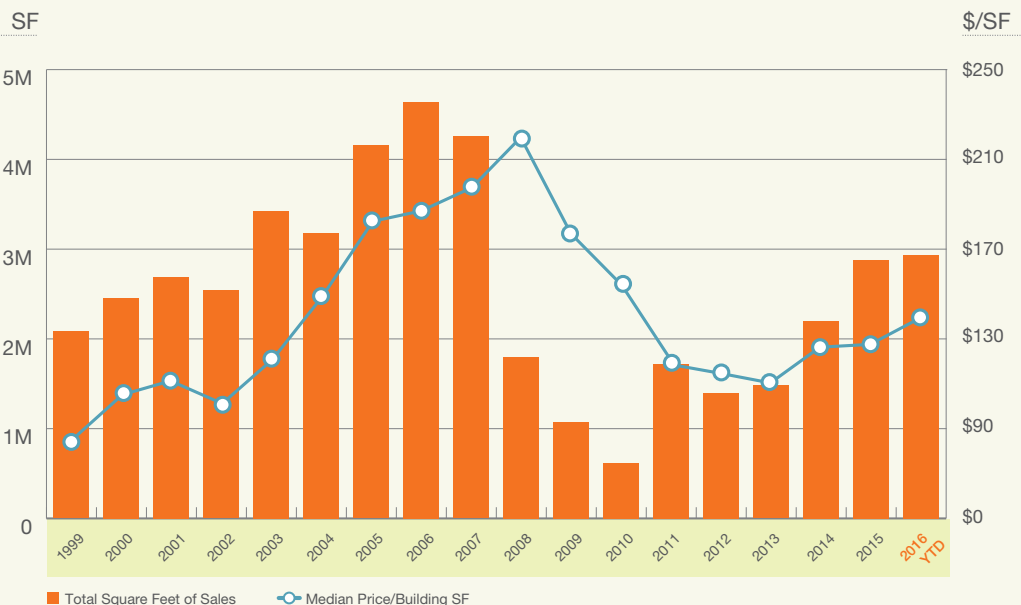
Market Breakdown

	3Q 2016	2Q 2016	3Q 2015	Annual % Change
Vacancy Rate	12.20%	12.50%	13.50%	-9.93%
Availability Rate	14.80%	14.80%	16.40%	-9.76%
Asking Lease Rate	\$1.76	\$1.75	\$1.73	1.73%
Leased SF	815,516	1,112,729	1,192,147	-31.59%
Sold SF	873,297	781,138	591,203	47.71%
Net Absorption	360,783	205,905	376,945	N/A

HISTORICAL LEASING ACTIVITY & ASKING LEASE RATES



HISTORICAL SALES SF & MEDIAN SALE PRICE



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