

Sacramento Office

Market Forecast

Trends

Absorption



Vacancy



Rental Rate



New Construction



Notable 2016 Lease Transactions

Volcano Corporation
2870 Kilgore Road, Rancho Cordova
75,626 s.f. leased

InterWest Insurance Services
8950 Cal Center Drive, Sacramento
39,891 s.f. leased

SkySlope
825-831 K Street, Sacramento
24,366 s.f. leased

Notable 2016 Sale Transactions

Starwood Capital Group
Wells Fargo Center (400 Capitol Mall)
Sacramento
511,034 s.f. | \$175.5M or \$343/s.f.

GPT Properties Trust
Renaissance Tower (801 K Street)
Sacramento
336,752 s.f. | \$79.2M or \$235/s.f.

Fulcrum Capital Corporation
University Research Park (22 properties)
Davis
313,443 s.f. | \$70M or \$223/s.f.

LeFever Mattson
520 Capitol Mall, Sacramento
82,401 s.f. | \$28M or \$340/s.f.

The Sacramento office real estate market commanded national attention during an exceptional fourth quarter that saw record investment activity and across-the-board absorption gains in the region. More than \$300 million worth of Sacramento-area assets changed hands, the first time the market has eclipsed that mark since the second quarter of 2007. The downtown and suburban submarkets recorded 534,469 s.f. of positive net absorption, which translated to a 100-basis-point year-over-year drop in vacancies, now at a cycle-low 11.4% market wide and 9.6% in the CBD. Asking rents averaged \$1.76/s.f. in the fourth quarter, up from \$1.74 at the same time in 2015, and downtown asks were at \$2.37, both fully serviced. Unemployment in Sacramento MSA fell to 4.9%, as local employers added 26,100 jobs over the calendar year. The October opening of the Golden 1 Center, the new Sacramento Kings arena, has already brought considerable benefits to nearby real estate, enhancing the desirability of downtown assets, two of which drew outlays in excess of \$340/s.f. as the year came to a close.

This quarter's 534,649 s.f. of positive net absorption accounted for nearly half of the year-over-year gain in occupied office space. Roseville/Rocklin, which has seen positive net absorption in 20 of the last 21 quarters, led the way with 182,414 s.f. gained in the past three months, as vacancies there fell to 9.7%, down 340 basis points year over year. Folsom, which added 97,745 s.f. of occupied office space this quarter, registered the largest year-over-year decline in vacancy, from 13.7% to a cycle-low 8.9%. Rental rates across all submarkets and building classes stayed at an average of \$1.76/s.f., with Class A spaces at \$2.20 and downtown offerings at \$2.37, all fully serviced. The Point West submarket, where asks are between \$1.70 and \$1.80, remains a popular alternative for frugal tenants seeking space near the downtown area.

Leasing activity this quarter summed to 347 transactions and 869,252 s.f., the vast majority of which took place in suburban submarkets. The downtown area saw just 96,544 s.f. leased in the past three months, a cycle low attributable in part to a steady decline in availabilities, which have dropped 250 basis points over the last six quarters, to 10%. InterWest Insurance Services was the biggest tenant to sign on this quarter, taking 39,891 s.f. at 8950 Cal Center Drive in the Highway 50 Corridor, the leading submarket in square footage leased this period, at 181,785. Conversely, NWN Corporation, an IT

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Area Review

Submarket Statistics

Submarket	Total Inventory	Direct Vacancy Rate	Total Vacancy Rate	Total Available Rate	Q4 Net Absorption	YTD Net Absorption	Quarterly Leasing Activity	YTD Leasing Activity	Rental Rate
Downtown	19,774,239	9.40%	9.60%	10.00%	44,235	179,491	96,544	519,207	\$2.37
Suburban	76,371,641	11.60%	11.90%	14.60%	485,924	984,170	792,774	3,937,970	\$1.68
Auburn/Lincoln	1,677,359	5.90%	5.90%	6.40%	3,429	70,745	9,000	61,171	\$1.49
Campus Commons	1,488,252	13.30%	13.30%	18.10%	5,325	21,862	23,323	63,233	\$2.01
Carmichael/Fair Oaks	1,559,149	10.70%	10.70%	15.60%	20,515	35,257	14,615	60,086	\$1.26
Citrus Heights/Orangevale	1,848,566	11.70%	11.70%	14.00%	10,883	54,702	27,148	151,426	\$1.41
Davis/Woodland	2,498,430	8.20%	8.20%	9.40%	32,073	58,757	26,747	135,645	\$1.78
East Sacramento	2,215,369	5.30%	5.70%	6.70%	(5,800)	838	3822	6,160	\$2.09
El Dorado	2,063,549	19.80%	19.80%	27.30%	1,392	(54,198)	23,746	123,757	\$1.50
Elk Grove	1,890,156	7.00%	7.00%	7.90%	(458)	3,019	29,508	112,262	\$2.01
Folsom	4,953,776	8.30%	8.90%	10.90%	97,745	252,608	29,549	181,977	\$1.87
Highway 50 Corridor	17,796,428	13.50%	14.10%	17.60%	(4,009)	(260,857)	181,785	684,593	\$1.59
Howe Ave/Fulton Ave	2,786,701	19.00%	19.00%	21.30%	43,871	147,804	31,059	176,875	\$1.58
Midtown	4,272,397	6.50%	6.60%	8.20%	(7,641)	36,500	32,884	157,722	\$2.00
Natomas/Northgate	6,824,272	14.10%	15.00%	15.40%	55,519	47,247	123,049	767,265	\$1.76
Point West	2,906,940	16.40%	16.40%	19.80%	27,154	25,153	30,926	214,618	\$1.70
Rio Linda/N Highlands	1,143,639	24.30%	24.30%	28.60%	(2,161)	(10,272)	10,740	26,961	\$1.34
Roseville/Rocklin	12,005,441	9.30%	9.70%	12.20%	182,414	556,439	161,810	822,120	\$1.78
South Sacramento	3,636,085	9.90%	9.90%	14.60%	18,111	(40,543)	8,330	92,161	\$1.63
Watt Ave	2,660,909	11.10%	11.10%	15.60%	3,774	51,740	19,290	54,283	\$1.43
West Sacramento	2,144,223	8.50%	8.50%	9.90%	3,788	(12,631)	5,443	45,655	\$1.81
Class A	26,203,295	10.50%	10.90%	11.70%	51,265	(49,551)	284,276	1,295,370	\$2.20
Class B	44,417,944	11.20%	11.50%	14.40%	419,773	805,604	390,905	2,263,645	\$1.72
Class C	25,533,274	11.70%	11.70%	14.40%	59,121	407,608	184,137	868,162	\$1.45
Total	96,154,513	11.10%	11.40%	13.70%	534,649	1,168,151	869,252	4,407,111	\$1.76

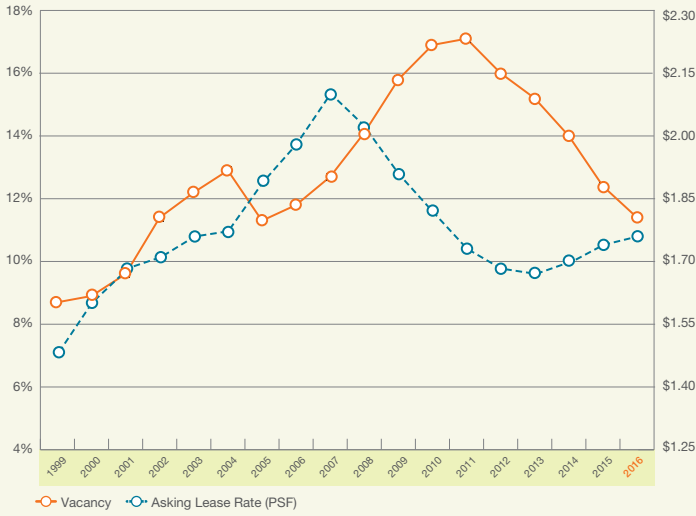
solutions provider, will leave the Highway 50 Corridor in March, when it's set to relocate to a newly leased, 11,488 s.f. space at 2969 Prospect Park Drive in Rancho Cordova.

The Sacramento investment market boomed in the fourth quarter, setting cycle highs in both square footage sold and dollar volume, as institutional buyers nationwide sought an alternative to the overheated San Francisco and Silicon Valley markets. Forty-nine transactions closed in the past three months, totaling 1,313,530 s.f. of office real estate and approximately \$316.6 million, and the quality of the assets sold sent the average price per square foot skyward, to a record \$274.42. The recent opening of the Golden 1 Center, continued efforts to bolster the technology sector's presence in the region, and spillover from tenants priced out of the San Francisco Bay Area combined to bolster the appeal of parking money in Sacramento-area assets. The \$703.7 million poured into Sacramento-area office investments during the past year represented a 71% increase from the previous year and was the second-highest total dollar influx into the region since at least 1990.

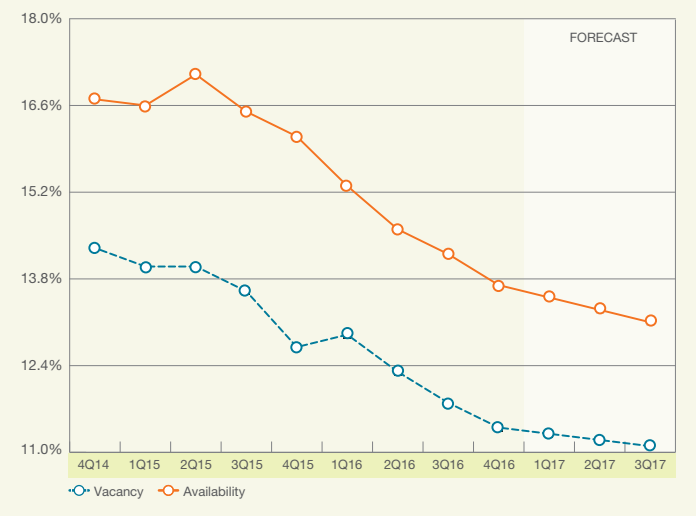
No transaction this year was more indicative of the market's allure than the November sale of the Wells Fargo Center, Sacramento's tallest building. Starwood Capital, a Connecticut-based institutional investor, paid \$175.5 million (\$343/s.f.) for the 30-story trophy, which comes to a 6.5% cap rate. Down the street, LeFever Mattson nearly matched that per-foot price tag, obtaining 520 Capitol Mall from BTV for \$28 million (\$340/s.f.), underwritten at a sub-6.0% cap rate. Suburban assets also saw significant investment activity as the year closed. In the largest transaction outside of downtown Sacramento, Fulcrum Management Group, out of South Carolina, bought the 17-building University Research Park in Davis for \$70 million or \$223/s.f., comparable to the values recently placed on research parks in Silicon Valley. Roseville was in the headlines twice this quarter, as Marin County-based Barker Pacific Group and Chicago's WHI Real Estate Partners teamed to buy the Lava Ridge Business Center for \$27.6 million (\$150/s.f.), and Beard Land Improvement, Co., from Modesto, bought 1101 Creekside Ridge Drive for \$16.05 million (\$186/s.f.) in a 1031 exchange.

Source: CoStar

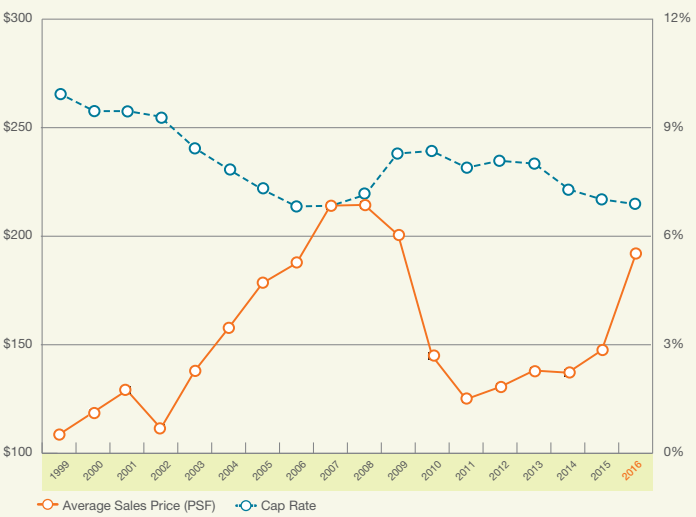
VACANCY VS ASKING LEASE RATE



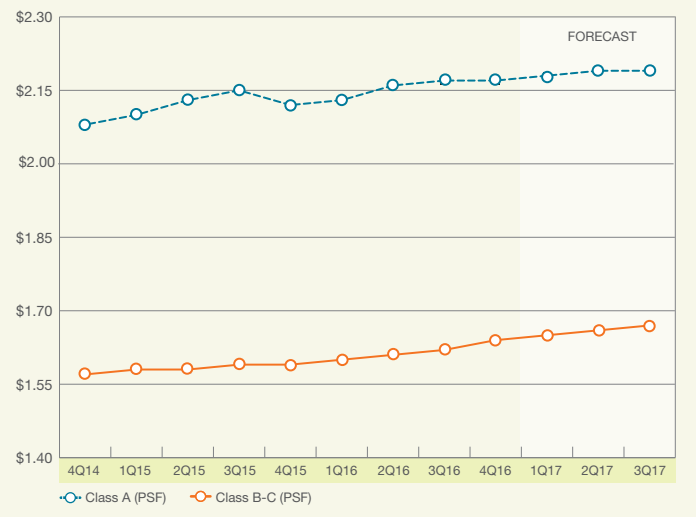
VACANCY VS AVAILABILITY



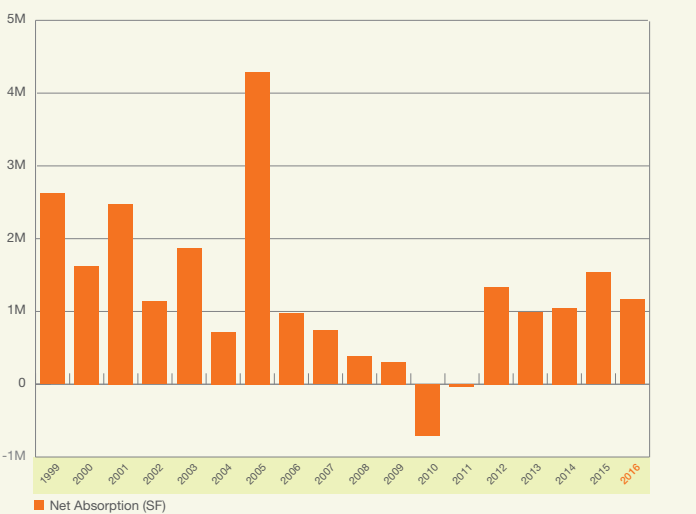
AVERAGE SALES PRICE & CAPITALIZATION RATES



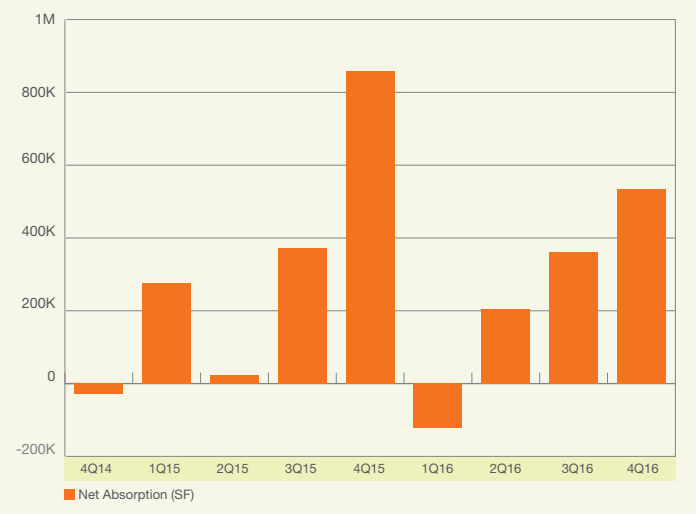
ASKING LEASE RATE



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

Inland Empire
909.764.6500

San Diego
858.509.1200

Carlsbad
760.430.1000

Reno
775.301.1300

Phoenix
602.513.5200

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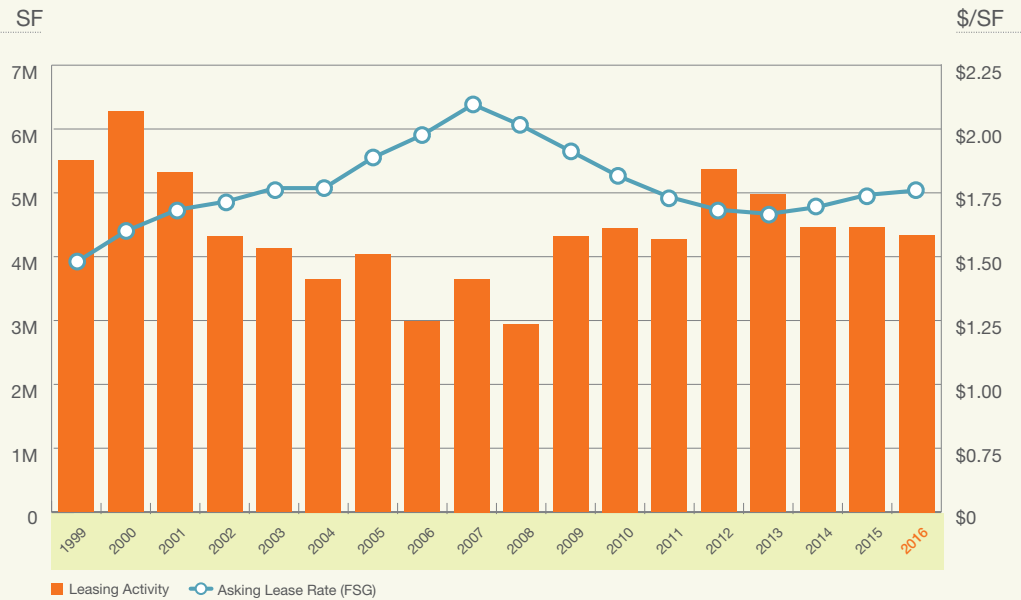
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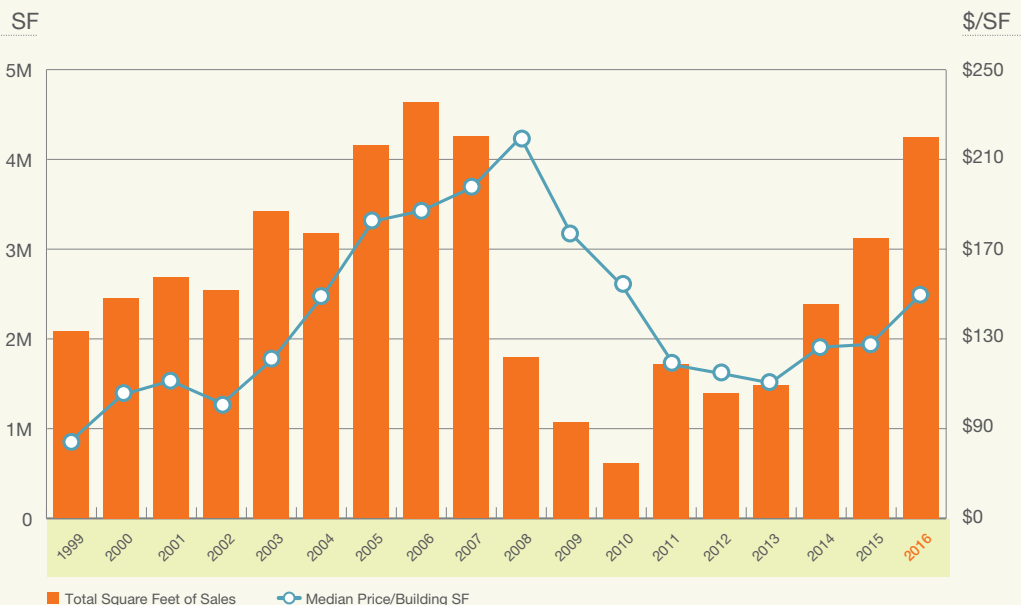
Market Breakdown

	2016	2015	2014	Annual % Change
Vacancy Rate	11.4%	12.4%	14.0%	-8.1%
Availability Rate	13.7%	15.8%	16.4%	-12.0%
Asking Lease Rate	\$1.76	\$1.74	\$1.70	1.1%
Leased SF	4,407,111	4,462,720	4,468,815	-1.2%
Sold SF	4,245,774	3,121,305	2,387,179	36.0%
Net Absorption	1,168,151	1,573,822	1,140,200	N/A

HISTORICAL LEASING ACTIVITY & ASKING LEASE RATES



HISTORICAL SALES SF & MEDIAN SALE PRICE



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