

Sacramento Office

Market Forecast

Trends

Absorption



Vacancy



Rental Rate



New Construction



Notable Lease Transactions

JLM Energy Inc.
3735 Placer Corporate Drive, Rocklin
39,869 s.f. Leased

Department of Managed Health Care
980 9th Street, Sacramento
27,971 s.f. Leased

Kaiser Permanente
906 G Street, Sacramento
17,037 s.f. Leased

Notable Sale Transactions

Barker Pacific Group
Olympus Corporate Center
(3001-3013 Douglas Blvd), Roseville
191,248 s.f.
Purchased for \$33.85M or \$177/s.f.

Ridge Capital, Inc.
Slate Creek Corporate Center
(3300-3500 Douglas Blvd), Roseville
147,280 s.f.
Purchased for \$23.15M or \$157/s.f.

Ethan Conrad Properties
One Capital Center (3100 Zinfandel Drive)
Rancho Cordova
129,000 s.f.
Purchased for \$16.3M or \$126/s.f.

After ending 2016 on a high note, with record investment activity and widespread absorption gains, the Sacramento office market relaxed slightly during the first quarter of 2017. Office properties marketwide saw 166,745 s.f. of negative net absorption, increasing total vacancies to 11.4%, though the downtown area held steady at 8.6%. Most large lease and investment transactions during the first quarter took place in suburban submarkets, as tenants searching for more space, on-site parking, and lower rents considered alternatives like Natomas, Point West, and Roseville. Asking rents averaged \$1.78 full service in the first quarter, ranging from nearly \$2.50 in the downtown area to the \$1.30s in Rio Linda and Citrus Heights, and were up 2.3% year-over-year overall. The local economy remained strong, keeping unemployment around 5% throughout the quarter, and the October 2016 opening of the Golden 1 Center has also benefited downtown Sacramento office landlords. Ongoing investment activity, particularly from buyers based outside of the metro area, reflects confidence that the market will continue to grow over the coming quarters.

This quarter's 166,745 s.f. of negative net absorption was just a blip on the radar after the Sacramento market gained nearly 1.2 million s.f. of occupied office space over the previous two quarters. Natomas/Northgate was the first quarter's positive absorption leader, picking up 39,937 s.f. as the Department of Human Assistance moved into 81,225 s.f. at 4450 E Commerce Way and the engineering consulting firm Cardno took over a 10,425 s.f. space at 2890 Gateway Oaks Drive. On the flipside, the Highway 50 Corridor dropped 218,416 s.f. this quarter, as Verizon Communications left 104,569 s.f. at 10730 International Drive in Rancho Cordova. Vacancies held at 8.6% in downtown Sacramento and ticked up to 12.1% across the suburban submarkets, though most remained tighter than they were at this time last year. Folsom, which was virtually unchanged with 6,393 s.f. of positive net absorption this quarter, has seen a 300-basis-point decline in its vacancy rate year-over-year.

Leasing activity this quarter totaled 1,239,762 s.f. over 396 transactions, in line with the levels seen in recent periods, with suburban submarkets accounting for an increasingly large share of the pie. A lack of large-scale downtown availabilities has led bigger tenants to look toward alternatives like Natomas, Roseville, and the Highway 50 corridor, each of which saw more than 200,000 s.f. leased over the past three months. The solar energy

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Area Review

Submarket Statistics

Submarket	Total Inventory	Direct Vacancy Rate	Total Vacancy Rate	Total Available Rate	Q1 Net Absorption	YTD Net Absorption	Quarterly Leasing Activity	YTD Leasing Activity	Rental Rate
Downtown	19,774,239	8.50%	8.60%	9.40%	2,021	2,021	295,118	295,118	\$2.49
Suburban	76,841,363	11.70%	12.10%	14.90%	(168,766)	(168,766)	1,044,644	1,044,644	\$1.69
Auburn/Lincoln	1,677,359	5.60%	5.60%	7.30%	5,118	5,118	5,556	5,556	\$1.65
Campus Commons	1,468,779	11.70%	11.70%	18.50%	7,941	7,941	13,380	13,380	\$2.06
Carmichael/Fair Oaks	1,555,332	13.10%	13.10%	16.20%	(47,872)	(47,872)	17,207	17,207	\$1.26
Citrus Heights/Orangevale	1,832,851	11.10%	11.10%	14.00%	14,772	14,772	17,107	17,107	\$1.39
Davis/Woodland	2,508,984	8.50%	8.50%	9.30%	(11,146)	(11,146)	29,979	29,979	\$1.92
East Sacramento	2,374,943	4.90%	5.40%	6.10%	8,687	8,687	4,570	4,570	\$2.11
El Dorado	2,058,275	20.10%	20.10%	27.00%	5,081	5,081	22,774	22,774	\$1.60
Elk Grove	1,999,041	9.30%	9.30%	10.20%	4,709	4,709	23,389	23,389	\$1.95
Folsom	4,940,740	7.90%	8.50%	10.50%	6,393	6,393	53,957	53,957	\$1.90
Highway 50 Corridor	17,841,018	14.40%	15.10%	17.80%	(218,416)	(218,416)	219,229	219,229	\$1.58
Howe Ave/Fulton Ave	2,788,843	19.00%	19.00%	22.00%	(2,817)	(2,817)	32,608	32,608	\$1.61
Midtown	4,280,777	6.40%	6.50%	9.00%	6,975	6,975	29,432	29,432	\$2.06
Natomas/Northgate	6,831,325	13.70%	14.40%	16.60%	39,937	39,937	181,495	181,495	\$1.78
Point West	2,906,940	16.60%	16.60%	22.00%	(7,868)	(7,868)	39,666	39,666	\$1.68
Rio Linda/N Highlands	1,144,537	23.40%	23.40%	28.80%	9,250	9,250	0	0	\$1.34
Roseville/Rocklin	12,020,299	9.60%	10.00%	12.50%	(38,504)	(38,504)	181,772	181,772	\$1.78
South Sacramento	3,813,272	9.80%	9.80%	14.60%	14,427	14,427	54,041	54,041	\$1.69
Watt Ave	2,660,909	10.40%	10.40%	14.70%	19,031	19,031	5,592	5,592	\$1.41
West Sacramento	2,137,139	7.50%	7.50%	9.30%	15,536	15,536	12,890	12,890	\$1.78
Class A	26,015,788	10.60%	11.10%	12.60%	(248,095)	(248,095)	283,084	283,084	\$2.18
Class B	44,714,730	11.10%	11.40%	14.30%	56,664	56,664	691,092	691,092	\$1.73
Class C	25,660,952	11.50%	11.50%	14.30%	24,686	24,686	265,576	265,576	\$1.45
Total	96,391,470	11.10%	11.40%	13.80%	(166,745)	(166,745)	1,239,762	1,239,762	\$1.78

equipment supplier JLM Energy signed the quarter's largest lease, taking 39,869 s.f. at 3735 Placer Corporate Drive in Rocklin. In Downtown Sacramento, Kaiser Permanente continued to increase its presence in the market, grabbing 17,000 s.f. on the fifth floor of 906 G Street, one of the few downtown availabilities that met the healthcare provider's parking requirements.

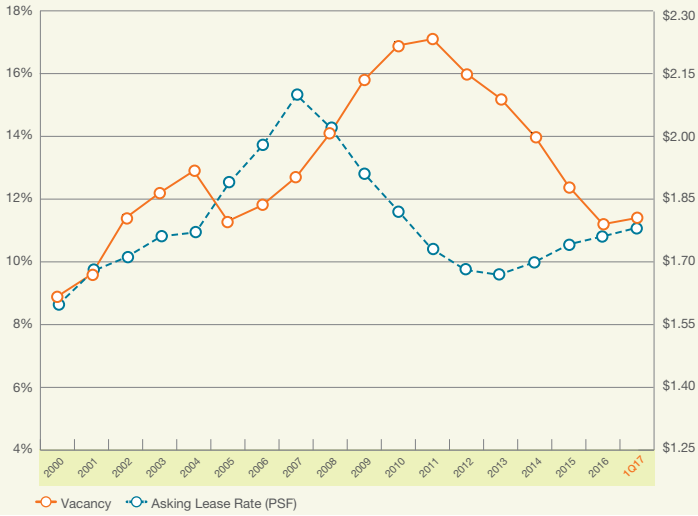
While the downtown area was the focal point of the market's 2016 fourth-quarter investment activity, suburban areas enjoyed the majority of the action over the past three months. Roseville saw two multi-building office complexes change hands, led by the Olympus Corporate Center at 3001-3013 Douglas Blvd, which went to Southern California-based Barker Pacific Group for \$33.85 million or \$177/s.f. This is Barker Pacific's second notable Roseville play, after it acquired the Lava Ridge Business Center for \$27.6 million last year. Down the street, Ridge Capital, Inc., shelled out \$23.15 million for the Slate Creek Corporate Center at 3300-3500 Douglas Blvd, which comes out to \$157/s.f. The largest single structure investment sale involved One Capital Center, a 124,000 s.f. asset at 3100 Zinfandel Drive in Rancho Cordova, which went to the local investor Ethan Conrad Properties for \$16.3 million or \$126/s.f. On the owner/user side, the Folsom

software firm Inductive Automation satisfied its expansion needs with a \$5 million purchase at 90 Blue Ravine Road, where it will grow into 56,000 s.f. Inductive Automation, which makes the Ignition industrial automation platform, has 100 employees and will have room to add 200 more after it moves into its new offices in July.

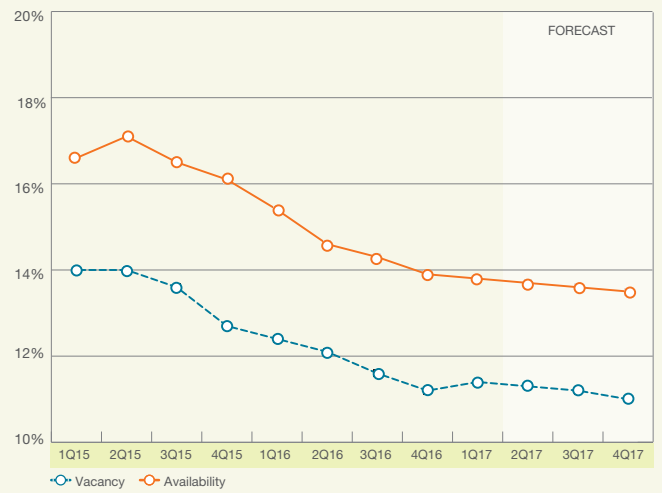
As developers await higher rental rates to justify new construction in downtown Sacramento, the South Natomas area is home to a handful of new projects that will add to its office inventory. During the first quarter, Perkins, Williams & Cotterill Architects filed plans to build a 60,000 s.f. office structure at 2500 River Plaza Drive, adding to the existing six-building complex. Meanwhile, Bannon Investors, which owns the Gateway 2020 building, has proposed a pair of 90,000 s.f. projects in the submarket, one on a six-acre site near Gateway 2020 and another at the corner of West El Camino and Natomas Park Drive. The Natomas/Northgate submarket has seen vacancies dive from nearly 20% in the second quarter of 2015 to 14.4% this quarter, and rental rates there have climbed faster than the market average, rising by 3.3% year-over-year to \$1.78.

Data Source: CoStar

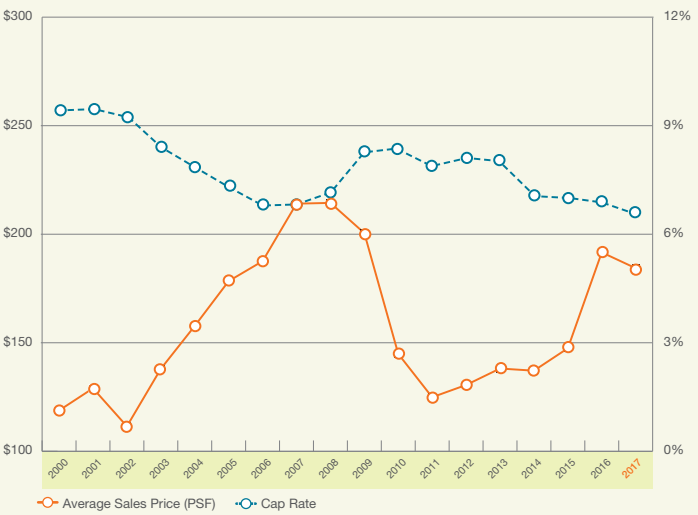
VACANCY VS ASKING LEASE RATE



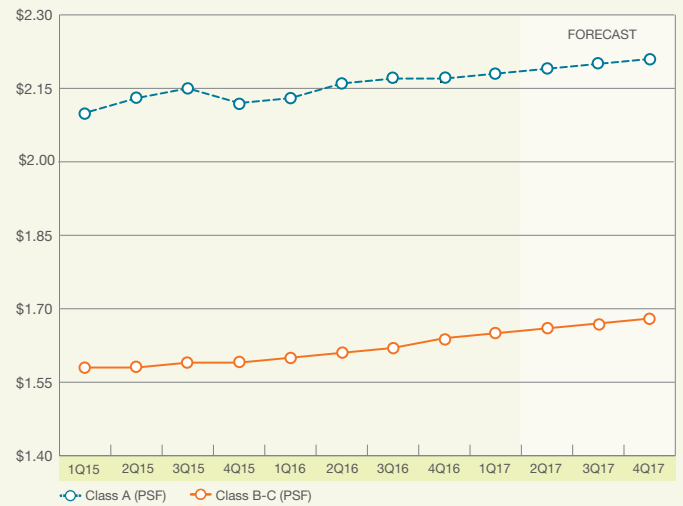
VACANCY VS AVAILABILITY



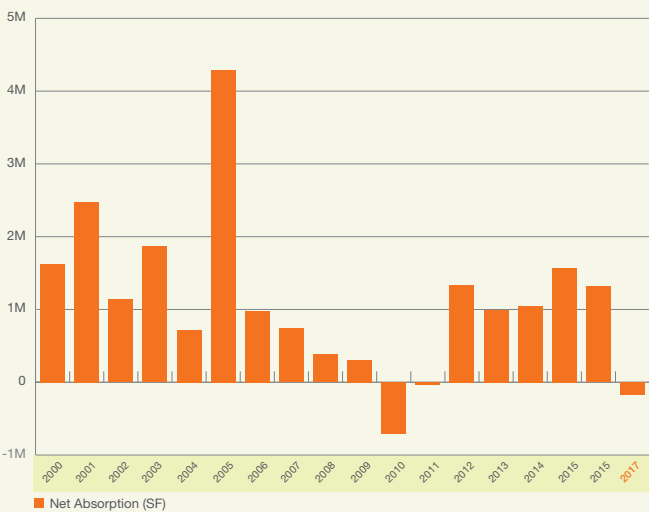
AVERAGE SALES PRICE & CAPITALIZATION RATES



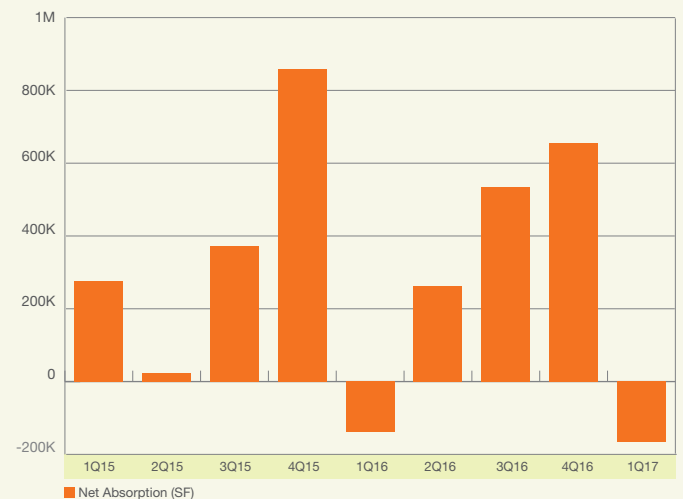
ASKING LEASE RATE



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

Los Angeles
213.880.5250

Commerce
323.727.1144

Long Beach
562.472.0071

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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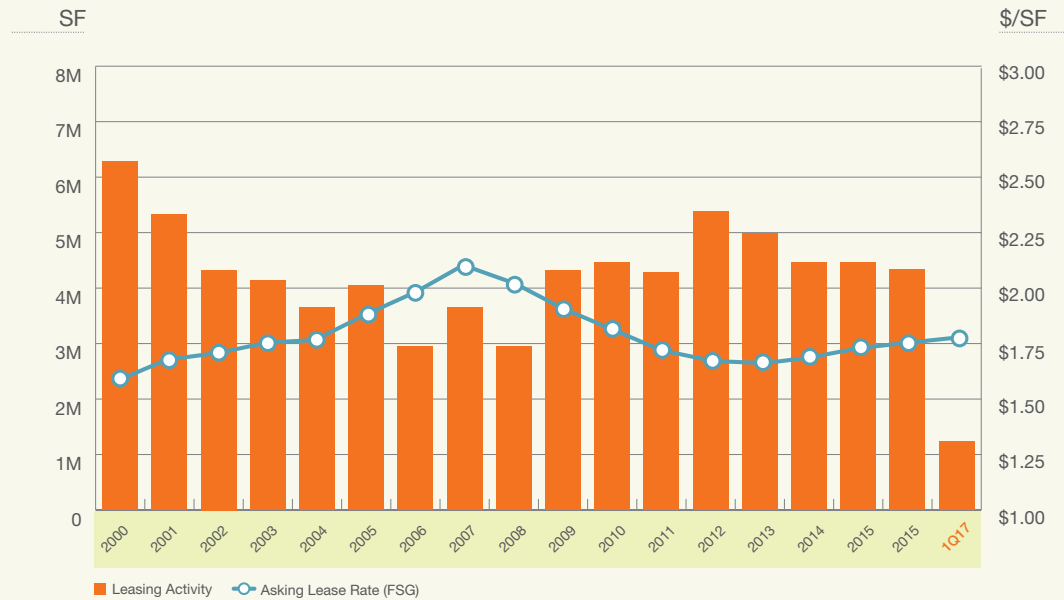
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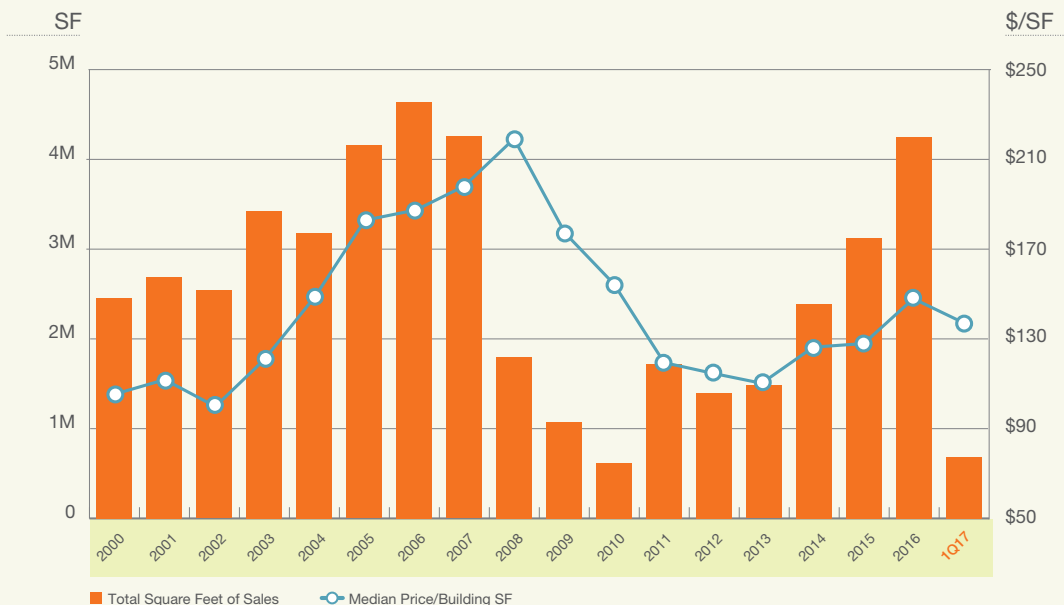
Market Breakdown

	Q1 2017	Q4 2016	Q1 2016	Annual % Change
Vacancy Rate	11.40%	11.20%	12.40%	-8.10%
Availability Rate	13.80%	13.90%	15.40%	-10.40%
Asking Lease Rate	\$1.78	\$1.76	\$1.74	2.30%
Leased SF	1,239,762	1,267,725	1,094,718	13.20%
Sold SF	681,347	1,723,273	1,145,167	-40.50%
Net Absorption	-166,745	656,263	-139,650	N/A

HISTORICAL LEASING ACTIVITY & ASKING LEASE RATES



HISTORICAL SALES SF & MEDIAN SALE PRICE



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