

Real Estate Market Review

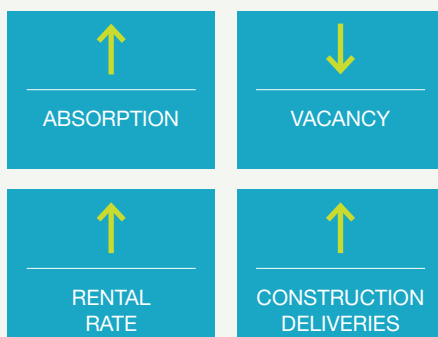
Sacramento Office

A hot summer further tightened the Sacramento office real estate market, as vacancies in the metro area fell to a cycle-low 10.8% on the strength of 600,073 square feet of positive net absorption. Rental rates continue to trend upward, pressed by growing demand and stagnant supply, reaching a marketwide average of \$1.80, fully serviced. With most Bay Area value-add opportunities having been exhausted, institutional investors are considering Sacramento-area assets, both downtown and in preferred suburban submarkets such as Roseville/Rocklin, pushing some sale prices past \$200/sf. The Sacramento MSA economy has added 16,100 jobs year over year, trimming unemployment to 5.2%, and ongoing expansion of office-based sectors such as Professional and Business Services means more demand for space. A lack of large-block availabilities has slowed the influx of Bay Area companies to the Sacramento market, but this inbound demand could increase with new construction, suggesting that vacancies and rental rates might hold firm in the short run against an increase in supply.

Sacramento office properties enjoyed 600,073 square feet of positive net absorption during the third quarter, with the majority of the gains seen in the suburban submarkets. The Highway 50 Corridor added a market-high 182,411 square feet of occupied space over the past three months, as Centene Corporation moved into 55,192 square feet at 10811 International Drive in Rancho Cordova. Downtown Sacramento reported 71,093 square feet of positive net absorption

this quarter, with several midsize move-ins led by the Fair Political Practices Commission's 21,504 square feet at 1100 Q Street. Natomas/Northgate is the year-to-date leader with 155,018 square feet of positive net absorption, after welcoming the Office of Statewide Health Planning & Development, which moved from the downtown area to 2020 W El Camino Avenue in September. Vacancies in Natomas/Northgate are down 320 basis points year over year.

Market Forecast Trends



Notable Lease Transactions

State of California
2251 Harvard Street, Sacramento
43,311 s.f. leased

Patra
1107 Investment Boulevard, El Dorado Hills
23,035 s.f. leased

Turning Point
3810 Rosin Court, Sacramento
20,806 s.f. leased

Notable Sale Transactions

Hines
Park Tower (980 9th Street), Sacramento
463,556 s.f. | \$97.55M or \$210/s.f.

Insight Realty Company
Park Plaza Center (1303 J Street), Sacramento
72,649 s.f. | \$14.65M or \$202/s.f.

Chawla Ventures
300 Harding Boulevard, Roseville
44,575 s.f. | \$5M or \$112/s.f.

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	8.4%	8.8%	9.3%	71,093	119,555	130,208	451,577	\$2.44
Suburban	76,924,093	10.8%	11.3%	14.4%	528,980	533,033	840,259	3,287,231	\$1.72
Auburn/Lincoln	1,677,359	4.7%	4.9%	7.1%	6,269	16,792	8,429	44,490	\$1.52
Campus Commons	1,491,920	14.4%	14.4%	21.0%	(34,184)	(35,904)	9,941	37,560	\$2.11
Carmichael/Fair Oaks	1,561,058	13.5%	13.5%	16.9%	3,043	(34,085)	12,247	49,341	\$1.24
Citrus Heights/Orangevale	1,837,488	11.8%	11.8%	13.2%	(4,379)	(2,661)	28,530	61,208	\$1.46
Davis/Woodland	2,460,562	3.9%	4.0%	5.7%	7,960	26,414	27,373	97,544	\$1.91
East Sacramento	2,375,082	3.6%	3.6%	5.3%	36,934	41,395	2,833	45,827	\$2.23
El Dorado	2,050,580	21.1%	21.1%	24.5%	27,894	4,316	50,785	103,623	\$1.72
Elk Grove	1,995,511	8.1%	8.1%	9.1%	13,942	30,234	27,952	65,886	\$1.99
Folsom	4,940,441	7.5%	7.8%	8.8%	(5,920)	28,965	78,811	236,201	\$1.92
Highway 50 Corridor	17,832,852	12.8%	13.5%	17.4%	182,411	82,032	147,755	659,150	\$1.63
Howe Ave/Fulton Ave	2,785,399	19.6%	19.8%	22.7%	(1,853)	(25,496)	22,693	70,491	\$1.58
Midtown	4,291,858	6.6%	6.6%	11.0%	20,072	(11,203)	41,110	92,480	\$2.19
Natomas/Northgate	6,840,969	11.4%	12.7%	16.6%	80,761	155,018	72,393	215,622	\$1.78
Point West	2,906,997	13.6%	13.6%	17.2%	25,170	81,698	63,902	133,931	\$1.80
Rio Linda/N Highlands	1,144,537	20.6%	20.6%	24.1%	26,251	41,190	24,150	46,200	\$1.36
Roseville/Rocklin	12,111,680	8.7%	9.3%	13.2%	60,955	44,906	120,809	1,058,632	\$1.80
South Sacramento	3,820,541	12.2%	12.2%	14.3%	15,072	13,868	52,452	118,748	\$1.77
Watt Ave	2,660,074	10.0%	10.2%	11.8%	50,422	24,578	25,916	89,978	\$1.53
West Sacramento	2,139,185	5.9%	5.9%	7.7%	18,160	50,976	19,178	57,319	\$1.72
Class A	26,270,072	9.6%	9.9%	11.5%	205,060	150,090	241,077	950,278	\$2.20
Class B	44,780,996	10.3%	10.8%	14.6%	279,456	324,594	423,245	2,098,371	\$1.76
Class C	25,600,723	10.9%	10.9%	13.0%	125,557	187,904	306,145	690,159	\$1.46
Total	96,651,791	10.3%	10.8%	13.4%	600,073	652,588	970,467	3,738,808	\$1.80

Leasing activity totaled 303 transactions for 970,467 square feet this quarter, on the strength of robust demand from public- and private-sector tenants alike. The State of California grabbed 43,311 square feet on the first and fourth floors of 2251 Harvard Street in the Point West submarket, the quarter's largest government deal. Patra Corporation, a processing and service provider for insurance agents, continued its Sacramento-area expansion with a 23,035 square foot lease at 1107 Investment Blvd in El Dorado Hills. Finally, the nonprofit mental health agency Turning Point leased 20,806 square feet at the Sutter Business Center in Natomas/Northgate. Rental rates rose to a marketwide average of \$1.80, fully serviced, but ranged from \$1.40 for Class C suburban product to more than \$3.00 on the upper floors of the downtown towers.

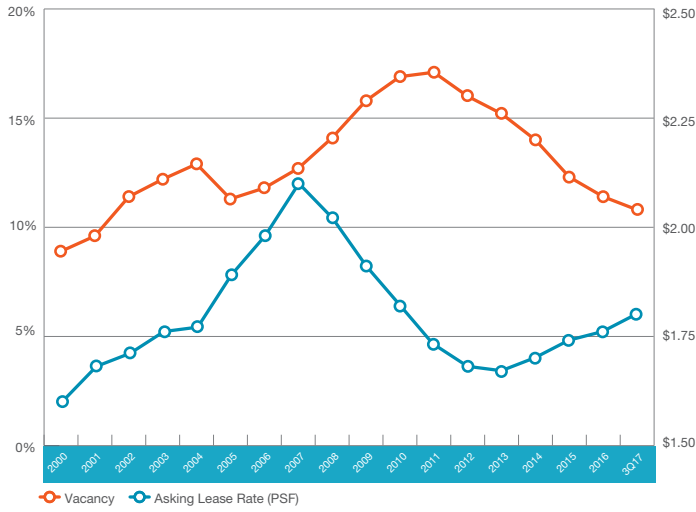
The quarter's most notable investment transaction was the sale of Park Tower, from CIM Commercial Trust Corporation to Hines, for \$120.5 million or \$164/sf, underwritten at a 4% cap rate. Based in Houston, Hines has been active in Sacramento over the past few years, and the acquisition of the 463,556 square foot office building—along with two adjacent parking structures—is a bet on one of the market's premium assets. Park Tower was 70% leased at sale, and asking rents on the available spaces were well over \$3.00, fully serviced, near the top of the market. Meanwhile, as value-add opportunities in the Bay Area become increasingly sparse, investors there are eyeing Sacramento-area assets with growth potential. This

quarter, Palo Alto-based Chawla Ventures bought the Mammoth Professional Building at 300 Harding Blvd in Roseville via auction for \$5 million or \$112/sf. The investor believes the property could appeal to Silicon Valley tech firms looking for cost-effective back office space to accommodate their engineers.

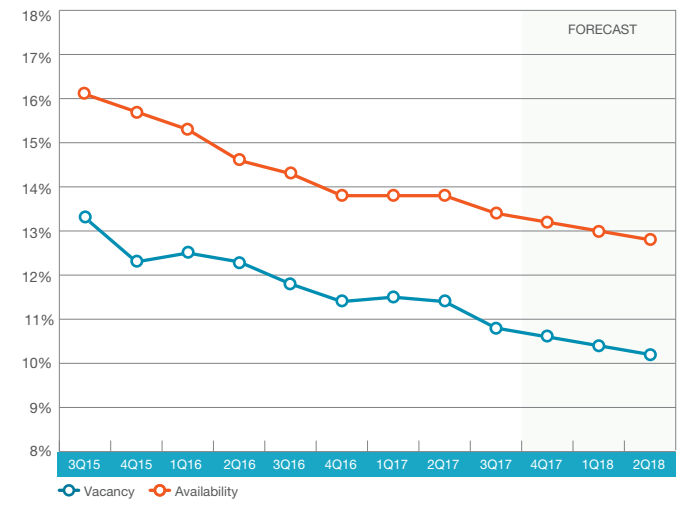
No new office buildings have been delivered in the Sacramento market to this point in 2017, but developers are stirring as vacancy slips and rental rates rise. Six projects totaling 477,290 square feet were under construction at quarter's end, led by the future Adventist Health campus at 501 N Sunrise Avenue in Roseville, which will become home to the nonprofit healthcare provider's roughly 1,000 employees upon its delivery next year. The largest speculative project is Heller Pacific's Ice Blocks development in Midtown, a three-block mixed-use venture that includes about 95,000 square feet of office space. A reuse of the old Crystal Ice manufacturing area on the R Street Corridor, Ice Blocks is positioned to capitalize on the growth of the tech industry in Sacramento, providing the unique features that have attracted creative users in other burgeoning tech markets around the country. The office portion of the project was being marketed at \$2.80, fully serviced, well above the market average.

Data Source: CoStar

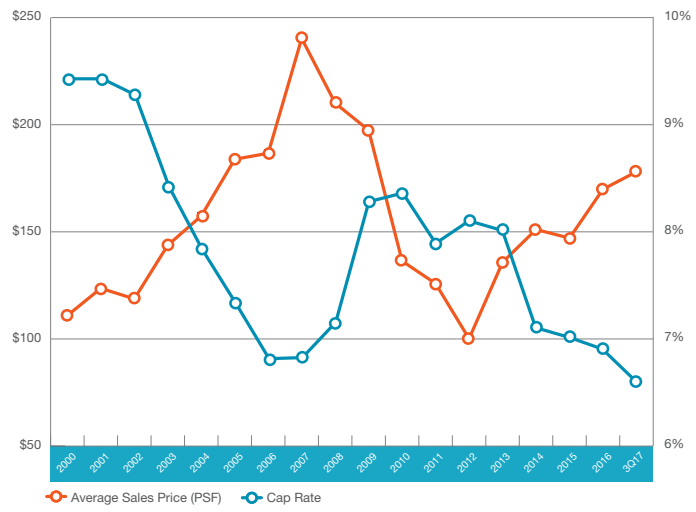
VACANCY VS ASKING LEASE RATE



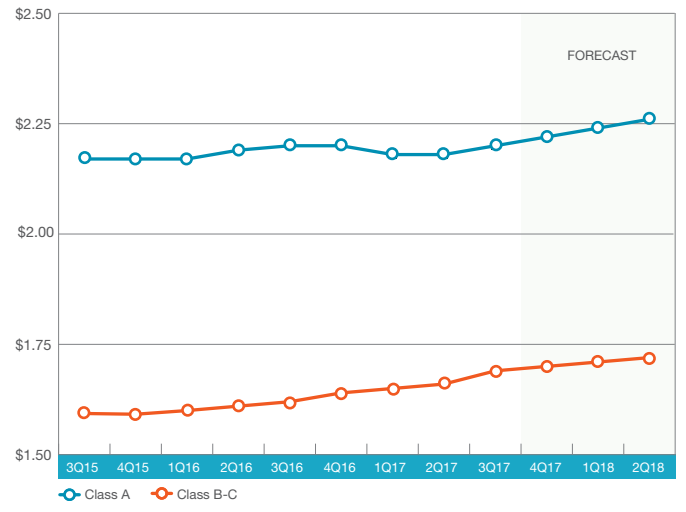
VACANCY VS AVAILABILITY



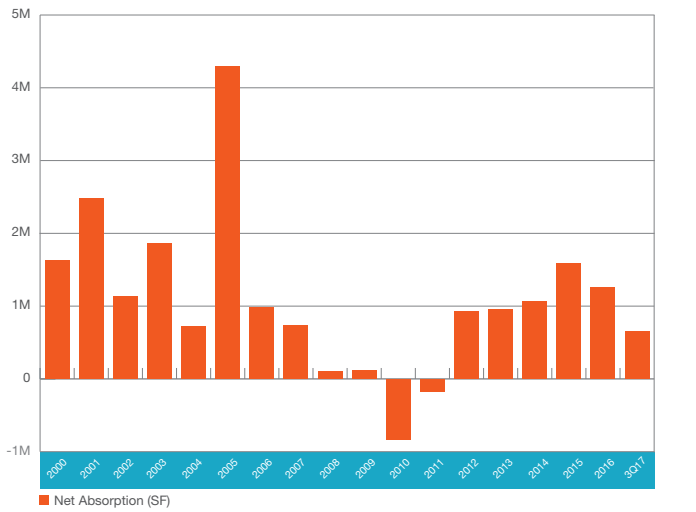
AVERAGE SALES PRICE & CAPITALIZATION RATES



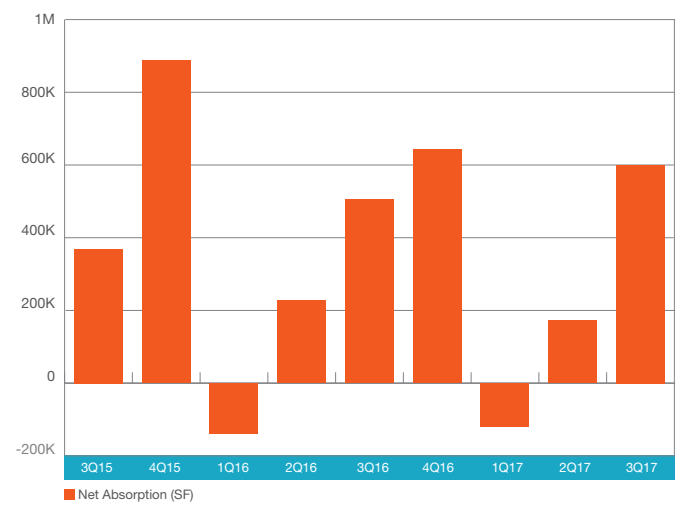
ASKING LEASE RATE



NET ABSORPTION - HISTORICAL



NET ABSORPTION - QUARTERLY



Market Breakdown

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

Contact

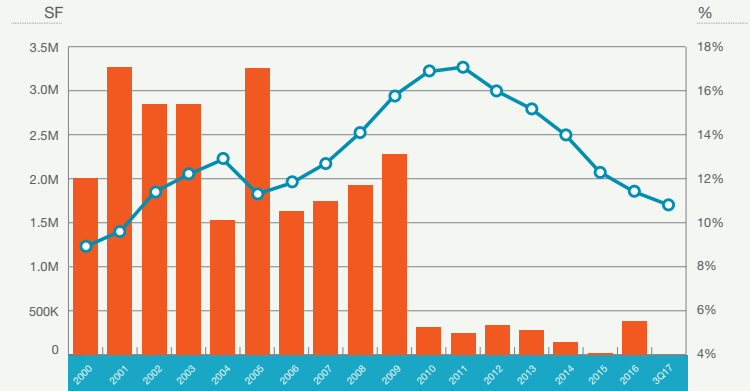
Mark Read
Executive VP, Brokerage
Northern California
415.229.8888
mread@kiddermathews.com

Designated Broker
Mark Read | LIC #00572743

	Q3 2017	Q2 2017	Q3 2016	Annual % Change
Vacancy Rate	10.8%	11.4%	11.8%	-8.4%
Availability Rate	13.4%	13.8%	14.3%	-6.3%
Asking Lease Rate	\$1.80	\$1.79	\$1.77	1.7%
Leased SF	970,467	1,718,715	1,507,256	-35.6%
Sold SF	1,283,713	2,007,512	1,290,720	-0.5%
Net Absorption	600,073	172,681	643,457	N/A

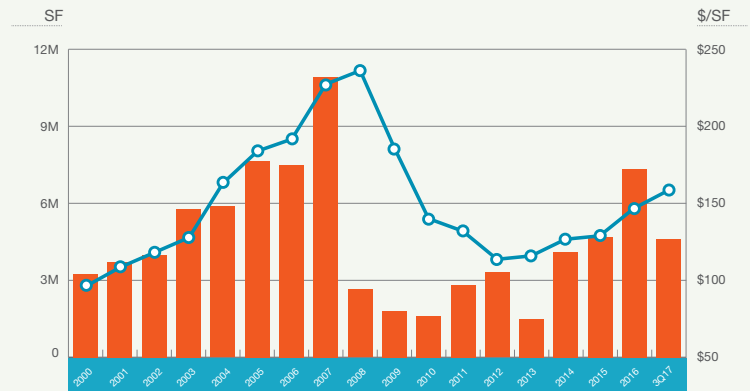
HISTORICAL NEW CONSTRUCTION & VACANCY RATE

■ New Deliveries
○ Vacancy Rate



HISTORICAL SALES ACTIVITY & MEDIAN SALES PRICE

■ Total Square Feet of Sales
○ Median Price/Building SF



HISTORICAL LEASING ACTIVITY & ASKING LEASE RATES

■ Leasing Activity
○ Asking Lease Rate

