

**Real Estate Market Review**

# Sacramento Office

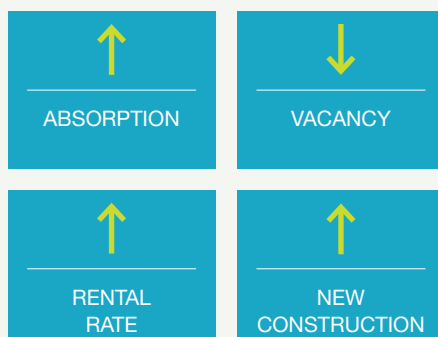
The Sacramento office real estate market closed 2017 with a tightening vacancy rate of 10.6% coupled with modest net absorption of just 847,000 s.f. Total sales for the year reached \$945,641,105, slightly above last years volume. The Highway 50 Corridor submarket had 126,152 s.f. of positive net absorption for the quarter, confirming tenants are continuing to gravitate to that area for the ease of access and availability of larger spaces. There is 663,890 s.f. of office currently under construction. This includes 194,000 s.f. for Kaiser in Roseville, 275,000 s.f. for Adventist Health in Roseville, and 68,000 s.f. for Dignity Health Medical Center in Citrus Heights, to name a few.

Sacramento's office market experienced 278,887 s.f. of positive net absorption in the fourth quarter, bringing the year-end total to 846,968 s.f. The suburban submarkets continued to see the bulk of gains reflecting a positive net absorption of 182,416 s.f. With the help of midsize lease transactions in the fourth quarter, Highway 50 Corridor dominated net absorption with over one million s.f. for the year. Tenants' requirements for large square footage in quality/value space will continue to increase the

suburban submarkets positive net absorption and decreased vacancy rates.

Leasing activity totaled 274 transactions for 890,187 s.f. this quarter. Supported by the Highway 50 Corridor, Natomas/Northgate, and Roseville/Rocklin submarkets all reporting an excess of 100,000 s.f. of leasing activity for direct leases. Maximus signed a new lease for 66,796 s.f. at 11050 Olson

### Market Forecast Trends



### Notable Lease Transactions

- Maximus**  
11050 Olson Drive, Rancho Cordova  
66,796 s.f. leased

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- Undisclosed Tenant**  
7405 Greenhaven Drive, Sacramento  
58,394 s.f. leased

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- UC Davis**  
10545 Armstrong Avenue, Sacramento  
41,308 s.f. leased

### Notable Sale Transactions

- Soma Capital Partners**  
925 L Street, Sacramento  
165,919 s.f. | \$45,500,000 (\$274.23/s.f.)

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- Evergreen Company**  
Natomas Corporate Center, Sacramento  
157,575 s.f. | \$29,289,627 (\$185.88/s.f.)

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- Evergreen Company**  
Natomas Corporate Center, Sacramento  
138,319 s.f. | \$25,710,373 (\$185.88/s.f.)

# Area Review

## Submarket Statistics

Submarket	Total Inventory	Direct Vacancy Rate	Total Vacancy Rate	Total Available Rate	Q4 Net Absorption	2017 Net Absorption	Quarterly Leasing Activity	2017 Leasing Activity	Rental Rate
<b>Downtown</b>	<b>197,682,722</b>	<b>9%</b>	<b>9.10%</b>	<b>9.30%</b>	<b>-74,910</b>	<b>44,185</b>	<b>100,218</b>	<b>537,076</b>	<b>\$2.47</b>
<b>Suburban</b>	<b>76,833,071</b>	<b>10.70%</b>	<b>11%</b>	<b>10.20%</b>	<b>182,416</b>	<b>668,094</b>	<b>863,753</b>	<b>4,830,229</b>	<b>\$1.73</b>
Auburn/Lincoln	1,686,277	5.10%	5.30%	5.30%	-7,940	7,637	4,060	48,855	\$1.62
Campus Commons	231,923	15.50%	15.50%	19.20%	-14,806	-48,252	37,034	80,709	\$2.15
Carmichael/Fair Oaks	212,749	12.70%	12.70%	13.70%	7,246	-27,332	66,705	177,156	\$1.32
Citrus Heights/Orangevale	1,829,112	9.80%	9.90%	12.50%	50,689	123,276	21,552	89,142	\$1.49
Davis/Woodland	2,472,983	4%	4%	3.10%	-1,531	-5,017	32,915	121,306	\$1.68
East Sacramento	2,344,182	3.50%	3.50%	4.90%	3,292	35,709	7,327	73,052	\$2.17
El Dorado	2,050,938	20.70%	20.70%	24.70%	26,002	11,816	11,738	104,361	\$1.71
Elk Grove	1,995,511	89%	8.90%	8.80%	-25,257	13,183	12,951	83,291	\$2.37
Folsom	4,897,140	6.80%	7.10%	7.80%	71,770	52,497	37,952	259,331	\$1.93
Highway 50 Corridor	17,844,926	12.30%	13%	15%	126,152	1,077,362	153,803	1,383,935	\$1.63
Howe Ave/Fulton Ave	2,779,335	17.40%	17.60%	20.20%	79,187	13,130	40,273	120,764	\$1.58
Midtown	4,290,976	6%	6%	10.30%	60,082	17,925	12,541	121,830	\$2.31
Natomas/Northgate	6,802,089	12.50%	13.10%	14.80%	-25,696	136,459	136,498	371,164	\$1.77
Point West	2,826,520	15.20%	15.20%	18.80%	-30,630	39,703	63,902	146,563	\$1.71
Rio Linda/N Highlands	1,144,998	21.70%	21.70%	32.80%	-12,400	28,790	0	46,200	\$1.47
Roseville/Rocklin	12,094,378	8.50%	8.70%	13.10%	68,046	80,201	125,054	1,276,436	\$1.79
South Sacramento	3,814,019	12.40%	12.40%	12.40%	10,003	1,437	70,530	184,856	\$1.62
Watt Ave	2,660,074	10.20%	10.40%	12.10%	10,719	18,212	8,416	92,167	\$1.54
West Sacramento	2,139,185	5.50%	5.50%	7.90%	7,012	57,988	684	49,111	\$1.79
<b>Class A</b>	<b>26,619,841</b>	<b>9.70%</b>	<b>10%</b>	<b>11.50%</b>	<b>171,458</b>	<b>303,675</b>	<b>216,298</b>	<b>1,599,486</b>	<b>\$2.19</b>
<b>Class B</b>	<b>44,440,824</b>	<b>10.50%</b>	<b>10.90%</b>	<b>13.20%</b>	<b>-90,831</b>	<b>156,127</b>	<b>533,035</b>	<b>2,834,962</b>	<b>\$1.75</b>
<b>Class C</b>	<b>25,540,678</b>	<b>10.60%</b>	<b>10.60%</b>	<b>12.80%</b>	<b>198,260</b>	<b>252,477</b>	<b>140,854</b>	<b>932,857</b>	<b>\$1.50</b>
<b>Total</b>	<b>96,601,343</b>	<b>10.30%</b>	<b>10.50%</b>	<b>12.50%</b>	<b>278,887</b>	<b>712,279</b>	<b>890,187</b>	<b>5,367,305</b>	<b>\$1.81</b>

Drive, an undisclosed tenant (yet believed to be Sacramento County or government related) signed a new lease for 58,394 s.f. at 7405 Greenhaven Drive, and Liberty Home Equity Solutions, Inc. renewed their 53,107 s.f. lease for another six years at 10951 White Rock Road. Lease rates rose to a marketwide average of \$1.81, fully serviced, but ranged from \$1.50 for Class C suburban product to \$3.25 for the Downtown Class A submarket.

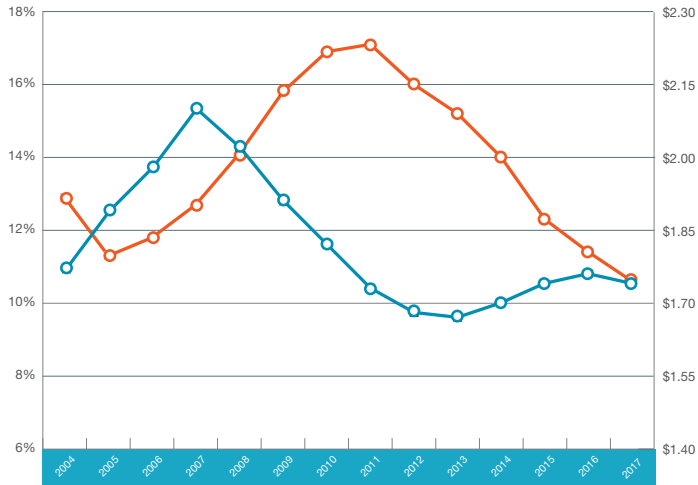
12,268,575 s.f. of office space was available by the end of the fourth quarter; 557,945 s.f. of that being for sublease. That is a 5.66% decrease in availabilities from the previous quarter. While availabilities continue to dwindle, six properties estimated to total 663,890 s.f. of new deliveries for specific companies may open up new vacancies elsewhere once they get settled in.

Both local and out-of-state investors appreciate the thriving Sacramento area, and the high-quality assets the area has to

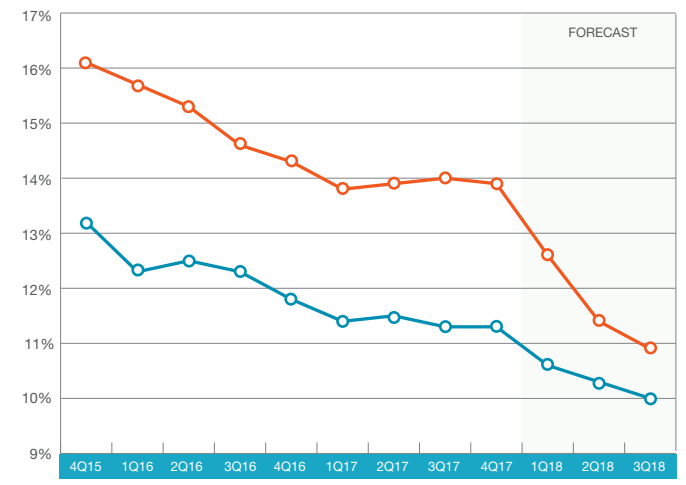
offer. Setting the market up for a strong 2018, there were 36 sale transactions this quarter in the Sacramento area totaling \$188,033,500, averaging \$166.30/s.f. and it appears more will continue this year as Seller's take profits and exchange into others. This quarter's most notable investment transaction was the sale of 925 L Street in Sacramento from LaSalle Investment Management, Inc. to Soma Capital Partners for \$45,500,000 or \$274.23/s.f., underwritten at a 6.6% cap rate. Soma Capital Partners is a San Francisco based real-estate investment and advisory firm which has acquired two assets now in the Sacramento area this year.

*Data Source: CoStar*

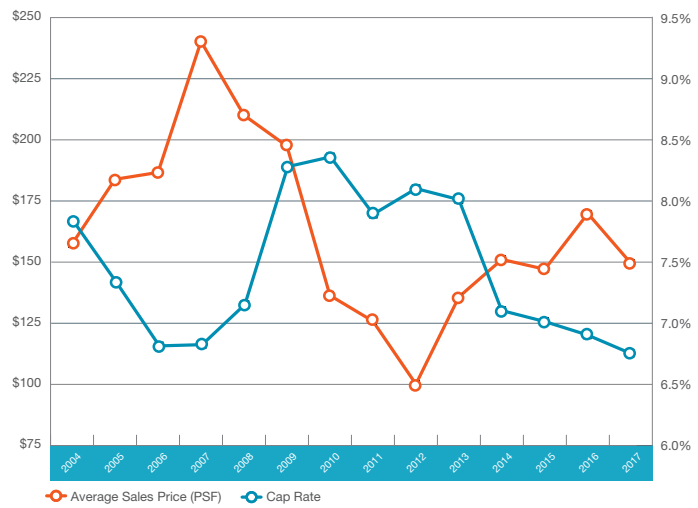
### VACANCY VS ASKING LEASE RATE



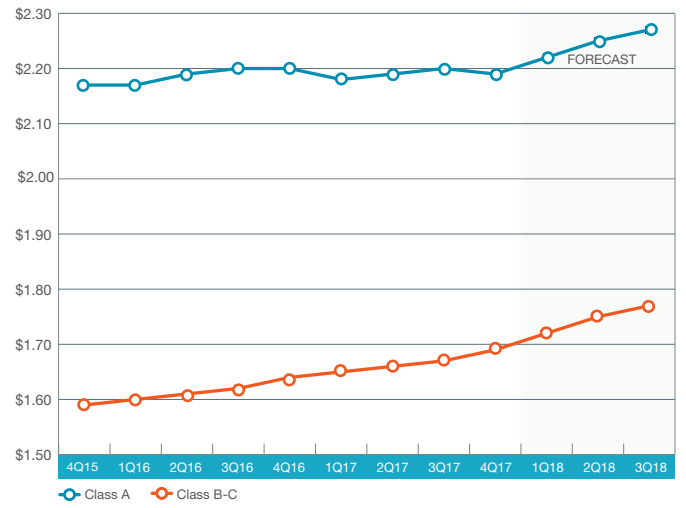
### VACANCY VS AVAILABILITY



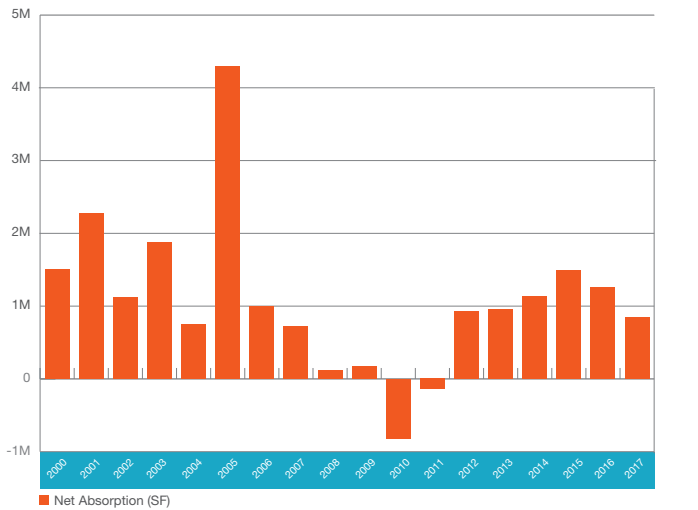
### AVERAGE SALES PRICE & CAPITALIZATION RATES



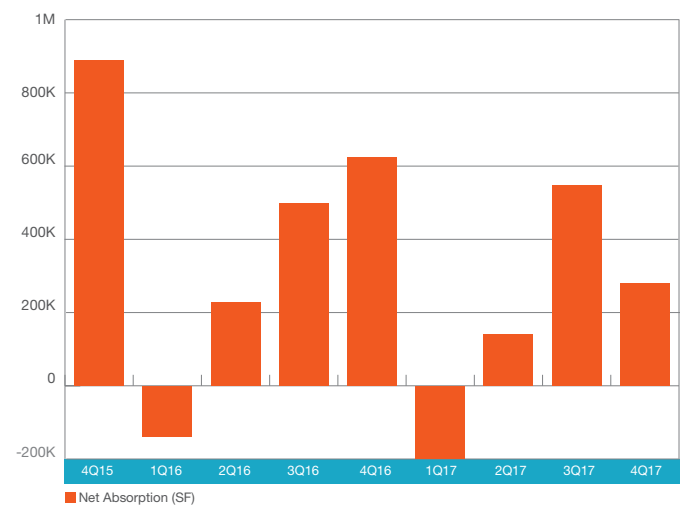
### ASKING LEASE RATE



### 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

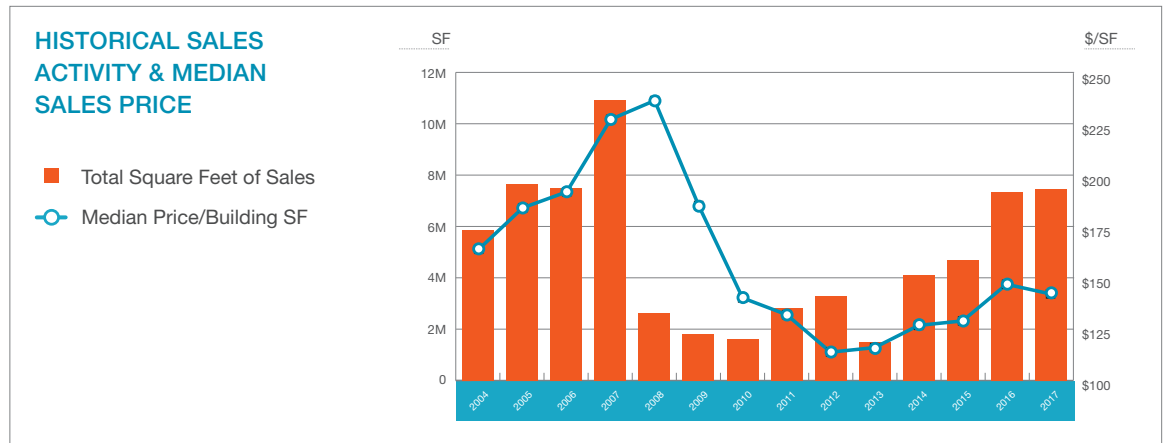
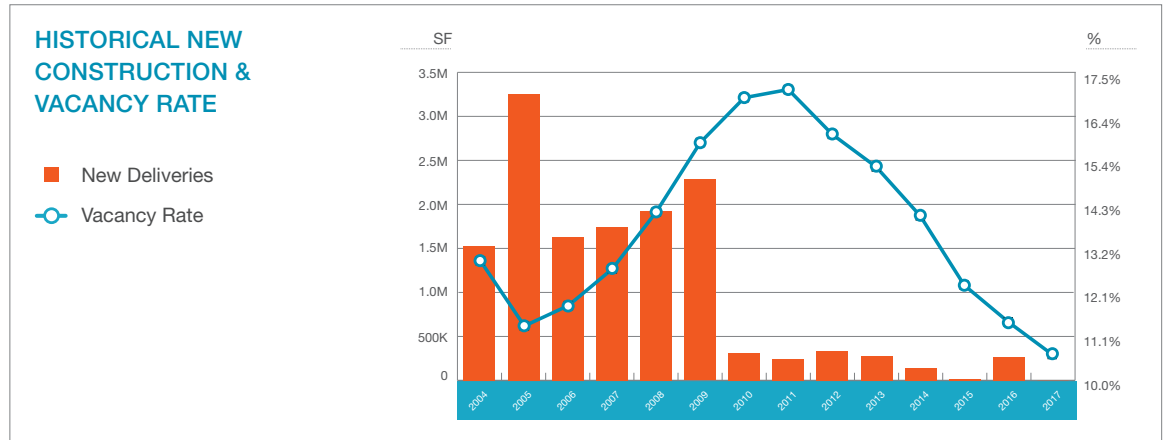
Phoenix  
602.513.5200

### Contact

Mark Read  
Executive VP, Brokerage  
Northern CA / NV  
916.970.9700  
mread@kiddermathews.com

Designated Broker  
Mark Read | LIC #00572743

	2017	2016	2015	Annual % Change
Vacancy Rate	10.60%	11.40%	12.40%	-14.51%
Availability Rate	12.60%	13.70%	15.80%	-20.25%
Asking Lease Rate	\$1.81	\$1.76	\$1.74	4.02%
Leased SF	5,283,974	4,407,111	4,462,720	18.40%
Sold SF	7,442,944	4,245,774	3,121,305	138%
Net Absorption	846,968	1,168,151	1,573,822	N/A



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