

MARKET OVERVIEW

► **Office Market:** The Sacramento office market has remained steady as the vacancy rate has further decreased and is still amongst the lowest figures seen since 2008. Although net absorption figures are lower than expected, they have stayed positive over the past three quarters. What's more, lease rates have remained steady and are still projected to accelerate in 2016. In brief, the lack of new construction will drive vacancy rates even lower and increases in lease rates are expected to follow.

► **Vacancy Rates:** In comparison to the previous quarter, the vacancy rate decreased by 10 basis point to 13.70%, which is still the lowest vacancy rate seen since 2008. The largest submarkets – Downtown and the Highway 50 Corridor – had vacancy rates of 10.46% and 15.05%. Among the largest submarkets, the lowest vacancy rates were also seen in West Sacramento and Midtown with rates at 5.52% and 6.55%. The highest vacancy rates, however, were seen in the Point West, Howe Ave./Fulton Ave. and Rio Linda/N Highlands submarkets at 19.93%, 27.37%, and 34.63%.

► **Lease Rates:** At the end of the third quarter, the average asking full service lease rate for the Sacramento office market was \$1.78, which remains unchanged from the previous quarter. Some of the highest lease rates were seen in the East Sacramento, Elk Grove, and Midtown submarkets at \$2.30, \$2.27 and \$1.97 per square foot. On the other hand, the lowest lease rates were seen in the Auburn/Lincoln and Citrus Heights/Orangevale submarkets with rates at \$1.27 and \$1.18 per square foot.

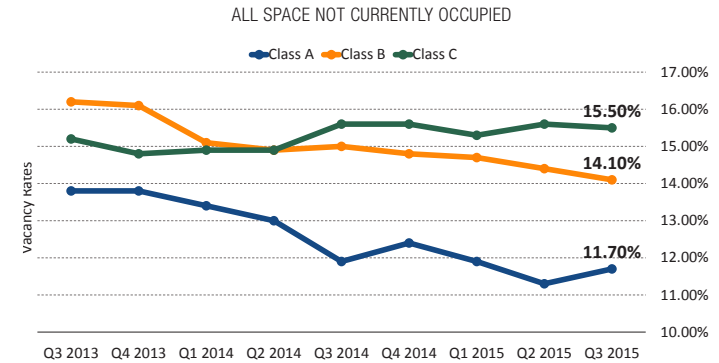
► **Sale & Lease Transactions:** Transaction activity at the close of the third quarter was just over 1.99 million square feet, which is an increase from the previous quarter's figure of 1.71 million square feet. Given that there is often a delay for final figures to be totaled, this quarter's figure will slightly increase in the next market report. Three of the five largest office sale transactions, including two of the five largest lease transactions were within the Downtown submarket. Please refer to page two for more information about the third quarter's noteworthy transactions.

► **Absorption:** The office market ended the third quarter with positive absorption of 49,596 square feet. The Folsom submarket had the greatest negative absorption of 76,535 square feet. On the other hand, the Roseville/Rocklin submarket had the highest positive net absorption at 57,175 square feet while the Natomas/Northgate submarket had the second highest positive net absorption at 35,643 square feet.

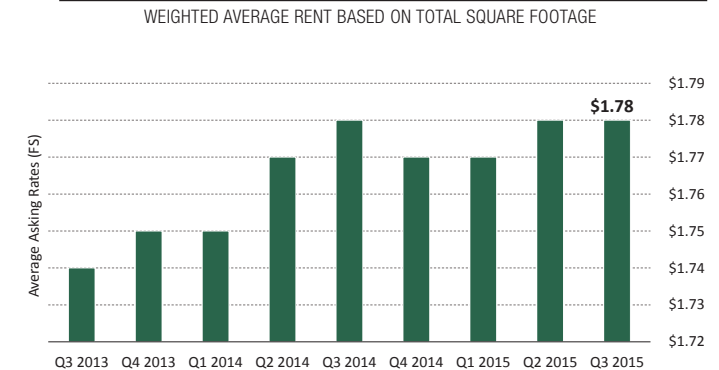
► **Development:** New developments in the Sacramento office market have remained relatively dormant with only two projects currently in progress. The largest project currently under construction is a Class B medical office building in the Roseville/Rocklin submarket, which is expected to be delivered in May 2016. During the third quarter, there were no new deliveries to the market. Nonetheless, there are still 4.22 million square feet of proposed office space for Sacramento, and 1 million square feet of that space is proposed for the Highway 50 Corridor.

► **Third Quarter Review:** Overall, vacancy rates have continued to trend downward at the close of the third quarter and net absorption has remained positive, which bodes well for the office market. According to the most recent Sacramento employment figures, the unemployment rate in the Sacramento-Roseville-Arden Arcade MSA remained at 5.7% in August 2015. Thus, the improving job market will further increase demand for office space.

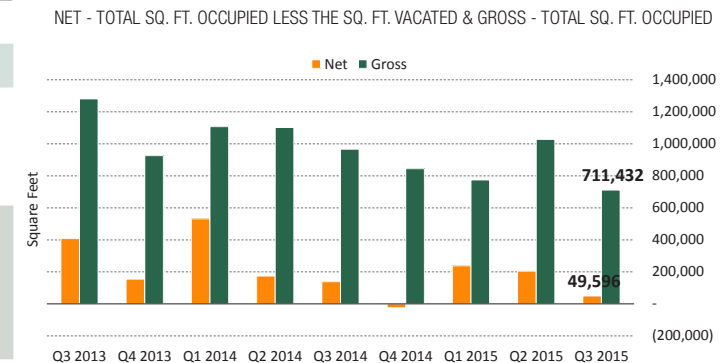
VACANCY RATES BY CLASS



AVERAGE ASKING RATES



NET & GROSS ABSORPTION



SACRAMENTO OFFICE TRENDS | THIRD QUARTER 2015

ARROWS REPRESENT CHANGES FROM THE PREVIOUS QUARTER

MARKET INDICATORS	Vacancy	Lease Rates (FS)	Net Absorption	Transaction Activity
Q ³ 2015	13.70%	\$1.78	49,596	1,993,901
Q ² 2015	13.80%	\$1.78	204,880	1,710,346

THESE STATISTICS ENCOMPASS THE ENTIRE SURVEY, WHICH INCLUDES ALL OFFICE CLASS TYPES 10,000 SQUARE FEET AND LARGER.

NOTEWORTHY TRANSACTIONS

LEASE TRANSACTIONS | NOTABLE OFFICE LEASES SIGNED

Property Address	Submarket	Tenant	Owner	Date Lease Signed	Square Feet Leased
3443 Rourter Rd.	Highway 50 Corridor	Undisclosed	Fite Development Company	August 10, 2015	38,869
2995 Prospect Park Dr.	Highway 50 Corridor	Triwest Healthcare	Goldenberg Roisen Family, LP	September 21, 2015	35,520
2329 Gateway Oaks Dr.	Natomas/Northgate	State of California	Wong Family Investors	July 4, 2015	25,607
801 K Street	Downtown	Water Resources Board	Sacramento Equities REIT	August 1, 2015	21,192
621 Capitol Mall	Downtown	Undisclosed	David S Taylor Interests, Inc.	August 28, 2015	16,925

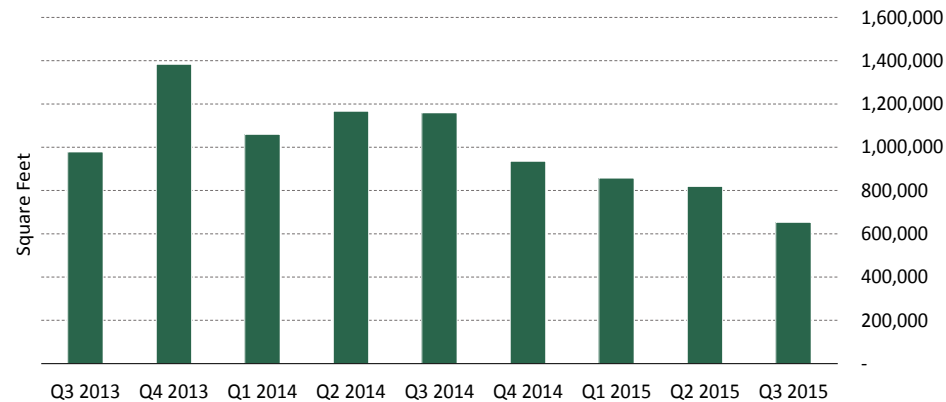
SALE TRANSACTIONS | NOTABLE OFFICE SALES

Property Address	Submarket	Buyer	Seller	Bldg. Sq. Ft.	Sale Price
1121 - 1123 L Street (Senator Hotel Building)	Downtown	Swift Real Estate Partners	LNR Property Corporation	159,637	\$31,762,500
3831 N. Freeway Blvd. (5 Properties)	Natomas/Northgate	Chavez Management Group, Inc.	PS Business Parks, Inc.	212,551	\$17,400,000
1807 13th Street (3 Properties)	Downtown	SEIU Local 1000	The Buzz Oates Companies	62,200	\$12,500,000
7 Sierra Gate Plaza (John Adams Academy)	Roseville/Rocklin	John Adams Academy	Store Master Funding I, LLC	50,030	\$7,500,000
1,000 K Street (The Cosmopolitan)	Downtown	Miller Homes Investors, LLC	1000K Street, LLC	31,897	\$7,000,000

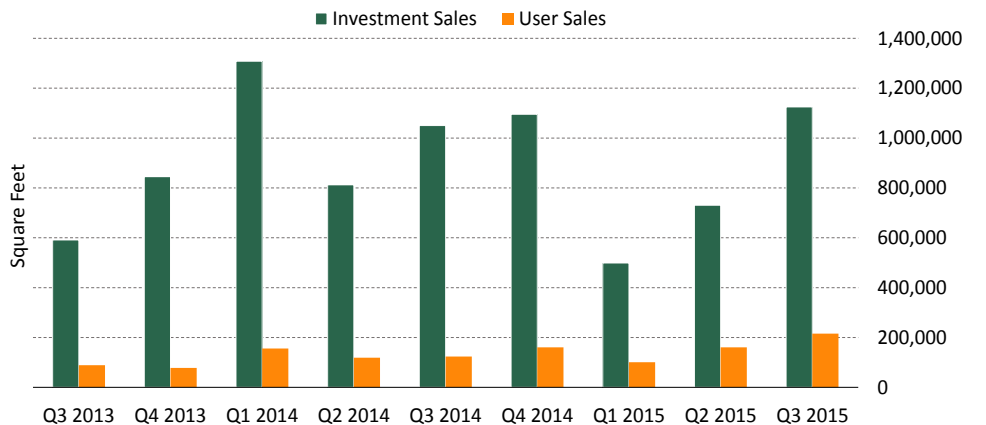
MARKET SNAPSHOT
Q³ 2015 **Q³ 2014** **% Change vs. Q3 2014**

Vacancy Rate	13.70%	14.20%	-3.52%
Availability Rate	16.90%	17.50%	-3.43%
Avg. Asking Lease Rate	\$1.78	\$1.78	0.00%
Gross Absorption	711,432	966,126	-26.36%
Net Absorption	46,596	138,582	(N/A)

LEASE TRANSACTIONS | AMOUNT OF SQUARE FEET LEASED PER QUARTER



SALES TRANSACTIONS | AMOUNT OF SQUARE FEET SOLD PER QUARTER



TRI COMMERCIAL | SACRAMENTO OFFICE SUBMARKET STATISTICS

Submarket	Total Buildings	Net Rentable Square Feet	Vacant Square Feet	Vacancy Rate Q3 2015	Occupied Square Feet	Occupancy Rate Q3 2015	Available Square Feet	Availability Rate Q3 2015	Net Absorption Q3 2015	YTD Net Absorption	Gross Absorption Q3 2015	YTD Gross Absorption	Under Construction Square Feet	Proposed Square Feet	Average Asking Rate (All Classes)
Auburn/Lincoln	63	1,312,467	135,914	10.36%	1,176,553	89.64%	144,394	11.00%	(38)	(1,589)	17,476	30,077	0	95,253	\$1.27
Campus Commons	42	1,256,560	222,109	17.68%	1,034,451	82.32%	228,572	18.19%	(12,341)	(3,780)	7,402	46,840	0	72,000	\$1.89
Carmichael/Fair Oaks	47	993,204	87,424	8.80%	905,780	91.20%	149,008	15.00%	3,355	(5,923)	5,599	23,467	0	0	\$1.28
Citrus Heights/Orangevale	51	1,409,558	172,322	12.23%	1,237,236	87.77%	190,051	13.48%	6,914	13,417	11,441	25,857	0	0	\$1.18
Davis/Woodland	80	2,002,390	187,383	9.36%	1,815,007	90.64%	204,947	10.24%	(5,851)	18,788	7,890	49,720	0	242,694	\$1.91
Downtown	215	18,873,330	2,056,888	10.46%	16,816,442	89.10%	2,365,775	12.54%	(37,557)	26,160	122,119	433,440	0	566,900	\$2.31
East Sacramento	33	2,071,070	209,615	10.12%	1,861,455	89.88%	122,753	5.93%	26,364	23,501	26,414	29,354	0	0	\$2.30
El Dorado	73	1,672,222	319,439	19.10%	1,352,783	80.90%	536,179	32.06%	704	4,267	19,318	61,106	0	437,625	\$1.63
Elk Grove	52	1,652,454	140,841	8.52%	1,511,613	91.48%	185,772	11.24%	(8,967)	22,237	18,506	60,790	0	277,023	\$2.27
Folsom	101	4,623,823	654,505	14.16%	3,969,318	85.84%	826,623	17.88%	(76,535)	(28,251)	58,441	256,184	0	115,570	\$1.83
Highway 50 Corridor	300	17,319,782	2,607,296	15.05%	14,712,486	84.95%	3,161,956	18.26%	(871)	(14,566)	47,797	266,721	0	1,038,300	\$1.57
Howe Ave./Fulton Ave.	79	2,468,283	675,613	27.37%	1,792,670	72.63%	751,818	30.46%	7,820	(21,225)	31,331	59,394	0	0	\$1.56
Midtown	99	3,661,231	239,759	6.55%	3,421,472	93.45%	359,018	9.81%	3,364	(9,078)	9,917	44,880	0	73,280	\$1.97
Natomas/Northgate	111	6,493,709	1,153,047	17.76%	5,340,662	82.24%	1,344,128	20.70%	35,643	201,993	80,475	320,563	6,000	157,525	\$1.66
Outer El Dorado County	12	197,168	23,073	11.70%	174,095	88.30%	31,595	16.02%	0	1,721	0	4,010	0	0	\$2.24
Outer Placer County	4	47,944	11,846	24.71%	36,098	75.29%	15,855	33.07%	950	(3,496)	950	950	0	0	\$2.00
Outer Sacramento County	1	10,794	0	0.00%	10,794	100.00%	0	0.00%	0	0	0	0	0	0	-
Point West	50	2,712,412	540,634	19.93%	2,171,778	80.07%	567,880	20.94%	19,689	24,785	21,456	92,557	0	88,770	\$1.64
Rio Linda/N Highlands	29	1,010,004	349,758	34.63%	660,246	65.37%	418,459	41.43%	1,687	1,687	9,985	9,985	0	0	-
Roseville/Rocklin	263	10,410,061	1,478,410	14.20%	8,931,651	85.80%	2,154,821	20.70%	57,175	163,211	174,439	539,174	35,879	848,856	\$1.82
South Sacramento	97	3,062,560	341,317	11.14%	2,721,243	88.86%	534,118	17.44%	19,709	23,991	24,489	44,164	0	25,521	\$1.42
Sutter County	28	554,564	51,640	9.31%	502,924	90.69%	60,140	10.84%	0	(3,673)	0	2,608	0	25,000	\$1.45
Watt Ave.	48	2,318,190	321,751	13.88%	1,996,439	86.12%	355,384	15.33%	1,664	2,313	5,521	26,311	0	45,858	\$1.53
West Sacramento	36	2,038,281	112,494	5.52%	1,925,787	94.48%	219,108	10.75%	6,718	38,750	10,466	56,958	0	110,000	\$1.80
Yuba County	8	535,161	62,642	11.71%	472,519	88.29%	62,642	11.71%	0	17,211	0	29,000	0	0	-
Office Market Totals	1,922	88,707,222	12,155,720	13.70%	76,551,502	86.30%	14,990,996	16.90%	49,596	492,451	711,432	2,514,110	41,879	4,220,175	\$1.78

Average asking rates represented are full service.

NORTHERN CALIFORNIA MAP | TRI OFFICE LOCATIONS:



MAP IS NOT TO SCALE

ABOUT TRI COMMERCIAL

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