TRI 40 YEARS COMMERCIAL REAL ESTATE SERVICES

SACRAMENTO OFFICE

Q1 2017 | OSBORNE GROUP

MARKET OVERVIEW

▶Office Market: The Sacramento office market continues to improve as vacancy rates have continued below pre-recession figures, ending the quarter at 11.43%. At the close of the first quarter, average asking lease rates were at a $1.84, which is a $0.02 increase from the previous quarter's average. In brief, the trend over the last four quarters has shown continually decreasing vacancy rates with steady increases in lease rates, which continues to bode well for the Sacramento office market.

▶Vacancy Rates: In comparison to the previous year, the vacancy rate decreased by 97 basis points to 11.43%, which remains among the lowest vacancy rates seen since 2007. The largest submarkets – Downtown, Highway 50 Corridor and Roseville/Rocklin – had vacancy rates of 10.46%, 15.23% and 9.53%, respectively. Alternatively, the highest vacancy rates were seen in the Rio Linda/N Highlands, Howe Ave./Fulton Ave., and El Dorado submarkets at 24.82%, 19.87%, and 22.49%.

▶Lease Rates: At the close of the first quarter, the average asking full service lease rate for the Sacramento office market was $1.84, which is a $0.02 increase from the previous quarter and a $0.04 increase from one year ago. Some of the highest lease rates were seen in the Downtown, East Sacramento, and Davis/Woodland submarkets at $2.61, $2.31 and $2.05 per square foot, respectively. Alternatively, the lowest lease rates were seen in the Auburn/Lincoln and Rio Linda/N Highlands submarkets with rates at $0.94 and $1.06 per square foot, respectively.

▶Sale & Lease Transactions: Transaction activity at the close of the first quarter was just over 2.46 million square feet, which is a decrease from the previous quarter's figure of 3.18 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.

▶Absorption: The office market ended the first quarter with negative net absorption of 111,143 square feet. The Natomas/Northgate and West Sacramento submarkets had the highest positive net absorption figures at 56,834 and 15,954 square feet, respectively. Alternatively, the Highway 50 Corridor submarket had the highest negative net absorption at 221,005 square feet.

▶Development: Currently, there are 77,298 square feet of office space under construction in the Sacramento Region. The largest of those projects is a 60,000 square foot, Class B office building in the Outer Yolo County submarket, expected to be delivered in June 2017. The second largest office project under construction is a 9,798 square foot, Class B medical office building, expected to be delivered in September 2017. No new office projects were delivered to the market during the first quarter of 2017. Nonetheless, there are currently 5.31 million square feet of proposed space with the majority proposed for the Roseville/Rocklin submarket.

▶First Quarter Review: Overall, the vacancy rate has decreased by an impressive 97 basis points over the course of the last four quarters and the average asking lease rate of $1.84 per square foot remains amongst the highest rates seen throughout the two-year average. According to the most recent Sacramento employment figures, the unemployment rate in the Sacramento-Roseville-Arden Arcade MSA was 5.1% in February of 2017.

SACRAMENTO OFFICE TRENDS | FIRST QUARTER 2017

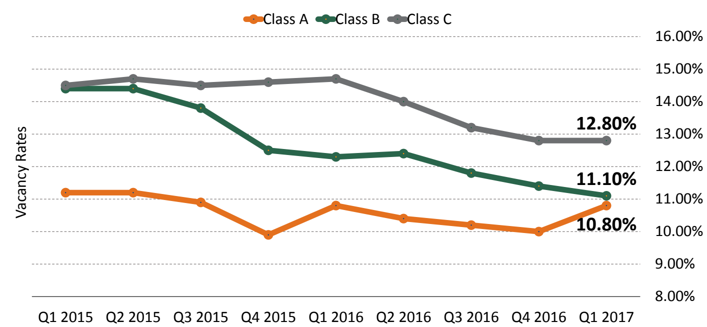
ARROWS REPRESENT CHANGES FROM THE PREVIOUS QUARTER

MARKET INDICATORS	Vacancy	Lease Rates (FS)	Net Absorption	Transaction Activity
	▲	▲	▼	▼
Q1 2017	11.43%	$1.84	(111,143)	2,463,410
Q4 2016	11.30%	$1.82	560,139	3,187,667

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

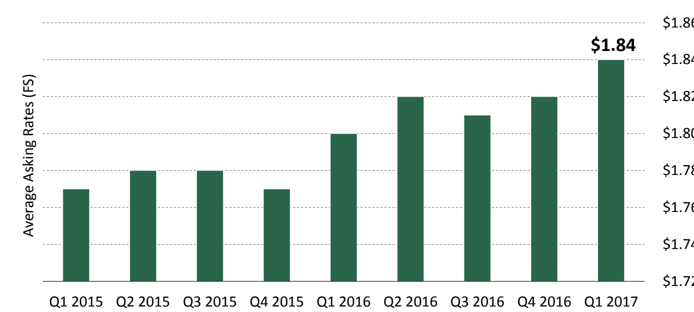
VACANCY RATES BY CLASS

ALL SPACE NOT CURRENTLY OCCUPIED



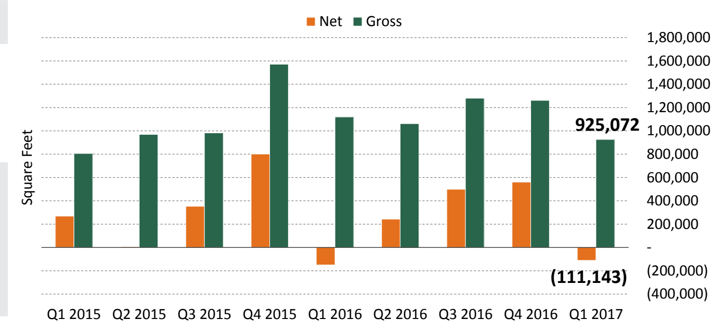
AVERAGE ASKING RATES

WEIGHTED AVERAGE RENT BASED ON TOTAL SQUARE FOOTAGE



NET & GROSS ABSORPTION

NET - TOTAL SQ. FT. OCCUPIED LESS THE SQ. FT. VACATED & GROSS - TOTAL SQ. FT. OCCUPIED



NOTEWORTHY TRANSACTIONS

LEASE TRANSACTIONS I NOTABLE OFFICE LEASES SIGNED Q1 2017

Property Address	Submarket	Tenant	Owner	Date Lease Signed	Sq. Ft. Leased
10811 International Drive	Highway 50 Corridor	Undisclosed	RF3 International Drive, LLC	February 10, 2017	55,192
444 N 3rd Street	Downtown	Undisclosed	444 N3	February 21, 2017	45,430
3735 Placer Corporate Drive	Roseville/Rocklin	Jlm Energy, Inc.	Placer Center, LLC	February 14, 2017	39,869
980 9th Street	Downtown	Dept. of Managed Health Care	CIM Commercial Trust Corporation	January 2, 2017	27,971
8810 Cal Center Dr.	Highway 50 Corridor	Gurnick Academy	ABT Properties-D	March 7, 2017	21,615

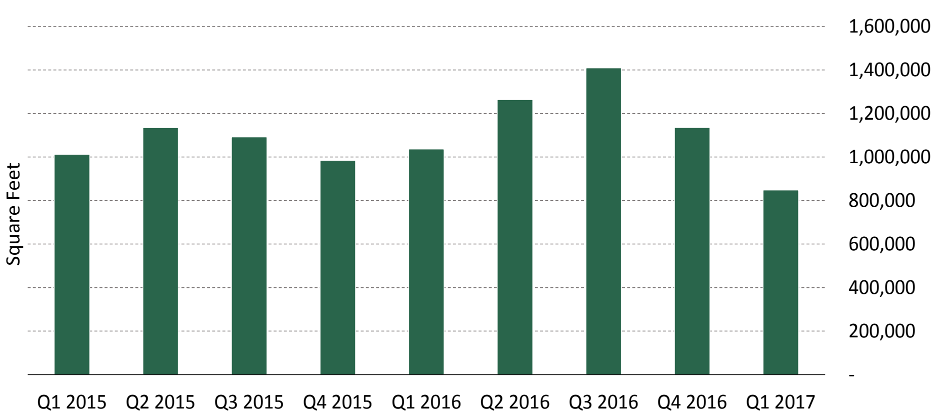
SALE TRANSACTIONS I NOTABLE OFFICE SALES FOR Q1 2017

Property Address	Submarket	Buyer	Seller	Bldg. Sq. Ft.	Sale Price
2150 River Plaza Dr. (4 Properties)	Natomas/Northgate	TFO USA Limited	Hines Securities, Inc.	316,771	$43,000,000
3009 Douglas Blvd. (4 Properties)	Roseville/Rocklin	WI-BPG OCC Partners, LLC	BEP Roseville Investors, LLC	191,248	$33,850,000
601 University Ave. (5 Properties)	Campus Commons	ROCP II, LLC	Hines	235,978	$31,430,000
10391 Peter A McCuen Blvd.	Highway 50 Corridor	RU Sutter Rancho, LP	Jackson Properties, Inc.	1,109,602	$27,000,000
3600 American River Dr. (3 Properties)	Watt Ave.	Jackson Properties, Inc.	Hines	123,705	$15,000,000

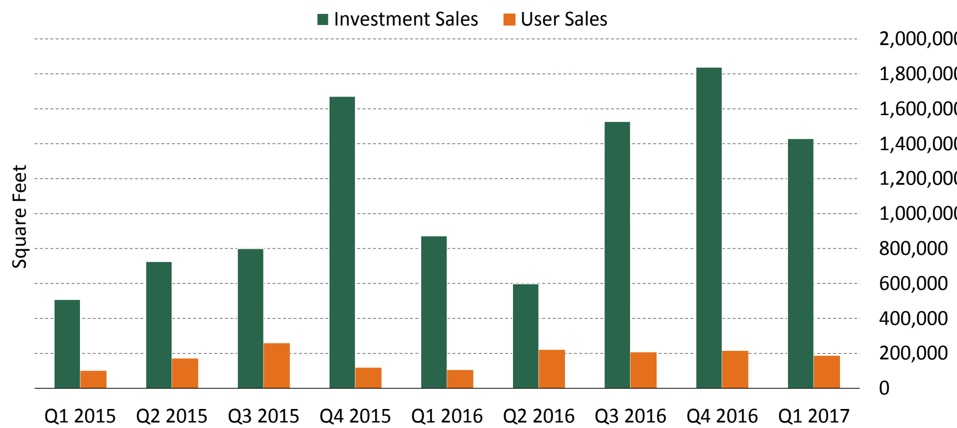
MARKET SNAPSHOT

	Q1 2017	Q1 2016	% Change vs. Q1 2016
Vacancy Rate	11.43%	12.40%	-7.82%
Availability Rate	14.07%	15.40%	-8.64%
Avg. Asking Lease Rate	$1.84	$1.80	2.22%
Gross Absorption	925,072	1,118,638	-17.30%
Net Absorption	(111,143)	(149,863)	(N/A)

LEASE TRANSACTIONS I AMOUNT OF SQUARE FEET LEASED PER QUARTER



SALES TRANSACTIONS I AMOUNT OF SQUARE FEET SOLD PER QUARTER



TRI COMMERCIAL I SACRAMENTO OFFICE SUBMARKET STATISTICS

Submarket	Total Buildings	Net Rentable Square Feet	Vacant Square Feet	Vacancy Rate Q1 2017	Occupied Square Feet	Occupancy Rate Q1 2017	Available Square Feet	Availability Rate Q1 2017	Net Absorption Q1 2017	YTD Net Absorption	Gross Absorption Q1 2017	YTD Gross Abosorption	Under Construction Square Feet	Proposed Square Feet	Average Asking Rate (All Classes)
Auburn/Lincoln	64	1,361,827	78,715	5.78%	1,283,112	94.22%	102,731	7.54%	7,171	7,171	15,412	15,412	0	100,953	$0.94
Campus Commons	42	1,249,286	166,523	13.33%	1,082,763	86.67%	262,640	21.02%	(2,527)	(2,527)	18,635	18,635	7,500	72,000	$2.00
Carmichael/Fair Oaks	48	981,323	160,483	16.35%	820,840	83.65%	203,141	20.70%	(55,355)	(55,355)	9,075	9,075	0	0	-
Citrus Heights/Orangevale	52	1,425,852	160,965	11.29%	1,264,887	88.71%	197,656	13.86%	14,553	14,553	31,280	31,280	0	15,000	$1.85
Davis/Woodland	81	2,044,241	151,732	7.42%	1,892,509	92.58%	179,458	8.78%	22	22	26,062	26,062	0	107,547	$2.05
Downtown	215	19,208,457	1,643,927	10.46%	17,564,530	91.44%	1,859,451	9.68%	14,838	14,838	154,932	154,932	0	366,900	$2.61
East Sacramento	38	2,230,644	117,708	5.28%	2,112,936	94.72%	138,463	6.21%	10,500	10,500	11,200	11,200	0	0	$2.31
El Dorado	71	1,654,736	372,167	22.49%	1,282,569	77.51%	487,912	29.49%	(7,207)	(7,207)	47,727	47,727	0	239,578	$1.79
Elk Grove	54	1,774,851	162,978	9.18%	1,611,873	90.82%	175,536	9.89%	5,146	5,146	11,102	11,102	0	382,273	$1.97
Folsom	99	4,541,019	394,939	8.70%	4,146,080	91.30%	492,809	10.85%	10,781	10,781	34,609	34,609	0	115,570	$1.92
Highway 50 Corridor	298	17,429,329	2,653,780	15.23%	14,775,549	84.77%	3,148,277	18.06%	(221,005)	(221,005)	91,851	91,851	0	1,036,300	$1.63
Howe Ave./Fulton Ave.	77	2,441,397	485,096	19.87%	1,956,301	80.13%	566,876	23.22%	(18)	(18)	18,806	18,806	0	0	$1.64
Midtown	99	3,670,303	251,442	6.85%	3,418,861	93.15%	329,848	8.99%	881	881	23,164	23,164	0	219,835	$1.82
Natomas/Northgate	115	6,554,961	927,204	14.15%	5,627,757	85.85%	1,088,637	16.61%	56,834	56,834	177,575	177,575	0	702,525	$1.79
Point West	51	2,729,431	461,303	16.90%	2,268,128	83.10%	620,537	22.74%	5,259	5,259	35,178	35,178	0	193,254	$1.84
Rio Linda/N Highlands	29	1,017,954	252,612	24.82%	765,342	75.18%	312,470	30.70%	9,250	9,250	10,200	10,200	0	0	$1.06
Roseville/Rocklin	267	10,738,332	1,023,265	9.53%	9,715,067	90.47%	1,356,334	12.63%	(3,012)	(3,012)	109,926	109,926	9,798	1,528,000	$1.83
South Sacramento	104	3,353,918	324,144	9.66%	3,029,774	90.34%	504,196	15.03%	15,080	15,080	53,863	53,863	0	51,437	$1.43
Sutter County	30	550,494	22,854	4.15%	527,640	95.85%	36,799	6.68%	(1,350)	(1,350)	1,880	1,880	0	25,000	$1.60
Watt Ave.	50	2,395,397	255,031	10.65%	2,140,366	89.35%	349,979	14.61%	13,062	13,062	22,806	22,806	0	45,858	$1.43
West Sacramento	35	2,017,625	147,493	7.31%	1,870,132	92.69%	173,410	8.59%	15,954	15,954	19,789	19,789	0	110,000	$1.85
Yuba County	8	535,161	62,642	11.71%	472,519	88.29%	62,642	11.71%	0	0	0	0	0	0	-
Office Market Totals	**1,927**	**89,906,538**	**10,277,003**	**11.43%**	**79,629,535**	**88.57%**	**12,649,802**	**14.07%**	**(111,143)**	**(111,143)**	**925,072**	**925,072**	**17,298**	**5,312,030**	**$1.84**
Class A	191	26,354,356	2,858,856	10.85%	23,495,500	89.15%	3,287,217	12.47%	(228,047)	(228,047)	222,670	222,670	0	2,885,925	$2.19
Class B	962	42,586,378	4,735,386	11.12%	37,850,992	88.88%	6,071,130	14.26%	112,764	112,764	542,211	542,211	17,298	2,426,105	$1.74
Class C	774	20,965,804	2,682,761	12.80%	18,283,043	87.20%	3,291,455	15.70%	4,140	4,140	160,191	160,191	0	0	$1.41
Class Total	**1,927**	**89,906,538**	**10,277,003**	**11.43%**	**79,629,535**	**88.57%**	**12,649,802**	**14.07%**	**(111,143)**	**(111,143)**	**925,072**	**925,072**	**17,298**	**5,312,030**	**$1.84**

Average asking rates represented are full service.

TRI 40 YEARS COMMERCIAL
REAL ESTATE SERVICES

SACRAMENTO OFFICE

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NORTHERN CALIFORNIA MAP | TRI OFFICE LOCATIONS:

MAP IS NOT TO SCALE

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