

MARKET OVERVIEW

► **Office Market:** The Sacramento office market continues to improve as vacancy rates have remained amongst the lowest pre-recession figures. At the close of the third quarter, average asking lease rates were at a \$1.81, which have remained higher than last year's average of \$1.78. In brief, the trend over the last three quarters has shown continually decreasing vacancy rates with notable increases in lease rates, which bodes well for the Sacramento office market.

► **Vacancy Rates:** In comparison to the previous quarter, the vacancy rate decreased by twenty-five basis points to 12.35%, which is still amongst the lowest vacancy rates seen since 2007. The largest submarkets – Downtown, Highway 50 Corridor and Roseville/Rocklin – had vacancy rates of 10.46%, 14.10% and 12.07%, respectively. Alternatively, the highest vacancy rates were seen in the Rio Linda/N Highlands, Howe Ave./Fulton Ave., and El Dorado submarkets at 36.49%, 21.19%, and 20.87%.

► **Lease Rates:** At the end of the third quarter, the average asking full service lease rate for the Sacramento office market was \$1.81, which is a \$0.01 decrease from the previous quarter, but is still \$0.03 higher from one year ago. Some of the highest lease rates were seen in the Downtown, East Sacramento, and Davis/Woodland submarkets at \$2.52, \$2.31 and \$2.18 per square foot, respectively. Alternatively, the lowest lease rates were seen in the Citrus Heights/Orangevale, Rio Linda/N Highlands and Auburn/Lincoln submarkets with rates at \$1.27, \$1.14 and \$0.84 per square foot.

► **Sale & Lease Transactions:** Transaction activity at the close of the third quarter was just over 3.2 million square feet, which is a significant increase from the previous quarter's figure of 2 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 third quarter with positive absorption of 269,376 square feet. The South Sacramento submarket had the highest positive net absorption at 110,605 square feet. Alternatively, the Natomas/Northgate submarket had the highest negative net absorption at 68,077 square feet.

► **Development:** New developments in the Sacramento office market have remained in motion with a total of 307,460 square feet currently in progress. The largest project currently under construction is the FBI building in the Roseville/Rocklin submarket totaling 129,398 square feet, which is expected to be delivered October of 2016. The second largest office project under construction is a Class B office building in the Elk Grove submarket totaling 110,372 square feet, which is expected to be delivered in January of 2017. During the third quarter, a Class A building for Dignity Health was delivered to the market totaling 30,800 square feet.

► **Third Quarter Review:** Overall, the vacancy rate decreased by an impressive 25 basis points over the course of the quarter and the average asking lease rate of \$1.81 per square foot is higher than the two-year average. According to the most recent Sacramento employment figures, the unemployment rate in the Sacramento-Roseville-Arden Arcade MSA was 5.5% in August of 2016.

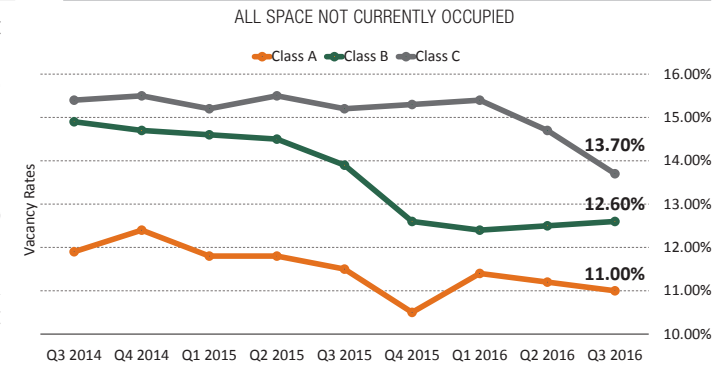
SACRAMENTO OFFICE TRENDS | THIRD QUARTER 2016

ARROWS REPRESENT CHANGES FROM THE PREVIOUS QUARTER

MARKET INDICATORS	Vacancy	Lease Rates (FS)	Net Absorption	Transaction Activity
	Q ³ 2016	12.35%	\$1.81	269,376
Q ² 2016	12.60%	\$1.82	189,478	2,081,407

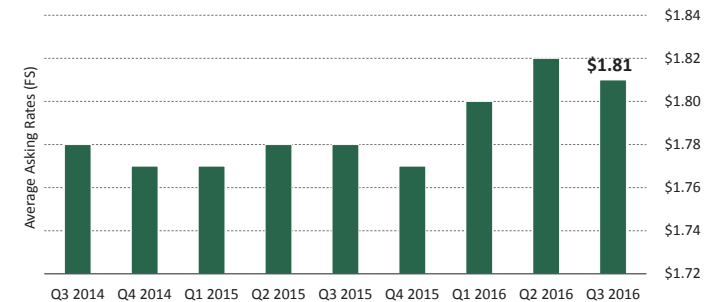
THESE STATISTICS ENCOMPASS THE ENTIRE SURVEY, WHICH INCLUDES ALL OFFICE CLASS TYPES 10,000 SQUARE FEET AND LARGER.

VACANCY RATES BY CLASS



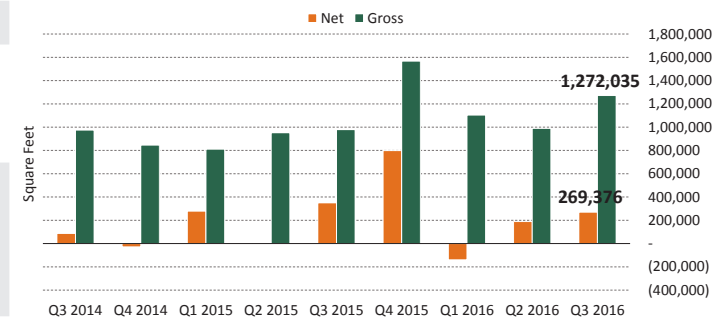
AVERAGE ASKING RATES

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

MARKET SNAPSHOT

LEASE TRANSACTIONS | NOTABLE OFFICE LEASES SIGNED

Q³ 2016 **Q³ 2015** **% Change vs. Q3 2015**

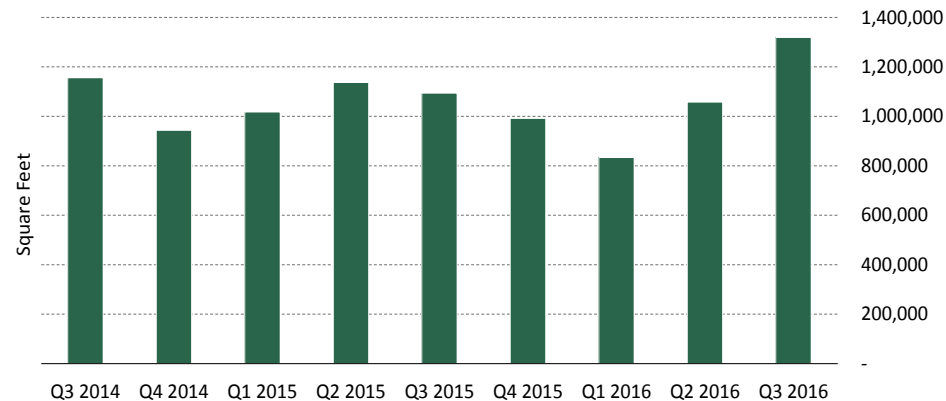
Property Address	Submarket	Tenant	Owner	Date Lease Signed	Sq. Ft. Leased
4450 E Commerce Way	Natomas/Northgate	Department of Human Assistance	Comcast of Sacramento I, LLC	August 4, 2016	81,225
1351 Secret Ravine Parkway	Roseville/Rocklin	Sutter Medical Foundation	Roseville Mob 1351	August 9, 2016	35,879
2870 Gateway Oaks Dr.	Natomas/Northgate	Undisclosed	Sutter Family Trust	September 13, 2016	30,870
5012-5116 Dudley Blvd.	Rio Linda/N Highlands	Undisclosed	McClellan Park, LLC	August 22, 2016	21,600
1100-1102 Q Street	Downtown	Fair Political Practices Commission	The Evergreen Company	August 3, 2016	21,504

	Q ³ 2016	Q ³ 2015	% Change vs. Q3 2015
Vacancy Rate	12.35%	13.50%	-8.52%
Availability Rate	14.38%	16.50%	-12.85%
Avg. Asking Lease Rate	\$1.81	\$1.78	1.69%
Gross Absorption	1,272,035	978,731	29.97%
Net Absorption	269,376	350,269	(N/A)

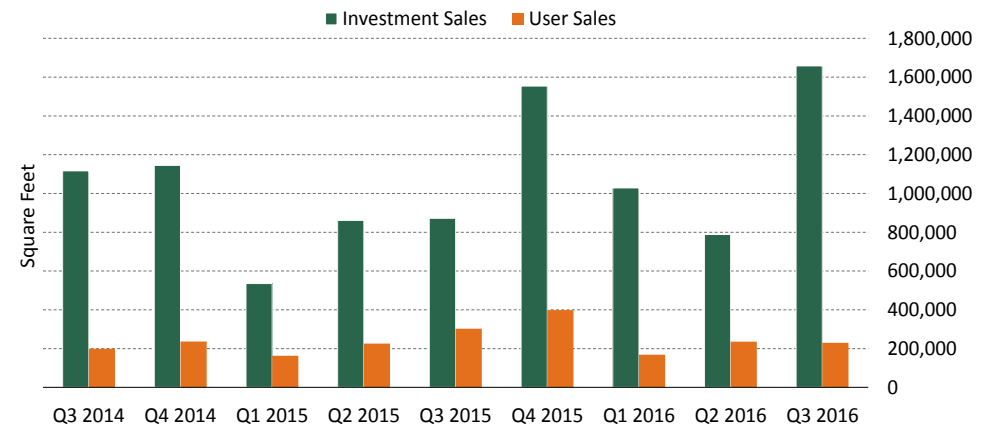
SALE TRANSACTIONS | NOTABLE OFFICE SALES

Property Address	Submarket	Buyer	Seller	Bldg. Sq. Ft.	Sale Price
3901 Lennane Dr. (2 Properties)	Natomas/Northgate	Omninet Capital	Westcore Properties	118,998	\$50,000,000
3300 Zinfandel Dr. (2 Properties)	Highway 50 Corridor	CEGM Rancho Cordova, LLC	Strada Investment Group	174,459	\$39,725,000
2241 Harvard St. (2 Properties)	Point West	Basin Street Properties	US Real Estate, LP	283,487	\$38,000,000
1100-1102 Q St.	Downtown	The Evergreen Company	Griffin Capital Corp.	151,857	\$29,400,000
520 Capitol Mall	Downtown	LeFever Mattson	520 Capitol Mall, Inc.	82,401	\$28,000,000

LEASE TRANSACTIONS | AMOUNT OF SQUARE FEET LEASED PER QUARTER



SALES TRANSACTIONS | AMOUNT OF SQUARE FEET SOLD PER QUARTER

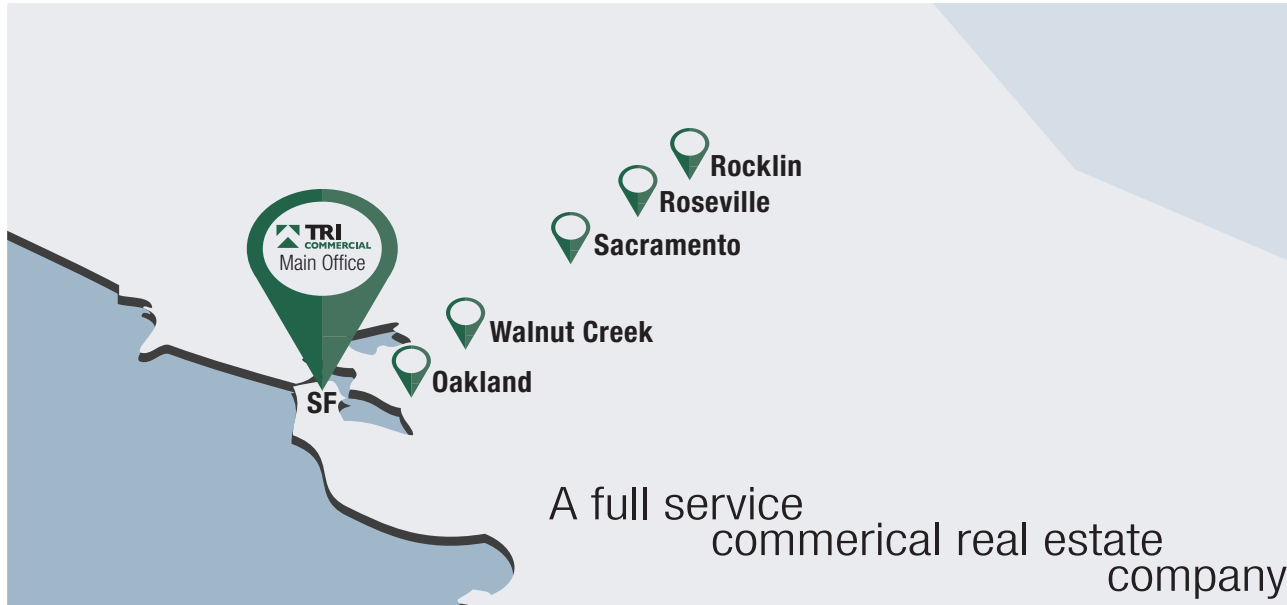


TRI COMMERCIAL | SACRAMENTO OFFICE SUBMARKET STATISTICS

Submarket	Total Buildings	Net Rentable Square Feet	Vacant Square Feet	Vacancy Rate Q3 2016	Occupied Square Feet	Occupancy Rate Q3 2016	Available Square Feet	Availability Rate Q3 2016	Net Absorption Q3 2016	YTD Net Absorption	Gross Absorption Q3 2016	YTD Gross Absorption	Under Construction Square Feet	Proposed Square Feet	Average Asking Rate (All Classes)
Auburn/Lincoln	65	1,401,827	82,168	5.86%	1,319,659	94.14%	85,324	6.09%	17,569	54,831	20,672	80,045	0	95,253	\$0.84
Campus Commons	43	1,259,859	187,683	14.90%	1,072,176	85.10%	230,416	18.29%	1,509	14,759	10,350	40,944	6,000	72,000	\$1.96
Carmichael/Fair Oaks	47	966,155	162,455	16.81%	803,700	83.19%	181,086	18.74%	(46,672)	(28,744)	18,082	41,466	0	0	\$1.53
Citrus Heights/Orangevale	51	1,396,401	172,400	12.35%	1,224,001	87.65%	221,603	15.87%	2,777	1,176	25,762	63,316	35,000	0	\$1.27
Davis/Woodland	82	2,062,591	184,255	8.93%	1,878,336	91.07%	202,673	9.83%	37,566	28,892	46,691	106,009	23,661	204,094	\$2.18
Downtown	218	19,414,492	1,900,371	10.46%	17,514,121	90.21%	1,961,575	10.10%	78,297	133,587	148,519	432,809	0	366,900	\$2.52
East Sacramento	33	2,071,070	110,808	5.35%	1,960,262	94.65%	131,135	6.33%	1,200	(2,720)	1,200	2,388	0	0	\$2.31
El Dorado	71	1,644,483	343,135	20.87%	1,301,348	79.13%	462,991	28.15%	29,067	(63,086)	43,197	115,130	0	419,531	\$1.63
Elk Grove	51	1,639,934	109,693	6.69%	1,530,241	93.31%	123,485	7.53%	1,220	(4,420)	30,798	59,127	110,372	277,023	\$2.13
Folsom	99	4,543,161	504,247	11.10%	4,038,914	88.90%	574,289	12.64%	21,767	140,445	77,099	289,395	0	125,570	\$1.86
Highway 50 Corridor	299	17,406,511	2,453,585	14.10%	14,952,926	85.90%	3,234,350	18.58%	29,072	(274,114)	112,112	393,279	0	1,050,550	\$1.61
Howe Ave./Fulton Ave.	78	2,455,432	520,249	21.19%	1,935,183	78.81%	584,169	23.79%	90,187	108,115	157,983	234,709	0	0	\$1.63
Midtown	99	3,653,907	257,051	7.03%	3,396,856	92.97%	321,203	8.79%	15,691	40,928	22,338	100,095	0	73,280	\$1.87
Natomas/Northgate	114	6,534,552	1,031,291	15.78%	5,503,261	84.22%	1,143,366	17.50%	(68,077)	(31,901)	93,650	226,395	0	292,525	\$1.76
Point West	50	2,715,196	510,609	18.81%	2,204,587	81.19%	620,010	22.83%	(40,094)	(12,134)	26,503	113,590	0	103,254	\$1.78
Rio Linda/N Highlands	29	1,010,075	368,612	36.49%	641,463	63.51%	397,112	39.32%	(15,926)	(23,084)	11,657	13,911	0	0	\$1.14
Roseville/Rocklin	264	10,537,491	1,272,383	12.07%	9,265,108	87.93%	1,343,821	12.75%	(27,897)	175,441	246,243	779,234	132,427	1,183,000	\$1.85
South Sacramento	98	3,076,868	317,450	10.32%	2,759,418	89.68%	384,519	12.50%	110,605	18,950	124,467	151,009	0	52,771	\$1.72
Sutter County	31	590,991	28,234	4.78%	562,757	95.22%	31,234	5.29%	9,198	16,231	16,208	25,041	0	25,000	\$1.60
Watt Ave.	50	2,395,397	271,072	11.32%	2,124,325	88.68%	353,354	14.75%	(275)	35,852	10,660	64,873	0	45,858	\$1.42
West Sacramento	36	2,031,029	174,287	8.58%	1,856,742	91.42%	188,176	9.27%	22,592	(9,299)	27,844	32,482	0	110,000	\$1.85
Yuba County	7	479,761	62,642	13.06%	417,119	86.94%	62,642	13.06%	0	0	0	0	0	0	-
Office Market Totals	1,915	89,287,183	11,024,680	12.35%	78,262,503	87.65%	12,838,533	14.38%	269,376	319,705	1,272,035	3,365,247	307,460	4,496,609	\$1.81
Class A	192	26,538,347	2,908,615	10.96%	23,629,732	89.04%	3,205,177	12.08%	79,901	(91,152)	310,135	749,642	0	2,232,472	\$2.18
Class B	953	41,986,706	5,280,732	12.58%	36,705,974	87.42%	6,301,801	15.01%	(35,290)	66,505	592,847	1,733,489	307,460	2,264,137	\$1.70
Class C	770	20,762,130	2,835,333	13.66%	17,926,797	86.34%	3,331,555	16.05%	224,765	344,352	369,053	882,116	0	0	\$1.41
Class Total	1,915	89,287,183	11,024,680	12.35%	78,262,503	87.65%	12,838,533	14.38%	269,376	319,705	1,272,035	3,365,247	307,460	4,496,609	\$1.81

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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