

MARKET OVERVIEW

► **Office Market:** The Sacramento office market has continued to improve as the vacancy rate has further decreased and is amongst the lowest figures seen since 2007. At the close of the fourth quarter, net absorption reached just over 684,478 square feet, which is the strongest figure seen all year. In brief, vacancy rates are expected to further decrease in coming quarters and increases in lease rates are expected to follow throughout 2016.

► **Vacancy Rates:** In comparison to the previous quarter, the vacancy rate decreased by 74 basis points to 12.96%, which is the lowest vacancy rate seen since 2007. The largest submarkets – Downtown and the Highway 50 Corridor – had vacancy rates of 10.46% and 12.85%. Among the largest submarkets, the lowest vacancy rates were also seen in West Sacramento and Midtown with rates at 5.71% and 6.03%. The highest vacancy rates, however, were seen in the Point West, Howe Ave./Fulton Ave. and Rio Linda/N Highlands submarkets at 18.94%, 26.69%, and 34.33%.

► **Lease Rates:** At the end of the fourth quarter, the average asking full service lease rate for the Sacramento office market was \$1.77 per square foot, which is a \$0.01 decrease from the previous quarter. Some of the highest lease rates were seen in the Downtown and East Sacramento submarkets at \$2.32 and \$2.31 per square foot. Alternatively, the lowest lease rates were seen in the Citrus Heights/Orangevale and Rio Linda/N Highlands submarkets with rates at \$1.15 and \$1.12 per square foot.

► **Sale & Lease Transactions:** Transaction activity at the close of the fourth quarter was just over 1.79 million square feet, which is a slight decrease from the previous quarter's figure of 1.92 million square feet. Given that there is 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 fourth quarter with positive absorption of 684,478 square feet. The Folsom submarket had the greatest negative absorption of 49,465 square feet. Alternatively, the Highway 50 Corridor submarket had the highest positive net absorption at 384,666 square feet while the East Sacramento submarket had the second highest positive net absorption at 91,527 square feet.

► **Development:** New developments in the Sacramento office market are gaining momentum with a total of 347,449 square feet currently in progress. The largest project currently under construction is a 129,398 square foot office building in the Roseville/Rocklin submarket, which is expected to be delivered January of 2016. During the fourth quarter, there were no new deliveries to the market. Nonetheless, there are still 4.39 million square feet of proposed office space for Sacramento; 1 million square feet of that space is proposed for the Highway 50 Corridor and 1.2 million square feet of that space is proposed for the Roseville/Rocklin submarket.

► **Fourth Quarter Review:** Overall, vacancy rates continued to trend downward at the close of the fourth quarter and net absorption was the highest seen all year, which bodes well for the office market as we enter the New Year. According to the most recent Sacramento employment figures, the unemployment rate in the Sacramento-Roseville-Arden Arcade MSA was 5.5% in November of 2015. Thus, it is expected that the improving job market will further increase demand for office space.

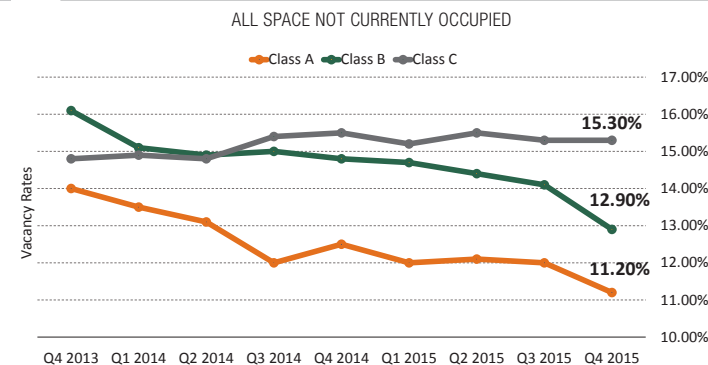
SACRAMENTO OFFICE TRENDS | FOURTH QUARTER 2015

ARROWS REPRESENT CHANGES FROM THE PREVIOUS QUARTER

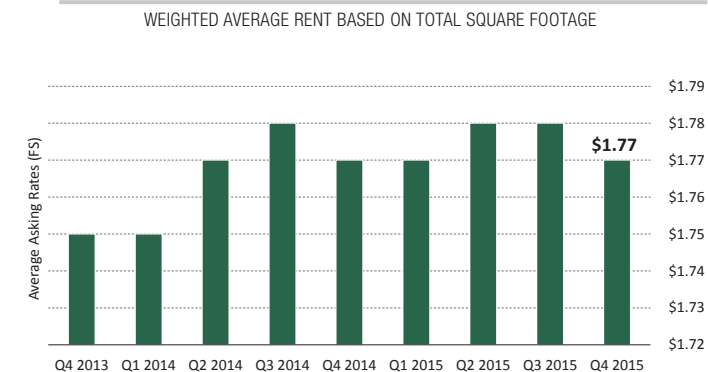
| MARKET INDICATORS | Vacancy | Lease Rates (FS) | Net Absorption | Transaction Activity |
|---------------------|---------------------|------------------|----------------|----------------------|
| | Q ⁴ 2015 | 12.96% | \$1.77 | 684,478 |
| Q ³ 2015 | 13.70% | \$1.78 | 182,980 | 1,922,965 |

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



NET & GROSS ABSORPTION

