

**MARKET OVERVIEW**

► **Office Market:** The Sacramento office market continues to improve as vacancy rates have continued below pre-recession figures, ending the quarter at 11.56%. At the close of the fourth quarter, average asking lease rates were at a \$1.82 per square foot, which is a \$0.01 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 84 basis points to 11.56%, 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%, 14.24% and 9.46%, respectively. Alternatively, the highest vacancy rates were seen in the Rio Linda/N Highlands, Howe Ave./Fulton Ave., and El Dorado submarkets at 25.75%, 19.76%, and 22.07%.

► **Lease Rates:** At the close of the fourth quarter, the average asking full service lease rate for the Sacramento office market was \$1.82, which is a \$0.01 increase from the previous quarter and a \$0.05 increase from one year ago. Some of the highest lease rates were seen in the Downtown, East Sacramento, and Davis/Woodland submarkets at \$2.51, \$2.31 and \$2.12 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 \$1.23, \$1.14 and \$0.95 per square foot, respectively.

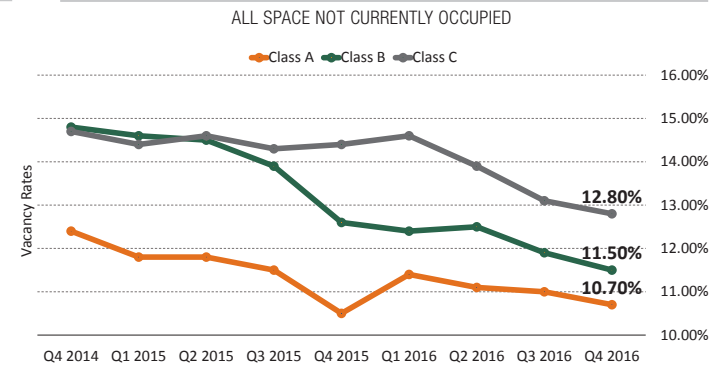
► **Sale & Lease Transactions:** Transaction activity at the close of the fourth quarter was just over 2.8 million square feet, which is a decrease from the previous quarter's figure of 2.98 million square feet. Given that there is often a delay for final figures to be totaled, this quarter's figure will slightly increase in the next market report.

► **Absorption:** The office market ended the fourth quarter with positive absorption of 540,017 square feet. The Roseville/Rocklin and Folsom submarkets had the highest positive net absorption figures at 186,755 and 85,040 square feet, respectively. Alternatively, the Highway 50 Corridor submarket had the highest negative net absorption at 20,011 square feet.

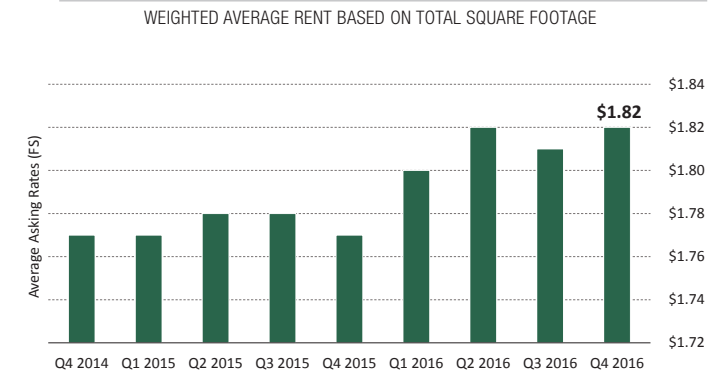
► **Development:** New developments in the Sacramento office market remained strong throughout 2016 with a total of 380,153 square feet of new space delivered to the market. The largest of those projects was delivered during the fourth quarter and is the FBI building in the Roseville/Rocklin submarket totaling 129,398 square feet. The second largest office project delivered during the fourth quarter was a Class B office building in the Elk Grove submarket totaling 110,372 square feet. There are currently no new projects in progress, but there is 4.44 million square feet of proposed space.

► **Fourth Quarter Review:** Overall, the vacancy rate decreased by an impressive 84 basis points over the course of 2016 and the average asking lease rate of \$1.82 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 4.9% in November of 2016.

**VACANCY RATES BY CLASS**



**AVERAGE ASKING RATES**



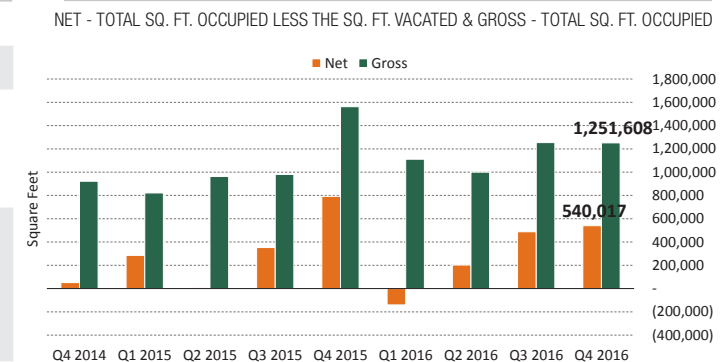
**SACRAMENTO OFFICE TRENDS | FOURTH QUARTER 2016**

ARROWS REPRESENT CHANGES FROM THE PREVIOUS QUARTER

MARKET INDICATORS	Vacancy	Lease Rates (FS)	Net Absorption	Transaction Activity
	Q <sup>4</sup> 2016	11.56%	\$1.82	540,017
Q <sup>3</sup> 2016	11.90%	\$1.81	487,787	2,989,957

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

**NET & GROSS ABSORPTION**



# NOTEWORTHY TRANSACTIONS

MARKET SNAPSHOT

**Q<sup>4</sup> 2016** **Q<sup>4</sup> 2015** % Change vs. Q4 2015

## LEASE TRANSACTIONS | NOTABLE OFFICE LEASES SIGNED FOR 2016

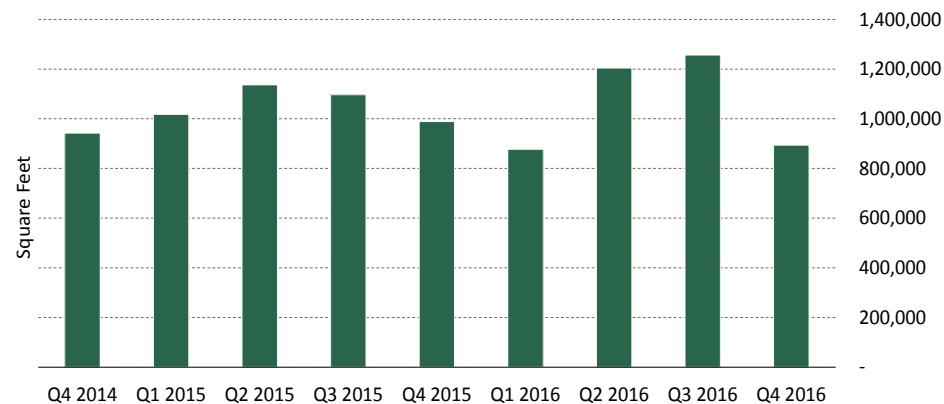
Property Address	Submarket	Tenant	Owner	Date Lease Signed	Sq. Ft. Leased
8 Medical Plaza Drive	Roseville/Rocklin	Sutter Medical Foundation	Roseville Mob 1351	August 9, 2016	35,879
6360 Fountain Square Drive	Citrus Heights/Orangevale	City of Citrus Heights	Capital Partners Development Company, LLC	March 24, 2016	35,000
6554 Lonetree Blvd.	Roseville/Rocklin	Undisclosed	W & F Building Maintenance Co	June 13, 2016	23,038
6020 W Oaks Blvd.	Roseville/Rocklin	Gemini Duplication	KBS Realty Advisors	March 3, 2016	17,836
101 Creekside Ridge Ct.	Roseville/Rocklin	Adventis Health	Black Iris Properties, LLC	April 2, 2016	16,186

## SALE TRANSACTIONS | NOTABLE OFFICE SALES FOR 2016

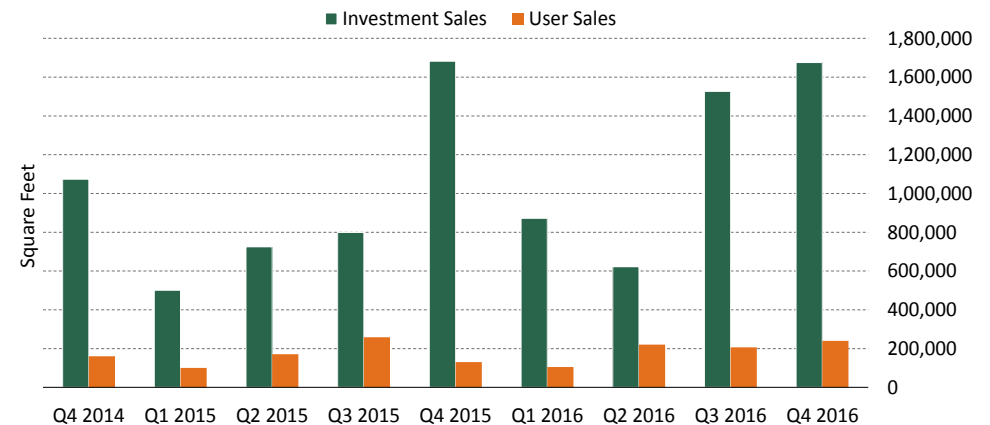
Property Address	Submarket	Buyer	Seller	Bldg. Sq. Ft.	Sale Price
400 Capitol Mall	Downtown	Starwood Capital Group	Hines REIT, Inc.	511,034	\$175,500,000
801 K Street	Downtown	GPT Properties Trust	USAA Real Estate Company	336,752	\$79,200,000
1590 Drew Ave. (22 Properties)	Davis/Woodland	Fulcrum Capital Corporation	Interland, LLC	298,255	\$70,000,000
2155 Iron Point Road	Folsom	Kaiser Foundation Health Plan, Inc.	IMS Associate, LLC	121,378	\$51,500,000
3300 Zinfandel Dr. (2 Properties)	Highway 50 Corridor	CEGM Rancho Cordova, LLC	Strada Investment Group	174,459	\$39,725,000

	Q <sup>4</sup> 2016	Q <sup>4</sup> 2015	% Change vs. Q4 2015
<b>Vacancy Rate</b>	11.56%	12.40%	-8.52%
<b>Availability Rate</b>	14.07%	15.80%	-12.85%
<b>Avg. Asking Lease Rate</b>	\$1.82	\$1.77	1.69%
<b>Gross Absorption</b>	1,251,608	1,562,626	29.97%
<b>Net Absorption</b>	540,017	792,400	(N/A)

## LEASE TRANSACTIONS | AMOUNT OF SQUARE FEET LEASED PER QUARTER



## SALES TRANSACTIONS | AMOUNT OF SQUARE FEET SOLD PER QUARTER

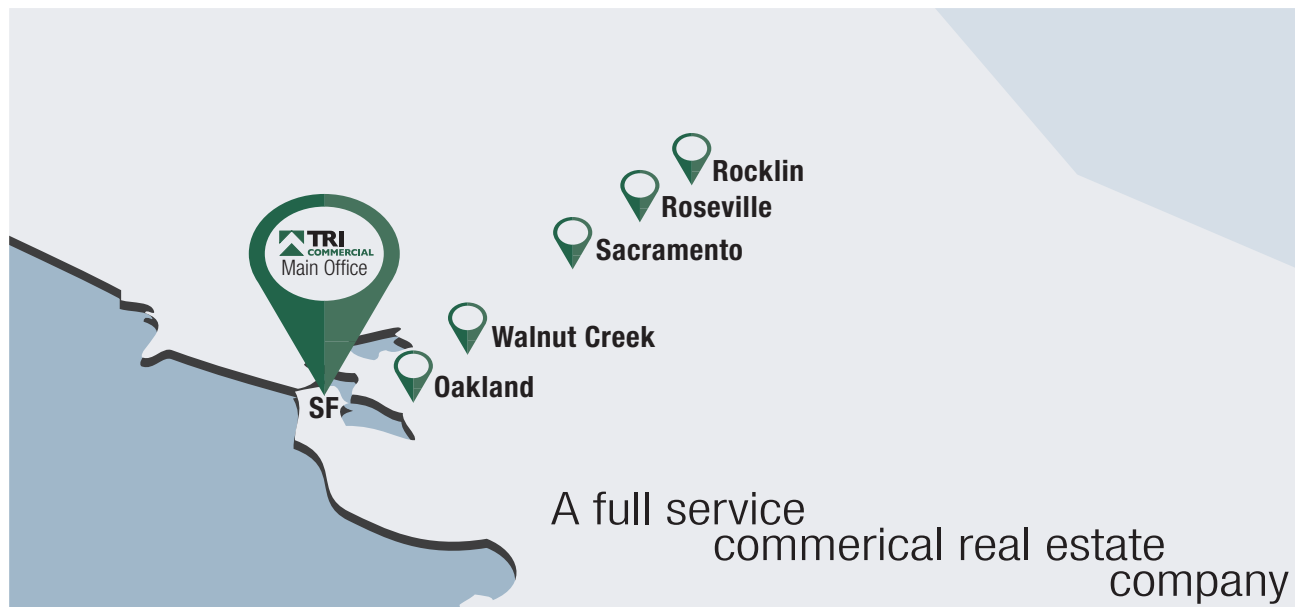


TRI COMMERCIAL | SACRAMENTO OFFICE SUBMARKET STATISTICS

Submarket	Total Buildings	Net Rentable Square Feet	Vacant Square Feet	Vacancy Rate Q4 2016	Occupied Square Feet	Occupancy Rate Q4 2016	Available Square Feet	Availability Rate Q4 2016	Net Absorption Q4 2016	YTD Net Absorption	Gross Absorption Q4 2016	YTD Gross Absorption	Under Construction Square Feet	Proposed Square Feet	Average Asking Rate (All Classes)
Auburn/Lincoln	64	1,361,827	85,886	6.31%	1,275,941	93.69%	87,419	6.42%	(3,718)	51,113	3,057	83,102	0	100,953	\$0.95
Campus Commons	43	1,268,759	183,196	14.44%	1,085,563	85.56%	257,871	20.32%	4,487	19,246	29,171	70,115	0	72,000	\$1.93
Carmichael/Fair Oaks	47	966,155	96,047	9.94%	870,108	90.06%	188,979	19.56%	13,334	37,664	13,677	55,143	0		\$1.62
Citrus Heights/Orangevale	53	1,441,567	176,218	12.22%	1,265,349	87.78%	207,295	14.38%	(342)	36,596	25,135	129,835	0	15,000	\$1.23
Davis/Woodland	81	2,033,687	151,754	7.46%	1,881,933	92.54%	175,493	8.63%	32,501	58,937	44,933	148,343	0	107,547	\$2.12
Downtown	218	19,423,125	1,844,158	10.46%	17,578,967	90.51%	1,926,895	9.92%	66,069	189,800	142,696	568,951	0	366,900	\$2.51
East Sacramento	33	2,071,070	118,408	5.72%	1,952,662	94.28%	139,163	6.72%	(7,600)	(10,320)	4,722	7,110	0	0	\$2.31
El Dorado	71	1,653,841	364,960	22.07%	1,288,881	77.93%	500,865	30.28%	(6,740)	(84,911)	17,430	132,560	0	236,578	\$1.68
Elk Grove	53	1,764,851	168,124	9.53%	1,596,727	90.47%	171,524	9.72%	49,131	47,521	83,551	142,678	0	277,023	\$1.95
Folsom	100	4,554,055	421,007	9.24%	4,133,048	90.76%	524,701	11.52%	85,040	226,185	111,774	401,969	0	125,570	\$1.89
Highway 50 Corridor	298	17,404,391	2,479,252	14.24%	14,925,139	85.76%	3,241,679	18.63%	(20,011)	(281,091)	107,201	513,514	0	1,036,300	\$1.61
Howe Ave./Fulton Ave.	78	2,455,432	485,078	19.76%	1,970,354	80.24%	559,518	22.79%	46,641	143,286	87,159	321,868	0	0	\$1.65
Midtown	99	3,660,715	252,323	6.89%	3,408,392	93.11%	296,122	8.09%	(5,352)	35,576	15,235	115,330	138,850	80,985	\$1.86
Natomas/Northgate	115	6,547,796	970,616	14.82%	5,577,180	85.18%	1,025,929	15.67%	54,931	28,774	135,937	373,820	0	612,525	\$1.79
Point West	51	2,729,431	466,562	17.09%	2,262,869	82.91%	561,811	20.58%	26,584	21,913	53,753	176,249	0	103,254	\$1.83
Rio Linda/N Highlands	29	1,017,056	261,862	25.75%	755,194	74.25%	311,520	30.63%	(1,343)	(2,734)	0	14,004	0	0	\$1.14
Roseville/Rocklin	266	10,690,419	1,011,573	9.46%	9,678,846	90.54%	1,330,921	12.45%	186,755	567,728	318,891	1,112,284	9,798	1,089,000	\$1.85
South Sacramento	100	3,183,320	312,869	9.83%	2,870,451	90.17%	464,781	14.60%	5,831	(55,219)	25,379	97,337	0	40,195	\$1.69
Sutter County	30	554,178	25,004	4.51%	529,174	95.49%	29,704	5.36%	0	19,461	3,500	27,661	0	25,000	\$1.60
Watt Ave.	50	2,395,397	268,093	11.19%	2,127,304	88.81%	367,896	15.36%	2,979	38,831	7,805	72,678	0	45,858	\$1.45
West Sacramento	36	2,031,029	163,447	8.05%	1,867,582	91.95%	188,214	9.27%	10,840	1,541	20,602	53,084	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	-
<b>Office Market Totals</b>	<b>1,922</b>	<b>89,687,862</b>	<b>10,369,079</b>	<b>11.56%</b>	<b>79,318,783</b>	<b>88.44%</b>	<b>12,620,942</b>	<b>14.07%</b>	<b>540,017</b>	<b>1,089,897</b>	<b>1,251,608</b>	<b>4,617,635</b>	<b>148,648</b>	<b>4,444,688</b>	<b>\$1.82</b>
Class A	192	26,551,912	2,851,645	10.74%	23,700,267	89.26%	3,319,327	12.50%	67,939	(34,182)	281,887	1,049,487	0	2,435,925	\$2.20
Class B	960	42,315,598	4,860,154	11.49%	37,455,444	88.51%	6,049,316	14.30%	406,069	775,122	750,962	2,541,883	148,648	2,008,763	\$1.72
Class C	770	20,820,352	2,657,280	12.76%	18,163,072	87.24%	3,252,299	15.62%	66,009	348,957	218,759	1,026,265	0	0	\$1.40
<b>Class Total</b>	<b>1,922</b>	<b>89,687,862</b>	<b>10,369,079</b>	<b>11.56%</b>	<b>79,318,783</b>	<b>88.44%</b>	<b>12,620,942</b>	<b>14.07%</b>	<b>540,017</b>	<b>1,089,897</b>	<b>1,251,608</b>	<b>4,617,635</b>	<b>148,648</b>	<b>4,444,688</b>	<b>\$1.82</b>

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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The Information in this document was obtained from sources we deem reliable; however, no warranty or representation, expressed or implied, is made as to the accuracy of the information contained herein. The market statistics represent properties that are 10,000 square feet or larger. This quarterly market report is a research document of TRI Commercial and may be found on our website at [www.tricommercial.com](http://www.tricommercial.com). CoStar was the main source of information used in this report.

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