

MARKET OVERVIEW

► **Office Market:** The Sacramento office market fared well during the second quarter of 2018 as vacancy rates have continually decreased ending the quarter at 10.35%. At the close of the second quarter, average asking lease rates were at a \$1.98/SF, which is a \$0.07 increase from the previous quarter's average. In brief, the trend shows continually decreasing vacancy rates with continually increasing lease rates.

► **Vacancy Rates:** In comparison to the previous year, the vacancy rate decreased modestly by 5 basis points to 10.35%, which still remains among the lowest vacancy rates seen since 2002! The largest submarkets – Downtown, Highway 50 Corridor and Roseville/Rocklin – had vacancy rates of 10.46%, 12.83% and 8.74%, respectively. Alternatively, the highest vacancy rates were seen in the Rio Linda/N Highlands and El Dorado submarkets at 24.41% and 18.65%.

► **Lease Rates:** At the close of the second quarter, the average asking full service lease rate for the Sacramento office market was \$1.98/SF, which is a \$0.07 increase from the previous quarter and a \$0.13 increase from one year ago. Some of the highest lease rates were seen in the Downtown, East Sacramento, and Elk Grove submarkets at \$2.72, \$2.47 and \$2.62 per square foot, respectively. Alternatively, the lowest lease rates were seen in the Citrus Heights/Orangevale and Rio Linda/N Highlands submarkets with rates at \$1.42 and \$1.10 per square foot, respectively.

► **Sale & Lease Transactions:** Transaction activity at the close of the second quarter was just over 5.22 million square feet, which is an increase from the previous quarter's figure of 2.16 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 second quarter with positive net absorption of 223,217 square feet. The El Dorado and Natomas/Northgate submarkets had the highest positive net absorption figures at 107,142 and 55,438 square feet, respectively. Alternatively, the Howe Ave./Fulton Ave. submarket had the highest negative net absorption of 91,161 square feet.

► **Development:** Currently, there are 579,276 square feet of office space under construction in the Sacramento Region. The largest of those projects is a 242,000 square foot, Class B office building for Adventist Health in the Roseville/Rocklin submarket, expected to be delivered in January 2019. The second largest office project under construction is a 194,000 square foot, Class B medical office building for Kaiser Permanente, expected to be delivered in October 2019. Of the eleven office buildings currently under construction, five of them are located in the Roseville/Rocklin submarket. Currently, there are 6.94 million square feet of proposed space with the majority proposed for the Natomas/Northgate submarket.

► **Second Quarter Review:** Overall, the vacancy rate has decreased by 10.78% in comparison to one year ago and the average asking lease rate of \$1.98 per square foot is the highest quarterly increase 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 3.3% in May of 2018.

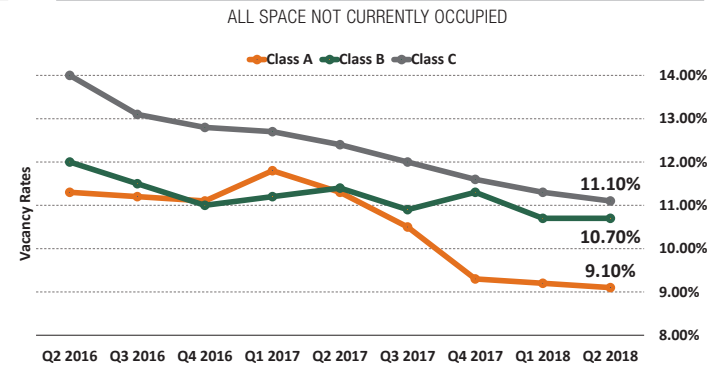
SACRAMENTO OFFICE TRENDS | SECOND QUARTER 2018

ARROWS REPRESENT CHANGES FROM THE PREVIOUS QUARTER

MARKET INDICATORS	Vacancy	Lease Rates (FS)	Net Absorption	Transaction Activity
				
	10.35%	\$1.98	223,217	5,228,918
Q ² 2018				
Q ¹ 2018	10.40%	\$1.91	320,200	2,161,993

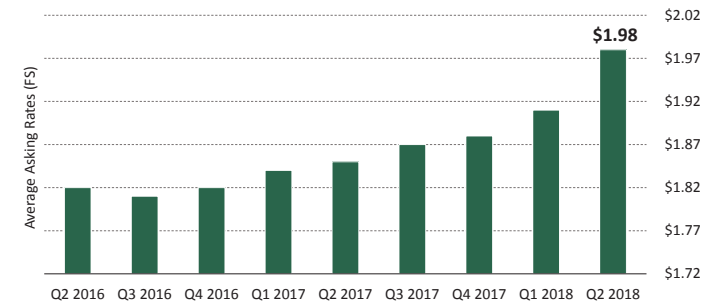
THESE STATISTICS ENCOMPASS THE ENTIRE SURVEY, WHICH INCLUDES ALL OFFICE CLASS TYPES 10,000 SQUARE FEET AND LARGER.

VACANCY RATES BY CLASS



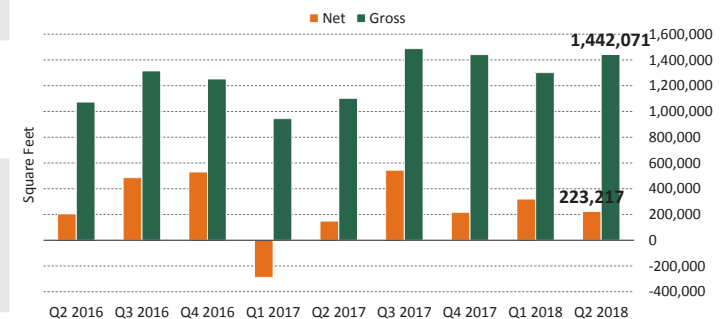
AVERAGE ASKING RATES

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

LEASE TRANSACTIONS | NOTABLE OFFICE LEASES SIGNED Q2 2018

Property Address	Submarket	Tenant	Owner	Date Lease Signed	Sq. Ft. Leased
5272 Robert J. Mathews Pkwy	El Dorado	Slidebelts, Inc.	Monson Properties AZ, LLC	May 11, 2018	58,316
2720 Gateway Oaks Drive	Natomas/Northgate	Undisclosed	Dan Caputo Company	June 18, 2018	20,007
110 Woodmere Rd.	Folsom	Gallagher Bassett	DMJ Real Estate, LP	June 13, 2018	18,540
1100-1102 Q Street	Downtown	FCC	Griffin Capital Investors, LLC	May 3, 2018	15,828
555 Capitol Mall	Downtown	Merrill Lynch	Rubicon Partners, Inc.	June 18, 2018	14,511

SALE TRANSACTIONS | NOTABLE OFFICE SALES FOR Q2 2018

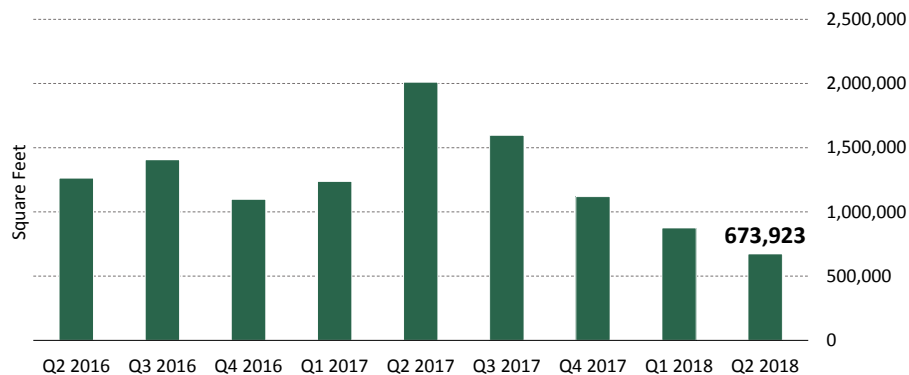
Property Address	Submarket	Buyer	Seller	Bldg. Sq. Ft.	Sale Price
8050 Foothills Blvd. (2 Properties)	Roseville/Rocklin	Stonemont Financial Group	Strada Invesment Group	295,941	\$73,221,701
6020 W Oaks Blvd. (2 Properties)	Roseville/Rocklin	Pappas Investments	KBS REIT III, Inc.	220,020	\$42,907,000
9838 Old Placerville Rd.	Highway 50 Corridor	Boyd State Sacramento, LLC	Popi, LP	139,500	\$32,589,500
1410 Rocky Ridge Drive	Roseville/Rocklin	Rocky Ridge Vista, LLC	The Opus Group	96,377	\$19,550,000
10901 Gold Center Drive	Highway 50 Corridor	Elite Realty Services	B & Z Properties, Inc.	114,858	\$18,375,000

MARKET SNAPSHOT

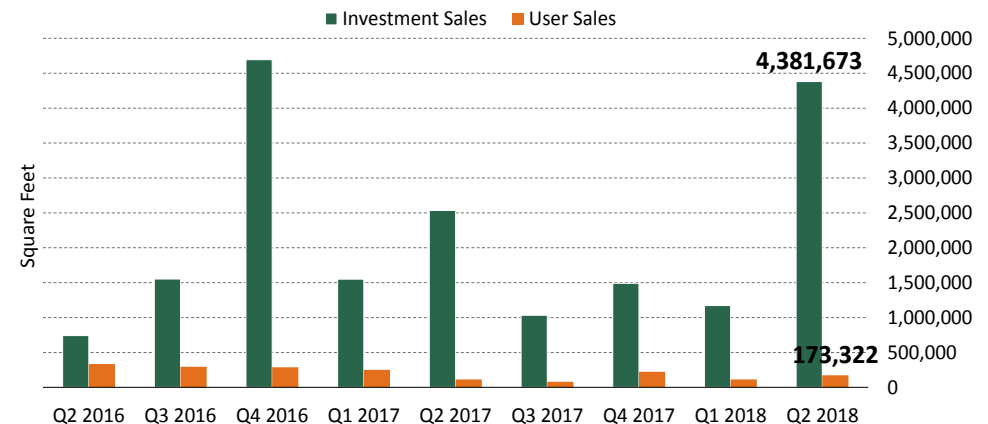
Q² 2018 **Q² 2017** % Change vs. Q2 2017

Vacancy Rate	10.35%	11.60%	-10.78%
Availability Rate	13.54%	14.20%	-4.66%
Avg. Asking Lease Rate	\$1.98	\$1.85	7.03%
Gross Absorption	1,442,071	1,102,125	30.84%
Net Absorption	223,217	148,731	(N/A)

LEASE TRANSACTIONS | AMOUNT OF SQUARE FEET LEASED PER QUARTER



SALES TRANSACTIONS | AMOUNT OF SQUARE FEET SOLD PER QUARTER

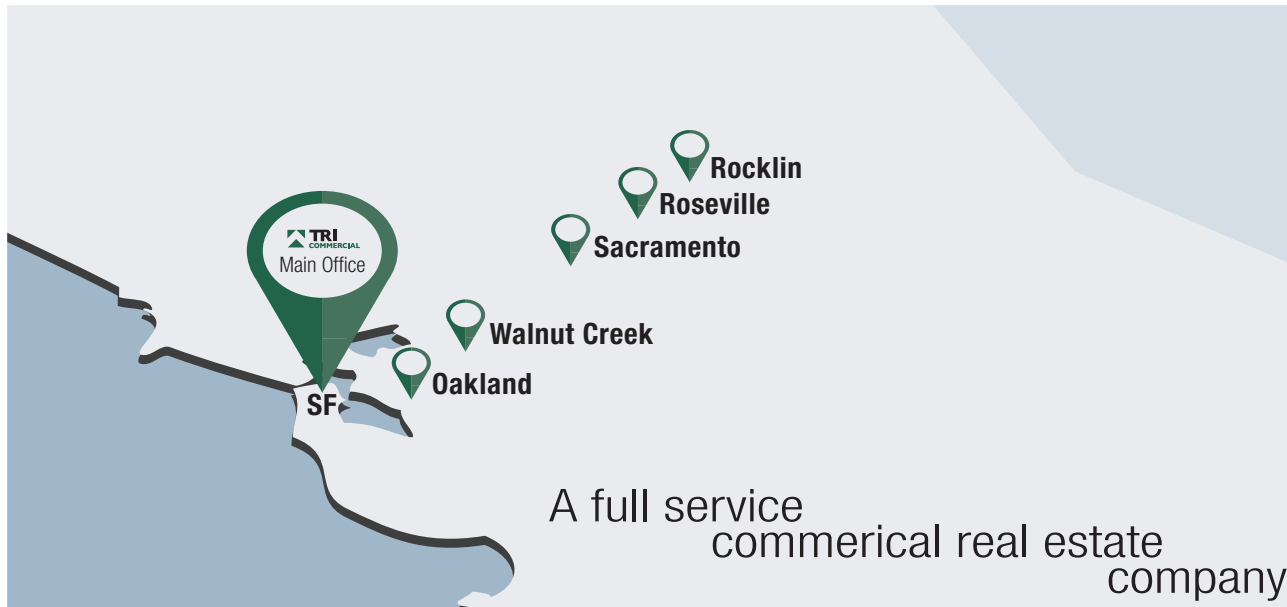


TRI COMMERCIAL | SACRAMENTO OFFICE SUBMARKET STATISTICS

Submarket	Total Buildings	Net Rentable Square Feet	Vacant Square Feet	Vacancy Rate Q2 2018	Occupied Square Feet	Occupancy Rate Q2 2018	Available Square Feet	Availability Rate Q2 2018	Net Absorption Q2 2018	YTD Net Absorption	Gross Absorption Q2 2018	YTD Gross Absorption	Under Construction Square Feet	Proposed Square Feet	Average Asking Rate (All Classes)
Auburn/Lincoln	64	1,362,162	64,986	4.77%	1,297,206	95.23%	98,838	7.26%	764	4,216	14,491	22,061	11,500	69,453	\$1.91
Campus Commons	44	1,312,672	213,157	16.24%	1,099,515	83.76%	291,736	22.22%	12,333	6,148	33,200	57,482	0	72,000	\$2.11
Carmichael/Fair Oaks	50	989,434	178,404	18.03%	811,030	81.97%	184,104	18.61%	4,348	(2,145)	14,627	15,831	0	0	\$2.91
Citrus Heights/Orangevale	54	1,445,524	142,199	9.84%	1,303,325	90.16%	175,642	12.15%	4,458	(3,385)	20,297	42,869	68,000	15,000	\$1.42
Davis/Woodland	81	1,989,985	101,505	5.10%	1,888,480	94.90%	143,688	7.22%	(25,262)	(4,825)	5,704	48,428	0	107,547	\$2.34
Downtown	215	19,443,166	1,758,744	10.46%	17,697,581	91.02%	2,158,698	11.10%	54,335	38,393	324,528	524,827	0	726,900	\$2.72
East Sacramento	38	2,507,634	109,516	4.37%	2,398,118	95.63%	122,000	4.87%	2,549	2,947	2,587	29,985	0	0	\$2.47
El Dorado	71	1,654,730	308,537	18.65%	1,346,193	81.35%	270,898	16.37%	107,142	72,840	125,138	166,013	3,250	257,251	\$1.93
Elk Grove	53	1,775,631	141,290	7.96%	1,634,341	92.04%	161,650	9.10%	(14,970)	(856)	6,270	25,684	0	392,273	\$2.62
Folsom	98	4,497,837	263,420	5.86%	4,234,417	94.14%	347,499	7.73%	21,425	53,571	36,126	94,092	0	115,570	\$1.98
Highway 50 Corridor	297	17,373,125	2,228,377	12.83%	15,165,627	87.29%	2,896,995	16.68%	(10,170)	69,378	231,716	490,319	0	955,340	\$1.70
Howe Ave./Fulton Ave.	77	2,458,808	488,852	19.88%	1,969,224	80.09%	567,260	23.07%	(91,161)	(12,940)	63,422	153,299	0	0	\$1.65
Midtown	99	3,787,460	334,859	8.84%	3,452,601	91.16%	407,803	10.77%	30,543	36,197	42,424	65,306	0	80,985	\$2.33
Natomas/Northgate	114	6,499,555	704,333	10.84%	5,794,171	89.15%	913,242	14.05%	55,438	172,135	124,371	319,134	20,000	1,935,290	\$1.84
Point West	51	2,728,529	360,564	13.21%	2,369,965	86.86%	467,322	17.13%	40,131	52,971	88,520	144,547	14,484	258,300	\$1.90
Rio Linda/N Highlands	29	1,018,415	248,596	24.41%	769,819	75.59%	308,454	30.29%	(22,172)	(10,965)	65,030	86,537	0	8,425	\$1.10
Roseville/Rocklin	271	10,807,743	944,273	8.74%	9,863,152	91.26%	1,725,567	15.97%	(14,985)	2,406	152,069	344,983	450,800	1,707,290	\$2.04
South Sacramento	103	3,061,673	342,858	11.20%	2,718,815	88.80%	354,629	11.58%	32,951	55,759	40,873	68,867	11,242	87,395	\$1.63
Sutter County	32	591,544	29,396	4.97%	562,148	95.03%	64,456	10.90%	(1,595)	(10,326)	3,625	4,808	0	0	-
Watt Ave.	50	2,398,201	239,489	9.99%	2,158,712	90.01%	274,613	11.45%	16,986	7,984	24,140	33,304	0	45,858	\$1.55
West Sacramento	35	2,020,487	125,815	6.23%	1,894,672	93.77%	268,890	13.31%	18,693	(11,395)	21,477	21,477	0	110,000	\$1.80
Yuba County	11	589,511	22,526	3.82%	566,985	96.18%	22,526	3.82%	1,436	1,436	1,436	1,436	0	0	-
Office Market Totals	1,937	90,313,826	9,351,696	10.35%	80,996,097	89.68%	12,226,510	13.54%	223,217	519,544	1,442,071	2,761,289	579,276	6,944,877	\$1.98
Class A	204	27,444,956	2,456,066	8.95%	25,010,161	91.13%	3,191,659	11.63%	215,920	260,710	560,972	935,871	0	4,552,466	\$2.28
Class B	965	42,099,295	4,579,531	10.88%	37,532,898	89.15%	6,365,629	15.12%	(20,950)	173,245	596,629	1,239,689	579,276	2,392,411	\$1.82
Class C	768	20,769,575	2,316,099	11.15%	18,453,038	88.85%	2,669,222	12.85%	28,247	85,589	284,470	585,729	0	0	\$1.76
Class Total	1,937	90,313,826	9,351,696	10.35%	80,996,097	89.68%	12,226,510	13.54%	223,217	519,544	1,442,071	2,761,289	579,276	6,944,877	\$1.98

Average asking rates represented are full service.

NORTHERN CALIFORNIA MAP | TRI OFFICE LOCATIONS:



MAP IS NOT TO SCALE

ABOUT TRI COMMERCIAL

Since 1977, we have consistently proven that we come to the table with real-time knowledge of the opportunities and challenges our clients face. Our value is providing the expertise to help you seize the opportunities, overcome the challenges and complete your transaction. Our agents truly value the relationship more than the transaction. As a full-service brokerage firm, TRI Commercial has an office specialist to match your specific needs. We provide complete tenant/landlord representation in leasing, as well as property acquisition and disposition services. We have a strong presence in San Francisco, Oakland, Walnut Creek, Sacramento and Roseville with direct access to every major office market in Northern California. Through our affiliation with CORFAC International, we also provide clients with national and international coverage. No matter what your requirements, you'll find a TRI agent who possesses the knowledge, expertise and commitment to fulfill all of your commercial real estate needs.

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. CoStar was the main source of information used in this report.

TRI CONTACT INFORMATION

San Francisco

100 Pine St., Suite 1000
San Francisco, CA 94111
Tel: (415) 268-2200 | Fax: (415) 268-2289

Oakland

1404 Franklin St., Penthouse
Oakland, CA 94607
Tel: (510) 622-8466 | Fax: (510) 336-8296

Walnut Creek

1777 Oakland Blvd., Suite 100
Walnut Creek, CA 94596
Tel: (925) 296-3300 | Fax: (925) 296-3399

Sacramento

1515 River Park Drive, Suite 200
Sacramento, CA 95815
Tel: (916) 669-4500 | Fax: (916) 669-4598

Roseville

532 Gibson Drive, Suite 200
Roseville, CA 95678
Tel: (916) 677-8000 | Fax: (916) 677-8199

Rocklin

2209 Plaza Drive, Suite 100
Rocklin, CA 95765
Tel: (916) 960-5700 | Fax: (916) 960-5799

Report Prepared By:
Bianca Cruz
bianca.cruz@tricommercial.com

Building Great Relationships Since 1977

CORFAC
International