

### OUTLOOK

Sacramento’s office vacancy decreased due to job growth which continues to outpace the national average with steady demand. The government sector propels demand for office space, but the metro will soon receive a boost from the private sector, St. Louis-based health insurer, Centene, a Fortune 100 company, chose Sacramento as its home for a new regional headquarters. This enterprise is expected to build more than one million SF of office space and add approximately 5,000 jobs.

Sacramento has historically struggled with high vacancy—the long-term vacancy rate is above 12%, despite the presence of government to bolster demand. However, vacant space has decreased steadily during this cycle and reported 10.16% at the end of 2018. The current vacancy rate is now in line with national vacancy for the first time since 2012.

Rent growth in Sacramento is not only strong compared to the historical average, but also merits attention. After years of negative or minimal gains, rent growth accelerated beginning in 2015 and by the end of 2018 rents outpaced the U.S. average by about 200 basis points. Annual rent growth is currently at 3.6%. With steady demand and constrained inventory landlords were encouraged to push rents to levels that have typically been unobtainable. These recent gains have especially been strong in Highway 50 Corridor and select suburban submarkets, many of which are witnessing vacancy rates that are below the metro average.

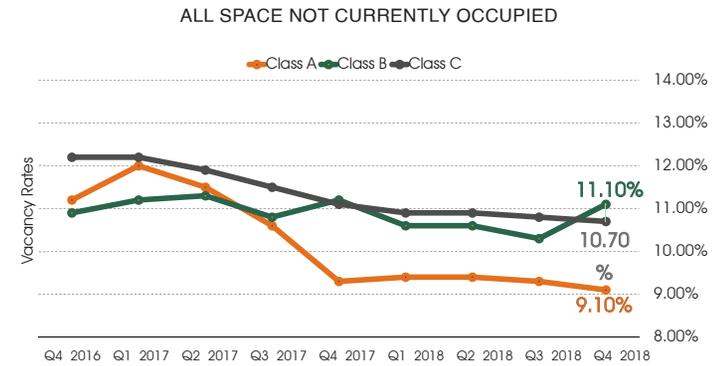
Last year kicked off sales with the trade of one of Sacramento’s most notable office assets. In January, San Francisco-based Shorenstein Properties acquired U.S. Bank Tower, one of the tallest buildings in the Sacramento area, for \$161 million (\$439/SF). The seller, David S. Taylor Interests Inc., was the developer of the project, and owned it in a joint venture with Britannia Pacific Properties.

### SACRAMENTO OFFICE TRENDS | FOURTH QUARTER 2018

ARROWS REPRESENT CHANGES FROM THE PREVIOUS QUARTER

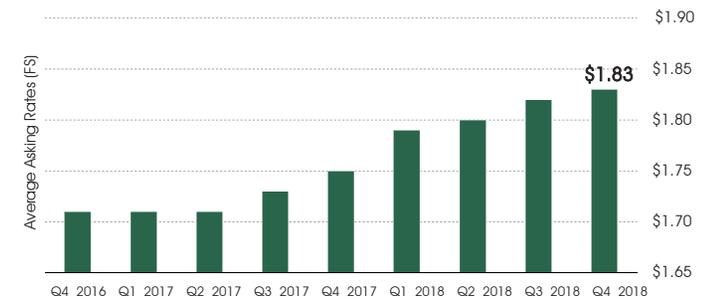
MARKET INDICATORS	Vacancy	Lease Rates (FS)	Net Absorption	Transaction Activity
Q <sup>4</sup> 2018	10.25%	\$1.83	(71,887)	2,481,635
Q <sup>3</sup> 2018	10.19%	\$1.82	127,554	2,053,411

### VACANCY RATES BY CLASS



### AVERAGE ASKING RATES

WEIGHTED AVERAGE RENT BASED ON TOTAL SQUARE FOOTAGE



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

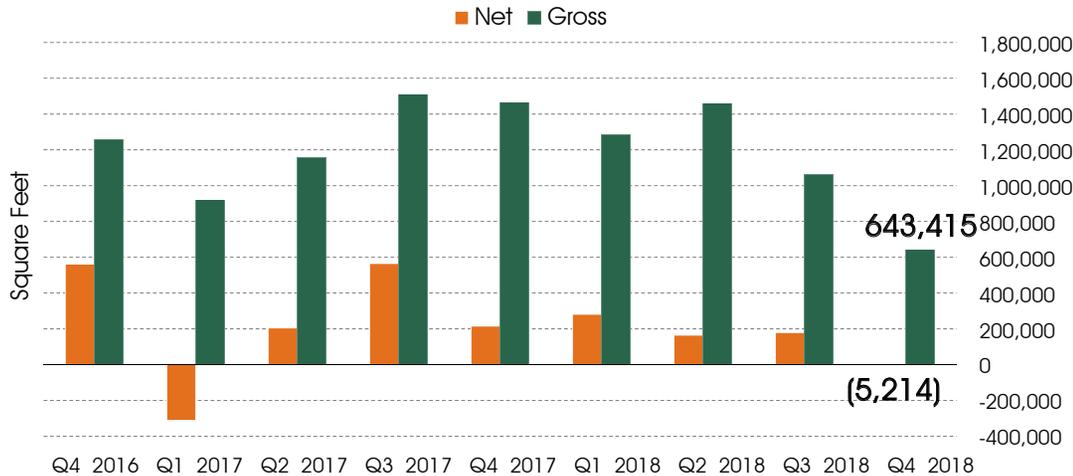
# OUTLOOK

Located in the Downtown Submarket, the 25-story office tower, which delivered in 2008, measures 366,821 SF. CoStar Group, the State Auditors Board and U.S. Bank are among the building's office tenants. Ground floor retail tenants include Morton's The Steakhouse. The deal marked Shorenstein's first investment in Sacramento in many years.

Development has seen an uptick with 1,138,962 SF under construction. One of the most significant projects underway is a build-to-suit Downtown for the California Department of General Services. Located at 1215 O St., the 11-story, 360,000-SF building is expected to deliver in 2022. Another notable build-to-suit in development is Phase I of Centene's forthcoming regional headquarters. Developed by Houston-based Hines, the 255,900-SF building is expected to deliver in 2020. A notable fourth quarter delivery was the 138,500-SF mixed-use building named the "Ice Blocks" developed by Sacramento-based Heller Pacific. Asking rents for the building were 40% higher than the Midtown average. At the end of the fourth quarter, the property was approximately 40% leased.

## NET & GROSS ABSORPTION

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



## MARKET SNAPSHOT

	Q4 2018	Q4 2017	% Chg
Vacancy Rate	10.25%	10.53%	2.73%
Availability Rate	12.51%	12.80%	2.27%
Avg. Asking Lease Rate	\$1.83	\$1.76	-3.98%
Gross Absorption	643,415	1,411,977	54.43%
Net Absorption	(5,214)	215,838	N/A

# NOTEWORTHY TRANSACTIONS

## LEASE TRANSACTIONS | NOTABLE OFFICE LEASES SIGNED Q4 2018

Property Address	Submarket	Tenant	Owner	Date Lease Signed	Transaction Size
8745 Folsom Blvd.	Highway 50 Corridor	Unknown	Endsley Folsom	December 2018	83,750
4400 Auburn Blvd.	Carmichael/Fair Oaks	Sac County Sheriff's Dept.	Bennett Engineering Services	December 2018	36,663
2101 Arena Blvd	Natomas/Northgate	State of California	Realty Advisors, Inc.	November 2018	78,400
8040 Foothills Blvd.	Highway 50 Corridor	Penumbra, Inc.	8000 Foothills, LLC	October 2018	160,000
3000 Lava Ridge Court	Roseville/Rocklin	American Pacific Mortgage	Baker Pacific Group	October 2018	34,736

## SALE TRANSACTIONS | NOTABLE OFFICE SALES FOR Q4 2018

Property Address	Submarket	Buyer	Seller	Transaction Size	Sale Price
1121-1123 L Street	Downtown	Seagate Properties	Swift Real Estate Partners	180,121	\$46,900,000
7801 Folsom Blvd.	Highway 50 Corridor	IMA Financial Corporation	Jackson Properties, Inc.	70,000	\$12,300,000
11931 Foundation Place	Highway 50 Corridor	Brent Lee	Alice A. Backer	63,387	\$11,175,000
516 Gibson Drive	Roseville/Rocklin	Schwager Development, LLC	Shea Properties Mgmt	55,544	\$9,900,000
2990 Lava Ridge Court	Roseville/Rocklin	Rodney Nishikawa	Barker Pacific Group	44,635	\$9,650,000

# STATISTICS BY SUBMARKET

## SACRAMENTO

Submarket	Total Buildings	Net Rentable Square Feet	Vacant Square Feet	Vacancy Rate Q4 2018	Occupied Square Feet	Occupancy Rate Q4 2018	Available Square Feet	Availability Rate Q4 2018	Net Absorption Q4 2018	YTD Net Absorption	Gross Absorption Q4 2018	YTD Gross Absorption	Under Construction Square Feet	Proposed Square Feet	Average Asking Rate (All Classes)*
Auburn/Lincoln	65	1,375,773	65,166	4.70%	1,310,607	95.30%	101,085	7.15%	4,160	15,506	7,975	43,911	0	69,453	\$1.44
Campus Commons*	45	1,322,481	206,207	15.17%	1,116,274	84.83%	287,061	18.53%	13,277	16,509	43,428	127,269	0	0	\$2.25
Carmichael/Fair Oaks	49	979,315	190,647	19.47%	788,668	80.53%	226,283	23.11%	1,764	(14,388)	9,246	34,990	0	0	\$1.28
Citrus Heights/Oran-gevale	54	1,419,740	164,743	11.60%	1,254,997	88.40%	171,289	12.06%	49,302	44,341	91,499	148,861	0	15,000	\$1.52
Davis/Woodland	82	2,062,003	107,702	5.22%	1,954,301	94.78%	126,200	6.12%	(5,717)	(14,415)	9,880	61,755	0	0	\$1.81
Downtown	217	20,113,950	1,541,393	10.46%	18,572,557	92.34%	1,896,431	9.43%	102,337	186,833	148,299	832,205	360,000	1,669,648	\$2.42
East Sacramento	37	2,546,641	95,039	3.73%	2,451,602	96.27%	102,410	4.02%	6,296	17,424	10,317	27,497	0	0	\$2.65
El Dorado	71	1,655,840	219,671	13.27%	1,436,169	86.73%	272,819	16.48%	19,109	169,126	34,397	271,772	30,216	248,970	\$1.75
Elk Grove	55	1,801,627	123,368	6.85%	1,678,259	93.15%	169,972	9.43%	(9,735)	(3,027)	15,302	63,082	22,362	110,000	\$1.98
Folsom	99	4,775,262	320,304	6.71%	4,454,958	93.29%	447,949	9.38%	13,277	16,509	43,428	127,269	0	5,647	\$2.26
Highway 50 Corridor	299	17,336,679	2,035,199	11.74%	15,301,480	88.26%	2,590,777	14.94%	37,693	153,451	146,400	890,858	0	338,000	\$1.64
Howe Ave./Fulton Ave.	77	2,387,180	461,384	30.40%	1,925,796	69.60%	497,497	29.47%	37,418	15,260	50,575	213,415	0	0	\$1.67
Midtown	98	3,727,635	364,709	9.78%	3,362,926	90.22%	464,292	12.46%	(7,589)	(18,177)	21,797	109,111	0	80,985	\$2.45
Natomas/Northgate	115	6,509,439	732,001	11.25%	5,777,438	88.75%	761,048	11.69%	(45,675)	116,981	83,837	556,270	275,900	2,827,124	\$1.71
Point West	51	2,729,749	414,926	15.20%	2,314,823	84.80%	440,732	16.15%	(11,419)	(3,391)	32,259	218,749	14,484	254,000	\$1.82
Rio Linda/N Highlands	29	1,018,415	275,787	27.08%	742,628	72.92%	323,245	31.74%	0	(38,156)	0	59,346	0	8,425	\$1.33
Roseville/Rocklin	274	10,839,028	1,229,085	11.34%	9,609,943	88.66%	1,484,628	13.70%	(207,474)	(275,496)	(161,249)	19,793	436,000	1,138,083	\$1.77
South Sacramento	104	3,072,915	323,730	10.53%	2,749,185	89.47%	354,684	11.54%	(2,098)	52,106	22,983	105,620	0	87,128	\$1.51
Watt Ave.	50	2,398,201	215,780	9.00%	2,182,421	91.00%	275,549	11.49%	600	5,723	26,282	71,950	0	0	\$1.58
West Sacramento	35	2,020,487	151,930	7.52%	1,868,557	92.48%	277,069	13.71%	(740)	(11,695)	6,760	34,681	0	275,000	\$1.83
<b>Office Market Totals</b>	<b>1,906</b>	<b>90,092,360</b>	<b>9,238,771</b>	<b>10.25%</b>	<b>80,853,589</b>	<b>89.75%</b>	<b>11,271,020</b>	<b>12.51%</b>	<b>(5,214)</b>	<b>431,024</b>	<b>643,415</b>	<b>4,018,404</b>	<b>1,138,962</b>	<b>7,127,463</b>	<b>\$1.83</b>

\*Average asking rates represented are full service.

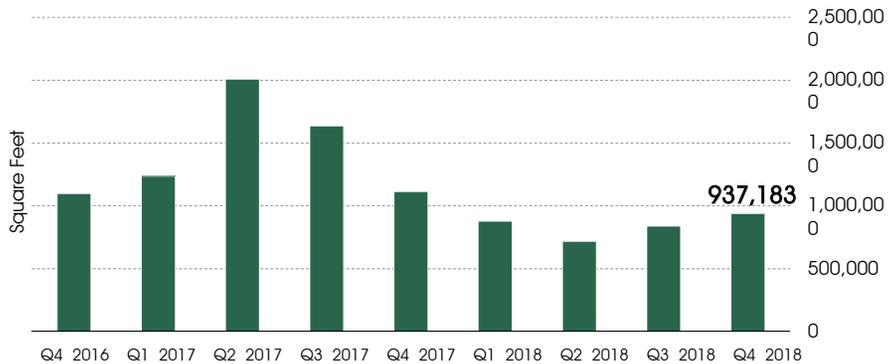
# STATISTICS BY SUBMARKET

## SACRAMENTO

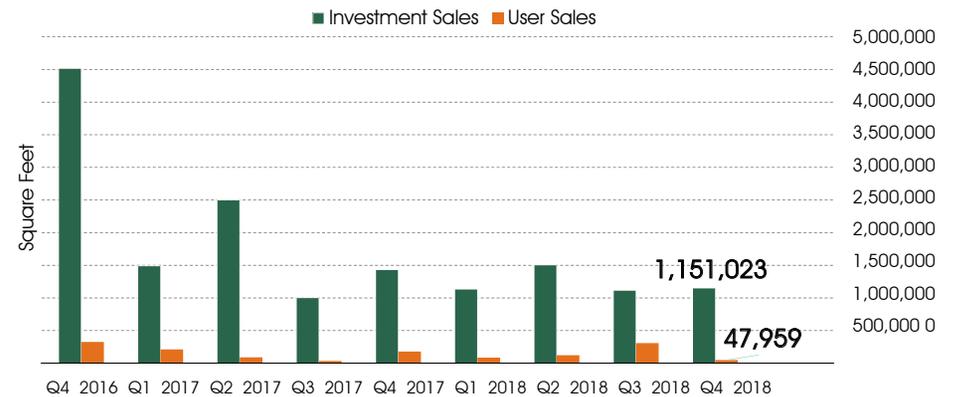
Submarket	Total Buildings	Net Rentable Square Feet	Vacant Square Feet	Vacancy Rate Q4 2018	Occupied Square Feet	Occupancy Rate Q4 2018	Available Square Feet	Availability Rate Q4 2018	Net Absorption Q4 2018	YTD Net Absorption	Gross Absorption Q4 2018	YTD Gross Absorption	Under Construction Square Feet	Proposed Square Feet	Average Asking Rate (All Classes)*
Class A	195	26,692,700	2,316,103	10.72%	24,152,806	89.12%	2,837,789	14.35%	74,529	149,360	231,633	1,295,484	360,000	4,770,872	\$2.25
Class B	955	42,366,980	4,685,876	13.66%	37,904,895	85.52%	5,827,722	16.27%	(105,637)	273,647	200,740	1,760,708	778,962	2,356,591	\$1.75
Class C	756	21,032,680	2,236,792	11.01%	18,795,888	88.99%	2,605,509	13.23%	25,894	8,017	211,042	962,212	0	0	\$1.50
Class Total	1,906	90,092,360	9,238,771	10.25%	80,853,589	89.75%	11,271,020	12.51%	(5,214)	431,024	643,415	4,018,404	1,138,962	7,127,463	\$1.83

\*Average asking rates represented are full service.

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



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



Report Prepared By:

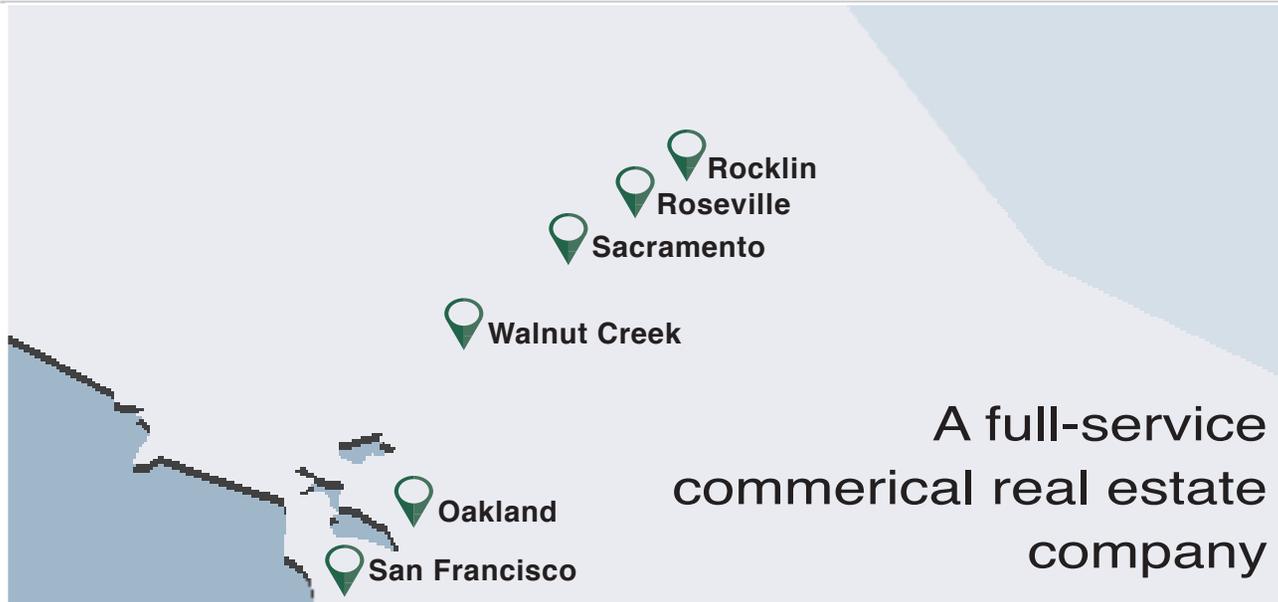
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## NORTHERN CALIFORNIA MAP | TRI OFFICE LOCATIONS



## ABOUT TRI COMMERCIAL

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