TRI COMMERCIAL

SACRAMENTO OFFICE

Q2 2019 COMMERCIAL REAL ESTATE MARKET TRENDS

OUTLOOK

Continuing to trend below the national average, the Sacramento office market remained strong in 2Q 2019 and witnessed an uptick in leasing from last quarter resulting in 824,639 square feet of positive net absorption. Overall vacancy is approximately 774,127 square feet lower than last year during the same time period. Over 2 million square feet remains in the construction pipeline albeit the majority is already dedicated to users with only one speculative project underway.

One of the most noteworthy construction projects, phase one of the Centene Campus in the North Natomas submarket, is projected to be delivered in the third quarter of 2019. The 68-acre campus is expected to eventually employ over 5,000 workers. On a rarer note, Bannon Investors is underway with a three-story, Class A speculative office project totaling 90,000-square-feet at 2555 Natomas Drive in the South Natomas submarket.

Downtown continues to see compressing vacancy rates. In fact, Sacramento's metro first half of 2019 net absorption topped 1 million square feet continuing a positive trend each year since 2012, reversing the trend of historically being above the national average. Since Q4 2018, the vacancy rate has been in single digits and below the U.S. national average. Adding to this strong activity, We Work just announced plans to open a second location for three of four floors at 660 J Street in 2021, totaling 96,000 sf.

In general, government entities continue to dominate the Sacramento leasing market. Centene and WeWork highlight newer entries into the market but with compressed vacancies in 4 and 5 star product, choices are becoming limited, particularly in metro assets that contain at least 50,000 sf of contiguous space or more. Recent notatable renewals include Rocklin Academy at the Rocklin 65 Business Center in Rocklin and the State of California at Parkway Corporate Plaza in Folsom. A recent notable lease occurred at 3010 Lava Ridge Court in Roseville where Clear Captions leased 17,612 sf.

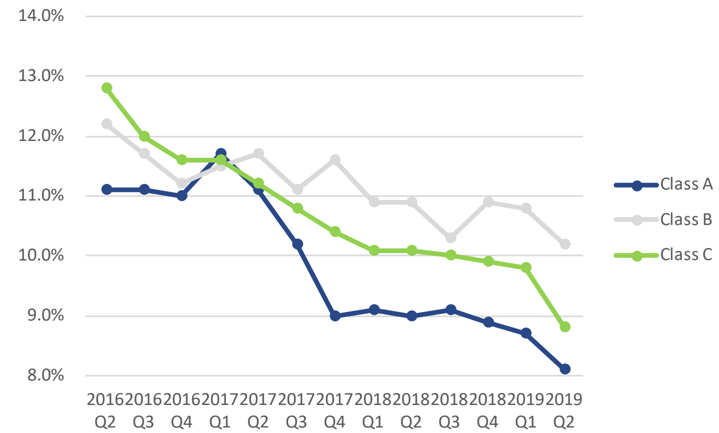
SACRAMENTO OFFICE TRENDS I SECOND QUARTER 2019

ARROWS REPRESENT CHANGES FROM THE PREVIOUS QUARTER

MARKET INDICATORS	Vacancy	Lease Rates (FS)	Net Absorption	Transaction Activity
	↓	↑	↑	↑
Q1 2019	9.95%	$1.86	125,233	1,071,647
Q2 2019	9.27%	$1.87	824,639	1,898,415

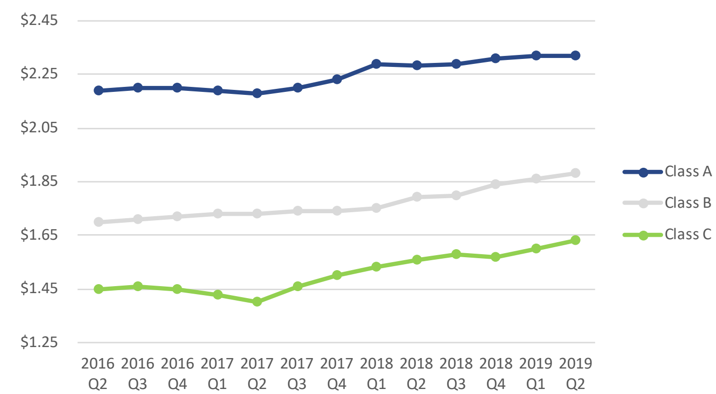
VACANCY RATES BY CLASS

ALL SPACE NOT CURRENTLY OCCUPIED



AVERAGE ASKING RATES

WEIGHTED AVERAGE RENT BASED ON TOTAL SQUARE FOOTAGE

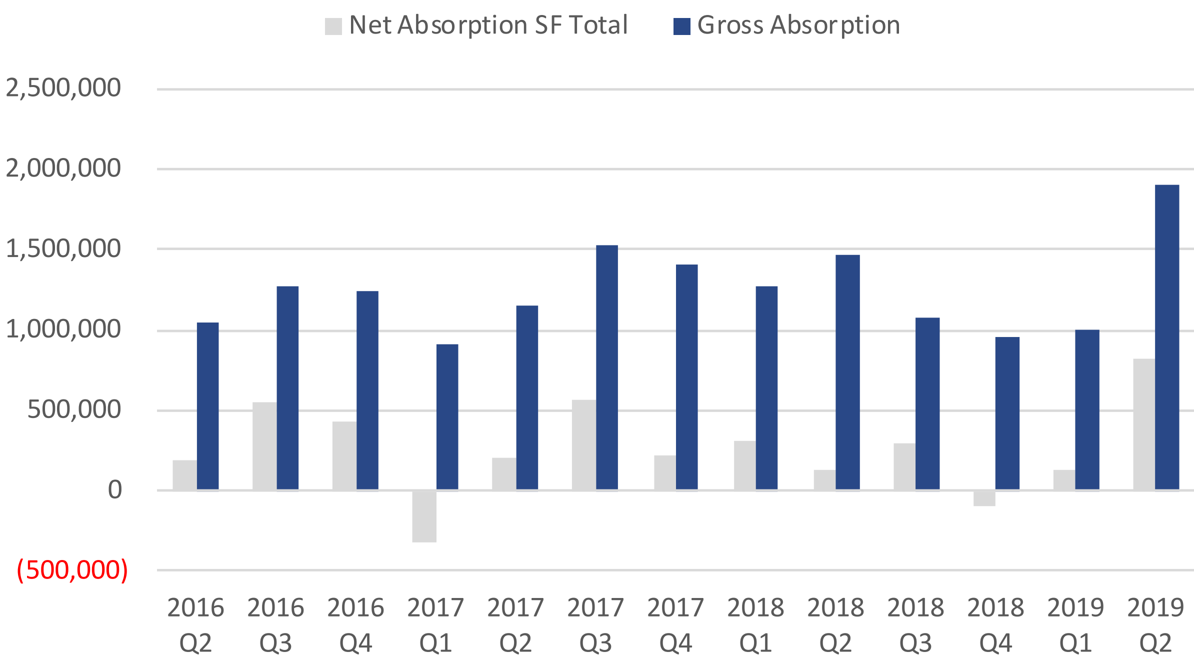


THESE STATISTICS ENCOMPASS THE ENTIRE SURVEY, WHICH INCLUDES ALL OFFICE CLASS TYPES 10,000 SQUARE FEET AND LARGER.

OUTLOOK

NET & GROSS ABSORPTION

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



MARKET SNAPSHOT

	Q2 2019	Q2 2018	% Chg
Vacancy Rate	9.27%	10.17%	-8.85%
Availability Rate	11.68%	13.14%	-11.11%
Avg. Asking Lease Rate	$1.87	$1.81	3.31%
Gross Absorption	1,898,415	60,729	3026.04%
Net Absorption	824,639	133,087	519.62%

NOTEWORTHY TRANSACTIONS

LEASE TRANSACTIONS I NOTABLE OFFICE LEASES SIGNED Q2 2019

Property Address	Submarket	Tenant	Owner	Date Lease Signed	Sq.Ft. Leased
6550 Lonetree Boulevard	**Roseville/Rocklin**	**Rocklin Academy**	**Toebang Holdings LLC**	**May 14, 2019**	**82,204**
1640 East Roseville Parkway	**Roseville/Rocklin**	**State Academy**	**Anchor Health Properties**	**May 28, 2019**	**26,000**
950 Iron Point Road	**Folsom**	**Allstate**	**PAC West Office Equities**	**May 13, 2019**	**18,001**
3010 Lava Ridge Court	**Roseville/Rocklin**	**Clear Captions**	**WL-BPG Lava Ridge Partners, LLC**	**June 25, 2019**	**17,612**

SALE TRANSACTIONS I NOTABLE OFFICE SALES FOR Q2 2019

Property Address	Submarket	Buyer	Seller	Transaction Size	Sale Price
300 Capital Mall	**Downtown**	**Evergreen Co JV UAIC Development**	**Sterling America**	**383,238**	**$127,000,000**
1515 S Street	**Downtown**	**Boyd Watterson**	**Oaktree JV Hines**	**399,636**	**$109,300,000**
3636 American River Dr	**Watt**	**Woodside Capital Partners**	**LNR Partners**	**110,000**	**$9,500,000**
1725 23rd Street	**Midtown**	**Reynen & Bardis**	**Thomas & Carol Harris**	**38,400**	**$7,800,000**

STATISTICS BY SUBMARKET

SACRAMENTO I Q2 2019

Submarket	Total Buildings	Net Rentable Square Feet	Vacant Square Feet	Vacancy Rate Q2 2019	Occupied Square Feet	Occupancy Rate Q2 2019	Available Square Feet	Availability Rate Q2 2019	Net Absorption Q2 2019	YTD Net Absorption	Gross Absorption Q2 2019	YTD Gross Absorption	Under Construction Square Feet	Delivered Square Feet	Proposed Square Feet	Average Asking Rate (All Classes)*
Auburn/Lincoln	66	1,386,704	70,224	5.06%	1,316,480	94.94%	98,630	7.11%	(2,986)	(2,072)	12,949	12,949	0	0	69,453	$1.88
Campus Commons	45	1,285,841	216,809	16.86%	1,069,032	83.14%	327,039	25.43%	(7,109)	(3,493)	37,570	37,570	0	0	0	$2.21
Carmichael/Fair Oaks	49	979,661	203,356	20.76%	776,305	79.24%	183,573	18.74%	48,769	(24,815)	63,186	63,186	0	0	0	$1.35
Citrus Heights/ Orangevale	55	1,502,796	121,588	8.09%	1,381,208	91.91%	148,185	9.86%	15,434	27,721	25,813	25,813	0	0	15,000	$1.44
Davis/Woodland	83	2,126,521	107,242	5.04%	2,019,279	94.96%	100,459	4.72%	7,851	(7,391)	19,734	19,734	0	0	0	$1.89
Downtown	218	20,236,219	1,463,818	7.23%	18,772,401	92.77%	1,835,972	9.07%	87,101	(21,014)	190,184	190,184	1,198,000	0	1,669,648	$2.72
East Sacramento	35	2,355,959	27,812	1.18%	2,328,147	98.82%	28,950	1.23%	4,266	5,961	5,785	5,785	0	0	0	$2.66
El Dorado	72	1,684,530	216,173	12.83%	1,468,357	87.17%	279,271	16.58%	507	4,291	25,827	25,827	30,216	0	4,048,970	$1.97
Elk Grove	55	1,806,813	120,934	6.69%	1,685,879	93.31%	141,273	7.82%	16,217	(13,783)	44,976	44,976	0	0	110,000	$2.26
Folsom	99	4,784,185	292,041	6.10%	4,492,144	93.90%	418,310	8.74%	21,497	(4,392)	66,067	66,067	0	0	5,647	$2.11
Highway 50 Corridor	296	17,487,206	1,811,261	10.36%	15,675,945	89.64%	2,319,655	13.26%	85,966	10,774	259,903	259,903	0	0	338,000	$1.70
Howe Ave./Fulton Ave.	79	2,724,533	422,778	15.52%	2,301,755	84.48%	471,997	17.32%	25,021	17,785	65,639	65,639	0	0	0	$1.68
Midtown	97	3,743,844	286,210	7.64%	3,457,634	92.36%	367,570	9.82%	74,895	(851)	100,347	100,347	0	0	80,985	$2.33
Natomas/Northgate	118	6,564,289	687,800	10.48%	5,876,489	89.52%	861,485	13.12%	38,109	6,092	141,417	141,417	601,800	0	40,827,124	$1.92
Point West	51	2,708,780	346,375	12.79%	2,362,405	87.21%	429,484	15.86%	20,947	36,358	42,818	42,818	14,484	0	4,054,000	$1.97
Rio Linda/N Highlands	29	1,018,415	210,437	20.66%	807,978	79.34%	270,295	26.54%	63,218	2,132	63,218	63,218	0	0	84,405	$1.73
Roseville/Rocklin	278	11,139,391	1,164,515	10.45%	9,974,876	89.55%	1,547,942	13.90%	298,819	(25,868)	594,044	594,044	194,000	0	1,138,083	$1.97
South Sacramento	104	3,074,915	222,928	7.25%	2,851,987	92.75%	262,314	8.53%	92,945	7,857	93,734	93,734	0	0	871,408	$1.65
Watt Ave.	50	2,384,755	237,189	9.95%	2,147,566	90.05%	315,781	13.24%	(2,379)	(19,030)	28,250	28,250	0	0	0	$1.75
West Sacramento	35	2,020,487	211,694	10.48%	1,808,793	89.52%	225,350	11.15%	(64,449)	4,685	16,954	16,954	0	0	4,075,000	$1.78
Office Market Totals	1,914	91,015,844	8,441,184	9.27%	82,574,660	90.73%	10,633,535	11.68%	824,639	947	1,898,415	1,898,415	2,038,500	0	57,387,723	$1.87

*Average asking rates represented are full service.

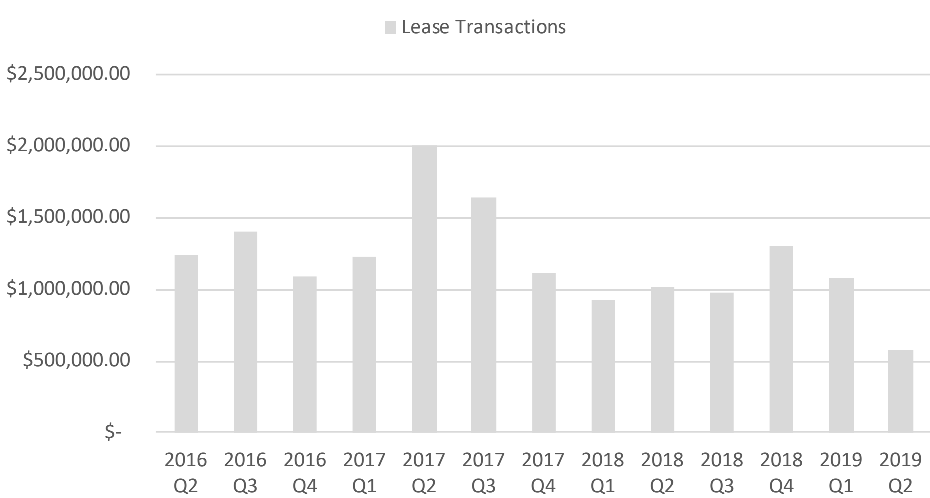
STATISTICS BY CLASS

SACRAMENTO I Q2 2019

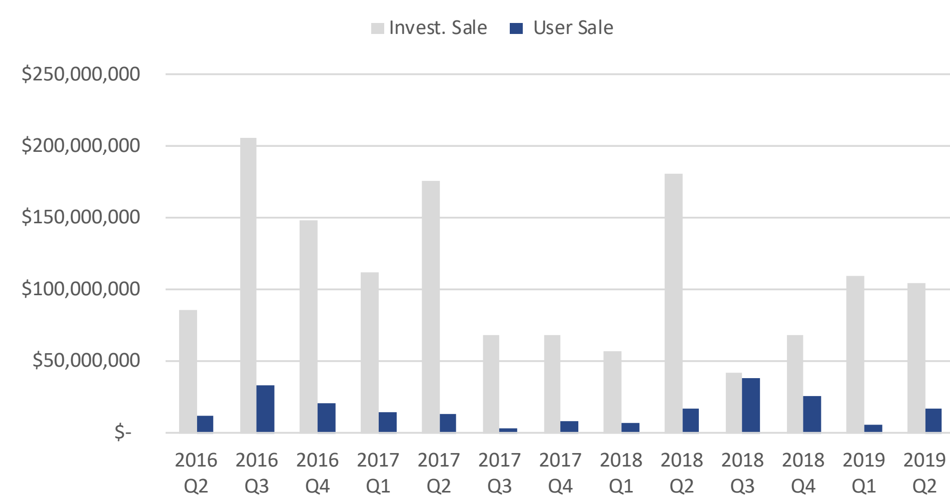
Submarket	Total Buildings	Net Rentable Square Feet	Vacant Square Feet	Vacancy Rate Q2 2019	Occupied Square Feet	Occupancy Rate Q2 2019	Available Square Feet	Availability Rate Q2 2019	Net Absorption Q1 2019	YTD Net Absorption	Gross Absorption Q2 2019	YTD Gross Absorption	Under Construction Square Feet	Delivered Square Feet	Proposed Square Feet	Average Asking Rate
Class A	194	26,739,806	2,179,286	8.15%	24,560,520	91.85%	2,636,494	9.86%	140,988	31,632	356,776	356,776	1,543,900	0	0	$2.32
Class B	962	43,344,770	4,411,406	10.18%	38,933,364	89.82%	5,673,146	13.09%	489,766	(44,985)	1,187,759	1,187,759	494,600	0	0	$1.88
Class C	758	20,931,268	1,850,492	8.84%	19,080,776	91.16%	2,323,895	11.10%	193,885	14,300	353,880	353,880	0	0	0	$1.63
Class Total	1,914	91,015,844	8,441,184	9.27%	82,574,660	90.73%	10,633,535	11.68%	824,639	947	1,898,415	1,898,415	2,038,500	0	0	$1.87

**Average asking rates represented are full service.*

LEASE TRANSACTIONS I AMOUNT OF SQUARE FEET LEASED PER QUARTER



SALES TRANSACTIONS I AMOUNT OF SQUARE FEET SOLD PER QUARTER



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NORTHERN CALIFORNIA MAP | TRI OFFICE LOCATIONS

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