



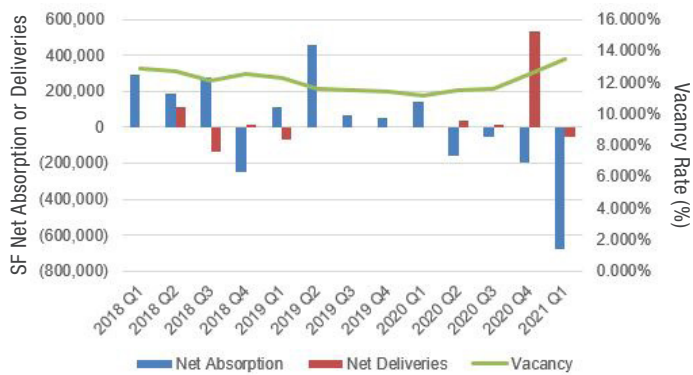
OFFICE MARKET REPORT

MARKET OVERVIEW

Sacramento office vacancies have continued to rise in Q1 2021 as demand, after landing in negative territory last year, is again trending in the red. While an end to the coronavirus pandemic may be in sight, economic uncertainty is likely to remain for some time, and a further increase in vacancies may be on the horizon. Availabilities have notably expanded since the outburst of the virus, and sublease space has risen to an all-time metro high.

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Office Net Absorption vs. Deliveries vs. Vacancy Rate



MARKET TRENDS

Sacramento's office market has felt the effects of the coronavirus pandemic and resulting recession. Annual leasing activity in 2020 fell to one of the lowest levels on record and has remained tepid in the new year. However, the largest two deals highlighted in Q1 include the State of California leasing 48,808 square feet in Natomas located at 2880 Gateway Oaks Dr (Building D of Crown Corporate Center) while Child Action Inc leased 22,521 square feet at 10540 White Rock Rd, part of the Hwy 50 submarket.

The regional market recorded over 675,000 square feet of negative net absorption where these robust levels have not been experienced since the last downturn. Most notably, Q1 saw a majority of negative net absorption in Class A space within the Roseville/Rocklin, Natomas, and Downtown submarkets. On the flipside, five out of the 11 submarkets remained above water and out of the red for the quarter.

Overall, asking lease rates averaged \$1.92 Full Service Gross across all classes on a local level. More specifically, there were four submarkets above the average starting with Downtown, which showcased the highest rent of \$2.97 Full Service Gross. In addition, Q1 identified five submarkets within the suburban scope that remained higher than the average of \$1.84 Full Service Gross. On the high end, the Midtown/East Sacramento submarket recorded \$2.37 Full Service Gross through the low end of \$1.84 Full Service Gross in the Roseville/Rocklin submarket.

INVESTMENT HIGHLIGHTS

The local sales market is off to a modest start in 2021. Deal flow is at a similar pace to the limited levels of the past year and few notable sales have recorded. The average sale price came in just under four million dollars whereas each quarter trailing the past year have each been on par with five million plus.

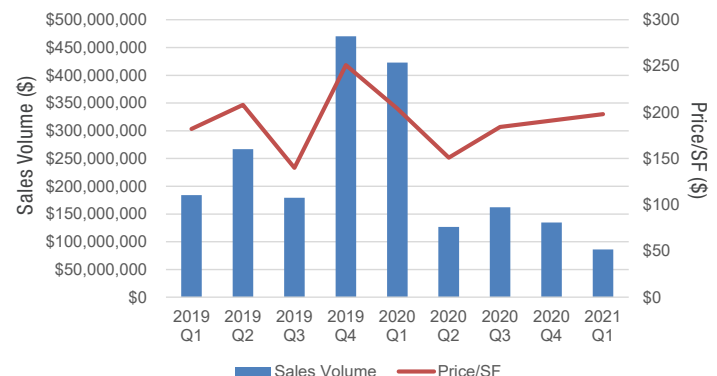
In addition, nearly 75% of Q1 deals derived from the suburban areas and the metro did include six deals all above the last year's average. This was in large part due to a four building portfolio sale on Douglas Blvd located in Roseville. Days before the quarter close the Class A 196,467 square foot office portfolio known as Olympus Corporate Centre was sold for \$45.5 million or \$232 per square foot to KB Property Advisors and traded at a 7.1% cap rate.

NEWS BULLETIN



- Residential home growth drove robust influx into the Sacramento region due to Bay Area migration and fueled local economy.
- Savings rates are among the highest in the county with a strong probability of substantial spending through the balance of the year.
- The coronavirus vaccine rollout was put into full effect across the United States yet challenged by inventory supply.
- A new stimulus package was decided and agreed upon. Highlights include:
 - Enhanced unemployment benefits
 - Resumption of small business PPP loans
 - Extension of eviction protection
- The local March unemployment rate sat at 7.0%, below 8.2% for the state, but above the national rate of 6.2%. From the highest peak in unemployment last April, Sacramento has returned half of its MSA back into the workforce.

Office Sales Volume vs. Price/SF



**Quarter Over Quarter Change*

13.5%



Vacancy

(±678,234) SF



Net Absorption

\$1.92



Avg. Asking Rate

\$499,000



Median Home Value in
Sacramento MSA
(Source: Zillow)

7.0%



Sacramento
Unemployment

6.0%



United States
Unemployment

OUTLOOK

The coronavirus pandemic has undoubtedly had a very large impact on the office market, particularly in high-end space. Upper-tier assets are responsible for much of the local vacancy expansion. While the overall vacancy rate in Sacramento has expanded by 230 basis points over the past 12 months, Class A product has felt the brunt of this with a year over year vacancy increase of 4.5%. Consequently, rents in the high-end office sector have also suffered a decline.

Another factor that has placed leverage on the side of office tenants is the amount of sublease space that has come to market since the start of the pandemic. With many office employees working from home the past year and the possibility that a significant number of people may continue to work from home on at least a part-time basis moving forward, many occupiers are reconsidering physical space needed. Available sublease space rose to an all-time high by end of 2020, and that figure has only increased as of Q1 2021 with 1.12 million square feet in Sacramento, a 60% increase compared to one year ago signifying what will be a challenging year as the effects of the coronavirus and recession continue take shape.



Office Market Statistics (Criteria based on: 10,000 SF and above, does not include owner occupied)

Submarket	Total Number of Buildings	Inventory	Available Space			Vacancy Q1-21	Net Absorption		Avg. Asking Rate (FSG) Weighted
			Direct	Sublease	Total		Q1-21	Q1-20	
Arden/Arcade									
Class A	9	945,445	214,401	5,511	219,912	23.3%	(5,934)	16,304	\$2.12
Class B	86	3,882,437	728,081	15,435	743,516	19.2%	(28,590)	26,348	\$1.87
Class C	92	2,494,477	325,684	4,703	330,387	13.2%	11,961	36,102	\$1.65
Total	187	7,322,359	1,268,166	25,649	1,293,815	17.7%	(22,563)	78,754	\$1.83
Auburn/Lincoln									
Class A	-	-	-	-	-	-	-	-	-
Class B	26	438,591	49,425	0	49,425	11.3%	(6,953)	(13,550)	\$1.72
Class C	23	489,949	23,317	0	23,317	4.8%	10,348	(550)	\$1.19
Total	49	928,540	72,742	0	72,742	7.8%	3,395	(14,100)	\$1.44
Downtown Sacramento									
Class A	20	5,546,343	463,404	21,758	485,162	8.7%	(114,395)	17,779	\$3.43
Class B	59	3,880,566	729,299	0	729,299	18.8%	(36,977)	(30,420)	\$2.86
Class C	84	2,532,616	223,029	9,485	232,514	9.2%	(2,688)	(33,921)	\$2.15
Total	163	11,959,525	1,415,732	31,243	1,446,975	12.1%	(154,060)	(46,562)	\$2.97
El Dorado Hills/Folsom									
Class A	11	893,069	60,523	11,782	72,305	8.1%	23,672	10,161	\$2.26
Class B	93	2,885,210	274,027	28,005	302,032	10.5%	10,344	44,758	\$2.03
Class C	36	733,751	43,085	0	43,085	5.9%	(8,304)	1,000	\$1.59
Total	140	4,512,030	377,635	39,787	417,422	9.3%	25,712	55,919	\$2.00
Highway 50/Rancho Cordova									
Class A	31	2,956,380	233,184	73,993	307,177	10.4%	(1,590)	64,444	\$1.97
Class B	144	7,865,669	1,575,940	125,485	1,701,425	21.6%	(196,444)	(118,373)	\$1.77
Class C	73	1,908,726	260,908	0	260,908	13.7%	(18,065)	(13,605)	\$1.37
Total	248	12,730,775	2,070,032	199,478	2,269,510	17.8%	(216,099)	(67,534)	\$1.76
Midtown/East Sacramento									
Class A	4	465,701	11,882	5,363	17,245	3.7%	1,183	2,117	\$2.91
Class B	53	3,342,394	261,566	3,700	265,266	3.7%	(29,811)	21,864	\$2.41
Class C	47	974,748	78,635	904	79,539	8.2%	1,396	(5,436)	\$1.98
Total	104	4,782,843	352,083	9,967	362,050	7.6%	(27,232)	18,545	\$2.37
Natomas									
Class A	35	3,558,327	567,706	32,436	600,142	16.9%	(144,772)	(11,862)	\$2.20
Class B	53	2,234,594	285,207	0	285,207	12.8%	(5,983)	(18,817)	\$1.87
Class C	15	521,500	41,470	0	41,470	8.0%	0	0	\$1.10
Total	103	6,314,421	894,383	32,436	926,819	14.7%	(150,755)	(30,679)	\$1.99
Northeast Sacramento									
Class A	1	79,163	0	0	0	0.0%	0	0	-
Class B	37	1,272,230	227,238	9,030	236,268	18.6%	(12,311)	3,292	\$1.58
Class C	73	1,720,092	321,060	0	321,060	18.7%	25,032	(29,670)	\$1.20
Total	111	3,071,485	548,298	9,030	557,328	18.1%	12,721	(26,378)	\$1.33
Roseville/Rocklin									
Class A	39	3,336,452	515,119	47,618	562,737	16.9%	(171,928)	90,358	\$2.23
Class B	152	5,139,954	598,054	148,038	746,092	14.5%	(20,283)	(17,234)	\$1.68
Class C	44	971,554	60,879	2,382	63,261	6.5%	(649)	12,554	\$1.38
Total	235	9,447,960	1,174,052	198,038	1,372,090	14.5%	(192,860)	85,678	\$1.84
South Sacramento/Elk Grove									
Class A	5	405,431	5,620	0	5,620	1.4%	7,108	5,437	\$2.02
Class B	73	2,249,301	177,383	2,795	180,178	8.0%	18,424	18,274	\$2.11
Class C	50	1,112,516	38,104	0	38,104	4.8%	(9,244)	16,276	\$1.34
Total	128	3,767,248	221,107	2,795	223,902	5.9%	16,288	39,987	\$1.87
Yolo County									
Class A	6	652,467	14,569	1,865	16,434	8.7%	4,797	(5,240)	\$0.00
Class B	46	1,701,611	154,158	9,875	164,033	18.8%	30,236	43,872	\$1.86
Class C	41	853,113	42,248	3,203	45,451	9.2%	(7,814)	8,293	\$1.31
Total	93	3,207,191	210,975	14,943	225,918	7.0%	27,219	46,925	\$1.34
Totals	1,561	68,044,377	8,605,205	563,366	9,168,571	13.5%	(978,234)	140,555	\$1.92
Class A	161	18,838,778	2,086,408	200,326	2,286,734	12.1%	(401,838)	189,498	\$2.47
Class B	822	34,892,557	5,060,378	342,363	5,402,741	15.5%	(278,348)	(28,886)	\$1.76
Class C	578	14,313,042	1,458,419	20,677	1,479,096	10.3%	1,973	(8,857)	\$1.57
Downtown	163	11,959,525	1,415,732	31,243	1,446,975	12.1%	(154,060)	(46,562)	\$2.97
Suburban	1398	56,084,852	7,189,473	532,123	7,721,596	13.8%	(824,174)	187,117	\$1.84