

Q4 OFFICE MARKET REPORT

MARKET OVERVIEW

The Sacramento office market finished 2021 with mixed responses. The market showed signs of recovery and some stationary metrics. The vacancy rate remained relatively level with the previous quarter at 13.9% having only increased by 0.03%. Demand has yet to recover, as annual negative net absorption totaled 254,822 SF in 2021 with approximately 98,000 SF additional negative absorption in Q4 2021. Still, market activity has improved as tenants have a much better idea of their future real estate needs. Unemployment rates for Sacramento County fell to 5.8%, a 3% decrease from the previous year. Placer County experienced a 2.2% decrease and El Dorado County a 3% decrease. We continue to see growth in the financial services, professional services, and information technology sectors. All these industries have shown year-over-year increases, of 2.3%, 5.3%, and 7.6%, respectively. Average lease rates continue to remain level across all submarkets at \$1.94/SF, full service; a growth of \$0.01/SF from Q3 2021. The highest lease rates reported remain in the Downtown submarket at \$2.93/SF, Midtown/East Sacramento submarket at \$2.32/SF and El Dorado Hills at \$1.94/SF. Regional sales volume was less than \$100 Million in Q1, but experienced a steady increase throughout the year, and ended strong with \$250 Million assets transferred in Q4.

Source: US Bureau of Labor Statistics and CoStar

13.9%



Vacancy
Rate

(±254,822) SF



Net
Absorption

\$1.94



Average Asking Rate
(FSG)

\$472,661



Median Home Value in
Sacramento MSA
(Source: Zillow)

4.7%



Sacramento
Unemployment

6.9%

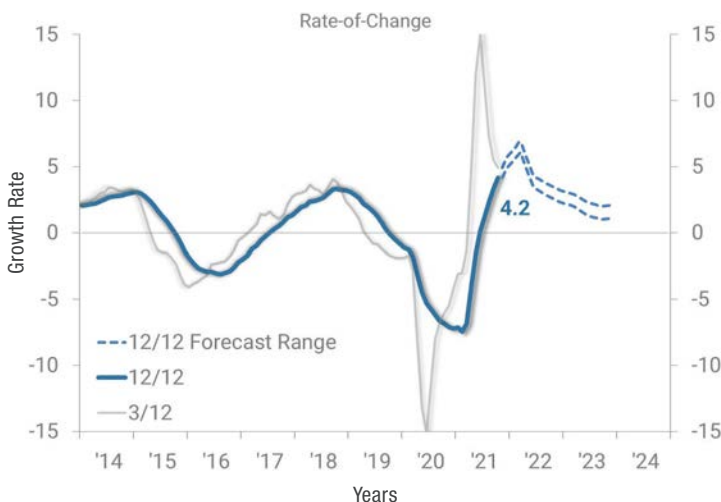


United States
Unemployment

GENERAL ECONOMIC OUTLOOK FOR 2022

The US economy is expected to shift gears for 2022 from a very high growth rate to decelerating growth. The underlying economics are normalizing, to the extent allowed by ongoing COVID issues. The 2021 US Industrial Production rate-of-change growth should peak in the first quarter of 2022 and began a slow decline throughout the remainder of 2022. The expected decline should continue into the second half of 2023, but remain above the zero-line indicating slow growth. 2022 will be more susceptible to negative pressures which is common in declining a phase of the business cycle.

US Industrial Production



On the measure of consumers' economic wellbeing is the US Disposable Personal Income Per Capita (DPI), which measures the after-tax income and is adjusted for inflation. The 2020 and 2021 data show a tremendous spike in our ability to spend money as our DPI soared (COVID money). That has played a major role in our supply chain issue, which we will continue to work through in 2022. DPI has decreased due to the withdrawal of COVID related income and the spike in inflation. Our analysis suggests that inflation will abate but not disappear and wages will increase as businesses strive to retain and attract workers; combined, these factors suggest DPI will normalize to pre-COVID rates within the first half of 2022. Another tool used to monitor consumer wellbeing is to look at the ratio between household debt service and DPI (nominal dollars this time). The level of debt service as a percentage of DPI is very low currently.

In summary, we believe the overall economic condition and wellbeing will be positive for 2022. The commercial real estate market, specifically the office market in the Greater Sacramento Region will continue to stabilize. Businesses have a better idea of their specific office requirements and are poised to make decisions on what percentage of their business needs to be in an office versus working remotely.

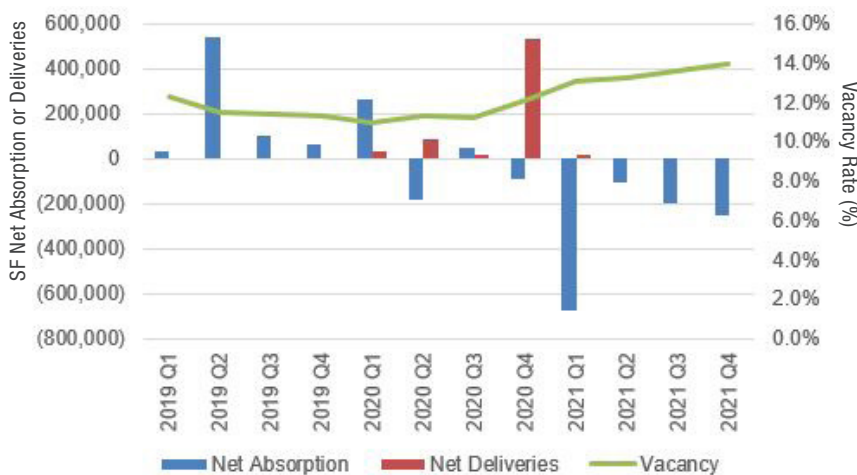
Source: ITR and Wall Street Journal

CONSTRUCTION HIGHLIGHTS

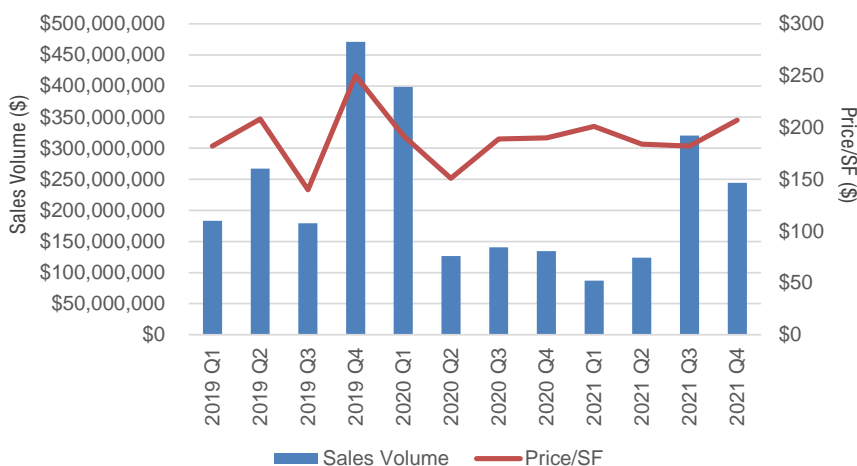
Sacramento has seen very little large-scale office construction over the past 10 years. Most of the construction that has taking place was build-to-suit, government slated space. Currently there are no projects under construction. While this lack of construction has positioned Sacramento for a quick turnaround relative to the global financial crisis, the region is also experiencing rising construction costs and construction labor rate wages. Overall, construction costs for the 12-month period rose by approximately 6% percent during the first half of the year with material costs leading the surge at 23%. Tenant improvement demand will stay high, as companies continue to seek vacant space in growing submarkets and build out offices to fit their changing needs.

Source: US Bureau of Labor Statistics and CoStar

Office Net Absorption vs. Deliveries vs. Vacancy Rate



Office Sales Volume vs. Price/SF



INVESTMENT HIGHLIGHTS

In the fourth quarter, 41 regional sales transactions occurred totaling \$250 Million and with over 1,190,000 square feet of office product. The average sale price was \$209/SF with 37% of all sales occurring within the \$160-240/SF range and less than 12% north of \$320/SF. In 2021, the median sale cap rate was 6.3% compared to 6.7% in 2020. The largest investment transaction of 2021 was 620 Roseville Parkway, Roseville, CA, a 200,928 SF office building purchased in November for \$33,200,000 (\$165/SF).

Source: CoStar

Office Market Statistics

(Criteria based on: 10,000 SF and above, does not include owner occupied, Existing, Under Construction, Proposed, Final Planning))

Submarket	Total Number of Buildings	Inventory	Vacant Space			Vacancy Rate Q4-21	Availability Rate Q4-21	Net Absorption		Avg. Asking Rate (FSG) Weighted
			Direct	Sublease	Total			Q4-21	Q4-20	
Arden/Arcade										
Class A	8	871,752	187,431	5,511	192,942	22.1%	25.7%	(20,608)	11	\$2.15
Class B	90	4,024,666	726,755	4,360	731,115	18.2%	22.7%	17,822	54,643	\$1.84
Class C	92	2,502,896	428,549	3,301	431,850	17.3%	19.1%	(76,947)	(36,895)	\$1.62
Total	190	7,399,314	1,342,735	13,172	1,355,907	18.3%	21.9%	(79,733)	17,759	\$1.80
Auburn/Lincoln										
Class A	-	-	-	-	-	-	-	-	-	-
Class B	21	405,191	30,326	7,812	38,138	9.4%	10.5%	(647)	8,087	\$1.71
Class C	27	506,701	42,144	-	42,144	8.3%	8.2%	(67)	(10,635)	\$1.34
Total	48	911,892	72,470	7,812	80,282	8.8%	9.2%	(714)	(2,548)	\$1.50
Downtown Sacramento										
Class A	20	5,478,381	634,317	48,765	683,082	12.5%	15.5%	(150,414)	(96,449)	\$3.38
Class B	60	3,905,401	702,549	1,240	703,789	18.0%	19.0%	(69,972)	(40,360)	\$2.78
Class C	83	2,501,876	237,596	9,485	247,081	9.9%	15.0%	475	37,047	\$2.18
Total	163	11,885,658	1,574,462	59,490	1,633,952	13.7%	16.5%	(219,911)	(99,762)	\$2.93
El Dorado Hills/Folsom										
Class A	11	906,419	55,286	7,480	62,766	6.9%	16.3%	11,158	(47,531)	\$2.31
Class B	90	2,798,672	238,191	2,758	240,949	8.6%	22.4%	29,664	11,688	\$1.91
Class C	37	759,537	35,376	-	35,376	4.7%	4.7%	3,777	(3,543)	\$1.61
Total	138	4,464,628	328,853	10,238	339,091	7.6%	18.2%	44,599	(39,386)	\$1.94
Highway 50/Rancho Cordova										
Class A	31	2,958,603	410,639	71,716	482,355	16.3%	33.9%	(28,877)	(84,044)	\$1.98
Class B	145	7,910,947	1,608,733	115,470	1,724,203	21.8%	27.2%	(40,333)	(109,496)	\$1.79
Class C	72	1,902,484	232,597	-	232,597	12.2%	17.0%	12,694	(15,737)	\$1.37
Total	248	12,772,034	2,251,969	187,186	2,439,155	19.1%	27.2%	(56,516)	(209,277)	\$1.77
Midtown/East Sacramento										
Class A	4	465,701	10,925	-	10,925	2.3%	6.8%	957	(6,137)	\$2.94
Class B	53	3,336,236	283,586	3,073	286,659	3.7%	13.4%	(46,998)	24,584	\$2.34
Class C	44	898,097	90,637	-	90,637	10.1%	17.5%	1,554	(5,020)	\$1.95
Total	101	4,700,034	385,148	3,073	388,221	8.3%	13.5%	(44,487)	13,427	\$2.32
Natomas										
Class A	35	3,554,125	554,262	26,299	580,561	16.3%	18.9%	(3,507)	259,181	\$2.20
Class B	51	2,188,966	285,579	11,400	296,979	13.6%	19.7%	14,371	272,000	\$1.85
Class C	15	521,500	31,330	-	31,330	6.0%	21.7%	-	-	\$0.94
Total	101	6,264,591	871,171	37,699	908,870	14.5%	19.4%	10,864	531,181	\$1.97
Northeast Sacramento										
Class A	1	79,163	-	-	-	-	-	-	-	-
Class B	36	1,209,777	196,756	-	196,756	16.3%	17.5%	4,266	8,031	\$1.73
Class C	72	1,639,017	292,440	-	292,440	17.8%	25.2%	(2,458)	(9,142)	\$1.36
Total	109	2,927,957	489,196	-	489,196	16.7%	21.3%	1,808	(1,111)	\$1.48
Roseville/Rocklin										
Class A	38	3,214,822	521,669	77,294	598,963	18.6%	26.7%	(60,043)	(101,003)	\$2.16
Class B	149	5,189,146	576,541	124,204	700,745	13.5%	17.9%	9,355	(154,865)	\$1.78
Class C	45	994,360	163,454	-	163,454	16.4%	16.2%	24,349	(1,431)	\$1.32
Total	232	9,398,328	1,261,664	201,498	1,463,162	15.6%	20.7%	(26,339)	(257,299)	\$1.86
South Sacramento/Elk Grove										
Class A	6	481,431	4,646	-	4,646	1.0%	2.3%	(343)	(21,912)	\$2.44
Class B	71	2,150,075	146,446	2,795	149,241	6.9%	8.4%	(11,804)	139	\$2.09
Class C	51	1,173,528	38,824	-	38,824	8.3%	11.5%	2,024	3,136	\$1.44
Total	128	3,805,034	189,916	2,795	192,711	5.1%	8.6%	(10,123)	(18,637)	\$1.93
Yolo County										
Class A	7	706,467	53,733	3,464	57,197	12.5%	7.3%	(7,424)	(1,865)	\$2.75
Class B	47	1,697,090	42,220	7,768	49,988	18.0%	9.6%	113,582	(19,011)	\$2.01
Class C	38	782,668	40,292	1,303	41,595	9.9%	5.3%	19,572	(5,230)	\$1.39
Total	92	3,186,225	136,245	12,535	148,780	4.7%	8.1%	125,730	(26,106)	\$2.02
Totals	1550	67,715,695	8,903,829	535,498	9,439,327	13.9%	19.1%	(294,823)	(91,799)	\$1.94
Class A	161	18,716,864	2,432,908	240,529	2,673,437	14.3%	20.6%	(298,101)	(99,749)	\$2.55
Class B	813	34,816,167	4,837,682	280,880	5,118,562	14.7%	19.7%	19,306	55,440	\$1.76
Class C	576	14,182,664	1,633,239	14,089	1,647,328	11.6%	16.0%	(18,027)	(47,499)	\$1.59
Downtown	163	11,885,658	1,574,462	59,490	1,633,952	13.7%	16.5%	(219,911)	(99,762)	\$2.93
Suburban	1,387	55,830,037	7,329,367	476,008	7,805,375	14.0%	19.7%	(54,911)	8,003	\$1.88