

Sacramento Office

Market Forecast

Trends

Absorption



Vacancy



Rental Rate



New Construction



Notable Lease Transactions

Hewlett-Packard

8040-8060 Foothills Blvd, Roseville
591,248 s.f. leased (sale/leaseback)

Sutter Health

10391 Peter A. McCuen Blvd, Sacramento
106,592 s.f. leased (renewal)

TaxAudit.com

600 Coolidge Drive, Folsom
54,732 s.f. leased

Notable Sale Transactions

Strada Investment Group

Hewlett Packard Campus
(8010-8060 Foothills Blvd)
Roseville, 645,735sf purchased for
\$93M or \$144/s.f.

Flyers Energy

Parkshore Plaza (600-620 Coolidge Drive,
255-295 Parkshore Drive), Folsom
275,987 s.f. purchased for \$40M or \$145/s.f.

Rich-Uncles

10391 Peter A. McCuen Blvd, Sacramento
110,960 s.f. purchased for \$27M or \$243/s.f.

The Sacramento office real estate market kicked back into gear during the second quarter, reporting robust leasing and investment activity, along with 203,906 s.f. of positive net absorption. Vacancies fell to 11.3% marketwide, down 100 basis points from this time last year, as both downtown and suburban submarkets tightened amid rising demand and steady inventory. The largest leases continued to take place in the suburbs, as tenants searching for spacious offices, on-site parking, and lower rents settled on Folsom, Roseville, and Natomas. Asking rents held at \$1.78 marketwide, but ranged from \$2.42 downtown to \$1.26 in Carmichael/Fair Oaks, with the suburban submarkets reporting an overall average of \$1.71. More than 2 million s.f. of suburban Sacramento office real estate changed hands in investment sales, as buyers reaffirmed the desirability of the area's single-tenant office campuses. A strong local economy continued to provide ample demand in the market. Overall employment in Sacramento MSA grew by 7,900 jobs year-over-year, and office-based sectors like financial activities and health services showed some of the largest yearly employment gains, suggesting further growth in the market during the coming quarters.

After a brief first-quarter dip, the Sacramento market bounced back with 203,906 s.f. of positive net absorption over the past three months, bringing the year-to-date gain to approximately 100,000 s.f. Gains were almost evenly split between the downtown area (positive 110,768 s.f.) and suburban submarkets (positive 93,138 s.f.). Downtown move-ins included Kaiser Permanente, which occupied 17,037 s.f. on the fifth floor of 906 G Street, and I/O Labs, which is now in 11,426 s.f. at 1007 7th Street. The Highway 50 Corridor paced the suburbs with 106,853 s.f. of positive net absorption, as InterWest Insurance Services took over 39,891 s.f. at 8950 Cal Center Drive in Sacramento and Health Net Associates moved into 22,416 s.f. at 10540 White Rock Road in Rancho Cordova. Downtown vacancies fell to 8.8%, down 160 basis points year-over-year, while suburban submarkets were at 11.9%, a 110 basis point tumble from the second quarter of 2016.

Leasing activity jumped to nearly 1.5 million s.f. over the past three months, riding a wave of large renewals and the leaseback of Hewlett Packard's Roseville campus. The latter yielded three separate transactions between the Palo Alto-based tech company and its

→ Continued, page 2

Area Review

Submarket Statistics

| Submarket | Total Inventory | Direct Vacancy Rate | Total Vacancy Rate | Total Available Rate | Q2 Net Absorption | YTD Net Absorption | Quarterly Leasing Activity | YTD Leasing Activity | Rental Rate |
|---------------------------|-------------------|---------------------|--------------------|----------------------|-------------------|--------------------|----------------------------|----------------------|---------------|
| Downtown | 19,774,239 | 8.60% | 8.80% | 9.20% | 110,768 | 130,306 | 75,788 | 240,317 | \$2.42 |
| Suburban | 76,928,256 | 11.60% | 11.90% | 15.20% | 93,138 | (30,919) | 1,403,942 | 2,235,386 | \$1.71 |
| Auburn/Lincoln | 1,677,359 | 5.40% | 5.40% | 6.00% | 1,183 | 7,867 | 28,813 | 36,061 | \$1.54 |
| Campus Commons | 1,491,520 | 12.20% | 12.20% | 20.40% | (5,413) | (2,004) | 9,740 | 23,120 | \$2.11 |
| Carmichael/Fair Oaks | 1,561,072 | 13.50% | 13.50% | 17.30% | 15,496 | (35,278) | 14,987 | 34,594 | \$1.26 |
| Citrus Heights/Orangevale | 1,842,451 | 11.30% | 11.40% | 14.50% | (5,570) | 7,501 | 5,538 | 26,445 | \$1.45 |
| Davis/Woodland | 2,508,984 | 7.00% | 7.00% | 8.10% | 15,010 | 17,046 | 31,979 | 63,990 | \$1.96 |
| East Sacramento | 2,375,082 | 5.00% | 5.00% | 5.50% | (210) | 8,477 | 30,422 | 34,992 | \$2.31 |
| El Dorado | 2,051,458 | 19.80% | 19.80% | 25.90% | 9,460 | 18,785 | 20,756 | 51,038 | \$1.73 |
| Elk Grove | 1,999,041 | 9.40% | 9.40% | 8.50% | (1,450) | 3,259 | 30,261 | 36,700 | \$1.97 |
| Folsom | 4,940,459 | 7.70% | 8.30% | 9.70% | 7,253 | 22,154 | 79,038 | 127,830 | \$1.94 |
| Highway 50 Corridor | 17,839,476 | 14.00% | 14.60% | 18.10% | 106,853 | (128,091) | 199,752 | 484,873 | \$1.59 |
| Howe Ave/Fulton Ave | 2,785,399 | 20.10% | 20.30% | 23.80% | (36,716) | (38,468) | 22,012 | 47,798 | \$1.57 |
| Midtown | 4,291,136 | 6.70% | 6.70% | 11.40% | (10,902) | (13,950) | 28,561 | 47,993 | \$2.19 |
| Natomas/Northgate | 6,841,169 | 13.40% | 14.30% | 17.20% | 19,928 | 59,865 | 85,590 | 132,786 | \$1.78 |
| Point West | 2,906,997 | 15.80% | 15.90% | 22.00% | 19,196 | 14,263 | 27,106 | 69,142 | \$1.77 |
| Rio Linda/N Highlands | 1,144,537 | 23.10% | 23.10% | 26.90% | 3,757 | 13,007 | 22,050 | 22,050 | \$1.34 |
| Roseville/Rocklin | 12,058,769 | 9.30% | 9.60% | 13.80% | (16,524) | (1,604) | 701,907 | 853,596 | \$1.76 |
| South Sacramento | 3,813,272 | 10.30% | 10.30% | 14.40% | (11,814) | 4,634 | 15,507 | 65,922 | \$1.75 |
| Watt Ave | 2,660,074 | 11.50% | 11.70% | 12.40% | (27,851) | (15,370) | 31,979 | 43,807 | \$1.39 |
| West Sacramento | 2,140,001 | 7.00% | 7.00% | 8.70% | 11,452 | 26,988 | 17,944 | 32,649 | \$1.72 |
| Class A | 26,249,515 | 10.70% | 11.10% | 12.20% | 107,652 | (115,489) | 248,514 | 563,141 | \$2.19 |
| Class B | 44,744,110 | 11.10% | 11.50% | 15.10% | (15,634) | 103,178 | 1,091,259 | 1,576,334 | \$1.76 |
| Class C | 25,686,685 | 11.10% | 11.10% | 13.70% | 111,888 | 111,698 | 139,957 | 336,228 | \$1.42 |
| Total | 96,680,310 | 11.00% | 11.30% | 14.00% | 203,906 | 99,387 | 1,479,730 | 2,475,703 | \$1.78 |

new landlord, Strada Investment Group, for a total of 591,248 s.f. of office space, with terms ranging from 2-13 years. Sutter Health turned in the largest renewal, keeping its 106,592 s.f. at 10391 Peter A. McCuen Blvd in Sacramento through July of 2025. TaxAudit.com signed the biggest new lease of the quarter, taking 54,732 s.f. at 600 Coolidge Drive in Folsom. That deal could signal a considerable expansion for the tax audit defense and representation firm, which is currently headquartered at 7803 Madison Avenue in Citrus Heights.

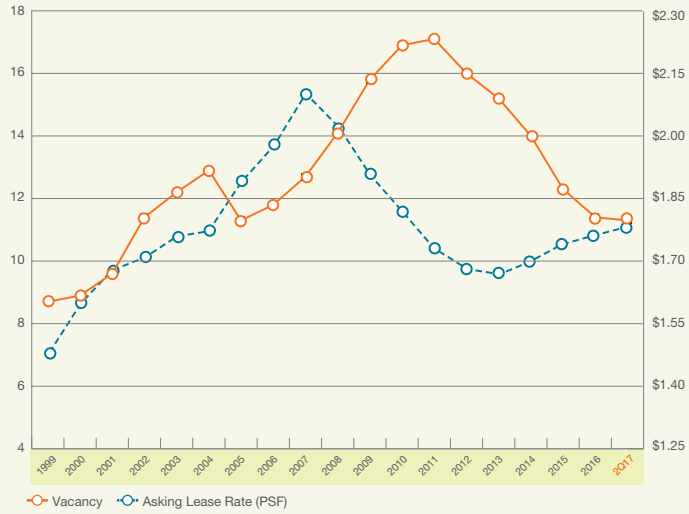
Eighty-six Sacramento office assets changed hands during the second quarter, totaling \$242 million in dollar volume and 2.22 s.f., for an average price tag of \$148/s.f. Investment activity moved in lockstep with the lease market this quarter, as the largest properties to trade hands were the ones that played host to the period's leading leases. San Francisco-based Strada Investment Group made the biggest play, acquiring the Hewlett Packard Campus in Roseville in the aforementioned sale-leaseback agreement with the tech firm. Approximately \$93 million was allocated to the 645,735 s.f. office portion, or \$144/s.f. In the Highway 50 Corridor, Rich-Uncles REIT purchased the Sutter

Health offices at 10391 Peter A. McCuen Blvd from the local investor Jackson Properties, Inc., for \$27 million or \$243/s.f., underwritten at a 7% cap rate. Finally, Nella Oil Company (AKA Flyers Energy) spent \$40 million on the Parkshore Plaza complex in Folsom, a four-building, 275,987 s.f. portfolio, sold by Chicago-based Equity Commonwealth for \$145/s.f. after a six-year hold.

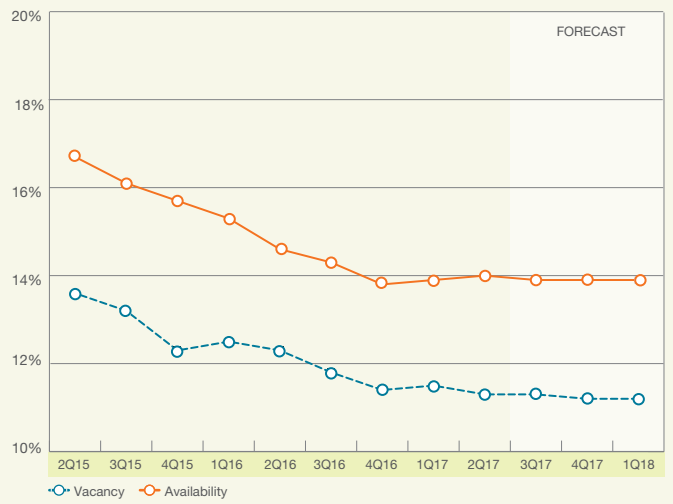
There were no new office deliveries during the first half of 2017, but construction was underway on four office projects in the Sacramento market at quarter's end. The largest of these was the Ice Blocks development in Midtown, where Fulcrum Capital Corporation is spearheading the revitalization of the former Crystal Ice manufacturing site. A mixed-use redevelopment spread over three blocks on the R Street corridor, Ice Blocks will feature 98,754 s.f. of office space alongside retail and residential uses, with delivery set for the second quarter of 2018. Three floors of office future office space at 1610 R Street were listed for lease at \$2.80, fully serviced, well above the average Midtown asking rent of \$2.19.

Data Source: CoStar

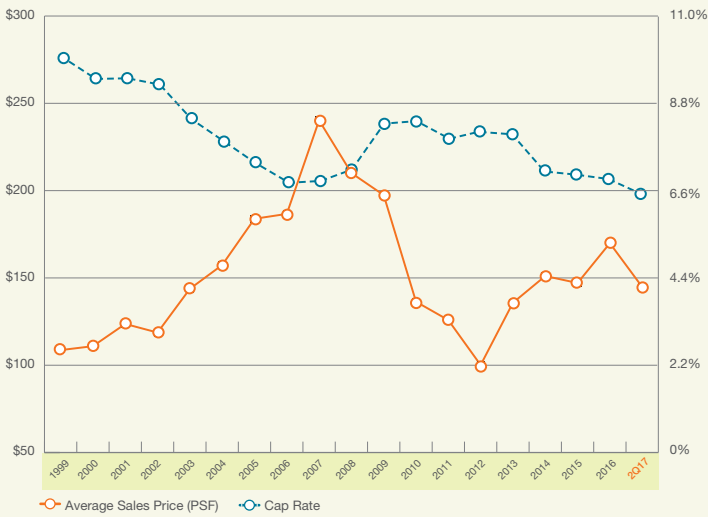
VACANCY VS ASKING LEASE RATE



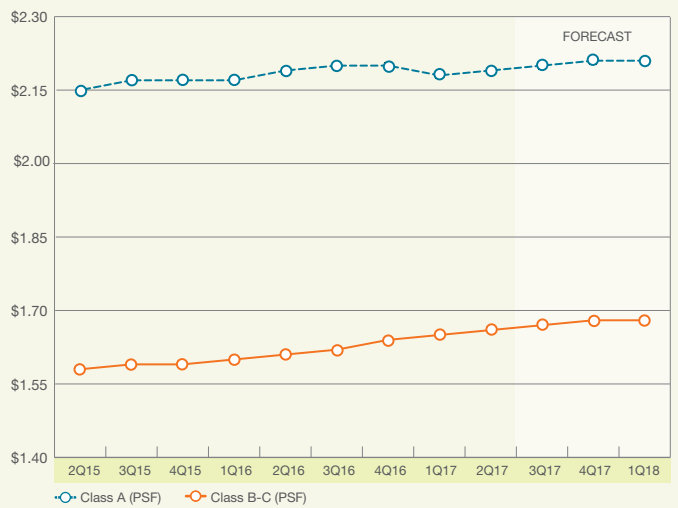
VACANCY VS AVAILABILITY



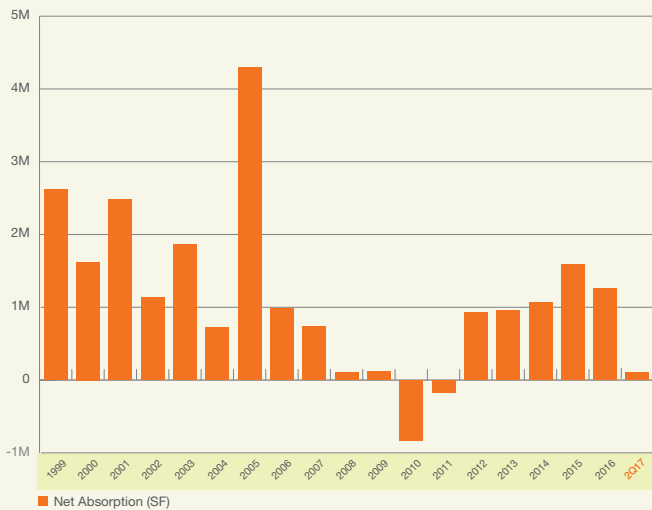
AVERAGE SALES PRICE & CAPITALIZATION RATES



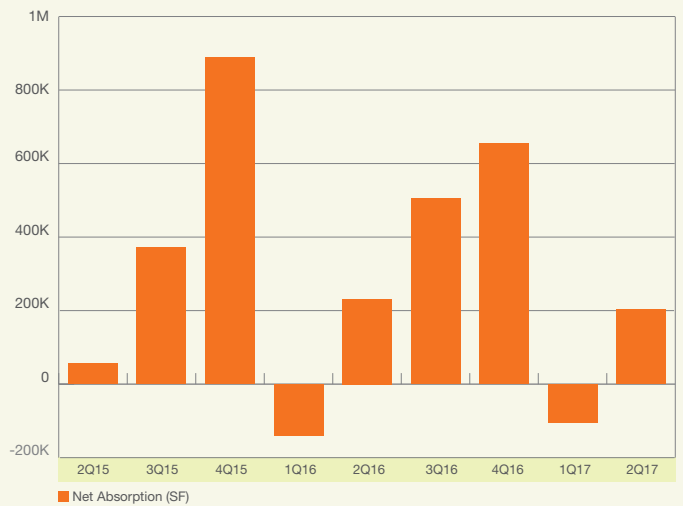
ASKING LEASE RATE



NET ABSORPTION - HISTORICAL



NET ABSORPTION - QUARTERLY



Offices

Seattle
206.296.9600

Bellevue
425.454.7040

South Seattle
206.248.7300

Tacoma
253.722.1400

Olympia
360.705.2800

Portland
503.221.9900

San Francisco
415.229.8888

Redwood Shores
650.769.3600

Silicon Valley
408.970.9400

Sacramento
916.970.9700

Roseville
916.751.3600

Los Angeles
213.880.5250

Commerce
323.727.1144

Long Beach
562.472.0071

Orange County
949.557.5000

Inland Empire
909.764.6500

San Diego
858.509.1200

Carlsbad
760.430.1000

Reno
775.301.1300

Phoenix
602.513.5200

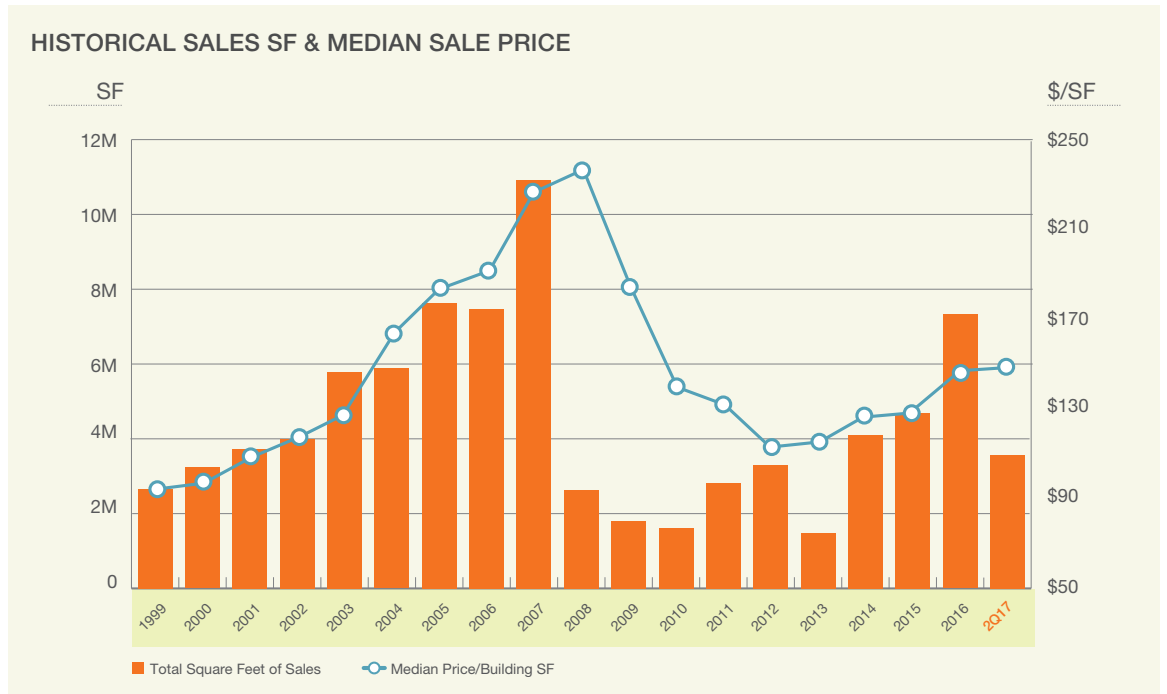
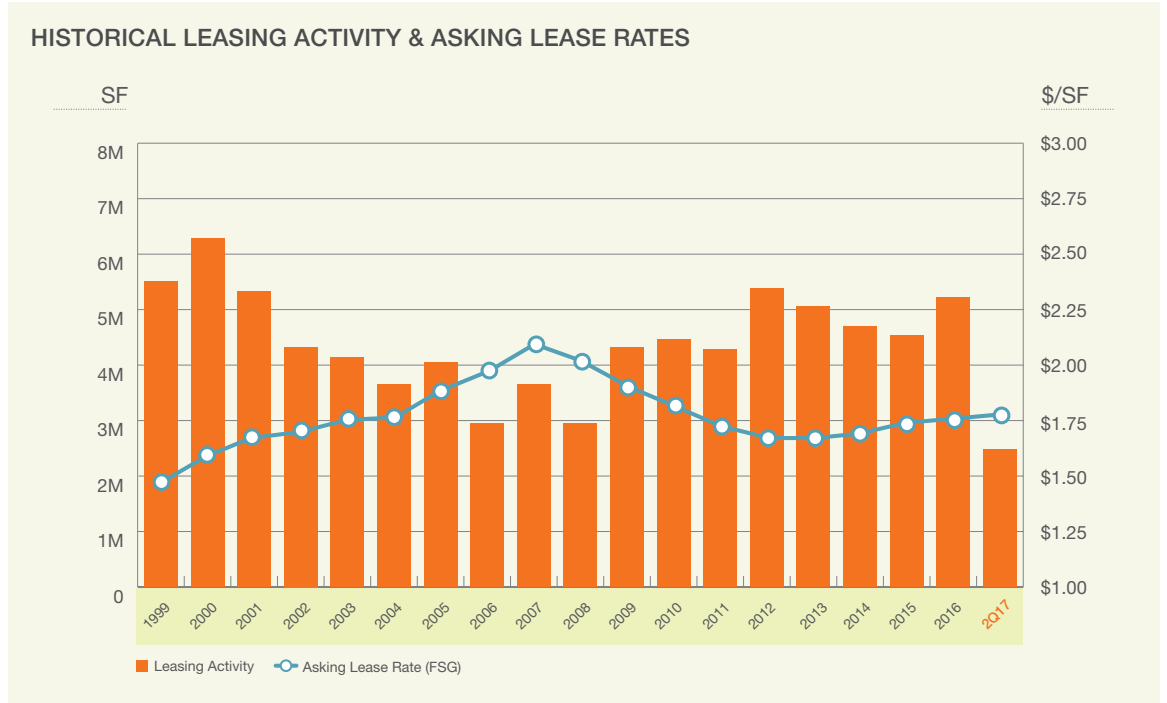
Contact

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Market Breakdown

| | Q2 2017 | Q1 2017 | Q2 2016 | Annual % Change |
|-------------------|-----------|-----------|-----------|-----------------|
| Vacancy Rate | 11.3% | 11.5% | 12.3% | -8.1% |
| Availability Rate | 14.0% | 13.9% | 14.6% | -10.4% |
| Asking Lease Rate | \$1.78 | \$1.78 | \$1.76 | 2.3% |
| Leased SF | 1,479,730 | 995,973 | 1,362,211 | 13.2% |
| Sold SF | 2,218,166 | 1,725,190 | 1,698,753 | 30.50% |
| Net Absorption | 203,906 | -104,519 | 231,571 | N/A |



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