SACRAMENTO OFFICE

Q4 2017 | COMMERCIAL REAL ESTATE MARKET TRENDS

TRI COMMERCIAL REAL ESTATE SERVICES

MARKET OVERVIEW

▶**Office Market:** The Sacramento office market fared well during 2017 as vacancy rates have continued well below pre-recession figures, ending the quarter at 10.53%. At the close of the fourth quarter, average asking lease rates were at a $1.88/SF, which is a $0.01 increase from the previous quarter's average. In brief, the trend during 2017 showed continually decreasing vacancy rates with continually increasing lease rates.

▶**Vacancy Rates:** In comparison to the previous year, the vacancy rate decreased by 77 basis points to 10.53%, which still remains among the lowest vacancy rates seen since 2002! The largest submarkets – Downtown, Highway 50 Corridor and Roseville/Rocklin – had vacancy rates of 10.46%, 13.10% and 8.58%, respectively. Alternatively, the highest vacancy rates were seen in the Rio Linda/N Highlands and El Dorado submarkets at 23.33% and 23.17%.

▶**Lease Rates:** At the close of the fourth quarter, the average asking full service lease rate for the Sacramento office market was $1.88/SF, which is a $0.01 increase from the previous quarter and a $0.06 increase from one year ago. Some of the highest lease rates were seen in the Downtown, East Sacramento, and Elk Grove submarkets at $2.62, $2.43 and $2.55 per square foot, respectively. Alternatively, the lowest lease rates were seen in the Citrus Heights/Orangevale, Rio Linda/N Highlands and Auburn/Lincoln submarkets with rates at $1.34, $1.18 and $1.12 per square foot, respectively.

▶**Sale & Lease Transactions:** Transaction activity at the close of the fourth quarter was just over 3 million square feet, which is an increase from the previous quarter's figure of 2.5 million square feet. Given that there is often a delay for final figures to be totaled, this quarter's figure will slightly increase in the next market report.

▶**Absorption:** The office market ended the fourth quarter with positive net absorption of 43,094 square feet. The Highway 50 Corridor and Howe Ave./ Fulton Ave. had the highest positive net absorption figures at 107,495 and 45,887 square feet, respectively. Alternatively, the Downtown submarket had the highest negative net absorption of 80,018 square feet.

▶**Development:** Currently, there are 663,890 square feet of office space under construction in the Sacramento Region. The largest of those projects is a 242,000 square foot, Class B office building for Adventist Health in the Roseville/Rocklin submarket, expected to be delivered in August 2018. The second largest office project under construction is a 194,000 square foot, Class B medical office building for Kaiser Permanente, expected to be delivered in October 2019. Of the six office buildings currently under construction, three of them are located in the Roseville/Rocklin submarket. Currently, there are 6.68 million square feet of proposed space with the majority proposed for the Natomas/Northgate submarket.

▶**Fourth Quarter Review:** Overall, the vacancy rate has decreased by almost 7% over the course of 2017 and the average asking lease rate of $1.88 per square foot remains amongst the highest rates seen throughout the two-year average. According to the most recent Sacramento employment figures, the unemployment rate in the Sacramento-Roseville-Arden Arcade MSA was 3.7% in November of 2017.

SACRAMENTO OFFICE TRENDS | FOURTH QUARTER 2017

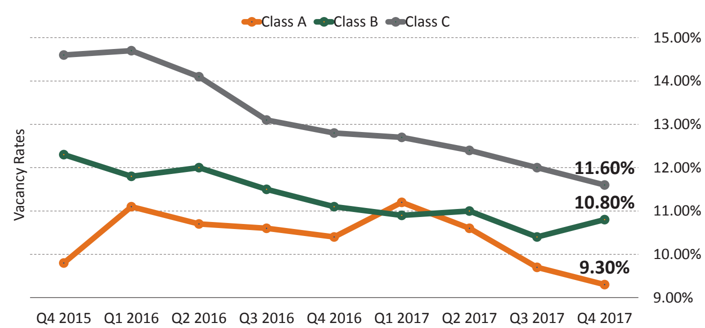
ARROWS REPRESENT CHANGES FROM THE PREVIOUS QUARTER

MARKET INDICATORS	Vacancy	Lease Rates (FS)	Net Absorption	Transaction Activity
Q4 2017	10.53%	$1.88	43,094	3,015,744
Q3 2017	10.60%	$1.87	555,757	2,514,109

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

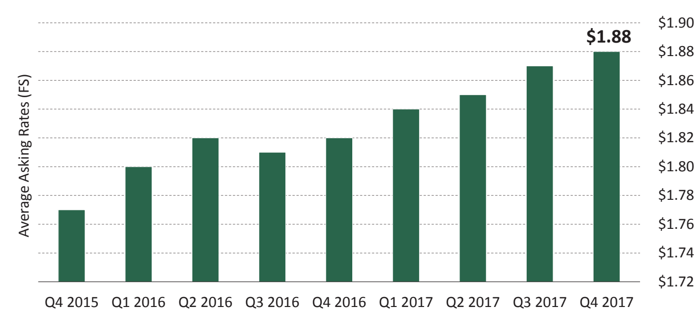
VACANCY RATES BY CLASS

ALL SPACE NOT CURRENTLY OCCUPIED



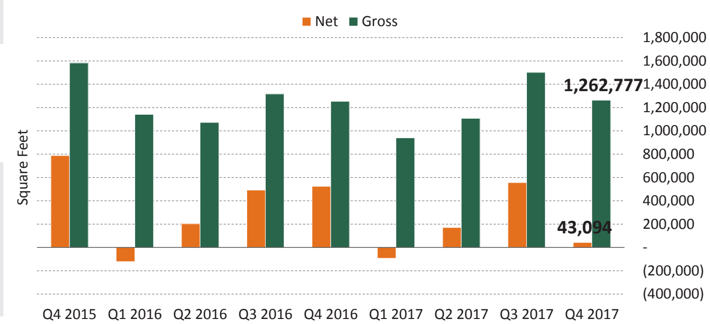
AVERAGE ASKING RATES

WEIGHTED AVERAGE RENT BASED ON TOTAL SQUARE FOOTAGE



NET & GROSS ABSORPTION

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



NOTEWORTHY TRANSACTIONS

LEASE TRANSACTIONS I NOTABLE OFFICE LEASES SIGNED Q4 2017

Property Address	Submarket	Tenant	Owner	Date Lease Signed	Sq. Ft. Leased
11050 Olson Drive	Highway 50 Corridor	Maximus	Zinfandel Office, LLC	October 19, 2017	66,796
7405 Greenhaven Drive	South Sacramento	Undisclosed	Buzz Oates	October 16, 2017	58,394
4500 Orange Grove Ave.	Carmichael/ Fair Oaks	Undisclosed	4500 Orange Grove Gp, LLC	December 7, 2017	53,074
10545 Armstrong Ave.	Highway 50 Corridor	UC Davis	Sacramento County Fire Deparment	November 6, 2017	41,308
2860 Gateway Oaks Drive	Natomas/Northgate	Undisclosed	State Compensation Insurance Fund	October 17, 2017	30,807

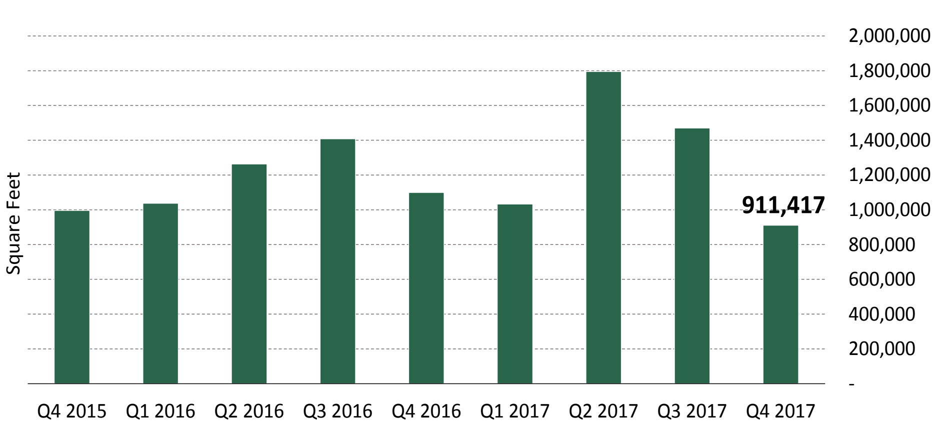
SALE TRANSACTIONS I NOTABLE OFFICE SALES FOR Q4 2017

Property Address	Submarket	Buyer	Seller	Bldg. Sq. Ft.	Sale Price
2495 Natomas Park Dr (2 Properties)	Natomas/Northgate	Undisclosed	PRIM Natomas, LLC	295,894	$55,000,000
925 L Street	Dowtown	Soma Capital Partners	925 L Street, Inc.	165,919	$45,500,000
2700 Gateway Oaks Dr. (4 Properties)	Natomas/Northgate	La Guardia, LLC & Metro Center GPRV Partners 16, LLC	Metzler I Metro Center, LP	263,014	$36,800,000
2901 Douglas Blvd. (3 Properties)	Roseville/Rocklin	Barker Pacific Group	Starwood Property Trust, Inc.	211,612	$36,500,000
2860 Gateway Oaks Dr.	Natomas/Northgate	State Compensation Insurance Fund	RAR2 Gateway Oaks-CA, Inc.	120,795	$25,250,000

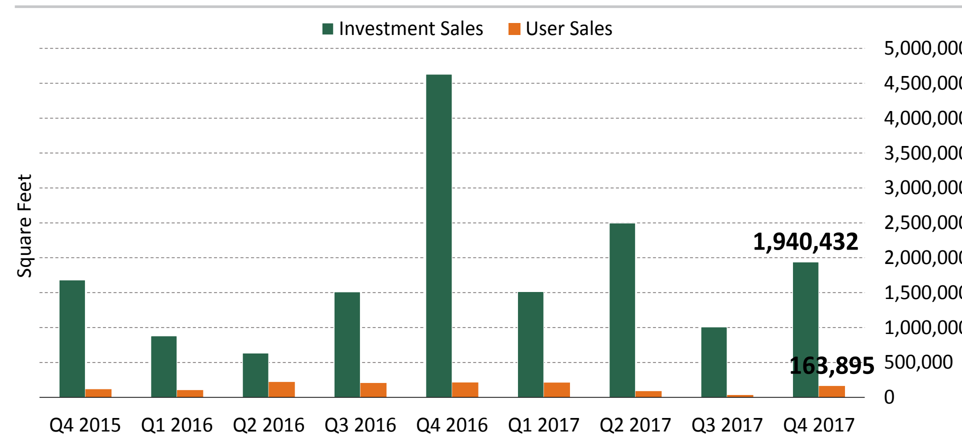
MARKET SNAPSHOT

	Q4 2017	Q4 2016	% Change vs. Q4 2016
Vacancy Rate	10.53%	11.30%	-6.81%
Availability Rate	12.96%	13.90%	-6.76%
Avg. Asking Lease Rate	$1.88	$1.82	3.30%
Gross Absorption	1,262,777	1,253,080	0.77%
Net Absorption	43,094	524,141	(N/A)

LEASE TRANSACTIONS I AMOUNT OF SQUARE FEET LEASED PER QUARTER



SALES TRANSACTIONS I AMOUNT OF SQUARE FEET SOLD PER QUARTER



TRI COMMERCIAL | SACRAMENTO OFFICE SUBMARKET STATISTICS

Submarket	Total Buildings	Net Rentable Square Feet	Vacant Square Feet	Vacancy Rate Q4 2017	Occupied Square Feet	Occupancy Rate Q4 2017	Available Square Feet	Availability Rate Q4 2017	Net Absorption Q4 2017	YTD Net Absorption	Gross Absorption Q4 2017	YTD Gross Abosorption	Under Construction Square Feet	Proposed Square Feet	Average Asking Rate (All Classes)
Auburn/Lincoln	64	1,361,827	69,172	5.08%	1,292,655	94.92%	104,606	7.68%	(2,140)	16,714	13,540	73,010	0	80,953	$1.12
Campus Commons	43	1,281,434	215,714	16.83%	1,065,720	83.17%	271,021	21.15%	(9,162)	(49,838)	33,259	98,445	0	72,000	$2.11
Carmichael/Fair Oaks	50	1,083,109	177,620	16.40%	905,489	83.60%	189,268	17.47%	4,109	(40,361)	17,127	60,353	0	0	$1.49
Citrus Heights/Orangevale	54	1,445,873	138,814	9.60%	1,307,059	90.40%	185,345	12.82%	28,670	34,082	37,279	104,180	68,000	15,000	$1.34
Davis/Woodland	81	1,990,444	96,680	4.86%	1,893,764	95.14%	131,041	6.58%	(39,155)	(23,816)	8,000	58,291	0	107,547	$2.06
Downtown	214	19,209,665	1,595,078	10.46%	17,614,587	91.70%	1,806,811	9.41%	(80,018)	65,874	141,123	602,949	0	726,900	$2.62
East Sacramento	36	2,206,644	81,913	3.71%	2,124,731	96.29%	90,515	4.10%	(5,427)	36,345	7,327	58,471	0	0	$2.43
El Dorado	70	1,642,344	380,477	23.17%	1,261,867	76.83%	453,224	27.60%	9,402	(2,444)	24,366	127,327	0	276,032	$1.85
Elk Grove	54	1,771,359	140,434	7.93%	1,630,925	92.07%	138,704	7.83%	(11,090)	27,129	17,651	85,744	0	392,273	$2.55
Folsom	98	4,497,809	330,858	7.36%	4,166,951	92.64%	360,592	8.02%	7,105	56,294	52,857	246,687	0	115,570	$1.97
Highway 50 Corridor	298	17,404,387	2,280,762	13.10%	15,126,204	86.91%	2,762,451	15.87%	107,495	231,525	351,945	1,109,224	0	1,037,740	$1.65
Howe Ave./Fulton Ave.	77	2,442,369	469,644	19.23%	1,972,725	80.77%	541,897	22.19%	45,887	15,434	68,914	172,507	0	0	$1.64
Midtown	100	3,684,434	232,206	6.30%	3,452,228	93.70%	297,326	8.07%	33,880	14,656	49,941	110,132	138,850	80,985	$2.30
Natomas/Northgate	114	6,519,540	849,633	13.03%	5,669,907	86.97%	964,262	14.79%	(25,626)	140,566	100,117	602,342	0	1,955,290	$1.85
Point West	50	2,640,921	410,174	15.53%	2,230,747	84.47%	500,440	18.95%	(30,630)	50,023	13,003	162,961	0	357,254	$1.76
Rio Linda/N Highlands	29	1,018,415	237,631	23.33%	780,784	76.67%	363,184	35.66%	(12,400)	24,231	0	38,383	0	0	$1.18
Roseville/Rocklin	268	10,781,143	924,646	8.58%	9,856,497	91.42%	1,563,496	14.50%	3,411	48,305	164,736	638,685	445,798	1,223,781	$1.95
South Sacramento	104	3,346,921	427,267	12.77%	2,919,654	87.23%	416,907	12.46%	(6,867)	(19,677)	105,553	239,248	11,242	87,395	$1.62
Sutter County	31	567,495	19,070	3.36%	548,425	96.64%	41,194	7.26%	31,080	19,435	32,270	37,150	0	0	-
Watt Ave.	50	2,393,703	247,473	10.34%	2,146,230	89.66%	287,663	12.02%	158	20,620	10,219	106,338	0	45,858	$1.53
West Sacramento	35	2,020,487	114,420	5.66%	1,906,067	94.34%	152,953	7.57%	9,712	49,027	13,550	63,135	0	110,000	$1.83
Yuba County	11	589,311	23,962	4.07%	565,349	95.93%	23,962	4.07%	(15,300)	13,599	0	29,199	0	0	-
Office Market Totals	**1,931**	**89,899,634**	**9,463,648**	**10.53%**	**80,438,565**	**89.48%**	**11,646,862**	**12.96%**	**43,094**	**727,723**	**1,262,777**	**4,824,761**	**663,890**	**6,684,578**	**$1.88**
Class A	197	26,754,661	2,480,338	9.27%	24,276,902	90.74%	2,969,899	11.10%	122,333	353,596	421,190	1,524,823	138,850	4,552,466	$2.22
Class B	960	42,289,011	4,564,002	10.79%	37,725,009	89.21%	5,772,245	13.65%	(151,614)	120,890	519,974	2,303,264	525,040	2,132,112	$1.74
Class C	774	20,855,962	2,419,308	11.60%	18,436,654	88.40%	2,904,718	13.93%	72,375	253,237	321,613	996,674	0	0	$1.58
Class Total	**1,931**	**89,899,634**	**9,463,648**	**10.53%**	**80,438,565**	**89.48%**	**11,646,862**	**12.96%**	**43,094**	**727,723**	**1,262,777**	**4,824,761**	**663,890**	**6,684,578**	**$1.88**

Average asking rates represented are full service.

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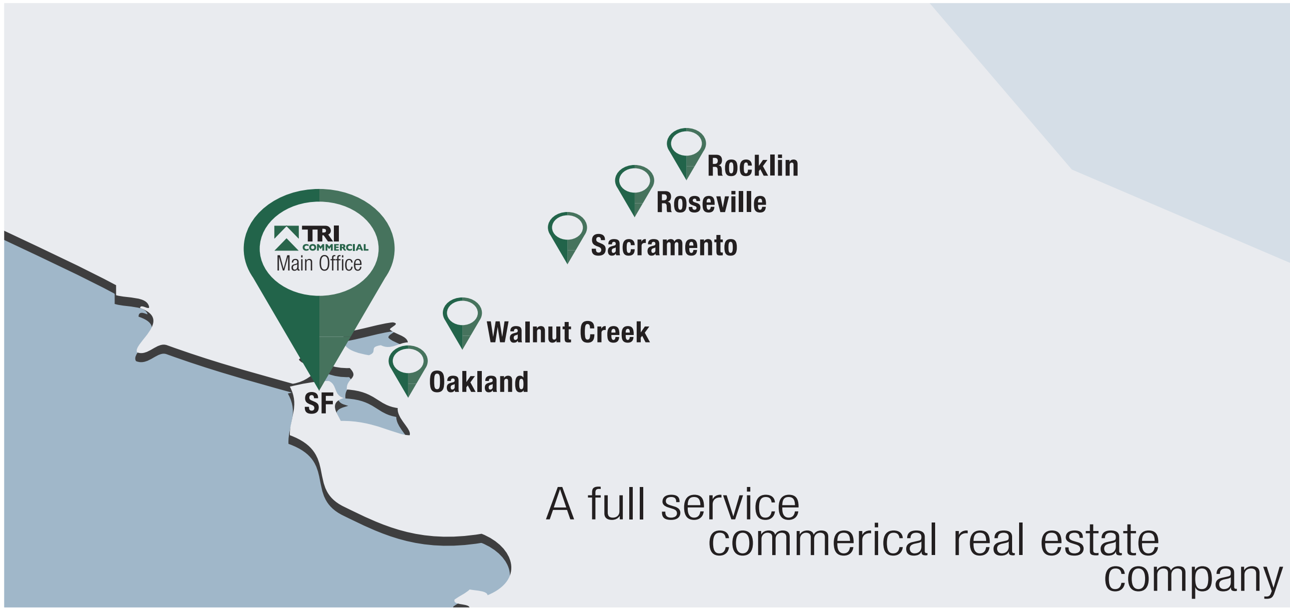
NORTHERN CALIFORNIA MAP I TRI OFFICE LOCATIONS:



MAP IS NOT TO SCALE

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