

MarketView

Sacramento Office

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Second Quarter 2011

Quick Stats

	Current	Change from last	
		Yr.	Qtr.
Vacancy	23.1%	↑	↑
Avg. Asking Lease Rate	\$1.76 FSG	↓	↓
Net Absorption*	(263,509) SF	↓	↓
Under Construction	263,516 SF	↓	↔
Completed Construction	0 SF	↓	↓

*The arrows are trend indicators over the specified time period and do not represent a positive or negative value. (e.g., absorption could be negative, but still represent a positive trend over a specified period.)

Hot Topics

- The vacancy rate increased slightly to 23.1%
- The market recorded 263,509 SF of negative net absorption in the second quarter 2011.
- The Senator Office Building is in receivership.
- The lack of job growth and corresponding lack of growth in the office market has made retaining existing tenants especially important.
- There was no completed construction and no new projects were begun in the second quarter.

Second quarter leasing activity saw a continuation of trends established in recent quarters: tenants are primarily renewing and those that are relocating are frequently downsizing in the process. The region has continued to see limited expansion of existing companies while new tenants entering the market have been rare. Although there has been a general increase in activity compared to 2009 and early 2010, it has not been driven by job growth and therefore has not lead to net absorption increases.

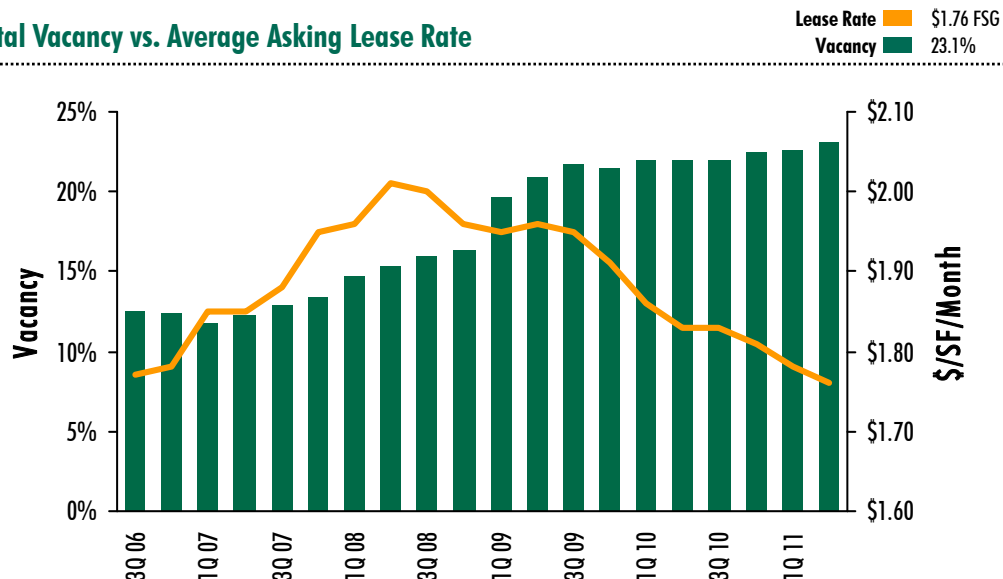
1121 L Street, The Senator, recently went into default and has been moved into special servicing. The Senator recently saw a vacancy increase of approximately 35% after a major tenant relocated to another Downtown building. What is noteworthy about this building heading into receivership is that throughout the economic downturn, Downtown has been one of Sacramento's strongest submarkets. Its occupancy rates have been relatively healthy thanks to a substantial presence of State, City and County offices as well as the need for many businesses to either be near the Capitol or have a Downtown address.

A single Downtown building going into foreclosure is not necessarily a market changing issue, even if it is a high demand building with a prime location

like The Senator. Multiple Downtown buildings going into foreclosure would likely impact the market as buyers of these properties would have a low cost basis and could afford to offer lower rents to attract tenants, applying further downward pressure. While there is speculation that additional Downtown buildings could potentially become distressed, at this point it is simply rumor. It is also important to note that distressed does not equate to default. The best business decision for an owner might result in a designation of "distressed" for a property, but there may not be any likelihood of the property going back to the bank. Regardless, the uncertainty surrounding many of these buildings should be clarified by the end of the year.

For properties at risk of going into foreclosure, a common thread is high vacancy levels. Without growth in the market, backfilling large vacancies has become increasingly challenging and even the strongest buildings in the strongest submarkets will have difficulty surviving long-term, high vacancy. With Sacramento lagging behind a recovery, both in terms of the general economy and in terms of the real estate market, it is as important as it has ever been to retain existing tenants.

Total Vacancy vs. Average Asking Lease Rate

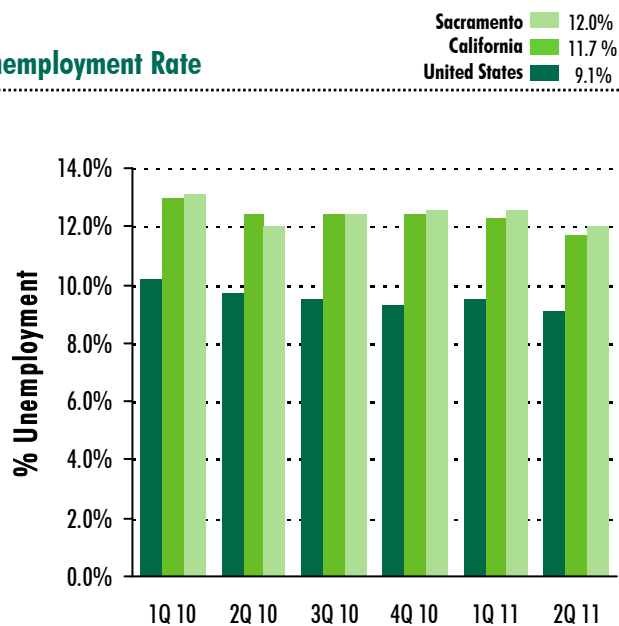


Market Statistics

Submarket	Net Rentable Area	Direct Vacancy Rate %	Vacancy Rate %	Availability Rate %	Net Absorption SF	YTD Net Absorption SF	Under Construction SF	Avg. Asking Lease Rate \$/SF/MO
Midtown	1,802,999	15.5%	15.9%	25.6%	(12,118)	(24,116)	0	\$1.53
West Sacramento	1,278,682	16.9%	16.9%	16.9%	5,675	(3,331)	108,516	\$1.36
South Sacramento	1,360,664	22.1%	22.1%	22.1%	1,331	2,688	0	\$1.39
East Sacramento	440,927	8.5%	8.5%	16.9%	0	37,385	0	\$2.03
Howe/Fulton	1,662,897	21.2%	21.2%	21.2%	(3,080)	(19,914)	0	\$1.47
Northgate/Natomas	2,472,421	20.8%	21.3%	25.7%	(34,372)	37,247	0	\$1.53
Watt Avenue	1,350,800	20.7%	21.0%	21.9%	(4,100)	(2,769)	0	\$1.50
Hwy 50 Corridor	12,027,991	21.7%	22.5%	26.7%	(158,826)	(250,976)	0	\$1.57
Carmichael/Fair Oaks	374,163	16.0%	16.0%	17.0%	(557)	6,574	0	\$1.27
Citrus Heights/Orangevale	1,015,088	22.1%	22.1%	22.1%	1,111	(16,909)	0	\$1.16
Point West	2,575,531	29.4%	30.0%	31.1%	(17,520)	110,988	0	\$1.74
Campus Commons	1,470,754	35.0%	35.0%	35.3%	(20,656)	(61,240)	0	\$1.81
Folsom	2,859,076	23.0%	29.7%	30.1%	(37,555)	(195,109)	0	\$1.89
Elk Grove	966,927	27.6%	28.3%	28.3%	2,937	1,782	0	\$1.94
Roseville/Rocklin	6,803,688	30.2%	30.2%	32.1%	94,889	123,513	0	\$1.85
South Natomas	3,256,979	28.3%	29.0%	31.2%	(45,050)	(26,759)	0	\$1.97
Suburban Total	41,719,587	24.1%	24.9%	27.5%	(227,891)	(280,946)	108,516	\$1.68
Downtown	11,205,301	15.2%	16.2%	18.2%	(35,618)	(126,165)	155,000	\$2.30
Market Total	52,924,888	22.2%	23.1%	25.6%	(263,509)	(407,111)	263,516	\$1.76

NOTE: Only existing single and multi-tenant office properties over 10,000 sq. ft., excluding government-owned buildings and medical buildings, are included in this survey. Average asking rate is based on direct leases only; excludes sublease space. Rates are based on price per square foot, per month, for full service.

Unemployment Rate

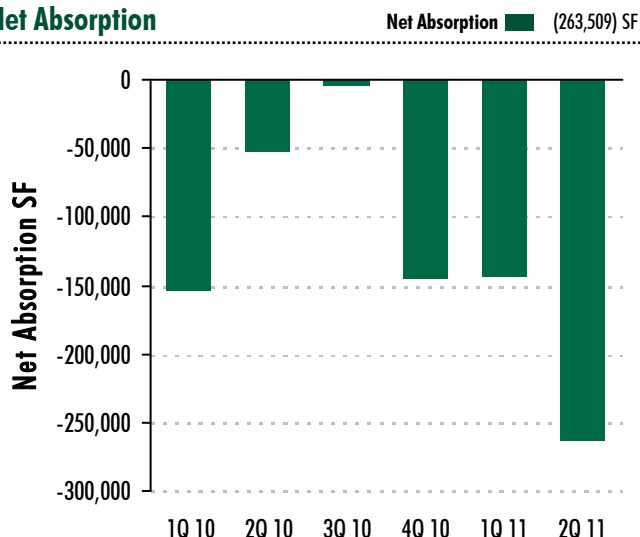


The unemployment rate for Sacramento was 12% in May 2011, down from 12.6% in the first quarter this year, according to the United States Department of Labor. California reported an unemployment rate of 11.7% and the nation reported a rate of 9.1%.

According to the State of California Employment Development Department, from April 2011 to May 2011, the total number of jobs increased by 5,300 to reach 813,400 jobs. Leisure and hospitality increased by 1,700 jobs, of which 1,500 jobs in accommodation and food services accounted for the bulk of the increase. Construction gained 2,400 jobs and Government expanded by 1,400 jobs with increases in local government with 700 jobs, state government with 600 jobs and federal government with 100 jobs.

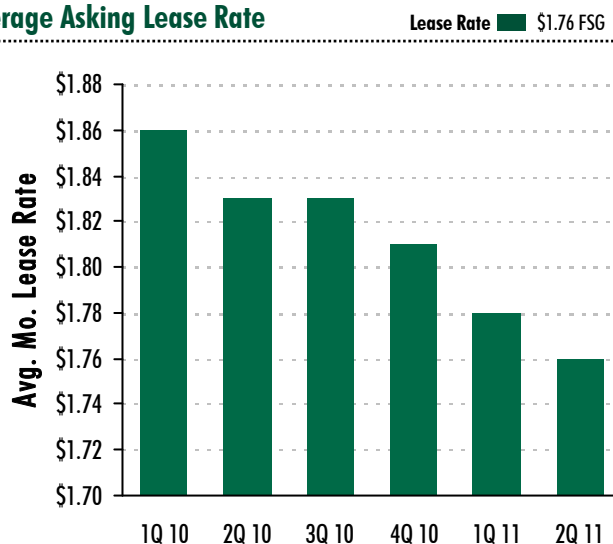
On the other hand, educational and health services lost 1,200 jobs. Professional and business services and manufacturing each declined by 400 jobs each. Trade, transportation and utilities cut back 300 jobs.

Net Absorption



The Sacramento office market finished the first quarter with negative net absorption and has now experienced six straight quarters of negative net absorption. After trending upward in the second and third quarters of 2010, the market has taken a step backward, recording significant negative net absorption for three straight quarters. Activity continued to be driven by low lease rates and consolidations. This was especially true for Highway 50 where multiple companies relocated within the submarket and downsized by tens of thousands of square feet in the process. No significant improvement in the market is expected until there is substantial job growth.

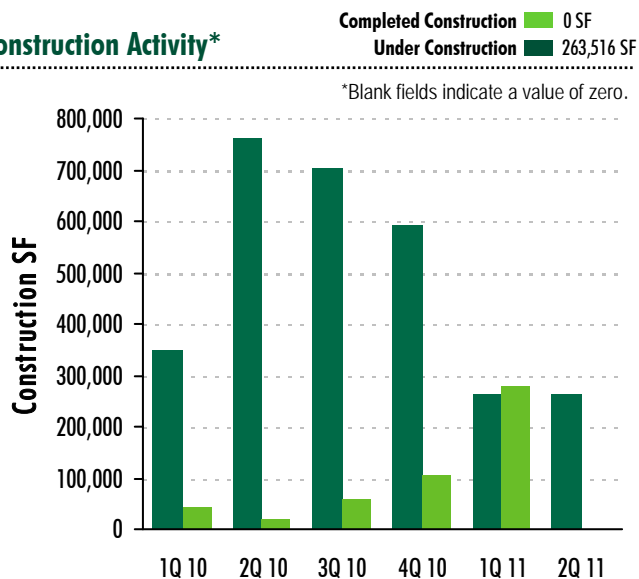
Average Asking Lease Rate



The average asking lease rate declined to \$1.76/SF FSG. This was a decrease of \$0.25/SF from the peak in the second quarter of 2008 and a decrease of \$0.07/SF from a year ago. More specifically, average asking rates for the suburban market were \$1.68/SF FSG while Downtown rates averaged \$2.30/SF FSG.

The margin between contract rates and asking rates has started to narrow, a sign that asking lease rates may be approaching stabilization. Regardless, asking lease rates will remain depressed until there is positive growth in the market.

Construction Activity*



Speculative construction remains low, as currently only 108,516 SF of speculative office property is under construction.

However, there is a build-to-suit that is currently under construction in Downtown. It's a six-story, 155,000 SF building currently under construction for the State Lottery. For the foreseeable future, build-to-suits should constitute the majority of new construction activity.

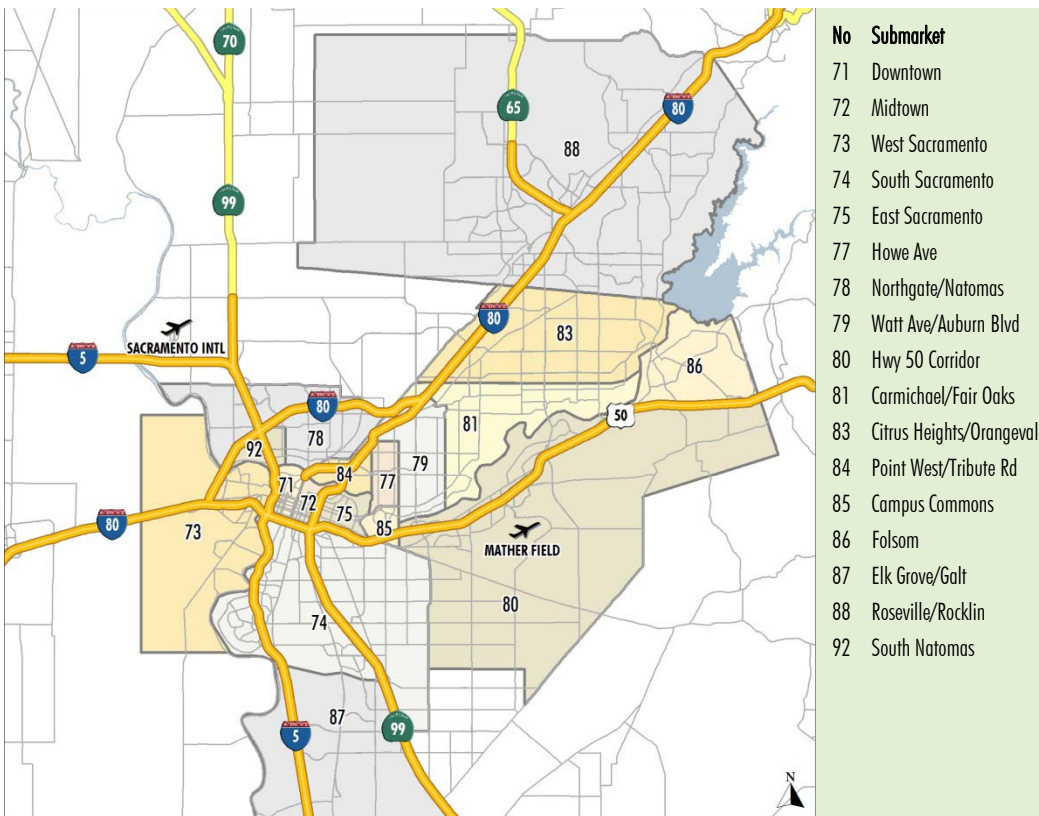
2Q 2011 Significant Sale Transactions

Size (SF)	Buyer	Address
269,254	CommonWealth REIT	Parkshore Plaza, Folsom
168,646	Karlin Real Estate	1111 Howe Ave/1010 Hurley Way, Sacramento

2Q 2011 Significant Lease Transactions

Size (SF)	Tenant	Address
52,500	Department of Consumer Affairs	1747 N Market Blvd, Sacramento
51,000	John Adams Academy	1 Sierra Gate Plaza, Roseville
35,000	IBM	3775 N Freeway Blvd, Sacramento

Submarket Map



Market Definitions

Asking Lease Rate

Average of Asking Lease Rates for each property weighted by the associated Available Space. Includes Direct Available Space unless otherwise indicated

Completions

Rentable Building Area completed during the period

Market Coverage

'Existing' completed competitive properties

Net Absorption

The change in Occupied Sq. Ft. during the period for all Existing properties

Base Inventory, Base or Building Square Feet (NRA)

The sum of the Rentable Building Area for all competitive properties

Occupied Square Feet

Rentable Building Area less Vacant Space

Under Construction

Buildings that have begun construction as evidenced by site excavation or foundation work, and is on-going

Available Space

Space being marketed to potential occupants, in Rentable Sq. Ft. (direct and sublease combined, unless otherwise indicated)

Availability Rate

Available space as a percentage of the Base Inventory or Building Sq. Ft

Vacant Space

Available Space that is physically vacant, in Rentable Sq. Ft

Vacancy Rate

Vacant space as a percentage of the Base Inventory or Building Sq. Ft

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MarketView

Sacramento Office

Building Classification Report

Area	Submarket	Net Rentable Area	Available SF	Availability Rate %	Vacant SF	Vacancy Rate %	Asking Lease Rate \$/SF/Mo	Under Construction
71	Downtown	11,205,301	2,041,469	18.2%	1,810,367	16.2%	\$2.30	155,000
	Class A	6,575,393	1,165,223	17.7%	1,056,004	16.1%	\$2.70	155,000
	Class B	3,083,442	546,501	17.7%	429,080	13.9%	\$1.78	-
	Class C	1,546,466	329,745	21.3%	325,283	21.0%	\$1.53	-
72	Midtown	1,802,999	462,232	25.6%	286,447	15.9%	\$1.53	-
	Class A	55,000	9,388	17.1%	9,388	17.1%	\$2.60	-
	Class B	356,819	83,404	23.4%	83,404	23.4%	\$2.25	-
	Class C	1,391,180	369,440	26.6%	193,655	13.9%	\$1.30	-
73	West Sacramento	1,278,682	216,430	16.9%	216,430	16.9%	\$1.36	108,516
	Class A	527,947	29,642	5.6%	29,642	5.6%	\$1.93	108,516
	Class B	426,185	125,692	29.5%	125,692	29.5%	\$1.27	-
	Class C	324,550	61,096	18.8%	61,096	18.8%	\$1.27	-
75	East Sacramento	440,927	74,365	16.9%	37,264	8.5%	\$2.03	-
	Class A	-	-	-	-	-	-	-
	Class B	404,327	74,365	18.4%	37,264	9.2%	\$2.03	-
	Class C	36,600	-	0.0%	-	0.0%	-	-
74	South Sacramento	1,360,664	300,448	22.1%	300,448	22.1%	\$1.39	-
	Class A	63,868	31,859	49.9%	31,859	49.9%	\$1.95	-
	Class B	261,775	112,583	43.0%	112,583	43.0%	\$1.33	-
	Class C	1,035,021	156,006	15.1%	156,006	15.1%	\$1.28	-
77	Howe Ave/Fulton Ave	1,662,897	352,700	21.2%	352,700	21.2%	\$1.47	-
	Class A	-	-	-	-	-	-	-
	Class B	228,884	74,712	32.6%	74,712	32.6%	\$1.61	-
	Class C	1,434,013	277,988	19.4%	277,988	19.4%	\$1.44	-
78	Northgate/Natomas	2,472,421	635,858	25.7%	526,185	21.3%	\$1.53	-
	Class A	472,201	86,678	18.4%	86,678	18.4%	\$2.02	-
	Class B	1,396,831	334,679	24.0%	285,638	20.4%	\$1.66	-
	Class C	603,389	214,501	35.5%	153,869	25.5%	\$1.16	-
79	Watt Ave/Auburn Blvd	1,350,800	295,894	21.9%	283,447	21.0%	\$1.50	-
	Class A	-	-	-	-	-	-	-
	Class B	503,656	165,643	32.9%	156,396	31.1%	\$1.65	-
	Class C	847,144	130,251	15.4%	127,051	15.0%	\$1.30	-
80	Highway 50	12,027,991	3,206,996	26.7%	2,704,406	22.5%	\$1.57	-
	Class A	3,120,014	983,869	31.5%	878,604	28.2%	\$1.89	-
	Class B	5,613,999	1,164,461	20.7%	1,028,169	18.3%	\$1.64	-
	Class C	3,293,978	1,058,666	32.1%	797,633	24.2%	\$1.18	-
81	Carmichael/Fair Oaks	374,163	63,570	17.0%	60,032	16.0%	\$1.27	-
	Class A	70,000	7,956	11.4%	7,956	11.4%	\$1.25	-
	Class B	78,394	21,857	27.9%	19,053	24.3%	\$1.39	-
	Class C	225,769	33,757	15.0%	33,023	14.6%	\$1.19	-

Area	Submarket	Net Rentable Area	Available SF	Availability Rate %	Vacant SF	Vacancy Rate %	Asking Lease Rate \$/SF/Mo	Under Construction
83	Citrus Heights/Orangevale	1,015,088	223,865	22.1%	223,865	22.1%	\$1.16	-
	Class A	-	-	-	-	-	-	-
	Class B	112,460	42,546	37.8%	42,546	37.8%	\$1.28	-
	Class C	902,628	181,319	20.1%	181,319	20.1%	\$1.13	-
84	Point West/Tribute	2,575,531	800,881	31.1%	773,469	30.0%	\$1.74	-
	Class A	1,308,474	452,251	34.6%	452,251	34.6%	\$1.93	-
	Class B	401,926	131,968	32.8%	104,556	26.0%	\$1.65	-
	Class C	865,131	216,662	25.0%	216,662	25.0%	\$1.43	-
85	Campus Commons	1,470,754	518,819	35.3%	514,270	35.0%	\$1.81	-
	Class A	46,000	6,556	14.3%	6,556	14.3%	\$2.02	-
	Class B	1,078,345	465,072	43.1%	460,523	42.7%	\$1.82	-
	Class C	346,409	47,191	13.6%	47,191	13.6%	\$1.64	-
86	Folsom	2,859,076	861,569	30.1%	848,383	29.7%	\$1.89	-
	Class A	1,821,991	504,543	27.7%	491,357	27.0%	\$2.03	-
	Class B	449,533	131,507	29.3%	131,507	29.3%	\$1.72	-
	Class C	587,552	225,519	38.4%	225,519	38.4%	\$1.30	-
87	Elk Grove	966,927	273,618	28.3%	273,618	28.3%	\$1.94	-
	Class A	405,731	195,807	48.3%	195,807	48.3%	\$2.10	-
	Class B	549,604	77,811	14.2%	77,811	14.2%	\$1.52	-
	Class C	11,592	-	0.0%	-	0.0%	-	-
88	Roseville/Rocklin	6,803,688	2,181,856	32.1%	2,051,774	30.2%	\$1.85	-
	Class A	3,521,411	1,297,764	36.9%	1,214,171	34.5%	\$1.93	-
	Class B	2,395,695	721,786	30.1%	685,297	28.6%	\$1.78	-
	Class C	886,582	162,306	18.3%	152,306	17.2%	\$1.40	-
92	South Natomas	3,256,979	1,015,590	31.2%	944,990	29.0%	\$1.97	-
	Class A	2,872,914	954,190	33.2%	883,590	30.8%	\$2.04	-
	Class B	286,912	46,567	16.2%	46,567	16.2%	\$1.32	-
	Class C	97,153	14,833	15.3%	14,833	15.3%	\$1.75	-
	Sacramento Office Market	52,924,888	13,526,160	25.6%	12,208,095	23.1%	\$1.76	263,516
	Class A	20,860,944	5,725,726	27.4%	5,343,863	25.6%	\$2.11	263,516
	Class B	17,628,787	4,321,154	24.5%	3,900,798	22.1%	\$1.69	-
	Class C	14,435,157	3,479,280	24.1%	2,963,434	20.5%	\$1.30	-

CB Richard Ellis categorizes office properties using the following criteria:

CLASS A

Description: Most prestigious buildings competing for premier office users with rents above average for the area. Buildings have high quality standard finishes, state of the art systems, exceptional accessibility and a definite market presence.

CLASS B

Description: Buildings competing for a wide range of users with rents in the average range for the area. Building finishes are fair to good for the area and systems are adequate, but the building does not compete with Class A at the same price.

CLASS C

Description: Buildings competing for tenants requiring functional space at rents below the average for the area.

Operating Expenses

Expenses range from \$9-\$12/yr Downtown and \$6-\$10/yr Suburban.