



# SACRAMENTO

## REGION OFFICE REPORT

***“According to a new study, American fathers are spending more than twice as much time with their children than they used to in years past. Experts say it’s due to a sweeping new trend called ‘unemployment’.”*** — Conan O’Brien

**Sacramento area office vacancies** hit a record high in the second quarter as employers in the region continued to downsize their leased space due to workforce reductions and upcoming lease expiration dates. In many cases, these jobs were shed months or years ago but this is the first time that companies have been able to adjust their square footage to match their new, smaller workforce. Current office vacancy in the region stands at 22.72%, up 0.20% from the previous quarter. That translates to a little over 15 million square feet of vacant office space in the region. The submarkets with the highest vacancy rates are Rocklin (47%), Point West (33%), Elk Grove (32%), the west end of the Highway 50 Corridor (31%), and the South Natomas submarket (29%).

**We ended the first half of the year** with nearly 700,000 more vacant square feet than we began. As ominous as this sounds, again, it is reflective of the vacancy numbers lagging behind employer’s downsizing decisions that happened in the past. It has been well documented that our regional economy has been largely dependent on the State of California and other public sector employers, and the homebuilding industry. Both sectors have been very hard hit and thousands of local jobs have been lost as a result. The good news in this is that we seem to be nearing a point of stabilization where office occupancy rates should plateau for a time and then start to increase. In the meantime, office rents and sales prices remain at historic lows.

**Significant lease deals during the quarter** included two State of California renewals for a combined 98,000 square feet, an expansion by Gateway Charter Schools at McClellan Park (48,000 square feet), IBM renewing in North Natomas (35,000 square feet), and a new charter school to the region, the John Adams Academy, leasing 51,000 square feet in Roseville. Six of the seven largest lease transactions during the second quarter were renewals.

**Sale prices for partially leased office buildings** are extremely attractive, often at or below replacement cost, and these low prices have attracted many buyers. During the quarter, there were eight different sales of office buildings larger than 60,000 square feet. Among the largest was Parkshore Plaza, a four building, 282,000 square feet office park in Folsom sold to Commonwealth REIT; KBS Capital Advisors bought Iron Point Office Park (222,000 square feet); Karlin Howe-Hurley LLC purchased the 1010 Hurley and 1111 Howe office complex (156,000 square feet); and West Taron Holdings LLC bought the former CSAA call center, a 108,000 square foot building at Interstate 5 and Elk Grove Blvd. in Elk Grove. Sale prices of empty or partially leased Class “A” and “B” buildings are in the \$60-\$80 per square foot range.

**As for the near future,** I expect office leasing activity to remain flat for the duration of 2011 with rents and sales prices to dip a bit lower before they stabilize early next year. Local submarkets that will fare better than others in 2012 and beyond include Highway 50, Folsom, Downtown Sacramento, Roseville and Rocklin. We are all looking for “the recovery” and, in my opinion, it will start with technology and bio-science start-ups and spin-offs in the Rancho Cordova/Folsom areas along with a continued “flight to quality” from older parts of Sacramento to the well planned, and very cost-competitive, cities of Roseville and Rocklin. Incidentally, the cities of Roseville, Folsom and Rancho Cordova actually have balanced budgets and are not reducing services and staff like most other public sector employers are. As we finish 2011 and enter 2012, the cities in the region that are the most financially stable will be the first to grow jobs and new opportunities.

– John Frisch, Regional Manager –

### QUICK STATS

**Overall Vacancy Rate:**  
22.72%

**Change During Last Qtr:**  
0.20%

**Under Construction:**  
367,373 SF

**Regional  
Unemployment Rate:**  
12.9%

**Median Resale Price of  
Single-Family Home:**  
\$160,000

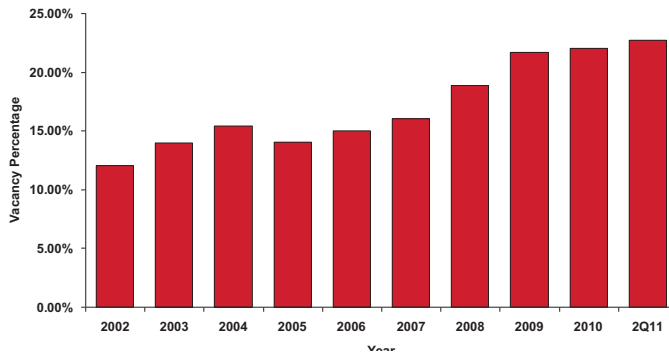
# QUARTERLY REPORT & COVERAGE MAP

Second Quarter 2011

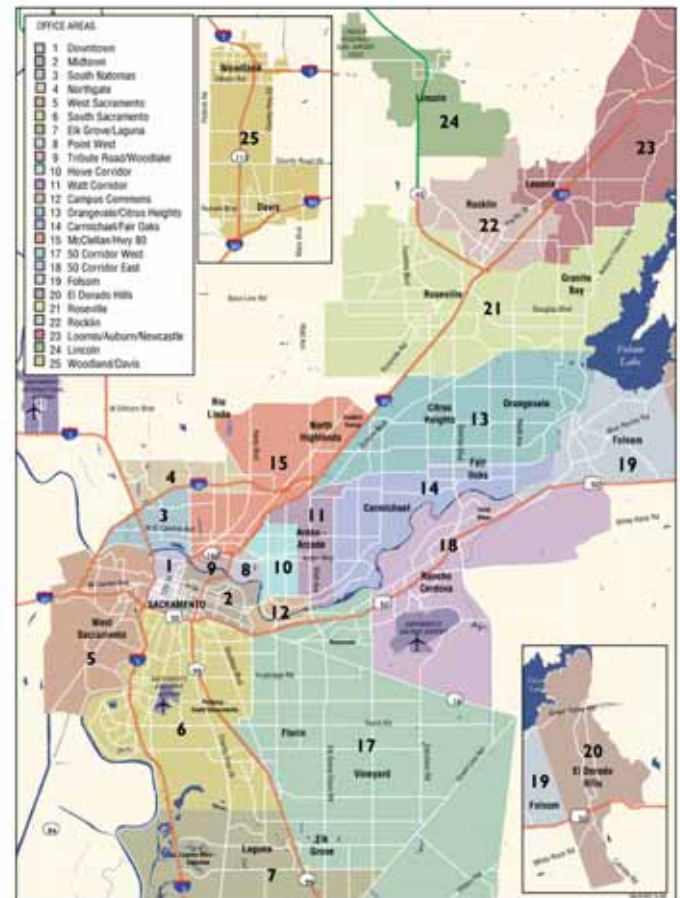
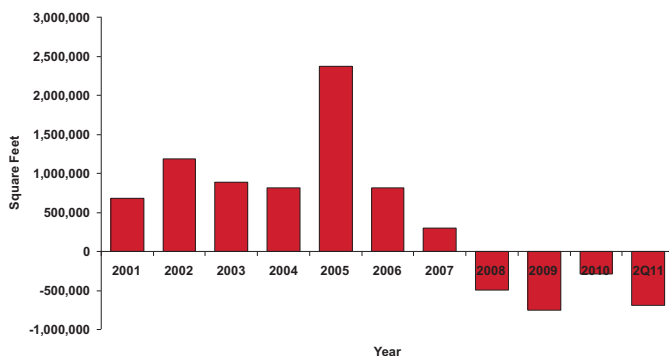
Area	# of Buildings	Total SF	Vacant SF	% Vacant	Vacancy Change From 1 <sup>st</sup> QTR 2011	Net Absorption 2 <sup>nd</sup> QTR 2011	Net Absorption YTD	Under Construction SF	Average Monthly Lease Rate (Full Service)
Downtown - Class "A"	23	7,244,296	749,069	10.34%	0.33%	(23,741)	36,126	0	\$2.45
Downtown	130	4,897,256	896,711	18.31%	0.49%	(14,917)	(159,158)	0	\$1.65
<b>Downtown Total</b>	<b>153</b>	<b>12,141,552</b>	<b>1,645,780</b>	<b>13.55%</b>	<b>0.39%</b>	<b>(38,658)</b>	<b>(123,032)</b>	<b>0</b>	
South Natomas	47	3,295,475	956,990	29.04%	0.84%	(27,065)	(41,450)	0	\$1.90
Point West	41	2,323,688	757,991	32.62%	-0.29%	6,802	137,142	0	\$1.80
Tribute Road/Woodlake Business Park	31	878,384	122,726	13.97%	0.09%	(785)	17,469	0	\$1.15
Campus Commons	58	1,660,762	341,640	20.57%	1.13%	(18,793)	(32,416)	0	\$1.85
50 Corridor West	65	2,916,235	905,032	31.03%	0.64%	(18,819)	(162,228)	0	\$1.65
50 Corridor East	275	11,535,964	2,480,128	21.50%	1.05%	(121,387)	(233,557)	73,722	\$1.65
Northgate/North Natomas	138	4,148,065	1,090,264	26.28%	-0.99%	11,139	(1,737)	0	\$1.75
Howe Corridor	78	1,498,631	405,532	27.06%	1.45%	(21,793)	(44,687)	0	\$1.45
Watt Corridor	54	1,410,284	356,822	25.30%	0.03%	(392)	(80,982)	0	\$1.35
Roseville	233	6,784,818	1,728,422	25.47%	0.26%	(17,551)	31,607	108,140	\$1.85
Rocklin	90	2,071,209	978,586	47.25%	-2.47%	18,590	(2,847)	0	\$1.55
West Sacramento	58	2,556,140	462,062	18.08%	-0.69%	17,562	28,394	108,516	\$1.45
Folsom	96	3,017,376	603,860	20.01%	0.59%	(17,807)	(32,407)	5,195	\$1.80
El Dorado Hills	114	2,066,034	504,741	24.43%	1.73%	(55,592)	(49,764)	4,800	\$1.70
Midtown/East Sacramento	93	2,719,700	346,448	12.74%	-2.84%	56,060	66,234	0	\$1.75
North Sacramento	26	1,150,816	305,354	26.53%	1.26%	(14,501)	(134,778)	0	\$1.40
Orangevale/Citrus Heights	50	1,224,398	252,323	20.61%	-0.34%	(3,193)	(13,552)	0	\$1.30
South Sacramento	57	1,542,555	376,725	24.42%	0.74%	(11,467)	(15,124)	0	\$1.60
Elk Grove	57	1,175,303	375,081	31.91%	-1.11%	13,011	(6,144)	67,000	\$1.85
Carmichael/Fair Oaks	33	413,317	116,347	28.15%	1.98%	(5,210)	2,639	0	\$1.40
<b>METROPOLITAN TOTAL:</b>	<b>1,847</b>	<b>66,530,706</b>	<b>15,112,854</b>	<b>22.72%</b>	<b>0.20%</b>	<b>(249,849)</b>	<b>(691,220)</b>	<b>367,373</b>	

NOTE: This survey measures office buildings larger than 5,000 square feet and excludes owner-occupied space, government-owned buildings and medical buildings.

Historical Vacancy Rate



Historical Net Absorption



## Second Quarter 2011

### Significant Second Quarter 2011 Lease Transactions (Deals that occupied or signed during the second quarter)

Tenant	Address	Square Feet
State of California Dept. of Toxic Substance Control Board*	8800 Cal Center Drive, Sacramento	57,963
John Adams Academy, Inc.	1 Sierra Gate Plaza, Roseville	51,133
Gateway Community Charters**	5727 Perrin Avenue, McClellan	47,965
State of California Dept. of Toxic Substance Control Board*	8810 Cal Center Drive, Sacramento	35,928
International Business Machines*	3775 N. Freeway Blvd., Sacramento	35,000
Sedgwick Claims Management Services**	1410 Rocky Ridge Drive, Roseville	23,109
Administrative Office of the Courts*	800 9 <sup>th</sup> Street, Sacramento	21,185

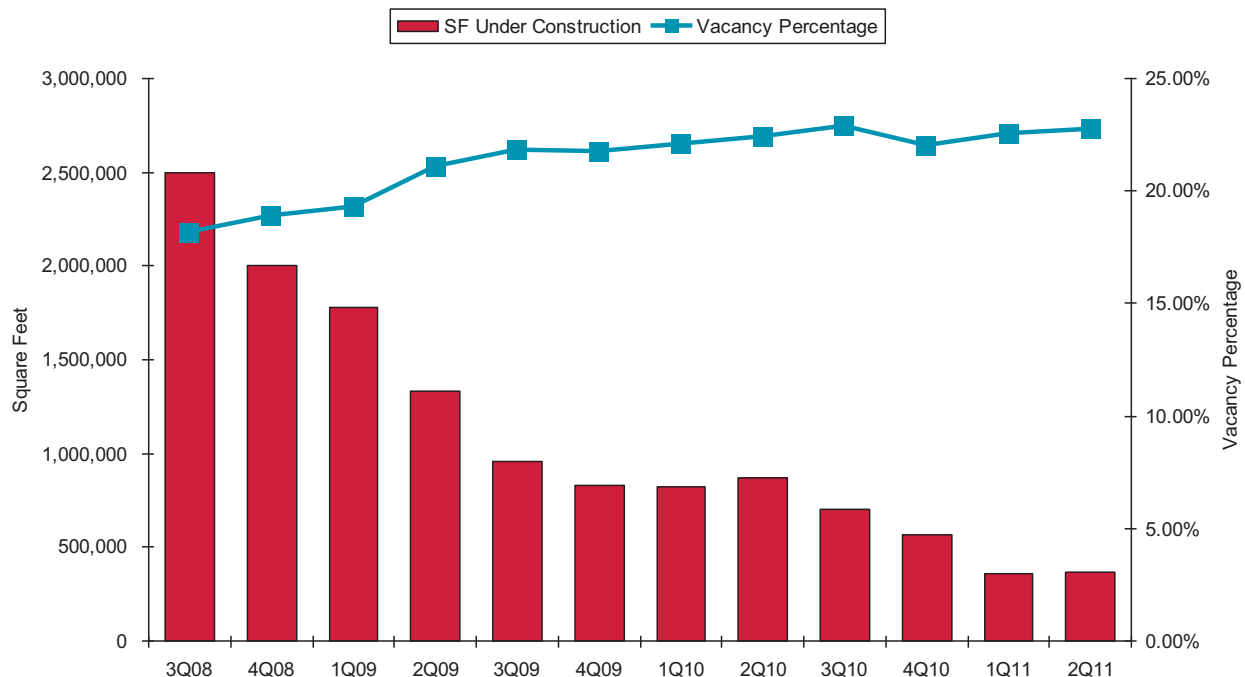
\* Renewal

\*\* Renewal/Expansion

### Significant Second Quarter 2011 Sale Transactions

Address	Buyer	Seller	Square Feet
600 & 620 Coolidge Drive, Folsom 255 & 295 Parkshore Drive, Folsom	CommonWealth REIT	Parkshore Plaza Office Property Owner LLC	282,000
1110-11180 Iron Point Road, Folsom	KBS Capital Advisors	Cowifi Iron Point LLC	222,149
1111 Howe Avenue, Sacramento 1010 Hurley Way, Sacramento	Karlin Howe-Hurley LLC	UCM/Prep-Howe LLC	156,087
9700 W Taron Blvd., Elk Grove	West Taron Holdings LLC	CA State Auto Association	108,000
2512-2566 River Plaza Drive, Sacramento	California Farm Bureau Federation	Quality Props Asset Mgmt Company	87,680
630 K Street, Sacramento	Esther L. Porter	630 K Street Partners LLC	68,588
2277 Fair Oaks Blvd., Sacramento	Payton Dev LLC	Mkd Orchard Partners	66,331
660 Menlo Drive, Rocklin	Rocklin Academy	Menlo Griffin LLC	64,600

### Historical Vacancy Rate & Office Space Under Construction



# SACRAMENTO & ROSEVILLE AGENT ROSTER

## Second Quarter 2011

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