



SACRAMENTO VALLEY OFFICE

Economic Indicators

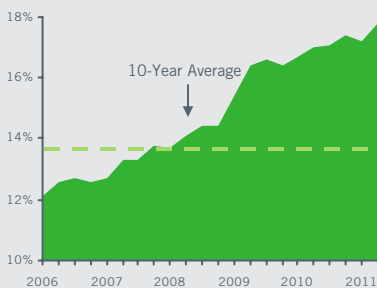
| | Q2 11 | Q2 10 |
|--------------------------------|--------|--------|
| Sacramento Valley Employment | 1.017M | 1.056M |
| Sacramento Valley Unemployment | 11.68% | 12.36% |
| U.S. Unemployment | 9.1% | 9.6% |
| U.S. CCI | 62.08 | 58.24 |

*Includes El Dorado, Placer, Sacramento & Yolo Counties

Net Absorption



Vacancy



Market Tracker

*Arrows = Current Qtr Trend

▲ Vacancy
17.8%

▼ Net Absorption
-531,754 SF

◀ Deliveries
0 SF

▼ Asking Rent
\$1.73 FS

Office Market Stabilizing; Recovery Still on Horizon

The overall vacancy rate for office space in the Sacramento market currently stands at 17.8%. This marks a slight decrease from the 17.9% rate recorded at the close of the first quarter. Though leasing activity remains weak compared to historic norms, it appears that the market may finally be stabilizing after a long, slow decline. Of course, one quarter of occupancy gains is not enough to make a trend and we would not yet declare the Sacramento office market as being in recovery mode. However, we do see a number of signs, however, that would seem to indicate that it is finally beginning to stabilize. Our brokers are reporting that space user requirements have ticked up slightly. Perhaps more importantly, it appears that the worst of the trend of corporate downsizings and consolidations may finally be behind us.

The overall market recorded 68,000 square feet of occupancy growth during the second quarter. While the Downtown submarket had emerged as the region's strongest trade area throughout the recession, it actually recorded occupancy losses to the tune of about 40,000 square feet this quarter. Over the past few years the Downtown submarket had weathered the storm better than Sacramento's suburban office markets primarily because its core group of space users (government, lobbyists and legal users) have proven to be relatively recession-resistant. Even in the face of its ongoing budget crisis, the State of California has returned little office space to the market and has actually continued to be one of the region's strongest growth drivers. In fact, the largest new office transaction of this quarter was the Department of Consumer Affairs lease of 53,000 square feet in the Natomas/Northgate submarket. But while Downtown experienced a lackluster quarter, we saw a number of suburban trade areas finally returning to growth mode. The Roseville/Rocklin (78,000 square feet), Point West (71,000 square feet), El Dorado Hills (42,000 square feet) and Howe/Fulton submarkets (12,000 square feet) all recorded growth this quarter. Gains in these markets outpaced minor losses incurred in the Campus Commons, Folsom, South Sacramento and Highway 50 submarkets. Perhaps most importantly, much of this growth came from private sector users, who are slowly returning to the marketplace.

Employment growth has remained a major issue in the area. Sacramento's traditional dependency upon government employment was once a stabilizing factor for the local economy. Thanks to California's ongoing budget deficit, it is now a liability. But while we have seen significant local public sector job cuts from City and County government, wholesale layoffs from the State of California have yet to occur. While these were once thought of as an inevitability, it is increasingly unclear if further cuts will actually take place, much less at what levels or on what timeline. That being said, in the near-term, private sector employment growth is what will fuel local commercial real estate demand. We don't expect significant improvement on the employment front until next year. Because of the natural lag time between employment growth and commercial real estate demand, this means that we will likely not see a substantial increase in office demand in the Sacramento market prior to mid-year 2012.

Despite second quarter gains, year-to-date absorption in the region currently stands at negative 228,000 square feet. With space user requirements slowly creeping up, we expect the market to continue to record modest occupancy growth in the near-term. Our forecast is that Sacramento will close 2011 with flat or slightly negative net absorption and a vacancy level at, or around, 17.4%. Rents are showing signs of stabilization, but there is little chance of any sort of significant rental rate growth anytime prior to 2013.

Cassidy Turley Office Market Snapshot

Sacramento Valley • Second Quarter 2011

| | INVENTORY | SUBLET VACANT | DIRECT VACANT | VACANCY RATE | CURRENT NET ABSORPTION | YTD NET ABSORPTION | UNDER CONSTRUCTION | AVERAGE ASKING RENT (ALL Classes) | AVERAGE ASKING RENT (CLASS A) |
|-------------------------------|-------------------|----------------|-------------------|--------------|------------------------|--------------------|--------------------|-----------------------------------|-------------------------------|
| Submarket | | | | | | | | | |
| Auburn/Loomis | 1,167,879 | 1,500 | 144,434 | 12.5% | 10,372 | 7,818 | 0 | \$1.56 | N/A |
| Roseville/Rocklin | 10,637,096 | 34,672 | 3,213,509 | 30.5% | 77,970 | (103,702) | 0 | \$1.79 | \$1.90 |
| El Dorado Hills | 1,648,289 | 19,581 | 210,160 | 13.9% | 41,543 | 59,716 | 0 | \$1.72 | \$2.04 |
| Folsom | 4,668,459 | 39,655 | 677,840 | 15.4% | (26,335) | (16,977) | 0 | \$1.89 | \$2.06 |
| Highway 50 Corridor | 15,582,381 | 95,173 | 2,846,777 | 18.9% | (16,980) | (136,258) | 0 | \$1.64 | \$1.81 |
| Citrus Heights/Orangevale | 1,418,024 | 0 | 254,546 | 18.0% | (3,982) | (2,158) | 0 | \$1.39 | N/A |
| Carmichael/Fair Oaks | 1,164,298 | 1,556 | 129,333 | 11.2% | (6,325) | 119 | 0 | \$1.34 | N/A |
| Rio Linda/North Highlands | 1,051,914 | 129,030 | 290,231 | 39.9% | 6 | 12,838 | 0 | \$1.41 | N/A |
| Watt Ave | 2,470,045 | 0 | 308,933 | 12.5% | (5,860) | (89,991) | 0 | \$1.51 | N/A |
| Howe Ave/Fulton Ave | 2,503,364 | 0 | 484,881 | 19.4% | 12,205 | (59,772) | 0 | \$1.58 | \$1.77 |
| Point West | 2,687,929 | 13,392 | 649,366 | 24.7% | 71,308 | 208,281 | 0 | \$1.77 | \$1.95 |
| Campus Commons | 1,309,648 | 0 | 305,835 | 23.4% | (29,863) | (43,527) | 0 | \$1.82 | N/A |
| East Sacramento | 1,800,135 | 0 | 269,123 | 15.0% | 4,222 | 31,542 | 0 | \$1.67 | N/A |
| Midtown Sacramento | 4,128,415 | 0 | 307,398 | 7.4% | 1,813 | (38,474) | 0 | \$1.91 | \$2.67 |
| Downtown Sacramento | 17,868,872 | 54,693 | 1,832,123 | 10.6% | (40,105) | (86,557) | 0 | \$2.12 | \$2.61 |
| South Sacramento | 3,922,652 | 0 | 728,029 | 18.6% | (25,306) | 11,863 | 0 | \$1.72 | \$1.92 |
| Natomas/Northgate | 5,943,381 | 10,928 | 1,457,743 | 24.7% | 6,442 | 49,568 | 0 | \$1.80 | \$1.95 |
| West Sacramento | 2,205,322 | 0 | 204,026 | 9.3% | (485) | (4,852) | 0 | \$1.61 | N/A |
| Davis/Woodland | 1,843,699 | 2,200 | 233,489 | 12.7% | (2,394) | (27,090) | 0 | \$1.84 | \$2.29 |
| Office Class Breakdown | | | | | | | | | |
| Class A | 25,327,507 | 172,604 | 4,713,432 | 19.3% | 121,091 | 322,476 | 0 | \$2.04 | |
| Class B | 38,902,625 | 96,197 | 7,025,837 | 18.3% | (65,256) | (351,247) | 0 | \$1.74 | |
| TOTAL | 84,021,802 | 400,180 | 14,547,776 | 17.8% | 68,246 | (227,613) | 0 | \$1.73 | |

*Office asking rates converted to Full Service

Key Lease Transactions Q2 11

| PROPERTY | SF | TENANT | TRANSACTION TYPE | SUBMARKET |
|--------------------------|--------|------------------------------|------------------|-------------------|
| 1747 N Market Blvd | 52,500 | Dept. of Consumer Affairs | New | Natomas/Northgate |
| 1025 Creekside Ridge Dr. | 19,675 | N/A | New | Roseville/Rocklin |
| 1 Sierra Gate Plaza | 17,423 | John Adams Academy | New | Roseville/Rocklin |
| 3810 J Street | 16,833 | Mercy General Hospital | New | East Sac |
| 500 Capitol Mall | 14,000 | Locke Lord Bissell & Liddell | New | Downtown |
| 2710 N Gateway Oaks Dr | 12,012 | Bank of America | New | Natomas/Northgate |

About Cassidy Turley

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Office Submarkets Sacramento Valley



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