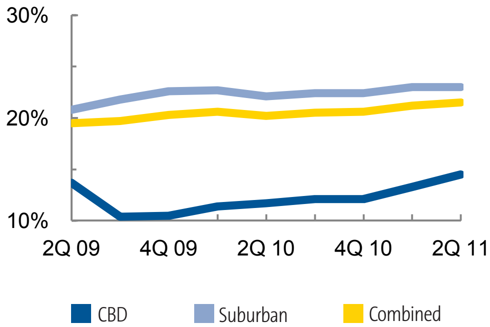
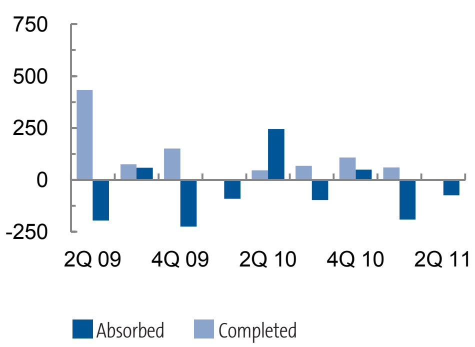
Office Trends Report—Second Quarter 2011
Sacramento, CA

GRUBB & ELLIS
From Insight to Results

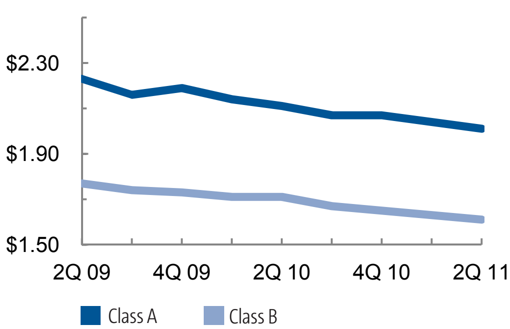
Vacancy Rate



Completions vs. Absorption
(in Thousands of SF)



Asking Rental Rates
($/SF/Mo. Full Service)



Market Recovery Moderates

Though the Sacramento office market seemed to be turning around at the end of 2010, six months into 2011, this does not appear to be the case. Instead, the market appears to be in a transitional mode – figuring out whether it will stabilize or continue to decline. By the numbers: net absorption was negative for the second consecutive quarter, posting negative 75,000 square feet at the end of the quarter. The vacancy rate increased 40 more basis points, rising to 21.5 percent, and year-to-date net absorption stands at negative 262,000 square feet.

In the past, Sacramento has depended on state leasing activity to pick up any slack in the market, but as the state cuts back on leasing this year, this cushion is no longer around to break the fall. Also of note, the number of commercial loan defaults in the area looks to be increasing. During the quarter, three prominent Downtown buildings were added to 'distressed' property lists, a first for one of the strongest submarkets in the area. Rental rates also continued to drop – companies now have the choice of moving to similar space for less money or upgrading their current space for the same amount.

On a more positive note, a drop in the local unemployment rate and increased job growth offered hope that regional recovery is not too far away. In May 2011, the local unemployment rate dropped to 11.7 percent, 30 basis points down from the 12 percent seen one month prior. As higher unemployment rates usually correspond with increased vacancy, should the unemployment rate continue to decline, it stands to reason that office vacancy will top off or decline accordingly. As the rate of vacancy increase has slowed this quarter, it is possible that the market may see a slight drop in the overall rate sooner rather than later.

FORECAST

- The rate of vacancy increase will slow as tenant leasing activity returns to the area.
- Rental rates will continue to decline through the next two quarters, not stabilizing until 2012.
- Despite industry job growth, speculative construction will remain light to non-existent.

KEY TRANSACTIONS

Undisclosed Buyer
Purchased
1111 Howe Ave/1010 Hurley Way
Sacramento, CA
from *UCM/Prep-Howe, LLC
$9,650,000

***California Farm Bureau Federation**
Purchased
River Plaza Corporate Center
Sacramento, CA
from Bank of America
$6,500,000

CA Travel and Tourism Commission
Leased
18,942 SF at
555 Capitol Mall
Sacramento CA
from *Plaza Five Fifty-Five

** Indicates Transaction Represented by Grubb & Ellis*

Grubb & Ellis Sacramento
1610 Arden Way , Suite 195, Sacramento, CA 95815
www.grubb-ellis.com

Prepared by:
Abby Friedman, *Database Coordinator*
916.418.6058 • abby.friedman@grubb-ellis.com

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By Submarket	Total SF	Vacant SF	Vacant %	Net Absorption Current	Net Absorption Year To Date	Under Construction SF	Asking Rent Class A	Asking Rent Class B
Downtown	10,833,156	1,566,978	14.5%	(132,023)	(227,441)	-	$2.72	$1.81
CBD Total	**10,833,156**	**1,566,978**	**14.5%**	**(132,023)**	**(227,441)**	**-**	**$2.72**	**$1.81**
Carm.,F.O., C.H., O'Vale.	1,488,150	302,403	20.3%	1,909	(9,773)	-	$1.70	$1.35
Folsom, El Dorado Hills	4,235,391	859,313	20.3%	(33,200)	(13,201)	5,195	$1.96	$1.79
Hwy 50 Corridor	13,414,337	2,798,643	20.9%	96,032	(76,515)	-	$1.66	$1.57
Hwy 80 Corridor	6,804,600	1,580,744	23.2%	68,218	77,505	-	$1.91	$1.55
Laguna/Elk Grove	980,399	334,295	34.1%	5,540	14,619	-	$2.22	$1.84
Midtown	2,769,084	287,736	10.4%	46,540	71,712	-	$1.71	$1.66
Natomas	6,664,514	1,640,199	24.6%	(857)	52,499	-	$2.46	$1.61
North Sacramento	1,450,712	437,963	30.2%	2,530	21,899	-	$1.35	$1.00
Roseville, Rocklin, Auburn	7,963,673	2,473,524	31.1%	(135,731)	(134,810)	53,985	$1.96	$1.69
South Sacramento	1,127,891	144,070	12.8%	4,149	(29,896)	-	-	$1.45
West Sacramento	1,490,358	289,577	19.4%	1,964	(8,337)	-	-	$1.45
Suburban Total	**48,389,109**	**11,148,467**	**23.0%**	**57,094**	**(34,298)**	**59,180**	**$1.92**	**$1.59**
Totals	**59,222,265**	**12,715,445**	**21.5%**	**(74,929)**	**(261,739)**	**59,180**	**$2.02**	**$1.62**

By Class	Total SF	Vacant SF	Vacant %	Net Absorption Current	Net Absorption Year To Date	Under Construction SF	Available for Sublease CBD	Available for Sublease Suburban
Class A	28,506,710	6,695,030	23.5%	(228,394)	(360,274)	53,985	126,365	333,950
Class B	21,409,279	4,406,039	20.6%	21,313	(35,271)	5,195	31,621	208,234
Class C	9,306,276	1,614,376	17.3%	132,152	133,806	-	10,365	31,675
Totals	**59,222,265**	**12,715,445**	**21.5%**	**(74,929)**	**(261,739)**	**59,180**	**168,351**	**573,859**

Grubb & Ellis — Sacramento Office Advisors

Tom Bacci
Senior Vice President
916.770.8913
License #01078422

Scott M. Bennett
Assoc. Vice President
916.418.6054
License #01351389

Jay G. Bringham
Assoc. Vice President
916.418.6087
License #00704114

Dan Chamberlain
Senior Vice President
916.418.6026
License #00837352

Steve Griffin
Senior Vice President
916.418.6018
License #00789902

Ken Johnson
Associate Advisor
916.418.6013
License #01786691

Mike Kalmanson, SIOR
Senior Vice President
916.418.6032
License #00590623

Dennis Neeley, SIOR
Senior Vice President
916.418.6034
License #00481823

Clyde Rawlings, CCIM
Senior Vice President
916.418.6035
License #00986815

Kris Reilly
Vice President
916.418.6037
License #01226908

Jason Rutherford
Vice President
916.418.6055
License #01260682

Toss R. Vallentine
Associate Advisor
916.418.6033
License #01742629

Tom Walcott, SIOR, CCIM
SVP/Sales Manager
916.418.6027
License #01121178

Jon R. Walker
Senior Vice President
916.770.8912
License #01204666

OFFICE TERMS AND DEFINITIONS

Total SF: Office inventory includes all multi-tenant and single tenant buildings at least 20,000 square feet. Owner-occupied, government and medical buildings are not included.

Office Building Classifications: Grubb & Ellis adheres to the BOMA guidelines. Class A properties are the most prestigious buildings competing for premier office users with rents above average for the area. Class B properties compete for a wide range of users with rents in the average range for the area. Class C buildings compete for tenants requiring functional space at rents below the area average.

Vacancy and Availability: The vacancy rate is the amount of physically vacant space divided by the inventory and includes direct and sublease vacant. The availability rate is the amount of space available for lease divided by the inventory.

Net Absorption: The net change in physically occupied space over a period of time.

Asking Rent: The dollar amount asked by landlords for available space expressed in dollars per square foot per year in most parts of the country and dollars per square foot per month in areas of California and selected other markets. Office rents are reported full service where all costs of operation are paid for by the landlord up to a base year or expense stop. The asking rent for each building in the market is weighted by the amount of available space in the building.

** Grubb & Ellis statistics are audited annually and may result in revisions to previously reported quarterly and final year-end figures.*