

OUTLOOK

The Sacramento office market momentum appeared to rebound after experiencing negative absorption from the previous quarter. Last quarter absorption was overshadowed due to newly delivered construction. The Sacramento office market sits at a record low vacancy rate of 10.15%. This is approximately 148 basis points lower over the past 24 months with a reduced vacancy of over 1.2 million square feet.

To help relieve pent-up demand, over 200,000 square feet of new office product was delivered in 2018 and another 2.3 million square feet remains in the construction pipeline. Many of the projects currently underway are dedicated for medical use. More specifically, Adventist Health is awaiting completion of its new headquarters of over 242,000 square foot at 501 N. Sunrise Avenue in Roseville and Kaiser is expecting completion of its new facility at 1001 Riverside Avenue in Roseville as well. In October, the medical device company Penumbra, signed a lease for 160,000 sf at 8040 Foothills Boulevard in Roseville.

Citrus Heights, Howe/Fulton, and Point West submarkets all witnessed positive leasing momentum in Q1. However, the East Sacramento submarket is experiencing the most significant market constraints at 1.7% vacancy. Over a 24 month period, the East Sacramento submarket has experienced over 80,000 vacant square feet of absorption.

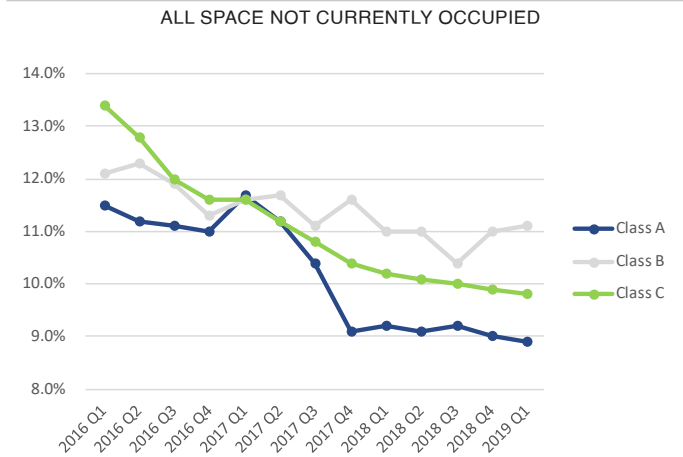
The big news of 2018 was the announcement that Centene, a St. Louis based health insurer, chose North Natomas as the new location to build a 5 building, 1.25 million square foot campus to serve as the company's regional headquarters. Ground was broken in October and will serve as a strong economic driver to the region for years to come. In addition, the California Department of General Services announced a new build-to-suit at 1215 O Street, which will be an 11 story, 360,000 square foot midrise building with an expected completion date of 2022.

SACRAMENTO OFFICE TRENDS | FIRST QUARTER 2019

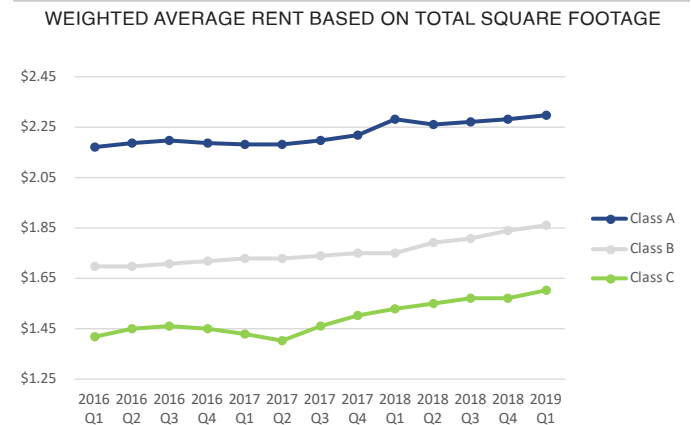
ARROWS REPRESENT CHANGES FROM THE PREVIOUS QUARTER

| MARKET INDICATORS | Vacancy | Lease Rates (FS) | Net Absorption | Transaction Activity |
|---------------------|--|---|---|---|
| | <div style="display: flex; justify-content: space-around;"> ◀ ▶ </div> | <div style="display: flex; justify-content: center;"> ▲ </div> | <div style="display: flex; justify-content: center;"> ▲ </div> | <div style="display: flex; justify-content: center;"> ▲ </div> |
| Q ⁴ 2018 | 10.15% | \$1.83 | (87,601) | 2,481,635 |
| Q ¹ 2019 | 10.15% | \$1.86 | 947 | 1,071,647 |

VACANCY RATES BY CLASS



AVERAGE ASKING RATES



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

OUTLOOK

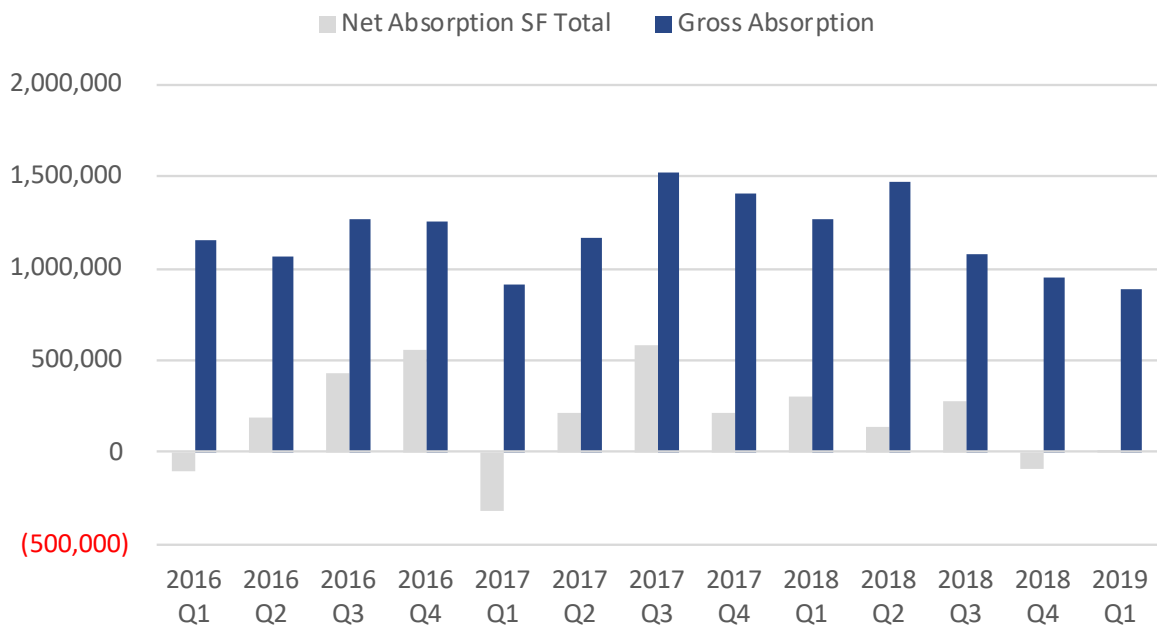
In February, the Department of Waste Management and Recycling leased more than 27,000 square feet of office space in Rancho Cordova.

As rental rates continue to rise, the investment market continues to thrive with both regional and national investors, particularly from the Bay Area, looking at Sacramento assets as attractive investment options. The average leased investment sales price is \$184 dollars per square foot, which represents a 25% increase over the previous two years. Parkway Corporate Plaza, a 287,000 square foot office project, traded for over \$79 million dollars in Q1 2019. Major tenants in the project include Kaiser, UC Davis Health and Sutter Health. Anchor Health properties, based in Delaware, was the buyer.

As the market continues to move forward in 2019, we anticipate the strong activity to continue, as Bay Area firms continue to look to the Sacramento region as a viable option that offers a strong talent pool for hiring, quality office space and affordable housing. Investors also will continue to focus on the region as they seek quality real estate options with better returns on investment. Overall, Northern California continues to be a dynamic job generator and unemployment for the greater Sacramento region stands at a healthy 4.1 percent at the end of February.

NET & GROSS ABSORPTION

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



MARKET SNAPSHOT

| | Q1 2019 | Q1 2018 | % Chg |
|------------------------|---------|-----------|---------|
| Vacancy Rate | 10.15% | 10.24% | -0.94% |
| Availability Rate | 12.15% | 12.70% | -4.21% |
| Avg. Asking Lease Rate | \$1.86 | \$1.85 | 0.54% |
| Gross Absorption | 884,437 | 1,266,883 | -30.19% |
| Net Absorption | 947 | 304,702 | -99.69% |

NOTEWORTHY TRANSACTIONS

LEASE TRANSACTIONS | NOTABLE OFFICE LEASES SIGNED Q1 2019

| Property Address | Submarket | Tenant | Owner | Date Lease Signed | Transaction Size |
|---------------------------|---------------------|--|-------------------------|-------------------|------------------|
| 3068 Kilgore Road | Highway 50 Corridor | State of CA Dept of Justice | Strada Investment Group | March 2019 | 104,042 |
| 1047 Old Placerville Road | Highway 50 Corridor | Sutter Health | Towbes Capital Partners | January 2019 | 87,854 |
| 400 Capitol Mall | Downtown | We Work | Starwood Capital Group | March 2019 | 47,316 |
| 3100 Zinfandel | Highway 50 Corridor | Vision Service Plan | Ethan Conrad Properties | March 2019 | 35,540 |
| 10863 Gold Center Drive | Highway 50 Corridor | Department of Waste Management and Recycling | Nishikawa Farms Inc | February 2019 | 27,020 |

SALE TRANSACTIONS | NOTABLE OFFICE SALES FOR Q1 2019

| Property Address | Submarket | Buyer | Seller | Transaction Size | Sale Price |
|----------------------------|---------------------|--------------------------------|----------------------------|------------------|-------------|
| 8745 Folsom Boulevard | Highway 50 Corridor | Lance-Kashian & Co | Stephen Endsley | 83,750 | \$8,100,000 |
| 8290 Elk Grove Boulevard | Elk Grove | Tower Investments, Inc | iBorrow | 13,387 | \$7,000,000 |
| 830 K Street | Downtown | Florian Barth | Zinfandel Acquisitions Inc | 62,991 | \$5,500,000 |
| 10365 Old Placerville Road | Highway 50 Corridor | Helge & Patricia Theiss-Nyland | McLellan Properties LLC | 44,067 | \$4,500,000 |
| 3336 Bradshaw Road | Highway 50 Corridor | Mulberry Capital Advisors | Dan Caputo Company | 30,924 | \$4,285,000 |



STATISTICS BY SUBMARKET

SACRAMENTO

| Submarket | Total Buildings | Net Rentable Square Feet | Vacant Square Feet | Vacancy Rate Q1 2019 | Occupied Square Feet | Occupancy Rate Q1 2019 | Available Square Feet | Availability Rate Q1 2019 | Net Absorption Q1 2019 | YTD Net Absorption | Gross Absorption Q1 2019 | YTD Gross Absorption | Under Construction Square Feet | Delivered Square Feet | Proposed Square Feet | Average Asking Rate (All Classes)* |
|-----------------------------|-----------------|--------------------------|--------------------|----------------------|----------------------|------------------------|-----------------------|---------------------------|------------------------|--------------------|--------------------------|----------------------|--------------------------------|-----------------------|----------------------|------------------------------------|
| Auburn/Lincoln | 65 | 1,376,589 | 67,238 | 4.88% | 1,309,351 | 95.12% | 103,445 | 7.51% | (2,072) | (2,072) | 9,746 | 9,746 | 0 | 0 | 69,453 | \$1.80 |
| Campus Commons* | 45 | 1,299,823 | 209,700 | 16.13% | 1,090,123 | 83.87% | 276,941 | 21.31% | (3,493) | (3,493) | 7,561 | 7,561 | 0 | 0 | 0 | \$2.18 |
| Carmichael/Fair Oaks | 49 | 979,661 | 252,125 | 25.74% | 727,536 | 74.26% | 251,054 | 25.63% | (24,815) | (24,815) | 18,808 | 18,808 | 0 | 0 | 0 | \$1.35 |
| Citrus Heights/Oran-gevale | 55 | 1,502,796 | 137,022 | 9.12% | 1,365,774 | 90.88% | 169,296 | 11.27% | 27,721 | 27,721 | 56,828 | 56,828 | 0 | 0 | 15,000 | \$1.52 |
| Davis/Woodland | 83 | 2,098,095 | 115,093 | 5.49% | 1,983,002 | 94.51% | 142,704 | 6.80% | (7,391) | (7,391) | 38,213 | 38,213 | 0 | 0 | 0 | \$1.91 |
| Downtown | 218 | 20,209,735 | 1,581,398 | 7.82% | 18,628,337 | 92.18% | 1,839,585 | 9.10% | (21,014) | (21,014) | 113,166 | 113,166 | 1,198,000 | 0 | 1,669,648 | \$2.72 |
| East Sacramento | 35 | 2,348,641 | 32,078 | 1.37% | 2,316,563 | 98.63% | 33,261 | 1.42% | 5,961 | 5,961 | 5,961 | 5,961 | 0 | 0 | 0 | \$2.71 |
| El Dorado | 72 | 1,671,965 | 216,680 | 12.96% | 1,455,285 | 87.04% | 270,194 | 16.16% | 4,291 | 4,291 | 33,525 | 33,525 | 30,216 | 0 | 4,048,970 | \$1.98 |
| Elk Grove | 55 | 1,804,543 | 137,151 | 7.60% | 1,667,392 | 92.40% | 168,258 | 9.32% | (13,783) | (13,783) | 4,211 | 4,211 | 22,362 | 0 | 110,000 | \$2.37 |
| Folsom | 99 | 4,775,262 | 313,538 | 6.57% | 4,461,724 | 93.43% | 466,649 | 9.77% | (4,392) | (4,392) | 30,952 | 30,952 | 0 | 0 | 5,647 | \$2.03 |
| Highway 50 Corridor | 299 | 17,468,285 | 1,989,670 | 11.39% | 15,478,615 | 88.61% | 2,386,723 | 13.66% | 10,774 | 10,774 | 173,306 | 173,306 | 0 | 0 | 338,000 | \$1.70 |
| Howe Ave./Fulton Ave. | 77 | 2,387,854 | 443,599 | 18.58% | 1,944,255 | 81.42% | 531,969 | 22.28% | 17,785 | 17,785 | 36,581 | 36,581 | 0 | 0 | 0 | \$1.65 |
| Midtown | 98 | 3,725,197 | 365,560 | 9.81% | 3,359,637 | 90.19% | 403,583 | 10.83% | (851) | (851) | 40,317 | 40,317 | 0 | 0 | 80,985 | \$2.37 |
| Natomas/Northgate | 116 | 6,529,439 | 725,909 | 11.12% | 5,803,530 | 88.88% | 829,749 | 12.71% | 6,092 | 6,092 | 79,557 | 79,557 | 601,800 | 0 | 40,827,124 | \$1.92 |
| Point West | 51 | 2,730,651 | 370,779 | 13.58% | 2,359,872 | 86.42% | 439,348 | 16.09% | 36,358 | 36,358 | 57,039 | 57,039 | 14,484 | 0 | 4,054,000 | \$1.90 |
| Rio Linda/N Highlands | 29 | 1,018,415 | 273,655 | 26.87% | 744,760 | 73.13% | 294,428 | 28.91% | 2,132 | 2,132 | 2,132 | 2,132 | 0 | 0 | 84,405 | \$1.73 |
| Roseville/Rocklin | 275 | 10,854,543 | 1,232,084 | 11.35% | 9,622,459 | 88.65% | 1,456,595 | 13.42% | (25,868) | (25,868) | 134,785 | 134,785 | 436,000 | 0 | 1,138,083 | \$1.96 |
| South Sacramento | 104 | 3,074,915 | 315,873 | 10.27% | 2,759,042 | 89.73% | 357,129 | 11.61% | 7,857 | 7,857 | 21,722 | 21,722 | 0 | 0 | 871,408 | \$1.63 |
| Watt Ave. | 50 | 2,400,976 | 234,810 | 9.78% | 2,166,166 | 90.22% | 310,694 | 12.94% | (19,030) | (19,030) | 4,377 | 4,377 | 0 | 0 | 0 | \$1.67 |
| West Sacramento | 35 | 2,020,487 | 147,245 | 7.29% | 1,873,242 | 92.71% | 235,547 | 11.66% | 4,685 | 4,685 | 15,650 | 15,650 | 0 | 0 | 4,075,000 | \$1.78 |
| Office Market Totals | 1,910 | 90,277,872 | 9,161,207 | 10.15% | 81,116,665 | 89.85% | 10,967,152 | 12.15% | 947 | 947 | 884,437 | 884,437 | 2,302,862 | 0 | 57,387,723 | \$1.86 |

*Average asking rates represented are full service.

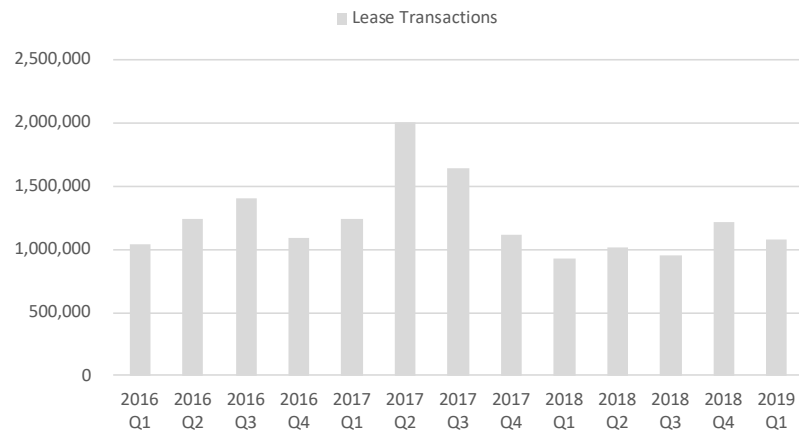
STATISTICS BY CLASS

SACRAMENTO | Q1 2019

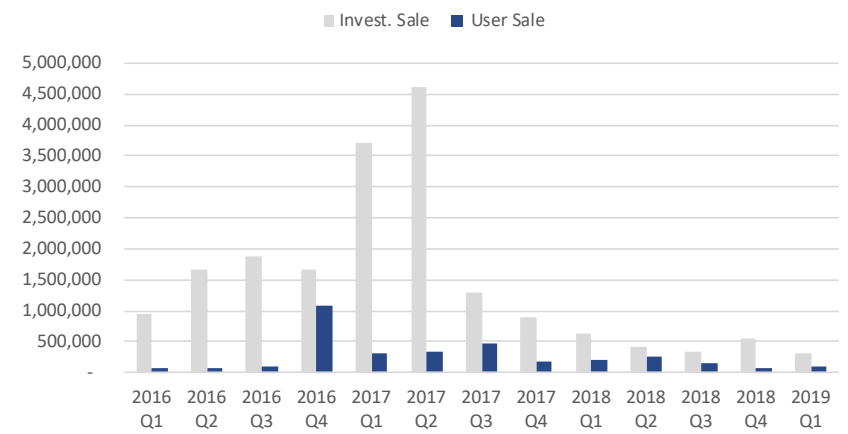
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|-------------|-----------------|--------------------------|--------------------|----------------------|----------------------|------------------------|-----------------------|---------------------------|------------------------|--------------------|--------------------------|----------------------|--------------------------------|-----------------------|----------------------|---------------------|
| Class A | 195 | 26,755,181 | 2,369,621 | 8.86% | 24,385,560 | 91.14% | 2,803,933 | 10.48% | 31,632 | 31,632 | 230,829 | 230,829 | 705,900 | 0 | 0 | \$2.30 |
| Class B | 959 | 42,549,956 | 4,728,836 | 11.11% | 37,821,120 | 88.89% | 5,727,393 | 13.46% | (44,985) | (44,985) | 420,318 | 420,318 | 1,596,962 | 0 | 0 | \$1.86 |
| Class C | 756 | 20,972,735 | 2,062,750 | 9.84% | 18,909,985 | 90.16% | 2,435,826 | 11.61% | 14,300 | 14,300 | 233,290 | 233,290 | 0 | 0 | 0 | \$1.60 |
| Class Total | 1,910 | 90,277,872 | 9,161,207 | 10.15% | 81,116,665 | 89.85% | 10,967,152 | 12.15% | 947 | 947 | 884,437 | 884,437 | 2,302,862 | 0 | 0 | \$1.86 |

*Average asking rates represented are full service.

LEASE TRANSACTIONS | AMOUNT OF SQUARE FEET LEASED PER QUARTER



SALES TRANSACTIONS | AMOUNT OF SQUARE FEET SOLD PER QUARTER



Report Prepared By:

Dina Simoni-Gouveia

Managing Director | Marketing & Research
dina.gouveia@tricommercial.com

Sarah Sanders

Director of Operations | Osborne Group
sarah.sanders@tricommercial.com

Tyler Bazlen

Marketing and Research Manager | Roseville & Sacramento
tyler.bazlen@tricommercial.com

NORTHERN CALIFORNIA MAP | TRI OFFICE LOCATIONS



TRI CONTACT INFORMATION

San Francisco

100 Pine Street, Suite 1000
San Francisco, CA 94111
Tel: (415) 268-2200 | Fax: (415) 268-2299

Oakland

1404 Franklin Street, Penthouse
Oakland, CA 94607
Tel: (510) 622-8466 | Fax: (510) 622-8499

Walnut Creek

1777 Oakland Boulevard, Suite 100
Walnut Creek, CA 94596
Tel: (925) 296-3300 | Fax: (925) 296-3399

Sacramento

1515 River Park Drive, Suite 200
Sacramento, CA 95815
Tel: (916) 669-4500 | Fax: (916) 669-4598

Roseville

532 Gibson Drive, Suite 200
Roseville, CA 95678
Tel: (916) 677-8000 | Fax: (916) 677-8199

Rocklin

2209 Plaza Drive, Suite 100
Rocklin, CA 95765
Tel: (916) 960-5700 | Fax: (916) 960-5799

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