Local Roots + Global Reach

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SACRAMENTO OFFICE REPORT

3RD QUARTER 2019

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VACANCY & RENTS

Sacramento Outlook

The Sacramento office market has experienced a stellar year thus far of positive leasing activity bringing year-to-date absorption to more than 1.2 million square feet; Q3 2019 reported 282,996 square feet of positive absorption. Gross absorption is now more than 3.9 million square feet year-to-date. The Class A office vacancy rate has been on a downward trend over the past ten consecutive quarters and this activity has elevated asking rents to an average of $2.35, per square foot, full service, per month; over 8% higher than 24 months ago. In one of the largest leases in the region seen this year, WeWork took more than 96,000 square feet of office space at 660 J Street in downtown Sacramento and is expected to make significant tenant improvements.

The increase in rents has boosted construction development. While the dominant development is dedicated to government entities and healthcare owner-users, a few rare speculative opportunities emerged and are now nearing completion. The Natomas submarket has more than 600,000 square feet of construction underway and a quarter of that is speculative. Bannon Investors is close to completion on a three-story, Class A speculative office project totaling more than 90,000-square-feet at 2555 Natomas Drive in the Natomas submarket.

One of the most significant investment deals this quarter is the sale of the Wells Fargo Center at 600 Capitol Mall, a 500,000 square foot building in downtown Sacramento. The asset, home to WeWork, Weintraub & Assoc., Wells Fargo, and Orrick Herrington, is rumored to have sold for $198 million to Manulife US REIT. The asset last traded in 2016 for over $175 million. Overall investment volume surged in Q3 2019 with some high-profile purchases over $20 million. As the overall cost of doing business rises and rents peak in the Bay Area, many institutional investors are looking to the Sacramento region for future opportunity.

Change in Vacancy (Year Over Year)

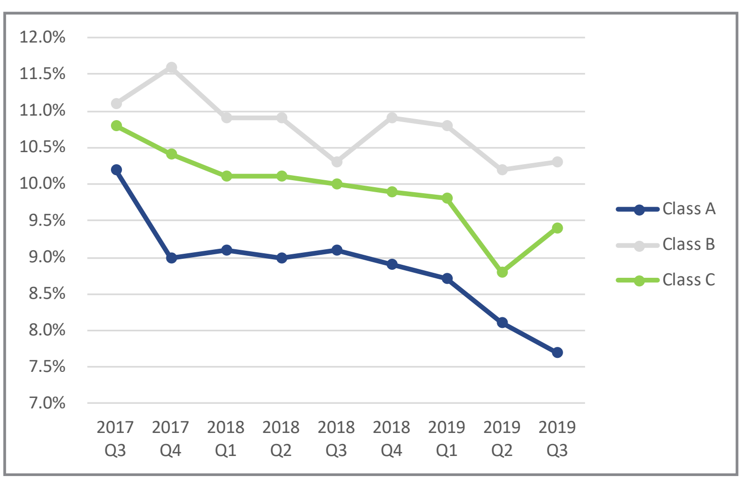
-1.1%

Under Construction Sq.Ft. (Currently)

2,096,575 SF

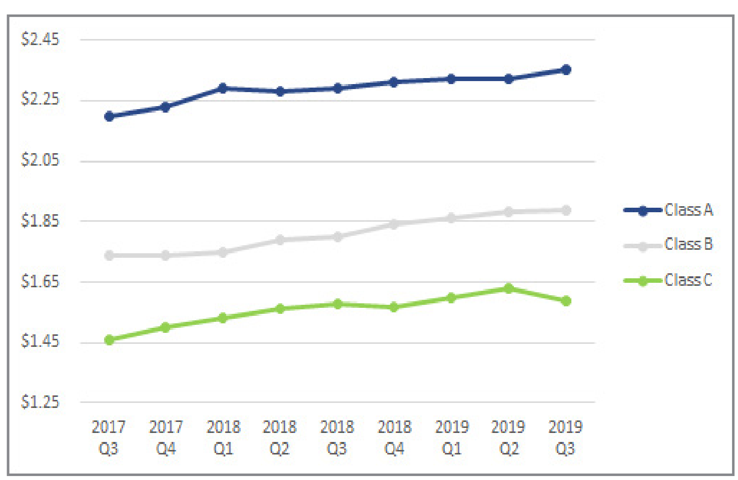
Vacancy Rates By Class

All Space Not Currently Occupied



Average Asking Rates

Weighted Average Rent Based On Total Square Footage



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

NOTEWORTHY TRANSACTIONS

Noteable Sale Transactions

Property Address	Submarket	Buyer	Seller	Bldg. Square Feet	Sale Price
2868 Prospect Park Dr	Highway 50 Corridor	Brent Lee	Hines	168,000	$25,000,000.00
3001 Lava Ridge Ct	Roseville/Rocklin	Channel Properies, Inc.	PCCO LLC	108,348	$24,900,000.00
2300 River Plaza Dr	South Natomas	Sutter Health	California Farm Bureau Federation	78,960	$22,000,000.00
2882 Prospect Park Dr	Highway 50 Corridor	Rohit Kumar & Nidhi Tull	David R. Metcalf	115,593	$20,700,000.00
1130 K St	Downtown Sacramento	Fox Creek Fund LLC	The Regents of the University of California	140,908	$19,500,000.00

Noteable Lease Transactions

Property Address	Submarket	Tenant	Owner	Date Lease Signed	Square Feet Leased
660 J St	Downtown Sacramento	WeWork	Sacramento Kings Limited Partnership	July-19	96,300
710 Riverpoint Center	West Sacramento	Cal Fire	Buzz Oates	July-19	44,082
11080 White Rock Rd	Highway 50	County of Sacramento	Karlin Real Estate	August-19	40,285
710 Riverpoint Center	West Sacramento	Cal Fire	Buzz Oates	September-19	23,874
980 9th St	Downtown Sacramento	Delta Conveyance Design	Hines	September-19	23,380

Gross Absorption (Year Over Year)

+8.49%

Lease Rates (Year Over Year)

+$.16/SF

Market Indicators

	Vacancy	Availability	Lease Rates	Gross Absorption	Net Absorption
Q3 2018	10.19%	13.58%	$1.98	998,054	127,554
Q3 2019	9.34%	11.69%	$2.14	1,082,806	282,996

ALL CLASS A, B, & C OFFICE BUILDINGS OVER 10,000 SF, NON-OWNER OCUPIED, NON-GOVERNMENT OR MEDICAL

STATISTICS BY SUBMARKET

	Total Buildings	Net Rentable SF	Vacant SF	Vacancy Rate QTR	Net Absorption QTR	Gross Absoption	Under Construction SF	Average Asking Rate (All Classes)
Auburn/Lincoln	66	1,391,211	64,022	4.60%	6,202	8,882	0	$1.85
Campus Commons	45	1,285,841	195,947	15.24%	20,862	37,747	0	$2.21
Carmichael/ Fair Oaks	49	979,584	196,818	20.09%	6,461	10,930	0	$1.36
Citrus Heights/ Orangevale	55	1,502,796	155,730	10.36%	4,141	24,585	0	$1.57
Davis/Woodland	81	2,090,569	85,305	4.08%	21,937	28,100	32,000	$1.77
Downtown	218	20,265,391	1,480,054	7.30%	18,281	170,978	1,198,000	$2.70
East Sacramento	36	2,487,959	10,344	0.42%	17,468	17,468	0	$2.18
El Dorado	73	1,696,528	218,608	12.89%	14,795	27,147	30,216	$1.93
Elk Grove	55	1,806,813	100,463	5.56%	20,471	21,705	0	$2.25
Folsom	98	4,771,003	243,703	5.11%	47,519	68,250	0	$2.12
Highway 50 Corridor	296	17,493,999	1,716,923	9.81%	94,338	193,958	0	$1.73
Howe Ave./ Fulton Ave.	77	2,682,033	450,971	16.81%	(10,923)	75,220	0	$1.69
Midtown	98	3,776,457	331,178	8.77%	(33,338)	23,003	0	$2.32
Natomas/Northgate	117	6,425,015	712,141	11.08%	(1,548)	61,920	621,800	$1.93
Point West	51	2,709,881	335,734	12.39%	10,641	23,482	14,484	$2.00
Rio Linda/ N. Highlands	29	1,018,415	210,437	20.66%	0	0	0	$1.69
Roseville/Rocklin	276	10,999,108	1,090,023	9.91%	101,630	247,501	194,000	$2.08
South Sacramento	103	3,037,065	230,519	7.59%	(13,044)	7,054	0	$1.76
Watt Ave.	49	2,329,316	473,604	20.33%	(49,730)	21,369	0	$1.59
West Sacramento	35	2,074,728	176,719	8.52%	6,833	13,507	0	$1.78
Class A	191	26,776,936	2,058,553	7.69%	122,655	352,698	1,543,900	$2.74
Class B	968	43,519,620	4,487,923	10.31%	221,328	577,265	546,600	$2.01
Class C	748	20,527,156	1,932,767	9.42%	(60,987)	152,843	0	$1.69
Market Totals	**1,907**	**90,823,712**	**8,479,243**	**9.34%**	**282,996**	**1,082,806**	**2,090,500**	**$2.14**