

MARKET TRENDS | SACRAMENTO

OFFICE

3RD QUARTER
2019

▲ ABSORPTION | ▲ VACANCY | ▼ RENTAL RATE | ▲ CONSTRUCTION DELIVERIES

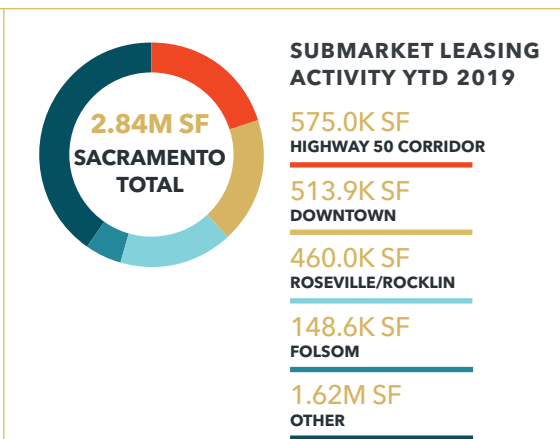
Sacramento's office market is growing in all directions as expected. Inventory is up, office buildings are increasing their footprints and sizes, construction is on the climb, and finished deliveries are trending up. Sales volume has subdued as well as the volume attributed to those sales. Cap rates have remained unchanged. As expected, the vacancy rate is moving down. Similarly, about 10% of inventory is available. The Sacramento office market is performing well. With over 2 Million s.f. still under construction at the end of 2Q 2019, the second half of 2019 was expected to be more active when an estimated 1/3 of those properties deliver. 5,000 s.f. of this space delivered in 3Q 2019.

rent growth in Sacramento is not only superior by historical standards but is also receiving national attention. As of October, trailing 12-month gains were about double the U.S. average and ranked near the top of the nation. The average asking rate is \$22.44 (annual) or \$1.87 per s.f. Historically, this is higher than it has ever been in the past 10 years, but lower than what it was prior to 10 years before and when compared to major metros. Downtown commands the highest rents at \$32.04 annual or \$2.67.

Even with a large amount of space delivered in 2Q 2019, vacancy rates managed to decline on a quarter-over-quarter and year-over-year basis. At 9.0% total vacancy market-wide, the market has not been this tight since 2001. Vacancies Downtown are trending below average. However, East Sacramento is the tightest market. With little to no construction on the horizon, East Sacramento has little room for more demand. Tenants looking to move into the area may consider Midtown where total vacancy rate is 8.70%. In addition, Point West can handle more demand where direct vacancy sits at 12%. Positively, direct vacancy has dropped 5.15% since 2018. Similarly, the available inventory has declined by 11.81% since 2018. Leasing activity is expected to pick up 4Q 2019.

The local sales market has slowed in 2019. Annual investment averaged almost \$1.2 billion from 2016-18, but as of 3Q 2019, sales volume was not on pace with the recent norm. The dip in volume is mainly attributable to a steep decline in deal flow. While there are a few exceptions, many recent trades of note took place in prominent suburban office nodes, such as Highway 50 Corridor and Point West. Downtown's Emerald Tower was at the helm of

Steady demand and few inventory additions have allowed landlords to push rents. Rental rate growth year-over-year put Sacramento's office market at 8th overall in the country, tied with Tampa, Fl. Office



3Q 2019 MARKET HIGHLIGHTS

ABSORPTION YTD 2019 was 959,006 s.f., already outpacing the entire year of 2018

VACANCY increased slightly to 9.0%, which is lower than at any point since 2001

RENTAL RATES remain unchanged in 3Q at \$22.44 FS, which made the market the eighth fastest growing in the nation in terms of lease rates

CONSTRUCTION ACTIVITIES 32,000 s.f. broke ground in 3Q 2019. 60,000 s.f. delivered in 2Q became 94% pre-leased at the end of 3Q 2019

boosting sales activity and confidence at the end of 2Q 2019. Some of the most active buyers include The Evergreen Company, Florida-based Starwood Capital Group, Pappas Investments and Shorenstein Properties LLC. REITs and publicly traded companies' volume is not comparable to private buyers. Local buyers account for 63% of all sales this year. Yet REIT's and public companies account for less than 5% of deal volume.

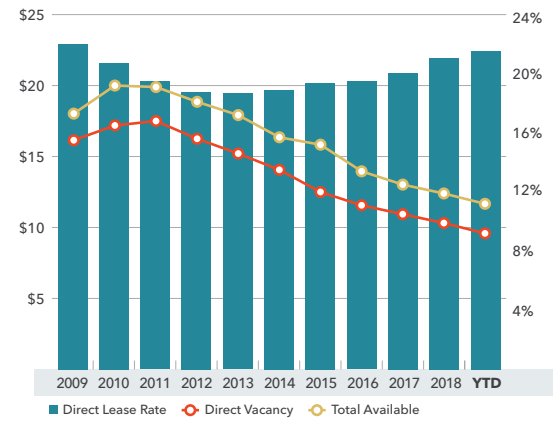
Delivery for construction this quarter has been small. This is largely due to the construction schedule. The projects underway are not planned to deliver until second half of 2020 and pick up tremendously into 2022. Over 32,000 s.f. of new construction broke ground in 3Q 2019. Two new deliveries in 3Q 2019 brought 302,000 s.f. of new office space to the market. The largest delivery of the year so far was of the 242,000 s.f. Adventist Health Roseville Campus at 501 N Sunrise Ave. that is owned and fully occupied by Adventist Health. 60.37% of Sacramento office space under construction is pre-leased by the State of California, which plans to occupy the space in 2022. The South Natomas-located 2600 River Plaza Dr. Completed in 2Q 2019, the 60,000 s.f. property was 90% pre-leased at the end of 3Q 2019. The Sacramento office market has transformed itself from being primarily known for housing government tenants to a top destination for many private companies to set up shop. As a result, it has become a top ten in growth for a metro area.

Source: CoStar and KM Research

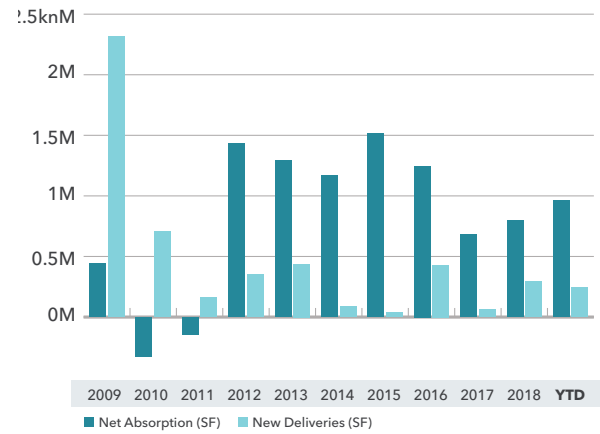
Market Breakdown

	3Q19	2Q19	3Q18	Annual % Change
Direct Vacancy Rate	9.20%	9.20%	9.70%	-5.15%
Total Availability Rate	11.20%	11.30%	12.70%	-11.81%
Total Asking Lease Rate	\$22.44	\$22.44	\$21.96	2.19%
Total Leased (SF)	959,674	733,897	1,033,616	-7.15%
Total Sales (SF)	1,379,994	1,568,152	1,581,449	-12.74%
Total Net Absorption	39,951	782,818	335,836	N/A

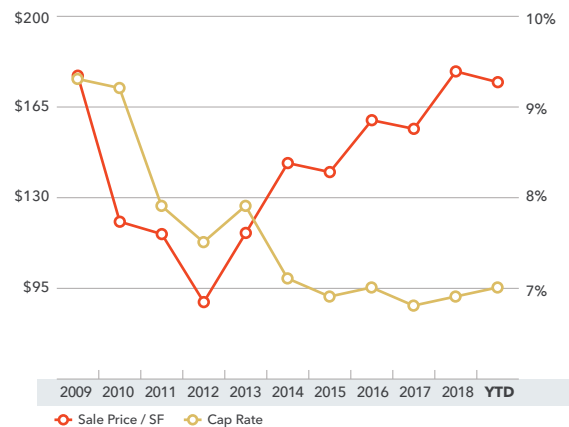
LEASE RATE, VACANCY & AVAILABILITY



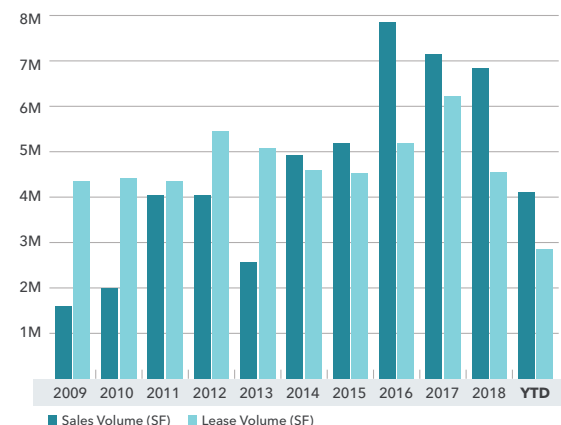
NET ABSORPTION & NEW DELIVERIES



AVERAGE SALE PRICE & CAP RATES

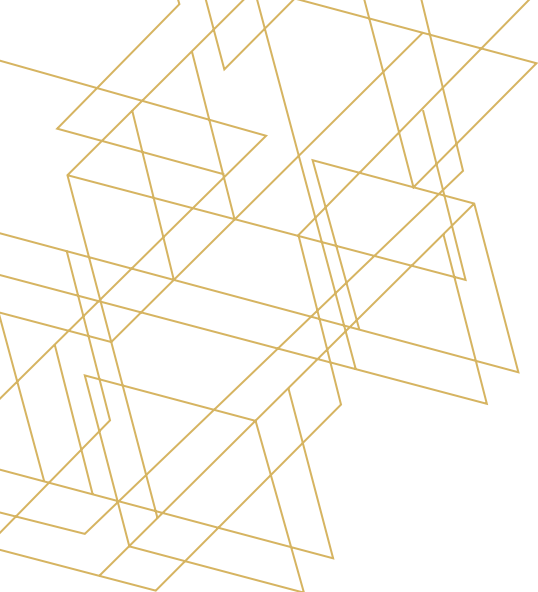


SALES VOLUME VS. LEASE VOLUME



SACRAMENTO SUBMARKET STATISTICS

Submarket	Total Inventory	Direct Vacancy Rate	Total Vacancy Rate	Total Available Rate	3Q19 Net Absorption (Direct)	2019 Net Absorption (Direct)	3Q19 Leasing Activity	2019 Leasing Activity	Rental Rate (Office Base Rent Direct)
Downtown	20,602,210	7.1%	7.2%	7.2%	26,113	71,526	278,891	513,916	\$32.04
Auburn/Lincoln	1,716,080	4.0%	4.0%	6.0%	4,870	14,093	5,129	20,525	\$20.40
Campus Commons	1,473,293	13.8%	14.0%	17.2%	18,827	5,845	36,616	74,325	\$26.52
Carmichael/Fair Oaks	1,554,297	15.5%	15.6%	13.0%	-14,518	15,649	20,294	33,943	\$16.32
Citrus Heights/Orangevale	1,554,297	15.5%	15.6%	13.0%	-14,518	15,649	20,294	33,943	\$16.32
Davis/Woodland	2,585,708	4.2%	4.5%	6.7%	20,517	21,903	20,958	106,648	\$22.32
East Sacramento	2,487,281	0.9%	0.9%	1.2%	14,468	24,613	17,468	20,689	\$30.12
El Dorado	2,131,738	12.3%	12.3%	14.9%	8,133	14,371	30,980	74,931	\$22.56
Elk Grove	2,047,874	5.9%	6.1%	6.4%	9,531	28,813	19,403	76,783	\$26.40
Folsom	5,178,769	4.9%	5.1%	8.7%	40,571	70,916	44,432	148,647	\$25.20
Highway 50 Corridor	17,924,377	9.5%	9.3%	14.1%	95,746	253,017	101,369	575,024	\$20.40
Howe Ave/Fulton Ave	3,060,773	15.6%	15.6%	16.4%	-12,075	23,017	19,135	73,313	\$19.68
Midtown	4,395,328	8.50%	8.70%	10.9%	-44,493	3,485	7,669	56,942	\$27.36
North Natomas	3,023,740	14.9%	15.0%	12.1%	1,405	53,248	28,033	85,446	\$19.56
Point West	2,894,098	11.4%	12.0%	15.0%	19,903	74,510	32,876	90,410	\$23.64
Rio Linda/N Highlands	1,144,998	18.5%	18.5%	23.9%	-689	74,924	270	29,972	\$20.28
Roseville/Rocklin	12,339,391	9.2%	9.6%	13.1%	93,776	394,492	159,277	459,968	\$22.92
South Natomas	3,685,768	7.3%	8.1%	16.5%	-20,605	-11,280	16,422	97,877	\$26.76
South Sacramento	3,513,984	7.0%	7.0%	8.0%	-4,822	94,842	5,376	17,156	\$18.96
Watt Ave	2,597,203	18.5%	18.8%	20.9%	-220,237	-257,849	21,091	67,478	\$18.96
West Sacramento	2,199,326	8.1%	8.1%	6.9%	9,388	-19,765	74,208	138,151	\$21.12
Sacramento Total	98,439,016	8.9%	9.2%	11.2%	54,434	980,435	959,674	2,841,243	\$22.44
Class A	26,593,296	7.5%	7.8%	9.0%	131,302	260,370	255,300	806,444	\$27.60
Class B	46,359,661	10.0%	10.3%	13.0%	56,875	621,803	569,914	1,625,911	\$22.08
Class C	25,486,059	8.6%	8.7%	10.5%	-133,743	98,262	134,460	408,888	\$17.64



Notable Sale Transactions

BRENT LEE Prospect Park Center, Highway 50 Corridor
168,000 s.f. | \$25.0M or \$148.81/s.f.

CHANNEL PROPERTIES, INC. Stoneview Plaza,
Roseville/Rocklin
108,348 s.f. | \$24.9M or \$229.82/s.f.

SUTTER HEALTH Sutter Health, South Natomas
78,960 s.f. | \$22.0M or \$278.62/s.f.

Notable Lease Transactions

WEWORK 660 J Street, Suites 2-4, Downtown
96,300 s.f.

CAL FIRE 710 Riverpoint Ctr, Suite 250, West Sacramento
44,082 s.f.

**COUNTY OF SACRAMENTO-ENVIRONMENTAL MANAGEMENT
DEPT** 11080 White Rock Rd., Suite 200,
Highway 50 Corridor
40,285 s.f.



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COMMERCIAL BROKERAGE

20M	ANNUAL SALES SF	420+	NO. OF BROKERS
\$9B	ANNUAL TRANSACTION VOLUME	40M	ANNUAL LEASING SF

VALUATION ADVISORY

1,600+	APPRAISALS ANNUALLY	39/24	TOTAL NO. APPRAISERS/MAI'S
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PROPERTY MANAGEMENT

70M+	MANAGEMENT PORTFOLIO SF
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