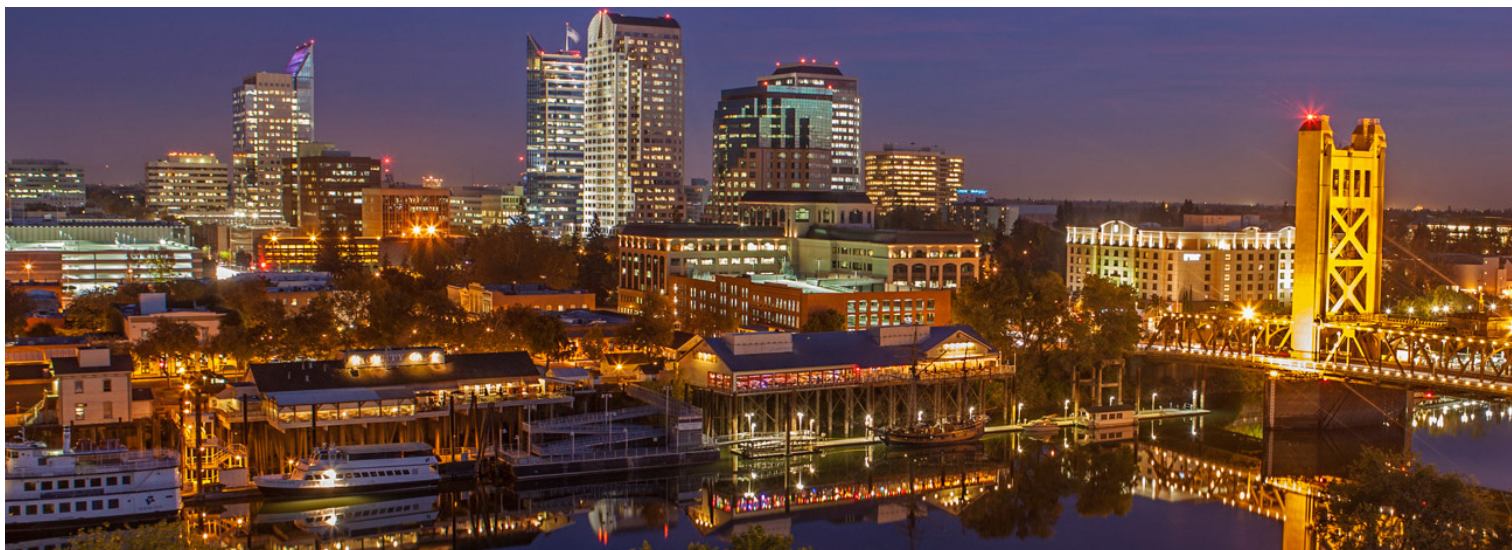


Sacramento Valley



Market Facts

8.8%

Class A Vacancy

9.9%

Class B Vacancy

\$2.34 FS

**Class A
Average Asking Rate**

\$1.92 FS

**Class B
Average Asking Rate**

Market Overview

The Sacramento Valley office market maintained its momentum throughout the third quarter of 2018. Recording just over 107,000 square feet of positive net absorption, the office market measured a modest occupancy gain during the period as tenants took more space than what was given back to the market.

Total vacant office space measured 7.5 million square feet at the close of the third quarter, which translates to a 10.8% vacancy rate. There has been little variance in the vacancy rate over the past 12-month period as it has hovered just below 11%. However, looking back further, vacancy has fallen 10.1% since the third quarter of 2016, when overall vacant space measured more than 12% in the Sacramento Valley office market.

Average asking rates climbed to \$2.02 psf full service, at the close of the third quarter, a 5.6% increase year-over-year. The third quarter marked a significant milestone for the Sacramento Valley as rates climbed over the two-dollar mark for the first time since 2009. Class A asking rates also measured an increase quarter over quarter, rising to \$2.34 psf full service during the third quarter.

Leasing activity in the Sacramento Valley was strong during the third quarter, measuring just over 570,000 square feet of transactions during the period. Notable new leases include Faneuil leasing 64,800 square feet of space at McClellan Park. American Pacific Mortgage renewed their lease in the Roseville submarket,

committing to an extended term in their 34,000 square foot space on Lava Ridge Court. Top performing submarkets during the third quarter were El Dorado Hills and the Roseville/Rocklin submarkets.

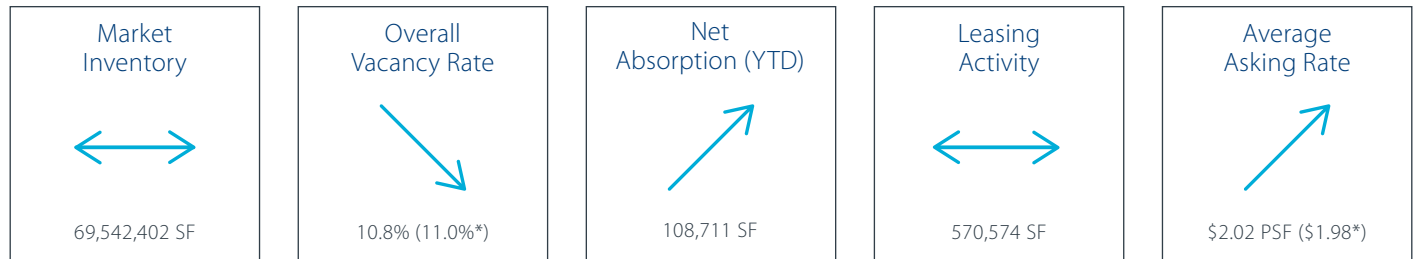
During the third quarter, two office projects broke ground. Most notably was Bannon Investor's 90,000 square foot office development in South Natomas. This building is the first speculative office project to break ground in the Sacramento Valley in over a decade.

Another major development that broke ground is the first phase of Centene Corporation's Western Regional Headquarters in North Natomas. Phase I will total 500,000 square feet, with potential expansion of up to 1.25 million square feet on the 68.2 acre site. Centene already employs about 3,000 people in the Sacramento region, and according to city officials, is planning to employ up to 5,000 at its North Natomas campus.

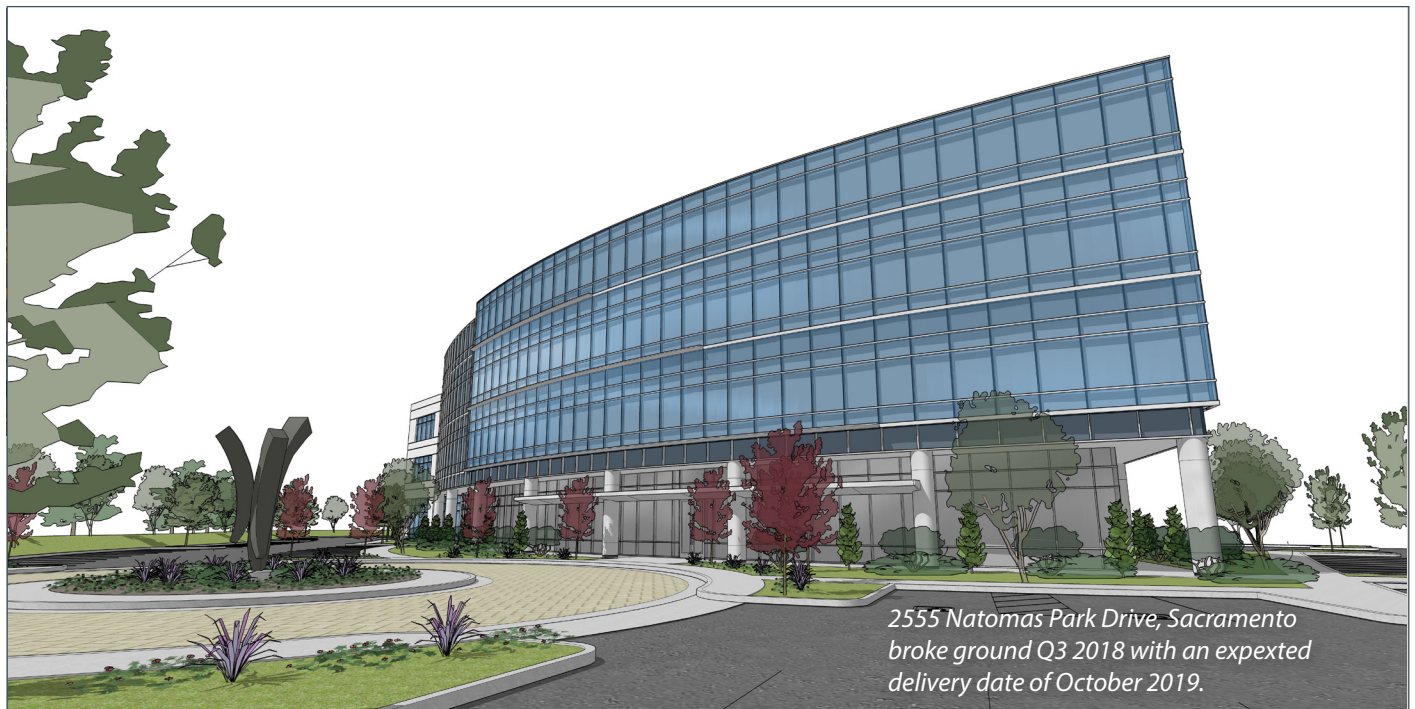
Employment in the Sacramento Valley continues its upward climb, supporting economic growth. As of August, the unemployment rate in Sacramento County was 3.9%, according to the U.S. Bureau of Labor Statistics, down 100 basis points from one year ago. Going forward, it is likely that the Sacramento Valley office market will continue to measure occupancy growth as tenant demand remains high putting further upward pressure on rental rates.

Market Snapshot

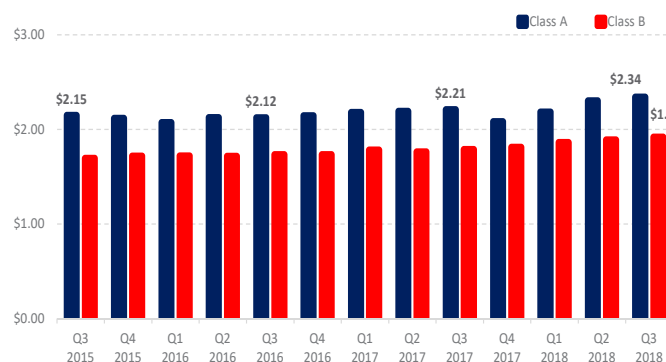
With financing of the new arena coming from city parking lot revenue, parking rates continue their upward climb. Average prices for parking in Downtown are now over \$200 per month. Parking cost now equates to an \$.80 per square foot delta between Downtown and Natomas, a significant expense, causing more interest in the Natomas area from tenants in the Central Business District. Bannon Investors will likely benefit from this trend as they broke ground on a speculative Class A development in the South Natomas submarket that will add ±90,000 square feet to office inventory by the end of 2019.



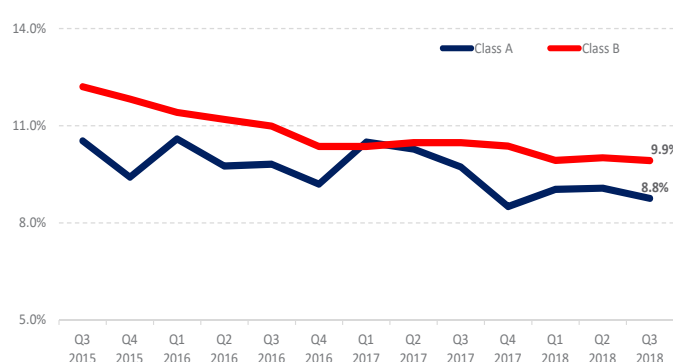
*Compared to the prior quarter



Historical Asking Rental Rate (FSG)



Historical Vacancy



Market By The Numbers

SUBMARKET	Total RBA (SF)	Direct Avail Space (SF)	Sublet Avail Space (SF)	Vacancy Rate A	Vacancy Rate B	Avail Rate A	Avail Rate B	Net Absorp (SF)	Average Asking Rent (F\$)		
									Total	Class A	Class B
Auburn/Lincoln	863,712	28,080	0	NA	3.1%	NA	8.3%	4,480	\$1.95	N/A	\$2.14
Roseville/Rocklin	9,356,373	800,948	18,854	8.4%	8.3%	18.0%	16.9%	39,609	\$1.98	\$2.23	\$1.80
Natomas/Northgate	6,131,099	608,446	20,721	9.3%	8.0%	13.1%	13.2%	26,989	\$1.90	\$2.14	\$1.72
Rio Linda/North Highlands	819,294	263,387	0	NA	25.9%	NA	37.7%	25,759	\$1.54	N/A	\$1.20
Citrus Heights/Orangevale	998,043	102,109	0	0.0%	13.4%	0.0%	15.4%	4,457	\$1.59	N/A	\$1.83
Folsom	4,382,291	225,191	0	5.7%	4.3%	6.5%	9.1%	10,376	\$2.01	\$2.26	\$1.82
Watt Ave	2,151,435	183,720	5,504	NA	11.1%	N/A	14.5%	16,840	\$1.55	N/A	\$1.73
El Dorado Hills	1,082,142	159,103	4,050	19.7%	17.5%	58.3%	18.4%	66,342	\$2.00	\$1.94	\$2.14
Sacramento- Midtown	3,168,375	288,654	16,423	14.4%	4.2%	13.8%	4.6%	-20,826	\$2.42	\$2.90	\$2.80
Sacramento-Downtown	11,201,823	1,456,692	15,256	6.6%	12.8%	7.8%	17.9%	-18,090	\$2.70	\$2.98	\$2.46
Point West	2,544,181	347,409	24,527	14.1%	16.7%	16.6%	17.8%	-60,895	\$1.93	\$2.00	\$1.91
West Sacramento	1,837,717	136,178	0	3.1%	14.2%	12.6%	18.4%	6,444	\$1.80	\$1.70	\$1.88
East Sacramento	2,266,388	98,055	0	NA	2.0%	N/A	2.1%	9,136	\$2.71	N/A	\$2.70
Highway 50 Corridor	16,145,571	1,733,740	81,092	10.2%	10.2%	11.5%	16.3%	12,297	\$1.69	\$1.95	\$1.62
Howe Ave	1,804,068	399,129	6,463	64.5%	20.1%	72.8%	22.7%	-9,642	\$1.68	\$1.85	\$1.57
Campus Commons	1,061,382	168,823	4,223	13.1%	16.7%	16.3%	24.8%	2,747	\$2.18	\$2.75	\$2.15
South Sacramento	2,269,103	263,588	0	NA	9.7%	N/A	10.4%	-3,786	\$1.68	N/A	\$1.75
Davis/Woodland	1,459,405	77,313	6,876	9.2%	7.3%	16.4%	9.7%	-4,985	\$2.25	\$2.63	\$1.96
TOTAL	69,542,402	7,340,565	203,989	8.8%	9.9%	11.4%	14.8%	107,252	\$2.02	\$2.34	\$1.92

Sacramento Valley Team

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 Elisa Carlini-Soria, Operations Coordinator
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 Ashley Lander, Lease Administrator

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