COLLIERS INTERNATIONAL | SACRAMENTO REGION

The Knowledge Report

OFFICE OVERVIEW | THIRD QUARTER | 2007

2007 MARKET INDICATORS

QUARTER	3RD	4TH
VACANCY	↑	↑
NET ABSORPTION	↑	↑
CONSTRUCTION	↓	↓
RENTAL RATE	↔	↔

The State of California Controllers Office recently signed a lease for former Ameriquest space at The Crescent Building at 10600 White Rock Road in Rancho Cordova.

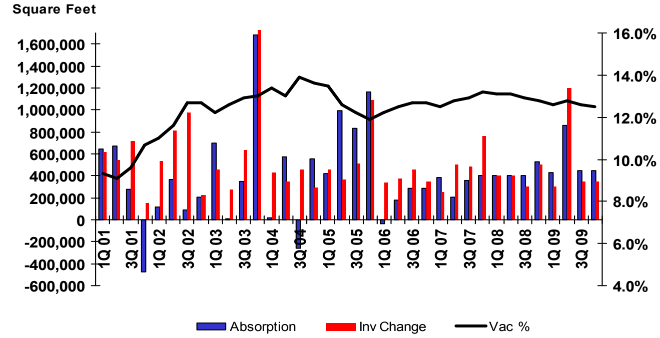
Sacramento Office Overview

GOVERNMENT DEALS PICKING UP SLACK FOR SLOWING PRIVATE SECTOR

Vacancy for the Sacramento office market currently stands at 12.9%, up slightly from the 12.8% mark recorded as of the close of the second quarter of this year. The market recorded over 350,000 square feet of occupancy growth during the third quarter, but the delivery of over 484,000 square feet of new product was enough to outweigh gains in net absorption and result in yet another uptick in vacancy. Vacancy levels have been on the upswing in the Sacramento region since the fourth quarter of 2005 when the market recorded a vacancy rate of 11.9%. In the intervening time the market has posted occupancy growth of over five million square feet but developers have consistently outpaced that number. Over 5.1 million square feet of new development has come online since 2006 nearly two million square feet of which has been in the Roseville/Rocklin market alone.

The good news is that tenant activity is up from the first half of the year when activity—particularly from the private sector—could best be described as tepid. Sacramento's housing woes are impacting the market and have virtually eliminated demand from real estate, title and mortgage companies. This was most painfully evident in April of this year when subprime lender Ameriquest abruptly closed its Rancho Cordova offices and returned over 185,000 square feet of space to the marketplace. But the good news is that other sectors of the economy have largely picked up the slack. This particularly applies to the public sector where the State of California has been extremely active with a number of large leases already inked this year and another 1.5 million square feet of requirements that it is currently shopping in the marketplace. In fact, as this report went to press the State of California Controllers Office had just signed a deal to occupy 71,000 square feet of former Ameriquest space in the resurgent Highway 50 submarket.

SACRAMENTO OFFICE MARKET
3rd Quarter 2007
Change in Inventory, Net Absorption & Vacancy



COLLIERS INTERNATIONAL

Calpine, a leading geothermal power producer, will occupy 40,000 square feet of space previously occupied by Meridian Project Systems at 1180 Iron Point Road in Folsom.

SACRAMENTO OFFICE MARKET
Inventory, Vacancy, Construction, and Absorption

	2006			2007		
	2nd Qtr	3rd Qtr	4th Qtr	1st Qtr	2nd Qtr	3rd Qtr
Total Inventory	76,541,673	77,035,656	77,398,438	77,652,391	78,154,785	78,638,863
Total Vacancy	9,542,926	9,750,821	9,830,591	9,696,662	9,991,539	10,119,076
Total Vacancy %	12.5%	12.7%	12.7%	12.5%	12.8%	12.9%
Deliveries	376,867	452,963	344,363	253,953	502,394	484,078
Net Absorption (Growth)	178,327	286,088	283,012	387,882	207,648	356,541

HIGHWAY 50 TOPS REGION FOR OCCUPANCY GROWTH

The Highway 50 Corridor is the region's largest suburban office submarket, with more than 13.7 million square feet of office space. This market has established itself over the past twenty years as a sought-after back office location for major regional companies attracted by proximity to labor, seismic stability and relatively low occupancy costs. The Highway 50 Corridor had been groomed to become Sacramento's tech corridor beginning in the late 1990s. The burst of the dot.com impacted Highway 50 more severely than any other submarket in the region with vacancy in this market topping the 19% mark by the third quarter of 2002.

But steady demand combined with relatively little speculative construction has since brought this market back from the brink. Since 2004 this market has absorbed nearly 830,000 square feet of space while new development has added just under half a million square feet of new product. Over the past three months this market has experienced occupancy growth of over 230,000 square feet which has helped push vacancy downward to 12.4%--the lowest rate this market had seen since 2001. Occupancy gains in the third quarter more than offset the impact of Ameriquest's withdrawal from the marketplace. Other major deals in 2007 have included the California Department of Corrections and Rehabilitation's lease of 133,000 square feet at 9838 Old Placerville Road and an additional 45,000 square feet at 10961 Sun Center Drive as well as Health Net's lease of 113,000 square feet at 11031 Sun Center Drive.

This total does not include the previously mentioned 71,000 square foot deal by the State of California Controllers Office (it will not be counted as absorption until the space is occupied), nor does it take into account an additional 95,000 square foot lease in the Mather area rumored to be under contract to a private sector firm. Deals that are in negotiation as well as requirements in this submarket could bring vacancy for this trade area below the ten percent mark as early as Summer 2008.

Neighboring Folsom is also emerging as one of the region's strongest office trade areas with a relatively low vacancy rate of 11.4%. Though third quarter absorption was just under 30,000 square feet, this total does not include a number of transactions where occupancy has not yet occurred. Calpine Energy Systems recently inked a deal for 40,000 square feet at 1180 Iron Point Road.

The Folsom submarket has also experienced among the strongest rental rate growth in the region with asking rents for all office classes currently averaging $2.15 per square foot (on a monthly full service basis). Just two years ago this total stood at roughly $1.90 per square foot. While the Highway 50 and

DEAL ACTIVITY

SELECT SALES ACTIVITY YTD

PROPERTY ADDRESS	SALES DATE	SALE PRICE	SIZE SF	PRICE/PSF	CAP RATE
2700 Stockton Boulevard	March-07	$16,000,000	39,644	$403.59	6.3%
300 Capitol Mall	June-07	$130,000,000	383,238	$339.21	N/A
2600 E. Bidwell Street	August-07	$12,000,000	38,000	$315.79	6.2%
8781 Sierra College Boulevard	June-07	$9,011,232	31,289	$288.00	6.5%
201 Creekside Ridge Court	May-07	$13,200,000	47,921	$275.45	6.7%
50 Iron Point Circle	June-07	$12,760,000	48,567	$262.73	6.0%
304 S Street	June-07	$7,550,000	30,610	$246.65	6.8%
8880 Cal Center Drive	February-07	$25,100,000	114,805	$218.63	7.0%
3341 Power Inn Road	July-07	$34,000,000	165,000	$206.06	N/A
7667 Folsom Boulevard	July-07	$35,300,000	188,097	$187.67	7.9%

OFFICE MARKET STATISTICS
Third Quarter 2007

					EXISTING PROPERTIES						ABSORPTION		CONSTRUCTION		RENTS
Class	Bldgs	Total Inventory SF	Direct Vacant SF	Direct Vacancy Rate	Sublease Vacant SF	Sublease Vacancy Rate	Total Vacant SF	Total Vacancy Rate	Vacancy Rate Prior Qtr	Current Occupied Space SF	Net Absorption Current Qtr SF	Net Absorption YTD SF	Completions Current Qtr SF	Under Construction SF	Avg Asking Rate
DOWNTOWN TOTAL															
A	24	7,211,635	421,485	5.8%	24,071	0.3%	445,556	6.2%	6.9%	6,766,079	55,282	283,377	-	799,791	$ 31.08
B	67	3,888,137	655,218	16.9%	40,591	1.0%	695,809	17.9%	18.3%	3,192,328	16,293	(113,624)	-	-	$ 23.40
C	162	3,107,593	318,053	10.2%	4,500	0.1%	322,553	10.4%	11.2%	2,785,040	24,141	99,783	-	-	$ 20.16
Total	**253**	**14,207,365**	**1,394,756**	**9.8%**	**69,162**	**0.5%**	**1,463,918**	**10.3%**	**11.0%**	**12,743,447**	**95,716**	**269,536**	**-**	**799,791**	**$ 26.88**
SUBURBAN SECTION:															
Roseville/Rocklin															
A	41	2,865,738	446,828	15.6%	52,434	1.8%	499,262	17.4%	16.6%	2,366,476	(24,259)	(61,383)	-	158,218	$ 28.80
B	235	5,323,164	925,482	17.4%	96,227	1.8%	1,021,709	19.2%	15.8%	4,301,455	839	148,875	214,917	785,838	$ 28.08
C	130	2,311,786	197,958	8.6%	7,144	0.3%	205,102	8.9%	8.6%	2,106,684	(6,402)	(5,812)	-	-	$ 21.72
Total	**406**	**10,500,688**	**1,570,268**	**15.0%**	**155,805**	**1.5%**	**1,726,073**	**16.4%**	**14.4%**	**8,774,615**	**(29,822)**	**81,680**	**214,917**	**944,056**	**$ 27.60**
Highway 50 Corridor															
A	39	3,779,380	303,536	8.0%	131,640	3.5%	435,176	11.5%	11.1%	3,344,204	(14,801)	54,574	-	-	$ 25.08
B	124	6,412,010	650,127	10.1%	83,106	1.3%	733,233	11.4%	15.0%	5,678,777	233,348	220,496	7,225	189,992	$ 22.08
C	154	3,575,100	588,332	16.5%	64,862	1.8%	653,194	18.3%	18.6%	2,921,906	12,954	(35,505)	-	-	$ 18.84
Total	**317**	**13,766,490**	**1,541,995**	**11.2%**	**279,608**	**2.0%**	**1,821,603**	**13.2%**	**14.9%**	**11,944,887**	**231,501**	**239,565**	**7,225**	**189,992**	**$ 21.60**
Folsom															
A	14	1,773,657	115,991	6.5%	19,653	1.1%	135,644	7.6%	9.1%	1,638,013	26,459	(73,579)	-	-	$ 26.76
B	82	1,661,245	281,389	16.9%	14,642	0.9%	296,031	17.8%	15.6%	1,365,214	4,539	153,962	48,591	-	$ 25.92
C	33	724,598	52,172	7.2%	-	0.0%	52,172	7.2%	7.4%	672,426	1,246	5,794	-	-	$ 21.84
Total	**129**	**4,159,500**	**449,552**	**10.8%**	**34,295**	**0.8%**	**483,847**	**11.6%**	**11.4%**	**3,675,653**	**32,244**	**86,177**	**48,591**	**-**	**$ 25.68**
Elk Grove															
A	2	68,108	6,745	9.9%	6,051	8.9%	12,796	18.8%	12.1%	55,312	(4,558)	(1,471)	-	-	$ 31.08
B	49	1,092,332	375,029	34.3%	3,074	0.3%	378,103	34.6%	31.4%	714,229	28,618	42,417	93,400	84,000	$ 29.88
C	12	200,107	16,749	8.4%	5,008	2.5%	21,757	10.9%	13.7%	178,350	5,605	(5,363)	-	-	$ 27.36
Total	**63**	**1,360,547**	**398,523**	**29.3%**	**14,133**	**1.0%**	**412,656**	**30.3%**	**27.5%**	**947,891**	**29,665**	**35,583**	**93,400**	**84,000**	**$ 29.88**
SUBURBAN TOTAL															
A	159	15,502,280	1,861,961	12.0%	272,614	1.8%	2,134,575	13.8%	13.7%	13,367,705	27,720	(5,881)	45,372	611,218	$ 26.76
B	905	26,730,933	3,954,312	14.8%	246,902	0.9%	4,201,214	15.7%	15.3%	22,529,719	242,417	603,192	432,976	1,477,504	$ 25.32
C	1,220	22,167,214	2,192,659	9.9%	126,710	0.6%	2,319,369	10.5%	10.4%	19,847,845	(9,312)	85,224	5,730	-	$ 19.68
Total	**2,284**	**64,400,427**	**8,008,932**	**12.4%**	**646,226**	**1.0%**	**8,655,158**	**13.4%**	**13.2%**	**55,745,269**	**260,825**	**682,535**	**484,078**	**2,088,722**	**$ 24.48**
MARKET TOTAL															
A	**183**	**22,713,915**	**2,283,446**	**10.1%**	**296,685**	**1.3%**	**2,580,131**	**11.4%**	**11.5%**	**20,133,784**	**83,002**	**277,496**	**45,372**	**1,411,009**	**$ 28.08**
B	**972**	**30,619,070**	**4,609,530**	**15.1%**	**287,493**	**0.9%**	**4,897,023**	**16.0%**	**15.6%**	**25,722,047**	**258,710**	**489,568**	**432,976**	**1,477,504**	**$ 25.20**
C	**1,382**	**25,274,807**	**2,510,712**	**9.9%**	**131,210**	**0.5%**	**2,641,922**	**10.5%**	**10.5%**	**22,632,885**	**14,829**	**185,007**	**5,730**	**-**	**$ 19.80**
Total	**2,537**	**78,607,792**	**9,403,688**	**12.0%**	**715,388**	**0.9%**	**10,119,076**	**12.9%**	**12.8%**	**68,488,716**	**356,541**	**952,071**	**484,078**	**2,888,513**	**$ 24.84**
QUARTERLY COMPARISON AND TOTALS															
Q3-07	**2,537**	**78,607,792**	**9,403,688**	**12.0%**	**715,388**	**0.9%**	**10,119,076**	**12.9%**	**12.8%**	**68,488,716**	**356,541**	**952,071**	**484,078**	**2,888,513**	**$ 24.84**
Q2-07	2,508	78,154,785	9,330,900	11.9%	660,639	0.8%	9,991,539	12.8%	12.5%	68,163,246	207,648	595,530	502,394	2,965,834	$ 24.60
Q1-07	2,476	77,652,391	9,094,950	11.7%	601,712	0.8%	9,696,662	12.5%	12.7%	67,955,729	387,882	387,882	253,953	3,365,665	$ 24.24
Q4-06	2,464	77,398,438	9,226,606	11.9%	603,985	0.8%	9,830,591	12.7%	12.7%	67,567,847	283,012	710,003	344,363	2,912,444	$ 23.88
Q3-06	2,446	77,035,656	9,119,907	11.8%	630,914	0.8%	9,750,821	12.7%	12.5%	67,284,835	286,088	426,991	452,963	2,219,608	$ 23.28

The information contained in this report was provided by sources deemed to be reliable, however, no guarantee is made as to the accuracy or reliability.
As new, corrected or updated information is obtained, it is incorporated into both current and historical data, which may invalidate comparison to previously issued reports.

Buildings I and II of the Rocklin Corporate Center on West Oaks Boulevard in Rocklin will add an additional 228,000 square feet of inventory to the market upon their delivery late this year. As this report went to press we were not aware of any pre-leasing commitments.

The sale of Emerald Tower at 300 Capitol Mall is the largest single building office sale to occur so far this year. It traded at over $339 per square foot. The current average sale price for Class A properties in the Sacramento region is approximately $290 per square foot.

Folsom markets appear to be emerging as the region's strongest suburban office submarkets, they stand in marked contrast to the market that had been the undisputed holder of that title for the majority of the past decade: Roseville/Rocklin.

AGGRESSIVE DEVELOPMENT FINALLY TAKING TOLL IN ROSEVILLE

While vacancy for the greater Sacramento office market currently stands at 12.8%, vacancy within the Roseville/Rocklin submarket now stands at 16.4%. This is up from the 14.4% mark recorded just three months ago and is the highest level of vacancy that this trade area has recorded in the fifteen years that we have been tracking it.

The Roseville/Rocklin office market has accounted for roughly 40% of all of the region's construction and net absorption over the past decade. Since 2002 the Roseville/Rocklin submarket has experienced over 2.4 million square feet of occupancy growth while adding over 3.5 million square feet of space. This trade area has consistently outperformed every other suburban Sacramento submarket over the past decade and has routinely led the region in terms of tenant demand. So, why is vacancy now heading skyward?

While the Roseville/Rocklin submarket has been the hottest market for developers and has consistently been a tenant favorite. However, aggressive development in recent years has continued despite gradually rising vacancy levels. Over 520,000 square feet of new office space has been built in just the past twelve months. Unfortunately tenant demand has been cooling during this same period (total net absorption since 4Q 2006 has totaled just over 200,000 square feet of product). As a result, vacancy has now topped the 15 percent mark and with over 940,000 square feet of space still under construction, we expect it to continue to creep upward in the coming months.

While demand throughout the region as a whole has been on the upswing, much of this has been in the form of increased governmental user requirements. Unfortunately for the Roseville/Rocklin office submarket, government has never played a large role in this trade area and it will likely benefit little from the State of California's current expansion.

With just over 940,000 square feet of space in the pipeline, the good news is that development levels are actually coming down. At this time last year there was over 1.2 million square feet of office product under construction. Since 2005 there had consistently been at least one million square feet of space under construction at any given time. Developers are beginning to slow their pace in response to current market conditions. The most prominent projects currently under construction include Opus' Rocklin Corporate Center which includes two speculative buildings accounting for 228,000 square feet as well as Citadel Equities' 110,000 square foot Stone Creek Corporate Center. These projects are all slated for late 2007 delivery. Kaiser Permanente's 156,000 square foot build-to-suit medical office building at 1600 Eureka Road adds to our overall total, but unlike the previously mentioned projects, this building will be 100% occupied upon completion and should not have an impact on the greater multi-tenant office market.

And while we expect the overall Sacramento market to record strong occupancy growth over the final half of this year, much of that will be generated by deals inked by various governmental entities. It is unclear how many—if any—of these deals could land in the Roseville/Rocklin submarket.

However, despite the fact that developers are slowing the pace of new construction, it still may be a couple of years before this market is experiences anything near equilibrium level vacancy. Since 2004, the Roseville/Rocklin submarket has averaged approximately 110,000 square feet of occupancy growth per quarter. Were construction to cease completely and the market achieved its historical absorption average of 110,000 square feet per quarter, it would still be at least 18 months before vacancy would be nearing the equilibrium mark of 10%. Unfortunately, there are two problems with this scenario; first, the market has yet to achieve its average levels of occupancy growth so far this year and secondly, development may be slowing but it is not going away. We expect it to be three years or more before the Roseville/Rocklin submarket could possibly achieve vacancy in the ten percent range.

The good news for landlords is that rents are holding firm for the moment with the average rent for all office product types currently standing at $2.30 per square foot monthly (on a full service basis). For Class A

ROSEVILLE OFFICE MARKET

Inventory, Vacancy, Construction, and Absorption

	2006			2007		
	2nd Qtr	3rd Qtr	4th Qtr	1st Qtr	2nd Qtr	3rd Qtr
Total Inventory	1,173,234	1,294,438	77,398,438	77,652,391	10,285,771	10,500,688
Total Vacancy	1,264,976	1,414,959	9,830,591	1,361,576	1,481,334	1,726,073
Total Vacancy %	13.1%	14.2%	12.7%	13.4%	14.4%	16.4%
Deliveries	145,949	263,263	143,777	46,520	123,771	214,917
Net Absorption (Growth)	-34,175	137,780	144,530	107,489	4,013	-29,822

space, this number increases to the $2.40 to $2.45 per square foot range. The acquisition of the former Equity Office—then Blackstone Group—portfolio by Hines, could play into this. Hines is known as the market leader in terms of rents and is expected to boost lease rates in their newly acquired buildings over the next few months. But the sheer amount of vacant and available space in this submarket (over 1.6 million square feet) should inevitably exert considerable downward pressure on asking rates—particularly for Class B space—which currently has vacancy approaching the 20% mark.

INVESTMENT ACTIVITY

Sales activity has been brisk through the first nine months of 2007, fueled by a number of major portfolio sales as well as continued investor interest in office properties. The sale of the former Equity Office portfolio during the first quarter remains the big story of the year.

In February Sam Zell's group sold its portfolio of 523 buildings to New York-based Blackstone Group for approximately $39.2 billion or—according to Costar Group—a price of $410 per square foot. Blackstone split the portfolio and sold it off regionally. In May Hines purchased 32 Sacramento properties from Blackstone for $760 million.

We are aware of over 180 sale transactions (including owner/user sales) year-to-date. In terms of single building sales, the largest deal has been the sale of Emerald Tower at 300 Capitol Mall. This 382,000 square foot, 18-story Class A high-rise in Downtown Sacramento sold in June to joint buyers Sterling American Properties and Hines for a reported price of $130,000,000 or $339 per square foot.

Cap rates have increased slightly to an average of 7.0% from the 6.5% mark recorded last year. Activity has been on the rise over the past twelve months. After an extremely slow 2006 and in response to the ongoing credit crunch many sellers lowered their prices and this increased activity and cap rates.

Though sales activity has been up this year, the credit crunch remains a very real concern. Funding is becoming more difficult in some cases. It was not uncommon as recently as a few months ago for borrowers to land favorable terms such as fixed-rate loans with interest-only terms. But bond buyers and rating agencies of subordinate debt are increasingly frowning on such practices and are pushing lenders to amortize deals. Mezzanine lending is on the rise. Capital is less available and more expensive. This will inevitably impact market activity as some borrowers will find it harder to justify paying top prices—particularly leveraged buyers of high-priced stabilized properties.

Nationally, deals falling out of contract and re-trading are two significant trends in today's investment sales market that are becoming more common. Busted deals have spiked in recent months as the sub-prime, and more generally the credit crisis, has taken home. Data from Real Capital Analytics indicates that busted office deals totaled $10.8 billion in September 2007 compared with $4.8 billion in September 2006. Some sellers who are faced with the choice of selling for less or delaying the sale of their property are choosing the latter.

Since the credit crisis took hold re-trading, re-negotiating while under contract or with just a letter of intent, has become increasingly widespread with virtually all deals being re-traded to some extent. Access to debt is the usual culprit, however, even all cash buyers are re-trading in an attempt to purchase properties at a lower price. This raises a number of ethical issues, but the more over-riding concern is the reputation of buyers in subsequent deals. Buyers have always been motivated to close the transaction quickly and as negotiated, but in today's market, the prospect of being able to re-negotiate prices 5% to 10% lower is too tempting. This is sure to be a temporary phenomenon as new deals brought to the market will reflect the new cost of debt and stricter underwriting standards. Hopefully the stability of the market going forward will reduce this recent spike in re-trading activity.

LOOKING FORWARD

Our forecast for the coming year takes into account a number of factors. On the supply side of the equation, we are aware of over 2.8 million square feet of space currently under construction throughout the region with deliveries slated through the summer of 2009. Historically Sacramento has averaged over half a million square feet of new office product per quarter since 1998. However, we do believe that as the current pipeline begins to empty that development levels will drop slightly below that mark.

On the demand side of the equation our forecast takes into account historical absorption averages, deals already in the pipeline (including build-to-suit projects that will be occupied upon completion) and current requirements in the marketplace. Historically we have averaged approximately 460,000 square feet of occupancy growth per quarter since 1998. We expect demand from the private sector to continue to be below these averages at least until the housing market bottoms out but we also expect continued public sector activity to pick up the slack.

Based upon where the market stands today and factoring in these projections, we expect vacancy to continue to creep upward towards the 13.0% mark over the next six months with new development continuing to outpace demand. In terms of rents we expect competition to remain fierce in the Roseville/Rocklin market with slight decreases in asking rates probable for this trade area, particularly for Class B product which is currently challenged with a vacancy rate of 19.2%. But while this market faces challenges, we expect rental rate growth to occur in both the Highway 50 and Folsom submarkets.

241 OFFICES IN 54 COUNTRIES ON 6 CONTINENTS

USA 98
Canada 18
Latin America 14
Asia Pacific 46
EMEA 65

$54 billion in annual transaction volume

595.7 million square feet under management

9,327 Professionals

CONTACT INFORMATION

UNITED STATES:
Sacramento, CA

Dennis Shorrrock
Sr. Managing Director
1610 Arden Way
Suite 240
95815
Tel: 916-563-3023
Fax: 916-649-0001

Garrick Brown
Research Director
1610 Arden Way
Suite 240
95815
Tel: 916-536-3035
Fax: 916-649-0001

COLLIERS INTERNATIONAL | SACRAMENTO REGION

OFFICE OVERVIEW

1610 Arden Way, Suite 240
Sacramento, CA 95815

T: 916-929-5999
F: 916-649-0001

www.colliers.com/sacramento