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CROS Word

SPECIALIZING IN OFFICE SALES AND LEASING, THE CROS TEAM COMBINES EXPERIENCE WITH SUPERIOR SERVICE TO EXCEED YOUR REAL ESTATE EXPECTATIONS.

MARKET WATCH
Roseville/Rocklin

One year ago the Roseville/Rocklin office market (R/R) became the poster child office submarket for tenant's looking for 50,000 contiguous square feet or more of office space.

Large Vacancies on the Horizon

The sentiment a year ago was that the traditional large floor plate submarket, the Highway 50 corridor, would lease its remaining two locations of 50,000 contiguous square feet or more and that large floor plate users would begin looking in the R/R office market. Unfortunately, some large blocks of office space along the Highway 50 corridor, vacated by Ameriquest Mortgage, and a couple of lease renewals that did not happen, provided large floor plate tenants along the Highway 50 corridor additional lease opportunities. The overflow to the R/R market did not happen. The good news for the 2007 R/R market was that the "looming x-factor", the 285,000 SF, 3-story Hewlett Packard ("HP") building did not come on the market as expected. However, for 2008 this will change dramatically. HP has abandoned its efforts to sell the vacant 240 acres of land just west of its facility, and instead has elected to place not only the 285,000 SF R-21 building on the market, but also an adjacent 330,000 SF building, R-10 on the market. We anticipate a sale will take place in early 2008 and will add an additional 615,000 SF to a market that is expected to have an approximately 900,000 SF of vacant space (50,000 SF contiguous vacancies or more), bringing the total vacant square footage to over 1.5 million square feet. This amount of vacancy represents almost 5 years of positive net absorption for the Roseville/Rocklin submarket. This will not be a one or two year workout of lease space.

> "Developers are going to have to be pro active and aggressive in their efforts to attract quality credit tenants to their building"
>
> BRUCE WIRT, SIOR

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2007 DEAL HIGHLIGHTS

DST
With the representation of The CROS Team and Cushman & Wakefield, LBA Realty successfully purchased from DST Output, 3 office buildings in their campus at 1100, 1102 and 1104 Investment Boulevard, El Dorado Hills, CA, totaling 221,414 square feet.

VERIZON
With the representation of The CROS Team and Cushman & Wakefield, Equity Office Properties successfully sold their 4-building, class A office campus and 34-acres at 255 & 295 Parkshore and 600 & 620 Coolidge, Folsom, CA, totaling 269,853 square feet to JP Morgan/McCarthy Cook.

CSUS/CALSTRS
With the representation of The CROS Team, University Enterprises successfully purchased from CalSTRS, 7667 Folsom Boulevard, Sacramento, CA totaling 188,097 square feet.

1011 SUNSET BOULEVARD
With the representation of The CROS Team, Oracle Office Park L.P. successfully sold to the Evergreen Company, it's 118,000 square foot office building and 17 acres of adjacent Land in Rocklin, CA.

9750 GOETHE ROAD
With the representation of The CROS Team, Cawley Fund Advisors successfully leased their entire 139,000 square foot office building at 9838 Old Placerville Road,Sacramento, CA to The State of California Department of Corrections.

11031 SUN CENTER
The CROS Team advised the buyer, Great Scene Ventures, on their acquisition from Panattoni Development of their 113,000 square foot office building at 11031 Sun Center Drive, Rancho Cordova, CA.

10000 GOETHE ROAD
With the representation of The CROS Team, Cawley Fund Advisors successfully leased their entire 118,000 square foot office building at 10000 Goethe Road, Sacramento, CA, to The State of California Department of Corrections.

630 K STREET
The CROS Team represented Jones & Stokes, the largest Sacramento based environmental engineering firm, in their long term lease of 50,000 square feet.

The CROS Team
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Roseville/Rocklin

Market Forecast

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Dec-07
Roseville/Rocklin Class A/B
Large Floor Plate Availability
(50,000 contiguous square feet or more)

LOCATION	TOTAL SF	AVAIL SF	COMMENTS
1011 Sunset/Rocklin	116,000	58,000	Former Oracle Space/previously built out.
1000 Sunset/Rocklin	100,000	85,000	Shell space.
1400 Stanford Ranch Rd/Rocklin	66,000	66,000	Cold shell condition.
925 Highland Point Dr/Roseville	118,000	118,000	Under construction, delivered Summer 2007.
1420 Rocky Ridge/Roseville	95,000	75,000	Finished shell condition
Stone Pointe Office Plaza/Roseville	110,000	95,000	Under construction, delivered Summer 2007 - some prelease.
1000 Enterprise Way/Roseville	76,500	76,500	Finished shell condition.
990 Reserve Dr/Roseville	54,000	54,000	Could sell or lease existing building. Built as condo building.
West Oaks Blvd	114,000	114,000	New Opus building recently completed.
West Oaks Blvd	114,000	114,000	New Opus building recently completed.
Shea/Gibson Drive	50,000	50,000	New Shea building under construction.
TOTAL	1,013,500	905,500	

X-Factor

LOCATION	TOTAL SF	AVAIL SF	COMMENTS
8000 Foothills/Roseville R21 & R10	615,000	615,000	Expected on the market in early 2008
TOTAL	1,563,500	1,455,500	

TOTALS 1,628,500 1,520,500

How does R/R come back?

As mentioned one year ago, developers, brokers, and Roseville/Rocklin officials are going to need to work together over the next five years to attract new business to the R/R market in order to fill the large amounts of office space that currently are available or under construction.

Developers are going to have to be pro active and aggressive in their efforts to attract quality credit tenants to their building. This will have to come in the way of increased tenant incentives, such as free rent, extra tenant improvements, etc. City officials could either delay or eliminate burdensome fees to be more competitive. All should be involved with keeping Sacto informed with the unique opportunities in this office market. R/R has not attracted the public sector tenant primarily the State of California because of its perceived limit on various state public transportation requirements. City officials and developers along with Roseville's public transportation could design a program in which to provide acceptable public transit options for attracting the State of California to the R/R market.

Brokers are going to be asked to begin marketing their projects on a regional, state and in some cases national basis, in order to maximize the project's exposure to potential tenants. R/R will definitely be a challenging market over the next few years.

We anticipate a sale will take place in early 2008 and will add an additional 615,000 SF to a market that is expected to have an approximately 900,000 SF of vacant space (50,000 SF contiguous vacancies or more), bringing the total vacant square footage to over 1.5 million square feet. This amount of vacancy represents almost 5 years of positive net absorption for the Roseville/Rocklin submarket. This will not be a one or two year workout of lease space.

- BRUCE WIRT, SIOR

The Credit Crunch

For most investors, 2007 will be remembered as a year that started with extreme optimism over rent growth and extremely favorable financing, which caused average prices for both CBD and suburban properties to peak in early 2007. However, optimism has given way to recession fears and financing is no longer as advantageous or available. The credit crunch caused sales of significant office properties to fall by 42% to 26.5 billion in Q4 2007.

Portfolio activity has been particularly affected with just $5 billion in deals closed in Q4, which is a fraction of the $105 billion of portfolio sales logged in the first 3 quarters. That being said, huge portfolio transactions and re-privatizations made 2007 a record year. Over $211 billion of office properties changed hands in 2007, a 55% increase over 2006.

After a 5-year continuous decline, Cap rates started rising 3rd quarter of 2007. In recent months the Cap rates on suburban properties increased 50 BPS, nationally, while CBD properties has witnessed a 25% BPS rise. Sellers continue to test the market, but increasingly deals are being withdrawn after failing to achieve pricing expectations. Fortunately, most sellers are not under pressure to sell quickly or accept too steep a discount and this has kept prices from falling further.

Relative Opportunities

The mobility of real estate capital across the various markets and between property types became very evident over the past cycle. Each of the major property types has fallen in and out of popularity among investors over the past five years even though real estate of all types was in great demand. Apartment structure saw a decline in acquisitions, while sales of industrial properties were relatively flat. Investors highly favored office investment in 2007 as both CBD and suburban office acquisitions claim the highest percentage of investment.

Office investors not only need to be aware of relative prices in other US markets, but in foreign markets as well. Currently 11 of the most active markets for office acquisitions globally are in the US, but cross-border investment is growing quickly with many US buyers leading the way. Foreign investment in the US is also gaining and the weak US dollar could perpetuate this trend. Compared to prices in other global cities even Manhattan prices look fairly reasonable.

The New Year

Many were hoping that the new year would being greater clarity to the market's direction, but the uncertainty is even greater. The debt market currently shows no signs of improvement and the question about a recession have gone from "will we have one", to "are we in it". Transaction activity feels like it has been cut in half, financing has dried up and sellers and buyers can't agree on pricing. The real question is, will conditions continue to deteriorate, or alternatively improve by the end of the year. Ultimately one's opinion depends largely on their outlook for a recession.

The Optimistic Prediction

In the most optimistic scenario, we avoid a recession and defaults are limited mostly to land deals, construction loans and a few over levered groups that got caught when they couldn't refinance. Price for income producing properties will prove resilient as sellers are able to hold rather than sell at too low a price. I am truly confident that the CMBS markets will be in harmony and the capital cycle will again be restored.

Space markets may languish over the near-term, but won't turn negative, except possibly markets with a high concentration of mortgage firms. Since new development activity has been constrained during most of the bull market, fundamentals could improve rapidly when the economy takes off again.

- RON THOMAS, SIOR

(SOURCES: REAL CAPITAL ANALYTICS)

WILL IT BE GREAT IN 2008?

The recently completed "Emerging Trends in Real Estate ® 2008", a publication of the Urban Land Institution and PriceWaterhouseCoopers, is a must read for all commercial/ residential/ real estate develpers/ brokers/ attorneys, anyone directly or indirectly involved in our business. Their insight to this market on a global basis is a result of personal interviews and survey responses from private property company/developers, real estate service firms, institutional investor/managers, lenders, REIT representatives and home builder residential land developers. Here are some exerpts that can be applied to the Sacramento market:

♦ Development should remain relatively controlled as increasingly more risk-adverse investors back off new projects.

♦ High land, labor, material, and entitlement costs also continue to temper new construction.

♦ Housing reversals threaten to torpedo consumer confidence and upend the entire community.

♦ Financing structures and flipping strategies helped bid up pricing and values, and the resulting trading maelstrom overheated property markets.

♦ Opportunity investors seek bargains as homebuilders sell down land inventories.

♦ Recent buyers who paid at pricing peaks using ample leverage may be susceptible to reversals if supply/demand drivers weaken.

♦ Don't build a "brown" building, spend the extra dollars on green technologies and reap the competitive benefits.

♦ Sacramento is high on the "U.S. Markets to Watch", right behind Phoenix & San Diego.

So, how does this affect Sacramento?

♦ Don't expect any $760 Million purchases of Sacramento Office Portfolios.

♦ Building owners need to be realistic in their rent expectations and tenant concessions

♦ Don't expect the State of California's office space requirements to bail us out this year, although we do expect them to help create a softer landing (will the CHP land in West Sacramento?)

♦ Look for activity in Healthcare, Education and public sector office requirements.

♦ It will be fun watching the competition among the new and existing Class A, Capitol Mall buildings. Reminds us of the spirited competition that occurred in the early 80's and 90's

♦ Maybe the housing crisis will actually help Sacramento by reducing housing prices and increasing Sacramento's affordability, thereby creating an in-migration which positively impacts our region.

♦ The west coast is a good place to invest or move your company. We are part of that. As the UCI study suggests, "Global pathway markets will continue to concentrate business and investment activity at the expense of other cities and regions." International airports, shipping ports, trade with Asia......and now affordable homes?

♦ Will the weak dollar dissuade call centers being relocated overseas and bring them back to Sacramento?

♦ Everyone still forecasts employment growth for this region.

♦ Even the average asking rental rates for all office product in Sacramento increased during 2007. Of course, don't expect this again for 2008.

♦ Office vacancy rates crept up slightly and most likely will increase a bit more with just under 2,000,000 square feet scheduled for 2008 delivery.

♦ Don't PANIC! It's back to basics.

- BRUCE HOHENHAUS, SIOR

LISTING SPOTLIGHT

2600 V Street Sacramento, CA

This unique, historical building is currently available for lease for the first time in almost 20 years. Please contact us for additional information or to schedule a tour.

PROPERTY DETAILS

Available SF:	**±44,659 RSF**
Lease Rate:	**$1.90-$2.00, FS**
Parking:	**2.8/1,000 SF - 124 Spaces**
T.I. Allowance:	**Negotiable**
Available:	**April 2008**

♦ Mature, campus like setting in an urban infill location

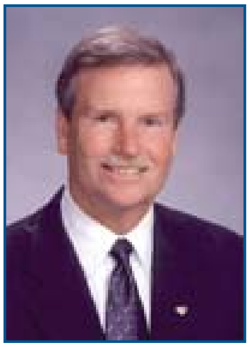
♦ Secured office building and parking lot

♦ Located next to Regional Transit and all major freeways (off ramp at 26th St.)

♦ Part of National Historic Building Registry

♦ Mediterranean revived style architecture.

The CROS Team



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COACH'S CORNER

2356 & 2366 GOLD MEADOW WAY IN GOLD RIVER, CA, IS UNDER NEW OWNERSHIP.

2366 Gold Meadow Way consists of approximately 24,000 SF on two floors and is available for sale, as an owner/user opportunity or for lease. The second floor provides upgraded tenant improvements with high vaulted exposed ceilings and tremendous natural light. This is a perfect fit for a user looking to occupy 12,000 - 24,000 SF with the ability to lease out the balance if needed.

2356 Gold Meadow Way provides a professional office campus environment with upgraded common areas, located within walking distance to Gold River Racquet Club and close to upscale Gold River shopping, restaurants and childcare facilities. Please contact The CROS Team for more information.

- CHRIS SCHWARZE

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