



- ▶ HIGHWAY 50/ FOLSOM MARKET WATCH 1
- ▶ CREDIT CRUNCH 2
- ▶ LEED CERTIFICATION FOR MATHER CAMPUS 2
- ▶ GREAT IN 2008 MID YEAR UPDATE 3
- ▶ COACH'S CORNER 4



CROS Word

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

MARKET WATCH *Highway 50/Folsom*

All is not Doom and Gloom- Highway 50 Corridor/Folsom continues to top Suburban Submarket Performance

The Highway 50 corridor continues to be a very strong market, with vacancies currently standing at 11.6%, down from 14.8% just one short year ago. The 50 Corridor has always been a strong market for governmental agencies and back office users, with its close proximity to light rail and municipal transit, available workforce, and historically lower lease rates than most other suburban trade areas. This was never more evident than when Ameritrust vacated two, 90,000 SF spaces. The Department of

Corrections backfilled one of the spaces, and the other space, which encompassed the entire building, was sold to owner/user BloodSource.

While the average asking rental rate for all classes of office product remains a relatively low \$1.85 per square foot full service, direct asking rates for Class A office space remains at a competitive \$2.00 per square foot. However, we are experiencing a

steady increase in the rates for the top properties as vacancy tightens and the area becomes increasingly built out. Projects currently under construction are also playing a part in the increase of asking rental rates. Construction costs have increased almost 75% in the last 5 years. The primary contributors to the increase are material costs and permit fees. All of these costs are pushed to the end user in the form of rent.

As office space is absorbed in the Mather and Prospect Park submarkets, the 210,000 SF of new product in Folsom will begin to receive the bulk of the tenant activity.

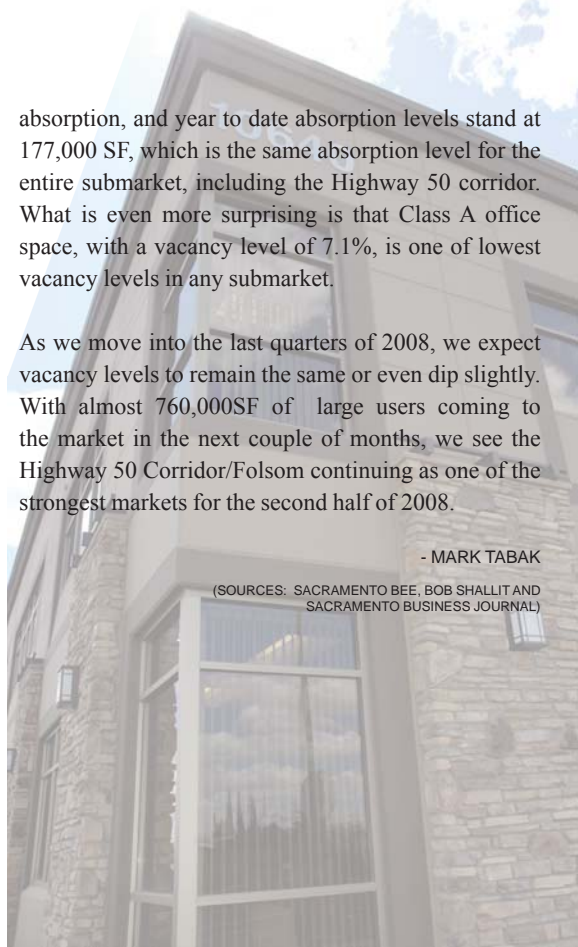
Vacancy in the Folsom submarket dropped almost 2% from 13.7% to 11.8%, as the market had a 13.7% to 11.8%, as the market had a little less than 80,000 SF of net

absorption, and year to date absorption levels stand at 177,000 SF, which is the same absorption level for the entire submarket, including the Highway 50 corridor. What is even more surprising is that Class A office space, with a vacancy level of 7.1%, is one of lowest vacancy levels in any submarket.

As we move into the last quarters of 2008, we expect vacancy levels to remain the same or even dip slightly. With almost 760,000SF of large users coming to the market in the next couple of months, we see the Highway 50 Corridor/Folsom continuing as one of the strongest markets for the second half of 2008.

- MARK TABAK

(SOURCES: SACRAMENTO BEE, BOB SHALLIT AND SACRAMENTO BUSINESS JOURNAL)



2008 DEAL HIGHLIGHTS

VERIZON WIRELESS

The CROS Team was engaged by JPMorgan and McCarthy Cook to assist in renegotiating the Verizon Wireless 192,000 sf lease at Parkshore Plaza.

THE MIDTOWN BUILDING

The CROS Team represented the Seller's in the Sale of 1507 21st Street, aka The Midtown Building, a 57,000 sf, 3 Story Office/Retail building in the heart of Midtown

865 HOWE AVENUE

The CROS Team represented the Buyer in the Purchase of 865 Howe Avenue, a 17,000 sf, 3 Story Office building, for their corporate headquarters

CALIFORNIA NORTHSTATE College of Pharmacy

The CROS Team represented the college in this 55,000 sf seven year lease on International Drive in Rancho Cordova.

6630 ARBY AVENUE Las Vegas NV

The CROS Team represented the Buyers of this 21,500 sf office building in Southwest Las Vegas.

BLUE SHEILD OF CALIFORNIA

Blue Shield of California subleased, for seven years, 35,003 sf of space from Amdocs in El Dorado Hills, Ca. The CROS Team represented the Sublessor.

4837 WATT AVENUE

The CROS Team represented the seller Meyer Crest Limited in the sale of 4837 Watt Ave, a 129,000 sf office building located on the I-80 corridor, to Elliott Homes for approximately \$15.7 million dollars.

MEYER CREST/DAN CAPUTO CO.

The CROS team represented both buyer, Meyer Crest Limited and seller, Dan Caputo Company, in the sale of a 33,000 sq ft building on the HWY 50 corridor..



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The Credit Crunch

slowest July since 2003. Over 100 significant office properties traded in July with suburban assets outpacing CBD assets. The portfolio activity remained anemic, with the exception of a few modest corporate dispositions.

Nationally, the average price rose above \$300 per square foot, and cap rates fell, clearly illustrating the impact of a flight to quality. On a local level, the median price per square foot increased 4% to \$202 per square foot with a weighted average cap rate trending to 7.0%.

The summer data in a down cycle market makes trend spotting a little more difficult, but there are signs that transaction activity for office properties has hit bottom and is poised to rise.

Preliminary August data clearly indicates greater sales than July, \$3.5 billion in deals have already closed and an additional \$9 billion are under contract nationally.

September, traditionally a time for refreshed market activity, will be bellwether for the rest of the year. Seasonally, September is one of the most active months for sellers to list property for sale. The expected wave in offerings will add to a backlog of early 2008 offerings still on the market. Last month alone over \$6 billion of new offerings came to the market outpacing closings by almost a 2 to 1 ratio. The asking prices of the expected offerings this September, may be telling, to see if sellers are ready to accept pricing that better reflects existing market conditions and entices buyers back to the market in force.

The change in access to capital has certainly turned the asset mix on its head.

Year to date nationally, only 6 investors have acquired more than \$1 billion in office property. At this point in 2007, a \$1 billion acquisition did not clinch a place on the top 25 buyer list. At this time last year 18 investors had already accumulated more than \$2 billion of office property.

Given the turmoil in the market place and the steep fall in transactions, the composition of buyer groups has remained relatively stable over the past year. Although all the spending has been greatly reduced, each capital sector remains active in a similar proportion to its pre-credit crunch activity. Even though the favorable leverage that made them the biggest buyers in 2007 is no longer available, some Equity and Opportunity funds continue buying, although some of the principal actors have changed. Firms such as Hines, Shorenstein, Carlisle and Transwestern are among the most active office buyers so far this year. A few of last years most active firms, Blackstone, Beacon, Broadway and Fortress, have been noticeably absent

On a local level, the lion share of activity has been registered by private in-state buyers totaling over 57% of the total investment activity from the buying side. Another 42% of the buying activity is comprised of real estate funds, syndicator investors and owner/users. The most notable absence of activity over the past 12 months on a local level has been the

of institutional buyers. On a national scale institutional buyers continue to make up 24% of the activity they have been a paltry 1 % of the activity since the third quarter of 2007 in Sacramento.

The noticeable decline in transaction activity on a local level is best illustrated in the data itself. Only 27 investment sale transactions larger than \$5 million have occurred in Sacramento in the last 12 months, for a total of \$372,000,000. In 2007, our Team alone sold \$233,000,000 of Investment Office product in the Sacramento area.

Based on our continued research of the incoming data, it is the opinion of our Team that the lack luster volume and transaction activity will certainly continue through the remainder of 2008 and will likely carry forward at a minimum through the first quarter of 2009. We won't see a notable change until such time as the pricing gap between buyers and sellers is narrowed to a point that brings buyers back to the market or the grip on the credit markets begins to loosen. Until then its going to be tough sledding.

- RON THOMAS, SIOR
(SOURCES: REAL CAPITAL ANALYTICS)

Sales Volume Hits Bottom, but Not Prices

One year after the onset of the credit crunch, recent sales data paints a picture of continuing investor confusion full of contradictory signals. Overall, commercial property sales fell lower in July, with volume year to date at 70% of 2007 levels. However, the office sector fared better with transaction activity starting to grow and prices not down as much as other property types. The Moody's Real Commercial Price Index (CPPI) indicates office property values off approximately 8% and down only 3% in the top 10 markets nationally. The monthly snapshot of office sales was clearly discouraging for the month of July as sales of office properties were off 80% over last year, totaling \$3.6 billion. The result was the

LISTING SPOTLIGHT

10391 Peter A McCuen Blvd.
Rancho Cordova, CA



Mather Office Campus Goes For LEED Silver Certification

The extent to which humans are responsible for global warming will continue to be debated for years to come. However, no matter how you slice it, sustainable/green buildings are the wave (tidal) of the future.

In California, meeting Title XXIV mandates brings every new building close to LEED Certification. With very minor sustainable modifications, which add some additional costs, developers of new buildings can bring their new product to market with a LEED Silver Certification. Jackson Properties, after researching the cost associated with achieving LEED Silver Certification versus the benefits received by going for this certification at Mather Office Campus, have elected to go for a LEED Silver Certification.

Jackson Properties found they would realize reduced operating costs, gain a leasing marketing edge, and in the future, in the event they decide to sell, they will have an investor pool willing to pay more for this sustainable asset. The slight increase in development cost was clearly outweighed

by the benefits associated with Lead Silver Certification. Initial activity indicates the decision will be rewarded, as demand from both private and public sector tenants clearly indicate their preference to be located in sustainable office buildings.

- BRUCE WIRT, SIOR

PROPERTY DETAILS

Available SF:	± 220,00 RSF in 2 Buildings
	Building A: ±110,960 GSF
	Building B: ±112,000 GSF
Available:	Summer 2009

PROJECT HIGHLIGHTS:

- ◆ *Alternative transit options*
- ◆ *Dramatic 2-story lobby areas*
- ◆ *Convenient access to Highway 50*
- ◆ *Adjacent to New Mather Sports Complex*
- ◆ *Enhanced outdoor seating areas walkways*
- ◆ *LAMBRA employer tax credits and incentives*
- ◆ *Close proximity to a growing supply of affordable housing, restaurants and shopping.*
- ◆ *Public transportation alternatives (RT bus/light rail)*



WILL IT BE GREAT IN 2008?

A mid-year update

In my article for our first quarter CROSWORD newsletter, I quoted some insight from the “Emerging Trends in Real Estate 2008”, a publication of the Urban Land Institute and Price Waterhouse Coopers. Based on their insight, I tried to provide some insight of my own as it relates to the Sacramento region marketplace. In other words, how will those trends affect Sacramento for 2008?

I thought it might be interesting to revisit my “Insight”. Here are some of those predictions and the results to date:

◆ “Don’t expect any \$760,000,000 purchases of Sacramento portfolios. How about that for a profound statement?” We may never see that again, however, we did have a couple of decent purchases, which included the 129,000 square foot service center for Wachovia Bank, the purchase of the 90,000 square foot office building for the new Blood Source Headquarters at the former Mather Air Force Base, and the sale of their 120,000 previous headquarters to Separovich/Domich. The number of investment transactions are probably about one-third of what they were last year at this time.

◆ “Building Owners need to be realistic in their rent expectations and Tenant concessions.” Well, it is very difficult to find a building owner who is realistic, however, we have seen some very spirited competition for those few large transactions which have been looming on the horizons the past few months.

◆ “Don’t expect the State of California office space requirements to bail us out, but it will help create a softer landing.” The State has helped us out, although I was incorrect that the CHP may land in West Sacramento. The 280,000 square foot requirement will be moving to Richards Boulevard in late 2009. The Department of Corrections is moving into a 130,000 square foot building along the Highway 50 corridor in the next 30 days.

◆ “Look for activity in healthcare, education and public sector office requirements.” I already addressed the public sector. The newly formed California Northstate College Pharmacy, a 55,000 square foot requirement post-graduate college formed to produce more pharmacists, moved into its new school building in Rancho Cordova. Blue Shield has signed a 35,000 square foot lease in El Dorado Hills. I think we need to add engineering firms in the mix since we are aware of two or three large engineering firm requirements in the marketplace.

◆ I addressed the competition among the new and existing Class “A”, Capital Mall buildings. 621 Capitol Mall garnered the 80,000 square foot Downey Brand office lease, along with the 34,000 square foot State Court of Appeals lease. 500 Capitol Mall has apparently secured the 80,000 square foot McDonough Law Firm. Meridian Plaza II, which is on the other side of the Capitol, has been placed on hold. AKT has elected to wait it out pending the outcome of the success of these buildings and better market conditions.

◆ I mentioned the housing crisis might actually help the Sacramento affordability index. Sales and the median price of those homes has decreased dramatically, 25% in some instances, but I haven’t seen the resulting migration. Let’s give it some time.

◆ “Will the weak dollar dissuade call centers being relocated overseas and bring them back to Sacramento?” The weak dollar and the fact that none of us can understand what the person on the other line is saying, could still bode well for call centers all over the US. It is a little more expensive, but I still believe some of these call centers are destined to return.

◆ “We all forecasted employment growth for this region.” Boy, was I wrong, or what? Unemployment in this area is the highest in the last 12 years.

◆ “The average asking rental rates for all office product in Sacramento increased during 2007. Don’t expect again for 2008.” I was more right than wrong on this prediction. Just ask any tenant-rep in the region and some of the offers they’ve received in response to their RFP’s.

◆ “We expect the office vacancy percentages to creep up slightly.” Well, in some markets, like Roseville for instance, that is true. The Highway 50 corridor/Folsom area have actually experienced a decrease.

◆ “Don’t PANIC”. Easy for me to say. We still have faith in this market. Hang in there!

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Coach's Corner

820-860 STILLWATER WEST
SACRAMENTO



820-860 Stillwater Road in West Sacramento, CA is comprised of over 350,000 square feet of office space in a campus setting. This project has beautiful streams and landscape that make Riverside Office Centre a location where employees love coming to work. There are three vacant, 2-story office buildings, each approximately 72,000 square feet, now available for lease. The buildings provide second-generation space and are ready for occupancy.

The campus offers easy access to Interstate 80 and Highway 50, is in close proximity to downtown Sacramento and the Sacramento International Airport. Adjacent to the campus is 12.75 acres for possible expansion/ build to suit opportunities if needed for a larger campus use. The buildings provide 4.6/1,000 parking and back up generator pads and tanks if necessary. Please contact The CROS Team for more information.

- CHRIS SCHWARZE

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