

Market tightening in the wake of steady employment gains

First quarter positive absorption approaches 2014 total

The State government continues to add jobs (3,200 jobs year over), business confidence is up and professional services are expanding, all of which are translating into a rising office market tide. The first quarter of 2015 marked the largest quarterly occupancy gain (227,539 square feet of positive net absorption) since the banner year of 2013, clocking in above the 10-year average of 149,884 square feet. Perhaps more telling of the business climate is the fact that demand was distributed more evenly among a wide variety of industries rather than a few large deals; governmental agencies, insurance groups and education users were especially active in suburban submarkets.

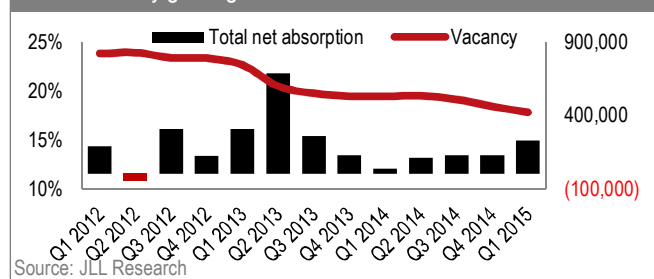
“Arena effect” elevating CBD rents on historical run

Downtown asking rents have been on a sustained climb since bottoming out in the fourth quarter of 2013 and posted the largest annual increase in the first quarter of 2015 (6.8 percent) since the previous peak in 2008. Occupancy gains downtown have been negligible during the past 12 months; however, rent growth has been more reflective of the announcement and groundbreaking timeline of the new Kings’ arena. Recent transactions, such as Murphy Austin’s relocation to 555 Capitol Mall (across the street from the arena site), suggest landlords are correct in assuming an imminent tenant in-migration to the urban core.

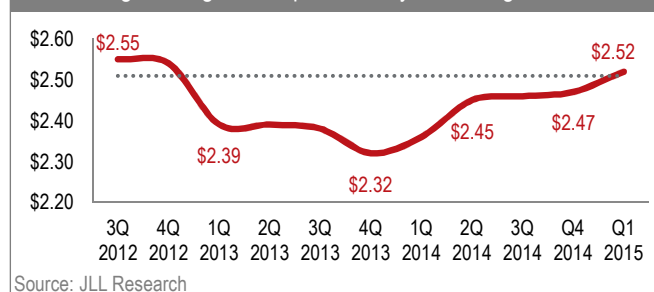
Insurance and expansion deals fuel leasing activity

Leasing demand ramped up in the first quarter and insurance users accounted for 43 percent of inked deals by volume, primarily due to one giant transaction: Blue Shield took 175,000 square feet between two Highway 50 Corridor buildings, marking the market’s largest office transaction in over 24 months. Demand will hold steady through the next three quarters, with more than 800,000 square feet of government and healthcare requirements alone anticipated to land in 2015. Look for rising rental rates in continually tightening South Placer submarkets and additional tenant gravitation toward the urban core.

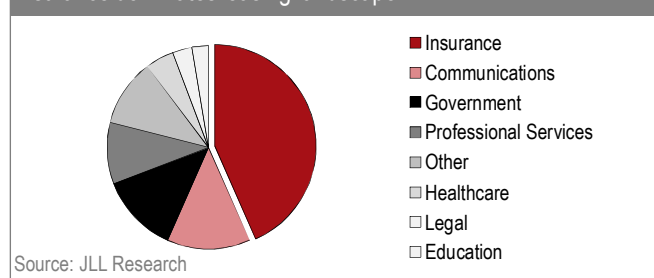
Market steadily gaining steam



CBD average asking rate surpasses 10-year average



Insurance dominates leasing landscape



17.8% Total vacancy	233,533 Q1 2015 net absorption (s.f.)	0.1% 12-month rent growth	0 Total under construction (s.f.)
			0.0% Total preleased

Current conditions – market and submarket

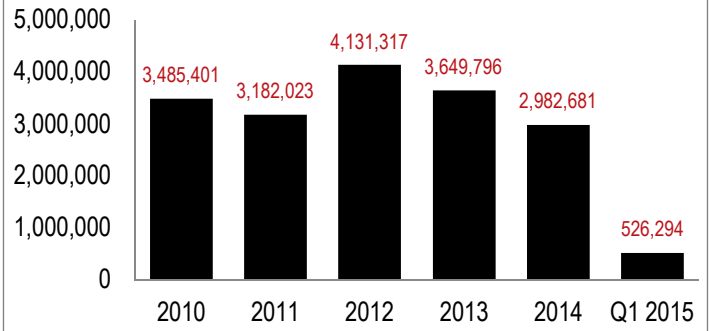
Landlord leverage



Tenant leverage

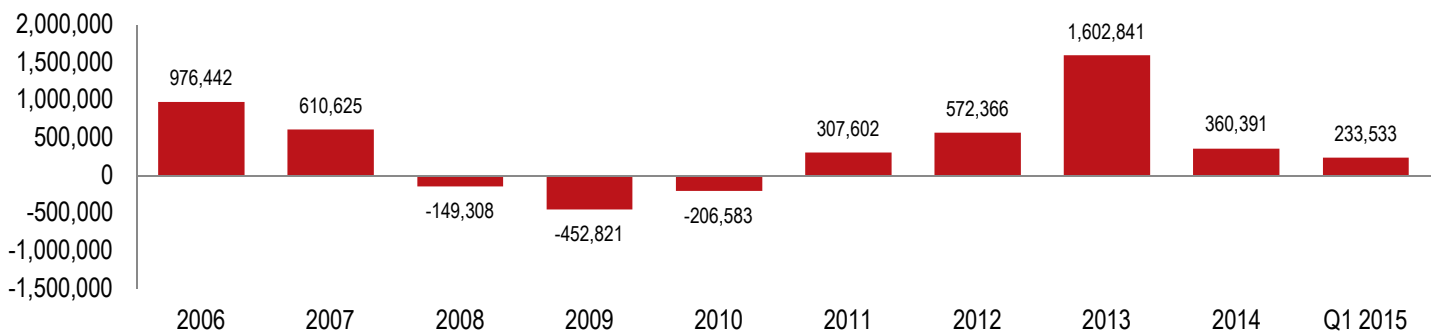
Source: JLL Research

Historical leasing activity



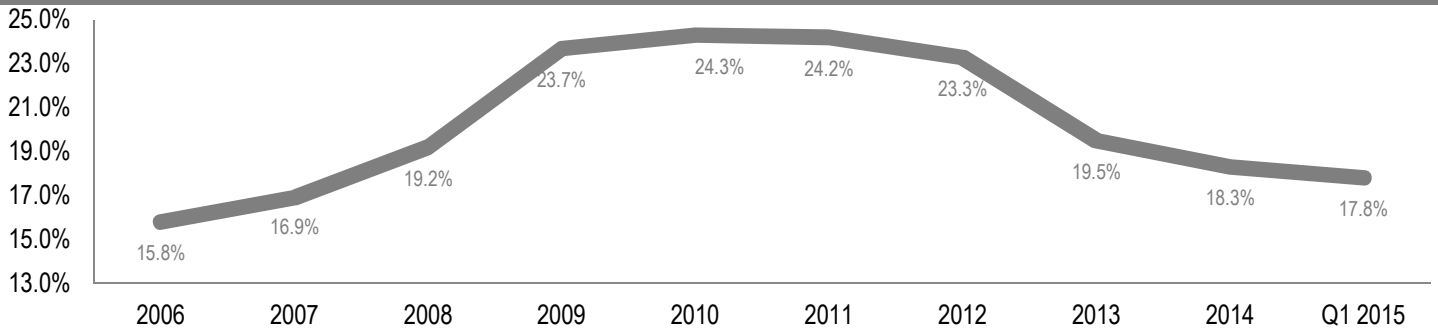
Source: JLL Research

Total net absorption (s.f.)



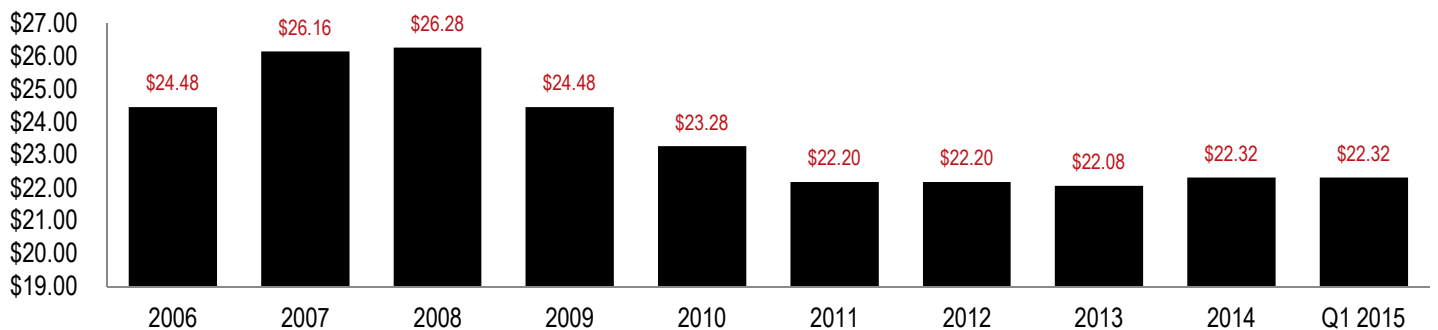
Source: JLL Research

Total vacancy rate



Source: JLL Research

Direct average asking rent (\$ p.s.f.)



Source: JLL Research