



## MIDTOWN OFFICE OVERVIEW

For the purposes of this report we have decided to add an in-depth analysis of Sacramento's Midtown office submarket, which historically has been a second-tier market. However, increased interest in Sacramento's CBD is beginning to translate into renewed interest in this once sleepy trade area known primarily in the past as a secondary location for government users and a mix of smaller professional and medical office users. Midtown borders the Downtown market along the busy 16th Street corridor, which is a major north-south arterial that dissects the two markets and offers freeway access both to Highway 50 and Highway 160/Interstate 80 Business Loop. To the south, Broadway serves as the southern boundary of Midtown while this submarket's eastern boundary is the busy Alhambra Boulevard corridor. The Sacramento River serves as a natural boundary on Midtown's northern side. There are a number of major commercial arterials that serve the Midtown area, including 16th Street, 21st Street, Capitol Avenue and L Streets.

2600 Capitol Avenue

The Midtown Office market consists of just under six million square feet of office product. We track all office product in the Sacramento region over 5,000 square feet. This total includes multi-tenant, single-tenant and government buildings. While many commercial firms do not include government buildings in their statistics, we do simply because government tenancy has such a major impact on the Sacramento market. Following Washington, DC, the Sacramento market is the second largest government market in the United States. With government tenancy in the region estimated at close to 20% of all office occupancy throughout the region and with it serving as one of the primary driving forces of demand in the area we believe it essential to include these projects. That being said, Midtown's 5.9 million square feet of office space includes the East End project. Located at 1616 Capitol Avenue, this multi-building 1.6 million square foot office complex is entirely occupied by the State of California and accounts for 100% of the office space that we deem Class A within the Midtown submarket. The addition of a new competitive multi-tenant Class A building at 2600 Capitol Avenue will change this upon its delivery in late 2008—but currently this project accounts for 100% of Class A space in Midtown.

## SACRAMENTO OFFICE MARKET - MIDTOWN SUBMARKET

### ALL PRODUCT CLASSES

INVENTORY, VACANCY, CONSTRUCTION AND ABSORPTION						
	2006				2007	
	1ST QTR	2ND QTR	3RD QTR	4TH QTR	1ST QTR	2ND QTR
<b>TOTAL INVENTORY</b>	5,946,217	5,946,217	5,946,217	5,946,217	5,946,217	5,952,329
<b>TOTAL VACANCY</b>	365,424	298,724	318,081	326,421	291,139	306,447
<b>TOTAL VACANCY (%)</b>	6.2%	5.0%	5.4%	5.5%	4.9%	5.1%
<b>DELIVERIES</b>	0	0	0	0	0	0
<b>NET ABSORPTION (GROWTH)</b>	9,586	68,200	-21,371	-8,340	34,627	-12,639

Overall vacancy for the Midtown office market stood at just 5.1% as of the mid-year mark of 2007. While this extremely low number is impacted to some degree by the East End project, a breakdown of vacancy by class demonstrates that office vacancy in this market in general is low. With this project taken out of the mix vacancy for Class B and C product currently stands at 7.1%.