

REAL ESTATE



Real Estate

Office and Industrial Real Estate

The Sacramento Region's strong business growth and development can be traced to 1980, when the population of the region reached one million. This was considered the true turning point of the regional economy, where private investment and commerce expanded at an increasingly rapid pace around the solid economic core of the location of the State Capital. Since that point, the Sacramento Region has been one of the fastest-growing in the nation. Where it took roughly 130 years for the population to reach one million, it took only 25 years to add an additional million, and it is expected to take only half this time to add another million.

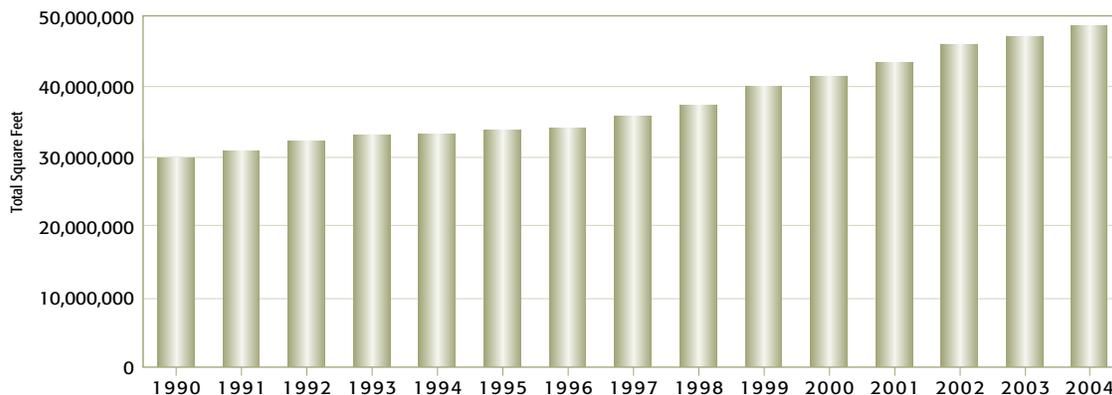
Several factors made a significant contribution to the real estate activity in the regional marketplace:

- Heavy migration to the Sacramento Region from the San Francisco Bay Area
 - The combination of lower business costs, more affordable housing, and, most recently, the instability of the economic climate in the Bay Area created a significant incentive for companies to move towards the Sacramento Region.
- The overall growth of California
 - California continues to be an economic powerhouse, globally, as the sixth largest economy in the world. As the headquarter location for this economic

engine, the Sacramento Region has been receiving an increasing amount of interest and investment from outside of the state and United States.

- The growing diversification of the Sacramento economy
 - The Sacramento Region continues to expand in the types and depth of many industry and service clusters that did not exist before. The first wave of major technology facilities to move to the area took place in the 1980's. These included Hewlett-Packard, NEC Electronics, Apple Computer, Inc., Packard Bell, and Intel Corporation. The newest wave includes a large number of small to mid-sized technology and biotechnology companies that, in total, have discovered the increasingly skilled workforce within the region and shown they have the ability to attract investment capital.
- The region includes several of the fastest-growing communities in California
 - Many of the communities surrounding the central Sacramento core are becoming economic nodes to the regional economy. Rapidly growing areas such as North Natomas, Roseville, Rocklin, Lincoln, and Elk Grove are some of the fastest-growing communities in the state, and many companies are attempting to tap into these growing labor pools.

Figure 24 – Office Inventory



Data Source: Grubb & Ellis Co.

Office Market

In 1990, the Sacramento office market had a base of 30 million square feet. Since then, the base has increased by more than 50 percent to over 48 million square feet. During 2003, a year that most metropolitan regions would consider lack-luster, the Sacramento Region added an additional 3.5 million square feet of new office supply, while keeping vacancy at low to moderate levels.

Dynamics of Booming Office Markets

- Placer County is one of the fastest-growing counties in California. With its booming residential development in Roseville, Rocklin and Lincoln, it has quickly emerged as a regional hub for the insurance and finance industries.
- North Natomas is a master planned community in the City of Sacramento, north of downtown Sacramento and surrounding ARCO Arena, home of the NBA's Sacramento Kings. The driving force behind

development and activity is its proximity to downtown, combined with the construction of 25,000 new housing units.

Sacramento Region Office Facts

The Sacramento Region maintained Class A suburban lease rates lower than all major metropolitan areas in California.

With a stable regional economy, office vacancy has remained relatively low compared to other regions in California.

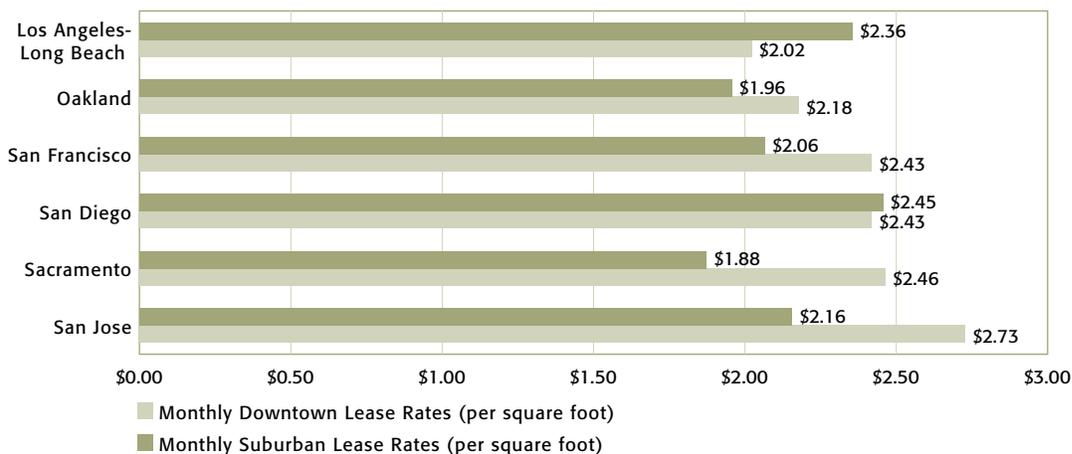
Office Market Outlook

The Sacramento Region experienced record breaking office investment transactions during the last few years. Private and institutional investors see the Sacramento Region as one of the key locations in the nation for fast-paced development in the "new economy." Business 2.0 Magazine recently identified the Sacramento Region as one of the next "Boom Towns", further defining it as having a rapidly expanding base of knowledge workers, the foundation for successful economies in the near future. These workers, also referred to as the creative class, are being trained and educated by the Sacramento Region's world-class educational institutions. They are drawn by the high quality of life and relatively low cost of living.

"An Emerging Skyline"

Downtown Sacramento continues to experience an economic "renaissance" and, as land values have increased, developers are increasing densities of new projects to the high-rise level. Several major high-rise projects are in the works, combining office, retail and residential elements to be completed within the next two years.

Figure 25 – Average Monthly Office Lease Rates of California Metropolitan Areas



Data Source: Colliers International U.S. Real Estate Review 2004.
 Note: Data is average for Class A buildings.

“High Speed Conversion”

McClellan Air Force Base was the last of three major military installations in the Sacramento Region to be closed over the course of 15 years. Within two years of handing over the keys to private developers, the former base, now McClellan Park, has leased five million square feet of industrial and office space, and created over 4,000 new jobs.

Present Strengths of the Office Market

Hub of Call Center Activity – Over 37 major call center and back office operations totaling over 17,000 employees.

Seismic Stability – Many back office operations include data centers with mission critical systems because of the Sacramento Region’s very low risk of earthquakes.

State Capital – The State of California and many government-related businesses and organizations lease millions of square feet of privately-owned office space throughout the region.

Access to Affordable and Executive Housing – The Sacramento Region remains one of the most affordable metropolitan areas in California while offering a variety of executive housing options.

Proximity to Interstates and Sacramento International Airport – The centrally located Sacramento International Airport is within ten miles of downtown Sacramento, and 25 miles from most of the metropolitan region. In addition, three trans-national freeways (I-5, I-80 and Highway 50) intersect in the downtown area.

Future Strengths of the Office Market

Quality Corporate Headquarters Location – the Sacramento Region has historically been an upper tier metropolitan area for more labor intensive administrative and call center locations. The region is now attracting the head offices of these operations as the commercial prestige of the region has become apparent.

Overall Cost Advantages – As California metropolitan areas such as the San Francisco Bay Area and Los Angeles Areas regain their economic strength, Class A office lease rates in those areas will again climb to high levels very rapidly, and those differences will again become a driving force for firms that are focusing on their bottom lines; thus, positioning the Sacramento Region as an economical opportunity.

Industrial Market

The Sacramento Region has a strong history of manufacturing and distribution. It has defined the industry in many respects. Certain types of warehousing facilities were first utilized in Sacramento, Woodland, West Sacramento, and other areas having strong ties to industrial users. The first warehouses were tied to the western terminus of the first transcontinental railway, located in Sacramento. With its location in California’s Central Valley, the largest producer of agricultural products in the world, food processing became an important economic driver. In the 1960’s, with the rapid expansion of Northern California’s population, the strong transportation infrastructure of the region, and the Sacramento Area’s central location in the state, the region became a major distribution hub for major corporations.

The latest wave of industrial activity involves all of these regional trends, as well as several national trends. During the 1980’s, the region became the destination of many major technology companies setting up manufacturing, distribution and research and development campuses. This included NEC Electronics, Apple Computer, Inc., Hewlett-Packard, Intel Corporation and Packard Bell. Most recently, many major international retailers are now looking at the Sacramento Region for import “breakdown” and distribution facilities. In addition, many manufacturers have been lured to the region because of its highly skilled and trained workforce, and its relatively low business costs.

“Back Office Call Center Hub”

Major Call Centers

Apple Computer	EDS	Oracle
AT&T Wireless	E*Trade	OSI
Blue Shield of California	Federal Express	Pacific Bell
Bank of America	Fortune 800	Progressive Insurance
California State Automobile Association (AAA)	Franklin Resources	Reserve America
	The Gap	USAA Insurance
Delta Dental	Kaiser Permanente	Verizon Wireless
Digital Insight	Mercury Insurance	Vision Service Plan
Earthlink	Metro One Telecommunications	Wells Fargo
		Williams Sonoma

Sacramento Region Industrial Facts

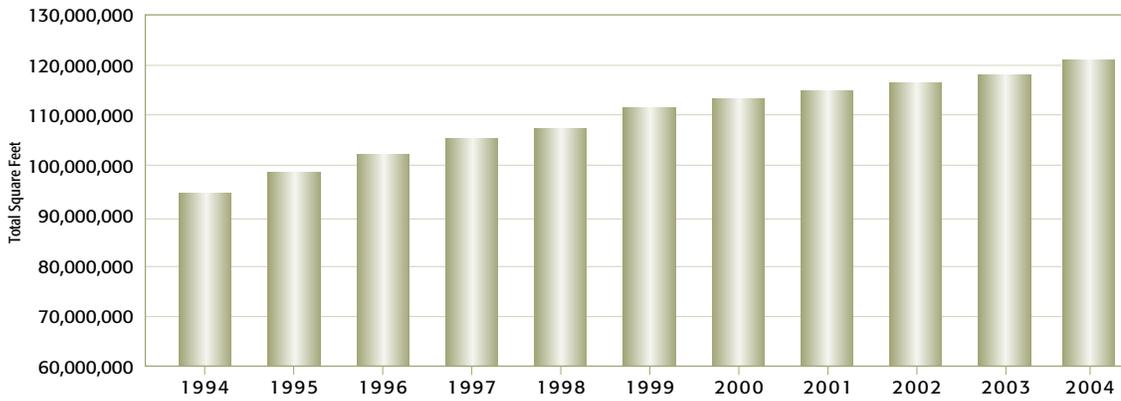
- The Sacramento Region’s warehouse inventory totals over 120 million square feet, with one million square feet being added to the market in 2004. Since 1999, the region has added roughly eight million square feet of industrial space.
- Vacancy is currently at a stable 10.3 percent.
- The Sacramento Region has the most affordable lease rates for warehouse space in California. With an average of \$.33/sq. ft. per month, the Sacramento Region is roughly 30 percent lower than Los Angeles and nearly 50 percent less than both San Diego and San Francisco.

- Average lease rates in the region are also very competitive with other metropolitan areas in the western United States. The rate is nearly equal to the average of Salt Lake City and Denver, and is 20 percent less than Portland and Las Vegas, and roughly 30 percent less than Phoenix.

Present Strengths of the Industrial Market

- *Port of Sacramento* — Located in West Sacramento, the Port is a deep water channel seaport, connecting the San Francisco Bay Area and Pacific Ocean with the Sacramento Region.

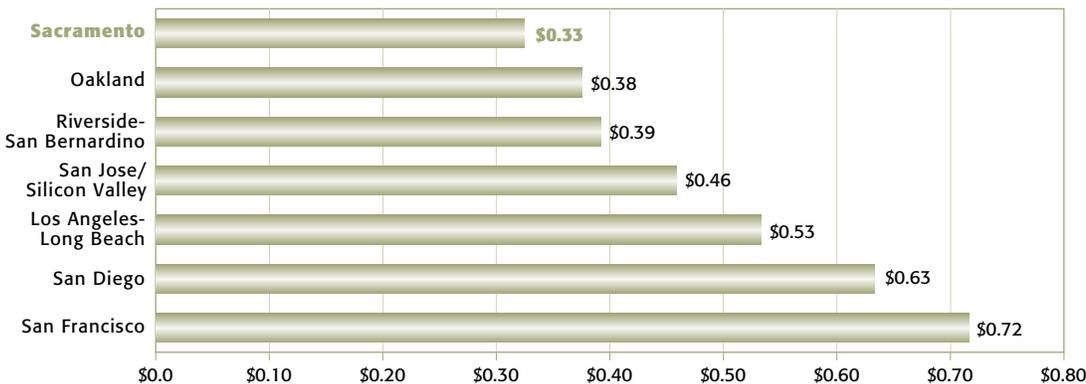
Figure 26 – Industrial Inventory



Data Source: Grubb & Ellis Co.

Figure 27 – Industrial Lease Rates in California Metropolitan Areas

Monthly Average Industrial Lease Rate



Data Source: Colliers International U.S. Real Estate Review 2004.
 Note: Lease rates are per square foot per month NNN.

- Former Military Installations** — The Sacramento Region offers three major privatized military installations, each with their own unique aspects and incentives: McClellan Park, Mather Park and Depot Business Park. McClellan Park offers a variety of industrial, larger hangar, and office space opportunities, in addition to an airstrip. As a former Strategic Air Command facility, Mather Park offers land and buildings for office and light manufacturing uses, and an 11,000 foot long runway for corporate jets and cargo-related uses. The Depot Business Park has several million square feet of rehabilitated warehouse and manufacturing space just southeast of downtown Sacramento.
- Access to Resources** — Located at the confluence of the Sacramento and American Rivers, the region has access to commercial quantities of water at an affordable cost.
- Affordable Living** – The Sacramento Region enjoys a high quality of life at a relatively low cost. The variety of housing options for employees creates a very positive business environment for companies that are searching for employees of all skill levels.

- Access to Major Markets** – Located at the “heart” of the state, the Sacramento Region offers quick access to the largest markets in California and the western United States. Los Angeles is roughly 400 miles south on Interstate 5, and the San Francisco Bay Area is roughly 80 miles southwest and can be accessed through several routes.

Largest Manufacturers in the Sacramento Region

Company	Employees
Intel Corporation	6,500
Hewlett-Packard	4,500
PRIDE Industries	4,000
Teichert Construction and Teichert Materials	2,300
McClatchy Co. (<i>The Sacramento Bee</i>)	2,000
Aerojet/Gencorp	1,413
DST Output	1,300
NEC Electronics	700
Agilent Technologies	621

Sacramento Regional Research Institute, March 2004. Data Source: Listed companies.

Note: When seasonal employment affected the employment totals, the highest employment during the year was used.

Figure 28 – Industrial Lease Rates in Western United States Metropolitan Areas

Monthly Average Industrial Lease Rate



Data Source: Colliers International U.S. Real Estate Review 2004. Note: Lease rates are per square foot per month NNN.

Future Strengths of the Industrial Market

- Due to high costs and geographic boundaries of the coast, the entire Central Valley of California will be the fastest-growing region in California for the next several decades. Direct access to the “California” markets, as well as the need to locate in a cost effective major metropolitan area, leads companies to the Sacramento Region.
- California has led the way in scientific and technological innovation, and the epicenter of that innovation and investment has been the San Francisco Bay Area. Many research efforts are now turning into commercial products, and the Sacramento Region is benefiting from the real estate requirements for manufacturing and development, as well as further cost effective research efforts. The Sacramento Region also allows a proximity of comfort to many headquarters and investment sources in the Bay Area.
- Serving as home to UC Davis, CSU, Sacramento, and several community colleges and private institutions, the Sacramento Region is becoming a source of cutting edge research and development. Demand for specialized “tech space” continues to grow.