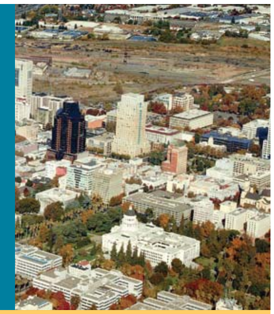

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Market Trends

	Change in Q3	Q4 Forecast
Lease Rates	↔	↑
Absorption	↑	↔
Direct Vacancy	↓	↓
Sublease Vacancy	↓	↔

Sacramento's Vacancy Decreases to 13.2%

The Sacramento Office market ended the third quarter 2005 with a vacancy rate of 13.2%. The vacancy rate was down over the previous quarter, with net absorption totaling positive 860,402 square feet in the third quarter. Vacant sublease space increased in the quarter, ending the quarter at 656,290 square feet. Rental rates ended the third quarter at $21.63, an increase over the previous quarter. A total of 18 buildings delivered to the market in the quarter totaling 540,234 square feet.

ABSORPTION

Net absorption for the overall Sacramento office market was positive 860,402 square feet in the third quarter 2005. That compares to positive 1,005,796 square feet in the second quarter 2005, positive 247,261 square feet in the first quarter 2005, and positive 512,136 square feet in the fourth quarter 2004.

Tenants moving out of large blocks of space in 2005 include: State of California moving out of 30,391 square feet at 11093 Sun Center Dr.; River Oaks Center for Children moving out of 20,448 square feet at 1238 S St; and Pacific Bell moving out of 15,000 square feet at 1215 K St.

Tenants moving into large blocks of space in 2005 include: Ameriquest moving into 95,000 square feet at McCuen Center Two; First Data moving into 43,200 square feet at 5140 Dudley Blvd; and Nationwide Insurance moving into 41,300 square feet at 20 Bicentennial Circle.

FIGURE 1

Sacramento Office Market
Inventory, Vacancy, Construction and Absorption

	2004			2005		
	2nd Qtr	3rd Qtr	4th Qtr	1st Qtr	2nd Qtr	3rd Qtr
Total Inventory	66,401,342	66,847,531	67,120,272	67,400,484	67,994,928	68,029,348
Total Vacancy	9,359,572	10,070,182	9,784,125	9,829,764	9,185,559	8,340,754
Total Vacancy Percent	14.1%	15.1%	14.6%	14.6%	13.5%	13.2%
Deliveries	301,845	446,189	266,971	280,212	361,177	540234
Net Absorption (Growth)	503,461	-263,937	558,798	234,573	968,362	860,402

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The Class-A office market recorded net absorption of positive 226,228 square feet in the third quarter 2005, compared to positive 176,265 square feet in the second quarter 2005, positive 150,925 in the first quarter 2005, and positive 216,375 in the fourth quarter 2004.

The Class-B office market recorded net absorption of positive 530,574 square feet in the third quarter 2005, compared to positive 603,146 square feet in the second quarter 2005, positive 142,132 in the first quarter 2005, and positive 243,285 in the fourth quarter 2004.

The Class-C office market recorded net absorption of positive 103,600 square feet in the third quarter 2005 compared to positive 226,385square feet in the second quarter 2005, negative (45,796) in the first quarter 2005, and positive 52,476 in the fourth quarter 2004.

Net absorption for Sacramento's central business district was positive 164,272 square feet in the third quarter 2005. That compares to positive 155,416 square feet in the second quarter 2005, negative (25,008) in the first quarter 2005, and positive 44,387 in the fourth quarter 2004.

Net absorption for the suburban markets was positive 705,609 square feet in the third quarter 2005. That compares to positive 866,019 square feet in second quarter 2005, positive 270,215 in the first quarter 2005, and positive 483,035 in the fourth quarter 2004.

VACANCY

The office vacancy rate in the Sacramento market area decreased to 13.2% at the end of the third quarter 2005. The vacancy rate was 13.8% at the end of the second quarter 2005, 14.8% at the end of the first quarter 2005, and 14.8% at the end of the fourth quarter 2004.

Class-A projects reported a vacancy rate of 16.0% at the end of the third quarter 2005, 15.9% at the end of the second end of the third quarter 2005, 15.9% at the end of the second quarter 2005, 16.5% at the end of the first quarter 2005, and 16.4% at the end of the fourth quarter 2004.

Class-B projects reported a vacancy rate of 13.8% at the end of the third quarter 2005, 15.0% at the end of the second quarter 2005, 16.5% at the end of the first quarter 2005, and 16.9% at the end of the fourth quarter 2004.

Class-C projects reported a vacancy rate of 10.7% at the end of the third quarter 2005, 11.1% at the end of second quarter 2005, 12.0% at the end of the first quarter 2005, and 11.9% at the end of the fourth quarter 2004.

The overall vacancy rate in Sacramento's central business district at the end of the third quarter 2005 decreased to 11.2%. The vacancy rate was 12.5% at the end of the second quarter 2005, 13.8% at the end of the first quarter 2005, and 13.6% at the end of the fourth quarter 2004.

The vacancy rate in the suburban markets decreased to 13.6% in the third quarter 2005. The vacancy rate was 13.9% at the end of the second quarter 2005, 14.9% at the end of the first quarter 2005, and 15.0% at the end of the fourth quarter 2004.

LARGEST LEASE SIGNINGS

The largest lease signings occurring in 2005 included: the 200,310 square foot lease signed by State of California Department of Consumer Affairs at 1625 N Market Blvd; the 88,734-square foot deal signed by FDI Collateral Management at 9750 Goethe Rd and the 63,500-square foot deal signed by Downey Brand Seymour & Rohwer at 621 Capitol Mall.

SUBLEASE VACANCY

The amount of vacant sublease space in the Sacramento market increased to 656,290 square feet by the end of the third quarter 2005, from 646,789 square feet at the end of the second quarter 2005. There was 762,918 square feet vacant at the end quarter 2005. There was 762,918 square feet vacant at the end of the first quarter 2005 and 721,083 square feet at the end of the fourth quarter 2004.

Sacramento's Class-A projects reported vacant sublease space of 390,920 square feet at the end of third quarter 2005, up from the 384,262 square feet reported at the end of the second quarter 2005. There were 405,860 square feet of sublease space vacant at the end of the first quarter 2005, and 374,345 square feet at the end of the fourth quarter 2004.

Class-B projects reported vacant sublease space of 219,205 square feet at the end of the third quarter 2005, up from the 168,351 square feet reported at the end of the second quarter 2005. At the end of the first quarter 2005 there were 221,867 square feet, and at the end of the fourth quarter 2004 there were 218,300 square feet vacant.

Class-C projects reported decreased vacant sublease space from the second quarter 2005 to the third quarter 2005. Sublease vacancy went from 94,176 square feet to 46,165square feet during that time. There was 135,191 square feet at the end of the first quarter 2005, and 128,438 square feet at the end of the fourth quarter 2004.

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Select Top Sales

1325 J Street
Sale Price: $66,000,000

1504-1512 Eureka Road
Sale Price: $38,000,000

3721 Douglas Boulevard
Sale Price: $25,000,000

FIGURE 3

Sacramento Office Market
2005 Top Office Sales (YTD)

	Building Name Building Address	Submarket	Building Size (sf)	Sale Price Sale Price PSF	Cap Rate
1.	11000-11090 White Rock Road	Rancho Cordova	528,793	$69,500,000 $131.43	5.72%
2.	1325 J Street	Downtown	325,164	$66,000,000 $202.97	Not Available
3.	400-500 R Street	Downtown	215,000	$44,000,000 $204.65	Not Available
4.	Eureka Corporate Plaza 1501-1512 Eureka Road	Roseville/Rocklin	142,862	$38,000,000 $265.99	7.59%
5.	Olympus Corporate Center 3001-3013 Douglas Blvd.	Roseville/Rocklin	202,400	$38,000,000 $187.75	6.7%
6.	Progressive Corporate Center 10940 White Rock Road	Highway 50	159,760	$31,800,000 $199.05	Not Available
7.	Point West Corporate Plaza I&II-1425-1435 River Park Dr	Sacramento	161,454	$30,100,000 $186.43	7.81%
8.	Summit at Douglas Ridge 3721 Douglas Blvd.	Roseville/Rocklin	92,941	$25,000,000 $268.99	7.86%
9.	Crown Corporate Center-2860 Gateway Oaks Dr, Bldg A	South Natomas	117,139	$24,000,000 $204.88	8.0%
10.	South Bradshaw Business Park 9800-9838 Old Placerville Rd.	Highway 50	279,869	$23,500,000 $83.97	Not Available
11.	Prospect West Business Park 2882 Prospect Park Dr-A	Highway 50	111,007	$20,400,000 $183.77	7.5%
12.	The Summitt at Douglas Ridge-3741 Douglas Blvd.	Roseville	97,000	$18,650,000 $192.27	Not Available
13.	Eureka Corporate Center 1544 Eureka Rd	Roseville/Rocklin	51,367	$14,000,000 $272.55	7.86%
14.	Capitol Legal Center 906 G Street	Downtown	51,411	$13,700,000 $266.48	8.05%
15.	Broadstone Business Center 80 Iron Point Circle	Folsom	60,000	$12,380,000 $206.33	7.3%
16.	Prospect West 3046-3078 Prospect Park Dr.	Highway 50	101,083	$12,100,000 $119.70	8.7%
17.	Mather Business Center	Highway 50	129,616	$11,200,000 $86.41	6.5%
18.	Prospect Park 3065 Gold Camp Dr.	Highway 50	62,957	$11,190,000 $177.74	10.5%
19.	Plaza De Oro 2901-2951 Sunrise Blvd.	Highway 50	75,464	$10,500,000 $139.14	7.0%
20.	9835 Goethe Rd.		52,958	$10,315,000 $194.78	7.25%

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FIGURE 2

Sacramento Office Market
2000 to 2005 Average Sale Price and Cap Rates

	2000	2001	2002	2003	2004	2005 (YTD)
Average Sale Price	$2,198,905	$2,550,653	$2,368,664	$4,224,815	$3,671,751	$9,984,881.33
Average Cap Rate	9.46%	9.40%	9.17%	8.50%	7.66%	7.17%
Average Price PSF	$109.95	$117.24	$122.41	$150.36	$155.65	$178.53

Sublease vacancy in Sacramento's central business district stood at 74,400 square feet at the end of the third quarter 2005. It was 74,867 square feet at the end of the second quarter 2005, 74,286 square feet at the end of the first quarter 2005, and 73,287 square feet at the end of the fourth quarter 2004.

Sublease vacancy in the suburban markets ended the third quarter 2005 at 587,890 square feet. At the end of the second quarter 2005 sublease vacancy was 571,922 square feet, was 699,632 square feet at the end of the first quarter 2005, and was 647,796 square feet at the end of the fourth quarter 2004.

RENTAL RATES

The average quoted asking rental rate for available office space, all classes, was $21.30 per-square-foot per year at the end of the third quarter 2005 in the Sacramento market area. This represented a $.01 decrease in quoted rental rates from the end of the second quarter 2005, when rents were reported at $21.31 per-square-foot.

The average quoted rate within the Class-A sector was $24.46 at the end of the third quarter 2005, while Class-B rates stood at $20.55, and Class-C rates at $18.59. At the end of the second quarter 2005, Class-A rates were $24.67 per-square-foot, Class-B rates were $20.27, and Class-C rates were $18.54.

The average quoted asking rental rate in Sacramento's CBD was $24.02 at the end of the third quarter 2005, and $20.67 in was $24.02 at the end of the third quarter 2005, and $20.67 in the suburban markets. In the second quarter 2005, quoted rates were $24.02 in the CBD and $20.57 in the suburbs.

DELIVERIES AND CONSTRUCTION

During the third quarter 2005, 18 buildings totaling 504,234 square feet were completed in the Sacramento market area. This compares to 15 buildings totaling 360,272 square feet that were completed in the second quarter 2005, 13 buildings totaling 268,212 square feet completed in the first quarter 2005, and 320,571 square feet in 13 buildings completed in the fourth quarter 2004.

There were 1,168,718 square feet of office space under construction at the end of the third quarter 2005 YTD.

Some of the notable 2005 deliveries include: 915 Highland Pointe Dr, a 118,000-square-foot facility that delivered in third quarter 2005 and is 0% occupied, and 3127 Transworld Dr, a 110,588-square-foot building that delivered in third quarter 2005 and is also 0% occupied.

The largest projects underway at the end of third quarter 2005 were R Street Project, a 550,000-square-foot building with 95% of its space pre-leased, and 8945 Cal Center Dr, a 198,000- square-foot facility that is 78% pre-leased.

INVENTORY

Total office inventory in the Sacramento market area amounted to 68,029,348 square feet in 2,173 buildings as of the end of the third quarter 2005. The Class-A office sector consisted of 17,925,511 square feet in 175 projects. There were 644 Class-B buildings totaling 24,600,505 square feet, and the Class-Csector consisted of 25,503,332 square feet in 1,354 buildings. Within the Office market there were 227 owner-occupied buildings accounting for 5,936,653 square feet of office space.

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Atlanta, GA
Austin, TX
Bakersfield, CA
Baltimore, MD
Beachwood, OH
Bellevue, WA
Boca Raton, FL
Boise, ID
Boston, MA
Carlsbad, CA
Charleston, SC
Charlotte, NC
Chicago, IL
Cincinnati, OH
Clearwater, FL
Cleveland, OH
Columbia, SC
Dallas/Ft. Worth, TX
Dayton, OH
Denver, CO
Detroit, MI
Fairfield, CA
Fort Myers, FL
Fresno, CA
Ft. Lauderdale, FL
Gilroy, CA
Greenville, SC
Hartford, CT
Honolulu, HI
Houston, TX
Indianapolis, IN
Jacksonville, FL
Kansas City, MO
Las Vegas, NV
Los Angeles, CA
Louisville, KY
Memphis, TN
Miami, FL
Milwaukee, WI
Minneapolis, MN
Nashville, TN
New Haven, CT
New Jersey, NJ
New York, NY
Oakland, CA
Ogden, UT
Orlando, FL
Palo Alto, CA
Park City, UT
Philadelphia, PA
Phoenix, AZ
Pittsburgh, PA
Pleasanton, CA
Plymouth Meeting, PA
Portland, OR
Provo, UT
Raleigh, NC
Reno, NV
Roseville, CA
Sacramento, CA
Salt Lake City, UT
San Diego, CA
San Francisco, CA
San Jose, CA
San Mateo, CA
Scottsdale, AZ
Seattle, WA
St. Charles, MO
St. George, UT
St. Louis, MO
St. Paul, MN
Stamford, CT
Stockton, CA
Sun Valley, ID
Tacoma, WA
Tampa, FL
Walnut Creek, CA
Washington, DC
Wilmington, DE

SALES ACTIVITY

Tallying office building sales of 15,000 square feet or larger, Sacramento office sales figures rose during the second quarter 2005 in terms of dollar volume compared to the first quarter of 2005.

In the second quarter, 22 office transactions closed with a total volume of $289,727,500. The 22 buildings totaled 1,748,226 square feet and the average price per square foot equated to $165.73 per square foot. That compares to 16 transactions totaling $174,856,000 in the first quarter 2005. The total square footage in the first quarter was 1,198,142 square feet for an average price per square foot of $145.94.

Total office building sales activity in 2005 was up compared to 2004. In the first six months of 2005, the market saw 38 office sales transactions with a total volume of $464,583,500. The price per square foot averaged $157.68. In the same first six months of 2004, the market posted 33 transactions with a total volume of $332,552,000. The price per square foot averaged $146.34.

Cap rates have been lower in 2005, averaging 7.81% compared to the same period in 2004 when they averaged 8.07%.

One of the largest transactions that occurred recently in the Sacramento market is the sale of 1325 J St in Sacramento. This 325,164 square foot office building sold for $66,000,000, or $202.97 per square foot. The property sold on 6/13/2005. *(Data Source: CoStar)*

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Class	Bldgs	Total Invetory Sq. Ft.	Direct Vacant Sq. Ft.	Direct Vacancy Rate	Sublease Vacant Sq. Ft.	Sublease Vacancy Rate	Occupied Space Sq. Ft.	Occupied Space Rate	Total Vacancy Rate 3rd Period	Total Vacancy Rate Prior Period	Net Absorption Sq. Ft. 3rd Period	Net Absorption YTD-Sq. Ft.	New Supply Sq. Ft. 3rd Period	New Supply Sq. Ft. YTD	Under Construction Sq. Ft. 3rd Period	Proposed Sq. Ft. Prior Period	Avg Rental Rate
Existing Properties											Absorption		New Suppy		UC / Proposed		Avg Rent
DOWNTOWN																	
A	23	5,423,374	660,323	12.2%	60,778	1.1%	4,702,273	86.7%	13.3%	12.7%	-33,437	13,454	0	0	0		$2.28
B	51	3,548,861	361,484	10.2%	7,622	0.2%	3,179,755	89.6%	10.4%	15.0%	161,592	222,764	0	0	0		$1.78
C	175	3,275,638	276,141	8.4%	6,000	0.2%	2,993,497	91.4%	8.6%	9.7%	36,117	58,462	0	0	0		$1.51
Total	**249**	**12,247,873**	**1,297,948**	**11**	**74,400**	**0.6%**	**10,875,525**	**88.8%**	**11.2%**	**12.5%**	**164,272**	**294,680**	**0**	**0**	**0**	**0**	**$2.00**
SELECT SUBURBAN MARKETS																	
FOLSOM																	
A	19	1243781	95053	7.6%	51914	4.2%	1,096,814	88.2%	11.8%	13.5%	21,126	94,876	0	0	0		$1.83
B	55	1,895,586	220,096	11.6%	5,216	0.3%	1,670,274	88.1%	11.9%	11.0%	(17,352)	(11,050)	0	39,592	0		$2.05
C	51	857,863	199,283	23.2%	1,114	0.1%	657,466	76.6%	23.4%	28.5%	44,152	39,423	0	0	0		$1.80
Total	**125**	**3,997,230**	**514,432**	**12.9%**	**58,244**	**1.5%**	**3,424,554**	**85.7%**	**14.3%**	**15.6%**	**47,926**	**123,249**	**0**	**39,592**	**0**	**0**	**$5.69**
HIGHWAY 50																	
A	40	3,762,841	360,712	9.6%	132,080	3.5%	3,270,049	86.9%	13.1%	14.0%	34,422	52,657	0	0	0		$1.64
B	110	5,596,220	840,323	15.0%	100,152	1.8%	4,655,745	83.2%	16.8%	17.3%	84,558	386,832	66,000	114,000	0		$1.50
C	170	3,632,769	530,613	14.6%	17,746	0.5%	3,084,410	84.9%	15.1%	12.3%	(101,266)	(39,585)	0	0	0		$1.46
Total	**320**	**12,991,830**	**1,731,648**	**13.3%**	**249,978**	**1.9%**	**11,010,204**	**84.7%**	**15.3%**	**15.0%**	**17,714**	**399,904**	**66,000**	**114,000**	**0**	**0**	**$1.51**
NATOMAS/NORTHGATE																	
A	3	289,014	73,045	25.3%	16,230	5.6%	199,739	69.1%	30.9%	54.7%	68,895	72,465	0	0	0		$1.95
B	28	1,136,765	319,252	28.1%	12,644	1.1%	804,869	70.8%	29.2%	34.3%	82,709	213,088	45,188	45,188	0		$1.49
C	19	615,010	97,398	15.8%	0	0.0%	517,612	84.2%	15.8%	12.7%	(19,388)	(2,040)	0	0	0		$1.39
Total	**50**	**2,040,789**	**489,695**	**24.0%**	**28,874**	**1.4%**	**1,522,220**	**74.6%**	**25.4%**	**30.6%**	**132,216**	**283,513**	**45,188**	**45,188**	**0**	**0**	**$1.48**
ROSEVILLE/ROCKLIN																	
A	43	3,009,350	556,560	18.5%	95,855	3.2%	2,356,935	78.3%	21.7%	17.6%	116,465	302,845	289,000	238,900	95,000		$2.13
B	152	3,515,150	227,520	6.5%	15,004	0.4%	3,272,626	93.1%	6.9%	7.5%	46,356	218,414	41,957	109,622	39,695		$2.05
C	108	1,858,635	146,043	7.9%	2,214	0.1%	1,710,378	92.0%	8.0%	9.6%	30,197	32,663	0	0	0		$1.76
Total	**303**	**8,383,135**	**930,123**	**11.1%**	**113,073**	**1.3%**	**7,339,939**	**87.6%**	**12.4%**	**11.4%**	**193,018**	**553,922**	**330,957**	**348,522**	**134,695**	**0**	**$2.06**
SUBURBAN TOTAL																	
A	152	12,502,137	1,810,333	14.5%	330,142	2.6%	10,361,662	82.9%	17.1%	17.3%	259,665	539,964	289,000	569,000	95,000		$1.93
B	602	21,153,596	2,806,559	13.3%	211,583	1.0%	18,135,454	85.7%	14.3%	14.9%	380,278	1,062,341	258,402	618,886	39,695		$1.70
C	1,216	22,772,545	2,450,940	10.8%	40,165	0.2%	20,281,440	89.1%	10.9%	11.2%	65,666	239,538	0	0	0		$1.55
Total	**1,970**	**56,428,278**	**7,067,832**	**12.5%**	**581,890**	**1.0%**	**48,778,556**	**86.4%**	**13.6%**	**13.9%**	**705,609**	**1,841,843**	**547,402**	**1,187,886**	**134,695**	**0**	**$1.72**
GRAND TOTAL																	
A	175	17,925,511	2,470,656	13.8%	390,920	2.2%	15,063,935	84.0%	16.0%	15.9%	226,228	553,418	289,000	569,000	95,000		$2.04
B	644	24,600,505	3,177,529	12.9%	219,205	0.9%	21,203,771	86.2%	13.8%	15.0%	530,574	1,275,852	251,234	599,718	39,695		$1.71
C	1,354	25,503,332	2,692,569	10.6%	46,165	0.2%	22,764,598	89.3%	10.7%	11.1%	103,600	284,189	0	0	0		$1.55
Total	**2,173**	**68,029,348**	**8,340,754**	**12.3%**	**656,290**	**1.0%**	**59,032,304**	**86.8%**	**13.2%**	**13.8%**	**860,402**	**2,113,459**	**540,234**	**1,168,718**	**134,695**	**0**	**$1.78**