INDEPENDENT MARKET RESEARCH REPORT

An independent review of office markets
As of January 1, 2020

United States Office Market

and

The Sacramento, CA Market

Prepared For:

DBS Trustee Limited (In Its Capacity As The Trustee Of Prime US REIT)
12 Marina Boulevard Level 44
Marina Bay Financial Centre Tower 3
Singapore 018982

And

KBS US Prime Property Management Pte. Ltd. (in its capacity as Manager of Prime US REIT)
1 Raffles Place
#40-01 One Raffles Place
Singapore 048616

Prepared By:

Cushman & Wakefield Western, Inc.
Valuation & Advisory
400 Capitol Mall, Suite 1800
Sacramento, CA 95814
Cushman & Wakefield File ID: 20-38032-900095-001

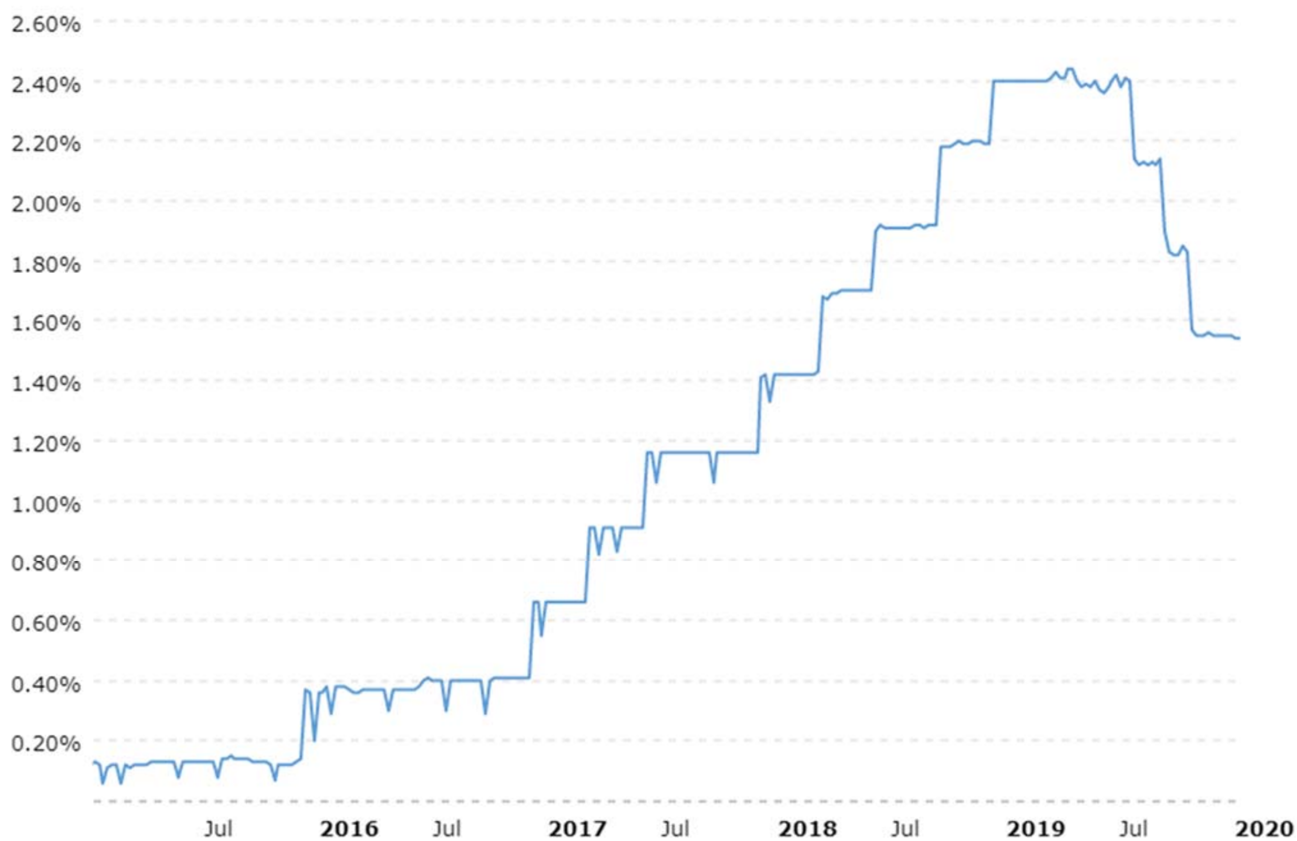
Table of Contents

National Overview – United States of America

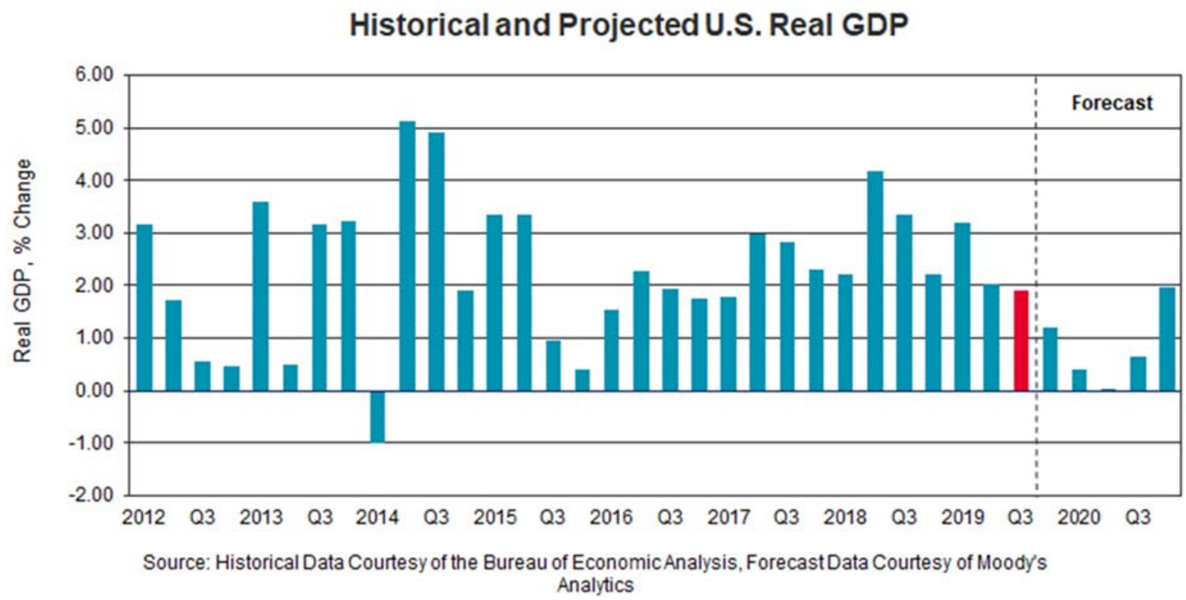
Overview

The current U.S. economic expansion cycle is over a decade old, and is by general consent a strong economy and getting stronger. Despite this, interest rates, which help determine the cost of borrowing money for investments, have lingered near historic lows since the 2008 recession. Interest rates went unchanged through December 2015, when the Federal Reserve increased the rate for the first time in almost a decade. Now that more tariffs have been implemented on trade and inventories, the Federal Reserve Chairman Jerome Powell is more open to cutting rates based on how the economy responds to the new trade deals made in the past year.

In December 2016, the Federal Reserve raised its interest rates by a quarter of a point, to a range between 0.5% and 0.75%, and has since increased seven more times, each by 0.25 points. The current range is between 2.25% and 2.5% following the most recent hike in December 2018. All signs in the economy point to continued growth over the near-term. In the Federal Reserve's March 2019 meeting, it was indicated that there will be no hikes in 2019. One of the Federal Reserve's key objectives is to keep inflation low. Because inflation is already low, there is little reason for the Fed to raise interest rates. However, rates were cut in July 2019 for the first time since 2008 and again in September 2019 and November 2019. The current federal funds rate as of September 30, 2019 was 1.9%.



The following graph displays historical and projected U.S. real GDP percentage change (annualized on a quarterly basis) from first quarter 2012 through fourth quarter 2020 (red bar highlights the most recent quarter available - 19Q3):

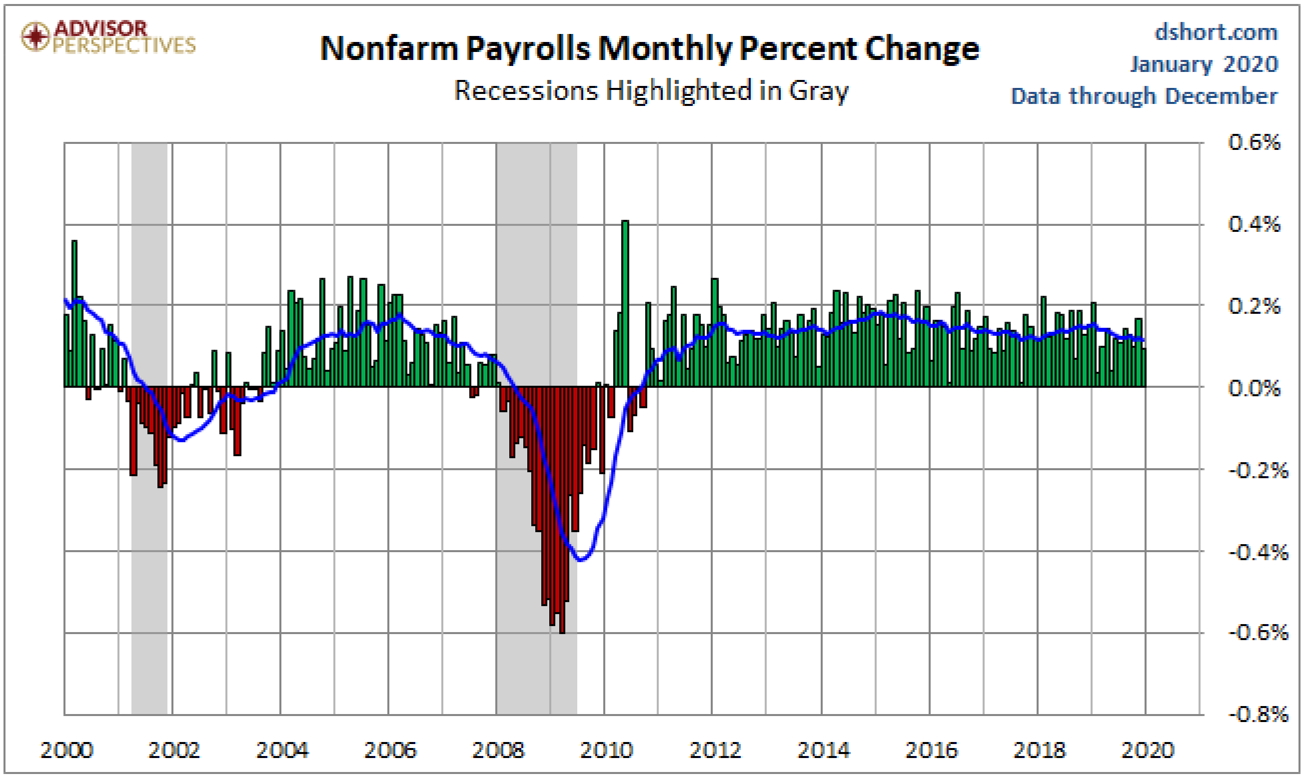


Further points regarding current economic conditions are as follows:

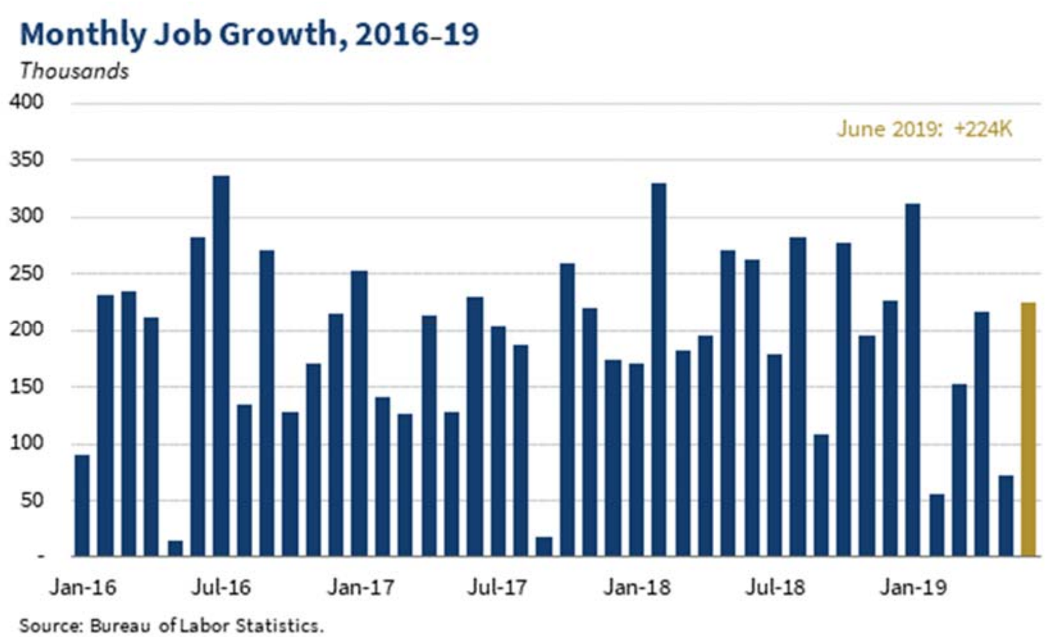
- Gross domestic product grew by an annualized rate of 1.9% in the third quarter, falling slightly from the 2.1% growth rate seen in the second quarter of the year, but still continued on its long steady growth path. Economists forecast continued economic expansion through 2021, despite the acceleration of the U.S.-China trade war. The National Association for Business Economics forecasts 2.3% GDP growth in 2019 and the Urban Land Institute's annual forecast survey expects the economy to grow 1.9% in 2021. GDP correlates strongly with the commercial real estate sector, so a strong economy indicates strong support for our business going forward.
- Commercial and multifamily mortgage loan originations increased 24% in third quarter 2019 (latest data available) when compared to the same period in 2018, according to the Mortgage Bankers Association's Quarterly Survey of Commercial/Multifamily Mortgage Banker. Low interest rates are the cause for increased commercial and multifamily borrowing and lending and should lead to continued support into 2020.
- Commercial mortgage-backed securities (CMBS) have been spurred by measured investment sales activity and stable credit spreads. Commercial Mortgage Alert data indicates that U.S. CMBS issuance in first nine months of 2019, at $57.9 billion, was 0.7% lower when compared to CMBS issuance during the same period in 2018. Issuance is likely to fall on an annual basis in 2019 due to market volatility and heightened competition.

Business Trends

The U.S. economy entered 2019 with very strong fundamentals and a lot of momentum. The latest economic data—on consumer spending, global trade, various manufacturing indices, and other metrics—send a clear signal that the U.S. economy is poised for moderate growth. In addition, the labor market continue to crank out new jobs. In September 2019, the U.S. economy created 136,000 new nonfarm payroll jobs, leaving the unemployment rate at 3.5%. The unemployment rate peak for the current cycle was 10.0% in October 2009. Significantly, the economic expansion also became more broad-based in 2018, with both emerging economies and advanced economies growing in unison. Nearly 80% of the world is now sharing in this acceleration. The Baltic Dry Index—a reliable proxy of global trade—is hovering at its highest level in three years.

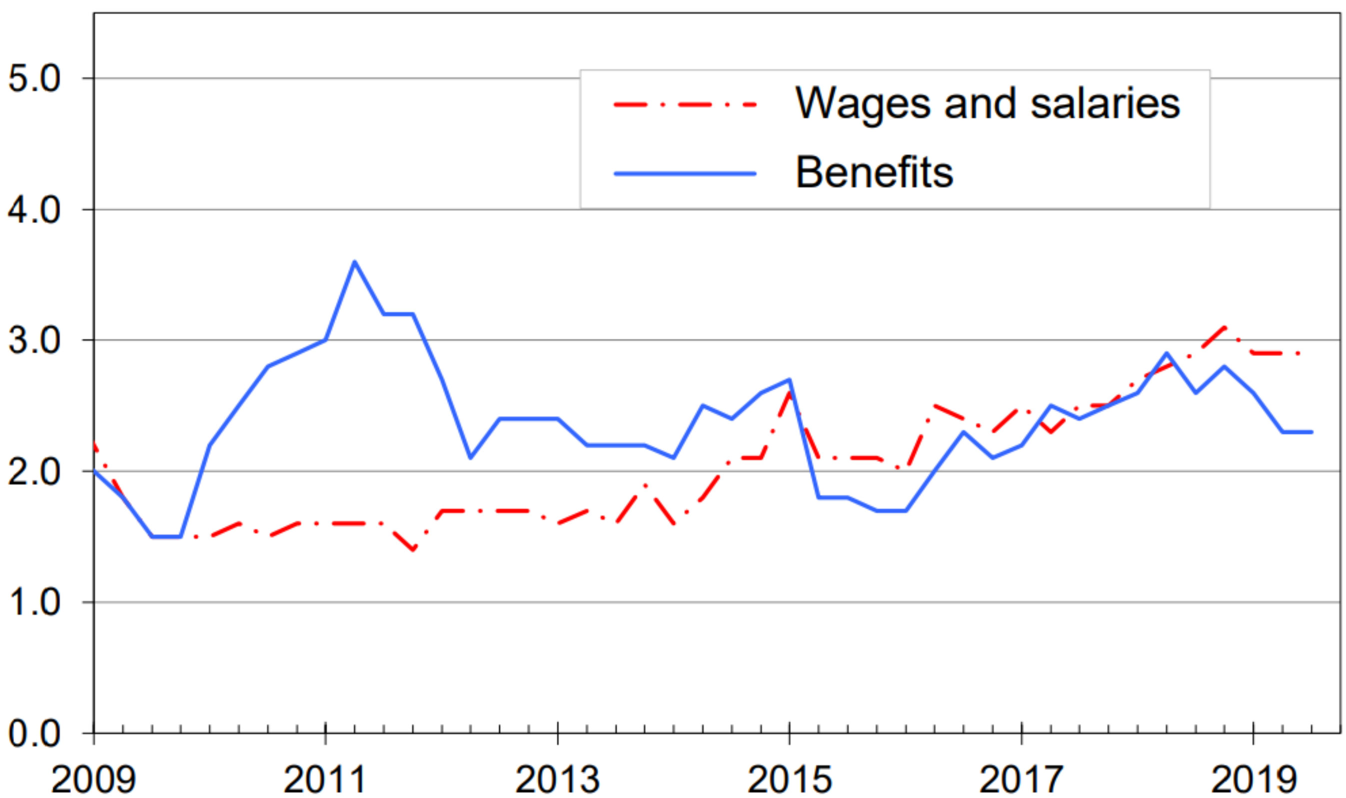


The labor market is one of the largest risk factors to the commercial real estate outlook. The U.S. economy generated 2.6 million jobs in 2018—a seventh consecutive year of at least 2 million job gains—but a clear deceleration from the 2.9 million in 2015. Based on the job openings data, demand for labor remains very robust. Demand is not the issue; finding labor talent is. The unemployment rate in September 2019 was 3.5% —below what most consider the level of full employment, estimated at 5%.



The U-6 measure—known as underemployment—ended 2018 at 7.5% and as of September 2019, it was 6.9%. These rates are among the lowest for the last 50 years. The NFIB reports that businesses are having the most difficult time filling positions since 2000. Wage pressures are also forming. The employment cost index increased by 2.8% as of September 2019 and is expected to continue to accelerate.

Source: Bureau of Labor Statistics

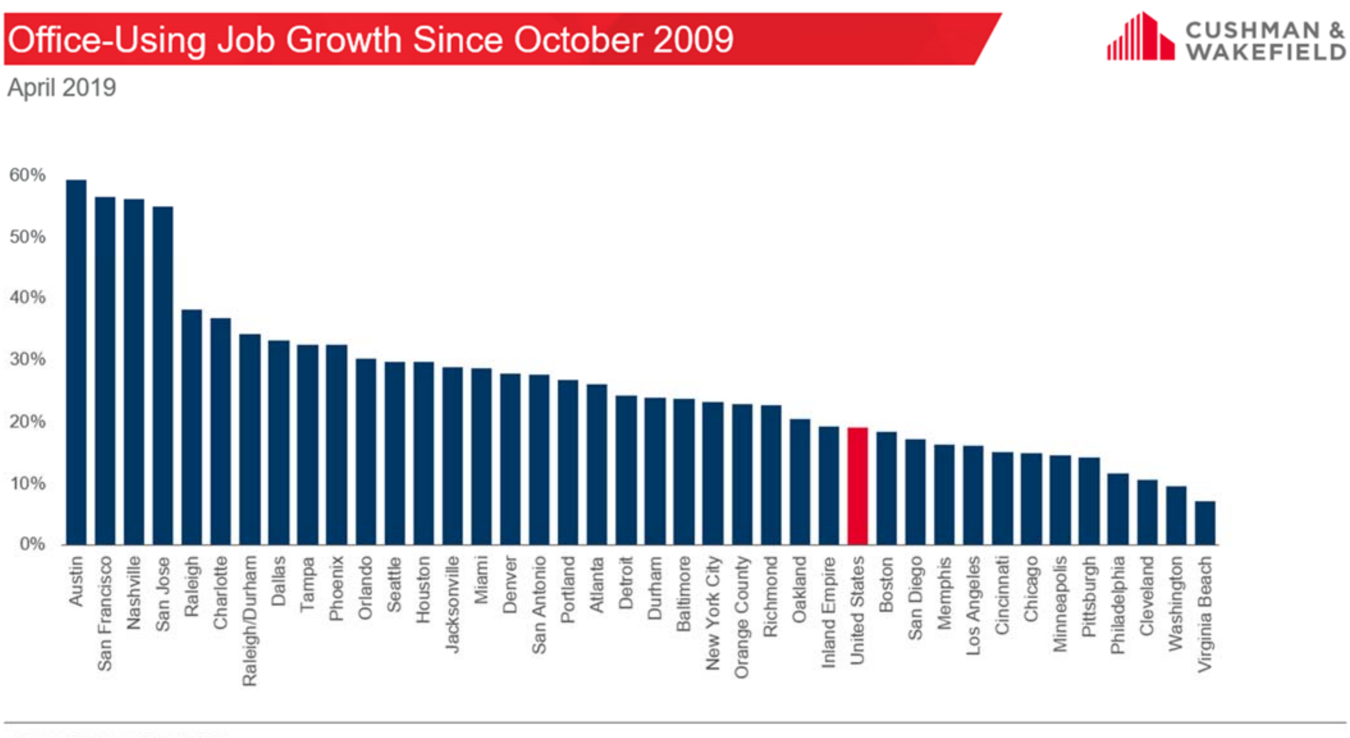


Source: Bureau of Labor Statistics

Labor Markets

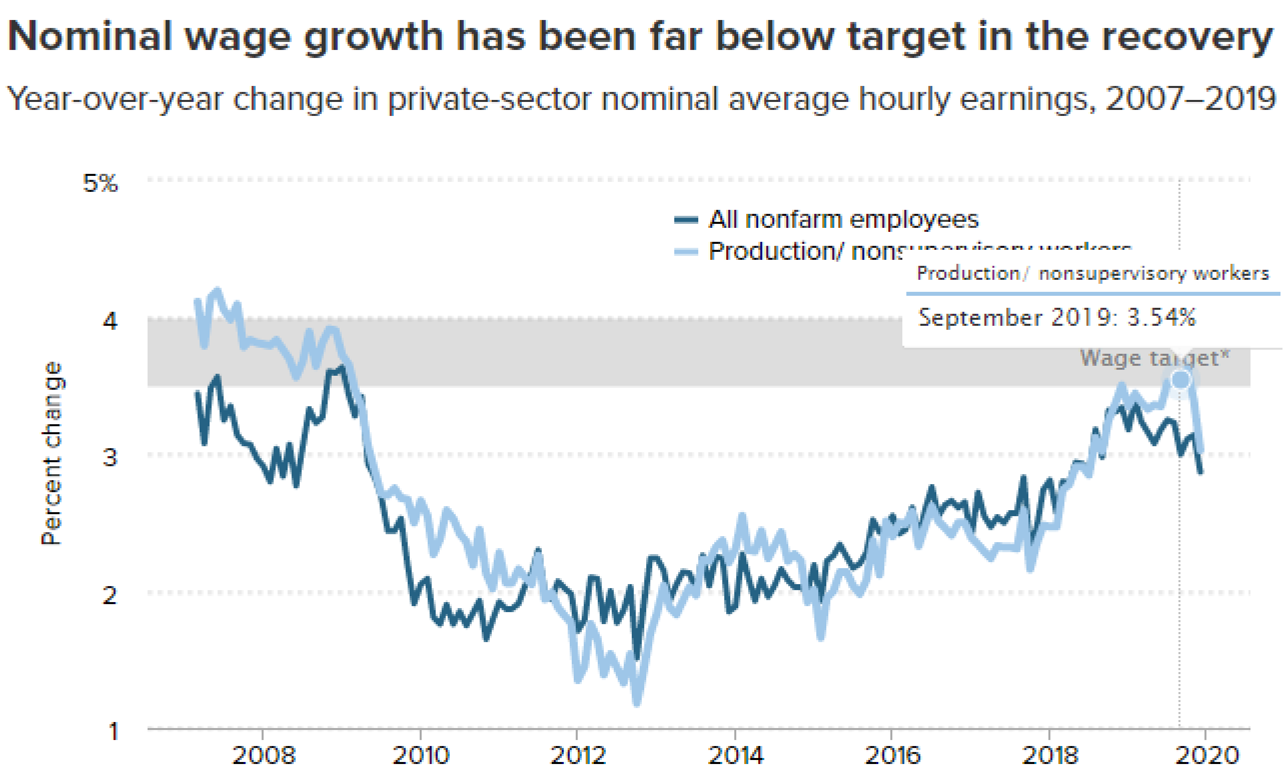
- With unemployment at record lows and wages rising, the cost of labor will increase impacting profitability.
- The cost to build out office space has gone up, along with soft construction costs likely to increasing as well.
- Labor shortages abound. Where and how you build-out your space has never been more important in recruiting talent.
- Finding experienced construction workers will become increasingly difficult.
- Higher wage inflation may lead to prohibitively higher construction costs, which will slow the future supply pipeline.
- Labor shortages will inevitably take a toll on job growth; at some point you run out of people to hire.
- But, wage growth is also a positive; boosts consumer spending, feeds profitability, then more jobs and more demand for space.

Throughout the current economic expansion, technology-driven local economies have performed well. There did appear to be a slowing recently, but in light of the new benchmark revisions, job growth in such bellwether metros as San Francisco and Austin remained healthy. In addition, employment in several demographically driven metro areas like Phoenix and Atlanta also appears to have picked up. Meanwhile, some Northern cities like Boston, Chicago and New York did not add jobs quite as rapidly as first estimated.



Unemployment

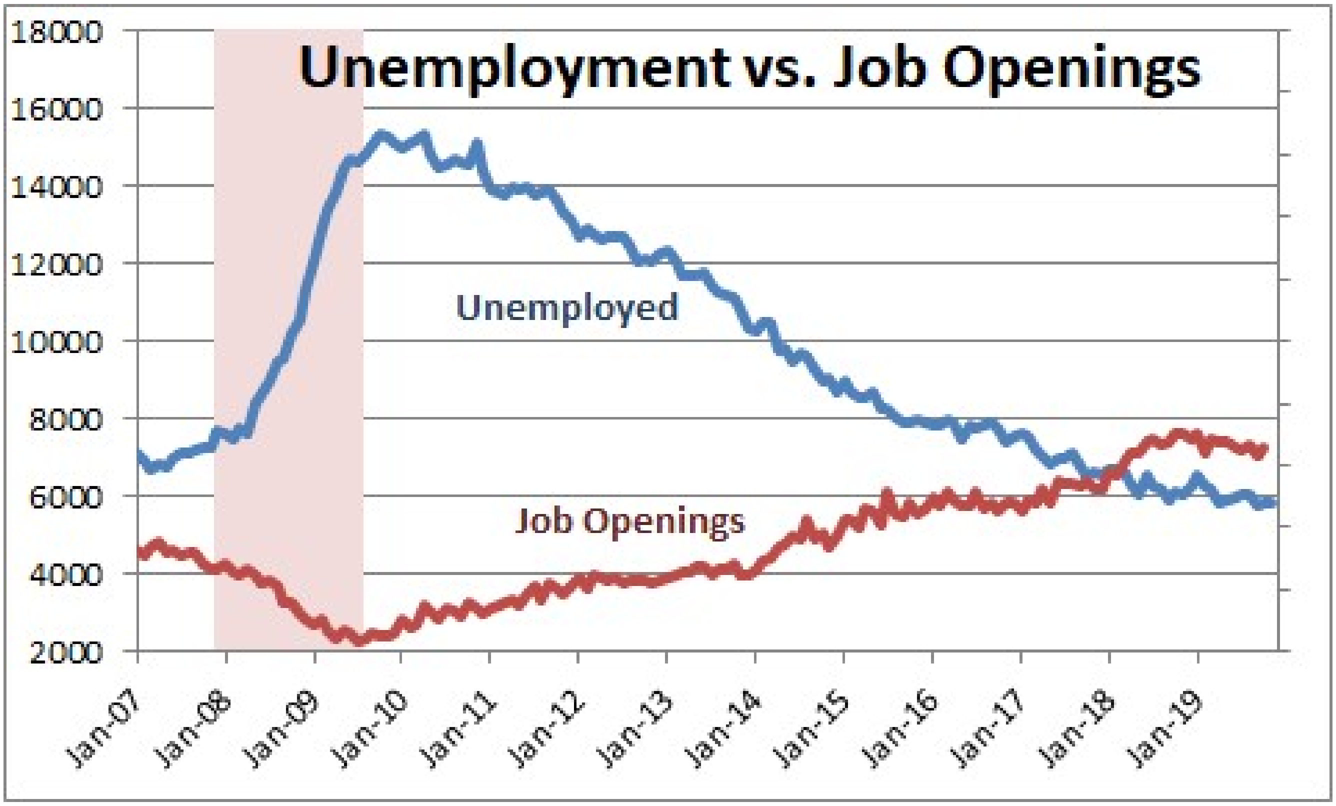
The unemployment rate held steady at 3.5% in September 2019, the lowest unemployment rate since December 1969, according to the Bureau of Labor Statistics' (BLS) household survey. July also marks the 19th consecutive month of the unemployment rate being at or below 4 percent. This labor market tightness is boosting wages, but slowly. In September, wages continued to grow as well. Nominal average hourly earnings rose 3.0 percent over the past 12 months, marking the 12th straight month that year-over-year wage gains were at or above 3.0 percent. Prior to 2018, nominal average hourly wage gains had not reached 3 percent in over 10 years (since April 2009). These trends are clearly depicted in the following graphic.



The following chart shows that the labor participation rate edged down over the past decade, meaning there were fewer people in the civilian labor force, but remaining relatively steady since 2015. The US Labor Participation Rate is at a very low point since 1997 because so many workers have left the work force (whether for age, job training, etc.). The expectation is that as the economy continues to grow, many of these people would come back into the work force relieving much of the pressure from the current low unemployment rate. According to the Federal Reserve Bank of Atlanta, half of the decline is due to the aging of America. These demographic changes affected the labor force even before the recession. As baby boomers reach retirement age, they leave the labor force. Others stay home to care for ailing parents or spouses or claim disability themselves. Since they represent such a large percentage of the population, they have a major impact on the labor force participation rate. It's a big reason why it may never regain its past levels, no matter how strong the job market is.

Job Creation

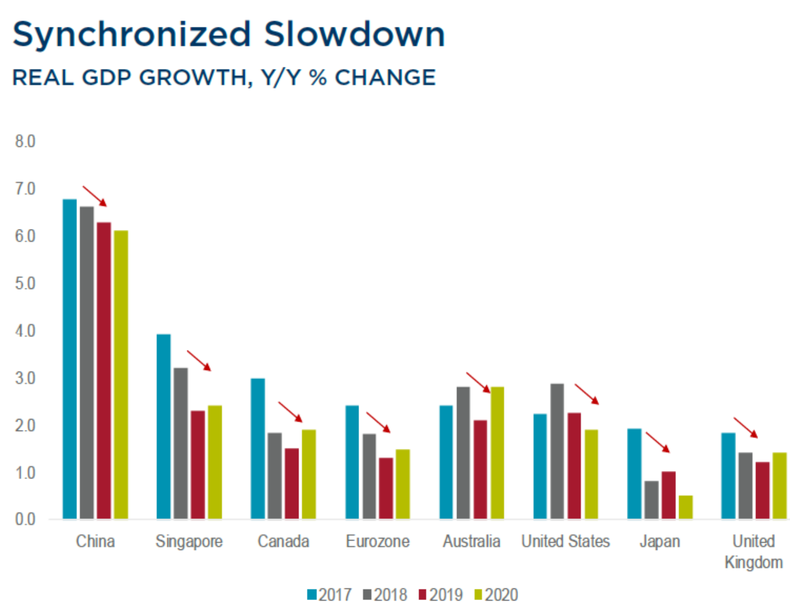
Job growth, a key metric for the commercial real estate sector remains strong. Since 2017, job gains have surpassed 100,000 jobs in 32 of the 35 months. The average job growth over the past 6 months is a healthy 192,000 jobs. Considering the unprecedented length of the expansion, job gains are strong. In September 2019, just over 5.8 million people were unemployed, compared with more than 14 million in July 2009 at the beginning of the economic expansion. Given low unemployment, monthly job gains of this size indicate that the labor market is truly flourishing.



Source: U.S. Bureau of Labor Statistics

Political Climate

The current trade tensions between the U.S. and China have not started to have a material impact on growth. Businesses appear to be getting more cautious in their investment spending partly as a result of the economic uncertainty that the trade tensions have introduced.



Source: IMF, Cushman & Wakefield Research

The global economy has cooled and, by extension, so too have the property markets. The combination of fading fiscal stimulus in the U.S., escalating trade tensions, tighter credit policies in China, four rate hikes by the Federal Reserve in 2018 (followed by rate decreases in 2019) and Brexit uncertainty has contributed to the slowdown. Trade is slowing this year, as is investment and global consumption. Real global GDP is projected to grow by 3.6% in 2020, according to the International Monetary Fund—a still reasonably solid rate but slower than the 3.6% growth in 2018 and 3.2% growth in 2019. It feels much slower than the near-4% growth registered in 2017.

None of these developments are overly alarming or even fully unexpected. Slowdowns happen and many of these risks to the outlook have been on the horizon for some time. The U.S.-China trade dispute is a concern, but even on that front most would agree there are clear economic incentives for a speedy resolution. Importantly, the underlying economic fundamentals that drive demand for property remain healthy. Most notably, job growth remains steady. The global economy is tracking to create close to 29 million net new jobs this year. That will translate into 79,000 new jobs per day and another 250 million square feet (msf) of office absorption in markets around the world. We can double that figure on the industrial-logistics side. It is unlikely that businesses would be expanding at this rate if the global economy weren't still in reasonably good shape.

Implications for Commercial Real Estate

As the commercial real estate market's sales volume ticked up in the second quarter of 2019, the activity regressed during the third quarter. During this time, sales volume fell 6% to $151 billion when compared to the amount recorded during third quarter 2018, according to Real Capital Analytics. Third quarter of 2019 was the most active third quarter in history for single asset sales. The spike in the 10-Year Treasury Note in November and the fear that it would go higher persisted for some time into 2019. Even though the 10-Year Treasury Note has since fallen, commercial real estate investment has not returned to the pace of growth seen in 2018. Buyers and sellers can move apart on pricing expectations quickly, but it takes time to return to a set of expectations that can get deals done.

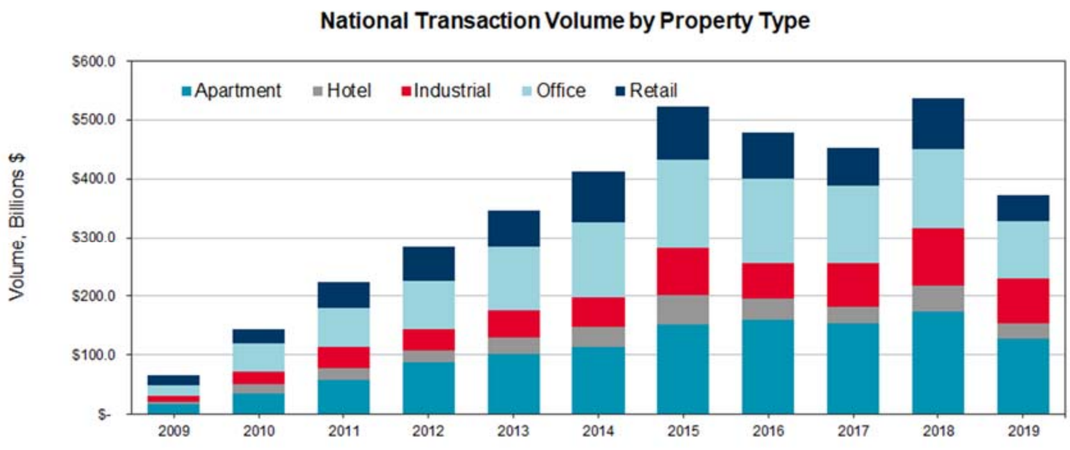
Across the property sectors with wider markets, the industrial sector was the leader for growth in activity in the third quarter. Sales were up 63% year-over-year, as GLP US sold assets to Blackstone entities that elevated deal volume to new highs. The apartment sector remained as the largest investment market in third quarter 2019 with sales of $46 billion (down 7% year-over-year). Sales volume fell in the office sector in the third quarter, down 7% year-over-year. The fall in activity has come from a decrease in portfolio transactions as office deal activity increased from this time in 2018.

According to PricewaterhouseCoopers (PwC) Real Estate Investor Survey average cap rates for all property types decreased in 15 survey markets, increased in 10, and held steady in nine over first quarter 2019, according to the PwC Real Estate Investor Survey for second quarter 2019. Although quarterly shifts are diverse, surveyed investors expect overall cap rates to hold steady over the next six months.

Notable points for the U.S. real estate market include:

- Annual price growth in the six major metro areas rose 7.4% in third quarter of 2019, while annual price growth in the non-major metros rose by 6.2% in a year-over-year comparison.
- Most participants in the PwC Real Estate Investor Survey believe that current market conditions favor sellers in the national net lease market (100%).
- Cap rates declined in ten property markets, increased in 16 property markets and held steady in eight property markets in third quarter 2019, according to PwC Real Estate Investor Survey. The national warehouse market displayed a 18-basis point increase, and the national CBD office market 13-basis point increase over the quarter while the national net lease and national suburban office markets declined over the same period. Increases for the national power center, national regional mall and Chicago office over the next six months. At 7.5%, the Chicago office market remain unchanged from the previous quarter and is still the highest, while Manhattan office market, at 4.62%, remains as the lowest cap rate but improved from second quarter.

The following graph compares national transaction volume by property from 2009 through third quarter 2019:



Source: Real Capital Analytics

Offshore Investment

Global sales of income-producing assets slowed for the year to date and during the latest quarter in a pattern seen across all three regions. Some markets grew at a robust pace in the third quarter, however. Industrial acquisition activity in the U.S. leapt, as did investment activity in France.

Commercial real estate investment activity often mirrors economic sentiment. With U.S. investors concerned about a recession, the U.K mired in Brexit fatigue, European investor confidence falling, and Asian markets hobbled by trade tariffs, it is little surprise to see global activity down 7% YOY for the third quarter. Including land sales, the third-quarter drop was even larger at 14% YOY.

The low interest rate environment, underpinned by recent moves by the Federal Reserve, is real estate's saving grace and should see the asset class continue to attract capital. A renewal of the European Central Bank's quantitative easing program will likely amplify this trend.

The current slowing in commercial property sales does not appear to be for a lack of capital, but more for a lack of suitably priced assets on the market. With no forced sellers and attractive refinancing rates, investors are holding onto assets for longer, and in the U.S. and Europe the lack of interest in the retail sector has reduced the opportunity set for many investors.

Entity-level activity, which boosted the market in recent years, has fallen markedly during 2019. Deals of this structure are off 72% compared to the first three quarters of 2018. Single asset transactions remain robust in the U.S., which is a positive note for that market.

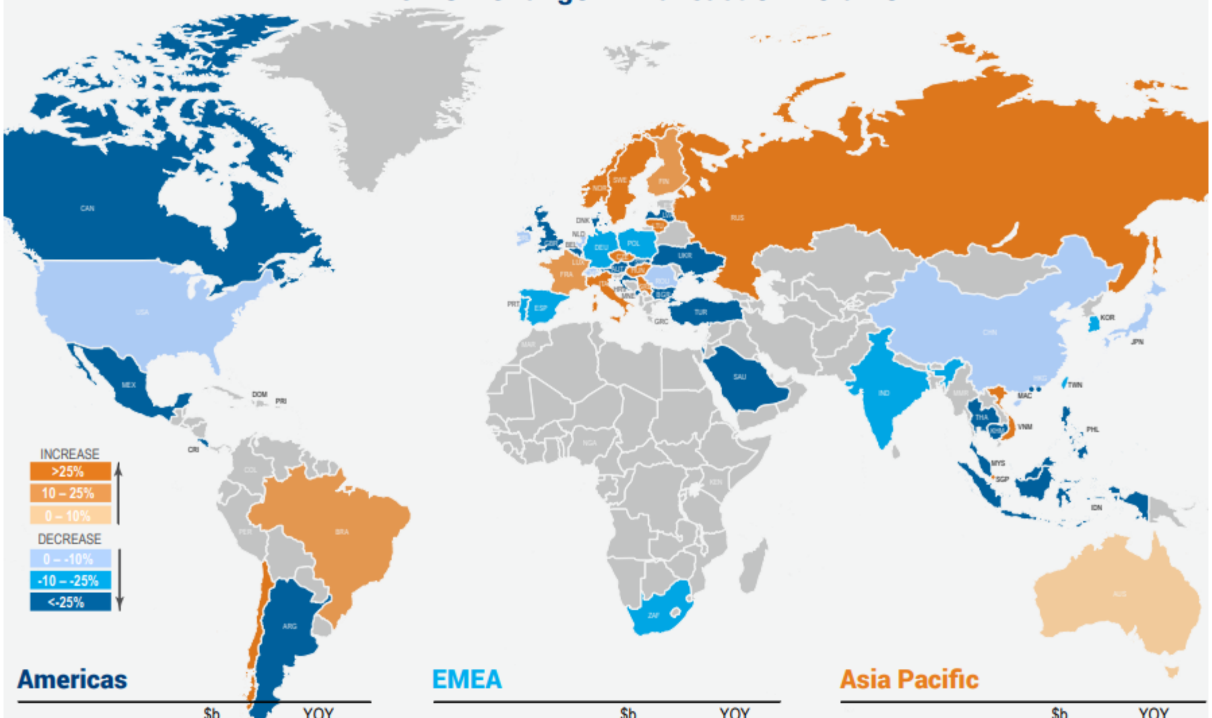
Germany locked its position as Europe's largest market in 2019 so far despite a 17% YOY slide in activity. The U.K. has had a more torrid year, with volume falling 32% YOY over the same period. In Germany, U.S.-China trade tensions are a drag on the outward-facing economy, while the U.K.'s persistent Brexit uncertainty is keeping some investors on the sidelines. France proved a bright spot in Europe, with investors placing 9% more capital during the year to date compared to a year ago.

Asia Pacific markets have continued to ebb against the broader backdrop of global macroeconomic uncertainty and unresolved trade tensions.

Still, Hong Kong was the only major market where transactions volume fell significantly. Domestic investors have pulled back since the protests began in June. The investment turndown fits the trend of contracting activity seen in previous quarters, however.

In the Americas the sale of income-producing assets greater than $10m was flat for the year to date and down 6% YOY in the latest quarter. Single asset deals have held up, but entity-level activity slowed 83%. Transactions of portfolios increased 19% YOY, boosted by two Blackstone entities purchasing GLP industrial assets.

YTD'19 YOY Change in Transaction Volume



Americas

	$b	YOY
United States	329.2	-1%
Canada	12.6	-34%
Brazil	1.9	11%
Mexico	0.6	-33%
Americas	344.8	-3%

EMEA

	$b	YOY
Germany	43.9	-17%
United Kingdom	37.6	-32%
France	25.6	9%
Netherlands	14.4	-14%
Spain	13.1	-16%
EMEA	197.5	-12%

Asia Pacific

	$b	YOY
Japan	24.3	-6%
China	21.7	-8%
Australia	18.5	1%
South Korea	14.9	-14%
Hong Kong, SAR, China	13.9	-41%
Asia Pacific	109.5	-12%

Source: RCA Analytics

Conclusion

Predicting the future has seldom been more difficult. Any policy promises that Congress keeps may lead to a stronger near-term outlook which would bolster demand for real estate space. However, it may also cause the trajectory for U.S. interest rates to steepen which in turn will likely affect the pace at which the Federal Reserve's Open Market Committee raises interest rates. Job growth, positive and still quite robust, will slow as the unemployment rate pushes lower. All asset categories will see tempering demand meeting deliveries, beginning a gradual upward swing in vacancy. With the exception of retail, assets will likely see rent growth slowing through the end of 2019 and into 2020. Capital markets volumes will buck any uptick in interest rates, with sales activity declining over the next two years but holding at a healthy pace. Real estate returns, driven largely by trends in pricing, will moderate over the near-term as well, but will remain competitive vis-à-vis alternatives.

All and all, upside risks more than offset the downside risks to our outlook. As we assess the future trajectory of the property markets, the positives comfortably outweigh the negatives. We may be entering into the final stage of the U.S. expansion, but that doesn't mean the final stage can't go for a lot longer.

CUSHMAN & WAKEFIELD

CUSHMAN & WAKEFIELD RESEARCH

U.S. Macro Forecast

U.S. MACRO FORECAST TABLE

	2016	2017	2018	2019F	2020F
U.S. Economy					
Real GDP, AR%	1.6	2.2	2.9	2.7	1.7
Nonfarm Employment Change, Ths.	2,520	2,260	2,450	2,400	1,400
Office-using Employment Change, Ths.	630	580	620	590	350
Unemployment Rate, %*	4.9	4.4	3.9	3.7	3.6
CPI-U Inflation, Yr/Yr%*	1.3	2.1	2.4	2.1	2.1
Core PCE Inflation, Yr/Yr%*	1.7	1.6	1.9	1.8	2.3
ECI Total Wages & Salaries Index, Yr/Yr%*	2.3	2.5	2.9	3.2	3.4
Fed Funds Rate, % (Year-end, Q4)	0.5	1.2	2.2	2.6	2.6
10-year Treasury Rate, % (Year-end, Q4)	2.1	2.4	3.0	3.1	3.2
Retail Sales & Food Services, Yr/Yr%*	2.9	4.7	5.1	4.4	3.6
Consumer Confidence Index, 1985=100	99.8	120.5	130.1	117.1	98.9
eCommerce Sales, Yr/Yr %*	14.4	15.6	15.9	14.6	11.0
Manufacturing Industrial Production, Yr/Yr %*	-0.7	1.5	2.6	2.2	1.5
Office Sector [1]					
Deliveries, msf	52.0	54.7	52.7	64.4	51.4
Net Absorption, msf	53.5	49.9	53.7	47.6	35.5
Vacancy Rate	13.2%	13.2%	13.2%	13.3%	13.4%
Asking Rents	$29.21	$30.47	$31.12	$31.79	$32.37
Growth in Asking Rents, Yr/Yr %	5.3%	4.3%	2.1%	2.1%	1.8%
Industrial Sector[1]					
Deliveries, msf	230.8	246.1	287.4	281.5	266.1
Net Absorption, msf	281.7	246.3	284.9	265.2	228.8
Vacancy Rate	5.8%	5.2%	4.9%	4.9%	5.0%
Asking Rents	$5.54	$5.75	$6.09	$6.37	$6.60
Growth in Asking Rents, Yr/Yr %	4.2%	3.9%	5.8%	4.8%	3.6%
Retail Sector[1/2]					
Deliveries, msf	25.0	21.8	18.2	13.5	9.8
Net Absorption, msf	38.3	34.1	24.9	10.6	5.8
Vacancy Rate	7.5%	6.9%	6.4%	6.4%	6.6%
Asking Rents	$15.98	$16.45	$16.99	$17.33	$17.42
Growth in Asking Rents, Yr/Yr %	1.9%	2.9%	3.3%	2.0%	0.5%
Capital Markets[3]					
Total Investment Sales, $ Bil.	$511.6	$489.3	$562.1	$527.7	$500.3
NCREIF Unlevered Returns, AR%	8.0%	7.0%	6.7%	6.5%	6.3%
Moody's/RCA CPPI (All Property Types), % (Year-end, Q4)	9.1%	8.2%	6.5%	5.0%	3.8%

1. Annual asking rents and vacancy rates are averages, not year-end
2. Historical series based on CoStar; Shopping Centers Only (excludes stand-alone and urban retail)
3. Total investment sales includes office, industrial, retail, multifamily, hotel, and land sales
** Annual Average*

Sources: Moody's Analytics, U.S. Bureau of Economic Analysis, U.S. Bureau of Labor Statistics, Federal Reserve, U.S. Census Bureau, U.S. Board of Governors of the Federal Reserve System, The Conference Board, Costar (retail only), Real Capital Analytics NCREIF, Cushman & Wakefield Research

National Office Market

Overview

The U.S. economy officially began its 11th consecutive year of growth in the second half of 2019, a new record for the longest economic expansion in history**.** Gross domestic product grew by an annualized rate of 2.1% in the second quarter, pulling back from the 3.2% growth rate seen in the first quarter of the year, but still continued on its long steady growth path. Real consumer spending grew by an annualized 4.3% in the quarter, contributing 2.9% to the overall GDP growth. Consumer spending will continue to post gains, supported by a healthy job market and wage growth. As real consumer spending outpaces real disposable income, however, the pace of spending will slow.

Most national economic indicators are near their strongest point in the cycle, and consequently, as are the fundamentals of the U.S. office market. In the 87 office markets tracked by Cushman & Wakefield, overall average asking rent, at $32.13 per square foot, is at its cyclical high, representing an increase of 4.4% on an annual basis. At 6.5 million square feet, net absorption was 7.9 million square feet less than the 14.4 million square feet of new office space completed in second quarter 2019. The national vacancy rate, at 13%, went unchanged from the previous quarter.

A key driver for the U.S. office market continues to be the tech sector. Cushman & Wakefield identified 20 metropolitan areas where the tech sector is an important factor in local economies. The technology sector was the largest lessor of office space during the second quarter, leasing approximately 71% of the quarter's leasing volume even though they represent only 60% of total office inventory. Tight tech-driven markets are experiencing robust absorption and are seeing faster rent growth than the market average. The tech sector is outgrowing its roots in San Francisco, San Jose and Seattle. In late 2018, three of the largest tech companies in the U.S. announced major plans to expand outside the West Coast in places like New York City, Washington, DC and Austin, TX. This sector is expected to further its influence by expanding into more cities to find talent and better cost of living.

The following summarizes key points regarding employment, according to the Bureau of Labor Statistics:

- Overall unemployment rates have tightened as the nation closes in on full employment. In September 2019, the national unemployment rate, at 3.5%, declined 20 basis points over the last year.
- Total nonfarm payroll employment rose by 266,000 in November 2019 in the U.S. Job growth averaged 180,000 per month thus far in 2019, compared with an average monthly gain of 223,000 in 2018.
- Strong office-using employment growth has been a trend throughout the current expansion cycle. The office-using sectors added an average of roughly 33,199 jobs in November 2019. Office-using employment so far in 2019 is behind the healthy levels experienced throughout 2018, as the labor market tightens.
- In the office-using industries, employment in the professional & business services sector added an average of 38,000 per month in third quarter 2019. The financial activities industry registered an average of 13,000 jobs added per month, while the information industry added roughly 13,00 jobs per month through November 2019.
- Job growth is a critical component of determining demand for office space. The national U.S. unemployment rate has gradually declined since 2009, and office-using employment has been one of the biggest gainers during this expansion period. Office-using employment now makes up 21.8% of all nonfarm payroll jobs in the U.S.

National Office Market Statistics

Vacancy

At the end of third quarter 2019, the national office market overall vacancy rate was 12.9%, declining 1.5 percentage points year-over-year. The large amount of space consistently being delivered to the market in recent quarters has limited progress made through job gains and leasing activity. Payroll employment, a key driver for the office market, expanded on a year-over-year and quarterly basis in third quarter 2019. The U.S. economy is expected to continue to add jobs, influencing the demand for office space through the end of 2019.

Notable points include:

- The CBD national office market's overall vacancy rate was 12.3% at the end of third quarter 2019. The CBD's vacancy rate went unchanged over the previous quarter but is 20 basis points below the rate recorded in third quarter 2018. The Puget Sound market recorded the lowest overall vacancy rate within the CBD markets, at 3.7%, decreasing 1.4 percentage points on a year-over-year basis.
- The suburban national office market's overall vacancy rate, at 13.2%, decreased 20 basis points from the previous quarter and was 50 basis points below the rate recorded a year earlier. Within the suburban national office market, the San Francisco, CA market recorded the lowest vacancy rate, at 3.7%, declining 80 percentage points over vacancy recorded a year ago.
- Of the 87 markets tracked by Cushman & Wakefield, 42 recorded an increase in vacancy from the first quarter. This is the largest number of markets to have experienced a vacancy increase since 2010. At the other end of spectrum, 40 markets recorded a decline in vacancy over the quarter.
- Vacancy rates are challenged by changes in the workplace environment, including denser, more "collaborative" office space usage and new technology platforms. Net absorption must improve in order to offset the vacancy created by the large quantities of office space hitting certain markets in the future.

Construction

In third quarter 2019, 35.4 million square feet of office space delivered, an increase from 14.4 million square feet delivered in the second quarter. Construction activity has especially increased in tech cities over the last 12 months as there is a strong tenant preference for new office space. The pipeline of new construction, however, continued to grow. By the end of the third quarter 126.6 million square feet was under construction, the second-highest amount in the current expansion and down from 120 million square feet in the second quarter. It is estimated that an additional 41.5 million square feet of office space will be delivered to the market for a total of 64.4 million square feet, the largest volume of new space delivered to the market since 2008.

Notable construction information is as follows:

- The Washington D.C. CBD office market experienced the largest amount of new space within the CBD markets, 1.8 million square feet delivered through the third quarter of 2019. Going forward, the Midtown New York CBD market had the most office space under construction, at a total of 13.7 million square feet.
- The Austin, TX suburban market had roughly 1.5 million square feet of new office space come online so far in 2019. The Santa Clara County office market had 8.4 million square feet under construction at the end of third quarter 2019, the largest amount among the suburban markets.

Asking Rents

Coinciding with increased demand and somewhat low national vacancy rates, the national average asking rent has consistently climbed in value, reaching a new high in third quarter 2019. At $32.63 per square foot, the national weighted average asking rent increased 4.1% over the average recorded at third quarter 2018 and was up since bottoming out eight years ago in the second quarter of 2011. In addition, major markets like Midtown Manhattan, San Francisco, Midtown South Manhattan, Downtown Manhattan and Washington D.C., continue to record asking rents above $50.00 per square foot, on an annual basis. As the national office market anticipates a modest increase in vacancy rates due to greater supply in the next 12 months, this will likely moderate the growth of overall average asking rents.

Further considerations include:

- The Northeast region of the country experienced the fastest rent growth on an annual basis, asking rents increased 4.8% since third quarter 2018.
- The CBD office market continues to record higher asking rents than the suburban office market. The CBD national office overall average asking rent was $46.92 per square foot, a 6.3% increase from second quarter 2019. The suburban national office overall average asking rent, at $28.87 per square foot, grew 4.8% from the average asking rent recorded in the previous quarter.
- Within the CBD national office market, the New York - Midtown South market recorded the highest average asking rent of $81.67 per square foot.
- The San Francisco market, within the suburban national office market, recorded the highest overall average asking rent of $74.55 per square foot in second quarter 2019.

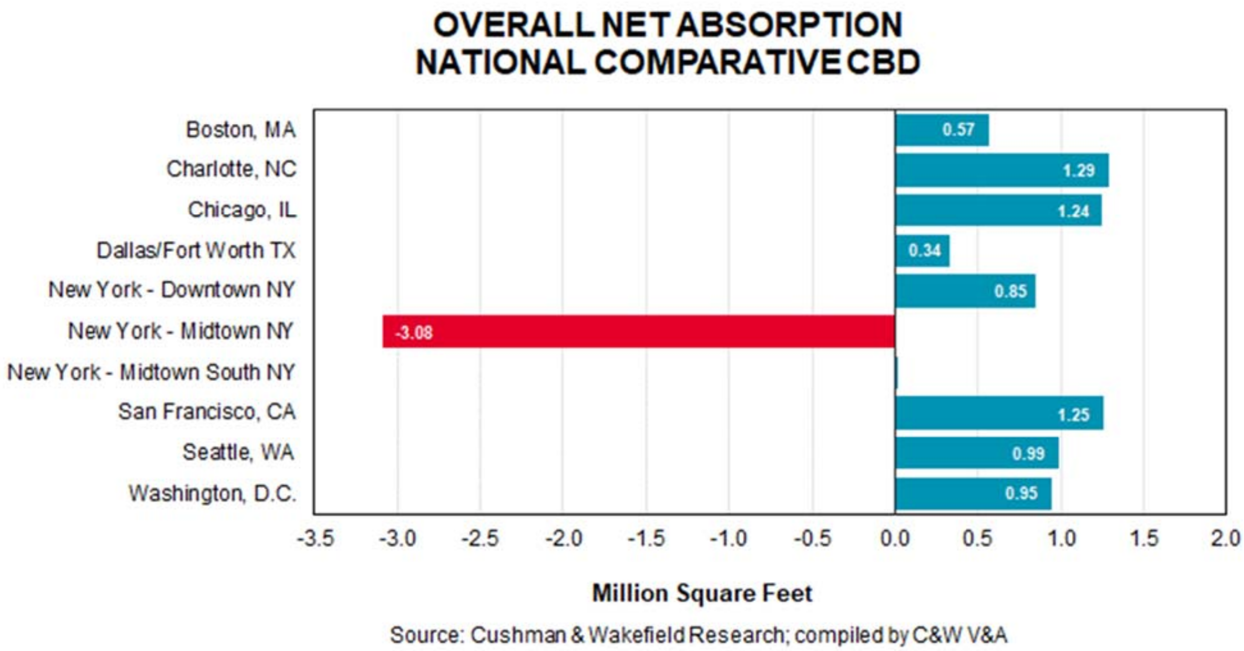
Absorption

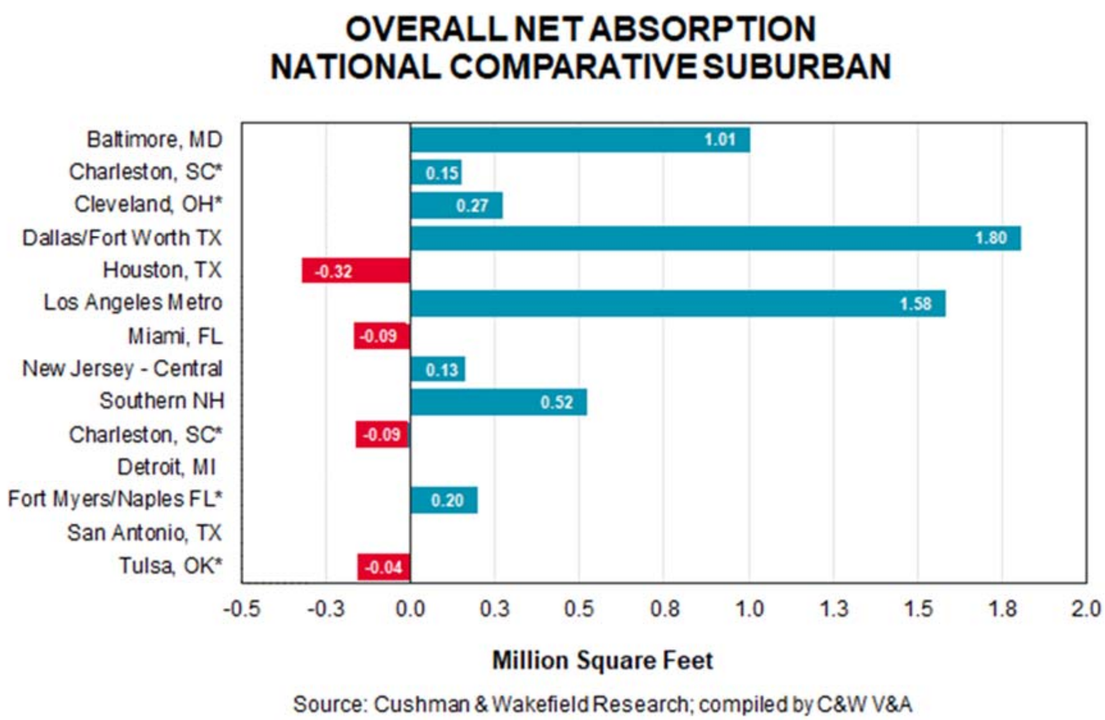
Net absorption totaled 9.8 million square feet in third quarter of 2019, down from 11.2 million square feet in the second quarter 2019. Despite the dip in absorption, employment in office-using industries – the main driver of office demand – accelerated and increased 2% annually, indicating that absorption is likely to remain positive through the end of the year.

Further considerations are as follows:

- The CBD national office market registered 8.6 square feet of net absorption through third quarter 2019. The largest positive absorption was recorded in the Atlanta, GA CBD market, absorbing 1.3 million square feet year-to-date. In addition, the Midtown New York CBD market gave back the most amount of space, returning 3.1 million square feet back to the market.
- The suburban national office market absorbed roughly 19.8 million square feet year-to-date. The Santa Mateo County, CA suburban market absorbed the largest amount of space, at two million square feet. The Philadelphia, PA market gave back the largest amount of space to the suburban office market, at over 1.6 million square feet of negative net absorption for the year so far.

The charts below highlight the national office absorption trends for the major markets in the United States in third quarter 2019, segmented between the CBD and suburban office markets:





National Office Investment Sales Market

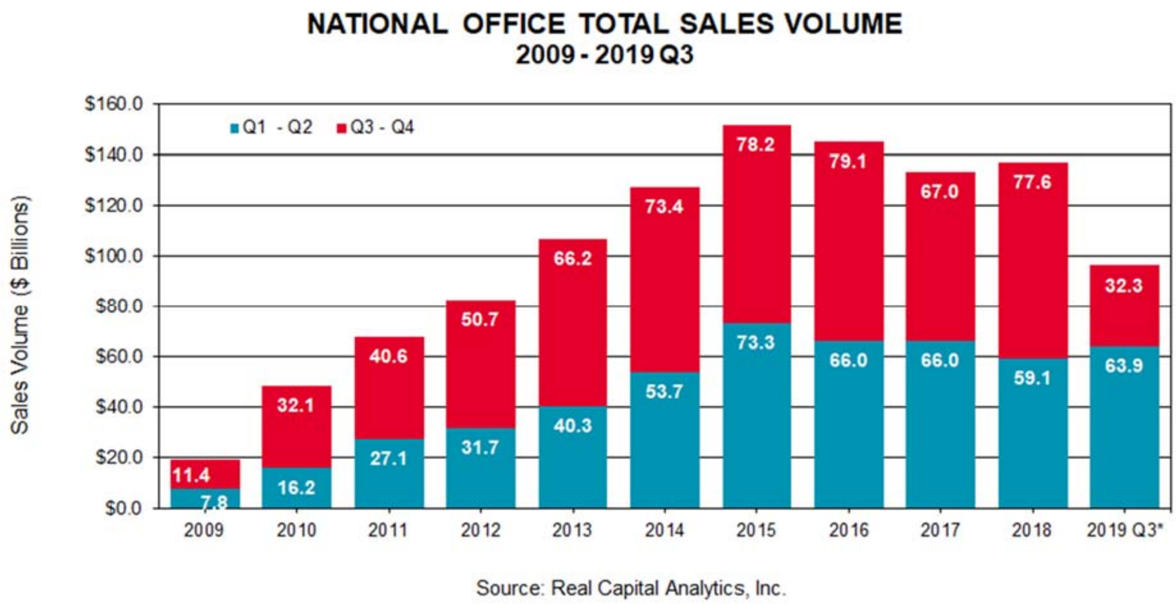
As shown in the comparative absorption exhibits above, overall absorption in various U.S. markets has not been consistent, which impacts the selection of “preferred” investment markets for office building investors. Historically, investors targeted the best quality assets in “core” markets during a recovery phase, and have gradually shown an inclination to move “down the food chain” in terms of quality and market location. This shift occurs where there is less competition and better yield potential over the near-term. There is no doubt, however, that assets located outside of the major “core” markets are in less demand.

Sales Volume

Office transactions (total dollar volume) have been at healthy levels as the economy has expanded over recent years. From 2009 through 2015, investors gained confidence in the office market and sales volume experienced consistent year-over-year growth. Sales volume for office product reached its cyclical peak in 2015 due, in part, to unusual activity in the early part of year, where falling cap rates and ease of finance from the commercial mortgage-backed securities (CMBS) market helped drive sales activity. Sales volume declined on an annual basis in both 2016 and 2017, however office investment activity has been at elevated levels and investment during these years was at a higher than average pace. In 2018, office sales volume grew 2.2% over the previous year, to reach approximately $137 billion.

Further considerations are as follows:

- Following a challenging start to 2019 as investors went into the year cautious due to turmoil in the financial markets, office investment fell slightly in the third quarter.
- Sales volume in third quarter 2019, at $32.3 billion, declined 14.1% from the previous quarter and decline 7.1% over volume recorded in second quarter 2018.
- The following table provides an historical view of sales volume in the first and second half of the year from 2009 through third quarter 2019:



Overall Rates

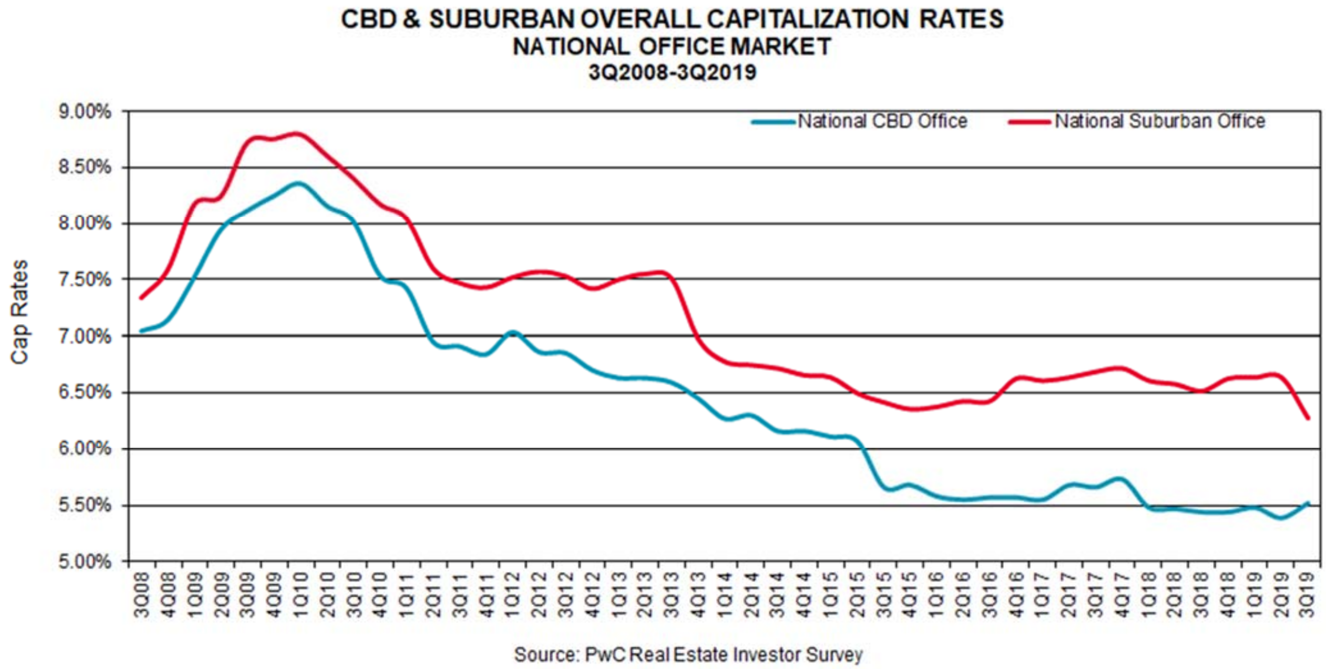
The office sector has generated and sustained investor demand over the past few years, driving down overall cap rates. Typically, CBD properties in major markets have been the primary contributor to the office sector’s momentum, although suburban office markets have also exhibited a downward trend since 2009 due to increased investor interest. The performance of an individual CBD office market can be inconsistent, top-tier CBD’s are outperforming the country while smaller downtown areas are struggling. Average overall cap rates remain lower for most CBD markets than for its suburban counterparts since higher barriers to entry and a lack of land for new development tend to keep supply and demand more balanced in a market's CBD. As a result, CBD assets typically achieve higher rental rates. As of third quarter 2019, overall cap rates remain near record lows.

The PwC Real Estate Investor Survey and the National Council of Real Estate Investment Fiduciaries (NCREIF) methodologies offer unique perspectives on capitalization rate trends. The PwC Real Estate Investor Survey calculates its data based on a personal survey of major institutional equity real estate market participants. In contrast, NCREIF looks at data from appraisals included in their benchmark property return index. The index contains quarterly performance data for unlevered investment-grade income-producing properties that are owned by, or on behalf of, exempt institutions.

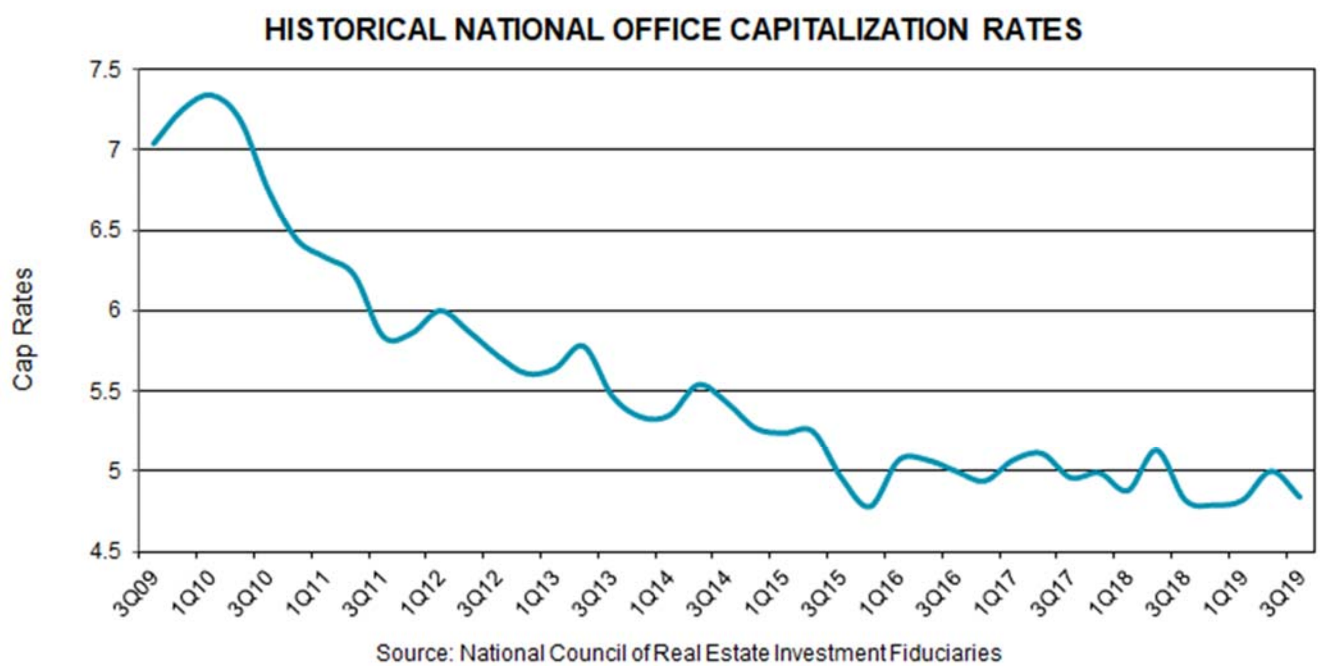
The following points detail the PwC Real Estate Investor Survey and NCREIF capitalization rate trends:

- The PwC Real Estate Investor Survey shows that as of third quarter 2019, the national CBD OAR, at 5.52%, increased 2.4% on a quarterly basis and 1.5% points on an annual basis. The suburban OAR, at 6.28% in third quarter 2019, dropped 5.4% points over previous quarter and dropped 3.7% from one year ago.
- The NCREIF reported that cap rates fluctuated over the last 12 months in response to rising interest rates. At 4.84% as of third quarter 2019, the national office cap rates decreased 16 basis points over the previous quarter but increased 20 basis points on a year-over-year basis.

The following graph reflects national trends for CBD and suburban overall capitalization rates as surveyed by the PwC Real Estate Investor Survey:



The graph below reflects national historical cap rate trends as reported by NCREIF:



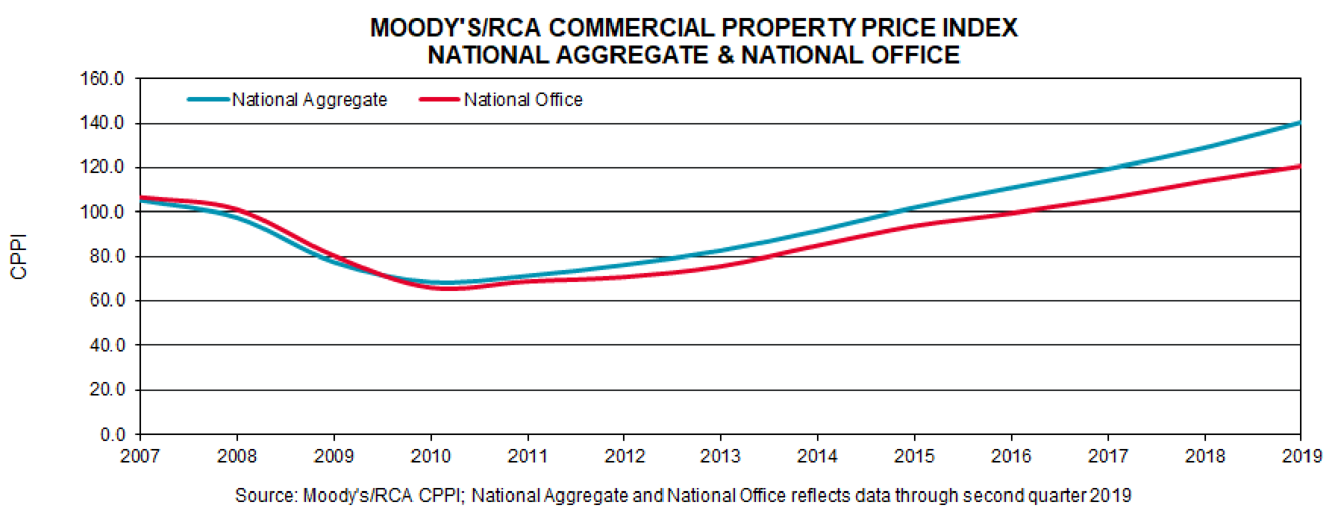
Moody's/RCA Commercial Property Price Index

The Moody's/RCA Commercial Property Price Index (CPPI) measures the change in price of commercial real estate and reflects the empirical results of direct investments over time. Developed by MIT's Center for Real Estate in conjunction with a consortium of firms including Moody's and RCA, the index tracks price changes based on closed transactions, and implements advanced repeat-sale regression (rsr) analytics to gauge performance in current and prior periods.

The following points are for consideration regarding the Moody's/RCA CPPI:

- As of October 2019, the national aggregate index was 140.7. The national aggregate index grew 6.9% from October 2018 and increased .8% on a quarterly basis.
- The national office index increased 4.4% from 115.6 in October 2018 to 120.7 in October 2019. Compared to the previous quarter (June 2019), the national office index increased 1.8%.
- Both the national office index and the national aggregate index have exhibited continued growth during the current economic expansion cycle. The national office index ended the quarter 83.8% above the low recorded in May 2010, while the national aggregate index has increased 106.1% during the same period.

The graph below displays the CPPI from October 2007 to October 2019:



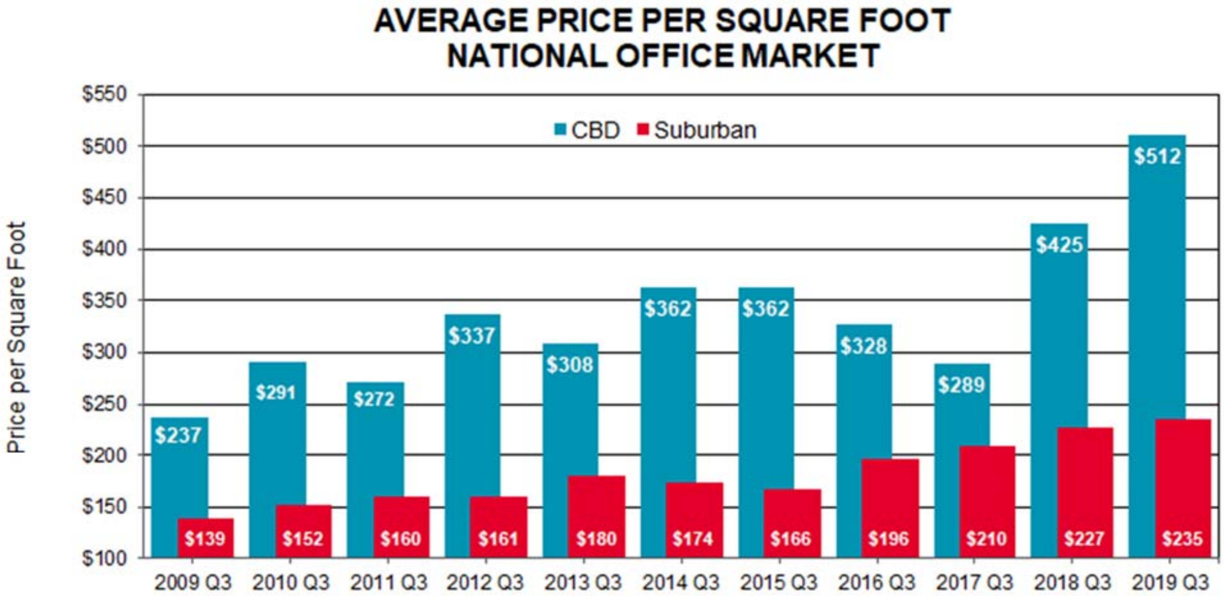
Sale Price Per Square Foot

Historically, office pricing has not experienced the same dramatic fluctuations as seen with sales volume trends. This was, in large part, due to sellers holding out and waiting for market fundamentals to improve. As of third quarter 2019, both the CBD and suburban markets grew in terms of price per square foot on an annual basis.

The following points provide details regarding sale price per square foot:

- The CBD average price per square foot, at $512 as of third quarter 2019, increased 20.6% from the same point in 2018 ($425). On a quarterly basis, the CBD price decreased 12.4%
- The suburban average price per square foot, at $235 as of third quarter 2019, is 3.6% higher than in third quarter 2018 ($227). On a quarterly basis, the suburban price per square foot grew .3%.
- The 10-year period, from third quarter 2010 through third quarter 2019, compound annual growth rate (CAGR) for the CBD is 9.5%, ahead of the last five-year compound annual growth rate at 9.3%. The suburban 10-year CAGR is 5.6% while the five-year CAGR is 6.4%.

The following graph reflects the national office average price per square foot from third quarter 2009 to third quarter 2019 (based on Real Capital Analytics data):



Source: Real Capital Analytics

National Office Market Summary

The U.S. economic expansion is now the second-longest in its history. Development during this cycle has contributed to further tightening in office markets across the United States (although we recognize the national market performance is "average" and does not apply to all markets across the board.) As of third quarter 2019, asking rents are at record highs and capitalization rates stayed near record lows despite recent variations. The office market has experienced solid leasing, absorption and construction activity over the last 12 months, continuing the trends of recent years. Throughout 2019, U.S. office fundamentals should remain solid, but vacancy may inflect during the year, due to large amounts of new space coming online.

Following are notes regarding the outlook for the U.S. national office market in 2019 and beyond:

- Sustained economic growth will likely lead to more jobs and an increase in demand for office space. Office-using employment is at its record high in terms of the overall percentage of all nonfarm payroll jobs in the U.S. and is expected to increase over the next 12 to 18 months.
- Technology-driven markets continue to represent a large presence within the national office market and it is considered that the tech sector is more important than ever to commercial real estate. According to the Cushman & Wakefield's Tech Cities 2.0 report, the average asking rents in the top 25 tech cities have increased nearly 50% since 2010, almost twice as fast as the U.S. In addition, property values in the top 25 tech cities increased roughly 60% in price per square foot during the same period, more than double the rate of the national average.
- Co-working and flexible office space is a growing sector within the office market. Co-working offers tenants flexibility and talent attraction/retention. More than five million square feet of this subtype came online in each of the past three years. Currently, co-working flexible space accounts for 1% of total office inventory. It is expected the flexible office space will triple in size and represent 5% - 10% of inventory in many markets.

- The big story of the national office market will be the continued amount of new construction over the coming year. New supply will offset positive job growth and leasing activity in many markets which will likely lead to flat or rising vacancy. Each market will be influenced by its own supply and demand dynamics, but, overall, most markets are expected to become more occupier favorable over the next 12 months.
- Average asking rents will be influenced by the burst of new supply, however rent is still expected to grow at a moderate pace as demand for newly constructed or refurbished space, which offers modern amenities and layouts, remain strong.
- The availability of capital will continue to support the expansion of the U.S. real estate market and the U.S. economy, further reaffirming the positive outlook for the national office market.

Sacramento Regional Analysis

Introduction

The Sacramento-Arden-Arcade-Roseville CBSA consists of four counties in north-central California: Sacramento, El Dorado, Placer, and Yolo Counties. The region sits at the northern end of California's Central Valley and extends from the eastern edge of the San Francisco Bay Area to the Nevada border at Lake Tahoe. The City of Sacramento is the largest incorporated area within the Sacramento CBSA, and it is the state capital of California. The city is located along the Sacramento River south of its confluence with the American River in California's expansive Central Valley. The Sacramento CBSA is the largest in the Central Valley, the fifth largest in California, and is ranked 27th nationally. Sacramento is the economic and cultural core of the four-county metropolitan area.

Map

The following map illustrates the four-county region that constitutes the Sacramento-Roseville-Arden-Arcade core based statistical area (CBSA):

Source: Cushman & Wakefield Valuation & Advisory

Current Trends

The Sacramento region's labor market and economy continue to improve, posting gains across several employment sectors. Its economy is pushing forward with help from healthcare industry and state and local government, which are key economic drivers in the region. Unfortunately, job growth started to decrease alongside population leading to payroll cuts in construction. Higher costs and eroding affordability are setbacks to the housing market. Home sales are lower than in 2017, and home building is starting to decline. However, in recent months, Sacramento experienced an influx of migration from other areas within California. The recent shift of in-migration improving, and a growing labor force will help stimulate housing and consumer industries in the near term.

Further considerations are as follows:

- The Sacramento region has low business costs, an abundant and educated workforce from its world-class research and educational institutions, relatively low housing costs as compared to the Bay Area, and excellent schools. It is located near world-famous destinations such as the Pacific Ocean, Napa Valley, Lake Tahoe, and Sierra Nevada Mountains, 75 miles east of San Francisco and 375 miles north of Los Angeles.
- The region has experienced strong population gains and steady job growth in the last few decades, attributed primarily to the migration of residents from other California and U.S. urban areas. Upon steady economic recovery, the region is expected to continue strong growth. The diversification of the region's strong economic base, with a shift from primarily government employment to private sector employment, will aid in the region's growth.
- In February 2019, Centene Corporation, a large managed care enterprise that serves as a major intermediary for both government-sponsored and privately insured health care programs, proposed a plan to build five four-story buildings on the 68-acre campus in North Natomas. Centene will receive $2.7 million in city incentives per 1,000 workers and $9,000 for every job created. Centene Corporation plans to create 2,000 new jobs and employ up to 5,000 workers once construction is completed. Construction is expected to start in the summer of 2020 and is projected to move-in by year-end 2020.
- Kaiser Permanente is a managed care group that operates in eight states, with 12.2 million health plan members as of December 31, 2018. In January 2019, Kaiser acquired 18 acres in the proposed Downtown Railyards development. The hospital is projected to include 420 beds in a 14-story building, totaling 658,000 square feet, as well as a 150,000 square foot medical office building. Kaiser Permanente plans to build a state-of-the-art hospital in the Railyards, bringing major medical serves to downtown. This is the third major investment that Kaiser Permanente has made in downtown Sacramento, following the opening of Downtown Commons Medical Offices at 501 J Street in June 2018 and its Sports Medicine Center in Golden 1 Center in 2016.

Demographic Characteristics

Sacramento's demographic traits show an area that has experienced strong population growth and steady job growth in the last few decades. The region offers a welcoming business climate, an educated workforce from its world-class research and educational institutions, relatively low housing costs when compared to other California metro areas and ongoing diversification of the region's economic base.

The following chart compares the demographic characteristics of the Sacramento CBSA with the demographic characteristics of the U.S.:

Demographic Characteristics
Sacramento CBSA vs. United States
2019 Estimates

Characteristic	Sacramento CBSA	United States
Median Age (years)	37	38
Average Annual Household Income	$94,241	$87,636
Median Annual Household Income	$67,318	$60,811
Households by Annual Income Level:		
<$25,000	18.3%	20.3%
$25,000 to $49,999	19.4%	21.4%
$50,000 to $74,999	17.3%	18.0%
$75,000 to $99,999	13.3%	13.0%
$100,000 plus	31.7%	27.2%
Education Breakdown:		
< High School	11.6%	13.0%
High School Graduate	21.6%	27.6%
College < Bachelor Degree	35.2%	29.0%
Bachelor Degree	20.4%	18.9%
Advanced Degree	11.1%	11.5%

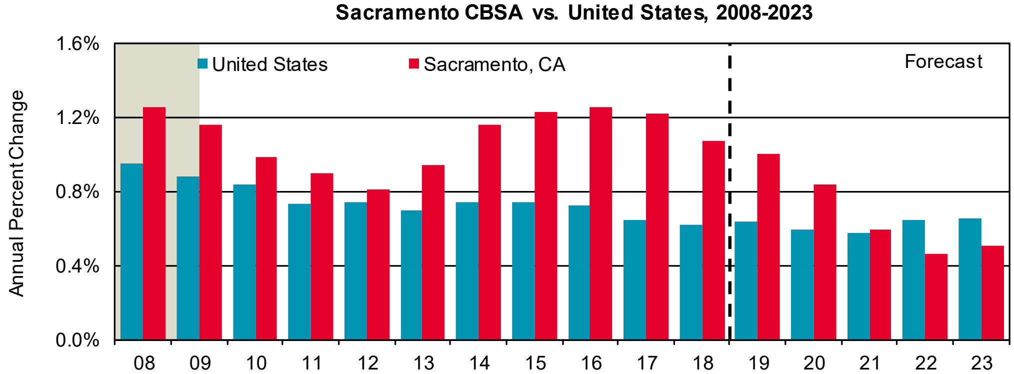
Source: © 2019 Experian Marketing Solutions, Inc. •All rights reserved•
Cushman & Wakefield Valuation & Advisory

Population

With a diverse set of economic opportunities for companies and job seekers alike, and low housing cost compared to the Bay area, many people and businesses have moved to the Sacramento region. Between 2010 to 2018, population growth in the region exceeded the U.S. every year. The region's population growth is forecast to slow down but have a similar trend alongside the U.S. over the next five years. Sacramento's forecasted population growth in 2019 is 0.6%.

The following graph compares historical and projected population growth between the Sacramento CBSA and U.S.:

POPULATION GROWTH BY YEAR
Sacramento CBSA vs. United States, 2008-2023



Source: Data Courtesy of Moody's Analytics and Cushman & Wakefield Valuation & Advisory
Note: Shaded bars indicate periods of recession

Housing more than two-thirds of the region's population, Sacramento County has by far the highest concentration of the metropolitan area's residents. Sacramento County is also the most built-out of the four counties in the CBSA, thus faster growth has occurred in outlying counties. Placer County's population grew 1.5% annually over the past decade. Placer and Yolo Counties are expected to be the fastest growing counties in the region with a projected annual rate of 0.9% and 0.7%, respectively, slightly more than the other counties in the Sacramento area.

The following table shows Sacramento CBSA's annualized population growth:

Annualized Population Growth by County
Sacramento CBSA
2008-2023

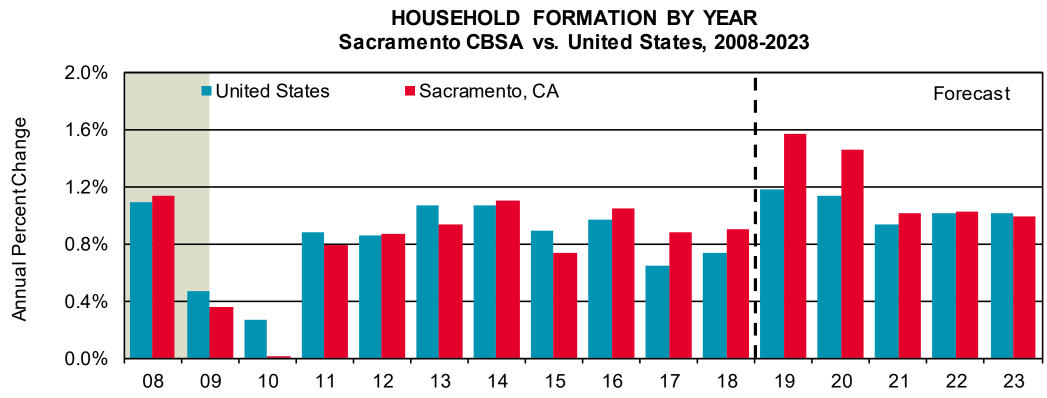
Population (000's)	2008	2018	Forecast 2019	Forecast 2023	Compound Annual Growth Rate 08-18	Compound Annual Growth Rate 19-23
United States	304,094.0	327,167.4	329,248.0	337,429.0	0.7%	0.6%
Sacramento, CA	**2,108.3**	**2,345.2**	**2,368.6**	**2,425.6**	**1.1%**	**0.6%**
El Dorado County	179.2	190.7	192.0	195.1	0.6%	0.4%
Placer County	337.6	393.1	398.2	412.7	1.5%	0.9%
Sacramento County	1,394.4	1,541.0	1,555.5	1,588.4	1.0%	0.5%
Yolo County	197.2	220.4	222.9	229.4	1.1%	0.7%

Source: Data Courtesy of Moody's Analytics, Cushman & Wakefield Valuation & Advisory

Households

Trends in household formation can result from such sociological factors as longer life expectancies, increasing divorce rates, and young professionals postponing marriage. As labor force grows alongside net migration, household formation is expected to increase significantly, even outpacing the United States by year-end 2019. After a decline amid the fallout from the recession, household growth is expected to significantly exceed population growth levels over the next five-year period. Demographers expect the U.S. economy will experience a sharp increase in household formations as the millennial generation (those born between roughly 1981 and 1996) reaches maturity. However, factors such as student loans, attending college, and delayed marriage are impacting how quickly household formation is accelerating.

The following graph compares historical and projected population growth between the Sacramento CBSA and U.S:

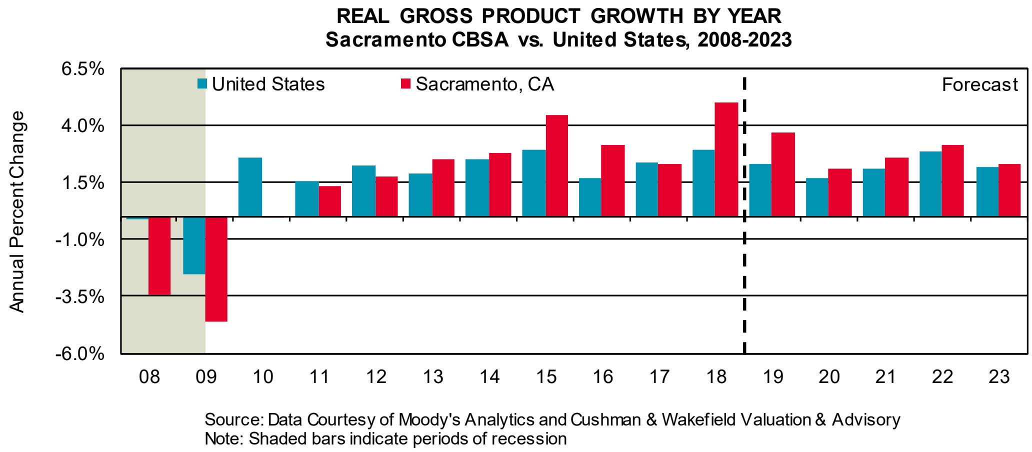


Source: Data Courtesy of Moody's Analytics and Cushman & Wakefield Valuation & Advisory
Note: Shaded bars indicate periods of recession

Gross Metro Product

Gross Metropolitan Product (GMP) is defined as the market value of all final goods and services produced within a metropolitan area in each period and is one measure of the economy of a metro area. In general, prosperity is associated with rising GMP, whereas recession and high unemployment are associated with falling GMP. The region's GMP growth between 2013 and 2018 was the healthiest experienced during the decade, posting an average yearly GMP growth of 3.2%, exceeding 2.3% growth for the U.S. in that period. Over the next five years, Sacramento's GMP is forecast to grow by 2.7%. Due to the rise of e-commerce, brick-and-mortar retailers are shutting down stores; four Sears and Kmart stores are closing in Sacramento. However, the logistics industry is investing due to Sacramento's location, proximity to San Francisco's customer base, and an established distribution network. Amazon, for example, recently opened a fulfillment center in the CBSA and plans to open an air cargo operation at Sacramento International Airport.

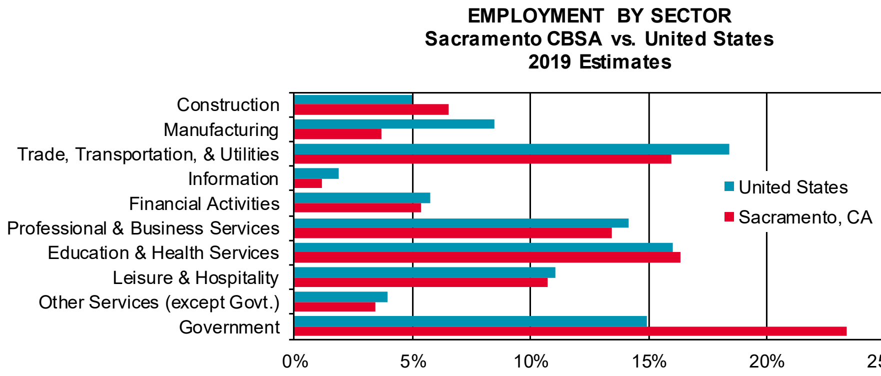
The following graph compares historical and projected GMP growth by year for the Sacramento CBSA and U.S.:



Employment Distribution

Sacramento's employment base is one of the most diverse in the nation and resembles the overall employment base in the U.S. with similar shares of employment in the construction, information, financial activities, professional and business services, education and health services and leisure and hospitality sectors. Government employment in the Sacramento region outpaced the U.S. average significantly, because of the area being the state's capital and a hub for government services. Sacramento's public sector will continue to expand, supported by strong fiscal fundamentals at the state level. Fiscal trends at the state level are healthy: State tax revenue collections for fiscal 2018-2019 were $1 billion more than the forecast due to higher sales, individual and corporate income tax collections. Due to the growth in business and consumer sectors financing the boost in state expenditures; the governor recently signed a $214.8 billion budget for fiscal 2019-2020. It is the largest budget on record and devotes more money to healthcare, K-12 education, and public universities. More state spending will benefit the CBSA more than any other California metro area; state and local government employs nearly one in four workers. Also, above-average population growth will ignite further demand for public services, especially provided by local governments. Further, stronger enrollment gains along with more external research funding at UC Davis will maintain steady state employment.

The following graph compares non-farm employment sectors for the Sacramento MSA and U.S.:



Source: Data Courtesy of Moody's Analytics and Cushman & Wakefield Valuation & Advisory

Major Employers

The economic diversity of Sacramento is further emphasized when examining a list of the region's largest employers. It spans three major industry sectors including healthcare, education, and technology with notable employers including Kaiser Permanente, the University of California Davis/UC Davis Health System, and Intel.

The following table lists the Sacramento CBSA's largest private employers:

Largest Private Employers
Sacramento-Roseville-Arden-Arcade, CA

Company	No. of Employees	Business Type
University of California, Davis and UC Davis Health	20,100	Education
Kaiser Permanente	16,100	Healthcare
Sutter Health	15,200	Healthcare
Dignity Health	7,850	Healthcare
Intel Corp	6,000	Technology
Raley's Inc.	4,800	Retail
California State University Sacramento	3,125	Education
Thunder Valley Casino Resort	2,500	Entertainment
Apple Inc.	2,500	Technology
Squaw Valley Resort	2,500	Entertainment

Source: Sacramento Business Journal and Cushman & Wakefield Valuation & Advisory

The following is a summary of major employers and projects in the Sacramento area:

- UC Davis
  - o UC Davis, located in the neighboring City of Davis, is part of the University of California system, was founded in 1909 and has the third largest enrollment after UCLA and UC Berkley, 31,564 students. The UC Davis Medical Center is a major academic health center located in Sacramento, CA, on a 143-acre campus. The 631-bed hospital operates the primary level I trauma center for both adults and pediatric emergencies.
- Sacramento State
  - o CSU Sacramento is a public university that was founded in 1948. The university, with an enrollment of 31,500 students, sits on 300 acres, and is organized into seven academic colleges.
- Sacramento International Airport
  - o SMF, covering 6,000 acres, is located 10 miles northwest of Downtown Sacramento. The airport opened in 1967, expanding in the 1980's and 1990's. The most recent expansion project

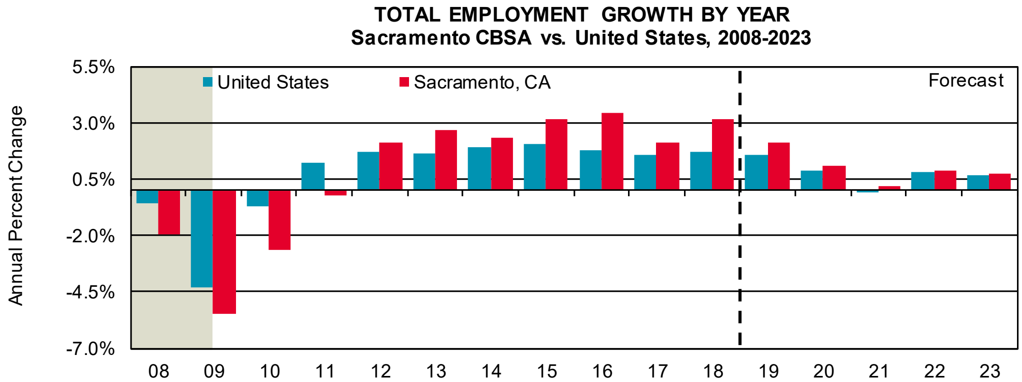
commenced in 2008 on the expanded Terminal B, a $1.03billion project. The airport hosts 18 airlines, 3 cargo carriers and annual traffic in 2018 of over 12 million passengers, increasing over 2016 and 2017 of 10,118,794 and 10,912,080 passengers, respectively.

- The Railyards
  - The Railyards is an urban infill project of approximately 224 acres at the westerly terminus of the First Transcontinental Railroad located between Downtown Sacramento and the River District, near the confluence of the American and Sacramento rivers. The property was master-planned with development posed to take 15-20 years. The development is projected to include 12,000 housing units, 2,900,000 square feet of office use, 1,900,000 square feet of retail, hotel and other commercial uses, 41 acres of parks and open space, a 25,000 square foot MLS soccer stadium for the Sacramento Republic FC and the Kaiser Permanente medical center.
- Bridge District
  - The Bridge District was adopted in 1993 and update in 2009, to provide the framework for the development of a waterfront oriented urban district for the City of West Sacramento, located directly across the river from Downtown Sacramento. The transition from the industrial past to the vision of an urban mixed-use district is well under way with Raley Field, home to the Sacramento Rivercats, the triple-A affiliate to the San Francisco Giants, many multi-family residential projects, office project like CalSTERS headquarters and retail destinations.
- Golden 1 Center
  - Golden 1 Center is the new multi-purpose home to the NBAs Sacramento Kings. The indoor arena is located downtown and sits partially on the site of the former Downtown Plaza shopping center. The arena is part of the Downtown Commons (DoCo) mixed use area that includes a 16-story mixed use retail/residential tower. Construction commenced in 2014 and was completed in 2016 for the beginning of the Sacramento Kings season.
- Seismic Stability
  - Sacramento does not have significant seismic fault lines, as determined by the Alquist Priolo Act. Sacramento’s location near the San Francisco Bay Area is a key driver for companies locating with mission critical operations near their headquarters, but in an area that is less prone to significant seismic activity.

Employment Growth

Between 2012 and 2018 the region posted positive average job growth. Healthcare will funnel high-skilled workers thanks to Centene Corp. The metro area is a healthcare hub and is home to one of the nation’s top research hospitals, UC Davis Health System, which is funded by the National Institutes of Health (NIH). Despite the region experiencing a slower employment growth rate, healthcare employment exhibits the most improvement—accounting for about one-fifth of employment—and fundamentals are strong. Demographics will be more supportive in Sacramento for healthcare than average; the population growth is almost twice the state’s average with the majority being over 65 years old. Local hospitals will also benefit, as Congress’ hike in NIH funding will provide more support for research grants. Furthermore, construction of Centene Corp.’s regional headquarters campus is expected to start next year, and the company plans to hire about 5,000 local workers, including healthcare professionals, accountants and technologists. Centene’s decision to locate its regional headquarters in the CBSA will provide long-term growth. Demand for consumer industries and housing will grow near the firm’s campus. Centene’s biggest challenge will be finding enough skilled workers to fill all the positions.

The following graph illustrates total non-farm employment growth per year, for the Sacramento CBSA, and the U.S.:

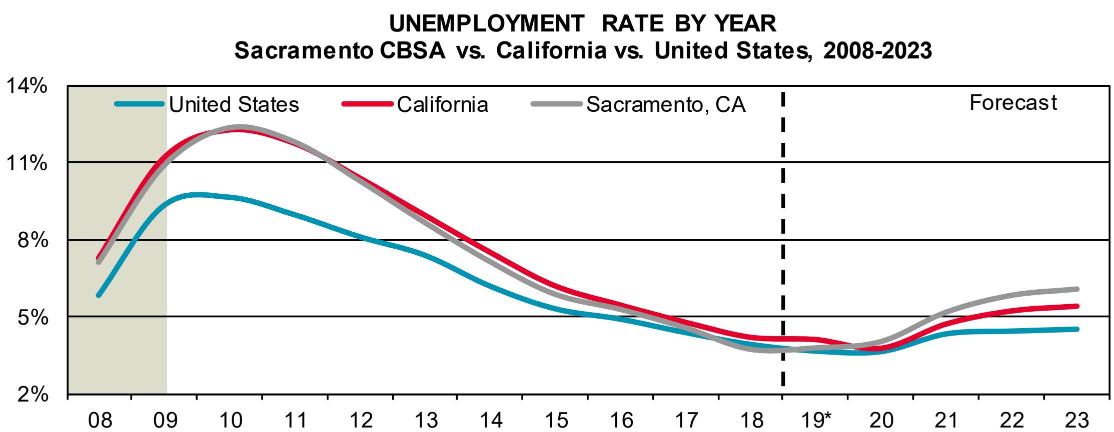


Source: Data Courtesy of Moody's Analytics and Cushman & Wakefield Valuation & Advisory
Note: Shaded bars indicate periods of recession

Unemployment

Since reaching the decade high of 12.4% unemployment in 2010, Sacramento's joblessness has declined, significantly, posting 3.6% in December 2018, down from 3.8% from a year ago. Comparatively, California and the U.S. unemployment rates were 4.1% and 3.9% in December 2018. According to the Bureau of Labor Statistics, as of September 2019, unemployment reached 3.5%. Unemployment is expected to in the near term.

The following graph compares unemployment levels for the Sacramento CBSA, the state of California, and the U.S.:



Source: Data Courtesy of Moody's Analytics and Cushman & Wakefield Valuation & Advisory
Note: Shaded bars indicate periods of recession
*Third Quarter 2019

Conclusion

Sacramento's economy is in late expansion mode, helped by the state capital's improving fiscal conditions and steady employment growth. The region's economy is expected to have constant growth well into 2020. Strong and improving migration trends will help grow the labor force. Moody's Analytics noted in their current Sacramento metro report that the economy will continue to grow with healthcare and state government pulling most of the weight. Looking forward, low costs and strong demographics, including a highly skilled workforce, will help the region excel.

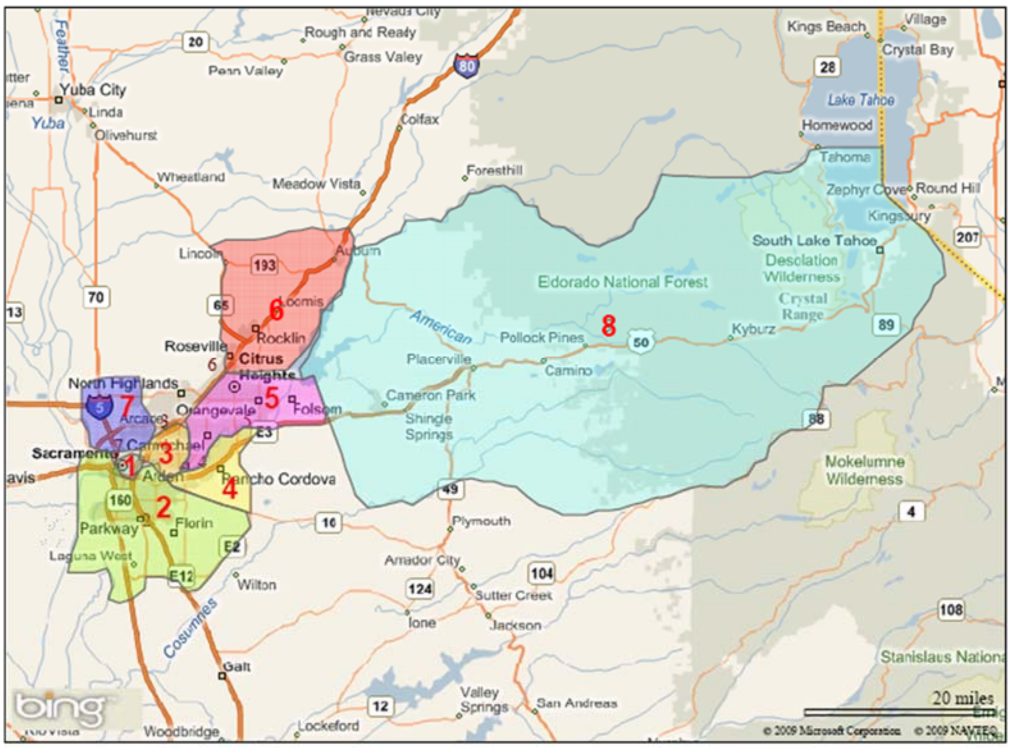
Sacramento Office Market Analysis

Market Characteristics

The Sacramento office market contains roughly 44.7 million square feet of office space, divided into eight submarkets. The largest office submarket is Downtown/Midtown, serving as Sacramento's Central Business District (CBD) containing about 10.8 million square feet. Sacramento's seven non-CBD markets contain 33.9 million square feet and extend geographically towards the city of Davis to the west and eastward into the Sierra Nevada foothills in El Dorado and Placer counties.

The following map of the Sacramento market provides approximate locations for each of the region's office submarkets:

SACRAMENTO OFFICE SUBMARKET MAP



Source: Microsoft Virtual Earth

OFFICE SUBMARKETS

1. Downtown/Midtown
2. West & South Sacramento
3. Central Northeast
4. Route 50 Corridor
5. Carmichael/Fair/Citrus Heights
6. Roseville/Rocklin
7. North/South Natomas
8. El Dorado County

Current Trends

In third quarter 2019, the Sacramento office market fundamentals were positive year-over-year. Employment growth slowed in 2018, and continued through third quarter of 2019. As the seat of the California State government, Sacramento benefits from State agencies leasing office space in the region, while the government sector accounts for 23.3% of all employment in Sacramento. The market is also heavily oriented toward healthcare; UC Davis Health System employs one in six workers in the region. Development of the Golden 1 Center arena in downtown Sacramento, along with urban infill developments, are expected to be key drivers in the downtown core over the coming years, positively impacting the economy and the office market.

Below are highlights of the Sacramento office market as of second quarter 2019:

- Vacancy was 18.6%, down 20 basis points from the prior quarter and 60 basis points year-over-year.
- The region's overall average rental rate was $26.85 per square foot per year, up $0.26 per square foot quarter-over-quarter and $0.92 a year ago. Class A asking rents also increased $0.35 per square foot over the prior quarter and $1.37 year to $31.99.
- Overall net absorption totaled 290,000 square feet, compared to overall net absorption of 94,000 square feet a year earlier.

Vacancy

Vacancy fluctuated throughout 2018 due to more product being delivered to the market. As of third quarter 2019, vacancy dipped 60 basis points year-over-year to 18.6%. Strong demand from tenants has helped vacancy decline in the third quarter. As net absorption continues to decrease, and more product is delivered to the market, we expect vacancy rates to rise slightly in the near term.

The table below displays the current statistics of the Sacramento office market by submarket:

Office Market Statistics by Submarket
Sacramento Region
Third Quarter 2019

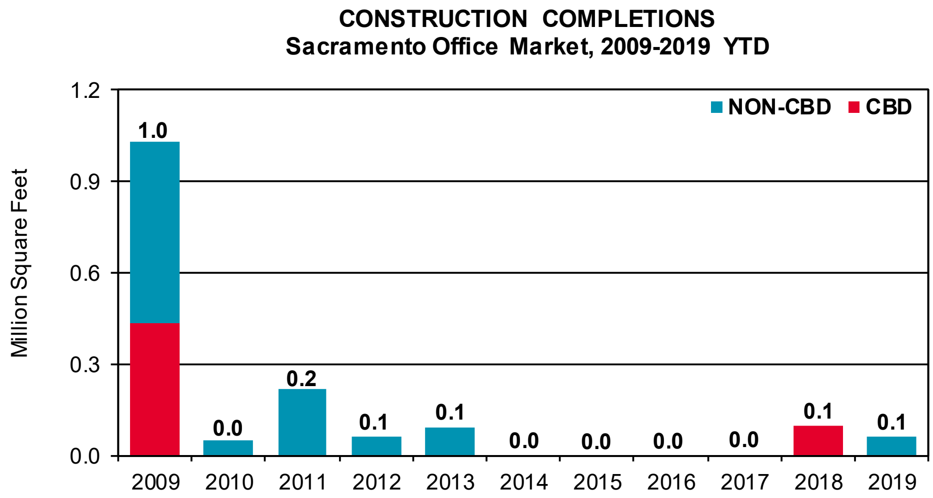
Market/Submarket	Inventory	Overall Vacancy Rate	YTD Const. Compl.	YTD Net Abs.	Under Const.	Class A Asking Rent	Overall Asking Rent
CBD							
CBD TOTALS	**10,773,000**	**12.0%**	**0**	**118,000**	**0**	**$40.29**	**$35.08**
NON-CBD							
West & South Sacramento	2,874,000	15.0%	0	(29,000)	0	$26.77	$22.32
Central Northeast	5,717,000	20.6%	0	103,000	0	$25.72	$23.49
Route 50 Corridor	8,555,000	25.2%	0	8,000	0	$26.65	$21.97
Carmichael/Fair Oaks/Citrus Heights	3,362,000	17.2%	0	54,000	0	$31.53	$25.01
Roseville/Rocklin	6,602,000	21.3%	0	(53,000)	0	$28.39	$25.53
North/South Natomas	6,080,000	17.2%	60,000	55,000	345,900	$31.30	$27.60
El Dorado County	714,000	34.0%	0	34,000	0	$0.00	$20.54
NON-CBD TOTALS	**33,904,000**	**20.8%**	**60,000**	**172,000**	**345,900**	**$27.80**	**$23.99**
SACRAMENTO TOTALS	**44,677,000**	**18.6%**	**60,000**	**290,000**	**345,900**	**$32.34**	**$26.85**

Source: Reis, Cushman & Wakefield Valuation & Advisory

Construction

Since the completion of about two million square feet of new office space in the beginning of the decade, construction completions have been minimal, as noted in the graph below. There were 60,000 square feet delivered in the third quarter of 2019. New construction is limited, as there remains a significant gap between the cost of construction and lease rates. As of third quarter 2019, there were 345,900 square feet of inventory in the pipeline. According to Reis, all developments were located in the North/South Natomas submarket. Most developments under construction are anticipated to be delivered by 2023.

The following graph summarized construction completions in the Sacramento office market from 2009 and 2019 year-to-date:

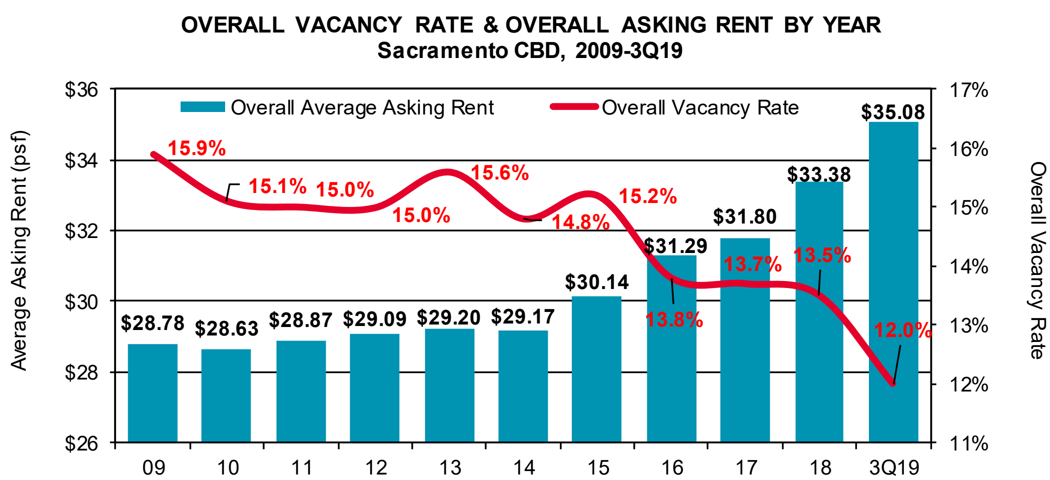


Source: Reis, Cushman & Wakefield Valuation & Advisory

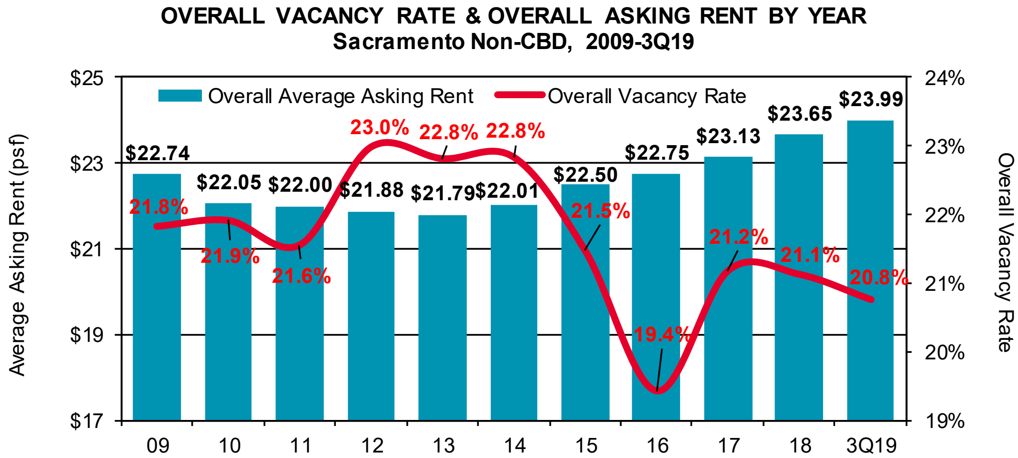
Asking Rents

The overall average asking rental rate increased in third quarter to $26.85 per square foot per year, up 3.5% year-over-year. Rental rate growth was slow over the past couple of years, however, it is gaining greater momentum, especially the rental rates in the CBD where the “arena effect” is pushing rents upward. The CBD’s overall asking rent rose 7% year-over-year to $35.08 per square foot per year while non-CBD’s overall rental rate experienced a 2.3% boost to $23.99 per square foot per year.

The following graphs are a comparison of Sacramento’s overall vacancy rate and overall asking rent from 2009 to third quarter 2019:



Source: Reis, Cushman & Wakefield Valuation & Advisory

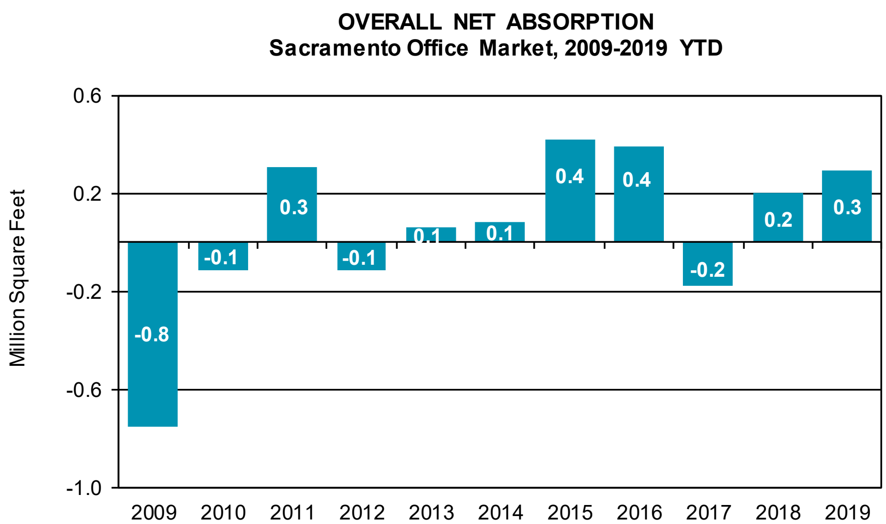


Source: Reis, Cushman & Wakefield Valuation & Advisory

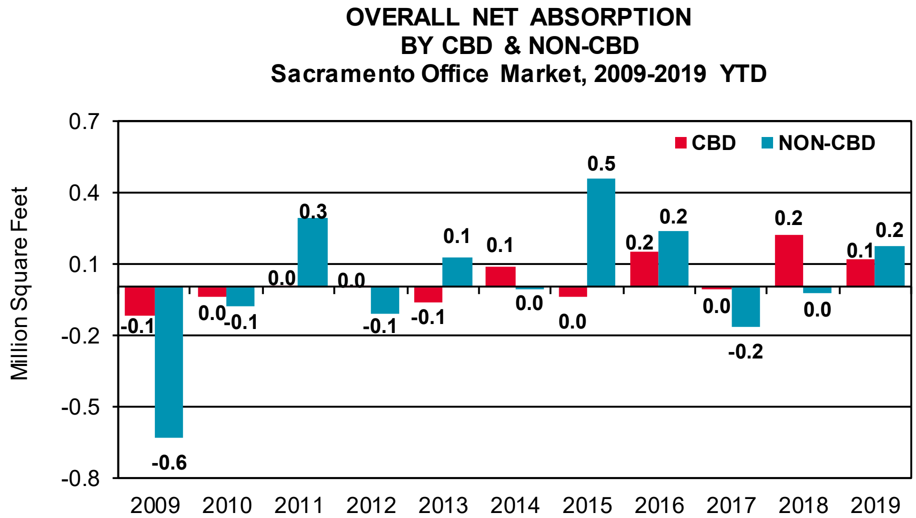
Absorption

Over the past decade, net absorption has fluctuated, posting moderate absorption. By year-end 2017, more than half of the submarkets returned space, and overall net absorption totaled negative 178,000 square feet, a significant change over last year's absorption. In 2018, Sacramento bounced back with a positive absorption of 198,000 feet. In the third quarter, the metro area posted absorption of 290,000 square feet. As more product enters the market and rental rates remain steady, absorption is projected to decrease in the near term.

The following charts display Sacramento's overall net absorption followed by a CBD and Non-CBD breakdown of overall net absorption from 2009 through 2019 year-to-date:



Source: Reis, Cushman & Wakefield Valuation & Advisory



Source: Reis, Cushman & Wakefield Valuation & Advisory

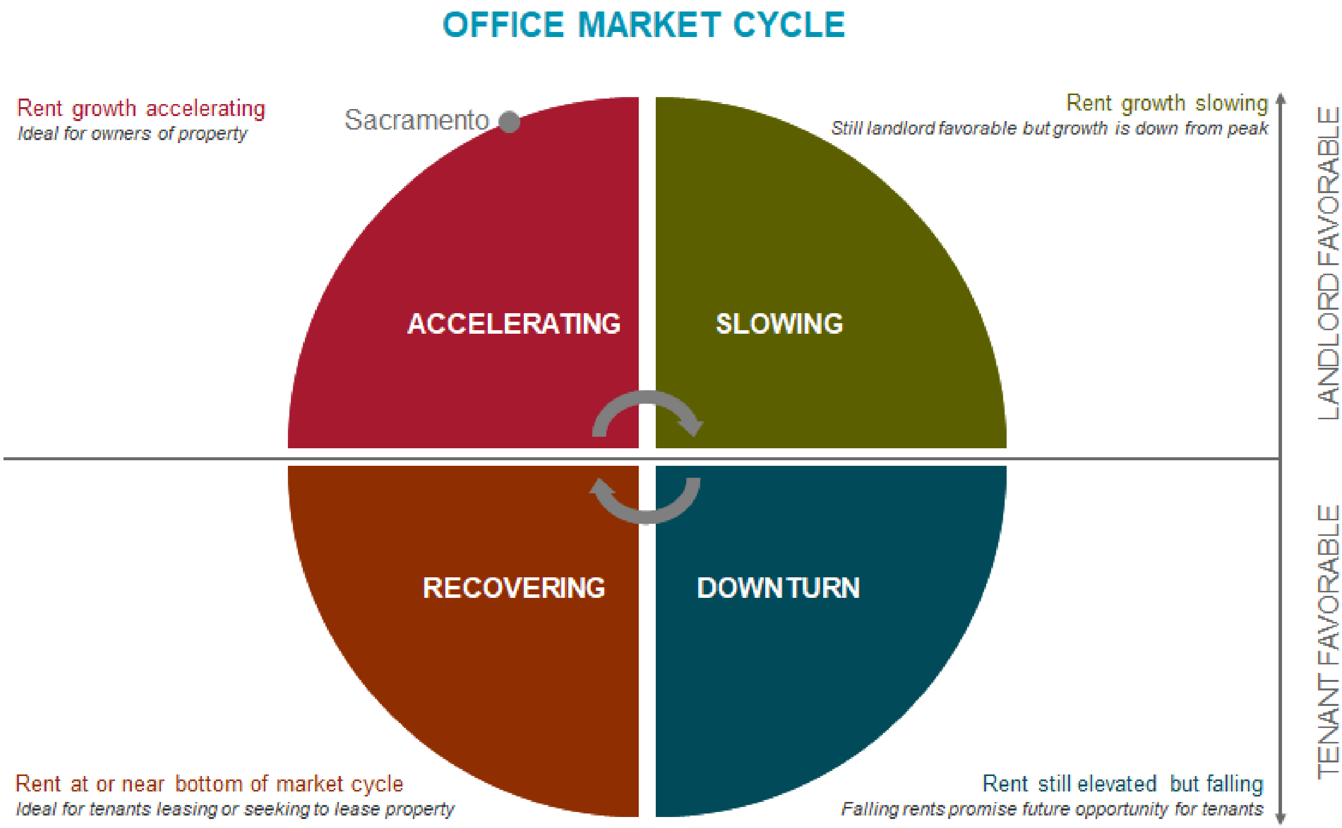
Demand Forecast

Cushman & Wakefield's office market forecasts are derived using a regression model developed by our Research staff. The model is based on trends in historical occupancy and rental rate movements as well as factors such as employment growth, new construction and absorption tendencies. Demand for office space within the Sacramento market is directly connected to changes in office-using employment over the next several years.

Highlights of the demand analysis are as follows:

- Office-using employment increases of are expected to translate into demand for roughly 651,661 square feet of space per year over the next five years. This forecast is robust, especially given the amount of absorption seen over the past few years.
- Given an assumed 12% stabilized vacancy, the overall market is currently oversupplied by three million square feet, or by 3.7 years.
- On an annualized basis through 2020 and 2021, asking and effective rents are projected to climb by 2.5% and 2.3%, respectively, to finish 2021 at $28.41 and $22.68 per square foot per year.

The following chart depicts the relative position of the Sacramento market in the office market cycle. As shown, Sacramento is considered to be in an accelerating and favorable to the landlord trend.



Source: Cushman & Wakefield Research and Cushman & Wakefield Western, Inc.

The following table outlines details of the demand analysis for the Sacramento office market:

Office Market Demand Analysis Sacramento, CA Third Quarter 2019	
Item	**Total**
Office Space Demand	
Total Non-Manufacturing Employment - (5-yr Avg)	997,197
Total Office Using Employment (*) - (5-yr Avg)	651,661
Office Using Employment as a Percentage	65%
Occupied Office Inventory, (sq. ft.)	36,346,000
Estimated Office Space per Employee Ratio (sq. ft.)	125
Forecasted Increase in Non-Manufacturing Employment (2019-2023)	49,450
Office-Using Employment as a Percentage	65%
Forecasted Increase in Office-Using Employment, (2019-2023)	32,143
Forecasted Office Space Demand Through 2023 (sq. ft.)	4,017,852
Average Annual Office Space Demand (sq. ft.)	803,570
Supply Stabilization Estimate	
Total Inventory	44,677,000
Stabilized Vacancy Rate	12%
Stabilized Vacancy (sq. ft.)	5,361,240
Current Overall Vacancy Rate	18.6%
Current Overall Vacancy (sq. ft.)	8,331,000
Oversupply / (Undersupply) of Space	2,969,760
Average Annual Demand	803,570
Year 1 - 2019	1,492,892
Year 2 - 2020	818,487
Year 3 - 2021	189,913
Year 4 - 2022	849,021
Year 5 - 2023	667,538
Years of Oversupply(**)	3.70

(*) Office Using Industries Includes: Information, Financial, Professional & Business Services, Health and Government

(**) Excludes Anticipated Construction Completions

Source: Data Courtesy of Moody's Analytics, Reis, Cushman & Wakefield Valuation & Advisory

Conclusion

Sacramento’s economy remains strong with signs of continued growth across the major industries impacting the office market. Due to low business costs and affordable housing, many people are moving to Sacramento. An influx of people moving to the region is due to high enrollment gains coming from UC Davis. UC Davis is known as one of the largest employers in the region and brings high tech development, which lead to the overall increase in office-using employment. People who migrated from more expensive areas such as the Bay Area, brings well-educated, well-paid tech workers. Upward pressure on housing costs is a likely effect. Existing tenants will continue a flight to quality as Sacramento still has some of the most economical rents of all CBDs in Northern California and increasing interest and migration from tenants outside of the market area is expected.

Downtown/Midtown Office Submarket

Introduction

Data for the following analysis of the Sacramento Downtown/Midtown Office market is provided by Reis, Inc., a leading provider of multifamily and commercial real estate market information since 1980. Reis proprietary database includes trends, forecasts, news and analyses for approximately 200,000 multifamily and commercial properties in 232 metropolitan markets (4 property types multiplied by 58 metropolitan areas) and roughly 2,500 submarkets.

Current and historical figures are compiled by highly qualified industry analysts. Surveyors, as they are called, are responsible for gathering information on property availabilities, rents and lease terms, etc. by directly contacting owners, managers and leasing agents. Projected data is calculated using a suite of economic forecasting models developed by The Economic Research Group, a team led by Ph.D. economists.

Reis' data is released on a quarterly basis, and is widely recognized as a fundamental tool for appraisers throughout the country.

Sacramento Office Market

Reis, Inc. classifies the Sacramento Office market into eight submarkets, and segregates inventory by type of space (Class A versus Class B/C). The subject lies within the Downtown/Midtown submarket of Sacramento.

Submarket Snapshot

The Sacramento Office market contains 44,677,000 square feet of space. Downtown/Midtown is the largest submarket, comprising 24.1% of the area's total inventory. El Dorado County is the smallest submarket with 1.6% of total inventory. The Downtown/Midtown submarket contains 10,773,000 square feet, or 24.1% of the region's inventory.

The following table presents the geographic distribution of inventory, along with other statistical information.

GEOGRAPHIC DISTRIBUTION OF INVENTORY

Submarket	Class	No. of Buildings	Inventory (SF)	% Total	Vacancy Rate (%)	Net Absorption	Asking Rent ($/SF)
Carmichael/Fair Oaks/Citrus Heights	A		916,000	2.1	11.9	10,000	$31.53
Carmichael/Fair Oaks/Citrus Heights	B/C		2,446,000	5.5	19.2	0	$22.53
Carmichael/Fair Oaks/Citrus Heights	**A/B/C**	**109**	**3,362,000**	**7.5**	**17.2**	**10,000**	**$25.01**
Central Northeast	A		1,875,000	4.2	24.2	10,000	$25.72
Central Northeast	B/C		3,842,000	8.6	18.8	76,000	$22.39
Central Northeast	**A/B/C**	**159**	**5,717,000**	**12.8**	**20.6**	**85,000**	**$23.49**
Downtown/Midtown	A		5,982,000	13.4	10.7	36,000	$40.29
Downtown/Midtown	B/C		4,791,000	10.7	13.7	7,000	$28.69
Downtown/Midtown	**A/B/C**	**157**	**10,773,000**	**24.1**	**12.0**	**43,000**	**$35.08**
El Dorado County	---		0	0.0	0.0	0	$0.00
El Dorado County	B/C		589,000	1.3	34.1	9,000	$20.08
El Dorado County	**A/B/C**	**42**	**714,000**	**1.6**	**34.0**	**10,000**	**$20.54**
North/South Natomas	A		2,199,000	4.9	12.2	75,000	$31.30
North/South Natomas	B/C		3,881,000	8.7	20.0	-32,000	$25.47
North/South Natomas	**A/B/C**	**91**	**6,080,000**	**13.6**	**17.2**	**43,000**	**$27.60**
Roseville/Rocklin	A		2,545,000	5.7	19.1	31,000	$28.39
Roseville/Rocklin	B/C		4,057,000	9.1	22.7	16,000	$23.70
Roseville/Rocklin	**A/B/C**	**186**	**6,602,000**	**14.8**	**21.3**	**46,000**	**$25.53**
Route 50 Corridor	A		2,635,000	5.9	20.4	-14,000	$26.65
Route 50 Corridor	B/C		5,920,000	13.3	27.3	-55,000	$19.85
Route 50 Corridor	**A/B/C**	**168**	**8,555,000**	**19.1**	**25.2**	**-69,000**	**$21.97**
West & South Sacramento	A		1,047,000	2.3	7.4	-22,000	$26.77
West & South Sacramento	B/C		1,827,000	4.1	19.3	-23,000	$19.75
West & South Sacramento	**A/B/C**	**87**	**2,874,000**	**6.4**	**15.0**	**-46,000**	**$22.32**
Total A	A		17,199,000	38.5	15.1	128,000	$32.34
Total B/C	B/C		27,353,000	61.2	20.9	-2,000	$23.36
Total/Average	**A/B/C**	**999**	**44,677,000**	**100.0**	**18.6**	**126,000**	**$26.85**

Source:

As of third quarter 2019, the overall vacancy rate for the region is 18.6%. El Dorado County has the highest vacancy rate at 34%, while Downtown/Midtown has the lowest vacancy in the region at 12%.

The overall average asking rental rate in the Sacramento Office market is $26.85 per square foot. Downtown/Midtown had the highest average asking rent of $35.08 per square foot. Conversely, the lowest average asking rent is being achieved in El Dorado County at $20.54 per square foot.

Class A buildings constitute 38.5% of existing inventory and are exhibiting a lower vacancy rate (15.1%) than Class B/C buildings (20.9%) and higher average asking rents of $32.34 versus $23.36 per square foot.

Construction Completions

Within the Downtown/Midtown submarket, a total of 99,000 square feet of space was completed between 2014 and 2018, in multiple buildings. Over the next five years, Reis projects that an additional 198,000 square feet of new space will be completed within the Downtown/Midtown submarket, although this construction has yet to commence.

The following table presents historical inventory and projected completions for the region and subject submarket.

HISTORICAL AND PROJECTED INVENTORY & COMPLETIONS (SF)

	Downtown/Midtown					
Year	**Class A**	**Completions**	**Class B/C**	**Completions**	**Total Completions**	**% of Region**
2014	5,883,000	0	4,848,000	0	0	0.0%
2015	5,883,000	0	4,848,000	0	0	0.0%
2016	5,883,000	0	4,848,000	0	0	0.0%
2017	5,883,000	0	4,791,000	0	0	0.0%
2018	5,982,000	99,000	4,791,000	0	99,000	100.0%
3Q19	5,982,000	0	4,791,000	0	0	0.0%
2019	---	---	---	---	0	0.0%
2020	---	---	---	---	0	0.0%
2021	---	---	---	---	36,000	23.8%
2022	---	---	---	---	75,000	23.7%
2023	---	---	---	---	87,000	23.7%
2014-2018						
Total Completions		**99,000**		**0**	**99,000**	
Annual Average		**19,800**		**0**	**19,800**	**100.0%**

Source: Reis, Inc.

Vacancy Rates

Between 2014 and 2018, vacancy rates decreased from 14.8% to 13.1%. For third quarter 2019, the vacancy rate for the submarket stands at 12%. Over the near term, Reis is projecting a rise in vacancy for the Downtown/Midtown submarket, with vacancy levels ranging from 12.1% in 2019 to 14.2% in 2023.

The following table presents historical and projected vacancy rates for the subject submarket.

HISTORICAL AND PROJECTED VACANCY RATES (%)			
	Downtown/Midtown		
Year	Class A	Class B/C	Total
2014	17.9	11.0	14.8
2015	18.1	11.7	15.2
2016	16.1	11.0	13.8
2017	15.6	11.0	13.5
2018	13.4	12.8	13.1
3Q19	10.7	13.7	12.0
2019	---	---	12.1
2020	---	---	12.3
2021	---	---	12.9
2022	---	---	13.5
2023	---	---	14.2

Source: Reis, Inc.
Note: Reis does not differentiate betw een space that is available directly from the landlord or as a sublease.
Any space that is available immediately for leasing (i.e. w ithin 30 days) is considered vacant by Reis'

As shown, Class A buildings within the submarket are exhibiting a lower vacancy rate at 10.7% than Class B/C buildings at 13.7%.

Absorption

Between 2014 and 2018, new construction within the Downtown/Midtown submarket outpaced absorption, with an annual average of 19,800 square feet completed and 6,800 square feet absorbed. Over the next five years, Reis projects that new construction will outpace absorption in which new construction will total 198,000 square feet, and 56,000 square feet is expected to be absorbed.

The following table presents historical and projected absorption levels and completions for the region and the subject submarket.

HISTORIC AND PROJECTED NET ABSORPTION (SF)				
	Dow ntow n/Midtow n			
Year	Class A	Class B/C	Total Absorption	Total Completions
2014	-67,000	-118,000	-185,000	0
2015	-10,000	-33,000	-43,000	0
2016	116,000	33,000	150,000	0
2017	33,000	-49,000	-17,000	0
2018	215,000	-86,000	129,000	99,000
3Q19	36,000	7,000	43,000	0
2019	---	---	109,000	0
2020	---	---	-23,000	0
2021	---	---	-30,000	36,000
2022	---	---	-7,000	75,000
2023	---	---	7,000	87,000
2014-2018				
Total Absorption	**287,000**	**-253,000**	**34,000**	**99,000**
Annual Average	**57,400**	**-50,600**	**6,800**	**19,800**

Source: Reis, Inc.

Average Asking Rental Rates

Average asking rental rates in the Downtown/Midtown submarket increased from an average of $29.17 per square foot in 2014 to $33.38 per square foot in 2018, demonstrating a CAGR of 3.4%. The current average asking rent stands at $35.08 per square foot. Over the next five years, average asking rents are expected to increase from $35.50 per square foot in 2019 to $40.34 per square foot in 2023.

The following table presents historical and projected average asking rental rates for the region and subject submarket.

Historical and Projected Average Asking Rental Rates ($/SF)					
	Downtown/Midtown				
Year	Class A	Class B/C	Total	% Change	Effective Rent
2014	$34.02	$23.29	$29.17	-0.1	$24.54
2015	$35.05	$24.19	$30.14	3.3	$25.36
2016	$36.60	$24.84	$31.29	3.8	$26.42
2017	$36.88	$25.56	$31.80	1.6	$26.81
2018	$38.13	$27.44	$33.38	5.0	$28.26
3Q19	$40.29	$28.69	$35.08	2.0	$29.81
2019	---	---	$35.50	6.4	$30.10
2020	---	---	$36.84	3.8	$31.23
2021	---	---	$38.03	3.2	$32.13
2022	---	---	$39.14	2.9	$33.01
2023	---	---	$40.34	3.1	$33.91
2014-2018 CAGR	**2.89%**	**4.18%**	**3.43%**		

Notes: CAGR stands for Compound Annual Growth Rate. Asking rents cited by Reis reflect the advertised rental rates for actively marketed space. Effective rents net of any rental concessions, expressed over the life of the lease term. Reis quotes Office

Within Downtown/Midtown, Class A buildings have higher average asking rents than Class B/C buildings at $40.29 per square foot compared to $28.69 per square foot.

New Construction Activity

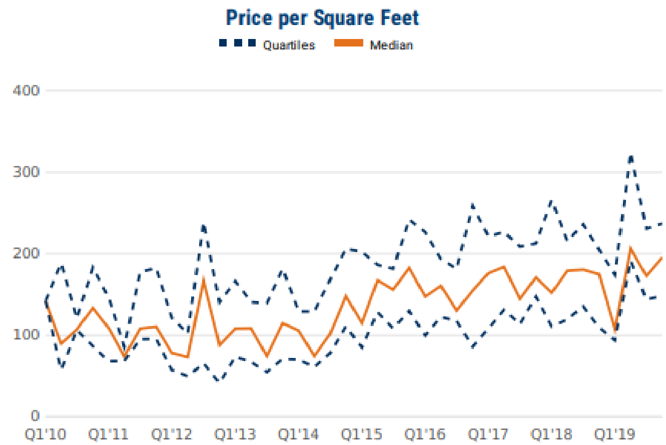
Between 2014 to 2017, there were no construction completions in the Downtown/Midtown submarket. In 2018, there were 99,000 square feet of inventory in the pipeline. According to Reis, there were no new construction activity in the third quarter of 2019 but is projected to deliver 198,000 square feet over the next five years.

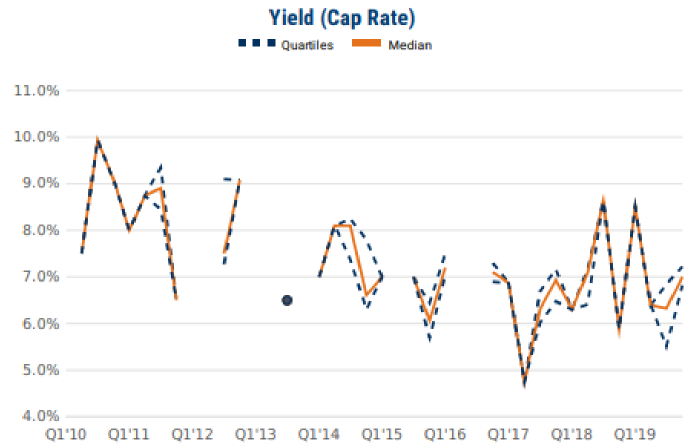
Downtown/Midtown Submarket Office Conclusion

Vacancy levels for the Downtown/Midtown Office submarket have declined since 2016 and are projected to increase from 12.1% next year to 14.2% in 2023. Over the next five years, new construction activity should outpace absorption, and average asking rates are projected to range from $36.84 per square foot by the end of 2020 to $40.34 per square foot in 2023.

Sacramento Office Investment Sales Market

According to Real Capital Analytics, 70 office sale transactions closed in the 12 months ending December 2019, with a total volume of $1,131 million, averaging a price of approximately $217 per square foot. The buildings total 5.242 million square feet. Cap rates for this market have not been steady enough for REIS to track. As shown in the following graphic, prices for the selected filters (Sacramento Metro Market) have generally trended slowly upward since 2010. Capitalization rates have generally trended downward during this period.





Source: *Real Capital Analytics*

Subject Property

Location and Description

The subject is located in the downtown area of Sacramento. The boundaries of the downtown area are delineated as the American River to the north; Business Interstate 80 to the east and south; and the Sacramento River to the west. The subject is situated north of the State Capitol. The primary attraction in Downtown Sacramento is a new sports entertainment venue, housing the major tenant, the Sacramento Kings. Development was completed for the beginning of the 2016-2017 NBA season.

The subject is a 25-story, Class A, multi-tenant office building that contains 453,501 square feet of rentable area situated on a 95,687 square foot site. The improvements were completed in 1992 and are in good condition. Parking is provided via an on-site garage. Access is provided from the 9th and J Streets. The property is situated along J Street, the primary east-west thoroughfare from Interstate 5 to the Business Route 80. The district contains the original city limits of Sacramento, dating back to when the city took shape in the 1850's along the banks of the American and Sacramento Rivers. Later, Sacramento was chosen as the State's seat of government, and the State Capitol building was constructed in the heart of the district. Today, much of the existing office space in downtown Sacramento is occupied or oriented towards the state government. The area also serves as a major commerce center for the region. The district is mature and is nearly 100% built-up. However, redevelopment is occurring as older uses are replaced with newer, higher density structures.

Transportation and Connectivity

Local area accessibility is generally good, relying on the following transportation arteries:

Local:	Local accessibility is also considered good with the subject on J Street with good ingress and egress on Interstate 5 and nearby off ramp access. The downtown area is laid out in a grid-system consisting of lettered streets in the east/west directions and numbered streets in a north/south direction.
Regional:	Interstate 5 travels the length of the western United States from the Canadian to the Mexican border, and it passes through the western edge of Sacramento's Downtown. CA Highway 99 travels the state's valleys, making its way through Sacramento as it connects the Sacramento Valley to the Central Valley. Interstate 80 begins in San Francisco and enters Sacramento's western edge before splitting into US 50 (continuing east to Ocean City, Maryland) or continuing on the more modern route of Interstate 80 to Teaneck, New Jersey).

Public transportation available in the district include the Sacramento Light Rail Transit, Sacramento Regional buses, Greyhound bus lines, as well as Amtrak whose Sacramento station is located near the north end of the neighborhood.

Competitive Market Survey – Micro Market

In order to gain a better understanding of the market conditions specific to the subject property, we conducted a survey of those buildings that would be considered most competitive to the subject.

Micro Market Snapshot

We have identified office buildings with the following characteristics as the being directly competitive with the subject.

- 10+ story, Class A office product in the Downtown and Midtown submarket

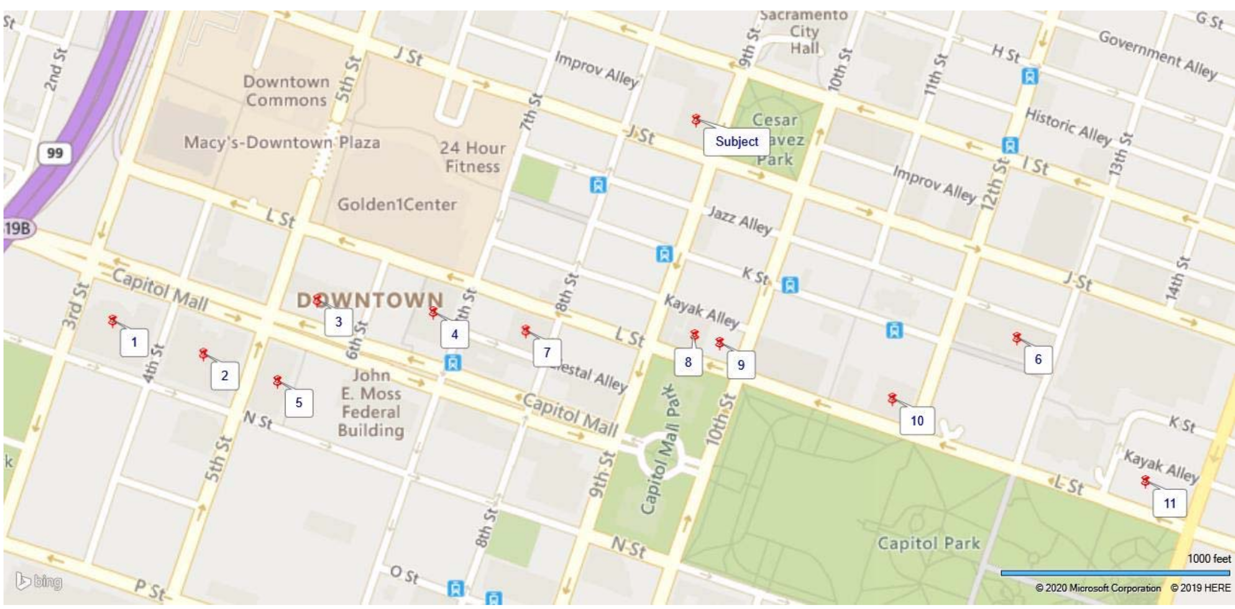
The following table contains the results of a CoStar Group and Cushman & Wakefield survey of existing competitive properties. These buildings are similar in terms of location, physical attributes, and access to amenities:

COMPETITIVE MICRO MARKET

No.	Name	Address	Parking Ratio	Year Built	Stories	RBA (SF)	Direct Vacant SF	% Leased	Ask Rate/SF
S	**Park Tower**	**980 9th St**	**2.50**	**1992**	**25**	**463,556**	**28,384**	**93.9**	**$41.24**
1	Emerald Tower	300 Capitol Mall	2.00	1985	18	385,844	25,461	93.4	$40.20
2	Wells Fargo Center	400 Capitol Mall	2.18	1992	30	500,662	17,413	96.5	$43.54
3	Plaza Five Fifty Five	555 Capitol Mall	0.01	1970	15	389,064	18,955	95.1	$41.68
4	U.S. Bank Tower	621 Capitol Mall	2.00	2008	25	366,337	12,025	96.7	$44.40
5	Bank of the West Tower	500 Capitol Mall	2.00	2009	25	445,984	21,632	95.2	$42.00
6	Esquire Plaza	1215 K St	1.00	1999	22	270,712	8,180	97.0	$41.54
7		770 L St	2.00	1984	14	170,267	7,322	95.7	$40.64
8	Capitol Place	915 L St	1.70	1988	14	163,840	10,916	93.3	$42.00
9		925 L St	1.00	1973	14	165,919	10,274	93.8	$39.92
10	Senator Office Building	1121 L St	0.00	1924	10	180,123	8,364	95.4	$41.30
11	Meridian Plaza	1415 L St	2.00	2003	12	229,109	5,633	97.5	$43.20
OVERALL STATISTICS INCLUDING SUBJECT									
Low:			0.00	1924	10	163,840	5,633	93.3	$39.92
High:			2.50	2009	30	500,662	28,384	97.5	$44.40
Average/Total:			**1.53**	**1986**	**19**	**310,951**	**14,547**	**95.3**	**$41.81**

FS- 'Full Service Gross'
Source: CoStar Goup, Inc. and Cushman & Wakefield Western, Inc.

COMPETITION MAP



We surveyed 11 competitive office buildings within the submarket, excluding the subject property, containing approximately 3.26 million square feet. The average vacancy is approximately 4.6 percent, which is near the Downtown/Midtown Submarket average of 12.0 percent. Rents are shown on an equivalent "full service" basis. This lease structure is defined by market participants as tenants responsible for any increases in operating expenses over base year levels for all operating expenses including real estate taxes, insurance, common area maintenance and utilities.

The range in average asking rental rates is primarily based on the property location, the quality and amount of tenant buildout, and other property characteristics. Average asking rates for competitive office space range from $39.92 to $44.40 per square foot, with 400 and 621 Capitol Mall setting the top of the market.

Lease rates include a tenant improvement package ranging from $40.00 to $60.00 per square foot per year of the lease term. Leases typically have 3.0 percent per annum escalations.

As reflected by the following table, market trends reflect increasing rental rates and a general tightening in occupancy since the peak of the Great Recession.

Market Trends

As reflected by the following table, market trends reflect increasing rental rates and a general tightening in occupancy since the peak of the Great Recession.

COMPETITIVE MICRO MARKET TRENDS

Period	No. of Buildings	Inventory Square Feet	Vacant Available Sq. Ft.	Percent Vacant Available	Net Absorption Sq. Ft.	Average Asking FS Rent PSF	Deliveries		Under Construction	
							No. of Bldgs.	Rentable Sq. Ft.	No. of Bldgs.	Rentable Sq. Ft.
YTD	12	3,737,212	234,162	6.30%	110,116	$39.96	0	0	0	0
2018	12	3,737,212	310,147	8.30%	109,023	$37.19	0	0	0	0
2017	12	3,737,212	411,446	11.00%	13,480	$36.21	0	0	0	0
2016	12	3,737,212	449,929	12.00%	51,533	$35.65	0	0	0	0
2015	12	3,737,212	507,745	13.60%	131,793	$34.17	0	0	0	0
2014	12	3,737,212	650,773	17.40%	(55,718)	$31.68	0	0	0	0

FS- 'Full Service Gross"
Source: CoStar Group, Inc. and Cushman & Wakefield Western, Inc.

There are abundant amenities (Downtown Commons, Golden One Arena, Convention Center and hotel, retail and restaurant amenities) and multi-family housing in the immediate area, with more under construction. The economic increase in Sacramento has continued to increase office-using employment, and office product throughout this corporate node has benefitted in terms of positive absorption.

Subject's Competitive Market Position

The subject is considered a Class A office property by market participants based on its quality, condition and tenancy. Most of the local inventory was developed in the 1990s. In some cases, tenants have expressed a flight to quality and left the Urban Center for nearby areas in Irving. The newest completed construction was 500 Capitol Mall and 621 Capitol Mall, both with primary speculative leasing.

Further, the subject parking revenue has increased over the last few years, after the completion of the Golden 1 Center, a testament to the critical mass and night life that is being created in the DoCo area with new restaurants, hotels, loft residential units, etc in the immediate downtown areas.

Micro Market Outlook and Conclusions

The Downtown/Midtown submarket is supported by a variety of existing and future demand generators, such as desirable "lifestyle" amenities, easy freeway access, and proximity to Sacramento International Airport. The abundance of new multi-family housing will contribute to the ability to work-life-play in the subject's immediate area. There is little new office supply over the past 5-7 years, but 301 Capitol Mall, a CIM Group/CalPers project, is in pre-leasing mode, seeking a primary tenant before development of the 33 story, mixed-use property commences. This lack of new supply will keep the market relatively tight over the short term, although there will be some movement to the limited new product that does get built. Occupancy and rental rates should continue to outperform Sacramento averages. Considering these factors, the overall outlook for the submarket, as well as the subject property within the competitive set, is good on both long and short-term horizons.

SWOT ANALYSIS

Strengths

- The primary market area has recorded significant rent increase in recent years with growth or stability projected.
- The Downtown and Midtown Submarket are in a renewed growth phase with multi-family, amenity, and hospitality construction underway.
- The submarket benefits from high-income demographics in the immediate area.
- The local area includes Golden One Arena, a major demand generator.
- The property is of good quality and is in good condition owing to a recent renovation to common areas.
- There is no new speculative office construction in the immediate area.
- Near-term lease expiration risk is low.

Weaknesses

- A significant portion of the subject's rent roll is leased below market.
- The subject is located off the Capitol Mall Corridor.

Opportunities

- The property has significant upside through renewing below-market rents to market.
- The location is near the new DoCo and Golden One Arena

Threats

- None noted

Respectfully submitted,

CUSHMAN & WAKEFIELD WESTERN, INC.

Judson H. Cline, MAI, MRICS
Senior Director
judson.cline@cushwake.com
916-473-7396 Office Direct

Addenda Contents

Addendum A:
Assumptions and Limiting Conditions

Assumptions and Limiting Conditions

"Report" means the consulting report and conclusions stated therein, to which these Assumptions and Limiting Conditions are annexed.

"Property" means the subject of the Report.

"Cushman & Wakefield" means Cushman & Wakefield, Inc. or its subsidiary that issued the Report.

"Appraiser(s)" means the employee(s) of Cushman & Wakefield who prepared and signed the Report.

The Report has been made subject to the following assumptions and limiting conditions:

- No opinion is intended to be expressed and no responsibility is assumed for the legal description or for any matters that are legal in nature or require legal expertise or specialized knowledge beyond that of a real estate appraiser. Title to the Property is assumed to be good and marketable and the Property is assumed to be free and clear of all liens unless otherwise stated. No survey of the Property was undertaken.
- The information contained in the Report or upon which the Report is based has been gathered from sources the Appraiser assumes to be reliable and accurate. The owner of the Property may have provided some of such information. Neither the Appraiser nor Cushman & Wakefield shall be responsible for the accuracy or completeness of such information, including the correctness of estimates, opinions, dimensions, sketches, exhibits and factual matters. Any authorized user of the Report is obligated to bring to the attention of Cushman & Wakefield any inaccuracies or errors that it believes are contained in the Report.
- The opinions are only as of the date stated in the Report. Changes since that date in external and market factors or in the Property itself can significantly affect the conclusions in the Report.
- The Report is to be used in whole and not in part. No part of the Report shall be used in conjunction with any other analyses. Publication of the Report or any portion thereof without the prior written consent of Cushman & Wakefield is prohibited. Reference to the Appraisal Institute or to the MAI designation is prohibited. Except as may be otherwise stated in the letter of engagement, the Report may not be used by any person(s) other than the party(ies) to whom it is addressed or for purposes other than that for which it was prepared. No part of the Report shall be conveyed to the public through advertising, or used in any sales, promotion, offering or SEC material without Cushman & Wakefield's prior written consent. Any authorized user(s) of this Report who provides a copy to, or permits reliance thereon by, any person or entity not authorized by Cushman & Wakefield in writing to use or rely thereon, hereby agrees to indemnify and hold Cushman & Wakefield, its affiliates and their respective shareholders, directors, officers and employees, harmless from and against all damages, expenses, claims and costs, including attorneys' fees, incurred in investigating and defending any claim arising from or in any way connected to the use of, or reliance upon, the Report by any such unauthorized person(s) or entity(ies).
- Except as may be otherwise stated in the letter of engagement, the Appraiser shall not be required to give testimony in any court or administrative proceeding relating to the Property or the Report.
- The Report assumes (a) responsible ownership and competent management of the Property; (b) there are no hidden or unapparent conditions of the Property, subsoil or structures that render the Property more or less valuable (no responsibility is assumed for such conditions or for arranging for engineering studies that may be required to discover them); (c) full compliance with all applicable federal, state and local zoning and environmental regulations and laws, unless noncompliance is stated, defined and considered in the Report; and (d) all required licenses, certificates of occupancy and other governmental consents have been or can be obtained and renewed for any use on which the value opinion contained in the Report is based.
- The physical condition of the improvements considered by the Report is based on visual inspection by the Appraiser or other person identified in the Report. Cushman & Wakefield assumes no responsibility for the soundness of structural components or for the condition of mechanical equipment, plumbing or electrical components.
- The forecasted potential gross income referred to in the Report may be based on lease summaries provided by the owner or third parties. The Report assumes no responsibility for the authenticity or completeness of lease information provided by others. Cushman & Wakefield recommends that legal advice be obtained regarding the interpretation of lease provisions and the contractual rights of parties.

- The forecasts of income and expenses are not predictions of the future. Rather, they are the Appraiser's best opinions of current market thinking on future income and expenses. The Appraiser and Cushman & Wakefield make no warranty or representation that these forecasts will materialize. The real estate market is constantly fluctuating and changing. It is not the Appraiser's task to predict or in any way warrant the conditions of a future real estate market; the Appraiser can only reflect what the investment community, as of the date of the Report, envisages for the future in terms of rental rates, expenses, and supply and demand.
- Unless otherwise stated in the Report, the existence of potentially hazardous or toxic materials that may have been used in the construction or maintenance of the improvements or may be located at or about the Property was not considered in arriving at the opinion of value. These materials (such as formaldehyde foam insulation, asbestos insulation and other potentially hazardous materials) may adversely affect the value of the Property. The Appraisers are not qualified to detect such substances. Cushman & Wakefield recommends that an environmental expert be employed to determine the impact of these matters on the opinion of value.
- Unless otherwise stated in the Report, compliance with the requirements of the Americans with Disabilities Act of 1990 (ADA) has not been considered in arriving at the opinion of value. Failure to comply with the requirements of the ADA may adversely affect the value of the Property. Cushman & Wakefield recommends that an expert in this field be employed to determine the compliance of the Property with the requirements of the ADA and the impact of these matters on the opinion of value.
- If the Report is submitted to a lender or investor with the prior approval of Cushman & Wakefield, such party should consider this Report as only one factor, together with its independent investment considerations and underwriting criteria, in its overall investment decision. Such lender or investor is specifically cautioned to understand all Extraordinary Assumptions and Hypothetical Conditions and the Assumptions and Limiting Conditions incorporated in this Report.
- Subject to applicable laws and regulations (including the Singapore Securities and Futures Act, Chapter 289 of Singapore) its sole and exclusive remedy for any and all losses or damages relating to this agreement or the report shall be limited to two millions dollars ($2.0 million). In the event that the Client, or any other party entitled to do so, makes a claim against Cushman & Wakefield or any of its affiliates or any of their respective officers or employees in connection with or in any way relating to this engagement or the report, the maximum damages recoverable from Cushman & Wakefield or any of its affiliates or their respective officers or employees shall be subject to applicable laws and regulations (including the Singapore Securities and Futures Act, Chapter 289 of Singapore) limited to two million dollars ($2.0 million) and under no circumstances shall any claim for consequential damages be made.
- If the Report is referred to or included in any offering material or prospectus, the Report shall be deemed referred to or included for informational purposes only and Cushman & Wakefield, its employees and the Appraiser have no liability to such recipients. Cushman & Wakefield disclaims any and all liability to any party other than the party that retained Cushman & Wakefield to prepare the Report.
- Unless otherwise noted, we were not given a soil report to review. However, we assume that the soil's load-bearing capacity is sufficient to support existing and/or proposed structure(s). We did not observe any evidence to the contrary during our physical inspection of the property. Drainage appears to be adequate.
- Unless otherwise noted, we were not given a title report to review. We do not know of any easements, encroachments, or restrictions that would adversely affect the site's use. However, we recommend a title search to determine whether any adverse conditions exist.
- Unless otherwise noted, we were not given a wetlands survey to review. If subsequent engineering data reveal the presence of regulated wetlands, it could materially affect property value. We recommend a wetlands survey by a professional engineer with expertise in this field.
- Unless otherwise noted, we observed no evidence of toxic or hazardous substances during our inspection of the site. However, we are not trained to perform technical environmental inspections and recommend the hiring of a professional engineer with expertise in this field.
- Unless otherwise noted, we did not inspect the roof nor did we make a detailed inspection of the mechanical systems. The appraisers are not qualified to render an opinion regarding the adequacy or condition of these components. The client is urged to retain an expert in this field if detailed information is needed.
- By use of this Report each party that uses this Report agrees to be bound by all of the Assumptions and Limiting Conditions, Hypothetical Conditions and Extraordinary Assumptions stated herein.

Addendum B:
Terms & Definitions

Terms and Definitions

Office

Existing Office inventory- In general, includes existing competitive buildings but does not include 85% or greater owner-occupied, government, retail, industrial, medical or, educational buildings. Inventory base square footage includes all competitive buildings that are classified as office. In the case of medical, note that medical tenants in an office building do not preclude the building's inclusion in statistics. The rule is that a medical building is built for the purpose of housing solely medical occupants and is often in an area dominated by medical uses such as hospitals or clinics. On average, the national minimum standard for inclusion in statistics is 20,000 square feet and while this may vary slightly by market, each market is required to incorporate a minimum threshold.

Class A- most prestigious buildings competing for premier office users with above average rents. High quality standards, well-located. Typically steel and concrete construction, built or renovated after 1980, quality tenants, excellent amenities & premium rents

Class B- buildings competing for wide range of office users with average rents. These buildings do not compete with Class A space. Typically built or renovated after 1960, with fair to good finishes & for a wide range of tenants.

Class C- buildings competing for tenants requiring functional space at below market rents.

CBD- Central Business District – typically a geographical area which includes the downtown office core of a metropolitan area or division.

Non-CBD/Suburbs- Everything in a market that is outside the CBD. Should always be referred to as suburban or suburbs.

Trophy Buildings- Building set distinguished by quality and location that merits its own rating superior to standard Class A properties. Internationally, these may also be referred to as "prime assets" and rents in such buildings may be referred to as "prime rents." In cases where trophy assets are not tracked separately, the Class A inventory in the functional CBD is the next best proxy for such trends.

General Statistical Terminology and Definitions

Asking rental rate (annual or monthly, gross or triple net, depending upon space use type) – The annual or monthly cost per square foot offered by the landlord or sub-landlord for leasing space, weighted by the amount of available space. Reported quarterly, gross, for all classes or subtypes.

Direct asking rent- rents quoted through the building landlord

Sublet asking rent- rents quoted through the master tenant

Direct vacant space- Space that is offered directly through the landlord that is free and clear of any current lease obligations. In order for inclusion in statistics, this space must be vacant or will be vacant by the end of the current reporting quarter. If the space does not meet that criteria, the space may be available, but should be out of statistics. Examples of such space include the leasing office, conference areas, or retail space that is available within the building such as sundry shops or dry cleaners.

Sublease vacant space- The same statistical rules apply to sublease space as to direct space. The difference is that sublease space is encumbered by a lease obligation. Sublease space may be offered through the tenant with the lease obligation, through the tenant's broker, or even through the landlord. It should be noted that even though space may be offered as a sublease, the space may actually be re-leased as direct space because the landlord decides to forgive the current lease obligation and draw up a new lease instead. For this reason, when sublease space is marked as "leased," one should find out if the space was actually leased as a sublease.

Available space- Space that is considered "on the market" whether vacant or not. See Availability Rate below.

Overall vacant space- The sum of direct available space and space available for sublease and new space.

Overall vacancy rate- The calculation used to determine the percent of overall space (direct + sublease + new) that is vacant:

Vacancy (%) = Overall vacant space divided by Inventory

Direct vacancy rate- The calculation used to determine the percent of direct space that is vacant:

Direct Vacancy (%) = Direct vacant space divided by Inventory

Sublet vacancy rate- The calculation used to determine the percent of sublease space that is vacant:

Sublease Vacancy (%) = Sublease vacant space divided by Inventory

Availability rate* - percent available on market regardless whether vacant or AIF (Available in the Future) - indicate timeframe available, i.e. 6 months.

Direct absorption- The net change in direct occupied space over a given period of time (excludes sublease space by definition) and is counted upon date of lease signing. However, for leases over a certain relevant size threshold for the market, direct absorption may be counted upon occupancy date and is calculated on a calendar year for each quarter and is not revised after the current year if it was determined to be correct at the time.

Sublet absorption- The net change in sublease occupied space over a given period of time and is counted upon date of lease signing. However, for leases over a certain relevant size threshold for the market, direct absorption may be counted upon occupancy date and is calculated on a calendar year for each quarter and is not revised after the current year if it was determined to be correct at the time.

Overall absorption- The net change in direct + sublease (overall) occupied space over a given period of time and is counted upon date of lease signing. However, for leases over a certain relevant size threshold for the market, direct absorption may be counted upon occupancy date and is calculated on a calendar year for each quarter and is not revised after the current year if it was determined to be correct at the time.

Leasing activity- The sum of all square footage underlying any leases over a period of time. This includes pre- leasing activity as well as expansions. It does not include renewals. Like absorption, leasing activity is calculated on a calendar year for each quarter and is not revised after the current year if it was determined to be correct at the time.

Pre-Leasing activity- The sum of all square footage underlying leases over a period of time for buildings that are under construction, under renovation or that have been proposed.

Lease renewal- Occurs when a lease on space expires and the tenant decides to stay in that space and extend the term either by using a new lease document or addendum to the tenant's prior lease agreement. It is C&W's policy to exclude renewals from leasing activity and from net absorption. If a tenant remains in the building but moves to another space within the building, this is leasing activity. If the tenant chooses to remain in the space, but takes additional space (expands), the expansion portion is considered leasing activity and should be counted separately from the total renewal (which should include the original space plus the expansion).

Under construction- Industrial and office square footage that are being built and have not received certificates of occupancy (C of O). Projects which are beyond site preparation (concrete slab poured and construction is actively progressing). For C&W statistical purposes, these buildings will not be completed by the last day of the reporting quarter.

Under renovation- Office and industrial buildings that are undergoing renovation, rehabilitation or conversion and require a certificate of occupancy to be habitable.

Construction completions- Commercial properties that have received certificates of occupancy for the first time in the building's history. Tenancy may not have taken place.

Build to Suit: a method of leasing property whereby the landlord builds to suit the tenant (according to tenant's specifications). The cost of construction is figured in to the rental amount of the lease, which is usually for a long term.

Speculative: a building constructed for lease or sale but without having a tenant or buyer before construction begins

Renovation completions- Commercial properties that have received their certificates of occupancy after undergoing renovation, rehabilitation or conversion.

Proposed construction- Industrial and office square footage that is planned for development at a future date and will not begin construction by the last day of the current reporting quarter. In order for a building to qualify as being proposed, a site plan must be in place and the building must be actively marketed by the landlord or landlord's agent.

Sales activity- Includes both user and investment sales of existing buildings. In other words, user office buildings that aren't in our statistics in the first place, are not tracked. However, leased buildings that become sold to a single occupant remain in statistics until after the end of the year and are taken out at the beginning of the next year. Investment sales are sales to entities that will lease or sell the building to others and are income-producing assets. Contrary to office building user sales, industrial building user sales are considered part of the inventory.

Cap Rate- A rate used to convert income to value. The percentage used to determine the value of income property through capitalization. The rate reflects the relationship between one years' income or an annual average of several years' income and the corresponding capital value over the same timeframe.

The calculation for calculating direct capitalization rates is:

$$\frac{\text{Income}}{\text{Rate}} = \text{Value} \quad \text{or} \quad \frac{\text{Income}}{\text{Value}} = \text{Rate}$$

A low direct capitalization rate usually denotes a lower risk property, and the higher the direct capitalization rate usually denotes a higher risk property, which usually brings a higher rate of return, if managed properly. Higher capitalization rates can also lead to lower rates of return in certain circumstances. Typically, a lower quality building has a higher capitalization rate than a Class A building.