



Industrial Market Report

Compared to the Previous Quarter:

Vacancy



UP

Net Absorption

NEGATIVE

Lease Rates



FLAT

Transactions

DOWN

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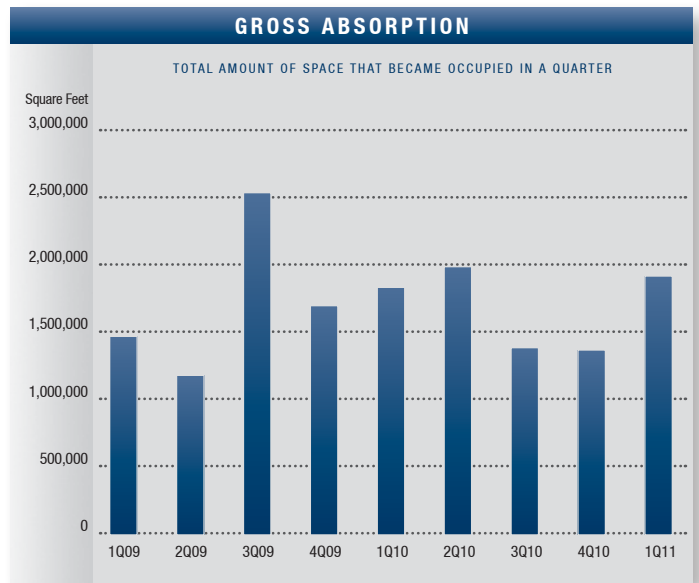
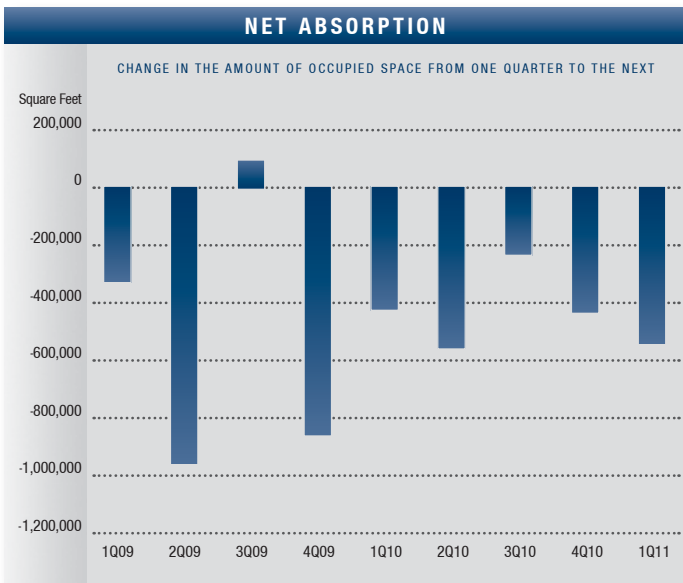
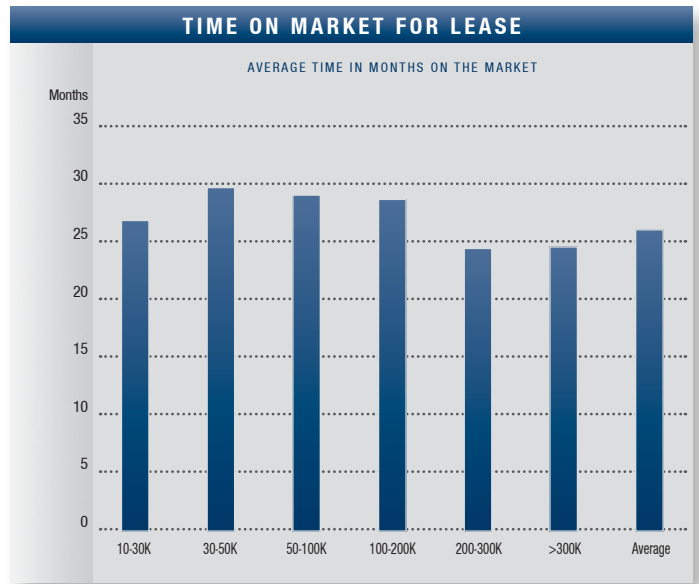
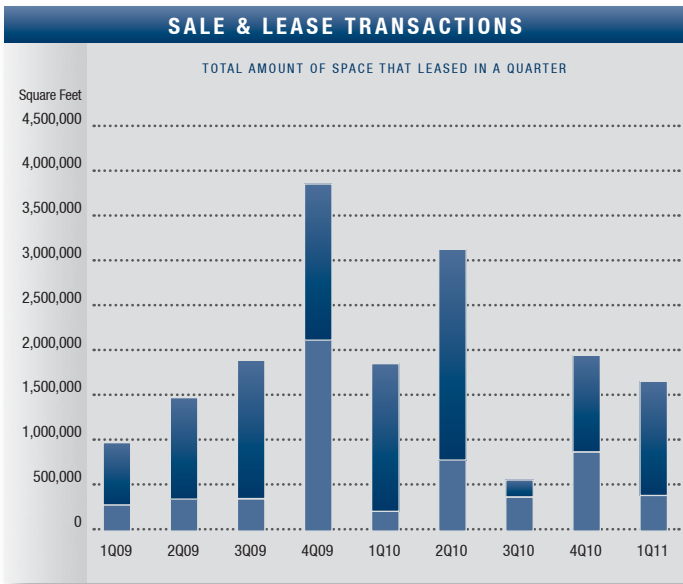
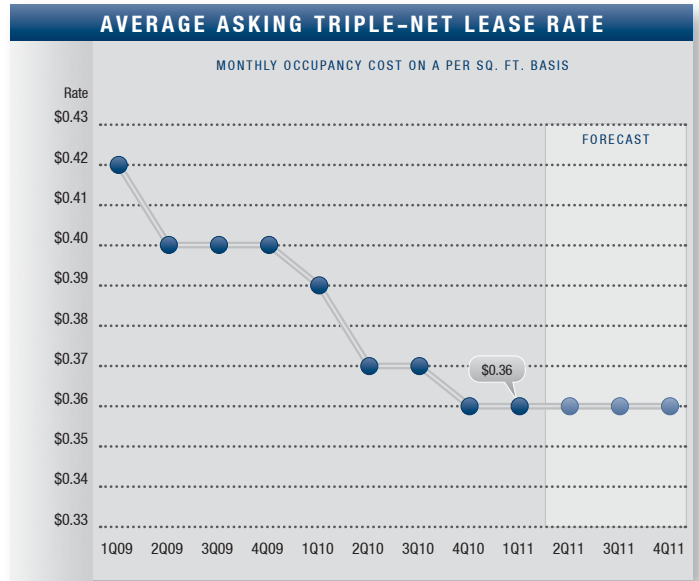
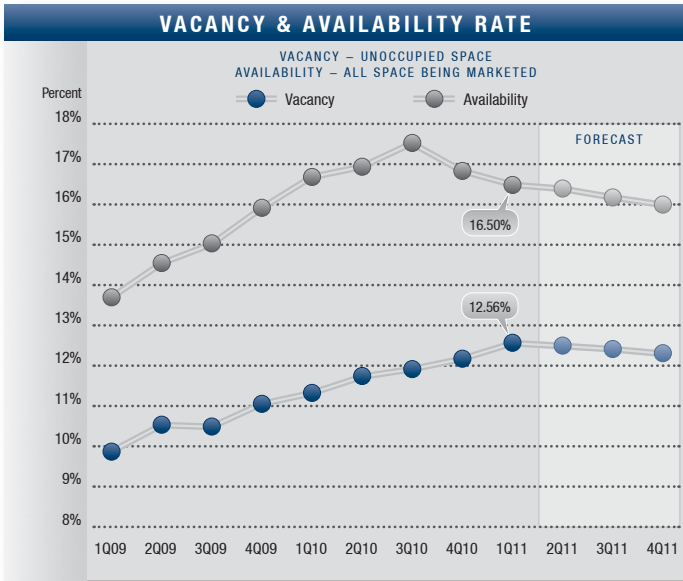
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Market Highlights

- Market Challenges** - The market appears to be heading in the direction of recovery, with the rate at which space is being added to the market beginning to decrease in velocity. However, many users/investors still have concerns with vacancy, tenant delinquencies, economic uncertainty, and the gap between “ask” and “bid” pricing. Fortunately, that gap appears to be diminishing, as evidenced by the recent increase in sales activity. Another challenge for the industrial market is a lack of tenant demand. The slow economic environment is forcing tenant contractions/consolidations and failures, which in turn put an upward pressure on vacancy rates. To avoid failures, many tenants are requesting rent relief from landlords, which in turn is leading landlords to seek their own relief from lenders.
- Construction** - There was only 36,000 square feet of industrial construction underway in the first quarter of 2011. Scarce financing and a lack of demand have essentially halted industrial development.
- Vacancy** - Direct/sublease space (unoccupied) finished the first quarter of 2011 at 12.56% – higher than the previous quarter’s figure of 12.20% and higher than 2010’s first quarter rate of 11.36%. The largest submarket in the area, the Power Inn market, posted a rate of 11.48%.
- Availability** - Direct/sublease space being marketed was 16.50% in the first quarter of 2011, down 1.37% from the 16.73% we saw at the beginning of 2010.
- Lease Rates** - The average asking triple-net lease rate was \$.36 per square foot per month in the first quarter of 2011, the same as the previous quarter and three cents lower than 2010’s first quarter rate of \$.39. The record high for asking lease rates, \$.49, was recorded in the second quarter of 2007.
- Absorption** - The Sacramento industrial market posted 542,351 square feet of negative net absorption in the first quarter of 2011, giving the market a total of 2.2 million square feet of negative absorption for the last five quarters.
- Transaction Activity** - Leasing activity checked in at 1.25 million square feet in the first quarter of 2011, a decrease from 2010’s first quarter figure of 1.6 million square feet. Sales activity showed an increase, posting 370,848 square feet of activity compared to 2010’s 193,582 square feet. Details of the largest transactions can be found on the back page of this report.
- Employment** - The unemployment rate in the Sacramento–Arden–Arcade–Roseville Metropolitan area (MSA) was 12.6% in February 2011, down from a revised 12.9% in January 2011 and below the year-ago estimate of 12.9%. The unemployment rate was 12.9% in El Dorado, 11.4% in Placer, 12.6% in Sacramento and 15% in Yolo counties. This compares with an unadjusted unemployment rate of 12.3% for California and 9.5% for the nation during the same period. According to the State of California Employment Development Department, the Sacramento MSA lost 13,000 payroll jobs from February 2010 to February 2011 – 4,800 in government and 3,300 in financial activities. Between January 2011 and February 2011 the Sacramento MSA increased overall by 1,400 jobs – mostly in government 1,700.
- Overall** - We are beginning to see a decrease in the amount of available space being added per quarter, and with few new deliveries in the pipeline to drive up vacancy, the market may be beginning to stabilize. We foresee an increase in investment activity in the coming quarters as lenders continue to dispose of distressed assets. Lease rates are expected to remain soft for the near future, and concessions in the forms of free rent, relocation funds and tenant improvement allowances should continue to motivate tenants to immediate action. We should also see an increase in leasing activity as many short-term deals come up for renewal and as job creation continues in 2011. As unemployment rates drop and consumer confidence stabilizes, the Sacramento industrial market will regain equilibrium.

INDUSTRIAL MARKET OVERVIEW

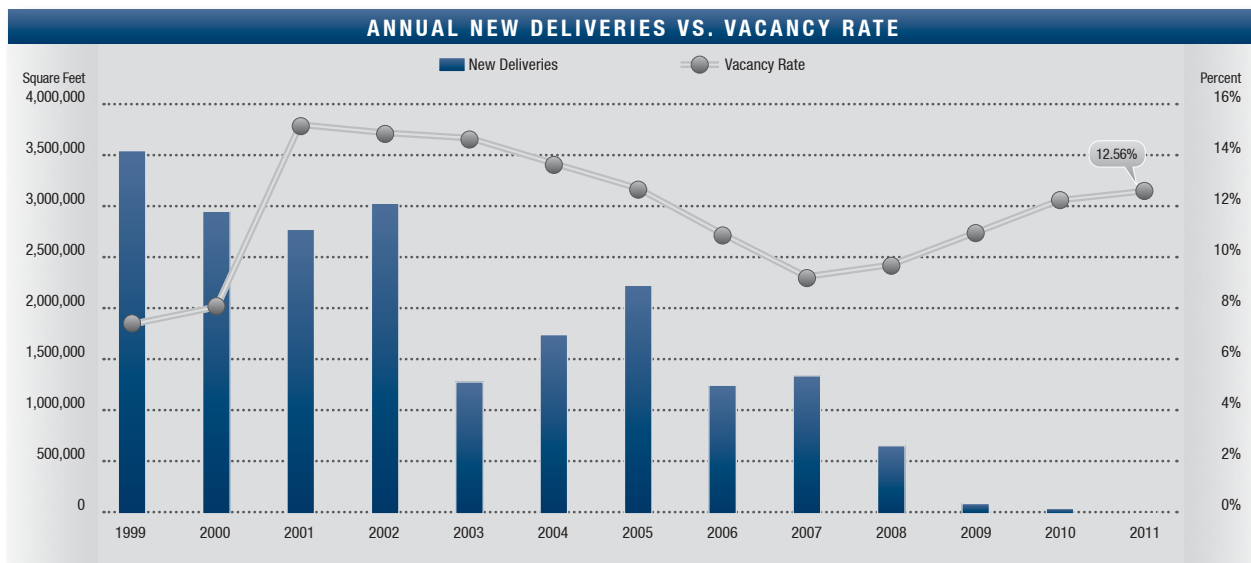
	1Q2011	4Q2010	1Q2010	% Change vs. 1Q2010
Vacancy Rate	12.56%	12.20%	11.36%	10.56%
Availability Rate	16.50%	16.80%	16.73%	(1.37%)
Average Asking Lease Rate	\$0.36	\$0.36	\$0.39	(7.69%)
Sale & Lease Transactions	1,621,126	1,924,907	1,822,565	(11.05%)
Gross Absorption	1,901,453	1,374,698	1,822,329	4.34%
Net Absorption	(542,351)	(435,106)	(429,581)	N/A



	INVENTORY				VACANCY & LEASE RATES					ABSORPTION			
	Number of Bldgs.	Net Rentable Square Feet	Square Feet U / C	Square Feet Planned	Square Feet Vacant	Vacancy Rate 1Q2011	Square Feet Available	Availability Rate 1Q2011	Average Asking Lease Rate	Net Absorption 1Q2011	Net Absorption 2011	Gross Absorption 1Q2011	Gross Absorption 2011
Sacramento County													
Auburn/Newcastle	92	2,535,143	0	0	137,674	5.43%	407,432	16.07%	\$0.54	(6,020)	(6,020)	0	0
Davis/Woodland	200	16,625,545	0	0	2,660,302	16.00%	2,906,847	17.48%	\$0.25	41,751	41,751	171,601	171,601
Downtown	90	2,732,534	0	0	166,746	6.10%	148,946	5.45%	\$0.44	(33,800)	(33,800)	0	0
East Sacramento	31	818,427	0	0	169,958	20.77%	169,958	20.77%	\$0.74	(30,000)	(30,000)	6,000	6,000
Elk Grove/Laguna	113	5,610,407	0	49,250	764,805	13.63%	1,385,176	24.69%	\$0.40	125,307	125,307	156,553	156,553
Folsom/El Dorado	99	3,623,554	0	165,760	174,597	4.82%	241,702	6.67%	\$0.64	(2,682)	(2,682)	14,975	14,975
Mather	138	4,180,283	0	70,393	664,433	15.89%	699,233	16.73%	\$0.40	(33,914)	(33,914)	57,826	57,826
McClellan	344	18,573,386	0	55,362	2,835,845	15.27%	3,541,582	19.07%	\$0.35	(31,569)	(31,569)	164,370	164,370
Natomas/Northgate	208	12,220,134	0	629,394	1,689,934	13.83%	2,569,517	21.03%	\$0.35	70,121	70,121	299,239	299,239
North East Sacramento	204	5,320,895	0	0	624,005	11.73%	674,419	12.67%	\$0.37	(11,736)	(11,736)	57,440	57,440
Power Inn	569	25,263,206	0	710,888	2,900,718	11.48%	4,227,750	16.73%	\$0.34	(55,166)	(55,166)	327,577	327,577
Richards	98	4,778,822	0	0	619,874	12.97%	647,099	13.54%	\$0.33	(69,263)	(69,263)	65,335	65,335
Roseville/Rocklin	299	18,202,288	36,000	516,897	2,791,591	15.34%	3,501,572	19.24%	\$0.40	(366,395)	(366,395)	160,264	160,264
South Sacramento	122	3,948,807	0	0	187,577	4.75%	351,182	8.89%	\$0.44	(4,416)	(4,416)	6,000	6,000
Sunrise	333	9,576,886	0	0	1,373,685	14.34%	1,764,021	18.42%	\$0.41	(137,267)	(137,267)	208,889	208,889
West Sacramento	324	16,545,885	0	30,000	1,143,244	6.91%	1,600,672	9.67%	\$0.35	2,698	2,698	205,384	205,384
Sacramento County Total	3,264	150,556,202	36,000	2,227,944	18,904,988	12.56%	24,837,108	16.50%	\$0.36	(542,351)	(542,351)	1,901,453	1,901,453

10,000 – 29,999	1,944	32,341,222	0	515,102	3,629,689	11.22%	4,367,622	13.50%	\$0.46	(203,627)	(203,627)	484,151	484,151
30,000 – 49,999	513	19,503,779	36,000	181,518	2,594,813	13.30%	3,267,658	16.75%	\$0.38	37,750	37,750	374,245	374,245
50,000 – 99,999	512	34,584,237	0	291,846	4,352,387	12.58%	5,600,033	16.19%	\$0.36	(271,260)	(271,260)	409,974	409,974
100,000 – 199,999	188	24,528,790	0	518,200	3,629,404	14.80%	4,616,819	18.82%	\$0.34	38,977	38,977	295,783	295,783
200,000 – 299,999	61	14,623,438	0	0	1,676,411	11.46%	2,142,445	14.65%	\$0.28	89,009	89,009	200,500	200,500
300,000 Plus	46	24,974,736	0	721,278	3,022,284	12.10%	4,842,531	19.39%	\$0.34	(233,200)	(233,200)	136,800	136,800
Class Total	3,264	150,556,202	36,000	2,227,944	18,904,988	12.56%	24,837,108	16.50%	\$0.36	(542,351)	(542,351)	1,901,453	1,901,453

This survey consists of buildings greater than 10,000 square feet. Lease rates are on a triple-net basis.



RECENT TRANSACTIONS

Sale Transactions

Property Address	Submarket	Square Feet	Sale Price PSF	Buyer	Seller
3900 Florin Perkins Rd.	Sacramento	227,980	\$10.97	Cathay Bank	Chicago Title Company
1925 Enterprise Blvd.	West Sacramento	50,000	\$66.50	Samra Trucking, LLC	Weyerhaeuser NR Company
4461 Business Dr.	Shingle Springs	50,000	\$54.00	Buzz Oates, LLC	Butte Community Bank
4361 Pell Dr.	Sacramento	39,200	\$35.89	Five Star Bank	Fidelity National Title Company
7031 Roseville Rd.	Sacramento	30,000	\$30.00	DR Roseville Road, LLC	Staples & Sons, GP
6 Wayne Ct.	Sacramento	24,000	\$50.00	JAQ, LLC	Massie Kids IV Properties, LLC

Lease Transactions

Property Address	Submarket	Square Feet	Transaction Date	Tenant	Owner
1400 Churchill Downs Ave.	Woodland	298,028	Mar-11	Olam Tomato Processors, Inc.	Amir Development Company
109 N. Pioneer Ave.	Woodland	117,590	Jan-11	Four Wheel Campers	New England Mutual Life Ins.
8451 Rovana Cir.	Sacramento	78,000	Mar-11	LNU Furniture	Buzz Oates, LLC
6400-6450 Goodyear Rd.	Benicia	41,920	Mar-11	N/A	RREEF America, LLC
12525 Quicksilver Dr.	Rancho Cordova	34,000	Mar-11	Military Aircraft Parts	Martin Tranquillo & Rosalina
5901 88th St.	Sacramento	25,245	Mar-11	Aluminite	Buzz Oates, LLC

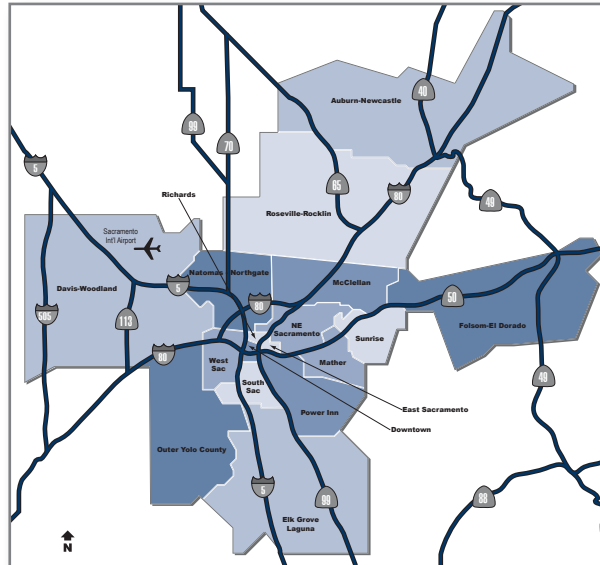
Product Type

MFG./DIST.

Manufacturing/Distribution/Warehouse facilities with up to 29.9% office space.

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