



MARKET CHANGE

Compared to the Previous Quarter:

Vacancy

DOWN



Net Absorption

POSITIVE



Lease Rates

FLAT



Transactions

DOWN



Deliveries

DOWN



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HIGHLIGHTS

- **Market Status** - The Sacramento industrial market progressed toward recovery with another great quarter. During the first quarter, vacancy decreased to 11.23%, the lowest vacancy rate recorded since 2009. What's more, the market posted close to a half million square feet of positive net absorption. While these figures are remarkable during this stage of recovery, employment gains and overall economic stability in the region will need to be sustained for the Sacramento industrial market to continue its recovery.
- **Construction** - During the first quarter, there were four industrial buildings under construction in the Sacramento market, totaling 740,637 square feet. One of those buildings is a 198,744-square-foot FedEx distribution facility in Roseville, which is expected to deliver this June. There were no new deliveries in the first quarter. The slowdown in construction will continue to force the downward pressure on vacancy and the upward pressure on lease rates going forward.
- **Vacancy** - Total vacancy came in at 11.23%, which is a decrease of 25 basis points compared to the previous quarter and 7.9% compared to the first quarter of 2013. Within the major submarkets, Downtown had the lowest vacancy rate at 3.14%, while the South Sacramento area remained high at 37.54% with the large 1.6-million-square-foot vacancy of the Campbell's Soup facility.
- **Availability** - The rate of available space being marketed was 14.85% at the close of the first quarter, a decrease of 19 basis points from the previous quarter and down nearly 8% from the prior year. The South Sacramento submarket remained high at 40.65%, while the Downtown submarket posted the lowest availability rate in the region at 5.76%.
- **Lease Rates** - The average asking triple-net lease rate was \$0.35 per square foot per month at the end of the first quarter, which was flat compared to both the previous quarter and previous year, an indication of overall stability.
- **Absorption** - The Sacramento industrial market posted just over 445,000 square feet of positive net absorption in the first quarter of

the year, most of which was in the Fairfield submarket, giving the market a total of over 4 million square feet of positive absorption since the third quarter of 2012.

- **Transaction Activity** - The total volume of industrial lease and sale transaction activity was about 1.7 million square feet for the first quarter of 2014. Sales activity came in at just over 814,000 square feet while lease activity came in at 874,000 square feet. This statistic can have some lag time in being reported, so look for first quarter figures to end up somewhat higher in the next report. Details of the largest transactions for the first quarter can be found on the back page of this report.
- **Employment** - The unemployment rate in the Sacramento-Arden Arcade-Roseville MSA was 8.2% in February 2014, down from a revised 8.3% in January 2014, and below the year-ago estimate of 9.4%. This compares with an unadjusted unemployment rate of 8.5% for California and 7.0% for the nation during the same period. According to the State of California Employment Development Department, the Sacramento-Arden Arcade-Roseville MSA saw a net increase of 11,900 payroll jobs from February 2013 to February 2014. While most sectors showed gains in employment, the largest gains were 4,800 jobs in educational & health services and 3,200 jobs in government. Leisure and hospitality posted the largest year-over-year loss, dropping by 2,300 jobs.
- **Overall** - Owners can begin to breathe easier, as rent losses should be over and increases will begin soon. Demand for warehouse space in Sacramento is improving and will continue to turn around as homebuilding picks up and as local incomes rise. Buying for occupancy or purchasing fully-leased, single-tenant assets seems to be the popular investment choice still, as fully-leased, performing assets are just the kind of safe-haven investment that buyers are looking for in secondary markets such as Sacramento. Despite the fact that Sacramento is not a major manufacturing center—which limits demand potential—the metro is a local distribution center and its population growth bodes very well for the future.

FORECAST

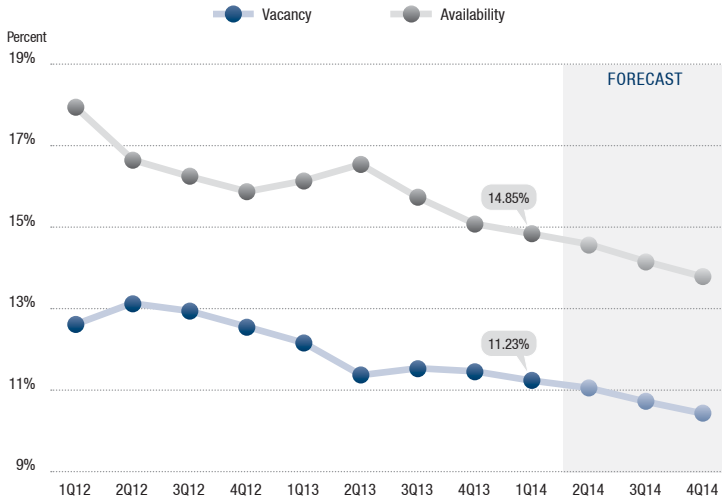
- **Construction** - At the close of the first quarter, over 740,000 square feet of industrial space was under construction — the most construction seen in this market in years but still below historical levels. We anticipate construction remaining minimal and comprising of mostly build-to-suit projects in coming quarters.
- **Employment** - We anticipate job growth of around 2.1%, or 17,008 jobs, in the Sacramento area by 2015. Expect growth in educational services, health care, social assistance, professional & business services, leisure & hospitality, and retail trade sectors.
- **Lease Rates** - Expect average asking lease rates to increase by another 2%–3% by 2015.
- **Vacancy** - We anticipate the vacancy rate continuing to descend in coming quarters, dropping by 79 basis points, to around 10.44%, by 2015.

OVERVIEW

	1Q14	4Q13	1Q13	% of Change vs. 1Q13
Vacancy Rate	11.23%	11.48%	12.19%	(7.88%)
Availability Rate	14.85%	15.04%	16.14%	(7.99%)
Average Asking Lease Rate	\$0.35	\$0.35	\$0.35	0.00%
Sale & Lease Transactions	1,688,808	6,003,486	2,613,566	(35.38%)
Gross Absorption	2,213,137	2,008,923	3,199,130	(30.82%)
Net Absorption	445,218	341,011	710,182	N/A

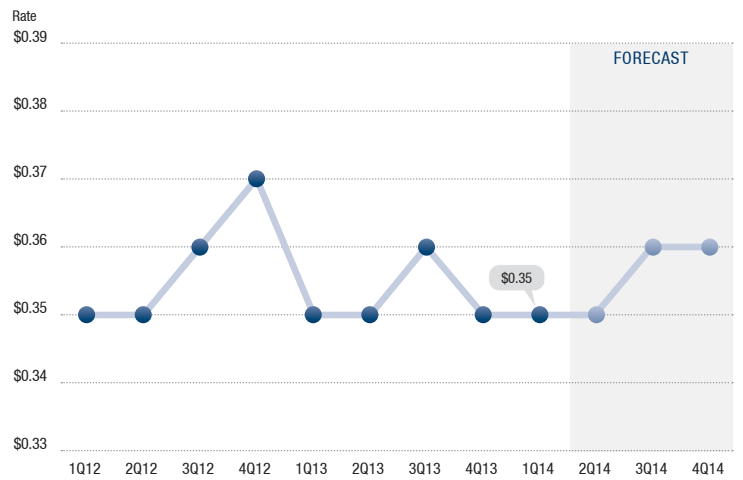
VACANCY & AVAILABILITY RATE

VACANCY – UNOCCUPIED SPACE | AVAILABILITY – ALL SPACE BEING MARKETED



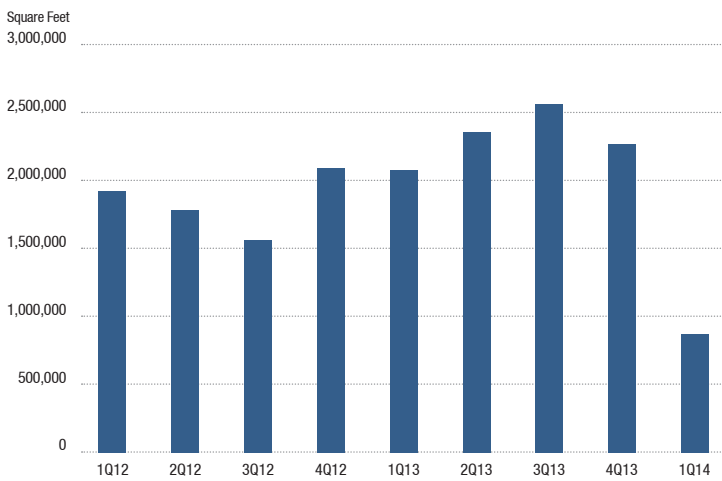
AVERAGE ASKING TRIPLE-NET LEASE RATE

MONTHLY OCCUPANCY COST ON A PER SQ. FT. BASIS



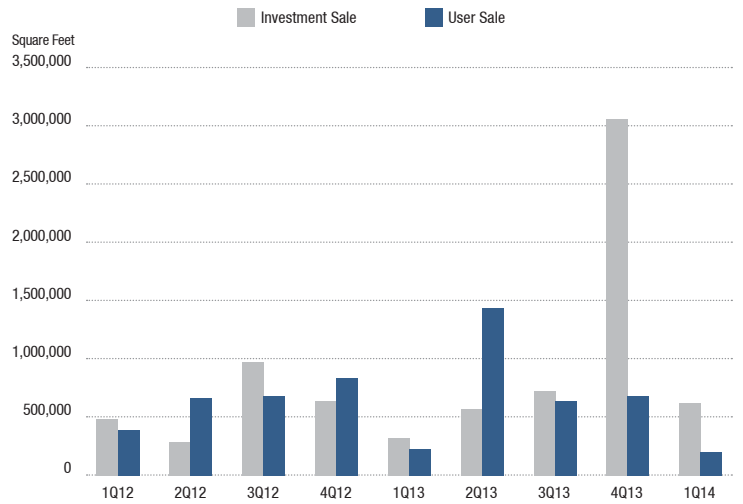
LEASE TRANSACTIONS

TOTAL AMOUNT OF SPACE THAT LEASED IN A QUARTER



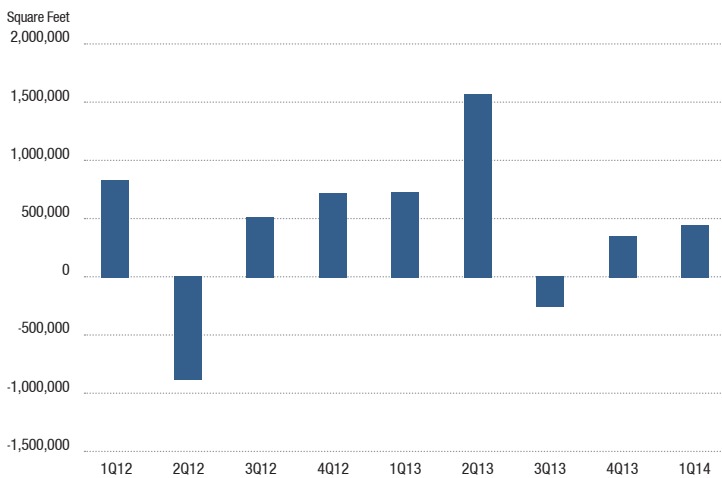
SALES TRANSACTIONS

TOTAL AMOUNT OF SPACE THAT SOLD IN A QUARTER



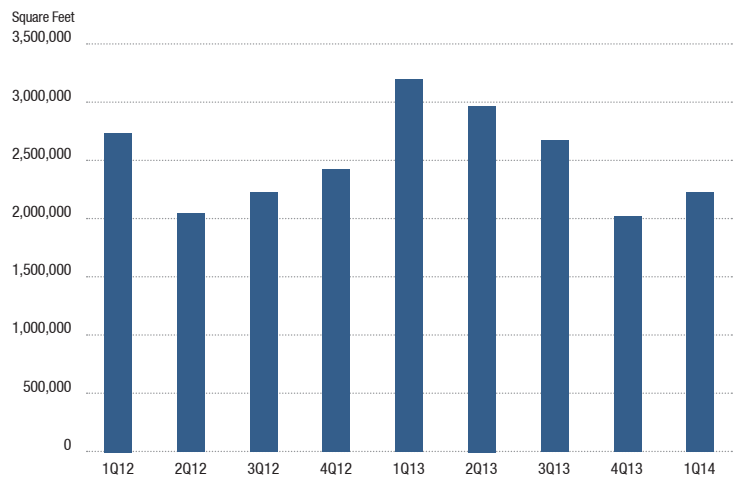
NET ABSORPTION

CHANGE IN THE AMOUNT OF OCCUPIED SPACE FROM ONE QUARTER TO THE NEXT



GROSS ABSORPTION

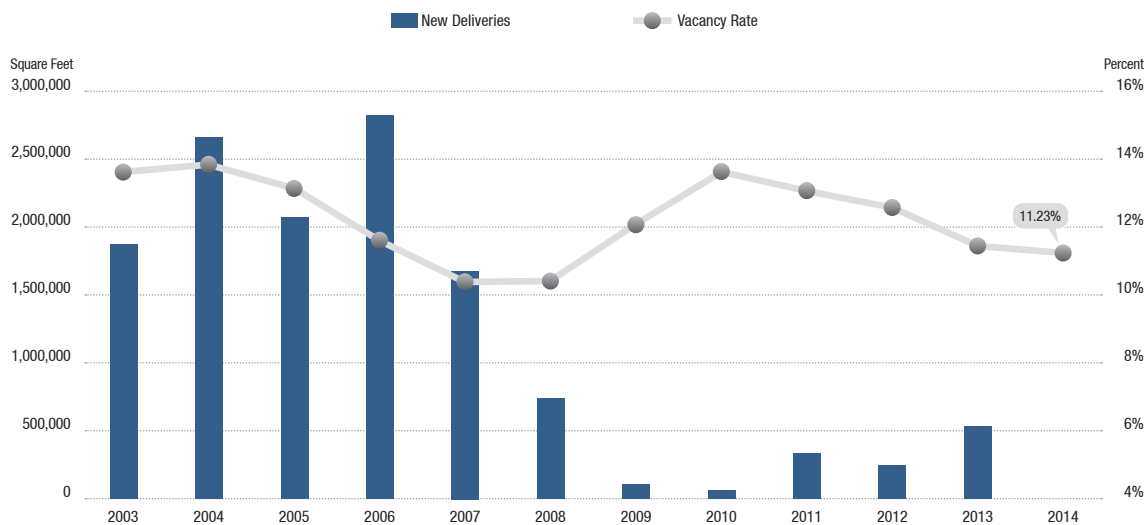
TOTAL AMOUNT OF SPACE THAT BECAME OCCUPIED IN A QUARTER



	INVENTORY				VACANCY & LEASE RATES					ABSORPTION			
	Number of Bldgs.	Net Rentable Square Feet	Square Feet U / C	Square Feet Planned	Square Feet Vacant	Vacancy Rate 1Q2014	Square Feet Available	Availability Rate 1Q2014	Average Asking Lease Rate	Net Absorption 1Q2014	Net Absorption 2013	Gross Absorption 1Q2014	Gross Absorption 2013
Sacramento Market													
Auburn/Newcastle	84	2,203,000	0	0	73,666	3.34%	253,105	11.49%	\$0.67	41,855	56,510	41,855	87,436
Benicia	155	8,046,155	0	0	934,776	11.62%	1,748,278	21.73%	\$0.54	(274,801)	511,512	87,412	768,387
Davis/Woodland	188	16,434,897	0	15,040	2,212,454	13.46%	2,808,387	17.09%	\$0.27	95,990	268,593	162,773	1,152,183
Downtown	91	2,758,312	0	0	86,629	3.14%	158,873	5.76%	\$1.02	0	21,424	0	48,995
East Sacramento	25	594,674	0	0	44,376	7.46%	44,376	7.46%	\$0.60	6,000	69,000	6,000	75,000
Elk Grove/Laguna	103	4,964,537	0	29,450	445,476	8.97%	699,417	14.09%	\$0.35	(3,910)	176,883	12,975	317,970
Fairfield	159	12,458,981	473,136	1,163,586	486,636	3.91%	720,896	5.79%	\$0.35	461,973	94,460	508,110	391,256
Folsom/El Dorado	98	2,733,385	0	0	111,172	4.07%	219,900	8.04%	\$0.72	(947)	116,151	10,100	209,545
Marysville/Yuba City	139	5,810,088	0	0	301,654	5.19%	461,390	7.94%	\$0.51	54,075	(57,306)	55,325	62,027
Mather	124	3,750,265	0	70,393	643,430	17.16%	799,159	21.31%	\$0.34	(86,083)	(8,195)	30,476	159,776
McClellan	285	13,582,966	0	159,464	2,640,306	19.44%	3,276,038	24.12%	\$0.35	22,934	440,616	116,505	1,607,490
Natomas/Northgate	201	11,652,126	0	629,394	1,381,622	11.86%	1,544,694	13.26%	\$0.38	142,377	585,495	415,354	895,502
NE Sacramento	193	5,040,201	0	0	396,133	7.86%	540,589	10.73%	\$0.37	(8,491)	21,063	37,997	280,171
Outer El Dorado County	9	197,707	0	10,000	5,100	2.58%	17,100	8.65%	\$0.00	0	(5,100)	0	0
Outer Placer County	2	20,705	0	0	0	0.00%	0	0.00%	\$0.00	0	0	0	0
Outer Sacramento County	3	77,588	0	0	0	0.00%	0	0.00%	\$0.00	0	0	0	0
Outer Sutter County	2	141,040	0	0	0	0.00%	0	0.00%	\$0.00	0	0	0	0
Outer Yolo County	5	142,356	0	0	0	0.00%	0	0.00%	\$0.00	0	0	0	0
Outer Yuba County	4	178,387	0	0	0	0.00%	0	0.00%	\$0.00	0	0	0	0
Power Inn	558	24,260,870	0	1,034,281	2,512,721	10.36%	3,831,012	15.79%	\$0.32	(114,909)	104,483	154,408	1,048,630
Richards	86	4,058,487	0	0	336,436	8.29%	401,906	9.90%	\$0.35	10,941	(16,907)	27,082	202,847
Roseville/Rocklin	278	16,452,605	195,000	294,773	2,408,223	14.64%	2,914,057	17.71%	\$0.35	18,442	297,203	122,487	887,211
South Sacramento	123	4,008,478	0	1,077,600	1,504,742	37.54%	1,629,417	40.65%	\$0.24	5,320	(1,361,352)	26,700	131,585
Sunrise	329	9,383,267	0	0	808,149	8.61%	1,053,194	11.22%	\$0.42	(21,461)	173,852	95,429	594,867
Vacaville	149	9,905,027	0	1,211,311	487,062	4.92%	867,802	8.76%	\$0.35	62,174	333,417	96,902	441,697
Vallejo	108	5,190,739	0	0	1,168,589	22.51%	1,176,124	22.66%	\$0.32	(220)	35,163	3,500	125,338
West Sacramento	306	15,583,867	72,501	280,000	1,182,320	7.59%	1,508,694	9.68%	\$0.40	33,959	442,429	201,747	1,149,482
Sacramento Market Total	3,807	179,630,710	740,637	5,975,292	20,171,672	11.23%	26,674,408	14.85%	\$0.35	445,218	2,299,394	2,213,137	10,637,395
10,000-29,999	2,291	38,368,350	12,501	539,318	2,792,158	7.28%	4,076,966	10.63%	\$0.50	107,518	589,966	398,313	2,202,009
30,000-49,999	593	22,565,559	0	189,918	2,193,168	9.72%	2,883,650	12.78%	\$0.40	124,677	332,843	395,413	1,357,313
50,000-99,999	547	36,586,042	60,000	451,074	4,128,785	11.29%	4,890,682	13.37%	\$0.37	(15,291)	873,091	427,189	2,357,193
100,000-199,999	236	30,792,265	195,000	1,798,443	3,068,954	9.97%	4,669,894	15.17%	\$0.33	305,801	1,082,289	622,964	1,973,590
200,000-299,999	82	19,757,105	0	1,234,461	3,128,156	15.83%	3,998,077	20.24%	\$0.29	(388,909)	59,657	50,836	476,320
300,000 Plus	58	31,561,389	473,136	1,762,078	4,860,451	15.40%	6,155,139	19.50%	\$0.30	311,422	(638,452)	318,422	2,270,970
Sacramento Market Total	3,807	179,630,710	740,637	5,975,292	20,171,672	11.23%	26,674,408	14.85%	\$0.35	445,218	2,299,394	2,213,137	10,637,395

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

ANNUAL NEW DELIVERIES VS. VACANCY RATE



MAJOR TRANSACTIONS

Sales Transactions

Property Address	Submarket	Square Feet	Sale Price Per SF	Buyer	Seller
3429 Freedom Park Dr.	McClellan	69,000	\$53.99	The Randall Group, Inc.	North McClellan Business Park, LLC
4205-4225 W. Capitol Ave.	West Sacramento	44,035	\$70.40	Ig Holdings, LLC	Jose J & Elisa C Ramirez
4721-4725 Kelton Way (2 Properties)	Sacramento County/ Natomas/Northgate	95,580	\$27.20	Kian USA	Jarvis Ent's, LP
1317 Vinci Ave.	McClellan	21,645	\$110.88	Providence Commercial Props, LLC	US Small Business Administration
3600 Sunrise Blvd.	Sunrise	32,912	\$70.19	Marlene C. & Graham J. Sykes	PBC Enterprises, Inc.

Lease Transactions

Property Address	Submarket	Square Feet	Transaction Date	Tenant	Owner
Vacaville Business Park 2141 Beechcraft Rd.	Vacaville	137,940	Jan-14	ICON Aircraft, Inc.	Buzz Oates Real Estate
8845 Washington Blvd.	Roseville/Rocklin	107,759	Mar-14	Wright Celebrations	Westcore Properties
Union Industrial Park 10175 Iron Rock Way	Elk Grove/Laguna	76,725	Jan-14	Mondelez International	Buzz Oates Real Estate
1431 E. Beamer St.	Davis/Woodland	37,800	Jan-14	Bullet Transportation Services	Barbara & Shelley Detrick
3237 Rippey Rd.	Roseville/Rocklin	35,007	Feb-14	Undisclosed	3237 Rippey Road Partnership
Norwood Industrial Park 4391 Pell Dr.	Natomas/Northgate	32,202	Feb-14	Modern Waste Solutions	B & B and Sons Enterprises

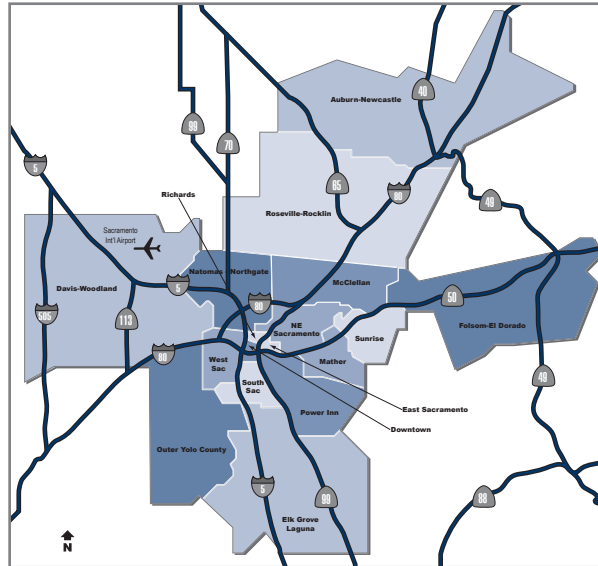
PRODUCT TYPE

MFG./DIST.

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