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Industrial Market Report

Compared to last quarter:

Vacancy



UP

Net Absorption

NEGATIVE



Lease Rates

DOWN



Transactions



UP

Market Highlights

- Market Challenges** - The market appears to be heading in the direction of recovery, with the amount of space coming on 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.
- Transaction Activity** - Leasing activity checked in at 1.5 million square feet, mainly a result of the recent trend of short-term deals coupled with lease renegotiations. Details of the largest transactions can be found on the back page of this report.
- Employment** - The unemployment rate in Sacramento-Arden-Arcade-Roseville Metropolitan (MSA) was 12% in May 2010, down from a revised 12.3% in April 2010 and above the year ago estimate of 10.6%. The unemployment rate was 12.8% in El Dorado, 11.2% in Placer, 12.1% in Sacramento and 11.7 in Yolo Counties. This compares with an unadjusted unemployment rate of 11.9% for California and 9.3% for the nation during the same period. According to the State of California Employment Development Department, the Sacramento MSA lost 24,100 payroll jobs over the last twelve months — 7,900 in construction and 4,000 in professional & business services. Between April 2010 and May 2010 the Sacramento MSA gained 3,800 jobs overall.
- Overall** - We are beginning to see a decrease in the amount of available space being added per quarter. Absorption is still negative but the rate of increase has slowed. With few new deliveries in the pipeline to drive vacancy up, the market may be beginning to stabilize. We foresee an increase in investment activity in the coming quarters as lenders begin to dispose of distressed assets. Lease rates are expected to remain soft for the near future, and concessions in the forms of free rent, reduced parking fees, relocation funds and tenant improvement allowances should continue to increase to motivate tenants to immediate action. We should see an increase in leasing activity as many short-term deals come up for renewal and as job creation begins in the second half of 2010. Once job creation turns positive and consumer confidence stabilizes, the industrial market will regain equilibrium.
- Construction** - Currently, there is 13,010 square feet of industrial construction underway. Scarce financing and low demand have essentially halted industrial development.
- Vacancy** - Direct/sublease space (unoccupied) finished the quarter at 11.07%, which is higher than a year-ago's rate of 10.21% and higher than last quarter's figure of 10.80%. The Power Inn market, the largest submarket in the county, posted a rate of 9.78%.
- Availability** - Direct/sublease space being marketed was 16.46% this quarter, up 14.7% from the 14.35% we saw this same quarter last year.
- Lease Rates** - The average asking Triple Net lease rate was \$.37 cents per square foot per month this quarter, one cent lower than last quarter and three cents lower than last year's second quarter rate. The record high for asking lease rates, \$.49, was recorded in the second quarter of 2007.
- Absorption** - The county posted 383,061 square feet of negative absorption for the second quarter of 2010, giving the industrial market a total of 666,392 square feet of negative absorption for the first half of 2010.

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Prepared by:

Jerry J. Holdner, Jr. – Lic.#01145748

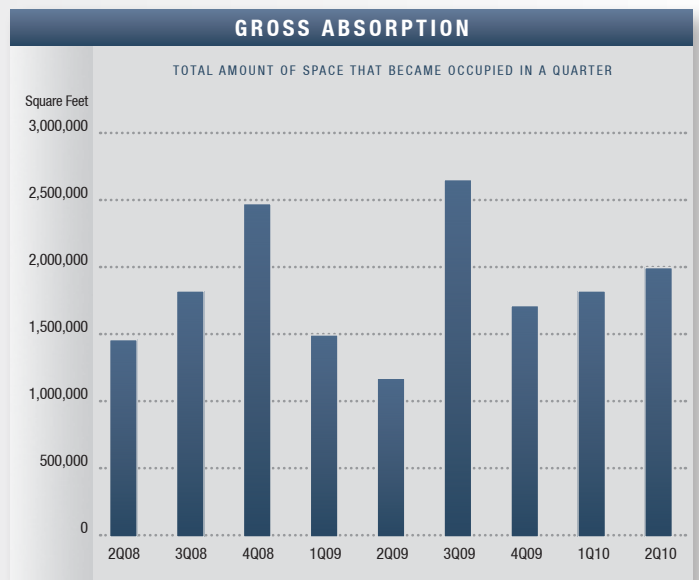
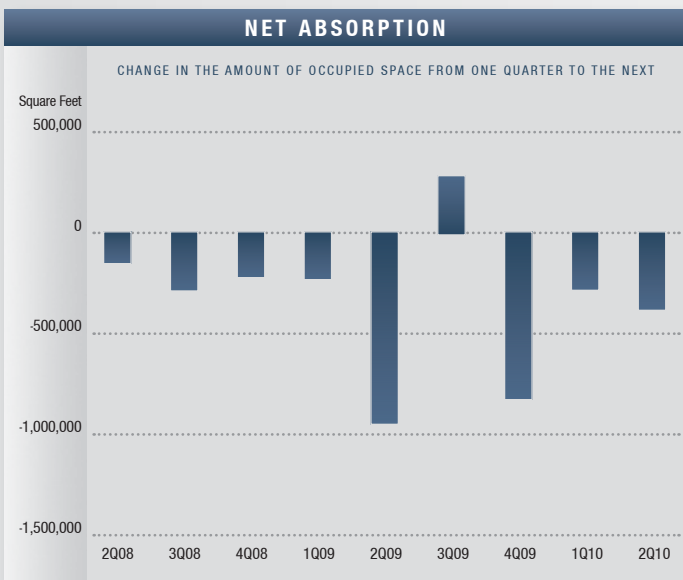
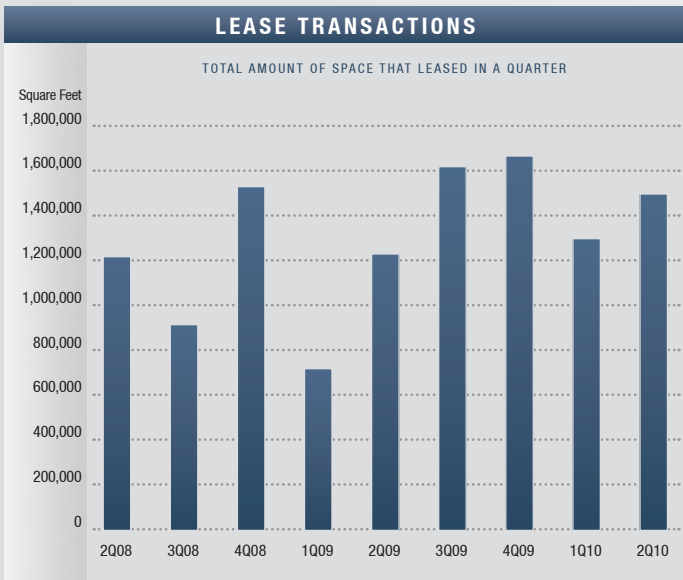
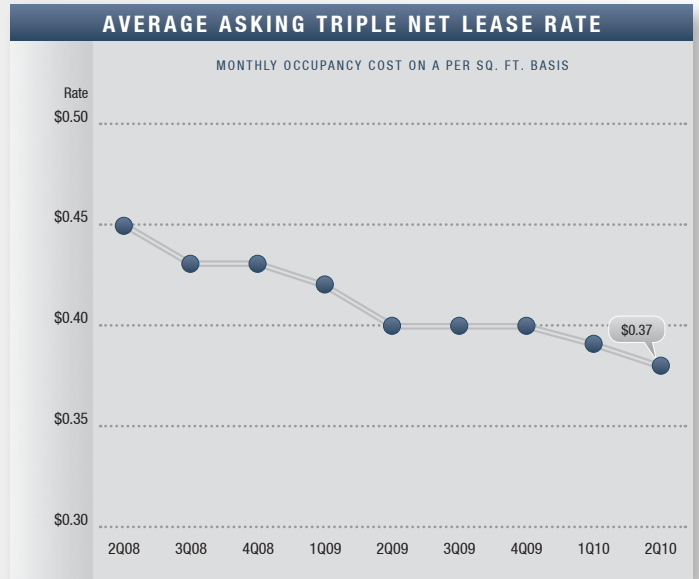
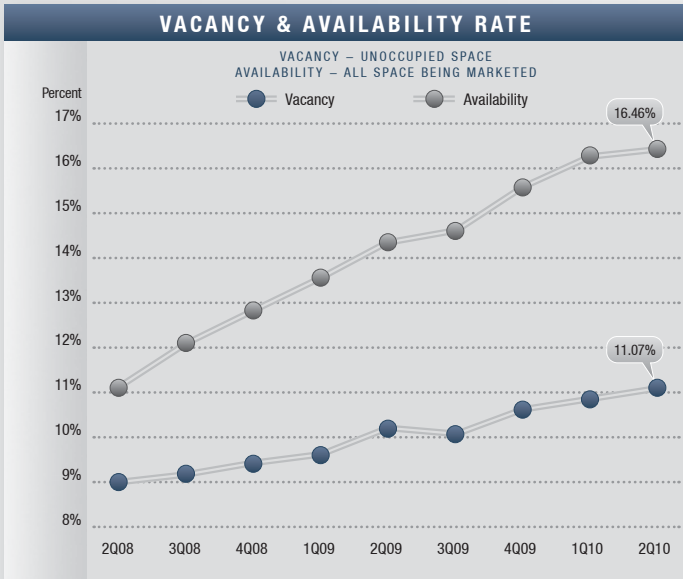
Vice President of Market Research

VOIT Real Estate Services – Lic.#01333376

e-mail: jholdner@voitco.com

INDUSTRIAL MARKET OVERVIEW

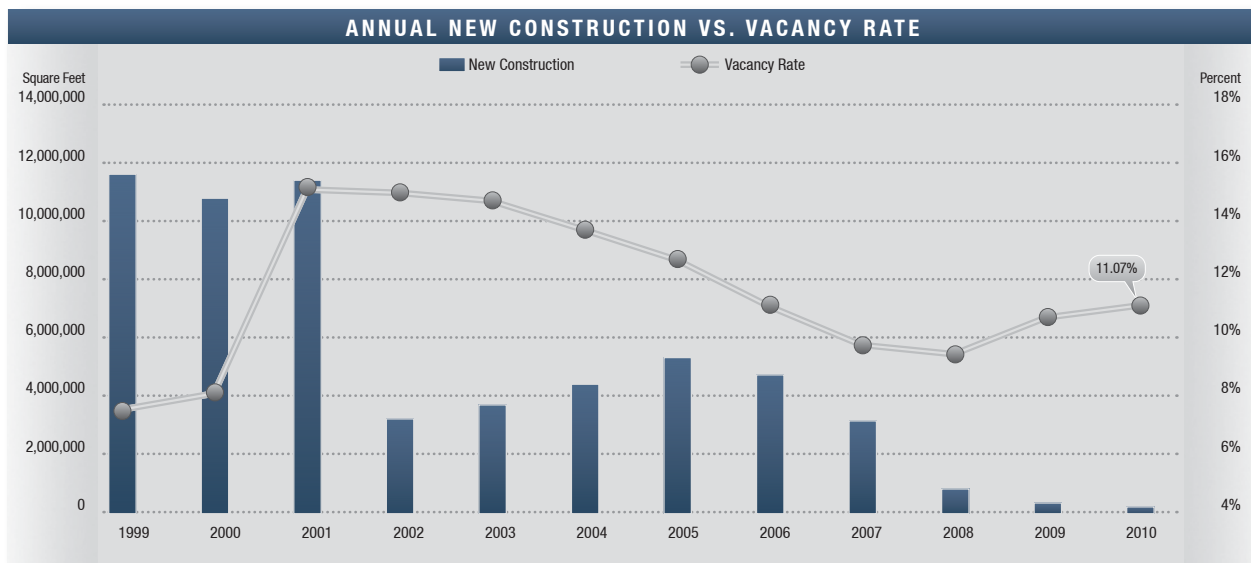
	2Q2010	1Q2010	2Q2009	% CHANGE vs. 2Q2009
Vacancy Rate	11.07%	10.80%	10.21%	8.42%
Availability Rate	16.46%	16.26%	14.35%	14.70%
Average Asking Lease Rate	\$0.37	\$0.39	\$0.40	(7.50%)
Lease Transactions	1,492,629	1,294,659	1,227,233	21.63%
Gross Absorption	1,960,301	1,806,720	1,169,661	67.60%
Net Absorption	(383,061)	(283,331)	(940,984)	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 2Q2010	Total Availability 2Q2010	Availability Rate 2Q2010	Average Asking Lease Rate	Net Absorption 2Q2010	Net Absorption 2010	Gross Absorption 2Q2010	Gross Absorption 2010
Sacramento County													
Auburn/Newcastle	90	2,510,307	0	0	62,786	2.50%	385,424	15.35%	\$0.55	(6,950)	(15,866)	0	55,338
Davis/Woodland	191	15,835,849	0	13,000	2,559,058	16.16%	2,804,241	17.71%	\$0.26	(184,309)	(343,744)	339,730	392,530
Downtown	89	2,715,882	0	0	88,526	3.26%	156,526	5.76%	\$0.48	(10,000)	(40,015)	0	5,385
East Sacramento	31	793,266	0	0	162,308	20.46%	147,558	18.60%	\$0.72	6,400	6,400	6,400	6,400
Elk Grove/Laguna	103	5,281,379	13,010	49,250	851,979	16.13%	1,338,534	25.34%	\$0.41	(56,525)	(175,648)	49,430	114,800
Folsom/El Dorado	94	3,549,094	0	165,760	112,338	3.17%	197,803	5.57%	\$0.74	33,195	56,699	45,633	86,543
Mather	137	4,168,921	0	70,393	549,404	13.18%	595,324	14.28%	\$0.43	(16,651)	(10,361)	20,952	57,462
McClellan	341	18,458,948	0	55,362	2,744,538	14.87%	3,290,118	17.82%	\$0.36	93,528	172,612	499,376	658,601
Natomas/Northgate	207	12,144,740	0	629,394	1,653,015	13.61%	2,601,026	21.42%	\$0.37	(29,110)	(61,196)	169,187	335,415
North East Sacramento	202	5,282,875	0	0	507,111	9.60%	668,862	12.66%	\$0.33	(19,781)	(52,907)	141,513	178,302
Power Inn	570	25,333,701	0	347,000	2,476,904	9.78%	4,867,628	19.21%	\$0.32	(60,626)	116,100	256,121	719,585
Richards	97	4,732,270	0	0	555,458	11.74%	585,458	12.37%	\$0.35	7,523	(5,677)	13,902	48,102
Roseville/Rocklin	297	18,074,079	0	636,180	1,823,888	10.09%	3,104,553	17.18%	\$0.42	70,495	77,138	158,805	392,867
South Sacramento	118	3,835,049	0	0	132,783	3.46%	206,097	5.37%	\$0.43	26,666	58,551	48,836	88,036
Sunrise	333	9,541,858	0	0	1,216,414	12.75%	1,755,107	18.39%	\$0.44	(14,746)	(158,429)	121,662	295,115
West Sacramento	331	16,622,407	0	30,000	985,073	5.93%	1,801,272	10.84%	\$0.35	(222,170)	(290,049)	88,754	332,540
Sacramento County Total	3,231	148,880,625	13,010	1,996,339	16,481,583	11.07%	24,505,531	16.46%	\$0.37	(383,061)	(666,392)	1,960,301	3,767,021

10,000 – 29,999	1,921	31,924,518	13,010	568,385	3,220,837	10.09%	4,184,736	13.11%	\$0.47	111,048	223,118	501,174	1,119,317
30,000 – 49,999	505	19,208,168	0	260,518	2,343,673	12.20%	3,418,406	17.80%	\$0.39	(210,829)	(280,208)	191,632	468,451
50,000 – 99,999	513	34,682,120	0	291,846	3,767,701	10.86%	5,570,239	16.06%	\$0.36	(131,171)	(210,074)	574,755	1,023,733
100,000 – 199,999	188	24,508,235	0	518,200	3,067,852	12.52%	4,943,212	20.17%	\$0.35	(114,395)	(229,193)	157,594	315,404
200,000 – 299,999	59	14,185,745	0	0	1,606,619	11.33%	2,310,661	16.29%	\$0.29	(88,000)	(69,121)	10,000	185,010
300,000 +	45	24,371,839	0	357,390	2,474,901	10.15%	4,078,277	16.73%	\$0.32	50,286	(100,914)	525,146	655,106
Class Total	3,231	148,880,625	13,010	1,996,339	16,481,583	11.07%	24,505,531	16.46%	\$0.37	(383,061)	(666,392)	1,960,301	3,767,021

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



RECENT TRANSACTIONS

Lease Transactions

Property Address	Submarket	Square Feet	Transaction Date	Tenant	Owner
2222 E. Beamer – Renewal	Woodland	400,000	May–10	Hewlett Packard	Carter & Associates Enterprises, Inc.
221 Hanson Wy.	Woodland	260,000	May–10	Hewlett Packard	Carter & Associates Enterprises, Inc.
18 N. Pioneer Ave.	Woodland	141,000	May–10	Humboldt Redwood Company, LLC	Twenty Third Avenue Trust
221 Hanson Wy. – Renewal	Woodland	140,000	May–10	Hewlett Packard	Carter & Associates Enterprises, Inc.
1660 Tide Ct. – Renewal	Woodland	91,445	April–10	Amerimax Building Products, Inc.	Tide Court-CA, LLC
1741 Aviation Blvd.	Lincoln	76,252	April–10	Rogers Gourmet Coffee & Tea	Buzz Oates Companies
4040 Vista Park Ct. – Renewal	Natomas	68,000	June–10	EGL, Inc.	Harsch Investment Properties, LLC
5801 Warehouse Wy.	Power Inn	48,000	April–10	Pacific Coast Office Furniture	Alpine Venture Investments, LLC
860 Embarcadero Dr.	West Sacramento	47,787	May–10	Xyratex International	J.B. Company
855 Riverside Pky. – Renewal	West Sacramento	41,949	May–10	Xyratex International	J.B. Company
946 N. Market Blvd.	Natomas	40,000	April–10	Pacific Coast Building Products	PCBP Properties, Inc.

Product Type

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101 Shipyard Way
Newport Beach, CA 92663

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