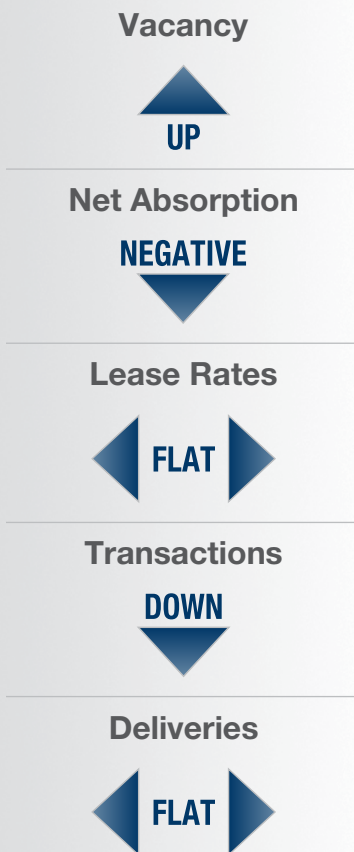




## Industrial Market Report

Compared to the Previous Quarter:



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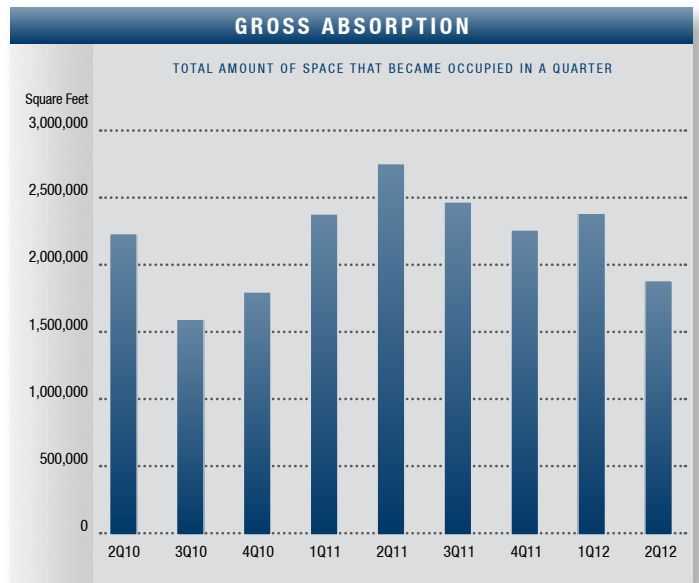
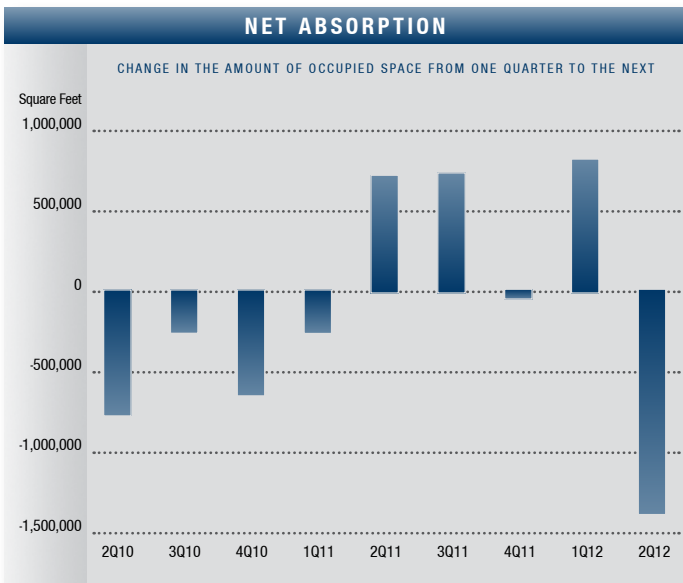
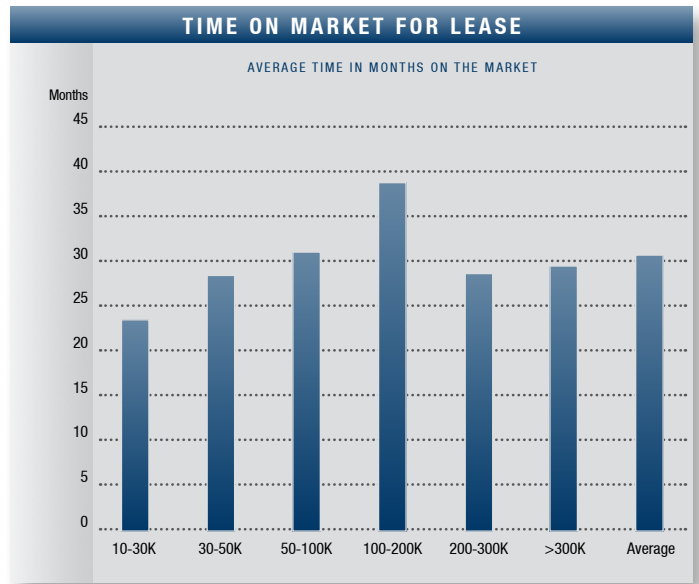
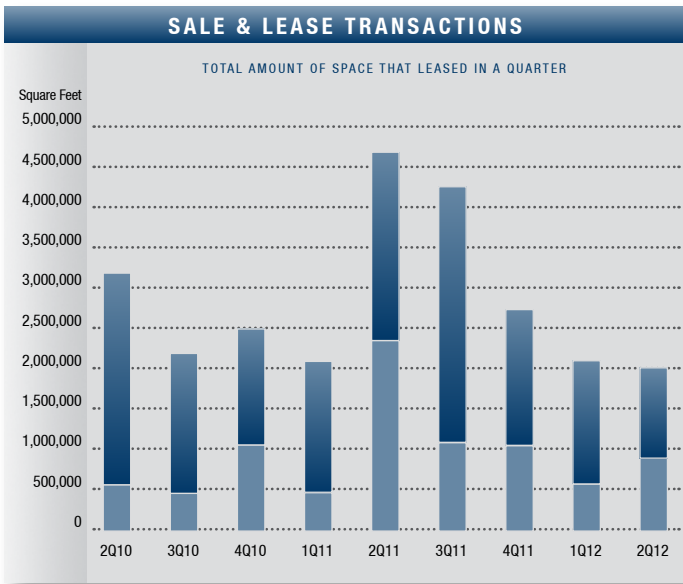
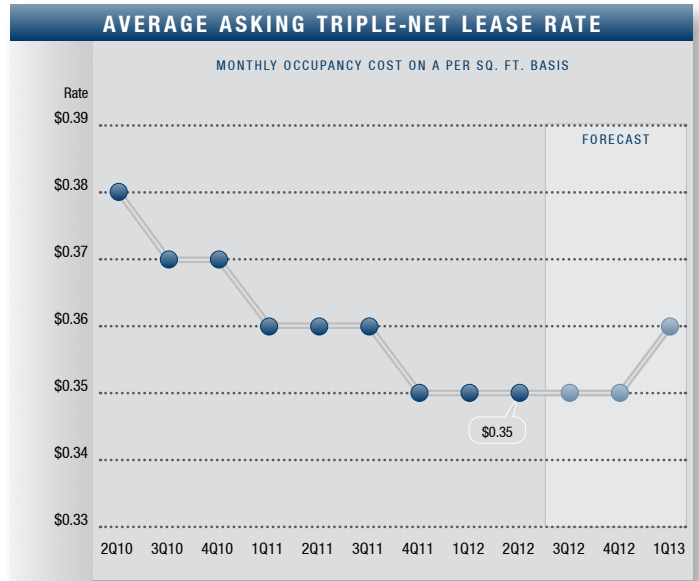
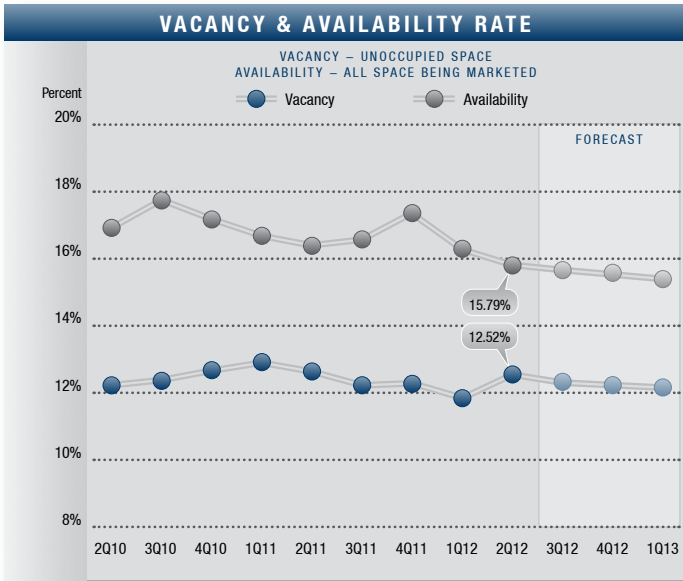
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### Market Highlights

- Market Status** - The Sacramento industrial market continued on its path to gradual recovery in the second quarter of 2012 despite a couple of bumps. The market negatively absorbed a couple large buildings in Davis/Woodland, which caused a noticeable increase in vacancy. While Sacramento is still experiencing job cuts, unemployment numbers appearing to stabilizing and falling in line with the rest of California. Buying for occupancy or purchasing fully leased, single-tenant assets seems to be the popular investment choice currently, as fully leased, performing assets are just the kind of safe-haven investment that buyers are looking for in secondary markets such as Sacramento.
- Construction** - During the second quarter, there was 242,000 square feet under construction in the Sacramento industrial market — a building in Davis and another in Dixon. No properties were delivered during the second quarter. The slowdown in construction will ease the upward pressure on vacancy and the downward pressure on lease rates going forward.
- Vacancy** - Total vacancy came in at 12.52%, a jump compared to the 11.83% of the first quarter of 2012 but still a slight decrease compared to 2011's second quarter rate. Within the major submarkets, the McClellan area remained high at 18.06%, while the West Sacramento and NE Sacramento areas came in at a solid 8.57% and 8.38%, respectively.
- Availability** - The rate of available space being marketed was 15.79% at the close of the second quarter, down 50 basis points from the previous quarter. The Davis/Woodland submarket remained very high at 21.73%, while the NE Sacramento submarket came in at 10.08%.
- Lease Rates** - The average asking triple-net lease rate was \$0.35 per square foot per month at the end of the second quarter- the same as the two previous quarters, indicating stabilization. Asking rates should continue to firm up with the possibility of increases in late 2012 or early 2013.
- Absorption** - The Sacramento industrial market recorded 1,385,444 square feet of negative net absorption in second quarter due to two 400,000+ square foot buildings becoming vacant in the Davis/Woodland submarket. Within the major submarkets, Davis/Woodland had 1,176,483 square feet of negative net absorption, while the Power Inn submarket posted 222,897 square feet of positive net absorption.
- Transaction Activity** - The total square footage volume of industrial lease and sale transaction activity was about 2 million for second quarter of 2012. The second and third quarters of 2011 withstanding, the market has averaged around 2 million square feet per quarter over the past couple of years. Important to note, this statistic does have some lag time to post final numbers, so look for the second quarter to reach about 2.5 million in finality. Details of the largest transactions for the second quarter can be found on the back page of this report.
- Employment** - The unemployment rate in the Sacramento-Arden Arcade-Roseville MSA was 10.4% in May 2012, up from 11.5% in March 2012. This compares with an unadjusted unemployment rate of 10.4% for California and 7.9% for the nation during the same period.
- Overall** - Owners can begin to breathe easier, as rent losses are over. Demand for warehouse space in Sacramento is improving and will continue to turn around as homebuilding picks up again and as local incomes start to rise. 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. While the downturn was painful, the tide is turning and the outlook for the foreseeable future is favorable.

### INDUSTRIAL MARKET OVERVIEW

	2Q12	1Q12	2Q11	% of Change vs. 2Q11
Vacancy Rate	12.52%	11.83%	12.60%	(0.63%)
Availability Rate	15.79%	16.29%	16.40%	(3.72%)
Average Asking Lease Rate	\$0.35	\$0.35	\$0.36	(2.78%)
Sale & Lease Transactions	1,999,355	2,091,382	4,671,477	(57.20%)
Gross Absorption	1,880,347	2,388,846	2,745,282	(31.51%)
Net Absorption	(1,385,444)	809,776	711,520	N/A

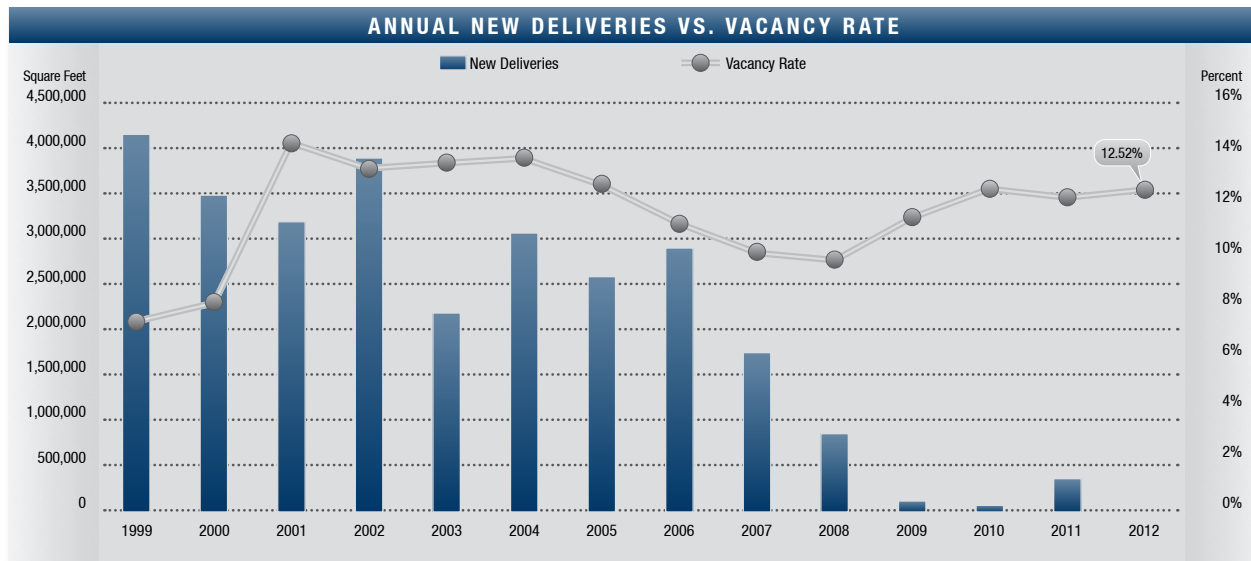


	INVENTORY				VACANCY & LEASE RATES					ABSORPTION			
	Number of Bldgs.	Net Rentable Square Feet	Square Feet U / C	Square Feet Planned	Square Feet Vacant	Vacancy Rate 2Q2012	Square Feet Available	Availability Rate 2Q2012	Average Asking Lease Rate	Net Absorption 2Q2012	Net Absorption 2012	Gross Absorption 2Q2012	Gross Absorption 2012

**Sacramento Market**

Auburn/Newcastle	93	2,549,061	0	0	193,751	7.60%	447,191	17.54%	\$0.57	(14,063)	(4,158)	10,350	26,659
Benicia	157	8,177,965	0	0	1,279,597	0.00%	1,617,852	0.00%	\$0.38	28,998	27,075	92,158	144,865
Davis/Woodland	199	16,826,511	200,000	0	2,976,752	17.69%	3,656,392	21.73%	\$0.26	(1,176,483)	(753,227)	37,728	512,039
Downtown	92	2,768,525	0	0	140,553	5.08%	173,753	6.28%	\$0.72	(4,710)	23,266	16,290	44,266
East Sacramento	27	755,466	0	0	106,176	14.05%	106,176	14.05%	\$0.00	0	0	0	0
Elk Grove/Laguna	116	5,757,292	0	29,450	703,870	12.23%	954,078	16.57%	\$0.38	(4,489)	(13,515)	63,115	76,715
Fairfield	168	12,942,275	0	1,176,336	950,799	7.35%	1,142,863	8.83%	\$0.42	(65,405)	67,717	51,190	326,377
Folsom/El Dorado	109	3,894,645	0	0	169,579	4.35%	251,679	6.46%	\$0.67	(22,790)	(33,334)	3,275	11,275
Marysville/Yuba City	132	5,705,814	0	0	612,720	10.74%	918,997	16.11%	\$0.39	23,349	14,549	40,800	59,100
Mather	134	4,010,246	0	70,393	587,961	14.66%	637,508	15.90%	\$0.37	(33,411)	(22,573)	10,000	69,721
McClellan	344	17,307,212	0	55,362	3,125,165	18.06%	3,351,978	19.37%	\$0.39	17,438	80,255	179,848	352,049
Natomas/Northgate	208	12,408,180	0	629,394	1,972,352	15.90%	2,521,356	20.32%	\$0.33	(205,200)	(120,412)	165,973	517,500
NE Sacramento	203	5,341,206	0	0	447,644	8.38%	538,426	10.08%	\$0.37	30,070	30,509	54,138	100,785
Outer El Dorado County	9	208,489	0	0	4,000	1.92%	4,000	1.92%	\$0.00	1,600	1,600	1,600	1,600
Outer Placer County	3	99,755	0	0	0	0.00%	0	0.00%	\$0.00	0	0	0	0
Outer Sacramento County	2	37,400	0	0	0	0.00%	0	0.00%	\$0.00	0	0	0	0
Outer Sutter County	2	65,078	0	0	0	0.00%	0	0.00%	\$0.00	0	0	0	0
Outer Yolo County	5	173,065	0	0	0	0.00%	0	0.00%	\$0.00	0	0	0	0
Outer Yuba County	2	123,995	0	0	0	0.00%	0	0.00%	\$0.00	0	0	0	0
Power Inn	590	26,438,270	0	710,888	2,685,369	10.16%	3,716,103	14.06%	\$0.33	222,897	299,134	663,479	983,094
Richards	95	4,700,563	0	0	512,348	10.90%	520,862	11.08%	\$0.34	0	1,515	0	16,960
Roseville/Rocklin	300	18,219,711	0	503,105	2,910,782	15.98%	3,457,373	18.98%	\$0.38	(2,089)	(89,355)	180,148	219,704
South Sacramento	125	3,958,514	0	0	215,739	5.45%	253,153	6.40%	\$0.40	(14,982)	(12,932)	47,218	58,868
Sunrise	327	9,481,038	0	0	1,062,278	11.20%	1,598,100	16.86%	\$0.39	57,315	137,058	110,006	363,792
Vacaville	161	10,410,957	42,000	216,000	1,074,487	10.32%	1,278,035	12.28%	\$0.52	(7,269)	11,779	57,411	88,818
Vallejo	122	5,867,565	0	14,000	1,202,778	20.50%	1,323,633	22.56%	\$0.34	7,535	6,335	7,535	7,535
West Sacramento	312	15,837,420	0	59,426	1,357,306	8.57%	2,179,673	13.76%	\$0.40	(223,755)	(226,954)	88,085	287,471
<b>Sacramento Market Total</b>	<b>4,037</b>	<b>194,066,218</b>	<b>242,000</b>	<b>3,464,354</b>	<b>24,292,006</b>	<b>12.52%</b>	<b>30,649,181</b>	<b>15.79%</b>	<b>\$0.35</b>	<b>(1,385,444)</b>	<b>(575,668)</b>	<b>1,880,347</b>	<b>4,269,193</b>
10,000-29,999	2,331	39,296,641	0	496,860	3,980,888	10.13%	5,003,723	12.73%	\$0.48	31,280	74,587	494,190	1,010,986
30,000-49,999	648	24,713,884	42,000	219,918	2,930,774	11.86%	3,630,318	14.69%	\$0.40	(114,675)	118,773	325,557	817,768
50,000-99,999	655	44,338,112	0	478,022	5,138,650	11.59%	6,874,773	15.51%	\$0.35	31,940	140,071	438,334	976,878
100,000-199,999	258	33,307,255	0	1,332,276	4,852,407	14.57%	6,616,284	19.86%	\$0.35	(146,248)	90,066	220,755	737,409
200,000-299,999	86	20,835,734	200,000	937,278	3,034,232	14.56%	3,893,094	18.68%	\$0.28	(515,794)	(327,218)	79,860	404,501
300,000 Plus	59	31,574,592	0	0	4,355,055	13.79%	4,630,989	14.67%	\$0.29	(671,947)	(671,947)	321,651	321,651
<b>Sacramento Market Total</b>	<b>4,037</b>	<b>194,066,218</b>	<b>242,000</b>	<b>3,464,354</b>	<b>24,292,006</b>	<b>12.52%</b>	<b>30,649,181</b>	<b>15.79%</b>	<b>\$0.35</b>	<b>(1,385,444)</b>	<b>(575,668)</b>	<b>1,880,347</b>	<b>4,269,193</b>

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
4901-4995 Industrial Way	Benicia	240,000	\$75.00	Bebe Stores, Inc.	JPMorgan Chase & Company
5980 88th St.	Power Inn	100,000	\$39.50	SalonGuys.com	Buzz Oates Companies
8470 Belvedere Ave.	Power Inn	53,780	\$36.26	BT Mancini Properties	Garmen Trust
2201 E. Monte Vista Ave.	Vacaville	13,694	\$109.54	VacaValley Excavating & Trucking	United Rentals
7200 Sawtelle Rd.	Marysville/Yuba City	16,000	\$75.00	Bains	Crimsonco, LLC

Lease Transactions

Property Address	Submarket	Square Feet	Transaction Date	Tenant	Owner
1400 Churchill Downs Ave.	Davis/Woodland	141,500	Jun-12	Olam Tomato Processors, Inc.	Amir Development Company
2320 Cordelia Rd.	Fairfield	91,200	May-12	QX Warehouse, Inc.	Fair Oaks Technology Park
4400 E. Commerce Way	Natomas/Northgate	64,228	May-12	N/A	Buzz Oates Companies
8600 23rd Ave.	Power Inn	48,827	Apr-12	N/A	Ethan Conrad Properties
1309 Melody Rd.	Marysville/Yuba City	37,200	Apr-12	Satellite Composites	STS

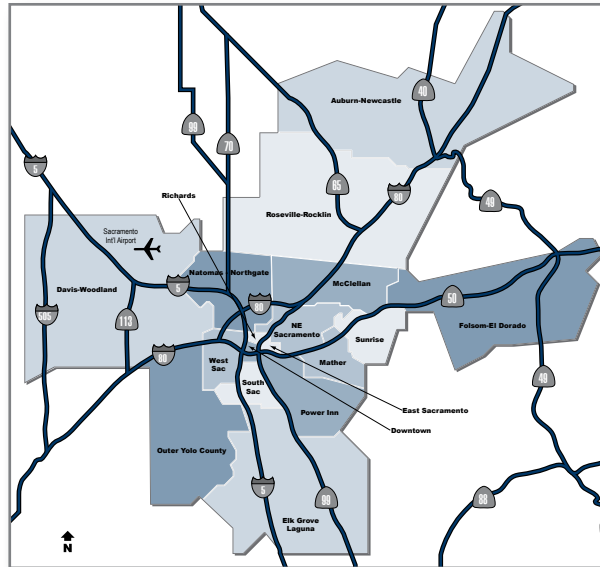
Product Type

MFG./DIST.

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