

MARKET CHANGE

Compared to the Previous Quarter:

Vacancy

DOWN

Net Absorption

POSITIVE

Lease Rates

DOWN

Transactions

DOWN

Deliveries

UP

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HIGHLIGHTS

- **Market Status** - The Sacramento industrial market has continued to improve as demand has gained momentum, which has led to a further decrease in vacancy rates. During the second quarter, vacancy decreased to 10.93%, which is the lowest vacancy rate since the first quarter of 2009. What's more, positive net absorption posted just over a half million square feet. Assuming construction remains at a minimum, vacancies are expected to fully recover by 2016.
- **Construction** - During the second quarter, there were three industrial buildings under construction in the Sacramento market, which totaled 921,880 square feet. One of those buildings is a 198,744 square foot FedEx distribution facility in Roseville, which is expected to be delivered this year in August. There is also a 250,000 square foot building under construction in West Sacramento, a Class A food processing center, that is expected to be delivered in May 2015. At the close of the second quarter, there was 5.95 million square feet of proposed industrial space. The slowdown in construction, however, will continue to force downward pressure on vacancy, which will allow for further stabilization.
- **Vacancy** - Total vacancy came in at 10.93%, which is a decrease of 25 basis points compared to the previous quarter. Within the major submarkets, Downtown had the lowest vacancy rate at 2.73%, while the South Sacramento area remained high at 37.35% with the 1.6-million-square-foot vacancy of the Campbell's Soup facility. In addition, the West Sacramento and Fairfield submarkets came in at a solid 6.47% and 4.20%, respectively.
- **Availability** - The rate of available space being marketed was 14.13% at the close of the second quarter, a decrease of 62 basis points from the previous quarter. The South Sacramento submarket remained high at 39.48%, while the Downtown submarket had the lowest availability rate in the region at 6.5%.
- **Lease Rates** - The average asking triple-net lease rate was \$0.34 per square foot per month at the end of the second quarter, down one cent from the first quarter's rate and that of the second quarter last year. We expect lease rates to increase slowly and steadily throughout 2014.
- **Absorption** - The Sacramento industrial market posted just over 514,027 square feet of positive absorption in the second quarter of the year, most of which was in the West Sacramento submarket, giving the market a net total of almost 4 million square feet of positive absorption since the second quarter of 2012.
- **Transaction Activity** - The total volume of industrial lease and sale transaction activity was over 2.3 million square feet for the second quarter. Sales activity came in at just over 1.1 million square feet during the same time frame. This statistic can have some lag time in being reported, so look for second 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 6.7% in May 2014, down from a revised 7.1% in April 2014, and below the year-ago estimate of 8.3%. This compares with an unadjusted unemployment rate of 7.1% for California and 6.1% 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 20,000 payroll jobs from May 2013 to May 2014. While most sectors showed gains in employment, the largest gains were 5,800 jobs in educational & health services, 5,200 jobs in professional and business services, and 3,400 jobs in government during that same time period.
- **Overall** - Although improvement will be slow, owners can breathe easier as the long-term outlook for the Sacramento industrial market is positive. 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. As the market improves, West Sacramento will quickly become a popular spot for tenants since it has good highway access, among other factors. 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

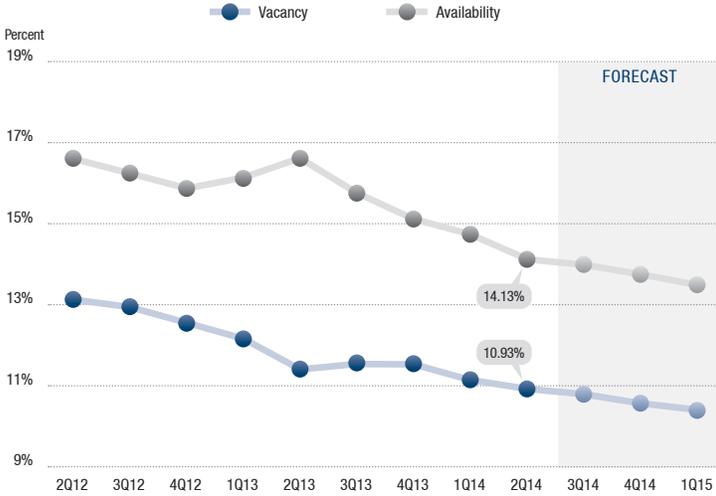
- **Construction** - At the close of the second quarter, over 920,000 square feet of industrial space was under construction – the most construction seen in this market in years, but still below historical levels. We anticipate construction remaining minimal and comprising of mostly build-to-suit projects in coming quarters.
- **Employment** - We anticipate job growth of around 2.1%, or 17,000 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 2%–3% by 2015.
- **Vacancy** - We anticipate the vacancy rate continuing to descend in coming quarters, dropping to around 10.4%, by the end of the first quarter of 2015.

OVERVIEW

	2Q14	1Q14	2Q13	% of Change vs. 2Q13
Vacancy Rate	10.93%	11.18%	11.44%	(4.46%)
Availability Rate	14.13%	14.75%	16.66%	(15.19%)
Average Asking Lease Rate	\$0.34	\$0.35	\$0.35	(2.86%)
Sale & Lease Transactions	2,340,950	2,900,824	4,351,310	(46.20%)
Gross Absorption	1,655,022	2,361,899	2,843,095	(41.79%)
Net Absorption	514,027	630,424	1,435,382	N/A

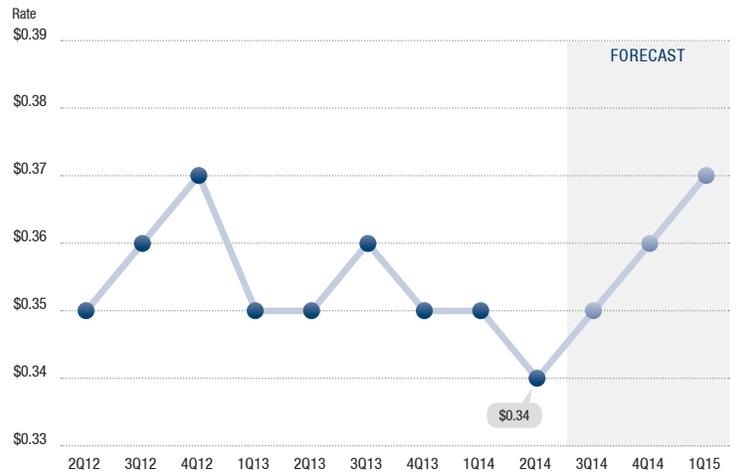
VACANCY & AVAILABILITY RATE

VACANCY – UNOCCUPIED SPACE | AVAILABILITY – ALL SPACE BEING MARKETED



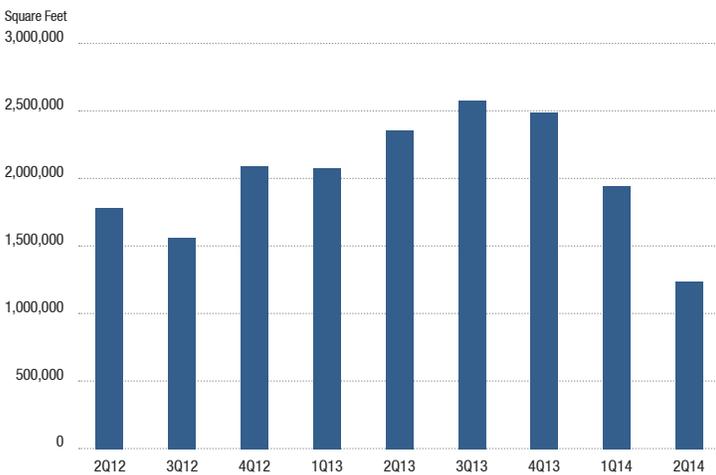
AVERAGE ASKING TRIPLE-NET LEASE RATE

MONTHLY OCCUPANCY COST ON A PER SQ. FT. BASIS



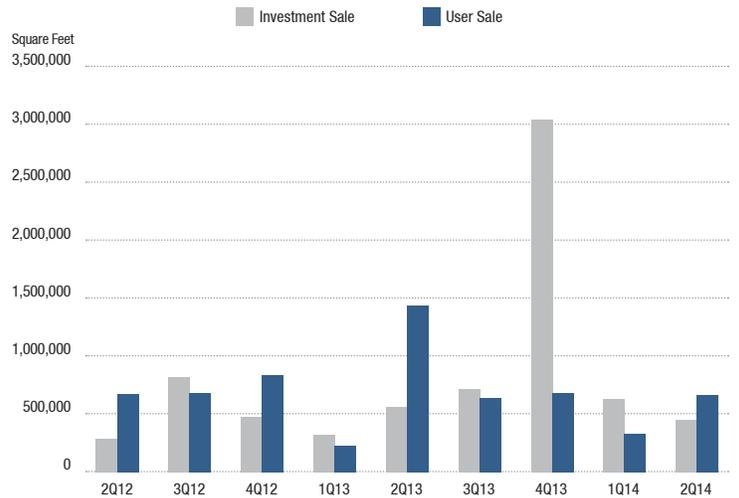
LEASE TRANSACTIONS

TOTAL AMOUNT OF SPACE THAT LEASED IN A QUARTER



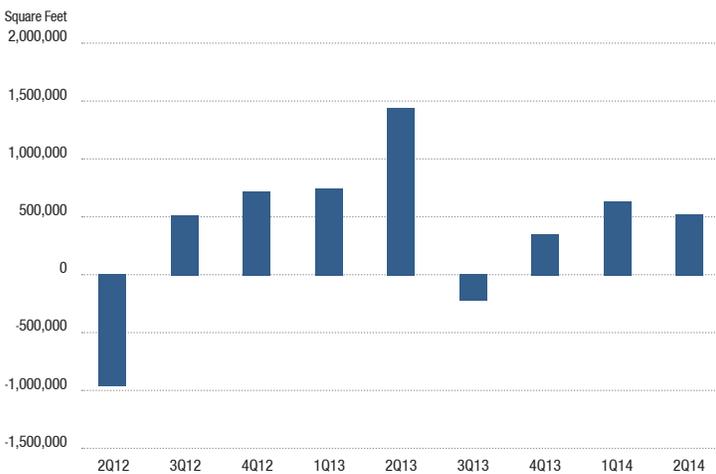
SALES TRANSACTIONS

TOTAL AMOUNT OF SPACE THAT SOLD IN A QUARTER



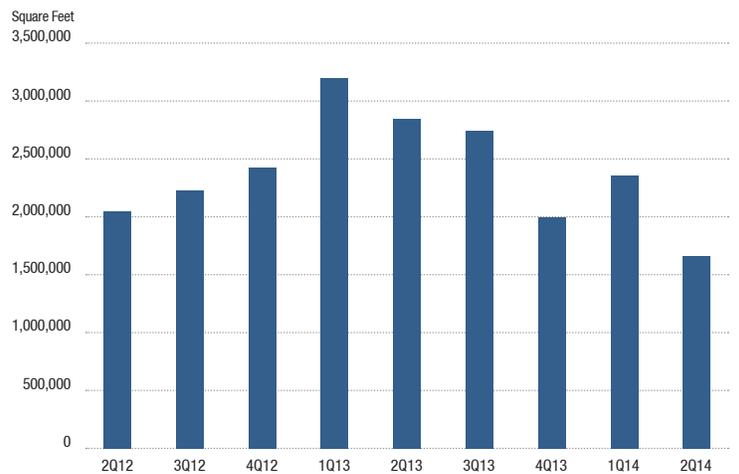
NET ABSORPTION

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



GROSS ABSORPTION

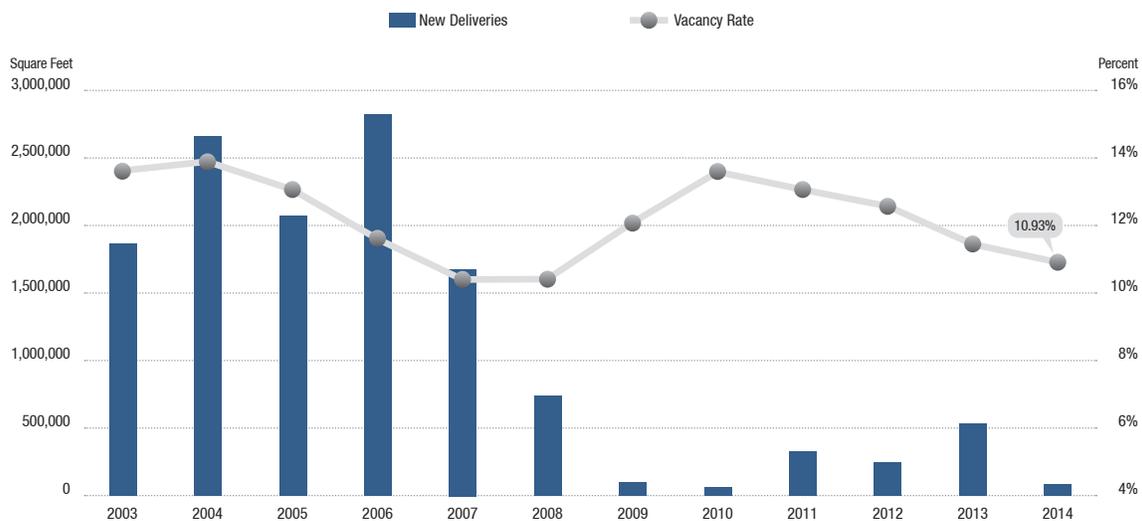
TOTAL AMOUNT OF SPACE THAT BECAME OCCUPIED IN A QUARTER



	INVENTORY				VACANCY & LEASE RATES					ABSORPTION			
	Number of Bldgs.	Net Rentable Square Feet	Square Feet U / C	Square Feet Planned	Square Feet Vacant	Vacancy Rate 2Q2014	Square Feet Available	Availability Rate 2Q2014	Average Asking Lease Rate	Net Absorption 2Q2014	Net Absorption 2014	Gross Absorption 2Q2014	Gross Absorption 2014
Sacramento Market													
Auburn/Newcastle	84	2,203,000	0	0	66,993	3.04%	234,943	10.66%	\$0.68	6,673	48,528	7,673	49,528
Benicia	155	8,046,147	0	0	912,303	11.34%	1,541,795	19.16%	\$0.54	27,473	(252,328)	73,976	170,388
Davis/Woodland	187	16,408,690	0	15,040	2,029,246	12.37%	2,075,453	12.65%	\$0.26	114,283	221,751	129,033	291,806
Downtown	89	2,681,816	0	0	73,296	2.73%	174,340	6.50%	\$1.21	13,333	13,333	23,633	23,633
East Sacramento	24	583,674	0	0	44,376	7.60%	44,376	7.60%	\$0.00	0	6,000	0	6,000
Elk Grove/Laguna	104	4,974,307	0	249,450	428,669	8.62%	675,803	13.59%	\$0.35	16,807	12,897	31,255	44,230
Fairfield	159	12,458,981	473,136	1,163,586	523,452	4.20%	717,950	5.76%	\$0.35	(36,816)	425,157	41,856	549,966
Folsom/El Dorado	98	2,733,385	0	0	128,781	4.71%	210,765	7.71%	\$0.75	(6,807)	(7,754)	2,997	13,097
Marysville/Yuba City	140	5,842,088	0	0	331,363	5.67%	484,899	8.30%	\$0.51	(29,709)	24,366	16,891	72,216
Mather	124	3,750,265	0	70,393	592,634	15.80%	780,467	20.81%	\$0.34	50,796	(35,287)	65,362	95,838
McClellan	285	13,410,542	0	159,464	2,577,232	19.22%	3,139,319	23.41%	\$0.35	79,319	86,008	105,257	205,517
Natomas/Northgate	201	11,664,906	0	629,394	1,228,409	10.53%	1,803,958	15.46%	\$0.40	110,735	344,603	164,793	580,147
NE Sacramento	192	5,030,112	0	0	422,037	8.39%	635,041	12.62%	\$0.37	(30,904)	(34,395)	20,710	58,707
Outer El Dorado County	9	197,707	0	10,000	3,500	1.77%	3,500	1.77%	\$0.00	1,600	1,600	1,600	1,600
Outer Placer County	2	20,705	0	0	0	0.00%	0	0.00%	\$0.00	0	0	0	0
Outer Sacramento County	3	79,588	0	0	12,000	15.08%	12,000	15.08%	\$0.00	(12,000)	(12,000)	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	560	24,294,505	0	1,034,281	2,426,699	9.99%	3,891,943	16.02%	\$0.31	70,272	(10,847)	301,197	489,395
Richards	86	4,058,487	0	0	298,026	7.34%	413,977	10.20%	\$0.34	19,210	49,351	19,810	66,092
Roseville/Rocklin	278	16,447,708	198,744	294,773	2,391,959	14.54%	2,680,380	16.30%	\$0.33	11,264	29,706	44,691	167,178
South Sacramento	125	4,028,478	0	1,077,600	1,504,627	37.35%	1,590,313	39.48%	\$0.24	115	5,435	7,515	34,215
Sunrise	329	9,383,267	0	0	695,629	7.41%	963,584	10.27%	\$0.42	15,256	57,059	66,846	248,979
Vacaville	149	9,905,027	0	1,211,311	791,312	7.99%	753,296	7.61%	\$0.36	(207,560)	(104,136)	27,990	166,142
Vallejo	109	5,202,491	0	0	1,129,567	21.71%	1,099,887	21.14%	\$0.30	14,756	14,536	16,006	19,506
West Sacramento	308	15,659,533	250,000	30,000	1,012,939	6.47%	1,441,253	9.20%	\$0.40	285,931	260,868	485,931	662,741
Sacramento Market Total	3,811	179,527,192	921,880	5,945,292	19,625,049	10.93%	25,369,242	14.13%	\$0.34	514,027	1,144,451	1,655,022	4,016,921
10,000-29,999	2,296	38,427,447	0	539,318	2,703,799	7.04%	3,922,910	10.21%	\$0.51	182,781	244,347	540,211	923,479
30,000-49,999	592	22,525,559	0	189,918	2,271,148	10.08%	2,902,310	12.88%	\$0.41	(70,970)	44,097	245,005	629,881
50,000-99,999	547	36,550,795	0	451,074	3,836,738	10.50%	4,747,620	12.99%	\$0.36	240,572	258,145	375,022	831,325
100,000-199,999	236	30,709,897	198,744	1,798,443	2,712,900	8.83%	4,669,369	15.20%	\$0.33	319,751	792,206	329,754	1,056,698
200,000-299,999	82	19,757,105	250,000	1,204,461	3,035,663	15.36%	3,351,580	16.96%	\$0.26	51,243	(296,416)	165,030	257,116
300,000 Plus	58	31,556,389	473,136	1,762,078	5,064,801	16.05%	5,775,453	18.30%	\$0.29	(209,350)	102,072	0	318,422
Sacramento Market Total	3,811	179,527,192	921,880	5,945,292	19,625,049	10.93%	25,369,242	14.13%	\$0.34	514,027	1,144,451	1,655,022	4,016,921

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
Tide Court Distribution Center 1680 Tide Ct.	Davis/Woodland	427,073	\$40.00	Tao Logistics, LLC	Invesco Realty Advisors, Inc.
8825 Washington Blvd.	Roseville/Rocklin	113,620	\$54.18	Rustic Lane, LLC	Westcore Properties
Oates Industrial Park 8360 Elder Creek Rd.	Power Inn	98,133	\$34.65	Massie & Company	Mark & Diana Ballantyne
Port Sacramento Industrial Park 4030-4062 Seaport Blvd.	West Sacramento	45,600	\$39.47	Lawson Trust	Frey Hans H. Trust
5700 88th St.	Power Inn	19,600	\$79.08	5700 Alpine, LLC	Zubillaga Family Trust

Lease Transactions

Property Address	Submarket	Square Feet	Transaction Date	Tenant	Owner
ProLogis Park 2190 Hanson Way	Davis/Woodland	200,000	May-14	S.P. Richards, Company	Prologis
Port Sacramento Industrial Park 1500 Overland Ct.	West Sacramento	161,941	May-14	Flowmaster Mufflers, Inc.	DRA Advisors, LLC
3900 Florin Perkins Rd.	Power Inn	74,000	Jun-14	Undisclosed	R&L Brosamer, Inc.
2660 Industrial Blvd.	West Sacramento	65,553	Apr-14	Bogle Vineyards	MacLaughlin Properties
8110 Power Ridge Rd.	Power Inn	57,100	Jun-14	Undisclosed	Bixby Northwest, LLC & Panatton
1429 E. Beamer St.	Davis/Woodland	50,400	Jun-14	Sun Foods, LLC	HNJ Farms

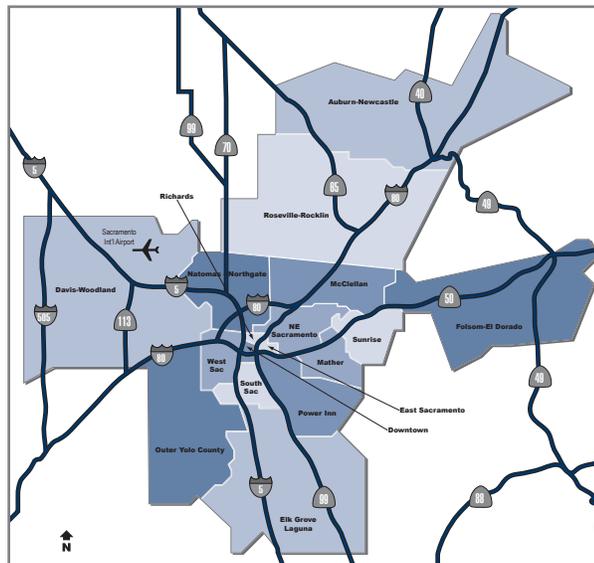
PRODUCT TYPE

MFG./DIST.

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