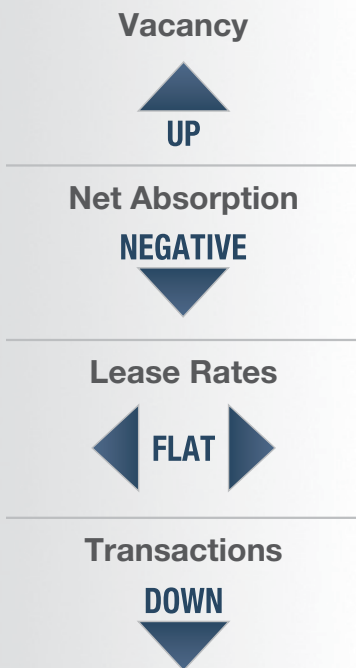




Industrial Market Report

Compared to last quarter:



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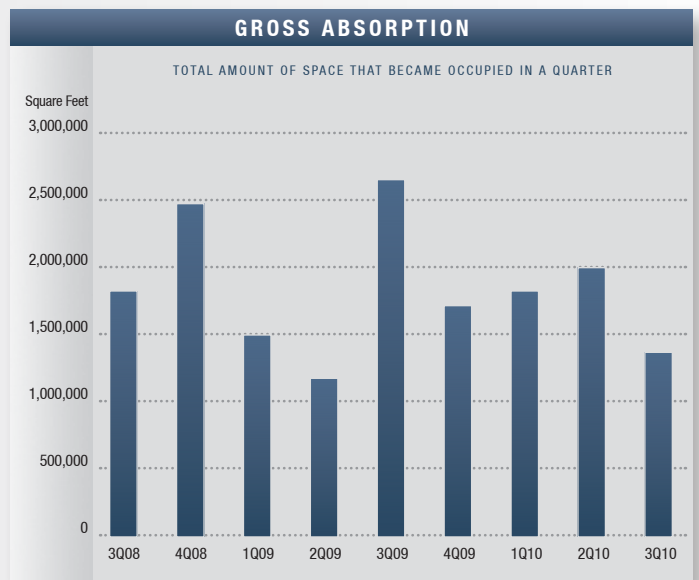
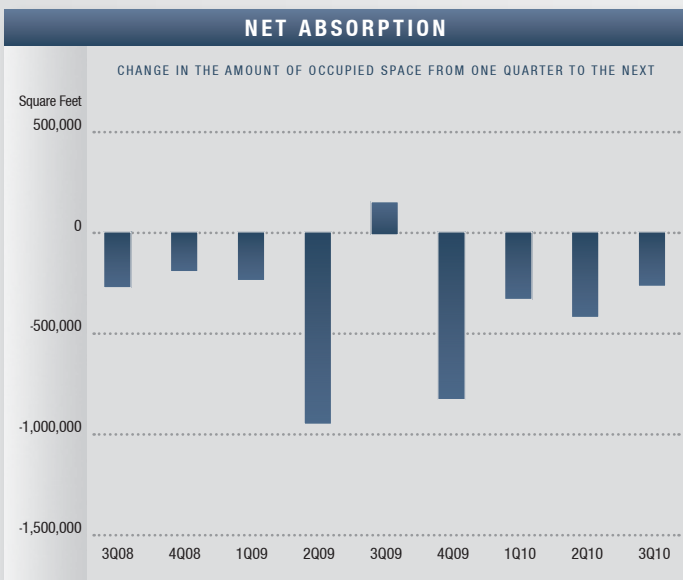
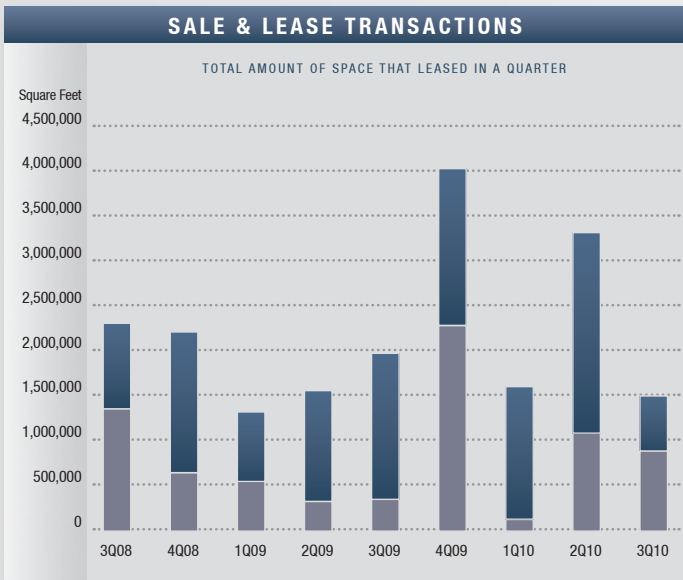
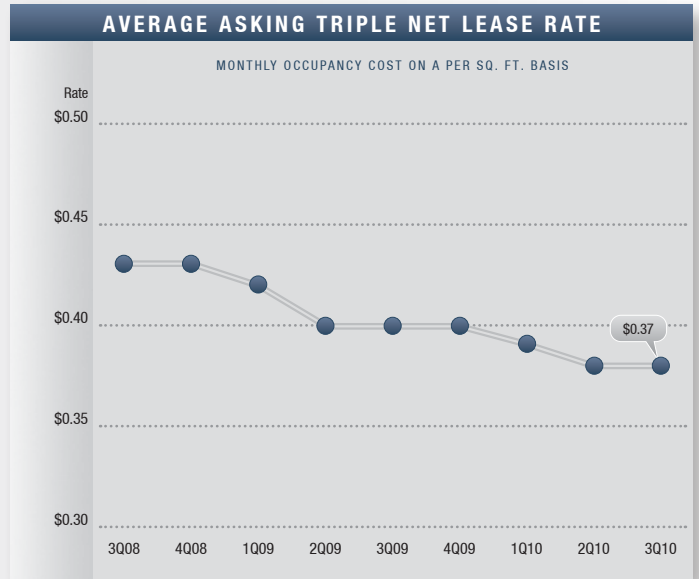
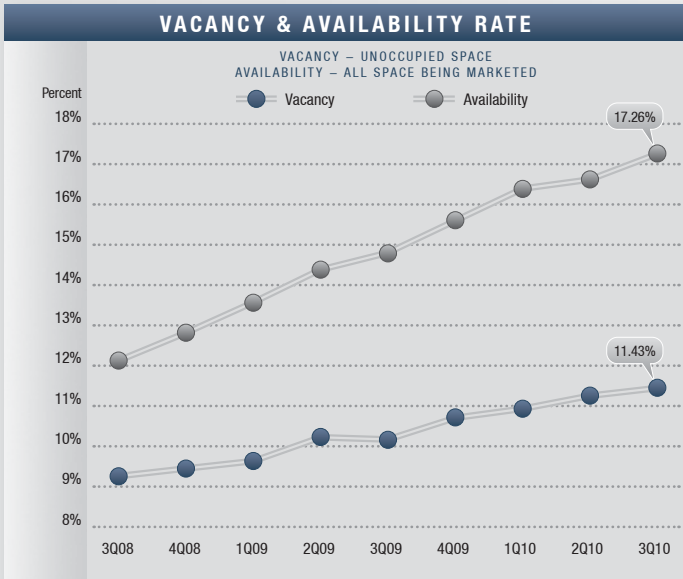
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Market Highlights

- 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** – Currently, there is no industrial construction underway. Scarce financing and low demand have essentially halted industrial development.
- Vacancy** – Direct/sublease space (unoccupied) finished the quarter at 11.43%, which is higher than a year-ago’s rate of 10.19% and higher than last quarter’s figure of 11.25%. The Power Inn market, the largest submarket in the county, posted a rate of 9.75%.
- Availability** – Direct/sublease space being marketed was 17.26% this quarter, up 16.94% from the 14.76% we saw this same quarter last year.
- Lease Rates** – The average asking triple net lease rate was \$.37 per square foot per month this quarter, the same as last quarter and three cents lower than last year’s third quarter rate. The record high for asking lease rates, \$.49, was recorded in the second quarter of 2007.
- Absorption** – The county posted 264,117 square feet of negative absorption for the third quarter of 2010, giving the industrial market a total of 1,011,956 square feet of negative absorption for the first three quarters of 2010.
- Transaction Activity** – Leasing activity checked in at 607,415 square feet. Sales activity showed a decrease since last quarter, posting 850,000 square feet of activity as compared to last quarter’s 1.1 million square feet. 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 area (MSA) was 12.4% in August 2010, down from a revised 12.7% in July 2010 and above the year-ago estimate of 11.6%. The unemployment rate was 11.9% in El Dorado, 11.5% in Placer, 12.8% in Sacramento and 11.6% in Yolo Counties. This compares with an unadjusted unemployment rate of 12.4% 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 25,900 payroll jobs over the last twelve months — 6,100 in construction and 4,600 in professional & business services. Between July 2010 and August 2010 the Sacramento MSA decreased by 3,200 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 going into 2011. Once employment turns positive and consumer confidence stabilizes, the industrial market will regain equilibrium.

INDUSTRIAL MARKET OVERVIEW

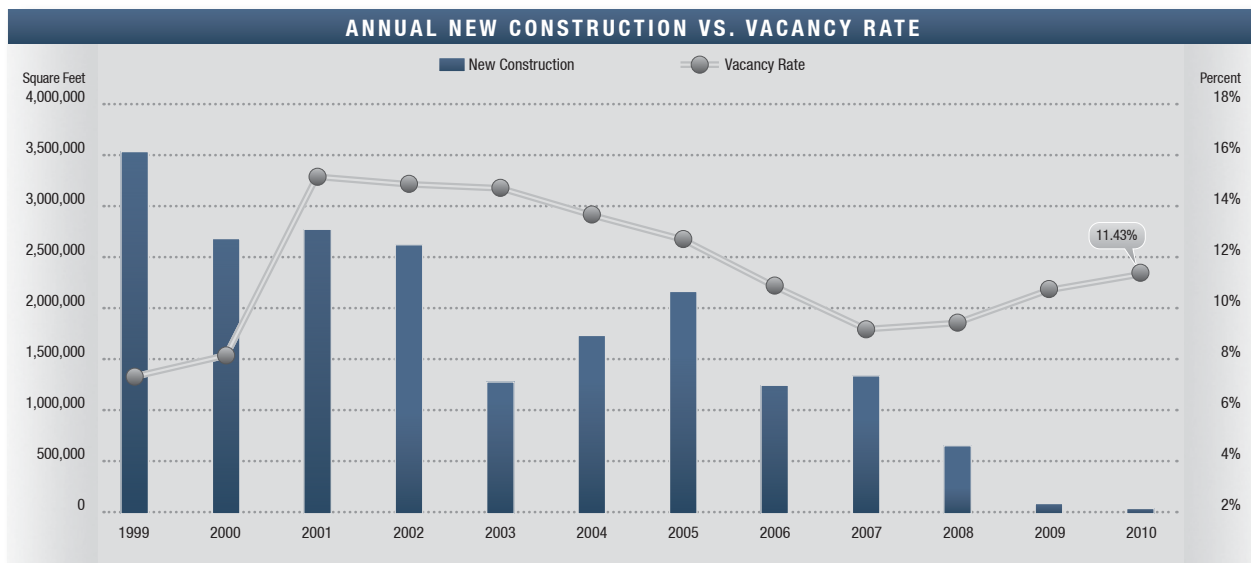
	3Q2010	2Q2010	3Q2009	% CHANGE vs. 3Q2009
Vacancy Rate	11.43%	11.25%	10.19%	12.17%
Availability Rate	17.26%	16.56%	14.76%	16.94%
Average Asking Lease Rate	\$0.37	\$0.37	\$0.40	(7.50%)
Sale & Lease Transactions	1,458,573	3,273,805	1,925,386	(24.25%)
Gross Absorption	1,358,735	1,984,721	2,636,860	(48.47%)
Net Absorption	(264,117)	(419,090)	152,738	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 3Q2010	Square Feet Available	Availability Rate 3Q2010	Average Asking Lease Rate	Net Absorption 3Q2010	Net Absorption 2010	Gross Absorption 3Q2010	Gross Absorption 2010
Sacramento County													
Auburn/Newcastle	91	2,525,043	0	0	101,829	4.03%	385,197	15.26%	\$0.58	17,925	(47,621)	37,500	92,838
Davis/Woodland	191	15,746,137	0	13,000	2,516,255	15.98%	3,246,540	20.62%	\$0.26	45,403	(299,141)	184,508	577,038
Downtown	90	2,732,534	0	0	122,946	4.50%	172,746	6.32%	\$0.51	(33,920)	(73,935)	26,800	32,185
East Sacramento	31	817,605	0	0	139,958	17.12%	139,958	17.12%	\$0.75	22,350	28,750	25,750	32,150
Elk Grove/Laguna	112	5,565,755	0	49,250	916,609	16.47%	1,380,718	24.81%	\$0.40	(20,514)	(227,978)	15,671	130,471
Folsom/El Dorado	99	3,631,419	0	165,760	128,113	3.53%	218,828	6.03%	\$0.68	1,325	51,024	15,732	104,175
Mather	138	4,204,936	0	70,393	582,414	13.85%	586,014	13.94%	\$0.42	(19,010)	(43,371)	20,745	78,207
McClellan	341	18,460,763	0	55,362	2,732,034	14.80%	3,223,242	17.46%	\$0.39	(6,377)	185,116	43,136	701,737
Natomas/Northgate	208	12,180,080	0	629,394	1,792,717	14.72%	2,666,991	21.90%	\$0.35	(22,120)	(73,698)	185,034	530,049
North East Sacramento	204	5,311,659	0	0	479,439	9.03%	694,400	13.07%	\$0.32	8,472	(25,235)	57,232	254,734
Power Inn	571	25,327,369	0	347,000	2,468,332	9.75%	4,980,220	19.66%	\$0.33	19,632	126,172	291,507	1,012,592
Richards	97	4,731,670	0	0	509,758	10.77%	686,726	14.51%	\$0.35	45,700	40,023	45,700	93,802
Roseville/Rocklin	300	18,155,240	0	517,180	2,095,853	11.54%	3,431,604	18.90%	\$0.46	(201,985)	(125,847)	86,249	479,216
South Sacramento	122	3,947,757	0	0	155,732	3.94%	287,616	7.29%	\$0.45	(18,449)	40,902	15,750	104,586
Sunrise	334	9,527,401	0	0	1,250,307	13.12%	1,875,189	19.68%	\$0.43	(14,573)	(188,902)	127,618	427,733
West Sacramento	323	16,573,048	0	30,000	1,087,439	6.56%	1,813,380	10.94%	\$0.35	(87,976)	(378,215)	179,803	512,343
Sacramento County Total	3,252	149,438,416	0	1,877,339	17,079,735	11.43%	25,789,369	17.26%	\$0.37	(264,117)	(1,011,956)	1,358,735	5,163,856

10,000 – 29,999	1,940	32,274,701	0	528,385	3,313,059	10.27%	4,263,141	13.21%	\$0.46	(32,329)	194,248	497,745	1,632,442
30,000 – 49,999	508	19,295,749	0	181,518	2,460,476	12.75%	3,482,819	18.05%	\$0.39	(98,898)	(382,437)	199,119	692,853
50,000 – 99,999	512	34,665,534	0	291,846	3,781,928	10.91%	5,800,699	16.73%	\$0.37	80,688	(181,239)	438,772	1,457,822
100,000 – 199,999	187	24,408,555	0	518,200	3,217,242	13.18%	5,198,001	21.30%	\$0.35	(31,808)	(260,983)	198,749	514,153
200,000 – 299,999	60	14,422,038	0	0	1,606,419	11.14%	2,280,228	15.81%	\$0.27	21,000	(54,921)	21,000	206,010
300,000 Plus	45	24,371,839	0	357,390	2,700,611	11.08%	4,764,481	19.55%	\$0.31	(202,770)	(326,624)	3,350	660,576
Class Total	3,252	149,438,416	0	1,877,339	17,079,735	11.43%	25,789,369	17.26%	\$0.37	(264,117)	(1,011,956)	1,358,735	5,163,856

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	Transaction Date	Tenant	Owner
260 N. Pioneer Blvd. – 2 Properties	Davis/Woodland	520,800	\$25.15	USAA Real Estate Company	The Lurie Company
8430 Ravona Cir.	Power Inn	54,000	\$48.15	Hobbs Holdings, LLC	T & J Family, LP
5850 Adler Ave.	Power Inn	40,160	\$43.58	Midwest Investment Company, LLC	Roxie Real Estate Investments, LLC
3880 Seaport Blvd.	West Sacramento	25,600	\$60.55	Capay Organic	James B. Lennane
12810 Earhart Ave.	Auburn/Newcastle	22,750	\$56.13	TK Neithercutt Family, LLC	Michael J. Kaping & Nina Kaping
11470 Sunrise Gold Cir.	Sunrise	24,600	\$48.78	Berkeley Capital Trust	Sunrise Gold II Bpt., LLC

Lease Transactions

Property Address	Submarket	Square Feet	Transaction Date	Tenant	Owner
7021 Roseville Rd. – Renewal	McClellan	250,000	Sep-10	United Stationers	Tisha Land Company
856 National Dr.	Natomas/Northgate	150,300	Jul-10	Shamrock Foods	J. B. Company
1835 Diesel Dr.	McClellan	108,000	Sep-10	Amerimax Building Products	Toolan & Weiss Trust
5850 Alder Ave.	Power Inn	40,160	Jul-10	PACE, Inc.	Terry Saxton
721 N. B St.	Richards	31,700	Jul-10	Riverside Aggregates	Richards Garden Office, LLC
3958 Seaport Blvd.	West Sacramento	31,600	Sep-10	Crown Worldwide Moving & Storage	Virginia M. Dickey

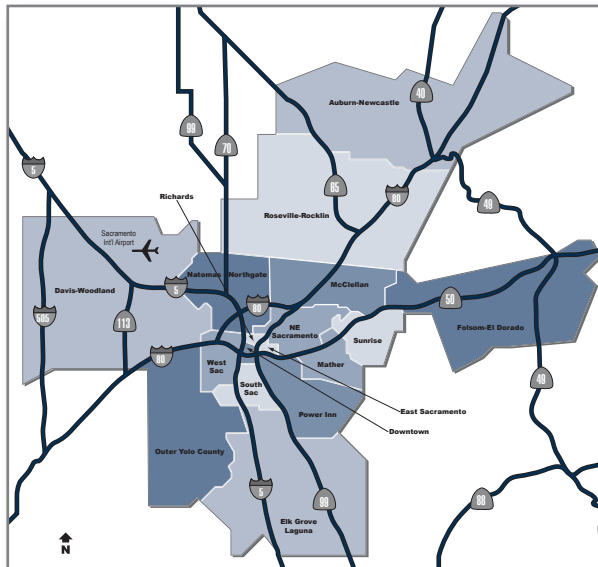
Product Type

MFG./DIST.

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

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