



Industrial Market Report

Compared to the Previous Quarter:

Vacancy

DOWN

Net Absorption

POSITIVE

Lease Rates

UP

Transactions

DOWN

Deliveries

DOWN

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Market Highlights

- Market Status** - The Sacramento industrial market continued gradually on the path to recovery in the third quarter of 2012. The market saw a drop in vacancy and availability rates, a positive net absorption figure, and the first increase in average asking lease rates in years. While Sacramento is still experiencing job cuts, unemployment numbers appear to be 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.
- Absorption** - The Sacramento industrial market recorded 279,853 square feet of positive net absorption in third quarter. Within the major submarkets, Fairfield and Power Inn both had over 200,000 square feet of positive net absorption, while the McClellan submarket posted 221,245 square feet of negative net absorption.
- Transaction Activity** - The total volume of industrial lease and sale transaction activity was about 2.3 million square feet for third quarter of 2012. The second and third quarters of 2011 withstanding, the market has posted between 2 and 3 million square feet per quarter over the past couple of years. This statistic does have some lag time to post final numbers, so look for the third quarter to reach about 2.5 million in finality. Details of the largest transactions for the third quarter can be found on the back page of this report.
- Employment** - The unemployment rate in the Sacramento-Arden Arcade-Roseville MSA was 10.7% in Aug 2012, up from 10.4% in April 2012. This compares with an unadjusted unemployment rate of 10.4% for California and 8.2% for the nation during the same period. According to the State of California Employment Development Department, Sacramento-Arden Arcade-Roseville MSA saw a net increase of 17,600 payroll jobs from August 2011 to August 2012. The largest gains were 4,900 in professional & business services and 3,900 in trade, transportation, and utilities; however, Sacramento-Arden Arcade-Roseville MSA lost 900 leisure and hospitality jobs during that 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.
- Construction** - During the third quarter, there was one 200,000 square foot building — the Mori Seiki building in Davis — under construction in the Sacramento industrial market. No properties were delivered during the third 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 12.37%, a decrease of 15 basis points compared to the previous quarter. Within the major submarkets, the McClellan area remained high at 19.70%, while the West Sacramento and NE Sacramento areas came in at a solid 8.61% and 7.38%, respectively.
- Availability** - The rate of available space being marketed was 15.51% at the close of the third quarter; down 32 basis points from the previous quarter. The Natomas/Northgate submarket remained high at 21.51%, while the NE Sacramento submarket had the lowest rate in the region at 9.60%.
- Lease Rates** - The average asking triple-net lease rate was \$0.36 per square foot per month at the end of the third quarter — an increase of \$0.01 from the previous quarter. Asking rates should continue to firm up with more possibility of increases in late 2012 or early 2013.

Prepared by:

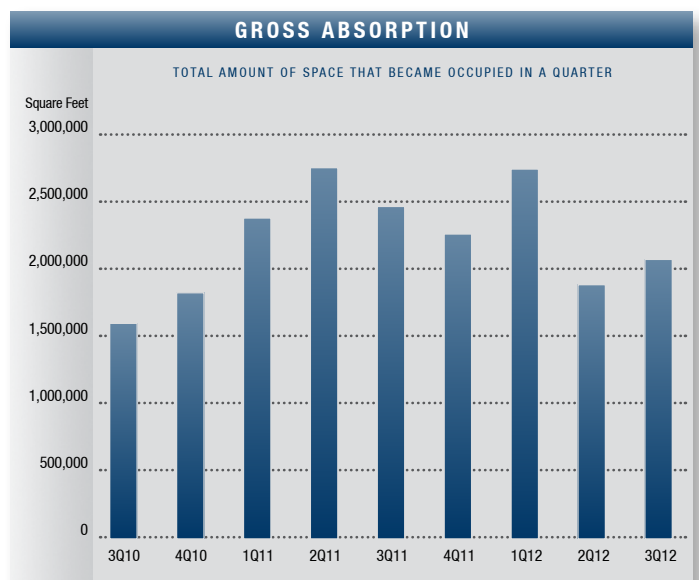
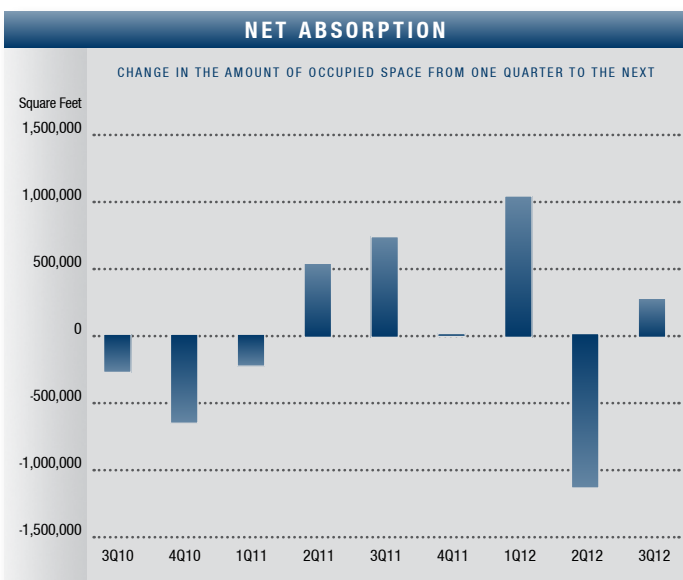
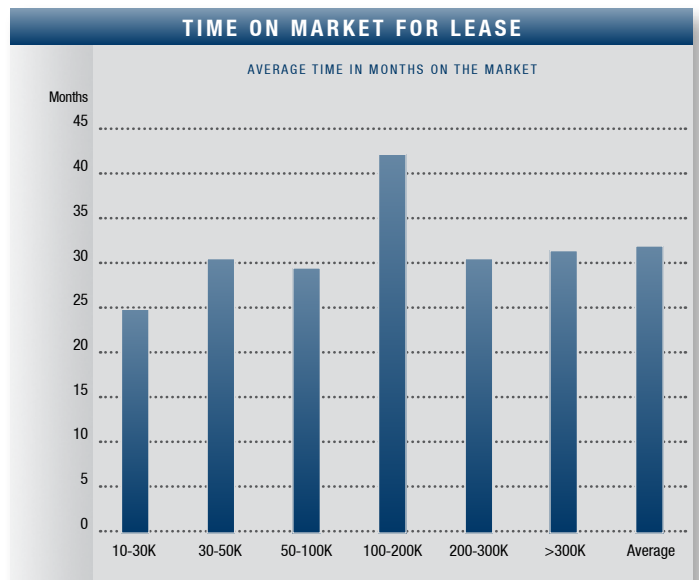
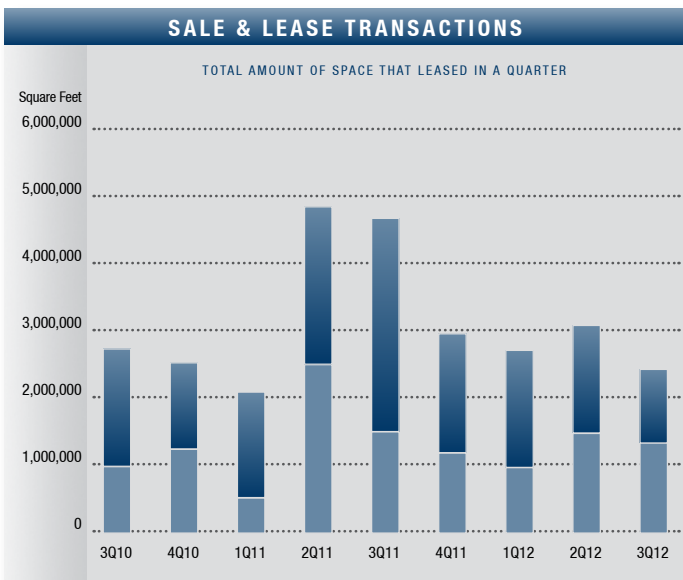
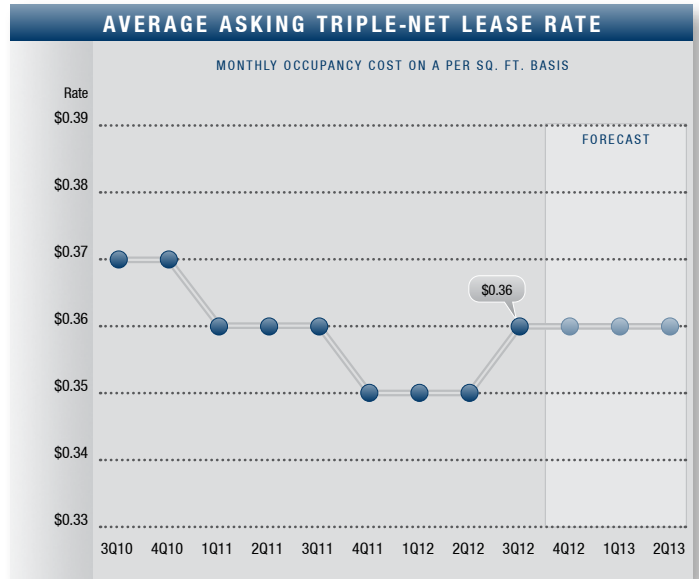
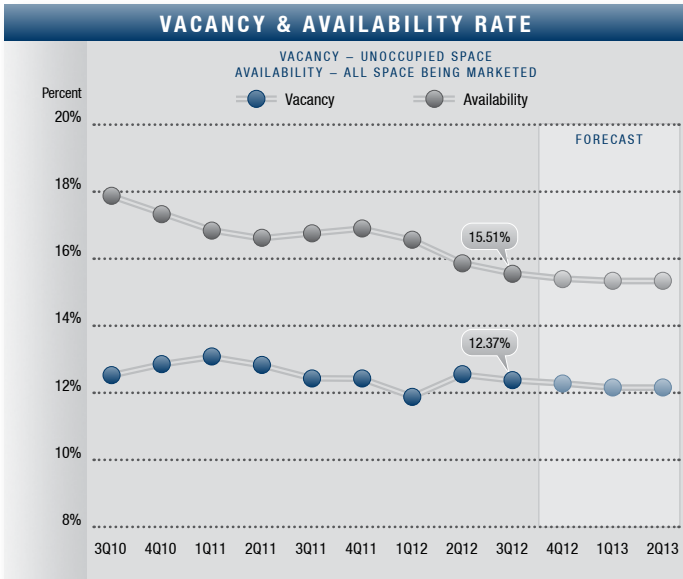
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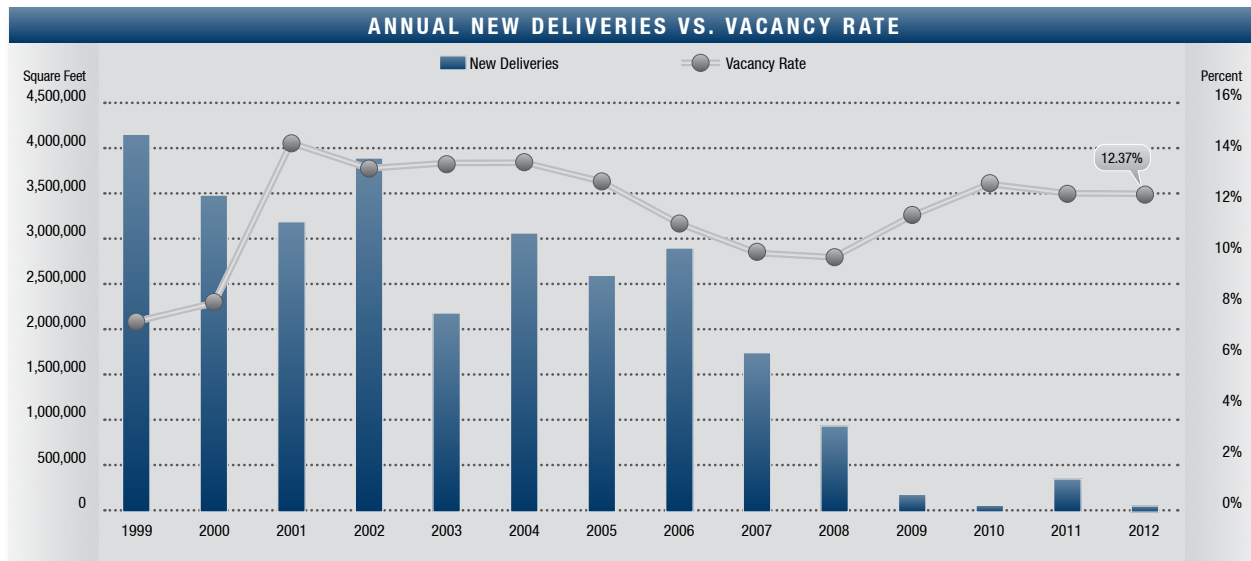
INDUSTRIAL MARKET OVERVIEW

	3Q12	2Q12	3Q11	% of Change vs. 3Q11
Vacancy Rate	12.37%	12.52%	12.45%	(0.64%)
Availability Rate	15.51%	15.83%	16.78%	(7.57%)
Average Asking Lease Rate	\$0.36	\$0.35	\$0.36	0.00%
Sale & Lease Transactions	2,328,965	3,035,896	4,654,376	(49.96%)
Gross Absorption	1,965,123	1,879,542	2,466,487	(20.33%)
Net Absorption	279,853	(1,136,670)	728,100	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 3Q2012	Square Feet Available	Availability Rate 3Q2012	Average Asking Lease Rate	Net Absorption 3Q2012	Net Absorption 2012	Gross Absorption 3Q2012	Gross Absorption 2012
Sacramento Market													
Auburn/Newcastle	95	2,664,094	0	0	171,386	6.43%	333,818	12.53%	\$0.57	22,365	19,507	30,040	57,999
Benicia	157	8,170,335	0	0	1,242,466	15.21%	1,390,906	17.02%	\$0.45	(46,869)	64,206	55,265	280,130
Davis/Woodland	197	16,659,311	200,000	0	2,754,097	16.53%	3,383,291	20.31%	\$0.26	81,155	(530,572)	95,807	749,346
Downtown	91	2,757,187	0	0	162,753	5.90%	178,753	6.48%	\$0.68	(22,200)	12,066	5,000	49,266
East Sacramento	27	757,766	0	0	119,376	15.75%	141,376	18.66%	\$0.62	(13,200)	(13,200)	0	0
Elk Grove/Laguna	115	5,658,492	0	29,450	707,979	12.51%	865,634	15.30%	\$0.39	(4,109)	(17,624)	20,900	97,615
Fairfield	167	12,723,452	0	1,176,336	722,120	5.68%	1,102,930	8.67%	\$0.39	206,639	276,203	234,353	569,377
Folsom/El Dorado	111	3,902,955	0	0	230,028	5.89%	313,570	8.03%	\$0.70	(60,449)	(80,983)	14,543	40,918
Marysville/Yuba City	135	5,830,308	0	0	625,795	10.73%	963,947	16.53%	\$0.35	(13,075)	15,574	3,721	77,321
Mather	135	3,988,502	0	70,393	521,818	13.08%	649,733	16.29%	\$0.42	70,396	53,070	129,636	204,704
McClellan	345	17,382,949	0	75,362	3,424,504	19.70%	3,601,612	20.72%	\$0.44	(221,245)	(97,666)	143,762	513,711
Natomas/Northgate	208	12,409,754	0	629,394	2,029,159	16.35%	2,669,400	21.51%	\$0.38	(10,119)	(177,374)	194,199	654,211
NE Sacramento	203	5,338,361	0	0	393,866	7.38%	512,260	9.60%	\$0.38	43,626	74,135	90,510	191,295
Outer El Dorado County	10	220,326	0	0	0	0.00%	0	0.00%	\$0.00	4,000	6,100	4,000	6,300
Outer Placer County	4	110,205	0	0	0	0.00%	0	0.00%	\$0.00	0	600	0	600
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	587	26,248,199	0	710,888	2,535,404	9.66%	3,813,595	14.53%	\$0.33	201,675	629,259	303,204	1,293,998
Richards	94	4,644,683	0	0	519,790	11.19%	513,904	11.06%	\$0.42	(11,083)	(9,568)	32,117	49,077
Roseville/Rocklin	302	18,316,332	0	514,773	3,005,211	16.41%	3,460,164	18.89%	\$0.38	(14,844)	(40,839)	42,443	323,727
South Sacramento	126	3,980,557	0	0	210,939	5.30%	253,853	6.38%	\$0.38	4,800	(8,132)	15,700	74,568
Sunrise	327	9,481,038	0	0	1,034,670	10.91%	1,379,095	14.55%	\$0.41	13,445	139,403	155,638	521,530
Vacaville	162	10,453,763	0	912,403	1,000,278	9.57%	1,179,139	11.28%	\$0.45	74,209	127,988	221,483	352,301
Vallejo	122	5,868,565	0	14,000	1,204,978	20.53%	1,312,149	22.36%	\$0.34	(1,200)	4,135	0	7,535
West Sacramento	312	15,837,420	0	89,426	1,364,370	8.61%	2,034,346	12.85%	\$0.42	(24,064)	(267,398)	172,802	460,273
Sacramento Market Total	4,043	193,804,092	200,000	4,222,425	23,980,987	12.37%	30,053,475	15.51%	\$0.36	279,853	178,890	1,965,123	6,575,802
10,000-29,999	2,340	39,449,740	0	528,528	3,722,216	9.44%	4,852,073	12.30%	\$0.49	233,920	348,786	596,822	1,657,807
30,000-49,999	646	24,646,211	0	249,918	2,668,089	10.83%	3,363,410	13.65%	\$0.43	219,492	412,206	470,346	1,349,961
50,000-99,999	660	44,684,340	0	478,022	5,395,810	12.08%	6,921,036	15.49%	\$0.38	(167,378)	(87,327)	321,563	1,306,581
100,000-199,999	252	32,621,105	0	1,527,879	4,689,901	14.38%	6,129,742	18.79%	\$0.36	135,443	288,514	345,397	1,082,806
200,000-299,999	86	20,828,104	200,000	216,000	2,962,927	14.23%	3,969,236	19.06%	\$0.28	30,865	(80,353)	114,745	599,246
300,000 Plus	59	31,574,592	0	1,222,078	4,542,044	14.39%	4,817,978	15.26%	\$0.29	(172,489)	(702,936)	116,250	579,401
Sacramento Market Total	4,043	193,804,092	200,000	4,222,425	23,980,987	12.37%	30,053,475	15.51%	\$0.36	279,853	178,890	1,965,123	6,575,802

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
600 Nesmith Ct.	Folsom/El Dorado	245,645	\$30.12	Follett Investment Properties, Inc.	98 Folsom Partners, LLC
8687 Weyand Ave.	Power Inn	99,500	\$73.37	Copart, Inc.	AAA Northern California
6350 Sky Creek Dr.	Power Inn	108,956	\$58.05	Matsumura Family Trust	Plant Bros. Corporation
1299 Baseline Rd.	Roseville/Rocklin	82,148	\$52.34	Trojan Self Storage	Wells Fargo Bank, NA
175 Enterprise Ct.	Elk Grove/Laguna	97,896	\$38.31	DKCR Properties, Inc.	KMS Development, LLC

Lease Transactions

Property Address	Submarket	Square Feet	Transaction Date	Tenant	Owner
540 Stone Rd.	Benicia	120,000	Aug-12	Santa Clara Warehouse	Home Depot USA, Inc.
4601 Park Rd.	Benicia	54,000	Aug-12	Express Messenger Systems	Tulloch Construction, Inc.
521-531 Stone Rd. – Renewal	Benicia	49,920	Sep-12	Sears Logistics Services, Inc.	Walton Street Capital, LLC
2747 Mercantile Dr.	Sunrise	45,577	Jul-12	N/A	Reverse Exchange Properties, Inc.
7115 Watt Ave. – Renewal	McClellan	32,507	Aug-12	Supply Hardware	Ethan Conrad Properties

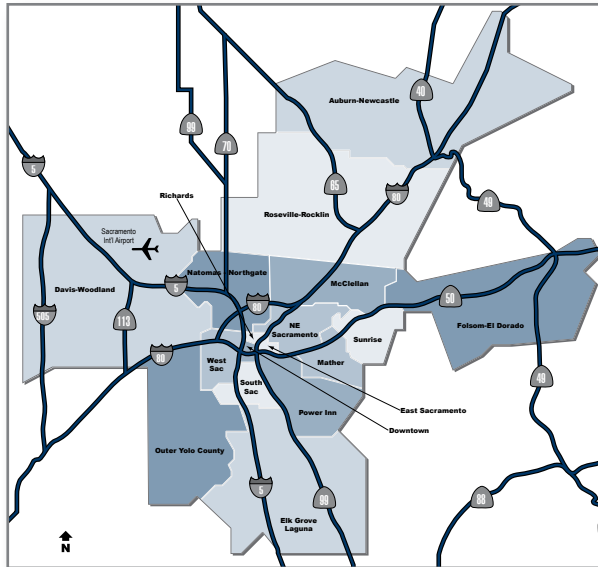
Product Type

MFG./DIST.

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

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