



Industrial Market Report

Compared to the Previous Quarter:

Vacancy

DOWN

Net Absorption

POSITIVE

Lease Rates

UP

Transactions

DOWN

Deliveries

UP

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Market Highlights

- Market Status** - Sacramento's industrial market's recovery appears to be underway with another great quarter. During the third quarter, vacancy decreased into the low-11% range, and positive net absorption posted over 1 million square feet for the second consecutive quarter. While these figures are remarkable and exciting during this stage of recovery, employment gains and overall economic stability in the region will need to be sustained for the Sacramento industrial market to continue to recover.
- Construction** - During the third quarter, there were two industrial buildings under construction in the Sacramento market, including a 195,000 square-foot FedEx distribution facility in Roseville. There were no new deliveries in the third quarter and only one building delivered during the second quarter — a 131,211 square-foot build-to-suit for Saladino's food services. The slowdown or non-existence 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 11.22%, a decrease of 47 basis points compared to the previous quarter. Within the major submarkets, the McClellan area remained high at 19.35%, while the NE Sacramento and the West Sacramento areas came in at a solid 8.90% and 8.52%, respectively.
- Availability** - The rate of available space being marketed was 14.87% at the close of the third quarter, a decrease of 8.72% from the previous year. The McClellan submarket remained high at 24.15%, while the NE Sacramento submarket had the lowest rate in the region at 9.59%.
- Lease Rates** - The average asking triple-net lease rate was \$0.36 per square foot per month at the end of the third quarter- a one cent rise from the previous quarter and the same as 2012's rate. Asking rates have stabilized; we expect increases coming in early 2014.
- Absorption** - The Sacramento industrial market recorded 1,018,046 square feet of positive net absorption in third quarter. (This figure does exclude the 1,612,725 square foot facility that Campbell's Soup vacated this quarter, which is rumored to be in escrow already.) Within the

major submarkets, the Davis/Woodland submarket had 792,956 square feet of positive net absorption, while the NE Sacramento submarket posted 31,563 square feet of negative net absorption.

- Transaction Activity** - The total volume of industrial lease and sale transaction activity was about 2.4 million square feet for third quarter. The third quarter of 2011 withstanding, the market has averaged about 2.9 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 over 3 million in finality. Details of the largest transactions for the third quarter of 2013 can be found on the back page of this report.
- Employment** - The unemployment rate in the Sacramento-Arden Arcade-Roseville MSA was 8.5% in August 2013, down from a revised 8.9 % in July 2013 and below the year-ago estimate of 10.4%. This compares with an unadjusted unemployment rate of 8.8% for California and 7.3% 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 1,800 payroll jobs from July 2013 to August 2013. The largest gains were 600 jobs in manufacturing and 500 jobs in farming. The government also picked up 300 jobs.
- Overall** - Owners can begin to breathe easier, as rent losses are over and increases have begun. Demand for warehouse space in Sacramento is improving and will continue to turn around as homebuilding picks up again and local incomes start to 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. 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.

Prepared by:

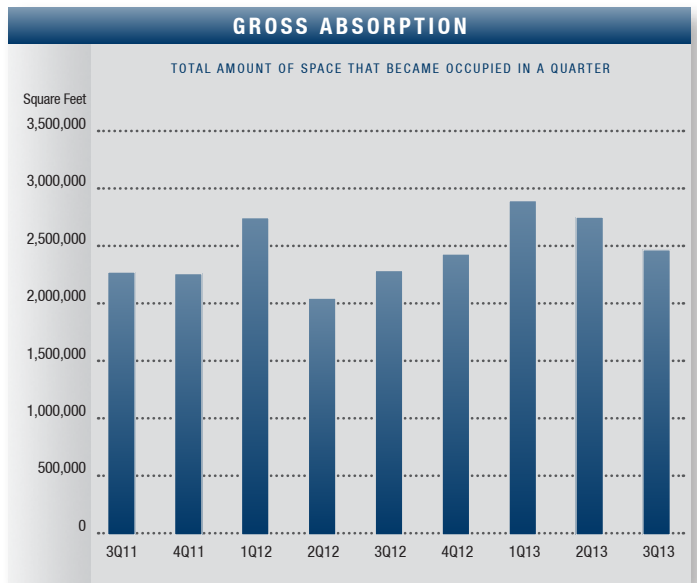
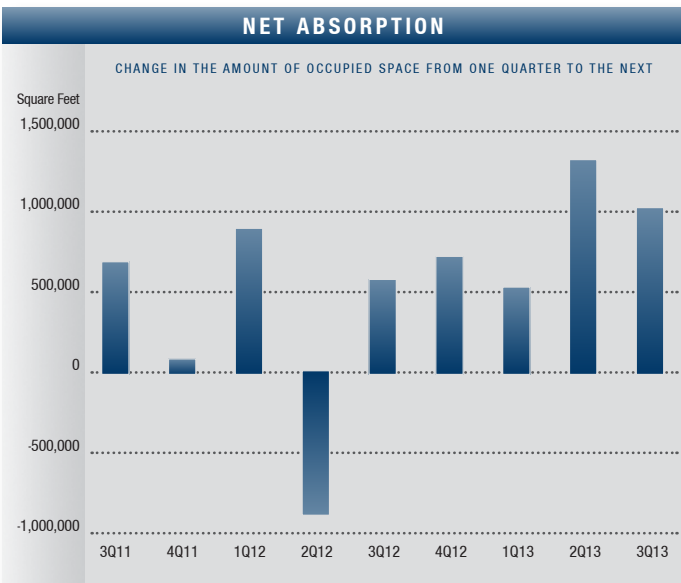
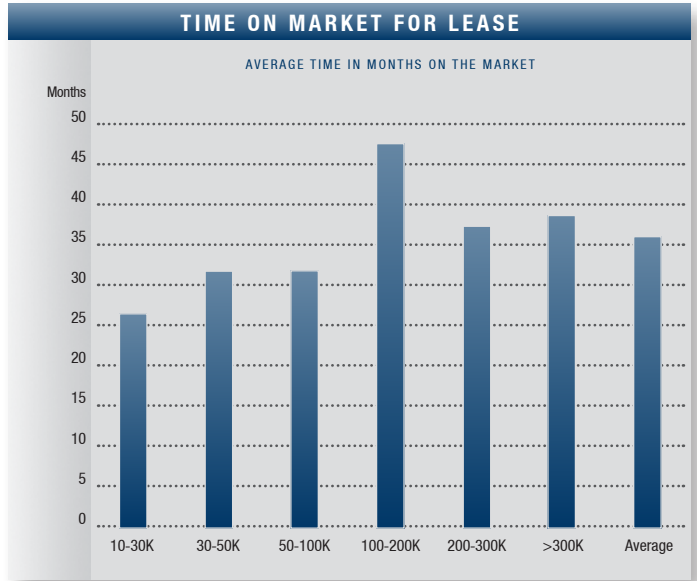
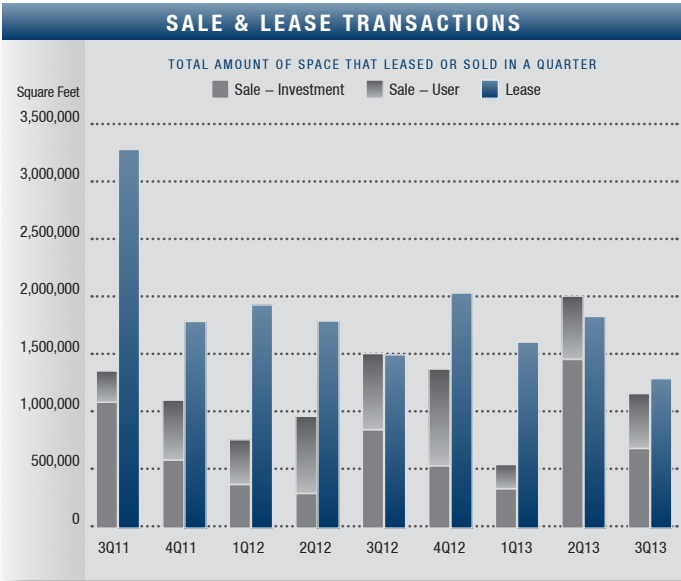
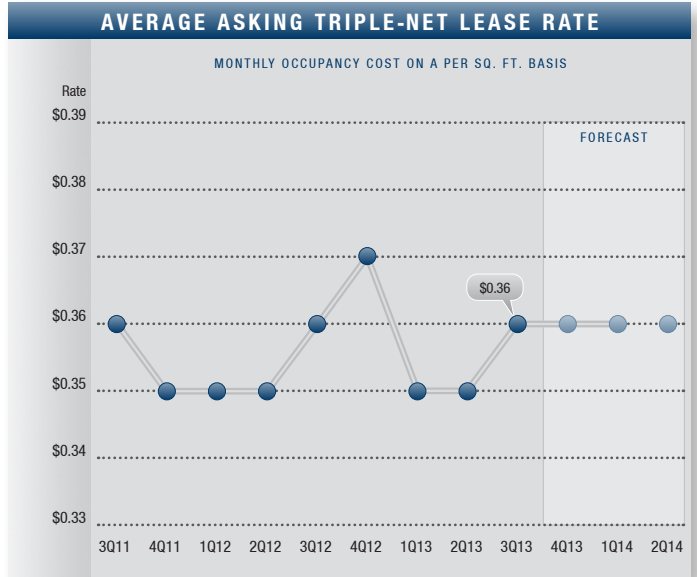
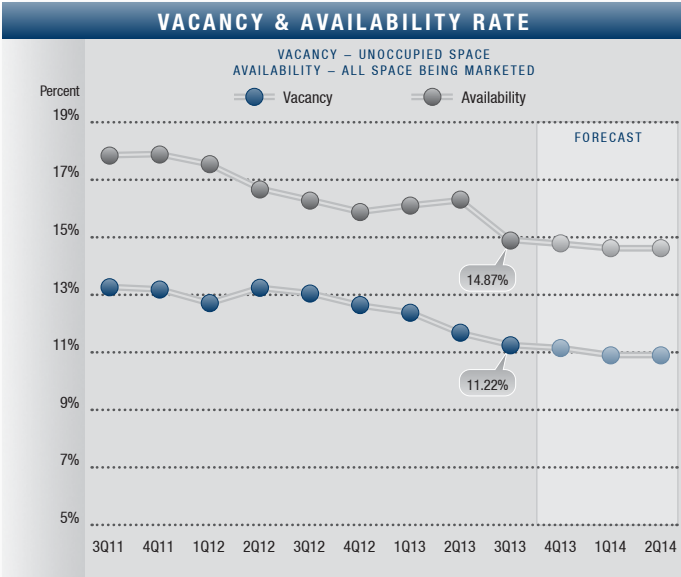
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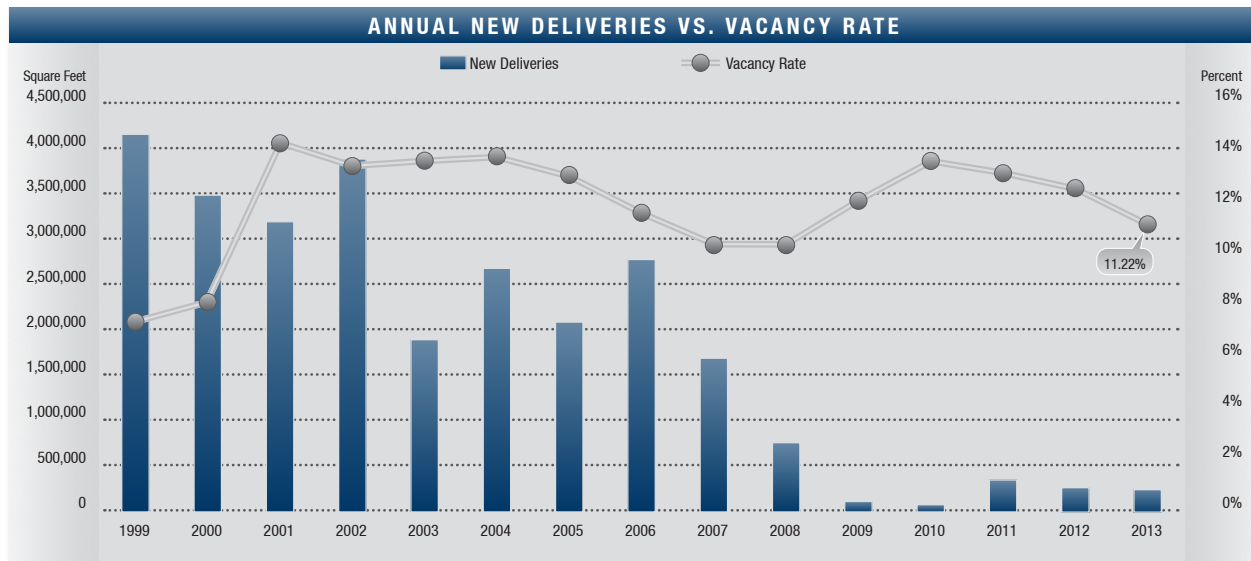
INDUSTRIAL MARKET OVERVIEW

	3Q13	2Q13	3Q12	% of Change vs. 3Q12
Vacancy Rate	11.22%	11.69%	13.02%	(13.82%)
Availability Rate	14.87%	16.58%	16.29%	(8.72%)
Average Asking Lease Rate	\$0.36	\$0.35	\$0.36	0.00%
Sale & Lease Transactions	2,424,877	3,814,541	2,990,574	(18.92%)
Gross Absorption	2,463,915	2,741,917	2,285,605	7.80%
Net Absorption	1,018,046	1,316,548	571,114	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 3Q2013	Square Feet Available	Availability Rate 3Q2013	Average Asking Lease Rate	Net Absorption 3Q2013	Net Absorption 2013	Gross Absorption 3Q2013	Gross Absorption 2013
Sacramento Market													
Auburn/Newcastle	85	2,243,000	0	0	137,514	6.13%	298,100	13.29%	\$0.51	36,032	34,517	36,106	62,376
Benicia	155	8,046,906	0	0	766,508	9.53%	1,549,387	19.25%	\$0.57	30,151	404,979	124,638	632,484
Davis/Woodland	190	16,478,860	0	15,040	1,997,944	12.12%	2,700,210	16.39%	\$0.26	752,956	519,587	881,575	1,004,900
Downtown	91	2,758,312	0	17,200	148,655	5.39%	175,582	6.37%	\$0.64	17,178	15,578	17,200	27,200
East Sacramento	25	594,674	0	0	100,376	16.88%	122,376	20.58%	\$0.62	0	19,000	0	19,000
Elk Grove/Laguna	103	4,989,737	0	29,450	481,226	9.64%	625,435	12.53%	\$0.39	62,983	136,223	86,809	248,479
Fairfield	159	12,147,148	318,402	1,649,472	687,568	5.66%	890,933	7.33%	\$0.38	(109,833)	10,349	118,959	273,036
Folsom/El Dorado	98	2,723,795	0	0	139,992	5.14%	211,568	7.77%	\$0.72	29,963	92,384	36,334	180,638
Marysville/Yuba City	136	5,736,680	0	0	396,939	6.92%	575,616	10.03%	\$0.34	(22,555)	(28,856)	8,645	37,202
Mather	124	3,745,132	0	70,393	572,390	15.28%	672,160	17.95%	\$0.38	28,650	(11,738)	28,650	140,341
McClellan	291	13,759,848	0	192,326	2,662,330	19.35%	3,323,665	24.15%	\$0.36	48,060	439,126	87,853	1,559,421
Natomas/Northgate	200	11,632,523	0	629,394	1,510,005	12.98%	1,775,864	15.27%	\$0.38	117,492	532,637	205,388	755,918
NE Sacramento	196	5,036,463	0	0	448,080	8.90%	483,227	9.59%	\$0.38	(31,563)	(68,375)	51,102	177,253
Outer El Dorado County	9	197,707	0	10,000	5,100	2.58%	17,100	8.65%	\$0.00	(5,100)	(5,100)	0	0
Outer Placer County	2	20,705	0	0	0	0.00%	0	0.00%	\$0.00	0	0	0	0
Outer Sacramento County	3	77,588	0	0	0	0.00%	10,000	12.89%	\$0.00	0	0	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	557	24,267,548	0	1,034,281	2,447,908	10.09%	3,823,207	15.75%	\$0.32	17,741	57,619	212,091	726,587
Richards	90	4,163,628	0	0	278,681	6.69%	420,321	10.10%	\$0.45	(5,345)	51,789	23,186	127,603
Roseville/Rocklin	275	15,997,736	195,000	484,773	2,798,117	17.49%	3,124,600	19.53%	\$0.37	25,488	9,966	159,057	497,938
South Sacramento	122	2,390,919	0	0	129,167	5.40%	120,657	5.05%	\$0.52	(14,200)	21,143	22,845	87,221
Sunrise	329	9,370,899	0	0	893,816	9.54%	1,223,562	13.06%	\$0.41	(22,499)	77,310	130,775	415,458
Vacaville	149	9,717,888	0	1,211,311	702,652	7.23%	1,151,182	11.85%	\$0.45	(8,079)	282,971	8,200	335,255
Vallejo	108	5,164,973	0	0	1,267,729	24.54%	1,259,342	24.38%	\$0.32	(40,063)	(66,297)	11,925	24,233
West Sacramento	308	15,612,556	0	90,000	1,330,842	8.52%	1,810,669	11.60%	\$0.40	110,589	329,942	212,577	759,394
Sacramento Market Total	3,816	177,337,008	513,402	5,433,640	19,903,539	11.22%	26,364,763	14.87%	\$0.36	1,018,046	2,854,754	2,463,915	8,091,937
10,000-29,999	2,296	38,453,416	0	556,768	3,189,173	8.29%	4,251,294	11.06%	\$0.46	142,717	359,545	527,844	1,620,492
30,000-49,999	601	22,830,747	0	219,918	2,549,693	11.17%	3,144,809	13.77%	\$0.41	170,102	188,385	381,633	1,032,290
50,000-99,999	546	36,590,263	0	566,436	4,606,112	12.59%	5,520,687	15.09%	\$0.39	121,843	404,292	494,645	1,485,553
100,000-199,999	235	30,671,509	195,000	1,644,843	3,704,362	12.08%	5,015,806	16.35%	\$0.32	(122,812)	786,368	176,233	1,475,641
200,000-299,999	83	20,010,381	0	750,461	2,714,209	13.56%	4,159,280	20.79%	\$0.28	(24,235)	41,135	83,560	276,560
300,000 Plus	55	28,780,692	318,402	1,695,214	3,139,990	10.91%	4,272,887	14.85%	\$0.33	730,431	1,075,029	800,000	2,201,401
Sacramento Market Total	3,816	177,337,008	513,402	5,433,640	19,903,539	11.22%	26,364,763	14.87%	\$0.36	1,018,046	2,854,754	2,463,915	8,091,937

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 Per SF	Buyer	Seller
890 Embarcadero Dr.	West Sacramento	164,330	\$63.04	Bayer Crop Science	Ethan Conrad Properties
1236 & 1324 Arden Way	NE Sacramento	84,033	\$46.30	Flower Foods, Inc.	Hostess Brands
4350 Warehouse Ct.	McClellan	96,000	\$32.74	B & B and Sons Enterprises	WF Building Maintenance Company, Inc.
859 F St.	West Sacramento	55,000	\$45.45	Metropolitan-Atlas Moving	O'Brien Interests
6001 88th St.	Power Inn	48,000	\$40.00	Colonial Van & Storage, Inc.	6001 Investments, LLC

Lease Transactions

Property Address	Submarket	Square Feet	Transaction Date	Tenant	Owner
1625 W. National Dr.	Natomas / Northgate	75,090	Sep-13	Undisclosed	Westcore Properties
1925 Enterprise Blvd.	West Sacramento	50,000	Sep-13	Undisclosed	Samra Trucking, LLC
3290 Monier Cir.	Sunrise	45,022	Jul-13	Undisclosed	Urata & Sons
4109 S. Market Cir.	Natomas / Northgate	39,722	Aug-13	Ashley Furniture	Harsch Investments
1534 N. Market Blvd.	Natomas / Northgate	29,222	Jul-13	Rexel Pacific Electric	Westcore Properties

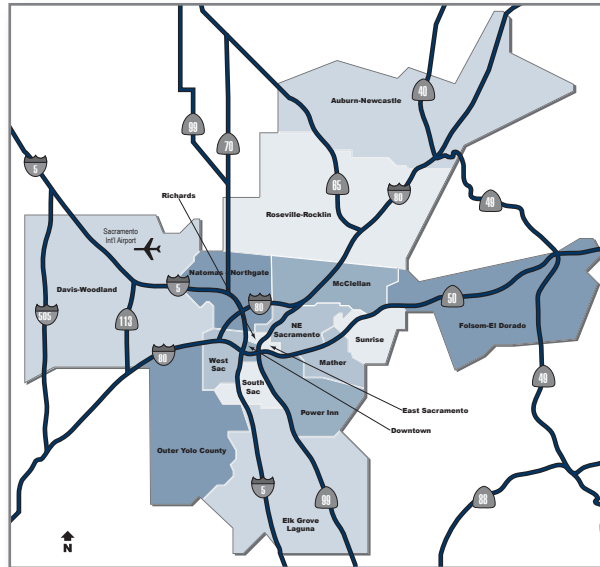
Product Type

MFG./DIST.

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

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