



Industrial Market Report

Compared to 2009:

Vacancy



UP

Net Absorption

NEGATIVE



Lease Rates

DOWN



Transactions



UP

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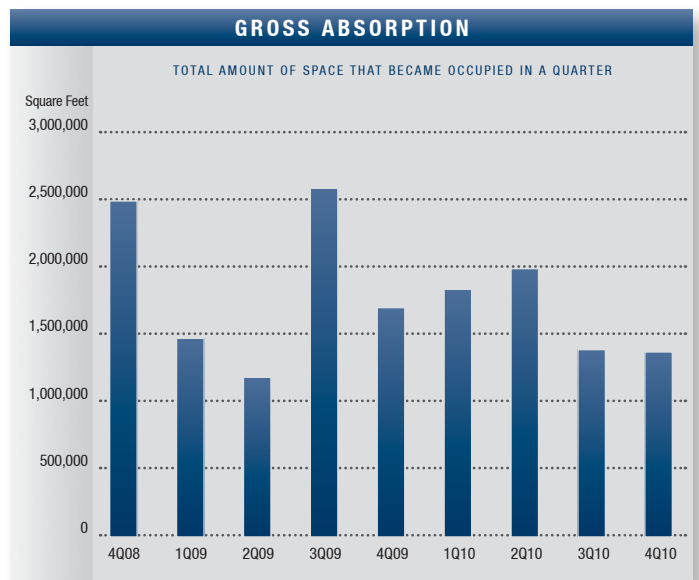
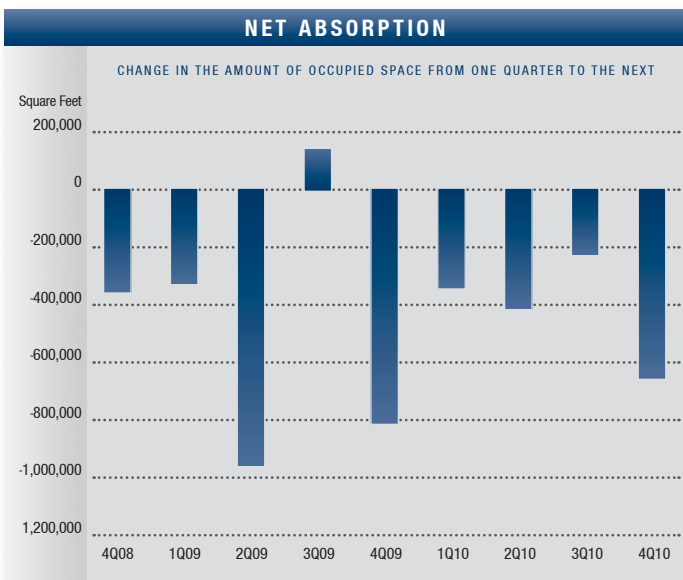
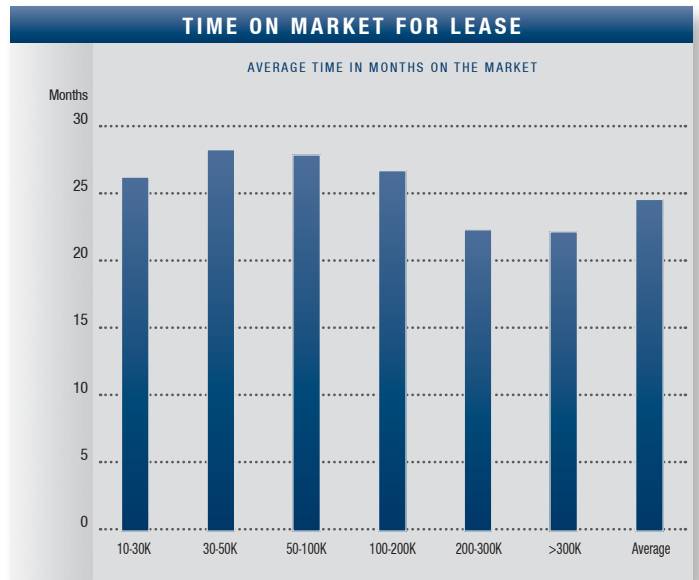
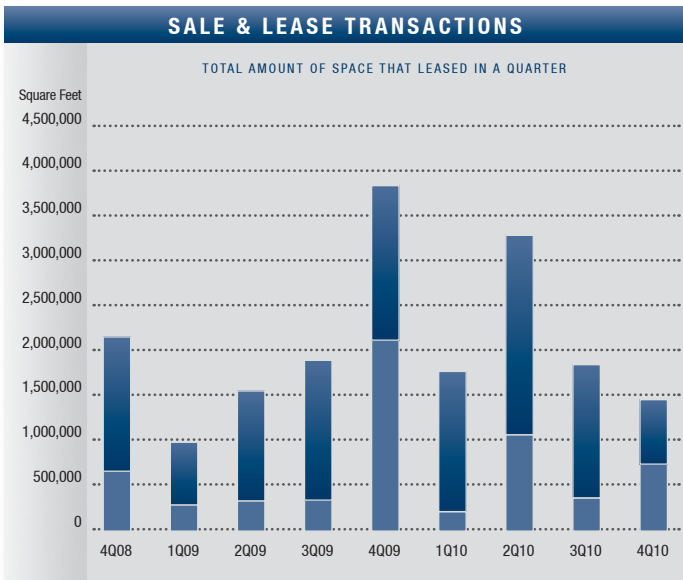
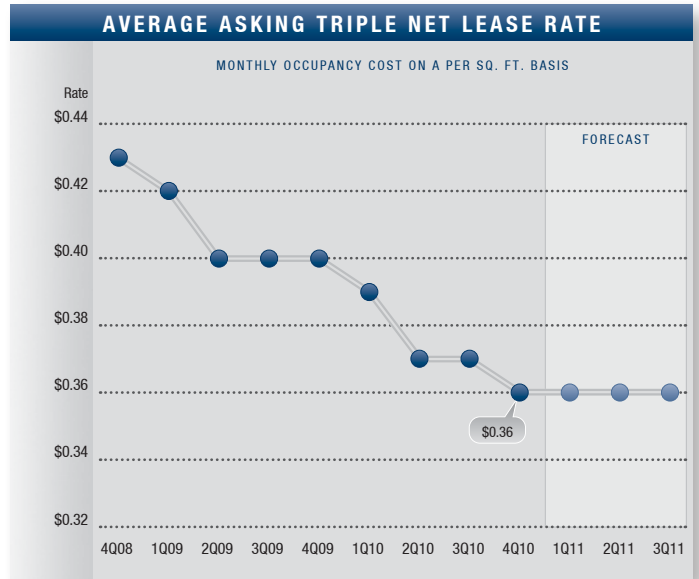
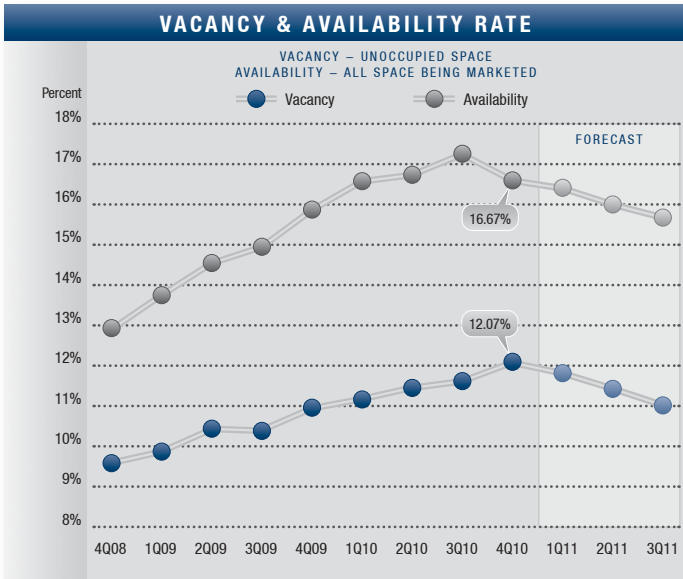
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Market Highlights

- 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.
- Transaction Activity** - Leasing activity checked in at six million square feet for 2010, an increase over 2009’s figure of 5.2 million square feet. Sales activity showed an annual decrease, posting 2.3 million square feet of activity as compared to 2009’s 2.99 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 12.6% in November 2010, up from a revised 12.0% in October 2010 and above the 2009 estimate of 12.0%. The unemployment rate was 12.7% in El Dorado, 11.5% in Placer, 12.8% in Sacramento and 13.3% in Yolo Counties. This compares with an unadjusted unemployment rate of 12.4% for California and 9.3% for the nation during the same period. According to the State of California Employment Development Department, the Sacramento MSA lost 22,300 payroll jobs from November 2009 to November 2010 — 4,300 in construction and 3,600 in professional and business services. Between July 2010 and August 2010 the Sacramento MSA decreased by 2,800 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 continue to dispose of distressed assets. Lease rates are expected to remain soft for the near future, and concessions in the forms of free rent, 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 in 2011. Once employment turns positive and consumer confidence stabilizes, the industrial market will regain equilibrium.
- Construction** - There was only 36,000 square feet of industrial construction underway in the fourth quarter of 2010. Scarce financing and low demand have essentially halted industrial development.
- Vacancy** - Direct/sublease space (unoccupied) finished 2010 at 12.07%, which is higher than the third quarter’s figure of 11.64% and higher than 2009’s rate of 10.97%. The Power Inn market, the largest submarket in the county, posted a rate of 10.99%.
- Availability** - Direct/sublease space being marketed was 16.67% in the fourth quarter, up 5.17% from the 15.85% we saw at the end of 2009.
- Lease Rates** - The average asking triple net lease rate was \$.36 per square foot per month in the fourth quarter of 2010, one cent lower than the previous quarter and four cents lower than 2009’s rate of \$.40. The record high for asking lease rates, \$.49, was recorded in the second quarter of 2007.
- Absorption** - The county posted 656,166 square feet of negative absorption for the fourth quarter of 2010, giving the industrial market a total of 1,638,603 square feet of negative absorption for 2010.

INDUSTRIAL MARKET OVERVIEW

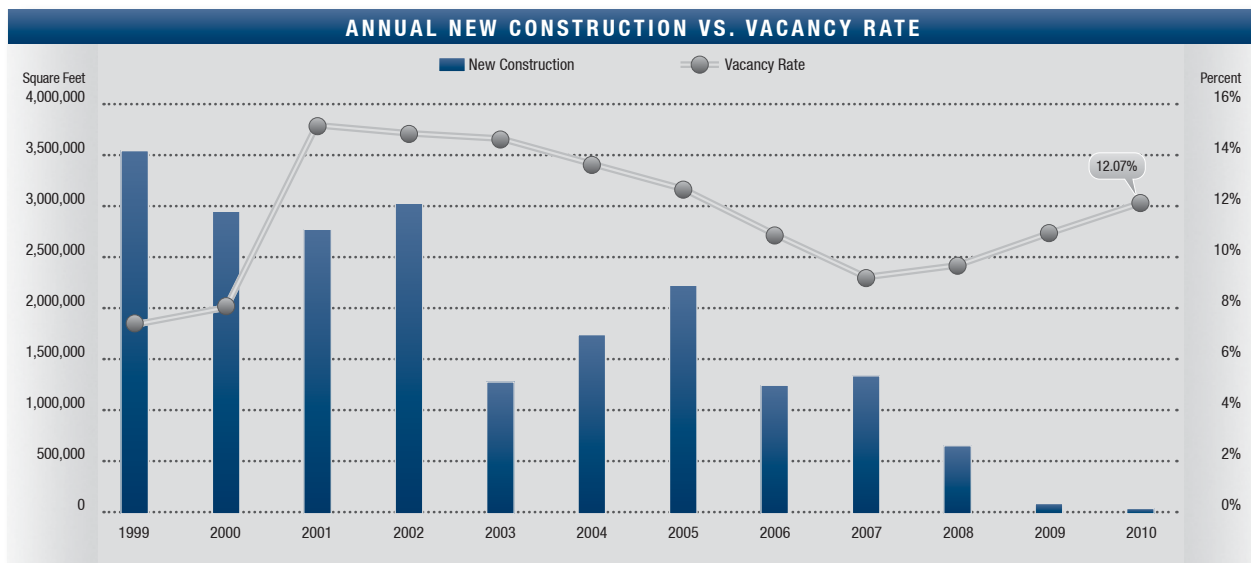
	2010	2009	2008	% CHANGE vs. 2009
Vacancy Rate	12.07%	10.97%	9.62%	10.03%
Availability Rate	16.67%	15.85%	12.96%	5.17%
Average Asking Lease Rate	\$0.36	\$0.40	\$0.43	(10.00%)
Sale & Lease Transactions	8,307,634	8,206,731	7,726,172	1.23%
Gross Absorption	6,553,676	6,913,209	8,880,824	(5.20%)
Net Absorption	(1,638,603)	(1,952,610)	(131,787)	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 4Q2010	Square Feet Available	Availability Rate 4Q2010	Average Asking Lease Rate	Net Absorption 4Q2010	Net Absorption 2010	Gross Absorption 4Q2010	Gross Absorption 2010
Sacramento County													
Auburn/Newcastle	91	2,524,643	0	0	97,054	3.84%	392,022	15.53%	\$0.54	4,775	(42,846)	4,775	97,613
Davis/Woodland	200	16,700,826	0	0	2,702,053	16.18%	3,174,080	19.01%	\$0.25	(182,998)	(488,539)	30,204	616,037
Downtown	90	2,732,534	0	0	132,946	4.87%	182,746	6.69%	\$0.48	(10,000)	(83,935)	0	32,185
East Sacramento	31	836,206	0	0	139,958	16.74%	139,958	16.74%	\$0.75	0	28,750	0	32,150
Elk Grove/Laguna	112	5,579,833	0	49,250	890,112	15.95%	1,402,959	25.14%	\$0.42	26,497	(201,481)	40,693	171,164
Folsom/El Dorado	99	3,623,554	0	165,760	171,915	4.74%	260,830	7.20%	\$0.66	(43,802)	5,857	18,452	117,130
Mather	136	4,152,497	0	70,393	625,319	15.06%	615,719	14.83%	\$0.40	(42,905)	(86,276)	52,675	130,882
McClellan	342	18,497,202	0	55,362	2,804,276	15.16%	3,425,531	18.52%	\$0.37	(36,736)	103,586	387,172	1,097,003
Natomas/Northgate	208	12,220,134	0	629,394	1,760,055	14.40%	2,428,307	19.87%	\$0.34	32,662	(41,036)	83,455	613,504
North East Sacramento	203	5,298,859	0	0	527,108	9.95%	640,723	12.09%	\$0.36	107,763	(20,504)	159,520	414,254
Power Inn	571	25,405,973	0	710,888	2,791,232	10.99%	4,571,091	17.99%	\$0.33	(115,638)	20,109	262,975	1,287,827
Richards	97	4,743,880	0	0	542,611	11.44%	646,972	13.64%	\$0.32	(3,748)	7,170	41,140	134,942
Roseville/Rocklin	301	18,166,697	36,000	516,897	2,413,746	13.29%	3,523,648	19.40%	\$0.42	(320,393)	(236,520)	49,130	532,346
South Sacramento	122	3,944,807	0	0	183,161	4.64%	322,345	8.17%	\$0.44	(16,629)	13,473	18,308	122,894
Sunrise	333	9,563,796	0	0	1,241,098	12.98%	1,749,328	18.29%	\$0.41	(1,991)	(179,693)	121,799	551,782
West Sacramento	323	16,537,923	0	30,000	1,145,942	6.93%	1,623,455	9.82%	\$0.35	(53,023)	(436,718)	92,700	601,963
Sacramento County Total	3,259	150,529,364	36,000	2,227,944	18,168,586	12.07%	25,099,714	16.67%	\$0.36	(656,166)	(1,638,603)	1,362,998	6,553,676

10,000 – 29,999	1,939	32,239,286	0	515,102	3,379,492	10.48%	4,244,598	13.17%	\$0.46	(41,523)	109,950	388,341	2,012,016
30,000 – 49,999	509	19,345,523	36,000	181,518	2,517,042	13.01%	3,335,937	17.24%	\$0.39	24,980	(390,251)	312,595	1,028,342
50,000 – 99,999	516	34,913,587	0	291,846	4,049,167	11.60%	5,524,382	15.82%	\$0.35	(208,639)	(390,078)	349,738	1,820,255
100,000 – 199,999	189	24,634,194	0	518,200	3,668,381	14.89%	4,875,167	19.79%	\$0.34	(350,307)	(712,122)	154,000	668,153
200,000 – 299,999	60	14,422,038	0	0	1,765,420	12.24%	2,166,854	15.02%	\$0.28	(159,001)	(213,922)	0	206,010
300,000 Plus	46	24,974,736	0	721,278	2,789,084	11.17%	4,952,776	19.83%	\$0.36	78,324	(42,180)	158,324	818,900
Class Total	3,259	150,529,364	36,000	2,227,944	18,168,586	12.07%	25,099,714	16.67%	\$0.36	(656,166)	(1,638,603)	1,362,998	6,553,676

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 & 280 N. Pioneer Avenue – 2 Properties	Davis/Woodland	520,800	\$25.15	USAA Real Estate Company	The Lurie Company
8430 Rovana Circle	Power Inn	54,000	\$48.15	Hobbs Holdings, LLC	T & J Family, LP
5850 Adler Avenue	Power Inn	40,160	\$43.58	Midwest Investment Company, LLC	Roxie Real Estate Investments, LLC
3880 Seaport Boulevard	West Sacramento	25,600	\$60.55	Capay Organic	James P. Lennane
2600 Rice Avenue	West Sacramento	9,600	\$161.46	Lutsuk Trust	Petroleum Tank Line
5849 88th Street	Power Inn	40,500	\$32.10	88th St Leasing Co, LLC	Michael Vermillion

Lease Transactions

Property Address	Submarket	Square Feet	Transaction Date	Tenant	Owner
2222 E. Beamer Street – Renewal	Woodland	400,000	May 20th	Hewlett Packard	Carter & Associates Enterprises, Inc.
221 Hanson Way	Woodland	260,000	May 20th	Hewlett Packard	Carter & Associates Enterprises, Inc.
7021 Roseville Road – Renewal	McClellan	250,000	September 15th	United Stationers	Tisha Land Company
8670 Younger Creek Drive	Power Inn	166,797	February 1st	Continental Warehouse	Oates Investments
890 Embarcadero Drive	West Sacramento	164,330	September 1st	California College	AFFYMETRIX, Inc.
856 National Drive	Natomas/Northgate	150,300	July 5th	Shamrock Foods	J. B. Company

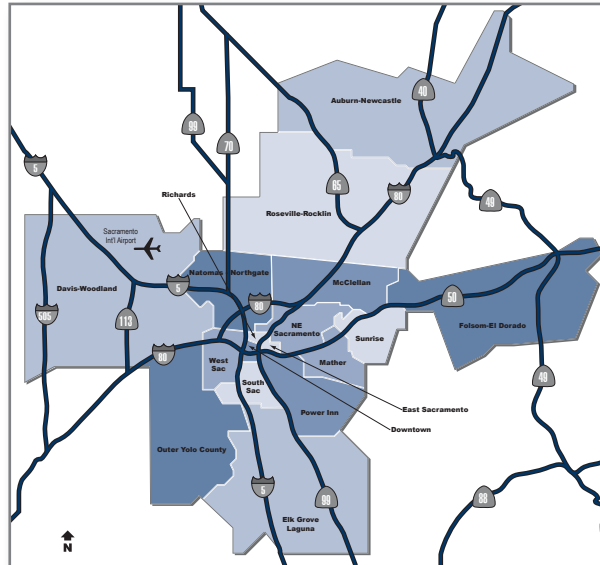
Product Type

MFG./DIST.

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

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