



Industrial Market Report

Compared to 2011:

Vacancy

DOWN

Net Absorption

POSITIVE

Lease Rates

UP

Transactions

DOWN

Deliveries

DOWN

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Market Highlights

- Market Status** - Sacramento's recovery is finally gaining momentum, but the local economy still has a lot of ground to make up. Both vacancy and availability decreased in the fourth quarter of 2012 compared to both the previous quarter and the previous year, with availability displaying a double-digit percentage drop from 2011. Net absorption posted a positive 823,350 square feet in the fourth quarter, giving the year a net total of 1,335,649 square feet — the most positive absorption seen in one year since 2007. While these are certainly positives, 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 fourth quarter, there were no industrial buildings under construction in the Sacramento market. Also, no properties were delivered in the fourth quarter — with only one 200,000 square foot building delivered in the second quarter of 2012. 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 11.95%, a decrease of 45 basis points compared to the previous quarter. Within the major submarkets, the McClellan area remained high at 20.02%, while the West Sacramento and NE Sacramento areas came in at a solid 8.56% and 6.93%, respectively.
- Availability** - The rate of available space being marketed was 15.05% at the close of the fourth quarter, down 47 basis points from the previous quarter. The McClellan submarket remained high at 20.15%, while the NE Sacramento submarket had the lowest rate in the region at 9.97%.
- Lease Rates** - The average asking triple-net lease rate was \$0.37 per square foot per month at the end of the fourth quarter — an increase of \$0.01 from the previous quarter. We are forecasting that lease rates should continue to stabilize and increase in 2013.
- Absorption** - The Sacramento industrial market recorded 823,350 square feet of positive net absorption in fourth quarter. Within the major submarkets, Roseville/Rocklin

submarket had 119,369 square feet of positive net absorption, while the McClellan submarket posted the largest negative net absorption figure at 21,434 square feet.

- Transaction Activity** - The total volume of industrial lease and sale transaction activity was about 2.4 million square feet for fourth quarter of 2012. The second and third quarters of 2011 withstanding, the market has posted between 2 and 3.2 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 fourth quarter to reach about 2.75 million in finality. Details of the largest transactions for 2012 can be found on the back page of this report.
- Employment** - The unemployment rate in the Sacramento-Arden Arcade-Roseville MSA was 9.8% in Nov. 2012, down from 10.3% in Aug. 2012. This compares with an unadjusted unemployment rate of 9.6% for California and 7.4% 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 5,900 payroll jobs from Nov. 2011 to Nov. 2012. The largest gains were 4,500 in trade, transportation, and utilities and 2,700 in professional and business services; however, Sacramento-Arden Arcade-Roseville MSA lost 2,300 government 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. 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. 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:

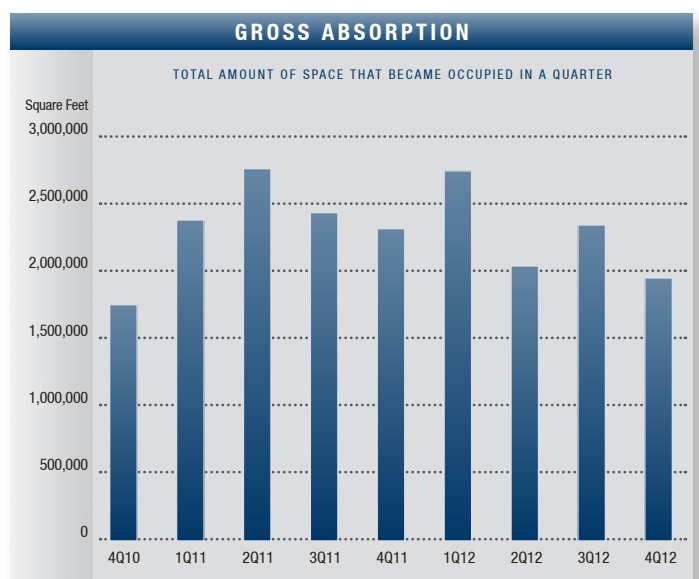
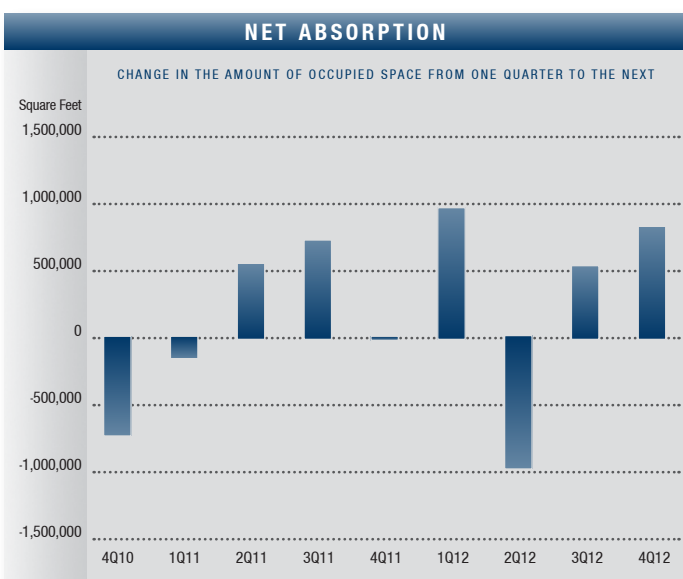
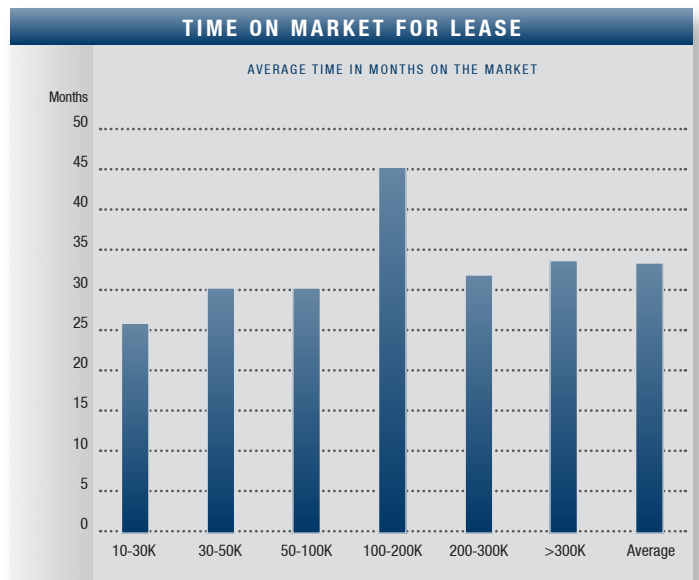
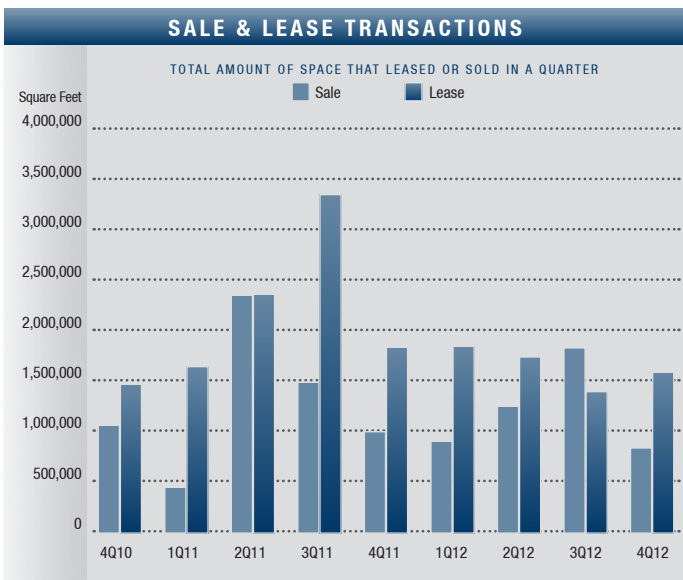
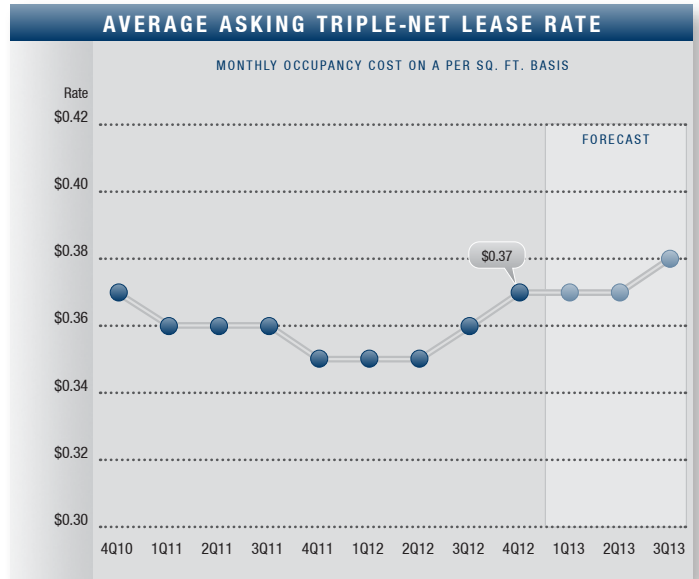
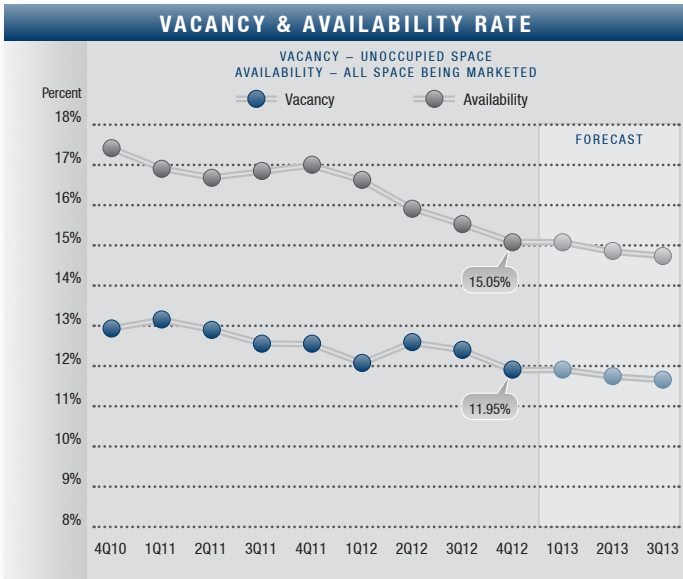
Jerry J. Holdner, Jr. — Lic.#01145748
 Vice President of Market Research
 e-mail: jholdner@voitco.com

Tyler Boyd
 Market Research Analyst
 e-mail: tboyd@voitco.com

VOIT Real Estate Services — Lic.#01333376

INDUSTRIAL MARKET OVERVIEW

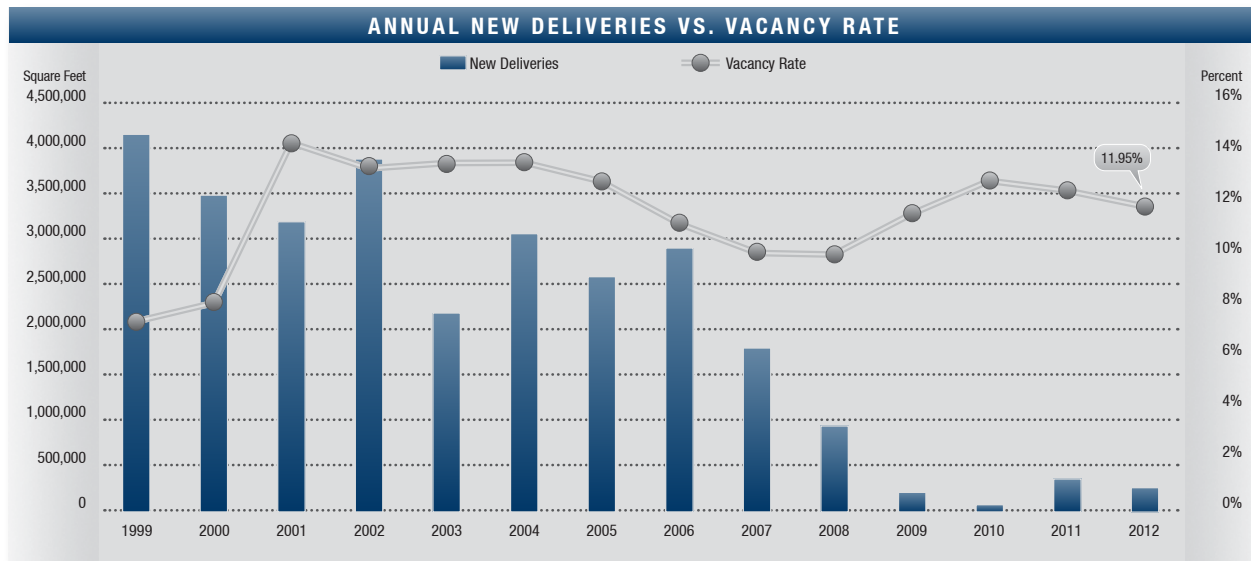
	2012	2011	2010	% of Change vs. 2011
Vacancy Rate	11.95%	12.55%	12.97%	(4.78%)
Availability Rate	15.05%	17.00%	17.43%	(11.47%)
Average Asking Lease Rate	\$0.37	\$0.35	\$0.37	5.71%
Sale & Lease Transactions	11,249,007	14,392,123	10,840,645	(21.84%)
Gross Absorption	9,064,826	9,876,093	7,637,027	(8.21%)
Net Absorption	1,335,649	1,096,630	(2,521,154)	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 4Q2012	Square Feet Available	Availability Rate 4Q2012	Average Asking Lease Rate	Net Absorption 4Q2012	Net Absorption 2012	Gross Absorption 4Q2012	Gross Absorption 2012
Sacramento Market													
Auburn/Newcastle	95	2,700,155	0	0	181,431	6.72%	393,096	14.56%	\$0.60	(13,045)	6,462	24,827	82,826
Benicia	158	8,199,310	0	0	1,169,187	14.26%	1,406,838	17.16%	\$0.40	79,079	143,585	122,838	403,568
Davis/Woodland	199	16,913,300	0	15,040	2,511,035	14.85%	3,330,189	19.69%	\$0.26	82,262	(87,510)	138,676	1,256,022
Downtown	91	2,758,667	0	0	164,233	5.95%	180,233	6.53%	\$0.68	(1,480)	10,586	0	49,266
East Sacramento	27	757,766	0	0	119,376	15.75%	141,376	18.66%	\$0.62	0	(13,200)	0	0
Elk Grove/Laguna	115	5,656,492	0	29,450	612,949	10.84%	779,657	13.78%	\$0.41	95,030	77,406	104,882	202,497
Fairfield	172	12,976,840	0	1,176,336	727,502	5.61%	1,227,767	9.46%	\$0.40	76,261	371,664	106,501	785,243
Folsom/El Dorado	115	3,689,929	0	0	232,376	6.30%	308,566	8.36%	\$0.72	4,452	(77,231)	43,090	84,308
Marysville/Yuba City	136	5,883,797	0	0	513,469	8.73%	854,346	14.52%	\$0.35	94,826	121,900	98,226	171,947
Mather	137	4,077,646	0	70,393	543,252	13.32%	621,116	15.23%	\$0.41	(21,434)	6,999	13,326	193,393
McClellan	349	17,414,816	0	192,326	3,487,263	20.02%	3,508,743	20.15%	\$0.43	78,093	(22,943)	208,049	727,310
Natomas/Northgate	207	12,355,629	0	629,394	2,046,641	16.56%	2,465,489	19.95%	\$0.39	(6,682)	(184,056)	84,694	738,905
NE Sacramento	204	5,404,578	0	0	374,605	6.93%	538,691	9.97%	\$0.39	15,658	110,693	53,140	244,435
Outer El Dorado County	12	250,326	0	0	2,500	1.00%	2,500	1.00%	\$0.00	(2,000)	4,600	500	7,700
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	595	26,300,979	0	710,888	2,496,003	9.49%	3,834,489	14.58%	\$0.33	68,601	697,660	262,496	1,631,721
Richards	95	4,686,683	0	0	534,470	11.40%	522,254	11.14%	\$0.38	27,320	17,752	29,400	78,477
Roseville/Rocklin	303	18,434,283	0	514,773	2,852,640	15.47%	3,362,285	18.24%	\$0.38	119,369	54,987	187,605	526,571
South Sacramento	130	4,168,382	0	0	201,284	4.83%	237,048	5.69%	\$0.38	21,755	9,623	47,905	122,473
Sunrise	327	9,672,567	0	0	1,049,351	10.85%	1,346,239	13.92%	\$0.43	83,143	199,205	224,954	746,484
Vacaville	163	10,441,263	0	912,403	1,003,563	9.61%	1,314,994	12.59%	\$0.45	(3,285)	124,703	14,870	367,171
Vallejo	122	5,900,021	0	14,000	1,124,978	19.07%	1,231,749	20.88%	\$0.34	0	4,135	400	7,935
West Sacramento	312	15,836,602	0	89,426	1,355,943	8.56%	1,741,028	10.99%	\$0.44	25,427	(241,971)	175,701	635,974
Sacramento Market Total	4,079	194,989,774	0	4,354,429	23,304,051	11.95%	29,348,693	15.05%	\$0.37	823,350	1,335,649	1,942,080	9,064,826

10,000-29,999	2,359	39,738,971	0	543,568	3,634,194	9.15%	4,707,178	11.85%	\$0.51	144,122	493,350	579,897	2,228,185
30,000-49,999	656	25,076,126	0	249,918	2,760,900	11.01%	3,419,709	13.64%	\$0.43	8,382	354,108	314,830	1,647,204
50,000-99,999	666	45,220,905	0	478,022	4,970,467	10.99%	6,518,220	14.41%	\$0.38	486,251	393,421	676,311	2,080,944
100,000-199,999	252	32,905,003	0	1,644,843	4,423,295	13.44%	5,801,982	17.63%	\$0.37	126,219	619,683	264,169	1,529,975
200,000-299,999	87	20,954,517	0	216,000	2,959,344	14.12%	4,148,928	19.80%	\$0.28	183	119,830	183	892,394
300,000 Plus	59	31,094,252	0	1,222,078	4,555,851	14.65%	4,752,676	15.28%	\$0.28	58,193	(644,743)	106,690	686,124
Sacramento Market Total	4,079	194,989,774	0	4,354,429	23,304,051	11.95%	29,348,693	15.05%	\$0.37	823,350	1,335,649	1,942,080	9,064,826

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
500 Crocker Dr.	Vacaville	582,900	\$51.81	Intercontinental Real Estate	General Electric Capital
4901-4995 Industrial Way	Benicia	240,000	\$75.00	Bebe Stores, Inc.	JPMorgan Chase & Company
600 Nesmith Ct.	Folsom/El Dorado	117,500	\$109.11	Follett Investment Properties, Inc.	Richard Azevado & Thomas Smith
6500 Fairway Dr	Roseville/Rocklin	89,420	\$91.81	R&H Leasing Company, Inc.	Richard Azevado & Thomas Smith
85-120 Enterprise Ct.	Elk Grove/Laguna	169,980	\$47.06	Chew Family Trust	KMS Development, LLC

Lease Transactions

Property Address	Submarket	Square Feet	Transaction Date	Tenant	Owner
1400 Churchill Downs Ave. – Renewal	Davis/Woodland	141,000	Jun-12	Olam Tomato Processors, Inc.	Amir Development Company
10000 Alantown Dr.	Roseville/Rocklin	137,632	Dec-12	United Natural Foods, Inc.	Amir Development Company
5200 Watt Ct. – Renewal	Fairfield	127,665	Mar-12	Updike Distribution Logistics, LLC	Carlsen Investments
540 Stone Rd.	Benicia	120,000	Aug-12	Santa Clara Warehouse	Home Depot USA, Inc.
161 Main Ave.	Natomas/Northgate	117,600	Oct-12	Starwest Botanicals, Inc.	Balboa Funds

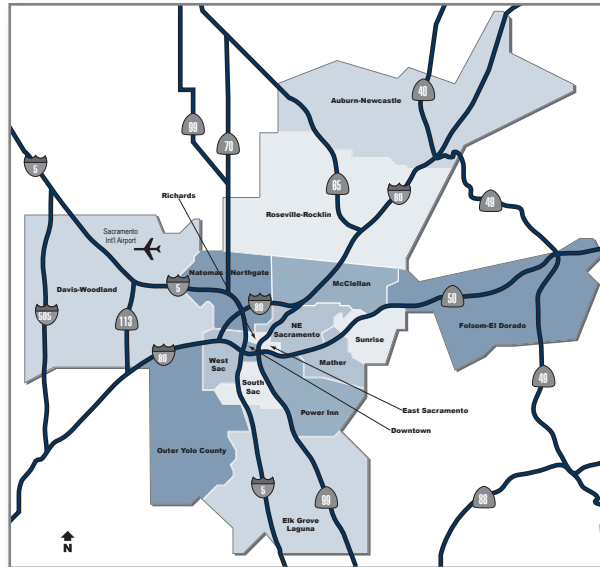
Product Type

MFG./DIST.

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

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101 Shipyard Way
Newport Beach, CA 92663

949.644.8648
www.voitco.com
Lic.#01333376

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