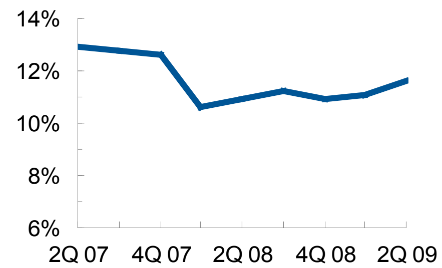
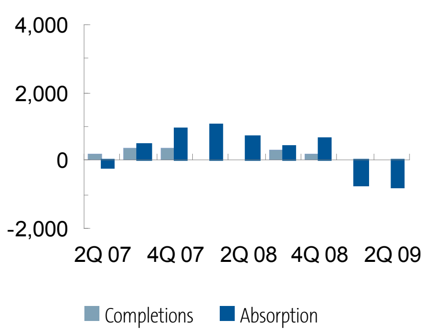
Industrial Trends Report—Second Quarter 2009
Sacramento, CA

GRUBB & ELLIS
From Insight to Results

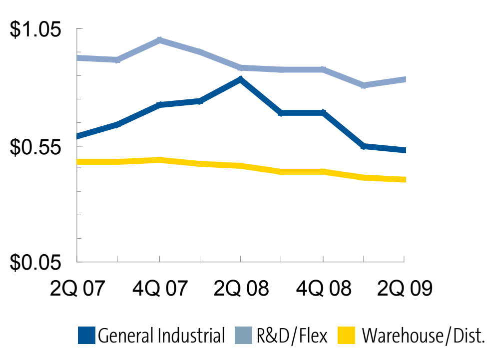
Vacancy Rate
Quarterly



Completion vs. Absorption
Quarterly (in Thousands of SF)



Asking Rental Rates
Quarterly ($/SF/Yr. Triple Net)



Unlike office and retail sectors where the current recession brought rapid and measurable changes to vacancy rates, rental rates and NOI, the industrial market has steadily weathered the pressure of the current recession, suffering comparatively lighter effects.

Six months into 2009, however, the industrial market is quite clearly beginning to display the toll of the economic recession, posting over 700,000 square feet of negative net absorption for the second quarter in a row and bringing the annual total to just under negative 1.5 million square feet. Vacancy, which has increased or decreased in little more than 20 basis point increments over the past six quarters, hovering between 10.5 and 11 percent since the close of 2007, rose 50 basis points during the quarter to close at 11.5 percent.

Increased vacancy and negative net absorption was a constant theme during the quarter, occurring in 11 of the 12 industrial submarkets. Woodland was the sole submarket to post positive absorption and a decrease in vacancy. While asking rental rates have remained relatively constant over the past year, effective rates are down in all industrial property subtypes.

While both the number of initial contacts and lease executions were virtually identical to those logged during the prior quarter, tenant activity was down during second quarter, with lease executions taking significantly longer, requiring more stringent negotiations and being characterized by "start and stop" momentum. The end result was a like number of executed leases for smaller spaces and for shorter terms. The primary cause of tenants' reluctance to commit is the continued uncertainty posed by both the national economy and their own business viability. Of note, on average, industrial leases executed during the second quarter were 30 percent smaller than in first quarter. This phenomenon, coupled with tenants need to downsize or "right-size" their operations are all causes of the negative net absorption and can be expected to remain through the end of the year. Annual construction completions are minimal.

FORECAST

- Tenants continue to request smaller lease deals executed for shorter terms.
- Still unwilling to markedly deviate from asking rates, landlords compete for tenants by offering concessions which result in substantial decreases on effective rates over the term of the lease.
- Return of owner-user purchases as lenders claim greater stability and availability of commercial paper. Vultures and vulture funds to follow in six to nine months

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By Submarket	Total SF	Vacant SF	Total Vacancy %	Net Absorption Current	Net Absorption Year To Date	Under Construction SF	Asking Rent WH/Dist	Asking Rent R&D/Flex
South Placer County	17,103,562	2,117,598	12.4%	(41,041)	(58,558)	273,890	$0.39	$1.05
Carmichael,Orangevale	1,439,219	68,097	4.7%	(7,454)	727	-	$0.61	-
Downtown	11,271,104	907,793	8.1%	(32,117)	(54,008)	-	$0.27	$0.65
El Dorado Hills,Folsom	4,883,240	314,774	6.4%	(29,394)	(35,159)	-	$0.50	$0.94
Highway 50/Sunrise	12,499,873	1,304,147	10.4%	(181,186)	(252,940)	-	$0.50	$0.90
Mather	5,660,560	890,904	15.7%	(15,030)	(85,469)	-	$0.40	$0.62
McClellan	16,894,197	3,000,683	17.8%	(86,925)	(315,390)	-	$0.39	$0.81
Northgate - Natomas	15,654,444	2,191,705	14.0%	(4,768)	(134,253)	-	$0.36	$0.78
Power Inn - South Watt	24,753,816	2,797,774	11.3%	(281,073)	(311,003)	-	$0.34	$0.72
South Sacramento	8,302,170	672,775	8.1%	(27,814)	(59,683)	49,250	$0.43	$0.83
West Sacramento	18,197,214	996,054	5.5%	(78,660)	113,385	-	$0.37	$0.62
Woodland	13,044,015	1,960,620	15.0%	21,698	(234,894)	-	$0.26	-
Totals	**149,703,414**	**17,222,924**	**11.5%**	**(763,764)**	**(1,427,245)**	**323,140**	**$0.35**	**$0.80**

By Property Type	Total SF	Vacant SF	Total Vacancy %	Net Absorption Current	Net Absorption Year To Date	Under Construction SF	Asking Rent
General Industrial	53,573,980	6,346,825	11.8%	(303,755)	(352,961)	-	$0.53
R&D/Flex	14,773,974	2,700,102	18.3%	(55,689)	(191,595)	-	$0.80
Warehouse/Distribution	81,355,460	8,175,997	10.0%	(404,320)	(882,689)	323,140	$0.35
Totals	**149,703,414**	**17,222,924**	**11.5%**	**(763,764)**	**(1,427,245)**	**323,140**	**$0.48**

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INDUSTRIAL TERMS AND DEFINITIONS

Inventory: Industrial inventory includes all multi-tenant, single tenant and owner occupied buildings at least 20,000 square feet.

Industrial Buildings Classifications: Industrial buildings are categorized as warehouse/distribution, general industrial, R&D/flex and incubator based on their physical characteristics including percent office build-out, clear height, typical bay depth, typical suite size, type of loading and typical uses.

Vacancy and Availability: The vacancy rate is the amount of physically vacant space divided by the inventory and includes direct and sublease vacant. The availability rate is the amount of space available for lease divided by the inventory.

Net Absorption: The net change in physically occupied space over a period of time.

Asking Rent: The dollar amount asked by landlords for available space expressed in dollars per square foot per year in most parts of the country, and dollars per square foot per month in areas of California and selected other markets. Industrial rents are expressed as triple net where all costs including, but not limited to, real estate taxes, insurance and common area maintenance are borne by the tenant on a pro rata basis. The asking rent for each building in the market is weighed by the amount of available space in the building.

** Grubb & Ellis statistics are audited annually and may result in revisions to previously reported quarterly and final year-end figures.*