



Retail 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

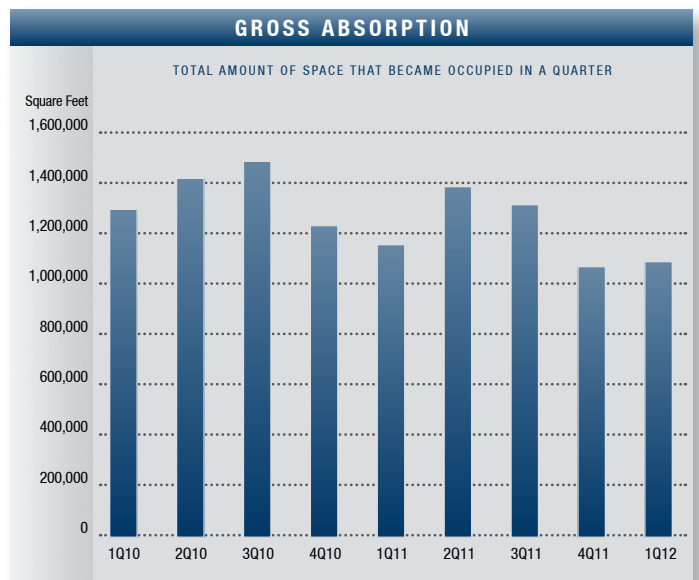
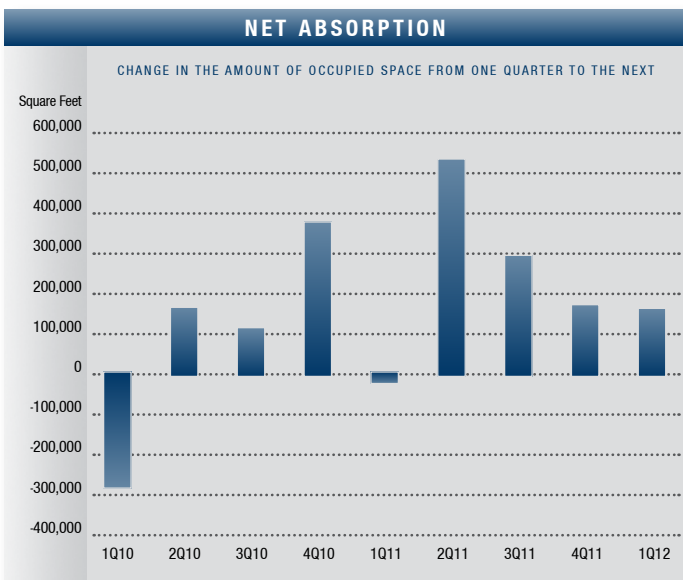
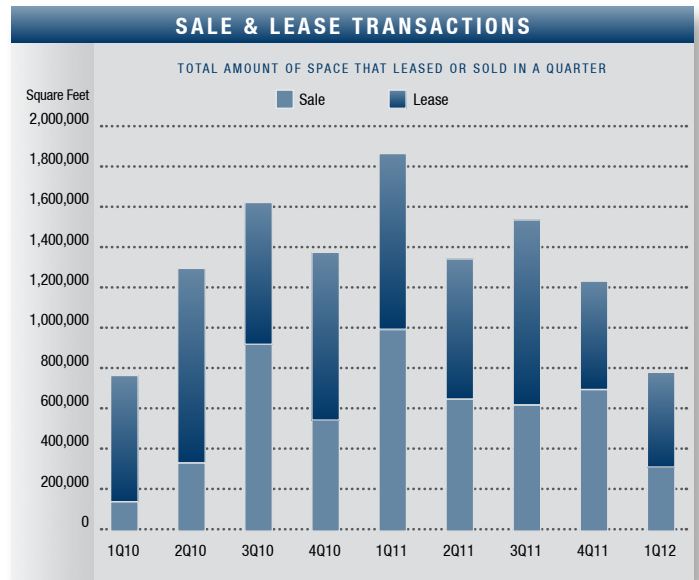
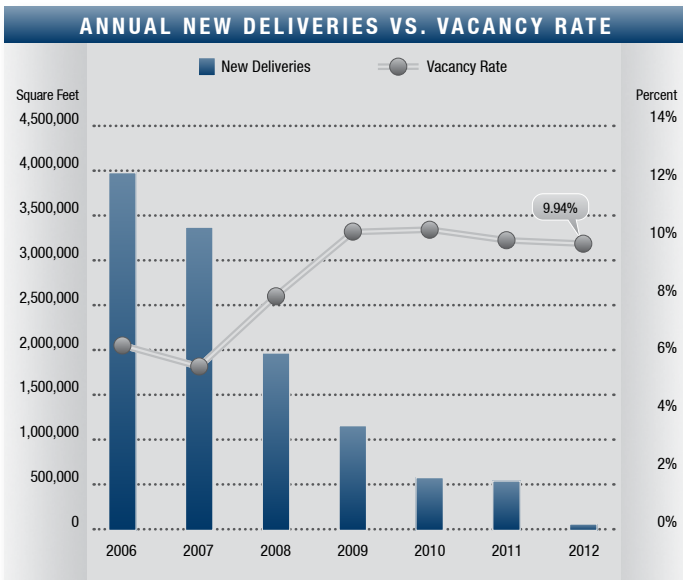
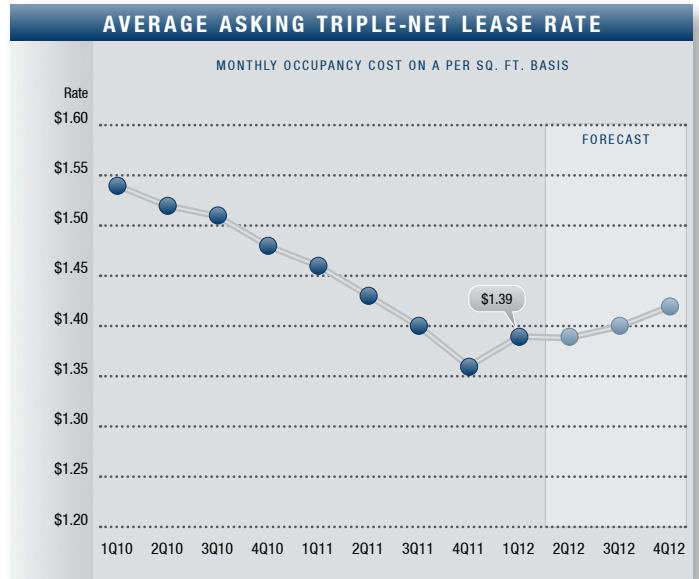
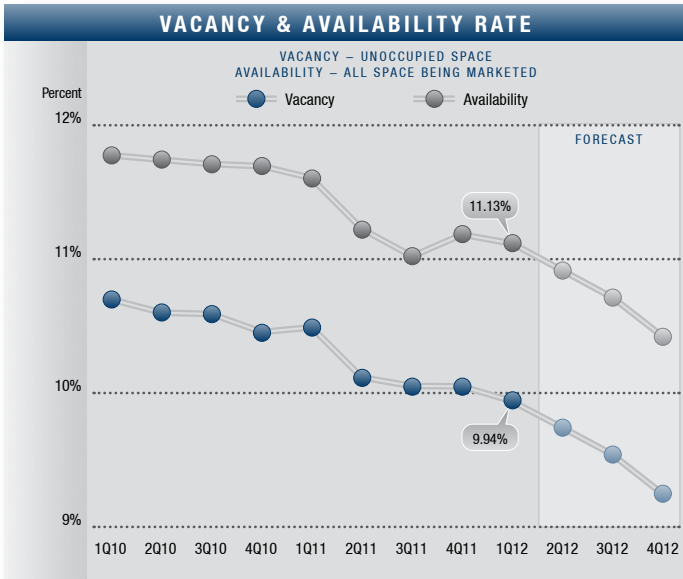
- Market Status** - Sacramento's retail market reflected continued slow, steady improvement in the first quarter of 2012. Vacancy and availability continued their descents, which contributed to the stabilization and recent growth in average asking lease rates. While sales and leasing activity dropped in the first quarter of 2012 compared to 2011, the decline can be attributed to decrease in supply. While these are positive indications, stability and job growth will need to be sustained in coming quarters for the market to continue its recovery.
- Construction** - Five properties, totaling 58,591 square feet, were delivered in the Sacramento retail market in first quarter. In addition, there was 85,198 square feet still under construction at the close of the first quarter of 2012 — much of which was at the Palladio at Broadstone in Folsom.
- Vacancy** - The overall vacancy rate decreased to 9.94%, marking the first drop to below 10% since the second quarter of 2009. Within the major submarkets, the Downtown/Midtown/East Sacramento submarket performed best with a rate of only 4.03%, while the Roseville/Rocklin submarket had the higher vacancy rate of 12.73%.
- Availability** - The percentage of all direct/sublease space being marketed was 11.13% in the first quarter of 2012 — a drop of 10 basis points from the previous quarter. Similar to vacancy, the Downtown/Midtown/East Sacramento submarket remained strongest, posting the lowest availability rate, while South Sacramento came in as the weakest of all major submarkets, posting the highest availability rate.
- Lease Rates** - The average asking triple-net lease rate in the Sacramento retail market was \$1.39 per square foot per month in the first quarter of 2012 — an increase of \$0.03 from the previous quarter. The region's highest average asking rate was in the Natomas submarket at

\$1.87, while the region's lowest asking rates were found in the Highway 50 corridor and Yuba submarkets at \$1.01 and \$0.95, respectively. We are forecasting that lease rates will continue to rise in the second half of 2012, ending the year at around \$1.42.

- Absorption** - The Sacramento retail market posted 167,724 square feet of positive net absorption for the first quarter of 2012, comparable to the 172,254 square feet of positive net absorption posted in the previous quarter. Within the major submarkets — South Sacramento, Roseville/Rocklin, and Folsom — all recorded 74,000 to 84,000 square feet of positive net absorption, while Arden/Watt/Howe struggled with a negative net absorption of 78,811 square feet.
- Transaction Activity** - Total square feet leased and sold totaled 771,573 square feet — a decrease from the previous quarter's 1,228,872 square feet of activity. Details of the largest transactions for the first quarter can be found on the back page of this report.
- Employment** - The unemployment rate in the Sacramento-Arden Arcade-Roseville MSA was 11.4% in February 2012, up from a revised 11.3% in January 2012, and below the year-ago estimate of 12.5%. This compares with an unadjusted unemployment rate of 11.4% for California and 8.7% for the nation during the same period. The largest monthly gain occurred in professional and business services with an increase of 2,300 jobs.
- Overall** - We expect that vacancy will maintain momentum in its downward trend, sustained by personal income growth and minimal supply additions, which would hamper the recovery. Sacramento has a couple of nagging concerns that will prevent a stronger recovery — an elevated unemployment rate, which is expected to stay in the double digits until late 2012, and a huge number of store closures. In conclusion, while the retail market still faces challenges, it is the best performing sector, by far, in the commercial real estate market of Sacramento.

RETAIL MARKET OVERVIEW

	1Q12	4Q11	1Q11	% of Change vs. 1Q2011
Total Vacancy Rate	9.94%	10.04%	10.49%	(5.24%)
Availability Rate	11.13%	11.19%	11.61%	(4.13%)
Average Asking Lease Rate	\$1.39	\$1.36	\$1.46	(4.79%)
Sale & Lease Transactions	771,573	1,228,872	1,858,920	(58.40%)
Gross Absorption	1,086,045	1,066,094	1,151,217	(5.66%)
Net Absorption	167,724	172,254	(22,137)	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 1Q2012	Square Feet Available	Availability Rate 1Q2012	Average Asking Lease Rate	Net Absorption 1Q2012	Net Absorption 2012	Gross Absorption 1Q2012	Gross Absorption 2012
Sacramento Market													
Arden/Watt/Howe	952	11,256,446	7,000	27,167	1,156,189	10.27%	1,326,883	11.79%	\$1.42	(78,811)	(78,811)	62,436	62,436
Auburn/Loomis	323	3,010,408	0	70,377	233,138	7.74%	251,380	8.35%	\$1.30	15,937	15,937	22,780	22,780
Benicia	134	849,670	0	0	30,722	3.62%	37,159	4.37%	\$1.10	(2,908)	(2,908)	1,376	1,376
Carmichael	253	2,516,282	0	0	297,079	11.81%	335,731	13.34%	\$1.16	5,176	5,176	27,242	27,242
Davis	172	1,986,535	0	70,931	159,065	8.01%	172,817	8.70%	\$1.43	34,170	34,170	40,008	40,008
Downtown/Midtown/E Sac	856	9,004,615	5,781	1,438,010	362,719	4.03%	425,800	4.73%	\$1.44	1,544	1,544	20,105	20,105
El Dorado	284	3,771,849	4,000	117,079	344,859	9.14%	393,719	10.44%	\$1.74	(5,144)	(5,144)	30,055	30,055
Elk Grove	301	5,354,957	0	2,564,596	502,759	9.39%	506,449	9.46%	\$1.57	(13,560)	(13,560)	27,080	27,080
Fairfield	366	6,493,409	0	474,762	452,953	6.98%	580,486	8.94%	\$1.76	(3,342)	(3,342)	16,893	16,893
Folsom	279	5,685,573	56,445	84,008	686,740	12.08%	705,387	12.41%	\$1.67	74,498	74,498	97,425	97,425
Highway 50	293	4,690,781	0	711,745	826,141	17.61%	987,409	21.05%	\$1.01	(23,316)	(23,316)	52,833	52,833
Lincoln	177	1,660,091	0	0	171,430	10.33%	174,630	10.52%	\$1.84	47,761	47,761	66,075	66,075
Natomas	248	4,094,280	0	70,570	464,745	11.35%	502,758	12.28%	\$1.87	(47,718)	(47,718)	16,629	16,629
Orangevale/Citrus Hts	523	7,877,878	3,972	170,203	849,870	10.79%	1,042,179	13.23%	\$1.49	10,851	10,851	77,201	77,201
Outer El Dorado	219	2,209,403	0	0	143,492	6.49%	179,108	8.11%	\$1.57	(8,819)	(8,819)	12,400	12,400
Outer Placer	144	1,352,677	0	0	43,381	3.21%	65,273	4.83%	\$1.07	12,890	12,890	16,690	16,690
Outer Sacramento	119	884,251	0	44,684	73,794	8.35%	115,508	13.06%	\$1.46	6,152	6,152	9,976	9,976
Outer Sutter	264	3,967,329	0	320,582	268,964	6.78%	331,707	8.36%	\$1.32	(12,428)	(12,428)	15,183	15,183
Outer Yolo	34	287,335	0	0	0	0.00%	6,200	2.16%	\$0.00	0	0	0	0
Rio Linda/North Highlands	424	5,296,271	0	64,290	651,854	12.31%	681,242	12.86%	\$1.12	(16,852)	(16,852)	24,552	24,552
Roseville/Rocklin	823	13,080,354	0	345,495	1,665,483	12.73%	1,767,609	13.51%	\$1.47	73,745	73,745	125,578	125,578
South Sacramento	985	11,252,694	8,000	940,130	1,374,971	12.22%	1,557,516	13.84%	\$1.37	84,296	84,296	178,775	178,775
Vacaville	515	7,044,762	0	76,662	600,316	8.52%	658,151	9.34%	\$1.16	(3,230)	(3,230)	30,915	30,915
Vallejo	701	6,241,277	0	200,761	505,005	8.09%	612,534	9.81%	\$1.18	29,571	29,571	76,596	76,596
West Sacramento	172	2,384,913	0	57,900	147,197	6.17%	133,327	5.59%	\$1.79	1,084	1,084	7,548	7,548
Woodland	253	3,529,949	0	172,665	417,518	11.83%	443,607	12.57%	\$1.66	(14,223)	(14,223)	20,794	20,794
Yuba	157	1,883,111	0	492,840	253,851	13.48%	217,987	11.58%	\$0.95	400	400	8,900	8,900
Sacramento Market Total	9,971	127,667,100	85,198	8,515,457	12,684,235	9.94%	14,212,556	11.13%	\$1.39	167,724	167,724	1,086,045	1,086,045

Lease rates are on a triple-net basis.

RECENT TRANSACTIONS

Sale Transactions

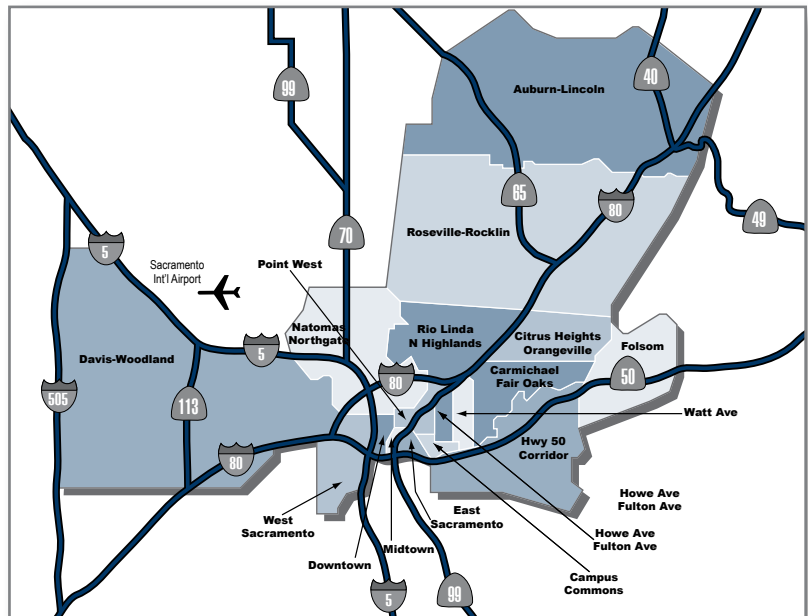
Property Address	Submarket	Square Feet	Sale Price PSF	Buyer	Seller
3671 N. Freeway Blvd.	Vacaville	137,700	\$53.82	David Berndt Interests	Wal-Mart
300 Chadbourne Rd.	Fairfield	125,985	\$46.04	Ken Mattson	Wal-Mart
1919 Fulton Ave.	Arden/Watt/Howe	107,365	\$48.06	Target Corporation	SACTO-TS, LLC
9645 Auto Center Dr.	Elk Grove	65,000	\$89.23	Carlos Hildago	Chrysler Financial Services
1617 Douglas Blvd.	Roseville/Rocklin	39,720	\$55.39	99 Cent Only Stores	McMorgan & Company, LLC

New / Coming to the Region

Property Address	Tenant	Tenant Type	Submarket	Projected Opening	Owner
Alamo Plaza S.C., 848-882 Alamo Dr.	In-Shape Health Club	Gym / Health Club	Vacaville	Spring 2012	Farrokh & Soozan Hosseinyoun
Fairway Commons, 10251 Fairway Dr.	Big Lots	Discount Store	Roseville/Rocklin	Now Open	Kobra Properties
The Palladio at Folsom, 270 Palladio Pkwy., Bldg. 1100	Whole Foods	Specialty Grocer	Folsom	Now Open	Broadstone Land
Placer Center Plaza, 1818 Douglas Blvd.	Hobby Lobby	Hobby / Crafts	Roseville/Rocklin	Now Open	Inland Western REIT
Broadstone Crossing, 205 Serpa Way	Green Acres Nursery & Supply	Garden / Plant Nursery	Folsom	Spring 2012	Broadstone Crossing, LLC

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