

FIRST QUARTER 2014 SACRAMENTO RETAIL

Voit
REAL ESTATE SERVICES

MARKET CHANGE

Compared to the Previous Quarter:

Vacancy

DOWN



Net Absorption

POSITIVE



Lease Rates

FLAT



Transactions

DOWN



Deliveries

DOWN



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HIGHLIGHTS

- **Market Status** - The Sacramento retail market continued to improve during the first quarter of 2014. Vacancy and availability both dropped compared to the previous quarter, with vacancy displaying the lowest rate since 2009. In addition, the market posted 817,978 square feet of positive net absorption, the most seen since the third quarter of 2007. Given these positive figures, we anticipate the market responding well throughout 2014.
- **Construction** - At the close of the first quarter of 2014, there was a total of 190,940 square feet of retail space under construction in the Sacramento region. The single largest retail project under construction was a 26,470-square-foot, storefront retail building located in the Downtown/Midtown/East Sacramento submarket. The slowdown in construction since the recession should continue to alleviate upward pressure on vacancy.
- **Vacancy** - The overall vacancy rate ended the quarter at 9.14%, a decrease of 31 basis points from the previous quarter. Within the major submarkets, the Benicia submarket performed best with a rate of 2.97%, while the Yuba submarket had the highest vacancy rate at 29.34%.
- **Availability** - The percentage of all space being marketed was 10.43% in the first quarter, a decrease of 54 basis points from the previous quarter and 5.87% lower than the 9.71% seen in the first quarter of 2013. Within the major submarkets, the Benicia, Davis, and West Sacramento submarkets remained strong at 4.22%, 4.41%, and 5.96%, respectively, while the Yuba submarket came in with the highest vacancy rate at 30.28%.
- **Lease Rates** - The average asking triple-net lease rate in the Sacramento retail market was \$1.31 per square foot per month in the first quarter of 2014, unchanged from the previous quarter. The region's highest average asking rates were in the Outer Placer submarket at \$1.94 per square foot per month, while the region's lowest asking rates were found in the Yuba submarket at \$0.85.
- **Absorption** - The Sacramento retail market posted an impressive 817,978 square feet of positive net absorption for the first quarter

of 2014, marking the 16th consecutive quarter of positive net absorption, totaling almost 4.5 million square feet.

- **Transaction Activity** - Sale and lease transaction volume totaled about 1.84 million square feet in the first quarter, which is a 6.46% increase in transaction activity from the previous year. This statistic can have some lag time in being reported, so look for first quarter figures to end up somewhat higher in the next report. 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 8.2% in February 2014, down from a revised 8.3% in January 2014, and below the year-ago estimate of 9.4%. This compares with an unadjusted unemployment rate of 8.5% for California and 7.0% 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 11,900 payroll jobs from February 2013 to February 2014. While most sectors showed gains in employment, the largest gains were 4,800 jobs in educational & health services and 3,200 jobs in government during that same period. Leisure and hospitality posted the largest year-over-year loss, dropping by 2,300 jobs.
- **Overall** - We anticipate vacancy will maintain its downward momentum throughout 2014. With retail employment growing over the past two years and minimal recent supply additions to the market, rental rates should increase as well. Sacramento offers a significant relative advantage to the nearby Bay Area — one of the most expensive regions for both businesses and residents in the country. This cost differential will continue to support the population growth in the Sacramento region. Population growth coupled with an improving housing and job market should bode well for the Sacramento retail market. In conclusion, while the retail market still faces some challenges, it is one of the best performing and most stable sectors in the Sacramento region.

FORECAST

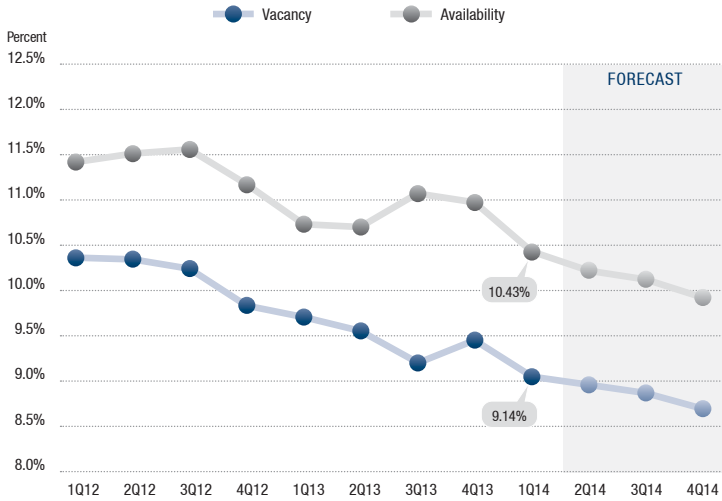
- **Construction** - With 340,000 square feet of retail space delivered in the first quarter of 2014 and 480,000 delivered in the previous quarter, construction has increased some from 2010–2012. Look for development to pick up in the next couple of years, but remain below historical levels.
- **Employment** - We anticipate job growth of around 2.1% or 17,008 jobs in the Sacramento area by 2015. Expect growth in educational services, health care, social assistance, professional and business services, leisure and hospitality, and retail trade.
- **Lease Rates** - Expect average asking lease rates to increase by 1%–3% by 2015.
- **Vacancy** - We anticipate the vacancy rate continuing to descend in coming quarters, dropping by 50 basis points, to approximately 8.7%, by 2015.

OVERVIEW

	1Q14	4Q13	1Q13	% of Change vs. 1Q13
Vacancy Rate	9.14%	9.45%	9.71%	(5.87%)
Availability Rate	10.43%	10.97%	10.73%	(2.80%)
Average Asking Lease Rate	\$1.31	\$1.31	\$1.32	(0.76%)
Sale & Lease Transactions	1,837,679	2,105,535	1,726,213	6.46%
Gross Absorption	1,395,722	1,122,068	1,213,599	15.01%
Net Absorption	817,978	110,156	306,214	N/A

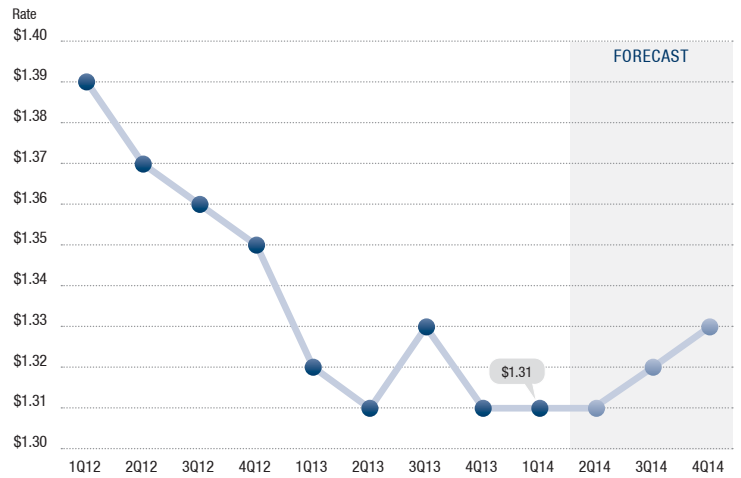
VACANCY & AVAILABILITY RATE

VACANCY – UNOCCUPIED SPACE | AVAILABILITY – ALL SPACE BEING MARKETED



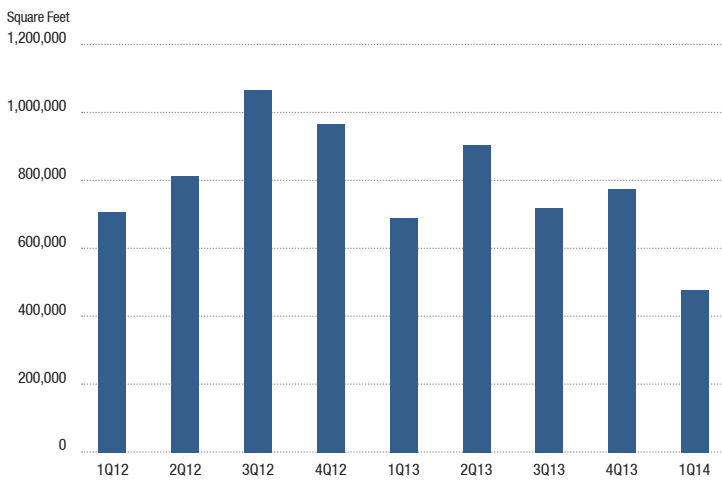
AVERAGE ASKING TRIPLE-NET LEASE RATE

MONTHLY OCCUPANCY COST ON A PER SQ. FT. BASIS



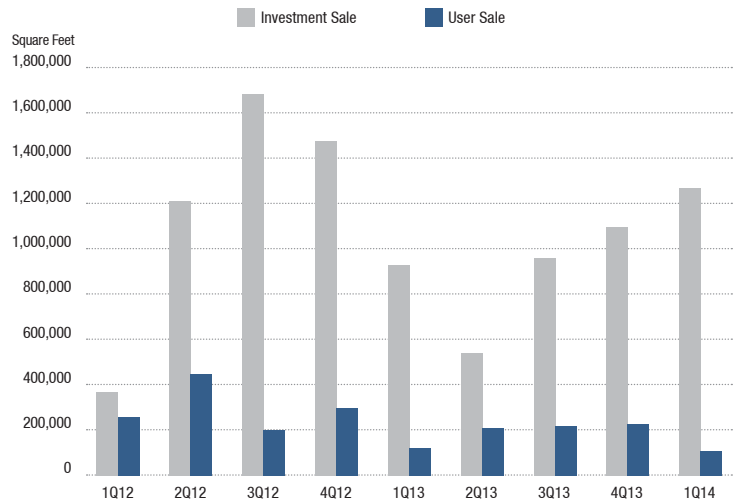
LEASE TRANSACTIONS

TOTAL AMOUNT OF SPACE THAT LEASED IN A QUARTER



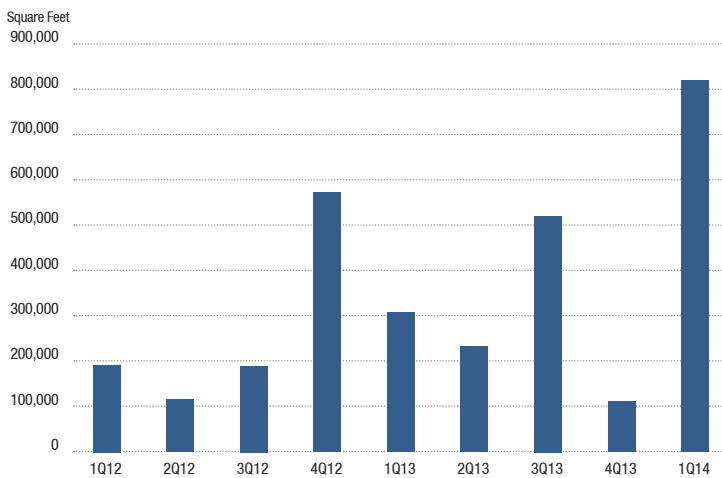
SALES TRANSACTIONS

TOTAL AMOUNT OF SPACE THAT SOLD IN A QUARTER

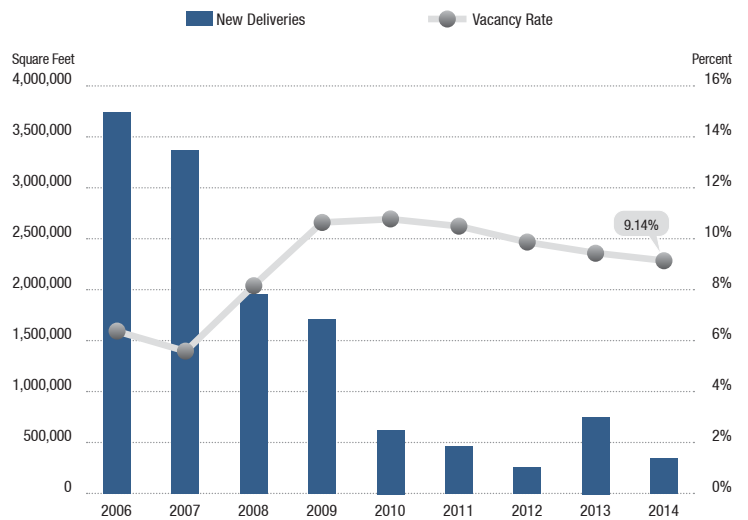


NET ABSORPTION

CHANGE IN THE AMOUNT OF OCCUPIED SPACE FROM ONE QUARTER TO THE NEXT



ANNUAL NEW DELIVERIES VS. VACANCY RATE



	INVENTORY				VACANCY & LEASE RATES					ABSORPTION			
	Number of Bldgs.	Net Rentable Square Feet	Square Feet U / C	Square Feet Planned	Square Feet Vacant	Vacancy Rate 1Q2014	Square Feet Available	Availability Rate 1Q2014	Average Asking Lease Rate	Net Absorption 1Q2014	Net Absorption 2013	Gross Absorption 1Q2014	Gross Absorption 2013
Sacramento Market													
Arden/Watt/Howe	949	11,213,291	14,238	56,500	996,941	8.89%	1,233,265	11.00%	\$1.33	118,484	104,423	146,672	398,995
Auburn/Loomis	342	3,254,652	0	462,427	162,098	4.98%	211,775	6.51%	\$1.27	28,144	223,957	41,632	280,708
Benicia	132	840,149	0	0	24,942	2.97%	35,413	4.22%	\$1.26	(73)	1,363	4,184	11,735
Carmichael	276	2,822,314	0	15,000	335,021	11.87%	380,643	13.49%	\$1.16	3,503	(736)	12,449	120,392
Davis	185	2,149,096	9,603	6,450	79,074	3.68%	94,738	4.41%	\$1.54	48,719	53,930	55,055	98,889
Downtown/Midtown/E Sac	835	5,982,255	43,596	1,398,563	507,214	8.48%	536,817	8.97%	\$1.85	45,838	(191,227)	57,053	170,396
El Dorado	328	3,889,077	0	128,835	305,662	7.86%	355,849	9.15%	\$1.62	4,573	(10,683)	25,013	136,535
Elk Grove	325	5,592,911	0	2,129,059	373,642	6.68%	369,082	6.60%	\$1.47	41,912	256,851	58,271	444,632
Fairfield	425	6,767,844	5,526	130,726	414,039	6.12%	537,159	7.94%	\$1.29	24,415	(62,560)	28,879	160,153
Folsom	290	5,602,998	0	137,754	493,600	8.81%	505,136	9.02%	\$1.79	13,103	86,858	43,202	177,499
Highway 50 Corridor	347	5,147,844	5,440	755,671	849,084	16.49%	969,572	18.83%	\$1.09	(22,376)	150,062	41,218	308,032
Lincoln	172	1,582,399	0	3,779	140,554	8.88%	155,746	9.84%	\$1.90	(19,259)	(3,373)	4,397	30,112
Natomas	257	4,151,655	4,555	70,570	301,698	7.27%	309,919	7.46%	\$1.77	17,791	159,655	21,712	255,949
Orangevale/Citrus Hts	542	7,937,417	11,250	220,753	958,231	12.07%	985,581	12.42%	\$1.30	48,603	15,632	81,632	210,444
Outer El Dorado	280	2,475,068	0	0	122,589	4.95%	142,574	5.76%	\$1.47	26,403	(13,166)	32,105	59,805
Outer Placer	160	1,227,934	0	12,600	48,060	3.91%	78,761	6.41%	\$1.94	5,350	(11,076)	16,100	14,221
Outer Sacramento	134	965,236	0	34,800	70,833	7.34%	83,046	8.60%	\$1.43	(1,076)	(2,621)	6,424	21,534
Outer Sutter	295	4,106,406	35,000	368,995	271,857	6.62%	321,582	7.83%	\$1.20	11,754	(7,473)	25,493	119,307
Outer Yolo	44	267,612	0	46,920	12,063	4.51%	15,063	5.63%	\$1.60	0	(5,705)	0	4,295
Rio Linda/North Highlands	427	5,190,697	0	83,602	654,875	12.62%	665,373	12.82%	\$0.96	27,567	(29,809)	50,707	96,913
Roseville/Rocklin	867	14,169,508	43,725	443,532	1,266,171	8.94%	1,427,923	10.08%	\$1.44	157,030	157,983	288,443	571,648
South Sacramento	1,089	12,138,832	0	1,023,522	1,446,003	11.91%	1,624,279	13.38%	\$1.26	72,269	16,592	115,218	502,811
Vacaville	531	7,219,559	8,907	65,020	469,658	6.51%	587,387	8.14%	\$1.21	79,805	114,837	94,565	264,406
Vallejo	689	6,142,070	0	90,270	418,373	6.81%	635,618	10.35%	\$1.19	23,526	39,657	38,065	181,810
West Sacramento	180	2,428,922	0	24,500	116,196	4.78%	144,873	5.96%	\$1.47	(4,974)	36,177	14,666	60,307
Woodland	262	3,456,053	0	141,559	314,678	9.11%	380,284	11.00%	\$0.93	55,181	44,225	57,967	117,842
Yuba	200	2,145,726	9,100	491,640	629,460	29.34%	649,682	30.28%	\$0.85	11,766	(2,423)	34,600	71,372
Sacramento Market Total	10,563	128,867,525	190,940	8,343,047	11,782,616	9.14%	13,437,140	10.43%	\$1.31	817,978	1,121,350	1,395,722	4,890,742
Malls	120	8,232,921	0	720,035	968,560	11.76%	1,025,687	12.46%	\$1.50	4,125	(139,769)	16,095	119,471
Power Centers	358	12,867,457	0	1,675,305	756,522	5.88%	851,959	6.62%	\$1.88	45,631	404,633	112,101	562,427
Shopping Centers	2,951	53,734,901	43,603	3,193,261	6,449,271	12.00%	7,139,341	13.29%	\$1.35	379,364	555,440	740,916	2,570,623
Specialty Centers	48	1,895,087	0	0	191,489	10.10%	195,089	10.29%	\$1.25	11,080	(112,179)	12,050	59,634
General Retail	7,086	52,137,159	147,337	2,754,446	3,416,774	6.55%	4,225,064	8.10%	\$1.08	377,778	413,225	514,560	1,578,587
Sacramento Market Total	10,563	128,867,525	190,940	8,343,047	11,782,616	9.14%	13,437,140	10.43%	\$1.31	817,978	1,121,350	1,395,722	4,890,742

Lease rates are on a triple-net basis.

MAJOR TRANSACTIONS

Sales Transactions

Property Address	Submarket	Square Feet	Sale Price Per SF	Buyer	Seller
545 Downtown Plz. (5 Properties)	Sacramento County / Downtown / Midtown / E. Sac	700,000	\$51.43	SG Downtown, LLC	JMA Ventures, LLC
12610-12680 Auto Mall Cir. (2 Properties)	Sacramento County / Highway 50 Corridor	28,732	\$226.23	G & S Future Investments, LP	Tien C. & Shieu W. Hao
Fairway Creek 9400 Fairway Dr.	Roseville / Rocklin	23,094	\$199.19	Ruzich Properties, LLC	Sutherland Family Trust
Evergreen Center 5575-5669 Mack Rd.	South Sacramento	29,823	\$114.01	Lotus Investment Partners, LLC	Pristine Properties, LLC
2992 65th St.	Downtown / Midtown / E. Sac	5,465	\$411.71	Qi, LLC	InvestNet, Inc.

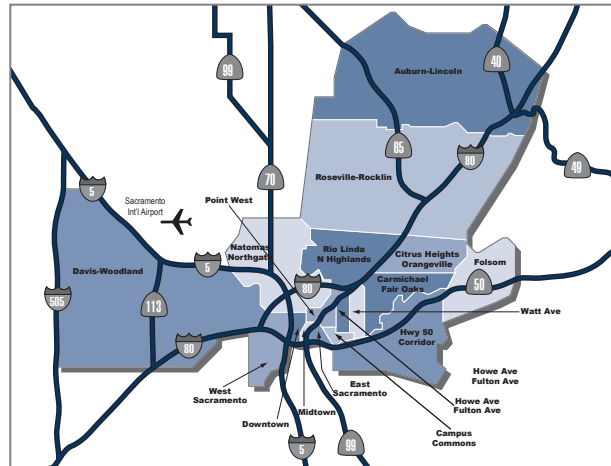
Lease Transactions

Property Name/Address	Submarket	Square Feet	Transaction Date	Tenant	Owner
Marketplace at Birdcage ** 6150-6197 Sunrise Blvd.	Orangevale / Citrus Heights	38,672	Aug-14	Future Grocery	Deutsche Asset & Wealth Management
2800-2868 Zinfadel Dr.	Highway 50 Corridor	26,350	Aug-14	Fitness Evolution	Folsom Zinfandel Partners, LLC
Center Pointe Shopping Center 318 N. Sunrise Ave.	Roseville / Rocklin	24,788	Dec-14	Undisclosed	Koros Family Trust
4202 Chiles Rd.	Davis	14,387	Feb-14	Hanlees Davis Toyota	Dong & Dong K Kee
1700 J St.	Downtown / Midtown / E. Sac	12,800	Aug-14	Bev-Mo! Beverages & More	Soehren Soehren & Soehren, LLC

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