



Retail Market Report

Compared to the Previous Quarter:



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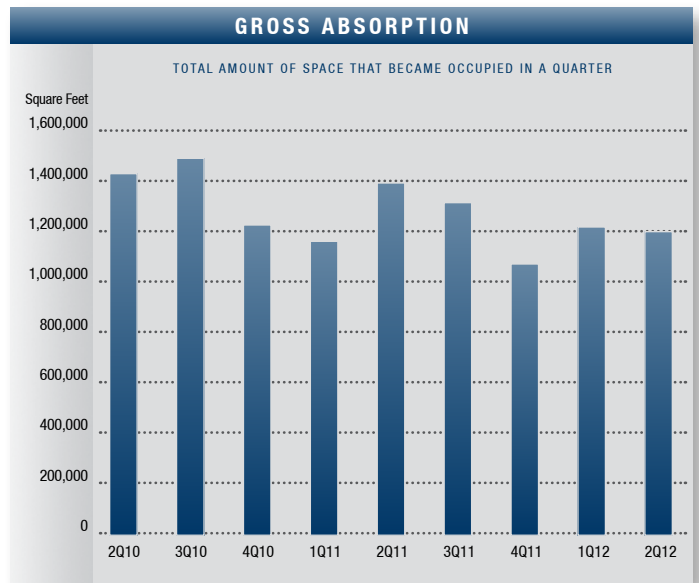
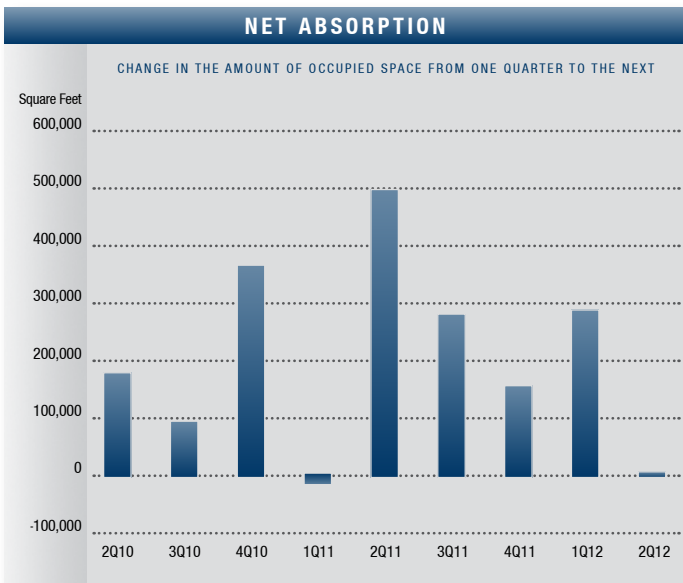
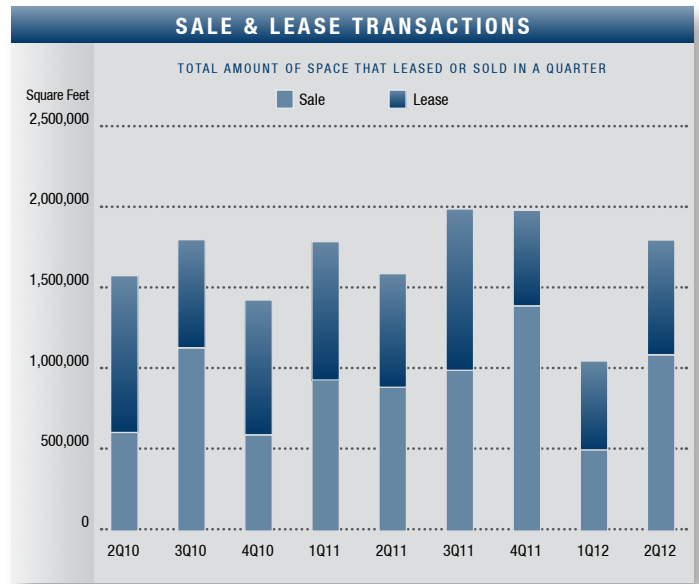
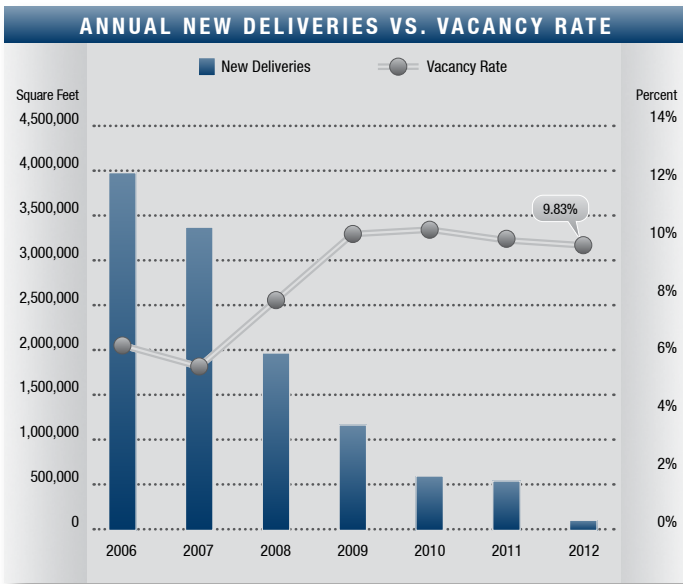
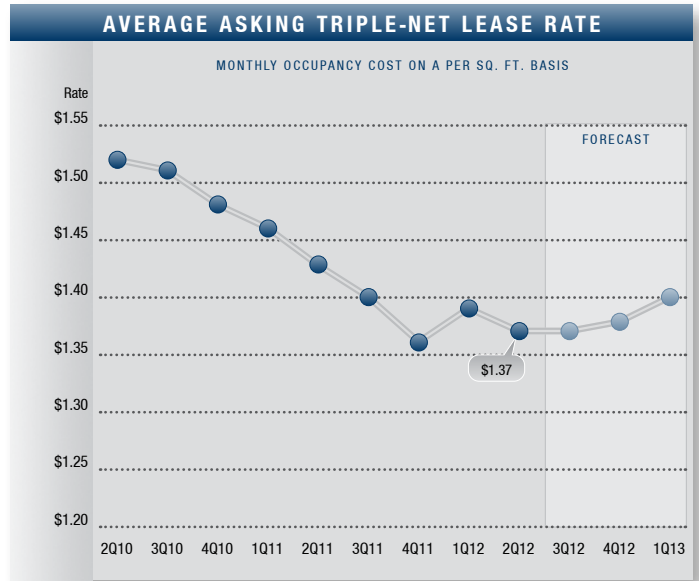
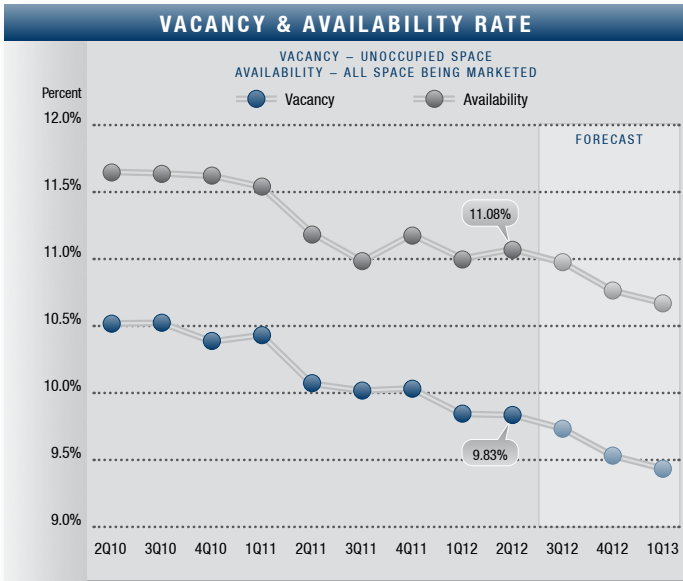
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Market Highlights

- Market Status** - Sacramento's retail market continued to stabilize in the second quarter of 2012. Vacancy and availability remained basically flat, as did net absorption. Sales and leasing activity almost doubled the first quarter's figure — indicating that there are great deals to be found and capital available. While these are positive indications, job growth and housing stability will need to improve in coming quarters for the market to continue its recovery.
- Construction** - There was only 34,472 square feet of retail space delivered during the second quarter of 2012. In the first quarter, five properties, totaling 58,591 square feet, were delivered in the Sacramento retail market. There was still 90,990 square feet under construction at the close of the second quarter — much of which was at the Palladio at Broadstone in Folsom.
- Vacancy** - The overall vacancy rate decreased to 9.83%, a drop of only 2 basis points, marking the second consecutive quarter of vacancy rates being under 10%. Within the major submarkets, the Downtown/Midtown/East Sacramento submarket performed best with a rate of only 3.52%, while the Highway 50 Corridor had the highest vacancy rate of 18.84%.
- Availability** - The percentage of all space being marketed was 11.08% in the second quarter of 2012 — a rise of just 8 basis points from the previous quarter. Similar to vacancy, the Downtown/Midtown/East Sacramento submarket remained strongest, posting the lowest availability rate, while Highway 50 Corridor came in as the weakest of all major submarkets.
- Lease Rates** - The average asking triple-net lease rate in the Sacramento retail market was \$1.37 per square foot per month in the second quarter of 2012 — a small decrease of \$0.02 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 at \$1.04. We are forecasting that lease rates will rise in the second half of 2012, ending the year at around \$1.40.
- Absorption** - The Sacramento retail market posted 7,314 square feet of positive net absorption for the second quarter of 2012, which is basically flat for a 129 million square foot retail market. Within the major submarkets — Fairfield, Vacaville, Yuba, and Rio Linda/North Highlands—all recorded over 40,000 square feet of positive net absorption, while the Orangevale/Citrus Heights, Arden/Watt/Howe, and the Highway 50 Corridor all struggled with a negative net absorption of over 50,000 square feet.
- Transaction Activity** - Sale and leasing transaction volume totaled about 1.8 million square feet — an increase from the previous quarter's 1 million square feet of activity. Typically, this statistic does have some lag time to post final numbers, so look for the second quarter numbers end up over 2 million square feet. Details of the largest transactions for the second quarter can be found on the back page of this report.
- Employment** - The unemployment rate in the Sacramento-Arden Arcade-Roseville MSA was 10.4% in May 2012, up from 11.5% in March 2012. This compares with an unadjusted unemployment rate of 10.4% for California and 7.9% for the nation during the same period.
- Overall** - We expect that vacancy will maintain momentum in its downward trend, sustained by personal income growth and minimal supply additions. Sacramento does have 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 2013, and a high number of store closures. In conclusion, while the retail market still faces challenges, it is the best performing and most stable sector, by far, in the Sacramento region.

RETAIL MARKET OVERVIEW

	2Q12	1Q12	2Q11	% of Change vs. 2Q11
Total Vacancy Rate	9.83%	9.85%	10.08%	(2.48%)
Availability Rate	11.08%	11.00%	11.19%	(0.98%)
Average Asking Lease Rate	\$1.37	\$1.39	\$1.43	(4.20%)
Sale & Lease Transactions	1,792,784	1,031,016	1,583,385	13.22%
Gross Absorption	1,199,439	1,207,263	1,390,871	(13.76%)
Net Absorption	7,314	285,940	497,820	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 2Q2012	Square Feet Available	Availability Rate 2Q2012	Average Asking Lease Rate	Net Absorption 2Q2012	Net Absorption 2012	Gross Absorption 2Q2012	Gross Absorption 2012
Sacramento Market													
Arden/Watt/Howe	949	11,212,102	3,167	24,000	1,237,255	11.03%	1,414,511	12.62%	\$1.30	(68,066)	(126,775)	69,616	133,552
Auburn/Loomis	329	3,058,314	0	70,377	254,593	8.32%	276,296	9.03%	\$1.29	(21,055)	(1,718)	8,948	38,228
Benicia	134	849,709	0	0	28,985	3.41%	35,253	4.15%	\$1.08	1,737	(1,171)	5,130	6,506
Carmichael	254	2,546,326	0	0	288,365	11.32%	322,783	12.68%	\$1.18	7,514	15,190	32,057	60,599
Davis	171	2,011,538	0	70,931	147,932	7.35%	152,912	7.60%	\$1.45	21,133	55,303	46,282	86,290
Downtown/Midtown/E Sac	852	9,017,103	5,781	1,438,010	317,846	3.52%	451,805	5.01%	\$1.38	36,300	37,844	70,211	90,316
El Dorado	286	3,783,235	4,000	117,079	348,040	9.20%	388,195	10.26%	\$1.70	14,569	10,575	53,537	84,742
Elk Grove	302	5,446,516	0	2,571,996	547,599	10.05%	554,632	10.18%	\$1.57	(44,840)	(57,900)	41,530	69,110
Fairfield	377	6,559,856	0	474,762	438,897	6.69%	514,265	7.84%	\$1.75	57,216	52,959	129,988	149,581
Folsom	282	5,711,486	56,445	84,008	680,068	11.91%	698,797	12.23%	\$1.62	4,135	84,611	85,375	185,100
Highway 50 Corridor	293	4,659,593	0	689,827	877,905	18.84%	975,335	20.93%	\$1.04	(51,764)	(59,080)	40,129	97,562
Lincoln	174	1,642,691	0	0	199,924	12.17%	163,465	9.95%	\$1.86	2,007	3,067	7,603	31,827
Natomas	249	4,075,145	0	70,570	462,588	11.35%	504,936	12.39%	\$1.87	2,157	(45,561)	15,475	32,104
Orangevale/Citrus Hts	529	7,909,866	14,997	164,178	942,406	11.91%	1,112,794	14.07%	\$1.40	(76,171)	(75,713)	46,108	126,167
Outer El Dorado	223	2,224,706	0	0	139,443	6.27%	170,515	7.66%	\$1.57	4,049	(3,270)	17,449	31,349
Outer Placer	146	1,363,910	0	0	40,769	2.99%	72,843	5.34%	\$1.62	2,612	16,502	4,500	22,190
Outer Sacramento	120	893,236	0	42,434	74,183	8.30%	106,499	11.92%	\$1.44	(389)	6,563	5,275	16,051
Outer Sutter	271	3,996,690	0	332,145	275,173	6.89%	308,078	7.71%	\$1.29	(9,849)	(17,137)	16,298	38,221
Outer Yolo	35	242,714	0	0	7,063	2.91%	10,063	4.15%	\$0.00	(7,063)	(7,063)	700	700
Rio Linda/North Highlands	424	5,319,737	0	64,290	613,777	11.54%	655,776	12.33%	\$1.09	40,077	24,325	82,270	109,922
Roseville/Rocklin	825	13,931,567	0	335,495	1,586,088	11.38%	1,751,961	12.58%	\$1.46	14,166	132,515	109,772	286,970
South Sacramento	1,012	11,454,119	0	944,730	1,384,574	12.09%	1,564,976	13.66%	\$1.36	(5,803)	103,393	91,596	291,071
Vacaville	519	7,113,111	0	178,959	518,454	7.29%	638,080	8.97%	\$1.17	42,987	82,032	69,874	149,714
Vallejo	702	6,218,149	0	35,180	524,093	8.43%	630,161	10.13%	\$1.18	(20,464)	10,983	31,559	110,031
West Sacramento	172	2,384,913	6,600	29,800	135,158	5.67%	145,358	6.09%	\$1.71	12,039	13,123	15,839	23,387
Woodland	254	3,554,530	0	147,987	408,106	11.48%	452,906	12.74%	\$1.57	9,412	(3,411)	29,082	51,276
Yuba	161	1,918,076	0	492,840	213,183	11.11%	234,369	12.22%	\$0.92	40,668	43,068	73,236	84,136
Sacramento Market Total	10,045	129,098,938	90,990	8,379,598	12,692,467	9.83%	14,307,564	11.08%	\$1.37	7,314	293,254	1,199,439	2,406,702

Malls	74	8,243,000	6,600	1,226,800	458,975	5.57%	493,387	5.99%	\$1.90	9,672	9,672	13,870	13,870
Power Centers	330	12,108,383	14,997	1,772,730	1,102,012	9.10%	1,263,232	10.43%	\$1.96	(46,358)	(50,130)	36,389	93,790
Community Centers	563	16,037,800	0	1,244,407	1,842,942	11.49%	1,910,012	11.91%	\$1.45	66,019	182,077	231,525	391,104
Neighborhood Centers	1,293	28,251,244	0	1,721,361	3,742,009	13.25%	4,093,136	14.49%	\$1.38	(72,777)	28,970	210,322	538,570
Strip Centers	1,023	10,546,114	0	308,568	1,615,904	15.32%	1,737,219	16.47%	\$1.29	(31,041)	(42,943)	132,336	279,761
Specialty Centers	89	2,842,739	56,445	63,853	463,185	16.29%	476,918	16.78%	\$1.94	(1,105)	9,053	40,236	93,074
General Retail	6,673	51,069,658	12,948	2,041,879	3,467,440	6.79%	4,333,660	8.49%	\$1.17	82,904	156,555	534,761	996,533
Sacramento Market Total	10,045	129,098,938	90,990	8,379,598	12,692,467	9.83%	14,307,564	11.08%	\$1.37	7,314	293,254	1,199,439	2,406,702

Lease rates are on a triple-net basis.

RECENT TRANSACTIONS

Sale Transactions

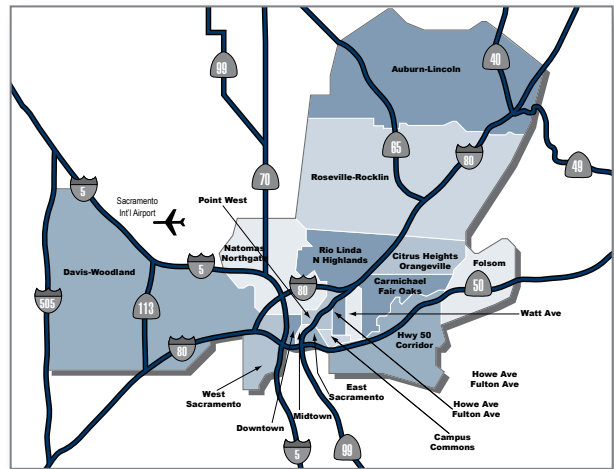
Property Address	Submarket	Square Feet	Sale Price PSF	Buyer	Seller
Laguna Pavilion, 7410-7440 Laguna Blvd.	Elk Grove	64,282	\$290.91	Kontoudakis Family Trust	Khoury Family Investors, LLC
Stanford Ranch Village, 2321-2351 Sunset Blvd.	Roseville/Rocklin	86,935	\$212.34	Stockbridge Capital Group, LLC	Regency Centers
3671 N. Freeway Blvd.	Natomas	134,700	\$80.55	Ashley Furniture Industries, Inc.	DBI Natomas, LLC
Elverta Crossing, 8005-8161 Watt Ave.	Rio Linda/N. Highlands	108,798	\$58.82	Top Terraces, Inc.	Kimco Realty Corporation
Lincoln Gateway, 100-170 Gateway Dr.	Lincoln	74,586	\$60.33	Lincoln Gateway Ventures, LLC	Lincoln Gateway Retail, LLC

New / Coming to the Region

Property Address	Tenant	Tenant Type	Submarket	Projected Opening	Owner
Promenade at Sacramento Gateway, 3671 N. Freeway Blvd.	Ashley Furniture	Furniture Store	Natomas	Spring 2013	Ashley Furniture
Laguna 99 Shopping Center, 8455 Elk Grove Blvd.	Wise Buys	Discount Store	Elk Grove	Summer 2012	Citadel Equities
Sunrise Village, 5425 Sunrise Blvd.	Tuesday Morning	Discount Store	Orangevale/Citrus Heights	Summer 2012	Sunrise Village Retail Center
11092 Coloma Rd.	Goodwill	Thrift Store	Highway 50 Corridor	Summer 2012	Goodwill Industries
Sutter Crossroads, 1242 Colusa Ave.	Goodwill	Thrift Store	Outer Sutter County	Winter 2012	Ring Yuba City Company

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