



Retail Market Report

Compared to the Previous Quarter:

Vacancy

DOWN

Net Absorption

POSITIVE

Lease Rates

DOWN

Transactions

DOWN

Deliveries

DOWN

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Market Highlights

- Market Status** - Sacramento's retail market continued to improve during the second quarter of 2013. Vacancy dropped compared to the previous quarter and finally slipped below its historical average of 9.10%. The market also posted 210,894 square feet of positive net absorption. Sales and leasing activity was relatively low, as it has struggled to follow up the active quarters during the middle of 2012. While most of these are positive indications, job growth and housing stability will need to continue to improve in coming quarters for the market to fully recover.
- Absorption** - The Sacramento retail market posted 210,894 square feet of positive absorption for the second quarter, giving the market 13 consecutive quarters of positive net absorption. Look for all of this net absorption to be a telling indicator of the market going forward, with the struggles of neighborhood centers and the emergence of some new community and power centers.
- Transaction Activity** - Sale and lease transaction volume totaled about 1.05 million square feet in the second quarter. Typically, this statistic does have some lag time to post final numbers, so look for the quarter's numbers to end up over 1.5 million square feet. Details of the largest transactions for the second quarter of 2013 can be found on the back page of this report.
- Employment** - The unemployment rate in the Sacramento-Arden Arcade-Roseville MSA was 7.8 percent in May 2013, down from a revised 8.2 percent in April 2013, and below the year-ago estimate of 10.3 percent. This compares with an unadjusted unemployment rate of 8.1 percent for California and 7.3 percent 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 4,900 payroll jobs from April 2013 to May 2013. The largest gains were 1,400 jobs in professional and business services and 700 jobs in leisure and hospitality. The government picked up 600 jobs over the past month with 200 of those within the local government.
- Overall** - We anticipate vacancy will maintain its downward momentum over the next year. With retail employment growing over the past two years and minimal supply additions to the market, rental rates will soon begin to increase. Although the housing market is on the mend, this metro is still reeling from the effects. Employment is rebounding, but unemployment remains above the national average — a trend that will continue over the forecast. In conclusion, while the retail market still faces challenges, next to the apartment market, it is the best performing and most stable sector in the Sacramento region.
- Construction** - There was only 19,241 square feet of retail space delivered during the second quarter after seeing 158,300 square feet delivered in the first quarter. There was 126,846 square feet under construction at the close of the quarter. Minimal additions to supply will increase the downward pressure on vacancy and soon help lease rates grow.
- Vacancy** - The overall vacancy rate decreased to 9.03%, a drop of 17 basis points from the previous quarter, marking the fourth consecutive quarter of decreases in vacancy. Within the major submarkets, the Fairfield and Downtown/Midtown/East Sacramento submarkets performed best with a rate of only 4.79% and 5.31, respectively, while the Highway 50 Corridor had the highest vacancy rate at 14.91%.
- Availability** - The percentage of all space being marketed was 10.31% in the second quarter, an increase of just 1 basis point from the previous quarter. Within the major submarkets, the Fairfield and Vacaville submarkets remained strongest at 5.23% and 6.95%, while the Highway 50 Corridor submarket came in at 18.71%.
- Lease Rates** - The average asking triple-net lease rate in the Sacramento retail market was \$1.31 per square foot per month in the second quarter of 2013 — a decrease of \$0.01 from the previous quarter. The region's highest average asking rate was in the Lincoln submarket at \$2.10, while the region's lowest asking rates were found in the Yuba submarket at \$0.88. We are forecasting that lease rates will begin to recover in 2013.

Prepared by:

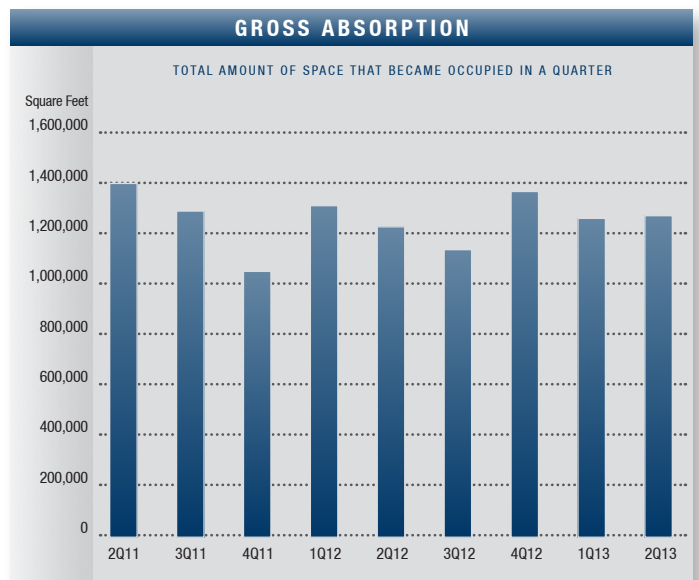
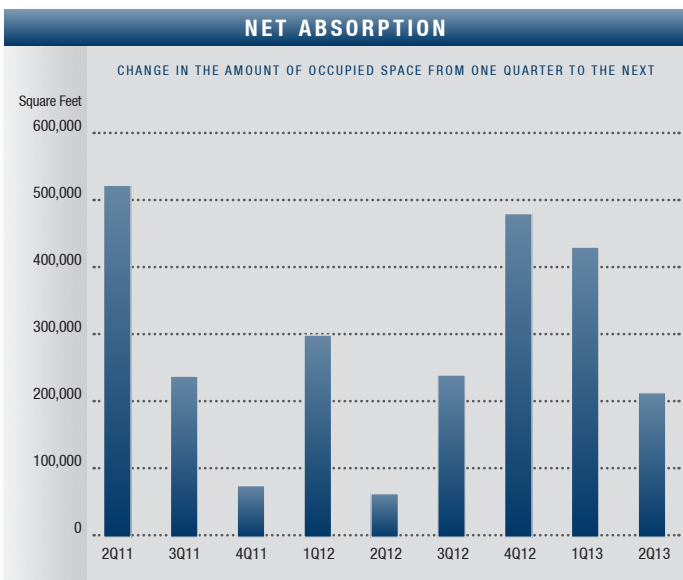
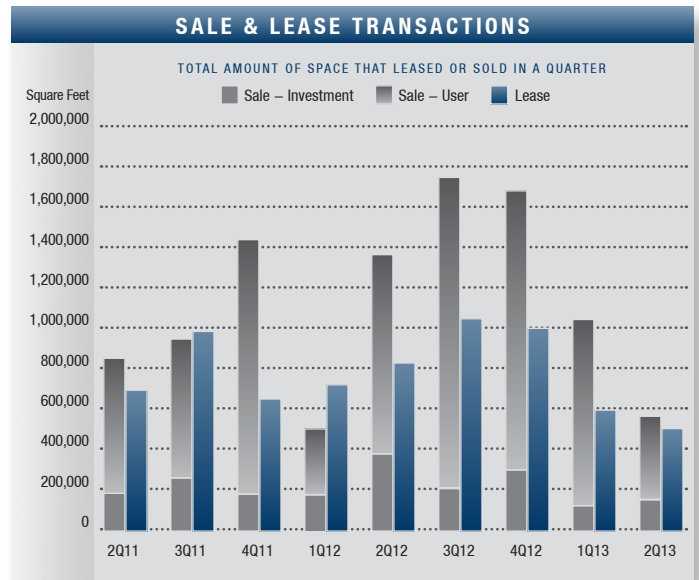
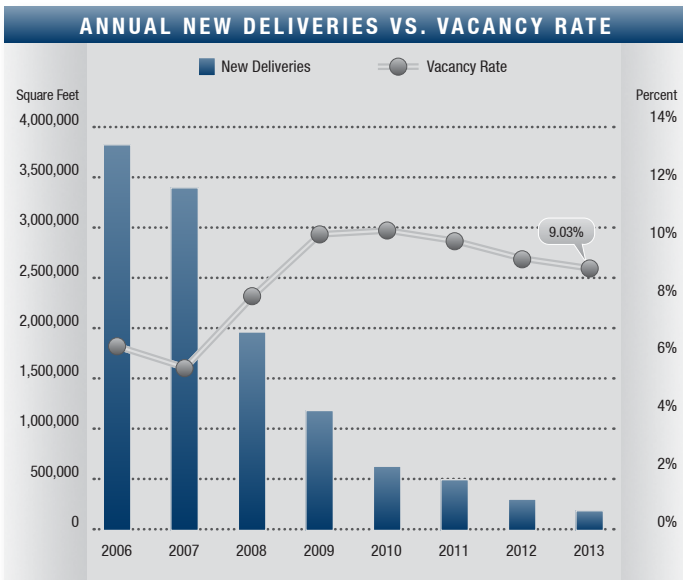
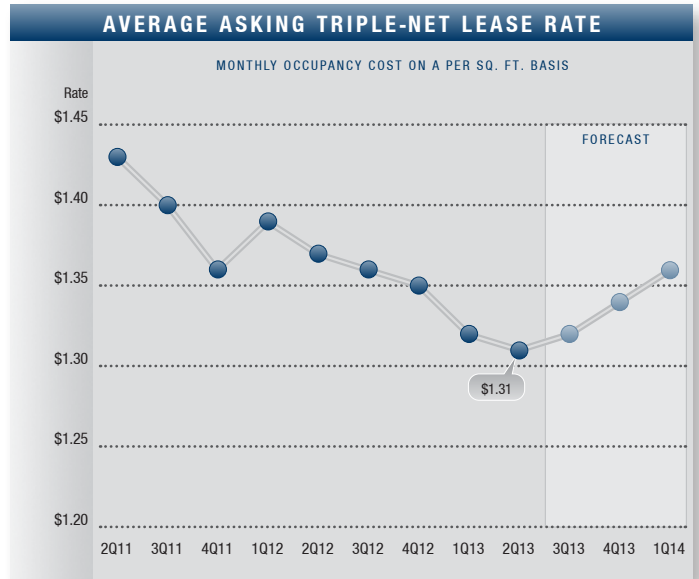
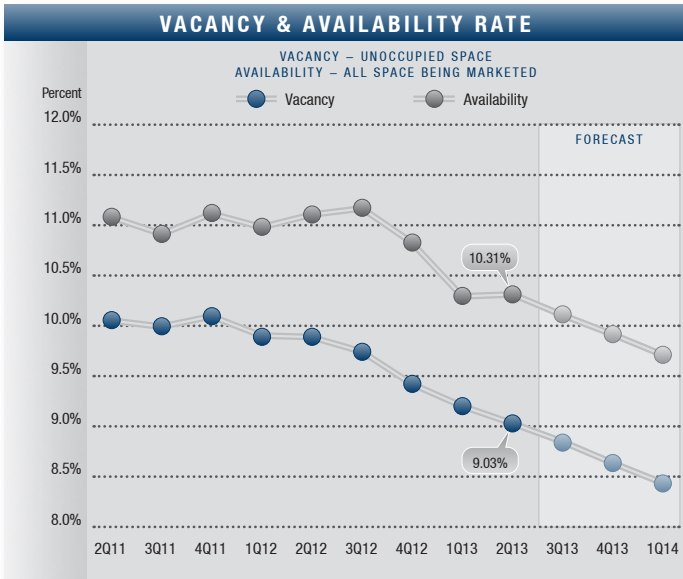
Jerry J. Holdner, Jr. — Lic.#01145748
 Vice President of Market Research
 e-mail: jholdner@voitco.com

Tyler Boyd — Lic.#01927167
 Market Research Analyst
 e-mail: tboyd@voitco.com

VOIT Real Estate Services — Lic.#01333376

RETAIL MARKET OVERVIEW

	2Q13	1Q13	2Q12	% of Change vs. 2Q12
Total Vacancy Rate	9.03%	9.20%	9.89%	(8.70%)
Availability Rate	10.31%	10.30%	11.11%	(7.20%)
Average Asking Lease Rate	\$1.31	\$1.32	\$1.37	(4.38%)
Sale & Lease Transactions	1,048,608	1,628,166	2,181,281	(51.93%)
Gross Absorption	1,261,058	1,254,493	1,220,926	3.29%
Net Absorption	210,894	427,947	60,014	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 2Q2013	Square Feet Available	Availability Rate 2Q2013	Average Asking Lease Rate	Net Absorption 2Q2013	Net Absorption 2013	Gross Absorption 2Q2013	Gross Absorption 2013
Sacramento Market													
Arden/Watt/Howe	947	11,233,190	52,360	50,500	1,115,998	9.93%	1,289,391	11.48%	\$1.24	45,345	49,740	119,753	194,514
Auburn/Loomis	340	3,025,032	0	462,544	199,989	6.61%	249,051	8.23%	\$1.55	11,695	27,018	24,741	59,899
Benicia	132	846,103	0	0	29,368	3.47%	38,653	4.57%	\$1.10	215	(3,136)	3,506	6,336
Carmichael	272	2,790,156	0	15,000	330,000	11.83%	367,248	13.16%	\$1.14	(21,948)	2,246	6,781	51,549
Davis	175	2,097,904	33,781	62,150	101,794	4.85%	105,099	5.01%	\$1.70	(10,648)	(10,008)	11,014	23,131
Downtown/Midtown/E Sac	837	6,350,614	0	1,399,320	336,970	5.31%	649,326	10.22%	\$1.56	10,494	5,755	57,079	90,162
El Dorado	319	3,927,679	0	125,004	342,016	8.71%	356,555	9.08%	\$1.68	(26,380)	(45,464)	51,773	76,545
Elk Grove	320	5,617,947	0	2,657,302	423,373	7.54%	458,733	8.17%	\$1.52	91,266	246,079	111,664	386,227
Fairfield	411	6,832,863	0	470,518	327,283	4.79%	357,424	5.23%	\$1.37	15,246	35,335	38,609	84,440
Folsom	289	5,782,832	0	129,754	546,589	9.45%	563,090	9.74%	\$1.69	10,051	43,872	38,205	96,586
Highway 50 Corridor	339	4,970,430	4,950	551,045	741,084	14.91%	930,182	18.71%	\$1.11	128,090	195,173	155,359	241,152
Lincoln	170	1,599,796	0	0	129,108	8.07%	140,703	8.80%	\$2.10	(2,920)	(1,679)	3,900	7,181
Natomas	254	4,053,544	18,200	70,570	289,696	7.15%	306,618	7.56%	\$1.76	139,132	159,910	161,633	193,384
Orangevale/Citrus Hts	535	7,904,606	0	242,503	1,000,558	12.66%	1,094,242	13.84%	\$1.37	(84,166)	(82,302)	67,924	110,778
Outer El Dorado	228	2,260,747	0	0	136,842	6.05%	144,160	6.38%	\$1.44	(13,418)	(4,525)	1,061	26,839
Outer Placer	157	1,436,982	0	12,600	41,831	2.91%	74,004	5.15%	\$1.66	4,530	6,003	6,130	7,630
Outer Sacramento	133	962,490	0	34,800	70,731	7.35%	109,231	11.35%	\$1.34	1,270	(3,595)	6,000	10,960
Outer Sutter	289	4,115,561	0	383,902	246,565	5.99%	306,266	7.44%	\$1.44	(18,852)	597	19,020	44,439
Outer Yolo	41	256,602	0	46,920	3,163	1.23%	6,163	2.40%	\$0.00	0	1,695	0	1,695
Rio Linda/North Highlands	428	5,196,822	0	90,190	637,988	12.28%	670,496	12.90%	\$0.95	11,442	2,796	30,304	51,217
Roseville/Rocklin	861	14,144,634	0	565,830	1,447,191	10.23%	1,574,233	11.13%	\$1.50	(18,103)	27,869	124,607	271,131
South Sacramento	1,065	11,928,550	0	1,053,986	1,381,702	11.58%	1,570,669	13.17%	\$1.29	18,896	40,399	77,064	213,996
Vacaville	524	7,201,637	0	190,490	499,242	6.93%	500,584	6.95%	\$1.18	(49,778)	(30,602)	60,545	103,725
Vallejo	692	6,185,165	0	21,180	504,589	8.16%	616,044	9.96%	\$1.15	(4,259)	(10,533)	30,884	53,515
West Sacramento	177	2,372,852	17,555	24,500	111,730	4.71%	128,319	5.41%	\$1.73	18,389	17,614	20,120	27,493
Woodland	262	3,445,015	0	154,159	447,227	12.98%	447,829	13.00%	\$1.01	(22,016)	(38,678)	29,362	42,166
Yuba	185	2,081,430	0	491,640	165,926	7.97%	201,316	9.67%	\$0.88	(22,679)	7,262	4,020	38,861
Sacramento Market Total	10,382	128,621,183	126,846	9,306,407	11,608,553	9.03%	13,255,629	10.31%	\$1.31	210,894	638,841	1,261,058	2,515,551
Malls	82	7,525,411	17,555	1,221,500	545,748	7.25%	703,061	9.34%	\$0.90	(79,157)	(83,014)	10,796	15,295
Power Centers	326	11,868,439	0	1,772,902	853,919	7.19%	941,794	7.94%	\$1.92	139,253	190,449	261,824	343,376
Community Centers	566	15,836,380	0	1,339,842	1,663,559	10.50%	1,739,524	10.98%	\$1.51	42,267	94,865	112,917	309,164
Neighborhood Centers	1,363	28,908,029	0	1,865,813	3,636,025	12.58%	3,882,906	13.43%	\$1.33	67,367	115,440	335,697	540,398
Strip Centers	1,040	10,615,251	4,950	297,543	1,685,626	15.88%	1,824,306	17.19%	\$1.22	(30,731)	(28,717)	143,386	322,514
Specialty Centers	94	2,813,260	0	87,278	377,177	13.41%	405,518	14.41%	\$1.77	(27,357)	(8,230)	7,968	38,868
General Retail	6,911	51,054,413	104,341	2,721,529	2,846,499	5.58%	3,758,520	7.36%	\$1.13	99,252	358,048	388,470	945,936
Sacramento Market Total	10,382	128,621,183	126,846	9,306,407	11,608,553	9.03%	13,255,629	10.31%	\$1.31	210,894	638,841	1,261,058	2,515,551

Lease rates are on a triple-net basis.

RECENT TRANSACTIONS

Sale Transactions

Property Address	Submarket	Square Feet	Sale Price Per SF	Buyer	Seller
Nimbus Winery Village 12401-12409 Folsom Blvd.	Highway 50 corridor	74,998	\$80.00	Ethan Conrad Properties	Retail Opportunity Investments Corp.
Pleasant Grove Pointe 933-973 Pleasant Grove Blvd. 1740-1750 Fairfield Blvd.	Roseville/Rocklin	39,742	\$132.10	Alleghany Properties, Inc.	EJ Plesko & Associates, Inc.
4128 Norwood Ave.	Fairfield	14,367	\$56.37	Cornerstone Land Company	Landis Enterprises, Inc.
1895 Howe Ave.	Natomas	2,378	\$1,009.25	Yeh-seet 2001 & Carrington Trust	Rodrick Rinker
	Arden/Watt/Howe	12,928	\$181.78	Sac-MM Properties, LLC	Stumbos & Company

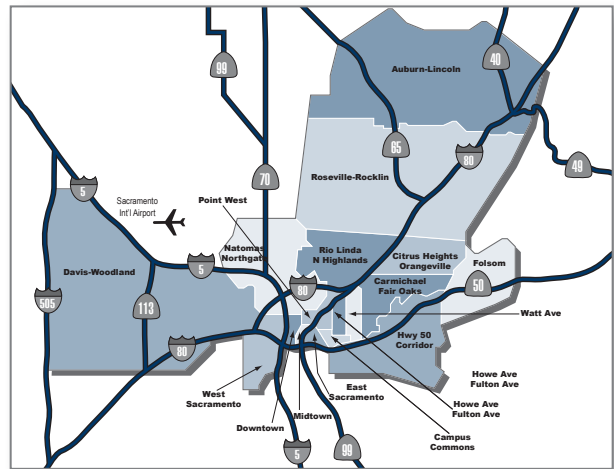
New / Coming to the Region

Property Address	Tenant	Tenant Type	Submarket	Projected Opening	Owner
Roseville Square** 424 Harding Blvd.	Grocery Outlet	Grocery Store	Roseville/Rocklin	Summer 2013	Sunflower Farmers Market (Sublessor)
Riverside Plaza II 6419-6429 Riverside Blvd.	Grocery Outlet	Grocery Store	South Sacramento	Summer 2013	Duckett-Wilson Development Company
Goldorado Center 3454 Palmer Dr.	PetCo	Pet Store	El Dorado	Fall 2013	Best Properties
Nugget Plaza 771 Pleasant Grove Blvd.	Steinway Piano Gallery	Music Store	Roseville/Rocklin	Summer 2013	Engstrom Properties
6019 Auburn Blvd.	Budget Truck Rentals	Rental Cars	Orangevale/Citrus Heights	Apr 2013	KW Industries

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101 Shipyard Way
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