

SECOND QUARTER 2014 SACRAMENTO RETAIL

Voit
REAL ESTATE SERVICES

MARKET CHANGE

Compared to the Previous Quarter:

Vacancy

DOWN



Net Absorption

POSITIVE



Lease Rates

UP



Transactions

DOWN



Deliveries

DOWN



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VOIT Real Estate Services

HIGHLIGHTS

- **Market Status** - The Sacramento retail market ended the second quarter of 2014 with positive figures as an improving local economy has increased leasing, which has pushed vacancies down. Vacancy and availability both dropped compared to the previous quarter, with vacancy posting the lowest rate since 2009. As fundamentals continue to improve, rent growth is also expected throughout 2014.
- **Construction** - At the close of the second quarter of 2014, there was a total of 399,139 square feet of retail space under construction in the Sacramento region. Of the largest submarkets, Roseville/Rocklin had the most construction, with 140,932 square feet. The single largest retail project under construction, however, was a 133,049-square-foot, freestanding retail building located in the Rio Linda/North Highlands submarket. It is expected to be delivered January 2015.
- **Vacancy** - The overall vacancy rate ended the quarter at 9.11%, a decrease of two basis points from the previous quarter. Within the major submarkets, the Fairfield submarket performed best with a rate of 6.11%, while the Highway 50 Corridor submarket had the highest vacancy rate at 16.17%.
- **Availability** - The percentage of all space being marketed was 10.32% in the second quarter, a decrease of 7 basis points from the previous quarter and 42 basis points lower than the availability rate seen one year ago. Within the major submarkets, the Elk Grove, Fairfield, and Vacaville submarkets remained strong at 6.91%, 7.33%, and 8.45%, respectively, while the Highway 50 Corridor submarket came in with the highest availability rate at 18.32%.
- **Lease Rates** - The average asking triple-net lease rate in the Sacramento retail market was \$1.32 per square foot per month in the second quarter of 2014, which is \$0.01 higher than the previous quarter. Of the major submarkets, the highest average asking rates were in the Downtown/Midtown/E. Sac and Folsom submarkets at \$1.84 and \$1.82 per square foot per month, while the lowest asking rate was in the Rio Linda/North Highlands submarket at \$0.98 per square foot per month.
- **Absorption** - The Sacramento retail market posted 166,122 square feet of positive net absorption for the second quarter of 2014, marking the 17th consecutive quarter of positive net absorption, totaling almost 4.6 million square feet.
- **Transaction Activity** - Sale and lease transaction volume totaled about 2.06 million square feet in the second quarter, which is an 11% increase in transaction activity from the previous year's average. This statistic can have some lag time in being reported, so look for second quarter figures to end up somewhat higher in the next report. 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 6.7% in May 2014, down from a revised 7.1% in April 2014, and below the year-ago estimate of 8.3%. This compares with an unadjusted unemployment rate of 7.1% for California and 6.1% 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 20,000 payroll jobs from May 2013 to May 2014. While most sectors showed gains in employment, the largest gains were 5,800 jobs in educational & health services, 5,200 jobs in professional and business services, and 3,400 jobs in government during that same time period.
- **Overall** - The second quarter's statistics for the Sacramento retail market show that the market continues to improve, and as positive demand continues, vacancy rates will continue to trend downward throughout 2014. With retail employment growing over the past two years and minimal recent supply additions to the market, rental rates are expected to increase as well. Sacramento is poised to be a viable alternative to the nearby Bay Area. Population growth coupled with improving housing and job markets will bode well for the Sacramento retail market. The Sacramento retail market has proven to be one of the best performing and most stable sectors in the Sacramento region.

FORECAST

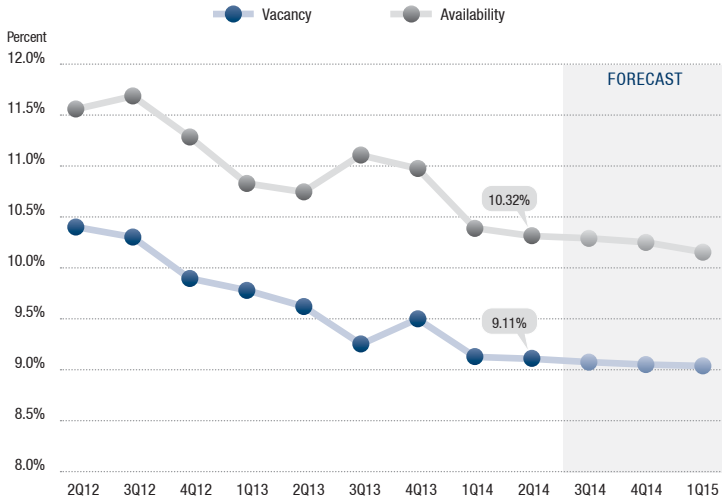
- **Construction** - With 150,000 square feet of retail space delivered in the second quarter of 2014 and 400,000 delivered in the previous quarter, construction has increased some from 2010–2012. Look for development to pick up in the next couple of years.
- **Employment** - We anticipate job growth of around 2.1% or 17,000 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 to approximately 8.7% by 2015.

OVERVIEW

	2Q14	1Q14	2Q13	% of Change vs. 2Q13
Vacancy Rate	9.11%	9.13%	9.62%	(5.30%)
Availability Rate	10.32%	10.39%	10.74%	(3.91%)
Average Asking Lease Rate	\$1.32	\$1.31	\$1.31	0.76%
Sale & Lease Transactions	2,067,587	2,266,328	1,713,563	20.66%
Gross Absorption	1,033,765	1,419,070	1,121,075	(7.79%)
Net Absorption	166,122	833,674	237,150	N/A

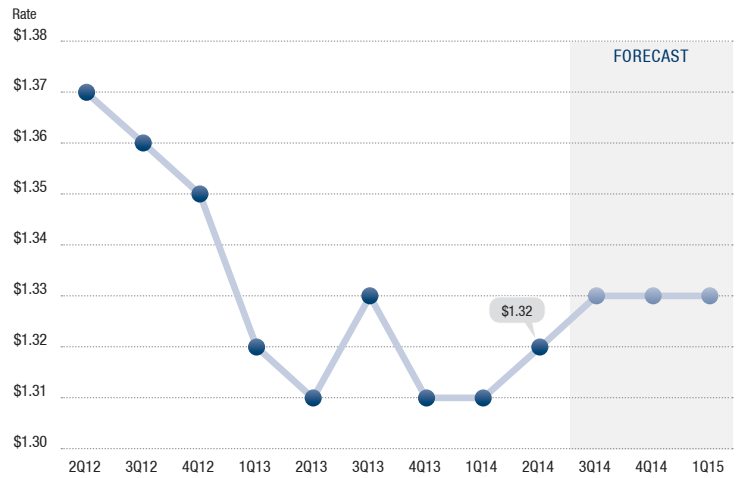
VACANCY & AVAILABILITY RATE

VACANCY – UNOCCUPIED SPACE | AVAILABILITY – ALL SPACE BEING MARKETED



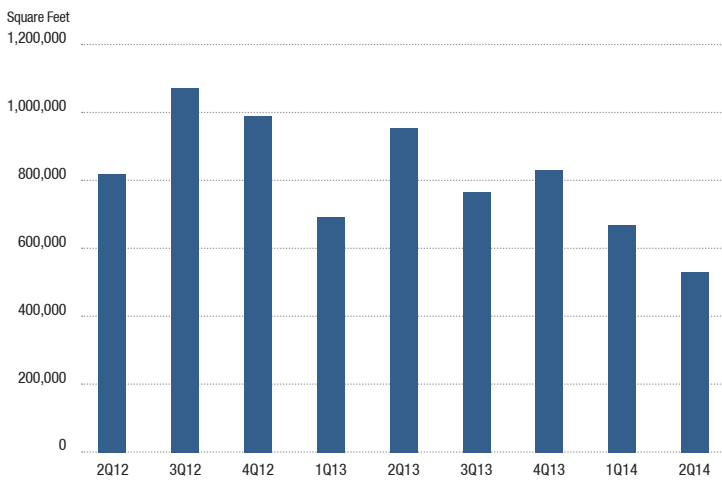
AVERAGE ASKING TRIPLE-NET LEASE RATE

MONTHLY OCCUPANCY COST ON A PER SQ. FT. BASIS



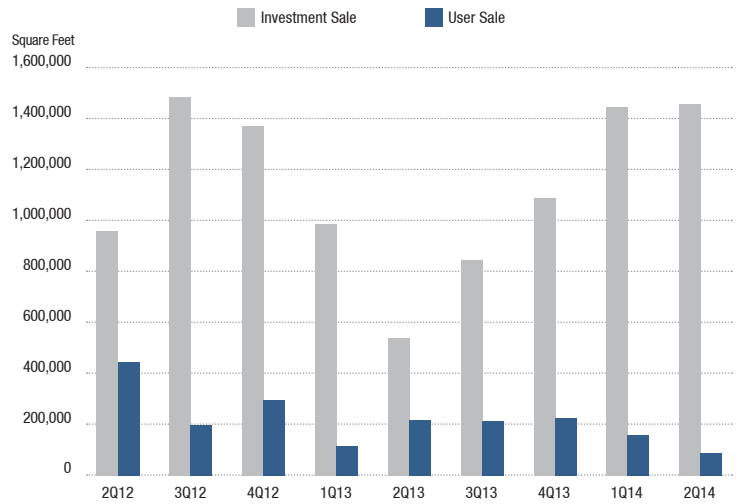
LEASE TRANSACTIONS

TOTAL AMOUNT OF SPACE THAT LEASED IN A QUARTER



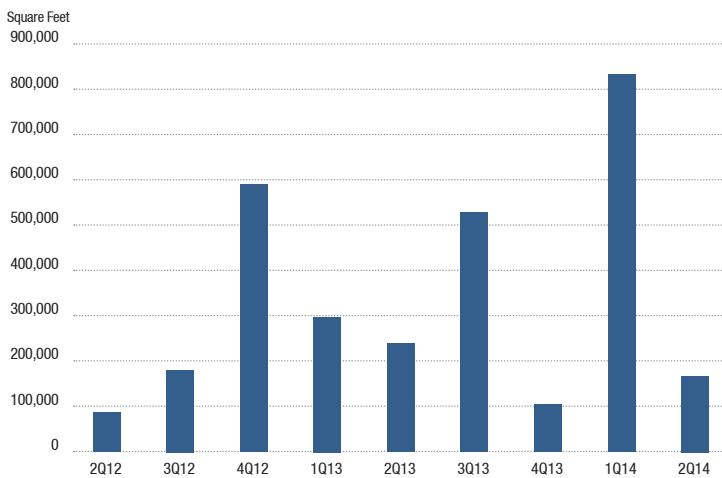
SALES TRANSACTIONS

TOTAL AMOUNT OF SPACE THAT SOLD IN A QUARTER

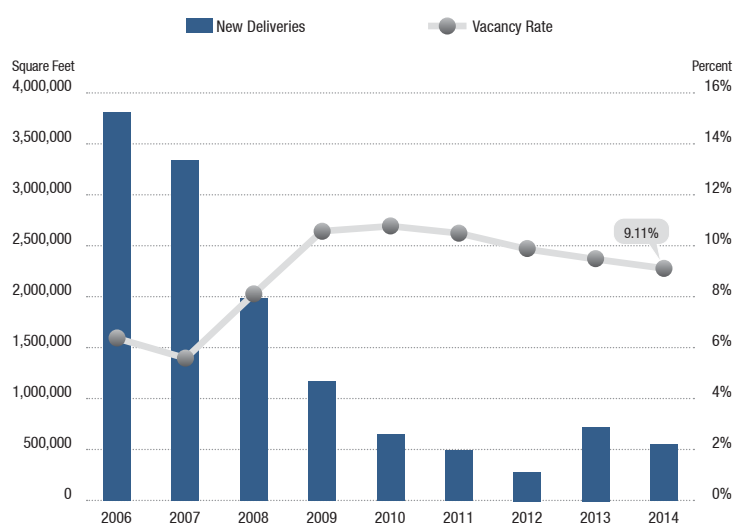


NET ABSORPTION

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 2Q2014	Square Feet Available	Availability Rate 2Q2014	Average Asking Lease Rate	Net Absorption 2Q2014	Net Absorption 2014	Gross Absorption 2Q2014	Gross Absorption 2014
Sacramento Market													
Arden/Watt/Howe	950	11,216,866	20,568	44,500	1,065,651	9.50%	1,318,385	11.75%	\$1.29	(37,780)	61,123	129,359	285,011
Auburn/Loomis	341	3,233,870	4,750	512,092	157,013	4.86%	201,569	6.23%	\$1.35	5,085	33,221	14,519	56,143
Benicia	132	840,149	0	0	24,942	2.97%	35,920	4.28%	\$1.24	0	(73)	0	4,184
Carmichael	279	2,813,683	0	18,270	284,349	10.11%	308,497	10.96%	\$1.25	32,311	35,814	37,737	50,186
Davis	186	2,158,699	0	6,450	91,380	4.23%	100,112	4.64%	\$1.53	(2,703)	46,016	7,943	62,998
Downtown/Midtown/E Sac	836	5,984,930	47,564	1,410,495	470,252	7.86%	507,430	8.48%	\$1.84	36,205	81,949	83,877	138,630
El Dorado	330	3,886,357	0	250,935	285,430	7.34%	331,620	8.53%	\$1.57	17,132	25,805	41,722	67,235
Elk Grove	327	5,615,154	0	2,129,059	380,021	6.77%	387,812	6.91%	\$1.44	16,471	36,733	49,710	108,181
Fairfield	427	6,802,606	5,526	390,126	415,609	6.11%	498,819	7.33%	\$1.30	580	24,345	24,661	53,640
Folsom	290	5,619,755	0	138,067	502,288	8.94%	498,366	8.87%	\$1.82	(8,688)	4,415	17,703	60,905
Highway 50 Corridor	350	5,157,683	0	765,511	833,770	16.17%	944,638	18.32%	\$1.01	(21,132)	(6,062)	62,215	104,433
Lincoln	167	1,567,494	0	3,779	141,394	9.02%	156,586	9.99%	\$1.91	(840)	(20,099)	2,400	6,797
Natomas	258	4,158,743	0	90,670	295,370	7.10%	302,974	7.29%	\$1.76	761	28,674	20,311	52,145
Orangevale/Citrus Hts	547	7,986,229	11,250	220,753	955,439	11.96%	1,051,067	13.16%	\$1.25	26,292	75,395	110,857	192,989
Outer El Dorado	282	2,479,839	26,400	0	123,182	4.97%	145,125	5.85%	\$1.51	(593)	26,310	25,407	58,012
Outer Placer	160	1,233,207	0	12,600	54,634	4.43%	66,605	5.40%	\$1.81	(6,574)	(1,224)	8,271	24,371
Outer Sacramento	135	1,129,288	0	34,800	67,937	6.02%	79,669	7.05%	\$1.43	109,896	108,820	112,000	118,424
Outer Sutter	297	4,115,928	0	368,995	278,652	6.77%	314,381	7.64%	\$1.24	(1,295)	5,459	3,850	29,843
Outer Yolo	48	300,057	0	46,920	12,063	4.02%	15,063	5.02%	\$1.60	1,000	1,000	1,000	1,000
Rio Linda/North Highlands	428	5,161,566	133,049	83,602	657,110	12.73%	676,013	13.10%	\$0.98	1,765	25,332	20,527	71,234
Roseville/Rocklin	873	14,213,302	140,932	298,400	1,261,032	8.87%	1,442,448	10.15%	\$1.41	7,762	210,703	68,335	364,733
South Sacramento	1,093	12,148,654	0	1,032,612	1,436,902	11.83%	1,500,782	12.35%	\$1.36	9,101	81,370	67,966	183,184
Vacaville	535	7,181,672	0	95,393	466,835	6.50%	607,185	8.45%	\$1.26	(15,484)	46,937	26,139	116,003
Vallejo	689	6,135,423	0	117,665	415,874	6.78%	618,684	10.08%	\$1.20	16,520	26,025	47,078	85,143
West Sacramento	180	2,427,508	0	24,500	121,640	5.01%	151,617	6.25%	\$1.49	(7,899)	(10,418)	12,214	26,880
Woodland	263	3,461,084	0	141,559	311,632	9.00%	381,338	11.02%	\$0.95	5,496	58,227	15,915	73,882
Yuba	208	2,234,378	9,100	491,640	659,927	29.54%	691,084	30.93%	\$0.84	(17,267)	(6,001)	22,049	56,649
Sacramento Market Total	10,611	129,264,124	399,139	8,729,393	11,770,328	9.11%	13,333,789	10.32%	\$1.32	166,122	999,796	1,033,765	2,452,835
Malls	137	9,310,581	0	720,035	1,009,172	10.84%	1,025,863	11.02%	\$1.55	5,662	9,787	13,214	29,309
Power Centers	343	11,748,834	143,932	1,756,605	701,344	5.97%	801,953	6.83%	\$1.50	32,524	174,831	68,842	278,484
Shopping Centers	2,956	53,769,216	18,718	3,370,507	6,455,483	12.01%	7,082,559	13.17%	\$1.37	(12,173)	279,192	498,869	1,146,518
Specialty Centers	48	1,895,087	0	0	194,749	10.28%	195,301	10.31%	\$1.12	(3,260)	7,820	5,515	17,565
General Retail	7,127	52,540,406	236,489	2,882,246	3,409,580	6.49%	4,228,113	8.05%	\$1.11	143,369	528,166	447,325	980,959
Sacramento Market Total	10,611	129,264,124	399,139	8,729,393	11,770,328	9.11%	13,333,789	10.32%	\$1.32	166,122	999,796	1,033,765	2,452,835

Lease rates are on a triple-net basis.

MAJOR TRANSACTIONS

Sales Transactions

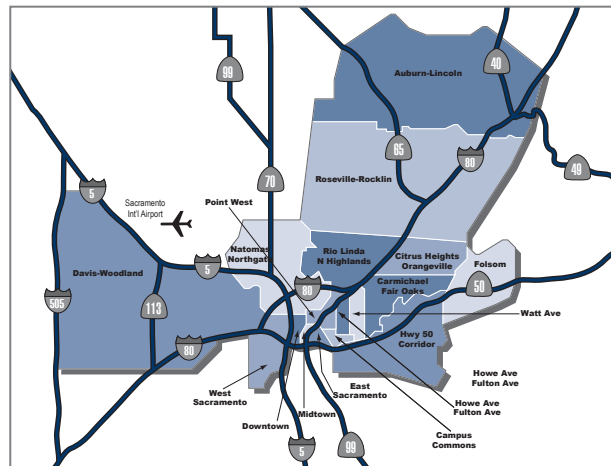
Property Address	Submarket	Square Feet	Sale Price Per SF	Buyer	Seller
County Club Plaza 2300–2450 Watt Ave.	Arden/Watt/Howe	700,000	\$28.57	EDM Realty Corporation	CCP Capital Partners, LLC
Strawberry Creek Shopping Center 8211 Bruceville Rd. – 5 Properties	South Sacramento	38,032	\$326.59	Pacific Castle, Inc.	Redus Properties, Inc.
8457–8465 Elk Grove Florin Rd. – 2 Properties	South Sacramento	47,871	\$219.34	Kimco Realty Corporation	Morrison Street Capital, LLC
Merryhill Preschool 2855 Karitsa Ave.	Natomas	10,664	\$448.00	Daniel & Judith Van Elderen Trust	RMJ, LLC
Prestige Preschool Academy 1800 Eureka Rd.	Roseville/Rocklin	7,476	\$467.67	Armer & Armer Investments GP	Red Mountain Retail Group, Inc.

Lease Transactions

Property Name/Address	Submarket	Square Feet	Transaction Date	Tenant	Owner
Southgate Plaza 4420-4518 Florin Rd.	South Sacramento	50,465	Jun-14	Walmart Neighborhood Market	Ares Commercial Real Estate
Rivergate Shopping Center 2344 Sunrise Blvd.	Highway 50 Corridor	30,112	Apr-14	Smart & Final	Ethan Conrad Properties
7241 Fair Oaks Blvd.	Carmichael	25,375	May-14	Smart & Final	MNG Real Estate Investments, LLC
Rivergate Shopping Center 2344 Sunrise Blvd.	Highway 50 Corridor	15,523	Apr-14	Pet Club Food & Surplus	Ethan Conrad Properties
Point West Plaza 1874–1892 Arden Way	Arden/Watt/Howe	10,343	Apr-14	David’s Bridal	Sansome Pacific Properties, Inc.

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