

SECOND QUARTER 2015

SACRAMENTO

RETAIL

MARKET CHANGE

Compared to Previous Quarter:

Vacancy

DOWN



Net Absorption

POSITIVE



Lease Rates

UP



Transactions

DOWN



Deliveries

UP



HIGHLIGHTS

- Market Status** - The Sacramento retail market concluded the second quarter of 2015 with positive figures as an improving local economy has increased leasing, which has pushed vacancies down significantly. Vacancy and availability both dropped compared to the previous quarter, with vacancy posting the lowest rate since 2008. As fundamentals continue to improve, rent growth is also expected throughout 2015.
- Construction** - At the close of the second quarter of 2015, there was a total of 547,543 square feet of retail space under construction in the Sacramento region. There are still, however, 11.5 million square feet of proposed retail space for the Sacramento market.
- Vacancy** - The overall vacancy rate ended the quarter at 8.20%, a decrease of 28 basis points from the previous quarter and 88 basis points from the previous year. This is the lowest vacancy rate seen since the fourth quarter of 2008. Within the major submarkets, the Benicia, West Sacramento and Downtown submarkets performed best with rates of 3.06%, 3.95% and 4.25%, respectively. The Highway 50 Corridor and Yuba submarkets, on the other hand, had the highest vacancy rates at 14.05% and 27.37%, respectively.
- Availability** - The percentage of all space being marketed was 9.55% in the second quarter, a decrease of 27 basis points from the previous quarter and 74 basis points lower than the availability rate seen one year ago. Within the major submarkets, the Benicia and Davis submarkets remained strong at 3.55%, 4.96%, respectively, while the Yuba submarket came in with the highest availability rate at 27.66%.
- Lease Rates** - The average asking triple-net lease rate in the Sacramento retail market was \$1.36 per square foot per month in the second quarter of 2015, which is an increase of two cents in comparison to the previous quarter. Of the major submarkets, the highest average asking rates were in the Outer Sutter and Natomas submarkets at \$2.05 and \$1.95 per square foot per month, while the lowest asking rates were in the Lincoln submarket at \$1.00 per square foot per month.
- Absorption** - The Sacramento retail market posted 630,952 square feet of positive net absorption for the second quarter of 2015, marking the 21st consecutive quarter of positive net absorption for a total of just over 6.7 million square feet.
- Transaction Activity** - Sale and lease transaction volume totaled over 1.5 million square feet in the quarter. This statistic can have some lag time in being reported, so look for this quarter's figures to end up somewhat higher in the next report. Details of the largest transactions for the quarter can be found on the back page of this report.
- Employment** - The unemployment rate in the Sacramento-Arden Arcade-Roseville MSA was 5.7% in May 2015, up from a revised 5.5% in April 2015, but still below the year-ago estimate of 6.8%. This compares with an unadjusted unemployment rate of 6.2% for California and 5.3% 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 22,900 payroll jobs from May 2014 to May 2015. While most sectors showed gains in employment, the largest gains were 6,200 jobs in leisure and hospitality, 4,600 jobs in trade, transportation and utilities, and 3,300 jobs in education and health services during that same time period.
- Overall** - The Sacramento retail market has proven to be one of the best performing and most stable sectors in the Sacramento region. As demand continues to increase, vacancy rates will continue to trend downward. With retail employment growing over the past two years and minimal recent supply additions to the market, rental rates are expected to increase throughout 2015 as well. These statistics bode well for the retail market going forward.

FORECAST

- Construction** - With 548,000 square feet of retail space under construction at the close of the second quarter of 2015 and 11.5 million square feet of proposed retail space, construction is likely to increase throughout 2015. Look for development to be on the rise in the next couple of years, but remain below historical levels.
- Employment** - We anticipate job growth of around 2.6% or 23,000 jobs in the Sacramento area throughout 2015. Expect growth in professional & business services, educational services, health care, social assistance, leisure & hospitality, and retail trade sectors.
- Lease Rates** - Expect average asking lease rates to increase by 1% to 3% over the next four quarters.
- Vacancy** - We anticipate the vacancy rate continuing to descend in coming quarters to approximately 7.6% by the end of the first quarter of 2016.

OVERVIEW

	2Q15	1Q15	2Q14	% of Change vs. 2Q14
Total Vacancy Rate	8.20%	8.48%	9.08%	(9.69%)
Availability Rate	9.55%	9.82%	10.29%	(7.19%)
Average Asking Lease Rate	\$1.36	\$1.34	\$1.32	3.03%
Sale & Lease Transactions	1,535,148	2,669,544	2,390,074	(35.77%)
Gross Absorption	1,368,632	866,606	1,092,747	25.25%
Net Absorption	630,952	335,011	260,484	N/A

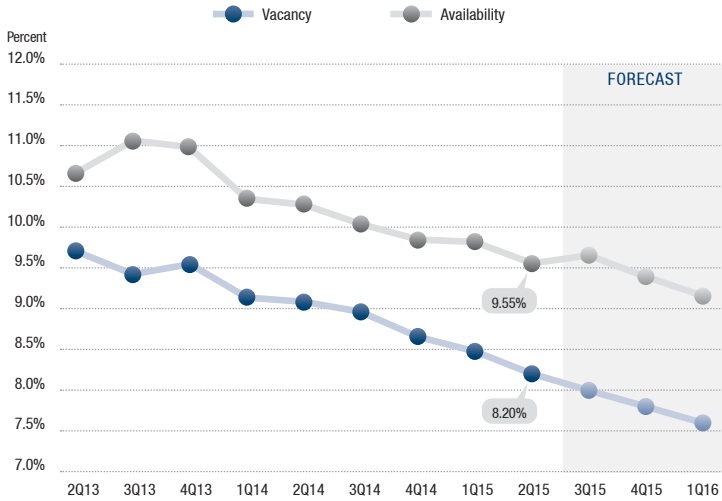
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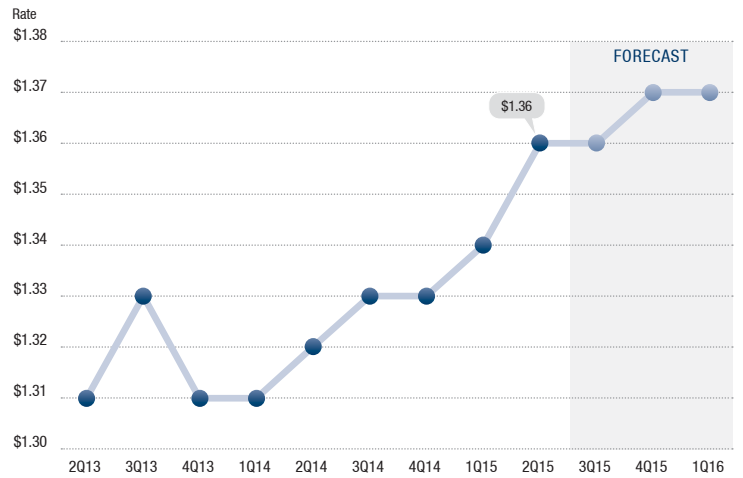
VACANCY & AVAILABILITY RATE

VACANCY – UNOCCUPIED SPACE | AVAILABILITY – ALL SPACE BEING MARKETED



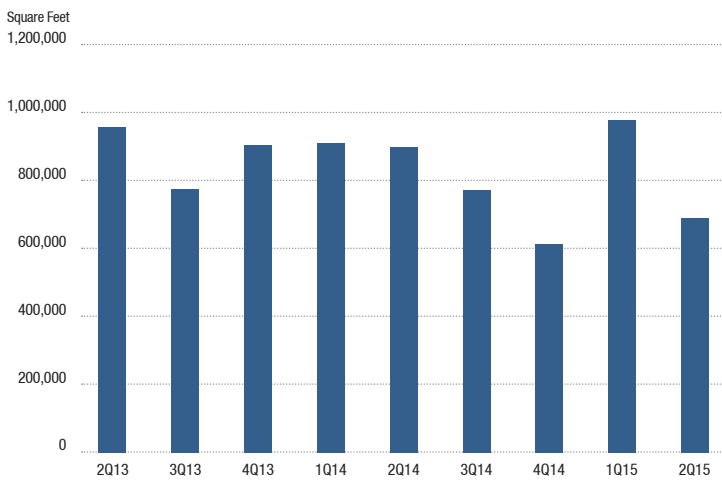
AVERAGE ASKING TRIPLE-NET LEASE RATE

MONTHLY OCCUPANCY COST ON A PER SQ. FT. BASIS



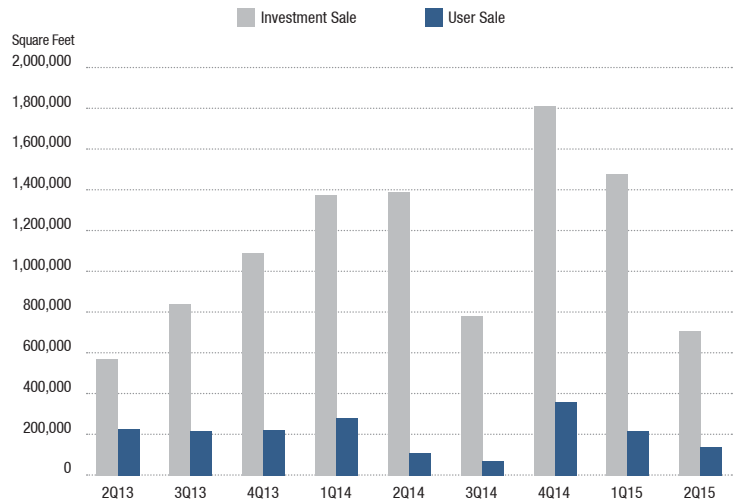
LEASE TRANSACTIONS

TOTAL AMOUNT OF SPACE THAT LEASED IN A QUARTER



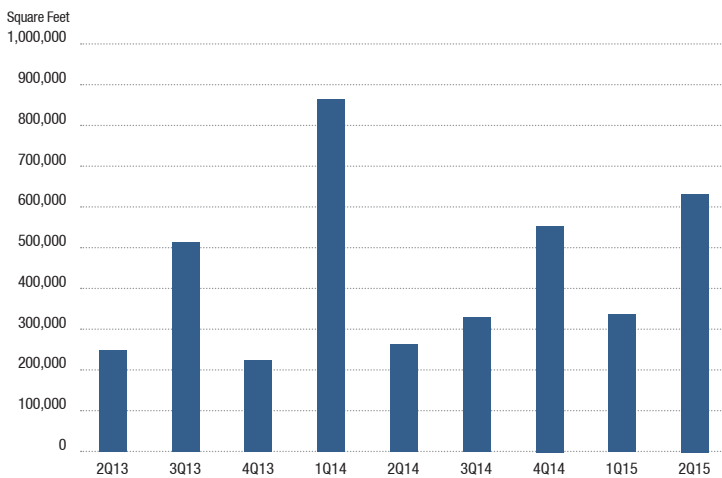
SALES TRANSACTIONS

TOTAL AMOUNT OF SPACE THAT SOLD IN A QUARTER

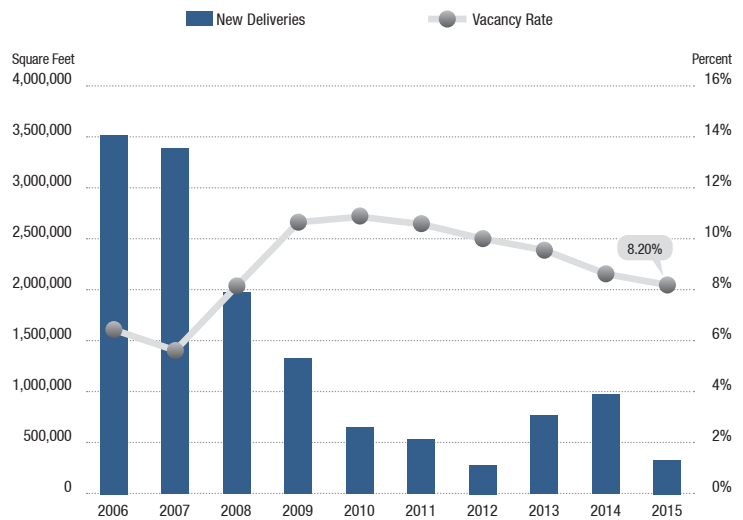


NET ABSORPTION

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 2Q2015	Square Feet Available	Availability Rate 2Q2015	Average Asking Lease Rate	Net Absorption 2Q2015	Net Absorption 2015	Gross Absorption 2Q2015	Gross Absorption 2015
Sacramento Market													
Arden/Watt/Howe	957	11,216,056	0	191,712	1,067,130	9.51%	1,281,958	11.43%	\$1.32	12,871	23,465	116,992	218,341
Auburn/Loomis	354	3,260,197	167,970	543,132	178,880	5.49%	202,969	6.23%	\$1.27	7,401	376	33,020	38,907
Benicia	132	828,801	0	0	25,389	3.06%	29,395	3.55%	\$1.24	1,040	300	2,120	2,120
Carmichael	289	2,852,130	0	32,270	297,915	10.45%	365,275	12.81%	\$1.22	(16,021)	(19,348)	11,541	36,475
Davis	192	2,185,299	0	6,450	100,758	4.61%	108,390	4.96%	\$1.72	(11,060)	(21,777)	8,177	18,816
Downtown/Midtown/E Sac	840	6,025,275	292,742	1,599,730	256,236	4.25%	364,238	6.05%	\$1.69	28,897	46,444	43,047	94,921
El Dorado	340	3,995,020	0	312,167	276,899	6.93%	323,650	8.10%	\$1.56	(9,205)	(17,958)	16,864	24,754
Elk Grove	335	5,543,888	0	2,031,627	314,809	5.68%	334,793	6.04%	\$1.50	38,338	53,275	57,173	87,010
Fairfield	445	6,774,499	0	500,800	405,978	5.99%	426,377	6.29%	\$1.71	78,722	85,711	98,282	118,797
Folsom	293	5,630,950	33,026	161,224	422,791	7.51%	396,339	7.04%	\$1.80	16,760	20,129	49,719	64,032
Highway 50 Corridor	357	5,202,385	0	812,686	730,757	14.05%	877,965	16.88%	\$1.03	16,618	53,996	53,996	103,866
Lincoln	167	1,619,029	0	97,268	131,302	8.11%	169,385	10.46%	\$1.00	13,509	25,680	14,344	33,165
Natomas	261	4,170,532	0	252,320	288,947	6.93%	314,034	7.53%	\$1.95	11,691	(1,104)	20,043	32,867
Orangevale/Citrus Hts	557	7,990,813	3,100	230,793	846,469	10.59%	1,015,146	12.70%	\$1.31	10,682	74,581	52,296	152,189
Outer El Dorado	295	2,554,240	0	10,000	168,487	6.60%	196,747	7.70%	\$1.61	(2,679)	(20,133)	9,996	11,498
Outer Placer	171	1,309,842	0	0	57,738	4.41%	81,023	6.19%	\$1.82	(2,500)	(6,787)	3,546	10,686
Outer Sacramento	136	1,136,688	0	154,350	51,817	4.56%	57,549	5.06%	\$1.54	0	8,616	0	8,616
Outer Sutter	324	4,264,765	12,850	300,095	300,852	7.05%	344,095	8.07%	\$2.05	4,990	6,374	45,714	83,462
Outer Yolo	53	328,913	0	46,920	2,920	0.89%	8,660	2.63%	\$1.55	9,643	9,643	9,643	9,643
Rio Linda/North Highlands	431	5,252,513	4,200	258,650	630,323	12.00%	634,865	12.09%	\$1.01	143,149	147,091	182,204	204,074
Roseville/Rocklin	883	14,592,621	5,000	794,678	1,064,442	7.29%	1,168,710	8.01%	\$1.37	195,421	234,920	258,103	360,255
South Sacramento	1,122	12,414,129	0	1,890,842	1,220,012	9.83%	1,423,529	11.47%	\$1.28	105,704	189,825	169,800	273,364
Vacaville	540	7,264,750	28,655	521,387	437,300	6.02%	600,252	8.26%	\$1.39	10,608	(9,720)	39,254	54,460
Vallejo	692	6,140,153	0	169,374	404,725	6.59%	639,720	10.42%	\$1.31	(5,937)	(2,232)	29,486	51,291
West Sacramento	180	2,386,038	0	24,500	94,297	3.95%	121,072	5.07%	\$1.37	(460)	5,551	7,592	15,522
Woodland	266	3,501,970	0	140,343	317,864	9.08%	369,458	10.55%	\$1.11	(16,713)	23,531	20,250	72,818
Yuba	222	2,286,588	0	425,878	625,764	27.37%	632,524	27.66%	\$1.12	(10,517)	51,369	15,430	82,316
Sacramento Market Total	10,834	130,728,084	547,543	11,509,196	10,720,801	8.20%	12,488,118	9.55%	\$1.36	630,952	961,818	1,368,632	2,264,265
Malls													
Malls	85	5,099,915	312,886	169,553	344,922	6.76%	337,443	6.62%	\$3.34	(8,735)	30,970	9,773	51,377
Power Centers													
Power Centers	357	12,785,868	40,105	1,109,540	647,352	5.06%	744,876	5.83%	\$1.48	34,166	103,504	58,433	166,311
Shopping Centers													
Shopping Centers	3,070	55,839,059	172,170	3,768,867	6,251,105	11.19%	7,085,774	12.69%	\$1.35	239,990	285,928	669,179	1,024,305
Specialty Centers													
Specialty Centers	49	1,868,482	0	7,000	191,781	10.26%	107,442	5.75%	\$1.51	1,200	(9,273)	1,200	1,200
General Retail													
General Retail	7,273	55,134,760	22,382	6,454,236	3,285,641	5.96%	4,212,583	7.64%	\$1.17	364,331	550,689	630,047	1,021,072
Sacramento Market Total	10,834	130,728,084	547,543	11,509,196	10,720,801	8.20%	12,488,118	9.55%	\$1.36	630,952	961,818	1,368,632	2,264,265

Lease rates are on a triple-net basis.

MAJOR TRANSACTIONS

Sales Transactions

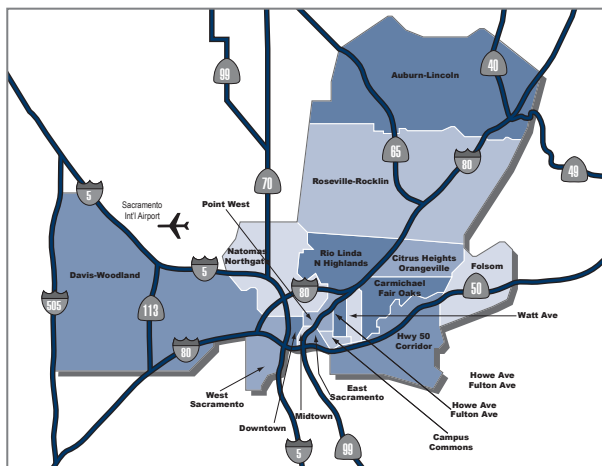
Property Address	Submarket	Square Feet	Sale Price Per SF	Buyer	Seller
Auburn Village – 2 Properties	Auburn	133,950	\$233.67	Epic Real Estate Partners, LLC	Regency Centers Corporation
Florin Plaza 7205 Freepoint Blvd.	South Sacramento	27,870	\$359.71	Pero & MaryAnn Margaritic 2001 Revocable Trust	Pacific Urban Residential
River Oaks Shopping Center 3860 Florin Rd.	South Sacramento	67,750	\$140.22	Bower Properties, LLC	Ben Ennis
Village Grove Shopping Center 8400 Elk Grove Florin Rd.	South Sacramento	14,905	\$389.13	Joel Gambord	Rich Saliture
Nut Tree Shopping Center 1630 E. Monte Vista Ave.	Vacaville	8,065	\$709.92	Pero Margaretic	Capretta Properties, Inc.

Lease Transactions

Property Name / Address	Submarket	Square Feet	Transaction Date	Tenant	Owner
Mills Chopping Center 10301-10395 Folsom Blvd.	Highway 50 Corridor	33,000	Jun-2015	Viva Supermarkets	ROIC CA Notes II, LLC
OSH/Rite Aid Center 6124 San Juan Ave.	Orangevale/Citrus Heights	25,581	May-2015	99 Cents Only Stores	Red Mountain Retail Group, Inc.
Petco/Office Depot/ OSH Center 875 E. Bidwell St. – Renewal	Folsom	25,170	Apr-2015	Office Depot	Richard V McKinley Family Trust
Wal-Mart Central Shopping Center 1002-1018 Riley St.	Folsom	23,560	May-2015	99 Cents Only Stores	Hill Companies, LLC
Laguna 99 Shopping Center 8451–8469 Elk Grove Blvd.	Elk Grove	22,000	Apr-2015	California Backyard	Phillips Edison Grocery Center REIT II, Inc.

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