



## Retail Market Report

Compared to the Previous Quarter:

Vacancy

DOWN

Net Absorption

POSITIVE

Lease Rates

UP

Transactions

FLAT

Deliveries

UP

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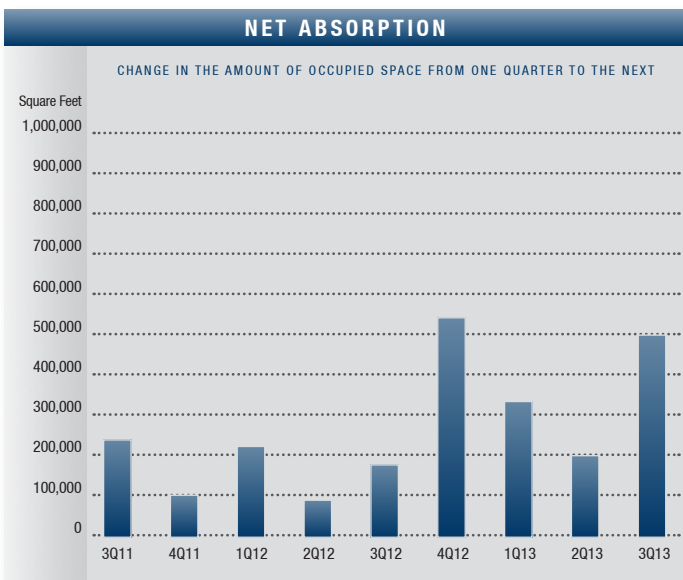
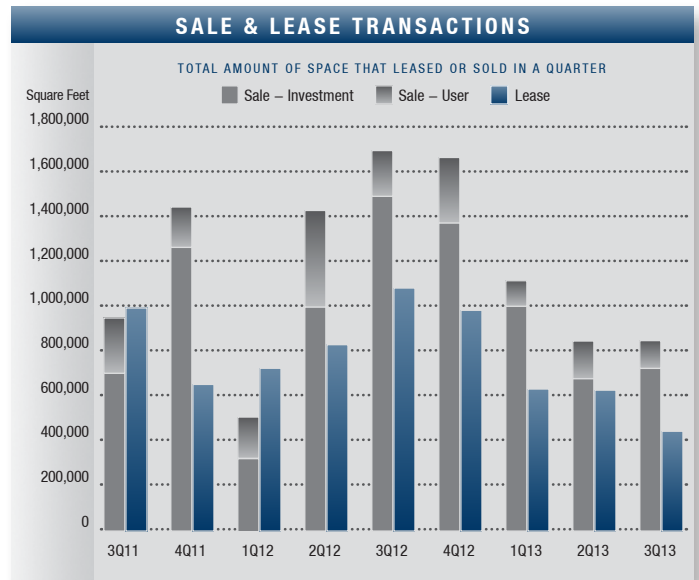
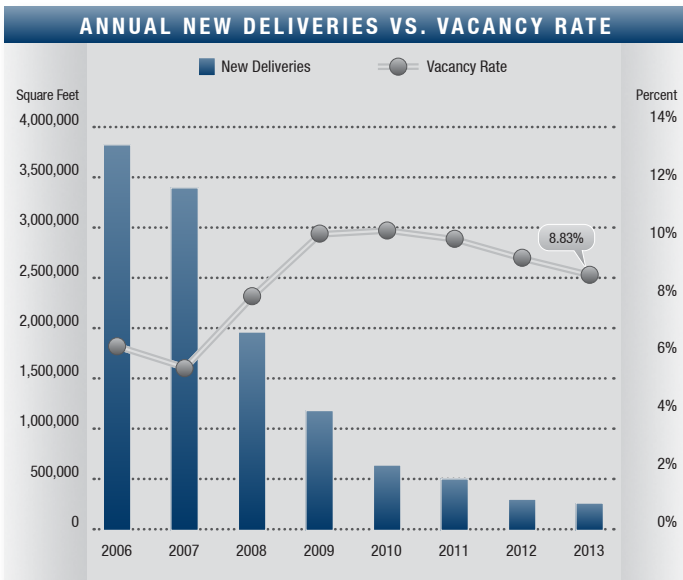
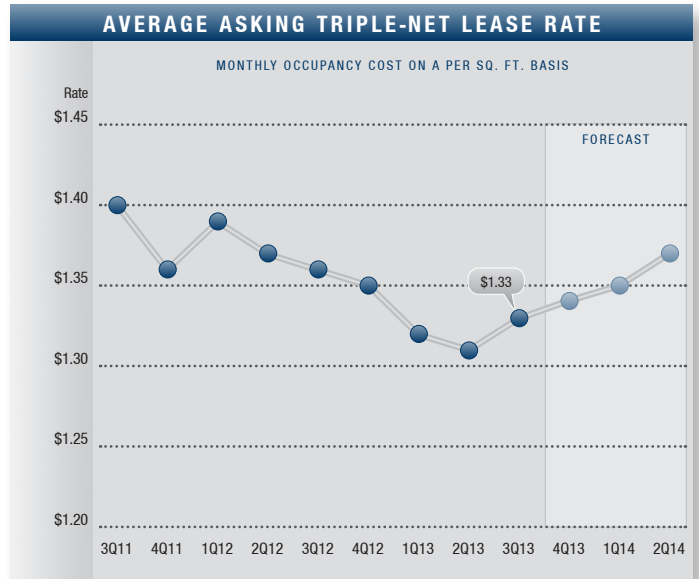
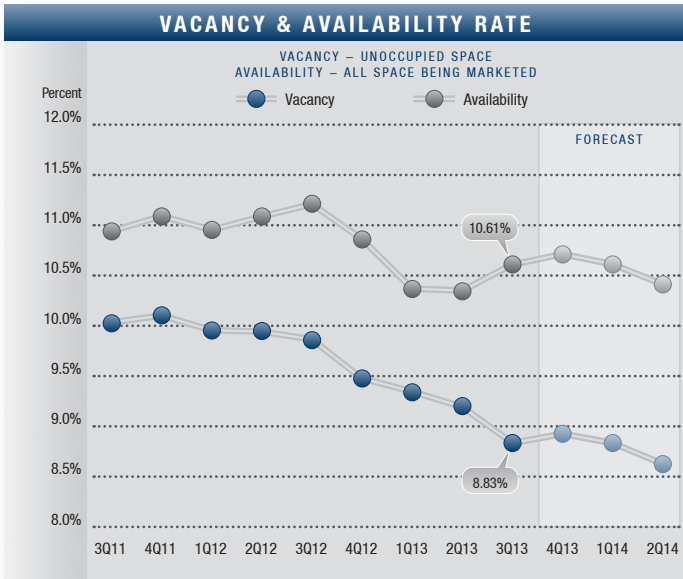
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### Market Highlights

- Market Status** - Sacramento's retail market continued its recovery during the third quarter of 2013. Vacancy dropped into the 8% range and net absorption posted almost 500,000 square feet of positive space. While these are good indications, job growth and housing stability will need to continue to improve in coming quarters for the market to fully recover.
- Construction** - There were five retail buildings, totaling 64,571 square feet, delivered during the third quarter of 2013, in addition to the 188,817 square feet delivered in the first half of the year. There was also 774,998 square feet under construction at the close of the quarter, which is exponentially more than the market has seen in the past few years. Although more supply will flatten out the vacancy rate drops and net absorption, this market has enough demand to absorb this space at a normal rate.
- Vacancy** - The overall vacancy rate decreased to 8.83%, a drop of 37 basis points from the previous quarter, marking the seventh consecutive quarter of decreases in vacancy. Within the major submarkets, the Downtown/Midtown/East Sacramento submarket performed best with a rate of 5.73%, while the Highway 50 Corridor had the highest vacancy rate at 14.61%.
- Availability** - The percentage of all space being marketed was 10.61% in the third quarter, an increase of 27 basis points from the previous quarter. Within the major submarkets, the Auburn/Loomis and Elk Grove submarkets remained strong at 7.41% and 7.87%, while the Highway 50 Corridor submarket came in high at 20.96%.
- Lease Rates** - The average asking triple-net lease rate in the Sacramento retail market was \$1.33 per square foot per month in the third quarter of 2013 — an increase of two cents from the previous quarter and the first increase seen since the first quarter of 2012. The region's highest average asking rates were in the Lincoln submarket at \$1.87, while the region's lowest asking rates were found in the Yuba submarket at \$0.85. We are forecasting that lease rates will continue to rise through the remainder of 2013 and into 2014.
- Absorption** - The Sacramento retail market posted 495,268 square feet of positive net absorption for the third quarter, giving the market 14 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 and strip centers and the emergence of some new community and power centers.
- Transaction Activity** - Sale and lease transaction volume totaled about 1.27 million square feet in the third 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 third 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 8.5% in August 2013, down from a revised 8.9% in July 2013 and below the year-ago estimate of 10.4%. This compares with an unadjusted unemployment rate of 8.8% for California and 7.3% 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 1,800 payroll jobs from July 2013 to August 2013. The largest gains were 600 jobs in manufacturing and 500 jobs in farming. The government also picked up 300 jobs.
- Overall** - We anticipate vacancy will maintain its downward momentum over the next year until the square footage in the construction pipeline is delivered. At that point, it should flatten out, which is not always a bad thing. With retail employment growing over the past two years and minimal recent supply additions to the market, rental rates should continue to increase. Although the housing market is on the mend, this metro is still reeling from the effects of the recession. 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.

### RETAIL MARKET OVERVIEW

	3Q13	2Q13	3Q12	% of Change vs. 3Q12
Total Vacancy Rate	8.83%	9.20%	9.85%	(10.36%)
Availability Rate	10.61%	10.34%	11.21%	(5.35%)
Average Asking Lease Rate	\$1.33	\$1.31	\$1.36	(2.21%)
Sale & Lease Transactions	1,270,100	1,455,712	2,755,787	(53.91%)
Gross Absorption	1,382,611	1,115,217	1,106,126	25.00%
Net Absorption	495,268	192,102	172,324	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 3Q2013	Square Feet Available	Availability Rate 3Q2013	Average Asking Lease Rate	Net Absorption 3Q2013	Net Absorption 2013	Gross Absorption 3Q2013	Gross Absorption 2013
<b>Sacramento Market</b>													
Arden/Watt/Howe	936	11,086,829	134,160	66,672	967,384	8.73%	1,149,152	10.37%	\$1.33	61,743	103,170	173,061	349,052
Auburn/Loomis	338	3,032,137	185,667	342,427	198,759	6.56%	224,538	7.41%	\$1.47	1,230	28,748	10,300	70,699
Benicia	132	846,103	0	0	24,869	2.94%	34,154	4.04%	\$1.14	4,499	1,363	5,399	11,735
Carmichael	273	2,791,960	0	15,000	328,486	11.77%	361,826	12.96%	\$1.17	1,118	9,606	24,777	76,326
Davis	179	2,090,395	65,346	108,150	77,995	3.73%	90,024	4.31%	\$1.66	27,947	14,291	33,710	56,993
Downtown/Midtown/E Sac	834	5,990,307	38,577	1,396,762	343,500	5.73%	649,682	10.85%	\$1.56	5,370	12,325	35,826	127,188
El Dorado	320	3,909,317	0	107,835	323,674	8.28%	342,681	8.77%	\$1.59	16,805	(27,122)	28,572	106,654
Elk Grove	320	5,574,227	0	2,660,422	413,578	7.42%	438,478	7.87%	\$1.52	38,648	255,874	61,616	418,990
Fairfield	424	6,879,463	5,526	521,962	358,515	5.21%	556,092	8.08%	\$1.39	(16,132)	10,203	28,772	104,212
Folsom	291	5,610,874	0	137,754	541,647	9.65%	566,478	10.10%	\$1.71	2,093	49,814	21,483	118,069
Highway 50 Corridor	345	5,074,999	0	781,971	741,241	14.61%	1,063,636	20.96%	\$1.12	(8,180)	182,186	29,838	274,390
Lincoln	172	1,608,937	0	0	128,915	8.01%	141,657	8.80%	\$1.87	12,993	(486)	12,993	21,174
Natomas	258	4,140,234	0	70,570	313,457	7.57%	337,080	8.14%	\$1.75	130,053	145,549	169,476	227,960
Orangevale/Citrus Hts	539	7,907,275	21,000	232,003	955,420	12.08%	1,131,203	14.31%	\$1.39	45,138	65,717	72,219	182,997
Outer El Dorado	276	2,472,411	3,009	0	138,495	5.60%	179,495	7.26%	\$1.39	247	(6,178)	23,431	50,270
Outer Placer	159	1,450,496	0	12,600	56,951	3.93%	93,124	6.42%	\$1.62	(15,120)	(9,117)	0	7,630
Outer Sacramento	134	965,891	0	34,800	76,281	7.90%	86,781	8.98%	\$1.33	(5,550)	(9,145)	450	11,410
Outer Sutter	290	4,092,797	35,000	389,702	264,875	6.47%	318,722	7.79%	\$1.32	(21,470)	(18,681)	9,055	53,494
Outer Yolo	43	261,102	0	46,920	12,063	4.62%	15,063	5.77%	\$1.60	(8,400)	(5,705)	1,600	4,295
Rio Linda/North Highlands	428	5,197,845	0	90,190	635,678	12.23%	662,059	12.74%	\$0.95	537	5,106	23,197	74,414
Roseville/Rocklin	861	14,138,164	137,000	460,846	1,426,086	10.09%	1,590,024	11.25%	\$1.41	66,052	52,147	105,256	386,662
South Sacramento	1,085	12,085,806	6,500	1,043,710	1,449,847	12.00%	1,642,988	13.59%	\$1.28	(7,831)	10,543	209,888	436,268
Vacaville	525	7,048,513	143,213	80,993	444,232	6.30%	566,165	8.03%	\$1.17	43,496	67,894	96,762	203,087
Vallejo	689	6,139,944	0	21,180	453,378	7.38%	623,993	10.16%	\$1.24	37,511	28,178	101,800	155,315
West Sacramento	178	2,393,332	0	24,500	107,803	4.50%	129,503	5.41%	\$1.59	21,482	39,096	23,079	50,572
Woodland	261	3,438,049	0	154,159	379,819	11.05%	419,824	12.21%	\$0.98	61,768	46,315	65,990	109,156
Yuba	191	2,087,504	0	491,640	168,705	8.08%	195,949	9.39%	\$0.85	(779)	6,483	14,061	52,922
<b>Sacramento Market Total</b>	<b>10,481</b>	<b>128,314,911</b>	<b>774,998</b>	<b>9,292,768</b>	<b>11,331,653</b>	<b>8.83%</b>	<b>13,610,371</b>	<b>10.61%</b>	<b>\$1.33</b>	<b>495,268</b>	<b>1,058,174</b>	<b>1,382,611</b>	<b>3,741,934</b>

Malls	83	7,542,966	21,000	1,200,500	481,699	6.39%	689,113	9.14%	\$0.89	79,412	70,891	99,441	114,736
Power Centers	333	12,140,790	109,497	1,663,405	830,048	6.84%	945,684	7.79%	\$1.96	248,364	300,777	265,978	441,961
Community Centers	536	14,646,690	409,827	1,566,007	1,488,409	10.16%	1,613,389	11.02%	\$1.60	24,723	80,683	213,676	526,830
Neighborhood Centers	1,372	29,103,798	0	1,681,173	3,490,262	11.99%	4,060,991	13.95%	\$1.34	192,334	301,154	347,759	885,533
Strip Centers	1,048	10,662,110	0	244,174	1,700,766	15.95%	1,857,459	17.42%	\$1.20	7,692	340	135,926	475,127
Specialty Centers	109	3,389,584	0	87,278	381,932	11.27%	531,872	15.69%	\$1.81	(2,499)	(5,732)	13,663	56,590
General Retail	7,000	50,828,973	234,674	2,850,231	2,958,537	5.82%	3,911,863	7.70%	\$1.14	(54,758)	310,061	306,168	1,241,157
<b>Sacramento Market Total</b>	<b>10,481</b>	<b>128,314,911</b>	<b>774,998</b>	<b>9,292,768</b>	<b>11,331,653</b>	<b>8.83%</b>	<b>13,610,371</b>	<b>10.61%</b>	<b>\$1.33</b>	<b>495,268</b>	<b>1,058,174</b>	<b>1,382,611</b>	<b>3,741,934</b>

Lease rates are on a triple-net basis.

RECENT TRANSACTIONS

Sale Transactions

Property Address	Submarket	Square Feet	Sale Price Per SF	Buyer	Seller
Five Points Center 5100-5160 Arden Way	Arden / Watt / Howe	50,410	\$244.99	McIntyre Trust	LaeRoc Partners, Inc.
Sunset Shopping Center 100-108 Sunset Ave.	Fairfield	98,279	\$124.65	Hall Equities Group	Weingarten Realty Investors
Walgreens 8275 Bruceville Rd.	South Sacramento	14,820	\$664.64	Bridgejoin, LLC	Supergreen, LLC
1001 Admiral Callaghan Ln.	Vallejo	27,500	\$152.73	Momentum Realty Group	Wilson Family Trust
Five Star Plaza 6850 Five Star Blvd.	Roseville / Rocklin	133,450	\$28.77	Philips International	CWC Capital Asset Management, LLC

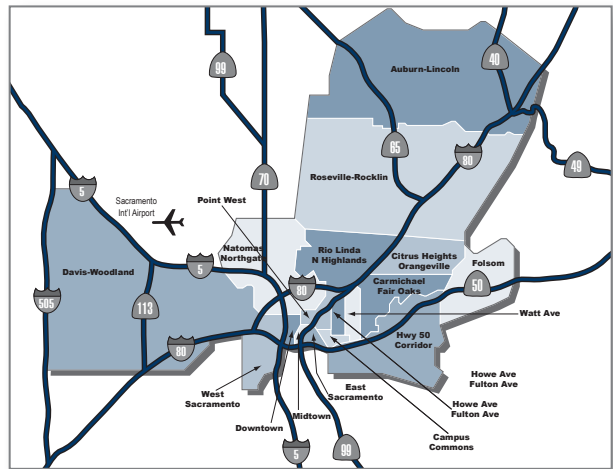
New / Coming to the Region

Property Address	Tenant	Tenant Type	Submarket	Projected Opening	Owner
The Plaza** 1760 Grass Valley Hwy.	Best Buy	Electronics	Auburn / Loomis	Spring 2014	Magnussen Dealership Group
Roseville Square** 424 Harding Blvd.	Grocery Outlet	Grocery Store	Roseville / Rocklin	Summer 2013	Sunflower Farmers Market (Sublessor)
Fairway Commons 10261 Fairway Dr.	99c Only	Discount Store	Roseville / Rocklin	Winter 2013	Ethan Conrad Properties
Settler's Village 1920 Highway 65	Dollar General	Discount Store	Yuba County	Winter 2013	Settler's Village Center, LLC
Madison Marketplace** 8848 Madison Ave.	V3 CrossFit	Fitness Center	Carmichael	Fall 2013	TA Associates Realty

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