



REAL ESTATE SERVICES

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# Retail Market Report

Compared to 2010:

Vacancy

DOWN

Net Absorption

POSITIVE

Lease Rates

DOWN

Transactions

DOWN

Deliveries

DOWN

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## Market Highlights

- **Market Status** - Sacramento's retail market statistics were very positive in 2011. Vacancy and availability continued their descents, which should contribute to the stabilization and eventual growth of lease rates. Tenants began to sign longer lease commitments. While sales and leasing activity dropped in 2011 compared to 2010, the decline can be attributed to decrease in supply. While these are positive indications, stability and job growth will need to be sustained in coming quarters to be considered recovery.
- **Construction** - The retail market had 24 properties delivered in 2011, totaling 453,204 square feet. In addition, there were 12 properties, totaling 164,024 square feet, under construction during the fourth quarter of 2011 — much of which was at the Palladio at Broadstone in Folsom.
- **Vacancy** - The overall vacancy rate decreased to 9.98%, marking the first drop to below 10% since the second quarter of 2009. Within the major submarkets, Downtown/Midtown/East Sacramento performed best with a rate of only 4.05%, while South Sacramento had the higher vacancy rate of 13.24%.
- **Availability** - The percentage of all direct/sublease space being marketed was 11.10% in the fourth quarter of 2011- 60 basis points lower than 2010. Like with vacancy, Downtown/Midtown/East Sacramento remained strongest, posting the lowest availability rate, while South Sacramento came in as the weakest of all major submarkets, posting the highest availability rate.
- **Lease Rates** - The average asking triple-net lease rate in the Sacramento retail market was \$1.36 per square foot per month in the fourth quarter of 2011 — a decrease of 8.11% from 2010. The region's highest average asking rates were in the Natomas and Lincoln submarkets at \$1.85, while the region's lowest asking rates were found in the Highway 50 corridor and Yuba submarkets at \$1.07

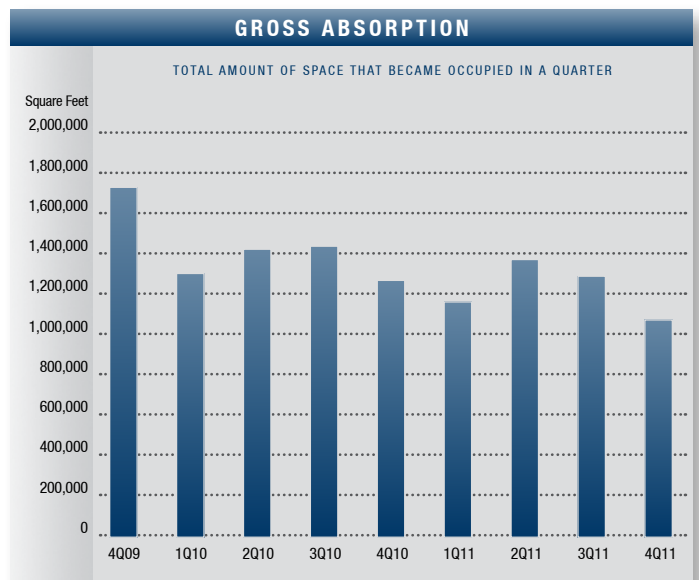
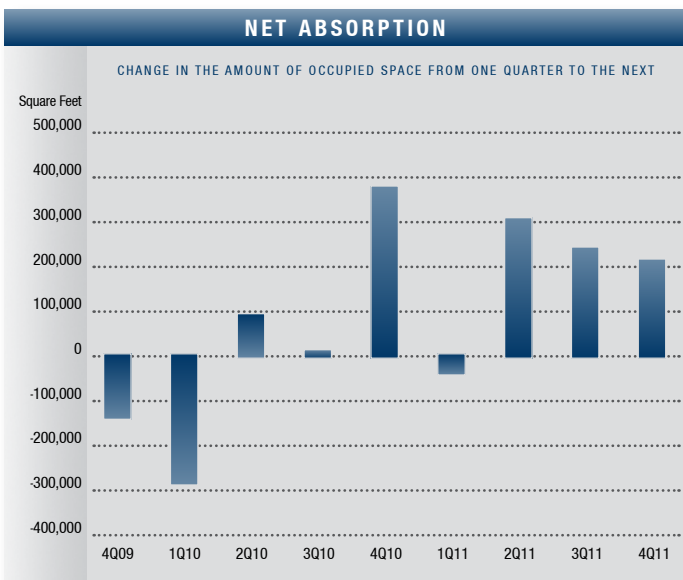
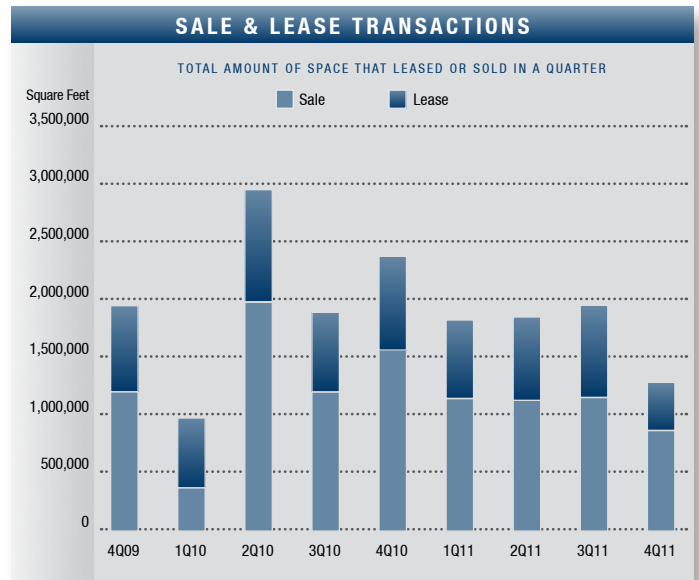
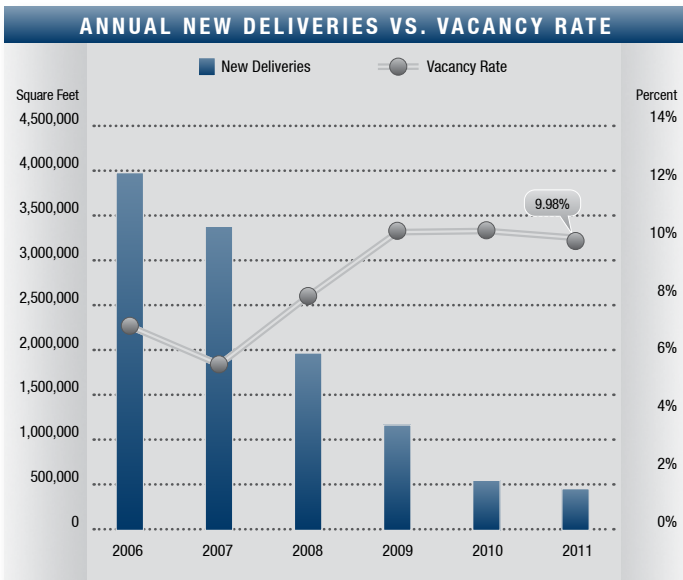
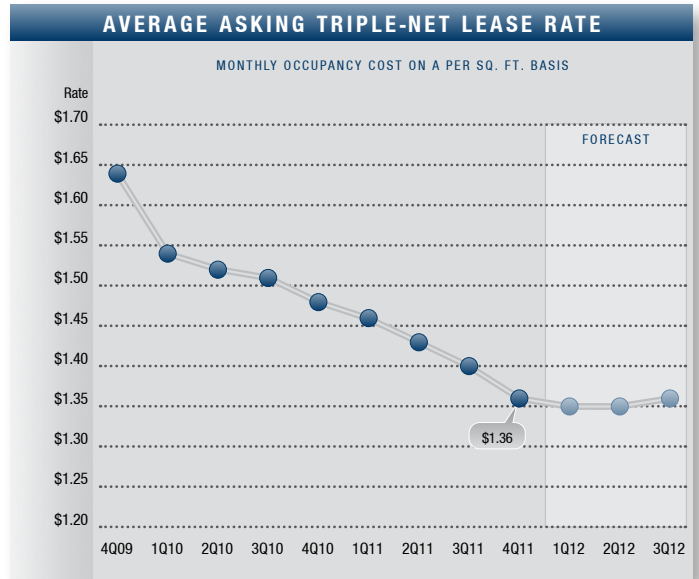
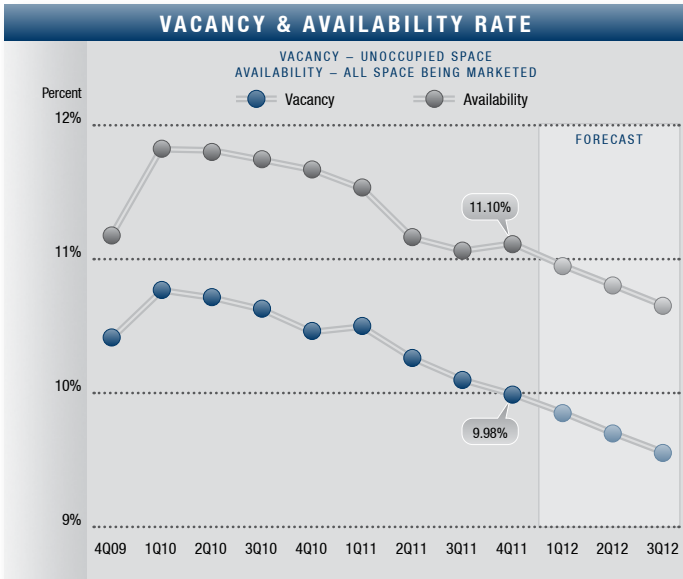
and \$0.85, respectively. We are forecasting that lease rates will rise in the second half of 2012, ending the year at around \$1.37.

- **Absorption** - The Sacramento retail market posted just under 1 million square feet of positive net absorption for 2011, compared to the much smaller but still positive figure of 201,271 square feet seen in 2010. Within the major submarkets, Roseville/Rocklin and South Sacramento both displayed solid positive net absorption figures of 192,396 square feet and 149,280 square feet, respectively, while Vacaville struggled with a negative net absorption of 34,188 square feet.
- **Transaction Activity** - Total square feet leased and sold was down from 2010's 8.15 million square feet to 6.8 million square feet in 2011. Details of the largest transactions for 2011 can be found on the back page of this report.
- **Employment** - The unemployment rate in the Sacramento-Arden-Arcade-Roseville Metropolitan area (MSA) was 10.9% in November 2011, down from a revised 11.4% in October 2011, and below the 2010 estimate of 12.8%. Over 2011, the total wage and salary employment in the region advanced by 7,000 jobs or 0.86%. The largest years gains occurred in Education and Health Services (4,700 jobs), Construction (2,200 jobs), and Financial Activities (1,700 jobs).
- **Overall** - Vacancy will maintain momentum in its downward trend as a result of personal income growth and minimal supply additions that would hamper the recovery. Sacramento has 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 late 2012, and a huge number of store closures. In conclusion, while the retail market still faces challenges, it is the best performing sector, by far, in the commercial real estate market of Sacramento.

## RETAIL MARKET OVERVIEW

	2011	2010	2009	% of Change vs. 2010
Vacancy Rate	9.98%	10.46%	10.42%	(4.59%)
Availability Rate	11.10%	11.67%	11.18%	(4.88%)
Average Asking Lease Rate	\$1.36	\$1.48	\$1.64	(8.11%)
Sale & Lease Transactions	6,818,019	8,152,550	4,968,154	(16.37%)
Gross Absorption	4,858,813	5,404,846	6,846,967	(10.10%)
Net Absorption	987,716	201,271	(1,973,797)	N/A

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	INVENTORY				VACANCY & LEASE RATES					ABSORPTION			
	Number of Bldgs.	Net Rentable Square Feet	Square Feet U / C	Square Feet Planned	Square Feet Vacant	Vacancy Rate 4Q2011	Square Feet Available	Availability Rate 4Q2011	Average Asking Lease Rate	Net Absorption 4Q2011	Net Absorption 2011	Gross Absorption 4Q2011	Gross Absorption 2011
<b>Sacramento Market</b>													
Arden/Watt/Howe	954	11,232,477	0	34,167	1,061,173	9.45%	1,209,840	10.77%	\$1.44	42,848	104,090	90,349	448,254
Auburn/Loomis	320	2,976,581	0	70,377	246,875	8.29%	267,522	8.99%	\$1.32	(17,272)	47,032	3,596	112,132
Benicia	132	841,236	0	0	27,814	3.31%	34,251	4.07%	\$1.21	(2,560)	(2,198)	2,740	15,004
Carmichael	253	2,515,307	0	0	302,255	12.02%	344,823	13.71%	\$1.12	21,892	(13,090)	42,796	124,051
Davis	167	1,978,505	4,800	60,180	189,860	9.60%	174,810	8.84%	\$1.43	(706)	(1,736)	1,987	64,166
Downtown/Midtown/E Sac	855	8,998,546	0	1,438,751	364,613	4.05%	444,008	4.93%	\$1.34	10,628	(30,368)	42,012	190,297
El Dorado	284	3,772,959	4,000	112,679	339,715	9.00%	385,882	10.23%	\$1.74	(30,077)	(10,128)	21,298	112,207
Elk Grove	301	5,346,898	0	2,507,720	490,144	9.17%	506,347	9.47%	\$1.61	9,395	163,843	28,169	294,590
Fairfield	357	6,381,995	0	474,762	360,751	5.65%	496,658	7.78%	\$1.46	(7,203)	89,988	41,664	322,131
Folsom	275	5,624,834	118,752	84,008	698,931	12.43%	724,187	12.87%	\$1.58	125,237	152,051	148,968	334,706
Highway 50	289	4,634,380	5,000	706,745	801,625	17.30%	909,204	19.62%	\$1.07	10,709	54,685	24,657	153,424
Lincoln	176	1,655,999	0	0	217,991	13.16%	182,540	11.02%	\$1.88	8,288	12,226	17,900	55,194
Natomas	249	4,095,228	0	70,570	417,027	10.18%	457,479	11.17%	\$1.85	(9,315)	3,600	10,171	244,091
Orangevale/Citrus Hts	525	7,929,055	3,972	170,206	874,855	11.03%	1,015,289	12.80%	\$1.33	9,855	65,234	42,271	306,036
Outer El Dorado	219	2,195,877	0	0	134,673	6.13%	172,383	7.85%	\$1.57	17,955	38,216	23,902	83,123
Outer Placer	148	1,289,913	0	0	52,971	4.11%	80,639	6.25%	\$1.19	(12,180)	(14,231)	0	7,200
Outer Sacramento	118	880,916	0	44,684	79,946	9.08%	119,744	13.59%	\$1.16	(11,015)	(21,401)	1,160	28,430
Outer Sutter	257	3,977,995	0	320,582	284,237	7.15%	335,726	8.44%	\$1.38	(1,245)	(5,449)	21,133	94,915
Outer Yolo	27	243,207	0	0	0	0.00%	6,200	2.55%	\$0.00	5,000	11,500	5,000	11,500
Rio Linda/North Highlands	423	5,294,769	0	64,290	636,622	12.02%	695,759	13.14%	\$1.13	(27,248)	26,258	44,690	165,756
Roseville/Rocklin	826	13,102,446	0	382,745	1,704,529	13.01%	1,823,131	13.91%	\$1.44	36,754	192,396	168,600	698,962
South Sacramento	940	10,967,855	8,000	967,087	1,452,567	13.24%	1,571,742	14.33%	\$1.36	50,355	149,280	149,541	467,808
Vacaville	517	7,064,856	4,500	76,662	593,088	8.39%	659,552	9.34%	\$1.17	7,758	(34,188)	67,342	184,486
Vallejo	697	6,216,168	0	200,761	534,576	8.60%	604,570	9.73%	\$1.10	(35,793)	(20,450)	36,283	164,409
West Sacramento	172	2,384,913	0	63,747	148,281	6.22%	148,933	6.24%	\$1.79	4,993	14,244	5,993	42,989
Woodland	245	3,471,564	0	187,144	396,695	11.43%	432,896	12.47%	\$1.61	6,198	14,139	9,548	69,406
Yuba	156	1,869,262	0	492,840	253,351	13.55%	283,630	15.17%	\$0.85	5,731	2,173	11,824	63,546
<b>Sacramento Market Total</b>	<b>9,882</b>	<b>126,943,741</b>	<b>149,024</b>	<b>8,530,707</b>	<b>12,665,165</b>	<b>9.98%</b>	<b>14,087,745</b>	<b>11.10%</b>	<b>\$1.36</b>	<b>218,982</b>	<b>987,716</b>	<b>1,063,594</b>	<b>4,858,813</b>

Lease rates are on a triple-net basis.

LARGEST TRANSACTIONS OF 2011

Sale Transactions

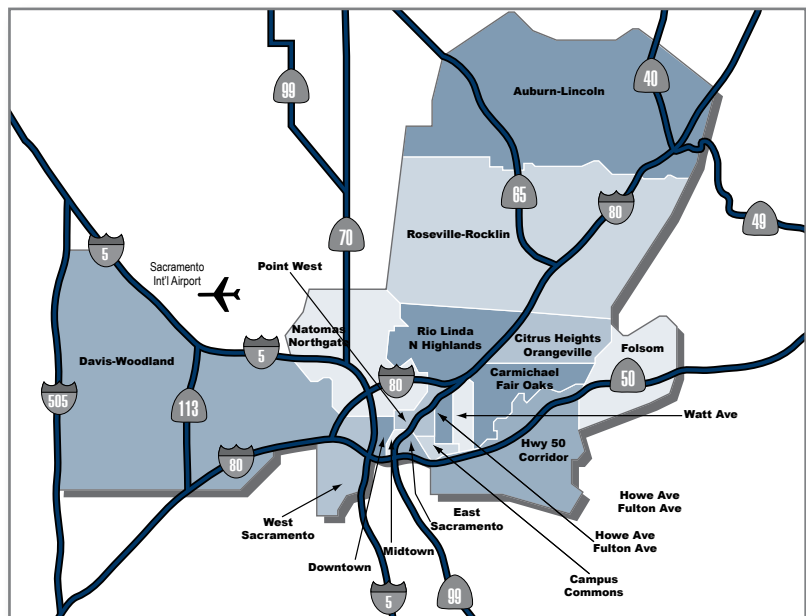
Property Address	Submarket	Square Feet	Sale Price PSF	Buyer	Seller
3671 N. Freeway Blvd.	Vacaville	137,700	\$53.82	David Berndt Interests	Wal-Mart
300 Chadbourne Rd.	Fairfield	125,985	\$46.04	Ken Mattson	Wal-Mart
1919 Fulton Ave.	Arden/Watt/Howe	107,365	\$48.06	Target Corporation	SACTO-TS, LLC
9645 Auto Center Dr.	Elk Grove	65,000	\$89.23	Carlos Hildago	Chrysler Financial Services
1617 Douglas Blvd.	Roseville/Rocklin	39,720	\$55.39	99 Cent Only Stores	McMorgan & Company, LLC

New / Coming to the Region

Property Address	Tenant	Tenant Type	Submarket	Projected Opening	Owner
Alamo Plaza S.C., 848-882 Alamo Dr.	In-Shape Health Club	Gym / Health Club	Vacaville	Spring 2012	Farrokh & Soozan Hosseinyoun
Fairway Commons, 10251 Fairway Dr.	Big Lots	Discount Store	Roseville/Rocklin	Now Open	Kobra Properties
The Palladio at Folsom, 270 Palladio Pkwy., Bldg. 1100	Whole Foods	Specialty Grocer	Folsom	Now Open	Broadstone Land
Placer Center Plaza, 1818 Douglas Blvd	Hobby Lobby	Hobby / Crafts	Roseville/Rocklin	Now Open	Inland Western REIT
Broadstone Crossing, 205 Serpa Way	Green Acres Nursery & Supply	Garden / Plant Nursery	Folsom	Spring 2012	Broadstone Crossing, LLC

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