



Retail Market Report

Compared to 2012:

Vacancy

DOWN

Net Absorption

POSITIVE

Lease Rates

DOWN

Transactions

DOWN

Deliveries

UP

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Market Highlights

- Market Status** - The Sacramento retail market's recovery pumped the brakes a bit in fourth quarter of 2013. Vacancy increased for the first time in the last eight quarters due to some new supply in the market. However, this is normal activity for this stage in the cycle, and the market should respond well in 2014. Job growth and housing stability will need to continue to improve in coming quarters for the market to be able to fully recover.
- Construction** - There were nine retail buildings, totaling 387,471 square feet, delivered during the fourth quarter of 2013, in addition to the 269,388 square feet delivered during the first three quarters of the year. There was also 547,965 square feet under construction at the closing of the year, 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 ended at 9.43%, an increase of 23 basis points from the previous quarter, marking the first rise in vacancy in over two years. However, the vacancy rate was still 42 basis points less than it was one year before. Within the major submarkets, the Auburn/Loomis submarket performed best with a rate of 5.81%, while the Highway 50 Corridor had the highest vacancy rate at 16.14%.
- Availability** - The percentage of all space being marketed was 10.87% in the fourth quarter, a decrease of 19 basis points from the previous quarter. Within the major submarkets, the Auburn/Loomis and Elk Grove submarkets remained strong at 6.59% and 7.23%, respectively, while the Highway 50 Corridor submarket came in high at 20.40%.
- Lease Rates** - The average asking triple-net lease rate in the Sacramento retail market was \$1.31 per square foot per month in the fourth quarter of 2013 — a decrease of two cents from the previous quarter and four cents from 2012. The region's highest average asking rates were in the Lincoln submarket at \$1.92, while the region's lowest asking rates were found in the Yuba submarket at \$0.82. We are forecasting that lease rates will rise gradually during 2014.
- Absorption** - The Sacramento retail market posted 52,860 square feet of positive net absorption for the fourth quarter, giving the market 15 consecutive quarters of positive net absorption. Totaling all of 2013, the market posted 1.12 million square feet of positive net absorption. Look for all of this positive 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 1.02 million square feet in the fourth quarter. Typically, this statistic does have some lag time to post final numbers, so look for the quarter's numbers to end up over 1.3 million square feet. Details of the largest transactions for all of 2013 can be found on the back page of this report.
- Employment** - The unemployment rate in the Sacramento-Arden Arcade-Roseville MSA was 8.0 percent in November 2013, down from a revised 8.1 percent in October 2013, and below the year-ago estimate of 9.6 percent. This compares with an unadjusted unemployment rate of 8.3 percent for California and 6.6 percent for the nation during the same period. The unemployment rate was 7.6 percent in El Dorado County, 7.1 percent in Placer County, 8.1 percent in Sacramento County, and 9.4 percent in Yolo County. According to the State of California Employment Development Department, the Sacramento-Arden Arcade-Roseville MSA saw a net increase of 3,100 payroll jobs from October 2013 to November 2013. The largest gains were 4,500 jobs in trade, transportation, and utilities. The government also picked up 1,100 jobs.
- Overall** - We anticipate vacancy will maintain its downward momentum over the next year, despite its bump here in the fourth quarter, 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 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

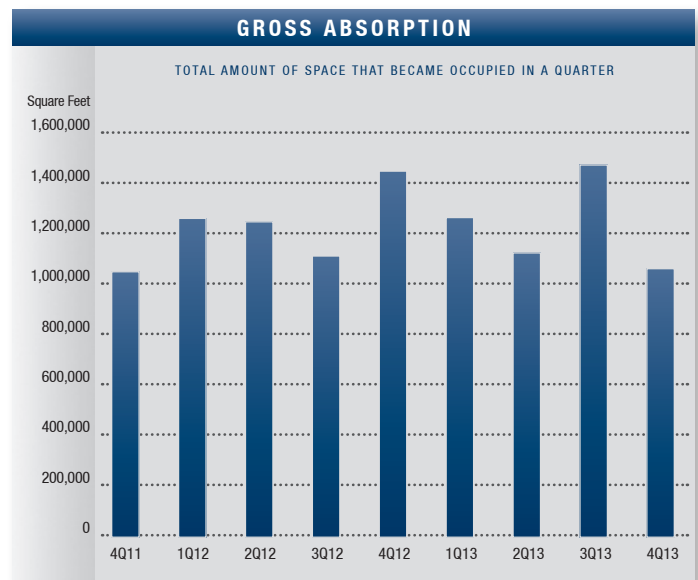
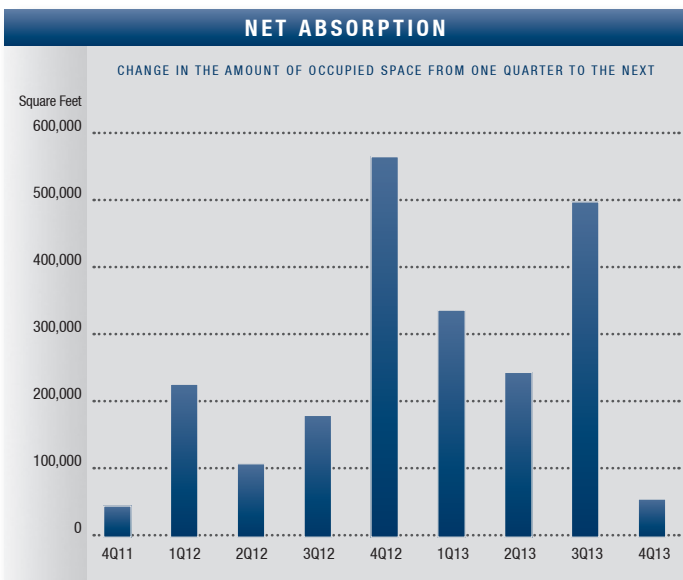
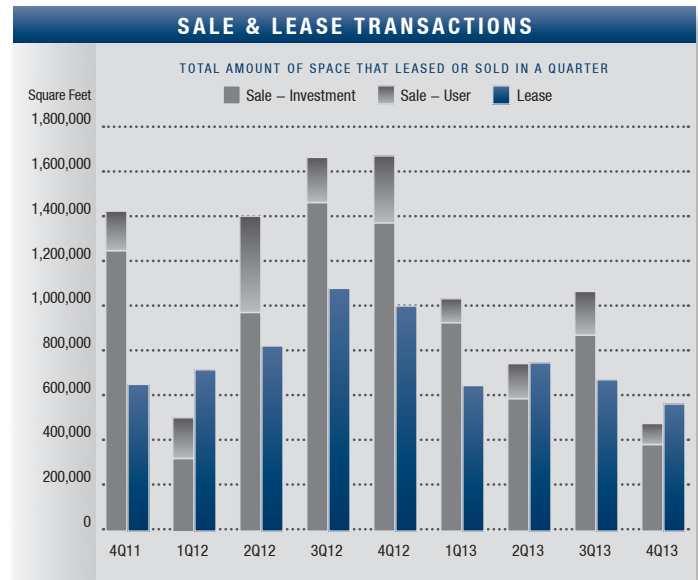
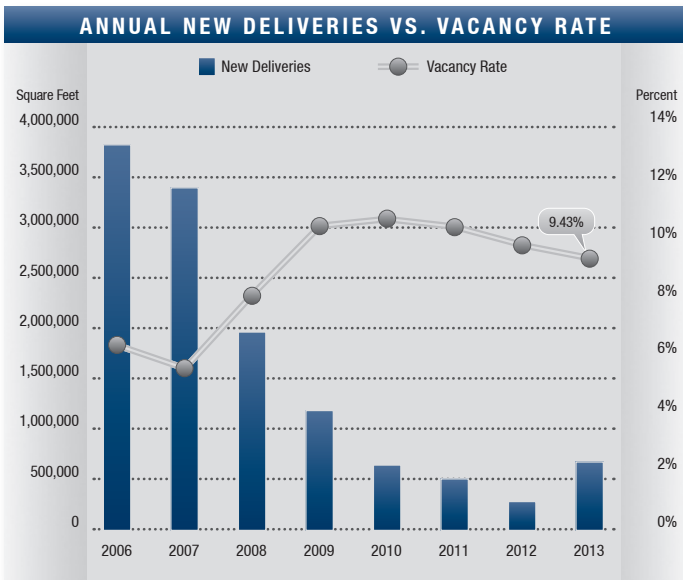
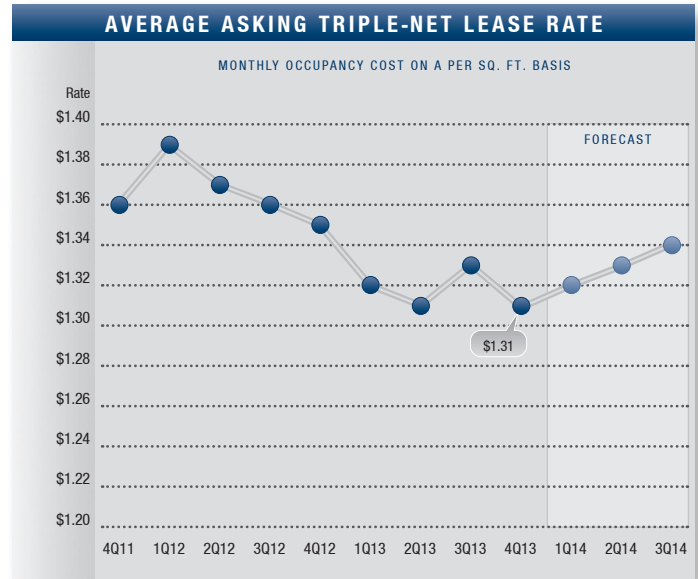
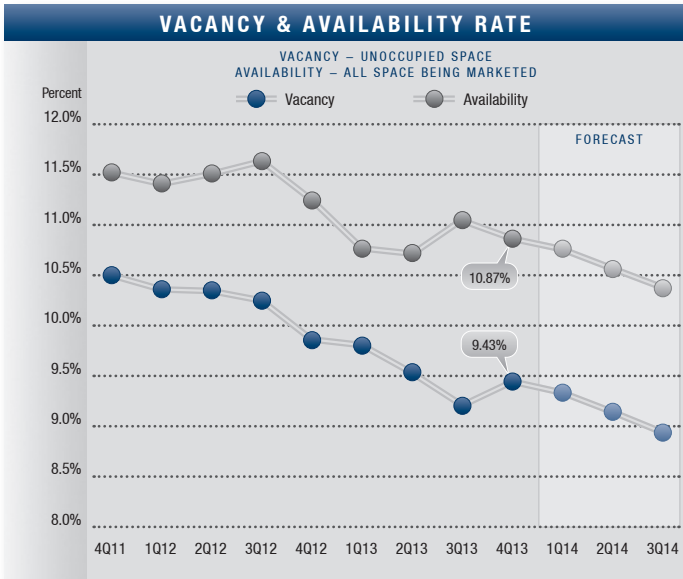
	2013	2012	2011	% of Change vs. 2012
Vacancy Rate	9.43%	9.85%	10.50%	(4.26%)
Availability Rate	10.87%	11.24%	11.52%	(3.29%)
Average Asking Lease Rate	\$1.31	\$1.35	\$1.36	(2.96%)
Sale & Lease Transactions	5,882,582	8,801,809	7,332,581	(33.17%)
Gross Absorption	4,890,472	5,050,023	4,896,062	(3.16%)
Net Absorption	1,121,350	1,067,157	816,798	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 4Q2013	Square Feet Available	Availability Rate 4Q2013	Average Asking Lease Rate	Net Absorption 4Q2013	Net Absorption 2013	Gross Absorption 4Q2013	Gross Absorption 2013
Sacramento Market													
Arden/Watt/Howe	944	11,127,648	120,160	60,672	982,131	8.83%	1,215,608	10.92%	\$1.32	14,265	104,423	54,892	398,995
Auburn/Loomis	338	3,184,462	0	342,427	185,157	5.81%	209,934	6.59%	\$1.29	195,209	223,957	210,009	280,708
Benicia	132	846,103	0	0	24,869	2.94%	31,073	3.67%	\$1.14	0	1,363	0	11,735
Carmichael	276	2,830,018	0	15,000	338,524	11.96%	414,527	14.65%	\$1.17	(1,014)	(736)	41,745	120,392
Davis	180	2,114,998	39,065	75,650	63,356	3.00%	78,455	3.71%	\$1.57	40,971	53,930	41,896	98,889
Downtown/Midtown/E Sac	835	5,977,239	43,596	1,396,763	553,052	9.25%	618,119	10.34%	\$1.58	(215,706)	(191,227)	31,054	170,396
El Dorado	323	3,908,923	0	107,835	308,535	7.89%	346,216	8.86%	\$1.59	15,139	(10,683)	28,581	136,535
Elk Grove	322	5,568,200	0	2,129,059	407,877	7.33%	402,658	7.23%	\$1.51	(1,201)	256,851	24,827	444,632
Fairfield	423	6,770,292	5,526	521,962	435,654	6.43%	560,901	8.28%	\$1.40	(87,219)	(62,560)	41,485	160,153
Folsom	290	5,599,090	0	137,754	506,703	9.05%	524,625	9.37%	\$1.72	2,233	86,858	24,419	177,499
Highway 50 Corridor	345	5,102,771	0	778,271	823,693	16.14%	1,040,957	20.40%	\$1.08	(26,809)	150,062	33,028	308,032
Lincoln	168	1,590,867	0	3,779	120,052	7.55%	131,560	8.27%	\$1.92	(2,887)	(3,373)	8,938	30,112
Natomas	256	4,143,235	8,708	70,570	315,336	7.61%	353,567	8.53%	\$1.73	13,606	159,655	27,989	255,949
Orangevale/Citrus Hts	541	7,920,376	0	232,003	1,023,905	12.93%	1,152,787	14.55%	\$1.30	(20,538)	15,632	27,447	210,444
Outer El Dorado	279	2,481,009	3,009	0	145,483	5.86%	180,742	7.29%	\$1.56	(6,988)	(13,166)	9,535	59,805
Outer Placer	160	1,451,446	0	12,600	58,910	4.06%	94,643	6.52%	\$1.67	(1,959)	(11,076)	6,591	14,221
Outer Sacramento	133	960,721	0	34,800	64,757	6.74%	76,970	8.01%	\$1.39	6,524	(2,621)	10,124	21,534
Outer Sutter	291	4,085,008	42,737	368,995	274,374	6.72%	331,305	8.11%	\$1.26	11,208	(7,473)	65,813	119,307
Outer Yolo	43	261,102	0	46,920	12,063	4.62%	15,063	5.77%	\$1.60	0	(5,705)	0	4,295
Rio Linda/North Highlands	424	5,177,951	1,811	75,190	670,593	12.95%	679,810	13.13%	\$0.98	(35,560)	(29,809)	13,693	96,913
Roseville/Rocklin	862	14,002,697	163,491	476,812	1,295,498	9.25%	1,455,181	10.39%	\$1.43	102,637	157,983	177,881	571,648
South Sacramento	1,087	12,111,209	56,500	1,025,710	1,447,298	11.95%	1,644,051	13.57%	\$1.29	22,542	16,592	62,843	502,811
Vacaville	530	7,189,271	32,562	69,393	530,386	7.38%	608,666	8.47%	\$1.23	34,943	114,837	49,409	264,406
Vallejo	689	6,153,053	0	86,270	441,899	7.18%	609,748	9.91%	\$1.17	11,479	39,657	26,504	181,810
West Sacramento	179	2,422,900	0	24,500	110,722	4.57%	136,690	5.64%	\$1.46	(2,919)	36,177	9,735	60,307
Woodland	261	3,438,570	12,600	141,559	381,909	11.11%	423,114	12.30%	\$0.98	(2,090)	44,225	8,686	117,842
Yuba	196	2,121,045	18,200	491,640	602,180	28.39%	640,524	30.20%	\$0.82	(13,006)	(2,423)	14,850	71,372
Sacramento Market Total	10,507	128,540,204	547,965	8,726,134	12,124,916	9.43%	13,977,494	10.87%	\$1.31	52,860	1,121,350	1,051,974	4,890,742

Malls	83	7,218,313	0	672,257	707,359	9.80%	712,719	9.87%	\$0.89	(210,660)	(139,769)	4,735	119,471
Power Centers	335	12,215,354	12,600	1,650,805	812,076	6.65%	930,879	7.62%	\$1.88	68,882	404,633	86,715	562,427
Community Centers	531	14,830,547	244,660	1,567,442	1,489,258	10.04%	1,689,127	11.39%	\$1.56	232,065	289,258	293,658	797,741
Neighborhood Centers	1,397	29,417,845	0	1,757,042	3,608,263	12.27%	4,115,280	13.99%	\$1.34	(40,870)	267,246	204,853	1,147,304
Strip Centers	1,050	10,616,947	0	244,174	1,682,594	15.85%	1,799,104	16.95%	\$1.21	12,394	(1,064)	156,129	625,578
Specialty Centers	104	3,371,348	0	72,578	478,679	14.20%	506,729	15.03%	\$1.88	(103,218)	(112,179)	3,044	59,634
General Retail	7,007	50,869,850	290,705	2,761,836	3,346,687	6.58%	4,223,656	8.30%	\$1.12	94,267	413,225	302,840	1,578,587
Sacramento Market Total	10,507	128,540,204	547,965	8,726,134	12,124,916	9.43%	13,977,494	10.87%	\$1.31	52,860	1,121,350	1,051,974	4,890,742

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
Coffee Tree Plaza 130 Nut Tree Pkwy.	Vacaville	47,318	\$257.83	Olympic-Barrington Partnership	The Kivelstadt Group
Commonwealth Square 703-717 E. Bidwell St.	Folsom	140,846	\$71.89	Commonwealth Equity, LP	CW Capital Asset Management
Walgreens 8275 Bruceville Rd.	South Sacramento	14,820	\$664.64	Bridgejoyn, LLC	Supergreen, LLC

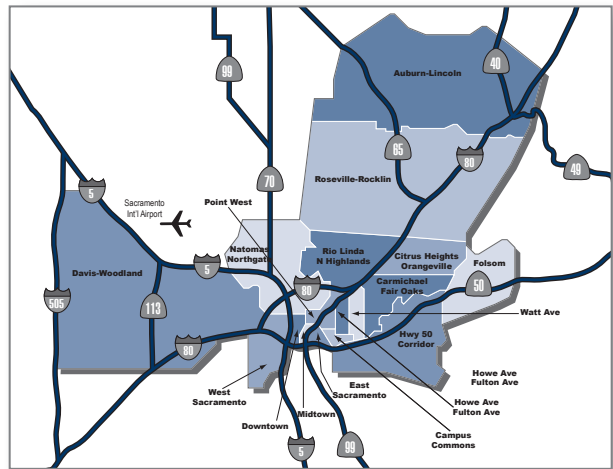
New / Coming to the Region

Property Address	Tenant	Submarket	Square Feet	Projected Opening Date	Owner
Rivergate Shopping Center 2344 Sunrise Blvd.	Sportsman's Warehouse	Highway 50 Corridor	38,846	May-14	Ethan Conrad Properties
Marketplace at Birdcage ** 6110-6130 Sunrise Blvd.	Stein Mart	Orangevale/Citrus Heights	33,800	Aug-14	Deutsche Asset & Wealth Management
Broadstone Plaza II 2755-2799 E. Bidwell St.	Ashley Furniture	Folsom	32,711	Jun-13	ACF Property Management, Inc.
The Plaza ** 1760 Grass Valley	Best Buy	Auburn/Loomis	32,331	Mar-14	Magnussen Dealership Group
Roseville Square ** 380-424 Harding Blvd.	Grocery Outlet	Roseville/Rocklin	30,149	Nov-13	Sunflower Market

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