

Research &
Forecast Report

SACRAMENTO | RETAIL

Q2 2015



Accelerating success.



Busy Bargain Businesses

The Sacramento retail market picked up the pace in Q2, posting positive net absorption and the lowest vacancy rate since 2008. Big box retailers and discount grocers accounted for the bulk of major transactions this quarter, proving that consumer demand for one-stop-shop retailers and bargain prices is here to stay. Walmart, Smart & Final, Viva Supermarket, and 99 Cents Only store all signed leases this quarter in excess of 20k SF. Class A space in downtown, Elk Grove, and Roseville/Rocklin continue to attract tenants willing to pay higher prices for better quality space.

Net Absorption

- > The Sacramento market saw 219k SF of positive net absorption in Q2, up 36% from Q1.
- > LifeTime Athletic in the Roseville/Rocklin market absorbed 120k SF of new construction.
- > South Sacramento also posted high positive absorption as a result of Walmart and Smart & Final absorbing over 75k SF of space in the submarket.

Vacancy

- > The overall vacancy rate in Q2 was 10.6% - down 40 basis points since Q1 and 100 basis points YoY.
- > This is the lowest vacancy rate the Sacramento retail market has seen since 2008.
- > West Sacramento & Downtown continue to perform well, holding the first and second lowest vacancy in Q2.

Rental Rate

- > The average asking rental rate decreased slightly from \$1.40 in Q1 to \$1.39 in Q2.
- > This decline in the rental rate is due largely in part to Power Regional space, where rates decreased 4% since Q1.
- > We are still seeing a willingness to pay higher rates for Class A space in high demand submarkets such as Roseville/Rocklin.

Activity

- > Sales volume is at \$371 million dollars YTD, putting 2015 on track to have the highest annual sale volume since the recession.
- > While YTD sales volume is high, Q2 saw a decline in both number of transactions and the total dollar volume from Q1.
- > Big box retailers and discount grocery stores made up the bulk of major purchases in Q2.

Market Indicators Relative to prior period	Community Neighborhood 2015 Q2	Power Regional 2015 Q2	Specialty 2015 Q2	Strip 2015 Q2
VACANCY	↓	↑	↓	↑
NET ABSORPTION	↑	↓	↑	↑
CONSTRUCTION	↓	↔	↑	↔
RENTAL RATE	↔	↓	↓	↔

Note: Construction is the change in SF Under construction

Summary Statistics

Q2 2015 Regional Retail Market	Community Neighborhood	Power Regional	Specialty	Strip	Overall
Vacancy Rate	10.5%	7.6%	9.9%	15.7%	10.6%
Change From Q1 2015 (basis points)	-50	50	-10	30	-20
Absorption (Thousand Square Feet)	181,654	-55,503	111,265	-18,193	219,223
New Supply (Thousand Square Feet)	9,310	5,000	120,000	0	134,310
Under Construction (Thousand Square Feet)	172,170	5,000	312,886	0	490,056

Asking Rents

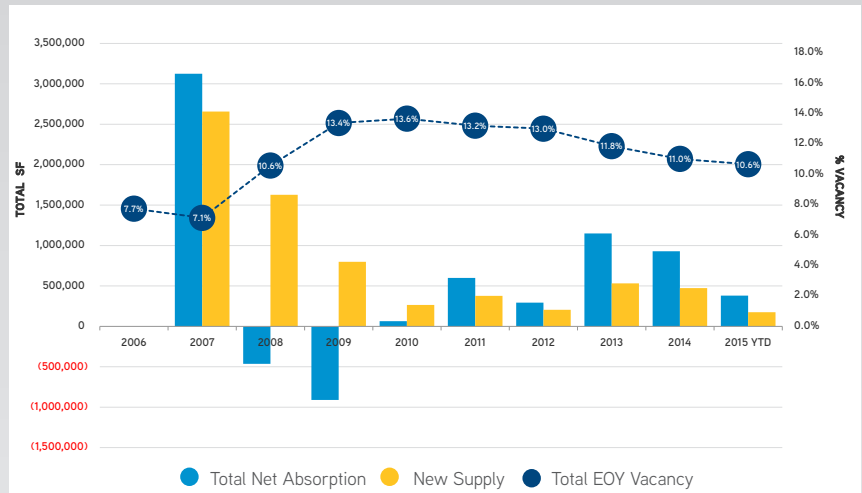
Per Square Foot Per Month

All Class Types	\$1.43	\$1.44	\$1.84	\$1.24	\$1.39
Change From 1Q-2015	0%	-4%	-1%	0%	-1%

Vacancy & Absorption Performance

The Sacramento retail market showed strong improvement from Q1 with 219k SF of positive net absorption and an overall vacancy rate of 10.6%. Net absorption increased 36% from Q1, largely in part to the grand opening of LifeTime Athletic in Roseville, which absorbed 120k SF of new construction. The vacancy rate is the lowest the retail market has seen since 2008, down 100 basis points year-over-year and 40 basis points from Q1. Vacant space in community neighborhood centers is being backfilled by big box retailers, such as Walmart and Smart & Final, across the Sacramento region.

Vacancy & Absorption Performance

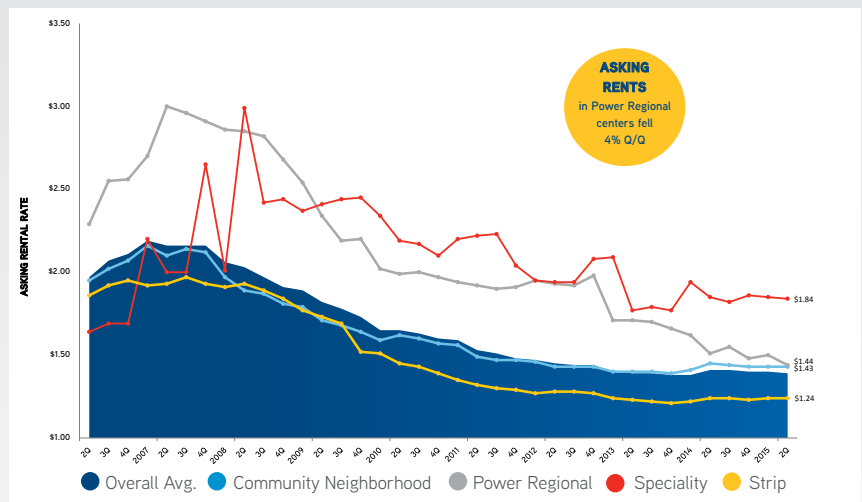


Source: Colliers International, CoStar

Rental Rates

Asking rental rates remained virtually unchanged from Q1 to Q2, decreasing only slightly from \$1.40 in Q1 to \$1.39 in Q2. This minor decrease reflects Power Regional rates declining roughly 4% over the quarter. Willingness to pay for well-located, high value, Class A space remains high. Data indicates that rates for high quality space will continue to rise faster than lower value properties, exemplified by Class A retail rates at nearly triple the rate of its Class C counterparts. The development of the Entertainment and Sports Center should bolster this trend.

Rental Rates

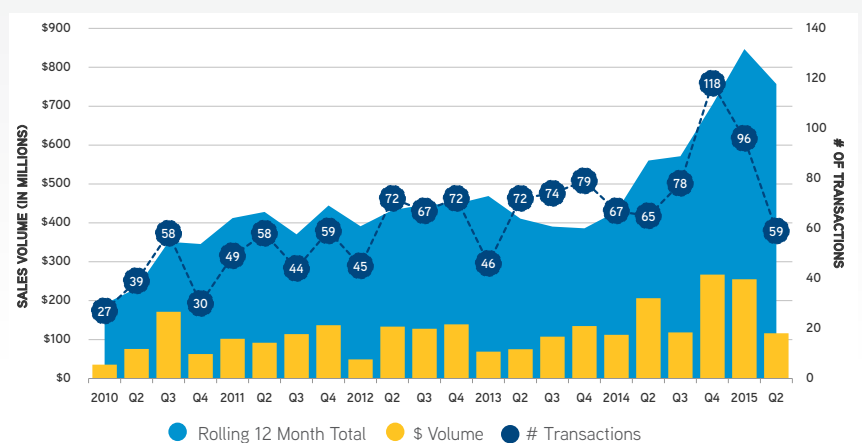


Source: Colliers International, CoStar

Investment Volume

2015 is on track to have the highest annual sales volume since the great recession. While total sales volume for 2015 YTD is \$371 million dollars, Q2 numbers decreased from Q1. The number of total transactions decreased 39% and the total sales volume fell 54% from Q1 to Q2. Despite the decrease quarter-over-quarter, 2015 midyear sales volume is still 17% greater than 2014 midyear volume. The Sacramento market saw many high value purchases in Q2 from big box retailers and discount grocery store, such as Viva Supermarket.

Investment Volume



Source: Colliers International, CoStar

Significant Market Activity

Lease Transactions

SIGNED DATE	ADDRESS	SQUARE FEET	TYPE	SUBMARKET	LANDLORD	TENANT
2Q-15	2300 Watt Avenue	92,000	Power Center	Arden/Watt/Howe	Country Club Plaza Investors	WinCo
2Q-15	8787 Elk Grove Boulevard	27,060	Neighborhood Center	Elk Grove	Wong Family Investors	Smart & Final
2Q-15	1002-1018 Riley Street	23,560	Neighborhood Center	Folsom	Hill Companies, LLC	99 Cent Only Stores
2Q-15	7707 Laguna Boulevard	21,896	Power Center	Elk Grove	Donahue Schriber Commercial Real Estate	Total Wine & More
2Q-15	3845 Marysville Boulevard	19,608	Neighborhood Center	Natomas/Northgate	Lily Company	Viva Supermarket

Sales Transactions

SALE DATE	ADDRESS	SQUARE FEET	SALE PRICE	PRICE/SQUARE FEET	SELLER	BUYER
Apr-15	2120-2460 Grass Valley Hwy*	130,134	\$30,408,318	\$234	Regency Centers Corporation	Epic Real Estate Partners LLC
Apr-15	7205 Freeport Boulevard	27,870	\$10,025,000	\$360	Pacific Urban Residential	Pero & MaryAnn Margaretic 2001 Revocable Trust
Apr-15	3860 Florin Road	67,750	\$9,500,000	\$140	Ben Ennis	Bower Properties LLC
May-15	8400 Elk Grove Florin Road	14,905	\$5,800,000	\$389	Richard W Saliture	Joel S. Gambord, Trustee
Apr-15	2310 Fair Oaks Boulevard	14,682	\$2,968,902	\$202	Dan C Inc	Greg Margetich

Construction Summary

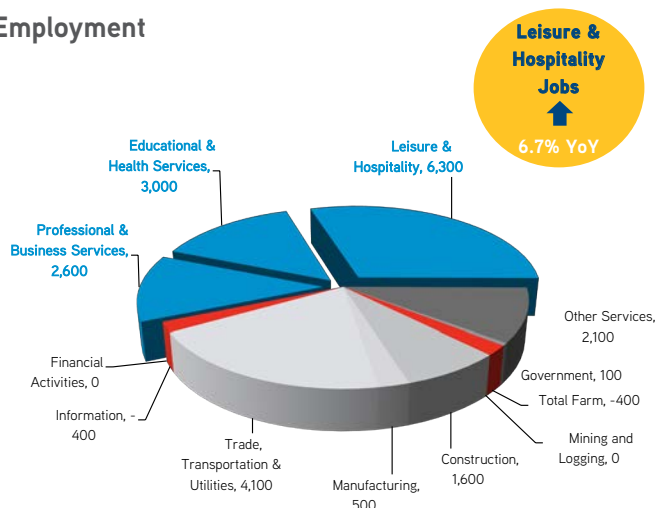
EST. DELIVERY	ADDRESS	SQUARE FEET	TYPE	SUBMARKET	LANDLORD	TENANT
Jul-15	5100 Commons Dr - Pad 11 (Rocklin Commons)	5,000	Power Center	Roseville/Rocklin	Rocklin Pavilions LLC & Pavilions Sales LLC	TBD
Jul-15	SE Sierra College Blvd & I-80 - Pad 13	4,800	Neighborhood Center	Auburn/Loomis	Rocklin Crossings, LP	Sleep Train
Aug-15	5472 Crossing Dr (SE Sierra College Blvd/Rocklin Crossing)	120,000	Neighborhood Center	Auburn/Loomis	Rocklin Crossings LP	Bass Pro Shops
Sep-15	2725 Grass Valley Hwy (Willowcreek Shopping Center)	27,650	Neighborhood Center	Auburn/Loomis	Best Carl E 1999 Trust	Smart & Final
Nov-15	5411 Diablo Dr	4,200	Neighborhood Center	Rio Linda/N Highlands	Elkhorn Plaza Shopping Ctr LLC	Multi: Starbucks
Dec-15	NWC Highway 49 & Willow Creek Dr (Willow Creek Shopping Center)	11,010	Neighborhood Center	Auburn/Loomis	Best Carl E 1999 Trust	Multi: Panda Express
Dec-15	440 Palladio Pky	33,026	Specialty	Folsom	Broadstone Land LLC	Nordstrom Rack
Oct-16	577 L St -Entertainment & Sports Center	279,860	Specialty	DTown/Midtown/E Sac	Sacramento Kings Limited Partnership	TBD

*Part of Portfolio Sale

Economy and Tenant Demand

The Sacramento MSA unemployment rate for May was 5.7%, beating the Bureau of Labor Statistics projection of 6.8%. The Leisure & Hospitality sector added 6,300 jobs from June 2014 to June 2015 - the highest year-over-year gains of any category. The majority of jobs added within Leisure & Hospitality can be classified as food and drink services. This data confirms the well documented boom of Sacramento's food industry, with the expansion of chain restaurants, farm-to-fork options, and brew pubs opening both in downtown and the suburbs. Local businesses appear to be capitalizing on the popular "Chipotle style" dining experience, exemplified by the successful opening of Blast 825 and MOD pizza in Rocklin Commons and Rocklin Crossings. Sacramento job growth is expected to continue, as big box retailers WinCo, Walmart, and Smart & Final all signed leases or purchased properties in Q2 and will need to hire employees.

Employment



Source: BLS, CA Employment Development Department

Market Analysis Summary

Market Total

SUBMARKET	RENTABLE BUILDING AREA	TOTAL VACANT SQUARE FEET	DIRECT VACANCY RATE	AVAILABILITY RATE	NET ABSORPTION SF	YTD NET ABSORPTION SF	UNDER CONSTRUCTION	DIRECT FS AVG. ASKING LEASE \$/SF/MO
Community Neighborhood	37,127,170	3,912,142	10.5%	11.5%	181,654	277,271	172,170	\$1.43
Power Regional	12,032,099	910,843	7.6%	7.6%	(55,503)	2,018	5,000	\$1.44
Specialty	2,696,825	266,559	9.9%	9.8%	111,265	150,970	312,886	\$1.84
Strip	8,621,163	1,349,781	15.7%	16.9%	(18,193)	(49,995)	-	\$1.24
Overall Market	60,477,257	6,439,325	10.6%	11.4%	219,223	380,264	490,056	\$1.39

Quarterly Comparison & Totals

QUARTER	RENTABLE BUILDING AREA	TOTAL VACANT SQUARE FEET	DIRECT VACANCY RATE	AVAILABILITY RATE	NET ABSORPTION SF	YTD NET ABSORPTION SF	UNDER CONSTRUCTION	DIRECT FS AVG. ASKING LEASE \$/SF/MO
2Q-15	60,477,257	6,439,325	10.6%	11.4%	219,223	380,264	490,056	\$1.39
1Q-15	60,347,392	6,538,548	10.8%	11.8%	161,041	161,041	331,486	\$1.40
4Q-14	60,277,666	6,629,863	11.0%	12.1%	313,687	929,140	368,186	\$1.40
3Q-14	60,117,197	6,783,081	11.3%	12.2%	233,713	615,453	455,881	\$1.41
2Q-14	60,049,822	6,947,768	11.6%	12.4%	(2,835)	381,740	482,628	\$1.41

The information contained in this report was provided by sources deemed to be reliable, however, no guarantee is made as to the accuracy or reliability. As new, corrected or updated information is obtained, it is incorporated into both current and historical data, which may invalidate comparison to previously issued reports. Results include all retail space located in any type of shopping center or regional mall in all core areas of Sacramento, Placer, El Dorado and Yolo Counties.

New Construction and Outlook

Retail construction remains strong with over 490k SF of new construction in the pipeline. The opening of Bass Pro Shops in Rocklin Crossings is still eagerly anticipated with construction expected to be completed in August 2015. Specialty center construction more than doubled from 153k SF in Q1 to 312k SF in Q2. The majority of this newly launched specialty construction is the 280k SF retail portion of the Entertainment & Sports Center Downtown. Tenants for this space have yet to be disclosed. Construction is expected to remain steady as the onset of approved projects, like Delta Shores and The Outlet Collection in Elk Grove, commence.



Market Analysis

Sacramento Retail Submarket Analysis Q2 2015

SUBMARKET	RENTABLE BUILDING AREA	TOTAL VACANT SQUARE FEET	DIRECT VACANCY RATE	AVAILABILITY RATE	NET ABSORPTION SF	YTD NET ABSORPTION SF	UNDER CONSTRUCTION	DIRECT FS AVG. ASKING LEASE \$/SF/MO
Arden / Howe / Watt								
Community Neighborhood	3,461,908	385,904	11.1%	13.3%	(12,772)	(44,115)	-	\$1.52
Power Regional	1,147,653	220,602	19.2%	12.8%	(94,192)	(106,031)	-	\$2.62
Strip	1,150,548	151,243	13.1%	14.3%	(2,723)	(4,034)	-	\$1.29
Auburn / Loomis								
Community Neighborhood	1,224,141	59,445	4.9%	6.3%	7,919	8,875	167,970	\$1.54
Strip	340,921	54,870	16.1%	16.1%	(3,360)	(2,981)	-	\$1.01
Carmichael / Fair Oaks								
Community Neighborhood	1,365,134	153,643	11.3%	12.5%	(8,492)	(13,493)	-	\$1.44
Strip	542,498	68,532	12.6%	17.7%	(1,094)	607	-	\$0.97
Citrus Heights / Orangevale								
Community Neighborhood	3,397,023	470,132	13.8%	17.2%	9,367	40,575	-	\$1.30
Power Regional	347,102	8,301	2.4%	2.4%	-	38,673	-	\$1.84
Strip	921,260	171,625	18.6%	20.3%	(6,306)	(7,745)	-	\$1.18
Davis								
Community Neighborhood	993,587	59,838	6.0%	6.1%	(14,034)	(26,894)	-	\$1.69
Strip	55,804	13,880	24.9%	24.9%	-	-	-	\$1.70
Dwntwn / Midtwn / East Sac*								
Community Neighborhood	583,840	23,727	4.1%	5.1%	(1,070)	(1,070)	-	\$ 3.25*
Specialty	361,124	-	-	-	-	28,624	279,860	-
Strip	433,496	47,156	10.9%	11.2%	-	(12,190)	-	\$1.48
El Dorado								
Community Neighborhood	1,509,911	113,286	7.5%	9.1%	5,047	317	-	\$1.73
Specialty	589,447	24,847	4.2%	8.2%	(4,513)	(1,513)	-	\$2.73
Strip	347,943	46,438	13.3%	12.8%	(476)	(3,708)	-	\$1.10
Elk Grove								
Community Neighborhood	2,653,605	181,368	6.8%	7.0%	34,529	38,780	-	\$1.53
Power Regional	1,267,429	5,324	0.4%	0.4%	26,150	32,390	-	\$2.48
Specialty	190,000	25,836	13.6%	13.6%	-	-	-	\$1.00
Strip	417,812	65,556	15.7%	17.9%	6,146	7,092	-	\$1.62
Folsom								
Community Neighborhood	2,371,372	208,649	8.8%	7.7%	10,155	12,108	-	\$1.65
Power Regional	830,178	3,572	0.4%	0.7%	4,264	3,764	-	\$2.89
Specialty	1,040,831	151,942	14.6%	13.7%	1,235	7,883	33,026	\$3.66
Strip	369,965	44,719	12.1%	13.6%	1,106	(3,536)	-	\$1.84
Highway 50								
Community Neighborhood	2,671,246	392,172	14.7%	19.2%	25,422	50,589	-	\$1.28
Specialty	88,945	25,820	29.0%	30.0%	-	-	-	\$1.11
Strip	478,577	81,436	17.0%	18.3%	445	(618)	-	\$1.06
Lincoln								
Community Neighborhood	486,930	53,343	11.0%	16.0%	13,358	16,008	-	\$1.64
Power Regional	690,064	50,648	7.3%	7.3%	-	9,321	-	\$2.40
Strip	42,132	11,331	26.9%	26.9%	151	(149)	-	\$1.33

*Average rents used reflect the most recent asking rents available.

Market Analysis

Sacramento Retail Submarket Analysis Q1 2015

SUBMARKET	RENTABLE BUILDING AREA	TOTAL VACANT SQUARE FEET	DIRECT VACANCY RATE	AVAILABILITY RATE	NET ABSORPTION SF	YTD NET ABSORPTION SF	UNDER CONSTRUCTION	DIRECT FS AVG. ASKING LEASE \$/SF/MO
Natomas / Northgate								
Community Neighborhood	1,475,897	124,813	8.5%	8.5%	6,144	2,428	-	\$1.67
Power Regional	1,793,735	111,760	6.2%	7.9%	6,749	(525)	-	\$1.71
Strip	196,672	28,412	14.4%	14.4%	-	(1,805)	-	\$1.66
Rio Linda / N Highlands								
Community Neighborhood	2,210,147	318,478	14.4%	14.1%	12,396	20,989	4,200	\$1.02
Strip	700,329	155,656	22.2%	22.4%	(7,480)	(9,931)	-	\$1.16
Roseville / Rocklin								
Community Neighborhood	5,176,320	550,309	10.6%	11.1%	19,259	43,891	-	\$1.53
Power Regional	3,566,681	246,861	6.9%	7.7%	4,101	17,051	5,000	\$1.08
Specialty	426,478	14,679	3.4%	5.2%	114,543	115,976	-	-
Strip	1,106,505	177,771	16.1%	17.9%	3,501	6,094	-	\$1.39
South Sacramento								
Community Neighborhood	5,417,371	647,691	12.0%	11.9%	102,432	151,671	-	\$1.32
Power Regional	734,867	138,076	18.8%	19.5%	(2,575)	998	-	\$2.25
Strip	1,230,952	170,332	13.8%	13.9%	(4,538)	(11,236)	-	\$1.01
West Sacramento								
Community Neighborhood	893,530	39,684	4.4%	4.3%	-	4,618	-	\$1.51
Power Regional	811,380	2,902	0.4%	0.5%	-	-	-	-
Strip	115,533	28,101	24.3%	24.3%	(3,565)	(3,972)	-	\$1.51
Woodland								
Community Neighborhood	1,235,208	129,660	10.5%	7.8%	(28,006)	(28,006)	-	\$1.41
Power Regional	843,010	122,797	14.6%	15.2%	-	6,377	-	\$0.97
Strip	170,216	32,723	19.2%	21.7%	-	(1,883)	-	\$1.00



502 offices in 67 countries on 6 continents

United States: **140**

Canada: **31**

Latin America: **24**

Asia Pacific: **199**

EMEA: **108**

\$2.3

billion in
annual revenue

1.7

billion square feet
under management

16,300

professionals
and staff

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