



SACRAMENTO RETAIL REPORT

SACRAMENTO | FIRST QUARTER 2014

www.colliers.com/sacramento



Accelerating success.

KEY RETAIL METRICS - Q1 2014

	Total Market	Adjusted
Vacancy	12.0%	12.0%
Net Absorption	407,933 SF	407,933 SF
Deliveries	179,931 SF	179,931 SF
Under Construction	100,635 SF	100,635 SF
Average District Rate	\$1.38/SF	\$1.42/SF

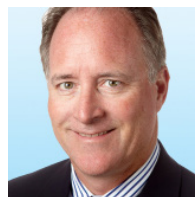
FIRST QUARTER HIGHLIGHTS

- › **Overall Vacancy** dropped by 40 basis points this quarter to 12.0%, the lowest vacancy percentage since the 1st quarter in 2009. The vacancy rate of 12.0% is also 20 basis points below the current year average.
- › **Overall Net Absorption** stayed positive this quarter and totaled 407,933 SF. The year to date total absorption was 1,130,946 SF, the largest annual absorption the retail market has seen since 2007.
- › There was 179,931 SF of **New Supply Delivered** with 5 new developments. Of the five new developments, three were in Rocklin located at 5104, 5108, & 5198 Commons Drive totaling 158,100 SF. Current space under construction totals 100,635 SF divided among 7 developments.
- › **Overall Asking Lease Rates** remained the same this quarter at \$1.38 in the overall market. The flat trend with very nominal changes is anticipated to continue throughout 2014.

*Statistics in the "Total Market" column include all space in shopping centers/regional malls in the Sacramento MSA. Statistics in the "Adjusted" column do not include owner-occupied or government buildings.

COLLIERS INTERNATIONAL | SACRAMENTO

First Quarter 2014 Retail Insight



RANDY DIXON
Managing Director

We continue to see overall positive employment results for the greater Sacramento Region, with unemployment declining and job growth improving, how are we seeing this impacting our local real estate market?

I don't believe current job growth is the lead driver to our improving local market. The fundamentals of real estate will always be the same; job growth is the driver for demand and demand is what pushes absorption, reduces vacancies and ultimately increases rates. Our employment results are positive, but are still not strong. We are seeing the low rental rates or sale values, the low interest rate environment, and the compression of cap rates in our major west coast port cities being equally valuable for our local real estate recovery.

Retail demand continues to rely heavily on our residential markets and consumer confidence. The big box and major retail centers continue to show strong results. Those located around new growth areas are seeing infill and expansion of the big box. There are strong or new concepts coming to town, seeing Sacramento as an expansion location of choice. However, until we see real job growth, we will continue to see the class C product and neighborhood centers struggle.

The arena development has caused some owners in downtown, like the owners of 555 Capitol Mall, to look at moving their buildings from primarily office to more mixed use with a higher allocation of retail. What are some of the benefits and some of the draw backs in making this change?

I don't see any draw backs from this change. There is no question that the Arena will create a new live, work, play environment in the downtown/Capitol Mall area. It is appropriate for all owners in this area to consider their current assets to determine highest and best use. The Mall demolition will remove a lot of retail square footage from that area and while the Arena plans call for new retail, we will see national retailers considering Sacramento and this area that would not consider Sacramento before.



VACANCY AND ABSORPTION

Overall vacancy for all retail types has declined every year since reaching its peak 1st quarter 2010 at 14.2%. Vacancy overall this quarter decreased by 40 basis points to 12.0% and is expected to continue this trend throughout 2014. Power Regional vacancy rate dropped 20 basis points this quarter to 9.4% and remains the lowest in the market. Community Neighborhood makes up the largest portion of the retail market at 60.7% and saw vacancy rates drop 30 basis points to 11.8% this quarter.

Power Regional retail net absorption captured 141,805 SF this quarter; another 120,000 SF was signed into lease by Bass Pro Shops located at the Rocklin Crossings Shopping Center and scheduled to move in March 2015. An additional 44,189 SF has been signed into lease within the same shopping center and is scheduled to move in later this year. Power Regional absorption numbers are expected to continue to grow strongly throughout 2014. Beginning the year on a strong note, the Community Neighborhood absorbed 182,393 SF and has another 9,603 SF currently under construction. Community Neighborhood has seen much less vacancy fluctuation quarter to quarter over other subtypes, and has consistently declined since peaking at 14.6% first quarter 2011.

Strip Centers and Specialty retail make up the smallest portions of the Sacramento inventory totaling 10,923,562 SF combined. Both Specialty and Strip Centers have struggled to maintain consistent occupancy levels and have been experiencing rising vacancy percentages. This quarter, both subtypes saw the greatest rate of change at 70 basis points bringing down vacancy in Specialty to 13.6% and Strip Center to 16.5% overall. As lease rates have gone up \$0.16/SF overall in Specialty, and shown rising rates in higher class properties in certain desirable submarkets containing Strip Centers; lower class retail properties have been able to capture and keep more tenants.

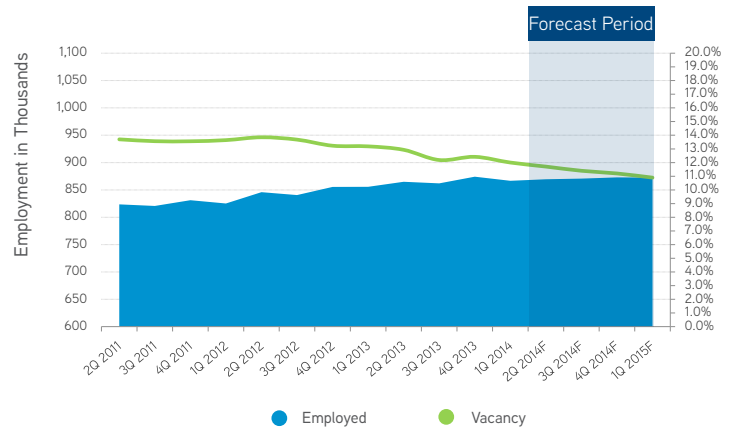
Overall Vacancy is expected to continue its decline throughout the year as the shift to shopping centers continues to trend throughout the market. Due to slow pace of the recovery, retail vacancy is projected to decline by 80 basis points over the year.

ASKING LEASE RATES

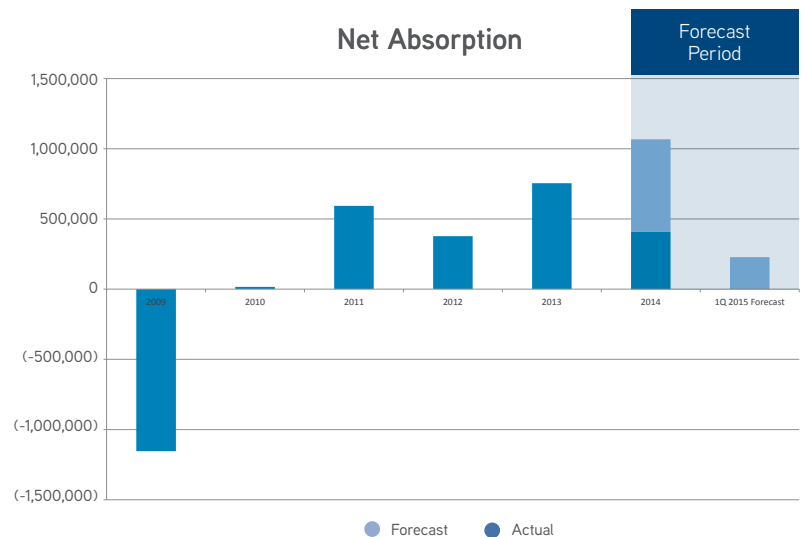
Overall average asking lease rates have remained the same this quarter at \$1.38. Community Neighborhood rose \$0.02 this quarter to \$1.41; this slow growing trend is expected to persist throughout the year. Power Regional saw a decline in asking rates this quarter to \$1.62 (\$0.03 less than what we saw at the end of 2013). The continuous drop in Power Regional asking lease rates shows a shift in the market as certain "big box" retailers have downsized there quantity of stores since the recession leaving large vacant spaces that are slow to fill due to the costly and time-consuming process of redeveloping/repurposing the space.

Lower class properties of all types continue to struggle to remain occupied as the opportunity for tenants to move to superior class buildings or locations remains available. With further e-commerce growth, competition for mom and pop type tenants becomes more challenging. Thrift stores, gyms and niche grocers continue to be popular for locations that have struggled to attract tenants that are better suited for higher quality properties.

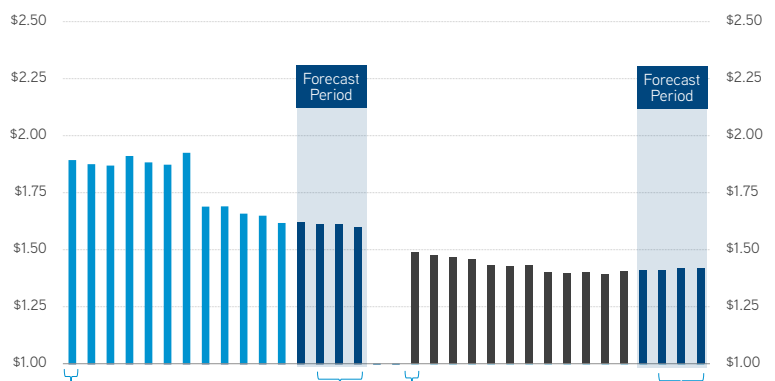
Employment and Vacancy



Net Absorption



Direct Average Asking Rate Full Service



Sources: CoStar & Colliers Research

SACRAMENTO RETAIL MARKET FEATURED DEALS

SALE TRANSACTIONS

#	Property Location	RSF	Sale Price	Price/SF	Submarket	Buyer	Seller
1	9400 Fairway Drive	23,094	\$4,600,000	\$199.19	Roseville/Rocklin	Alan Ruzich	Sutherland Family Trust
2	3534 Northgate Blvd.	22,341	\$4,450,000	\$199.19	Natomas	Norman Blaz	John A. Bruzzone Jr.
3	5575-5669 Mack Road	29,823	\$3,400,000	\$114.01	South Sacramento	Regina Gabuyo	Albert Massachi
4	2992 65th Street	5,465	\$2,250,000	\$411.71	DwnTwn/ Midtown/E Sac	NAV	InvestNet, Inc.
5	5201 Elkhorn Blvd.	4,751	\$2,200,000	\$463.06	Rio Linda/N Highlands	Chris Manchiu Chui	Penhall Family Trust

LEASE TRANSACTIONS

#	Property Location	Leased SF	Tenant	Submarket
1	SE Sierra College Blvd.	120,000	Bass Pro Shops	Auburn/Loomis
2	4202 Chiles Road	45,021	Hanlees Davis Toyota	Davis
3	2344 Sunrise Blvd.	30,112	Smart & Final	Highway 50 Corridor
4	2800-2868 Zinfandel Drive	26,350	Fitness Evolution	Highway 50 Corridor
5	2344 Sunrise Blvd.	15,523	Pet Club Food & Supplies	Highway 50 Corridor

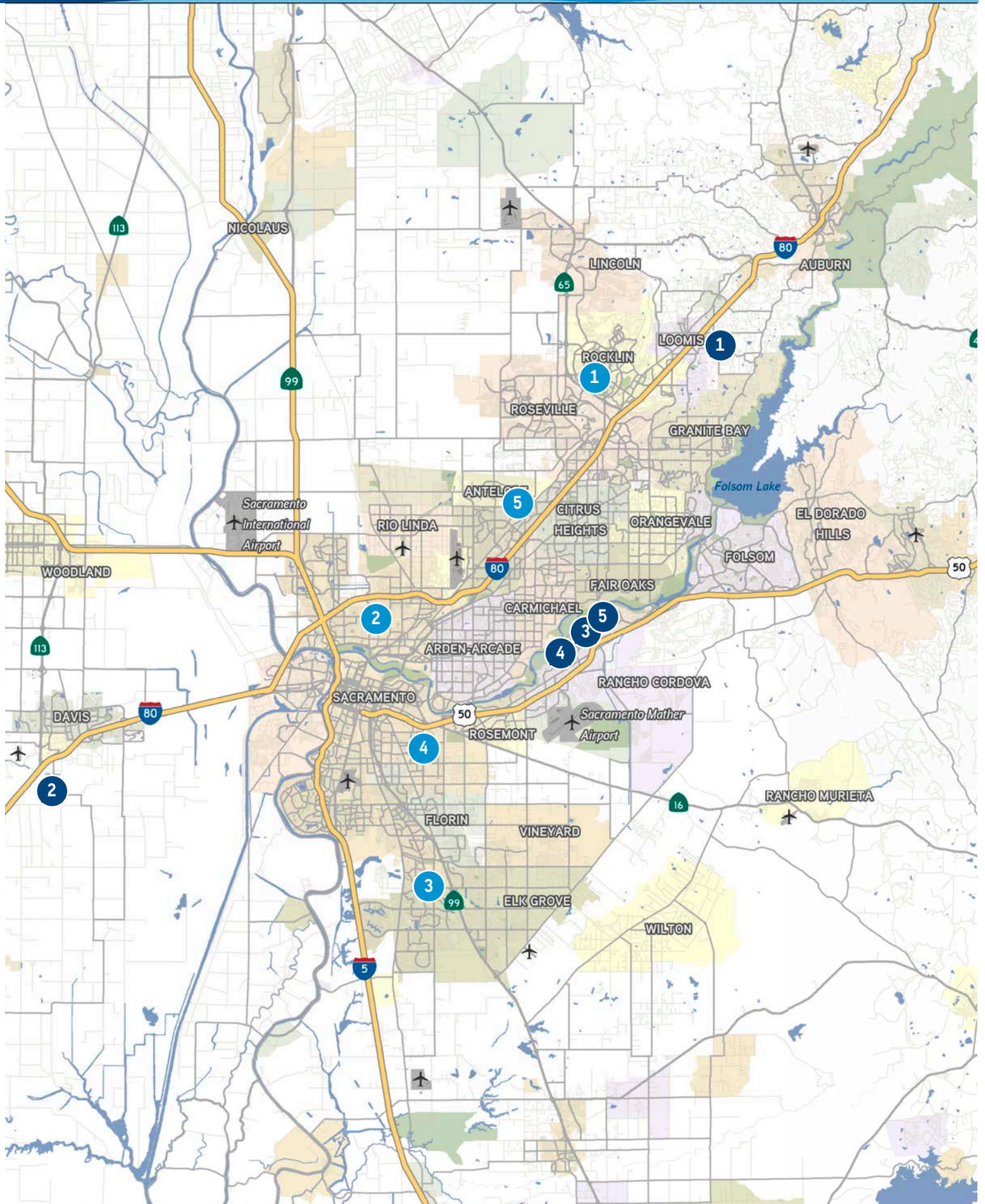
For further comparable information, feel free to contact one of our brokerage professionals.

CONSTRUCTION

#	Property Location	SF Under Construction	Submarket
1	4551 2nd St - Pad D	9,603	Davis
2	5120 Commons Drive	10,800	Roseville/Rocklin
3	NW Sierra College Blvd & I-8 Hwy	32,032	Roseville/Rocklin
4	NW Sierra Collge Blvd & I-80 Hwy - Major C	25,000	Roseville/Rocklin
5	5198 Commons Drive	6,000	Roseville/Rocklin
6	5100 NW Commons Drive - Pad 1	4,200	Roseville/Rocklin
7	5194 NW Commons Drive	13,000	Roseville/Rocklin

CONSTRUCTION SUMMARY

The 1st quarter 2014 had five new deliveries, one of which was a new Target building in Rocklin totaling 137,000 SF at 5104 Commons Drive. The Target property is the largest delivery year to date and is one of three new properties delivered in Rocklin this quarter. There are seven more deliveries currently under construction totaling 100,635 SF. Of that total, six are Power Center buildings consisting of 91,032 SF in the Rocklin Commons Shopping Center which are being anchored by the Target building mentioned above. Donahue Schriber is the developer for Rocklin Crossings and Rocklin Commons Shopping Center project. This project totals 754,084 SF; currently being constructed by Moorefield Construction and will be anchored by Target and Walmart located at 5454 Crossings Drive. Moorefield Construction is expected to also break more ground in Rocklin Crossings this year on Pads 8, 10, 11, & 12. The developments are detailed in the chart to the left.



SACRAMENTO INDUSTRIAL SUBMARKET ANALYSIS - FIRST QUARTER 2014

SUBMARKET ANALYSIS							
Submarket	Rentable Building Area	Total Vacant SF	Overall Vacancy Rate	Net Absorption SF	YTD Net Absorption SF	Under Construction SF	Direct NNN Avg. Asking Rate \$/SF/Mo
Arden/Howe/Watt							
Community Neighborhood	3,277,012	305,625	9.3%	47,763	47,763	0	1.31
Power Regional	1,516,834	246,500	16.3%	1,500	1,500	0	1.82
Strip	1,136,840	160,978	14.2%	(1,864)	(1,864)	0	1.26
Auburn / Loomis							
Community Neighborhood	1,226,460	58,752	4.8%	28,743	28,743	0	1.47
Strip	340,921	48,954	14.4%	(5,999)	(5,999)	0	1.03
Carmichael / Fair Oaks							
Community Neighborhood	1,373,952	132,924	9.7%	2,104	2,104	0	1.38
Strip	548,457	100,845	18.4%	1,406	1,406	0	0.98
Citrus Heights / Orangevale							
Community Neighborhood	3,130,582	493,727	15.8%	6,187	6,187	0	1.33
Power Regional	347,104	80,774	23.3%	9,462	9,462	0	2.28
Strip	887,795	150,113	16.9%	26,595	26,595	0	1.12
Davis							
Community Neighborhood	962,283	44,468	4.6%	3,518	3,518	9,603	1.76
Strip	55,804	15,650	28.0%	(1,320)	(1,320)	0	1.62
Dwntwn / Midtwn / East Sac							
Community Neighborhood	629,027	25,728	4.1%	0	0	0	1.24
Power Regional	216,631	0	0.0%	0	0	0	-
Strip	433,321	32,061	7.4%	4,714	4,714	0	1.25
El Dorado							
Community Neighborhood	1,464,111	129,629	8.9%	1,595	1,595	0	1.72
Strip	347,943	41,730	12.0%	(2,240)	(2,240)	0	1.04
Elk Grove							
Community Neighborhood	2,656,102	213,316	8.0%	14,570	14,570	0	1.49
Power Regional	1,267,429	17,239	1.4%	(1,337)	(1,337)	0	2.55
Strip	417,563	79,944	19.1%	10,758	10,758	0	1.7
Folsom							
Community Neighborhood	2,381,355	229,171	9.6%	8,311	8,311	0	1.65
Power Regional	827,711	13,508	1.6%	(3,713)	(3,713)	0	2.74
Strip	354,167	29,754	8.4%	801	801	0	1.54
Highway 50							
Community Neighborhood	2,680,896	502,617	18.7%	(1,205)	(1,205)	0	1.27
Strip	483,238	75,844	15.7%	8,260	8,260	0	1.04

2014 FIRST QUARTER SUBMARKET ANALYSIS

SUBMARKET ANALYSIS							
Submarket	Rentable Building Area	Total Vacant SF	Overall Vacancy Rate	Net Absorption SF	YTD Net Absorption SF	Under Construction SF	Direct NNN Avg. Asking Rate \$/SF/Mo
Lincoln							
Community Neighborhood	480,057	79,349	16.5%	(3,660)	(3,660)	0	1.91
Power Regional	632,343	35,209	5.6%	(13,099)	(13,099)	0	2.43
Strip	42,132	11,596	27.5%	(900)	(900)	0	1.21
Natomas / Northgate							
Community Neighborhood	1,445,900	144,425	10.0%	10,988	10,988	0	1.73
Power Regional	1,804,872	108,342	6.0%	(1,600)	(1,600)	0	2.15
Strip	196,712	27,471	14.0%	0	0	0	1.3
Rio Linda / N Highlands							
Community Neighborhood	2,242,400	309,496	13.8%	13,592	13,592	0	0.97
Strip	699,113	163,706	23.4%	12,919	12,919	0	1.11
Roseville / Rocklin							
Community Neighborhood	5,134,508	692,557	13.5%	13,111	13,111	0	1.51
Power Regional	3,415,347	212,115	6.2%	142,347	142,347	91,032	1.39
Strip	1,094,652	235,590	21.5%	(422)	(422)	0	1.3
South Sacramento							
Community Neighborhood	5,324,404	760,300	14.3%	(2,666)	(2,666)	0	1.38
Power Regional	734,867	135,193	18.4%	(900)	(900)	0	2.08
Strip	1,248,645	178,091	14.3%	10,796	10,796	0	1.02
West Sacramento							
Community Neighborhood	693,937	35,224	5.1%	(718)	(718)	0	1.57
Power Regional	1,011,773	23,255	2.3%	3,202	3,202	0	1.5
Strip	115,533	23,413	20.3%	2,826	2,826	0	1.62
Woodland							
Community Neighborhood	1,181,555	94,129	8.0%	40,160	40,160	0	1.35
Power Regional	843,010	121,843	14.5%	5,943	5,943	0	0.88
Strip	170,216	35,449	20.8%	800	800	0	1.09
Overall							
Community Neighborhood	36,284,541	4,251,437	11.8%	182,393	182,393	9,603	1.41
Power Regional	12,617,921	993,978	9.4%	141,805	141,805	91,032	1.62
Specialty	2,350,510	318,660	13.6%	16,605	16,605	0	1.94
Strip	8,573,052	1,411,189	16.5%	67,130	67,130	0	1.21
Overall Market	59,826,024	6,975,264	12.0%	407,933	407,933	100,635	1.38

*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.

Retail Specialists



MARK ENGEMANN
Senior Vice President
Retail Sales & Leasing
+1 916 563 3007
mark.engemann@colliers.com



SCOTT LAEBER
Senior Vice President
Retail Sales & Leasing
+1 916 563 3040
scott.laerber@colliers.com



ALI SHARIFI
Vice President
Retail Sales & Leasing
+1 916 563 3064
ali.sharifi@colliers.com

Investment Specialists



JOHN BANCHERO
Senior Vice President
Investment Sales
+1 916 563 3050
john.banchero@colliers.com



GRETCHEN BECKER
Sr. Analyst & Transaction Mgr.
Investment Sales
+1 916 563 3041
gretchen.becker@colliers.com



STEVE CHAMBERLAIN
Senior Vice President
Investment Sales
+1 916 563 3006
steve.chamberlain@colliers.com



HEATH CHARAMUGA
Senior Vice President
Investment Sales
+1 916 563 3094
heath.charamuga@colliers.com



JOHN JACKSON
Vice President
Investment Sales
+1 916 563 3033
john.jackson@colliers.com

Colliers Management



BEN PRATER
Investment Advisor
Investment Sales
+1 916 563 3060
ben.prater@colliers.com



DON HOWSON
Senior Vice President
Retail Investment Sales
+1 916 563 3084
don.howson@colliers.com



RANDY DIXON
Managing Director
+1 916 563 3023
randy.dixon@colliers.com



LOGAN DUNNAWAY
Research Analyst
+1 916 563 3067
logan.dunnaway@colliers.com

