



Retail Report

Q1 2017
GALLELLI REAL ESTATE MARKET REPORT

Overview

The Sacramento retail market saw strong momentum during Q1 2017, with a healthy amount of positive net absorption and a notable decline in vacancy. The market saw a number a large move-ins during the quarter, which helped boost net absorption figures. Overall leasing activity also saw an increase during Q1, with a large number of deals being signed during the quarter.

Investment Highlights

- Retail investment activity was increased over Q4, with the market recording \$51.9 million in total dollar volume over 6 transactions. Investment activity on a year-over-year basis was slightly declined over Q1-2016, which saw \$58.8 million in total dollar volume.
- The average price per square foot also dropped during Q1, going from \$169 per square foot, to \$113 per square foot. This is primarily due to the fact that there were no Class A retail transactions during the quarter; all Q1 sales were for older, Class B and C centers.
- A number of key shopping centers came to market during Q1, including Point West Plaza in Sacramento and County Fair Mall in Woodland.
- The largest retail investment sale of the quarter was the sale of Country Gables Shopping Center located within the Roseville/Rocklin submarket. This three-building, 129,475-square-foot, grocery-anchored center sold for \$22 million, or \$170 per square foot.



Market Trends

- Retail shopping center vacancy fell from 10.6% to 9.3% during Q1, which is the lowest vacancy rate the retail market has seen in two years. One year ago, this metric stood at 9.7%.
- Quarterly net absorption was positive at 407,000 square feet. The market saw a number of large move-ins during the quarter, including Sears Outlet, who occupied an 83,000-square-foot space on the Highway 50 Corridor, and Rockin' Jump, who occupied their 64,000-square-foot space in Roseville.
- 11 out of 15 trade areas recorded positive growth during Q1. Highway 50, Roseville/Rocklin, Carmichael/Citrus Heights/Orangevale, and Arden Watt/Howe all recorded growth in excess of 50,000 square feet during the quarter. Highway 50 and Roseville/Rocklin saw the largest growth, recording 134,000 and 102,000 square feet of positive net absorption, respectively.

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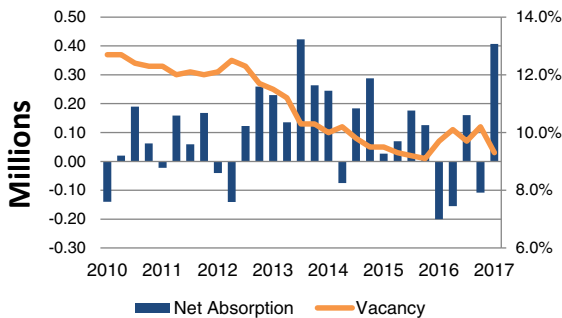
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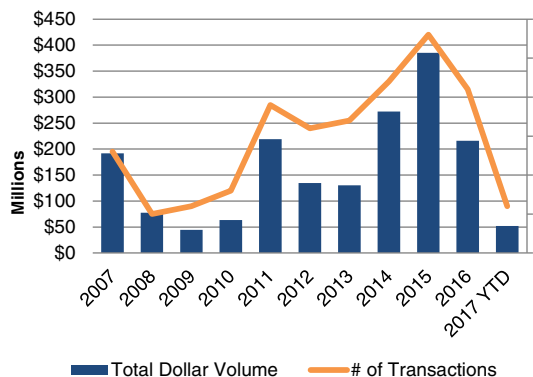
2017 is off to a good start with increased market momentum and decreased vacancy.

Vacancy 9.3% ▼	Net Absorption 407,227 ▲	Avg. Asking Rate \$15.72 PSF —
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Retail Vacancy vs. Net Absorption



Retail Investment Sales Volume



Market Trends Continued

- Retail leasing activity was strong, with the region seeing nearly 588,000 square feet of deals signed. This is a significant increase over the 393,000 square feet of leases the market saw in Q4 and the largest amount of quarterly gross absorption the market has recorded in the last three years.
- Service-oriented retail is thriving, both locally and nationally. Quick service restaurants, fitness and health tenants, and grocery tenants all remain very active in the local marketplace.
- While service-oriented retail is expanding, product-oriented, brick-and mortar retailers continue to lose ground to e-commerce retailers, and 2017 is anticipated to be one of the worst years for national retailer closures since 2008. Early estimates are anticipating as many as 8,600 store closures in the U.S. during 2017. JC Penney, Macy's, Payless Shoes, Rue 21, Staples, and Gamestop all announced closures of some or all of their locations during the first quarter. Locally, three Rue 21 locations (Sunrise Mall, Folsom Outlets and Auburn Crossings) and two Payless Shoes locations (Country Club Plaza and Florin Towne Center) will be affected.
- Regional demand and activity continues to be focused on shop space within the area's high-quality, Class A or newer Class B neighborhood and community centers.
- There is currently 1.2 million square feet of new retail under construction throughout the region, however, most of these projects consist of expansions at existing centers or new centers from large developers that have been in the works for years. Developers remain reluctant to move forward with new projects, as the costs of ground-up construction continue to skyrocket and regional rental rates remain relatively flat and do not justify the costs of construction.



Construction

1,251,530^{SF}

Sacramento Unemployment

5.1%



US Unemployment

4.9%



Class A Market Trends

- Vacancy in Sacramento's Class A centers was unchanged from the previous quarter, standing at 6.8% at the end of Q1. One year ago, Class A vacancy stood at 7.0%. Class A vacancy has hovered around the 6-7% range since Q3 2013.
- Net absorption for Class A space was positive, recording just over 33,000 square feet of positive net absorption.
- Class A shop space rents continue to rise, especially within high-demand submarkets such as Roseville/Rocklin and Folsom. Shop rents in these areas have surpassed \$36.00 per square foot per year, with spaces in some of the higher-end, Class A centers even seeing rents over \$40.00 per square foot, per year.
- Regional Class A availabilities are becoming a tough find - Class A vacancy within the majority of local submarkets is under 10%, and higher-demand submarkets are seeing rates under 5%. As Class A space becomes scarcer, retailer demand may spill over into the region's newer, higher-quality Class B centers.

Outlook

Unlike 2016, which saw a number of larger-footprint corporate retailer closures which flattened vacancy throughout the year, 2017 is off to a good start with increased market momentum and decreased vacancy. We anticipate this momentum will maintain throughout the rest of the year, as vacancy continues to see incremental declines and local retailer demand remains strong. Though another round of corporate retailer closures will be hitting the market soon, the local market will be minimally affected by these closures, as most of these retailers have smaller footprints and are generally located within shop or inline space, which is in high demand and will lease up quickly after vacancy. 2017 will also see some of the newest retail space come online, as more buildings at the redeveloped Howe 'Bout Arden and the newly-constructed Sunridge Plaza in Rancho Cordova complete. Much of this new construction is pre-leased, however, so it will not affect vacancy once it comes online.

Research

Our team focuses on providing high quality, data driven, accurate market information to our clients. We provide in-depth commercial real estate market analysis and insight into market trends in order to help optimize our clients' real estate decisions.

Market Statistics

Submarket	Inventory	Direct	Available Space Sublease	Total	Vacancy Q1-17	Net Absorption		SF Under Construction	Avg. Asking Rate (NNN)
						Q1-17	Q1-16		
Arden/Watt/Howe	4,388,600	777,150	27,500	804,650	18.3%	64,266	(225,110)	103,746	\$16.20
Auburn/Lincoln/Loomis	2,639,261	156,598	0	156,598	5.9%	24,345	7,494	0	\$18.65
Carmichael/Citrus Heights/Orangevale	4,605,167	494,306	75,100	569,406	12.4%	95,343	20,177	3,470	\$15.13
Davis	913,956	63,909	0	63,909	7.0%	(26,537)	127	0	\$22.44
Downtown/Midtown	922,276	6,169	0	6,169	0.7%	4,416	(4,152)	294,380	\$16.80
El Dorado	1,670,869	82,484	23,435	105,919	6.3%	(15,894)	(10,882)	0	\$15.28
Elk Grove	3,173,941	93,717	0	93,717	3.0%	(2,614)	10,095	0	\$15.60
Folsom	3,394,720	221,032	2,349	223,381	6.6%	10,483	(9,132)	0	\$21.00
Highway 50	2,387,506	252,566	86,179	338,745	14.2%	134,200	(48,500)	87,855	\$11.40
Natomas	2,140,311	161,999	0	161,999	7.6%	10,029	(6,051)	7,200	\$16.32
Rio Linda/North Highlands	1,990,682	214,687	0	214,687	10.8%	1,100	3,702	0	\$10.50
Roseville/Rocklin	7,522,084	519,281	0	519,281	6.9%	101,625	107,391	7,000	\$14.89
South Sacramento	5,472,179	665,191	0	665,191	12.2%	(7,156)	(55,701)	747,879	\$14.66
West Sacramento	1,466,691	26,011	0	26,011	1.8%	6,300	6,165	0	\$15.72
Woodland	1,832,735	177,133	0	177,133	9.7%	7,321	3,950	0	\$11.28
Totals	44,520,978	3,912,233	214,563	4,126,796	9.3%	407,227	(200,427)	1,251,530	\$15.72

About Gallelli Real Estate

Gallelli Real Estate is a boutique firm that specializes in commercial estate services and property management. We believe that as a boutique firm whose understanding of the business runs as deep as our core values, our advantage is large. We take pride in our unique approach to offer more individual solutions that address the ever changing needs of our clients and the industry. After all, our success is measured by the success of our clients and the strength and longevity of our relationships. For the latest news from Gallelli Real Estate, visit GallelliRE.com, or follow us on Twitter @Gallelli_RE and LinkedIn.

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