



Retail Report

Q2 2017
GALLELLI REAL ESTATE MARKET REPORT

Overview

Activity in Sacramento's retail market was flat during Q2 2017, as vacancy remained unchanged from the previous quarter. Regional leasing activity, while still healthy, saw a decline during the quarter. Retail investment activity saw an uptick, as a number of key shopping centers sold during the quarter.

Investment Highlights

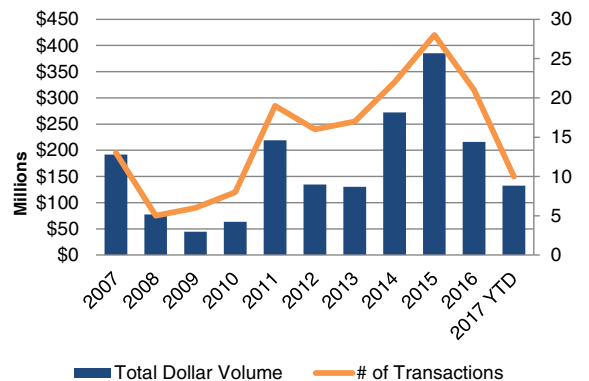
- Retail investment activity increased over Q1, with the market recording \$132.5 million in total sales volume over 10 transactions. Year-over-year investment activity also increased, rising from \$80.9 million to \$132.5 million in total sales volume.
- The average price per square foot also increased, primarily due to a number of high-profile, retail investment sales that transacted during the quarter. The average price per square foot increased from \$117 in Q1 to \$235 during Q2. On a year-over-year basis, the average price per square foot as increased from \$187 to \$235.
- The three largest investment sales of the quarter included:
 - Raley's Center of Elk Grove at 4900 Elk Grove Boulevard, which sold for \$38.1 million (\$367 per square foot). This grocery anchored, Class A community center sold for a 5.75% cap rate.
 - Rocky Ridge Town Center at 2030 Douglas Boulevard in Roseville, which sold for \$36 million (\$370 per square foot). This



community center is anchored by Sprouts and also features Starbucks, AT&T, BevMo, and Jamba Juice.

- Blue Oaks Marketplace on Lonetree Boulevard in Rocklin, which sold for \$19.2 million (\$194 per square foot).

Retail Investment Sales Volume



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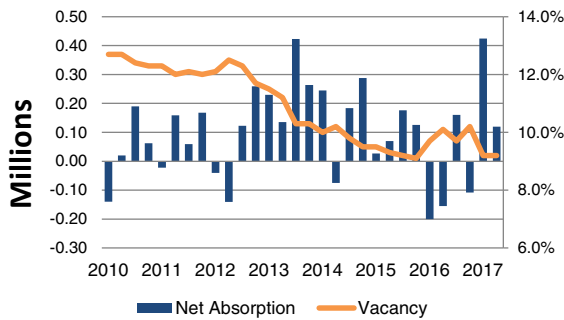
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Retail Q22017

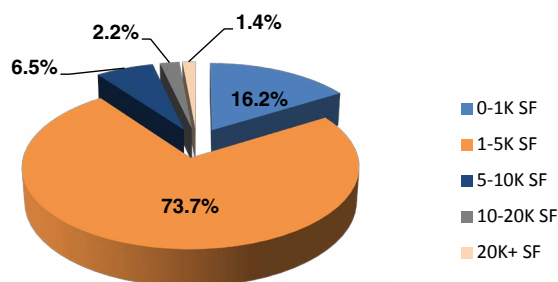
High-quality, Class A availabilities remain scarce, and some retailers are opting for newer, Class B space as an alternative.

<p>Vacancy</p> <p>9.2%</p> <p>—</p>	<p>Net Absorption</p> <p>-119,956</p> <p>▼</p>	<p>Avg. Asking Rate</p> <p>\$15.73 PSF</p> <p>▲</p>
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Retail Vacancy vs. Net Absorption



Q2-2017 Retail Leasing Volume by SF



Class A Market Trends

- Vacancy in Sacramento’s Class A centers saw a minor uptick during Q2, rising from 6.7% to 6.8%. Class A vacancy has been flat recently, hovering within the 6.7% to 6.9% range for the last five consecutive quarters. Year-over-year vacancy was also flat, only decreasing from 6.9% to 6.8%.
- Quarterly net absorption was positive, recording 97,603 square feet of growth. The majority of this growth is attributable to the delivery of the Raley’s center at Howe Avenue & Fair Oaks Boulevard and Sunridge Plaza in Rancho Cordova. Year-to-date net absorption currently stands at positive 148,000 square feet.
- Existing Class A shop rents in high demand submarkets such as Roseville Rocklin and Folsom have surpassed \$36.00 per square foot, per year. Newly constructed Class A rents are fetching even higher rents, with some seeing rents over \$40.00 per square foot, per year.
- With local Class A vacancy in the 6% range, Class A availabilities are becoming scarce. Though the market saw two new Class A centers come online during the quarter, much of this space was delivered preleased, leaving very little available space, if any. As such, local demand is beginning to spill over into the region’s newer, Class B centers, which is putting upward pressure on Class B rents.

Market Trends

- Retail shopping center vacancy remained unchanged from Q1, standing at 9.2% at the end of the second quarter. Shopping center vacancy has hovered within the 9% to 10% range since Q3 2013. However, year-over-year vacancy has seen a decline – one year ago, vacancy stood at 10.1%.
- The market recorded 119,956 square feet of positive net absorption during the quarter, however; the bulk of this absorption is attributable to two new centers (Sunridge Plaza in Rancho Cordova and the Raley’s/CVS center at Fair Oaks Boulevard & Howe Ave) that came online, adding a combined



Construction
917,735_{SF}

Sacramento Unemployment
4.1%

US Unemployment
4.1%

119,000 square feet to the overall retail inventory. The majority of this new space was delivered already occupied. Though quarterly net absorption is down from Q1, which saw over 424,000 square feet of positive quarterly net absorption, it has increased on a year-over-year basis. One year ago, the market recorded nearly 149,000 square feet of negative net absorption. Year-to-date, the local retail market has recorded over 544,000 square feet of occupancy growth.

- 8 out of 15 trade areas recorded negative net absorption during Q2. The largest occupancy loss was seen in the Carmichael/Citrus Heights/Orangevale trade area, which recorded 25,199 square feet of negative quarterly absorption. The Highway 50 submarket saw the largest occupancy gain of the quarter with over 79,000 square feet of positive net absorption – this gain is largely attributable to the delivery of Sunridge Plaza, which added 80,000 square feet to Highway 50's inventory, and was delivered mostly occupied. South Sacramento also saw a large occupancy gain during the quarter, recording 52,144 square feet of quarterly net absorption.
- The two largest move-ins were Food 4 Less, who occupied 55,300 square feet in South Sacramento and Viva Supermarket, who occupied 34,200 square feet on the Highway 50 Corridor.
- Retail leasing activity saw a decline, with the market recording 224,000 square feet of deals signed in Q2, compared to 587,000 in Q1. Year-to-date, there have been nearly 812,000 square feet of retail leases signed.
- Service oriented retail remains very active in the local marketplace. Grocery stores such as Sprouts, Safeway, and the European chain Aldi have either opened or are looking to open numerous stores in the region. Fitness tenants including LA Fitness and VillaSport have also been seeking sites in Sacramento region. Quick service restaurants continue to expand, with numerous national chains opening new locations in Sacramento.
- Regional demand remains focused on shop space within high-quality, Class A or newer Class B neighborhood and community centers.

- The amount of retail space under construction dropped from 1.2 million square feet in Q1 to 917,735 square feet in Q2, as two major projects completed in Q2. The Raley's/CVS center at the former Hubacher Cadillac site in the Arden/Watt Howe submarket completed, adding 39,200 square feet to the local retail inventory. Sunridge Plaza in Rancho Cordova also completed, totaling 80,202 square feet. Both of these centers are anchored by Raley's supermarket.

Outlook

The Sacramento retail market saw a minor slowdown in activity during Q2 2017; however, this is primarily just a break in the action, rather than the start of a new trend. Though vacancy remained flat during the quarter, overall vacancy remains under 10%. High-quality, Class A availabilities remain scarce, and some retailers are opting for newer, Class B space as an alternative. Retailer demand in the region remains strong, and numerous national retail chains have either expanded or are seeking their first sites within the Sacramento marketplace. We anticipate that momentum will increase during the last half of 2017, as local tenant demand remains strong and the 224,000 square feet of leases signed during this quarter will help push vacancy down further.

Market Statistics

Submarket	Inventory	Direct	Available Space Sublease	Total	Vacancy Q2-17	Net Absorption		SF Under Construction	Avg. Asking Rate (NNN)
						Q2-17	Q2-16		
Arden/Watt/Howe	4,421,040	775,940	27,500	803,440	18.2%	32,542	(42,018)	39,500	\$15.00
Auburn/Lincoln/Loomis	2,639,280	159,103	8,278	167,381	6.3%	(10,783)	13,006	0	\$18.72
Carmichael/Citrus Heights/Orangevale	4,630,900	533,235	75,100	608,335	13.1%	(25,199)	(113,186)	0	\$14.88
Davis	913,956	45,438	21,609	67,047	7.3%	(3,138)	5,162	0	\$20.40
Downtown/Midtown	977,376	18,491	0	18,491	1.9%	(6,802)	(5,600)	139,960	\$13.32
El Dorado	1,670,869	79,998	23,435	103,433	6.2%	2,486	13,869	0	\$15.24
Elk Grove	3,188,941	104,794	0	104,794	3.3%	(11,077)	(40,515)	0	\$22.56
Folsom	3,390,815	224,782	2,349	227,131	6.7%	(3,750)	40,485	0	\$21.72
Highway 50	2,451,709	219,570	87,579	307,149	12.5%	111,799	22,237	0	\$12.60
Natomas	2,140,311	161,334	0	161,334	7.5%	665	(24,339)	29,296	\$16.44
Rio Linda/North Highlands	1,990,682	223,282	0	223,282	11.2%	(8,595)	(49,456)	0	\$10.44
Roseville/Rocklin	7,549,684	539,259	0	539,259	7.1%	(19,978)	(20,950)	0	\$14.52
South Sacramento	5,521,086	613,047	0	613,047	11.1%	52,144	59,897	708,979	\$15.84
West Sacramento	1,466,691	23,569	0	23,569	1.6%	2,442	1,619	0	\$12.96
Woodland	1,832,735	169,933	0	169,933	9.3%	7,200	(9,050)	0	\$11.28
Totals	44,786,075	3,891,775	245,850	4,137,625	9.2%	119,956	(148,839)	917,735	\$15.73

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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