



# Retail Report

Q1 2016  
GALLELLI REAL ESTATE MARKET REPORT

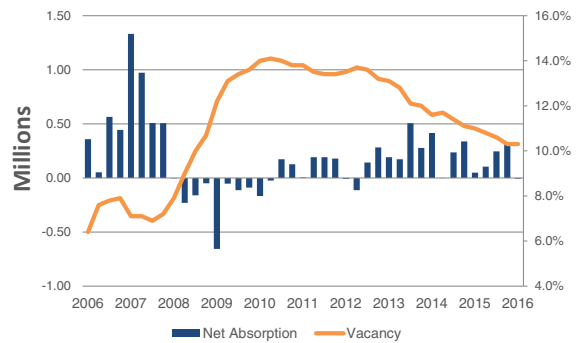
## Overview

Retail shopping center vacancy in Sacramento remained unchanged at the end of Q1 2016, ending the quarter at 10.3%. Though regional vacancy has been trending downward since peaking at 14.1% during Q2 2010 and retail leasing activity and demand have been strong, this was not enough to outpace vacancy losses experienced in the Arden/Watt/Howe submarket. This submarket recorded nearly 200,000 square feet of negative net absorption during Q1, the majority of which was attributable to the closure of Macy's at Country Club Plaza, which gave back nearly 157,000 square feet of space to the market. This vacancy loss helped to push overall net absorption for Q1 into the red by 6,800 square feet.

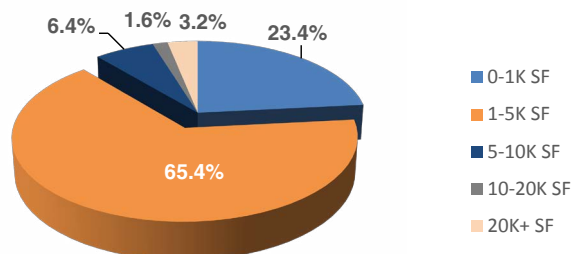
The good news, however, is the negative net absorption is fairly negligible in light of current market conditions. Firstly, without the Macy's vacancy, total net absorption for the quarter would have been closer to positive 150,000 square feet. Secondly, though vacancy did not change during Q1, the 10.3% rate is still the lowest retail vacancy rate the region has seen since 2008. Leasing activity was also strong, recording nearly 575,000 square feet of deals inked during the quarter.



## Retail Vacancy vs. Net Absorption



## Q1 Retail Leasing Volume by Square Foot



# Retail Q12016

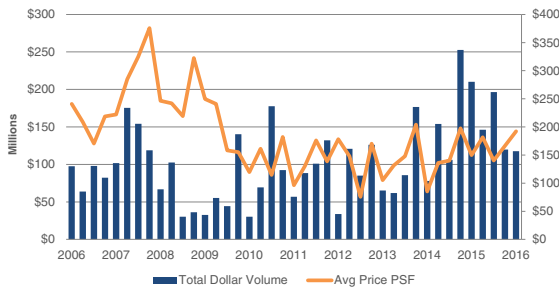
Fast casual restaurants continue to dominate the local retail landscape.

Vacancy  
**10.3%**  
—

Net Absorption  
**6,757**  
▼

Avg. Asking Rate  
**\$17.06** PSF  
▼

## Retail Investment Sales Volume



## Vacancy & Avg Price PSF by Retail Center Type



## Investment Highlights

- The retail market recorded nearly \$118 million in transactional volume during Q1, which is just slightly under the \$120 million recorded during Q4 2015.
- The average price per square foot increased from \$166 in Q4 2015 to \$192 in Q1.
- The average asking cap rate for retail investments saw a slight increase during Q1, going from 5.9% at the end of 2015 to 7.0% during Q1.
- The largest retail investment sale of the quarter was the sale of TJ Maxx Plaza in Roseville for \$38.5 million.

## Market Trends

- Vacancy remained at 10.3%.
- Despite the overall occupancy loss, the majority of regional submarkets posted positive net absorption during the quarter. The largest occupancy gain was seen in the Roseville/Rocklin submarket, which recorded nearly 128,000 square feet of positive net absorption.
- Fast casual restaurants continue to dominate the local retail landscape.
- The average asking rate for retail space currently stands at \$17.06 per square foot, on an annual, NNN basis. The average asking rate has wavered in the \$17.00 range for the last twelve consecutive quarters.
- The average asking rate for Class A specialty centers increased from \$20.16 per square foot to \$21.84 per square foot. Asking rates for strip centers currently stand at \$15.36 per square foot; neighborhood and community centers are commanding \$16.68; and regional/power centers are asking \$16.08 per square foot, on an annual, NNN basis.



Construction  
**347,292**<sup>SF</sup>  
 ▼

Sacramento Unemployment  
**5.4%**  
 ▼

US Unemployment  
**5.0%**  
 ▲

### Spotlight: Retail Closure Season

The beginning of 2016 brought the announcement of numerous national retailer closures –Save Mart, Sports Authority, Sport Chalet and Kohl’s all announced plans to shut down various locations, with a few of these companies closing stores in Sacramento. While retailers shuttering locations may seem a daunting prospect, it’s less indicative of a failing market and more a sign of companies reevaluating their business strategies to help navigate the changing retail landscape. Increasing competition from e-commerce has caused some retailers, like Sport Chalet, to shut down operations entirely, while others are shuttering under-performing locations and repositioning themselves to help keep up with the competition.

The question though, is how these vacancies will affect the local retail market. With Kohl’s closing their Rancho Cordova location, Sport Chalet closing all three regional locations and Save Mart closing two locations, these vacancies combined will put nearly 330,000 square feet of retail space back into the market in the coming year. And though Sports Authority filed for Chapter 11 this quarter, it is still unknown whether any of the six local stores will be affected. Sacramento is not on the closure list for now, but that may change in the future. The good news, however, is that regional leasing momentum and demand remains strong, and Q1 saw 575,000 square feet of leases signed. Once these tenants

take occupancy, it may help offset these losses and prevent vacancy from increasing.

### Outlook

Despite the slight slowdown in market momentum during Q1, leasing activity and tenant demand was still very strong within the region, and we expect this will continue through the rest of the year. Though vacancy has been on decline for the last few quarters, the overall rate may flatten in the coming months, once the local SaveMart, Kohl’s and recently announced Sport Chalet closures hit the market. Though rental rates have been flat recently, the lack of high-quality, Class A space available on the market may start to drive up rates, as retailer demand continues to focus on newer space. The 347,000 square feet of new retail space currently under construction may help meet this demand, but much of this space already has tenant commitments in place and any remaining space will likely fill up quickly.

### 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 Q1-16	Net Absorption		SF Under Construction	Avg. Asking Rate (NNN)
						Q1-16	Q1-15		
Arden/Watt/Howe	5,779,618	905,958	29,802	935,760	16.2%	(199,812)	(44,493)	0	\$16.32
Auburn/Lincoln/Loomis	2,629,190	191,018	6,900	197,918	7.5%	9,444	12,050	0	\$19.20
Carmichael/Citrus Heights/Orangevale	6,567,134	679,618	75,100	754,718	11.5%	3,404	65,142	48,963	\$15.84
Davis	1,046,302	68,625	0	68,625	6.6%	1,477	(12,857)	0	\$20.16
Downtown/Midtown	1,349,079	53,446	0	53,446	4.0%	5,465	(12,190)	279,860	\$15.72
El Dorado	2,496,973	221,404	4,050	225,454	9.0%	(12,607)	(4,962)	0	\$20.16
Elk Grove	4,493,859	223,954	8,543	232,497	5.2%	9,226	11,437	8,769	\$18.84
Folsom	4,593,169	402,030	1,544	403,574	8.8%	8,078	2,261	0	\$20.64
Highway 50	3,246,034	548,428	10,021	558,449	17.2%	(21,572)	24,104	0	\$13.56
Natomas	3,132,422	265,585	4,374	269,959	8.6%	1,910	(13,495)	0	\$20.40
Rio Linda/North Highlands	2,913,657	422,926	10,276	433,202	14.9%	597	10,466	0	\$12.96
Roseville/Rocklin	10,556,969	907,412	7,674	915,086	8.7%	127,537	(43,815)	9,700	\$16.68
South Sacramento	7,546,427	888,924	8,127	897,051	11.9%	36,764	46,114	0	\$15.24
West Sacramento	1,789,895	60,045	0	60,045	3.4%	4,426	4,211	0	\$17.88
Woodland	2,293,459	205,147	0	205,147	8.9%	18,906	4,494	0	\$12.24
<b>Totals</b>	<b>60,434,187</b>	<b>6,044,520</b>	<b>166,411</b>	<b>6,210,931</b>	<b>10.3%</b>	<b>(-6,757)</b>	<b>48,467</b>	<b>347,292</b>	<b>\$17.06</b>

## 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](http://GallelliRE.com), or follow us on Twitter @Gallelli\_RE and LinkedIn.

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