



Retail Report

Q3 2017
GALLELLI REAL ESTATE MARKET REPORT

Overview

Vacancy in Sacramento's retail market remained unchanged from the previous quarter. Though quarterly leasing activity saw an uptick, most activity is stemming from renewals, downsizing tenants, or direct deals immediately backfilling anticipated vacancies, all of which have little-to-no effect on overall market indicators. Local investment activity was also flat, with the market seeing near the same amount of sales volume as Q2.

Investment Highlights

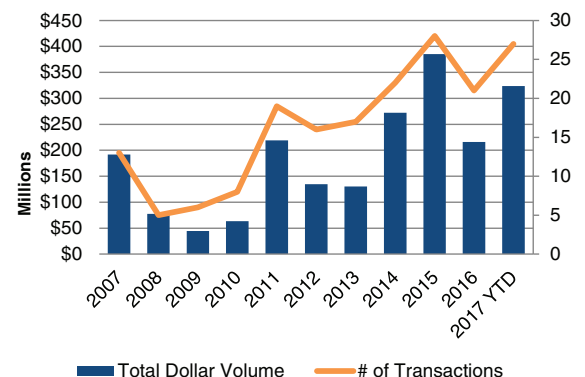
- Retail investment activity was flat during Q3, with the market seeing only a minor uptick in total sales volume. The market recorded \$135.6 million over 11 transactions compared to \$132.5 million over 10 transactions in Q2. Year-over-year investment activity has increased, however, with sales volume increasing from \$60.2 million to \$135.6 million. Year-to-date, the region has recorded \$323.7 million in total sales volume.
- The average price per square foot decreased, as there were no Class A sales that transacted during the quarter. The average price per square foot fell from \$235 in Q2 to \$202 during Q3. On a year-over-year basis, the average price per square foot has increased from \$151 to \$202.
- The three largest investment sales of the quarter included:
 - Walmart Central Shopping Center located on Riley Street in Folsom. Walmart Central is a 140,177-square-foot, Class B center



which sold for \$39.6 million (\$283 per square foot) at a 7.00% cap rate.

- Florin Towne Center, a 273,240-square foot, Class B center located at the northwest corner of Florin Road and Stockton Boulevard in South Sacramento. This center sold for \$32.4 million (\$119 per square foot) at a 6.50% cap rate.
- Sunrise Village, a 129,641-square-foot, Class C center located at the northwest corner of Sunrise Boulevard and Madison Avenue in Citrus Heights. This center sold for \$24 million, or \$186 per square foot.

Retail Investment Sales Volume



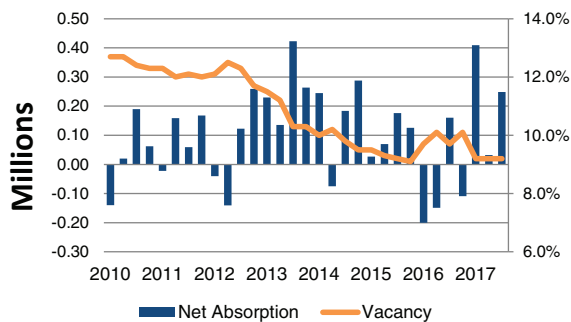
Momentum in Sacramento's retail market has slowed for the time being, as market indicators remain flat.

Vacancy 9.2% —	Net Absorption 248,966 ▲	Avg. Asking Rate \$17.11 PSF ▲
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Class A Market Trends

- Class A shopping center vacancy fell from 6.8% to 6.6% during Q3, marking the sixth consecutive quarter of vacancy hovering in the 6% range. Year-over year vacancy was also flat, only decreasing from 6.7% to 6.6%.
- The Class A market recorded just over ±68,000 square feet of positive net absorption, which is improved over the negative 22,000 recorded three months prior. The largest occupancy gain was seen in the Natomas submarket, which recorded ±21,000 square feet of occupancy growth. Year to-date net absorption totals for the region's Class A centers currently stand at positive ±97,000 square feet.
- Existing Class A shop asking rents in high demand submarkets such as Roseville/Rocklin and Folsom are commanding between \$36.00 and \$40.00 per square foot, per year, while newly constructed Class A shop space have seen asking rents in excess of \$40.00 per square foot per year.

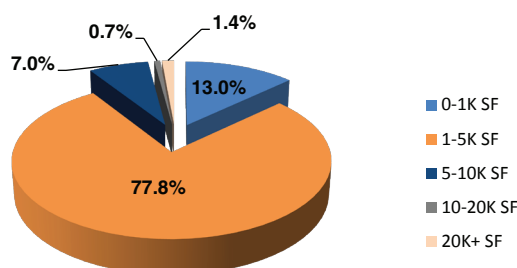
Retail Vacancy vs. Net Absorption



Market Trends

- Retail shopping center vacancy remained at 9.2% during Q3, where it has remained since Q1 2017. Shopping center vacancy has been stagnant, hovering within the 9% to 10% range for the last sixteen consecutive quarters. Year-over-year vacancy has slightly declined, however – one year ago, local vacancy stood at 9.7%.
- The market added nearly ±217,000 square feet to the overall inventory, as some of the major anchor space at Delta Shores Center in South Sacramento was completed and delivered during Q3. The addition of this space boosted the overall regional inventory from ±44.8 million to ±45 million square feet. Though the total amount of vacant space on the market increased during the quarter, the addition of the new space to the market helped to flatten overall vacancy and artificially boost quarterly net absorption figures. Though the market posted ±249,000 square feet of occupancy growth during the quarter, the majority of this total (±198,000 square feet) stems from the Delta Shores

Q3-2017 Retail Leasing Volume by SF





Construction
696,531 SF
 ▼

Sacramento Unemployment
4.5%
 ▼

US Unemployment
4.1%
 -

delivery, and is therefore not considered true occupancy growth.

- Activity across the submarkets was flat, with only one notable occupancy gain in the South Sacramento submarket. South Sacramento recorded $\pm 198,000$ square feet of positive net absorption, which was attributable to the delivery of $\pm 217,000$ mostly occupied square feet within Delta Shores Center. The largest occupancy loss was seen in the Arden/Watt/Howe submarket which recorded nearly $\pm 15,000$ square feet of negative net absorption.
- Retail leasing activity saw an uptick during Q3 – the market recorded just over $\pm 520,000$ square feet of leases, compared to the $\pm 264,000$ square feet recorded in Q2. Year-to-date, there have been over ± 1.3 million square feet of retail leases signed.
- Despite the increase in leasing activity, market indicators remain flat. This is primarily due to two things – firstly, a large amount of leasing activity is stemming from renewals, which do not affect vacancy and absorption numbers. Secondly, many direct deals are being signed prior to available spaces becoming vacant, so there is little-to-no time between an old tenant vacating and a new tenant occupying, which also has little-to-no effect on absorption and vacancy numbers.
- In addition to renewals and lack of downtime between tenants, current leasing activity is also stemming from national tenants downsizing and continuing to adjust their prototypes in order to compete with e-commerce. Tenants who used to occupy 40,000 to 60,000 square feet, now want 30,000 square feet. Tenants that were 30,000 square feet are now leasing 25,000 square feet, so on and so forth.
- Service oriented retail continues to thrive in the region, as grocery stores, fitness tenants, and quick service restaurant continue to expand, with numerous chains opening new locations in Sacramento.
- Class A availabilities remain scarce, and though there are currently $\pm 697,000$ square feet under construction throughout the region, the majority of this space is pre-leased and will not help alleviate local demand levels. Local retailer demand is still going strong, and retailers remain focused on what

little Class A, or newer Class B space is available within the area's neighborhood and community centers.

Outlook

Momentum in Sacramento's retail market has slowed for the time being, as market indicators remain flat. Retail leasing activity is up; however, many of these leases are either renewals or direct deals for tenants who will immediately occupy upon vacancy, and are therefore unlikely to affect vacancy and absorption numbers. High-quality, Class A shop space remains scarce in the region, as much of the newly constructed spaces within centers like Delta Shores are being delivered significantly pre-leased, and any spaces in existing Class A centers are immediately leased upon availability. There is currently $\pm 697,000$ square feet of new retail under construction throughout the region; however, Delta Shores Center accounts for the majority of this total and will deliver another estimated $\pm 483,000$ square feet in Q4. With more new, mostly or fully-occupied retail being delivered, we anticipate that retail market momentum will likely remain flat through the rest of the year, with the market seeing only minimal fluctuations in vacancy.

Market Statistics

Submarket	Inventory	Direct	Available Space Sublease	Total	Vacancy Q3-17	Net Absorption		SF Under Construction	Avg. Asking Rate (NNN)
						Q3-17	Q3-16		
Arden/Watt/Howe	4,378,582	803,404	27,500	830,904	19.0%	(14,964)	115,521	13,241	\$13.80
Auburn/Lincoln/Loomis	2,643,225	140,078	8,278	148,356	5.6%	7,325	13,961	0	\$20.64
Carmichael/Citrus Heights/Orangevale	4,611,491	547,852	75,100	622,952	13.5%	(14,617)	(19,411)	0	\$14.76
Davis	913,956	39,302	21,609	60,911	6.7%	6,136	6,573	0	\$19.44
Downtown/Midtown	977,376	18,491	0	18,491	1.9%	0	1,089	139,960	\$34.08
El Dorado	1,670,869	74,059	23,435	97,494	5.8%	5,939	2,913	0	\$14.76
Elk Grove	3,185,747	100,274	0	100,274	3.1%	4,520	(35,366)	0	\$22.44
Folsom	3,503,850	230,750	2,349	233,099	6.7%	(4,568)	2,060	0	\$21.84
Highway 50	2,411,506	245,520	87,579	333,099	13.8%	22,239	39,492	7,653	\$11.88
Natomas	2,127,416	142,546	0	142,546	6.7%	18,788	5,208	29,296	\$16.44
Rio Linda/North Highlands	1,990,682	230,990	0	230,990	11.6%	(7,708)	81,200	0	\$10.80
Roseville/Rocklin	7,580,294	519,367	0	519,367	6.9%	19,892	(30,300)	14,393	\$15.72
South Sacramento	5,775,194	630,407	1,160	631,567	10.9%	198,461	(2,109)	491,988	\$15.84
West Sacramento	1,466,691	19,201	0	19,201	1.3%	4,368	(6,190)	0	\$12.96
Woodland	1,835,155	166,778	0	166,778	9.1%	3,155	(13,971)	0	\$11.28
Totals	45,072,034	3,909,019	247,010	4,156,029	9.2%	248,966	160,670	696,531	\$17.11

About Gallelli Real Estate

Gallelli Real Estate is a private 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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