

Sacramento Retail

Market Forecast

Trends

Absorption	↑
Vacancy	↓
Rental Rate	↑
New Construction	↑

Notable Transactions

- Undisclosed
10333-10363 Fairway Dr., Roseville/Rocklin
37,000 s.f. Leased

- Andrew's Furniture
212 Harding Blvd., Roseville/Rocklin
24,000 s.f. Leased

- Goodwill
1900 Alhambra Blvd.,
Downtown/Midtown/E Sac
16,900 s.f. Leased

- Undisclosed
1800 Fulton Ave., Arden/Watt/Howe
11,700 s.f. Leased

- Undisclosed
4650 Mack Rd., South Sacramento
10,873 s.f. Leased

Similar to other property types within this metro, the Sacramento retail market was hit especially hard by the recession. But thanks to exceptionally strong demand throughout the current cycle, retail vacancies have compressed significantly. Construction has been steady, but 2017 is poised to emerge as the strongest year of the cycle for new deliveries based on what's underway. Sacramento's average rents are a fraction of those in the Bay Area, and healthy rent growth over the last several years has maintained momentum into the first half of 2017.

Looming economic concerns continue to weigh on demand prospects. Earlier in the recovery, the metro enjoyed above-average retail sales and retail employment growth, but these gains have slowed. On the plus side, both personal income growth and median household income growth continues to slightly outpace the national median. Some lease deals have been signed recently, which have helped to reduce vacancies. Cinema West Theaters, for instance, took 50,000 SF at Country Club Plaza in the Arden/Watt/Howe Submarket with a scheduled move in date for July 2017, while Lifetime Fitness signed for 111,000 SF in Folsom.

The Sacramento retail market ended the quarter with an increase in leasing activity, positive net absorption, and an increase in rental rates over last quarter. Total vacancy decreased by 10 basis points to 6.9%, a result of 260,602 square feet of positive net absorption and just over 650,000 SF of leasing activity this quarter. With growing demand the market continues to tighten, and we expect increased competition for space and higher rates to continue in the second half of 2017. The Sacramento unemployment rate sits at 4.1%, a 60 basis point decrease from the 4.7% recorded this time last year.

The total overall retail vacancy level of 6.9% represents the lowest vacancy rate recorded since the first quarter of 2008. During the first half of 2017, over 225,000 SF of new construction was delivered, the majority of which was constructed in Arden/Watt/Howe and Folsom submarkets. Another 1.1 million SF of retail product is currently under construction, of which 70% is being built in South Sacramento.

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Offices

Seattle
206.296.9600

Bellevue
425.454.7040

South Seattle
206.248.7300

Tacoma
253.722.1400

Olympia
360.705.2800

Portland
503.221.9900

San Francisco
415.229.8888

Redwood Shores
650.769.3600

Silicon Valley
408.970.9400

Sacramento
916.970.9700

Roseville
916.751.3600

Los Angeles
213.880.5250

Long Beach
562.472.0071

Commerce
323.727.1144

Orange County
949.557.5000

Inland Empire
909.764.6500

San Diego
858.509.1200

Carlsbad
760.430.1000

Reno
775.301.1300

Phoenix
602.513.5200

Contact

Reed Payne
Executive VP, Brokerage
Northern California
415.229.8888
rpayne@kiddermathews.com

Designated Broker
Reed Payne | LIC #00818935

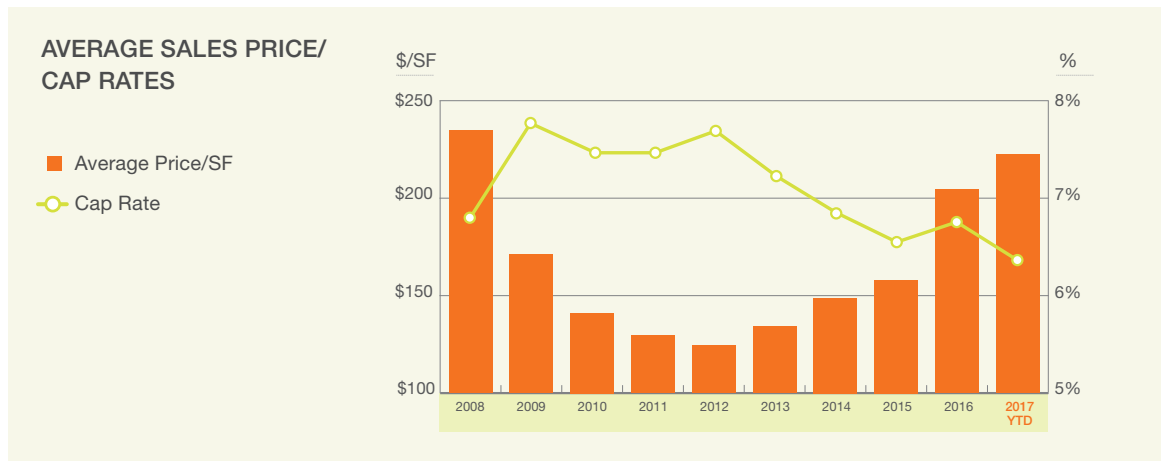
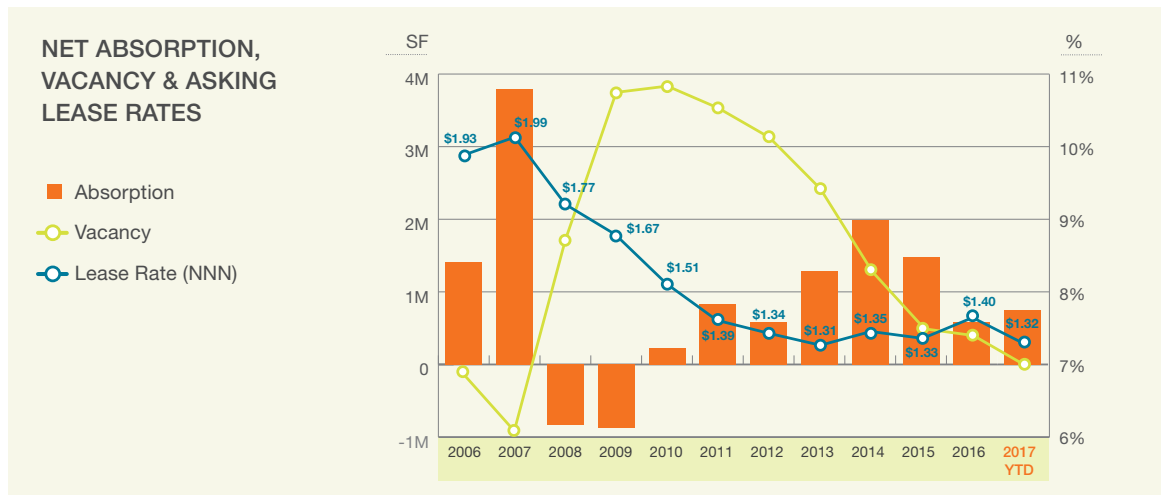
Asking rental rates market wide for retail properties increased slightly in the second quarter to \$1.34 per square foot on a triple net basis over last quarter. Asking rates remain highest in the El Dorado County submarket cluster, where they average \$2.07 per square foot and are growing steadily each quarter. By contrast, the lowest rates are found in the Yolo County submarket cluster, which reported an average asking rent of \$1.08 per square foot.

The average sale price in the second quarter for retail assets was \$191.91 per square foot, bringing the average price for the year to \$222.29. Cap rates decreased from 6.37% in the first quarter to 6.32% in the second quarter. Total dollar volume for retail asset sales in the second quarter of 2017 was \$322 million from 52 transactions.

Data Source: CoStar

Market Breakdown

	2Q17	1Q17	2Q16	Annual % Change
Vacancy Rate	6.9%	7.0%	7.8%	-11.54%
Availability Rate	8.4%	8.5%	9.4%	-10.64%
Asking Lease Rate	\$1.34	\$1.33	\$1.34	0.00%
Leased SF	657,075	490,912	1,031,776	-36.32%
Sold SF	1,129,430	907,548	1,512,485	-25.33%
Net Absorption	260,602	526,805	3,956	N/A



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