

Research &
Forecast Report



SACRAMENTO | RETAIL

Q4 2017

Accelerating success.



NEW CONSTRUCTION HELPED DRIVE BIGGEST ABSORPTION IN A DECADE

Delta Shores power regional center along Interstate-5 in South Sacramento contributed 512,966 square feet of new retail space during 2017, with an additional 228,744 to be completed in early 2018. As a result, the Sacramento region had its biggest annual net absorption total since 2007. With these new big boxes filled, however, there appears to be little in the pipeline for new construction of similar scale. The large vacancies in certain submarkets have brought down the overall average asking rate, even as fierce competition for trendy spaces in Downtown Commons and other suburban retail destinations drives a tremendous rise in asking rates. As owners focus on creating modern centers anchored by recreation, fitness and dining, we should see a continuing trend of existing centers being extensively renovated.

Net Absorption

- Positive net absorption of 428,503 square feet during Q4 brings the 2017 annual total to nearly 1.5 million square feet absorbed.
- New construction was a major driver of absorption during 2017, as properties constructed during 2017 contributed 45.8 percent of the total annual net absorption.

Vacancy

- The vacancy rate at the end of 2017 reached 9.1 percent, down 120 basis points from 10.3 percent at the end of 2016.
- Submarket vacancy rates range from 3.0 percent in West Sacramento to 15.5 percent in Arden/Howe/Watt.

Rental Rates

- Average asking rates declined 5.6 percent overall in 2017, but the rise and fall in each submarket category ranged from +172.3 percent in Downtown/Midtown/East Sac community neighborhood centers to -72.1 percent in West Sacramento strip centers.
- Power Regional centers showed the biggest rent growth overall, up 18.3 percent compared to a year ago.

Activity

- Fourth quarter sales totaled \$337 million on 214 transactions, bringing the 2017 total to \$937.9 million, nearly 25 percent higher than the average from 2014-2016.
- The largest transaction in Q4 was the sale-leaseback of the new Life Time Athletic in Folsom for \$50.1 million, or \$432.01 per square foot.

Market Indicators Relative to prior period	Community Neighborhood 2017 Q4	Power Regional 2017 Q4	Specialty 2017 Q4	Strip 2017 Q4
VACANCY	↓	↓	↓	↔
NET ABSORPTION	↑	↑	↑	↑
CONSTRUCTION	↓	↓	↔	↓
RENTAL RATE	↓	↔	↔	↓

Note: Construction is the change in SF Under construction

Summary Statistics

Q4 2017 Regional Retail Market	Community Neighborhood	Power Regional	Specialty	Strip	Overall
Vacancy Rate	9.1%	8.2%	10.4%	9.8%	9.1%
Change From Q3 2017 (Basis points)	-10	-50	-40	-80	-30
Net Absorption (Square Feet)	58,704	257,972	10,079	97,748	424,503
New Supply (Square Feet)	15,960	218,800	0	34,634	269,394
Under Construction (Square Feet)	47,021	228,744	87,640	0	363,405
Change in Asking Rents (Compared to Q3 2017)	-1%	-1%	0%	-2%	-1%

Absorption & Vacancy

Half of the absorption in Q4 came from Delta Shores in South Sacramento. The biggest occupier in that new center was Walmart, with 189,543 square feet. At Downtown Commons, Punch Bowl Social opened its doors in December, with 22,220 square feet that was occupied in Q3.

The year 2017 was the biggest annual net absorption total since 2007. While this signals a return to development, the 3.1 million square feet of net absorption in 2007 coincided with construction deliveries greater than 2.9 million square feet that year. The 1.5 million square feet absorbed in 2017 with only 806,160 square feet of new construction is evidence of a focus on repurposing existing space more than we saw a decade ago.

Rental Rates

Overall average asking rates did, in fact, decrease over 2017. As predicted, however, overall power regional rates received a bump from Delta Shores. As for the rest of the market, we see a widening gap between high-demand submarkets and a growing number of retail centers still struggling to fill vacancies even as the market returned to healthy occupancy.

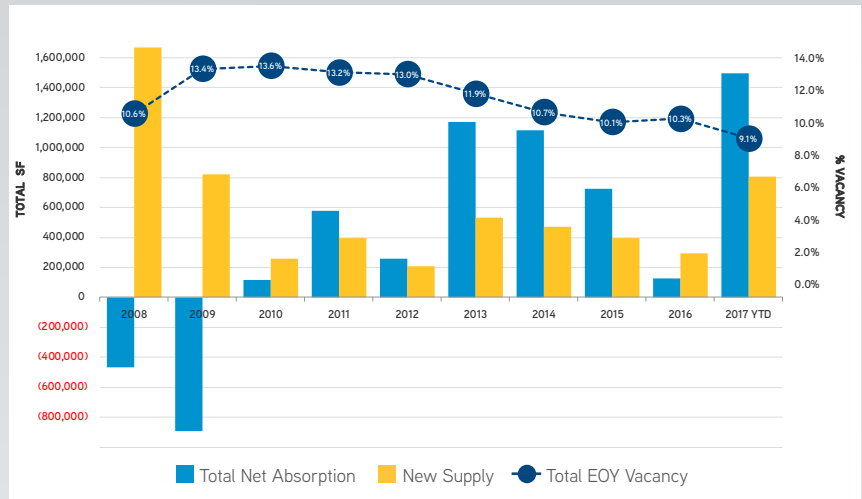
For example, while asking rent more than doubled in the Downtown/Midtown/East Sacramento submarket, the average declined 6.7 percent in Arden/Howe/Watt. The main difference is that where rents average \$3.05 in Downtown/Midtown/East Sacramento, there is very little space available. The large vacancies skew the average down even more.

Investment Volume

Four transactions in Q4 traded above the \$20-million mark. The largest transaction was \$50.1 million sale-leaseback of Life Time Athletic in Folsom. A 258,979-square-foot center anchored by Raley's at Madison Avenue and Hazel Avenue in Fair Oaks sold for \$46.65 million.

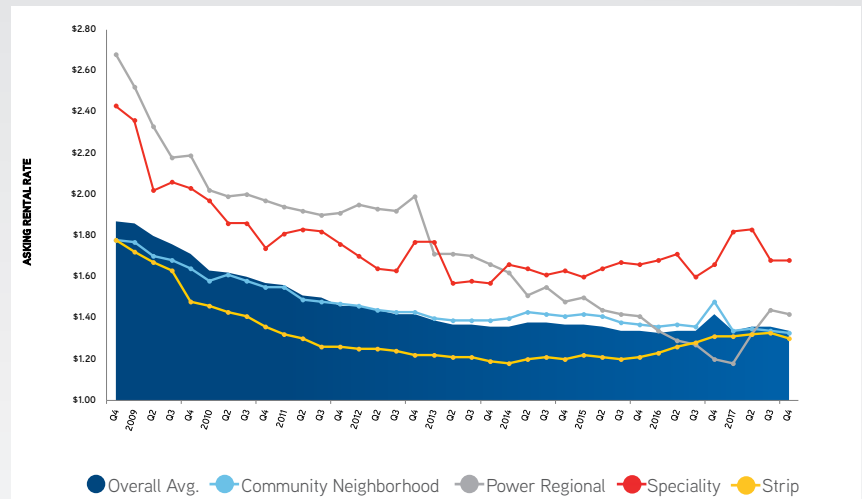
The average price per square foot on all 2017 transactions was \$193.96 per square foot. That is 17.4 percent higher than the average from 2014-2016. We saw an increase in investment activity throughout 2017, as cap rates in Sacramento beat the Bay Area and Los Angeles markets by more than one percentage point.

Vacancy & Absorption Performance



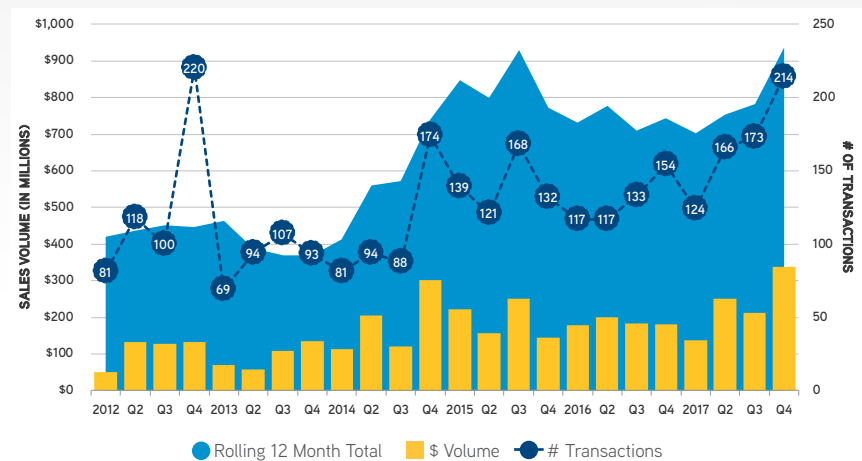
Source: Colliers International

Rental Rates



Source: Colliers International

Investment Volume



Source: Colliers International

Significant Market Activity

Lease Transactions Q4 2017

SIGNED DATE	ADDRESS	SQUARE FEET	TYPE	SUBMARKET	LANDLORD	TENANT
Oct-17	2310-2450 Watt Avenue	40,603	Regional Mall	Arden/Watt/Howe	EDM Realty Corporation	Rebounderz
Dec-17	2735 Marconi Avenue	35,515	Community Center	Arden/Watt/Howe	Donahue Schriber	Sprouts
Dec-17	8501 Auburn Boulevard	34,300	Neighborhood Center	Orangevale/Citrus Heights	W.P. Carey, Inc.	Big Lots
Dec-17	4717 Madison Avenue	19,890	Freestanding	Rio Linda/North Highlands	Zarko Danilov	Global Furniture
Oct-17	4660 Mack Road	11,103	Neighborhood Center	South Sacramento	Mack Properties Development	Fresenius Medical Care

Sales Transactions Q4 2017

SALE DATE	ADDRESS	SQUARE FEET	SALE PRICE	PRICE/SQUARE FEET	SELLER	BUYER
Oct-17	110 Serpa Way	115,998	\$50,112,667	\$432.01	Life Time Fitness (Sale Leaseback)	LCN Capital Partners
Oct-17	Madison Marketplace	258,979	\$46,650,000	\$180.13	TA Realty	New Mark Merrill Company
Nov-17	Laguna Village	120,893	\$32,500,000	\$268.83	Hall Equities Group	Gerald S. Kallan
Oct-17	51-53 Lincoln Boulevard and 741, 750-751 Joiner Parkway	"35,000 (plus Lowe's ground)"	\$21,600,000	\$432.77	Wong Family Investors LP	SyWest Development
Dec-17	Summerhill Plaza, Citrus Heights	129,320	\$14,750,000	\$114.06	Weingarten Realty Investors	Citivist Commercial Investments, LLC

Construction Summary Q4 2017

EST. DELIVERY	ADDRESS	SQUARE FEET	TYPE	SUBMARKET	LANDLORD	TENANT
Jan-18	Delta Shores	166,000	Power Regional	South Sacramento	Merlone Geier Partners	RC Wiley
Jan-18	Delta Shores	58,200	Power Regional	South Sacramento	Merlone Geier Partners	Regal Cinema
Jan-18	Downtown Commons	87,640	Lifestyle Center	Downtown/Midtown	JMA Ventures	Pour Society, Yardhouse and others
Mar-18	8851 Calvine Rd	12,000	Strip Center	Elk Grove	Chocker Family Trust	Punjabi Bazaar Sacramento
Apr-18	824 Sutter St	10,072	Neighborhood Center	Folsom	Bernau Development Corporation	Roadhouse Restaurant

Deliveries Summary Q4 2017

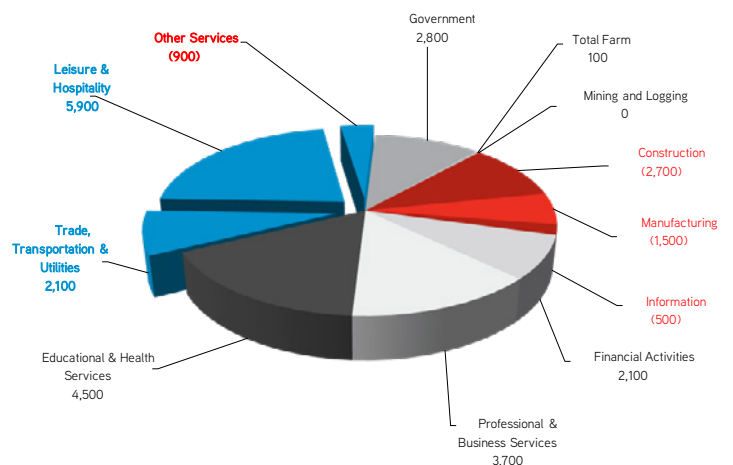
DELIVERY	ADDRESS	SQUARE FEET	TYPE	SUBMARKET	LANDLORD	TENANT
Dec-17	Delta Shores	189,543	Power Regional	South Sacramento	Merlone Geier Partners	Walmart
Nov-17	Highland Village (238 Gibson Dr)	10,057	Freestanding	Roseville	Glimcher Ventures Southwest	Lazy Dog Restaurant

Employment and Tenant Demand

The latest data from the California Employment Development Department (EDD) shows that the Sacramento – Roseville – Arden-Arcade Metropolitan Statistical Area (Sacramento MSA) added 18,100 net new jobs in the last 12 months. The resulting unemployment rate of 3.7 percent is the lowest level since December 2000.

Sacramento's fastest-growing sector in 2017 was Leisure & Hospitality. As consumer spending tilts toward restaurants, food service employment increased by 5,100 employees in the last year, a 6.1 percent increase. Retail trade grew just 0.9 percent overall, but general merchandise stores did better than most segments with a 3.8 percent increase in employment year over year.

Year-Over-Year Job Growth



Source: BLS, CA Employment Development Department

Market Analysis Summary

Market Total							
SUBMARKET	RENTABLE BUILDING AREA	TOTAL VACANT SQUARE FEET	DIRECT VACANCY RATE	AVAILABILITY RATE	NET ABSORPTION SF	YTD NET ABSORPTION SF	UNDER CONSTRUCTION
Community Neighborhood	37,025,160	3,393,348	9.1%	10.8%	62,704	647,937	47,021
Power Regional	12,871,576	1,055,116	8.2%	9.1%	257,972	595,676	228,744
Specialty	2,985,451	287,874	10.4%	12.4%	10,079	46,906	87,640
Strip	8,983,551	883,159	9.8%	12.0%	97,748	199,836	-
Overall Market	61,865,738	5,619,497	9.1%	10.7%	428,503	1,490,355	363,405
Quarterly Comparison & Totals							
QUARTER	RENTABLE BUILDING AREA	TOTAL VACANT SQUARE FEET	DIRECT VACANCY RATE	AVAILABILITY RATE	NET ABSORPTION SF	YTD NET ABSORPTION SF	UNDER CONSTRUCTION
4Q-17	61,865,738	5,606,932	9.1%	10.7%	424,503	1,490,355	363,405
3Q-17	61,591,888	5,762,041	9.4%	11.2%	506,722	580,873	632,799
2Q-17	61,135,158	5,812,033	9.5%	11.1%	74,151	74,151	1,079,457
1Q-17	61,087,958	5,838,984	9.6%	11.2%	490,479	490,479	1,096,304
4Q-16	61,055,122	6,296,627	10.3%	11.5%	(7,438)	262,842	298,801

New Construction and Outlook

Of the 43 new projects finished during 2017, only 14 were larger than 10,000 square feet, and only 5 were larger than 40,000 square feet. Of these, Delta Shores, Life Time Athletic, and Downtown Commons were the largest.

Merlone Geier's Delta Shores development opened a Walmart Supercenter with 189,543 square feet in Q4. With an RC Willey and Regal Cinema still under development, we expect to start off 2018 with another 224,200 square feet of new retail space at Delta Shores delivered and absorbed.

JMA Ventures will also deliver an additional 87,640 square feet at Downtown Commons. In the first half of 2018, we should see Urban Outfitters, Yard House, Echo & Rig Steakhouse, Burger Lounge, and Getta Clue Store open.

Once these two major centers are complete, the pipeline of new construction will be smaller. The largest new center expected to break ground is Armstrong Development's 245,000-square-foot center anchored by Nugget Market at the corner of Blue Oaks Blvd and Woodcreek Oaks Blvd in Roseville. A handful of projects in the 40,000-50,000-square-foot range, including the new movie theater at Howe 'Bout Arden, will also commence soon.

We see developers continuing to redesign and modernize well-located centers, as we saw last year with The UV and Howe 'Bout Arden. As the restaurant industry continues to grow and more big box retailers close, including Sam's Club and Walmart at El Camino Avenue and Watt Avenue, we see development at a smaller scale in 2018.



Delta Shores, Interstate 5 & Consumnes River Blvd
Walmart Delivered in Q4 2017, 189,543 SF
RC Willey and Regal Cinema delivering Q1 2018

Market Analysis

Sacramento Retail Submarket Analysis Q4 2017

SUBMARKET	RENTABLE BUILDING AREA	TOTAL VACANT SQUARE FEET	DIRECT VACANCY RATE	AVAILABILITY RATE	NET ABSORPTION SF	YTD NET ABSORPTION SF	UNDER CONSTRUCTION
Arden / Howe / Watt							
Community Neighborhood	3,660,984	450,590	12.3 %	12.0 %	25,647	143,669	-
Power Regional	1,220,566	381,482	31.3 %	20.7 %	(6,581)	(1,488)	-
Strip	1,132,760	102,381	9.0 %	10.2 %	31,204	36,017	-
Auburn / Loomis							
Community Neighborhood	1,075,226	46,646	4.3 %	5.8 %	2,180	13,507	-
Power Regional	409,734	8,350	200.0%	280.0%	0	9,500	-
Specialty	0	0	0.0 %	0.0 %	0	0	-
Strip	341,605	25,312	7.4 %	9.3 %	350	14,081	-
Carmichael / Fair Oaks							
Community Neighborhood	1,304,156	111,246	8.5 %	12.6 %	(18,946)	(9,590)	-
Power Regional	0	0	0.0%	0.0%	0	0	-
Specialty	0	0	0.0 %	0.0 %	0	0	-
Strip	538,212	56,161	10.4 %	10.7 %	(4,684)	11,859	-
Citrus Heights / Orangevale							
Community Neighborhood	3,374,384	496,366	14.7 %	16.5 %	46,906	80,362	-
Power Regional	337,725	51,209	15.2 %	16.3 %	0	0	-
Specialty	0	0	0.0 %	0.0 %	0	0	-
Strip	1,048,861	133,065	12.7 %	15.1 %	(5,542)	18,381	-
Davis							
Community Neighborhood	999,467	56,008	5.6 %	7.4 %	1,281	(21,858)	-
Power Regional	0	0	0.0 %	0.0 %	0	0	-
Specialty	0	0	0.0 %	0.0 %	0	0	-
Strip	56,122	8,437	15.0 %	15.0 %	0	1,265	-
Downtown / Midtown / East Sac							
Community Neighborhood	547,023	872	0.2 %	0.8 %	2,017	650	-
Power Regional	0	0	0.0 %	0.0 %	0	0	-
Specialty	472,847	22,499	4.8 %	14.5 %	(2,489)	30,011	87,640
Strip	467,988	37,227	8.0 %	17.9 %	8,698	17,966	-
El Dorado							
Community Neighborhood	1,511,381	88,001	5.8 %	8.6 %	5,016	10,147	-
Power Regional	0	0	0.0 %	0.0 %	0	0	-
Specialty	596,183	25,076	4.2 %	9.9 %	(1,000)	3,243	-
Strip	387,813	37,933	9.8 %	14.5 %	2,900	1,883	-
Elk Grove							
Community Neighborhood	2,634,113	93,094	3.5 %	4.2 %	3,036	13,584	-
Power Regional	1,267,429	44,900	3.5 %	4.3 %	0	11,115	-
Specialty	190,000	25,836	13.6 %	13.6 %	0	0	-
Strip	404,397	33,708	8.3 %	9.6 %	3,275	752	-
Folsom							
Community Neighborhood	2,506,216	175,185	7.0 %	9.0 %	(11,867)	(27,255)	10,072
Power Regional	806,569	11,012	1.4 %	1.4 %	(1,400)	(4,672)	-
Specialty	1,080,931	111,274	10.3 %	10.3 %	1,917	10,908	-
Strip	380,166	25,729	6.8 %	9.0 %	(240)	10,680	-

The information contained in this report was provided by sources deemed to be reliable, however, no guarantee is made as to the accuracy or reliability. As new, corrected or updated information is obtained, it is incorporated into both current and historical data, which may invalidate comparison to previously issued reports. Results include all retail space located in any type of shopping center or regional mall in all core areas of Sacramento, Placer, El Dorado and Yolo Counties.

*Average rents used reflect the most recent asking rents available.

Market Analysis

Sacramento Retail Submarket Analysis Q4 2017

SUBMARKET	RENTABLE BUILDING AREA	TOTAL VACANT SQUARE FEET	DIRECT VACANCY RATE	AVAILABILITY RATE	NET ABSORPTION SF	YTD NET ABSORPTION SF	UNDER CONSTRUCTION
Highway 50							
Community Neighborhood	2,797,214	349,243	12.5 %	16.8 %	13,576	243,115	7,653
Power Regional	0	0	0.0 %	0.0 %	0	0	-
Specialty	88,945	7,390	8.3 %	12.7 %	6,584	13,313	-
Strip	484,613	54,018	11.1 %	11.5 %	6,553	13,538	-
Lincoln							
Community Neighborhood	495,117	37,545	7.6 %	7.6 %	(644)	1,020	-
Power Regional	690,493	39,032	5.7 %	5.7 %	(5,300)	(6,900)	-
Specialty	0	0	0.0 %	0.0 %	0	0	-
Strip	42,132	2,035	4.8 %	4.8 %	2,100	(2,035)	-
Natomas / Northgate							
Community Neighborhood	1,455,918	106,330	7.3 %	8.0 %	(6,304)	13,718	29,296
Power Regional	1,444,855	123,427	8.5 %	14.0 %	0	18,500	-
Specialty	0	0	0.0 %	0.0 %	0	0	-
Strip	197,713	5,739	2.9 %	5.2 %	1,820	16,470	-
Rio Linda / N Highlands							
Community Neighborhood	2,208,738	271,355	12.3 %	14.8 %	1,245	87	-
Power Regional	0	0	0.0 %	0.0 %	0	0	-
Specialty	0	0	0.0 %	0.0 %	0	0	-
Strip	704,191	83,893	11.9 %	13.6 %	10,089	29,445	-
Roseville / Rocklin							
Community Neighborhood	5,100,795	453,218	8.9 %	11.7 %	(16,374)	108,341	-
Power Regional	3,597,485	73,600	2.0 %	2.7 %	68,418	142,441	-
Specialty	436,178	2,981	0.7 %	3.0 %	3,914	10,633	-
Strip	1,183,738	162,892	13.8 %	15.4 %	23,088	(13,883)	-
South Sacramento							
Community Neighborhood	5,277,159	519,358	9.8 %	10.2 %	16,185	65,807	-
Power Regional	1,405,582	193,509	13.8 %	18.8 %	213,050	453,260	228,744
Specialty	120,367	92,818	77.1 %	55.8 %	1,153	(21,202)	-
Strip	1,320,981	90,436	6.8 %	9.5 %	14,427	28,444	-
West Sacramento							
Community Neighborhood	862,982	25,658	3.0 %	5.5 %	0	9,637	-
Power Regional	819,943	21,320	2.6 %	3.5 %	(10,615)	(21,320)	-
Specialty	0	0	0.0 %	0.0 %	0	0	-
Strip	115,551	7,738	6.7 %	6.7 %	1,158	8,341	-
Woodland							
Community Neighborhood	1,214,287	72,633	6.0 %	6.5 %	(250)	2,996	-
Power Regional	871,195	107,275	12.3 %	12.9 %	400	4,740	-
Specialty	0	0	0.0 %	0.0 %	0	0	-
Strip	176,708	16,455	9.3 %	9.3 %	2,552	6,632	-

554 offices in
68 countries on
6 continents

ANZ: **192**

United States: **153**

Canada: **34**

Latin America: **24**

Asia Pacific: **39**

EMEA: **112**

\$2.6

billion in
annual revenue

2

billion square feet
under management

15,000

professionals
and staff

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