

# MARKETBEAT

## Sacramento

### Retail Q1 2019



#### ECONOMIC INDICATORS

##### National

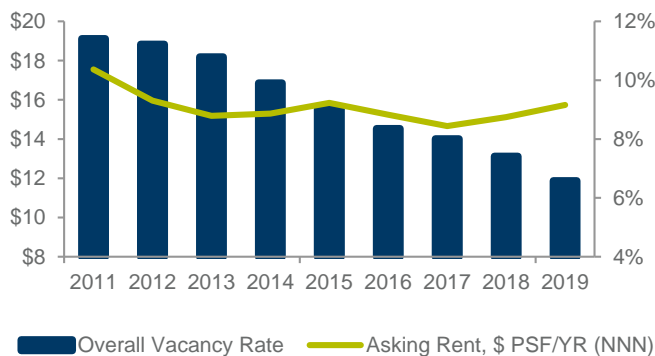
	Q1 18	Q1 19*	12-Month Forecast**
GDP Growth	2.6%	2.9%	▲
CPI Growth	2.2%	1.6%	▲
Consumer Spending Growth	2.4%	3.2%	▲
Retail Sales Growth	4.9%	4.2%	▲

##### Regional

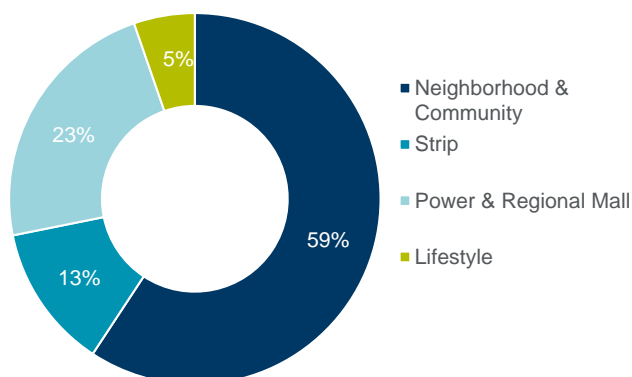
	Q1 18	Q1 19*	12-Month Forecast
Household Income	\$69,100	\$70,800	▲
Population (millions)	2,335	2,359	▲
Unemployment	4.0%	3.6%	▼

Source: Moody's Analytics. \*Q1 Values estimated. \*\*Forecast by Cushman & Wakefield. Values represent year-over-year % change.

#### Rental Rate vs. Overall Vacancy



#### Available SF by Center Type



#### Sacramento Economy

The Sacramento economy remains strong with signs of continued growth across major industries. The employment market across the region is very tight, with an unemployment rate of only 3.6%, leaving little room for further decline. However, Sacramento continues to record strong population growth in recent years as people from the Bay Area look for low-cost alternatives.

Long-term, the economic prospects are very strong. The region benefits from solid in-migration numbers, and has begun attracting relocating employers. Centene has broken ground on its new 517,000 square feet (sf) HQ2 in Natomas and Sacramento continues to catch the eye of private sector occupiers looking to expand. Available real estate combined with a highly skilled workforce is expected to keep Sacramento competitive when attracting companies to the region, resulting in higher wages and sustained economic growth.

#### Changing Market Dynamics

The Sacramento retail market recorded 174,000 sf of net absorption in the first quarter of 2019. A number of big box spaces leased in traditionally unpopular submarkets as three of the four largest leases took place in South Sacramento and Carmichael/Orangevale/Citrus Heights. In all three cases occupiers were discount goods retailers as Goodwill took two locations in South Sacramento and Falling Prices took space on Fair Oaks Blvd.

Sustained occupier demand pushed the vacancy rate down 10 basis points (bps) to 6.7%. Placer County remains one of the market's most popular locations with both submarkets reporting a vacancy rate of less than 5.5% and an overall rate for the county of just 4.8%. Filling large, big box space remains a challenge throughout much of the market but landlords have found that low-cost, general goods suppliers as well as experiential-based retailers can serve to fill long vacant space.

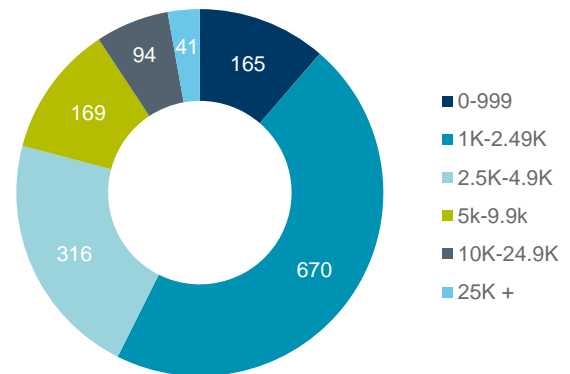
Asking rates remain tied to local demographics with Elk Grove, Downtown and Folsom leading the market with \$21.85, \$21.58 and \$19.97 per square foot (psf\_ on an annual triple net basis (NNN), respectively. The Downtown/Midtown/East Sacramento submarket in particular has seen significant growth, specifically the area immediately surrounding the Golden1 Center, which regularly sees restaurants and bars opening.

Gross absorption fell quarter-over-quarter (QOQ) but remained strong posting 791,000 sf to end the period. The South Sacramento submarket led the region in net absorption with 142,000 sf. Roseville/Rocklin and Downtown/Midtown/East Sacramento rounded out the top three submarkets posting 76,000 sf and 56,000 sf of net absorption, respectively.

The market inventory reached 76.2 million square feet (msf) with 86,000 sf coming to market during the quarter and an additional 249,000 sf under construction. Construction will remain a significant source of growth activity as occupiers continually display a willingness to pay a premium rent to be close to their desired consumers.

### Availabilities by Size Segment

NUMBER OF OVERALL AVAILABILITIES IN ONE SUITE

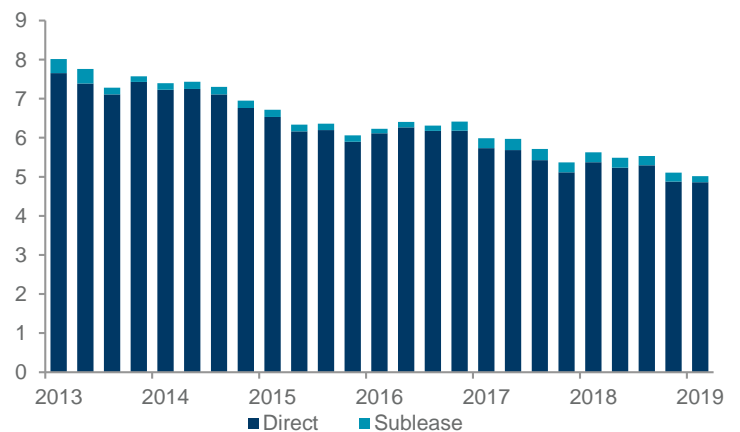


### “A NUMBER OF BIG BOX SPACES LEASED IN TRADITIONALLY UNPOPULAR SUBMARKETS AS THREE OF THE FOUR LARGEST LEASES TOOK PLACE IN SOUTH SACRAMENTO AND CARMICHAEL/ORANGEVALE/CITRUS HEIGHTS.”

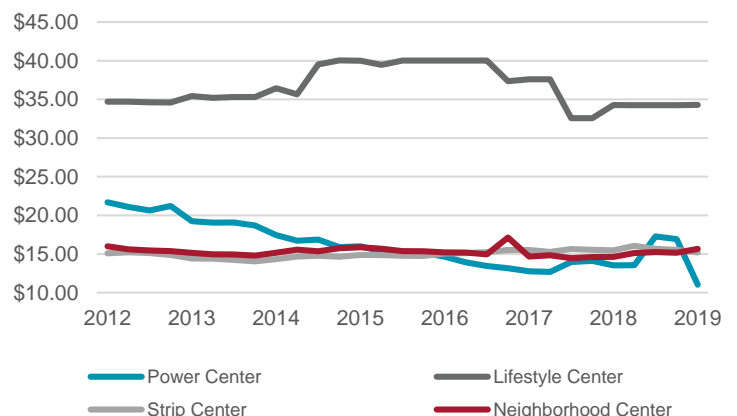
Retail investment sale activity was down from the fourth quarter of 2018 with \$63.6 million sold during the first quarter. Property values however rose significantly, up 16.7% QOQ to \$142 psf. Three buildings larger than 50,000 sf sold during the quarter with Zinfandel Crossings commanding the largest return. Beazer Homes divested the property to Ethan Conrad for \$31.9 million and \$282 psf. The largest sale on a psf basis was the 57,334 sf building at 5723-5759 Watt Avenue in North Highlands which sold to Sepravich/Domich Real Estate Development.

### Direct vs. Sublease Space Available Comparison (MSF)

SUBLEASE SPACE A NON-FACTOR



### Average Asking Rate by Center Type (NNN)



### Outlook

- Submarkets with the best incomes will continue to see strong rents while subprime submarkets will struggle to fill vacant space.
- New construction will counteract a lack of availability in Elk Grove, Folsom and other high-performing markets.
- Macro-level retail trends will continue to exert pressure on landlords to remain flexible.

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Submarket	Total		Available Space		Vacancy	Net Absorption		Avg. Asking Rate (NNN)	
	Inventory		Direct	Sublease		Q1-19	Q1-19		Q1-18
El Dorado Hills	2,993,351		178,033	0	178,033	5.9%	(6,082)	5,916	\$19.73
<b>El Dorado County Totals</b>	<b>2,993,351</b>		<b>178,033</b>	<b>0</b>	<b>178,033</b>	<b>5.9%</b>	<b>(6,082)</b>	<b>5,916</b>	<b>\$19.73</b>
Arden/Howe/Watt	8,758,269		722,998	49,652	772,650	8.8%	34,904	151,807	\$14.91
Carmichael/Orangevale/Citrus Heights	8,441,447		824,027	47,302	871,329	10.3%	(104,796)	15,810	\$16.45
Downtown/Midtown/East Sacramento	3,500,479		222,177	0	222,177	6.3%	55,731	17,338	\$21.58
Elk Grove	4,823,314		190,256	0	190,256	3.9%	(21,184)	5,443	\$21.85
Folsom	4,769,739		298,401	0	298,401	6.3%	37,564	(14,757)	\$19.97
Highway 50/Rancho Cordova	4,289,004		246,236	86,179	332,415	7.8%	(45,549)	26,480	\$13.72
Natomas	2,941,313		184,083	0	184,083	6.3%	13,645	305	\$17.71
Rio Linda/North Highlands	3,883,866		264,542	0	264,542	6.8%	(1,072)	45,333	\$13.45
South Sacramento	10,111,627		687,122	14,820	701,942	6.9%	142,360	216,909	\$13.39
<b>Sacramento County Totals</b>	<b>51,519,058</b>		<b>3,639,842</b>	<b>197,953</b>	<b>3,837,795</b>	<b>7.4%</b>	<b>111,603</b>	<b>464,668</b>	<b>\$16.04</b>
Auburn/Lincoln/Loomis	3,538,166		111,856	8,278	120,134	3.4%	(6,084)	3,571	\$16.87
Roseville/Rocklin	11,909,098		612,338	2,384	614,722	5.2%	76,375	66,988	\$18.32
<b>Placer County Totals</b>	<b>15,447,264</b>		<b>724,194</b>	<b>10,662</b>	<b>734,856</b>	<b>4.8%</b>	<b>70,291</b>	<b>70,559</b>	<b>\$18.08</b>
Davis	1,628,272		33,380	21,609	54,989	3.4%	(5,121)	1,471	\$22.76
West Sacramento	1,793,007		114,152	0	114,152	6.4%	3,044	8,428	\$10.32
Woodland	2,758,554		186,417	0	186,417	6.8%	170	(11,944)	\$9.11
<b>Yolo County Totals</b>	<b>6,179,833</b>		<b>333,949</b>	<b>21,609</b>	<b>355,558</b>	<b>5.8%</b>	<b>(1,907)</b>	<b>(2,045)</b>	<b>\$11.61</b>
<b>TOTALS</b>	<b>76,139,506</b>		<b>4,876,018</b>	<b>230,224</b>	<b>5,018,337</b>	<b>6.7%</b>	<b>541,360</b>	<b>539,098</b>	<b>\$15.74</b>

\*Rental rates reflect gross asking \$psf/year. \*\*Does not include Renewals

### Key Lease Transactions Q1 2019

PROPERTY	SF	TENANT	TRANSACTION TYPE	SUBMARKET
Broadstone Plaza II, Folsom	30,555	American Furniture Galleries	New Lease	Folsom
5005 Stockton Blvd, Sacramento	26,775	Goodwill	New Lease	South Sacramento
6328 Fair Oaks Blvd, Sacramento	21,440	Goodwill	New Lease	South Sacramento
6406-6472 Fair Oaks Blvd	15,326	Falling Prices	New Lease	Carmichael/Orangevale/Citrus Heights

### Key Sales Transactions Q1 2019

PROPERTY	SF	SELLER/BUYER	PRICE / \$PSF	SUBMARKET
5723-5759 Watt Ave, North Highlands	57,334	Audrey Quan/Separovich/Domich Real Estate Development	\$3,725,000 / \$64.97	Rio Linda/North Highlands
4811 Madison Ave, Sacramento	57,066	John McMichael Trust/Future Chevrolet of Sacramento	\$9,100,000 / \$159.46	Rio Linda/North Highlands
Zinfandel Crossings, Rancho Cordova	54,004	Beazer Homes/Ethan Conrad	\$31,850,000 / \$282	Roseville/Rocklin
8351 Elk Grove-Florin Rd, Sacramento	28,294	Damaschino Family Trust/R&R Management LLC	\$4,470,000 / 157.98	South Sacramento

## RETAIL SUBMARKETS

### SACRAMENTO



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### About Cushman & Wakefield

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