

MARKETBEAT

Sacramento

Retail Q2 2019



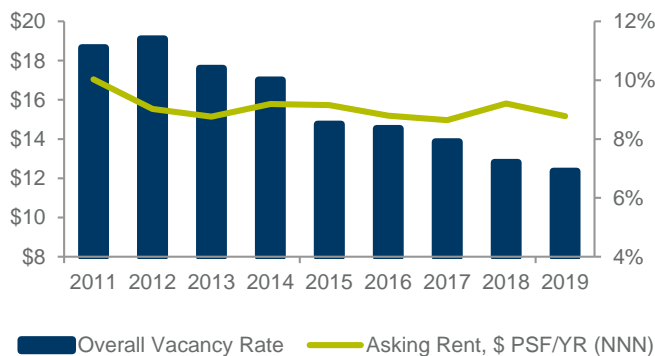
ECONOMIC INDICATORS

National	Q2 18	Q2 19	12-Month Forecast
GDP Growth	2.9%	2.6%	▼
CPI Growth	2.7%	1.8%	▲
Consumer Spending Growth	4.7%	4.5%	▼
Retail Sales Growth	5.6%	3.3%	▼

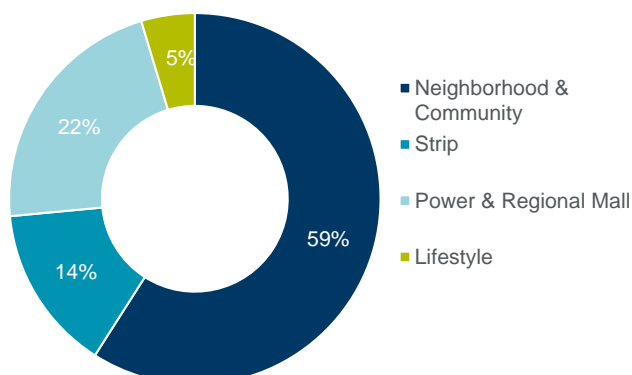
Regional	Q2 18	Q2 19	12-Month Forecast
Household Income	\$69,400	\$71,800	▲
Population Growth	1.1%	1.0%	▼
Unemployment	3.7%	3.9%	▲

Q2 2019 data are based on latest available data. Growth rates are year-over-year. Source: BLS, BOC, Moody's Analytics

Rental Rate vs. Overall Vacancy



Available SF by Center Type



Economy

The Sacramento economy remains strong with signs of continued prosperity across major industries. The employment market across the region is very tight, with an unemployment rate of only 3.9%, leaving little room for further decline despite ticking upward 20 basis points (bps) year-over-year (YOY). However, Sacramento continues to record strong population growth in recent years as people from the Bay Area look to maximize their income in an increasingly cost prohibitive market.

Long-term, the economic prospects are very strong. The region benefits from strong net migration numbers, and has begun attracting relocating employers. Centene, Penumbra and WeWork have all entered the market occupying more than 100,000 square feet (sf) each. Availability of 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 and population growth.

Market Overview

The Sacramento retail market recorded 246,000 sf of negative net absorption in the second quarter of 2019. Year-to-date (YTD) absorption remains positive totaling 83,000 sf thus far. Leasing activity was highlighted by a 86,000-sf Target transaction at Prospector's Plaza in El Dorado Hills. That property subsequently sold as the quarter's largest lease and sale transaction, trading for \$24.1 million.

Although the vacancy rate climbed 40 bps in the second quarter of 2019, it is down by 30 bps YOY. Placer County remains one of the market's most popular locations with both Roseville/Rocklin and Auburn/Lincoln/Loomis reporting a vacancy rate of less than 4.7% keeping the overall rate for the county at just 4.4%. Filling large, big box space remains a challenge throughout much of the region but landlords have found that low-cost, general goods suppliers as well as experiential retailers are poised to fill long vacant space.

Asking rates remain tied to local demographics with Davis, Elk Grove, and Folsom averaging \$22.84, \$21.92 and \$20.36 per square foot (psf) on an annual triple net basis (NNN), respectively. The Downtown/Midtown/East Sacramento submarket, in particular, has seen significant rent growth, specifically the area immediately surrounding the Golden1 Center, which has been a hotbed of restaurant and bar concepts.

Gross leasing activity fell for the second consecutive quarter reaching 389,000 sf bringing the YTD total 1.2 million square feet (msf). However, this amount was largely inline with 2018 totals. The South Sacramento submarket led the region in net absorption with 52,000 sf and was one of only two submarkets to post positive figures, Natomas' 3,000 sf being the other.

The market inventory reached 76.4 msf with 26,000 sf delivered during the quarter and an additional 161,000 sf under construction. Construction will remain a significant source of rent growth and net absorption as occupiers continually display a willingness to pay a premium rent to be close to their desired consumers.

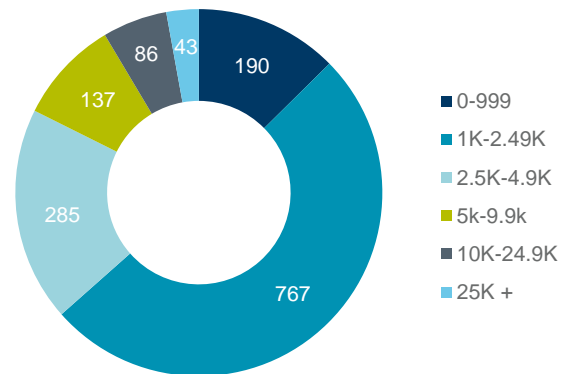
LEASING ACTIVITY WAS HIGHLIGHTED BY A 86,000-SF TARGET TRANSACTION AT PROSPECTOR'S PLAZA IN EL DORADO HILLS. THAT PROPERTY SUBSEQUENTLY SOLD FOR THE QUARTER'S LARGEST SALE AND LEASE TRANSACTION...

Retail investment sale activity was up from the first quarter of 2019 with \$81.2 million sold during the second quarter. Property values however fell slightly to \$123 psf, in line with sales figures from the second half of 2018. Five buildings larger than 50,000 sf sold during the quarter with the aforementioned Prospector's Plaza capturing the highest price. Weingarten Realty Investors divested the property to Rich Development Enterprises for \$20 million and \$97 psf. The largest sale on a psf basis was the 16,000-sf neighborhood center at 4021 Woodcreek Oaks Blvd in Roseville for \$441 psf.

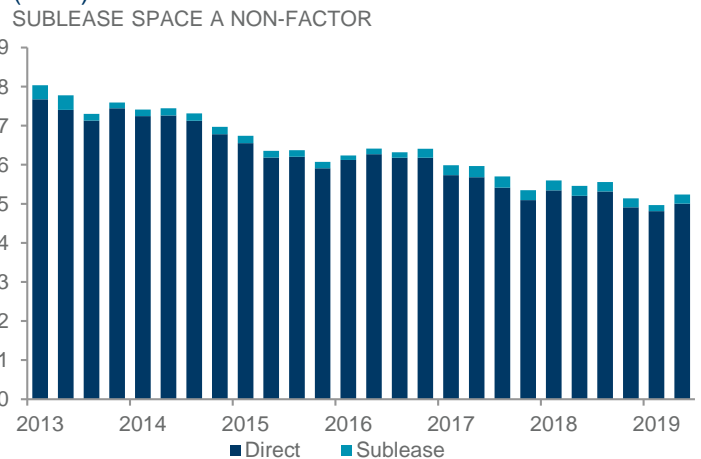
Outlook

- 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.

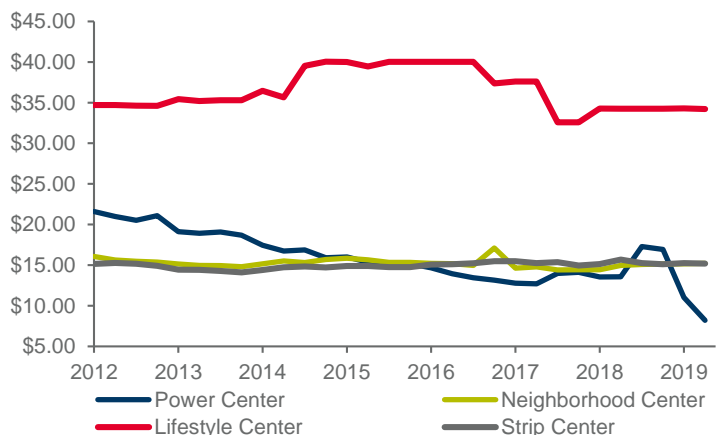
Availabilities by Size Segment
NUMBER OF OVERALL AVAILABILITIES IN ONE SUITE



Direct vs. Sublease Space Available Comparison (MSF)



Average Asking Rate by Center Type (NNN)



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Submarket	Total		Available Space		Vacancy Q2-19	Net Absorption		Avg. Asking Rate (NNN)
	Inventory	Direct	Sublease	Total		Q2-19	Q2-18	
El Dorado Hills	2,993,351	189,952	0	189,952	6.3%	(5,837)	(6,080)	\$18.34
El Dorado County Totals	2,993,351	189,952	0	189,952	6.3%	(5,837)	(6,080)	\$18.34
Arden/Howe/Watt	8,822,228	719,105	49,652	768,757	8.7%	(21,011)	6,179	\$14.59
Carmichael/Orangevale/Citrus Heights	8,369,839	920,782	71,991	992,773	11.9%	(86,465)	(13,569)	\$15.59
Downtown/Midtown/East Sacramento	3,594,574	201,575	0	201,575	5.6%	(1,904)	27,205	\$18.53
Elk Grove	4,823,314	197,043	17,340	214,383	4.4%	(9,051)	10,617	\$21.92
Folsom	4,769,739	306,141	1,234	307,375	6.4%	(46,538)	(7,072)	\$20.36
Highway 50/Rancho Cordova	4,326,698	383,407	10,021	393,428	9.1%	(14,271)	4,767	\$14.06
Natomas	2,951,976	167,348	0	167,348	5.7%	3,090	(14,630)	\$18.38
Rio Linda/North Highlands	3,883,866	295,316	0	295,316	7.6%	(9,702)	47,722	\$13.16
South Sacramento	10,155,574	525,430	50,776	576,206	5.7%	52,461	8,836	\$13.51
Sacramento County Totals	51,697,808	3,716,147	201,014	3,917,161	7.6%	(133,391)	70,055	\$15.74
Auburn/Lincoln/Loomis	3,561,022	120,108	8,278	128,386	3.6%	(1,668)	23,748	\$15.61
Roseville/Rocklin	11,917,531	547,202	1,314	548,516	4.6%	(8,869)	(40,028)	\$18.61
Placer County Totals	15,478,553	667,310	9,592	676,902	4.4%	(10,537)	(16,280)	\$18.04
Davis	1,635,313	41,413	24,344	65,757	4.0%	(4,347)	3,187	\$22.84
West Sacramento	1,793,007	111,108	0	111,108	6.2%	0	12,299	\$8.22
Woodland	2,766,455	278,390	0	278,390	10.1%	(92,143)	24,850	\$9.29
Yolo County Totals	6,194,775	430,911	24,344	455,255	7.3%	(96,490)	40,336	\$10.99
TOTALS	76,364,487	5,004,320	234,950	5,239,270	6.9%	(246,255)	88,031	\$15.17

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

Key Lease Transactions Q2 2019

PROPERTY	SF	TENANT	TRANSACTION TYPE	SUBMARKET
Prospector's Plaza	86,414	Target	New Lease	El Dorado Hills
Walerga Plaza.	57,790	California Family Fitness	New Lease	Rio Linda/North Highlands
205 Serpa Way	30,220	Green Acres Nursey & Supply	Renewal	Folsom
Florin Towne Center	13,000	Falling Prices	New Lease	South Sacramento

Key Sales Transactions Q2 2019

PROPERTY	SF	SELLER/BUYER	PRICE / \$PSF	SUBMARKET
Prospector's Plaza	243,907	Weingarten Realty Investors/Rich Development Enterprises, LLC	\$24,130,000 / \$99	El Dorado Hills
Norwood Center	72,882	Retail Opportunity Investments Corp/Viva Supermarket HQ	\$13,500,000 / \$185	Natomas
Foothill Farms Shopping Center	64,000	Rancho Broadway, Ltd / Alan Eleanor Gottlieb	\$5,212,500 / \$81	Orangevale/Citrus Heights
Fair Oaks Pointe	62,994	Bob Spence/Ethan Conrad Properties	\$7,556,000 / \$120	Orangevale/Citrus Heights

RETAIL SUBMARKETS

SACRAMENTO



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