

MARKETBEAT

Sacramento

Retail Q3 2019



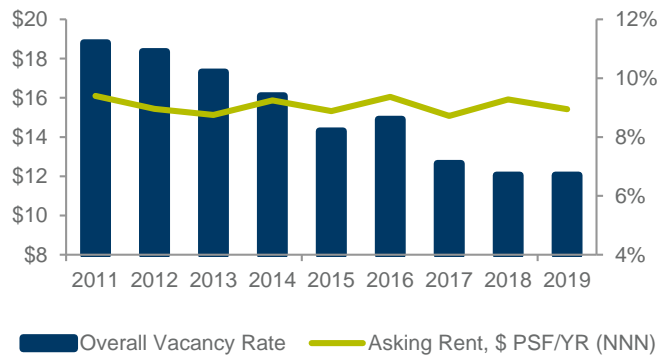
ECONOMIC INDICATORS

National	Q3 18	Q3 19	12-Month Forecast
GDP Growth	3.1%	2.1%	▼
CPI Growth	2.6%	1.8%	▲
Consumer Spending Growth	5.9%	4.1%	▲
Retail Sales Growth	5.6%	3.7%	▼

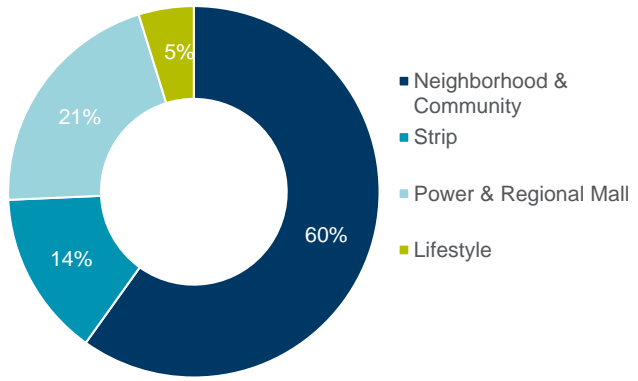
Regional	Q3 18	Q3 19	12-Month Forecast
Household Income	\$70,000	\$72,000	▲
Population Growth	1.0%	1.0%	▼
Unemployment	3.6%	3.8%	▲

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

Sacramento's economy remains healthy with opportunities for continued expansion throughout the region. The unemployment rate rose slightly year-over-year (YOY), increasing 20 basis points (bps) to 3.8%. Nevertheless, the market remains at near full-employment with growing highly skilled, highly educated workforce. Additionally, the Sacramento labor market continues to diversify away from the traditional government employment base, with healthy increases in both cyclical and defensive labor sectors; balancing growth while reducing the risk of job loss in future economic downturns.

Long-term, the economic prospects are very strong. Household income continues to grow up 2.8% YOY. The region benefits from strong net migration numbers, holding the population growth rate at 1.0%. 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 270,000 sf of positive net absorption in the third quarter of 2019. Year-to-date (YTD) absorption grew to 341,000 sf thus far. Leasing activity was highlighted by a 49,000-sf Scandinavian Designs transaction at Elk Grove Marketplace in Elk Grove.

The vacancy rate fell 20 bps in the third quarter of 2019, it is down by 60 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 4.5% keeping the overall rate for the county at just 4.2%. 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 Elk Grove, Folsom, and Natomas averaging \$20.84, \$20.66 and \$20.29 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. More is expected as the area continues to be prime location for new developments.

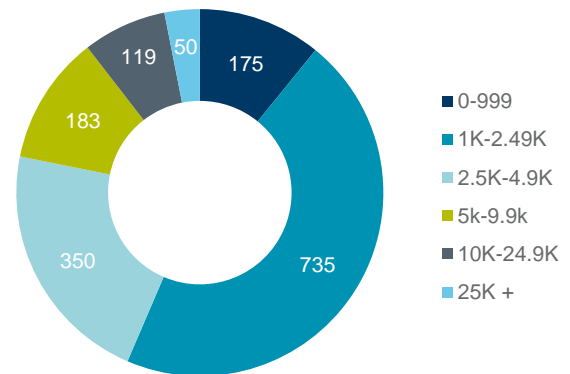
Gross leasing activity rose during the third consecutive quarter reaching 655,000 sf bringing the YTD total 1.9 million square feet (msf). This amount was largely inline with 2018 totals. The Roseville/Rocklin submarket led the region in net absorption with 139,000 sf and was one of four submarkets to exceed 40,000 sf during the period, Rio Linda/North Highlands, Arden/Howe/Watt, and Folsom being the others.

The market inventory reached 76.5 msf with 130,000 sf delivered during the quarter and an additional 131,000 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.

“THE DOWNTON/MIDTOWN/EAST SACRAMENTO SUBMARKET, IN PARTICULAR, HAS SEEN SIGNIFICANT RENT GROWTH, SPECIFICALLY THE AREA IMMEDIATELY SURROUNDING THE GOLDEN1 CENTER...”

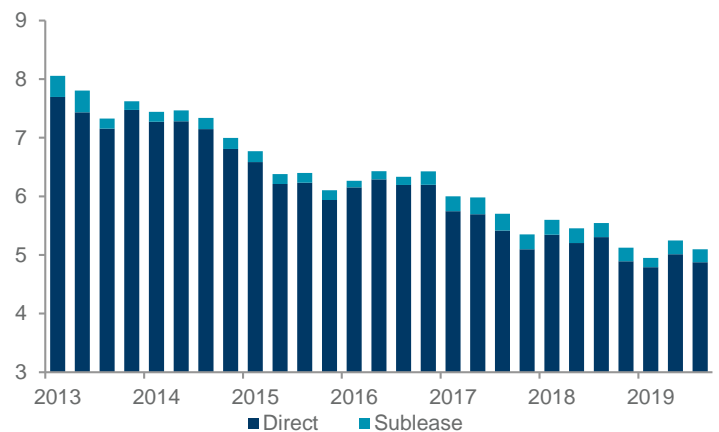
Retail investment sale activity was down from the second quarter of 2019 with \$61.5 million sold during the third quarter. However, property values however rose to \$159 psf, a YOY increase of 21.5%. Only two buildings larger than 50,000 sf sold during the quarter, with Stockton Square capturing the highest price. TK Waterhouse divested the property to Kien Giang Luong for \$19 million and \$183.50 psf. The largest sale on a psf basis was the 14,000-sf Walgreens at 6819 Watt Avenue in North Highlands for \$488 psf.

Availabilities by Size Segment
NUMBER OF OVERALL AVAILABILITIES IN ONE SUITE

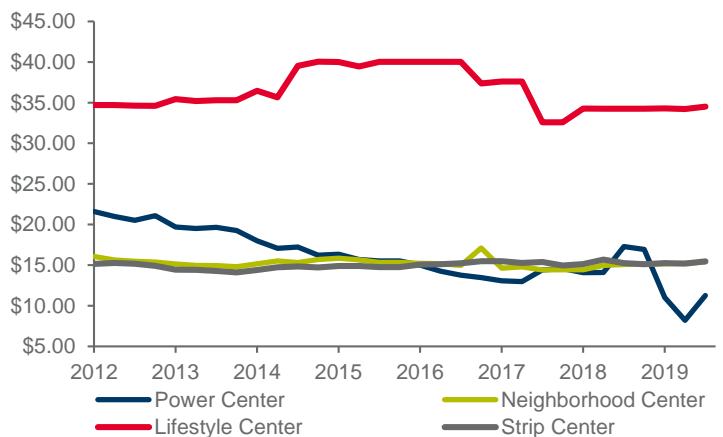


Direct vs. Sublease Space Available Comparison (MSF)

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 Q2-19	Net Absorption		Avg. Asking Rate (NNN)	
	Inventory		Direct	Sublease		Q2-19	Q2-18		
El Dorado Hills	2,941,471		201,433	0	201,433	6.8%	(11,481)	(13,255)	\$18.36
El Dorado County Totals	2,941,471		201,433	0	201,433	6.8%	(11,481)	(13,255)	\$18.36
Arden/Howe/Watt	8,780,021		689,729	49,652	739,381	8.4%	43,476	95,260	\$14.71
Carmichael/Orangevale/Citrus Heights	8,472,676		959,337	71,991	1,031,328	12.2%	(38,555)	(123,842)	\$15.55
Downtown/Midtown/East Sacramento	3,530,481		209,208	0	209,208	5.9%	(7,633)	20,126	\$19.37
Elk Grove	4,712,703		187,310	17,340	204,650	4.3%	9,733	97,770	\$20.84
Folsom	4,790,824		264,121	2,054	266,175	5.6%	42,019	11,398	\$20.66
Highway 50/Rancho Cordova	4,408,973		383,918	10,021	393,939	8.9%	(3,991)	28,389	\$14.40
Natomas	2,937,121		145,239	0	145,239	4.9%	22,109	6,250	\$20.29
Rio Linda/North Highlands	3,896,218		223,733	0	223,733	5.7%	71,993	579	\$13.18
South Sacramento	10,151,911		550,579	35,956	586,535	5.8%	(10,329)	14,786	\$13.77
Sacramento County Totals	51,680,928		3,613,174	187,014	3,800,188	7.4%	128,822	150,716	\$15.89
Auburn/Lincoln/Loomis	3,609,874		104,403	8,278	112,681	3.1%	18,705	17,386	\$15.61
Roseville/Rocklin	12,019,149		543,323	1,314	544,637	4.5%	138,590	(61,304)	\$19.02
Placer County Totals	15,629,023		647,726	9,592	657,318	4.2%	157,295	(43,918)	\$18.44
Davis	1,655,599		48,260	24,344	72,604	4.4%	570	(723)	\$19.37
West Sacramento	2,787,385		267,135	0	267,135	9.6%	(17,648)	(1,133)	\$9.25
Woodland	2,787,385		267,135	0	267,135	9.6%	(17,648)	(1,133)	\$9.25
Yolo County Totals	7,230,369		582,530	24,344	606,874	8.4%	(34,726)	(2,989)	\$10.46
TOTALS	76,509,427		4,875,938	220,950	5,096,888	6.7%	270,456	88,101	\$15.42

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

Key Lease Transactions Q3 2019

PROPERTY	SF	TENANT	TRANSACTION TYPE	SUBMARKET
Elk Grove Marketplace	49,262	Scandinavian Designs	New Lease	Elk Grove
Florin Square Shopping Center	40,260	Bayside Church of Sacramento	New Lease	South Sacramento
Foothill Village Oaks	27,000	Ripped Fitness	New Lease	Roseville/Rocklin
Madison Plaza	21,890	Ross Dress for Less	New Lease	Carmichael/Orangevale/Citrus Heights

Key Sales Transactions Q3 2019

PROPERTY	SF	SELLER/BUYER	PRICE / \$PSF	SUBMARKET
Macy's at Country Club Plaza	156,595	Jero Enterprises/EDM Realty Corp	\$5,576,000 / \$35.61	Arden/Watt/Howe
Stockton Square	103,545	TK Warehouse/Kien Giang Luong	\$19,000,000 / \$183.50	South Sacramento
County Fair Mall	84,351	Frank Zeng/Northern Valley Indian Health	\$3,700,000 / \$43.86	Woodland
3 Property Portfolio (North Highlands)	61,043	Lily Company/Faith Fellowship Church	\$2,685,000 / \$43.99	Rio Linda/North Highlands

RETAIL SUBMARKETS

SACRAMENTO



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