TRI COMMERCIAL
REAL ESTATE SERVICES

SACRAMENTO RETAIL

Q3 2016

OSBORNE GROUP

MARKET OVERVIEW

▶**Retail Market:** The Sacramento retail market fared well at the close of the third quarter as vacancy rates have continued to trend downward and net absorption has stayed positive for four consecutive years, averaging 330,000 square feet per quarter. Among other positive trends to note, transaction activity has remained high, averaging 1.8 million square feet per quarter since the third quarter of 2015.

▶**Vacancy Rates:** In comparison to the previous quarter, the vacancy rate decreased 16 basis points to 8.04%, which is still amongst the lowest vacancy rates seen since 2008. The largest retail submarkets – Roseville/Rocklin, South Sacramento, and Arden/Watt/Howe – had vacancy rates of 6.61%, 8.47%, and 10.27%. The lowest vacancy rates were also seen in Downtown/Midtown/E Sac, West Sacramento, and Davis with rates at 4.34%, 3.84% and 2.63%, respectively. The highest vacancy rates, however, were seen in the Yuba County and Highway 50 Corridor submarkets at 23.44% and 12.46%.

▶**Lease Rates:** At the close of the third quarter, the average asking triple net lease rate for the Sacramento retail market was $1.36, which is a $0.02 increase from the previous quarter. Within the two largest submarkets – Roseville/Rocklin and South Sacramento – the average asking lease rates were $1.54 and $1.32 per square foot. Some of the highest average asking lease rates, however, were seen in the Lincoln and Outer Sutter County submarkets at $2.05 and $2.29 per square foot, respectively.

▶**Sale & Lease Transactions:** Transaction activity at the close of the third quarter was 1.6 million square feet, which is lower than the previous quarter's figure of 2 million square feet. Given that there is often a delay for final figures to be totaled, this quarter's figure will slightly increase in the next market report. Please refer to page two for more information on this quarter's noteworthy transactions.

▶**Absorption:** The retail market ended the third quarter with 235,338 square feet of positive net absorption. The Arden/Watt/Howe submarket recorded the highest net absorption with a total of 132,069 square feet, and the Rio Linda/N Highlands submarket recorded the second highest net absorption of 68,581 square feet. Alternatively, the Outer Sutter County submarket recorded a negative net absorption of 75,539 square feet.

▶**Development:** The Sacramento retail market delivered 74,474 square feet of new retail space during the third quarter. Among the largest of those projects was a 43,049 square foot retail/auto dealership for Audi in the Roseville/Rocklin submarket. There are currently 1.25 million square feet of retail space under construction. The largest project under construction is a regional mall in the Elk Grove submarket totaling 510,645 square feet and is expected to be delivered in March 2017. Currently, there are 10.55 million square feet of proposed retail space for the Sacramento Region.

▶**Third Quarter Review:** Overall, vacancy rates have declined further and net absorption has remained positive for seventeen consecutive quarters. According to the most recent Sacramento employment figures, the unemployment rate remained at 5.5% in August of 2016. As the job market further improves, the commercial retail market is expected to continue as one of the strongest for the Sacramento Region.

SACRAMENTO RETAIL TRENDS | THIRD QUARTER 2016

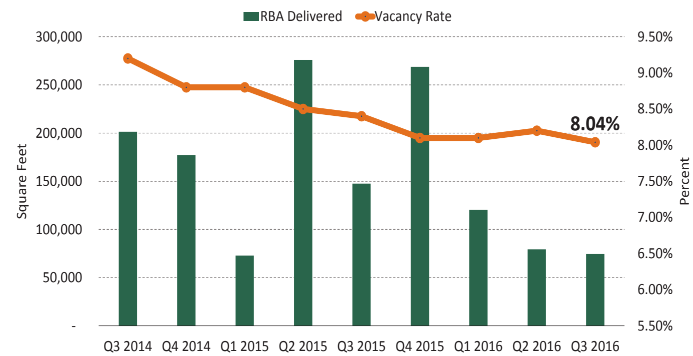
ARROWS REPRESENT CHANGES FROM THE PREVIOUS QUARTER

MARKET INDICATORS	Vacancy	Lease Rates (NNN)	Net Absorption	Transaction Activity
Q3 2016	8.04%	$1.36	235,338	1,609,745
Q2 2016	8.20%	$1.34	12,997	2,043,442

THESE STATISTICS ENCOMPASS THE ENTIRE SURVEY, WHICH INCLUDES ALL RETAIL PROPERTY TYPES.

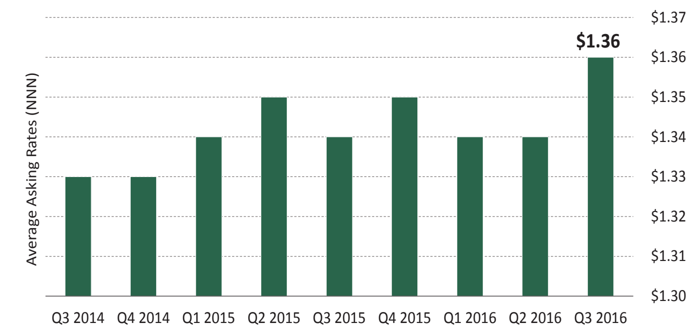
NEW DELIVERIES VS. VACANCY RATE

SQUARE FEET DELIVERED PER QUARTER VS. VACANCY RATE



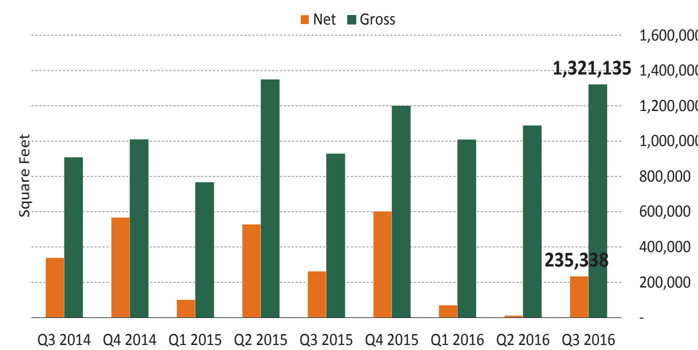
AVERAGE ASKING RATES

WEIGHTED AVERAGE RENT BASED ON TOTAL SQUARE FOOTAGE



NET & GROSS ABSORPTION

NET - TOTAL SQ. FT. OCCUPIED LESS THE SQ. FT. VACATED & GROSS - TOTAL SQ. FT. OCCUPIED



NOTEWORTHY TRANSACTIONS

LEASE TRANSACTIONS I NOTABLE RETAIL LEASES SIGNED

Property Address	Submarket	Tenant	Landlord	Date Lease Signed	Sq. Ft. Leased
384 N Sunrise Ave. (Power Center)	Roseville/Rocklin	Undisclosed	Roseville Centre Point, LLC	September 8, 2016	64,085
1262 Stabler Ln. (Community Center)	Outer Sutter County	Grange Co-Up	Butte House Bel Air Investors	August 8, 2016	36,566
905 E Bidwell Street (Neighborhood Center)	Folsom	Sprouts Farmers Market	KTJ 287, LLC	September 1, 2016	30,326
2061 Lake Tahoe Blvd. (Retail Building)	Outer El Dorado County	Undisclosed	Embarcadero Holdings One, LLC	August 29, 2016	23,942
970-998 Oak Ln. (Neighborhood Center)	Rio Linda/N Highlands	Undisclosed	Samuel Peter A Trust	August 31, 2016	17,000

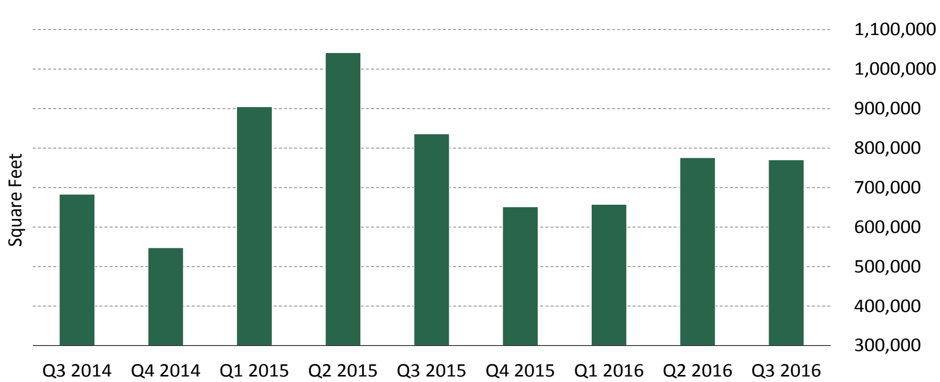
SALE TRANSACTIONS I NOTABLE RETAIL SALES

Property Address	Submarket	Buyer	Seller	Bldg. Sq. Ft.	Sale Price
3645-3663 Elkhorn Blvd. (Mixed, 5 Properties)	Rio Linda/N Highlands	Watt Town Center Retail Partners, LLC	Watt Elkhorn Associates, LP	133,399	$13,700,000
973 Pleasant Grove Blvd. (5 Properties)	Roseville/Rocklin	PL CH Retail Fund I of Sacramento	PG Highland Pointe, LLC	39,742	$12,000,000
6199 Sunrise Blvd.	Orangevale/Citrus Heights	United American Properties	Cordano Devco, LLC	14,820	$10,416,681
3907 Park Drive (6 Properties)	El Dorado	Ethan Conrad Properties	C-III Capital Partners, LLC	63,198	$10,250,000
865 Colusa Ave.	Outer Sutter County	Veral and Vishal Masani	Mariani Yuba City, LLC	30,579	$7,200,000

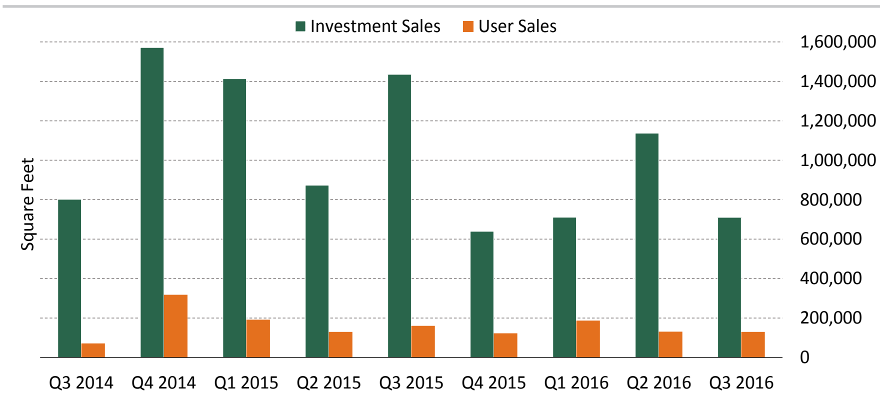
MARKET SNAPSHOT

	Q3 2016	Q3 2015	% Change vs. Q3 2015
Vacancy Rate	8.04%	8.40%	-4.29%
Availability Rate	9.46%	9.50%	-0.42%
Avg. Asking Lease Rate	$1.36	$1.34	1.49%
Gross Absorption	1,321,135	928,875	42.23%
Net Absorption	235,338	264,037	(N/A)

LEASE TRANSACTIONS I AMOUNT OF SQUARE FEET LEASED PER QUARTER



SALES TRANSACTIONS I AMOUNT OF SQUARE FEET SOLD PER QUARTER



TRI COMMERCIAL | SACRAMENTO RETAIL SUBMARKET STATISTICS

Submarket	Total Buildings	Net Rentable Square Feet	Vacant Square Feet	Vacancy Rate Q3 2016	Occupied Square Feet	Occupancy Rate Q3 2016	Available Square Feet	Availability Rate Q3 2016	Net Absorption Q3 2016	YTD Net Absorption	Gross Absorption Q3 2016	YTD Gross Abosorption	Under Construction Square Feet	Proposed Square Feet	Average Asking Rate (All Classes)
Arden/Watt/Howe	962	11,174,924	1,147,708	10.27%	10,027,216	89.73%	1,278,189	11.44%	132,069	(54,129)	235,598	459,287	156,425	210,849	$1.28
Auburn/Loomis	371	3,531,460	145,566	4.12%	3,385,894	95.88%	144,048	4.08%	9,485	71,301	24,360	128,270	25,800	489,244	$1.70
Carmichael	298	2,873,940	243,728	8.48%	2,630,212	91.52%	311,392	10.84%	(5,037)	12,486	39,497	104,436	0	32,270	$1.22
Davis	196	2,194,975	57,742	2.63%	2,137,233	97.37%	68,328	3.11%	6,292	24,736	14,632	45,770	0	109,725	$1.74
Downtown/Midtown/E Sac	836	6,050,210	262,390	4.34%	5,787,820	95.66%	405,826	6.71%	(16,820)	(40,386)	57,878	116,112	345,983	1,636,792	$1.25
El Dorado	355	4,077,379	243,189	5.96%	3,834,190	94.04%	264,907	6.50%	27,131	24,288	45,070	125,679	19,061	334,237	$1.58
Elk Grove	354	5,760,075	313,845	5.45%	5,446,230	94.55%	342,063	5.94%	3,314	10,570	56,760	165,570	510,645	1,527,378	$1.59
Folsom	303	5,648,492	359,727	6.37%	5,288,765	93.63%	351,236	6.22%	7,898	74,740	59,748	162,994	116,636	124,178	$1.83
Highway 50 Corridor	363	5,395,137	672,298	12.46%	4,722,839	87.54%	791,567	14.67%	26,960	57,208	82,735	356,666	1,687	783,681	$0.97
Lincoln	168	1,630,155	80,464	4.94%	1,549,691	95.06%	111,725	6.85%	10,956	17,847	16,572	46,984	0	193,018	$2.05
Natomas	265	3,862,785	289,387	7.49%	3,573,398	92.51%	347,391	8.99%	11,874	9,071	33,505	91,414	0	315,719	$1.56
Orangevale/Citrus Heights	564	8,153,078	945,108	11.59%	7,207,970	88.41%	1,206,610	14.80%	25,929	(81,965)	76,181	207,596	24,306	209,597	$1.30
Outer El Dorado County	315	2,627,257	124,643	4.74%	2,502,614	95.26%	137,498	5.23%	7,689	12,919	23,161	40,917	18,000	11,005	$1.76
Outer Placer County	183	1,379,879	50,824	3.68%	1,329,055	96.32%	61,948	4.49%	2,183	776	9,267	33,168	0	0	$1.35
Outer Sacramento County	145	1,213,168	36,138	2.98%	1,177,030	97.02%	45,498	3.75%	2,042	14,222	10,070	28,590	0	152,700	$1.85
Outer Sutter County	344	4,463,605	444,594	9.96%	4,019,011	90.04%	470,364	10.54%	(75,539)	(68,194)	17,501	61,032	0	301,675	$2.29
Outer Yolo County	58	361,603	2,000	0.55%	359,603	99.45%	6,850	1.89%	0	1,420	0	1,420	0	46,920	$1.60
Rio Linda/N Highlands	431	5,249,983	541,702	10.32%	4,708,281	89.68%	524,344	9.99%	68,581	33,662	100,480	170,978	0	284,346	$1.01
Roseville/Rocklin	906	14,753,157	974,877	6.61%	13,778,280	93.39%	1,128,651	7.65%	51,931	133,549	165,080	501,079	19,200	868,738	$1.54
South Sacramento	1,146	12,728,732	1,077,906	8.47%	11,650,826	91.53%	1,501,218	11.79%	(64,764)	37,526	177,119	371,474	12,000	1,715,366	$1.32
West Sacramento	181	2,319,601	89,149	3.84%	2,230,452	96.16%	96,782	4.17%	(8,891)	(6,933)	15,620	40,315	0	24,500	$1.04
Woodland	270	3,565,370	295,776	8.30%	3,269,594	91.70%	371,283	10.41%	7,329	(9,139)	50,531	94,782	0	183,793	$0.98
Yuba County	244	2,402,902	563,355	23.44%	1,839,547	76.56%	571,445	23.78%	4,726	44,339	9,770	63,218	0	999,972	$1.03
Retail Market Totals	**9,258**	**111,417,867**	**8,962,116**	**8.04%**	**102,455,751**	**91.96%**	**10,539,163**	**9.46%**	**235,338**	**319,914**	**1,321,135**	**3,417,751**	**1,249,743**	**10,555,703**	**$1.36**

Average asking rates represented are triple net.

TRI COMMERCIAL
REAL ESTATE SERVICES

SACRAMENTO RETAIL

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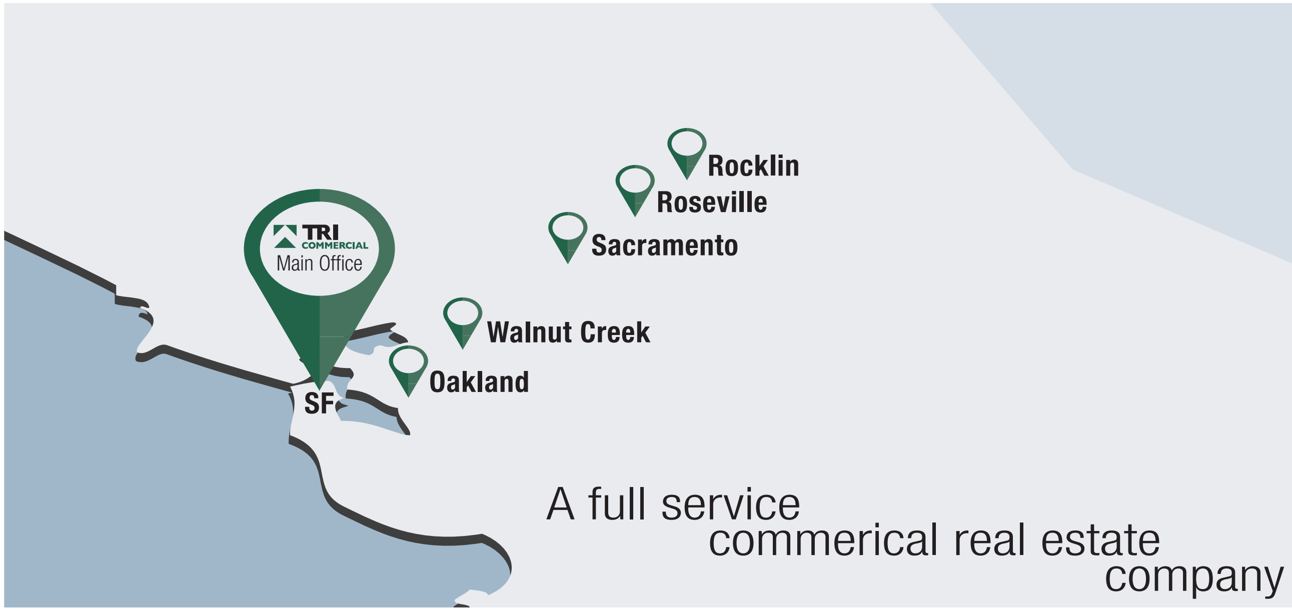
NORTHERN CALIFORNIA MAP | TRI OFFICE LOCATIONS:



MAP IS NOT TO SCALE

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