



# Retail Report

Q3 2016  
GALLELLI REAL ESTATE MARKET REPORT

## Sports Authority Vacancies Hit the Market; Strong Leasing Helps to Absorb Impact

Regional shopping center vacancy experienced a minor fluctuation during Q3 2016, ending the quarter at 10.5%. This marks a slight decline over the 10.6% rate that was recorded three months ago. All six local Sports Authority stores vacated during the quarter, putting over 230,000 square feet back onto the market; however, the market also saw a number of large move-ins which helped to absorb some of the impact of these vacancies. The largest occupancy of the quarter occurred at Country Club Plaza, where Winco Foods moved into their 92,000-square-foot space in the former Gottschalks building. Another notable occupancy during Q3 was Mojo Dojo (a trampoline entertainment center), which opened in 43,000 square feet in the Rio Linda/North Highlands submarket. The market recorded nearly 84,000 square feet of positive net absorption during the quarter; however, the positive absorption recorded during Q3 was not enough to push year-to-date figures out of the red; year-to-date net absorption currently stands at negative 62,000 square feet. This is a significant decline over the same time period last year, which saw over 396,000 square feet of positive net absorption.

Though overall market performance was lackluster, leasing activity actually increased during Q3, with the market recording over 859,000 square feet of deals. Year-to-date, over 2.3 million square feet of retail leases have been signed, which is a significant increase over the same time period last year, which saw 1.8 million square feet of leases signed.



## Investment Highlights

- Retail investment activity saw a decline during Q3, as the market recorded \$47.1 million in total dollar volume over 8 transactions, which is down from the \$91.9 million recorded during Q2.
- The average price per square foot also dropped during Q3, going from \$180 per square foot to \$129 per square foot. This was primarily due to the fact that there were no Class A retail center sales during Q3; the majority of sales were for older, Class B and C centers.
- The average asking cap rate for retail investments went from 6.0% during Q2 to 7.7% during Q3.
- A number of key shopping centers came to market during Q3, including Rocky Ridge Town Center in Roseville, Country Gables Shopping Center in Granite Bay, Madison Marketplace in Fair Oaks, and Florin Towne Center in South Sacramento.
- The largest retail investment sale of the quarter was the sale of Watt Towne Center located within the Rio Linda/North Highlands submarket. The 143,768-square-foot center sold for \$13.7 million at a 7.50% cap rate.

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# Retail Q32016

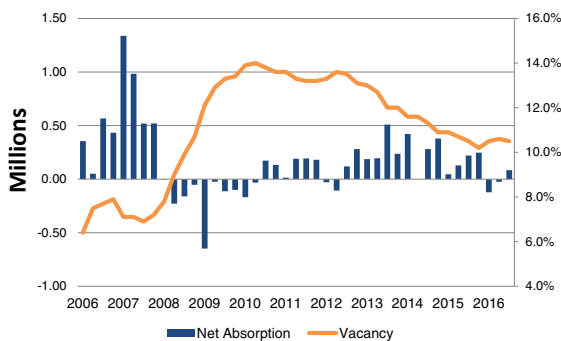
**New retail construction remains limited, primarily due to the rising costs of ground-up construction.**

<p>Vacancy</p> <h1>10.5%</h1> <p>▼</p>	<p>Net Absorption</p> <h1>83,591</h1> <p>▲</p>	<p>Avg. Asking Rate</p> <h1>\$17.33</h1> <p>▲</p> <p>PSF</p>
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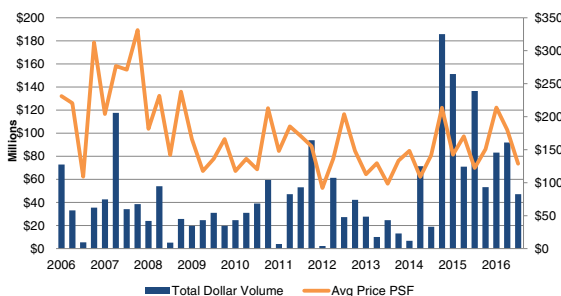
## Market Trends

- Occupancy losses were notable during the quarter, as the local Sports Authority vacancies hit the market. The largest loss was experienced in the Folsom submarket, which recorded negative 44,000 square feet of net absorption. Carmichael/Citrus Heights/Orangevale, Natomas, and Woodland also experienced occupancy losses in excess of 20,000 square feet during the quarter.
- Though retail leasing activity is steady, overall market momentum has slowed. Market conditions have been impacted in part due to uncertainty stemming from the upcoming presidential election, as many landlords and investors are being cautious with real estate decisions until after the election outcome is known and the effects understood.
- ‘Ma-and-Pa’ tenants are returning to the marketplace - activity from locally owned businesses has increased within the region, and these tenants are filling the remaining available inline space within neighborhood and community centers.
- Some of the first stores within the newly-constructed Howe ‘Bout Arden (HBA) center expansion took occupancy - both HomeGoods and Nordstrom Rack have occupied and since opened their locations within the center. The HBA center is now moving closer to completion, with the currently-under construction Century movie theatre slated to deliver in December.
- The overall average asking rate for retail space remained flat at \$17.33 per square foot, on an annual, NNN basis. The average asking rate for Class A specialty centers stood at \$26.16 per square foot, where it has remained for the last two consecutive quarters; neighborhood and community centers currently stand at \$16.56 per square foot; Strip centers are currently asking \$15.84 per square foot; and regional/power centers are currently commanding \$15.24 per square foot on an annual, NNN basis.\*

Retail Vacancy vs. Net Absorption



Retail Investment Sales Volume



\*Average asking rates are based upon publicly quoted rents; withheld rents are not included in survey and are averaged over all product sizes.



Construction  
**\*466,121** SF  
 —

Sacramento Unemployment  
**5.5%**  
 ▼

US Unemployment  
**5.0%**  
 ▲

## Class A Market Trends

- Vacancy in Sacramento's Class A centers increased during Q3, climbing from 7.1% during Q2 to its current rate of 7.5%. This increase in vacancy was primarily attributable to the Sports Authority vacancies, as all these stores were located within Class A grocery-anchored centers or regional power centers.
- Net absorption for Class A space was negative for the quarter, recording just over 58,000 square feet of negative absorption. Year-to-date net absorption remains in the red at negative 127,000 square feet.
- Rents for shop space within Class A centers continue to climb, especially within high-demand submarkets. Average asking rates for shop space within submarkets like Roseville/Rocklin and Folsom have surpassed \$36.00 per square foot, per year. Folsom continues to have the highest overall Class A rents in town at \$33.24 per square foot, per year.
- New retail construction remains limited, primarily due to the rising costs of ground-up construction. Though there is currently 466,000 square feet of new retail projects under construction throughout the region, the majority of these projects are either expansions at existing centers (Howe 'Bout Arden) or new centers from large developers that have been in the works for years, and the developers have no choice but to go forward with construction (centers such as the existing Rocklin Commons, Rocklin Crossings, and the future Delta Shores, which is slated to break ground this fall).

## Research

Our team focuses on providing high quality, data driven, accurate market information to our clients. We provide in-depth commercial real estate market analysis and insight into market trends in order to help optimize our clients' real estate decisions.

\*The Outlet Collection at Elk Grove (510,645 SF) was erroneously listed as under construction during Q2 and has been removed from the numbers. Construction on the Outlets has not started.

## Outlook

Though Q3 saw a slowdown in market momentum, regional leasing activity remained strong and has helped absorb some of the impact of the wave of corporate retail closures that has taken place over the last nine months. As a result, retail shopping center vacancy has flattened rather than increased. The average asking rent for all shopping center types remains flat; however, Class A shop rents will continue to rise, as Class A shop availabilities are declining.

Vacancy should remain flat through the end of the year, as these corporate closures are not completely over - Kohl's on Olson Drive in Rancho Cordova still has yet to hit the market and will likely do so during Q4. Though the 76,000-square-foot store closed back in June, Kohl's continues to lease the space and it is not yet being actively marketed. The good news is that some of these vacancies are already being filled. Dick's Sporting Goods successfully bid for and won the rights to a number of Sports Authority leases - locally, they will take over the Elk Grove and Roseville locations. Also, Goodwill will take over part of one of the vacant SaveMart spaces in Orangevale. When these three locations become occupied (which will not happen until 2017), they will add over 100,000 square feet to the retail market.

## Market Statistics

Submarket	Inventory	Direct	Available Space Sublease	Total	Vacancy Q3-16	Net Absorption		SF Under Construction	Avg. Asking Rate (NNN)
						Q3-16	Q3-15		
Arden/Watt/Howe	5,806,203	1,019,364	27,500	1,046,864	18.0%	90,368	5,421	116,955	\$17.04
Auburn/Lincoln/Loomis	2,625,464	172,699	0	172,699	6.6%	12,108	11,693	12,000	\$18.12
Carmichael/Citrus Heights/Orangevale	6,632,068	837,682	75,100	912,782	13.8%	(38,490)	(27,310)	24,306	\$15.24
Davis	1,046,620	50,612	0	50,612	4.8%	7,812	888	0	\$21.00
Downtown/Midtown	1,349,280	46,480	0	46,480	3.4%	(3,871)	(1,169)	279,860	\$18.00
El Dorado	2,528,817	204,697	4,050	208,747	8.3%	6,134	(1,855)	0	\$20.52
Elk Grove	4,494,206	282,906	0	282,906	6.3%	(14,535)	25,638	0	\$18.96
Folsom	4,657,890	386,516	1,544	388,060	8.3%	(44,397)	(3,069)	0	\$21.48
Highway 50	3,303,795	453,283	10,021	463,304	14.0%	35,154	(56,542)	0	\$13.44
Natomas	3,131,335	300,380	5,900	306,280	9.8%	(26,786)	3,071	0	\$19.20
Rio Linda/North Highlands	2,917,196	392,244	10,276	402,520	13.8%	74,094	26,833	0	\$13.56
Roseville/Rocklin	10,512,077	916,678	9,682	926,360	8.8%	1,937	202,528	33,000	\$17.16
South Sacramento	7,557,466	900,639	0	900,639	11.9%	7,512	16,696	0	\$14.88
West Sacramento	1,767,684	49,213	0	49,213	2.8%	60	4,776	0	\$18.24
Woodland	2,258,868	229,764	0	229,764	10.2%	(23,509)	13,471	0	\$13.13
<b>Totals</b>	<b>60,588,969</b>	<b>6,243,157</b>	<b>144,073</b>	<b>6,387,230</b>	<b>10.5%</b>	<b>83,591</b>	<b>221,070</b>	<b>466,121</b>	<b>\$17.33</b>

## About Gallelli Real Estate

Gallelli Real Estate is a boutique firm that specializes in commercial estate services and property management. We believe that as a boutique firm whose understanding of the business runs as deep as our core values, our advantage is large. We take pride in our unique approach to offer more individual solutions that address the ever changing needs of our clients and the industry. After all, our success is measured by the success of our clients and the strength and longevity of our relationships. For the latest news from Gallelli Real Estate, visit [GallelliRE.com](http://GallelliRE.com), or follow us on Twitter @Gallelli\_RE and LinkedIn.

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