



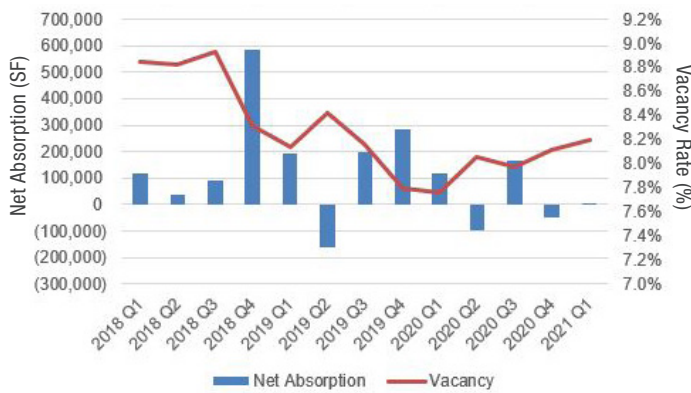
# Q1 RETAIL MARKET REPORT

## MARKET OVERVIEW

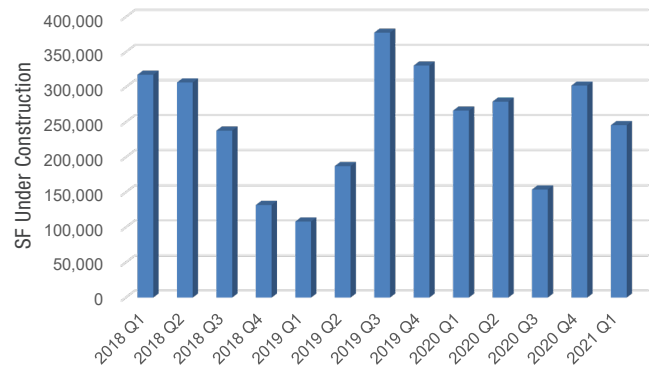
Sacramento's retail market has weathered the coronavirus pandemic and its resulting economic dislocation very well. Retailers have been forced to shutter or curtail operations on multiple occasions by state mandate, but it appears stimulus funds and the temporary eviction moratorium have helped from any notable vacancy expansion thus far. Nonetheless, demand over the last 12 months has been strongly effected while rents have seen little movement.

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## Retail Net Absorption vs. Vacancy Rate



## Retail Under Construction



## MARKET TRENDS

Just over a year into the coronavirus pandemic, retail vacancies in Sacramento have only increased modestly. While most retailers have been forced to operate at a limited capacity and some have endured multiple rounds of closures, the vacancy rate currently sits at 8.2%, a marginal uptick quarter over quarter. This is largely due to the strategies such as rent abatement (forgiving rent) for mom & pop shops, rent deferral for larger national tenants and blend and extend rolling leases to help tenants ease on rent but guarantee longer occupancy levels for landlords. Additionally, PPP Funds drastically helped businesses weather the storm to assist with payroll and rent. The collective creativity between landlords and tenants is remarkable and proves the resilience of the Sacramento retail market.

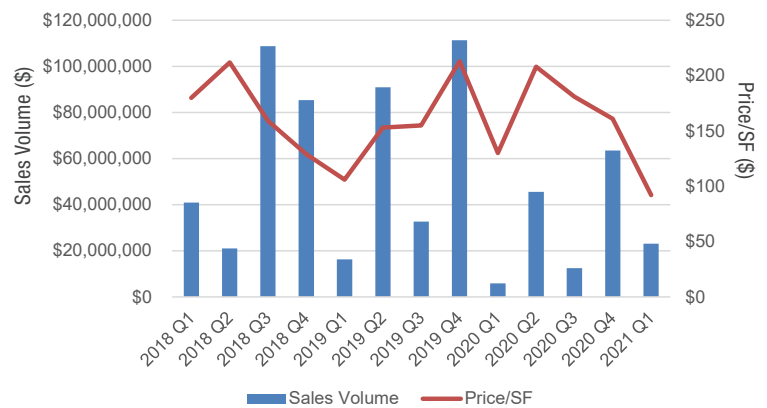
The region reflected a nearly flat net absorption figure to end Q1 at just under 2,000 square feet. However, five submarkets managed to stay out of the red. In fact, Roseville/Rocklin showcased the highest net absorption of nearly 55,000 square feet in large part due to the completion of The Nugget in West Roseville. In addition, the strongest sectors included grocers, home improvement, auto sales, and recreational boat sales while many others remained heavily challenged such as the malls, theaters, sit down restaurants, dry cleaners, nail and hair salons.

Rental rates averaged to \$19.26 NNN per square foot, a minimal decline of two basis points from the prior quarter. Downtown continued to lead the regions urban core with the highest rent of \$32.14 NNN per square foot while suburban areas like Roseville/Rocklin and Folsom lead the charge between \$19-\$20 NNN per square foot. As a result, the brick and mortar retailers continued to persevere to make rent and established new and creative out of the box thinking to adapt through the virus. Many additional services included curbside pick up, outside dining, and delivery.

A lack of new construction activity continued as material costs remained high. Still, new projects within the South Sacramento submarket continued to make their way through the pipeline totaling over 185,000 square feet. Most notably is the Delta Shores project that will include a future 160,583 square foot building to include space for tenants including Floor & Decor and At Home scheduled to deliver in Q2 of 2021.

## INVESTMENT HIGHLIGHTS

### Retail Investment Sales Volume vs. Price/SF



- Since the start of the pandemic, retail properties have changed hands at only a limited frequency, but local sales activity picked up in the new year. This continues momentum that began last December, when a surge of high priced deals propelled sales volume.
- One of the largest deals to date was Crestview Village located in Carmichael. In a January REO sale, Ethan Conrad Properties acquired the 189,700 square foot community center from Mechanics Bank for \$13.6 million (\$72/square foot).
- Portfolio trades also continued to have a notable impact on transaction levels. In the last year, the region has seen nearly 70% of all deals tied to portfolio sales. As such, this continued into Q1 with just over that same figure. Nonetheless, local buyers continued to dominate this domain, whereas there were few examples of investors venturing in from other regions of the county.

*\*Quarter Over Quarter Change*

**8.2%**



Vacancy  
Rate

**±1,888 SF**



Net  
Absorption

**\$19.26**



Avg. Asking Rate  
(NNN)

**±245,839 SF**



Under  
Construction

**7.0%**



Sacramento  
Unemployment

**6.0%**



United States  
Unemployment

## NEWS BULLETIN



- Residential home growth drove robust influx into the Sacramento region due to Bay Area migration and fueled local economy and retail sales.
- Savings rates are among the highest in the county with a strong probability of substantial spending through the balance of the year.
- The coronavirus vaccine rollout was put into full effect across the United States yet challenged by inventory supply.
- A new stimulus package was decided and agreed upon.  
Highlights include:
  - Enhanced unemployment benefits
  - Resumption of small business PPP loans
  - Extension of eviction protection
- The local March unemployment rate sat at 7.0%, below 8.2% for the state, but above the national rate of 6.2%. From the highest peak in unemployment last April, Sacramento has returned half of its MSA back into the workforce.

## OUTLOOK

The Sacramento region began 2021 with the local retail submarkets near term future in question. Lockdowns were in effect, which left many restaurants and retailers operating at a limited capacity or closed. But with stay-at-home orders relaxed and the increased distribution of vaccines underway, gyms, movie theaters and restaurants allowed members and customers indoors for the first time in a year, and the market held steady.

Vacancy rates remained static signifying that projected occupancy levels remained higher than anticipated while consumer pent up demand rebounded with positive sales gains across all retail categories. Thus far, the Sacramento retail market has proved resilient during uncharted waters and has even escaped with a few positives – an influx of home buyers ready to spend, stronger partnerships between landlords and tenants, and the ability to pivot business models to support the rapidly changing environment. Overall, the market's recovery gains are better than many expected, but it's clear that the retail business sector will continue to demand constant evolution and adaptation.

## Retail Market Statistics

Submarket	Inventory	Available Space			Vacancy Q1-21	Net Absorption		SF Under Construction	Avg. Asking Rate (NNN)*
		Direct	Sublease	Total		Q1-21	Q1-20		
Arden/Watt/Howe	7,182,530	820,902	0	820,902	11.4%	(29,491)	285,323	0	\$17.87
Auburn/Lincoln/Loomis	3,062,697	135,081	8,278	143,359	4.7%	(4,864)	59,636	0	\$16.71
Carmichael/Citrus Heights/Fair Oaks/Orangevale	7,886,663	773,978	0	773,978	9.8%	(30,364)	4,182	0	\$15.07
Davis/Woodland	3,303,321	274,963	21,609	296,572	9.0%	(20,770)	41,174	0	\$16.89
Downtown/Midtown/East Sacramento	1,588,913	167,531	0	167,531	10.5%	(3,156)	46,847	0	\$32.14
El Dorado	2,576,050	188,522	0	188,522	7.3%	(28,453)	(26,249)	12,580	\$24.40
Elk Grove	4,666,730	150,292	0	150,292	3.2%	34,475	111,930	3,600	\$21.94
Folsom	4,402,074	291,262	3,254	294,516	6.7%	(7,185)	31,329	0	\$19.37
Highway 50	3,446,685	523,933	48,489	572,422	16.6%	7,198	67,779	0	\$15.50
Natomas	3,086,521	152,640	0	152,640	4.9%	(4,588)	37,918	0	\$20.87
Rio Linda/North Highlands	2,891,529	188,110	0	188,110	6.5%	2,605	51,800	0	\$14.18
Roseville/Rocklin	11,556,778	766,916	1,314	768,230	6.6%	54,245	(45,231)	41,051	\$19.76
South Sacramento	8,338,035	674,585	127,135	801,720	9.6%	46,345	412,771	188,608	\$16.88
West Sacramento	1,817,170	86,433	0	86,433	4.8%	(14,109)	(46,758)	0	\$18.00
<b>Totals</b>	<b>65,805,696</b>	<b>5,195,148</b>	<b>210,079</b>	<b>5,405,227</b>	<b>8.2%</b>	<b>1,888</b>	<b>1,032,451</b>	<b>245,839</b>	<b>\$19.26</b>

\*Retail in a Shopping Center

## About Gallelli Real Estate

Gallelli Real Estate is a private firm that specializes in commercial real 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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