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**SACRAMENTO**  
COMMERCIAL REAL ESTATE

# Retail Year End Report

We just survived what felt like one of the longest years in history. 2020 brought a global pandemic that shook the economy on every level. One of the hardest hit industries was retail, with the exception of a few lucky tenants such as grocers and essential goods providers. Nearly a year in, we are still seeing the repercussions of COVID-19 and the multiple shut downs in California, skyrocketing unemployment and an uncertainty in the market. If it were not for the stimulus funds and creative landlord retention strategies, 2020 would have been astronomically worse. Sophisticated landlords were able to help retain tenants with strategies such as rent abatement, rent deferral or blend and extend leases.

With time, we are certain that the retail industry will recover but it's hard to pinpoint exactly what that will look like with evolving local, state and federal government regulations. One thing is clear, tenant confidence in the market will need to significantly improve for leasing activity to pick back up to pre-COVID activity.

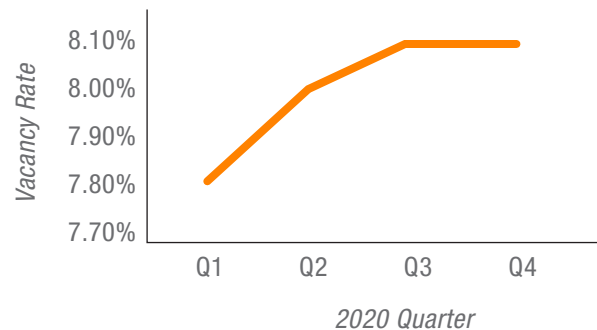
## SACRAMENTO'S RETAIL MARKET

*Partnership to Survive: Landlords and tenants came together to think of creative ways to stay afloat during the pandemic.*

While it may seem like retail numbers were horrible in 2020, our numbers show that retail is actually in better shape than it could have been largely due to a partnership approach taken between landlords and tenants and Federal stimulus help. We saw that landlords came up with 3 main strategies to retain their tenants and keep occupancy up.

- **Rent Abatement** was one way landlords got creative to help retain their top tenants, specifically Mom & Pop shops. They knew they would lose money either way, either abate the rent or lose the tenant. They took the approach of forgiving rent so that post-Covid, they would still have a historically strong performing tenant in their shopping center.
- **Rent Deferral** was another way landlords helped retain larger national tenants. They knew they had cash reserves to get them through operating their businesses and if they were a strong performer pre-Covid, they would perform well post-Covid and pay the rent back.
- **Blend & Extend Leasing** has been used in previous economic downturns that proves successful for landlords and tenants. Landlords analyzed their rent rolls and if a tenant's lease was up for renewal in the next couple years, they gave them the option of reducing their rent immediately, but extending the term of their lease. These rolling leases gave tenants a break on the rent and guaranteed landlords longer occupancy periods.

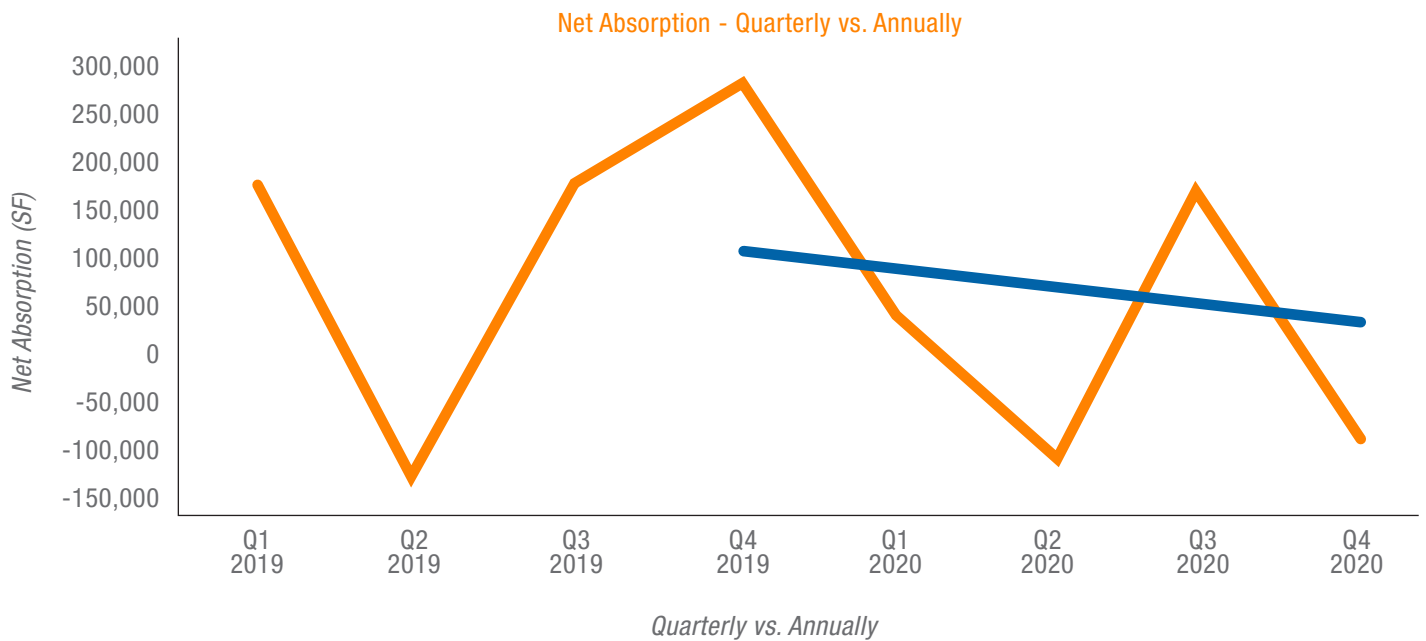
2020 Quarterly Vacancy Rate



While we know these strategies haven't been utilized in every landlord and tenant case – we understand it's been playing a crucial role in the reflected retail numbers.

In the Investment world, Cap rates have risen across all product types except single tenant investment grade properties and strong grocery anchored centers. The rise in Cap rates has caused a slower than normal Investment market that we hope will bounce back post-Covid.

Vacancy rates would have most certainly been double digits had landlords, tenants and the Government help not come together, but instead vacancy hovered at 8.1% in the fourth quarter, only up 0.3% from Q1 2020 (pre-pandemic). Similarly, the net absorption for Q4 2020 was at a negative  $\pm 78,067$  square feet but when compared to the net absorption for 2020 as a whole – we're still a positive  $\pm 44,404$  square feet. That's pretty incredible for an industry that's incurred multiple shut downs over the course of a year. Landlords and tenants had to get creative to adapt to a rapidly changing environment but many have proved they won't go down without a fight.



## OUTLOOK INTO 2021

We're all crossing our fingers that 2021 will offer some relief when it comes to the retail industry. Fact of the matter is, it will probably get a little worse before it gets better. Now that many companies have been in this for about a year – we're starting to see stimulus and cash reserves running out which will quickly determine who will make it or break it. The promise of a vaccine has given hope to many that normalcy will return at some point this year.

There are quite a few factors that will determine how soon retail can resume at its normal speed.

- Tenant confidence to open new businesses in the region
- Tenant's ability to adapt to a changing environment. Many tenants who were able to stay afloat this past year had to think outside the box to earn people's business. Tactics such as contactless service, free delivery or family dinner options allowed restaurant tenants to pivot their business models during an uncertain time
- Political changes that could change at the local, state and federal level. Under a new administration, time will tell how restrictions on businesses will play a role in the Sacramento region year.

In 2021, we anticipate rents to continue to soften and vacancy to continue to rise, at least until summer when things (hopefully!) level out a bit. Later this year, we hope to see higher employment rates and more small businesses ready to break into the market. After sitting on the sidelines for months, large national retailers can determine whether to expand or remain steady.

We believe sales of strip and anchor centers will continue to be a struggle in 2021 as cap rates continue to reflect the 2020 COVID year.



## RETAIL Q42020

Submarket	Inventory	Direct	Available Space Sublease	Total	Vacancy Q4-20	Net Absorption		SF Under Construction	Avg. Asking Rate (NNN)*
						Q4-20	Q4-19		
Arden/Watt/Howe	7,122,550	791,411	0	791,411	11.1%	(46,188)	(8,570)	0	\$17.88
Auburn/Lincoln/Loomis	3,066,305	132,157	8,278	140,435	4.6%	5,203	5,777	0	\$17.28
Carmichael/Citrus Heights/ Fair Oaks/Orangevale	7,926,315	747,909	0	747,909	9.4%	(38,150)	140,637	0	\$15.72
Davis/Woodland	3,314,297	246,693	29,109	275,802	8.3%	(3,765)	62,443	0	\$16.56
Downtown/Midtown/ East Sacramento	1,588,913	164,375	0	164,375	10.3%	(7,266)	(1,892)	0	\$36.36
El Dorado	2,503,709	154,329	0	154,329	6.2%	36,399	37,807	0	\$24.12
Elk Grove	4,650,735	168,154	0	168,154	3.6%	31,308	1,672	13,313	\$21.60
Folsom	4,406,487	282,977	4,354	287,331	6.5%	26,724	33,122	0	\$19.20
Highway 50	3,507,389	531,131	48,489	579,620	16.5%	(22,806)	5,900	0	\$15.60
Natomas	3,086,521	148,052	0	148,052	4.8%	4,290	(14,234)	0	\$20.88
Rio Linda/ North Highlands	2,891,335	190,715	0	190,715	6.6%	7,470	32,943	0	\$14.28
Roseville/Rocklin	11,501,283	773,061	1,314	774,375	6.7%	(45,162)	29,998	116,651	\$19.68
South Sacramento	8,338,746	720,930	127,135	848,065	10.2%	(15,451)	(50,866)	7,000	\$16.92
West Sacramento	1,817,170	72,324	0	72,324	4.0%	(10,673)	1,460	0	\$18.00
<b>Totals</b>	<b>65,721,755</b>	<b>5,124,218</b>	<b>218,679</b>	<b>5,342,897</b>	<b>8.1%</b>	<b>(78,067)</b>	<b>276,197</b>	<b>136,964</b>	<b>\$19.58</b>

## RETAIL YEAR END 2020

Submarket	Net Absorption	
	2020	2019
Arden/Watt/Howe	(58,978)	(133,499)
Auburn/Lincoln/Loomis	(9,131)	100,925
Carmichael/Citrus Heights/ Fair Oaks/Orangevale	187,477	(125,760)
Davis/Woodland	(28,869)	22,331
Downtown/Midtown/ East Sacramento	(61,825)	20,056
El Dorado	31,640	21,781
Elk Grove	55,108	25,806
Folsom	(20,339)	68,141
Highway 50	(34,817)	(54,687)
Natomas	36,114	11,500
Rio Linda/North Highlands	24,988	34,602
Roseville/Rocklin	(26,498)	79,812
South Sacramento	(57,241)	30,439
West Sacramento	6,775	13,097
<b>Totals</b>	<b>44,404</b>	<b>114,544</b>

### 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.



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