SACRAMENTO

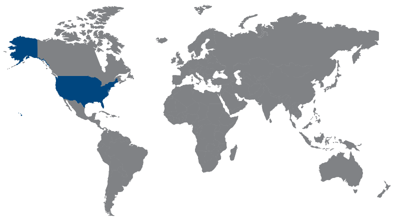
Retail Overview

Q2 2010 | Research & Forecast Report

SACRAMENTO REGION

RESEARCH & FORECAST REPORT

Colliers INTERNATIONAL



MARKET INDICATORS

	2nd Qtr 2010	3rd Qtr 2010
VACANCY	↓	↓
NET ABSORPTION	↑	↑
CONSTRUCTION	↔	↔
RENTAL RATE	↔	↔

Retail Turns Corner; Vacancy Drops for First Time in Three Years

Shopping center vacancy in the Sacramento region declined during the second quarter of this year from 13.7 to 13.4 percent. A surge in big box leasing activity, combined with increased expansion from discounters, off-price apparel retailers and franchise restaurant operators resulted in the market recording 189,000 square feet of occupancy growth during the second quarter. This marks the first time since the first quarter of 2008 that Sacramento's shopping center market has posted positive net absorption. The region's vacancy rate had been on an upward trajectory since the third quarter of 2007. At that time, vacancy stood at 7.0 percent and the region had roughly 3.8 million square feet of vacant space. In the intervening three years, the amount of vacant space in the region had nearly doubled—peaking last quarter near the 7.6 million square foot mark.

In terms of occupancy growth, the Arden/Howe/Watt submarket led all trade areas during the second quarter with 51,000 square feet of positive net absorption. But the good news is that the majority of the region's submarket experienced improvement. Of the 17 submarkets in the region that we track, only four recorded negative net absorption during the second quarter. Of those four, only one submarket (Woodland) experienced occupancy losses above the 20,000 square foot mark. By contrast, six of the area's submarkets (Arden/Howe/Watt, Citrus Heights/Orangevale, Lincoln, Rio Linda/North Highlands, Roseville/Rocklin and South Sacramento) recorded occupancy gains of 20,000 square feet or more. Though it only recorded about 2,500 square feet of positive net absorption during the second quarter, the Elk Grove submarket currently leads all submarkets in terms of year-to-date occupancy growth. So far this year, Elk Grove has recorded 69,000 square feet of occupancy growth. Though these numbers were only slightly positive during the second quarter, there are a number of deals that have already been signed in the Elk Grove market but which will not result in occupancy growth until tenants take occupancy later this year. For example, Henry's Farmer's Market's lease of 34,000 square feet in the former Circuit City space at Laguna Gateway has not yet impacted our statistics because the tenant took occupancy of the space on July 1st (third quarter 2010).

The biggest vacancy of the year has already been backfilled. Sam's Club closed ten stores earlier this year; including one in the Sacramento region. This 135,000 square foot store in the Natomas/Northgate submarket closed during the first quarter. During the third quarter it will re-open as the new discounter concept Shop$mart.

Fro-yo concept Pinkberry has recently signed a number of leases in the Sacramento area, including deals at Sacramento's Howe 'Bout Arden, Folsom's Palladio at Broadstone, Citrus Heights' Panda Sunrise Center and this new location at Sacramento's Loehmann's Plaza.

RETAILERS FOLLOWING THE DEALS, NOT THE ROOFTOPS

With Sacramento's unemployment rate remaining in the 12 percent range and the overall economic recovery remaining sluggish, many concerns remain as to the health of the region's retail market. The good news is that there are a number of deals already signed (but where tenants have yet to occupy the space) that alone should result in positive occupancy growth through the final half of 2010.

The biggest occupancy loss of the year so far was the January closure of the Sam's Club warehouse store in the Natomas/Northgate market. That space has since been leased to the discount concept Shop$mart, which will be taking occupancy of the space early in the third quarter. Meanwhile, Forever 21 has signed a deal to occupy Gottschalk's former space at University Mall in Davis. Upon Forever 21's occupancy of the space in October, the Davis submarket will record an occupancy gain of over 38,000 square feet. Likewise, Ross Dress for Less inked a deal for about 27,000 square feet of space at Rancho Cordova Town Center ihat had previously been leased to the Hispanic-themed discount apparel chain, Fallas Paredes. This move will result in positive occupancy growth for the Highway 50 submarket during the third quarter of this year.

We are aware of a number of deals that have already been signed, but where tenants will be taking occupancy over the final half of the year. All told, these deals should result in roughly 350,000 square feet of occupancy growth over the final half of the year.

We do continue to see many retailers struggling in today's environment and retail space being returned to the marketplace. The good news is that the pace of retail failures has slowed significantly. We have also seen a significant increase in active retailer space requirements. These have almost exclusively been driven by large national credit tenants. More specifically, by discounters.

Walmart could be adding as many as 300 new locations throughout the United States next year—the majority of which are expected to be smaller format grocery stores. In the Sacramento market alone we are likely looking at a minimum of ten locations, but our sources tell us this number could go higher. Likewise, discount grocery chains and new organic and ethnic themed grocers are on the move. Off-price apparel retailers like Ross, TJ Maxx, Marshall's and Nordstrom Rack have all significantly upped expansion plans for 2011. Best Buy and (in the Eastern U.S.) HHGregg are both in expansion mode. Much of the current activity that we are seeing is being driven by discounters who have fared well during the recession that are looking to both expand market share and to lock in once-in-a-generation deals on vacant big box space that was left behind by now

UPDATE New Supply, Absorption and Vacancy Rates - All Shopping Center Types

	2009				2010	
	1ST QTR	2ND QTR	3RD QTR	4TH QTR	1ST QTR	2ND QTR
Total Inventory	58,920,649	59,430,300	59,541,726	59,564,363	59,687,215	59,687,215
Total Vacancy	6,828,206	7,378,298	7,755,969	7,896,473	8,184,347	7,995,273
Total Vacancy %	11.6%	12.4%	13.0%	13.3%	13.7%	13.4%
Deliveries	120,237	509,651	95,826	22,637	122,852	0
Under Construction	1,385,179	930,665	826,239	864,602	741,750	741,750
Net Absorption (Growth)	-719,795	-40,441	-266,245	-117,867	-165,022	189,074
Average Asking Rate (NNN monthly)	$1.87	$1.81	$1.78	$1.74	$1.82	$1.82

RETAIL MARKET STATISTICS

Second Quarter 2010

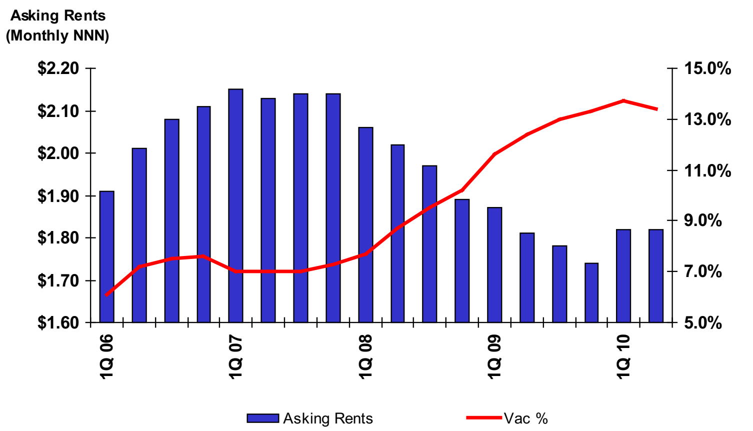
	EXISTING PROPERTIES					ABSORPTION		CONSTRUCTION	RENTS
SubMarket	Total Inventory GLA	Total Vacant SF	Total Vacancy Rate	Vacancy Rate Prior Qtr	Occupied Space SF	Net Absorption Current Qtr SF	Net Absorption YTD SF	Completions Current Qtr SF	Under Construction SF
SHOPPING CENTERS BY SUBMARKET:									
Arden/Howe/Watt	6.146.859	796.462	13.0%	13.8%	5.350.397	51.325	3.356	0	0
Auburn/Loomis	1,535,219	150,444	9.8%	10.2%	1,384,775	6,725	43,583	0	0
Carmichael/Fair Oaks	1.762.702	200.860	11.4%	11.5%	1.561.842	1.325	(31.023)	0	0
Citrus Heights/Orangevale	4.372.061	737.609	16.9%	17.6%	3.634.452	29.864	22.301	0	61.000
Davis	1.012.213	84.898	8.4%	8.0%	927.315	(4.359)	(451)	0	0
Downtown/Midtown/East Sacramento	976.228	70.406	7.2%	6.1%	905.822	(10.698)	3.410	0	0
El Dorado	2.317.885	241.396	10.4%	10.4%	2.076.489	669	24.327	0	0
Elk Grove		513.502	#DIV/0!	11.4%	(513.502)	2.515	69.307	0	0
Folsom	4.352.760	437.551	10.1%	10.4%	3.915.209	13.073	(12.869)	0	670.000
Highway 50 Corridor	3.172.073	613.982	19.4%	19.2%	2.558.091	(4.044)	(23.181)	0	0
Lincoln	1.204.539	152.358	12.6%	14.6%	1.052.181	23.890	17.270	0	
Natomas/Northgate	3,426,842	408,612	11.9%	12.0%	3,018,230	3,868	(144,301)	0	0
Rio Linda/N Highlands	3.026.967	367.742	12.1%	13.1%	2.659.225	28.885	22.897	0	0
Roseville/Rocklin	10.336.227	1.600.928	15.5%	15.8%	8.735.299	31.504	29.408	0	0
South Sacramento	7.386.018	1.142.929	15.5%	15.9%	6.243.089	35.026	(13.431)	0	0
West Sacramento	1,779,513	117,182	6.6%	6.9%	1,662,331	5,500	34,066	0	10,750
Woodland	2.340.556	358.412	15.3%	14.2%	1.982.144	(25.994)	(20.617)	0	0
TOTAL	**55.148.662**	**7.995.273**	**14.5%**	**13.7%**	**47.153.389**	**189.074**	**24.052**	**-**	**741.750**
SHOPPING CENTERS:									
Neighborhood/Community	35.030.409	4.929.056	14.1%	13.9%	30.101.353	(54.172)	(4.673)	-	0
Regional/Power	14,326,421	1,610,936	11.2%	12.4%	12,715,485	171,888	(54,115)	-	71,750
Specialty/Lifestyle	1.982.027	181.994	9.2%	9.1%	1.800.033	(2.058)	5.320	-	670.000
Strip	8.348.358	1.273.287	15.3%	16.1%	7.075.071	73.416	77.520	-	0
TOTAL	**59,687,215**	**7,995,273**	**13.4%**	**13.7%**	**51,691,942**	**189,074**	**24,052**	**-**	**741,750**

Our survey tracks shopping centers, excluding malls.

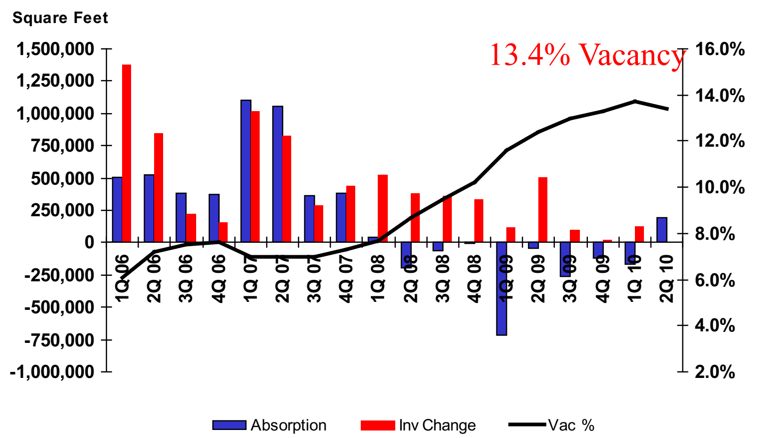
The information contained in this report was provided by sources deemed to be reliable, however, no guarantee is made as to the accuracy or reliability.

As new, corrected or updated information is obtained, it is incorporated into both current and historical data, which may invalidate comparison to previously issued reports.

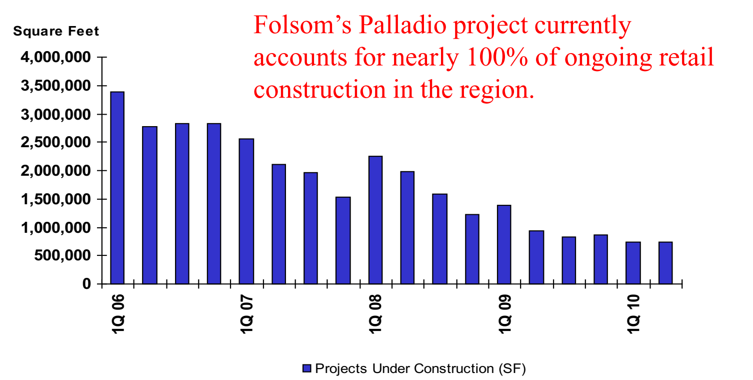
Sacramento Retail Market - 2nd Quarter 2010
Asking Rents vs. Vacancy



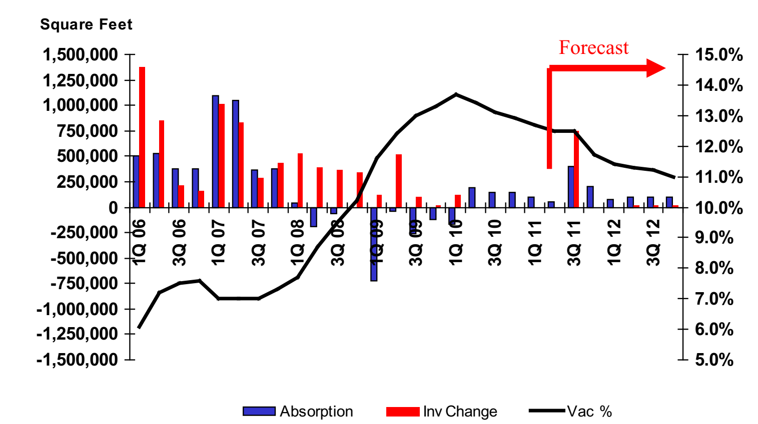
Sacramento Retail Market - 2nd Quarter 2010
Change in Inventory, Net Absorption & Vacancy



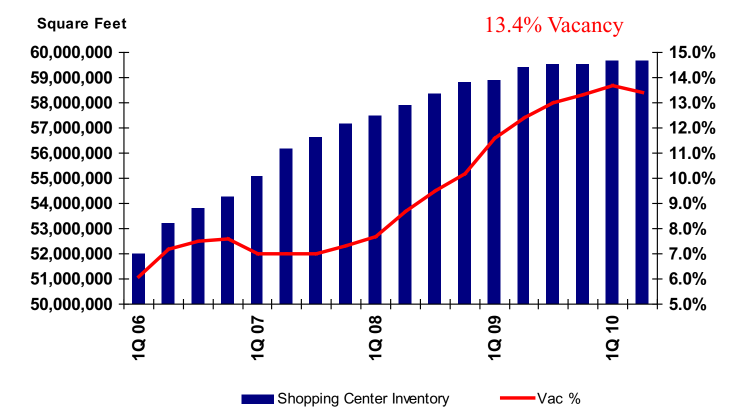
Sacramento Retail Market - 2nd Quarter 2010
Construction Pipeline



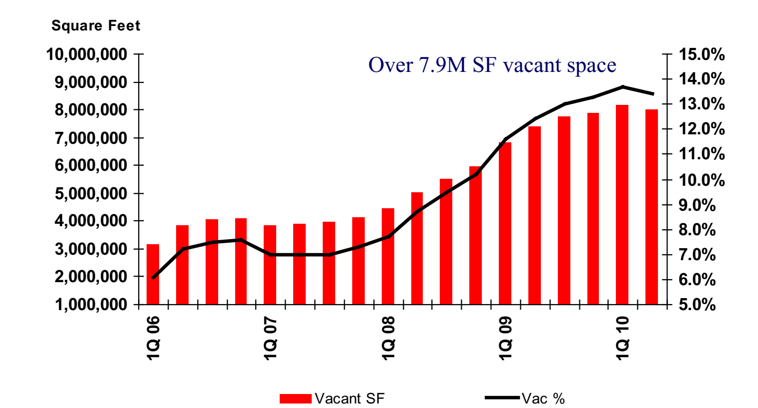
Sacramento Retail Market - 2010 Forecast
Change in Inventory, Net Absorption & Vacancy



Sacramento Retail Market - 2nd Quarter 2010
Inventory (Total SF) & Vacancy



Sacramento Retail Market - 2nd Quarter 2010
Vacant SF/Vacancy Rate



Source: Colliers International Research Department defunct players like Circuit City, Linens N Things, Mervyn's and Gottschalk's.

But expansion plans have not been limited to larger space users. Franchise restaurant concepts like Five Guys Burgers and Fries, Smashburger, Johnny Rockets, Pinkberry and Subway are all on the move and have multiple deals inked for space throughout the Sacramento metro area. Other concepts to have either signed local deals or that continue to look for space in the region include Noodles & Company, Panera Bread, Wayside Noodles and Peet's Coffee. Goodwill, Ella Blue and Sally Beauty Supply and a number of other national credit tenants have also been active leasing smaller space in the region.

However, the recent bankruptcy of Jennifer Convertibles demonstrates that we are still in a fragile environment. There will be additional retail failures. The possibility of consolidation in the grocery industry remains. Video store chains continue to die out. Mom-and-pop retailers remain on the sidelines and likely won't be back in the marketplace in considerable numbers for another three to four years.

Despite the challenges the local economy continues to face, the combination of deals already signed (but where tenants have yet to take occupancy) as well as deals that we expect to land over the final half of the year should translate into continued occupancy growth and decreasing vacancy in the Sacramento region over the next three to four quarters. That being said, this rebound will not be robust. The market for inline space will continue to struggle with mom-and-pop retailers out of the picture. Vacancy levels will drop, but remain above the ten percent mark. Rental rates will stabilize, but rental rate growth in the coming year will be unlikely at all but the strongest tier one locations. But, after three grueling years, the Sacramento retail market has not only hit bottom. It has finally turned the corner.

BIG BOX DEALS LURE SPACE USERS BACK INTO ACTION

Beginning in 2008, a slew of retail bankruptcies resulted in major blocks of big box space being returned to the marketplace. The collapse and subsequent liquidation of a number of chains such as Linens N' Things, Circuit City, Steve & Barry's, Mervyn's, Goody's, Gottschalk's, Sportsman's Warehouse and others resulted in the return of nearly 85 million square feet of retail space to the U.S. marketplace over a period of just over one year.

But bankrupt concepts weren't the only ones returning big box space to the market. In the face of declining retail sales, most retail chains have been in contraction mode—seeking to cut costs and close underperforming locations. For example, Sears alone has closed, or slated for closure, roughly 50 stores since 2008. Between underperforming namesake stores and its now defunct Expo Design Center concept, Home Depot has also shut down roughly 50 stores over the same period of time. Meanwhile, dozens of regional furniture store chains have also shuttered large format stores.

Regional department store chain Boscov's returned roughly two million square feet of space to the market with the closure of ten of its stores. Dillard's, Macy's, Saks Fifth Avenue have all closed underperforming locations and may still close more. Grocery chains have not been immune either. Arizona-based Bashas' closed ten stores as part of its Chapter 11 reorganization. South Carolina-based BI-LO cancelled 31 of its leases and closed 17 of its own stores as part of its

EYE ON THE MARKET
Recent Deals - Select 2010 Retail Leases

Building	Submarket	User Type	SF Transacted	Tenant	
Former Sam's Club	Natomas	Discounter	135,000	Shop$mart	New Deal; July occupancy
Marketplace 99 South	Elk Grove	Apparel	77,874	Burlington Coat Factory	New Deal; 2nd Qtr occupancy
Rancho Cordova Town Ctr	Highway 50	Apparel	27,200	Ross Dress for Less	New Deal; August occupancy
Blue Oaks Town Center	Roseville/Rocklin	Theater	57,000	SR Entertainment Group	New Deal; 2nd Qtr occupancy
University Mall	Davis	Apparel	38,418	Forever 21	New Deal; Oct. occupancy
Laguna Gateway	Elk Grove	Grocery	33,899	Henry's Farmer's Market	New Deal; July occupancy
Olympus Point Century Plaza	Roseville/Rocklin	Church	17,493	Family Church of Sacramento	New Deal; 2nd Qtr occupancy
Sacramento Central Shopping Center	Arden/Howe/Watt	Health Club	17,042	Crunch Fitness	New Deal; Sept. occupancy
Norwood Shopping Center	Natomas	Apparel	15,000	Citi Trends	New Deal; 1st Qtr occupancy
Howe/El Camino Center	Arden/Howe/Watt	Print Shop	12,227	Sierra Copy	Renewal
Copperwood Square	Citrus Heights/Orangevale	Health Club	11,000	Planet Fitness	New Deal; Oct. occupancy

Back From the Dead?

Gottschalk's vacated a number of stores in the Sacramento region in 2009, including this 45,000 square foot building at Auburn Town Center. In April, a group led by Joe Levy—the great-nephew of company founder Emil Gottschalk—announced plans re-launch the chain as "Gottschalk by Joe Levy." The group has plans to re-open in a number of former locations—most of which are in the Fresno area. Though a deal has yet to be reached, the group reportedly hopes to ink a deal to return to Auburn. This location had been one of the chain's most profitable.

bankruptcy (14 of its leases were for space

that the chain had already subleased to other retailers). Alabama-based Bruno's has closed ten stores as part of its bankruptcy. And even warehouse club giant, Sam's Club, recently closed ten stores, adding roughly another 1.2 million square feet to the mix.

All told, we estimate that 120 million square feet of big box retail space has gone vacant since January 2008. To put this in perspective, this amount is roughly the equivalent of the entire shopping center inventories of Baltimore, Cincinnati and Kansas City combined.

According to the Costar Group (which tracks retail real estate nationally, including some markets and rural areas that Colliers does not track), as of the end of the first quarter of 2010, the United States had a total retail inventory of just over 11.6 billion square feet of product. 870.7 million square feet of that space was vacant as of March 31. Based upon our statistical modeling of these numbers, we estimate that just under 300 million square feet of that total is in the form of vacant big box or junior anchor space of 20,000 square feet or greater. In other words, the total amount of vacant larger format retail stores in the United States (footprints of

BIG BOX VACANCIES

Retailer	Units Closed	Approx. SF Vacated
Linens N'Things	589	18,200,000
Circuit City	567	17,100,000
Steve & Barry's	276	15,100,000
Mervyn's	149	11,100,000
Goody's	282	6,300,000
Gottschalk's	61	4,800,000
Home Depot Expo Design	34	3,700,000
Sportsman's Warehouse	38	2,400,000
Boscov's	10	2,000,000
Joe's Sports & Outdoor	36	1,900,000
Wickes Furniture	43	1,800,000

20,000 square feet or greater), currently accounts for over 34 percent of all retail vacancy. This figure is just slightly less than the combined shopping center inventories of Chicago and Los Angeles combined.

In Las Vegas, the number of vacant big boxes has jumped by over 50 since 2007. The Charlotte market has seen over 25 big boxes go dark since 2008. As this report went to press, the Chicago market had approximately 175 vacant big boxes on the market, accounting for nearly 9.5 million square feet of inventory. Minneapolis reports roughly 80 empty boxes. The list goes on and on. The issue of vacant big box retail space has impacted virtually every market.

The impact on rental rates has been severe. While we do have some good news to report in that big box leasing activity has picked up considerably over the first six months of 2010, most of the deals that we have seen have been at lease rates 30 to 40 percent below the peak levels recorded in 2006/2007. For tenants with the cash to pay for their own improvements, we have seen rental rates discounted by as much as 50 percent or more in some cases by cash-strapped landlords. In many markets we are seeing box space that previously rented at $13 to $16 per square foot (on an annual triple net basis), being leased in the $10 per square foot range if the landlord contributes turnkey tenant buildouts. In cases where landlords are leasing space "as-is," and tenants are paying for their own improvements, we have seen deals go for as low as $5 per square foot.

Hard bargains are not the only challenges facing landlords. In the past, 20-year leases were commonplace for big box users. Most of the deals that we are seeing now are for 10-year terms. Tenants are also demanding more early exit options in their deals. But significantly reduced asking rents are playing a major role in bringing space users back to the marketplace. Colliers has seen a surge of big box leasing activity over the past few months, driven largely by discounters, off-price apparel retailers and grocery concepts looking to lock in low rental rates on vacant second generation space.

The Backfill Has Begun

While our estimate is that 120 million square feet of big box space has been returned to the marketplace since 2008, the good news is that a new wave of space users is slowly chipping away at this glut of vacant space.

VACANT CIRCUIT CITY SPACE DWINDLING

Upstart electronics chain HHGregg, for example, has opened over 30 stores in the Eastern U.S. over the past 18 months and has plans to open up to 45 more in 2011. The majority of their new locations are in former Circuit City stores. All told, the Indianapolis-based electronics retailer is on track to single-handedly absorb over 2.5 million square feet of vacant big box space through the end of next year.

HHGregg is not the only player that has been actively picking up vacated Circuit City stores. We are aware of at least 25 former Circuit City stores that Best Buy has either already leased or in negotiations to lease. And this number will likely continue to increase. Grocery players have also been active in taking Circuit City space. Two new organic concepts, Henry's Farmers Markets and Sprouts, have both been signing deals for former Circuit City space.

Best Buy has also been extremely active in picking up space from its now defunct rival. The chain has plans to open as many as 60 new U.S. stores through the end of the year. The majority of the deals that we have seen have been in former Circuit City locations. Of the roughly 17 million square feet of space vacated by Circuit City, we are aware of roughly four million square feet that has either been backfilled or that will be backfilled by the end of 2010. Our projection is 50 percent of this space will have been backfilled by the end of 2012.

MIX OF USERS GOBBLING UP MERVYN'S

Department store players Kohl's and Forever 21 have both proven to be among the most aggressive and opportunistic players when it comes to vacant second generation box space. Both are looking to cash in on market conditions to expand market share and lock in low lease rates.

Kohl's took a total of 32 of Mervyn's vacated department stores on the West Coast (31 at the time of bankruptcy and one later), or roughly 2.4 million square feet of space. Forever 21 took 15 Mervyn's locations, or another 1.1 million square feet. Burlington Coat Factory has taken a few, as has Osh Sporting Goods. Hobby Lobby, TJ Maxx and Jo-Ann's Fabrics and Crafts stores have all either signed leases for former Mervyn's space or who are in negotiations.

Grocery players have also been active in backfilling Mervyn's sites, ranging from the Asian grocery chain Seafood City to Vons/Safeway. Walmart recently purchased a store in San Diego and has offers out on at least one Northern California site. Safeway recently bought a 70,000 square foot former Mervyn's store in Palm Desert, California for $12 million. The interesting thing about this move is that Safeway is not going to occupy the building. Safeway saw that this was prime real estate and that opportunistic grocers could take this space and possibly cut into their local market share—something that they would have to live with for decades. Instead, Safeway bought the property and is looking to lease the space to a non-grocery retailer. They will likely eventually sell the property when real estate values recover. All told, we expect roughly half of the 149 stores that Mervyn's vacated to be backfilled within the next 12 months.

With typical footprints in the 30,000 to 40,000

Henry's Farmer's Market took this former Circuit City space at the Laguna Gateway Shopping Center in Elk Grove. Two organic concepts, Henry's and Sprouts' Farmer's Markets, have both been actively signing leases at former Circuit City sites throughout the Western U.S.

This former Mervyn's department store at Blue Oaks Town Center in Rocklin was recently leased to SR Entertainment Group. The 80,000 square foot building is being converted to a 16-screen theater. Our sources have told us that the conversion costs will likely exceed $8.5 million and that these costs are being split between the landlord and the tenant.

Forever 21 will be occupying the former Gottschalk's space at University Mall in Davis in October.

The half-built Elk Grove Promenade project sits like a ghost town at the Highway 99 and Grant Line Road exit in Elk Grove, but this may not be the case for much longer. Owner GGP is about to emerge from bankruptcy. One possible scenario is that GGP will be split into two entities; one that would keep the majority of the Chicago-based REIT's performing retail holdings and one that would be charged with the disposition of troubled assets like the Promenade.

square foot range, former Linens N Things sites have also been moving briskly. HHGregg has signed a number of leases in former Linens space. Meanwhile, TJX is planning on opening roughly 130 stores between its TJ Maxx and Marshall's concepts in 2010 and Linens sites fit their preferred templates perfectly. Ross Dress for Less is on pace for 35 new stores this year, but is ramping up expansion plans for 2011. The chain wants to add as many as 550 new stores over the next few years while expanding both in its existing trade areas and into new markets in the Midwest and Northeastern United States. Nearly 80 percent of the leases that we have seen from off-price apparel retailers in the last 12 months have been for vacant second-generation big box space.

RETAILERS WILLING TO TWEAK FORMATS TO CASH IN ON DEALS

In the case of Forever 21, the chain reinvented itself to take advantage of the opportunities. Two years ago, it was a mall player with a typical footprint of 20,000 square feet or less. It has since acquired department store space ranging as large as 200,000 square feet or more. The chain has since reinvented itself as a department store player with a mix of new concepts; XXI Forever, Faith21, Love21 and 21Men among others.

Forever 21 is not the only retailer that has proven to be willing to tweak its concept in order to take advantage of big box deals. A number of retailers have concept willing to tweak their typical footprints in order to take advantage of deals offered by second generation box space. Most of this, however, remains limited to urban areas. For example, both Walmart and Target are exploring smaller store formats. But both are primarily using this strategy to find space in congested urban markets where ground-up development for larger stores is difficult.

Though most of the backfilling of vacant boxes to occur so far has been driven by discounters and other off-price concepts, there is reason to believe that deal activity will continue to escalate heading into 2011. We track the expansion plans of over 500 major retailers. Between January and May of this year, nearly one third of the retailers that we track increased their growth plans for 2011 and beyond. Strong store sales until May of this year likely played a factor in retailers becoming more bullish on 2011. That being said, May's disappointing numbers (the first decline following eight consecutive months of improvement) remain a concern. It is entirely possible that some retailers may scale back growth plans should sales continue to slump throughout the summer months. Yet, even if this does happen, we expect leasing activity to be up substantially from the levels recorded in 2009.

SUBMARKET PROFILE: ELK GROVE

The Elk Grove submarket was among the hardest hit of all of the region's trade areas during the most recent downturn. In 2005, Elk Grove earned the title of the fastest growing city in the United States, so it should come as no surprise that the collapse of the housing industry had a particularly brutal impact here. Home values, which had appreciated by as much as 20 percent annually from 2001 to 2006 collapsed thanks both to a glut of newly-built homes that sat on the market, as well as the surge in foreclosures fueled by toxic loan products. Though it varies depending upon the neighborhood, home values remain at roughly 50 percent of where they stood at the market's peak in 2006/2007.

In terms of commercial real estate, the fallout from the housing collapse translated into an overbuilt retail market. Between 2001 and 2006, developers added over 2.5 million square feet of retail space to the landscape as they rushed to keep up with new rooftops. Unfortunately, by the end of the last cycle, many developers were beginning to build

The following is a list of retailers that have either signed deals for vacated second generation big box space or that may consider these types of properties for their growth plans going forward.

Retailers Actively Leasing Second Generation Box Space			
99 Cent Only	Dollar Tree	Kohl's	Savers
A.C. Moore	DSW	Lord & Taylor Outlet	Schnuck's
A.J. Wright	Family Farm & Home	Marshall's	Seafood City
Academy Sports	Famous Labels	Meijer	Shoe Show
Aldi	Food Lion	Michael's	ShopRite Supermarkets
Ashley Furniture	Food Maxx	Newflower Farmer's Mkt	Smart & Final Extra
Bass Pro Shops	Forever 21	Nieman Marcus Last Call	SmartCo Foods
Bed, Bath & Beyond	Fred Meyer	Nordstrom Rack	Sports Authority
Best Buy	Fresh & Easy	Ocean State Job Lots	Sprouts
Big 5 Sporting Goods	Golfsmith	Ollie's Bargain Outlets	Staples
Big Lots!	Goodwill	OSH	Stater Brothers
BJ's Wholesale Club	Goody's (Stage Stores is reviving the concept)	Petco	Sunflower Farmers Market
Bloom	Grocery Outlet	PetSmart	Target
Bloomingdale's Outlet	H&M	Price Chopper	TJ Maxx
Bottom Dollar Food	H-E-B	PriceRite	Top's Friendly Markets
Burlington Coat Factory	Henry's Farmers Markets	Publix/Publix Sabor	Toys R Us
buybuyBaby	HHGregg	Rooms To Go	Tractor Supply
Cabela's	Hobby Lobby	Ross Dress for Less	Trader Joe's
Christmas Tree Shops by BB&B	Home Goods	Roundy's	Vons
Costco	JCPenney	Saks Off Fifth	Walmart
Dave & Buster's	Jewel-Osco	Salvation Army	Winco Foods
Dick's Sporting Goods	Jo-Ann Stores	Save Mart	Wonder! Stores

While rent stabilization is already occurring at some of Elk Grove's strongest shopping centers (like the Target-anchored Laguna Crossroads project), weaker retail centers—particularly unanchored strip product—will likely not see this trend before next year at the earliest.

ahead of the rooftops. The poster child for this phenomenon was General Growth Properties' (GGP) Elk Grove Promenade project. This 1.1 million square foot regional mall was to be anchored by Macy's and Target and was initially slated to be delivered to the marketplace in 2007. Construction was halted in 2008 among changing market conditions. GGP's subsequent bankruptcy has since put the project into limbo.

As of the first quarter of 2006, retail vacancy in Elk Grove stood at 5.3 percent. 529,000 square feet of new retail space was delivered to the marketplace that year. By the fourth quarter of 2006, vacancy had surged to 9.3 percent. Another 347,000 square feet of retail space would be delivered to the marketplace in 2007 and 2008 just as retail leasing conditions were starting to weaken. By the third quarter of 2009, vacancy in Elk Grove had peaked at 13.1 percent.

The good news is that Elk Grove was one of the first of the region's trade areas to begin to show signs of recovery. Vacancy has been on a downward trajectory since the third quarter of last year. As of the close of second quarter 2010, it stood at 11.3 percent. Elk Grove has recorded occupancy gains to the tune of 86,000 square feet since that time. Perhaps most importantly, the development pipeline has dried up. There are currently no major speculative retail projects under construction in the region and this should play a pivotal role in the market's ability to backfill existing vacant space.

Elk Grove has recently benefited from a number of big box leases that have been signed by players such as Burlington Coat Factory, Ross Dress for Less and Henry's Farmer's Markets. Plans to add a new Walmart Supercenter and Costco over the next 18 months will translate into additional occupancy growth. Elk Grove also continues to rank among the top submarkets in the

Louisiana Fried Chicken's lease of 1,200 square feet of space at South Sacramento's Evergreen Center at 5525 Mack Road demonstrates that while most expanding retail concepts are looking to anchored centers for new locations, that some will consider strip centers. But most are looking for bargains. This 60-month deal featured a starting rent of just $1.00 per square foot.

This former Ralph's grocery store in the Highway 50 submarket's Bradville Square was leased by Fresh & Easy well over 18 months ago. The chain has been waiting to launch its Northern California stores until "the time is right." If rumors of a pending expansion blitz by Walmart's small-format grocery concept are true, this might force Fresh & Easy to re-examine their timetable.

Roseville's Safeway-anchored Renaissance Creek shopping center would be considered among that trade area's top-tier neighborhood centers. All told, the center has roughly 220,000 square feet of space, but less than three percent of that was vacant as this report went to press. At $3.00 per square foot, Renaissance Creek's asking rate is far above the current market average of $1.63 per square foot.

region in terms of ongoing retailer space requirements. New retailers coming to town—such as Smashburger, Five Guys Burgers and Fries and Pinkberry—have generally wanted to look first at top sites in the Roseville/Rocklin, Arden/Howe/Watt or Elk Grove submarkets (the Folsom and the Natomas/Northgate trade areas vying for the fourth and fifth slots on our list). Our brokers also report an increase in tenant site tours over the past six months.

Between deals already inked (but where tenants have not yet taken occupancy), and deals that are in the pipeline, we expect vacancy in the Elk Grove submarket to drop back to the ten percent range by the first quarter of 2011. But while all of this will come as good news for Elk Grove's landlords, this market still faces a number of challenges.

The issue of unanchored strip retail centers remains an issue in Elk Grove. This is the property type that was most overbuilt and where vacancy remains most problematic. Current strip retail vacancy in Elk Grove stands at 22.9 percent. The good news is that this is down significantly from its peak at 29.1 percent as of the first quarter of 2009. But in the intervening fifteen months, only 28,000 square feet of strip space has been absorbed. It would take at least another 60,000 square feet of occupancy growth to bring vacancy levels for Elk Grove's strip centers back to the 10 percent range. And, based on current activity levels, this process will likely take two to three years.

Asking rents in the Elk Grove submarket have declined precipitously over the course of the recession. After peaking at $2.72 per square foot (on a monthly triple net basis) during the first quarter of 2007, they have continued to slide to today's level of $1.83 per square foot. The good news is that we are seeing rent stabilization beginning to take place in Elk Grove's top-tier shopping centers. Regional/Power Centers are leading the way, but we have also seen this play out in the market's three top-tier grocery-anchored neighborhood centers. We see rents beginning to stabilize at second-tier retail locations In the coming months, but it may not be until next year that this trend reaches third-tier projects. Unanchored strip retail centers with high levels of vacancy will continue to struggle in the absence of any expanding mom-and-pop retailers. While we see it as possible that some of Elk Grove's strongest first-tier shopping centers will be able to post modest rental rate growth by next year, we don't see any widespread rent increases coming anytime before 2012.

STRIP STILL FACING CHALLENGES, BUT POTENTIAL NEW OPPORTUNITIES

Vacancy for unanchored strip centers Unanchored strip centers continue to be the most challenged shopping center type in the region. Metro-wide vacancy currently stands at 15.3 percent for strip product—the good news is that this is down from the 16.1 percent rate recorded last quarter. Strip product recorded occupancy gains of roughly 76,000 square feet during the first quarter.

While these numbers would seem to indicate that strip product is stabilizing, it remains the shopping center type facing the greatest challenges ahead. At the peak of the last real estate cycle (from 2004 to 2007), developers added roughly 875,000 square feet of strip product to the marketplace. This product type was substantially overbuilt in some submarkets (Elk Grove, Lincoln and Roseville/Rocklin among them). But the challenges are not just from the supply side. Demand remains a major issue.

Mom-and-pop retailers are the bread-and-butter tenant for strip retail. Unfortunately, this sector of the market has simply been decimated over the past couple of years. Even in the best of times there is a substantial rate of failure for small retail start-ups. But in good times there generally has been a healthy pool of new businesses to take the place of those that fail. The "Great Recession" changed that. Not only did the failure rate of mom-and-pop businesses skyrocket, but the pool of new start-ups dried up.

Of course, one of the problems that strip center landlords face is that tenants generally would prefer to be in anchored shopping centers where the presence of a major grocery, drug store or big box retailer will help to drive traffic to that center. The collapse of rental rates has meant that many space users who could not have afforded prime retail space a few years ago are now finding bargains. As such, those space users who are in expansion mode are typically looking first at spaces in the region's strongest anchored shopping centers and many will only consider strip product if it is on prime, high-traffic intersections.

But the news for strip center landlords is not all bad. In our last report we detailed how 7-Eleven is on a massive expansion blitz. The chain is looking to open as many as 50 new stores throughout Northern California over the next couple of years and as many as 250 stores throughout the U.S. this year alone. Next year that number is expected to hit 350. While 7-Eleven certainly does not fit the traditional mold of a grocery retailer, they are revamping their product offerings to include more fresh food. Unlike most convenience store operators, 7-Eleven typically works without a gas station component and is looking for inline or endcap space between 2,000 and 3,000 square feet. Cheap rents at strip centers are a definite draw, meanwhile, strip center landlords who land 7-Eleven stores will likely see the benefit of a major retailer who could drive traffic to their centers in ways that most other strip center tenants simply do not.

Another retailer that may prove of immense benefit to strip center landlords is Walmart. Walmart's Marketside concept has been the subject of expansion rumors for years. Currently only four of these roughly 15,000 square foot mini-groceries exist. All were delivered to the Phoenix market a few years back as Tesco began to launch its like-sized Fresh & Easy concept. Walmart's Marketside concept was viewed as the chain's response to the British retail giant's (Tesco is the fourth largest retailer in the world by sales volume) expansion into North America. Yet, after the initial opening of these four stores, Walmart backed away from growing the concept any further.

Part of this is likely due to problems that Fresh & Easy faced with its initial launch. During the first two years of its launch, Fresh & Easy's numbers were not entirely encouraging. Much of this had to do with the fact that its initial launch markets were all among the hardest hit by the residential meltdown that preceded the financial collapse of 2008. Part of this was due to some additional tweaking of the concept that was needed.

Fresh & Easy has since tweaked its product offerings, revised its real estate strategy and seen its sales take off. The chain has since opened dozens of stores throughout Arizona, Southern California and Nevada. In late 2009 it entered the Fresno market and readied a distribution center in Stockton. Over the last couple of years it has also acquired roughly 40 sites throughout Northern California and Nevada for new stores. In many cases the chain has been paying rent on space for months. Many of these locations have been built out and have been ready to open for some time. Still, Fresh & Easy has yet to launch in Northern California, though the chain opened nine new stores in Southern and Central California in early July. Our sources at Tesco tell us that these stores will likely be opened in late 2010, but have been non-committal on dates. So what does this have to do with Walmart?

Though the marketplace has been rife for years with the rumor that Walmart would expand the Marketside concept when "the time was right," nothing had happened… until now. Walmart is still officially mum on its plans for Marketside. However, we are aware of the chain quietly seeking a number of sites within the Sacramento market that could accommodate as much as 20,000 square feet. Our sources in other major markets report the same thing. Our sources tell us that the chain expects to open between 300 and 400 new stores throughout the U.S. in 2011, with the majority of these being smaller format grocery stores. Because of this, in the coming months many owners of larger strip centers may see some opportunities not only to backfill existing vacancies, but to land a tenant that would be a major driver of traffic with the potentially to radically change the dynamics of a center.

NEIGHBORHOOD WATCH

Vacancy for neighborhood and community centers in the Sacramento region currently stands at 14.1 percent, reflecting a slight increase from the 13.9 percent mark recorded as of the close of last quarter. This shopping center type recorded modest positive occupancy loss of roughly 5,000 square feet during the second quarter. Though neighborhood and community centers have been mostly untouched by big box vacancies (power/regional centers traditionally feature more box users), it has faced the same challenges as strip product in terms of a weak market for inline space users. Two years ago, the vacancy rate for this product type was 9.5 percent. Three years ago, it stood at 7.4 percent. All told, neighborhood/community centers have lost over 1.2 million square feet of occupancy over the last three years.

But despite a lackluster performance during the second quarter, neighborhood/community center vacancy levels should show modest improvement over the final half of the year. Meanwhile, average asking rents actually increased slightly during the second quarter from $1.60 to $1.63 per square foot. This has primarily been driven by gains among some of the region's top-tier centers, which continue to outperform the remainder of this

The question of whether or not Blockbuster will declare bankruptcy is looking more like a "when" than "if" proposition. The chain recently hired a restructuring officer and was de-listed from the NYSE.

asset class both in terms of vacancy and rental rate growth.

POWER/REGIONAL CENTERS SURGE ON BOX LEASES

Just as the Sacramento region's power and regional centers bore the brunt of big box vacancies over the past two years, they are now the beneficiaries of increased leasing activity for big boxes. Power/regional center vacancy currently stands at 11.2 percent, down from the 12.4 percent mark just three months ago. These numbers should drop into the ten percent range over the final half of the year.

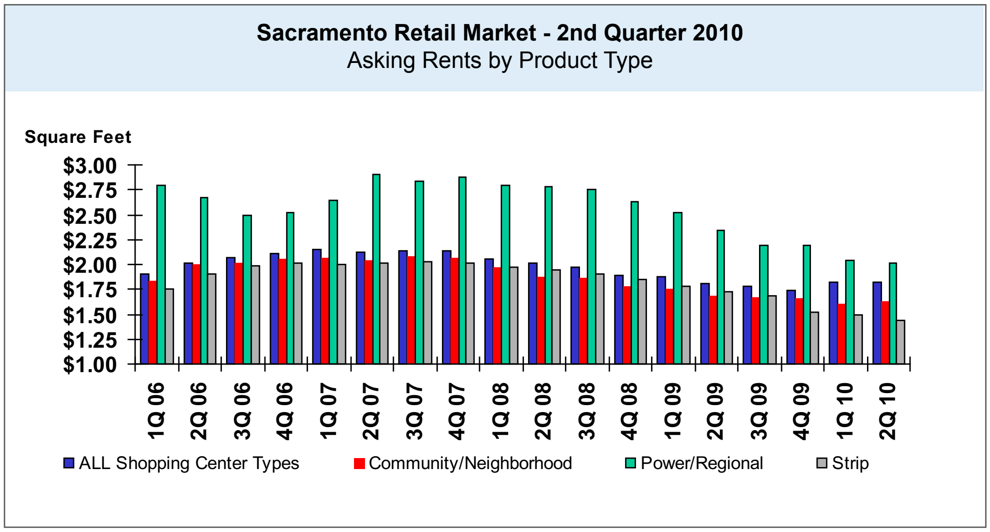
The good news for landlords is that power and regional centers accounted for 172,000 square feet of occupancy growth during the second quarter of this year. Keep in mind that net absorption numbers for this product type had been in the red for six of the last eight quarter. Excluding this quarter's performance, over 750,000 square feet of space had been returned to the marketplace over the past 18 months. Between deals already transacted (but where tenants have yet to occupy space), and a few more that are in the deal pipeline, we expect to see positive occupancy growth in the six figures for power/regional centers through the end of the year.

The bad news for landlords is that bargain pricing is what continues to drive big box leasing activity. Asking rents actually declined slightly during the second quarter from $2.04 to $2.01 per square foot. Box spaces within these types of centers are typically being marketed for half that amount. Rents should stabilize over the final half of 2010, but because the leasing market for inline space remains weak, there is little to suggest that rental rate growth will occur in the coming months even as vacancy declines.

LOOKING AHEAD

Expect retail vacancy to continue to decline over the final half of 2010. Occupancy gains will continue to be driven by national credit tenants—almost exclusively discounters—looking to take advantage of deals. But even as overall numbers begin to show some improvement, the market for inline retail space will remain weak. And though the trend of retail failures and space consolidations has slowed, it is not over, as the mid-July

The average asking rent for strip centers in the Sacramento region is currently $1.44 per square foot. Asking rates for neighborhood and community centers are currently averaging just $1.63 per square foot. The current average asking rent for power or regional shopping centers stands at $2.01. Meanwhile, the average asking rent for all shopping center types in the region currently stands at $1.82 per square foot.



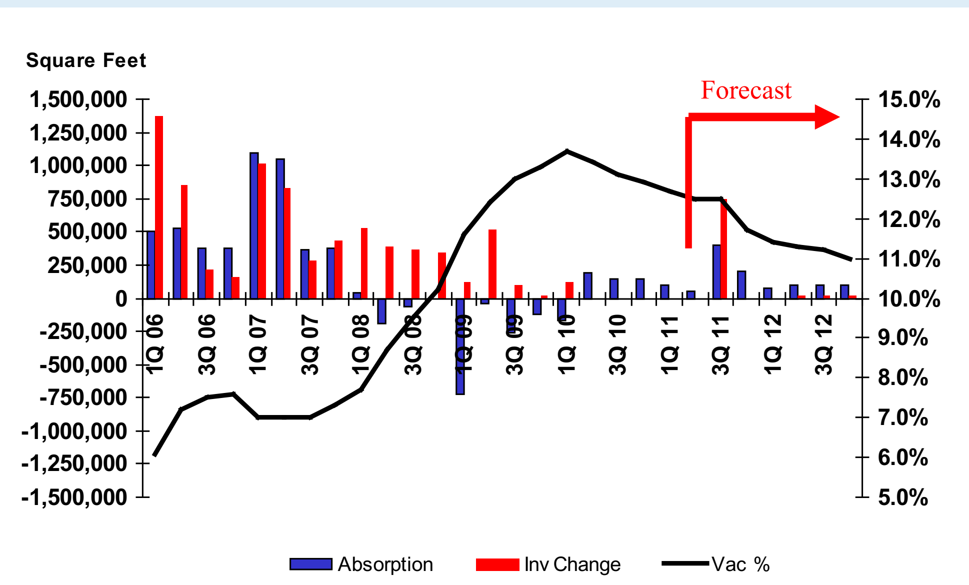
bankruptcy of furniture retailer Jennifer Convertibles demonstrates. There remain a number of retailers "on the edge."

Blockbuster, for example, was recently de-listed from the NYSE and was forced to hire a restructuring officer under terms of a forbearance agreement it reached with debt holders. Blockbuster has been making moves in recent months to transition its business model from retail stores to more of a streaming video provider. It also has moved into the video rental kiosk business. Bankruptcy would allow Blockbuster to shed considerable debt, as well as get out of most of its retail leases. We see it as a near-certainty that Blockbuster will file for bankruptcy before the end of the year and that the chain will likely shutter the majority of its retail locations. Blockbuster has 27 stores in the greater Sacramento region. How many of those would be closed in the event of a Blockbuster bankruptcy remains to be seen, but the question is increasingly looking more like "when," than "if."

We also see continued weakness in the grocery sector. Though Walmart and a number of smaller discount grocery chains are in expansion mode, mid-priced grocers continue to get squeezed. Grocery price deflation continues to eat away margins and players such as SUPERVALU, Safeway, Kroger and dominant local player Raley's remain at a disadvantage as non-unionized players increasingly intrude into the grocery world. Because of this, we would not be surprised to see a number of chains closing underperforming grocery stores in the coming year.

Though we will likely still see some space being returned to the marketplace in the coming months, growth from new deals should outpace any losses. The bigger question comes down the road. As discounters, off-price apparel chains and other expanding retailers continue to land space for their 2011 expansion plans, who will take their place? With mom-and-pop retailers out of the picture for the next few years and the overall economic recovery moving at a snail's pace, it is possible that the market is in what could just be a "growth spurt" driven more by real estate pricing than economics. Ultimately, the pace of recovery will determine the answer to this question.

Sacramento Retail Market - 2011/2012 Forecast
Change in Inventory, Net Absorption & Vacancy



480 Offices in 61 countries on 6 continents

United States: 135
Canada: 39
Latin America: 17
Asia Pacific: 194
EMEA: 95

- $1.6 billion in annual revenue
- 672.9 million square feet under management
- Over 10,000 professionals

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