



Sacramento Retail Market Highlights

Overall performance during 2nd Quarter 2011 in the Sacramento retail market (all types) was modest. The following is a summary of the market during the quarter.

- Vacancy declined by 20 basis points, ending the three-month period at 13.2%.
- Total leasing activity remained robust with almost 600,000 SF of available space being occupied, with much of that however being offset by consolidation and closures that eventually yielded just under 165,000 square feet of positive net absorption from April through June.
- In general, leasing activity in Sacramento's retail market continues to show improvement, with overall vacancy from April - June being the fifth consecutive quarter with a decline in the overall area vacancy rate.
- Good opportunities continue to exist for tenants, as landlords still need to be aggressive in chasing quality lessees.
- Tenants still hold the upper hand in lease negotiations, but Landlord concessions are not as aggressive as they have been in the past 12-18 months.
- The recovery in the retail sector continues to lead the CRE markets, but many are divided on just how big that lead really is.
- Sales of retail facilities continue to get consummated, including both conventional and distressed assets.
- Lease rates continue to flutter, and will continue to favor tenants until stable employment sources are identified in the region, and the area's economic climate improves.
- We see lease rates remaining stable over the next quarter, with strip center rates yielding further declines.

MARKET INDICATORS

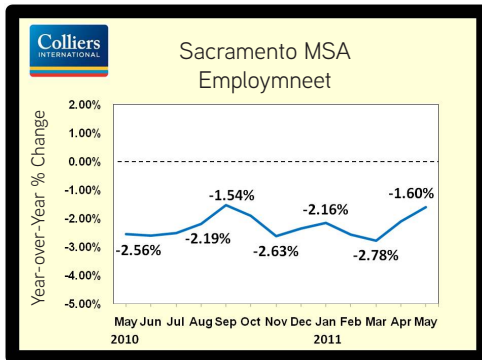
	2nd Qtr 2011	Projected 3rd Qtr 2011*
VACANCY	↓	↓
NET ABSORPTION	↑	↑
DELIVERIES	↑	↑
CONSTRUCTION	↓	↓
LEASE RATES	↓	↔

*3rd Qtr over 2nd Qtr Change

KEY RETAIL METRICS - 2Q 2011

Vacancy	13.2%
Net Absorption	164,976 SF
Deliveries	10,800 SF
Average Direct Rate	\$18.46 NNN

Retail Recovery



Source: Bureau of Labor Statistics



With vacancy showing a fifth consecutive quarterly decline, and net absorption totaling more than 500,000 square feet to the black over the past five quarters, it is hard to argue the validity of Sacramento's retail market being on the upswing of the recovery curve. However, naysayers are quick to point out that current foreclosure activity in Sacramento's retail sector continues to foreshadow a very different Sacramento retail market over the next 12-24 months. Recent press was released in the region with headlines stating "Foreclosures mounting for local retail centers", indicating that numerous retail centers in the region have already been lost to foreclosure and that many others in the region will share that fate in the coming years. A report released by Real Capital Analytics in May 2011 estimated the value of the region's distressed retail properties at \$421 million. Most schools' of thought on lender foreclosure activity is that the pace of default actions is being controlled by the lenders who wish not to initiate too much at one time, but to hold off on foreclosure proceedings to give landlords more time and avoid recording too many losses on their books at one time.

There is clearly increased consumer activity in the retail sector. Though local figures are hard to come by, the US Census Bureau reported June 2011 national retail sales to be \$387.8 billion, 2.5% above the pre-recession high in November 2007 of \$387.4 billion, and 8.1% greater than the \$358.9 billion recorded one year earlier in June 2010. As long as lenders continue to be willing to implement their "pretend and extend"

strategy, the level of foreclosure activity shouldn't dampen the sector recovery. The pace of that recovery is quite a different story.

Market sentiment remains consistent in that this sector is likely to be the first to recover, albeit at a slower than desirable pace. As retail is consumer driven, the anticipated slower recovery period is in part from the lack of definitive sources currently identified for future employment growth. Employment growth in the six-county Sacramento region has still not turned the "positive" corner and continues to fluctuate, but has generally improved over the last 12 months. As the graph to the left illustrates, year-over-year employment growth in the six-county Sacramento region shows a decline from May 2010 to May 2011 of 1.60%, but this is an improvement from the 2.56% decline in the regional employment level reported from May 2009 to May 2010. State budget woes will continue to have an effect on regional employment, but consumer confidence seems to be returning across the majority of the market.

...hard to argue the validity of Sacramento's retail market on the upswing of the recovery curve...

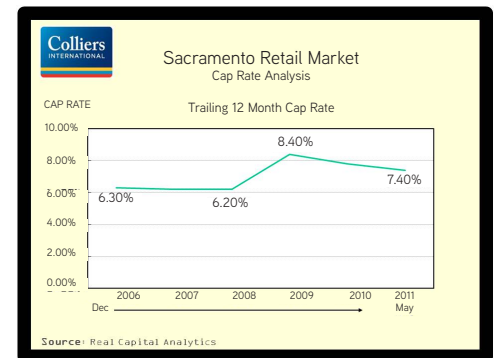
Activity Round-Up

Several key leasing events occurring thus far in 2011 include Kuni Automotive vacating 46,500 square feet in Sacramento, Scofield's Fine Furniture moving out of 32,115 square feet in the Arden area, and a Big Lots leaving 25,000 square feet in South Sacramento. Positive leasing activity in the region thus far in 2011 includes McCaulou's moving in to 44,600 square feet in Auburn, Wise Buys occupying 42,487 square feet in the Citrus Heights area, and the Institute of technology-Culinary Arts occupying over 40,600 square feet also in Citrus Heights. Numerous leases were inked in-house during 2nd Quarter 2011 including two 10-year deals of 22,000 square feet and 18,400 square feet. Our in-house brokers report continued strong interest in retail space by medical marijuana dispensaries, and expect that trend to continue. Additionally, the market continues to absorb some of the large local blocks of space vacated by big box retailers including Total Wine & More moving into the old Circuit City building near Arden Fair, and Stein Mart taking over the old Linens 'n' Things facility at Broadstone Plaza in Folsom.

Sale activity for Sacramento retail inventory is still vigorous, with many facilities changing ownership hands during the quarter. Most of the sale activity involved smaller facilities, less than 10,000 square feet, with the buyer pool predominantly owner-users and investment companies. Both buyer types are likely to remain active as tenants with capital will continue to seek opportunities for acquiring space given the soft pricing market that still exists, and investment opportunities will likely continue to be a contributor to the overall sales volume as lenders continue to divest of their distressed assets. Below is a summary of some of the larger retail sale transactions completed during 2nd Quarter 2011.

Cap rates on Sacramento retail sales continue to stay above pre-recession levels, but have shown some strengthening thus far in 2011. As the graph to the right indicates, the cap rate on sales occurring during 2008 bottomed at 6.2%, increased in the next two years up to 8.4% as a result of the downturn the Sacramento retail market has been experiencing, and has since

declined back down to 7.4% as of May 2011. Bank REO's and foreclosure sales have put upward pressure on the average cap rate during this 30-month period, and continue to put pressure on area cap rates. Though cap rates have shown some improvement recently, sellers should be cautious on pricing expectations. Continued high unemployment, coupled with an active residential foreclosure market and both local and state government budget woes, leave little encouragement for investors that retail properties will increase in value anytime soon.



...most sale activity involved smaller facilities, less than 10,000 square feet...

SACRAMENTO LARGER RETAIL SALES - 2ND QUARTER 2011

Property	Rentable Buildable Area	Price	Price Per SF	Buyer	Seller	Submarket	Comments
Pleasant Grove Blvd	126,872	\$33.5 million	\$264.05	S&P Company	Donahue Schriber	Roseville / Rocklin	Portfolio of 5 properties
855 E. Bidwell	22,714	\$6.77 million	\$298.05	Kathleen Daudistel	J&E Esperanca Inv.	Folsom & Fremont, CA	Portfolio of 2 properties
Gold Rush Plaza	6,795	\$3.7million	\$544.52	Pacifica Convenience	First Credit Bank	Folsom & Fremont, CA	REO Sale
Covell Plaza	3,260	\$2.275 million	\$697.85	Nishikawa Y&S Trust	Brownam Dev.	Davis	100% occupied at sale
1615 J Street	6,400	\$1.95 million	\$304.69	1615 J Street LLC	RCI Dev.	Downtown	Investment sale

Construction Summary



Palladio at Broadstone

New construction trends remain limited, with only three retail projects under construction in the Sacramento area currently:

a) a 5,500 square-foot retail facility being built in Woodland and expected to be delivered late 2011. This building is being developed on an outparcel situated in front of Woodland Gateway, a major power center situated along Bronze Star Drive in Woodland.

b) a 13,263 square-foot Walgreens being built in El Dorado Hills and expected to be delivered July 2011.

c) the 550,000-square-foot Palladio at Broadstone lifestyle center in Folsom is near construction completion and ready for delivery to tenants upon lease execution. There

are currently several retailers open at Palladio including a 16-Plex Cinema West theater, Pinkberry Yogurt, Johnny Rockets, and Blue Nami Sushi. Whole Foods is scheduled to open at Palladio in October 2011, county star Toby Keith is scheduled to open his restaurant in November 2011 at Palladio, and Chicago Fire Pizza has inked a lease at the upscale retail center as well.



Submarkets: the Have's and Have Not's



...performance across submarkets support the Sacramento retail market having entered the recovery phase...

Market performance during 2nd Quarter 2011 of the various submarkets comprising the Sacramento retail base can best be characterized by stable inventories, vacancies that experienced small swings up and down, and absorption levels both on the positive and negative side with no dramatic gains or losses. With only few exceptions, the performance across the various submarkets clearly supports the Sacramento retail market having entered into its recovery phase. There were certain notable performances within the submarkets (across all sub-sectors) during 2nd Quarter 2011 and are summarized in the table to the right.

Noteable Submarket Performance

STRONG ABSORPTION - 2Q 2011		
SUBMARKET	TYPE	ABSORPTION
South Sacramento	Power Regional	126,535 SF
Auburn/Loomis	Community/Neighborhood	51,200 SF
Elk Grove	Power Regional	40,340 SF
Roseville/Rocklin	Power Regional	30,408 SF
Citrus Heights/Orangevale	Power Regional	26,469 SF

WEAK ABSORPTION - 2Q 2011		
SUBMARKET	TYPE	ABSORPTION
Roseville/Rocklin	Strip	(17,590 SF)

Please note that only one submarket during 2nd Quarter 2011 yielded negative performance of any measurable amount. Activity during the quarter was overwhelmingly positive, and we believe a good barometer for measuring strength of market. Stay tuned for 3rd Quarter results to see if the market can maintain this pattern of activity.

Sector Analysis

KEY SUBSECTOR METRICS - 2Q 2011

	VACANCY	NET ABSORPTION
Neighborhood	13.9%	49,340 sf
Strip	15.1%	12,334 sf
Power	10.5%	102,495 sf

Neighborhood Centers Stable

Total vacancy within the neighborhood retail subsector during 2nd Quarter 2011 declined slightly from 14.1 to 13.9%, resulting in positive net absorption of almost 50,000 square feet. The positive performance during the quarter of this subsector is mostly due to decreased hemorrhaging of smaller users that occupy space in these type Centers. Additionally, previously vacated space in these Centers is still highly desirable by other select smaller users whose businesses are still managing to stay afloat. There is no new neighborhood retail product in the construction pipeline, which will help keep vacancy in check as absorption improves. However, though neighborhood and community centers have remained relatively insulated from the hemorrhaging of the big box retailers, these retail facilities will continue to face other challenges such as a slowly growing demand for this type retail product.

Within the neighborhood retail subsector direct average rental rates declined noticeably during 2nd Qtr 2011, dropping from \$18.76 nnn to \$17.96 nnn during the three-month period, and down from the \$19.48 level reported one year earlier.

Strip Centers Showing Life

Within the strip center retail sector, vacancy during 2nd Quarter 2011 slightly declined, with 12,334 square

feet of positive net absorption yielding a decrease in the vacancy rate from 15.2% to 15.1%. This is the third consecutive quarter with positive net absorption, and the fifth out of the last six quarters with positive leasing activity.

Unanchored strip centers continue to be the most challenged retail subsector in the region. Small businesses tend to be the highest percentage user of strip facilities, and also the first segment of the retail sector to close their doors during economic contraction. Additionally, these users also tend to prefer neighborhood center locations, and many continue to migrate to available space in these neighborhood centers to take advantage of the current low rates. This latest contraction left a wake of unoccupied strip space that resulted in a spike in the vacancy rate from 10.2% at year-end 2007 to a peak of 17.0% by early 2010. However, leasing trends over the last five quarters indicate that occupancy of vacated strip center facilities is building momentum. Within the strip center retail sector, direct average rental rates remained fairly stable during 2nd Quarter, dropping slightly from \$16.21 nnn to \$16.08 nnn during the three-month period, and down from \$17.44 nnn one year earlier.

Moving forward, strip center leasing will continue to be challenged as users seeking facilities will likely first seek availability in anchored centers where they can benefit from increased traffic flow, since rates for these type facilities might be within their financial reach. Expansionary firms will be selective in their facility choices, and will likely focus on well-anchored centers first, and then strip space that generates high traffic volume.

AVG. DIRECT LEASE RATES - 2Q 2011

	Q2 2010	Q2 2011
Neighborhood	\$19.48	\$17.96
Strip	\$17.44	\$16.08
Power	\$24.24	\$22.81

Strip center space experienced a 3rd consecutive quarter with positive net absorption and fifth consecutive quarter with positive leasing...

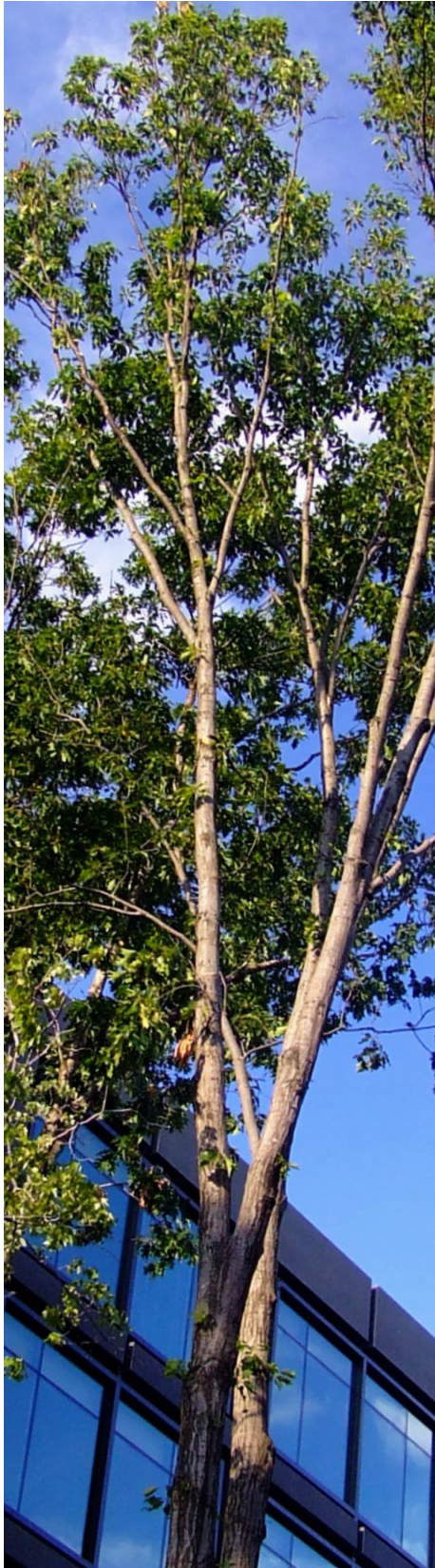
Power Centers Fairly Flat

Total vacancy in the power center retail subsector during 2nd Quarter 2011 declined 80 basis points from 11.3% to 10.5%, resulting in positive net absorption of almost 103,000 square feet. This is a nice turnaround from the temporary negative performance posted in 1st Quarter, and is the result of creative tenants finding use for vacated facilities. Big box retailers like Old Navy, Wal-Mart and Target continue to move forward on plans to open smaller store formats.

The good news is that there remains no new significant construction of power center facilities in the pipeline to add additional inventory to the market, so users inking new deals on power center space will help offset possible future occupancy losses resulting from consolidations and departures.

Direct average rental rates in Sacramento's power center subsector remained fairly stable during 2nd Qtr 2011, dropping during the quarter from \$23.32 nnn to \$22.81 nnn, and declining by \$1.43 per-square-foot from the \$24.24 reported one year earlier.

Looking Ahead



We believe Sacramento's retail market has entered into its recovery phase, but it will be a recovery that will happen very gradually as the local economy picks up. Retailers across all subsectors will likely have struggles to deal with as long as influences like high fuel prices and poor area economics continue to put financial pressures on consumers.

We believe rents in neighborhood centers will remain stable during 3rd Quarter 2011, with positive absorption continuing to put downward pressure on vacancy rates. Strip facilities during 3rd Quarter will experience a further decline in lease rates, with vacancy holding steady and absorption experiencing little movement from net "zero". Power center inventory during 3rd Quarter should record level rates compared to 2nd Quarter results, and net positive absorption in this product type during the three-month period should result in a decline in vacancy.

Areas such as Roseville/Rocklin, Citrus Heights and Fair Oaks offer resident's strong demographics and stable housing options, thus providing good opportunities for landlord expansion and relocation. Users in Roseville/Rocklin will continue to enjoy the higher incomes shared by Placer County residents.

Though tenants are likely coming to the realization that rents are probably at their lowest, they are still driving the deals in Sacramento's retail market; landlords will continue to need concessions to make deals happen. In fact, we believe the Sacramento retail market will continue to be a tenant-driven transaction environment for at

least the next 12-18 months.

With respect to the retail investment market, well, "cash is king", and buyers with cash will continue to seek out acquisition opportunities priced right from sellers just seeking to retire the debt on their assets. There is definitely more capital available in the marketplace today than 12 months ago, and there are buyers in the market seeking to close deals in Sacramento. This interest is in part due to the attractive pricing that currently exists in Sacramento (below replacement cost). We believe institutional players as well as local buyers will put Sacramento back on their radar as market conditions continue to improve.

Inventory, Vacancy, Construction, and Absorption

RETAIL - ALL CLASSES 2Q 2011

	1Q 2010	2Q 2010	3Q 2010	4Q 2010	1Q 2011	2Q 2011
Total Inventory SF	57,417,119	57,417,119	57,492,069	57,493,725	57,493,725	57,504,525
Total Vacancy SF	7,990,880	7,883,458	7,841,205	7,741,317	7,723,321	7,569,145
Total Vacancy %	13.9%	13.7%	13.6%	13.5%	13.4%	13.2%
Deliveries SF	130,258	0	74,950	0	0	10,800
Under Construction SF	588,451	590,107	515,157	513,501	519,001	508,201
Net Absorption (Growth)	(99,274)	107,422	117,203	101,544	17,996	164,976
Average Asking Rate (NNN - Annual)	\$19.93	\$19.87	\$19.66	\$19.20	\$19.09	\$18.46

Eye on the Market



EYE ON THE MARKET Recent Deals - Select 2011 Retail Leases

Building	Submarket	SF Transacted	Tenant	Lease Type
270 Palladio Parkway	Folsom	45,248	Whole Foods	New
372 Elm Avenue	Auburn/Loomis	44,600	McCaulou's	New
7901 Greenback Lane	Orangevale/Citrus Heights	30,000	Sprouts Farmer's Market	New
3541-3661 N. Freeway Blvd	Natomas	28,007	Bed Bath & Beyond	New
2329 Fulton Avenue	Arden/Watt	22,350	Mel Rapon Honda	New
4400 Del Rio Road	South Sacramento	21,000	Sunflower Farmer's Market	New
6081 Florin Road	South Sacramento	17,900	PetSmart	New
6833 Stockton Boulevard	South Sacramento	14,619	Visions Unlimited	New
3551 Truxel Road	Natomas	10,000	Sketchers	New
250 Palladio Parkway	Folsom	9,017	Forever21	New

Sacramento Retail Submarket Analysis - 2Q 2011

Submarket	Rentable Buildable Area	Vacant SF	Vacancy Rate	Availability Rate	Net Absorption SF	YTD Net Absorption SF	Under Construction SF	Direct NNN Average Lease Rate \$/SF/MO
Arden/Howe/Watt								
Community Neighborhood	3,144,211	358,844	11.4%	12.9%	(9,318)	(7,614)	0	\$19.98
Power Center	1,567,101	302,982	19.3%	19.9%	3,555	(4,285)	0	\$23.21
Strip	1,154,933	150,645	13.0%	13.3%	4,647	15,908	0	\$14.67
Auburn/Loomis								
Community Neighborhood	1,001,890	72,554	7.2%	7.2%	51,200	44,250	0	\$17.06
Strip	245,103	16,127	6.6%	8.1%	5,485	5,485	0	\$7.48
Carmichael/Fair Oaks								
Community Neighborhood	1,236,291	119,511	9.7%	9.8%	(8,078)	7,650	0	\$14.26
Strip	544,186	106,160	19.5%	21.5%	(5,751)	(13,817)	0	\$11.89
Citrus Heights/Orangevale								
Community Neighborhood	2,878,396	578,585	20.1%	23.1%	(5,502)	(39,664)	0	\$17.67
Power Center	498,130	37,461	7.5%	8.3%	26,469	26,469	0	\$30.00
Strip	1,012,566	126,212	12.5%	14.6%	(410)	18,856	0	\$15.83
Davis								
Community Neighborhood	935,482	49,379	5.3%	7.4%	0	27,752	0	\$18.85
Strip	74,133	10,056	13.6%	13.6%	260	760	0	\$18.88
Dwntwn/Midtw/East Sac								
Community Neighborhood	557,008	69,527	12.5%	12.3%	5,000	(17,563)	0	\$13.86
Strip	425,745	23,521	5.5%	4.7%	(3,971)	(2,371)	0	\$20.55
El Dorado								
Community Neighborhood	1,503,438	139,814	9.3%	10.7%	17,167	8,727	0	\$22.79
Strip	283,234	45,484	16.1%	16.2%	(3,755)	(1,627)	0	\$16.47
Elk Grove								
Community Neighborhood	2,284,674	278,800	12.2%	12.1%	13,802	14,710	0	\$19.70
Power Center	1,599,722	35,633	2.2%	2.1%	40,340	38,340	0	\$24.30
Strip	427,368	114,360	26.8%	25.7%	3,616	1,746	0	\$20.69
Folsom								
Community Neighborhood	2,346,736	313,816	13.4%	14.7%	(5,941)	(10,204)	0	\$19.29
Power Center	1,226,429	51,652	4.2%	3.9%	1,183	2,353	0	\$28.68
Strip	402,020	65,786	16.4%	18.6%	6,680	10,531	0	\$19.32
Highway 50								
Community Neighborhood	2,612,770	554,822	21.2%	23.7%	(1,413)	3,556	0	\$14.78
Strip	412,830	59,066	14.3%	13.5%	4,593	(7,370)	0	\$11.90

Source: CoStar Results include all retail space located in any type of shopping center or regional mall in all core areas of Sacramento, Placer, El Dorado and Yolo counties.

Sacramento Retail Submarket Analysis - Continued

Submarket	Rentable Buildable Area	Vacant SF	Vacancy Rate	Availability Rate	Net Absorption SF	YTD Net Absorption SF	Under Construction SF	Direct NNN Average Lease Rate \$/SF/MO
Lincoln								
Community Neighborhood	475,321	104,638	22.0%	22.7%	1,054	(9,745)	0	\$23.27
Power Center	640,107	28,486	4.5%	4.5%	0	6,000	0	\$28.24
Strip	126,671	63,158	49.9%	49.9%	544	(5,480)	0	\$19.04
Natomas/Northgate								
Community Neighborhood	1,468,561	129,268	8.8%	9.0%	(10,271)	(9,089)	0	\$21.08
Power Center	747,408	56,000	7.5%	5.8%	0	(10,000)	0	\$22.32
Strip	235,263	37,430	15.9%	19.1%	530	1,276	0	\$15.58
Rio Linda/N Highlands								
Community Neighborhood	2,028,506	294,894	14.5%	15.2%	(9,440)	(7,964)	0	\$13.25
Power Center	114,550	0	0.0%	0.0%	0	0	0	N/A
Strip	676,558	67,558	10.0%	10.1%	1,374	3,133	0	\$16.03
Roseville/Rocklin								
Community Neighborhood	5,027,636	818,499	16.3%	17.5%	20,375	39,132	0	\$20.48
Power Center	3,265,539	448,358	13.7%	15.3%	30,408	20,737	0	\$15.54
Strip	1,021,392	238,316	23.3%	25.0%	(17,590)	(12,896)	0	\$16.75
South Sacramento								
Community Neighborhood	5,232,426	754,010	14.2%	13.8%	30	(2,064)	0	\$17.18
Power Center	31,028,117	2,902,945	9.4%	10.5%	126,535	290,993	0	\$19.49
Strip	1,179,361	133,186	11.3%	12.4%	17,020	25,417	0	\$13.44
West Sacramento								
Community Neighborhood	692,128	42,643	6.2%	5.4%	(4,906)	(4,906)	0	\$17.52
Power Center	1,005,303	48,162	4.8%	4.3%	1,470	5,222	0	\$24.94
Strip	111,322	26,655	23.9%	25.3%	1,512	777	0	\$23.74
Woodland								
Community Neighborhood	1,173,709	156,250	13.3%	13.4%	(4,419)	19,560	0	\$14.73
Power Center	926,439	166,272	17.9%	18.8%	(159)	1,346	5,500	\$22.99
Strip	203,055	10,248	5.0%	5.0%	(2,450)	(2,450)	0	\$13.06
Overall								
Community Neighborhood	34,692,183	4,835,854	13.9%	14.9%	49,340	41,224	0	\$17.96
Power Center	12,435,329	1,308,886	10.5%	11.1%	102,495	84,304	5,500	\$22.81
Strip	8,535,740	1,288,840	15.1%	16.1%	12,334	37,878	0	\$16.08
Overall Market	57,504,525	7,569,145	13.2%	14.0%	164,976	182,972	508,201	\$18.46

Source: CoStar Results include all retail space located in any type of shopping center or regional mall in all core areas of Sacramento, Placer, El Dorado and Yolo counties.

Balance of space under construction classified as "Specialty" product.

RETAIL SALES AND LEASING

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