

Retail



MARKET REPORT
NORTHERN CALIFORNIA | FALL/WINTER 2019

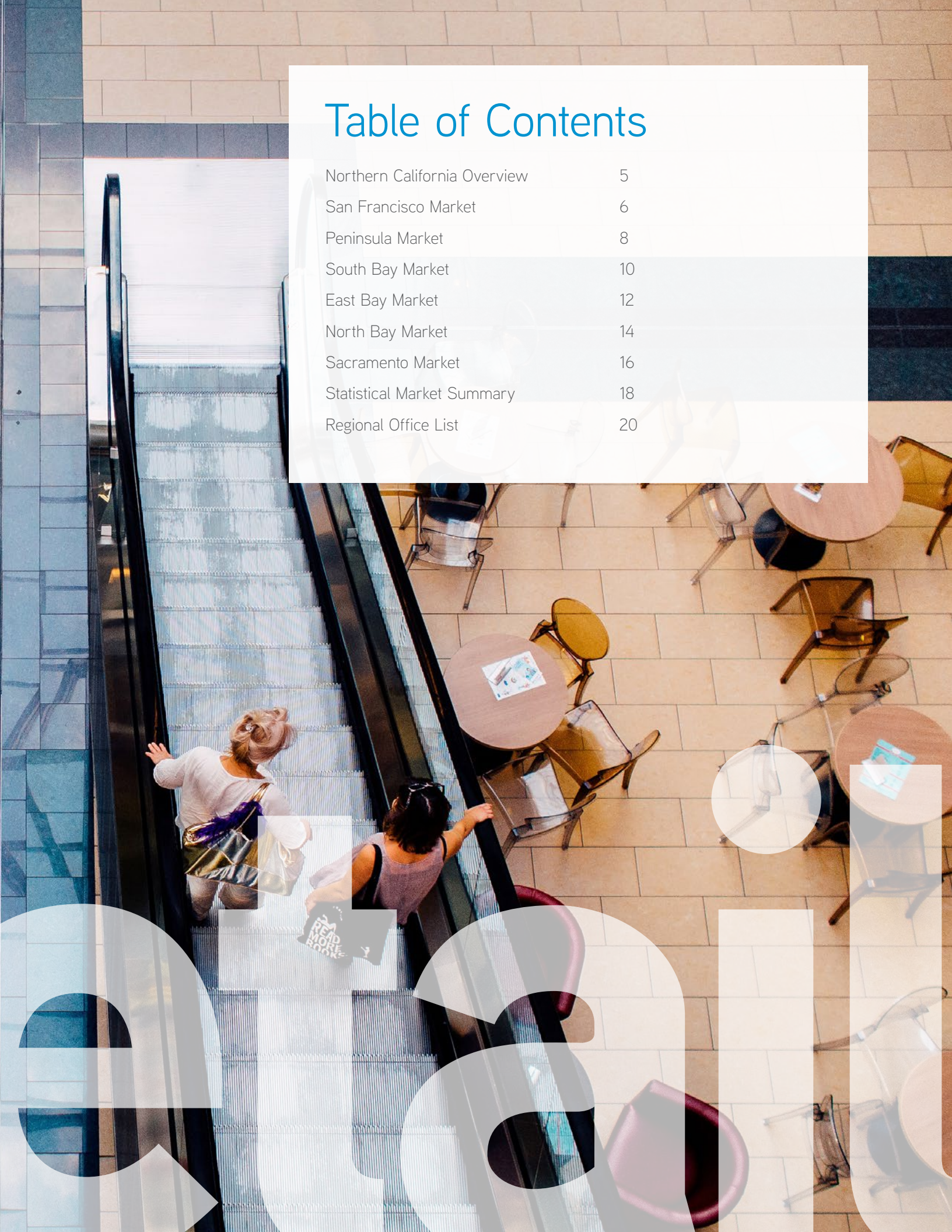
COLLIERS INTERNATIONAL
NORTHERN CALIFORNIA
FALL/WINTER 2019

RETAIL MARKET REPORT



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NORTHERN CALIFORNIA Retail Overview - Fall 2019

Per the 2020 Emerging Trends in Real Estate report from the Urban Land Institute (ULI) and PWC, the retail picture is shifting and is more complex than other property types. This complexity consists of integration of new concepts, formats, channels and changing inventory management systems. Some of these elements have resulted in traditional shopping centers transforming into “consumer centers” with a wide mixture of different uses. Some of the differences in these changing “consumer centers” are the increase in fitness, health and wellness uses in addition to coworking tenants.

In both the Emerging Trends in Real Estate report as well as the Fall 2019 Colliers National Retail Report, the importance of brick-and-mortar footprints was noted. Despite all the news of the shuttering of stores, nearly 78 percent of top U.S. retailers say they are optimistic about shops and feel good about the future. Additionally, online brands are increasingly expanding into brick-and-mortar locations; their online presence complements the brick-and-mortar experience. In 2018, brick-and-mortar stores in the U.S. influenced nearly 38 percent of all online sales and as such,

the physical store retains a level of significance. Watch for stores to drive interactivity and engagement to ensure that the shopping destination is more relevant.

Year-over-year the Northern California region experienced a decrease in total availability by 41 basis points, from 8.4 to 8.0 percent. Meanwhile, the region posted nearly 437,000 square feet of positive net absorption during the third quarter. The Sacramento submarket accounted for more than 38 percent of the activity, posting over 167,000 square feet of positive net absorption; as well as carrying the most available retail space in Northern California, with more than 5.1 million square feet. Meanwhile, overall asking rents softened slightly during the third quarter to \$24.97 per square foot. Year-over-year the total square feet under construction has decreased from 982,433 square feet to 690,814 square feet and nearly 56 percent of the product under construction is located in the South Bay.

“Retailers who want to grow must evolve and meet consumers where they are. For many of these brands, maintaining a personalized connection with consumers is a necessity and those that continue to provide unique customer experiences will set themselves apart from other e-commerce sites who stay online-only.”

-Anjee Solanki, National Director Retail Services, USA



Vacancy



Net Absorption

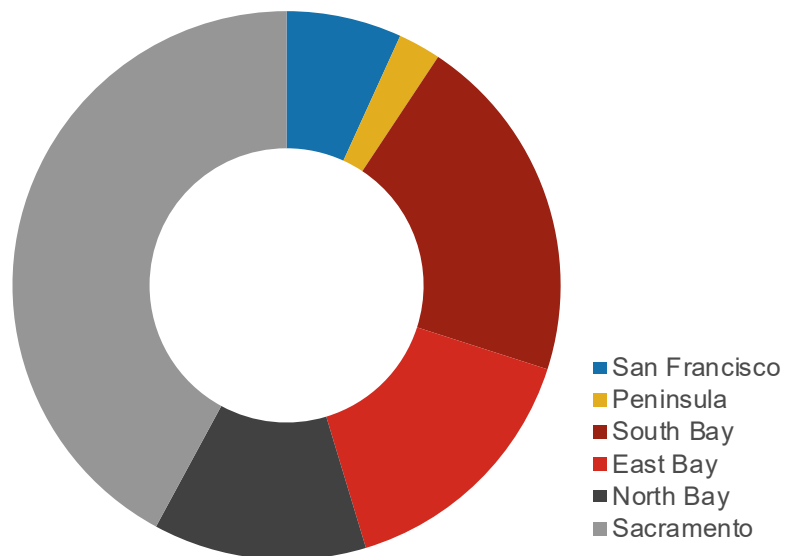


Construction

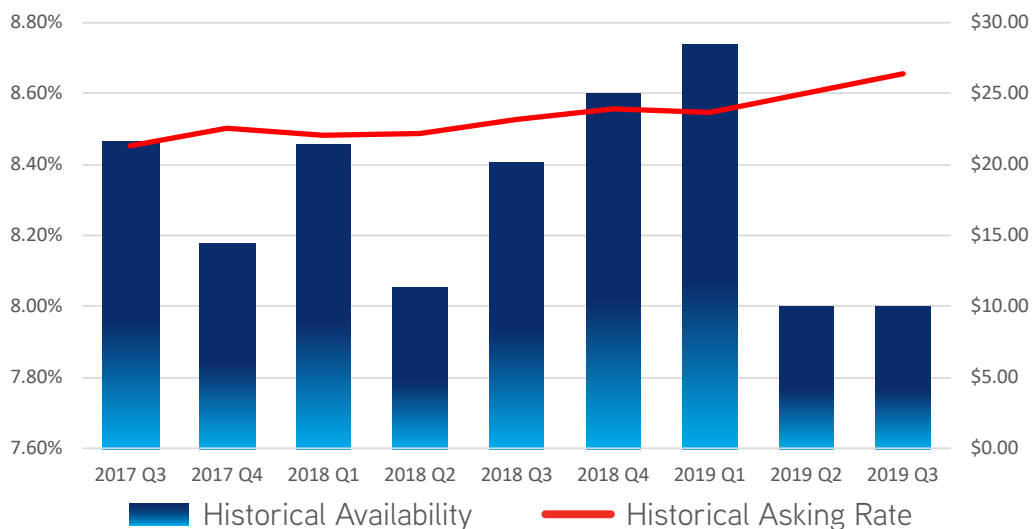


Asking Rents

Availability by Submarket



Historical Availability vs. Asking Rate





Leasing Activity Remains Steady

STRONG ECONOMY. San Francisco’s economy remains strong, with an unemployment rate of 2.0 percent, compared to 2.3 percent at this time last year according to the California Employment Development Department (EDD). According to a recent report from JP Morgan, wages in San Francisco are higher than the national average, and small businesses in San Francisco are thriving, as they had the highest level of revenue growth compared to all other major cities. The same report cites consumers under the age of 35 as the main contributor to growth and spent the most at restaurants and professional services. This is evidenced in the rapid growth of the professional services sector, which added 4,900 jobs in a year, more than double its 10-year average of 2,000 jobs. Investment also remains strong as median house sales increased 1.8 percent from last year to 1.58 million, the highest in the Bay Area according to the residential real estate firm COMPASS.

AVAILABILITY. San Francisco’s retail availability rate increased by 27 basis points since last year. Much of the current vacancy in the Mid-Market can be attributed to the 6x6 mall, which has been vacant since it finished construction. Adding to the availability rate has been the evolution of retailers towards smaller and more efficient locations. Landlords have been trying to tackle this issue by leasing out space to multiple tenants, and converting some of the retail to office space.

THE VACANCY TAX INITIATIVE. To combat the growing retail vacancy, Aaron Peskin, District 8 Supervisor, has proposed a retail vacancy tax of \$250 per day for properties that are vacant for over six months. This will be put on the March ballot for 2020. Opponents of the tax claim that this may backfire and cause rents to rise. Instead, most opponents argue that the permitting process is the main reason for the vacancy, and that landlords are being unfairly taxed.

OUTLOOK. Per a report from Bain and Company, retail success no longer lies in being bigger than competitors. Instead, retailers will now need to focus on their strengths and how that relates to the overall customer experience, particularly online. Retailers will also need to continue to invest in technology, while using data to streamline decisions. Evidence of retailers starting to adapt to this change can be found in San Francisco’s Amazon Go, which has made shopping convenient while keep operating costs at a minimum.

Q2-Q3 2019 Indicators



Vacancy



Net Absorption



Construction



Asking Rate

Recent Transactions

Tenant: The RealReal
Address: 253 Post Street
Size: 8,000 SF
Lease: Direct

Tenant: Sennheiser
Address: 259 Post Street
Size: 3,250 SF
Lease: Direct

Tenant: Gumps (Pop-up)
Address: 250 Post Street
Size: 2,000 SF
Lease: Direct

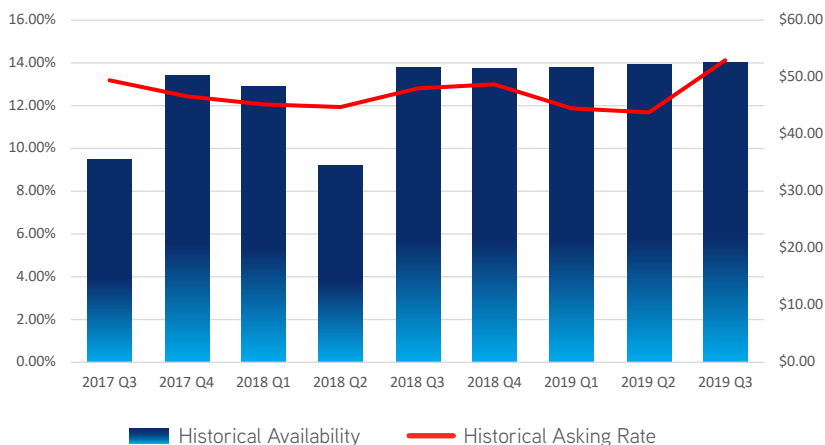


I. Magnin | 233 Geary Street
B: Sand Hill Property Co. | S: Macy’s
250,000 SF | \$1,000/PSF | \$250 Million

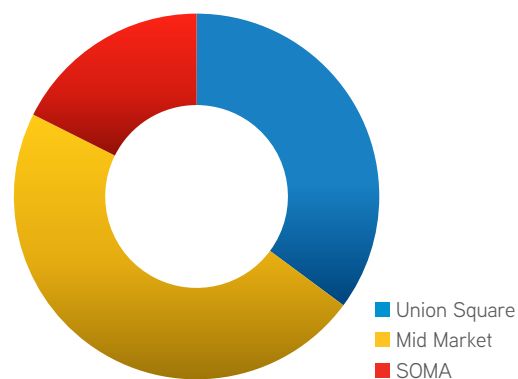


Apple Flagship | Union Square
300 Post Street, San Francisco, CA
B: Ponte Gadea | S: Hyatt Hotels
23,812 SF | \$5,039/PSF | \$120 Million

Historical Availability vs. Asking Rate



Availability by Submarket



Historical Market Statistics - San Francisco

Shopping Center Type									
San Francisco	Total Inventory	Available SF Direct	Available SF Sublease	Available SF Total	Total Availability (%)	Gross Absorption	Net Absorption	Total Under Const.	Asking Rates (\$/NNN/Year)
Strip Mall	8,600	5,765	0	5,765	67.03%	0	0	0	\$0.00
Neighborhood & Community	0	0	0	0	0.00%	0	0	0	\$0.00
Power & Regional	0	0	0	0	0.00%	0	0	0	\$0.00
Other	5,712,156	774,014	23,579	797,593	13.96%	70,671	51,120	0	\$44.96
San Francisco Total	5,720,756	779,779	23,579	803,358	14.04%	70,671	51,120	0	\$44.96

Historical Availability									
San Francisco	2017 Q3	2017 Q4	2018 Q1	2018 Q2	2018 Q3	2018 Q4	2019 Q1	2019 Q2	2019 Q3
Union Square	6.48%	14.07%	13.71%	6.51%	13.99%	14.87%	15.32%	15.79%	16.57%
Mid Market	41.37%	40.77%	40.77%	41.29%	44.67%	14.87%	43.83%	41.23%	42.16%
SOMA	4.92%	4.61%	3.75%	4.07%	4.64%	2.96%	3.17%	3.58%	2.63%
San Francisco Total	9.49%	13.40%	12.90%	9.19%	13.77%	13.70%	13.80%	13.90%	14.04%

Historical Asking Rate									
San Francisco	2017 Q3	2017 Q4	2018 Q1	2018 Q2	2018 Q3	2018 Q4	2019 Q1	2019 Q2	2019 Q3
Union Square	\$54.81	\$51.63	\$44.19	\$49.48	\$49.48	\$49.48	\$49.48	\$47.80	\$62.49
Mid Market	\$48.00	\$39.00	\$48.00	\$42.00	-	-	\$36.00	\$36.00	\$36.00
SOMA	\$42.62	\$42.24	\$41.95	\$40.82	\$41.63	\$42.48	\$45.17	\$46.25	\$47.44
San Francisco Total	\$49.50	\$46.53	\$45.19	\$44.66	\$48.05	\$48.66	\$44.52	\$43.87	\$52.83



Q2-Q3 2019 Indicators



Vacancy



Net Absorption



Construction



Asking Rate

Continued Low Vacancy & Raising Rates

ECONOMIC SUCCESS. The San Francisco Peninsula remains prosperous with the lowest unemployment rate in the state at 1.8 percent. This continuous success is sustained by the prospering biotech/life science and technology industries, as long as these types of companies maintain or expand their significant real estate footprints – hiring should continue.

STABLE INVENTORY. The retail market on the Peninsula remains tight as the availability rate is just past 4.0 percent, not having reached this level since Q1 2013. This type of availability is slightly high, with historical rates remaining closer to 3.0 percent over the past five years.

CLIMBING RENTS. The average rates on the Peninsula are \$43.37 per year, which is a 20 percent increase from Q3 2018. These high rents are in line with the rest of the commercial real estate market as rents along the San Francisco Peninsula continue to increase past their all-time highs.

QUIET MARKET. The leasing transactions have been somewhat low, with only 116 leases at this point in 2019 compared to a total of 158 deals during this time of year in 2018.

MORE TO COME. Available space for retail product will increase in demand as space becomes limited and the thriving job market encourages consumer spending. The retail market in 2020 will see similarly low availability rates while the average asking rates will continue to increase.

Recent Transactions



775 Serramonte Blvd, Colma, CA
 B: NorthPoint Development | S: Toys R Us
 38,087 SF | \$446/PSF | \$17 Million



31 South B St, San Mateo, CA
 B: Prometheus | S: DeMartini Family
 9,335 SF | \$732/PSF | \$6.8 Million



201 El Camino Real, Menlo Park, CA
 B: El Camino Real LLC | S: Hu-Hantwo LLC
 6,000 SF | \$2,000/PSF | \$12 Million

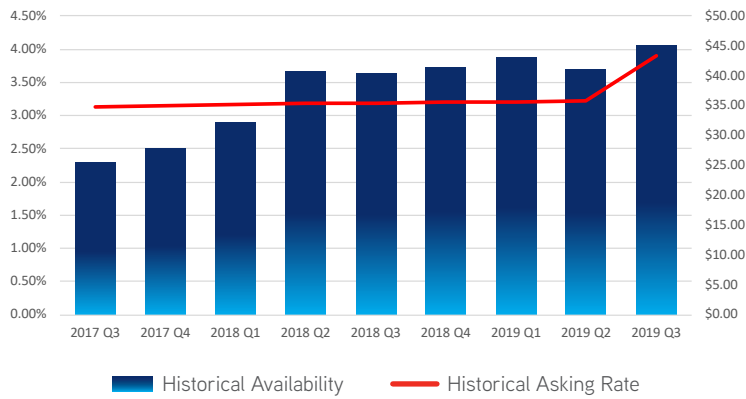


2323 Broadway St, Redwood City, CA
 B: Windy Hill | S: Winston Cho & Lilly Tsu Chow Trust
 9,431 SF | \$997/PSF | \$9.4 Million

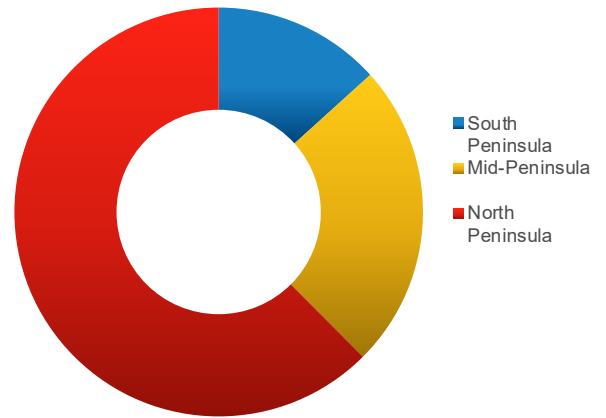


1031 California Dr, Burlingame, CA
 B: Ansari Family | S: Richard Newman
 5,000 SF | \$680/PSF | \$3.4 Million

Historical Availability vs. Asking Rate



Availability by Submarket



Historical Market Statistics - Peninsula

Shopping Center Type										
Peninsula	Total Inventory	Available SF Direct	Available SF Sublease	Available SF Total	Total Availability (%)	Gross Absorption	Net Absorption	Total Under Const.	Asking Rates (\$/NNN/Year)	
Strip Mall	1,254,852	27,164	820	27,984	2.20%	5,555	1,205	0	\$43.96	
Neighborhood & Community	5,327,912	204,118	196	204,314	3.80%	9,943	2,177	0	\$38.32	
Power & Regional	2,809,216	148,444	0	148,444	5.20%	38,122	19,598	52,138	\$57.43	
Other	0	0	0	0	0.00%	0	0	0	\$0.00	
Peninsula Total	9,391,980	379,726	1,016	380,742	2.80%	53,620	22,980	52,138	\$34.93	

Historical Availability										
Peninsula	2017 Q3	2017 Q4	2018 Q1	2018 Q2	2018 Q3	2018 Q4	2019 Q1	2019 Q2	2019 Q3	
South Peninsula	2.20%	1.90%	2.00%	2.50%	2.00%	2.00%	2.60%	2.20%	3.32%	
Mid-Peninsula	3.60%	3.70%	4.10%	4.10%	4.50%	4.90%	4.70%	4.80%	3.84%	
North Peninsula	1.10%	1.90%	2.60%	4.40%	4.40%	4.30%	4.30%	4.10%	2.46%	
Peninsula Total	2.30%	2.50%	2.90%	3.67%	3.63%	3.73%	3.87%	3.70%	3.17%	

Historical Asking Rate										
Peninsula	2017 Q3	2017 Q4	2018 Q1	2018 Q2	2018 Q3	2018 Q4	2019 Q1	2019 Q2	2019 Q3	
South Peninsula	\$37.97	\$38.15	\$38.40	\$38.41	\$38.52	\$38.65	\$38.68	\$38.97	\$33.00	
Mid-Peninsula	\$35.55	\$35.68	\$35.92	\$35.96	\$36.12	\$36.23	\$36.31	\$36.63	\$49.49	
North Peninsula	\$31.14	\$31.27	\$31.48	\$31.56	\$31.52	\$31.74	\$31.68	\$31.75	\$47.61	
Peninsula Total	\$34.89	\$35.03	\$35.27	\$35.31	\$35.39	\$35.54	\$35.56	\$35.78	\$43.37	



Q2-Q3 2019 Indicators



Vacancy



Net Absorption



Construction



Asking Rates

Volume Remains Stable

HIGH TECH ECONOMY. Fueled by the thriving technology sector, Silicon Valley’s economy continues to expand. According to California’s Employment Development Department (EDD), the unemployment rate in Santa Clara County stands at a healthy 2.6 percent, compared to the national average of 3.5 percent. EDD reports indicate that Santa Clara County job growth is led by the information technology industry, which is known for high salaries and alluring perks. According to a recent Glassdoor report, of the top 25 companies across the nation that pay the highest total median salary, 20 of them are based in the Bay Area. The report also shows that Silicon Valley is home to five companies that have a median total salary greater than \$150,000.

AVAILABILITY. South Bay’s retail availability rate stands at 6.99 percent in the third quarter of 2019, up 49 basis points year over. The Santa Clara/Sunnyvale market has the highest available rate of 10.78 percent, while the most competitive markets remain in the Lower Peninsula Palo Alto/Mountain View and Los Altos submarkets, where the availability rate stands at 1.31 percent, the lowest of any Bay Area submarket.

ESCALATING RENTS. Average asking rents in the South Bay reached a record \$33.55 NNN/year, up 3.26 percent year over year. The most in-demand submarkets remain Palo Alto, Mountain View and Los Altos, where asking rents have reached \$48.11 NNN/year, the second highest in the Bay Area, surpassed only by the Union Square submarket in San Francisco.

CONSTRUCTION. There is currently 1.1 million square feet of retail product under construction in Silicon Valley, the largest being the 415,000-square-foot Valley Fair Mall expansion in San Jose. While online shopping has transformed both the retail sector and consumer spending habits, having a physical brick-and-mortar presence remains a key factor for retailers, evidenced by Amazon, Apple and Android stores occupying prime retail space.

MORE TO COME. Retailers will need to continue being creative and evolve the shopping experience to remain relevant and competitive in the post-Amazon world of convenience and scale. While online shopping continues to grow, brick-and-mortar locations will be an important retail strategy for an omni-channel experience. Given the surge of multifamily developments and overall densification trend in the region, walkability and convenience will be major drivers for future retail developments.

Recent Transactions



Stevens Creek Central Shopping Center
5146 Stevens Creek Blvd, San Jose CA
B: Weingarten Realty | S: AEW Capital
206,000 SF | \$95.7 Million | \$465/SF



El Paseo de Saratoga
700 El Paseo de Saratoga
B: Sand Hill Property | S: Terramar Retail Centers
340,979 SF | \$146.6 Million | \$430/SF

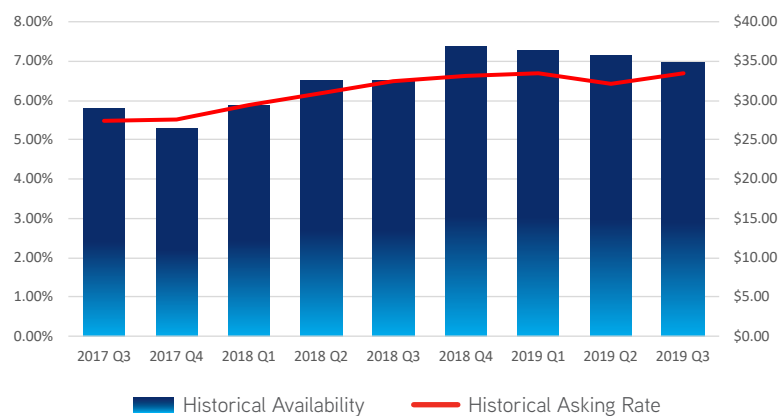


Costco Business Center
Direct Lease
Capital Expy & Quimby Rd, San Jose, CA
150,000 SF

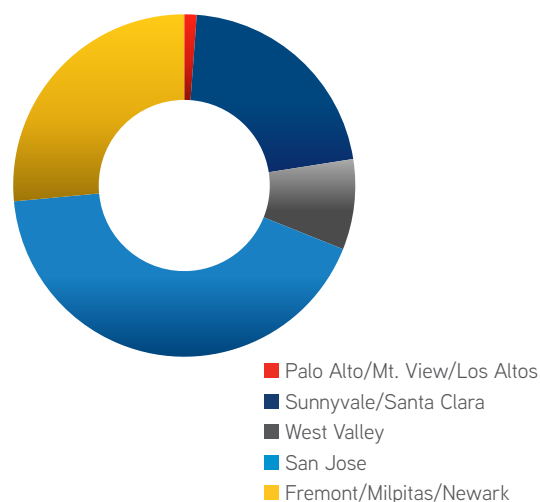


Living Spaces
Direct Lease
5540 Winfield Blvd, San Jose, CA
108,000 SF

Historical Availability vs. Asking Rate



Availability by Submarket



Historical Market Statistics - South Bay

Shopping Center Type										
	South Bay	Total Inventory	Available SF Direct	Available SF Sublease	Available SF Total	Total Availability (%)	Gross Absorption	Net Absorption	Total Under Const.	Asking Rates (\$NNN/Year)
Strip Mall		3,877,263	125,681	7,940	133,621	3.45%	34,581	-4,768	0	\$35.93
Neighborhood & Community		24,739,505	1,351,524	113,354	1,464,878	5.92%	121,521	691	0	\$31.25
Power & Regional		5,040,053	386,014	0	386,014	7.66%	33,470	21,938	0	\$60.74
Other		1,160,235	449,381	0	449,381	38.73%	0	-8,834	385,000	\$45.05
South Bay Total		34,817,056	2,312,600	121,294	2,433,894	6.99%	189,572	9,027	385,000	\$33.55

Historical Availability										
	South Bay	2017 Q3	2017 Q4	2018 Q1	2018 Q2	2018 Q3	2018 Q4	2019 Q1	2019 Q2	2019 Q3
Palo Alto, Mt. View, Los Altos		4.19%	3.82%	4.13%	3.11%	2.05%	2.27%	1.77%	1.63%	1.31%
Sunnyvale, Santa Clara		5.12%	3.68%	9.00%	11.64%	10.90%	12.10%	12.21%	11.72%	10.78%
West Valley		5.06%	4.51%	4.91%	5.81%	5.38%	6.36%	5.50%	6.42%	6.02%
San Jose		5.01%	4.67%	4.80%	5.57%	5.67%	6.29%	6.42%	6.40%	6.26%
Fremont, Milpitas, Newark		8.68%	8.31%	7.17%	6.55%	7.28%	8.72%	8.42%	7.69%	8.20%
South Bay Total		5.81%	5.29%	5.89%	6.50%	6.50%	7.40%	7.29%	7.13%	6.99%

Historical Asking Rate										
	South Bay	2017 Q3	2017 Q4	2018 Q1	2018 Q2	2018 Q3	2018 Q4	2019 Q1	2019 Q2	2019 Q3
Palo Alto, Mt. View, Los Altos		\$54.13	\$46.58	\$49.72	\$51.40	\$52.49	\$49.53	\$47.61	\$49.18	\$48.11
Sunnyvale, Santa Clara		\$24.60	\$25.90	\$29.32	\$32.82	\$32.62	\$32.78	\$31.81	\$30.89	\$31.60
West Valley		\$40.28	\$41.78	\$46.22	\$44.82	\$44.66	\$42.89	\$43.17	\$42.02	\$47.18
San Jose		\$25.15	\$25.53	\$28.71	\$29.64	\$30.78	\$32.50	\$33.33	\$32.73	\$33.47
Fremont, Milpitas, Newark		\$24.29	\$24.36	\$23.90	\$24.10	\$28.01	\$29.73	\$30.88	\$28.24	\$29.67
South Bay Total		\$27.44	\$27.55	\$29.49	\$31.00	\$32.49	\$33.05	\$33.45	\$32.08	\$33.55

“We are seeing lots of first time business owners getting into the market, followed closely by those with one business looking to expand that business or open another concept. We find that these new tenants are being very thoughtful about deals – taking the time to really research all associated costs, understand their proformas, what will drive their business, etc.”

*- Jamie Flaherty-Evans,
Senior Retail Associate (OAK)*

Q2-Q3 2019 Indicators



Vacancy



Net Absorption



Construction



Asking Rates

Strong Leasing Drives East Bay Retail Market

ECONOMIC STRENGTH. According to California’s Employment Development Department (EDD), the unemployment rate in Alameda County is at 2.6 percent while Contra Costa County is at 2.7 percent compared to the national average of 3.6 percent. EDD reports indicate that Alameda and Contra Costa County’s job growth is led by professional and business services followed closely by private educational and health care services.

AVAILABILITY. East Bay’s retail availability rate stands at 8.31 percent in the third quarter of 2019, up 1.43 percent year over. West Contra Costa has the highest available rate at 12.48 percent, while the hottest submarkets are in Berkeley/Emeryville and Central Contra Costa, where the availability rate is 5.23 percent and 5.98 percent respectively. The strongest leasing categories include restaurants, bars, cafes, fitness, and other service oriented retailers.

ESCALATING RENTS. Average asking rents in the East Bay are at \$33.20 NNN/year, from \$22.87 a year ago. The most in-demand submarkets are Berkeley/Emeryville and Oakland/Alameda, where asking rents are \$45.96 NNN/year and \$37.32 NNN/year respectively.

CONSTRUCTION. There is 122,600 square feet of retail product under construction in the East Bay. The largest is the 84,300 square foot community center known as Sciortino Ranch in Brentwood, followed by 38,300 square feet for the 24 Hour Fitness at Lone Tree Village in Antioch.

RETAIL MOVING FORWARD. Although the proliferation of online shopping has changed the landscape of retail, the need for a brick and mortar retail location is still a priority for first time business owners and new concept or expanding retailers. We are finding that new and even existing tenants are more judicious in their processes: optimizing square footage needs, researching all associated costs, understanding their performance, and what will ultimately drive their business.

Recent Transactions



The Crossings
3333-3375 Deer Valley Rd, Antioch, CA
B: Donahue Schriber | S: Kirkorian Enterprises
126,308 SF | \$26.2 Million | \$207/SF



The Crossroads at Pleasant Hill
2304 Monument Blvd, Pleasant Hill
B: Bruce Qvale | S: ICI Development
79,656 SF | \$38.1 Million | \$479/SF



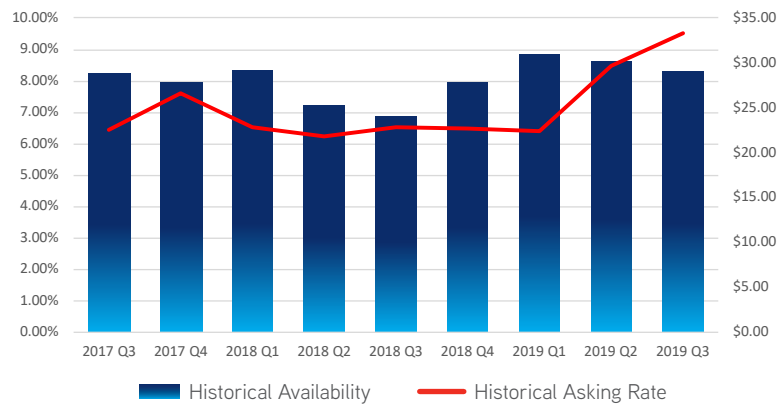
99 Ranch
Direct Lease
46801-46881 Warm Springs Blvd, Fremont, CA
51,000 SF



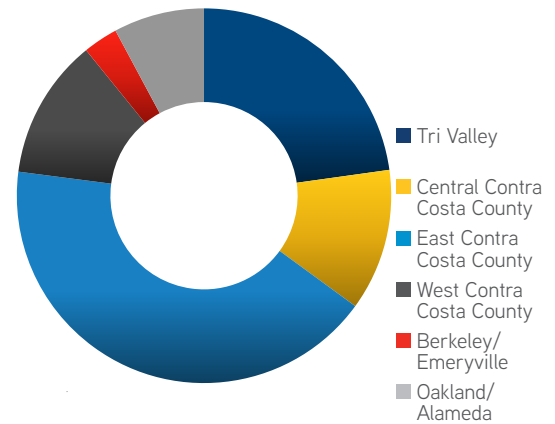
Best Buy*
Renewal
1480 Fitzgerald Dr, Pinole, CA
46,273 SF

*Source: Costar

Historical Availability vs. Asking Rate



Availability by Submarket



Historical Market Statistics - East Bay

Shopping Center Type										
	East Bay	Total Inventory	Available SF Direct	Available SF Sublease	Available SF Total	Total Availability (%)	Gross Absorption	Net Absorption	Total Under Const.	Asking Rates (\$/NNN/Year)
Strip Mall		1,957,362	100,884	2,315	103,199	5.27%	17,868	8,806	0	\$29.64
Neighborhood & Community		19,875,739	1,576,862	158,749	1,735,611	8.73%	267,121	54,984	122,600	\$28.32
Power & Regional		6,658,178	671,399	0	671,399	10.08%	58,110	-25,281	0	\$29.16
Other		2,659,562	79,065	0	79,065	2.97%	72,000	72,000	0	\$13.50
East Bay Total		31,150,841	2,428,210	161,064	2,589,274	8.31%	415,099	110,509	122,600	\$28.14

Historical Availability										
	East Bay	2017 Q3	2017 Q4	2018 Q1	2018 Q2	2018 Q3	2018 Q4	2019 Q1	2019 Q2	2019 Q3
Tri Valley		9.53%	8.91%	8.90%	5.58%	4.56%	5.36%	5.62%	5.92%	6.63%
Central Contra Costa County		6.24%	5.71%	5.68%	5.13%	4.07%	5.02%	5.36%	5.56%	5.98%
East Contra Costa County		8.51%	8.70%	9.10%	8.91%	7.78%	9.04%	11.74%	11.22%	11.15%
West Contra Costa County		5.12%	5.27%	9.20%	7.67%	12.37%	13.64%	14.26%	14.09%	12.48%
Berkeley, Emeryville		4.34%	4.11%	2.89%	5.86%	7.00%	6.65%	6.57%	5.23%	5.23%
Oakland, Alameda		11.55%	10.85%	10.77%	10.48%	11.20%	12.80%	11.46%	10.51%	6.36%
East Bay Total		8.25%	7.97%	8.34%	7.22%	6.88%	7.95%	8.83%	8.61%	8.31%

Historical Asking Rate										
	East Bay	2017 Q3	2017 Q4	2018 Q1	2018 Q2	2018 Q3	2018 Q4	2019 Q1	2019 Q2	2019 Q3
Tri Valley		\$23.04	\$23.64	\$21.72	\$23.04	\$24.24	\$26.16	\$24.84	\$30.96	\$30.36
Central Contra Costa County		\$28.80	\$25.08	\$29.04	\$27.96	\$28.32	\$30.00	\$31.44	\$31.56	\$34.56
East Contra Costa County		\$16.92	\$17.16	\$17.16	\$17.28	\$17.28	\$19.44	\$19.80	\$33.96	\$34.44
West Contra Costa County		\$26.16	\$27.72	\$27.72	\$28.68	\$28.68	\$25.68	\$24.96	\$27.60	\$27.84
Berkeley, Emeryville		\$33.84	\$36.00	\$36.00	\$36.00	\$36.00	#VALUE!	#VALUE!	\$14.40	\$45.96
Oakland, Alameda		\$24.96	\$30.12	\$30.36	\$19.32	\$21.24	\$18.24	\$18.00	\$18.12	\$37.32
East Bay Total		\$22.51	\$26.58	\$22.88	\$21.82	\$22.87	\$22.67	\$22.45	\$29.72	\$33.30



Vacancy Rate Declines Marginally

LOW VACANCY. The vacancy rate in the North Bay declined marginally from 6.44 percent to 5.78 percent in the third quarter. This rate remains lower than the 7.60 percent combined rate for the greater Northern California region covered in this report. The rate has also remained relatively stable over the past eight quarters, staying within a range of 5.28 percent and 6.44 percent.

CONSTRUCTION. The one shopping center building under construction in the North Bay current is the RH Gallery at 1600 Madera Boulevard at The Village At Corte Madera. Completion of the 40,000 square foot building is expected in December.

DISPARITY IN RENTS. The four counties comprising the North Bay continue to have a disparity in NNN annual average asking rents. On the higher side are Napa County at \$35.77 and Marin County at \$32.22, and on the lower side are Sonoma County at \$18.97 and Solano County at \$18.97.

STRONG REGIONAL ECONOMY. Despite national concerns regarding e-commerce forcing the closure and downsizing of many national retail chains, the North Bay's continued low vacancy rate has shown, at least currently, that the region's strong economy can withstand the increased competition.

INVESTMENT DEMAND. Continued low vacancy and long term rent growth has led to increasing investment demand in the region. The cap rate for the North Bay has steadily declined from a high of 7.7 percent in 2010 to the current rate of 6.0 percent.

FIRST STREET NAPA. First Street Napa has transformed downtown Napa with 325,000 square feet of new construction and renovated historical buildings consisting of retail, office and a hotel. Several components of the \$200 million development have opened at varying times over the past year and a half.

OUTLOOK. The outlook for the North Bay remains promising as wine tourism and the region's many restaurants and the desirable lifestyle draw consumers that are increasingly interested in experiential retail.

Q2-Q3 2019 Indicators



Market Vacancy



Net Absorption



Construction



Asking Rates

Recent Transactions



Creekside Center
3001-3091 Alamo Drive, Vacaville
B: Fillmore Property Group
108,177 SF | \$20,000,000



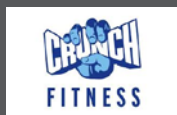
Coffee Tree Plaza
130-140 Nut Tree Parkway, Vacaville
B: Coffee Tree Investment Group, LLC
47,729 SF | \$13,212,500



Safeway Marlow Center
1799 Marlow Road, Santa Rosa
Fortress Investment Group LLC
44,000 SF | \$10,900,000



Orchard Supply Hardware
3980 Bel Aire Plaza, Napa
33,600 SF

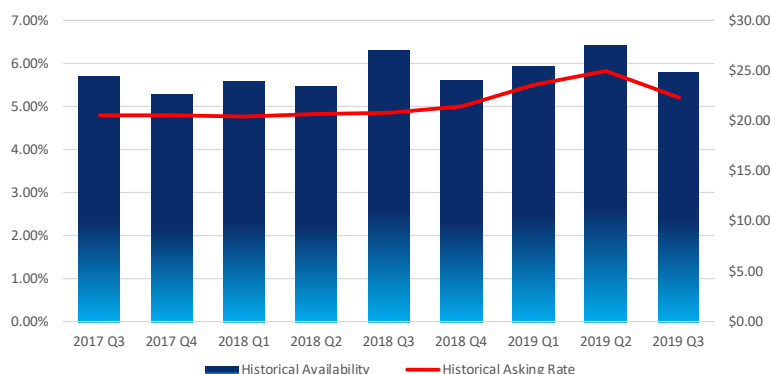


Crunch Fitness
1500 Oliver Road, Fairfield
27,500 SF

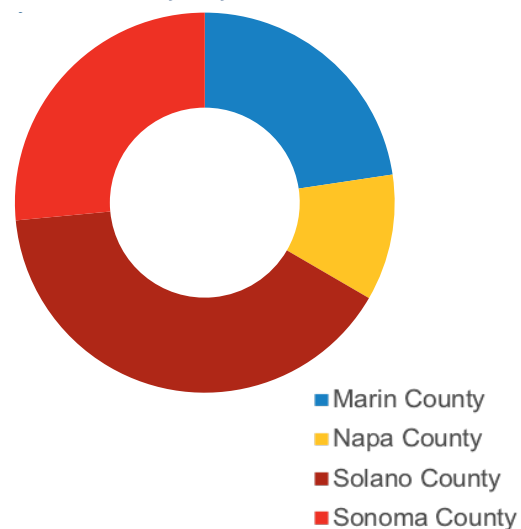


Scandinavian Designs
2835 Santa Rosa Avenue, Santa Rosa
25,600 SF

Historical Availability vs. Asking Rate



Availability by Submarket



Historical Market Statistics - North Bay

Shopping Center Type										
	East Bay	Total Inventory	Available SF Direct	Available SF Sublease	Available SF Total	Total Availability (%)	Gross Absorption	Net Absorption	Total Under Const.	Asking Rates (\$/NNN/Year)
Strip Mall		2,242,110	64,127	10,145	74,272	3.31%	18,928	13,796	0	\$20.41
Neighborhood & Community		15,843,251	921,220	100,096	1,021,316	6.45%	136,908	72,737	0	\$21.68
Power & Regional		6,065,910	298,369	82,750	381,119	6.28%	56,636	-14,302	40,000	\$49.52
Other		1,520,014	7,903	0	7,903	0.52%	3,951	3,951	0	\$42.00
North Bay Total		25,671,285	1,291,619	192,991	1,484,610	5.78%	216,423	76,182	40,000	\$22.31

Historical Availability										
North Bay	2017 Q3	2017 Q4	2018 Q1	2018 Q2	2018 Q3	2018 Q4	2019 Q1	2019 Q2	2019 Q3	
Marin County	3.81%	3.81%	3.45%	2.81%	3.02%	3.11%	3.68%	4.46%	4.57%	
Napa County	3.17%	3.30%	2.47%	2.47%	4.30%	3.90%	5.37%	3.81%	2.17%	
Solano County	7.76%	7.48%	8.83%	9.04%	9.16%	8.12%	7.61%	9.05%	8.11%	
Sonoma County	5.60%	4.63%	4.67%	4.58%	6.19%	5.23%	5.87%	5.90%	5.35%	
North Bay Total	5.72%	5.28%	5.60%	5.48%	6.34%	5.62%	5.95%	6.44%	5.78%	

Historical Asking Rate										
North Bay	2017 Q3	2017 Q4	2018 Q1	2018 Q2	2018 Q3	2018 Q4	2019 Q1	2019 Q2	2019 Q3	
Marin County	\$27.73	\$26.87	\$33.60	\$31.59	\$31.44	\$31.62	\$32.20	\$34.50	\$32.22	
Napa County	\$38.05	\$29.92	\$28.49	\$33.90	\$33.90	\$33.90	\$38.83	\$35.77	\$35.77	
Solano County	\$15.60	\$16.23	\$15.88	\$16.18	\$15.95	\$16.61	\$16.57	\$18.73	\$18.68	
Sonoma County	\$21.20	\$21.69	\$22.39	\$23.00	\$22.33	\$22.32	\$25.63	\$25.57	\$18.97	
North Bay Total	\$20.63	\$20.55	\$20.48	\$20.71	\$20.83	\$21.50	\$23.63	\$25.04	\$22.31	

“Continuing population growth throughout the region will lead to more retail developments being brought to the market as the local dynamic continues to shift to less traditional retailers taking down space, including fitness, furniture, food and drink, and experiential or entertainment concepts.”

*- Bob Shanahan
Research Manager*

Q2-Q3 2019 Indicators



Market Vacancy



Net Absorption



Construction



Asking Rates

More Rooftops = More Retail Development

SOUND FUNDAMENTALS. Sacramento’s retail market fundamentals continue to impress despite a number of local store closures. Retail vacancy and availability rates dropped to their lowest levels since Q1 2008 as the market posted its highest net absorption number of the year in the third quarter.

ECONOMIC TAILWINDS. Sacramento continues to benefit from a growing population, including 27,000 new Bay Area transplants in 2018. With new housing construction (2,400 multifamily units currently under construction) comes increasing retail demand to meet the needs of this expanding population. The Sacramento region’s employment increased 1.9 percent from September 2018 to September 2019 and the unemployment rate of 3.0 percent is well below the statewide figure of 3.5 percent.

VACANT BOXES BACKFILLED. Recently vacated department store and toy store spaces are being backfilled by other expanding tenants. A closed Sears in Roseville will be transformed into a movie theater and entertainment center. Tenants backfilling shuttered Toys R Us spaces include Duluth Trading Company, Hobby Lobby, Scandinavian Designs, and American Furniture Galleries. However, there will be more empty boxes to fill moving forward from the likes of Rite Aid, Office Depot, and Walmart Neighborhood Market.

NEW CONSTRUCTION STARTS. Three new shopping centers broke ground in the second quarter in three separate submarkets as construction activity picks up. In addition, three new retail developments have delivered in 2019, from a new-to-market health club in Roseville to a new shopping center in South Sacramento and ground floor retail below a new apartment project Downtown. Pre-leasing at these new developments has been strong with food and service tenants taking down pads and end-cap spaces and either a grocery store or fitness center anchor.

SALES ACTIVITY. Sales volume in 2019 is below 2018’s pace as the third quarter saw only one sale close for more than \$10 million. Nevertheless, prices are increasing. This year’s average sale price through Q3 2019 increased by 7.3 percent compared to the same time period last year.

FUTURE OUTLOOK BRIGHT. Sacramento’s expanding population will continue to sustain growing retail demand throughout the region. With more rooftops comes more demand for shopping and dining, but retailers must continue to be creative to grow their consumer base in this e-commerce-centric world. Retailers have to be innovative to survive in this ever-changing retail landscape by providing either value or convenience..

Recent Transactions



The Promenade at Sacramento Gateway
3521-3690 N Freeway Blvd, Sacramento, CA
\$58.44M (\$171.53/SF) sale | 340,710 SF
Clarion Partners > Fairbourne Partners



Prospector’s Plaza
3964-3980 Missouri Flat Rd, Placerville, CA
\$24.13M (\$98.93/SF) sale | 206,318 SF
Rich Development & Gryphon Capital >
Weingarten Realty Advisors



Crossroads Shopping Center – Safeway
2550 Bell Rd, Auburn, CA
\$19.8M (\$338.51/SF) sale | 58,492 SF
Fortress Investment Group & Cardinal Capital
Partners > Murnick Property Group



Tenant: Scandinavian Designs
8507 Bond Rd, Elk Grove, CA | 49,262 SF lease
Landlord: John Hovannisian
Former Toys R Us

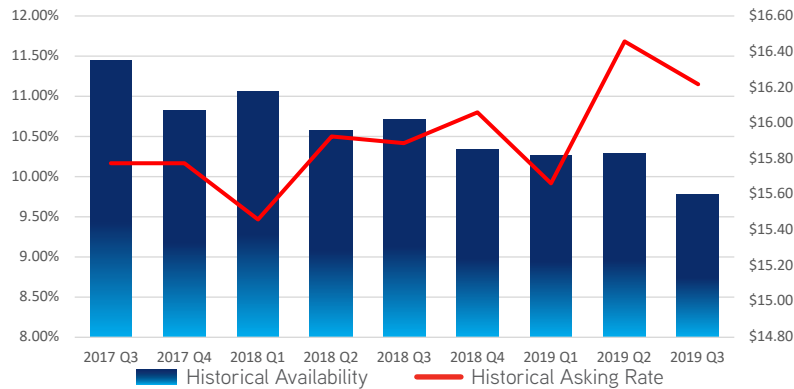


Tenant: California Ripped Fitness
5110 Foothills Blvd, Roseville, CA
27,000 SF lease
Landlord: Vanir Development

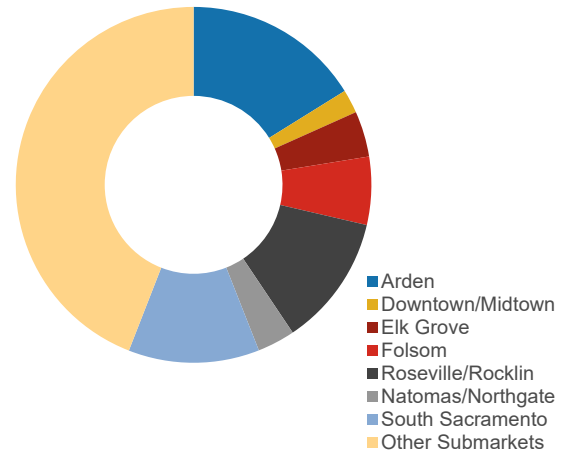


Tenant: Falling Prices
9415 Madison Ave, Orangevale, CA
24,689 SF sublease
Landlord: 99 Cent Only Stores (sublessor)

Historical Availability vs. Asking Rate



Availability by Submarket



Historical Market Statistics - Sacramento

Shopping Center Type										
	Sacramento	Total Inventory	Available SF Direct	Available SF Sublease	Available SF Total	Total Availability (%)	Gross Absorption	Net Absorption	Total Under Const.	Asking Rates (\$/NNN/Year)
Strip Mall		5,889,541	685,188	5,219	690,407	11.72%	79,481	4,712	20,072	\$15.48
Neighborhood & Community		32,582,121	2,746,489	153,801	2,900,290	8.90%	327,434	130,827	0	\$15.96
Power & Regional		11,108,651	1,155,863	15,053	1,170,916	10.54%	43,042	38,625	0	\$11.28
Other		2,545,129	347,704	0	347,704	13.66%	0	-6,995	71,004	\$16.20
Sacramento Area Total		52,125,442	4,935,244	174,073	5,109,317	9.80%	449,957	167,169	91,076	\$15.21

Historical Availability										
Sacramento Area	2017 Q3	2017 Q4	2018 Q1	2018 Q2	2018 Q3	2018 Q4	2019 Q1	2019 Q2	2019 Q3	
Arden	16.90%	14.20%	16.60%	16.50%	15.50%	13.70%	13.10%	13.80%	13.10%	
Downtown/Midtown	4.00%	3.20%	3.00%	3.60%	3.10%	6.50%	6.60%	6.50%	6.60%	
Elk Grove	4.10%	4.00%	3.80%	3.50%	4.90%	6.20%	5.10%	4.90%	4.70%	
Folsom	8.00%	8.50%	8.40%	8.50%	8.20%	7.60%	6.60%	7.80%	6.70%	
Roseville/Rocklin	7.40%	6.40%	6.50%	6.90%	6.70%	6.20%	6.20%	6.00%	6.00%	
Natomas, Northgate	7.40%	7.40%	8.20%	8.70%	8.50%	7.20%	6.70%	6.60%	5.70%	
South Sacramento	11.10%	10.50%	9.70%	9.60%	9.60%	9.10%	7.80%	6.70%	6.90%	
Other Submarkets	8.80%	8.70%	9.00%	8.80%	8.80%	7.80%	8.70%	9.50%	9.20%	
Sacramento Area Total	11.45%	10.82%	11.06%	10.57%	10.71%	10.34%	10.26%	10.30%	9.77%	

Historical Asking Rate										
Sacramento Area	2017 Q3	2017 Q4	2018 Q1	2018 Q2	2018 Q3	2018 Q4	2019 Q1	2019 Q2	2019 Q3	
Arden	\$15.12	\$15.60	\$15.60	\$15.60	\$15.12	\$15.12	\$15.12	\$15.12	\$15.24	
Downtown/Midtown	\$29.64	\$27.72	\$15.72	\$16.68	\$16.68	\$16.68	\$17.16	\$59.40	\$45.48	
Elk Grove	\$21.84	\$21.72	\$22.20	\$22.32	\$22.44	\$22.44	\$22.44	\$22.56	\$21.24	
Folsom	\$21.96	\$21.24	\$20.04	\$20.04	\$20.52	\$19.68	\$19.56	\$19.80	\$20.16	
Roseville/Rocklin	\$16.20	\$16.32	\$16.32	\$18.36	\$17.64	\$17.88	\$18.60	\$18.72	\$19.08	
Natomas, Northgate	\$16.80	\$16.56	\$15.12	\$15.12	\$15.12	\$16.68	\$17.76	\$18.36	\$18.36	
South Sacramento	\$15.84	\$15.24	\$15.12	\$15.12	\$15.12	\$14.16	\$13.80	\$13.80	\$14.16	
Other Submarkets	\$14.04	\$14.16	\$14.28	\$14.64	\$15.12	\$15.24	\$14.40	\$13.92	\$13.92	
Sacramento Area Total	\$15.77	\$15.77	\$15.46	\$15.92	\$15.88	\$16.06	\$15.66	\$16.46	\$16.22	

RETAIL MARKET REPORT

Market Summary

Submarket	Total Inventory	Available SF Direct	Available SF Sublease	Available SF Total	Total Availability (%)	Gross Absorption	Net Absorption	Total Under Const.	Asking Rates (\$/NNN/Year)
San Francisco									
Union Square	2,931,730	468,182	17,579	485,761	16.57%	20,506	1,855	0	\$49.48
Mid Market	618,062	254,568	6,000	260,568	42.16%	4,500	4,500	0	\$36.00
SOMA	2,170,964	57,029	0	57,029	2.63%	45,665	44,765	0	\$47.44
San Francisco Total	5,720,756	779,779	23,579	803,358	14.04%	70,671	51,120	0	\$44.96
Peninsula									
South Peninsula	3,161,160	104,071	820	104,891	3.32%	0	-3,020	0	\$33.00
Mid-Peninsula	2,847,711	109,018	196	109,214	3.84%	3,208	-2,405	52,138	\$49.49
North Peninsula	3,383,109	83,346	0	83,346	2.46%	50,412	28,405	0	\$47.61
Peninsula Total	9,391,980	296,435	1,016	297,451	3.17%	53,620	22,980	52,138	\$34.93
South Bay									
Palo Alto, Mt. View, Los Altos	2,177,146	28,418	0	28,418	1.31%	16,044	8,553	0	\$48.11
Sunnyvale, Santa Clara	4,820,965	511,160	8,578	519,738	10.78%	14,729	-2,539	385,000	\$31.60
West Valley	3,452,849	201,828	6,074	207,902	6.02%	16,221	-506	0	\$47.18
San Jose	16,505,524	947,197	86,213	1,033,410	6.26%	100,495	15,644	0	\$33.47
Fremont, Milpitas, Newark	7,860,572	623,997	20,429	644,426	8.20%	42,083	-12,125	0	\$29.67
South Bay Total	34,817,056	2,312,600	121,294	2,433,894	6.99%	189,572	9,027	385,000	\$33.41
East Bay									
Tri Valley	8,903,972	549,708	40,448	590,156	6.63%	83,722	-28,114	0	\$30.36
Central Contra Costa County	5,301,751	311,727	5,142	316,869	5.98%	29,682	6,643	0	\$34.56
East Contra Costa County	9,753,719	1,014,351	73,676	1,088,027	11.15%	223,338	92,296	122,600	\$34.44
West Contra Costa County	2,512,135	304,294	9,128	313,422	12.48%	50,994	38,276	0	\$27.84
Berkeley, Emeryville	1,486,748	45,140	32,670	77,810	5.23%	0	0	0	\$45.96
Oakland, Alameda	3,192,516	202,990	0	202,990	6.36%	27,363	1,408	0	\$37.32
East Bay Total	31,150,841	2,428,210	161,064	2,589,274	8.31%	415,099	110,509	122,600	\$28.14
North Bay									
Marin County	5,214,225	182,823	55,656	238,479	4.57%	20,080	5,257	40,000	\$32.22
Napa County	2,586,177	56,145	0	56,145	2.17%	16,391	3,512	0	\$35.77
Solano County	8,469,237	665,289	21,428	686,717	8.11%	92,420	59,611	0	\$18.68
Sonoma County	9,401,646	387,362	115,907	503,269	5.35%	87,532	7,802	0	\$18.97
North Bay Total	25,671,285	1,291,619	192,991	1,484,610	5.78%	216,423	76,182	40,000	\$22.31

1

2

3

NORTHERN CALIFORNIA

Submarket	Total Inventory	Available SF Direct	Available SF Sublease	Available SF Total	Total Availability (%)	Gross Absorption	Net Absorption	Total Under Const.	Asking Rates (\$NNN/Year)
Sacramento									
Arden	5,153,014	816,505	21,250	837,755	16.26%	49,002	38,226	0	\$15.00
Downtown/Midtown	1,359,802	123,289	0	123,289	9.07%	1,910	-1,240	0	\$42.60
Elk Grove	3,686,413	266,981	0	266,981	7.24%	24,468	10,007	0	\$21.24
Folsom	3,854,191	302,455	820	303,275	7.87%	60,762	42,019	10,072	\$20.04
Roseville/Rocklin	8,328,730	480,756	1,314	482,070	5.79%	28,667	-1,170	10,000	\$18.96
Natomas, Northgate	2,513,740	183,574	0	183,574	7.30%	25,010	22,109	0	\$18.84
South Sacramento	7,214,446	623,776	42,752	666,528	9.24%	29,082	1,425	0	\$15.48
Other Submarkets	20,015,106	2,137,908	107,937	2,228,203	11.13%	231,056	55,793	71,004	\$13.92
Sacramento Total	52,125,442	4,935,244	174,073	5,109,317	9.77%	449,957	167,169	91,076	\$16.40

Northern California Total	158,877,360	12,043,887	674,017	12,717,904	8.00%	1,395,342	436,987	690,814	\$22.89
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Shopping Center Type	Total Inventory	Available SF Direct	Available SF Sublease	Available SF Total	Total Availability (%)	Gross Absorption	Net Absorption	Total Under Const.	Asking Rates (\$NNN/Year)
Northern California									
Strip Mall	15,229,728	1,008,809	26,439	1,035,248	6.80%	156,413	23,751	20,072	\$22.85
Neighborhood & Community	98,368,528	6,788,352	526,196	7,314,548	7.44%	862,927	261,416	122,600	\$28.63
Power & Regional	31,682,008	2,588,659	97,803	2,686,462	8.48%	229,380	40,578	92,138	\$39.47
Other	13,597,096	1,658,067	23,579	1,681,646	12.37%	146,622	111,242	456,004	\$37.55
Northern California Total	158,877,360	12,043,887	674,017	12,717,904	8.00%	1,395,342	436,987	690,814	\$24.97

Submarket Clarification

1	South Peninsula: Redwood City, Menlo Park, San Carlos & Belmont Mid Peninsula: Burlingame, Foster City, Millbrae, Redwood Shores & San Mateo North Peninsula: Brisbane, South San Francisco, Daly City & San Bruno
2	West Valley: Campbell, Cupertino, Los Gatos & Saratoga
3	Central Contra Costa County: Danville/Alamo, Lafayette, Moraga, Orinda, Pleasant Hill & Walnut Creek BART/DT East Contra Costa County: Antioch, Brentwood, Concord & Pittsburg West Contra Costa County: Hercules, Martinez, Pacheco, Pinole & San Pablo Tri Valley: San Ramon, Dublin, Pleasanton & Livermore
4	Other Submarkets: Auburn/Loomis, Carmichael, Davis, El Dorado, Highway 50 Corridor, Lincoln, Natomas, Orangeville/Citrus Heights, Rio Linda/North Highlands, West Sacramento, Woodland

Statistical Notes

*Northern California retail statistics do not include mixed-use projects.

*Total Availability = Includes existing and under construction inventory square feet.

Sources: Colliers International Research, CoStar, GlobalData, JP Morgan, Bain and Company, Compass Real Estate Market Report, Glassdoor Emerging Trends in Real Estate 2020

REGIONAL OFFICES

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Quarterly Retail Spotlight Report](#)

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