

# MARKET REPORT

Retail  
Sacramento Metro Area

IPA  
INSTITUTIONAL  
PROPERTY  
ADVISORS

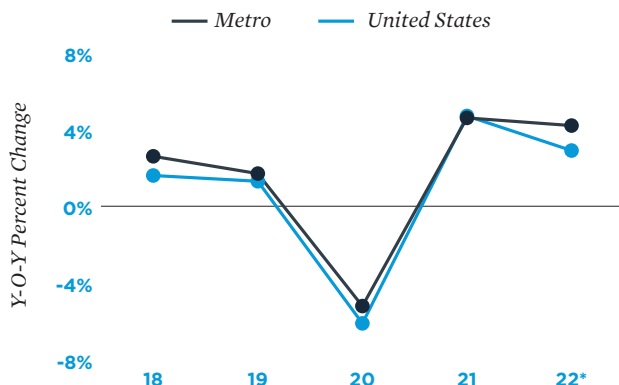
2Q/22

## Robust Consumption Solidifies Retailers' Footing as Multi-Tenant Investment Picks Up

**Retailers resume space expansions in Sacramento.** Retail sales surged over 20 percent last year, as falling unemployment and appreciating home values bolstered consumers' finances. The lift in spending boosted retailers' space needs, helping lower metrowide vacancy from a high of 7.3 percent in June 2021 to 6.5 percent by year-end. Availability continues to contract this year as strong net absorption occurs, particularly in Sacramento and Placer counties. Recent leases reflect pandemic influences. New fitness centers cater to clients resuming habits neglected during lockdowns, while home appliance stores meet the demand of new homeowners. More recent retail concepts are also taking on space. DoorDash will open two DashMart convenience stores in the metro, while specialty dessert brand Crumbl Cookies also expands locally.

**Development slows in near term, aiding operations.** While the pace of retail spending growth is now moderating amid high inflation pressure, the retail outlook for the rest of the year is aided by modest construction activity. Deliveries are concentrated in the cities of Sacramento and Roseville, as well as the growing suburb of Elk Grove. Major arrivals in these areas include new lifestyle and neighborhood centers with fitness and beauty anchors. The majority of new space is already accounted for, which will further reduce the small development pipeline's impact on fundamentals in the market. Supply pressure may pick up again in 2023, however, with numerous shopping center proposals on the horizon.

### Employment Trends



\* Forecast

Sources: BLS; CoStar Group, Inc.

## Retail 2022 Outlook



**43,000  
JOBS**  
*will be created*

### EMPLOYMENT:

Strong hiring in the professional and business services sector, as well as in construction, will propel metrowide job creation to an above-national pace of 4.2 percent this year. As of March, the retail trade staff count was 3,000 roles above the pre-pandemic value.



**240,000  
SQ. FT.**  
*will be completed*

### CONSTRUCTION:

Completions slated for 2022 will fall to the lowest level in three years as overall inventory expands by 0.3 percent. During the previous growth cycle from 2010 to 2019, new supply was added by an average pace of double that rate at 0.6 percent.



**60  
BASIS POINT**  
*decrease in vacancy*

### VACANCY:

Space absorption will roughly triple the volume of supply additions this year, lowering the vacancy rate to 5.9 percent. This will be the first time availability breaks below the 6.0 percent threshold in at least a decade.

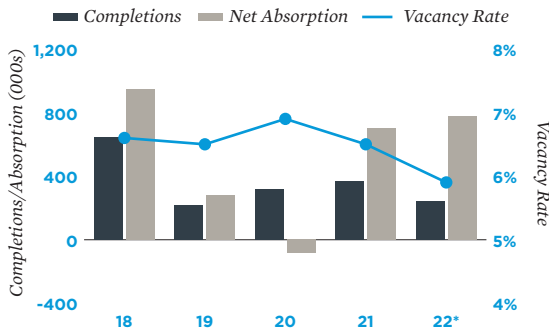


**2.1%  
INCREASE**  
*in asking rent*

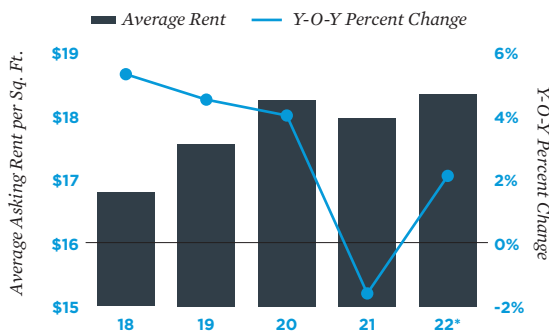
### RENT:

Less available space will help stabilize multi-tenant asking rates and push up single-tenant rents, returning the average marketed payment onto a growth path. The metric will end 2022 at \$18.34 per square foot, just surpassing the 2020 high.

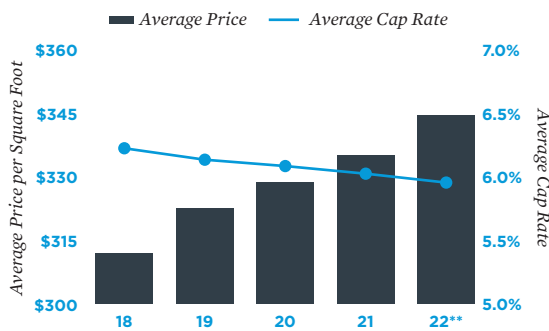
### Supply and Demand



### Rent Trends



### Sales Trends



\* Forecast \*\* Through 1Q

Sources: CoStar Group, Inc.; Real Capital Analytics

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Price: \$250

## 1Q 2022 - 12-Month Period



### CONSTRUCTION

**291,000 sq. ft. completed**

- Approximately 80,000 fewer square feet opened over the past four quarters than in the prior yearlong period, with deliveries focused in Sacramento and Placer counties.
- A 9,000-square-foot strip center in Roseville and a Dunkin' Donuts in Carmichael constitute the largest openings so far this year.



### VACANCY

**80 basis point decrease in vacancy Y-O-Y**

- Vacancy rates across all four counties that comprise the metro fell between April 2021 and March 2022, lowering the overall rate to 6.2 percent. That is 30 basis points below the year-end 2019 rate.
- Multi-tenant availability fell 100 basis points over the past year to 6.7 percent, while the single-tenant metric dropped 60 basis points to 6.1 percent.



### RENT

**0.7% decrease in the average asking rent Y-O-Y**

- A 3.2 percent year-over-year decline in the average multi-tenant asking rent overshadowed a 0.1 percent uptick among single-tenant asking rates to drop the overall market mean to \$17.92 per square foot in March.
- Marketed rents have been climbing the most in El Dorado County, where new supply has been minimal and vacancy is below pre-pandemic levels.

## Investment Highlights

- Investors reengaged with multi-tenant properties over the past year ending in March as sales velocity more than doubled the total from the preceding 12-month span. Reinvigorated bidding activity helped drive the average sale price up 9 percent year-over-year to \$314 per square foot, while the average cap rate dropped into the low-6 percent zone.
- The most multi-tenant properties continued to change hands in Sacramento County, with Arden/Watt/Howe and South Sacramento being the most active areas. Several vintage neighborhood and strip centers were traded at entry costs of roughly half the metro average.
- Trades of single-tenant assets were less disrupted by the health crisis, with no meaningful drawback in sales occurring. While transaction velocity advanced about 10 percent year-over-year through March, the mean sale price dipped to \$394 per square foot. Prices have been sliding since 2020 as the average age of the buildings changing hands trends older.
- Single-tenant buyers interested in post-2000 construction have looked to Roseville/Rocklin and Folsom more recently, with several storefronts and restaurants changing hands as part of multi-property trades. Cap rates on these transactions could extend as high as 7 percent.

The information contained in this report was obtained from sources deemed to be reliable. Every effort was made to obtain accurate and complete information; however, no representation, warranty or guarantee, express or implied, may be made as to the accuracy or reliability of the information contained herein. Metro-level employment growth is calculated based on the last month of the quarter/year. Sales data includes transactions sold for \$1 million or greater unless otherwise noted. This is not intended to be a forecast of future events and this is not a guaranty regarding a future event. This is not intended to provide specific investment advice and should not be considered as investment advice. Sources: Marcus & Millichap Research Services; Bureau of Labor Statistics; CoStar Group, Inc.; Real Capital Analytics

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