MARKET REPORT

Retail

Sacramento Metro Area

IPA INSTITUTIONAL PROPERTY ADVISORS

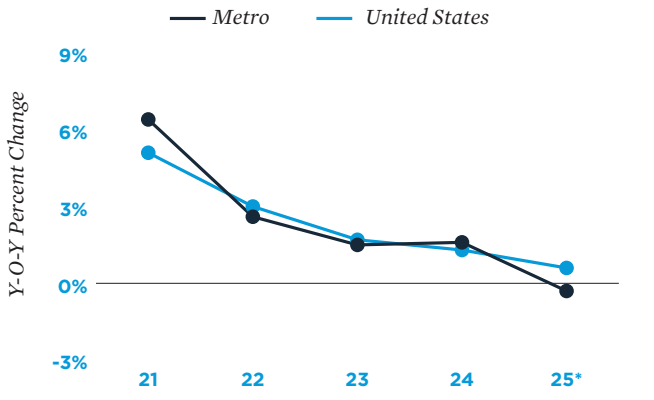
3Q/25

National Retail Closures Limited in Sacramento, Yet Rising Costs Threaten Price-Sensitive Tenants

Local demand sustains positive trajectory. With a tenant mix focused on serving the local community rather than regional shopping districts, Sacramento has proven less vulnerable to high-profile store closures, as net absorption stayed positive in the 12 months ended June. Nevertheless, retail vacancy edged higher across infill areas like Citrus Heights, Arden and South Sacramento, where older stock and moderate turnover pushed vacancy near 8 percent. That said, leasing activity is brightening the outlook for these areas. In South Sacramento, over 300,000 square feet was leased in the first eight months of 2025 — nearly double its total for all of 2024. Third-quarter deals by a discount apparel store and adventure park, each for more than 30,000 square feet, highlight recent activity.

Multi-tenant strain aided by net-leased sector. Local single-tenant properties maintained positive net absorption during the first half of 2025. As such, vacancy rose just 10 basis points to 7.0 percent in June. Locally, however, areas of single-tenant tightening are visible. Placer and El Dorado counties recorded single-tenant compression of 40 and 60 basis points, respectively, during the first six months of this year, accentuated by Dollar Tree backfilling a former Walgreens and a furniture store occupying a former Sprouts. By contrast, tenant move-outs drove the metro's multi-tenant vacancy up 50 basis points from record lows in December to 5.8 percent in June, underscoring emerging weakness among inline operators.

Employment Trends



** Forecast*

Sources: BLS; CoStar Group, Inc.

Retail 2025 Outlook

3,000 JOBS
will be lost

EMPLOYMENT:

While most sectors posted job losses through July, the education and health services sector continued to add positions. This should help Sacramento record fewer job losses on net in 2025 than nearby Bay Area metros.

490,000 SQ. FT.
will be completed

CONSTRUCTION:

Completions will decline slightly this year, as inventory growth of 0.6 percent matches the past decade's average. Most projects are concentrated in faster-growing outer cities, such as Roseville and Folsom.

30 BASIS POINT
increase in vacancy

VACANCY:

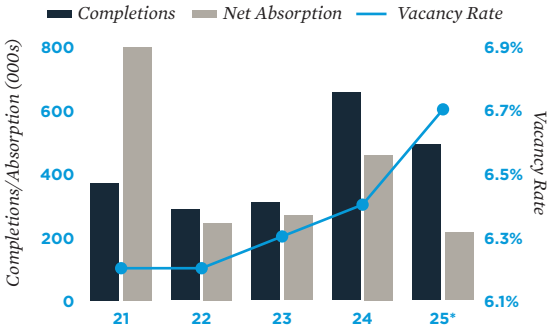
Vacancy reaches 6.7 percent this year, staying 10 basis points below the metro's past decade average. Sacramento is expected to be the only major California metro to register positive net absorption in 2025.

3.2% INCREASE
in asking rent

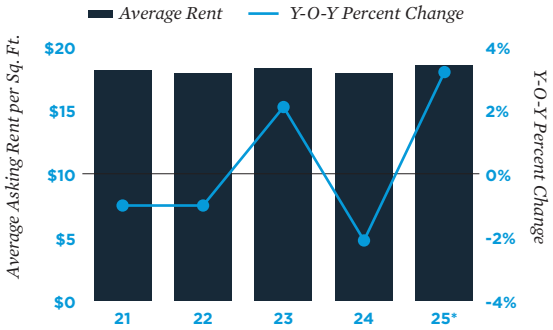
RENT:

After a slight decline in 2024, rents are expected to rise in 2025, aided by limited new supply and relatively tight vacancy. The metro's average asking rate is set to reach $18.50 per square foot by year-end.

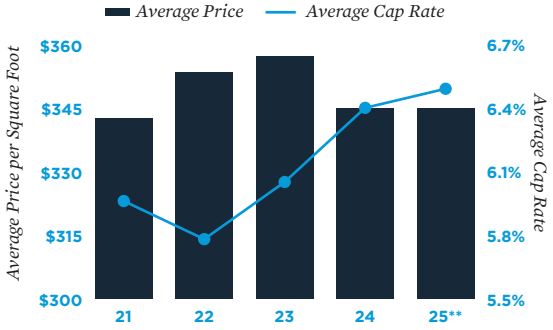
Supply and Demand



Rent Trends



Sales Trends



** Forecast ** Through 2Q*

Sources: CoStar Group, Inc.; Real Capital Analytics

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2Q 2025 — 12-Month Period

CONSTRUCTION

276,000 sq. ft. completed

- Completions over the year ended in June fell by about 350,000 square feet from the prior 12 months, slowing inventory growth to 0.3 percent.
- Sacramento County received 163,000 square feet, led by a 60,000-square-foot Safeway in Elk Grove and 40,000-square-foot Ulta Beauty in Davis. Most of Placer County's total was due to a 74,000-square-foot Safeway.

VACANCY

10 basis point increase in vacancy Y-O-Y

- Vacancy reached 6.6 percent in March and held flat through June, following a slight uptick during the first quarter of 2025.
- Sacramento County's vacancy rose 30 basis points to 7.6 percent in the first half of 2025. Placer County's rate increased 10 basis points, while El Dorado County's fell 10 basis points, leaving both near 5.0 percent.

RENT

2.5% increase in the average asking rent Y-O-Y

- The mean asking rent reached $18.31 per square foot in June, supported by the eighth-fastest multi-tenant rate growth among major U.S. markets.
- El Dorado County posted the strongest gain over the past year, while commanding the highest asking rent in the metro. Sacramento and Placer counties also recorded growth, though Yolo County saw a decline.

Investment Highlights

- Sales velocity rose nearly 30 percent year over year as of June, with activity strengthening in the second quarter of 2025. Sacramento's average cap rate reached 6.5 percent during the period — about 70 basis points above its 2022 low and the highest among major California metros.
- More properties anchored by supermarkets, discount stores and apparel shops have traded in infill suburbs like Arden-Watt and South Sacramento, where scarce land availability continues to limit the prospects of future supply-side pressure. Multi-tenant vacancy has also held near 6 percent in these areas, even as the single-tenant rate was around 8 percent.
- Downtown may attract investors after posting record net absorption of over 1,000 apartments in the past 12 months ended June, with over 1,000 units still under construction. Sutter Health's planned 100,000-square-foot health science facility should further lift foot traffic in the CBD, where vacancy for retail properties under 5,000 square feet is below 3 percent.
- Elk Grove has drawn greater investor interest of late. A local Amtrak station set to open in 2026 will enhance the city's connectivity to Sacramento and the Bay Area, potentially aiding local retail spending.