



SACRAMENTO **RETAIL OUTLOOK**



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The Knowledge Report

RETAIL OUTLOOK | 2010



MARKET INDICATORS

| QUARTER | FALL 2009 | SPRING 2010 |
|----------------|-----------|-------------|
| VACANCY | ↑ | ↑ |
| NET ABSORPTION | ↓ | ↓ |
| CONSTRUCTION | ↓ | ↓ |
| RENTAL RATE | ↓ | ↓ |

Despite Late-Year Activity Surge, Sacramento Retail Vacancy Inches Up Again

Retail vacancy in the Sacramento region crept upward over the final quarter of 2009. Vacancy currently stands at 12.9 percent, up from the 12.7 percent mark recorded as of the close of the third quarter. The market recorded just over 87,000 square feet of occupancy losses during the fourth quarter. All told, the market recorded roughly 1.1 million square feet of negative net absorption in 2009. These losses came both from smaller inline space users as well as some notable big box vacancies that took place over the course of the year.

Unanchored strip centers continue to be the most challenged shopping center type in the region. Metro-wide vacancy currently stands at 16.3 percent for strip product. Strip centers have lost over 531,000 square feet of occupancy over the past 24 months. This may not seem like much compared to the occupancy losses that have registered when large big box users like Mervyn's have closed multiple stores in the region. But keep in mind that most strip center tenants use 3,000 square feet or less. These losses literally reflect hundreds of retail storefronts that have either gone dark or, as has been the case for some of the strip product delivered past the peak of the last cycle, have never been leased.

Sacramento's neighborhood/community centers have fared better. Vacancy for this product type currently stands at 13.0 percent. Though this product type has largely been 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. One year ago, the vacancy rate for this product type was 9.3 percent. Two years ago, it stood at 7.9 percent. All told, neighborhood/community centers have lost over 885,000 square feet of occupancy over the last 24 months.

That being said, we are seeing some stabilization among top-tier Class A neighborhood/community centers in the region. These would typically be the best located (strongest intersections) centers within their respective submarkets. These are centers with strong grocery or drug anchors in place, as well as solid tenant mixes. There are two reasons for this. The first is that the few space users who remain active in the marketplace are looking first at the best shopping centers at the busiest intersections with the best tenant mixes. The second reason is that declining rents have created a climate ripe for "flight to quality." At the peak of the last economic cycle, many of these Class A centers had commanded lease rates of \$3.00 to \$3.50 per square foot (or more). Now Class A asking rents are closer to the \$2.00 to \$2.25 mark. Class A rents are now at the levels that we used to see for Class B space. Longtime tenants of Class B space are finding that they can upgrade to Class A centers at roughly the same rents. Meanwhile, rents for Class B and C properties continue to decline. ▶



Power/regional center vacancy currently stands at 10.7 percent. This product type has been particularly challenged over the past two years as major big box space users like Linens 'N Things, Circuit City, Mervyn's and Gottschalk's all returned substantial blocks of space to the market. Two years ago vacancy for this product type stood at just 3.4 percent.

SACRAMENTO RETAIL MARKET – All Shopping Center Types Inventory, Vacancy, Construction, and Absorption

| | 2008 | | 2009 | | | |
|--------------------------------------|------------|------------|------------|------------|------------|------------|
| | 3rd QTR | 4th QTR | 1st QTR | 2nd QTR | 3rd QTR | 4th QTR |
| Total Inventory | 58,175,179 | 58,323,220 | 58,443,717 | 58,953,368 | 59,049,194 | 59,071,831 |
| Total Vacancy | 5,419,497 | 5,758,373 | 6,620,721 | 7,113,567 | 7,495,013 | 7,604,831 |
| Total Vacancy % | 9.3% | 9.9% | 11.3% | 12.1% | 12.7% | 12.9% |
| Deliveries | 360,968 | 148,041 | 120,497 | 509,651 | 95,826 | 22,637 |
| Under Construction | 1,396,440 | 1,229,526 | 1,361,047 | 883,896 | 779,470 | 779,470 |
| Net Absorption (Growth) | -40,794 | -190,835 | -741,851 | 16,805 | -285,620 | 87,181 |
| Average Asking Rate (FSG monthly) | \$1.95 | \$1.90 | \$1.87 | \$1.81 | \$1.77 | \$1.74 |

Big Box Backfill Under Way

But there is some good news. As 2009 came to a close, we saw a surge of leasing activity for vacant big box space. It is no secret that the collapse of big box chains Circuit City, Linens N' Things, Mervyn's and Gottschalk's in 2008/2009 helped send vacancy rates skyward. The amount of vacant retail space in the Sacramento market alone has increased by over 1.5 million square feet over the past year with big box vacancies accounting for much of this number.

The loss of anchor or junior anchor tenants has been a major challenge to landlords over the past 24 months. Throughout the first half of 2009, leasing activity for this type of space was almost non-existent. The good news is that by the latter half of 2009 these discounted rates were playing a huge factor in bringing a new round of expansion from users looking for deals. On a national level, Bed Bath & Beyond, Best Buy, Dollar Tree, Forever 21, HHGregg, Kohl's, Marshalls, Ross Dress for Less and TJ Maxx have all been aggressively pursuing vacant big boxes. A number of health clubs and grocery store chains are also signing big box deals. For example, during the third quarter of 2009, Kimco reported that 66 percent of all the new leases it signed (just under half a million

square feet) were for junior anchor tenants using big box space.

Though the Sacramento market is certainly not without its challenges in today's economic landscape, the trend of big box backfilling playing out here as well. With just a few exceptions, the space that had been vacated locally by both Gottschalk's and Mervyn's over the past 18 months has either already been backfilled or has tenants lined up to take occupancy over the next few months. That being said, the market is still contending with most of the space that Circuit City vacated last year.

Much has been made over the potential creative re-use of big-box space and we certainly are aware of a few examples. In other markets we have heard of vacant boxes being converted to indoor flea markets, churches, Department of Motor Vehicles offices, libraries and even indoor go-kart racing facilities. But one of the best re-uses of box space we have seen are theater conversions. Theaters have continued to perform exceptionally well throughout the recession and can dramatically increase a shopping center's drawing power. As 2009 came to a close, one of the larger deals to take place in the Sacramento market was just one such deal.

SR Entertainment Group leased the 80,000

square foot vacant former Mervyn's space at Rocklin's Blue Oaks Town Center. The new tenant will be opening a 16-screen theater in the space sometime during the third quarter of 2010.

But this was not the only large deal to take place as 2009 came to a close. Burlington Coat Factory took two other vacant Mervyn's spaces. One in the neighboring Solano County market community of Vacaville. The other is the vacant 80,000 square foot Mervyn's store at Elk Grove's Marketplace 99 shopping center.

December deals were also inked for former Gottschalk's space in both Elk Grove and Davis. The former Circuit City space at Elk Grove's Laguna Gateway Shopping Center was also leased as the year came to an end—Henry's Farmer's Market will reportedly be occupying the space sometime in the next few months. All of these users will be taking occupancy over the next few months, at which time these deals will translate into occupancy growth.

In addition to these larger deals, there was a noticeable uptick in inline leasing activity over the final quarter of 2009 as the "deal paralysis" that had marked much of the year's activity seemed to finally be fading away. A number of franchise restaurant concepts such as Pinkberry (frozen yogurt) and Smashburger (fast casual burger concept) were actively looking for sites and had begun signing deals.

But while increased deal activity certainly comes as good news, it was still not enough to bring the market back into the black. The good news is that we do expect deal activity to continue to increase over the course of 2010. The bad news is that the retail environment remains a challenging one and that there are still more store closures likely on the horizon. But first let's start with the macro trends that will shape local activity in 2010.



Bad News/Good News

The bad news for the landlord of this 80,000 square foot former Mervyn's department store at Blue Oaks Town Center in Rocklin is that his new tenant is paying a significantly reduced rent compared to previous user Mervyn's. The good news is that the space is being converted to a multiplex cinema, one of the strongest user types to emerge in this downturn, and a retail user type that will not only fill empty space, but help to drive traffic to this center.



**EYE ON THE MARKET
2009 Top Retail Leases**

| Building | Submarket | Type | SF | Tenant | Notes |
|---------------------------------|---------------------------|--------------|--------|----------------------------|--|
| Marketplace 99 | Elk Grove | Power | 80,000 | Burlington Coat Factory | Former Mervyns |
| Blue Oaks Town Center | Roseville/Rocklin | Regional | 80,000 | Theater (SR Entertainment) | Former Mervyns |
| Southgate Plaza Shopping Center | South Sacramento | Regional | 67,765 | 99 Ranch Market | New Deal |
| Laguna 99 Plaza | Elk Grove | Regional | 35,000 | Confidential | Former Gottschalks |
| Laguna Gateway | Elk Grove | Regional | 35,000 | Henry's Market | Former Circuit City |
| 2651 El Paso Lane | Arden/Howe/Watt | Regional | 35,000 | William Glen | Town & Country Village Shopping Center (Renewal) |
| Woodland Gateway | Woodland | Power | 30,168 | Best Buy | New Deal |
| 3767 Watt Avenue | Rio Linda/North Highlands | Neighborhood | 28,500 | Ross Stores | Rite Aid Shopping Ctr New Lease |
| 735 Riverpoint Court | West Sacramento | Power | 27,500 | Ross Stores | IKEA Center |
| 2690 Sunrise Blvd | Highway 50 | Freestanding | 23,480 | US Furniture | Freestanding Showroom |
| 10835 Olson Drive | Highway 50 | Regional | 23,450 | Ross Stores | Target Center |
| 2500 Watt Avenue | Arden/Howe/Watt | Strip | 15,650 | Goodwill | Country Club Lanes |

RETAIL MARKET STATISTICS

Fourth Quarter 2009

| Submarket/Shopping Center Type | EXISTING PROPERTIES | | | | | | | ABSORPTION | | | | CONSTRUCTION | | | RENTS | |
|---|---------------------|------------------|---------------------|--------------------|-----------------------|-----------------|--------------------|------------------------|---------------------------|-------------------------------|-----------------------|----------------------------|-----------------------|-----------------|-------|--|
| | Total Inventory SF | Direct Vacant SF | Direct Vacancy Rate | Sublease Vacant SF | Sublease Vacancy Rate | Total Vacant SF | Total Vacancy Rate | Vacancy Rate Prior Qtr | Current Occupied Space SF | Net Absorption Current Qtr SF | Net Absorption YTD SF | Completions Current Qtr SF | Under Construction SF | Avg Asking Rate | | |
| ARDEN HOWE WATT | | | | | | | | | | | | | | | | |
| Community/Neighborhood | 2,208,196 | 237,238 | 10.7% | 8,414 | 0.4% | 245,652 | 11.1% | 11.8% | 1,962,546 | 13,918 | (64,054) | - | - | \$ 19.80 | | |
| Power/Regional | 2,126,492 | 315,327 | 14.8% | - | 0.0% | 315,327 | 14.8% | 15.5% | 1,811,165 | 13,681 | (166,929) | - | - | \$ 23.16 | | |
| Specialty/Lifestyl/e/Outlet | 1,06,698 | 5,551 | 5.2% | - | 0.0% | 5,551 | 5.2% | 5.2% | 1,01,147 | - | 1,500 | - | - | \$ 30.00 | | |
| Strip | 1,453,515 | 146,659 | 10.1% | 2,487 | 0.2% | 149,146 | 10.3% | 8.5% | 1,304,369 | (25,833) | (13,599) | - | - | \$ 18.60 | | |
| Total | 5,894,903 | 704,775 | 12.0% | 10,901 | 0.2% | 715,676 | 12.1% | 12.2% | 5,179,227 | 1,766 | (243,082) | - | - | \$ 21.36 | | |
| AUBURN LOOMIS | | | | | | | | | | | | | | | | |
| Community/Neighborhood | 1,226,194 | 148,887 | 12.1% | - | 0.0% | 148,887 | 12.1% | 11.9% | 1,077,307 | (2,490) | (52,825) | - | - | \$ 23.16 | | |
| Strip | 262,064 | 40,640 | 15.5% | - | 0.0% | 40,640 | 15.5% | 14.2% | 221,424 | (3,500) | 21,128 | - | - | \$ 12.84 | | |
| Total | 1,488,258 | 189,527 | 12.7% | - | 0.0% | 189,527 | 12.7% | 12.3% | 1,298,731 | (5,990) | (31,697) | - | - | \$ 21.12 | | |
| CARMICHAEL/FAIR OAKS | | | | | | | | | | | | | | | | |
| Community/Neighborhood | 1,485,355 | 150,217 | 10.1% | - | 0.0% | 150,217 | 10.1% | 11.7% | 1,335,138 | 22,878 | 22,976 | - | - | \$ 16.80 | | |
| Power/Regional | 297,073 | 2,702 | 0.9% | - | 0.0% | 2,702 | 0.9% | 2.2% | 294,371 | 3,800 | 5,000 | - | - | \$ 31.20 | | |
| Strip | 1,069,402 | 100,534 | 9.4% | - | 0.0% | 100,534 | 9.4% | 9.2% | 968,868 | (1,820) | (18,232) | - | - | \$ 13.80 | | |
| Total | 2,851,830 | 253,453 | 8.9% | - | 0.0% | 253,453 | 8.9% | 9.8% | 2,598,377 | 24,858 | 9,724 | - | - | \$ 16.20 | | |
| CITRUS HEIGHTS/ORANGEVALE | | | | | | | | | | | | | | | | |
| Community/Neighborhood | 2,287,999 | 277,461 | 12.1% | 19,397 | 0.8% | 296,858 | 13.0% | 12.5% | 1,991,141 | (9,928) | (107,796) | - | - | \$ 16.92 | | |
| Power/Regional | 621,253 | 100,455 | 16.2% | - | 0.0% | 100,455 | 16.2% | 13.7% | 520,798 | (15,245) | (27,789) | - | - | \$ 24.72 | | |
| Specialty/Lifestyl/e/Outlet | 15,000 | - | 0.0% | - | 0.0% | - | 0.0% | 0.0% | 15,000 | - | 2,250 | - | - | N/A | | |
| Strip | 1,448,856 | 253,040 | 17.5% | - | 0.0% | 253,040 | 17.5% | 17.5% | 1,195,816 | 6,096 | (18,133) | - | - | \$ 14.16 | | |
| Total | 4,373,108 | 630,956 | 14.4% | 19,397 | 0.4% | 650,353 | 14.9% | 14.4% | 3,722,755 | (19,077) | (151,488) | - | - | \$ 17.40 | | |
| DAVIS | | | | | | | | | | | | | | | | |
| Community/Neighborhood | 702,916 | 27,937 | 4.0% | - | 0.0% | 27,937 | 4.0% | 4.6% | 674,979 | 4,596 | 164,023 | - | - | \$ 19.92 | | |
| Power/Regional | 93,884 | 48,712 | 51.9% | - | 0.0% | 48,712 | 51.9% | 44.7% | 45,172 | (6,771) | (44,482) | - | - | N/A | | |
| Strip | 229,388 | 7,798 | 3.4% | - | 0.0% | 7,798 | 3.4% | 3.4% | 221,590 | - | 223 | - | - | \$ 18.60 | | |
| Total | 1,026,188 | 84,447 | 8.2% | - | 0.0% | 84,447 | 8.2% | 8.0% | 941,741 | (2,175) | 119,764 | - | - | \$ 19.56 | | |
| DOWNTOWN/MIDTOWN/EAST SACRAMENTO | | | | | | | | | | | | | | | | |
| Community/Neighborhood | 258,012 | 3,717 | 1.4% | - | 0.0% | 3,717 | 1.4% | 1.4% | 254,295 | - | 4,348 | - | - | \$ 24.00 | | |
| Power/Regional | 20,000 | - | 0.0% | - | 0.0% | - | 0.0% | 26.0% | 20,000 | 5,209 | 5,209 | - | - | \$ 27.00 | | |
| Strip | 616,061 | 49,643 | 8.1% | - | 0.0% | 49,643 | 8.1% | 6.8% | 566,418 | (7,644) | (18,923) | - | - | \$ 22.56 | | |
| Total | 894,073 | 53,360 | 6.0% | - | 0.0% | 53,360 | 6.0% | 5.7% | 840,713 | (2,435) | (9,366) | - | - | \$ 24.60 | | |
| EL DORADO | | | | | | | | | | | | | | | | |
| Community/Neighborhood | 1,326,780 | 134,079 | 10.1% | - | 0.0% | 134,079 | 10.1% | 9.5% | 1,192,701 | (8,491) | (9,983) | - | - | \$ 23.64 | | |
| Specialty/Lifestyl/e/Outlet | 613,303 | 105,630 | 17.2% | - | 0.0% | 105,630 | 17.2% | 16.7% | 507,673 | (3,331) | (22,381) | - | - | \$ 28.20 | | |
| Strip | 299,573 | 32,183 | 10.7% | - | 0.0% | 32,183 | 10.7% | 10.8% | 267,390 | 80 | 1,732 | - | - | \$ 24.00 | | |
| Total | 2,239,656 | 271,892 | 12.1% | - | 0.0% | 271,892 | 12.1% | 11.6% | 1,967,764 | (11,742) | (30,632) | - | - | \$ 25.80 | | |
| ELK GROVE | | | | | | | | | | | | | | | | |
| Community/Neighborhood | 2,086,229 | 98,397 | 4.7% | 135,500 | 6.5% | 233,897 | 11.2% | 11.5% | 1,852,332 | 5,578 | (21,325) | - | - | \$ 25.20 | | |
| Power/Regional | 1,795,761 | 82,400 | 4.6% | 41,399 | 2.3% | 123,799 | 6.9% | 7.3% | 1,671,962 | 7,590 | (43,245) | 19,137 | - | \$ 24.04 | | |
| Specialty/Lifestyl/e/Outlet | 190,000 | 36,118 | 19.0% | - | 0.0% | 36,118 | 19.0% | 19.0% | 153,882 | - | (36,118) | - | - | \$ 23.00 | | |
| Strip | 885,278 | 204,862 | 23.1% | 6,000 | 0.7% | 210,862 | 23.8% | 24.2% | 674,416 | 3,558 | 433 | - | - | \$ 21.12 | | |
| Total | 4,957,268 | 421,777 | 8.5% | 182,899 | 3.7% | 604,676 | 12.2% | 12.5% | 4,352,592 | 16,706 | (200,255) | 19,137 | - | \$ 22.80 | | |
| FOLSOM | | | | | | | | | | | | | | | | |
| Community/Neighborhood | 1,888,949 | 254,354 | 13.5% | - | 0.0% | 254,354 | 13.5% | 13.1% | 1,634,595 | (7,466) | (111,955) | - | - | \$ 24.00 | | |
| Power/Regional | 1,225,930 | 12,884 | 1.1% | 36,353 | 3.0% | 49,237 | 4.0% | 4.4% | 1,176,693 | 4,585 | 75,123 | - | - | \$ 31.20 | | |
| Specialty/Lifestyl/e/Outlet | 706,630 | 15,600 | 2.2% | - | 0.0% | 15,600 | 2.2% | 2.9% | 691,030 | 4,680 | 500 | - | - | \$ 24.00 | | |
| Strip | 467,218 | 77,651 | 16.6% | 1,684 | 0.4% | 79,335 | 17.0% | 16.7% | 387,883 | (1,541) | (370) | - | - | \$ 24.00 | | |
| Total | 4,288,727 | 360,489 | 8.4% | 38,037 | 0.9% | 398,526 | 9.3% | 9.3% | 3,890,201 | 258 | (6,702) | - | - | \$ 26.40 | | |
| HIGHWAY 50 | | | | | | | | | | | | | | | | |
| Community/Neighborhood | 2,447,158 | 456,543 | 18.7% | 1,196 | 0.0% | 457,739 | 18.7% | 19.1% | 1,989,419 | 9,574 | (8,187) | - | - | \$ 19.44 | | |
| Strip | 656,196 | 109,066 | 16.6% | - | 0.0% | 109,066 | 16.6% | 16.8% | 547,130 | 1,030 | (6,456) | - | - | \$ 11.40 | | |
| Total | 3,103,354 | 565,609 | 18.2% | 1,196 | 0.0% | 566,805 | 18.3% | 18.6% | 2,536,549 | 10,604 | (14,643) | - | - | \$ 18.24 | | |

RETAIL MARKET STATISTICS
Fourth Quarter 2009

| Submarket/Shopping Center Type | EXISTING PROPERTIES | | | | | | | ABSORPTION | | | | CONSTRUCTION | | | RENTS |
|--|---------------------|------------------|---------------------|--------------------|-----------------------|------------------|--------------------|------------------------|---------------------------|-------------------------------|-----------------------|----------------------------|-----------------------|-----------------|-------|
| | Total Inventory SF | Direct Vacant SF | Direct Vacancy Rate | Sublease Vacant SF | Sublease Vacancy Rate | Total Vacant SF | Total Vacancy Rate | Vacancy Rate Prior Qtr | Current Occupied Space SF | Net Absorption Current Qtr SF | Net Absorption YTD SF | Completions Current Qtr SF | Under Construction SF | Avg Asking Rate | |
| LINCOLN | | | | | | | | | | | | | | | |
| Community/Neighborhood | 421,490 | 92,630 | 22.0% | 5,000 | 1.2% | 97,630 | 23.2% | 23.3% | 323,860 | 568 | (17,238) | - | - | \$ 25.20 | |
| Power/Regional | 645,298 | 17,828 | 2.8% | - | 0.0% | 17,828 | 2.8% | 6.7% | 627,470 | 25,200 | 37,612 | - | - | \$ 27.60 | |
| Strip | 1,31,322 | 49,970 | 38.1% | - | 0.0% | 49,970 | 38.1% | 43.3% | 81,352 | 6,699 | (25,094) | - | - | \$ 21.84 | |
| Total | 1,198,110 | 160,428 | 13.4% | 5,000 | 0.4% | 165,428 | 13.8% | 16.3% | 1,032,682 | 32,467 | (4,720) | - | - | \$ 25.20 | |
| NATOMAS | | | | | | | | | | | | | | | |
| Community/Neighborhood | 857,137 | 27,949 | 3.3% | 2,411 | 0.3% | 30,360 | 3.5% | 8.0% | 826,777 | 38,275 | 48,350 | - | - | \$ 18.00 | |
| Power/Regional | 1,491,579 | 69,919 | 4.7% | - | 0.0% | 69,919 | 4.7% | 4.4% | 1,421,660 | 4,003 | (32,287) | - | - | \$ 22.56 | |
| Strip | 648,893 | 107,220 | 16.5% | - | 0.0% | 107,220 | 16.5% | 18.2% | 541,673 | 10,963 | (694) | - | - | \$ 22.08 | |
| Total | 2,997,609 | 205,088 | 6.8% | 2,411 | 0.1% | 207,499 | 6.9% | 8.4% | 2,790,110 | 45,235 | 15,429 | - | - | \$ 21.24 | |
| RIO LINDA/NORTH HIGHLANDS | | | | | | | | | | | | | | | |
| Community/Neighborhood | 2,006,877 | 372,836 | 18.6% | 1,100 | 0.1% | 373,936 | 18.6% | 18.2% | 1,632,941 | (8,868) | (54,207) | - | - | \$ 16.80 | |
| Power/Regional | 557,151 | 34,200 | 6.1% | - | 0.0% | 34,200 | 6.1% | 5.4% | 522,951 | 4,200 | (23,813) | - | - | \$ 24.40 | |
| Strip | 594,328 | 74,751 | 12.6% | - | 0.0% | 74,751 | 12.6% | 12.9% | 519,577 | 1,999 | 25,220 | - | - | \$ 19.68 | |
| Total | 3,158,356 | 481,787 | 15.3% | 1,100 | 0.0% | 482,887 | 15.3% | 14.4% | 2,675,469 | (11,069) | (32,800) | - | - | \$ 17.40 | |
| ROSEVILLE/ROCKLIN | | | | | | | | | | | | | | | |
| Community/Neighborhood | 4,490,253 | 695,900 | 15.5% | 11,000 | 0.2% | 706,900 | 15.7% | 14.8% | 3,783,353 | (42,941) | (87,669) | - | - | \$ 21.12 | |
| Power/Regional | 3,841,400 | 357,135 | 9.3% | 142,057 | 3.7% | 499,192 | 13.0% | 11.6% | 3,342,208 | (52,162) | (30,590) | - | - | \$ 30.48 | |
| Specialty/Lifestyle/Outlet | 476,734 | 77,146 | 16.2% | - | 0.0% | 77,146 | 16.2% | 16.3% | 399,588 | 800 | 21,169 | - | - | \$ 26.16 | |
| Strip | 1,187,284 | 313,680 | 26.4% | 2,643 | 0.2% | 316,323 | 26.6% | 27.1% | 870,961 | 5,238 | (45,744) | - | - | \$ 20.76 | |
| Total | 9,995,671 | 1,443,861 | 14.4% | 155,700 | 1.6% | 1,599,561 | 16.0% | 15.1% | 8,396,110 | (89,065) | (442,834) | - | - | \$ 23.28 | |
| SOUTH SACRAMENTO | | | | | | | | | | | | | | | |
| Community/Neighborhood | 3,617,312 | 317,183 | 8.8% | 132,000 | 3.6% | 449,183 | 12.4% | 11.2% | 3,168,129 | (44,739) | (278,115) | - | 49,400 | \$ 21.48 | |
| Power/Regional | 884,351 | 157,001 | 17.8% | - | 0.0% | 157,001 | 17.8% | 18.3% | 727,350 | 4,532 | 163,987 | 3,500 | - | \$ 33.60 | |
| Strip | 2,341,285 | 421,643 | 18.0% | 3,300 | 0.1% | 424,943 | 18.1% | 17.7% | 1,916,342 | (9,743) | 31,731 | - | - | \$ 20.76 | |
| Total | 6,842,948 | 895,827 | 13.1% | 135,300 | 2.0% | 1,031,127 | 15.1% | 14.3% | 5,811,821 | (49,950) | (82,397) | 3,500 | 49,400 | \$ 21.84 | |
| WEST SACRAMENTO | | | | | | | | | | | | | | | |
| Community/Neighborhood | 639,125 | 32,193 | 5.0% | - | 0.0% | 32,193 | 5.0% | 4.8% | 606,932 | (1,526) | 2,558 | - | - | \$ 19.20 | |
| Power/Regional | 726,853 | 33,168 | 4.6% | - | 0.0% | 33,168 | 4.6% | 5.3% | 693,685 | 5,462 | 34,392 | - | 45,250 | \$ 24.00 | |
| Strip | 149,295 | 27,187 | 18.2% | - | 0.0% | 27,187 | 18.2% | 18.9% | 122,108 | 1,100 | 8,616 | - | - | \$ 21.96 | |
| Total | 1,515,273 | 92,548 | 6.1% | - | 0.0% | 92,548 | 6.1% | 6.4% | 1,422,725 | 5,036 | 45,566 | - | 45,250 | \$ 20.40 | |
| WOODLAND | | | | | | | | | | | | | | | |
| Community/Neighborhood | 984,460 | 112,816 | 11.5% | - | 0.0% | 112,816 | 11.5% | 6.2% | 871,644 | (51,842) | (55,311) | - | - | \$ 13.80 | |
| Power/Regional | 926,439 | 174,523 | 18.8% | - | 0.0% | 174,523 | 18.8% | 19.7% | 751,916 | 7,672 | 35,496 | - | - | \$ 23.04 | |
| Strip | 335,600 | 42,456 | 12.5% | 1,500 | 0.4% | 43,956 | 13.1% | 16.5% | 291,644 | 11,562 | 32,101 | - | - | \$ 7.80 | |
| Total | 2,246,499 | 329,795 | 14.7% | 1,500 | 0.1% | 331,295 | 14.7% | 13.3% | 1,915,204 | (32,608) | 12,286 | - | - | \$ 16.92 | |
| SACRAMENTO METRO | | | | | | | | | | | | | | | |
| Community/Neighborhood | 28,934,444 | 3,440,337 | 11.9% | 316,018 | 1.1% | 3,756,355 | 13.0% | 12.7% | 25,178,089 | (82,904) | (726,410) | - | 49,400 | \$ 20.40 | |
| Power/Regional | 15,233,464 | 1,408,254 | 9.2% | 219,809 | 1.4% | 1,628,063 | 10.7% | 10.3% | 13,605,401 | (9,859) | (317,525) | 22,637 | 670,000 | \$ 25.92 | |
| Specialty/Lifestyle/Outlet | 2,128,365 | 240,045 | 11.3% | - | 0.0% | 240,045 | 11.3% | 11.6% | 1,888,320 | 7,358 | (27,871) | - | - | \$ 27.00 | |
| Strip | 12,775,558 | 2,058,983 | 16.1% | 17,614 | 0.1% | 2,076,597 | 16.3% | 16.2% | 10,698,961 | (1,776) | (26,041) | - | 14,820 | \$ 17.76 | |
| Total | 59,071,831 | 7,145,619 | 12.1% | 553,441 | 0.9% | 7,699,060 | 13.0% | 12.7% | 51,372,771 | (87,181) | (1,097,847) | 22,637 | 779,470 | \$ 20.88 | |
| QUARTERLY COMPARISON AND TOTALS | | | | | | | | | | | | | | | |
| Q4-09 | 59,071,831 | 7,145,619 | 12.1% | 553,441 | 0.9% | 7,699,060 | 13.0% | 12.7% | 51,372,771 | (87,181) | (1,097,847) | 22,637 | 779,470 | \$ 20.88 | |
| Q3-09 | 59,049,194 | 6,920,213 | 11.7% | 574,800 | 1.0% | 7,495,013 | 12.7% | 12.1% | 51,554,181 | -28,560 | -10,066 | 95,826 | 779,470 | \$ 21.24 | |
| Q1-09 | 58,953,368 | 6,494,100 | 11.0% | 619,467 | 1.1% | 7,113,567 | 12.1% | 11.3% | 51,839,801 | 168,051 | -725,046 | 509,651 | 883,896 | \$ 21.72 | |
| Q1-09 | 58,443,717 | 6,210,721 | 10.6% | 410,000 | 0.7% | 6,620,721 | 11.3% | 9.9% | 51,822,896 | -741,851 | -741,851 | 120,497 | 1,361,047 | \$ 22.44 | |
| Q4-08 | 58,323,220 | 5,472,800 | 9.4% | 285,573 | 0.5% | 5,758,373 | 9.9% | 9.3% | 52,564,847 | -19,0835 | -289,997 | 148,041 | 1,229,526 | \$ 22.80 | |

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 of fourth quarter 2009, we expanded our research coverage. Previously we reported on shopping centers of 50,000 square feet or more. We now report on all competitive shopping centers above 10,000 square feet in size. The historical data represented here or collected regarding our new data set. These numbers will not correspond with our previously recorded statistics that were based upon a different sampling survey; new, corrected or updated information is obtained, it is incorporated into both current and previously issued reports.

We've Increased Our Retail Coverage!

Colliers International is pleased to announce that beginning with this reporting period we have increased our statistical tracking in the Sacramento region to now include all competitive shopping centers with 10,000 square feet or more of gross leasable area. We previously had only tracked shopping centers that had a gross leasable area of 50,000 square feet or greater.

We have done this to improve the depth and coverage of our data for our clients. No other commercial real estate brokerage in the region tracks as many shopping centers as we do. We now can more accurately track trends for unanchored retail strip shopping centers which are generally less than 50,000 square feet in size.

Because our data set has changed, the numbers reflected here should not be used in conjunction with statistics that were included in previously published retail market reports which focused on a narrower sampling of the marketplace.

For those of you who are reliant on our historical numbers, as part of the process in changing our sampling, we compiled historic data to seamlessly and accurately reflect trends for our new survey set. We did this through a mix of our own data and reliable third-party data providers, as well as through extensive interviews with brokers, property managers, landlords and other market participants.

We are also pleased to announce the launch of our new quarterly retail statistics books, which include detailed historical analysis of the Sacramento market. These statistical books track trends both by submarket and shopping center type and are available free of charge to Colliers International's clients. Contact your Colliers broker to obtain a copy.

Retail Trends Summary

2009 Economic Points

- After reaching record lows in early 2009, consumer confidence levels have been gradually improving, but remain depressed from historical norms.
- The U.S. lost four million jobs in 2009, in addition to the 3.1 million jobs lost in 2008. National unemployment, once forecast to peak at 8 percent, stood at 10 percent as of the start of 2010.
- “Fear factor” influenced consumer spending decisions in 2009 as shoppers reacted to dismal economic and employment news. The personal savings rate increased as consumers responded by cutting spending, boosting savings and paying down debt.
- Consumer spending levels, though improved by end of the year, remained weak throughout 2009.
- Credit card companies pulled back, reducing the availability of consumer credit.
- The credit markets, nearly frozen at the beginning of the year, improved. But while banks are lending to one another again, credit remains tight. The accelerating rate of small bank failures remains a threat. There were 140 in 2009 alone.
- What were once residential boom markets, became 2009's retail bust markets. The one-two punch of a massive consumer pullback in spending and aggressive retail development in once hot growth areas like Arizona, California's Central Valley, Florida, Las Vegas and a handful of other markets were suddenly both overbuilt and under-demand.

2009 Transactional Activity

- In 2009, commercial real estate leasing and sales activity was off by as much as 70 percent in some U.S. markets.
- Sale pricing for retail properties has dropped roughly 40 percent from peak values. The impact of distressed properties and weakened market fundamentals hammered real estate values.
- Cap rates increased from the seven percent range to the eights and continue to rise, but many would-be buyers (especially vulture funds) were holding out for nine caps or greater.
- Investors holding out for fire sale pricing on distressed assets helped to increase the gulf between bids and asking prices. Vulture funds held out for a flood of distressed properties to hit the market and further crash values. This largely didn't happen... instead we saw a transactional logjam as investment sales activity disappeared.
- Most REITs can now be classified as either bankrupt or “ready.” The “ready” REITs raised warchests through public offerings (over \$18 billion in 2009) to both shore up balance sheets and prepare for acquisition sprees.
- The shopping center properties that best held their values were strong regional malls and neighborhood/community centers. In terms of freestanding retail, drug stores and automotive service buildings with long-term leases in place to stable tenants were the investment opportunities that best retained value.

2009 Market Trends

- Retail vacancy climbed in virtually every U.S. market in 2009.
- New retail construction has virtually disappeared—currently at a 25-year low.
- Retail lease rates have dropped precipitously from peak levels of 2005/2006—minimum of 25

percent declines in nearly every U.S. market. Declines have been by as much as 40 percent or more in the worst hit U.S. markets.

- Rent relief, renegotiated leases and early renewal/“blend & extend” deals were what dominated leasing activity in 2009.
- Urban storefronts and regional malls were the beneficiary as “pop up,” or temporary stores, became increasingly popular with retailers. Pop-ups allowed retailers to experiment with new concepts, possible permanent sites and to greater exploit seasonal sales at lower occupancy costs.
- Major retailers who had previously been priced out of space in top U.S. urban markets (i.e. Manhattan, Chicago) found deals on storefront rents in major downtown areas.
- The shopping centers that have performed best in this challenging environment are regional malls and grocery or drug-store anchored neighborhood/community centers. Strip centers have been especially hard-hit due to the disappearance of mom-and-pop retailers (bread and butter tenants) and overbuilding in many markets.

2009 Retailer Trends

- The “New Frugality” is here for a while. Consumers focused on necessity items and downshifted to off-price brands and low price points. Luxury brands were hammered. The aspirational consumer of 2002 – 2006 disappeared. Discounters, dollar stores and off-price retailers fared best in 2009.
 - Most retailers significantly pulled back on expansion plans, most retail sectors were either flat or in contraction. Not surprisingly, the exception was off-price retailers who have benefited from consumer downshifting. Restaurant operators shifted away from corporate to franchisee-driven growth.
 - Store closings were actually down slightly in 2009 from 2008. Though credit remains stringent, many retailers “on the edge” were able to refinance “lights out” debt. Meanwhile, “white knight buyers” also helped to mitigate retail failures/closures in 2009.
 - Most retailers drastically cut costs and overhead in 2009. Chains aggressively cut jobs, eliminated mid-level management and corporate positions, slashed infrastructure and overhead expenses and paid down debt levels. Landlords were the big loser here as one of the primary ways retailers found to cut costs was to aggressively renegotiate leases.
 - Retailer margins dropped in 2009 as stiff pricing competition ruled the day. The grocery sector, in particular, has been impacted by strong price deflation as regional chains dropped pricing to keep up with Walmart and warehouse stores such as Costco.
 - Mom and pop retailers have been hit particularly hard by the recession. In addition to the fact that many have failed, the pipeline of new start-ups has virtually disappeared. Many of these businesses are reliant on home equity loans for their initial line of funding and crashed residential real estate values have eliminated this option for most. Meanwhile, small business lending has also dried up.
-

Looking Ahead

2010 Economic Points

- Consumer confidence will gradually improve in 2010, but this indicator will be irretrievably linked to the employment picture.
- Job losses will likely bottom out sometime during the first quarter of 2010. While the employment picture will stabilize and ultimately improve in 2010, job creation will likely be minimal—at best—through the remainder of the year.
- “Fear factor” will begin to dissipate as the economy shows more signs of stabilization. Personal savings rate will slow. Consumers will gradually begin to spend a little more, though frugality will still trump.
- Consumer spending will gradually improve throughout 2010. The National Retail Federation (NRF) predicts retail sales will increase by 2.5 percent in 2010.
- The availability of consumer credit will continue to decrease as credit card companies continue to try to limit their exposure.
- The credit picture is likely to worsen. Many retailers “on the edge” will face significant challenges in refinancing existing debt. The pace of bank failures will accelerate in 2010. Small business lending is likely to further tighten as more small local and regional banks fail.
- The first retail markets to recover will be those where residential activity resumes most quickly. With few exceptions, this will take place in what were once “slow but steady” growth areas, or within markets that have reasonably held their own throughout the recession. Former residential boom markets will be the last to feel relief.

2010 Transactional Activity

- “Deal paralysis” ends in 2010. Decision makers who postponed moves in 2009 will be back. The leasing market will still be weak from historic norms, but improved over 2009. Investment activity will increase steadily heading into the year.
- More distressed properties will be brought to the marketplace in 2010, but the commercial real estate foreclosure crisis will not play out as a tsunami that further crashes real estate values in one giant wave. The good news is that the correction will not be as sharp. The bad news is that it will not be short.
- Pricing for retail properties will take further hits, but there will be a clear separation between values for distressed assets and stabilized properties with strong occupancy. The strongest assets will likely see only minimal further price depreciation.
- Look for cap rates to move from the eights to the nines and to stay there for stabilized core assets with strong occupancy. Distressed properties will transact at ten caps and above.
- Note sales, short sales, the return of CMBS, and moves by REITs will help mitigate the issue of distressed commercial properties, but only somewhat, and likely just at the top end of the scale.

2010 Market Trends

- Retail vacancy will begin to show signs of stabilization in many markets, but there is still more pain to come. We are not done with contraction.
- Retail construction levels will remain at record lows
- Downward pressure will remain on lease rates. Urban storefront retail may begin to show signs of stabilization by year end.

- Rent relief, renegotiated leases and early renewal/“blend & extend” deals will still dominate leasing activity in 2010.
- We are already starting to see stabilization in the strongest shopping centers; top regional malls and the strongest neighborhood/community centers. This should come as no surprise. Market conditions are ripe for “flight to quality.” With rents down on average at least a third, top retail locations are where the few active space users are looking for deals.

2010 Retailer Trends

- Consumer spending will post modest gains, but the “New Frugality” is likely here for at least another five years. Necessity and off-price retailers will continue to fare best.
 - More retailers will be returning to expansion mode—most of them looking to take advantage of extremely favorable leasing conditions and motivated landlords. Department stores are shifting growth to their off-price or outlet concepts. Dollar stores will aggressively expand. More retailers will look to grab a piece of the grocery pie, but price deflation has shrunk the slices. Increased competition in an already cutthroat marketplace could mean grocery consolidation by end of the year.
 - In an otherwise flat marketplace, look to demographic shifts for growth. Ethnic-themed retailers will continue to expand and prosper in 2010 as America’s demographic make-up shifts. Drug stores will also benefit from the aging Baby Boomer generation.
 - Fast food and fast casual restaurants will continue to do best. Casual dining and upscale restaurants will continue to feel the pain, though 2010 will be a year of improvement. Restaurant growth will be franchise-driven, but tight lending could hamper this. More operators will lower their financial barriers to entry for new franchisees.
 - Mom and pop retailers will continue to be absent from the mix. Though home equity lines of credit will increasingly become an option in the coming years as residential values slowly begin to recover, this option as an initial line of funding will remain off the table for most over the next few years. Meanwhile, small business lending will remain problematic in 2010.
-

The “Not So Fast...” Recovery

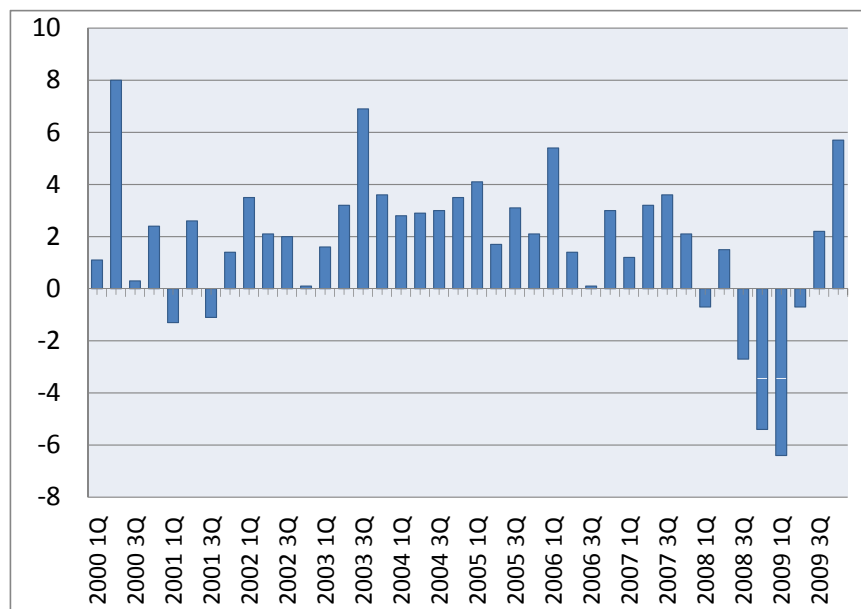
It is no secret that 2009 was one of the most challenging years for retailers in decades. As we entered 2009, the U.S. economy was on the verge of a depression. The panic that had marked the near-financial collapse of late 2008 had evolved into grim uncertainty as Americans came to terms with the depth of the economic damage that had been done. Virtually every type of asset class had been devalued as the world economy’s collective bubble burst. Wall Street alone lost over \$6.9 trillion in 2008. U.S. home values had nosedived. The U.S. economy had already lost 3.1 million jobs in 2008 and heading into 2009, it was apparent that this was just the beginning.

Of course, one year later, we know the rest of the story. Massive government intervention helped to keep the economy from veering into depression. Bailouts, TARP, TALF, “Cash-for-Clunkers,” and a bevy of other deficit-fueled stimulus programs helped to prop up an economy on the verge of collapse (albeit at an astounding cost that comes with its own set of economic consequences). Meanwhile, Wall Street improved—the Dow recorded a steep annual gain of 18.8 percent and ended up clos-

ing 2009 about 26 percent down from its 2007 highs. NASDAQ improved by nearly 44 percent while the S&P 500 logged gains of over 23 percent. Corporate profitability improved over the course of the year (even Ford, just months out of bankruptcy, reported a \$1 billion profit at year-end). We even began to see some signs of stabilization in home values. According to Zillow.com, U.S. home values fell by an estimated \$500 billion in 2009, compared to losses of \$3.6 trillion in 2008.

By third quarter 2009, the U.S. economy had recorded GDP growth of 2.2 percent (this number was initially estimated at 3.5 percent and then later revised downward twice). As this report went to press, the U.S. Bureau of Economic Analysis (BEA) had just released preliminary fourth quarter 2009 GDP numbers that indicated a growth rate of 5.9 percent—the highest growth rate since 2003. So clearly, this downturn is over, right? Not so fast... while “The Great Recession” may technically be over in terms of the standard economic measurements, recovery is an entirely different thing. Good economic news aside, we are entering into what will be, plain and simple, a “not so fast” recovery.

Gross Domestic Product



Advance Estimate 4th Qtr 2009 GDP: 5.7%

BEA/Latest Data Available: 4th Qtr 2010

Dude, Where's My Job?

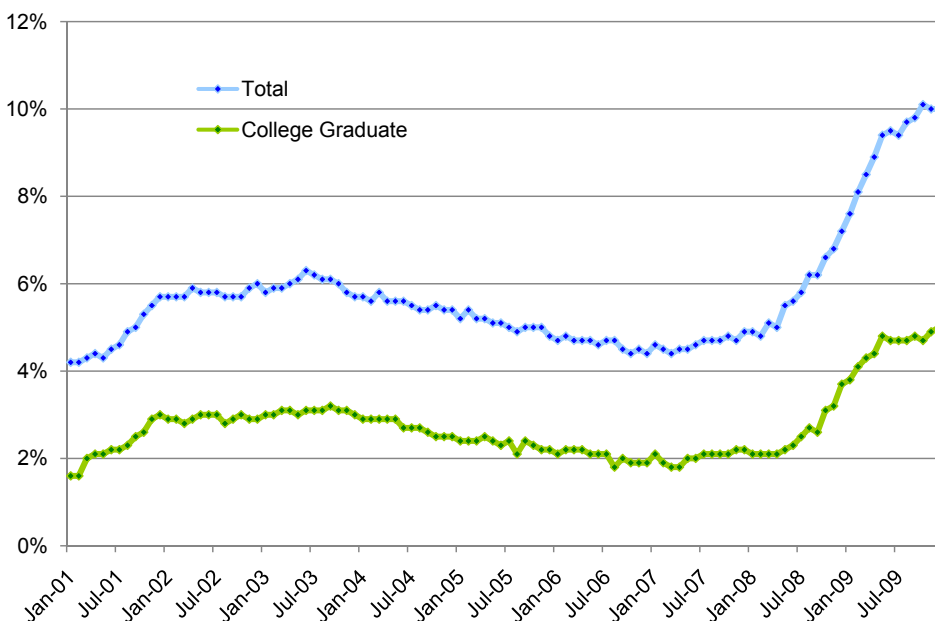
Despite the encouraging economic news that marked the latter half of 2009, there has been little in the way of good news on the job front. The U.S. lost more than four million jobs in 2009, adding to the 3.1 million jobs lost in 2008. And though the hemorrhaging has slowed considerably, it is not over. In fact, as we entered 2010, the most recent announcements of job cuts have come from retailers.

In January, Walmart announced that they would be cutting approximately 11,200 jobs at Sam's Club, or roughly 10 percent of Sam's Club staffers, as well as 300 HQ jobs. If there is a bright side to this announcement, it is that about 10,000 of these jobs are part-time positions that offer in-store samples and demonstrations. Sam's Club will be outsourcing this to a third-party provider who may be picking up many of these employees. But other jobs being cut are likely gone for good. Home Depot is slashing 1,000 positions—100 at three underperforming stores it is closing and another 900 corporate jobs. Macy's also recently announced plans to cut up to 1,500 jobs at the store level. Meanwhile, Borders also announced plans to cut about 10 percent of its corporate staff... or about 124 employees.

These losses, as painful as they are, remain miniscule compared to the job cuts that have taken place over the past 24 months. Though the pace has slowed considerably, the U.S. economy still lost 85,000 jobs in December 2009 and will close January 2010 in the red as well. The national unemployment rate currently stands in the ten percent range (preliminary January figures did bring the good news of the first decline in well over a year—to 9.7 percent). However, though it is not an officially tracked statistic, the under-employment rate—which includes the jobless, those who have given up looking for work and those who have taken part-time employment—could be as high as 18 percent according to some analysts. Most of the reputable economic forecasts we have seen are currently predicting that a return to unemployment rates below the seven percent mark will likely take until around 2016.

All of this being said, there is some good news on the national front. Job losses are expected to stabilize by the end of first quarter 2010. The 2010 Census is expected to create hundreds of thousands of temporary positions, with the bulk of the hiring beginning in late February. Meanwhile, a number of recent surveys have found that most employers plan to increase

Unemployment Rate





Further major job cuts by the State of California are likely inevitable, but the question of how many, how soon and over what timeline remain question marks. The best potential outcome for the Sacramento region's economy would be that cuts are either minimal, staggered over a timeline of the next few years or postponed until 2011 (by which time private sector hiring would hopefully be strong enough to mitigate some of these losses).

hiring in the coming year. For example, a late-January survey by global professional services firm Towers Watson found that 92 percent of the firms they polled plan to hire in 2010

At the national level, expect job growth to return by the second quarter of this year and to gradually accelerate over the remainder of 2010. Levels of job creation, however, will be tepid at best. This is crucial to note because in terms of consumer sentiment, the employment picture is currently the most critical factor impacting the economy. Expect gradually improving consumer confidence and spending levels over the course of 2010 as the nation's job outlook first stabilizes and then begins to show modest improvement.

The National Retail Federation forecasts consumer spending to increase by 2.5 percent in 2010. Consumers will remain in "frugal mode" for at least the next few years. So long as unemployment is above the eight percent range (and we expect this to be the case for at least the next three to four years), consumer spending will remain restrained. However, as economic news improves, look for the "fear factor" that has governed spending decisions to gradually dissipate. 2010 will be a year in which shoppers begin to gradually return to the marketplace. But make no mistake about it, spending decisions will still be driven by the new frugality.

Unfortunately, the employment outlook is much more problematic in the Sacramento region. At the national level, 2010 will see stabilization over the first half of the year, followed by modest employment growth over the final half of the year. These trends will be delayed in Sacramento.

The latest available employment data for the Sacramento region (December 2009), indicates an unemployment rate of 12.3 percent. Worse yet, this number is forecast to increase going forward. A January forecast from California State University Sacramento's Business Review reported that local unemployment is likely to hit the 13.5 percent mark by the end of first quarter 2010. Our best-case forecast for the region is that the local unemployment picture stabilizes by year-end with private sector hiring beginning to account for modest job growth in 2011. That being said, there is a big "if" in this forecast... one that could potentially further

delay local recovery by an additional year or more.

Could State Layoffs Further Delay Local Recovery?

There is a black cloud hanging over the Sacramento economy—one that could result in significantly higher unemployment levels and that could possibly push back any commercial real estate recovery for one or even two more years. That black cloud is the California state budget crisis.

With the 2010 budget shortfall expected to hit the \$20 billion mark and with Standard & Poor recently downgrading California's bond rating to A-, we expect that the State government will finally be forced to overcome their squabbling and react to this crisis. But that will mean making hard choices—ones that will disproportionately impact the local Sacramento economy.

Massive State of California layoffs could potentially result in an upward trend in unemployment that could take us through the end of 2010 or beyond. Republican gubernatorial candidate Meg Whitman has already promised to cut 40,000 government jobs if elected. Assuming she wins the election, and is able to get her plan through a legislature not known for compromise, and then is able to withstand the challenges that will almost certainly be poised by the powerful and well-funded State employees unions, we would expect this to result in the loss of about 20,000 lost Sacramento jobs. That is a big "if" and there are plenty of other plans floating around the Capitol.

We see further State of California job cuts as being inevitable. How many, how soon and over what timeline are the big question marks. And you can certainly count on the fact that the various powerful State Employee unions will have plenty to say about this issue as well. Of course, because this will be a heavily politicized issue, it makes it extremely hard to predict what will happen. We have spoken to multiple sources within various State Agencies who have told us to expect anywhere from just a few hundred to 10,000 job cuts in 2010. The fact is that while we do expect major cuts to take place this year, we would also not be sur-

prised to see the process derailed or postponed by the usual political bickering.

Probably the best potential outcome for the Sacramento economy would be that any major State of California job cuts take place either on a staggered timeline over the next few years, or that they are at least postponed until 2011. The hope in postponing the cuts is that private sector hiring activity will have picked up by then enough to help offset these job losses. Unfortunately, we wouldn't count on either of these happening as the State's budget issues are severe and need to be dealt with immediately.

Shift to Thrift Behind Retailer Expansion

With consumers pinched, it is not hard to understand the shift to thrift that has taken place with the U.S. consumer. If you want to know which retailers are doing well, the story is the same across all segments of the industry. Retailers that focus on necessities and offer low price-points are faring best. Luxury retailers, department stores, high-end apparel and upscale restaurants are doing the worst. Grocery stores, particularly those with competitive price points, have benefited while restaurants have suffered. High end beauty salons have struggled, while budget providers are in growth mode.

The consumer's shift to thrift is what is driving real estate strategy for many players. For example, Nordstrom, which continues to record negative same-store sales from its department stores, is shifting its expansion focus to Nordstrom Rack stores. The off-price Rack concept continues to rack up positive same-store comps. TJ Maxx and Ross stores are also on an expansion spree—their numbers are also up. Meanwhile, dollar stores and thrift stores are exploding. Dollar General alone is planning on 600 new stores by the end of this year.

There are still some retailers growing in this economy, though the industry on the whole remains in contraction mode. In some cases, this is less due to the recession (which obviously did not help) and more due to evolving technology trends. Music stores, as we once knew them, no longer exist outside of a handful of independents. Video rental stores are the

next to go. Industry leader Blockbuster has increasingly been making moves to prepare itself for a post-storefront world. The chain is expanding into the kiosk video rental business and recently completed a deal with TiVo to provide streaming video rentals through the TiVo console. But the future is bleak for video rental storefronts.

If there is some good news, it is that the rate at which retailers were closing their stores actually has slowed in 2009 compared to 2008. The bad news is that the retail industry remains firmly in contraction mode and we expect that there will be more retail closures in early 2010.

Dollar Dazed

Nowhere in the retail world are we seeing more growth than from the dollar store sector. Between different concepts, as many as 1,500 new dollar stores may be opening in the United States over the next year. Dollar General alone plans to open 600 new stores in 2010. It also plans on remodeling or relocating up to 500 stores in the coming year. Keep in mind that the Goodlettsville, Tennessee-based chain added 500 new stores in 2009. The chain has no presence on the West Coast and less than a handful of stores in New England—both areas of the U.S. where we expect to see a significant push for market share over the next couple of years. Dollar General's ideal format is about 9,000 square feet.

Family Dollar stores typically range between 7,500 and 9,500 square feet. The chain is increasingly looking for more suburban sites, thanks to improving sales from middle-class demographics. The chain opened 43 stores in just the final quarter of last year and roughly 130 new units over the course of 2009. Our sources tell us that the Matthews, North Carolina-based chain will be boosting growth levels in 2010 though full details were not available as this report went to press. Still, we would not be surprised to see as many as 200 new stores in the months to come.

Look for dollar store chains to emerge as the strongest growth sector in retail (at least in terms of unit counts) over the coming year. That being said, one of the most critical ele-



Dollar Tree plans on at least 300 new stores in 2010. This total includes both new stores as well as a number of planned relocations. All told, we expect as many as 1,500 new dollar stores to open in the coming year with nearly every U.S. dollar store operator in aggressive growth mode.

ments dollar stores will have to address in the coming years will be the issue of life after the recession. Consumers are fickle and the current “thrift is in” mentality will eventually transform into something else as the economy slowly improves. In the past, dollar stores have struggled to maintain a client base with middle income consumers. Selection of goods, unattractive interiors and locations at less than optimal shopping centers have all played a role in the past. Most are cognizant of the fact and are trying to get ahead of the game.

One trend we are seeing that could have strong implications (both for the success of dollar store chains and for challenges to the grocery sector) is the continued addition of food items by many chains. Many chains are actively remodeling their stores, not just to improve their ambiance (though this is a factor as well), but also in order to add cooler space and expand grocery sections. Dollar store same-store figures are already up, but if these chains can further tap into staples-driven sales we expect them to improve further. The only question is whether the marketplace may become too cluttered with too many players trying to grab market share.

Target Ramping Up Grocery Rollout

While Target will be slowing its new store expansion rate in 2010 (right now there are 12 new stores in the works, though this number may increase), it is significantly ramping up its grocery rollout efforts. The chain recently announced plans to invest roughly \$1 billion over the coming year in renovating 340 stores. At the center of these renovations will be significantly expanded grocery sections. The chain added over 100 of these in 2009 and many analysts credit this move with playing a role in boosting sales growth by the end of the year. Target also has announced that it will be exploring a smaller store concept that will allow it to more freely capitalize on urban growth opportunities. The chain is not working with a cookie-cutter format yet, but we understand that footprints as low as 25,000 square feet may be an option. Ultimately, however, we see this new-found flexibility likely to be driven by the deals that are available for prime second-generation space. Expect Target to be opportunistic in expanding using this format, so don't

be surprised if we see a number of new urban Target stores that are not currently in stated growth plans to sprout up in the coming year. But Target is not the only retailer that is tweaking footprints in order to take advantage of some of the opportunities that currently exist in vacant second-generation space.

Drug Stores to Enter Grocery Fray?

Dollar stores are not the only retailers looking to grab a piece of the grocery pie. In January, Walgreens dropped a bombshell with the announcement that it was going to explore the sale of fresh foods and prepared meals. Most Walgreens stores already feature a limited grocery assortment, but this marks the first time that the drugstore chain has taken on traditional grocers directly. Among the items Walgreens is reportedly going to offer are salads, ready-to-bake pizzas, fresh cut fruits and sandwiches. The chain has already been beefing up its beer and wine offerings. It should come as no surprise that these moves follow Walgreen's hiring of a former executive with Tesco's Fresh & Easy who helped launch the brand in the U.S. just a few years ago.

Walgreens is reportedly planning on testing the concept in a few key markets over the first half of 2010, but if the plan succeeds, the chain could be rolling out expanded food sections to all of its 7,100+ locations in all 50 states by next year. This is a potential game changer, not just for the drug store sector, but for the highly competitive grocery sector. Should Walgreen's experiment succeed, and we think it likely will, expect intense pressure on both CVS and Rite-Aid to duplicate the success. In the meantime, for grocers it means that another player will be entering a marketplace where price competition is already brutal.

More Players Grabbing for Shrinking Piece of Grocery Pie

If you have noticed a theme so far, you are not mistaken. With consumers focused on necessity items, more retailers have been looking to get a piece of the grocery pie. Dollar stores and drug stores are not the only ones beefing up their grocery selections. Convenience store seg-



Target's newest store in the Sacramento region is this 137,000 square foot full service location at 4625 2nd Street in Davis. As is the case with nearly all new Target stores, this location has a full grocery department. The Minneapolis-based chain will increasingly shift its focus away from new store growth in 2010 and towards renovating existing stores and expanding grocery departments.

ment leader 7-Eleven also has plans to increase its food offerings. And it's no secret that category killer Target has been aggressively adding grocery components to its stores.

There is only one problem here and that is that the grocery pie is actually shrinking. Of the largest publicly-traded national grocery chains, only Kroger has recorded positive same-store sales, but even those numbers have faltered as of late. Though they still remain in positive territory (1.3% in the third quarter), the impacts of extreme price competition are taking their toll. Kroger is selling plenty of items and has seen continued heavy traffic from shoppers. Tonnage—the number of items sold—was actually up by a whopping 8.5% during the third quarter and Kroger claims it increased market share during that time. That being said, price competition is hammering profit margins for nearly every grocery store chain. In early December, Kroger cut guidance for the year sending shares of its own stock (and most other publicly traded grocers) downward. The chain also cut \$1 billion from its capital expenditures budget, leaving less than \$2 billion in the pipeline over the next three years for new stores or store remodels.

Price competition from Walmart, warehouse stores and discounters has continued to be an issue for traditional grocery players. Most of these players are not unionized—a factor that puts traditional grocery chains at a disadvantage. Meanwhile, the intrusion into grocery sales of more non-traditional players will likely only heighten grocery price wars in 2010. This may be good news for cash-strapped consumers, but it will create more challenges for grocery chains. We expect industry consolidation to begin to occur by the end of the year. Expect weaker regional grocery chains to feel the pinch worst. Also expect merger and acquisition activity to pick up by the year's end.

7-Eleven on Expansion Blitz

7-Eleven is the clear national leader in terms of store count (over 7,800 stores in North America alone), the Dallas, Texas-based chain only operates in 20 states. Outside of Florida, the chain has no presence in the Southeast U.S. or most Midwestern states. The chain has plans to add as many as 750 stores nationally

in 2010. At least 50 of these stores will be in Northern California. 7-Eleven stores typically use between 2,400 and 3,000 square feet.

Unlike most other convenience store operators, 7-Eleven stores do not necessarily feature gas station components. This allows for 7-Eleven to move quickly into second-generation space, where it is hoping to capitalize on favorable rents to rapidly boost market share. The chain is looking for both urban and suburban locations and will consider inline space at shopping centers as well as freestanding sites.

This should come as great news for Sacramento's beleaguered strip mall landlords, where 7-Eleven can serve a vital role as a "mini anchor" tenant. As of the close of 2009, strip mall vacancy in the region stood at 16.3 percent. Just two years ago this number stood at 9.2 percent. Strip malls have been the hardest hit of all local shopping center types. Certainly overbuilding in some key submarkets at the peak of the last economic cycle is one factor in this. The disappearance of mom-and-pop retailers is the other.

Disappearance of the Mom-and-Pops Not Going to be Short-Lived

The market for inline retail space continues to face significant challenges thanks to the disappearance of mom-and-pop retailers. Retail or restaurant start-ups are always a tricky business, with a significant failure rate even in good economic times. Unfortunately, in the face of the worst economic downturn since the Great Depression, the pool of retail startups has simply disappeared. We recently conducted an informal survey of brokers and found some disturbing results in regards to this trend. Though this is anecdotal, we found a consensus among active brokers that at the peak of the last economic cycle (2005/2006), that for every small retailer that went out of business, most brokers estimated that there were as many as three new start-ups ready to take their place. This ratio has shifted dramatically. Our poll found the consensus among brokers was that now for every five retailers that go out of business that they are seeing an average of just one start-up ready to take their place.

While existing mom-and-pop retail has been battered by the economy, lack of funding is further eroding the pool of potential start-ups. And though we see signs of a slowly improving economy that will eventually slow the business failure rate for existing retailers, the signs are much more ominous when it comes to funding for start-ups. The initial line of funding for most mom-and-pop retailers generally comes from one of two sources; home equity or small business loans.

Unfortunately, thanks to the crash of the residential market, home equity lines of credit are simply off the table for most. The hardest hit U.S. housing markets were those that had been boom markets before the market turned. Sacramento—previously one of the nation's hottest housing markets—was hit particularly hard. The most recent (December 2009) data from local residential tracking firm, A.L. Appraisal, indicates that Sacramento home values are down 50.4 percent from their peak in August 2005. At the peak, the median price for a single family home in Sacramento stood above \$392,000. Though this number dropped as low as \$167,000 by February 2009, it now still only stands at \$187,500.

We expect that it will likely take the better part of a decade to see local home values reach the levels recorded at the last peak. Though the expansion of the first-time homebuyer credit comes as good news and has helped to drive sales activity, the fact is that we are not done with the residential foreclosure crisis. The last of the adjustable rate resets should be occurring in 2010, but the weak economy and high unemployment has helped to drive yet more waves of foreclosures from homebuyers who never gambled with risky loans, but who simply lost their jobs. Residential foreclosures will continue to drag pricing downward for at least the next three years, if not longer.

The fact is that very few entrepreneurs in the Sacramento region will be able to utilize home equity lines of credit to fund retail start-ups over at least the next five years. Unfortunately, the news is also bad on the small business loan front. The ongoing commercial real estate foreclosure crisis is wreaking havoc on small and regional banks.

140 U.S. banks failed in 2009. Over the next

few years, we expect the number of bank failures to top the 1,000 mark. These bank failures will disproportionately impact small and regional banks. And here is the bad news; most of these lenders specialized in two things; commercial real estate loans and small business loans. It still remains to be seen how this will play out, but the signs are ominous. As more banks fail there will be fewer sources of funding for start-ups and those financial institutions still standing will likely be in survival mode—so expect tighter loan criteria. Ultimately, we see the next five years as a period in which very few entrepreneurs will be able to borrow money for retail start-ups.

The rapid acceleration of U.S. bank failures holds a few other potentially negative implications for the marketplace. Most of the banks we expect to fail are small local or regional players. This will not have much of an impact on major retailers with large \$50 million+ credit facilities through major financial institutions. But it could be potentially devastating to the types of small business lending that (along with home equity loans) have traditionally been the initial line of funding for mom-and-pop retailers.

Meanwhile, concerns remain in the marketplace over possible Obama administration moves to limit the size of banks. It remains to be seen how this will play out, but there is the potential that this could impact the major financial institutions in a way that lessens credit availability for large retailers. The bad news is that the credit picture remains highly volatile and access to credit will remain one of the primary determinants behind retail failures in the year to come.

Looking Ahead

As daunting as the challenges are facing the Sacramento economy in terms of employment, there is some cause for optimism in the coming year. The good news is that we will continue to see increased deal activity in 2010. Discounters, dollar stores and off-price apparel retailers will continue to lead the charge. Franchise-driven quick service restaurant chains will also be active. Meanwhile, we will continue to see retailers who postponed space moves in 2009 returning to the marketplace.



This Sam's Club in the Natomas submarket was one of ten underperforming locations recently shut down by Sam's parent, Walmart. The return of this building alone will add 137,000 square feet of vacancy to the market by the close of the first quarter.

But we remain in the midst of a retail correction and it is not over yet. Though we will see more retailers in expansion mode over the coming year, the occupancy gains created by these players will not keep pace with continued losses from most retail sectors. A sharply declining construction pipeline will alleviate further upward pressure on vacancy rates from the supply side of the equation. But don't expect demand levels to tick up enough to support retail recovery in the Sacramento region in 2010. Assuming Sacramento's job picture (and overall economy) does not substantially worsen over the course of 2010, our best-case forecast is that the market shows signs of stabilization by year-end. The market may be poised to begin retail recovery next year, but make no mistake, there will be no market bounce... when it does come, recovery will be slow.

The Next Round of Closures

Though the 2009 holiday shopping season was an improvement over 2008, it still ranks as one of the weakest holiday sales seasons in decades. This year's modest improvement in holiday sales will not be enough to save some retailers that were "on the edge."

The first quarter of the year is traditionally the time when retailers close underperforming stores and this year will certainly be no different. Macy's has announced that it would be closing five underperforming stores. Foot Locker plans on shuttering at least 117 stores as it seeks to internally reorganize. At the national level, the challenges faced to video rental stores alone could easily translate into over 13 million square feet of additional vacancy in the marketplace over the next two years.

Locally, the biggest hit that we can expect during the first quarter will be the return of the Sam's Club store in Natomas to the marketplace. In January, Sam's parent Walmart announced the closure of ten Sam's stores across the U.S., including this one. The bad news is that this alone will boost local vacancy by 137,000 square feet. If there is good news, it is that this number will be mitigated by a number of new big box tenants taking occupancy of space from deals done at the close of last year.

But there are other closures that will play out locally. As this report went to press, Hollywood Video owner Movie Gallery, Inc. had just filed for Chapter 11 protection. Current plans call for 760 stores to shuttered, however, under one possible restructuring plan that had previously been proposed the chain would close 1,800 stores, or its roughly two thirds of its 2,700 units. Unfortunately, we suspect that before it is over the chain may end up pursuing the much more aggressive store closure plan that had initially been floated. Hollywood Video stores typically average about 4,000 square feet in size. The chain has plans to close 11 stores in the Sacramento region in virtually every submarket. These closures alone will add about 50,000 square feet of vacancy to our totals by the end of the first quarter. Blockbuster Video, meanwhile, has plans to close as many as 960 stores nationally in the coming year. We expect to see a number of Sacramento region stores to be among those that go dark.

The bad news is that there will be more retail failures, bankruptcies and store closures ahead. The good news is that against this challenging backdrop, consumer sentiment and spending will be gradually improving over the course of the year. We expect that the lion's share of retail failures will be behind us by midyear.



This Hollywood Video store at Citrus Height's Copperwood Square shopping center is one of 11 local stores that is being shut down by the bankrupt chain.

Retailer Expansion Notes

- Rent-to-own furniture chain Aaron's may be opening as many as 150 new stores this year. The Atlanta, Georgia-based chain has seen its same-store sales on an upward trajectory as cash-strapped consumers have increasingly looked to alternative methods of furnishing their homes. New franchisees have exploded as a source of growth for the chain—our sources tell us that over 80 new franchise agreements have been signed in 2009 alone. Growth is planned for most major U.S. markets, though our sources tell us that the Carolinas, Midwest and West Coast will see the lion's share of new store development. Aaron's typically prefers pad sites in regional or power centers. The typical footprint is about 9,000 square feet.
- Aeropostale may be rolling out as many as 25 of its namesake stores in 2010. The New York City-based chain tested out a new children's concept, PS Kids stores, in pop up locations in 2009 and was obviously pleased with the results. They plan to roll out as many as 30 permanent locations for PS Kids in 2010.
- Alco-Duckwall is looking to open as many as 20 new stores in the coming year.
- Aldi plans on as many as 75 new stores in 2010.
- American Eagle's aerie concept initially had plans for as many as 60 new stores in 2010, however, a strong late-year performance could mean that this number increases. The lingerie and sleepwear concept currently has about 135 stores throughout North America, but eventually would like to reach the 500-unit mark. It's preferred format is between 2,200 and 2,800 square feet, with mall and lifestyle centers still its preferred locale.
- In November, All Saints—an edgy British concept—opened its first U.S. store in Los Angeles. The chain also has plans for Miami and New York City, where it will be opening a 13,600 square foot flagship location.
- American Eagle also tested a kids concept, 77kids, in 2009 that they are ready to take permanent. Look for 77kids to start landing permanent storefronts in both malls and lifestyle centers in 2010.
- Anna's Linens plans at least 30 new stores in 2010, tripling its expansion pace from last year. The roughly 260-store chain ultimately wants to hit the 1,000 unit mark.
- Apple plans as many as 25 new U.S. stores in the coming year.
- Ashley Furniture is testing a new prototype in Las Vegas that will use 5,000 square feet or less. The chain expects to open as many as 300 of these stores in 2010 and at least another 200 in 2011.
- Bass Pro Shops plans to open as many as eight new stores annually over the next two years. Most will be the chain's Bass Pro Outdoor World concept, which takes between 140,000 and 150,000 square feet. Planned openings include; Augusta (GA), Bakersfield, Buffalo, Decatur (AL), Memphis and Montreal.
- Bealls Outlets plans on as many as 40 new stores annually for both this year and next. The chain is looking to expand in Sunbelt states from California to Florida. Beall's uses between 20,000 and 25,000 square feet.
- Bebe has plans for at least six new stores in 2010.
- Bed Bath & Beyond (BB&B) will continue its rollout of its buybuy Baby format. While the chain is cooling growth of its namesake concept, buybuy Baby will open as many as 12 freestanding locations in 2010. The buybuy Baby footprint ranges from 28,000 to 60,000 square feet. The Midwest and Southern U.S. is where growth will be concentrated for now. BB&B also plans on expanding its buybuy Baby and Christmas Tree Store concepts with store-within-a-store locations throughout the year, though full details were not available as this report went to press.
- Best Buy will be opening about 22 of its namesake big box stores in 2010. The chain will also be amping up expansion plans for its cellular store concept, Best Buy Mobile. The chain opened roughly 40 stores in 2009 and has a long-term goal of achieving a 15% market share in the lucrative cellular phone/wireless accessories market (compared to its current 3% to 4%). Best Buy Mobile stores take about 3,000 square feet—mall sites and strong urban storefronts are the preferred locations.
- BJ's Wholesale Club plans to add as many as ten stores annually for each of the next three years. The chain continues to pursue infill growth within its homebase of the Northeastern U.S.
- Boost Mobile plans on as many as 50 new stores in the U.S. over the next year.
- The Buckle may have started in Kearney, Nebraska in 1948 as a men's apparel store, but has since slowly evolved to a leading tween apparel stop for both boys and girls. The company currently operates about 400 stores in 41 states and has long-term plans to eventually top the 550 mark. In the near-term, however, its growth plans are fairly conservative. Next year it plans to open about 20 new stores while remodeling another 20 sites. The Buckle has a 5,000 square foot sweet spot and will look at both mall and the right non-mall sites.
- Burlington Coat Factory is expected to add as many as 30 new stores in 2010. Burlington stores take as much as 80,000 square feet of space.
- Atlanta, Georgia-based Carter's also continues to grow at a measured pace. It currently operates about 270 stores with plans to add as many as 25 stores in 2010. It's preferred footprint is in the 4,000 to 5,000 square foot range.
- Casual Male Retail Group (operator of Casual Male XL and Rochester Big & Tall concepts) has struggled with same-store sales declines in the negative 10 percent range for the past three quarters, but remains bullish on their new hybrid concept, Destination XL Superstores. The chain has been aggressively cutting costs and positioning itself for a rebound in 2010—with its new hybrid store format at the center of its strategy. The typical footprints of Rochester and Casual Male XL stores have generally come in at 9,000 square feet or less. Destination XL Superstores, by comparison, start at about 11,000 square feet. The chain had

converted five Casual Male locations to the new hybrid format during the second quarter. By the close of the third quarter these hybrid locations were reporting average store volume improving by 50 percent as well as a higher rate of profitability than Casual Male's standalone locations. Look for between five and ten new Destination XL stores to be opened in 2010. The concept is still officially in the test phase and Casual Male Retail Group is on the record as stating that a full rollout or conversion to the new hybrid format could take as long as five years.

- Charlotte Russe will open at least 11 new stores in 2010.
- Chico's plans on as many as 40 new stores in 2010 and will be aggressively growing its lingerie/sleepwear concept, Soma. Chico's is tweaking its site selection and will increasingly look to lifestyle centers, as opposed to regional malls, for sites. Meanwhile, Chico's concept White House/Black Market will increasingly shift away from lifestyle centers and towards malls with upscale department store anchors. Chico's has aggressively sought to renegotiate rents with its landlords and has reportedly secured more than \$8 million in rental relief through 2012. The typical Chico's store takes about 3,300 square feet.
- Christopher & Banks is exploring a dual-concept footprint. During the third quarter it opened its first Christopher & Banks/CJ Banks store at The Shops at Montage in Moosic, Pennsylvania. The combination concept boosts Banks' usual footprint from 3,600 to 5,000 square feet. The chain is still working to cut expenses and boost profitability, so expansion will be minimal—our sources tell us five stores at most—in 2010.
- Citi Trends operated 403 stores at the end of November, having opened 11 stores in just that month alone. Citi Trends continues to rack up positive same-store comparables (positive growth of 6.3 percent during the third quarter), thanks to its focus on off-price urban apparel. Citi Trends plans on boosting its store count by as much as 15 percent in 2010—or roughly 60 new locations. California, Detroit, Kansas City, South Florida and Texas are all in their expansion plans. Citi Trends prefers sites with a strong African-American demographic and likes the deals it is seeing on second generation space in shopping centers. Citi Trends stores typically run between 11,000 and 15,000 square feet.
- Claire's looks to open new stores again in 2010, after closing over 25 stores in the past year. The teen accessory chain plans on opening at least 17 new locations in the next year, however, it also continues to seek rent relief and is reviewing roughly 500 leases coming up for renewal over the next year. We expect a number of these deals will not be renewed and it is not likely that the chain will see net growth in terms of unit counts in the coming year. Typical footprint ranges from 800 to 1,300 square feet in either mall or off-mall sites.
- Coach plans as many as 20 stores throughout North America in 2010.
- Costco has cut planned new store openings for 2010 to 14 stores, but is actively seeking sites for 2011. Look for Costco to significantly increase its growth rate next year. The chain also plans to expand its Costco Business store concept in 2010 and is experimenting with adding car washes to their gas station pad sites.
- Cotton On is an Australian retail chain that plans to grow by as many as 400 units over the next five years.
- It should come as no surprise that the move towards thrift retail is dominating every specter of the retail world. The same holds true for children's apparel. Gymboree currently operates about 925 stores throughout the U.S. and Canada under the Gymboree, Janie & Jack and Crazy 8 brands. Crazy 8 is the latest concept to join the mix—this concept focuses on lower-priced apparel and is where the San Francisco, California-based chain has pinned most expansion plans for the coming year. As this report went to press, Crazy 8 had about 50 stores in total. Plans call for as many as 60 openings in 2010. The stores typically take 2,000 to 2,500 square feet. This chain will look at both mall and off-mall locations.
- David's Bridal is planning on opening as many as 15 new stores in the coming year. The chain prefers either strong streetfront locations or malls.
- Deal\$/Dollar Tree plans as many as 235 new stores in 2010.
- dELiA's has plans to open 12 new stores in 2010—all of which will be at mall sites. Preferred footprint is about 3,800 square feet.
- Destination Maternity may be opening as many as 17 new stores in 2010.
- Dick's Sporting Goods continues to expand, both under the Dick's moniker, as well as through its Golf Galaxy concept. The Pittsburgh, Pennsylvania-based chain currently operates about 410 Dick's stores and 89 Golf Galaxy sites in 36 predominately East Coast states. In 2010 it has plans for 24 new Dick's stores, including six new stores in the Pacific Northwest. The chain has a long-term goal of adding about 390 stores over the next few years. Most of this growth—about 230 stores—will be in the Western U.S. Golf Galaxy has plans for five new stores after putting expansion on the shelf in 2009. Its preferred footprints are 50,000 square feet or 80,000 square feet.
- The Walt Disney Company has plans to renovate and expand its roughly 340 existing Disney Store locations, adding interactive components, participation features and movie theaters to existing stores. The company is considering rebranding the concept as Imagination Park. The first U.S. unveiling of this new concept will come in May 2010 at stores in Southern California and Long Island, New York. The chain recently inked a deal for a flagship store in Manhattan's Times Square that will reportedly be part of the launch as well.
- Dots plans on up to 25 new stores in 2010 as well as a total of 10 to 15 remodels. The 41-unit chain uses between 4,000 and 6,000 square feet and hopes to eventually reach the 1,000 unit level. The East Coast, Colorado and Midwest will be its primary focus of growth over the coming year.

- Dressbarn plans for at least 15 new Dressbarn and as many as 35 maurices stores in the coming year.
- DSW plans on as many as 10 new stores in 2010. The shoe chain uses roughly 16,000 square feet of space.
- Famous Labels plans up to 30 stores annually through both 2010 and 2011. The Las Vegas-based off-price retailer currently has 35 stores in 20 states. It has no cookie-cutter format and prefers deals in second-generation space at outlet centers, regional malls and grocery-anchored properties. Famous Labels can use between 15,000 and 35,000 square feet.
- Fantastic Sam's plans to double its current size (roughly 1,340 locations) over the next five to seven years. It has plans for as many as 75 new stores in 2010 and possibly more than 100 openings in 2011. Fantastic Sam's typically use between 1,000 and 1,400 square feet. The Memphis, Tennessee-based chain is hoping to grow its franchise presence in a number of markets in 2010. Besides expansion plans for Los Angeles and New York, it is hoping to double its unit count in the Atlanta, Dallas/Fort Worth and Houston markets over the next 24 months.
- Tween-oriented value apparel retailer, Five Below, may be one of the chains to watch in the coming year. The chain recently signed a lease for its 100th store. The company currently operates in nine eastern states from Virginia to New Hampshire. It plans to add as many as 100 new stores over the next two years, with a minimum of 40 in 2010. In the Pittsburgh market alone, it plans to open as many as 15 additional stores. The Carolinas, New England and New York will also be focal points for growth. This chain prefers to be in malls or regional or lifestyle centers anchored by national box tenants.
- Thanks to the lure of cheap rents, Urban Outfitters' women's apparel concept Free People has increased its growth plans for 2010. The Philadelphia, Pennsylvania-based chain is looking to open 15 stores in the coming year—up from the ten locations it had originally planned. Free People stores typically take between 2,500 and 3,000 square feet of space. The chain looks at both mall and off-mall sites, including urban storefronts.
- Video game sector leader GameStop now counts over 6,300 stores worldwide and will close the year with about 200 new U.S. locations (and about 400 new stores worldwide). The chain had previously averaged about 300 new U.S. stores per year, but don't look for the Grapevine, Texas-based chain to top that in 2010. The heavily franchise-driven video game store sector is likely to hit some speed bumps in 2010. Worse yet, the long-term outlook for this sector remains cloudy as questions remain as to whether direct downloads and other tech advances will eventually do to the video game business what music downloads did to record store chains. Still, look for at least 150 new stores from Gamestop.
- Genesco is looking to open as many as 70 new stores across its multiple brands (Journeys, Journeys Kidz, Johnston & Murphy, Lids, Shi by Journeys, Sports Fanatic and Underground Station)
- Austin, Texas-based Golfsmith International Holdings plans on opening four new stores in 2010. Golfsmith is taking a 28,000 square foot former Circuit City space in the upscale Kansas City suburb of Overland Park, Kansas. They also plan a Naples, Florida location in the fall and two additional sites to be announced shortly.
- After adding about 150 stores in 2009, Great Clips' growth plans for 2010 call for as many as 100 new stores. The Minneapolis, Minnesota-based chain prefers 900 to 1,200 square foot inline sites in grocery anchored shopping centers, enclosed malls or regional/power centers. They particularly like co-tenancy opportunities with Wal-Mart or Target, but will not rule out stronger unanchored strip centers either. Tops on Great Clips list of expansion markets in 2010 are Massachusetts, New York and Texas.
- Guess plans on rolling out a new accessory store concept in 2010 that could see as many as 60 new stores.
- Gymboree is planning on opening a minimum of 50 Crazy 8 stores in the coming year.
- Regional player Hair Cuttery plans to open as many as 26 new stores in the eastern U.S. in 2010. The typical footprint for this 760-unit chain is 1,200 square feet.
- H&M currently operates about 17,500 stores in 28 countries. The Toronto, Ontario-based retailer has about 250 stores in the U.S., but is aggressively expanding. With rents in prime downtown shopping districts off in some markets by as much as 40%, H&M is aggressively pursuing urban streetfront retail. It is also pursuing mall sites and is currently on track to add about 240 new stores worldwide this year. H&M's sweetspot is 15,000 square feet, however, some mall locations are as small as 10,000 square feet while urban storefront flagship stores can be as large as 40,000 square feet.
- Helly Hansen plans on opening as many as 15 new stores in the U.S. over the next four years. The Norwegian chain—which carries a mix of outdoor gear and sporting goods equipment—had previously counted on U.S. exposure thanks to its relationships with Sports Chalet and Sportsman's Warehouse. With both of those chains struggling and retail rents at once-in-a-generation lows, Helly Hansen has decided instead to ramp up its development plans. The chain is now looking to open as many as 150 stores worldwide over the next ten years. Its average footprint is 2,500 square feet.
- Hhgregg plans to open at least 45 new stores in 2010. The chain is actively pursuing vacant big box space and uses 30,000 to 40,000 square feet.
- Hibbett Sports is currently the growth leader in terms of small format sporting goods stores. Hibbett likes to shadow Walmart stores—its optimal sites are 5,000 square feet in Walmart anchored or shadow-anchored centers. The chain opened about 65 stores in 2009. Most of its current growth is focused on Texas and the Southeast U.S. Looking ahead, the chain has plans to add as many as 80 new stores over the next couple of years in just Alabama, Georgia and the Lone Star State. The chain currently has over 750 stores but ultimately would like to hit the 1,200 mark.

- Hobby Lobby has traditionally had its strongest presence east of the Rockies. The Oklahoma City-based retailer currently has about 434 stores in 35 states. It plans to open as many as 30 stores in 2010, with the Western U.S. at the forefront of its expansion plans. The chain is actively looking for sites in Arizona, Idaho, Montana, Nevada and Utah and has not ruled out the possibility of California by year-end. Meanwhile, Hobby Lobby will also continue to grow east of the Mississippi; The Carolinas, Connecticut, Florida, Massachusetts, New York, Pennsylvania and Virginia will all likely see new stores. Hobby Lobby stores typically take between 40,000 and 60,000 square feet of space (with an average size of 55,000 square feet), and prefers to be in power centers. Hobby Lobby typically inks ten-year deals.
- Home Depot plans four new U.S. stores in 2010.
- It's Fashion Metro has a 2010 target of 40 new stores. This Cato Corporation concept looks for space in off-mall locations and prefers sites in the 10,000 square foot range.
- Jo-Ann Stores plan to add 20 units in 2010, most will be in the form of a new 24,000 square foot prototype. The chain is also planning on remodeling about 30 stores.
- Joe's Jeans will be opening at least nine new outlet stores in 2010. Expansion is planned for California, Georgia, Massachusetts, Nevada, Ohio, Texas, Virginia and Washington. Footprints range between 1,400 and 3,200 square feet.
- Jos A Banks will open as many as 40 new stores in the coming year. Banks generally prefers open air lifestyle centers, downtown streetfronts, mall or larger shopping center locations. Their preferred footprint is about 4,500 square feet.
- Kirkland's will be opening as many as 40 stores in the coming year, even as it closes as many as 20 underperformers. The chain prefers off-mall sites and typically uses between 7,000 and 10,000 square feet of space. The chain is targeting Sunbelt states from California to Florida for growth, but also is looking to the Baltimore, Chicago, Philadelphia, Pittsburgh and Washington DC markets for sites.
- With the grand opening of over 31 new West Coast stores (former Mervyn's sites) in early October, Kohl's now operates over 1,000 stores in 48 states. For 2010, the company has reserved about \$225 million for additional growth with plans for as many as 25 new stores. The Menominee Falls, Wisconsin-based retailer is not just looking to build new stores, but also to continue its opportunistic strategy of nabbing top sites left behind by struggling retailers. Kohl's floorplans range between 68,000 and 133,000 square feet.
- Upscale Anthropologie spinoff brand, Leifsdottir, which is currently sold in Bloomingdale's, Nordstrom and Nieman Marcus stores, is reportedly looking into locking up bricks-and-mortar retail space in 2010. Parent Urban Outfitters is reportedly looking into expanding the concept, though no additional information was available regarding potential site selection criteria as this report went to press.
- Limited plans on expanding the Henri Bendel brand in the U.S. in 2010.
- Liz Claiborne will be rolling out a new concept, LCNY, over the next 18 months. As last year came to a close, the Liz Claiborne retail group had just under \$900 million in debt on its books. The good news is that about \$200 million of that amount has since been paid down. Despite the fact that Claiborne's concepts (Juicy Couture, Kate Spade, Lucky Brand) are all struggling with negative same-store comps, Claiborne continues to work considerable obligations off their books. All things considered, it is surprising that the chain is expanding at all. But it is, albeit at a fraction of the pace that was once the norm for the New York City-based retailer.
- Lowe's opened roughly 65 stores in 2009. This largely reflects a deal pipeline that was in-place before the economy crashed last year, so it should come as no surprise that the Mooresville, North Carolina-based home improvement giant is slowing its growth pace in 2010. Lowe's current gameplan is to limit growth to about 35 to 45 stores annually over the next five years. The chain currently operates about 1,700 stores throughout the U.S. and Canada. It's sweet spot remains about 116,000 square feet, with an additional 30,000 square feet for locations with garden centers.
- Lululemon Athletica plans on accelerating growth in 2010 and beyond. This Vancouver-based chain had previously been expanding through a mix of regional mall and lifestyle center sites, but is increasingly questioning this policy. Lululemon plans on as many as 15 new stores in 2010 and 25 stores annually for at least the next few years. Northern California is one of their expansion markets, but is looking for lifestyle centers that have held up in the recent turmoil, otherwise, premier mall sites or prime urban storefronts are their preferred venue for 2010.
- Madewell—J. Crew's concept that targets 20 to 40 year old females—is planning on keeping the same rate of expansion with as many as eight new stores in the coming year. The chain had originally planned for as many as 15 stores in 2009, but backed away from those totals over the course of the year. The format has overgone some tweaking over the past few months as it lowered price points to remain competitive. Madewell stores use between 2,900 and 3,500 square feet of space.
- American Eagle's Martin + Osa concept had planned on as many as eight new stores in 2010 after putting all expansion plans on hold in 2009, but as this report went to press rumors were circulating that American Eagle may have done an about face. Instead, American Eagle may be shutting down the 28-unit chain despite recent strong same-store sales.
- Michael's has ten new stores in the works. Our sources tell us that this number will increase heading into 2010, but it is unlikely that Michael's will match the growth pace of 45 units that it reached last year. One thing to watch going forward will be the performance of Michael's first two urban design stores in New York City. Lower urban storefront rents have opened new opportunities for the chain. Though suburban Michael's stores typically take about 24,000 square feet of space, the new Man-

hattan prototype is reportedly just 14,700 square feet. Should these prove successful, expect not only additional urban units from Michael's, but also from its competitors.

- Nordstrom has plans for three full department stores in open in the coming year, but has shifted most growth to its off-price concept, the Rack. At least 15 new Rack stores will be opened in the coming year.
- Olympia Sports would like to open as many as 15 stores annually over the next few years. The small format sporting goods chain is looking for infill growth in its homebase of New England. They use 4,000 square feet.
- Northern California's Pet Food Express may open as many as four San Francisco Bay Area stores in 2010. The chain works with footprints between 6,000 and 10,000 square feet and prefers grocery-anchored neighborhood centers.
- Midwest regional player Petland has just under 200 stores in 30 states, but also has been actively franchising territories in Canada, China, Japan, Mexico and South Africa as of late. Petland stores can take anywhere from 2,000 to 12,000 square feet. The chain hopes to open as many as 15 new stores in 2010.
- PetSmart plans to pick up its expansion pace in 2010, with as many as 60 new stores in the pipeline. PetSmart looks for 20,000 square foot spaces in either power or neighborhood centers. The chain also has roughly 100 leases expiring in the coming year—landlords should expect to play hardball if they want to renew as there remain plenty of options available for junior box space in most U.S. markets.
- Pet Supplies Plus is looking to open as many as 25 stores in 2010. The Carolinas, Florida, Georgia, Oklahoma and Texas are forefront in their growth strategy.
- Southeastern player Pet Supermarket is one of the most active small format pet supply chains that is on the move. The Sunrise, Florida-based chain currently counts about 115 units throughout the Southeast U.S. and plans to open as many as 20 new stores in 2010. Expansion plans so far are limited to markets where the chain already has a presence; Alabama, the Carolinas, Florida, Georgia and Tennessee. Pet Supermarket uses an average of about 7,500 square feet of space.
- Planet Fitness is looking to open as many as 85 new health clubs in the coming year—they prefer sites within strip centers.
- PostNet plans on expanding in the Northeast U.S. in 2010 with as many as ten new stores.
- PriceRite is looking to open as many as eight new stores in the coming year. PriceRite will consider former Circuit City space and uses between 30,000 and 40,000 square feet. Upstate New York is where they are concentrating their growth.
- Publix markets plans on adding up to 50 stores per year in its Southeast stronghold. The chain will also continue to expand its Hispanic-themed grocery concept Sabor, with most new growth planned for Florida markets.
- With roughly 12,800 locations worldwide, Regis Corporation is the world's largest hair salon chain. It operates Supercuts, Cost Cutters, MasterCuts, Pro-Cuts, Cool Cuts 4 Kids and a number of other concepts. Supercuts alone accounts for over 2,100 salons worldwide. Though Regis expects to open between 50 and 100 new franchise store openings in the coming year, this marks a reduction in the expansion levels that we have previously seen from the Edina, Minnesota-based operator.
- Rent-A-Center is looking to open as many as 40 new furniture rental stores throughout the U.S. in the coming year.
- Restoration Hardware will be rolling out a new baby & child concept in 2010.
- Rooms To Go plans 16 new stores over the next 18 months. The chain's new prototype takes between 35,000 and 40,000 square feet. Roughly half of the chain's planned growth will be in Texas, Alabama, Florida and Georgia will account for the remainder.
- Rue21 also looks to expand its presence by as many as 400 stores over the next five years. The chain has 100 new locations on the drawing board for 2010 alone. Most of the near-term expansion will take place in the South, Midwest and Northeast. Rue21 takes about 4,000 square feet and is considering both mall and off-mall locations.
- Sally Beauty's plans for 2010 include boosting growth to the four/five percent range (roughly 90 to 115 new stores), although it remains unclear whether the chain will be able to reach that goal. Sally Beauty prefers stores in the 1,200 to 1,800 square foot range in larger shopping centers. Both mall and off-mall sites are considered, given that overall center size is above 100,000 square feet and that strong anchor tenants are in place.
- In addition to its recent announcement that it was closing ten underperforming stores in early 2010, Sam's Club has slowed their pace of growth to about 15 new stores this year. Sam's is currently planning on adding between five and ten new stores in 2011. The chain will increasingly shift its focus towards renovating existing locations. Sam's plans to overhaul as many as 55 stores this year and up to 90 in 2011.
- Sephora, a division of Moët Hennessy Louis Vuitton, continues to grow its presence both with standalone stores as well as with leased locations within JCPenney stores. As 2009 came to a close, Sephora had over 140 of these roughly 1,500 square foot store-within-a-store locations in play, with plans to open as many as 50 more. The chain operates about 250 standalone locations throughout North America with plans for as many as 25 more in 2010. Sephora has actively been seeking out deals on second-generation space (they typically range between 4,500 and 7,000 square feet) and has six stores slated to open during the first quarter of 2010 alone, including locations on State Street in Chicago and a new 12,000 square foot Times Square storefront in Manhattan.
- Shoe Carnival plans as many as 15 new stores in 2010. The chain uses between 12,000 and 15,000 square feet and is looking for deals on second generation space.

- Shoe Show plans on as many as 35 new stores in the coming year.
- ShopRite is looking to open as many as eight new stores in 2010. The chain uses between 65,000 and 70,000 square feet and will consider former Linens n' Things stores. ShopRite is looking for sites in Maryland and New York.
- Simply Fashions will develop as many as 25 new stores in the coming year.
- Skechers plans on up to 25 new stores in 2010. The chain will look at mall or off-mall sites and has multiple prototypes ranging from 2,000 to 7,000 square feet.
- Men's salon Sport Clips plans to add as many as 100 new stores annually through 2012. The Georgetown, Texas-based chain plans on expanding within existing market strongholds as well as branching out into new markets; Delaware, the Dakotas and Washington DC. Typical footprints range from 1,000 to 1,400 square feet in off-mall shopping centers.
- Stage Stores has plans to grow by at least 250 units through 2014. At least 25 stores are in the works for 2010 throughout the Southern U.S.
- Staples opened 50 stores in 2009 and plans on another 50 stores in 2010. The chain is looking to grow with a mix of infill growth in established markets as well as expand into new trade areas. Staples will also be rolling out a small format store, Staples Express, for urban expansion.
- TJX, Inc. plans on closing 2010 with a minimum of 93 new stores between its TJ Maxx and Marshall's brands. The chain is aggressively pursuing second generation box space and can utilize footprints between 20,000 and 40,000 square feet depending upon the location.
- Topshop has one confirmed new store in New York slated for 2010 opening, but has indicated plans to open as many as 15 stores throughout the U.S. over the next four years.
- Tractor Supply Company plans on beefing up expansion in the coming year to the tune of as many as 80 new stores. California, the upper Midwest, New England and Southern U.S. are among the markets where the brand would like to grow.
- True Religion will reportedly add as many as 25 new stores in the coming year. The chain currently has roughly 70 units with a typical footprint between 1,200 and 1,500 square feet. Outlet locations typically double that amount. True Religion prefers malls and lifestyle centers.
- Beauty supply retailer Ulta plans on adding up to 35 stores in 2010. The Romeoville, Illinois-based chain uses roughly 10,000 square feet and prefers sites in power, neighborhood or lifestyle centers, as well as prime urban storefronts. Ulta is currently in 26 states with a total of 333 stores. It's long-term goal is to reach 1,000 units, but it will be some time before it approaches that plateau.
- The UPS Store plans to add as many as 100 stores in 2010. The chain typically uses about 1,400 square feet of space.
- Urban Outfitters plans on 50 new stores in 2010. The chain opened about 35 new stores in 2009, but has no debt, over \$150 million in cash and overall positive same-store sales (though sales at lifestyle locations have reportedly showed some cooling recently). Malls, lifestyle centers and urban storefronts remain its preferred sites. Urban Outfitters ultimately believes that 200 stores nationally is where it will hit the saturation point—it currently has just over 130 stores. Urban Outfitters' typical footprint is about 9,000 square feet, though it recently opened a 15,000 square foot New York City flagship.
- Walgreens has plans to open as many as 350 new stores in 2010, or nearly one new location per day.
- Walmart will increasingly shift its expansion focus to Brazil and China in 2010. The chain plans on boosting its overall square footage by 38 million square feet in the coming year—23 million square feet of this growth will be outside the U.S. Walmart will also continue its ongoing remodeling program. The chain has remodeled approximately 30 percent of its roughly 3,540 U.S. stores. By the end of 2012, Walmart expects to have completed renovations on 70 percent of their stores.
- While Wet Seal has pretty much been on ice in 2009—the Foothill Ranch, California-based chain added 17 stores while shuttering 16—the chain is reportedly bullish on growth once the recovery starts to take hold. The chain's long-term goal is to grow the roughly 415-unit brand to as many as 750 stores. While Wet Seal had previously focused exclusively on mall-sites, recently opened power center locations in Fresno and Sacramento have turned in strong results. Our sources tell us that Wet Seal will increasingly be looking to off-mall locations for its future growth plans.
- Who.A.U. plans to hit the 50-unit mark by 2012 and is looking to the Northeast U.S. to achieve this goal.
- Spanish apparel chain Zara is another newcomer to the U.S. in growth mode. Zara typically uses between 10,000 and 14,000 square feet and prefers mall or urban storefront locations. The chain is planning for as many as 10 new U.S. stores in 2010. California, Florida, Georgia, Illinois, Nevada, New Jersey, New York and Texas are the focal points for growth in the coming year.
- Zumiez plans to close this year with 36 new stores, the Northeast U.S. is its focus of growth in 2010.

Restaurant Expansion Notes

- Bd's Mongolian Grill is planning on six new restaurants in 2010. The Burnsville, Minnesota-based chain has typically worked with spaces in the 5,000 to 6,000 square foot range, but recently opened stores in shuttered Macaroni Grill. The chain is looking for deals on built-out second-generation restaurant space and certainly won't have much trouble finding vacant space to choose from in most markets. Maryland, Minnesota, Pennsylvania, Tennessee and Virginia are all in the 37-unit chain's sites for 2010.
- Beef O'Brady's is planning on opening as many as 26 new stores east of the Rockies in the coming year.
- East Lansing, Michigan-based Biggby Coffee is another franchise-driven concept looking to expand in the Lone Star State. The 105-unit company has traditionally focused on its homebase of the Midwest. In recent years it has been growing its presence in the Southeast U.S., but Texas is proving to be irresistible for retailers looking for markets where local economies are holding their own. Though we know plenty of Texans who would disagree with us, the Texas economy has emerged as one of the best performing in the U.S. over the past year—despite the significant challenges that the recession has posed both there and everywhere else. Biggby prefers sites in the 1,400 to 1,600 square foot range.
- BJ's Restaurant & Brewhouse has plans for as many as 11 new restaurants in 2010.
- Bruegger's plans on as many as 27 new restaurants in the Southeast U.S. this year, with a minimum of 15 stores likely.
- Burger King is planning up to 300 locations internationally in the coming year.
- Cheesecake Factory has four new locations on tap for 2010, but also plans to rollout two new concepts, Grand Lux and Rock Pan Asian Kitchen.
- Capriotti's Sandwich Shop will start 2010 with an expansion blitz in Wisconsin (five stores with planned first quarter openings in the Madison and Milwaukee markets alone), but also has plans in the works to move into a mix of new markets. The chain is looking to open stores and/or sign franchise agreements in Las Vegas, Los Angeles, Nashville and Portland, Oregon. The chain prefers 1,200 to 1,600 square foot storefronts.
- CKE plans for a total of 119 new Carl's Jr. and Hardee's restaurants over the next year. CKE wants to boost its unit count by 370 through 2014. Hardee's will account for most of the Eastern U.S. growth and is looking to expand in the Carolinas, Georgia and Virginia. Carl's Jr. will account for Western U.S. expansion. Much of this growth will be focused on Texas, the one U.S. state that has arguably weathered the recession best. Carl's Jr. plans on doubling its presence in the Lone Star State in the next few years. The chain currently has 34 locations in Texas. It recently signed franchise deals that will add at least 31 new stores over the next nine years.
- Checkers is looking to add as many as 68 new restaurants east of the Mississippi over the next year. Florida and New York will see a major expansion push, but the chain is looking for sites in virtually every major Eastern market.
- Chick fil-A is planning on 78 new restaurants in the coming year. The chain opened 83 new restaurants last year. Growth will be in a mix of existing markets, as well as a few new ones like Chicago. The typical Chick fil-A location is a 4,300 square foot freestanding building with drive-thru capabilities.
- Chipotle is looking to add as many as 130 new restaurants in 2010.
- Chuck E Cheese only opened three new restaurants in 2009, but will double this amount in the coming year. Plans currently call for new stores in Arizona, California and Texas. The chain prefers 10,000 to 12,000 square foot sites. Expansion plans for 2011 currently call for up to seven new restaurants, but our sources tell us this number could increase depending upon 2010 performance.
- Corner Bakery Café has plans for as many as ten new stores in 2010.
- The Counter Burger is a Santa Monica, California-based fast casual gourmet burger concept that currently has about 25 stores. While The Counter is strongest in the Golden State, the chain has opened franchises in the Atlanta, Chicago, Honolulu, Seattle and Washington DC metros over the past 24 months as well as added sites in Ireland and Australia. While initial growth plans for 2010 called for as many as 26 new restaurants, that number has since been revised downward to between 12 and 15. The Counter will continue to expand beyond its home base in the coming year, with restaurants in the Boston, Chicago, Florida, New York and San Diego markets all in the works. The typical footprint for a Counter Burger is between 2,600 and 3,000 square feet. The chain typically likes spaces in lifestyle or power centers.
- Cracker Barrel plans on seven new restaurants in 2010.
- Fast-food burger and ice cream concept Culver's plans on as many as 30 new restaurants in 2010, with most of the growth planned for its Midwest home base. However, the Wisconsin-based chain also recently began looking for franchisees in Utah and Tennessee. Typical footprint is a 4,000 square foot freestanding building with a drive-thru window.
- Dunkin Donuts has aggressive growth plans in the works. While the chain already has an iconic presence in the Northeast U.S., it hopes to create similar strongholds in the Las Vegas, Phoenix and Dallas markets in the coming years. The Southeastern U.S. is also a region in the Quincy, Massachusetts-based chain's sites. Florida, in particular, should see an explosion of growth from Dunkin franchisees. Look for Dunkin to go head to head with Canadian donut giant Tim Hortons in a number of Eastern U.S. markets in the coming year.
- Dutch Brothers Coffee plans on opening ten new stores in existing markets (Arizona, California, Colorado, Idaho, Nevada, Oregon, Washington) over the next year. Stores are typically in the 2,000 square foot range.
- Edible Arrangements has plans to increase its store count by as

many as 100 units in the coming year.

- Einstein Brothers Bagels could add as many as 45 stores in 2010 throughout its various divisions; Einstein Brothers, Manhattan Bagels, Chesapeake Bagel Bakery and Noah's New York Bagels. The chain currently has approximately 430 stores in 32 states. It typically uses about 3,200 square feet.
- Famous Famiglia is looking to open as many as 20 new restaurants in 2010. The chain has new sites in the works in Las Vegas, Milwaukee, New York and a number of other markets. The chain's traditional footprint is 1,500 square feet, though an 800 square foot prototype is possible for unique locations such as airports.
- Fazoli's has at least seven new Midwest units on tap, as well as a new prototype. The Lexington, Kentucky-based chain recently rolled out its new look at a new store in the St. Louis market. Whereas the chain had previously preferred standalone buildings in the 3,000 square foot range, deals for inline space are simply too good to pass up. The new prototype is about 2,100 square feet and designed to work in existing shopping centers. Start-up costs for the new prototype are reportedly about \$500,000, compared with as much as \$1.7 million or more for standalone locations.
- Firehouse Subs is planning on opening as many as 40 stores in 2010 and up to 70 in 2011. The chain is looking to expand in Baltimore, Chicago, Columbus (OH), Denver, Kansas City, Las Vegas, Philadelphia, Phoenix and Salt Lake City.
- Freddy's Frozen Custard is planning on at least 40 new stores in the Midwest
- Freshii has plans to open as many as 40 new restaurants. The chain is looking to grow in California, Chicago, Denver, Houston, New Jersey, New York, Philadelphia and Washington DC.
- Friendly's Ice Cream is looking to open as many as 65 franchised locations in 2010.
- Garbanzo Mediterranean Grill plans on ten new stores in 2010 in Colorado. The chain prefers 2,000 square foot end-cap spots in big-box anchored retail centers.
- The Habit Burger has eight new restaurants in the works in California.
- Honey Dew Donuts is hoping to add 20 units in New England this year.
- Jack in the Box plans on as many as 50 new restaurants through September 2010. In addition to infill expansion within existing markets, the chain is growing in Colorado, Kansas, New Mexico, Oklahoma and Texas.
- Jamba Juice has as many as 27 new stores planned for the coming year.
- Jason's Deli has plans for as many as 20 new restaurants in Baltimore, Chicago, Florida and Washington DC.
- Jersey Mike's sub shops are looking to open as many as 60 new stores in 2010. The chain is looking to Chicago and Southern California for the lion's share of its expansion plans in the coming year.
- Lime Fresh Mexican Grill has five restaurants in the works in Florida.
- L&L Hawaiian Barbecue plans up to 10 new stores this year in Alaska, Hawaii and the Pacific Northwest.
- Marco's Pizza plans on up to 60 new stores in the coming year. The chain is looking to the Midwest and South for most of its growth. Marco's uses anywhere from 1,200 to 2,400 square feet.
- Despite strong sales, McDonald's has reduced expansion plans this year simply because of the shortage of sites that meet their criteria. McDonald's looks for sites that are not just in prime retail corridors, but also near rooftops and workplaces. With a preferred pad size of 50,000 square feet, there simply are not that many sites that meet all of McDonald's criteria. McDonald's closed 2009 with roughly 150 new U.S. restaurants. 2010 growth will likely come in at or near the same levels, though we expect the Golden Arches to be active in buying back some franchised sites as well. Ronald's preferred site is a 50,000 square foot pad that can accommodate a 4,500 square foot building with drive thru windows.
- Desoto, Kansas-based Mr. Goodcents Subs & Pasta is another franchise-driven chain looking for multiunit operators to help support its growth plans in 2010. It prefers to work with operators who can open between five and ten stores per market as it seeks to expand outside of its Midwest base. The chain recently opened a new store in Phoenix and will be adding another three to that total by the close of first quarter 2010. It also has aggressive growth plans in the works for the Dallas/Fort Worth market. The chain currently has about 110 units, but plans to open as many as 70 new stores in 2010. Mr. Goodcents' preferred format runs about 1,500 square feet.
- Muscle Maker Grill would like to open as many as 200 restaurants in 2010.
- NAKEDPizza plans on up to 40 new Florida units in 2010.
- Noodles & Company is hoping to add as many as 30 new stores this year in California, Colorado, Illinois, Kansas City, Minnesota and Washington DC.
- NYPD Pizza is looking to open up to 10 new restaurants in Florida and Utah.
- Original SoupMan plans on opening about 60 new stores in the Eastern U.S. over the next 12 months.
- Panera Bread plans on as many as 105 new restaurants in the coming year.
- Pizza Patron has plans for 40 new restaurants in the coming year. Atlanta, Chicago, Dallas, New Mexico and Utah are top target markets.
- Pizza Fusion plans on as many as 75 new restaurants in 2010.
- Qdoba plans on as many as 40 new restaurants in the coming year.

- Red Robin plans on developing up to 15 new company-owned restaurants in 2010—as many as 13 of these may be open by the end of the year. The Greenwood Village, Colorado-based chain also expects to open as many as five new franchise-owned location over the coming year.
- Franchise-driven juice concept Robek's remains bullish on expansion, with growth plans in the works for 2010 in the Pacific Northwest, Texas and Washington DC. The chain currently has just under 150 units, but is hoping to grow that tally by at least 20 new stores in the coming year. The chain is focusing on multi-unit franchisees for growth and expansion in the coming year will depend largely upon finance issues. Robek's preferred footprint is about 1,000 square feet.
- Shane's Rib Shack has plans for up to 15 new restaurants this year in Arizona and Georgia.
- Sonic plans to close its fiscal year in August 2010 with as many as 125 new restaurants. The Northeast United States has been the focal point of most of this growth.
- Spicy Pickle plans to expand in the Austin, Chicago, Houston, Las Vegas, Reno and San Diego markets in 2010. All told, the chain expects to open as many as 15 new stores in the coming year. The chain may also open a few airport locations with deals reportedly in the works at LAX and Denver International. As 2009 came to a close, the chain's unit count included just under 40 Spicy Pickle restaurants in the U.S. and about 15 Bread Garden restaurants north of the border. The chain's preferred format runs about 1,800 square feet.
- Stevi B's Pizza plans on as many as 15 new restaurants in 2010. Florida and Wisconsin are the two states where most of this growth is currently planned.
- Submarina California Subs has plans for at least 30 new restaurants in the coming year in California, Florida, Georgia and Texas.
- Subway opened 2,000 restaurants in 2009 and plans to continue aggressive franchise-driven expansion in the coming year. For example, in the Boston market alone the chain is planning on opening as many as 130 new stores over the next five years. Subway stores typically take about 1,200 square feet.
- TacoTime is planning on 10 new restaurants in Montana, Nevada, Oregon and Utah.
- Tasti D-Lite has a goal of 45 new stores this year in Atlanta, Boston, Dallas, Florida, Seattle and Southern California.
- Tim Hortons is beefing up U.S. expansion. The chain ended 2009 with about 40 new U.S. stores bringing its domestic unit count to over 535. The chain continues to look to the Mid-Atlantic states, Midwest and New England for growth. It's typical prototype is 3,000 square feet, but alternate footprints drop as low as 1,600 square feet.
- Fast casual salad chain Tossed is looking to expand in the Chicago, Los Angeles and Washington DC markets, with as many as six new restaurants in the works for 2010. Typical footprint is 2,000 square feet.
- Teriyaki Experience plans on adding as many as 20 new units in 2010. The chain is looking to Arizona, Florida, Georgia, the Midwest, Northern California and Texas for growth. The preferred footprint ranges between 1,200 and 1,600 square feet.
- Villa Fresh Italian Kitchen may add as many as 20 units in the coming year. The chain may be co-branded with sister concepts South Philly Steak & Fries or Green Leaf's/Bananas.

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