PC ATTACHMENT 4

RETAIL MARKET ANALYSIS AND HIGHEST & BEST USE STUDY

Prepared for

WESTPARK SV 400 LLC

JULY 2021

MXD DEVELOPMENT STRATEGISTS | MARKET- DRIVEN DEVELOPMENT STRATEGIES™

Preface

This report was commissioned by Westpark SV 400 LLC in June 2021. The Retail Market Analysis and Highest & Best Use Study was performed between June and July 2021.

The purpose of this assignment was to perform a retail assessment of site WB-41, a 10-acre site located in the City of Roseville at the corner of Pleasant Grove Blvd and Santucci Blvd. The emphasis of analysis was to assess the Retail Demand and Market Opportunity for this site and to understand viability, including if and when, how much, and what type of retail uses would be warranted.

The second key objective following the retail market analysis was a highest & best use study of the site based on an objective assessment of site and market factors. The assessment considered a range of potential land uses including residential, office, and hotel. A recommendation of the most optimal land use was provided to conclude the report.

The figures presented in the report are based on an evaluation of the current general level of the economy in the local market, and neither take into account, nor make provisions for the effect of any sharp rise or decline in local or general economic conditions.

MXD Development Strategists, Ltd. do not warrant that any estimates contained within the study will be achieved, but that they have been prepared conscientiously on the basis of information obtained during the course of this market analysis. Also, any tenant references made in this report are for illustrative purposes only.

Reference material used for this report was derived from the project team, as well as from the public and private sectors and government publications. This information was supplemented by our experience in the planning and development of real estate projects throughout North America.

As is customary in an assignment of this type, neither our name nor the material submitted may be included in a prospectus, or part of any printed material, or used in offerings or representations in connection with the sale of securities or participation interest to the public, without the expressed permission of MXD Development Strategists, Ltd.

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Executive Summary

A Market Analysis was performed to assess the feasibility of WB-41 as a potential "Community Commercial" retail site, as it is currently zoned.

WB-41 is located at the southwest corner of Pleasant Grove Blvd and Santucci Blvd, in proximity to new and planned residential development. Approved future growth includes the Regional University Specific Plan. However, the Regional University is unlikely to begin development over the next decade and could take upwards of twenty years according to City Planners and local Developer insight. These lands will be used for agriculture over the foreseeable future.

The long-term nature of these future markets undermines the viability of WB-41 as a retail node, reducing it to a peripheral location with only a 180-degree trade area which is generally avoided by retailers. Viability would only marginally increase as the Regional University Specific Plan area is built out.

Roseville is an attractive location for retailers. The affluent, family-oriented demographic profile combined with rapid population and employment growth provides a compelling case for retail development in the city.

Roseville's current overall retail inventory is performing well, with low vacancy and healthy rental rates. However, there are notable headwinds specifically for "Community Commercial" type shopping center formats, with vacancy rates over 9% and flat rental growth.

The 10-acre WB-41 site would typically accommodate over 100,000 SF of retail uses. Retail development of this scale requires a Supermarket anchor store in order to successfully lease space to inline tenants willing to pay high rents to feed off of traffic generated by the grocery anchor store.

Since a Supermarket would typically anchor such a 100,000 SF Community Commercial center, retail feasibility was regarded through the lens of a typical due diligence site selection exercise used by Supermarket chains.

A Retail Gravity Model, commonly used by Grocery Stores to test new potential sites, was created to forecast sales at WB-41 for a potential 40,000 SF Grocery Store anchor. This forecast indicated that WB-41 would not likely ever exceed the minimum threshold sales volume that a Grocery Store requires.

Even as new residential development is completed to the east of WB-41, the critical mass of new emerging competition in the area would act to truncate WB-41's potential trade area.

Additional analysis of the WB-41 site characteristics revealed other challenges for any form of retail development on WB-41. These potential concepts include a potential pharmacy-anchored or food & beverage-anchored project. Most notably the WB-41 site:

- fronts onto low traffic volumes (both current and projected);
- is relatively inaccessible compared to competing sites; and
- lacks complementary development in the vicinity such as employment or a major destination.

The potential development of WB-41 Community Retail is challenged by the rapid rise of online commerce which is now significantly impacting bricks and mortar store sales. Overall the full build-out of Sierra Vista, West Roseville and Creekview residential will likely support only three to four more Grocery Store anchors, and these stores have a wide selection of more strategic locations to consider.

The Market Analysis and Retail Gravity Model also indicated that there are a variety of competing sites that have much stronger site strengths to capture retail spending including:

- Baseline Road
- Fiddyment Rd & Pleasant Grove Blvd
- WB-42 at Pleasant Grove Blvd & Westbrook Blvd.

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Executive Summary

Executive Summary contd.

Although outside of the current City of Roseville boundary, the Regional University Specific Plan has a large retail site directly adjacent to WB-41 that is more strategic for retail development as it will be built in conjunction with future housing and educational facilities in that plan area. It will also only be constructed once Santucci Blvd and Pleasant Grove Blvd are extended.

Alternative uses at the site were evaluated from a site and market perspective. Office and Hotel uses did not appear suitable for WB-41 based on site factors. Residential appears to be the highest and best use of the site, supported by both site and market factors.

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Existing Conditions & Policy Analysis

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Demographics and Population Projections

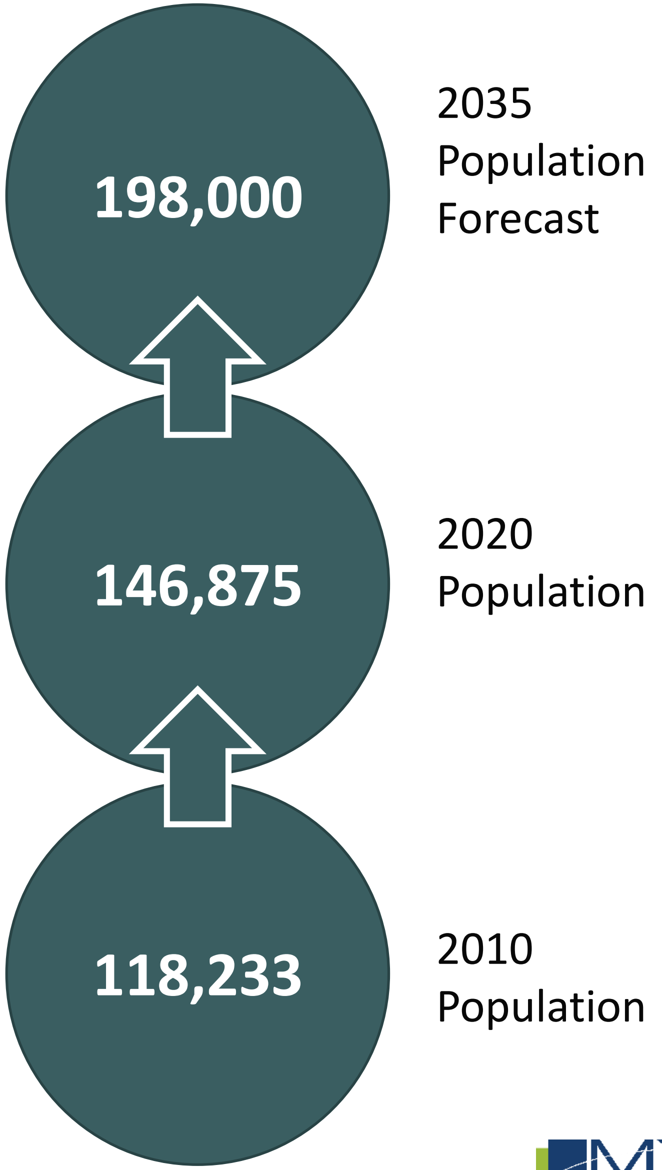
The City of Roseville has a current population of 146,875 residents. The city has experienced significant population growth over the past decade, with an approximate 22% increase between 2010 and 2020. According to the Roseville General Plan (adopted August 2020), it is anticipated that the city will reach a population of 198,000 residents by 2035. This would be an additional 50,000 new residents over the next fifteen years and would fall in line with historic growth rates.

The number of dwelling units is expected to reach 75,000 by 2035, an increase of 20,000, with an average of 2.63 residents per dwelling unit. The number of future dwellings is based off 2.1 persons per multi-family unit and 2.9 persons per single-family units. Roseville has a median age of 37.5 which is slightly older than that of the Sacramento region.

Median household income in Roseville is $91,306, significantly higher than the Sacramento region ($76,706). Higher household incomes generally produce higher retail spending profiles.

The top economic sectors for employment in the city are public administration, health care, construction, education services, finance & insurance, computer/electronic products, and professional, scientific & technical services. The top three employers in the city are all within the health sector, being Sutter Health, Kaiser Permanente, and Adventist Health. Major employment areas are focused along the I-80 and Highway 65.

Figure 2.1: Roseville Population Projections



Existing Conditions & Policy Analysis

Site Context

The site under study is considered site WB-41 by the City of Roseville. It is located along the western boundary of Roseville, at the southeast corner of Pleasant Grove Blvd and Santucci Blvd. The site is a 10.1-acre parcel that is currently zoned “Community Commercial”.

Surrounding uses include the following:

- *South* – Single-family residential
- *East* – Heritage Solaire, a gated active adult (55+) community built by Lennar.
- *North* – Future multi-family residential
- *West* – Agricultural lands (Placer County)

The site is located within the Sierra Vista Specific Plan. The Specific Plan is the guiding planning document for the site and will be further discussed in this section. Sierra Vista is a major growth area for the City of Roseville and has experienced significant construction in recent years.

Areas to the west of the site in Placer County have been planned for long-term development under the approved Regional University Specific Plan and the future Curry Creek plan area (under the County’s General Plan). The general pattern of land development in this area is considered suburban greenfield. It is characterized by new residential developments in low to medium density configurations with typical suburban street patterns of collector and arterial streets. Residential is supported by small commercial nodes, parks, schools, etc.

Figure 2.2: Site Location in Roseville

Existing Conditions & Policy Analysis

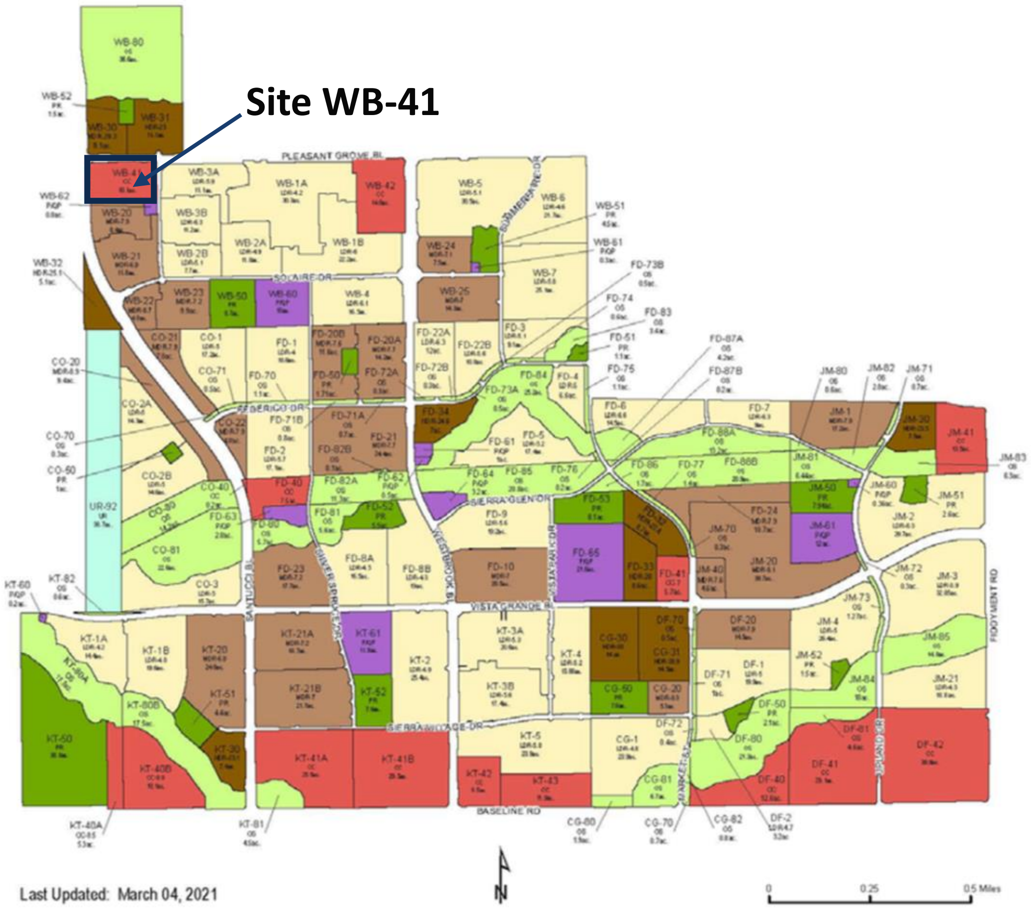
Current Zoning

Site WB-41 is currently zoned "Community Commercial" by the City of Roseville. There are several community commercial designations in the city zoning by-law, however WB-41 is considered "commercial" rather than "commercial mixed use" or "commercial/business professional".

This designation allows for the following as per the Sierra Vista Specific Plan:

> Community Commercial (CC)
>
> *Typical FAR – up to 0.4*
>
> *The Community Commercial (CC) land use designation provides for a broad range of retail goods and services, which can accommodate developments including conventional neighborhood shopping centers (typically anchored by a grocer) and larger-scale commercial centers (sometimes referred to as 'Power Centers').*
>
> *For Sierra Vista, CC sites are generally sited along the Baseline Road corridor or at major intersections where sites have superior visibility and access to vehicular traffic. At full buildout, these parcels will collectively support approximately 3.1 million sq. ft. (assuming a typical FAR outlined above) of commercial development with a mixture of retail, office, restaurant, entertainment, and/or hotel uses.*

Figure 2.3: Site Zoning



Source: City of Roseville

Existing Conditions & Policy Analysis

Transportation and Connectivity

Site WB-41 is located at the current termination point of Pleasant Grove Blvd. Pleasant Grove Blvd is expected to be extended into Placer County; however, the timing is considered long-term. Santucci Blvd does not extend north of the site, and only extends several blocks to the south, currently terminating at Solaire Drive. Santucci Blvd is to be constructed as six lanes from Baseline Road to Blue Oaks Blvd according to the *Roadway Network Assumptions* of the 2035 travel demand model within Placer County's transportation documents. At completion, Santucci Blvd will connect with the future Placer Parkway, however there is no set alignment, funding, or timeline and could be more than 20 years out.

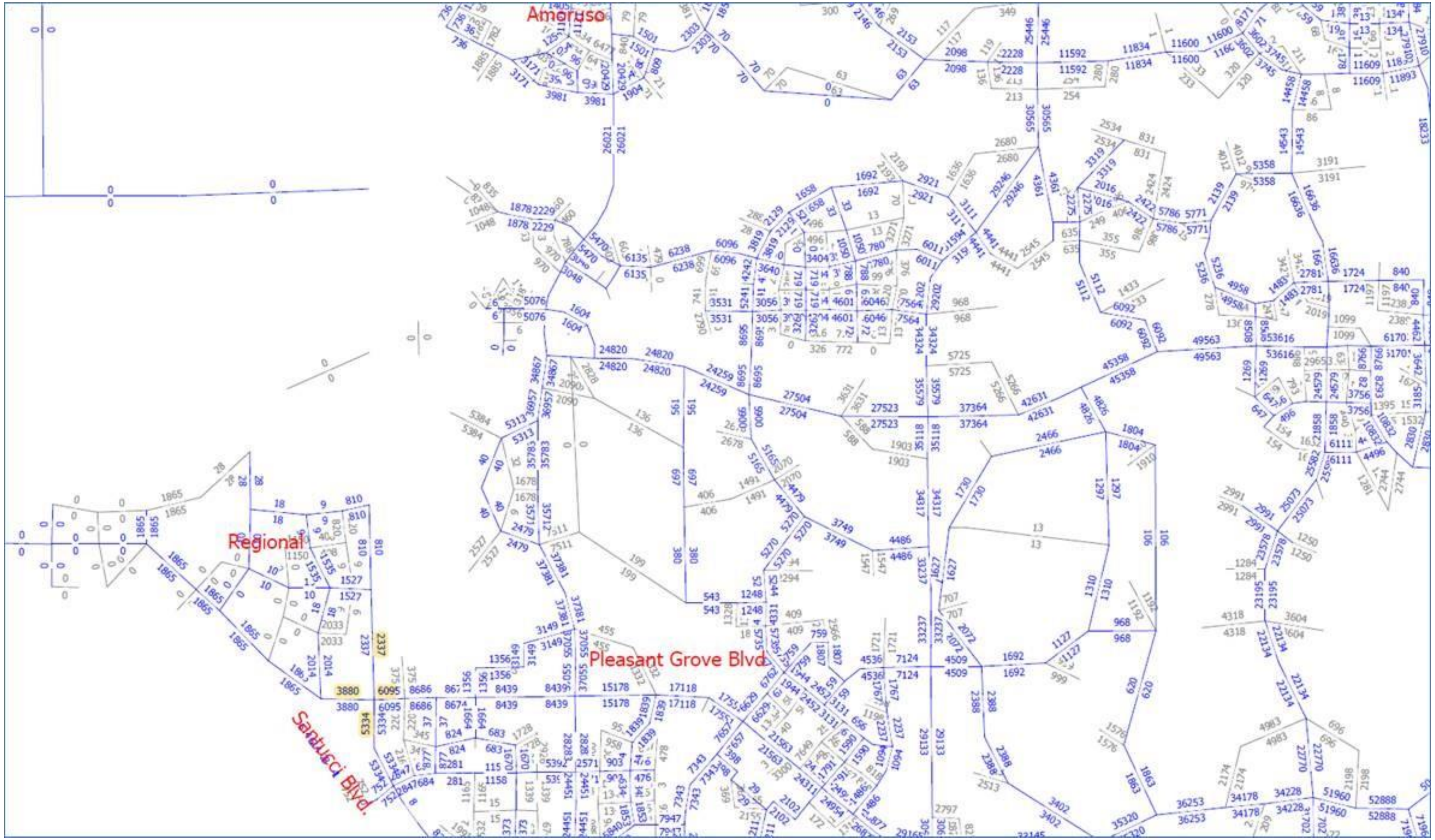
Limited transportation connectivity in both east/west and north/south directions at site WB-41 is a major challenge for community commercial development. Retail developments require significant vehicular traffic from residential and employment areas for viability. Based on current plans, this current roadway network surrounding the site is expected to remain over the next decade.

Transportation experts Fehr & Peers conducted a transportation analysis of future traffic counts using assumptions of future development patterns and potential timing of new transportation projects. Figure 2.4 displays projected traffic counts at the WB-41 site in 2035. In this model, Santucci Blvd only extends several blocks north of Pleasant Grove Blvd. East/west traffic along Pleasant Grove Blvd is projected at 6,095 vehicles per day. North/south traffic along Santucci Blvd is projected at 5,334 vehicles per day. Traffic counts are still considered the primary site selection factor for end-user retail tenants when selecting a leased retail space. 10,000 to 15,000 vehicles per day is the typical minimum for retail site selection for community-scaled retail.

An unadjusted traffic model for 2035 was also run by Fehr & Peers. This model considers that Santucci Blvd connects to Placer Parkway and Baseline Road. Traffic counts increase significantly in this model – 14,097 vehicles per day along Pleasant Grove Blvd and 28,158 vehicles per day along Santucci Blvd. This scenario is unlikely to occur by 2035 due to realistic development patterns and funding for transportation infrastructure improvements.

Existing Conditions & Policy Analysis

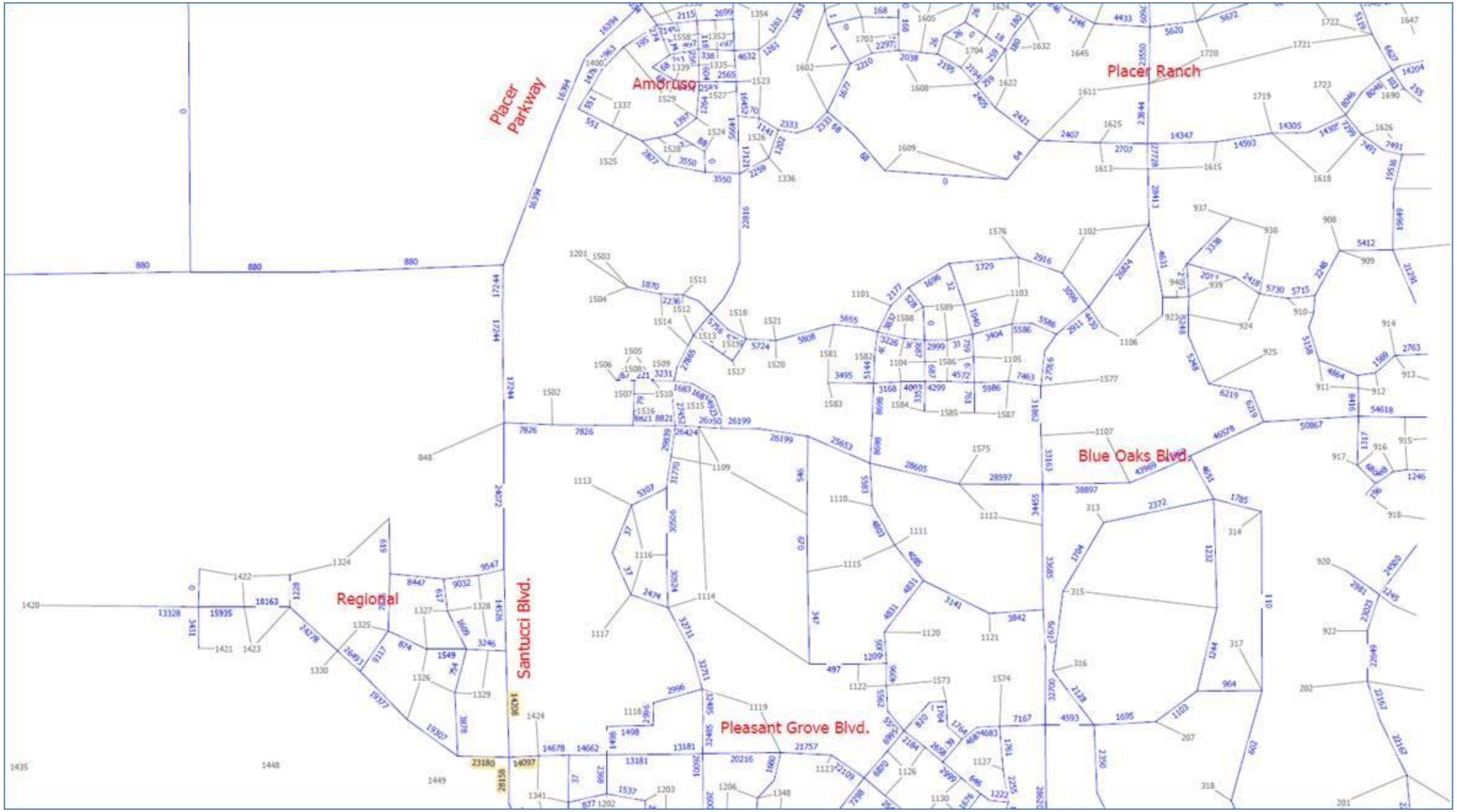
Figure 2.4: Adjusted 2035 Traffic Model for City of Roseville



Source: Fehr & Peers

Existing Conditions & Policy Analysis

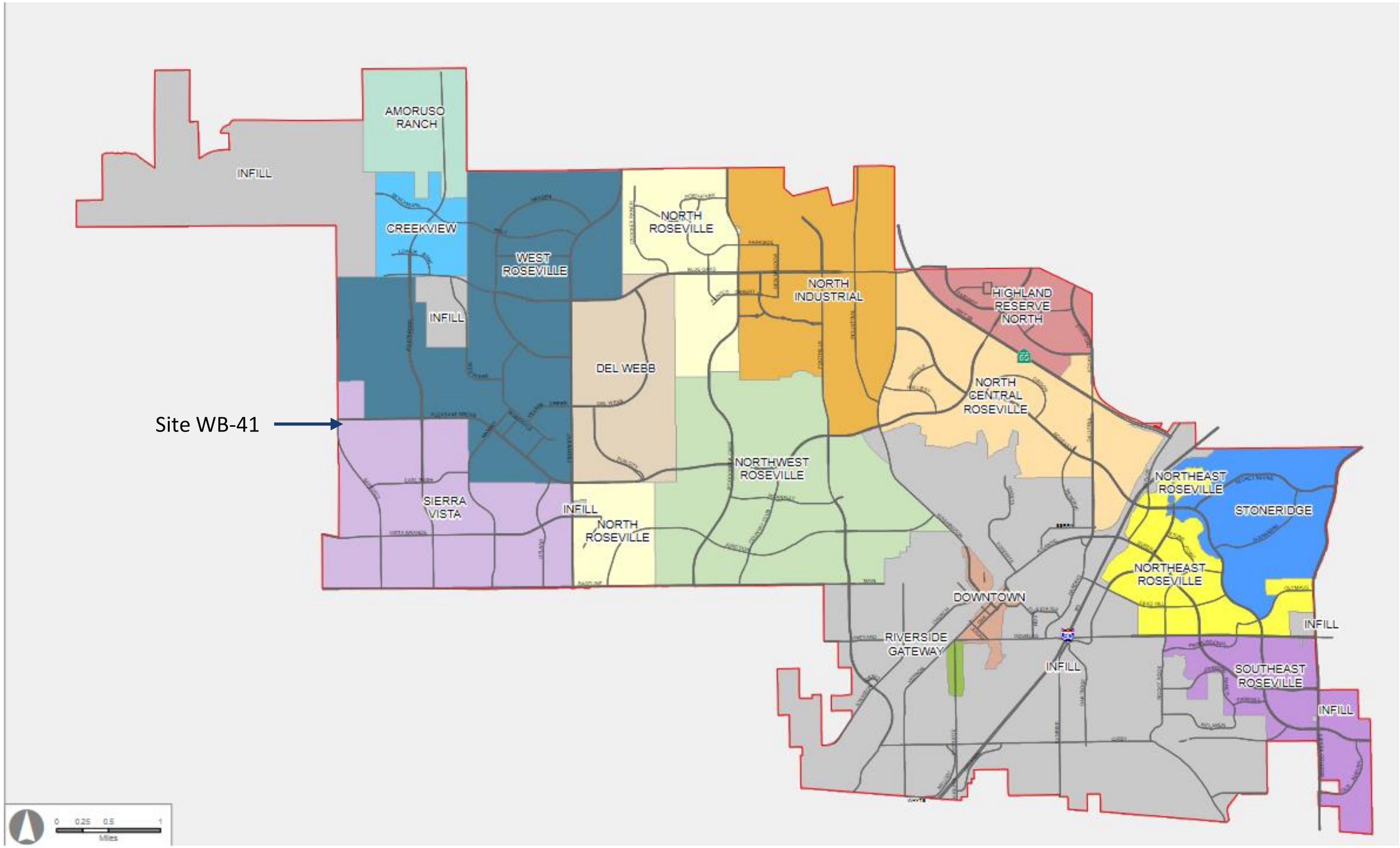
Figure 2.5: Unadjusted 2035 Traffic Model for City of Roseville



Source: Fehr & Peers

Existing Conditions & Policy Analysis

Figure 2.6: City of Roseville Specific Plan Areas



Source: City of Roseville

Specific Plans

There are three City specific plans that have direct influence on Site WB-41 and will be discussed on the following pages. They are:

- Sierra Vista Specific Plan
- West Roseville Specific Plan
- Creekview Specific Plan

There is also two planning areas west of Site WB-41 in Placer County:

- Curry Creek Planning Area
- Regional University Specific Plan

Existing Conditions & Policy Analysis

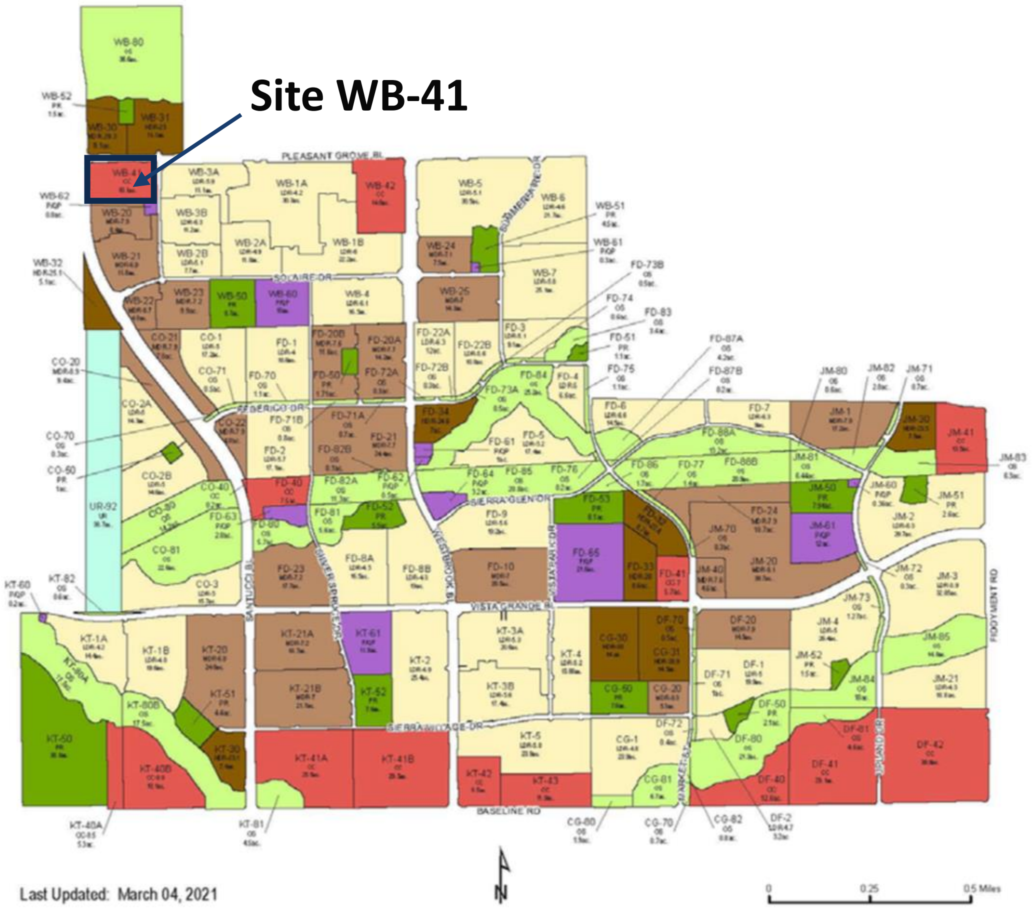
Sierra Vista Specific Plan

Site WB-41 is located in the Sierra Vista Specific Plan (SVSP). The SVSP is bounded by Baseline Road to the south, Fiddyment Road to the east, the West Roseville Specific Plan area to the north, and the Curry Creek Planning area to the west. The Specific Plan was adopted in 2010. At build-out it is planned to have 8,658 residential units and approximately 232 acres of commercial. This translates to accommodate over 22,000 residents and approximately 4.1 million square feet of retail and office uses that provide over 9,000 jobs.

Commercial is primarily located along Baseline Road in what is planned as the Baseline Road Commercial and Employment Corridor. This will be the primary corridor for big box and destination retail shopping for residents living on the west side of Roseville. Site WB-41 is in the Western Edge corridor as designated by the SVSP. There are several other community commercial designated land parcels in the SVSP that are spread amongst residential neighborhoods, including three Community Commercial sites along the approximate 2.5 mile run of Pleasant Grove Blvd from Fiddyment Rd and Santucci Blvd..

The SVSP is currently the primary area of Roseville for new residential construction with significant development occurring along Pleasant Grove Blvd, Westbrook Blvd, Vista Grande Blvd and Baseline Road. Once Westbrook Blvd is completed and connects to Baseline Road, it will become a major north/south thoroughfare for vehicle traffic in the SVSP and reduce traffic pressure on Fiddyment Road.

Figure 2.7: Sierra Vista Specific Plan (2021)



Source: City of Roseville

Planned Commercial & Employment

232 Acres

West Roseville Specific Plan

The West Roseville Specific Plan (WRSP) is located directly north and northeast of site WB-41. The plan was adopted in 2004. All lands located north of Pleasant Grove Blvd between Santucci Blvd and Fiddyment Road, as well as a portion south of Pleasant Grove Blvd are located in the WRSP.

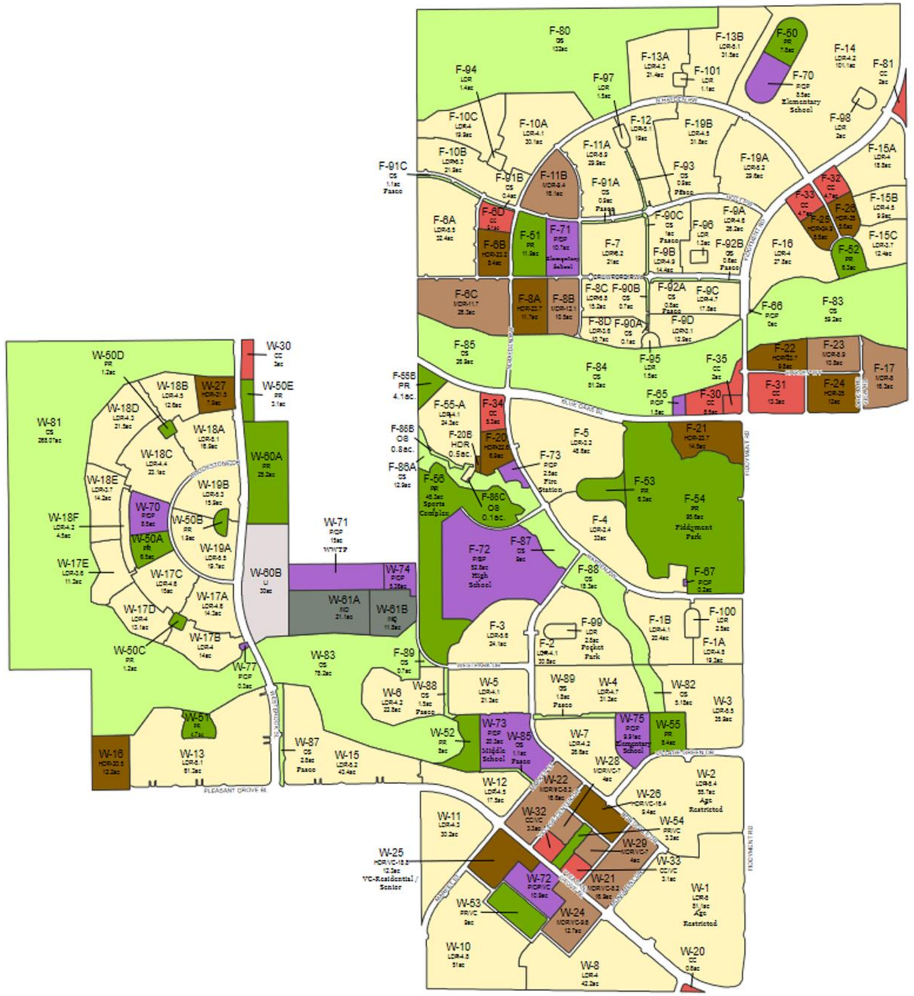
The WRSP is planned for a mix of low, medium, and high-density residential uses, along with commercial, office and light industrial employment uses. The plan area build-out is anticipate to have 10,596 dwelling units accommodating 26,222 residents. 55.48 acres are planned for Community Commercial. This is significantly less than the Sierra Vista Specific Plan, however, is expected to meet the community's day to day shopping needs.

The WRSP is further along in build-out than the Sierra Vista Specific Plan, with many residential neighborhoods at or near completion.

Planned Commercial & Employment

55.5 Acres

Figure 2.8: West Roseville Specific Plan (2021)



Source: City of Roseville

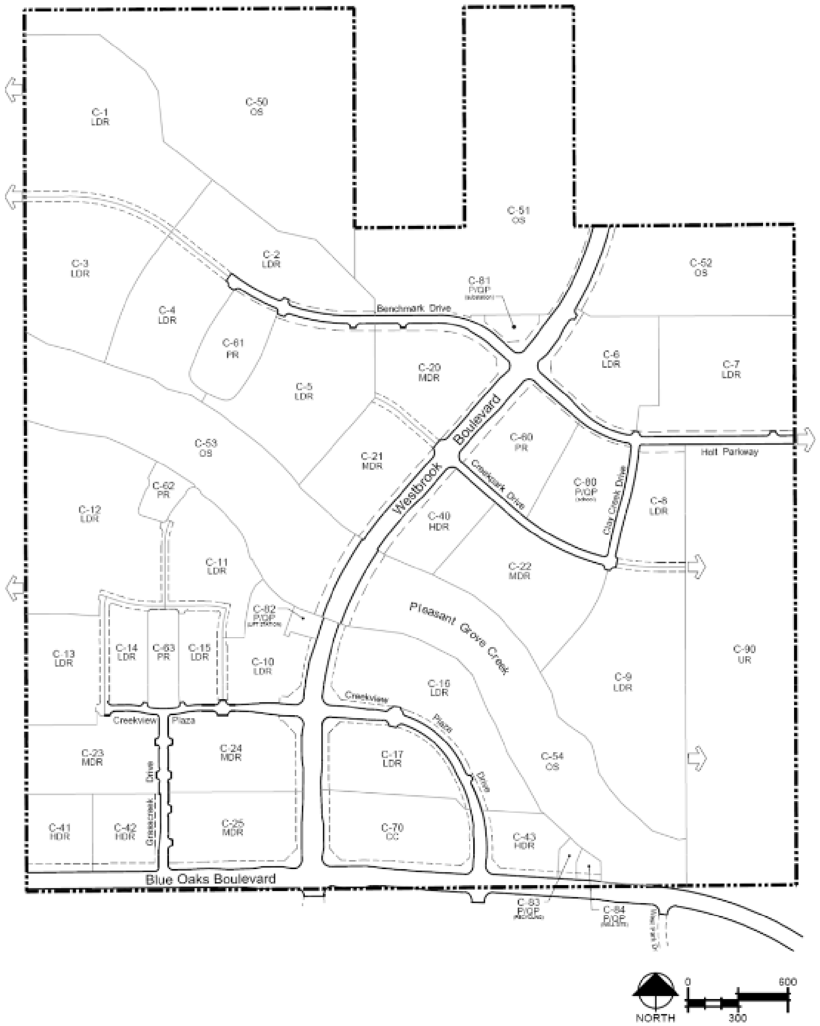
Creekview Specific Plan

The Creekview Specific Plan (CSP) is a smaller Specific Plan that is located directly north of the West Roseville Specific Plan. The CSP is centered along Westbrook Blvd and will be a mix of low, medium, and high-density residential uses, along with commercial and office uses. The plan area has an expected buildout of 2,011 dwelling units that will accommodate 5,108 residents.

There is plans for 9.22 total acres of Community Commercial that may have up to 100,000 square feet of retail and office uses.

Construction has begun along Blue Oaks Blvd with the Winding Creek residential development, built by Anthem United.

Figure 2.9: Creekview Specific Plan (2021)



Source: City of Roseville

Planned Commercial & Employment

9.2 Acres

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Existing Conditions & Policy Analysis

Regional University Specific Plan (Placer County)

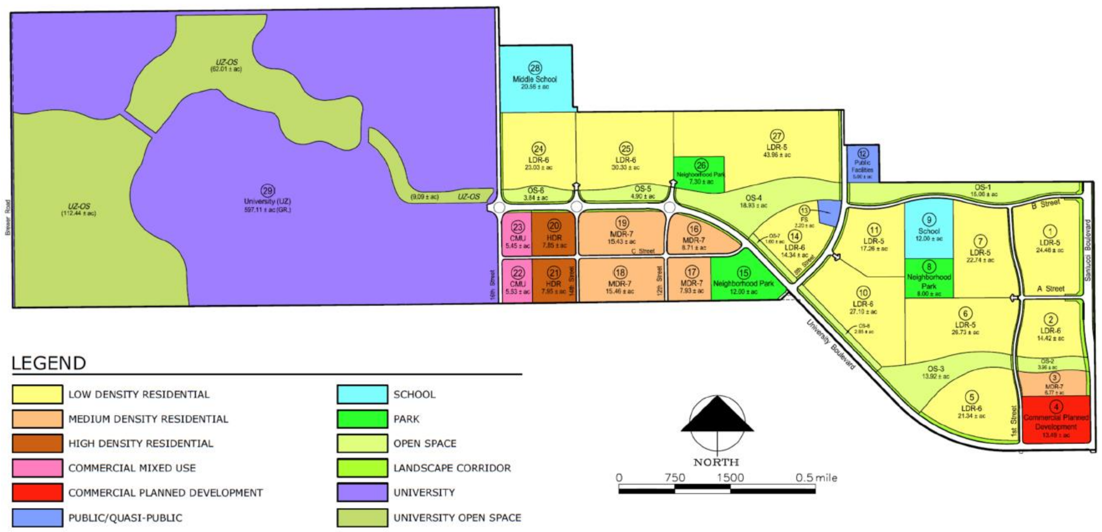
The Regional University Specific Plan was adopted in 2008 and last amended in 2019. This specific plan is part of the Curry Creek Special Planning Area in Placer County. It is a 1,159-acre plan anchored by a university campus and mixed-use community. The specific plan area is directly west of Site WB-41 and the eastern edge of the specific plan fronts along Santucci Blvd.

The university is planned to accommodate up to 6,000 students and 800 staff, as well as an adjacent private high school of up to 1,200 students. The mixed-use community is expected to contain a diverse range of uses including residential, commercial, employment, open space, and recreational. The university is expected to take up 600 acres of land, leaving 562 acres for community development.

24.5 acres are planned for commercial and commercial mixed-use development. This translates to upwards of 250,000 square feet of potential retail uses. The primary commercial node is at the southeast corner of the planning area, at University Blvd and Santucci Blvd. This would make the site "kitty corner" to site WB-41.

There are currently no plans for development in this specific plan area and a university has yet to be secured as the anchor tenant.

Figure 2.10: Regional University Specific Plan



Source: Placer County

Planned Commercial & Employment

24.5 Acres

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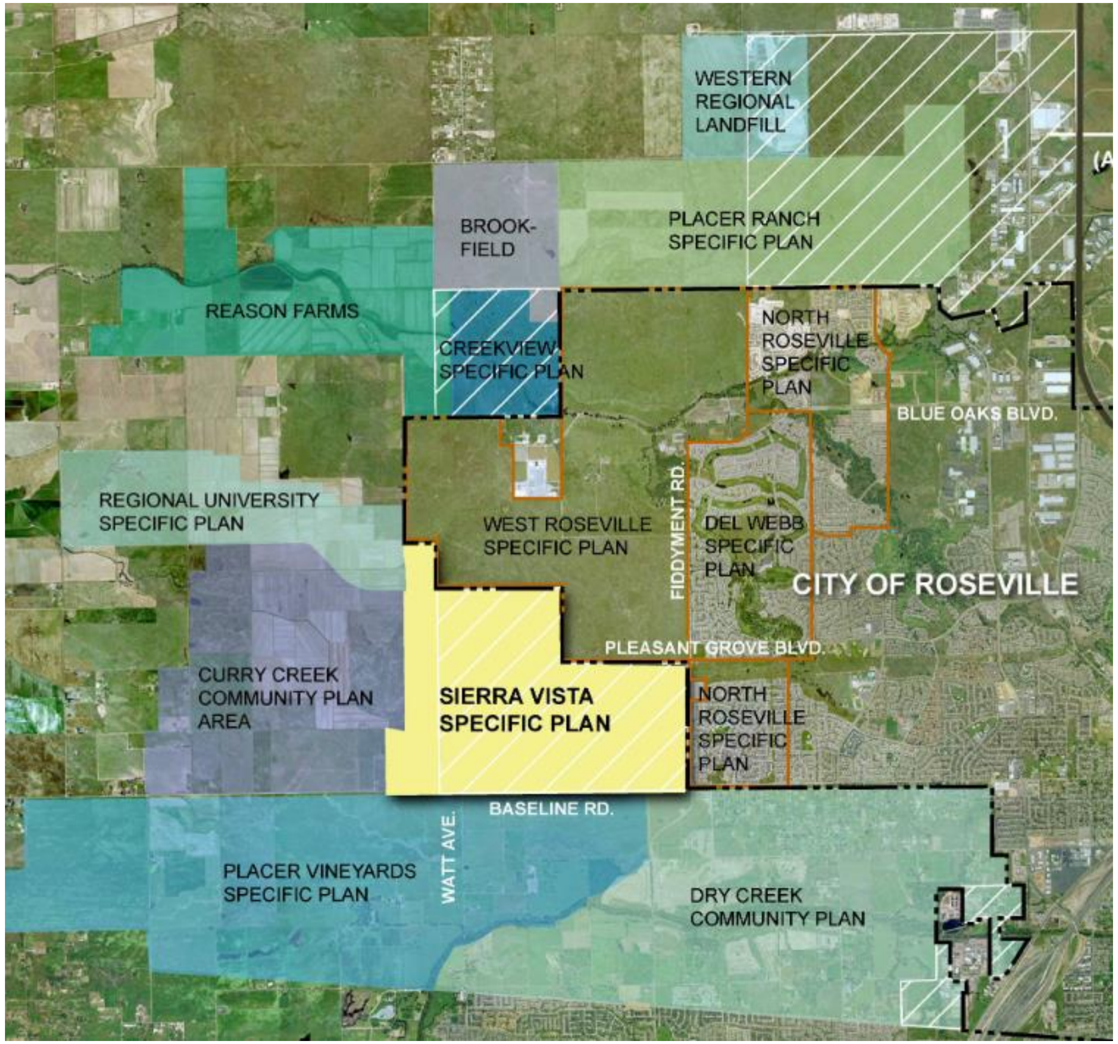
Existing Conditions & Policy Analysis

Curry Creek Community Plan (Placer County)

The Curry Creek Community Plan is approximately 4,189 acres in size, located in unincorporated Placer County. It is directly west of the Sierra Vista Specific Plan as displayed in Figure 2.11. The plan is also adjacent to Site WB-41.

The Placer County General Plan has designated the Curry Creek area as agricultural and there is no specific plan for Curry Creek at this time. Recnetly, orchards of nut trees have recently been planted in areas close to Santucci Blvd. Based on this information and lack of specific plan in place, development in Curry Creek is likely decades away.

Figure 2.11: Curry Creek Community Plan Location



Source: City of Roseville

Planned Commercial & Employment

N/A

Existing Conditions & Policy Analysis

Planned Community Commercial

There is a significant amount of planned Community Commercial in the three specific plan areas that are relevant to site WB-41 (not including Placer County). The commercial site in the Del Webb Specific Plan is included due to it being an undeveloped site owned by Safeway adjacent to the Sierra Vista Specific Plan area. Development Status is based on a desktop review of current development permits with the City of Roseville, and CoStar data. Potential commercial square footage is calculated using a standard retail 0.2 floor area ratio. This is consistent with recent retail developments in the area. Zoning allows up to 0.4 FAR. There would be 2.5 million square feet of retail if all sites were built-out (at 0.2 FAR), with significantly more development, if constructed at a higher density. With a projected 53,000 residents at build-out, this would be 47 SF per capita, significantly more than the 20 SF per capita that has become the new industry standard in a shifting retail landscape according to industry experts such as ULI and ICSC. With the shifts to online sales and reductions in retail tenant sizes MXD estimates a maximum required new retail floorspace of 1.32 million SF.

Table 2.1: Zoned Community Commercial

Ref #	Parcel Name	Location	Size in Acres	Designation	Development Status	Potential Commercial Square Footage
1	WB-41	Sierra Vista Specific Plan	10.11	Commercial	Vacant	88,078
2	WB-42	Sierra Vista Specific Plan	14.55	Commercial	Vacant	126,760
3	JM-41	Sierra Vista Specific Plan	13.5	Commercial/Business Professional	Vacant	117,612
4	FD-40	Sierra Vista Specific Plan	7.55	Commercial	Vacant	65,776
5	FD-41	Sierra Vista Specific Plan	5.71	Commercial Mixed Use	Vacant	24,873
6	DF-40	Sierra Vista Specific Plan	12.64	Commercial	Vacant	110,120
7	DF-41	Sierra Vista Specific Plan	29.14	Commercial	Vacant	253,868
8	DF-42	Sierra Vista Specific Plan	39.90	Commercial	Vacant	347,609
9	KT-42	Sierra Vista Specific Plan	8.45	Commercial	Proposed	73,616
10	KT-43	Sierra Vista Specific Plan	11.91	Commercial/Business Professional	Vacant	103,760
11	KT-40-A	Sierra Vista Specific Plan	5.39	Commercial Mixed Use	Vacant	23,479
12	KT-40-B	Sierra Vista Specific Plan	18.10	Commercial Mixed Use	Vacant	78,844
13	KT-41-A	Sierra Vista Specific Plan	29.52	Commercial	Vacant	257,178
14	KT-41-B	Sierra Vista Specific Plan	29.52	Commercial	Vacant	257,178
15	W-32	West Roseville Specific Plan	3.29	VC-Commercial	Built (non-retail)	-
16	W-33	West Roseville Specific Plan	3.09	VC-Commercial	Built	26,920
17	W-30	West Roseville Specific Plan	2.99	Commercial	Vacant	26,049
18	F-30	West Roseville Specific Plan	8.46	Commercial	Partially Built	73,704
19	F-31	West Roseville Specific Plan	13.35	Commercial	Under Construction	116,305
20	F-32	West Roseville Specific Plan	4.67	Commercial	Vacant	40,685
21	F-33	West Roseville Specific Plan	4.68	Commercial	Vacant	40,772
22	F-34	West Roseville Specific Plan	5.29	Commercial	Vacant	46,086
23	F-6D	West Roseville Specific Plan	5.05	Commercial	Vacant	43,996
24	F-81	West Roseville Specific Plan	1.97	Commercial	Vacant	17,163
25	C-70	Creekview Specific Plan	9.22	Commercial	Vacant	80,325
26	21	Del Webb Specific Plan	12.72	Commercial	Vacant	110,817

Source: City of Roseville

2.5 Million (47 SF per capita)

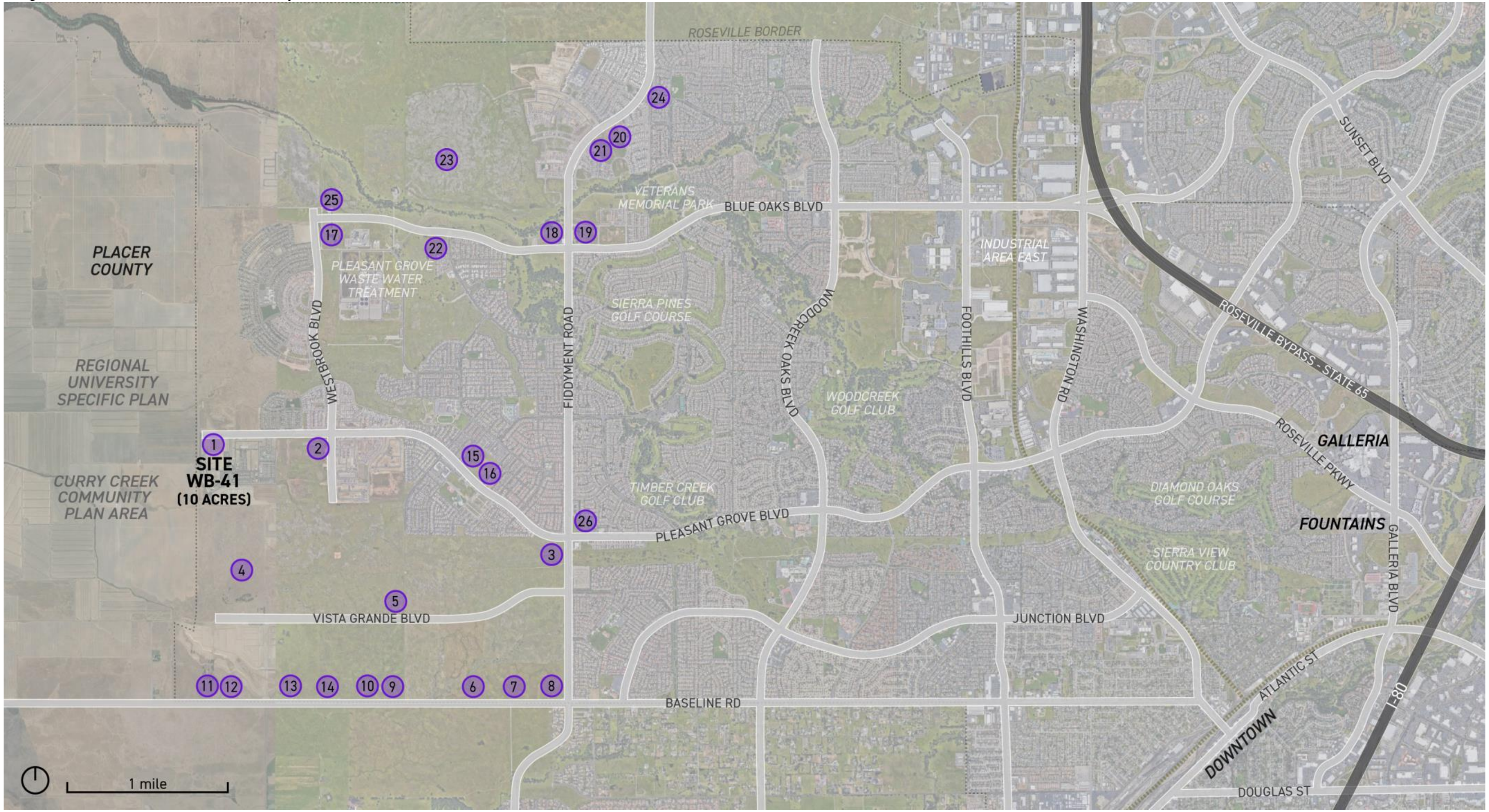
Approximate retail square footage at full build-out (at 0.2 FAR)

5.2 Million (98 SF per capita)

Approximate retail square footage at full build-out (at 0.4 FAR)

Existing Conditions & Policy Analysis

Figure 2.12: Planned Community Commercial



Source: City of Roseville

SWOT Analysis

Strengths

- Located in fast growing Sierra Vista Specific Plan area.
- Limited retail offerings in proximity.
- Strong demographics and retail spending profile in local trade area.
- Flat rectangular site is ideal for development.
- Easy vehicle and pedestrian access to the site off of Pleasant Grove Blvd, Daylight Dr, and Santucci Blvd.

Weaknesses

- Located on very edge of Roseville boundary.
- No urban development to the west expected in near to medium term.
- 180 degree site.
- Santucci Blvd may not be fully built for 15+ years.
- Very low traffic counts.
- Significant amount of optimally located Community Commercial sites that are currently vacant and ripe for development.
- Site is located between two trade areas, not conducive for community-scale retail.

Opportunities

- Potential opportunities for a limited amount of personal services such as daycare, health care, medical, etc. that are less reliant on traffic counts.

Threats

- New neighborhood retail centers are built in Sierra Vista and West Roseville Specific Plan areas that have better locations than site WB-41.
- Baseline Marketplace and Placer Vineyards developments create destination retail appeal for shoppers.
- Demand for new retail stays relatively flat due to changing consumer patterns and rise of e-commerce.
- Completion of Santucci Blvd and Regional University Specific Plan take longer than expected.

3

Retail Market Overview

Macro Market Study – Growth of E-commerce

Introduction

E-commerce continues to evolve since its emergence nearly 30 years ago, completely transforming the retail sector and reduced market-share for many brick-and-mortar retailers. Impacts of e-commerce have been significant, with many retailers scaling back the number of physical locations and/or decreasing their typical store size.

However, recent studies show that many people still prefer to shop in-person for a hands-on, social experience. For today's retailers to be successful, they must adopt new methods that adapt to the growing e-commerce sector while also creating a unique and attractive in-person shopping experience.

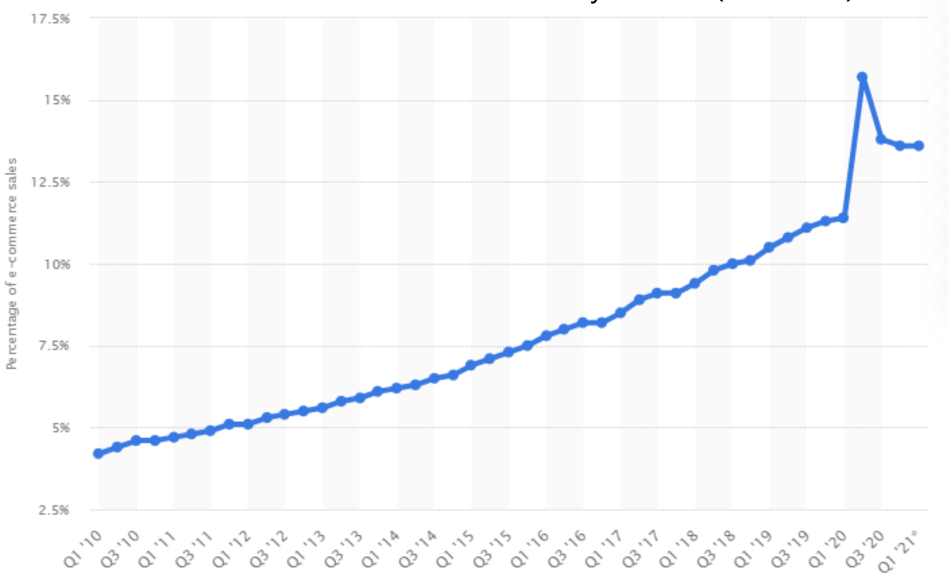
CV-19 and Increased Growth

E-commerce's share of U.S. retail trade revenue grew steadily from 5% in 2010 to 14% in 2019. The CV-19 pandemic accelerated this trend with e-commerce market share growing to 17% of total retail trade revenue, essentially fast-tracking e-commerce growth by five years as shown in Figure 3.1.

This market share has since receded to 15.5% as restrictions eased up in 2021, but it is generally accepted in the industry that the profound transformation will only continue to impact brick-and-mortar retailing. A recent study by CBRE projects that e-commerce will comprise 35% of retail revenues by 2030 and 40% by 2040. As a consequence, brick-and-mortar retailing is likely to decline in aggregate sales volume on inflation-adjusted terms.

E-commerce has accelerated the supply chain of online storefronts, as demonstrated by the convenience of Amazon's one-day Prime delivery service. In response, an increasing number of stores are adopting innovative strategies to remain competitive such as omnichannel shopping in which then integration of online, telephone, and in-person channels backed by a complete logistics channel is used to create a streamlined consumer experience. E-commerce enables businesses to skip many facets of the traditional supply chain model by integrating them all into online software, reducing costs and time (Figure 3.2).

Figure 3.1: E-commerce share of US retail revenues by Quarter (2010-2021)



Source: Statistica

Macro Market Study – Growth of Ecommerce

Figure 3.2: Traditional Vs. Ecommerce Supply Chain Logistics

- Shorter
- Cheaper
- Scalable

Source: Supply Chain 247

E-commerce and Commercial Real Estate & Development

The acceleration of e-commerce has eroded brick-and-mortar retail sales in exchange for growing industrial sector demand. 2020 became an strong year for industrial absorption, especially for newer logistics product, while retail suffered sweeping vacancies across the country.

As physical retailers begin to adopt e-commerce, the space and locational needs of these retailers will shift as well. Larger anchor tenants are converting to smaller stores and reducing the number of stores in operation while increasing their focus on online fulfillment.

Smaller independent retailers selling discretionary goods (non-essential items) are particularly challenged by the growing allure of online marketplaces. Leasing activity for such specialty retailers is significantly lower than it was a decade ago.

The transition to online retail has been documented extensively prior to the pandemic by the International Council of Shopping Centers (ICSC). Service establishments comprise 53% of all retailers in the U.S. and is growing faster as shopping becomes less of a social activity.

Services like food and beverage, laundry, entertainment, repair and maintenance, are growing in market share as these types of businesses are more resilient to e-commerce penetration. Restaurant sales volume has expanded rapidly driven by shifts in demographics and consumer preferences. Similarly, the number of gyms and fitness centers has increased by 39% over the past 10 years.

Looking to the future, experts view that a balance between in-store locations online fulfillment to create a true omnichannel experience for the consumer will provide most tenants with success. There will continue to be a role for brick-and-mortar stores moving forward, but the role of these physical storefronts will change. Retailers will continue to keep a presence in the bricks and mortar world to give their customers the ability to feel products, to support brand creation and representation, to include human engagement in the shopping experience, and to allow for efficient return and delivery service.

It remains profitable to retain a physical store network. For example, primarily online retail brands such as Bonobo report higher online sales in markets where they have a physical presence. But this function requires fewer stores and less space than previously required, particularly from a back-of-house inventory perspective. Ultimately, in the future tenants will be more cautious on physical store expansion plans moving forward, and will gravitate to smaller footprints and fewer but strategically-located geographic locations.

Macro Market Study – E-commerce & Grocery

E-Commerce and Grocery

Significant growth in e-commerce is also posing implications for grocery stores and food delivery systems, primarily for the sake of convenience to the shopper. More grocers are offering online-shopping and fulfillment options to customers, which allow for groceries to be picked, paid and prepared for pick-up or delivery. This process is currently inefficient and costly for grocers as it requires stocking and packaging to be completed twice for a purchase. To become more efficient, micro-fulfillment centers (MFCs) are in the concept stages to automate the packing and sorting process.

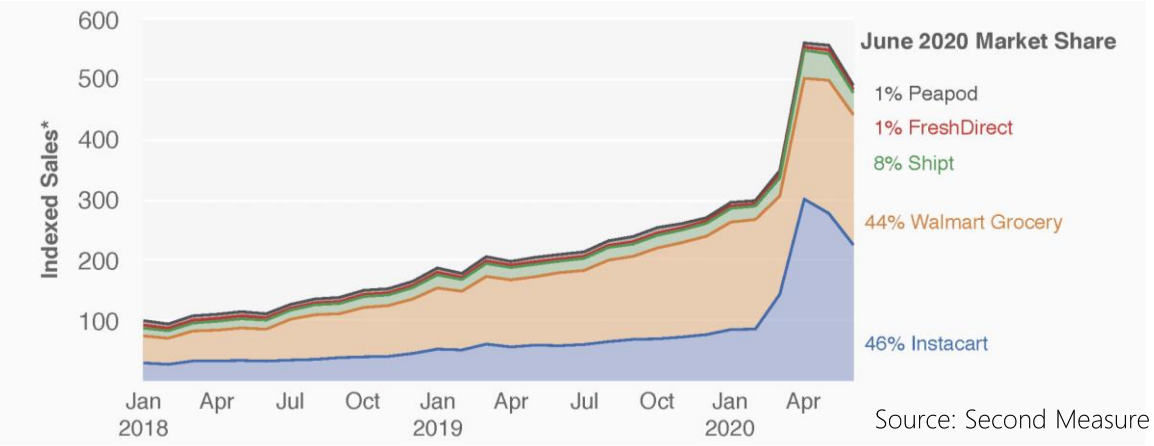
Historically, grocery stores have been resilient to e-commerce adoption due to many unique barriers such as multi-temperature products, oddly-sized and shaped products, thin margins, and the vast number of Stock Keeping Units (SKUs). This has kept e-commerce penetration to approximately 3-4%. The pandemic has accelerated the growth of e-commerce in grocery to 10% of food purchases and is expected to rise to 15% by 2024, essentially the current overall share of e-commerce in the entire retail sector.

There are also new e-commerce companies that are revolutionizing the grocery and food delivery service themselves such as Uber Eats, Instacart, and Shipt. Uber Eats recently expanded their delivery services to offer direct grocery and convenience store items to their customers by acting as a third-party service to grocers and stores. In addition several new enterprises offer solutions for grocers to begin their own delivery service. In addition, companies like HelloFresh and Chefs Plate offer semi-custom meal-kit delivery services that aim to save customers even more time in cooking at a premium.

Although the trends point toward further grocery adoption of e-commerce, the experience of in-store grocery shopping cannot be fully replaced by current technology. This is a major factor of the recent success found in boutique and quality-driven grocers such as Whole Foods Markets and Trader Joes. The recent acquisition of Whole Foods by Amazon points to a significant emerging force in the sector.

Increasing e-commerce penetration will inevitably alter the way grocers plan and choose sites for new locations. As the grocery fulfillment process becomes more automated and efficient, grocery stores may require new hybrid store formats. These locations can act as omnichannel locations where customers shop both online and in-person, and also where groceries are distributed from. The real estate needs of grocers will transform accordingly.

Figure 3.3: US Grocery Delivery Market Share by Company (2018-2020)



Source: Second Measure

Retail Market Summary – Metro Sacramento

Metro Market Overview

Metro Sacramento's retail market responded well to the CV-19 pandemic with purchasing power remaining strong and sales volumes increasing since December 2020. Major deliveries to the market in 2021 have slightly inflated vacancy rates although absorption remains healthy. There is an overall positive outlook for the market as consumer patterns return across the region.

Vacancy and Absorption

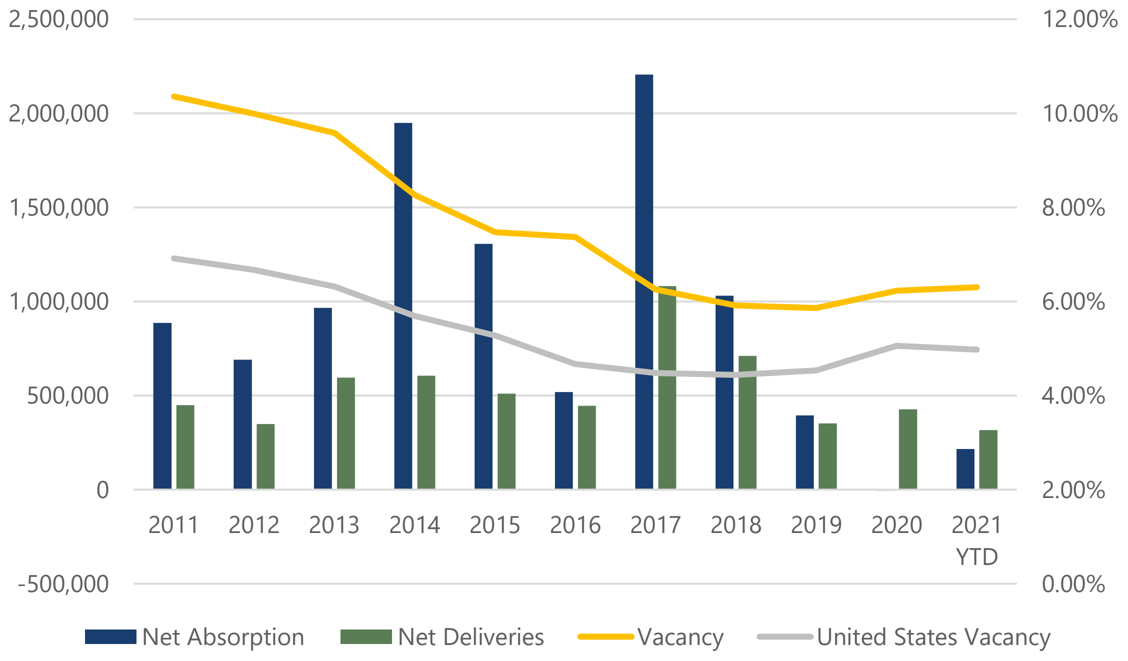
Metro Sacramento's average vacancy rate is currently 6.4%, only 0.3% higher than the market's 3-year average of 6.1%. This is partly due to California's stimulus programs that assisted businesses during the pandemic. Historically, vacancy rates have dropped from over 10% in 2011, displaying increases in demand for retail space up until 2018. Malls, Strip Centers, and Neighborhood Centers have had the highest vacancy rates over the years, with Malls still increasing in vacancy. General Retail and Power Center retail have the highest demand.

Annual net absorption has been positive over the past decade, particularly in 2017 when over two million SF of retail was absorbed into the market. Absorption has decreased annually since the 2017 high, with 2019 only garnering 400,000 SF of absorption. While 2020 featured negative absorption, 2021 has shown an improvement over the first six months. 116,000 SF has been absorbed over the last 12 months, led by South Sacramento and the Roseville submarkets.

Leasing

Leasing activity recorded below 2 million SF for the first time since 2008 due to the pandemic, although slowing demand is a trend the market has demonstrated since 2017. Large deals include the 51,000 SF move-in from Rancho San Miguel Markets, and an 86,400 SF lease from Target. Discount retailers have been the trend for move-ins, with the likes of Falling Prices, That's Cheap, and Dollar Tree all leasing properties across the metro.

Figure 3.4: Sacramento Net Absorption, Deliveries & Vacancy (2011-2021 YTD)



Source: CoStar

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Retail Market Summary – Metro Sacramento

Rent

Rental rates in Metro Sacramento are in line with the U.S. average. The average asking rent is currently $21.46 PSF, approximately 15% higher than Stockton and 30% lower than East Bay. Malls command the highest rents among other retail classes at $28.50 PSF, even considering growing vacancies. Strip Center and General Retail have the lowest asking rents at roughly $19.50 PSF.

All retail classes have experienced declines in rent growth since 2018, although Strip Centers and General Retail are expected to experience positive growth through 2021. The highest asking rents can be found in the Davis and Folsom submarkets, which are approximately 25% higher than the metro average. Rent growth over the past 12 months is at 0.7%, a number forecasted to increase as restrictions are lifted.

Construction / Deliveries

Metro Sacramento's retail development pipeline is currently at one of its lowest levels historically, following a trend of short supply since 2010. Deliveries were the highest in 2017 to 2018, adding approximately 1.8 million SF to the market.

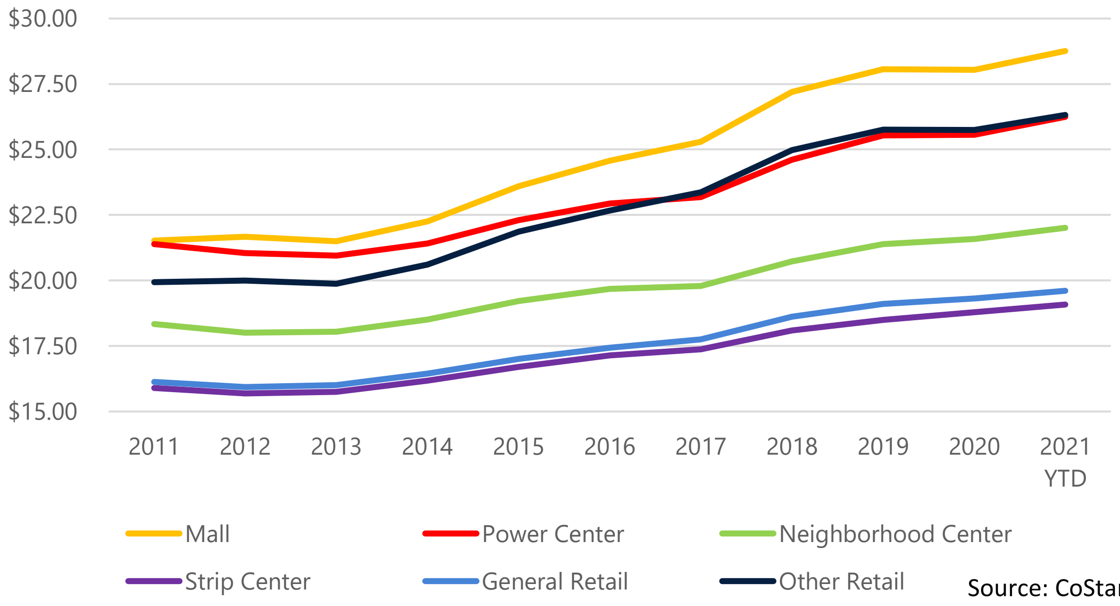
A notable project is the Campus Oaks Town Center located at Blue Oaks and Woodcreek Oaks in Roseville, a 118,000 SF neighborhood center that is receiving strong tenant interest. Tenants include Nuggets Markets, Panda Express, Supercuts and 24-Hour Fitness. Sienna Ridge, another large neighbourhood center project located in El Dorado Hills, added 71,000 SF in 2020.

Roseville/Rocklin is currently the submarket that has the largest under construction inventory. The submarket has approximately 69,000 SF of space in the pipeline and 60% of it is pre-leased. Overall, the metro market has 229,000 SF under construction spread across 34 buildings, 62% of which is pre-leased.

Sales

Sales activity has increased since 2020 due to vaccine rollout and the opening of California. Sales volume is expected to reach $559 million, which is shy of the 2015-19 average annual volume of $799 million. Cap rates have stabilized in the mid 6% area since 2015.

Figure 3.5: Sacramento Retail Lease Rates by Asset Type (2011-2020 YTD)



Source: CoStar

Retail Assessment – Metro & Submarket Conditions

Metro Retail Market Typology Conditions

Metro Sacramento is a relatively healthy retail market, with vacancy at 6.4% and rental rates moderately higher than the national average. Over the past decade the metro has absorbed an average of 912,000 SF of retail space per year. This amount represents 0.83% growth in inventory per year. Conversely, population growth has averaged 1.13%/year over the past decade. As a result, vacancy rates have dropped from 10.8% in 2010 to 6.4% today despite the impact of the pandemic.

Vacancy rates vary considerably by shopping center type throughout the metro. Most notably, Neighborhood Centers and Strip Centers (the two formats most suited to the WB-41 site) have vacancy rates at 8% or higher. Typically, retail vacancy rates should decline to below 7% to attract significant speculative retail development.

Overall, the Metro Sacramento appears poised to support new retail development over the next decade as population growth continues. However, retail is forecast to continue to grow at a moderate pace and below that of overall population increase.

Table 3.1: Metro Retail Market Conditions, Current and Historic

	Current Market Conditions										Historic Market Conditions (2010)						
Metro Sacramento	Inventory SF	Vacancy SF	Vacancy %	Occupied SF	% of Metro Occupied Inventory	Average Net Absorption (SF/Yr)	Average Annual Rent Change	YTD Inventory Growth SF	Asking Base Rents	Cap Rate	Inventory SF	Vacancy SF	Vacancy %	Occupied SF	% of Metro Occupied Inventory	Asking Rents	Cap Rate
Malls	6,960,404	894,375	12.8%	6,066,029	100.0%	36,831	2.29%	3,300	$28.34	6.3%	6,064,736	403,846	6.7%	5,660,890	100.0%	$22.60	7.4%
Power Center	11,186,740	794,750	7.1%	10,391,990	100.0%	185,791	1.23%	166,583	$25.55	6.6%	9,406,076	1,057,784	11.2%	8,348,292	100.0%	$22.60	7.6%
Neighborhood Center	39,493,459	3,177,218	8.0%	36,316,241	100.0%	344,278	1.11%	49,700	$21.67	6.6%	37,729,325	5,200,146	13.8%	32,529,179	100.0%	$19.41	7.7%
Strip Center	9,446,097	771,515	8.2%	8,674,582	100.0%	73,624	1.23%	35,727	$18.92	6.4%	9,275,430	1,410,711	15.2%	7,864,719	100.0%	$16.74	7.7%
General Retail	40,891,283	1,203,294	2.9%	39,687,989	100.0%	263,174	1.38%	182,349	$19.39	6.4%	39,832,611	3,039,535	7.6%	36,793,076	100.0%	$16.90	7.7%
Other Retail	1,532,900	177,372	11.6%	1,355,528	100.0%	7,814	2.20%	5,100	$25.91	6.3%	1,383,491	113,919	8.2%	1,269,572	100.0%	$20.85	7.3%
Metro Total	**109,510,883**	**7,018,524**	**6.4%**	**102,492,359**	**100.0%**	**911,512**	**1.36%**	**442,759**	**$21.40**	**6.5%**	**103,691,669**	**11,225,941**	**10.8%**	**92,465,728**	**100.0%**	**$18.69**	**7.7%**

Source: CoStar

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Retail Market Summary – Roseville/Rocklin

Roseville/Rocklin Submarket Overview

Roseville/Rocklin is a wealthy submarket of Sacramento that translates into strong buying power and a substantial retail market size. The submarket is healthier on average than the metro with lower vacancy rates, positive annual demand, and a consistent supply cycle.

Vacancy and Absorption

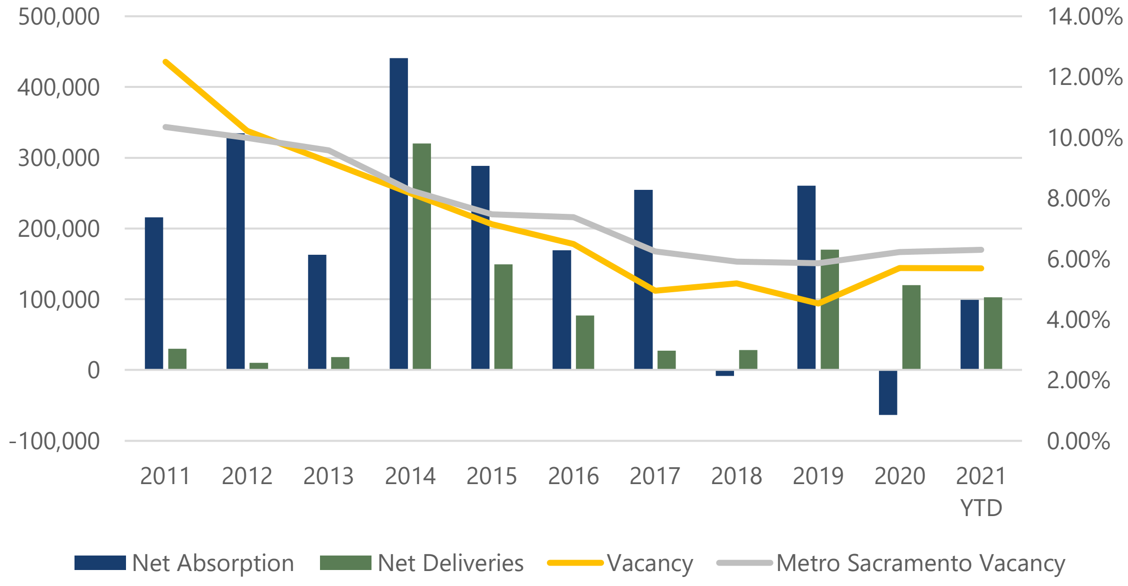
Total vacancy across the submarket typically falls approximately a percentile below the Sacramento average and is currently at 5.4%. Vacancies have been steadily dropping since 2011 and have only risen recently due to the pandemic. They are expected to level out into 2021 as markets stabilize. The 5-year average vacancy rate is a healthy 5.3%.

Demand has been strong with net positive absorption across past decade aside from 2018 and 2020. 2014, 2015, and 2019 were particularly robust years for absorption, reaching above 200,000 SF annually. The submarket had a higher net absorption over the past 12 months compared to Sacramento, with a total of 133,000 SF absorbed, demonstrating Roseville/Rocklin's attractiveness for retail in the metro.

Leasing

The types of tenants in Roseville/Rocklin reflect the high wages and buying power of the community. Major big box tenants like Target, Bed Bath & Beyond, and Nordstrom Rack and upscale grocers such as Whole Foods are located in the submarket. Several notable deals have been signed over the past year, including a 16,600 SF property move-in by Goldfield Trading Post, a music venue, at 238 Vernon St. Most lease signings were under 10,000 SF, which is historically typical of the Roseville/Rocklin submarket.

Figure 3.6: Roseville/Rocklin Net Absorption, Deliveries & Vacancy (2011-2020 YTD)



Source: CoStar

Retail Market Summary – Roseville/Rocklin

Rent

Rent growth has slowed since 2018, although still on par with the metro at 0.5%. Annual gains over the past three years averaged 2.9%. The average asking rent is $24.74 PSF and is one of the highest across Sacramento submarkets. The total asset value of the submarket is $3.8 billion, or 15.8% of the metro's total asset value.

High rents are attributed to the area's concentration of malls and power centers, which account for roughly one third of the total product. Rents are trailing by 5% of the asking rate in 2008. General Retail and Strip Center product are among the fastest growing rents in the submarket. Malls command an average $34.00 PSF, substantially higher than Power Center asking rates of $26.50 PSF. This is likely influenced by the Westfield Galleria at Roseville and its destination appeal.

Construction / Deliveries

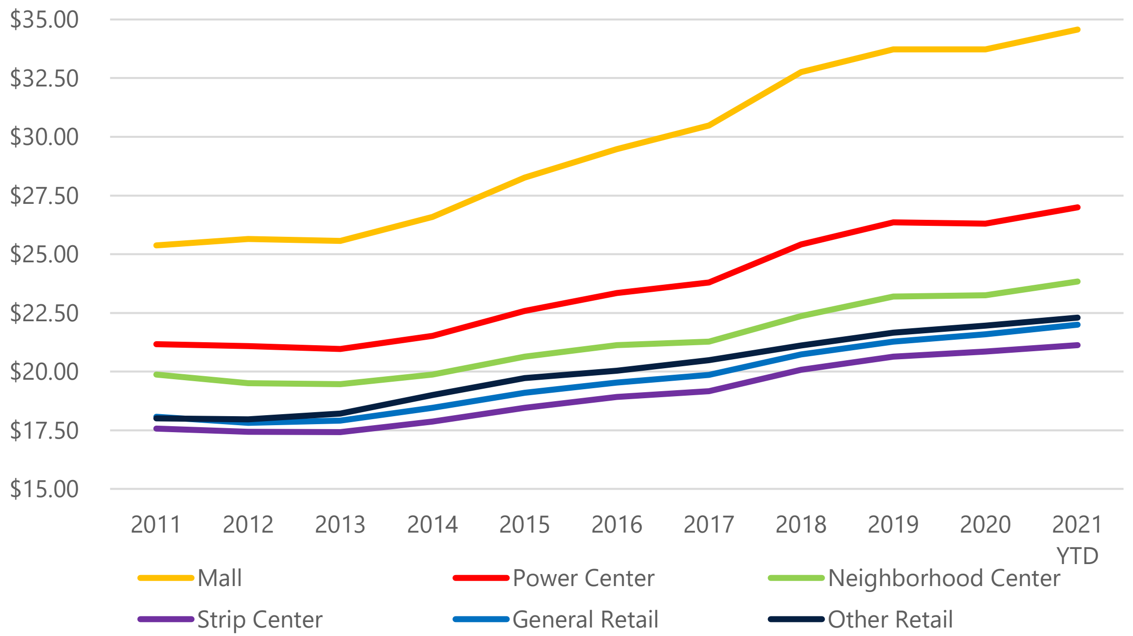
Several deliveries have been completed in 2021, including the 43,000 SF Campus Oaks Town Center. Nugget Markets, Panda Express, Starbucks and a community center are among the tenants of the power center. 2015, 2019, and 2020 were significant years for net deliveries in the submarket, each adding over 100,000 SF of retail space.

Construction activity has decreased since the pandemic and is forecasted to be limited in the near term. Overall, 216,000 SF has been delivered over the past 12 months and approximately 68,500 SF is under construction. Proposed developments are primarily concentrated along I-80 and the Route 65 corridor.

Sales

Sales activity has been limited since 2019 as investors are cautious due to the pandemic. Average transactional price is near $300 PSF. Cap rates are lower than the metro average at 5.8%. A notable transaction is Living Spaces' $28.8 million purchase of a 109,000 SF building at 1851 Freedom Way.

Figure 3.7: Roseville/Rocklin Retail Lease Rates by Asset Type (2011-2020 YTD)



Source: CoStar

Retail Assessment – Metro & Submarket Conditions

Roseville-Rocklin Retail Submarket Typology Conditions

The Roseville-Rocklin submarket is one of the strongest in Metro Sacramento, driven by strong demographics and rapid population growth. Roseville-Rocklin exhibits lower vacancy rates than the wider Metro (5.4% versus 6.4%) and higher average rental rates ($24.78 versus $21.40). The submarket contains 15.4 million SF of inventory (14% of Metro total) yet has absorbed an average of 195,000 SF/year since 2010 or over 21% of Metro absorption.

It is important to note that the low overall retail vacancy in this submarket is driven by the very low vacancy rate for Malls (3.4%), Power Centers (3.7%) and General Retail (1.6%). Roseville-Rocklin does exhibit signs of over-development of Neighborhood Centers and Strip Centers, where vacancies exceed 9% vacant, asking rents are low and have increased marginally in the range of 0.33%/year since 2010.

In summary, Roseville-Rocklin appears poised to continue its growth as a retail powerhouse in the Metro area. However, it is anticipated that the current over-supply of Neighborhood Centers and Strip Centers will result in consolidation of these formats over the next decade, with new development occurring in only the most strategic locations central to new residential subdivisions.

Table 3.2: Roseville-Rocklin Retail Market Conditions, Current and Historic

	Current Market Conditions										Historic Market Conditions (2010)						
Roseville-Rocklin Submarket	**Inventory SF**	**Vacancy SF**	**Vacancy %**	**Occupied SF**	**% of Metro Occupied Inventory**	**Average Net Absorption (SF/Yr)**	**Average Annual Rent Change**	**YTD Inventory Growth SF**	**Asking Base Rents**	**Cap Rate**	**Inventory SF**	**Vacancy SF**	**Vacancy %**	**Occupied SF**	**% of Metro Occupied Inventory**	**Asking Rents**	**Cap Rate**
Malls	1,712,319	57,766	3.4%	1,654,553	27.3%	(646)	1.64%	0	$34.22	6.1%	1,702,619	40,964	2.4%	1,661,655	29.4%	$29.07	7.1%
Power Center	3,552,373	130,293	3.7%	3,422,080	32.9%	58,110	0.59%	6,000	$26.37	6.4%	3,216,259	433,391	13.5%	2,782,868	33.3%	$24.87	7.4%
Neighborhood Center	5,064,820	459,834	9.1%	4,604,986	12.7%	52,379	0.34%	47,500	$23.56	6.2%	4,963,218	934,404	18.8%	4,028,814	12.4%	$22.77	7.4%
Strip Center	1,096,861	105,085	9.6%	991,776	11.4%	19,228	0.32%	0	$20.98	6.2%	1,059,964	279,696	26.4%	780,268	9.9%	$20.32	7.6%
General Retail	3,812,847	60,856	1.6%	3,751,991	9.5%	54,827	0.51%	46,400	$21.74	6.4%	3,384,570	235,681	7.0%	3,148,889	8.6%	$20.66	7.7%
Other Retail	137,337	15,141	11.0%	122,196		11,109		5,100	$22.24	5.8%	-			-			
Local Submarkets	**15,376,557**	**828,975**	**5.4%**	**14,547,582**	**14.2%**	**195,008**	**0.58%**	**105,000**	**$24.78**	**6.3%**	**14,326,630**	**1,924,136**	**13.4%**	**12,402,494**	**13.4%**	**$23.40**	**7.4%**

Source: CoStar

Retail Market Summary – Roseville

Roseville

Roseville currently has strong retail performance than its submarket. There is 11.3 million square feet of retail inventory, a substantial amount for a city of its population size. This translates to 77 square feet of retail per capita which is well above the U.S. average of 24.5 square feet per capita (Source: Lincoln Institute of Land Policy). Retail is concentrated near the I-80 including the Galleria, the Fountains at Roseville Creekside Town Center, Stanford Crossing, and Downtown Roseville.

Vacancy as of June 2021 is at 4.6% with average retail rents of $25.87. The significant amount of new residential development that has been constructed on the west side of the city has increased retail spending and driven demand for new retail, especially for day-to-day goods such as grocery, pharmacy, and food & beverage. There has been limited new retail construction on the west side of the city to match the anticipated demand of new residents, especially in the West Roseville and Sierra Vista Specific Plan areas.

Discussions with local experts note that there has been little interest from larger California or Bay Area developers to develop retail in the Roseville market. All recent and upcoming developments are expected to be constructed by local developers.

Increased e-commerce spending over the past decade coupled with the CV-19 pandemic have also made retail developers more hesitant to build speculative retail, with current preferences to build in established trade areas that have little risk. These trends have likely played a factor into retail development on the west side of the city.

11.3 Million

Total Retail Inventory (SF)

93,000

Retail Under Construction (SF)

4.6%

Retail Vacancy

$25.87

Average Retail Rent

Retail Market Summary – 10-Minute Drive Distance

10-Minute Drive Time Retail Market Overview

Although there has been a significant amount of residential development on the west side of the city, there has been limited new retail development in recent years.

Retail product in the area is over a decade old and is comprised primarily of neighbourhood centers, standalone buildings, and a strip center. There is approximately 611,000 SF of total inventory spread across 11 sites in a 10-minute drive time from site WB-41. A map of competitive retail sites is displayed further in this section.

Vacancy and Absorption

The local market has nearly double the vacancy compared to the Roseville/Rocklin submarket at 9.9%. Vacancy dropped historically to a low of 2.3% prior to rising again in 2018 and further throughout the pandemic. The 10-year high of 11.5% vacancy occurred in 2011. Vacancy is more volatile in this trade area due to a smaller inventory. Most vacant spaces are below 10,000 SF in size. Vacancy rates are forecasted to decrease as retail sales grow and retailers look to expand operations out of the pandemic.

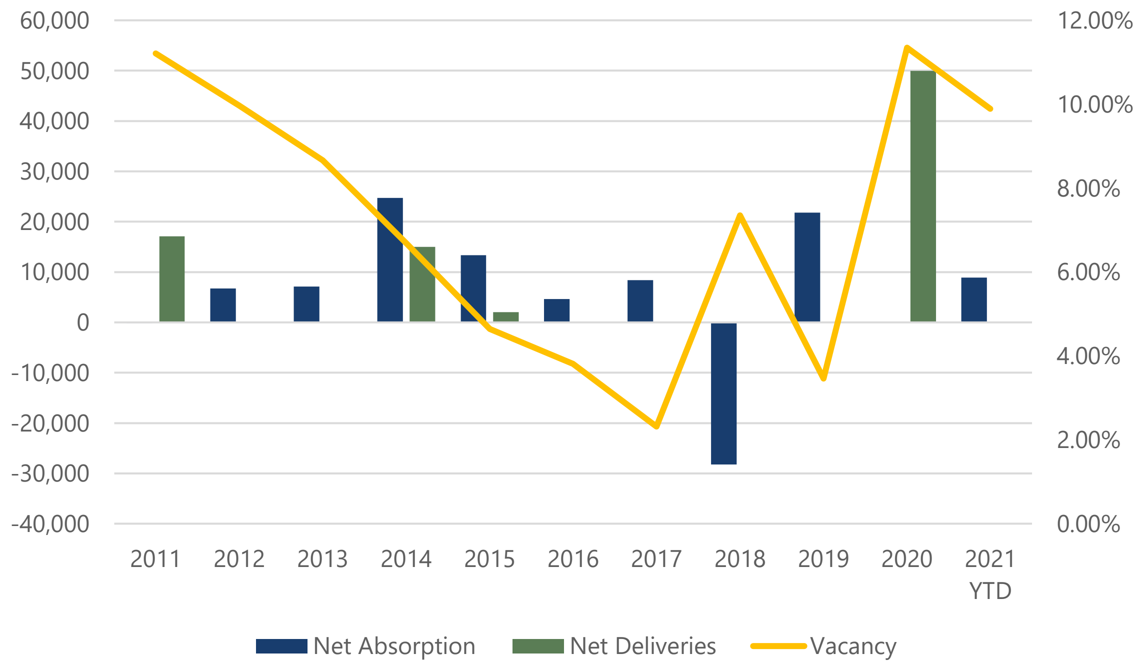
Absorption has been limited in the past decade, with only two years experiencing more than 20,000 SF of retail absorption. The past 12 months saw 16,600 SF of space absorbed into the trade area which falls in line with typical metrics.

The completion of the Plaza at Blue Oaks is expected to increase deliveries and absorption in the trade area.

Leasing

Annual leasing activity has historically maintained below the 20,000 SF mark until recently where larger deals upwards of 25,000 SF were signed. A total of 11,500 SF has been leased in the last year, which is approximately 2.5% of the area's total inventory.

Figure 3.8: 10-Min Drive Area Net Absorption, Deliveries & Vacancy (2011-2020 YTD)



Source: CoStar

Retail Market Summary – 10-Minute Drive Distance

Rent

The 10-minute drive time area commands a slightly lower rent than the Roseville/Rocklin submarket at $22.80 PSF, due to the absence of Mall and Power Center product which garner higher rents. Rents have averaged 3% annual growth since 2014.

Construction / Deliveries

The construction pipeline has been very limited over the past decade, with a very active few years from 2011 to 2013, lightly in 2015, and 50,000 SF in 2020. Net deliveries over the past decade totals 84,070 SF, which is approximately 14% of the area's total inventory.

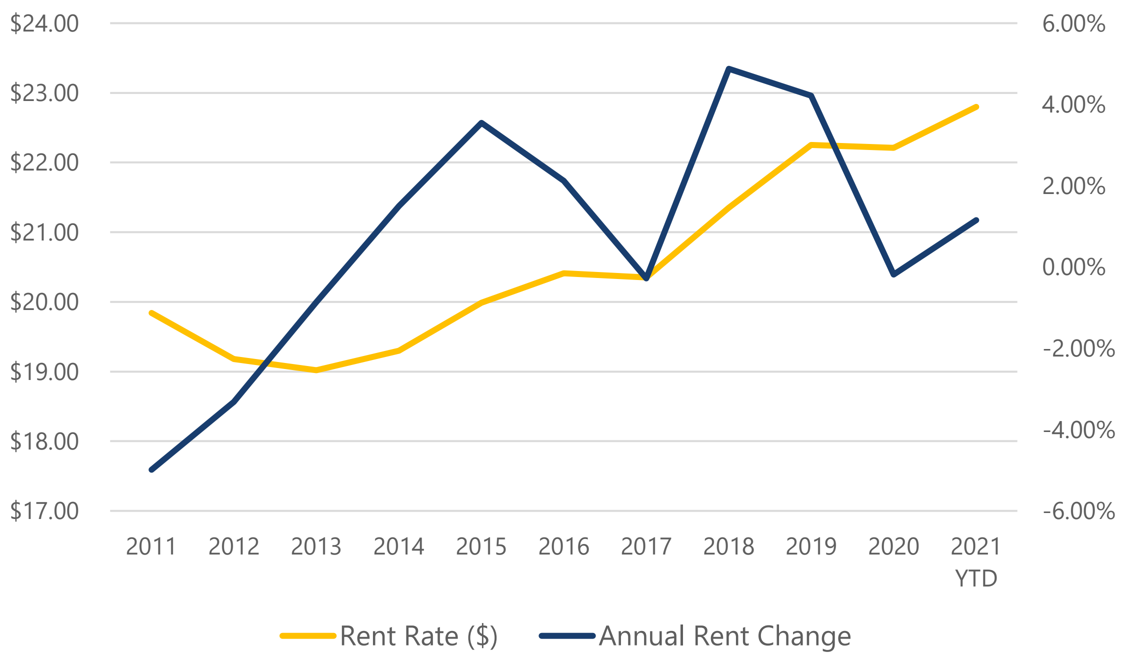
There is 24,700 SF of space currently under construction at the Westpark Village Center at the intersection of Pleasant Grove Blvd and Village Plaza Drive. The neighborhood center will offer 7 spaces ranging from 1,000 to 3,000 SF in size and be anchored by restaurants and coffee shops. This development will add retail options to an underserved Westpark community.

The Plaza at Blue Oaks is the most significant retail project under construction at nearly 50,000 SF. It will be anchored by a Raley's grocery and is expected to have national inline tenants. This retail center is at an important intersection and will draw from a significant established population base.

Sales

Given the relatively small number of properties in the area, sales activity over the past decade reached a high of $15 million in 2020. Cap rates dropped from 7.5% to 6.2% over the past 10 years as net operating income increased from rising rental rates.

Figure 3.9: 10-Minute Drive Area Rent Rate vs. Annual Rent Change (2011-2020 YTD)



Source: CoStar

Competitive Retail

There are a total of 9 retail areas that are in competition with the site by terms of a 10-minute drive distance. Most of the concentration by size is at the east along Foothills Rd and total for 522,848 SF of retail space, or 96% of the area inventory.

The closest retail site is currently at 1771 Pleasant Grove Rd and is a CVS Pharmacy occupying a single-tenant building. In terms of direct competition, the site will be near the upcoming Plaza at Blue Oaks, located at 5351 Fiddyment Rd, and the under construction Westpark Village just north of Pleasant Grove Blvd at Village Plaza Dr.

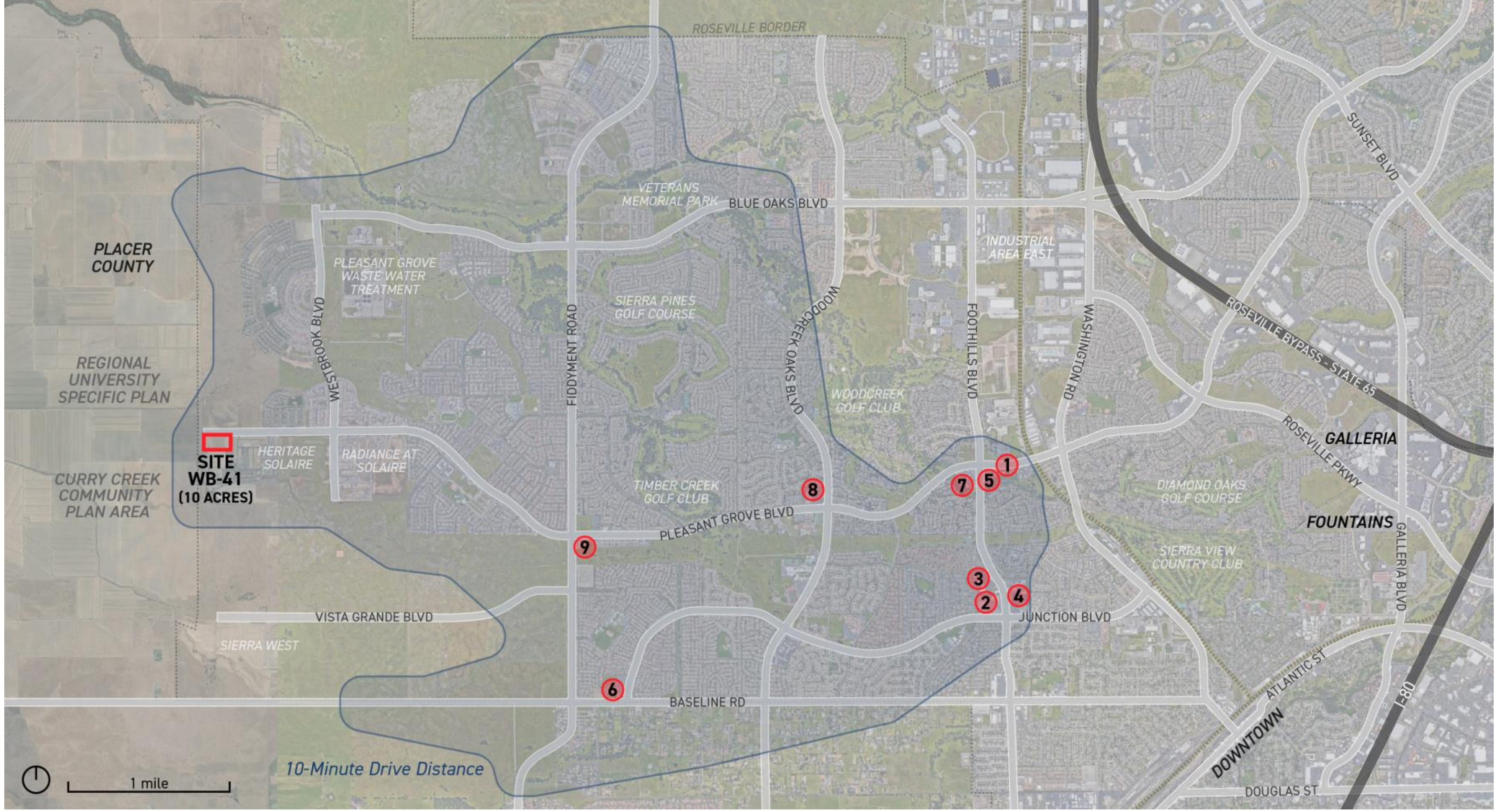


Table 3.3: Competitive Retail within a 10-Minute Drive Distance

Source: Google Earth, CoStar

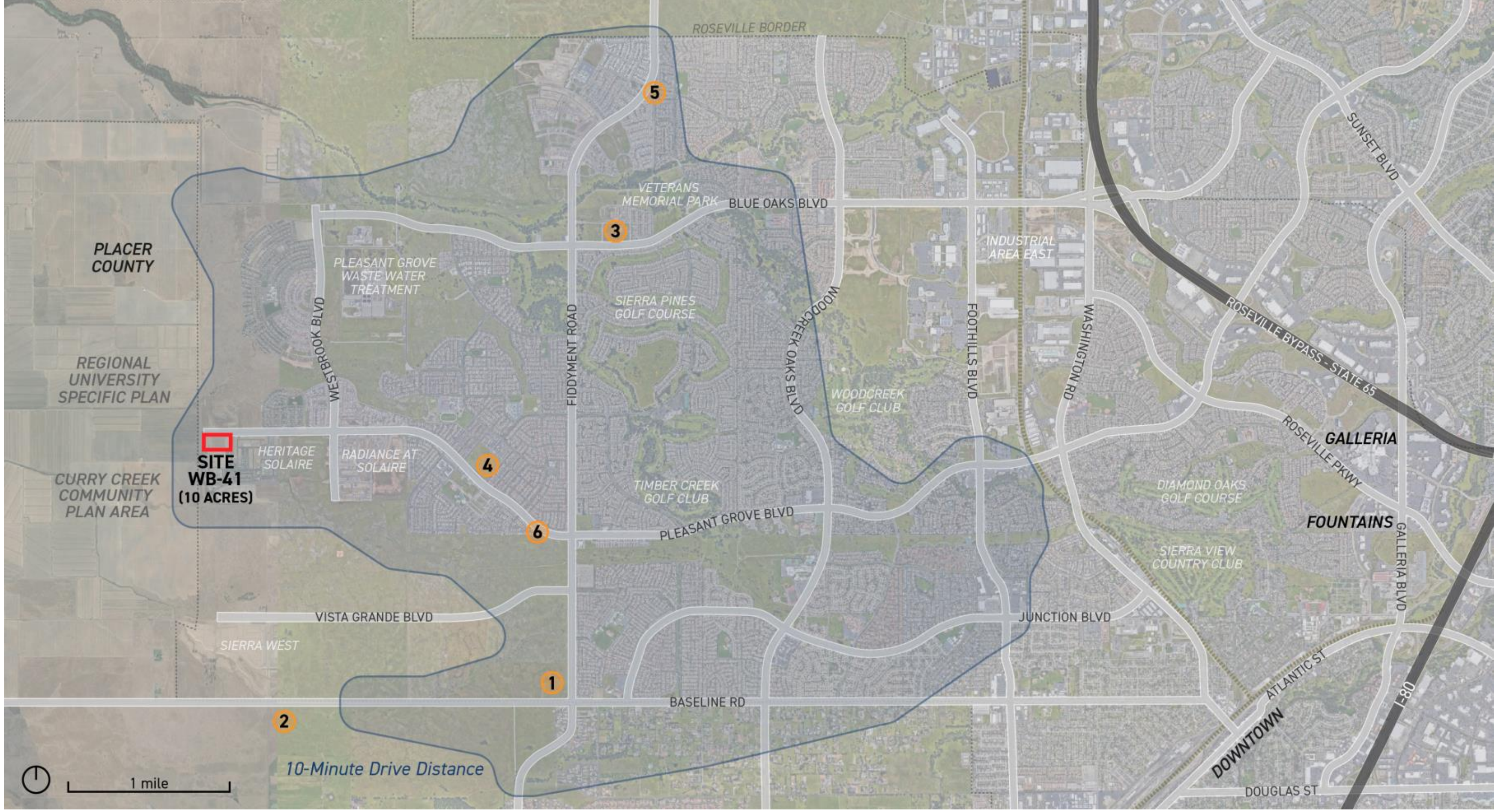
#	Name	Address	Size (SF)	Type	Asking Rent (PSF)	Year	Anchor Tenant(s)	Buildings
1	Arbor View Village	1241-1253 Pleasant Grove Blvd, 7441 Foothills Blvd	60,014	Neighborhood Center	$21-25	2005	Medical Offices and Individual Retailers	6
2	Foothill Junction Shopping Center	5003-5181 Foothills Blvd	111,050	Neighborhood Center	$20	1999	Fast Food, California Family Fitness, Woodcreek Kindercare	9
3	Foothill Village Oaks	5100-5180 Foothills Blvd	83,438	Neighborhood Center	$21	2005	Kiddie Academy of Roseville, A&W, Dollar Tree, AutoZone	5
4	Foothills Junction	5010-5098 Foothills Blvd	109,903	Neighborhood Center	$18-22	1996	CVS Pharmacy, Save Mart Supermarket, UPS, Taco Bell	8
5	Pleasant Grove Pavilions	1259 Pleasant Grove Blvd, 7451 Foothills Blvd	23,632	Strip Center	$18-22	2006	Medical Offices and Individual Retailers	2
6	Playcare Learning Center Plaza	4070-4100 Baseline Rd	6,770	Strip Center	$17-21	2021	Rose Café & Bagel and Individual Retailers	2
7	Woodcreek Plaza	1261-1271 Pleasant Grove Blvd, 7452 & 7480 Foothills Blvd	52,950	Neighborhood Center	$19-21	2002	Childtime Learning Center, Arco, Individual Retailers	8
8	Woodcreek Village Shopping Center	4001-4051 Woodcreek Oaks Blvd	81,861	Neighborhood Center	$20-24	2002	Wells Fargo, Starbucks, Coldwell Banker, Raley's	5
9	1771 Pleasant Grove Rd	1771 Pleasant Grove Rd	17,120	General Retail		2011	CVS Pharmacy	1

Under Construction & Proposed Retail

There are 4 notable under construction and proposed retail projects around the site, two of which under construction. Westpark Village is only a few minutes' drive from the site and will feature an assortment of food & beverage and independent retailers.

The Plaza at Blue Oaks located at is slated for completion in 2022 and will be anchored by a Raley's grocery and have other brands like Subway, Chipotle, and Papa Murphy's.

Although in proposal stage, Baseline Marketplace and Placer Vineyards will add almost a combined 1 million SF of retail to the local market, including big box stores, grocers, and small retailers.



Source: Google Earth, CoStar, CBRE

Table 3.4: Under Construction & Proposed Retail Projects within a 10-Minute Drive

#	Name	Address	Size (SF)	Type	Asking Rent (PSF)	Stage	Year	Anchor Tenant(s)	Building(s)
1	Baseline Marketplace	Baseline Rd & Fiddyment	744,000	Neighborhood Center	N/A	Entitled	N/A	Grocery, Department Store, Large	35
2	Placer Vineyards	Baseline Rd & Watt Ave	250,000	Neighborhood Center	N/A	Entitled	N/A	Grocery, Restaurants, Gas Stations	5
3	The Plaza at Blue Oaks	5351 Fiddyment Rd	49,950	Power Center	$14-17	Under Const.	2022	Raley's, Potentially: Subway, Chipotle, Papa Murphy's	1
4	Westpark Village Center	2300 Pleasant Grove Blvd	24,700	Neighborhood Center	$15-20	Under Const.	2021	MoJoe's, 747 Kitchen, Independent Retail & Offices	4
5	WRSP Fiddyment Plaza	4701 Fiddyment Rd	8,802	Strip Center	N/A	Proposed	N/A	Mixed-Use: Gas Station, Restaurant, Retail, Convenien	2
6	WRSP W-20 Coffee Shack	1875 Pleasant Grove Rd	910	Pad Retail	N/A	Proposed	N/A	Coffee Shop with Drive-Thru	1

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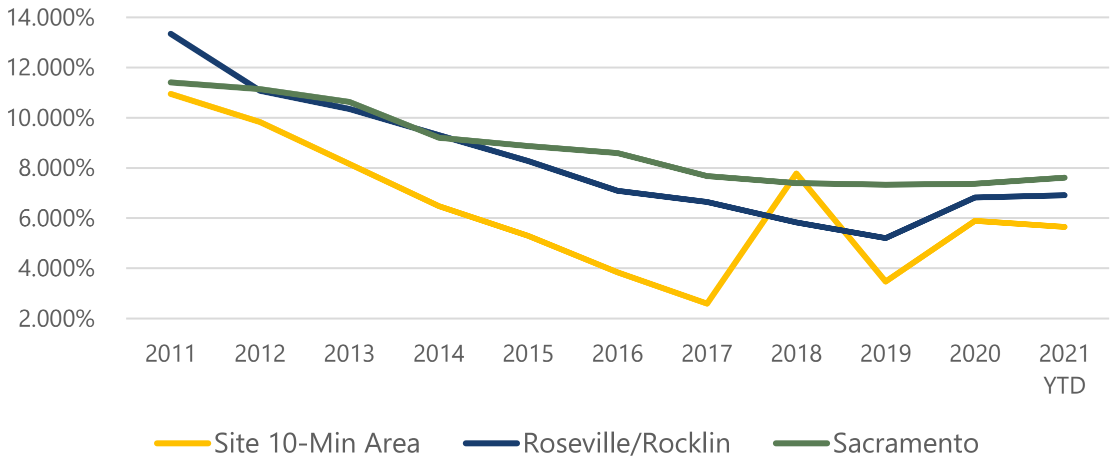
Market Comparison

Vacancy rates are the most variable in the Site 10-Min Drive Area due to a relatively small retail inventory, although currently are of the highest in comparison to Roseville/Rocklin and Sacramento, both of which between 5-6%.

Availability rates for the three markets have maintained close distance to one another over the past decade, now hovering between 5-8%. Availability rates have more than halved over the last 10 years due to positive net annual absorption across the metro market.

Of the 10-Minute Drive Area, Roseville/Rocklin, and Sacramento, The Roseville/Rocklin submarket commands the highest lease rates by far, due to the prestigious Galleria and other malls and power centres. Sacramento has the lowest lease rates on average.

Figure 3.11: Availability Rate Comparison (2011-2020 YTD)



Source: CoStar

Figure 3.10: Vacancy Rate Comparison (2011-2020 YTD)

Source: CoStar

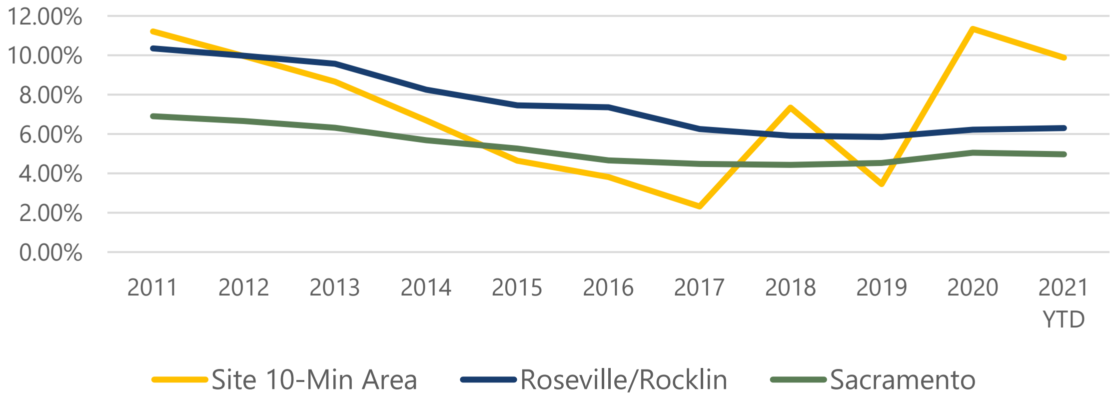
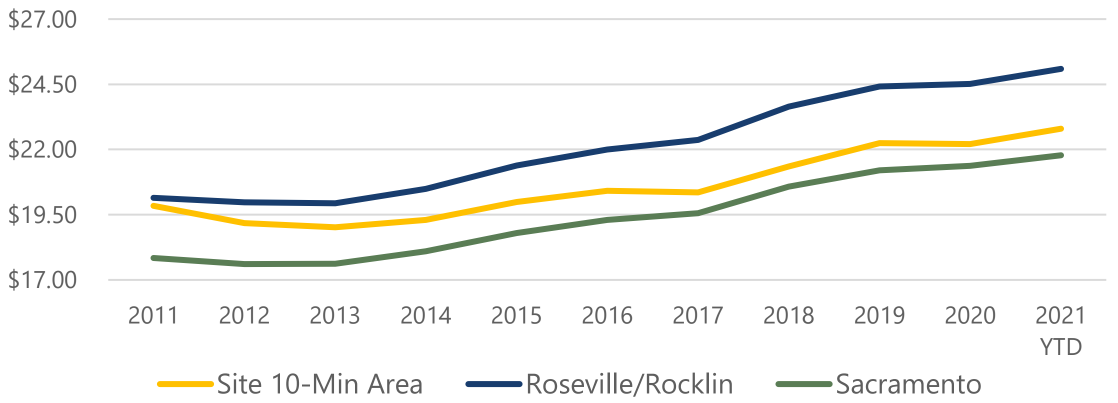


Figure 3.12: Lease Rate Comparison (2011-2020 YTD)

Source: CoStar



Implications for WB-41 Site

- Vacancy in Metro Sacramento market is at a steady 6% and the retail market has not been impacted significantly by the pandemic compared to some other metro areas.
- Retail absorption has slowed in recent years as developers have built smaller retail centers. Malls and Power Centers capture the highest lease rates in Sacramento and particularly in Roseville/Rocklin.
- Community-scale retail formats in Roseville have experienced higher vacancies and lower rental growth than malls and power centers.
- The high household income and buying power of Roseville/Rocklin combined with the under-construction housing in the area will support additional retail development in the area. However, this activity is likely to be drawn to a number of competing sites that are more strategically located.
- There is a limited amount of competitive retail currently in the 10-minute drive time from site WB-41, however there are many zoned Community Commercial sites that may be developed first and capture significant market share and pent-up demand.

Blue Oaks Blvd & Woodcreek Oaks Blvd

2300 Pleasant Grove Blvd

MXD DEVELOPMENT STRATEGISTS

4

Retail Anchor Tenant Opportunity Assessment

Retail Gravity Model Analysis

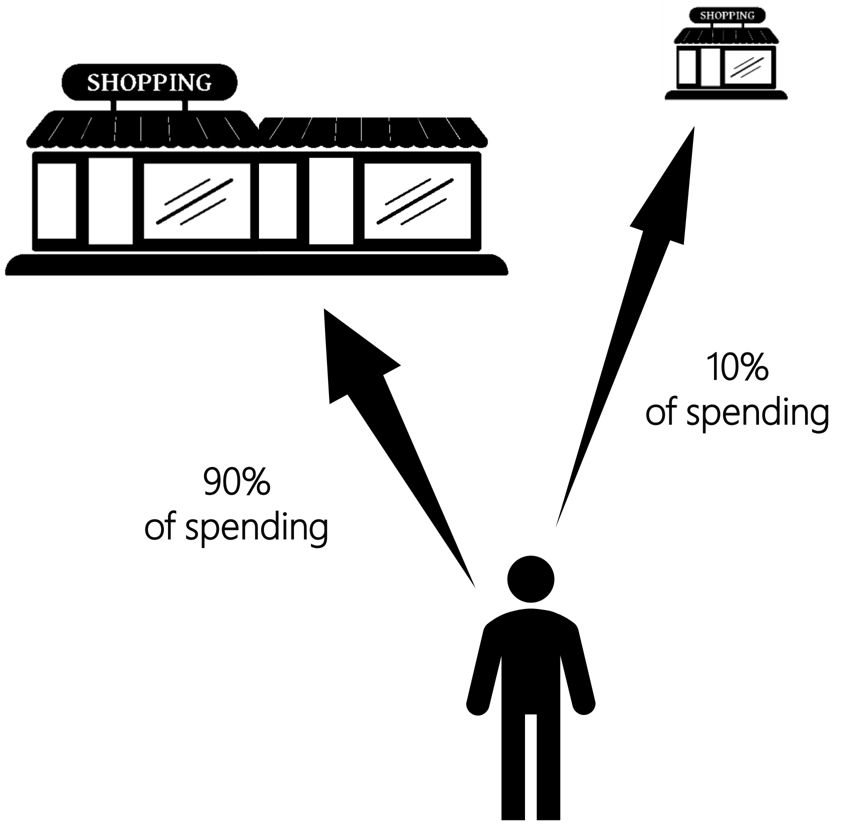
The 10-acre WB-41 site is of sufficient size to support a Community-scale shopping center of 100,000 to 150,000 SF. Such developments typically require an anchor tenant such as a supermarket in order to attract inline tenant interest and construction financing. Anchor tenants do not pay high rents for suburban locations but are essential to attract the inline tenants which pay a rental premium to capitalize off anchor traffic.

Given the importance of a supermarket tenant in ensuring project feasibility, it is essential to evaluate the WB-41 site from an anchor tenant perspective. Supermarkets and drug store chains use an advanced analytical technique known as the Gravity Model to project sales at potential new locations.

Gravity model forecasts are based on established shopping travel patterns documented by operating retail anchor stores. An individual's annual patronage at one supermarket over another is largely a function of the travel time to the store from their home and the store size. Shoppers are drawn to supermarkets that are easier to drive to and that are larger so offer a wider variety of products (Figure 4.1). People are generally more sensitive to travel time for Convenience goods such as supermarket and drug stores than they are for Comparison shopping goods such as home electronics, clothing, home furnishings, etc. This sensitivity can be used to successfully forecast sales at potential new locations.

While individual shoppers can often diverge from expected travel behavior, aggregate markets such as neighborhoods typically demonstrate highly predictable shopping travel patterns. A Retail Gravity Model is used to formalize this predictability to estimate retail sales at new anchor store locations. The model works by comparing the location and size of all competing centres in a particular market (the "supply") as well as each neighborhood's location and retail spending potential (the "demand"). The Gravity Model forecasts total sales at a potential location as well as providing supporting evidence such as where the supermarket is expected to realize high market share.

Figure 4.1: Key Factors in Deciding Where to Shop



A shopper is more likely to shop at a retail center which is larger and closer than one that is smaller and more remote.

Retail Assessment

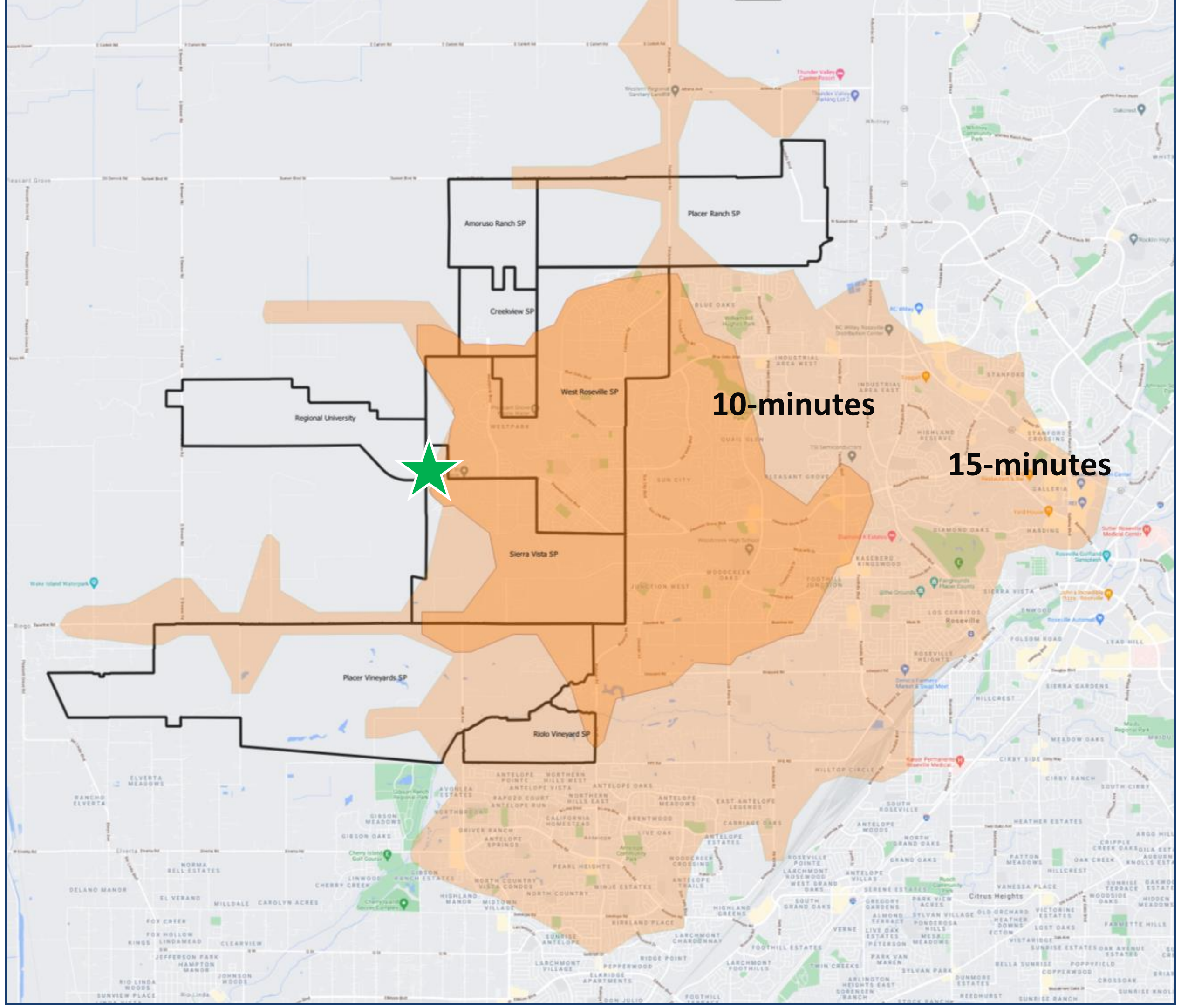
The WB-41 site is approximately 10 acres and so could accommodate over 100,000 SF of retail space in a conventional community shopping center format. Such a development would require an anchor tenant to be feasible. As such, the Retail Gravity Model analysis focused specifically on the viability of an anchor-sized 40,000 SF Supermarket at the WB-41 site.

A drugstore such as CVS or Walgreens could potentially anchor the WB-41 development. However, these operators seek out the same site criteria as a Supermarket, and so the analysis serves as a benchmark for the overall viability of any type of Convenience Retail at the site.

Suburban residents typically drive less than 15 minutes to shop at a Supermarket, with the majority driving less than 10 minutes. The Retail Gravity Model was input with the current and future population located within a 15-minute drive of the WB-41 site as well as their spending profile on Supermarket items. Recognizing that new road infrastructure will improve drive-time access to WB-41 the Gravity Model was run on radius distance from each neighborhood to the site rather than the drive-time to account for the impact of future road network development.

The planned new subdivisions were also input to the model along with mix of dwelling units and associated population estimates. The Supermarket spending profile for these future residents is currently unknown. As such, the average annual Food-at-Home spend per resident within a 10-minute drive time of $2,807 was used as the basis for these new residents (Source: CoStar, Environics). All dollar values in this analysis are held constant.

Figure 4.2: WB-41 Site and Drive-Time Zones



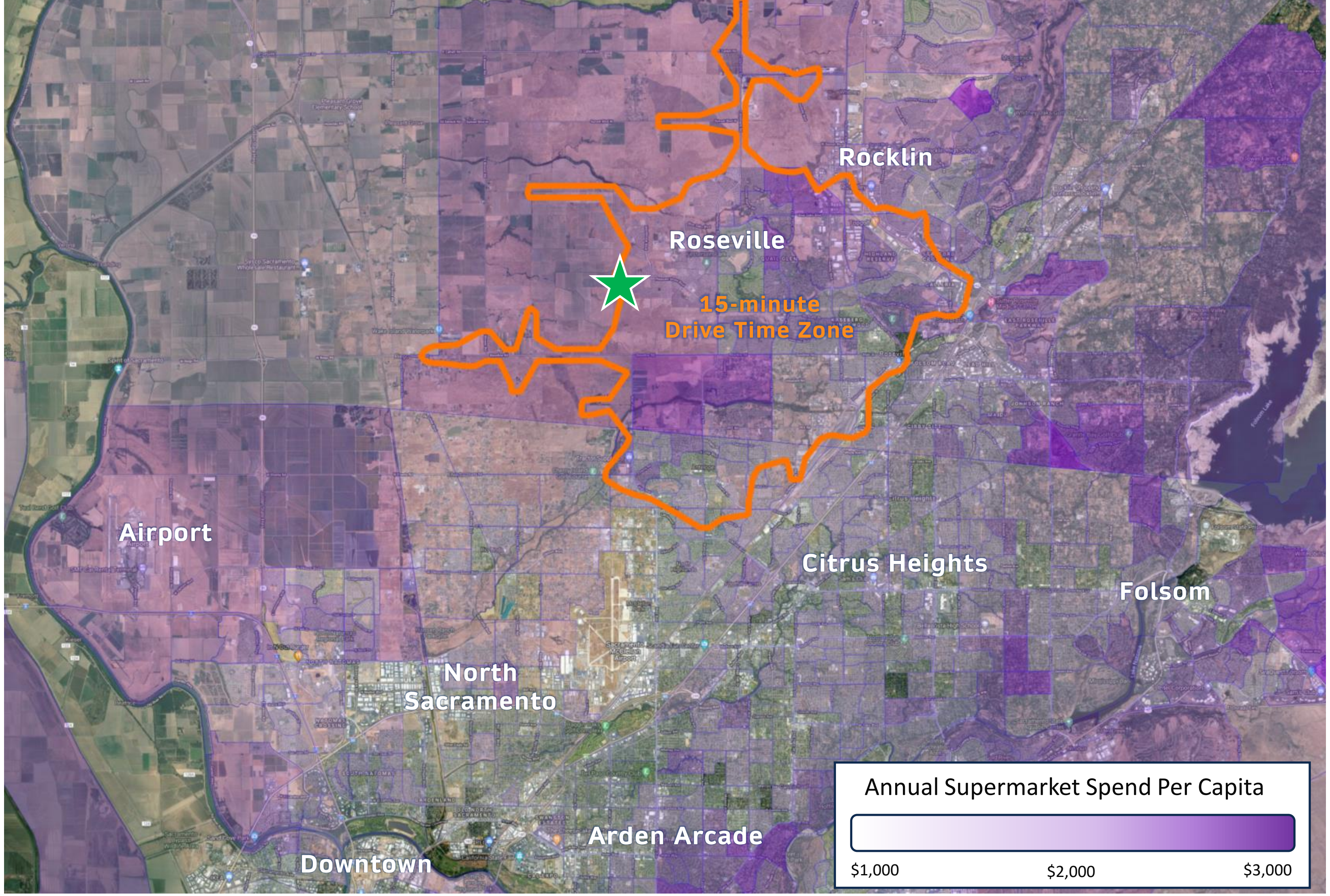
Retail Assessment

As Figure 4.3 illustrates, Supermarket spending is particularly high within the 15-minute drive time zone. Supermarket spending is highly correlated with household income, and to a lesser extent with rates of home ownership (renters tend to dine out more frequently), and age profile (older residents tend to consume less groceries than younger residents).

Roseville's higher income and younger family-oriented profile results in very high spending on Supermarket merchandise. This retail category is highly correlated with other "Convenience" retail categories such as Drug Store, Personal Services, and Fast Food, and so is indicative of overall support for a Convenience Retail Hub.

It is anticipated that the 15-minute Drive Time Zone will continue to be a high Supermarket expenditure area over the forecast horizon as new subdivisions are built out.

Figure 4.3: Average Annual Per Capita Expenditure on Supermarket Goods



MXD DEVELOPMENT STRATEGISTS

Retail Assessment

As a foundation to the Gravity Model analysis, the total number of additional Supermarkets supportable in West Roseville, Creekview and Sierra Vista at build-out was calculated. Based on the anticipated population and build-out, and assuming the new population will continue to demonstrate the same high level of Supermarket expenditure as current residents, then a total of 262,128 SF of new Supermarket floorspace could be introduced locally.

However, this initial estimate must take into account the new Raley's currently under construction at Blue Oaks Plaza as well as the estimated net outflow of Supermarket expenditure from the local Trade Area (most notably to Whole Foods, Costco, Trader Joes and Super Wal-mart). Furthermore, based on the shift to online grocery described previously, an estimated 20% of expenditure on Supermarket-type merchandise is expected to shift from brick-and-mortar operations to online operations.

Taking these factors into account, it is estimated that **West Roseville, Creekview and Sierra Vista could ultimately accommodate an additional 135,383 SF of Supermarket floorspace by build-out, or three to four individual locations (excluding the new Raley's at Blue Oaks Plaza).**

In order to project sales at a WB-41 Supermarket, four sites were identified from the 25 properties zoned "Community Commercial" that could support a Supermarket-sized operation and which offered relatively strategic site factors as well as sufficient distance from competitors to warrant a new location. These were input to create the future competitive environment. While the precise location and composition of future Trade Area competition is unknown, the key objective is simply to estimate the general performance of a WB-41 Supermarket based on the anticipated level of competition at build-out, however that competition will ultimately manifest.

Table 4.1:
Supermarket Demand Calculation
for West Roseville, Creekview & Sierra Vista at Build-out

Supermarket Demand Forecast	
Population at Build-out	53,000
Trade Area Supermarket Expenditure Per Capita ($2021)	$2,807
Trade Area Total Supermarket Expenditure ($2021)	$148,771,000
Supermarket Average Sales Per SF ($2021)	$567.55/SF
Trade Area Supportable Supermarket SF	262,128 SF
Less Trade Area Net Outflow	15%
Less Outflow to E-commerce	20%
Adjusted Trade Area Supportable Supermarket SF	170,383 SF
Less Raley's at Blue Oaks Plaza (Under Construction)	35,000 SF
Incremental New Supportable Supermarket Floorspace	135,383 SF
Estimated Number of New Supermarket Locations	3 to 4

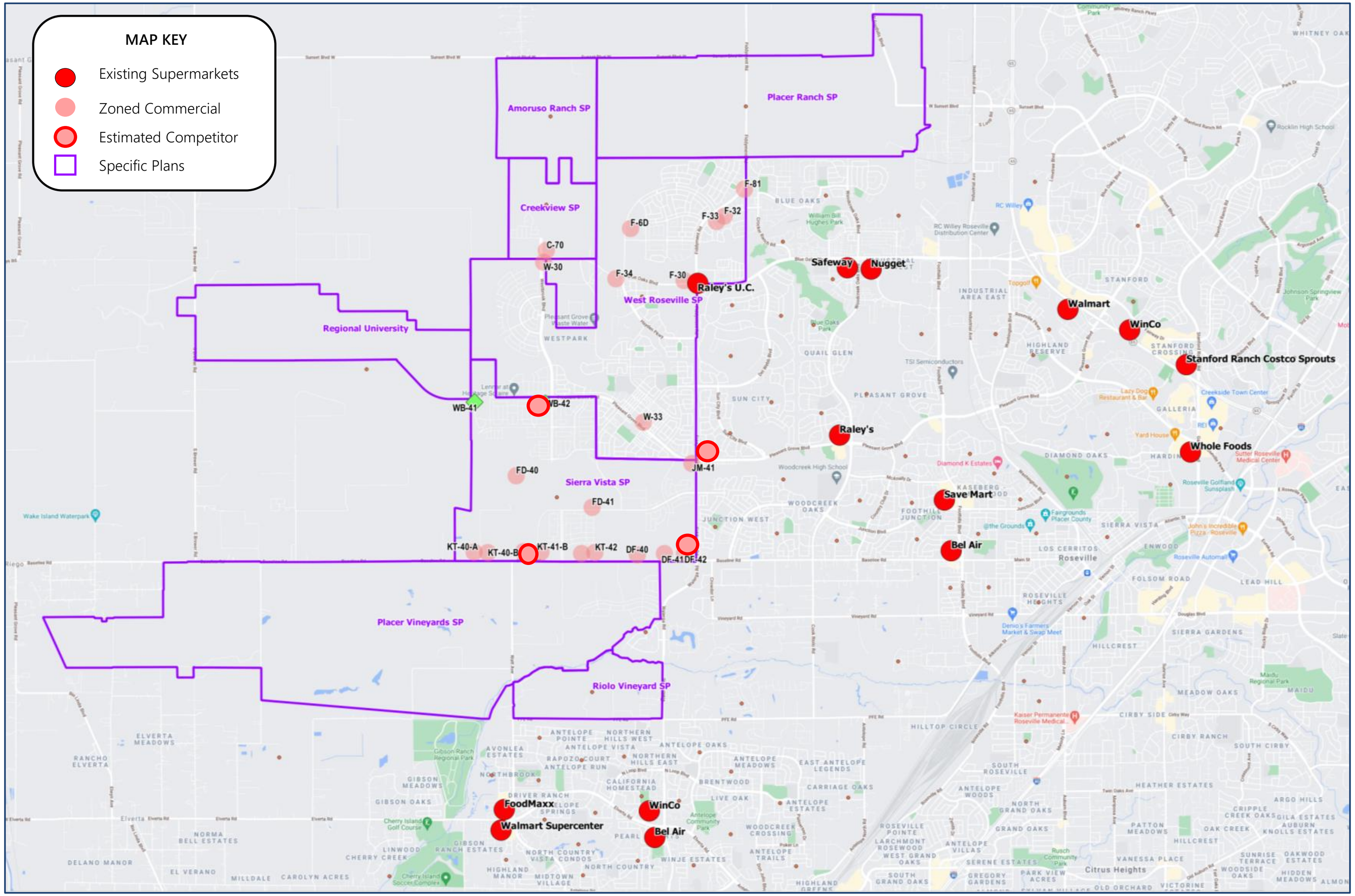
Retail Assessment

Current Supermarket competition was documented in terms of chain, size and location. These form key inputs into the Gravity Model. As Figure 4.4 illustrates, the bulk of competition is located to the east of newer residential development. This suggests a current under retailed condition in the emerging communities of West Roseville and Sierra Vista.

A total of 26 sites are zoned “Community Commercial” of which 13 are large enough to accommodate an anchor-sized grocery store of 20,000 SF+. Yet only four of these sites can ultimately support a Supermarket given the market dynamics described previously. The four prime competitive Supermarket sites were identified and input to the model.

The Gravity Model analysis was run for two periods: 2024 and a “Build-out” year when all planned residential and commercial development is complete. While the timing of the latter is unknown, the buildout year can be used to identify if WB-41 does at some point become viable site for a Convenience Retail Hub, regardless of when precisely build-out is achieved.

Figure 4.4: Competitive Supply and Planned Residential



MXD DEVELOPMENT STRATEGISTS

Retail Assessment

Sales Forecasts

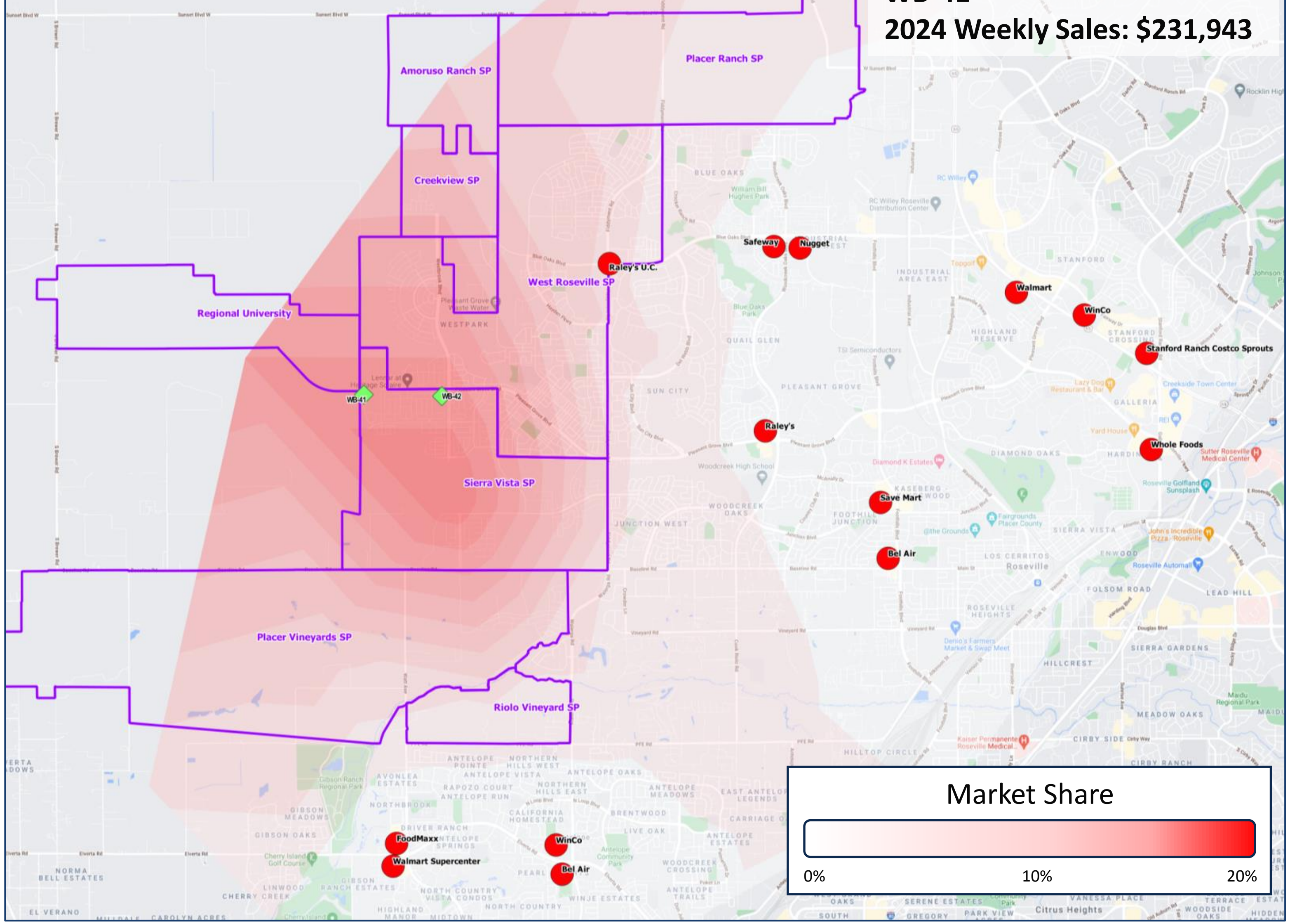
The Retail Gravity Model was run for the WB-41 site for both 2024 and Buildout Year. Figure 4.5 illustrates the output of the model for 2024. The assumed market conditions are that no other competitor is introduced to the area in the interim period, including any development at the WB-42 site.

The darker red areas indicate where a grocer at WB-41 would capture up to 20% market share simply because the store would be the most convenient Supermarket location for residents of the immediate vicinity. However, most of this high market share area is currently undeveloped.

Weekly sales for a Supermarket at WB-41 are estimated to be $232,000 in 2024. Typically, Supermarket chains target locations which will generate weekly sales of $555,000 for a mid-size store (the median weekly sales for a U.S. supermarket).

Given these target thresholds, it is unlikely that WB-41 would attract Supermarket interest in the near term based its 2024 sales performance forecast.

Figure 4.5: WB-41 Market Share in 2024



MXD DEVELOPMENT STRATEGISTS

Retail Assessment

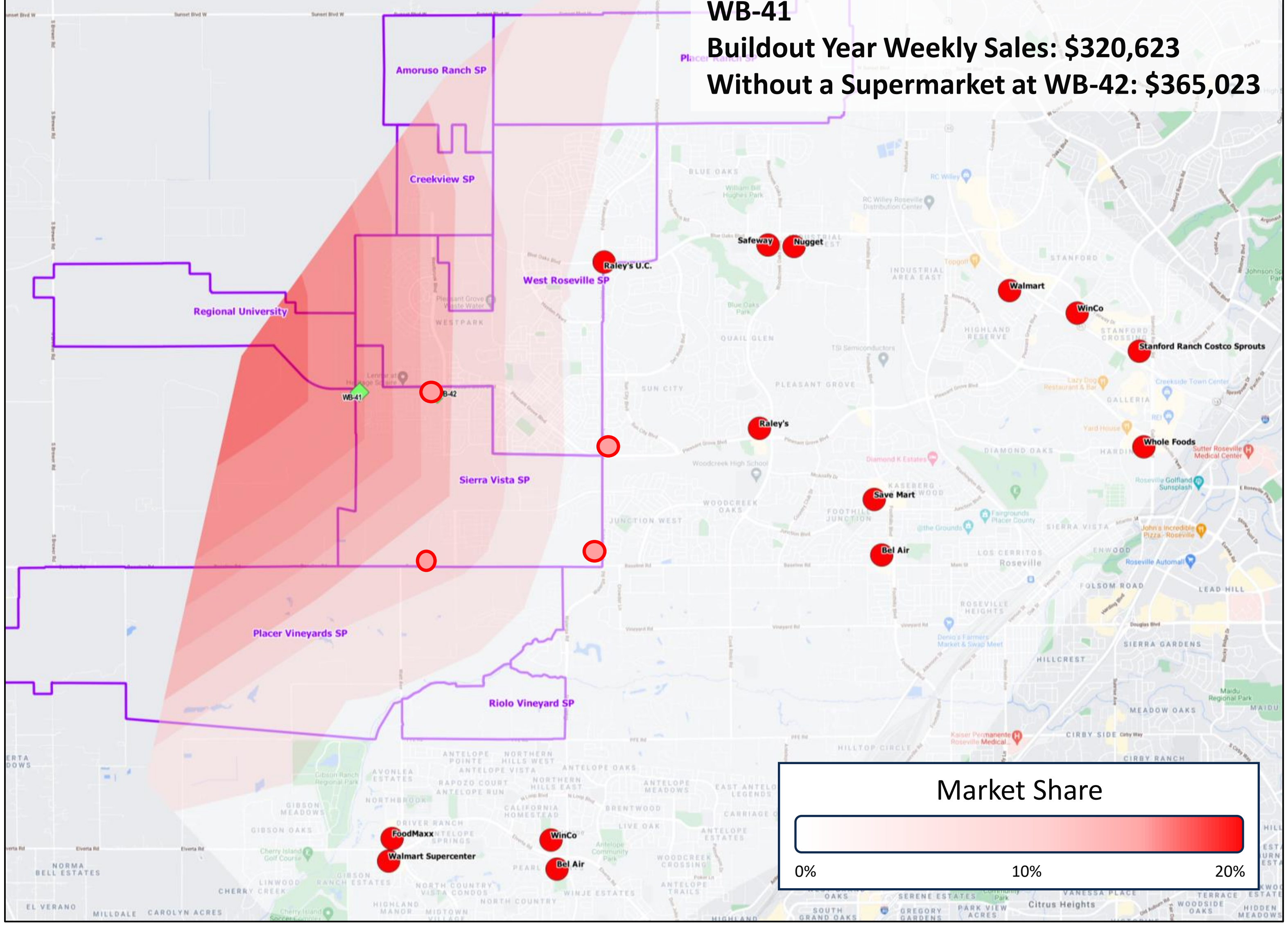
Figure 4.6 illustrates the estimated market share for WB-41 in the Buildout Year, which is the year when all the planned residential and commercial development in the area is completed. The specific buildout year is unknown, but the intent is to identify if there is any point in time where WB-41 achieves viability as a Supermarket location.

The four sites that are the strongest candidates as likely future Supermarket sites were identified. Supermarket sizes for each future competing site were estimated based on the site capacity for overall retail development, the typical ratio of Supermarket anchor to non-anchor floorspace as well as typical Supermarket sizes found in the Sacramento area.

As illustrated in Figure 4.6, WB-41's market share is likely to be decrease considerably as new competition is developed in the vicinity. However, due to introduction of thousands of new homes in the area, the market will be significantly larger from which to draw from.

Weekly sales at WB-41 are estimated to be $321,000 in the Buildout Year (constant $2021). If WB-42 did not attract a Supermarket, WB-41's Supermarket sales would increase to $365,000. This sales volume estimate remains significantly lower than the $550,000 targeted by supermarket chains.

Figure 4.6: WB-41 Market Share at Buildout



MXD DEVELOPMENT STRATEGISTS

Retail Opportunity Assessment

WB-41 Retail Opportunity Summary

The Retail Gravity Model identified that WB-41 is unlikely to ever attract the interest of a Supermarket anchor based on future supply and demand conditions. In addition to the Gravity Model analysis, the WB-41 site was evaluated for its retail development potential based on a consideration of site factors and market factors relevant to retail feasibility, particular for Convenience retail anchors such as Supermarkets.

Site factors rank poorly, particularly on key feasibility drivers of visibility to high volumes of traffic and accessibility to the local market. Such site factors are essential to attracting an anchor store to the site.

Market factors for the Roseville-Rocklin submarket are considered above average but do indicate near-term headwinds for retail development. Asking rents and their anemic year-over-year growth do not compare favorably to increased construction costs of recent years. Continued population and employment growth should support additional retail development over the longer term but only in the most strategic locations within the city.

The WB-41 site scores an overall rating of 5.08/10 for Retail which is considered **"Unsuitable"** given the number of interceptory competitors both current and future located within a 10-minute drive of the site.

SITE FACTOR	Site Rating 1 = Low 10 = High	Factor Weighting (1 to 10)
Visibility to Local Traffic	2	10
Accessibility to Local Market	2	10
Trade Area Expenditure Profile	10	8
Future Population Growth	6	8
Local Population Density	4	6
Local Employment Density	1	3
Complementary Development within Vicinity	2	5
Site Size, Shape, Topography, Drainage and Soils	7	3
Future Infrastructure Development	6	3
TOTAL SCORE (Out of 10)		**4.36**

+

MARKET FACTOR	Roseville Submarket 2021	Rating 1 = Low 10 = High
Vacancy Rate	5.40%	7
Vacancy Rate Change (YOY)	-0.30%	7
Asking Rent	$24.74	6
Asking Rent Change (YOY)	0.85%	4
Cap Rate	6.30%	4
Cap Rate Change (YOY)	0.00%	8
Net Annual Absorption (% of Total Supply)	0.28%	3
Under Construction Units (% of Total Supply)	0.44%	4
Projected Annual Population Growth	2.01%	7
Projected Annual Employment Growth (to 2030)	3.27%	8
TOTAL SCORE (Out of 10)		**5.80**

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RETAIL

Final Average Score:

5.08

UNSUITABLE

MXD DEVELOPMENT STRATEGISTS

Evaluation of Alternative Sites

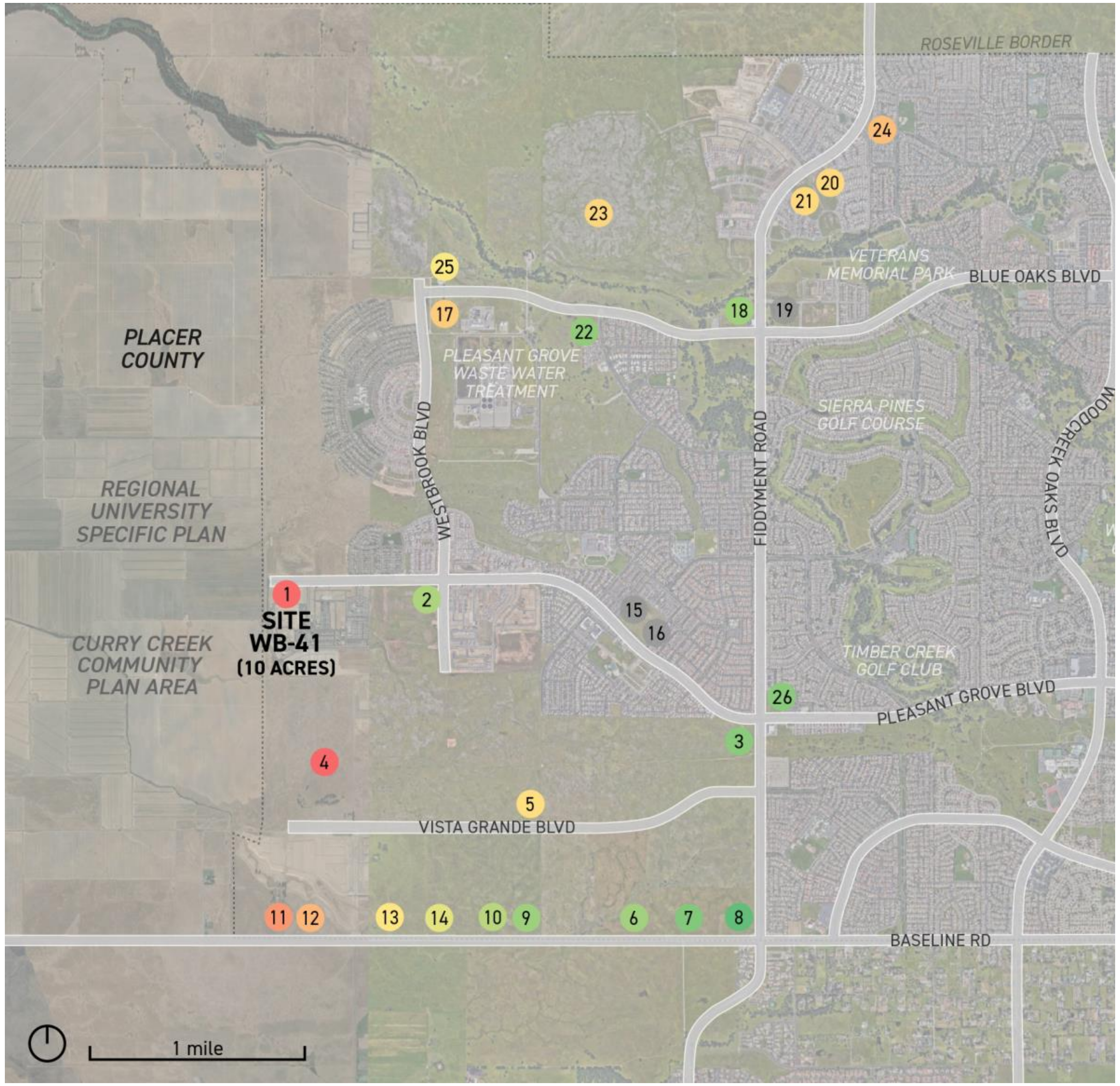
MXD reviewed all sites zoned Community Commercial in the Sierra Vista, West Roseville and Creekside Specific Plan areas using the same site factors used to study the WB-41 site for retail feasibility. The evaluation seeks to emulate how potential retail anchors would approach site selection for a new operation in the West Roseville area.

Each site was rated individually on its merits to attract and implement a successful retail development. MXD considers sites that have a final score of 7/10 or higher the most optimal for near to medium term retail development. Eight sites scored higher than 7. Sites that scored between 5 to 6 are considered marginal for retail development. This may be due to a certain criteria that they did not meet that greatly reduced their score. Ten sites scored between this range.

Sites scoring below 5/10 are considered not feasible for retail development over the next decade. These sites may have limited access and visibility, are not near any complementary uses that would drive foot traffic or have odd shapes and sizes to the site. These sites *may* have greater retail viability in the long-term if certain conditions change as the built environment changes around them.

The sites with the highest scores are DF-42 and DF-41 (Baseline Marketplace), and JM-41 (Fiddyment Rd. and Pleasant Grove Blvd.). These sites are anticipated to generate the greatest anchor store interest. WB-41 scores on the lower end of the range.

Figure 4.8: Evaluation of Alternative Sites



Evaluation of Alternative Sites

Table 4.1: Evaluation of Alternative Sites

					Retail Leasability Criteria						
Ref #	Parcel Name	Location	Size in Acres	Development Status	Access	Visibility	Future Population Growth	Proximity to Civic & Employment Uses	Vehicle Counts (expected by 2035)	Size / Shape of Site	
1	WB-41	Sierra Vista Specific Plan	10.11	Vacant	1	1	3	1	1	5	32%
2	WB-42	Sierra Vista Specific Plan	14.55	Vacant	4	4	4	1	4	5	74%
3	JM-41	Sierra Vista Specific Plan	13.5	Vacant	4	4	5	2	4	5	80%
4	FD-40	Sierra Vista Specific Plan	7.55	Vacant	1	1	3	1	1	4	31%
5	FD-41	Sierra Vista Specific Plan	5.71	Vacant	2	2	5	2	3	4	57%
6	DF-40	Sierra Vista Specific Plan	12.64	Vacant	4	3	5	3	4	3	76%
7	DF-41	Sierra Vista Specific Plan	29.14	Vacant	4	4	5	3	4	4	81%
8	DF-42	Sierra Vista Specific Plan	39.90	Vacant	4	5	5	3	4	5	87%
9	KT-42	Sierra Vista Specific Plan	8.45	Proposed	3	4	5	3	4	4	77%
10	KT-43	Sierra Vista Specific Plan	11.91	Vacant	3	3	5	3	4	4	72%
11	KT-40-A	Sierra Vista Specific Plan	5.39	Vacant	2	1	3	2	3	1	41%
12	KT-40-B	Sierra Vista Specific Plan	18.10	Vacant	2	2	3	2	3	3	48%
13	KT-41-A	Sierra Vista Specific Plan	29.52	Vacant	3	2	3	3	4	3	58%
14	KT-41-B	Sierra Vista Specific Plan	29.52	Vacant	3	2	4	3	4	5	64%
15	W-32	West Roseville Specific Plan	3.29	Built (non-retail)							
16	W-33	West Roseville Specific Plan	3.09	Built							
17	W-30	West Roseville Specific Plan	2.99	Vacant	2	4	3	2	2	1	53%
18	F-30	West Roseville Specific Plan	8.46	Partially Built	5	4	3	2	4	4	76%
19	F-31	West Roseville Specific Plan	13.35	Under Construction							
20	F-32	West Roseville Specific Plan	4.67	Vacant	3	3	3	1	3	3	55%
21	F-33	West Roseville Specific Plan	4.68	Vacant	3	3	3	1	3	3	55%
22	F-34	West Roseville Specific Plan	5.29	Vacant	4	4	4	3	4	5	79%
23	F-6D	West Roseville Specific Plan	5.05	Vacant	3	2	4	2	2	4	55%
24	F-81	West Roseville Specific Plan	1.97	Vacant	3	3	2	1	3	1	49%
25	C-70	Creekview Specific Plan	9.22	Vacant	3	3	4	1	3	4	60%
26	21	Del Webb Specific Plan	12.72	Vacant	4	4	5	2	4	5	80%

5

Evaluation of Alternative Potential Uses

Metro Sacramento Market Overview

Sacramento's office market, as with all office markets, was significantly impacted by the pandemic. Vacancies have risen substantially since mid-2020, now at a high of 16.5% as many companies shift to remote work models.

However, the longer-term prospects for office development in the Sacramento area appear positive for several key reasons:

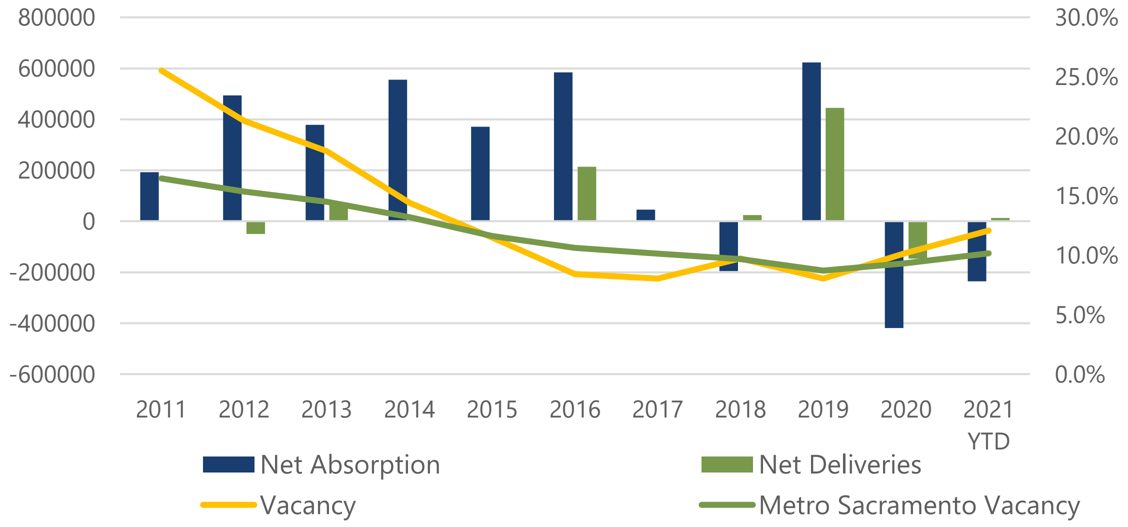
- Sacramento's affordability relative to other California's major cities makes the city an attractive destination for remote work employees and hub-and-spoke offices looking to reduce costs.
- Tech employment has grown greatly with 17.6% job expansion in 2020. Several large brands have moved offices to the Sacramento metro , including Zennify, EA Sports, and Amazon. Employers are drawn to the metro for the large and increasing talent pool supplied by the numerous universities and colleges located here.
- There is currently no product in the construction pipeline and the last delivery was made in Q3 of 2020.
- There are signs of recovery in the market as the vaccine rollout and leasing activity has picked up substantially since 2020. Suburban Class A rents have increased by 5.8% YOY as downtown office tenants have sought to move outward.

Roseville/Rocklin Submarket

Roseville/Rocklin is one of Sacramento's largest office markets. Like the greater metro area, the local submarket has experienced a surge in vacancies through 2020 and 2021. The vacancy rate is at a high of 12.1% as the market gained 461,000 SF in availability over the past 12 months. New construction has been minimal.

Roseville/Rocklin is also one of Sacramento's wealthiest submarkets with many of the metro's large tech and professional service employers located here. But the trend of downsizing office space continues with Hewlett Packard Enterprise, one of the areas largest occupants, lowers their footprint.

Figure 5.1: Roseville/Rocklin Net Absorption, Deliveries, & Vacancy Rate (2011-2021 YTD)



Source: CoStar

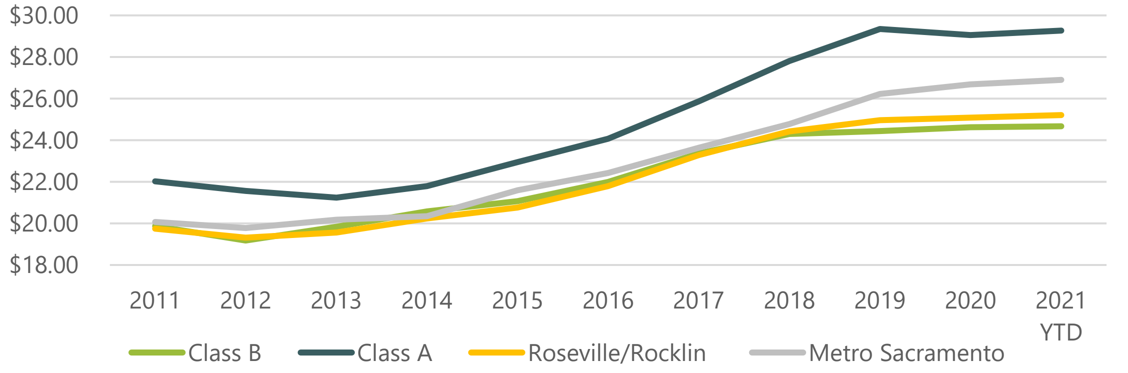
Office Opportunity Assessment

The submarket has a large proportion of high-end class A product at approximately 4 million SF or 30% of inventory. The area benefits from a large talent base of STEM employees and proximity of other life sciences and tech companies like HPE and Penumbra.

Rents have declined substantially over the past few quarters, totaling a negative 1.1% over the year with average lease rates dropping to $25.20 PSF, a $1.69 PSF discount to metro Sacramento. Higher-end product commands a higher rent at $29.26, although also reports the highest vacancy rate at 14.6%.

A number of departures and sublease openings have put net absorption to fall deeper in the red. Sutter Health recently vacated a 93,000 SF space at 9100 Foothills Blvd and is also looking to sublease other metro spaces, including 312,400 SF at 9100 Foothills Blvd.

Figure 5.2: Roseville/Rocklin Asking Rents (2011-2021 YTD)



Source: CoStar

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Implications for WB-41 Site

- While Roseville-Rocklin is a strong submarket with an appealing tech-oriented workforce, office development is likely to be muted over the next several years as excess inventory is gradually absorbed.
- Rental rates will likely to consolidate at current levels given the high vacancy and lack of new supply in the pipeline.

MXD DEVELOPMENT STRATEGISTS

Office Opportunity Assessment

WB-41 Office Opportunity Summary

An evaluation of the WB-41 site for its potential as an office development was undertaken which included an evaluation of site factors and market factors relevant to office development feasibility.

Overall WB-41 appears poorly suited to office development. The site scores an overall rating of 4.38/10 for site factors, which are challenged by the lack of existing office employment in the area, the relative inaccessibility to the regional workforce and the lack of amenities in the local area. Market factors score moderately. While the Roseville-Rocklin Class A office garners relatively high rental rates, it is currently challenged by high vacancy rates, slow absorption and commensurately flat rental rate trends. The long-term prospects for office development in Roseville are strong given the forecast increase in population and employment; however, it is unlikely this development will be drawn to WD-41 given its poor site characteristics for office development.

SITE FACTOR	Site Rating 1 = Low 10 = High	Factor Weighting (1 to 10)
Travel time for Executives	6	10
Amenities within Immediate Vicinity	1	8
Area Quality/Prestigious Tenants	5	8
Travel time for Workforce	5	8
Access to Highway Infrastructure	2	7
Transit Accessibility	3	6
Future Public Expenditure in Vicinity	6	4
Recent Public Expenditure in Vicinity	6	3
Site Size, Shape, Topography, Drainage and Soils	10	3
Access to Higher Education Facilities	2	1
TOTAL SCORE (Out of 10)		**4.38**

+

MARKET FACTOR	Roseville Submarket 2021	Rating 1 = Low 10 = High
Vacancy Rate	11.90%	3
Vacancy Rate Change (YOY)	-2.70%	6
Asking Rent (All Classes)	$25.01	4
Asking Rent Change (YOY)	-0.24%	3
Cap Rate	7.10%	4
Cap Rate Change (YOY)	0.00%	5
Net Annual Absorption (% of Total Supply)	0.07%	3
Under Construction Units (% of Total Supply)	1.70%	7
Projected Annual Population Growth	2.01%	8
Projected Annual Employment Growth (to 2030)	3.27%	9
TOTAL SCORE (Out of 10)		**5.20**

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OFFICE

Final Average Score:

4.79

UNSUITABLE

MXD DEVELOPMENT STRATEGISTS

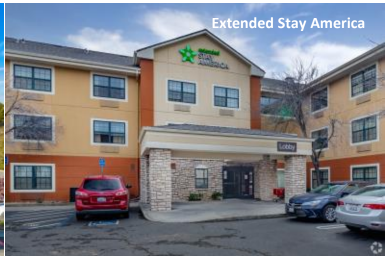
Hotel Opportunity Assessment

Metro Sacramento Market Overview

There are a total of 382 hotel properties and an approximate total of 30,000 rooms across the Sacramento metro. The recent pandemic severely impacted the hotel industry globally, and Sacramento was not immune. Occupancy rates fell to a low of 34.5% in April 2020. With the lifting of restrictions and vaccine rollout, travel is returning to the metro. Current monthly occupancy levels are at 65.3%, almost double of the same month last year but well below the historical average of 73.6%.

The 12-month Average Daily Rate (ADR) is $105.65 and is skewed toward upscale and upper midscale hotels, which occupy a majority of the market's available rooms. Luxury and upper upscale hotels command the highest ADR at $193.87.

Revenue per available room, or RevPAR, is down by 24% on a year-over-year basis at $59.15, although better than the 37.5% decrease felt nationally. There are currently 1,300 rooms in construction, which is significant considering the relatively small size of the market. Cap rates have been declining over the past few years, reaching 7.2%. The total asset value of the market is $4.7 billion.



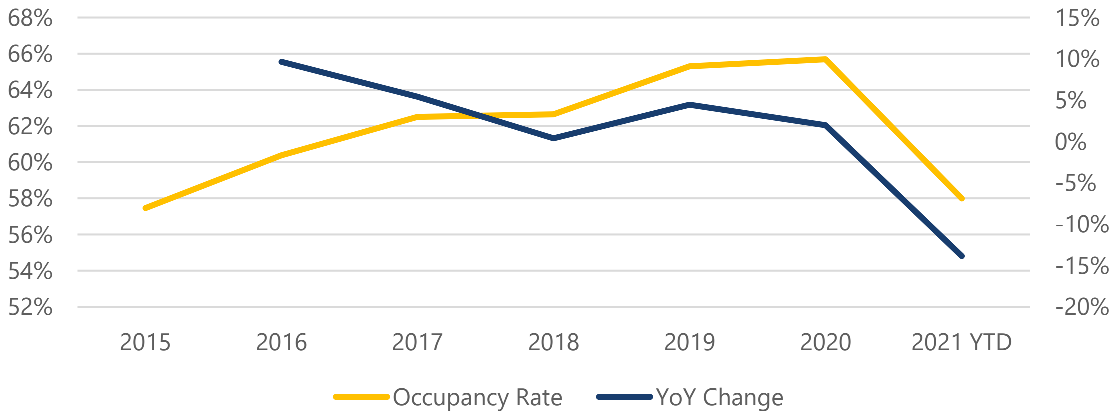
Roseville/Rocklin Submarket Overview

The pandemic affected the local hotel submarket greatly, with occupancies dipping to a low of 31.7% in April 2020. Levels have since risen to 61.6%, although still well below the historic average of over 71%.

ADR average $129.06 over the past year in the local submarket. RevPAR has continued to exceed the metro average and is reported to be $68.90 for the past 12 months. Pre-pandemic occupancy levels hovered in the high 60s, and ADRs as high as $142.

A new La Quinta Inns & Suites in Lincoln is in the development pipeline.

Figure 5.3: Roseville/Rocklin Annual Occupancy Rate & YoY Change (2015-2021 YTD)



MXD DEVELOPMENT STRATEGISTS

Hotel Opportunity Assessment

WB-41 Hotel Opportunity Summary

Hotel development at the WB-41 site is likely unfeasible given the property's site factors. Suburban hotels typically require excellent highway frontage and accessibility. With the rapid growth in online booking and GPS, both these factors are waning in significance but still important considerations. Suburban hotels also require proximity to business activity or recreational amenities to support new development, which are lacking at WB-41.

The Sacramento hotel market conditions were examined for 2019 due to the extreme impact of Covid-19 on market conditions for 2020-2021. Occupancy rates of 65.3% are below the typical threshold of 70% to warrant significant new hotel development in a market, although occupancy was trending positively along with Average Daily Rates (ADR) and Revenue per Available Room (RevPAR). The recovery in the hotel market is likely to be strong based on the California Regional Lodging Forecast but it will be several years before significant new hotel development will be supportable in the Sacramento area.

SITE FACTOR	Site Rating 1 = Low 10 = High	Factor Weighting (1 to 10)
Regional Accessibility (Car and Transit)	2	10
Visibility from Regional Thoroughfares	1	9
Local Employment Density	1	8
Tourist Destinations in Local Area	1	7
Retail/F&B within 5-minute Drive	3	7
Natural Setting/Views/Waterfront	5	6
Gateway Location for Metro Area	1	5
Recreation Facilities in Local Area	4	3
Proximity to Airport	3	2
Travel Time for Workforce	2	1
TOTAL SCORE (Out of 10)		**2.07**

+

MARKET FACTOR	Roseville Submarket 2019	Rating 1 = Low 10 = High
Occupancy	65.3%	3
Occupancy Change (YOY)	4.1%	7
Average Daily Rate (ADR)	$138.46	5
ADR Trend	5.7%	5
Revenue Per Available Room (RevPAR)	$90.44	5
RevPAR Trend	6.4%	5
Cap Rate	7.8%	6
Cap Rate Trend	-0.1%	7
Projected Annual Tourism Growth (to 2024)	11.0%	8
TOTAL SCORE (Out of 10)		**5.67**

=

HOTEL

Final Average Score:

3.87

UNSUITABLE

Metro Sacramento Residential Market Overview

Metro Sacramento remains a healthy residential market despite the recent pandemic. The market has benefited from remote work and emigration from the Bay Area and other urban centres. Strong employment growth in high-income sectors such as government, finance and professional services is driving demand for Class A multifamily product and for-sale single detached housing.

Multifamily vacancy across the metro is currently at 2.4% and continues to drop as absorption exceeds deliveries. The average asking rent has grown significantly to $1,690 per month, yet still well below the Bay Area's $2,500 per month average.

A total of 1,788 units were completed in 2020, expanding inventory by 1.2% primarily in Central Sacramento and Natomas. The construction pipeline is busy with 4,616 units under construction. Cap rates have sustained an average of 5.4%, one of the lowest rates of any California metro. These low rates indicate continued investor interest in the multifamily sector over the forecast horizon.

Roseville-Rocklin Multifamily Submarket Overview

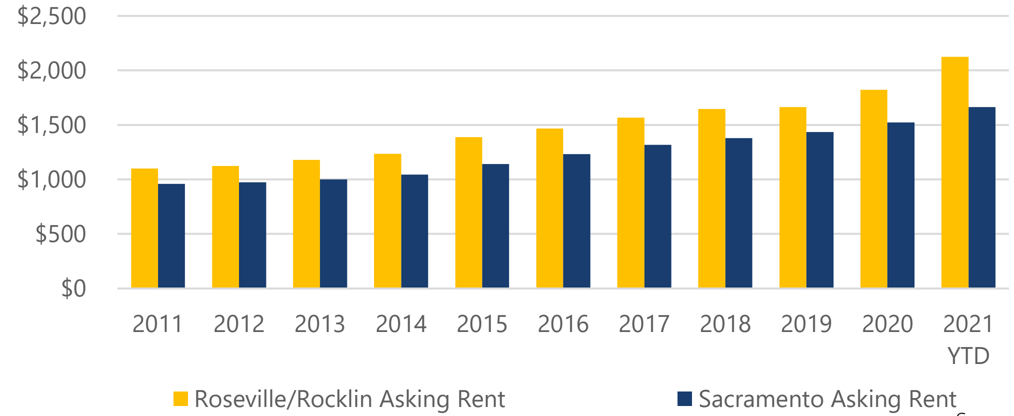
Roseville/Rocklin is one of Sacramento's most affluent submarkets. The majority of multifamily inventory is Class A product built in the last decade. The unit mix is skewed towards 2- and 3-bedroom units which are attractive to young families and downsizers.

The concentration of destination retail such as Galleria and Fountains, along with major tech employers like Kaiser Permanente and Penumbra are other factors that support residential growth.

Rents are of metro's highest at an average of $2,034 per month and have increased by 18% since over the previous 12 months. This increase is partly due vacancy rates of 2.9%, an all-time submarket low.

New multifamily product in the submarket commands a large rental premium: units built in the last 10 years ask for roughly $2,600 a month. There have been notable deliveries in the past decade, including the Campus Oaks Apartments.

Figure 5.4: Roseville/Rocklin Asking Rents (2011-2021 YTD)



Source: CoStar

MXD DEVELOPMENT STRATEGISTS

Residential Opportunity Assessment

Roseville For-Sale Residential

Roseville's single-family housing market has expanded due to continued demand and a significant number of deliveries in West Roseville. Roseville's lifestyle is attractive for high-income earners, retirees, and growing families. This provides a wide demographic for various forms of housing. The city is home to great shopping and services, jobs, and highly-rated school districts, all top criteria for families looking to purchase a home.

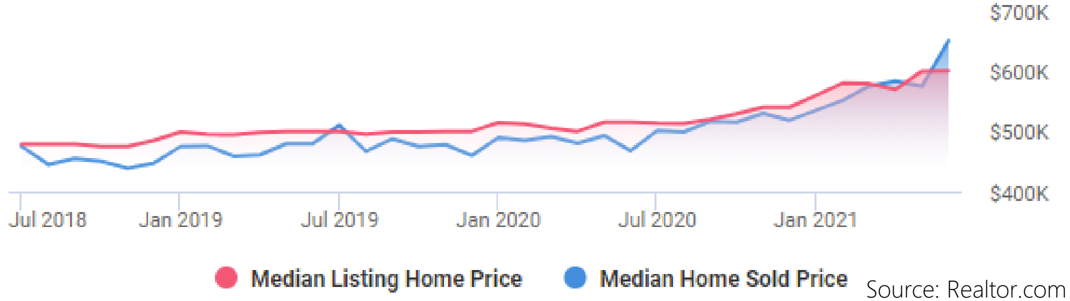
The median price of a single-family home has increased by 27% over the past 12 months to $635,000, or $315 PSF. Median prices are higher than the metro average due to the proportion of large and high-value product. Homes are selling quickly, and inventory is currently selling on average 4.2% above asking price.

The pandemic has also accelerated demand for homes in the suburbs which has been beneficial to Roseville due to its location. Buyers are looking for homes that offer larger spaces and work-from-home capabilities. This has pushed prices up to record highs. Many homes are receiving multiple offers and well-maintained homes in strong locations can receive 10% to 15% over asking price.

Median Home Price:
$635,000

YoY Growth:
27%

Figure 5.5: Roseville Listing Home Price vs. Median Sold Price (2018-2021 YTD)



Source: Realtor.com

Roseville Residential Development Activity

Continued demand for homes in Roseville has allowed for a significant amount of new home development in the West Roseville and Sierra Vista Specific Plan areas. According to city data, West Roseville currently has 1,228 approved units, while Sierra Vista has 2,028 approved units. A review of available listings demonstrates that for-sale product in West Roseville and Sierra Vista is focused almost exclusively on single-family residential. There are plans for future high density residential in Sierra Vista, including sites WB-30 and WB-31 which are located directly north of the site under study. This product is expected to include affordable housing and multi-family rental and is unlikely to have for-sale high-end multi-family product.

Residential Opportunity Assessment

WB-41 Residential Opportunity Summary

The WB-41 site was evaluated for its potential as a residential development. This evaluation was based on a consideration of site factors and market factors relevant to residential feasibility along with planning guidelines of the Sierra Vista Plan.

Overall WB-41 appears well-suited to residential development. The site scores an overall rating of 7.38/10 which is considered **"Excellent"** as few sites in any market exceed 7.5 using this methodology. Market factors score particularly highly given the buoyancy of the Roseville-Rocklin residential market described previously. Site factors are considered "Good", supported by the area's general attractiveness as a place to live, although it is somewhat challenged by the lack of employment or amenities in the immediate site vicinity.

SITE FACTOR	Site Rating 1 = Low 10 = High	Factor Weighting (1 to 10)
Reputation & Prestige of Area	10	10
Quality of School District	10	9
Access to Retail Amenities	4	8
Access to Recreation Amenities	8	7
Proximity to Major Thoroughfares	3	6
Proximity to Employment	2	6
Sense of Privacy, Security & Tranquility	10	6
Transit Accessibility	3	4
Visibility to Traffic (for Marketing)	3	3
Access to Education Facilities	6	3
Site Ingress & Egress	10	2
Proximity to Medical Facilities	5	2
Access to Cultural Amenities	3	1
TOTAL SCORE (Out of 10)		**6.57**

+

MARKET FACTOR	Roseville Submarket 2021	Rating 1 = Low 10 = High
Single Family Median Price	$635,000	9
Single Family Price Increase (YOY)	27.0%	10
Vacancy Rate	2.9%	10
Vacancy Rate Change (YOY)	-0.80%	8
Asking Rent	$2,040	10
Asking Rent Change (YOY)	18.0%	10
Cap Rate	4.5%	10
Cap Rate Change (YOY)	0.0%	8
Net Annual Absorption (% of Total Supply)	0.83%	4
Under Construction Units (% of Total Supply)	2.45%	5
Projected Annual Population Growth	2.01%	8
Projected Annual Employment Growth (to 2030)	3.27%	9
TOTAL SCORE (Out of 10)		**8.20**

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RESIDENTIAL

Final Average Score:

7.38

SUITABLE

Alternative Land Use Summary

Alternative Land Use Summary

The WB-41 site was evaluated for its suitability for the development of Retail, Office, Hotel and Residential. Key site and market factors driving development feasibility were evaluated to arrive at a ranking of each potential land use under consideration (Figure 5.5).

Suitable Development: Residential

Residential scored an average of 7.38 out of 10. This score is quite high as few sites evaluated using this methodology exceed 7.5. Strong site fundamentals such as reputation, nearby schools, neighbourhood safety and feeling, among others are factors which support the potential development's success. On the market side, explosive demand, strained availability, and rising values and rents, as well as declining cap rates make this an attractive investment.

Unsuitable Development Types

While the site is currently zoned for Neighborhood Retail and Community Retail, this type of development is not considered feasible for the site. The site's biggest challenge is that it is a peripheral "180-degree" site where only half of WB-41's vicinity will be developed over the forecast horizon.

Sales projections made using the Huff Retail Gravity Model are low scoring at less than 60% of the minimum threshold sales volumes needed to attract anchor tenant interest. Without anchor tenant interest, it is unlikely that sufficient high rent-paying inline tenants could be attracted to the site, or that construction financing could be secured.

Figure 5.5: Alternative Land Use Evaluation Summary

Land Use	Site	Market	Average
Residential	6.57	8.20	7.38
Retail	4.36	5.80	5.08
Office	4.38	5.20	4.79
Hotel	2.07	5.67	3.87

Were Regional University and or Curry Creek to be developed, and parcel WB-42 remained undeveloped, market support may be sufficient to support a retail development on WB-41. However, Regional University includes a competitive retail parcel opposite the WB-41 and Curry Creek would likely include additional retail opportunities. As Figure 4-6 on page 47 shows at buildout WB-41's trade area shifts west likely resulting in the Regional University site, or a site in Curry Creek being developed ahead of WB-41. If WB-42 develops ahead of development of Regional University, in our opinion WB-41 will never be a viable retail site.

Neither Office or Hotel are suited to the WB-41 site. Both sectors are historically strong performers in the local Roseville area, although they are anticipated to experience headwinds over the next several years as the pandemic exacerbated a pre-existing oversupply condition.

There might be sufficient demand for a smaller Medical Office at the WB-41 site which is able to attract traffic to this relatively remote site; however, this would only require a small fraction of the 10-acre site.

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