MARKET FORECAST

RETAIL

Jacksonville Metro Area

IPA INSTITUTIONAL PROPERTY ADVISORS

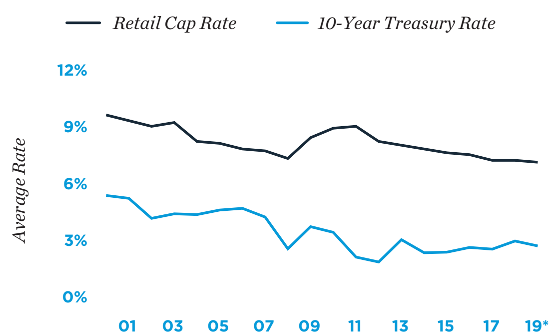
Q2/19

St. Johns County's Consumer Demand Growth Triggers Retail Construction and Investor Interest

Favorable demographic trends propel local retail market. Jacksonville has experienced substantial growth during the later half of this cycle, gaining an average of 21,000 jobs and 26,000 new residents per year between 2013 and 2017. That expansion has increased consumer spending 26 percent and by relation raised tenant demand for available space. Vacancy, which has contracted 350 basis points since 2012, will improve again this year as there are few large-scale construction projects outside of St. Johns County. Many of the pending deliveries have leases already arranged. Rents are also climbing in 2019. Acute demand in central locations including downtown Jacksonville, San Marco and Riverside will help the average asking rate advance to just under its recession-era peak this year.

Substantial development underway in low-vacancy St. Johns County. Notable population growth has raised the demand for retail services in the southern portion of the metro. St. Johns County boasts the market's highest median incomes, 20 percent above the metro, appealing to a wide variety of tenants including several new-to-market specialty grocers and niche retail chains. As new retailers have moved in, the county's average vacancy rate has dropped 370 basis points from its 2012 high to 2.8 percent in March. Availability may rise here in the near future as the bulk of Jacksonville's metro deliveries this year are in this county. These include an eight-building lifestyle center totaling 200,000 square feet off County Road 210 and the 352,000-square-foot Durbin

Local Retail Yield Trends



** Cap rates trailing 12 months through 1Q19; 10-year Treasury up to March 29*

Sources: CoStar Group, Inc.; Real Capital Analytics

Retail 2019 Outlook

1.3 MILLION SQ. FT.
will be completed

CONSTRUCTION:

Total development reaches its second highest level in 11 years. Over 900,000 square feet of retail space will open within St. Johns County alone in 2019.

10 BASIS POINT
decrease in vacancy

VACANCY:

Elevated construction will not terminate the metro's six-year streak of tightening operations. The market's vacancy rate will dip to 5.0 percent in 2019.

2.1% INCREASE
in asking rents

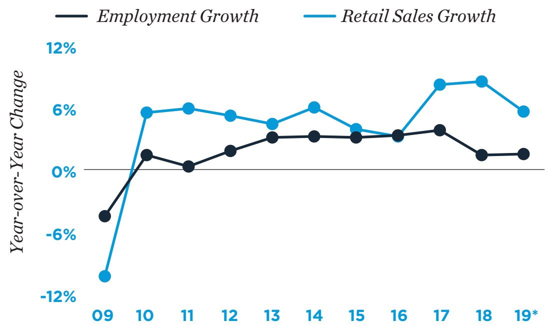
RENTS:

Following a 4.5 percent gain last year, the average asking rent will advance to $15.44 per square foot in 2019, led by appreciation in Downtown Northbank.

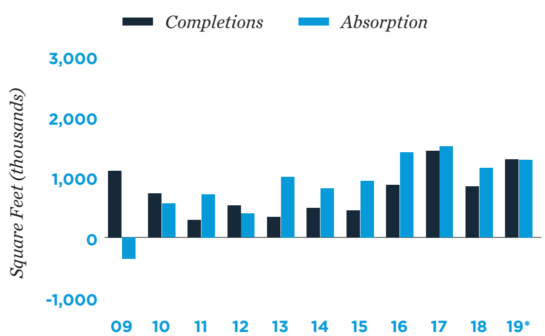
Investment Trends

- First-year returns in the 7 percent zone are drawing out-of-market buyers from lower-yield metros in states such as California and New York, in addition to other parts of Florida.
- St. Johns County reported the highest transaction velocity across all Jacksonville submarkets for the 12-month period ended in March. A majority of those trades involved properties in the beachside town of St. Augustine. Given the large amount of construction in the area, investors are focused on assets with nationally known tenants. Several fast-food establishments changed hands at sale prices between $820 and $920 per square foot and an average cap rate of 5.5 percent.
- Investors seeking lower entry costs with value-add potential may find opportunities closer to downtown Jacksonville, where there are numerous proposals in place for redevelopment. A possible new hotel and convention center in Northbank could substantially improve foot traffic and visitation if constructed.

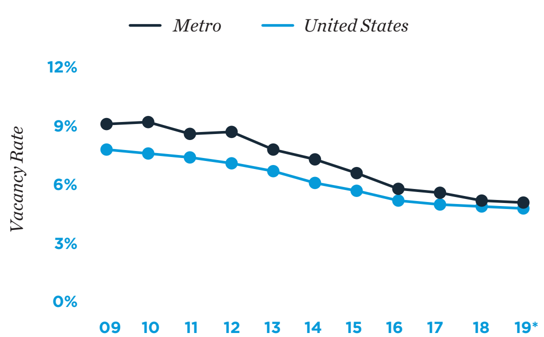
Employment vs. Retail Sales Trends



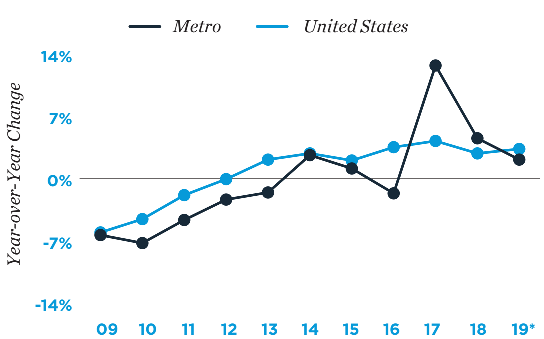
Retail Completions



Vacancy Rate Trends



Asking Rent Trends



*Forecast

Sources: CoStar Group, Inc.; Real Capital Analytics

1Q19 – 12-Month Trend

EMPLOYMENT

1.0% increase in total employment Y-O-Y

- Employers created 6,900 jobs over the 12-month period ended in March. The most staff were brought on in the professional and business services sector, which added nearly 2,700 personnel.
- Some positions in financial activities vacated the market, which curbed overall employment growth over the past annual period. Yet, the unemployment rate still declined 30 basis points to 3.3 percent, 60 basis points below the national rate.

CONSTRUCTION

833,500 square feet completed Y-O-Y

- The pace of deliveries slowed following the completion of 1.5 million square feet in the 12-month period ended March 2018, as approximately 833,500 square feet of retail space opened in the subsequent four quarters.
- Notable deliveries in that span include a 420,000-square-foot Walmart Supercenter in St. Johns County and a 152,000-square-foot Costco in Riverside.

VACANCY

30 basis point decrease in vacancy Y-O-Y

- Net absorption mildly outpaced supply growth over the past four quarters to compress the marketwide vacancy rate 30 basis points to 4.9 percent. That follows a 80-basis-point drop from the preceding annual period.
- Availability contracted the most in submarkets surrounding the urban core, including Arlington and San Marco.

RENTS

0.7% increase in the average asking rent Y-O-Y

- Elevated net absorption, which averaged 1.4 million square feet per year between 2016 and 2018, has reduced the amount of high-quality vacant retail space, slowing asking rent growth. The average marketed rate inched up to $14.87 per square foot in the first quarter.
- In that span, the average single-tenant asking rent improved more than the market average, up 1.6 percent to $15.63 per square foot.

Demographic Highlights

2019 Job Growth*

Metro **1.5%**

U.S. Average **1.3%**

Five-Year Population Growth**

100,400 *or* **1.3%** *Annual Growth*

U.S. **0.6%** *Annual Growth*

Five-Year Household Growth**

54,700 *or* **1.8%** *Annual Growth*

U.S. **1.0%** *Annual Growth*

1Q19 Median Household Income

Metro **$64,452**

U.S. Median **$64,259**

1Q19 Retail Sales per Month

$4,141 *Per Household*

U.S. **$3,971**

$1,635 *Per Person*

U.S. **$1,544**

Retail Sales Forecast**

Metro **24.1%**

U.S. **16.9%**

** Forecast ** 2018-2023*

SUBMARKET TRENDS

Lowest Vacancy Rates 1Q19*

Submarket	Vacancy Rate	Y-O-Y Basis Point Change	Average Asking Rent	Y-O-Y % Change
Butler/Baymeadows	2.2%	-40	$15.10	-19.6%
St. John's County	2.9%	0	$18.03	-0.5%
Jacksonville Beaches	3.2%	-70	$18.44	-9.7%
Nassau County	3.9%	-10	$13.65	-4.6%
Arlington	4.4%	-300	$11.99	26.1%
San Marco	4.5%	-260	$11.50	9.9%
Orange Park/Clay County	5.2%	20	$12.67	-12.0%
Southside	5.2%	-30	$15.03	-5.4%
Riverside	5.5%	-120	$16.39	9.0%
Mandarin	5.6%	160	$15.93	4.4%
Overall Metro	**4.9%**	**-30**	**$14.87**	**0.7%**

**For submarkets with more than 1.5 million square feet of retail inventory*

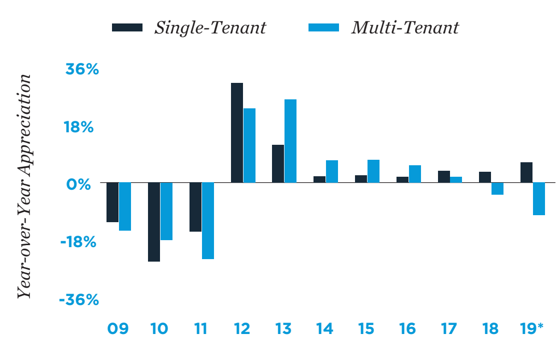
SALES TRENDS

Changing Retail Landscape Heightens Competition For Smaller Assets, Lifting Single-Tenant Prices

- **Multi-Tenant:** Transaction velocity for multi-tenant space climbed over the past year, but the average sale price dropped under $200 per square foot as more assets with large footprints traded. First-year returns stayed around 8 percent.
- **Single-Tenant:** Buyer demand for smaller floor plans helped lift the average single-tenant sale price up 6 percent to $378 per square foot, while cap rates remained in the mid-6 percent zone.

Outlook: Investors target multi-tenant centers within easy reach of Interstate-295. Assets here that have value-add potential trade with first-year yields up to 9 percent, depending on location and lease terms.

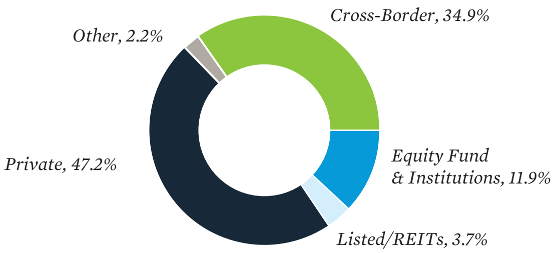
Price Per Square Foot Trends



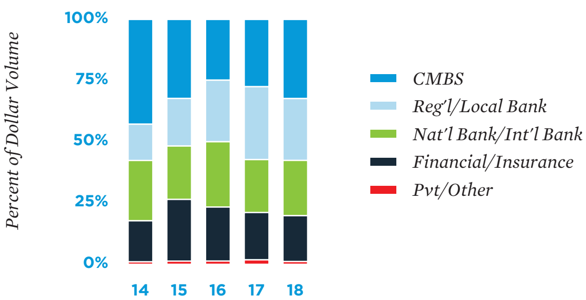
** Trailing 12 months through 1Q19 over previous time period*

Pricing trend sources: CoStar Group, Inc.; Real Capital Analytics

1Q19* Retail Acquisitions By Buyer Type



Retail Mortgage Originations By Lender



** Trailing 12 months through 1Q19*

Include sales $2.5 million and greater

Sources: CoStar Group, Inc.; Real Capital Analytics

National Retail Group

Scott M. Holmes

Senior Vice President, National Director | National Retail Group

Tel: (602) 687-6689 | scott.holmes@ipausa.com

Prepared and edited by

Cody Young

Research Associate | Research Services

For information on national retail trends, contact:

John Chang

Senior Vice President, National Director | Research Services

Tel: (602) 707-9700 | john.chang@ipausa.com

Price: $250

CAPITAL MARKETS

By DAVID G. SHILLINGTON, President, Marcus & Millichap Capital Corporation

- **International pressures weigh on domestic outlook; Fed remains patient.** Amid ongoing trade disputes between the U.S. and China and slowing growth throughout the European economy, the global economic outlook has become more cautious. Market volatility, combined with muted sentiment, has sponsored a flight to the safety of Treasurys, pushing the 10-year yield below 2.6 percent. While domestic growth has moderated recently, the waning impact of the tax cut stimulus will likely trim forward estimates further. As a result, the Fed decided to cease reducing its balance sheet reduction through quantitative tightening by September and removed the potential for rate increases through the remainder of the year. The bond market has begun to price in a much more dovish Fed, with flattening interest rates reflecting more caution. Fed officials will likely focus on the intersection of a global growth slowdown and continued labor market strength to refine their plans moving forward, keeping interest rates stable for the foreseeable future.
- **Malls, legacy big-box players cloud otherwise optimistic retail landscape; underwriting remains conservative.** Uncertainty surrounding legacy retailers and the ongoing shift of consumer purchasing preferences to online sources have begun to weigh on retail sentiment, with lenders proving more cautious and conservative than in prior years of the cycle. Active lenders include local, regional and national banks, and insurance companies, with a primary lender focus on net-leased assets and premier mixed-use structures being highly desirable. Meanwhile, outlying malls and non-credit tenants will undergo much more scrutiny. This has created a two-tier market structure, with loan-to-value (LTV) ratios in the 55 to 75 percent range depending on borrower, asset and location factors. Mezzanine and bridge loan structures have been more frequently used in this environment, with owners undertaking capital improvements at higher leverage ratios on the short-term debt before seeking long-term financing options once their operations have been proved.

Sources: Marcus & Millichap Research Services; Bureau of Labor Statistics; CoStar Group, Inc.; Experian; Moody's Analytics; Real Capital Analytics; TWR/Dodge Pipeline; U.S. Census Bureau