# MARKET FORECAST

**RETAIL**

*Orlando Metro Area*

IPA INSTITUTIONAL PROPERTY ADVISORS

**Q2/19**

## Robust Growth in Tourism, Population and Income Underpins Vibrant Retail Sector

**Favorable trends keep retail demand robust.** Positive gains in employment, population, income and tourism combine to produce a strong retail market. Over the last four quarters, job gains in Orlando expanded at one of the fastest rates in the nation and the availability of work is drawing more residents to the market. The metro ranks among the top five in the country in terms of the percentage of population and income gains. A surge in higher-paying professional services positions are providing more discretionary income. The median household income advanced at nearly twice the U.S. rate during the past four quarters, supporting a 7.5 percent jump in retail sales. Tourism is also soaring. Passenger volume at Orlando International airport was up 6.9 percent in 2018. New features opening at local theme parks this year should help to keep tourism healthy. All of these factors are generating greater demand for goods and services throughout the region.

**Increased demand supports rental rate gains.** The need for retail space has kept vacancy hovering at the lowest level of the cycle for three consecutive quarters despite widespread store closures. During this time, deliveries have been restrained, channeling many expanding retailers into existing space. Looking ahead, the construction pipeline is dominated by centers less than 40,000 square feet and is concentrated in a few of the metro's submarkets. This will keep marketwide vacancy tight and prompt another year of robust rent growth.

## Retail 2019 Outlook

**1 million SQ. FT.**
*will be completed*

### CONSTRUCTION:

Deliveries are expected to rise from the 840,000 square feet completed last year but remain below the five-year average. The city of Orlando will receive more than 45 percent of the new inventory.

**20 BASIS POINT**
*decrease in vacancy*

### VACANCY:

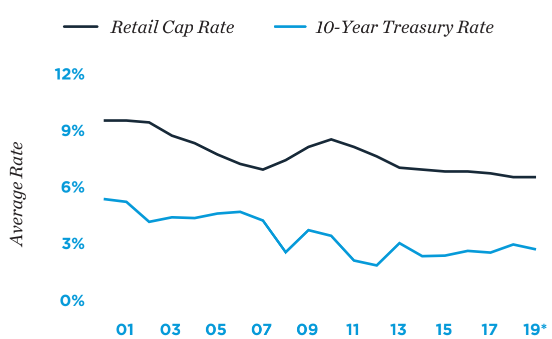
Store closings restrain greater vacancy improvement this year. After a 10-basis-point dip last year, the rate will end 2019 at 4.3 percent, a cyclical low.

**5.8% INCREASE**
*in asking rents*

### RENTS:

Building on last year's 7.0 percent vault, the average asking rent jumps to $19.98 per square foot in 2019, 31 percent above the recent trough recorded in 2013.

## Local Retail Yield Trends



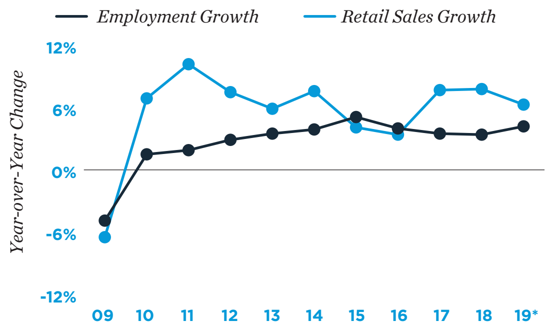

** Cap rates trailing 12 months through 1Q19; 10-year Treasury up to March 29*

*Sources: CoStar Group, Inc.; Real Capital Analytics*

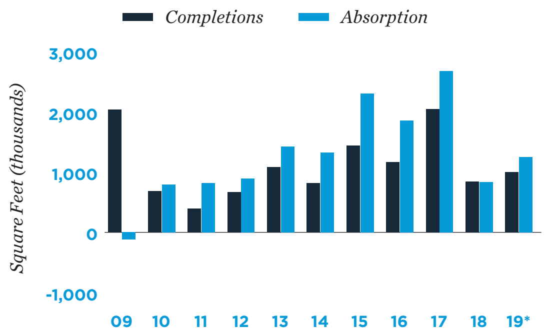
## Investment Trends

- Robust population and tourism gains are drawing investors to Central Florida, keeping buyer demand well ahead of the supply of available listings. Many buyers are coming from California, New York or Chicago and are drawn by lower entry costs and first-year returns that can average up to 110 basis points above those available in their home markets.
- Well-located multi-tenant properties with food or service-related tenants are desired. Older strip centers will typically trade at an average of $220 per square foot with cap rates in the 7 to 8 percent band.
- During the past four quarters, restaurants exchanged hands at an average of $437 per square foot with cap rates generally in the 5 percent range. Assets near downtown Orlando or in the Tourist Corridor were most often targeted.
- Area drugstores sold at an average of $451 per square foot during the past four quarters, up from $404 one year earlier. First-year returns are typically in the low-5 to low-6 percent span.

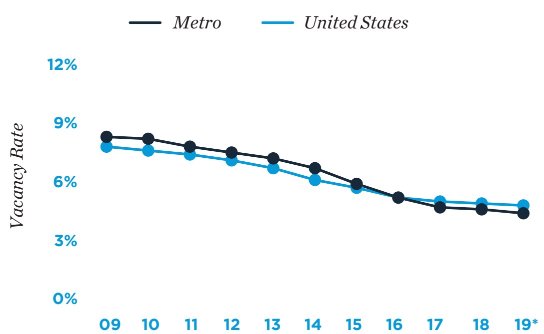
## Employment vs. Retail Sales Trends



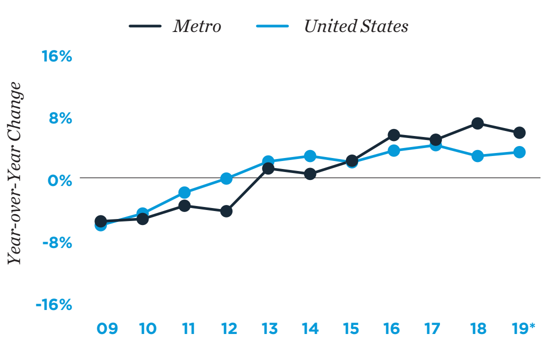

## Retail Completions




## Vacancy Rate Trends




## Asking Rent Trends




*Forecast

Sources: CoStar Group, Inc.; Real Capital Analytics

## 1Q19 – 12-Month Trend

### EMPLOYMENT

**3.6% increase in total employment Y-O-Y**

- Roughly 45,700 jobs were created in the metro during the past four quarters, slightly above the 45,200 added one year earlier. Steady employment growth has kept the unemployment rate below 4 percent for eight consecutive quarters.
- The relatively higher-paying professional and business services sector led job gains in the last 12-month period with nearly 18,800 positions.

### CONSTRUCTION

**996,200 square feet completed Y-O-Y**

- The completion of 318,800 square feet during the first three months of 2019 pushed the 12-month sum to 996,200 square feet, roughly half of the prior period's deliveries. The largest project completed so far this year is Griffin Farm at Midtown, bringing 100,000 square feet of retail inventory to Lake Mary.
- Developers also have 1.2 million square feet underway with completions extending into 2020.

### VACANCY

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

- Following a 40-basis-point decline one year ago, strong demand for retail space amid a contracting supply of new inventory reduced vacancy 10 basis points to 4.5 percent in the first quarter. The rate is down 390 basis points from the cyclical peak in 2009.
- Vacancy in multi-tenant buildings dropped 20 basis points to 5.4 percent for the year ending in March, while the single-tenant rate rose 10 basis points to 3.9 percent.

### RENTS:

**8.2% increase in the average asking rent Y-O-Y**

- Tight vacancy is producing robust rent gains. Asking rent vaulted 8.2 percent during the past 12 months to $19.43 per square foot, building on the prior period's 6.8 percent advance. Over the past five years, rent has surged 25 percent.
- Rent in multi-tenant space rose an annual 7.7 percent to $19.22 per square foot, while the asking rent in single-tenant buildings posted an annual gain of 8.5 percent to $19.58 per square foot.

## Demographic Highlights

**2019 Job Growth***

*Metro* **4.2%**

*U.S. Average* **1.3%**

**Five-Year Population Growth****

**287,200** *or* **2.1%** *Annual Growth*

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

**Five-Year Household Growth****

**144,100** *or* **2.8%** *Annual Growth*

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

**1Q19 Median Household Income**

*Metro* **$59,812**

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

**1Q19 Retail Sales per Month**

**$5,295** *Per Household*

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

**$2,002** *Per Person*

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

**Retail Sales Forecast****

*Metro* **26.4%**

*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 |
|---|---|---|---|---|
| South Outlier | 2.1% | -20 | $23.11 | 4.0% |
| University Research | 2.7% | 40 | $26.57 | 8.7% |
| Metro West | 3.0% | 0 | $18.14 | -0.8% |
| St Cloud | 3.4% | 90 | $16.19 | 3.1% |
| Tourist Corridor | 3.4% | -140 | $27.79 | 14.9% |
| Orlando Airport | 3.5% | 80 | $23.26 | 2.8% |
| Lake County | 3.7% | -10 | $17.39 | 7.7% |
| Maitland Center | 3.7% | 150 | $15.96 | 14.4% |
| 436 Corridor | 3.8% | 40 | $19.48 | 25.3% |
| Orlando Central Park | 4.3% | 10 | $16.67 | -3.1% |
| **Overall Metro** | **4.5%** | **10** | **$19.43** | **8.2%** |

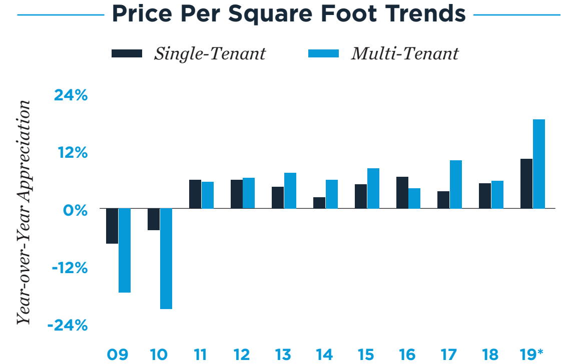
## SALES TRENDS

### Out-Of-State Buyers Remain Active; Assets in the City of Orlando Are Targeted

- **Multi-Tenant:** Deal flow waned during the past four quarters as fewer properties were marketed for sale. Increased competition pushed the average price up 19 percent to $288 per square foot year over year in the first quarter at an average cap rate of 6.9 percent.
- **Single-Tenant:** Trading volume decreased over the past 12 months with non-local buyers dominating sales activity. The average price surged 10 percent to $460 per square foot. Cap rates average in the low-6 percent span.

Outlook: Properties in neighborhoods surrounding downtown Orlando and near tourist destinations will continue to be favored.

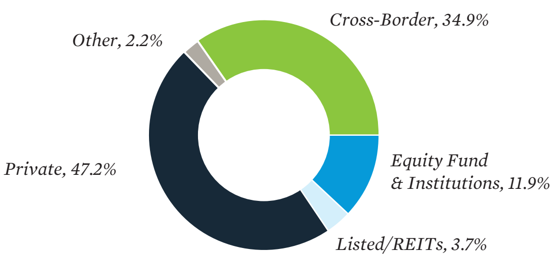
**Price Per Square Foot Trends**



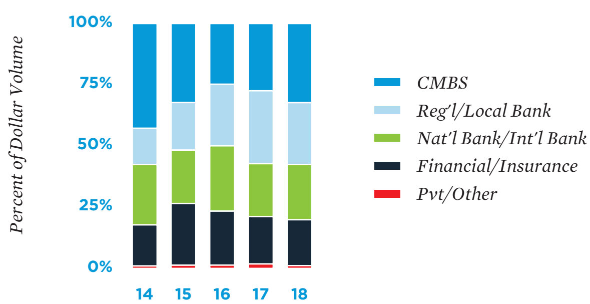

** Trailing 12 months through 1Q19 over previous time period*

*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*

## 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.

**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**
**Nancy Olmsted**
*Senior Market Analyst | 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*


*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*