MARKET FORECAST

RETAIL

Tampa-St. Petersburg Metro Area

IPA | INSTITUTIONAL PROPERTY ADVISORS

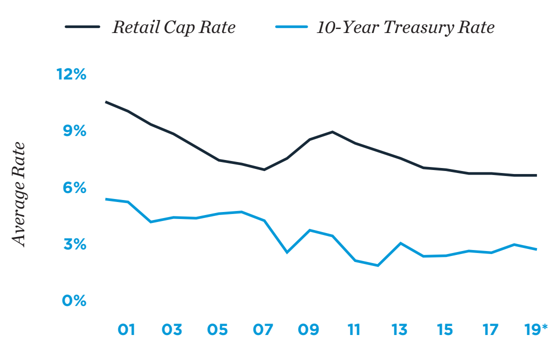
Q2/19

Tourism Records and Population Surge Benefit Local Retailers and Draw Investor Attention

Rising incomes, population gains and an increase in tourism propel the retail sector. Retail sales soared an average of 7.4 percent during the past 12 months, placing the metro among the top five markets nationally. The vigorous growth comes from strong employment gains that contributed to nearly 39,400 additional residents moving to the region during the past four quarters. Another 38,600 are expected in the next 12 months. Rising incomes are leading to higher retail sales as discretionary spending expands. The median household income vaulted 7.3 percent year over year, the second highest rate of increase in the country and more than twice the U.S. growth rate. A surge in tourism is also benefiting the retail market. Last year, passenger volume at the metro's two largest airports set new records.

Escalating retailer demand amid a slower construction pipeline tightens vacancy. Retail construction slowed significantly in the opening quarter of the year, and this year's deliveries will be lower than last year's, directing many expanding retailers into existing space. Grocery stores in particular are adding locations to fill the needs of the growing population. Lucky's, Sprouts, Earth Fare, Aldi and Publix are among the grocers announcing additional locations in Tampa Bay and many are filling vacated space. Lucky's, for example, is scheduled to open in a former Albertson's store in Clearwater and in a space previously occupied by Kmart in Brandon this year. Tighter vacancy and the renovation of older space throughout the metro is contributing to rent growth.

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

900,000 SQ. FT.
will be completed

CONSTRUCTION:

Deliveries will fall to the lowest level since 2013 and well below the 1.7 million square feet completed last year. Pasco County will receive the greatest share of this year's new inventory.

20 BASIS POINT
decrease in vacancy

VACANCY:

A slowdown in completions and strong tenant demand will reduce vacancy to 4.5 percent at year end. The vacancy rate jumped 40 basis points last year.

5.2% INCREASE
in asking rents

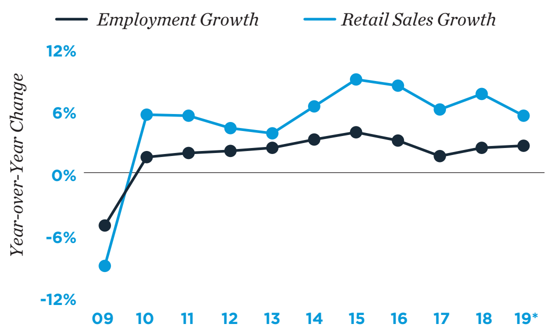
RENTS:

Building on a 8.3 percent surge in 2018, the average asking rent will climb to $17.58 percent this year, slightly above the previous high reached in 2008.

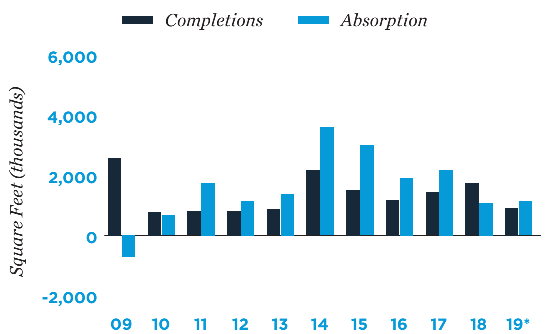
Investment Trends

- Favorable demographic, economic and tourism trends as well as the potential for higher returns than are available in their home markets are luring a wide range of investors to retail assets in the Tampa Bay region.
- Non-local investors dominate trading activity. Many are coming from the East and West coasts and already have a presence in Florida. As these buyers seek to add to their local holdings, competition for available assets will intensify.
- Population growth is keeping buyers active in Pasco County. Many older assets, particularly in Hudson and New Port Richey, will trade at cap rates above 8 percent.
- A gap remains between buyer and seller pricing expectations. As a result, underwriting has become more conservative, which can extend the time it takes to close transactions.

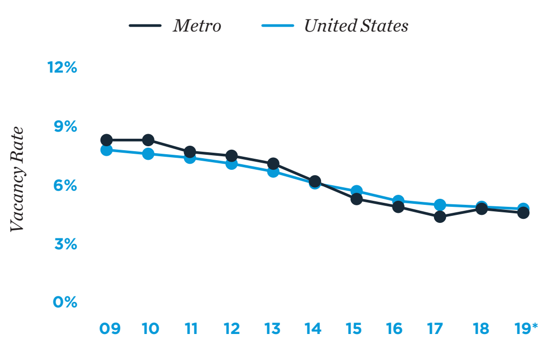
Employment vs. Retail Sales Trends



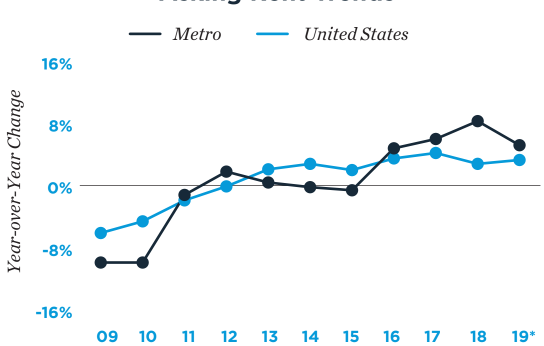
Retail Completions



Vacancy Rate Trends



Asking Rent Trends



**Forecast*

Sources: CoStar Group, Inc.; Real Capital Analytics

1Q19 – 12-Month Trend

EMPLOYMENT

2.2% increase in total employment Y-O-Y

- Following the creation of 28,700 jobs 12 months ago, employers slightly increased the pace of hiring as 29,400 workers were added to payrolls year over year in March. Gains were led by business services with nearly 11,000 positions.
- Steady job growth has kept the unemployment rate below 4 percent for seven consecutive quarters, making it more difficult for employers to find qualified employees.

CONSTRUCTION

1.5 million square feet completed Y-O-Y

- Developers completed 1.5 million square feet of retail space since March of last year, although just 66,200 square feet was finalized so far in 2019. Deliveries will curtail in the quarters ahead as 1 million square feet is underway with deliveries slated into 2020.
- The largest project due in 2019 is a 161,400-square-foot building in the Cypress Creek Town Center in Lutz. Retailers in the center include Hobby Lobby, HomeGoods, Burlington and Five Below.

VACANCY

20 basis point increase in vacancy Y-O-Y

- The departure of Sears from WestShore Plaza was one of many store closures that contributed to vacancy ticking up year over year to 4.6 percent in the first quarter. The rate is down 390 basis points from the cyclical peak reached during 2010.
- During the past four quarters, the vacancy rate in multi-tenant centers declined 30 basis points to 5.2 percent. Single-tenant rate, meanwhile, jumped 50 basis points to 4.2 percent.

RENTS:

10.1% increase in the average asking rent Y-O-Y

- New inventory and the redevelopment of older space contributed to an annual 10.1 percent gain in asking rent to $16.72 per square foot on average. One year earlier, rent posted a 2.7 percent advance.
- Asking rent in multi-tenant properties soared 16.0 percent during the past 12 months to $15.83 per square foot in March, 1.2 percent below the previous peak. Single-tenant rent, meanwhile, jumped 7.1 percent to $17.30 per square foot, 6.7 percent lower than the cyclical high.

Demographic Highlights

2019 Job Growth*

Metro **2.6%**
U.S. Average **1.3%**

Five-Year Population Growth**

192,100 *or* **1.2%** *Annual Growth*
U.S. **0.6%** *Annual Growth*

Five-Year Household Growth**

114,000 *or* **1.7%** *Annual Growth*
U.S. **1.0%** *Annual Growth*

1Q19 Median Household Income

Metro **$56,928**
U.S. Median **$64,259**

1Q19 Retail Sales per Month

$4,393 *Per Household*
U.S. **$3,971**

$1,825 *Per Person*
U.S. **$1,544**

Retail Sales Forecast**

Metro **22.1%**
U.S. **16.9%**

** Forecast ** 2018-2023*

SUBMARKET TRENDS

Lowest Vacancy Rates 1Q19

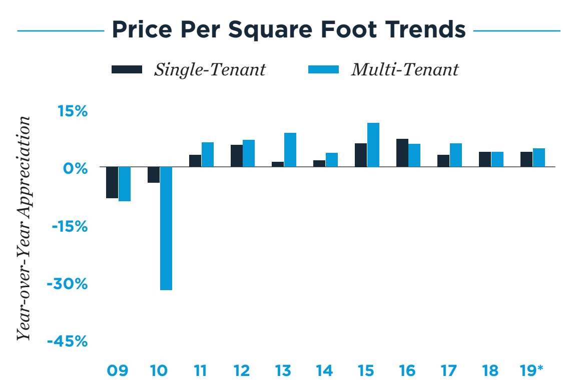
Submarket	Vacancy Rate	Y-O-Y Basis Point Change	Average Asking Rent	Y-O-Y % Change
Central Tampa	1.9%	40	$25.23	19.2%
North Hillsborough	3.2%	-30	$16.49	8.4%
Eastern Outlying	3.7%	-70	$14.82	-7.7%
Sarasota-Bradenton	4.2%	40	$16.65	12.6%
Hernando County	5.0%	10	$11.37	-2.3%
I-75 Corridor	5.2%	90	$16.79	24.6%
Pinellas	5.2%	-10	$17.78	11.9%
Pasco County	6.4%	40	$11.84	-12.7%
Overall Metro	**4.6%**	**20**	**$16.72**	**10.1%**

SALES TRENDS

Buyer Demand Remains Well Above Supply of Listings, Pushing Prices Higher

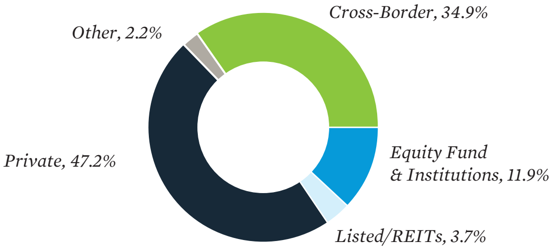
- **Multi-Tenant:** Fewer properties listed for sale slowed transaction volume during the past four quarters. Intensifying competition helped push the average price up 4.8 percent to $243 per square foot as average first-year yields remained in the low-7 percent bracket.
- **Single-Tenant:** Sales activity rose slightly year over year as the average price advanced 3.9 percent to $382 per square foot. Cap rates remained in the low-6 percent span on average.

Outlook: Favorable demographic trends and new inventory will keep many investors active in Southeast Hillsborough, Eastern Pasco and Sarasota counties.

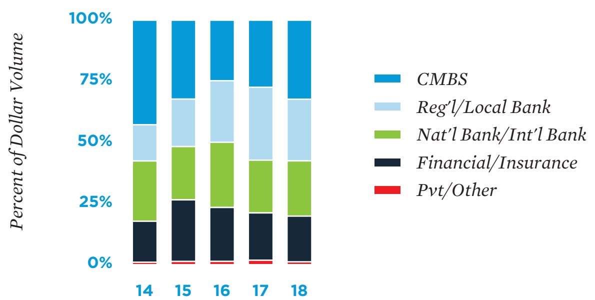


** Trailing 12 months through 1Q19 over previous time period*
Pricing trend sources: CoStar Group, Inc.; Real Capital Analytics

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
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

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