MARKET REPORT

Marcus & Millichap

RETAIL

Tampa-St. Petersburg Metro Area

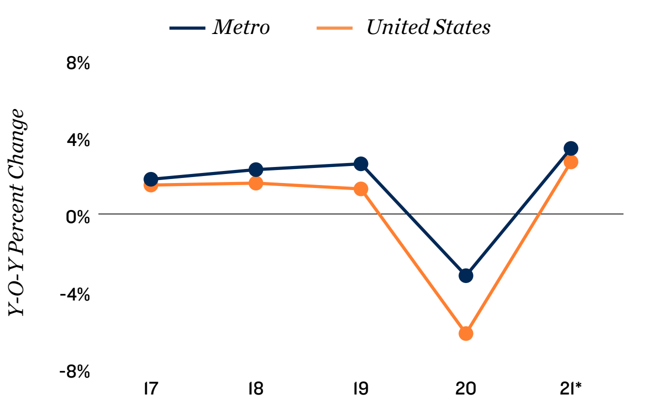
2Q/21

Population Growth, Return of Tourists Will Drive Need for Goods and Services

Rebounding employment bodes well for retail demand. Tampa Bay is on track to replace all of the positions lost during the health crisis this year. Already, jobs in the financial services, professional and business services, as well as construction sectors are above the pre-pandemic levels. Hiring in the heavily hit leisure and hospitality segment should improve as tourism rebounds and more businesses open to full capacity in the months ahead. Jobs, favorable weather and a lower cost of living are drawing more people to the region. Even during the health crisis, the metro gained roughly 25,000 new residents. In 2021, the population is anticipated to expand at a pace that is almost twice the national rate with the addition of nearly 28,000 people underpinning a greater demand for goods and services.

Developers follow residential growth into the suburbs. Pasco County has received more inventory over the past five years than any other submarket with the addition of roughly 1.5 million square feet. As a result, the county posted the metro's highest vacancy rate at 7.5 percent at the end of 2020. Availability is anticipated to remain elevated in 2021 as developers have more than 200,000 square feet due this year. In contrast, Central Tampa maintained the metro's tightest vacancy at 2.9 percent at year end. Availability in the submarket has held below 3 percent since 2016. More than 190,000 square feet is scheduled for completion in the urban core this year, which may nudge vacancy higher.

Employment Trends



** Forecast*

Sources: BLS; CoStar Group, Inc.

Retail 2021 Outlook

45,500 JOBS *will be created*

EMPLOYMENT:

Employment rises 3.4 percent in 2021 as more businesses fully reopen and tourists return, replacing all of the 44,600 jobs lost last year. The unemployment rate, which began the year at 5.5 percent should stay below the national level.

1,103,000 SQ. FT. *will be completed*

CONSTRUCTION:

Deliveries inch up from the 1 million square feet finalized last year, expanding inventory by less than 1 percent. The majority of submarkets are slated to receive new retail space this year.

10 BASIS POINT *increase in vacancy*

VACANCY:

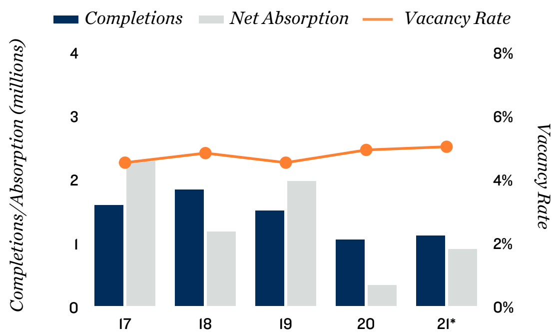
Net absorption falls slightly below deliveries as more stores vacate space, pushing the vacancy rate up to 5.0 percent at year end. Nevertheless, vacancy will remain just 70 basis points above the 15-year low.

1.6% INCREASE *in asking rent*

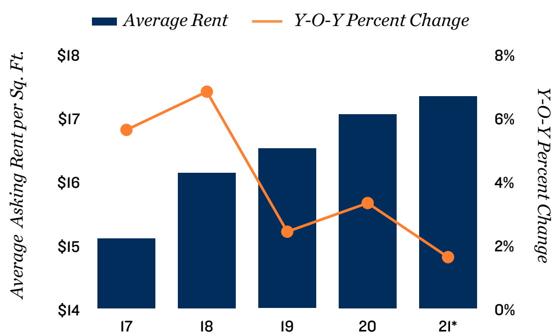
RENT:

Still-tight vacancy will promote rent growth for the seventh consecutive year. During 2021, the average asking rent will advance to $17.33 per square foot, setting a new high. Since the end of 2015, the rate has surged 28 percent.

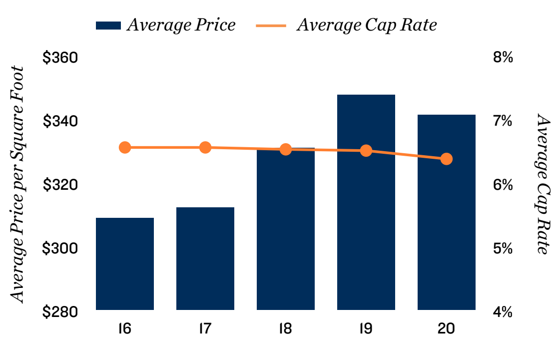
Supply and Demand



Rent Trends



Sales Trends



** Forecast*

Sources: CoStar Group, Inc.; Real Capital Analytics

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Price: $250

2020

CONSTRUCTION

1,041,000 square feet completed

- Deliveries fell from the 1.5 million square feet completed in 2019 as inventory expanded less than 1 percent.
- All submarkets received new space in 2020 with the largest portion at 240,000 square feet in Pasco County. More than 200,000 square feet was also added in the I-75 Corridor and Sarasota-Bradenton.

VACANCY

40 basis point increase in vacancy Y-O-Y

- A 60-basis-point jump in multi-tenant vacancy pushed the overall vacancy rate to 4.9 percent, just 60 basis points above the 14-year low.
- Residential growth and little new inventory contributed to vacancy in Hernando County posting the largest contraction of any submarket at 110 basis points annually to 4.1 percent.

RENT

3.3% increase in the average asking rent Y-O-Y

- Even though vacancy increased, the still historically low rate promoted rent growth. During 2020, rent rose to $17.05 per square foot.
- Central Tampa was the only submarket where rent declined on an annual basis. The average asking rent fell 12.9 percent to $20.80 per square foot, still the highest rate in the metro.

Investment Highlights

- After a sizable drop in the second quarter, buyers returned in earnest during the final three months of the year, raising quarterly transaction activity close to the pre-pandemic level. On an annual basis, however, trading volume declined 5 percent with the largest reduction in multi-tenant sales.
- Fewer Class A multi-tenant buildings changing hands led to the average price for this segment falling 2 percent year over year to $247 per square foot. One year earlier, a 6 percent jump was recorded. In 2020, the mean multi-tenant cap rate dipped 30 basis points to 6.9 percent, the lowest annual rate since 2007.
- Single-tenant transactions declined less than 1 percent year over year. A higher portion of older properties trading resulted in a 3 percent cut in the average price to $376 per square foot, while the mean cap rate held steady at 6.2 percent.
- Drugstores drew a number of out-of-state investors to Tampa Bay. These assets typically traded above $370 per square foot with cap rates averaging in the 6 percent span.