MARKET REPORT

Marcus & Millichap

RETAIL

Orlando Metro Area

Q3/19

Record-Setting Tourism, Strong Job and Population Growth Produce Vigorous Retail Demand

Healthy demand drivers underpin robust retail sector. Orlando was the most-visited destination in the U.S. during 2018 as a record 75 million people came to the metro. Many of these tourists spent money at local retailers and restaurants. In the upcoming years, the tourism sector should benefit from expansions at local theme parks and Universal's recent announcement of plans to build the metro's first new theme park in more than a decade. The Orlando market ranked among the top metros in the nation in the percent of jobs added, population growth and household income gains over the past four quarters. These factors have boosted discretionary spending, bolstering the retail sector. As a result, vacancy hovers near the cyclical low and rent growth posted the strongest gain in 12 years during the second quarter.

Construction activity remains restrained. Although demand for retail space in mounting, development activity has been mainly in locales with substantial residential growth. The area extending from downtown Orlando south into Kissimmee will receive the greatest portion of new development this year. In the core of Orlando, Creative Village will add 150,000 square feet of retail space in mixed-use buildings that will also include residential, educational space, offices and a hotel over the next decade. The largest project underway, however, is City Center West Orange in Ocoee to the west of Orlando. The 500,000-square-foot center is due for completion in 2020.

Retail 2019 Outlook

1.2 MILLION SQ. FT.

will be completed

CONSTRUCTION:

Completions rise from last year's 880,400 square feet but remain below the previous five-year average as roughly 1.2 million square feet of new inventory is due for delivery in 2019.

20 BASIS POINT

decrease in vacancy

VACANCY:

Vacancy declines to 4.5 percent at year end after a 10-basis-point rise during 2018. Vacancy has remained in the 4 percent span for three consecutive years.

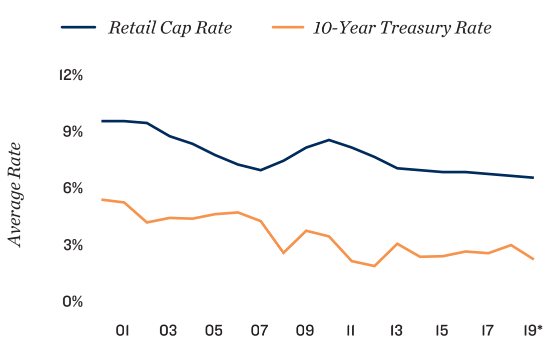
6.6% INCREASE

in asking rents

RENT:

Asking rent for available space sets a new high at $20.09 per square foot during 2019, building on last year's 7.1 percent vault.

Local Retail Yield Trends



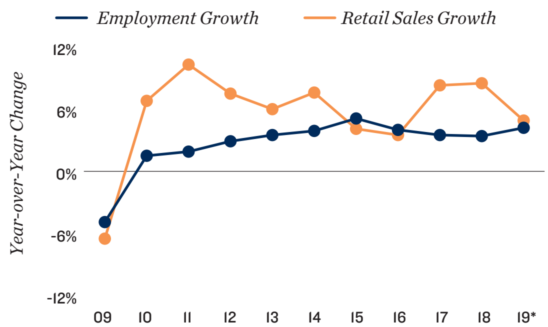
** Cap rates trailing 12 months through 2Q19; 10-year Treasury up to June 30*

Sources: CoStar Group, Inc.; Real Capital Analytics

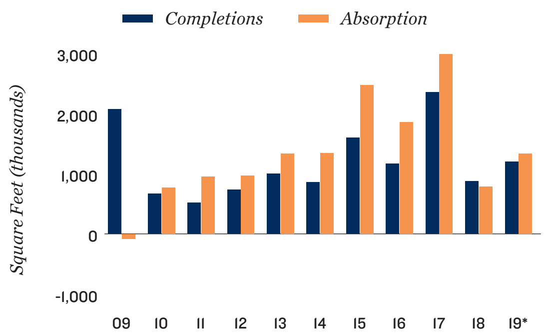
Investment Trends

- Record visitors coming to the Orlando metro are bolstering retail demand in the Tourist Corridor. The submarket registered the second-lowest vacancy and second-highest rent growth in June, keeping investors active. During the past 12 months multi-tenant assets in this submarket traded at an average of $272 per square foot, while restaurants changed hands at $480 per square foot on average.
- As valuations rise and the economic cycle extends longer than previous cycles, investors throughout the Orlando area are becoming more cautious. Properties must achieve portfolio objectives and be priced appropriately as buyers have become more hesitant about overpaying.
- As many investors become concerned about the effect of ecommerce sales and their impact on brick-and-mortar retail, assets with internet-resistant tenants such as health related, exercise and necessity-product companies are appealing. Additionally, well-located assets that can be quickly adapted to alternative uses are desired.

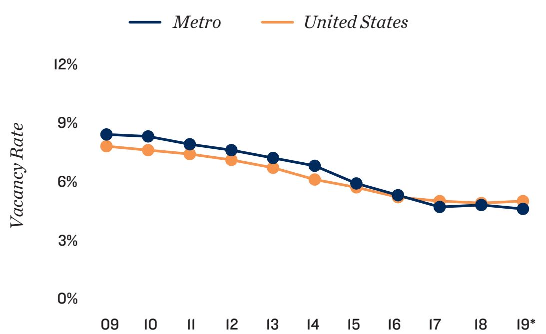
Employment vs. Retail Sales Trends



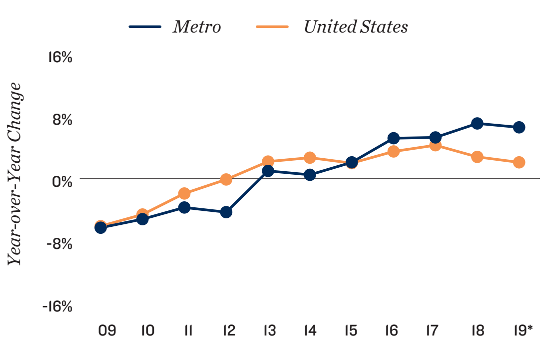
Retail Completions



Vacancy Rate Trends



Asking Rent Trends



** Forecast*

Sources: CoStar Group, Inc.; Real Capital Analytics

2Q19 – 12-Month Trend

EMPLOYMENT

3.7% increase in total employment Y-O-Y

- Roughly 47,400 workers were added to payrolls in the past four quarters, up from a 3.3 percent gain one year earlier. The rise in hiring kept the unemployment rate in the low-3 percent range.
- Professional and business services led job growth over the past four quarters with the addition of nearly 14,200 positions. Leisure and hospitality followed with almost 12,100 slots, many at the new hotels and expanding theme parks.

CONSTRUCTION

1.3 million square feet completed Y-O-Y

- A total of 1.3 million square feet was finalized in the past 12 months ending in June, down from the prior period's 1.6 million square feet.
- Developers are especially active to the south of downtown Orlando. This area received more than 400,000 square feet during the past four quarters and another 300,000 square feet is underway with deliveries extending into 2020.

VACANCY

10 basis point decrease in vacancy Y-O-Y

- The absorption of 1.4 million square feet lowered vacancy to 4.6 percent over the past four quarters. A 40-basis-point decline was registered one year earlier.
- Multi-tenant properties posted the tightest vacancy rate since 2007 at a 5.5 percent in June, down 60 basis points year over year. The dwindling supply of available space produced an 11 percent hike in the average asking rent during the same time.

RENT

9.2% increase in the average asking rent Y-O-Y

- Over the past four quarters, the average asking rent vaulted 9.2 percent to set a new high at $19.77 per square foot. One year earlier, the average rate jumped 6.5 percent.
- Robust tourism demand contributed to a 27.4 percent surge in the average asking rent for available space in the Tourist Corridor. Rent in the submarket is already among the highest in the metro at an average of $30.89 per square foot at midyear, while vacancy is 3.0 percent.

Demographic Highlights

2019 Job Growth*

Metro 4.2%

U.S. Average 1.3%

Five-Year Population Growth**

311,202 *or* 2.4% *Annual Growth*

U.S. 0.6% *Annual Growth*

Five-Year Household Growth**

151,100 *or* 3.2% *Annual Growth*

U.S. 1.0% *Annual Growth*

2Q19 Median Household Income

Metro $60,681

U.S. Median $64,784

2Q19 Retail Sales per Month

$5,397 *Per Household*

U.S. $4,017

$1,992 *Per Person*

U.S. $1,550

Retail Sales Forecast**

Metro 26.8%

U.S. 17.0%

** Forecast ** 2018-2023*

SUBMARKET TRENDS

Lowest Vacancy Rates 2Q19**

Submarket	Vacancy Rate	Y-O-Y Basis Point Change	Average Asking Rent	Y-O-Y % Change
South Outlier	2.1%	-20	$22.62	-0.1%
Tourist Corridor	3.0%	-100	$30.89	27.4%
Maitland Center	3.3%	110	$13.20	2.4%
Lake County	3.6%	10	$18.01	15.5%
Kissimmee	4.4%	110	$15.86	9.5%
436 Corridor	4.5%	70	$19.12	23.8%
Orlando Central Park	5.3%	50	$16.03	-1.6%
Winter Park	5.4%	50	$34.05	7.9%
Sanford	5.7%	-20	$11.87	-9.9%
North Outlier	5.7%	-300	$19.82	11.7%
Overall Metro	**4.6%**	**-10**	**$19.77**	**9.2%**

*** Includes submarkets with more than 2 million square feet of inventory*

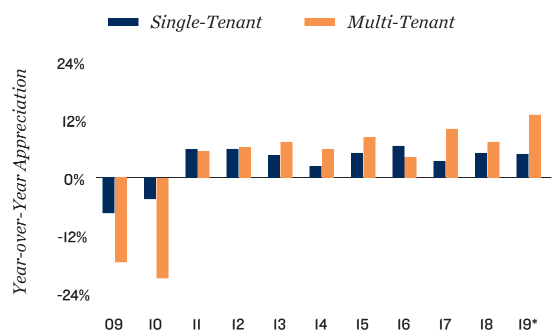
SALES TRENDS

Increased Buyer Demand Pushes Prices Higher; Little Movement in Cap Rates

- **Multi-Tenant:** Transaction velocity declined 11 percent over the past year ending in June, while the average price jumped 13 percent to $280 per square foot. The average cap rate remained in the low-7 percent bracket.
- **Single-Tenant:** The average price appreciated 5 percent over the past four quarters to $443 per square foot, while deal flow increased 7 percent. The average cap rate held in the low-6 percent span.

Outlook: Robust tourism, population and employment gains will capture investors' interest in the Orlando metro. Higher cap rates and lower entry costs than Miami will lure some investors northward.

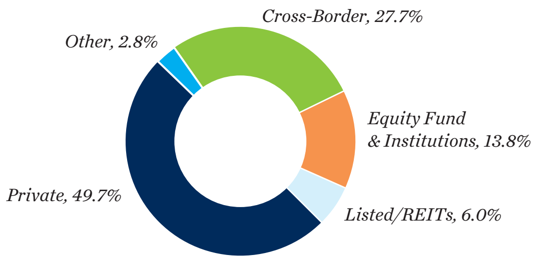
Price Per Square Foot Trends



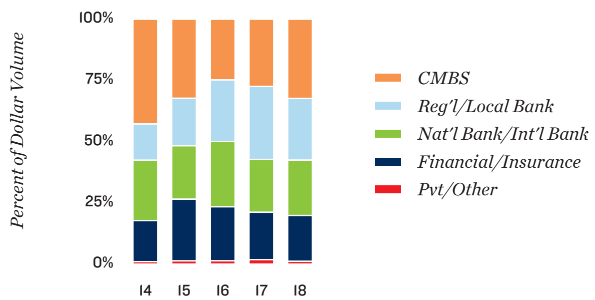
** Trailing 12 months through 2Q19 over previous time period*

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

2Q19* Retail Acquisitions By Buyer Type



Retail Mortgage Originations By Lender



** Trailing 12 months through 2Q19*
Include sales $2.5 million and greater
Sources: CoStar Group, Inc.; Real Capital Analytics

CAPITAL MARKETS

By DAVID G. SHILLINGTON, President,
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- **Fed trying to extend economic runway but hitting headwinds.** The Federal Reserve's decisive action, including their rate drop in July, will suppor the economic growth cycle, but may be outweighed by the escalating trade war. Uncertainty and caution increased following August 1 announcement that additional tariffs would be levied, sparking a flight to safety and the recent inversion of the 10-year and two-year Treasurys. Though the Fed's 25-basis-point reduction of the overnight rate and early end to quantitativ tightening could pose some inflation risk, the Fed has communicated a willingness to let the economy "run hot" in an effort to spur growth. Shoul core inflation rises above 2 percent, it will not be seen as an immediate risl Falling interest rates, a byproduct of the trade war and the Fed's efforts to boost the economy, will bolster leveraged yields for investors. With the yie on the 10-year Treasury now down 70 basis points from the cycle peak last October and at their lowest level since 2016, investment options that may not have penciled even 30 days ago have been reinvigorated. This should help moderate the buyer/seller expectation gap that had widened earlier i the year.
- **Lenders shift focus to tenant blends as transforming sector opens new doors.** The evolving nature of the retail sector is providing opportunities for investors and giving underwriters more confidence in the long-term outlook of retail. Lending habits remain relatively conservative; however, a wide range of financing is available for strong proposals. Underwriters are beginning to focus more on tenant mixes while emphasizing the inclusion tenants with sustainable business models before they sponsor a deal. Activ lenders include local, regional and national banks, insurance companies, debt funds and CMBS lenders. Net-leased assets and premier, mixed-use structures remain the most desirable asset types. Meanwhile, outlying malls and non-credit tenants will be heavily scrutinized and underwritten in a very conservative manner. Loan to Value (LTV) ratios are in the 60% to 70% range with typical debt service coverage (DSC) ratios above 1.30x depending on borrower, asset and location factors. Mezzanine and bridge loan structures have been more frequently used in this environment, with owners financing capital improvements at higher leverage ratios on short-term debt before seeking long-term financing options once their operatior have been stabilized.

National Retail Group

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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