MARKET REPORT

Marcus & Millichap

RETAIL

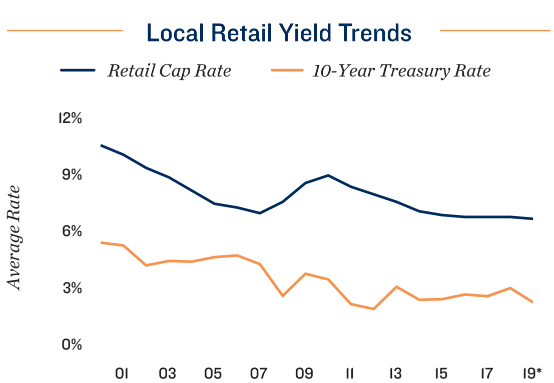
Tampa-St. Petersburg Metro Area

Q3/19

Influx of Residents Boosts Retail Demand; Revitalization Draws Buyers to Central Tampa

Job opportunities, warmer weather and lower cost of living and doing business are among the many attributes that draw people and companies to Tampa Bay. The metro's population grew at more than twice the U.S. rate during the past four quarters, gaining nearly 40,400 residents. Since June of 2018, employers have added 25,500 positions, well above the national pace. Biotech firm Vycellix and law firm Baker McKenzie are among the many companies bringing higher-paying positions to the metro. These jobs contributed to a 6.0 percent rise in the median household income year over year in the second quarter, providing residents with more discretionary income. As a result, retail sales jumped an annual 5.0 percent in June. Leasing activity, however, fell just short of deliveries over the past 12-month period ending at midyear, inching vacancy up 10 basis points from this time last year. The rate rests just 20 basis points above the cyclical low as rents continue to rise.

Development robust in Pasco County. The county will receive more than 60 percent of the market's deliveries during 2019 as residential growth surges. The largest project is the retail portion of the Starkey Ranch master-planned community in Odessa. Roughly 300,000 square feet is under construction with Publix set to open a 53,000-square-foot store in the third quarter. Cypress Creek Town Center in Lutz and Mitchell Ranch in Trinity are each adding more than 150,000 square feet during 2019. Inventory additions keep the county's vacancy rate the highest metrowide.



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

Sources: CoStar Group, Inc.; Real Capital Analytics

Retail 2019 Outlook

1.3 MILLION SQ. FT.
will be completed

CONSTRUCTION:

After reaching a four-year peak of 1.6 million square feet last year, deliveries are reduced by 300,000 square feet during 2019 as 1.3 million square feet is finalized.

20 BASIS POINT
decrease in vacancy

VACANCY:

A reduction in new inventory coupled with strong leasing activity will cut vacancy to 4.6 percent at year end. Last year the rate rose 40 basis points.

1.6% INCREASE
in asking rents

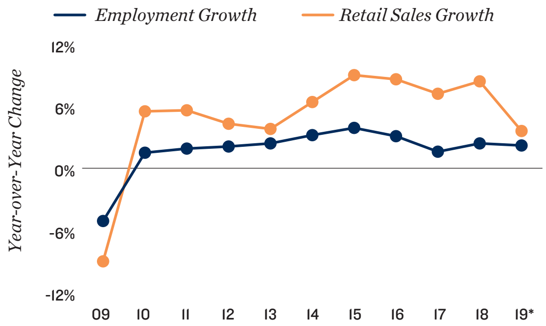
RENT:

The average asking rent ends 2019 at $17.05 per square foot on average, building on last year's 8.3 percent surge. Since 2015, rent has jumped 23 percent.

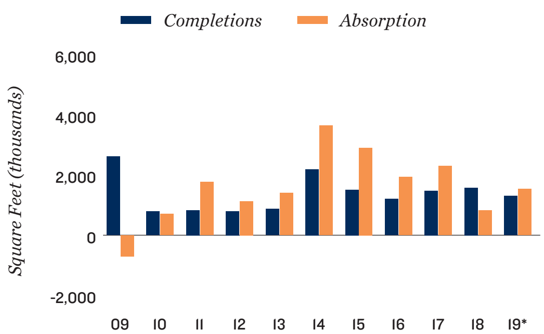
Investment Trends

- Over the past four quarters, out-of-state buyers continued to have a major presence in the metro, many coming from New York, California and Texas. Single-tenant net-leased properties are the focus of several of these investors. The average single-tenant cap rate remains in the low-6 percent span.
- A number of buyers are targeting assets in Central Tampa. The submarket posted the tightest vacancy in the metro during the second quarter and the average asking rent has soared 55 percent since the end of 2015. Large mixed-use developments including Water Street Tampa and Westshore Marina District are bringing additional retail and dining options, hotels and more than 1,000 residences to the area, boosting surrounding property valuations.
- Robust competition for available single-tenant assets has some investors willing to consider small strip centers with fewer than five tenants. Newer assets with national tenants signed to long-term leases can trade above $500 per square foot with cap rates dipping below 6 percent.

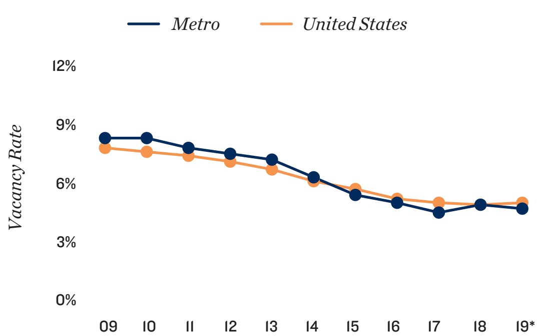
Employment vs. Retail Sales Trends



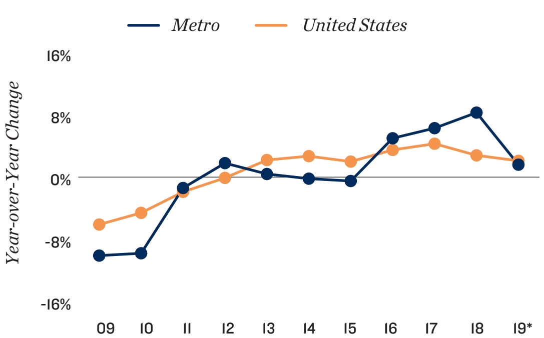
Retail Completions



Vacancy Rate Trends



Asking Rent Trends



* Forecast

Sources: CoStar Group, Inc.; Real Capital Analytics

2Q19 – 12-Month Trend

EMPLOYMENT

1.9% increase in total employment Y-O-Y

- Employers created 25,500 jobs year over year in June, down from 27,700 positions one year earlier. The unemployment rate holding below 4 percent for eight consecutive quarters is making it more difficult to fill available positions due to a lack of applicants.
- The relatively higher-paying professional and business services sector led hiring with 6,800 workers added. Education and health services followed, expanding payrolls by 5,200 people.

CONSTRUCTION

1.1 million square feet completed Y-O-Y

- After completing an annual 1.4 million square feet at this time last year, developers finalized 1.1 million square feet during the past four quarters, falling below the previous five-year average.
- Pasco County will receive the bulk of this year's deliveries, the majority of the new inventory is in Trinity, Lutz and Wesley Chapel. Robust population growth in the county is supporting demand for more retail space.

VACANCY

10 basis point increase in vacancy Y-O-Y

- After holding steady one year ago, the vacancy rate rose 10 basis points year over year to 4.6 percent in the second quarter. The rate has dropped 390 basis points from the cyclical peak reached in 2010.
- The tightest vacancy among submarkets is Central Tampa at 2.3 percent in June. The rate has risen 60 basis points over the past four quarters as deliveries reached a six-year high.

RENT

4.5% increase in the average asking rent Y-O-Y

- Vacancy hovering in the 4 percent range for the past two years is supporting rent gains. The average asking rent jumped 4.5 percent to \$16.59 per square foot over the past 12 months ending in June, building on the prior period's 7.2 percent surge.
- Rent in multi-tenant properties ended midyear at \$15.41, advancing 4.4 percent annually. Vacancy in these buildings rested at 5.3 percent in June, down 50 basis points from one year earlier.

Demographic Highlights

2019 Job Growth*

Metro 2.2%

U.S. Average 1.3%

Five-Year Population Growth**

208,034 or 1.3% Annual Growth

U.S. 0.6% Annual Growth

Five-Year Household Growth**

117,400 or 1.8% Annual Growth

U.S. 1.0% Annual Growth

2Q19 Median Household Income

Metro $57,825

U.S. Median $64,784

2Q19 Retail Sales per Month

$4,469 Per Household

U.S. $4,017

$1,824 Per Person

U.S. $1,550

Retail Sales Forecast**

Metro 21.9%

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
Central Tampa	2.3%	60	$24.03	9.6%
North Hillsborough	3.4%	-60	$16.06	-0.8%
I-75 Corridor	4.0%	0	$17.21	12.4%
Eastern Outlying	4.1%	-20	$14.99	-0.4%
Sarasota/Bradenton	4.2%	0	$16.21	3.8%
Hernando County	4.9%	-20	$10.90	-0.9%
Pinellas	5.2%	0	$17.69	3.8%
Pasco County	6.9%	50	$12.52	0.2%
Overall Metro	**4.6%**	**10**	**$16.59**	**4.5%**

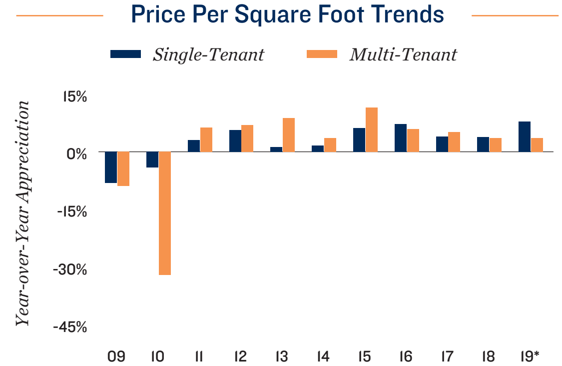
SALES TRENDS

Population Growth and Strong Rent Gains Draw Investors; Competition Pushes Prices Higher

- **Multi-Tenant:** Trading activity slowed 11 percent over the past four quarters. During that time the average price advanced 4 percent to $241 per square foot, while the average cap rate remained in the low-7 percent band.
- **Single-Tenant:** Deal flow climbed 8 percent year over year in June and the increased competition for assets contributed to the average price rising 8 percent to $403 per square foot.

Outlook: Favorable demographic and operational trends will hold investor interest in Tampa-St. Petersburg properties. New residential high-rises in the city cores will attract retailers and buyers to these areas.

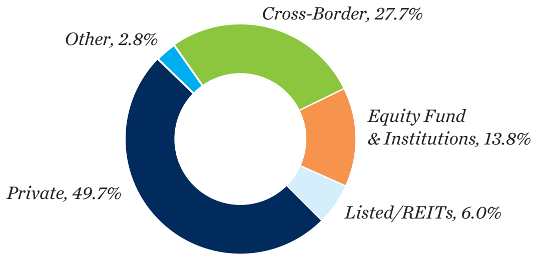
Price Per Square Foot Trends



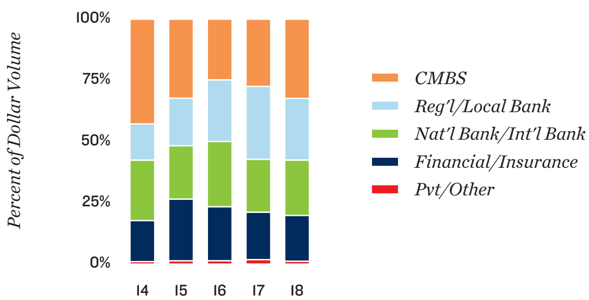
** Trailing 12 months through 2Q19 over previous time period*

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, Marcus & Millichap Capital Corporation

- **Fed trying to extend economic runway but hitting headwinds.** The Federal Reserve's decisive action, including their rate drop in July, will support 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 quantitative tightening could pose some inflation risk, the Fed has communicated a willingness to let the economy "run hot" in an effort to spur growth. Should core inflation rises above 2 percent, it will not be seen as an immediate risk. 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 yield 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 in 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 of tenants with sustainable business models before they sponsor a deal. Active 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 operations 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