

INVESTMENT FORECAST

Marcus & Millichap

RETAIL

Orlando Metro Area

2022

Vigorous Employment and Population Gains Bolster Retail Spending; Vacancy Retreats to 15-Year Low

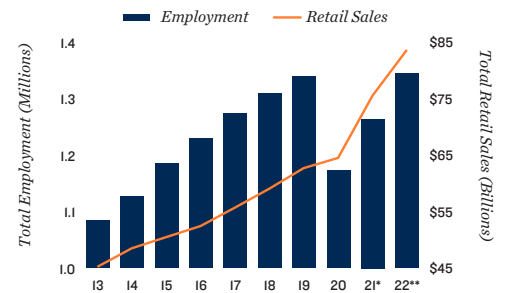
Demographic growth fuels retail demand. Orlando's retail fundamentals have fully recovered from the health crisis as robust in-migration and employment growth helped offset steep drops in foreign tourism. Retailers absorbed more than 1.4 million square feet of space in 2021, lowering metrowide vacancy to a 15-year low and lifting the average asking rent to a cyclical high. Several factors indicate the market will sustain this positive performance in 2022. Orlando's rate of employment growth is expected to lead the nation, with the local population slated to elevate by 52,000 residents. Additionally, international travel will likely increase as pentup demand is released. Favorable demographic trends and increased levels of tourism support a further rise in consumer spending, encouraging retailer expansions that will drive demand for available space. Although construction activity is expected to rise, the majority of the pipeline is pre-leased heading into this year. This will require space-seeking vendors to browse the metro's limited vacant stock, promoting additional vacancy compression and rent gains throughout this year.

Economic drivers lure investors to Orlando. An expanding economy, coupled with strong population growth and robust tourism, has made Orlando's retail sector a highly attractive option for investors. Tight vacancy is enticing new buyers to the market, increasing competition for available properties. Investors targeting single-tenant assets are active in Osceola, Lake and south Orange counties, where vacancy rates are among the lowest in the metro. Drug stores as well as fast food and discount retailers are garnering the most interest, with first-year returns averaging in the mid-5 percent range. Many buyers are also focusing on multi-tenant assets in the West Colonial and Orlando Central Park submarkets. Entry costs here usually fall below the metro average of \$274 per square foot, with cap rates averaging in the low-7 percent span. Further vacancy compression will boost competition for listings in 2022 as the metro's buyer pool continues to expand.

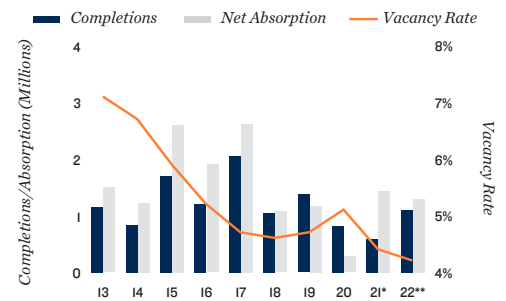
2022 Market Forecast

- Employment** ↑
 up 6.3% ↗ Employment growth exceeds 6 percent for the second consecutive year, with firms adding 80,000 jobs in 2022.
- Construction** ↑
 1,100,000 sq. ft. ↗ Construction activity nearly doubles on an annual basis, as developers expand the metro's inventory by 0.9 percent. Last year, 585,000 square feet of space was finalized.
- Vacancy** ↓
 down 20 bps ↘ Robust leasing activity allows metrowide vacancy to contract for the second straight year. The rate will fall to 4.2 percent, following the 70-basis-point drop registered in 2021.
- Rent** ↑
 up 4.0% ↗ Rent growth will accelerate from last year, when asking rents increased by nearly 2.0 percent. The average marketed rate is projected to reach \$20.85 per square foot in 2022.
- Investment** ○
 Increased international travel and domestic tourism will likely boost retail sales in the Tourist Corridor over the next year, driving buyer demand for properties in this submarket.

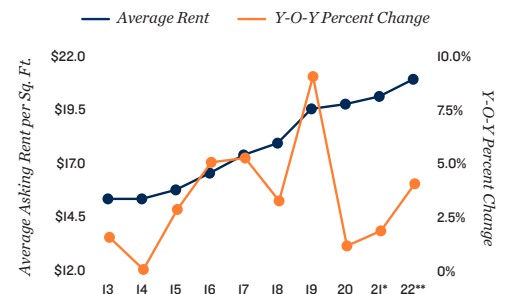
Economic Trends



Supply and Demand



Rent Trends



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

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Metro-level employment, vacancy and effective rents are year-end figures and are based on the most up-to-date information available as of February 2022. Average prices and cap rates are a function of the age, class and geographic area of the properties trading and therefore may not be representative of the market as a whole. Forecasts for employment and retail data are made during the first quarter and represent estimates of future performance. No representation, warranty or guarantee, express or implied may be made as to the accuracy or reliability of the information contained herein. This is not intended to be a forecast of future events and this is not a guaranty regarding a future event. This is not intended to provide specific investment advice and should not be considered as investment advice.