Retail Research
Market Report
Orlando Metro Area

Third Quarter 2017

Marcus & Millichap

Orlando's Expanding Economy Underpins Vibrant Retail Sector

Employment, residential and tourism growth provide bright outlook for retailers. Job gains remain well above the national rate as companies such as KPMG and ADP expand, helping to attract residents to the region. KPMG's new training and conference center underway in Lake Nona and NeoCity, a research park in Osceola County, will contribute to drawing highly paid workers to the area in the quarters ahead. During the last 12 months, more than 32,100 households were established metrowide, while median incomes increased above the rate of inflation, driving a 5.5 percent surge in retail sales. Visitors are also adding to a strong retail market as a record number of tourists came to Orlando last year, a trend that is continuing into 2017.

Creative solutions repurpose vacant retail space. Metro retail operators are finding innovative ways to fill empty storefronts. Many centers are leasing space to medical, office, entertainment or educational businesses that need ample parking. West Oaks Mall in Ocoee will turn the former Sears and Belk stores into office space. So far, Xerox and Bed Bath & Beyond have leased space for call centers that will bring 1,000 jobs to the facility over the next few years. Outparcels of mall properties are also being sold for more intensive uses such as apartments. The reuse of retail space will help tighten vacancy and boost rents this year.

Retail 2017 Outlook

1.4 million sq. ft. will be completed

Construction: Deliveries outpace the five-year average as developers add 1.4 million square feet to inventory. One year earlier, 1.1 million square feet was completed.

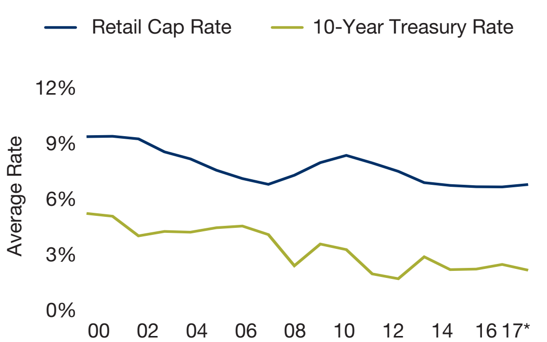
40 basis point decrease in vacancy

Vacancy: Absorption of 1.8 million square feet compresses vacancy to 4.8 percent at the end of 2017, 350 basis points below the cyclical peak in 2009.

3.9% increase in asking rents

Rents: Rent ends 2017 at an average of $17.15 per square foot. While reaching the highest rate since 2010, it remains 12 percent below the peak recorded in 2008.

Local Retail Yield Trends



* Cap rates trailing 12 months through 2Q17; 10-year Treasury rate through Aug.
Sources: CoStar Group, Inc.; Real Capital Analytics

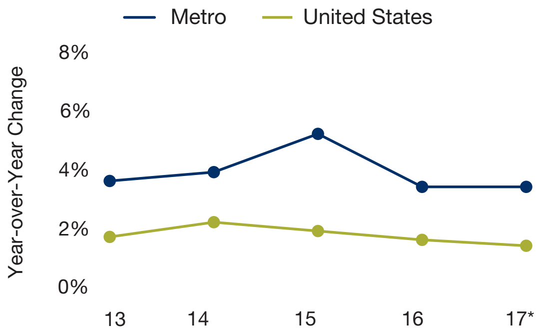
Investment Trends

- Orlando retail assets are attracting a wide range of buyers. Many are coming from out of state seeking single-tenant assets in prime locations with national tenants signed to long-term leases. Cap rates for these properties typically begin in the 5 percent area but may dip below that for premium buildings.
- The lack of quality marketed assets has pushed demand well above supply, driving prices up. Rising valuations are widening the gap between buyer and seller pricing expectations. This difference combined with increased due diligence by buyers and lenders is lengthening closing times for transactions.
- Many institutional investors are targeting grocery-anchored centers with tenants that are less susceptible to online competitors. A well-located property with a grocer such as Publix may trade at cap rates in the 7 percent range, while assets with a less desirable grocer can trade up to 200 basis points higher.

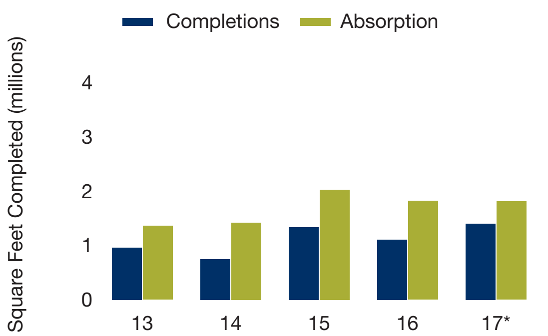
Orlando

2Q17 - 12-MONTH TREND

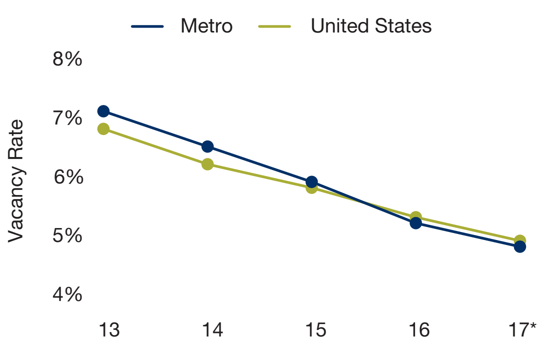
Employment Trends



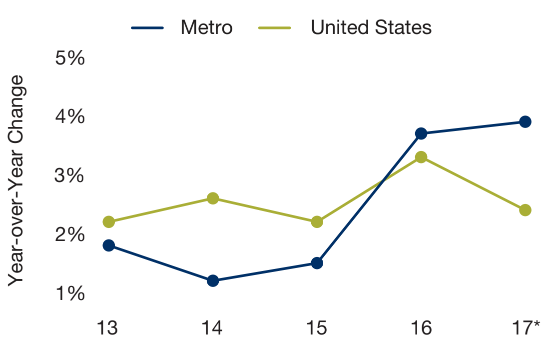
Completions and Absorption



Vacancy Rate Trends



Asking Rent Trends



* Forecast

EMPLOYMENT:

3.7% increase in total employment Y-O-Y

- Employers added 10,800 jobs during the second quarter of 2017, raising the annual total to roughly 44,000 positions. The 3.7 percent expansion more than doubles the national growth rate of 1.4 percent.
- Hiring dropped the unemployment rate to 3.8 percent in June, the lowest level since 2007. The tightening labor market could slow job gains in the quarters ahead.

CONSTRUCTION:

1 million square feet completed Y-O-Y

- During the last four quarters 1 million square feet of retail space was delivered metrowide, down slightly from 1.1 million square feet one year earlier.
- The largest project completed so far this year is a 193,000-square-foot Walmart Supercenter that anchors a 400,000-square-foot retail development on New Independence Parkway in Hamlin.

VACANCY:

40 basis point decrease in vacancy Y-O-Y

- Vacancy ends the second quarter at 5.1 percent, down 40 basis points over the last 12 months, matching the previous year's decline.
- The largest vacancy improvement over the last 12 months was registered in the South Orange submarket. Here vacancy plummeted 360 basis points to 5.5 percent in June.

RENTS:

1.6% increase in the average asking rent Y-O-Y

- During the last four quarters the average asking rent climbed 1.6 percent to $16.94 per square foot, well below the 7.3 percent gain registered one year earlier.
- Older properties being marketed contributed to rents falling in many submarkets. In Altamonte/Douglas asking rent dropped 21.5 percent in the last 12 months to $16.32 per square foot with vacancy at 8.2 percent.

DEMOGRAPHIC HIGHLIGHTS

2017 JOB GROWTH*

Metro 3.4%

U.S. Average 1.4%

2Q17 MEDIAN HOUSEHOLD INCOME

Metro $55,247

U.S. Median $58,672

FIVE-YEAR POPULATION GROWTH**

403,330 or 3.2% Annual Growth

U.S. 0.7% Annual Growth

2017 RETAIL SALES PER MONTH

$4,933 Per Household

U.S. $3,785

$1,856 Per Person

U.S. $1,454

FIVE-YEAR HOUSEHOLD GROWTH**

189,780 or 4.1% Annual Growth

U.S. 1.1% Annual Growth

RETAIL SALES FORECAST**

Metro 36.6%

U.S. 21.1%

* Forecast **2017-2022

SUBMARKET TRENDS

Lowest Vacancy Rates 2Q17

Submarket	Vacancy Rate	Y-O-Y Basis Point Change	Asking Rent	Y-O-Y % Change
St. Cloud	0.5%	-50	$15.61	14.6%
University	1.3%	-170	$26.62	12.5%
Metro West	2.4%	0	$18.54	-7.6%
Maitland Center	2.6%	-130	$17.15	-12.9%
436 Corridor	3.0%	-60	$16.63	8.1%
South Outlier	3.0%	-40	$20.83	0.4%
Maitland	3.2%	-150	$18.00	-16.8%
Orlando Airport	3.3%	-50	$17.77	-13.8%
West Outlier	3.6%	-110	$16.76	5.7%
University Research	3.9%	-100	$24.02	-1.0%
Orlando Central Park	4.1%	30	$14.96	10.7%
Overall Metro	**5.1%**	**-40**	**$16.94**	**1.6%**

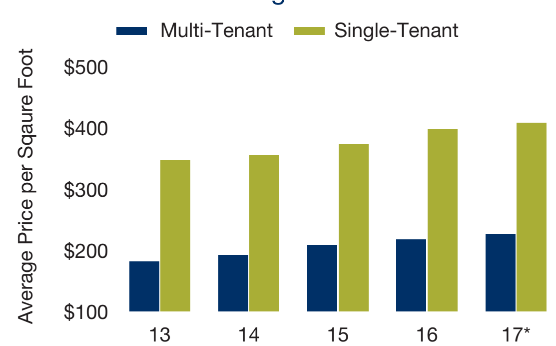
SALES TRENDS

More Yield-Seeking Buyers Favoring Multi-Tenant Assets

- **Multi-Tenant:** Strong buyer interest amid a limited supply drove the average asking price up 6 percent to $226 per square foot during the past 12 months. Cap rates average in the mid-7 percent range.
- **Single-Tenant:** The average price climbed roughly 6 percent to $408 per square foot during the last four quarters at first-year returns that held steady in the low-6 percent area.

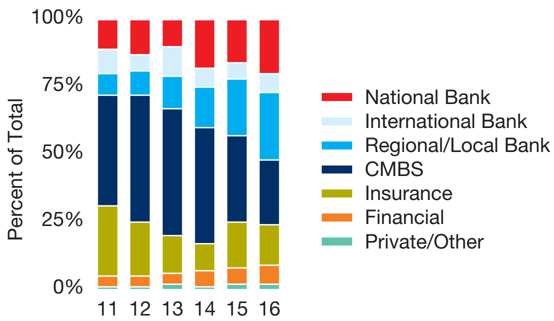
Outlook: Improving operations and the potential for higher yields keep investors active in Lake County. Here some older assets may trade at double-digit cap rates.

Pricing Trends

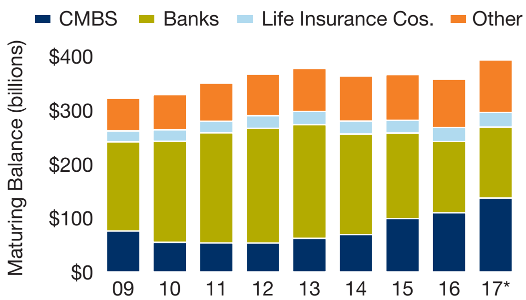


* Trailing 12 months through 2Q17
Pricing trend sources: CoStar Group, Inc.; Real Capital Analytics

Retail Mortgage Originations by Lender



Estimated Commercial/Multifamily Debt Maturities by Lender Type



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

CAPITAL MARKETS

By WILLIAM E. HUGHES, Senior Vice President, Marcus & Millichap Capital Corporation

- **Monetary policy in transition.** Despite the Fed raising its benchmark short-term rate three times in seven months and signaling another rise before the end of the year, long-term rates have remained stable. The yield on the 10-year U.S. Treasury bond remained in the low- to mid-2 percent range throughout the second quarter of 2017. The Federal Reserve wants to normalize monetary policy and, in addition to rate hikes, will likely start paring its balance sheet.
- **Sound economy a balancing act for Fed.** With unemployment hovering in the low-4 percent range, the lowest level since 2007, the Federal Reserve will remain vigilant regarding a possible rapid increase in inflation if wage growth takes off. Additionally, business confidence and job openings are near all-time highs. Businesses finally have the assurance to expand their footprints after years of tepid growth following the Great Recession. The Fed, however, must now balance economic growth and job creation against wage growth and inflationary pressures.
- **Underwriting discipline persists; ample debt capital remains.** Overall, leverage on acquisition loans has continued to reflect disciplined underwriting, with LTVs typically ranging from 60 percent to 70 percent for most retail properties. At the end of 2016, the combination of increasing rates, conservative lender underwriting and fiscal policy uncertainty encouraged some investor caution that slowed deal flow, a trend that has extended into 2017. A potential easing of regulations on financial institutions, though, could liberate additional lending capacity and nominally higher interest rates may also encourage additional lenders to participate.

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