Retail Research Market Report

Tampa Metro Area

Second Half 2018

Metro's Ability to Absorb Waves of New Supply Refuels Development Pipeline

Retailer demand maintains low vacancy in Tampa. Heightened development equates to the delivery of 4,500 apartments and a group of newly built or renovated hotels this year. Convenience-focused retailers are following suit, expanding operations near these upcoming completions, with the metro slated to welcome more than 1 million square feet of retail space for a fifth consecutive year. Most of these projects are located in Pinellas County, Sarasota/Bradenton and along the I-75 Corridor, including the 152,000-square-foot Shoppes at Tyrone Square in St. Petersburg and the more than 100,000-square-foot Gulf to Bay shopping center in Clearwater. Despite the influx of completions, most are fully leased, holding vacancy below 6 percent for a fourth straight year.

Population and income growth elevates need for necessity retailers. Fueled by consistent job creation and wage growth, household formation in Tampa reaches a historically high mark this year, driving retail sales by more than 5 percent in 2018. To meet the needs of the growing populace, expanding retailers are willing to lease higher-quality, more expensive space in both the core and northern suburbs, notably elevating average asking rents in Central Tampa, North Hillsborough and Pasco County.

Retail 2018 Outlook

1.3 million sq. ft. will be completed

Construction: Delivery volume narrowly exceeds 2017, when 1.27 million square feet was completed. The largest project this year is a 212,000-square-foot Goodwill.

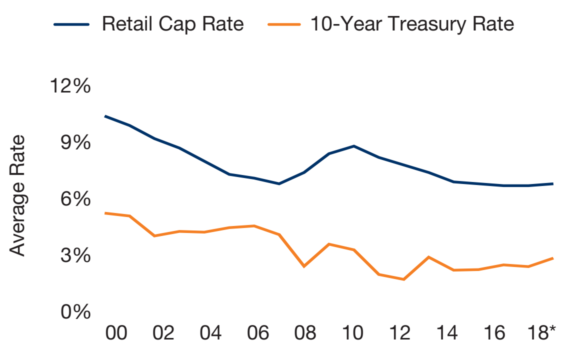
20 basis point increase in vacancy

Vacancy: Strong pre-leasing lessens the impact of new supply, yet the metro's vacancy rate rises to 5.0 percent in 2018, ending a seven-year stretch of compression.

3.7% increase in asking rents

Rents: The average asking rent climbs to $16.13 per square foot, the highest rate this cycle. In the previous two years, gains of roughly 5 percent were noted.

Local Retail Yield Trends

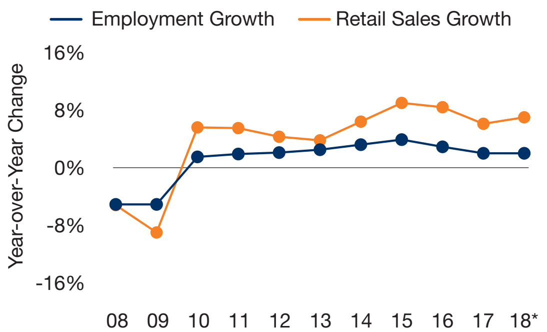


* Cap rates trailing 12 months through 2Q18; 10-Year Treasury up to June 28.
Sources: CoStar Group, Inc.; Real Capital Analytics

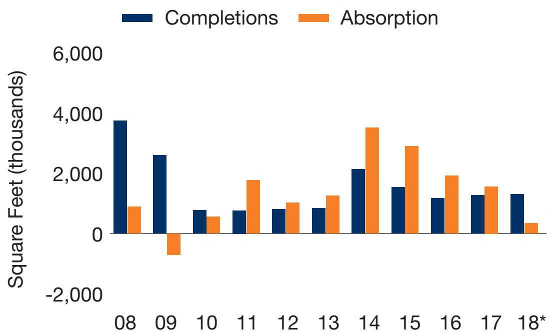
Investment Trends

- Continued job growth, increased tourism and an influx of new households keep out-of-state buyers and Miami-based firms with foreign capital active in Tampa, yet a reduction in listings has slowed deal flow. California and East Coast-based investors primarily targeting single-tenant assets and smaller in-line centers at low-6 percent average cap rates.
- Asset values have stabilized over the past year, sitting at $311 per square foot in June, nearly 4 percent below the previous cycle's peak. In Pinellas County, convenience stores and storefronts remain available below this figure, namely in St. Petersburg, Clearwater and Largo. In these locales, sub-$5 million transactions steer overall sales velocity.
- Post-2000-built properties account for nearly a third of transaction activity. The city of Tampa, more specifically North Hillsborough, is home to a concentration of these trades, which provide buyers with 5 to low-6 percent yields.

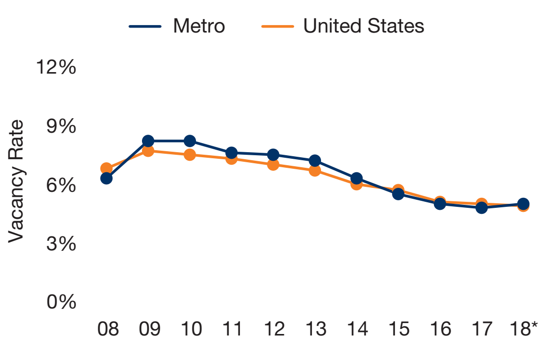
Employment vs. Retail Sales Trends



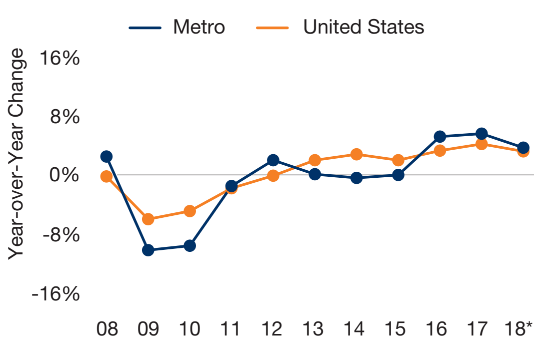
Retail Completions



Vacancy Rate Trends



Asking Rent Trends



* Forecast

2Q18 - 12-MONTH TREND

EMPLOYMENT:

1.8% increase in total employment Y-O-Y

- Metro employers created 23,900 positions during the past 12 months ending in the second quarter, reducing unemployment 30 basis points to 3.6 percent in June.
- The number of hospitality, education and health-related jobs rose by 14,800 over the past year. The financial activities sector also witnessed an uptick in hiring velocity, adding 4,400 professionals.

CONSTRUCTION:

1.3 million square feet completed Y-O-Y

- Development rose over the last four quarters after the completion of 1 million square feet during the previous 12-month period. The delivery of 725,000 square feet during the first half dove the recent uptick in new supply.
- Developers are underway on 787,000 square feet of space. Nearly half of this volume is in St. Petersburg, with another 212,000 square feet in Central Tampa.

VACANCY:

20 basis point increase in vacancy Y-O-Y

- On net absorption of 828,500 square feet, metro vacancy rose slightly over the past year, reaching 5 percent in June. Both single- and multi-tenant rates increased moderately, hitting 4.3 and 6.1 percent, respectively.
- Amid a lack of deliveries, vacancy in Central Tampa compressed 40 basis points to 2.2 percent, while areas of heightened development recorded marginal upticks.

RENTS:

6.2% increase in the average asking rent Y-O-Y

- The rate of rent growth nearly doubled over the past year, as a larger volume of higher-quality space became available. The metro's average rent sat at $15.89 per square foot entering the second half of this year.
- Low-4 percent single-tenant vacancy warranted a 8.5 percent spike in rent, yet the segment's average rate of $16.70 per square foot still trails the previous cycle's peak.

DEMOGRAPHIC HIGHLIGHTS

2018 JOB GROWTH*
Metro **2.0%**
U.S. Average 1.6%

FIVE-YEAR POPULATION GROWTH**
263,500 or **1.6%** Annual Growth
U.S. 0.7% Annual Growth

FIVE-YEAR HOUSEHOLD GROWTH**
138,000 or **2.1%** Annual Growth
U.S. 1.1% Annual Growth

2Q18 MEDIAN HOUSEHOLD INCOME
Metro **$54,816**
U.S. Median $60,686

2Q18 RETAIL SALES PER MONTH
$4,261 Per Household
U.S. $3,925
$1,735 Per Person
U.S. $1,507

RETAIL SALES FORECAST**
Metro **27.9%**
U.S. 20.0%

* Forecast **2017-2022

SUBMARKET TRENDS

Lowest Vacancy Rates 2Q18

Submarket	Vacancy Rate	Y-O-Y Basis Point Change	Asking Rent	Y-O-Y % Change
Central Tampa	2.2%	-40	$21.84	24.5%
North Hillsborough	4.4%	40	$16.28	8.4%
Sarasota/Bradenton	4.6%	30	$16.01	3.7%
I-75 Corridor	4.8%	10	$14.94	7.2%
Hernando County	5.0%	70	$11.10	-0.9%
Eastern Outlying	5.2%	20	$15.77	8.6%
Pinellas	5.5%	0	$16.93	1.5%
Pasco County	7.1%	100	$12.20	8.3%
Overall Metro	**5.0%**	**20**	**$15.89**	**6.2%**

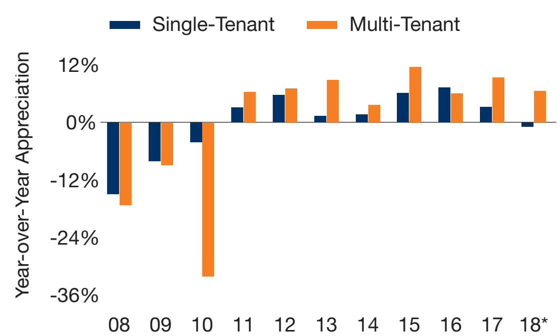
SALES TRENDS

Outside Buyer Demand For Well-Located, Single-Tenant Properties Exceeds Listings Volume

- **Multi-Tenant:** Limited available multi-tenant assets cut sales velocity nearly in half during the past year. Bidding heightened average pricing to $242 per square foot, up 6.1 percent year over year.
- **Single-Tenant:** Investor interest remains robust for smaller single-tenant properties of various vintages. Minimum cap rates for these assets dip below 5 percent in the city of Tampa, yet most buildings provide buyers with 5 to 7 percent returns, depending on the tenant, location and length of lease.

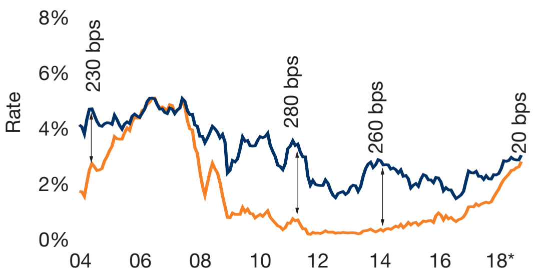
Outlook: As asset values stall in the metro, more opportunistic buyers from out-of-state enter the market.

Price Per Square Foot Trends

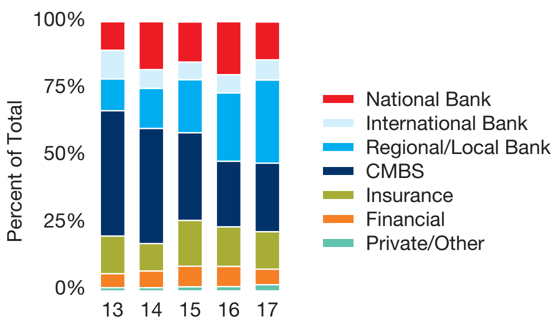


* Trailing 12 months through 2Q18 over previous time period
Pricing trend sources: CoStar Group, Inc.; Real Capital Analytics

10-Year Treasury vs. 2-Year Treasury Yield Spread Tightens



Retail Mortgage Originations by Lender



* Through Sept. 26
Sources: CoStar Group, Inc.; Real Capital Analytics

CAPITAL MARKETS

By DAVID SHILLINGTON, President,
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Fed raises benchmark rate, plans for additional increases. The Federal Reserve recently increased the federal funds rate by 25 basis points, lifting the overnight lending rate to 2 percent at the conclusion of its September meeting. The Fed noted inflation has broadly reached its target, while household spending and corporate investment remain robust. The Fed indicated an additional rate hike this year and projects as many as three increases in 2019.

Lending costs rise alongside Fed rate increase. As the Fed lifts rates, lenders have been tightening margins to compete for loans. Despite these efforts, borrowing costs remain on an upward trajectory, which is tightening returns and pushing some investors to seek greater yields in secondary markets. However, though buyers may try to push back on pricing due to increased loan costs, some sellers remain convinced that the strong economy and sturdy NOI performance substantiate aggressive pricing and a widening expectation gap is the result. If interest rates rapidly surge upward, this gap could quickly widen, slowing transaction activity.

The capital markets environment remains competitive. As the Fed tightens policy, global investors have been acquiring Treasurys in order to capture a considerable yield premium, keeping the 10-year Treasury near 3 percent. Portfolio lenders are providing debt for retail assets, with leverage typically capped at 60 to 65 percent. The sector has become increasingly nuanced, with deals more scrutinized due to e-commerce competition. Ten-year loan structures will range between 4.95 and 5.25 percent, depending on tenancy, location and sponsorship. Continued consumer spending underpins U.S. growth, supporting retail demand and driving a 10-basis-point decline in vacancy to 4.9 percent this year.

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