

Shopping Centers | 3Q 2014

Capital Markets Overview

Jim Michalak is the founder and president of Plaza Advisors, a commercial real estate advisory firm that specializes in the investment sale of retail shopping centers throughout the Southeastern United States. According to Michalak: "The retail investment activity remains on pace throughout the state of Florida and even higher in the core markets compared to 2013. Capitalization rates have slightly compressed in 2014. From a debt and equity perspective there is so much domestic and offshore capital to be invested that the competition to be placed has resulted in a reduction in spreads as opposed to further cap rate compression. However, with the conclusion of QE3 it is anticipated that interest rates will slowly rise but will be tempered due to continued economic issues. In general terms, there is a parallel between cap rates and interest rates. However, if the interest-rate rise is moderate proper underwriting can be considered which won't necessarily drive value down or cap rates up. Another consideration is the enormous amount of global turmoil which in turn drives more capital to domestic investment resulting in even higher demand.

Over the past three years REITs have deleveraged and strengthened their respective credit; profiles and facilities, and upgraded their portfolio demographics. From a capital markets perspective, super-market anchored product, particularly that anchored by the leading grocer, continues to be the most sought after asset type. Now that Publix has entered the investment arena for that specific product featuring their credit tenancy investors are hyper sensitive to the company exercising their ROFO and ROFR provisions. After all, only one can assume that any asset Publix acquires will most likely never recycle."

Development Trends

Publix is the gold standard for grocery stores in the State of Florida and one of the top grocery chains in the nation. The privately owned chain dominates the State of Florida with 752 stores and approximately 43% of the total grocery market. After winning a battle with Winn Dixie for state supremacy in the 1970's and the 80's, Publix also ran Kroger, Albertsons, Food Lion and Sweetbay out of the state. Last year, a much smaller Winn Dixie acquired the remaining 75 Sweetbay stores last year and now have approximately 369 stores and a 14% market share. A typical Winn Dixie store averages \$13,300,000 annually in sales or approximately \$330 per square foot. Publix stores average \$22,700,000 in sales, or approximately \$570 per square foot.

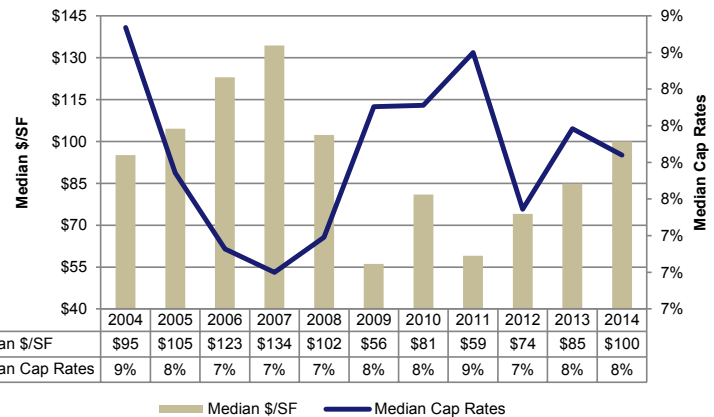
Walmart's share of the grocery market is divided between their super stores, Sam's Club and their Neighborhood Markets. Within the Tampa Bay region for instance, Walmart accounts for 17.2% of the market, Sam's Club accounts for 7.22% of the market and the Neighborhood Market accounts for 2.76%.

Publix has staked out the service end of the grocery market and Walmart has focused on the price conscious end of the grocery market, making it difficult for traditional grocers to find a market niche. We do not expect to see significant growth of traditional grocers in the state. Winn Dixie is not expected to do significant new development in the near term and Publix, while still opening stores in the state, is starting to reach its saturation point. Walmart has acknowledged increasing difficulty in building super stores and is focusing their efforts on the Walmart Neighborhood Markets.

Publix, Winn Dixie and Walmart account for 86% of the Florida market with the remainder being comprised of niche players such as Whole Foods, Fresh Market, Trader Joe's, Aldi's and even Dollar General and Family Dollar. We expect to see the proliferation of these specialty chains. Sprouts and others are also looking to move into the market.

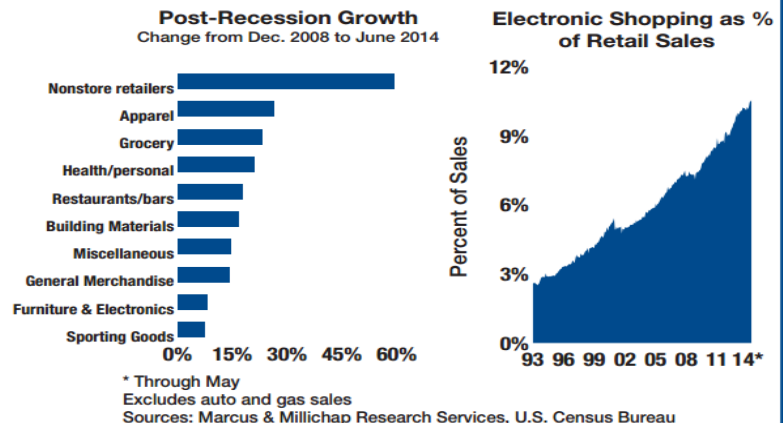
New retail development will continue to be away from the traditional grocery anchored shopping centers concept. In the 1970's or 1980's, 100,000 square foot shopping centers were built with a 40,000 grocery anchored in 60,000 square feet of local space. During the 2000's, the most preferred development was an anchor of 40,000 to 50,000 square feet with 10,000 to 15,000 square feet or less of local space. Today, developers and leasing agents are having trouble filling the local space. Most new development is driven by tenants in a stand-alone building, not inline. Further, the traditional shopping center tenants, liquor stores, pharmacies, sandwich shops, etc, have either been encompassed into the grocery anchor's line of service. Further, the clothing, bookstore, or hobby shop has been displaced by the internet. Local tenants are increasingly service providers such as nail salons, hair stylists, massage studios and niche eateries.

Florida Shopping Center Sale Trends

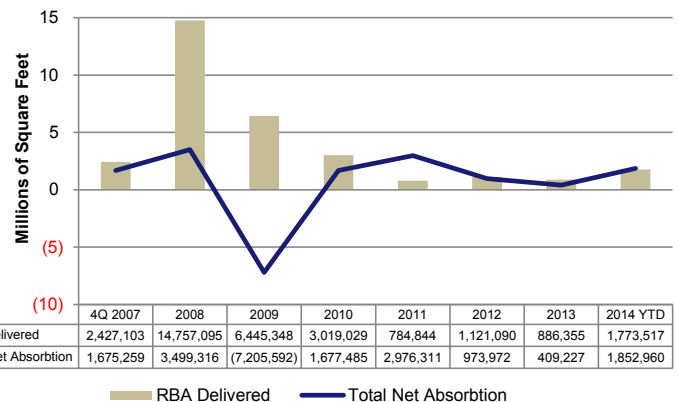


Source: CoStar, Beshears & Associates market research

Post-Recession Retail Sales by Store Type



Florida Shopping Center Deliveries and Absorption



Source: CoStar, Beshears & Associates market research

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Sale Trends

We researched transactions of multi-tenant retail properties greater than 20,000 square feet over the past ten years. The 2014 year-to-date median price per square foot is \$101.95 and the median cap rate is at about 8.00%.

Research from Plaza Advisors, CoStar, and Beshears & Associates on retail center sales in 2014 reveals median cap rates for grocery anchored center at 7.00%, non-grocery anchored at 7.50%, and unanchored strip centers at 7.64%. Publix had a median of 6.30%. The majority of the anchored center sales in this survey were Publix-anchored centers. Over the past twelve months we have identified 54 Publix anchored shopping center sales.

Construction, Absorption & Vacancy

Although the market crashed in 2007, the pipeline was full with projects and 2008 delivered 14,757,095 square feet before dropping dramatically with deliveries reaching a low in 2011 of 784,844 square feet. Shopping center deliveries have remained extremely low. Year to date in 2014, deliveries are at 1,773,517 square feet. Total net absorption went from 3,499,316 square feet in 2008 dropping dramatically in 2009, when approximately 7,205,592 square feet were lost to negative absorption. Absorption recovered in 2010 and 2011 but dipped down in 2012 and 2013 due to the lack of new product being delivered.

Now, Florida is experiencing an upswing in retail construction and absorption. According to a recent JLL report, Florida accounts for over 29% of the nation's retail deliveries in 2Q 2014. The Tampa Bay region is leading the state in new construction with 1.43 million square feet currently being built.

With a lack of new product being delivered, retail vacancy rates have tightened in all of the major markets in Florida, with Miami having the lowest vacancy rates, dropping from 9.3% in 2010 to 7.0% in 2014. Grocery anchored centers have lower vacancy rates at 5.7% and Publix anchored centers have a 4.8% vacancy rate in the Miami market. Tampa follows a similar pattern, dropping from 11.3% for retail centers in 2010 to 8.7% in 2014, with grocery anchors at 7.4% in 2014, and Publix anchored centers at 5.2%. Orlando and Jacksonville follow similar trends, although Jacksonville has the highest vacancy rate of the major markets at 11% overall for retail centers and 8.7% for Publix anchored centers.

Of the second tier markets, Pensacola, Sarasota/Bradenton and Fort Myers/Cape Coral, Lakeland, Palm Bay, Tallahassee and Naples are all seeing declining vacancy rates across all segment types, with Naples having the lowest vacancy rates of any of the markets in the state with a 4% vacancy rate for grocery anchored centers and a 3% vacancy rate for Publix anchored centers. Daytona, Ocala and Gainesville, which are all contiguous markets in north central Florida, are experiencing increasing vacancy rates across all tiers, both retail grocery anchored and Publix anchored centers.

Retail Trends

The U.S. retail market continues to strengthen, with retail sales per capita now up 10% higher than previous peaks and total retail sales figures up 16% from pre-recession levels. This positive growth can be attributed to greater consumer confidence and small business optimism and the growth in household wealth.

According to Marcus and Millichap research, e-commerce as a percentage of retail sales is still climbing and is at approximately 10% through May 2014 (excluding auto and gas sales). Amazon is still the largest internet retailer followed by Apple, Staples, Walmart and Sears. With the exception of Amazon, the rest of the major internet retailers also have a store presence. This new "bricks and clicks" model is proving to be very successful because it allows retailers to cater to both online shoppers as well as those who are last-minute shopping or are purchasing items that they prefer to see or try-on in person.

Retail Center Vacancy Rates									
MSA	Retail Centers			Grocery Anchored			Publix Anchored		
	2010	2012	2014	2010	2012	2014	2010	2012	2014
Miami-Ft Lauderdale-West Palm	9.3%	7.9%	7.0%	9.3%	7.1%	5.7%	8.3%	6.0%	4.8%
Tampa-St Pete	11.3%	9.2%	8.7%	11.1%	9.3%	7.4%	6.9%	7.0%	5.2%
Orlando-Kissimmee-Sanford	9.1%	9.8%	8.9%	11.0%	12.4%	7.9%	11.0%	9.9%	5.0%
Jacksonville	12.3%	12.6%	11.0%	9.5%	12.1%	9.6%	8.4%	10.2%	8.7%
Pensacola	15.5%	13.9%	13.0%	16.5%	13.1%	11.2%	12.7%	0.9%	12.7%
North Port-Bradenton-Sarasota	12.1%	11.0%	10.1%	9.4%	8.5%	6.7%	9.1%	7.9%	6.0%
Cape Coral-Ft. Myers	12.7%	12.0%	10.7%	11.3%	11.3%	9.8%	8.4%	10.0%	6.6%
Lakeland-Winter Haven	11.4%	11.0%	8.7%	10.0%	10.7%	8.5%	9.0%	8.3%	5.9%
Palm Bay-Titusville-Melbourne	12.4%	16.8%	13.9%	12.1%	14.1%	10.8%	9.2%	11.4%	8.3%
Deltona-Daytona Beach	8.6%	11.1%	12.1%	7.9%	11.7%	11.7%	7.5%	12.3%	10.8%
Tallahassee	8.4%	9.1%	6.0%	8.1%	12.2%	8.2%	6.4%	9.8%	8.7%
Ocala	9.8%	10.7%	11.9%	12.6%	14.2%	15.0%	11.4%	13.5%	13.0%
Naples	10.7%	9.4%	8.3%	7.5%	6.5%	4.0%	3.7%	4.2%	3.0%
Gainesville	7.5%	8.4%	8.5%	4.7%	6.1%	9.0%	4.2%	4.6%	5.4%
Florida	10.1%	9.7%	8.9%	10.0%	9.4%	7.7%	8.4%	7.7%	6.1%

Source: CoStar, Beshears & Associates market research

2010 - 2014 Florida Retail Sale Summary								
	Median \$ Per Rentable SF				Median Capitalization Rate			
	2010	2011	2013	2014	2010	2011	2013	2014
Publix Anchored	\$156.85	\$152.53	\$154.14	\$113.00	7.50%	7.40%	7.07%	6.30%
Winn Dixie Anchored	\$44.96	\$59.66	\$64.31	\$108.22	8.50%	8.55%	9.36%	n/a
Sweetbay Anchored	\$57.45	\$83.42	\$106.37	n/a	9.06%	7.86%	6.88%	n/a
Walmart Grocery Anchored	n/a	n/a	\$118.56	n/a	n/a	n/a	6.73%	n/a
Save A Lot Anchored	n/a	n/a	\$72.22	n/a	n/a	n/a	9.80%	n/a
Fresh Market Anchored	n/a	n/a	\$179.33	n/a	n/a	n/a	6.50%	n/a
Other Grocery Anchored	\$61.19	\$51.01	\$77.56	\$107.35	11.54%	8.40%	9.40%	n/a
Non-Grocery Anchored	\$106.10	\$125.42	\$100.80	\$66.09	8.10%	8.00%	8.53%	7.64%
All Centers	\$120.69	\$98.90	\$126.66	\$100.00	8.00%	8.00%	7.85%	7.80%

Source: CoStar, Plaza Advisors, Beshears & Associates market research

*n/a for less than 5 sales

ABOUT OUR FIRM | Beshears and Associates is a commercial appraisal firm located in Tampa, Florida. In addition to covering apartments, office, industrial, land, and retail, we have specialty practices in gas stations, self-storage, hotels and mobile home parks. Our staff of 12 appraisers completes over 650 appraisals annually in Florida and Georgia.

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