RetailResearch

MARKET OVERVIEW

Marcus & Millichap

Broward County ***Third Quarter 2015***

Increased Buyer Pool Puts Upward Pressure on Retail Prices

Retail operations in Broward County will continue to advance through the remainder of the year as employers pick up the pace of hiring in the second half. Despite modest job creation in the first six months, retail sales have grown 5.3 percent annually as momentum from job gains during the last two years boosts consumer confidence. In addition, the county's improving economy is attracting new retailers, including iPic Theaters, which has signed a deal to open its first location in the area and anchor the Metropica development in Sunrise. Meanwhile, existing centers are beginning to focus on expansion plans. Sawgrass Mills, located in western Broward County, consists of both outlet and luxury retailers, and it has plans to expand by an additional 118,000 square feet featuring four restaurants and 25 new retailers. While construction has been limited for the past several years, projects are beginning to move forward and the pace of deliveries will rise heading into next year. Retailer demand to locate within the county will keep vacancy on a downward trajectory through the remainder of the year.

Improved property operations are luring additional investors to Broward County, increasing demand for assets and putting upward pressure on prices. A growing buyer pool, especially in the county's multi-tenant sector, resulted in a surge of sales activity in the last 12 months, and this heightened competition will push buyers to consider assets outside the city of Fort Lauderdale. While risk aversion for top-quality centers has dissipated, many investors will still shy away from strip centers in areas where demographics trends are softer. Best-in-class, multi-tenant assets are trading at cap rates starting near 6 percent, while initial yields average near 7.5 percent for strip centers. Single-tenant properties remain in strong demand, though high prices and low first-year returns are contributing to the elevated number of buyers entering the multi-tenant market. Cap rates for prominent, single-tenant properties have compressed as low as 4.5 percent and move up to 6 percent for assets with mom-and-pop tenants.

2015 Annual Retail Forecast

2.5% increase in total employment

Employment: Employers in Fort Lauderdale will add 20,000 workers to staffs in 2015, an advance of 2.5 percent from last year. Approximately 30,300 positions were created in 2014 when job generation was led by the professional and business services sector.

392,000 square feet will be completed

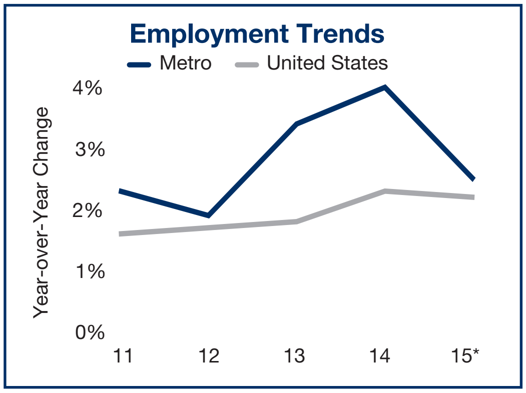
Construction: Nearly 392,000 square feet of retail space will come online this year, with the majority delivered in the second half. Builders completed just 335,000 square feet of retail space last year. The pace of deliveries will begin to rise in 2016.

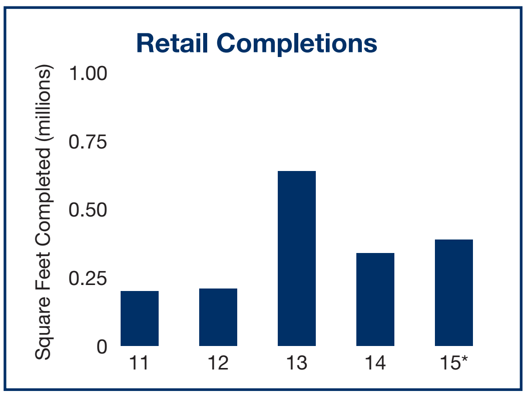
10 basis point decrease in vacancy

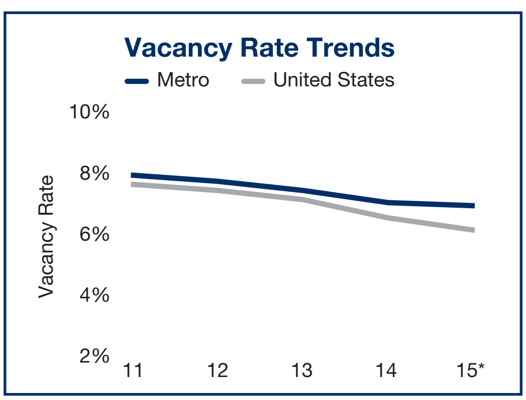
Vacancy: Demand will keep pace with supply this year as 694,000 square feet is absorbed and vacancy slips just 10 basis points to 6.9 percent in 2015. Vacancy fell 40 basis points last year on net absorption of 734,000 square feet of retail space.

4.6% increase in asking rents

Rents: Tightening conditions are encouraging rent growth, and this year, average asking rents will reach $20.72 per square foot, a year-over-year climb of 4.6 percent. In 2014, asking rents grew 3.1 percent annually.







* Forecast
Source: CoStar Group, Inc.

Economy

- Fort Lauderdale employers added 6,300 workers in the first half of 2015, bringing the annual total to 24,500 jobs. Employers generated an additional 25,500 positions during the same time period one year ago.
- Job creation was led by the professional and business services sector, which netted nearly 5,000 positions in the last four quarters. Construction payrolls followed with 4,200 workers.
- Broward County's unemployment rate fell to 5.1 percent in the second quarter, down nearly 50 basis points from one year ago and approximately half of the recessionary peak.
- **Outlook:** Employers in Fort Lauderdale will add 20,000 workers to staffs in 2015, an increase of 2.5 percent from last year. Approximately 30,300 positions were created in 2014.

Construction

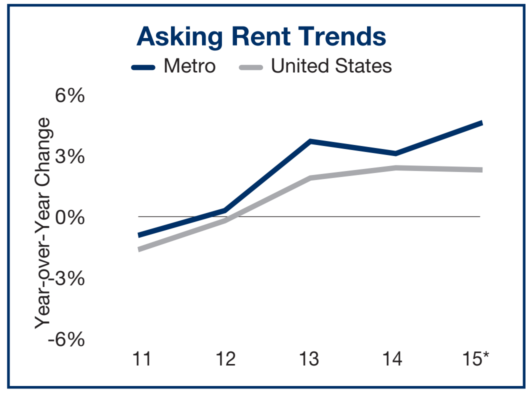
- Builders completed 320,000 square feet of retail space in the last 12 months; more than half came online in the third quarter of last year. Over 700,000 square feet of retail space is currently underway in the metro.
- The Hollywood submarket comprises 300,000 square feet of retail space under construction in one project. The Millennium Mall redevelopment is the largest project underway in the county and is slated for completion in 2016. Amenities will include 2,000 booths, kiosks and shops; two food courts; and roughly 35,000 square feet of space for a farmers market.
- Nearly 800,000 square feet of retail space is in the planning pipeline with 500,000 square feet scheduled to break ground and come online through 2018. Net-leased users, including several restaurants and fast-food establishments, as well as Wal-Mart, have multiple locations underway or planned for the area.
- **Outlook:** Nearly 392,000 square feet of retail space will come online this year, with the majority delivered in the second half. Builders delivered just 335,000 square feet of retail space last year.

Vacancy

- Retail vacancy reached 6.9 percent in the second quarter, a 20-basis-point drop in the three-month period. Year over year, vacancy has declined 40 basis points and is below 7 percent for the first time since 2008.
- Vacancy at area multi-tenant centers remained flat from the end of 2014, resting at 7.9 percent in the second quarter. Year over year, however, vacancy has fallen 60 basis points as construction in this sector has remained limited for the past few years.
- The submarkets with the tightest vacancy in the metro are Sawgrass Park and Commercial Boulevard, which boasted vacancy below 5 percent during the second quarter. Meanwhile, Pompano Beach realized the steepest drop in vacancy, reaching 7.2 percent on a 170-basis-point annual decline.
- **Outlook:** Demand will keep pace with supply this year as 694,000 square feet is absorbed and vacancy slips just 10 basis points to 6.9 percent in 2015. Vacancy fell 40 basis points last year on net absorption of 734,000 square feet of retail space.

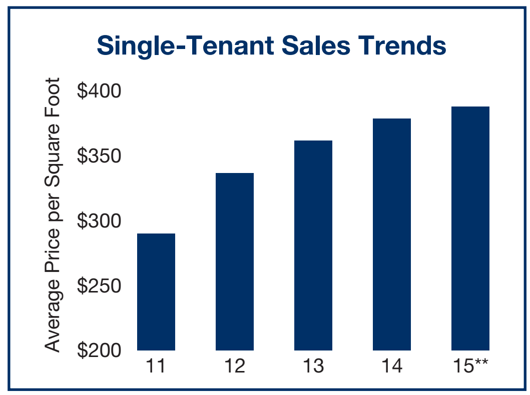
Rents

- Building on growth of 4.2 percent one year ago, average asking rents rose 4.8 percent year over year to $20.47 per square foot in June. Asking rents grew at the fastest pace since the recession during this time frame and are down just 4 percent from the pre-recession peak.
- Tightening conditions at area multi-tenant centers are facilitating strong rent growth and average asking rents at these centers advanced 3.5 percent in the last 12 months, reaching $19.34 per square foot. This follows a gain of 1 percent in the preceding year.
- Single-tenant rents continued to grow at a strong clip, rising 5.5 percent to $21.11 per square feet and building on a 6 percent rise in the previous annual time frame.
- **Outlook:** By year end, average asking rents will reach $20.72 per square foot, an annual increase of 4.6 percent. In 2014, asking rents expanded 3.1 percent.



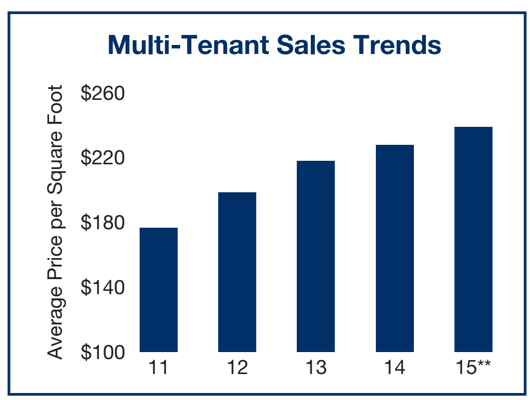
Single-Tenant Sales Trends**

- Sales activity in the single-tenant sector slipped 13 percent in the last 12 months, though not due to a lack of interested buyers. Transaction velocity for single-tenant assets will be largely dependent on the limited number of properties available for sale.
- Strong buyer interest and intense bidding for single-tenant assets is driving up prices. Though price appreciation has slowed over the past two years, the average price per square foot reached $388 in the second quarter, a year-over-year rise of 4.3 percent.
- Cap rates are holding steady in the high-6 percent range, where they have remained since 2013. Banks are trading at some of the lowest first-year returns, starting near 4.5 percent, while initial yields for national fast-food and drugstore assets start closer to 5 percent.
- **Outlook:** It is unlikely that a rise in interest rates will have an effect on best-in-class assets. The majority of corporate-backed, net-leased properties will continue to trade at low cap rates to cash buyers.



Multi-Tenant Sales Trends**

- Multi-tenant transaction velocity surged 22 percent during the last four quarters, accelerating activity significantly in the Cypress Creek, Plantation, Hollywood, Northwest Broward/Coral Springs and Pompano Beach submarkets.
- Increased buyer interest in properties located in the county is putting upward pressure on prices and the average price per square foot rose 7.7 percent in the last four quarters to nearly $240 per square foot. Best-in-class properties in high-traffic areas sold above $500 per square foot in some instances.
- The average multi-tenant cap rate compressed 20 basis points to the high-6 to low-7 percent range during the last 12 months. Strip centers on the edge of high-performing shopping centers typically trade at cap rates just above quality single-tenant assets.
- **Outlook:** Uncertainty lingers on the Fed's decision to raise interest rates this year, which could lead to further increases in transaction velocity as investors who are waiting on the sidelines become active buyers in the market to lock in low interest rates and favorable returns.



* Forecast
** Trailing 12-month period through 2Q
Source: CoStar Group, Inc.

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Capital Markets

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

- Several macroeconomic headwinds, including the strong dollar and lower energy prices, have recently dropped the yield on the 10-year U.S. Treasury to the low-2 percent range. Despite weakness abroad, U.S. economic data remains robust as existing home sales hit levels not seen since 2006 and retail sales growth indicates a willingness by consumers to spend in areas beyond the essentials. Additionally, jobless claims are just above a 41-year low and more than 200,000 positions have been created in 14 of the last 16 months, providing further evidence of broad strength in the labor market.
- The Federal Open Market Committee has committed to a policy of "lower for longer" as it assuages fears surrounding a possible interest rate increase this fall. The initial policy rate change is expected to be just 25 basis points, the first hike since 2006, with measures remaining accommodative for several years.
- Life insurance firms are underwriting with terms of up to 25 years for retail loans. Their 10-year pricing ranges between 4 and 4.25 percent with average LTVs from 60 to 65 percent. Meanwhile, CMBS lenders are offering 10-year terms at rates between 4.4 and 4.65 percent, with LTVs at 75 percent. Commercial banks are also active in the sector, generally offering shorter-term loans from 3.75 to 4.75 percent for 70 percent leverage. Floating bridge loans for stabilized assets will require LTVs of 70 percent and price with a spread between 250 and 425 basis points over LIBOR, while value-add transactions will be underwritten at 80 percent LTV (60-65 percent of cost) with a 300- to 475-basis-point spread.
- Total CMBS issuance reached $52 billion by the end of the second quarter, representing a sizable uptick from last year. More than $600 billion in CMBS is expected to come to market during the next few years as pre-crisis loans come due, prompting owners to renegotiate their capital structure at much lower interest rates. Many of these owners may choose to list their assets instead, providing investors an opportunity to place capital in highly sought-after markets.

Local Highlights

- Apartment developers will deliver more than 6,000 apartments in Broward County between this year's deliveries and those already scheduled through 2017. In addition, single-family homebuilders are becoming more active in the county as new housing starts increased 22 percent in the 12 months ending in March. Demand for necessities-based retailers will rise in nearby locations as these apartments come online and houses are occupied.
- In nearby Palm Beach County, builders brought approximately 500,000 square feet of retail space online during the last year. Net absorption of nearly 660,000 square feet of space tightened the vacancy rate 30 basis points to 6.3 percent. Average asking rents continued the trend of strong growth, rising 3.2 percent to $18.72 per square foot.
- Average cap rates in West Palm Beach continued to compress for both multi-tenant and single-tenant retail properties. The average multi-tenant cap rate fell 20 basis points to the low- to mid-6 percent range, while the average single-tenant cap rate dropped 50 basis points to 6.5 percent.

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