RetailResearch

M A R K E T O V E R V I E W

Marcus & Millichap

Miami-Dade County Metro Area *Third Quarter 2015*

Miami Urbanism Trend Bolsters Already-Vibrant Retail Market

Healthy job growth and robust market operations indicate another strong year for the Miami-Dade County retail market. The biggest relative employment gains were registered in the leisure and hospitality sector as hotels and entertainment companies expanded staff to accommodate for heightened tourist activity. Consumer spending on retail goods boasts growth that far outpaces the rest of the nation, prompting heavy construction activity from Miami developers. Deliveries have consisted primarily of single-tenant properties, although some multi-tenant space was brought online as well. Notable completions include new space for companies such as Wal-Mart, Publix, Ikea and Target. Despite elevated construction levels, vacancy has reached a post-recessionary low as the market continues to tighten since peaking in early 2010. The metro will see consistent rent growth through 2015 as available retail space becomes increasingly scarce. Average asking rent reached an all-time high this year, driven up by heavy leasing activity.

Bolstered by strong tenant demand and thus tightening market conditions, investment activity will continue heating up this year. Highly motivated buyers with easy access to affordable debt have been bidding up available listings, creating a competitive buying environment. Well-positioned assets receive multiple offers and close with first-year yields at all-time lows. This has pushed many cash-flow-oriented investors to target subprime locations or properties in search of higher cap rates. Single-tenant space saw the most action, particularly in the Miami urban core along transit routes. These assets trade at cap rates that average in the low-5 percent range depending on quality, location and lease structure. Multi-tenant dealing will stay consistent through 2015, with investors attracted by first-year yields that are generally 50 to 75 basis points higher than their single-tenant counterparts. Indications from the Fed that interest rates could rise later this year may spur sales activity as investors move to take advantage of inexpensive financing.

2015 Annual Retail Forecast

2.8% increase in total employment

Employment: Organizations will add 31,000 positions to payrolls this year, a 2.8 percent annual increase. In 2014, 36,600 jobs were created, led by gains in the education and health services, and office-using sectors.

1.4 million square feet will be completed

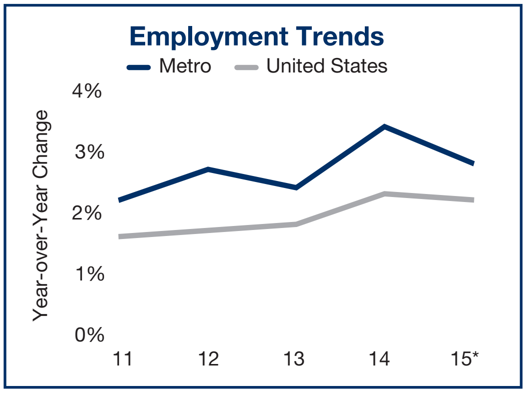
Construction: Builders will grow inventory 1.3 percent in 2015, through the completion of 1.4 million square feet of retail space. Last year more than 1 million square feet was finalized, a 1.0 percent advance.

20 basis point decrease in vacancy

Vacancy: In 2015, vacancy will fall 20 basis points year over year to 3.6 percent. Last year, the vacancy rate posted a 30-basis-point drop on 1.3 million square feet of net absorption.

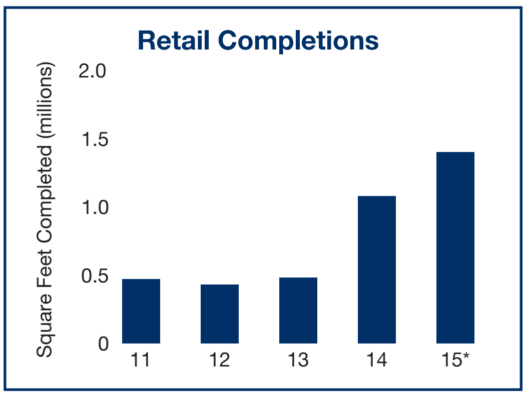
4.8% increase in asking rents

Rents: Lower vacancy will push average asking rent up to $30.75 per square foot in 2015, a 4.8 percent ascension. Last year, a 6.4 percent year-over-year gain was registered, continuing the trend of healthy rent growth.



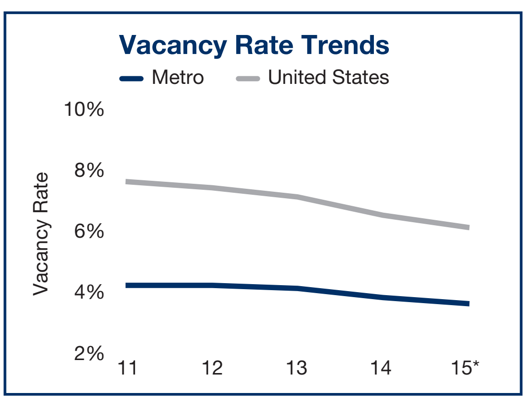
Economy

- Employers created 28,300 new positions in the last 12 months ending at midyear, a 2.6 percent expansion of the workforce. Over the previous annual period, payrolls advanced 2.7 percent, through the addition of 28,900 jobs.
- The leisure and hospitality sector posted the strongest relative gain this year, growing 5.0 percent, or by 6,400 workers. Office-using employment also performed well, adding over 8,600 people to staff. Budgetary cuts forced public sector downsizing, with more than 1,600 government employees laid off in the past four quarters.
- Strong gains across almost all the employment sectors helped drive the unemployment rate down 60 basis points to 6.3 percent at midyear. This marks one of the lowest rates since before the recession.
- **Outlook:** Employers will add 31,000 positions to payrolls this year, a 2.8 percent increase. In 2014, 36,600 jobs were created, led by gains in the education and health services sector.



Construction

- In the last four quarters ending in June, builders have brought online more than 1.46 million square feet of retail space. Over the same span a year earlier, 538,000 square feet was completed, a 0.5 percent expansion of inventory.
- Developers focused on the highly occupied Miami Airport area, where more than half of all deliveries were located. The Miami City submarket also received heavy construction, with more than 300,000 square feet completed.
- The largest retail project completed in the last 12 months was Ikea. The Swedish furniture giant finished construction on a new 413,000-square-foot store in Sweetwater last summer. It is Ikea's second location in South Florida and employs more than 350 workers.
- **Outlook:** Builders will grow inventory 1.3 percent in 2015, through the completion of 1.4 million square feet of retail space. Last year more than 1 million square feet was finalized, a 1.0 percent increase.



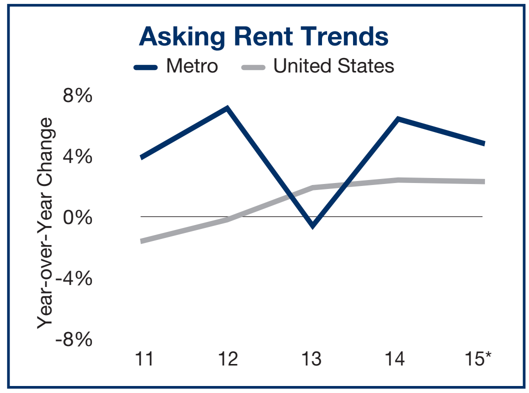
* Forecast
Source: CoStar Group, Inc.

Vacancy

- In the last 12-month period ending at midyear, vacancy fell 30 basis points to 3.7 percent, reaching the lowest level seen since before the recession. During the same time frame a year earlier, the vacancy rate slid 20 basis points with 110,000 square feet of net absorption.
- Double-digit rent drops in the Brickell submarket helped the area's vacancy nosedive 510 basis points year over year to 1.2 percent, the lowest rate in the metro. Vacancy in the Miami Airport area registered a 60-basis-point drop the past 12 months to 1.3 percent, despite a 6.0 percent expansion of inventory.
- Multi-tenant properties registered a 10-basis-point vacancy uptick year over year to 4.1 percent, indicating that single-tenant backfill drove vacancy constrictions. In the previous four-quarter period, multi-tenant vacancy climbed 30 basis points.
- **Outlook:** Vacancy will slide another 10 basis points since midyear and finish 2015 at 3.6 percent. Last year, the vacancy rate posted a 30-basis-point year-over-year drop on 1.3 million square feet of net absorption.

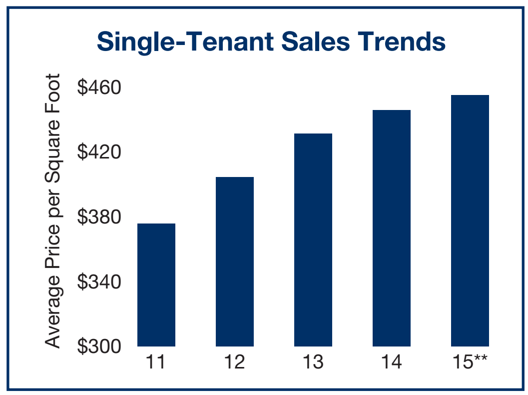
Rents

- As vacancy further tightens, quality retail space becomes more difficult to find, pushing average rent up to the highest level seen in more than eight years. During the most recent four-quarter period, average asking rent grew 6.5 percent to $30.49 per square foot. A gain of 1.1 percent was posted over the same span a year earlier.
- The submarket with the highest rent is Miami Beach, where retailers pay on average $70.46 per square foot for marketed space, more than twice the metrowide rate. Properties in Coconut Grove also command a hefty premium, with average asking rent reaching $48.91 per square foot.
- Single-tenant rent is continuing a steady trend of growth, up 2.7 percent in the last three months. Annually, these properties recorded a 6.7 percent rent hike, reaching $31.53 per square foot. Rent for multi-tenant assets grew 6.1 percent in the last 12 months to $28.77 per square foot.
- **Outlook:** In 2015, average asking rent will climb to $30.75 per square foot, a 4.8 percent advance. Last year, a 6.4 percent year-over-year gain was registered, continuing the trend of healthy rent growth.



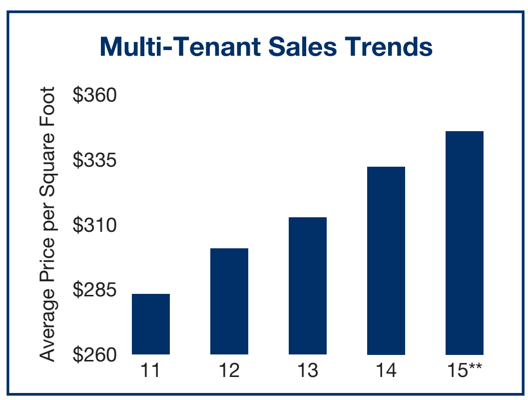
Single-Tenant Sales Trends**

- Transaction velocity for single-tenant properties jumped 17 percent in the most recent annual period. Storefronts at mixed-use retail/office spaces were especially popular, up 40 percent year over year. Sales activity lifted 10 percent in the previous annual period.
- An accelerating deal flow put upward pressure on average sale price, with single-tenant properties trading for $455 per square foot, a 4 percent hike. Fast-food locations will sell for around $740 per square foot, one of the most expensive product types.
- Rising prices helped depress first-year yields about 50 basis points to the low-5 percent range. Fast-food and general restaurant space will trade in the mid- to high-4 percent area.
- **Outlook:** Low vacancy rates and renewed interest from out-of-state buyers has made the Miami-Dade County buying environment more competitive, likely keeping sales activity and price growth elevated.



Multi-Tenant Sales Trends**

- In the last 12 months, deal flow remained steady for multi-tenant properties with buyers continuing to look to the Miami Airport area for sales opportunities. Sales activity has been consistent for the past three years, with overall sales growth coming from single-tenant space.
- Average sale price for multi-tenant assets grew 7 percent trailing 12 months with buyers paying around $346 per square foot. In 2014, the average sale price increased around 6 percent.
- Cap rates have compressed 75 basis points to the high-5 percent range in the past year, as rising prices put downward pressure on first-year yields.
- **Outlook:** Investment activity in the Miami area will stay consistent through 2015 as debt financing remains affordable and market conditions remain strong. Investors will continue to look to urban cores and the Miami International Airport for future purchasing opportunities.



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

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

- The largest project currently under construction is the massive, mixed-use Brickell City Centre located along South Miami Avenue between Eighth Street and Sixth Street. The $1.05 billion development will include half a million square feet of retail space, two residential towers and a 263-room hotel. The tentative delivery date is slated for late 2016.
- All Aboard Florida is a new passenger rail line that will link Miami and Orlando. The Downtown Miami Station is expected to provide a significant economic boost, giving consumers easy travel options throughout South Florida. Other planned stations include Fort Lauderdale and West Palm Beach.
- The development firm responsible for Minnesota's Mall of America is moving forward with plans to build an even bigger mall and theme park in northwest Miami-Dade County. The project is called American Dream Miami and will include shopping, dining, an indoor ski slope and amusement park rides. Although the project is still in its planning stages, the developer has purchased 82 of the 225 acres needed to complete construction.

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