RetailResearch
MARKET OVERVIEW

Marcus & Millichap

Orlando Metro Area — *Third Quarter 2015*

Low Vacancy Lays Foundation for Large Builds and Boosted Sales

Intense job growth has lifted household formation and retail spending in the Orlando metro, supporting occupancy in shopping centers to levels not seen in nearly a decade. Employment has been particularly robust in trade positions and in the leisure and hospitality sectors. These new households are looking to fulfill their shopping needs, evidenced by growth in retail sales. Retail chains and local store owners are responding with expansions, either into existing shopping meccas or with new construction. Recent move-ins include the Crayola Experience and Dick's Sporting Goods at The Florida Mall. Developers are in the final stages of The Crosslands in Kissimmee, which is one of the largest retail developments to be completed in the market in recent years. The first phase of the project is slated to be delivered this fall. Once all phases are completed, the complex will consist of more than 400,000 square feet. Signed tenants include Marshalls and PetSmart. Just north of this site is the mixed-use Lake Nona Town Center, which also has a retail component underway. This is just a portion of the 7,000-acre master-planned community of Lake Nona, which will include medical tenants, apartments, hospitality and office buildings that are currently in various stages of planning and construction. Many new projects are pre-leased, while existing spaces are quickly being occupied, which has led to tightening operations over the past four years.

Strong operations and relatively high first-year yields are increasing investor interest in the Orlando metro, and a high portion of 1031-exchanges are occurring. Traditional single-tenant investors are arriving from nationwide locales, while buyers from South America are also seeking assets in the area for yields in the 4 to 6 percent range. Apartment buyers who have been outpriced are turning to freestanding retail trades. Some single-tenant investors are buying smaller well-located multi-tenant properties with national credit occupants, where cap rates can range from the low-7 to high-9 percent area. Shadow anchor retail properties are being sought after for cap rates that are generally 50 basis points lower.

2015 Annual Retail Forecast

3.1% increase in total employment

Employment: After adding 49,300 jobs last year, employers are expected to create 35,000 positions in 2015. This will add 3.1 percent to employment this year. Job growth is supporting household formation and local confidence in retail spending.

900,000 square feet will be completed

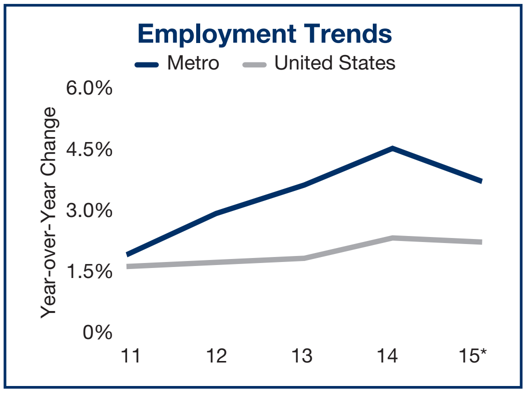
Construction: Developers will deliver 900,000 square feet of retail space this year, compared with 480,000 square feet in 2014. The Kissimmee, Orlando Airport and South Outlier submarkets will receive approximately 600,000 square feet of the total in 2015. This includes one of the largest regional retail projects, The Crosslands in Kissimmee.

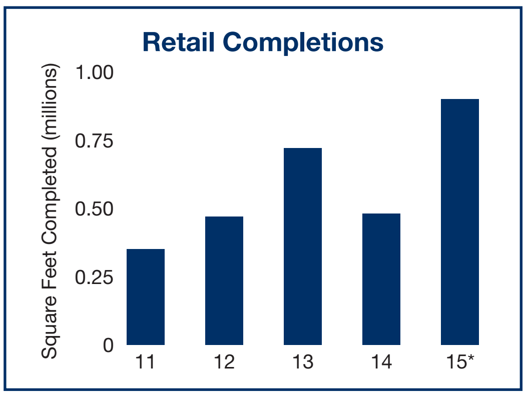
60 basis point decrease in vacancy

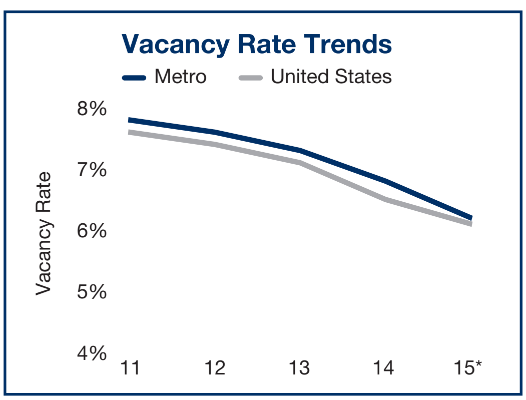
Vacancy: Strong fundamentals will support demand for retail space, pushing vacancy down 60 basis points this year to 6.2 percent even as completions ramp up. This is an acceleration from the 50-basis-point reduction in 2014.

1.8% increase in asking rents

Rents: As newer speculative projects are delivered this year, average asking rent will increase by 1.8 percent to $15.79 per square foot. In 2014, half the amount of space was delivered, which boosted asking rent by a modest 0.5 percent throughout the year.







* Forecast
Source: CoStar Group, Inc.

Economy

- Employers generated 47,000 positions, adding 4.3 percent to employment over the past 12 months ending in June, escalating from the nearly 44,700 positions in the same period a year ago. Job growth has been particularly robust in the leisure and hospitality and trade sectors, with a combined 23,100 positions in the past four quarters. The greatest relative gain of 6.8 percent was in the construction segment, which added 3,800 jobs.
- These new positions have compressed the unemployment rate by 60 basis points in the 12-month period to 5.2 percent, a slowdown from the 100-basis-point fall in the prior period. The current rate is half of the 2009 peak level.
- Over the past four quarters, 28,400 households were created, contributing to a 4.0 percent expansion in retail sales, which grew 7.7 percent one year earlier.
- **Outlook:** After adding 49,300 jobs last year, employers are expected to create 35,000 positions in 2015. This will add 3.1 percent to employment this year.

Construction

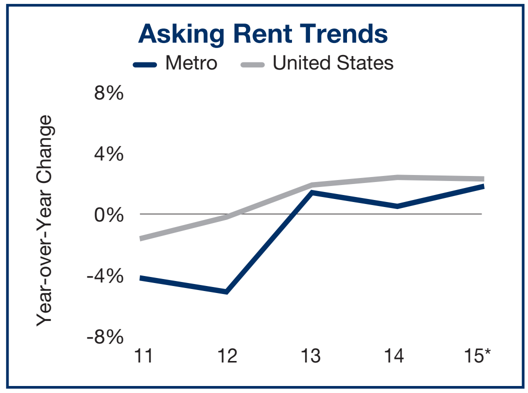
- Builders completed nearly 700,000 square feet of retail space in the past 12 months, an increase of 0.6 percent. In the preceding year, nearly 500,000 square feet were completed. The Kissimmee area had the most development, with 300,000 square feet adding 4.6 percent to submarket inventory.
- Nearly 800,000 square feet are currently under construction, with completion dates through 2016. More than half of this space is slated for the Orlando Airport and South Outlier submarkets.
- Builders have more than 10 million square feet in the planning stage; approximately half this amount has a date of occupancy. A combined 5.5 million square feet is proposed for the Lake County and South Outlier submarkets on either side of Interstate 4.
- **Outlook:** Developers are forecast to deliver 900,000 square feet of retail space this year, compared with 480,000 square feet in 2014. The Kissimmee, Orlando Airport and South Outlier submarkets will receive approximately 600,000 square feet of the total in 2015. This includes one of the largest regional retail projects, The Crosslands in Kissimmee.

Vacancy

- Rising household formation and retail sales have increased demand for retail spaces. Vacancy plummeted 100 basis points in the past four quarters to 6.2 percent. Demand growth was even stronger in multi-tenant centers where the rate fell 140 basis points to 7.5 percent.
- Demand growth near the University of Central Florida trimmed vacancy by 170 basis points to 3.7 percent in the Orlando Central Park submarket, one of the tightest vacancy submarkets. No new space was delivered to the area in the past year, supporting leasing in existing retail spaces.
- Despite receiving the most retail completions in the past four quarters, vacancy tightened 40 basis points in the Kissimmee submarket, ending the second quarter at 4.6 percent, as retailers absorbed 320,000 square feet.
- **Outlook:** Strong fundamentals will support demand for retail space, pushing vacancy down 60 basis points this year to 6.2 percent even as completions ramp up. This is an acceleration from the 50-basis-point reduction in 2014.

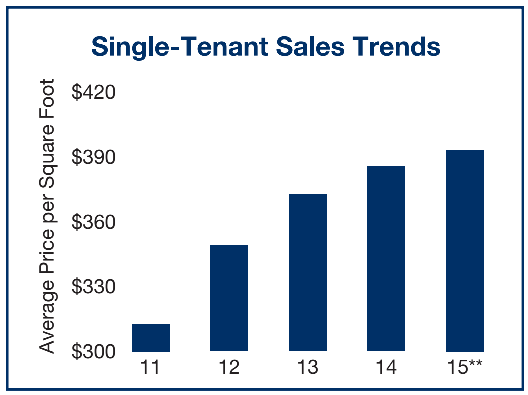
Rents

- Tightening vacancy has supported rent gains over the long term, at a level that is more sustainable than increases prior to the downturn. While retailers snatch up newer, well-located space, older space is left vacant, which pushed down the average asking rent by 2 percent to $15.36 per square foot for marketed space over the past 12-month period.
- Average asking rent near $20 per square foot can be found in submarkets where a large portion of new inventory was delivered in the past four quarters. These areas include University Research, Downtown, Winter Park, South Outlier and Orlando Airport. Pre-leased construction in Kissimmee was also significant, leaving asking rent near $17 per square foot on average, based on older existing spaces remaining available for lease.
- Rent in strip, neighborhood and community centers dropped 2.6 percent to $13.87 on average as newer, well-located centers were swiftly occupied, leaving outlying centers available for lease.
- **Outlook:** As newer speculative projects are delivered this year, average asking rent will increase by 1.8 percent to $15.79 per square foot. In 2014, half the amount of space was delivered, which boosted asking rent a modest 0.5 percent throughout the year.



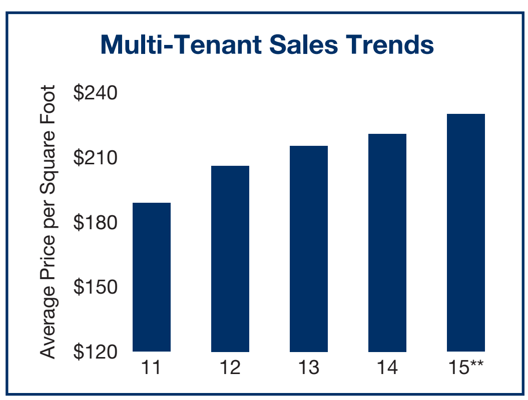
Single-Tenant Sales Trends**

- Transaction velocity increased by nearly 10 percent in the past 12 months, as tight operations expanded buyer activity. Approximately 30 percent of trades were accounted for in the Lake County and West Colonial submarkets near I-4 and the Ronald Reagan Turnpike.
- Strong investor demand created bidding competition, allowing the average sales price per square foot to rise 2.9 percent to $390 per square foot over the past four quarters. This is nearly 25 percent higher than other Florida metros and more than 50 percent higher than the U.S. average.
- Overall cap rates have compressed 30 basis points over the past 12 months to the low-6 percent areas. Rates can vary near 4 percent depending on tenant roster and proximity to a hard corner.
- **Outlook:** Buyers will continue to seek out triple-net leased assets with longer lease terms. Some buyers will seek shorter lease terms for higher yields.



Multi-Tenant Sales Trends**

- Trades of multi-tenant retail assets jumped 30 percent in the recent four quarters after declining 12 percent previously. Buyers were particularly interested in value-add deals made in the West Colonial submarket and in Lake County.
- Rising demand was evident as bidding competition boosted the average price per square foot by 5.5 percent to $230. This is 45 percent higher than the U.S. average for multi-tenant assets.
- Investor interest compressed the average cap rate by 20 basis points over the past 12 months to the mid-7 percent range. Smaller strip malls with national-credit tenants can trade 50 basis points lower.
- **Outlook:** Bidding competition is driving up asset prices. Properties with strong tenant rosters and longer lease terms are reaching the price ceiling for local buyers, as investors continue streaming in from other states and countries seeking higher yields than are available in their home markets.



* 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

- The Crosslands is the first power center to be constructed in Orlando in recent years. The $60 million project will provide shoppers with 427,000 square feet of national and regional brands. Multiple leases by big-box tenants have been signed, including Marshalls/HomeGoods and PetSmart. The site has already created about 1,000 temporary and permanent jobs.
- Residents signing leases in new apartments will strengthen retail sales, generating demand for more shopping centers and single-tenant space. Work progresses on 6,000 additional units of multifamily housing slated for delivery in 2015. The total includes 850 rentals in South Orange County and more than 300 units in downtown Orlando.
- Lake Nona Medical City consists of 650 acres on the 7,000-acre master-planned community of Lake Nona. A retail hub is currently underway to service the residential and office portions of the development. The medical portion of the site includes educational entities and federal and private healthcare institutions.

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Price: $150