RetailResearch

MARKET OVERVIEW

Marcus & Millichap

Tampa Metro Area *Third Quarter 2014*

Rising Employment Attracts Retailers To Tampa

Job creation is raising consumer confidence, spurring spending and attracting retailers to the region. Last year, metro employment growth surpassed the national average for a fourth consecutive year and the region is expected to outpace national growth this year as well. Tampa's research institutions and growing senior population are supporting the thriving healthcare, life science and insurance industries. Bristol-Myers Squibb, Health Plan Services, Quest Diagnostics and USAA announced plans to create thousands of positions over the next few years. These positive economic indicators are drawing convenience, fast food and discount retailers to employment hubs and growing residential neighborhoods in Hillsborough along the Interstate 75 and in Pinellas County. Wal-Mart, Wawa and PBQ are just a few retailers that are expanding operations. Additionally, the opening of The Mall at University Town Center in Sarasota this October, one of the few malls in the nation to be completed this year, is luring tenants to nearby strip centers. Beyond the mall, construction will remain fairly limited, allowing dark space to fill and encouraging operators to lift asking rents for the first time in more than five years.

The improving economy and rising occupancy are generating optimism in future property fundamentals, drawing investors to Tampa. Growing buyer demand is pushing up properties values and compressing cap rates. First-year returns for multi-tenant assets contracted 50 basis points annually to the low-8 percent area, while single-tenant properties, particularly fast food and discount stores, reduced 50 basis points to the low-7 percent cap-rate range. Discount retailers and drugstores garner the strongest interest, though rising prices are forcing some buyers out. In the multi-tenant sector, a gap between for-sale inventory and buyer demand still exists. The majority of for-sale inventory is on either side of the quality spectrum; listings in the middle are highly sought after and thus limited. The few unanchored centers with national and regional tenants receive strong interest from private investors and trade aggressively when listed.

2014 Annual Retail Forecast

2.8% increase in total employment

Employment: Broad-based hiring will raise employment 2.8 percent this year with the addition of 33,000 jobs, marking the strongest annual growth in a decade. Last year, employers created 30,300 positions.

1.9 million square feet will be completed

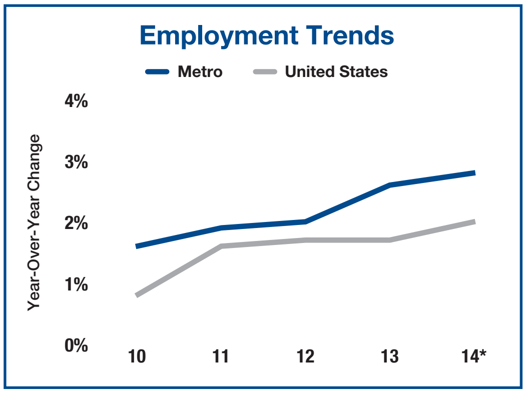
Construction: Developers will deliver 1.9 million square feet in 2014, the majority is pre-leased. The Mall at University accounts for nearly half of the total. This, along with smaller projects, will lift retail stock 2.3 percent in the Sarasota submarket this year. In 2013, only 680,000 square feet was completed in the metro.

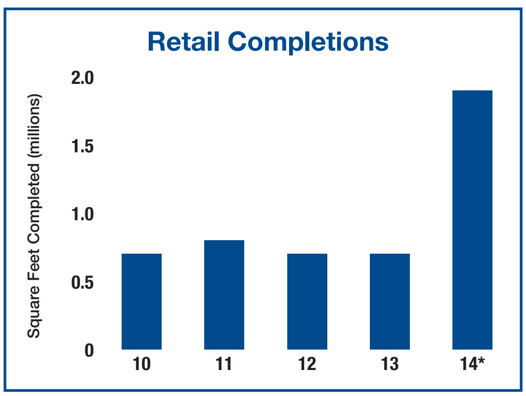
30 basis point decrease in vacancy

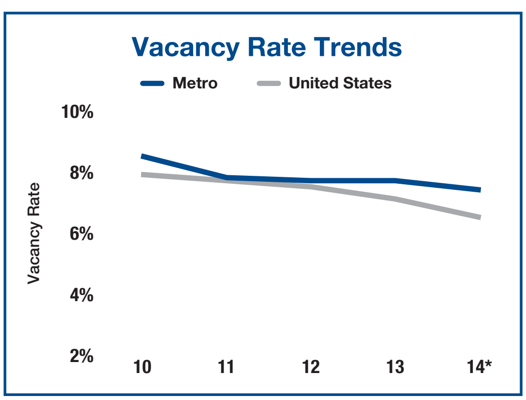
Vacancy: Rising demand for retail space and heavily pre-leased new construction will put downward pressure on vacancy. Average vacancy will end the year at 7.4 percent, a 30-basis point annual decline.

1.0% increase in asking rents

Rents: New inventory and tightening vacancy will lift average asking rents 1.0 percent this year to $13.89 per square foot. Last year, rents retreated 1.2 percent.







*Forecast
Source: CoStar Group, Inc.

Economy

- Employment expanded 2.1 percent over the past 12 months ending midyear with the addition of 24,800 jobs. In the corresponding period last year, employers created 28,700 positions.

- Steady hiring and strengthening consumer confidence is supporting retail spending, though at a slightly slower pace than recent years of aggressive growth. Retail sales advanced 4.6 percent year over year in June, slightly above the national average.

- The region's life-science industry cluster continues to attract companies. Quest Diagnostics, a provider of medical testing services, will create up to 350 jobs over the next year at its new logistics hub in Hillsborough County. Additionally, Bristol-Myers Squibb opened its new office in Tampa early this year, with plans to add 580 positions by 2017.

- **Outlook:** This year, local employers will generate 33,000 jobs, lifting employment 2.8 percent.

Construction

- Over the last four quarters, developers finished 800,000 square feet of retail space, on par with deliveries in the previous period one year earlier.

- The largest project completed year to date is a 198,000-square foot Wal-Mart Supercenter in Pinellas County. Two more Wal-Mart build-to-suits, a 148,000- and 125,000-square foot building, were delivered in the first half of the year.

- Nearly 1.3 million square feet is underway, including the 880,000-square foot shopping mall in Sarasota that is slated for completion this fall. Additionally, the planning pipeline contains 7.4 million square feet, though only a handful of projects have target start dates.

- **Outlook:** Builders will finish 1.9 million square feet in 2014, lifting inventory 1 percent.

Vacancy

- The improving economy contributed to healthy demand for retail space, pulling down metrowide vacancy. Overall, vacancy dropped an annual 80 basis points on net absorption of 2.3 million square feet to 7.1 percent in the second quarter, the lowest rate since late 2008. In the previous year-long period, vacancy ticked up 30 basis points.

- During the last 12-month period, every submarket in the metro posted annual vacancy reductions. Average vacancy improved the most in the Central Tampa and Pasco County submarkets, falling 170 and 140 basis points to 6.0 and 9.1 percent, respectively.

- In the multi-tenant segment, vacancy tumbled 120 basis points over the last 12 months to 9.2 percent. Despite the decline, the rate remains more than 350 basis points above the pre-recession low.

- **Outlook:** By year-end 2014, vacancy will fall an annual 30 basis points to 7.4 percent, the lowest level in five years.

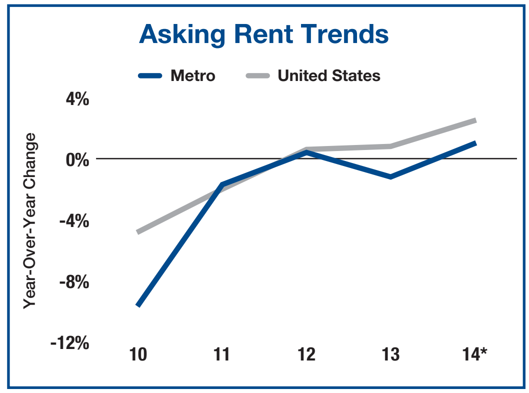
Rents

- As conditions tightened, the pace of rent reductions slowed. During the last 12 months, asking rents edged down 0.5 percent in the second quarter. In the previous period one year earlier, rents fell 1.9 percent. Five years of flat or negative growth has placed rents 24 percent below the peak reached in mid-2008.

- Over the past year, three out of eight submarkets posted annual rent gains. The Central Tampa submarket, which boasts the highest rents in the metro, recorded a 4.5 percent year-over-year increase to $17.51 per square foot. The lowest rents are in the Eastern Outlying submarket at $11.63 per square foot.

- Multi-tenant rents ticked up 0.1 percent over the last 12 months to $12.90 per square foot, up from the 1.5 percent decline last year. Meanwhile, average rents in the single-tenant sector contracted 0.9 percent to $14.36 per square foot.

- **Outlook:** As new inventory comes online through the remainder of the year, average asking rents will moderately rise. Rents will reach $13.89 per square foot in 2014, marking a 1 percent year-over-year increase.



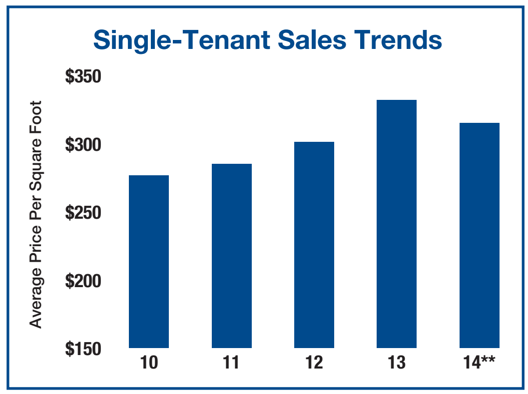
Single-Tenant Sales Trends**

- During the most recent 12-month period, sales velocity for single-tenant assets climbed 27 percent. Restaurants and fast-food properties garnered strong interest from investors, while convenience-store transactions nearly doubled.

- The average price for assets sold over the past year was $313 per square foot. Restaurant and fast-food properties traded at an average price of $351 and $535 per square foot, respectively.

- Cap rates were stable over the last 12 months and averaged in the low-7 percent range, depending on tenant quality and location. A newly built McDonald's can command cap rates starting in the mid-4 percent area.

- **Outlook:** Well-located drugstore and discount stores with long lease commitments remain the prime target of single-tenant investors. A Walgreens or CVS typically commands initial yields in the mid-5 percent range, while Dollar General trades 75 basis points higher.



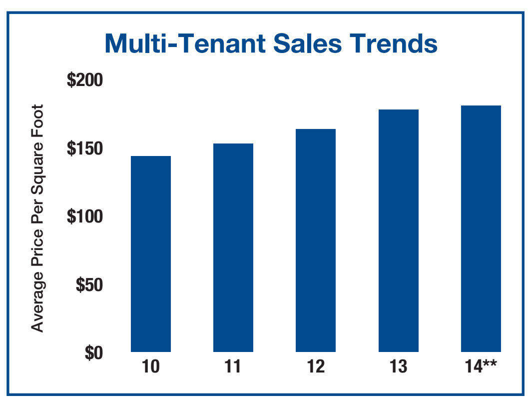
Multi-Tenant Sales Trends**

- Sales activity increased 27 percent for multi-tenant properties as investors strongly targeted centers measuring 50,000 to 100,000 square feet.

- Over the last year, buyers paid an average price of $179 per square foot for multi-tenant assets. The average price sits 56 percent below the peak reached in 2007.

- Average cap rates were in the low-8 percent range, compressing roughly 50 basis points over the past 12 months. Initial yields varied widely in the market depending on asset and tenant quality. Properties with high-credit anchors and locations along major thoroughfares traded at 4.5 percent, while first-year returns for unanchored strip centers with local tenants are up to 10.5 percent.

- **Outlook:** REITs remain interested in highly visible grocery-anchored strip centers located on major roadways. First-year returns for these assets begin in the low-6 percent range.



* Forecast
** Trailing 12-month period
Sources: CoStar Group, Inc., Real Capital Analytics

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Capital Markets

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

- According to the minutes of the most recent FOMC meeting, the Fed will cease asset purchases associated with the third round of quantitative easing in October this year. The tapering was announced in late 2013 and commenced in January. Healthy economic indicators encouraged the Fed to pare $10 billion in asset purchases during each meeting thus far in 2014. Employment reached pre-recession levels in the second quarter and the unemployment rate has fallen into the low-6 percent range.

- While the latest round of quantitative easing comes to a close, little impact on interest rates is anticipated until 2015. Investors long ago reacted to the taper and any potential increase in Treasurys has been baked into current prices. Recently, the 10-year Treasury dipped below the 2.5 percent threshold as foreign and local investors sought a safe haven for capital because of international conflicts. The rate is anticipated to stay in the current range until early 2015, when the Fed lifts targets on the discount and funds rates.

- In the single-tenant arena, nearly all lenders are active for properties occupied by national credit tenants. Many national banks have been aggressive in specific areas, which has pushed national LTVs between 65 and 80 percent. Interest rates for single-tenant, net-leased properties range from the mid-3 percent to the high-4 percent areas, depending upon tenant creditworthiness and length of lease.

- Underwriting is loosening in the multi-tenant arena as strong evidence of healthier property fundamentals emerges and lenders awash with capital seek to provide loans. CMBS is a growing presence in the $10 million-plus asset class, joining life companies as the primary loan issuers for larger deals. Interest rates for these transactions are in the mid- to high-4 percent area for 10-year terms. Below $10 million, national and regional banks offer loans in the low-4 to high-4 percent range on five- to seven-year terms.

Local Highlights

- Amazon recently started the hiring process at its new distribution center in Ruskin. The company will initially employ hundreds of workers upon completion of the facility and has plans to create more than 1,000 positions.

- Developers have ramped up the pace of production as more than 5,000 apartments are underway in the market with delivery dates through 2015. Roughly 2,000 of these units are located in Central Tampa. In the short term, these projects will create construction jobs, and once built they will boost foot traffic at nearby neighborhood centers, bars and restaurants.

- Mattamy Homes plans to build 675 town homes and single-family residences in Lakewood Ranch with expected completion in 2015. The region, named Lakewood Center, is undergoing dramatic development over the next 10 years. When completed, Lakewood Center will consist of thousands of homes and apartments, more than 1 million square feet of commercial and office space, and a 300-room hotel.

- Major hiring announcements this year will bode well for local retailers. Nielsen, an outbound call center, announced plans to hire more than 300 employees. Additionally, medical device manufacturer Covidien will create 165 jobs at its new facility in Hillsborough County.

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