RetailResearch

MARKET OVERVIEW

Marcus & Millichap

Tampa-St. Petersburg Metro Area | *Third Quarter 2015*

A Dearth of Available Retail Listings Intensifies Investor Competition

Favorable demographics and rising sales are attracting retailers to the metro and activating developers. Strong job growth has contributed to household formation as well increased household incomes during the last four quarters. As a result, retail sales are trending higher and drawing new retailers to the metro as well as encouraging others to expand. The escalating demand for space is spurring developers. In Pinellas County, the first phase of the Tri-City Plaza redevelopment in Largo opened in the second quarter and the redevelopment of Seminole Mall is getting underway. This project will transform the enclosed structure into an outdoor shopping center renamed Seminole City Center. The 400,000-square-foot facility will be anchored by a movie theater. Also, the Tampa Premium Outlets in Wesley Chapel will open in the final quarter of this year. The center is likely to spur additional retail development nearby. Retailers adding locations in the metro include Bass Pro Shops, Wal-Mart, Dollar General and Popeye's. Solid tenant demand and the redevelopment of older underutilized space will tighten vacancy and slowly nudge rents higher during 2015.

Strengthening local economy is luring investors to the metro, and with the number of buyers outpacing available listings, a competitive bidding environment has ensued. Exchange buyers are especially active in the single-tenant arena. Aggressive demand for these assets has driven prices higher and compressed cap rates into the upper-4 percent area for corporate tenants with long-term leases. Compressing cap rates in single-tenant assets has more buyers considering new multi-tenant properties with fewer than five national tenants signed to long-term leases. These assets will typically start to trade at initial yields in the low- to mid-6 percent range. Properties near big-box anchored centers, along major transit routes or near employment hubs are especially sought after. Although local investors are not as active as in previous years, many are pursuing lower-tier assets with strong cash flows or that can be easily repositioned.

2015 Annual Retail Forecast

2.5% increase in total employment

Employment: During 2014, 34,400 jobs were generated, led by gains in the trade, transportation and utilities sector. The sector is expected to top this year's payroll expansions as employers add a total of 30,200 workers to payrolls, a 2.5 percent gain.

1.2 million square feet will be completed

Construction: During 2015, approximately 1.2 million square feet of shopping center space is scheduled to be delivered, bringing absorption to 2.4 million square feet. This is down from last year when 1.7 million square feet was completed and nearly 3 million square feet was absorbed.

70 basis point decrease in vacancy

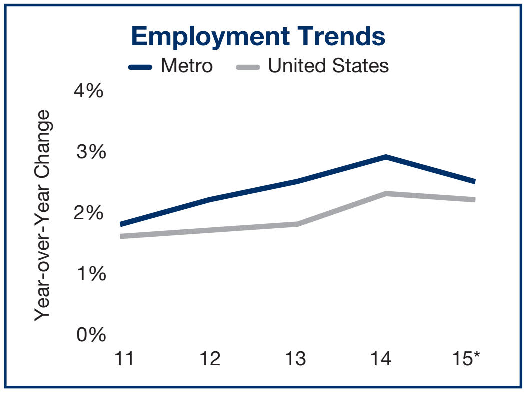
Vacancy: Strong tenant demand and significant pre-leasing activity in new projects being delivered will move vacancy down 70 basis points in 2015 to 6.1 percent. This follows a 90-basis-point drop in the rate last year.

1.5% increase in asking rents

Rents: After the average asking rent dipped 0.1 percent in 2014, increased tenant demand will contribute to the average asking rent rising 1.5 percent to $14.17 per square foot in 2015. The Central Tampa submarket will retain the highest rents metrowide, approaching $17.00 per square foot.

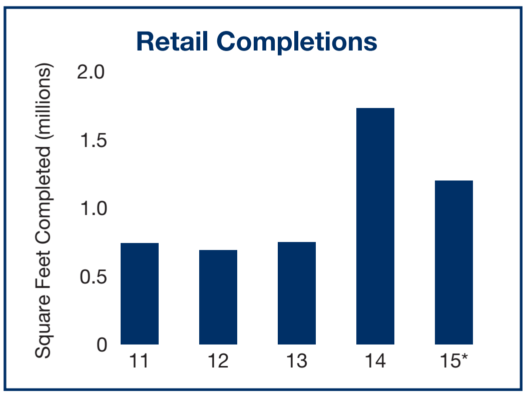
Economy

- During the second quarter of 2015, employers created 17,000 jobs, raising the 12-month total to 35,900 positions, or 3.0 percent. One year earlier, payrolls expanded 2.8 percent.
- Year over year in the second quarter, employment gains were led by the leisure and hospitality sector, which accounted for more than a third of the total positions. This was due in part to new hotels opening. So far this year, roughly 400 hotel rooms have been added and another 1,000 are underway with completions scheduled into 2018.
- The rise in employment has encouraged household growth. More than 21,700 households were formed over the past four quarters ending in June, a 1.8 percent gain. With more people working, retail sales have climbed 3.4 percent during this time.
- **Outlook:** Employers will create 30,200 jobs in 2015, a 2.5 percent advance. This is down slightly from the 2.9 expansion last year, when 34,400 workers were added to payrolls.



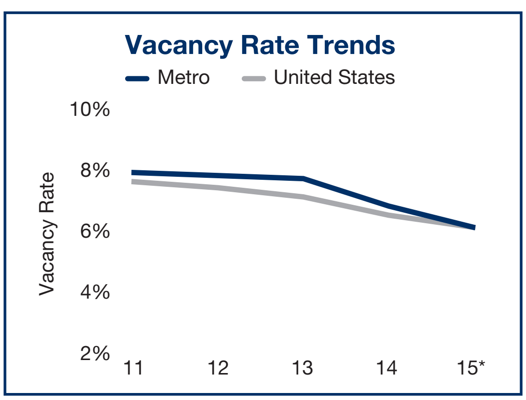
Construction

- Year to date, developers have completed 425,000 square feet of retail space, a 0.3 percent rise in inventory. This is down from the same period one year ago, when 615,000 square feet was delivered.
- Construction will remain heightened as builders have more than 800,000 square feet underway with completions scheduled into 2017. There is also roughly 1.5 million square feet of proposed projects, although less than a fourth of that has a planned start date.
- The largest project due for delivery during 2015 is Tampa Premium Outlets in Wesley Chapel. The development will bring 110 stores in 441,000 square feet of retail space to the Pasco County submarket upon completion in October.
- **Outlook:** During 2015, approximately 1.2 million square feet is scheduled to be delivered in the metro. This is down from last year when 1.7 million square feet was brought into service.



Vacancy

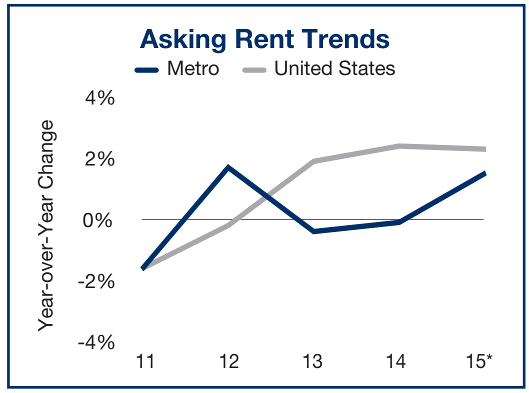
- Heightened tenant demand inched vacancy down 10 basis points in the second quarter to 6.7 percent. During the last 12 months the rate has decreased 50 basis points, following an 80-basis-point decline one year earlier.
- In the second quarter, the tightest vacancy was posted in the I-75 Corridor submarket. Here vacancy dropped 50 basis points year over year to 4.9 percent. At the other end of the spectrum, Pasco County submarket registered the highest midyear vacancy at 8.3 percent after contracting 80 basis points year over year.
- Vacancy among shopping centers, which includes strip, neighborhood and community centers, rested at 8.2 percent in June, having receded 90 basis points in the last four quarters. The rate varies widely among submarkets with the lowest vacancy in North Hillsborough at 4.9 percent.
- **Outlook:** Strong tenant demand and significant pre-leasing activity in new projects being delivered will move vacancy down 70 basis points in 2015 to 6.1 percent. This follows a 90-basis-point drop in the rate last year.



* Forecast
Source: CoStar Group, Inc.

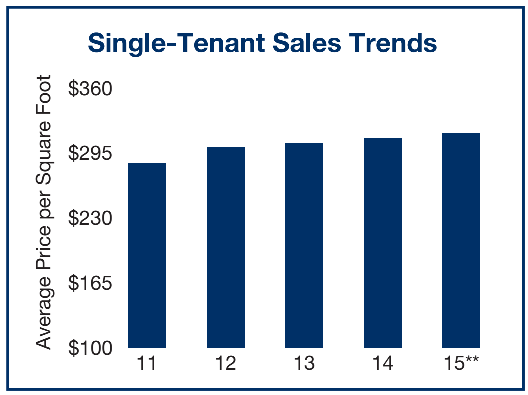
Rents

- Despite vacancy improvements, asking rent growth is slow to gain momentum. Metrowide, the average asking rent remained steady at $13.97 per square foot in the second quarter, which is down 0.1 percent year over year. In the prior 12-month period, rents receded 0.4 percent.
- Among submarkets, the North Hillsborough area recorded the largest rent improvement over the past four quarters. Here, the average asking rent climbed 5.2 percent to $13.85 per square foot at midyear. The Central Tampa submarket commands the highest rent at an average of $16.93 per square foot, down 3.7 percent over the last 12 months.
- The average asking rent in shopping centers rose 1.3 percent to $13.29 per square foot year over year in the second quarter, after a 0.8 percent decrease 12 months earlier.
- **Outlook:** Increased tenant demand and new projects leasing up will move the average asking rent up 1.5 percent to $14.17 per square foot in 2015. Last year, rents dipped 0.1 percent.



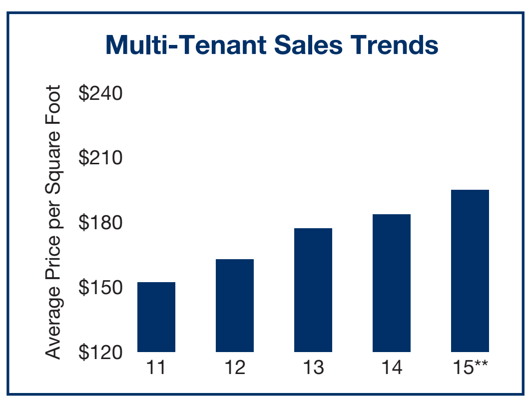
Single-Tenant Sales Trends**

- Transaction velocity of single-tenant properties in the metro decreased 22 percent during the most recent four quarters as fewer quality properties were listed. Freestanding assets in Tampa and Clearwater garnered significant investor attention.
- Even though trading volume slowed during the last 12 months ending in June, prices continue to rise. During this period, the average price of a fast-food restaurant rose 7 percent to nearly $600 per square foot, while freestanding properties traded at an average of $226 per square foot.
- New fast-food restaurants with a strong corporate tenant are being listed with cap rates in the mid- to upper-4 percent range. Initial yields for dollar stores begin in the low- to mid-6 percent span for quality properties in a good location and a long-term lease.
- **Outlook:** Buyer demand will remain strong for net-leased assets with long-term tenants; however, intense competitive bidding environment will require investors to expand their portfolio parameters.



Multi-Tenant Sales Trends**

- Fewer quality properties being marketed slowed transaction volume 12 percent over the past four quarters, following a 46 percent surge one year earlier. In the most recent 12 months, rising prices contributed to many local investors moving to the sidelines to wait for the right opportunity. Assets in the Pinellas, I-75 Corridor and Pasco County submarkets received strong buyer attention.
- Heightened buyer interest in the supply of multi-tenant marketed assets drove prices up 2.7 percent over the past 12 months ending in June. The average price of a strip center climbed 29 percent to $144 per square foot, while a neighborhood center rose 30 percent year over year to $125 per square foot.
- Multi-tenant properties are generally trading at cap rates in the mid-7 percent range, depending on location, quality of asset, and strength and term of the tenant roster.
- **Outlook:** Stabilized assets in the high growth Southeast Hillsborough County as well as the South Tampa area will garner enhanced investor consideration.



* 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

- Plans are underway for a 25-acre development between Amalie Arena and the Selmon Expressway. The project would offer roughly 3 million square feet of commercial space including more than 1 million square feet of office space that would attract a corporate headquarters to the area. Plans also feature hotel, retail and residential components.
- Ground has broken on the former Amazon Hose and Rubber site for an eight-story apartment building at the intersection of Kennedy Boulevard and North 12th Street. The 300-unit project will include ground-level retail and a six-story parking garage.
- A mixed-use development that would offer retail and multifamily uses has been proposed on the 29-acre former Raytheon site in St. Petersburg. The long-vacant property at 1501 72nd St. N. has recently been purchased.
- Construction has begun on an expansion that will add more than 110,000 square feet to the Florida Hospital Wesley Chapel. The $78 million project should increase foot traffic to nearby restaurants and retailers.
- Port Tampa Bay revealed development plans for 45 acres along Channelside Drive that would add 9 million square feet of mixed-use projects. The site is expected to be divided into four districts: the cruise district, the central waterfront, marina district and park district, and it will contain a combination of residential towers and retail and commercial space.

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