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Tampa Bay retail properties are hot, hot, hot – for now

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Patrick Berman has received a “deluge” of offers — a few dozen — on the ground lease of a Wawa convenience store in the Tampa Bay region he’s marketing for sale.

The senior director with Cushman & Wakefield of Florida Inc. isn’t surprised by the interest in the property, nor is he worried that it’s priced too low. That level of interest in retail investment properties in this region is standard — at least for now.

There are multiple factors driving that demand, commercial real estate brokers say. While higher prices are driving down returns on those properties, the returns are still higher than alternative long-term, low-risk investments like government bonds. There’s also increasing interest in this market from buyers based in Miami and California, where prices — and therefore, returns — are significantly higher than in the Tampa Bay region.

The properties most in demand are stand-alone retail sites housing credit-worthy tenants like CVS Health Corp. or Walgreens, fast-food restaurants and service-oriented retail strips, like grocers, dry cleaners and salons.

“There’s definitely been more buzz and more motivation than there was a couple years ago,” said James Medefind, a vice president with Marcus & Millichap in Tampa. “I think it’s people realizing interest rates may not be this low for very long and realizing there may be some rent growth in the next few years.”

Not only are returns on real estate roughly twice as much as bonds, Berman said, but commercial real estate’s tax advantages — depreciation deductions and writing off interest paid on debt as an expense — make the sector even more attractive as an investment.

“A Walgreens is truly returning 7 percent after tax advantages,” Berman said.

There are two categories of buyers that are active in the Tampa Bay market: private groups and high net-worth individuals buying properties below the \$10 million mark, and real estate investment trusts, pension funds and insurance companies buying properties priced at more than \$10 million.

“People are looking for hard assets,” Medefind said. “They want something tangible and a safer investment than a very volatile stock market.”



DANIEL ACKER

A shopper enters a CVS Health Corp. pharmacy in Council Bluffs, Iowa.

Medefind said the demand remains steady despite limited growth in retail rental rates, though he's starting to see rents rising in some in-demand areas, like South Tampa.

Rents are rising in the region's hottest corridors because vacancies have dwindled, creating more competition for available spaces and pushing rents high enough to justify some new development and redevelopment of existing shopping centers.

A retail development anchored by Crunch Fitness and Tijuana Flats was recently completed along South Dale Mabry Highway in South Tampa; a center anchored by Sprouts Farmers Market Inc. is under construction less than two miles away. Several other redevelopments in that area are in the planning stages.

And while there's leasing demand in that area, investment demand could subside in the coming months, Berman said, as interest rates will likely rise.

"A year from now, almost everybody agrees rates will be higher," he said. "So it's a good time to be a buyer and a seller."

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