INVESTMENT FORECAST

IPA INSTITUTIONAL PROPERTY ADVISORS

Retail

Tampa-St. Petersburg

2022

Strong Levels of In-Migration and Tourism Underpin Retail Spending, Boosting Investment to Record Levels

Retail demand bolstered by employment and population gains. Robust job growth and elevated levels of tourism boosted consumer spending over the past year, encouraging retailers to enter the region or expand their market presence. As a result, leasing activity returned in force, slicing availability within 20 basis points of the metro's pre-pandemic rate. Moving forward, the outlook for Tampa's retail sector is bright as fundamentals are poised for further improvement this year. The metro remains a top migration destination for residents moving from other markets, supporting a healthy rise in Tampa's population. Additionally, employment growth continues to outpace the national average, contributing to a rise in the median household income and further bolstering consumers' ability to spend. A larger consumer base and increased spending power will encourage additional retailer expansions at a time when construction activity is on pace to slow to a 15-year low. Of the 700,000 square feet of space scheduled to deliver, most was pre-leased at the onset of 2022. This diminished pipeline and strengthening demand for available space will promote further vacancy compression and rent growth throughout the year.

Local deal flow outpaces that of other Florida metros. Strong population and economic growth, coupled with tight market conditions, make Tampa an attractive option for retail investors. Over the past year, transaction velocity soared to a two-decade high, highlighting the confidence investors have in the metro's long-term outlook. Many buyers are active in Pinellas County, due to high levels of tourism and in-migration, coupled with rent growth that outpaces the metro average. Single-tenant, net-leased assets are highly sought after and trade at cap rates that average in the mid-5 percent range. Neighborhood and strip centers are also garnering buyer interest, due to the potential for higher first-year returns. Average cap rates for these assets can range from the low-5 percent to high-8 percent span, depending on the tenant roster.

2022 Market Forecast

Employment up 4.5% — Employers will add 64,000 new positions in 2022, nearly matching last year's pace. In 2021, 66,000 jobs were added.

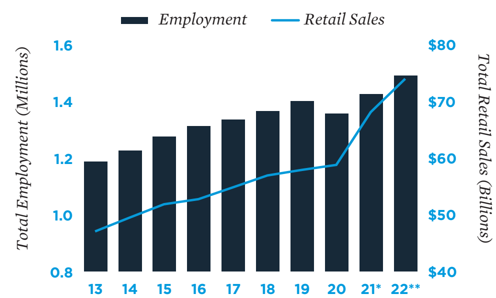
Construction 700,000 sq. ft. — Development activity moderates this year, following the addition of 830,000 square feet in 2021. Completions will increase the metro's retail inventory by 0.4 percent.

Vacancy down 30 bps — Consistent demand allows vacancy to fall to 4.4 percent this year, the lowest year-end rate since 2017. In 2021, a 40-basis-point decrease was registered.

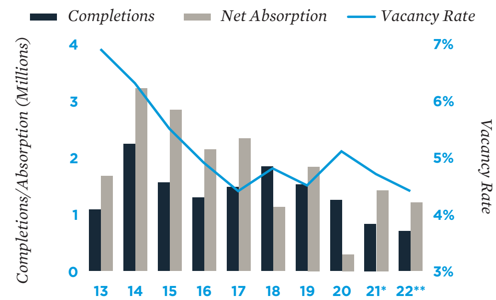
Rent up 5.0% — Average asking rents will increase at the same rate as last year, as market conditions continue to tighten. The rate will reach $18.74 per square foot by year-end.

Investment — The return of many firms to their offices and increased business travel will likely boost retail sales in Central Tampa over the next year, stimulating investor demand for urban assets.

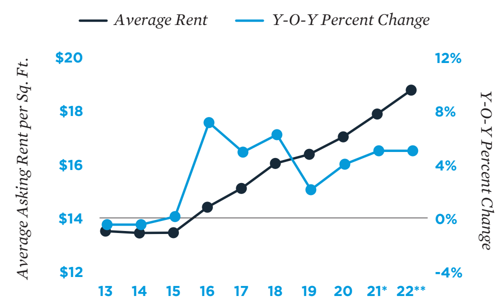
Economic Trends



Supply and Demand



Rent Trends



* Estimate; ** Forecast
Sources: CoStar Group, Inc.; Real Capital Analytics; RealPage, Inc.

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