MARKET REPORT

Retail

Orlando Metro Area

IPA INSTITUTIONAL PROPERTY ADVISORS

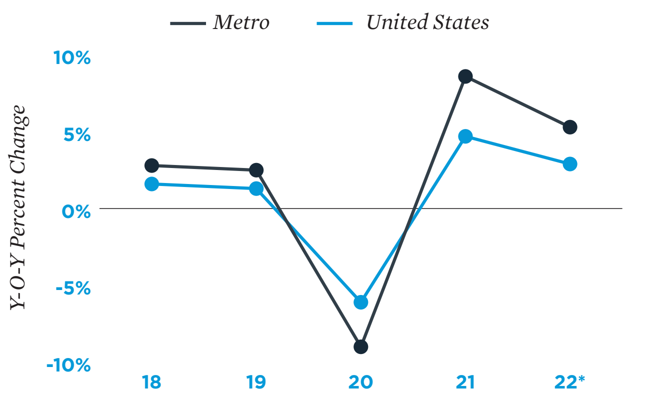
2Q/22

Orlando a Leader in Job and Population Growth, Stimulating Retailer Demand

Vacancy drops to record low. Metro population has grown by more than 200,000 residents since 2017, a pace that will accelerate over the near-to mid-term and continue to drive consumer spending in the market. Additionally, the state's tourism campaign, Visit Florida, contributed to the largest wave of domestic visitation to the state on record in 2021. As a result, demand for retail space surged, with tenants absorbing over 1.1 million square feet during the past year ending in March. Availability contracted 70 basis points over this span to 4.3 percent, the lowest rate in more than 15 years. Overall, at least 20 new leases for 20,000-square-foot-plus spaces have been signed during the past four quarters, highlighted by the 103,000-square-foot deal inked by BJ's Wholesale Club in Casselberry.

Construction costs limit new development. Despite the numerous tailwinds that are fueling space demand in the metro, construction activity remains below the historical average in Orlando. The bulk of deliveries slated for near-term completion are concentrated in South Orange County, West Colonial and Altamonte Douglas. Roughly three-fourths of the pipeline is pre-leased entering April, indicating market conditions will remain tight in the near term. With the metro expected to add an additional 230,000 residents over the next five years, the need for new supply is apparent. However, rising land prices and shortages in materials and labor are elevating construction costs. This may potentially stall new development, stimulating a further rise in occupancy and rental rates in the metro.

Employment Trends



** Forecast*

Sources: BLS; CoStar Group, Inc.

Retail 2022 Outlook

70,000 JOBS
will be created

EMPLOYMENT:

Building off last year's 9.1 percent spike, firms expand headcounts by 5.3 percent in 2022, outpacing the national average. Entering April, employment in the metro's retail trade sector was roughly 3,000 positions above the pre-pandemic level.

1,050,000 SQ. FT.
will be completed

CONSTRUCTION:

Inventory increases by less than 1 percent, as development remains below the trailing five-year average of 1.2 million square feet per year. Orlando's pipeline is highlighted by a 122,000-square-foot community center delivering in Winter Garden.

20 BASIS POINT
decrease in vacancy

VACANCY:

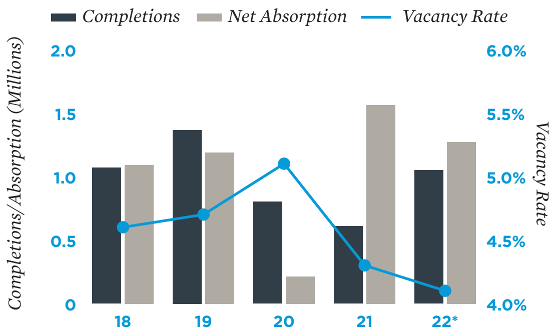
The combination of strong in-migration, job growth that outpaces the national index and rebounding levels of international tourism support a second consecutive year of annual vacancy compression. By year-end, availability will fall to 4.2 percent.

4.8% INCREASE
in asking rent

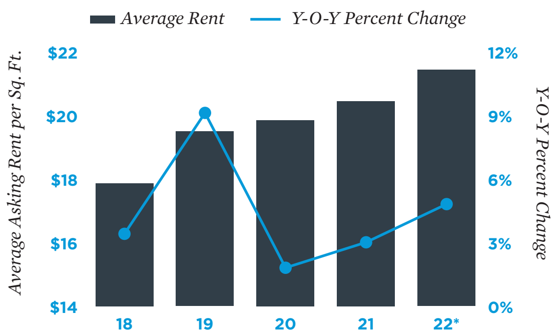
RENT:

The average asking rent increases on an annual basis for the eighth consecutive year, rising to $21.42 per square foot in 2022. Asking rents in Orlando are at least 12 percent higher than all other major North and Central Florida metros.

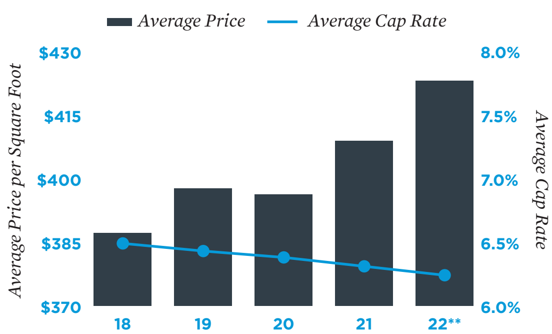
Supply and Demand



Rent Trends



Sales Trends



** Forecast **Through 1Q*

Sources: CoStar Group, Inc.; Real Capital Analytics

IPA Retail

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Price: $250

1Q 2022 - 12-Month Period

CONSTRUCTION

633,000 sq. ft. completed

- Retail inventory increased by 0.5 percent over the past 12 months ending in March, with the Altamonte Douglas, Lake County, North Outlier and South Outlier submarkets receiving the bulk of completions.
- Supply additions trailed the previous yearlong span's delivery volume by over 150,000 square feet.

VACANCY

70 basis point decrease in vacancy Y-O-Y

- Robust in-migration and record levels of domestic visitation to Florida helped lower availability to 4.3 percent. As of March, vacancy was 40 basis points below the year-end 2019 rate.
- Multi-tenant vacancy contracted 50 basis points during the past 12 months, while single-tenant availability fell 80 basis points.

RENT

5.1% increase in the average asking rent Y-O-Y

- Driven by the 9.5 percent jump in single-tenant rents, the metro's average asking rate advanced to $20.64 per square foot in March.
- Rents are surging in Lake County and the North Outlier submarket, neighborhoods where an influx of first-generation space has recently delivered, with the average rate increasing over 20 percent in each of these locales.

Investment Highlights

- Transaction velocity for single-tenant assets reached a new record high over the past year ending in March, increasing more than 60 percent relative to the previous 12-month period. The average sale price rose 5 percent during this span, while the mean cap rate held steady at 5.9 percent. Average returns across the entire retail sector are the highest among major markets in Florida, attracting yield-driven buyers to the metro.
- Sit-down restaurants, fast-food establishments and automotive parts retailers are changing hands most often. Investors are targeting these types of assets in South Orange County, where household incomes are among the highest in the metro. Entry costs here average above $600 per square foot, due to intense competition for available listings. Buyers seeking higher returns are active in the West Colonial and Lake County submarkets.
- Deal flow for multi-tenant assets also reached a historic high year-over-year in March, more than doubling the volume registered in the previous four quarters. The average sale price rose 8 percent over this time period to $320 per square foot, a two-decade high. Neighborhood and strip centers in the $1 million to $10 million price tranche are changing hands most often, with first-year returns that average in the high-6 percent range.