MARKET REPORT

Retail

Orlando Metro Area

IPA INSTITUTIONAL PROPERTY ADVISORS

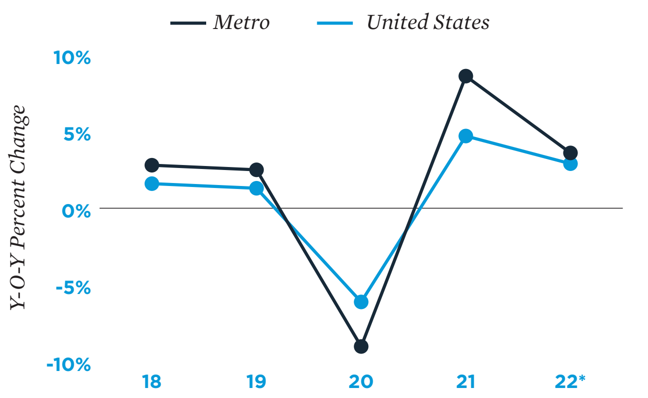
3Q/22

Foundation of Local Retail Spending Recovers; Growing Populace Provides Additional Boost

Demand drivers strengthen. Recent job growth and positive net migration are brightening the metro's retail outlook. Adding over 84,000 jobs during the 12-month period ending in June, Orlando's employee pool grew by 6.7 percent. Many of these positions were filled by new residents, as the metro's population expanded by more than 45,000 people during the yearlong span. Concurrently, local tourism has recovered, with hotel revenues reaching new heights during the 2021-2022 fiscal year. With larger local and out-of-town consumer bases in place, retailers are likely to view Orlando as a prime locale for future expansion, preserving demand for available single- and multi-tenant spaces.

Net lease performance leading the way. Single-tenant vacancy compressed to 3.4 percent in June, its lowest point on record. The 90-basis-point drop in availability noted over the past 12 months coincided with a year-over-year rent gain of 10.1 percent, bringing the average asking rate to $21.93 per square foot. These property fundamentals can be attributed to heightened consumer spending at restaurants and necessity retailers, which is motivating vendors to enter the market or lease additional space. Tight conditions are present throughout multiple submarkets, as the lack of recent supply additions is steering retailers to existing properties. Entering July, single-tenant projects accounted for roughly 75 percent of the metro's active pipeline. However, most of this space was pre-leased, suggesting vacancy will remain historically tight in the near term.

Employment Trends



* Forecast

Sources: BLS; CoStar Group, Inc.

Retail 2022 Outlook

48,000 JOBS *will be created*

EMPLOYMENT:

Strong job creation in the leisure and hospitality sector has bolstered overall hiring velocity in Orlando. Having added more than 21,000 jobs in the first half, total employment is set to grow by 3.6 percent during 2022.

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

CONSTRUCTION:

Developers completed over 410,000 square feet of space in the first half. Construction is set to ramp up during the remainder of this year, with the annual delivery volume surpassing the 1 million-square-foot mark for the first time since 2019.

40 BASIS POINT *increase in vacancy*

VACANCY:

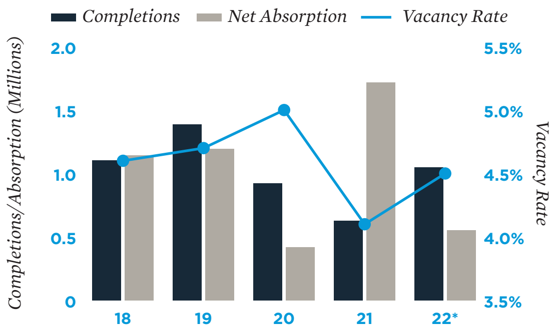
Following five consecutive quarters of annual compression, vacancy will rise in the second half. Still, year-end availability will sit below 5 percent for the fifth time in the past six years.

4.4% INCREASE *in asking rent*

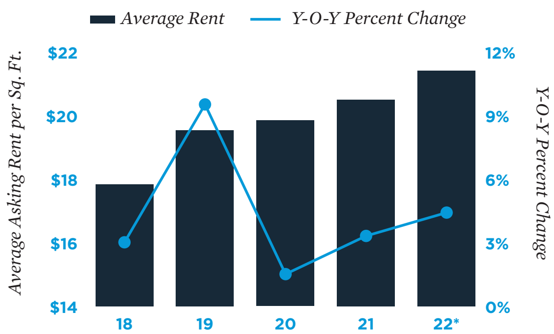
RENT:

High-quality additions and positive net absorption will support asking rent growth during 2022. Backed by strong fundamentals in the single-tenant space, the average marketed rate will elevate to a record mark of $21.40 per square foot.

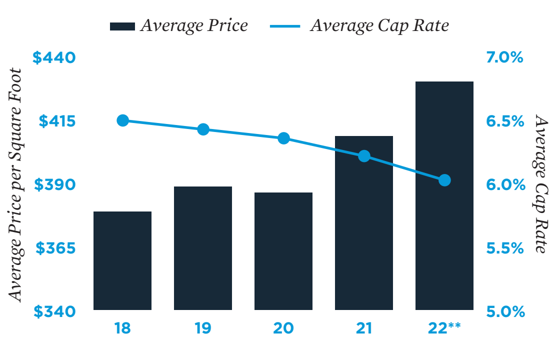
Supply and Demand



Rent Trends



Sales Trends



** Forecast ** Through 2Q*

Sources: CoStar Group, Inc.; Real Capital Analytics

IPA Retail

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Price: $250

2Q 2022 - 12-Month Period

CONSTRUCTION

664,000 sq. ft. completed

- Retail additions grew local stock by 0.5 percent year-over-year in the second quarter, nearly 65 percent of which was single-tenant space.
- Of the roughly 412,000 square feet added in the first half of the year, about 35 percent came online in the South Outlier submarket, with 15 percent in the Tourist Corridor.

VACANCY

90 basis point decrease in vacancy Y-O-Y

- Vacancy fell to 4.0 percent in June as historically low unemployment, paired with high consumer demand, backed retail fundamentals.
- Availability fell 390 basis points to 4.2 percent in South Orange, the largest decline in vacancy registered across submarkets over the past four quarters ending in June.

RENT

8.4% increase in the average asking rent Y-O-Y

- In the largest year-over-year advance since the end of 2019, the average asking rent extended to $21.13 per square foot.
- Nearly half of Orlando's submarkets recorded double-digit asking rent growth in the 12-month interval, with 20 of 26 submarkets' average marketed rates comfortably exceeding their pre-pandemic marks.

Investment Highlights

- The number of retail property transactions grew by over 20 percent during the 12-month period ending in June, led by an increase in multi-tenant deal flow, up nearly 60 percent from the prior yearlong stretch. The Lake County submarket accounted for the largest share of trades in this span, at nearly 20 percent of all ownership changes. Of these Lake County retail properties, over half were single-tenant assets, many of which were restaurants and convenience stores.
- Investment metrics continued their bullish progression, with the average price per square foot reaching $430, an 8 percent increase compared to the previous yearlong period. Heightened pricing and competition for listings reduced the average cap rate 30 basis points to 6.0 percent. This was heavily influenced by the 14 percent rise in multi-tenant pricing, the largest annual gain for the segment since 2006.
- Out-of-state investors accounted for nearly half of all trades during the past year, up from roughly 30 percent during the prior 12-month span. Of these transactions, buyers from California and New York made up over 40 percent of non-local purchasers, with an average cap rate of 6.2 percent on these acquisitions. This is 20 basis points above the marketwide average.