

MARKET REPORT

Retail
Orlando Metro Area

IPA
INSTITUTIONAL
PROPERTY
ADVISORS

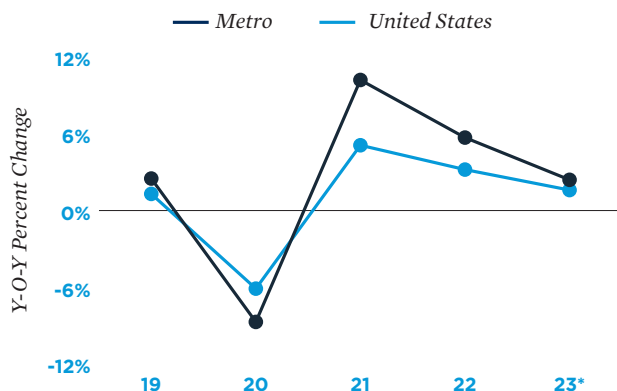
4Q/23

Growing Resident Base Joins Tourism in Pushing Retail Demand Ahead of Long-Term Supply

In-migration warrants necessity retailer leases. By the end of 2023, Orlando will receive the greatest number of residents through in-migration of any major Florida metro, welcoming roughly 49,300 new citizens. The growing local population will support demand for necessity goods provided by retailers, such as grocers and wholesale stores. Some of the largest leases signed in the first nine months of the year featured tenants catering to residents rather than tourists, including Mavis Tire, Crush Yard Pickleball & Restaurant, and High Point Climbing and Fitness. The increasing prevalence of these tenants will supplement existing tourism-driven retail space demand.

New train route and fewer groundbreakings aid fundamentals. While an influx of space coming online in 2023 will cause Orlando's vacancy rate to rise from the record low reached in 2022, several indicators present incoming tailwinds for retail space demand. Earlier this year, the Brightline route connecting Orlando to South Florida was completed, with the potential to increase inter-city commuting, aiding retail fundamentals long-term by enhancing foot traffic. Rising insurance costs, while having the negative effect of increasing operational costs, could also discourage builders with higher risk insurance going forward, directing retailer space demand into existing properties. Metro construction has already slowed to a trickle of this year's pipeline. As of October, less than 300,000 square feet was underway with expected delivery dates past 2023.

Employment Trends



* Forecast

Sources: BLS; CoStar Group, Inc.

Retail 2023 Outlook



**34,000
JOBS**

will be created

EMPLOYMENT:

In the first eight months of 2023, Orlando added roughly 20,000 roles on net, keeping the unemployment rate below 3 percent in August. This gain contributes to total employment expanding by 2.4 percent this year.



**1,800,000
SQ. FT.**

will be completed

CONSTRUCTION:

The completion slate for 2023 will be the greatest since 2017 as total inventory is augmented by a 1.4 percent increase. A 151,000-square-foot Costco slated for Lake County is one of the largest projects in 2023.



**30
BASIS POINT**

increase in vacancy

VACANCY:

New supply will outpace net absorption for the second straight year, pushing vacancy up to 4.5 percent. This mark is, however, 140 basis points below the trailing 16-year average, and occupied stock will hit an all-time high.



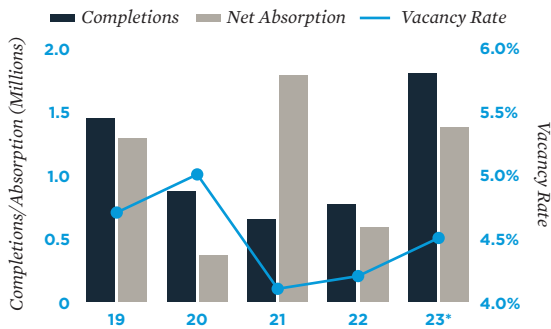
**7.2%
INCREASE**

in asking rent

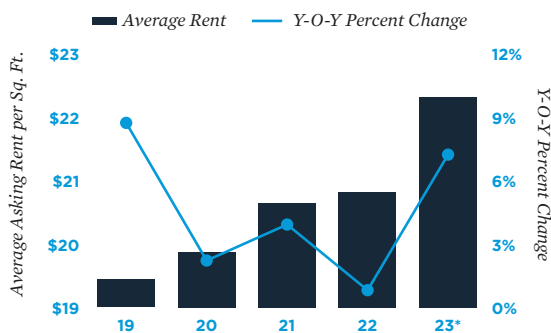
RENT:

The average asking rent will rise to \$22.31 per square foot in 2023, marking the second-greatest annual increase since at least 2007. Orlando also claims the seventh-fastest pace of growth among major U.S. markets.

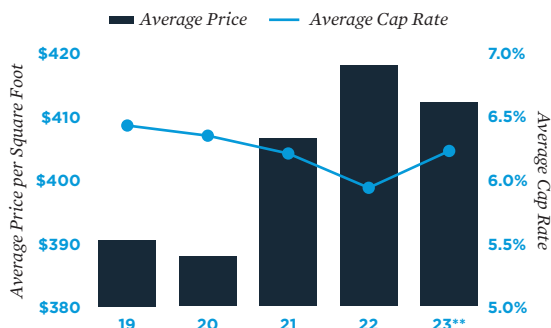
Supply and Demand



Rent Trends



Sales Trends



* Forecast ** Through 2Q

Sources: CoStar Group, Inc.; Real Capital Analytics

IPA Retail

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Price: \$250

2Q 2023 - 12-Month Period



CONSTRUCTION

881,000 sq. ft. completed

- More than 670,000 square feet of single-tenant space came online in the market during the trailing 12 months ended in June. The second quarter had the greatest completion total of any three-month span since 2017.
- Total inventory expanded by 0.7 percent annually, with outlying southern suburbs welcoming the greatest volume of new space.



VACANCY

30 basis point increase in vacancy Y-O-Y

- Net absorption entered the red in the second quarter amid an influx of new supply that is yet to be leased, causing vacancy to tick up to 4.3 percent.
- A large slate of single-tenant completions pushed sector vacancy up 70 basis points annually to 4.1 percent. Meanwhile, less multi-tenant construction allowed the segment's rate to drop 50 basis points to 4.7 percent.



RENT

3.5% increase in the average asking rent Y-O-Y

- The average asking rent reached a new high in Orlando of \$22.16 per square foot entering July. Still, Orlando was home to the smallest year-over-year increase among major Florida markets.
- Of the 22 submarkets with more than 1 million square feet of space, more than half recorded positive annual rent growth.

Investment Highlights

- Transaction velocity in Orlando during the first half of the year slid from the high volumes recorded in 2021 and 2022, but was roughly in line with the trend observed in the decade prior to the pandemic. Preliminary data suggests that deal flow in the single-tenant sector remained consistent going into the latter half of the year, while multi-tenant trades have begun to decline by a more substantial margin.
- Redevelopment and high vacancy sales increased in prevalence during the first eight months of the year. Private, in-state investors sought these value-add deals, entering the market at a discount. Single-tenant assets were, in particular, targeted in Lake County, Orlando Central Park and outlying southern suburbs. Lower-cost transactions contributed to a slight downward adjustment in the metro's average sale price per square foot during the trailing year ended in June, particularly in the single-tenant sector.
- The new Brightline route connecting Orlando to Miami was completed in 2023. It is estimated that 40 million visitors make this trip annually, and the new high-speed train could augment that number, drawing out-of-market buyers to Orlando with the prospect of long-term visitor growth.

The information contained in this report was obtained from sources deemed to be reliable. Every effort was made to obtain accurate and complete information; however, no representation, warranty or guarantee, express or implied, may be made as to the accuracy or reliability of the information contained herein. Metro-level employment growth is calculated based on the last month of the quarter/year. Sales data includes transactions sold for \$1 million or greater unless otherwise noted. This is not intended to be a forecast of future events and this is not a guaranty regarding a future event. This is not intended to provide specific investment advice and should not be considered as investment advice. Sources: Marcus & Millichap Research Services; Bureau of Labor Statistics; CoStar Group, Inc.; Real Capital Analytics

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