MARKET REPORT

Retail

Orlando Metro Area

IPA INSTITUTIONAL PROPERTY ADVISORS

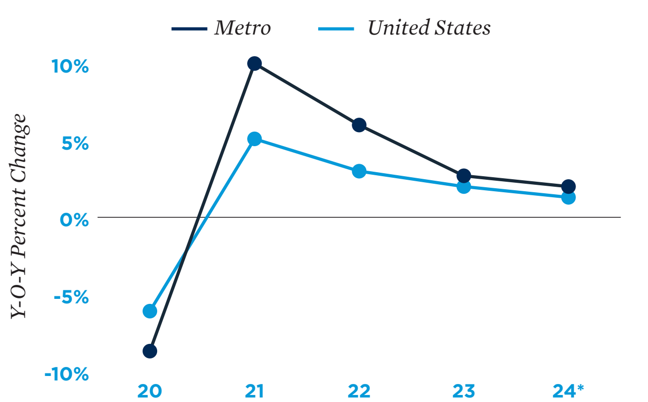
4Q/24

Household Formation Drives Strong Retail Sales, While Tailwinds for Tourism Are in Sight

Favorable demographics draw retailers. Orlando led all major U.S. markets in consumer spending growth over the past year ended in June, fueled by the third-fastest household formation rate and significant growth among the 55-plus age cohort. In-migration to areas near the city's center and rapidly expanding suburbs like Kissimmee and Sanford supported leasing activity in neighborhood and strip centers, particularly those anchored by grocery stores. Discount department stores and fitness centers kept demand elevated for big-box space, pushing metrowide vacancy to a near-record low of 3.8 percent as of June. Tight market conditions sustained rent growth over the past year, which is expected to continue moving forward — although a lack of new premium space may limit future gains.

Tourism industry set for expansion. Rent growth has been slower in submarkets reliant on tourism, particularly near Disney World, as theme park attendance and hotel bookings have struggled to rebound amid household budget constraints. However, new developments are likely to drive higher visitor volumes. Universal's Epic theme park and resort hotels, set to open in early 2025, are expected to be a major draw. Meanwhile, Disney recently received approval to build a new theme park as part of its $17 billion dollar investment plan, supporting long-term growth in the area. On top of that, the Federal Reserve cutting interest rates may weaken the dollar, potentially making U.S. travel more affordable for international travelers.

Employment Trends



** Forecast*

Sources: BLS; CoStar Group, Inc.

Retail 2024 Outlook

30,000 JOBS *will be created*

EMPLOYMENT:

Total payrolls grow by 2.0 percent this year, rising at the 10th-fastest pace among major U.S. markets. The construction industry will lead job creation, while hiring in education and health care services remains stable.

750,000 SQ. FT. *will be completed*

CONSTRUCTION:

Annual inventory growth falls to 0.6 percent this year, with completions totaling just over half of the 2023 figure. New supply is concentrated in outlying suburban areas such as Kissemmee and Clermont.

10 BASIS POINT *increase in vacancy*

VACANCY:

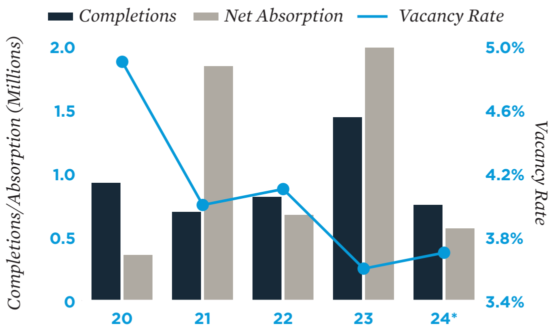
Recent store closures push vacancy up to 3.7 percent by year-end, which is still only 10 basis points off the record low set late last year. Limited space availability steers net absorption to the lowest annual total since 2020.

5.1% INCREASE *in asking rent*

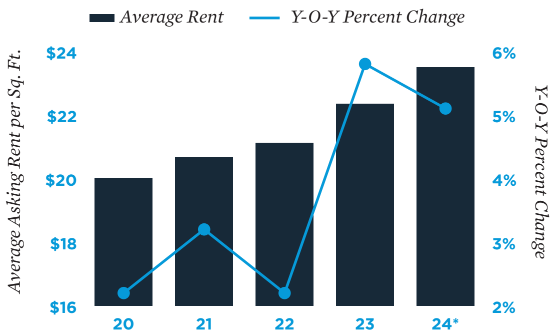
RENT:

Rent growth remains elevated this year, rising at the 10th-fastest pace among major U.S. metros. The average asking rent will reach $23.50 per square foot — more than 20 percent higher than the 2019 level.

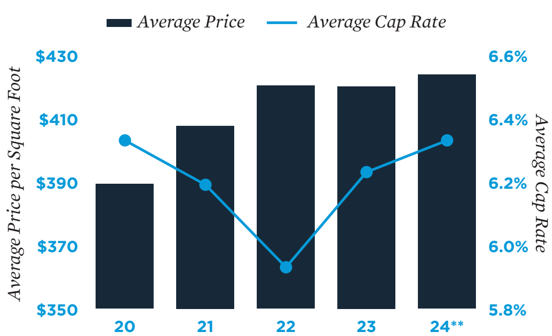
Supply and Demand



Rent Trends



Sales Trends



** Forecast ** Through 2Q*

Sources: CoStar Group, Inc.; Real Capital Analytics

IPA Retail

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Price: $250

2Q 2024 — 12-Month Period

CONSTRUCTION

1,243,000 sq. ft. completed

- Despite a higher total than last year, completions declined in each of the past four quarters, bringing inventory growth to 1.0 percent in June.
- The South Outlier submarket encompassing Windermere and St. Cloud received the most new space over the past year, totaling over 500,000 square feet. Lake County followed, welcoming roughly 270,000 square feet.

VACANCY

20 basis point decrease in vacancy Y-O-Y

- Even with recent store closures, net absorption exceeded new supply over the past year ended in June, reducing metrowide vacancy to 3.8 percent.
- Of the three largest submarkets by stock, South Outlier had the lowest vacancy at 1.4 percent in June. Lake County posted a rate of 3.3 percent, and the Tourist Corridor near Disney World had a rate of 3.0 percent.

RENT

3.6% increase in the average asking rent Y-O-Y

- Orlando's average asking rent grew slightly faster than last year but slower than 2022's record pace, reaching $22.92 per square foot in June.
- Rent growth over the past year was strongest in outlying submarkets like Lake County and South Outlier, while the Tourist Corridor had an annual decline in rents, and closer-in areas experienced weaker growth overall.

Investment Highlights

- Orlando remained an attractive market for many investors due to strong rent growth and outsized retail spending driven by high in-migration and a large tourism industry. This supported a 1 percent increase in the metro's average price per square foot to $424 over the past year ended in June, while the mean cap rate rose by just 20 basis points to 6.3 percent.
- Winter Park attracted heightened investor interest over the past year, fueled by its affluent residents, close proximity to downtown Orlando and one of the highest mean asking rents in the metro. Private buyers frequently targeted restaurants, which traded for around $700 per square foot. Institutions, meanwhile, focused more on acquiring shopping centers usually over 200,000 square feet, trading for roughly $200 per square foot.
- Rapidly expanding suburban cities like Clermont and Lady Lake observed increased deal flow over the past year. In Clermont, buyers targeted net lease assets under $5 million, paying a slight discount to the metro average at $375 per square foot. On the other hand, in Lady Lake, nearby burgeoning retirement communities fueled investor interest in large power centers along U.S. Route 27, which sold for an average of $170 per square foot.