INVESTMENT FORECAST

IPA | INSTITUTIONAL PROPERTY ADVISORS

RETAIL

Fort Lauderdale Metro Area

2019

Broward County Construction Reaches Cyclical High; Investors Find Greater Options

Favorable demographic trends support Broward County retail market. Population growth in Fort Lauderdale, particularly from retirees that have discretionary income, is boosting retail sales. Net migration is forecast at nearly 450 people weekly, and 300 households are expected to form each week. In addition to retirees, the local employment market remains a driving force behind retail sales. The thriving healthcare field supported the creation of nearly 3,000 education and health services jobs last year, performance that should be repeated in 2019. Despite the favorable demand metrics, new supply will put upward pressure on marketwide vacancy. Construction will reach a cyclical high, surpassing last year's pace by nearly 70 percent. Although pre-leasing is higher than the national average at 80 percent, existing properties will have to compete for retailers searching for space. Shopping centers in Coral Springs and Pompano Beach, where vacancy is nearly double the metro average, could see more modest rent gains.

Local investment climate pulls back to historical levels. Retail properties traded at a lower rate last year as the market searched for a cap rate floor. After several quarters of a buyer/seller disconnect, sellers have a better understanding of local pricing dynamics. As a result, properties should trade more quickly this year, particularly those with ideal tenants. Neighborhood centers on high-traffic corners are in demand within the city of Fort Lauderdale. Buyers' preference for strip centers is well balanced across the county, indicative of the importance of tenant rosters. Cap rates for multi-tenant properties are in the low-6 percent range, only a few basis points higher than the single-tenant sector. The tight spread between the two property types shows risk aversion by multi-tenant investors. Buyers willing to chase properties with a more significant vacancy component may find outsized gains due to a dearth of competitive bids.

2019 Market Forecast

Employment up 2.2% — Employers will hasten the pace of job creation this year as 19,000 positions are created, besting last year's 16,500 spots.

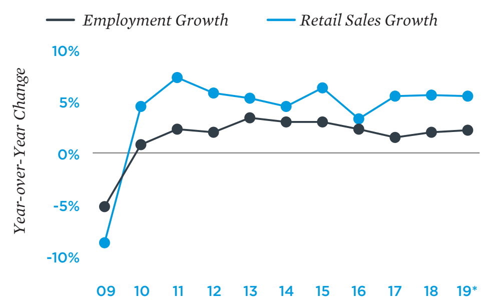
Construction 1.2 million sq. ft. — After 710,000 square feet was delivered in 2018, a handful of large projects will expand inventory 1.3 percent in 2019.

Vacancy up 70 bps — The sharp rise in new stock will put upward pressure on vacancy for the second consecutive year, moving the rate to 4.9 percent. Last year, vacancy jumped 50 basis points.

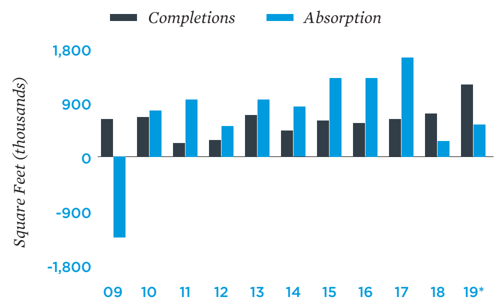
Rent up 3.5% — Following a 3.3 percent advance in 2018, rent gains are poised to outpace inflation as asking rents reach $23.76 per square foot in 2019.

Investment — Average cap rates for single-tenant properties have remained in the low-6 percent range since 2015. Buyers appear to be holding firm at first-year returns close to 6 percent, opting to be more flexible on property type and tenant than price.

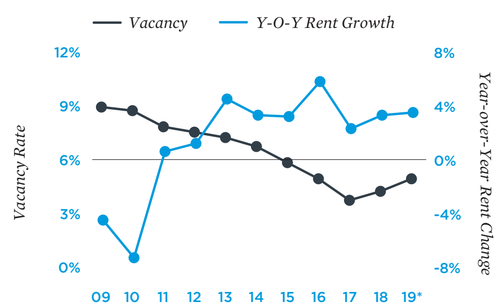
Employment vs. Retail Sales Trends



Retail Completions



Asking Rent and Vacancy Trends



* Forecast

Sources: CoStar Group, Inc.; Real Capital Analytics

Scott M. Holmes
Senior Vice President | National Director
(602) 687-6689
scott.holmes@ipausa.com