# INVESTMENT FORECAST

IPA INSTITUTIONAL PROPERTY ADVISORS

**RETAIL**

*Miami-Dade Metro Area*

**2019**

## Construction Reaches Cyclical Peak; South Florida Buyers Undeterred

**Miami's high-end retail market faces short-term pressure from new supply and global economics.** However, the underlying fundamentals support a healthy long-term outlook. Supply additions reach a cyclical high this year as several large projects are slated for completion. Miami Worldcenter is the most prominent development underway. When completed by midyear, the 450,000-square-foot project will increase inventory in downtown Miami by more than 10 percent. The largest development in the metro is the 630,000-square-foot SoLe Mia center in North Miami Beach. Beyond new supply, the strong U.S. dollar could discourage overseas tourism, which is a significant component of local retail sales. Long term, the local economy is well positioned as employment growth is led by education and health services, construction, and leisure and hospitality. Retail jobs will also be a significant contributor this year as hundreds of workers will be hired at new stores.

**Investor enthusiasm for local retail properties holds relatively strong in the face of rising interest rates.** Single-tenant deals were relatively flat in 2018, and multi-tenant transactions dipped modestly. In the multi-tenant segment, buyers are targeting anchored properties as a sign of risk aversion. The strip centers that trade tend to be in more densely populated areas of the county, a further indication that buyers are retrenching in the retail sector. The trend could prevail during the first few months of the year as more clarity on the direction of interest rates and the economy emerges. Average cap rates for multi-tenant assets are in the high-5 percent range and holding steady. Core single-tenant properties should attract capital regardless of headwinds, including storefronts. Other stalwarts of the sector, including fast food and drugstores, will draw the most competitive bidding. First-year returns have ticked higher in recent months as elevated rates are impacting the most expensive properties in the sector.

## 2019 Market Forecast

**Employment** up 2.0% — Employers will add 24,000 jobs in Miami this year, fairly aligned with the gain in 2018.

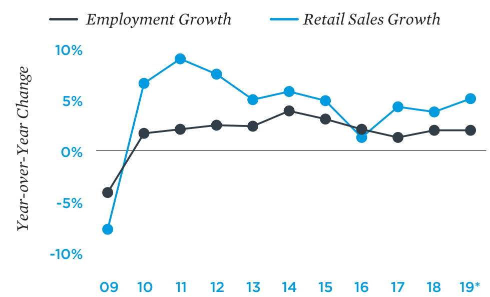
**Construction** 2.9 million sq. ft. — After 1.1 million square feet of space was completed last year, builders will ramp up development to 2.9 million square feet this year.

**Vacancy** up 100 bps — Despite an increase in space demand, the 2.5 percent jump in new supply will result in an increase in vacancy to 5.1 percent. In 2018, vacancy inched up 40 basis points.

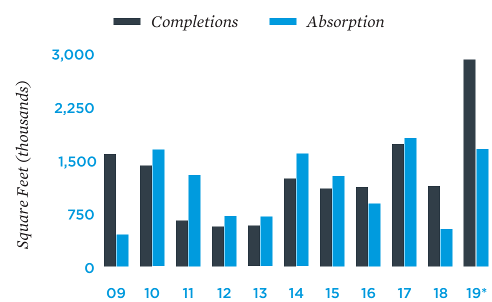
**Rent** up 3.1% — By year-end, asking rents are expected to reach $34.58 per square foot.

**Investment** — Unfavorable exchange rates could limit the desire of foreign capital to target local retail properties. Other investors, however, could see Miami as a safe haven from weakness overseas.

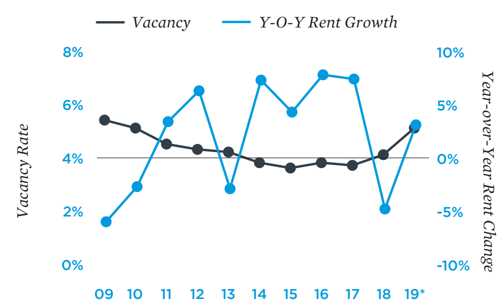
### Employment vs. Retail Sales Trends




### Retail Completions




### Asking Rent and Vacancy Trends




* Forecast

Sources: CoStar Group, Inc.; Real Capital Analytics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