MARKET REPORT

RETAIL

Orlando Metro Area

IPA INSTITUTIONAL PROPERTY ADVISORS

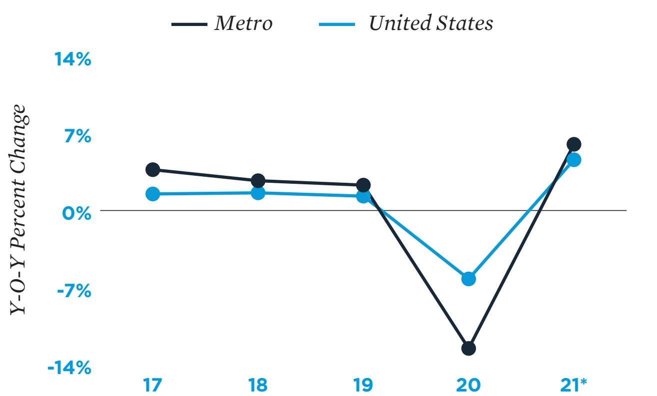
3Q/21

Investors Take Notice as Increased Tourism and Job Gains Fuel Retail Demand

Retail fundamentals held steady during health crisis. Orlando benefited from job growth that doubled the U.S. average prior to the pandemic, which translated to a level of resiliency during the health crisis. Despite unemployment rising to as high as 22.5 percent in 2020, retail vacancy in the market never exceeded the national level in any quarter during the past year. Widespread vaccinations allowed for tourism to return in the first half of 2021, which complimented job growth and demand for retail space in the metro. Over the past four quarters, net absorption has nearly doubled the previous year's recording as the unemployment rate has dropped below 5 percent. Retail fundamentals should continue to improve going forward as population growth and household formation in Orlando are expected to be three times as fast as the U.S. average.

Reduced pipeline to benefit metro vacancy. Uncertainty from the pandemic and material shortages prompted developers to reduce construction activity in the metro, which aided the metro's vacancy rate during the health crisis. Only 654,000 square feet delivered in Orlando over the past year, one of the lowest totals over the past decade. The metro's development pace will remain sluggish, as deliveries this year will hit a 10-year low and construction starts have declined in each of the past three quarters. The inventory that is incoming should be well received. Osceola and the southern part of Orange county will welcome the largest portion of new supply and vacancy in this area sat well below the metro average at 2.2 percent in June.

Employment Trends



** Forecast*

Sources: BLS; CoStar Group, Inc.

Retail 2021 Outlook

70,000 JOBS
will be created

EMPLOYMENT:

Following a 12.5 percent decline last year, total employment in Orlando will increase by 6.0 percent this year. As of July, the metro's unemployment rate was 4.9 percent, 50 basis points below the national average.

610,000 SQ. FT.
will be completed

CONSTRUCTION:

Total deliveries will fall considerably from last year's 900,000-square-foot addition and notch a 10-year low, expanding inventory by just 0.5 percent in 2021. Over the last five years, the metro averaged 1.3 million square feet of new supply.

30 BASIS POINT
decrease in vacancy

VACANCY:

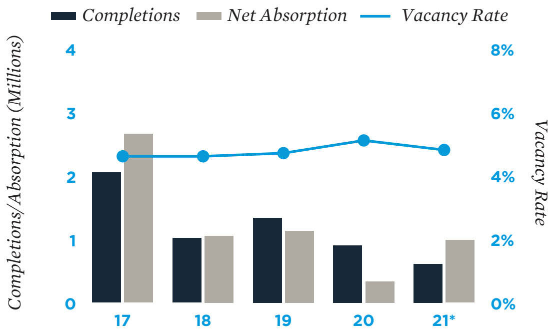
Rising levels of tourism and job growth will contribute to an increase in demand for retail space in the metro, nearly tripling absorption from the previous year. As a result, vacancy will decline to 4.8 percent, only 30 basis points above the metro's 15-year low.

0.5% INCREASE
in asking rent

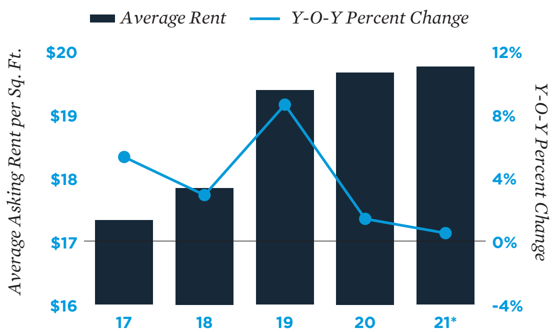
RENT:

The average asking rent will remain on an upward trajectory for the seventh straight year, reaching $19.75 per square foot. Rent gains this year will fall well behind the five-year trailing average of 4.6 percent.

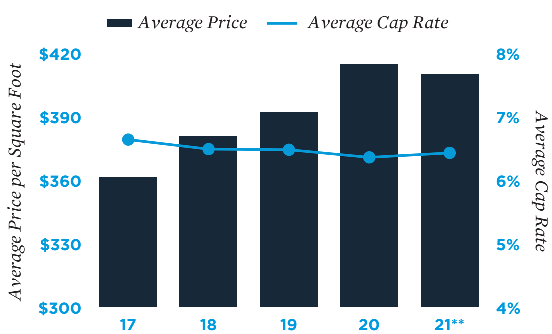
Supply and Demand



Rent Trends



Sales Trends



** Forecast; ** Through 2Q*

Sources: CoStar Group, Inc.; Real Capital Analytics

2Q21 — 12-Month Period

CONSTRUCTION

654,000 square feet completed

- Developers expanded Orlando's retail inventory by just 0.5 percent during the 12-month span ending in June, well below the market's five-year trailing average of 1.1 percent.
- Single-tenant properties accounted for nearly 80 percent of all new supply delivered in the past year.

VACANCY

0 basis point change in vacancy Y-O-Y

- Orlando's vacancy rate has remained unchanged relative to midyear 2020 at 5.0 percent, aided by limited supply additions.
- The transition to remote instruction affected the University submarket unlike any other in the region; vacancy soared to the highest rate in the metro over the past four quarters.

RENT

3.1% decrease in the average asking rent Y-O-Y

- The average asking rent fell over the past four quarters to $19.27 per square foot, the metro's largest year-over-year decline since 2013.
- The reduction in foot traffic due to the health crisis caused rent declines of over 15 percent in the 436 Corridor, Kissimmee, and Lake County submarkets.

Investment Highlights

- Retail investors returned in force to Orlando in the second half of 2020, with transaction velocity reaching a two-decade high over the past 12 months. Total sales rose nearly 50 percent year over year, with single-tenant and multi-tenant transactions increasing by similar margins.
- Private investors were more active in the market, acquiring older properties as many institutions were on the sidelines. The average sale price of single-tenant assets declined 2 percent to $486 per square foot over the last 12 months. The average sale price of multi-tenant properties fared similarly, falling 2 percent to $239 per square foot. Cap rates in both asset classes rose 10 basis points to 6.0 and 7.3 percent, respectively.
- Private investors were particularly active in the Lake County Submarket, targeting single-tenant net leased assets with yields in the 6 percent band. Entry costs were well above the metro average.
- Nearly half of all transactions in the metro over the last four quarters involved out-of-state buyers. California, New York and Texas were the most active, targeting both single and multi-tenant assets in the Orlando Central Park submarket.

IPA Retail

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Price: $250