

CENTRAL FLORIDA | RETAIL

Fourth Quarter 2018

Accelerating success.



Landlords Choosing to Keep Units Vacant in Search of Credit Tenants

Executive Summary

Central Florida continued to receive steady demand through the fourth quarter of 2018. The market continues to climb away from its 2008 recession lows, reaching an all-time high average asking rate of \$17.50 PSF (NNN) for the region. Select micromarkets throughout Orlando have seen rates break past \$40 PSF (NNN) with an overall regional occupancy rate of 94.6%.

Orlando continues to frequent Top 10 lists from publications nationwide. In December 2018, Inc. Magazine ranked Orlando the #9 best city to start a business. More recently, CareerSource Central Florida ranked Orlando #1 in job growth with 60,800 jobs created year-over-year from November 2018, ahead of both Miami and Tampa. Zillow ranked Orlando #2 as 2019's hottest housing markets, where home values and rents are expected to outpace the nation alongside strong income growth, robust job opportunities, low unemployment rates and a rapidly-growing residential population.

Investor appetite for Central Florida investment product remains high for Class A product in top submarkets. Unanchored strip centers and grocery-anchored shopping centers continued to receive the greatest amount of investor interest. Sales velocity slowed slightly compared to 2017, likely due to 2018's four interest rate hikes and the slow realigning of pricing expectations between buyers and sellers.

Market Highlights

- Retail and restaurant footprints are shrinking as a natural progression toward greater operational efficiencies.
- Many tenants, especially restaurants, are content with waiting for second generation space. The cost to build out entirely new space has become too great for many.
- There is a noticeable push back from tenants against today's all-time-high rental rates, especially in Class B markets or other tertiary areas.
- Medical marijuana tenants remained active through the fourth quarter and, in many cases, are paying significantly above the market's rental rate. Some owners have accepted these tenants, even though it may affect their exit strategy. Lenders will not provide debt on assets with medical marijuana tenants.

Summary Statistics

Q4 2018 Retail Market	Central FL
Vacancy Rate	5.4%
Change from Q4 2017 (Percent)	0.3%
Absorption (Square Feet)	(9,831)
New Completions (Square Feet)	176,648
Under Construction (Square Feet)	724,967

Asking Rents (NNN)

Per Square Foot Per Year

Current Quarter	\$17.50
One Year Ago	\$16.03
Two Years Ago	\$15.11

Market Indicators

Relative to Prior Year	Q4 2018	Q1 2019*
VACANCY	↑	↓
NET ABSORPTION	—	+
CONSTRUCTION	↓	↓
RENTAL RATE	↑	↑

Note: Construction is the change in Under Construction.
*Projected.

Vacancy and Absorption

Despite steady leasing activity, vacancy rose slightly in the fourth quarter to 5.4%, remaining flat compared to one year ago. Clermont/Lake County boasted the lowest vacancy rate at 2.7%, followed by the Sand Lake/Tourist submarket at 3.1% and West Orange at 3.4%. Overall, downtown Orlando demanded the greatest average asking price at \$27.58 PSF (NNN).

Tenants that were most active in the fourth quarter of 2018 included dental, alternative health care, insurance firms, plasma labs, chiropractors, I.V. and oxygen bars, and fitness concepts. The region's big box spaces have been largely filled by tenants such as At Home, Ashley Furniture, emergency and medical users and trampoline concepts.

Leasing Activity

A landlord's market persists throughout much of the Central Florida area. With overall occupancy nearing 95%, there is a noticeable lack of quality space for tenants to move into. Overall leasing velocity remains steady with landlords holding firm on rates— even if that means leaving the space vacant a few months longer.

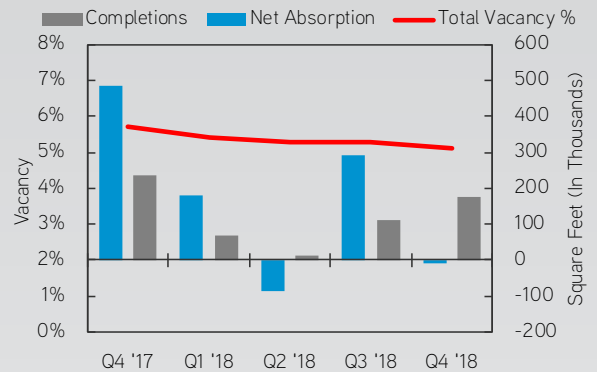
Landlords have become increasingly selective in choosing the ideal tenant for their spaces. There is a clear focus to fill any vacancies with the best credit tenants and favorable rental rates.

Free rent is no longer offered as an incentive for tenants. Instead, free rent is positioned alongside higher face rental rates or as leverage to push other deal terms forward. Tenant improvement costs remain selectively available based on a tenant's creditworthiness.

A number of retailers announced openings in the fourth quarter, including:

- › Earth Fare opened in Lake Nona at 13024 Narcoossee Road in the Shoppes at Nona Place.
- › Sprouts Farmers Market opened its first Central Florida location in Winter Park with plans to hire up to 150 employees.
- › Lucky's Market opened a location in Winter Park at 7580 University Boulevard.
- › Chick-Fil-A opened a new location in Altamonte Springs off State Road 436.
- › LongHorn Steakhouse opened a new location at Fashion Square Mall.
- › MOOYAH Burgers, Fries & Shakes announced they will open along International Drive.
- › Publix at Lake Nona Landing off Boggy Creek Road opened.
- › City Furniture opened a 85,000-square-foot showroom near State Road 429 in Ocoee and plans to open two more locations in 2019.

Completions, Absorption and Vacancy Rates

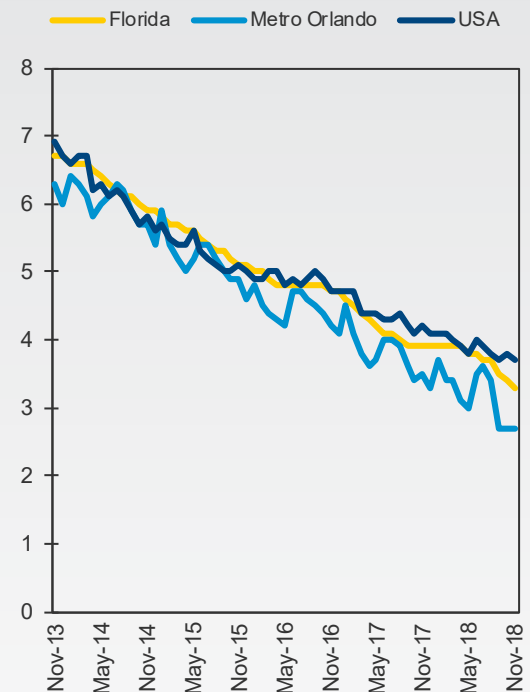


Vacancy Drops Low

The vacancy rate increased slightly in the fourth quarter of 2018 with total vacancy at 5.4%.

Source: Colliers International, CoStar

Unemployment Trends



The Orlando MSA unemployment rate posted 2.7% in November 2018. The State of Florida posted 3.3% ahead of the national US average of 3.7%.

Source: US Bureau of Labor Statistics

SUBMARKET BREAKDOWN

Submarket	Bldgs.	Total Inventory SF	Direct Vac. %	Total Vac. %	Net Absorp. Current Qtr. SF	Net Absorp. YTD SF	New Completions SF	Under Construc. SF	Avg. Direct Asking Rate NNN
Downtown									
Q4 '18	65	4,034,578	5.6%	5.6%	39,147	59,209	0	0	\$27.58
Kissimmee/St. Cloud									
Q4 '18	176	8,991,913	4.8%	4.8%	-57,348	-13,228	0	26,250	\$15.27
Altamonte/Longwood									
Q4 '18	88	5,448,818	5.2%	5.3%	-18,921	24,042	0	0	\$17.67
Lake Nona/Southeast Orange									
Q4 '18	102	5,462,631	4.2%	4.6%	52,568	111,809	60,000	62,386	\$17.90
East Orange									
Q4 '18	134	6,794,532	5.1%	5.1%	45,090	-1,483	0	0	\$18.56
Northwest Orange									
Q4 '18	131	8,230,226	9.4%	9.4%	-87,216	-54,600	0	500,000	\$11.59
Sanford/Lake Mary									
Q4 '18	89	5,629,938	7.0%	7.1%	5,522	10,853	0	95,810	\$14.94
Oviedo/Winter Springs									
Q4 '18	123	6,690,001	6.6%	6.6%	-5,907	3,973	0	0	\$16.89
Sand Lake/Tourist									
Q4 '18	222	14,661,902	2.8%	3.1%	66,251	130,714	116,648	40,521	\$24.12
West Orange									
Q4 '18	52	2,690,032	3.4%	3.4%	-7,753	9,429	0	0	\$19.21
Clermont/Lake County									
Q4 '18	45	2,228,200	2.5%	2.7%	2,507	82,782	0	0	\$18.79
Winter Park/Maitland									
Q4 '18	35	1,618,822	6.9%	6.9%	-43,379	5,750	0	0	\$20.03

CENTRAL FLORIDA OVERALL MARKET

Qtr. & Year	Bldgs.	Total Inventory SF	Direct Vac. %	Total Vac. %	Net Absorp. Current Qtr. SF	Net Absorp. YTD SF	New Completions SF	Under Construc. SF	Avg. Direct Asking Rate NNN
2018 Q4	1,279	73,678,887	5.3%	5.4%	-9,831	376,787	176,648	724,967	\$17.50
2018 Q3	1,273	73,502,239	5.1%	5.1%	292,446	386,618	111,232	779,555	\$16.81
2018 Q2	1,271	73,391,007	5.3%	5.4%	-87,006	94,172	12,950	890,787	\$17.02
2018 Q1	1,270	73,378,057	5.2%	5.2%	181,178	181,178	70,802	843,737	\$16.67
2017 Q4	1,269	73,307,255	5.3%	5.4%	485,227	1,517,413	236,684	852,153	\$16.03
2017 Q3	1,266	73,070,571	5.7%	5.8%	518,736	1,032,186	281,461	464,655	\$15.39

SALES ACTIVITY

PROPERTY ADDRESS	PROPERTY TYPE	BUYER NAME	SIZE (SF)	SALES PRICE	SUBMARKET
International Drive Value Center	Power Center	Collett & Associates	185,704±	\$26,156,000 (\$141/SF)	Tourist Corridor
Goldenrod Marketplace 5833-5835 S. Goldenrod Rd.	Outlet Center	Saglo Development Corp.	124,634±	\$23,600,000 (\$189/SF)	Orlando Airport
The Fountains at Bay Hill 7501 W. Sand Lake Rd.	Community Center	CORE Investment Prop.	103,961±	\$22,750,000 (\$219/SF)	Tourist Corridor

LEASING ACTIVITY

PROPERTY ADDRESS	SPACE TYPE	TENANT NAME	SIZE (SF)	LEASE TYPE	SUBMARKET
3373-3385 Daniels Road	Big Box	Burlington Coat Factory	42,000±	New/Direct	SW Orange Outlying
9401 W. Colonial Drive	Super Regional Mall	Orange County Tax Cllctr.	40,000±	New/Direct	West Colonial
3750 W. Colonial Drive	Freestanding Retail	Power Mag Therapy	24,000±	New/Direct	West Colonial

Investment Sales

Overall, investor appetite remains high for Central Florida retail investment properties. The fourth quarter of 2018 saw a slight decrease in the total number of transactions that occurred compared to the prior quarter, typical with the industry's end-of-the-year slowdown.

Central Florida properties that are well priced and in superior locations continued to receive an extremely high level of investor activity. In some situations, properties will go under contract within a few days of being brought for sale. Capitalization rates on retail assets saw a slight uptick, likely due to the rate change in federal funds.

Unanchored strip centers and grocery-anchored shopping centers were the two asset types in most demand by retail investors. Even so, there were no grocery-anchored shopping centers that traded in the fourth quarter. Big Box centers for sale continued to draw less investor interest.

Financing remains readily available. Preferential terms are given to investment opportunities that are either quality, unanchored strip centers or grocery-anchored shopping centers. Big box centers are financeable; however, lender options are more limited and may include recourse options. New construction financing is also available, but typically requires 50-60% preleasing.

New Development

Approximately 724,967 square feet of new product is underway in Central Florida. Permitting remains an issue for some developers with the process taking up to six months to complete. Rising material and skilled labor costs have helped keep new construction in check. Construction costs continue to escalate to all-time highs quarter over quarter. The price of Chinese steel is up due to import tariffs, while domestic steel is up from increased demand.

Florida's construction industry is doing the same amount of work today as they did in 2006, but with a 25% reduction in available workforce. Florida's construction employment in 2006 was 687,000 workers. In 2018, that number decreased to 540,000 workers. Yet, during that same time frame, Florida's population grew by approximately 20% from 18M to 21.3M. Increased costs continue to make it difficult for developers to make financial sense of some developments and have stalled many from occurring.

New developments that were announced in the fourth quarter include:

- > **Phase II of Unicorp's Griffin Farm at Midtown Town Center** — The project will include five retail shell buildings totaling 35,864 square feet. The development sits adjacent to Unicorp's recently completed Drake Midtown Apartments.
- > **UnionWest at Creative Village** — UnionWest at Creative Village will be a 15-story, mixed-use building comprising approximately 600 student housing beds; 105,000 square feet of academic and education support leased to UCF and Valencia; ground floor restaurant/commercial space; and an integrated parking garage. The project is under construction and will be completed in August 2019 concurrent with the opening of UCF/Valencia Downtown Campus at Creative Village.
- > **Lee Vista West** — A 10,000-square-foot strip center is underway with an estimated opening for the fourth quarter of 2019.

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