

Retail Research Market Report

Miami-Dade County

Miami-Dade Flood of Spending and Retail Construction Absorbed by Retail Demand

Strong retail demand being met with an unprecedented building expansion.

National and local retailers have been intensely searching for new space in one of the nation's high-profile shopping destinations, pushing builders to create upper-end shopping centers in the heart of Miami. Robust local demographics and a flow of tourist dollars are supporting the current influx of development across Miami-Dade. New space has been steadily absorbed, minimizing the impact on the marketwide vacancy rate. In addition to the building underway in Miami, developers are focusing on Doral, where businesses and residences will support the numerous offerings added to the market. As the dollar remains strong, Miami has not yet observed a slowdown in foreign tourism, which, coupled with domestic trav-

el and steady employment growth, will drive gains in retail spending this year. Another year of positive net absorption and continued demand for retail space will bolster rent increases this year.

Favorable fundamentals leading owners to hold on to assets.

The present trend of retaining ownership has resulted in a shortage of listings, fueling a rise in valuations. As a result of the intensified conditions, some investors are looking to secondary or tertiary submarkets for greater yields. With such a large degree of expansion underway over the next few years, Miami-Dade County retail real estate will continue to outperform with the support of domestic and foreign tourism and improving local demographics. The market is flush with capital as inves-

tor demand remains strong. Soft foreign economies continue to draw capital into Miami-Dade real estate. South American buyers in particular continue to seek the safe haven of dollar-denominated assets. Growing interest in urban retail and multi-level storefronts has driven down cap rates in the multi-tenant segment to low-5 to low-6 percent territory, while unanchored shopping strips farther from the city center will trade with first-year yields in the mid-6 to high-6 percent range. First-year returns in the more affluent and densely populated sections of the county can dip lower. Interest in single-tenant assets also remains elevated. Single-tenant properties net leased for extended tenures to highly rated tenants will sell at cap rates in the high-4 percent range.

2016 Retail Forecast

2.1% increase
in total employment



Employment:

Employers will bring on 23,700 workers this year, a 2.1 percent expansion and a moderate increase from 2015, when 22,600 positions were created.

1.5 million sq. ft.
will be completed



Construction:

Developers will complete more retail space in 2016 than any other year since the recession, adding nearly 1.5 million square feet across the county. Last year, just under 1.0 million square feet was delivered.

20 basis point
decrease in vacancy



Vacancy:

The vacancy rate will decline 20 basis points to 3.4 percent, duplicating the 20-basis-point drop recorded in 2015. A substantial amount of pre-leased properties slated for completion this year will contribute to net absorption greater than 1.6 million.

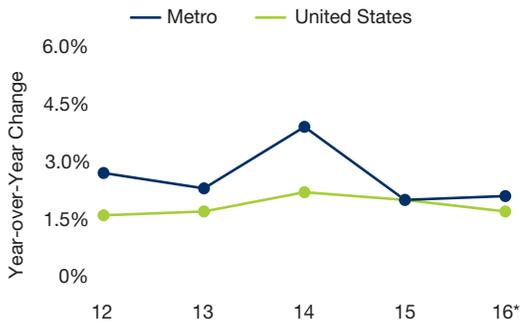
4.4% increase
in asking rents



Rents:

Strong fundamentals will allow for a 4.4 percent increase in average asking rent to \$32.34 per square foot, a slower pace of growth than the 5.5 percent expansion that occurred in 2014.

Employment Trends



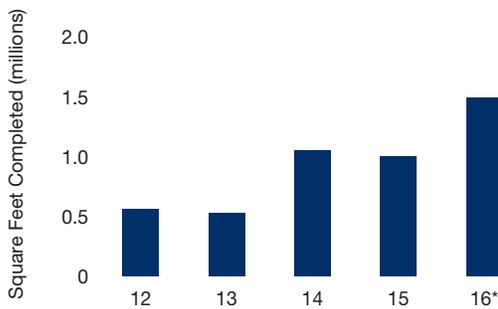
- In the first quarter, Miami-Dade County employers added 4,000 positions. Over the past 12 months more than 20,000 jobs were created as the regional economy continues to grow at a subdued pace, expanding only 1.8 percent.

- Over the last 12 months, construction positions increased most rapidly as employers brought on 6,900 new workers, a 17.6 percent expansion. Massive expansion in residential real estate along with commercial properties are fueling the need for these workers.

- Despite concerns over soft foreign economies having an effect on tourism in South Florida, leisure and hospitality employers in Miami-Dade added 800 workers over the past year as new hotels were completed. Visitor volume in Miami-Dade grew 3 percent over the past year, with Brazil setting the pace among foreign countries.

Outlook: After increasing the local workforce by 22,600 positions in 2015, the pace of growth will edge up slightly as employers create nearly 24,000 jobs this year, a 2.1 percent gain year over year.

Retail Completions



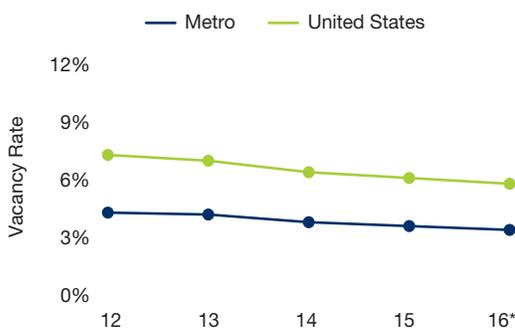
- Developers brought 457,000 square feet of retail space to Miami-Dade County over the last 12 months, a sharp decline from the nearly 1.6 million square feet that was delivered in the preceding period. Completions expanded retail inventory by 0.4 percent.

- Builders completed only 86,000 square feet in the first quarter this year. Finished stock brought to service during this time was led by a Hobby Lobby in the Medley/Hialeah submarket.

- One of the largest developments currently under construction is City Place Doral, a 300,000-square-foot mixed-use property that will be anchored by grocery store Fresh Market.

Outlook: With more than 10 million square feet in the planning pipeline, construction will intensify this year as builders work to complete almost 1.5 million square feet of space. A large portion will come in the form of regional shopping centers that have already pre-leased a substantial amount of space.

Vacancy Rate Trends



Vacancy

- In the first quarter, vacancy dropped 40 basis points to 3.5 percent from the same time last year. Absorption during this one-year period of 771,000 square feet was far above the level of new space brought to market in the same period.

- West Miami and Miami had the most drastic drops in vacancy, plummeting 120 basis points to 2.6 percent and 110 basis points to 5.8 percent, respectively, year over year in the first quarter. Downtown Miami ended the first quarter with the greatest vacancy, 6.8 percent, as more than 170,000 square feet of retail space sits dark in the submarket.

- In the past 12 months, more than 770,000 square feet of retail space was absorbed, down from the more than 1.8 million square feet absorbed in the prior 12 months. Nearly a half of total absorption was in Medley/Hialeah and Miami.

Outlook: Vacancy compression of 20 basis points will shrink the amount of available space in Miami to 3.4 percent, the lowest rate recorded in the last nine years. Even as the county is set to bring on a sizable supply of retail space, strong pre-leasing activity will aid in this contraction.

* Forecast

Rents

- Asking rents have steadily risen over the past year, increasing 5.6 percent from the first quarter of 2015 to \$31.14 per square foot behind robust demand for retail space. In the preceding 12-month period, the average advertised rent advanced 7.4 percent.
- In the first quarter, average asking rent climbed to \$82.45 per square foot in the highly prized Brickell submarket, where vacancy was a tight 1.0 percent. The Miami Beach Submarket recorded a fall in the first three months of the year, ending March at \$59.76 as vacancy rose 40 basis points during the same time period to 5.5 percent.
- Medley/Hialeah, where net absorption was second to the city of Miami, observed an average asking rent below the countywide average, easing modestly in the first quarter to \$25.52 per square foot.

Outlook: Asking rents in Miami-Dade County will continue to grow at a healthy clip this year on rising space demand. In 2016, the average rent will increase 4.4 percent to \$32.34 per square foot.

Single-Tenant Sales Trends**

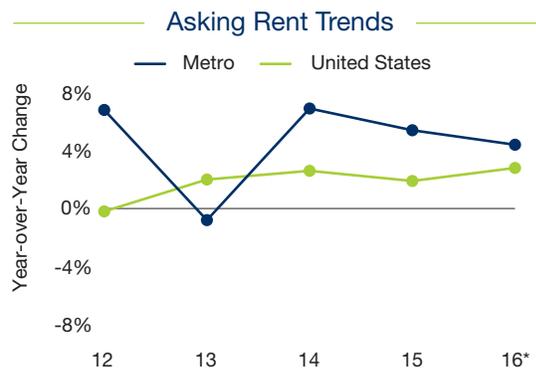
- Over the last 12 months, sales of single-tenant assets decreased 20 percent following the best four-quarter period since the recession. Deal flow was most robust during the second quarter of 2015.
- Despite the reduction in sales, the average price per square foot climbed 2 percent to \$454 as investors concentrated on high-quality listings tenanted by nationally recognized restaurant, pharmacy and grocery brands. Well-located Red Lobster and Olive Garden locations traded on average at \$735 per square foot. Walgreens and CVS assets averaged a \$60 premium.
- The average cap rate held stable over the last year, ending March at 5.3 percent. Highly regarded Miami Beach properties traded in the mid-2 to low-4 percent range while newer construction in Miami averaged a 5.5 percent first-year yield.

Outlook: A large influx of new properties will keep buyers active in the county as strong economic and demographic trends encourage investors. Trophy assets that trade at more than \$15 million will continually be sought after in the prized Miami real estate market.

Multi-Tenant Sales Trends**

- The sale of multi-tenant properties also slowed over the past 12 months as transaction volume decreased 16 percent. Several assets in Miami changed hands and velocity accelerated in Homestead.
- Investor concentration in the higher-priced city of Miami backed a 12 percent rise in the average price of multi-tenant assets, ending the first quarter at \$378 per square foot.
- The average cap rate of multi-tenant assets compressed 30 basis points to end the first quarter at 5.6 percent. Well-positioned properties are trading even lower, with grocery-anchored shopping centers changing hands with an average first-year yield in the low-5 percent range.

Outlook: Improving investor sentiment and a region that is flush with foreign capital bode well for the sale of retail assets this year, holding sales volume near the level reached last year. Much of the focus will again be on downtown Miami and the improving areas to the south of the CBD. Asset inflation will push more buyers toward properties that have value-add potential.



* Forecast
 ** Trailing 12-month period through 1Q
 Sources: CoStar Group, Inc.; Real Capital Analytics

Capital Markets

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- The U.S. economy grew nominally in the first quarter as respectable consumer trends were partly offset by softness in manufacturing, exports and business investment. The lull in economic activity in the first three months of 2016, and volatility in the stock and debt markets, will likely delay any action on monetary policy by the Federal Reserve until midyear at the earliest. Against this broader economic backdrop, retail properties continued to gain traction behind growing space demand and limited construction. This year, retailers will absorb an additional 61 million square feet of space to cut the U.S. vacancy rate 30 basis points to 5.9 percent.
- CMBS issuance declined in the first quarter from the corresponding period one year ago, offering the latest evidence of disruption in the securitized market. Although spreads on the highest-rated bonds in a securitized pool compressed slightly during this year's opening quarter, they remain wider than one year ago, meaning borrowers face slightly higher costs. Bond investors also require higher returns on loans perceived as being aggressively underwritten with higher LTVs and on loans issued to lower-rated borrowers, putting a squeeze on securitized lenders that could potentially limit lending capacity.
- Bank lenders remain positioned and capitalized to compete for market share, perhaps gaining business that CMBS cannot fill. The Federal Reserve's accommodative monetary stance continues to support a low cost of capital to these lenders. National, regional and local banks offer leverage on retail property loans that averages in the 65 percent range and loan terms vary from five, seven and 10 years. Spreads vary depending on asset location and quality but generally start in the low- to mid-200-basis-point range above corresponding swap rates. Bridge financing spread over short-term benchmarks is also available for properties in transition.

Local Highlights

- Construction of one of the largest projects in the nation recently began on the north end of downtown Miami. The 27-acre Miami Worldcenter will include restaurants, retail, hotels, a convention center and rail. Retail space will total 450,000 square feet with a collection of upscale shops and restaurants. The project will also add a 600,000-square-foot convention center to Miami.
- Occupying 9 acres along South Miami Avenue, Brickell City Centre will open all five towers this year, including 500,000 square feet of open-air shopping. The mixed-use development has already signed many retailers and eateries. Noteworthy tenants include Italian designer Armani Collezioni, women's accessories chain Kendra Scott and Intermix, an upscale women's clothing store. Along with a premium shopping center, the development consists of two residential towers, two mid-rise office towers and a hotel.
- Two major rail lines are currently under construction in South Florida. Brightline, an express train service, will connect Miami, Fort Lauderdale and West Palm Beach in 2017 with continued service to Orlando coming later. The other major project is Tri-Rail Coastal Link, which comprises three rail lines with many stops in South Florida from Miami north to Jupiter.

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