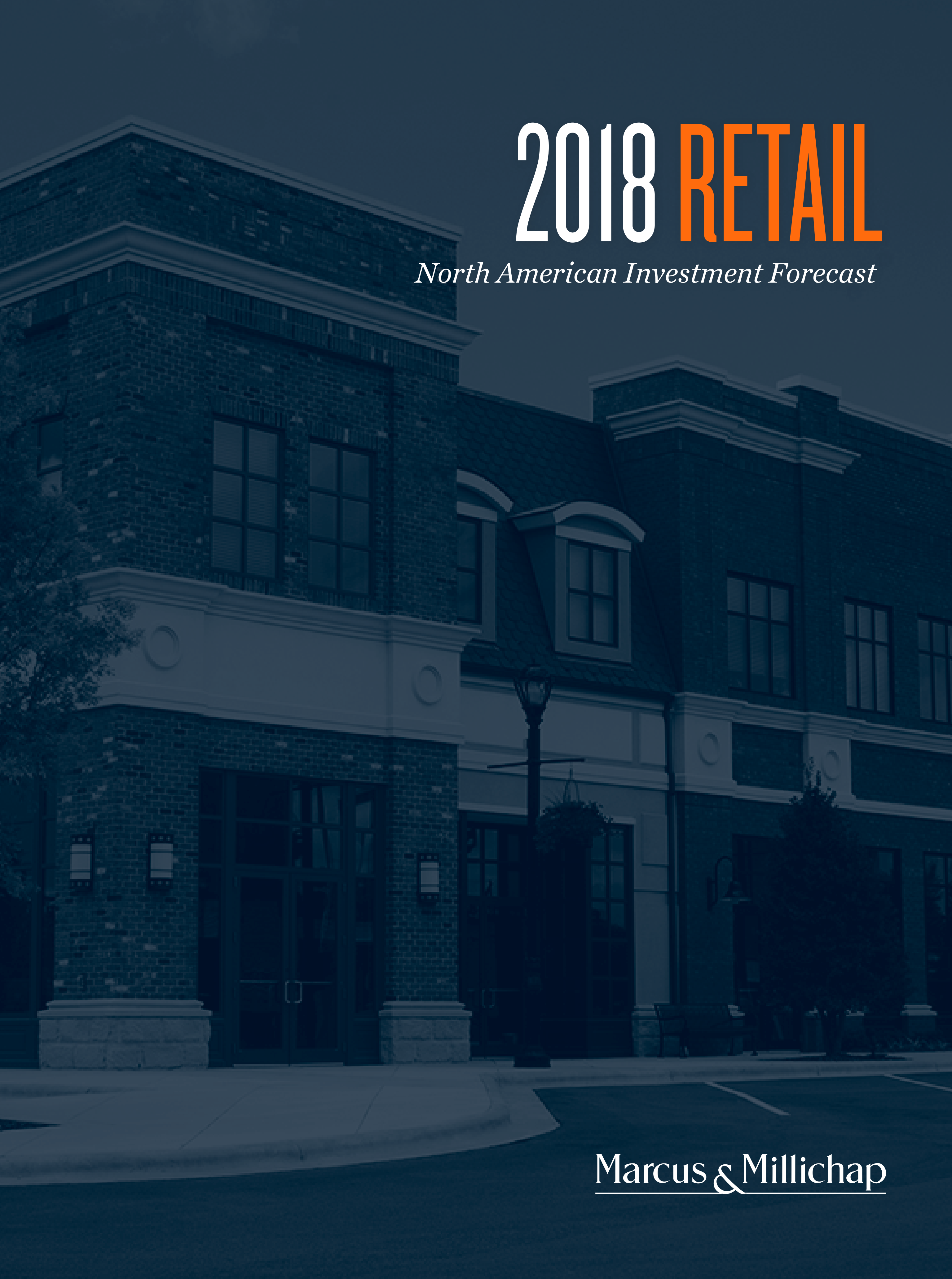

# 2018 RETAIL

*North American Investment Forecast*

Marcus & Millichap

## To Our Valued Clients:

Retail investments continue to outperform, with a positive outlook that blends limited construction with an accelerating economy, rising wage growth and increased consumption. Though the news media focused heavily on the demise of well-known retailer brands, implying that the sector was poised for extinction, store openings dramatically outpaced closings and corporate profits in the retail sector eclipsed past records.

The coming year holds the prospect of exceptional dynamics for retail investors. The economic boost offered by the new tax law together with particularly low unemployment levels suggest that discretionary income could increase substantively, driving retail sales well ahead of their already elevated levels. This will reinforce retailer expansion, though available space could restrain absorption. The national average vacancy rate now stands at its lowest level since the 1990s, and all indicators point to further tightening in the year ahead. Within this context, rent growth is expected to maintain momentum, pushing the average national rent to a record high.

Single-tenant retail investments have been particularly favored throughout this cycle, with demand for these low-management assets often outpacing availability. The new tax law, featuring a deduction for pass-through entities, could invigorate demand as additional passive investors consider real estate investment options. This increased capital flow to real estate assets, however, could be at least partially countered by rising interest rates.

Undoubtedly, new challenges will emerge in 2018, but a broad range of forward-looking metrics point to continued strength for retail investments. As you define your plans in this dynamic climate, our investment professionals stand ready to help you evaluate your options and implement your strategies.

Sincerely,

Scott M. Holmes
Senior Vice President, National Director
National Retail Group

John Chang
First Vice President, National Director
Research Services

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## National Perspective



## Market Overviews



## Canada



## Client Services



Developed by Marcus & Millichap Research Services. The Capital Markets section was co-authored by William E. Hughes, Senior Vice President, Marcus & Millichap Capital Corporation. Additional contributions were made by Marcus & Millichap market analysts and investment brokerage professionals nationwide.

## National Retail Index (NRI)

- Seattle-Tacoma maintains the first spot while San Francisco and Boston hold onto second and third place in this year's Index. In all three metros, robust job growth driven by technology companies provides higher-paying jobs, attracting additional residents and generating increased retail demand. Meanwhile, restrained deliveries funnel new retailers into existing space, keeping vacancy tight.
- The largest jump in the Index was posted by Dallas/Fort Worth (#12). The metro vaults seven places as a significant drop in deliveries amid rising demand tightens vacancy and drives rents higher. Sizable upward leaps were also posted by Denver (#11) and Atlanta (#22), each climbing six rungs as strong employment and population growth bolster retail sales this year.
- Midwest metros with slower job and population growth are prominent in the lower portion of the Index. Milwaukee (#42), Cleveland (#44), Kansas City (#45) and St. Louis (#46) hold their positions from 2017 at the bottom of the NRI, interrupted by New Haven-Fairfield County (#43).

## National Economy

- A steady pace of hiring and prospects of rising wages will drive expectations for lower retail property vacancy and rising rents this year. The economy has had the longest continuous period of job creation on record, adding jobs every month for more than seven consecutive years and keeping unemployment near 4 percent. An increase in consumption and business output as well as more robust residential construction will support GDP growth in the 2.5 percent range in 2018.
- The steady economic tailwind over the course of the recovery has pushed consumer confidence to its highest point since 2000 while small-business sentiment attained a 31-year record level, reinforcing indications that consumption and hiring will be strong this year.
- The new tax laws could play a significant role in shaping both the economy and retail demand in 2018. A reduction in the corporate tax rate will be a windfall for corporations, encouraging several retailers to increase investment in wages, hiring and infrastructure.

## National Retail Overview

- Rising consumer confidence levels and the potential for higher wages will carry retail momentum through 2018. Historically low completions and strong retail sales have buoyed space demand amid increased concerns about e-commerce and its impact on store closures. The emergence of online distribution combines with tighter construction lending and investor caution to restrain development.
- Customers are changing the way they shop and turning to more experience-oriented establishments. Retailers are evolving with many enhancing online offerings and expanding through smaller-format stores.
- The evolving landscape of multi-tenant assets has supported vacancy improvement in this property type through several tailwinds for eight consecutive years. Owners will continue to realign strategies moving forward to attract these unique retailers that draw consumers.

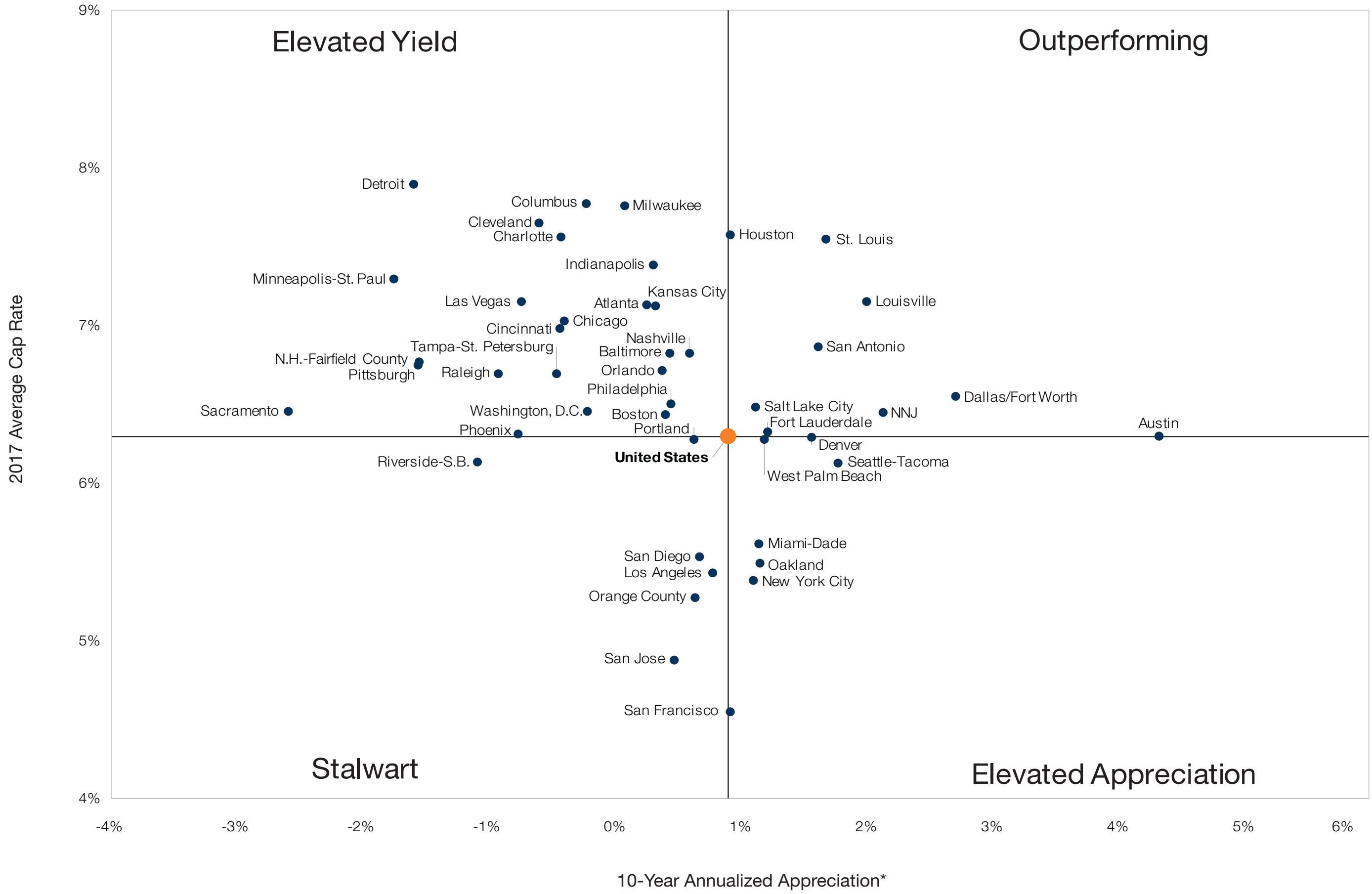
## Capital Markets

- Investors have largely adapted to the modestly higher interest rate environment as the Federal Reserve continues to normalize its policies and balance sheet. The central bank has hinted at three to four increases of the fed funds rate during 2018 as it hedges against inflation risk amid accelerated economic growth.
- National and regional banks have stepped in as key lenders for retail properties as CMBS lending eased amid heightened risk aversion in the sector that has persisted since 2016. In general, credit standards have held steady and the trend should continue into 2018 as lenders search for deals.

## Retail Investment Outlook

- In the era of e-commerce, investors are increasingly modifying their strategies and widening their search criteria for opportunities with upside potential. Opportunistic investors in search of upside are positioning these spaces for smaller-format retailers and non-traditional users.
- Several big-box retailers that traditionally anchor shopping centers are creating smaller-format versions. As a result, some investors are increasingly scrutinizing leases, considering whether these retailers will reduce their spaces in the near term.

## Yield Range Offers Compelling Options for Investors; Most Metros Demonstrate Strong First-Year Return Rates




## Average Price Per Square Foot**

(Alphabetical order within each segment)

| $200 - $249 | $250 - $299 | $300 - $349 | $350 - $399 | $400 - $449 | $450 - $560 |
|---|---|---|---|---|---|
| • Cincinnati | • Atlanta | • Baltimore | • Las Vegas | • Austin | • New York City |
| • Cleveland | • Charlotte | • Boston | • Oakland | • Los Angeles | • San Francisco |
| • Columbus | • Chicago | • Denver | • Seattle-Tacoma | • Miami-Dade | |
| • Detroit | • Dallas/Fort Worth | • Fort Lauderdale | • Washington, D.C. | • Orange County | |
| • Houston | • Louisville | • New Haven-Fairfield County | • West Palm Beach | • San Diego | |
| • Indianapolis | • Nashville | • Northern New Jersey | | • San Jose | |
| • Kansas City | • Philadelphia | • Orlando | | | |
| • Milwaukee | • Pittsburgh | • Phoenix | | | |
| • Minneapolis-St. Paul | • Raleigh | • Portland | | | |
| | • Sacramento | • Riverside-San Bernardino | | | |
| | • St. Louis | • Salt Lake City | | | |
| | | • San Antonio | | | |
| | | • Tampa | | | |

* 2007-2017 Average annualized appreciation in prices per square foot
** Price per square foot for retail properties $1 million and greater
Sources: Marcus & Millichap Research Services; CoStar Group, Inc.; Real Capital Analytics

## Familiar Tech Markets Occupy Top of Index; Slower-Growth Metros Dominate Lower Portion

**Slight reshuffling, though top markets hold.** Seattle-Tacoma maintains the first spot while San Francisco and Boston hold onto second and third place in this year's Index. In all three metros, robust job growth driven by technology companies provides higher-paying jobs, attracting additional residents and generating increased retail demand. Meanwhile, restrained deliveries funnel new retailers into existing space, keeping vacancy tight. At 2.5 percent, Boston posts the lowest vacancy among major U.S. metros. Smaller metros representing the next generation of technology markets fill the next five spots. Nashville (#4) advances one notch, propelled by a decline in new inventory and strong rent growth. Raleigh (#5) was recently chosen as an Infosys tech hub, which will bring thousands of jobs to the area. Austin (#6) dips two places as vacancy rises, while Salt Lake City (#7) and Portland (#8) each advance two places. Rounding out the top 10 are New York City (#9) and Los Angeles (#10), where tourism boosts retail spending.

**Markets gaining ground.** The largest jump in the Index was posted by Dallas/Fort Worth (#12). The metro vaults seven places as a significant drop in deliveries amid rising demand tightens vacancy and drives rents higher. Sizable upward leaps were also posted by Denver (#11) and Atlanta (#22), each climbing six rungs as strong employment and population growth bolster retail sales this year. Other markets with large gains in employment and population are Orlando (#16) and Tampa-St. Petersburg (#19), moving up five spots and one rung, respectively. The most significant decline of eight places was recorded by Orange County (#20) due to an expected slowdown in employment and retail sales gains during 2018. Midwest metros with slower job and population growth are prominent in the lower portion of the Index. Milwaukee (#42), Cleveland (#44), Kansas City (#45) and St. Louis (#46) hold their positions from 2017 at the bottom of the NRI, interrupted by New Haven-Fairfield County (#43). This East Coast market declined two notches, as a lack of new job opportunities hinders population growth and higher retail sales gains.

## Index Methodology

The National Retail Index ranks 46 major retail markets on a series of 12-month, forward-looking economic and supply-and-demand variables. Markets are ranked based on their cumulative weighted-average scores for various indicators, including forecast employment growth, vacancy, construction and rents. Weighing both the forecasts and incremental change over the next year, the Index is designed to indicate relative supply-and-demand conditions at the market level.

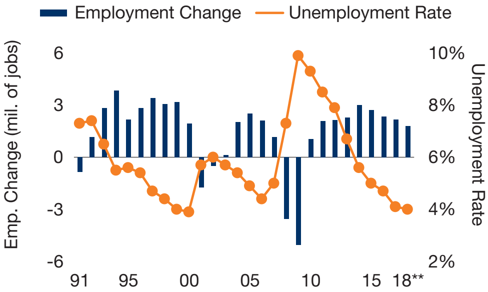
Users of the NRI are advised to keep several important points in mind. First, the Index is not designed to predict the performance of individual investments. A carefully chosen property in a bottom-ranked market could easily outperform a poor choice in a top-ranked market. Second, the NRI is a snapshot of a one-year time frame. A market facing difficulties in the near term may provide excellent long-term prospects, and vice versa. Third, a market's ranking may fall from one year to the next even if its fundamentals are improving. The NRI is also an ordinal index and differences in ranking should be carefully interpreted. A top-ranked market is not necessarily twice as good as the second-ranked market, nor is it 10 times better than the 10th-ranked market.

### 2018 National Retail Index

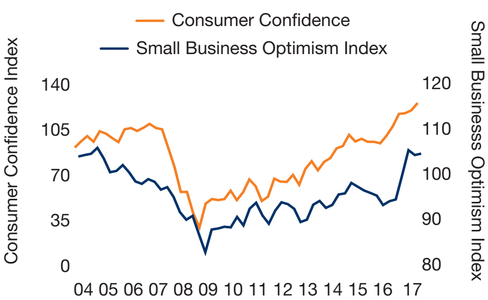
| MSA Name | Rank 2018 | Rank 2017[1] | 17-18 Change | |
|---|---|---|---|---|
| Seattle-Tacoma | 1 | 1 | ■ | 0 |
| San Francisco | 2 | 2 | ■ | 0 |
| Boston | 3 | 3 | ■ | 0 |
| Nashville | 4 | 5 | ↗ | 1 |
| Raleigh | 5 | 7 | ↗ | 2 |
| Austin | 6 | 4 | ↘ | -2 |
| Salt Lake City | 7 | 9 | ↗ | 2 |
| Portland | 8 | 10 | ↗ | 2 |
| New York City | 9 | 6 | ↘ | -3 |
| Los Angeles | 10 | 8 | ↘ | -2 |
| Denver | 11 | 17 | ↗ | 6 |
| Dallas/Fort Worth | 12 | 19 | ↗ | 7 |
| San Diego | 13 | 11 | ↘ | -2 |
| West Palm Beach | 14 | 18 | ↗ | 4 |
| San Jose | 15 | 13 | ↘ | -2 |
| Orlando | 16 | 21 | ↗ | 5 |
| Miami-Dade | 17 | 16 | ↘ | -1 |
| San Antonio | 18 | 15 | ↘ | -3 |
| Tampa-St. Petersburg | 19 | 20 | ↗ | 1 |
| Orange County | 20 | 12 | ↘ | -8 |
| Oakland | 21 | 14 | ↘ | -7 |
| Atlanta | 22 | 28 | ↗ | 6 |
| Fort Lauderdale | 23 | 24 | ↗ | 1 |
| Minneapolis-St. Paul | 24 | 25 | ↗ | 1 |
| Washington, D.C. | 25 | 23 | ↘ | -2 |
| Pittsburgh | 26 | 22 | ↘ | -4 |
| Charlotte | 27 | 29 | ↗ | 2 |
| Sacramento | 28 | 33 | ↗ | 5 |
| Phoenix | 29 | 31 | ↗ | 2 |
| Houston | 30 | 26 | ↘ | -4 |
| Riverside-San Bernardino | 31 | 34 | ↗ | 3 |
| Chicago | 32 | 27 | ↘ | -5 |
| Columbus | 33 | 30 | ↘ | -3 |
| Indianapolis | 34 | 38 | ↗ | 4 |
| Cincinnati | 35 | 37 | ↗ | 2 |
| Louisville | 36 | 35 | ↘ | -1 |
| Las Vegas | 37 | 35 | ↘ | -2 |
| Baltimore | 38 | 32 | ↗ | -6 |
| Northern New Jersey | 39 | 36 | ↘ | -3 |
| Philadelphia | 40 | 40 | ■ | 0 |
| Detroit | 41 | 43 | ↗ | 2 |
| Milwaukee | 42 | 42 | ■ | 0 |
| New Haven-Fairfield County | 43 | 41 | ↘ | -2 |
| Cleveland | 44 | 44 | ■ | 0 |
| Kansas City | 45 | 45 | ■ | 0 |
| St. Louis | 46 | 46 | ■ | 0 |

1 See National Retail Index Note on page 64.

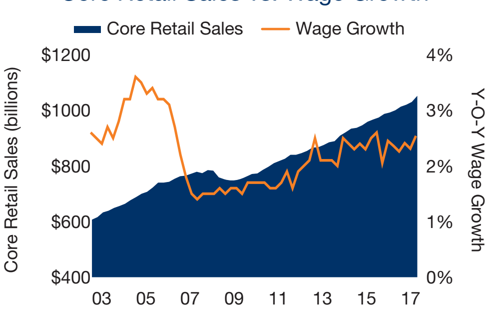
Employment vs. Unemployment



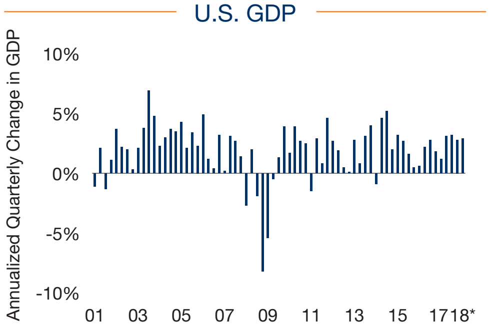

Optimism Reinforces Growth




Core Retail Sales vs. Wage Growth




U.S. GDP




* Forecast
** Through January

# Spending Growth, Wage Momentum Propel Retail Outlook

**Tight labor market and surging confidence invigorate consumption.** A steady pace of hiring and prospects of rising wages will drive expectations for lower retail property vacancy and rising rents this year. The economy has had the longest continuous period of job creation on record, adding jobs every month for more than seven consecutive years and keeping unemployment near 4 percent. The tight labor market is making it increasingly difficult for employers to fill positions, which will likely place additional upward pressure on wages in 2018. Competitive compensation packages will be necessary to secure quality talent and the construction, professional services and hospitality sectors have been leading gains. Increased wages should boost consumer spending, driving up retail sales and benefiting property performance. The steady economic tailwind over the course of the recovery has pushed consumer confidence to its highest point since 2000 while small-business sentiment attained a 31-year record level, reinforcing indications that consumption and hiring will be strong this year.

**Tax reform may bolster retail space demand.** The new tax laws could play a significant role in shaping both the economy and retail demand in 2018. A reduction in the corporate tax rate will be a windfall for corporations, encouraging several retailers to increase investment in wages, hiring and infrastructure. CEO confidence has risen by more than 6 percent in the last year, stimulating economic growth. Enhanced optimism, higher wages and strengthening recruiting efforts will support additional retail spending moving forward. Lower personal taxes may also provide consumers with additional disposable income. While actual tax savings will vary depending on a range of variables, the consensus is that most people will receive additional take-home pay, increasing discretionary income and boosting consumption.

## 2018 National Economic Outlook

- **Job creation, low unemployment drive wage growth.** With the economy operating near full employment, job growth will moderate slightly to 1.8 million new hires this year, a 1.2 percent increase in jobs. The total number of positions available has hovered near an all-time high in the low-6 million range throughout much of 2017, illustrating how companies have considerable pent-up staffing needs. Upward pressure on wages will likely mount this year as employers compete for labor. Larger paychecks will bolster the economy through additional retail spending.
- **Sound economy may bolster retail sales.** Core retail spending, a key economic driver that strips out automobile and volatile gasoline sales, rose roughly 6 percent during 2017, well ahead of the long-term average. Elevated confidence levels and prospects for employment and wage growth will likely boost consumption and contribute to GDP growth of 2.9 percent this year.
- **Online shopping increasingly gains share of core retail sales.** E-commerce and mobile commerce continue to gain momentum, capturing roughly 14 percent of core retail sales last year. While remaining the fastest-growing sector, e-commerce is a small part of a much larger retail environment. Shopping centers are developing new strategies to entice consumers and refresh tenant demand.

# Rising Consumer Spending Bolsters Retail Property Performance

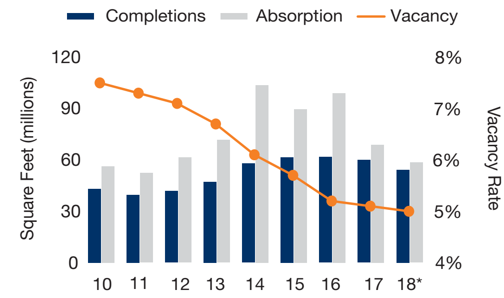
**Trends point to continued momentum for retail sector.** Rising consumer confidence levels and the potential for higher wages will carry retail momentum through 2018. Historically low completions and strong retail sales have buoyed space demand amid increased concerns about e-commerce and its impact on store closures. Range-bound construction falling short of demand will divert many tenants to existing spaces and benefit retail vacancy. Healthy demand and rising core retail sales have pushed nationwide vacancy to its lowest level in more than 18 years and pushed the average asking rent above the previous peak. These trends have been reinforced by consumer confidence levels that boosted last year's holiday sales above their long-term average.

**Non-traditional tenants breathe new life into shopping centers.** The closure of several big-box retailers and changing consumer shopping habits have reshaped the retail environment. Several owners of neighborhood and community centers are breaking larger spaces vacated by closed retailers into smaller formats and attracting non-traditional users to occupy the repurposed spaces. Service- and entertainment-oriented tenants are increasing traffic to these areas, making the centers more than just a shopping destination. Trampoline parks and unique restaurant concepts draw in the experience-driven consumer while healthcare providers, fitness centers and grocery stores make the shopping center a one-stop-shop for necessities. The evolving landscape of multi-tenant assets has supported vacancy improvement in this property type through several tailwinds for eight consecutive years. Owners will continue to realign strategies moving forward to attract these unique retailers that draw consumers.

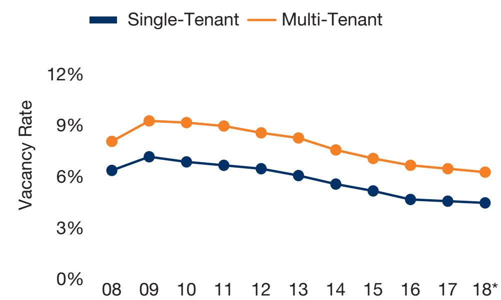
## 2018 National Retail Outlook

- **Retailer expansions benefit vacancy, rent.** Although the announcements of several select Macy's and Sears closures have generated concerns, the strong performance of specialty retailers has buoyed the performance of retail vacancy. Off-priced department, fast-fashion and discount stores remain successful in the Internet age and many of these companies will lead store openings in 2018. The success of retailers like Dollar General and Ulta will help drive vacancy to 5 percent this year and generate moderate rent growth.
- **Development restrained; annual completions fall in 2018.** Construction will decline in 2018 as roughly 54 million square feet of retail space will be placed into service. Multi-tenant centers will comprise the majority of deliveries this year. The markets of New York City, Dallas/Fort Worth, Houston, Phoenix and Miami combined will receive more than a quarter of all completions.
- **Consumer habits force evolution of retail landscape.** Customers are changing the way they shop and turning to more experience-oriented establishments. Retailers are evolving with many enhancing online offerings and expanding through smaller format stores. Many nationally branded restaurants are utilizing unique concepts to compete with local dining establishments as consumers continue to spend more on dining than ever. Many of these concepts will fill space in strip centers, benefiting multi-tenant vacancy and increasing foot traffic.

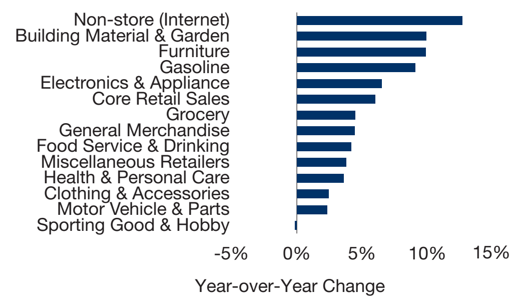
Retail Supply and Demand



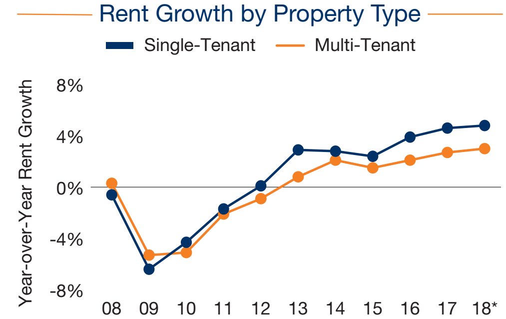

Vacancy by Property Type




Retail Sales Growth **

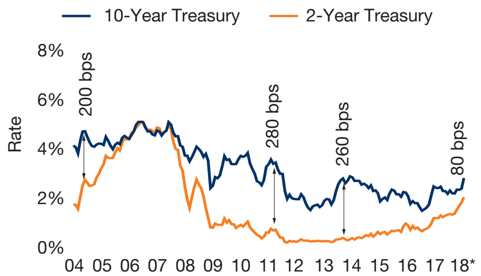



Rent Growth by Property Type

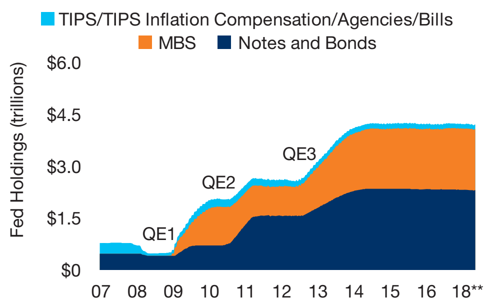



* Forecast
** Through December

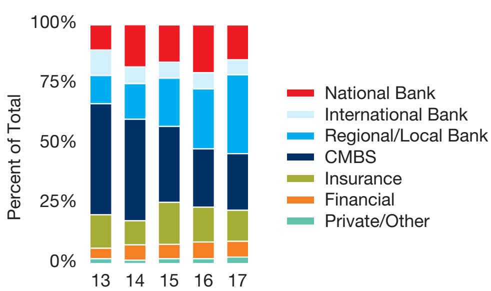
10-Year Treasury vs. 2-Year Treasury Yield Spread Tightens



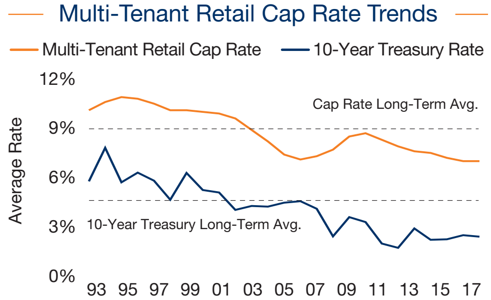

Fed to Begin Balance Sheet Normalization




Retail Mortgage Originations by Lender




Multi-Tenant Retail Cap Rate Trends




Note: Sales $1M and above

* Through Feb. 9
** Through Jan. 24

## Fed Normalization Signals Rising Interest Rates; Lenders Take Disciplined Approach

**Fed prudently considers tighter policies with new chairman at the helm.** Investors have largely adapted to the modestly higher interest rate environment as the Federal Reserve continues to normalize its policies and balance sheet. The central bank has hinted at three to four increases of the fed funds rate during 2018 as it hedges against inflation risk amid accelerated economic growth. The potential for higher inflation could prompt a more aggressive approach; however, the Fed will be cautious about pushing short-term rates up too quickly if long-term rates do not begin to rise. The spread between the two-year Treasury and the 10-year Treasury remain particularly tight, and if the Fed's policies are too aggressive it could push short-term rates higher than long-term rates, creating an inverted yield curve. This inversion is a commonly watched leading indicator of an impending recession. The new chairman, Jerome Powell, will likely maintain existing policies including a reduction of the Fed's balance sheet in a bid to move long-term rates higher. Chairman Powell is perceived as a dovish leader who will advance rates cautiously, but as a new chairman, his actual policies have yet to be clarified.

**Retail lending environment shifts amid sector uncertainty.** National and regional banks have stepped in as key lenders for retail properties as CMBS lending eased amid heightened risk aversion in the sector that has persisted since 2016. In general, credit standards have held steady and the trend should continue into 2018 as lenders search for deals. Many originators are becoming increasingly selective about big-box retail deals as several national retailers have announced closures. Strip centers with grocery-anchored or service-oriented tenants may be favored opportunities moving forward. Construction lending will remain conservative and below-average completions will likely benefit vacancy as the retail landscape evolves.

## 2018 Capital Markets Outlook

- **Tighter yield spreads may benefit multi-tenant retail demand.** Average national multi-tenant cap rates have remained relatively steady in the low-7 percent range for the last three years, with a yield spread above the 10-year Treasury of about 400 to 450 basis points. Many investors believe cap rates will rise in tandem with interest rates, but that has not been the case historically. Yield-driven multi-tenant buyers may pursue opportunities in secondary or tertiary markets where cap rates up to 8 percent persist.
- **Economic growth may spark inflation.** Inflationary pressures are beginning to mount after remaining nominal throughout the current growth cycle. Increased pressure on wages and accelerating household wealth should boost consumption, driving economic growth and creating inflationary pressure. The Fed is becoming increasingly proactive in warding off inflation as the simulative effects of tax cuts may accelerate economic growth.
- **New tax laws could drive long-term interest rates higher.** The new tax cuts are expected to raise the government deficit by over $1 trillion in the next decade. A rise in the budget deficit could place upward pressure on long-term interest rates. As the spread between the two-year and 10-year Treasury rates remain tight, rising long-term rates could push out an inversion of the yield curve.

# Positive Retail Consumption, Wage Growth Capture Investor Interest

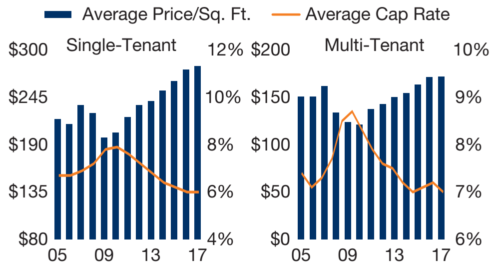
**New tax laws could spur investment activity.** Investors have reaped gains over the course of the recovery through improving market fundamentals and pricing, but uncertainty around tax and fiscal policy mitigated the pace of transaction velocity in 2017. As clarity on tax reform emerges, transaction activity may accelerate this year amid reduced ambiguity. Many key existing provisions have been retained and the favorable treatment of pass-through entities, such as LLCs, may support an influx of passive capital in 2018 while several new investors will enter the market through direct acquisitions. Some of these funds will turn to retail properties for upside potential where cap rates in the 6 to 7 percent band can be found. Less risk-averse investors may target secondary and tertiary markets for even higher yield potential. A reduction in tax rates could also spark some repositioning efforts, bringing more assets to market and supporting liquidity.

**Multi-tenant shopping centers offer buyers unique prospects.** In the era of e-commerce, investors are increasingly modifying their strategies and widening their search criteria for opportunities with upside potential. A variety of high-profile store closures last year have left large blocks of vacant space available in many multi-tenant centers. Opportunistic investors in search of upside are positioning these spaces for smaller-format retailers and non-traditional users. Revamped centers could generate owners more revenue through higher rents as healthy job creation and the potential for rising wages attract consumers with increased disposable income. Many secondary and tertiary markets offer unique opportunities at prices that are discounted from their previous cycle peak. Cap rates in these metros are often 50 to 100 basis points higher than primary markets, garnering strong interest from private local buyers seeking greater returns.

## 2018 Investment Outlook

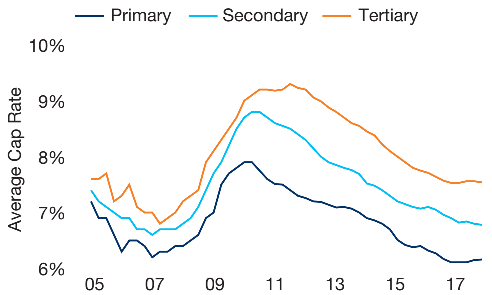
- **Buyers scrutinize lease terms.** Several big-box retailers that traditionally anchor shopping centers are creating smaller-format versions. As a result, some investors are increasingly scrutinizing leases, considering whether these retailers will reduce their spaces in the near term. Other buyers are taking the opportunity to convert vacated spaces and retenanting at potentially higher rates. Creative restaurant ideas and non-traditional retailers, like trampoline parks and urgent-care facilities, will be utilized to increase customer traffic.
- **Emerging tech markets could bolster retail property demand.** Robust growth in the tech industry in several central U.S. markets, including Nashville and Indianapolis, has boosted incomes and driven retail sales. Growth in these markets may entice some buyers to consider well-located retail properties. Assets in secondary and tertiary markets can change hands with average cap rates in the low-7 to low-8 percent span.
- **Congress may nudge investor demand.** The finalization of the new tax rules will likely alleviate uncertainty that held back investor activity last year. Deprecation and business interest deductions have been retained, with a few material changes that will allow owners to continue with their existing strategies. The new tax plan also offers generous tax cuts for pass-through income. A reduction in taxes for these entities may entice additional capital into commercial real estate, particularly passive investors entering the market through intermediaries such as syndicators.

### Retail Property Sales Trends

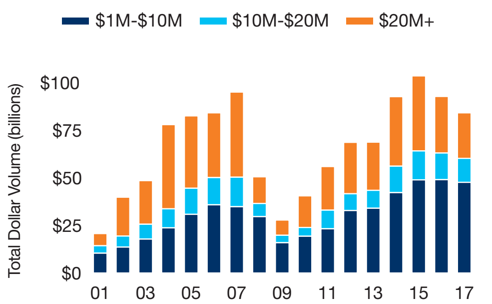



Sales figures represent transactions of $1 million+.

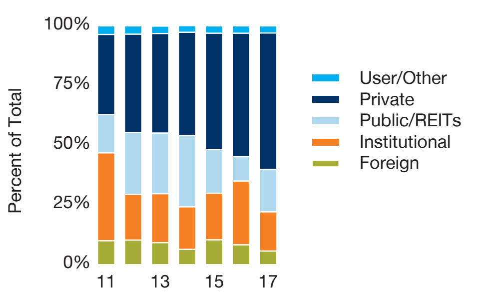
### Retail Cap Rate Trends by Market Type



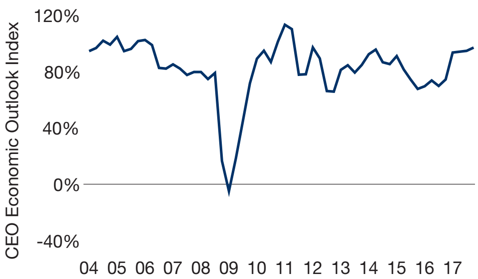

### Retail Sales Volume by Price



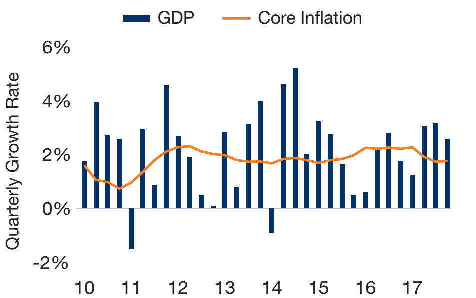

### Retail Buyer Composition



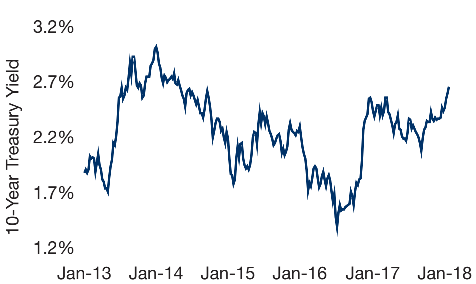
CEO Confidence in Economy Growing



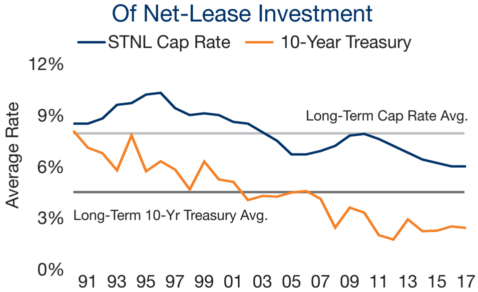

Growth Perking Up Amid Tame Inflation




Treasury Yields Rising Amid Fed Tightening




Yield Spread Still Supportive Of Net-Lease Investment




# Tax Reform Boosting Real Estate Prospects; New Deductions May Provide Tailwinds

**Recently passed tax reform to drive higher economic growth; corporate capital investment rising.** Following the passage of the Tax Cuts and Jobs Act in late 2017, business and consumer confidence rose considerably, boosting prospects for faster growth over the coming year. Numerous firms have committed to paying bonuses to their employees, while several large corporations including Apple, Exxon Mobil Corp. and Pfizer have announced multibillion dollar investment plans as overseas earnings are repatriated. The combination of these factors, coupled with a national unemployment rate at the lowest level since 2000, will boost economic prospects in the months ahead. Incredibly tight labor markets nationally are beginning to have a significant impact on wage inflation, with average hourly earnings rising 2.9 percent over the past year in January, the fastest annual growth since June 2009.

**Key real estate tax provisions remain in place.** While early iterations of tax reform highlighted the potential for real estate-related provisions to receive higher levels of scrutiny from lawmakers on Capitol Hill, the final bill left the vast majority of the key statutes in place, including the cornerstone tax-deferred 1031 exchange. Additionally, pass-through corporate structures, such as LLCs, may qualify for a 20 percent tax deduction on income generated through the entity, although the full scope and details of this provision remain to be seen as the IRS will need to clarify its interpretation of this rule. As a large number of investors employ this legal structure, favorable treatment of this income could spur additional allocations into real estate.

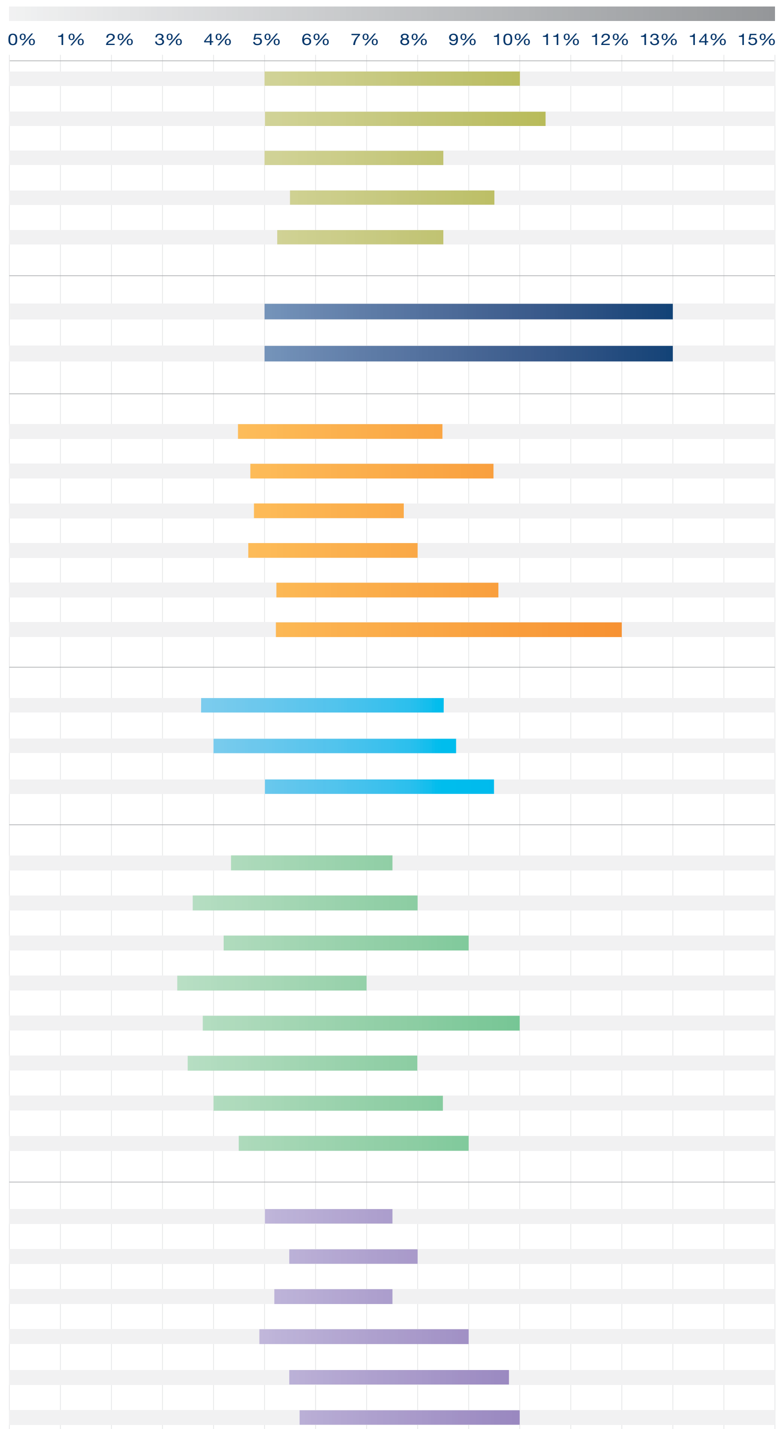
# Development Benign as Interest Rates Rise

**Rising construction costs prompt contracting pipeline; demand for space elevated.** As the retail marketplace has improved throughout the cycle, builders have largely responded by supplying built-to-suit product for net-leased tenants. As a result, single-tenant structures have routinely made up more than two-thirds of annual deliveries since the recovery began in 2009. Despite making up a large portion of overall retail construction, net absorption in the space has outpaced deliveries, generating robust growth in the average asking rent, which rose above 2008 levels for the first time in 2017. Elevated development costs will reduce overall retail construction by approximately 10 percent this year, triggering further upside in asking rents as tenants vie for the limited number of spaces coming online.

**Interest rates remain on gradual path upward as growth and inflation rise.** Following the passage of tax reform, longer-term interest rates have reached the highest yield since 2014 as banks expect a pickup in bond rates and inflation. As the yield curve steepens to reflect economic growth potential, investors will take a more measured approach to capital allocation in the wake of these events. Moving forward, the Federal Reserve's intention to reduce its balance sheet will place additional upward pressure on longer-term rates as well, while its stated goal of three rate hikes at the short end will tighten overall liquidity in the marketplace. Nonetheless, cap rate spreads remain at historically positive levels, which may temper the overall effect of higher lending rates, particularly as net-lease transactions typically employ large cash components.

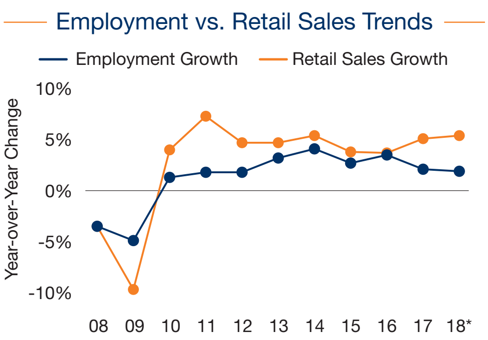
| Brand | Locations |
|---|---|
| **Auto Parts** | |
| Bridgestone/Firestone | 2,200 |
| O'Reilly Auto Parts | 4,984 |
| AutoZone | 6,023 |
| Advance Auto Parts | 5,203 |
| Pep Boys | 973 |
| **Dollar Stores** | |
| Dollar General | 14,321 |
| Dollar Tree/Family Dollar | 14,744 |
| **General Retail** | |
| Walmart | 11,703 |
| Sherwin-Williams | 4,230 |
| AT&T | 16,000 |
| Verizon Wireless | 2,330 |
| Mattress Firm | 3,500 |
| Office Depot/Max | 1,404 |
| **Pharmacies** | |
| CVS | 10,014 |
| Walgreens | 8,201 |
| Rite Aid | 4,404 |
| **Quick-Service Restaurants** | |
| Dairy Queen | 4,600 |
| Starbucks | 28,039 |
| Chipotle | 2,374 |
| McDonald's | 36,976 |
| Yum Brands | 44,352 |
| Burger King | 23,742 |
| Wendy's | 6,586 |
| Carl's Jr./Hardee's | 3,344 |
| **Fast Casual** | |
| Chili's | 1,682 |
| Darden Restaurants | 1,722 |
| Red Lobster | 705 |
| Bloomin' Brands | 1,491 |
| Applebee's | 2,016 |
| Ruby Tuesday | 541 |

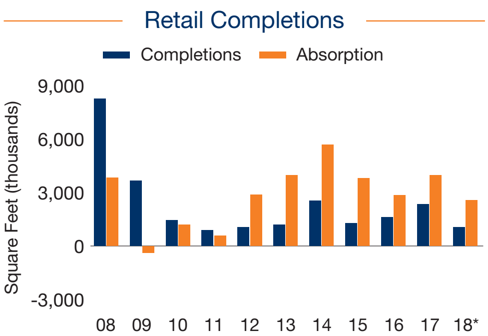
Closed Cap Rate Range by Brand*

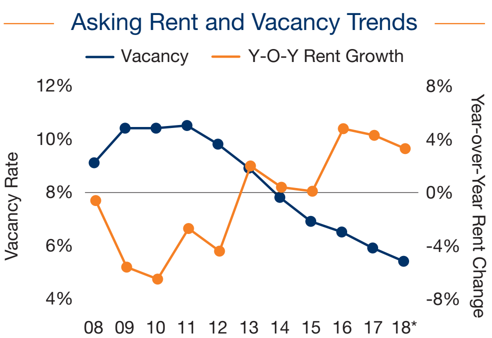


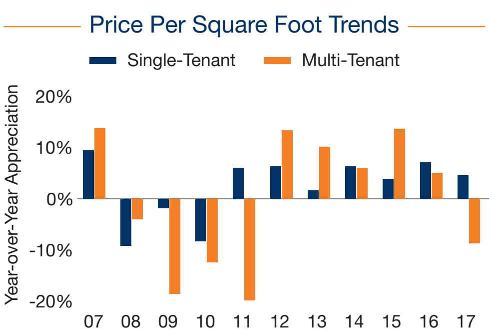

Cap rates shown above are representative of transactions that closed in 2017. Actual yields will vary by locations, tenant, lease terms and other considerations. Locations sourced from CreditNtell for public companies and company websites for private companies.

* For transactions closed in 2017
Sources: CoStar Group, Inc.; CreditNtell; company sources




* Forecast
Sources: CoStar Group, Inc.; Real Capital Analytics

# Development Slows Amid Elevated Space Demand, Powers Atlanta Retail Strength

**Contracting construction, consistent job growth underpin retail strength.** Corporate relocations and expansions are generating robust in-migration as higher-wage industries hire talent. The broad economic growth has supported tremendous progress in the retail sector, pushing metrowide vacancy down more than 450 basis points since peaking in 2011. This year, construction falls to the lowest level in six years, reaching 1.1 million square feet. Building is concentrated inside Atlanta's CBD and western areas of Gwinnett County, particularly Norcross up to Buford. In other suburbs, staple retailers such as Whole Foods and fitness centers represent the largest completions. The resulting environment will push net absorption far above development as retailers looking for space are limited in the availability of new and existing stock as well. Over the past two years, this has begun to translate into significant rent growth, reaching the low-single digits, which will continue in 2018.

**Yield-seeking investors cast wide net to deploy capital.** Fueled by cap rates that can reach the low- to mid-7 percent range, buyers have been actively pursuing assets throughout the metro. While institutions have been active inside the Perimeter, private investors and syndicates are bidding on more suburban locations, particularly in Alpharetta and Marietta. Assets in these locations offer upside through both price appreciation and yield enhancement through stabilization. Additionally, yields in these areas can offer higher initial returns that extend into the mid-8 percent range. Buyers seeking new construction will be attracted to the recently opened grocery stores and fitness centers, or larger mixed-use and multi-tenant projects near the newly completed SunTrust Park in Cumberland. Development near the stadium is just beginning to ramp up, providing a long runway for higher prices and more density.

## 2018 Market Forecast

**NRI Rank** 22, up 6 places — Slowing construction and a sharp decline in vacancy boost Atlanta six spots in the Index this year.

**Employment** up 1.9% — Job growth in Atlanta remains positive as 53,000 positions are created this year. Last year, 56,000 workers were hired.

**Construction** 1.1 million sq. ft. — Development will fall by more than half as 1.1 million square feet is brought online. In the previous year, 2.3 million square feet was delivered.

**Vacancy** down 50 bps — Slowing construction and healthy net absorption push vacancy down 50 basis points to 5.4 percent. Last year, vacancy contracted 60 basis points.

**Rent** up 3.3% — Following a 4.3 percent gain in 2017, the average asking rent climbs 3.3 percent this year to $15.16 per square foot as a tight market translates into higher rents.

**Investment** — The western retail corridors between downtown and the I-285/I-75 corridor will draw a range of buyers seeking to capitalize on higher traffic counts and value-add properties as household formation in this area grows.

# Retail Deliveries Shift South and East; Property Values Surpass Previous Peak

**Elevated land and construction costs restrain development to the suburbs.** More than 100 people move to Austin each day, prompting strong housing and retail demand. High home prices and rents inside the city of Austin are encouraging household formation in the suburbs and increasing development activity. Retail construction has followed rooftops, and the majority of new space has come online in suburban locations over the last five years. Cedar Park received the largest share of supply additions as 1.2 million square feet was completed during that span. This year, retail completions shift south as the 235,000-square-foot Belterra Village near Dripping Springs is delivered in the first quarter with a mix of regional tenants. East Austin is also set to receive a large share of new inventory as two retail buildings are added in the second quarter. A large share of retail space completing construction this year is pre-leased, keeping vacancy near a historical low.

**Increased property values could spark investment activity.** Healthy demographic trends are supporting robust retail property operations and attracting investor interest in Austin. However, a limited number of multi-tenant retail assets are trading as investors hold on to properties and ride positive property performance as vacancy constricts and rents rise. Buyers are scouring the market for strip center assets and intense competition results in properties receiving multiple bids for well-priced assets. Cap rates have compressed amid robust demand and initial returns are in the low- to high-6 percent area for existing strip-center assets. Multi-tenant property values have more than doubled since 2011, but after four years of double-digit gains, the pace of growth showed signs of slowing in 2017. As rent advances moderate again this year, some owners could be prompted to market assets and capitalize on increased equity.

## 2018 Market Forecast

**NRI Rank** 6, down 2 places — Markets with tighter vacancy pushed Austin down two spots in the ranking this year.

**Employment** up 2.4% — Austin boasts one of the lowest unemployment rates in the country, yet the pace of employment slows from last year as 25,000 workers are added to payrolls in 2018.

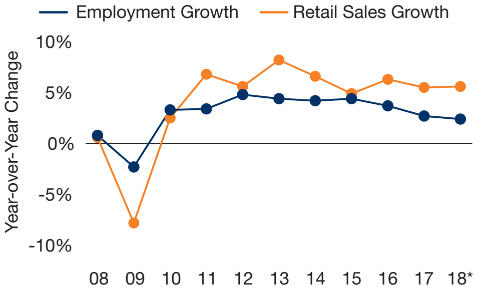
**Construction** 890,000 sq. ft. — Retail deliveries decline for a second consecutive year and reach their lowest level since 2012.

**Vacancy** up 20 bps — Vacancy remains tight this year, though the absorption of 650,000 square feet falls short of new supply additions and the rate climbs to 4.2 percent.

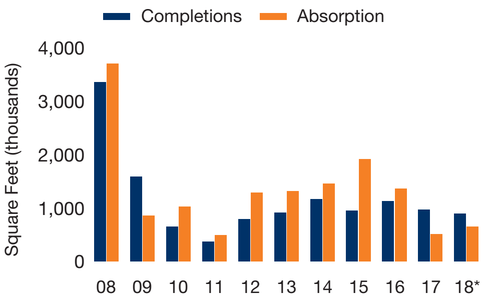
**Rent** up 3.5% — Average rent growth slows this year as the amount of quality space on the market dwindles. Rent rises to $23.33 per square foot.

**Investment** — Out-of-state buyers are targeting newly developed unanchored strip center properties. Recently completely centers with a mix of national and regional credit tenants can trade for first-year yields near 6 percent.

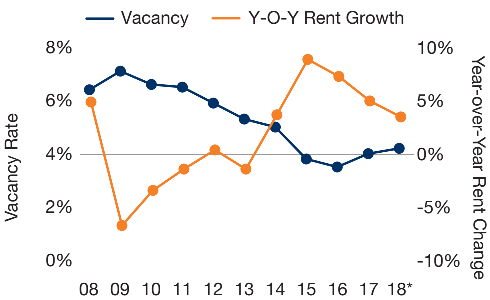
### Employment vs. Retail Sales Trends



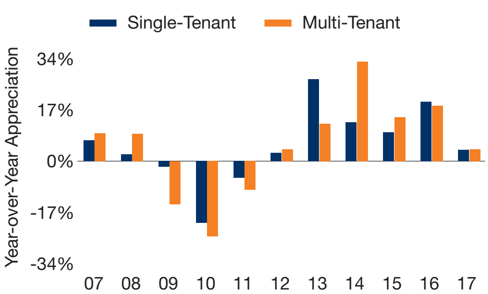

### Retail Completions




### Asking Rent and Vacancy Trends

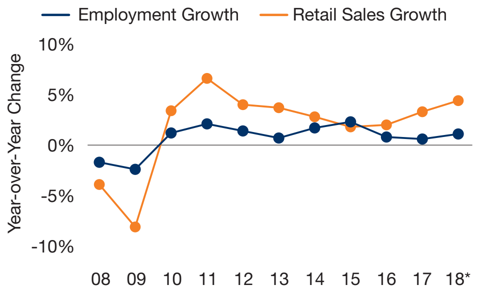



### Price Per Square Foot Trends

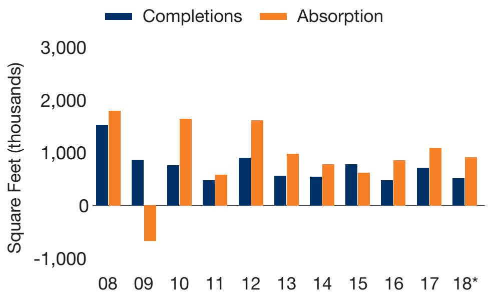



* Forecast
Sources: CoStar Group, Inc.; Real Capital Analytics

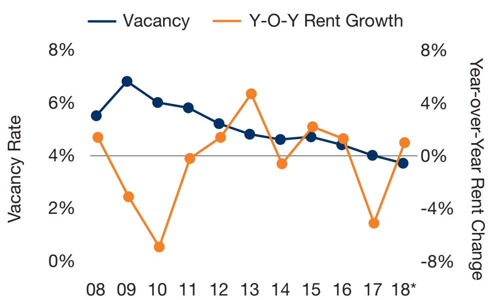
## Employment vs. Retail Sales Trends



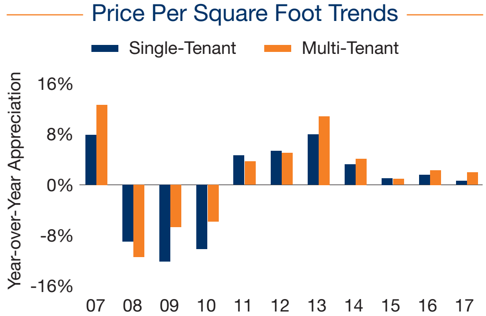

## Retail Completions




## Asking Rent and Vacancy Trends




## Price Per Square Foot Trends




* Forecast
Sources: CoStar Group, Inc.; Real Capital Analytics

# Healthy Demand Underpins Improved Operations; Investors Find Opportunities Outside Metro Core

**Demand outstrips supply, prompting declining vacancy and rising rent.** Thanks to prominent medical research institutions and numerous federal operations, more highly skilled, well-paid professionals are joining the metro, helping lift Baltimore's median level of income. Retail spending has responded by growing at a higher rate than in recent years. With vacancy in the city of Baltimore below 2 percent, some well-performing retailers are looking farther out to find space. Developers will aid that endeavor by bringing new supply to market in areas outside the core where there are fewer existing properties. The Reisterstown Road Corridor received particular attention last year with the arrival of a Wegmans-anchored power center. This year a new master-planned community around Quarry Lake will add further retail space. Metrowide, most 2018 completions are preleased, contributing to a strong level of absorption that exceeds supply, resulting in a drop in vacancy. Constrained conditions in select submarkets has led to localized rent appreciation above the average rate's subtle uptick.

**Proximity to consumer traffic defines return expectations.** A rise in demand above the three-year average adds appeal to the retail market. Investors face several options for various returns. Convenience stores and drugstores represent the most popular asset class for longer-term holds thanks to the reliability of their tenants. Shopping centers anchored by well-known grocery stores and big-box operations or those with casual dining also exhibit first-year returns at or below the market average of high-6 percent. Out-of-state buyers in particular favor single-tenant properties that have credit-worthy lessees and can change hands at cap rates below 5 percent. Buyers interested in greater initial yields may consider buildings farther away from major transit lanes. Older, more remote assets, especially multi-tenant buildings, can trade at cap rates between 7 and 9 percent. These properties are favored by local buyers.

## 2018 Market Forecast

**NRI Rank**
38, down 6 places
Modest growth in asking rents that was outpaced by other metros drops Baltimore six places in the NRI ranking.

**Employment**
up 1.1%
Payrolls will expand by 15,000 positions, almost double the number of jobs that came to the market last year.

**Construction**
520,000 sq. ft.
The pace of development slows slightly as three-quarters of new completions arrive in the eastern portion of Baltimore County. In 2017, 720,000 square feet of retail space was built.

**Vacancy**
down 30 bps
With net absorption surpassing new supply for the third year in a row, vacancy declines to 3.7 percent, 130 basis points below the national rate.

**Rent**
up 1.0%
Following a decline in 2017, the average asking rent will increase to $18.70 per square foot.

**Investment**
Multi-tenant investors are focusing more on grocery-anchored shopping centers along the Route 2 corridor. Properties in that location with long-term leases in place trade at yields in the 7 to mid-8 percent zone.

# Strong Employment Growth in City Center Generates Investor Interest in Boston

**Vacancy descends despite slight rise in deliveries.** The recently completed Reebok headquarters in the Seaport District, along with the forthcoming arrival of Wayfair and DraftKings to downtown, contribute to the metro's broadening labor pool and steady household formation this year. Developers take advantage of these strong demographic trends as completions pass 1 million square feet in 2018. Large projects near the urban core account for much of the new supply with the most sizable retail project being The Hub on Causeway. The structure will be a 1.9 million-square-foot mixed-use development that serves as a multi-phase expansion of TD Garden. The first phase, which finishes this year, includes Star Market and ArcLight Cinemas. The South Bay Center, another large addition to inventory, is along I-93 in the Dorchester neighborhood. The center comprises a newly completed Nike Factory Store and future tenants Forever 21 Red and Converse. This year's square footage sum falls below net absorption, allowing vacancy to drop to the lowest rate among major U.S. metros. Amid extremely tight market conditions, the average asking rent advances by a modest amount.

**Investors find opportunities in robust Boston retail market.** Transaction velocity has remained elevated in the metro for the past several years as buyers capitalize on strong tenant demand. Deal flow should stay heightened again this year as the market continues to attract local and out-of-state investors looking to deploy capital in a healthy gateway city. Grocery stores in and around Cambridge were highly sought after by local investors last year as nearby universities contributed to increased traffic flow. Institutional investors placed emphasis on properties located closer to the urban core, particularly existing retail space in need of upgrades and assets being converted from office space or residential units to retail centers. Initial yields for these facilities typically averaged in the 7 percent span.

## 2018 Market Forecast

**NRI Rank** 3, no change — Boston retains its third spot in the Index, supported by significantly low vacancy.

**Employment** up 1.6% — Amid an unemployment rate hovering just above 3 percent, hiring will be limited this year as 43,000 workers are added. Last year, Boston's employment base grew by nearly 50,000 employees.

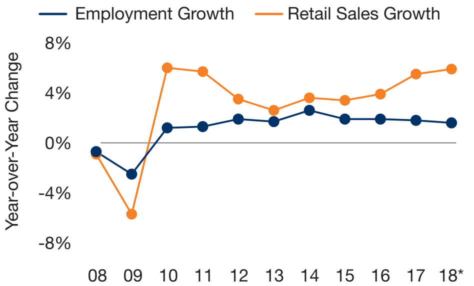
**Construction** 1.1 million sq. ft. — Construction in the metro will equal development in 2017 as 1.1 million square feet is brought online.

**Vacancy** down 20 bps — Another year of strong absorption lowers vacancy to a record low of 2.5 percent, which is 250 basis points below the national rate.

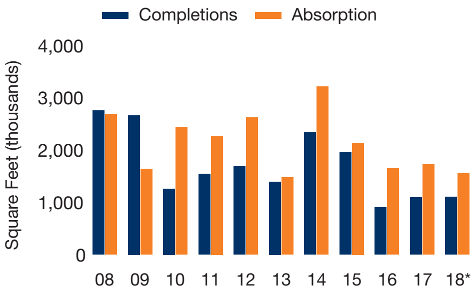
**Rent** up 0.8% — With continuing downward pressure on Boston's vacancy, the average asking rent will log an increase, putting the price per square foot at $21.03.

**Investment** — Buyer demand for properties near downtown will continue to intensify this year, resulting in escalated valuations and strong deal flow.

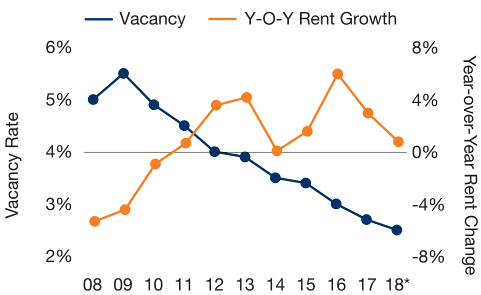
### Employment vs. Retail Sales Trends



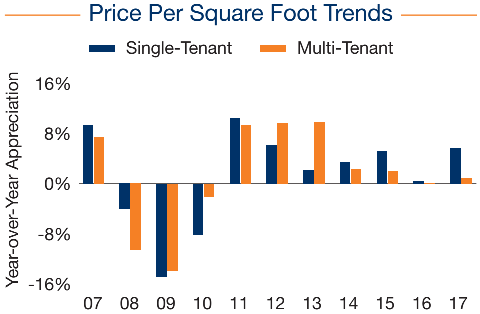

### Retail Completions




### Asking Rent and Vacancy Trends



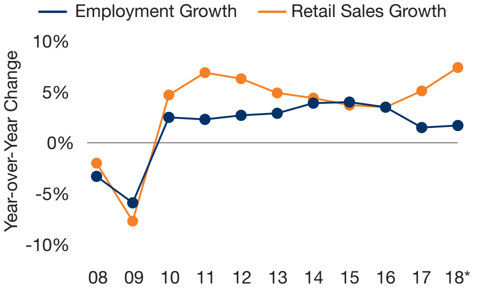

### Price Per Square Foot Trends



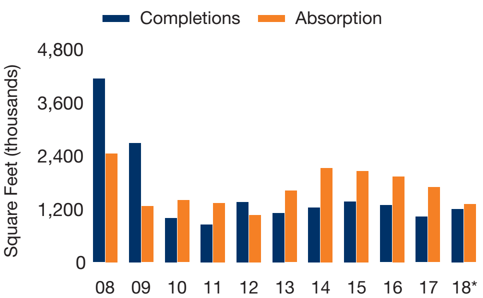

* Forecast
Sources: CoStar Group, Inc.; Real Capital Analytics

# Vacancy Contracts to New Low; Construction Proliferates in Suburbs

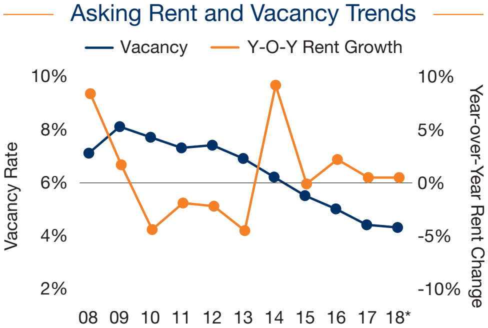
Employment vs. Retail Sales Trends



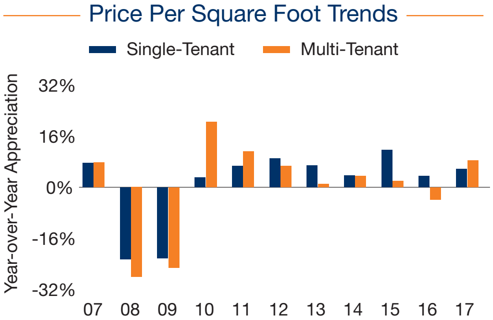

Retail Completions




Asking Rent and Vacancy Trends




Price Per Square Foot Trends




* Forecast
Sources: CoStar Group, Inc.; Real Capital Analytics

**Retail demand buoyed by strong demographic trends.** During 2018, the metro is expected to gain more than 55,000 residents with household incomes rising at a 3.5 percent clip to nearly $64,800 per year. This growth will contribute to a 7.4 percent surge in retail sales, which bodes well for local retailers. Vacancy has tightened to a new low, spurring construction. A number of shopping centers are set to debut in the metro during 2018 as retailers follow residential growth outward from the metro core. In Northwest Charlotte, Riverbend Village, a mixed-use project near Interstate 485 and Mt. Holly-Huntersville Road will add 330,000 square feet of retail space, including a 78,000-square-foot Harris Teeter. The development will also bring 500 residences and a 180,000-square-foot headquarters for Corning Optical Communications. At the south end of the market, Fort Mill and Indian Land are registering a flurry of retail development. The largest of these projects is the Promenade at Carolina Reserve. The first stores in the 500,000-square-foot center are expected to open this fall. Hobby Lobby and Petco are two of the tenants that have signed leases.

**Limited supply of marketed assets intensifying competition.** Favorable demographic trends and rising NOI are drawing buyers to the Charlotte market. Investors are especially active along retail corridors south and east of downtown Charlotte and in the high-growth cities of Fort Mill, Cornelius and Mooresville. Single-tenant assets are drawing out-of-state buyers at cap rates that begin in the 5 percent range. Robust competition for these assets amid a lack of available listings has returned the average sales price close to the 2007 peak. Buyers priced out of single-tenant buildings or in search of higher yields will find opportunities throughout the region in older neighborhood centers. Properties with multiple local businesses will trade at first year returns above 8 percent. Many of these assets are ripe for renovations and re-tenanting.

## 2018 Market Forecast

**NRI Rank** 27, up 2 places — Robust retail sales growth and rising household incomes inch Charlotte up two spots in the Index.

**Employment** up 1.7% — Roughly 20,000 positions will be created during 2018, following 17,800 one year earlier, when gains were led by the professional services segment.

**Construction** 1.2 million sq. ft. — Deliveries reach 1.2 million square feet during 2018, rising from 1.0 million square feet last year.

**Vacancy** down 10 bps — On net absorption of nearly 1.3 million square feet, vacancy will dip 10 basis points to 4.3 percent. The rate tightened 60 basis points last year.

**Rent** up 0.5% — The average asking rent inches up 0.5 percent to $15.21 per square foot in 2018, matching last year's gain. Older space being marketed suppresses larger rent growth.

**Investment** — Plans are moving forward on River District, a 1,300-acre master-planned development in west Charlotte. The project would bring 500,000 square feet of retail space, nearly 5,000 residential units, a hotel, and 8 million square feet of office space over the next 30 years, boosting nearby property values.

# Operation Improvements Capture Buyer Attention; Centers with Necessity-Based Tenants Desired

**Tenants filling existing inventory as construction moderates.** Vacancy tightens to the lowest level in 10 years as local retailers backfill space and fewer large-scale multi-tenant projects are set for completion, dropping deliveries below the five-year average. The northwest suburbs dominate construction activity. The largest project due in 2018 is Mellody Farm, a 280,000-square-foot center in Vernon Hills with tenants to include Whole Foods, REI, Nordstrom Rack and Home Goods. Menards also has a 225,000-square-foot store in the city slated to open this year. Nearby, in Buffalo Grove, a 236,000-square-foot center anchored by Woodman's Market is due for completion. In downtown Chicago, roughly 300,000 square feet of new inventory is expected this year, the majority of which is in mixed-use office and residential projects. Lincoln Commons, a mixed-use development on the former Children's Memorial Hospital site in Lincoln Park, will provide roughly 100,000 square feet of retail space in addition to nearly 600 residential units. The new inventory offers retailers more options in a submarket with limited available space.

**Bid-ask gap narrowing as optimism rising.** With more clarity in the economy, investors' appetite for retail assets in Chicagoland is growing. Although the pricing gap between buyers and sellers remains, it is beginning to narrow. Investors remain selective, doing extensive and detailed due diligence to ensure the long-term viability of the asset. Many are seeking centers with e-commerce resistant retailers such as service-oriented or medical tenants with rents that are at or below market rate. In the wake of retailers downsizing formats, the size of existing tenant space is also being carefully considered. Single-tenant net-lease properties remain the target of many buyers at cap rates that typically average in the 5 percent to 6 percent range. Power centers without a grocery tenant are slower to move at cap rates that are in the mid-8 percent span.

## 2018 Market Forecast

**NRI Rank** 32, down 5 places — Chicago tumbled five spots in this year's NRI as vacancy remains above the U.S. average.

**Employment** up 0.9% — Roughly 40,000 workers are added to payrolls in 2018, up from a gain of 26,100 jobs last year, led by growth in the construction sector.

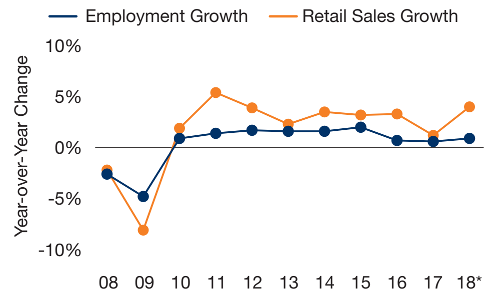
**Construction** 1.7 million sq. ft. — Following the delivery of 2.1 million square feet last year, the pace of construction eases to 1.7 million square feet in 2018. The vast majority of the new inventory will be in the suburbs.

**Vacancy** down 60 bps — A slower construction pipeline contributes to vacancy declining 60 basis points in 2018 to 6.4 percent on net absorption of 4.4 million square feet. A vacancy reduction of 50 basis points was posted last year.

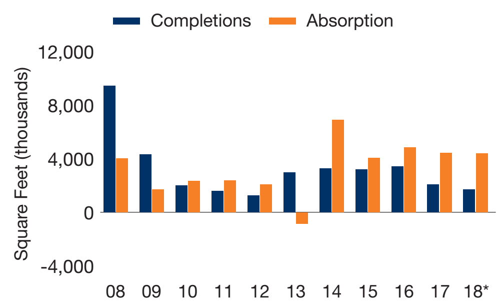
**Rent** up 1.2% — During 2018, the average asking rent increases 1.2 percent to $17.37 per square foot. Rents posted a slight increase last year.

**Investment** — Favorable demographic trends and lower taxes keep investors active in the collar counties. New deliveries in Lake County draw investors north.

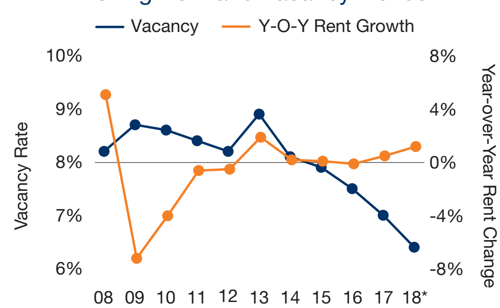
### Employment vs. Retail Sales Trends



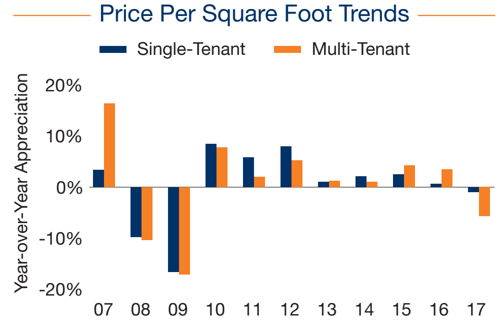

### Retail Completions



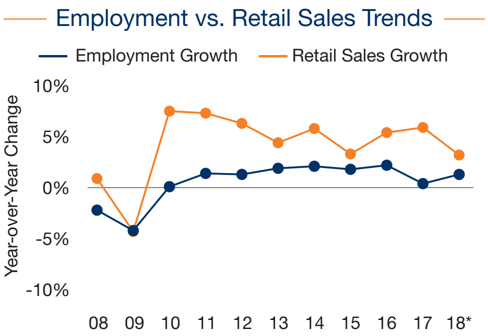

### Asking Rent and Vacancy Trends

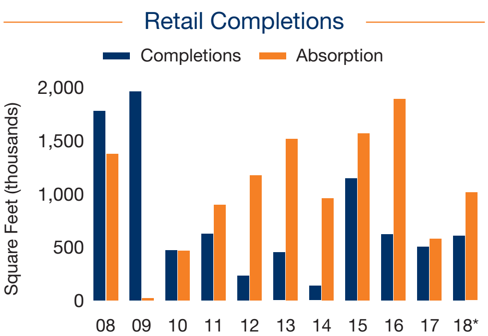


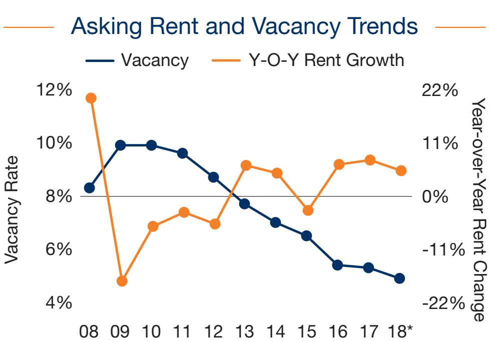

### Price Per Square Foot Trends

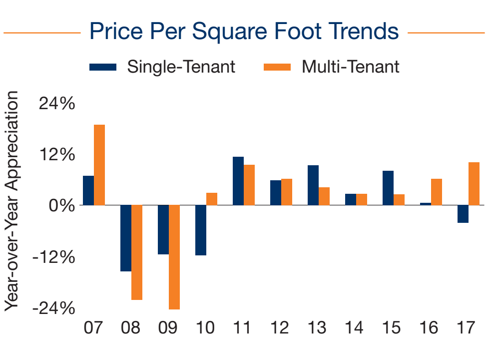



* Forecast
Sources: CoStar Group, Inc.; Real Capital Analytics




* Forecast
Sources: CoStar Group, Inc.; Real Capital Analytics

# Strong Retail Demand Triggers Development; Investors Lured by Higher Yields

**Amid an expanding retail market, robust leasing activity compresses vacancy.** As Cincinnati campaign efforts boost tourism activity, a steady inflow of jobs in the hospitality sector will strengthen the city's workforce. Positions in real estate and finance also become more prolific this year, adding to the growing number of high-wage professionals. This growth will lift consumer spending, underscoring retail tenants' desire to expand or relocate within the metro. Nearly all of this year's new supply sits north of the Ohio River, with the addition at Oakley Station being the largest completion. The mixed-use project, which is in its third phase, will contain 225,000 square feet of retail space upon completion. Small shopping centers and restaurants account for much of the metro's remaining retail expansions. The new inventory will be received well, pushing vacancy to the lowest level in the past decade and below the national average for the first time this cycle. Amplified demand also supports a considerable climb in average asking rent.

**Outer-ring submarkets present investors with high returns.** As the city's economy expands, buyers nationwide continue to arrive in the metro in search of encouraging investment options. In the past, local investors scoured the suburb of Milford, a pattern that should persist this year as property owners in the Main Street corridor look to sell their assets as valuations rise. Hamilton, an area that has boasted an increase in transaction velocity in prior years, has also provided investors with a sizable amount of multi-tenant product. Properties in these areas trade at cap rates in the 8 and 9 percent range, relatively consistent with the metro average. Institutional investors direct their focus to assets in need of renovation in neighborhoods slightly north of the urban core. Initial returns fluctuate in the low-7 to low-8 percent span, dependent upon value-add potential.

## 2018 Market Forecast

**NRI Rank**
35, up 2 places — Tightening vacancy and strong rent growth propel Cincinnati up two spots.

**Employment**
up 1.3% — After adding a 4,400 employees last year, Cincinnati businesses staff 13,800 workers in 2018.

**Construction**
610,000 sq. ft. — Annual completions exceed last year's sum of approximately 500,000 square feet. The metro reached its cyclical high in 2015 when about 1.1 million square feet came to market.

**Vacancy**
down 40 bps — Robust absorption drops vacancy to 4.9 percent, 260 basis points below the 10-year metro average. This decline follows a 10-basis-point reduction one year earlier.

**Rent**
up 5.3% — The metro's rent growth outstrips the national measure as tightening vacancy bumps the average asking rent to $13.07 per square foot.

**Investment** — Robust household growth in Butler and Warren Counties will attract yield-seeking investors to Southwest Ohio looking to capitalize on the influx of new retailers coming to the region.

# Mixed-Use Projects Provide Buyers An Array of Investment Opportunities

**Employment gains fuel improving Cleveland retail market.** The healthcare industry leads the steady hiring pace this year, providing a boost to the city's median household income, which will surpass the national growth rate. Increased disposable income in the pockets of consumers will draw retailers to Northeast Ohio, triggering a notable rise in retail development and doubling the 2017 completion sum. The suburb of Beachwood accounts for over 350,000 square feet of this year's total as Pinecrest, a large mixed-use project, finishes by midyear. With the inclusion of Class A office space and luxury apartments, this property serves as an appealing live-work-play community. In nearby Shaker Heights, construction activity escalates with the addition of the Van Aken Shopping Center. The 180,000-square-foot retail project, also accompanied by office space and apartments, is part of revitalization efforts in the Van Aken District. Amid heightened deliveries, specifically in suburban submarkets, vacancy rises while still maintaining a figure well below the metro's 10-year average. The vacancy climb contributes to another year of modest rent growth.

**Buyers attracted by low entry costs, favorable returns.** Retail transactions remained elevated in the prior two years, with a lineup of investors arriving in Cleveland to capitalize on the metro's robust initial yields. Well-located single-tenant assets in the western suburbs of Avon and Strongsville remain attractive options for local and regional investors. Also in these areas, multi-tenant product, specifically strip centers, should entice a diverse spectrum of buyers. These developments typically average initial returns in the low-9 percent realm. On the other side of the metro, out-of-state investors seek multi-tenant space in Chagrin Falls and Woodmere, particularly grocery-anchored centers, which may range in the $10 million to $15 million territory. Here, cap rates will stretch across the low-7 percent expanse.

## 2018 Market Forecast

**NRI Rank**
44, no change
Amid marginal rent growth and a slight rise in vacancy, Cleveland stays put in this year's NRI.

**Employment**
up 0.5%
The pace of hiring increases this year as 5,500 positions are added to payrolls, up from last year's addition of 1,600 jobs.

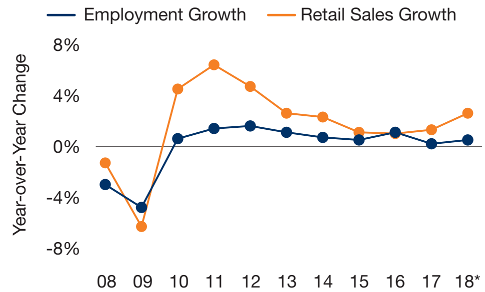
**Construction**
1.1 million sq. ft.
Development activity reaches a cyclical high in 2018 with most of the new supply concentrated outside of the urban core.

**Vacancy**
up 30 bps
A steep rise in retail construction elevates the metro's vacancy rate to 6.7 percent. This follows a 10-basis-point climb in the previous year.

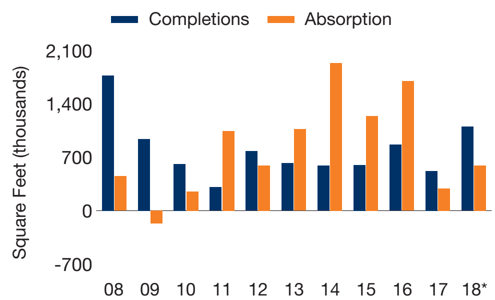
**Rent**
up 0.5%
Heightened deliveries and modestly increasing vacancy result in a slowed pace of rent growth. Cleveland's average asking rent sits at $10.64 per square foot.

**Investment**
Lured by a noteworthy amount of commercial development in the metro's eastern sections, local and out-of-state buyers will flock to Cleveland as household formation in these parts persists.

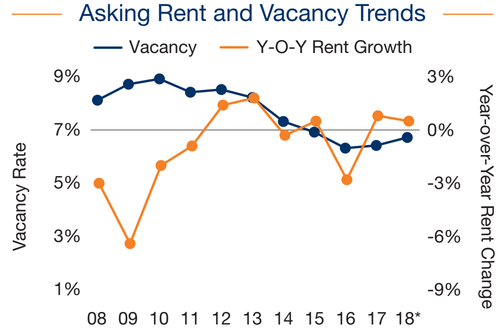
### Employment vs. Retail Sales Trends



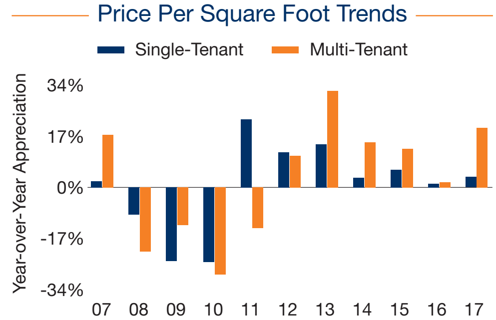

### Retail Completions




### Asking Rent and Vacancy Trends



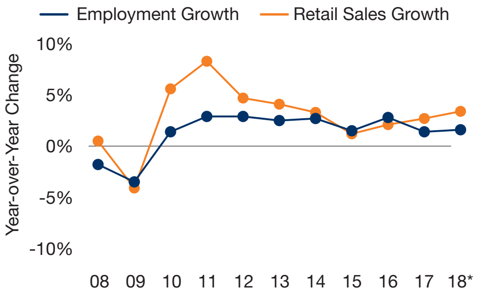

### Price Per Square Foot Trends



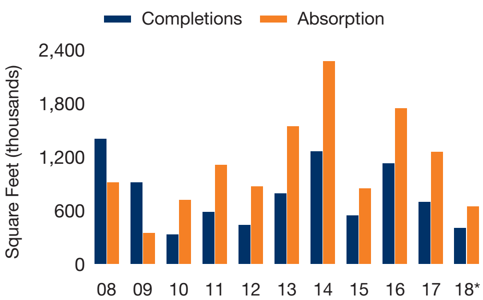

* Forecast
Sources: CoStar Group, Inc.; Real Capital Analytics

## Columbus

### Employment vs. Retail Sales Trends




### Retail Completions

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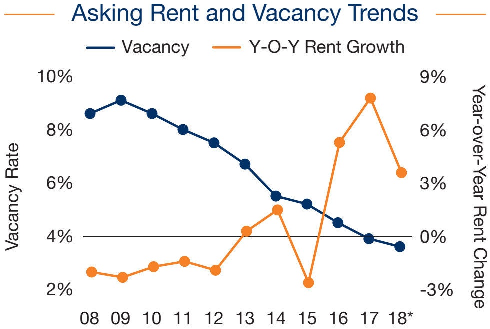
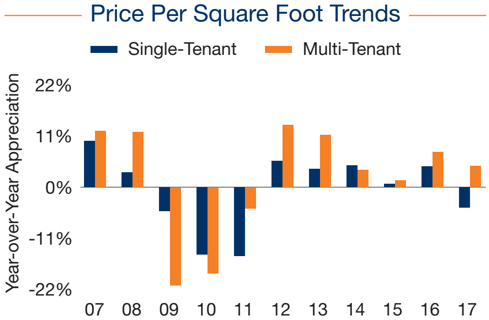



### Price Per Square Foot Trends




* Forecast
Sources: CoStar Group, Inc.; Real Capital Analytics

# Steady Economic Growth Attracts Innovative Retailers to Columbus

**Creative food and shopping concepts keep vacancy low.** The large student population and healthy economic growth have turned the metro into a testing ground for many retailers. New restaurant concepts, like Chipotle's hamburger chain, and fashion brands are being brought to the market, and if successful, will be launched nationwide. As consumers turn to experience-oriented shopping, Columbus' retail vacancy has benefited from the testing of these concepts, many of which fill empty spaces left by department store closures. In addition to national brands testing new ideas, local mom-and-pop shops and eateries are absorbing smaller available spaces. Healthy demand, aided by these new retailers, outstrips supply additions in 2018, holding vacancy below the national average for a fifth consecutive year. Limited completions will reinforce a moderate increase in the average asking rent as the limited availability of quality space allows owners to market higher rental rates.

**Pool of multi-tenant buyers grows amid limited net-lease listings.** First-year returns roughly 100 basis points higher than gateway markets attract a deep pool of investors to Columbus retail properties. Buyers are particularly attracted to assets in northern inner-ring suburbs and higher-density areas near Interstate 270 where vacancy remains below 3 and above-average rent growth persists. Here, first-year returns in the high-6 to low-7 percent range can be found compared with metrowide cap rates in the mid-7 percent span. Quick-service establishments and casual dining restaurants garner significant attention though a dwindling pool of listings have pushed up property values considerably. Overall, a lack of single-tenant listings has inspired some investors to widen acquisition criteria to include multi-tenant assets. Stable neighborhood and community centers with national or regionally known tenants can trade with cap rates in the mid-7 percent area.

## 2018 Market Forecast

**NRI Rank** 33, down 3 places — Columbus fell three slots in this year's Index as other metros outperformed.

**Employment** up 1.6% — Hiring accelerates from last year's 1.4 advance as 15,000 positions are added to staffs. Unemployment in the low-4 percent band persists, making it difficult to find quality workers.

**Construction** 400,000 sq. ft. — Deliveries decline from the 690,000 square feet completed in 2017. The largest project is the 117,000-square-foot addition to the Dublin Green development.

**Vacancy** down 30 bps — Net absorption of 640,000 square feet outpaces completions, lowering vacancy to 3.6 percent.

**Rent** up 3.6% — The average asking rent eclipses the previous cycle high, reaching $13.44 per square foot. In the prior year, a 7.8 percent increase was recorded.

**Investment** — Housing developments in the Italian Village will likely attract new residents and retailers are following, escalating transaction activity in the area. Several older buildings are being redeveloped into retail concepts, providing potential opportunities for investors.

# Growing Economy, Strong Demographics Lure Retailers and Investors to Metroplex

**Retail vacancy falls to historical low as developers struggle to keep pace with demand.** Being a perennial national leader in employment gains makes Dallas/Fort Worth attractive to new residents and retailers. More than 87,000 people moved to the Metroplex last year, and similar migration trends are anticipated in 2018. A surge in new households creates healthy demand for goods and services as retail sales are anticipated to rise by 5.5 percent this year. As sales improve faster than the national pace, several retailers are set to expand in the market and developers will deliver notable retail spaces. This year's largest projected completion is the 465,000-square-foot retail portion of The Music Factory in Irving. The space will come online 100 percent leased, and several smaller developments are also scheduled to be completed with strong pre-leasing. As a result, vacancy will fall below 5 percent as the rate declines for a ninth consecutive year.

**Strong economic growth, positive outlook attract investors to Metroplex retail properties.** Widespread prosperity in the market encourages buyers to target a range of retail properties in a number of areas. Healthy migration to North Dallas has stirred high demand for assets in Frisco, McKinney and Allen, where cap rates have compressed 50 to 75 basis points below the rest of the Metroplex. Demographic trends are strong throughout the region, supporting healthy fundamentals that attract developers and investors, including new entrants and out-of-state buyers. Strip centers priced between $2 million and $15 million are in high demand, with cap rates dependent on numerous factors. Newly constructed strip centers with national credit tenants and long-term leases garner first-year yields in the mid- to high-6 percent range, while older centers with less creditworthy tenants can change hands at cap rates closer to 8 percent.

## 2018 Market Forecast

**NRI Rank** 12, up 7 places — Steady economic and operational improvements help the Metroplex make the largest jump in the NRI this year.

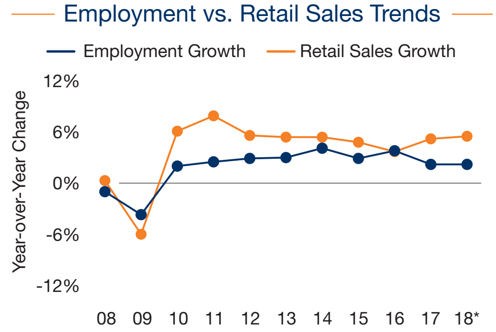
**Employment** up 2.2% — Organizations create 80,000 positions this year, matching last year's increase.

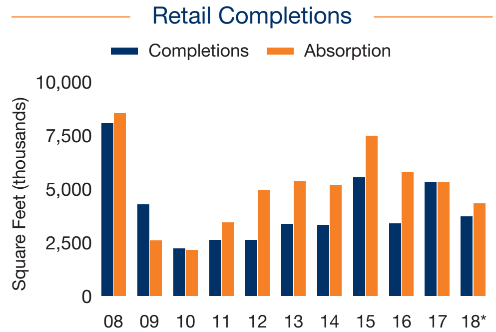
**Construction** 3.7 million sq. ft. — Developers completed more than 5.3 million square feet of retail space last year, but deliveries taper in 2018 as 3.7 million square feet is added to stock.

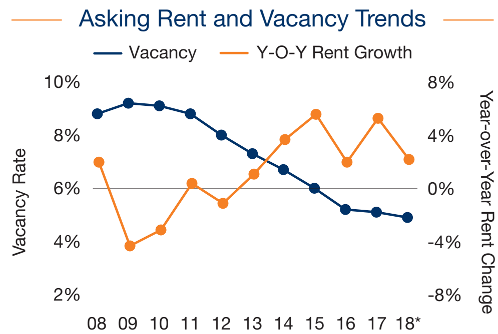
**Vacancy** down 20 bps — Demand outstrips supply this year as more than 4.3 million square feet of space is absorbed, pushing down vacancy to 4.9 percent.

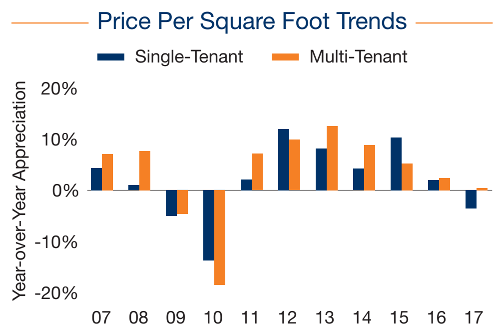
**Rent** up 2.2% — Tightening vacancy produces a stable pace of rent growth this year as the average asking rent advances to $16.73 per square foot. Growth slows from last year's 5.3 percent rise.

**Investment** — In suburban locations, mixed-use retail assets with service-oriented tenants, including some medical uses such as primary care physicians or dentists, generate healthy investor interest. Depending on tenant credit, these properties can trade at aggressive cap rates.



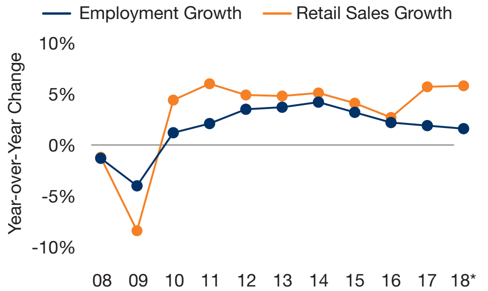



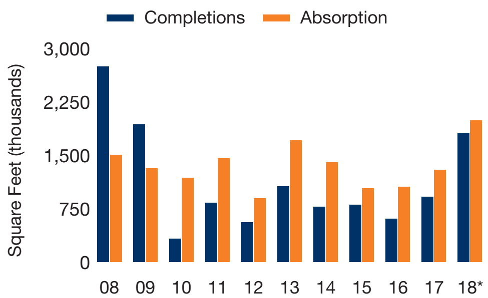




* Forecast
Sources: CoStar Group, Inc.; Real Capital Analytics

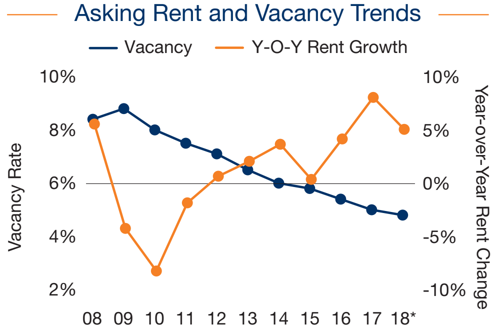
Employment vs. Retail Sales Trends



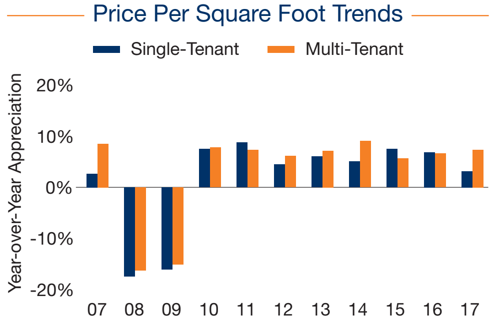

Retail Completions




Asking Rent and Vacancy Trends




Price Per Square Foot Trends




* Forecast
Sources: CoStar Group, Inc.; Real Capital Analytics

# Robust Tenant Demand, Construction Activity Foster Denver Retail Market Expansion

**Strong market dynamics spark amplified developer activity.** Robust hiring for high-wage jobs in healthcare and IT incites household growth in Denver in 2018. The increased number of degreed positions pushes the median household income over $78,000, sparking escalated consumer spending and luring retailers to the Mile High City. These positive demand drivers support the metro's rise in construction activity and completions this year will reach the highest level since 2009. The northern suburbs receive the most development over the next 12 months, with Thornton gaining the most space at 335,000 square feet. Denver Premium Outlets, located at the I-25 and East 136th Avenue intersection, comprises the majority of new space here. Net absorption of nearly 2 million square feet results in a drop in vacancy this year despite increased retail construction. The stout demand for space boosts rent growth, driving the average asking rent over the $19 per square foot mark.

**Older neighborhoods provide investors with promising options.** As more buyers from primary coastal markets seeking low entry costs and high-yield opportunities arrived to the metro in 2017, transaction velocity doubled among multi-tenant centers compared with the previous year. In 2018, buyers continue the trend of focusing on the suburbs of Littleton and Aurora in search of multi-tenant product. First-year yields in these locales typically stretch across the 7 percent range. Areas south of downtown near the University of Denver campus and neighborhoods east of the CBD close to Congress Park attract local high-net-worth individuals seeking multi-tenant assets within the $1 million to $10 million price tranche. Initial returns in these parts average in the mid-6 percent range, about 50 basis points below the metro average.

## 2018 Market Forecast

**NRI Rank**
11, up 6 places

Stout net absorption and considerable rent growth vault Denver up six positions in the Index.

**Employment**
up 1.6%

Denver's workforce expands by 24,000 employees in 2018, falling short of the 27,300 new hires in 2017. Healthcare leads this year's growth.

**Construction**
1.8 million sq. ft.

Completions increase in 2018 compared with last year's total of 920,000 square feet. Northern sections of the metro will post notable expansion in retail space this year.

**Vacancy**
down 20 bps

Although construction levels near a cyclical high this year, strong absorption drops the vacancy rate to 4.8 percent. In 2017, vacancy fell 40 basis points.

**Rent**
up 5.1%

Following an advance of 8.1 percent in 2017, the average asking rent rises to $19.14 per square foot.

**Investment**

As residential growth near the Denver-Boulder Turnpike continues to amplify, retailers and investors target Westminster and Broomfield, seeking locations experiencing increased traffic flow.

# Retailers, Investors Find Opportunities In Detroit's Changing Retail Landscape

**Repurposing of vacant malls transforming retail market.** The retail landscape in the metro continues to evolve as old malls are torn down while redevelopment brings new life to underutilized land. The demolition of Northland Center in Southfield, which began last fall, will be completed this year, leaving only the former Macy's store as redevelopment of the site progresses. Removal has also been ordered for Summit Place Mall in Waterford Township; a sports and entertainment complex has been proposed on the site. In Taylor, a Menard's will rise on the former Gibraltar Trade Center location. The home-improvement retailer is one of many expanding this year, with another store opening in Belleville accounting for approximately half of the roughly 1 million square feet slated for delivery during 2018. New stores are also expected in District Detroit, a 50-block sports and entertainment area in downtown Detroit. A portion of the space consists of street level retail in residential buildings. With nearly three-fourths of this year's new stock pre-leased, the impact on vacancy will be reduced, promoting another year of rent growth.

**Favorable trends spotlight Detroit's retail assets.** The expected gain of roughly 12,000 households throughout the metro during 2018 will contribute to a 3.8 percent rise in retail sales, helping to lure investors. Some buyers are drawn to renovated properties in Downtown and Midtown where high-end retailers are opening. While single-tenant buildings remain the prime target of many investors, intense competition for available listings is motivating more buyers to consider multi-tenant centers. Properties with fewer than five tenants are especially desired by investors in the $4 million to $6 million tranche. Cap rates for these assets are holding steady in the low-6 to low-7 percent range for newer, well-located strip centers, while older centers generally change hands 100 to 300 basis points higher depending on quality and tenant roster.

## 2018 Market Forecast

**NRI Rank** 41, up 2 places — Strong vacancy improvement nudges Detroit up two rungs to the 41st place in this year's Index.

**Employment** up 1.7% — Payrolls will expand by roughly 35,000 workers in 2018, up slightly from last year's 1.5 percent gain. A large portion of the jobs are higher-paying and related to vehicle design and self-driving technology.

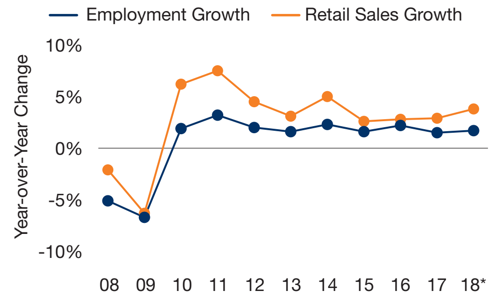
**Construction** 1 million sq. ft. — Deliveries slightly outpace the five-year average with the completion of 1 million square feet in 2018, a dip from last year's 1.1 million square feet.

**Vacancy** down 60 bps — Strong tenant demand and the removal of long-vacant malls will cut the vacancy rate to 6.2 percent in 2018. Last year, a 40-basis-point decline was registered.

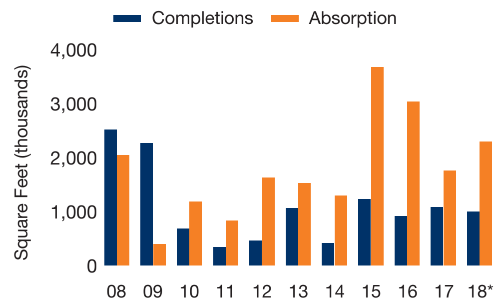
**Rent** up 3.4% — The average asking rent climbs for the third consecutive year to $14.10 per square foot, on par with the 2008 peak. Last year, a 5.2 percent gain was registered.

**Investment** — The completion of mixed-use office and residential buildings in District Detroit should increase foot traffic and lure investors to retail properties nearby.

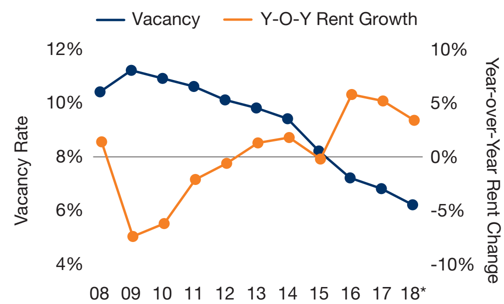
### Employment vs. Retail Sales Trends



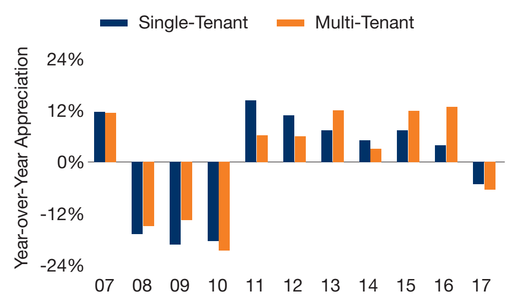

### Retail Completions




### Asking Rent and Vacancy Trends

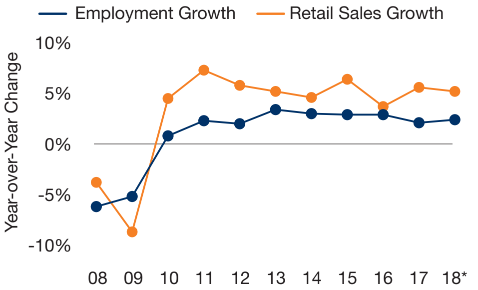



### Price Per Square Foot Trends

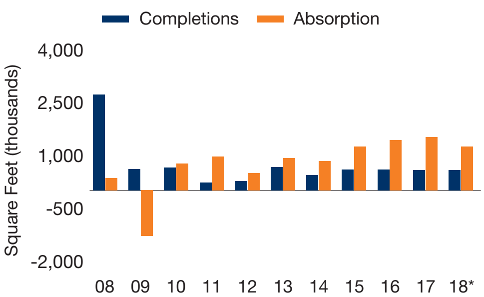



* Forecast
Sources: CoStar Group, Inc.; Real Capital Analytics

Employment vs. Retail Sales Trends




Retail Completions

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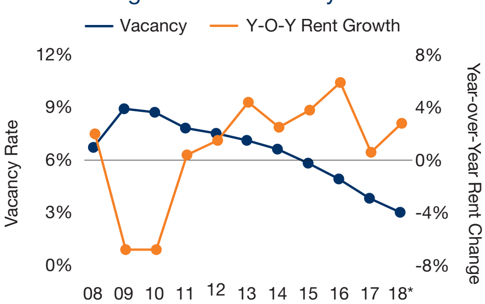
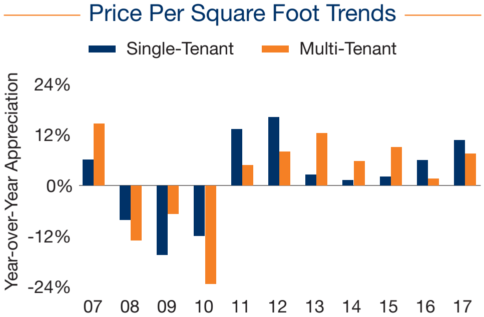



Price Per Square Foot Trends




* Forecast
Sources: CoStar Group, Inc.; Real Capital Analytics

# Florida's Tightest Vacancy Market Lures Outside Retailers and Investors

**Improving demand drivers prompt retailer expansions.** A sizable volume of household formations and strong income growth are on tap for Broward County this year, supporting a rise in local retail spending that exceeds the national rate. Steady, diversified hiring during a span of low unemployment drives these improving market conditions, with metro employers creating at least 20,000 positions. The recent wave of new residents, primarily in Fort Lauderdale and Hollywood, also bodes well for consumer spending. Retailers motivated to expand or establish a local presence could have limited leasing options this year, with vacancy hovering below 4 percent. Subdued retail development and strong preleasing further heighten tenant demand for existing space, fueling the absorption of more than 1 million square feet for the fourth consecutive year. Elevated leasing velocity compresses the metro's vacancy rate to a historically low level, warranting cycle-high asking rents.

**Buyer interest in Fort Lauderdale invigorated.** Robust asset appreciation over the past several years has motivated more owners to sell assets, boosting transaction velocity to a new high for the cycle in 2017. On a per square foot basis, properties average a lower price than their counterparts in Miami-Dade and Palm Beach counties, encouraging investors to consider purchasing in Broward County. Buyers will continue to pursue quality credit single-tenant net-lease assets for their ease of operation and stable cash flows. Brands such as Wendy's, CVS and McDonald's changed hands with cap rates in the low-4 to low-6 percent band last year. Downtown and suburban Fort Lauderdale attract buyers targeting older, repositionable centers and storefronts at 5 to 6 percent returns. A greater mix of vintages are available in neighboring Hollywood, where yields bottom out around 4 percent and reach 7 percent. Out-of-state buyers remain attracted to opportunities in Southwest Broward County, home to sub-3 percent vacancy.

## 2018 Market Forecast

**NRI Rank** 23, up 1 place — Fort Lauderdale inched up one spot in this year's Index as strong tenant demand lowers vacancy.

**Employment** up 2.4% — Organizations will create 20,000 positions in 2018, up from the 17,300 jobs added in 2017.

**Construction** 580,000 sq. ft. — Development picks up slightly following the completion of 570,000 square feet in 2017. Deliveries in Southwest Broward County, Fort Lauderdale and Hallandale account for the bulk of this year's new supply.

**Vacancy** down 80 bps — The metro's vacancy rate drops to 3 percent in 2018. Last year, a decline of 110 basis points occurred.

**Rent** up 2.8% — Tight vacancy supports an increased pace of rent growth, with the average asking rate advancing to $22.50 per square foot by year end.

**Investment** — The opportunity to acquire properties with below-average pricing is drawing buyers to Coral Springs, Plantation and Pompano Beach. Here, restaurants and existing centers with developable land provide investors with 5 to 7 percent first-year yields.

# Post-Hurricane Recovery Boosts Retail Spending, Draws Investors

**Local residents rebuilding after floods, sales rise.** Economic growth is returning to Houston as the metro emerges from the damage created by Hurricane Harvey and struggles stemming from the decline in energy prices in previous years. In 2018, job additions will rise, with local organizations creating more positions than the previous three years combined. Strengthening employment and recovery efforts related to the hurricane will provide an additional boost to retail consumption this year, and retail sales are expected to rise faster than the national pace. Local households replacing goods lost during the flooding will help lift spending, while residents temporarily relocating to assist with rebuilding efforts raise sales at restaurants, grocery stores and other needs-based retailers. As a result, retailers continue to expand in the metro this year, and grocers such as Kroger and H-E-B will open multiple locations on the west and north sides of Houston. Fitness centers, dollar stores, plus numerous restaurant and entertainment options will open this year, helping keep vacancy 60 basis points below the 10-year average.

**Development in West Houston attracts investors.** The increasingly diverse propelled the Houston retail segment in recent years, keeping buyers interested in the local market. The metro is poised for an increase in trading volume this year, however, as staffing in the oil and gas industry has stabilized and new opportunities are presented in western submarkets. This side of the metro will receive an influx of new properties as development continues along the Grand Parkway. Grocery-anchored retail centers are in high demand, often trading in the mid-6 percent area. Meanwhile, strip-center assets with service-oriented tenants pique buyer interest, often changing hands in the low-7 percent span. Properties in West Houston submarkets such as Katy, Sugar Land out toward the Grand Parkway, and up to The Woodlands will draw strong buyer demand this year.

## 2018 Market Forecast

**NRI Rank** 30, down 4 places — Higher vacancy than a large share of markets plus slow rent gains pull Houston down four spots this year.

**Employment** up 2.5% — Employers will create 75,000 positions in 2018 following the addition of 45,000 jobs in 2017.

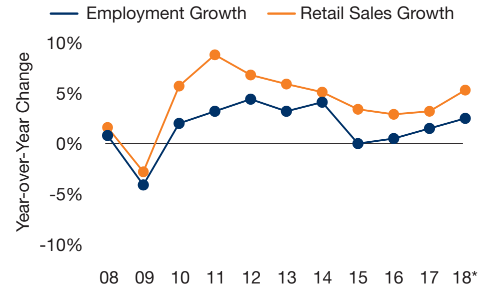
**Construction** 2.9 million sq. ft. — Delivery volume slows after the completion of nearly 5.6 million square feet in 2017. Sugar Land and Conroe each welcome more than 400,000 square feet of new supply in 2018.

**Vacancy** up 20 bps — Vacancy rises for a second year, reaching 6.0 percent in 2018 as 2 million square feet of retail space is absorbed.

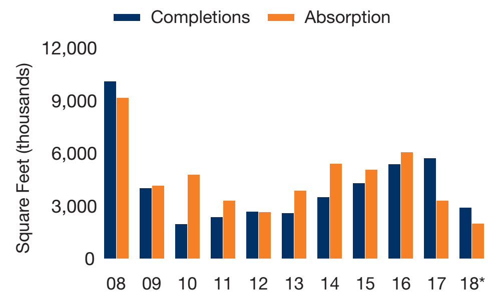
**Rent** up 1.5% — The average asking rent advances to $17.12 per square foot, increasing for a second consecutive year.

**Investment** — Retail assets in heavily flooded areas of Houston could be value-add targets this year. Owners in these locales may choose to dispose of properties in lieu of renovating, while others may divest as some tenants are unable to reopen stores.

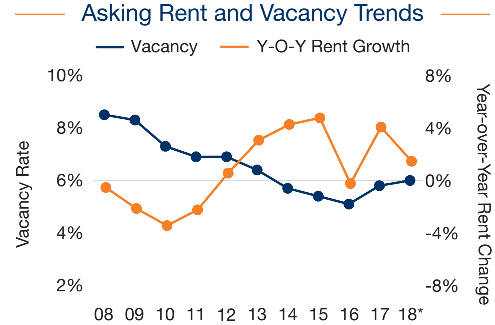
### Employment vs. Retail Sales Trends



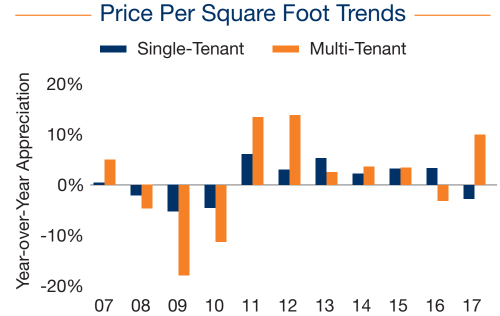

### Retail Completions



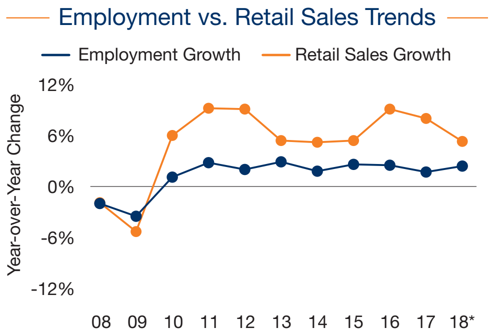

### Asking Rent and Vacancy Trends

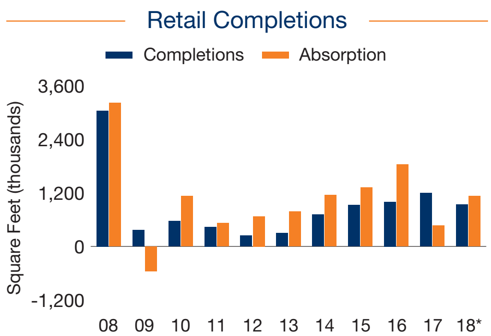


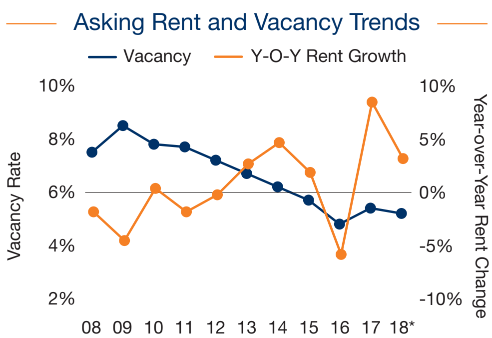

### Price Per Square Foot Trends

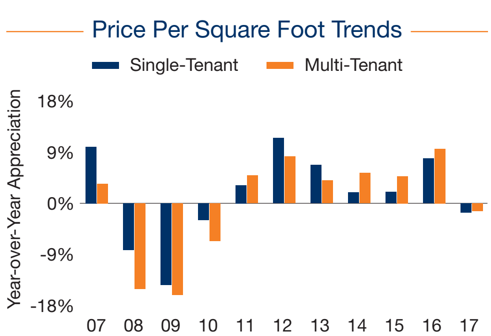



* Forecast
Sources: CoStar Group, Inc.; Real Capital Analytics




* Forecast
Sources: CoStar Group, Inc.; Real Capital Analytics

# Amplified Employment Growth, Household Formation Stimulate Growth in Retail Market

**Influx of high-wage jobs lures retailers to Central Indiana.** The tech sector remains the driving force behind Indianapolis' exceptional employment growth this year, pushing the rate to one of the highest figures in the country. Salesforce continues to hire employees at its new tower near Monument Circle, while companies like Costello and SnapShyft begin adding workers as part of multiyear expansion plans. The increased number of high-paid professionals will support strong household formation and generate increased retail sales, fostering another year of elevated deliveries. Hamilton County will see a notable amount of construction this year with Harley Davidson headlining the majority of the new space. In Boone County, The Shoppes at Anson, located along I-65 in Whitestown, is the metro's largest project slated for delivery. The 300,000-square-foot retail development, which includes Ross and T.J.Maxx, is scheduled to finish in Summer 2018. Despite another year of heightened completions, absorption of roughly 1.1 million square feet reduces the vacancy rate for the eighth time in nine years, resulting in the metro's rent growth keeping stride with the national average.

**Stronger yields garner attention from coastal investors.** Providing investors higher yields and lower entry costs than primary markets, Indianapolis attracts buyers from an array of coastal markets this year. Historically, shoppers from these places comprise the majority of out-of-state investors, a trend that should continue in 2018. Properties above the $10 million mark in the Meridian Hills neighborhood are highly sought after. These investors also seek assets around the Fashion Mall at Keystone. Here, first-year yields fall in the low- to mid-8 percent range, up to 400 basis points higher than many gateway markets. Strip malls and neighborhood centers near the University Heights area and communities around the Indianapolis Motor Speedway draw a considerable number of local investors. Initial returns in these locales vary in the upper-8 to lower-10 percent realm.

## 2018 Market Forecast

**NRI Rank** 34, up 4 places — Robust employment growth results in Indianapolis jumping four positions this year.

**Employment** up 2.4% — A high inflow of new companies sparks robust employment growth this year as employers add 25,500 workers. Last year, the Indianapolis labor pool expanded by 1.7 percent.

**Construction** 940,000 sq. ft. — Although development registers a slight downturn, 2018 marks the fourth consecutive year with completions eclipsing 900,000 square feet.

**Vacancy** down 20 bps — After rising 60 basis points in 2017, vacancy posts a reduction this year, putting the rate at 5.2 percent.

**Rent** up 3.2% — Compressing vacancy triggers a modest climb in average asking rent, pushing the price to $14.99 per square foot. This follows an 8.5 percent boost one year earlier.

**Investment** — Retail development will follow the strong residential growth in the northern suburbs, creating an attractive market for buyers.

# Contracting Development Triggers Tightening Vacancy Throughout Kansas City

**Corporate expansions support household formations, lifting demand for retail.** Boosted by significant hiring at Cerner, Garmin and various financial and engineering firms, job growth has remained steady, driving demand for necessity and specialty retail throughout the metro. The resulting environment has contracted retail vacancy considerably; it has fallen more than 150 basis points below the tightest levels of the previous economic cycle. While builders were steadily completing an average of 1.1 million square feet during the previous five years, deliveries will slow dramatically over the coming year, ushering in a robust market where net absorption exceeds new supply by a fairly wide margin. Construction is skewed toward less dense locations in Clay County, while new supply in the primary suburbs of Jackson and Johnson County will fall below 100,000 square feet. Due to the limited amount of available space, average asking rental rates will trend higher, rising by a mid-single-digit amount over the coming year.

**Rising prices and stronger yields draw investors.** Above-average first-year returns, coupled with strong demographics, are drawing investors to Kansas City retail assets. First-tier suburbs in Overland Park and Eastern Jackson County remain staples for both institutions and high-net-worth individuals, with cap rates averaging in the mid-6 to mid-7 percent band depending on asset size and location. Meanwhile, properties near the Streetcar line between Union Station and the Plaza remain extremely popular due to excellent visibility and traffic counts. Several of these buildings offer considerable value-add potential as well, owing to years of deferred maintenance and a reinvigorated base of residents in urban submarkets. Improving occupancy in the core will motivate additional investors to deploy capital in these areas as well, which will spur cap rate compression and boost rental rates over the coming year.

## 2018 Market Forecast

**NRI Rank** 45, no change — Kansas City remained unchanged in this year's Index as low asking rents weighed on the ranking.

**Employment** up 0.7% — This year, 8,000 new jobs will be created by an array of employers, expanding payrolls by 0.7 percent. Last year, 9,600 positions were added.

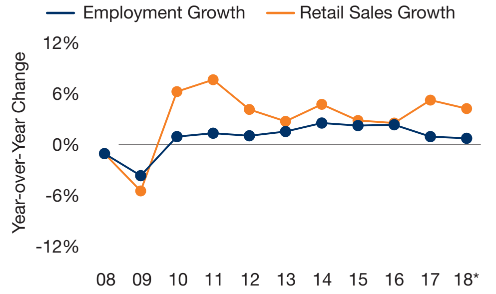
**Construction** 350,000 sq. ft. — Developers will dramatically shrink the pace of construction from 970,000 square feet in the previous year to 350,000 square feet this year.

**Vacancy** down 10 bps — After remaining unchanged at 5.9 percent last year, vacancy declines 10 basis points over the coming year as demand for space outpaces construction.

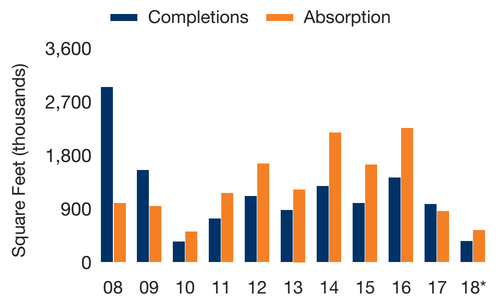
**Rent** up 4.4% — The average asking rent rises 4.4 percent to $12.82 per square foot as limited development boosts demand for existing assets throughout the metro.

**Investment** — A lack of development in Eastern Jackson and Johnson counties will draw buyers to stable properties in residential areas. These assets trade with attractive cap rates near 7 percent or higher.

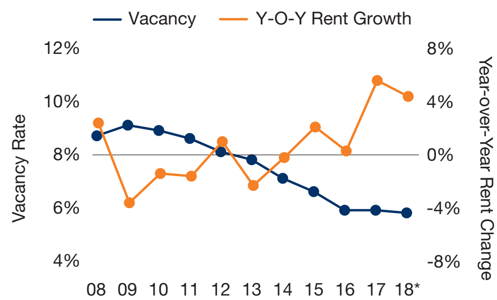
### Employment vs. Retail Sales Trends



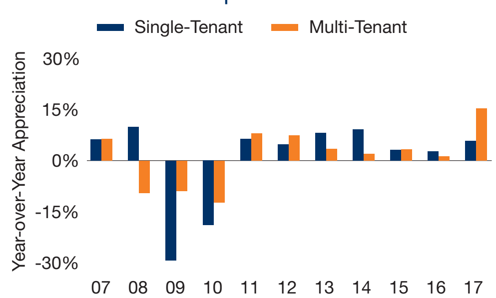

### Retail Completions




### Asking Rent and Vacancy Trends

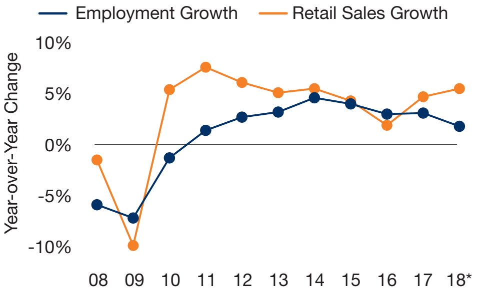



### Price Per Square Foot Trends

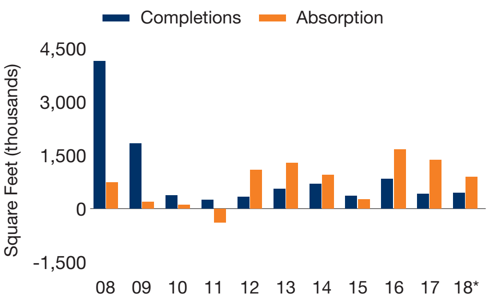



* Forecast
Sources: CoStar Group, Inc.; Real Capital Analytics

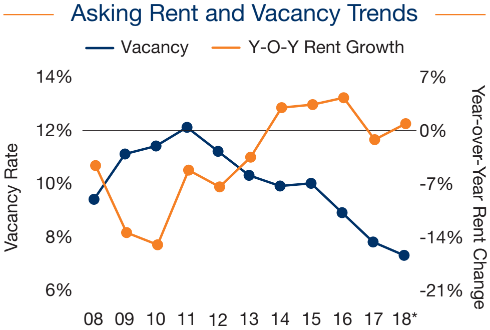
Employment vs. Retail Sales Trends



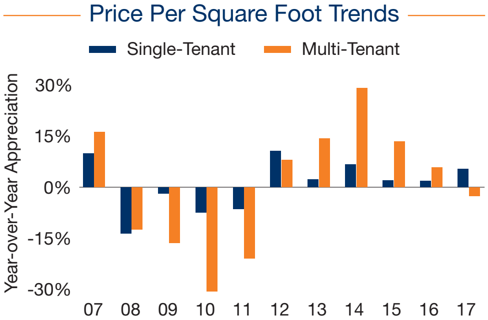

Retail Completions




Asking Rent and Vacancy Trends




Price Per Square Foot Trends




* Forecast
Sources: CoStar Group, Inc.; Real Capital Analytics

# Falling Construction, Broad Economic Growth Underpin Las Vegas Retail

**Job growth outpacing national average; development remains muted.** Underpinned by employment growth in a wide array of industries, Las Vegas retail assets are performing exceptionally well. Vacancy has fallen to the lowest point in the current cycle as limited construction and economic expansion have combined to absorb excess capacity in the sector. Over the coming year, the average vacancy rate will fall to the lowest level of the current cycle, down more than 400 basis points from 2011. Additionally, the average size of retail space coming online is roughly 15,000 square feet, powered by built-to-suit single-tenant concepts such as bars and restaurants. Projects are widespread throughout the metro, led by the Las Vegas Athletic Club in Henderson, which will provide a broad base of construction, even as overall development remains subdued. Rent growth will remain marginal, however, as owners continue to prioritize filling empty spaces and leases from prior years in the cycle have yet to roll over to market rates.

**Accelerating prices, robust cash flows drawing investors to Las Vegas retail properties.** Elevated capital flows and rising prices will persist throughout 2018 as buyers from coastal metros, particularly those in California, scour the metro for high-quality retail assets. First-year returns can exceed their home markets by more than 300 basis points in some cases, reaching up to the low-7 percent range on average, keeping investors highly motivated. While pricing remains modestly below the previous peak recorded in 2007, rising deal flow and a competitive bidding environment could force prices over this psychological threshold due to strengthening sentiment over the coming months. Plummeting vacancy in many submarkets has already transformed the obvious value-add assets in the marketplace, fostering a more patient approach than prior years in the cycle required, yet pockets of assets in transitioning neighborhoods remain available.

## 2018 Market Forecast

**NRI Rank**
37, down 2 places

Higher vacancy relative to other markets dropped Las Vegas two places in this year's Index.

**Employment**
up 1.8%

Employment growth slows somewhat from 2017 as 18,000 jobs are created, expanding payrolls by 1.8 percent. In the previous year, 25,000 positions were added.

**Construction**
440,000 sq. ft.

Supply additions tick up moderately this year as 440,000 square feet is brought online, primarily in the southern portions of the metro. Last year, 410,000 square feet was completed.

**Vacancy**
down 50 bps

The metro vacancy contracts 50 basis points to 7.3 percent as net absorption nearly doubles new supply over the coming year. In the prior four quarters, vacancy plummeted 110 basis points.

**Rent**
up 2.8%

The average asking rent advances 0.9 percent to $17.23 per square foot as contracting vacancy restores rent growth after a 1.2 percent decline in 2017.

**Investment**

Assets with rising NOI in outlying portions of Henderson and Southern Las Vegas are a target for many investors seeking above-market returns.

# California's Largest Metro Boasts Stable Vacancy; Reduced Investment Options Lift Competition

**Healthy market conditions warrant cycle-high rents.** The metro's vacancy rate has hovered below 5 percent for the past four years, while annual delivery volume averaged more than 1.3 million square feet. Retailer expansions in 2018 fuel a healthy rate of absorption that negates the impact of new supply, prolonging this trend for another year. Higher-paying job creation, income growth and a wave of housing developments have converged to motivate stores to enlarge footprints and bolster staffs in anticipation of consumer spending increases. Outside of Long Beach Exchange and the Collection at Oceanwide Plaza, minimal newly constructed space will be available for lease this year. Fewer completions will maintain below-average vacancy in West Los Angeles and the South Bay, equating to robust local rent growth. These gains, coupled with heightened tenant demand throughout most of Los Angeles County, push the metro's overall asking rent past the previous cycle's peak.

**Listings shortage elevates pricing.** Following a two-year span of heightened transaction activity, listing volume decreased over the past 12 months while pricing reached a historically high level. Record asset values and a large buyer pool could motivate more owners to market properties, though many remain in a holding pattern. Minimal for-sale inventory limits opportunities for investors, heightening competition for well-located and repositionable properties. An influx of rentals in Downtown Los Angeles has buyers eager to acquire storefront and mixed-use buildings in Mid-Wilshire, where asset values are triple the metro's average price per square foot. A lack of retail development in Westside Cities enhances investors' appetites for older properties featuring a mix of retail and office space. Here, buyers may encounter 3 percent to mid-4 percent first-year returns. Investors seeking lower price points and higher yields enter the San Fernando Valley and South Bay, where 4 to mid-5 percent cap rates are more common.

## 2018 Market Forecast

**NRI Rank** 10, down 2 places — Los Angeles declined two rungs into 10th place as markets with higher levels of employment and retail sales growth leaped ahead.

**Employment** up 1.2% — Employers create 53,000 positions in 2018, surpassing the 46,700 jobs added in 2017. Retail-trade firms bolster payrolls by 10,000 workers this year.

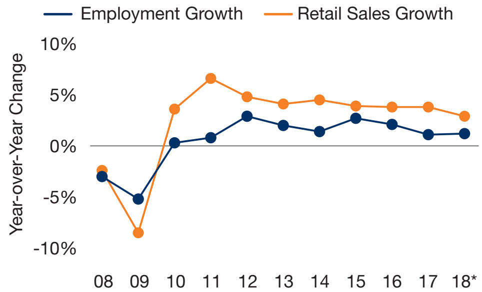
**Construction** 1.3 million sq. ft. — Development activity shifts moderately following the completion of 1.6 million square feet last year.

**Vacancy** up 10 bps — The metro's vacancy rate rises nominally to 4.1 percent by year end. Vacancy also dropped by 10 basis points last year.

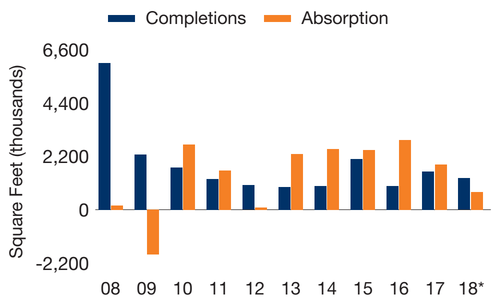
**Rent** up 4.2% — Low vacancy will enable operators to lift asking rents to $32.17 per square foot. Rent increases of at least 5 percent were witnessed in each of the past three years.

**Investment** — Buyers priced out of the metro's four major submarkets target the San Gabriel Valley, where 1980s- and 1990s-built centers are available at pricing below the metro average. Properties in this area typically net investors yields in the 5 percent range.

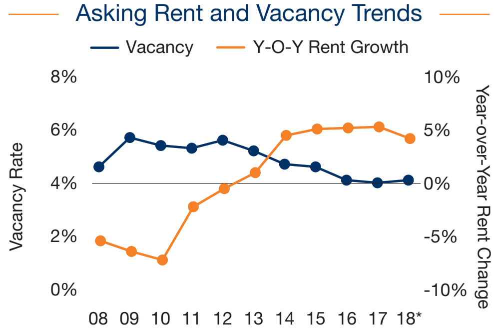
### Employment vs. Retail Sales Trends



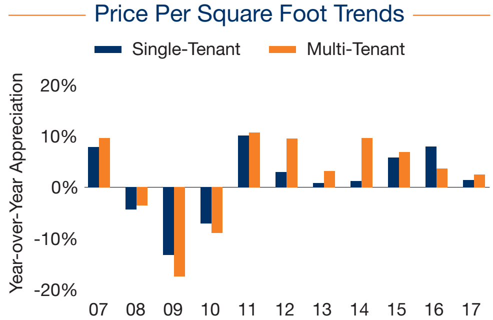

### Retail Completions




### Asking Rent and Vacancy Trends



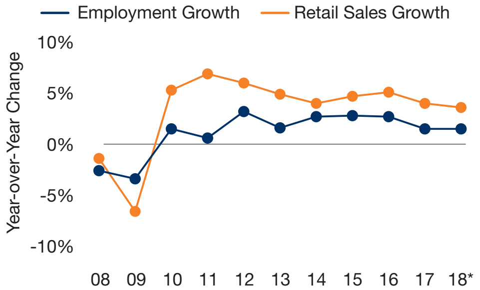

### Price Per Square Foot Trends



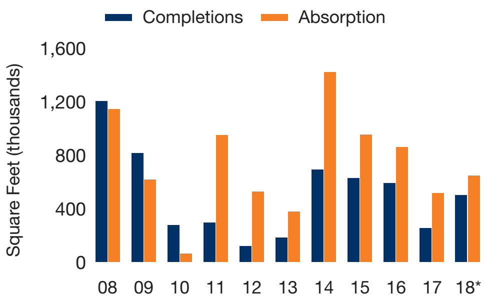

* Forecast

Sources: CoStar Group, Inc.; Real Capital Analytics

Employment vs. Retail Sales Trends




Retail Completions

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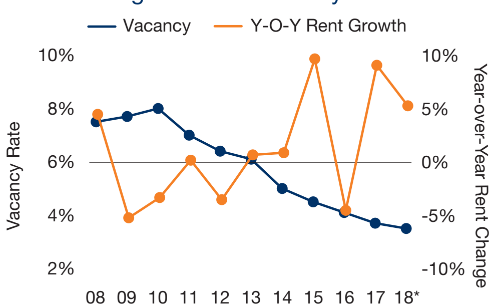
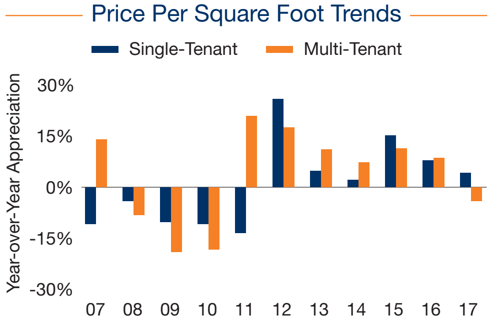



Price Per Square Foot Trends




* Forecast
Sources: CoStar Group, Inc.; Real Capital Analytics

# Tight Vacancy Prompts Historically High Rents, Escalating Asset Values

**Expanding retailers vie for limited available space.** Retail spending is slated to surge for a fourth consecutive year, fueled by positive demand drivers. The local employment base has increased by nearly 64,000 positions over the past four years and will continue to grow in 2018. The robust local economy has supported household growth of 4 percent over the same period, heightening demand for nearby shops and retail centers. Increased consumer spending has motivated retailers to amplify local footprints, yet a lack of existing vacant space and newly built properties could limit leasing options for growing companies. By year end, the metro's vacancy rate will reach a historically low level, enabling a second straight year of stout rent gains. Extremely low availability and growing asking rates should motivate developers with proposed projects to speed up construction timelines in order to meet the heightened demand for space.

**Closer-in value-add options and newer suburban assets trigger transaction activity.** Robust investor demand over the past two years has returned average pricing to the previous cycle's peak level. Accelerating asset values have motivated more owners to market assets, equating to a recent span of strong deal flow. This period of amplified sales velocity could open opportunities for buyers in 2018, increasing competition for properties while the metro's average cap rate hovers in the low- to mid-7 percent range. Investors eyeing sub-$2 million repositioning opportunities largely target Old Louisville, acquiring storefront retail and smaller mixed-use buildings of various vintages at 8 to 9 percent yields. The southern area of Louisville near ramps for I-265 and surrounding main corridors appeals to out-of-state buyers seeking newer properties at low-6 to low-8 percent returns. Many of these same investors are also considering listings in the growing employment hub of the eastern suburbs near Interstate 64 and Highway 60. The area attracts buyers willing to accept mid-4 percent minimum yields for post-2000-built space.

## 2018 Market Forecast

**NRI Rank** 36, down 1 place — Retail sales growth below the national level result in Louisville slipping one notch in the NRI.

**Employment** up 1.5% — The metro's job growth outpaces the national rate of increase for a fifth year in a row, creating 10,200 jobs in 2018. Retail-related hiring drives employment growth.

**Construction** 500,000 sq. ft. — Following a period of minimal retail construction last year, developers complete half a million square feet of new space. Projects in Jeffersonville account for more than half of this new supply.

**Vacancy** down 20 bps — The metro vacancy rate compresses for an eighth consecutive year, falling to 3.5 percent. In 2017, a 40-basis-point drop was recorded.

**Rent** up 5.3% — Limited vacancy supports stout rent growth. After rising by 9.1 percent in 2017, the average asking rate advances to $14.03 per square foot in 2018.

**Investment** — Local buyers priced out of eastern suburbs shift their attention across the Ohio River. Pre-2000s-built properties in New Albany and Jeffersonville are the primary target, netting investors 6 percent minimum first-year yields.

# Miami Retail Remains Popular Among Investors; Net-Leased Assets Particularly Favored

**Additional world-class shopping locations coming online in 2018.** Miami continues to be recognized as an established global shopping destination, fueled by its robust tourism activity and an affluent population. Exceptional job growth and in-migration trends underpin strong retail performance, leading to a vacancy rate that has held under 4 percent for four years now as space demand remains robust. In the face of the mounting pressures the retail sector has witnessed, retailers remain confident in the local market, encouraging Target, Walmart and Dick's Sporting Goods to take up new space. Publix has also been in expansion mode, adding several locations last year to meet the needs of a growing population. A number of projects are anticipated for delivery this year, bringing completions to their highest level since 2008, led by Miami Worldcenter with 450,000 square feet of retail space and the 315,000-square-foot expansion of the Aventura Mall.

**Positive long-term outlook generates investment across Miami-Dade.** A surge in leasing activity and new construction has fueled investor demand for retail assets as buyers recognize that Miami's gateway status positions the market to weather future turmoil felt in the sector. Quality credit single-tenant net-lease properties hold their appeal among a broad base of investors for their hands-off approach to creating cash flow, bringing a wide mix of private and institutional capital to the market. Properties occupied by tenants such as CVS and Starbucks traded at cap rates in the mid-4 percent to low-5 percent band in 2017, marking little movement from the previous year. Grocery stores and discount retailers continue to gain ground among investors, recording first-year yields in the mid-5 to mid-6 percent range. The strength of the local retail market, driven by favorable demographics and strong job growth, will hold transaction velocity elevated, potentially adding to the rise in deal flow registered last year.

## 2018 Market Forecast

**NRI Rank** 17, down 1 place — Rising vacancy and a cycle-high construction schedule drop Miami one rung in the Index.

**Employment** up 2.2% — Job creation surged following Hurricane Irma, bringing 2017 employment growth to 35,300. The labor force will tighten and hiring will slow to 26,000 jobs this year.

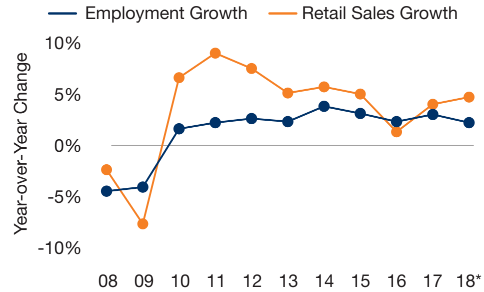
**Construction** 2 million sq. ft. — Completions reach their highest level since 2008 this year as 2 million square feet is anticipated for completion, rising from the 1.2 million square feet added in 2017.

**Vacancy** up 40 bps — Heightened construction pushes the vacancy rate up to a still-tight 4.1 percent this year, adding to a 10-basis-point increase registered last year.

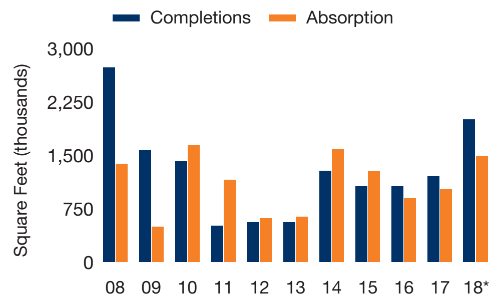
**Rent** up 1.9% — Asking rent growth slows from the 5.3 percent pace posted in 2017 as vacancy climbs, bringing the average rate to $35.82 per square foot.

**Investment** — Strong asset appreciation over the past several years combined with this year's rising costs to finance could bring multiple assets to market as owners exchange into new investments.

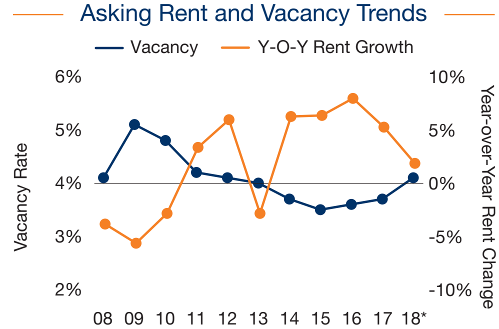
### Employment vs. Retail Sales Trends



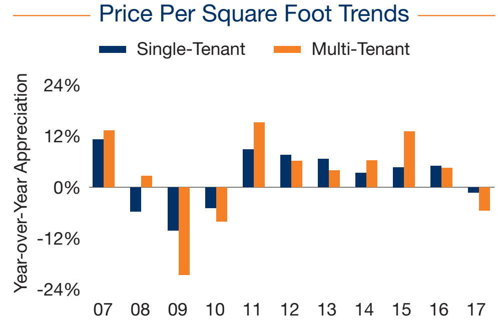

### Retail Completions




### Asking Rent and Vacancy Trends



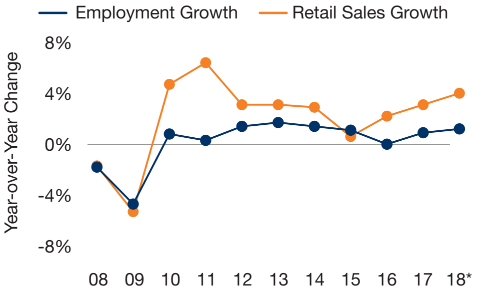

### Price Per Square Foot Trends



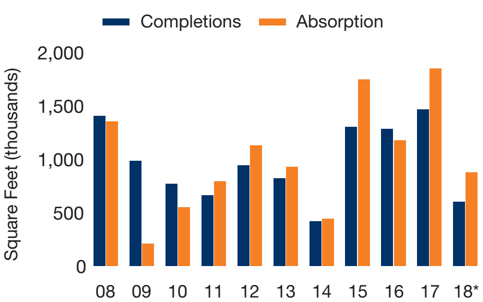

* Forecast

Sources: CoStar Group, Inc.; Real Capital Analytics

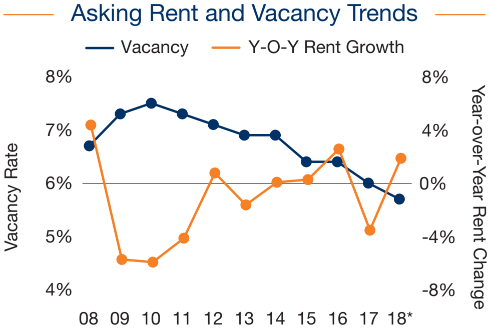
Employment vs. Retail Sales Trends



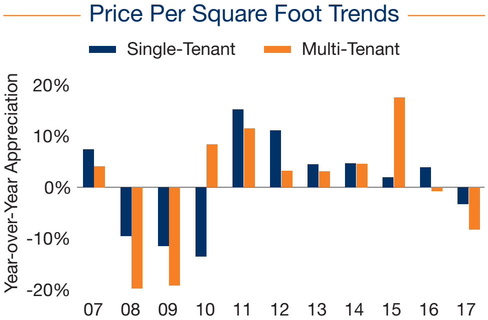

Retail Completions




Asking Rent and Vacancy Trends




Price Per Square Foot Trends




* Forecast
Sources: CoStar Group, Inc.; Real Capital Analytics

# Space Demand Paces Construction Boom, Drives Milwaukee Retail Vacancy Lower

**Available space tightens as retailers expand.** Ikea will open its first store in the state during 2018, a 291,000-square-foot building along Interstate 94 in Oak Creek that will account for nearly half of this year's meager supply of new retail inventory. The I-94 corridor south of Milwaukee will be a hub of activity as construction on the Foxconn facility in Racine County ramps up. Necessity-based retailers and service providers nearby should benefit from job seekers moving to the area to fill the need for 5,000 construction workers at the site and nearly 13,000 positions once the facility reaches full capacity. Job growth throughout the metro is expected to contribute to an increase of nearly 5,300 households in 2018, slightly more than last year's gain. The median household income will advance 3.7 percent in 2018, exceeding the national average and boosting retail sales a projected average of 4.0 percent. These favorable demographic trends are attracting retailers to lease space in the metro, which will tighten vacancy to a 10-year low and move rents higher.

**Tax clarity boosts retail sector.** With more certainty on taxes, investor interest will pick up for assets with sound fundamentals. Single-tenant properties continue to lure out-of-state buyers to assets throughout the metro at cap rates that average in the low-7 percent span. The potential impact of the Foxconn facility will keep some buyers focused on assets at the south end of the market. Single-tenant buildings and centers with necessity-based tenants will be targeted. Heading north, favorable demographics will keep buyers active in New Berlin and Brookfield as well as the Interstate 43 corridor north of downtown. Here multi-tenant properties along major thoroughfares or near large retail hubs will receive significant interest. Marketwide, cap rates for multi-tenant assets have increased approximately 50 basis points over the last 12 months to average in the high-8 percent range.

## 2018 Market Forecast

**NRI Rank** 42, no change — Vacancy above the U.S. level holds Milwaukee in the 42nd slot in this year's NRI.

**Employment** up 1.2% — Roughly 10,000 workers will be added to payrolls during 2018, up from 7,700 last year, when health services accounted for a large portion of the new jobs.

**Construction** 600,000 sq. ft. — Deliveries fall below the five-year average to 600,000 square feet in 2018, less than half of last year's 1.5 million square feet.

**Vacancy** down 30 bps — A restrained supply of new inventory amid healthy leasing activity reduces vacancy to 5.7 percent in 2018, following a decline of 40 basis points last year.

**Rent** up 1.9% — Asking rent for available space advances 1.9 percent to $11.44 per square foot, leaving the average rent 15 percent below the 10-year peak.

**Investment** — Store closings will offer opportunities for non-traditional retailers such as medical services or day-care facilities to lease retail space, keeping occupancy tight and giving these properties attractive upside potential.

# Retail Market Shines as Vacancy Falls to Cyclical Low; Investors Favor Outlook

**Vacancy tightens further as empty boxes fill.** Available retail space falls to the lowest rate of the cycle in 2018 as deliveries ebb and vacant department stores and junior boxes fill. Lifetime Fitness, Gander Outdoors and home-improvement outlets are among retailers taking larger spaces. The flurry of grocery-store expansions in recent years is slowing. Hy-Vee has new locations underway, although the company will readjust its strategy and consider smaller formats for some of its planned sites to meet the changing shopping habits of its customers. Additional retailers are entering the market, drawn by steady employment gains and favorable demographics trends that will bring nearly 30,000 new residents to the market and place the median household income more than $15,000 above the national level. As a result, retail sales are expected to rise 3.9 percent in 2018.

**Strong retail performance draws eager investors.** One of the tightest retail markets in the nation has captured investor attention, although the lack of available assets keeps some buyers waiting on the sidelines. Infill neighborhood and strip centers close to the urban core in the $1 million to $5 million price tranche are the most sought-after assets and appropriately priced buildings can receive multiple offers. Well-located buildings with necessity-based national tenants trade at cap rates averaging in the low- to mid-6 percent range, while properties with a higher mix of non-credit tenants may exchange hands at yields that are 50 to 100 basis points higher. The redevelopment of former gas station sites into strip centers within the first-ring suburbs is providing additional buying opportunities. The few grocery-anchored centers that are listed receive strong investor interest at cap rates in the 6 percent span. National fast-food and drugstores are luring out-of-state exchange buyers at initial yields beginning in the 5 percent range.

## 2018 Market Forecast

**NRI Rank** 24, up 1 place — Minneapolis-St. Paul remains the highest-ranked Midwest market, moving up one notch in the Index.

**Employment** up 1.7% — Following a 2.3 percent gain last year when 44,500 workers were added to payrolls, employment slows to 34,000 jobs during 2018 as the supply of available workers tightens.

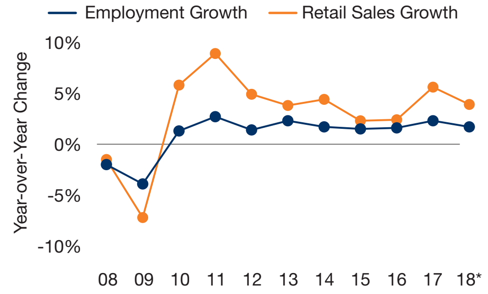
**Construction** 500,000 sq. ft. — Deliveries fall below the five-year average as 500,000 square feet comes online in 2018. Last year, nearly 1.3 million square feet was finalized with Mills Fleet Farm, Costco and Hy-Vee opening stores.

**Vacancy** down 40 bps — Vacancy continues to tighten during 2018, decreasing to 3.1 percent; the lowest point of the cycle. Last year, a 20-basis-point decline was posted.

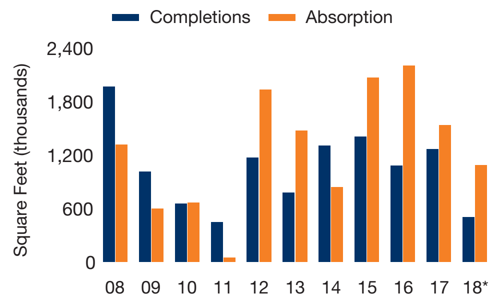
**Rent** up 3.9% — In 2018, the average asking rent for available space reaches a new high of $16.61 per square foot following a 12.1 percent hike last year.

**Investment** — Retailers are following home construction in the suburbs that lifts consumer spending for necessity goods and draws investors seeking yield farther from the core.

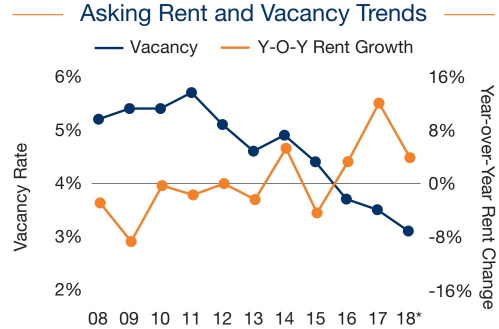
Employment vs. Retail Sales Trends



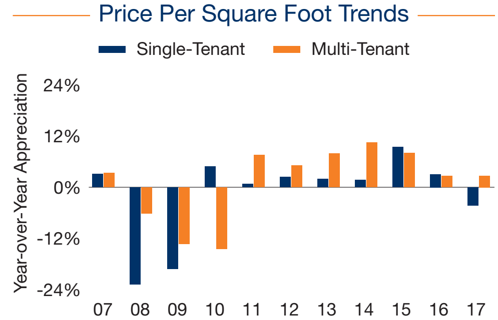

Retail Completions




Asking Rent and Vacancy Trends



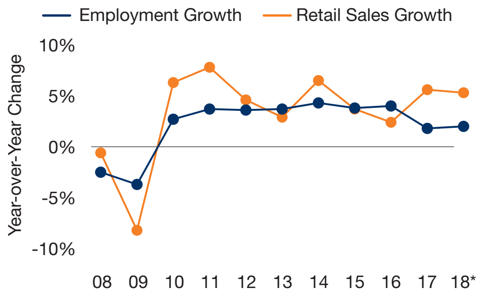

Price Per Square Foot Trends



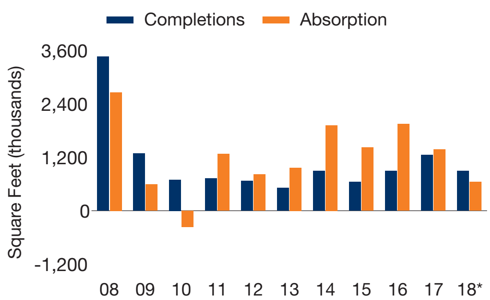

* Forecast
Sources: CoStar Group, Inc.; Real Capital Analytics

# Nashville

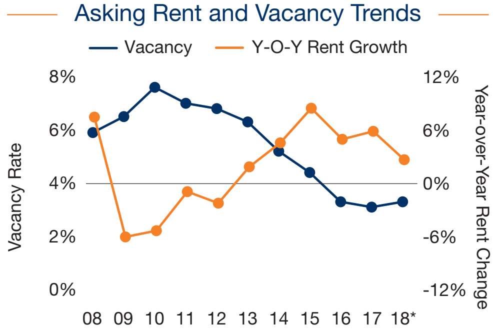
### Employment vs. Retail Sales Trends



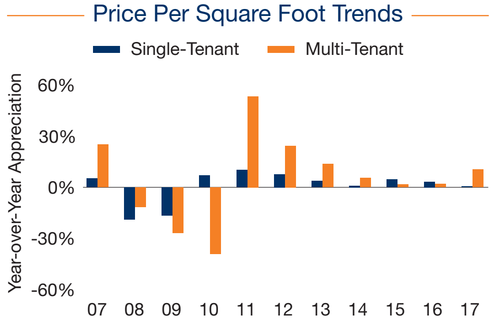

### Retail Completions




### Asking Rent and Vacancy Trends




### Price Per Square Foot Trends




* Forecast
Sources: CoStar Group, Inc.; Real Capital Analytics

## Vacancy Near Historical Low; Investors Clamor for Nashville Retail Assets

**Large speculative projects come online; vacancy ticks up modestly.** Strong employment additions coming out of the recession and steady wage growth over the past few years have boosted retail spending in Nashville, generating healthy demand for retail space. As a result, positive net absorption has outstripped supply additions in each of the last seven years, pushing Nashville's retail vacancy rate to one of the lowest in the country. This year, development eases slightly from 2017 but remains in line with the previous five-year average. The largest project slated for completion is the 245,000-square-foot community retail center in Kennesaw Farms located between Gallatin and Hendersonville to the northwest of Nashville. This project comes online 100 percent leased, but an additional 300,000 square feet of retail space is slated for delivery later this year in two projects that are largely unleased. As a result, vacancy ticks up slightly in 2018 but remains low by historical standards.

**Buyers from coastal markets compete with local investors for limited investment opportunities.** Healthy property operations lure investors to Nashville, with buyers from across the country seeking opportunities in the market. Investors from the West Coast and Northeast are competing with local buyers for retail assets, drawn to returns 150 to 200 basis points higher than home markets. Sales are limited, however, as owners have been slow in bringing retail assets to market. Grocery-anchored properties are in high demand, typically changing hands from the high-6 percent to low-7 percent span. Strip centers are also strongly sought after, yielding cap rates in the 7 percent area. Assets located inside Nashville proper, as well as the suburbs of Franklin, Clarksville, Murphreesboro and Nolansville garner intense buyer interest.

## 2018 Market Forecast

**NRI Rank** 4, up 1 place — Tight vacancy and minimal deliveries in 2018 bump Nashville up one place in the NRI.

**Employment** up 2.0% — A tight labor market results in another year of reduced job growth, and employment will expand by 19,500 workers this year. Job gains averaged more than 30,000 positions in each of the last five years.

**Construction** 890,000 sq. ft. — After bringing nearly 1.3 million square feet of retail space online during 2017, completions dip and fall in line with the five-year average.

**Vacancy** up 20 bps — Despite a slight uptick in vacancy this year, Nashville continues to boast one of the lowest rates in the country at 3.3 percent.

**Rent** up 2.7% — Rent growth will moderate this year as the average asking rent rises to \$18.37 per square foot.

**Investment** — Some local developers are selling off retail assets to redeploy capital into other projects, expanding opportunities for investors to buy properties.

# Limited Development, Commuter Haven Powering Southern Connecticut Retail

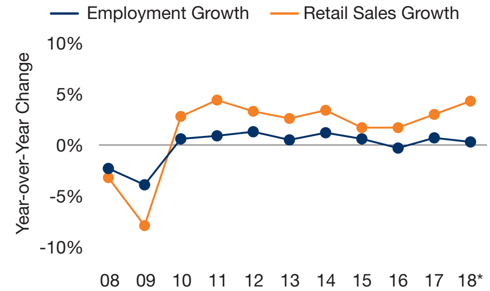
**Tri-state area economic strength boosting demand for retail assets.** The rising tide of local residents, driven by job growth throughout the tri-state area, underpins a vibrant retail environment. In particular, high-income households line the coast along I-95, generating significant spending at local retail establishments. These factors have spurred a multiyear upswing in property performance, pushing retail vacancy more than 200 basis points below pre-recession levels. Despite extremely robust performance, new construction has remained limited, reaching above half a million square feet only twice in the current business cycle. Completions will be led this year by the Riverview Cinema in Southbury, with the remainder of the pipeline dominated by a selection of net-lease bars and restaurants. This has provided fertile ground for growth in the average asking rent as net absorption has exceeded supply growth for two consecutive years due to robust pre-leasing in the market. Asking rents will once more advance by a mid-single-digit percentage in 2018 as heightened competition prompts higher prices.

**Strengthening fundamentals set to increase buyer appetite for the region's booming retail sector.** Investors have been busily deploying capital into southern Connecticut in search of higher yields, particularly those based in New York City or other portions of the tri-state area. Cap rates in the metro can provide an extra 300 basis points or more of yield, driving significant demand for well-located properties along I-95 and other major commuter routes. As construction declines this year, investors will be more motivated to raise bids for new properties in the marketplace, providing a tailwind to pricing in the metro. Smaller properties away from major transportation routes will exchange ownership at higher-than-average cap rates in the low-7 percent range but granular insights into local trends will be key for these assets.

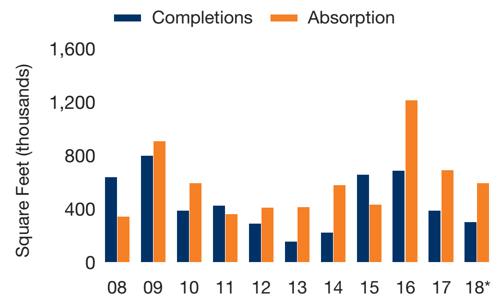
## 2018 Market Forecast

| | |
|---|---|
| **NRI Rank** 43, down 2 places | More dynamic growth in other metros pushed New Haven-Fairfield County down two places this year. |
| **Employment** up 0.3% | Employment growth slows moderately as 2,500 jobs are created this year, a 0.3 percent gain. Last year, 5,200 positions were created. |
| **Construction** 296,000 sq. ft. | Completions slide to 296,000 square feet in 2018, underpinned by a slowdown in multi-tenant construction. In 2017, 380,000 square feet was brought online. |
| **Vacancy** down 30 bps | Net absorption outpaces subdued development, leading vacancy to contract 30 basis points to 4.1 percent. In the last year, vacancy fell 40 basis points. |
| **Rent** up 4.6% | The average asking rent advances 4.6 percent to $23.75 per square foot as tightening conditions prompt increased competition. Rent rose 6 percent last year. |
| **Investment** | Properties located within walking distance of the Metro North remain highly desirable due to high traffic counts and excellent demographics nearby. |

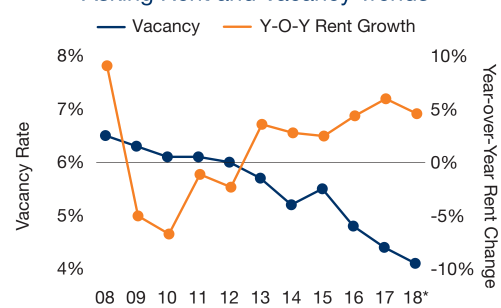
### Employment vs. Retail Sales Trends



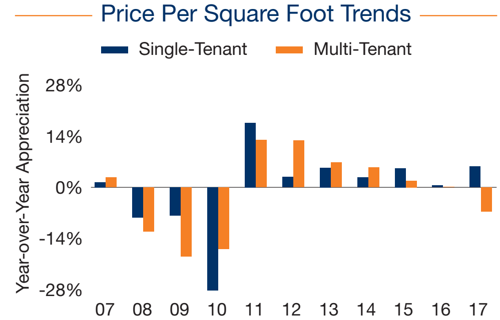

### Retail Completions




### Asking Rent and Vacancy Trends

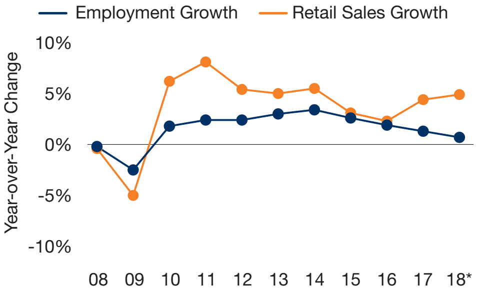



### Price Per Square Foot Trends

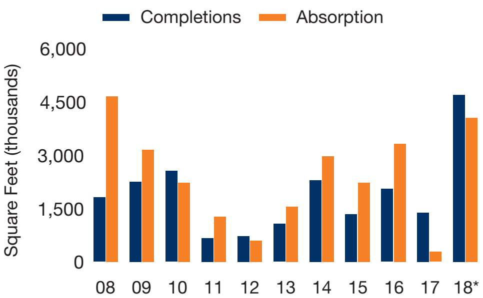



* Forecast
Sources: CoStar Group, Inc.; Real Capital Analytics

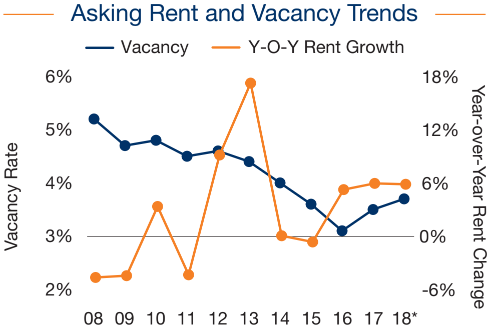
Employment vs. Retail Sales Trends



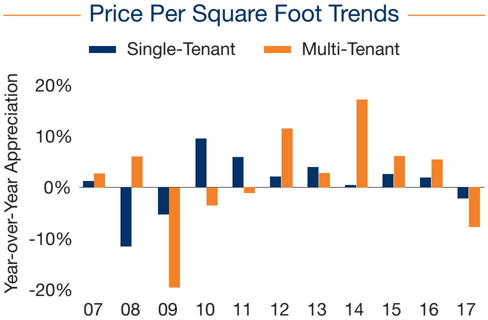

Retail Completions




Asking Rent and Vacancy Trends




Price Per Square Foot Trends




* Forecast
Sources: CoStar Group, Inc.; Real Capital Analytics

## Supply Reaches Decade High as Outer Borough Construction Intensifies

**Vacancy ticks up moderately from cycle lows but asking rents continue upward trend.** A diverse base of employment in New York City, featuring multinationals and startups, has sponsored tremendous strength in the retail sector over the past decade. Vacancy has fallen well below 4 percent as tenants scooped up floor plates throughout the five boroughs, with strength especially pronounced in Manhattan and Brooklyn. Years of improvement have triggered a larger development response this year, and completions will reach the highest level since 2010. Most noticeably, construction will rise in the outer boroughs, led by three-quarters of a million square feet on Staten Island. In Manhattan, the largest delivery will be The Shops & Restaurants At Hudson Yards, where a million square feet of retail, restaurant and entertainment space will come online this year. While the L train shutdown in Brooklyn and tenant shifts in Downtown Manhattan lowered net absorption in 2017, strong pre-leasing at new projects should restore absorption to normal levels this year. The resulting environment will trigger another year of solid rent growth.

**Outer boroughs garner investor attention and capital as yields tighten in core neighborhoods.** The strong appreciation in asset prices throughout the metro has prompted an investor focus on properties with multiple pathways for upside, particularly among private parties and syndicates. While institutions favor the safety and security of Manhattan and Brooklyn properties, smaller buyers have been searching the outer boroughs for higher returns. Broadly, cap rates remain in the low- to mid-4 percent range metrowide, although locations farther from the core can provide an additional 100 basis points of yield. Rezoning has also opened new pathways for excess returns in several submarkets, yet the capital investment required to realize these gains can be restrictive. The L train shutdown in Brooklyn has begun to shift buyer sentiment and widen bid/ask spreads due to the long timetable on the project.

## 2018 Market Forecast

**NRI Rank** 9, down 3 places — Rising vacancy and construction weigh on New York City, prompting a three-space decline in the Index this year.

**Employment** up 0.7% — Employers will create 30,000 jobs this year as low unemployment weighs on growth. Last year, 60,000 positions were added to payrolls.

**Construction** 4.7 million sq. ft. — The pace of completions accelerates as 4.7 million square feet of retail space is brought online, far exceeding the 1.4 million finished in 2017.

**Vacancy** up 20 bps — Elevated construction surpasses net absorption, pushing the metro vacancy rate up 20 basis points to 3.7 percent. In the previous four quarters, vacancy rose 40 basis points.

**Rent** up 5.9% — The availability of new, high-priced spaces encourages robust growth in the average asking rent, which will ascend 5.9 percent to $63.14 per square foot.

**Investment** — Transitioning neighborhoods in the outer boroughs along the East River are undergoing considerable appreciation as development nearby revalues local assets.

# Boost in Residential Growth Favors Retail Sales, Allows Investors to Diversify

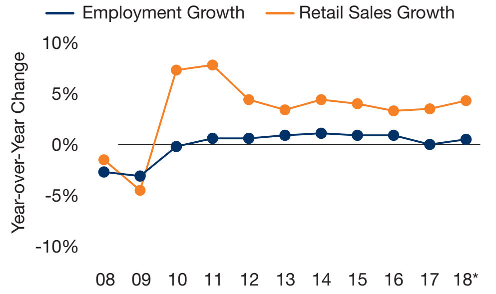
**New completions outpace demand.** A cycle-high level of household formations fuel demand for necessity-based neighborhood retailers across Northern New Jersey. Developers are responding by constructing three major shopping centers in Morris and Union counties. These projects are benefiting from nationally recognized anchor tenants such as Whole Foods. Yet, store closures in many malls and big boxes are occurring, creating opportunity for developers to reorient the space toward services or entertainment and in some cases redevelop it for multi-tenant use. In the short term, however, shuttered stores will prompt net absorption to fall short of supply, ticking the vacancy rate up this year. As vacancy still remains low and household formations create more demand, average marketed rent will improve this year, recovering from the slight decline suffered in 2017.

**Grocery and convenience retailers garner strong appeal; high yields found farther inland.** Limited new construction mixed with a favorable 5 percent vacancy rate offer an appealing landscape for investors. Among the rising number of sellers in the market, some are interested in transitioning to less-management-intensive holdings such as single-tenant properties. Purveyors of necessities are especially popular tenants in such scenarios, as trades of properties that house national grocery or drugstore chains feature cap rates in the low-5 or even high-4 percent range. Assets investors have favored for long-term holds include those with stable tenants located in the denser residential areas of Bergen and Hudson counties. For investors seeking higher initial returns, multi-tenant assets situated in Morris, Union, and Passaic counties offer numerous opportunities. Buildings in those counties with locally known establishments, including bars, restaurants and hairdressers, change hands with yields 50 to 100 basis points above the market average of mid-6 percent.

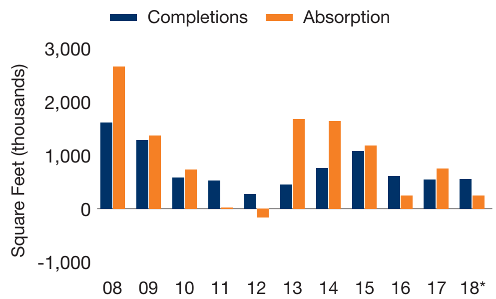
## 2018 Market Forecast

| | |
|---|---|
| **NRI Rank** 39, down 3 places | Widening vacancy causes Northern New Jersey to drop three spots in the NRI. |
| **Employment** up 0.5% | Payrolls will expand by 10,000 positions in 2018, readily outpacing the 800 jobs that joined last year. |
| **Construction** 550,000 sq. ft. | Delivery volume expands by a modest 1.5 percent. Approximately 90 percent of completions are concentrated in Bergen, Morris and Union counties. |
| **Vacancy** up 20 bps | With new supply exceeding demand, the regional vacancy rate rises to 5.1 percent. Premium locales such as Hudson County continue to feature extremely low vacancy below 2 percent. |
| **Rent** up 1.2% | The average asking rent increases to $25.87 per square foot, reversing course from the 0.4 percent decline posted last year. |
| **Investment** | Union and Morris counties, which have a growing number of households, provide tremendous upside potential for both new assets and older shopping centers that are updating their facilities to sign new tenants. |

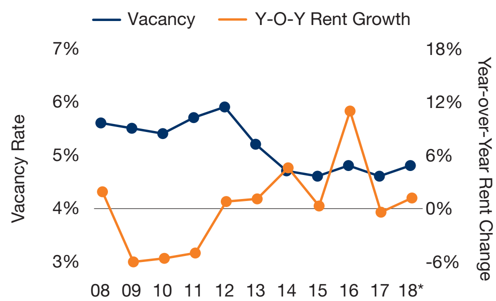
Employment vs. Retail Sales Trends



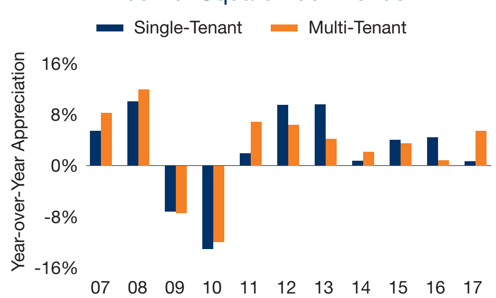

Retail Completions




Asking Rent and Vacancy Trends

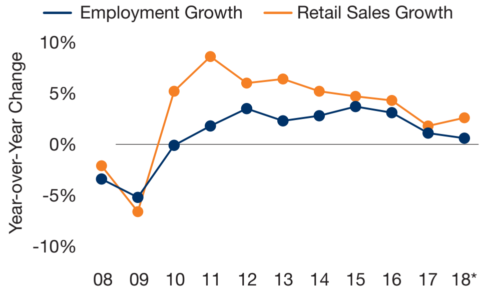



Price Per Square Foot Trends

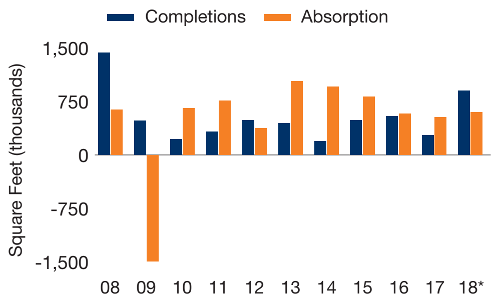



* Forecast
Sources: CoStar Group, Inc.; Real Capital Analytics

Employment vs. Retail Sales Trends




Retail Completions

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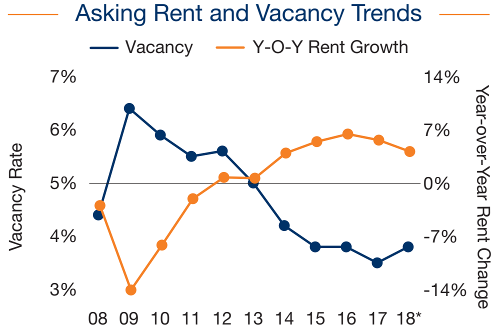
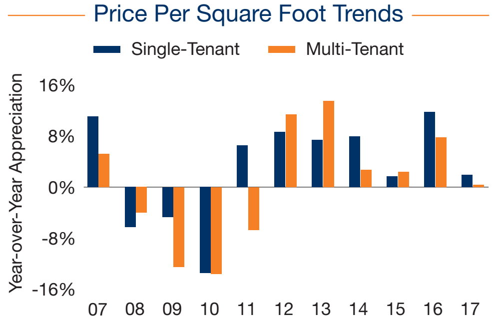



Price Per Square Foot Trends




* Forecast
Sources: CoStar Group, Inc.; Real Capital Analytics

# Investors Follow Residents to East Bay Retail; Development Transforming Suburban Locales

**Robust pipeline reaches cycle high as large shopping centers come online; rent growth remains above average.** Nearly a decade of job creation in the Bay Area has sponsored tremendous strength in the Oakland retail market. As numerous tech firms ventured to the metro, retail tenants followed. They absorbed existing space and pushed the metro vacancy rate well below 4 percent, triggering retail rent growth. As a result, nearby retail space values have vaulted, prompting a broad-based upswing in development activity. The pipeline features several large projects, headlined by the 300,000-square-foot City Center at Bishop Ranch in San Ramon, which contains retail, dining and event space. The predominantly suburban profile of this year's deliveries will focus on staple retail options along major commuter routes, promoting positive net absorption even as deliveries reach the highest point since 2008. While pockets of vacancy increases are likely as the large pipeline is absorbed, the incredibly low availability of spaces will contribute to considerable growth in average asking rent as the year progresses.

**Bay Area capital migrating toward East Bay assets as yields offer incentive.** Boosted by relatively higher yields than both San Jose and San Francisco, buyers are bidding aggressively for well-located centers and net-leased properties with high traffic counts and solid local demographics. Centers with a community staple such as a grocery store can trade at cap rates in the mid-5 percent band, while more outlying assets can provide a 50-basis-point increase in first-year returns. Properties trading below $5 million provide excellent opportunities for private investors and syndicates, since institutional capital will typically target much larger assets to deploy capital. As a result, elevated returns can be obtained from outlying centers where capital investment is required to realize their potential.

## 2018 Market Forecast

**NRI Rank** 21, down 7 places — Elevated construction and a rise in vacancy dropped Oakland seven places in the Index this year.

**Employment** up 0.6% — After creating 12,900 jobs in 2017, employment growth slows to 7,000 positions this year as low unemployment weighs on payroll additions.

**Construction** 900,000 sq. ft. — Completions reach 900,000 square feet as development accelerates from 2017, when 277,000 square feet came online.

**Vacancy** up 30 bps — The rapid pace of deliveries strains overall vacancy, pushing the rate up 30 basis points to 3.8 percent. Last year, vacancy slid 30 basis points.

**Rent** up 4.2% — The average asking rent advances 4.2 percent to $28.22 per square foot as vacancy remains near the lowest level in nearly 10 years. In the previous year, asking rent climbed 5.7 percent.

**Investment** — Emerging smart city plans in San Leandro are transforming valuations and sentiment in suburban cities where activity was recently benign.

# Supply-Demand Balance Sustains Span of Low Vacancy, Bolsters Investor Confidence

**Resilient employment growth, wave of residential development support increased consumer spending.** Job creation by retail and professional service-related organizations fuels a bounce-back year for hiring velocity in Orange County amid sub-4 percent unemployment. Payroll expansions by higher-paying tech, financial and software-associated companies encourage household formations and improve overall incomes, with the median household earning more than $87,000 annually. Retailers with plans to expand their footprints this year must scan the metro's existing stock, as speculative construction is limited and a trio of larger, 100,000-square-foot-plus deliveries are entirely pre-leased. Tenant demand keeps pace with average development, allowing metro vacancy to rest below 5 percent for a fifth straight year and preserving extremely limited availability in Central and West County, and around John Wayne International Airport.

**Investors covet redevelopment and long-term hold opportunities amid economic growth and stable cap rates.** Following a two-year span of heightened deal flow, sales activity in the metro was subdued over the past 12 months, heating investor competition for available listings. The reduction in the number of acquisition opportunities has increased the value of local retail assets, with average pricing notably surpassing the previous cycle's peak. Escalating values could influence some owners of older value-add centers to list, with the lack of new development opening the door for more buyers to execute renovation plays. Coastal communities are a primary focus for local investors seeking assets near tourism spots and affluent residents. Buyers of well-located properties in Huntington Beach, Laguna Beach and Newport Beach accept low-3 percent to 5 percent returns.

## 2018 Market Forecast

**NRI Rank** 19, down 7 places — Orange County recedes seven rungs into 19th place due to slow rent growth and retail sales below the U.S. level.

**Employment** up 1% — Employers expand payrolls by 15,700 workers in 2018 after adding 20,900 jobs in 2017, including nearly 10,000 hospitality positions.

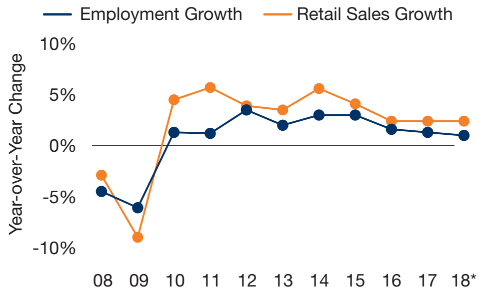
**Construction** 510,000 sq. ft. — Retail development in 2018 falls slightly below last year, when developers completed 585,000 square feet. Three projects in Laguna Hills, Garden Grove and Tustin account for 80 percent of this year's new supply.

**Vacancy** no change — On net absorption of roughly 480,000 square feet, metro vacancy holds at 4.2 percent following an increase of 20 basis points in 2017.

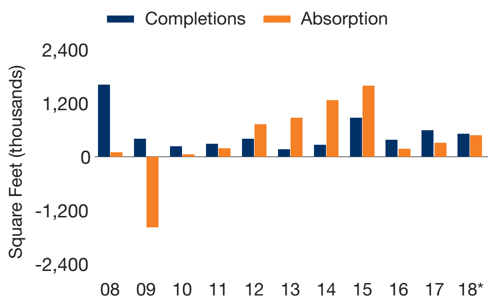
**Rent** up 1.3% — The average asking rent advances marginally to $26.24 per square foot by year's end. In 2017, a 1.4 percent decline was registered.

**Investment** — Investors seeking higher yields in Orange County target centrally located cities. These locales represent a popular spot for pre-1980s-built centers.

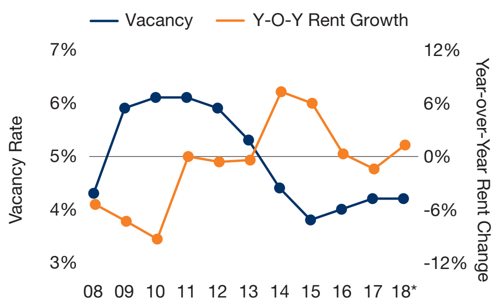
### Employment vs. Retail Sales Trends



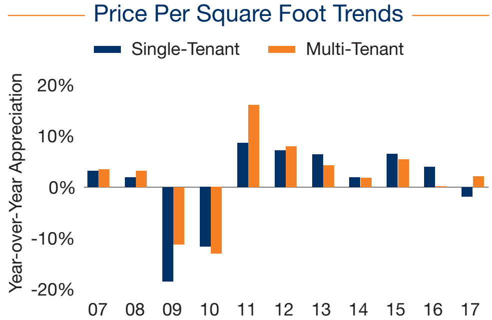

### Retail Completions




### Asking Rent and Vacancy Trends

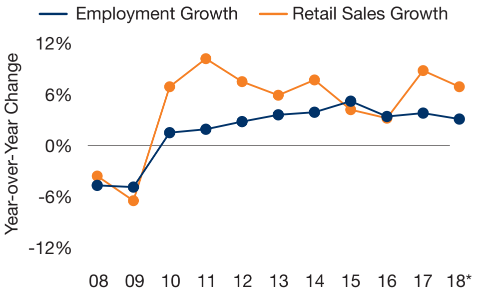



### Price Per Square Foot Trends

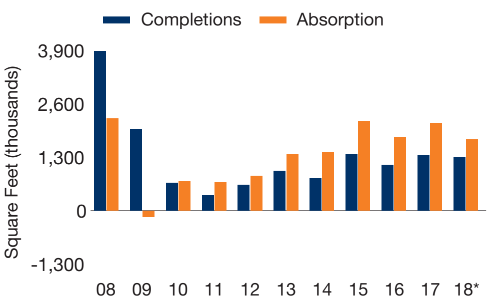



* Forecast
Sources: CoStar Group, Inc.; Real Capital Analytics

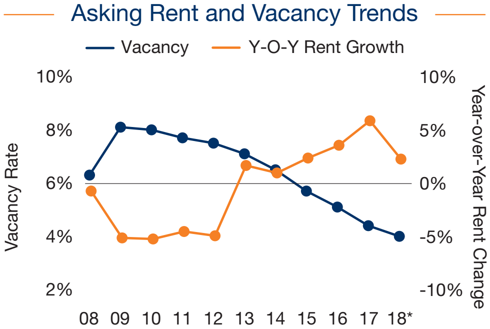
### Employment vs. Retail Sales Trends



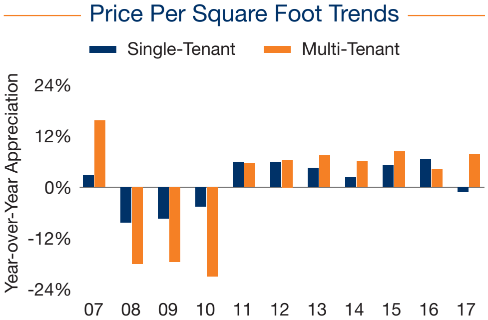

### Retail Completions




### Asking Rent and Vacancy Trends




### Price Per Square Foot Trends




* Forecast
Sources: CoStar Group, Inc.; Real Capital Analytics

## Robust Residential Growth in Orlando Produces a Thriving Retail Market

**Vigorous employment gains boost population and generate retail demand.** Orlando ranked among the top metros in the nation last year in terms of employment and population growth, a trend that is expected to continue in 2018. Retailers are following new rooftops into outlying areas including Lake Nona, Lake Mary and Horizon West where a number of master-planned communities that include retail options are underway. People and retailers are also moving back into the urban cores of Orlando and Winter Park in mixed-use redevelopment projects. Creative Village in Orlando will add a hotel, a university and apartments to downtown, generating demand for bars, restaurants and service-oriented retailers nearby. Strong tenant demand keeps metrowide vacancy at a 10-year low, providing a sixth consecutive year of annual rent growth.

**Yield and growth potential attract buyers to Orlando.** Lower entry costs and multi-tenant cap rates that can average more than 100 basis points above South Florida markets draw investors inland to Orlando. Coastal owners confronted with rising insurance costs after last year's storms may also seek to geographically diversify their holdings. Single-tenant net-leased assets on an outlot of a well-located shopping center are especially desired and draw a wide variety of investors. Stiff competition for these assets has more investors willing to consider new strip malls with national tenants that typically begin trading at cap rates in the 6 percent span. Older centers with a roster of small businesses can trade 200 basis points higher. Many investors are targeting multi-tenant buildings with service-oriented businesses that are considered to be more Internet resistant. As a result, buyers have become more selective in properties with multiple big-box stores. Well-located power centers in areas with strong demographics where big-box stores can easily be subdivided may trade for cap rates in the mid-7 percent range in the core and 50 to 150 basis points higher in outlying areas.

## 2018 Market Forecast

**NRI Rank**
16, up 5 places

Robust employment and household income growth propel Orlando up five places in the NRI.

**Employment**
up 3.1%

Roughly 40,000 workers will be added to payrolls during 2018, following the creation of 46,100 jobs in the prior 12 months. Typically higher-paying office-using firms and hospitality segments led last year's employment gains.

**Construction**
1.3 million sq. ft.

Deliveries mirror last year's completion of 1.3 million square feet. Mixed-use developments will account for the majority of 2018's new retail inventory.

**Vacancy**
down 40 bps

The vacancy rate decreases to 4 percent in 2018, the lowest level of the cycle. Last year, a 70-basis-point reduction was recorded.

**Rent**
up 2.3%

Following a 5.9 percent jump last year, the average asking rent rises to $17.95 per square foot in 2018. Year-end rent will remain 6 percent below the 2008 peak.

**Investment**

Retailers and investors will be drawn to the second phase of the Lake Nona Town Center development, which is slated to add 850,000 square feet of shopping and entertainment space.

# Investors and Developers Target Suburbs As Retail Sales Improve

**Vacancy remains stable as construction and absorption align in the year ahead.** New high-paying jobs in the fields of engineering and healthcare will help boost retail sales growth in 2018 to its highest level in eight years. Developers are providing new space for prospering retailers, especially in suburban areas, specifically in Delaware County, where about two-thirds of new completions are situated. Construction there is split between a major project at Granite Run Mall in Media and another at the Ellis Preserve community in Newton Square. The former is converting vacated department stores into entertainment destinations, while the latter will add a 350,000-square-foot power center to its established retail footprint. As these properties lease up through this year, positive absorption will keep the metrowide vacancy rate flat in 2018. As tenant demand for space in the area remains strong, Philadelphia's average marketed rent will rise for the fifth consecutive year.

**Tenancy drives differences in returns, necessity-based retailers favored.** Healthy net absorption is sending a positive signal to investors who have renewed their engagement with the market, raising transaction activity over the past year. Most of those trades occurred throughout the Pennsylvania suburbs west of I-476 and north of I-276. Buyers following an equity-preservation strategy pursue buildings with convenience and drugstore tenants in those areas, where yields can be in the mid-4 percent range. National grocery chains, dollar stores and restaurants are also sought-after occupants that facilitate cap rates 100 to 150 basis points below the market average, which lies in the mid-6 percent spectrum. Opportunities also exist for higher initial returns typically created with older shopping centers often occupied by more mom-and-pop or local chain operators. These assets changed hands with cap rates in the 8 percent range.

## 2018 Market Forecast

**NRI Rank** 40, no change — Stable vacancy near the national average of 5 percent allows Philadelphia to keep its place in the Index.

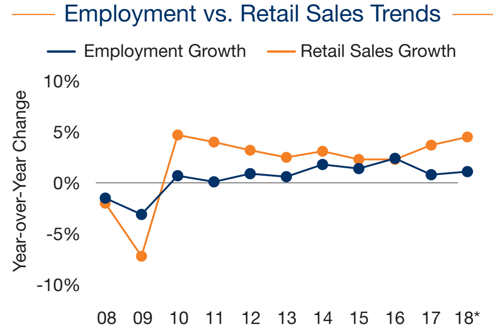
**Employment** up 1.1% — Payrolls will grow by 33,000 positions this year, about on pace with the nation as a whole. Last year headcounts expanded by 24,100 individuals.

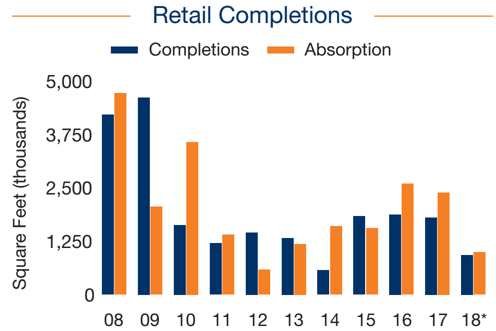
**Construction** 920,000 sq. ft. — The number of completions will contract by nearly 50 percent from last year as suburban Philadelphia hosts almost all the upcoming space.

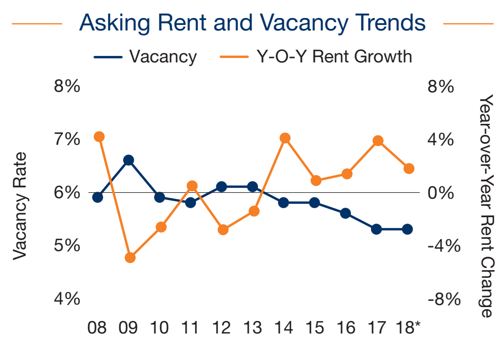
**Vacancy** no change — Demand for retail space will meet a subdued level of supply, maintaining a vacancy rate of 5.3 percent. Stronger absorption the year before drove vacancy down 30 basis points.

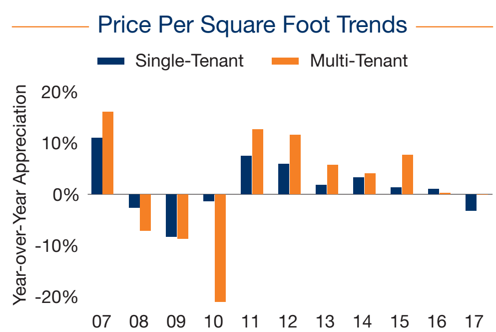
**Rent** up 1.8% — After increasing 3.9 percent in 2017, average asking rent will advance again to $17.20 per square foot this year.

**Investment** — Multiple single-tenant properties changed hands in suburban areas along U.S. 422 and Interstate 476, as well as in northeast Philadelphia, with yields in the high-5 to high-6 percent zone.



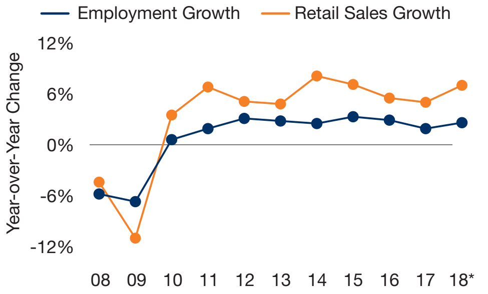



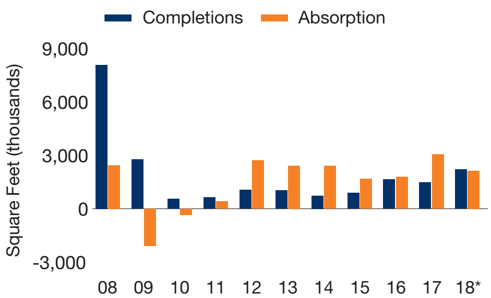




* Forecast
Sources: CoStar Group, Inc.; Real Capital Analytics

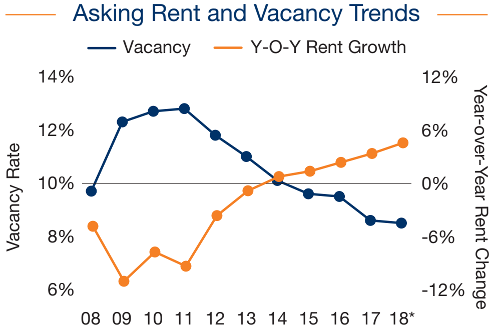
## Employment vs. Retail Sales Trends



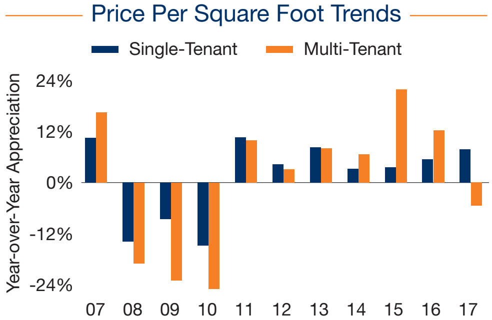

## Retail Completions




## Asking Rent and Vacancy Trends




## Price Per Square Foot Trends




* Forecast
Sources: CoStar Group, Inc.; Real Capital Analytics

# Robust Job Creation Incites Suburban Household Growth, Retail Development

**Intense population growth fuels retail demand.** Phoenix registers exceptional household expansion in 2018 as more companies in the finance and insurance sector, as well as healthcare, continue hiring in large numbers. Bank of the West plans to add approximately 1,000 employees by year end at its new facilities in Tempe, while State Farm keeps consolidating employees at its nearby Marina Heights buildings. As jobs in this industry fill, new households will form, inducing retail space demand and dropping market vacancy. Rent growth will act in accordance as the metro average price per square foot rises to the mid-$16 range, with areas in central and south Scottsdale claiming the highest figures, which eclipse $23. Increased demand also generates notable development activity, putting the 2018 forecast sum over 2 million square feet. The suburb of Gilbert notes the most retail construction this year as almost 275,000 square feet is slated for delivery. The majority of Gilbert's new supply will be the SanTan Pavilions near Williams Field Road and SanTan Parkway. The new project is anchored by home decor superstore At Home. Fast-casual dining rounds out a large amount of the remaining square footage.

**High-yield opportunities in the East Valley entice buyers.** Encouraging demographic trends will lure many investors to Phoenix in 2018. Areas just east of downtown Phoenix provide out-of-state investors searching for multi-tenant product with extensive options. Here, first-year yields average in the mid- to upper-7 percent realm. Buyers seeking assets farther from the urban core direct their attention to space located near the Superstition Freeway in the East Valley where a considerable amount of commercial development is ongoing. Properties in this area provide both local and out-of-state buyers with renovation opportunities as current owners struggle to compete with the newer, more ideally located space coming to market. Here, initial returns vary in the 7 to 10 percent range.

## 2018 Market Forecast

| | |
|---|---|
| NRI Rank<br>29, up 2 places | Amplified household growth and a sizable increase in retail sales boost Phoenix two spots. |
| Employment<br>up 2.6% | The Phoenix labor pool will expand at a pace more than double the national rate as employers add 53,100 hires to payrolls in 2018. |
| Construction<br>2.2 million sq. ft. | Development activity increases this year to a cyclical high. This follows approximately 1.5 million square feet completed in 2017. |
| Vacancy<br>down 10 bps | Following a 90-basis-point drop last year, vacancy posts another decrease, driving the rate down to 8.5 percent. |
| Rent<br>up 4.6% | Strong tenant demand boosts the average asking rent to $16.36 per square foot. This exceeds last year's 3.4 percent jump. |
| Investment | Investors from coastal markets will come to Phoenix due in large part to the relatively low entry costs. Parts of the East Valley and areas around Goodyear, where household growth is intense, lure buyers with high-yield opportunities. |

# Redevelopment of the Riverfront Lures Retailers And Investors to Pittsburgh

**Revitalization efforts keep retail vacancy tight.** Redevelopments in downtown Pittsburgh are reviving the riverfront, creating a destination spot with retail, housing and recreational activities. The South Shore is a focal point for many of these projects, including rehabbing older buildings into retail concepts and mixed-used spaces. One notable conversion is turning a former whiskey distillery into an artisan market with a rooftop restaurant and an entertainment venue. On the North Side riverfront, a 13-acre development is planned proximate to the former Lazarus-Macy's store that is being transformed into retail, housing and office space. These redevelopments will attract both residents and retailers to the area, keeping vacancy below the metro average. Marketwide, retail sales remain healthy amid steady economic growth as the metro evolved from being a manufacturing powerhouse to housing strong tech and healthcare industries. As a result, retail vacancy remains one of the lowest among the major metros and steady rent growth persists.

**Investors stay active in Pittsburgh's southern suburbs.** Limited listings and strong demand for retail properties are fueling competition between local buyers and investors from gateway markets, pushing up property values considerably. The average price per square foot is nearing the previous cycle peak and may prompt some owners to list in 2018. Assets in densely populated southern suburbs, particularly near public transport lines, are highly sought after. Rent growth in these suburbs remains significantly above the metro average and vacancy in the 2 percent range can be found. Average first-year returns in the area begin in the low-6 percent span. Yield-driven investors will find opportunities in Westmoreland County where retail properties trade with returns in the low- to mid-7 percent band. Assets along major thoroughfares throughout the county will garner significant investor attention.

## 2018 Market Forecast

**NRI Rank** 26, down 2 places — Despite Pittsburgh's low vacancy, negligible employment gains dropped the metro two slots.

**Employment** up 1.3% — Hiring will remain above the previous five-year average as employers add 15,500 workers to staffs in 2018. Employment growth is slightly above the national average.

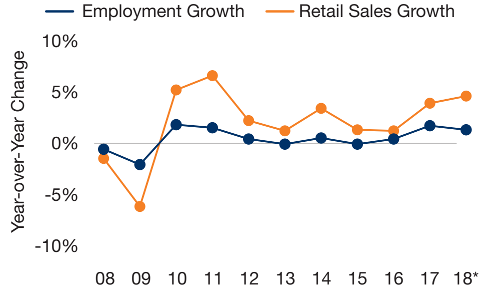
**Construction** 300,000 sq. ft. — Completions moderate from the 740,000 square feet delivered in 2017. The majority of projects are single-tenant buildings of less than 15,000 square feet.

**Vacancy** down 30 bps — Demand outstrips supply, lowering vacancy to a tight 3.3 percent. Last year, vacancy increased 10 basis points on net absorption of 580,000 square feet. .

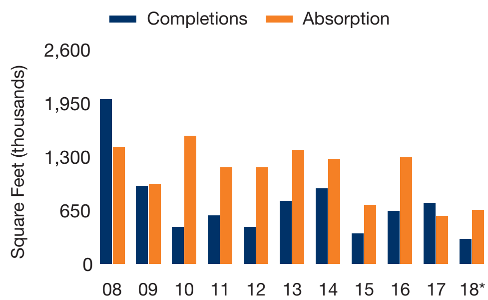
**Rent** up 3.7% — After strong growth in 2017, rental increases will begin to stabilize. Asking rent will reach $17.04 per square foot this year.

**Investment** — As efforts to redevelop the riverfront into a destination continue, investors will increasingly demand properties in the area. The conversion of older buildings to mixed-use space may attract attention to these assets.

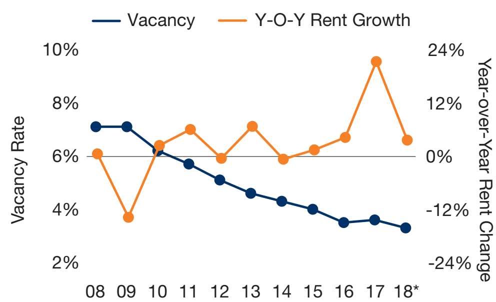
### Employment vs. Retail Sales Trends



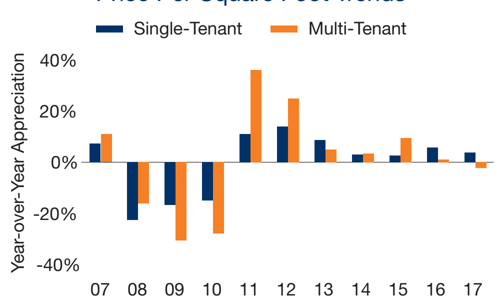

### Retail Completions




### Asking Rent and Vacancy Trends



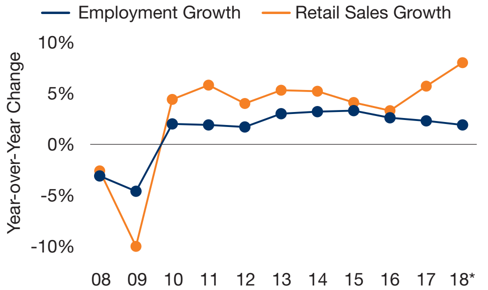

### Price Per Square Foot Trends



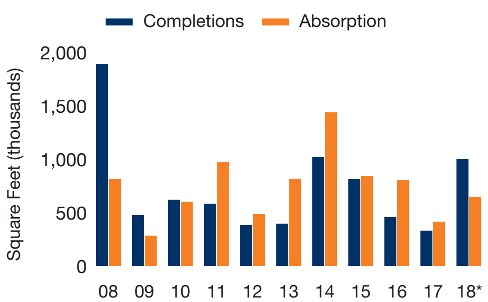

* Forecast

Sources: CoStar Group, Inc.; Real Capital Analytics

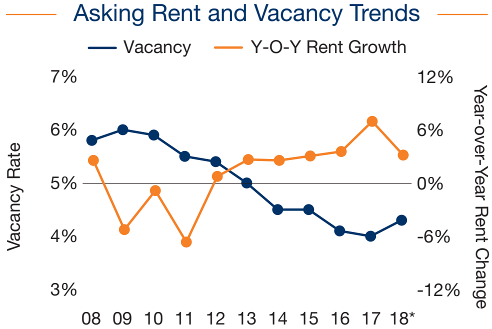
Employment vs. Retail Sales Trends



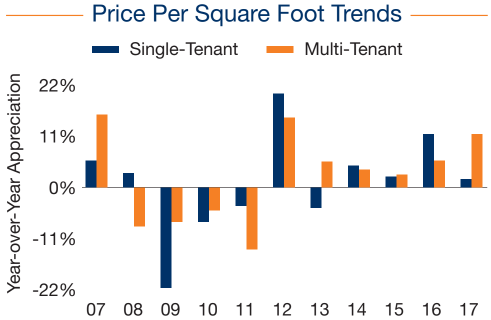

Retail Completions




Asking Rent and Vacancy Trends




Price Per Square Foot Trends




* Forecast
Sources: CoStar Group, Inc.; Real Capital Analytics

# Robust In-Migration, Need for Downtown Retailers Provide Plentiful Investment Options

**Intensified development activity near urban core lifts vacancy.** Robust employment growth among skilled positions in education and healthcare results in a sizable boost in household income, contributing to Portland's noteworthy rise in retail sales this year. That, along with strong household formation, will continue to lure retailers to the metro, contributing to an elevated completion sum in 2018. The new supply is spearheaded by a mixed-use tower on the corner of NW 14th Avenue and Glisan Street. The project includes nearly 240,000 square feet of retail space, as well as 230 apartments. Another sizable development slated for delivery is the Union at St. John's. This mixed-use design, located just south of Pier Park, couples 80,000 square feet of retail space with residential units. While construction within the city limits of Portland heightens, development on the north side of the Columbia River in Vancouver also registers a notable surge as The Waterfront project progresses. Amid escalated deliveries, vacancy posts its first year-end uptick in the expansion, while still retaining a figure below the national rate. Rent growth reflects the rise in vacant space as price advancement moderates in 2018.

**Higher yields than other West Coast markets entice buyers.** Tight vacancy and an influx of retailers will attract a number of investors to Portland this year. Local buyers were the driving force behind the metro's heightened transaction velocity in the past two years, a pattern that should continue in 2018 as local investors search areas near the central business district for single-tenant assets, particularly in the neighborhoods of Eliot and Irvington. Buyers from primary West Coast markets, as well as some from the East Coast, also focus on properties near the city center. In recent years, these out-of-state investors directed their interest to multi-tenant developments in need of renovations and improved management efficiencies, producing initial returns in the high-6 percent span.

## 2018 Market Forecast

**NRI Rank** 8, up 2 places — Portland improves its position in the top 10 as retail sales register a strong boost this year.

**Employment** up 1.9% — The metro's employment growth will outstrip the national rate this year as organizations staff 22,000 workers.

**Construction** 1 million sq. ft. — Portland records a strong increase in development activity this year compared with the 2017 figure of 330,000 square feet.

**Vacancy** up 30 bps — As net absorption is outpaced by supply, vacancy posts an uptick, pushing the rate to 4.3 percent. Last year, vacancy decreased 10 basis points.

**Rent** up 3.2% — As development intensifies and vacancy climbs, rent growth softens compared with the 2017 measure of 7 percent. This year's average asking rent reaches $20.17 per square foot.

**Investment** — Investors will seek properties with value-add potential in neighborhoods adjacent to downtown as initial returns for these assets are more favorable than those of outer-ring suburbs.

# Raleigh Market Thriving as Tenant Demand Cuts Vacancy to Cyclical Low, Boosting Rents

**The metro's strong economic indicators and favorable demographic trends fuel retailer optimism.** More than 52,800 additional residents are expected in the Raleigh market by the end of 2018, generating increased need for goods and services. In addition, the growth of higher-paying research and technology jobs has raised the median household income to nearly $9,600 per year above the national level, contributing to a projected 7.7 percent surge in retail sales this year. Grocers in particular are active throughout the metro as Publix, Walmart Neighborhood Market and Wegmans all have stores under construction. Publix will anchor Amberly Place, a 72,000-square-foot retail center in Cary that is scheduled to open during the fall. Publix also plans to open a store in north Raleigh this year. The opening of new grocery stores is attracting tenants nearby, pushing vacancy to the tightest rate in more than 10 years, likely prompting robust rent gains and additional construction projects to begin as the year progresses.

**Average prices below cyclical peak leave room for upside potential.** The completion of small strip centers and single-tenant buildings on shopping center outlots this year should attract a wide range of investors to the metro including an increased number of exchange buyers. Cap rates typically begin in the low-5 percent area for a new auto-parts store and can range 100 basis points higher for a dollar store. Newer strip centers generally trade in the 6 to 7 percent range depending on quality of location, lease term and credit of tenants. Yield-seeking investors may find first-year returns above 7 percent in older neighborhood and community centers with some local tenants. Well-located centers along established retail corridors may provide redevelopment opportunities. Pricing for multi-tenant assets is roughly 18 percent below the cyclical peak, providing some runway for value appreciation.

## 2018 Market Forecast

**NRI Rank** 5, up 2 places — Low vacancy and strong retail sales gains move Raleigh up two spots into fifth place in this year's Index.

**Employment** up 2.7% — Following job growth of 2.1 percent last year, a 2.7 percent gain is recorded in 2018 as approximately 25,000 jobs are created.

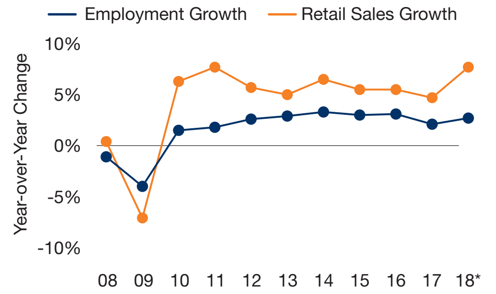
**Construction** 600,000 sq. ft. — Deliveries ease from nearly 730,000 square feet last year and the RTP-RDU will receive the largest portion of this year's new inventory.

**Vacancy** down 20 bps — Net absorption surpasses the restrained construction pace, reducing vacancy to 3.5 percent in 2018, the lowest level in more than 10 years. Last year, vacancy also dipped 20 basis points.

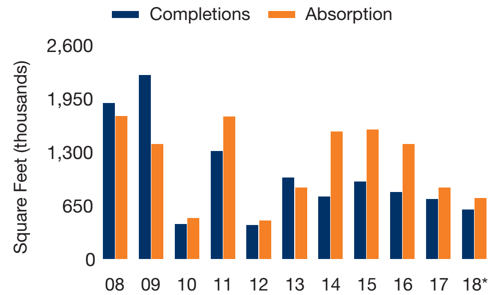
**Rent** up 4.4% — Tight vacancy drives rent growth. The average asking rent rises to $18.54 per square foot in 2018, building on a 10.0 percent gain last year.

**Investment** — Infosys bringing up to 2,000 workers to a tech hub in the Brier Creek area of Raleigh by 2021 should generate interest in retail properties nearby.

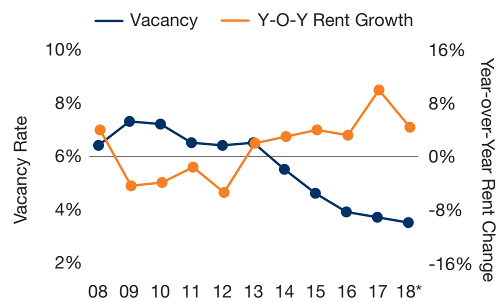
Employment vs. Retail Sales Trends



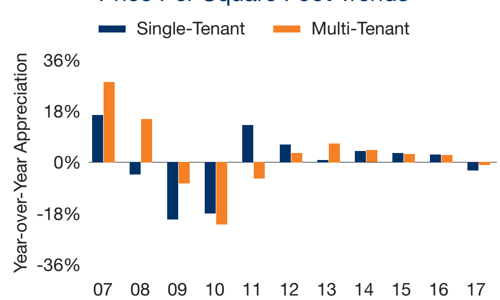

Retail Completions




Asking Rent and Vacancy Trends

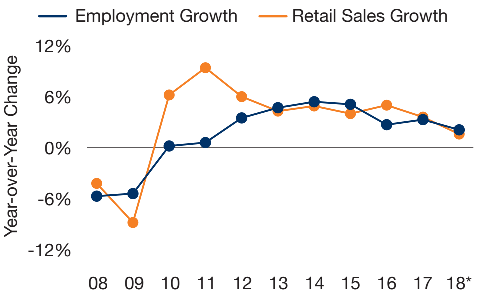



Price Per Square Foot Trends

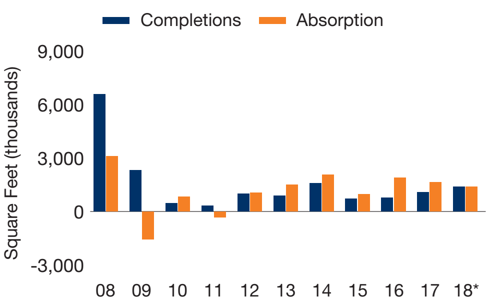



* Forecast
Sources: CoStar Group, Inc.; Real Capital Analytics

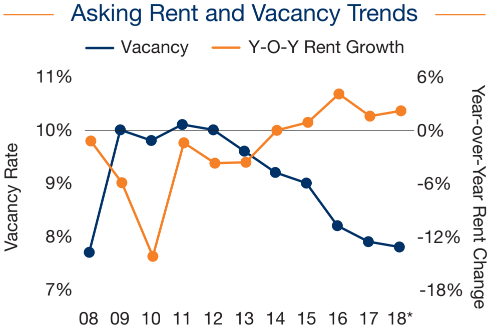
Employment vs. Retail Sales Trends



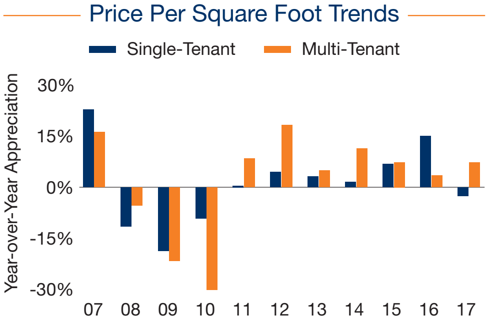

Retail Completions




Asking Rent and Vacancy Trends




Price Per Square Foot Trends




* Forecast
Sources: CoStar Group, Inc.; Real Capital Analytics

# Absorption Matches Development, Fueling Investors' Confidence

**Cycle-low vacancy persists amid influx of new supply.** Over the past five years, employers created 275,000 jobs, bolstering incomes and driving new household formations. These factors, coupled with the region's lower cost of living, support strong increases in retail spending. In 2018, the metro again leads all Southern California metros in rate of employment growth, albeit at a slower pace than previous years, driven by a sizable logistics industry and steady government and health-related hiring. Continued economic expansion sustains retailers' confidence in the Inland Empire, motivating more tenants to seek additional space or establish a local presence. This demand is met with new supply as more than 50 projects are slated for delivery this year. Yet, a balance between new inventory and net absorption occurs, enabling the metro's vacancy rate to hover near 8 percent for a third straight period.

**Newer properties drive deal flow.** Motivated by rising asset values and a growing buyer pool, owners list assets with plans of trading up or reinvesting in another property type following disposition. Attracted to pricing trends that trail the previous cycle's peak, more buyers from neighboring metros pursue opportunities locally, targeting cap rates that exceed their home markets by 50 to 100 basis points. Post-2000-built properties are highly coveted throughout the Inland Empire, with investors most focused on centers, fast-food establishments and drugstores constructed within the past 10 years. These assets are sought after in South Riverside County, where the resurgence of single-family construction drives investors to Menifee and Perris. Overall, buyers of newer-vintage properties throughout the metro obtain 4 percent to low-6 percent returns. Investors seeking higher minimum yields target older centers in East San Bernardino County and the Airport Area, home to many sub-$5 million trades.

## 2018 Market Forecast

**NRI Rank** 31, up 3 places — Employment growth above the national level will move Riverside-San Bernardino up in this year's NRI.

**Employment** up 2.1% — Organizations create 30,700 positions during 2018 including a number of retail-related jobs. Last year, employers added 47,300 workers to payrolls.

**Construction** 1.4 million sq. ft. — Retail development remains strong following the completion of 1.1 million square feet in 2017. The delivery of 426,000 square feet in East San Bernardino County drives overall construction this year.

**Vacancy** down 10 bps — The metro's vacancy rate falls to 7.8 percent this year following a decrease of 30 basis points in 2017.

**Rent** up 2.2% — The average asking rent advances to $17.31 per square foot by year end, up from a 1.6 percent gain in 2017.

**Investment** — Buyers eyeing up to 8 percent yields target the Coachella Valley, home to minimal retail construction and a sizable retiree population. In Chino, a recent boost in residential construction should lure more out-of-state investors.

# Investor, Retailer Demand for Existing Space Escalates Amid Limited Development

**Metro vacancy benefits from economic expansion, minimal construction.** Driven by a trio of employment sectors, healthy job creation persists for a sixth straight year. An influx of government, health and retail-related positions during a time of sub-5 percent unemployment suggests local employers will recruit from outside the metro to fill positions. These relocations will support a stout rate of household formations and thus increased retail spending this year. Heightened resident demand for conveniently located stores, restaurants and shopping centers motivates more retailers to expand footprints or establish a local presence. A limited development pipeline and strong pre-leasing indicate these businesses will lease vacant existing space to expand, reducing the metro's vacancy rate to a 10-year low. Positive net absorption will translate to historically low vacancy in Sacramento and Placer counties, with availability hovering below 5 percent in neighboring El Dorado and Yolo counties.

**Investors intensify pursuit of upside-producing properties.** Swiftly increasing retail asset values and a growing buyer pool have motivated more owners to list over the past 12 months, heightening deal flow. The gap between the average price per square foot to last cycle's peak suggests further appreciation is likely, coaxing additional owners to market properties this year. A sizable for-sale stock amid declining vacancy should attract more buyers crossing over from other property types, inflating bidding competition. Core-focused investors covet mixed-use properties in downtown and midtown with 5 percent cap rates. Fast-food and restaurant assets in South Sacramento and Arden trade between the low-5 to 7 percent yields. Investors that prefer similar assets in higher-end, suburban communities pursue opportunities in Citrus Heights, North Highlands and Folsom, where cap rates bottom out in the mid-4 percent range.

## 2018 Market Forecast

**NRI Rank** 28, up 5 places — Sacramento jumps five rungs in the Index as construction wanes and vacancy tightens.

**Employment** up 2.0% — Organizations add 20,000 workers to payrolls in 2018 following the creation of 21,800 positions in 2017.

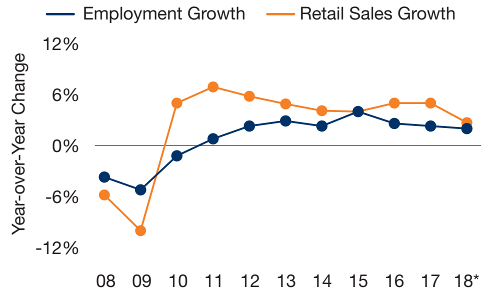
**Construction** 360,000 sq. ft. — After reaching an eight-year high in 2017, delivery volume dips to its lowest total in six years.

**Vacancy** down 30 bps — On net absorption of 571,000 square feet the metro vacancy rate drops for a second consecutive year to 6.7 percent. During 2017, vacancy compressed by 130 basis points.

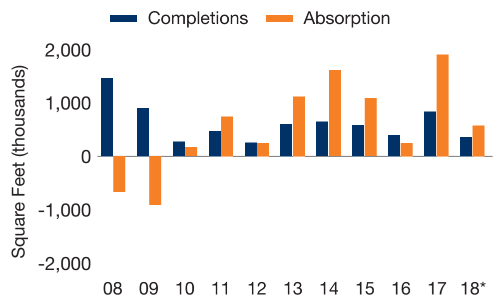
**Rent** up 2.6% — The average asking rent ends the year at $16.45 per square foot. Last year's rent decline of 5.3 percent suggests more lower quality space was available.

**Investment** — Bay Area-based buyers and out-of-state investors compete for properties in Rocklin and Roseville near employment hubs and residential centers. Early 2000s-built assets are in highest demand, with buyers accepting high-5 to high-6 percent returns.

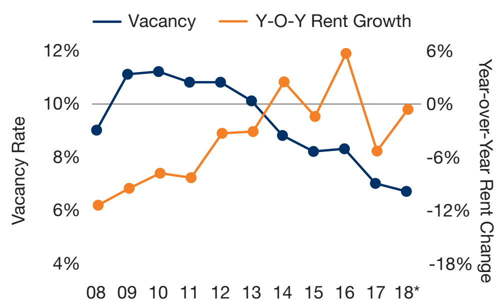
Employment vs. Retail Sales Trends



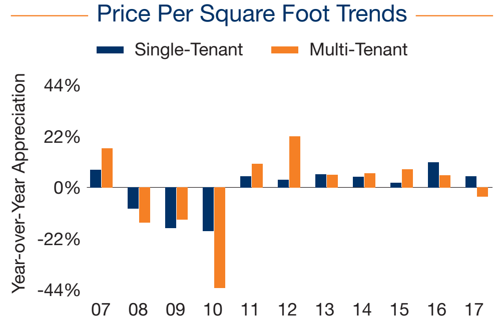

Retail Completions




Asking Rent and Vacancy Trends

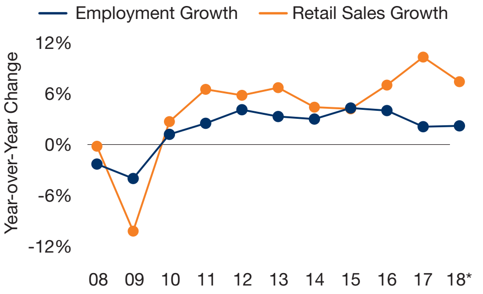



Price Per Square Foot Trends

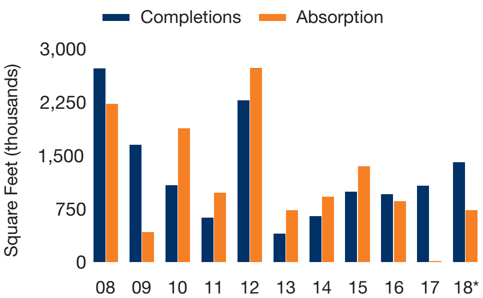



* Forecast
Sources: CoStar Group, Inc.; Real Capital Analytics

Employment vs. Retail Sales Trends




Retail Completions

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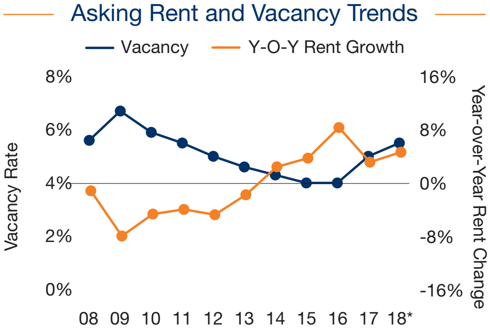
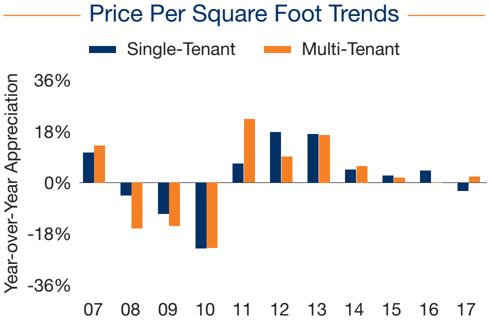



Price Per Square Foot Trends




* Forecast
Sources: CoStar Group, Inc.; Real Capital Analytics

# Escalated Household Growth, Construction Garner Investor Interest

**Robust tenant demand produces bolstered rent gains.** Employment growth in Salt Lake City remains considerably higher than the national rate, though it will experience a slight slowdown this year. The tech sector leads job creation as Snapchat, Carta and Recursion begin to open new offices along the Wasatch Front during 2018. The labor pool's expansion results in notable climbs in population growth and household formation, both exceeding national levels. As demographic trends remain strong, retailers flock to Salt Lake City this year, prompting construction to reach the highest figure since 2012 when over 2.2 million square feet was delivered. The largest development is Mountain View Village in Riverton, a massive mixed-use development that includes more than 700,000 square feet of retail space. The project also encompasses a hotel and office space. Amid heightened construction activity, metro vacancy will rise this year, pushing the rate over 5 percent. Salt Lake City logs strong rent growth for the fourth consecutive year despite an increased amount of available space.

**The availability of portfolio repositioning forges investor interest.** Historically, local buyers, as well as investors from coastal markets seeking higher yields, found a number of opportunities within the city limits of Salt Lake City, a trend that should persist in 2018. Properties in the State Street corridor, extending from University Boulevard to the Lincoln Highway, lure many out-of-state investors seeking projects boasting high-traffic locations. Here, multi-tenant assets average initial returns in the low-7 percent realm. The Sugar House neighborhood, an area headlined by a notable nightlife scene, will be a primary target for investors. In this locale, cap rates sit in the high-6 to mid-7 percent range. In-state buyers remain focused on multi-tenant options in communities near South Valley Regional Airport, where first-year yields are typically in line with the metro average, approximately 7 percent.

## 2018 Market Forecast

| | |
|---|---|
| NRI Rank<br>7, up 2 places | Strong growth in retail sales and healthy rent gains push Salt Lake City up two ranks. |
| Employment<br>up 2.2% | Salt Lake City organizations staff 27,300 employees this year with tech companies leading the way. Last year, 25,900 workers were staffed. |
| Construction<br>1.4 million sq. ft. | The metro reports a increase in development activity this year following a 2017 total of 1.1 million square feet. |
| Vacancy<br>up 50 bps | Another year of below-trend absorption and rising completions result in a 50-basis-point climb, putting the rate at 5.5 percent. Last year, vacancy rose 100 basis points. |
| Rent<br>up 4.7% | This year the average asking rent pushes up to $15.88 per square foot. Last year, lease rates increased 3.2 percent. |
| Investment | Investors will direct their attention to new mix-used developments in Riverton and Sandy, presenting opportunities to capitalize on the surging population and diversify their portfolios. |

# San Antonio Retail Development Pulls Back; Investors Targeting Assets in the North

**Deliveries slow again in 2018, force expanding retailers into existing space.** Steady employment gains have attracted thousands of new residents to San Antonio over the last few years, enticing numerous retailers to expand in the market. Strong tenant demand has pushed the vacancy rate near historical lows, and tapering deliveries this year keep the rate 140 basis points below the 10-year average. While retail supply additions have been concentrated throughout the majority of northern San Antonio over the last five years, deliveries begin to shift in 2018 as more than 160,000 square feet of retail space is slated for delivery south of downtown. Several apartment projects are also underway in this area. As housing demand rises, so will the desire for nearby retailers. Demand for retail here has been healthy and met with limited new deliveries, resulting in the vacancy rate falling to 3.3 percent, or 120 basis points below the metro average. Overall, the market's tight vacancy rate results in a modest pace of rent growth this year.

**Multi-tenant retail properties in high demand; investors scour San Antonio for deals.** New housing construction and rising population spurred robust growth in the northern portion of San Antonio over the last few years, and investors are targeting multi-tenant retail assets here. Two-thirds of last year's transaction activity occurred in northern submarkets and demand for retail properties in the area remains strong in 2018. First-year returns for these assets are typically in the mid-7 percent span. Out-of-state investors are increasingly drawn to the market for attractive yields, increasing buyer competition for available assets. As retail completions fall again this year, existing properties with vacant space or leases expiring soon provide additional room for upside and will be highly sought after by investors.

## 2018 Market Forecast

**NRI Rank**
18, down 3 places

As other markets produce stronger improvement, San Antonio slips three slots in this year's Index.

**Employment**
up 2.4%

Tight unemployment results in a slower pace of hiring this year and employers will add 25,000 jobs in 2018. Payroll additions will be led by the trade, transportation and utilities segment.

**Construction**
400,000 sq. ft.

In 2018, retail deliveries will fall below 1 million square feet for a second consecutive year.

**Vacancy**
up 10 bps

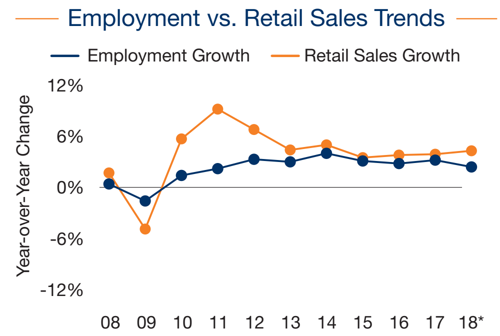
Supply additions outweigh demand this year as tenants absorb a net 300,000 square feet of retail space, and vacancy rises to 4.6 percent.

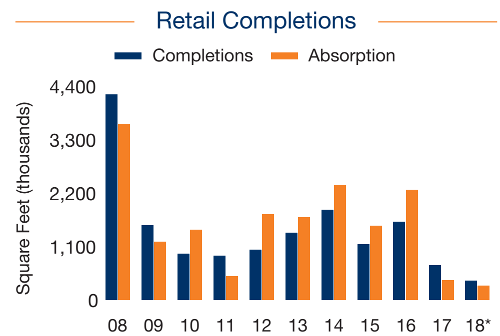
**Rent**
up 1.3%

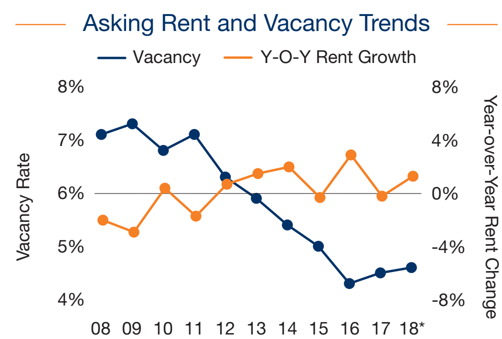
Average rent growth for listed space remains subdued this year due to a dearth of high-end dark space, and the average reaches $15.59 per square foot.

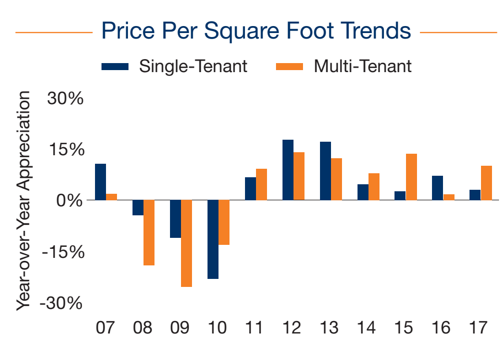
**Investment**

New residential development in the southern portion of the market draws retail developers and investors to the area this year. First-year yields for properties located in southern submarkets can be 25 to 50 basis points higher than northern submarkets in some instances.



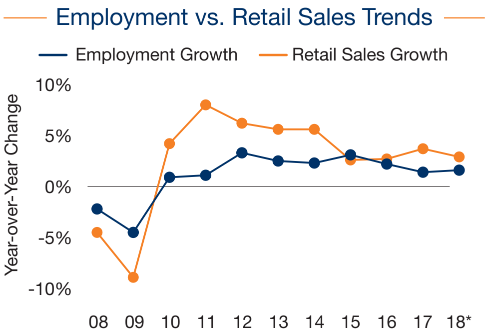



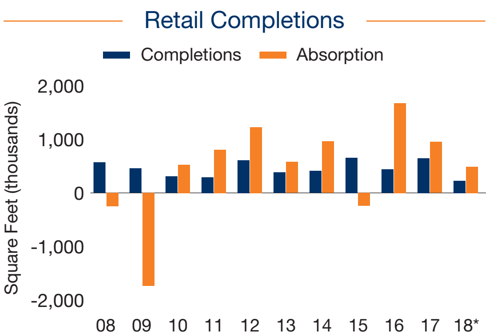



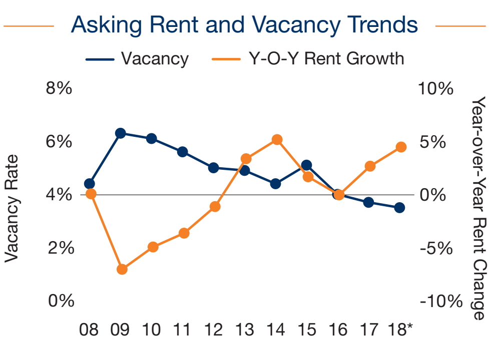



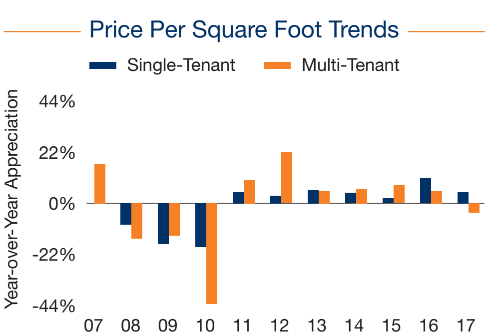

* Forecast
Sources: CoStar Group, Inc.; Real Capital Analytics

# Historically Low Vacancy Returns Asking Rents, Asset Values to Previous Cycle's Peak




* Forecast
Sources: CoStar Group, Inc.; Real Capital Analytics

**Retailer demand outweighs construction.** Amid low unemployment, the metro continues to experience diversified job growth, consistently producing more than 20,000 positions per year, spurring income growth and household formations. Retailers wishing to expand their footprints could have difficulty finding available space in a metro with sub-4 percent vacancy. A lack of new construction also limits leasing options for growing shops, with just 25,000 square feet slated for completion in the city of San Diego this year. Heightened tenant demand and a lack of development enable the metro's vacancy rate to further compress, which warrants additional rent growth. Pent-up demand for available retail and asking rents that match last cycle's peak could motivate developers with proposed projects to expedite construction timelines moving forward.

**Favorable market conditions bolster buyers' confidence.** Tight vacancy and solid rent gains support NOI growth, maintaining a high level of investor interest and liquidity in the market. The number Southern California-based buyers vying for listings continues to drive asset values up, motivating some owners to sell while pricing sits at a cycle high. Investor competition for properties in the city of San Diego heats up during a span of limited development. Smaller, well-located storefronts and mixed-use assets that net 5 to 6 percent initial returns remain coveted in central San Diego, Pacific Beach, downtown San Diego and Coronado. To the north, the UTC/La Jolla area represents an additional hot spot for these trades. Buyers in search of post-2000-built properties are drawn to North County cities along the 78 Corridor, home to mid-4 percent cap rates. Metrowide, a minimal number of restaurants and fast-food establishments should come available for purchase this year, driving pricing for these assets.

## 2018 Market Forecast

**NRI Rank**
13, down 2 places

San Diego did not gain ground in this year's NRI, moving down two notches as other markets strengthened.

**Employment**
up 1.6%

Employers boost payrolls by 23,800 positions in 2018, an increase from the 20,500 jobs added in 2017.

**Construction**
230,000 sq. ft.

Development drops to a cycle-low level this year following the completion of nearly 650,000 square feet in 2017. Retail finalizations at Millenia, a master-planned community in Chula Vista, account for a third of this year's delivery volume.

**Vacancy**
down 20 bps

Limited construction allows the metro's vacancy rate to compress, ending the year at 3.5 percent. In 2017, a decline of 30 basis points was registered.

**Rent**
up 4.5%

The average asking rent jumps to $25.15 per square foot after a 2.7 percent gain was posted last year.

**Investment**

Buyers will seek older convenience stores and dining establishments in dense residential areas of East County and South Bay. Transactions priced below $5 million drive sales velocity in these locales, recording sub-4 percent initial returns.

# San Francisco Retail Shines
# Amid Climbing Rents and Low Vacancy

**Slowing pace of construction boosts rent growth in prime locations.** The robust Bay Area economy is driving significant tailwinds for the retail sector in San Francisco, underpinned by the lowest unemployment rate since 2000. While development has picked up moderately over the past year with the delivery of 6X6 in Mid-Market, overall tight conditions have prompted a vacancy rate handily below 3 percent for most of the past four years. Construction over the coming year will center on the retail portion of the Salesforce Transit Center and Artists Studio at Pier 70, with completions lagging the 2017 total overall. As a result, the metro vacancy rate will remain at roughly 3 percent for the coming year as tenants compete for available spaces. Meanwhile, average asking rent growth should reach the low to mid single digits, driven by a lack of tenant optionality, particularly for the most desired locations.

**Robust appreciation, lack of supply pressure strengthen investor risk appetite toward retail properties.** The prospect of continued appreciation is driving buyers to remain active in the market, seeking assets with cap rates in the mid-4 percent band. Institutions bid actively for properties primarily in the city, with an emphasis on buildings in the Financial District, SoMa or the Market District. Meanwhile, private investors and syndicates are journeying toward suburban assets in San Mateo County, where yields can exceed the core by nearly 100 basis points on some occasions. Amid consistent appreciation, strategies involving repositioning and site improvements have gained significant traction, yet returns have largely been arbitraged away as prices for these opportunities increased substantially. Less than 30,000 square feet of new space will come online in San Mateo County this year, dramatically raising prices for well-positioned assets along primary thoroughfares.

## 2018 Market Forecast

**NRI Rank** 2, no change — Limited development and extremely low vacancy kept San Francisco unchanged in the second spot this year.

**Employment** up 1.4% — After creating 23,000 jobs in 2017, San Francisco employers will add 10,000 workers this year, expanding total employment by 1.4 percent.

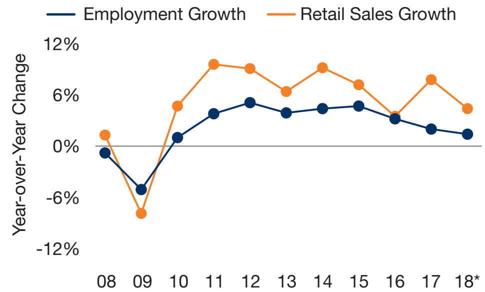
**Construction** 220,000 sq. ft. — Builders complete 220,000 square feet of retail space over the coming year, declining marginally from 280,000 square feet brought online last year.

**Vacancy** no change — Vacancy will remain unchanged at 2.9 percent amid an overall shortage of available retail space in the metro. Last year, vacancy rose 20 basis points.

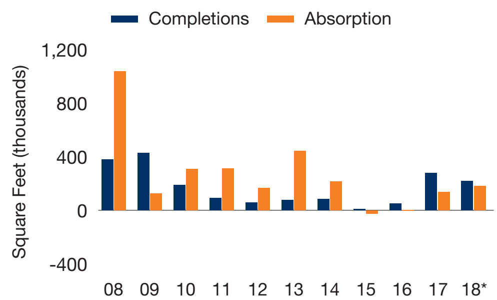
**Rent** up 2.8% — The average asking rent advances 2.8 percent to $40.02 per square foot, building on the 3.6 percent rise in the previous 12 months.

**Investment** — Assets near new corporate campuses have seen significant growth in traffic counts, boosting value substantially as the market reprices these assets.

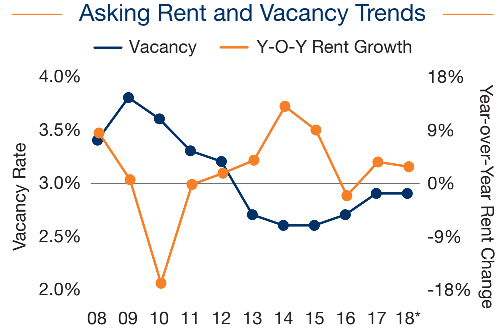
### Employment vs. Retail Sales Trends



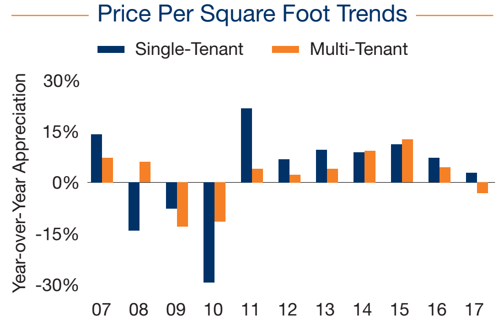

### Retail Completions



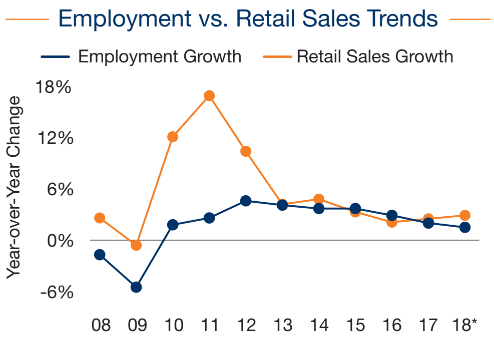

### Asking Rent and Vacancy Trends

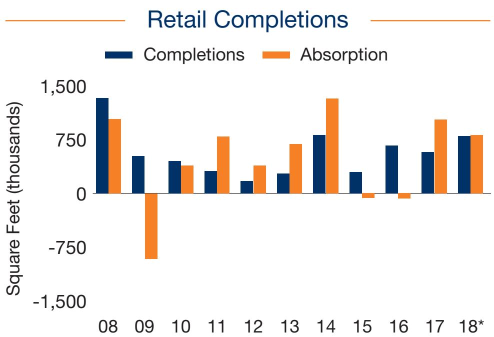


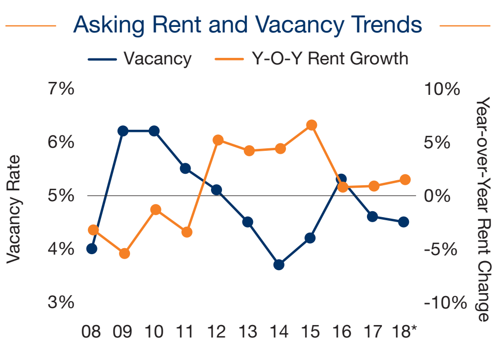

### Price Per Square Foot Trends

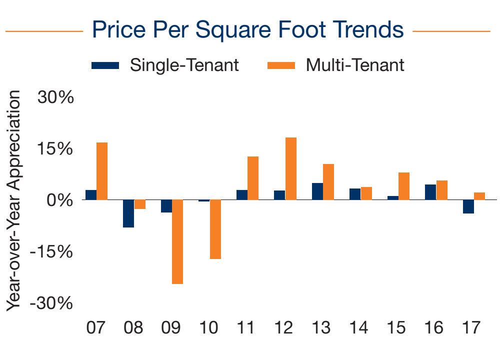



* Forecast
Sources: CoStar Group, Inc.; Real Capital Analytics




* Forecast
Sources: CoStar Group, Inc.; Real Capital Analytics

# Prosperous Retail Environment in San Jose Underpinned by High-Paying Job Market

**Re-acceleration of development to balance out supply and demand; momentum remains extremely positive.** Buoyed by significant employment growth and wage gains throughout the Bay Area, San Jose retail properties have benefited from the highest median household income in the country. The subsequent marketplace has pushed the retail vacancy below 5 percent as net absorption increased in 2017, reversing the course of the prior two years. The surge in demand will be met by the highest deliveries since 2014, with completions focused on shopping centers in South San Jose and Mountain View, where nearby corporations should provide foot traffic and revenue for retailers. While heightened development will trigger a more muted decline in vacancy than prior years, the average asking rent will reach a new cycle high as economic momentum and tight vacancy contribute to a more competitive leasing environment.

**Transitioning neighborhoods take center stage as cap rates tighten to cycle lows; long-term investors flourish amid record pricing.** As the virtuous cycle of higher prices and tighter cap rates continues to dominate the broader retail landscape, investors are scouring the metro for premier assets that command significant location and pricing advantages relative to the average property. Shopping centers near corporate campuses in Los Gatos, Mountain View and Palo Alto remain the most attractive in the market, driving cap rates down to the high-4 to low-5 percent band in these areas. Broadly, an extra 50 basis points of yield can be obtained in more suburban locations, particularly in South San Jose. An expanding slate of development in these areas will encourage more capital allocation to the transitioning neighborhoods, which will likely tighten the spread to more established locations over the coming year. Value-add opportunities have largely been arbitraged away, with market prices reflecting the intense competition for these assets.

## 2018 Market Forecast

**NRI Rank** 15, down 2 places — Limited rent growth and rising construction dropped San Jose two places in the Index this year.

**Employment** up 1.5% — A lack of qualified applicants leads metro employers to hire 17,000 workers this year, a 1.5 percent rise in payrolls. Last year, 22,200 jobs were created.

**Construction** 800,000 sq. ft. — Construction firms complete 800,000 square feet of retail space this year, accelerating deliveries from 580,000 square feet in 2017.

**Vacancy** down 10 bps — The metro vacancy rate contracts 10 basis points to 4.5 percent as net absorption overtakes heightened development. Last year, vacancy dropped 70 basis points.

**Rent** up 1.5% — The average asking rent rises 1.5 percent to $33.61 per square foot as greater competition pushes prices higher. In the previous year, asking rent climbed 0.9 percent.

**Investment** — Undervalued neighborhoods such as Milpitas and North San Jose offer investors higher rates and valuations should rise as buyers seek more elevated return profiles.

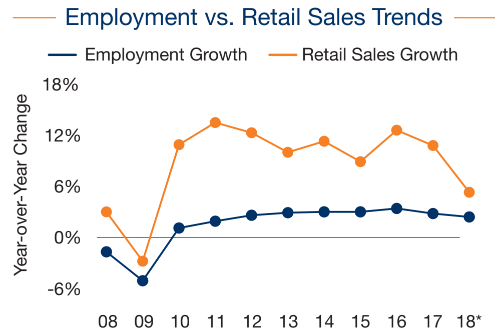
# Thriving Retail Sector in Seattle Vaulted By Exceptionally Strong Labor Market

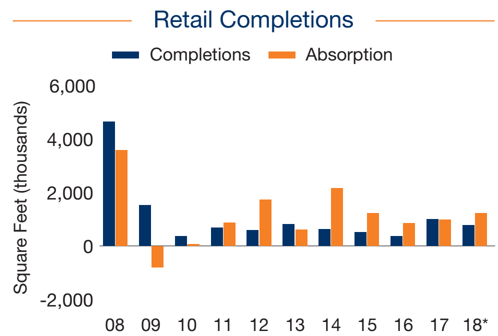
**Seattle powers through retail sector malaise.** A healthy economy is translating into robust performance for retail in Seattle, aided by one of the best job markets in the nation last year. Strong fundamentals, including vacancies under 3 percent in the city of Seattle and on the Eastside, are outweighing challenges that the sector has been facing recently. While retailers such as Toys "R" Us, Sam's Club and Sears are closing locations across the Puget Sound this year, rising tenant demand for large footprints will quickly fill these dark spaces. Grocers, fitness centers and sporting goods retailers are some of the tenants that have been in expansion mode across the metro, and they are showing no indication of slowing down. Deliveries will hold above the five-year average in 2018, though most new space will come online already signed for, keeping retailers' options limited to mostly existing storefronts. The largest project anticipated for completion is the 400,000-square-foot Village at Totem Lake in north Kirkland, which incorporates office space and apartments.

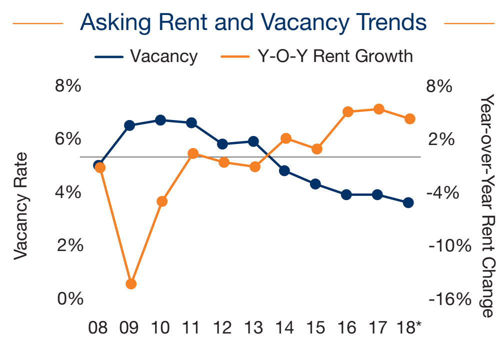
**Investment activity maintained as Seattle nears gateway market status.** The flight to safety into well-positioned retail across Seattle remains a driving force of investment activity. High credit single-tenant net-lease properties hold their appeal to a broad pool of investors, including international and institutional capital. These assets generally trade with cap rates in the low-4 percent band, dependent on tenant quality and lease length. Higher prices at this point of the cycle, along with tighter cap rates, motivate some buyers to consider strip centers, which often trade 100 basis points higher. Activity will continue to grow in suburban locations as competition in the urban core causes buyers to expand their search. First-year yields in Everett and Tacoma average 80 to 160 basis points higher than those in the city of Seattle, adding to the attractiveness of suburban investment.

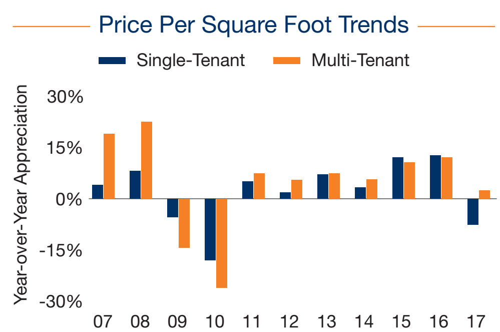
## 2018 Market Forecast

| | |
|---|---|
| **NRI Rank** 1, no change | Seattle leads the Index once again, held up by low supply-growth risks and strong employment gains. |
| **Employment** up 2.4% | The creation of 54,700 jobs in 2017 brought the jobless rate down to 4 percent. In 2018, job growth slows to 48,000 new positions as the labor market tightens. |
| **Construction** 780,000 sq. ft. | Following the strongest annual boost to inventory since 2009 with the completion of 990,000 square feet last year, deliveries ebb to 780,000 square feet this year. |
| **Vacancy** down 30 bps | Robust pre-leasing and strong tenant demand brings the vacancy rate down to 3.6 percent by year end, the tightest metrowide rate in more than a decade. |
| **Rent** up 4.3% | The average asking rent climbs to $21.64 per square foot this year, marking a slower pace than the 5.4 percent increase registered in 2017 as landlords seek to expedite new lease agreements. |
| **Investment** | Following high trading volume and strong asset appreciation in the urban core over the past several years, investors will increase searches in Pierce and Snohomish counties in 2018 for greater upside. |




* Forecast
Sources: CoStar Group, Inc.; Real Capital Analytics

# Seven Years of High Demand Empower Market; Investors Turn to Metro for Attractive Returns

**Strong tenant demand amid sparse construction supports further vacancy decline and rent appreciation.** Retail sales will grow at their fastest rate in four years, partly thanks to increased demand from an expanding labor market and influx of newly formed households. Amid positive demographic trends, retailers are adding stores, as several national chains recently opened new establishments in the metro. Wireless service providers Boost Mobile and T-Mobile lead the way with 10 new locations situated throughout the Missouri and Illinois suburbs. These and other retailers are occupying existing space, as construction slows in 2018 with a small amount of sub-35,000 square-foot structures arriving in bedroom communities such as Eureka. The modest amount of new supply is outstripped by positive absorption, reducing the marketwide vacancy rate for the seventh consecutive year. Limited inventory availability will place further upward pressure on asking rent, which is up 8.3 percent from its cycle trough.

**Prices improve as suburban retail centers facilitate multiple investment strategies.** Substantial amounts of capital continue to flow from the coasts into the Gateway City and surrounding area, due in part to high yields. With a market average cap rate of mid-7 percent, St. Louis exceeds similar measurements of Chicago, Cincinnati and other Midwest metros. Initial returns 100 to 150 basis points higher can be obtained from shopping centers located north and west of I-270, where tenants include local bars, restaurants and bargain grocers. Properties with anchor tenants such as Walgreens and Walmart trade below market, from high-5 to mid-6 percent. A similar product would exhibit a sub-5 percent yield in major East Coast cities. This regional advantage is one reason transaction velocity increased to an eight-year high in 2017. Healthy demand for a range of assets has caused prices to appreciate 18 percent from their pre-recession levels as well.

## 2018 Market Forecast

**NRI Rank** 46, no change — Despite a drop in vacancy, mild income growth will keep St. Louis from advancing off the bottom of the NRI.

**Employment** down 0.6% — Payrolls will expand by 8,700 positions this year, down from 9,800 jobs in 2017. Healthcare remains the most populated field.

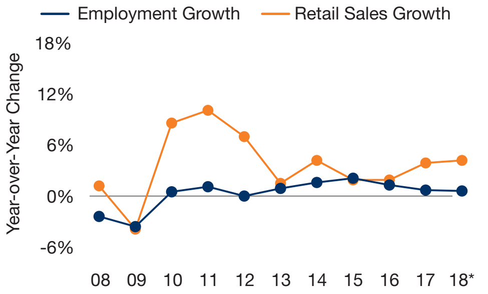
**Construction** 130,000 sq. ft. — Down from the 450,000 square feet added to the market last year, the reduced construction pipeline allows newly finished buildings time to lease up.

**Vacancy** down 60 bps — Net absorption will surpass new completions for the seventh year in a row. The vacancy rate will fall to 4.5 percent, well below the recession-period high of 8 percent.

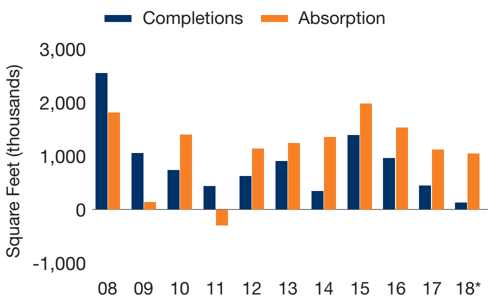
**Rent** up 0.9% — The average asking rent will rise to $13.10 following near 4 percent growth reported in 2017.

**Investment** — Some institutional investors are targeting properties in St. Louis' Illinois suburbs, where power centers situated along major roadway exits, adjacent to apartments, attract premium tenants.

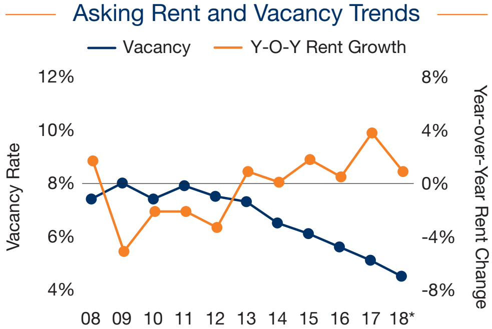
### Employment vs. Retail Sales Trends



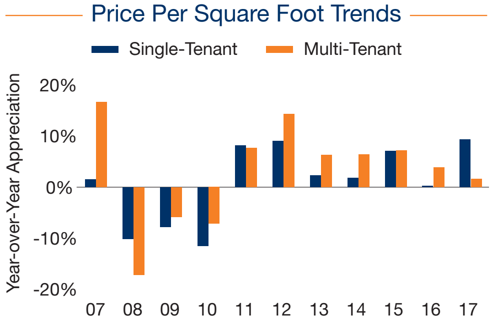

### Retail Completions




### Asking Rent and Vacancy Trends




### Price Per Square Foot Trends




* Forecast
Sources: CoStar Group, Inc.; Real Capital Analytics

# Strong Population Growth Propels Tampa-St. Petersburg Retail Market

**Favorable economic and demographic trends bolster retail market.** Annual population growth will be more than double the U.S. rate in 2018, as nearly 55,000 additional residents reside in the Tampa-St. Petersburg metro. Many are lured to the region by employment opportunities. This influx of people generates demand for goods and services, pushing retail sales higher and attracting businesses. Retailers planning to open multiple stores this year include Anytime Fitness, Jiffy Lube, Goodwill and Zaxby's Chicken. Increased tenant demand coupled with deliveries below the five-year average tighten vacancy to the lowest level in more than 10 years. Limited availabilities will promote a fourth year of rent growth. Rising rents, especially along major thoroughfares in urban neighborhoods, is allowing more redevelopment projects to pencil, drawing new retailers to these areas.

**Infill urban neighborhoods provide redevelopment opportunities.** Strong operations are attracting a wide variety of investors to retail assets in the Tampa-St. Petersburg market. Exchange buyers are especially active, many seeking new assets along major retail corridors with national or regional tenants at cap rates in the 6 percent span. As competition for the limited supply of single-tenant properties intensifies, those willing to take on more risk are looking for multi-tenant assets in growing communities of Southeast Hillsborough County or Pasco County. Here, well-located Class A properties that have national tenants trade at cap rates in the mid-to upper-6 percent area with yields 100 to 200 basis points higher for Class B/C buildings. Many older retail assets in dense urban neighborhoods are ripe for redevelopment. Properties along major retail corridors in South Tampa and St. Petersburg where the median household income rests above the metro average are particularly desired.

## 2018 Market Forecast

**NRI Rank** 19, up 1 place — Tampa-St. Petersburg rises one notch in the NRI ranking due to stout absorption and declining vacancy.

**Employment** up 2.5% — Roughly 34,000 workers will be added to payrolls during 2018, up from 29,400 last year, when the relatively higher-paying professional services and healthcare sectors dominated job growth.

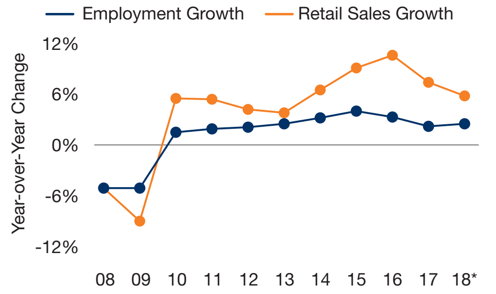
**Construction** 1.2 million sq. ft. — Deliveries rise slightly from last year's 1.1 million square feet with East Tampa receiving the largest portion of this year's new inventory.

**Vacancy** down 30 bps — Vacancy declines 30 basis points to 4.8 percent in 2018 on net absorption of nearly 1.7 million square feet. Last year, vacancy held steady at 5.1 percent.

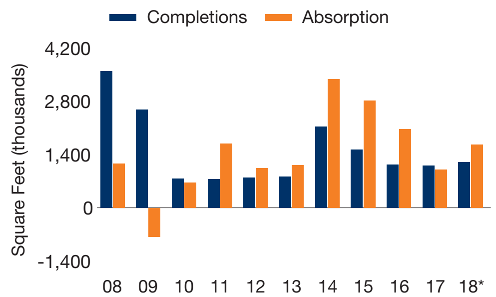
**Rent** up 3.7% — Strong demand for retail space will elevate the average asking rent 3.7 percent to $16.19 per square foot in 2018, building on a 5.5 percent gain one year earlier.

**Investment** — Mixed-use developments with a retail component on the ground level are providing new infill assets in densely populated urban neighborhoods.

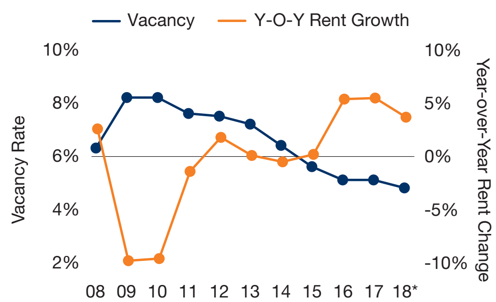
### Employment vs. Retail Sales Trends



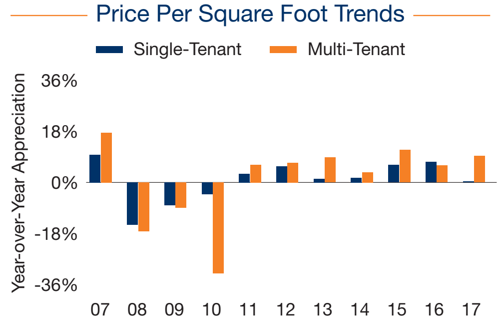

### Retail Completions




### Asking Rent and Vacancy Trends

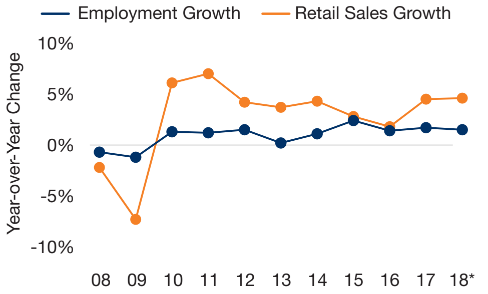



### Price Per Square Foot Trends

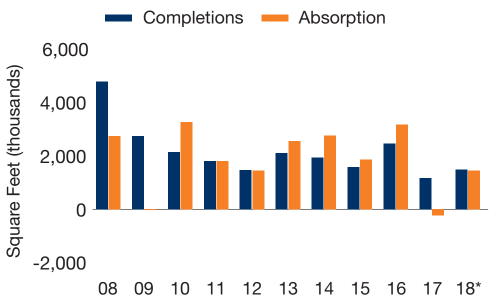



* Forecast
Sources: CoStar Group, Inc.; Real Capital Analytics

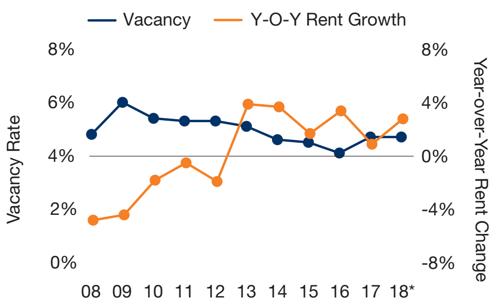
Employment vs. Retail Sales Trends



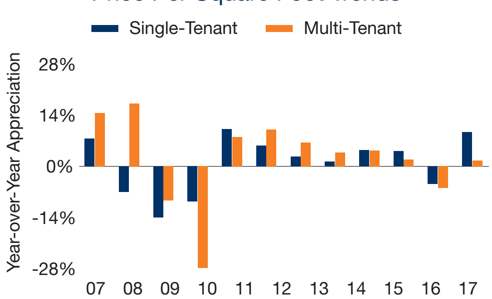

Retail Completions




Asking Rent and Vacancy Trends




Price Per Square Foot Trends




* Forecast
Sources: CoStar Group, Inc.; Real Capital Analytics

# Well-Compensated Employees Aid Retail Growth; Investment Opportunities Prevail Metrowide

**Growing consumer confidence uplifts retail; construction dominated by multi-use shopping centers.** Young professionals moving into the area to fill high-wage jobs and an increased rate of household formation are both adding to the number of consumers. This in turn boosts retailers' prospects, especially those located within mixed-use properties with both offices and apartments. A considerable portion of the 2018 construction pipeline consists of town-center-style developments situated in suburban parts of northern Virginia and Maryland. A high rate of pre-leasing indicates that demand for new space is strong, prompting net absorption to return to positive levels for 2018. As demand nearly matches supply, marketwide vacancy rate will not change. The metro's marketed rents will continue to rise, supported by substantial increases in areas such as Alexandria, Bethesda and around Dulles International Airport.

**Necessity-based retailers provide options outside popular Beltway.** Washington, D.C., hosts a broad range of retail offerings that allow numerous methods for deploying capital. Property situated within the Beltway continues to attract the majority of investor focus. Here, opportunities exist for buyers to acquire assets for long-term holds, as transactions close with cap rates 100 to 200 basis points below the metro average of 6.5 percent. Buildings that house widely known drugstore and grocery chains and are situated farther afield of the capital will also produce lower initial yields. Such structures located along transit routes connecting D.C. to Baltimore sold for cap rates below 6 percent this past year. Investors interested in greater first-year returns may target properties positioned along I-95 near Fredericksburg, where recent deals report cap rates in the low-7 to high-9 percent range.

## 2018 Market Forecast

**NRI Rank** 25, down 2 places — A high level of construction will cause the nation's capital to slip two positions in the Index.

**Employment** up 1.5% — Payrolls expand at almost the same pace as in 2017 with 50,000 new positions added to the market.

**Construction** 1.5 million sq. ft. — Developers will surpass last year's delivery of 1.2 million square feet, with completions concentrated in northern Virginia, particularly around Leesburg and Route 28 near Dulles International Airport.

**Vacancy** no change — Recovering demand will keep the vacancy rate at 4.7 percent. Last year negative absorption drove vacancy up by 30 basis points, ending a four-year run of declines.

**Rent** up 2.8% — Average asking rent will increase to $27.65 per square foot in 2018, improving upon the 0.9 percent growth rate reported in 2017.

**Investment** — Although a smaller amount of total inventory, multi-tenant properties dominate the pool of recent transactions, primarily between the Virginia and Maryland suburbs. The average cap rate for this asset type lies below the metro rate at a low-6 percent.

# Investor Demand Magnified by Strong Retail Property Metrics, NOI Growth

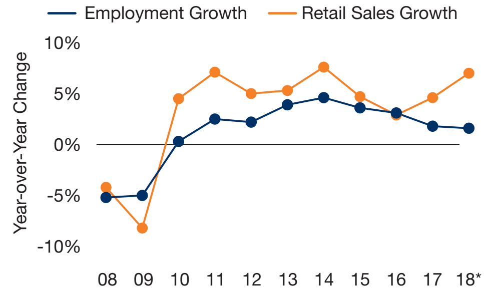
**Strong in-migration trends, affluent population spur retailer expansions.** An economy that is operating at near capacity has contributed to Palm Beach County's jobless rate sitting at 3.5 percent going into 2018, driving the local retail sector. Migration to the county also remains robust, drawn by a favorable climate and low tax environment, adding to retail demand. This year more than 21,000 households are anticipated to be formed, mirroring last year's growth and fueling the expansion of necessity-based retailers across the county. These increases and a sizable wave of recent apartment deliveries bode well for the local retail sector, leading companies like Bed Bath & Beyond, LA Fitness, Starbucks and T-Mobile to increase locations in Palm Beach County. Subdued retail development and strong preleasing steer more expanding retailers to existing properties, reducing the metro's vacancy rate to a historically low level. Heightened tenant demand amid limited availability support a robust rate of rent growth that notably surpasses gains experienced in other South Florida markets.

**Stable yields, strong economic growth attract mix of investors.** More properties came to market last year, notably improving deal flow with most buyers netting low-5 to low-7 percent yields. While values have advanced of late, Palm Beach County's average pricing remains significantly below the Miami metro, sustaining its appeal to both regional and institutional investors. West Palm Beach represents a primary target among buyers eyeing older storefronts and strip malls at sub-$3 million price tags. Investors focused on larger, 100,000-square-foot-plus centers pursue opportunities in North Palm Beach, namely Palm Beach Gardens, at above-average pricing. Local and in-state buyers should hunt for smaller, mixed-use properties in Delray Beach and discounted opportunities in Boynton Beach, where a mix of 1970s- to 1990s-built assets are available.

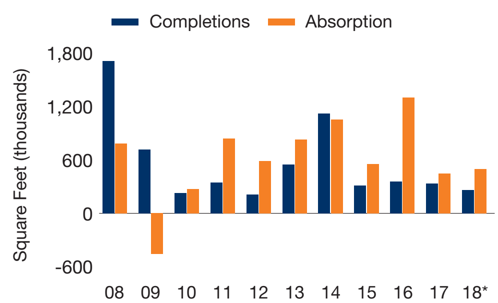
## 2018 Market Forecast

| | |
|---|---|
| **NRI Rank** 14, up 4 places | West Palm Beach climbs four spots, leading the Florida markets on strong household incomes and retail sales. |
| **Employment** up 1.6% | Employers expand with 10,000 jobs in 2018, down 1,200 positions compared to 2017's growth. |
| **Construction** 260,000 sq. ft. | Development activity slows following the completion of 330,000 square feet last year. A 137,000-square-foot expansion of a neighborhood center in Delray Beach represents the largest upcoming delivery |
| **Vacancy** down 40 bps | Net absorption of 500,000 square feet outpaces delivery volume, reducing the metro's vacancy rate to 4.1 percent. In 2017, a decline of 10 basis points was recorded. |
| **Rent** up 6.2% | The average asking rent continues to climb at a strong clip, ending the year at $24.49 per square foot after advancing by 11.8 percent last year. |
| **Investment** | A span of limited construction motivates value-add buyers to scour the county for remaining upside, though investors will find these assets to be fully priced as inventory shrinks. |

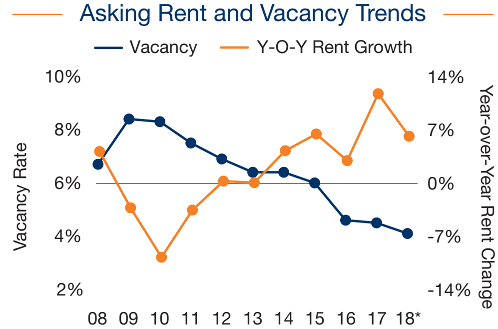
### Employment vs. Retail Sales Trends



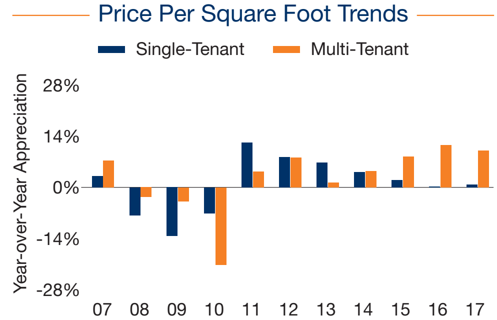

### Retail Completions




### Asking Rent and Vacancy Trends

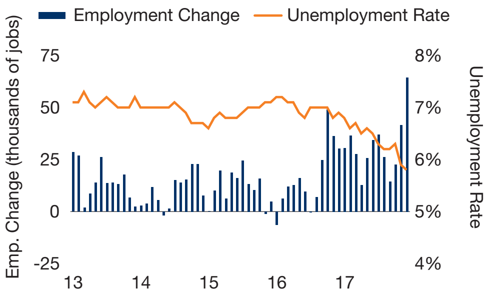



### Price Per Square Foot Trends

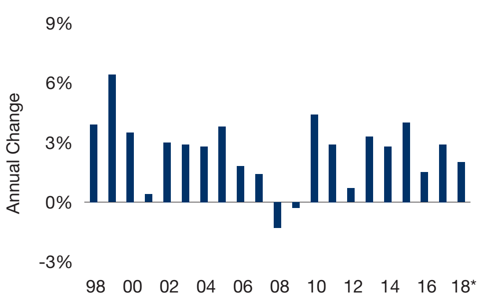



* Forecast
Sources: CoStar Group, Inc.; Real Capital Analytics

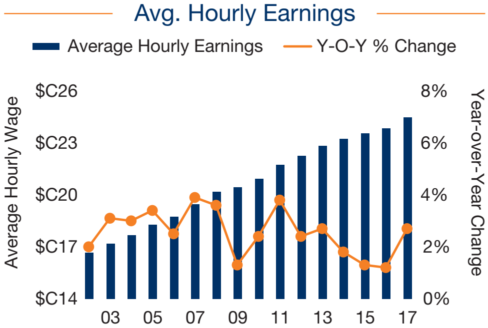
National Labour Force



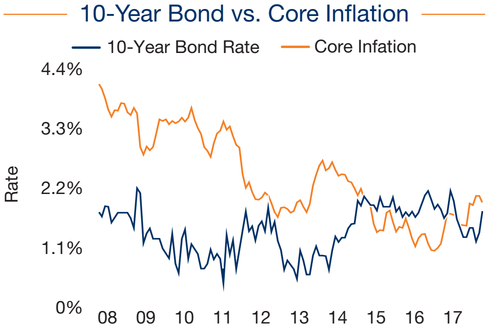

GDP Change




Avg. Hourly Earnings




10-Year Bond vs. Core Inflation




* Forecast
Sources: Altus Data Solutions;
Marcus & Millichap Real Estate Investment Services Canada Inc., Brokerage

# Canadian Economy in Good Standing to Navigate Multiple Challenges on the Horizon

**Healthy economy prepared for possible headwinds.** The labour market sits at its strongest point in a decade following a 5.8 percent jobless rate posted in December, driving expectations of lower retail property vacancy and rising rents this year. The potential softening of part-time employment may arise as minimum wage increases affect small businesses, though overall job growth will remain robust. A turnaround in business investment made for solid economic gains as GDP accelerated to 2.9 percent last year, up from 1.4 percent in 2016. GDP growth in 2018 will slow as borrowing costs and stricter mortgage regulations weigh on consumption and housing investment, leading to growth near 2.0 percent. Low interest rates and easy credit access have led to household debt reaching 170 percent of net income, hampering future consumer spending and contributing to a pared down economic outlook.

**Monetary policy beginning to kick in, though central bank remains cautious.** The Bank of Canada raised interest rates 25 basis points at the beginning of 2018 to 1.25 percent, adding to the two similar increases last year. With the economy operating at near capacity, the central bank's decision was influenced by rising wage pressure and inflation that neared its 2 percent target at the end of 2017. January's rate increase reinforced expectations for further rate hikes this year, though the bank will remain cautious as imbalances in Vancouver and Toronto's housing markets persist and borrowers become more sensitive to rising rates. In the face of challenges surrounding the housing market and the future of the North American Free Trade Agreement, businesses remain optimistic and continue to grow investments. This is due in part to the recovery in oil prices. Crude oil exports marked a 7.4 percent increase from a year ago in December while exports of all energy posted a 6.2 percent rise. These gains are offset though by non-energy exports that continue to flounder, led by consumer goods, which were down last year.

## 2018 Canadian Economic Outlook

- **Job creation, low unemployment rate beginning to lift wages.** Employment growth totaled 373,500 positions in 2017, the strongest year of hiring since 2002, to drop the unemployment rate to 5.8 percent in December. Tightening of the labour force suggests that slack is quickly dissipating, posing a problem for employers looking to fill available positions with qualified labor. Wages should start to rise at a more meaningful pace as a result, leading to an anticipated 3.3 percent increase to income growth this year. In 2017, a 2.7 percent rise to employees' average weekly pay was registered.
- **Canadians still prefer brick-and-mortar retail over e-commerce.** Retail sales made headway in 2017 on improved consumer confidence and a strong economy, growing at a 6.5 percent annualized pace in November, up from 4.7 percent a year earlier. E-commerce sales of C$1.8 billion accounted for 3.5 percent of total retail trade, well below the roughly 14 percent of retail sales that occurred online in the United States. While e-commerce is growing at a strong clip in Canada, marking a 25.5 percent increase from a year ago, brick-and-mortar retailers stand to benefit from the slower adoption of online shopping in Canada.
- **Future of NAFTA remains in jeopardy.** A growing risk for the Canadian economy this year will be the fate of NAFTA. The possibility for changes to the agreement, or a full repeal, are an emerging threat, leading some businesses to err on the side of caution. In 2015, retail imports that originated in the United States were roughly C$108 billion, suggesting that Canadian retailers may be especially hard hit from a negative result following trade discussions. A varied range of outcomes are possible though, leaving the effects of a repeal largely unknown.

# Headline-Grabbing Store Failures Detracting From Robust Underlying Demand, Property Performance

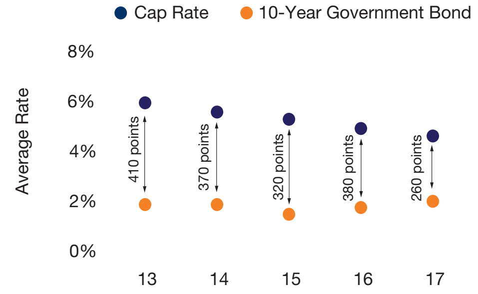
**Investor optimism boosted by strong momentum in the retail sector.** Healthy job creation and improving wage growth will carry through 2018, supporting retail sales and encouraging tenant expansion. Demand continues to outstrip new supply in most markets, keeping retailers' options limited to mostly existing storefronts and further tightening vacancy over the coming year. In the face of high-profile store closures that have left large blocks of space empty, overall vacancy has remained at exceptionally low levels. The shift to online retail is happening at a rapid pace, though e-commerce has yet to make up a significant portion of overall retail sales in Canada, boding well for brick-and-mortar locations. Retailers of all types are extending their reach across the nation, namely international luxury brands seeking to establish a footprint in a global city such as Vancouver and Toronto where rents are far below those of London, New York City and Paris. Discount and value retailers are also making headway with companies such as Giant Tiger, Marshalls and Walmart growing their store count.

**Rising investor demand sends more capital to smaller markets.** Overall pricing has climbed to its highest level of the current cycle while cap rates are at longtime lows, largely led by primary markets. Many secondary and tertiary markets, though, still offer unique opportunities as prices provide a discount from highly competitive major metros. Numerous smaller markets were able to grow deal flow substantially last year as investors expanded searches for remaining upside. Cap rates in secondary and tertiary markets are often 100 to 300 basis points above the exceptionally low yields recorded in the cities of Toronto and Vancouver, amassing strong interest from private parties in search of higher returns. Job gains and rising incomes in these markets will also gain the attention of expanding retailers, compressing vacancy and improving NOI growth.

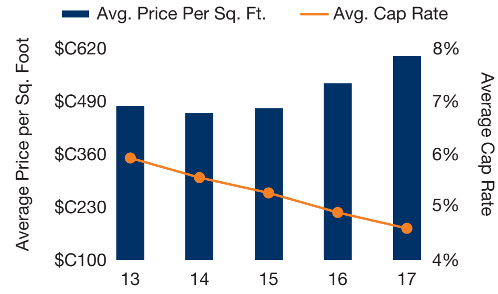
## 2018 Canadian Retail Outlook

- **Store closures providing investors new opportunities.** Big-box retailers that traditionally anchor malls and shopping centers have increased store closures, presenting some landlord and investors with opportunities to redevelop these dark spaces and grow yield. Breaking up the existing space into smaller-format retailers and restaurants is growing traffic counts at these centers, gaining the interest of a broad mix of retailers. As these vacated spaces are revamped and customer traffic improves, owners are achieving greater revenue through higher rents.
- **Yield spread putting pressure on single-tenant investment.** Single-tenant net-lease properties and small strip centers tenanted with nationally recognized brands remain a key focus of investors. Strong demand for these assets has compressed cap rates to the low-3 percent to upper-4 percent range. With interest rates expected to rise, the yield spread is tightening, leading higher-leverage investors to evaluate their options. These deals will remain attractive to low-leverage investors trading out of management-intensive properties.
- **Online trends shaping physical space.** As distribution channels are improved and Internet shopping increases in popularity across Canada, forward-thinking retailers will stand out. Traditional brick-and-mortar retailers are expanding their omnichannel efforts with same-day pickup of online orders, requiring an adjustment to property infrastructure including drive-through lanes, reserved parking near the storefront or changes to backroom storage. E-commerce brands are changing the landscape as well as some are making an entrance into physical retail. These merchants are able to draw increased store traffic with a modern design, leading them to pursue landlords who are flexible with tenant improvements.

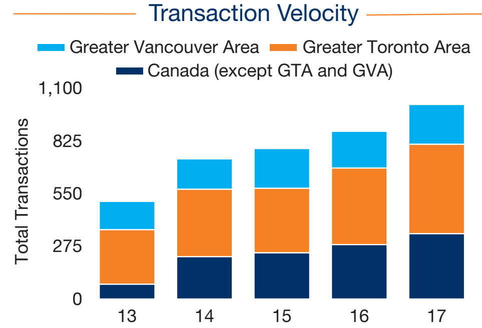
### Bond and Cap Rate Trend*



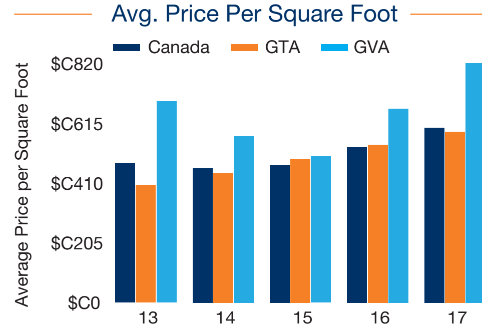

### Retail PSF vs. Cap Rate




### Transaction Velocity




### Avg. Price Per Square Foot




* December of each year
Sources: Altus Data Solutions; Marcus & Millichap Real Estate Investment Services Canada Inc., Brokerage

# Construction Reaches Five-Year High As Toronto Retail Takes Off

**Global brands enter Canada to set up shop in Toronto.** A combination of robust hiring, steady household formation and increasing tourism are fueling the expansion of Toronto's retail sector. International brands have opened numerous stores across the metro over recent years, marking their entrance into Canada thanks to lower competition from traditional brick-and-mortar and online retail than is common in the United States. Following the opening of Toronto's first Nordstrom in 2016, the market will be introduced to Nordstrom Rack this year. Farm Boy, a grocer; Japanese lifestyle brand Miniso; and French fitness chain Keep Cool are launching in 2018 as well, following the wave of global brands looking to capitalize on increased wealth and a diverse population. Over the past five years, more than 1 million square feet has been added to the GTA annually as the economy rapidly strengthens. This year that number rises with developers on track to complete 2.6 million square feet of retail space, enticing more retailers to grow their local footprint with new high-end space such as The Shops at Centro Square and Galleria Centre.

**Tighter yields boost investor activity in the outer submarkets.** Robust leasing activity, tight vacancy and a run up in asset appreciation draw a variety of investors to Toronto. Deal flow climbed to a new high for the current cycle last year, dominated by private investors, many searching for quality credit single-tenant assets for their passive sources of income. Urban properties this year will remain the focus of institutional parties vying for large shopping centers that can be renovated and repositioned for increased rent rolls. While institutions favor the security of properties within Toronto, smaller parties have been searching the surrounding suburbs for higher returns. Overall, cap rates marked a 40-basis-point decline to the mid-4 percent territory, though assets beyond the urban core can trade 60 to 100 basis points higher.

## 2018 Market Forecast

**Employment** up 4.5% — The Toronto workforce grows by 150,000 positions this year, up from last year when 143,700 jobs were created.

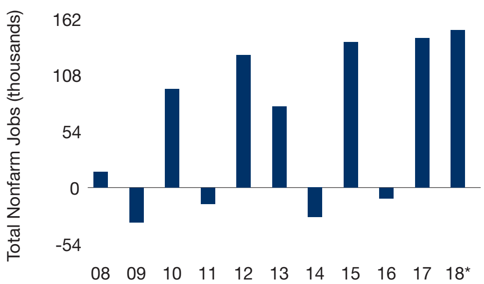
**Construction** 2.6 million sq. ft. — Deliveries reach their highest point of the current cycle this year, eclipsing the 1.1 million square feet brought online in 2017.

**Vacancy** up 30 bps — A robust supply increase pushes the GTA vacancy rate up to 3.4 percent at the end of 2018, adding to the 10-basis-point rise registered a year earlier.

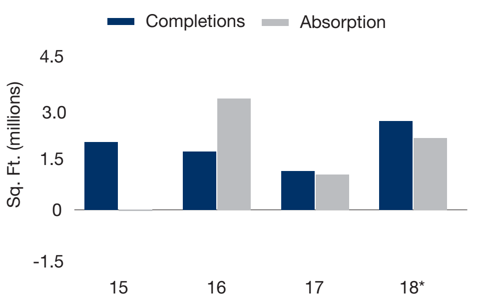
**Rent** up 5.4% — New Class A space coming online contributes to robust rent growth to C$25.50 per square foot this year, reversing the minor decline posted in 2017.

**Investment** — The demise of Sears Canada results in more than five big-box locations going dark across Toronto at the onset of this year, providing opportunities to revitalize vacant space and fill with new tenants, as well as capitalize on strong international demand from global retail brands.

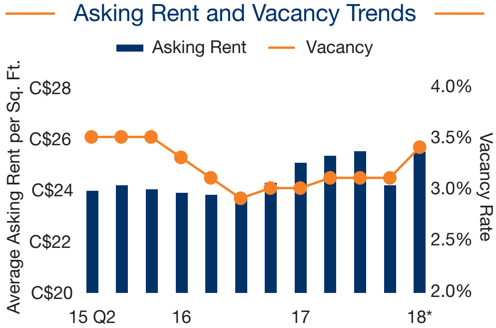
### Employment Trends



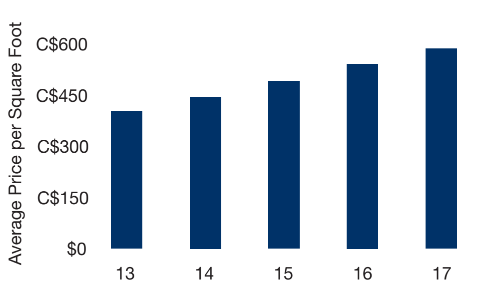

### Supply




### Asking Rent and Vacancy Trends




### Sales Trends




* Forecast
Sources: Altus Data Solutions;
Marcus & Millichap Real Estate Investment Services Canada Inc., Brokerage

# Rising Global Status Fueling Tenant Demand In Vancouver, Tightening the Market

**International retailers descend on Vancouver.** A healthy Vancouver economy drives substantial tailwinds for the local retail sector, supported by an unemployment rate that is the lowest since 2008. Robust demand for retail space has held the vacancy rate exceptionally low for more than two years, including a sub-2 percent vacancy rate within the city of Vancouver last year. An improving international reputation draws a mix of retailers to the area to capitalize on an affluent local population and strong tourism activity. Luxury brands such as Van Cleef & Arpels and IWC Schaffhausen are among those taking up space. A variety of international brands opened their first western Canadian location last year, marking the introduction of Uniqlo, Muji and COS to Vancouver. Businesses will be challenged to find available space across the GVA this year as deliveries slow and vacancy is tight, supporting a steady pace of rent growth.

**Investor sentiment holds strong amid exceptionally low cap rates.** Robust property metrics and asset appreciation are keeping investors active in the marketplace; they are acquiring properties with cap rates in mid-3 percent territory. REITs and institutional parties remain focused on assets in the urban core while private investors are expanding search parameters toward suburban buildings, where returns can exceed the core by more than 100 basis points. While construction is slowing, more than 20 projects are anticipated for completion this year, which could boost opportunities for investors should merchant builders decide to list. An increase in listings could manifest this year as interest rates are expected to rise this year, driving more owners to sell and capitalize on equity growth that has persisted over the past several years. Store closings also bring the potential to change the investment landscape this year. The recent closure of Sears Canada and the announcement that grocery store Safeway is leaving the metro opens the possibility to reposition or repurpose big-box and grocery-anchored centers where these tenants are planning exits.

## 2018 Market Forecast

**Employment** up 4.0%: A tightening labour market slows job growth this year to 57,000, a modest reduction from the 62,400 jobs created in 2017.

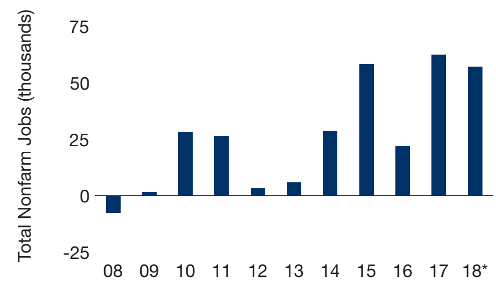
**Construction** 1.2 million sq. ft.: Deliveries slightly mirror last year's growth, delivering just 50,000 square feet less than 2017.

**Vacancy** down 20 bps: A slowdown in construction will be surpassed by new tenant demand, dropping the vacancy rate to a tight 2.8 percent, a reversal from last year's 70-basis-point rise.

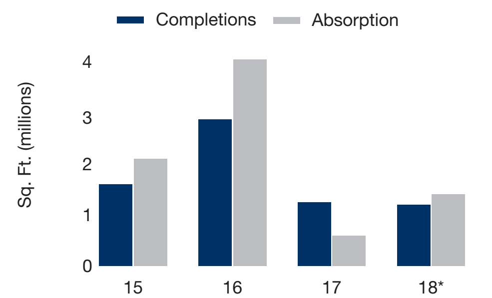
**Rent** up 5.8%: Effective rent surged 11 percent last year and will once again climb at a strong pace, reaching C$28.94 per square foot at year end.

**Investment**: First-year yields fell 20 basis points marketwide in 2017 to their lowest point of the current cycle, reaching the low-3 percent area in the city of Vancouver. Buyers looking for higher-yield prospects will look to Surrey, Delta and Richmond as cap rates here fall in the low- to high-4 percent range.

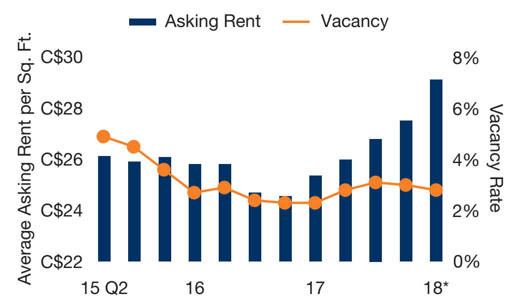
### Employment Trends



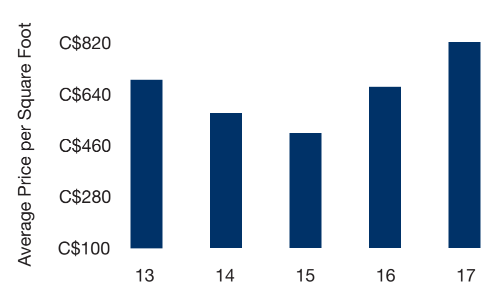

### Supply




### Asking Rent and Vacancy Trends




### Sales Trends




* Forecast;
Sources: Altus Data Solutions;
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National Retail Index Note: Employment and retail data forecasts for 2018 are based on the most up-to-date information available as of January 2018 and are subject to change.

Statistical Summary Note: All rental rates are calculated using triple net (NNN) rental rates. Average prices and cap rates are a function of the age, class and geographic area of the properties trading and therefore may not be representative of the market as a whole. Forecasts for employment, retail sales and retail property data are made during the first quarter and represent estimates of future performance. No representation, warranty or guarantee, express or implied may be made as to the accuracy or reliability of the information contained herein. This is not intended to be a forecast of future events and this is not a guaranty regarding a future event. This is not intended to provide specific investment advice and should not be considered as investment advice.

Sources: Marcus & Millichap Research Services; American Council of Life Insurers; Blue Chip Economic Indicators; Bureau of Economic Analysis; CoStar Group, Inc.; Experian; Federal Reserve; Moody's Analytics; National Association of Realtors; Real Capital Analytics; Standard & Poor's; The Conference Board; Trepp; TWR/Dodge Pipeline; U.S. Bureau of Labor Statistics; U.S. Census Bureau; U.S. Securities and Exchange Commission; U.S. Treasury Department.

2018 U.S. Retail Investment Forecast

| Market Name | Employment Growth | | | | Household Income[2] | | | | Retail Sales Growth[2] | | | | Completions (000 of Sq. Ft.)[2] | | | | Vacancy (Year-End)[2] | | | | Rent ($/Sq. Ft., NNN)[2] | | | | Market Name |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2015 | 2016 | 2017 | 2018* | 2015 | 2016 | 2017 | 2018* | 2015 | 2016 | 2017 | 2018* | 2015 | 2016 | 2017 | 2018* | 2015 | 2016 | 2017 | 2018* | 2015 | 2016 | 2017 | 2018* | |
| Atlanta | 2.7% | 3.5% | 2.1% | 1.9% | $60,791 | $63,333 | $64,438 | $66,176 | 3.8% | 3.7% | 5.1% | 5.4% | 1,300 | 1,600 | 2,300 | 1,100 | 6.9% | 6.5% | 5.9% | 5.4% | $13.44 | $14.08 | $14.68 | $15.16 | Atlanta |
| Austin | 4.4% | 3.7% | 2.7% | 2.4% | $68,577 | $72,435 | $74,092 | $76,762 | 4.9% | 6.3% | 5.5% | 5.6% | 950 | 1,100 | 970 | 890 | 3.8% | 3.5% | 4.0% | 4.2% | $20.00 | $21.47 | $22.54 | $23.33 | Austin |
| Baltimore | 2.3% | 0.8% | 0.6% | 1.1% | $74,700 | $78,180 | $80,527 | $83,353 | 1.8% | 2.0% | 3.3% | 4.4% | 780 | 480 | 720 | 520 | 4.7% | 4.4% | 4.0% | 3.7% | $19.26 | $19.51 | $18.51 | $18.70 | Baltimore |
| Boston | 1.9% | 1.9% | 1.8% | 1.6% | $80,886 | $83,977 | $86,800 | $89,847 | 3.4% | 3.9% | 5.5% | 5.9% | 2,000 | 900 | 1,100 | 1,100 | 3.4% | 3.0% | 2.7% | 2.5% | $19.12 | $20.26 | $20.86 | $21.03 | Boston |
| Charlotte | 4.0% | 3.5% | 1.5% | 1.7% | $57,644 | $61,074 | $62,598 | $64,766 | 3.7% | 3.5% | 5.1% | 7.4% | 1,400 | 1,300 | 1,000 | 1,200 | 5.5% | 5.0% | 4.4% | 4.3% | $14.74 | $15.06 | $15.13 | $15.21 | Charlotte |
| Chicago | 2.0% | 0.7% | 0.6% | 0.9% | $64,992 | $67,209 | $69,551 | $71,758 | 3.2% | 3.3% | 1.2% | 4.0% | 3,200 | 3,400 | 2,100 | 1,700 | 7.9% | 7.5% | 7.0% | 6.4% | $17.09 | $17.07 | $17.16 | $17.37 | Chicago |
| Cincinnati | 1.8% | 2.2% | 0.4% | 1.3% | $58,772 | $61,014 | $63,348 | $65,749 | 3.3% | 5.4% | 5.9% | 3.2% | 1,100 | 620 | 500 | 610 | 6.5% | 5.4% | 5.3% | 4.9% | $10.83 | $11.54 | $12.41 | $13.07 | Cincinnati |
| Cleveland | 0.5% | 1.1% | 0.2% | 0.5% | $51,511 | $52,575 | $54,781 | $57,046 | 1.1% | 1.0% | 1.3% | 2.6% | 600 | 860 | 520 | 1,100 | 6.9% | 6.3% | 6.4% | 6.7% | $10.81 | $10.51 | $10.59 | $10.64 | Cleveland |
| Columbus | 1.5% | 2.8% | 1.4% | 1.6% | $59,193 | $60,966 | $63,217 | $65,515 | 1.2% | 2.1% | 2.7% | 3.4% | 540 | 1,100 | 690 | 400 | 5.2% | 4.5% | 3.9% | 3.6% | $11.42 | $12.03 | $12.97 | $13.44 | Columbus |
| Dallas/Fort Worth | 2.9% | 3.8% | 2.2% | 2.2% | $62,602 | $65,012 | $66,727 | $69,310 | 4.8% | 3.7% | 5.2% | 5.5% | 5,500 | 3,400 | 5,300 | 3,700 | 6.0% | 5.2% | 5.1% | 4.9% | $15.24 | $15.55 | $16.37 | $16.73 | Dallas/Fort Worth |
| Denver | 3.2% | 2.2% | 1.9% | 1.6% | $70,721 | $72,977 | $75,266 | $78,004 | 4.1% | 2.7% | 5.7% | 5.8% | 810 | 610 | 920 | 1,800 | 5.8% | 5.4% | 5.0% | 4.8% | $16.17 | $16.85 | $18.21 | $19.14 | Denver |
| Detroit | 1.6% | 2.2% | 1.5% | 1.7% | $55,599 | $57,185 | $59,336 | $61,309 | 2.6% | 2.8% | 2.9% | 3.8% | 1,200 | 910 | 1,100 | 1,000 | 8.2% | 7.2% | 6.8% | 6.2% | $12.26 | $12.97 | $13.64 | $14.10 | Detroit |
| Fort Lauderdale | 2.9% | 2.9% | 2.1% | 2.4% | $53,821 | $54,397 | $56,119 | $58,577 | 6.4% | 3.7% | 5.6% | 5.2% | 590 | 590 | 570 | 580 | 5.8% | 4.9% | 3.8% | 3.0% | $20.54 | $21.76 | $21.89 | $22.50 | Fort Lauderdale |
| Houston | 0.0% | 0.5% | 1.5% | 2.5% | $61,319 | $62,012 | $63,258 | $66,221 | 3.4% | 2.9% | 3.2% | 5.3% | 4,300 | 5,400 | 5,700 | 2,900 | 5.4% | 5.1% | 5.8% | 6.0% | $16.23 | $16.20 | $16.87 | $17.12 | Houston |
| Indianapolis | 2.6% | 2.5% | 1.7% | 2.4% | $55,271 | $57,568 | $59,682 | $61,980 | 5.4% | 9.1% | 8.0% | 5.3% | 930 | 1,000 | 1,200 | 940 | 5.7% | 4.8% | 5.4% | 5.2% | $14.21 | $13.39 | $14.53 | $14.99 | Indianapolis |
| Kansas City | 2.2% | 2.3% | 0.9% | 0.7% | $60,267 | $62,174 | $64,089 | $66,144 | 2.8% | 2.5% | 5.2% | 4.2% | 990 | 1,400 | 970 | 350 | 6.6% | 5.9% | 5.9% | 5.8% | $11.59 | $11.63 | $12.28 | $12.82 | Kansas City |
| Las Vegas | 4.0% | 3.0% | 3.1% | 1.8% | $53,845 | $54,757 | $56,154 | $58,054 | 4.3% | 1.9% | 4.7% | 5.5% | 350 | 840 | 410 | 440 | 10.0% | 8.9% | 7.8% | 7.3% | $16.56 | $17.28 | $17.08 | $17.23 | Las Vegas |
| Los Angeles | 2.7% | 2.1% | 1.1% | 1.2% | $60,072 | $62,090 | $63,904 | $66,073 | 3.9% | 3.8% | 3.8% | 2.9% | 2,100 | 970 | 1,600 | 1,300 | 4.6% | 4.1% | 4.0% | 4.1% | $27.87 | $29.32 | $30.87 | $32.17 | Los Angeles |
| Louisville | 2.8% | 2.7% | 1.5% | 1.5% | $53,595 | $55,198 | $56,659 | $58,188 | 4.7% | 5.1% | 4.0% | 3.6% | 630 | 590 | 250 | 500 | 4.5% | 4.1% | 3.7% | 3.5% | $12.79 | $12.21 | $13.32 | $14.03 | Louisville |
| Miami-Dade | 3.1% | 2.3% | 3.0% | 2.2% | $45,332 | $46,255 | $47,786 | $49,996 | 5.0% | 1.3% | 4.0% | 4.7% | 1,100 | 1,100 | 1,200 | 2,000 | 3.5% | 3.6% | 3.7% | 4.1% | $30.92 | $33.38 | $35.15 | $35.82 | Miami-Dade |
| Milwaukee | 1.1% | 0.0% | 0.9% | 1.2% | $56,708 | $58,789 | $60,796 | $63,017 | 0.6% | 2.2% | 3.1% | 4.0% | 1,300 | 1,300 | 1,500 | 600 | 6.4% | 6.4% | 6.0% | 5.7% | $11.35 | $11.64 | $11.23 | $11.44 | Milwaukee |
| Minneapolis-St. Paul | 1.5% | 1.6% | 2.3% | 1.7% | $71,951 | $74,121 | $75,773 | $78,039 | 2.3% | 2.4% | 5.6% | 3.9% | 1,400 | 1,100 | 1,300 | 500 | 4.4% | 3.7% | 3.5% | 3.1% | $13.82 | $14.27 | $15.99 | $16.61 | Minneapolis-St. Paul |
| Nashville | 3.8% | 4.0% | 1.8% | 2.0% | $58,256 | $60,907 | $63,233 | $65,349 | 3.7% | 2.4% | 5.6% | 5.3% | 650 | 890 | 1,300 | 890 | 4.4% | 3.3% | 3.1% | 3.3% | $16.09 | $16.90 | $17.89 | $18.37 | Nashville |
| New Haven-Fairfield County | 0.6% | -0.3% | 0.7% | 0.3% | $76,564 | $79,244 | $81,953 | $84,859 | 1.7% | 1.7% | 3.0% | 4.3% | 650 | 680 | 380 | 300 | 5.5% | 4.8% | 4.4% | 4.1% | $20.53 | $21.43 | $22.71 | $23.75 | New Haven-Fairfield County |
| New York City | 2.6% | 1.9% | 1.3% | 0.7% | $64,493 | $66,766 | $68,246 | $70,106 | 3.1% | 2.3% | 4.4% | 4.9% | 1,300 | 2,000 | 1,400 | 4,700 | 3.6% | 3.1% | 3.5% | 3.7% | $53.42 | $56.25 | $59.62 | $63.14 | New York City |
| Northern New Jersey | 0.9% | 0.9% | 0.0% | 0.5% | $72,761 | $75,382 | $77,357 | $79,503 | 4.0% | 3.3% | 3.5% | 4.3% | 1,100 | 610 | 540 | 550 | 4.6% | 4.8% | 4.6% | 4.8% | $23.12 | $25.66 | $25.56 | $25.87 | Northern New Jersey |
| Oakland | 3.7% | 3.1% | 1.1% | 0.6% | $86,444 | $92,512 | $95,098 | $98,277 | 4.7% | 4.3% | 1.8% | 2.6% | 490 | 540 | 280 | 910 | 3.8% | 3.8% | 3.5% | 3.8% | $24.07 | $25.63 | $27.08 | $28.22 | Oakland |
| Orange County | 3.0% | 1.6% | 1.3% | 1.0% | $80,638 | $82,547 | $84,870 | $87,607 | 4.1% | 2.4% | 2.4% | 2.4% | 870 | 370 | 580 | 510 | 3.8% | 4.0% | 4.2% | 4.2% | $26.21 | $26.28 | $25.90 | $26.24 | Orange County |
| Orlando | 5.2% | 3.4% | 3.8% | 3.1% | $51,467 | $52,917 | $54,866 | $57,176 | 4.2% | 3.2% | 8.8% | 6.9% | 1,400 | 1,100 | 1,300 | 1,300 | 5.7% | 5.1% | 4.4% | 4.0% | $15.99 | $16.57 | $17.55 | $17.95 | Orlando |
| Philadelphia | 1.4% | 2.4% | 0.8% | 1.1% | $66,624 | $67,925 | $70,694 | $73,184 | 2.3% | 2.3% | 3.7% | 4.5% | 1,800 | 1,900 | 1,800 | 920 | 5.8% | 5.6% | 5.3% | 5.3% | $16.03 | $16.26 | $16.90 | $17.20 | Philadelphia |
| Phoenix | 3.3% | 2.9% | 1.9% | 2.6% | $56,708 | $58,783 | $61,348 | $63,761 | 7.1% | 5.5% | 5.0% | 7.0% | 890 | 1,600 | 1,500 | 2,200 | 9.6% | 9.5% | 8.6% | 8.5% | $14.77 | $15.13 | $15.64 | $16.36 | Phoenix |
| Pittsburgh | -0.1% | 0.4% | 1.7% | 1.3% | $54,948 | $56,929 | $59,681 | $61,998 | 1.3% | 1.2% | 3.9% | 4.6% | 370 | 640 | 740 | 300 | 4.0% | 3.5% | 3.6% | 3.3% | $12.97 | $13.53 | $16.43 | $17.04 | Pittsburgh |
| Portland | 3.3% | 2.6% | 2.3% | 1.9% | $65,988 | $69,787 | $72,566 | $75,357 | 4.1% | 3.3% | 5.7% | 8.0% | 810 | 460 | 330 | 1,000 | 4.5% | 4.1% | 4.0% | 4.3% | $17.63 | $18.27 | $19.54 | $20.17 | Portland |
| Raleigh | 3.0% | 3.1% | 2.1% | 2.7% | $64,218 | $68,066 | $69,605 | $71,856 | 5.5% | 5.5% | 4.7% | 7.7% | 940 | 810 | 730 | 600 | 4.6% | 3.9% | 3.7% | 3.5% | $15.64 | $16.14 | $17.76 | $18.54 | Raleigh |
| Riverside-San Bernardino | 5.1% | 2.7% | 3.3% | 2.1% | $57,283 | $58,674 | $59,881 | $61,260 | 4.0% | 5.0% | 3.6% | 1.6% | 720 | 760 | 1,100 | 1,400 | 9.0% | 8.2% | 7.9% | 7.8% | $16.01 | $16.67 | $16.94 | $17.31 | Riverside-San Bernardino |
| Sacramento | 4.0% | 2.6% | 2.3% | 2.0% | $63,270 | $64,715 | $66,419 | $68,479 | 4.0% | 5.0% | 5.0% | 2.7% | 590 | 400 | 840 | 360 | 8.2% | 8.3% | 7.0% | 6.7% | $16.03 | $16.94 | $16.04 | $16.45 | Sacramento |
| Salt Lake City | 4.3% | 4.0% | 2.1% | 2.2% | $66,643 | $68,942 | $72,214 | $74,833 | 4.2% | 7.0% | 10.3% | 7.4% | 990 | 950 | 1,100 | 1,400 | 4.0% | 4.0% | 5.0% | 5.5% | $13.56 | $14.70 | $15.17 | $15.88 | Salt Lake City |
| San Antonio | 3.1% | 2.8% | 3.2% | 2.4% | $55,137 | $56,717 | $58,173 | $60,050 | 3.5% | 3.8% | 3.9% | 4.3% | 1,100 | 1,600 | 710 | 400 | 5.0% | 4.3% | 4.5% | 4.6% | $14.99 | $15.42 | $15.39 | $15.59 | San Antonio |
| San Diego | 3.1% | 2.2% | 1.4% | 1.6% | $69,344 | $71,703 | $73,771 | $76,166 | 2.6% | 2.7% | 3.7% | 2.9% | 650 | 440 | 650 | 230 | 5.1% | 4.0% | 3.7% | 3.5% | $23.43 | $23.44 | $24.07 | $25.15 | San Diego |
| San Francisco | 4.7% | 3.2% | 2.0% | 1.4% | $101,634 | $108,189 | $112,914 | $118,367 | 7.2% | 3.5% | 7.8% | 4.4% | 11 | 50 | 280 | 220 | 2.6% | 2.7% | 2.9% | 2.9% | $38.36 | $37.57 | $38.93 | $40.02 | San Francisco |
| San Jose | 3.7% | 2.9% | 2.0% | 1.5% | $106,022 | $111,981 | $116,393 | $121,582 | 3.3% | 2.1% | 2.5% | 2.9% | 300 | 670 | 580 | 800 | 4.2% | 5.3% | 4.6% | 4.5% | $32.58 | $32.83 | $33.11 | $33.61 | San Jose |
| Seattle-Tacoma | 3.0% | 3.4% | 2.8% | 2.4% | $76,984 | $80,594 | $83,408 | $86,436 | 8.9% | 12.6% | 10.8% | 5.3% | 510 | 360 | 990 | 780 | 4.3% | 3.9% | 3.9% | 3.6% | $18.74 | $19.69 | $20.75 | $21.64 | Seattle-Tacoma |
| St. Louis | 2.1% | 1.3% | 0.7% | 0.6% | $58,247 | $60,461 | $62,539 | $64,821 | 1.9% | 1.9% | 3.9% | 4.2% | 1,400 | 960 | 450 | 130 | 6.1% | 5.6% | 5.1% | 4.5% | $12.44 | $12.50 | $12.98 | $13.10 | St. Louis |
| Tampa-St. Petersburg | 4.0% | 3.3% | 2.2% | 2.5% | $49,954 | $51,647 | $53,524 | $56,294 | 9.1% | 10.6% | 7.4% | 5.8% | 1,500 | 1,100 | 1,100 | 1,200 | 5.6% | 5.1% | 5.1% | 4.8% | $14.03 | $14.79 | $15.61 | $16.19 | Tampa-St. Petersburg |
| Washington, D.C. | 2.4% | 1.4% | 1.7% | 1.5% | $94,572 | $96,785 | $99,394 | $101,902 | 2.8% | 1.8% | 4.5% | 4.6% | 1,600 | 2,500 | 1,200 | 1,500 | 4.5% | 4.1% | 4.7% | 4.7% | $25.77 | $26.65 | $26.90 | $27.65 | Washington, D.C. |
| West Palm Beach | 3.6% | 3.1% | 1.8% | 1.6% | $56,709 | $58,050 | $59,980 | $62,971 | 4.7% | 2.9% | 4.6% | 7.0% | 310 | 360 | 330 | 260 | 6.0% | 4.6% | 4.5% | 4.1% | $20.02 | $20.63 | $23.06 | $24.49 | West Palm Beach |
| United States | 1.9% | 1.6% | 1.5% | 1.2% | $56,627 | $58,229 | $60,163 | $62,297 | 2.6% | 3.0% | 4.3% | 4.5% | 61,300 | 61,400 | 59,600 | 54,000 | 5.7% | 5.2% | 5.1% | 5.0% | $18.14 | $18.76 | $19.53 | $20.15 | United States |

* Forecast [2] See Statistical Summary Note on Page 64.

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# 2017

## U.S. RETAIL INVESTMENT FORECAST


IN-DEPTH LOCAL MARKET ANALYSIS

NATIONAL PERSPECTIVE

INDUSTRY-FOCUSED EXPERT RESEARCH

Marcus & Millichap

## To Our Valued Clients:

Retail assets will mark their eighth year of performance gains as space demand exceeds development in 2017, taking the national vacancy rate to its lowest level in 16 years. Although the sector has faced headlines emphasizing the impact of e-commerce and high-profile retail store closures, the performance dynamics have largely been favorable. Still, investor caution amid a rising interest rate environment and many as-yet unanswered questions regarding tax reform and fiscal policy may affect transactional velocity.

Looking forward, economic momentum continues to signal a year of strength for the retail sector as the steady pace of job formations underpins rising consumption. While low unemployment could modestly restrain hiring, it will in turn support accelerated wage growth, boosting discretionary income and retail sales. Together, these trends point to greater inflation risk, which will encourage the Federal Reserve to proactively and perhaps aggressively push up its short-term rate. Rising interest rates will cause multi-tenant shopping center investors to recalibrate underwriting and intensify due diligence, slowing the transaction environment but also positioning the sector for longer-term investor demand due to the inflation-hedging qualities of commercial real estate.

The evolving retail climate has sparked retail center reinvention and adaptation. Owners are carving shuttered big-box stores into smaller retail formats with higher rents and filling vacated space with a range of services resistant to e-commerce, including restaurants, urgent-care medical facilities and health clubs. This combination, together with a variety of expanding grocery stores, has brought additional opportunity to the sector, helping reposition the retail landscape.

Many unknowns assuredly await investors in the coming year. Prospects of consistent economic growth alongside rising interest rates, a potentially more aggressive Federal Reserve and a range of decisions expected to come from the White House and Capitol Hill merit scrutiny. We hope this report provides useful insights that will help our clients navigate the shifting landscape. As you recalibrate your strategies, our professionals welcome the opportunity to assist you in meeting your real estate investment objectives.

Sincerely,

**Bill Rose**
First Vice President, National Director
National Retail Group

**John Chang**
First Vice President
Research Services

## National Perspective



## Market Overviews



## Client Services



Developed by Marcus & Millichap Research Services. The Capital Markets section was co-authored by William E. Hughes, Senior Vice President, Marcus & Millichap Capital Corporation. Additional contributions were made by Marcus & Millichap market analysts and investment brokerage professionals nationwide.

## National Retail Index (NRI)

- Markets in Western states are well represented in this year's National Retail Index (NRI). Seattle-Tacoma climbed two places to claim the top spot in the ranking, pushing last year's highest-ranked market, San Francisco, down to the second position. Other Western metros in the top 10 are Los Angeles, Salt Lake City and Portland.
- Raleigh announces its debut in the Index by securing the seventh position. Another Southern metro, Nashville, vaults from slightly outside the top 10 to the fifth rung in 2017 behind projected low vacancy and a robust gain in the average rent.
- Boston is this year's highest-placed Eastern market, executing a seven-spot rise to the third position due to tight vacancy. New York City places close behind, while San Diego leads a contingent of four California metros to initiate the group of markets ranked from 11 to 20. The NRI concludes with Cleveland, Kansas City and St. Louis occupying the bottom three rungs of the 46 ranked markets.

## National Economy

- A tightening labor market will trim job creation to 2 million new positions in 2017 from more than 2.2 million hires last year. Wage growth began to gather momentum last year and increases will continue this year as labor market slack tightens, promoting additional retail spending.
- An increase in consumption and business output as well as more robust residential construction will support GDP growth in the 2.5 percent range in 2017. The availability of consumer and business credit is expanding.
- Some uncertainty hangs over the economic outlook as the Trump administration begins to assemble an economic agenda. Tax cuts and infrastructure spending are assumed to be primary components of any economic legislation.

## National Retail Overview

- The retail sector continues to flourish despite the expansion of online retailing. Several value- and service-oriented retailers lead a list of scheduled store openings this year that will help generate 81 million square feet of net absorption and a reduction in the national vacancy rate to 5.1 percent.
- The emergence of online distribution combines with tighter construction lending and investor caution to restrain development. This year's projected completions of 49 million square feet mark a decline from 2016.
- Changes are occurring at the property level, with many owners subdividing vacant anchor spaces to add restaurants and service providers as strategies to enhance property performance.

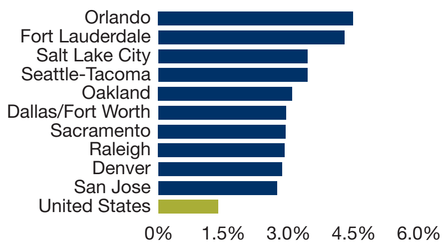
## Capital Markets

- Following an increase in the yield on the 10-year U.S. Treasury, investors have adapted their underwriting models to reflect a rising interest rate environment. Debt markets remain liquid, providing solutions and sources for a range of capital needs.
- Leverage on acquisition loans reflects disciplined lender underwriting, with LTVs typically ranging from 55 percent to 65 percent for most retail properties. The combination of higher rates and conservative lender underwriting encouraged some investor caution that slowed deal flow in late 2016, a trend that will likely extend into 2017. Lenders will continue to scrutinize properties' exposure to underperforming chains and vulnerability to e-commerce this year.
- Banks stepped in to capture greater market share last year as CMBS issuance eased in response to new risk-retention standards under the Dodd-Frank law. The prospects of major changes to Dodd-Frank could materially change CMBS standards this year, but revisions will likely emerge slowly.

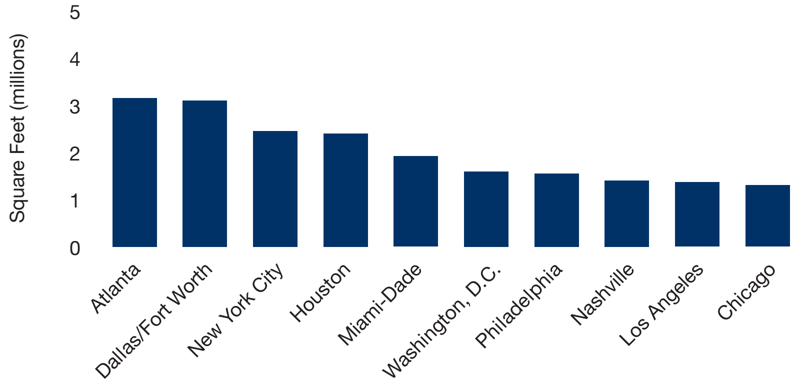
## Retail Investment Outlook

- Overall pricing and cap rates have surpassed pre-recession levels, driven by trends in primary markets. Many secondary and tertiary metros offer unique opportunities as prices remain below the prior peak, and these markets are eliciting interest from investors.
- The rising popularity of online shopping is pushing investors to revise tenant mixes as a means to create additional value. Owners are turning to retailers that are difficult to disintermediate through online options.

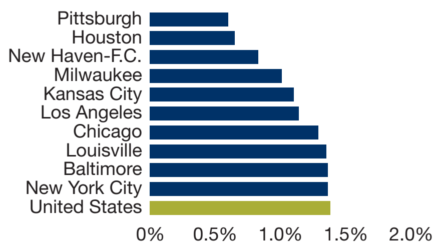
Markets with the Highest Expected 2017 Employment Growth



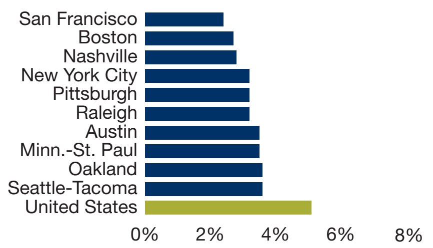

Markets with the Highest Expected 2017 Completions



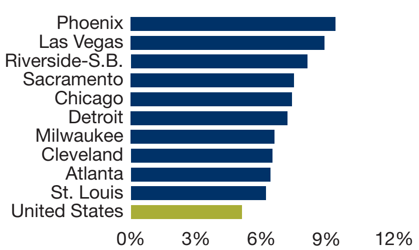

Markets with the Lowest Expected 2017 Employment Growth




Markets with the Lowest Expected 2017 Vacancy Rates




Markets with the Highest Expected 2017 Vacancy Rates



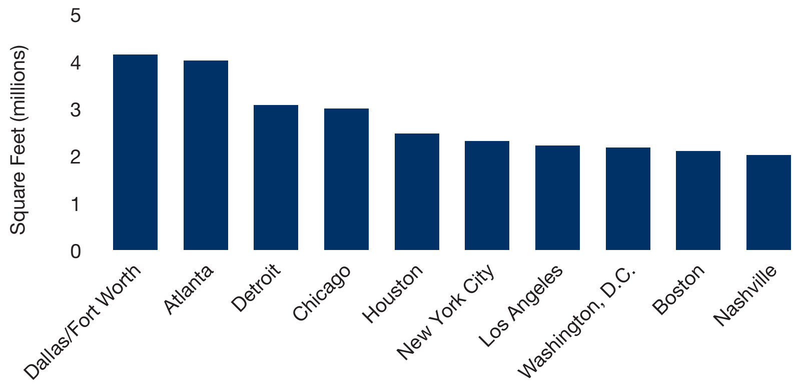

## Major Tech Markets Well Represented in Top Rankings; Coastal Cities Prominent

Employment and payroll gains provide households with more disposable income, underpinning retail sales growth. Higher wages offered in many tech companies encourage spending among these workers, propelling many metros with large tech sectors to the top third of the 2017 National Retail Index. Strong hiring and sizable rent growth boosted Seattle-Tacoma two slots and helped it pass last year's leader, San Francisco, to claim the top spot in this year's Index. Tight vacancy in Boston, another major tech hub, vaulted it seven places into the third slot followed by Austin (#4), which slipped two rungs. A large vacancy drop will drive rent gains in Nashville this year, pushing the metro up six spaces into fifth place, as New York City retains the sixth spot. New to the Index, Raleigh will debut in seventh place, while Salt Lake City occupies the ninth slot and Portland leaps into 10th place. All of these metros have favorable demographic trends and expanding tech sectors that will help boost incomes and retail sales in 2017. Los Angeles (#8) rounds out the top 10, slipping three places from last year's ranking. Other California markets, San Diego, Orange County, San Jose and Oakland, fill the 11th through 14th rungs, while San Antonio maintains the 15th spot, completing the first third of the Index.

## Middle of Index Shuffles; Southeast Metros Highlighted

Miami-Dade (fell eight rungs to #16) and Denver (down three spots to #17) moved out of last year's top third to lead the middle section of the NRI. Meanwhile, an increase in hiring and restrained deliveries vaulted West Palm Beach nine slots into 18th place. Among the other Florida markets, Tampa-St. Petersburg (#20) moved up one space, Orlando (#21) slipped one spot and Fort Lauderdale (#24) jumped five spaces. Dallas/Fort Worth (#19) and Houston (#26) are the lowest-ranked Texas markets, having slipped three and nine rungs, respectively, as elevated construction hinders greater vacancy improvement. Still-tight vacancy kept Pittsburgh (#22) and Washington, D.C., (#23) in the middle third. Minneapolis-St. Paul leapt eight places, becoming the Midwest's highest-ranked market in the 25th slot. Chicago (#27) and Columbus (#30) were the only other Midwest markets to crack the Index's middle third. The remainder of the markets in the top 30 were Atlanta (#28) and Charlotte (#29). Atlanta fell five spaces due to a surge in deliveries while Charlotte dipped one rung from the previous year's ranking.

### Markets with the Highest Expected 2017 Net Absorption




## Late-Recovery and Slower-Growth Midwest Markets Dominate Lower Third of Index

Vacancy rates well above the U.S. level hinder rent growth in markets hit hard by the housing bust, keeping Phoenix (falling five spots to #31), Sacramento (down two places to #33) and Riverside-San Bernardino (stable at #34) in the lower third of this Index. Las Vegas is the only one in this group to rise in the NRI, vaulting five spaces to 36th place. An expected tepid rent gain and an increase in deliveries resulted in Baltimore posting a seven-rung slide into the 32nd spot. Other Northeast metros in the bottom third include Northern New Jersey (#37) after a five-spot decline, while Philadelphia slipped four spaces to 40th place and New Haven-Fairfield County (#41) posted a decline of three spots. Slower employment growth and an above-average vacancy rate kept these markets from moving up. Slower-growth Midwest markets dominate the lower half of this section. Cincinnati climbed two spots to #38, while Indianapolis stayed in 39th place. Metros in the last five rungs are hampered by higher vacancy and lower rent gains. Milwaukee (#42) climbed four places from the bottom of last year's Index, followed by Detroit (#43), Cleveland (#44) and Kansas City (#45). Modest employment growth relegated St. Louis to the final spot of the 2017 Index.

## Index Methodology

The National Retail Index ranks 46 major retail markets on a series of 12-month, forward-looking economic and supply-and-demand variables. Markets are ranked based on their cumulative weighted-average scores for various indicators, including forecast employment growth, vacancy, construction and rents. Weighing both the forecasts and incremental change over the next year, the Index is designed to indicate relative supply-and-demand conditions at the market level.

Users of the NRI are advised to keep several important points in mind. First, the Index is not designed to predict the performance of individual investments. A carefully chosen property in a bottom-ranked market could easily outperform a poor choice in a top-ranked market. Second, the NRI is a snapshot of a one-year time frame. A market facing difficulties in the near term may provide excellent long-term prospects, and vice versa. Third, a market's ranking may fall from one year to the next even if its fundamentals are improving. The NRI is also an ordinal index and differences in ranking should be carefully interpreted. A top-ranked market is not necessarily twice as good as the second-ranked market, nor is it 10 times better than the 10th-ranked market.

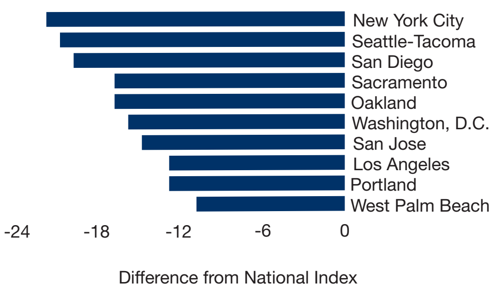
| MSA Name | Rank 2017 | Rank 2016[1] | 16-17 Change |
|---|---|---|---|
| Seattle-Tacoma | 1 | 3 | 2 |
| San Francisco | 2 | 1 | -1 |
| Boston | 3 | 10 | 7 |
| Austin | 4 | 2 | -2 |
| Nashville | 5 | 11 | 6 |
| New York City | 6 | 6 | 0 |
| Raleigh | 7 | NEW | NA |
| Los Angeles | 8 | 5 | -3 |
| Salt Lake City | 9 | 12 | 3 |
| Portland | 10 | 18 | 8 |
| San Diego | 11 | 9 | -2 |
| Orange County | 12 | 7 | -5 |
| San Jose | 13 | 4 | -9 |
| Oakland | 14 | 13 | -1 |
| San Antonio | 15 | 15 | 0 |
| Miami-Dade | 16 | 8 | -8 |
| Denver | 17 | 14 | -3 |
| West Palm Beach | 18 | 27 | 9 |
| Dallas/Fort Worth | 19 | 16 | -3 |
| Tampa-St. Petersburg | 20 | 21 | 1 |
| Orlando | 21 | 20 | -1 |
| Pittsburgh | 22 | 19 | -3 |
| Washington, D.C. | 23 | 24 | 1 |
| Fort Lauderdale | 24 | 29 | 5 |
| Minneapolis-St. Paul | 25 | 33 | 8 |
| Houston | 26 | 17 | -9 |
| Chicago | 27 | 22 | -5 |
| Atlanta | 28 | 23 | -5 |
| Charlotte | 29 | 28 | -1 |
| Columbus | 30 | 30 | 0 |
| Phoenix | 31 | 26 | -5 |
| Baltimore | 32 | 25 | -7 |
| Sacramento | 33 | 31 | -2 |
| Riverside-S.B. | 34 | 34 | 0 |
| Louisville | 35 | 37 | 2 |
| Las Vegas | 36 | 41 | 5 |
| Northern New Jersey | 37 | 32 | -5 |
| Cincinnati | 38 | 40 | 2 |
| Indianapolis | 39 | 39 | 0 |
| Philadelphia | 40 | 36 | -4 |
| New Haven-F.C. | 41 | 38 | -3 |
| Milwaukee | 42 | 46 | 4 |
| Detroit | 43 | 44 | 1 |
| Cleveland | 44 | 43 | -1 |
| Kansas City | 45 | 42 | -3 |
| St. Louis | 46 | 45 | -1 |

1 See National Retail Index Note on page 64.

## Retail-Capacity Index

| MSA Name | Rank 2017 |
|---|---|
| New York City | 1 |
| Seattle-Tacoma | 2 |
| San Diego | 3 |
| Sacramento | 4 |
| Oakland | 5 |
| Washington, D.C. | 6 |
| San Jose | 7 |
| Los Angeles | 8 |
| Portland | 9 |
| West Palm Beach | 10 |

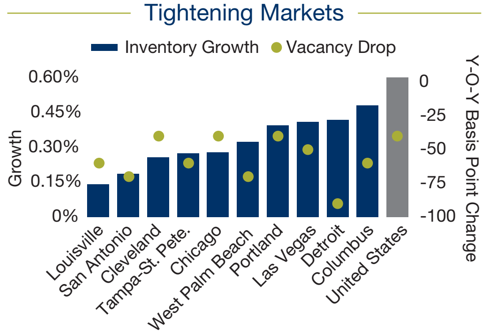
### 10 Limited Capacity Retail Markets




## Limited-Supply Index

| MSA Name | Rank 2017 |
|---|---|
| Louisville | 1 |
| San Antonio | 2 |
| Cleveland | 3 |
| Tampa-St. Petersburg | 4 |
| Chicago | 5 |
| West Palm Beach | 6 |
| Portland | 7 |
| Las Vegas | 8 |
| Detroit | 9 |
| Columbus | 10 |

### Tightening Markets




## Unique Range of Metros Offer Supply Constraints, Performance Stability

The Retail-Capacity Index measures the amount of retail space in a metro relative to the number of households. Highly ranked markets generally offer stability and durability because of limitations on competitive space. The metros occupying the top 10 in the index possess unique characteristics that enhance their appeal to investors. Geographic constraints are common to a few of the metros listed here. In other less geographically constrained metros, vacancy rates that have generally remained below the national range over the past five years support their inclusion in the index.

- Geographic constraints and the desirability of New York City and Seattle-Tacoma among national retailers place those metros at the top of this year's Retail-Capacity Index. With projected vacancy rates in each market well below the forecast national level this year, investors could continue to augment property income by re-leasing spaces at higher rents.
- California markets are well represented in the ranking, claiming five of the top eight positions. San Diego is the highest-placed market in the state due to its minimal variability in vacancy rate and stable rent growth. Sacramento's inclusion rests on recently subdued supply growth that has reduced vacancy and stabilized property incomes.
- Portland joins Seattle-Tacoma as the other Northwest metro in the highest rungs of the index. The metro gets high marks in a range of factors — including geographic constraints, a tight range of vacancy rates and stable rent growth — that provide reliable incomes for property owners.

## Low Completions, Falling Vacancy Support Existing Owners

The nation is expected to receive approximately 49 million square feet of new retail space in 2017. Though additions are relatively modest compared with the last growth cycle, the Limited Supply Index highlights markets that are especially well positioned. Listed metros face the lowest risk related to new construction and are still experiencing tightening. Ranking criteria is based on a weighted combination of minimal inventory growth and strong vacancy compression. Investors seeking a mitigated threat of overbuilding while maintaining strong downward pressure on vacancy may pursue properties in these markets. Although metros in the Limited-Supply Index generally have weaker competition from new deliveries, specific submarkets within these metros may be facing an unfavorable supply-and-demand imbalance.

- The Midwest holds a strong presence in the ranking, with Louisville commanding the top spot. A development slowdown in the Ohio markets propels Cleveland and Columbus into the ranking while a steep vacancy contraction helps buoy the large Chicago and Detroit metros.
- Tampa-St. Petersburg and West Palm Beach also have strong outlooks, bolstered by annual supply additions that are either at or near the lowest delivery total on record. Both markets are expected to record vacancy dips to the lowest point of the current cycle.
- Southwest up-and-comers San Antonio and Las Vegas continue to make strides, cracking the top 10 on the back of a steady decline in vacancy. Retailers here are poised for further improvement as the tourism industry in both metros strengthens through 2017.

## Retail Assets in Secondary Cities Meet Investor Demands

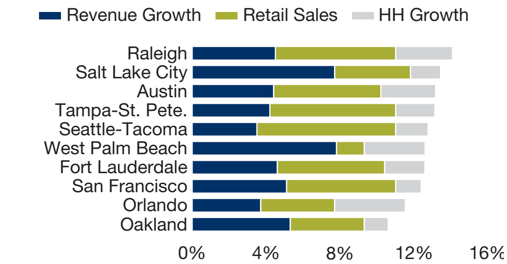
With the current business cycle stretching into its eighth year, investors will keep an eye on the transforming retail industry. Jobs are being created, wage growth is picking up and consumer confidence is holding strong, enhancing retailers' ability to improve their bottom lines this year. The Potential Earnings Index highlights markets that are poised for a strong year of property performance growth, supported by household formation, robust retail sales gains and improving revenues. All of these markets will achieve revenue growth that outpaces the national rate, calculated through anticipated rent gains and vacancy reduction. Listed markets are also forecast to post retail sales that are some of the best in the country, translating into greater upside potential.

- Secondary and tertiary markets will be on investors' radars in 2017. Limited construction in these metros compared with gateway cities can offer favorable yields with a limited competitive environment. The majority of markets in the Potential Earnings Index fall into this category, often providing investors with initial yields 200 to 300 basis points greater than coastal cities.
- Raleigh and Salt Lake City lead the index with a robust combination of anticipated revenue growth and retail sales gains. Favorable demographic trends and median incomes above the national median support strong retail operations this year in these markets.
- A broad employment base and robust retail sales gains in Orlando and Seattle-Tacoma will further improve tenant financial strength in 2017. Tight vacancy, rent growth and national credit tenants' desire to have a footprint in these markets bode well for owners here.

### Potential Earnings Index

| MSA Name | Rank 2017 |
|---|---|
| Raleigh | 1 |
| Salt Lake City | 2 |
| Austin | 3 |
| Tampa-St. Petersburg | 4 |
| Seattle-Tacoma | 5 |
| West Palm Beach | 6 |
| Fort Lauderdale | 7 |
| San Francisco | 8 |
| Orlando | 9 |
| Oakland | 10 |

### Potential Earnings 2017 Y-O-Y Growth by Category




## Equity Flows Past Gateway Cities to Capture High Returns

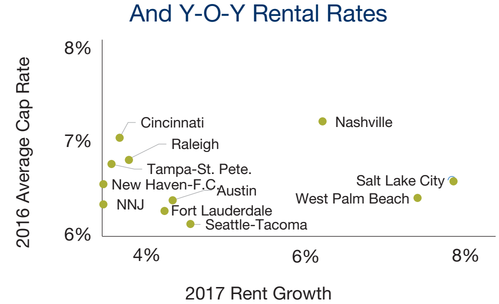
Considering the limited returns offered by other asset classes, real estate remains a preferred investment, particularly on a risk-adjusted basis. As a result, competition in gateway markets has presented investment in secondary and tertiary markets as a favorable option, enhancing buyers' appetite for higher potential returns in these markets. The ability to generate greater returns, though, involves accepting the possibility of increased volatility or illiquidity risk, driving the need for sound due diligence. Through an analysis of average cap rates and year-over-year rent growth, the Total Return Index ranks metros that are anticipated to produce improving NOIs and greater asset appreciation in 2017.

- Many of the metros in the Total Return Index are late-recovery expanding markets that are exhibiting stable economic trends, including employment gains and rising consumer spending. Low entry costs and anticipated rent growth of 6 percent, along with an average 7.2 percent yield in 2016, make Nashville one of the top markets for robust returns this year.
- Improving property metrics and robust demand drivers are pushing rents higher in all of the index's markets, benefiting owners with greater cash flows this year. Salt Lake City and West Palm Beach will register the highest gains nationwide, climbing more than 7.5 percent and 7.1 percent, respectively, over the course of the year. Initial yields in these metros hovered just above the national average last year.
- Cincinnati, Raleigh and Tampa-St. Petersburg have promising annual return profiles going into 2017, achieving average yields in the mid-6 to lower-7 percent band last year. A large inventory of value-add opportunities in these markets have the ability to provide investors with outsize rent growth once the asset is re-tenanted or refurbished.

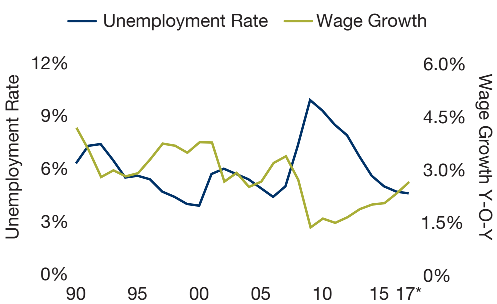
### Total Return Index

| MSA Name | Rank 2017 |
|---|---|
| Salt Lake City | 1 |
| West Palm Beach | 2 |
| Nashville | 3 |
| Cincinnati | 4 |
| Austin | 5 |
| Seattle-Tacoma | 6 |
| Raleigh | 7 |
| Fort Lauderdale | 8 |
| Tampa-St. Petersburg | 9 |
| Tie: New Haven-F.C. & NNJ | 10 |

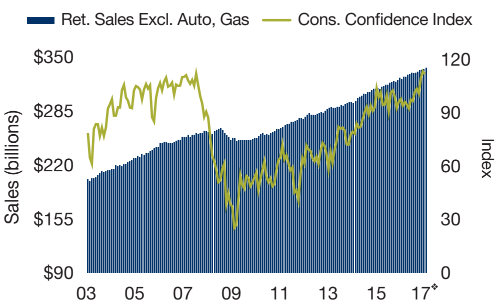
### Markets with High Cap Rates And Y-O-Y Rental Rates



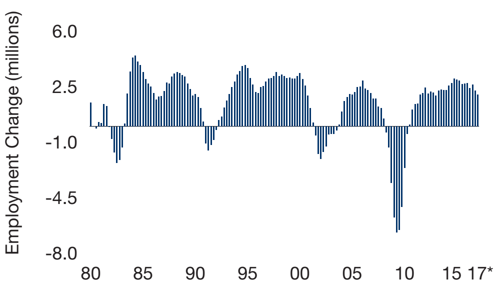
# Job Creation, Spending Growth, Wage Momentum Propel Retail Investment Outlook




**Buoyant consumers positioned to carry the economy.** Consistent hiring and accelerating wage growth will drive expectations of lower retail property vacancy and rising rents this year. Other positive factors, including stock market gains and elevated consumer confidence, combine to form stiff support for spending and overshadow potential downside risks to the economy. Near-term economic progress remains positive as steady GDP growth expands available consumer and business credit, fueling further expansion. However, some uncertainty lingers over the economic implications of policies likely to be pursued by the Trump administration. A tougher stance on immigration, for example, could restrict the labor force and potentially hamper job creation at a time when low unemployment rates illustrate a tightening labor market. While some new policies could restrain growth, consumers appear able, fit and willing to spend in 2017.

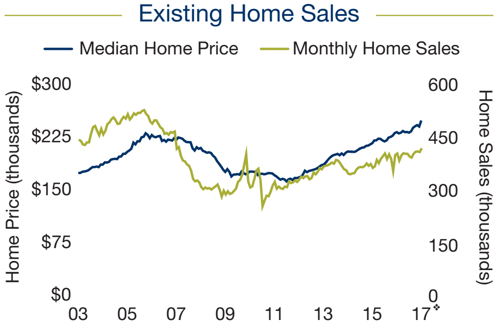



**Broad outlines of economic policy offer positive prospects.** Growth-promoting initiatives include tax reform, greater defense and infrastructure spending, and deregulation. The implementation of these items could raise GDP growth from the subdued levels recorded so far this recovery. Details remain slow to crystallize, however, and the working relationship between the White House and Congress is still evolving. Slow legislative action could delay implementation and push back the effects on the economy. Some aspects of the economic agenda also carry potential downside risks that require consideration. Infrastructure spending financed with government borrowing, for example, could raise interest rates and expand the deficit, reducing the long-term growth potential of the economy. As the economic agenda slowly takes shape, the emerging millennial cohort promises to provide a meaningful near-term lift to retail spending. Collectively, the millennials represent $2.3 trillion of spending power that has only recently started to circulate through the economy. This generation will continue to exert vast influence on the retail sector through revamped product mixes and the development of multiple distribution channels.




## 2017 National Economic Outlook

- **Job creation, low unemployment rate drive wage growth.** With the economy operating near full employment, job growth will moderate slightly to 2.0 million positions this year from 2.2 million new hires in 2016. Upward pressure on wages will mount as employers compete for labor, while several states and municipalities also put into effect higher mandated minimum wages. Larger paychecks for lower-pay positions will bolster the economy through additional retail spending.
- **Spending at shopping centers important economic driver.** Core retail spending, which strips out automobile and volatile gasoline sales, continues to grow at a 4.0 percent annual rate, approximating the long-term average. Elevated consumer confidence and bright prospects for employment and wage growth will contribute to GDP growth near the 2.5 percent range in 2017.
- **Dollar's strength cuts two ways.** The robust economy and some prospective tax changes will place upward pressure on interest rates and the U.S. dollar, producing results in global trade and investment that could act as a drag on domestic growth. Higher U.S. interest rates could attract foreign capital onshore, but the cost of American exports could rise, curbing their appeal to foreign markets and hindering some manufacturing.




* Forecast
** Through March 3
❖ Through January

# Limited Construction Buoys Property Performance; Rents Continue Steady Gains

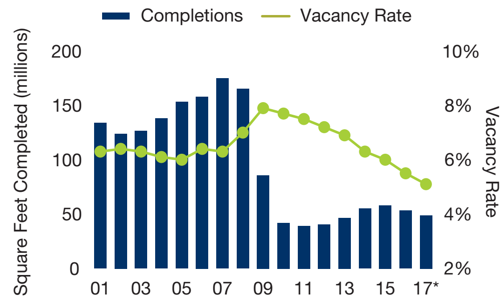
**Trends point to continued momentum for retail sector.** The combination of numerous positive economic drivers worked together to encourage retailer expansions last year, trends that will continue in 2017. Completions remained constrained, diverting expanding tenants into existing spaces and supporting a drop in the vacancy rate for the seventh consecutive year. These trends have been reinforced by elevated consumer confidence that lifted holiday sales last year above their long-term trend. The consumer expectations index, which gauges consumers' outlook for the next six months, recently reached a 13-year high, a positive for sustaining retailers' outlooks this year. Consumer confidence in the coming year will be supported by solid employment gains, upward pressure on wages and a steady pace of economic growth.

**Delivery decline tightens retail property vacancy.** With consumer activity rising, retail sales should grow 4 percent this year, a level in line with the long-term average. Though e-commerce and increasingly mobile commerce are capturing a larger share of total retail sales, the ongoing evolution of retail centers as well as new strategies to synchronize physical and online operations have refreshed tenant demand. Despite the many favorable trends, tighter construction lending and investor caution have restrained development, with total 2017 additions equal to less than one-third of the annual totals in the five years preceding the recession. The significant restraint is uncommon at this stage of the growth cycle and will favor retail property performance, pushing the national vacancy rate to its lowest level in more than 16 years. Rent growth will mark its fifth year of gains, rising by 2.4 percent and bringing the average asking rent back within range of the peak set in 2008.

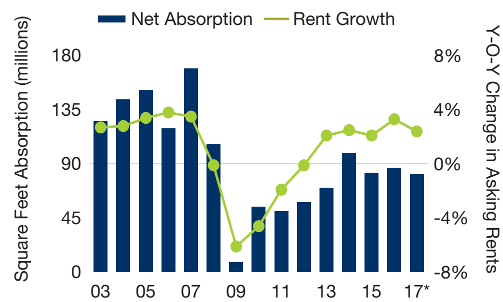
## 2017 National Retail Outlook

- **Retailer expansions exert downward pressure on vacancy.** Although closures of department stores such as Macy's, Kmart and Sears have generated headlines and concern, they are concentrated in malls and do not affect open-air retail centers. Conversely, specialty retailers Dollar General, T-Mobile and ULTA lead the list of store openings, highlighting the evolving retail climate. In 2016, the national vacancy rate fell 50 basis points to 5.5 percent, and the trend should continue this year, reducing vacancy to 5.1 percent.
- **Development restrained; annual completions to decline in 2017.** This year, 49 million square feet of space will come online, marking a drop from the level recorded in 2016. Single-tenant retail concepts dominate the new stock, and shopping center owners also continue to enhance the value of underutilized or vacant spaces by adding restaurants and service providers, including health clubs.
- **Small-business confidence reawakens, providing a potential source of new retailers.** Small-business optimism dipped to its trough in 2009 and made a rocky recovery as significant improvements in employment and consumption progressed. In December of 2016, the index posted its highest reading since 2004 and maintained that standing in January of this year. Increased confidence on the part of small businesses could support the creation of new retailers, a positive trend that should generate greater in-line space demand in strip centers. A rise in space demand also comes at an opportune time, supporting the growing trend of subdividing former anchor spaces.

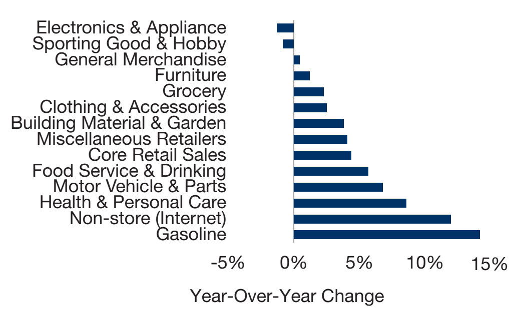
Retail Construction and Vacancy




Net Absorption vs. Asking Rents



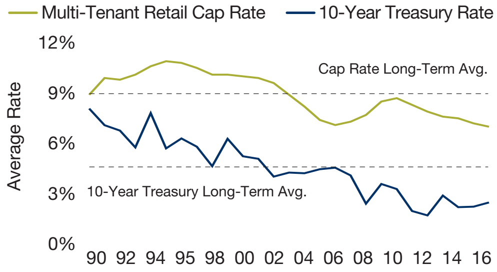

Retail Sales Growth **




Small-Business Optimism Trends Near 2004 Peak

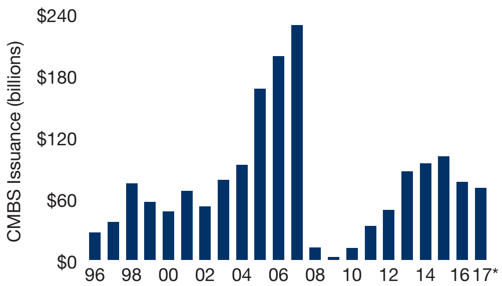

* Forecast
** Through January

Multi-Tenant Retail Cap Rate Trends

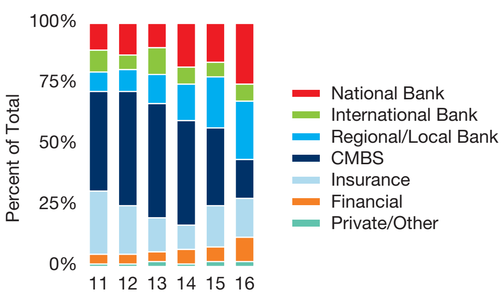



Note: Sales $1M and above

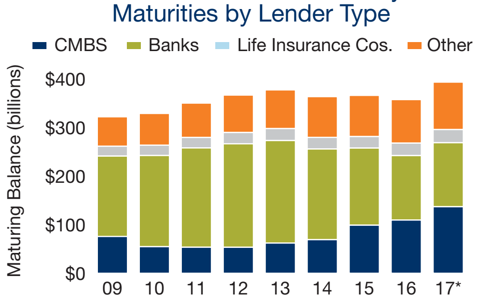
U.S. CMBS Issuance




Retail Mortgage Originations by Lender




Estimated Commercial/Multifamily Debt Maturities by Lender Type




* Forecast`

## Lenders Following Disciplined Approach While Borrowers Account for Higher Costs

**Rising lending costs cause investors to recalibrate.** Following years of particularly low borrowing rates, the sharp postelection increase in the 10-year U.S. Treasury sparked a re-evaluation of pricing and asset yields. Although broad-based economic and retail-property-sector momentum remains intact, higher lending costs could force a repricing of specific assets. Investors have already begun to adapt their underwriting models to a rising interest rate environment, and debt market liquidity remains elevated, offering investors access to a wide range of capital. Despite lender competition, debt sources have maintained disciplined underwriting, reducing market risk and diminishing the prospect of a liquidity-induced bubble. Debt sources also remain cognizant of changes underway in the retail market. Specifically, lenders will closely monitor properties' exposure to underperforming chains and vulnerability to e-commerce. However, retail properties that have improved performance by adding services and high-credit restaurants to tenant lineups will be viewed favorably by lenders.

**CMBS lenders look for reboot in 2017.** Portfolio lenders, including national and regional banks, stepped in last year as CMBS lending eased amid heightened risk aversion in early 2016 that stymied bond trading and the securitization of loan pools. Dodd-Frank risk-retention rules officially took effect in December and the first CMBS offerings issued under the new guidelines went to market a few months earlier. The securitizations were well received by the bond market and offer a potential framework for additional deals in 2017. The prospects of major changes to the Dodd-Frank Act could materially change CMBS standards this year, but revisions will likely emerge slowly. In this environment, banks are expected to pose competition for CMBS lenders, offering a range of maturities for relatively low-leverage loans. Banks are also a common source of construction lending, but higher borrowing costs may pose challenges for funding new projects.

## 2017 Capital Markets Outlook

- **Monetary policy in transition.** The yield on the 10-year U.S. Treasury bond jumped following the election but has remained in the low- to mid-2 percent range throughout the first quarter of 2017. The moderate pace of economic expansion has allowed the Fed to delay raising its short-term benchmark rate, but the increase in December underscores a positive outlook for the economy. The central bank will likely be more assertive in its rate hikes in 2017.
- **Sound economy potentially sowing seeds for inflation.** Inflationary pressures are beginning to mount for the first time during the current economic cycle. Long-awaited wage increases and the stabilization of oil prices are pushing up prices, but both factors are also positive forces for overall economic growth. Further wage gains and rising consumer confidence in 2017 could stimulate consumption and drive more traffic to retail properties.
- **Lenders exercise disciplined underwriting.** Retail properties remain a popular down-leg in 1031 exchanges and investors will continue to find liquid debt markets in 2017. Overall, leverage on acquisition loans continues to reflect disciplined underwriting, with LTVs typically ranging from 55 percent to 65 percent for most retail properties. The combination of higher rates and conservative lender underwriting encouraged some investor caution that slowed deal flow in late 2016, a trend that will likely extend into 2017. A potential easing of regulations on financial institutions, though, could liberate additional lending capacity and higher interest rates may also encourage additional lenders to participate.

# Positive Retail Consumption and Favorable Fundamentals Reiterate Investment Opportunities

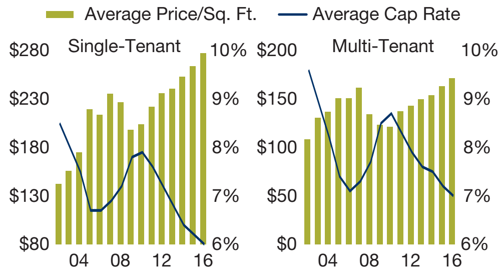
**Investor optimism reinforced by continued retail property momentum.** Healthy job creation and wage growth will carry through 2017, boosting retail sales and encouraging retail tenant expansion. Construction remains limited, pushing growing retailers into existing centers and further tightening vacancy over the coming year. While a variety of high-profile store closures have left large blocks of space vacant this year, opportunistic investors in search of upside are taking initiative to re-tenant the space with a variety of smaller format retailers. While growth in e-commerce is shifting how consumers shop for goods, a variety of traditional brick-and-mortar stores are expanding their online platforms. Conversely, online retailers such as Amazon are recognizing the importance of a physical storefront as they open pop-up stores and full bookstores, further developing their omnichannel retail efforts.

**Retail assets in secondary/tertiary markets may capture additional capital this year.** Overall pricing and cap rates have surpassed their pre-recession peaks, with much of this recovery concentrated in primary markets. Yet, many secondary and tertiary metros still offer unique opportunities as prices offer a discount from their previous peak. Tertiary markets in particular are gaining traction with investors, evidenced by deal volume nearly doubling in these metros since 2007. Cap rates in secondary and tertiary metros are often 50 to 100 basis points higher than primary markets and garner strong interest from private buyers seeking higher returns. Healthy job creation and rising incomes in these markets will attract expanding retailers, improving vacancy and boosting NOI growth.

## 2017 Investment Outlook

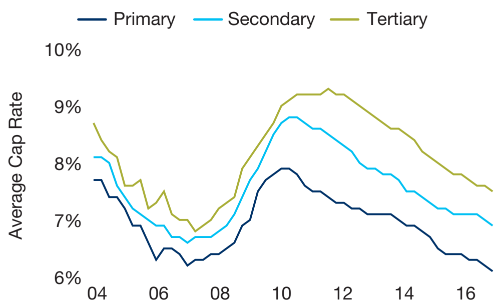
- **Big-box store closings offer investors new opportunities.** Several big-box retailers that traditionally anchor shopping centers and malls continue to close, presenting some landlords with the opportunity to redevelop these empty spaces and boost yield. Redevelopments into smaller format stores and restaurants are increasing traffic at these centers and attracting a wide range of merchants. As tenant mixes are revamped and customer traffic rises, owners are generating more revenue through higher rents.
- **Single-tenant investment sensitive to widening yield spread.** Investors seeking stable returns remain focused on single-tenant properties and smaller strip-center assets leased to nationally recognized and credit tenants. Strong investor demand for single-tenant properties has squeezed overall initial returns from 7.9 percent in 2010 to 6.0 percent last year. With interest rates set to rise further this year, the yield spread is narrowing, causing higher-leverage investors to reconsider their options. For low-leverage investors trading out of more-management-intensive properties, these deals still present attractive investment opportunities.
- **New retail paradigm will shape acquisition strategies.** The rising popularity of online shopping and expanding e-commerce are pushing retail investors to revise their tenant mix. As a result, landlords are favoring retailers that are difficult to disintermediate through online options. Food-service sales are up more than 50 percent since 2009, while building-materials and home-improvement store sales have risen nearly 45 percent during the same span. Health and fitness locations have also expanded into larger retail spaces.

### Retail Property Sales Trends

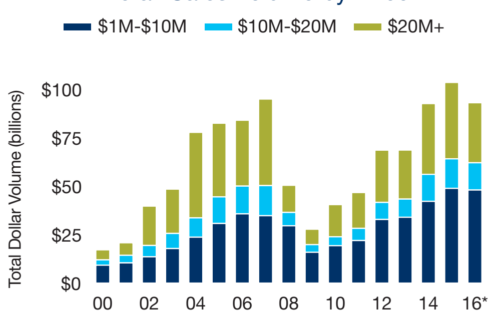



Sales figures represent transactions of $1 million+.

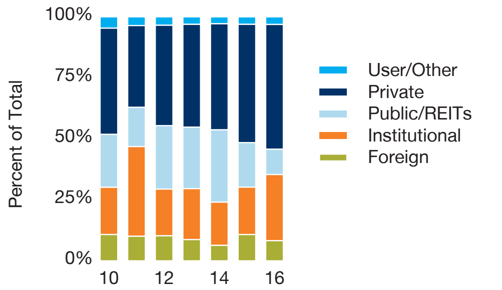
### Retail Cap Rate Trends by Market Type




### Retail Sales Volume by Price

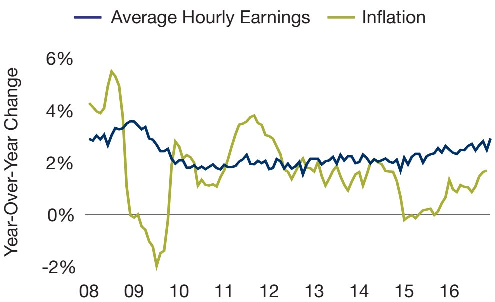



### Retail Buyer Composition

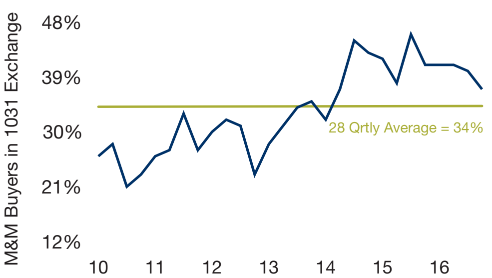



* Estimate

Hourly Earnings vs. Inflation

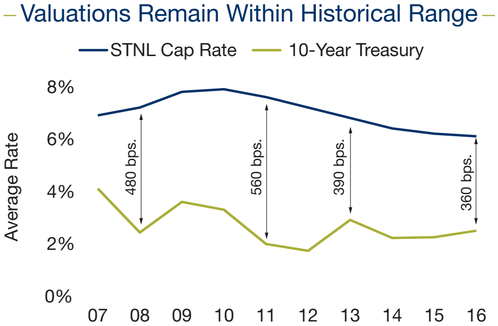



Exchange Buyer Momentum Elevated Within Single-Tenant Retail




10-Year Treasuries Rise Postelection


Valuations Remain Within Historical Range




## Consumers Drive Steady Growth; Exchange-Driven Net-Lease Market Advances

**Positive economic momentum carries into 2017.** Boosted by the resurgent consumer, the economy bounced back to perform admirably in 2016 following a slow start to the year. This trend will likely carry into 2017 as consistent job creation across a wide array of employment sectors provides momentum for the economy while restraining the unemployment rate. As a result, upward pressure on wage growth and rising consumer confidence will support consumption and drive gains in retail sales. This bodes well for net-leased retail properties, as the steady tailwinds support the wide range of proliferating single-tenant concepts.

**Rising interest rates spark investor recalibration.** The postelection interest rate surge last year forced many investors to reconsider their strategies, though the low-leverage preferences of net-leased investors tempered the pullback in activity. Still, given the pronounced downward pressure on net-leased asset yields through much of this expansion cycle, a modest elevation of cap rates in response to the rising interest rate climate seems increasingly probable. Notably, the popularity of these assets, particularly among investors exchanging out of more-management-intensive assets, will restrain any upward drift in cap rates. Properties in good locations in major metros backed by strong credit and offering a longer-term lease horizon will be the most resistant to rising yield trends. One variable of particular consideration for net-leased assets will be the future of the section 1031 tax-deferred exchange, with activity likely to increase over the coming year due to uncertainty regarding potential changes to the statute. The scrutiny of this provision by Capitol Hill amid a broader tax reform plan is raising concerns among investors and developers, but little guidance on the future of this tax provision has yet emerged.

## Development Supports Net-Leased Expansion; Buyers Tighten Cap Rate Spread Amid Rising Rates

**Developers favoring net-leased properties amid tight vacancy and strong demand from a variety of tenants.** Throughout the current business cycle, builders have overwhelmingly delivered projects that have skewed toward single-tenant concepts, particularly in the quick-service restaurant, pharmacy and dollar store segments. Broadly, single-tenant buildings have accounted for more than 80 percent of retail construction since 2009, up from below 70 percent before the recession. Despite the upswing in net-leased deliveries, demand for space remains well above supply growth, with net absorption exceeding development by an average of nearly 16 million square feet annually since 2010.

**Tightening spread between cap rates and borrowing rates emerges as buyers remain active.** While longer-term interest rates have recently stabilized, it is anticipated that the Federal Reserve will continue to raise short-term interest rates throughout the year. Combined with intensifying inflation expectations, borrowing rates are likely to elevate in the year ahead as well. These two factors have led the spread between 10-year Treasury rates and average cap rates to tighten from 560 basis points in 2011 to 360 basis points at the end of 2016.

| Brand | Credit Rating | Locations |
|---|---|---|
| **Auto Parts** | | |
| Bridgestone/Firestone | A | 1,600 |
| O'Reilly Auto Parts | BBB+ | 4,712 |
| AutoZone | BBB | 5,839 |
| Advance Auto Parts | BBB- | 5,185 |
| Pep Boys | BB+ | 804 |
| **Dollar Stores** | | |
| Dollar General | BBB | 13,205 |
| Dollar Tree / Family Dollar | BB+ | 14,284 |
| **General Retail** | | |
| Wal-Mart | AA | 11,593 |
| Sherwin-Williams | A | 4,180 |
| AT&T | BBB+ | 16,000 |
| Verizon Wireless | BBB+ | 2,330 |
| Mattress Firm | B+ | 3,482 |
| Office Depot/Max | B- | 1,441 |
| **Pharmacies** | | |
| CVS | BBB+ | 9,987 |
| Walgreens | BBB | 8,185 |
| Rite Aid | B | 4,547 |
| **Quick Service Restaurants** | | |
| Dairy Queen | AA | 4,800 |
| Starbucks | A- | 25,085 |
| Chipotle | BBB+ | 2,250 |
| McDonald's | BBB+ | 36,899 |
| Yum Brands | BB | 43,085 |
| Burger King | B+ | 20,351 |
| Wendy's | B | 6,503 |
| Carl's Jr./Hardee's | B- | 3,000 |
| **Fast Casual** | | |
| Chili's | BBB- | 1,652 |
| Darden Restaurants | BBB- | 1,541 |
| Red Lobster | BBB- | 700 |
| Bloomin' Brands | BB | 1,270 |
| Applebee's | B | 2,033 |
| Ruby Tuesday | B- | 546 |

Closed Cap Rate Range by Brand*


Cap rates shown above are representative of deals that closed in 2016. Actual yields will vary by locations, tenant, lease terms and other considerations. Locations sourced from CreditNtell for public companies and company websites for private companies.

* For transactions closed in 2016
Sources: CoStar Group, Inc.; CreditNtell; company sources

# Atlanta's Booming Retail Market Attracts Optimistic Investors

**Vigorous net absorption lowers vacancy, amplifying retail construction.** Corporate relocations and expansions are bringing higher-paying jobs to Atlanta and fostering strong in-migration. The steady influx of new residents has sparked increased demand for retail space, edging up absorption and driving vacancy down nearly 400 basis points over the previous five years. To keep pace with the retail demand created by the new households, developers are ramping up construction to a cycle high in 2017. The majority of development will be located in the suburbs north of Interstate 285, providing an urban shopping experience in these areas. The largest is a mixed-use project located near Interstate 85 in Suwanee, south of the Mall of Georgia, that will contain up to 800,000 square feet of retail space. Between Suwanee and Atlanta's perimeter, construction will conclude this year with enhancements to downtown Duluth and a mixed-use development in Peachtree Corners offering high-end shopping and themed restaurants. Metrowide retail demand remains vibrant, supporting strong pre-leasing and aiding a tick up in the average asking rent.

**Robust demand and improving vacancy will capture investors' attention.** Buyers in the $1 million to $10 million tranche are actively targeting fast-food establishments and dine-in restaurants in the metro. Limited listings in popular areas within the perimeter have pushed investors to high-traffic locations within the northern suburbs. These buildings typically trade in the high-5 to mid-6 percent range while metrowide single-tenant assets trade with yields in the high-6 percent area. As a result, yield-seeking investors may transition to multi-tenant properties, particularly with two to four credit tenants, that have value-add potential and cap rates nearly 100 basis points higher than single-tenant buildings. In particular, shopping centers within the Gwinnett submarket provide lower entry costs and returns up to the mid-8 percent span for buyers.

## 2017 Market Forecast

**NRI Rank** 28, down 5 places — Surging levels of construction dropped Atlanta five places in this year's Index.

**Employment** up 2.5% — Atlanta employers will hire 68,000 workers in 2017, after 70,500 positions were created last year.

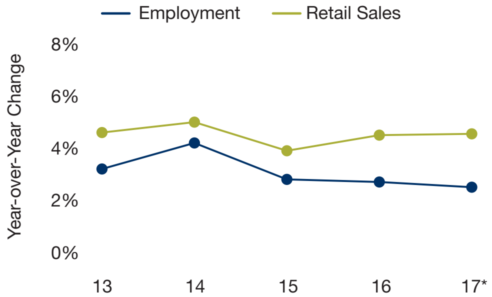
**Construction** 3.2 million sq. ft. — Developers are bumping up construction from the 1.4 million square feet completed in 2016. This includes the 284,000-square-foot addition to Kennesaw Marketplace that will be completed this year.

**Vacancy** down 40 bps — Strong retail demand contracts vacancy to 6.4 percent in 2017. The prior year registered a 50-basis-point vacancy reduction.

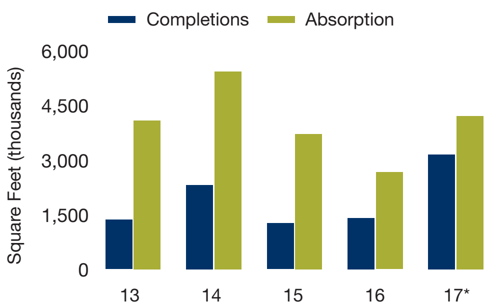
**Rent** up 2.7% — Following an 3.9 percent increase last year, asking rent will climb to $14.35 per square foot. Rent in popular locales may extend beyond $20.00 per square foot.

**Investment** — As the Braves' SunTrust Park Stadium opens this year, new and older retail assets surrounding the corridors to this development will attract both institutional and opportunistic investors.

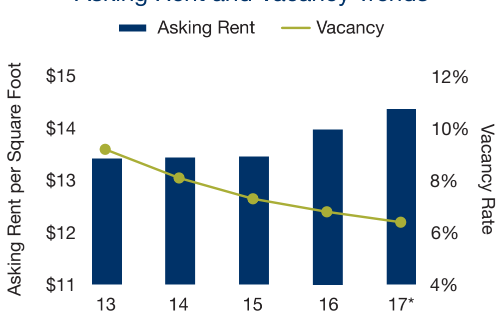
### Employment vs. Retail Sales



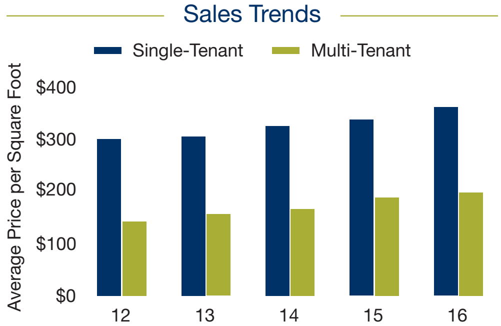

### Retail Completions




### Asking Rent and Vacancy Trends




### Sales Trends




* Forecast
Sources: CoStar Group, Inc.; Real Capital Analytics

# Strong Demographic Trends Encourage Retail Expansion, Development in Austin

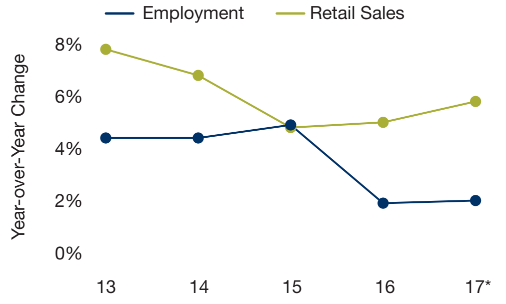
**Low vacancy spurs development as local economy and demographics support retailer growth.** Retail vacancy remains on a downward slide during 2017 as developers fail to keep pace with rising demand for space in Austin. Stable net in-migration and a healthy pace of household formation, especially in suburban communities, are boosting retail sales and encouraging retailers to grow market share throughout the metro. Nationally recognized brands such as Saks Off Fifth, Restoration Hardware and Nordstrom have taken large blocks of space in existing or newly completed retail centers, while local and regional operators backfill in-line space, pushing down vacancy to historical lows. As vacancy contracts, developers have moved forward with several larger retail projects slated for completion this year, including The Parke in Cedar Park and Belterra Village in Hays County. These large projects are coming online mostly pre-leased, and tenants seeking to expand in the market this year must target existing centers. This will drive vacancy lower and encourage an aggressive pace of rent growth during 2017.

**Tight vacancy and strong rent gains attract investors, boost activity in Austin retail.** A competitive bidding environment is encouraging some owners to bring properties to market as prices escalate to record highs and strengthen their opportunity to achieve investment objectives. Many investors who purchased at the peak of the prior cycle have loan obligations maturing in 2017. Those opting to sell now will be met with intense buyer interest as investors scour the metro for deals and many owners choosing to divest will seek opportunities in higher-yielding investment options. Grocery-anchored shopping centers trade for a premium, fetching first-year returns in the low-6 percent area and unanchored centers change hands at cap rates near 7 percent.

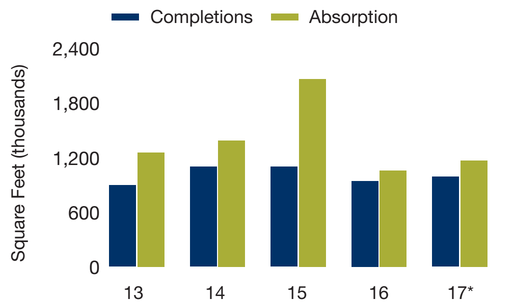
## 2017 Market Forecast

| | |
|---|---|
| NRI Rank<br>4, down 2 places | Markets with stronger vacancy improvements and rent growth moved ahead of Austin in 2017. |
| Employment<br>up 2.0% | After the creation of 18,800 positions in 2016, Austin employment rises by 20,000 workers this year. Additions over the past year have normalized from the rapid expansion realized following the recession. |
| Construction<br>990,000 sq. ft. | Inventory increases by 990,000 square feet of retail space in 2017, up from the 940,000 square feet completed in the prior year. |
| Vacancy<br>down 20 bps | Vacancy falls to 3.5 percent by year-end as demand for space outweighs supply additions. Last year, vacancy also contracted 20 basis points. |
| Rent<br>up 4.3% | This year's advance pushes up the average asking rent to $22.50 per square foot. The average surged 6.8 percent during 2016. |
| Investment | As developers ramp up construction, smaller strip centers and outparcel buildings of larger developments will provide additional opportunities for buyers seeking investment opportunities in the metro. |

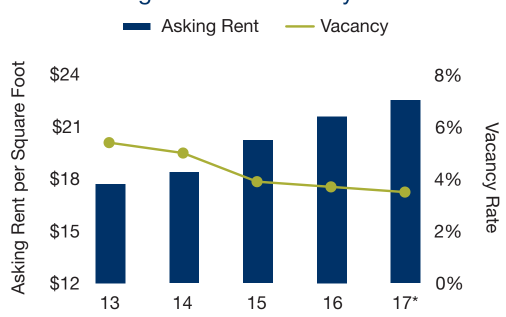
### Employment vs. Retail Sales



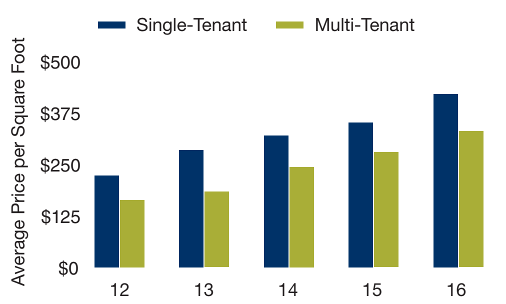

### Retail Completions




### Asking Rent and Vacancy Trends



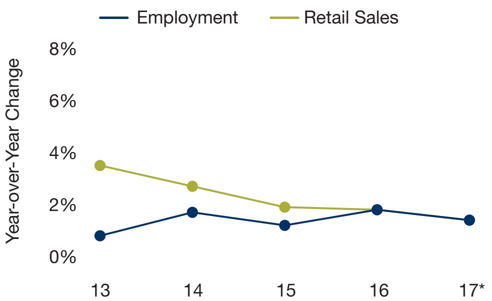

### Sales Trends



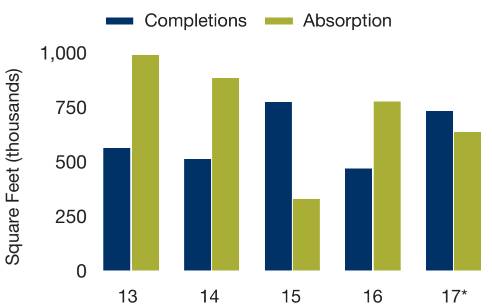

* Forecast
Sources: CoStar Group, Inc.; Real Capital Analytics

# Robust Metro Core Offsets Softness in Outer Suburbs; Yield-Oriented Buyers Dominate Activity

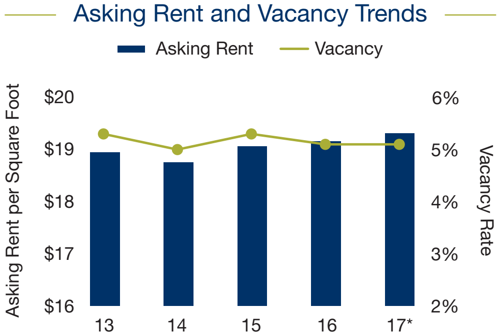
Employment vs. Retail Sales



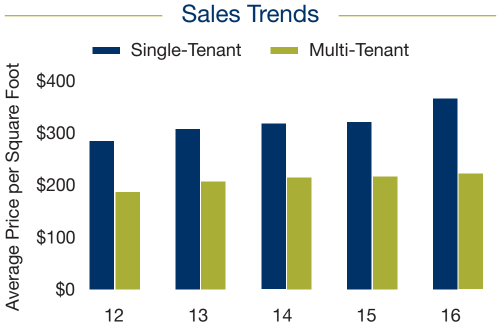

Retail Completions




Asking Rent and Vacancy Trends




Sales Trends




* Forecast
Sources: CoStar Group, Inc.; Real Capital Analytics

**Steady job growth supporting net absorption; market bifurcation remains in place.** An expanding labor market, powered by growth at Under Armour, along with healthcare enterprises and universities, is supporting a solid retail backdrop. While properties inside the metro core feature low vacancy rates and more consistent rent growth, vacancy remains elevated in the outer suburbs due to rising supply growth and uneven demand. However, pre-leasing will ensure that vacancy in these submarkets remains relatively stable. The delivery schedule features a variety of properties, from the large Foundry Row development in Owings Mills to numerous built-to-suit net-leased offerings. Due to the limited number of speculative projects, demand will remain roughly in line with the uptick in construction, which will lead to moderate upward pressure on average asking rents. Rental growth rates will vary considerably depending on asset location and tenancy, leading to wide dispersion among assets over the coming year.

**Divergent property performance provides opportunities for multiple investor types.** The wide range of submarket performance, from struggling neighborhoods to extremely tight infill areas, is attracting a broad pool of buyers to Baltimore. While institutions remain focused on well-located assets near colleges and corporate campuses inside the city limits of Baltimore, private investors have been more willing to step into the suburbs in search of higher yields. In addition, many opportunities still remain for asset structure and tenancy improvements in order to generate higher returns, leading many buyers to Baltimore from Washington, D.C., and Northeastern metros. Broadly, cap rates begin in the mid- to high-5 percent range inside the urban core and extend into the high-7 percent band for suburban assets.

## 2017 Market Forecast

**NRI Rank** 32, down 7 places — Baltimore fell seven slots in the NRI as growth in asking rent remains one of the slowest paces in the nation and vacancy stays flat.

**Employment** up 1.4% — Local organizations will expand payrolls by 19,000 places this year, representing a modest slowdown from the prior year when 24,300 jobs were created.

**Construction** 1.8 million sq. ft. — Completions are set to rise moderately, with two-thirds of the new space already pre-leased. Activity remains consistent with prior years of the current cycle.

**Vacancy** no change — Vacancy will remain unchanged at 5.1 percent as demand for retail properties remains roughly in line with supply growth. Speculative development remains extremely limited this year.

**Rent** up 0.8% — Driven by urban core submarkets, asking rents will climb to $19.30 per square foot.

**Investment** — Properties near Port Covington will attract greater buyer interest as Under Armour builds out its new headquarters and related developments over the coming years.

# Job Growth Propels Retail Market; Investors' Appetite for Assets Expands

**Ambitious mixed-use project highlights uptick in deliveries.** Considerable job creation, propelled by high-wage sectors such as biotech, finance and healthcare, is driving gains in household formation and retail sales. As a result, builders are accelerating development this year, particularly in the suburbs along Route 128 and Route 495, which will account for nearly half of all completions. However, the largest delivery will come to market in the heart of the urban core. The Hub on Causeway will contain 235,000 square feet of retail space as part of a two-tower mixed-use office and residential development spanning 1.5 million square feet, is underway near North Station and TD Garden. Although development will rise this year, strong pre-leasing activity will mute the effects of the upswing in supply, generating a modest decline in vacancy below 3 percent. As a result of incredibly tight conditions, asking rents will advance at a low-single-digit pace.

**Urban core mixed-use assets remain key destination for capital on the East Coast.** Supported by the vibrant local economy and a diverse array of retail assets, Boston remains a top metro among institutional and private investors along the East Coast. Demand remains elevated primarily in the metro core, where buyers seek mixed-use properties with opportunities for upgrades to apartments and ground-floor retail spaces. Meanwhile, grocery-anchored suburban assets in first-tier suburbs are also in high demand due to their stable cash flows and established household base. Deal flow remains extremely competitive as listings have shrunk amid surging gains in rent and occupancy over the past several years, driving greater competition to deploy capital. As a result, cap rates have fallen to the low-5 percent range metrowide, with marquee properties in core submarkets exchanging ownership below the average.

## 2017 Market Forecast

**NRI Rank** 3, up 7 places — Strong demand for retail space lifts Boston into third place in this year's Index.

**Employment** up 2.6% — During 2017, payrolls will expand by 70,000 new workers, representing the strongest annual hiring activity this cycle, outpacing the 61,400 positions added last year.

**Construction** 1.2 million sq. ft. — Developers follow up last year's completion of 900,000 square feet metrowide with the delivery of 1.2 million square feet in 2017.

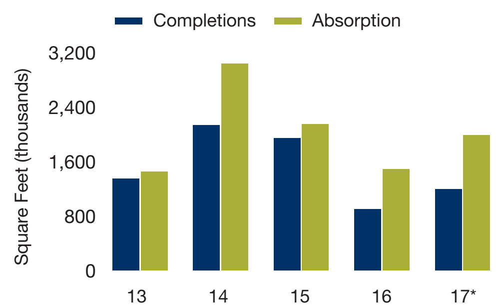
**Vacancy** down 40 bps — Strong tenant demand in 2017 equates to a year-over-year vacancy compression of 40 basis points to a cyclical low of 2.7 percent. Last year, the vacancy rate was cut 30 basis points on net absorption of nearly 1.5 million square feet.

**Rent** up 2.7% — Significant rent appreciation in the core increases the metro's average asking rent to $20.24 per square foot in 2017. The pace of rent growth is subdued compared with the 3.6 percent gain that occurred last year.

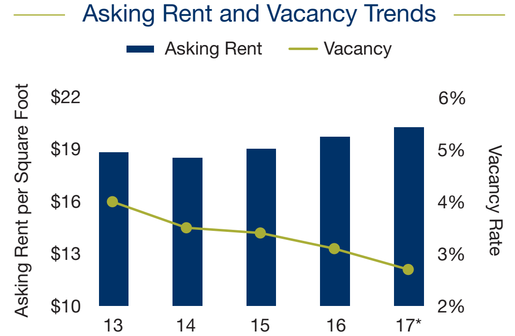
**Investment** — More yield-driven investors target core-located, single-tenant assets that sit on parcels approved or primed for future high-density redevelopment.

Employment vs. Retail Sales

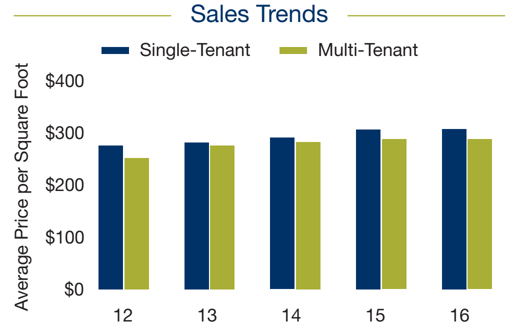

Retail Completions




Asking Rent and Vacancy Trends




Sales Trends




* Forecast

Sources: CoStar Group, Inc.; Real Capital Analytics

# Demographic Trends Shine Favorably on Charlotte, Attracting Investors to Retail Assets

**Charlotte retail market buoyed by population and income gains.** Steady employment creation, led by the relatively high-paying professional services segment, is drawing workers to the region and pushing the rate of population growth well above the national level. Many of the new residents are young professionals in the 20- to 34-year-old age cohort and the influx has boosted household formation and incomes at an accelerated pace, lifting spending in the process. Increased retail sales amid strong tenant demand have dropped metrowide vacancy to the lowest level in 10 years and are pushing rents up. Demand for retail space is especially vibrant in the southwest section of Mecklenburg County, where vacancy rests below 2 percent. In the northeastern portion of the county, retail demand is being encouraged by the 9.3-mile extension of the LYNX Blue Line light rail that will open in the third quarter of this year to connect Uptown Charlotte with UNC-Charlotte. The project is spurring new residential and mixed-use construction as well as the redevelopment of older buildings along the route, benefiting existing retailers.

**The potential for higher yields than other East Coast cities draws investors.** The metro's strong financial sector and roster of corporate tenants lure institutions and funds targeting grocery-anchored centers at cap rates that typically begin in the high-5 percent area. Many private investors are considering small strip centers as competition for single-tenant buildings intensifies. Yield-driven buyers will find cap rates averaging in the mid-8 to mid-9 percent span for older buildings with local tenants. Marketwide, investors are seeking higher-quality locations with sustainable rent growth and healthy tenant sales. They are also targeting areas with population density and high barriers to entry such as SouthPark or Center City.

## 2017 Market Forecast

**NRI Rank** 29, down 1 place — With rent growth just below the national average, Charlotte fell one place in the Index.

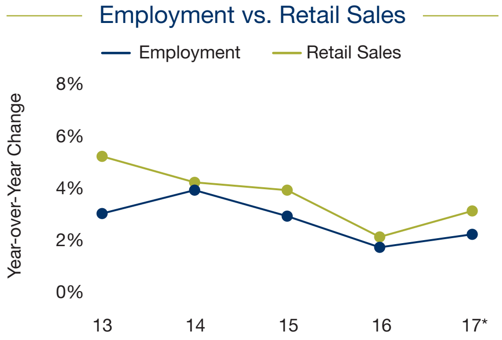
**Employment** up 2.2% — Job growth in Charlotte rises modestly in 2017 as payrolls expand by 25,000 workers. A gain of 19,000 positions was posted last year, led by office-using segments.

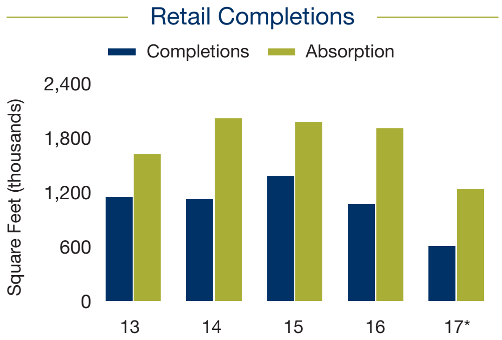
**Construction** 600,000 sq. ft. — Construction activity drops from the 1.1 million square feet of space delivered last year as developers complete 600,000 square feet in 2017.

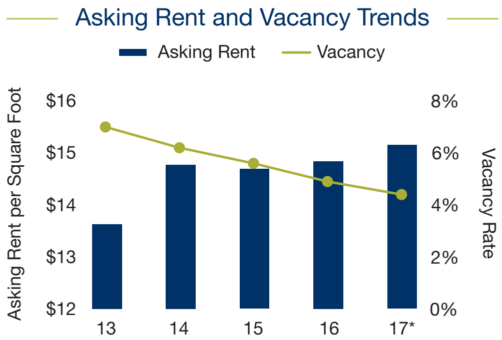
**Vacancy** down 50 bps — Net absorption of 1.9 million square feet resulted in a 70-basis-point reduction in the vacancy rate last year. The slowdown in construction will contribute to a 50-basis-point decline to 4.4 percent in 2017.

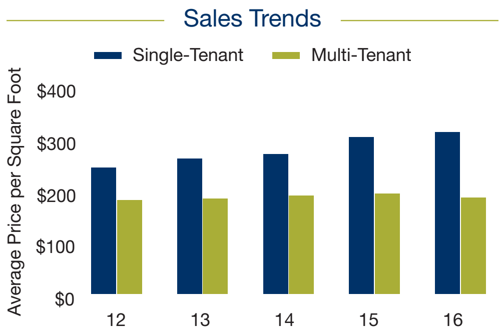
**Rent** up 2.1% — Tightening vacancy will support a 2.1 percent increase in the average asking rent to $15.14 per square foot in 2017, exceeding the 1.0 percent gain recorded last year.

**Investment** — Another extension to the LYNX light-rail system has been proposed. A southeast Silver Line to Matthews is under consideration and should promote residential growth and generate interest in retail assets along the route.




* Forecast
Sources: CoStar Group, Inc.; Real Capital Analytics

# Chicago Vacancy Falls as Limited Retail Construction Channels Demand to Existing Buildings

**Retail expansion amid weak development strengthens city and suburbs.** The Chicagoland retail market is positioned for further improvement in 2017 as healthy tenant demand and a slowdown in shopping center construction tighten metrowide vacancy. Annual retail sales volume will climb as durable employment gains and rising disposable income levels fuel consumption. These factors together with a booming residential market provide a steady tailwind for Chicagoland retailers. In addition, retail construction here will wane in 2017, reaching one of the lowest delivery points in 11 years. A new Whole Foods in Lincoln Park and a speculative boutique shopping center in the South Loop will account for more than 60 percent of citywide deliveries. The majority of supply additions, however, will come online in the suburbs. Robust absorption has historically been able to outpace completions, with vacancy forecast to fall for the fourth consecutive year. However, these tightening market conditions have yet to trigger substantial growth in asking rents, which will remain slow in 2017. Select pockets of high-demand and low-inventory areas, such as Gold Coast/Old Town and River West, have the strongest prospects for outperformance.

**Seller activity intensifies as buyers shift focus to multi-tenant.** Investors remain aggressive in their pursuit of Chicago retail assets, though the expanding inventory of listings in the wake of rising interest rates allows buyers to be more selective in their purchasing. As a result, deal flow may not rise along with the number of listings like it would earlier in the cycle, when a lack of available for-sale properties was the main drag on transaction volume. The pool of sellers will likely grow further in 2017 as owners look to capitalize on elevated pricing. The multi-tenant segment in particular recorded an upswing in trading entering the year and will be an investor favorite moving forward. These deals typically trade hands at cap rates that average near the 7 percent range.

## 2017 Market Forecast

**NRI Rank** 27, down 5 places — Chicago slipped five spots in the NRI as growth in asking rent remains subdued.

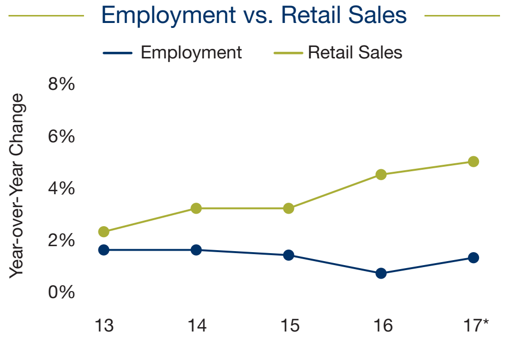
**Employment** up 1.3% — Chicago employers will create approximately 60,000 jobs in 2017, building on job gains of 31,500 workers last year.

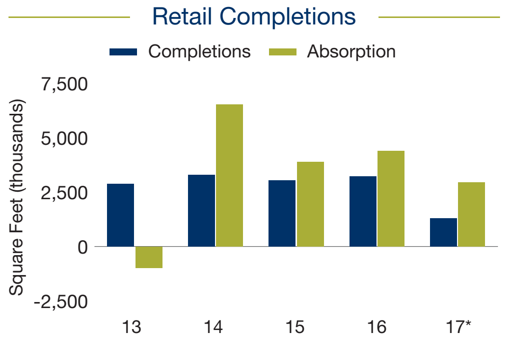
**Construction** 1.3 million sq. ft. — Following the completion of 3.2 million square feet of retail space in 2016, developers will ease their pace of construction this year. The majority of the new space is slated for the suburbs.

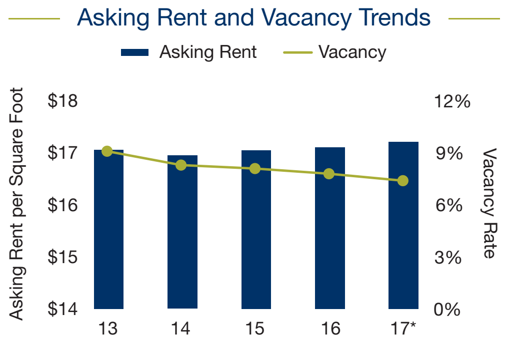
**Vacancy** down 40 bps — Positive net absorption of 3 million square feet will drive the metrowide vacancy rate down to 7.4 percent in 2017. A vacancy contraction of 30 basis points was recorded last year.

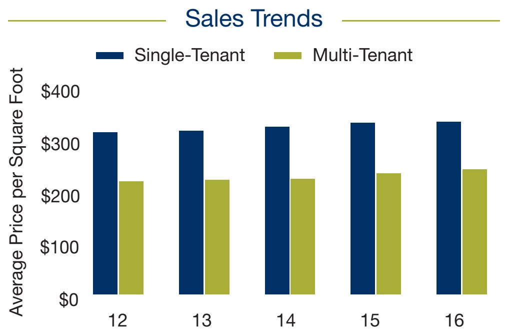
**Rent** up 0.6% — The average asking rent is on pace to post modest growth this year, reaching $17.20 per square foot. Retail rents rose slightly in 2016.

**Investment** — Retail assets in the North Shore suburbs will garner heavy investor interest. Strong demand and limited competition give properties here a mitigated risk of tenant turnover.



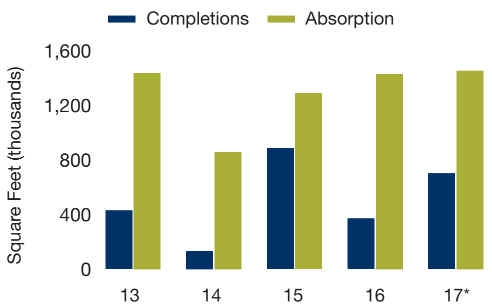



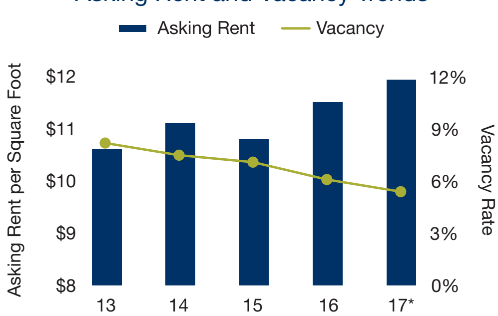

* Forecast
Sources: CoStar Group, Inc.; Real Capital Analytics

## Employment vs. Retail Sales


## Retail Completions




## Asking Rent and Vacancy Trends

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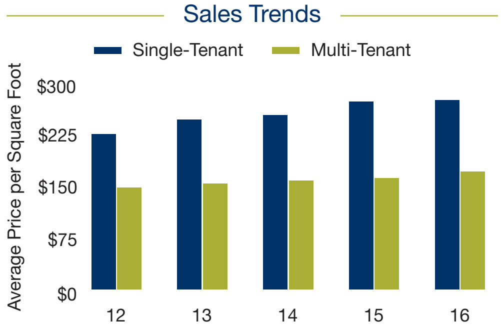



* Forecast
Sources: CoStar Group, Inc.; Real Capital Analytics

# Investor, Tenant Demand Surges in Cincinnati, Dwindling Retail Supply

**Impact of record absorption amplified by fully leased construction pipeline.** Strong job creation in 2017 will raise headcounts to a new high, with hiring activity spread across most employment sectors. Gains in financial, information and government positions will also support diversified employment expansion among higher-paying sectors, which will sustain household formation and bolster retail spending. Construction activity will reach its second-highest point in the past eight years, with developers completing projects in the city of Cincinnati and Butler County. The uptick in retail developments will have a muted effect on vacancy, as most buildings slated for finalization are pre-leased. Tenant demand for existing space will reach a cyclical record level, reducing vacancy to a more than 10-year low. The lack of available space in the city center, and more recently Northern Kentucky, will enhance the appeal of vacant space in Butler County and the outlying northern suburbs, compressing the marketwide vacancy rate and increasing rents.

**Upside abounds in outlying and close-in suburbs as investor demand persists in city's core.** Yields that exceed other Midwest markets' will attract more out-of-town investors to the metro, increasing competition. Sustained demand for drugstores and fast-food establishments will maintain single-tenant sales velocity at a cyclical high level, with initial yields typically in the 5 to 6 percent range. The number of listed multi-tenant properties should remain subdued following a period of recent trades. This will prove beneficial to older shopping centers, especially those with a grocery anchor, and smaller properties listed in the city center. These assets will trade at initial yields of 7 to 8 percent. Opportunistic buyers will target acquisitions in the more affordable northern suburbs of Hamilton and West Chester, where vacancy compression and strong rent growth are occurring.

## 2017 Market Forecast

**NRI Rank** 38, up 2 places — Strong absorption amid elevated completions advanced Cincinnati two slots this year.

**Employment** up 2.0% — Employers add 22,000 new jobs in 2017, exceeding the 21,400 positions created last year. Leisure and hospitality led employment growth in 2016.

**Construction** 700,000 sq. ft. — Annual completions will rise above the average level for this cycle. Last year, developers brought approximately 370,000 square feet online.

**Vacancy** down 70 bps — Record absorption compresses metrowide vacancy to 5.4 percent in 2017, continuing a streak of annual tightening that began in 2010 and following last year's 100-basis-point drop.

**Rent** up 3.7% — Growing tenant demand and dwindling availability boost average rents to $11.93 per square foot in 2017, following a 6.6 percent surge last year.

**Investment** — The need for additional retailers in transitioning downtown neighborhoods and areas near the University of Cincinnati elevates investor demand for repositionable assets in the city center.

# New Retailers Enter Cleveland; Healthy Absorption Constricts Vacancy

**Vacancy improves amid construction slowdown.** An uptick in hiring this year will foster a steady increase in household formation, lifting retail sales and driving demand for retail space in Cleveland. As a result, strong net absorption will push down vacancy for a fifth consecutive year, falling below the previous business cycle low and supporting a slight increase in the average asking rent. Improving demographics, coupled with consumer demand for a variety of retailer options, are luring new franchises to the market. The chain Old Chicago Pizza and Taproom announced plans to open between three and five new restaurants throughout the metro. Simultaneously, Seasons Kosher Supermarket is set to open its first Midwestern location in Cleveland this year. The store will be part of the 100,000-square-foot expansion of Oakwood Commons, which is located in the city of South Euclid. Additionally, the metro's first Container Store is set to be completed in the spring. The company will occupy a 25,000-square-foot space near the Beachwood Place Mall.

**Above-average first-year returns command out-of-metro buyer attention**. Cleveland's expanding economy and higher initial yields will attract investors to deploy capital into the metro's retail assets. In particular, out-of-state buyers, mainly from California, are attracted to first-year returns up to 250 basis points higher than their home markets. Single-tenant properties in neighborhoods directly east and west of the CBD will garner significant buyer attention as tenant demand strengthens in these locales. These assets typically change hands with cap rates in the 6 to mid-7 percent span. Properties in southwestern Cleveland near Interstates 71 and 480 will be a target among investors seeking lower-than-average entry costs. Despite growing demand for shopping centers, listings for multi-tenant properties remain limited as buyers snatch up what few deals are available. First-year returns for multi-tenant assets average in the mid-8 percent area.

## 2017 Market Forecast

**NRI Rank** 44, down 1 place — Vacancy above the national rate contributed to Cleveland's one-spot decline in 2017.

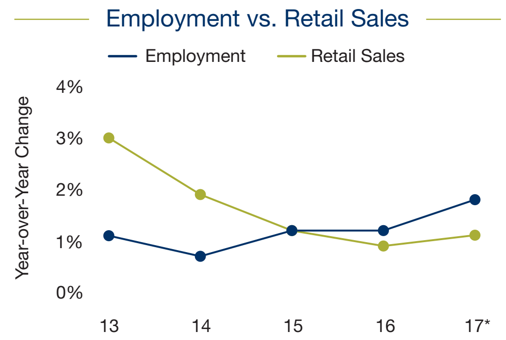
**Employment** up 1.8% — Cleveland businesses will expand payrolls this year with the addition of 19,000 new hires. In 2016, approximately 12,500 positions were created.

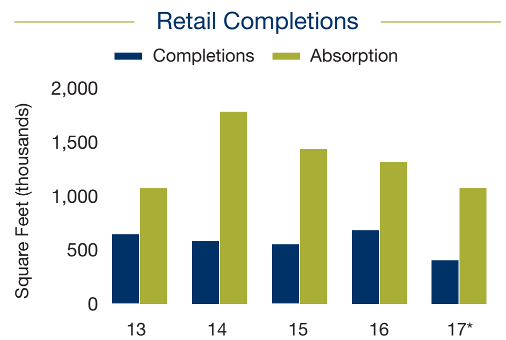
**Construction** 400,000 sq. ft. — Development moderates in 2017 from the 677,000 square feet of retail space completed last year.

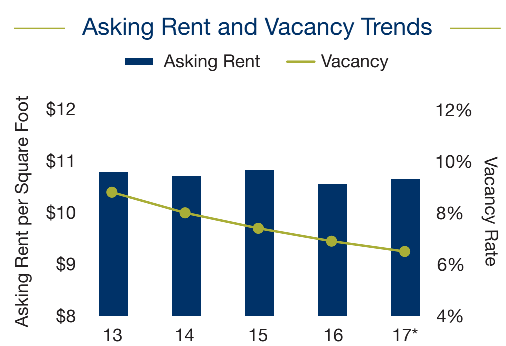
**Vacancy** down 40 bps — Net absorption of 1.1 million square feet of space compresses vacancy to 6.5 percent. In 2016, vacancy dropped 50 basis points on net absorption of 1.3 million square feet.

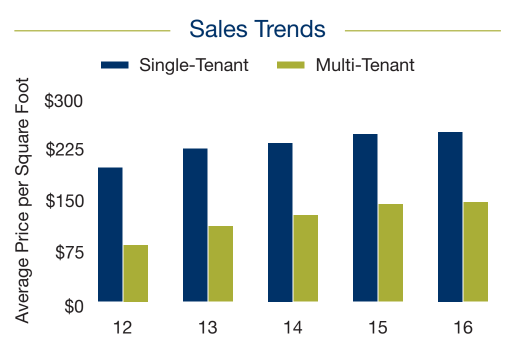
**Rent** up 1.0% — Tightening conditions will foster an increase in asking rents to $10.65 per square foot. In the previous year, rent fell 2.5 percent.

**Investment** — Limited listings near and within the CBD will push several investors outward to well-located assets in Lorain and Stark counties. Multi-tenant properties in these areas trade with first-year returns in the mid-8 percent area.



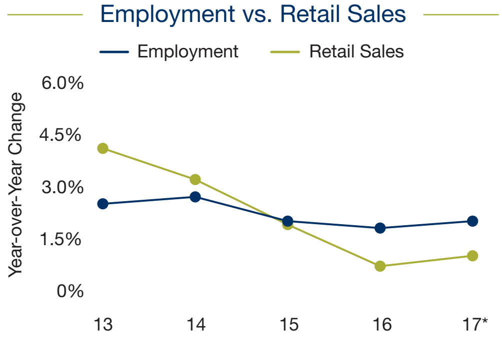



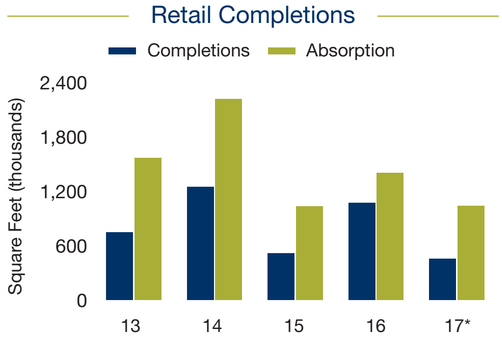



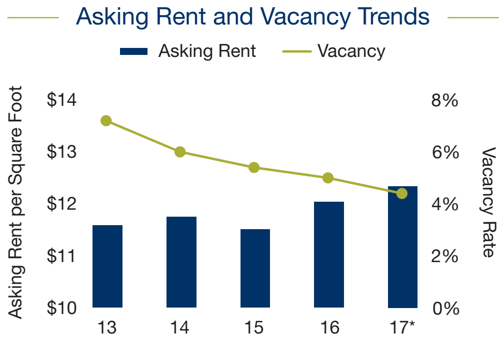



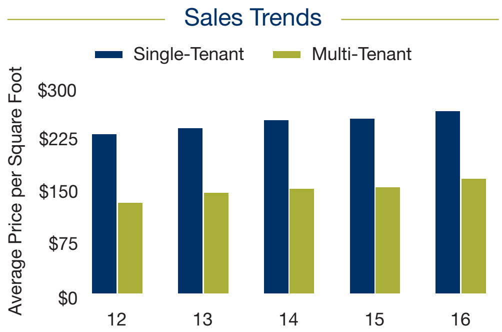

* Forecast
Sources: CoStar Group, Inc.; Real Capital Analytics

# Midwest-Leading Yields, Improving Operations Draw More Investors to Columbus




* Forecast
Sources: CoStar Group, Inc.; Real Capital Analytics

**Metro benefits from stable net absorption as a shift in large retailers occurs.** Hiring remains consistent, with job creation among higher-paying professions leading the way. Employment expansion will encourage further household creation, fueling spending at local retail establishments. The market will benefit from the actions of Ikea, Amazon and Kroger, national retailers significantly investing in the metro, at a time when Macy's, Sears and The Limited are exiting. Properties in downtown, in the University District and in northwest suburbs will profit from a record wave of apartment deliveries that will bring more consumers to the area. Outside of a 355,000-square-foot Ikea at Polaris Fashion Place, only 100,000 square feet of retail will be completed this year. Subdued completions will divert demand to existing properties and compress the vacancy rate to its lowest level in the past 10 years.

**Pool of multi-tenant buyers fills; single-tenant listings remain limited.** Boasting initial returns higher than other Midwestern and Ohio metros, Columbus continues to attract more in-state and regional buyers. The appeal of assets located downtown, in the northwest suburbs and in Delaware County rises amid consistent job creation, tightening vacancy and ongoing residential development. A dwindling pool of single-tenant listings fuels increased competition among buyers, pushing up prices. Fast-food and drugstore assets will trade at cap rates as low as 5 percent, with restaurants changing hands at initial yields in the 6 to 8 percent range. The lack of single-tenant listings will increase some investors' risk tolerance and shift focus to multi-tenant assets. Stable neighborhood and community centers with strong regional and local tenants will trade at cap rates starting at 7 percent. Buyers seeking assets with unrealized upside potential could eye east Columbus markets including Westerville, where vacancy has tightened in reaction to the core's limited availability.

## 2017 Market Forecast

| | |
|---|---|
| **NRI Rank** 30, no change | Steady job creation and a decline in deliveries kept Columbus in 30th place of this year's NRI. |
| **Employment** up 2.0% | Employers add 21,000 workers in 2017, building on the 18,600 positions created last year, when professional and business services dominated growth. |
| **Construction** 456,000 sq. ft. | Annual completions reach a five-year low, as less than half of last year's 1.1 million square feet is scheduled to come online in 2017. |
| **Vacancy** down 60 bps | Stable net absorption and minimal deliveries drop vacancy to 4.4 percent this year. The rate of compression slightly outpaces 2016, when the metro's vacancy rate contracted 40 basis points. |
| **Rent** up 2.5% | Limited leasable space translates to a second straight year of rent growth, with average asking rent escalating to $12.33 per square foot. Rents jumped 4.6 percent last year. |
| **Investment** | Buyer demand for existing properties near new residential development, where new retail construction has yet to follow, escalates transaction activity in downtown, the University District and the cities of Dublin and Hilliard. |

# Economic Expansion Attracts Residents, Retailers And Investors to Dallas/Fort Worth

**Strong employment, healthy in-migration bolster tenant demand and encourage development.** For the fourth consecutive year, Metroplex employers are set to add more than 100,000 positions in 2017 as several large companies execute growth plans. The relocation and expansion of these businesses attract new residents to Dallas/Fort Worth. Net migration will rise by nearly 88,000 individuals and contribute to the Metroplex gaining more than 60,000 households this year. The addition of new residents and households is spurring necessities-based stores that offer grocery, personal care items and household goods to search for appropriate space to lease. Healthy tenant demand amid robust completions during the past few years has prompted the construction of larger retail centers. Developers are set to complete a 380,000-square-foot retail center in Prosper by year-end, and Tanger Outlets will open a 350,000-square-foot shopping center in north Fort Worth. Strong pre-leasing activity for space underway contributes to net absorption outpacing supply additions again this year, tightening overall vacancy below the national rate. Simultaneously, annual average asking rent growth is ticking higher than the national rate of growth.

**Investors target a wide range of retail investment opportunities.** A bright economic outlook and healthy property fundamentals are drawing buyers in search of retail investment opportunities. Texas buyers are dominating sales activity, but rising interest from West Coast investors is increasing competition for retail properties. Some investors are scouring the Metroplex for upside potential, considering deferred maintenance, vacancy and capital investment to reposition and raise rents in order to boost values. Prices for these properties vary widely, depending on deferred maintenance, tenancy and location. Stabilized strip centers are also in high demand, changing hands at cap rates in the 6.8 percent to 7.3 percent range.

## 2017 Market Forecast

**NRI Rank**
19, down 3 places
Markets with tighter vacancy rates and larger rent growth surpassed Dallas/Fort Worth in the Index.

**Employment**
up 2.9%
Total employment will gain 105,000 positions during 2017. Last year, headcounts expanded by 3.3 percent.

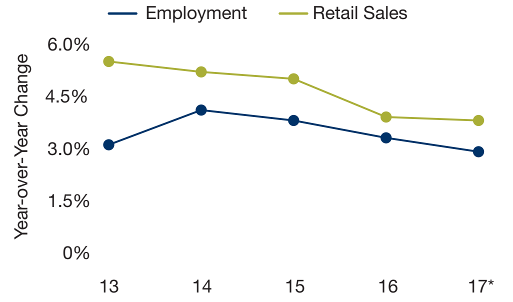
**Construction**
3.1 million sq. ft.
Completions will remain on par with last year, when 3.1 million square feet of retail space was brought online. The Metroplex remains one of the top in the nation for deliveries in 2017.

**Vacancy**
down 40 bps
Healthy demand generates a drop in the vacancy rate this year to 4.9 percent. Vacancy declined 90 basis points during 2016.

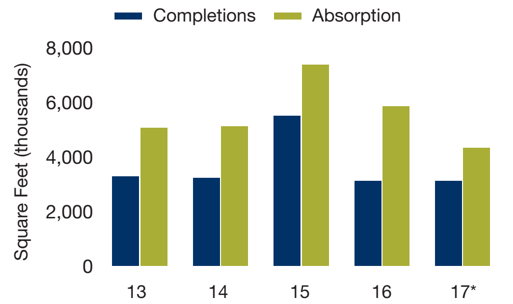
**Rent**
up 2.6%
The average asking rent will rise to $15.47 per square foot in 2017, following a 2.4 percent advance last year.

**Investment**
Several grocers are expanding in the region, including Central Market, Kroger, Tom Thumb and Sprouts, often taking vacant big-box space in existing centers. Strip centers and smaller outbuildings located near these tenants will be in high demand, trading at premium yields.

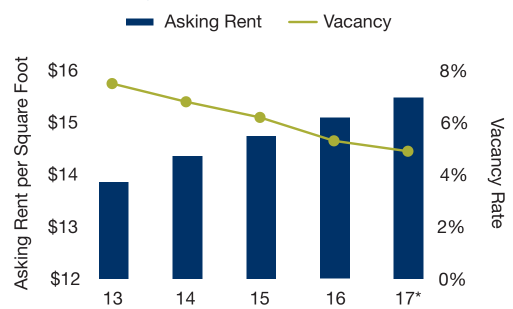
Employment vs. Retail Sales



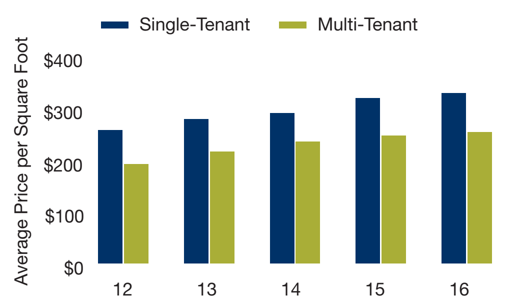

Retail Completions




Asking Rent and Vacancy Trends



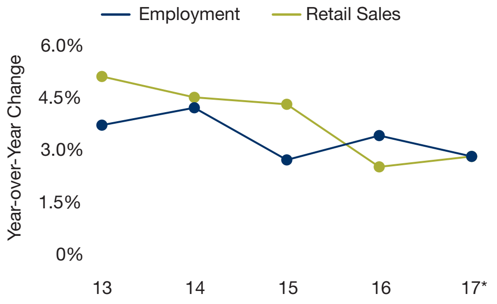

Sales Trends



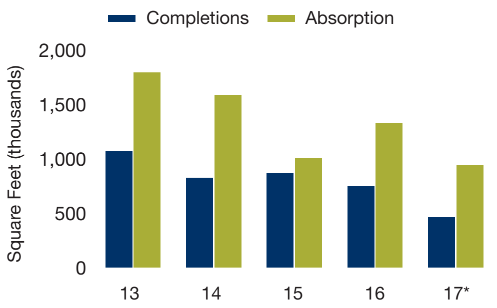

* Forecast
Sources: CoStar Group, Inc.; Real Capital Analytics

# Steadily Rising Incomes Boost Spending, Encourage Retailers to Expand in Denver

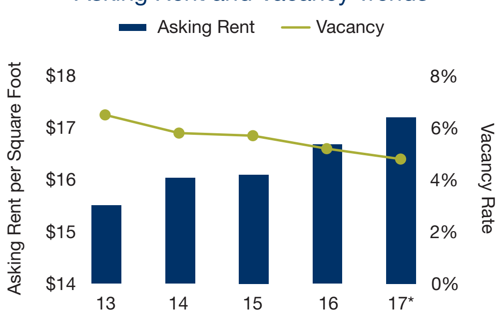
Employment vs. Retail Sales



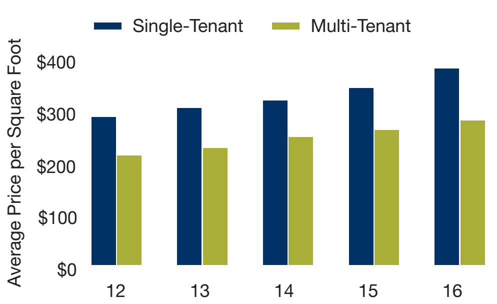

Retail Completions




Asking Rent and Vacancy Trends




Sales Trends




* Forecast
Sources: CoStar Group, Inc.; Real Capital Analytics

**Healthy economy, demographic trends stir retailer demand.** Strong and stable job creation in financial services, technology and other high-paying industries over the past several years bolstered incomes nearly 25 percent since 2010 in Denver. As these trends continue into 2017, the median annual household income will top $75,000, boding well for area retailers as spending rises and encourages retailers to expand market share. These factors are attracting grocery and fitness centers to open new storefronts throughout the metro, accounting for a large share of mid- and big-box demand. As builders scale back completions for a second consecutive year, existing shopping centers will benefit as retailers grow footprints. This year's deliveries are limited to mostly pre-leased centers or single-tenant buildings. As a result, tenant demand will outweigh supply additions this year, pushing vacancy below 5 percent.

**Job growth, rising incomes encourage investors to target Denver retail assets.** Limited retail listings, particularly multi-tenant centers, have suppressed transaction velocity. Over the next several months, owners who purchased during the prior peak will be faced with decisions to refinance or list properties as loans mature, and those choosing to sell now will find strong buyer interest. Stabilized strip centers priced below $5 million are in highest demand and typically trade for first-year returns in the 6 to 7 percent range. Buyers in search of value-add properties are scouring the metro for deals. Prices vary widely for these assets depending on deferred maintenance, tenancy and capital requirements to bring rents to market. Opportunities will be available throughout the metro, but assets in western submarkets could provide additional upside as rent growth in these areas outpaces the rest of the metro.

## 2017 Market Forecast

| | |
|---|---|
| NRI Rank<br>17, down 3 places | Denver moved down three positions this year amid slowing rent growth but remained in the top half of the Index. |
| Employment<br>up 2.8% | Denver employers continue a rapid pace of growth this year as 41,500 workers are added to staffs. Employment expanded 3.4 percent during 2016. |
| Construction<br>460,000 sq. ft. | Completions declined in 2016 as builders brought 745,000 square feet of retail space online. Deliveries will fall to a seven-year low in 2017. |
| Vacancy<br>down 40 bps | Reduced construction and healthy demand for space will push vacancy down to 4.8 percent this year, almost matching last year's decline of 50 basis points. |
| Rent<br>up 3.1% | Following an advance of 3.6 percent in 2016, the average asking rent rises to $17.19 per square foot. |
| Investment | As more owners choose to bring assets to market this year, compressed yields could influence some local investors to redeploy capital into the nearby markets of Fort Collins and Colorado Springs, where first-year returns are typically 50 to 100 basis points higher. |

# Evolving Demographic Trends Initiate Changes in Detroit's Retail Market

**The Detroit retail market rides auto-sector revival to outsize gains.** Over the past three years, more than 100,000 jobs have been created metrowide and unemployment has dropped to a 15-year low. Many of the positions are related to the auto industry as sales remain heightened and demand for autonomous vehicle technology rises. In 2017, the Big Three will hand out near record-level employee bonuses that average from $5,000 to $12,000, which should spur consumption. Retailers will also benefit from population growth, especially in Oakland County and downtown Detroit, as well as household income that rose at twice the national pace in the past year. These factors continue to draw new retailers to the metro and the resulting rise in space demand has reduced the vacancy rate to its lowest level since 2007. This year's planned demolition of the long-vacant Northland Center in Southfield and Summit Place Mall in Waterford should shrink the rate even further and provide large redevelopment opportunities. While older malls are being torn down, Chesterfield Towne Center is underway in Chesterfield Township. Cabela's, Marshalls and HomeGoods will anchor the 330,000-square-foot project.

**The region's resurgence entices more out-of-state investors to retail assets.** Many buyers are also lured by lower entry costs and the potential for larger returns than are available in their home markets. Single-tenant net-leased properties remain the target of many investors, although heightened competition for available assets is moving more investors to consider small, well-located strip centers with national tenants at cap rates that typically begin in the mid-6 percent span. Other buyers are drawn to assets in the city of Detroit, where the influx of businesses and residents is revitalizing the retail market. The renovation of older buildings with ground-floor retail space is attracting new retailers to the area and generating synergy for surrounding firms.

## 2017 Market Forecast

**NRI Rank**
43, up 1 place
Improving market fundamentals inched Detroit up one slot to the 43rd place in the NRI.

**Employment**
up 1.8%
Detroit employers will create 35,000 jobs in 2017, on par with last year's 1.8 percent rise, which was led by gains in office-using segments.

**Construction**
1 million sq. ft.
Retail deliveries totaling 1 million square feet are expected in 2017, following 900,000 square feet last year. Chesterfield Towne Center will account for nearly a third of the new space.

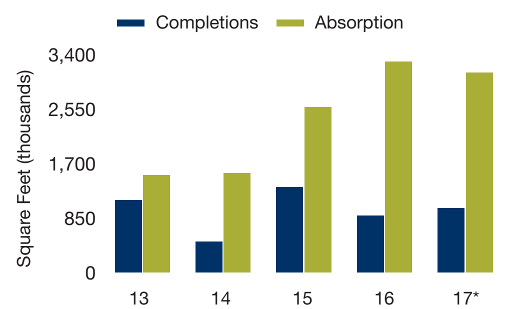
**Vacancy**
down 90 bps
Strong leasing activity and the demolition of long-vacant malls will tighten vacancy 90 basis points in 2017 to 7.2 percent, the lowest level in more than 10 years. Last year, vacancy contracted 110 basis points.

**Rent**
up 2.7%
The average asking rent increases 2.7 percent to $12.90 per square foot in 2017, following a 4.4 percent climb last year.

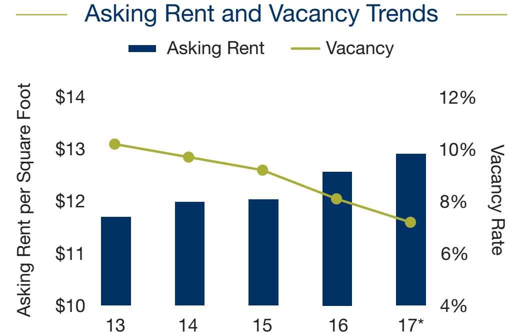
**Investment**
This year's opening of the QLine and the new Detroit Red Wings arena in the District Detroit should attract investors to retail properties in the area.

### Employment vs. Retail Sales

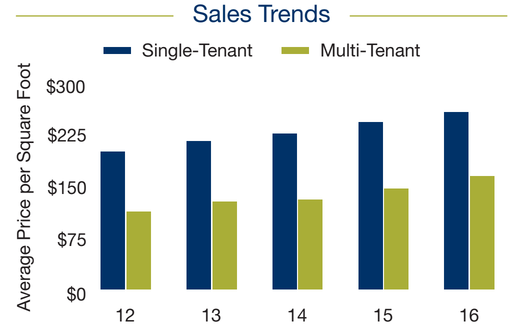

### Retail Completions




### Asking Rent and Vacancy Trends




### Sales Trends

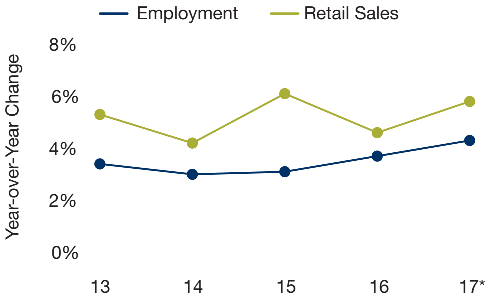



* Forecast
Sources: CoStar Group, Inc.; Real Capital Analytics

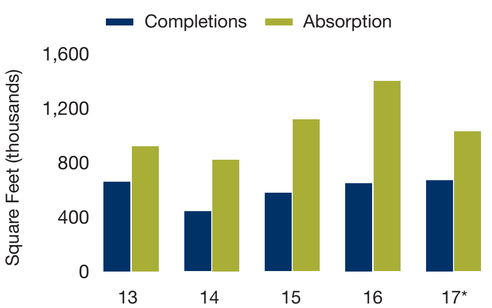
Marcus & Millichap

## Investors Rush to Broward County To Acquire New Wave of Shopping Centers

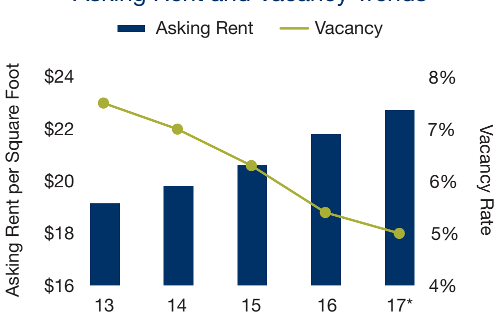
Employment vs. Retail Sales



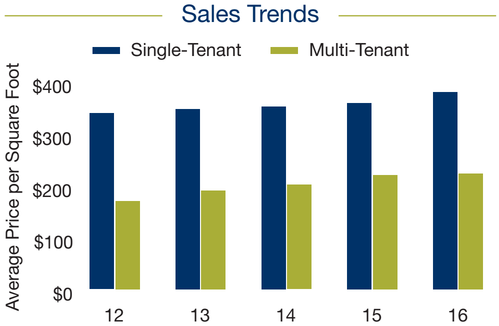

Retail Completions




Asking Rent and Vacancy Trends




Sales Trends




* Forecast
Sources: CoStar Group, Inc.; Real Capital Analytics

**Positive retail performance spurs greater interest from developers.** Strong job growth and household formation, coupled with an expanding tourism industry, present a favorable environment for Broward County retailers in 2017. With consumer spending on the rise, retailers are rapidly leasing available space across the county, accounting for a sharp drop in the vacancy rate last year. To feed the market's growing demand for quality space, more projects are in the pipeline after several periods of subdued construction. Some of the largest developments in the works include the roughly 1 million-square-foot Dania Pointe and the redevelopment of the Plantation Fashion Mall, totaling 200,000 square feet. Both of these projects incorporate residential and office components, a growing trend among upcoming shopping centers. This year's deliveries are composed of smaller shopping centers, with the greatest influx of new space coming to Southwest Broward, one of the fastest-growing areas of the market. Broward County's robust economic momentum will extend through 2017, supporting another banner year for owners as rents are set to climb for the sixth straight year.

**Promising upside, robust yields fuel investor interest in Broward County.** Driven by positive metrics and promising future growth, investors are deploying capital into the Broward County retail sector at heightened levels. Going-in cap rates that average in the mid-6 percent band, 100 basis points greater than southern neighbor Miami-Dade, will support investment activity this year as buyers seeking higher yields in southern Florida spur competition for premium assets in Broward County. Deal flow is consistently strong outside of Fort Lauderdale in the areas of Pompano Beach and Southwest Broward, where initial returns can be higher than the county average. Value-add opportunities in proximity to this year's new shopping centers will also be in high demand for their high first-year yields, particularly in higher-vacancy markets like Hollywood and Coral Springs.

## 2017 Market Forecast

| | |
|---|---|
| NRI Rank 24, up 5 places | Strong employment gains and above-average rent gains vaulted Fort Lauderdale up five spots in this year's Index. |
| Employment up 4.3% | Hiring will rise from last year's robust gain of 30,100 jobs to close 2017 with an additional 36,000 positions. |
| Construction 668,000 sq. ft. | Deliveries reach their highest level since 2008 as they inch up from the total of 646,000 square feet that opened in 2016. The majority of new space is rising in Southwest Broward this year. |
| Vacancy down 40 bps | Robust space demand brings the vacancy rate down to 5.0 percent in 2017 for the eighth straight year of rate compression following last year's 90-basis-point drop. |
| Rent up 4.2% | Tightening vacancy supports an increase in the average asking rent to $22.69 per square foot, a moderation from the 5.8 percent climb recorded in 2016. |
| Investment | Redevelopment efforts and transit improvements in the downtown neighborhood of Flagler Village are spurring accelerated household formation, increasing necessity retailer demand in the immediate area and drawing investor attention. |

# Metro Confidence Underlines Houston Development; Vacancy Could Drop to Decade Low

**Grocer expansion keeps retailers in growth mode.** Tenant demand remains vigorous as retail developers focus on select areas of Houston. This year, builders are targeting the northern and western portions of the metro as rising household formation encourages the expansion of grocers in these areas. Kroger and Fiesta Mart, among others, are following the path of growth and are set to open new locations over the next several months. Metrowide, tenants are expanding their footprint to increase market share, pushing down vacancy, which is now on par with the national rate. During this business cycle, absorption has outpaced new supply by more than 8 million square feet. Both necessity and boutique retailers' demand will allow owners to realize upside as new or renewed leases are penned at market rates, now 12 percent above the recession low. The local economy is expected to gather momentum this year amid the continued recovery of oil prices. In addition to securing discretionary spending with residents, a pickup in business-related travel would further boost retail spending at surrounding hotels and entertainment districts.

**Relatively higher yields draw investors.** Private local and regional buyers from the Southwest have dominated deal flow over the last two years. Buyer competition will increase this year as coastal markets' low yields motivate some to search inland. Compressed first-year returns in other Texas markets, such as Dallas/Fort Worth and Austin, will also attract interest from investors to Houston. Cap rates in the metro are typically 25 to 50 basis points above other large Texas metros. Combined with declining vacancy and rent growth prospects, the market's appeal to investors is substantial. Buyers are often able to acquire assets capturing yields averaging in the mid-7 percent to low-8 percent range. Properties in high-demand submarkets such as Sugar Land, Katy and The Woodlands are commanding returns in the low- to mid-7 percent area.

## 2017 Market Forecast

**NRI Rank** 26, down 9 places — Slow job growth and minimal vacancy improvement pulled Houston down nine spots.

**Employment** up 0.6% — Employment will rise this year as 19,500 positions are added to payrolls in Houston. In 2016, employment grew by 0.5 percent, or 14,400 workers.

**Construction** 2.4 million sq. ft. — Deliveries dip in 2017 as builders scale back completions, though additions to inventory remain in the top five across the nation this year. Developers brought 4.7 million square feet of retail space online last year.

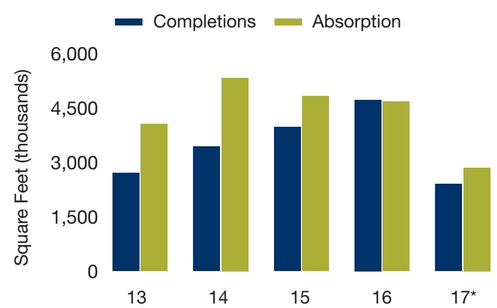
**Vacancy** down 20 bps — Vacancy declines to 5.2 percent in 2017, reaching a cyclical low. During the previous year, the vacancy rate remained flat.

**Rent** up 1.7% — This year's advance pushes up the average asking rent to $16.38 per square foot. The average for marketed space ticked down 1.1 percent last year.

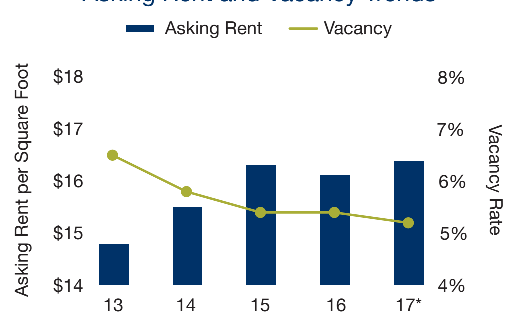
**Investment** — Growth in the petrochemical industry and medical community has boosted tenant demand in eastern and southern submarkets, attracting strong investor interest to these areas.

### Employment vs. Retail Sales

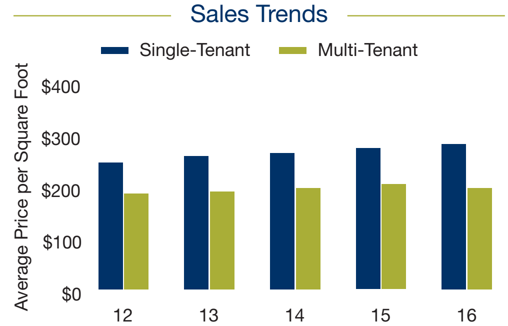

### Retail Completions



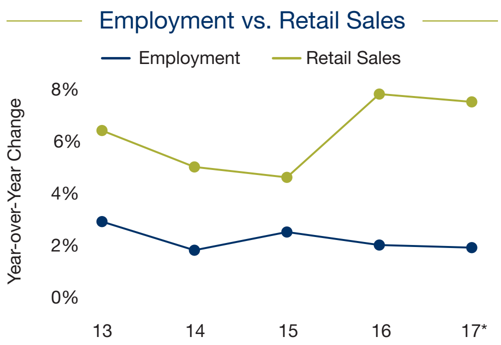

### Asking Rent and Vacancy Trends

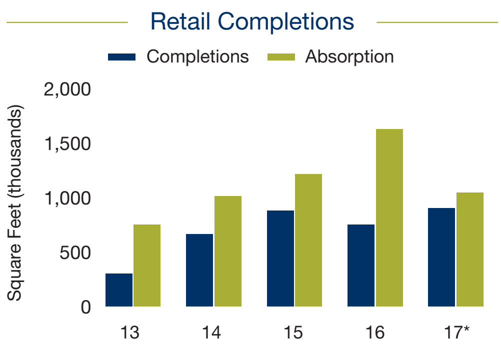


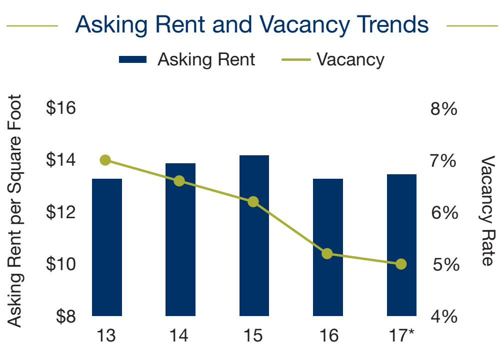

### Sales Trends

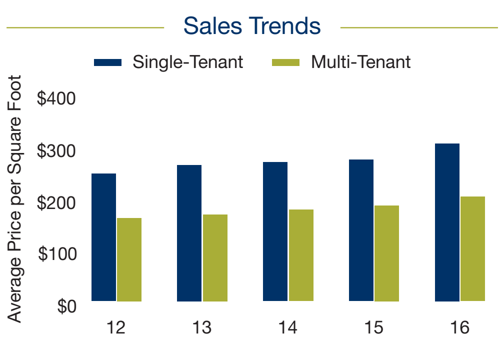



* Forecast
Sources: CoStar Group, Inc.; Real Capital Analytics




* Forecast
Sources: CoStar Group, Inc.; Real Capital Analytics

# Employment Growth Boosts Retail Market; Investors Drawn to Higher Yields

**Metro retailers are benefiting from steady job growth, led by office-using segments.** Tech companies, in particular, are hiring as Salesforece.com and Interactive Intelligence draw a wide range of tech firms to the region. Levementum, LightBound and Iconic Digital Marketing are just a few of the many tech companies with expansion plans this year. Higher-paying jobs in the tech sector contributed to household incomes in 2016 rising at the fastest clip in 10 years, providing many with more discretionary funds. As a result, retail sales gains were nearly three times the national level. The growth is attracting retailers to the area. Ikea will open its first location in the state on 116th Street in Fishers in 2017, which is stimulating additional retail projects nearby. Throughout the metro, rising home sales should benefit service-oriented retailers as well as home-improvement and home-furnishings stores. Increased demand for retail space will tighten vacancy to the lowest level since 2007 and improve rent growth.

**Investors coming to Indianapolis in search of higher yields.** Retail transactions jumped during 2016, with a wide range of investors entering the market. Many buyers are coming from out of state seeking higher returns than are available in their local markets. While single-tenant assets are the primary driver of demand, competition is heightened among the listed supply of quality net-leased properties, pushing prices up. Higher valuations among this asset class are motivating more investors to consider small multi-tenant buildings with credit tenants signed to long-term leases. Cap rates for these assets typically begin in the high-6 percent area, more than 100 basis points above many larger coastal cities. A number of local investors are targeting value-add properties with service-oriented tenants where cap rates are generally in the 8 percent range. Assets in neighborhoods with favorable demographics and rising density such as Broad Ripple are especially desired.

## 2017 Market Forecast

**NRI Rank** 39, no change — Strong growth in retail sales kept Indianapolis in the 39th slot of this year's NRI.

**Employment** up 1.9% — Nearly 20,000 positions will be created this year following the addition of 20,400 jobs in 2016. Office-using firms accounted for the largest portion of new hires last year.

**Construction** 900,000 sq. ft. — Deliveries will ramp up from the 750,000 square feet finalized last year, with 900,000 square feet expected to be completed in 2017. New stores for Ikea and Meijer account for more than half of this year's space.

**Vacancy** down 20 bps — Strong tenant demand during 2017 will offset retail closures, pushing vacancy down 20 basis points to a 10-year low of 5.0 percent. Last year, vacancy compressed 100 basis points.

**Rent** up 1.3% — Tenants moving into higher-quality space contributed to the average asking rent falling 6.4 percent during 2016. This year, as vacancy tightens, rents will rise 1.3 percent to $13.43 per square foot.

**Investment** — Residential growth in Whitestown and Noblesville is attracting retailers and investors to these cities.

# High-Skill Job Growth Driving Retail Expansion; Net-Leased Product Underpins Supply Additions

**Demand for retail space follows rooftops.** Expansions by Cerner, Google Fiber, Garmin and other tech firms, coupled with employment gains in the financial service and engineering fields, will result in relatively steady job creation over the coming year. An increase in the number of higher-paying professions should encourage household formation, supporting new necessity and discretionary shopping destinations near neighborhoods. Like hiring activity, retail construction will slightly trail last year's deliveries, with most completions this year being near suburban neighborhoods in southern Johnson County and north of the river in Kansas City. The vast majority of the new space is single-tenant options surrounding existing retail destinations, reducing the effects of supply growth and keeping vacancy tight. As a result, the vacancy rate will fall to the lowest level since 2007, with rent growth driven by retail performance in Overland Park, Kansas City and Eastern Jackson County.

**Buyers seek upgradeable assets near new rentals.** High first-year returns and the performance of Kansas City, Overland Park and suburban retail assets attract more out-of-market investors to the metro. Significant vacancy compression in downtown and Midtown will intensify bidding for available listings in the core. Older centers, particularly along the 2-mile KC Streetcar line, will continue to provide local buyers and seasoned regional players with value-add opportunities as foot traffic continues to build. Outside the city, metro-leading rent growth and a wave of new development along 135th Street in Overland Park will enhance the appeal to regional buyers, who will also pursue grocery-anchored centers throughout the market. Single-tenant, net-leased assets will remain in high demand, fetching multiple bids and trading at low-5 percent initial returns. Properties located outside the core or in redeveloping neighborhoods with secondary tenants trade at a minimum of 7 percent.

## 2017 Market Forecast

**NRI Rank**
45, down 3 places

Markets with faster projected paces of growth surpassed Kansas City in the 2017 Index.

**Employment**
up 1.1%

The creation of 11,600 jobs in 2017 slightly trails the 13,600 positions added last year. Office-using hiring accounted for more than half of the new slots in 2016.

**Construction**
885,000 sq. ft.

Developers follow up last year's completion of 974,000 square feet with an inventory expansion of 885,000 square feet in 2017.

**Vacancy**
down 30 bps

Strong tenant demand supports an eighth straight year of vacancy compression, with availability declining to 6 percent in 2017. Last year, the vacancy rate tumbled 80 basis points.

**Rent**
up 2.2%

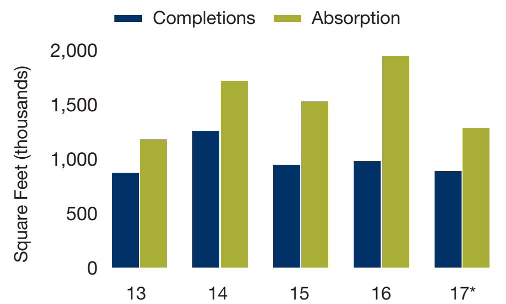
Aided by the performance of Johnson County retail properties, the metro's average rent advances to $12.19 per square foot in 2017. Last year, a 1.1 percent gain was recorded.

**Investment**

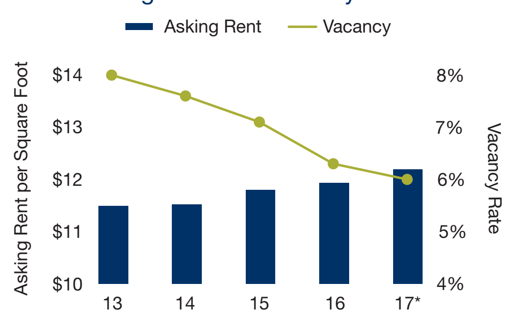
A lack of development in Eastern Jackson County will draw buyers to stable properties in residential areas trading with attractive cap rates near 7 percent.

### Employment vs. Retail Sales

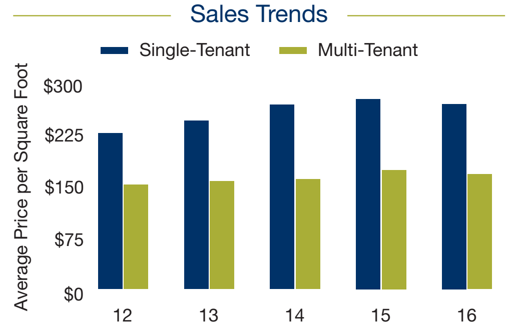

### Retail Completions




### Asking Rent and Vacancy Trends




### Sales Trends




* Forecast
Sources: CoStar Group, Inc.; Real Capital Analytics

# Diversification Eases Retail's Reliance on Tourism; California Buyers Target Southern Nevada for Yield

**Broad-based economic growth fosters another year of moderate gains.** Vacancy remains on the decline in 2017 as heightened economic diversity underpins improvement in the Las Vegas retail market. As the metro's world-class gaming and convention industries continue to grow, visitors will come to southern Nevada, supporting local restaurants, resorts and retail stores. To capitalize on these trends, the Wynn Resort and Casino announced expansion plans to add 75,000 square feet of luxury dining and shopping space to its location on the Strip. Though tourism plays a vital role in the strength of the retail market, homegrown economic expansion across a diverse range of sectors is also having a large impact. The burgeoning tech scene and education and healthcare fields contribute to expanding rates of job growth and retail spending. In addition, Las Vegas' foray into professional sports via the NHL and potentially the NFL will support demand for retailers near the stadiums as well as those in ancillary industries. The pace of development, however, has not risen to meet aggressive demand, triggering another year of falling vacancy and rising rents. Retail properties in the southwest portion of the metro are particularly well positioned entering 2017 as an upswing in multifamily and office construction propels space demand.

**Low entry costs and healthy returns draw out-of-state investors.** Overwhelming demand for Las Vegas retail assets will persist through 2017 as relatively high yields and strengthening property fundamentals encourage investment. Buyers from California remain a dominant force in the market as cap rate compression in their home metros spurs a search for greater returns. Entering 2017, first-year yields were in the low-7 percent range, averaging 150 to 250 basis points higher than many Golden State markets. These well-funded and highly motivated investors aggressively pursue assets, fostering a competitive bidding environment. Though valuations have risen aggressively in the past few years, pricing has not recaptured the pre-recession peak, indicating a potential runway for future gains.

## 2017 Market Forecast

**NRI Rank**
36, up 5 places
A decline in completions and tightening vacancy pushed Las Vegas up five slots this year.

**Employment**
up 2.3%
The Las Vegas workforce will add 22,000 positions in 2017. Last year, payrolls expanded 2.6 percent through the creation of 24,300 jobs.

**Construction**
360,000 sq. ft.
Supply additions in 2017 are forecast to be well below the five-year average as completions slow considerably from last year's robust pace. In 2016, developers finalized 600,000 square feet of retail space.

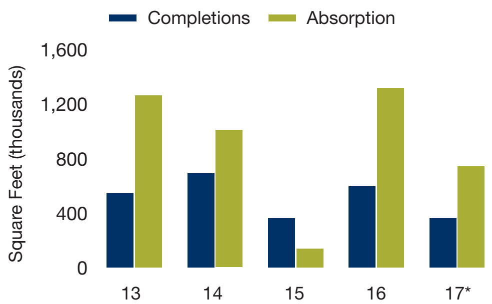
**Vacancy**
down 50 bps
Following a 90-basis-point drop last year, the metrowide vacancy rate will fall another 50 basis points to 8.9 percent in 2017 on the back of 740,000 square feet of positive net absorption.

**Rent**
up 2.8%
The average asking rent is on track to climb 2.8 percent this year to $17.53 per square foot. In 2016, lease rates rose 3.1 percent annually.

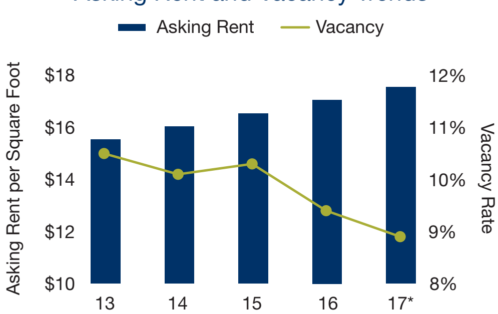
**Investment**
Owners who are considering listing may bring their assets to market in early 2017 while property values are strong and the interest rate environment remains favorable.

### Employment vs. Retail Sales

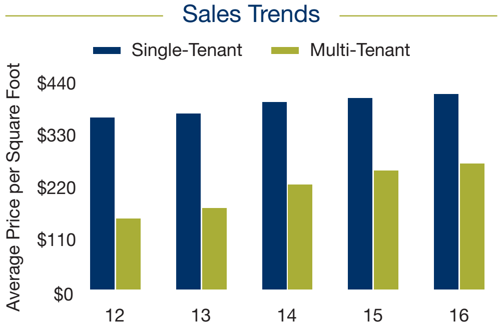

### Retail Completions




### Asking Rent and Vacancy Trends




### Sales Trends




* Forecast
Sources: CoStar Group, Inc.; Real Capital Analytics

# Strong Pre-Leasing, Low Vacancy Boost Appeal Of Los Angeles Retail Assets

**Build-to-suit projects dominate pipeline.** Amid incredibly tight vacancy in Los Angeles County, builders are expanding the retail pipeline in 2017, driven by a broad array of projects in the Greater Downtown Los Angeles and San Fernando Valley markets. While deliveries are set to more than double 2016 totals, accelerating net absorption will keep demand well ahead of new supply as retailers compete for space. A large portion of the space under construction is already pre-leased or a build-to-suit project, such as the space for Ikea in Burbank that exceeds 500,000 square feet. The project accounts for nearly a third of incoming supply. As a result, a lack of deliveries in areas with rising retailer needs, including the Westside Cities and South Bay, will continue to bolster tenant demand for existing space. Meanwhile, less than 60,000 square feet of speculative space is underway in the entire metro, indicating that developers remain conservative in their outlook. As vacancy tightens this year, the average asking rent will climb by a low-single-digit percentage, accelerating growth from the prior year.

**Corporate campuses draw retail investors to nearby assets.** Moderate interest rates are enhancing the appeal of retail properties, with a wide variety of assets at multiple price points and locations around the metro. Institutions remain consistent bidders for infill buildings near corporate offices and apartments, particularly in the South Bay, Westside Cities and Downtown Los Angeles. Meanwhile, private investors are seeking creative deal structures and venturing to more suburban locales to deploy capital at higher cap rates. As a result, additional cap rate compression could still manifest, despite a divergence of buyer and seller expectations. Recent interest rate moves and anticipated policy changes by the new political administration remain important factors influencing valuations. First-year returns remain in the mid- to high-4 percent range, while outlying submarkets can reach into the mid- to high-5 percent band.

## 2017 Market Forecast

**NRI Rank**
8, down 3 places

Los Angeles fell three places to the eighth spot as markets with faster paces of employment gains and retail sales moved ahead.

**Employment**
up 1.1%

Job growth will slow to 50,000 positions this year, driven by service sector expansion. Last year, organizations created 61,300 positions.

**Construction**
1.4 million sq. ft.

Developers are set to complete 1.4 million square feet of retail space this year. In the prior four quarters, 570,000 square feet was brought to market.

**Vacancy**
down 30 bps

Strong pre-leasing and rising demand for spaces will prompt a 30-basis-point decline in vacancy to 3.8 percent. A 50-basis-point drop was recorded last year.

**Rent**
up 2.0%

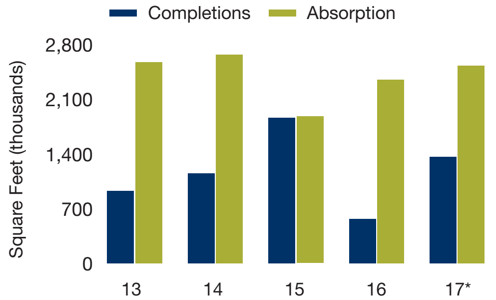
The average asking rent will climb 3.8 percent to $30.43 per square foot as demand for retail spaces outpaces supply pressures.

**Investment**

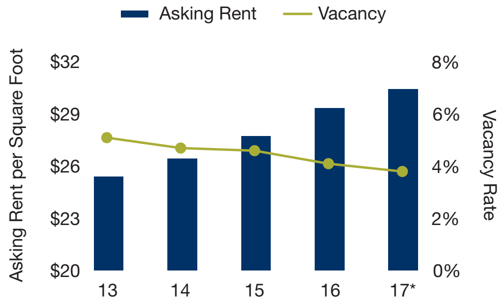
As Downtown Los Angeles' attraction as a residential location grows, necessity retailers will benefit from increased traffic, driving incremental value to owners.

Employment vs. Retail Sales

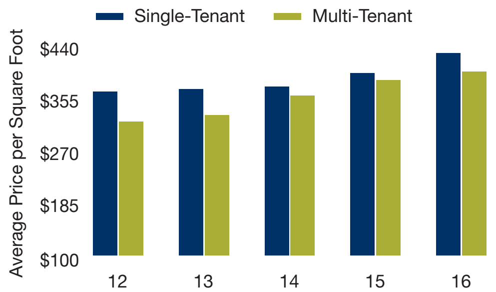

Retail Completions




Asking Rent and Vacancy Trends




Sales Trends




* Forecast
Sources: CoStar Group, Inc.; Real Capital Analytics

Marcus & Millichap

| MSA Name | Employment Growth | | | | Household Income[2] | | | | Retail Sales Growth[2] | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 14 | 15 | 16 | 17* | 14 | 15 | 16 | 17* | 14 | 15 | 16 | 17* |
| Atlanta | 4.2% | 2.8% | 2.7% | 2.5% | $58,649 | $60,964 | $62,877 | $64,817 | 5.0% | 3.9% | 4.5% | 4.5% |
| Austin | 4.4% | 4.9% | 1.9% | 2.0% | $65,715 | $67,616 | $68,450 | $70,541 | 6.8% | 4.8% | 5.0% | 5.8% |
| Baltimore | 1.7% | 1.2% | 1.8% | 1.4% | $71,694 | $73,057 | $76,210 | $79,152 | 2.7% | 1.9% | 1.8% | 1.4% |
| Boston | 2.6% | 1.6% | 2.3% | 2.6% | $76,946 | $79,461 | $83,025 | $86,350 | 2.9% | 3.8% | 2.0% | 3.0% |
| Charlotte | 3.9% | 2.9% | 1.7% | 2.2% | $53,975 | $55,290 | $57,303 | $59,437 | 4.2% | 3.9% | 2.1% | 3.1% |
| Chicago | 1.6% | 1.4% | 0.7% | 1.3% | $62,596 | $63,997 | $67,168 | $69,613 | 3.2% | 3.2% | 4.5% | 5.0% |
| Cincinnati | 2.1% | 1.4% | 2.0% | 2.0% | $56,043 | $57,442 | $60,192 | $62,874 | 5.2% | 4.0% | 4.6% | 5.0% |
| Cleveland | 0.7% | 1.2% | 1.2% | 1.8% | $50,682 | $51,555 | $54,248 | $56,867 | 1.9% | 1.2% | 0.9% | 1.1% |
| Columbus | 2.7% | 2.0% | 1.8% | 2.0% | $57,098 | $58,913 | $61,741 | $64,402 | 3.2% | 1.9% | 0.7% | 1.0% |
| Dallas/Fort Worth | 4.1% | 3.8% | 3.3% | 2.9% | $60,693 | $61,761 | $62,430 | $64,516 | 5.2% | 5.0% | 3.9% | 3.8% |
| Denver | 4.2% | 2.7% | 3.4% | 2.8% | $68,486 | $71,063 | $74,158 | $76,952 | 4.5% | 4.3% | 2.5% | 2.8% |
| Detroit | 2.2% | 1.8% | 1.8% | 1.8% | $53,447 | $54,535 | $57,947 | $60,460 | 4.3% | 3.4% | 1.5% | 1.8% |
| Fort Lauderdale | 3.0% | 3.1% | 3.7% | 4.3% | $53,022 | $54,324 | $56,568 | $58,852 | 4.2% | 6.1% | 4.6% | 5.8% |
| Houston | 4.0% | 0.7% | 0.5% | 0.6% | $60,791 | $61,500 | $61,484 | $63,569 | 5.2% | 3.2% | 2.6% | 2.6% |
| Indianapolis | 1.8% | 2.5% | 2.0% | 1.9% | $53,430 | $54,847 | $59,048 | $61,675 | 5.0% | 4.6% | 7.8% | 7.5% |
| Kansas City | 2.4% | 1.3% | 1.3% | 1.1% | $59,062 | $61,436 | $63,737 | $65,952 | 4.0% | 3.2% | 0.0% | 0.8% |
| Las Vegas | 4.7% | 2.4% | 2.6% | 2.3% | $51,406 | $51,667 | $52,771 | $54,685 | 5.2% | 4.7% | 3.3% | 4.0% |
| Los Angeles | 1.4% | 2.7% | 1.4% | 1.1% | $57,612 | $59,972 | $63,057 | $65,511 | 4.2% | 4.4% | 3.7% | 3.3% |
| Louisville | 2.7% | 3.1% | 1.7% | 1.4% | $52,200 | $53,670 | $56,188 | $57,741 | 3.8% | 4.5% | 5.8% | 4.7% |
| Miami-Dade | 3.9% | 2.0% | 1.9% | 2.2% | $43,401 | $43,900 | $45,799 | $47,721 | 5.3% | 5.9% | 2.5% | 3.3% |
| Milwaukee | 1.4% | 0.8% | -0.2% | 1.0% | $54,867 | $57,029 | $59,767 | $62,118 | 2.8% | 0.6% | 1.9% | 2.0% |
| Minneapolis-St. Paul | 1.7% | 1.7% | 1.5% | 1.8% | $70,195 | $71,433 | $73,433 | $75,439 | 3.9% | 2.7% | 1.4% | 2.0% |
| Nashville | 4.3% | 3.7% | 3.1% | 2.1% | $55,507 | $59,311 | $62,602 | $65,060 | 5.5% | 4.4% | 1.0% | 1.0% |
| New Haven-Fairfield County | 1.2% | 0.6% | -0.4% | 0.8% | $73,366 | $74,966 | $78,104 | $81,075 | 3.0% | 1.9% | 0.3% | 1.0% |
| New York City | 3.4% | 2.4% | 1.7% | 1.4% | $61,988 | $62,986 | $64,986 | $67,135 | 5.4% | 3.7% | 2.5% | 2.3% |
| Northern New Jersey | 1.1% | 1.7% | 0.9% | 1.7% | $70,442 | $71,792 | $74,131 | $76,390 | 3.4% | 4.3% | 4.0% | 3.5% |
| Oakland | 2.9% | 2.8% | 2.7% | 3.1% | $80,087 | $83,422 | $87,539 | $90,836 | 5.2% | 5.0% | 4.0% | 4.0% |
| Orange County | 3.1% | 3.1% | 2.0% | 2.1% | $77,324 | $78,991 | $82,569 | $85,516 | 5.0% | 4.6% | 2.7% | 2.9% |
| Orlando | 4.0% | 4.4% | 4.2% | 4.5% | $49,843 | $51,599 | $53,777 | $56,079 | 7.1% | 5.0% | 3.4% | 4.0% |
| Philadelphia | 1.8% | 1.7% | 1.6% | 1.7% | $65,095 | $67,458 | $71,431 | $74,428 | 2.6% | 2.7% | 2.3% | 3.0% |
| Phoenix | 2.6% | 3.8% | 1.5% | 2.8% | $54,401 | $56,142 | $59,209 | $61,510 | 7.2% | 6.9% | 6.0% | 7.3% |
| Pittsburgh | 0.5% | 0.2% | 0.3% | 0.6% | $53,280 | $54,659 | $58,293 | $61,013 | 2.5% | 1.5% | 1.0% | 1.5% |
| Portland | 3.2% | 3.4% | 2.6% | 2.2% | $62,289 | $64,765 | $67,468 | $70,318 | 4.8% | 4.5% | 2.8% | 2.6% |
| Raleigh | 3.3% | 2.9% | 2.6% | 2.9% | $61,081 | $62,819 | $64,872 | $67,045 | 6.2% | 5.4% | 6.3% | 6.5% |
| Riverside-San Bernardino | 5.4% | 3.6% | 3.0% | 1.9% | $55,316 | $56,463 | $58,595 | $60,163 | 4.6% | 3.9% | 2.0% | 1.9% |
| Sacramento | 2.3% | 3.1% | 3.2% | 2.9% | $61,087 | $63,740 | $66,792 | $69,166 | 4.3% | 2.2% | 1.2% | 2.7% |
| Salt Lake City | 3.0% | 3.5% | 3.4% | 3.4% | $64,297 | $66,610 | $69,889 | $73,416 | 4.0% | 4.3% | 4.1% | 4.1% |
| San Antonio | 3.9% | 2.7% | 2.2% | 1.9% | $54,176 | $55,165 | $55,794 | $57,535 | 4.6% | 3.4% | 2.1% | 2.2% |
| San Diego | 2.3% | 2.9% | 2.0% | 2.0% | $65,998 | $68,028 | $71,347 | $74,016 | 5.5% | 3.2% | 1.5% | 1.8% |
| San Francisco | 4.3% | 4.5% | 1.5% | 1.7% | $93,354 | $98,883 | $106,016 | $112,564 | 8.1% | 9.0% | 5.8% | 5.9% |
| San Jose | 4.0% | 4.2% | 3.5% | 2.7% | $98,762 | $103,444 | $109,480 | $115,010 | 4.4% | 3.5% | 2.1% | 2.6% |
| Seattle-Tacoma | 3.0% | 3.0% | 3.5% | 3.4% | $73,720 | $77,204 | $80,299 | $84,122 | 10.7% | 9.8% | 8.1% | 7.5% |
| St. Louis | 1.6% | 1.7% | 2.8% | 2.0% | $56,014 | $56,998 | $59,406 | $61,747 | 3.2% | 2.2% | -0.4% | 1.0% |
| Tampa-St. Petersburg | 3.2% | 3.7% | 2.1% | 2.3% | $48,074 | $49,241 | $51,563 | $54,027 | 5.2% | 8.6% | 5.6% | 6.8% |
| Washington, D.C. | 1.1% | 2.2% | 2.1% | 1.7% | $92,503 | $93,882 | $97,361 | $100,181 | 3.9% | 3.1% | 3.8% | 3.6% |
| West Palm Beach | 4.5% | 3.9% | 1.3% | 2.5% | $55,379 | $57,282 | $59,902 | $62,861 | 6.9% | 6.1% | 0.9% | 1.5% |
| U.S. Metro Total | 2.2% | 2.0% | 1.5% | 1.4% | $54,628 | $56,444 | $57,721 | $59,743 | 3.9% | 2.9% | 2.5% | 5.3% |



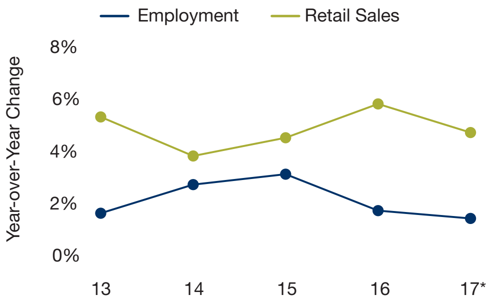
* Forecast

[2] See Statistical Summary Note on page 64.

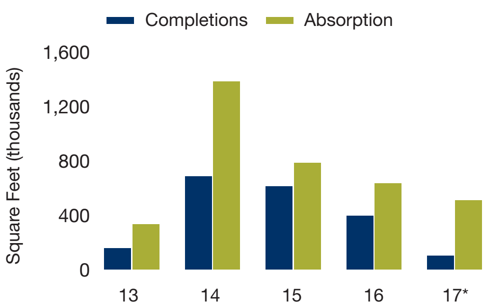
| Completions (000 of Sq. Ft.)[2] | | | | Vacancy (Year-End)[2] | | | | Rent ($/Sq. Ft., NNN)[2] | | | | MSA Name |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 14 | 15 | 16 | 17* | 14 | 15 | 16 | 17* | 14 | 15 | 16 | 17* | |
| 2,300 | 1,300 | 1,400 | 3,200 | 8.1% | 7.3% | 6.8% | 6.4% | $13.43 | $13.45 | $13.97 | $14.35 | Atlanta |
| 1,100 | 1,100 | 940 | 990 | 5.0% | 3.9% | 3.7% | 3.5% | $18.37 | $20.20 | $21.57 | $22.50 | Austin |
| 510 | 770 | 470 | 730 | 5.0% | 5.3% | 5.1% | 5.1% | $18.74 | $19.05 | $19.15 | $19.30 | Baltimore |
| 2,100 | 1,900 | 900 | 1,200 | 3.5% | 3.4% | 3.1% | 2.7% | $18.50 | $19.02 | $19.71 | $20.24 | Boston |
| 1,100 | 1,400 | 1,100 | 600 | 6.2% | 5.6% | 4.9% | 4.4% | $14.76 | $14.68 | $14.83 | $15.14 | Charlotte |
| 3,300 | 3,000 | 3,200 | 1,300 | 8.3% | 8.1% | 7.8% | 7.4% | $16.94 | $17.04 | $17.10 | $17.20 | Chicago |
| 130 | 880 | 370 | 700 | 7.5% | 7.1% | 6.1% | 5.4% | $11.10 | $10.79 | $11.50 | $11.93 | Cincinnati |
| 580 | 550 | 680 | 400 | 8.0% | 7.4% | 6.9% | 6.5% | $10.69 | $10.81 | $10.54 | $10.65 | Cleveland |
| 1,200 | 520 | 1,100 | 460 | 6.0% | 5.4% | 5.0% | 4.4% | $11.74 | $11.50 | $12.03 | $12.33 | Columbus |
| 3,200 | 5,500 | 3,100 | 3,100 | 6.8% | 6.2% | 5.3% | 4.9% | $14.35 | $14.73 | $15.08 | $15.47 | Dallas/Fort Worth |
| 830 | 870 | 750 | 460 | 5.8% | 5.7% | 5.2% | 4.8% | $16.03 | $16.09 | $16.67 | $17.19 | Denver |
| 480 | 1,300 | 890 | 1,000 | 9.7% | 9.2% | 8.1% | 7.2% | $11.98 | $12.03 | $12.56 | $12.90 | Detroit |
| 440 | 580 | 650 | 670 | 7.0% | 6.3% | 5.4% | 5.0% | $19.81 | $20.59 | $21.78 | $22.69 | Fort Lauderdale |
| 3,400 | 4,000 | 4,700 | 2,400 | 5.8% | 5.4% | 5.4% | 5.2% | $15.50 | $16.29 | $16.11 | $16.38 | Houston |
| 660 | 880 | 750 | 900 | 6.6% | 6.2% | 5.2% | 5.0% | $13.85 | $14.16 | $13.26 | $13.43 | Indianapolis |
| 1,300 | 940 | 970 | 890 | 7.6% | 7.1% | 6.3% | 6.0% | $11.52 | $11.80 | $11.93 | $12.19 | Kansas City |
| 690 | 360 | 600 | 360 | 10.1% | 10.3% | 9.4% | 8.9% | $16.02 | $16.53 | $17.05 | $17.53 | Las Vegas |
| 1,200 | 1,900 | 570 | 1,400 | 4.7% | 4.6% | 4.1% | 3.8% | $26.43 | $27.72 | $29.32 | $30.43 | Los Angeles |
| 680 | 610 | 390 | 100 | 5.4% | 5.2% | 4.8% | 4.2% | $11.66 | $12.71 | $12.08 | $12.00 | Louisville |
| 1,200 | 1,100 | 890 | 1,900 | 3.7% | 3.5% | 3.6% | 4.1% | $29.23 | $30.61 | $32.81 | $34.29 | Miami-Dade |
| 370 | 1,300 | 1,100 | 1,100 | 6.9% | 6.6% | 7.0% | 6.6% | $11.71 | $11.59 | $11.42 | $11.80 | Milwaukee |
| 1,300 | 1,300 | 1,100 | 500 | 4.9% | 4.4% | 3.7% | 3.5% | $14.43 | $13.77 | $14.20 | $14.38 | Minneapolis-St. Paul |
| 860 | 640 | 870 | 1,400 | 5.2% | 4.3% | 3.3% | 2.8% | $14.76 | $16.03 | $16.87 | $17.88 | Nashville |
| 230 | 610 | 520 | 410 | 5.3% | 5.5% | 5.4% | 5.3% | $20.07 | $20.58 | $21.44 | $22.19 | New Haven-Fairfield County |
| 2,200 | 1,400 | 2,000 | 2,400 | 4.3% | 3.9% | 3.4% | 3.2% | $53.53 | $53.27 | $56.67 | $59.73 | New York City |
| 790 | 980 | 440 | 560 | 4.8% | 4.9% | 5.1% | 5.0% | $22.98 | $23.02 | $25.56 | $26.45 | Northern New Jersey |
| 180 | 450 | 510 | 520 | 4.1% | 3.7% | 3.8% | 3.6% | $22.79 | $24.10 | $25.46 | $26.76 | Oakland |
| 260 | 880 | 730 | 400 | 4.4% | 4.0% | 4.2% | 4.0% | $24.69 | $26.29 | $26.28 | $27.15 | Orange County |
| 690 | 1,300 | 1,100 | 700 | 6.7% | 6.0% | 5.6% | 4.9% | $15.47 | $15.89 | $16.42 | $16.91 | Orlando |
| 520 | 1,700 | 1,600 | 1,600 | 5.9% | 6.0% | 5.7% | 5.6% | $16.02 | $16.13 | $16.30 | $16.50 | Philadelphia |
| 730 | 810 | 1,500 | 1,000 | 10.3% | 9.9% | 9.7% | 9.4% | $14.59 | $14.80 | $15.10 | $15.28 | Phoenix |
| 900 | 340 | 570 | 900 | 4.4% | 4.2% | 3.6% | 3.2% | $12.71 | $13.01 | $13.66 | $14.06 | Pittsburgh |
| 1,000 | 760 | 390 | 400 | 4.6% | 4.7% | 4.1% | 3.7% | $17.11 | $17.42 | $18.05 | $18.56 | Portland |
| 750 | 870 | 790 | 600 | 5.5% | 4.6% | 3.9% | 3.2% | $15.03 | $15.66 | $16.10 | $16.71 | Raleigh |
| 950 | 700 | 670 | 800 | 9.4% | 9.3% | 8.5% | 8.1% | $15.85 | $15.95 | $16.60 | $17.10 | Riverside-San Bernardino |
| 650 | 590 | 290 | 600 | 8.9% | 8.2% | 8.2% | 7.5% | $16.25 | $16.01 | $16.77 | $16.85 | Sacramento |
| 790 | 820 | 830 | 640 | 4.5% | 4.1% | 4.5% | 4.3% | $12.99 | $13.67 | $15.09 | $16.22 | Salt Lake City |
| 1,800 | 810 | 1,400 | 200 | 5.5% | 5.1% | 4.5% | 3.8% | $15.17 | $15.17 | $15.66 | $15.83 | San Antonio |
| 390 | 670 | 350 | 590 | 4.4% | 5.1% | 4.0% | 3.7% | $23.05 | $23.42 | $23.64 | $24.14 | San Diego |
| 86 | 11 | 47 | 290 | 2.5% | 2.5% | 2.4% | 2.4% | $35.00 | $37.82 | $37.20 | $39.10 | San Francisco |
| 810 | 300 | 600 | 640 | 3.8% | 4.3% | 5.4% | 5.6% | $30.09 | $32.59 | $32.47 | $33.25 | San Jose |
| 620 | 490 | 340 | 600 | 4.9% | 4.4% | 4.0% | 3.6% | $18.51 | $18.63 | $19.54 | $20.42 | Seattle-Tacoma |
| 330 | 1,100 | 850 | 550 | 7.3% | 6.9% | 6.5% | 6.2% | $12.19 | $12.48 | $12.45 | $12.65 | St. Louis |
| 2,000 | 1,500 | 920 | 480 | 6.6% | 5.9% | 5.2% | 4.6% | $13.92 | $13.89 | $14.62 | $15.15 | Tampa-St. Petersburg |
| 1,900 | 1,600 | 1,400 | 1,600 | 4.8% | 4.7% | 4.5% | 4.3% | $25.25 | $25.67 | $26.57 | $27.26 | Washington, D.C. |
| 1,000 | 300 | 270 | 210 | 6.5% | 6.1% | 4.5% | 3.8% | $18.39 | $19.81 | $20.77 | $22.24 | West Palm Beach |
| 55,200 | 58,300 | 53,400 | 49,000 | 6.3% | 6.0% | 5.5% | 5.1% | $17.71 | $18.08 | $18.67 | $19.12 | U.S. Metro Total |

* Forecast    [2] See Statistical Summary Note on page 64.

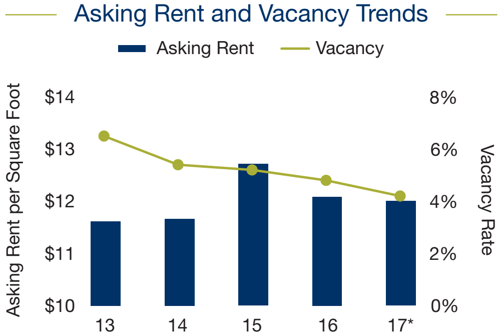
### Employment vs. Retail Sales




### Retail Completions




### Asking Rent and Vacancy Trends




### Sales Trends


* Forecast
Sources: CoStar Group, Inc.; Real Capital Analytics

# Value-Add Investors Jockey for Listings In Shifting Louisville Retail Market

**Existing stores benefit from lack of new retail inventory and wave of residential construction.** Gains in healthcare, real estate and investment employment will help fuel a nearly 5 percent increase in retail spending during 2017. The roughly 2,500 apartments scheduled for completion this year will bring additional consumers to central Louisville and the eastern suburbs of the metro, generating new retail space demand, especially for consumer staples. The retail project pipeline is thin, and the suburban communities of Hurstbourne and Lyndon will house most of this year's limited new space. Completions in the city's core are also sparse. The absence of retail construction, coupled with positive tenant demand, will drop vacancy to the lowest level since 2000. As a result, asking rental rates will move higher as available space is removed from the market, particulary in core submarkets.

**Upside remains in affordable regions as opportunities emerge in higher-priced locales.** Boasting yields comparable to other Midwestern markets, Louisville will attract more regional buyers searching for premium single-tenant assets at mid-5 percent returns, or larger multi-tenant listings. Local buyers dominate the neighborhood and strip center segment, targeting sub-$5 million properties at initial yields in the low-8 percent range. Assets on the northern side of the Ohio River and buildings in Louisville's core should gain appeal. Within these more affordable submarkets, which include the Indiana cities of New Albany, Clarksville and Jeffersonville, vacancy compression is spurring rent growth. Buyers may be attracted to submarkets off Interstate 64, where a decline in asking rents is occurring while vacancy remains minimal. Buyers with higher-risk tolerances could target aging shopping centers or conversion opportunities in Old Louisville and other neighborhoods undergoing revitalization.

## 2017 Market Forecast

**NRI Rank** 35, up 2 places — Healthy vacancy improvement and a lean construction pipeline elevated Louisville two rungs in the Index.

**Employment** up 1.4% — Headcounts expand by 9,000 workers during 2017, trailing last year's 1.7 percent gain behind the creation of 11,300 positions.

**Construction** 100,000 sq. ft. — Inventory growth slows considerably this year following the delivery of 400,000 square feet last year.

**Vacancy** down 60 bps — Net absorption outpaces new supply, compressing vacancy to 4.2 percent and marking the seventh straight annual decrease in the vacancy rate. Last year, net absorption of nearly 631,000 square feet reduced vacancy 40 basis points.

**Rent** down 0.7% — A dip in rents in prime single-tenant layouts holds back overall rent growth, with average asking rents declining to $12.00 per square foot in 2017. A 5.0 percent decrease in the average rent was recorded in 2016.

**Investment** — More investors target property listings near new rental housing in central Louisville, where retail construction has yet to follow a wave of multifamily deliveries.

# Transformation of Miami's Core Retail Market Expands to Long-Overlooked Areas

**Miami retail sector in expansion mode with strongest construction in years.** As one of the nation's premier shopping destinations, Miami has retailers poised to capitalize on increased consumer spending, driving tenant expansions and bringing greater retail development down the pipeline. Completions this year will reach the highest level since 2008, led by the delivery of several large shopping centers, including Miami Worldcenter and CityPlace Doral, which are enhancing the county with large mixed-use properties. Over the past three years, the addition of over 3.1 million square feet of retail space has driven asking rents to new heights as the vacancy rate pushed down each year. Robust growth in the Brickell and Wynwood districts is expanding outward, transforming the nearby Little Haiti and Little Havana neighborhoods as new retailers and households move into the area. Tenant demand in these evolving neighborhoods will grow this year as more retailers and developers seek to capitalize on future growth. Strong retail demand will push the asking rental rate higher for the fourth consecutive year.

**Investors in search of value-add opportunities active in Miami-Dade.** Sales of Miami's retail assets slowed last year as investors and lenders applied greater scrutiny to pricing and reevaluated hold strategies. Deal flow was suppressed the most in core urban markets. This year, investors will place greater focus on the areas west of the expanding Brickell Financial District and surrounding the growing Wynwood Art District. Here in the Little Haiti and Little Havana neighborhoods, along with other more suburban markets, property and occupancy upgrades will be eyed as private investors look for assets to improve incomes. First-year yields in these evolving areas can reach the mid-7 percent territory, a 200-basis-point premium compared with the county average. Institutional capital will remain active in search of the county's best assets, some of which can trade with initial yields in the low-3 percent range.

## 2017 Market Forecast

**NRI Rank**
16, down 8 places
Cycle-high completions and rising vacancy pushed Miami-Dade out of the top 10 this year.

**Employment**
up 2.2%
The pace of hiring will pick up in 2017 as employers add 25,000 workers to payrolls, up from last year's gain of 21,800 jobs.

**Construction**
1.9 million sq. ft.
Deliveries climb to their highest level since 2008 this year as 1.9 million square feet is anticipated for completion. In 2016, 890,000 square feet was finished.

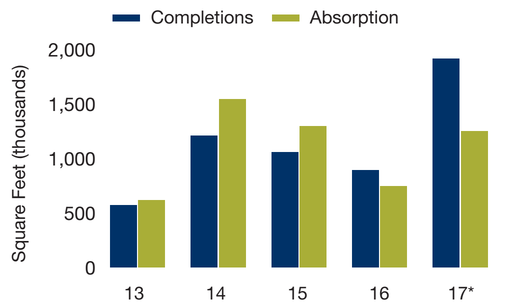
**Vacancy**
up 50 bps
The vacancy rate moves up to a still-tight 4.1 percent this year on the back of large supply additions, adding to last year's increase of 10 basis points.

**Rent**
up 4.5%
After a strong 7.2 percent increase to the average asking rent in 2016, the rental rate is forecast to climb at a more modest rate as vacancy rises, reaching $34.29 per square foot this year.

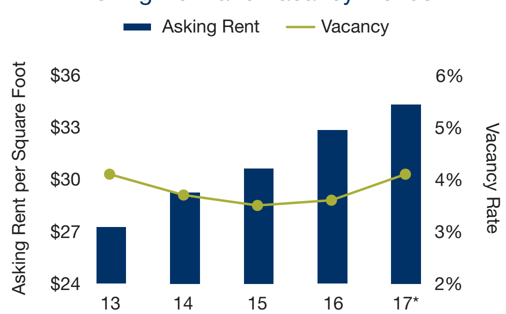
**Investment**
Proposals have been put in place for massive transformations of the overlooked Little Haiti neighborhood that could bring nearly 300,000 square feet of retail to the area pending approval and completion.

### Employment vs. Retail Sales

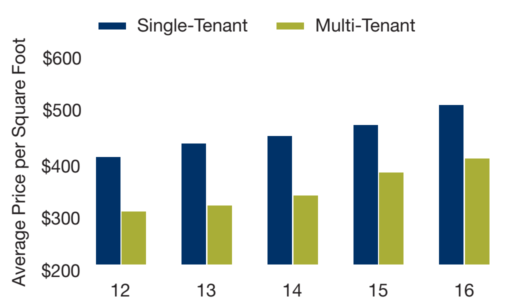

### Retail Completions




### Asking Rent and Vacancy Trends

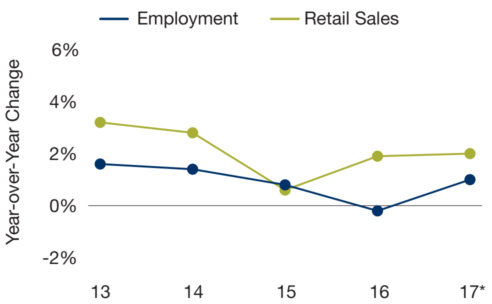



### Sales Trends

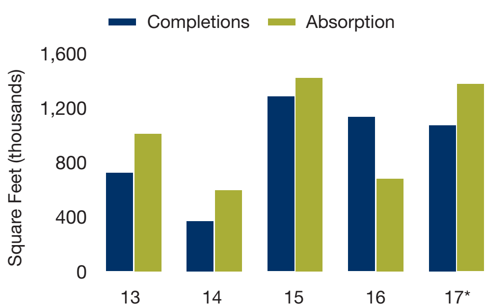



* Forecast
Sources: CoStar Group, Inc.; Real Capital Analytics

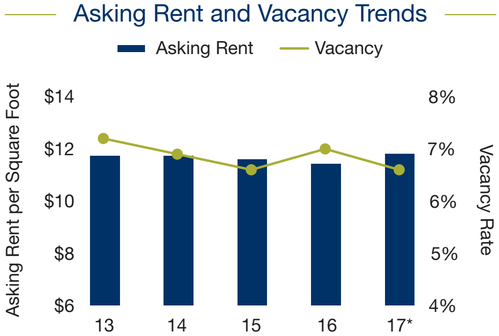
### Employment vs. Retail Sales



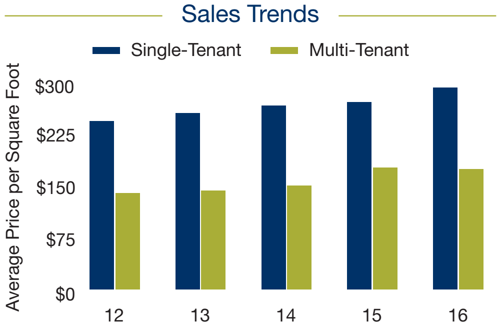

### Retail Completions




### Asking Rent and Vacancy Trends




### Sales Trends




* Forecast
Sources: CoStar Group, Inc.; Real Capital Analytics

# Investor Activity Rising as Retail Asset Performance Escalates in Expanding Milwaukee

**Robust leasing activity fills new space as it comes to completion.** The Milwaukee retail sector is poised for another year of significant retail construction as new space opens in 2017. For the third straight year completions will surpass 1 million square feet, led by grocery-store expansion, chiefly by Meijer. In addition, multiple shopping centers such as the Corners of Brookfield, 84SOUTH and Drexel Town Square add to the total. With retail sales growth forecast to register at 2 percent in 2017, pointing to rising tenant financial strength this year, retailers have been signing new leases at a speedy clip. Roughly 10 percent of this year's deliveries remain available to occupy as demand to take up space in the area's new large mixed-use properties intensifies. Projected rent growth of 3.3 percent keeps asking rents 16 percent below the 2008 high, signaling upside potential for future rent growth, particularly as modern space comes online. Robust demand this year will contribute to the greatest vacancy drop since 2013.

**Retail expansion spurs greater demand for quality space among investors.** Sales of retail assets spiked last year as buyers capitalized on the expanding retail sector across Milwaukee. With no shortage of investors in the market and an influx of quality product, buyers will actively target assets with strong tenant profiles, focusing on national credit tenants and grocery-anchored shopping centers. Activity will remain greatest on the outskirts of Milwaukee along State Route 145 and Interstate 94. Cap rates for single-tenant space averaged in the low-7 percent band last year while multi-tenant assets traded at an 8 percent initial yield, fueling buyer interest in the metro. Investors and lenders are optimistic going into 2017 as businesses are anticipated to expand and add staff. A new high-water mark on pricing reached in 2016, though, could draw greater scrutiny from these parties with the potential to restrain deal flow.

## 2017 Market Forecast

**NRI Rank**
42, up 4 places
Milwaukee vacated last year's bottom ranking, moving up four slots as vacancy and rent growth improve.

**Employment**
up 1.0%
Following the loss of 2,000 jobs in 2016, the Milwaukee workforce is set to grow by 8,600 positions this year.

**Construction**
1.07 million sq. ft.
Supply additions stay above the five-year average this year, edging lower from the more than 1.13 million-square-foot injection last year.

**Vacancy**
down 40 bps
Following a 40-basis-point bump in 2016, the vacancy rate will drop amid net absorption totaling 1.4 million square feet, ending this year at 6.6 percent.

**Rent**
up 3.3%
A drop in vacancy will support an asking rent increase that is the greatest since 2012, ending the year at $11.80 per square foot. Last year rent fell 1.5 percent.

**Investment**
Retail assets with upside leasing potential near the area's new shopping centers and in the downtown will attract buyers for their value-add purposes this year.

# Grocery Competition Heats Up In Minneapolis-St. Paul Retail Market

**The metro's retail sector is buoyed by positive demographic and employment trends.** Job growth will top 29,000 for the fifth consecutive year, underpinning household formation, rising incomes and increased retail spending. Retailers are taking notice and expanding in the region. Grocers are especially active, with Fresh Thyme, Whole Foods, Trader Joe's and Aldi opening new stores this year and Hy-Vee planning five more sites by the end of 2018. CityPlace in Woodbury as well as Central Park Commons in Eagan, which debuted in the second half of last year, will complete additional phases in 2017. In the city cores, the former Macy's in St. Paul is being transformed into a mixed-use development with the retail space fully leased. In Minneapolis, residents and businesses migrating to downtown increase demand for retailers. The closing of Barnes & Noble and Macy's this year provide redevelopment opportunities to service the changing face of the city core. The ground and skyway levels of the former Macy's building will remain as retail, while offices will fill the upper floors. Throughout the metro, strong demand tightens vacancy while rents move higher.

**The strong retail market contributes to increased buying activity across the metro in 2016.** A favorable outlook is likely to keep investors active in the quarters ahead. While single-tenant net-leased assets draw outside investors to the region, many local buyers are targeting small strip centers with some upside potential along major transit corridors. Properties in Minneapolis or first-ring suburbs are especially desired and typically trade at cap rates in the mid- to high-6 percent range. Buyers seeking higher yields must be willing to move farther from the metro core into areas where residential builders are active, including Savage and Elk River. In a rising interest rate environment, the gap between buyer and seller price expectations is widening.

## 2017 Market Forecast

**NRI Rank**
25, up 8 places

Moderating construction and low vacancy propelled Minneapolis-St. Paul up eight spots in the 2017 Index.

**Employment**
up 1.8%

Payrolls in the metro will expand by 35,000 workers in 2017, after last year's 1.5 percent growth led by gains in health services.

**Construction**
500,000 sq. ft.

Approximately half of last year's 1.1 million square feet of new inventory was delivered in Eagan, as the first phase of Central Park Commons was completed. This year, developers will finalize roughly 500,000 square feet throughout the metro.

**Vacancy**
down 20 bps

Strong absorption and a pause in deliveries offsets store closings, resulting in a 20-basis-point dip in the vacancy rate to 3.5 percent in 2017; that's the lowest level since 2007. Last year, vacancy posted a 70-basis-point cut.

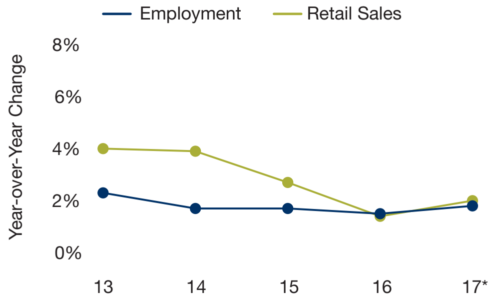
**Rent**
up 1.3%

The average asking rent rises 1.3 percent to $14.38 per square foot in 2017, after a 3.1 percent gain last year.

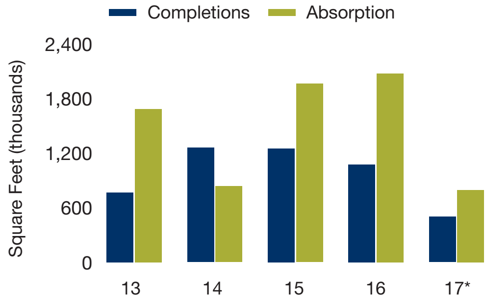
**Investment**

Older retail buildings in transforming neighborhoods may be targeted for redevelopment. Revitalization in these areas can boost surrounding property values.

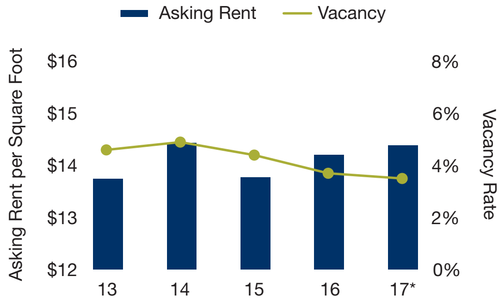
### Employment vs. Retail Sales



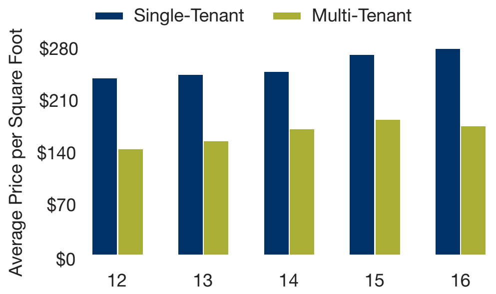

### Retail Completions




### Asking Rent and Vacancy Trends



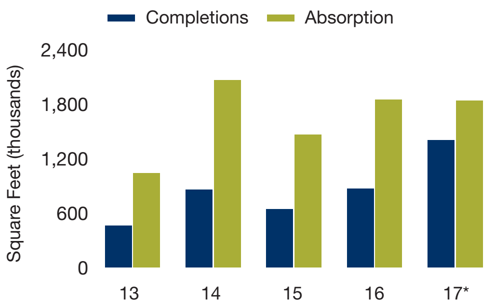

### Sales Trends



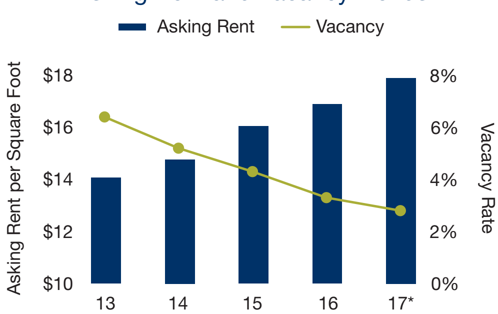

* Forecast
Sources: CoStar Group, Inc.; Real Capital Analytics

### Employment vs. Retail Sales


### Retail Completions




### Asking Rent and Vacancy Trends




### Sales Trends


* Forecast
Sources: CoStar Group, Inc.; Real Capital Analytics

# Stout Tenant Demand, Development Activity Push Nashville Retail to New Heights

**Limited space availability has Nashville's retail sector on the rise.** Urban development, along with an increase in tech and healthcare-related hiring, is fueling net migration and boosting retail spending. A record volume of downtown, Music Row and West End apartment and office deliveries has increased demand for walkable retail in the core, encouraging grocers Kroger and Whole Foods to open new locations. Retail construction will reach its highest level of the current cycle, led by a mix of single- and multi-tenant deliveries in downtown, Bellevue and locations near Vanderbilt University. In addition, the redevelopment of One Bellevue Place highlights an emerging trend toward entertainment and dining, concepts in an open-air setting. Outside the core, properties will be delivered in Hendersonville, Murfreesboro and Franklin. Growing tenant demand will support the uptick in supply, compressing vacancy for the seventh consecutive year and prompting a robust gain in the average asking rental rate.

**Core, fringe and suburban assets gain in appeal, expanding buyer pool**. Offering buyers higher yields and lower entry costs than many coastal markets, Nashville will attract more out-of-state investors this year. Population growth, heightened tenant demand and limited availability in the core are bolstering property demand among investors. Assets with long leases and a robust credit profile are of particular interest among investors. Local and in-state buyers eye assets near Vanderbilt University, the West End, downtown and Brentwood. Each area features low vacancy and surging rents. Increased competition in the core will push investors to the adjacent communities of Donelson, Hermitage, Green Hills and Belle Meade. Like the core, vacancy is tight here, and rents are steadily rising. Overall, single-tenant franchisee assets and multi-tenant properties in top locales will trade at low- to mid-5 percent initial yields, with average first-year returns around 7 percent.

## 2017 Market Forecast

| | |
|---|---|
| **NRI Rank** 5, up 6 places | The third-lowest vacancy rate nationwide launched Nashville into the top 10. |
| **Employment** up 2.1% | Widespread hiring in major employment sectors will bring 20,000 additional jobs to the metro during 2017. Last year, 28,900 positions were created, representing a 3.1 percent gain. |
| **Construction** 1.4 million sq. ft. | Deliveries reach a nine-year high following last year's completion of 870,000 square feet. |
| **Vacancy** down 50 bps | Tenants absorb a wave of new supply, compressing vacancy to a historically low 2.8 percent. A decrease of 100 basis points was registered last year. |
| **Rent** up 6.0% | Robust rent growth in the single-tenant segment contributes to elevating the average asking rent to $17.88 per square foot this year. The average rent jumped nearly 14 percent during the past two years. |
| **Investment** | The high volume of newly built office and apartment projects will pique investor interest for nearby retail buildings and storefronts in the core. |

# Retail Expansion Holds Strong In Growing Communities of Connecticut

**Tenants line up to take space across the market.** A boost in multifamily development in recent years along with a growing number of job opportunities in New Haven and Fairfield counties have driven more residents to the area, propelling the retail sector into 2017. Expansionary efforts have been underway across the region in response to residential growth, led last year by grocery-anchored shopping centers in Naugatuck and Shelton. This year development will ease back from the highs of the last two years, placing the vacancy rate back on a downward trajectory for 2017. Builders are placing greater focus on the commuter towns of Fairfield County, home to the largest mixed-use project of the year, Bedford Square in Westport. With roughly half of upcoming deliveries pre-leased, retailers are looking to capture the strongest anticipated retail sales growth in half a decade, holding vacancy in the low-5 percent territory, contributing to another year of asking rent gains.

**Strengthening fundamentals set to increase buyer appetite for the region's expanding retail sector.** Investors have been busy scouring the New Haven-Fairfield market for well-performing retail assets that provide owners with stable first-year yields and solid upside potential. Buyer activity will once again be widespread across the region with greater transaction velocity in the highly sought areas of Stamford and Greenwich where cap rates average in the mid-5 percent band. Institutional buyers commonly focus on assets here, pushing yields lower for premium listings near highly trafficked transit routes. Farther into the suburbs along Interstate 95, properties can exchange for 200 basis points more, attracting a large pool of local and out-of-state private investors. Competition is likely to rise this year as construction ebbs, holding deal flow at elevated levels as a large pool of buyers look to capitalize on strengthening operations across New Haven and Fairfield counties.

## 2017 Market Forecast

**NRI Rank** 41, down 3 places — Minimal vacancy improvement and slow employment growth dropped New Haven-Fairfield County three slots in the NRI this year.

**Employment** up 0.8% — Following the loss of 3,200 jobs in 2016, employers will add 6,500 workers to payrolls this year.

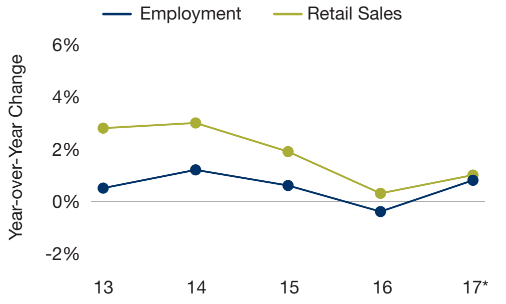
**Construction** 410,000 sq. ft. — Deliveries are set to drop this year with the majority of new space rising in Fairfield County. Last year 520,000 square feet were completed.

**Vacancy** down 10 bps — Subdued construction supports a compression in the vacancy rate to 5.3 percent, a continuation from last year's 10-basis-point drop.

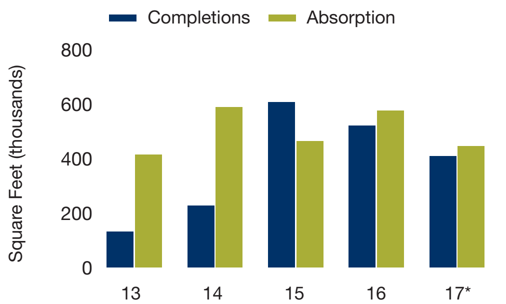
**Rent** up 3.5% — Tightening vacancy contributes to a rental-rate increase this year, ending 2017 at $22.19 per square foot. A 4.2 percent rise was registered in 2016.

**Investment** — As more New York City workers take up residency in the commuter towns of Fairfield County, retail assets along major travel routes and near transit stations will be in strong demand.

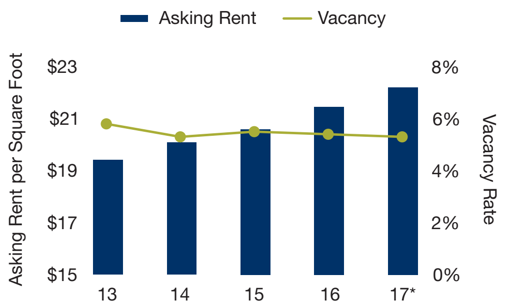
### Employment vs. Retail Sales



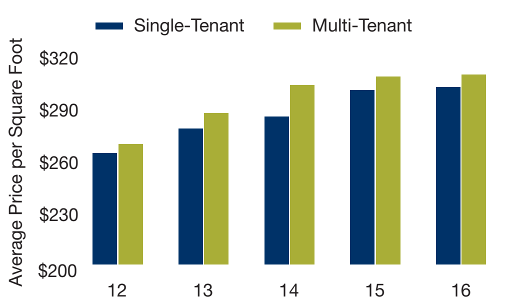

### Retail Completions




### Asking Rent and Vacancy Trends




### Sales Trends



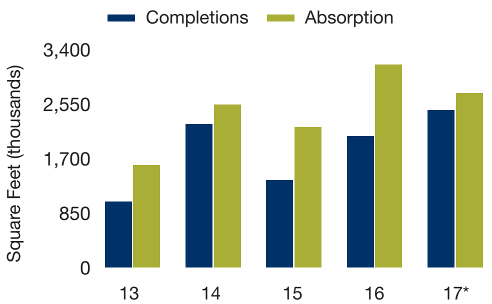

* Forecast
Sources: CoStar Group, Inc.; Real Capital Analytics

Marcus & Millichap

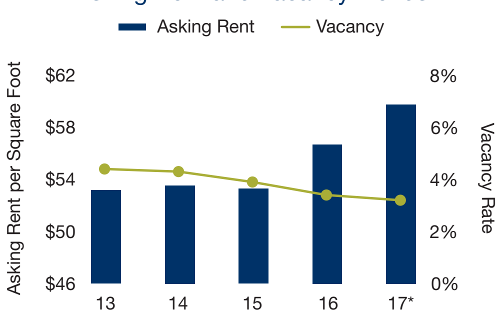
# Development Spreads Beyond Manhattan And Brooklyn as Vacancy Tightens Further

### Employment vs. Retail Sales


### Retail Completions




### Asking Rent and Vacancy Trends




### Sales Trends


* Forecast
Sources: CoStar Group, Inc.; Real Capital Analytics

**Strong net absorption prompting cycle low in vacancy.** The New York City metro, boosted by hiring in healthcare, education, and hospitality, has driven the retail property market to the tightest levels of the current cycle. While the scope of improvement has been widespread, Manhattan and Brooklyn have particularly benefited from robust demand that has motivated builders over the past years to expand beyond these two boroughs. As a result, the two largest completions for 2017 are on Staten Island. The Staten Island mall expansion and the Empire Outlets will account for nearly a third of supply this year. In addition to a broader supply pool, incoming projects are more than 80 percent pre-leased, underscoring the demand for quality spaces in the metro. The resulting strength will trigger a fifth straight year of vacancy contraction, falling well below the previous cycle's best levels. Incredibly tight vacancy has translated into much higher average asking rent prices, which will record a mid-single-digit advancement in 2017.

**Diverse array of assets offer opportunity for yield, appreciation.** As operations have tightened, buyers have allocated significant sums of capital to metro retail assets. While institutions are focusing on premier properties in Manhattan and Brooklyn, smaller investors have shifted toward the outer boroughs where much higher yields are available. Pricing will push cap rates into the low-4 percent range for assets in highly trafficked locations in Manhattan and Brooklyn while extending into the mid-5 percent band for more outlying properties in the outer boroughs. Potential zoning and regulatory changes have widened a gap between buyers and sellers, lengthening transaction closing times. Meanwhile, the upcoming shutdown of the L Train in Brooklyn remains a top consideration for local investors due to the likely impact throughout the 18-month shutdown beginning in 2019. Changes toward capital allocation along the train's route are likely as buyers look to position themselves ahead of the construction period.

## 2017 Market Forecast

**NRI Rank**
6, no change
New York City retained the sixth spot in this year's Index, supported by strong rent growth.

**Employment**
up 1.4%
New York organizations will create 60,000 new jobs this year, a moderate slowdown from last year, when 74,300 positions were added to payrolls.

**Construction**
2.4 million sq. ft.
Developers are set to complete 2.4 million square feet of retail space this year, led by two large projects on Staten Island. This represents a marginal upswing from the prior year when 2 million square feet was brought to market.

**Vacancy**
down 20 bps
Rising net absorption will trigger a 20-basis-point contraction in the vacancy rate to 3.2 percent. In the prior year, vacancy tumbled 50 basis points.

**Rent**
up 5.4%
Incredibly tight vacancy translates into ascending average asking rents, which will reach $59.73 per square foot this year.

**Investment**
Assets in transitioning neighborhoods in outer boroughs will see competition from buyers seeking both higher cap rates and potential for upside in price.

# Robust Retail Demand Improves Operations; Investors Crossing the Hudson for Yield

**Competition for land on the waterfront pushes development to the suburbs.** A booming residential sector is supporting improving operations for Northern New Jersey's retail sector, as the vacancy rate remains stable in the 5 percent range for the fourth consecutive year. Rising household formation remains a positive driver supporting demand for space in the region. Deliveries are also on the rise, with most of the new space coming to the suburban markets in Bergen and Morris counties, as development costs on the coast have surged. The majority of new square footage will be in the form of single-tenant properties, which are largely pre-leased build-to-suit. Despite the upswing in development, demand should keep pace, particularly in established centers. A shortage of new space in Northern New Jersey's premier markets will cultivate greater competition among retailers searching for quality space, holding the Hudson County vacancy rate at an exceptionally low sub-2.5 percent level. Strong performance here and across the region's other counties lifts asking rents for the remaining vacant space.

**Investors look to capitalize on the market's sturdy outlook.** Sales of Northern New Jersey's retail assets held strong last year, with a large swath of buyers vying for space along the Gold Coast and inland near major travel routes. With cap rates that can be up to 300 basis points greater than comparable properties in New York City, private and institutional investors are scouring the area for well-performing assets. Deal flow this year will remain greatest in Bergen and Hudson counties as investors favor their transit connectivity and dense population centers, leading some properties to trade at a premium. High valuations in these markets, though, will drive more interest inland to Morris and Passaic counties where assets trade in the low-7 to low-9 percent yield range. These areas will also be targeted for their greater supply of value-add opportunities.

## 2017 Market Forecast

**NRI Rank** 37, down 5 places — Northern New Jersey fell five slots in the Index as forecasts for other markets strengthened.

**Employment** up 1.7% — The pace of hiring will increase this year as employers create 36,000 jobs, up from last year's addition of 18,200 workers.

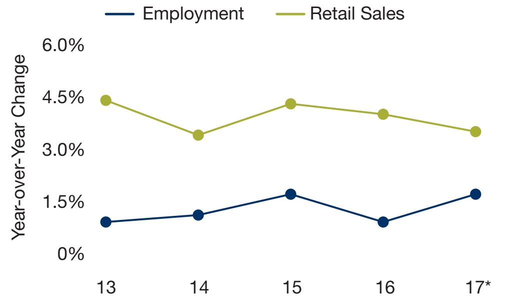
**Construction** 560,000 sq. ft. — Development is on the rise this year as 560,000 square feet are set to come online. Last year, 440,000 square feet was delivered.

**Vacancy** down 10 bps — Steady demand for retail space across the region will pressure the vacancy rate to 5.0 percent this year. In 2016, the vacancy rate climbed 20 basis points.

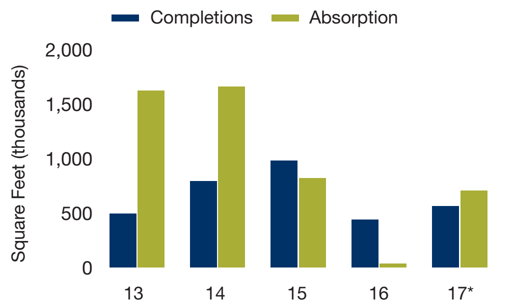
**Rent** up 3.5% — Following an 11 percent increase in the average asking rent in 2016, the rental rate is forecast to climb to $26.45 per square foot this year.

**Investment** — Mixed-use properties will receive the majority of private investor attention this year. Competition among these listings will be especially strong for value-add opportunities that can be enhanced following re-tenanting or cosmetic upgrades.

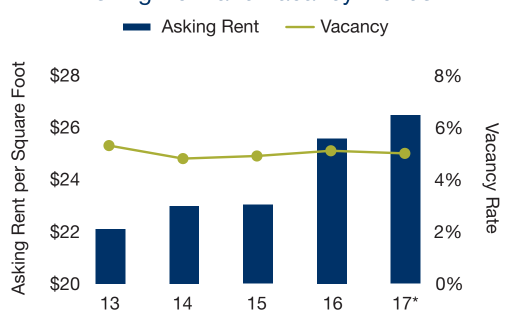
### Employment vs. Retail Sales



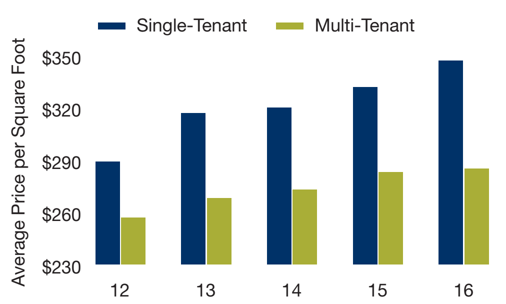

### Retail Completions




### Asking Rent and Vacancy Trends

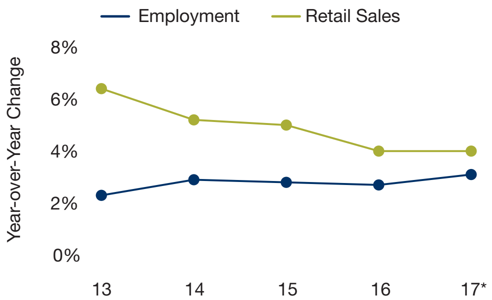



### Sales Trends

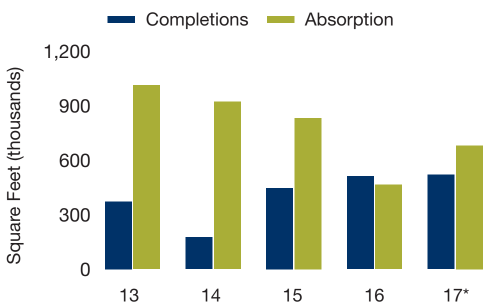



* Forecast
Sources: CoStar Group, Inc.; Real Capital Analytics

## Employment vs. Retail Sales




## Retail Completions

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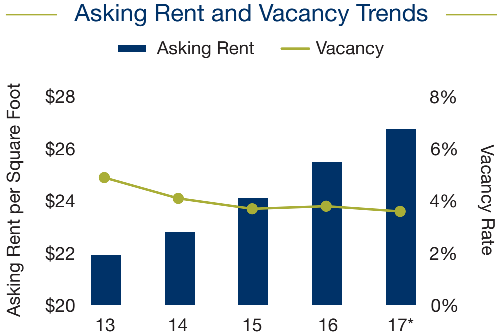



## Sales Trends


* Forecast
Sources: CoStar Group, Inc.; Real Capital Analytics

# Rents, Vacancy Improve as Retailers Capitalize on Shifting Consumer Preferences

**Shopkeepers embrace new strategies to target millennial shoppers.** Broad-based economic gains and strong demographics will drive a year of falling vacancy and rising rents in the East Bay retail market. Continued growth in the metro's burgeoning tech sector and a vibrant startup scene are attracting young professionals to Oakland and lifting incomes. As a result, retailers are adopting unique and creative strategies to engage this young, tech savvy population base, leveraging social media, original restaurant concepts and experience-oriented shopping to be successful. The year's largest delivery is a prime example of these trends. New Seasons Market, an eco-chic, organic grocer, signed on to anchor a community center in Emeryville that is in the midst of an ongoing revitalization effort. The mixed-use development is broadening its consumer appeal by offering shoppers diverse eateries, community events and a growing nightlife. Developers will continue to capitalize on this evolving trend by widening the construction pipeline. Overall, robust absorption levels will outstrip new completions, keeping the Oakland retail market incredibly tight. Falling vacancy amid healthy underlying tenant demand will spur the third consecutive year of rent growth of at least 5 percent.

**Smaller deals in urban locales will constitute bulk of transactions.** The average sale price for multi-tenant assets remains on an upswing as buyers aggressively pursue East Bay retail properties. Strong market optimism and rapidly rising rents will sustain investor demand through 2017. Highly urbanized locations in the city of Oakland will garner the most investor attention, particularly smaller deals in the $1 million to $10 million price tranche. Opportunities for greater returns exist in areas on the east side of the metro such as Anitoch and Pittsburg, where cap rates average roughly 50 basis points higher than the metrowide level.

## 2017 Market Forecast

**NRI Rank** 14, down 1 place — Below-average growth in retail sales dropped Oakland one place in the 2017 NRI.

**Employment** up 3.1% — Healthy tech growth will accelerate the pace of job creation in 2017. The workforce is on tap to add 35,000 positions this year, building on an employment gain of 29,600 jobs in 2016.

**Construction** 520,000 sq. ft. — In 2017, builders will nearly match last year's delivery total of 510,000 square feet, led by the completion of large projects in Emeryville and the Tri-Valley area.

**Vacancy** down 20 bps — Positive net absorption of 680,000 square feet will drive the metrowide vacancy rate down to 3.6 percent this year. In 2016, vacancy posted a slight uptick.

**Rent** up 5.1% — Following an increase of 5.6 percent last year, the average rent will climb to $26.76 per square feet in 2017.

**Investment** — The ongoing revitalization of downtown Oakland will present opportunities for investors looking to capitalize on growing sentiment. A host of office and multifamily construction is in the works here, supporting demand for retailers.

# Employment Growth and Tourism Dollars Stimulate Demand for Orange County Retailers

**Economic expansion amid a pullback in retail construction compresses vacancy to post-recession low.** Strong job growth supporting an expanding and highly affluent household base will drive retail spending in Orange County this year. In addition, the robust tourism industry continues to benefit retailers in vacation hotspots like Anaheim and the beach communities. These intrinsic drivers of retail demand coupled with a moderate development pipeline will constrict vacancy to 4 percent, matching the lowest level of the current cycle. Much of the new supply slated for 2017 will come online highly pre-leased, headlined by a fully occupied 127,000-square-foot mixed-use shopping center in Garden Grove. The project will be the largest retail delivery of the year and includes a residential component. Developers have been pursuing projects like these that blur the line between traditional retail space and residential/entertainment space in the wake of shifting consumer preferences. Moving forward, robust retail demand will put upward pressure on the average rent, which is on pace to reach its highest level since 2008.

**Consistency and tight market conditions garner buyer attention.** Stability and healthy underlying tenant demand will sustain investor interest for Orange County retail assets. Buyers often target the metro for its capital appreciation and wealth management prospects rather than yield as countywide cap rates for recent retail asset trades were among the lowest in the country entering 2017. Though first-year returns hover at historic lows, those searching for value-add deals may pursue older buildings in central Orange County for repurposing opportunities. Properties here will trade at cap rates that average in the mid-5 percent range, approximately 75 basis points higher than the countywide level. Property owners considering listing may move off the sidelines in early 2017 as they look to take advantage of record valuations while interest rates remain favorable.

## 2017 Market Forecast

**NRI Rank** 12, down 5 places — Orange County slipped out of the top 10 and into the 12th spot of the Index as other markets outperform.

**Employment** up 2.1% — Following an employment gain of 31,900 workers in 2016, the Orange County workforce will add 33,000 jobs this year.

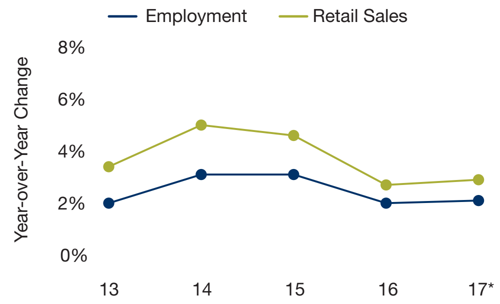
**Construction** 400,000 sq. ft. — Properties slated for completion in 2017 will fall short of last year's delivery total of 730,000 square feet. The central and western regions of Orange County will receive the bulk of new supply.

**Vacancy** down 20 bps — After rising 20 basis points in 2016, the metrowide vacancy rate will constrict to 4.0 percent this year, reaching the lowest point since mid-2008.

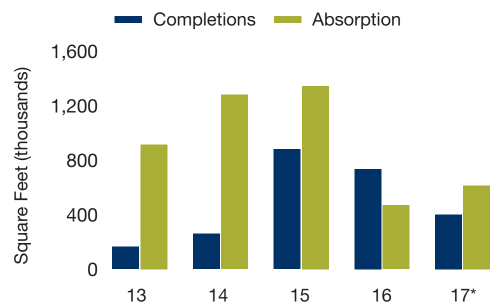
**Rent** up 3.3% — Historically low vacancy and healthy underlying tenant demand will push the average asking rent up to $27.15 per square foot this year. Rents remained flat in 2016.

**Investment** — Cash-flow-oriented investors will pursue properties in East Orange at cap rates that average near 6 percent.

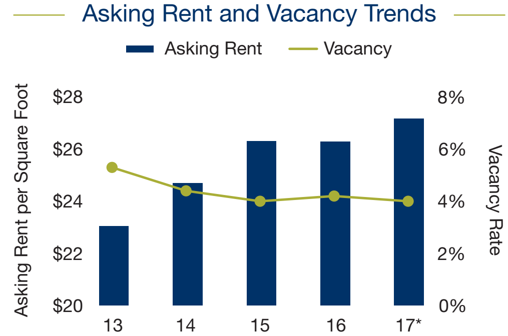
### Employment vs. Retail Sales



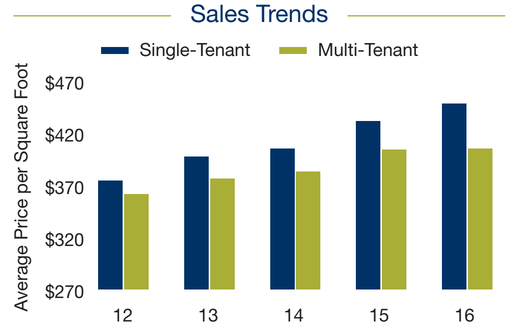

### Retail Completions




### Asking Rent and Vacancy Trends



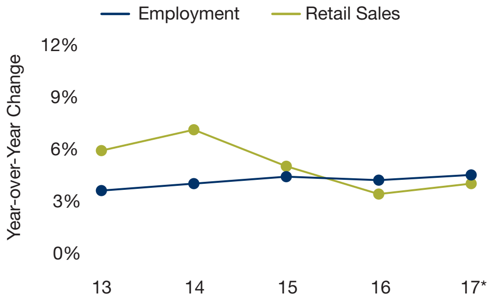

### Sales Trends



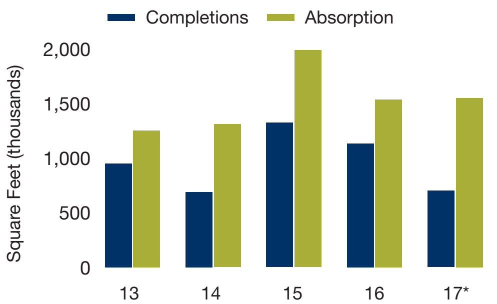

* Forecast
Sources: CoStar Group, Inc.; Real Capital Analytics

# Retail Follows Rooftops in Orlando; Higher Returns Pique Buyers' Attention

### Employment vs. Retail Sales




### Retail Completions

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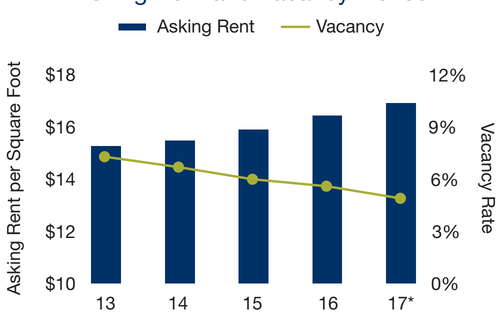
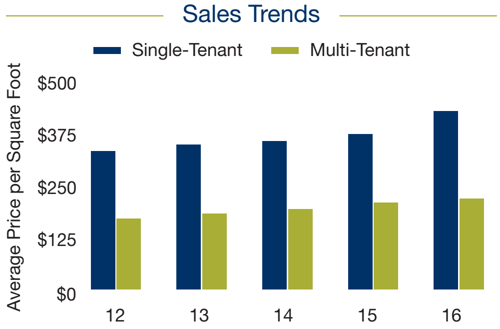



### Sales Trends




* Forecast
Sources: CoStar Group, Inc.; Real Capital Analytics

**Vacancy tightens amid slowing construction.** Rising incomes and strong in-migration will drive household formation in Orlando and underpin demand for retail space in 2017. As a result, vacancy will plummet to a cycle low as retailers fill available space near growing residential neighborhoods. Additionally, moderating construction amid a mounting pace of net absorption will spur additional vacancy improvements along with a moderate rise in asking rent. Near Lake Nona, thousands of homes will begin construction early this year, further sparking demand for retail space in the area. Nearly 36,000 square feet is on track for completion at Lake Nona Landing, which will include a Chili's and Pollo Tropical. An additional 150,000 square feet of retail space is planned near the development. To the north, Griffin Farms, a mixed-use community in Lake Mary, will receive 150,000 square feet of space, of which 70,000 square feet is scheduled for completion this year. The project will be anchored by a Trader Joe's and 24 Hour Fitness.

**Out-of-state buyers flock to Orlando, seeking higher yields.** The vibrant economy, along with improvements in asking rents and vacancy, will motivate investors to deploy capital into Orlando's retail properties. Also, returns up to 100 basis points higher than gateway cities are attracting out-of-metro buyers to the market. Many investors are targeting well-located dine-in restaurants, fast-food establishments and convenience stores with credit tenants. These assets can trade with initial yields as low as 4 percent. Properties in areas outside of central Orlando, including those in Lake County, Kissimmee and Lake Nona, are of particular interest. Here, retail buildings trade in the low- to mid-5 percent span. Metrowide, retail properties typically change hands with average returns in the mid-6 percent range.

## 2017 Market Forecast

**NRI Rank** 21, down 1 place — Asking rent below the national average moved Orlando down one place in the NRI.

**Employment** up 4.5% — The creation of 55,000 positions this year expands total employment 4.5 percent. Last year, 49,300 positions were created.

**Construction** 700,000 sq. ft. — After the completion of 1.1 million square feet of retail space in 2016, development will moderate this year. The majority of deliveries will be single-tenant buildings.

**Vacancy** down 70 bps — Following a 40-basis-point drop last year, vacancy falls to 4.9 percent in 2017 on net absorption of nearly 1.6 million square feet.

**Rent** up 3.0% — Tightening vacancy drives an increase in the average asking rent to $16.91 per square foot this year. In the previous year, the average rent rose 3.3 percent.

**Investment** — Strong demand for single-tenant assets in Orlando may push some investors into higher-yielding multi-tenant properties where first-year returns average in the low-7 percent area.

# Biomedical, Healthcare Expansions Promote Growth in Philadelphia Retail Market

**Employment gains and apartment growth drop retail vacancy.** The consistent Philadelphia retail market is on track to record another year of modest growth as a solid local economy and rising retail spending spur tenant expansion. Employers continue to create high-paying jobs in the medical research, healthcare and telecommunications industries, raising the median household income and driving additional spending. Furthermore, the apartment market is in the midst of a construction boom. More than 11,500 units were delivered or are expected to be delivered in 2016 and 2017, with areas near the urban core receiving the vast majority of rentals. These high-density housing projects will bolster demand for surrounding retailers, keeping vacancy compressed. Aside from a few high-profile mixed-use projects, most of the new retail supply will be completed outside the metro core. Notable suburban projects include a Whole Foods in Newtown Square and a mixed-use office/retail center in Richboro. Annual supply additions, although elevated, will fall short of demand for new space, spurring a contraction in metrowide vacancy. These tightening market conditions will trigger another year of moderate rent growth.

**Broad range of buying opportunities available in the metro.** Market stability coupled with cap rates that trend above the national average will sustain investor interest in Philadelphia retail assets. A diverse spectrum of demand exists as a mix of local and out-of-market buyers pursue properties throughout the metro. Those looking for long-term investment potential will target urban assets in Center City and University City, where high population density, quality employment growth and an upswing in multifamily construction drive demand for retail space. Suburban locations will also receive greater investor attention, particularly King of Prussia, Montgomery County and West Chester. Overall, cap rates for Philadelphia retail assets average in the mid- to high-6 percent range.

## 2017 Market Forecast

**NRI Rank** 40, down 4 places — Steady but modest improvements in market fundamentals caused Philadelphia's four-rung decline in 2017.

**Employment** up 1.7% — Philadelphia employers are on pace to expand payrolls by 49,000 positions in 2017. A gain of 44,300 jobs was recorded last year, led by the professional and business services sector.

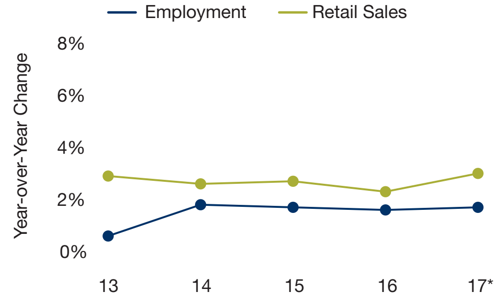
**Construction** 1.6 million sq. ft. — Following the completion of 1.6 million square feet in 2016, developers will match their pace of construction this year. The suburbs of Philadelphia will receive the bulk of new supply.

**Vacancy** down 10 bps — Net absorption of more than 1.7 million square feet will drive down the metrowide vacancy rate to 5.6 percent this year, building on a drop of 30 basis points in 2016.

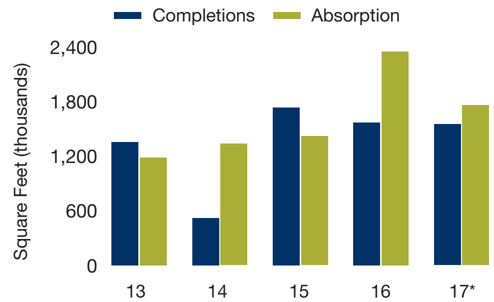
**Rent** up 1.2% — The average asking rent will reach $16.50 per square foot in 2017, following a 1.1 percent gain last year.

**Investment** — The ongoing redevelopment of the Market East area is generating excitement, with apartment, office and retail projects in the works. Buyers will seek assets nearby to capitalize on increased traffic and tenant demand.

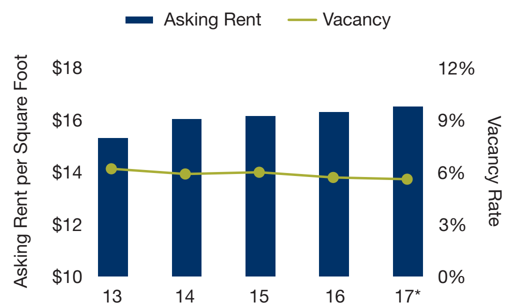
### Employment vs. Retail Sales



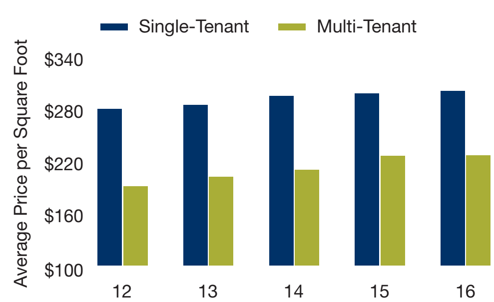

### Retail Completions




### Asking Rent and Vacancy Trends



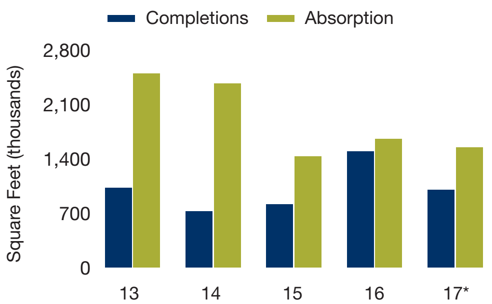

### Sales Trends




* Forecast
Sources: CoStar Group, Inc.; Real Capital Analytics

## Employment vs. Retail Sales


## Retail Completions

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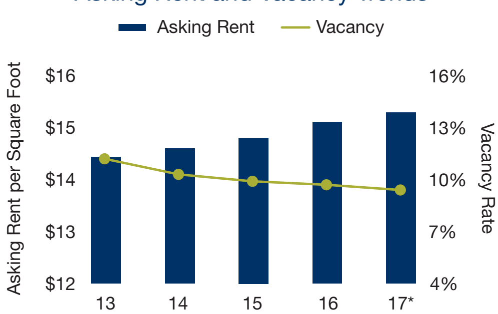



## Sales Trends


* Forecast
Sources: CoStar Group, Inc.; Real Capital Analytics

# Rapid Household Expansion Heightens Investors' Interest in Phoenix Retail Market

**Flourishing retail space demand in the Valley compresses vacancy to cycle low.** Robust hiring activity persists as the metro's technology and insurance industries continue to expand, led by State Farm, Farmers Insurance and a consortium of existing and startup tech firms. A rise in the volume of higher-paying professions will lure more young professionals to the region, increasing the need for goods and services. Retail developers are responding, with more than 20 projects slated for East Valley locations. Meanwhile, in Peoria and north Phoenix, two Fry's and a Wal-Mart Supercenter, as well as several 100,000-square-foot shopping centers, will comprise the bulk of space delivered in 2017. Valleywide, tenant demand will absorb this wave of new supply, with vacancy tightening to a 10-year low, while asking rents have plenty of room to rise as they remain below 2007 levels.

**Retail transaction velocity driven by areas of redevelopment, new residential construction.** Another year of elevated bidding activity is ahead for the metro, as strengthening job growth and yields that exceed primary West Coast markets attract more out-of-state investors. Central Phoenix and Tempe, two of the metro's most densely populated areas, will be targeted by a mix of buyers seeking older strip and neighborhood centers. These locales contain several revitalizing neighborhoods where apartment construction has encouraged the redevelopment of older buildings into bars, restaurants and niche stores. Properties constructed before 1990 along Tempe's Mill Avenue and in midtown Phoenix will start at high-5 percent capitalization rates, with shopping centers fetching yields in the high-6 percent to 8 percent band. Home to employment hubs and recent residential construction, the East Valley cities of Chandler and Gilbert will attract casual and fast-food restaurant buyers, with assets adjacent to new apartments changing hands at cap rates in the 5 to 6 percent range.

## 2017 Market Forecast

**NRI Rank** 31, down 5 places — Phoenix fell five places in the NRI with the highest average vacancy rate nationwide.

**Employment** up 2.0% — Following the addition of 29,400 workers to payrolls in 2016, employers are anticipated to create 40,000 jobs across the Valley this year.

**Construction** 1 million sq. ft. — After completing nearly 1.5 million square feet last year, deliveries slow this year, with the largest portion of the activity in northwest Phoenix and the East Valley.

**Vacancy** down 30 bps — Increasing tenant demand will compress vacancy to 9.4 percent, the lowest rate since 2007. Last year, the vacancy rate decreased 20 basis points.

**Rent** up 1.2% — After climbing 2.0 percent last year, the average asking rent reaches $15.28 per square foot during 2017.

**Investment** — The delivery of more than 15,000 apartments in two years will increase investor demand for nearby grocery-anchored centers and specialty grocers, with these assets trading at initial yields in the low-7 percent area.

# Pittsburgh Retail Market Thrives, Setting Record Performance

**Strong level of absorption reduces vacancy and fuels rent gains.** The growing tech sector in Pittsburgh, driven by corporate expansions including Uber and the software company SAP, is bringing many high-paying jobs to the market and boosting retail sales. As a result, many retailers are leasing vacant space as they either move to or expand within the metro. The healthy pace of net absorption has caused the vacancy rate to plummet over the previous six years, reaching a record low in 2017. These tightening conditions and healthy tenant demand will also set record-high asking rents, with spaces in popular neighborhoods reaching upward to an average $20 per square foot. As vacancy nears 3 percent this year, developers are ramping up construction to meet demand for quality retail space. The majority of completions will be located in the Parkway West Corridor and South Pittsburgh. Of these deliveries, the largest project is the 418,000-square-foot shopping center in Robinson Township. The development will be southeast of the Pittsburgh International Airport, providing both visitors and locals with additional restaurants and shopping options.

**Properties in eastern neighborhoods dominate deal flow.** Healthy improvements in retail property operations are garnering investors' attention for Pittsburgh's retail assets. Well-located single-tenant properties are highly sought after as listings for shopping centers remain fairly limited. Retail buildings in Westmoreland County and Parkway East Corridor are often targeted by buyers. In particular, assets located near major transportation routes and employment centers, like Children's Hospital of Pittsburgh, receive multiple bids. Average first-year returns in these submarkets range from the low-6 to mid-7 percent span depending on property size and location. Metrowide, retail properties change hands with average cap rates in the mid-6 percent area.

## 2017 Market Forecast

**NRI Rank** 22, down 3 places — Despite reaching historically low vacancy, negligible employment gains dropped Pittsburgh three positions.

**Employment** up 0.6% — Employers will add 7,000 workers this year after employment ticked up marginally in 2016.

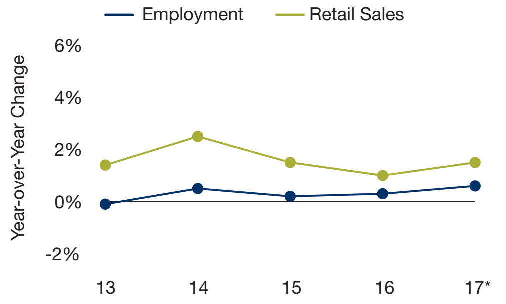
**Construction** 900,000 sq. ft. — Developers are boosting construction from the 574,000 square feet completed last year. Projects include a 40,000-square-foot Whole Foods Market.

**Vacancy** down 40 bps — Net absorption of 1.4 million square feet will push vacancy down to 3.2 percent this year. Last year, vacancy fell 60 basis points on absorption of 1.2 million square feet.

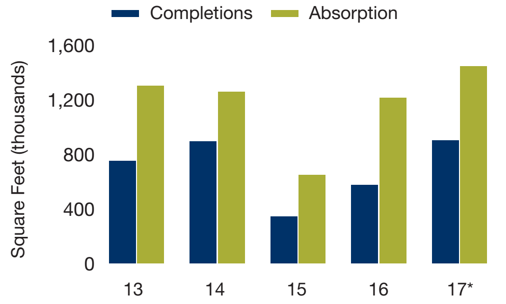
**Rent** up 2.9% — After a 5.0 percent increase was recorded in 2016, growth in asking rent will moderate, reaching $14.06 per square foot.

**Investment** — Investors seeking relatively lower entry costs and average returns in the high-6 to mid-7 percent area will seek retail properties north of central Pittsburgh, primarily in Butler County.

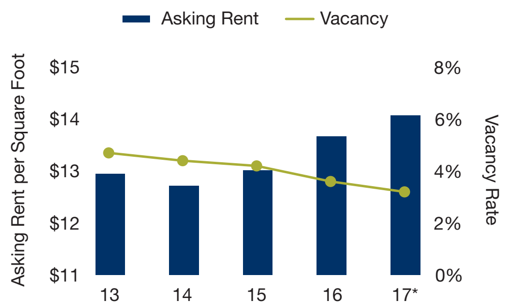
### Employment vs. Retail Sales



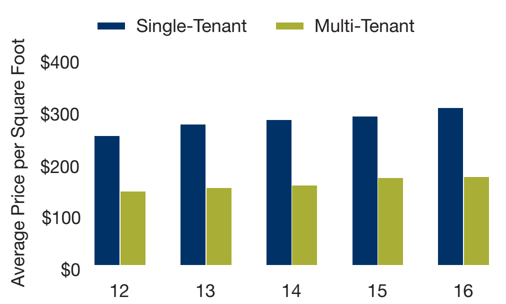

### Retail Completions




### Asking Rent and Vacancy Trends




### Sales Trends



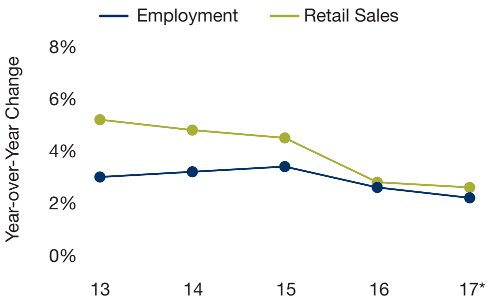

* Forecast
Sources: CoStar Group, Inc.; Real Capital Analytics

# Asking Rents Reach Cycle High; Investor Interest Heats Up in Portland

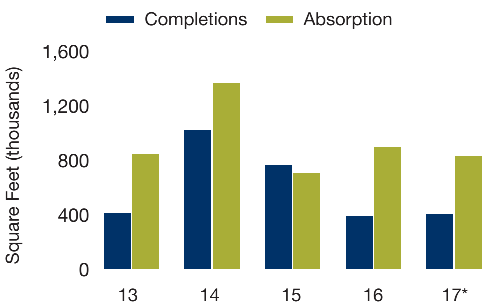
**Vacancy tightens to lowest level in over 10 years.** Rising incomes and steady population and household growth will boost retail sales in Portland this year, driving demand for retail space. Vacancy has fallen for six consecutive years as demand outpaces supply. The downward trend will continue into 2017 as vacancy shrinks below 4 percent, spurring further growth in asking rents. To meet demands of the growing consumer population, retailers are scouring the market for quality available space as vacancy remains tight. Deliveries will align with last year's number of completions and below the previous five-year average, supporting a tighter vacancy environment as tenant demand remains strong. In 2017, development will be primarily located in the metro's suburbs, including the 129,000-square-foot Cedar Hills Crossing in Beaverton. The shopping center will provide additional retail options for the area's growing workforce, including Nike, which is expanding its headquarters within the city.

**Buyers target southeastern properties for value-add potential.** Rising rent and still-tight vacancy are drawing investors to Portland's retail properties. Additionally, first-year returns up to 150 basis points higher than many California markets motivate out-of-state investors to place capital. Assets in the core remain a target, but limited listings have pushed many investors into well-located properties outside of the CBD. In particular, assets on the inner eastside garner significant buyer attention. The area has the largest concentration of retail space metrowide, including value-add opportunities for upside rent potential. Here, single-tenant properties trade with cap rates in the mid-6 to low-7 percent area while multi-tenant assets trade with returns up to 100 basis points greater. Marketwide, first-year yields for retail buildings typically average in the mid-6 percent area.

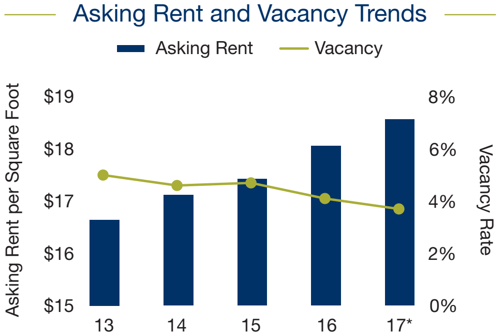
## Employment vs. Retail Sales




## Retail Completions




## Asking Rent and Vacancy Trends




## Sales Trends


* Forecast
Sources: CoStar Group, Inc.; Real Capital Analytics

## 2017 Market Forecast

**NRI Rank** 10, up 8 places — Portland rounds out the top 10 as demand continues to outpace supply additions, keeping vacancy tight.

**Employment** up 2.2% — Portland employers will expand headcounts by 26,000 workers in 2017, following the creation of 29,300 positions the previous year.

**Construction** 400,000 sq. ft. — Developers are on track to increase development slightly from the 385,000 square feet delivered in 2016. More than half of completions will be located in the Southeast and Southwest submarkets.

**Vacancy** down 40 bps — Strong absorption of 831,000 square feet will drop vacancy to a tight 3.7 percent this year. Last year, vacancy fell 60 basis points.

**Rent** up 2.8% — Demand will push up the average asking rent to $18.56 per square foot. Last year, rent rose by 3.6 percent.

**Investment** — Revitalization efforts along the Vancouver waterfront could pull several investors into Clark County. Retail properties here trade with average cap rates in the mid-6 to mid-7 percent area.

# New Grocers Stimulating Competition; Investors Seek Yields in Raleigh Retail Market

**Raleigh's retail market is flourishing, bolstered by employment and population gains.** Job growth well above the U.S. rate is drawing new residents to the region. More than 20,000 new households are expected this year, generating demand for goods and services. As a result, retail sales jumped well above the national level last year and retailers seeking space have dropped the vacancy rate to a 10-year low, driving rents to a six-year high. The improving fundamentals are prompting construction, led by grocery stores, which will account for the largest portion of deliveries this year. Competition among grocers is intensifying, with Wegmans expanding into Raleigh, Chapel Hill and Cary. The retailer is also expected to open a second store in Cary at the new Twin Lakes Center in 2018. Sprouts will debut its first location in the state in early 2017, anchoring the 65,000-square-foot Olive Park center in North Raleigh. Among other grocers planning to add locations in 2017 are Whole Foods, Lidl and Publix. Many of the existing Food Lion, Harris Teeter and Kroger stores have been remodeled in recent years to fend off the new competitors.

**A wide range of investors find opportunities in Raleigh retail assets.** Strong retail fundamentals coupled with favorable employment and demographic trends are attracting both local and out-of-state investors to the limited supply of marketed retail assets. Many buyers are focusing on single-tenant, net-leased properties and the increased competition is resulting in some investors moving farther from the metro core into Cary, Wake Forest or Fuquay-Varina, or considering small multi-tenant assets. New strip centers with fewer than five national tenants are often sought after and generally trade at cap rates in the mid- to high-6 percent range depending on location, as well as the quality and lease term of the tenants. Yields for older centers with local tenants can start 200 basis points higher.

## 2017 Market Forecast

**NRI Rank** 7, new — Raleigh debuts in seventh place of this year's Index with the strongest pace of growth in retail sales in the nation.

**Employment** up 2.9% — Payrolls expand by 26,500 employees during 2017, a gain of 2.9 percent. This follows growth of 2.6 percent last year, led by professional and business services.

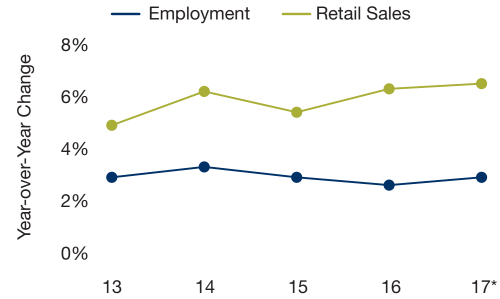
**Construction** 600,000 sq. ft. — Developers will complete 600,000 square feet of retail space in 2017 after delivering nearly 800,000 square feet one year earlier. New grocery stores account for the bulk of this year's space.

**Vacancy** down 70 bps — The vacancy rate compresses 70 basis points to 3.2 percent in 2017, the lowest level since 2007. Last year vacancy also tightened 70 basis points on net absorption of 1.3 million square feet.

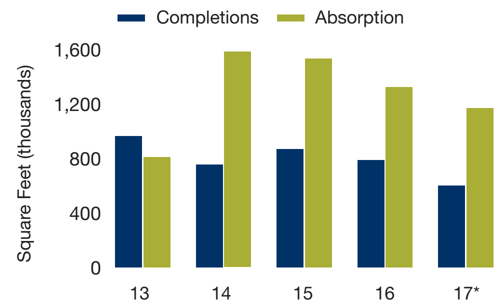
**Rent** up 3.8% — The average asking rent increases 3.8 percent to $16.71 per square foot in 2017, building on last year's 2.8 percent gain.

**Investment** — Cap rates for a well-located grocery-anchored center with a quality tenant will typically begin in the high-5 percent range.

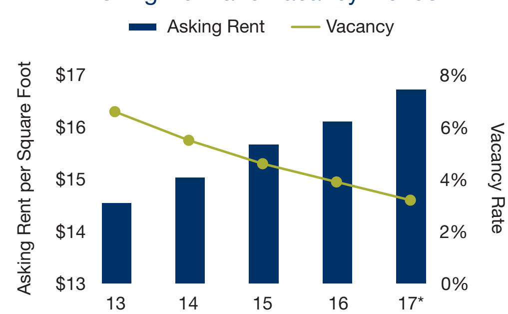
### Employment vs. Retail Sales



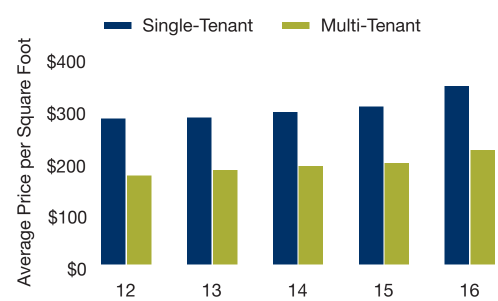

### Retail Completions




### Asking Rent and Vacancy Trends



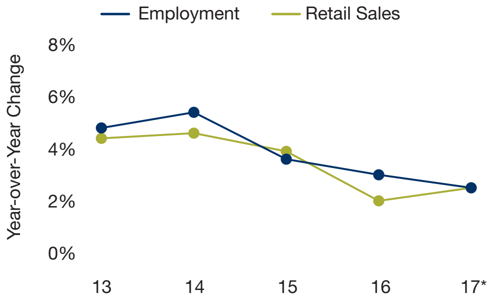

### Sales Trends



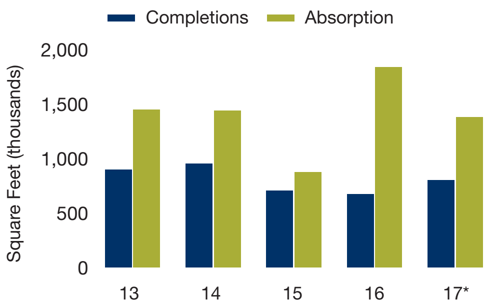

* Forecast

Sources: CoStar Group, Inc.; Real Capital Analytics

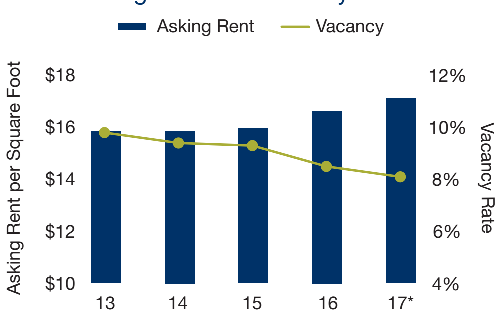
### Employment vs. Retail Sales



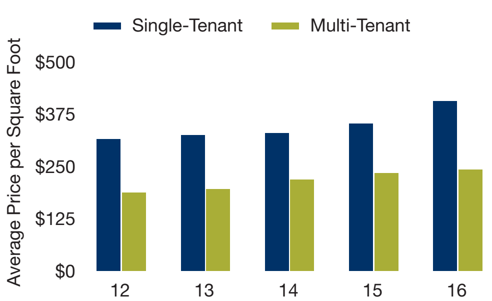

### Retail Completions




### Asking Rent and Vacancy Trends




### Sales Trends




* Forecast
Sources: CoStar Group, Inc.; Real Capital Analytics

# Vacancy Improvements and Rent Gains Intensify Bidding for Inland Empire Retail Assets

**Vacancy falls, builders respond to demand for quality space.** A steady pace of hiring, coupled with lower housing costs compared with other Southern California metros, spurs household formation in Riverside-San Bernardino driving up retail sales. As a result, vacancy has been on a downward trajectory since 2011 as retailers absorb available space. In late 2016, the grocery store Sprouts penned a 35,000-square-foot lease north of the Ontario International Airport. Directly south, DD's Discounts leased up 25,600 square feet. While retailers scour the market for quality space, builders are bumping up construction, which is aligning the number of completions closer to the previous five-year average. The largest project on track for delivery is the 240,000-square-foot addition to Rialto Marketplace, which is anchored by Wal-Mart. Pre-leasing and strong tenant demand will tighten vacancy to a cycle low, despite an increase in construction this year. Additionally, improvements in the vacancy rate will aid a rise in average asking rents.

**Investor interest heats up; buyers move inland.** Expanding population and entry costs that are lower than nearby markets are luring capital into the Inland Empire's retail assets. In particular, single-tenant properties in the market's major employment centers of Riverside, San Bernardino and Ontario will pique buyers' attention. Net-lease assets in these areas typically trade with average first-year returns in the high-5 to low-6 percent span. Additionally, investors may turn to well-located multi-tenant assets with value-add potential where improvements can push up asking rent. However, limited listings of shopping centers in the metro's largest cities will push some buyers to consider properties in outlying areas, including Temecula and Moreno Valley, where cap rates average between the low-6 and low-7 percent span.

## 2017 Market Forecast

**NRI Rank** 34, no change — A steady pace of growth in the market's fundamentals kept Riverside-San Bernardino in the 34th place of this year's NRI.

**Employment** up 2.5% — Inland Empire employers will create 36,000 positions this year, after increasing headcounts by 41,200 workers during 2016.

**Construction** 800,000 sq. ft. — Following the completion of 671,000 square feet last year, developers are on track to deliver 800,000 square feet with the majority of projects located in Riverside.

**Vacancy** down 40 bps — Net absorption of 1.4 million square feet will drop vacancy to 8.1 percent this year. In the prior year, vacancy registered a 80-basis-point decline.

**Rent** up 3.0% — Tenant demand supports an increase in asking rents to $17.10 per square foot. In 2016, rent posted a 4.1 percent advance.

**Investment** — Several transportation projects are underway to ease commutes to the Inland Empire's larger cities. Retail assets near these improvements will pique buyer attention this year.

# Investor Activity Fueled by Initial Yields That Surpass Other California Markets

**Strong leasing activity places rent growth on an upward trajectory.** Robust job creation led by government, university contractor and health service-related hiring will prove favorable to retailers in multiple locales, spurring new households to be formed. Stores and restaurants near the Golden 1 Center should profit from a rise in the number of concerts, games and other events held downtown. Suburban centers close to employment hubs and prime residential areas will benefit from increased local hiring among higher-paying professions. This year's retail construction returns to the average levels registered from 2013 to 2015 after dropping off last year. Sacramento and neighboring Citrus Heights are home to most of this year's completions, roughly half of which are build-to-suit single-tenant buildings. Increased demand for space, namely in the suburbs, will compress vacancy to its lowest point in 10 years. Historically low vacancy will allow rents to advance for a second consecutive year, after experiencing negative growth in seven of the previous eight years.

**Roster of opportunistic buyers expands as market confidence swells.** A growing economy and first-year returns that noticeably exceed the Bay Area will attract more investors to acquire assets in this market, intensifying competition for listings. Buyers will target older and outdated assets for promising upside potential. Value-add buildings near downtown apartment construction and the Kings new arena will be highly coveted, with returns starting in the low- to mid-6 percent range. Investors focused on single-tenant assets will target suburban-located properties with long-term leases to national and regional tenants like Winco, PetSmart, Dollar General and Starbucks. Initial yields for these assets start at 4 to 5 percent and reach mid-7 percent, depending on locale and lease term. Well-located community, neighborhood and strip centers with regional and local tenants should trade in the low-5 to mid-7 percent range.

## 2017 Market Forecast

**NRI Rank** 33, down 2 places — Marginal improvements in asking rent move Sacramento down two spots in Index.

**Employment** up 2.9% — The creation of 28,000 new jobs in 2017 nears the 29,200 positions added last year. Employment growth was broad based in 2016.

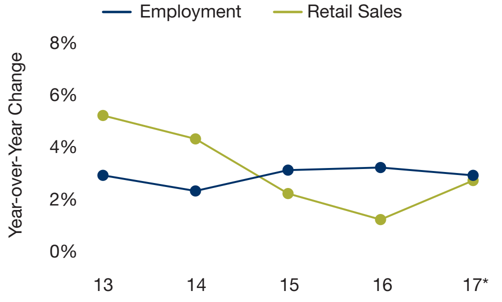
**Construction** 600,000 sq. ft. — During 2017, delivery volume approaches the 10-year average and doubles last year's completions when developers brought less than 300,000 square feet online.

**Vacancy** down 70 bps — Net absorption of 1.1 million square feet outpaces new supply, compressing vacancy to 7.5 percent, the lowest level since 2007. Last year, availability was unchanged as 300,000 square feet was absorbed.

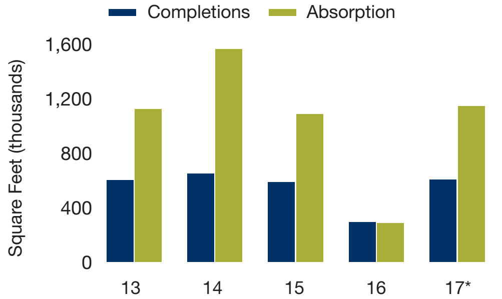
**Rent** up 0.5% — Following last year's 4.7 percent jump, average asking rent will rise to $16.85 per square foot, remaining 32 percent below the rate of 2017.

**Investment** — Listed assets in Roseville, Folsom, Rocklin and Davis, suburban employment hubs that boast higher disposable incomes, garner multiple bids, escalating values.

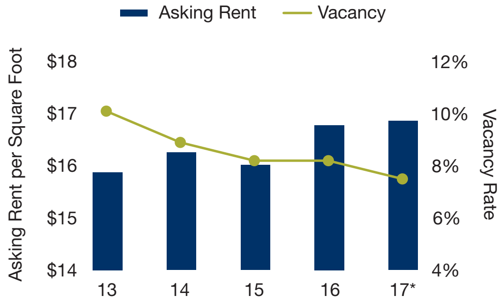
Employment vs. Retail Sales



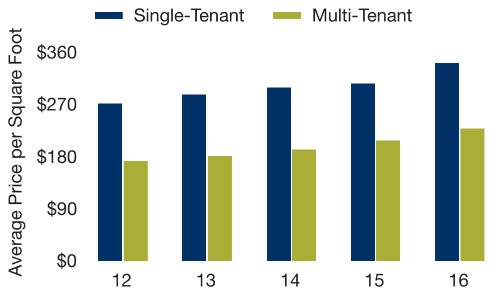

Retail Completions




Asking Rent and Vacancy Trends




Sales Trends




* Forecast
Sources: CoStar Group, Inc.; Real Capital Analytics

# Demographics Fuel Retail Demand, Rent Climb; Investors Focus on Single-Tenant Market

**Flurry of supermarket openings support vacancy compression.** Salt Lake City will record a year of steady vacancy improvement as vigorous population growth and an expanding local economy bolster retail operations. Robust hiring activity from a diverse group of employers will create quality job opportunities, helping attract residents to the metro and retain recent college graduates. Together with rising income levels, these factors will culminate in another year of healthy retail sales growth. A number of supermarket chains have taken the opportunity to aggressively expand in the wake of resounding demand. Smith's Food and Drug is set to open new stores in Saratoga Springs and Springville this year. The Utah-based grocer also finalized a $10 million redevelopment of an existing store in West Jordan at the close of 2016. Other significant supermarket completions slated for this year include new locations from Whole Foods and Lee's Marketplace in Park City and North Salt Lake, respectively. Despite these notable deliveries, the pace of construction will wane this year. Healthy underlying tenant demand amid a development slowdown will place downward pressure on vacancy. Constricting vacancy has sent rents soaring, with 2017 marking the third year in a row of average annual rent growth in excess of 5 percent.

**Positive sentiment and higher yields draw out-of-town buyers.** The Salt Lake City investment market remains well positioned entering 2017, riding a wave of accelerating deal flow and rising prices. These trends will likely continue this year as strong market fundamentals illustrated by aggressive rent gains stoke buyer demand. The single-tenant segment in particular is poised to lead growth as investors remain on the hunt for solid, secure assets that still offer decent yields. Californian buyers aggressively pursue assets along the Wasatch Front, seeking single-tenant cap rates that average between 50 and 150 basis points higher than their home markets.

## 2017 Market Forecast

**NRI Rank** 9, up 3 places — Strong job creation and surging growth in asking rents edged Salt Lake City up three spots to ninth place in this year's NRI.

**Employment** up 3.4% — Following an employment gain of 39,700 positions last year, the workforce will add another 41,000 jobs in 2017.

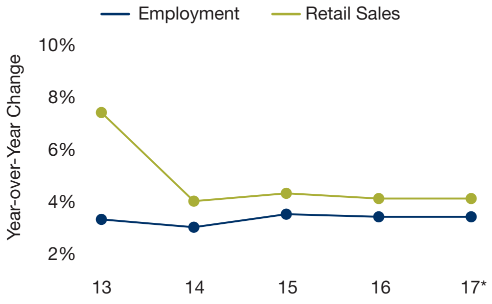
**Construction** 640,000 sq. ft. — The pace of development will slow this year, though the delivery total is expected to stay generally in line with the post-recession average. Builders completed 830,000 square feet in 2016.

**Vacancy** down 20 bps — Following a vacancy increase of 40 basis points last year, the metrowide rate will fall to 4.3 percent in 2017 on the back of 780,000 square feet of net absorption.

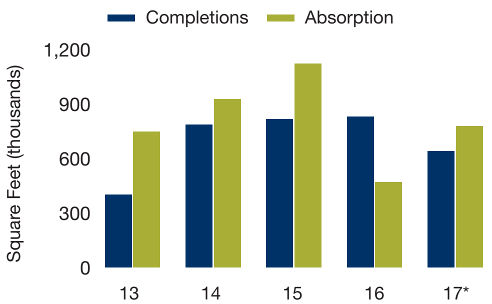
**Rent** up 7.5% — The average asking rent for properties along the Wasatch Front will reach $16.22 per square foot this year, building on a 10.4 percent gain registered in 2016.

**Investment** — Investors target assets near Lehi, where a cluster of IT, software development and hardware manufacturing firms sustain underlying retail demand.

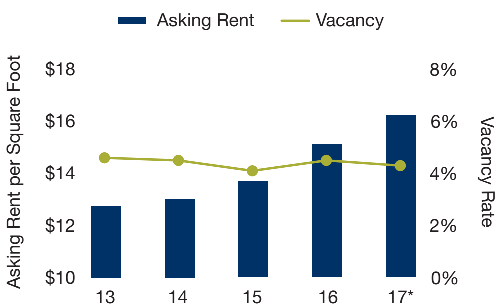
### Employment vs. Retail Sales



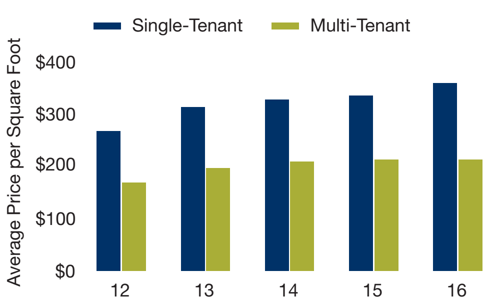

### Retail Completions




### Asking Rent and Vacancy Trends




### Sales Trends




* Forecast
Sources: CoStar Group, Inc.; Real Capital Analytics

# Buyer Competition Rises as Investors Consider San Antonio for Upside Potential

**Retailers target space in existing centers as deliveries ebb in 2017.** Following several years of robust deliveries, builders are scaling back in San Antonio this year and will bring just 200,000 square feet of space online. Developers have focused on the northern portion of the metro in past years, and a large share of this year's deliveries will come online here. Strong residential development and healthy household formation across the northern portion of the market have encouraged retail developers in this area, keeping vacancy slightly elevated in northern submarkets. In other areas of the metro, supply additions have been limited over the past several years. As a result, vacancy has plummeted below 4 percent outside of northern locations, and over half of all submarkets reported vacancy below 3.5 percent at the end of 2016. With development remaining limited to mostly pre-leased and single-tenant space through the remainder of this year, expanding retailers must seek options in existing centers, further reducing overall vacancy and encouraging rent gains.

**Tight vacancy, rising rents attract buyers to San Antonio; investors scour the metro for value-add deals.** Buyers are searching the metro for assets, creating a steady deal flow over the past two years, primarily limited by the number of properties listed for sale. Retail properties offering some form of upside are especially sought after and reduced completions will benefit higher-vacancy properties that can be backfilled at market rents. The recently expanded loop in the northwest and western parts of the market will lure additional investors to retail assets nearby. Strong pre-leasing for these newly built properties coming online will boost space needs in nearby centers. Properties in the northern portion of the metro will remain popular as investors target the area for healthy demographic trends. First-year returns range from 7.0 to 8.5 percent for properties here, depending on location, tenant credit and lease terms.

## 2017 Market Forecast

**NRI Rank** 15, no change — Relatively steep declines in the vacancy rate kept San Antonio in the 15th slot this year.

**Employment** up 1.9% — Headcounts will expand by 19,000 employees this year in San Antonio, following an increase of 21,800 workers during 2016.

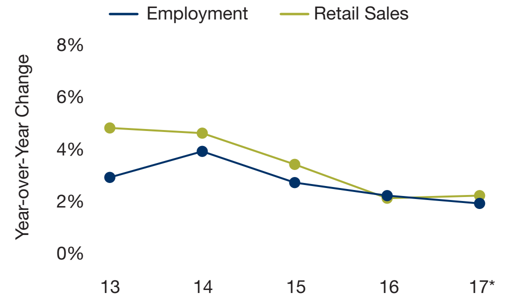
**Construction** 200,000 sq. ft. — Completions dive to a cyclical low from last year, when builders brought 1.4 million square feet of space online.

**Vacancy** down 70 bps — Subdued supply growth and healthy net absorption will generate a 70-basis-point decline in the vacancy rate to 3.8 percent. In the prior year, the vacancy rate fell 60 basis points.

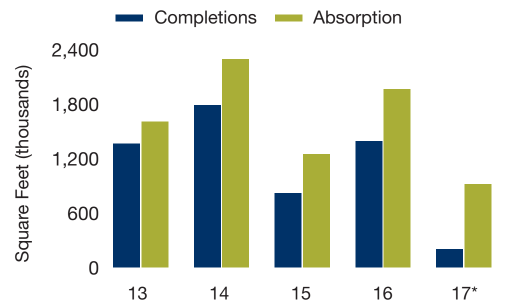
**Rent** up 1.1% — As vacancy tightens below the long-term average, rent will advance to $15.83 per square foot in 2017. The average rent increased 3.2 percent last year.

**Investment** — Investors who purchased properties during the prior peak will be faced with the decision to refinance or sell over the next several months. Those choosing to sell now will find a high degree of buyer interest.

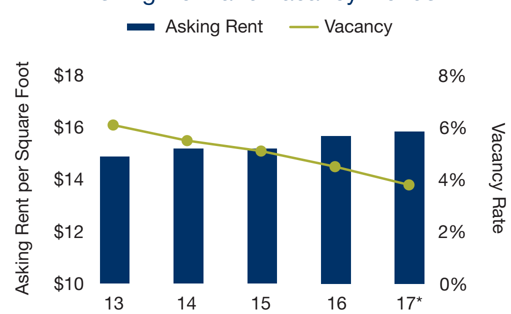
### Employment vs. Retail Sales



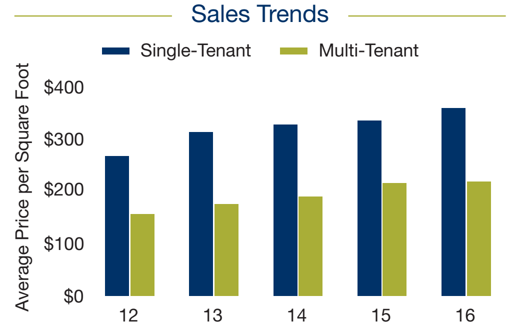

### Retail Completions




### Asking Rent and Vacancy Trends

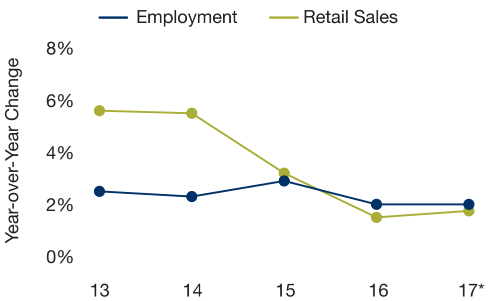



### Sales Trends

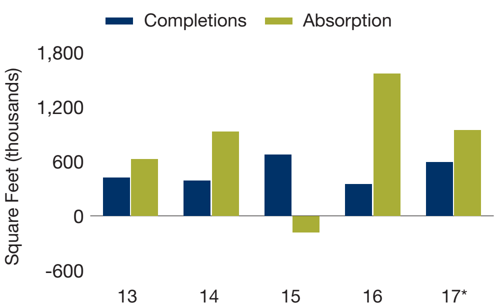



* Forecast
Sources: CoStar Group, Inc.; Real Capital Analytics

Employment vs. Retail Sales




Retail Completions

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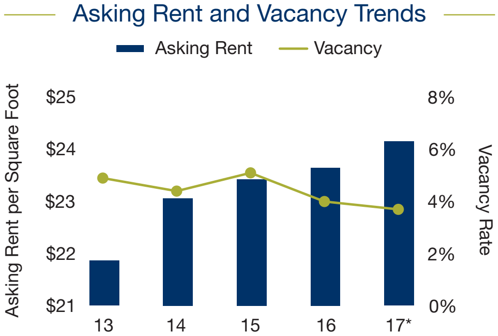
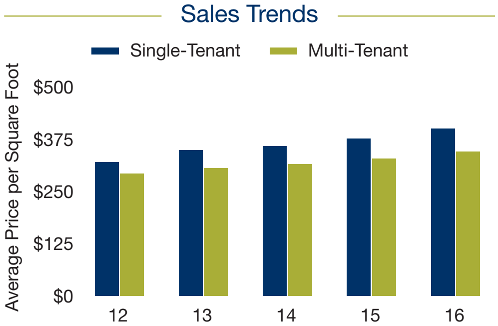



Sales Trends




* Forecast
Sources: CoStar Group, Inc.; Real Capital Analytics

# Buyer Activity Remains Upbeat, Deliveries Limited To Smaller Spaces and Mall Development

**Demand for retail swells as residential growth proliferates.** Spearheaded by IT and biotech hiring, higher-paying professions will increase overall median incomes, encouraging household formation and boosting retail spending. As a result, developers are edging up the pace of construction, which will nearly double the 2016 level. The majority of the projects are smaller single-tenant spaces in the outer suburbs of the metro, with 17 projects under 20,000 square feet. Oceanside and Imperial Beach are popular destinations for these net-leased assets. However, the majority of the new space coming online this year is located at the UTC Mall and nearby Nordstrom, accounting for nearly 400,000 square feet of space. Holistically, demand remains well ahead of supply, which will contribute to another year of positive net absorption. As a result, asking rents will tick up marginally metrowide, while the most sought-after submarkets are likely to accelerate beyond the metro average.

**Investor expectations shifting.** Higher yields and lower entry costs than Los Angeles and Orange County attract new investors to the metro, many of whom are exchange buyers. Fast-food, restaurant and other single-tenant assets with long-term leases are primarily targeted; however, the available supply of these properties remains limited as competitive bidding keeps cap rates compressed in the mid-4 to mid-5 percent range. As competition swells for these assets, some buyers are considering multi-tenant centers featuring two to four national or regional credit tenants. First-year yields for these properties have inched up into the mid-5 to 6 percent range for stabilized buildings in prime locations and are 100 basis points higher for secondary sites. Buyers are starting to adjust revenue projections, however, based on concerns regarding tenants' ability to absorb higher rents that stand 14 percent higher from the 2012 trough. These revenue adjustments will likely widen the gap between buyer and seller price expectations.

## 2017 Market Forecast

| | |
|---|---|
| **NRI Rank** 11, down 2 places | San Diego slipped out of the top 10 amid a slower pace of net absorption. |
| **Employment** up 2.0% | Employers are expected to expand payrolls by 28,500 new workers in 2017, building on the metro's growth of 27,900 positions last year. |
| **Construction** 590,000 sq. ft. | Developers increase retail inventory by 590,000 square feet in 2017, with two deliveries accounting for nearly 70 percent of all completions. Last year, 350,000 square feet came online. |
| **Vacancy** down 30 bps | Tenant demand supports a second straight year of compression, with vacancy dropping to 3.7 percent. The vacancy rate tightened by 110 basis points last year. |
| **Rent** up 2.1% | Driven by single-tenant rent growth, average asking rent elevates to $24.14 per square foot after rising 0.9 percent last year. |
| **Investment** | Assets in non-core locations that can be upgraded through site improvements or a more robust tenant profile offer considerable upside as rents adjust toward the metro average. |

# Deliveries Rising as Long-Awaited Mall Comes To Market; Exceptionally Tight Conditions Persist

**Labor market strength fostering tight retail vacancy.** A broad array of industries, supported by a dynamic venture capital landscape, have fostered tremendous job growth over the current business cycle. As payrolls have swelled, consumers have created a virtuous cycle of retail spending, generating demand for new storefronts. When combined with the lack of available space in the metro, vacancy has tumbled toward its lowest level in nearly 15 years. Due to the lengthy approval process, new supply has come on slowly and sporadically, while typically taking the form of single-tenant net-leased product rather than large, multi-tenant projects. This year, the completion of 6X6, the six-story shopping center at Sixth and Market streets, will account for more than four-fifths of completions as the high-end center is finally delivered after several years of construction. While this will considerably boost supply totals, it will not alter the broad market outlook, keeping vacancy extremely tight. As a result, average asking rents will rise for a seventh straight year.

**Supply shortage strengthens investor appetite for retail property.** Investors remain active buyers of San Francisco retail assets, even as interest rates have begun to tick higher. Boosted by the lack of supply pressure, buyers have scooped up properties with cap rates in the mid- to low-4 percent range. While institutions have been the most active purchasers inside the city of San Francisco, private parties have shifted their focus toward suburban assets near corporate campuses in San Mateo County. Due to the consistent corporate expansion nearby, the heavily trafficked establishments have rapidly appreciated. Incremental opportunities for site improvements or repositioning from industrial properties also exist. Suburban assets will offer first-year yields in the mid- to high-4 percent band, depending on credit and tenant considerations.

## 2017 Market Forecast

**NRI Rank** 2, down 1 place — San Francisco was pushed out of the first spot as another market outperformed.

**Employment** up 1.7% — High-wage positions in technology and professional industries will drive the creation of 18,000 new jobs this year, a marginal increase from 2016 when 16,300 workers were hired.

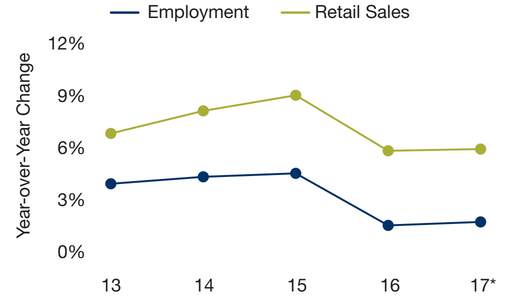
**Construction** 292,000 sq. ft. — Completions are set to quintuple as the long-awaited 6X6 is delivered in downtown San Francisco, marking the largest supply increase since 2009.

**Vacancy** no change — The rise in new space will balance out with demand over the next year, allowing vacancy to remain unchanged even as supply edges higher.

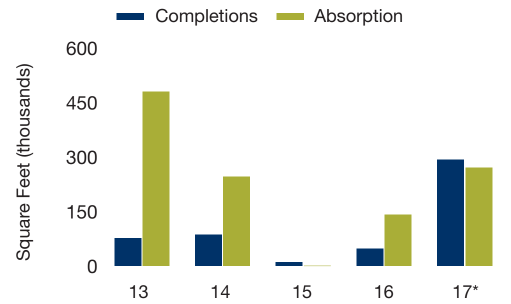
**Rent** up 5.1% — Average asking rents will reach $39.10 per square foot this year, up more than 50 percent since 2009.

**Investment** — Corporate expansions are redirecting additional retail traffic toward previously underutilized centers. Repositioning these assets to provide services for nearby corporate workforces will drive considerable value.

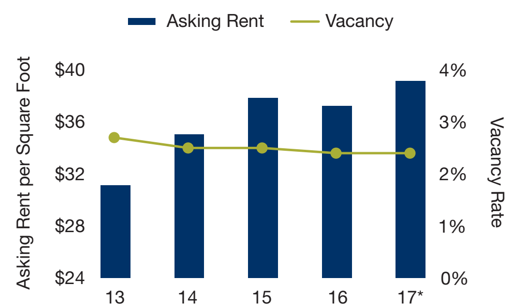
### Employment vs. Retail Sales



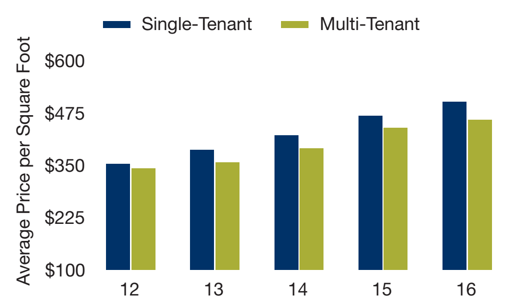

### Retail Completions




### Asking Rent and Vacancy Trends



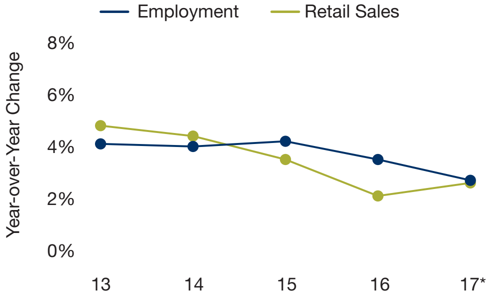

### Sales Trends



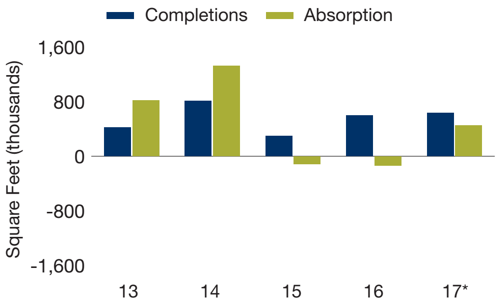

* Forecast
Sources: CoStar Group, Inc.; Real Capital Analytics

# Uncertain Future for Dark Mall Casts a Shadow Upon Favorable Market Trends

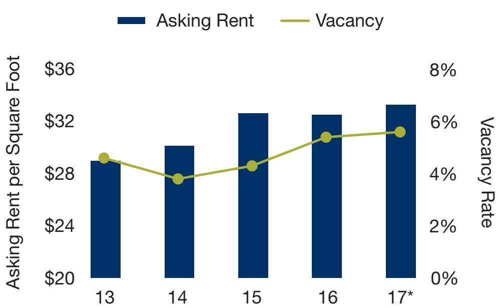
Employment vs. Retail Sales



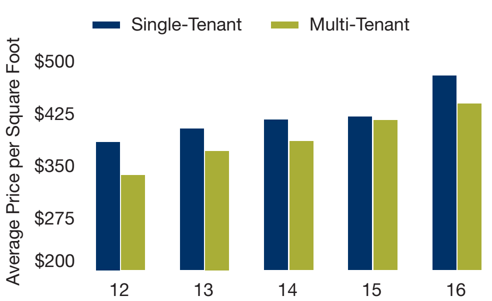

Retail Completions




Asking Rent and Vacancy Trends




Sales Trends




* Forecast
Sources: CoStar Group, Inc.; Real Capital Analytics

**Robust labor market underpins retail momentum; supply rising.** The San Jose retail market, powered by an exceptional list of Fortune 500 companies, is supporting local expansion as retailers flock to coveted floor plates near corporate campuses. While the improvement has been dramatic over the current cycle, the recent struggles at the Vallco Shopping Mall have overshadowed the metro vacancy rate, as the future of the mall remains uncertain. However, retail space outside of the mall remains extremely tight, prompting significant competition among tenants to secure additional space. As a result, planned supply injections for this year are already more than two-thirds pre-leased, and the largest delivery underway is a new Costco in the South San Jose submarket. A modest uptick in vacancy as additional tenant outflows at the Vallco Shopping Mall outpace broader improvement in net absorption will occur this year. However, asking rents will continue to move higher due to tight conditions elsewhere, fostering a low-single-digit rise in rental rates.

**Deal flow remains consistent as investors stay active; competition for properties spurring higher prices.** Buoyed by solid job growth and limited development, investors remain active, casting a wide net to target assets throughout the metro. Premier office corridors such as Los Gatos, Mountain View and Palo Alto are pushing prices per square foot higher for nearby retail properties, while assets in San Jose make up the bulk of trading. With cap rates in the 5 percent range metrowide, buyers are undertaking repositionings and redevelopment in transitioning neighborhoods in order to boost returns. Meanwhile, assets near corporate campuses can reach cap rates in the low-4 percent band, driven by the limited availability of quality assets and a deep buyer pool.

## 2017 Market Forecast

| | |
|---|---|
| **NRI Rank** 13, down 9 places | Rising vacancy and slower rent growth compared with other California markets dropped San Jose nine slots. |
| **Employment** up 2.7% | Job growth remains steady with the creation of 30,000 new positions anticipated this year. Last year, 37,000 positions were added to payrolls. |
| **Construction** 635,000 sq. ft. | Developers will complete 635,000 square feet, a marginal uptick from the 600,000 square feet delivered in 2016. |
| **Vacancy** up 20 bps | Vacancy will rise to 5.6 percent as mall outflows overtake gains elsewhere in the metro. Last year, vacancy rose 110 basis points. |
| **Rent** up 2.4% | Broadly tight conditions in the metro gives way to higher asking rents for available spaces, pushing rent per square foot to $33.25. |
| **Investment** | Opportunistic buyers seeking outsize returns are targeting multi-tenant centers where the tenant profile can be upgraded or renovations can be undertaken. |

# Retail Landscape Changing in Seattle-Tacoma As Older Properties Eyed for Redevelopment

**Robust population and income gains propel retail market.** Job seekers are flocking to Seattle-Tacoma, where 200,000 positions have been created in the last four years, resulting in more than 100,000 new households and driving incomes up 17 percent. The fast expansion in households propels the need for goods and services. Last year, retail sales in the metro increased at three times the national rate and they will remain well above the U.S. level in 2017. The strong demand for retail boosted rents and dropped vacancy to its lowest level in 10 years, spurring developers. Deliveries this year will be dominated by a 400,000-square-foot Ikea in Renton and Olympic Towne Center in Gig Harbor, which Fred Meyer will anchor. Other grocers with expansion plans include New Seasons Market, and Amazon is beta testing the first Amazon Go, a 1,800-square-foot grocery store in downtown Seattle. The company is exploring the potential of adding locations and is working on larger store formats; some may be for pickup only.

**Investment activity is flourishing as the strong retail market performance lures buyers**. Private local investors are especially active, focusing on single-tenant, net-leased assets that generally begin in the 4 percent range depending on quality of tenant and lease term. Heightened competition and compressing yields for these properties are moving more buyers to consider small strip centers that typically begin 100 basis points higher. Assets with national credit tenants or a drive-thru are especially sought after. Developers are also active throughout the region, targeting older retail assets for land assemblage. Properties on large lots with ample parking along major thoroughfares are highly desired. Some of these projects will become mixed-use buildings with ground-level retail. Grocery-anchored centers with a QFC or Safeway are especially desired by institutions at cap rates in the 5 percent range.

## 2017 Market Forecast

**NRI Rank** 1, up 2 places — The strong local economy together with asset performance gains lifted Seattle-Tacoma into the top slot of the NRI.

**Employment** up 3.4% — Widespread growth among most employment sectors will boost headcounts by 68,000 workers in 2017. This follows the creation of 67,100 positions last year, led by growth in retail hiring.

**Construction** 600,000 sq. ft. — Developers will complete 600,000 square feet during 2017, building on last year's increase of 350,000 square feet. An Ikea in Renton will account for the bulk of this year's new inventory.

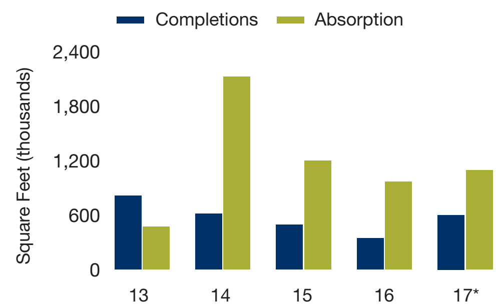
**Vacancy** down 40 bps — Vacancy will decline to 3.6 percent in 2017, setting a 10-year low. Last year, the vacancy rate recorded a 40-basis-point drop on net absorption of 1 million square feet.

**Rent** up 4.5% — Asking rents will climb an average of 4.5 percent to $20.42 per square foot in 2017. Last year, a 4.9 percent rise was registered.

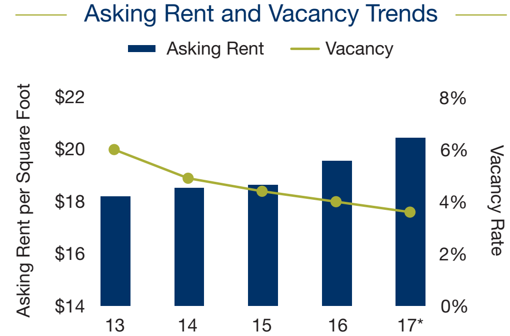
**Investment** — The recently passed Sound Transit 3 measure extends the transit system and will likely instigate development near train stations, generating demand for retail nearby.

### Employment vs. Retail Sales

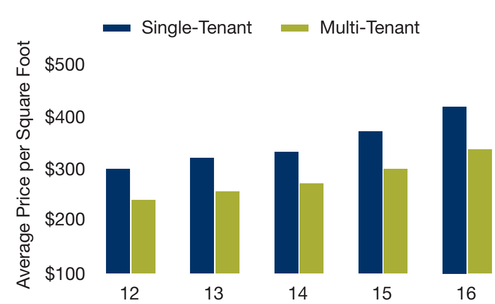

### Retail Completions




### Asking Rent and Vacancy Trends



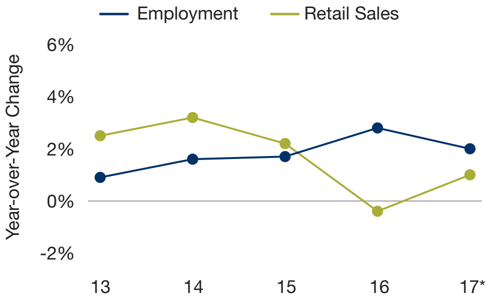

### Sales Trends



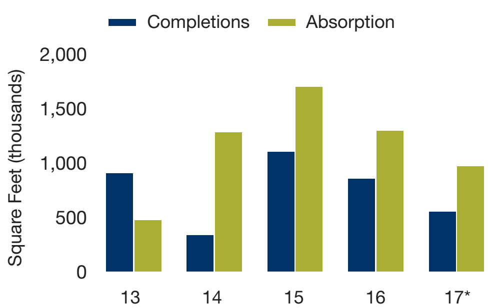

* Forecast
Sources: CoStar Group, Inc.; Real Capital Analytics

## Employment Growth, Household Formation Underpin St. Louis' Retail Improvement

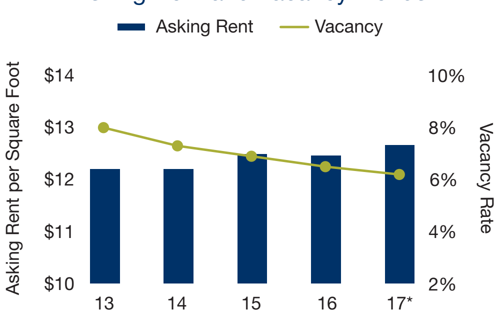
Employment vs. Retail Sales



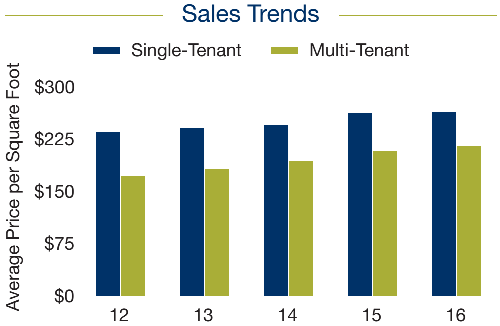

Retail Completions




Asking Rent and Vacancy Trends




Sales Trends




* Forecast
Sources: CoStar Group, Inc.; Real Capital Analytics

**Lull in construction diverts demand to existing space.** Robust job creation, driven by the metro's healthcare industry and growing tech sector, are generating considerable retail demand. Healthcare firm Centene and pharmaceutical giant Pfizer will both move into new facilities this year, while research and tech-related hiring will receive a boost from tenant expansions in the Cortex Innovation Community. Meanwhile, the delivery of 2,500 apartments will also drive demand for basic necessities and services nearby, particularly within the city limits of St. Louis and Clayton. However, retail construction is slowing, with a below-average volume of inventory slated for completion this year. A 270,000-square-foot anchored center in Saint Peters will account for half the annual delivery volume. As a result of limited development and strong pre-leasing, vacancy will drift lower throughout the year as asking rents ascend once more.

**Investors flock to areas of redevelopment and growth.** Strong job creation and initial yields on par with or higher than other Midwestern metros are attracting more out-of-state investors to the Gateway City. An expanding buyer pool will increase competition for assets. Value-add opportunities remain in the form of older shopping centers in Midtown and along the Loop Trolley route. Each area is undergoing a revitalization. Multi-tenant assets in these locales will trade at initial yields in the 8 percent range. Single-tenant properties in the city and suburbs will drive investor demand for net-leased assets. Properties with a corporate tenant inked to a long-term lease are especially sought and cap rates for these assets start in the 6 percent area. Bordering the core, Clayton should gain in appeal, as a pipeline of office, residential and mixed-use development has brought additional workers and residents, increasing demand for retailers and available space in the metro's priciest submarket.

## 2017 Market Forecast

| | |
|---|---|
| **NRI Rank** 46, down 1 place | Vacancy above the national average and low rent dropped St. Louis one rung to the bottom of the Index. |
| **Employment** up 2.0% | Local organizations will create 28,000 jobs, led by high-wage positions in healthcare. Last year, 38,300 workers were hired. |
| **Construction** 550,000 sq. ft. | Following last year's completion of 850,000 square feet, construction will wane. Developers are most active outside of the city's core. |
| **Vacancy** down 30 bps | Net absorption of 963,000 square feet outpaces new supply and trims vacancy to 6.2 percent. Last year, the vacancy rate declined 40 basis points on net absorption of nearly 1.3 million square feet. |
| **Rent** up 1.6% | The average asking rent in the metro rises to $12.65 per square foot this year. In 2016, the average rent was virtually unchanged. |
| **Investment** | Buyer competition for listings in St. Louis' downtown, Central West and Forest Park neighborhoods heats up as a wave of rental deliveries increase retailer demand for spaces to serve a growing population. |

# Economic Growth and Competitive Yields Lure Buyers to Tampa-St. Petersburg

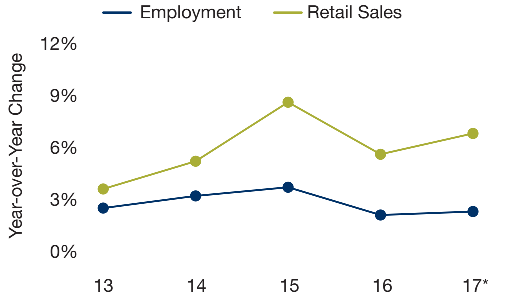
**Retailers compete for space as deliveries fall to cyclical low.** Healthy job growth has tightened the labor market, pushing up wages, creating a strong demand for housing and bolstering the Tampa-St. Petersburg economy. Household income growth has outpaced the national rate over the past three years, providing a boost to retail sales. These factors have encouraged retailers to expand in the metro, with net absorption outpacing new supply by 3.8 million square feet over the past five years. Despite this trend, retail developers will scale back completions again this year, and construction remains limited to mostly build-to-suit and single-tenant formats. As a result, retailers seeking space in multi-tenant centers will compete for space in existing buildings. High-growth areas such as Ruskin and Wesley Chapel, as well as redevelopment in the downtown cores, will attract a number of retailers. Vacancy remains below the national rate this year, spurring a healthy rent advance that improves NOIs.

**Thriving economy lures wide range of investors to Tampa, increases buyer competition for retail assets.** An influx of investors to the market are pushing demand for assets beyond the available listings and pressuring values. Strip-center assets are highly desirable, with first-year returns for these properties compressing 30 basis points over the past year to the low- to mid-7 percent range. However, they remain 50 to 100 basis points higher than other coastal markets in southern Florida. Newer strip-center properties shadowing big-box or grocery-anchored centers or in tourist areas command premium yields near 6 percent. Local investors are searching the region for upside potential, and properties around larger redeveloping centers such as Seminole City Center and smaller strip center redevelopments in south Tampa could provide buyers with additional opportunities. These buildings can trade at first-year returns in the 7 percent to 8 percent range.

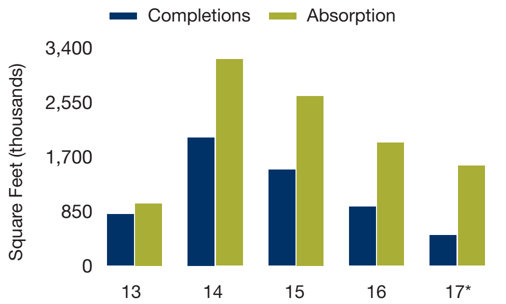
## 2017 Market Forecast

| | |
|---|---|
| **NRI Rank** 20, up 1 place | Rising demand for retail space in Tampa-St. Petersburg moved the market up one slot in 2017. |
| **Employment** up 2.3% | Tampa-St. Petersburg employment will expand by 30,000 workers this year, following the addition of 27,100 positions during 2016. |
| **Construction** 475,000 sq. ft. | In 2017, retail deliveries will decline to half of last year's levels, when builders brought nearly 920,000 square feet of space online. |
| **Vacancy** down 60 bps | The absorption of approximately 1.6 million square feet of retail space will push down vacancy to 4.6 percent this year. In 2016, vacancy declined 70 basis points. |
| **Rent** up 3.6% | Tight conditions encourage an advance in the average asking rent during 2017, reaching $15.15 per square foot. This follows a 5.3 percent rise in the previous year. |
| **Investment** | Northeast and Northwest Tampa will remain attractive locations for investors as household formation in the area is strong. Buyer interest is also rising for properties located in Manatee and Pinellas counties at initial yields ranging from the high-7 percent to mid-8 percent area. |

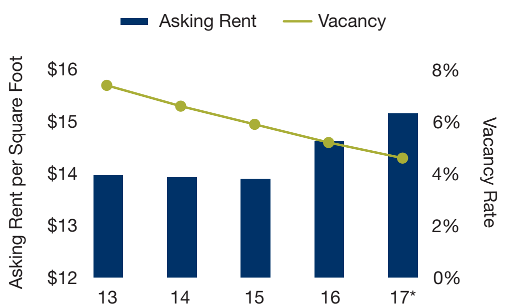
Employment vs. Retail Sales



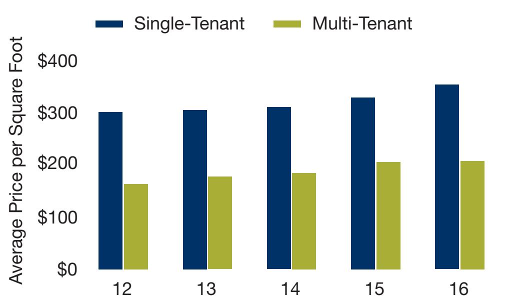

Retail Completions




Asking Rent and Vacancy Trends




Sales Trends



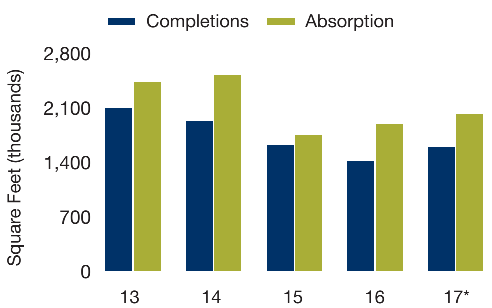

* Forecast

Sources: CoStar Group, Inc.; Real Capital Analytics

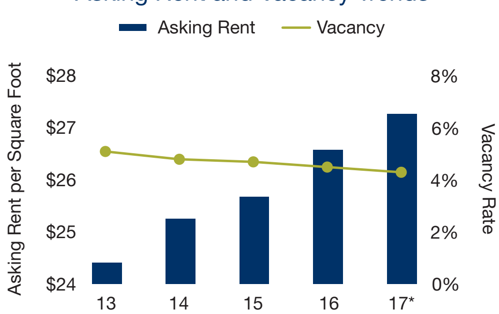
# Mixed-Use Developments Power District Retail Expansion; Tightening Conditions Remain in Place

### Employment vs. Retail Sales

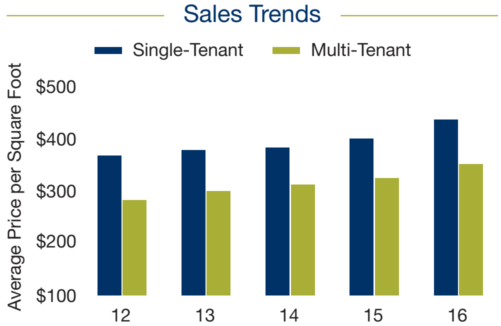

### Retail Completions




### Asking Rent and Vacancy Trends




### Sales Trends




* Forecast
Sources: CoStar Group, Inc.; Real Capital Analytics

**Ambitious mixed-use concepts changing retail scene in the District.** A considerable number of high-wage industries, including defense contractors, law firms and lobbyists, are attracting more households to the metro, increasing retail demand for both necessity and boutique shopping. While demand has consistently outpaced supply growth over the current cycle, a relatively elevated pace of construction has muted the impact of rising net absorption, triggering only small drops in vacancy. With the consistent improvement, developers are pursuing more elaborate and ambitious mixed-use projects, exemplified in the delivery of Art Place at Fort Totten and The Town Center at Aquia. The broad array of these properties' shops and community spaces for events provide considerable upswings in traffic, elevating nearby asset values and further encouraging development. These positive dynamics remain for 2017, while the scale and scope of deliveries is rising. Pre-leasing of new deliveries over the coming year will limit downside risks, accounting for more than two-thirds of incoming supply. As a result, vacancy will trend lower, while marketed rents for space increase.

**Wide-ranging optionality presents multiple options for buyers; yield-driven trades most prominent.** A strong retail revenue stream is motivating buyers to deploy capital, although asset quality and lease-term structure have become more important in recent months. Properties inside the Beltway will receive considerable investor interest, particularly well-tenanted centers with credit tenants. Meanwhile, more buyers have begun to move greater amounts of capital outside the Beltway as tighter cap rates metrowide prompt a closer examination of assets in noncore locations. While first-year returns will generally begin in the mid- to high-4 percent range inside the Beltway, noncore areas can extend yields into the low-6 percent band, depending on type of tenancy. Centers with options for improvement will generate considerable buyer interest.

## 2017 Market Forecast

**NRI Rank** 23, up 1 place — Strong net absorption lifted Washington, D.C., one place in the 2017 Index.

**Employment** up 1.7% — Organizations will hire 55,000 workers this year, extending broad-based payrolls gains in education, healthcare, and professional and business services industries.

**Construction** 1.6 million sq. ft. — Completions will rise moderately this year, with scheduled deliveries of nearly 1.6 million square feet of space. Last year, 1.4 million square feet was brought to market.

**Vacancy** down 20 bps — Vacancy is set to drop 20 basis points to 4.3 percent this year as higher pre-leasing activity prompts more robust net absorption. In 2016, vacancy dipped 20 basis points.

**Rent** up 2.6% — As tenants compete for available space, dwindling vacancy will elevate the average asking rent to $27.26 per square foot over the coming year.

**Investment** — Suburban grocery-anchored centers remain in high demand metrowide. Properties with value-add potential near transportation routes will also garner significant buyer interest.

# Confidence in Palm Beach County Retail On the Rise as Construction Remains Limited

**Limited development boosting countywide operations.** Tenant demand surged last year in Palm Beach County, bringing vacancy to its lowest point since 2007 and stoking the need for more retail development. Retailers continue to capitalize on the strongest population growth and the highest median household income in South Florida, supporting steady retail sales growth this year in the county. As demand increases, deliveries will hit their lowest mark since 2010, with the largest project being a 51,000-square-foot Restoration Hardware in West Palm Beach. Additionally, a substantial portion of space opening this year is build-to-suit or pre-leased, further constricting availability of quality space for expanding retailers. As a result, vacancy will dive below the 4 percent mark this year, supporting another year of upper-single-digit rent gains. To meet future demand, notable projects in the works include Transit Village, a 1.1 million-square-foot mixed-use property that recently won approval, along with the Park at Broken Sound, where plans are underway to add 550,000 square feet of retail to Boca Raton in the upcoming years.

**Investors search for greater upside drive deal flow.** Momentum remained elevated last year for Palm Beach County's retail assets, driven by strengthening property performance and investors' desire to enter a less competitive market with favorable deals. Regional investors have been increasingly active in search of entering cap rates in the mid-6 to low-7 percent band depending on quality and location. Retail properties in the market offer promising upside potential for investors familiar with the nuances of the West Palm Beach metro's distinct demand drivers. Several neighborhoods provide an opportunity for an enterprising investor to revitalize free-standing or mixed-use properties in several of the popular beach areas that appeal to high-income tourists. Often these are purchased for their appreciation value as opposed to first-year yield.

## 2017 Market Forecast

**NRI Rank** 18, up 9 places — West Palm Beach vaulted nine spots amid tightening vacancy and surging rent growth.

**Employment** up 2.5% — This year, the local workforce is forecast to grow by 15,200 positions, a greater rate of growth than last year's 7,600 job additions.

**Construction** 210,000 sq. ft. — Deliveries this year fall below the five-year average as 210,000 square feet are set to come online, down from last year's 270,000-square-foot supply injection.

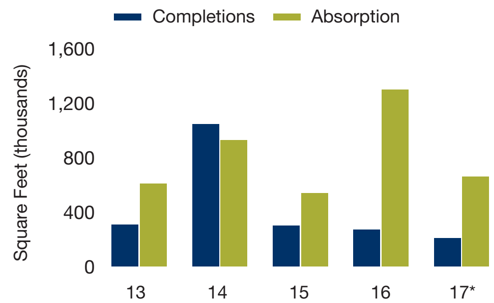
**Vacancy** down 70 bps — Following a 160-basis-point drop last year, the vacancy rate maintains a downward trajectory to close 2017 at 3.8 percent, the tightest rate in a decade.

**Rent** up 7.1% — The average asking rent will escalate significantly to $22.24 per square foot this year, marking the sixth year of increase. Last year, a 4.8 percent rise was recorded.

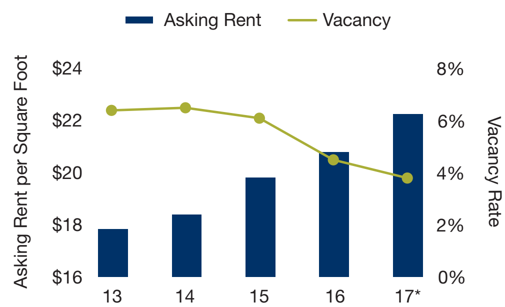
**Investment** — New housing communities coming to the western side of the county will drive the need for nearby retailers. Investors and developers can find solid opportunities for early entry surrounding the area's population surge.

### Employment vs. Retail Sales

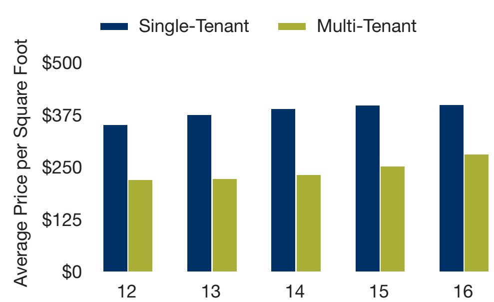

### Retail Completions




### Asking Rent and Vacancy Trends




### Sales Trends




* Forecast
Sources: CoStar Group, Inc.; Real Capital Analytics

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National Retail Index Note: Employment and retail data forecasts for 2017 are based on the most up-to-date information available as of January 2017 and are subject to change.

Statistical Summary Note: All rental rates are calculated using triple net (NNN) rental rates. Average prices and cap rates are a function of the age, class and geographic area of the properties trading and therefore may not be representative of the market as a whole. Forecasts for employment, retail sales and retail property data are made during the first quarter and represent estimates of future performance. No representation, warranty or guarantee, express or implied may be made as to the accuracy or reliability of the information contained herein. This is not intended to be a forecast of future events and this is not a guaranty regarding a future event. This is not intended to provide specific investment advice and should not be considered as investment advice.

Sources: Marcus & Millichap Research Services; American Council of Life Insurers; Blue Chip Economic Indicators; Bureau of Economic Analysis; CoStar Group, Inc.; Experian; Federal Reserve; Moody's Analytics; National Association of Realtors; Real Capital Analytics; Standard & Poor's; The Conference Board; Trepp; TWR/Dodge Pipeline; U.S. Bureau of Labor Statistics; U.S. Census Bureau; U.S. Securities and Exchange Commission; U.S. Treasury Department.

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# 2016

## U.S. RETAIL INVESTMENT FORECAST

NYSE: MMI

# To Our Valued Clients:

The rugged durability of the U.S. economy once again surmounted numerous headwinds that challenged its growth. The harsh winter in the first quarter of 2015 slowed hiring, and weakening international economies, together with China's currency devaluation, sent shock waves through Wall Street. Some of the headwinds, however, worked to the advantage of the retail sector. Dramatically lower oil prices boosted households' discretionary income while the stronger dollar increased American purchasing power, and both placed downward pressure on inflation. These factors, along with steady job growth and modest wage gains, supported a tempered pace of growth in retail spending.

A limited supply pipeline and consistent economic momentum have bolstered retail assets. Vacancy rates have tightened consistently to recapture pre-recession levels while rents have risen modestly in each of the last three years. Though new hurdles undoubtedly await investors in 2016, strengthening consumer balance sheets and escalating retailer profits appear to favor a continuation of moderate performance gains.

The emergence of millennials as a dominant consumer segment with purchasing power approaching that of the vaunted baby boom generation will continue to reshape the retail landscape. Frequent visits to restaurants are becoming commonplace, supporting the spread of casual dining, while online shopping and purchases on mobile devices are forcing retailers to integrate omnichannel retail strategies. These trends will dramatically transform the retail landscape in coming years, but retailers have repeatedly demonstrated innovative thinking and an ability to adapt to changing behavior.

Investor demand for retail assets, spurred by a positive economic climate, favorable performance trends, limited supply additions and exceptional capital liquidity, has escalated to a new peak. Transaction activity last year surpassed prior records in both the single-tenant and multi-tenant segments, igniting price gains and further tightening cap rates. This trend will likely continue in 2016 as the broader outlook points to a year of steady, though moderate, advancement in property performance.

The new opportunities brought by the coming year will be reinforced by the extension of positive dynamics beyond core markets, offering investors more options. We hope this report provides useful insights on a variety of trends, markets and investment strategies. Our investment professionals look forward to helping you meet your goals.

Sincerely,

**Bill Rose**
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**John Chang**
First Vice President | Research Services

## National Perspective



## Market Overviews



## Client Services



Developed by Hessam Nadji, Senior Vice President, and John Chang, First Vice President, Research Services. The Capital Markets section was co-authored by William E. Hughes, Senior Vice President, Marcus & Millichap Capital Corporation. Additional contributions were made by Marcus & Millichap market analysts and investment brokerage professionals nationwide.

## National Retail Index (NRI)

- Tech markets San Francisco, Austin, Seattle-Tacoma and San Jose continue to dominate the upper rungs of the 2016 National Retail Index. Limited new supply and rising sales lifted Los Angeles five spots to complete the top five markets, while supply growth hastened a decline of four spots for New York City. The top ten also includes other tight California markets Orange County and San Diego and East Coast newcomers Miami-Dade and Boston.
- Technology growth in other markets also moved up Nashville, Oakland, Portland and Salt Lake City in the top 20. Two Texas markets, San Antonio and Dallas/Fort Worth, slipped in the NRI from one year ago but remain in the upper tier. While a decreasing rate of job creation demoted Pittsburgh, Orlando advanced three positions to capture the final spot in the top 20.
- Southwestern Las Vegas interrupts a run of Midwest markets in the bottom five of the NRI after the metro was pushed down one slot due to high vacancy. Cleveland, Kansas City and St. Louis follow. Relatively soft demand growth and a subdued rise in rents pushed Milwaukee down to the bottom spot in this year's NRI.

## National Economy

- Following the addition of 2.7 million jobs in 2015, employers will maintain the steady pace of growth by creating another 2.5 million positions this year. Job creation will be broad-based, with only natural resources and mining and some segments of manufacturing likely to lag the overall trend. Secondary and tertiary metros were late to join the economic recovery but will record solid hiring gains in 2016.
- The combination of moderate economic expansion offset by a variety of setbacks reiterated the uneven growth pattern experienced over the last six years. This trend will likely carry into 2016 as international headwinds continue to hamper expansion.
- Led by the highly digital millennials, online and mobile shopping has emerged as the leader in retail sales growth. Electronic shopping rose 10.2 percent in 2015, easily outpacing the 3.3 percent bump in core retail sales.

## National Retail Overview

- Space demand will once again exceed additions to supply this year, supporting a 30-basis-point decline in vacancy to 5.9 percent, the lowest year-end level in 16 years. Tighter vacancy will underpin rent gains of 2.8 percent, the largest rent appreciation since 2007.
- This year, developers will complete 46 million square feet, representing a modest decline from last year's total, but the pipeline of planned projects is increasing.
- Although online sales continue to make inroads, traditional inline retailers and anchors posted respectable growth in sales last year and are well-positioned for 2016.

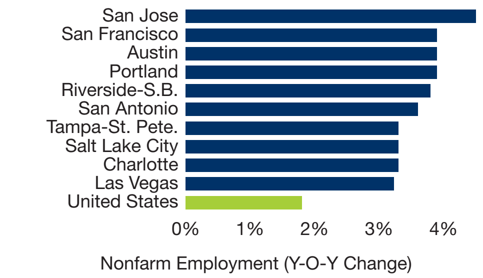
## Capital Markets

- The Federal Reserve's rate hike in the fourth quarter last year was anticipated for some time and offers the most unequivocal expression to date of the central bank's confidence in the U.S. economy. The central bank has stated its intent to raise its short-term rate to 1 percent in 2016, but the risk of contagion from soft overseas economies and U.S. economic trends may require a reconsideration of current plans.
- The 10-year U.S. Treasury held well below the long-term average throughout last year. The long-term bond will reside near those levels again in 2016 as slowing economic growth globally sustains demand for U.S. government debt. China remains a potential variable, however, as additional cutbacks in purchases of the 10-year Treasury resulting from the country's softening economy could pressure long-term interest rates and property-financing benchmarks.
- Changes are coming to the CMBS market in December 2016. A rule will be imposed requiring the issuer of a CMBS deal to either keep a slice equal to 5 percent of the market value for five years or designate a subordinate bond buyer to assume that risk.

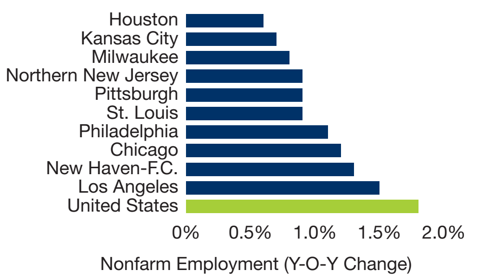
## Retail Investment Outlook

- While disparities between cap rates in primary, secondary and tertiary markets persist, they may be too narrow to support a widespread capital migration from one type of market to another to capture appreciably higher yields.
- Retail investors will continue to take in the changing retail landscape, wherein many retailers continue to pursue multi-channel strategies combining actual stores and an online presence.

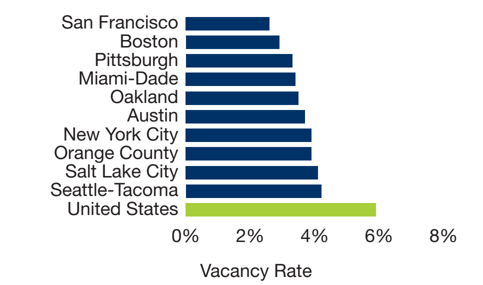
### Markets with the Highest Expected 2016 Employment Growth



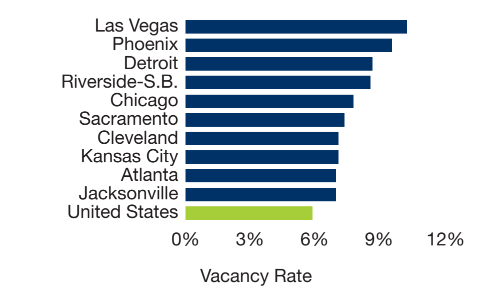

### Markets with the Lowest Expected 2016 Employment Growth



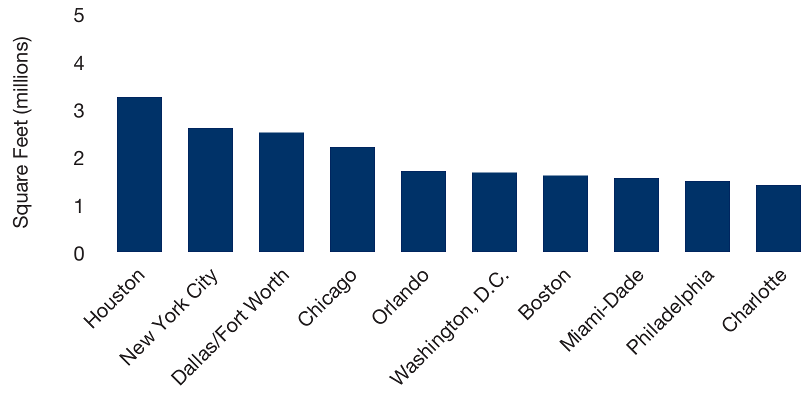

### Markets with the Lowest Expected 2016 Vacancy Rates




### Markets with the Highest Expected 2016 Vacancy Rates




### Markets with the Highest Expected 2016 Completions



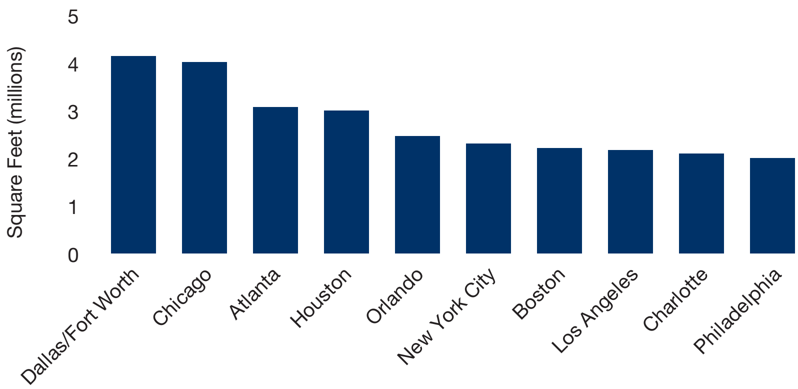

## Tech Markets Assert Dominance, Command Rankings

Robust job growth is driving meaningful increases in income and spending in metros with heavy concentrations of tech-sector workers and supporting vibrant retail-property operations. Accordingly, tech markets dominate the upper rungs of the 2016 National Retail Index. San Francisco reprises its role of one year ago as the top market in this year's Index, followed by Austin (#2), Seattle-Tacoma (#3) and San Jose (#4). Los Angeles climbs five spots to complete the top five markets, while supply growth hastened a decline of four spots for New York City (#6). Another of the tight California markets, Orange County (#7), reclaims a spot in the upper echelon, while Miami-Dade (#8) is the top-placed Florida market and the highest-rated of two markets new to the top 10. Following San Diego (#9), low vacancy, high incomes and significant spending growth vaulted Boston (#10) four places from last year's ranking. Meanwhile, a projected rise in completions deprived Denver (#14) of retaining last year's place in the top 10, while an imbalance of supply to demand downgraded Houston (#17), which declined 11 places.

## Eclectic Mix of Markets Fill Middle Third of Index; Florida, Western Metros Well-Represented

Elevated job growth and declining vacancy supported an eight-place rise in the NRI for Nashville (#11), a market that continues to gain wider acceptance with investors. Salt Lake City (up six spots to #12) is also a beneficiary of the tech sector's fortunes, while Oakland (#13) moved up due to the vibrancy of the Bay Area economy. Two Texas markets, San Antonio (#15) and Dallas/Fort Worth (#16), slipped in the NRI from one year ago, but Portland (#18) posted the largest jump in this year's Index, scaling nine rungs. A projected increase in retail sales, lower vacancy and higher rents highlight the market's rosy prospects for 2016. A decreasing rate of job creation demoted Pittsburgh (#19), but Orlando (#20) advanced three positions to capture the final spot in the top 20. Meanwhile, Tampa-St. Petersburg (#21) and Chicago (#22) retained their rankings from last year. The remainder of markets in the first 30, spanning Atlanta (#23) to Columbus (#30), cover different regions and most recorded modest shifts in their standings from last year. Baltimore (#25) tumbled 10 spots from 2015, however, as lackluster net absorption will restrain rent growth. Phoenix (#26) also retreated in this year's ranking based on substantial completions and high vacancy.

### Markets with the Highest Expected 2016 Net Absorption




## Midwest Retains Hold on Lower Third of Index, A Segment Marked by More-Modest Growth

Lower rates of economic growth and generally modest improvements in property operations combined to populate Midwest markets in the lower third of this year's Index. Sacramento (#31), however, kicks off the group, rising two places, and high incomes and a nominal expansion of supply sparked the six-spot climb of Northern New Jersey (#32). Both markets checked in ahead of Minneapolis-St. Paul (#33), where flat incomes and nominal rent growth precipitated a fall of eight places. Jacksonville (#35) moved down one notch based on moderating job growth, while Philadelphia (#36) and New Haven-Fairfield County (#38) lost four and two places, respectively, due to moderate job creation and elevated completions. Only Las Vegas (#41) interrupts a run of Midwest markets at the bottom of the NRI that starts with Indianapolis (#39), where a sizable projected climb in retail sales underpinned a two-place climb. Cleveland (#43) also advances two places and is preceded by Kansas City. St. Louis (#45) retreated one place, but relatively soft demand growth and a subdued rise in rents pushed down Milwaukee (#46) to complete this year's NRI.

## Index Methodology

The National Retail Index ranks 46 major retail markets on a series of 12-month, forward-looking economic and supply-and-demand variables. Markets are ranked based on their cumulative weighted-average scores for various indicators, including forecast employment growth, vacancy, construction and rents. Weighing both the forecasts and incremental change over the next year, the Index is designed to indicate relative supply-and-demand conditions at the market level.

Users of the NRI are advised to keep several important points in mind. First, the Index is not designed to predict the performance of individual investments. A carefully chosen property in a bottom-ranked market could easily outperform a poor choice in a top-ranked market. Second, the NRI is a snapshot of a one-year time-frame. A market facing difficulties in the near term may provide excellent long-term prospects, and vice versa. Third, a market's ranking may fall from one year to the next even if its fundamentals are improving. The NRI is also an ordinal index, and differences in ranking should be carefully interpreted. A top-ranked market is not necessarily twice as good as the second-ranked market, nor is it 10 times better than the 10th-ranked market.

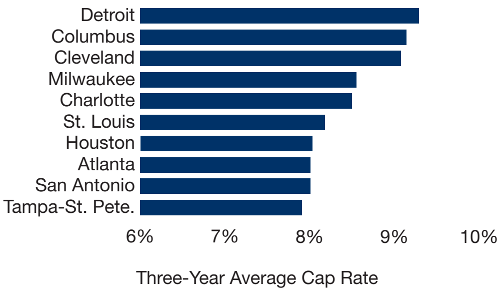
| Market Name | Rank 2016 | Rank 2015[1] | 15-16 Change |
|---|---|---|---|
| San Francisco | 1 | 1 | 0 |
| Austin | 2 | 4 | 2 |
| Seattle-Tacoma | 3 | 9 | 6 |
| San Jose | 4 | 3 | -1 |
| Los Angeles | 5 | 10 | 5 |
| New York City | 6 | 2 | -4 |
| Orange County | 7 | 8 | 1 |
| Miami-Dade | 8 | 11 | 3 |
| San Diego | 9 | 5 | -4 |
| Boston | 10 | 14 | 4 |
| Nashville | 11 | 19 | 8 |
| Salt Lake City | 12 | 18 | 6 |
| Oakland | 13 | 17 | 4 |
| Denver | 14 | 7 | -7 |
| San Antonio | 15 | 13 | -2 |
| Dallas/Fort Worth | 16 | 12 | -4 |
| Houston | 17 | 6 | -11 |
| Portland | 18 | 27 | 9 |
| Pittsburgh | 19 | 16 | -3 |
| Orlando | 20 | 23 | 3 |
| Tampa-St. Petersburg | 21 | 21 | 0 |
| Chicago | 22 | 22 | 0 |
| Atlanta | 23 | 26 | 3 |
| Washington, D.C. | 24 | 24 | 0 |
| Baltimore | 25 | 15 | -10 |
| Phoenix | 26 | 20 | -6 |
| West Palm Beach | 27 | 29 | 2 |
| Charlotte | 28 | 30 | 2 |
| Fort Lauderdale | 29 | 28 | -1 |
| Columbus | 30 | 31 | 1 |
| Sacramento | 31 | 33 | 2 |
| Northern New Jersey | 32 | 38 | 6 |
| Minneapolis-St. Paul | 33 | 25 | -8 |
| Riverside-San Bernardino | 34 | 35 | 1 |
| Jacksonville | 35 | 34 | -1 |
| Philadelphia | 36 | 32 | -4 |
| Louisville | 37 | 39 | 2 |
| New Haven-Fairfield County | 38 | 36 | -2 |
| Indianapolis | 39 | 41 | 2 |
| Cincinnati | 40 | 37 | -3 |
| Las Vegas | 41 | 40 | -1 |
| Kansas City | 42 | 42 | 0 |
| Cleveland | 43 | 45 | 2 |
| Detroit | 44 | 46 | 2 |
| St. Louis | 45 | 44 | -1 |
| Milwaukee | 46 | 43 | -3 |

1 See National Retail Index Note on page 64.

## High-Yield Index

| Market Name | Rank 2016 |
|---|---|
| Detroit | 1 |
| Columbus | 2 |
| Cleveland | 3 |
| Milwaukee | 4 |
| Charlotte | 5 |
| St. Louis | 6 |
| Houston | 7 |
| Atlanta | 8 |
| San Antonio | 9 |
| Tampa-St. Petersburg | 10 |

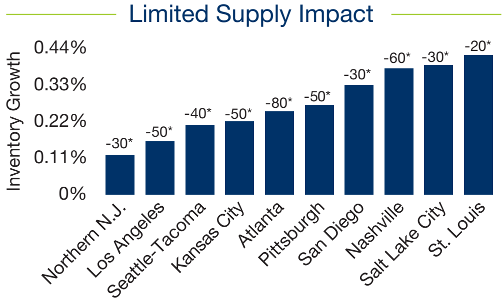
## High-Yield Markets




## Competitive Environment Index

| Market Name | Rank 2016 |
|---|---|
| Northern New Jersey | 1 |
| Los Angeles | 2 |
| Seattle-Tacoma | 3 |
| Kansas City | 4 |
| Atlanta | 5 |
| Pittsburgh | 6 |
| San Diego | 7 |
| Nashville | 8 |
| Salt Lake City | 9 |
| St. Louis | 10 |

## Limited Supply Impact




* Vacancy Basis Point Drop

## Midwestern Markets Dominate High-Yield Index

Positive market sentiment and affordable financing have bolstered buyer demand, putting downward pressure on cap rates. Nationally, first-year returns for retail properties have fallen below the prior cycle's trough, further intensifying the search for yield. In premier metros, aggressive bidding for single-tenant properties has cut margins to razor-thin levels, causing many investors to broaden portfolio parameters in an attempt to capture additional yield. These buyers may target multi-tenant assets or properties in secondary and tertiary markets that can offer stronger returns and value-add potential. The High-Yield Index highlights those metros that have the greatest multi-tenant cap rates, based on a trailing three-year average. Although these markets face lower liquidity over the course of economic cycles, they do offer higher yield and cash-flow potential that will draw substantial investor interest in 2016. Risk factors include limited appreciation potential and exit-strategy complications when economic performance does not align with investment horizons.

The top four markets in our High-Yield Index come from the Midwest this year, as a slower pace of economic recovery and limited appreciation prospects keep cap rates elevated relative to coastal primary markets. While other metros may have reached maturity, yields in these areas still have room to compress. Detroit tops the list this year as the automotive industry continues to build momentum, spurring occupancy and rent increases and boosting NOIs. Ohio markets are well-represented, with strong upside potential and consistent performance drawing investors to Columbus and Cleveland. Another metro along the Great Lakes, Milwaukee, also makes the ranking with strong tenant demand that has helped drive down vacancy to the lowest level of the current expansion. Rounding out the top five is Charlotte, where expanding financial-sector activity and robust demographics position the metro well for yield opportunities.

## Limited Competition Will Benefit Existing Space

Markets vary widely in their placement in the construction cycle. While tight vacancy has developers in some metros ramping up building, other metros are pulling back as growth pressures ease. Still, in other markets rents have not yet caught up with the cost of new construction, limiting supply additions to build-to-suit projects. Existing shopping centers are most likely to benefit in markets with limited supply growth and where above-average tenant demand will put downward pressure on vacancy, generating increased competition for available space. The Competitive Environment Index is a forward-looking ranking of markets where this year's construction output as a percentage of total inventory is lowest, while the year-over-year vacancy drop is equal to or above the national decrease.

Northern New Jersey fills the first position in this year's Competitive Environment Index. Vacancy here is already below average and supply gains are expected to reach a 10-year low. More affordable-housing options than can be found in nearby New York City are boosting the area's household formation and will generate increased demand for goods and services, creating competition for available retail space. The next two positions are occupied by Los Angeles and Seattle-Tacoma. Both of these metros have sizable employment growth, fueled by higher-paying tech-sector jobs. Young professionals' desire to live in an urban environment is helping to drive the need for expanded goods and services in downtown cores. Development constraints, meanwhile, limit much of the building to mixed-use apartment or office projects with ground-floor retail, restraining inventory growth. Kansas City and Atlanta occupy the fourth and fifth places. Both of these metros have vacancy rates above the national rate, although vacancy is rapidly contracting and subdued supply additions this year will drop the vacancy rate even further.

## Strong Sales, Limited Construction Bolster Efficiency

Steady gains in retail sales are expected again this year. Nationally, retail spending currently sits nearly 18 percent above the previous peak while additions to inventory have remained less than one-third of pre-recession levels. Some markets will fare better than others in 2016 in terms of retail spending, and combined with other factors such as inventory growth, these metros offer potential for superior retail-asset performance gains. The Retail Efficiency Index highlights those markets that will have the highest increase in retail sales this year per square foot of inventory. All of these markets will realize outsize retail sales growth, reaching well above the national average, while also factoring in limited supply-side pressure. Strong employment growth, favorable demographics and median household incomes that are at or above the U.S. median are among traits of the top 10 markets in this specialized index.

Minimal inventory expansion, a strengthening technology sector that typically provides high-wage jobs and a growing population of high-spending millennials will help boost retail sales in Salt Lake City this year. The market tops our index with the highest metro retail sales per square foot of retail space inventory. Portland claims our next spot, with vacancy constricting to its lowest level this year as retailers flock to the market. Favorable demographics and well-paying jobs are fostering heightened retail spending and spurring retailers to expand in the area. Moving to the East Coast, Boston ranks third on our list. Widespread demand and space under construction coming online mostly pre-leased in the market will drive vacancy down to the second-lowest rate in the country. The employment outlook remains positive for the metro, helping push up retail spending and boosting inventory efficiency. West Palm Beach and Phoenix round out our list. Both markets benefit from tourism-related travel and spending, and while construction will surge in Phoenix this year, strong retail demand and elevated retail sales growth helped lift the market close to the top.

## Investors Eye Higher Returns, Rent-Growth Potential

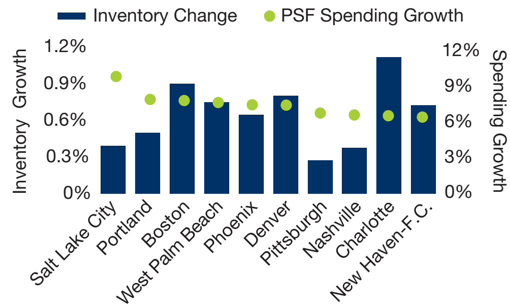
Seven years into the recovery, rents and asset pricing have increased far above the trough, providing owners with sizable returns. Job creation has spurred household formation, necessitating more shopping options and encouraging retailer expansions in many metros. As a result, heightened competition for well-placed assets is advancing valuations in many primary markets, leading buyers to consider higher-yield metros or value-add opportunities to generate elevated returns. The Total Return Index compares expected rent growth in 2016 to average initial yields. Emphasis is placed on those markets with greater rates of rent growth and relatively higher cap rates, providing sizable current income at a reasonable price. This dynamic, combined with supply increases of 1 percent or less this year, provides a robust margin of safety for investment.

Columbus tops the index with an average cap rate of 8 percent and vacancy that has fallen dramatically for six consecutive years. These conditions will support rent growth of nearly 4 percent this year and provide prime opportunities for investors seeking affordability and steadily rising NOIs. Next on our list, retail assets in the Louisville metro pack a big punch in returns. A fourth consecutive year of rent gains and demand growth will raise the average rent 5.3 percent this year, exceeding the prior peak for the first time since the recession. Charlotte's third-place ranking is underpinned by its stature as hub for financial services, which has contributed to a 10 percent employment gain from the pre-recession high. Elevated space demand is raising rents and providing returns of 7.7 percent initially. Next in line, Nashville's growing demand will outpace supply growth. Combined with a 4.5 percent rent increase this year, the metro stands out for higher-than-average yields. Minneapolis-St. Paul rounds out our top five with a 7.3 percent average cap rate and projected 3.5 percent rent growth, making it a destination for retail-property investment this year.

### Retail Efficiency Index

| Market Name | Rank 2016 |
|---|---|
| Salt Lake City | 1 |
| Portland | 2 |
| Boston | 3 |
| West Palm Beach | 4 |
| Phoenix | 5 |
| Denver | 6 |
| Pittsburgh | 7 |
| Nashville | 8 |
| Charlotte | 9 |
| New Haven-Fairfield County | 10 |

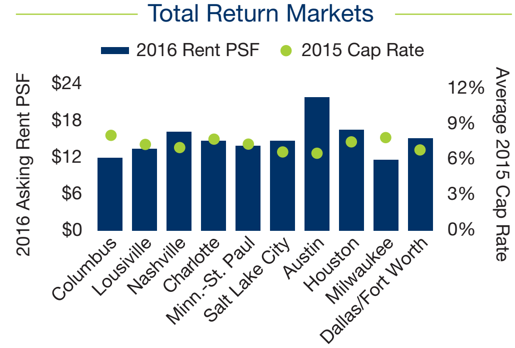
### Spending Power



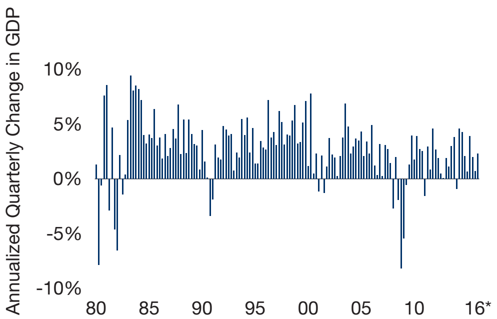

### Total Return Index

| Market Name | Rank 2016 |
|---|---|
| Columbus | 1 |
| Louisville | 2 |
| Nashville | 3 |
| Charlotte | 4 |
| Minneapolis-St. Paul | 5 |
| Salt Lake City | 6 |
| Austin | 7 |
| Houston | 8 |
| Milwaukee | 9 |
| Dallas/Fort Worth | 10 |

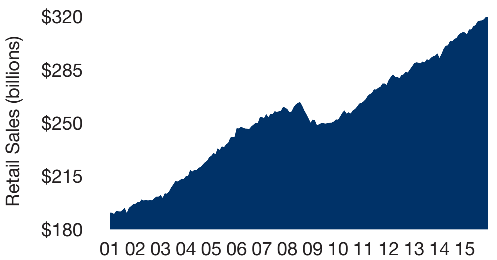
### Total Return Markets



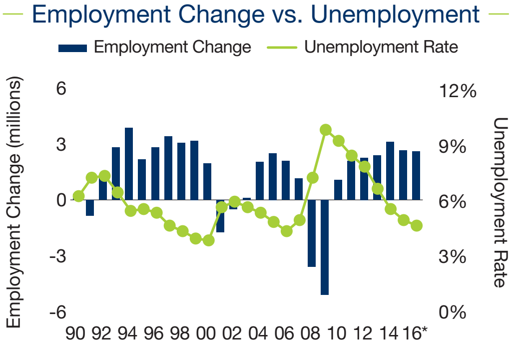
U.S. GDP



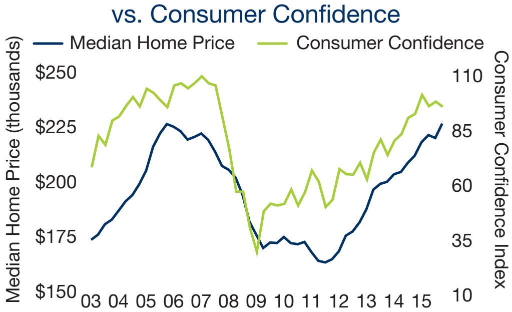

Monthly Retail Sales, Excluding Auto & Gas




Employment Change vs. Unemployment




Median Home Price vs. Consumer Confidence




* Forecast

# Economy to Maintain Choppy Gains, Extending Cycle into Seventh Year of Growth in 2016

The U.S. economy maintained its steady pace of growth last year, overcoming a variety of headwinds that sought to impede advancement. The strengthening dollar weighed on exports, but it joined falling energy prices to restrain inflationary pressure. Weakening international economies and China's currency devaluation also presented risks, leading to bouts of turbulence on Wall Street, but despite these challenges, the Federal Reserve signaled its confidence in U.S. growth by modestly raising its overnight rate in December. Throughout the year, consumption made consistent gains, lifting core retail sales by 3.3 percent for the year. Much of the advancement reflected the emerging influence of millennials. Internet commerce and rising sales at restaurants combined with sporting goods to lead the gains, but every retail subsector participated in the growth.

The combination of moderate economic expansion offset by a variety of setbacks reiterated the uneven growth pattern experienced over the last six years. This trend will likely carry into 2016 as international headwinds continue to hamper expansion. Modest breathers have tamed risks of economic overheating, and they have already extended the current expansion cycle beyond the typical five-year duration. This combination has led to 63 months of continuous positive employment growth through year-end 2015, adding a cumulative 13.4 million jobs since the end of the recession. Considering that total job openings remain near record levels, the unemployment rate will remain under pressure with a high probability of dipping well below the 2015 year-end 5.0 percent. This will in turn support upward pressure on wage growth, which has lagged this cycle, joining low gas prices to boost discretionary income and hopefully consumption. Should wage pressure advance rapidly, it would be a mixed blessing as it would also place upward pressure on inflation, forcing the Federal Reserve to consider its monetary policies carefully.

## 2016 National Economic Outlook

- **U.S. Payrolls to Swell:** Following the addition of 2.7 million jobs in 2015, employers will maintain the gradual pace of growth by creating another 2.0 to 2.5 million positions this year. Job creation will be broad-based, with only natural resources and mining and some segments of manufacturing likely to lag the overall trend. Secondary and tertiary metros were late to join the economic recovery but will record solid hiring gains in 2016.
- **Consumers to Steer the Expansion of the U.S. Economy:** Anticipated stable hiring and moderate wage growth together with low gas prices and comparatively inexpensive imports position consumers to lead the economy into a seventh year of expansion. These gains will be partially offset by weaker corporate expansion as the strong dollar burdens international revenue. Risks of more-severe-than-anticipated slowing of international economies would place an additional drag on the pace of growth.
- **Consumers Increasingly Turning to Online Shopping:** Led by the highly digital millennials, online and mobile shopping has emerged as the leader in retail sales growth. Electronic shopping rose 10.2 percent in 2015, easily outpacing the 3.3 percent bump in core retail sales. While e-commerce represents just 11 percent of total retail spending, numerous retailer categories remain susceptible to inroads from Web-based competitors. Traditional retailers have bolstered their online and mobile retail presence to challenge pure-play Internet stores, and the coming year may bring additional emphasis to omnichannel strategies that blend the strengths of brick-and-mortar with e-commerce.

# Limited Construction Buoys Retail Property Performance; Rent Growth Advancing Steadily

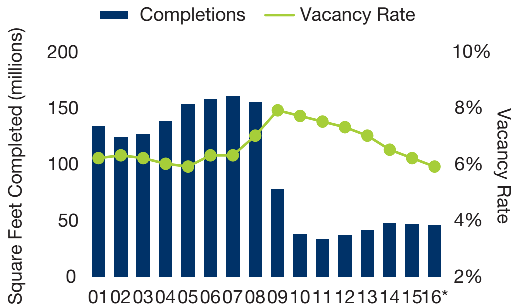
The U.S. retail-property sector rode positive trends in employment, income and retail spending to a modest reduction in the vacancy rate for a sixth consecutive year during 2015. Space demand eased from 2014 levels but remained ahead of the post-recession trends, supporting stronger performance as new property openings remained subdued. The limited completions delivered last year were heavily concentrated in single-tenant concepts, a distinguishing difference from past cycles. Amid limited shopping center development, national and regional brands continued to expand into existing properties, pushing down multi-tenant vacancy to a post-recession low. Small local retailers also contributed, tapping government financing and greater access to bank credit to start new retail businesses and occupy space in strip centers. New retail-business formations will likely remain a potent driver of space demand in 2016, while national and regional brands could encounter greater challenges matching space specifications with availability. Many of these retailers will continue to refine growth strategies that mix both physical locations and an online presence.

Steady space demand will further strengthen property performance in the coming months as projected completions edge lower from last year's total. The surge in multifamily construction has made it more difficult for retail developers to find quality locations that pencil, limiting construction. Still, the pipeline of planned projects has increased significantly, raising the prospects of a surge of completions beginning in 2017 should the supply-and-demand trends push rental rates sufficiently. Over the near term, retail-property operators will take advantage of muted competitions and tightened vacancies to push rents, though the projected year-end rates will remain below their pre-recession peak. In the five years before the recession, rent growth averaged 3.3 percent, but since rent increases advanced into positive territory in 2013, rents have only grown at an average 2.2 percent pace. The outlook for rising rents in 2016 appears brighter, with a 2.8 percent gain forecast nationally, but rents will still be 4.3 percent below their pre-recession peak set in 2007. With vacancies compressing, operators may increasingly accept higher near-term vacancy to secure tenants willing to pay higher rents than those on expired leases.

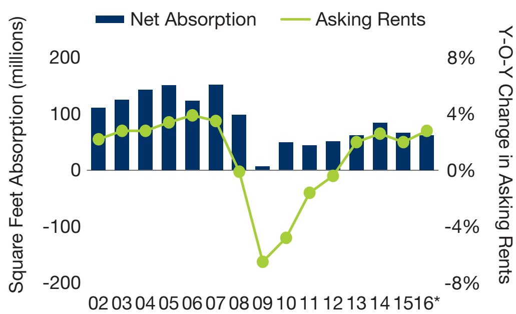
## 2016 National Retail Outlook

- New Store Openings to Trim Vacancy: Retailers moved into an additional 66 million square feet of space nationwide in 2015, slicing the vacancy rate 30 basis points to 6.2 percent. Growth in space demand will once again exceed additions to supply this year, supporting a 30-basis-point decline in vacancy to 5.9 percent, the lowest year-end level in 16 years. Tighter vacancy will underpin rent gains of 2.8 percent, the strongest rent appreciation since 2007.
- Subdued Construction to Linger Another Year: Restrained retail-property development has characterized the post-recession period and supported a steady drop in vacancy, a trend that will persist in 2016. This year, developers will complete 46 million square feet, representing a modest decline from last year's total, but the pipeline of planned projects is increasing. Nearly 30 percent of this year's projected square footage will come online in five markets: Houston, New York City, Dallas/Fort Worth, Chicago and Orlando.
- Sales at Inline, Anchor Retailers Rise: Although online sales continues to make inroads, traditional inline retailers and anchors posted respectable growth in sales last year and are well-positioned for 2016. Sporting-goods and building-materials stores fared well, registering growth in receipts of 9.1 and 5.0 percent respectively, while sales at apparel and furniture stores also grew more than 2.0 percent.

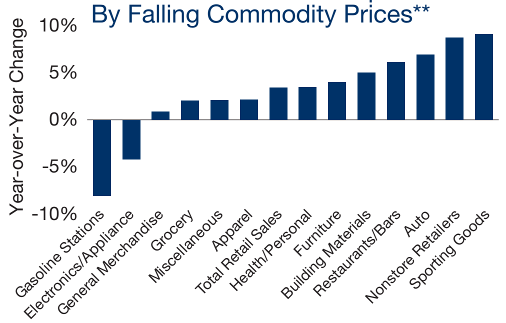
Retail Construction and Vacancy



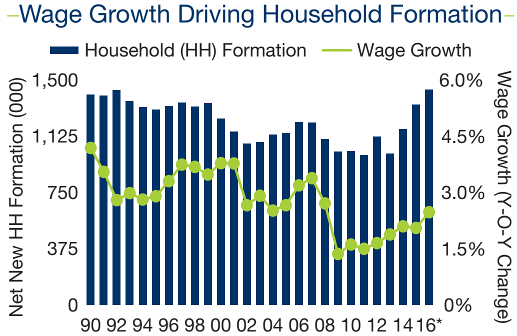

Net Absorption vs. Asking Rents




Retail Sales Growth Hampered By Falling Commodity Prices**

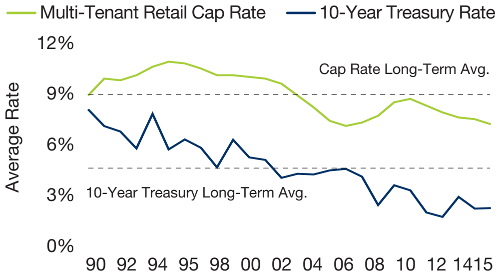



Wage Growth Driving Household Formation



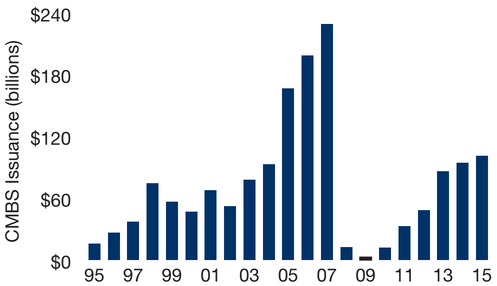

* Forecast
** Through January 2016

## Multi-Tenant Retail Cap Rate Trends

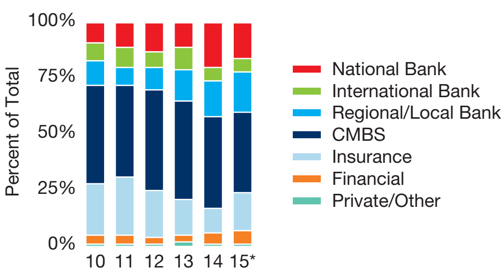



Note: Sales $1M and above

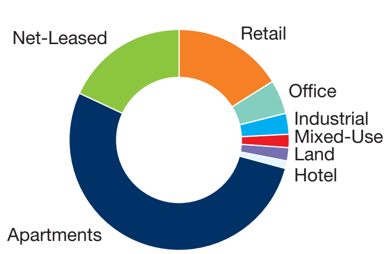
## U.S. CMBS Issuance




## Retail Mortgage Originations by Lender




## 1031-Exchange Sales Trends By Down-Leg Property Migration




* Estimate

# Debt Capital Widely Available As Lenders Vie for Market Share

The strong performance of retail properties in many markets throughout 2015 maintained a steady flow of equity into the sector and opened up new opportunities for debt providers to participate. CMBS accounted for more than 30 percent of debt-issuance volume last year to claim a larger market share than all other lenders. Spreads on CMBS loans widened in the third quarter, raising costs for borrowers, and did not narrow in the closing months of the year as subordinate bond investors demanded higher yields. CMBS leverage in multi-tenant deals typically ran in the 65 percent to 70 percent range, where it will likely remain in 2016. Greater discretion may be applied in the coming year on loans involving unanchored or shadow-anchored shopping centers, however, as the maturing economic cycle could slow the pace of retail sales growth. Life companies, meanwhile, captured a greater piece of the market last year and came into 2016 with new capital to place. This group of lenders remains highly selective, focusing on large, well-located anchored assets in major markets and offering leverage lower than other debt sources.

Lending capacity should remain healthy in 2016, although low oil prices could impose additional stress on low-rated energy-sector bonds that translates into higher yields in the entire bond market. Bank lenders, who have shored up balance sheets in recent years, remain positioned and capitalized to compete for market share in 2016, perhaps gaining business that CMBS cannot fill. The Federal Reserve's accommodative monetary policy conferred a low cost of capital to these lenders, an advantage that could wane if the central bank raises its benchmark rate more aggressively than anticipated during 2016. In the single-tenant segment, banks and CMBS remain active and the credit standing of many highly sought single-tenant retailers remains stable. Walgreen's announced acquisition of Rite-Aid, though, may trigger a review by credit-ratings agencies that affects asset pricing and targeted investment returns, in addition to prompting a re-appraisal of risk by lenders. Consolidations of retailers typically raise the potential for a revision of credit ratings.

## 2016 Capital Markets Outlook

- Central Bank Remains Vigilant: The Federal Reserve's rate hike in the fourth quarter last year was anticipated for some time and reiterates the central bank's confidence in the U.S. economy. The central bank has stated its intent to raise its short-term rate to 1 percent in 2016, but the risk of contagion from soft overseas economies and U.S. economic trends will likely require a reconsideration of its plans.
- U.S. Treasury Yield Stable; Subject to Foreign Demand: The 10-year U.S. Treasury held well below the long-term average throughout last year. The long-term bond will reside near those levels again in 2016 as slowing economic growth globally sustains demand for U.S. government debt. China remains a potential variable, however, as additional cutbacks in purchases of the 10-year Treasury resulting from the country's softening economy could pressure long-term interest rates and property-financing benchmarks.
- New Rule to Govern CMBS Market: Changes are coming to the CMBS market in December 2016. A rule will be imposed requiring the issuer of a CMBS deal to either keep a slice equal to 5 percent of the market value for five years or designate a subordinate bond buyer to assume that risk. The so-called risk retention rule may potentially result in wider spreads in the event that designated subordinate bond buyer require higher yields.

# Yield-Seeking Investors Consider Wider Range Of Assets and Markets in 2016

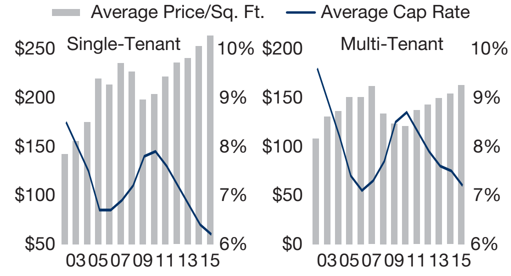
Strengthening property performance, steady equity flows and competitive debt markets combined to generate a modest increase in transaction velocity last year and provide a stiff tailwind riding into 2016. Sales of single-tenant assets accounted for more than half of all transactions for the eighth consecutive year in 2015, but the proportion of multi-tenant deals rose, indicating greater acceptance of operational and re-leasing risk among investors. The average cap rate in all deals contracted about 20 basis points to roughly 6.5 percent as competition for assets intensified. Initial yields dipped to less than 6 percent in markets where lower returns are customary, including the more-vibrant California markets and supply-constrained Miami-Dade. With long-term interest rates projected to remain low in 2016, additional positive leverage opportunities will emerge for multi-tenant property investors. Private capital, specifically, was active in 2015 and will continue to target opportunities to enhance value, employing strategies that include turning over tenants and refreshing property appearance.

Heightened investor confidence, along with limited construction that will support strategies to raise rents to augment NOIs, will sustain a liquid investment market in 2016. Many investors seeking assured returns or trading out of management-intensive properties will continue to focus on single-tenant properties net leased to highly rated tenants, especially in the event that turmoil in global markets persists. Institutions will also maintain a conservative stance, targeting returns in the 6 percent range offered by anchored shopping centers with long-term leases in place in major metros. In addition, retail assets will continue to attract the attention of redevelopment-oriented groups. Obsolete or underperforming regional malls that can be reconfigured as mixed-use concepts, for example, could find buyers among this contingent. In general, retail investors will continue to take in the changing retail landscape, wherein many retailers continue to pursue multi-channel strategies combining actual stores and an online presence. In addition, millennials continue to come of age and form households, often in urban settings that will require new retail concepts.

## 2016 Investment Outlook

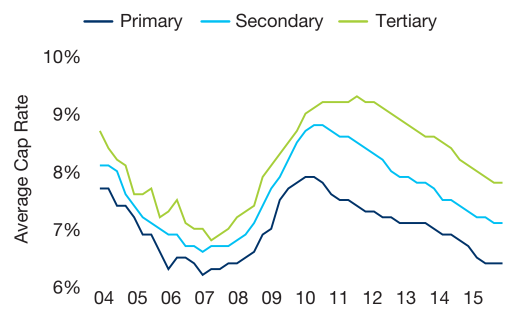
- **All Market Types Seeing Action:** Transaction velocity for all property types rose at a slower rate in 2015 than in the prior year, though primary markets bucked the trend and recorded a faster pace of deals. While disparities between cap rates in primary, secondary and tertiary markets persist, the risk premium has narrowed in recent years, though the spread remains significantly greater than the last cycle. Investment in secondary and tertiary markets will continue to grow as debt providers keep competing for market share and investors pursue yield.
- **Subdued Construction Could Promote Expansions:** Spending on multi-tenant retail-property construction nationally remains substantially below the levels recorded before the recession, partly reflecting much lower single-family homebuilding. With lagging construction greatly limiting space options for retailers seeking new locations, property owners and investors may increasingly look to expand shopping centers to relieve unfulfilled space demand, thus enhancing property values.
- **Ownerships Shift in Grocery Space:** Kroger's recent acquisition of Midwest chain Roundy's leaves unresolved questions regarding whether Roundy's will undergo changes or be left to operate semi-autonomously. Separately, private-equity firm Cerberus Capital continues to look to spin off Safeway from Albertsons, but an initial public offering late last year was postponed due to unsettled market conditions.

### Retail Property Sales Trends

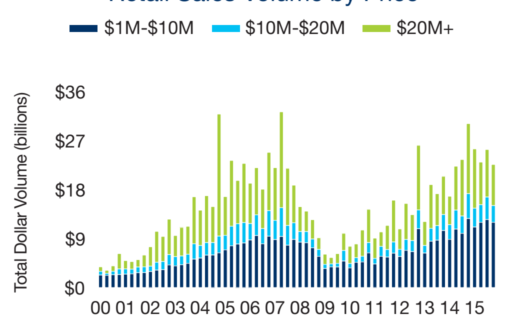



Sales figures represent transactions of $1 million+.

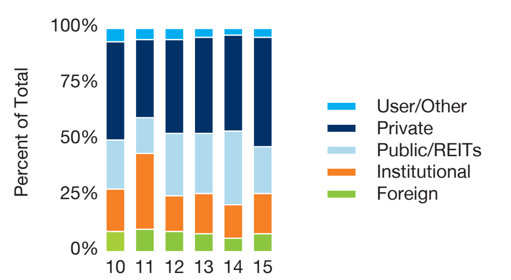
### Retail Cap Rate Trends by Market Type




### Retail Sales Volume by Price

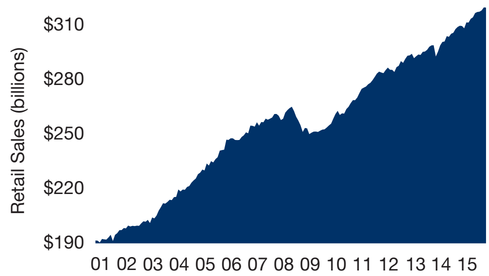



### Retail Buyer Composition

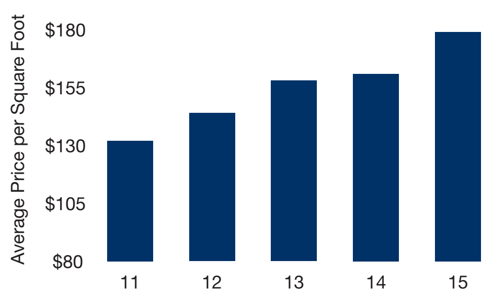


# Net-Lease Investors Continue Allocation Strategies Amid Equity-Market Volatility

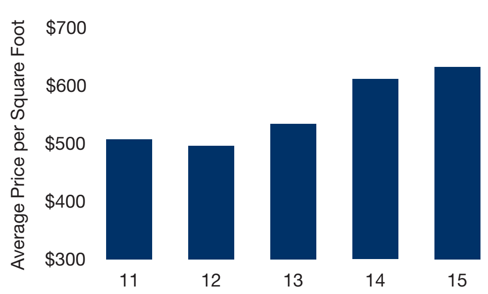
Monthly U.S. Retail Sales, Excl. Auto, Gas




Dollar Store Sales Trends




Quick-Service Restaurant Sales Trends




Heading into 2016, the U.S. economy is presenting a mixed picture, with a strong consumer benefiting from low gas prices being offset by weakness in the manufacturing sector and oil-producing states. While oil producers have been pinched by lower prices, the consumers have benefited greatly from the sharp drop in gasoline prices. Although the extra spending power has yet to filter into the real economy, consumer confidence remains high and jobless claims hover just above a 30-year low. Wage pressures are also starting to percolate in several sectors, including construction and skilled labor, indicating further improvement is likely over the near term. This bodes well for additional gains in discretionary spending categories such as auto sales and eating establishments as consumers feel more comfortable with the outlook for the coming months. In addition, an aging population, along with a rising number of insured due to the individual insurance mandate of the Affordable Care Act, is fostering strength at drugstores. Meanwhile, the strong dollar is shrinking the cost of foreign goods, prompting weakness in the manufacturing sector as the consumer shifts purchasing power abroad. Oil-producing states are also likely to diverge as lower revenues and payrolls crimp growth rates. As a result, economic results are likely to vary widely by location, supporting a more measured approach to capital allocation in the net-leased space over the coming months.

In a search for yield amid a world of historically low interest rates, investors are seeking net-leased assets. Baby boomers, in particular, are exchanging out of apartments and other commercial real estate assets and into net-lease properties, seeking to reduce or remove the need for active management. Assets in primary markets are highly sought after, although the ease of capital migration has also boosted the prospects of secondary and tertiary markets. The most aggressive bidding will occur for nationally accredited tenants with new leases as investors attempt to avoid the renewal risk associated with shorter-term structures. Opportunities are likely to expand in this area over the coming year as developers ramp up expected construction, led by pre-leased single-tenant pads. In addition, stock-market volatility has shifted the focus among investors toward safe, secure yields in the net-leased space. Tax-free states will receive the bulk of the increased demand as buyers look to purchase assets at greater rates of return.

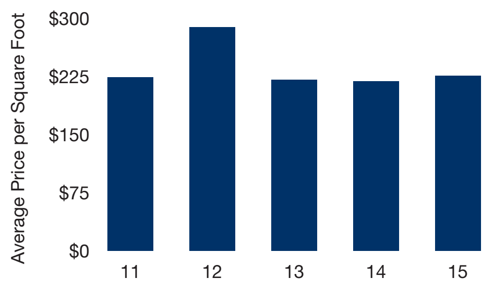
## Auto-Parts Retailers

- Auto sales surpassed the 2000 record this year as more than 17.47 million vehicles were sold. Despite the sales record, the average age of vehicles on the road in the United States is still 11.5 years old, supporting future growth in vehicle sales. As a result, auto-parts retailer sales will benefit from the maintenance required to keep older vehicles on the road.
- During the most recent 12-month period, deal flow flourished as additional investors deployed capital into the asset class. Closed transactions exchanged ownership at average prices per square foot between $250 and $600, with an average in the high-$300 per square foot range, depending on the remaining lease structure, tenant and location.
- In 2015, average cap rates for auto-parts retailers compressed 30 basis points due to heightened demand. New corporate leases for AutoZone will begin in the mid-5 percent band, while O'Reilly locations will price at slightly higher yields in the high-5 percent area. Advanced Auto Parts stores will drift into the low-6 percent range.

## Casual Dining

- For the first time ever, consumers spent more at food and beverage establishments than grocery stores in 2015, highlighting a shift in consumer behavior toward eating out more frequently. When combined with lower gas prices, casual-dining establishments will likely prosper in the coming year.
- Transaction velocity for restaurants swelled 7 percent over the past year, as investors continue to position themselves in established restaurant chains. Average prices per square foot vary widely by concept, with closed transactions between $150 and $300 per square foot, depending on location.
- While tenant and lease structure will dictate the terms of each transaction, average first-year yields in the casual-dining sector slipped 10 basis points to the mid-6 percent range.

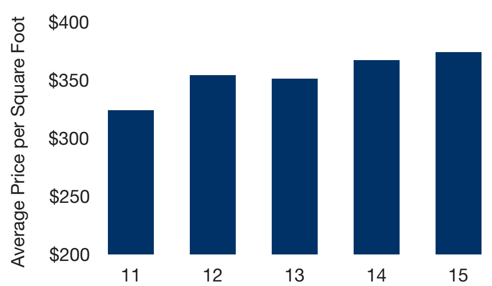
Auto-Parts Retailer Sales Trends




## Dollar Stores

- As part of approval for the merger, the combined Family Dollar and Dollar Tree entity will begin the process of selling 330 locations to a private-equity firm in order to meet anti-trust agreements. However, the impact to other expansion plans will be minimal.
- Concerns over the fate of the pending Family Dollar/Dollar Tree merger reduced trading in the dollar-store segment in 2015. This concern did not impact prices, however, as closed transaction prices were roughly unchanged from the prior year in the mid- to high-$100 per square foot range.
- New corporate leases in the segment will offer first-year yields in the high-6 to low-7 percent area, depending on credit, tenant and location. Yields can drift into the mid-8 percent range for shorter leases.

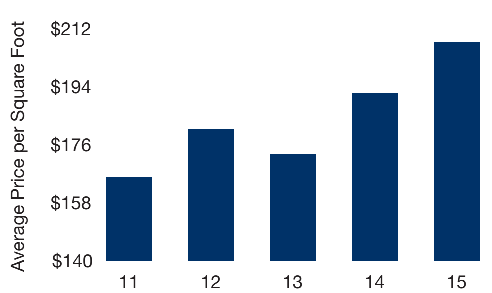
Drugstore Sales Trends




## Drugstores

- The Affordable Care Act has greatly increased the number of people insured, prompting vigorous activity at drugstores. Additionally, Walgreens has offered to purchase Rite Aid, although the merger is still pending approval from numerous regulatory agencies.
- Market tailwinds encouraged investors to bid aggressively for drugstores, with prices per square foot firmly above $500 for the national average. In addition, the bulk of net-leased deals were in the space, underscoring the robust interest in the asset class.
- Cap rates in the segment can sink into the low- to mid-5 percent range for new leases, while shorter leases will still trade in the low-6 percent area.

Casual Dining Sales Trends




## Quick-Service Restaurants

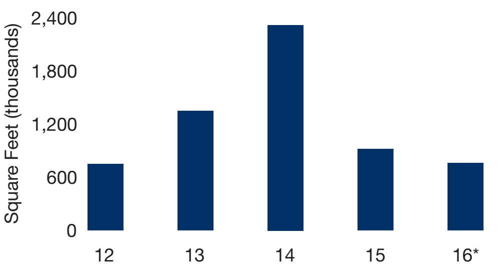
- Despite health concerns at quick-service restaurant stalwart Chipotle, the segment will still strengthen considerably as consumers shift toward healthier eating alternatives and rapid service.
- Transaction velocity was largely unchanged in 2015, with deal flow dependent on availability of leases. Prices per square foot will extend past $600 on average, depending on tenant and lease structure.
- Average cap rates in the segment will begin in the mid-6 percent range, while corporate ground leases from Starbucks and McDonald's can sink into the 4 percent span.

Marcus & Millichap

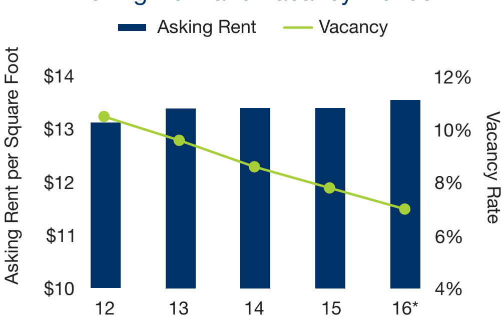
# Surging Atlanta Economy Supports Retail Spending, Driving Vacancy Rates to New Lows

Employment vs. Retail Sales

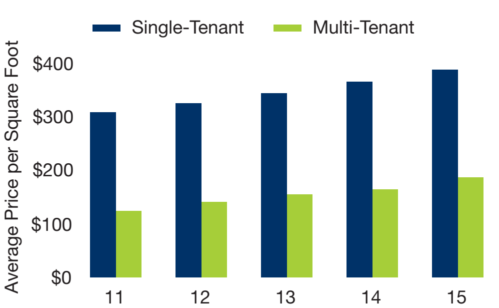

Retail Completions




Asking Rent and Vacancy Trends




Sales Trends




* Forecast
Sources: CoStar Group, Inc.; Real Capital Analytics

Increasing consumer spending coupled with a slowdown in retail construction will further tighten the strong Atlanta retail market. Demand for retail space has risen due to favorable demographic trends. In addition, several high-profile projects are in the works that will create new retail and trade areas, including new NFL and MLB stadiums expected to open in 2017. These projects will provide substantial economic lift to surrounding retailers and enhance the opportunity to attract marquee events to Atlanta. The warm climate, ample job opportunities and affordable cost of living are also having a positive impact on demographic trends. Population growth, particularly among the high-spending cohort of 20- to 34-year-olds, is nearly triple the national rate, underpinning the strongest period of retail sales growth in three years. Despite robust optimism, construction will slow in 2016 with annual completions stalling to well below the five-year average. A decline in metro development will allow the metrowide vacancy rate to fall to a 10-year low in 2016. Tight market conditions will encourage a rent uptick, with the average asking rate reaching the highest point since mid-2011.

Investor demand for Atlanta retail assets will remain intense in 2016 with high occupancy rates and a strong economic outlook holding interest. Buyers outnumber sellers in the metro, forcing highly motivated investors to bid aggressively on available assets. This competitive buying environment has helped push valuations to a 15-year high, led primarily by gains in single-tenant pricing. Deal flow is overwhelmingly centered on transactions in the $1 million to $10 million price tranche, although some activity occurs for more expensive properties by out-of-state buyers. Cap rates for fast-food properties with a nationally recognized tenant will trade in the 4 percent range with drugstore assets hovering in the 6 percent area. On the multi-tenant side rates average in the 7 percent area depending on asset quality, location, tenant mix and lease structure.

## 2016 Market Forecast

**NRI Rank** 23, up 3 places — A steep decline in vacancy and strong employment growth pushed Atlanta up three spots.

**Employment** up 3.2% — Metro employers will hire 84,000 new workers in 2016, an increase of 3.2 percent. Last year, Atlanta organizations added 77,000 jobs, led by gains in the professional and business services sector.

**Construction** 760,000 sq. ft. — The pace of construction will slow this year as developers bring 760,000 square feet of retail space to market. In 2015, builders completed 922,000 square feet.

**Vacancy** down 80 bps — Following an 80-basis-point drop last year, the metro's vacancy rate will fall 80 basis points in 2016, landing at a 10-year low of 7 percent by year end.

**Rent** up 1.1% — The average asking rent will reach $13.55 per square foot this year, an increase of 1.1 percent. Last year, metro rent remained flat at $13.40 per square foot.

**Investment** — In-town properties and assets in the northern suburbs will draw heavy investor interest. Specialty grocers with some health component will also attract attention.

# Texas-Size Consumer Spending Attracts Retailers And Investors to Austin

Austin's economy is firing on all cylinders, and employment growth along with favorable demographic trends will further advance the area's retail market this year. Employers in the metro will outpace the nation for the seventh consecutive year as they increase payrolls, drawing a number of new residents to the market in search of jobs. As a result, retailers are expanding their presence in the metro and developers are following the path of residential growth. Nordstrom and Restoration Hardware will anchor the Domain's final phase of retail, opening this year in the northern portion of the metro. The project will also feature local shops and restaurants. In addition, new centers will be delivered in Pfluegerville and Lakeway by year end as developers pick up the pace of multi-tenant retail construction. Single-tenant projects will account for the bulk of deliveries again this year as several restaurants and larger retailers add new locations through the market. This heightened demand for space will put downward pressure on vacancy, and the rate will tumble below 4 percent by year end.

Continued improvement in the metro's retail market will lure investors to Austin this year. Strong buyer demand has increased competition for available assets, and the stabilization of properties across the market has resulted in limited value-add opportunities. As a result, investors in search of upside potential will seek assets in need of repositioning through capital infusions and bringing rents up to market. Heightened demand for these properties through the year will further limit opportunities, and these assets typically trade for premium yields, sometimes below 7 percent. High-quality stabilized centers draw initial returns in the low- to mid-7 percent area, while Class B and C properties generate first-year yields in the high-7 to low-8 percent range. Single-tenant cap rates vary widely based on tenant credit and user type, starting in the low-4 percent area for national fast food chains and trending upward.

## 2016 Market Forecast

**NRI Rank**
2, up 2 places

Austin climbed two spots this year as rents are set to rise at the fastest pace in the nation.

**Employment**
up 3.9%

Austin employers will add 37,500 workers to payrolls this year, an annual increase of 3.9 percent. In 2015, companies grew staffs 3.7 percent with the creation of 34,600 positions.

**Construction**
450,000 sq. ft.

Builders will deliver 450,000 square feet of retail space in 2016. Last year, developers completed just over 500,000 square feet.

**Vacancy**
down 40 bps

Following a 120-basis-point decline in 2015, vacancy will fall 40 basis points year over year to 3.7 percent, the lowest rate in almost 10 years.

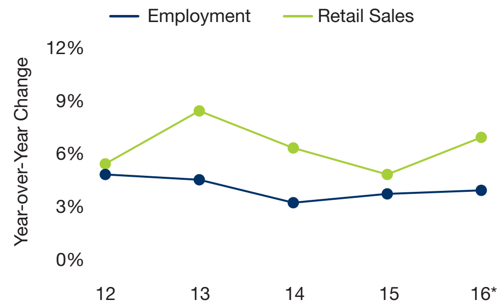
**Rent**
up 7.6%

The average asking rent will grow 7.6 percent annually to $21.81 per square foot by year end. The average asking rent rose 10.2 percent last year to $20.27 per square foot.

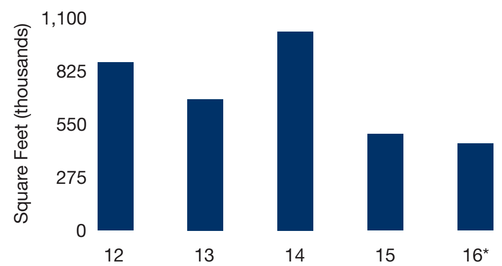
**Investment**

Construction remains limited to mostly single-tenant assets, providing additional opportunities for investment this year as these properties are completed and sold.

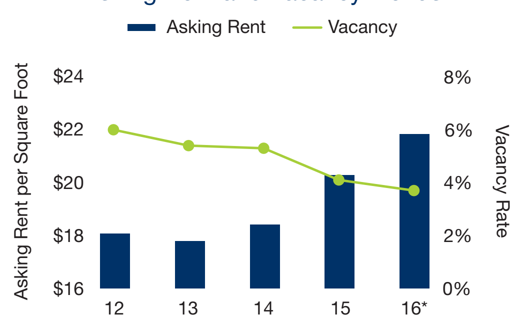
### Employment vs. Retail Sales



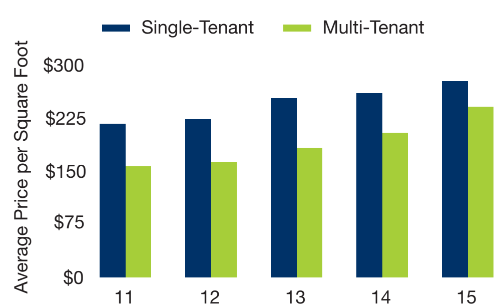

### Retail Completions




### Asking Rent and Vacancy Trends



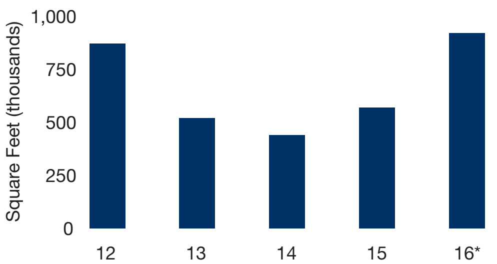

### Sales Trends



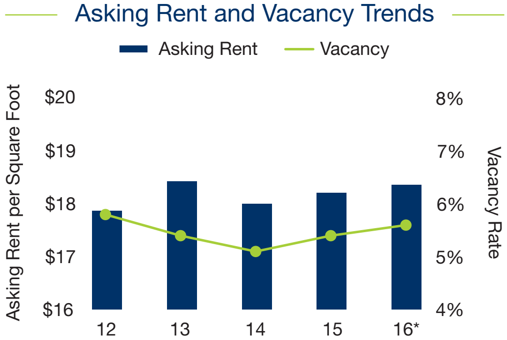

* Forecast
Sources: CoStar Group, Inc.; Real Capital Analytics

## Employment vs. Retail Sales

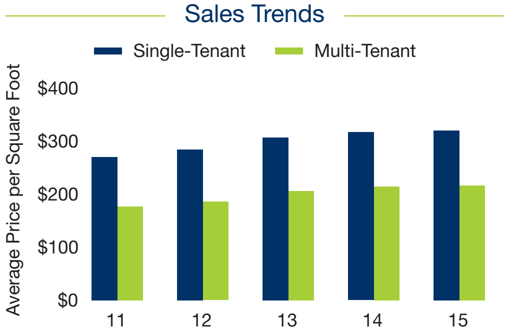

## Retail Completions




## Asking Rent and Vacancy Trends




## Sales Trends




* Forecast
Sources: CoStar Group, Inc.; Real Capital Analytics

# Mixed-Use Developments Highlight Baltimore Of Tomorrow; Investors Focus on Safety of Returns

Broad-based employment gains are fostering an expansionary atmosphere toward Baltimore retail properties as job growth reaches the best pace since the late ’90s. Since the recovery began, additions in the professional and healthcare fields have led the way, boosting disposable incomes and encouraging retailers to open new locations. Builders have responded to tightening conditions, with construction set to surpass 2015 levels. The slate of deliveries will be highlighted by several large mixed-use offerings such as Foundry Row and Metro Centre in Owings Mills and Rotunda in northwest Baltimore. Together, the three projects account for more than three-quarters of this year’s development, with the rest made up of smaller single-tenant spaces that are mostly pre-leased. While the long-term outlook remains bright, the accelerating pace of construction will pressure the metro vacancy rate as retailers shift out of older space and into new offerings. As a result of turnover into higher rent spaces, average asking rent gains will be marginally positive.

As operations have slowed over the past year, investors have taken a more measured approach to deploying capital in the metro. Favoring stabilized assets in the urban core, buyers are seeking mixed-use properties near employment hubs with long tenant leases, helping to mitigate potential risks from the investment. Meanwhile, private buyers are transitioning toward value-add assets in the eastern portions of Baltimore County where additional upside to NOIs can be achieved through re-tenanting or building improvements. Single-tenant assets with national credit are also popular choices due to the larger pool of investors willing to take the risk on them. Metro cap rates will begin in the mid-6 percent range, with the vast majority of assets exchanging ownership in the mid-7 percent area due to the distance from the urban core.

## 2016 Market Forecast

**NRI Rank** 25, down 10 places — Baltimore fell 10 places as vacancy rises and rent advances declined to one of the slowest paces in the nation.

**Employment** up 2.3% — Baltimore organizations will create 32,000 new jobs this year, expanding payrolls 2.3 percent. In the previous year, more than 30,800 workers were hired.

**Construction** 920,000 sq. ft. — Development will accelerate this year as 920,000 square feet is completed, with the bulk of the space combined in three projects. Last year, builders finished 570,000 square feet.

**Vacancy** up 20 bps — Although net absorption will more than double this year, supply growth will outpace demand, fostering a 20-basis-point rise in vacancy to 5.6 percent. In the prior 12 months, vacancy rose 30 basis points.

**Rent** up 0.8% — As retailers shift toward updated spaces, vacancy and turnover will increase, limiting average asking rent growth to just 0.8 percent to $18.35 per square foot.

**Investment** — Stable assets near transportation and employment hubs will see interest rise over the coming year as investors seek out stable properties.

# Vacancies to Tighten Significantly As Rising Construction Readily Absorbed

Overall tenant demand for retail-center space remains ahead of supply and Boston developers are keen to optimize on this opportunity. Density limitations in the core encourage street-level development of retail space in apartment and office towers, allowing consumers to shop with ease. Steps away from these sites, other developers are repositioning older, well-located assets to attract national retail brands and local chains. Build-to-suit construction for credit tenants is also filling up empty lots and storefronts. Farther from the core, where density is less of a concern, builders are renovating older regional malls and completing new suburban retail centers consisting of 100,000 to 300,000 square feet to meet the needs of retailers adding locations. This year's widespread demand will tighten vacancy to the second-lowest rate in the U.S. and elevate rent for existing and speculative space brought to market.

Institutional investors will flock to the stability of Boston's retail assets and a growing number of upper-tier urban properties. Average cap rates are lower than other East Coast metros, though a variety of yield objectives can be met here. Rising rents in prime locations, now above pre-recession highs, have contributed to a doubling of transaction activity in the past five years. Opportunities for stability are sought near large urban towers and new buildings adjacent to long-standing suburban lifestyle centers being redeveloped. Price appreciation in these properties has created competition for individual buyers, who are now targeting many of the same assets as syndicates and smaller institutions. Cap rates for retail buildings in the core are in the 4 to 5 percent range, whereas suburban properties can trade 100 to 200 basis points upward. Those seeking higher initial yields will look toward the periphery of Route 128 and along other transportation corridors farther out. Demand from residential and office development will support operations in these areas going forward.

## 2016 Market Forecast

**NRI Rank** 10, up 4 places — Strengthening rent growth and steady demand for retail space propelled Boston four spots in this year's NRI.

**Employment** up 2.1% — Employers will add 55,000 workers to payrolls this year, expanding employment by 2.1 percent. This follows the creation of nearly 54,000 positions in 2015.

**Construction** 1.6 million sq. ft. — Builders will deliver 1.6 million square feet of retail space in 2016, adding 0.9 percent to local supply. Overall net absorption will expand to nearly 2.2 million square feet. In 2015, 1.2 million square feet was completed.

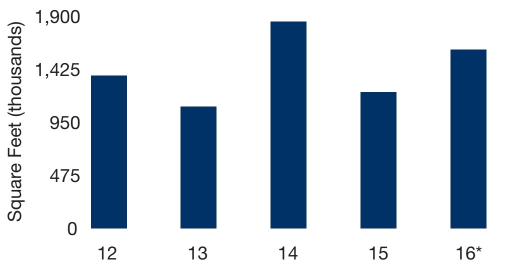
**Vacancy** down 40 bps — Market vacancy will drop 40 basis points this year to 2.9 percent, one of the lowest rates nationally. This builds on the 30-basis-point decline last year.

**Rent** up 3.5% — Average asking rent will rise at the fastest annual pace in a decade, gaining 3.5 percent in 2016 to $18.73 per square foot, while urban rents can be more than double this amount. Last year, metro rent grew 2.8 percent.

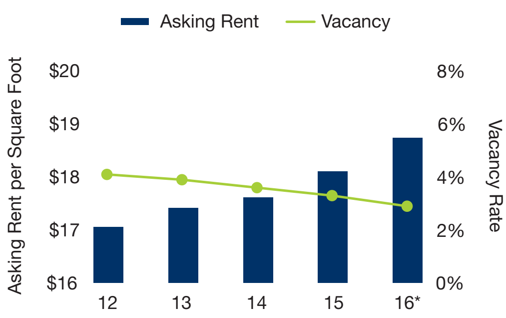
**Investment** — Retail investors will seek Boston assets for stable returns. Compressing cap rates will provide for appreciation opportunities in this segment of retail properties.

Employment vs. Retail Sales

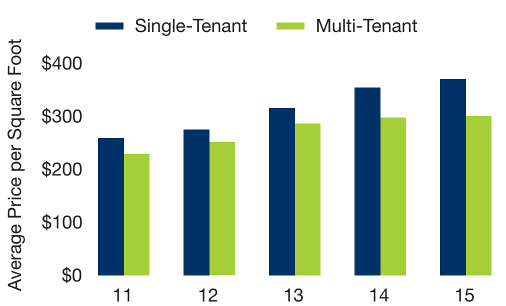

Retail Completions




Asking Rent and Vacancy Trends

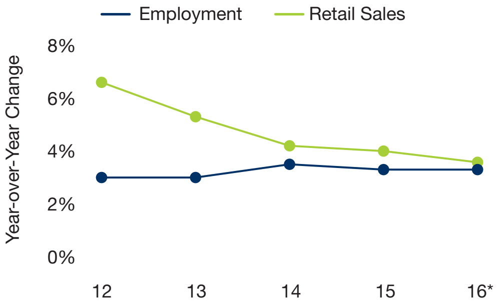



Sales Trends

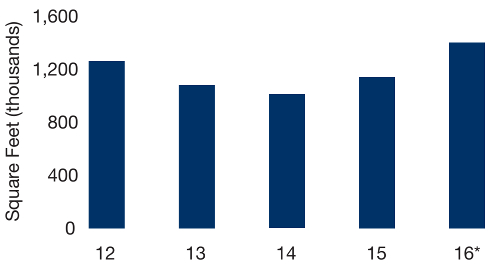



* Forecast
Sources: CoStar Group, Inc.; Real Capital Analytics

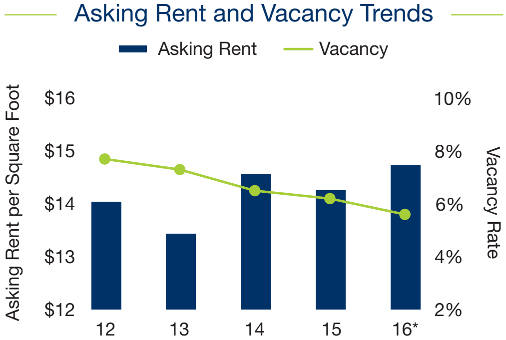
## Employment vs. Retail Sales



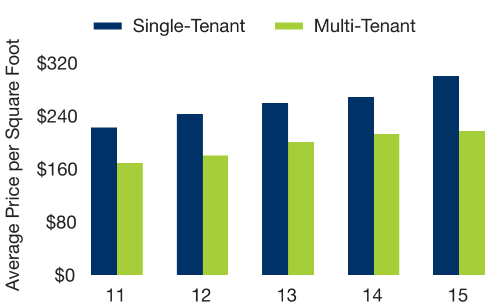

## Retail Completions




## Asking Rent and Vacancy Trends




## Sales Trends




* Forecast
Sources: CoStar Group, Inc.; Real Capital Analytics

# Jobs and Retail-Property Operations Draw Investors to the Queen City

Disposable income from newly formed households is generating greater demand for shopping options in Charlotte, where nearly 2 million square feet of retail space will be absorbed this year, the highest amount in nearly a decade. Households are forming as corporate headquarters expand in the metro and boost employment levels. By year end, employment will exceed the 2007 peak by 125,000 positions, including high-paying financial and business roles in this banking hub. This economic strengthening will tip the metro's retail vacancy below 6 percent for the first time since 2008 and places it on a trajectory for further tightening. The improvement has made developers confident in the metro's supply-and-demand dynamics, as they lift local retail stock by more than 1 million square feet this year following a four-year trend of similar growth. New infill projects are taking priority both in Uptown and in suburban areas located within a 1-mile radius of major thoroughfares. While many developers are meeting pro-forma objectives through these ground-up construction projects, others are bypassing rezoning and impact-fee requirements by renovating older buildings in pockets to the south and east of Uptown.

Value-add deals combined with overall increasing tenant demand will raise the metro's average rent. Elevated buyer interest for higher returns has fostered triple the trading activity since the 2010 trough. Competitive bidding compressed cap rates nearly 200 basis points in the same period. This trend is likely to continue as more buyers enter the market for yields that remain 20 to 170 basis points above those in other large East Coast markets. Local cap rates generally range between 6 and 9 percent, with an average of 8 percent. Ground-leased assets with corporate backed tenants can obtain yields in the 4 to 5 percent span both in the core and on well-trafficked suburban corners circling Interstate 485 as far out as Stallings and Kannapolis.

## 2016 Market Forecast

**NRI Rank** 28, up 2 places — Charlotte jumped two places in the NRI this year as demand outpaces supply additions.

**Employment** up 3.3% — Employers will generate 3.3 percent more positions as they create 37,000 jobs in 2016, edging slightly higher than the 36,000 headcounts added in the prior year.

**Construction** 1.4 million sq. ft. — Strong tenant demand will spur developers to add 1.1 percent to local retail stock this year, or 1.4 million square feet of space, up from 1.1 million square feet constructed in 2015.

**Vacancy** down 60 bps — Average metro vacancy will fall 60 basis points in 2016, to 5.6 percent as retailers absorb nearly 2.1 million square feet of space. This is an acceleration from the 30-basis-point dip a year earlier.

**Rent** up 3.4% — Asking rent will rise 3.4 percent this year to $14.73 per square foot as demand for shopping-center space increases. This follows a 2.1 percent loss last year.

**Investment** — A low-interest rate environment coupled with higher than average yields for the metro will draw new buyers to local retail assets.

# Vacancy Drops Amid Retailers Absorbing Space; Smaller Multi-Tenant Strips Catching Investors' Eye

Employment growth, population gains and higher incomes will contribute to rising retail sales in 2016, propelling Chicagoland's retail market. Increased tenant demand coupled with a slight decline in new inventory, meanwhile, will bolster operations. In the city, retail space in infill apartment and office projects proliferates. City Hyde Park is the most significant of these projects with Whole Foods anchoring the 110,000 square feet of retail space. Metrowide, grocers will account for a sizable portion of new construction and absorption of larger blocks of inventory this year, while furniture-store expansions will boost occupancy in the 20,000- to 45,000-square-foot range. Bob's Discount Furniture will open six stores in existing space this year and Art Van will occupy three more locations. These leasing efforts will contribute to vacancy throughout the metro dropping below 8 percent at year end, the lowest level in seven years, supporting rent growth and lifting NOI.

Chicago's strong consumer spending is resulting in higher retail-asset revenues, attracting a wide range of capital to this Gateway Market. Single-tenant net-leased properties will remain the primary target of many investors and while new construction will provide added buying opportunities, demand will still outpace available listings. This will motivate some investors to expand investment parameters to consider multi-tenant properties with fewer than five tenants. These assets can trade at cap rates that start in the 6 percent area. National and regional retailers moving into urban neighborhoods will likely lure additional retail nearby, generating interest in older office or apartment buildings that can be reconfigured to include ground-floor retail space. Buildings where ownership can be subdivided in the expanded transit-oriented development zones in Chicago will be sought after. The upper portion of these properties could be sold while keeping the retail portion for cash flow.

## 2016 Market Forecast

**NRI Rank**
22, no change
Steady fundamentals kept Chicago in the middle of the NRI this year.

**Employment**
up 1.2%
Roughly 54,000 jobs will be created throughout Chicagoland this year, a 1.2 percent gain. This is up from a 0.6 percent climb last year.

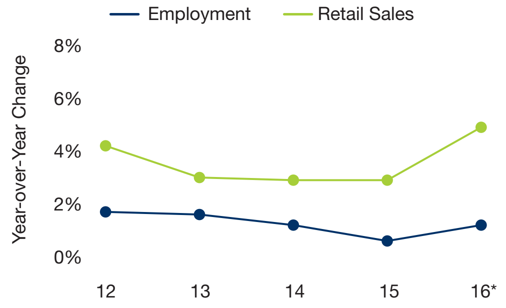
**Construction**
2.2 million sq. ft.
Following the completion of 2.5 million square feet last year, builders will deliver 2.2 million square feet in 2016 a 0.5 percent increase in stock.

**Vacancy**
down 40 bps
Vacancy will decrease 40 basis points year over year to 7.8 percent, the lowest level since 2008. A 30-basis-point drop was recorded last year.

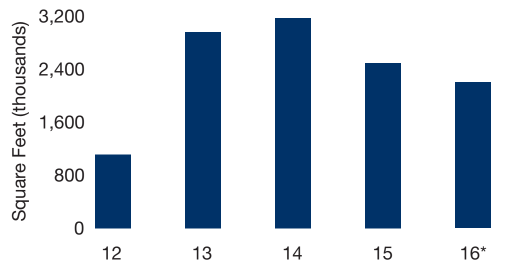
**Rent**
up 2.0%
Asking rents will rise an average of 2.0 percent to $17.43 per square foot in 2016, up from a 0.6 percent decrease registered last year. Rents along North Michigan Avenue average more than $70.00 per square foot.

**Investment**
Yield-seeking investors will find cap rates for multi-tenant properties roughly 75 basis points higher outside of Cook County.

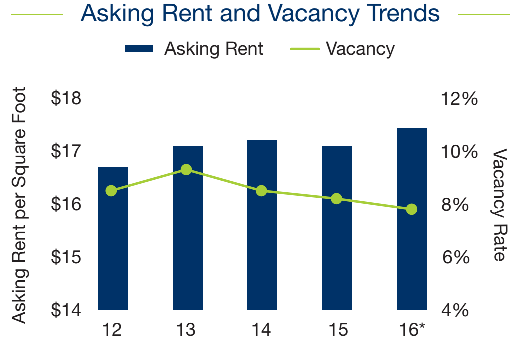
### Employment vs. Retail Sales



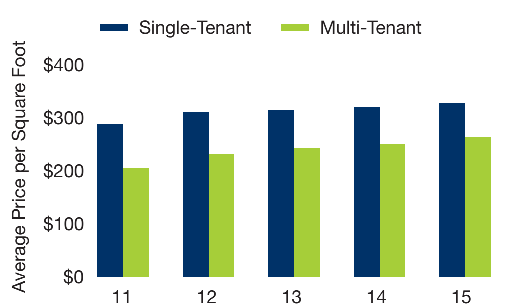

### Retail Completions




### Asking Rent and Vacancy Trends



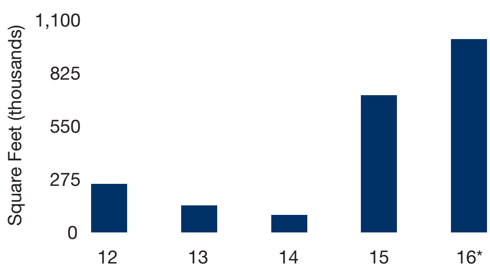

### Sales Trends



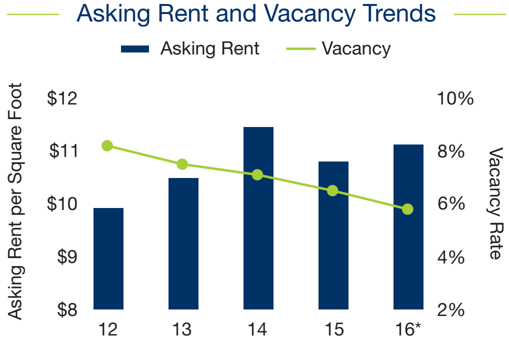

* Forecast
Sources: CoStar Group, Inc.; Real Capital Analytics

Employment vs. Retail Sales

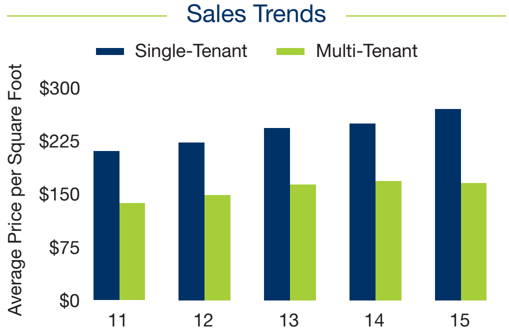

Retail Completions




Asking Rent and Vacancy Trends




Sales Trends




* Forecast
Sources: CoStar Group, Inc.; Real Capital Analytics

# Strengthening Economy and Stability Raise Profile of Cincinnati Market

An additional year of job gains will raise payrolls in Cincinnati to a new high this year, enhancing incomes and spending, and lifting the performance of retail properties throughout the metro. The pace of household formation remains steady while residential construction has picked up, especially in the multifamily segment. Retailers continue to follow new rooftops, seeking a dwindling supply of available spaces to open new locations. Grocers are especially active, with Aldi slated to complete multiple locations and hometown merchant Kroger also expanding. Home-improvement stalwart Menards is also responding to a stronger single-family home market and will open a 170,000-square-foot store in the metro this year. In addition to Menards, a considerable portion of projects slated for completion in 2016 are single-tenant formats, which will have a muted effect on metro-level vacancy. Notably, vacancy will fall this year in smaller strip and neighborhood centers adjacent to new retail developments, including Liberty Center and Streets of West Chester.

Retail-property investors in the metro remain motivated. Solid job growth over the past five years has lifted retail sales, stoked space demand and raised NOIs throughout the metro. Higher yields are bringing additional buyers to the metro, supporting a sizable gain in transaction velocity last year. The competitive climate has placed upward pressure on prices and driven down the average cap rate to the low- to mid-7 percent territory. In the single-tenant segment, undiminished demand for drugstores and fast-food establishments has pushed down initial yields to the 5 to 6 percent band, depending on credit rating and remaining lease term. Investors seeking initial returns in the 7 to 8 percent range will focus on smaller shopping centers in the center of the metro. Cap rates will increase for properties in secondary or tertiary submarkets or locations off major transportation routes.

## 2016 Market Forecast

**NRI Rank**
40, down 3 places
Cincinnati dropped three slots in the NRI this year as other metropolitans nudged up over it.

**Employment**
up 2.0%
Metro employers will expand headcounts by 21,000 workers, a 2.0 percent gain. Payrolls expanded 1.9 percent in 2015.

**Construction**
1 million sq. ft.
Developers will deliver 1 million square feet in 2016, increasing local inventory by 1.6 percent; 700,000 square feet was completed a year ago.

**Vacancy**
down 70 bps
Net absorption of 1.4 million square feet will outpace additions to supply in 2016, pushing down vacancy 70 basis points to 5.8 percent for the first time in nearly a decade. New store openings sliced vacancy 60 basis points last year.

**Rent**
up 3.0%
The reduction in vacancy will support rent growth of 3.0 percent in 2016, to $11.11 per square foot, following a 5.7 percent decline the year before.

**Investment**
Buyers will seek assets offering opportunities to add value through physical upgrades and re-tenanting near new residential development.

# Active Investment Capital Points to Confidence In Expanding Cleveland

The strength of the local economy is palpable, with steady job growth and heavy metro investment supporting Cleveland's retail market. The unemployment rate has fallen to the lowest level since mid-2001, led by hiring from construction, education and health services employers. Development is broad-based as major construction activity happens in many different areas throughout the metro. In Westlake, west of Cleveland, the mixed-use development Crocker Park is undergoing a $400 million expansion that will include the new American Greetings tower, drawing further need for high-end retailers and restaurants. Downtown Cleveland is experiencing a revitalization of multifamily development in addition to a new hotel that will lure new residents and travelers to retailers in the area. In University Circle to the east, metro builders have new high-rise apartments in the works, spurring increased retail development. Although the pace of construction will accelerate in 2016, expanding retailers will absorb the new space, helping push the metrowide vacancy rate to the lowest level of the current cycle. These tighter market conditions will incite another year of modest rent growth as lease rates approach pre-recession levels.

High yields are the primary driver of investor interest for Cleveland real estate; however, positive market sentiment has also been a contributing factor. As cap rates continue to compress in their home markets, buyers from New York City to Florida enter the metro seeking higher returns. These investors are able to leverage their deep pockets to bid heavily on properties, supporting robust price increases, especially in the single-tenant segment. Sellers have taken advantage of strong valuations as single-tenant properties approach peak pricing. These assets trade with cap rates in the high-6 percent area. As the single-tenant market nears maturity, some buyers may expand their portfolio to include multi-tenant assets trading at cap rates that have room for further compression.

## 2016 Market Forecast

**NRI Rank** 43, up 2 places — Demand will outpace supply this year, bumping Cleveland up two places in the NRI.

**Employment** up 1.8% — Cleveland employers will hire 19,000 workers in 2016, an increase of 1.8 percent. Metro organizations added 23,100 jobs last year, led by gains in the leisure and hospitality sector.

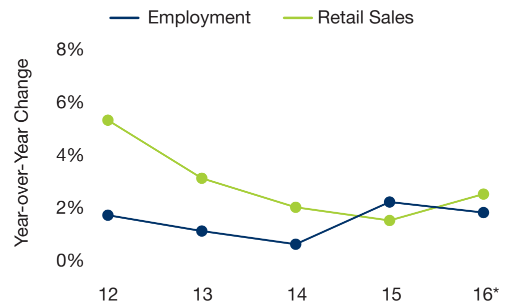
**Construction** 667,000 sq. ft. — Developers will bring 667,000 square feet of retail space to market this year, growing total inventory by 0.4 percent. In 2015, 512,000 square feet was delivered.

**Vacancy** down 40 bps — The metrowide vacancy rate will fall 40 basis points to 7.1 percent in 2016. Cleveland registered an 80-basis-point drop last year.

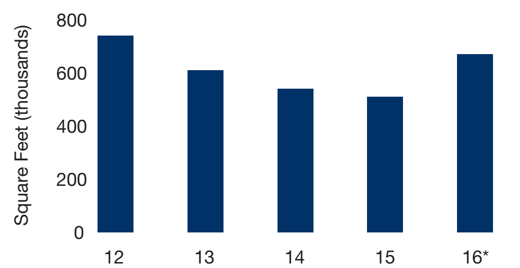
**Rent** up 1.1% — Rent growth will hit 1.1 percent this year with the average asking rate reaching $10.99 per square foot. An increase of 1.1 percent was also realized in 2015.

**Investment** — Areas on the edge of the metro like Avon, Concord and Medina are gaining momentum with robust population growth indicating potential for future NOI improvements.

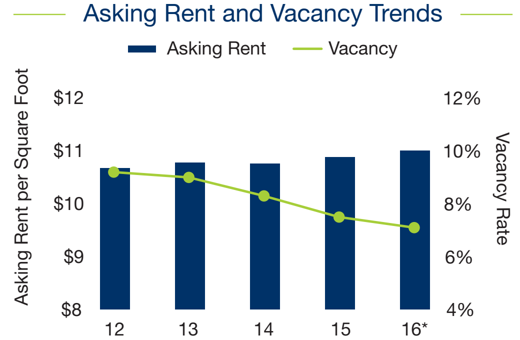
Employment vs. Retail Sales



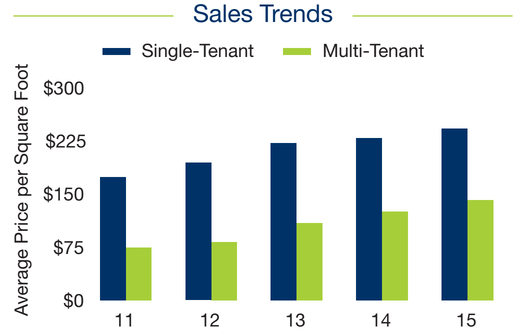

Retail Completions




Asking Rent and Vacancy Trends




Sales Trends




* Forecast

Sources: CoStar Group, Inc.; Real Capital Analytics

# Retailers Expand in Columbus; Investors Traverse Local Streets to Higher Yields

Strong and consistent job growth in the state capital has elevated household formation and sales of goods and services, motivating retail developers to build metrowide. Positions in legal, accounting, education and health services are significantly higher than pre-recession peak levels, supporting the establishment of more than 50,000 households since 2009. Following these rooftops, build-to-suit construction for necessity-based retailers is moving forward with multiple sites planned for Kroger, Dollar General and Family Dollar this year. In outlying suburbs, developers are accelerating construction in growing retail corridors to the north and east of the Interstate 270 loop. The largest project slated for delivery this year is the 350,000-square-foot Tanger Outlet to the north. To the east, the Shoppes at East Broad, a 200,000-square-foot site that was temporarily stalled due to the downturn, will be completed this summer. Robust tenant demand will push the vacancy rate to a new low this year. Elevated rent for available space will follow.

Steady NOIs and high first-year yields will encourage investors to seek Columbus retail assets. Initial returns register far above coastal markets and other large Ohio metros. In-state buyers will find that first-year returns in Columbus are 50 to 120 basis points above cap rates in their home metros. This will bring more of these in-state investors to the Columbus market, where they will have to compete with regional and local buyers for first-year yields averaging in the mid-7 to mid-8 percent span. In particular, stabilized strip centers with some credit can provide initial returns starting in the low-7 percent range. These opportunities are currently available as many buyers still seek stable incomes in single-tenant properties. This trend will shift as competition for these freestanding assets pushes prices higher and listings diminish.

## 2016 Market Forecast

**NRI Rank** 30, up 1 place — A strengthened pace of rent growth pushed Columbus up one position in this year's ranking.

**Employment** up 2.4% — Columbus employers will add 25,000 positions in 2016, expanding local employment by 2.4 percent, an acceleration from the 20,000 jobs created last year.

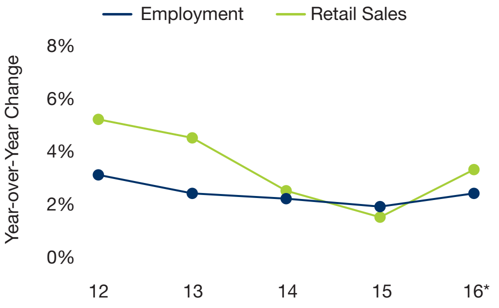
**Construction** 900,000 sq. ft. — Builders will deliver 900,000 square feet of retail space in 2016, elevating inventory by 1 percent. The majority of this year's construction is multi-tenant space. Last year developers completed more than 400,000 square feet.

**Vacancy** down 40 bps — Metro vacancy will tighten 40 basis points to 5.3 percent in 2016, as 1.2 million square feet is absorbed. This follows a 60-basis-point compression a year earlier.

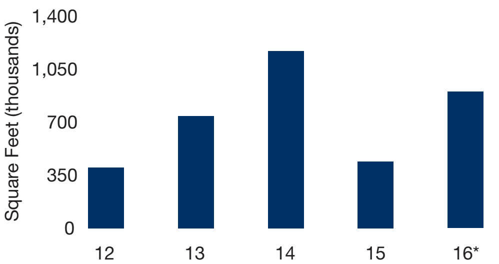
**Rent** up 3.9% — Average asking rent will rise 3.9 percent to $11.89 per square foot, the highest rent since 2009. This follows a 1.9 percent decrease in 2015 when older space was marketed at year end.

**Investment** — This year's completion of outlets in Sunbury and Reynoldsburg will boost valuations of surrounding properties, attracting investors and developers.

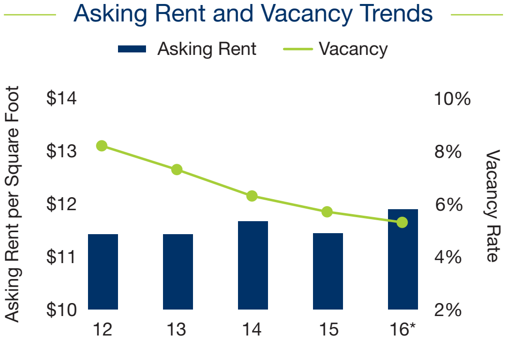
### Employment vs. Retail Sales



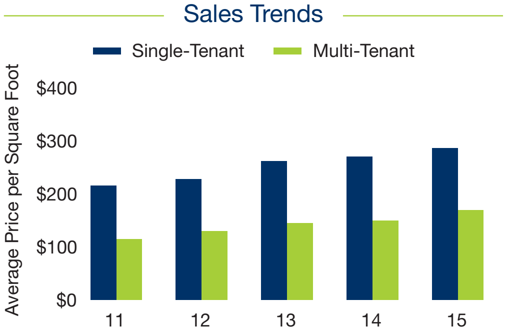

### Retail Completions




### Asking Rent and Vacancy Trends




### Sales Trends




* Forecast
Sources: CoStar Group, Inc.; Real Capital Analytics

# Corporate Expansion Drives Development in Metroplex; Out-of-State Investors Growing Retail Portfolios

Large corporate expansions and relocations to the Dallas/Fort Worth Metroplex will bode well for retail properties this year as vacancy constricts and rents spring upward. Employment gains through the year will be diverse as both white- and blue-collar industries create jobs in the region. Several large companies are expanding or relocating operations to the North Dallas area, contributing to heightened real estate activity as new households are formed nearby. Wade Park, a 600,000-square-foot luxury retail center, is underway in Frisco; the first phase will be delivered later this year. In Fort Worth, strong demographics have encouraged the development of 200,000 square feet of retail space along the Trinity River. Though builders have scaled back from last year, more than 2 million square feet of retail space will come online by year end, one of the highest completion rates in the country. Strong pre-leasing and heightened retailer demand will contribute to vacancy reaching a historic low, and rents should rise above the prior peak.

Out-of-state investors are growing portfolios in the North Texas region, greatly increasing competition for multi-tenant assets. As this new capital moves in, including international investment, the buyer pool is expanding as these investors target stable, well-located assets for safety plays. These properties are trading at initial yields in the low- to mid-6 percent range, while Class B assets yield returns 50 to 100 basis points higher. Local buyers will remain focused on value-add plays this year, though opportunities are diminishing in select submarkets as conditions tighten. Investors who have had difficulty leasing up properties are beginning to divest, providing additional opportunities for buyers. New owners will seek to infuse capital and make management improvements to create value at newly acquired properties. Rents and vacancy will weigh heavily on the price per square foot and investors should expect a wide range of pricing.

## 2016 Market Forecast

**NRI Rank**
16, down 4 places

A slower pace of job additions contributed to the Metroplex falling four places in the NRI this year.

**Employment**
up 2.0%

Metroplex employers will create 70,000 positions in 2016, expanding payrolls 2.0 percent. In 2015, companies increased staffs 3.0 percent with the addition of 99,000 workers.

**Construction**
2.5 million sq. ft.

After completing nearly 4.9 million square feet of retail space last year, builders will bring 2.5 million square feet of space online in 2016.

**Vacancy**
down 50 bps

Vacancy will fall 50 basis points this year to 6.0 percent. Last year, the vacancy rate declined 80 basis points year over year.

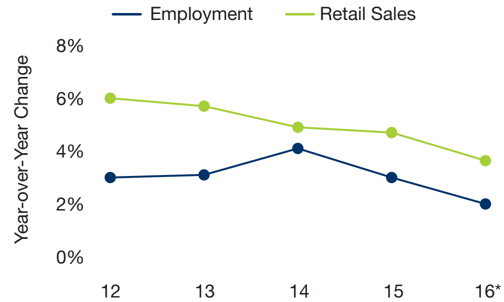
**Rent**
up 2.8%

The average asking rent will climb 2.8 percent annually to $14.98 per square foot by year end. In 2015, the average rent increased 1.5 percent.

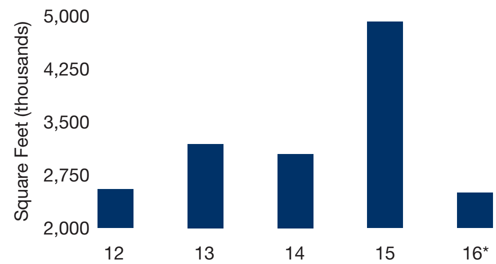
**Investment**

International investment is heating up as foreign buyers plan to inject millions of dollars into the local real estate market. These buyers will focus on stable, well-located shopping centers for safety plays.

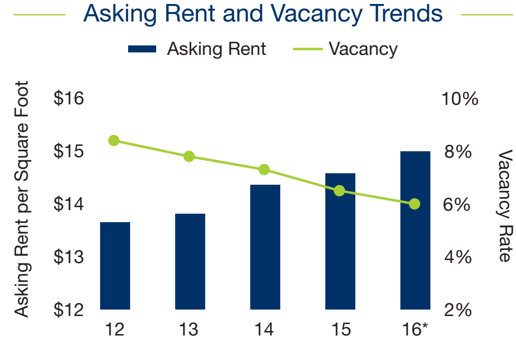
### Employment vs. Retail Sales



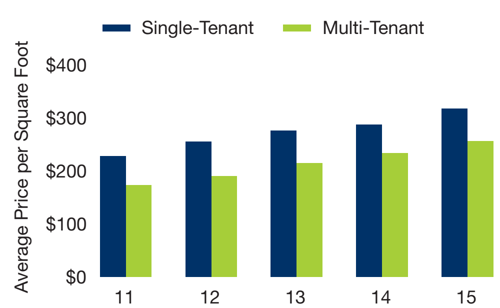

### Retail Completions




### Asking Rent and Vacancy Trends




### Sales Trends




* Forecast
Sources: CoStar Group, Inc.; Real Capital Analytics

# Solid Employment Growth and Positive Demographic Trends Attract Investors to Denver Retail Assets

Steady hiring across many of Denver's major employment sectors will benefit retail operations this year as vacancy constricts and rents rise. Job growth over the past few years has pushed employment nearly 10 percent above the pre-recession peak. As the market continues to progress economically, consumer confidence is building and retail sales will increase 7 percent this year, the fastest pace in more than a decade. National retailers such as Sam's Club, Wal-Mart and Gander Mountain are expressing more confidence in the market as they open new stores this year. This bright outlook is driving retail development of 1 million square feet of space in 2016. This includes the 140,000-square-foot Stanley Marketplace, which will come online in Aurora fully leased. Six restaurants, a deli and boutique grocery store were selected from applicants seeking space in the new center. This strong demand for space has contributed to vacancy tightening across the metro and just three submarkets recorded a rate above 6 percent at the end of last year.

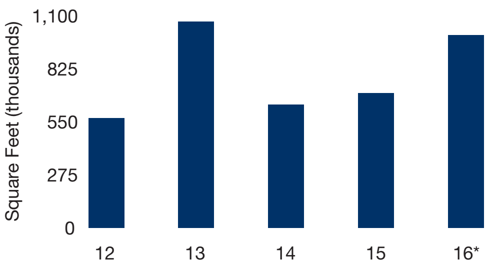
Tight conditions and solid retailer demand have buyers seeking multi-tenant properties throughout the Denver metro this year, with cap rates averaging in the low- to mid-7 percent range. Institutional grade buyers are also expanding portfolios in the region, targeting high-quality centers trading at initial yields beginning near 6 percent. Private investors, however, will remain the main buyer segment, and competition for assets priced below $10 million will rise this year as out-of-state buyers seek properties in the market. Investors in search of upside may find opportunities along future light-rail stops. These properties stand to benefit from increased foot traffic as rail extensions are opened over the next few years. Single-tenant product receives the bulk of investor attention, with demand most robust for auto repair, restaurant and fast-food establishments.

## 2016 Market Forecast

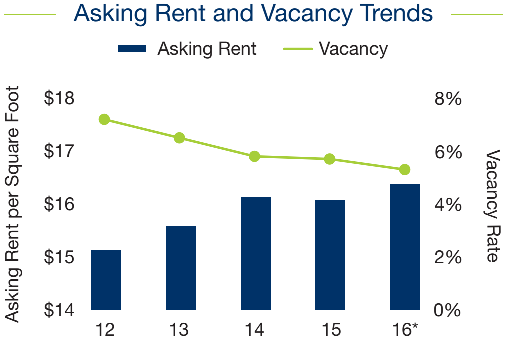
| | |
|---|---|
| **NRI Rank** 14, down 7 places | A slower pace of rent growth and job additions drove Denver out of the top ten this year. |
| **Employment** up 1.9% | Denver employment will expand 1.9 percent this year, or by 26,000 positions. In 2015, companies created 24,200 jobs for a staff expansion of 1.8 percent. |
| **Construction** 1 million sq. ft. | Builders will deliver 1 million square feet of retail space in 2016, an annual stock expansion of 0.8 percent. Developers brought 700,000 square feet online last year. |
| **Vacancy** down 40 bps | Vacancy will retreat 40 basis points in the coming months to 5.3 percent by year end. The rate declined 10 basis points in 2015. |
| **Rent** up 1.8% | Asking-rent growth will gain steam this year, rising 1.8 percent annually to $16.36 per square foot. Last year, the average asking rent dipped 0.3 percent. |
| **Investment** | Out-of-state investors are increasing competition for metro assets, resulting in many local buyers being priced out of the metro area. Local investors are beginning to target secondary and tertiary markets nearby, such as Colorado Springs, Fort Collins and Pueblo. |

### Employment vs. Retail Sales

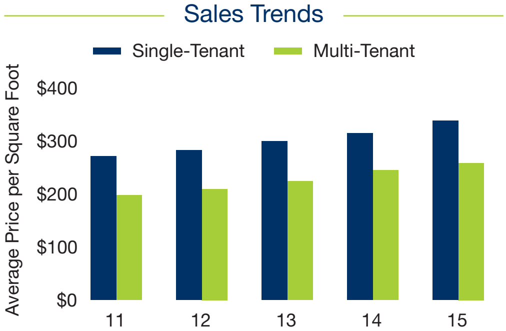

### Retail Completions




### Asking Rent and Vacancy Trends




### Sales Trends




* Forecast
Sources: CoStar Group, Inc.; Real Capital Analytics

# Revitalization is Changing Retail Landscape As Retailers and Investors Rediscover Detroit

Detroit's resurgence is attracting retailers to the metro and spurring construction. As revitalization in the city extends outward from downtown, retailers are following, particularly near the M-1 Rail, which will begin service later this year. Along the route, five neighborhoods are being developed within the 50-block Detroit District; all will include shops, restaurants and bars. The Detroit Events Center, the future home of the Detroit Red Wings, is the centerpiece for the surrounding mixture of retail, apartments, offices and hotels. The grocery landscape is also evolving. Kroger made inroads into the market with last year's purchase of Hiller's stores and has two marketplace formats scheduled for delivery in 2016. Other expanding grocers include Fresh Thyme, Meijer and Save-A-Lot. Head-to-head competition between Walgreens and Rite Aid could result in some vacancies this year if Walgreens sells stores to smooth regulatory approval ahead of the pending merger. Stronger tenant demand through the market, however, will contract vacancy and support rent growth this year.

The strengthening local economy and improving demographic trends are drawing buyers to the metro and increasing competition for available retail assets. Many investors expecting significant discounts will be disappointed as stronger operations have widened the pricing gap between buyers and sellers. With vigorous competition for single-tenant net-lease properties, more investors are considering small strip centers. Initial yields for these assets will begin in the mid-6 percent range for a new building with credit tenants and can start 200 basis points higher for existing properties with local retailers. Strip centers with a Rite Aid not located within the trade area of an existing Walgreens will likely benefit from the sturdier corporate backing, when the merger of Walgreens and Rite Aid is approved.

## 2016 Market Forecast

**NRI Rank**
44, up 2 places
Heightened demand will facilitate a strong dip in vacancy this year, lifting Detroit two spots in the NRI.

**Employment**
up 1.9%
Roughly 38,000 workers will be added to payrolls in 2016, a 1.9 percent gain. In 2015, job growth registered 2.0 percent.

**Construction**
1 million sq. ft.
Metro developers remain active and will complete 1 million square feet in 2016, a 0.4 percent expansion. This is on par with last year's deliveries.

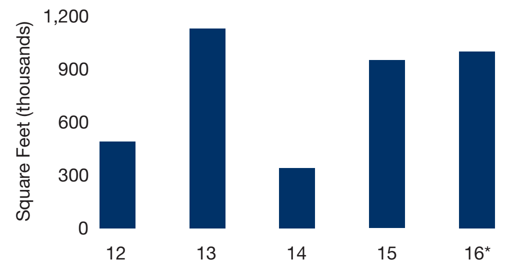
**Vacancy**
down 50 bps
Strong tenant demand will drop vacancy to the lowest level in almost 10 years. Vacancy will be at 8.7 percent by year end, down 50 basis points year over year, following a 50-basis-point decrease in 2015.

**Rent**
up 1.4%
The average asking rent will rise 1.4 percent to $12.10 per square foot in 2016, after a 0.4 percent dip last year.

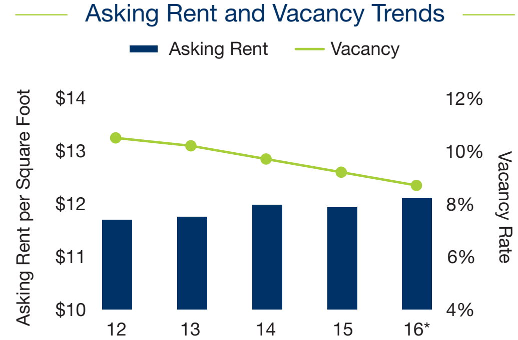
**Investment**
As revitalization spreads from downtown along major thoroughfares, mixed-use properties with ground-floor retail space in the Corktown and New Center neighborhoods will garner additional investor attention.

### Employment vs. Retail Sales

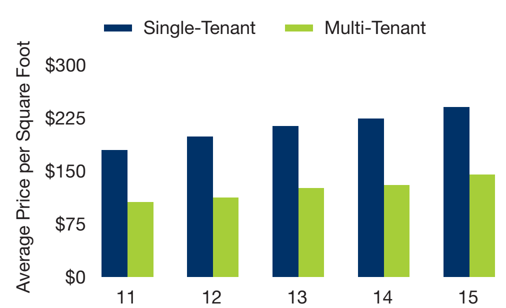

### Retail Completions




### Asking Rent and Vacancy Trends




### Sales Trends

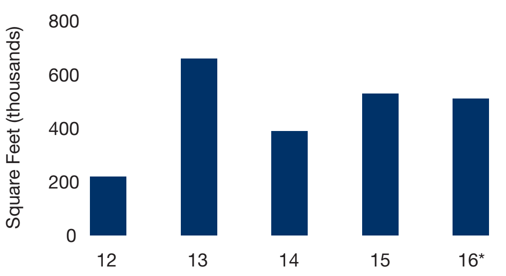



* Forecast
Sources: CoStar Group, Inc.; Real Capital Analytics

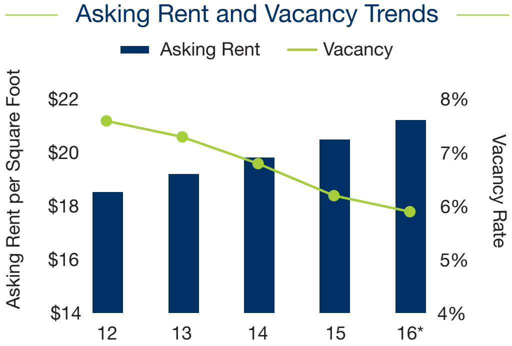
# Tourism, Job Growth Driving Retail Gains; Investors Position Near Tourist Destinations and Stable Centers

Employment vs. Retail Sales

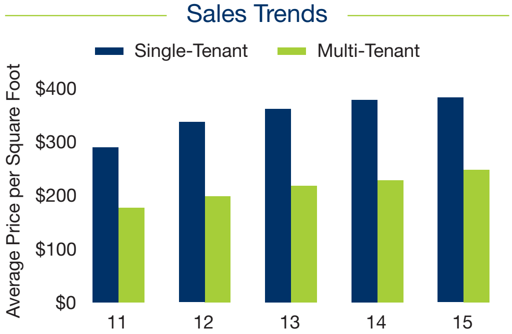

Retail Completions




Asking Rent and Vacancy Trends




Sales Trends




* Forecast
Sources: CoStar Group, Inc.; Real Capital Analytics

Rising tourist spending coupled with an expanding local economy is encouraging household formation and job creation. Although the pace of job creation has slowed, payrolls continue to grow, supporting retailers at nearby establishments. Local retail operations have benefited greatly from the upswing, tightening vacancy more than 200 basis points since 2009. However, despite a marked improvement, builders seem uninterested in expanding the project pipeline as retail deliveries are set to slide in 2016. The largest construction effort of the coming year is the Millennium Mall redevelopment in Hollywood, where signed tenants include Wal-Mart Super Center, Pollo Tropical and TD Bank. Beyond the redevelopment efforts, the construction pipeline consists of pre-leased single-tenant spaces near major employment and residential hubs, further reducing additions to supply. As a result, net absorption will further reduce dark space in the metro as firms compete for leases. In addition, the average asking rent will climb in the low-single digits.

Encouraged by improving retail operations, investors are seeking out Fort Lauderdale assets with proximity to major tourist destinations. Properties in the metro will average in the mid-6 percent for first-year yields, motivating buyers to deploy capital outside of primary markets. Additionally, the spectacular rise in the U.S. dollar has prompted a greater number of foreign investors to seek retail buildings with low or no management needs. While the urban core of Fort Lauderdale will make up the majority of closed transactions, additional listings can be found in nearby Pompano Beach and Hollywood, where yields can trade above the metro average by 50 basis points. Greater initial returns can be generated by seeking value-add strip and neighborhood centers in the western portions of the metro where operations are less stable. However, the general tightening in retail operations should benefit these assets greatly over the coming year.

## 2016 Market Forecast

**NRI Rank** 29, down 1 place — Fort Lauderdale dropped one slot this year despite above-average rent growth.

**Employment** up 2.6% — Local organizations will add 21,000 staffers this year, expanding payrolls by 2.6 percent. In the prior four quarters, 24,500 jobs were created.

**Construction** 510,000 sq. ft. — Development activity will slow to 510,000 square feet this year as builders focus on the Millennium Mall redevelopment and smaller single-tenant projects. Last year, 530,000 square feet was completed.

**Vacancy** down 30 bps — Limited increases to supply, coupled with robust pre-leasing, will trim the metro vacancy rate to 5.9 percent, down 30 basis points year over year. In the previous year, a 60-basis-point drop was recorded.

**Rent** up 3.5% — Tightening market conditions will prompt greater interest in dark spaces, fostering a 3.5 percent rise in the average asking rent to $21.19 per square foot.

**Investment** — Value-add assets, where available, will see increasing competition. Secondary submarkets are likely to outperform primary submarkets on a relative basis.

# Developers Busy in Houston; Regional Buyers Remain Confident in Retail Market

Developers are bullish in the Houston retail market, planning to bring more than 3 million square feet of retail space online this year and leading the nation in deliveries. While the metro stands to face significant headwinds as the energy sector remains a concern, growth in other industries such as the local medical community and downstream oil-and-gas operations is propelling the market. Several large projects are underway, including Valley Ranch Town Center in northeast Houston. The center will comprise more than 1 million square feet of shops, restaurants and entertainment space when completed later this year, making it a regional shopping destination as the Grand Parkway expansion in this area nears completion. The 450,000-square-foot Shoppes at Parkwest in Katy will also be delivered this year, anchored by Bed Bath and Beyond, Buy-Buy Baby and Kirkland's. Retail space coming online is largely pre-leased, and as a result vacancy will remain flat this year, hovering near historic lows.

Strong property operations will draw investors to the metro this year and regional buyers will remain extremely active in the coming months. Institutional investors continue to scale back portfolios in the market, allowing high-net-worth individuals the opportunity to compete for quality assets they were priced out of one year ago. Properties inside the loop remain in high demand and first-year returns begin near 6 percent. Throughout the metro, newer properties with credit tenants trade at initial yields in the mid-6 percent to 7 percent range, and trend upward 150 to 200 basis points moving farther from high-traffic areas and down the quality scale. The eastern portion of the metro is gaining steam as petrochemical companies expand and the Grand Parkway is well underway, drawing investors to properties nearby. In addition, single-tenant retail properties are in high demand as investors from all over the country target the market for quality deals, with cap rates starting near 5 percent.

## 2016 Market Forecast

**NRI Rank** 17, down 11 places — Slowed employment and flat vacancy pulled Houston back 11 places this year.

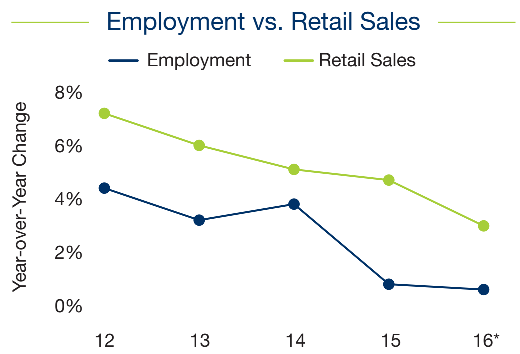
**Employment** up 0.6% — Houston employers will add 17,000 workers to staffs this year, expanding payrolls 0.6 percent. This is down slightly from the 0.8 percent rise achieved last year when companies created 23,600 jobs.

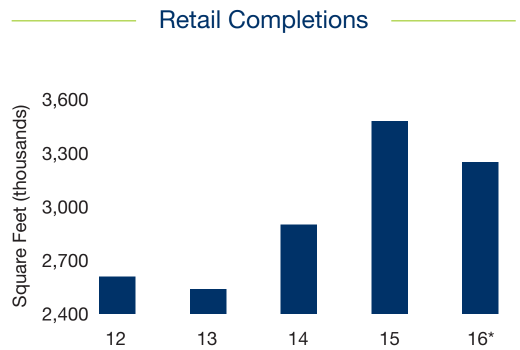
**Construction** 3.3 million sq. ft. — Builders will deliver nearly 3.3 million square feet of retail space this year, increasing stock 1.0 percent. Last year, developers completed 3.5 million square feet.

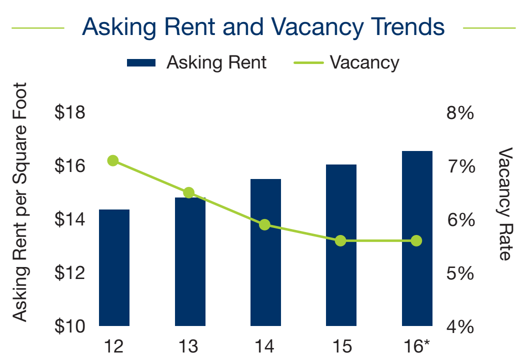
**Vacancy** no change — Vacancy will rest at 5.6 percent by year end, remaining flat from 2015. Last year, the rate dipped 30 basis points year over year.

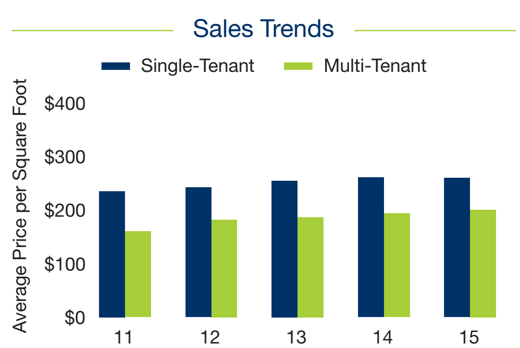
**Rent** up 3.1% — The average asking rent will reach $16.52 per square foot, increasing 3.1 percent year over year. A 3.5 percent growth rate was recorded in 2015.

**Investment** — Confidence in the long-term growth of The Woodlands submarket has builders investing in new projects. Buyers will seek retail assets nearby to capitalized on increased traffic and tenant demand.



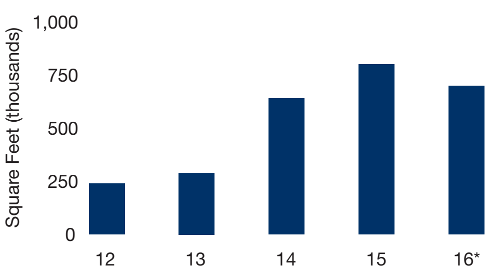



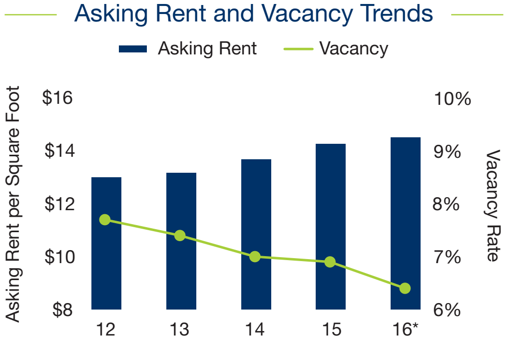

* Forecast
Sources: CoStar Group, Inc.; Real Capital Analytics

## Employment vs. Retail Sales

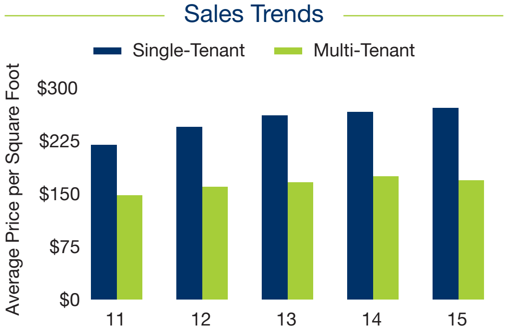

## Retail Completions




## Asking Rent and Vacancy Trends




## Sales Trends




* Forecast
Sources: CoStar Group, Inc.; Real Capital Analytics

# Stream of Investors Seek Higher Cash Flows In Indianapolis Retail Assets

Steady employment growth is drawing job seekers to the metro, supporting Indianapolis' retail sector. Strong hiring has dropped the unemployment rate below 5 percent, attracting new residents with more than 10,500 additional households expected in 2016. This growth coupled with rising incomes will drive retail sales up, benefiting existing stores as well as luring new ones. In Fishers, Ikea will begin construction of its first store in the state and in Greenwood, work is slated to begin on the first buildings in the 700,000-square-foot Greenwood Town Center. Both projects have 2017 openings scheduled. Throughout the metro, inline retailers of some shopping centers anchored by Kroger or Marsh should benefit as these companies remodel stores in an effort to retain market share. This year, Giant Eagle, Wal-Mart and Save-A-Lot join the list of grocers adding locations. Sizable tenant demand will contribute to overall vacancy tightening to the lowest rate in more than 10 years, pushing rents above the 2008 peak.

The metro's stability and the potential for higher cash flows are drawing investors from the coasts and other asset classes to retail properties. Buildings in Plainfield, Noblesville or Carmel will especially be desired for their strong population gains or desirable retail demographics. Buyers are getting more aggressive, particularly for net-leased single-tenant assets, at cap rates that are generally in the 5 to 6 percent range. Grocery-anchored centers are also in demand and will receive multiple offers at initial yields in the 7 percent span. As competition for the limited supply of quality assets intensifies, buyers will broaden their investment parameters and move down the quality scale or into secondary areas. Value-add investors can still find double-digit yields in redeveloping neighborhoods like Speedway. As investor interest and valuations rise, more owners will re-evaluate holdings, which may provide additional buying opportunities this year.

## 2016 Market Forecast

**NRI Rank**
39, up 2 places

Indianapolis moved up two places amid strengthening demand and low supply-side pressure.

**Employment**
up 2.4%

During 2016, Indianapolis employers will create 25,000 positions, a 2.4 percent gain. This follows a 2.7 percent increase last year.

**Construction**
700,000 sq. ft.

Construction activity will dip slightly this year as builders complete 700,000 square feet, a 0.7 percent expansion in stock. Last year 800,000 square feet was delivered.

**Vacancy**
down 50 bps

A slower development pipeline amid stronger tenant demand will lower vacancy 50 basis points to 6.4 percent in 2016. A 10-basis-point drop was recorded in 2015.

**Rent**
up 1.7%

In 2015, rent jumped 4.2 percent to the highest level in more than seven years. Less available space will push rent even higher this year as the average asking rent climbs 1.7 percent to $14.49 per square foot.

**Investment**

Redeveloping urban neighborhoods such as Broad Ripple in Indianapolis are attracting mixed-use developments that will boost surrounding property valuations and provide value-add opportunities nearby.

# Retail Vacancy Constricts to Nine-Year Low As Recovery Continues in Jacksonville

Strong job growth and a healthy overall economy will propel the Jacksonville retail market in 2016, and vacancy will decline for a fourth straight year. Advancement in the area's local medical community, as well as other high-paying professional industries, is encouraging to both consumers and retailers. As buyer confidence is heightened this year, retail sales are anticipated to grow more than 6 percent for a second consecutive year. In the coming months, Wal-Mart, Winn-Dixie and Publix will open new stores in the metro, as will smaller necessities-based retailers, CVS and multiple dollar stores. Construction in the metro remains limited to single-tenant projects and small strip centers. As this space comes online mostly pre-leased, the overall vacancy rate in the market will retreat to a level not realized since 2008. These tightening conditions will foster stout rent growth in the months to come.

Retail investors will target the Jacksonville metro for assets this year, in search of higher yields than those found in other Florida markets. Out-of-state buyers, especially those from California and the Northeast, are scouring the metro for stabilized deals, selling at cap rates between 8 and 9 percent. Local buyers, meanwhile, continue to seek value-add listings. These deals are becoming more limited as conditions tighten in areas of the metro, and investors will seek to create upside through capital infusions or bringing rents up to market. Competition for properties where the potential to add value is present will rise this year. Regional buyers will turn to this metro as nearby markets offer fewer of these opportunities. Single-tenant assets, meanwhile, remain in high demand. Auto-repair shops, restaurants and fast-food establishments draw the strongest interest and cap rates vary widely depending on tenant credit and lease terms. National fast-food retailers can draw initial yields near 5 percent.

## 2016 Market Forecast

**NRI Rank** 35, down 1 place — Jacksonville fell one place in the NRI this year as other markets will outperform the metro.

**Employment** up 2.9% — Jacksonville employers will create 19,000 jobs this year, expanding staffs 2.9 percent in 2016. Last year, companies added 17,200 workers, a 2.7 percent rise.

**Construction** 350,000 sq. ft. — After bringing 300,000 square feet of retail space online in 2015, builders will deliver 350,000 square feet of space to the market this year.

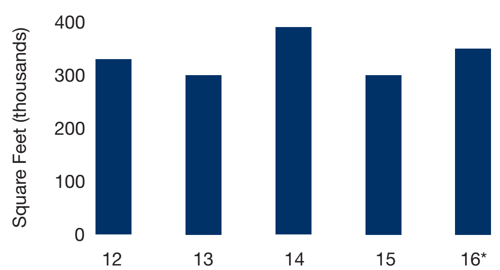
**Vacancy** down 50 bps — Vacancy will fall 50 basis points annually, reaching 7 percent by year-end 2016. The rate declined 70 basis points last year.

**Rent** up 3.1% — The average asking rent will advance 3.1 percent year over year to $13.58 per square foot. Last year, the average grew 1.9 percent.

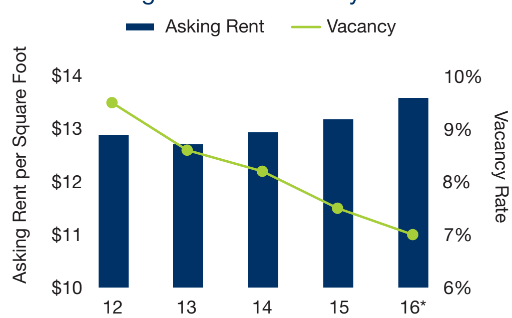
**Investment** — Strip and neighborhood centers near St. Johns Town Center are in high demand and typically trade at premiums. Investors holding on to retail assets nearby may choose to divest as buyer interest remains elevated.

### Employment vs. Retail Sales

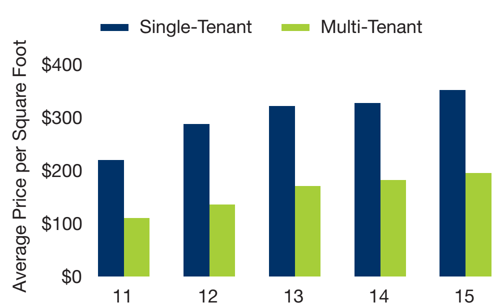

### Retail Completions




### Asking Rent and Vacancy Trends




### Sales Trends




* Forecast
Sources: CoStar Group, Inc.; Real Capital Analytics

# Transformation of Older Centers Reignites Retailer and Investor Interest in Kansas City

Kansas City retail operations will improve this year, fostered by employment and household gains. Increased hiring at local companies including Garmin and Burns & McDonnell will contribute to the formation of more than 10,000 households in the metro, generating additional demand for goods and services. In downtown Kansas City, retailers will benefit from revitalization efforts that are bringing residents and office workers back into the city. Also, the Kansas City Streetcar will begin service this year, offering free rides along a 2-mile route connecting Union Station and River Market, which will increase foot traffic nearby. Throughout the metro, older shopping centers including Metro North Mall, Truman Corners Shopping Center, Red Bridge Shopping Center and Ward Parkway Center are being renovated or redeveloped. These transformations are attracting new tenants. Vacancy finished 2015 at the lowest level in almost 10 years, though the rate is still near the highest among major metros nationwide. A slowdown in deliveries will allow vacancy to tighten further in 2016, resulting in a second consecutive year of asking-rent gains.

Improving operations will keep investors interested in retail assets in Kansas City. Throughout the metro, highly vacant older centers provide knowledgeable buyers with value-add opportunities. Assets along major transportation corridors or near large mixed-use infill redevelopment projects will especially be targeted. Once these strip centers are revitalized, these properties can bring in some traditional office-using tenants as lower rents and easy customer access draw medical, insurance and financial businesses. Single-tenant net-leased assets remain in strong demand and lure a wide range of capital to the metro. These assets will quickly trade at cap rates that begin in the low-5 percent range for well-located buildings with long-term credit tenants and move up to 200 basis points higher for secondary tenants and locations.

## 2016 Market Forecast

**NRI Rank**
42, no change

Kansas City held firm in the NRI this year amid reduced completions and a decline in vacancy.

**Employment**
up 0.7%

Employment growth slowed to 0.2 percent in 2015 as layoffs mounted. This year job gains of 0.7 percent are expected with the generation of 7,000 positions.

**Construction**
300,000 sq. ft.

A total of 300,000 square feet will be completed this year, a 0.2 percent increase in inventory. This is down from the 936,100 square feet delivered in 2015.

**Vacancy**
down 50 bps

A slowing construction pipeline amid strong tenant demand will culminate in vacancy declining 50 basis points to 7.1 percent in 2016. This follows a 50-basis-point drop last year, when net absorption topped 1.5 million square feet.

**Rent**
up 2.7%

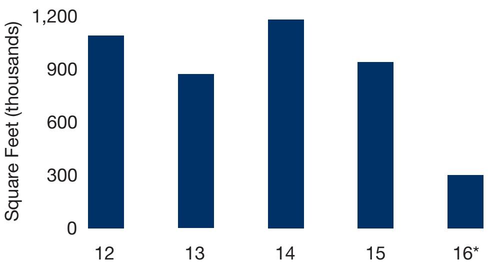
Tightening vacancy will contribute to the average asking rent advancing 2.7 percent to $12.08 per square foot in 2016. Last year, a 2.3 percent gain was registered.

**Investment**

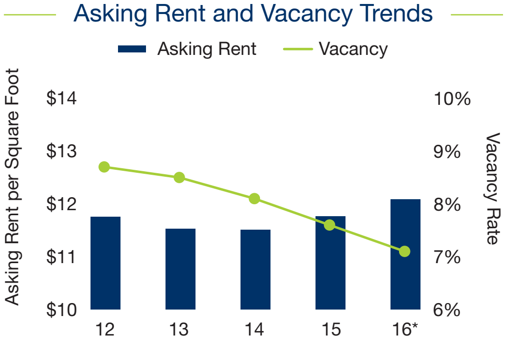
Buyers seeking cash flow may find opportunities in strip centers near infill apartment projects, especially near downtown Kansas City.

### Employment vs. Retail Sales

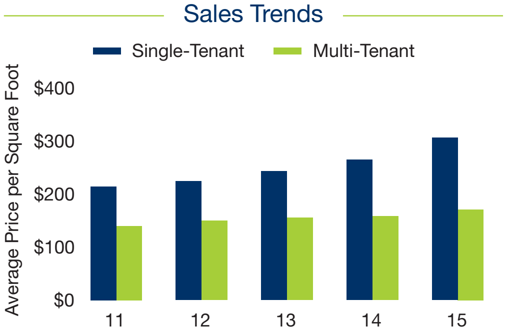

### Retail Completions




### Asking Rent and Vacancy Trends




### Sales Trends




* Forecast
Sources: CoStar Group, Inc.; Real Capital Analytics

# Investors Bet on Recovery of Las Vegas Retail; Occupancy and Rent Continue Steady Rise

Increased spending by both tourists and the expanding number of households indicates another solid year for the Las Vegas retail real estate market. Expanding casino, resort and convention operations have spurred hiring for the construction, leisure and hospitality industries. Growth by these employers helped push the metrowide unemployment rate down to 6.5 percent by the end of 2015, the lowest level since early 2008. Increased consumer confidence by metro shoppers in addition to strong spending by visitors will help annual retail sales volume exceed $40 billion by year end. Developers have taken notice and will ramp up construction efforts in 2016. The metro has a number of marquee developments in the works, most notably T-Mobile Arena located on the Vegas Strip. The new venue, expected to open in April of this year, will house concerts, conventions and sporting events, feeding the hospitality and retail markets in the surrounding area. Despite growing strength, Vegas is a late-recovery market with vacancy rates that typically trend higher than other Western metros. That being said, rising demand will encourage incremental tightening in 2016. Rent growth will follow suit as the average asking lease rate climbs this year.

Buyer motivation is highly yield-driven as out-of-state investors, particularly those from California, move into the metro seeking higher returns. A cap rate differential of about 150 to 250 basis points exists between Las Vegas and major California markets for comparable properties. As these California markets approach maturity, strong upside potential in the Las Vegas metro has drawn investor capital to local retail assets, pushing valuations higher. Although many property owners employ a wait-and-hold strategy, deal flow has ignited in the metro as sellers look to capitalize on growing demand. Heightened interest in metro assets has compressed first-year returns to the high-7 percent range.

## 2016 Market Forecast

**NRI Rank**
41, down 1 place
Las Vegas fell one spot in the NRI as vacancy remains the highest in the nation.

**Employment**
up 3.2%
Las Vegas employers will hire 29,500 workers in 2016, a jump of 3.2 percent. A gain of 2.0 percent was registered last year led by additions in the leisure and hospitality and construction sectors.

**Construction**
800,000 sq. ft.
Construction activity will accelerate in 2016 as developers add 800,000 square feet of retail space. Last year, 287,000 square feet was brought to market.

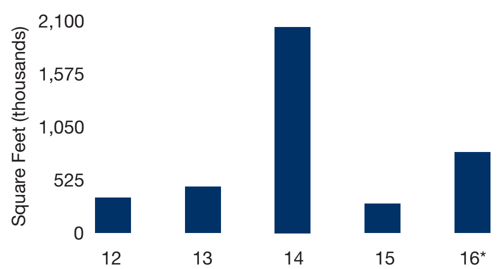
**Vacancy**
down 30 bps
Following a 40-basis-point increase in 2015, the metrowide vacancy rate will fall 30 basis points to 10.3 percent on net absorption of nearly 1 million square feet.

**Rent**
up 2.5%
The average asking rent will climb 2.5 percent to $16.77 per square foot this year. This is on pace with 2015 when rent growth also hit 2.5 percent.

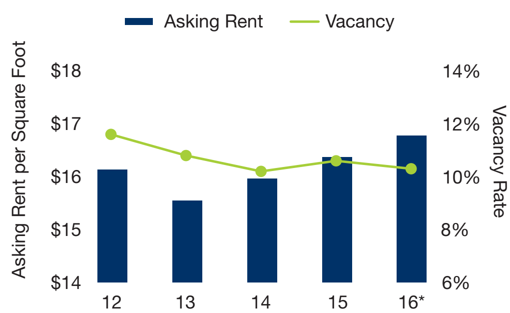
**Investment**
The Summerlin and Henderson areas will remain metro hot spots this year. Marketed properties will receive multiple bids due to a lack of available listings.

### Employment vs. Retail Sales

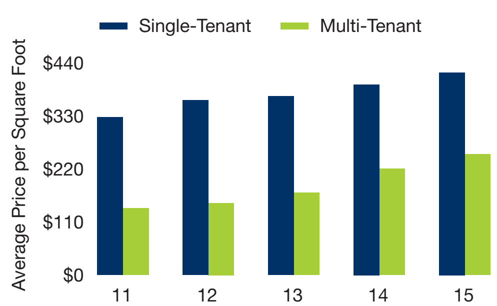

### Retail Completions




### Asking Rent and Vacancy Trends




### Sales Trends




* Forecast
Sources: CoStar Group, Inc.; Real Capital Analytics

Marcus & Millichap

| MSA Name | Employment Growth[2] | | | | Household Income[2] | | | | Retail Sales Growth[2] | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2013 | 2014 | 2015 | 2016* | 2013 | 2014 | 2015 | 2016* | 2013 | 2014 | 2015 | 2016* |
| Atlanta | 3.2% | 4.0% | 3.0% | 3.2% | $54,900 | $57,100 | $59,000 | $61,000 | 4.5% | 4.7% | 5.7% | 5.4% |
| Austin | 4.5% | 3.2% | 3.7% | 3.9% | $61,800 | $65,000 | $65,600 | $67,200 | 8.4% | 6.3% | 4.8% | 6.9% |
| Baltimore | 0.8% | 1.6% | 2.3% | 2.3% | $69,300 | $72,900 | $75,100 | $77,300 | 3.5% | 2.3% | 2.5% | 2.8% |
| Boston | 1.9% | 1.8% | 2.1% | 2.1% | $73,600 | $77,200 | $79,600 | $82,700 | 3.1% | 2.4% | 3.7% | 3.7% |
| Charlotte | 3.0% | 3.5% | 3.3% | 3.3% | $51,400 | $55,000 | $56,400 | $58,500 | 5.3% | 4.2% | 4.0% | 3.6% |
| Chicago | 1.6% | 1.2% | 0.6% | 1.2% | $60,700 | $62,900 | $64,900 | $67,500 | 3.0% | 2.9% | 2.9% | 4.9% |
| Cincinnati | 1.9% | 1.9% | 1.9% | 2.0% | $54,700 | $56,500 | $57,300 | $59,400 | 4.7% | 4.6% | 5.2% | 3.3% |
| Cleveland | 1.1% | 0.6% | 2.2% | 1.8% | $48,900 | $50,700 | $51,600 | $53,600 | 3.1% | 2.0% | 1.5% | 2.5% |
| Columbus | 2.4% | 2.2% | 1.9% | 2.4% | $54,100 | $57,900 | $58,700 | $60,900 | 4.5% | 2.5% | 1.5% | 3.3% |
| Dallas/Fort Worth | 3.1% | 4.1% | 3.0% | 2.0% | $57,700 | $60,700 | $61,600 | $63,000 | 5.7% | 4.9% | 4.7% | 3.6% |
| Denver | 3.7% | 4.0% | 1.8% | 1.9% | $64,300 | $68,700 | $71,100 | $73,700 | 5.3% | 4.1% | 3.4% | 3.5% |
| Detroit | 1.6% | 1.9% | 2.0% | 1.9% | $52,200 | $54,200 | $56,700 | $59,500 | 3.2% | 3.8% | 3.5% | 4.7% |
| Fort Lauderdale | 3.4% | 4.0% | 3.1% | 2.6% | $50,000 | $52,600 | $54,600 | $56,500 | 5.4% | 4.0% | 5.2% | 5.0% |
| Houston | 3.2% | 3.8% | 0.8% | 0.6% | $58,100 | $61,300 | $61,500 | $62,800 | 6.0% | 5.1% | 4.7% | 3.0% |
| Indianapolis | 2.9% | 2.0% | 2.7% | 2.4% | $50,600 | $53,600 | $56,100 | $59,000 | 6.6% | 4.8% | 5.4% | 3.7% |
| Jacksonville | 3.1% | 2.7% | 2.7% | 2.9% | $50,100 | $51,400 | $53,700 | $56,000 | 4.5% | 4.6% | 6.0% | 6.2% |
| Kansas City | 1.5% | 2.8% | 0.2% | 0.7% | $56,400 | $57,600 | $59,300 | $61,600 | 3.0% | 4.1% | 1.7% | 2.6% |
| Las Vegas | 3.3% | 3.8% | 2.0% | 3.2% | $50,600 | $51,600 | $53,400 | $54,700 | 5.6% | 4.9% | 2.6% | 5.3% |
| Los Angeles | 2.7% | 2.3% | 2.2% | 1.5% | $54,900 | $56,300 | $57,900 | $60,400 | 4.3% | 4.2% | 3.5% | 3.4% |
| Louisville | 1.6% | 3.8% | 2.4% | 2.6% | $50,300 | $51,500 | $52,400 | $54,100 | 5.2% | 3.9% | 2.7% | 3.6% |
| Miami-Dade | 2.4% | 3.4% | 1.4% | 2.1% | $42,400 | $43,300 | $45,100 | $46,800 | 5.4% | 5.1% | 4.7% | 4.4% |
| Milwaukee | 1.6% | 1.1% | 0.8% | 0.8% | $52,500 | $54,000 | $55,800 | $57,900 | 3.2% | 2.2% | 0.6% | 1.0% |
| Minneapolis-St. Paul | 2.2% | 1.8% | 1.8% | 1.8% | $68,200 | $70,000 | $70,500 | $71,600 | 3.9% | 3.4% | 2.5% | 2.7% |
| Nashville | 3.7% | 3.4% | 3.2% | 2.9% | $51,600 | $53,400 | $55,100 | $57,500 | 3.1% | 4.2% | 3.6% | 3.3% |
| New Haven-Fairfield County | 0.8% | 1.7% | 1.3% | 1.3% | $70,300 | $75,200 | $77,300 | $80,700 | 3.0% | 2.7% | 4.0% | 3.0% |
| New York City | 3.0% | 3.0% | 2.1% | 2.1% | $59,400 | $62,700 | $64,700 | $67,100 | 4.8% | 5.0% | 3.8% | 3.5% |
| Northern New Jersey | 0.8% | 1.0% | 1.2% | 0.9% | $68,900 | $69,700 | $71,700 | $74,700 | 4.1% | 4.2% | 4.8% | 4.0% |
| Oakland | 2.5% | 3.0% | 2.0% | 2.5% | $75,800 | $80,100 | $82,700 | $86,300 | 6.2% | 5.3% | 3.5% | 3.2% |
| Orange County | 2.0% | 3.0% | 2.7% | 2.9% | $75,700 | $76,800 | $78,700 | $81,500 | 3.4% | 4.8% | 3.7% | 3.8% |
| Orlando | 3.6% | 4.5% | 3.3% | 3.1% | $47,100 | $49,000 | $50,900 | $52,800 | 6.0% | 6.7% | 6.1% | 6.5% |
| Philadelphia | 0.7% | 1.6% | 1.3% | 1.1% | $62,300 | $65,000 | $66,900 | $69,700 | 3.0% | 2.0% | 2.4% | 2.9% |
| Phoenix | 2.9% | 2.7% | 2.9% | 2.9% | $52,300 | $54,000 | $55,300 | $57,100 | 4.7% | 6.8% | 4.8% | 4.8% |
| Pittsburgh | -0.1% | 0.8% | 1.2% | 0.9% | $51,400 | $53,200 | $55,000 | $57,800 | 1.6% | 2.1% | 4.1% | 3.4% |
| Portland | 3.0% | 2.9% | 3.8% | 3.9% | $58,900 | $61,400 | $63,700 | $66,000 | 5.3% | 4.6% | 3.8% | 4.5% |
| Riverside-San Bernardino | 4.8% | 3.7% | 3.6% | 3.8% | $53,400 | $55,300 | $56,100 | $57,300 | 4.5% | 4.2% | 2.6% | 3.8% |
| Sacramento | 3.0% | 2.6% | 2.5% | 2.9% | $58,400 | $61,300 | $63,000 | $65,400 | 5.3% | 4.1% | 5.1% | 5.3% |
| Salt Lake City | 3.2% | 2.9% | 3.1% | 3.3% | $61,900 | $63,200 | $65,700 | $68,800 | 7.4% | 3.3% | 5.0% | 4.6% |
| San Antonio | 2.9% | 3.3% | 3.5% | 3.6% | $51,900 | $53,400 | $53,900 | $55,200 | 4.9% | 4.4% | 2.6% | 2.9% |
| San Diego | 2.6% | 2.7% | 2.7% | 2.8% | $62,800 | $68,400 | $70,300 | $72,900 | 5.7% | 5.2% | 4.2% | 4.5% |
| San Francisco | 4.3% | 4.6% | 3.7% | 3.9% | $83,300 | $97,300 | $101,100 | $107,800 | 6.9% | 7.6% | 7.0% | 6.1% |
| San Jose | 4.2% | 5.0% | 4.4% | 4.5% | $93,800 | $98,900 | $102,800 | $108,200 | 4.9% | 3.7% | 3.8% | 4.5% |
| Seattle-Tacoma | 3.0% | 3.3% | 3.0% | 3.0% | $68,500 | $74,100 | $77,500 | $81,700 | 10.3% | 9.8% | 8.4% | 6.5% |
| St. Louis | 0.8% | 0.8% | 1.2% | 0.9% | $54,100 | $56,500 | $58,200 | $60,700 | 2.7% | 2.8% | -0.1% | 0.9% |
| Tampa-St. Petersburg | 2.5% | 2.9% | 3.1% | 3.3% | $45,700 | $47,800 | $49,900 | $52,000 | 3.7% | 5.1% | 6.5% | 5.8% |
| Washington, D.C. | 0.3% | 1.4% | 2.1% | 2.0% | $88,600 | $93,400 | $95,200 | $97,700 | 3.4% | 3.5% | 3.8% | 3.0% |
| West Palm Beach | 4.0% | 3.6% | 2.4% | 2.6% | $51,800 | $52,500 | $55,100 | $57,800 | 5.0% | 6.3% | 4.1% | 4.5% |
| U.S. Total | 1.8% | 2.3% | 1.9% | 1.8% | $52,400 | $54,600 | $56,100 | $58,000 | 2.9% | 4.7% | 3.2% | 4.1% |

* Forecast [2] See Statistical Summary Note on page 64.

| Completions (000 of Sq. Ft.)[2] | | | | Vacancy (Year-End)[2] | | | | Rent ($/Sq. Ft., NNN)[2] | | | | MSA Name |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 2013 | 2014 | 2015 | 2016* | 2013 | 2014 | 2015 | 2016* | 2013 | 2014 | 2015 | 2016* | |
| 1,350 | 2,320 | 920 | 760 | 9.6% | 8.6% | 7.8% | 7.0% | $13.39 | $13.40 | $13.40 | $13.55 | Atlanta |
| 680 | 1,030 | 500 | 450 | 5.4% | 5.3% | 4.1% | 3.7% | $17.78 | $18.40 | $20.27 | $21.81 | Austin |
| 520 | 440 | 570 | 920 | 5.4% | 5.1% | 5.4% | 5.6% | $18.42 | $17.99 | $18.20 | $18.35 | Baltimore |
| 1,090 | 1,850 | 1,220 | 1,600 | 3.9% | 3.6% | 3.3% | 2.9% | $17.41 | $17.61 | $18.10 | $18.73 | Boston |
| 1,080 | 1,010 | 1,140 | 1,400 | 7.3% | 6.5% | 6.2% | 5.6% | $13.43 | $14.55 | $14.25 | $14.73 | Charlotte |
| 2,960 | 3,170 | 2,490 | 2,200 | 9.3% | 8.5% | 8.2% | 7.8% | $17.08 | $17.20 | $17.09 | $17.43 | Chicago |
| 140 | 90 | 710 | 1,000 | 7.5% | 7.1% | 6.5% | 5.8% | $10.48 | $11.44 | $10.79 | $11.11 | Cincinnati |
| 610 | 540 | 510 | 670 | 9.0% | 8.3% | 7.5% | 7.1% | $10.77 | $10.75 | $10.87 | $10.99 | Cleveland |
| 740 | 1,170 | 440 | 900 | 7.3% | 6.3% | 5.7% | 5.3% | $11.42 | $11.66 | $11.44 | $11.89 | Columbus |
| 3,190 | 3,050 | 4,920 | 2,500 | 7.8% | 7.3% | 6.5% | 6.0% | $13.81 | $14.35 | $14.57 | $14.98 | Dallas/Fort Worth |
| 1,070 | 640 | 700 | 1,000 | 6.5% | 5.8% | 5.7% | 5.3% | $15.58 | $16.12 | $16.07 | $16.36 | Denver |
| 1,130 | 340 | 950 | 1,000 | 10.2% | 9.7% | 9.2% | 8.7% | $11.75 | $11.98 | $11.93 | $12.10 | Detroit |
| 660 | 390 | 530 | 510 | 7.3% | 6.8% | 6.2% | 5.9% | $19.19 | $19.80 | $20.47 | $21.19 | Fort Lauderdale |
| 2,540 | 2,900 | 3,480 | 3,250 | 6.5% | 5.9% | 5.6% | 5.6% | $14.79 | $15.48 | $16.02 | $16.52 | Houston |
| 290 | 640 | 800 | 700 | 7.4% | 7.0% | 6.9% | 6.4% | $13.16 | $13.67 | $14.25 | $14.49 | Indianapolis |
| 300 | 390 | 300 | 350 | 8.6% | 8.2% | 7.5% | 7.0% | $12.70 | $12.93 | $13.17 | $13.58 | Jacksonville |
| 870 | 1,180 | 940 | 300 | 8.5% | 8.1% | 7.6% | 7.1% | $11.52 | $11.50 | $11.76 | $12.08 | Kansas City |
| 460 | 2,040 | 290 | 800 | 10.8% | 10.2% | 10.6% | 10.3% | $15.54 | $15.96 | $16.36 | $16.77 | Las Vegas |
| 660 | 1,070 | 1,780 | 580 | 5.2% | 4.8% | 4.8% | 4.3% | $25.41 | $26.42 | $27.66 | $28.55 | Los Angeles |
| 150 | 660 | 590 | 680 | 6.6% | 5.5% | 5.3% | 5.0% | $11.77 | $11.81 | $12.75 | $13.43 | Louisville |
| 500 | 1,030 | 1,000 | 1,550 | 4.2% | 3.9% | 3.6% | 3.4% | $27.53 | $29.37 | $30.99 | $32.35 | Miami-Dade |
| 710 | 370 | 1,240 | 800 | 7.6% | 7.3% | 7.1% | 6.9% | $11.63 | $11.63 | $11.26 | $11.56 | Milwaukee |
| 770 | 1,280 | 1,030 | 1,000 | 5.2% | 5.5% | 5.3% | 5.4% | $13.59 | $14.11 | $13.45 | $13.92 | Minneapolis-St. Paul |
| 460 | 660 | 480 | 370 | 7.0% | 5.9% | 5.5% | 4.9% | $14.03 | $14.62 | $15.51 | $16.21 | Nashville |
| 120 | 200 | 430 | 620 | 5.6% | 5.4% | 5.6% | 5.9% | $19.19 | $19.71 | $20.19 | $20.59 | New Haven-Fairfield County |
| 820 | 2,220 | 1,370 | 2,600 | 4.3% | 4.2% | 3.8% | 3.9% | $52.47 | $52.46 | $53.80 | $55.09 | New York City |
| 410 | 780 | 930 | 200 | 5.5% | 5.0% | 5.0% | 4.7% | $22.27 | $23.05 | $23.16 | $23.85 | Northern New Jersey |
| 370 | 180 | 450 | 750 | 4.8% | 3.9% | 3.7% | 3.5% | $21.92 | $22.86 | $24.03 | $24.99 | Oakland |
| 170 | 260 | 640 | 570 | 5.3% | 4.7% | 4.3% | 3.9% | $22.85 | $24.46 | $26.01 | $27.26 | Orange County |
| 760 | 570 | 1,130 | 1,700 | 7.3% | 6.8% | 6.0% | 5.3% | $15.46 | $15.56 | $15.96 | $16.58 | Orlando |
| 1,340 | 540 | 1,600 | 1,490 | 6.6% | 6.4% | 6.4% | 6.2% | $15.33 | $16.12 | $16.14 | $16.62 | Philadelphia |
| 1,010 | 760 | 660 | 1,200 | 11.4% | 10.4% | 10.0% | 9.6% | $14.40 | $14.54 | $14.80 | $15.13 | Phoenix |
| 720 | 930 | 320 | 340 | 4.4% | 4.2% | 3.8% | 3.3% | $12.26 | $12.45 | $12.30 | $12.44 | Pittsburgh |
| 410 | 980 | 730 | 500 | 5.3% | 4.9% | 4.9% | 4.3% | $16.60 | $17.08 | $17.45 | $18.04 | Portland |
| 910 | 990 | 710 | 1,200 | 9.7% | 9.2% | 9.1% | 8.6% | $15.85 | $15.86 | $15.99 | $16.44 | Riverside-San Bernardino |
| 620 | 640 | 560 | 500 | 10.2% | 9.1% | 8.3% | 7.4% | $15.84 | $16.22 | $15.99 | $16.57 | Sacramento |
| 440 | 750 | 690 | 410 | 4.8% | 4.5% | 4.4% | 4.1% | $12.77 | $13.05 | $13.91 | $14.73 | Salt Lake City |
| 1,230 | 1,730 | 530 | 600 | 6.1% | 5.8% | 5.5% | 5.1% | $14.80 | $15.05 | $14.97 | $15.34 | San Antonio |
| 420 | 380 | 650 | 380 | 4.9% | 4.3% | 5.1% | 4.8% | $21.83 | $22.96 | $23.04 | $23.62 | San Diego |
| 80 | 100 | 10 | 260 | 2.5% | 2.3% | 2.4% | 2.6% | $31.04 | $34.72 | $38.05 | $40.10 | San Francisco |
| 440 | 790 | 510 | 540 | 4.6% | 3.8% | 4.6% | 4.5% | $28.85 | $30.10 | $32.48 | $33.81 | San Jose |
| 790 | 600 | 400 | 300 | 6.1% | 5.1% | 4.6% | 4.2% | $18.10 | $18.42 | $18.59 | $18.83 | Seattle-Tacoma |
| 950 | 330 | 1,060 | 600 | 8.0% | 7.4% | 6.9% | 6.7% | $12.26 | $12.23 | $12.44 | $12.53 | St. Louis |
| 780 | 920 | 1,970 | 700 | 7.9% | 7.1% | 6.5% | 6.0% | $14.00 | $13.90 | $13.84 | $13.96 | Tampa-St. Petersburg |
| 1,960 | 1,910 | 1,590 | 1,670 | 5.2% | 5.0% | 4.8% | 4.7% | $24.34 | $25.16 | $25.47 | $26.03 | Washington, D.C. |
| 310 | 1,040 | 280 | 480 | 6.5% | 6.6% | 5.8% | 5.4% | $17.85 | $18.39 | $19.84 | $20.71 | West Palm Beach |
| 1,440 | 47,910 | 7,040 | 46,000 | 7.0% | 6.5% | 6.2% | 5.9% | $17.62 | $18.08 | $18.45 | $18.97 | U.S. Total |

* Forecast [2] See Statistical Summary Note on page 64.

# Expanding Multifamily Sector, Surging Silicon Beach Underpin Retail-Asset Demand in Urban Core

Broad-based, steady economic growth in Los Angeles County is strengthening the outlook for the retail sector in 2016. Corporations continue to pen leases along the coasts, providing retailers with incentives to take on new spaces as workers pour into the region, particularly in the Westside Cities and downtown Los Angeles areas. Additionally, the vast number of multifamily projects throughout the city has encouraged retail expansion ahead of residential construction, leading to falling vacancy rates as builders struggle to keep up with demand. This year's offerings will be highlighted by the Runway at Playa Vista, a mixed-use project situated along Silicon Beach in the South Bay; the development accounts for more than a third of completions slated for delivery. Collectively, the pace of construction will slow considerably in 2016, allowing demand to overtake new supply increases by a wide margin. The resulting environment will trigger a sharp contraction in vacancy, accompanied by a mid-single-digit asking-rent ascension.

Tightening operations and robust credit markets, amid a historically low interest rate foundation, have motivated investors to seek properties with improving prospects. Institutional buyers are funneling money into downtown Los Angeles and the Westside Cities, where high-end assets provide a strong margin of safety, while smaller pools of capital focus on the San Fernando Valley and South Bay. Repositionings and changing demographics in these locales, along with more affordable assets for sale, allow more attractive returns through rising rents and sale price appreciation. Average first-year yields in the county will begin in the mid-4 percent range, with suburban locales pushing into the mid-5 percent area. Outdated industrial assets in quality urban locations will see interest accelerate as investors place increasing value on the sparse amounts of space available for larger mixed-use projects with ground-floor retail.

## 2016 Market Forecast

**NRI Rank** 5, up 5 places — Limited supply additions will facilitate a strong dip in vacancy this year, lifting Los Angeles five places.

**Employment** up 1.5% — Los Angeles County employers will create 65,000 new jobs this year, down modestly from the 93,000 positions added in 2015.

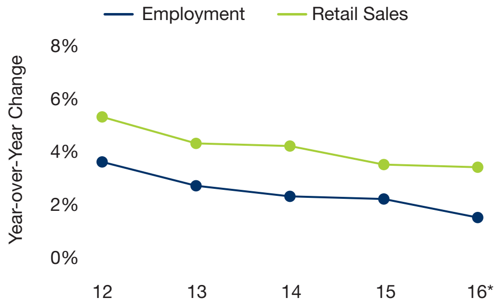
**Construction** 575,000 sq. ft. — The pace of development will contract sharply in 2016, as 575,000 square feet comes online, with the majority of the space to be delivered in downtown Los Angeles and the South Bay. Last year, builders completed 1.7 million square feet.

**Vacancy** down 50 bps — Falling construction and robust net absorption will lead vacancy to contract 50 basis points to 4.3 percent. Last year, vacancy was unchanged.

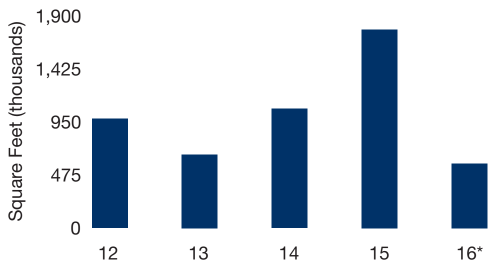
**Rent** up 3.2% — As the market tightens, the asking rent for available space will expand 3.2 percent to $28.55 per square foot. In the previous year, the average rent vaulted 4.7 percent.

**Investment** — Buyers seeking higher relative yields will target well-located assets in the San Fernando Valley, particularly as property values continue to improve.

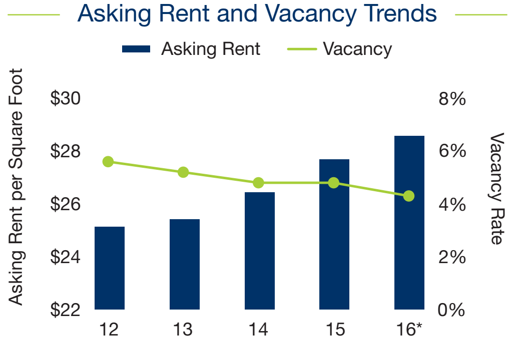
### Employment vs. Retail Sales



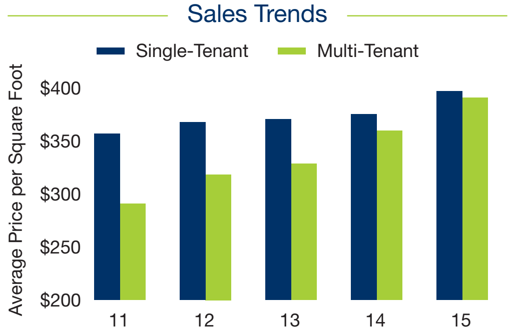

### Retail Completions




### Asking Rent and Vacancy Trends




### Sales Trends




* Forecast
Sources: CoStar Group, Inc.; Real Capital Analytics

# Louisville's Brightening Economic Outlook Encourages Retail Expansion, Attracts Investors

Steady economic growth in Louisville will bode well for retail-property operations this year, pushing vacancy to a 10-year low and encouraging the strongest rent growth in nearly a decade. Employment in the metro has surpassed the pre-recession peak by 5 percent, and companies will continue to fill new positions as business conditions improve. Google is exploring the opportunity to bring its Fiber network to the city, and officials hope to establish the area as a technology hub in the Midwest, boosting hiring in IT-related fields. This positive outlook is advancing retail sales and tenant demand for the market as both consumers and retailers display greater confidence. Necessities-based retailers are leading development efforts in the region; Wal-Mart will open four Supercenters this year and Kroger will add one store. Dollar stores will also add locations in the coming months as retail development remains mostly limited to single-tenant space. As vacancy at multi-tenant centers tightens further this year, the construction pipeline will begin to fill.

Strengthening property operations will draw investors to the Louisville retail market, boosting transaction velocity this year. Local buyers will continue to dominate the multi-tenant segment, targeting assets between $1 million and $5 million trading at initial yields in the low- to mid-8 percent range. Competitive lending will support buyers as they make investments in the market through the year. As cap rates compress in coastal markets, these buyers will look to exchange into metro assets in search of higher yields than those found in their home markets. Assets north of Interstate 64 and on the eastern side of town will be in highest demand. Sales velocity for single-tenant properties in the metro will remain strong, and cap rates start in the mid-5 percent area for best-in-class assets.

## 2016 Market Forecast

**NRI Rank**
37, up 2 places
Louisville rose two places in the NRI this year as rent growth is one of the strongest in the nation.

**Employment**
up 2.6%
Employment will rise 2.6 percent annually in 2016 as companies add 17,000 workers to payrolls. Last year, a 2.4 percent expansion was realized as 15,100 positions were created.

**Construction**
680,000 sq. ft.
Builders will complete 680,000 square feet of retail space this year, up from the 590,000 square feet of space delivered in 2015.

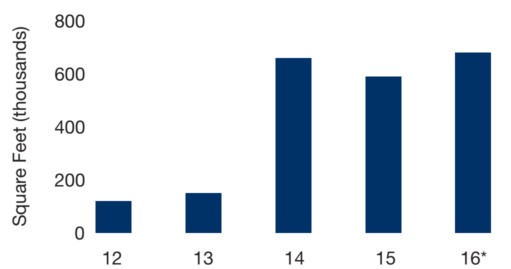
**Vacancy**
down 30 bps
Following a 20-basis-point decline last year, vacancy will retreat 30 basis point in 2016, reaching 5.0 percent by year end.

**Rent**
up 5.3%
After rising 8.0 percent in 2015, the average asking rent will realize a second year of strong growth, increasing 5.3 percent this year to $13.43 per square foot.

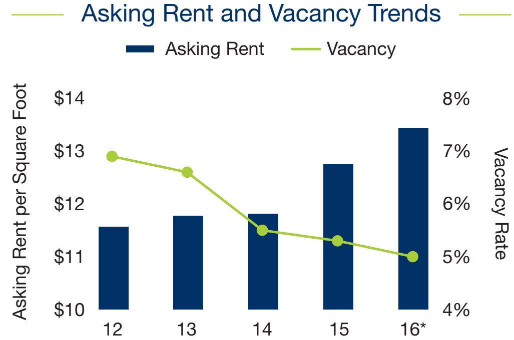
**Investment**
Heightened demand and cap rates that have compressed over the past few years will draw sellers from the sidelines in the coming months, contributing to an increase in sales activity.

Employment vs. Retail Sales

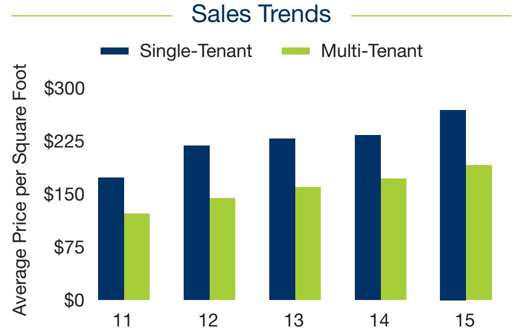

Retail Completions




Asking Rent and Vacancy Trends

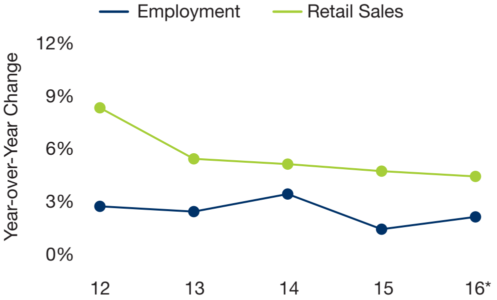



Sales Trends

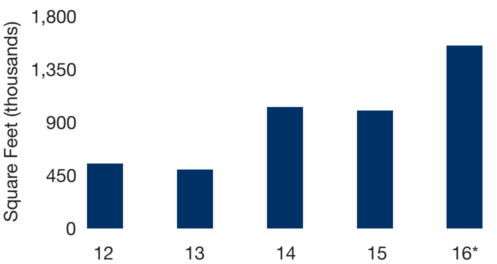



* Forecast
Sources: CoStar Group, Inc.; Real Capital Analytics

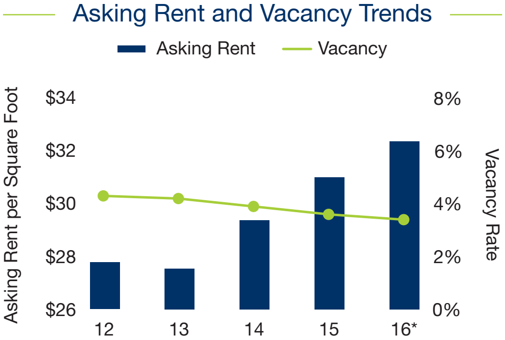
## Employment vs. Retail Sales



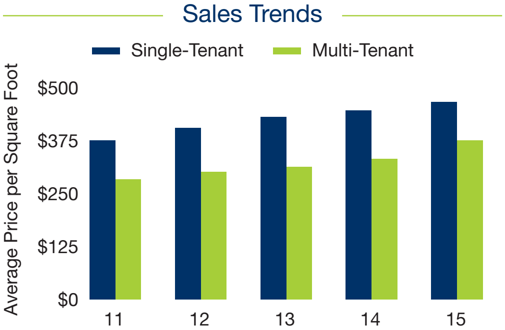

## Retail Completions




## Asking Rent and Vacancy Trends




## Sales Trends




* Forecast
Sources: CoStar Group, Inc.; Real Capital Analytics

# International Influence Felt in Miami Retail Market; Vacancy Rates Reach Post-Recession Low

Tight market conditions and continued growth in the metro's robust tourism industry leave developers feeling bullish in the Miami-Dade retail market. New completions will reach the greatest level of the current expansion as builders move to capitalize on elevated demand. Despite record development activity, over construction has not been a concern as net absorption of more than 1.7 million square feet will encourage further vacancy compression this year. Miami-Dade will remain in the top five of the nation's tightest metros, further emboldening market participants. The area is known for its luxury shopping and dining offerings, with both domestic and international tourism dollars flowing into the metro. This, combined with strong employment numbers, has underpinned another year of solid retail-sales growth. Scarcity of available retail space amid heightened demand will spur steady rent increases this year.

The Miami investment market is flush with liquidity as consistent yields and improving fundamentals keep investor sentiment optimistic in 2016. The impact of increased volatility in the global financial markets can be felt in Southern Florida with foreign investors looking to Miami-Dade real estate as a store of wealth. Although there are some European and Asian influences in the metro, South American buyers have been the main overseas player. These well-funded buyers are willing to bid heavily on available product, helping drive valuations up to a 15-year high. Investors have begun showing some resistance to outsize pricing, however, which may cause exceptional cap-rate compression to level off this year, particularly for single-tenant properties. Multi-tenant assets, on the other hand, may have some room to grow as less risk-adverse investors continue to look to value-add and distressed properties to further bolster returns. First-year yields for these properties can average in the high-6 to mid-7 percent range, while well-located, unanchored assets reach the 5 percent territory.

## 2016 Market Forecast

**NRI Rank**
8, up 3 places
Miami rose three places as vacancy continues to constrict and asking-rent growth soars.

**Employment**
up 2.1%
Miami-Dade employers will add 23,700 workers to the market in 2016, a 2.1 percent year-over-year jump. This is an acceleration from last year when metro job growth was 1.4 percent.

**Construction**
1.5 million sq. ft.
Developers will complete 1.5 million square feet of retail space this year, growing metro inventory by 1.4 percent. Last year, nearly 1 million square feet was delivered.

**Vacancy**
down 20 bps
Following a 30-basis-point decrease in 2015, the vacancy rate will fall 20 basis points to 3.4 percent this year on more than 1.7 million square feet of net absorption.

**Rent**
up 4.4%
Rent growth will hit 4.0 percent for three straight years as the average asking rate reaches $32.35 per square foot, up 4.4 percent year over year.

**Investment**
Institutional buyers focus on high street retail in the South Beach area, leveraging their deep pockets to aggressively pursue available assets.

# Retail-Hub Expansions Draw New Retailers, Investors to Milwaukee

Job growth and rising household incomes in Milwaukee will contribute to a brighter outlook for area retailers this year. Strong tenant demand pushed completions to a seven-year high in 2015, largely due to Meijer's rapid expansion. This year, marketwide deliveries will slow but remain slightly above the five-year average. The majority of the development is centered in the suburbs. In Wauwatosa, the second phase of Mayfair Collection is underway. The success of the first phase has spurred additional retail and residential construction, which is improving the density and walkability of the Burleigh Triangle neighborhood, benefiting nearby stores. In Brookfield, the first Corners of Brookfield retailers will open in the final quarter. Also, Meijer's new location along Sunset Drive in Waukesha is encouraging further retail activity, including a Kohl's Off/Aisle at the former Kmart site. Rising tenant demand in 2016 will drop vacancy to the lowest point of this cycle, driving rents higher.

Milwaukee retail assets will draw a wider pool of investors as improving operations and the availability of capital entice more buyers to the market. Single-tenant net-lease assets will remain the focus of many investors, although competition for available properties will move some buyers to consider small strip centers with credit tenants. Cap rates for these assets typically start in the upper-6 percent area. Kroger's recent purchase of Roundy's has some owners of Pick 'n Save-anchored centers considering listing to capitalize on investor interest in shopping centers with a strong corporate lease guarantee. This should provide additional buying opportunities of grocery-anchored centers at initial yields starting in the mid-6 percent range, depending on quality, lease term and location. Heightened investor interest is intensifying competition in local retail properties and pushing prices higher. Aggressive valuations, however, are generating more resistance from buyers and lenders.

## 2016 Market Forecast

**NRI Rank** 46, down 3 places — Milwaukee occupies the final spot in the NRI due to slowing job growth.

**Employment** up 0.8% — Milwaukee employers will generate 7,000 jobs in 2016, a 0.8 percent expansion. Last year, headcounts also increased 0.8 percent metrowide.

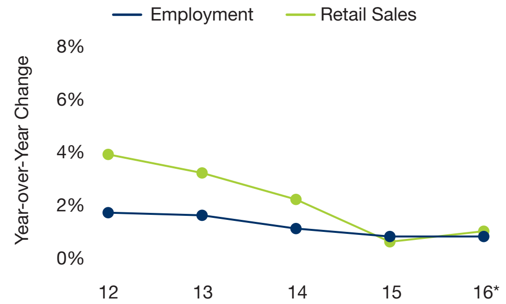
**Construction** 800,000 sq. ft. — Deliveries reached a seven-year high of 1.2 million square feet during 2015. Completions will slow to roughly 800,000 square feet this year, a 0.9 percent increase in inventory.

**Vacancy** down 20 bps — Strong tenant demand will contract vacancy to the lowest point of this business cycle. Vacancy will tighten 20 basis points to 6.9 percent in 2016, matching a 20-basis-point decline last year.

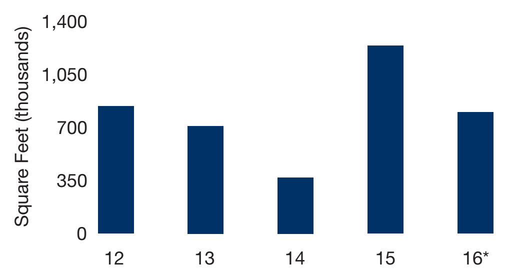
**Rent** up 2.7% — The average asking rent will rise 2.7 percent to $11.56 per square foot in 2016, after posting a 3.2 percent drop last year.

**Investment** — Construction is expected to begin this year on the new downtown arena for the Milwaukee Bucks. The 2018 delivery will likely spur demand for retail nearby.

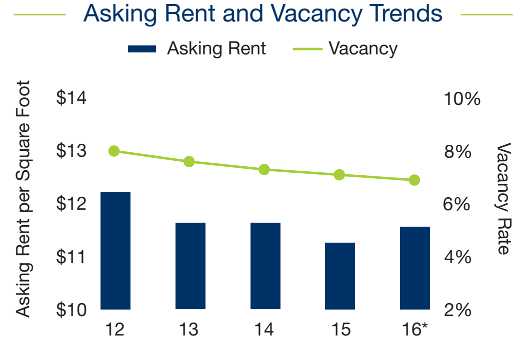
### Employment vs. Retail Sales



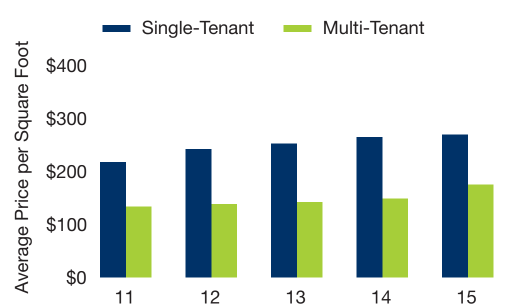

### Retail Completions




### Asking Rent and Vacancy Trends




### Sales Trends

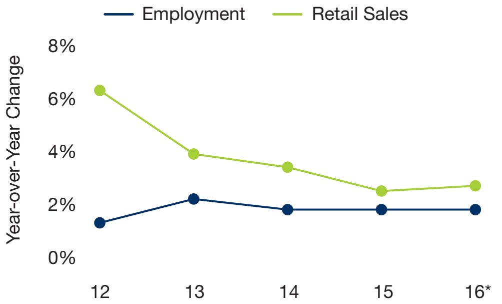



* Forecast

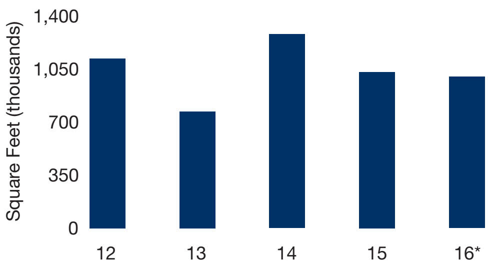
Sources: CoStar Group, Inc.; Real Capital Analytics

Marcus & Millichap

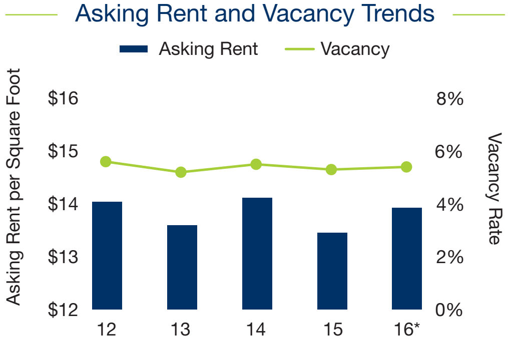
## Employment vs. Retail Sales



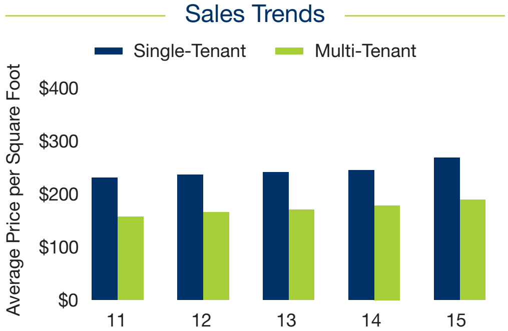

## Retail Completions




## Asking Rent and Vacancy Trends




## Sales Trends




* Forecast
Sources: CoStar Group, Inc.; Real Capital Analytics

# Demand for Empty Big-Box Space In Minneapolis-St. Paul Keeps Vacancy in Check

Another year of solid job growth and favorable demographic trends will attract retailers to the Minneapolis-St. Paul retail market. Healthy tenant demand will hold marketwide vacancy below 6 percent for the fifth consecutive year, despite the delivery of more than 5.1 million square feet during this time. Brooklyn Park will receive nearly a third of this year's 1 million square feet of new inventory with Menards and Hy-Vee opening stores. The latter will anchor the retail portion of the 98-acre 610 Zane development. Throughout the metro, large vacancies left behind by Kmart, Wal-Mart and Rainbow Foods are quickly being absorbed as retailers such as At Home, Hobby Lobby and Gordmans add locations. In downtown St. Paul, vacancy will tighten this year as the former 510,000-square-foot store vacated by Macy's is transformed into mixed-use space, including a practice rink for the Minnesota Wild hockey team. During 2016, the tight vacancy rate will push rents higher, although they will remain 13 percent below the 10-year peak.

The metro's vibrant economy is also drawing investors to local retail assets. Available listings remain well below buyer demand as steady cash flows provide little incentive for many owners to market properties. This is creating a competitive marketplace, which is driving prices higher. Unsuccessful bidding for single-tenant net-lease properties will motivate some buyers to consider less management-intensive multi-tenant buildings. New strip centers with fewer than five national tenants in the shadow of a strong anchor will receive heightened investor attention at cap rates beginning in the low-6 percent area. Investors searching for value-add opportunities should look for assets near retail hubs outside the metro core, where initial yields generally start in the 7 percent range. Properties that can be readily upgraded and retenanted at market-rate rents will be particularly desired.

## 2016 Market Forecast

**NRI Rank** 33, down 8 places — Minneapolis-St. Paul fell back eight places this year as supply-side pressure puts strain on the vacancy rate.

**Employment** up 1.8% — Metro employers will create 35,000 jobs in 2016, a 1.8 percent rise and matching last year's gain.

**Construction** 1 million sq. ft. — Developers will complete 1 million square feet of space this year, a 0.6 percent increase in inventory. This is on par with last year's deliveries.

**Vacancy** up 10 bps — A 20-basis-point drop in vacancy was recorded in 2015 as net absorption topped 1.3 million square feet. This year, vacancy will inch up 10 basis points to 5.4 percent.

**Rent** up 3.5% — Asking rents have been fluctuating as tenants seek to improve locations and vacate older space. This year, the average asking rent will climb 3.5 percent to $13.92 per square foot, up from a 4.7 percent decline last year.

**Investment** — Mixed-use apartment and office buildings proliferating around the outer edges of downtown Minneapolis will contain ground-floor retail space, which should provide investors with additional buying opportunities.

# Burgeoning Millennial Base Drives Occupancy And Rent Rates to Current Cycle Highs

Healthy demographics and property performance are at a 10-year high, indicating a bright future for the Nashville retail market. Job opportunities for young professionals and the hip, bohemian feel of the metro has led to heavy levels of net migration, especially among millennials. Population growth for those ages 20 to 34, an incredibly important cohort to retailers, is triple the national average, supporting annual retail-sales volume that will exceed $32 billion by year end. The influx of new residents has ignited multi- and single-family development, which has in turn fed the retail market. Mixed-use construction is highly prevalent as office and apartment developers look to supplement traditional space with some retail component. Capitol View in the North Gulch is a prime example; once completed, the project will offer both stand-alone and ground-floor retail, as well as office, multifamily and hospitality space. Although mixed-use development is heating up, pure retail construction has faltered and will reach the lowest level since the recession. A slowdown in new development amid robust demand will encourage metrowide tightening with vacancy reaching the lowest point since the downturn. Rent growth will follow suit as operators lift rents past the prior cycle's peak.

The Nashville retail investment market is locally driven with in-state buyers dominating sales activity. Institutional and national money, however, have begun testing the market, especially for properties with long-term leases or corporate guarantees. Sale-lease activity among single-tenant franchisee assets has become increasingly popular, as owners look to raise capital for reimaging or expansion efforts. Seller motivation is primarily driven by pricing as cap rates for multi-tenant space compress to unprecedented levels. First-year yields for these assets in premier locations average in the low- to mid-5 percent range.

## 2016 Market Forecast

**NRI Rank**
11, up 8 places
Nashville jumped eight spots this year amid tight conditions and strengthening rent gains.

**Employment**
up 2.9%
Employers will hire 27,000 new workers in 2016, an increase of 2.9 percent. This is on pace with last year, when the metro added 28,900 jobs.

**Construction**
371,000 sq. ft.
Nashville developers will deliver 371,000 square feet of retail space this year, growing metro inventory 0.4 percent. This is a slowdown from 2015, when 478,000 square feet were completed.

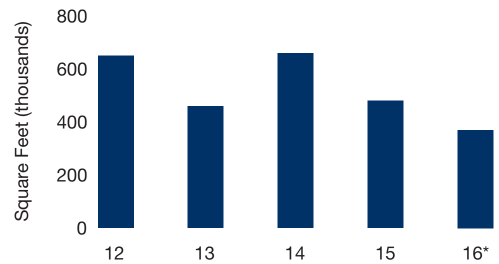
**Vacancy**
down 60 bps
Following a 40-basis-point drop last year, the metrowide vacancy rate will drop 60 basis points to 4.9 percent in 2016 on nearly 1 million square feet of net absorption.

**Rent**
up 4.5%
The average asking rent will climb 4.5 percent to $16.21 per square foot this year. Last year, the metro recorded a jump of 6.1 percent.

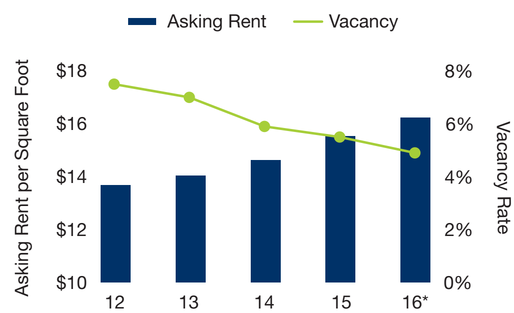
**Investment**
Attention is focused on areas surrounding the universities, with investment activity heating up in 12 South and Hillsboro Village.

### Employment vs. Retail Sales

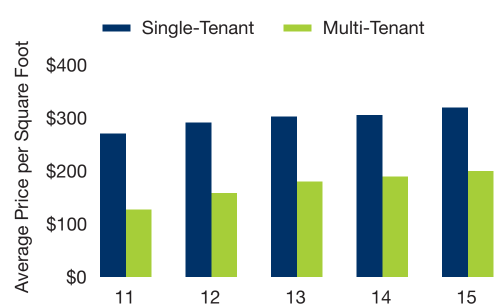

### Retail Completions




### Asking Rent and Vacancy Trends



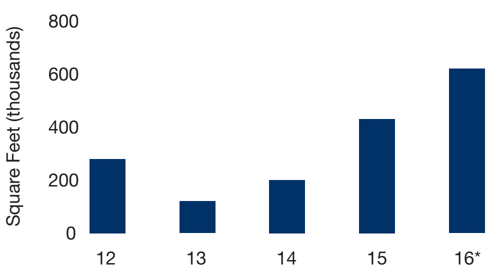

### Sales Trends




* Forecast
Sources: CoStar Group, Inc.; Real Capital Analytics

## Employment vs. Retail Sales


## Retail Completions

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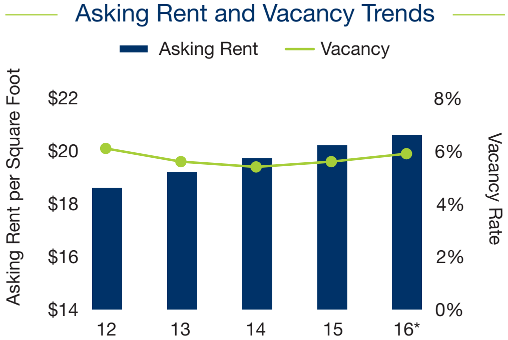


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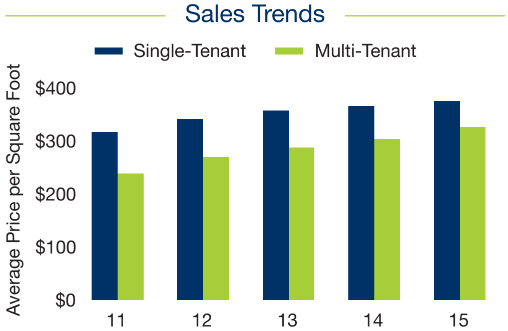



* Forecast
Sources: CoStar Group, Inc.; Real Capital Analytics

# Mixed-Use Development Outpaces Retailer Demand; Investors Shift to Favor Stability of Returns

The New Haven employment market is heating up as payrolls reach the highest levels in the past 15 years. Additionally, the flourishing metropolitan housing markets are drawing more residents to the area, supporting the creation of new businesses and retail shops. This upswing has fostered an expansionary attitude among builders, with retail development accelerating since 2013 as vacancy rates dropped. However, the pace of construction has diminished the positive impact of rising demand, particularly over the past year, as completions ramped up dramatically. This year, a number of large projects will come online, highlighted by a mixed-use development at 24 Colony Street in Meriden and the Oxford Towne Center in Naugatuck. As a result, deliveries will reach a cycle high in 2016. Meanwhile, pre-leasing will be inadequate to prevent an upswing in vacancy over the coming months as more than half of the new offerings will come to market without a signed tenant. Although turnover is likely to increase as retailers shift into new spaces, operations remain sufficiently tight to support a low-single-digit rise in average asking rents.

The search for yield amid a low return world is driving investors to consider New Haven assets, particularly institutions and investors from primary markets. The vast majority of first-year yields in the metro will trade in the mid- to high-6 percent range, while suburban properties can exchange ownership more than 100 basis points above the average. Assets along Interstate 95 dominate closed institutional transactions, with buyers placing premiums based on the distance to transit stations and corporate campuses in areas such as Greenwich, Stamford and Bridgeport. Meanwhile, private pools of capital will seek out suburban neighborhood and strip centers with a value-add component or a community anchor, such as a grocery store, benefiting from the influx of new homeowners and rooftops.

## 2016 Market Forecast

**NRI Rank**
38, down 2 places
Rising vacancy and slow rent gains pushed the metro back two places in the NRI.

**Employment**
up 1.3%
Payrolls will reach the highest level since the early 2000s as local organizations create 10,500 jobs over the coming year, expanding total employment 1.3 percent. Last year, 10,500 positions were added.

**Construction**
615,000 sq. ft.
Builders will complete more than 615,000 square feet of retail space this year as mixed-use development activity ramps up. In the prior year, more than 425,000 square feet were delivered.

**Vacancy**
up 30 bps
After rising 20 basis points in 2015, vacancy will climb an additional 30 basis points to 5.9 percent in 2016 as development almost doubles net absorption.

**Rent**
up 2.0%
A shift toward more modern spaces and better locations among retailers will foster a 2 percent rise in the average asking rent to $20.59 per square foot.

**Investment**
The relative value of Connecticut assets in comparison to larger East Coast markets will continue to attract capital as investors seek more robust cap rates.

# Development Hits Highest Level of Current Cycle; Investors Buying Value-Add and Top-Tier Assets

Steady employment growth, combined with rising household formation, will foster greater retail spending in 2016. Years of expansion have encouraged builders to stay active in the retail market, which will culminate in the strongest pace of deliveries of the current cycle. Planned completions will nearly double last year's levels, with Brooklyn slightly outpacing Manhattan as the most active borough. City Point, the 675,000-square-foot mixed-use project in downtown Brooklyn, will be the largest development brought online in 2016, edging out the World Trade Center retail portion in Lower Manhattan. While Manhattan and Brooklyn will each receive in excess of 1 million square feet this year, rising real estate values are encouraging construction in the Bronx and Queens, where development will exceed 215,000 square feet in each borough, highlighting the strength of the market. Over the course of 2016, vacancy is likely to tick up over the medium term as the robust delivery schedule fosters a transition period among local retailers. Strong pre-leasing will soften the impact of new supply and boost asking rents above the rate of inflation.

Seeking a foothold in one of the strongest commercial real estate markets in the world, investors of all sizes have been active bidders. Institutional investors will overwhelmingly favor Manhattan mixed-use and retail properties with barriers to redevelopment and marquee corporate tenants, which provide an excellent margin of safety. Meanwhile, private pools of capital are focusing on mixed-use retail assets with residential spaces on top, with a greater portion of closed transactions centered on more affordable properties in the outer boroughs. Brooklyn and Queens are becoming especially popular, particularly as cap rates can reach 50 basis points or more above the metro average in the low-5 percent range. In these areas, outdated industrial offerings are options for repositioning into mixed-use and retail assets.

## 2016 Market Forecast

**NRI Rank** 6, down 4 places — New York fell four places this year amid rising inventory, vacancy and slowed rent growth.

**Employment** up 2.1% — After adding 86,000 new workers last year, local organizations will create 90,000 jobs in 2016, raising headcounts by 2.1 percent year over year.

**Construction** 2.6 million sq. ft. — An expanding retail pipeline will foster the delivery of 2.6 million square feet of space in 2016, nearly doubling last year's total.

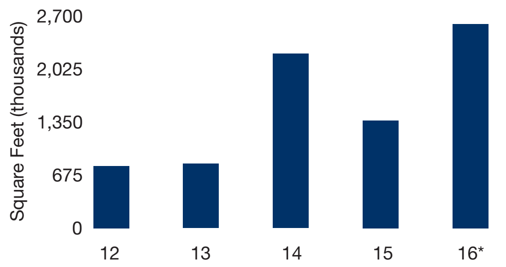
**Vacancy** up 10 bps — The pace of construction will surpass demand from retailers despite net absorption of more than 2.2 million square feet, fostering a 10-basis-point rise in vacancy to 3.9 percent.

**Rent** up 2.4% — Strong pre-leasing and tight metro vacancy will support a 2.4 percent rise in the average asking rent to $55.09 per square foot.

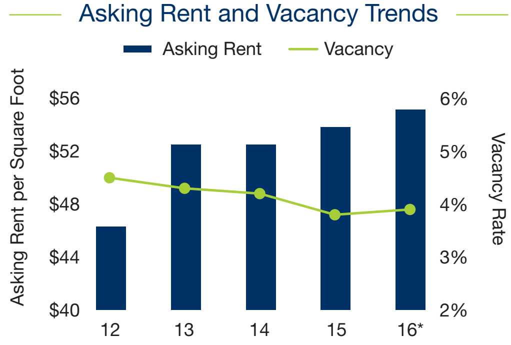
**Investment** — Assets with expiring leases or opportunities for capital improvements in order to boost NOIs will receive the most interest from new buyers.

### Employment vs. Retail Sales

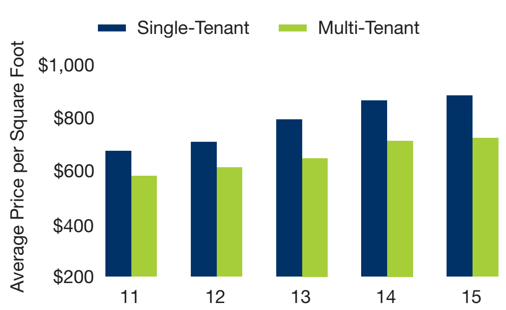

### Retail Completions




### Asking Rent and Vacancy Trends




### Sales Trends

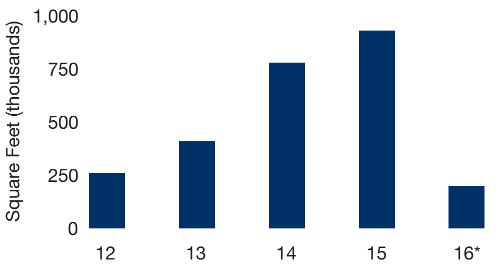



* Forecast

Sources: CoStar Group, Inc.; Real Capital Analytics

## Employment vs. Retail Sales


## Retail Completions

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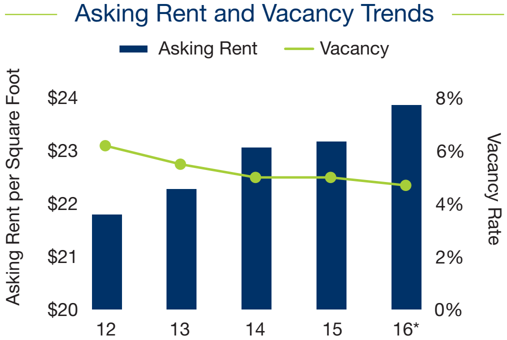


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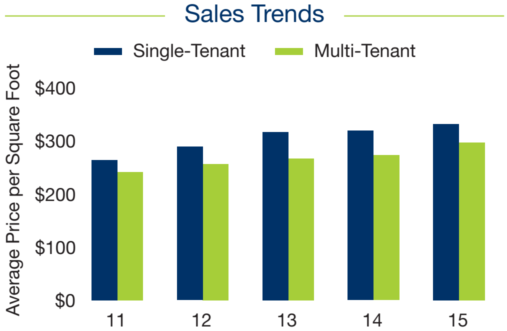



* Forecast
Sources: CoStar Group, Inc.; Real Capital Analytics

# Slowing Construction Boosts Local Operations; Buyers Cross the Hudson for Yield, Upside Potential

Benefiting from the strength of the tristate area, the Northern New Jersey retail market is making substantial gains. Fueled by more affordable housing options compared with New York City rentals, the multifamily sector is recording substantial gains as vacancy tightens below 3 percent. This improvement has motivated retailers to scoop up spaces in local mixed-use buildings that make up the majority of retail spaces in the market, with vacancy rates adding steady improvements every year since 2013. Although builders have been active over the course of the current cycle, completions will slow dramatically this year, accounting for less than 25 percent of the prior year's totals. In addition, the bulk of the deliveries are smaller, single-tenant spaces that have largely been pre-leased, further reducing availability in 2016 and fostering fierce competition among retailers for additional floor plans. The resulting environment will sponsor a modest contraction in vacancy rates as demand outpaces supply, while the average asking rent records a low-single-digit advancement.

Seeking more appealing first-year returns, investors of all sizes are increasingly crossing the Hudson River into New Jersey from all over the tristate area. Initial cap rates can be more than 300 basis points above Manhattan, leading many investors to forgo greater upside appreciation in order to capture more attractive cash returns. The Hudson Waterfront area will be the most actively traded, with investors placing a premium on the densely populated urban environment. Additionally, assets in Newark and the Meadowlands area will see greater interest, yet deal flow is likely to be limited by the availability of listings. Mixed-use assets with value-add components, either through retenanting or cosmetic updates, will receive the bulk of private buyer interest. However, several years of appreciation and the abundance of capital in the metro have acted to limit the availability of these offerings.

## 2016 Market Forecast

**NRI Rank** 32, up 6 places — This metro jumped six places as inventory additions are scant and retailers fill existing space.

**Employment** up 0.9% — After adding 24,400 new positions in 2015, employers will hire 18,000 workers this year, expanding total payrolls by 0.9 percent.

**Construction** 200,000 sq. ft. — Builders will complete just 200,000 square feet of space in 2016, less than a quarter of the prior year's deliveries. The vast majority of the space is pre-leased, single-tenant net-lease construction.

**Vacancy** down 30 bps — A lack of new supply, along with strong net absorption, will trim vacancy 30 basis points to 4.7 percent. In the previous 12 months, vacancy was unchanged.

**Rent** up 3.0% — Tightening operations will foster greater demand for existing spaces, propelling the average asking rent 3.0 percent higher to $23.85 per square foot. In the previous year, the asking rent rose 0.5 percent.

**Investment** — Assets located near metro stations and other mass-transit systems will receive particular interest from buyers wishing to deploy capital.

# Tech Growth Keeps East Bay Surging; Vacancy Drops Despite Elevated Construction

As expanding employers become priced out of other parts of the Bay Area, many have turned to Oakland as a lower-cost alternative, helping drive the local economy. Uber's announcement to move its corporate headquarters to Oakland will have a transformative impact in the metro with future growth among top-tier technology firms expected in the years to come. Tech relocations and the prevalence of venture-capital money will lift the high-wage professional and business services sector, contributing to another year of solid job growth. As metro employment reaches a cycle high, the median household income and consumer spending on retail goods will increase in 2016, indicating strength in the retail market. Annual completions will more than double the five-year average as developers move to capitalize on pent-up demand. Growing demand in select submarkets has encouraged retail builders to move out of the metro core into places farther inland, including Walnut Creek and the Tri-Valley area. Heightened development efforts, however, will not slow down metrowide tightening; vacancy rates will fall to the lowest level since the recession. Market tightness amid strong demand will underpin another year of healthy rent growth with the average rate reaching the highest level since 2009.

Demand for Oakland real estate will remain elevated with high yields and general market optimism prompting investor activity. First-year returns in the East Bay for retail properties are between 75 and 100 basis points higher than their San Francisco and San Jose counterparts. Buyers outnumber sellers in the metro as a lack of available listings remains the main hindrance to stronger deal flow. Exchange activity is highly prevalent as buyers utilize aggressive capital redeployment strategies, aiming to capture market momentum on the upside. This, combined with access to affordable debt, has pushed valuations past the pre-recession peak, led primarily by price gains for multi-tenant properties.

## 2016 Market Forecast

**NRI Rank** 13, up 4 places — Vacancy will constrict further this year, boosting Oakland four places in this year's NRI.

**Employment** up 2.5% — Oakland employers will add 27,600 workers in 2016, a 2.5 percent boost. Last year, metro businesses created 21,100 jobs, with the largest gains occurring in the professional and business services sector.

**Construction** 750,000 sq. ft. — Construction activity will intensify this year as developers bring 750,000 square feet of retail space to market. In 2015, more than 445,000 square feet were completed.

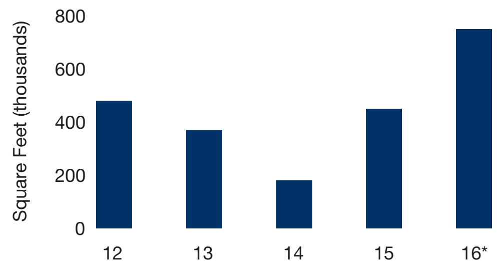
**Vacancy** down 20 bps — The metrowide vacancy rate will fall 20 basis points to 3.5 percent in 2016. A 20-basis-point decline was registered last year.

**Rent** up 4.0% — This year, tight market conditions will lift the average asking rent 4.0 percent to $24.99 per square foot. In 2015, the metro recorded a 5.1 percent jump.

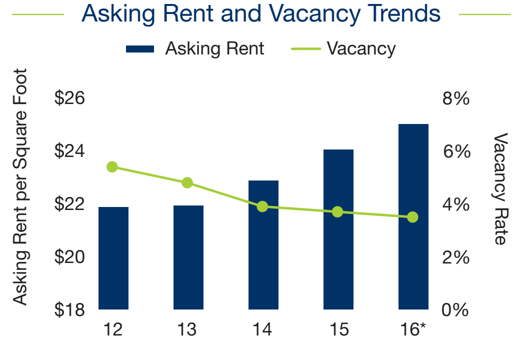
**Investment** — Investors still primarily target assets along the western waterfront near BART stations, most notably the Berkeley, Richmond/San Pablo and West Oakland areas.

### Employment vs. Retail Sales

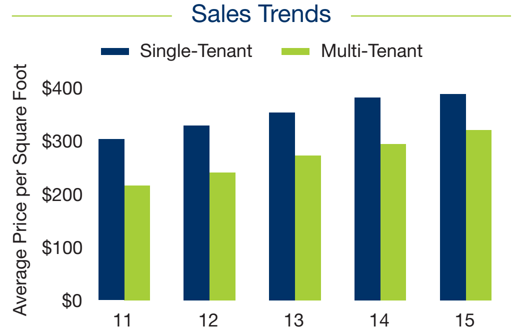

### Retail Completions




### Asking Rent and Vacancy Trends



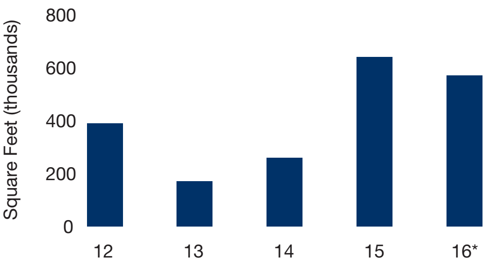

### Sales Trends




* Forecast
Sources: CoStar Group, Inc.; Real Capital Analytics

## Employment vs. Retail Sales


## Retail Completions

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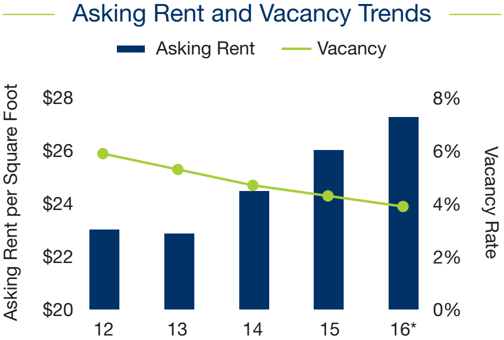


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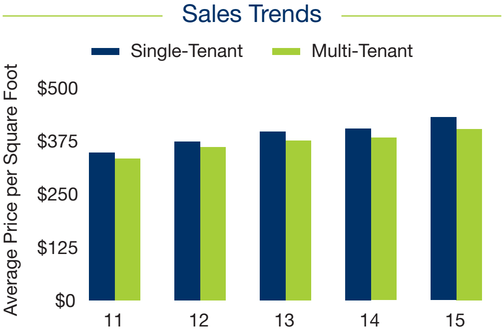



* Forecast
Sources: CoStar Group, Inc.; Real Capital Analytics

# Retail Spending Points To Tighter Orange County Vacancies

The Orange County retail market is poised for another strong year as the robust tourism industry and low unemployment rate push occupancy and rent levels higher in 2016. The quality of life and availability of job opportunities attract well-educated workers to the metro, helping foster a healthy and affluent demographic base. The median household income is well above that of the rest of the nation; that, when coupled with high consumption from metro visitors, supports heavy spending on retail goods. Orange County builders will remain bullish in the metro with annual completions staying well above the five-year average. The largest retail project this year is the Source at Beach, a mixed-use development in Buena Park. Once completed, the site will include a 400,000-square-foot retail center, Class A office space and a movie theater. Despite another year of strong construction activity, vacancy will contract to a post-recession low with 2016 marking the third consecutive year of net absorption in excess of 1 million square feet. Metrowide rent levels will achieve similar heights as the average asking rate reaches the greatest point since 2008.

Low vacancy rates and vigorous rent growth have kept investor interest fixated on Orange County retail properties. Increased volatility in global financial markets is drawing foreign capital to American real estate, with many keying in on the county as a way to preserve wealth. Although investor demand is intense, there has been some resistance by local buyers to outsize pricing. Exchange activity is the primary driver of deal flow in Orange County with a majority of down-leg transactions coming out of apartment assets as owners look to find a less-management intensive source of income. Cap-rate compression may begin to ease in 2016 as investors monitor Fed activity closely. First-year returns average in the 5 percent range. Well-located, net-leased deals reach the low-4 percent area.

## 2016 Market Forecast

**NRI Rank** 7, up 1 place — Orange County rose one spot in the NRI as gains in fundamentals remain steady.

**Employment** up 2.9% — The pace of employment will accelerate this year through the creation of 45,200 jobs, an increase of 2.9 percent. In 2015, employers hired 40,800 new workers, led by gains in the education and health services sector.

**Construction** 573,000 sq. ft. — Developers will complete 573,000 square feet in 2016, expanding metro inventory 0.5 percent. Last year, builders brought 640,000 square feet to market.

**Vacancy** down 40 bps — The metrowide vacancy rate will fall 40 basis points to 3.9 percent this year. A 40-basis-point contraction was registered in 2015.

**Rent** up 4.8% — Following a jump of 6.3 percent last year, the average asking rent will grow 4.8 percent to $27.26 per square foot in 2016.

**Investment** — High population density and a lack of available land have led to increased urbanization in many municipal cores. Downtown areas in Fullerton, San Clemente and Santa Ana will continue to benefit from this trend in 2016.

# Orlando Shopping-Center Investments Show Strength; Out-of-Town Buyers Invest in the City

Retailers are hastening the pace of construction to meet buyers' demand for goods and services in Orlando. The most deliveries since 2009 are taking place this year, with largely pre-leased projects slated for completion near exits along Interstate 4 and other major thoroughfares. Whole Foods, Wal-Mart and Costco are adding locations in well-trafficked centers. Other retail concepts are being built in lifestyle retail centers and mixed-use spaces such as Lake Nona and Gardens on Millenia, where adjacent residential components will generate street traffic to local shops. Nearby existing retail buildings are also benefiting as retailers expand in these areas near new growth. This year, overall tenant demand will push the metro's vacancy below 6 percent for the first time since 2008, as approximately 2 million square feet are absorbed for a second year in a row. Rising space needs and limited availability will accelerate this year's average rent gain to the fastest pace in a decade.

A thriving retail sector is driving trades of local assets, especially quality shopping centers, drawing out-of-area investors. South American buyers are increasingly targeting assets in the state, specifically turning to Orlando as availability of stable properties diminishes in Southern Florida. This dynamic is also spurring an influx of investors from that portion of the state. In particular, bidding for single-tenant net-leased properties has compressed cap rates and pushed some buyers to consider other asset types. Many of these investors are transitioning to two- to four-tenant strip centers with credit occupants and long-term leases. These less-management-intensive properties can yield 6 to 7 percent in the first year of occupancy. Those buyers seeking higher returns will target older anchored or second-generation anchored centers that were once big-box shops and have been repurposed to house national discount stores, which generate cap rates of 8 to 9 percent.

## 2016 Market Forecast

**NRI Rank** 20, up 3 places — Steep vacancy declines and rent gains pushed Orlando up three places this year in the NRI.

**Employment** up 3.1% — Employers will expand hiring by 36,000 positions in 2016, adding 3.1 percent to the workforce. In 2015, 38,000 jobs were created.

**Construction** 1.7 million sq. ft. — Builders will complete 1.7 million square feet of retail space in 2016, an acceleration from the 1.1 million square feet delivered in the previous year.

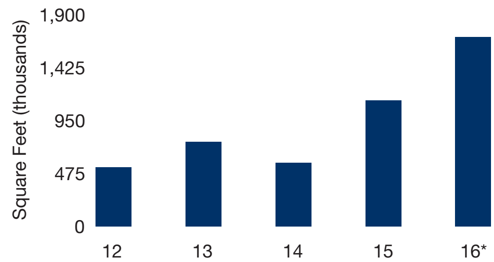
**Vacancy** down 70 bps — Metro vacancy will compress 70 basis points this year to 5.3 percent, based on absorption reaching a 10-year peak. This is down slightly from the 80-basis-point drop in the prior year.

**Rent** up 3.9% — Rising space requirements by retailers will elevate the average rent 3.9 percent in 2016 to $16.58 per square foot by year end following a 2.6 percent climb in 2015.

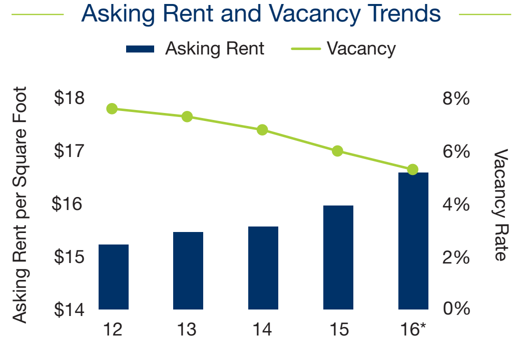
**Investment** — A favorable local lending environment and strong yields in smaller shopping centers are building investors' confidence in the metro. Out-of-town buyers will compete with locals, amplifying transaction velocity for another year.

### Employment vs. Retail Sales

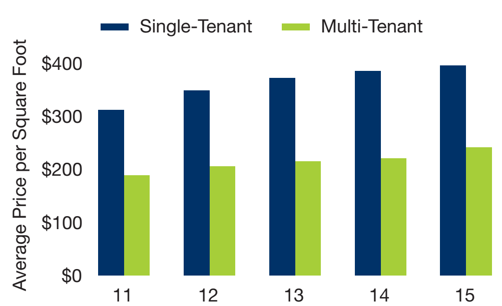

### Retail Completions




### Asking Rent and Vacancy Trends




### Sales Trends




* Forecast
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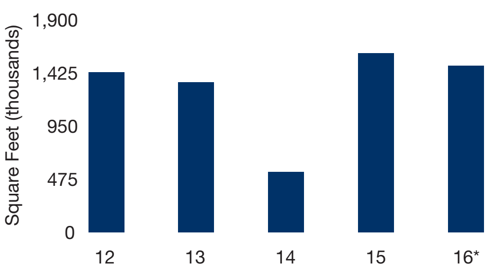
### Employment vs. Retail Sales


### Retail Completions

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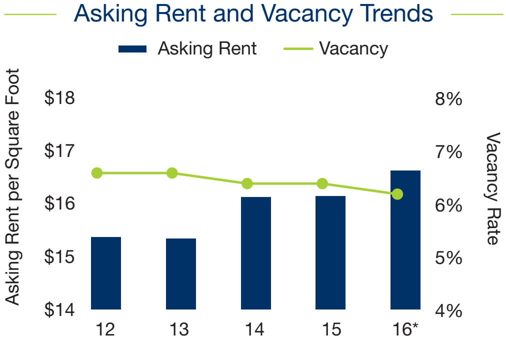


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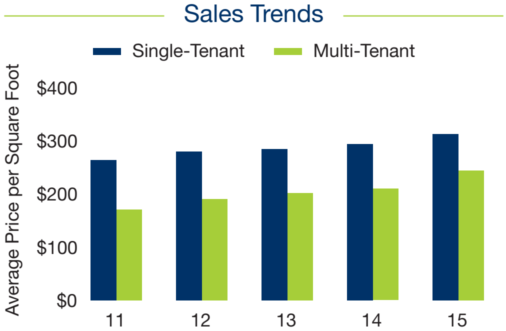



* Forecast
Sources: CoStar Group, Inc.; Real Capital Analytics

# Occupancy Rates Rise as Strong Economic Activity Lifts Philadelphia Retail Sales

Steady job growth will place downward pressure on metro vacancy rates, bolstering the healthy Philadelphia retail market. Both the healthcare and education industries, led by numerous universities and medical facilities, have supported employment growth. Job gains in these areas as well as the strong trade sector helped push the metro unemployment rate to the lowest level since the recession. Demographically, Philadelphia has seen outsize growth in median household income, which now sits at more than 20 percent above the national level. As the metro population's disposable income increases, annual retail sales growth will reach the highest point since 2006. Although new development will post a slight decline from last year's pace, builders will remain active with annual completions staying well above the five-year average. Uptown Worthington in Malvern is the marquee retail development of the year. Once completed, the mixed-use project will have allocations for Class A office space, luxury apartments and 725,000 square feet of gross lease area retail. Despite another year of consistent construction, overwhelming tenant demand will push vacancy rates to unprecedented levels, spurring a sizable rent hike.

Market optimism will keep demand for Philadelphia retail assets elevated in 2016, accelerating the pace of deal flow. Intense investor demand has driven valuations past pre-recession levels as buyers bid aggressively to acquire quality properties. Transactions are a healthy mix of both multi- and single-tenant properties, usually trading in the $1 million to $10 million price tranche. Cap rates for single-tenant assets average in the low-6 percent range with well-located properties dipping 100 basis points lower. Multi-tenant properties have first-year returns in the high-6 percent area, although investors with a greater risk profile may pursue properties with sub-optimal tenant mixes or struggling occupancy rates, hoping to increase values for a yield play.

## 2016 Market Forecast

**NRI Rank**
36, down 4 places
Philadelphia declined four spots in the NRI as employment remains subdued.

**Employment**
up 1.1%
Philadelphia organizations will hire 30,000 workers in 2016, increasing total employment 1.1 percent. Last year the metro workforce grew 1.3 percent through the addition of 35,100 jobs.

**Construction**
1.5 million sq. ft.
Metro builders will complete 1.5 million square feet this year, growing inventory 0.5 percent. Developers brought 1.6 million square feet to market in 2015.

**Vacancy**
down 20 bps
The metrowide vacancy rate will fall 20 basis points to 6.2 percent in 2016. Last year, vacancy showed no movement, remaining at 6.4 percent.

**Rent**
up 3.0%
The average asking rent will grow 3.0 percent this year with rates reaching $16.62 per square foot. The metro registered rent growth of 0.1 percent in 2015.

**Investment**
The Philadelphia suburbs have garnered heavy investor interest, particularly in Bucks County. Yield-chasing buyers may turn to Southern New Jersey where cap rates typically trend higher.

# Phoenix Retail Market Shines Bright; Buyers Search for Hidden Gems in Suburbs

Heavily pre-leased retail construction will bode well for asset operations in the coming year as developers jump-start completions to the highest level since 2009. Builders have been strategic, primarily breaking ground once leases are in hand. Retail expansions will be situated in historically high-demand locations along the Camelback corridor and in growing outlying suburbs where significant residential development is creating the need for additional shopping options. Large floor-plate grocers are proliferating, accounting for nearly half a million square feet of space underway in suburbs as far outward as Goodyear, Litchfield Park and Gilbert. Retail sites are also being developed at the 20-acre QC District mixed-use project in the heart of the Queen Creek Town Center. The initial phase will include retail and dining selections, and subsequent phases will entail a multifamily portion, generating further consumer demand. Overall, the metro's retail operations will remain strong this year as vacancy tightens further and rents increase for a third consecutive year.

A low barrier to entry and higher-than-average yields compared with other Western metros are attracting buyers to Phoenix's abundant retail properties. Healthy NOIs in both core and suburban assets have tripled trading activity since the downturn. Vigorous economic growth and residential development in suburban areas are beginning to turn retail investors' gaze to the periphery of the metro, where first-year returns can trail into the high-7 to 8 percent range for unanchored centers. At the other end of the yield spectrum, transaction velocity in grocery and drugstore-anchored centers will continue to accelerate this year, as will restaurants and fast-food assets. Buyers will be motivated by the variety of prospective trades and the metro's higher yields, spurring another year of elevated bidding activity.

## 2016 Market Forecast

**NRI Rank** 26, down 6 places — Though falling, vacancy remains one of the highest in the nation, dropping Phoenix six places this year.

**Employment** up 2.9% — Employers will elevate payrolls 2.9 percent in 2016, creating 56,000 jobs, slightly higher than the 54,600 positions formed last year.

**Construction** 1.2 million sq. ft. — Retail construction of 1.2 million square feet will supply 0.6 percent inventory to the market in 2016, surpassing annual additions in each of the past six years. In 2015, builders completed 660,000 square feet.

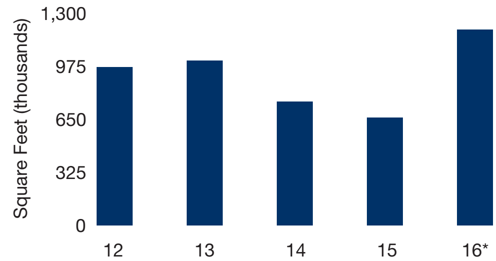
**Vacancy** down 40 bps — This year's absorption will support a 40-basis-point tightening in vacancy to 9.6 percent for marketed space, matching the 40-basis-point fall a year earlier.

**Rent** up 2.2% — The average asking rent will rise 2.2 percent in 2016 to $15.13 per square foot, building on last year's 1.8 percent gain. Overall, rent remains far below the prior peak.

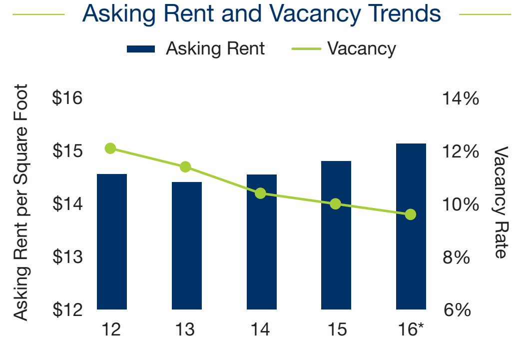
**Investment** — The availability of single-credit tenant anchors and adjacent shopping centers are driving investors to Phoenix's retail properties and to some of the highest yields among Western markets.

### Employment vs. Retail Sales

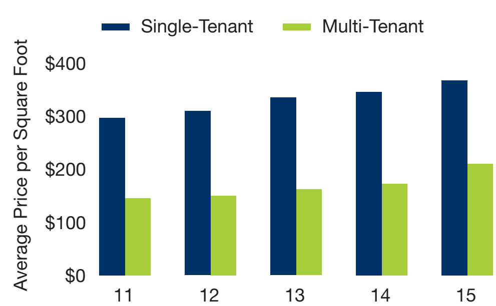

### Retail Completions




### Asking Rent and Vacancy Trends




### Sales Trends




* Forecast
Sources: CoStar Group, Inc.; Real Capital Analytics

# Economic Diversification and Low Vacancy Rates Pique Investor Interest for Pittsburgh Retail

The steadfast local economy combined with vacancy rates at a 10-year low will keep demand elevated in Pittsburgh's retail market. Efforts to diversify the Steel City's economy are succeeding with the information technology and advanced manufacturing industries gaining steam in the past few years. Uber announced plans to partner with Carnegie Mellon and open a robotics research facility that explores the possibility of self-driving cars and illustrates Pittsburgh's advancing economy. Investments like this allow Pittsburgh to remain a consistent and stable market, sustaining retail-sales volume. During the last recession the metro was able to remain relatively resilient, helping characterize the city as a safe environment for commercial real estate investments. Market stability has allowed retailers to expand aggressively into existing centers this cycle with vacancy rates constricting to one of the lowest levels in the nation. Tight market conditions will encourage modest rent growth, pushing the average asking rent higher.

The Pittsburgh retail market will continue its stable transaction pace as rent and occupancy rates trend higher in 2016. A slowdown in new development has intensified buyer demand in the metro; however, a lack of available listings has stalled sales velocity. Many property owners are reluctant to list assets, employing long-term hold strategies where they can rely on the cash flow from these steady, income-producing properties. Those who do list are usually motivated by some life change such as a partnership breakup or estate planning instead of traditional market forces. High-end premium properties in good locations, however, will move attention from out-of-state buyers, whose aggressive bidding will draw sellers off the sidelines. Class B/C product, on the other hand, has evidenced a disconnect between buyer and seller expectations, although appropriately priced assets will receive heavy investor interest.

## 2016 Market Forecast

**NRI Rank** 19, down 3 places — Pittsburgh fell three spots as rent and employment growth are some of the slowest in the nation.

**Employment** up 0.9% — Metro employers will add 10,600 workers to payroll in 2016, an increase of 0.9 percent. This is a slight slowdown from last year when the Pittsburgh labor force grew 1.2 percent.

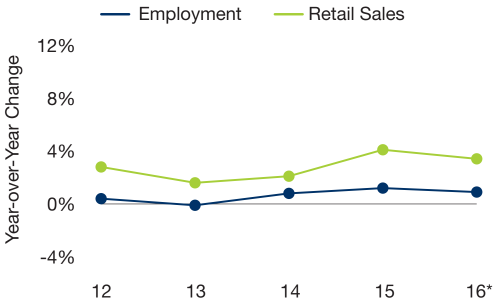
**Construction** 335,000 sq. ft. — Developers will complete 335,000 square feet of retail space this year, a nominal expansion of metro inventory. In 2015, 320,000 square feet was delivered.

**Vacancy** down 50 bps — The metrowide vacancy rate will fall 50 basis points to 3.3 percent in 2016. This follows a 40-basis-point drop in the prior year.

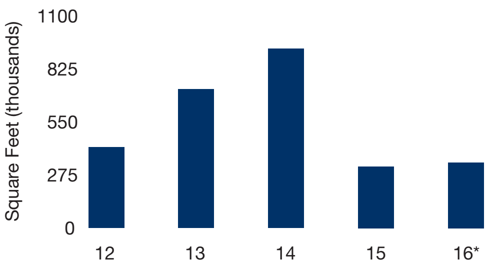
**Rent** up 1.1% — The average asking rent will climb 1.1 percent to $12.44 per square foot this year. In 2015, the metro registered a rent decrease of 1.2 percent.

**Investment** — Cap rates for multi-tenant assets average in the low-7 percent range with yields for well-located three-unit retail centers with a favorable tenant mix reaching the high-6s.

### Employment vs. Retail Sales




### Retail Completions

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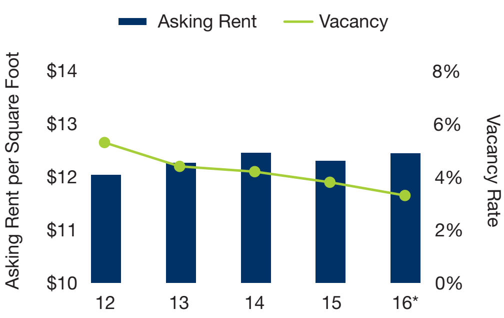


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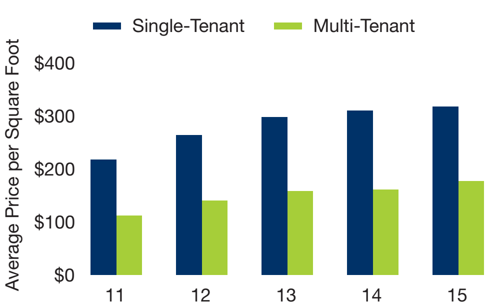



* Forecast
Sources: CoStar Group, Inc.; Real Capital Analytics

# Growth in Tech Employment and New Households Cultivates Lush Retail Sector in Portland

A dynamic tech scene is elevating retailer demand and lifting occupancy to a new high this year as tenants absorb more than a million square feet of storefronts. Tech startups and Silicon Valley employers with a significant presence in Portland have contributed to the formation of more than 100,000 new households over the past six years. Apartment builders are responding by building the most new units in a decade. Retailers follow these units to optimize on the metro's growing shopping needs by inciting the development of nearly 5 million square feet since 2009. Development may be limited by density in the core and will be largely located at street level in new apartment and office towers for easy pedestrian access. Other builders will look at sites where land is plentiful, following apartment development along major transportation corridor exits and mixed-use development bordering the Willamette River. While shopping centers have been proliferating, the rate of expansion is far exceeded by tenant demand, which will shrink vacancy to one of the lowest rates in the nation. The need for retail space will expand rent for marketed storefronts, which will reach the previous peak level this year.

Local investors face competition from an increasing amount of out-of-state capital seeking the overall strong operations and stable returns in Portland's retail sector. Household formation and retail sales contributed to trading activity rising 30 percent in the last year alone and nearly quadrupling since the trough. Buyers from California and Washington are arriving in the metro with a variety of yield objectives. West Coast investors generally target well-located buildings with diminished returns in the low-6 percent area. Regional investors, especially from Washington state, are slightly less risk-averse trading into yields that were 20 to 50 basis points above this mark. Buyers can obtain higher yields moving into outlying areas, though value-add options are diminishing.

## 2016 Market Forecast

**NRI Rank** 18, up 9 places — Portland jumped nine places this year amid overall strengthening retail operations.

**Employment** up 3.9% — Metro employers will lift local payrolls 3.9 percent as they bring 44,000 new workers on staff this year, the highest rate of growth in this business cycle to date. Hiring netted an additional 41,600 workers in 2015.

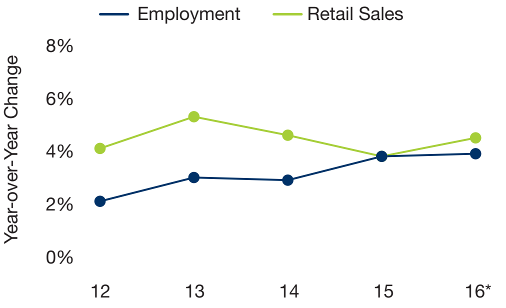
**Construction** 500,000 sq. ft. — Builders will complete 500,000 square feet of retail space in 2016, down from the 730,000 square feet delivered in the previous year.

**Vacancy** down 60 bps — Metro vacancy will tighten 60 basis points this year to 4.3 percent based on heavy pre-leasing. Overall absorption will exceed 1 million square feet. Last year vacancy was flat.

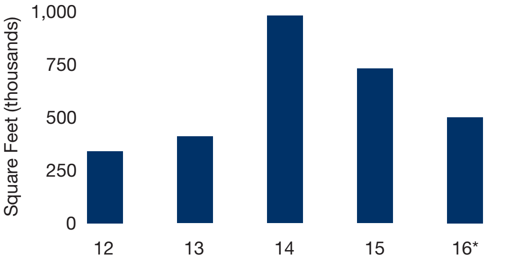
**Rent** up 3.4% — Average asking rent will escalate 3.4 percent in 2016, ending the year at $18.04 per square foot. This follows a 2.2 percent rise a year earlier.

**Investment** — Assets in Beaverton can provide yields 10 to 40 basis points above the metro average, while properties in Gresham can yield 100 basis points above the average.

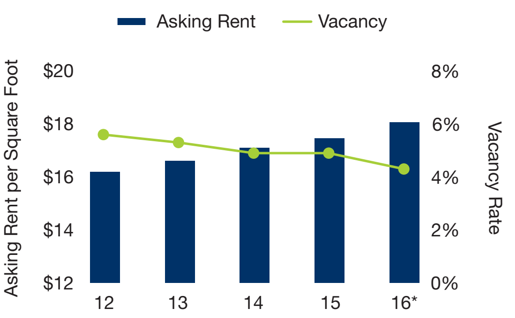
### Employment vs. Retail Sales




### Retail Completions




### Asking Rent and Vacancy Trends

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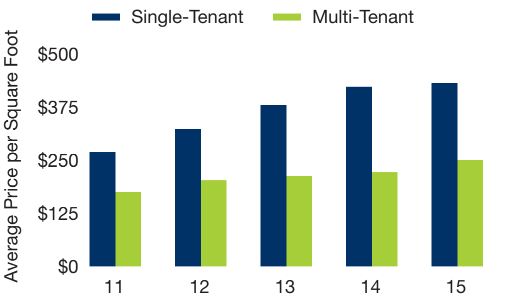
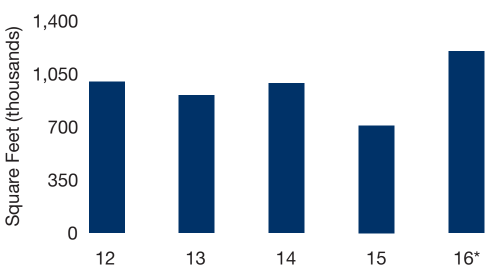



* Forecast
Sources: CoStar Group, Inc.; Real Capital Analytics

## Employment vs. Retail Sales


## Retail Completions

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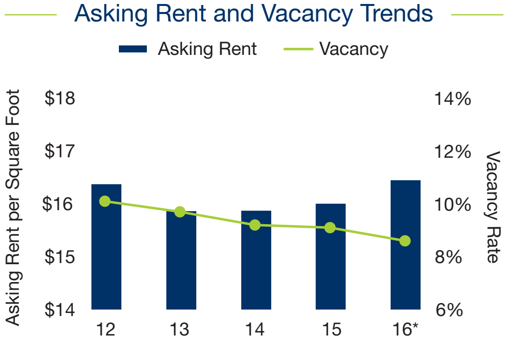
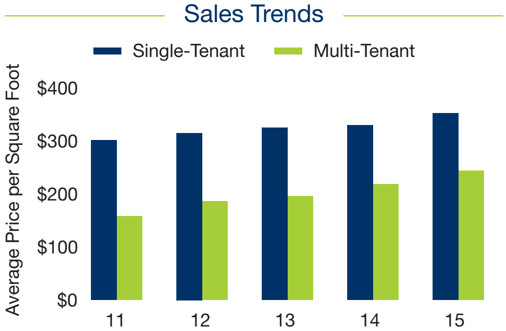



## Sales Trends




* Forecast
Sources: CoStar Group, Inc.; Real Capital Analytics

# Rising Jobs and Population Flow into Inland Empire, Lifting Retail Sales and Asset Occupancy

Riverside-San Bernardino's strong job growth is providing the cornerstone for new households in the market, attracting national retail tenants and tightening asset operations. Job diversification is drawing more business professionals to the metro along with a strengthening industrial employment base, which is garnering additional revenue for retail stores. To accommodate the rising demand for goods and services, retailers are expanding metrowide, occupying existing shopping centers while also inciting development. Large swaths of new space this year will be attributed to discount stores, grocers and drugstores. As long-term leases are penned at these anchor locations, mom-and-pop tenants are snapping up surrounding storefronts and inline space, further tightening metro vacancy. This will mark another year of vacancy compression, pushing the rate below 9 percent for the first time in seven years. Demand for marketed space will elevate rents at the fastest pace in this recovery.

A rise in property revenue is attracting investors to retail properties in this Southern California metro. Buyers from Orange County and Los Angeles are moving inland to obtain assets with an average cap rate in the low-6 percent range, which is 40 to 100 basis points higher than their home markets. In particular, investors will seek properties near new retail projects that are driving traffic and sales in the area. More listings will be available as owners who purchased properties five to six years ago choose to exchange into different assets while interest rates remain historically low. Investors can obtain cap rates in the high-5 to low-6 percent span for new properties with long-term leases and corporate guarantees. Strip centers with either a credit tenant or strong corner location, along with a potential upside to filling vacant inline space, can trade into low-7 percent initial returns. Unanchored, non-credit strip centers will exchange at cap rates in the 8 percent area to renovate and re-tenant.

## 2016 Market Forecast

**NRI Rank** 34, up 1 place — Heightened space demand boosted Riverside-San Bernardino one spot in the NRI this year.

**Employment** up 3.8% — Employers will generate 3.8 percent job growth in 2016, as they bring on board 52,000 additional workers. Last year, 46,800 positions were created.

**Construction** 1.2 million sq. ft. — Construction will mainly consist of expansions at existing centers with 1.2 million square feet this year, above the 710,000 square feet delivered a year earlier.

**Vacancy** down 50 bps — Metro vacancy will fall 50 basis points in 2016 to 8.6 percent, after ticking 10 basis points lower previously.

**Rent** up 2.8% — Average asking rent will rise 2.8 percent this year, to $16.44 per square foot, an acceleration from the 0.8 percent growth in 2015.

**Investment** — California investors will be drawn to the higher yields and relative availability of assets in the Inland Empire. Out-of-state buyers will find the area's stable workforce and growing population base as a sign of ongoing strength in the retail asset market.

# Sacramento Investors Expand Parameters As Slim Construction Pipeline Trims Vacancy

In 2016, employers will create the most new positions in this expansion cycle to date, including government jobs, which will reach prior peak levels. Accelerating employment will support consumer spending in the metro's retail centers, boosting occupancy. Construction has been restrained since 2010, with developers building near prime employment and residential areas that have higher disposable incomes in Roseville, Rocklin, Folsom and downtown. This year's large proportion of speculative space will be delivered in these neighborhoods. The remaining build-to-suit projects are primarily planned for suburban retail centers, as spending in these areas encourages discount retailers, drugstores and tenants to complete new locations. Another year of low inventory growth, along with rising space demand, will support vacancy breaking the 8 percent mark for the first the time since 2008. Sparse availability in existing storefronts and a significant amount of speculative construction in high rent areas will elevate average rent for marketed space at the fastest pace in nearly a decade.

Rising NOIs are driving investors to Sacramento's retail assets. Single-tenant properties with long-term leases to national tenants are in high demand at near 5 percent cap rates. Investors seeking similar returns who are outbid will turn to select strip and neighborhood centers with strong tenant rosters. Buyers opting for higher yields will purchase both freestanding and shopping center assets situated next to building activity downtown and in the first-ring suburbs. Here initial returns are in the low- to mid-6 percent span and 100 basis points upward in outlying secondary areas. There will be robust investor interest for value-add assets with significant upside through repositioning of older spaces or properties with considerably low occupancy available downtown and in higher-income suburbs. Properties in areas of anticipated growth will be targeted, driving up pricing for well-placed assets of various tranches.

## 2016 Market Forecast

**NRI Rank** 31, up 2 places — Vacancy will retreat at the fastest pace in the nation this year, lifting Sacramento two positions in the NRI.

**Employment** up 2.9% — Sacramento employers will create 27,000 new jobs this year, a 2.9 percent gain, accelerating from 22,700 jobs last year.

**Construction** 500,000 sq. ft. — Builders will complete nearly 500,000 square feet of retail space in 2016, tacking on 0.6 percent to local inventory. This is down slightly from the 560,000 square feet delivered previously.

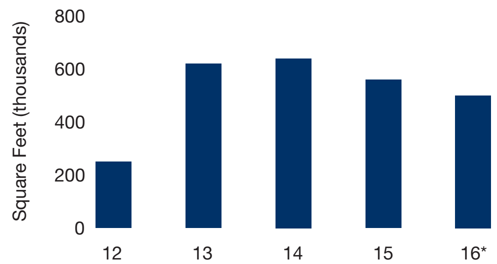
**Vacancy** down 90 bps — Rising demand and tight supply will shrink vacancy by 90 basis points this year to 7.4 percent, the lowest level since 2007. Last year, vacancy fell 80 basis points.

**Rent** up 3.6% — Average asking rent will expand by 3.6 percent in 2016, ending the year at $16.57 per square foot after decreasing 1.4 percent in 2015.

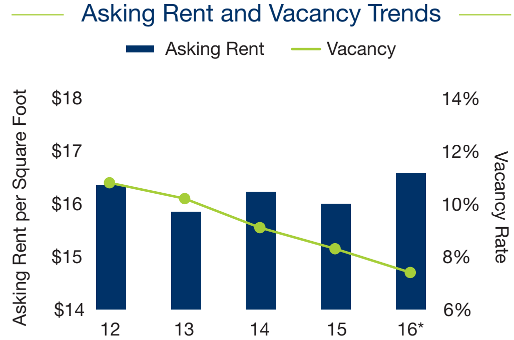
**Investment** — Bay Area buyers will seek out Sacramento retail assets for lower barriers to entry and rising prospects for growth in tenant demand this year.

### Employment vs. Retail Sales

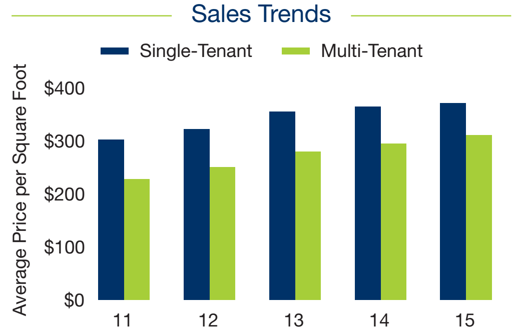

### Retail Completions




### Asking Rent and Vacancy Trends




### Sales Trends




* Forecast
Sources: CoStar Group, Inc.; Real Capital Analytics

# Strong Population Growth Supports Retail Spending, Pushing Metro Vacancy to a 10-Year Low

Healthy demographics and the growing strength of the tech sector signal another robust year for the Salt Lake City retail market. The quality university system and availability of high-wage jobs draw and retain a premium workforce to the metro. The abundance of young professionals coupled with a populace that gravitates toward family life at an earlier age will support vigorous population growth and household formation, particularly among high-spending millennials. This will encourage retail sales to reach its highest level since 2005, with annual consumer spending volume expected to reach $24.7 billion by year end. In light of strong demand, available land is becoming increasingly expensive, contributing to a slowdown in retail development. Annual completions will hit a 10-year low in 2016 with a 256,000-square-foot community center in Clinton headlining construction. The decline of building activity will force expanding retailers to take existing space, putting downward pressure on the already-tight metrowide vacancy rate. Healthy rent growth will continue from last year's remarkable pace with plenty of room for future improvements as lease-rates remain well below pre-recession levels.

Buyers outnumber sellers in the metro as market stability and strong upside potential keep demand elevated for Salt Lake City real estate. Out-of-town investors, particularly those from California, have a heavy influence in the metro, contributing to the steady rise in prices. Exchange activity is highly prevalent as market participants look to redeploy capital quickly, taking advantage of low interest rates and tax benefits. Although transaction velocity is vigorous in the metro core, deal flow is picking up in southern Salt Lake County with new housing and available land drawing investors to the area. First-year returns for multi-tenant properties are in the 7 percent range with single-tenant assets averaging 100 basis points lower.

## 2016 Market Forecast

**NRI Rank** — 12, up 6 places: The Wasatch Front gained six places this year as operations and the economy strengthen.

**Employment** — up 3.3%: The Salt Lake City workforce will grow 3.3 percent in 2016 through the addition of 38,100 jobs. Last year metro employers hired 34,800 workers led by gains in the professional and business services sector.

**Construction** — 406,000 sq. ft.: Land constraints will contribute to the slowing of construction with builders finishing 406,000 square feet this year. In 2015, developers delivered 689,000 square feet.

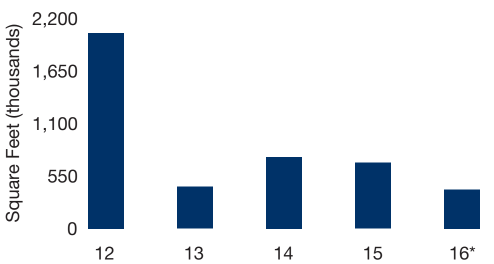
**Vacancy** — down 30 bps: Following a 10-basis-point drop last year, the metrowide vacancy rate will fall an additional 30 basis points to 4.1 percent in 2016.

**Rent** — up 5.9%: The average asking rent will climb 5.9 percent to $14.73 per square foot this year. In 2015, rent growth hit a 10-year high of 6.6 percent.

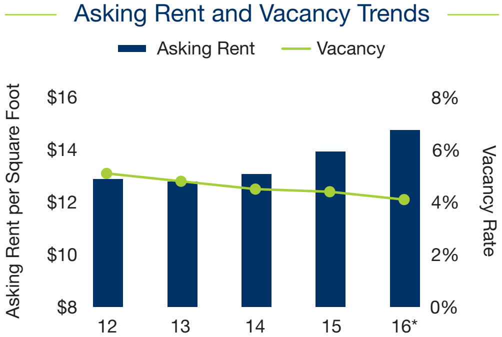
**Investment**: High land prices and mountain ranges on either side of the Wasatch Front act as a barrier to new development, mitigating investor risk to becoming out-positioned.

### Employment vs. Retail Sales

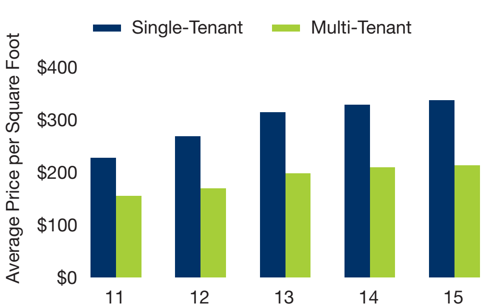

### Retail Completions




### Asking Rent and Vacancy Trends




### Sales Trends




* Forecast
Sources: CoStar Group, Inc.; Real Capital Analytics

# Economic and Tourism-Related Growth Bolster San Antonio Retail Market

San Antonio's retail market will receive a boost this year as the local economy propels forward, pushing down vacancy and encouraging rent growth. Broad-based job gains are attracting residents to the metro and increasing consumer confidence, bolstering retail sales. In addition, the metro is strengthening its position as a destination for meetings and conventions. The Henry B. Gonzalez Convention Center in downtown San Antonio recently opened after undergoing a $325 million renovation. This year, the center will host more than 500,000 visitors through a number of meetings, boding well for tourism-related stores nearby. Both developers and retailers have taken notice. The renovated Joske's building at Rivercenter mall will open early in the first quarter this year, anchored by Dave & Buster's, H&M and Battle for Texas: The Experience. Additionally, necessities-based retailers, including Wal-Mart, H-E-B and Walgreens, are expanding through the region, opening stores in the months to come. New retail space coming online remains mostly pre-leased, contributing to a drop in vacancy by year end.

Investment in the San Antonio retail market will rise this year as a bright economic outlook draws buyers to the metro. Regional, private investors targeting properties priced between $1 million and $10 million dominate deal flow, and high-quality, multi-tenant centers draw significant buyer interest. Demand for Class A and B assets in the metro is rising, compressing the spread between cap rates for these properties. As competition for quality rises, investors will begin considering properties with secondary characteristics. Initial yields for Class A centers are in the 7 percent area, while Class B properties trade approximately 50 basis points higher. Buyers will continue to target single-tenant investment opportunities in the market this year, with cap rates averaging in the mid- to high-6 percent area.

## 2016 Market Forecast

**NRI Rank** 15, down 2 places — Lackluster rent growth pulled San Antonio back two places in the NRI.

**Employment** up 3.6% — Companies in San Antonio will create 36,000 positions this year, expanding payrolls 3.6 percent. In 2015, employers increased staffs 3.5 percent with the addition of 33,300 jobs.

**Construction** 600,000 sq. ft. — After bringing 530,000 square feet of retail space online last year, builders will deliver 600,000 square feet of space to the metro over the next four quarters.

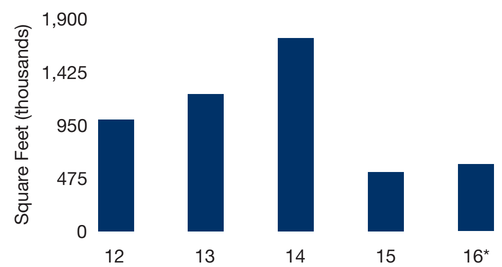
**Vacancy** down 40 bps — Vacancy will decline 40 basis points annually to 5.1 percent by year end. The rate dipped 30 basis points year over year in 2015.

**Rent** up 2.5% — The average asking rent will rise 2.5 percent year over year in 2016 to $15.34 per square foot. The average rent declined 0.5 percent last year.

**Investment** — Retail construction will remain mostly limited to single-tenant assets this year, further fueling transaction velocity for this segment in the months to come.

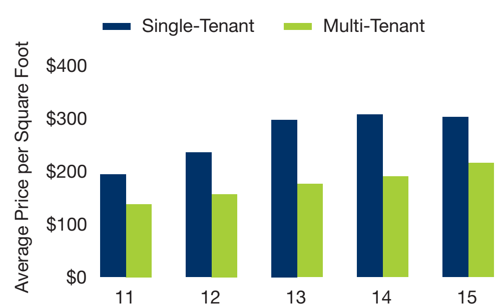
### Employment vs. Retail Sales


### Retail Completions




### Asking Rent and Vacancy Trends


### Sales Trends



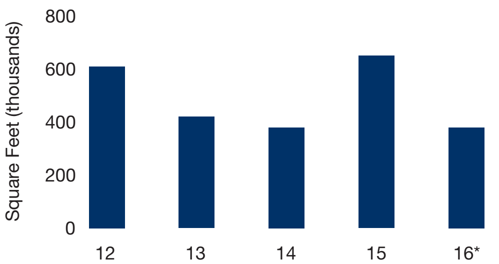

* Forecast

Sources: CoStar Group, Inc.; Real Capital Analytics

Marcus & Millichap

### Employment vs. Retail Sales


### Retail Completions

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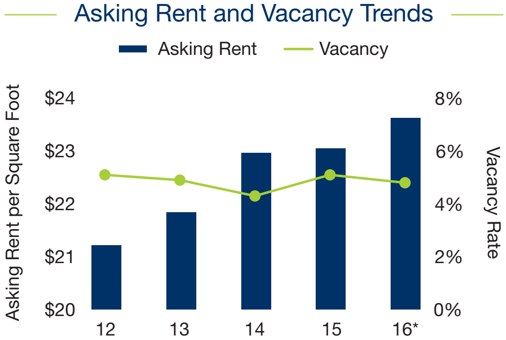
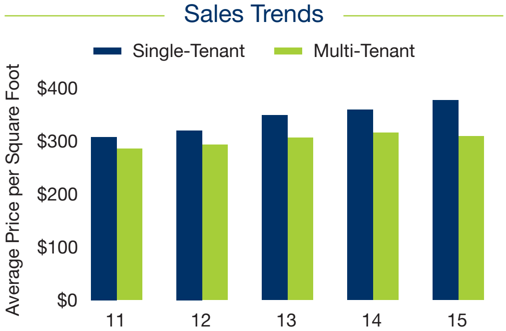



### Sales Trends




* Forecast
Sources: CoStar Group, Inc.; Real Capital Analytics

# Vacancy Constricts Further As Small Businesses Invigorate San Diego Retail Demand

Steady employment gains will continue to fuel consumer spending in San Diego this year, leading to further improvements in the area's retail market. Many of the metro's employment sectors have exceeded prior job peaks, and nearly every segment has added back all positions lost during the recession. This positive outlook on the area's economy is translating to rising retail sales and strengthening tenant demand. Completions will fall this year, further contributing to extremely tight vacancy. In addition, the return of small-business tenants to the market is a boon to multi-tenant centers as they lease in-line space, constricting vacancy and encouraging rent growth. As a result, vacancy will reach the lowest point since the recession this year. The stabilization of properties across the metro should spur retail construction to resume, and several projects loom in the pipeline that would provide some relief to the heightened demand for area retail space.

Bidding will remain intense and keep transaction activity among retail assets vigorous in the San Diego metro this year. As mom-and-pop retailers begin to fill small storefronts and further stabilize multi-tenant centers, owners will be faced with the decision to revisit listing options or to invest additional capital into property improvements. As the potential to add value through marketing efforts diminishes, owners in search of upside will seek centers with short-term leases and the ability to bring rents up to market. Private buyers will remain most active in the market, scouring the metro for these stable multi-tenant deals. An anchored C-plus assets can trade at initial yields in the low-6 percent range, while an unanchored prospect can draw first-year returns approximately 50 basis points higher. Single-tenant assets will remain in high demand and typically trade at cap rates in the mid-5 percent area.

## 2016 Market Forecast

**NRI Rank** 9, down 4 places — San Diego fell four spots this year as other markets surpassed this area's performance outlook.

**Employment** up 2.8% — San Diego employers will add 39,000 workers this year, expanding payrolls 2.8 percent. In 2015, job growth accelerated 2.7 percent with the creation of 37,400 jobs.

**Construction** 375,000 sq. ft. — Completions will decline when compared with last year as just 375,000 square feet of retail space comes online by year end. Builders added 650,000 square feet to stock in 2015.

**Vacancy** down 30 bps — Vacancy will retreat 30 basis points annually to 4.8 percent this year. During 2015, an 80-basis-point increase was recorded.

**Rent** up 2.5% — Tight conditions will encourage rent gains and the average will rise 2.5 percent year over year to $23.62 per square foot. The average grew 0.3 percent last year.

**Investment** — Strip centers containing two to four national or regional credit tenants are drawing significant buyer interest. Those in prime locations or anchored by larger multi-tenant centers can trade as low as 4 percent.

# Robust San Francisco Retail Undergoing Supply Surge; Buyers Positioning for Long-Term Gains

The vibrant San Francisco economy, led by surging growth at technology firms and venture-capital backed startups, is hitting new highs. The influx of workers has led construction firms to focus on apartments and office spaces in order to meet soaring demand, leaving retail completions to sink to a multiyear low in 2015. Plummeting completions were not enough to quell a rise in vacancy, however, as rental-growth fatigue appears to be setting in among some retailers who are opting for smaller floor plans at more modern storefronts. Asking rents have vaulted more than 25 percent over the past three years, forcing retailers to reconsider their space needs amid an environment of rising costs. While retailer demand has been tepid, builders are ramping up their activity over the coming year, highlighted by Market Street Place, a 240,000-square-foot multilevel retail center between Fifth and Sixth streets on Market Street. The uptick in supply is likely to create further weakness over the short term, yet asking rents will still record a mid-single-digit gain as vacancy rates remain near all-time lows.

Although space needs are shifting among retail tenants amid a higher cost environment, investors continue to focus on the long-term supply and demand imbalances in the metro, fostering a desire to deploy capital amid soaring job growth. Institutions are most focused on the urban core of San Francisco, which dominates the bulk of transaction activity in the region. The infill nature of the market removes the risk of large-scale development, as it is costly and complicated. Meanwhile, many private pools of capital have shifted toward San Mateo County, seeking to acquire assets near corporate campuses in order to benefit from increased headcounts at local firms. Properties nearing lease expirations are likely to see above-average demand as buyers seek to profit from the roll-up of rents-to-market rate, providing opportunities for outsized returns relative to risk.

## 2016 Market Forecast

**NRI Rank** 1, no change — San Francisco retained the number one spot this year as vacancy remains the lowest in the nation.

**Employment** up 3.9% — Local organizations will hire 42,000 workers this year, expanding total employment by 3.9 percent. In the prior year, headcounts rose by 38,000.

**Construction** 260,000 sq. ft. — After completing 12,000 square feet of space in 2015, builders will ramp up deliveries to 260,000 square feet. The Market Street Place project will account for 240,000 square feet of the total.

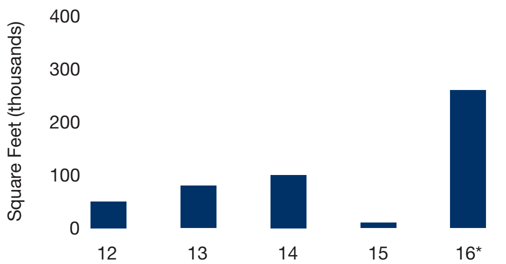
**Vacancy** up 20 bps — Rising completions will outpace demand for space in 2016, lifting the metro vacancy rate 20 basis points to 2.6 percent. In the previous 12 months, vacancy rose 10 basis points.

**Rent** up 5.4% — A lack of available space will allow the average asking rent to gain 5.4 percent to $40.10 per square foot this year. In the prior year, the asking rent climbed 9.6 percent.

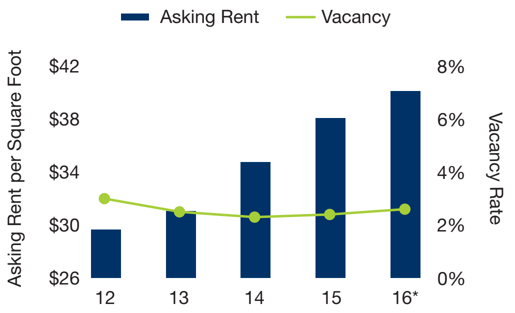
**Investment** — Short-term market weakness may lead current owners to list their assets, providing new opportunities for investors seeking to position for long-term growth.

### Employment vs. Retail Sales

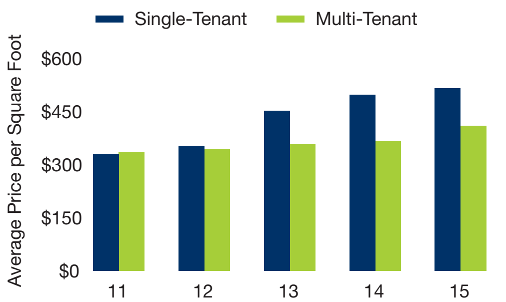

### Retail Completions




### Asking Rent and Vacancy Trends




### Sales Trends




* Forecast
Sources: CoStar Group, Inc.; Real Capital Analytics

# New Opportunities Arise for Silicon Valley Retailers; Investors Gravitate Toward Big Tech

The booming San Jose economy is firing on all cylinders as the largest tech firms in the world have been on a hiring binge. Fierce competition for talent has pushed up salaries across the information technology, business and financial services and other office-using sectors, which has translated into rapidly appreciating asking rents at nearby retail shops. Construction firms have recognized the market strength with planned completions set to top 500,000 square feet for the third straight year. While net absorption trended negatively over the past year, more than 95 percent of planned deliveries in 2016 have already been pre-leased, indicating robust demand at new locations. As a result, the small rise in vacancy recorded last year appears to be transitory. This year's deliveries will be highlighted by Almaden Ranch at Highway 85 and Almaden Expressway, a planned 350,000-square-foot shopping center leased entirely in advance of completion. Due to vigorous pre-leasing and a slowdown in overall construction, vacancy will tick down modestly as retailers seeking extra space pen leases. In addition to falling vacancy rates, the average asking rent will record a mid-single-digit advancement.

Amid a search for yield, investors are seeking value by positioning near corporate campuses and freeways, benefiting from the near-constant stream of traffic in these locales. Institutions favor established lease structures in excellent infill locations where development is difficult. Palo Alto, Los Gatos and Mountain View are the most popular destinations for capital, while Santa Clara and San Jose remain options for buyers in search of more-attractive first-year returns. Overall, cap rates will begin in the high-4 to mid-5 percent range, while more suburban locations can reach into the high-5 percent range. Private investors wishing to reposition outdated industrial properties to retail assets will find ample opportunities in the northern portions of San Jose and Santa Clara.

## 2016 Market Forecast

**NRI Rank** 4, down 1 place — San Jose fell one spot this year despite strong employment and rent gains.

**Employment** up 4.5% — San Jose employers will create 48,000 positions this year, expanding total employment by 4.5 percent. In the prior year, 45,300 jobs were added.

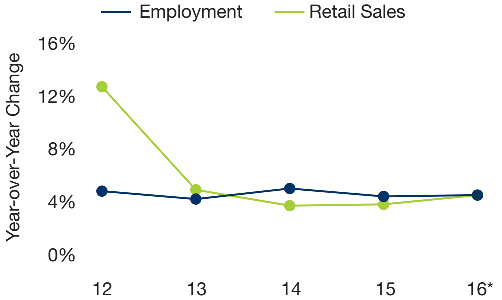
**Construction** 535,000 sq. ft. — Builders will finish 535,000 square feet of retail space in 2016, accounting for a 0.7 percent addition to total inventory. In the previous 12 months, 515,000 square feet was delivered.

**Vacancy** down 10 bps — Intense retailer demand, coupled with thriving pre-leasing activity, will lead vacancy to drop 10 basis points to 4.5 percent. In the prior four quarters, vacancy jumped 80 basis points.

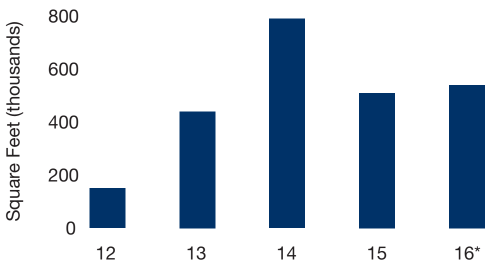
**Rent** up 4.1% — Limited available space, combined with a slowdown in development, will sponsor a 4.1 percent rise in the average asking rent to $33.81 per square foot.

**Investment** — Suburban strip and neighborhood-anchored centers will receive renewed interest as pricing pushes more investors to deploy capital in more affordable assets.

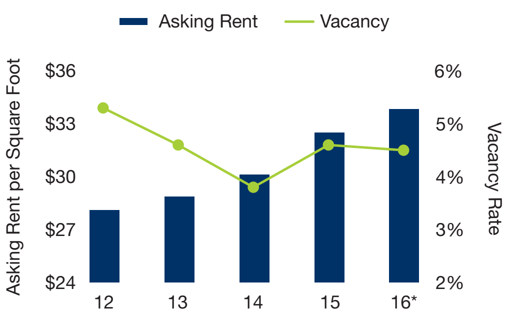
### Employment vs. Retail Sales



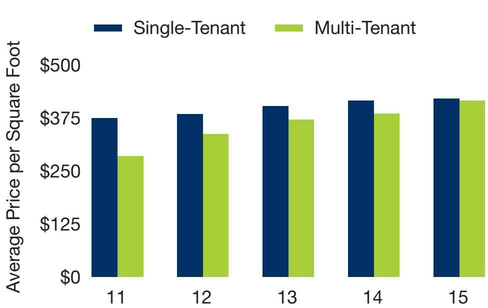

### Retail Completions




### Asking Rent and Vacancy Trends




### Sales Trends




* Forecast
Sources: CoStar Group, Inc.; Real Capital Analytics

# Strong Job Growth Shines Brightly On Seattle-Tacoma Retail Sector

Substantial employment gains are fostering vigorous household growth, underpinning Seattle-Tacoma's retail market. More than 200,000 jobs have been created in the metro over the past four years, and hiring is especially robust among the relatively higher-paying tech, e-commerce and biotech firms. Amazon and Tableau are among companies adding thousands of jobs and attracting residents to the region, which has resulted in the formation of more than 100,000 new households since 2012. Despite the surge in potential customers, retail construction has remained subdued, due in part to a lack of developable land. This restricts much of the new inventory to the numerous redevelopment projects scattered throughout the Puget Sound region. A large portion of inventory additions will be ground-floor stores in mixed-use apartment and office buildings, especially in Seattle and Bellevue. The slow pace of inventory growth coupled with sizable tenant demand will drop vacancy to the lowest rate in 10 years, contributing to higher rents.

The vibrant economy continues to draw a steady stream of investors into Seattle-Tacoma. Many buyers are moving capital from other asset classes, seeking safety in retail properties, while some are lured by higher yields than can be found in other West Coast markets. The surge of mixed-use towers with ground-floor retail space, especially in Seattle and Bellevue, draw institutional investors. These high-rises bring in additional foot traffic and national retailers, boosting property values of other retail buildings nearby. Initial yields for single-tenant net-lease assets in the city will start in the mid-4 percent range for long-term leases, while small strip centers will begin 150-200 basis points higher. Buyers seeking larger yields or a less-competitive bidding environment will look to Pierce and Snohomish counties, where rising valuations have more owners willing to list properties.

## 2016 Market Forecast

**NRI Rank** 3, up 6 places — Reduced construction and strong employment growth lifted Seattle-Tacoma six spots this year.

**Employment** up 3.0% — Job growth will reach 3.0 percent in 2016 with the creation of 57,750 positions. This is on par with last year's 3.0 percent gain.

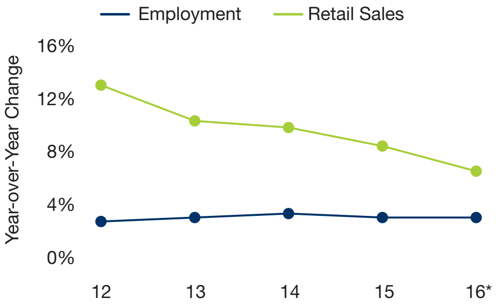
**Construction** 300,000 sq. ft. — Retail construction is slowing. After the delivery of 400,000 square feet last year, developers will complete 300,000 square feet in 2016.

**Vacancy** down 40 bps — Strong tenant demand amid fewer inventory additions will drop the vacancy rate 40 basis points to 4.2 percent this year, the lowest point in this business cycle. A 50-basis-point decline was recorded in 2015.

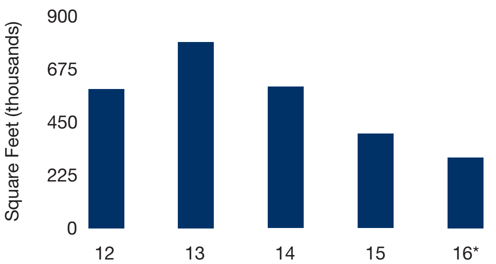
**Rent** up 1.3% — Asking rent in the metro will rise an average of 1.3 percent to $18.83 per square foot in 2016. This follows a rise of 0.9 percent a year ago. Rents remain roughly 17.0 percent below the 10-year high.

**Investment** — Older retail buildings with ample parking along major transit routes that can be redeveloped will continue to be highly sought after.

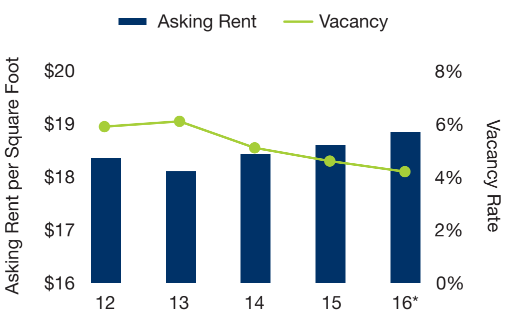
### Employment vs. Retail Sales



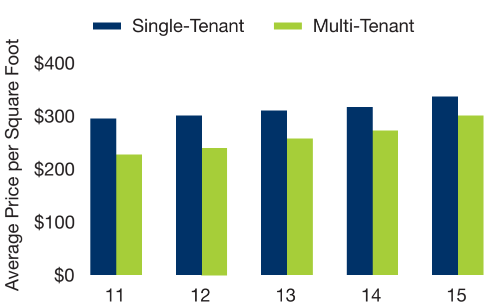

### Retail Completions




### Asking Rent and Vacancy Trends

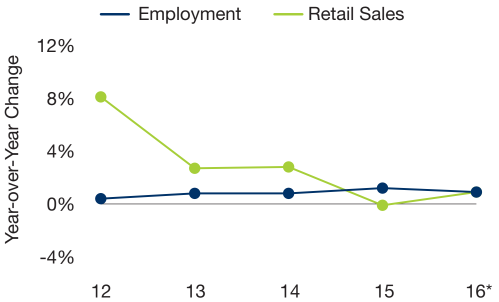



### Sales Trends

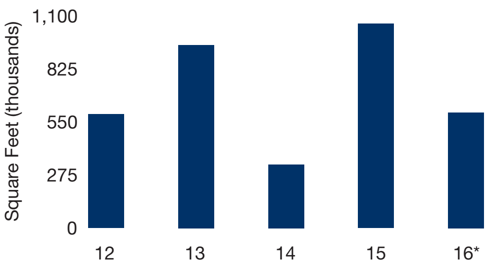



* Forecast
Sources: CoStar Group, Inc.; Real Capital Analytics

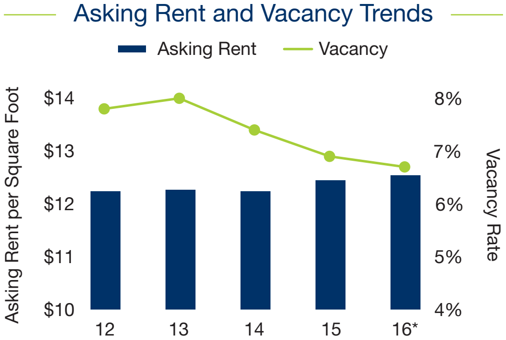
## Employment vs. Retail Sales



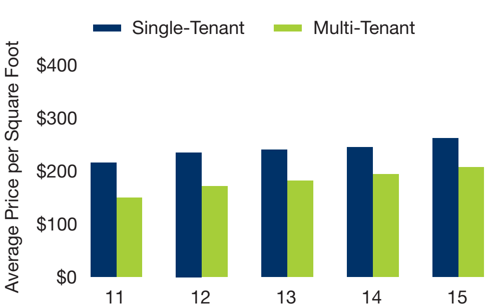

## Retail Completions




## Asking Rent and Vacancy Trends




## Sales Trends




* Forecast
Sources: CoStar Group, Inc.; Real Capital Analytics

# New Grocers Coming to Market To Search for Retail Space in St. Louis

St. Louis' retail sector is making steady advances as the local economy improves. Job gains have already dropped the unemployment rate to the lowest level in 15 years, which will contribute to the creation of approximately 10,600 households during 2016. This growth will increase the need for goods and services, bolstering area retailers. Many of the new residents will be filling the numerous apartment buildings being constructed in the core of St. Louis. Also downtown, service will begin this year on the Loop Trolley, providing additional foot traffic for retailers along the 2.2-mile route that connects the Loop entertainment district with Forest Park. Throughout the metro, the grocery scene is evolving as new stores arrive. Kroger's Ruler Foods concept will open several locations this year, joining other recent entrants Fresh Thyme Farmer's Market, Lucky's Market and Fresh Market. These stores will contribute to vacancy tightening to the lowest level in 10 years. The rate still remains among the highest in major U.S. metros, suppressing greater rent gains.

Retail assets in St. Louis garner the attention of investors, many coming from out-of-state, drawn by less-intense competition and higher yields than are available in coastal markets. Properties in St. Charles County or the western portion of St. Louis County are particularly targeted. Here, quality net-leased single-tenant buildings will change hands at cap rates generally beginning in the 6 percent area, but they can dip below that for premium locations with a corporate tenant signed to a long-term lease. Prime multi-tenant assets in these areas will typically start to trade 200 basis points higher. Throughout the market, value-add opportunities remain available in older centers or in secondary neighborhoods where space vacated during the recession has yet to be filled. Properties in locations being sought after by expanding grocery stores or in redeveloping areas such as Midtown will particularly garner investor attention.

## 2016 Market Forecast

**NRI Rank** 45, down 1 place — St. Louis lowered one spot as rent and employment gains are much slower than the national average.

**Employment** up 0.9% — Employers in the St. Louis metro will generate 12,000 jobs during 2016, a 0.9 percent increase. This is down slightly from last year's pace when 15,600 workers were added to payrolls.

**Construction** 600,000 sq. ft. — Following the completion of 1 million square feet in 2015, builders will finalize 600,000 square feet this year, a 0.4 percent expansion in retail stock.

**Vacancy** down 20 bps — The reduced pace of deliveries will contribute to the vacancy rate retreating 20 basis points to 6.7 percent in 2016, on net absorption of more than 860,000 square feet. In 2015, vacancy dropped 50 basis points.

**Rent** up 0.7% — With less space available, the average asking rent will climb 0.7 percent to $12.53 per square foot, building on last year's 1.7 percent advance.

**Investment** — The recent opening of Ikea in the Cortex District is attracting apartment and office development nearby, generating additional demand for retail goods and services.

# Job Gains Bolster Household Growth, Generating Retail Demand in Tampa-St. Petersburg

Tampa-St. Petersburg retailers will benefit from the region's strongest job growth in more than a decade, which is contributing to a large influx of residents. The addition of households has paved the way for housing starts to reach their highest peak in nine years. New residential developments are scattered throughout the metro in both infill and fringe neighborhoods, which will bode well for nearby home-goods and necessity-based retailers. The recent opening of the fully leased Tampa Premium Outlets in Lutz is spurring additional retail and residential development in the vicinity. Costco, Chick-fil-A and Panda Express plan to open stores nearby in 2016. The redevelopment of existing centers is also underway. The first phase of Seminole Mall's transformation into Seminole City Center should open this year, along with the refurbished Twin Oaks Plaza and Hyde Park Village in Seminole and Tampa, respectively. Increased tenant demand will drop vacancy to a seven-year low, inching rents higher.

The more robust economy and strengthening retail demographics are attracting investors to Tampa Bay. Some buyers will come from other Southern Florida markets drawn by lower entry costs and the potential for higher yields. Overall, buyers have been focusing in primary and secondary areas throughout the metro, driving demand above available listings, especially for single-tenant net-leased or grocery-anchored centers. The latter will trade at cap rates beginning in the mid-7 percent range for quality tenants with long-term leases in prime areas. In secondary locations these centers will generally start 100 basis points higher. Increased competition for available assets has more buyers willing to consider unanchored centers. Newer properties with credit tenants will trade at initial yields that can start in the low-6 percent area. More unanchored Class B/C strip centers are available, but slower rent growth has inhibited significant buyer demand.

## 2016 Market Forecast

**NRI Rank** 21, no change — This metro held steady in the ranking this year as completions will fall to meet demand.

**Employment** up 3.3% — Job growth reached the highest level in 10 years during 2015 with a 3.1 percent expansion. This year, employment will rise even faster with the creation of 42,000 positions, or 3.3 percent.

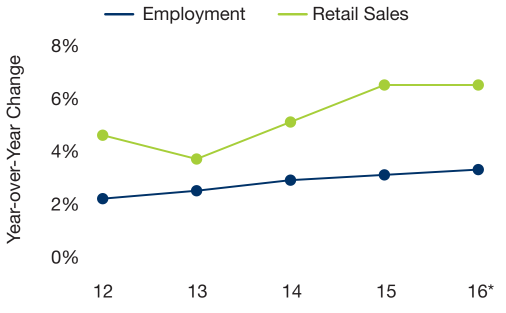
**Construction** 700,000 sq. ft. — Developers will complete 700,000 square feet of retail space in 2016, a 0.4 percent inventory expansion. Last year, 2 million square feet was delivered.

**Vacancy** down 50 bps — Strong tenant demand will contribute to pushing down vacancy to the lowest rate in more than seven years. In 2016, vacancy will fall 50 basis points to 6 percent after tightening 60 basis points in 2015.

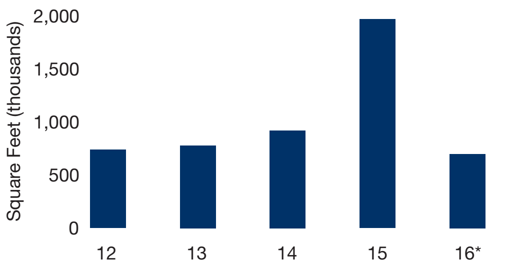
**Rent** up 0.9% — Asking rent will increase an average of 0.9 percent to $13.96 per square foot in 2016, up from last year's 0.4 percent decline.

**Investment** — Investors will seek small strip centers surrounding infill mixed-use developments throughout the metro for value-add opportunities.

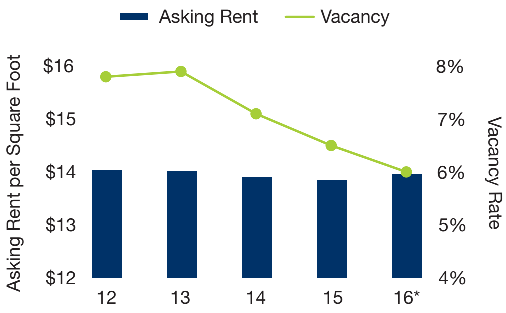
### Employment vs. Retail Sales



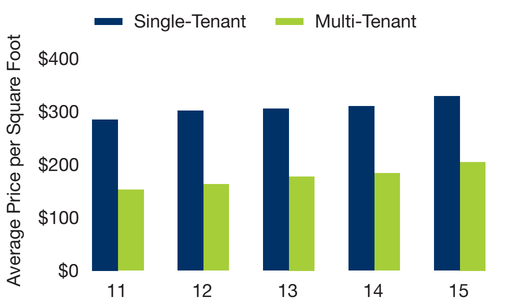

### Retail Completions




### Asking Rent and Vacancy Trends




### Sales Trends

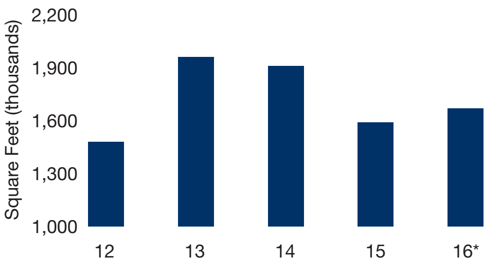



* Forecast

Sources: CoStar Group, Inc.; Real Capital Analytics

## Employment vs. Retail Sales


## Retail Completions

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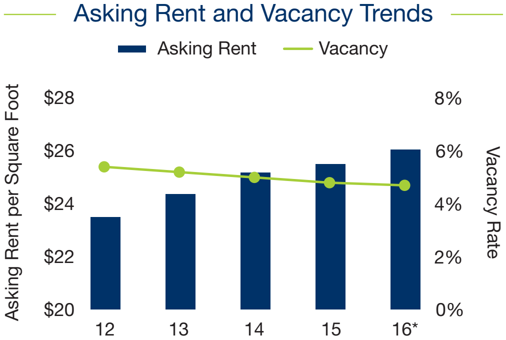


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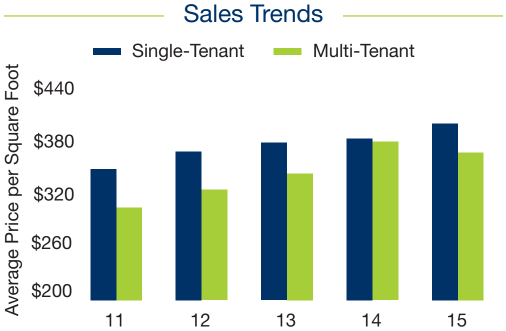



* Forecast
Sources: CoStar Group, Inc.; Real Capital Analytics

# Corporate Growth Driving Demand, Encouraging Market Tightening Despite Construction Takeoff

Following years of underwhelming economic and employment growth, the prospects for improvement are increasing rapidly in the Washington, D.C., metro. Headcount expansion has already doubled the pace seen during the sequester, and will be boosted over the coming months due to the upcoming elections. Benefiting from some of the wealthiest counties in the nation, local retailers have been penning leases for new spaces, particularly along major interstates and the Metro line. The pace of construction will remain unchanged from 2015, yet the vast majority of the space has been pre-leased in advance of delivery, removing the risk of rising vacancy over the coming year. More than half of upcoming construction will come online in Suburban Maryland, where several large shopping centers, such as Cabin Branch and Lovettsville Square, highlight the pipeline. Due to robust pre-leasing, demand will overtake supply increases this year, fostering a small drop in the metro vacancy rate. In addition, tightening operations will sponsor a low-single-digit rise in the average asking rent.

Motivated by the prospects of more vigorous growth in the coming year and the search for yield, investors are flocking to the metro. Institutional buyers seek established assets inside the District and nearby suburbs, such as Bethesda, Alexandria and Arlington. These assets benefit from a strong demographic profile and local employment centers. Meanwhile, private clients are focusing on suburban shopping centers with dark space or in need of renovation, providing options for additional NOI growth beyond the initial yield. Additionally, mixed-use offerings will receive swelling interest as investors place greater value on the optionality of retenanting the apartments. Cap rates will range between the mid-5 to mid-7 percent range, depending on asset quality, lease structure and distance from the urban core. Cap rates and prices per square foot will continue to improve as buyers bid up the few available listings.

## 2016 Market Forecast

**NRI Rank** 24, no change — Washington, D.C., held firm in the middle of the pack as other markets outpace it fundamentally.

**Employment** up 2.0% — After adding 62,000 jobs in 2015, local organizations will create 65,000 new positions this year, a 2.0 percent expansion driven by government, professional and business services and education and health services.

**Construction** 1.6 million sq. ft. — Builders will complete 1.6 million square feet of retail space this year, slightly more than last year's deliveries. Suburban locations are the most active, with Suburban Maryland accounting for half the projects.

**Vacancy** down 10 bps — Robust pre-leasing in excess of 70 percent of upcoming construction will foster a 10-basis-point drop in vacancy to 4.7 percent. In the prior year, vacancy was unchanged.

**Rent** up 2.2% — Greater demand for existing spaces will propel the average asking rent 2.2 percent higher to $26.00 per month. In the previous 12 months, the asking rent rose 1.6 percent.

**Investment** — Value-add assets with optionality near transportation routes will remain in high demand, while a lack of listings encourages a thriving bidding environment.

# Necessities-Based Retailers Expand, Drive Construction in Palm Beach County

A bright economic outlook and strong tourism industry will bode well for retail property operations in Palm Beach County this year. Employment in the area will continue to rise at a vigorous pace, led by hiring in higher-paying industries such as professional and business services and education and health services. Growth in these employment sectors, and a boost in the local tourism industry, will facilitate a nearly 7 percent rise in retail sales this year. In addition, this positive outlook is encouraging several retailers to expand in the county, including necessities-based merchants like ALDI, the Fresh Market and Wal-Mart. Though building activity remains limited compared with years before the recession, the combination of mostly single-tenant space and robust pre-leasing for multi-tenant properties coming online will bode well for retail property operations. These conditions will contribute to vacancy falling to its lowest point in nearly a decade while rents rise to the highest level since 2009.

Private, local buyers will continue to dominate retail sales in West Palm Beach this year, targeting multi-tenant assets priced between $1 million and $5 million. Initial yields for these properties are in the mid- to high-7 percent range, while the market average is closer to the mid-6 percent area. The buyer pool is growing as out-of-state investors, particularly those from New York and other East Coast metros, seek assets in the area. As a result of increased competition, average prices pushed nearly 10 percent above the pre-recession peak last year. Cap rates vary widely throughout the county, from strip centers fetching close to 5 percent in Boca Raton, to shopping centers in Jupiter trading between 7 and 9 percent. While single-tenant listings are limited, drugstore and fast-food chains are in high demand and first-year yields start near 4 percent for national credit tenants with long-term leases.

## 2016 Market Forecast

**NRI Rank**
27, up 2 places

Posting some of the strongest rent growth this year, West Palm Beach rose two places in the NRI.

**Employment**
up 2.6%

West Palm Beach employers will expand payrolls 2.6 percent this year with the addition of 15,100 workers. In 2015, companies created 14,500 jobs, increasing staffs 2.4 percent.

**Construction**
480,000 sq. ft.

Retail deliveries will reach 480,000 square feet this year, representing a stock expansion of 0.7 percent. Builders brought 280,000 square feet of space online last year.

**Vacancy**
down 40 bps

After recording a 80-basis-point decline last year, vacancy will retreat 40 basis points to 5.4 percent in 2016, the lowest level in almost 10 years.

**Rent**
up 4.4%

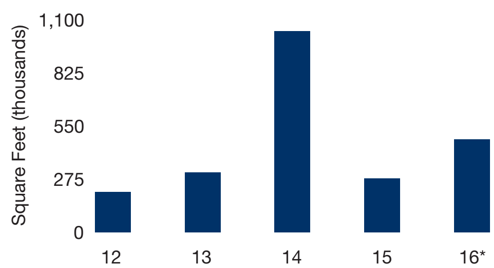
The average asking rent will advance 4.4 percent annually, reaching $20.71 per square foot by year end. The average increased 5.1 percent in 2015.

**Investment**

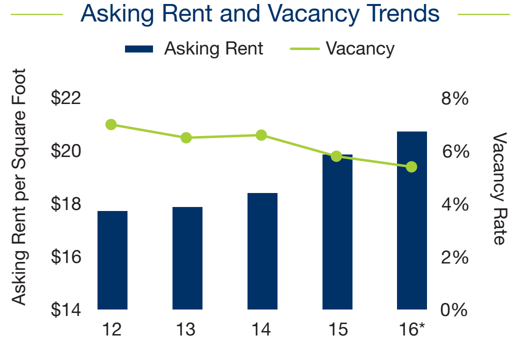
Strip centers assets with national credit tenants in heavy tourist areas will be in high demand this year, and competition for these properties will rise as out-of-state investors seek centers in the county.

### Employment vs. Retail Sales

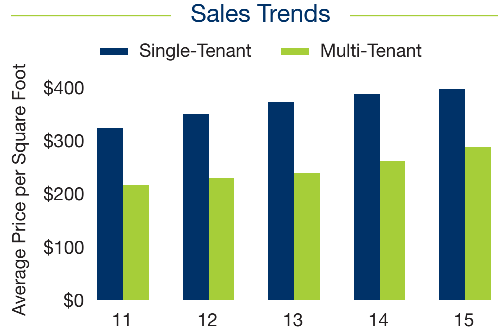

### Retail Completions




### Asking Rent and Vacancy Trends




### Sales Trends




* Forecast
Sources: CoStar Group, Inc.; Real Capital Analytics

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National Retail Index Note: Employment and retail data forecasts for 2016 are based on the most up-to-date information available as of January 2016 and are subject to change.

Statistical Summary Note: All rental rates are calculated using triple net (NNN) rental rates. Average prices and cap rates are a function of the age, class and geographic area of the properties trading and therefore may not be representative of the market as a whole. Forecasts for employment, retail sales and retail property data are made during the first quarter and represent estimates of future performance. No representation, warranty or guarantee, express or implied may be made as to the accuracy or reliability of the information contained herein.

Sources: Marcus & Millichap Research Services, American Council of Life Insurers, Blue Chip Economic Indicators, Bureau of Economic Analysis, CoStar Group, Inc., Economy.com, Experian, Federal Reserve, Moody Analytics, Real Capital Analytics, Standard & Poor's, The Conference Board, Trepp, TWR/Dodge Pipeline, U.S. Bureau of Labor Statistics, U.S. Census Bureau, U.S. Securities and Exchange Commission, U.S. Treasury Department.

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