CENTRAL FLORIDA RETAIL INVESTMENT MARKET REPORT

1Q 2017

1Q RETAIL MARKET

National Retail Outlook

With 2016 well behind us and 2017 fully underway, it's almost disheartening to continue the discussions surrounding President Trump. However, Trump's presidency will have a direct impact on commercial real estate. President Trump is placing a significant focus on making changes to fiscal, trade, regulatory, and diplomatic policy with his economic plan; however, the details are still unknown. It will take a long time before we fully understand how the Trump Administration's policies will impact the economy and the real estate market. As we have seen in past elections, it will be extremely difficult for Trump to realize any significant progress in his first year in office.

Although there is uncertainty surrounding 1031 exchanges, among other topics, we believe that we can breathe easy, at least for the immediate future. To rewrite or change the 1031 regulations would have a substantially greater impact than just those using it as a tax shelter. There are countless jobs that have been formed and rely on the 1031 exchange—exchange specific attorneys, accountants, intermediaries, brokers, countless other professionals, REITs, and real estate investment companies—it has become its own industry. Substantial changes would cause a tsunami-like ripple in the economy. There are bigger, more pressing worldly matters that need immediate attention.

The Federal Reserve will continue to be a major influence on commercial real estate throughout the remainder of 2017 and into 2018. The Fed must concentrate on the fine balance of sustaining growth without letting inflation escalate too rapidly. Rising inflation will signal strong economic development, however, and will enhance the attractiveness of commercial real estate due to its hedge against inflation. The Fed, for the remainder of 2017, has indicated at least two more rate increases. However, strong confidence with escalating fiscal stimulus and tax cuts could trigger accelerated economic expansion. The Fed, in an effort to sustain balanced growth, could get more aggressive with rate hikes.

Recently, rising interest rates are reinforcing investor caution and slowing investment real estate transaction activity. Additionally, the depth of the buyer pool has become smaller in recent years. Still, given the potential for robust cash flows and rent appreciation, foreign investors continue to gravitate toward the safety and security of investing in a relatively healthy US economy.

The overall, the market has had an intense run-up in sales activity and values over the last five years, and that type of velocity is hard to maintain. Although pricing has begun to recede from all-time highs, real estate fundamentals are very healthy and there is no distress in the market. Sellers have been reluctant to discount assets even with increased urgency to sell, as retail rents have begun to plateau in an environment of gradually rising interest rates. Buyers are looking for lower prices to accommodate higher perceived risk, but they have also indicated their willingness to pay premium prices for quality properties.

Over the next few months buyers and sellers will recalibrate expectations, especially if there is clarity on tax reform and infrastructure spending. We are now in year seven of the expansion phase. Since 1950, the average expansion has lasted five and a half years. By that measure, we are overdue for a recession. Nevertheless, U.S. real estate transaction activity should remain relatively healthy in 2017.

Orlando Retail Outlook

Although there is economic uncertainty, which has caused a bit of a pause in the commercial real estate market, Florida has never looked brighter.

Orlando's standing as a hotspot for domestic and international travelers is influencing retail activity in Central Florida. New attractions to the tourist corridors, like Margaritaville (W-192) or the SkyPlex (I-Drive), as well as new attractions and additions to theme parks, will continue to entice visitors—Orlando saw a record breaking 68 million visitors in 2016. The city's worldwide notoriety and economic growth will continue to attract interest from domestic and international buyers alike. Competitive but stabilized cap rates will offer buyers the opportunity to find higher yielding investments and portfolio diversity. The long-term fundamentals of Greater Orlando's retail market are strong and while income appreciation has been less than exciting, the flow of capital should help keep the market active.

This far-reaching, extensive market of Central Florida has observed a rapid decline in vacancies, and has experienced steady but increasing lease rates. Lease rates in sought after locations, such as the major tourist corridor of I-Drive and W-192, and Winter Park's 17-92 corridor, are seeing record growth. Growth of national and international restaurant brands has also occurred in recent years, a trend that we don't expect to end soon. Additionally, the Orlando MSA unemployment rate dropped to 4.5% largely driven by: tourism, real estate, retail, technology and health industries. Orlando has continued to lead the nation in job growth, as it has ranked in the top three amongst the nations largest metro areas for job growth over the past three years. As new jobs were created, growing income levels gave way to an increase in demand for more space and thus a rise in rental rates.

E-commerce has slowed the development and expansion of brick and mortar retain, but grocery-anchored developments have remained active, as niche grocers and investor-favored tenants are taking advantage of Greater Orlando's population boom. Together, tenants like Wawa and Racetrac, along with Quick Service Restaurants ("QSRs") and casual dining concepts continue to

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1Q 2017 Retail Market Statistics

73,019,857
TOTAL SF

6.69%
VACANCY

518,553
SF ABSORPTION

554,280
SF UNDER CONSTRUCTION

$25.19
AVG. ASKING BASE RENT/SF

$273,771,736
BUILDING SALES VOLUME

$87.02
AVG. SALE PRICE/SF

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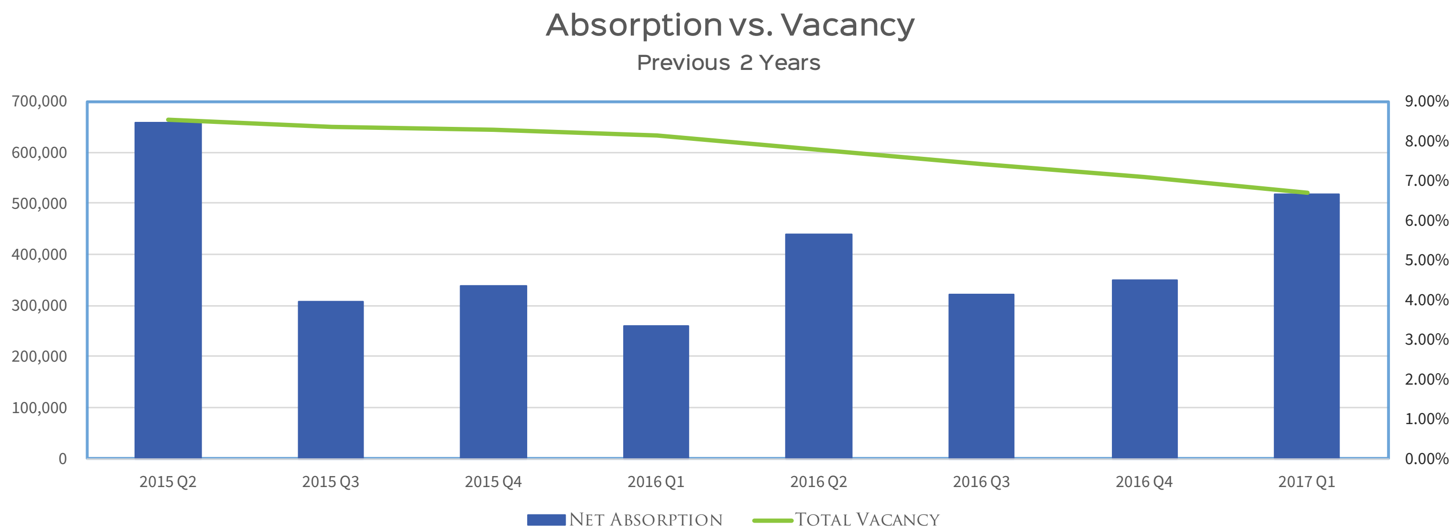
1Q 2017 Central Florida Retail Stats

	# of Bldgs	Total SF	Total Vacancy	Avg Asking Base Rent	Net Absorption	YTD Absorption	# U/C	Under Construction
2017 Q1	5,265	73,019,857	6.7%	$25.19	518,553	1,189,484	31	554,280
2016 Q4	5,226	72,533,075	7.1%	$24.76	348,499	1,109,117	30	539,370
2016 Q3	5,196	72,031,125	7.4%	$21.76	322,432	1,020,471	28	454,185
2016 Q2	5,167	71,737,466	7.8%	$20.96	438,186	1,036,832	23	372,170
2016 Q1	5,149	71,581,440	8.1%	$18.79	259,853	906,335	14	219,939
2015 Q4	5,101	70,815,790	8.3%	$18.43	338,793	1,304,220	16	205,785
2015 Q3	5,045	70,278,504	8.3%	$17.70	307,689	966,187	22	301,706
2015 Q2	5,001	70,006,674	8.5%	$17.13	657,738	658,498	34	408,376
2015 Q1	3,403	61,275,298	9.4%	$15.29	760	760	27	394,585

1Q 2017 Central Florida Retail Breakdown

	# of Bldgs	Total SF	Total Vacancy	Rental Rate	Net Absorption	YTD Absorption	# U/C	Under Construction
Multi-Tenant								
Orange County	695	23,528,864	6.9%	$24.68	110,699	159,051	10	198,797
Osceola County	221	6,792,770	5.0%	$18.65	29,027	43,941	1	75,000
Seminole County	260	8,687,609	11.2%	$14.19	143,590	161,138	5	142,837
Lake County	152	4,929,458	9.9%	$12.07	(47,090)	36,108	0	0
Brevard County	1,460	8,200,058	2.5%	$46.27	13,970	24,090	2	17,237
Single Tenant*								
Orange County	329	1,878,977	1.1%	$22.11	8,290	10,284	4	12,894
Osceola County	536	2,859,536	5.1%	$42.86	20,973	26,509	4	14,526
Seminole County	492	2,685,637	3.0%	$8.43	6,746	33,357	2	8,634
Lake County	312	9,078,070	9.9%	$13.13	224,616	327,196	2	80,855
Brevard County	808	4,378,878	2.5%	$49.50	7,732	45,378	1	3,500

*Many properties under 5,000 SF were omitted



1Q 2017 Retail Notable Lease Transactions

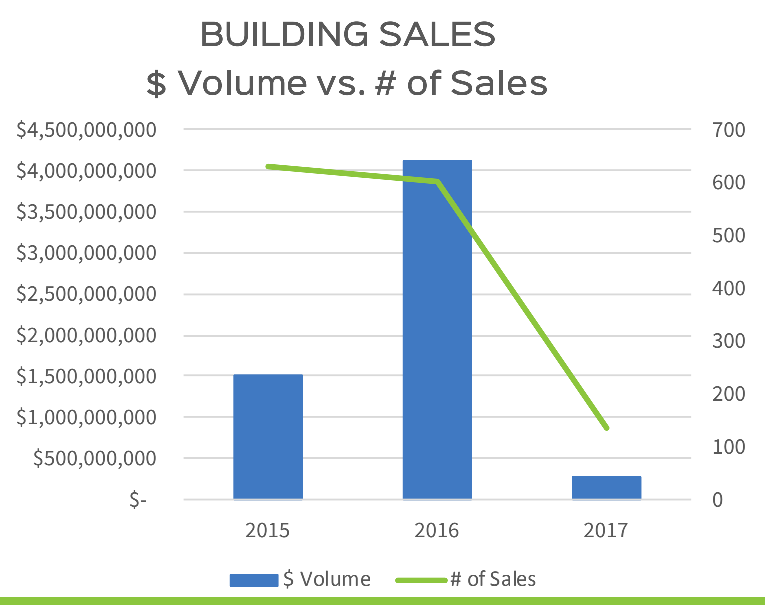
Property Address	*City*	*County*	*Tenant*	*Landlord*	*Lease Size*
1790 Lee Road	Orlando	Orange	Arteek Supply & Design	Baha Properties LLC	14,672
1312 E Vine Street	Kissimmee	Osceola	Hecho en Puerto Rico Latin Market	Mill Creek LLP	14,356
911 N Central Avenue	Umatilla	Lake	Save-A-Lot	Nationwide Umatilla Center Inc.	11,528
902 Lee Road	Orlando	Orange	Dollar Tree	Lee Road Partners LP	10,750
3162 E Colonial Drive	Orlando	Orange	Specialty Grocer	City of Orlando / GOAA	36,340

1Q 2017 Retail Notable Sale Transactions

Property Address	*City*	*County*	*Buyer*	*Seller*	*Sale Price*	*Sale Date*	*Bldg Size*	*Price Per SF*
1700 W International Speedway	Daytona Beach	Volusia	CBL & Associates Properties Inc.		$72,500,000	1/31/2017	906,481	$79.98
167 E Mitchell Hammock Rd	Oviedo	Seminole	Oviedo Town Center LLC	Gemini Town Center H LLC	$16,085,000	3/9/2017	51,642	$311.47
1700 Oviedo Mall	Oviedo	Seminole	Oviedo Mall Holdings LLC	Ovideo Fund LLC	$15,350,000	2/7/2017	952,000	$16.12
3770 N Goldenrod Rd	Winter Park	Orange	Winter Park Covenant Group LLC		$1,550,000	3/24/2017	124,373	$12.46
400 State Road 436	Casselberry	Seminole	MMI Development	Greater Properties Inc.	$2,995,000	1/26/2017	52,855	$56.66

1Q 2017 Retail Building Sale Stats

	# of Sales	*YTD # of Sales*	*$ Volume*	*YTD Volume*	*Square Feet*	*Avg $ / SF*
2017 1Q	134	134	$273,771,736	$273,771,736	3,146,119	$87.02
2016 4Q	167	603	$406,136,743	$4,116,684,393	2,055,134	$197.62
2016 3Q	134	436	$427,496,232	$3,710,547,650	3,278,981	$130.37
2016 2Q	158	302	$357,336,718	$3,283,051,418	3,477,655	$102.75
2016 1Q	144	144	$2,925,714,700	$2,925,714,700	2,067,380	$1,415.18
2015 4Q	176	630	$499,935,788	$1,517,401,624	4,808,593	$103.97
2015 3Q	158	454	$392,513,650	$1,017,465,836	3,019,969	$129.97
2015 2Q	156	296	$317,821,175	$624,952,186	3,405,113	$93.34
2015 1Q	140	140	$307,131,011	$307,131,011	2,562,010	$119.88

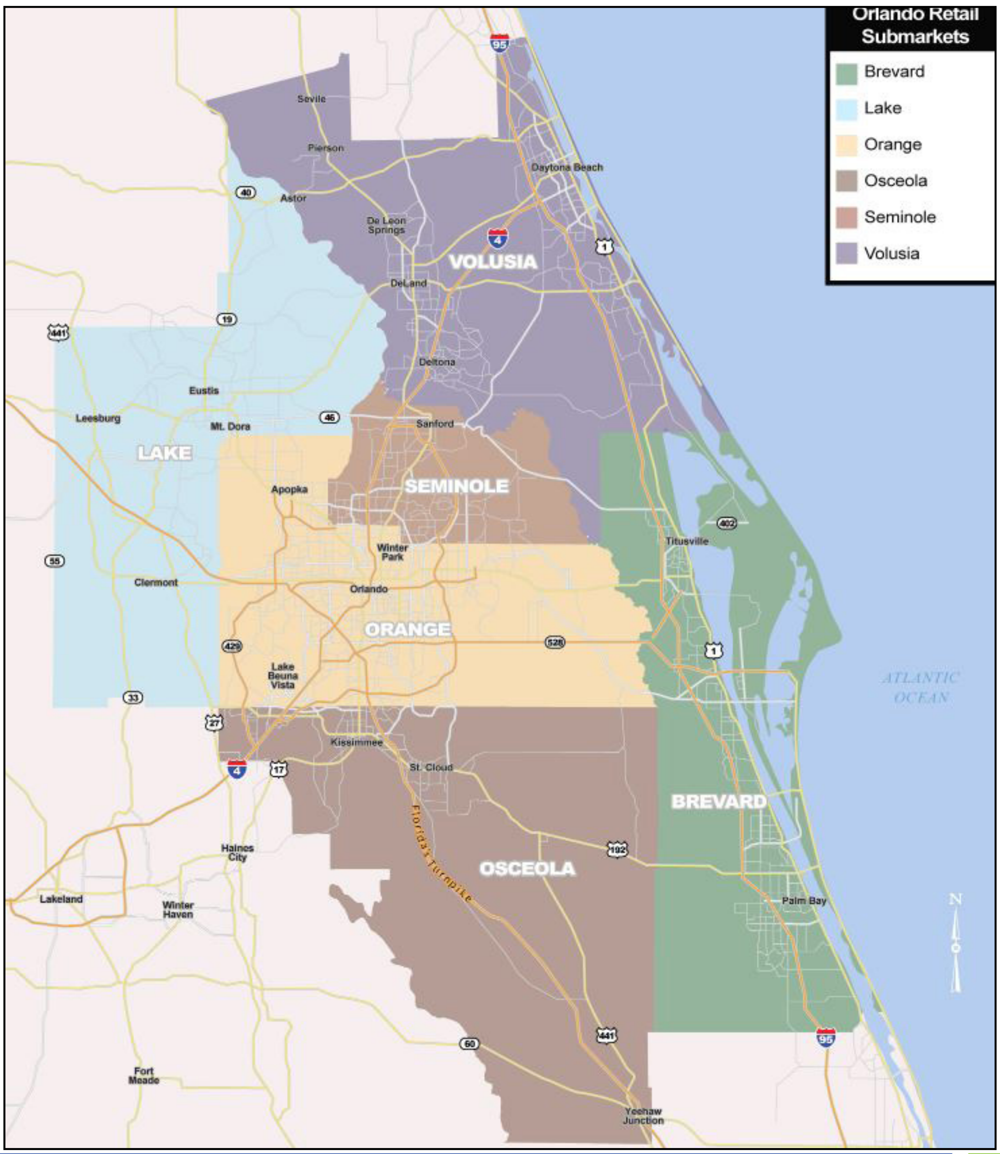


grow their market footprints. Sellers must be careful not to price these assets out of the market. Although many fuel stations, QSRs, and the like are still fetching aggressive cap rates, we have seen some market pushback. For example, six to nine months ago Wawa's were trading at 4.50% to 4.70% cap rates or better. Although Wawa has a cult-like following from the Northeast, it is NOT a national credit tenant. Sellers pushed the market and brought some assets out in the low 4% cap rate range (as low as 4.10% in some instances) with little to no activity. These assets were recently re-priced at mid- to high-4% cap rates. Furthermore, while there are many retail projects under construction throughout Central Florida, the area is paralleling national trends, with most growth seen in the grocery and restaurant areas.

Although commercial real estate is still seeing big money deals in South Florida, many domestic and international buyers are migrating from investment opportunities in Miami to similar alternatives in Orlando, where cap rates are generally less aggressive. As cap rates in Central Florida have stabilized, (excluding anomaly areas like I-Drive, West 192 and 17-92), we have begun to see transaction times get longer. The main cause of such is lenders caution, as the Federal Reserve continues their increases of interest rates. Nevertheless, buyers are still looking for quality inventory located in Central Florida. As we start to see signs that the retail investment market has reached one of its highest peaks in history, property owners need to re-evaluate their portfolios to decide which properties to keep and which ones to sell. Investors are moving away from properties located in major markets and MSAs (New York, Chicago, L.A.) and are beginning to enter secondary markets, like Orlando, in search of better yields. In other words, they are prioritizing credit tenancy over location.

Given the current state of the commercial real estate markets, especially in Central Florida where we have seen property values peak, cap rate compression plateau, lending conditions tighten, and buyer pools shrink, we urge our clients to revisit their investment portfolios. Before an under-performing investment runs into another seven-to-ten year hold, today is the bet time to consider exiting or exchanging your property. Closely reevaluate assets that do not impact your bottom line, you find difficult to manage or expensive to maintain. If you've thought about or even considered exiting a property, 2017 is the year to take action.

We encourage investors to use additional caution when acquiring stabilized core assets that have been fully priced to the market. Rather, we advise our clients to focus on value creation opportunities, with an emphasis on markets experiencing job and population growth, like Orlando. If an economic correction occurs in cities like Orlando, they are likely to outperform the broader market. Additionally, properties with core characteristics, below-market rents (with near-term rollover), and upside potential, such as the ability to harvest additional development capabilities in the future, are ideal investments. Value-added retail assets continue to be in highest demand. Because there is a lack of this quality inventory on the market, a lot of investors are opting for different product types that offer higher yields or geographic markets.



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