

Valuations Continue to Climb, Bringing Diverse Pool of Investors to Metroplex

Corporate growth to benefit longer-term retail outlook for North Texas. The Dallas/Fort Worth retail market will remain healthy in the coming months, buoyed by strong demographic trends and exceptional job creation. Though vacancy is expected to rise for the first time this cycle, short-term oversupply deserves much of the blame. The metro is still absorbing space from five consecutive quarters of 1 million-plus square feet of new inventory across 2017 and 2018 — the first occurrence since 2009. Corporate expansions and relocations headlined by Uber’s forthcoming downtown hub should help provide a jolt to retail leasing activity moving forward, balancing out the supply/demand scale. In the interim, rent growth will remain relatively tempered on a market level, although several pockets will maintain strong rent gains. Rental growth in quickly expanding outer-ring suburbs will be most pronounced.

Northern suburbs remain in developers’ cross-hairs. Though just 800,000 square feet was completed in the first half of 2019, a number of projects comprising an additional 3 million square feet will deliver by the end of year. The Realm and Victory Shops at Basswood will each account for approximately 250,000 square feet, bringing a plethora of retail space to relatively tight parts of the market. Lakeside Crossing in Flower Mound is also on track for a 2019 delivery, adding another 160,000 square feet. With most construction located well outside of the core, vacancy in some suburbs may momentarily rise until supply and demand recalibrate. Recently built single-family and multifamily housing projects will continue to bring developers to the suburbs moving forward.

Retail 2019 Outlook



3.8 MILLION SQ. FT.
will be completed

CONSTRUCTION:

Development is on pace to soften for the second year in a row, following the completion of 4.8 million and 5.2 million square feet.



30 BASIS POINT
increase in vacancy

VACANCY:

Though construction will slow, vacancy is set to rise to 5.3 percent in 2019 as a number of national retailers rein in expansion plans.



1.1% INCREASE
in asking rents

RENT:

The average asking rent will subtly increase this year, inching up to \$17.20 per square foot. In 2018, the figure jumped 3.9 percent.

Local Retail Yield Trends



* Cap rates trailing 12 months through 2Q19
Sources: CoStar Group, Inc.; Real Capital Analytics

Investment Trends

- The Highway 121 corridor through Allen and McKinney attracted numerous investors focusing on small shopping centers and strip malls with cap rates in the high-6 to low-7 percent band. Here, the majority of buyers were private as sale prices were in the \$2 million to \$3 million range. While much of the investor interest was local, West Coast buyers also remained active in this part of the metro.
- Value-add opportunities were abundant in Fort Worth’s inner-ring suburbs including Haltom City. First-year yields in the mid-8 to mid-9 percent range — well exceeding the market average — enticed a diverse pool in investors. Private buyers generally focused on assets under 30,000 square feet, while institutions homed in on retail centers up to 70,000 square feet.
- The fast-casual restaurant segment witnessed strong trading activity in recent months as assets sold for an average of more than \$500 per square foot with cap rates in the mid-6 percent range. Arlington and Irving were popular cities for these deals.

Employment vs. Retail Sales Trends



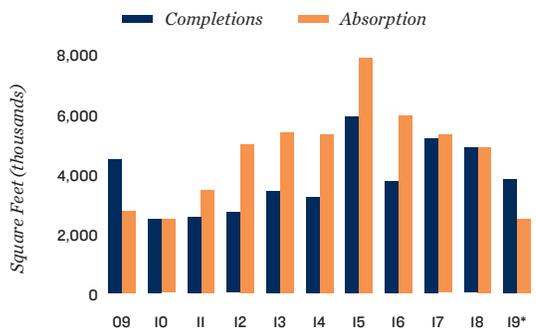
2Q19 – 12-Month Trend

EMPLOYMENT

3.2% increase in total employment Y-O-Y

- The Metroplex posted employment gains well above the national rate of 1.5 percent, adding 116,700 jobs year over year.
- Employment growth was driven by professional and business services, adding 30,000 jobs, while four other sectors staffed 10,000-plus workers. Companies like Raytheon and Amazon continue to drive growth into the region.

Retail Completions

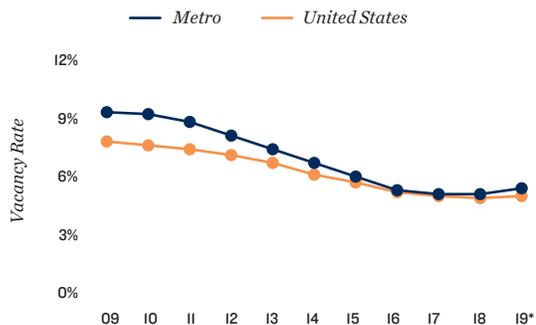


CONSTRUCTION

2.9 million square feet completed Y-O-Y

- After 5.5 million square feet was completed one year earlier, completions registered just 2.9 million square feet during the past 12 months.
- Suburban areas including Arlington and Grand Prairie received sizable chunks of development, logging 169,000 and 240,000 square feet, respectively.

Vacancy Rate Trends

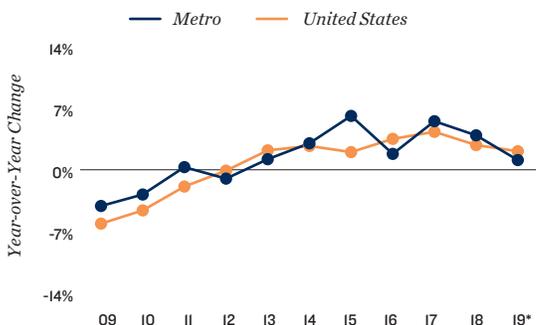


VACANCY

10 basis point increase in vacancy Y-O-Y

- Though net absorption was strong in the back of the 2018, it totaled just 127,000 square feet in the first six months of this year, aiding a year-over-year vacancy increase and pushing the rate to 5.2 percent.
- West Dallas experienced some of the strong net absorption during the past year, measuring 720,000 square feet. The Far North Dallas submarket also posted a strong reading, clocking in at 650,000 square feet.

Asking Rent Trends



RENT

1.2% decrease in the average asking rent Y-O-Y

- The average asking rent receded over the past year to \$16.71 per square foot, sustaining a trend of softening growth. Near and Central North Dallas supported this notion, witnessing decreases between 11 and 15 percent since June of last year.
- The highest jump in asking rents appeared in Southeast Dallas at a nearly 20 percent increase as a wave of relatively higher-quality space was brought to market. At the same time, rents in Central Fort Worth, Far North and Central Dallas remained relatively flat.

* Forecast

Sources: CoStar Group, Inc.; Real Capital Analytics

Demographic Highlights



2019 Job Growth*

Metro **2.8%**

U.S. Average **1.3%**



2Q19 Median Household Income

Metro **\$72,851**

U.S. Median **\$64,784**



Five-Year Population Growth**

670,765 or **1.8%** Annual Growth

U.S. **0.6%** Annual Growth



Five-Year Household Growth**

263,000 or **1.9%** Annual Growth

U.S. **1.0%** Annual Growth

2Q19 Retail Sales per Month



\$4,700 Per Household

U.S. **\$4,017**



\$1,693 Per Person

U.S. **\$1,550**



Retail Sales Forecast**

Metro **22.0%**

U.S. **17.0%**

* Forecast ** 2018-2023

SUBMARKET TRENDS

Lowest Vacancy Rates 2Q19

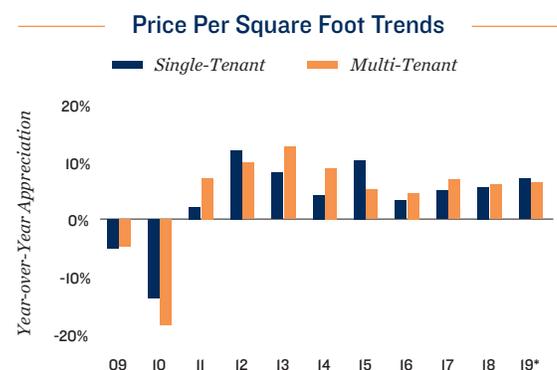
Submarket	Vacancy Rate	Y-O-Y Basis Point Change	Average Asking Rent	Y-O-Y % Change
East Dallas Outlying	2.6%	-10	\$21.67	4.1%
Central Dallas	3.0%	10	\$24.75	-3.4%
Near North Dallas	4.2%	10	\$16.90	-14.8%
Suburban Fort Worth	4.5%	-30	\$14.88	4.9%
North Central Dallas	5.0%	0	\$19.24	-11.5%
Southeast Dallas	5.1%	-10	\$14.05	19.7%
West Dallas	5.1%	-80	\$15.82	-0.3%
Southwest Dallas	5.3%	10	\$12.93	3.9%
Mid-Cities	5.7%	40	\$16.16	0.1%
Far North Dallas	5.9%	0	\$17.58	1.0%
Overall Metro	5.2%	10	\$16.71	-1.2%

SALES TRENDS

Pricing Stays on Steep Incline; Investors Drawn to Suburbs by Favorable Demographics

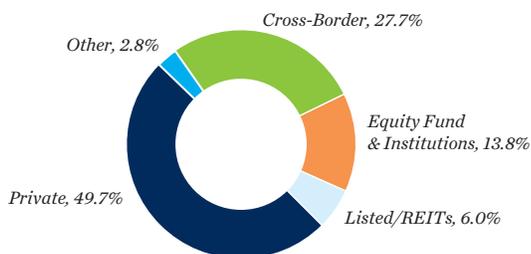
- **Multi-Tenant:** Over the past year, asset appreciation remained strong, posting a 6.3 percent bump and pushing the average price per square foot to \$300. This supported a 10-basis-point decrease to the average cap rate; however, it stayed in the high 6-percent range.
- **Single-Tenant:** The sustained strength of the bidding environment continued to lift pricing, propelling the average price per square foot up 7.1 percent to \$378.

Outlook: Far northern suburbs like Frisco and McKinney will continue to garner investor interest as accelerated population growth brings added demand for retail establishments.

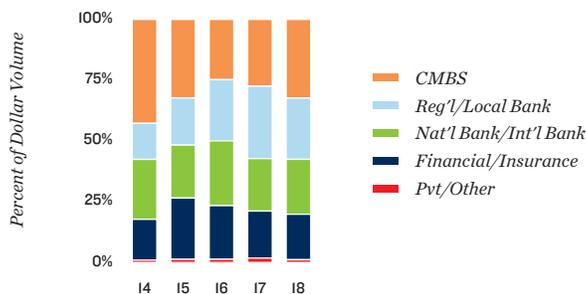


* Trailing 12 months through 2Q19 over previous time period
Pricing trend sources: CoStar Group, Inc.; Real Capital Analytics

2Q19* Retail Acquisitions By Buyer Type



Retail Mortgage Originations By Lender



* Trailing 12 months through 2Q19
 Include sales \$2.5 million and greater
 Sources: CoStar Group, Inc.; Real Capital Analytics

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Price: \$250

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CAPITAL MARKETS

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- Fed drives rates lower, yet future policy still undecided.** The Federal Reserve cut the overnight rate by 25 basis points in September, the second reduction in 50 days amid muted inflationary pressure and continued trade tensions with China. Though the rate cut supports an extension of the economic growth cycle, the market remains cautious as the Fed declined to commit to additional rate cuts through the remainder of the year. While some Fed members are advocating on further reductions, others hold a different stance, citing positive economic indicators like sound retail spending, sustained job creation and strong consumer confidence as reasons to maintain the current target rate. These factors have helped moderate recession risk, putting the 10-year Treasury back in the upper-1 percent range and above the two-year note following a yield-curve inversion in late August. While recession risk remains, the economy's solid foundation points to continued domestic growth in the near future. Global developments including the trade war with China as well as the progression of Brexit and its potential aftermath will help determine future Fed decisions.
- Lenders shift focus to tenant blends as transforming sector opens new doors.** The evolving nature of the retail sector is providing opportunities for investors and giving underwriters more confidence in the long-term outlook of retail. Lending habits remain relatively conservative; however, a wide range of financing is available for strong proposals. Underwriters are beginning to focus more on tenant mixes while emphasizing the inclusion of tenants with sustainable business models before they sponsor a deal. Active lenders include local, regional and national banks, insurance companies, debt funds and CMBS lenders. Net-leased assets and premier, mixed-use structures remain the most desirable asset types. Meanwhile, outlying malls and non-credit tenants will be heavily scrutinized and underwritten in a conservative manner. Loan-to-value (LTV) ratios are in the 60 to 70 percent range with typical debt service coverage (DSC) ratios above 1.30x depending on borrower, asset and location factors. Mezzanine and bridge loan structures have been more frequently used in this environment, with owners financing capital improvements at higher leverage ratios on short-term debt before seeking long-term financing options once their operations have been stabilized.

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Sources: Marcus & Millichap Research Services; Bureau of Labor Statistics; CoStar Group, Inc.; Experian; Moody's Analytics; Real Capital Analytics; TWR/Dodge Pipeline; U.S. Census Bureau