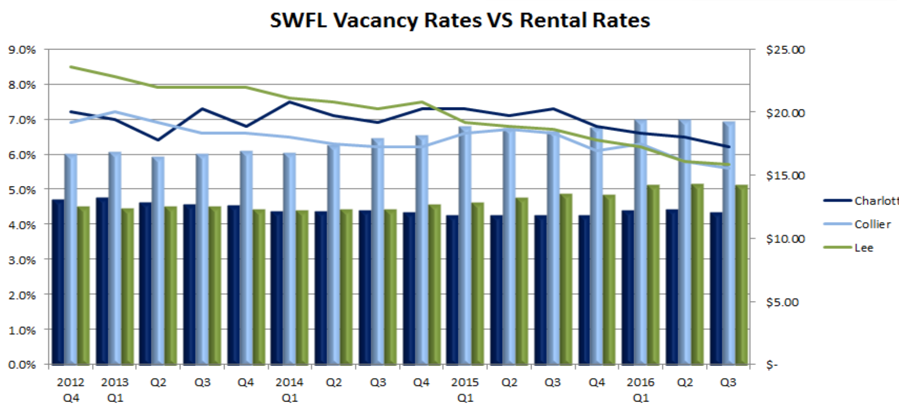
MAXWELL·HENDRY·SIMMONS
real estate appraisers & consultants

October 2016

MHSappraisal.com

SWFL Retail Market



We all remember the days of old when consumers rushed out on Black Friday to get the best deals and the Cubs could barely win a game. Times are a changing. The world we live in is drastically changing with the ecommerce market commanding control in the retail market. For the first time, online purchases outpaced in-store purchases during the Thanksgiving/Black Friday/Cyber Monday weekend in 2015. 2016 should prove to be the year that ecommerce continues to pull away from the pack and never look back. What does this mean for commercial real estate?

There will continued pressure on retailers to have a mix of a virtual platform and physical location, albeit much smaller than we have experienced in the past. The big box model is going to put a strain on the retail market with a reduction in showroom space needs and an increase in fulfillments/warehouse. This all sounds great for the warehouse space however, may lead to a problem for retailers. Big box spaces will be reduced or repurposed as we move forward.

With technology fundamentally changing how consumers shop, our Southwest Florida retail market has not shown any significant negative trends and in fact has been rather steady. Vacancy rates for all of Southwest Florida reveal a healthy market with a vacancy of 5.8% with Charlotte (6.2%), Collier (5.6%) and Lee (5.7%) experiencing relatively similar vacancies. As would be expected Collier County leads the way with average asking rental rates of $19.25 per square foot compared to $12.08 per square foot in Charlotte County and $14.25 per square foot in Lee County. Big box spaces will continue to be a challenge for property owners as anchor tenant leases expire. An example of this is the heavy vacancy in Shops at Surfside in Cape Coral after Homegoods vacated leaving only Belk as the anchor in this power center. Owners in centers such as this may have to think outside the box to repurpose these larger spaces. If legally permissible, does it make sense to add a multi-family component to these type projects?

Locally, our retail space at major intersections or surrounding other major draws such as FGCU will continue to prosper while those non-corner, freestanding retail centers away from major commercial nodes will struggle. Land leases will continue to dominate the retail, outparcel market as restaurants and retailers focus on the business and not on being real estate developers. Although there are some financing challenges for the lessee, the lower capital outflow allows the retailer to use the necessary resources to focus on what they do best. From an investment perspective, keep a close eye on the 10 year Treasury note which is the benchmark for retail real estate investors. This note has been at historic lows. An increase in these rates will lead to an increase in capitalization/overall rates resulting in lower potential value on a property.

Most important, grab your coffee, doughnuts and smart phone and enjoy Black Friday this year from your virtual store.

Data source: CoStar

For more information, contact us at:
info@MHSappraisal.com