Marcus & Millichap

Retail Research
Market Report

Second Quarter 2018

Dallas/Fort Worth Metro Area

Developers Shifting Focus to New Areas As Tenant Demand Strong

Developers struggle to meet demand for retail space as job growth attracts a flurry of new residents, retailers. An average of 75,000 individuals have moved to the metroplex in each of the past five years, producing strong demand for retailers. Despite developers bringing more than 21 million square feet of new space online over the past five years, overall vacancy has retreated near a decade low. Tenant expansions have been broad across the metroplex, but the tightest rates are in submarkets where additions to supply have been limited. East Dallas and Central Dallas boast vacancy rates below 4 percent, with combined additions to inventory totaling under 1 million square feet. Retail development remains limited in these areas, and projects underway have strong preleasing activity, suggesting that vacancy will remain low in the months to come.

Completions gaining steam outside of North Dallas suburbs. Retail development remains robust in the high growth submarkets of Far North Dallas and North Central Dallas, with more than 1.4 million square feet of space underway. Deliveries are beginning to shift into other areas, with space underway rising in the Mid-Cities as nearly 700,000 square feet is slated for delivery this year, the highest level of deliveries in the past decade.

Retail 2018 Outlook

4.4 million sq. ft. will be completed

Construction:
Completions remain above the previous five-year average despite deliveries ticking down from last year's 5.5 million square feet of retail space.

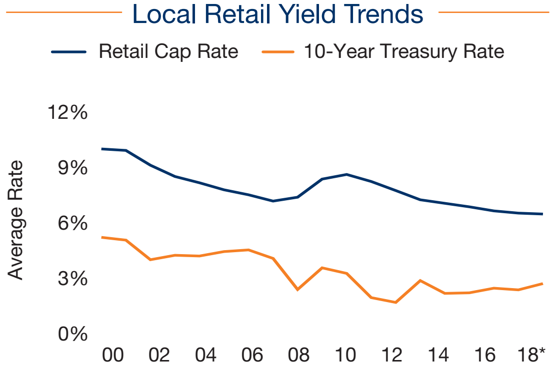
20 basis point decrease in vacancy

Vacancy:
The vacancy rate declines for a ninth consecutive year during 2018, reaching 4.9 percent. Vacancy dipped 10 basis points last year.

2.2% increase in asking rents

Rents:
Rent growth slows this year, as the average asking rent rises to $16.80 per square foot. The rate ends the year 12 percent above the peak achieved in 2008.

Local Retail Yield Trends



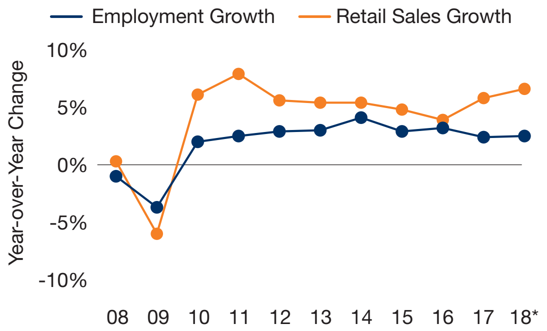
* Cap rates trailing 12 months through 1Q18; 10-Year Treasury up to March 29, 2018
Sources: CoStar Group, Inc.; Real Capital Analytics

Investment Trends

- Rising interest rates are widening the gap between buyer and seller expectations, but strong competition for available assets in the metroplex are helping alleviate some upward pressure on cap rates. Owners with exit strategies over the next 12 to 18 months are evaluating when to list assets, as interest rates are set to rise further this year.
- Investors are targeting unanchored and shadow anchored strip center assets throughout the metroplex. Well-located assets with a strong population base and service-oriented tenants are in highest demand. These properties typically generate returns in the mid-6 percent to mid-7 percent span.
- Healthy migration trends to North Dallas suburbs have out-of-state investors seeking retail assets in the area. Increased competition for properties here has compressed cap rates. Local investors in search of higher returns are turning to Fort Worth, where cap rates are typically 25 to 50 basis points higher.

1Q18 - 12-MONTH TREND

Employment vs. Retail Sales Trends

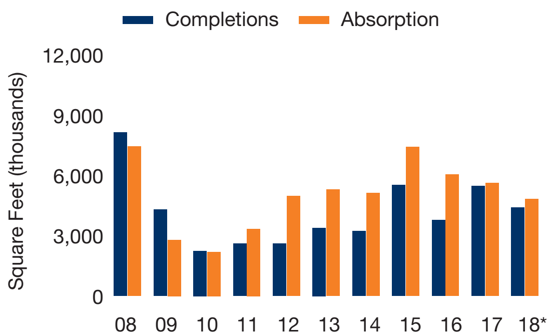


EMPLOYMENT:

2.8% increase in total employment Y-O-Y

- In the first three months of 2018, nearly 32,000 positions were created in the metroplex, boosting annual additions to more than 100,000 jobs. Gains were led by the trade, transportation and utilities sector.
- The metroplex's unemployment rate fell 80 basis points over the past four quarters to 3.4 percent in March.

Retail Completions

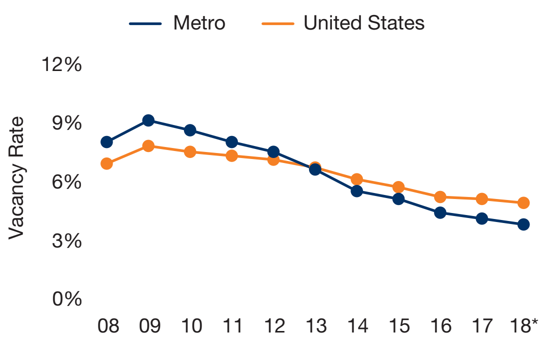


CONSTRUCTION:

6.1 million square feet completed Y-O-Y

- Nearly 1.6 million square feet of retail space was completed in the first quarter of the year, up from approximately 950,000 square feet completed during the first three months of last year.
- After the addition of 980,000 square feet of space over the past 12 months in Far North Dallas, another 720,000 square feet is underway and slated for delivery in 2018.

Vacancy Rate Trends

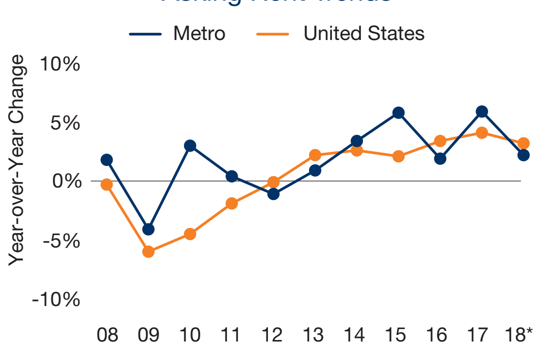


VACANCY:

20 basis point increase in vacancy Y-O-Y

- Absorption trailed deliveries during the first quarter, resulting in the first increase to the vacancy rate since 2010. Vacancy reached 5.3 percent in March.
- Several submarkets recorded increases in vacancy over the past 12 months, but the largest advance was in the Mid-Cities. Here, the rate jumped 100 basis points year over year to 5.8 percent.

Asking Rent Trends



RENTS:

3.1% increase in the average asking rent Y-O-Y

- Average asking rent advanced to $16.28 per square foot over the past four quarters. The pace of growth increased from a year ago, when the average rose 2.9 percent.
- Vacancy in Southwest Dallas has plummeted 320 basis points over the past three years, encouraging a rapid pace of rent growth in recent quarters. The average increased 14.4 percent over the last year to $12.67 per square foot.

* Forecast

DEMOGRAPHIC HIGHLIGHTS

2018 JOB GROWTH*
Metro 2.5%
U.S. Average 1.2%

FIVE-YEAR POPULATION GROWTH**
716,500 or 1.9% Annual Growth
U.S. 0.7% Annual Growth

FIVE-YEAR HOUSEHOLD GROWTH**
287,000 or 2.1% Annual Growth
U.S. 1.1% Annual Growth

1Q18 MEDIAN HOUSEHOLD INCOME
Metro $67,373
U.S. Median $60,686

1Q18 RETAIL SALES PER MONTH
$4,675 Per Household
U.S. $3,922
$1,665 Per Person
U.S. $1,506

RETAIL SALES FORECAST**
Metro 25.9%
U.S. 19.7%

* Forecast **2017-2022

SUBMARKET TRENDS

Lowest Vacancy Rates 1Q18

Submarket	Vacancy Rate	Y-O-Y Basis Point Change	Asking Rent	Y-O-Y % Change
East Dallas Outlying	2.4%	-90	$20.30	4.9%
Central Dallas	3.6%	30	$22.53	-6.8%
Near North Dallas	4.2%	-50	$19.02	8.6%
Southeast Dallas	5.0%	30	$11.99	4.4%
Suburban Fort Worth	5.0%	80	$14.06	2.9%
West Dallas	5.3%	-10	$14.55	2.7%
North Central Dallas	5.5%	30	$22.12	-2.5%
Central Fort Worth	5.7%	30	$13.29	-0.1%
Mid-Cities	5.8%	100	$14.94	4.9%
Far North Dallas	6.0%	30	$16.97	7.1%
Southwest Dallas	6.2%	-70	$12.67	14.4%
Overall Metro	**5.3%**	**20**	**$16.28**	**3.1%**

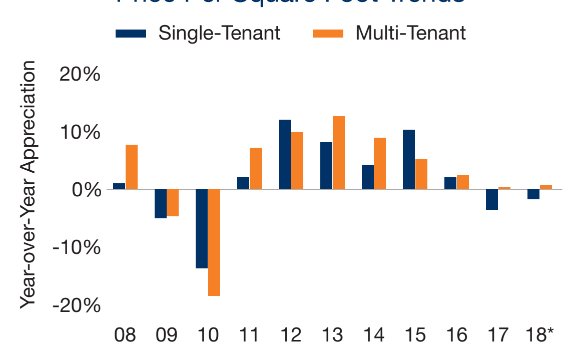
SALES TRENDS

Strong Economy, Healthy Migration Trends Attract Buyers to Metroplex Retail Assets

- **Multi-Tenant:** Though sales activity remained relatively steady over the past 12 months, total deal volume increased more than 30 percent as investors purchased a higher number of assets priced above $15 million.
- **Single-Tenant:** Net-leased retail assets are in high demand, commanding initial yields in the high-5 percent to mid-6 percent span.

Outlook: Suburban assets with service-oriented tenants, including medical uses, are in high demand and often trade at aggressive cap rates.

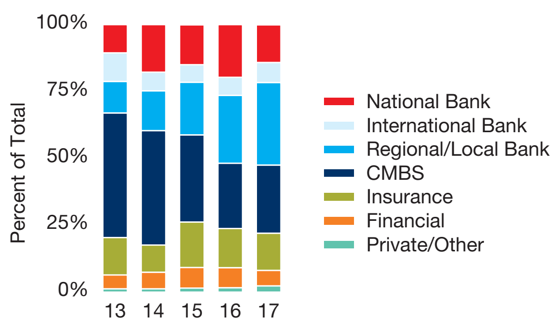
Price Per Square Foot Trends



* Trailing 12 months through 1Q18 over previous time period
Pricing trend sources: CoStar Group, Inc.; Real Capital Analytics

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

Retail Mortgage Originations by Lender



* Through May 1st
Sources: CoStar Group, Inc.; Real Capital Analytics

CAPITAL MARKETS

By WILLIAM E. HUGHES, Senior Vice President, Marcus & Millichap Capital Corporation

Fed raises benchmark interest rate, plans additional increases. The Federal Reserve increased the federal funds rate by 25 basis points in late March, raising the overnight lending rate to 1.5 percent. While the Fed noted the inflation outlook moderated recently, an upgraded economic forecast including tax cuts and a regulation rollback strengthened growth projections through 2020. As a result, the Fed has guided toward at least two more rate hikes this year, while setting the stage for up to four increases in 2019.

Lending costs rise alongside Fed rate increase. As the Federal Reserve lifts interest rates, lenders will face a rising cost of capital, which may lead to higher lending rates for investors. However, greater competition for loan demand has prompted some lenders to absorb some cost increases. While higher borrowing costs may prompt buyers to seek higher cap rates, the positive economic outlook should boost rent growth above inflation over the coming year.

The capital markets environment remains highly competitive. While the Federal Reserve has committed to tightening policy, other major central banks have maintained easing policies. The downward pressure on rates from foreign central banks is counteracting greater economic growth and wider government deficits, keeping demand for fixed-income investments stable. Loan pricing resides in the mid-4 percent range with maximum leverage of 70 percent. Portfolio lenders will require loan-to-value ratios closer to 65 percent with interest rates, depending on term, in the high-3 to mid-4 percent range. The passage of tax reform and rising fiscal stimulus will keep the U.S. economy growing strongly this year, while limited new construction and steady absorption will contain retail vacancy near 5 percent.

National Retail Group

Visit www.NationalRetailGroup.com

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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

Retail Research Market Report

Dallas/Fort Worth Metro Area

Third Quarter 2017

Robust Economy Attracts Residents And Retailers to Metroplex

Soaring sales benefit retail properties. Sustained employment growth has drawn nearly 150,000 people to the Metroplex during the last 12 months. This boom is creating a surge in demand for goods and services, which prompted a 4 percent advance in retail sales over the last year. Major corporations continue to expand throughout the region and add thousands of well-paying positions, keeping the median household income well above the national level. Steady job gains and rising incomes benefit the Metroplex's retail segment as discretionary spending rises and new households are formed, encouraging retailer expansion.

Construction brings broad spectrum of retailers. Deliveries in the April to June span posted the highest quarterly gain in nine years with big boxes dominating the new inventory. Still to come in 2017 are an Ikea in Grand Prairie, Tanger Outlets Champions Circle, as well as more high-end stores in the Shops at Clearfork in Fort Worth. Additional centers are underway in areas with large residential growth including Prosper and Mansfield. Some highly vacant centers in older neighborhoods, such as Collin Creek Mall in Plano or Valley View Mall in Dallas, will be transformed into multi-use developments. Yet, vacancy rests just above the 10-year low, while rents have risen for eight consecutive quarters.

Retail 2017 Outlook

6 million sq. ft. will be completed

Construction: Deliveries reach the highest level in nine years as roughly 6 million square feet is finalized in 2017, up from nearly 3.4 million square feet last year.

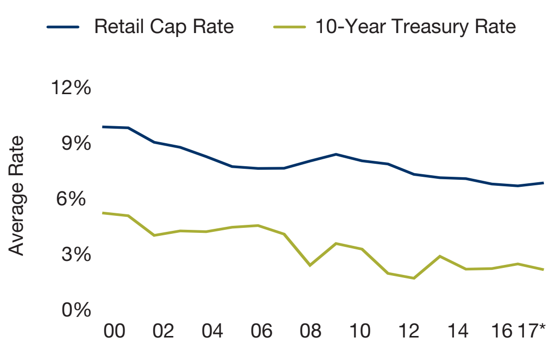
20 basis point decrease in vacancy

Vacancy: Absorption of 6.4 million square feet outpaces deliveries and tightens year-end vacancy to 5.0 percent, the lowest annual rate in more than 10 years.

4.5% increase in asking rents

Rents: The average asking rent sets a new high at \$16.15 per square foot at year end, more than doubling the 2.1 percent gain registered last year.

Local Retail Yield Trends

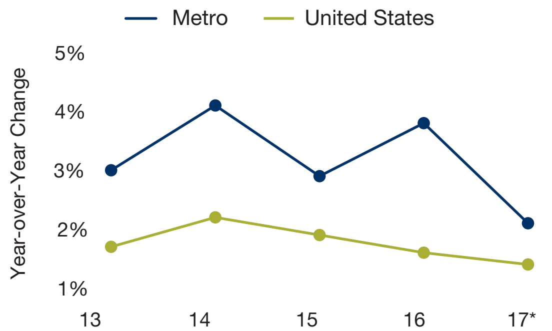


* Cap rates trailing 12 months through 2Q17; 10-year Treasury rate through Aug.
Sources: CoStar Group, Inc.; Real Capital Analytics

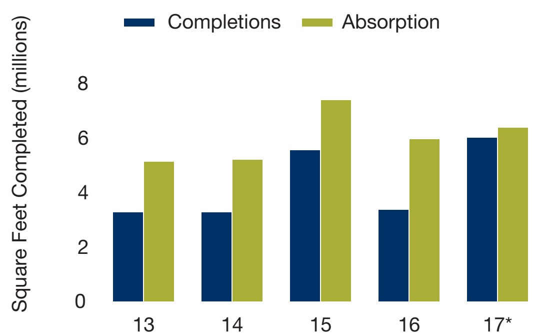
Investment Trends

- A wide range of investors are searching the Metroplex for retail properties. Single-tenant buildings with a national credit tenant signed to a long-term lease remain the most desired properties and will receive multiple offers if priced appropriately. Cap rates for these assets typically start in the mid-4 percent range.
- Some buyers in pursuit of yield are willing to consider multi-tenant properties where first-year yields generally begin 100 to 200 basis points higher depending on location, quality of tenants and lease terms. Assets in areas of strong population growth such as Collin or Johnson counties are receiving more investor attention.
- Many investors are seeking value-add opportunities. They target 1970s- and 1980s-vintage properties throughout the Metroplex with rents at or below market rate. Buildings with vacancies or those that can be quickly upgraded and have rents adjusted are especially in demand.

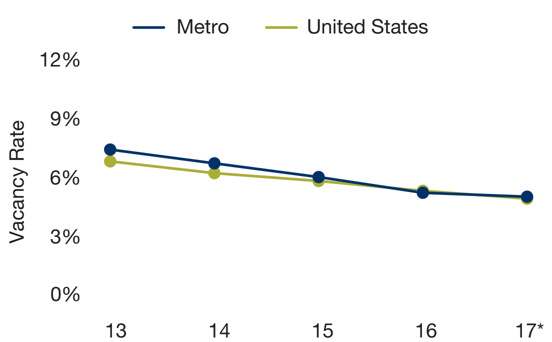
Employment Trends



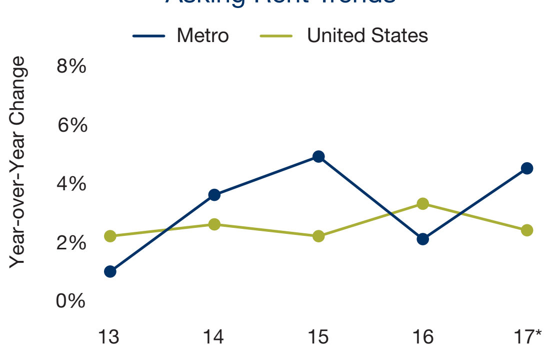
Completions and Absorption



Vacancy Rate Trends



Asking Rent Trends



* Forecast

2Q17 - 12-MONTH TREND

EMPLOYMENT:

3.4% increase in total employment Y-O-Y

- Robust hiring has kept the unemployment rate hovering near 4 percent for 10 consecutive quarters. During the last 12-month period, employers added 118,100 jobs, up from 92,400 one year earlier.
- The largest year-over-year gain was in the professional and business sector with more than 33,200 new workers. This sector includes many tech positions.

CONSTRUCTION:

3.9 million square feet completed Y-O-Y

- Following the completion of 3.4 million square feet of retail space one year ago, developers finalized 3.9 million square feet in the last four quarters.
- The largest project to open so far in 2017 is a portion of Shops at Clearfork with more than 335,200 square feet of retail and 120,000 square feet of office space in the Edwards Ranch section of Fort Worth.

VACANCY:

30 basis point decrease in vacancy Y-O-Y

- Vacancy ended midyear at 5.2 percent, down 30 basis points in the last 12-month period on net absorption of nearly 4.5 million square feet.
- Store closures contributed to multi-tenant vacancy rising 30 basis points in the second quarter to 6.8 percent but remaining unchanged on a year-over-year basis. Single-tenant vacancy rested at 4.3 percent at midyear.

RENTS:

5.4% increase in the average asking rent Y-O-Y

- The average asking rent posted a 5.4 percent hike during the last four quarters to $16.13 per square foot in June, following a 5.7 percent rise one year earlier.
- Older space being marketed contributed to multi-tenant rent declining 1.1 percent in the last 12-month period to $14.66 per square foot. Single-tenant rent, meanwhile, soared 9.0 percent to $16.99 per square foot.

DEMOGRAPHIC HIGHLIGHTS

2017 JOB GROWTH*
Metro 2.9%
U.S. Average 1.4%

FIVE-YEAR POPULATION GROWTH**
728,000 or 2.0% Annual Growth
U.S. 0.7% Annual Growth

FIVE-YEAR HOUSEHOLD GROWTH**
317,000 or 2.3% Annual Growth
U.S. 1.1% Annual Growth

2Q17 MEDIAN HOUSEHOLD INCOME
Metro $63,502
U.S. Median $58,672

2017 RETAIL SALES PER MONTH
$4,439 Per Household
U.S. $3,785
$1,605 Per Person
U.S. $1,454

RETAIL SALES FORECAST**
Metro 27.5%
U.S. 21.1%

* Forecast **2017-2022

SUBMARKET TRENDS

Lowest Vacancy Rates 2Q17

Submarket	Vacancy Rate	Y-O-Y Basis Point Change	Asking Rent	Y-O-Y % Change
Central Dallas	3.4%	-20	$24.01	2.9%
East Dallas Outlying	3.6%	200	$19.95	5.2%
Near North Dallas	4.6%	0	$18.39	15.6%
Southeast Dallas	4.7%	10	$18.26	53.8%
Suburban Fort Worth	4.7%	10	$13.53	3.4%
Mid-Cities	5.0%	-70	$14.32	0.6%
Central Fort Worth	5.1%	-70	$13.16	2.3%
West Dallas	5.1%	-80	$13.70	0.7%
North Central Dallas	5.6%	30	$21.18	3.3%
Far North Dallas	6.3%	20	$16.23	0.9%
Overall Metro	**5.2%**	**-30**	**$16.13**	**5.4%**

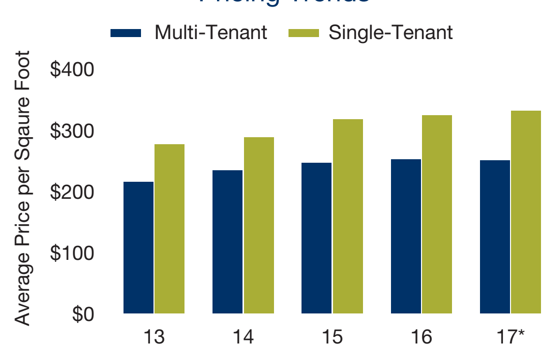
SALES TRENDS

Active Bidding Environment as More Investors Seek Retail Assets in Metroplex

- **Multi-Tenant:** A lack of listed quality properties restrained transaction volume over the last four quarters as the average price inched up 1 percent to $250 per square foot in June.
- **Single-Tenant:** The availability of newer assets contributed to pushing sales activity up 7 percent year over year, while the average price rose 3 percent to $330 per square foot.

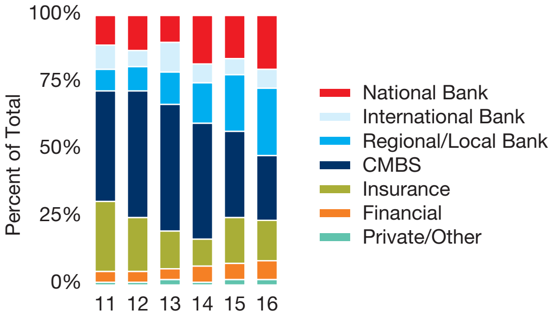
Outlook: Favorable economic and demographic trends, as well as improving operations, will keep investors active throughout the Metroplex.

Pricing Trends

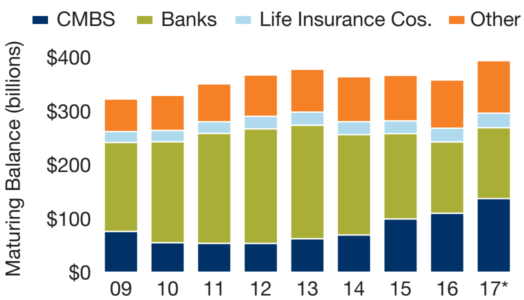


* Trailing 12 months through 2Q17
Pricing trend sources: CoStar Group, Inc.; Real Capital Analytics

Retail Mortgage Originations by Lender



Estimated Commercial/Multifamily Debt Maturities by Lender Type



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

CAPITAL MARKETS

By WILLIAM E. HUGHES, Senior Vice President, Marcus & Millichap Capital Corporation

- **Monetary policy in transition.** Despite the Fed raising its benchmark short-term rate three times in seven months and signaling another rise before the end of the year, long-term rates have remained stable. The yield on the 10-year U.S. Treasury bond remained in the low- to mid-2 percent range throughout the second quarter of 2017. The Federal Reserve wants to normalize monetary policy and, in addition to rate hikes, will likely start paring its balance sheet.
- **Sound economy a balancing act for Fed.** With unemployment hovering in the low-4 percent range, the lowest level since 2007, the Federal Reserve will remain vigilant regarding a possible rapid increase in inflation if wage growth takes off. Additionally, business confidence and job openings are near all-time highs. Businesses finally have the assurance to expand their footprints after years of tepid growth following the Great Recession. The Fed, however, must now balance economic growth and job creation against wage growth and inflationary pressures.
- **Underwriting discipline persists; ample debt capital remains.** Overall, leverage on acquisition loans has continued to reflect disciplined underwriting, with LTVs typically ranging from 60 percent to 70 percent for most retail properties. At the end of 2016, the combination of increasing rates, conservative lender underwriting and fiscal policy uncertainty encouraged some investor caution that slowed deal flow, a trend that has extended into 2017. A potential easing of regulations on financial institutions, though, could liberate additional lending capacity and nominally higher interest rates may also encourage additional lenders to participate.

National Retail Group

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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

Retail Research Market Report

Second Quarter 2017

Dallas/Fort Worth Metro Area

Changes in Retail Landscape Increase Space Demand in Metroplex

Changes in tenant mix stir additional space demand. The strong and steady employment expansion in the Dallas/Fort Worth Metroplex has delivered a significant increase in retail spending. Thousands of jobs are being created in mixed-use developments that combine office, retail and living in one master-planned community. The retail component of these projects is attracting a variety of tenants from necessities-based retailers to eating establishments and specialty stores. Non-traditional retail tenants, such as fitness facilities and gyms, urgent-care centers and dentists, are also taking space and offering nearby residents additional services.

Vacancy remains on downward slide as deliveries fall short of demand; rents continue gains. The broadening and diversifying of tenant mixes in area shopping centers is generating strong traffic and invigorating tenant demand. Supply additions continue to fall short of the pace of absorption, pushing the vacancy rate to historical lows. Despite tightening vacancy throughout much of the Metroplex, rent growth has been subdued over the last two years, trailing the national pace. In addition, the average retail rent in the Metroplex is the lowest among the four major Texas metros, suggesting upside opportunity could potentially remain.

Retail 2017 Outlook

4.8 million sq. ft. will be completed

Construction: Completions will rise from last year, when 3.3 million square feet of space was delivered.

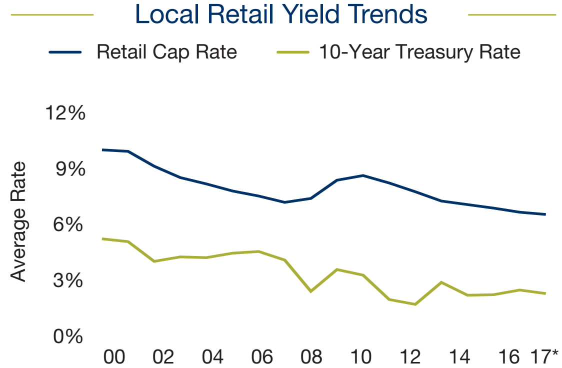
40 basis point decrease in vacancy

Vacancy: Net absorption of nearly 6 million square feet outpaces supply growth and slices the vacancy rate to 4.9 percent this year.

2.6% increase in asking rents

Rents: The asking rent in the metro climbs to $15.49 per square foot in 2017, building on last year's 2.4 percent rise.

Local Retail Yield Trends



* Trailing 12 months through 1Q17

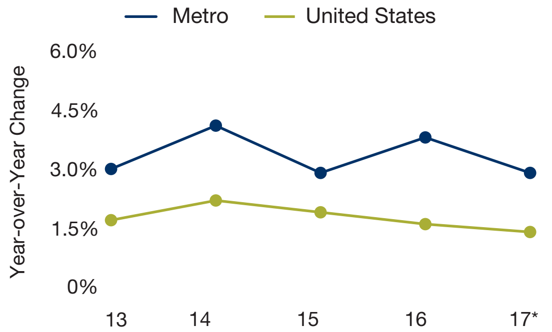
Sources: CoStar Group, Inc.; Real Capital Analytics

Investment Trends

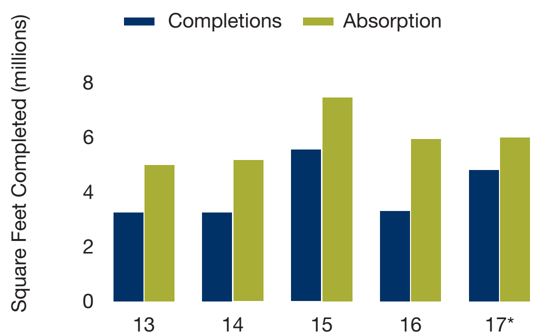
- The Metroplex's bright economic performance continues to draw a number of investors to the area in search of retail assets. Stabilized strip centers in high-traffic areas are in high demand, often trading at first-year returns in the high-6 percent to low-7 percent range.
- Texas buyers are dominating sales, but rising interest from West Coast buyers in particular is intensifying competition for area properties. Value-add and repositioning opportunities are highly sought after and prices vary widely depending on deferred maintenance, vacancy and capital requirements.
- Grocery store expansions throughout the region are benefiting existing retail centers as they backfill vacant big-box space. In addition, space demand at nearby strip centers and outparcel buildings is rising, and these assets are trading for premium first-year yields.

Marcus & Millichap

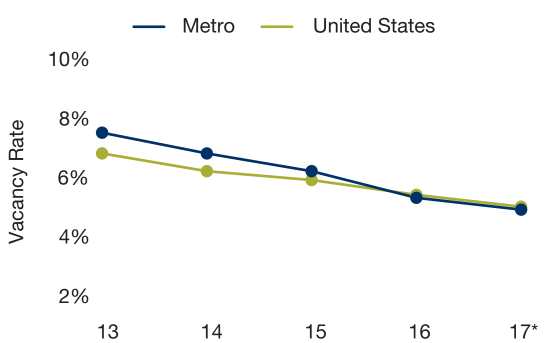
Employment Trends



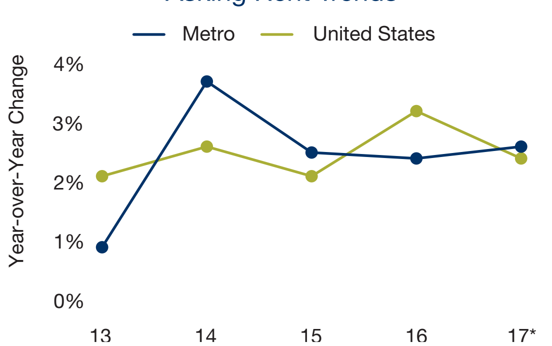
Completions and Absorption



Vacancy Rate Trends



Asking Rent Trends



* Forecast

1Q17 - 12-MONTH TREND

EMPLOYMENT:

3.7% increase in total employment Y-O-Y

- Metroplex employers created 24,300 positions in the first three months of 2017, contributing to an annual headcount expansion of 127,800 workers.
- The unemployment rate ticked up 30 basis points over the last year to 4.2 percent. Despite the increase, the rate remains near historical lows and is less than the national unemployment rate.

CONSTRUCTION:

3.0 million square feet completed Y-O-Y

- Approximately 470,000 square feet was delivered in the first quarter, with deliveries concentrated in Far North Dallas and Central Fort Worth.
- Nearly 5.7 million square feet of space is underway, and builders are most active in North Central and Far North Dallas. Roughly 2.6 million square feet will be added in these submarkets over the next few quarters.

VACANCY:

90 basis point decrease in vacancy Y-O-Y

- The absorption of 5.9 million square feet during the last 12 months pushed vacancy down to 5.1 percent at the end of the first quarter.
- In the Fort Worth section of the Metroplex, the vacancy rate tumbled 90 basis points year over year to 4.7 percent. The vacancy rate in Dallas of 5.2 percent represented a drop of 100 basis points from one year ago.

RENTS:

2.1% increase in the average asking rent Y-O-Y

- The average asking rent rose to $15.34 per square foot in the first quarter. The Metroplex's average rent is the lowest of the four major Texas markets.
- With vacancy on a downward trend in Central Fort Worth, rent growth has strengthened and the average surged 14.1 percent year over year in March to $13.32 per square foot.

DEMOGRAPHIC HIGHLIGHTS

2017 JOB GROWTH
Metro **2.9%**
U.S. Average 1.4%

FIVE-YEAR POPULATION GROWTH*
728,000

FIVE-YEAR HOUSEHOLD GROWTH*
313,000

1Q17 MEDIAN HOUSEHOLD INCOME
Metro **$62,228**
U.S. Median $58,218

1Q17 RETAIL SALES PER MONTH

$4,439 Per Household
U.S. $3,785

$1,605 Per Person
U.S. $1,454

RETAIL SALES FORECAST*
Metro **27.5%**
U.S. 21.1%

*2017-2022

SUBMARKET TRENDS

Lowest Vacancy Rates 1Q17

Submarket	Vacancy Rate	Y-O-Y Basis Point Change	Asking Rents	Y-O-Y % Change
Central Dallas	3.2%	-30	$23.99	-1.2%
East Dallas Outlying	3.5%	170	$19.42	-3.7%
Suburban Fort Worth	4.4%	-50	$13.60	1.3%
Fort Worth (Combo)	4.7%	-90	$13.74	3.4%
Near North Dallas	4.7%	-30	$17.71	11.0%
Southeast Dallas	4.7%	-10	$11.64	-3.1%
Mid-Cities	4.8%	-90	$14.04	-0.1%
Central Fort Worth	4.9%	-130	$13.32	14.1%
Dallas (Combo)	5.2%	-100	$16.21	1.7%
North Central Dallas	5.2%	-60	$18.95	3.3%
Overall Metro	**5.1%**	**-90**	**$15.34**	**2.1%**

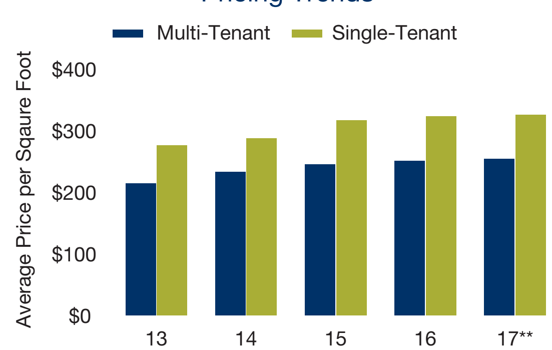
SALES TRENDS

Competition Rising as Inventory Becomes More Limited

- **Multi-Tenant:** Multi-tenant property sales remained steady over the last year as demand strengthened. Price appreciation slowed, with the average rising just 3 percent to $241 per square foot.
- **Single-Tenant:** The average price of a single-tenant property ticked up 2 percent to $326 per square foot from one year ago. Cap rates compressed 30 basis points over the year to the low-6 percent area.

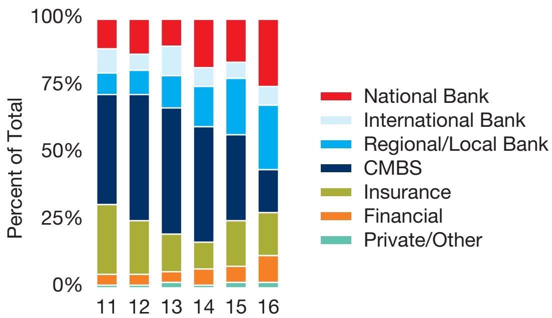
Outlook: A bright economic outlook and healthy property operations will continue to draw investors to Metroplex retail assets, keeping the bidding environment competitive.

Pricing Trends

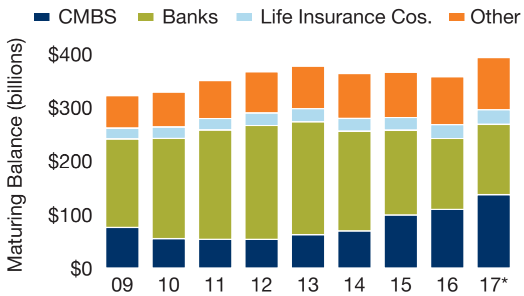


** Trailing 12 months through 1Q17
Pricing trend sources: CoStar Group, Inc.; Real Capital Analytics

Retail Mortgage Originations by Lender



Estimated Commercial/Multifamily Debt Maturities by Lender Type



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

CAPITAL MARKETS

By WILLIAM E. HUGHES, Senior Vice President, Marcus & Millichap Capital Corporation

- **Monetary policy in transition.** The yield on the 10-year U.S. Treasury bond remained in the low- to mid-2 percent range throughout the first quarter of 2017. Despite the Fed raising its benchmark short-term rate twice in recent months and signaling another rise in June, long-term rates have remained stable. The Federal Reserve wants to normalize its monetary policy and, in addition to rate hikes, could start paring its balance sheet. While short- and long-term rates do not always move in tandem, both actions by the Fed have the potential to lift long-term rates.
- **Sound economy a balancing act for Fed.** Tight labor market conditions are finally producing upward pressure on wages and inflation. Unemployment just hit the lowest level since 2007 and consumer confidence sits close to its all-time high. Consumers have the means and the confidence to expand consumption and retail properties stand to gain significantly from increased spending. The Fed must now balance economic growth and job creation against wage growth and inflationary pressures.
- **Lenders exercise disciplined approach.** Overall, leverage on acquisition loans has continued to reflect disciplined underwriting, with LTVs typically ranging from 60 percent to 70 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.

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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.

Retail Research Market Report

Third Quarter 2016

Dallas/Fort Worth Metro Area

Healthy Metroplex Shopping Spurs Retailer Growth

North Texas economic growth supports large retail development projects. Job and population growth over the past few years have sustained a positive economic outlook and spurred several large retail projects throughout the region as merchants' interest to locate here remains robust. As a result, tenant demand for space has been strong, with vacancy on a downward spiral. The rate retreated below 6 percent in the second quarter, the lowest level in the last decade. Tightening conditions have prompted developers to move forward with several projects, and the Metroplex will be in the top five in the nation for retail completions this year. Developments such as Wade Park in Frisco and the Shops at Clearfork in Fort Worth are drawing nationally recognized brands like Whole Foods, Neiman Marcus and iPic Theaters, along with numerous regional and local tenants. Pre-leasing for these projects, and many others, has been strong amid continued employment expansion and healthy demographic trends. Increased traffic to these centers is anticipated to drive additional tenant demand, and surrounding existing centers will benefit as their ability to draw expanding retailers increases, bringing further improvement to operations in these growing retail hubs.

A healthy balance of investment opportunities stimulates the buyer pool. The Metroplex's diverse economy is drawing significant buyer interest, and limited inventory in other Texas markets is luring new buyers to the region. In addition, compressed cap rates in coastal markets has encouraged investors from these areas to target retail assets in the market, further growing the buyer pool. Heightened investor demand has been met with a greater number of retail listings as current owners seek to capitalize on market conditions. Over the last four quarters, buyers have targeted strip center assets priced between $1 million and $5 million, and those with a value-add component have been especially popular among local investors. Stabilized, anchored centers in high-demand areas such as northern Dallas and northern Fort Worth are changing hands at initial yields averaging in the 6.5 percent to 7.25 percent range, while unanchored deals trade approximately 75 basis points higher.

2016 Retail Forecast

3.0% increase in total employment

Employment:

The private and public sectors will add 105,000 jobs during 2016, for an annual expansion of 3.0 percent. Employers hiring in the trade, transportation, and utilities industries, as well as professional and business services, will lead job creation this year. In 2015, payrolls grew by 126,800

2.5 million sq. ft. will be completed

Construction:

Developers will complete 2.5 million square feet of retail space in the Metroplex during 2016, less than half of the space delivered in 2015 when the more than 1.8 million-square-foot Nebraska Furniture Mart was added to inventory.

60 basis point decrease in vacancy

Vacancy:

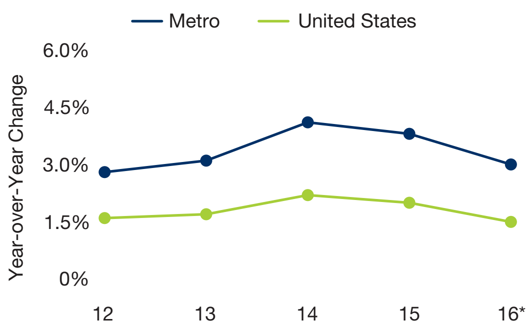
Retailer demand is strong for space in the market, and vacancy will fall 60 basis points this year to 5.6 percent, or 390 basis points below the peak achieved in 2010. Last year, the rate dropped 70 basis points on net absorption of nearly 7.3 million square feet.

2.8% increase in asking rents

Rents:

Retail property operations will continue to improve this year and the average asking rent for will advance 2.8 percent from the end of 2015 to $15.07 per square foot. Last year, the average asking rent ticked up 2.2 percent.

Employment Trends

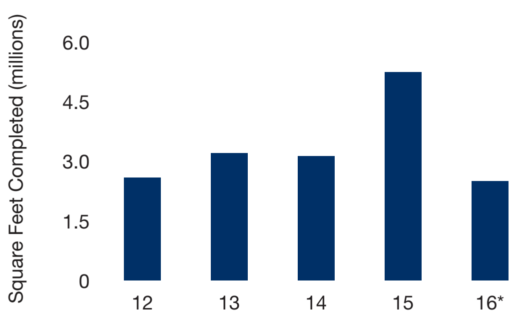


Economy

- So far this year, Metroplex employers have expanded headcounts 1.1 percent year to date in June with the addition of 38,200 jobs. Annually, staffs have increased by 108,700 workers, or 3.2 percent, compared with a 3.8 percent advance one year ago as 123,100 positions were created.
- Job gains in the last 12 months were led by the trade, transportation and utilities industry, where 34,400 positions were added to payrolls. The leisure and hospitality segment followed with the creation of more than 20,000 positions during the past year.
- Retail sales continue to rise, with the average growing 5.0 percent year over year as area residents spent an annualized $6.4 billion more during the last four quarters when compared with the prior yearlong span.

Outlook: The private and public sectors will add 105,000 jobs during 2016, for an annual expansion of 3.0 percent.

Retail Completions

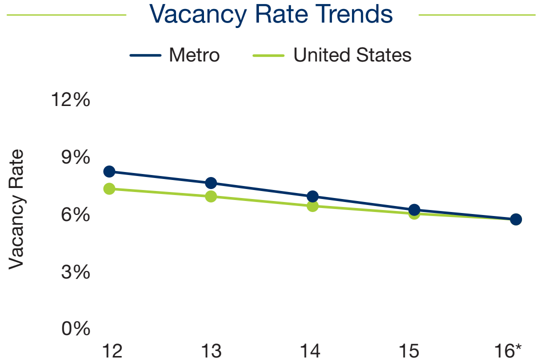


Construction

- Nearly 3.4 million square feet of retail space was completed since last June, including 750,000 square feet in the second quarter this year. Deliveries totaled approximately 5.1 million square feet in the prior annual time frame, including the 1.8 million-square-foot Nebraska Furniture Mart in The Colony.
- Far North Dallas received the bulk of deliveries during the last four quarters as more than 886,000 square feet of retail space came online. Suburban Fort Worth and the Mid-Cities areas followed; builders there completed 732,000 and 665,000 square feet, respectively.
- The largest project to come online in the second quarter was a 128,000-square-foot Wal-Mart Supercenter in Princeton. The retail titan also completed a 42,000-square-foot Neighborhood Market in Hurst. Additional Wal-Mart expansion throughout the Metroplex, either planned or underway, includes six Supercenters and one Neighborhood Market.

Outlook: Developers will complete 2.5 million square feet of retail space in the Metroplex during 2016, less than half of the space delivered in 2015.

Vacancy Rate Trends



* Forecast
Source: CoStar Group, Inc.

Vacancy

- Vacancy fell 80 basis points the past four quarters to 5.7 percent, the lowest rate this business cycle. In the prior annual span, the rate also dropped 80 basis points. Every submarket in the Metroplex realized a decline in vacancy during the time frame, with the exception of Central Dallas, which remained flat during the period.
- The tightest conditions are in outlying East Dallas, where limited new inventory is pushing retailers into existing space, and vacancy dropped 110 basis points over the last year to 1.5 percent in the second quarter.
- Far North Dallas registered one of the highest vacancy rates in the Metroplex at 6.4 percent; however, despite nearly 890,000 square feet of space coming online in the last year, vacancy has plunged 140 basis points over the same span.

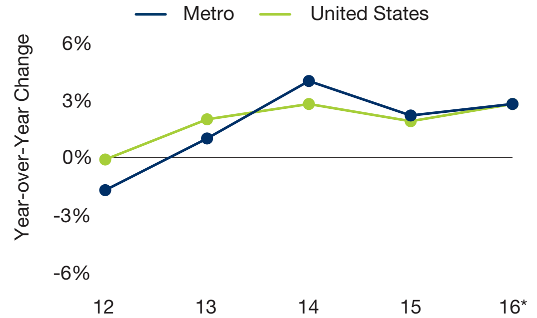
Outlook: Retailer demand is strong for space in the market, and vacancy will fall 60 basis points this year to 5.6 percent.

Rents

- Tight conditions are encouraging steady rent gains and the average asking rent grew 2.3 percent over the last four quarters to $14.78 per square foot. In the prior year, rent growth was flat.
- Nearly every submarket in the Metroplex registered rent growth during the last year, with the exception of Southeast Dallas, West Dallas and the Mid-Cities submarkets. These areas realized rent declines ranging from 0.6 percent to 3.3 percent during the period.
- Rent is highest in Central Dallas, where it rose to $22.57 per square foot in the second quarter, an increase of 12.5 percent year over year and the strongest rent advance in the Metroplex. Central Fort Worth follows; an 9.8 percent gain there pushed the average up to $12.60 per square foot.

Outlook: Retail property operations will continue to improve in the coming months and the average asking rent will advance 2.8 percent from the end of 2015 to $15.07 per square foot. Last year, rent increased 2.2 percent.

Asking Rent Trends

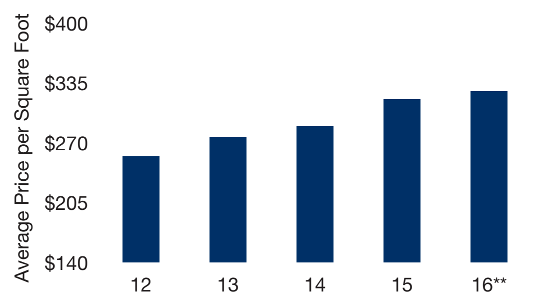


Single-Tenant Sales Trends**

- Single-tenant transaction activity has held steady over the past two years, and investors continue to target fast-food and restaurant establishments across the Metroplex for safety plays.
- The average price per square foot increased 10 percent over the past four quarters to nearly $326 per square foot. National and regional fast-food and restaurant chains frequently traded for prices above $500 per square foot during the period.
- Initial yields compressed 40 basis points year over year to the low- to mid-6 percent range. First-year returns started near 4 percent for well-located national fast-food retailers, with national restaurant deals changing hands at cap rates beginning closer to 5 percent.

Outlook: Single-tenant construction remains intense, and the completion of these assets will help keep sales velocity robust in the months to come.

Single-Tenant Sales Trends

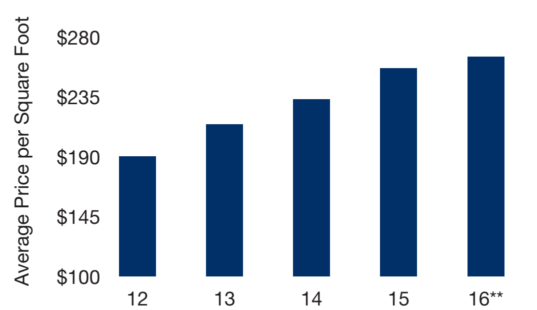


Multi-Tenant Sales Trends**

- Sales of multi-tenant assets in the market ticked up slightly during the last 12 months. The Lewisville, Central Plano and Garland submarkets received strong buyer attention over the annual time frame.
- Prices increased 10 percent over the last four quarters to $265 per square foot in June. Shopping and neighborhood centers garnered significant interest over the period and traded closer to $200 per square foot on average.
- The average cap rate for multi-tenant properties in the Metroplex held firm in the low- to mid-7 percent area during the last year. Well-located, stabilized centers changed hands at initial yields closer to 7 percent, depending largely on location, tenancy and credit.

Outlook: Properties in the Metroplex will remain in high demand through the remainder of the year, and assets with some sort of value-add component will be especially sought after.

Multi-Tenant Sales Trends



* Forecast
** Trailing 12-month period through 2Q
Source: CoStar Group, Inc.

Marcus & Millichap

Capital Markets

By WILLIAM E. HUGHES, Senior Vice President | Marcus & Millichap Capital Corporation

- Global capital markets have remained stable over the past few weeks, even as Brexit and the continued devaluation of the Chinese yuan have induced bouts of volatility into stock and bond markets. Meanwhile, U.S. economic data has proved resilient, with increases in retail sales and steady hiring supporting a measured pace of growth. Additionally, higher bond prices have lowered prospective yields, boosting the appeal of commercial real estate.
- As the current economic cycle has continued, retail vacancy descended to 5.8 percent by the end of the second quarter. A focus on net-leased construction for pre-leased tenants and mixed-use developments has limited development activity in relation to prior cycles, supporting robust increases in average asking rents. Builders will deliver 46 million square feet of retail space this year, with more than two-thirds of new supply slated as single-tenant structures. This environment will sponsor a fourth straight year of average asking rent growth, with advancement projected to exceed inflation over the same period.
- Capital markets remain highly competitive, with a broad assortment of fixed-rate products available through commercial banks, life-insurance companies and CMBS lenders. Loans are generally offered at terms up to 10 years at maximum leverage of 65 to 75 percent. For 10-year terms, rates will typically reside in the high-3 to mid-4 percent range, depending on leverage and underwriting criteria. Floating bridge loans and financing for repositionings are typically underwritten with LTVs above 80 percent, while pricing at 300 basis points above Libor for recourse deals and extending to 470 basis points above Libor for non-recourse transactions.

Local Highlights

- Unemployment in the Metroplex reached 3.7 percent in the second quarter, a dip of 30 basis points from one year ago and one of the lowest rates in the country. Healthy job gains across a range of sectors have helped diversify the local economy, and energy-related cuts have had minimal impact on overall employment growth.
- Apartment development in the Metroplex, specifically the Dallas area, is robust as builders have targeted the region for its strong economic growth and healthy demographic trends. Necessities-based retailers, restaurants and other entertainment options will seek to locate nearby, boosting demand for retail space in high-growth submarkets.
- Frisco is a hotbed for activity with a stretch of the Dallas Parkway through the area dubbed $5 Billion Mile. In addition to Wade Park, the Dallas Cowboys' world headquarters, The Star, is driving a significant number of commercial real estate projects, and two additional developments known as The Gate and Frisco Station, are also underway along the tollway.

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Price: $250

Marcus & Millichap

Retail Research Market Report

Second Quarter 2016

Dallas/Fort Worth Metro Area

Strengthening Economy Stokes Retail Demand, Encourages Development

Local economy firing on all cylinders, attracting builders and retailers to region. The Dallas/Fort Worth Metroplex economy is booming as companies expand and move to the area, bolstering tenant demand and retail development. Annual positive net absorption has vacancy on a downward spiral for the past six years, retreating more than 300 basis points during that time to the mid-6 percent area. While retail construction activity has not returned to pre-recession levels, builders have been consistent and inventory has expanded 6 percent since 2009. A strong pace of development will continue this year and the Metroplex will be one of the top markets for retail completions in 2016. Several large projects are underway, including 600,000 square feet of retail space at Wade Park, a 175-acre mixed-use project in Frisco that will also include office and residential space. Major retailers such as Whole Foods, iPic Theaters and Pinstripes Inc. have penned leases to anchor the project. As large national and regional chains sign on at other retail centers in the market, smaller and more local tenants will follow suit by taking in-line and strip center space, driving vacancy down further this year.

Out-of-state investors increase buyer pool; Fort Worth assets in higher demand. Investor interest in North Texas retail properties is rising as fundamentals continue to improve and the region's economic outlook remains bright. Out-of-state buyers, including international investors, are growing portfolios by adding area properties and expanding the buyer pool for local assets. These investors target stable, well-located buildings throughout the region for safety plays. Meanwhile, local buyers continue to scour the market for upside potential. Investors who have held on to listings in hopes of stabilizing as market conditions improve are beginning to list, and competition for these properties is intense. New owners will seek to renovate and reposition assets to raise rents and create value, banking on strengthening property operations. Fort Worth area assets have grown in popularity during the last year among buyers as new construction remains minimal compared with Dallas and its surrounding submarkets. Cap rates are compressing marketwide and initial yields range from a low of 5.5 percent in high-demand submarkets like North Central Dallas and Central Fort Worth to more than 9 percent for properties farther from high-traffic areas and in need of repositioning.

2016 Retail Forecast

3.0% increase in total employment

Employment:

This year, the private and public sectors will add 105,000 positions in the Metroplex for an annual employment expansion of 3.0 percent. Employers generated nearly 127,000 jobs in 2015, a growth rate of 3.8 percent year over year.

2.5 million sq. ft. will be completed

Construction:

By year end, developers will add 2.5 million square feet of retail space to inventory, an expansion of 0.8 percent from last year. In 2015, builders brought online approximately 5.1 million square feet of retail space.

50 basis point decrease in vacancy

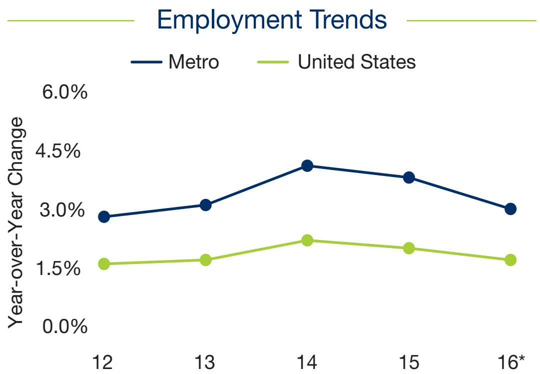
Vacancy:

Vacancy will tumble 50 basis points this year amid robust demand for retail space in the market, reaching 6.1 percent on net absorption of more than 3.8 million square feet. Last year, vacancy declined 60 basis points.

2.8% increase in asking rents

Rents:

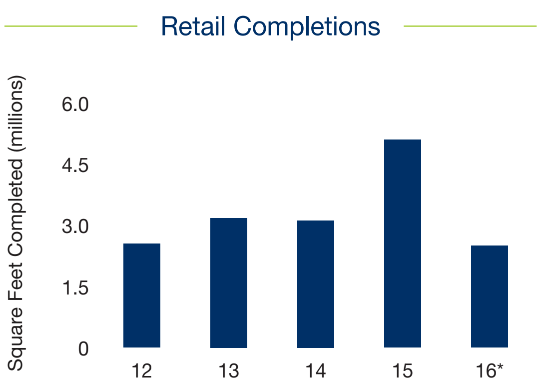
Average rent will continue to advance this year, and rent growth will strengthen from last year's 1.9 percent rise. In 2016, the average will increase 2.8 percent to $15.04 per square foot, a new high for this business cycle.



Economy

- Metroplex employers generated 128,500 positions during the last 12 months ending in March, expanding payrolls 3.8 percent. The pace of job growth in the previous time frame was 3.6 percent annually, or 117,000 workers.
- Gains over the past year were led by strong growth in the trade, transportation and utilities sector as local companies created 40,400 jobs in the last four quarters. Hiring in the leisure and hospitality industry followed as employers added nearly 27,000 workers to payrolls.
- Numerous companies are expanding and growing headcounts in the region, including Toyota, State Farm and Liberty Mutual. These companies, among others, are set to create thousands of new positions over the next few years, further solidifying a long-term positive economic outlook for the region.

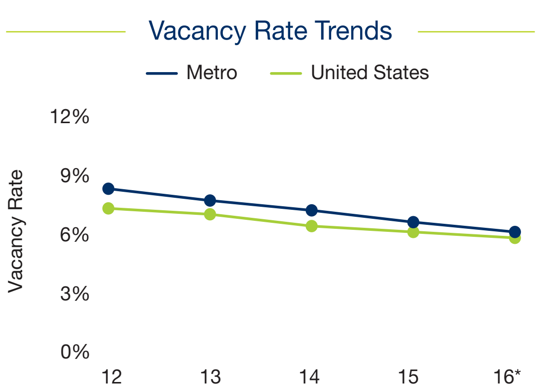
Outlook: This year, the private and public sectors will add 105,000 positions in the Metroplex for an annual employment expansion of 3.0 percent. Employers generated nearly 127,000 jobs in 2015, a yearly growth rate of 3.8 percent.



Construction

- Nearly 700,000 square feet of retail space was delivered during the first quarter of this year, and retail developers completed more than 2.9 million square feet of space during the last four quarters. In the prior annual period, approximately 5.2 million square feet came online.
- The largest project completed so far this year is the 176,000-square-foot Waxahachie Marketplace, located along U.S. 77. Retailers at the center include Buffalo Wild Wings, Super Target, The Home Depot, Lowe's, Best Buy, Belk, Ross, PetSmart and J.C. Penney.
- Builders have nearly 4 million square feet of retail space under construction throughout the metro. The 175,000-square-foot Waterside development in the Central Fort Worth submarket is one of the biggest projects underway in the Metroplex. The retail center is part of a larger $100 million mixed-use development that will include hotels, additional retail space and housing.

Outlook: By year end, developers will add 2.5 million square feet of retail space to inventory, an expansion of 0.8 percent from last year. In 2015, builders completed approximately 5.1 million square feet.



* Forecast

Vacancy

- Pre-leasing activity remains strong and heightened demand from retailers seeking space has pushed down vacancy to its lowest point in nearly 10 years. The rate fell 60 basis points year over year to 6.4 percent in the first quarter. In the previous annual timeframe, vacancy declined 70 basis points.
- Shopping center vacancy plummeted 100 basis points during the last 12 months, reaching 9.7 percent in recent quarters. This is the first time the rate has fallen below 10 percent in over 10 years. Vacancy at area power centers and mall also tightened, resting at 3.3 percent and 5.3 percent, respectively.
- Retail vacancy in Dallas and surrounding submarkets dropped 70 basis points in the last year to 6.7 percent. In Fort Worth, limited new development contributed to vacancy dipping to 5.8 percent, an annual decline of 60 basis points.

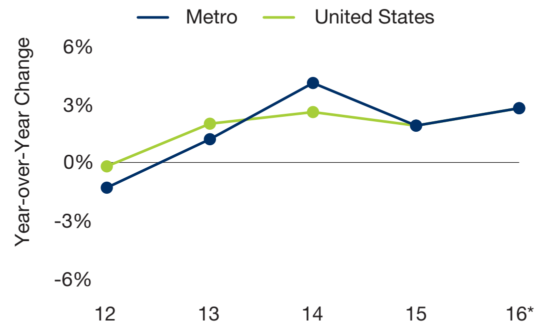
Outlook: Vacancy will tumble 50 basis points this year amid robust demand for retail space in the market, reaching 6.1 percent on net absorption of more than 3.8 million square feet. Last year, vacancy declined 60 basis points.

Rents

- The average rent ticked up 1.5 percent during the last year to $14.68 per square foot. In the prior annual period, the average grew 2.8 percent. While rent growth appears to be slowing, it is largely attributed to a lack of higher-quality space in high-demand areas available for lease.
- Area power centers command the highest rental rates, with the average surging nearly 60 percent in the last year to $33.04 per square foot as several new buildings came online. Malls follow, where an 8 percent annual increase pushed up rent to $20.76 per square foot.
- Rent is rising at a much slower pace in the Fort Worth area as conditions tighten and space available becomes less desirable. The average ticked up 0.4 percent year over year to $13.24 per square foot, compared with a 2.1 percent annual bump in Dallas to $15.46 per square foot.

Outlook: Average rent will continue to advance this year, strengthening from last year's 1.9 percent rise. In 2016, the average will increase 2.8 percent to $15.04 per square foot, a new high for this business cycle.

Asking Rent Trends

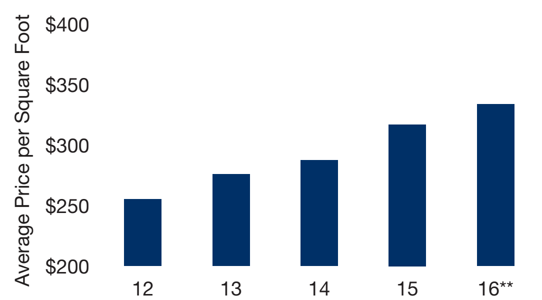


Single-Tenant Sales Trends**

- Over the last four quarters, transaction velocity of single-tenant assets dropped 7 percent in the Metroplex, though not due to a lack of investor interest. Sales of auto-repair shops, fast-food locations and restaurant establishments made up a significant portion of deals.
- Prices escalated for the fifth consecutive year, rising 14 percent year over year to $334 per square foot and reaching a new peak. National fast-food and restaurant retailers traded at some of the highest prices in the market during the year, with prices averaging closer to $550 per square foot during the period.
- Initial yields constricted 30 basis points over the last 12 months to the mid-6 percent area. Cap rate compression will continue in the market as retailers expand and attract investors to newly constructed assets throughout the region.

Outlook: Construction of single-tenant assets remains robust as auto-parts stores and fast-food retailers continue to expand in the region. As a result, investor interest will remain intense as buyers target these assets.

Single-Tenant Sales Trends

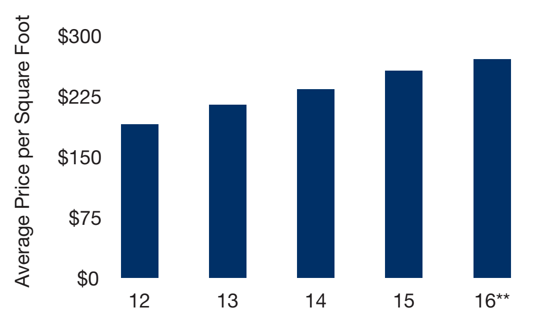


Multi-Tenant Sales Trends**

- Multi-tenant sales activity grew 13 percent during the last 12 months, with Fort Worth area trades gaining steam over the period. Properties in West Fort Worth and Arlington received heightened buyer interest, boosting transactions in these areas of the market.
- Property values have risen as operations steadily improved over the past few years, and last year the average price per square foot increased 12 percent, topping $270. Newer, well-located centers traded above $300 per square foot during the annual time frame, while some value-add deals sold for less than $50 per square foot.
- The average cap rate compressed 10 basis points in the last 12 months, averaging in the low-7 percent area for the first time since 2007. Strong investor interest and increased competition from out-of-state buyers will continue to put downward pressure on first-year returns in the market.

Outlook: Strong pre-leasing and heightened demand for retail space will continue to tighten conditions throughout the region, boding well for investors scooping up assets in need of repositioning.

Multi-Tenant Sales Trends



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

Capital Markets

By WILLIAM E. HUGHES, Senior Vice President | Marcus & Millichap Capital Corporation

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

Local Highlights

- Strong job growth in the Metroplex is boosting consumer confidence and retail sales continue to rise faster than the national average. After a 5.0 percent annual bump in March of last year, retail sales grew 4.9 percent in the last four quarters. As a result, hiring in retail trade positions has also risen, with more than 14,000 workers added at retail establishments over the last year.
- The unemployment rate continues to shrink amid vigorous job creation, declining 30 basis points in the last 12 months to 3.8 percent. In the last year, just two sectors of the employment base shed positions, manufacturing and natural resources and mining, cutting 11,800 jobs during the annual period. The majority of these cuts were related to reduced spending at local energy firms.
- Central Dallas and Outlying East Dallas retail assets boast the lowest vacancy in the region, falling to 3.5 percent and 2.1 percent, respectively, over the last year. The average rents in these two submarkets are also the highest in Metroplex, rising to more than $18 per square foot in recent quarters.
- The city of Fort Worth approved tax incentives for the proposed Outlets at Alliance. The 330,000-square-foot outlet mall is scheduled for completion later this year and will contain more than 50 retail tenants. The development is located across from Cabela's, which draws approximately 3.5 million visitors annually.

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