Florida Net Lease Report

August 2017

CALKAIN.COM

CALKAIN
AMERICA'S NET LEASE COMPANY®

BESHEARS & ASSOCIATES
COMMERCIAL PROPERTY ANALYSTS

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Calkain Companies is a national commercial real estate services firm, focusing on net lease investments. We provide brokerage and advisory services for both private and institutional clientele. Calkain has utilized our extensive network of solid relationships to successfully complete over $9 billion in sales and has consistently ranked as one of the top national net lease investment brokerage firms and is constantly sought after for industry expertise, commentary, news and trends.

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Beshears and Associates is a commercial appraisal firm with offices in Tampa and Orlando. In addition to covering apartments, office, industrial, land, and retail, we have specialty practices in gas stations, self-storage, hotels and mobile home parks. Our staff of 13 appraisers complete over 650 appraisals annually in Florida and Georgia.

INTRODUCTION

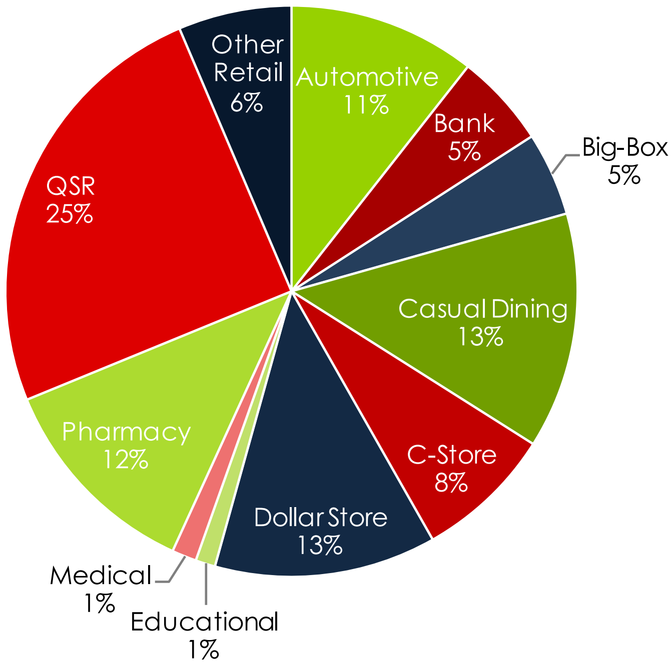
Florida garnered the nickname "The Sunshine State" nearly 50 years ago as it grew its tourism industry into one of the leading sectors of the local economy. Drawn to sunny skies and white sand beaches, visitors from around the country made their way to Florida with friends and family. Decades of tourism has transitioned visitors to residents with Florida ranked as the #1 retirement destination in the country. Over 55,000 Baby Boomer's move into the state annually, an important demographic that controls 70% of the nation's disposable income. As many have or prepare to convert their vacation destination into a permanent residence, that move is joined with an influx of investment dollars greeted by a growing population, no state income tax, and an economy that continues to improve through job creation and the young talent that follows. These attributes are a perfect match for the long-term view of a net lease investor, which in turn makes it no surprise that the demand for Florida net lease property drives values greater than nearly any other locale.

Florida's population has doubled from 10 million in 1980 to nearly 21 million residents as of 2017, a growth rate 1.5 times that of the country as a whole. Currently the 3rd most populous state, passing New York in 2014, Florida's growing population creates a demand for retailers to expand to meet, in turn creating new net lease investment opportunities. National retailers like Wawa, who is slated to open 25 new stores per year in Florida, are eager to meet the growing demand of 1,000 new residents a day.

In economic terms, Florida finished 2016 strong with 3% growth in Real Gross Domestic Product (real GDP). A property near an expanding population and growing economy should see an appreciation of its value. On the job front, most new jobs were focused in the healthcare, logistics and home construction markets. Considering Florida added roughly 250,000 new jobs over the last year, it's easy to see how the overall picture of Florida's economy will draw residents and investors alike for years to come.

Even with a growing population and economy, Florida couldn't out run the national big-box trend. Cap rates for large format retails have expanded, with the rising cost of capital and the "Amazon Effect," largely to blame. The changing cost of capital is affecting the entire net lease marketplace while Amazon's disruption has been felt the most in the big-box sector as consumers are turning more and more towards shopping online for clothing, shoes, and other soft-goods products. These factors are not unique to Florida, but they have eaten away at some of the premium associated with properties in Florida. Sectors such as automotive, casual dining, c-store, dollar store, pharmacy, and QSR, have remained largely immune to the "Amazon Effect" and have retained their premium compared to the rest of the nation. These highly demanded sectors make up the majority of all trades Calkain has captured in this report.

Florida Sales by Sector



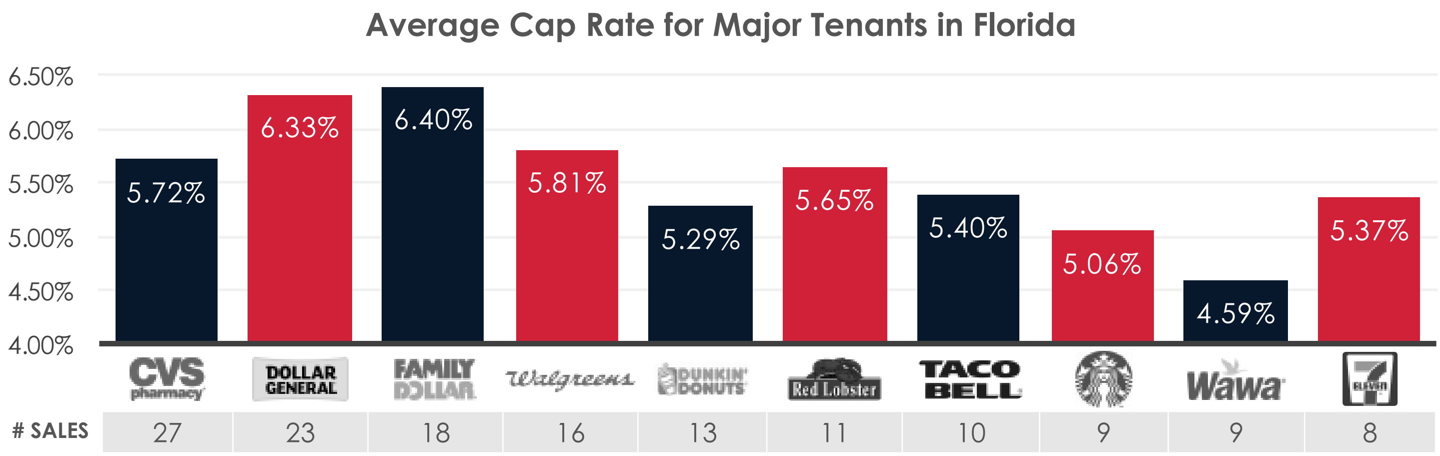
TENANT SPOTLIGHT

Second only to Texas in annual population growth, Florida continues to grow by over 375,000 people a year. This influx of new residents creates an opportunity for C-store operators capitalizing on volume. Best known as a northeast US favorite, Wawa draws a cult-like following to their name-brand coffee and signature hoagies.

In a first true new market expansion for the Convenience store operator, Wawa opened their first five stores in Central Florida in 2012. Methodical in their growth, they finished their 107th store opening in Florida at the end of 2016 and opened the S. Florida market in March of 2017. Wawa has no plans to let off the gas with their bullish expansion into the state offering low gas prices, bright clean stores and quality food choices rivaling many fast-casual and QSR chains. With a recent announcement of an additional 50 stores planned for South Florida, Wawa's state expansion plans call for 25 new stores a year over the next five years which will bring their store count up to 230 by 2021.

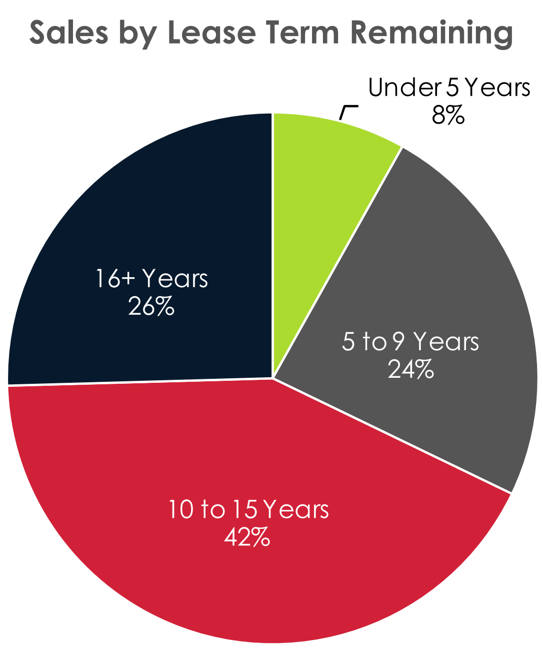
The typical Wawa store occupies 1.6 – 2.5 acres of land with a large 6,119sf retail store and 16-18 pumps. Their preferred lease is a 20 year ground lease with six renewal options and rents ranging from $165,000 to $400,000+ annually. Capitalization rates for these Wawa-leased properties have been concentrated in the 4.50% - 4.75% range over the past 12 months, with an average of 4.59%, almost a full percentage point lower than the C-store average of 5.56%.

MAJOR TENANTS IN FLORIDA



SALES BY LEASE TERM

The number of years left on a lease is a major driver of cap rates. Investors tend to look for properties that will be a reliable source of income for many years to come, as shown below with 68% of all transactions in Florida having an excess of 10 years remaining. Truly short duration transactions with under five years of term remaining are often predicated on either an existing tenant relationship or focused heavily on the residual value of the real estate.



IN-LINE STRIP CENTERS IN FLORIDA

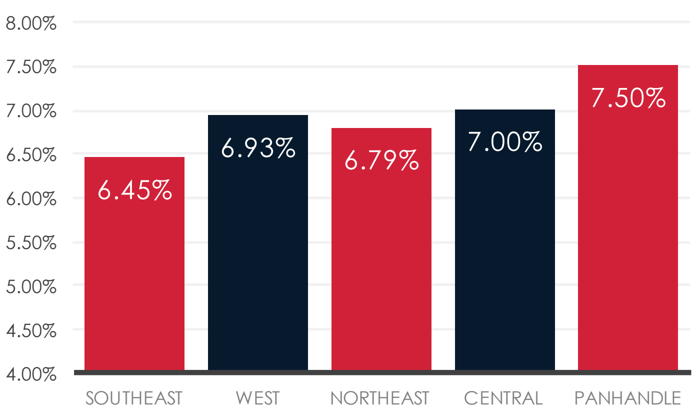
As the typical big-box tenant roster continues to shrink, investors have turned to multi-tenant strip centers as an avenue to further diversify asset vacancy risk and their general portfolio. Year-over-year, we observed a 20% reduction in strip center trade volume with over 162 sales recorded across the state. Taking note the of current timing in the cycle, a variety of factors contributed to this slowdown, chief among them being uncertainty behind interest rates, the presidential election, and contract extensions.

However, while volume may be down, the multi-tenant strip sector of the retail market has continued to see capitalization rate compression. Within the five markets we tracked, the most active markets were across the I-4 corridor including the west coast of Florida where we observed 54 transactions, representing over $110M with a median capitalization rate of 6.93% and Central Florida where we observed 38 transactions, representing over $73M with a median capitalization rate of 7.00%. The least active market was the Panhandle with 15 transactions, representing over $32M with a median capitalization rate of 7.50%.

This far into the cycle, value-add deals are minimal and as such capitalization rated in Northeast Florida have also benefited from expanding acquisition nets. With over 19 transactions, representing over $35M and a median capitalization rate of 6.79%, Northeast Florida has gained some traction. Lastly, Southeast Florida remains the capitalization rate leader with 36 transactions, representing over $68M and an average capitalization rate of 6.52% and a median capitalization rate of 6.45%. This market is heavily influenced by South Florida, which attracts international investment and demands lower capitalization rates due to the increased capital pool chasing deals.

As the cycle progresses, it becomes challenging to predict the future. The recent presidential election and the ever-changing geopolitical terrain have clearly affected the cycle. To what degree, we have yet to see. Our outlook for this market is positive, we believe that as retailers continue to be more footprint conscious, strip centers with strong frontage and parking to support credit tenants will demand a tenant mix that attracts more investors. Under the assumption that interest rates hold steady with minimal increases, we expect capitalization rates to see slightly more compression.

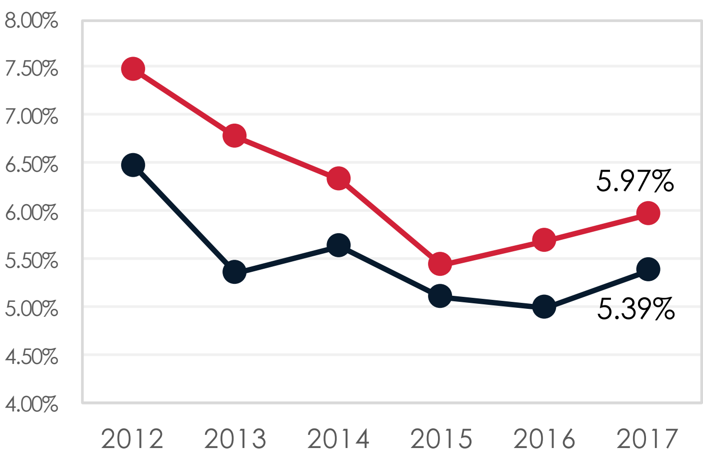
Median Cap Rates by Region in Florida



QSR CAP RATE: FRANCHISEE VS CORPORATE

The QSR sector is always an interesting one to examine as the guarantors of leases come in all sizes and strengths. The corporate backed leases carry the biggest and strongest guarantees and lowest cap rates, thus Investors have traditionally paid a premium to own a property backed by a franchisor vs franchisee guaranteed locations. Franchisees range from individuals who own a single restaurant to large operating companies who run hundreds of locations under various brands. This diversity of guarantors make it essential for investors to look critically at who is backing a lease and if possible the sales performance at the individual location.

QSR Cap Rate: Franchisee vs Corporate

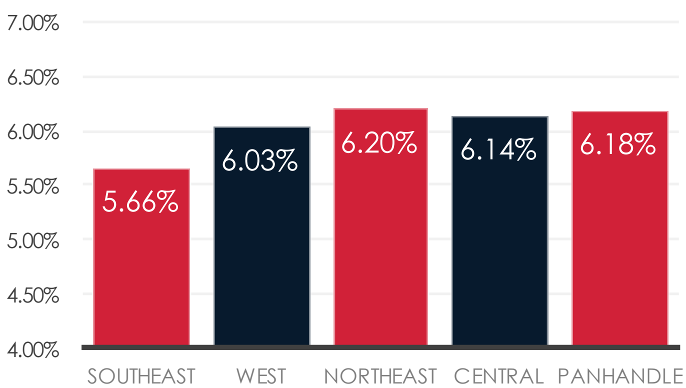


Year	2012	2013	2014	2015	2016	2017
Franchisee	7.48%	6.76%	6.34%	5.43%	5.69%	5.97%
Corporate	6.46%	5.35%	5.63%	5.11%	4.99%	5.39%

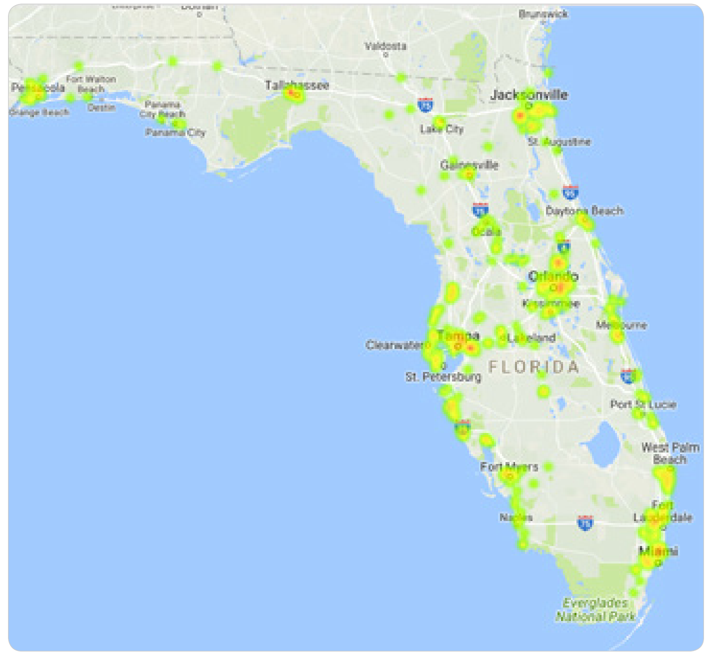
CAP RATE BY REGION

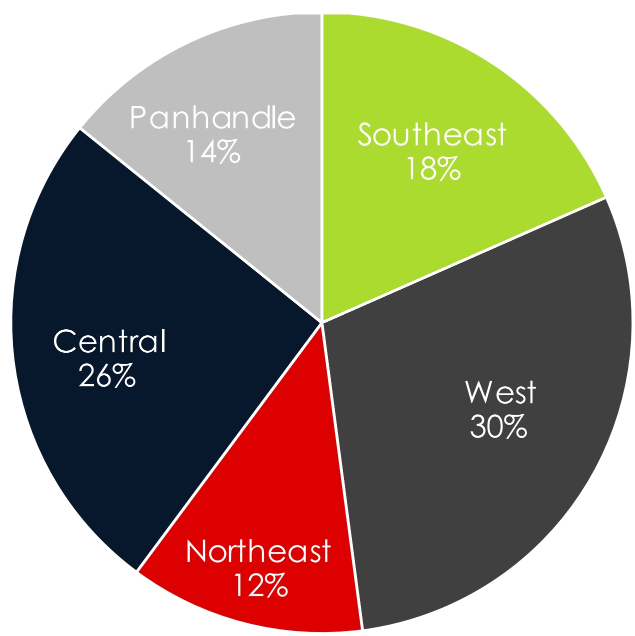
Different regions in Florida present vastly different opportunities to investors. The tri-county region of Palm Beach, Broward, and Dade have not only the greatest population but the highest density in the state, so it's no surprise that cap rates in that region are the lowest in the state at 5.66%. Areas like the Northeast and Panhandle present different opportunities with less dense population and higher cap rates of 6.20% and 6.18% respectively, perfect destination for yield sensitive investors.

Cap Rate By Region



Areas of Concentrated Activity





AREAS OF CONCENTRATED ACTIVITY

Retailers continue to expand within more mature sub-markets and avoid the sprawl of the 2006-era expansion woes, so it's no surprise that the majority of net lease sales occurred within the major markets of Florida; Tampa, Orlando, Miami-Fort Lauderdale, and Jacksonville. The above map illustrates this concentration, with the balance of the activity following the State's primary transportation corridors of I-75, I-95, and the Florida Turnpike. Relatively little tertiary market activity was present, with small concentrations observed within the select markets, such as Gainesville and Tallahassee, the home to the University of Florida and Florida State University respectively.

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