2018 RETAIL

North American Investment Forecast

Marcus & Millichap

To Our Valued Clients:

Retail investments continue to outperform, with a positive outlook that blends limited construction with an accelerating economy, rising wage growth and increased consumption. Though the news media focused heavily on the demise of well-known retailer brands, implying that the sector was poised for extinction, store openings dramatically outpaced closings and corporate profits in the retail sector eclipsed past records.

The coming year holds the prospect of exceptional dynamics for retail investors. The economic boost offered by the new tax law together with particularly low unemployment levels suggest that discretionary income could increase substantively, driving retail sales well ahead of their already elevated levels. This will reinforce retailer expansion, though available space could restrain absorption. The national average vacancy rate now stands at its lowest level since the 1990s, and all indicators point to further tightening in the year ahead. Within this context, rent growth is expected to maintain momentum, pushing the average national rent to a record high.

Single-tenant retail investments have been particularly favored throughout this cycle, with demand for these low-management assets often outpacing availability. The new tax law, featuring a deduction for pass-through entities, could invigorate demand as additional passive investors consider real estate investment options. This increased capital flow to real estate assets, however, could be at least partially countered by rising interest rates.

Undoubtedly, new challenges will emerge in 2018, but a broad range of forward-looking metrics point to continued strength for retail investments. As you define your plans in this dynamic climate, our investment professionals stand ready to help you evaluate your options and implement your strategies.

Sincerely,

Scott M. Holmes
Senior Vice President, National Director
National Retail Group

John Chang
First Vice President, National Director
Research Services

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Developed by Marcus & Millichap Research Services. The Capital Markets section was co-authored by William E. Hughes, Senior Vice President, Marcus & Millichap Capital Corporation. Additional contributions were made by Marcus & Millichap market analysts and investment brokerage professionals nationwide.

National Retail Index (NRI)

- Seattle-Tacoma maintains the first spot while San Francisco and Boston hold onto second and third place in this year's Index. In all three metros, robust job growth driven by technology companies provides higher-paying jobs, attracting additional residents and generating increased retail demand. Meanwhile, restrained deliveries funnel new retailers into existing space, keeping vacancy tight.
- The largest jump in the Index was posted by Dallas/Fort Worth (#12). The metro vaults seven places as a significant drop in deliveries amid rising demand tightens vacancy and drives rents higher. Sizable upward leaps were also posted by Denver (#11) and Atlanta (#22), each climbing six rungs as strong employment and population growth bolster retail sales this year.
- Midwest metros with slower job and population growth are prominent in the lower portion of the Index. Milwaukee (#42), Cleveland (#44), Kansas City (#45) and St. Louis (#46) hold their positions from 2017 at the bottom of the NRI, interrupted by New Haven-Fairfield County (#43).

National Economy

- A steady pace of hiring and prospects of rising wages will drive expectations for lower retail property vacancy and rising rents this year. The economy has had the longest continuous period of job creation on record, adding jobs every month for more than seven consecutive years and keeping unemployment near 4 percent. An increase in consumption and business output as well as more robust residential construction will support GDP growth in the 2.5 percent range in 2018.
- The steady economic tailwind over the course of the recovery has pushed consumer confidence to its highest point since 2000 while small-business sentiment attained a 31-year record level, reinforcing indications that consumption and hiring will be strong this year.
- The new tax laws could play a significant role in shaping both the economy and retail demand in 2018. A reduction in the corporate tax rate will be a windfall for corporations, encouraging several retailers to increase investment in wages, hiring and infrastructure.

National Retail Overview

- Rising consumer confidence levels and the potential for higher wages will carry retail momentum through 2018. Historically low completions and strong retail sales have buoyed space demand amid increased concerns about e-commerce and its impact on store closures. The emergence of online distribution combines with tighter construction lending and investor caution to restrain development.
- Customers are changing the way they shop and turning to more experience-oriented establishments. Retailers are evolving with many enhancing online offerings and expanding through smaller-format stores.
- The evolving landscape of multi-tenant assets has supported vacancy improvement in this property type through several tailwinds for eight consecutive years. Owners will continue to realign strategies moving forward to attract these unique retailers that draw consumers.

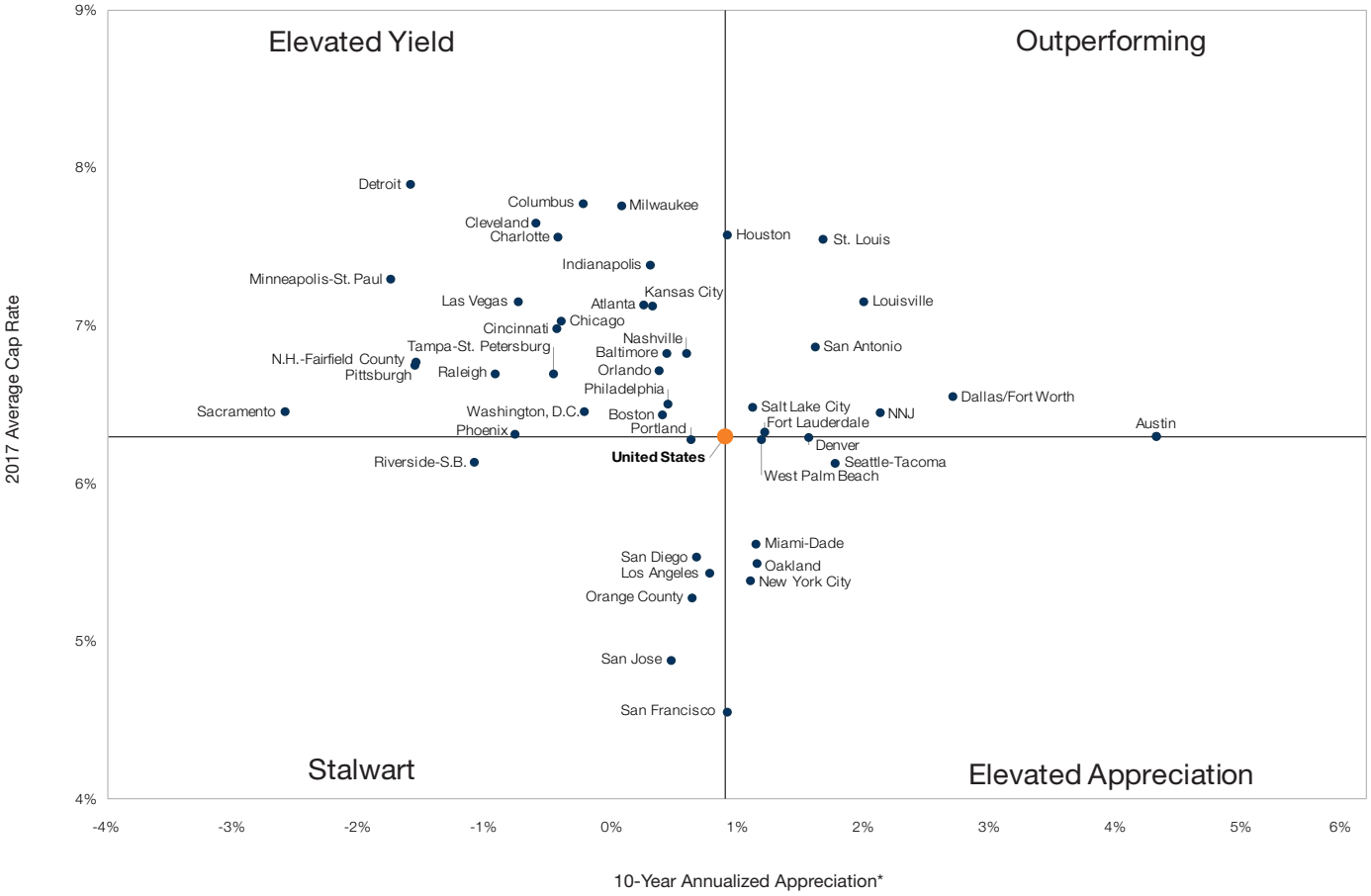
Capital Markets

- Investors have largely adapted to the modestly higher interest rate environment as the Federal Reserve continues to normalize its policies and balance sheet. The central bank has hinted at three to four increases of the fed funds rate during 2018 as it hedges against inflation risk amid accelerated economic growth.
- National and regional banks have stepped in as key lenders for retail properties as CMBS lending eased amid heightened risk aversion in the sector that has persisted since 2016. In general, credit standards have held steady and the trend should continue into 2018 as lenders search for deals.

Retail Investment Outlook

- In the era of e-commerce, investors are increasingly modifying their strategies and widening their search criteria for opportunities with upside potential. Opportunistic investors in search of upside are positioning these spaces for smaller-format retailers and non-traditional users.
- Several big-box retailers that traditionally anchor shopping centers are creating smaller-format versions. As a result, some investors are increasingly scrutinizing leases, considering whether these retailers will reduce their spaces in the near term.

Yield Range Offers Compelling Options for Investors; Most Metros Demonstrate Strong First-Year Return Rates



Average Price Per Square Foot**

(Alphabetical order within each segment)

$200 - $249	$250 - $299	$300 - $349	$350 - $399	$400 - $449	$450 - $560
• Cincinnati	• Atlanta	• Baltimore	• Las Vegas	• Austin	• New York City
• Cleveland	• Charlotte	• Boston	• Oakland	• Los Angeles	• San Francisco
• Columbus	• Chicago	• Denver	• Seattle-Tacoma	• Miami-Dade	
• Detroit	• Dallas/Fort Worth	• Fort Lauderdale	• Washington, D.C.	• Orange County	
• Houston	• Louisville	• New Haven-Fairfield County	• West Palm Beach	• San Diego	
• Indianapolis	• Nashville	• Northern New Jersey		• San Jose	
• Kansas City	• Philadelphia	• Orlando			
• Milwaukee	• Pittsburgh	• Phoenix			
• Minneapolis-St. Paul	• Raleigh	• Portland			
	• Sacramento	• Riverside-San Bernardino			
	• St. Louis	• Salt Lake City			
		• San Antonio			
		• Tampa			

* 2007-2017 Average annualized appreciation in prices per square foot
** Price per square foot for retail properties $1 million and greater
Sources: Marcus & Millichap Research Services; CoStar Group, Inc.; Real Capital Analytics

Familiar Tech Markets Occupy Top of Index; Slower-Growth Metros Dominate Lower Portion

Slight reshuffling, though top markets hold. Seattle-Tacoma maintains the first spot while San Francisco and Boston hold onto second and third place in this year's Index. In all three metros, robust job growth driven by technology companies provides higher-paying jobs, attracting additional residents and generating increased retail demand. Meanwhile, restrained deliveries funnel new retailers into existing space, keeping vacancy tight. At 2.5 percent, Boston posts the lowest vacancy among major U.S. metros. Smaller metros representing the next generation of technology markets fill the next five spots. Nashville (#4) advances one notch, propelled by a decline in new inventory and strong rent growth. Raleigh (#5) was recently chosen as an Infosys tech hub, which will bring thousands of jobs to the area. Austin (#6) dips two places as vacancy rises, while Salt Lake City (#7) and Portland (#8) each advance two places. Rounding out the top 10 are New York City (#9) and Los Angeles (#10), where tourism boosts retail spending.

Markets gaining ground. The largest jump in the Index was posted by Dallas/Fort Worth (#12). The metro vaults seven places as a significant drop in deliveries amid rising demand tightens vacancy and drives rents higher. Sizable upward leaps were also posted by Denver (#11) and Atlanta (#22), each climbing six rungs as strong employment and population growth bolster retail sales this year. Other markets with large gains in employment and population are Orlando (#16) and Tampa-St. Petersburg (#19), moving up five spots and one rung, respectively. The most significant decline of eight places was recorded by Orange County (#20) due to an expected slowdown in employment and retail sales gains during 2018. Midwest metros with slower job and population growth are prominent in the lower portion of the Index. Milwaukee (#42), Cleveland (#44), Kansas City (#45) and St. Louis (#46) hold their positions from 2017 at the bottom of the NRI, interrupted by New Haven-Fairfield County (#43). This East Coast market declined two notches, as a lack of new job opportunities hinders population growth and higher retail sales gains.

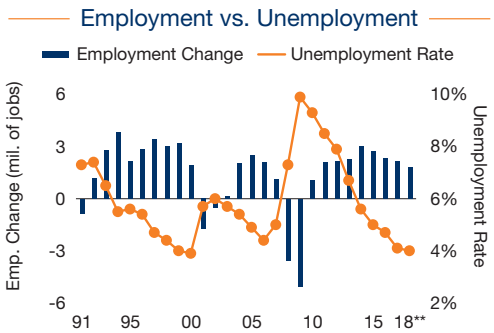
Index Methodology

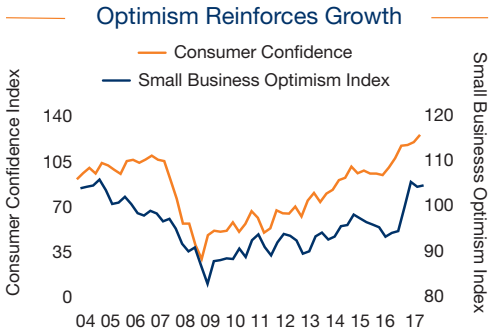
The National Retail Index ranks 46 major retail markets on a series of 12-month, forward-looking economic and supply-and-demand variables. Markets are ranked based on their cumulative weighted-average scores for various indicators, including forecast employment growth, vacancy, construction and rents. Weighing both the forecasts and incremental change over the next year, the Index is designed to indicate relative supply-and-demand conditions at the market level.

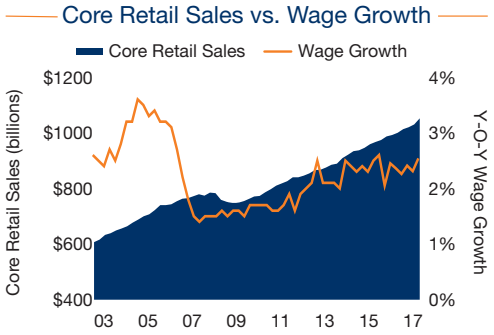
Users of the NRI are advised to keep several important points in mind. First, the Index is not designed to predict the performance of individual investments. A carefully chosen property in a bottom-ranked market could easily outperform a poor choice in a top-ranked market. Second, the NRI is a snapshot of a one-year time frame. A market facing difficulties in the near term may provide excellent long-term prospects, and vice versa. Third, a market's ranking may fall from one year to the next even if its fundamentals are improving. The NRI is also an ordinal index and differences in ranking should be carefully interpreted. A top-ranked market is not necessarily twice as good as the second-ranked market, nor is it 10 times better than the 10th-ranked market.

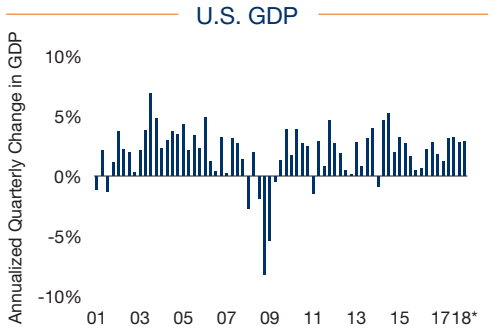
MSA Name	Rank 2018	Rank 2017[1]	17-18 Change	
Seattle-Tacoma	1	1	■	0
San Francisco	2	2	■	0
Boston	3	3	■	0
Nashville	4	5	↗	1
Raleigh	5	7	↗	2
Austin	6	4	↘	-2
Salt Lake City	7	9	↗	2
Portland	8	10	↗	2
New York City	9	6	↘	-3
Los Angeles	10	8	↘	-2
Denver	11	17	↗	6
Dallas/Fort Worth	12	19	↗	7
San Diego	13	11	↘	-2
West Palm Beach	14	18	↗	4
San Jose	15	13	↘	-2
Orlando	16	21	↗	5
Miami-Dade	17	16	↘	-1
San Antonio	18	15	↘	-3
Tampa-St. Petersburg	19	20	↗	1
Orange County	20	12	↘	-8
Oakland	21	14	↘	-7
Atlanta	22	28	↗	6
Fort Lauderdale	23	24	↗	1
Minneapolis-St. Paul	24	25	↗	1
Washington, D.C.	25	23	↘	-2
Pittsburgh	26	22	↘	-4
Charlotte	27	29	↗	2
Sacramento	28	33	↗	5
Phoenix	29	31	↗	2
Houston	30	26	↘	-4
Riverside-San Bernardino	31	34	↗	3
Chicago	32	27	↘	-5
Columbus	33	30	↘	-3
Indianapolis	34	38	↗	4
Cincinnati	35	37	↗	2
Louisville	36	35	↘	-1
Las Vegas	37	35	↘	-2
Baltimore	38	32	↗	-6
Northern New Jersey	39	36	↘	-3
Philadelphia	40	40	■	0
Detroit	41	43	↗	2
Milwaukee	42	42	■	0
New Haven-Fairfield County	43	41	↘	-2
Cleveland	44	44	■	0
Kansas City	45	45	■	0
St. Louis	46	46	■	0

1 See National Retail Index Note on page 64.









* Forecast
** Through January

Spending Growth, Wage Momentum Propel Retail Outlook

Tight labor market and surging confidence invigorate consumption. A steady pace of hiring and prospects of rising wages will drive expectations for lower retail property vacancy and rising rents this year. The economy has had the longest continuous period of job creation on record, adding jobs every month for more than seven consecutive years and keeping unemployment near 4 percent. The tight labor market is making it increasingly difficult for employers to fill positions, which will likely place additional upward pressure on wages in 2018. Competitive compensation packages will be necessary to secure quality talent and the construction, professional services and hospitality sectors have been leading gains. Increased wages should boost consumer spending, driving up retail sales and benefiting property performance. The steady economic tailwind over the course of the recovery has pushed consumer confidence to its highest point since 2000 while small-business sentiment attained a 31-year record level, reinforcing indications that consumption and hiring will be strong this year.

Tax reform may bolster retail space demand. The new tax laws could play a significant role in shaping both the economy and retail demand in 2018. A reduction in the corporate tax rate will be a windfall for corporations, encouraging several retailers to increase investment in wages, hiring and infrastructure. CEO confidence has risen by more than 6 percent in the last year, stimulating economic growth. Enhanced optimism, higher wages and strengthening recruiting efforts will support additional retail spending moving forward. Lower personal taxes may also provide consumers with additional disposable income. While actual tax savings will vary depending on a range of variables, the consensus is that most people will receive additional take-home pay, increasing discretionary income and boosting consumption.

2018 National Economic Outlook

- **Job creation, low unemployment drive wage growth.** With the economy operating near full employment, job growth will moderate slightly to 1.8 million new hires this year, a 1.2 percent increase in jobs. The total number of positions available has hovered near an all-time high in the low-6 million range throughout much of 2017, illustrating how companies have considerable pent-up staffing needs. Upward pressure on wages will likely mount this year as employers compete for labor. Larger paychecks will bolster the economy through additional retail spending.
- **Sound economy may bolster retail sales.** Core retail spending, a key economic driver that strips out automobile and volatile gasoline sales, rose roughly 6 percent during 2017, well ahead of the long-term average. Elevated confidence levels and prospects for employment and wage growth will likely boost consumption and contribute to GDP growth of 2.9 percent this year.
- **Online shopping increasingly gains share of core retail sales.** E-commerce and mobile commerce continue to gain momentum, capturing roughly 14 percent of core retail sales last year. While remaining the fastest-growing sector, e-commerce is a small part of a much larger retail environment. Shopping centers are developing new strategies to entice consumers and refresh tenant demand.

Rising Consumer Spending Bolsters Retail Property Performance

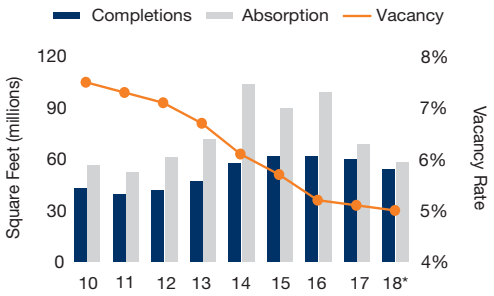
Trends point to continued momentum for retail sector. Rising consumer confidence levels and the potential for higher wages will carry retail momentum through 2018. Historically low completions and strong retail sales have buoyed space demand amid increased concerns about e-commerce and its impact on store closures. Range-bound construction falling short of demand will divert many tenants to existing spaces and benefit retail vacancy. Healthy demand and rising core retail sales have pushed nationwide vacancy to its lowest level in more than 18 years and pushed the average asking rent above the previous peak. These trends have been reinforced by consumer confidence levels that boosted last year's holiday sales above their long-term average.

Non-traditional tenants breathe new life into shopping centers. The closure of several big-box retailers and changing consumer shopping habits have reshaped the retail environment. Several owners of neighborhood and community centers are breaking larger spaces vacated by closed retailers into smaller formats and attracting non-traditional users to occupy the repurposed spaces. Service- and entertainment-oriented tenants are increasing traffic to these areas, making the centers more than just a shopping destination. Trampoline parks and unique restaurant concepts draw in the experience-driven consumer while healthcare providers, fitness centers and grocery stores make the shopping center a one-stop-shop for necessities. The evolving landscape of multi-tenant assets has supported vacancy improvement in this property type through several tailwinds for eight consecutive years. Owners will continue to realign strategies moving forward to attract these unique retailers that draw consumers.

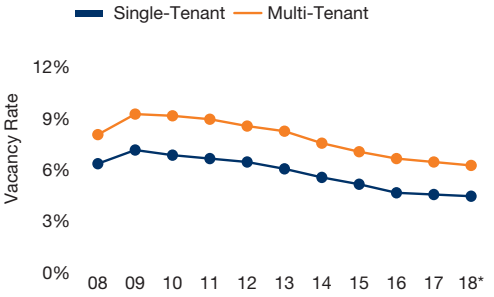
2018 National Retail Outlook

- **Retailer expansions benefit vacancy, rent.** Although the announcements of several select Macy's and Sears closures have generated concerns, the strong performance of specialty retailers has buoyed the performance of retail vacancy. Off-priced department, fast-fashion and discount stores remain successful in the Internet age and many of these companies will lead store openings in 2018. The success of retailers like Dollar General and Ulta will help drive vacancy to 5 percent this year and generate moderate rent growth.
- **Development restrained; annual completions fall in 2018.** Construction will decline in 2018 as roughly 54 million square feet of retail space will be placed into service. Multi-tenant centers will comprise the majority of deliveries this year. The markets of New York City, Dallas/Fort Worth, Houston, Phoenix and Miami combined will receive more than a quarter of all completions.
- **Consumer habits force evolution of retail landscape.** Customers are changing the way they shop and turning to more experience-oriented establishments. Retailers are evolving with many enhancing online offerings and expanding through smaller format stores. Many nationally branded restaurants are utilizing unique concepts to compete with local dining establishments as consumers continue to spend more on dining than ever. Many of these concepts will fill space in strip centers, benefiting multi-tenant vacancy and increasing foot traffic.

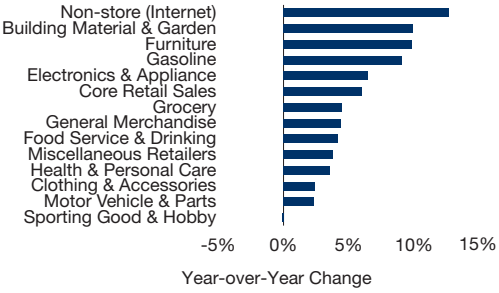
Retail Supply and Demand



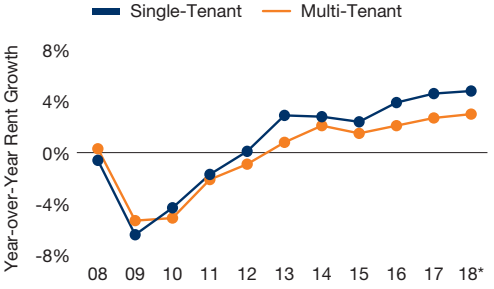
Vacancy by Property Type



Retail Sales Growth **



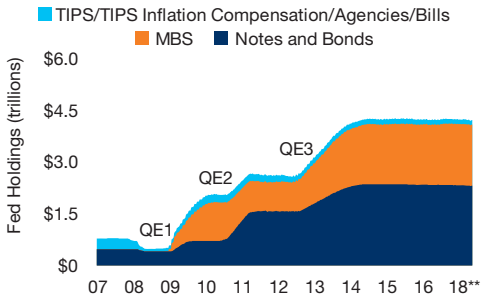
Rent Growth by Property Type



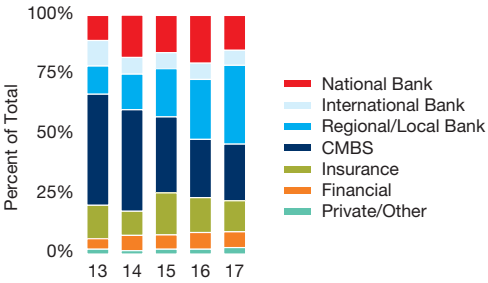
* Forecast
** Through December

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

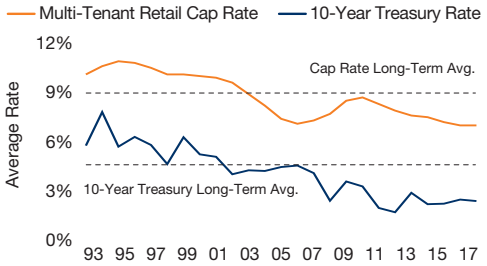
Fed to Begin Balance Sheet Normalization



Retail Mortgage Originations by Lender



Multi-Tenant Retail Cap Rate Trends



Note: Sales $1M and above

* Through Feb. 9
** Through Jan. 24

Fed Normalization Signals Rising Interest Rates; Lenders Take Disciplined Approach

Fed prudently considers tighter policies with new chairman at the helm. Investors have largely adapted to the modestly higher interest rate environment as the Federal Reserve continues to normalize its policies and balance sheet. The central bank has hinted at three to four increases of the fed funds rate during 2018 as it hedges against inflation risk amid accelerated economic growth. The potential for higher inflation could prompt a more aggressive approach; however, the Fed will be cautious about pushing short-term rates up too quickly if long-term rates do not begin to rise. The spread between the two-year Treasury and the 10-year Treasury remain particularly tight, and if the Fed's policies are too aggressive it could push short-term rates higher than long-term rates, creating an inverted yield curve. This inversion is a commonly watched leading indicator of an impending recession. The new chairman, Jerome Powell, will likely maintain existing policies including a reduction of the Fed's balance sheet in a bid to move long-term rates higher. Chairman Powell is perceived as a dovish leader who will advance rates cautiously, but as a new chairman, his actual policies have yet to be clarified.

Retail lending environment shifts amid sector uncertainty. National and regional banks have stepped in as key lenders for retail properties as CMBS lending eased amid heightened risk aversion in the sector that has persisted since 2016. In general, credit standards have held steady and the trend should continue into 2018 as lenders search for deals. Many originators are becoming increasingly selective about big-box retail deals as several national retailers have announced closures. Strip centers with grocery-anchored or service-oriented tenants may be favored opportunities moving forward. Construction lending will remain conservative and below-average completions will likely benefit vacancy as the retail landscape evolves.

2018 Capital Markets Outlook

- **Tighter yield spreads may benefit multi-tenant retail demand.** Average national multi-tenant cap rates have remained relatively steady in the low-7 percent range for the last three years, with a yield spread above the 10-year Treasury of about 400 to 450 basis points. Many investors believe cap rates will rise in tandem with interest rates, but that has not been the case historically. Yield-driven multi-tenant buyers may pursue opportunities in secondary or tertiary markets where cap rates up to 8 percent persist.
- **Economic growth may spark inflation.** Inflationary pressures are beginning to mount after remaining nominal throughout the current growth cycle. Increased pressure on wages and accelerating household wealth should boost consumption, driving economic growth and creating inflationary pressure. The Fed is becoming increasingly proactive in warding off inflation as the simulative effects of tax cuts may accelerate economic growth.
- **New tax laws could drive long-term interest rates higher.** The new tax cuts are expected to raise the government deficit by over $1 trillion in the next decade. A rise in the budget deficit could place upward pressure on long-term interest rates. As the spread between the two-year and 10-year Treasury rates remain tight, rising long-term rates could push out an inversion of the yield curve.

Positive Retail Consumption, Wage Growth Capture Investor Interest

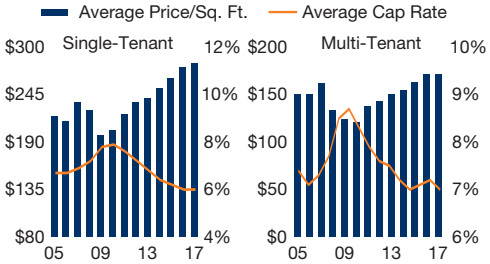
New tax laws could spur investment activity. Investors have reaped gains over the course of the recovery through improving market fundamentals and pricing, but uncertainty around tax and fiscal policy mitigated the pace of transaction velocity in 2017. As clarity on tax reform emerges, transaction activity may accelerate this year amid reduced ambiguity. Many key existing provisions have been retained and the favorable treatment of pass-through entities, such as LLCs, may support an influx of passive capital in 2018 while several new investors will enter the market through direct acquisitions. Some of these funds will turn to retail properties for upside potential where cap rates in the 6 to 7 percent band can be found. Less risk-averse investors may target secondary and tertiary markets for even higher yield potential. A reduction in tax rates could also spark some repositioning efforts, bringing more assets to market and supporting liquidity.

Multi-tenant shopping centers offer buyers unique prospects. In the era of e-commerce, investors are increasingly modifying their strategies and widening their search criteria for opportunities with upside potential. A variety of high-profile store closures last year have left large blocks of vacant space available in many multi-tenant centers. Opportunistic investors in search of upside are positioning these spaces for smaller-format retailers and non-traditional users. Revamped centers could generate owners more revenue through higher rents as healthy job creation and the potential for rising wages attract consumers with increased disposable income. Many secondary and tertiary markets offer unique opportunities at prices that are discounted from their previous cycle peak. Cap rates in these metros are often 50 to 100 basis points higher than primary markets, garnering strong interest from private local buyers seeking greater returns.

2018 Investment Outlook

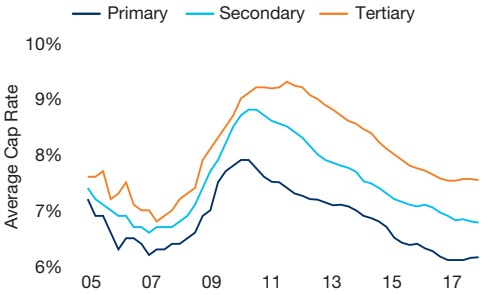
- **Buyers scrutinize lease terms.** Several big-box retailers that traditionally anchor shopping centers are creating smaller-format versions. As a result, some investors are increasingly scrutinizing leases, considering whether these retailers will reduce their spaces in the near term. Other buyers are taking the opportunity to convert vacated spaces and retenanting at potentially higher rates. Creative restaurant ideas and non-traditional retailers, like trampoline parks and urgent-care facilities, will be utilized to increase customer traffic.
- **Emerging tech markets could bolster retail property demand.** Robust growth in the tech industry in several central U.S. markets, including Nashville and Indianapolis, has boosted incomes and driven retail sales. Growth in these markets may entice some buyers to consider well-located retail properties. Assets in secondary and tertiary markets can change hands with average cap rates in the low-7 to low-8 percent span.
- **Congress may nudge investor demand.** The finalization of the new tax rules will likely alleviate uncertainty that held back investor activity last year. Deprecation and business interest deductions have been retained, with a few material changes that will allow owners to continue with their existing strategies. The new tax plan also offers generous tax cuts for pass-through income. A reduction in taxes for these entities may entice additional capital into commercial real estate, particularly passive investors entering the market through intermediaries such as syndicators.

Retail Property Sales Trends

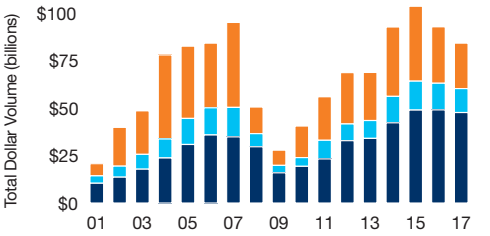


Sales figures represent transactions of $1 million+.

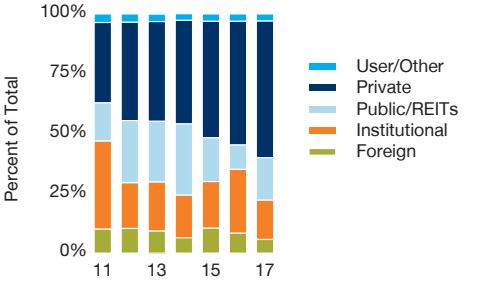
Retail Cap Rate Trends by Market Type



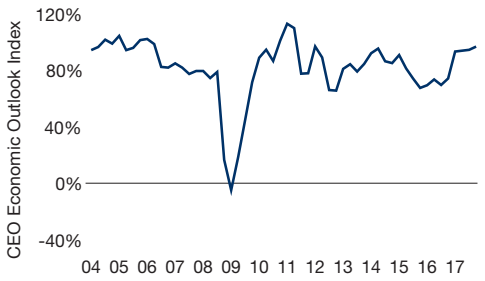
Retail Sales Volume by Price



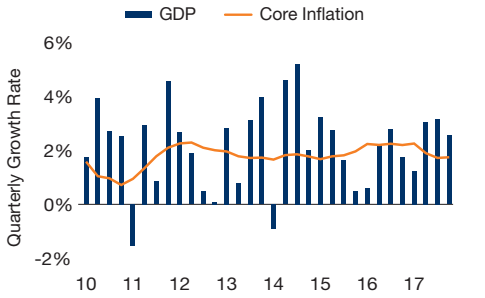
Retail Buyer Composition



CEO Confidence in Economy Growing

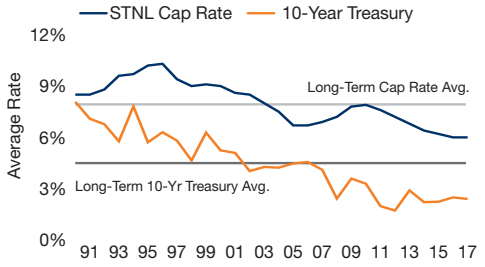


Growth Perking Up Amid Tame Inflation



Treasury Yields Rising Amid Fed Tightening

Yield Spread Still Supportive Of Net-Lease Investment



Tax Reform Boosting Real Estate Prospects; New Deductions May Provide Tailwinds

Recently passed tax reform to drive higher economic growth; corporate capital investment rising. Following the passage of the Tax Cuts and Jobs Act in late 2017, business and consumer confidence rose considerably, boosting prospects for faster growth over the coming year. Numerous firms have committed to paying bonuses to their employees, while several large corporations including Apple, Exxon Mobil Corp. and Pfizer have announced multibillion dollar investment plans as overseas earnings are repatriated. The combination of these factors, coupled with a national unemployment rate at the lowest level since 2000, will boost economic prospects in the months ahead. Incredibly tight labor markets nationally are beginning to have a significant impact on wage inflation, with average hourly earnings rising 2.9 percent over the past year in January, the fastest annual growth since June 2009.

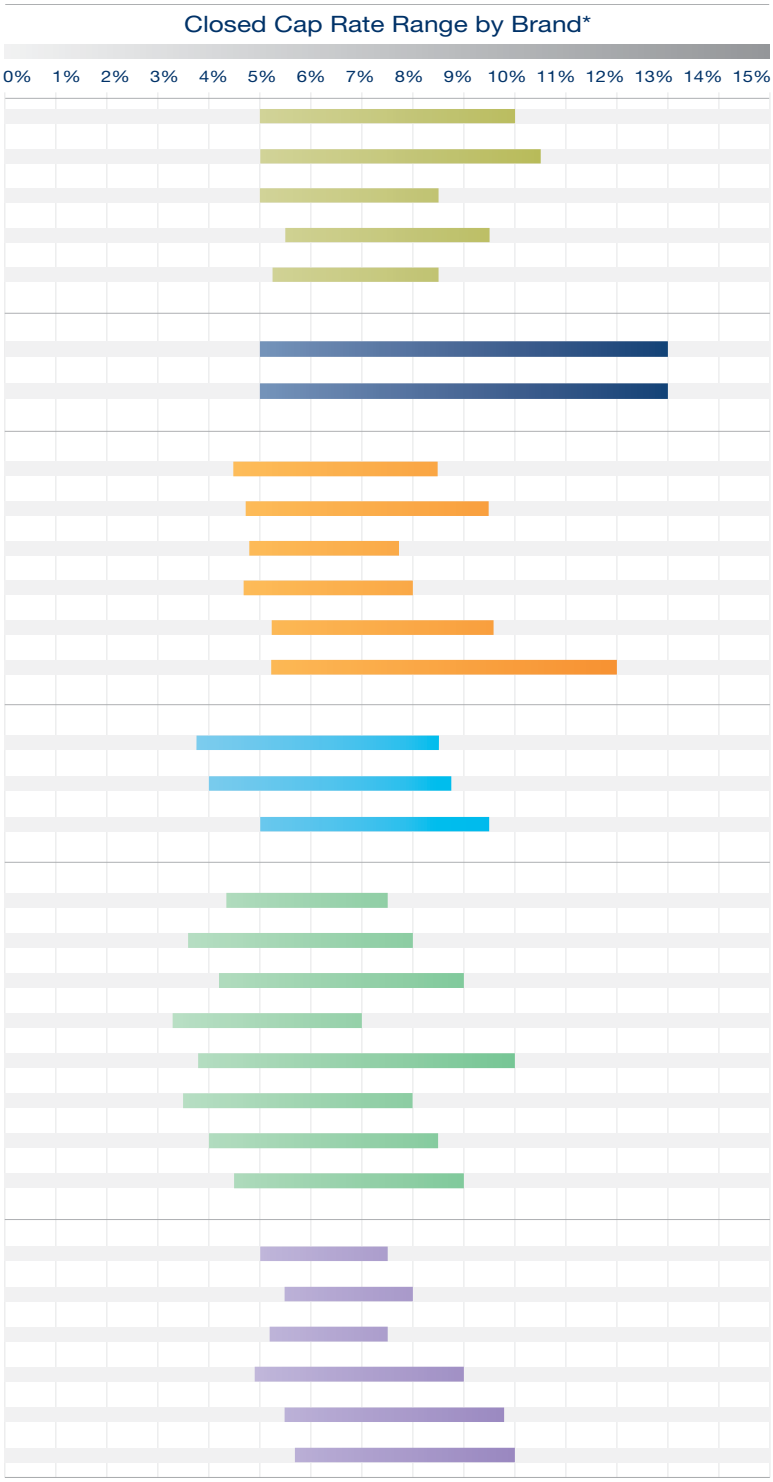
Key real estate tax provisions remain in place. While early iterations of tax reform highlighted the potential for real estate-related provisions to receive higher levels of scrutiny from lawmakers on Capitol Hill, the final bill left the vast majority of the key statutes in place, including the cornerstone tax-deferred 1031 exchange. Additionally, pass-through corporate structures, such as LLCs, may qualify for a 20 percent tax deduction on income generated through the entity, although the full scope and details of this provision remain to be seen as the IRS will need to clarify its interpretation of this rule. As a large number of investors employ this legal structure, favorable treatment of this income could spur additional allocations into real estate.

Development Benign as Interest Rates Rise

Rising construction costs prompt contracting pipeline; demand for space elevated. As the retail marketplace has improved throughout the cycle, builders have largely responded by supplying built-to-suit product for net-leased tenants. As a result, single-tenant structures have routinely made up more than two-thirds of annual deliveries since the recovery began in 2009. Despite making up a large portion of overall retail construction, net absorption in the space has outpaced deliveries, generating robust growth in the average asking rent, which rose above 2008 levels for the first time in 2017. Elevated development costs will reduce overall retail construction by approximately 10 percent this year, triggering further upside in asking rents as tenants vie for the limited number of spaces coming online.

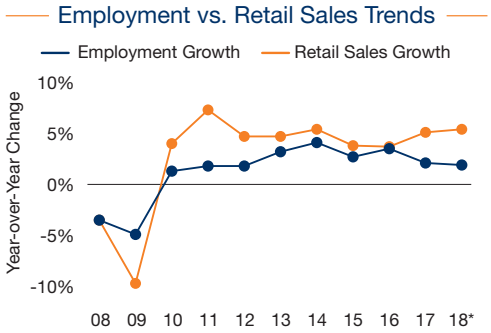
Interest rates remain on gradual path upward as growth and inflation rise. Following the passage of tax reform, longer-term interest rates have reached the highest yield since 2014 as banks expect a pickup in bond rates and inflation. As the yield curve steepens to reflect economic growth potential, investors will take a more measured approach to capital allocation in the wake of these events. Moving forward, the Federal Reserve's intention to reduce its balance sheet will place additional upward pressure on longer-term rates as well, while its stated goal of three rate hikes at the short end will tighten overall liquidity in the marketplace. Nonetheless, cap rate spreads remain at historically positive levels, which may temper the overall effect of higher lending rates, particularly as net-lease transactions typically employ large cash components.

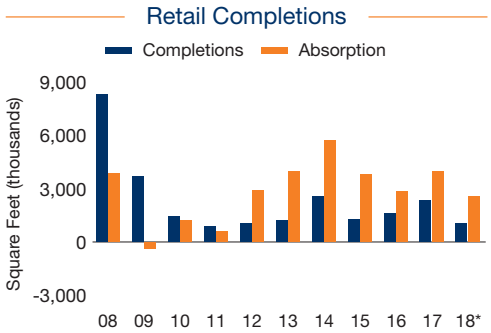
Brand	Locations
Auto Parts	
Bridgestone/Firestone	2,200
O'Reilly Auto Parts	4,984
AutoZone	6,023
Advance Auto Parts	5,203
Pep Boys	973
Dollar Stores	
Dollar General	14,321
Dollar Tree/Family Dollar	14,744
General Retail	
Walmart	11,703
Sherwin-Williams	4,230
AT&T	16,000
Verizon Wireless	2,330
Mattress Firm	3,500
Office Depot/Max	1,404
Pharmacies	
CVS	10,014
Walgreens	8,201
Rite Aid	4,404
Quick-Service Restaurants	
Dairy Queen	4,600
Starbucks	28,039
Chipotle	2,374
McDonald's	36,976
Yum Brands	44,352
Burger King	23,742
Wendy's	6,586
Carl's Jr./Hardee's	3,344
Fast Casual	
Chili's	1,682
Darden Restaurants	1,722
Red Lobster	705
Bloomin' Brands	1,491
Applebee's	2,016
Ruby Tuesday	541

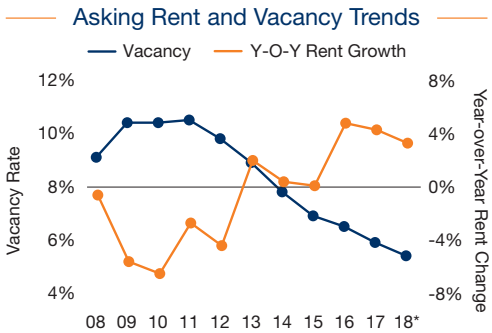


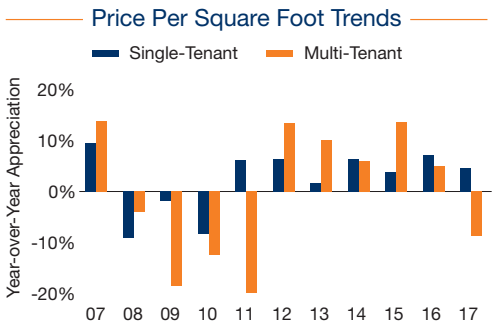
Cap rates shown above are representative of transactions that closed in 2017. Actual yields will vary by locations, tenant, lease terms and other considerations. Locations sourced from CreditNtell for public companies and company websites for private companies.

* For transactions closed in 2017
Sources: CoStar Group, Inc.; CreditNtell; company sources









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

Development Slows Amid Elevated Space Demand, Powers Atlanta Retail Strength

Contracting construction, consistent job growth underpin retail strength. Corporate relocations and expansions are generating robust in-migration as higher-wage industries hire talent. The broad economic growth has supported tremendous progress in the retail sector, pushing metrowide vacancy down more than 450 basis points since peaking in 2011. This year, construction falls to the lowest level in six years, reaching 1.1 million square feet. Building is concentrated inside Atlanta's CBD and western areas of Gwinnett County, particularly Norcross up to Buford. In other suburbs, staple retailers such as Whole Foods and fitness centers represent the largest completions. The resulting environment will push net absorption far above development as retailers looking for space are limited in the availability of new and existing stock as well. Over the past two years, this has begun to translate into significant rent growth, reaching the low-single digits, which will continue in 2018.

Yield-seeking investors cast wide net to deploy capital. Fueled by cap rates that can reach the low- to mid-7 percent range, buyers have been actively pursuing assets throughout the metro. While institutions have been active inside the Perimeter, private investors and syndicates are bidding on more suburban locations, particularly in Alpharetta and Marietta. Assets in these locations offer upside through both price appreciation and yield enhancement through stabilization. Additionally, yields in these areas can offer higher initial returns that extend into the mid-8 percent range. Buyers seeking new construction will be attracted to the recently opened grocery stores and fitness centers, or larger mixed-use and multi-tenant projects near the newly completed SunTrust Park in Cumberland. Development near the stadium is just beginning to ramp up, providing a long runway for higher prices and more density.

2018 Market Forecast

NRI Rank
22, up 6 places
Slowing construction and a sharp decline in vacancy boost Atlanta six spots in the Index this year.

Employment
up 1.9%
Job growth in Atlanta remains positive as 53,000 positions are created this year. Last year, 56,000 workers were hired.

Construction
1.1 million sq. ft.
Development will fall by more than half as 1.1 million square feet is brought online. In the previous year, 2.3 million square feet was delivered.

Vacancy
down 50 bps
Slowing construction and healthy net absorption push vacancy down 50 basis points to 5.4 percent. Last year, vacancy contracted 60 basis points.

Rent
up 3.3%
Following a 4.3 percent gain in 2017, the average asking rent climbs 3.3 percent this year to $15.16 per square foot as a tight market translates into higher rents.

Investment
The western retail corridors between downtown and the I-285/I-75 corridor will draw a range of buyers seeking to capitalize on higher traffic counts and value-add properties as household formation in this area grows.

Retail Deliveries Shift South and East; Property Values Surpass Previous Peak

Elevated land and construction costs restrain development to the suburbs. More than 100 people move to Austin each day, prompting strong housing and retail demand. High home prices and rents inside the city of Austin are encouraging household formation in the suburbs and increasing development activity. Retail construction has followed rooftops, and the majority of new space has come online in suburban locations over the last five years. Cedar Park received the largest share of supply additions as 1.2 million square feet was completed during that span. This year, retail completions shift south as the 235,000-square-foot Belterra Village near Dripping Springs is delivered in the first quarter with a mix of regional tenants. East Austin is also set to receive a large share of new inventory as two retail buildings are added in the second quarter. A large share of retail space completing construction this year is pre-leased, keeping vacancy near a historical low.

Increased property values could spark investment activity. Healthy demographic trends are supporting robust retail property operations and attracting investor interest in Austin. However, a limited number of multi-tenant retail assets are trading as investors hold on to properties and ride positive property performance as vacancy constricts and rents rise. Buyers are scouring the market for strip center assets and intense competition results in properties receiving multiple bids for well-priced assets. Cap rates have compressed amid robust demand and initial returns are in the low- to high-6 percent area for existing strip-center assets. Multi-tenant property values have more than doubled since 2011, but after four years of double-digit gains, the pace of growth showed signs of slowing in 2017. As rent advances moderate again this year, some owners could be prompted to market assets and capitalize on increased equity.

2018 Market Forecast

NRI Rank
6, down 2 places
Markets with tighter vacancy pushed Austin down two spots in the ranking this year.

Employment
up 2.4%
Austin boasts one of the lowest unemployment rates in the country, yet the pace of employment slows from last year as 25,000 workers are added to payrolls in 2018.

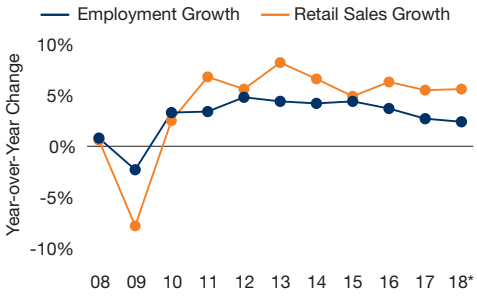
Construction
890,000 sq. ft.
Retail deliveries decline for a second consecutive year and reach their lowest level since 2012.

Vacancy
up 20 bps
Vacancy remains tight this year, though the absorption of 650,000 square feet falls short of new supply additions and the rate climbs to 4.2 percent.

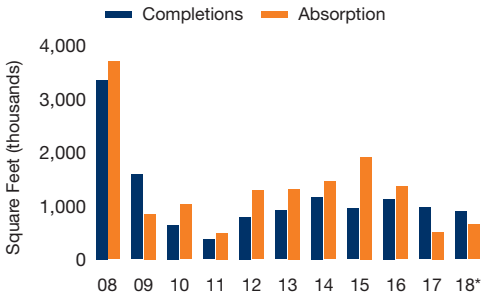
Rent
up 3.5%
Average rent growth slows this year as the amount of quality space on the market dwindles. Rent rises to $23.33 per square foot.

Investment
Out-of-state buyers are targeting newly developed unanchored strip center properties. Recently completely centers with a mix of national and regional credit tenants can trade for first-year yields near 6 percent.

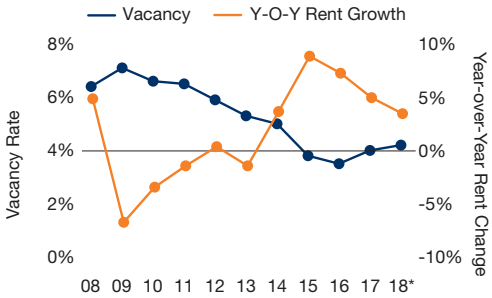
Employment vs. Retail Sales Trends



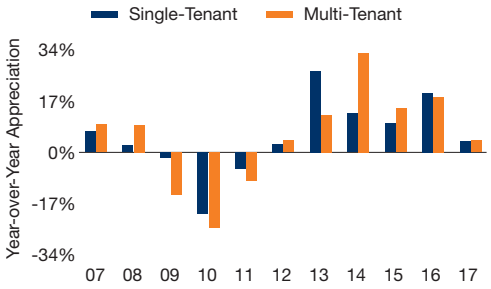
Retail Completions



Asking Rent and Vacancy Trends

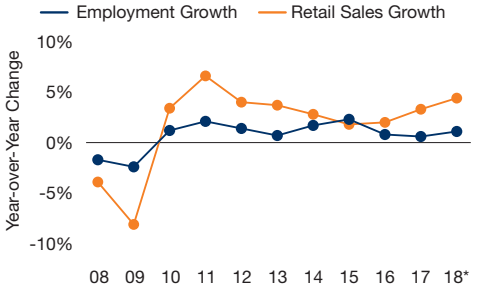


Price Per Square Foot Trends

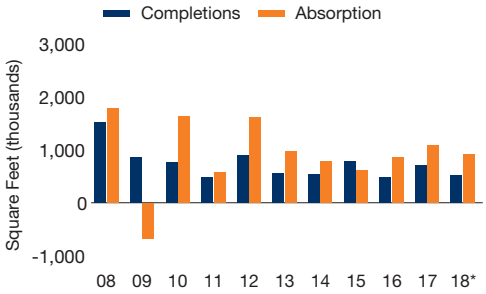


* Forecast
Sources: CoStar Group, Inc.; Real Capital Analytics

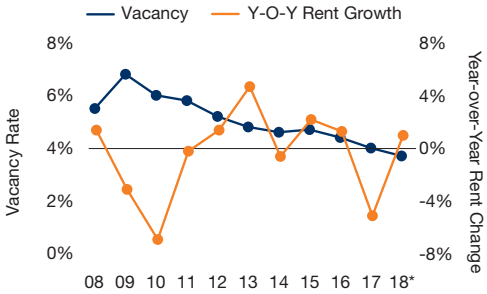
Employment vs. Retail Sales Trends



Retail Completions



Asking Rent and Vacancy Trends



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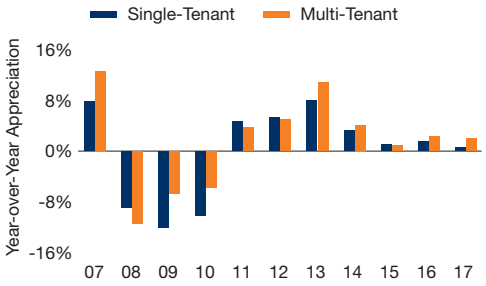


* Forecast
Sources: CoStar Group, Inc.; Real Capital Analytics

Healthy Demand Underpins Improved Operations; Investors Find Opportunities Outside Metro Core

Demand outstrips supply, prompting declining vacancy and rising rent. Thanks to prominent medical research institutions and numerous federal operations, more highly skilled, well-paid professionals are joining the metro, helping lift Baltimore's median level of income. Retail spending has responded by growing at a higher rate than in recent years. With vacancy in the city of Baltimore below 2 percent, some well-performing retailers are looking farther out to find space. Developers will aid that endeavor by bringing new supply to market in areas outside the core where there are fewer existing properties. The Reisterstown Road Corridor received particular attention last year with the arrival of a Wegmans-anchored power center. This year a new master-planned community around Quarry Lake will add further retail space. Metrowide, most 2018 completions are preleased, contributing to a strong level of absorption that exceeds supply, resulting in a drop in vacancy. Constrained conditions in select submarkets has led to localized rent appreciation above the average rate's subtle uptick.

Proximity to consumer traffic defines return expectations. A rise in demand above the three-year average adds appeal to the retail market. Investors face several options for various returns. Convenience stores and drugstores represent the most popular asset class for longer-term holds thanks to the reliability of their tenants. Shopping centers anchored by well-known grocery stores and big-box operations or those with casual dining also exhibit first-year returns at or below the market average of high-6 percent. Out-of-state buyers in particular favor single-tenant properties that have credit-worthy lessees and can change hands at cap rates below 5 percent. Buyers interested in greater initial yields may consider buildings farther away from major transit lanes. Older, more remote assets, especially multi-tenant buildings, can trade at cap rates between 7 and 9 percent. These properties are favored by local buyers.

2018 Market Forecast

NRI Rank
38, down 6 places
Modest growth in asking rents that was outpaced by other metros drops Baltimore six places in the NRI ranking.

Employment
up 1.1%
Payrolls will expand by 15,000 positions, almost double the number of jobs that came to the market last year.

Construction
520,000 sq. ft.
The pace of development slows slightly as three-quarters of new completions arrive in the eastern portion of Baltimore County. In 2017, 720,000 square feet of retail space was built.

Vacancy
down 30 bps
With net absorption surpassing new supply for the third year in a row, vacancy declines to 3.7 percent, 130 basis points below the national rate.

Rent
up 1.0%
Following a decline in 2017, the average asking rent will increase to $18.70 per square foot.

Investment
Multi-tenant investors are focusing more on grocery-anchored shopping centers along the Route 2 corridor. Properties in that location with long-term leases in place trade at yields in the 7 to mid-8 percent zone.

Strong Employment Growth in City Center Generates Investor Interest in Boston

Vacancy descends despite slight rise in deliveries. The recently completed Reebok headquarters in the Seaport District, along with the forthcoming arrival of Wayfair and DraftKings to downtown, contribute to the metro's broadening labor pool and steady household formation this year. Developers take advantage of these strong demographic trends as completions pass 1 million square feet in 2018. Large projects near the urban core account for much of the new supply with the most sizable retail project being The Hub on Causeway. The structure will be a 1.9 million-square-foot mixed-use development that serves as a multi-phase expansion of TD Garden. The first phase, which finishes this year, includes Star Market and ArcLight Cinemas. The South Bay Center, another large addition to inventory, is along I-93 in the Dorchester neighborhood. The center comprises a newly completed Nike Factory Store and future tenants Forever 21 Red and Converse. This year's square footage sum falls below net absorption, allowing vacancy to drop to the lowest rate among major U.S. metros. Amid extremely tight market conditions, the average asking rent advances by a modest amount.

Investors find opportunities in robust Boston retail market. Transaction velocity has remained elevated in the metro for the past several years as buyers capitalize on strong tenant demand. Deal flow should stay heightened again this year as the market continues to attract local and out-of-state investors looking to deploy capital in a healthy gateway city. Grocery stores in and around Cambridge were highly sought after by local investors last year as nearby universities contributed to increased traffic flow. Institutional investors placed emphasis on properties located closer to the urban core, particularly existing retail space in need of upgrades and assets being converted from office space or residential units to retail centers. Initial yields for these facilities typically averaged in the 7 percent span.

2018 Market Forecast

NRI Rank
3, no change

Boston retains its third spot in the Index, supported by significantly low vacancy.

Employment
up 1.6%

Amid an unemployment rate hovering just above 3 percent, hiring will be limited this year as 43,000 workers are added. Last year, Boston's employment base grew by nearly 50,000 employees.

Construction
1.1 million sq. ft.

Construction in the metro will equal development in 2017 as 1.1 million square feet is brought online.

Vacancy
down 20 bps

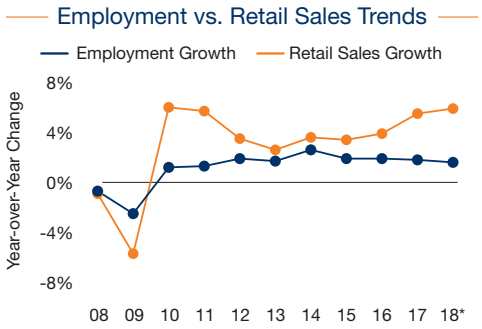
Another year of strong absorption lowers vacancy to a record low of 2.5 percent, which is 250 basis points below the national rate.

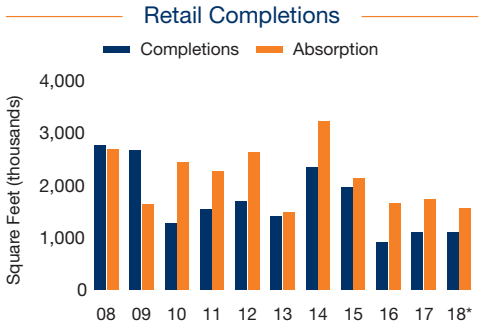
Rent
up 0.8%

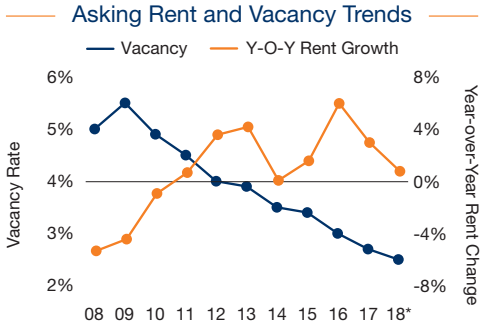
With continuing downward pressure on Boston's vacancy, the average asking rent will log an increase, putting the price per square foot at $21.03.

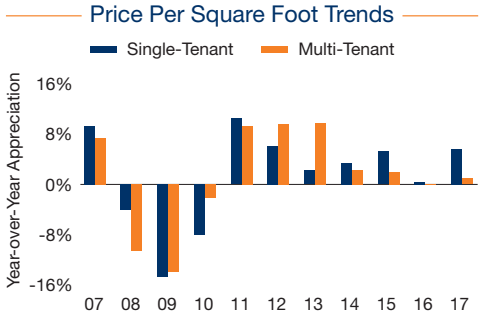
Investment

Buyer demand for properties near downtown will continue to intensify this year, resulting in escalated valuations and strong deal flow.









* Forecast
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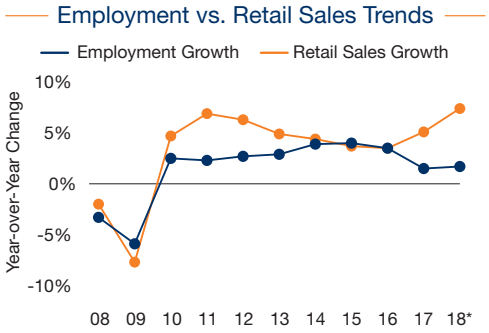
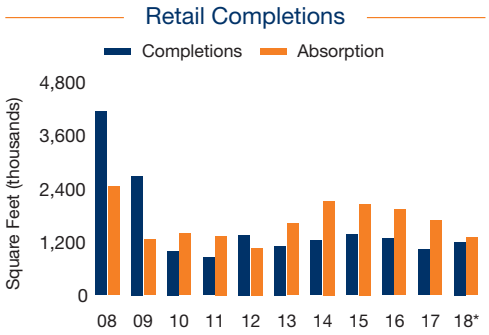
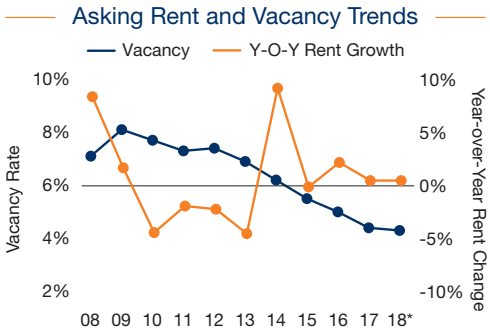
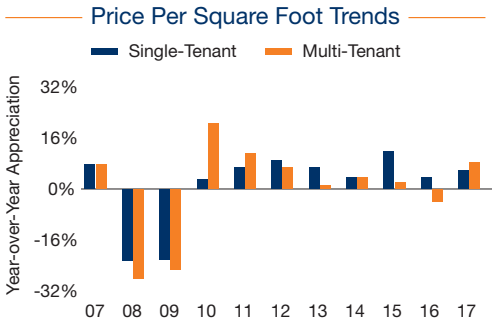








* Forecast
Sources: CoStar Group, Inc.; Real Capital Analytics

Vacancy Contracts to New Low; Construction Proliferates in Suburbs

Retail demand buoyed by strong demographic trends. During 2018, the metro is expected to gain more than 55,000 residents with household incomes rising at a 3.5 percent clip to nearly $64,800 per year. This growth will contribute to a 7.4 percent surge in retail sales, which bodes well for local retailers. Vacancy has tightened to a new low, spurring construction. A number of shopping centers are set to debut in the metro during 2018 as retailers follow residential growth outward from the metro core. In Northwest Charlotte, Riverbend Village, a mixed-use project near Interstate 485 and Mt. Holly-Huntersville Road will add 330,000 square feet of retail space, including a 78,000-square-foot Harris Teeter. The development will also bring 500 residences and a 180,000-square-foot headquarters for Corning Optical Communications. At the south end of the market, Fort Mill and Indian Land are registering a flurry of retail development. The largest of these projects is the Promenade at Carolina Reserve. The first stores in the 500,000-square-foot center are expected to open this fall. Hobby Lobby and Petco are two of the tenants that have signed leases.

Limited supply of marketed assets intensifying competition. Favorable demographic trends and rising NOI are drawing buyers to the Charlotte market. Investors are especially active along retail corridors south and east of downtown Charlotte and in the high-growth cities of Fort Mill, Cornelius and Mooresville. Single-tenant assets are drawing out-of-state buyers at cap rates that begin in the 5 percent range. Robust competition for these assets amid a lack of available listings has returned the average sales price close to the 2007 peak. Buyers priced out of single-tenant buildings or in search of higher yields will find opportunities throughout the region in older neighborhood centers. Properties with multiple local businesses will trade at first year returns above 8 percent. Many of these assets are ripe for renovations and re-tenanting.

2018 Market Forecast

NRI Rank
27, up 2 places
Robust retail sales growth and rising household incomes inch Charlotte up two spots in the Index.

Employment
up 1.7%
Roughly 20,000 positions will be created during 2018, following 17,800 one year earlier, when gains were led by the professional services segment.

Construction
1.2 million sq. ft.
Deliveries reach 1.2 million square feet during 2018, rising from 1.0 million square feet last year.

Vacancy
down 10 bps
On net absorption of nearly 1.3 million square feet, vacancy will dip 10 basis points to 4.3 percent. The rate tightened 60 basis points last year.

Rent
up 0.5%
The average asking rent inches up 0.5 percent to $15.21 per square foot in 2018, matching last year's gain. Older space being marketed suppresses larger rent growth.

Investment
Plans are moving forward on River District, a 1,300-acre master-planned development in west Charlotte. The project would bring 500,000 square feet of retail space, nearly 5,000 residential units, a hotel, and 8 million square feet of office space over the next 30 years, boosting nearby property values.

Operation Improvements Capture Buyer Attention; Centers with Necessity-Based Tenants Desired

Tenants filling existing inventory as construction moderates. Vacancy tightens to the lowest level in 10 years as local retailers backfill space and fewer large-scale multi-tenant projects are set for completion, dropping deliveries below the five-year average. The northwest suburbs dominate construction activity. The largest project due in 2018 is Mellody Farm, a 280,000-square-foot center in Vernon Hills with tenants to include Whole Foods, REI, Nordstrom Rack and Home Goods. Menards also has a 225,000-square-foot store in the city slated to open this year. Nearby, in Buffalo Grove, a 236,000-square-foot center anchored by Woodman's Market is due for completion. In downtown Chicago, roughly 300,000 square feet of new inventory is expected this year, the majority of which is in mixed-use office and residential projects. Lincoln Commons, a mixed-use development on the former Children's Memorial Hospital site in Lincoln Park, will provide roughly 100,000 square feet of retail space in addition to nearly 600 residential units. The new inventory offers retailers more options in a submarket with limited available space.

Bid-ask gap narrowing as optimism rising. With more clarity in the economy, investors' appetite for retail assets in Chicagoland is growing. Although the pricing gap between buyers and sellers remains, it is beginning to narrow. Investors remain selective, doing extensive and detailed due diligence to ensure the long-term viability of the asset. Many are seeking centers with e-commerce resistant retailers such as service-oriented or medical tenants with rents that are at or below market rate. In the wake of retailers downsizing formats, the size of existing tenant space is also being carefully considered. Single-tenant net-lease properties remain the target of many buyers at cap rates that typically average in the 5 percent to 6 percent range. Power centers without a grocery tenant are slower to move at cap rates that are in the mid-8 percent span.

2018 Market Forecast

NRI Rank
32, down 5 places

Chicago tumbled five spots in this year's NRI as vacancy remains above the U.S. average.

Employment
up 0.9%

Roughly 40,000 workers are added to payrolls in 2018, up from a gain of 26,100 jobs last year, led by growth in the construction sector.

Construction
1.7 million sq. ft.

Following the delivery of 2.1 million square feet last year, the pace of construction eases to 1.7 million square feet in 2018. The vast majority of the new inventory will be in the suburbs.

Vacancy
down 60 bps

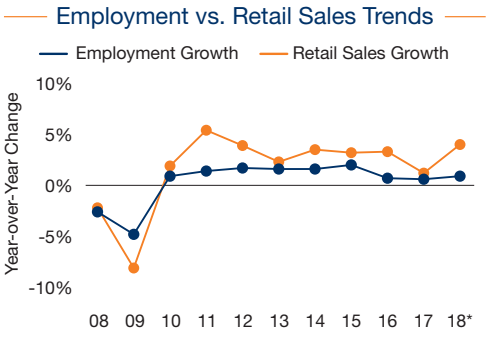
A slower construction pipeline contributes to vacancy declining 60 basis points in 2018 to 6.4 percent on net absorption of 4.4 million square feet. A vacancy reduction of 50 basis points was posted last year.

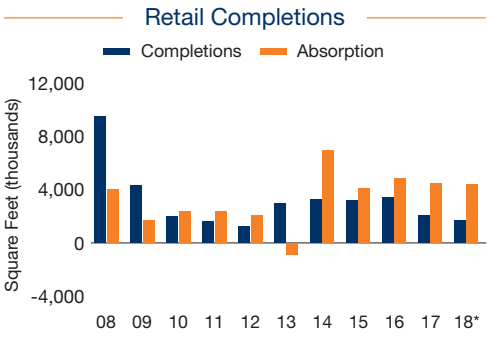
Rent
up 1.2%

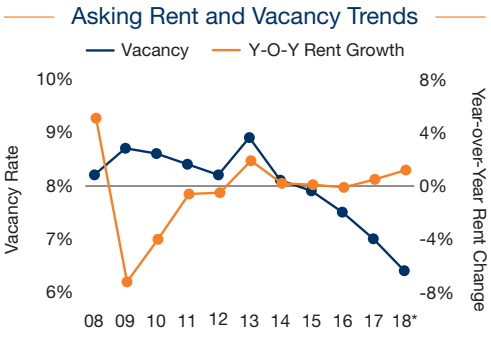
During 2018, the average asking rent increases 1.2 percent to $17.37 per square foot. Rents posted a slight increase last year.

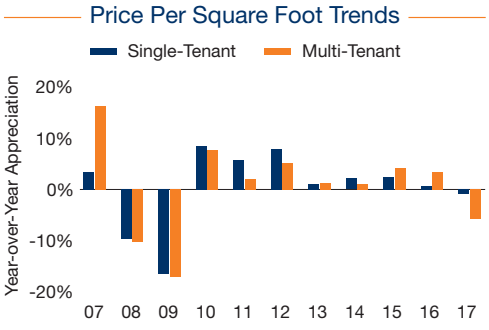
Investment

Favorable demographic trends and lower taxes keep investors active in the collar counties. New deliveries in Lake County draw investors north.



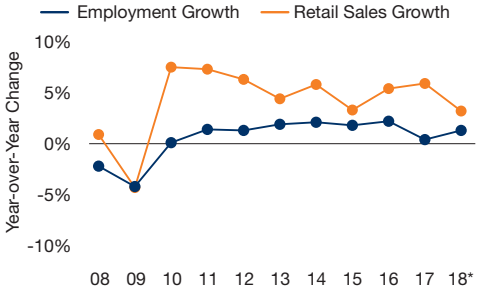




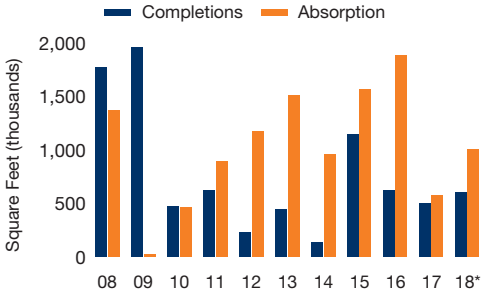


* Forecast
Sources: CoStar Group, Inc.; Real Capital Analytics

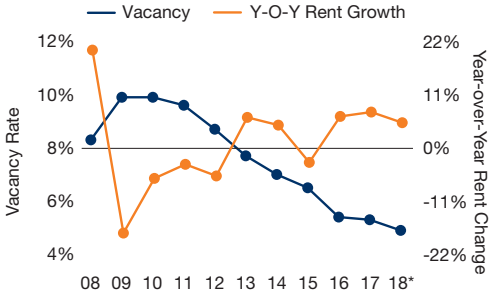
Employment vs. Retail Sales Trends



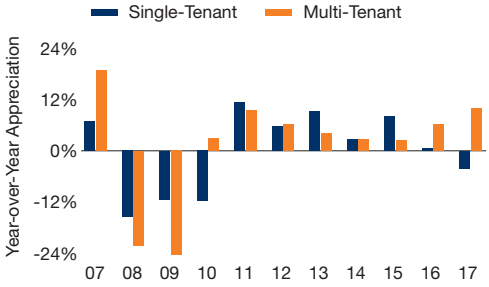
Retail Completions



Asking Rent and Vacancy Trends



Price Per Square Foot Trends



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

Strong Retail Demand Triggers Development; Investors Lured by Higher Yields

Amid an expanding retail market, robust leasing activity compresses vacancy. As Cincinnati campaign efforts boost tourism activity, a steady inflow of jobs in the hospitality sector will strengthen the city's workforce. Positions in real estate and finance also become more prolific this year, adding to the growing number of high-wage professionals. This growth will lift consumer spending, underscoring retail tenants' desire to expand or relocate within the metro. Nearly all of this year's new supply sits north of the Ohio River, with the addition at Oakley Station being the largest completion. The mixed-use project, which is in its third phase, will contain 225,000 square feet of retail space upon completion. Small shopping centers and restaurants account for much of the metro's remaining retail expansions. The new inventory will be received well, pushing vacancy to the lowest level in the past decade and below the national average for the first time this cycle. Amplified demand also supports a considerable climb in average asking rent.

Outer-ring submarkets present investors with high returns. As the city's economy expands, buyers nationwide continue to arrive in the metro in search of encouraging investment options. In the past, local investors scoured the suburb of Milford, a pattern that should persist this year as property owners in the Main Street corridor look to sell their assets as valuations rise. Hamilton, an area that has boasted an increase in transaction velocity in prior years, has also provided investors with a sizable amount of multi-tenant product. Properties in these areas trade at cap rates in the 8 and 9 percent range, relatively consistent with the metro average. Institutional investors direct their focus to assets in need of renovation in neighborhoods slightly north of the urban core. Initial returns fluctuate in the low-7 to low-8 percent span, dependent upon value-add potential.

2018 Market Forecast

NRI Rank
35, up 2 places
Tightening vacancy and strong rent growth propel Cincinnati up two spots.

Employment
up 1.3%
After adding a 4,400 employees last year, Cincinnati businesses staff 13,800 workers in 2018.

Construction
610,000 sq. ft.
Annual completions exceed last year's sum of approximately 500,000 square feet. The metro reached its cyclical high in 2015 when about 1.1 million square feet came to market.

Vacancy
down 40 bps
Robust absorption drops vacancy to 4.9 percent, 260 basis points below the 10-year metro average. This decline follows a 10-basis-point reduction one year earlier.

Rent
up 5.3%
The metro's rent growth outstrips the national measure as tightening vacancy bumps the average asking rent to $13.07 per square foot.

Investment
Robust household growth in Butler and Warren Counties will attract yield-seeking investors to Southwest Ohio looking to capitalize on the influx of new retailers coming to the region.

Mixed-Use Projects Provide Buyers An Array of Investment Opportunities

Employment gains fuel improving Cleveland retail market. The healthcare industry leads the steady hiring pace this year, providing a boost to the city's median household income, which will surpass the national growth rate. Increased disposable income in the pockets of consumers will draw retailers to Northeast Ohio, triggering a notable rise in retail development and doubling the 2017 completion sum. The suburb of Beachwood accounts for over 350,000 square feet of this year's total as Pinecrest, a large mixed-use project, finishes by midyear. With the inclusion of Class A office space and luxury apartments, this property serves as an appealing live-work-play community. In nearby Shaker Heights, construction activity escalates with the addition of the Van Aken Shopping Center. The 180,000-square-foot retail project, also accompanied by office space and apartments, is part of revitalization efforts in the Van Aken District. Amid heightened deliveries, specifically in suburban submarkets, vacancy rises while still maintaining a figure well below the metro's 10-year average. The vacancy climb contributes to another year of modest rent growth.

Buyers attracted by low entry costs, favorable returns. Retail transactions remained elevated in the prior two years, with a lineup of investors arriving in Cleveland to capitalize on the metro's robust initial yields. Well-located single-tenant assets in the western suburbs of Avon and Strongsville remain attractive options for local and regional investors. Also in these areas, multi-tenant product, specifically strip centers, should entice a diverse spectrum of buyers. These developments typically average initial returns in the low-9 percent realm. On the other side of the metro, out-of-state investors seek multi-tenant space in Chagrin Falls and Woodmere, particularly grocery-anchored centers, which may range in the $10 million to $15 million territory. Here, cap rates will stretch across the low-7 percent expanse.

2018 Market Forecast

NRI Rank
44, no change
Amid marginal rent growth and a slight rise in vacancy, Cleveland stays put in this year's NRI.

Employment
up 0.5%
The pace of hiring increases this year as 5,500 positions are added to payrolls, up from last year's addition of 1,600 jobs.

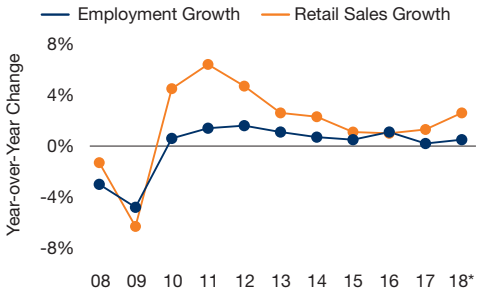
Construction
1.1 million sq. ft.
Development activity reaches a cyclical high in 2018 with most of the new supply concentrated outside of the urban core.

Vacancy
up 30 bps
A steep rise in retail construction elevates the metro's vacancy rate to 6.7 percent. This follows a 10-basis-point climb in the previous year.

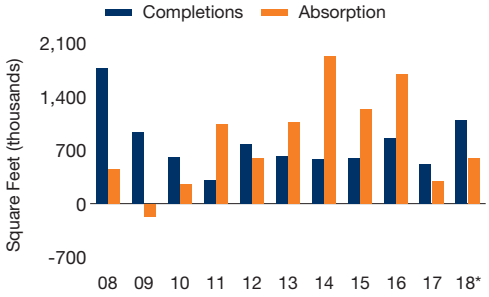
Rent
up 0.5%
Heightened deliveries and modestly increasing vacancy result in a slowed pace of rent growth. Cleveland's average asking rent sits at $10.64 per square foot.

Investment
Lured by a noteworthy amount of commercial development in the metro's eastern sections, local and out-of-state buyers will flock to Cleveland as household formation in these parts persists.

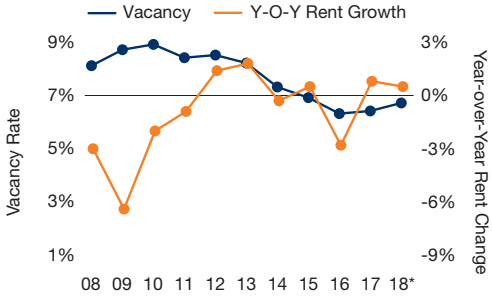
Employment vs. Retail Sales Trends



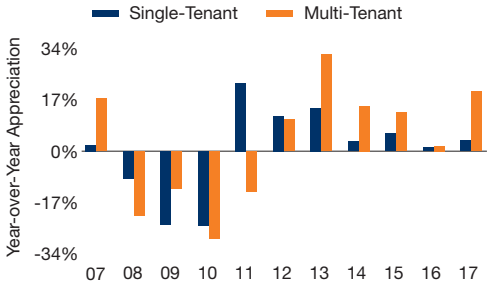
Retail Completions



Asking Rent and Vacancy Trends



Price Per Square Foot Trends



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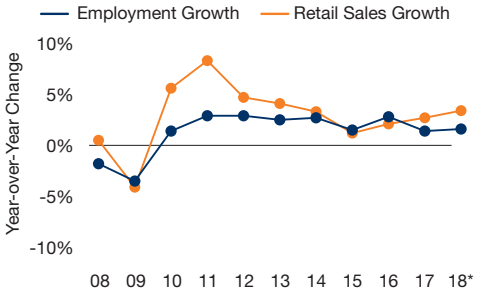
Employment vs. Retail Sales Trends



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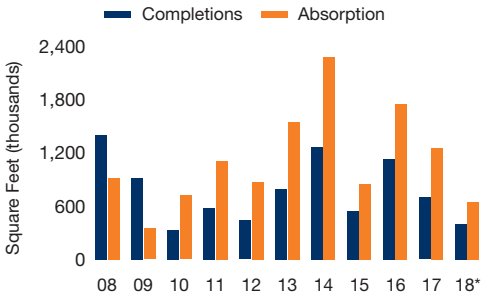

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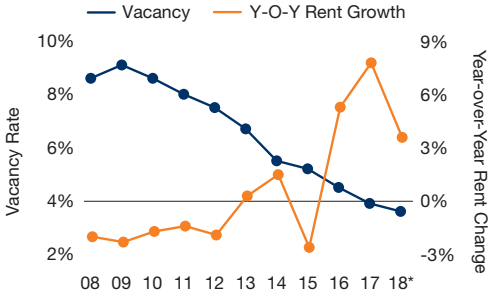

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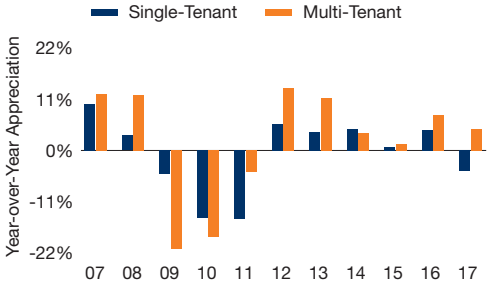


* Forecast
Sources: CoStar Group, Inc.; Real Capital Analytics

Steady Economic Growth Attracts Innovative Retailers to Columbus

Creative food and shopping concepts keep vacancy low. The large student population and healthy economic growth have turned the metro into a testing ground for many retailers. New restaurant concepts, like Chipotle's hamburger chain, and fashion brands are being brought to the market, and if successful, will be launched nationwide. As consumers turn to experience-oriented shopping, Columbus' retail vacancy has benefited from the testing of these concepts, many of which fill empty spaces left by department store closures. In addition to national brands testing new ideas, local mom-and-pop shops and eateries are absorbing smaller available spaces. Healthy demand, aided by these new retailers, outstrips supply additions in 2018, holding vacancy below the national average for a fifth consecutive year. Limited completions will reinforce a moderate increase in the average asking rent as the limited availability of quality space allows owners to market higher rental rates.

Pool of multi-tenant buyers grows amid limited net-lease listings. First-year returns roughly 100 basis points higher than gateway markets attract a deep pool of investors to Columbus retail properties. Buyers are particularly attracted to assets in northern inner-ring suburbs and higher-density areas near Interstate 270 where vacancy remains below 3 and above-average rent growth persists. Here, first-year returns in the high-6 to low-7 percent range can be found compared with metrowide cap rates in the mid-7 percent span. Quick-service establishments and casual dining restaurants garner significant attention though a dwindling pool of listings have pushed up property values considerably. Overall, a lack of single-tenant listings has inspired some investors to widen acquisition criteria to include multi-tenant assets. Stable neighborhood and community centers with national or regionally known tenants can trade with cap rates in the mid-7 percent area.

2018 Market Forecast

NRI Rank
33, down 3 places

Columbus fell three slots in this year's Index as other metros outperformed.

Employment
up 1.6%

Hiring accelerates from last year's 1.4 advance as 15,000 positions are added to staffs. Unemployment in the low-4 percent band persists, making it difficult to find quality workers.

Construction
400,000 sq. ft.

Deliveries decline from the 690,000 square feet completed in 2017. The largest project is the 117,000-square-foot addition to the Dublin Green development.

Vacancy
down 30 bps

Net absorption of 640,000 square feet outpaces completions, lowering vacancy to 3.6 percent.

Rent
up 3.6%

The average asking rent eclipses the previous cycle high, reaching $13.44 per square foot. In the prior year, a 7.8 percent increase was recorded.

Investment

Housing developments in the Italian Village will likely attract new residents and retailers are following, escalating transaction activity in the area. Several older buildings are being redeveloped into retail concepts, providing potential opportunities for investors.

Growing Economy, Strong Demographics Lure Retailers and Investors to Metroplex

Retail vacancy falls to historical low as developers struggle to keep pace with demand. Being a perennial national leader in employment gains makes Dallas/Fort Worth attractive to new residents and retailers. More than 87,000 people moved to the Metroplex last year, and similar migration trends are anticipated in 2018. A surge in new households creates healthy demand for goods and services as retail sales are anticipated to rise by 5.5 percent this year. As sales improve faster than the national pace, several retailers are set to expand in the market and developers will deliver notable retail spaces. This year's largest projected completion is the 465,000-square-foot retail portion of The Music Factory in Irving. The space will come online 100 percent leased, and several smaller developments are also scheduled to be completed with strong pre-leasing. As a result, vacancy will fall below 5 percent as the rate declines for a ninth consecutive year.

Strong economic growth, positive outlook attract investors to Metroplex retail properties. Widespread prosperity in the market encourages buyers to target a range of retail properties in a number of areas. Healthy migration to North Dallas has stirred high demand for assets in Frisco, McKinney and Allen, where cap rates have compressed 50 to 75 basis points below the rest of the Metroplex. Demographic trends are strong throughout the region, supporting healthy fundamentals that attract developers and investors, including new entrants and out-of-state buyers. Strip centers priced between $2 million and $15 million are in high demand, with cap rates dependent on numerous factors. Newly constructed strip centers with national credit tenants and long-term leases garner first-year yields in the mid- to high-6 percent range, while older centers with less creditworthy tenants can change hands at cap rates closer to 8 percent.

2018 Market Forecast

NRI Rank 12, up 7 places — Steady economic and operational improvements help the Metroplex make the largest jump in the NRI this year.

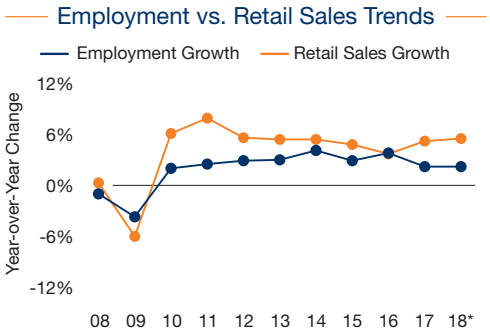
Employment up 2.2% — Organizations create 80,000 positions this year, matching last year's increase.

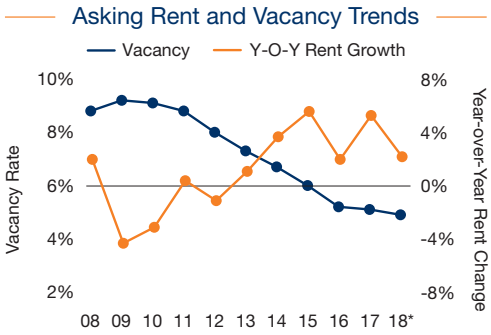
Construction 3.7 million sq. ft. — Developers completed more than 5.3 million square feet of retail space last year, but deliveries taper in 2018 as 3.7 million square feet is added to stock.

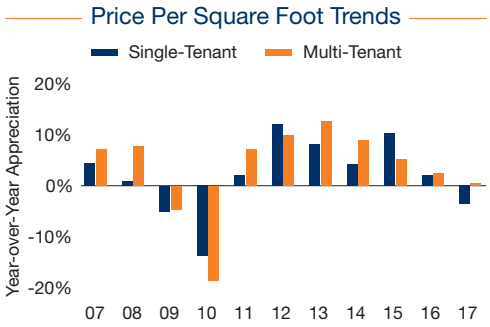
Vacancy down 20 bps — Demand outstrips supply this year as more than 4.3 million square feet of space is absorbed, pushing down vacancy to 4.9 percent.

Rent up 2.2% — Tightening vacancy produces a stable pace of rent growth this year as the average asking rent advances to $16.73 per square foot. Growth slows from last year's 5.3 percent rise.

Investment — In suburban locations, mixed-use retail assets with service-oriented tenants, including some medical uses such as primary care physicians or dentists, generate healthy investor interest. Depending on tenant credit, these properties can trade at aggressive cap rates.







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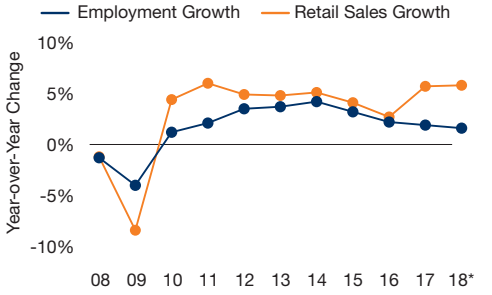
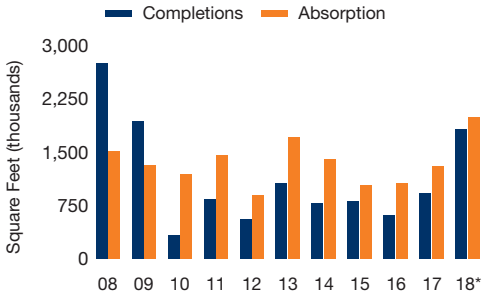
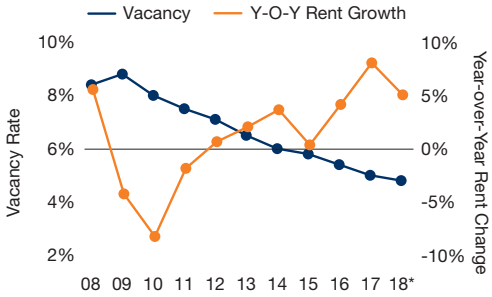
Employment vs. Retail Sales Trends



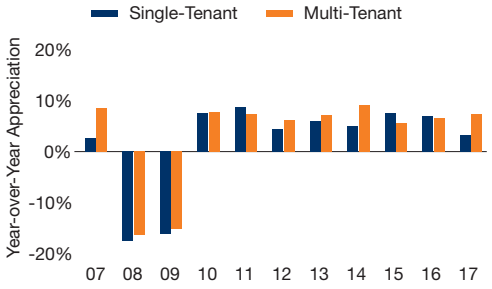
Retail Completions



Asking Rent and Vacancy Trends



Price Per Square Foot Trends



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

Robust Tenant Demand, Construction Activity Foster Denver Retail Market Expansion

Strong market dynamics spark amplified developer activity. Robust hiring for high-wage jobs in healthcare and IT incites household growth in Denver in 2018. The increased number of degreed positions pushes the median household income over $78,000, sparking escalated consumer spending and luring retailers to the Mile High City. These positive demand drivers support the metro's rise in construction activity and completions this year will reach the highest level since 2009. The northern suburbs receive the most development over the next 12 months, with Thornton gaining the most space at 335,000 square feet. Denver Premium Outlets, located at the I-25 and East 136th Avenue intersection, comprises the majority of new space here. Net absorption of nearly 2 million square feet results in a drop in vacancy this year despite increased retail construction. The stout demand for space boosts rent growth, driving the average asking rent over the $19 per square foot mark.

Older neighborhoods provide investors with promising options. As more buyers from primary coastal markets seeking low entry costs and high-yield opportunities arrived to the metro in 2017, transaction velocity doubled among multi-tenant centers compared with the previous year. In 2018, buyers continue the trend of focusing on the suburbs of Littleton and Aurora in search of multi-tenant product. First-year yields in these locales typically stretch across the 7 percent range. Areas south of downtown near the University of Denver campus and neighborhoods east of the CBD close to Congress Park attract local high-net-worth individuals seeking multi-tenant assets within the $1 million to $10 million price tranche. Initial returns in these parts average in the mid-6 percent range, about 50 basis points below the metro average.

2018 Market Forecast

NRI Rank
11, up 6 places

Stout net absorption and considerable rent growth vault Denver up six positions in the Index.

Employment
up 1.6%

Denver's workforce expands by 24,000 employees in 2018, falling short of the 27,300 new hires in 2017. Healthcare leads this year's growth.

Construction
1.8 million sq. ft.

Completions increase in 2018 compared with last year's total of 920,000 square feet. Northern sections of the metro will post notable expansion in retail space this year.

Vacancy
down 20 bps

Although construction levels near a cyclical high this year, strong absorption drops the vacancy rate to 4.8 percent. In 2017, vacancy fell 40 basis points.

Rent
up 5.1%

Following an advance of 8.1 percent in 2017, the average asking rent rises to $19.14 per square foot.

Investment

As residential growth near the Denver-Boulder Turnpike continues to amplify, retailers and investors target Westminster and Broomfield, seeking locations experiencing increased traffic flow.

Retailers, Investors Find Opportunities In Detroit's Changing Retail Landscape

Repurposing of vacant malls transforming retail market. The retail landscape in the metro continues to evolve as old malls are torn down while redevelopment brings new life to underutilized land. The demolition of Northland Center in Southfield, which began last fall, will be completed this year, leaving only the former Macy's store as redevelopment of the site progresses. Removal has also been ordered for Summit Place Mall in Waterford Township; a sports and entertainment complex has been proposed on the site. In Taylor, a Menard's will rise on the former Gibraltar Trade Center location. The home-improvement retailer is one of many expanding this year, with another store opening in Belleville accounting for approximately half of the roughly 1 million square feet slated for delivery during 2018. New stores are also expected in District Detroit, a 50-block sports and entertainment area in downtown Detroit. A portion of the space consists of street level retail in residential buildings. With nearly three-fourths of this year's new stock pre-leased, the impact on vacancy will be reduced, promoting another year of rent growth.

Favorable trends spotlight Detroit's retail assets. The expected gain of roughly 12,000 households throughout the metro during 2018 will contribute to a 3.8 percent rise in retail sales, helping to lure investors. Some buyers are drawn to renovated properties in Downtown and Midtown where high-end retailers are opening. While single-tenant buildings remain the prime target of many investors, intense competition for available listings is motivating more buyers to consider multi-tenant centers. Properties with fewer than five tenants are especially desired by investors in the $4 million to $6 million tranche. Cap rates for these assets are holding steady in the low-6 to low-7 percent range for newer, well-located strip centers, while older centers generally change hands 100 to 300 basis points higher depending on quality and tenant roster.

2018 Market Forecast

NRI Rank
41, up 2 places

Strong vacancy improvement nudges Detroit up two rungs to the 41st place in this year's Index.

Employment
up 1.7%

Payrolls will expand by roughly 35,000 workers in 2018, up slightly from last year's 1.5 percent gain. A large portion of the jobs are higher-paying and related to vehicle design and self-driving technology.

Construction
1 million sq. ft.

Deliveries slightly outpace the five-year average with the completion of 1 million square feet in 2018, a dip from last year's 1.1 million square feet.

Vacancy
down 60 bps

Strong tenant demand and the removal of long-vacant malls will cut the vacancy rate to 6.2 percent in 2018. Last year, a 40-basis-point decline was registered.

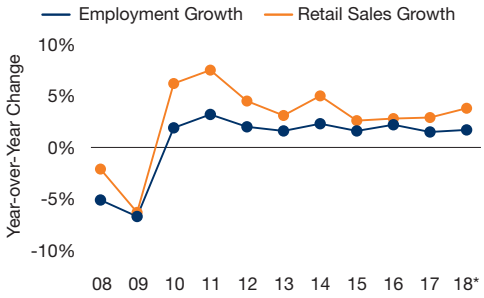
Rent
up 3.4%

The average asking rent climbs for the third consecutive year to $14.10 per square foot, on par with the 2008 peak. Last year, a 5.2 percent gain was registered.

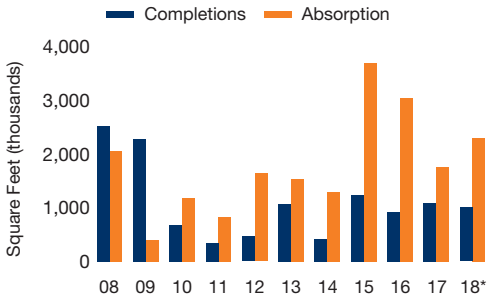
Investment

The completion of mixed-use office and residential buildings in District Detroit should increase foot traffic and lure investors to retail properties nearby.

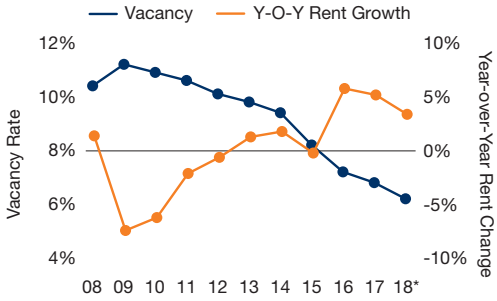
Employment vs. Retail Sales Trends



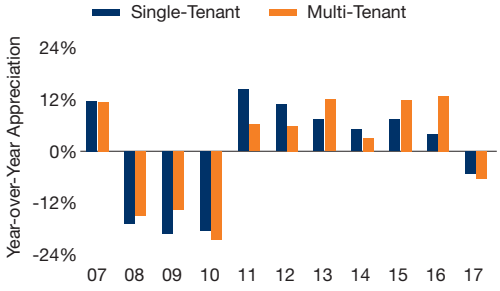
Retail Completions



Asking Rent and Vacancy Trends



Price Per Square Foot Trends



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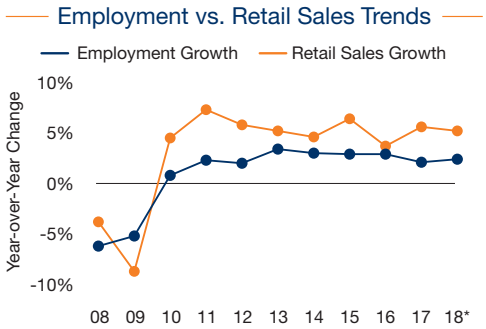
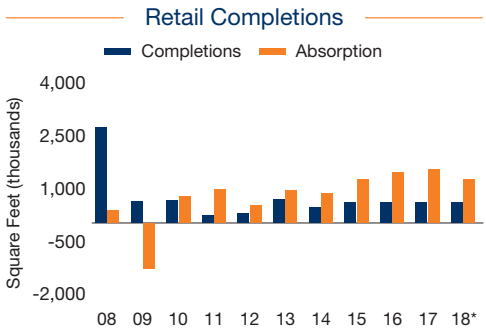
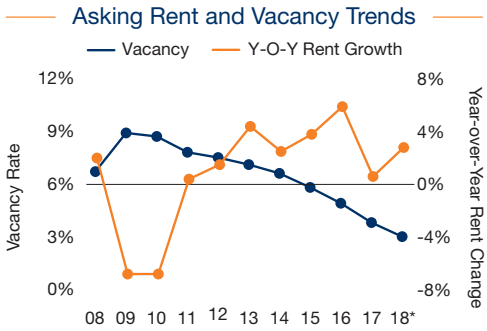
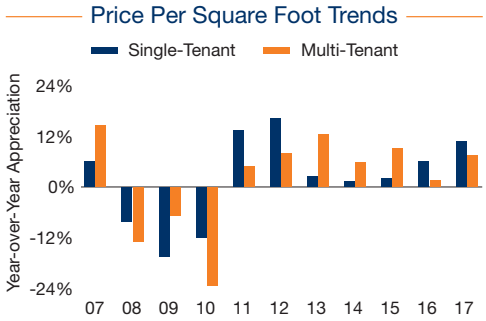








* Forecast
Sources: CoStar Group, Inc.; Real Capital Analytics

Florida's Tightest Vacancy Market Lures Outside Retailers and Investors

Improving demand drivers prompt retailer expansions. A sizable volume of household formations and strong income growth are on tap for Broward County this year, supporting a rise in local retail spending that exceeds the national rate. Steady, diversified hiring during a span of low unemployment drives these improving market conditions, with metro employers creating at least 20,000 positions. The recent wave of new residents, primarily in Fort Lauderdale and Hollywood, also bodes well for consumer spending. Retailers motivated to expand or establish a local presence could have limited leasing options this year, with vacancy hovering below 4 percent. Subdued retail development and strong preleasing further heighten tenant demand for existing space, fueling the absorption of more than 1 million square feet for the fourth consecutive year. Elevated leasing velocity compresses the metro's vacancy rate to a historically low level, warranting cycle-high asking rents.

Buyer interest in Fort Lauderdale invigorated. Robust asset appreciation over the past several years has motivated more owners to sell assets, boosting transaction velocity to a new high for the cycle in 2017. On a per square foot basis, properties average a lower price than their counterparts in Miami-Dade and Palm Beach counties, encouraging investors to consider purchasing in Broward County. Buyers will continue to pursue quality credit single-tenant net-lease assets for their ease of operation and stable cash flows. Brands such as Wendy's, CVS and McDonald's changed hands with cap rates in the low-4 to low-6 percent band last year. Downtown and suburban Fort Lauderdale attract buyers targeting older, repositionable centers and storefronts at 5 to 6 percent returns. A greater mix of vintages are available in neighboring Hollywood, where yields bottom out around 4 percent and reach 7 percent. Out-of-state buyers remain attracted to opportunities in Southwest Broward County, home to sub-3 percent vacancy.

2018 Market Forecast

NRI Rank
23, up 1 place
Fort Lauderdale inched up one spot in this year's Index as strong tenant demand lowers vacancy.

Employment
up 2.4%
Organizations will create 20,000 positions in 2018, up from the 17,300 jobs added in 2017.

Construction
580,000 sq. ft.
Development picks up slightly following the completion of 570,000 square feet in 2017. Deliveries in Southwest Broward County, Fort Lauderdale and Hallandale account for the bulk of this year's new supply.

Vacancy
down 80 bps
The metro's vacancy rate drops to 3 percent in 2018. Last year, a decline of 110 basis points occurred.

Rent
up 2.8%
Tight vacancy supports an increased pace of rent growth, with the average asking rate advancing to $22.50 per square foot by year end.

Investment
The opportunity to acquire properties with below-average pricing is drawing buyers to Coral Springs, Plantation and Pompano Beach. Here, restaurants and existing centers with developable land provide investors with 5 to 7 percent first-year yields.

Post-Hurricane Recovery Boosts Retail Spending, Draws Investors

Local residents rebuilding after floods, sales rise. Economic growth is returning to Houston as the metro emerges from the damage created by Hurricane Harvey and struggles stemming from the decline in energy prices in previous years. In 2018, job additions will rise, with local organizations creating more positions than the previous three years combined. Strengthening employment and recovery efforts related to the hurricane will provide an additional boost to retail consumption this year, and retail sales are expected to rise faster than the national pace. Local households replacing goods lost during the flooding will help lift spending, while residents temporarily relocating to assist with rebuilding efforts raise sales at restaurants, grocery stores and other needs-based retailers. As a result, retailers continue to expand in the metro this year, and grocers such as Kroger and H-E-B will open multiple locations on the west and north sides of Houston. Fitness centers, dollar stores, plus numerous restaurant and entertainment options will open this year, helping keep vacancy 60 basis points below the 10-year average.

Development in West Houston attracts investors. The increasingly diverse propelled the Houston retail segment in recent years, keeping buyers interested in the local market. The metro is poised for an increase in trading volume this year, however, as staffing in the oil and gas industry has stabilized and new opportunities are presented in western submarkets. This side of the metro will receive an influx of new properties as development continues along the Grand Parkway. Grocery-anchored retail centers are in high demand, often trading in the mid-6 percent area. Meanwhile, strip-center assets with service-oriented tenants pique buyer interest, often changing hands in the low-7 percent span. Properties in West Houston submarkets such as Katy, Sugar Land out toward the Grand Parkway, and up to The Woodlands will draw strong buyer demand this year.

2018 Market Forecast

NRI Rank
30, down 4 places
Higher vacancy than a large share of markets plus slow rent gains pull Houston down four spots this year.

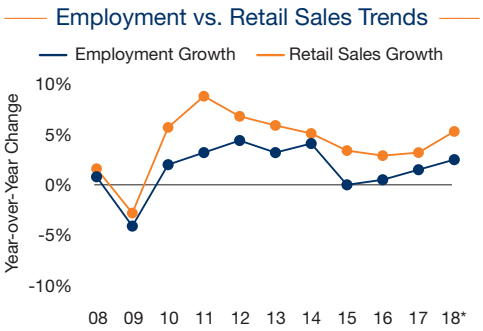
Employment
up 2.5%
Employers will create 75,000 positions in 2018 following the addition of 45,000 jobs in 2017.

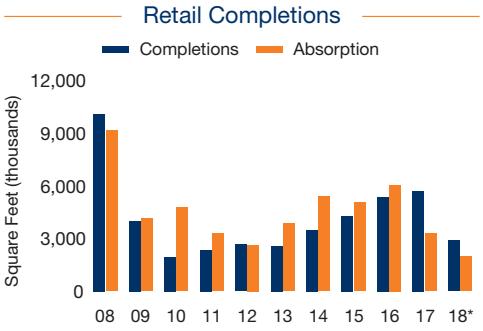
Construction
2.9 million sq. ft.
Delivery volume slows after the completion of nearly 5.6 million square feet in 2017. Sugar Land and Conroe each welcome more than 400,000 square feet of new supply in 2018.

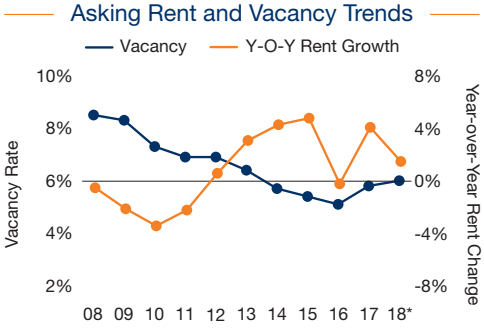
Vacancy
up 20 bps
Vacancy rises for a second year, reaching 6.0 percent in 2018 as 2 million square feet of retail space is absorbed.

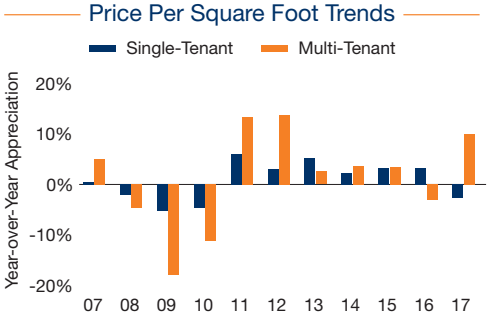
Rent
up 1.5%
The average asking rent advances to $17.12 per square foot, increasing for a second consecutive year.

Investment
Retail assets in heavily flooded areas of Houston could be value-add targets this year. Owners in these locales may choose to dispose of properties in lieu of renovating, while others may divest as some tenants are unable to reopen stores.









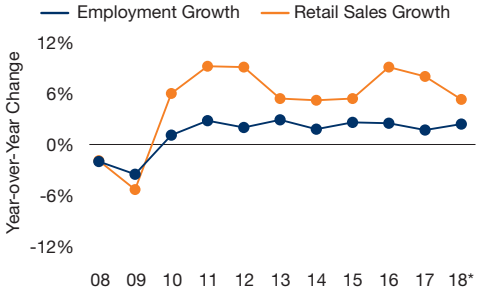
* Forecast
Sources: CoStar Group, Inc.; Real Capital Analytics

Amplified Employment Growth, Household Formation Stimulate Growth in Retail Market

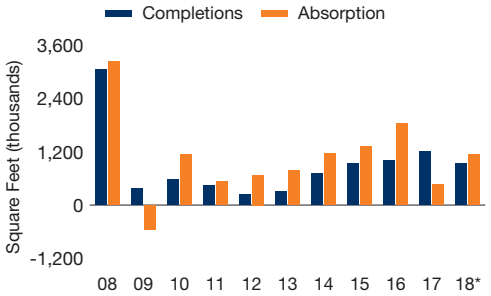
Influx of high-wage jobs lures retailers to Central Indiana. The tech sector remains the driving force behind Indianapolis' exceptional employment growth this year, pushing the rate to one of the highest figures in the country. Salesforce continues to hire employees at its new tower near Monument Circle, while companies like Costello and SnapShyft begin adding workers as part of multiyear expansion plans. The increased number of high-paid professionals will support strong household formation and generate increased retail sales, fostering another year of elevated deliveries. Hamilton County will see a notable amount of construction this year with Harley Davidson headlining the majority of the new space. In Boone County, The Shoppes at Anson, located along I-65 in Whitestown, is the metro's largest project slated for delivery. The 300,000-square-foot retail development, which includes Ross and T.J.Maxx, is scheduled to finish in Summer 2018. Despite another year of heightened completions, absorption of roughly 1.1 million square feet reduces the vacancy rate for the eighth time in nine years, resulting in the metro's rent growth keeping stride with the national average.

Stronger yields garner attention from coastal investors. Providing investors higher yields and lower entry costs than primary markets, Indianapolis attracts buyers from an array of coastal markets this year. Historically, shoppers from these places comprise the majority of out-of-state investors, a trend that should continue in 2018. Properties above the $10 million mark in the Meridian Hills neighborhood are highly sought after. These investors also seek assets around the Fashion Mall at Keystone. Here, first-year yields fall in the low- to mid-8 percent range, up to 400 basis points higher than many gateway markets. Strip malls and neighborhood centers near the University Heights area and communities around the Indianapolis Motor Speedway draw a considerable number of local investors. Initial returns in these locales vary in the upper-8 to lower-10 percent realm.

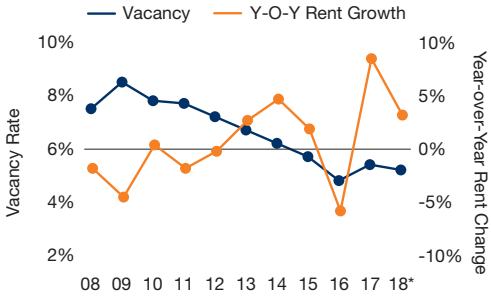
Employment vs. Retail Sales Trends



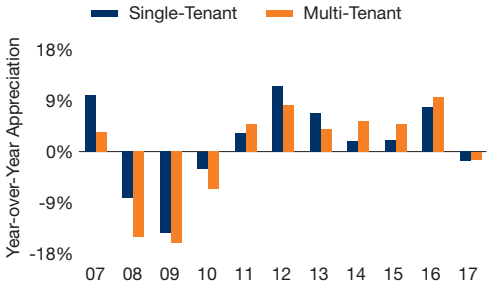
Retail Completions



Asking Rent and Vacancy Trends



Price Per Square Foot Trends



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

2018 Market Forecast

NRI Rank
34, up 4 places
Robust employment growth results in Indianapolis jumping four positions this year.

Employment
up 2.4%
A high inflow of new companies sparks robust employment growth this year as employers add 25,500 workers. Last year, the Indianapolis labor pool expanded by 1.7 percent.

Construction
940,000 sq. ft.
Although development registers a slight downturn, 2018 marks the fourth consecutive year with completions eclipsing 900,000 square feet.

Vacancy
down 20 bps
After rising 60 basis points in 2017, vacancy posts a reduction this year, putting the rate at 5.2 percent.

Rent
up 3.2%
Compressing vacancy triggers a modest climb in average asking rent, pushing the price to $14.99 per square foot. This follows an 8.5 percent boost one year earlier.

Investment
Retail development will follow the strong residential growth in the northern suburbs, creating an attractive market for buyers.

Contracting Development Triggers Tightening Vacancy Throughout Kansas City

Corporate expansions support household formations, lifting demand for retail. Boosted by significant hiring at Cerner, Garmin and various financial and engineering firms, job growth has remained steady, driving demand for necessity and specialty retail throughout the metro. The resulting environment has contracted retail vacancy considerably; it has fallen more than 150 basis points below the tightest levels of the previous economic cycle. While builders were steadily completing an average of 1.1 million square feet during the previous five years, deliveries will slow dramatically over the coming year, ushering in a robust market where net absorption exceeds new supply by a fairly wide margin. Construction is skewed toward less dense locations in Clay County, while new supply in the primary suburbs of Jackson and Johnson County will fall below 100,000 square feet. Due to the limited amount of available space, average asking rental rates will trend higher, rising by a mid-single-digit amount over the coming year.

Rising prices and stronger yields draw investors. Above-average first-year returns, coupled with strong demographics, are drawing investors to Kansas City retail assets. First-tier suburbs in Overland Park and Eastern Jackson County remain staples for both institutions and high-net-worth individuals, with cap rates averaging in the mid-6 to mid-7 percent band depending on asset size and location. Meanwhile, properties near the Streetcar line between Union Station and the Plaza remain extremely popular due to excellent visibility and traffic counts. Several of these buildings offer considerable value-add potential as well, owing to years of deferred maintenance and a reinvigorated base of residents in urban submarkets. Improving occupancy in the core will motivate additional investors to deploy capital in these areas as well, which will spur cap rate compression and boost rental rates over the coming year.

2018 Market Forecast

NRI Rank 45, no change — Kansas City remained unchanged in this year's Index as low asking rents weighed on the ranking.

Employment up 0.7% — This year, 8,000 new jobs will be created by an array of employers, expanding payrolls by 0.7 percent. Last year, 9,600 positions were added.

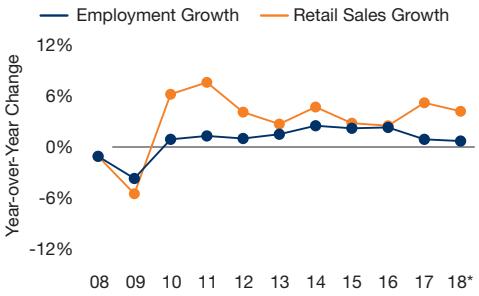
Construction 350,000 sq. ft. — Developers will dramatically shrink the pace of construction from 970,000 square feet in the previous year to 350,000 square feet this year.

Vacancy down 10 bps — After remaining unchanged at 5.9 percent last year, vacancy declines 10 basis points over the coming year as demand for space outpaces construction.

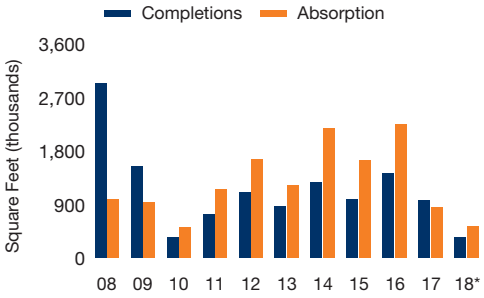
Rent up 4.4% — The average asking rent rises 4.4 percent to $12.82 per square foot as limited development boosts demand for existing assets throughout the metro.

Investment — A lack of development in Eastern Jackson and Johnson counties will draw buyers to stable properties in residential areas. These assets trade with attractive cap rates near 7 percent or higher.

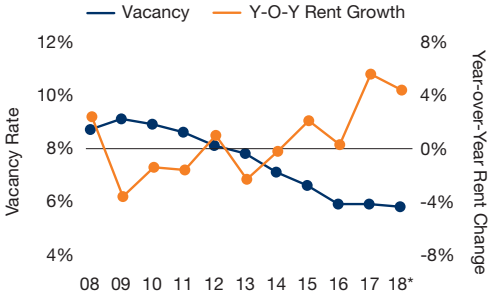
Employment vs. Retail Sales Trends



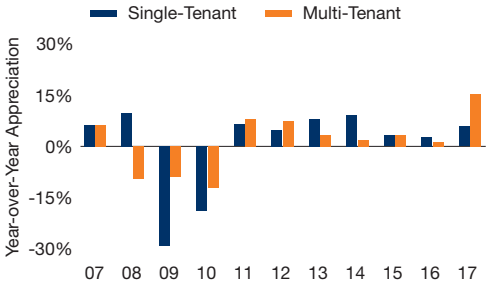
Retail Completions



Asking Rent and Vacancy Trends



Price Per Square Foot Trends



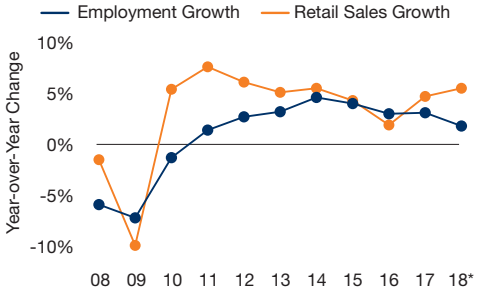
* Forecast
Sources: CoStar Group, Inc.; Real Capital Analytics

Falling Construction, Broad Economic Growth Underpin Las Vegas Retail

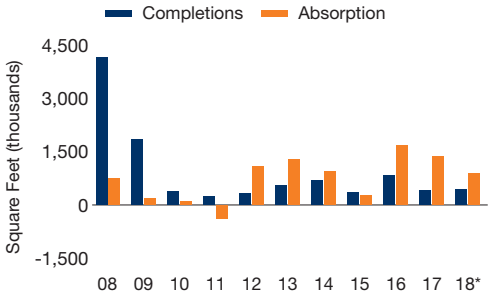
Job growth outpacing national average; development remains muted. Underpinned by employment growth in a wide array of industries, Las Vegas retail assets are performing exceptionally well. Vacancy has fallen to the lowest point in the current cycle as limited construction and economic expansion have combined to absorb excess capacity in the sector. Over the coming year, the average vacancy rate will fall to the lowest level of the current cycle, down more than 400 basis points from 2011. Additionally, the average size of retail space coming online is roughly 15,000 square feet, powered by built-to-suit single-tenant concepts such as bars and restaurants. Projects are widespread throughout the metro, led by the Las Vegas Athletic Club in Henderson, which will provide a broad base of construction, even as overall development remains subdued. Rent growth will remain marginal, however, as owners continue to prioritize filling empty spaces and leases from prior years in the cycle have yet to roll over to market rates.

Accelerating prices, robust cash flows drawing investors to Las Vegas retail properties. Elevated capital flows and rising prices will persist throughout 2018 as buyers from coastal metros, particularly those in California, scour the metro for high-quality retail assets. First-year returns can exceed their home markets by more than 300 basis points in some cases, reaching up to the low-7 percent range on average, keeping investors highly motivated. While pricing remains modestly below the previous peak recorded in 2007, rising deal flow and a competitive bidding environment could force prices over this psychological threshold due to strengthening sentiment over the coming months. Plummeting vacancy in many submarkets has already transformed the obvious value-add assets in the marketplace, fostering a more patient approach than prior years in the cycle required, yet pockets of assets in transitioning neighborhoods remain available.

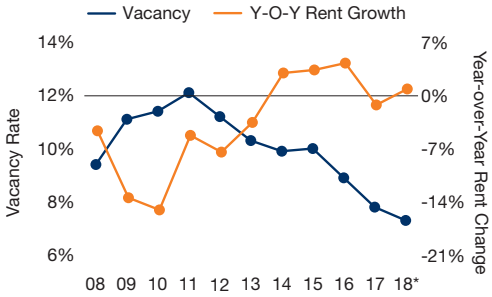
Employment vs. Retail Sales Trends



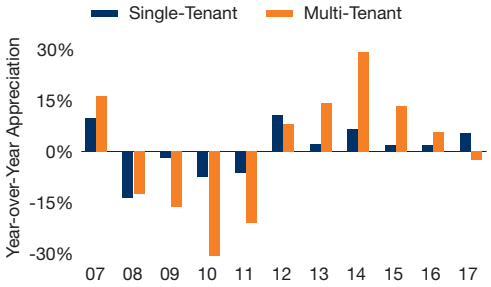
Retail Completions



Asking Rent and Vacancy Trends



Price Per Square Foot Trends



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

2018 Market Forecast

NRI Rank 37, down 2 places — Higher vacancy relative to other markets dropped Las Vegas two places in this year's Index.

Employment up 1.8% — Employment growth slows somewhat from 2017 as 18,000 jobs are created, expanding payrolls by 1.8 percent. In the previous year, 25,000 positions were added.

Construction 440,000 sq. ft. — Supply additions tick up moderately this year as 440,000 square feet is brought online, primarily in the southern portions of the metro. Last year, 410,000 square feet was completed.

Vacancy down 50 bps — The metro vacancy contracts 50 basis points to 7.3 percent as net absorption nearly doubles new supply over the coming year. In the prior four quarters, vacancy plummeted 110 basis points.

Rent up 2.8% — The average asking rent advances 0.9 percent to $17.23 per square foot as contracting vacancy restores rent growth after a 1.2 percent decline in 2017.

Investment — Assets with rising NOI in outlying portions of Henderson and Southern Las Vegas are a target for many investors seeking above-market returns.

California's Largest Metro Boasts Stable Vacancy; Reduced Investment Options Lift Competition

Healthy market conditions warrant cycle-high rents. The metro's vacancy rate has hovered below 5 percent for the past four years, while annual delivery volume averaged more than 1.3 million square feet. Retailer expansions in 2018 fuel a healthy rate of absorption that negates the impact of new supply, prolonging this trend for another year. Higher-paying job creation, income growth and a wave of housing developments have converged to motivate stores to enlarge footprints and bolster staffs in anticipation of consumer spending increases. Outside of Long Beach Exchange and the Collection at Oceanwide Plaza, minimal newly constructed space will be available for lease this year. Fewer completions will maintain below-average vacancy in West Los Angeles and the South Bay, equating to robust local rent growth. These gains, coupled with heightened tenant demand throughout most of Los Angeles County, push the metro's overall asking rent past the previous cycle's peak.

Listings shortage elevates pricing. Following a two-year span of heightened transaction activity, listing volume decreased over the past 12 months while pricing reached a historically high level. Record asset values and a large buyer pool could motivate more owners to market properties, though many remain in a holding pattern. Minimal for-sale inventory limits opportunities for investors, heightening competition for well-located and repositionable properties. An influx of rentals in Downtown Los Angeles has buyers eager to acquire storefront and mixed-use buildings in Mid-Wilshire, where asset values are triple the metro's average price per square foot. A lack of retail development in Westside Cities enhances investors' appetites for older properties featuring a mix of retail and office space. Here, buyers may encounter 3 percent to mid-4 percent first-year returns. Investors seeking lower price points and higher yields enter the San Fernando Valley and South Bay, where 4 to mid-5 percent cap rates are more common.

2018 Market Forecast

NRI Rank
10, down 2 places

Los Angeles declined two rungs into 10th place as markets with higher levels of employment and retail sales growth leaped ahead.

Employment
up 1.2%

Employers create 53,000 positions in 2018, surpassing the 46,700 jobs added in 2017. Retail-trade firms bolster payrolls by 10,000 workers this year.

Construction
1.3 million sq. ft.

Development activity shifts moderately following the completion of 1.6 million square feet last year.

Vacancy
up 10 bps

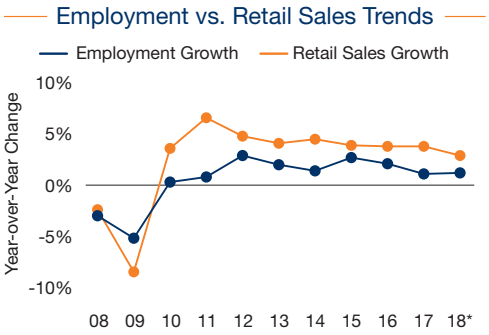
The metro's vacancy rate rises nominally to 4.1 percent by year end. Vacancy also dropped by 10 basis points last year.

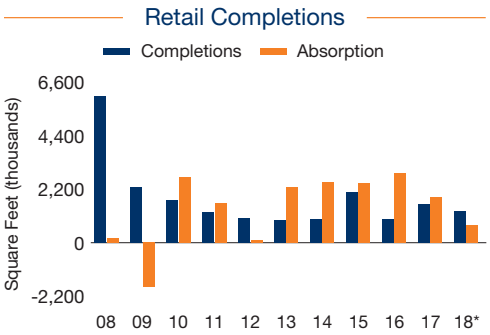
Rent
up 4.2%

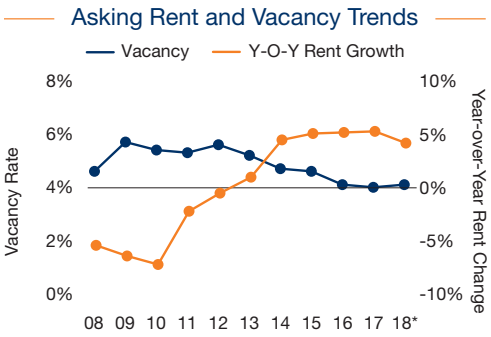
Low vacancy will enable operators to lift asking rents to $32.17 per square foot. Rent increases of at least 5 percent were witnessed in each of the past three years.

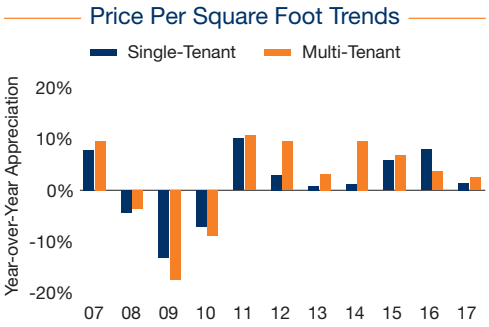
Investment

Buyers priced out of the metro's four major submarkets target the San Gabriel Valley, where 1980s- and 1990s-built centers are available at pricing below the metro average. Properties in this area typically net investors yields in the 5 percent range.



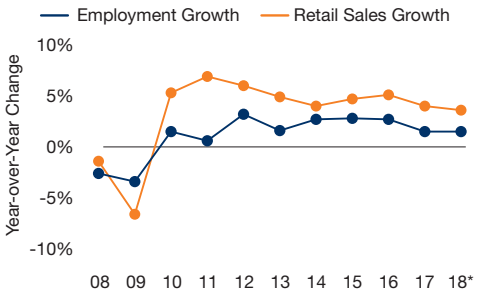




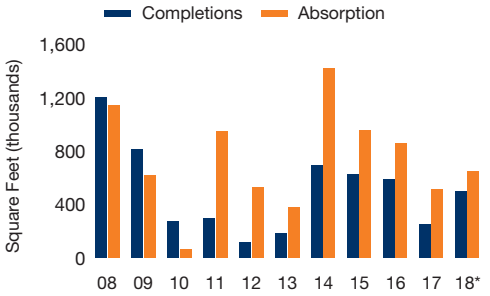


* Forecast
Sources: CoStar Group, Inc.; Real Capital Analytics

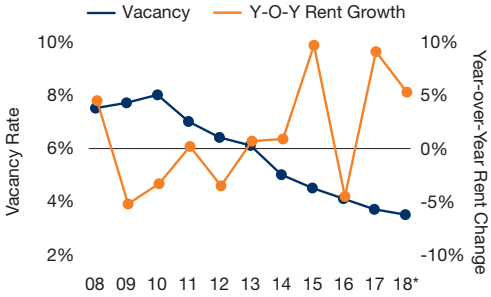
Employment vs. Retail Sales Trends



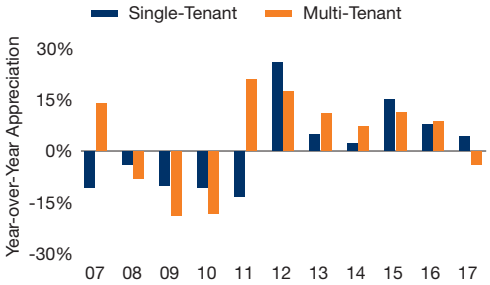
Retail Completions



Asking Rent and Vacancy Trends



Price Per Square Foot Trends



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

Tight Vacancy Prompts Historically High Rents, Escalating Asset Values

Expanding retailers vie for limited available space. Retail spending is slated to surge for a fourth consecutive year, fueled by positive demand drivers. The local employment base has increased by nearly 64,000 positions over the past four years and will continue to grow in 2018. The robust local economy has supported household growth of 4 percent over the same period, heightening demand for nearby shops and retail centers. Increased consumer spending has motivated retailers to amplify local footprints, yet a lack of existing vacant space and newly built properties could limit leasing options for growing companies. By year end, the metro's vacancy rate will reach a historically low level, enabling a second straight year of stout rent gains. Extremely low availability and growing asking rates should motivate developers with proposed projects to speed up construction timelines in order to meet the heightened demand for space.

Closer-in value-add options and newer suburban assets trigger transaction activity. Robust investor demand over the past two years has returned average pricing to the previous cycle's peak level. Accelerating asset values have motivated more owners to market assets, equating to a recent span of strong deal flow. This period of amplified sales velocity could open opportunities for buyers in 2018, increasing competition for properties while the metro's average cap rate hovers in the low- to mid-7 percent range. Investors eyeing sub-$2 million repositioning opportunities largely target Old Louisville, acquiring storefront retail and smaller mixed-use buildings of various vintages at 8 to 9 percent yields. The southern area of Louisville near ramps for I-265 and surrounding main corridors appeals to out-of-state buyers seeking newer properties at low-6 to low-8 percent returns. Many of these same investors are also considering listings in the growing employment hub of the eastern suburbs near Interstate 64 and Highway 60. The area attracts buyers willing to accept mid-4 percent minimum yields for post-2000-built space.

2018 Market Forecast

NRI Rank
36, down 1 place

Retail sales growth below the national level result in Louisville slipping one notch in the NRI.

Employment
up 1.5%

The metro's job growth outpaces the national rate of increase for a fifth year in a row, creating 10,200 jobs in 2018. Retail-related hiring drives employment growth.

Construction
500,000 sq. ft.

Following a period of minimal retail construction last year, developers complete half a million square feet of new space. Projects in Jeffersonville account for more than half of this new supply.

Vacancy
down 20 bps

The metro vacancy rate compresses for an eighth consecutive year, falling to 3.5 percent. In 2017, a 40-basis-point drop was recorded.

Rent
up 5.3%

Limited vacancy supports stout rent growth. After rising by 9.1 percent in 2017, the average asking rate advances to $14.03 per square foot in 2018.

Investment

Local buyers priced out of eastern suburbs shift their attention across the Ohio River. Pre-2000s-built properties in New Albany and Jeffersonville are the primary target, netting investors 6 percent minimum first-year yields.

Miami Retail Remains Popular Among Investors; Net-Leased Assets Particularly Favored

Additional world-class shopping locations coming online in 2018. Miami continues to be recognized as an established global shopping destination, fueled by its robust tourism activity and an affluent population. Exceptional job growth and in-migration trends underpin strong retail performance, leading to a vacancy rate that has held under 4 percent for four years now as space demand remains robust. In the face of the mounting pressures the retail sector has witnessed, retailers remain confident in the local market, encouraging Target, Walmart and Dick's Sporting Goods to take up new space. Publix has also been in expansion mode, adding several locations last year to meet the needs of a growing population. A number of projects are anticipated for delivery this year, bringing completions to their highest level since 2008, led by Miami Worldcenter with 450,000 square feet of retail space and the 315,000-square-foot expansion of the Aventura Mall.

Positive long-term outlook generates investment across Miami-Dade. A surge in leasing activity and new construction has fueled investor demand for retail assets as buyers recognize that Miami's gateway status positions the market to weather future turmoil felt in the sector. Quality credit single-tenant net-lease properties hold their appeal among a broad base of investors for their hands-off approach to creating cash flow, bringing a wide mix of private and institutional capital to the market. Properties occupied by tenants such as CVS and Starbucks traded at cap rates in the mid-4 percent to low-5 percent band in 2017, marking little movement from the previous year. Grocery stores and discount retailers continue to gain ground among investors, recording first-year yields in the mid-5 to mid-6 percent range. The strength of the local retail market, driven by favorable demographics and strong job growth, will hold transaction velocity elevated, potentially adding to the rise in deal flow registered last year.

2018 Market Forecast

NRI Rank 17, down 1 place — Rising vacancy and a cycle-high construction schedule drop Miami one rung in the Index.

Employment up 2.2% — Job creation surged following Hurricane Irma, bringing 2017 employment growth to 35,300. The labor force will tighten and hiring will slow to 26,000 jobs this year.

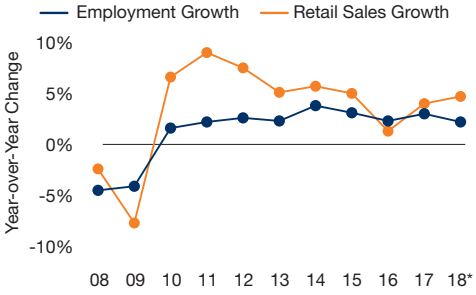
Construction 2 million sq. ft. — Completions reach their highest level since 2008 this year as 2 million square feet is anticipated for completion, rising from the 1.2 million square feet added in 2017.

Vacancy up 40 bps — Heightened construction pushes the vacancy rate up to a still-tight 4.1 percent this year, adding to a 10-basis-point increase registered last year.

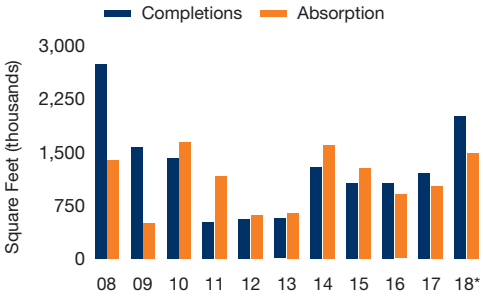
Rent up 1.9% — Asking rent growth slows from the 5.3 percent pace posted in 2017 as vacancy climbs, bringing the average rate to $35.82 per square foot.

Investment — Strong asset appreciation over the past several years combined with this year's rising costs to finance could bring multiple assets to market as owners exchange into new investments.

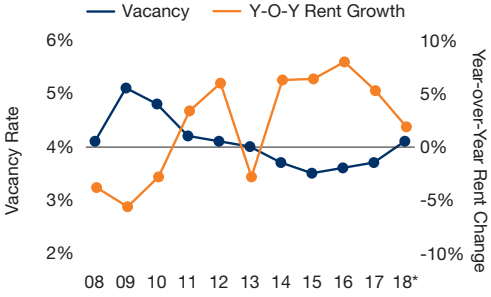
Employment vs. Retail Sales Trends



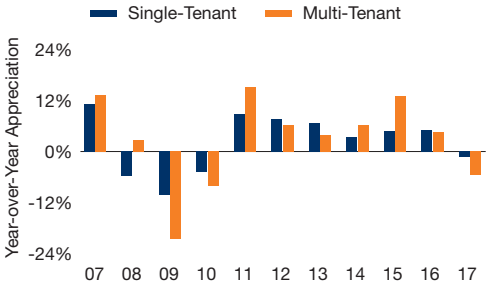
Retail Completions



Asking Rent and Vacancy Trends

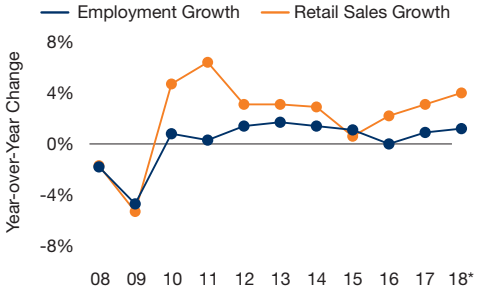


Price Per Square Foot Trends

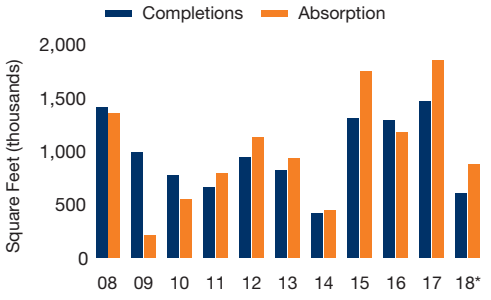


* Forecast
Sources: CoStar Group, Inc.; Real Capital Analytics

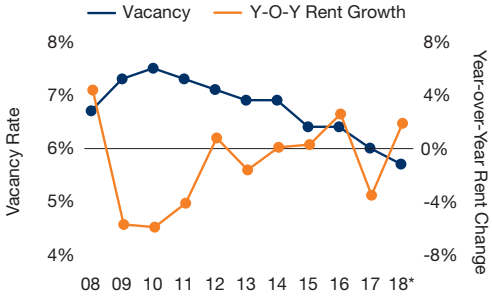
Employment vs. Retail Sales Trends



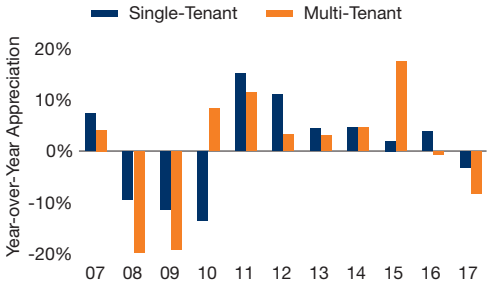
Retail Completions



Asking Rent and Vacancy Trends



Price Per Square Foot Trends



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

Space Demand Paces Construction Boom, Drives Milwaukee Retail Vacancy Lower

Available space tightens as retailers expand. Ikea will open its first store in the state during 2018, a 291,000-square-foot building along Interstate 94 in Oak Creek that will account for nearly half of this year's meager supply of new retail inventory. The I-94 corridor south of Milwaukee will be a hub of activity as construction on the Foxconn facility in Racine County ramps up. Necessity-based retailers and service providers nearby should benefit from job seekers moving to the area to fill the need for 5,000 construction workers at the site and nearly 13,000 positions once the facility reaches full capacity. Job growth throughout the metro is expected to contribute to an increase of nearly 5,300 households in 2018, slightly more than last year's gain. The median household income will advance 3.7 percent in 2018, exceeding the national average and boosting retail sales a projected average of 4.0 percent. These favorable demographic trends are attracting retailers to lease space in the metro, which will tighten vacancy to a 10-year low and move rents higher.

Tax clarity boosts retail sector. With more certainty on taxes, investor interest will pick up for assets with sound fundamentals. Single-tenant properties continue to lure out-of-state buyers to assets throughout the metro at cap rates that average in the low-7 percent span. The potential impact of the Foxconn facility will keep some buyers focused on assets at the south end of the market. Single-tenant buildings and centers with necessity-based tenants will be targeted. Heading north, favorable demographics will keep buyers active in New Berlin and Brookfield as well as the Interstate 43 corridor north of downtown. Here multi-tenant properties along major thoroughfares or near large retail hubs will receive significant interest. Marketwide, cap rates for multi-tenant assets have increased approximately 50 basis points over the last 12 months to average in the high-8 percent range.

2018 Market Forecast

NRI Rank
42, no change
Vacancy above the U.S. level holds Milwaukee in the 42nd slot in this year's NRI.

Employment
up 1.2%
Roughly 10,000 workers will be added to payrolls during 2018, up from 7,700 last year, when health services accounted for a large portion of the new jobs.

Construction
600,000 sq. ft.
Deliveries fall below the five-year average to 600,000 square feet in 2018, less than half of last year's 1.5 million square feet.

Vacancy
down 30 bps
A restrained supply of new inventory amid healthy leasing activity reduces vacancy to 5.7 percent in 2018, following a decline of 40 basis points last year.

Rent
up 1.9%
Asking rent for available space advances 1.9 percent to $11.44 per square foot, leaving the average rent 15 percent below the 10-year peak.

Investment
Store closings will offer opportunities for non-traditional retailers such as medical services or day-care facilities to lease retail space, keeping occupancy tight and giving these properties attractive upside potential.

Retail Market Shines as Vacancy Falls to Cyclical Low; Investors Favor Outlook

Vacancy tightens further as empty boxes fill. Available retail space falls to the lowest rate of the cycle in 2018 as deliveries ebb and vacant department stores and junior boxes fill. Lifetime Fitness, Gander Outdoors and home-improvement outlets are among retailers taking larger spaces. The flurry of grocery-store expansions in recent years is slowing. Hy-Vee has new locations underway, although the company will readjust its strategy and consider smaller formats for some of its planned sites to meet the changing shopping habits of its customers. Additional retailers are entering the market, drawn by steady employment gains and favorable demographics trends that will bring nearly 30,000 new residents to the market and place the median household income more than $15,000 above the national level. As a result, retail sales are expected to rise 3.9 percent in 2018.

Strong retail performance draws eager investors. One of the tightest retail markets in the nation has captured investor attention, although the lack of available assets keeps some buyers waiting on the sidelines. Infill neighborhood and strip centers close to the urban core in the $1 million to $5 million price tranche are the most sought-after assets and appropriately priced buildings can receive multiple offers. Well-located buildings with necessity-based national tenants trade at cap rates averaging in the low- to mid-6 percent range, while properties with a higher mix of non-credit tenants may exchange hands at yields that are 50 to 100 basis points higher. The redevelopment of former gas station sites into strip centers within the first-ring suburbs is providing additional buying opportunities. The few grocery-anchored centers that are listed receive strong investor interest at cap rates in the 6 percent span. National fast-food and drugstores are luring out-of-state exchange buyers at initial yields beginning in the 5 percent range.

2018 Market Forecast

NRI Rank
24, up 1 place

Minneapolis-St. Paul remains the highest-ranked Midwest market, moving up one notch in the Index.

Employment
up 1.7%

Following a 2.3 percent gain last year when 44,500 workers were added to payrolls, employment slows to 34,000 jobs during 2018 as the supply of available workers tightens.

Construction
500,000 sq. ft.

Deliveries fall below the five-year average as 500,000 square feet comes online in 2018. Last year, nearly 1.3 million square feet was finalized with Mills Fleet Farm, Costco and Hy-Vee opening stores.

Vacancy
down 40 bps

Vacancy continues to tighten during 2018, decreasing to 3.1 percent; the lowest point of the cycle. Last year, a 20-basis-point decline was posted.

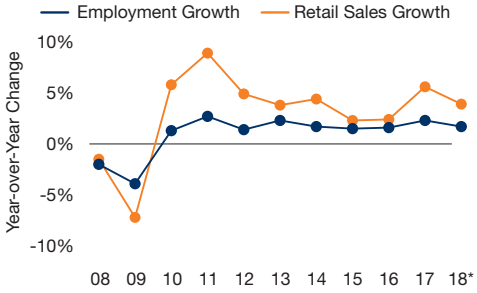
Rent
up 3.9%

In 2018, the average asking rent for available space reaches a new high of $16.61 per square foot following a 12.1 percent hike last year.

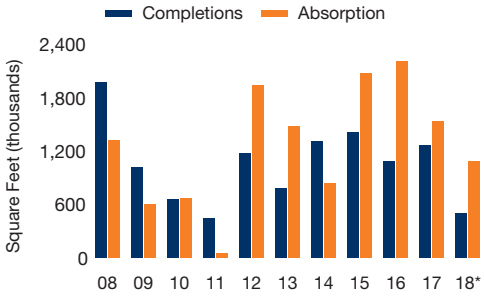
Investment

Retailers are following home construction in the suburbs that lifts consumer spending for necessity goods and draws investors seeking yield farther from the core.

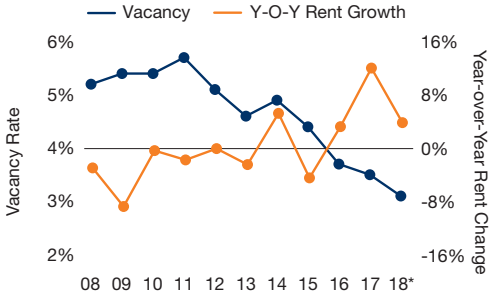
Employment vs. Retail Sales Trends



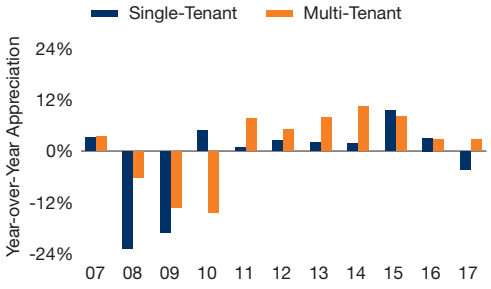
Retail Completions



Asking Rent and Vacancy Trends

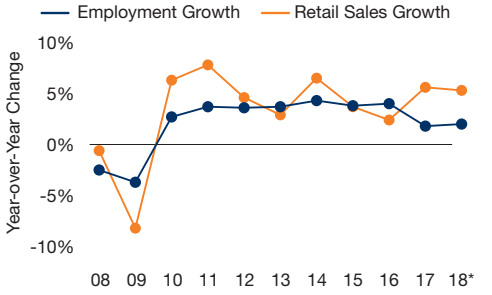


Price Per Square Foot Trends

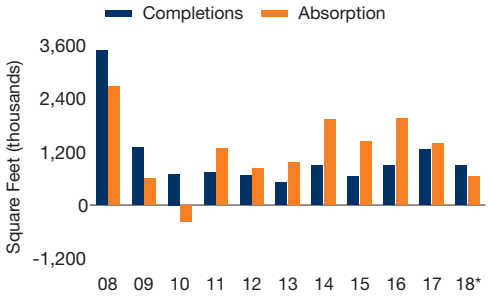


* Forecast
Sources: CoStar Group, Inc.; Real Capital Analytics

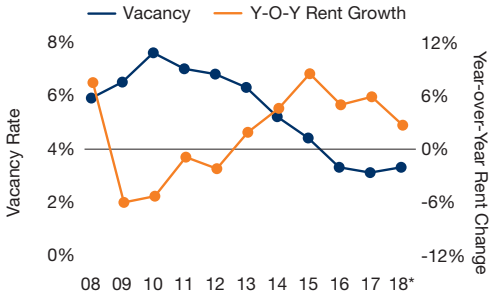
Employment vs. Retail Sales Trends



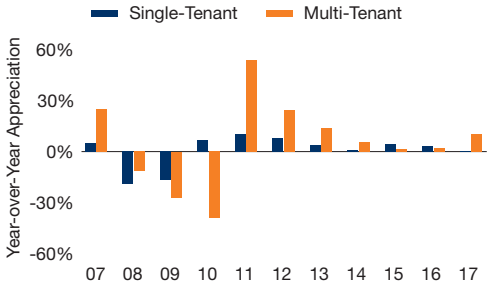
Retail Completions



Asking Rent and Vacancy Trends



Price Per Square Foot Trends



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

Vacancy Near Historical Low; Investors Clamor for Nashville Retail Assets

Large speculative projects come online; vacancy ticks up modestly. Strong employment additions coming out of the recession and steady wage growth over the past few years have boosted retail spending in Nashville, generating healthy demand for retail space. As a result, positive net absorption has outstripped supply additions in each of the last seven years, pushing Nashville's retail vacancy rate to one of the lowest in the country. This year, development eases slightly from 2017 but remains in line with the previous five-year average. The largest project slated for completion is the 245,000-square-foot community retail center in Kennesaw Farms located between Gallatin and Hendersonville to the northwest of Nashville. This project comes online 100 percent leased, but an additional 300,000 square feet of retail space is slated for delivery later this year in two projects that are largely unleased. As a result, vacancy ticks up slightly in 2018 but remains low by historical standards.

Buyers from coastal markets compete with local investors for limited investment opportunities. Healthy property operations lure investors to Nashville, with buyers from across the country seeking opportunities in the market. Investors from the West Coast and Northeast are competing with local buyers for retail assets, drawn to returns 150 to 200 basis points higher than home markets. Sales are limited, however, as owners have been slow in bringing retail assets to market. Grocery-anchored properties are in high demand, typically changing hands from the high-6 percent to low-7 percent span. Strip centers are also strongly sought after, yielding cap rates in the 7 percent area. Assets located inside Nashville proper, as well as the suburbs of Franklin, Clarksville, Murphreesboro and Nolansville garner intense buyer interest.

2018 Market Forecast

NRI Rank
4, up 1 place
Tight vacancy and minimal deliveries in 2018 bump Nashville up one place in the NRI.

Employment
up 2.0%
A tight labor market results in another year of reduced job growth, and employment will expand by 19,500 workers this year. Job gains averaged more than 30,000 positions in each of the last five years.

Construction
890,000 sq. ft.
After bringing nearly 1.3 million square feet of retail space online during 2017, completions dip and fall in line with the five-year average.

Vacancy
up 20 bps
Despite a slight uptick in vacancy this year, Nashville continues to boast one of the lowest rates in the country at 3.3 percent.

Rent
up 2.7%
Rent growth will moderate this year as the average asking rent rises to $18.37 per square foot.

Investment
Some local developers are selling off retail assets to redeploy capital into other projects, expanding opportunities for investors to buy properties.

Limited Development, Commuter Haven Powering Southern Connecticut Retail

Tri-state area economic strength boosting demand for retail assets. The rising tide of local residents, driven by job growth throughout the tri-state area, underpins a vibrant retail environment. In particular, high-income households line the coast along I-95, generating significant spending at local retail establishments. These factors have spurred a multiyear upswing in property performance, pushing retail vacancy more than 200 basis points below pre-recession levels. Despite extremely robust performance, new construction has remained limited, reaching above half a million square feet only twice in the current business cycle. Completions will be led this year by the Riverview Cinema in Southbury, with the remainder of the pipeline dominated by a selection of net-lease bars and restaurants. This has provided fertile ground for growth in the average asking rent as net absorption has exceeded supply growth for two consecutive years due to robust pre-leasing in the market. Asking rents will once more advance by a mid-single-digit percentage in 2018 as heightened competition prompts higher prices.

Strengthening fundamentals set to increase buyer appetite for the region's booming retail sector. Investors have been busily deploying capital into southern Connecticut in search of higher yields, particularly those based in New York City or other portions of the tri-state area. Cap rates in the metro can provide an extra 300 basis points or more of yield, driving significant demand for well-located properties along I-95 and other major commuter routes. As construction declines this year, investors will be more motivated to raise bids for new properties in the marketplace, providing a tailwind to pricing in the metro. Smaller properties away from major transportation routes will exchange ownership at higher-than-average cap rates in the low-7 percent range but granular insights into local trends will be key for these assets.

2018 Market Forecast

NRI Rank
43, down 2 places
More dynamic growth in other metros pushed New Haven-Fairfield County down two places this year.

Employment
up 0.3%
Employment growth slows moderately as 2,500 jobs are created this year, a 0.3 percent gain. Last year, 5,200 positions were created.

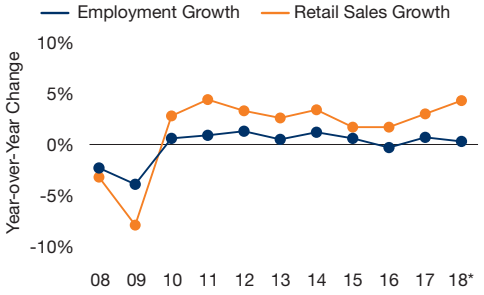
Construction
296,000 sq. ft.
Completions slide to 296,000 square feet in 2018, underpinned by a slowdown in multi-tenant construction. In 2017, 380,000 square feet was brought online.

Vacancy
down 30 bps
Net absorption outpaces subdued development, leading vacancy to contract 30 basis points to 4.1 percent. In the last year, vacancy fell 40 basis points.

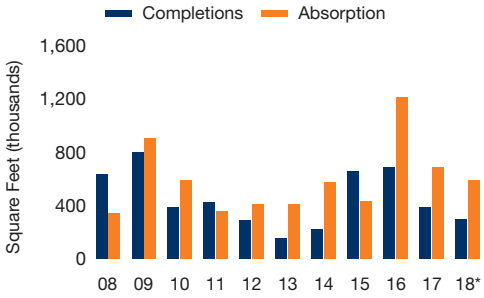
Rent
up 4.6%
The average asking rent advances 4.6 percent to $23.75 per square foot as tightening conditions prompt increased competition. Rent rose 6 percent last year.

Investment
Properties located within walking distance of the Metro North remain highly desirable due to high traffic counts and excellent demographics nearby.

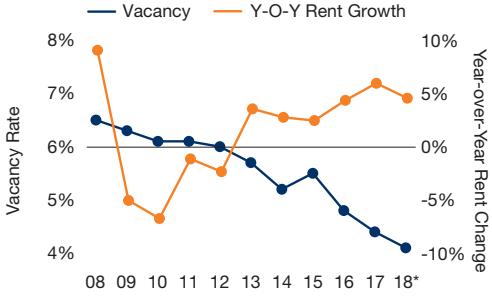
Employment vs. Retail Sales Trends



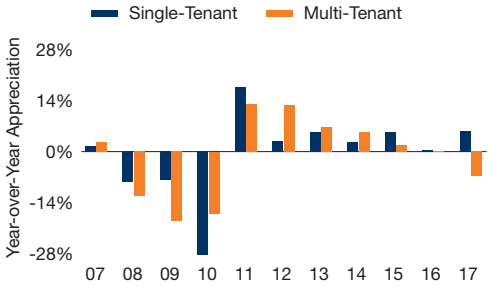
Retail Completions



Asking Rent and Vacancy Trends

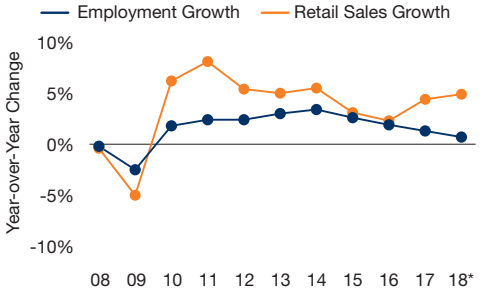


Price Per Square Foot Trends

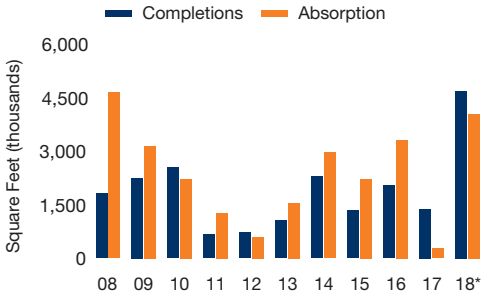


* Forecast
Sources: CoStar Group, Inc.; Real Capital Analytics

Employment vs. Retail Sales Trends



Retail Completions



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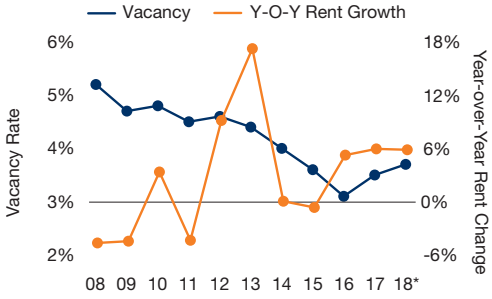

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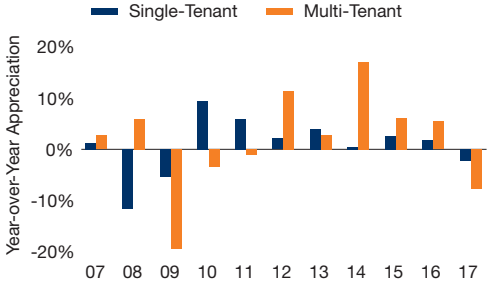


* Forecast
Sources: CoStar Group, Inc.; Real Capital Analytics

Supply Reaches Decade High as Outer Borough Construction Intensifies

Vacancy ticks up moderately from cycle lows but asking rents continue upward trend. A diverse base of employment in New York City, featuring multinationals and startups, has sponsored tremendous strength in the retail sector over the past decade. Vacancy has fallen well below 4 percent as tenants scooped up floor plates throughout the five boroughs, with strength especially pronounced in Manhattan and Brooklyn. Years of improvement have triggered a larger development response this year, and completions will reach the highest level since 2010. Most noticeably, construction will rise in the outer boroughs, led by three-quarters of a million square feet on Staten Island. In Manhattan, the largest delivery will be The Shops & Restaurants At Hudson Yards, where a million square feet of retail, restaurant and entertainment space will come online this year. While the L train shutdown in Brooklyn and tenant shifts in Downtown Manhattan lowered net absorption in 2017, strong pre-leasing at new projects should restore absorption to normal levels this year. The resulting environment will trigger another year of solid rent growth.

Outer boroughs garner investor attention and capital as yields tighten in core neighborhoods. The strong appreciation in asset prices throughout the metro has prompted an investor focus on properties with multiple pathways for upside, particularly among private parties and syndicates. While institutions favor the safety and security of Manhattan and Brooklyn properties, smaller buyers have been searching the outer boroughs for higher returns. Broadly, cap rates remain in the low- to mid-4 percent range metrowide, although locations farther from the core can provide an additional 100 basis points of yield. Rezoning has also opened new pathways for excess returns in several submarkets, yet the capital investment required to realize these gains can be restrictive. The L train shutdown in Brooklyn has begun to shift buyer sentiment and widen bid/ask spreads due to the long timetable on the project.

2018 Market Forecast

NRI Rank
9, down 3 places
Rising vacancy and construction weigh on New York City, prompting a three-space decline in the Index this year.

Employment
up 0.7%
Employers will create 30,000 jobs this year as low unemployment weighs on growth. Last year, 60,000 positions were added to payrolls.

Construction
4.7 million sq. ft.
The pace of completions accelerates as 4.7 million square feet of retail space is brought online, far exceeding the 1.4 million finished in 2017.

Vacancy
up 20 bps
Elevated construction surpasses net absorption, pushing the metro vacancy rate up 20 basis points to 3.7 percent. In the previous four quarters, vacancy rose 40 basis points.

Rent
up 5.9%
The availability of new, high-priced spaces encourages robust growth in the average asking rent, which will ascend 5.9 percent to $63.14 per square foot.

Investment
Transitioning neighborhoods in the outer boroughs along the East River are undergoing considerable appreciation as development nearby revalues local assets.

Boost in Residential Growth Favors Retail Sales, Allows Investors to Diversify

New completions outpace demand. A cycle-high level of household formations fuel demand for necessity-based neighborhood retailers across Northern New Jersey. Developers are responding by constructing three major shopping centers in Morris and Union counties. These projects are benefiting from nationally recognized anchor tenants such as Whole Foods. Yet, store closures in many malls and big boxes are occurring, creating opportunity for developers to reorient the space toward services or entertainment and in some cases redevelop it for multi-tenant use. In the short term, however, shuttered stores will prompt net absorption to fall short of supply, ticking the vacancy rate up this year. As vacancy still remains low and household formations create more demand, average marketed rent will improve this year, recovering from the slight decline suffered in 2017.

Grocery and convenience retailers garner strong appeal; high yields found farther inland. Limited new construction mixed with a favorable 5 percent vacancy rate offer an appealing landscape for investors. Among the rising number of sellers in the market, some are interested in transitioning to less-management-intensive holdings such as single-tenant properties. Purveyors of necessities are especially popular tenants in such scenarios, as trades of properties that house national grocery or drugstore chains feature cap rates in the low-5 or even high-4 percent range. Assets investors have favored for long-term holds include those with stable tenants located in the denser residential areas of Bergen and Hudson counties. For investors seeking higher initial returns, multi-tenant assets situated in Morris, Union, and Passaic counties offer numerous opportunities. Buildings in those counties with locally known establishments, including bars, restaurants and hairdressers, change hands with yields 50 to 100 basis points above the market average of mid-6 percent.

2018 Market Forecast

NRI Rank
39, down 3 places
Widening vacancy causes Northern New Jersey to drop three spots in the NRI.

Employment
up 0.5%
Payrolls will expand by 10,000 positions in 2018, readily outpacing the 800 jobs that joined last year.

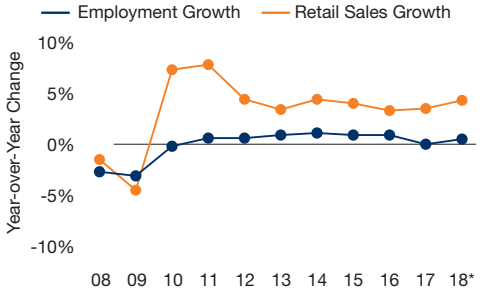
Construction
550,000 sq. ft.
Delivery volume expands by a modest 1.5 percent. Approximately 90 percent of completions are concentrated in Bergen, Morris and Union counties.

Vacancy
up 20 bps
With new supply exceeding demand, the regional vacancy rate rises to 5.1 percent. Premium locales such as Hudson County continue to feature extremely low vacancy below 2 percent.

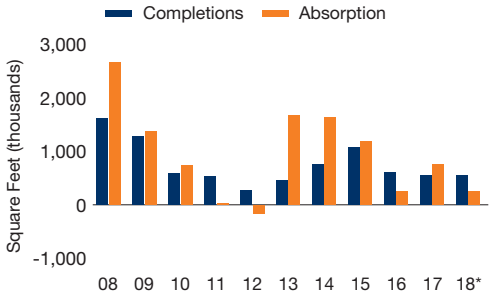
Rent
up 1.2%
The average asking rent increases to $25.87 per square foot, reversing course from the 0.4 percent decline posted last year.

Investment
Union and Morris counties, which have a growing number of households, provide tremendous upside potential for both new assets and older shopping centers that are updating their facilities to sign new tenants.

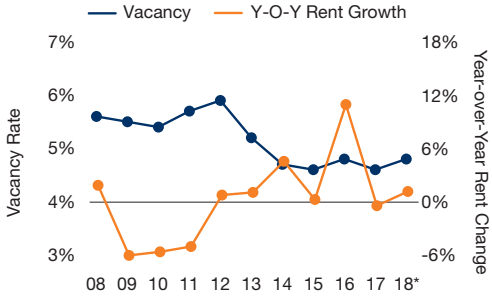
Employment vs. Retail Sales Trends



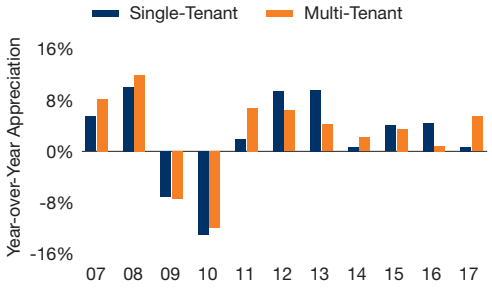
Retail Completions



Asking Rent and Vacancy Trends

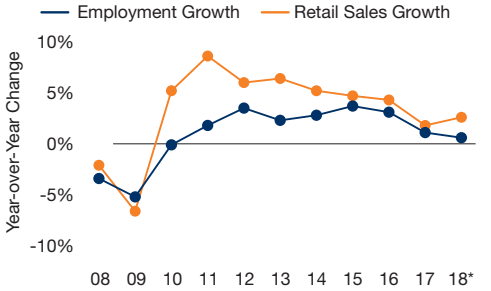


Price Per Square Foot Trends

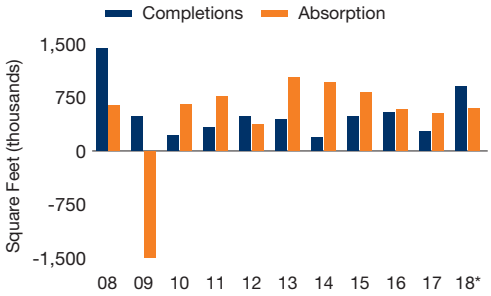


* Forecast
Sources: CoStar Group, Inc.; Real Capital Analytics

Employment vs. Retail Sales Trends



Retail Completions



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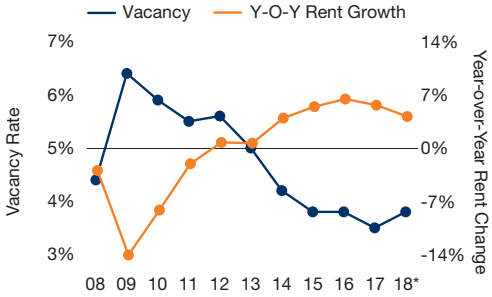
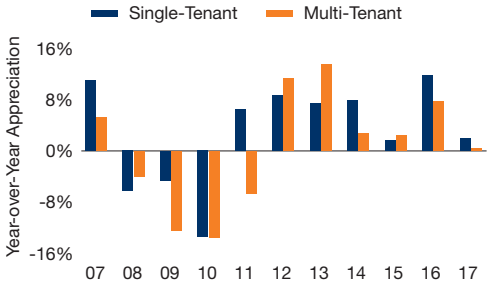


Price Per Square Foot Trends



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

Investors Follow Residents to East Bay Retail; Development Transforming Suburban Locales

Robust pipeline reaches cycle high as large shopping centers come online; rent growth remains above average. Nearly a decade of job creation in the Bay Area has sponsored tremendous strength in the Oakland retail market. As numerous tech firms ventured to the metro, retail tenants followed. They absorbed existing space and pushed the metro vacancy rate well below 4 percent, triggering retail rent growth. As a result, nearby retail space values have vaulted, prompting a broad-based upswing in development activity. The pipeline features several large projects, headlined by the 300,000-square-foot City Center at Bishop Ranch in San Ramon, which contains retail, dining and event space. The predominantly suburban profile of this year's deliveries will focus on staple retail options along major commuter routes, promoting positive net absorption even as deliveries reach the highest point since 2008. While pockets of vacancy increases are likely as the large pipeline is absorbed, the incredibly low availability of spaces will contribute to considerable growth in average asking rent as the year progresses.

Bay Area capital migrating toward East Bay assets as yields offer incentive. Boosted by relatively higher yields than both San Jose and San Francisco, buyers are bidding aggressively for well-located centers and net-leased properties with high traffic counts and solid local demographics. Centers with a community staple such as a grocery store can trade at cap rates in the mid-5 percent band, while more outlying assets can provide a 50-basis-point increase in first-year returns. Properties trading below $5 million provide excellent opportunities for private investors and syndicates, since institutional capital will typically target much larger assets to deploy capital. As a result, elevated returns can be obtained from outlying centers where capital investment is required to realize their potential.

2018 Market Forecast

NRI Rank
21, down 7 places

Elevated construction and a rise in vacancy dropped Oakland seven places in the Index this year.

Employment
up 0.6%

After creating 12,900 jobs in 2017, employment growth slows to 7,000 positions this year as low unemployment weighs on payroll additions.

Construction
900,000 sq. ft.

Completions reach 900,000 square feet as development accelerates from 2017, when 277,000 square feet came online.

Vacancy
up 30 bps

The rapid pace of deliveries strains overall vacancy, pushing the rate up 30 basis points to 3.8 percent. Last year, vacancy slid 30 basis points.

Rent
up 4.2%

The average asking rent advances 4.2 percent to $28.22 per square foot as vacancy remains near the lowest level in nearly 10 years. In the previous year, asking rent climbed 5.7 percent.

Investment

Emerging smart city plans in San Leandro are transforming valuations and sentiment in suburban cities where activity was recently benign.

Supply-Demand Balance Sustains Span of Low Vacancy, Bolsters Investor Confidence

Resilient employment growth, wave of residential development support increased consumer spending. Job creation by retail and professional service-related organizations fuels a bounce-back year for hiring velocity in Orange County amid sub-4 percent unemployment. Payroll expansions by higher-paying tech, financial and software-associated companies encourage household formations and improve overall incomes, with the median household earning more than $87,000 annually. Retailers with plans to expand their footprints this year must scan the metro's existing stock, as speculative construction is limited and a trio of larger, 100,000-square-foot-plus deliveries are entirely pre-leased. Tenant demand keeps pace with average development, allowing metro vacancy to rest below 5 percent for a fifth straight year and preserving extremely limited availability in Central and West County, and around John Wayne International Airport.

Investors covet redevelopment and long-term hold opportunities amid economic growth and stable cap rates. Following a two-year span of heightened deal flow, sales activity in the metro was subdued over the past 12 months, heating investor competition for available listings. The reduction in the number of acquisition opportunities has increased the value of local retail assets, with average pricing notably surpassing the previous cycle's peak. Escalating values could influence some owners of older value-add centers to list, with the lack of new development opening the door for more buyers to execute renovation plays. Coastal communities are a primary focus for local investors seeking assets near tourism spots and affluent residents. Buyers of well-located properties in Huntington Beach, Laguna Beach and Newport Beach accept low-3 percent to 5 percent returns.

2018 Market Forecast

NRI Rank
19, down 7 places

Orange County recedes seven rungs into 19th place due to slow rent growth and retail sales below the U.S. level.

Employment
up 1%

Employers expand payrolls by 15,700 workers in 2018 after adding 20,900 jobs in 2017, including nearly 10,000 hospitality positions.

Construction
510,000 sq. ft.

Retail development in 2018 falls slightly below last year, when developers completed 585,000 square feet. Three projects in Laguna Hills, Garden Grove and Tustin account for 80 percent of this year's new supply.

Vacancy
no change

On net absorption of roughly 480,000 square feet, metro vacancy holds at 4.2 percent following an increase of 20 basis points in 2017.

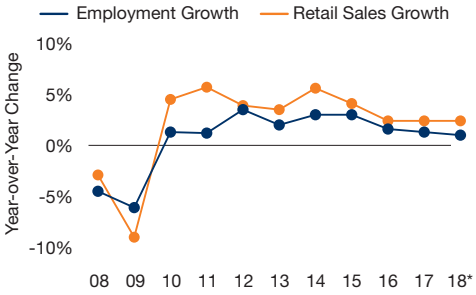
Rent
up 1.3%

The average asking rent advances marginally to $26.24 per square foot by year's end. In 2017, a 1.4 percent decline was registered.

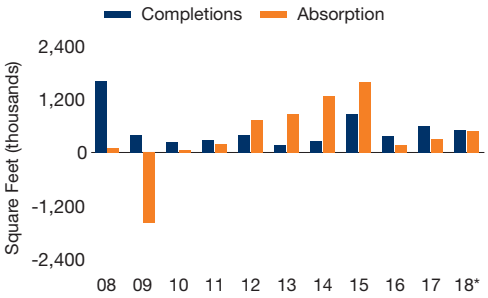
Investment

Investors seeking higher yields in Orange County target centrally located cities. These locales represent a popular spot for pre-1980s-built centers.

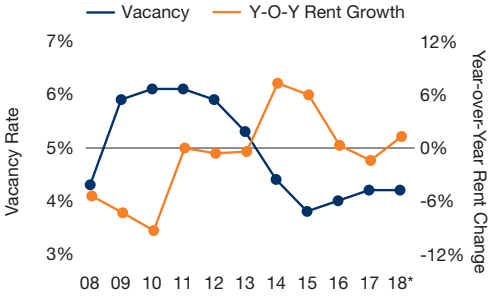
Employment vs. Retail Sales Trends



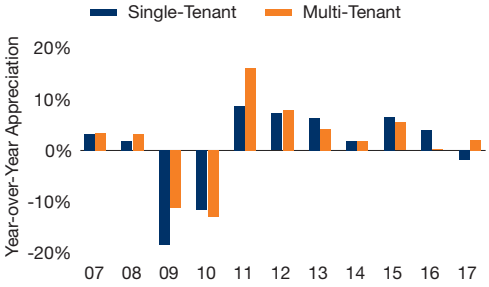
Retail Completions



Asking Rent and Vacancy Trends

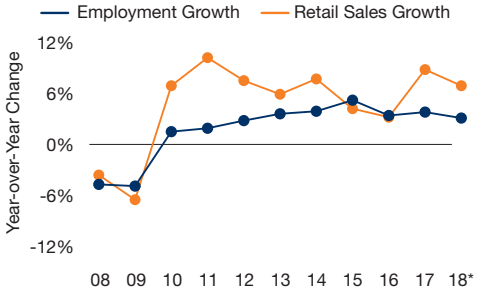


Price Per Square Foot Trends

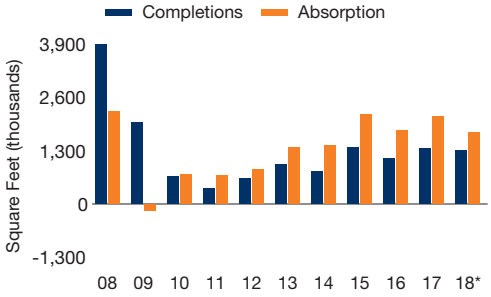


* Forecast
Sources: CoStar Group, Inc.; Real Capital Analytics

Employment vs. Retail Sales Trends



Retail Completions



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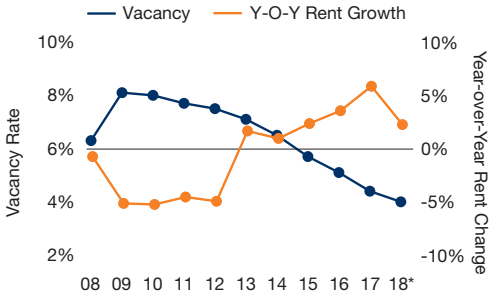
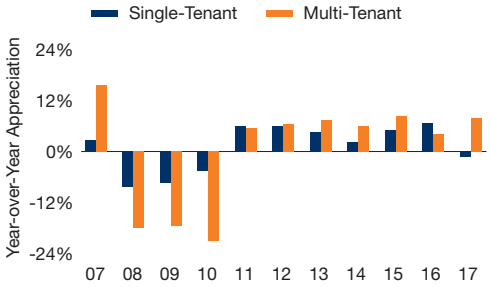


Price Per Square Foot Trends



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

Robust Residential Growth in Orlando Produces a Thriving Retail Market

Vigorous employment gains boost population and generate retail demand. Orlando ranked among the top metros in the nation last year in terms of employment and population growth, a trend that is expected to continue in 2018. Retailers are following new rooftops into outlying areas including Lake Nona, Lake Mary and Horizon West where a number of master-planned communities that include retail options are underway. People and retailers are also moving back into the urban cores of Orlando and Winter Park in mixed-use redevelopment projects. Creative Village in Orlando will add a hotel, a university and apartments to downtown, generating demand for bars, restaurants and service-oriented retailers nearby. Strong tenant demand keeps metrowide vacancy at a 10-year low, providing a sixth consecutive year of annual rent growth.

Yield and growth potential attract buyers to Orlando. Lower entry costs and multi-tenant cap rates that can average more than 100 basis points above South Florida markets draw investors inland to Orlando. Coastal owners confronted with rising insurance costs after last year's storms may also seek to geographically diversify their holdings. Single-tenant net-leased assets on an outlot of a well-located shopping center are especially desired and draw a wide variety of investors. Stiff competition for these assets has more investors willing to consider new strip malls with national tenants that typically begin trading at cap rates in the 6 percent span. Older centers with a roster of small businesses can trade 200 basis points higher. Many investors are targeting multi-tenant buildings with service-oriented businesses that are considered to be more Internet resistant. As a result, buyers have become more selective in properties with multiple big-box stores. Well-located power centers in areas with strong demographics where big-box stores can easily be subdivided may trade for cap rates in the mid-7 percent range in the core and 50 to 150 basis points higher in outlying areas.

2018 Market Forecast

NRI Rank
16, up 5 places

Robust employment and household income growth propel Orlando up five places in the NRI.

Employment
up 3.1%

Roughly 40,000 workers will be added to payrolls during 2018, following the creation of 46,100 jobs in the prior 12 months. Typically higher-paying office-using firms and hospitality segments led last year's employment gains.

Construction
1.3 million sq. ft.

Deliveries mirror last year's completion of 1.3 million square feet. Mixed-use developments will account for the majority of 2018's new retail inventory.

Vacancy
down 40 bps

The vacancy rate decreases to 4 percent in 2018, the lowest level of the cycle. Last year, a 70-basis-point reduction was recorded.

Rent
up 2.3%

Following a 5.9 percent jump last year, the average asking rent rises to $17.95 per square foot in 2018. Year-end rent will remain 6 percent below the 2008 peak.

Investment

Retailers and investors will be drawn to the second phase of the Lake Nona Town Center development, which is slated to add 850,000 square feet of shopping and entertainment space.

Investors and Developers Target Suburbs As Retail Sales Improve

Vacancy remains stable as construction and absorption align in the year ahead. New high-paying jobs in the fields of engineering and healthcare will help boost retail sales growth in 2018 to its highest level in eight years. Developers are providing new space for prospering retailers, especially in suburban areas, specifically in Delaware County, where about two-thirds of new completions are situated. Construction there is split between a major project at Granite Run Mall in Media and another at the Ellis Preserve community in Newton Square. The former is converting vacated department stores into entertainment destinations, while the latter will add a 350,000-square-foot power center to its established retail footprint. As these properties lease up through this year, positive absorption will keep the metrowide vacancy rate flat in 2018. As tenant demand for space in the area remains strong, Philadelphia's average marketed rent will rise for the fifth consecutive year.

Tenancy drives differences in returns, necessity-based retailers favored. Healthy net absorption is sending a positive signal to investors who have renewed their engagement with the market, raising transaction activity over the past year. Most of those trades occurred throughout the Pennsylvania suburbs west of I-476 and north of I-276. Buyers following an equity-preservation strategy pursue buildings with convenience and drugstore tenants in those areas, where yields can be in the mid-4 percent range. National grocery chains, dollar stores and restaurants are also sought-after occupants that facilitate cap rates 100 to 150 basis points below the market average, which lies in the mid-6 percent spectrum. Opportunities also exist for higher initial returns typically created with older shopping centers often occupied by more mom-and-pop or local chain operators. These assets changed hands with cap rates in the 8 percent range.

2018 Market Forecast

NRI Rank
40, no change

Stable vacancy near the national average of 5 percent allows Philadelphia to keep its place in the Index.

Employment
up 1.1%

Payrolls will grow by 33,000 positions this year, about on pace with the nation as a whole. Last year headcounts expanded by 24,100 individuals.

Construction
920,000 sq. ft.

The number of completions will contract by nearly 50 percent from last year as suburban Philadelphia hosts almost all the upcoming space.

Vacancy
no change

Demand for retail space will meet a subdued level of supply, maintaining a vacancy rate of 5.3 percent. Stronger absorption the year before drove vacancy down 30 basis points.

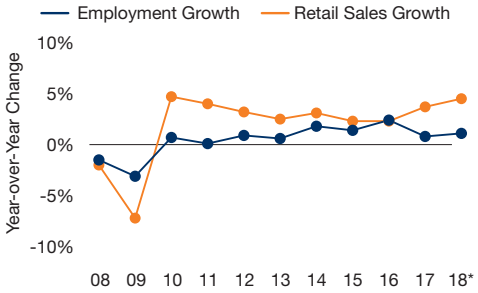
Rent
up 1.8%

After increasing 3.9 percent in 2017, average asking rent will advance again to $17.20 per square foot this year.

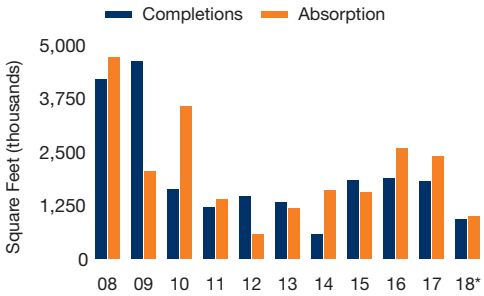
Investment

Multiple single-tenant properties changed hands in suburban areas along U.S. 422 and Interstate 476, as well as in northeast Philadelphia, with yields in the high-5 to high-6 percent zone.

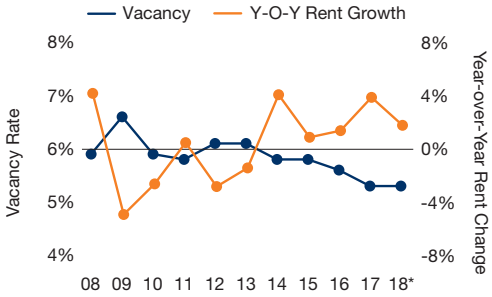
Employment vs. Retail Sales Trends



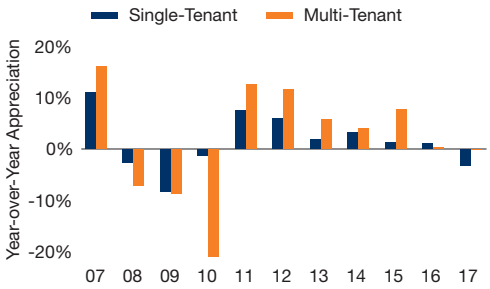
Retail Completions



Asking Rent and Vacancy Trends



Price Per Square Foot Trends



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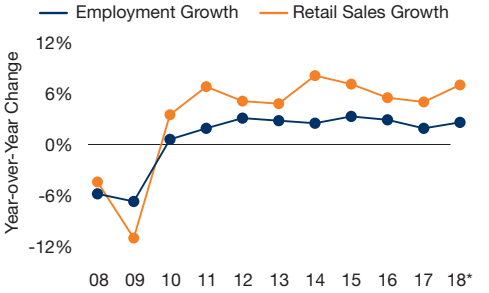
Employment vs. Retail Sales Trends



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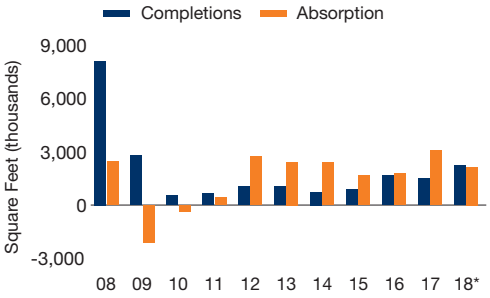

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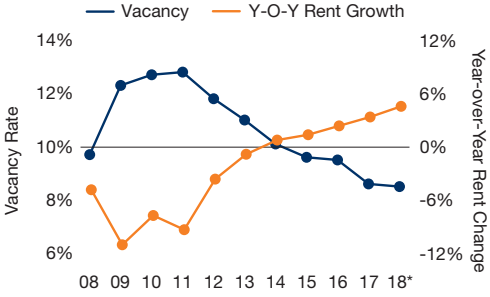
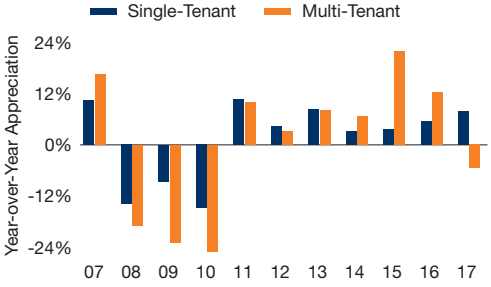


Price Per Square Foot Trends



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

Robust Job Creation Incites Suburban Household Growth, Retail Development

Intense population growth fuels retail demand. Phoenix registers exceptional household expansion in 2018 as more companies in the finance and insurance sector, as well as healthcare, continue hiring in large numbers. Bank of the West plans to add approximately 1,000 employees by year end at its new facilities in Tempe, while State Farm keeps consolidating employees at its nearby Marina Heights buildings. As jobs in this industry fill, new households will form, inducing retail space demand and dropping market vacancy. Rent growth will act in accordance as the metro average price per square foot rises to the mid-$16 range, with areas in central and south Scottsdale claiming the highest figures, which eclipse $23. Increased demand also generates notable development activity, putting the 2018 forecast sum over 2 million square feet. The suburb of Gilbert notes the most retail construction this year as almost 275,000 square feet is slated for delivery. The majority of Gilbert's new supply will be the SanTan Pavilions near Williams Field Road and SanTan Parkway. The new project is anchored by home decor superstore At Home. Fast-casual dining rounds out a large amount of the remaining square footage.

High-yield opportunities in the East Valley entice buyers. Encouraging demographic trends will lure many investors to Phoenix in 2018. Areas just east of downtown Phoenix provide out-of-state investors searching for multi-tenant product with extensive options. Here, first-year yields average in the mid- to upper-7 percent realm. Buyers seeking assets farther from the urban core direct their attention to space located near the Superstition Freeway in the East Valley where a considerable amount of commercial development is ongoing. Properties in this area provide both local and out-of-state buyers with renovation opportunities as current owners struggle to compete with the newer, more ideally located space coming to market. Here, initial returns vary in the 7 to 10 percent range.

2018 Market Forecast

NRI Rank
29, up 2 places
Amplified household growth and a sizable increase in retail sales boost Phoenix two spots.

Employment
up 2.6%
The Phoenix labor pool will expand at a pace more than double the national rate as employers add 53,100 hires to payrolls in 2018.

Construction
2.2 million sq. ft.
Development activity increases this year to a cyclical high. This follows approximately 1.5 million square feet completed in 2017.

Vacancy
down 10 bps
Following a 90-basis-point drop last year, vacancy posts another decrease, driving the rate down to 8.5 percent.

Rent
up 4.6%
Strong tenant demand boosts the average asking rent to $16.36 per square foot. This exceeds last year's 3.4 percent jump.

Investment
Investors from coastal markets will come to Phoenix due in large part to the relatively low entry costs. Parts of the East Valley and areas around Goodyear, where household growth is intense, lure buyers with high-yield opportunities.

Redevelopment of the Riverfront Lures Retailers And Investors to Pittsburgh

Revitalization efforts keep retail vacancy tight. Redevelopments in downtown Pittsburgh are reviving the riverfront, creating a destination spot with retail, housing and recreational activities. The South Shore is a focal point for many of these projects, including rehabbing older buildings into retail concepts and mixed-used spaces. One notable conversion is turning a former whiskey distillery into an artisan market with a rooftop restaurant and an entertainment venue. On the North Side riverfront, a 13-acre development is planned proximate to the former Lazarus-Macy's store that is being transformed into retail, housing and office space. These redevelopments will attract both residents and retailers to the area, keeping vacancy below the metro average. Marketwide, retail sales remain healthy amid steady economic growth as the metro evolved from being a manufacturing powerhouse to housing strong tech and healthcare industries. As a result, retail vacancy remains one of the lowest among the major metros and steady rent growth persists.

Investors stay active in Pittsburgh's southern suburbs. Limited listings and strong demand for retail properties are fueling competition between local buyers and investors from gateway markets, pushing up property values considerably. The average price per square foot is nearing the previous cycle peak and may prompt some owners to list in 2018. Assets in densely populated southern suburbs, particularly near public transport lines, are highly sought after. Rent growth in these suburbs remains significantly above the metro average and vacancy in the 2 percent range can be found. Average first-year returns in the area begin in the low-6 percent span. Yield-driven investors will find opportunities in Westmoreland County where retail properties trade with returns in the low- to mid-7 percent band. Assets along major thoroughfares throughout the county will garner significant investor attention.

2018 Market Forecast

NRI Rank
26, down 2 places

Despite Pittsburgh's low vacancy, negligible employment gains dropped the metro two slots.

Employment
up 1.3%

Hiring will remain above the previous five-year average as employers add 15,500 workers to staffs in 2018. Employment growth is slightly above the national average.

Construction
300,000 sq. ft.

Completions moderate from the 740,000 square feet delivered in 2017. The majority of projects are single-tenant buildings of less than 15,000 square feet.

Vacancy
down 30 bps

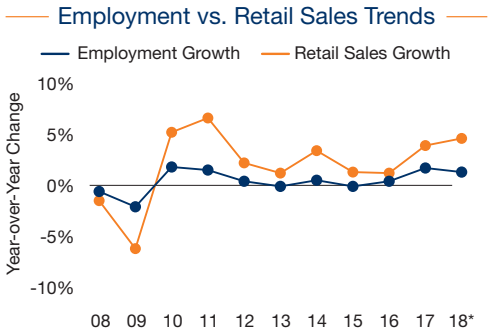
Demand outstrips supply, lowering vacancy to a tight 3.3 percent. Last year, vacancy increased 10 basis points on net absorption of 580,000 square feet. .

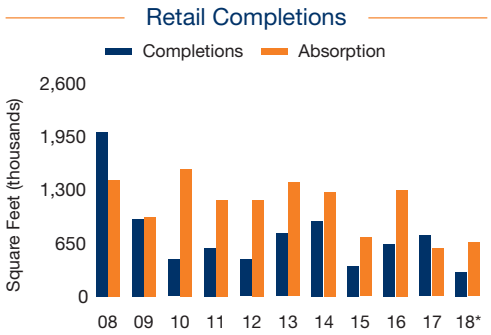
Rent
up 3.7%

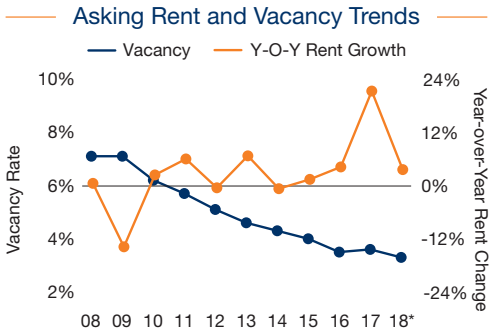
After strong growth in 2017, rental increases will begin to stabilize. Asking rent will reach $17.04 per square foot this year.

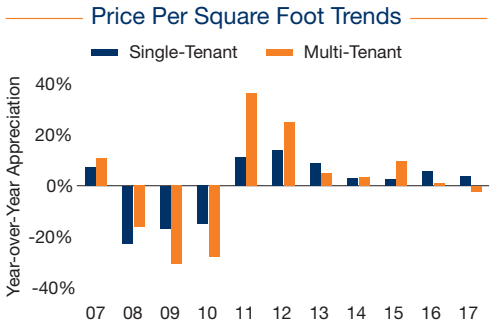
Investment

As efforts to redevelop the riverfront into a destination continue, investors will increasingly demand properties in the area. The conversion of older buildings to mixed-use space may attract attention to these assets.



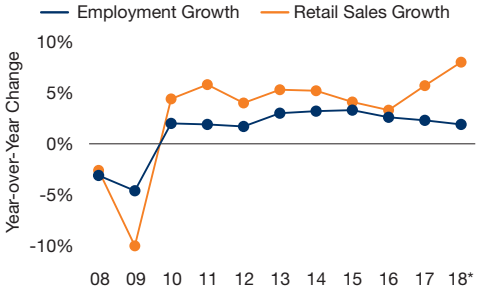




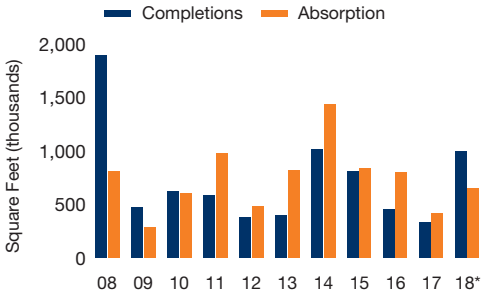


* Forecast
Sources: CoStar Group, Inc.; Real Capital Analytics

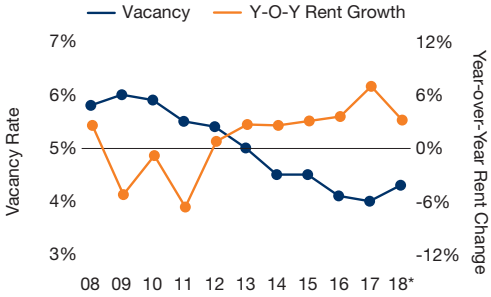
Employment vs. Retail Sales Trends



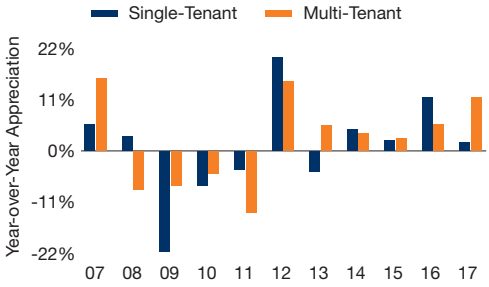
Retail Completions



Asking Rent and Vacancy Trends



Price Per Square Foot Trends



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

Robust In-Migration, Need for Downtown Retailers Provide Plentiful Investment Options

Intensified development activity near urban core lifts vacancy. Robust employment growth among skilled positions in education and healthcare results in a sizable boost in household income, contributing to Portland's noteworthy rise in retail sales this year. That, along with strong household formation, will continue to lure retailers to the metro, contributing to an elevated completion sum in 2018. The new supply is spearheaded by a mixed-use tower on the corner of NW 14th Avenue and Glisan Street. The project includes nearly 240,000 square feet of retail space, as well as 230 apartments. Another sizable development slated for delivery is the Union at St. John's. This mixed-use design, located just south of Pier Park, couples 80,000 square feet of retail space with residential units. While construction within the city limits of Portland heightens, development on the north side of the Columbia River in Vancouver also registers a notable surge as The Waterfront project progresses. Amid escalated deliveries, vacancy posts its first year-end uptick in the expansion, while still retaining a figure below the national rate. Rent growth reflects the rise in vacant space as price advancement moderates in 2018.

Higher yields than other West Coast markets entice buyers. Tight vacancy and an influx of retailers will attract a number of investors to Portland this year. Local buyers were the driving force behind the metro's heightened transaction velocity in the past two years, a pattern that should continue in 2018 as local investors search areas near the central business district for single-tenant assets, particularly in the neighborhoods of Eliot and Irvington. Buyers from primary West Coast markets, as well as some from the East Coast, also focus on properties near the city center. In recent years, these out-of-state investors directed their interest to multi-tenant developments in need of renovations and improved management efficiencies, producing initial returns in the high-6 percent span.

2018 Market Forecast

NRI Rank
8, up 2 places
Portland improves its position in the top 10 as retail sales register a strong boost this year.

Employment
up 1.9%
The metro's employment growth will outstrip the national rate this year as organizations staff 22,000 workers.

Construction
1 million sq. ft.
Portland records a strong increase in development activity this year compared with the 2017 figure of 330,000 square feet.

Vacancy
up 30 bps
As net absorption is outpaced by supply, vacancy posts an uptick, pushing the rate to 4.3 percent. Last year, vacancy decreased 10 basis points.

Rent
up 3.2%
As development intensifies and vacancy climbs, rent growth softens compared with the 2017 measure of 7 percent. This year's average asking rent reaches $20.17 per square foot.

Investment
Investors will seek properties with value-add potential in neighborhoods adjacent to downtown as initial returns for these assets are more favorable than those of outer-ring suburbs.

Raleigh Market Thriving as Tenant Demand Cuts Vacancy to Cyclical Low, Boosting Rents

The metro's strong economic indicators and favorable demographic trends fuel retailer optimism. More than 52,800 additional residents are expected in the Raleigh market by the end of 2018, generating increased need for goods and services. In addition, the growth of higher-paying research and technology jobs has raised the median household income to nearly $9,600 per year above the national level, contributing to a projected 7.7 percent surge in retail sales this year. Grocers in particular are active throughout the metro as Publix, Walmart Neighborhood Market and Wegmans all have stores under construction. Publix will anchor Amberly Place, a 72,000-square-foot retail center in Cary that is scheduled to open during the fall. Publix also plans to open a store in north Raleigh this year. The opening of new grocery stores is attracting tenants nearby, pushing vacancy to the tightest rate in more than 10 years, likely prompting robust rent gains and additional construction projects to begin as the year progresses.

Average prices below cyclical peak leave room for upside potential. The completion of small strip centers and single-tenant buildings on shopping center outlots this year should attract a wide range of investors to the metro including an increased number of exchange buyers. Cap rates typically begin in the low-5 percent area for a new auto-parts store and can range 100 basis points higher for a dollar store. Newer strip centers generally trade in the 6 to 7 percent range depending on quality of location, lease term and credit of tenants. Yield-seeking investors may find first-year returns above 7 percent in older neighborhood and community centers with some local tenants. Well-located centers along established retail corridors may provide redevelopment opportunities. Pricing for multi-tenant assets is roughly 18 percent below the cyclical peak, providing some runway for value appreciation.

2018 Market Forecast

NRI Rank
5, up 2 places
Low vacancy and strong retail sales gains move Raleigh up two spots into fifth place in this year's Index.

Employment
up 2.7%
Following job growth of 2.1 percent last year, a 2.7 percent gain is recorded in 2018 as approximately 25,000 jobs are created.

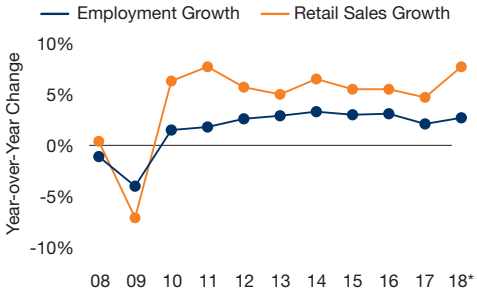
Construction
600,000 sq. ft.
Deliveries ease from nearly 730,000 square feet last year and the RTP-RDU will receive the largest portion of this year's new inventory.

Vacancy
down 20 bps
Net absorption surpasses the restrained construction pace, reducing vacancy to 3.5 percent in 2018, the lowest level in more than 10 years. Last year, vacancy also dipped 20 basis points.

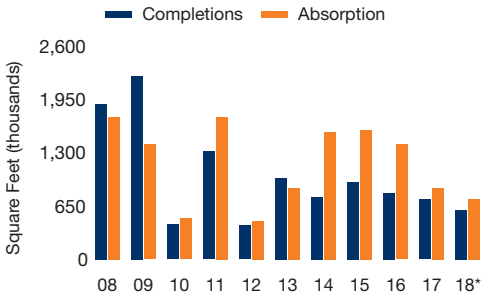
Rent
up 4.4%
Tight vacancy drives rent growth. The average asking rent rises to $18.54 per square foot in 2018, building on a 10.0 percent gain last year.

Investment
Infosys bringing up to 2,000 workers to a tech hub in the Brier Creek area of Raleigh by 2021 should generate interest in retail properties nearby.

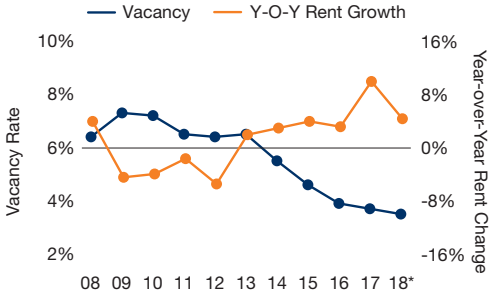
Employment vs. Retail Sales Trends



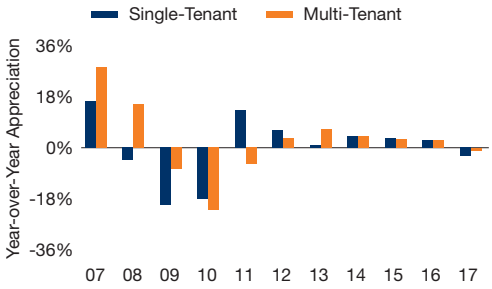
Retail Completions



Asking Rent and Vacancy Trends

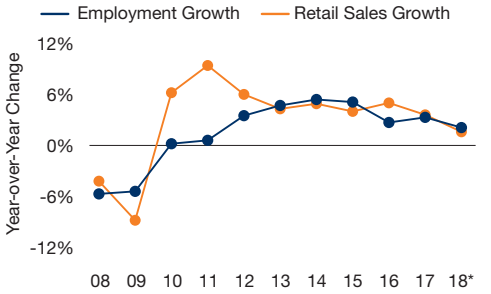


Price Per Square Foot Trends

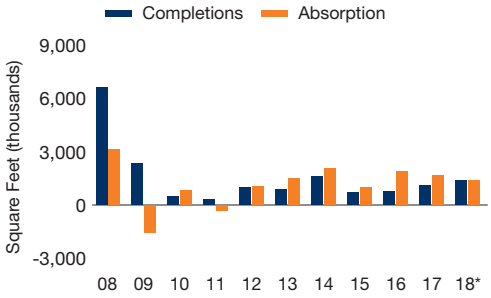


* Forecast
Sources: CoStar Group, Inc.; Real Capital Analytics

Employment vs. Retail Sales Trends



Retail Completions



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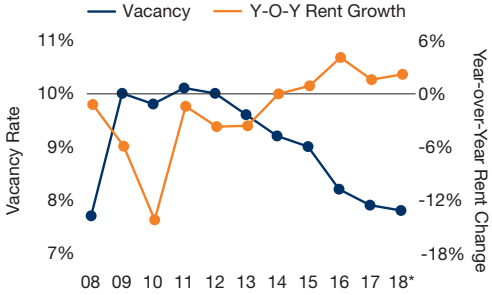
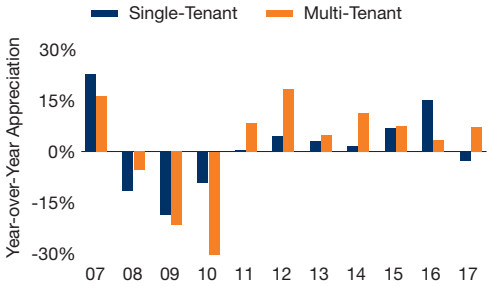


Price Per Square Foot Trends



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

Absorption Matches Development, Fueling Investors' Confidence

Cycle-low vacancy persists amid influx of new supply. Over the past five years, employers created 275,000 jobs, bolstering incomes and driving new household formations. These factors, coupled with the region's lower cost of living, support strong increases in retail spending. In 2018, the metro again leads all Southern California metros in rate of employment growth, albeit at a slower pace than previous years, driven by a sizable logistics industry and steady government and health-related hiring. Continued economic expansion sustains retailers' confidence in the Inland Empire, motivating more tenants to seek additional space or establish a local presence. This demand is met with new supply as more than 50 projects are slated for delivery this year. Yet, a balance between new inventory and net absorption occurs, enabling the metro's vacancy rate to hover near 8 percent for a third straight period.

Newer properties drive deal flow. Motivated by rising asset values and a growing buyer pool, owners list assets with plans of trading up or reinvesting in another property type following disposition. Attracted to pricing trends that trail the previous cycle's peak, more buyers from neighboring metros pursue opportunities locally, targeting cap rates that exceed their home markets by 50 to 100 basis points. Post-2000-built properties are highly coveted throughout the Inland Empire, with investors most focused on centers, fast-food establishments and drugstores constructed within the past 10 years. These assets are sought after in South Riverside County, where the resurgence of single-family construction drives investors to Menifee and Perris. Overall, buyers of newer-vintage properties throughout the metro obtain 4 percent to low-6 percent returns. Investors seeking higher minimum yields target older centers in East San Bernardino County and the Airport Area, home to many sub-$5 million trades.

2018 Market Forecast

NRI Rank
31, up 3 places
Employment growth above the national level will move Riverside-San Bernardino up in this year's NRI.

Employment
up 2.1%
Organizations create 30,700 positions during 2018 including a number of retail-related jobs. Last year, employers added 47,300 workers to payrolls.

Construction
1.4 million sq. ft.
Retail development remains strong following the completion of 1.1 million square feet in 2017. The delivery of 426,000 square feet in East San Bernardino County drives overall construction this year.

Vacancy
down 10 bps
The metro's vacancy rate falls to 7.8 percent this year following a decrease of 30 basis points in 2017.

Rent
up 2.2%
The average asking rent advances to $17.31 per square foot by year end, up from a 1.6 percent gain in 2017.

Investment
Buyers eyeing up to 8 percent yields target the Coachella Valley, home to minimal retail construction and a sizable retiree population. In Chino, a recent boost in residential construction should lure more out-of-state investors.

Investor, Retailer Demand for Existing Space Escalates Amid Limited Development

Metro vacancy benefits from economic expansion, minimal construction. Driven by a trio of employment sectors, healthy job creation persists for a sixth straight year. An influx of government, health and retail-related positions during a time of sub-5 percent unemployment suggests local employers will recruit from outside the metro to fill positions. These relocations will support a stout rate of household formations and thus increased retail spending this year. Heightened resident demand for conveniently located stores, restaurants and shopping centers motivates more retailers to expand footprints or establish a local presence. A limited development pipeline and strong pre-leasing indicate these businesses will lease vacant existing space to expand, reducing the metro's vacancy rate to a 10-year low. Positive net absorption will translate to historically low vacancy in Sacramento and Placer counties, with availability hovering below 5 percent in neighboring El Dorado and Yolo counties.

Investors intensify pursuit of upside-producing properties. Swiftly increasing retail asset values and a growing buyer pool have motivated more owners to list over the past 12 months, heightening deal flow. The gap between the average price per square foot to last cycle's peak suggests further appreciation is likely, coaxing additional owners to market properties this year. A sizable for-sale stock amid declining vacancy should attract more buyers crossing over from other property types, inflating bidding competition. Core-focused investors covet mixed-use properties in downtown and midtown with 5 percent cap rates. Fast-food and restaurant assets in South Sacramento and Arden trade between the low-5 to 7 percent yields. Investors that prefer similar assets in higher-end, suburban communities pursue opportunities in Citrus Heights, North Highlands and Folsom, where cap rates bottom out in the mid-4 percent range.

2018 Market Forecast

NRI Rank 28, up 5 places — Sacramento jumps five rungs in the Index as construction wanes and vacancy tightens.

Employment up 2.0% — Organizations add 20,000 workers to payrolls in 2018 following the creation of 21,800 positions in 2017.

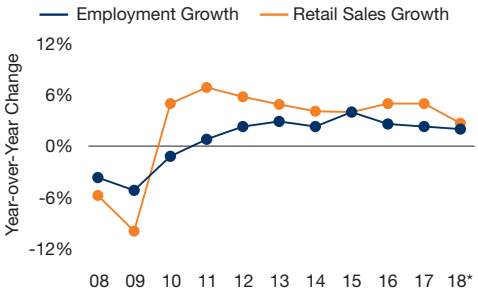
Construction 360,000 sq. ft. — After reaching an eight-year high in 2017, delivery volume dips to its lowest total in six years.

Vacancy down 30 bps — On net absorption of 571,000 square feet the metro vacancy rate drops for a second consecutive year to 6.7 percent. During 2017, vacancy compressed by 130 basis points.

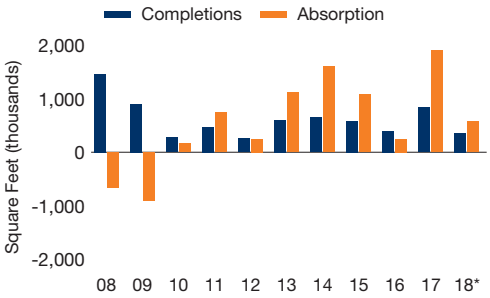
Rent up 2.6% — The average asking rent ends the year at $16.45 per square foot. Last year's rent decline of 5.3 percent suggests more lower quality space was available.

Investment — Bay Area-based buyers and out-of-state investors compete for properties in Rocklin and Roseville near employment hubs and residential centers. Early 2000s-built assets are in highest demand, with buyers accepting high-5 to high-6 percent returns.

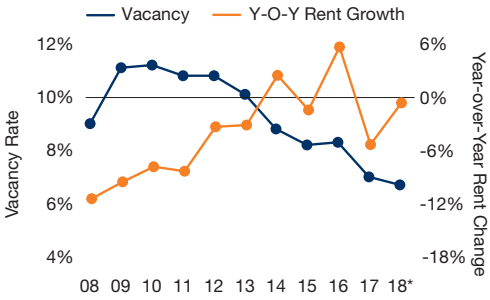
Employment vs. Retail Sales Trends



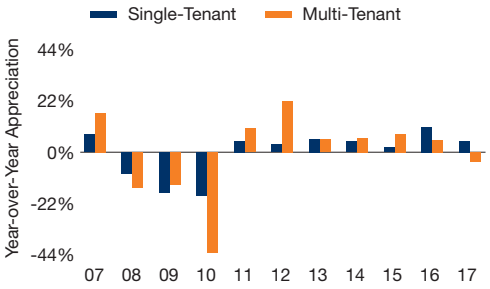
Retail Completions



Asking Rent and Vacancy Trends



Price Per Square Foot Trends



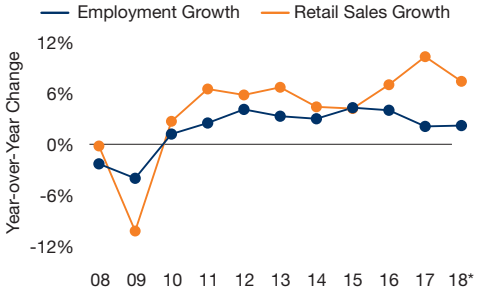
* Forecast
Sources: CoStar Group, Inc.; Real Capital Analytics

Escalated Household Growth, Construction Garner Investor Interest

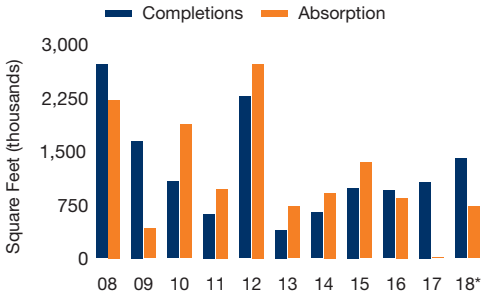
Robust tenant demand produces bolstered rent gains. Employment growth in Salt Lake City remains considerably higher than the national rate, though it will experience a slight slowdown this year. The tech sector leads job creation as Snapchat, Carta and Recursion begin to open new offices along the Wasatch Front during 2018. The labor pool's expansion results in notable climbs in population growth and household formation, both exceeding national levels. As demographic trends remain strong, retailers flock to Salt Lake City this year, prompting construction to reach the highest figure since 2012 when over 2.2 million square feet was delivered. The largest development is Mountain View Village in Riverton, a massive mixed-use development that includes more than 700,000 square feet of retail space. The project also encompasses a hotel and office space. Amid heightened construction activity, metro vacancy will rise this year, pushing the rate over 5 percent. Salt Lake City logs strong rent growth for the fourth consecutive year despite an increased amount of available space.

The availability of portfolio repositioning forges investor interest. Historically, local buyers, as well as investors from coastal markets seeking higher yields, found a number of opportunities within the city limits of Salt Lake City, a trend that should persist in 2018. Properties in the State Street corridor, extending from University Boulevard to the Lincoln Highway, lure many out-of-state investors seeking projects boasting high-traffic locations. Here, multi-tenant assets average initial returns in the low-7 percent realm. The Sugar House neighborhood, an area headlined by a notable nightlife scene, will be a primary target for investors. In this locale, cap rates sit in the high-6 to mid-7 percent range. In-state buyers remain focused on multi-tenant options in communities near South Valley Regional Airport, where first-year yields are typically in line with the metro average, approximately 7 percent.

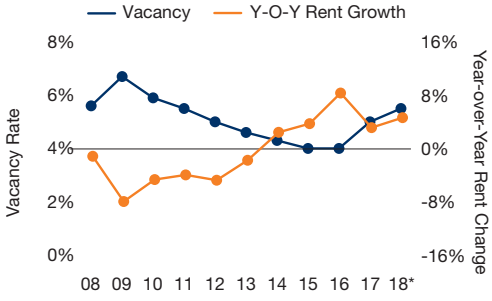
Employment vs. Retail Sales Trends



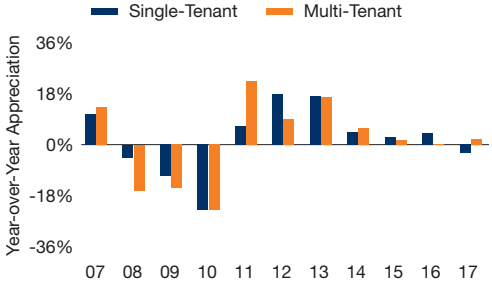
Retail Completions



Asking Rent and Vacancy Trends



Price Per Square Foot Trends



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

2018 Market Forecast

NRI Rank 7, up 2 places — Strong growth in retail sales and healthy rent gains push Salt Lake City up two ranks.

Employment up 2.2% — Salt Lake City organizations staff 27,300 employees this year with tech companies leading the way. Last year, 25,900 workers were staffed.

Construction 1.4 million sq. ft. — The metro reports a increase in development activity this year following a 2017 total of 1.1 million square feet.

Vacancy up 50 bps — Another year of below-trend absorption and rising completions result in a 50-basis-point climb, putting the rate at 5.5 percent. Last year, vacancy rose 100 basis points.

Rent up 4.7% — This year the average asking rent pushes up to $15.88 per square foot. Last year, lease rates increased 3.2 percent.

Investment — Investors will direct their attention to new mix-used developments in Riverton and Sandy, presenting opportunities to capitalize on the surging population and diversify their portfolios.

San Antonio Retail Development Pulls Back; Investors Targeting Assets in the North

Deliveries slow again in 2018, force expanding retailers into existing space. Steady employment gains have attracted thousands of new residents to San Antonio over the last few years, enticing numerous retailers to expand in the market. Strong tenant demand has pushed the vacancy rate near historical lows, and tapering deliveries this year keep the rate 140 basis points below the 10-year average. While retail supply additions have been concentrated throughout the majority of northern San Antonio over the last five years, deliveries begin to shift in 2018 as more than 160,000 square feet of retail space is slated for delivery south of downtown. Several apartment projects are also underway in this area. As housing demand rises, so will the desire for nearby retailers. Demand for retail here has been healthy and met with limited new deliveries, resulting in the vacancy rate falling to 3.3 percent, or 120 basis points below the metro average. Overall, the market's tight vacancy rate results in a modest pace of rent growth this year.

Multi-tenant retail properties in high demand; investors scour San Antonio for deals. New housing construction and rising population spurred robust growth in the northern portion of San Antonio over the last few years, and investors are targeting multi-tenant retail assets here. Two-thirds of last year's transaction activity occurred in northern submarkets and demand for retail properties in the area remains strong in 2018. First-year returns for these assets are typically in the mid-7 percent span. Out-of-state investors are increasingly drawn to the market for attractive yields, increasing buyer competition for available assets. As retail completions fall again this year, existing properties with vacant space or leases expiring soon provide additional room for upside and will be highly sought after by investors.

2018 Market Forecast

NRI Rank
18, down 3 places
As other markets produce stronger improvement, San Antonio slips three slots in this year's Index.

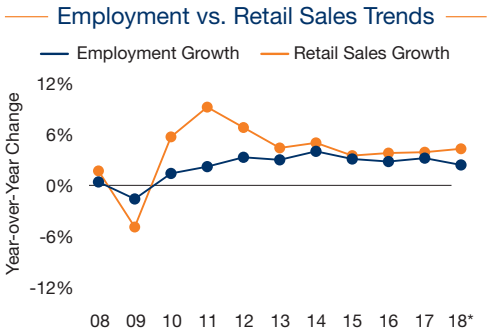
Employment
up 2.4%
Tight unemployment results in a slower pace of hiring this year and employers will add 25,000 jobs in 2018. Payroll additions will be led by the trade, transportation and utilities segment.

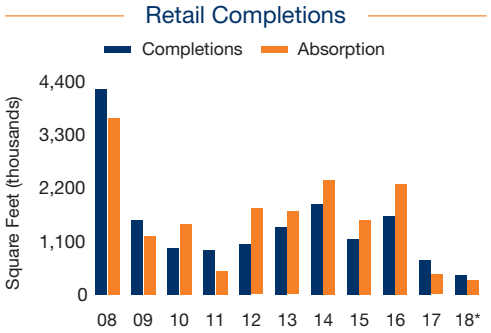
Construction
400,000 sq. ft.
In 2018, retail deliveries will fall below 1 million square feet for a second consecutive year.

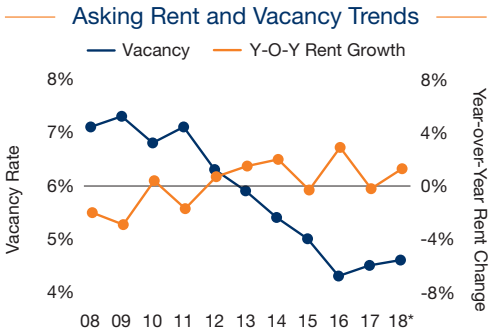
Vacancy
up 10 bps
Supply additions outweigh demand this year as tenants absorb a net 300,000 square feet of retail space, and vacancy rises to 4.6 percent.

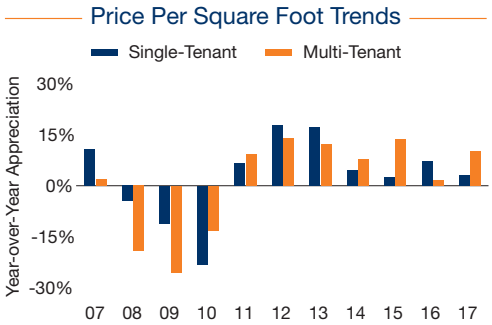
Rent
up 1.3%
Average rent growth for listed space remains subdued this year due to a dearth of high-end dark space, and the average reaches $15.59 per square foot.

Investment
New residential development in the southern portion of the market draws retail developers and investors to the area this year. First-year yields for properties located in southern submarkets can be 25 to 50 basis points higher than northern submarkets in some instances.



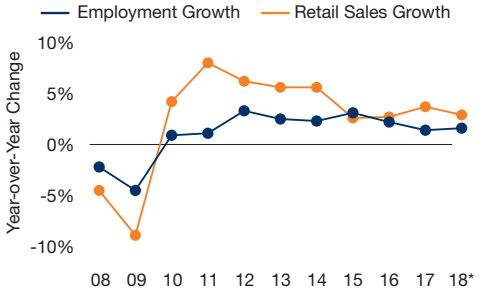




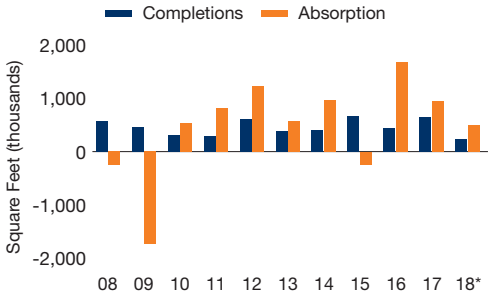


* Forecast
Sources: CoStar Group, Inc.; Real Capital Analytics

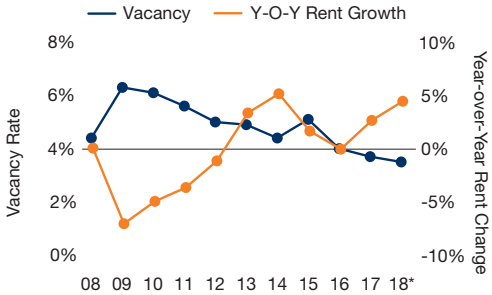
Employment vs. Retail Sales Trends



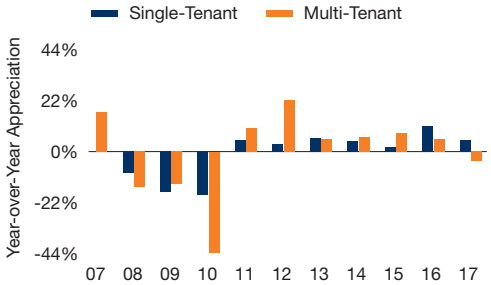
Retail Completions



Asking Rent and Vacancy Trends



Price Per Square Foot Trends



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

Historically Low Vacancy Returns Asking Rents, Asset Values to Previous Cycle's Peak

Retailer demand outweighs construction. Amid low unemployment, the metro continues to experience diversified job growth, consistently producing more than 20,000 positions per year, spurring income growth and household formations. Retailers wishing to expand their footprints could have difficulty finding available space in a metro with sub-4 percent vacancy. A lack of new construction also limits leasing options for growing shops, with just 25,000 square feet slated for completion in the city of San Diego this year. Heightened tenant demand and a lack of development enable the metro's vacancy rate to further compress, which warrants additional rent growth. Pent-up demand for available retail and asking rents that match last cycle's peak could motivate developers with proposed projects to expedite construction timelines moving forward.

Favorable market conditions bolster buyers' confidence. Tight vacancy and solid rent gains support NOI growth, maintaining a high level of investor interest and liquidity in the market. The number Southern California-based buyers vying for listings continues to drive asset values up, motivating some owners to sell while pricing sits at a cycle high. Investor competition for properties in the city of San Diego heats up during a span of limited development. Smaller, well-located storefronts and mixed-use assets that net 5 to 6 percent initial returns remain coveted in central San Diego, Pacific Beach, downtown San Diego and Coronado. To the north, the UTC/La Jolla area represents an additional hot spot for these trades. Buyers in search of post-2000-built properties are drawn to North County cities along the 78 Corridor, home to mid-4 percent cap rates. Metrowide, a minimal number of restaurants and fast-food establishments should come available for purchase this year, driving pricing for these assets.

2018 Market Forecast

NRI Rank
13, down 2 places
San Diego did not gain ground in this year's NRI, moving down two notches as other markets strengthened.

Employment
up 1.6%
Employers boost payrolls by 23,800 positions in 2018, an increase from the 20,500 jobs added in 2017.

Construction
230,000 sq. ft.
Development drops to a cycle-low level this year following the completion of nearly 650,000 square feet in 2017. Retail finalizations at Millenia, a master-planned community in Chula Vista, account for a third of this year's delivery volume.

Vacancy
down 20 bps
Limited construction allows the metro's vacancy rate to compress, ending the year at 3.5 percent. In 2017, a decline of 30 basis points was registered.

Rent
up 4.5%
The average asking rent jumps to $25.15 per square foot after a 2.7 percent gain was posted last year.

Investment
Buyers will seek older convenience stores and dining establishments in dense residential areas of East County and South Bay. Transactions priced below $5 million drive sales velocity in these locales, recording sub-4 percent initial returns.

San Francisco Retail Shines Amid Climbing Rents and Low Vacancy

Slowing pace of construction boosts rent growth in prime locations. The robust Bay Area economy is driving significant tailwinds for the retail sector in San Francisco, underpinned by the lowest unemployment rate since 2000. While development has picked up moderately over the past year with the delivery of 6X6 in Mid-Market, overall tight conditions have prompted a vacancy rate handily below 3 percent for most of the past four years. Construction over the coming year will center on the retail portion of the Salesforce Transit Center and Artists Studio at Pier 70, with completions lagging the 2017 total overall. As a result, the metro vacancy rate will remain at roughly 3 percent for the coming year as tenants compete for available spaces. Meanwhile, average asking rent growth should reach the low to mid single digits, driven by a lack of tenant optionality, particularly for the most desired locations.

Robust appreciation, lack of supply pressure strengthen investor risk appetite toward retail properties. The prospect of continued appreciation is driving buyers to remain active in the market, seeking assets with cap rates in the mid-4 percent band. Institutions bid actively for properties primarily in the city, with an emphasis on buildings in the Financial District, SoMa or the Market District. Meanwhile, private investors and syndicates are journeying toward suburban assets in San Mateo County, where yields can exceed the core by nearly 100 basis points on some occasions. Amid consistent appreciation, strategies involving repositioning and site improvements have gained significant traction, yet returns have largely been arbitraged away as prices for these opportunities increased substantially. Less than 30,000 square feet of new space will come online in San Mateo County this year, dramatically raising prices for well-positioned assets along primary thoroughfares.

2018 Market Forecast

NRI Rank
2, no change

Limited development and extremely low vacancy kept San Francisco unchanged in the second spot this year.

Employment
up 1.4%

After creating 23,000 jobs in 2017, San Francisco employers will add 10,000 workers this year, expanding total employment by 1.4 percent.

Construction
220,000 sq. ft.

Builders complete 220,000 square feet of retail space over the coming year, declining marginally from 280,000 square feet brought online last year.

Vacancy
no change

Vacancy will remain unchanged at 2.9 percent amid an overall shortage of available retail space in the metro. Last year, vacancy rose 20 basis points.

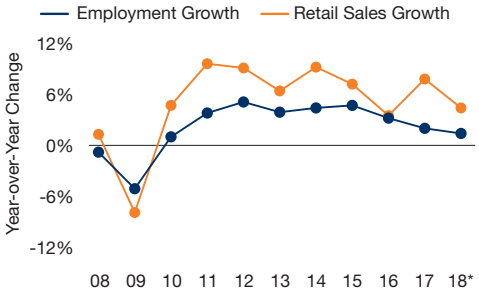
Rent
up 2.8%

The average asking rent advances 2.8 percent to $40.02 per square foot, building on the 3.6 percent rise in the previous 12 months.

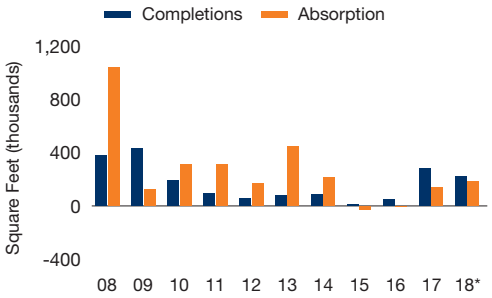
Investment

Assets near new corporate campuses have seen significant growth in traffic counts, boosting value substantially as the market reprices these assets.

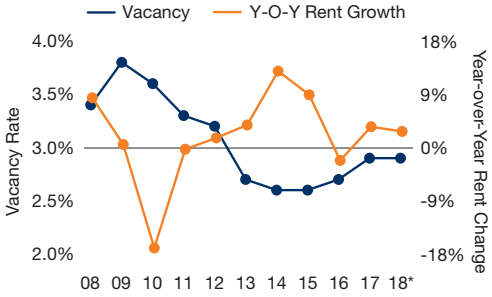
Employment vs. Retail Sales Trends



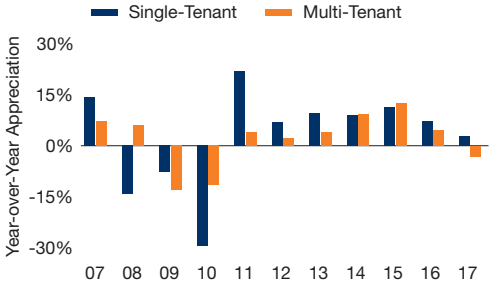
Retail Completions



Asking Rent and Vacancy Trends

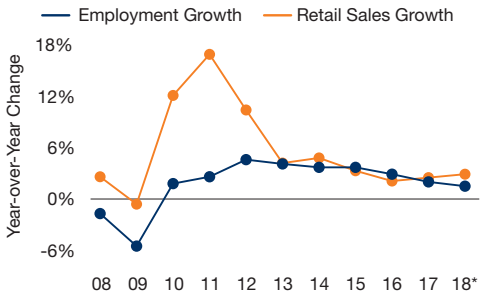


Price Per Square Foot Trends

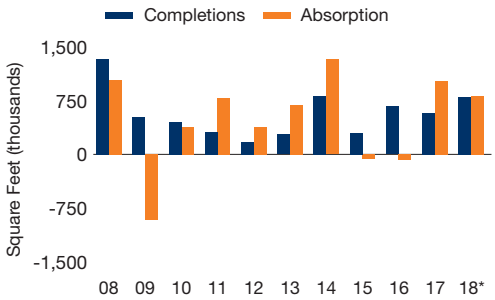


* Forecast
Sources: CoStar Group, Inc.; Real Capital Analytics

Employment vs. Retail Sales Trends



Retail Completions



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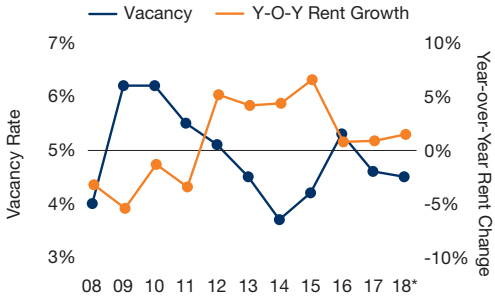
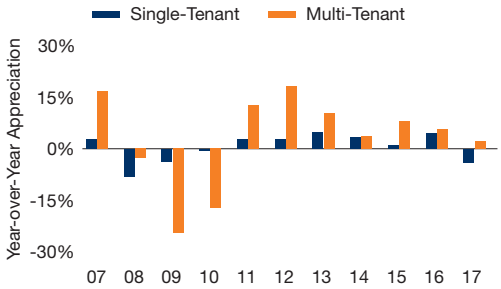


Price Per Square Foot Trends



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

Prosperous Retail Environment in San Jose Underpinned by High-Paying Job Market

Re-acceleration of development to balance out supply and demand; momentum remains extremely positive. Buoyed by significant employment growth and wage gains throughout the Bay Area, San Jose retail properties have benefited from the highest median household income in the country. The subsequent marketplace has pushed the retail vacancy below 5 percent as net absorption increased in 2017, reversing the course of the prior two years. The surge in demand will be met by the highest deliveries since 2014, with completions focused on shopping centers in South San Jose and Mountain View, where nearby corporations should provide foot traffic and revenue for retailers. While heightened development will trigger a more muted decline in vacancy than prior years, the average asking rent will reach a new cycle high as economic momentum and tight vacancy contribute to a more competitive leasing environment.

Transitioning neighborhoods take center stage as cap rates tighten to cycle lows; long-term investors flourish amid record pricing. As the virtuous cycle of higher prices and tighter cap rates continues to dominate the broader retail landscape, investors are scouring the metro for premier assets that command significant location and pricing advantages relative to the average property. Shopping centers near corporate campuses in Los Gatos, Mountain View and Palo Alto remain the most attractive in the market, driving cap rates down to the high-4 to low-5 percent band in these areas. Broadly, an extra 50 basis points of yield can be obtained in more suburban locations, particularly in South San Jose. An expanding slate of development in these areas will encourage more capital allocation to the transitioning neighborhoods, which will likely tighten the spread to more established locations over the coming year. Value-add opportunities have largely been arbitraged away, with market prices reflecting the intense competition for these assets.

2018 Market Forecast

NRI Rank
15, down 2 places

Limited rent growth and rising construction dropped San Jose two places in the Index this year.

Employment
up 1.5%

A lack of qualified applicants leads metro employers to hire 17,000 workers this year, a 1.5 percent rise in payrolls. Last year, 22,200 jobs were created.

Construction
800,000 sq. ft.

Construction firms complete 800,000 square feet of retail space this year, accelerating deliveries from 580,000 square feet in 2017.

Vacancy
down 10 bps

The metro vacancy rate contracts 10 basis points to 4.5 percent as net absorption overtakes heightened development. Last year, vacancy dropped 70 basis points.

Rent
up 1.5%

The average asking rent rises 1.5 percent to $33.61 per square foot as greater competition pushes prices higher. In the previous year, asking rent climbed 0.9 percent.

Investment

Undervalued neighborhoods such as Milpitas and North San Jose offer investors higher rates and valuations should rise as buyers seek more elevated return profiles.

Thriving Retail Sector in Seattle Vaulted By Exceptionally Strong Labor Market

Seattle powers through retail sector malaise. A healthy economy is translating into robust performance for retail in Seattle, aided by one of the best job markets in the nation last year. Strong fundamentals, including vacancies under 3 percent in the city of Seattle and on the Eastside, are outweighing challenges that the sector has been facing recently. While retailers such as Toys "R" Us, Sam's Club and Sears are closing locations across the Puget Sound this year, rising tenant demand for large footprints will quickly fill these dark spaces. Grocers, fitness centers and sporting goods retailers are some of the tenants that have been in expansion mode across the metro, and they are showing no indication of slowing down. Deliveries will hold above the five-year average in 2018, though most new space will come online already signed for, keeping retailers' options limited to mostly existing storefronts. The largest project anticipated for completion is the 400,000-square-foot Village at Totem Lake in north Kirkland, which incorporates office space and apartments.

Investment activity maintained as Seattle nears gateway market status. The flight to safety into well-positioned retail across Seattle remains a driving force of investment activity. High credit single-tenant net-lease properties hold their appeal to a broad pool of investors, including international and institutional capital. These assets generally trade with cap rates in the low-4 percent band, dependent on tenant quality and lease length. Higher prices at this point of the cycle, along with tighter cap rates, motivate some buyers to consider strip centers, which often trade 100 basis points higher. Activity will continue to grow in suburban locations as competition in the urban core causes buyers to expand their search. First-year yields in Everett and Tacoma average 80 to 160 basis points higher than those in the city of Seattle, adding to the attractiveness of suburban investment.

2018 Market Forecast

NRI Rank
1, no change

Seattle leads the Index once again, held up by low supply-growth risks and strong employment gains.

Employment
up 2.4%

The creation of 54,700 jobs in 2017 brought the jobless rate down to 4 percent. In 2018, job growth slows to 48,000 new positions as the labor market tightens.

Construction
780,000 sq. ft.

Following the strongest annual boost to inventory since 2009 with the completion of 990,000 square feet last year, deliveries ebb to 780,000 square feet this year.

Vacancy
down 30 bps

Robust pre-leasing and strong tenant demand brings the vacancy rate down to 3.6 percent by year end, the tightest metrowide rate in more than a decade.

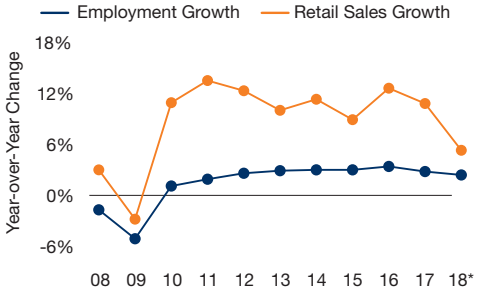
Rent
up 4.3%

The average asking rent climbs to $21.64 per square foot this year, marking a slower pace than the 5.4 percent increase registered in 2017 as landlords seek to expedite new lease agreements.

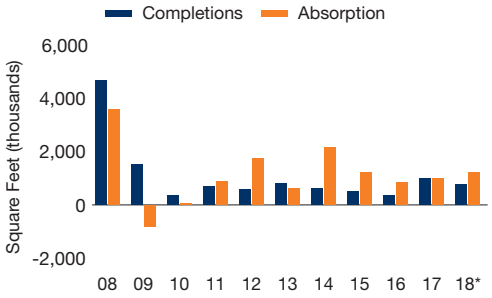
Investment

Following high trading volume and strong asset appreciation in the urban core over the past several years, investors will increase searches in Pierce and Snohomish counties in 2018 for greater upside.

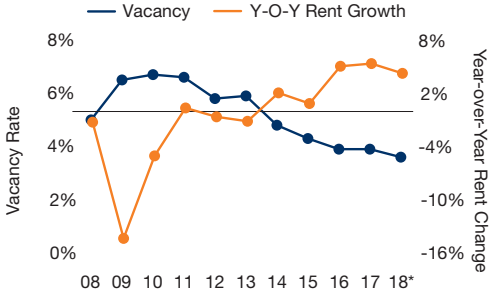
Employment vs. Retail Sales Trends



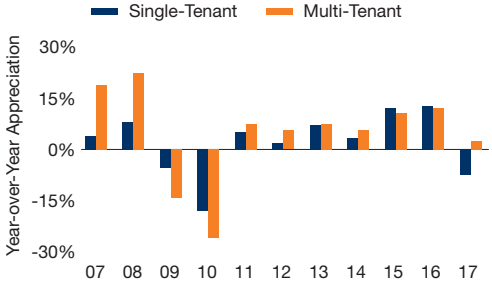
Retail Completions



Asking Rent and Vacancy Trends

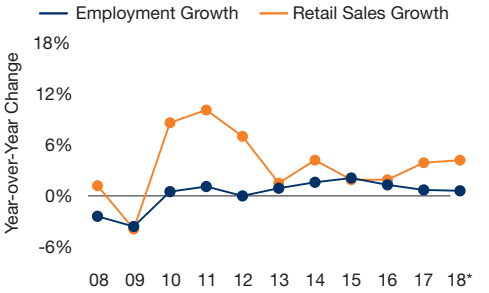


Price Per Square Foot Trends

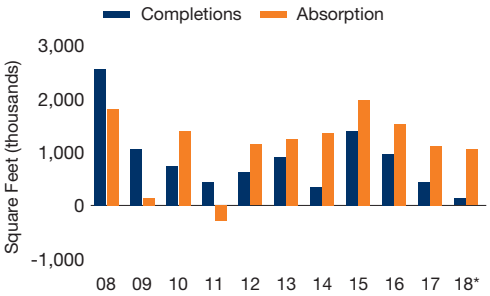


* Forecast
Sources: CoStar Group, Inc.; Real Capital Analytics

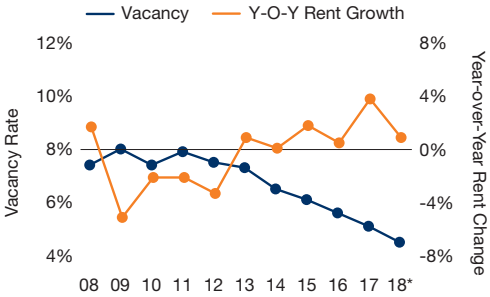
Employment vs. Retail Sales Trends



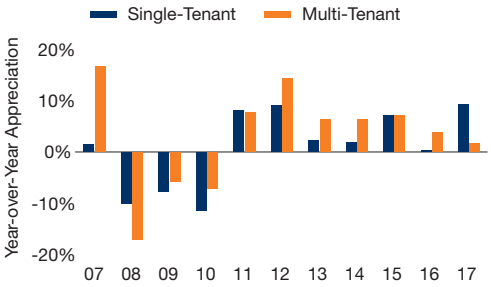
Retail Completions



Asking Rent and Vacancy Trends



Price Per Square Foot Trends



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

Seven Years of High Demand Empower Market; Investors Turn to Metro for Attractive Returns

Strong tenant demand amid sparse construction supports further vacancy decline and rent appreciation. Retail sales will grow at their fastest rate in four years, partly thanks to increased demand from an expanding labor market and influx of newly formed households. Amid positive demographic trends, retailers are adding stores, as several national chains recently opened new establishments in the metro. Wireless service providers Boost Mobile and T-Mobile lead the way with 10 new locations situated throughout the Missouri and Illinois suburbs. These and other retailers are occupying existing space, as construction slows in 2018 with a small amount of sub-35,000 square-foot structures arriving in bedroom communities such as Eureka. The modest amount of new supply is outstripped by positive absorption, reducing the marketwide vacancy rate for the seventh consecutive year. Limited inventory availability will place further upward pressure on asking rent, which is up 8.3 percent from its cycle trough.

Prices improve as suburban retail centers facilitate multiple investment strategies. Substantial amounts of capital continue to flow from the coasts into the Gateway City and surrounding area, due in part to high yields. With a market average cap rate of mid-7 percent, St. Louis exceeds similar measurements of Chicago, Cincinnati and other Midwest metros. Initial returns 100 to 150 basis points higher can be obtained from shopping centers located north and west of I-270, where tenants include local bars, restaurants and bargain grocers. Properties with anchor tenants such as Walgreens and Walmart trade below market, from high-5 to mid-6 percent. A similar product would exhibit a sub-5 percent yield in major East Coast cities. This regional advantage is one reason transaction velocity increased to an eight-year high in 2017. Healthy demand for a range of assets has caused prices to appreciate 18 percent from their pre-recession levels as well.

2018 Market Forecast

NRI Rank
46, no change
Despite a drop in vacancy, mild income growth will keep St. Louis from advancing off the bottom of the NRI.

Employment
down 0.6%
Payrolls will expand by 8,700 positions this year, down from 9,800 jobs in 2017. Healthcare remains the most populated field.

Construction
130,000 sq. ft.
Down from the 450,000 square feet added to the market last year, the reduced construction pipeline allows newly finished buildings time to lease up.

Vacancy
down 60 bps
Net absorption will surpass new completions for the seventh year in a row. The vacancy rate will fall to 4.5 percent, well below the recession-period high of 8 percent.

Rent
up 0.9%
The average asking rent will rise to $13.10 following near 4 percent growth reported in 2017.

Investment
Some institutional investors are targeting properties in St. Louis' Illinois suburbs, where power centers situated along major roadway exits, adjacent to apartments, attract premium tenants.

Strong Population Growth Propels Tampa-St. Petersburg Retail Market

Favorable economic and demographic trends bolster retail market. Annual population growth will be more than double the U.S. rate in 2018, as nearly 55,000 additional residents reside in the Tampa-St. Petersburg metro. Many are lured to the region by employment opportunities. This influx of people generates demand for goods and services, pushing retail sales higher and attracting businesses. Retailers planning to open multiple stores this year include Anytime Fitness, Jiffy Lube, Goodwill and Zaxby's Chicken. Increased tenant demand coupled with deliveries below the five-year average tighten vacancy to the lowest level in more than 10 years. Limited availabilities will promote a fourth year of rent growth. Rising rents, especially along major thoroughfares in urban neighborhoods, is allowing more redevelopment projects to pencil, drawing new retailers to these areas.

Infill urban neighborhoods provide redevelopment opportunities. Strong operations are attracting a wide variety of investors to retail assets in the Tampa-St. Petersburg market. Exchange buyers are especially active, many seeking new assets along major retail corridors with national or regional tenants at cap rates in the 6 percent span. As competition for the limited supply of single-tenant properties intensifies, those willing to take on more risk are looking for multi-tenant assets in growing communities of Southeast Hillsborough County or Pasco County. Here, well-located Class A properties that have national tenants trade at cap rates in the mid-to upper-6 percent area with yields 100 to 200 basis points higher for Class B/C buildings. Many older retail assets in dense urban neighborhoods are ripe for redevelopment. Properties along major retail corridors in South Tampa and St. Petersburg where the median household income rests above the metro average are particularly desired.

2018 Market Forecast

NRI Rank
19, up 1 place

Tampa-St. Petersburg rises one notch in the NRI ranking due to stout absorption and declining vacancy.

Employment
up 2.5%

Roughly 34,000 workers will be added to payrolls during 2018, up from 29,400 last year, when the relatively higher-paying professional services and healthcare sectors dominated job growth.

Construction
1.2 million sq. ft.

Deliveries rise slightly from last year's 1.1 million square feet with East Tampa receiving the largest portion of this year's new inventory.

Vacancy
down 30 bps

Vacancy declines 30 basis points to 4.8 percent in 2018 on net absorption of nearly 1.7 million square feet. Last year, vacancy held steady at 5.1 percent.

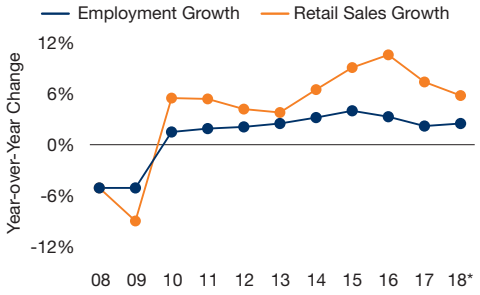
Rent
up 3.7%

Strong demand for retail space will elevate the average asking rent 3.7 percent to $16.19 per square foot in 2018, building on a 5.5 percent gain one year earlier.

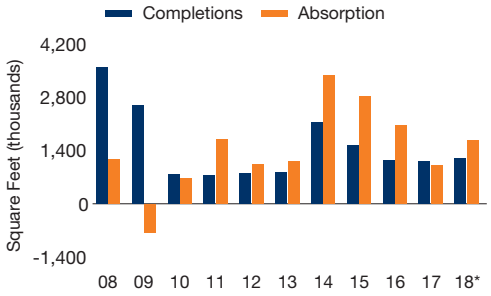
Investment

Mixed-use developments with a retail component on the ground level are providing new infill assets in densely populated urban neighborhoods.

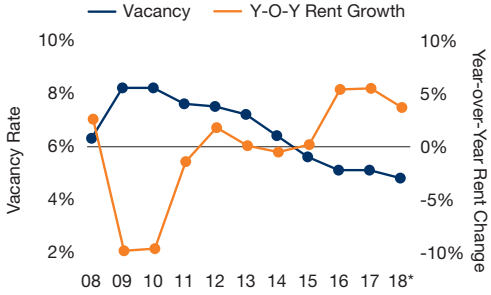
Employment vs. Retail Sales Trends



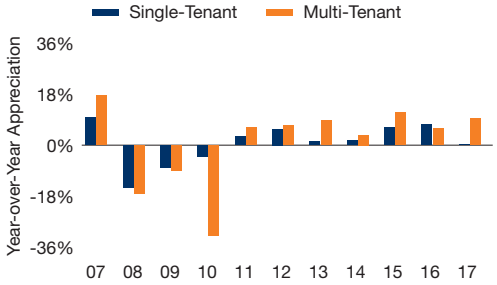
Retail Completions



Asking Rent and Vacancy Trends

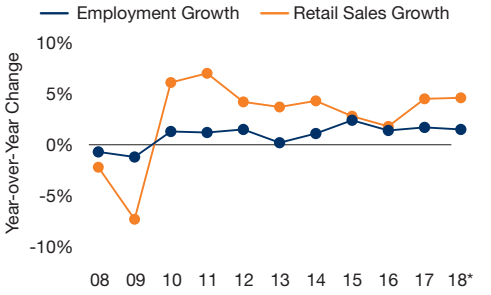


Price Per Square Foot Trends



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

Employment vs. Retail Sales Trends



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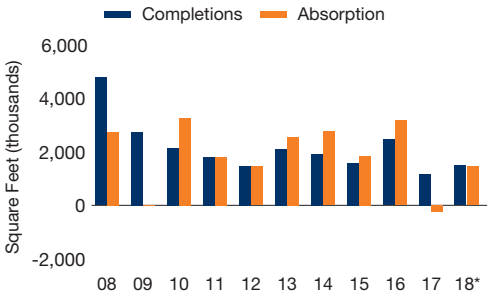

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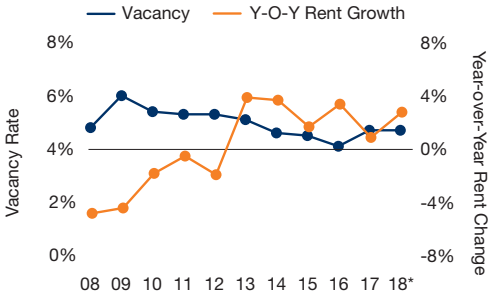

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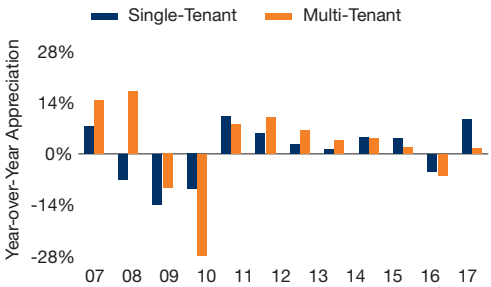


* Forecast
Sources: CoStar Group, Inc.; Real Capital Analytics

Well-Compensated Employees Aid Retail Growth; Investment Opportunities Prevail Metrowide

Growing consumer confidence uplifts retail; construction dominated by multi-use shopping centers. Young professionals moving into the area to fill high-wage jobs and an increased rate of household formation are both adding to the number of consumers. This in turn boosts retailers' prospects, especially those located within mixed-use properties with both offices and apartments. A considerable portion of the 2018 construction pipeline consists of town-center-style developments situated in suburban parts of northern Virginia and Maryland. A high rate of pre-leasing indicates that demand for new space is strong, prompting net absorption to return to positive levels for 2018. As demand nearly matches supply, marketwide vacancy rate will not change. The metro's marketed rents will continue to rise, supported by substantial increases in areas such as Alexandria, Bethesda and around Dulles International Airport.

Necessity-based retailers provide options outside popular Beltway. Washington, D.C., hosts a broad range of retail offerings that allow numerous methods for deploying capital. Property situated within the Beltway continues to attract the majority of investor focus. Here, opportunities exist for buyers to acquire assets for long-term holds, as transactions close with cap rates 100 to 200 basis points below the metro average of 6.5 percent. Buildings that house widely known drugstore and grocery chains and are situated farther afield of the capital will also produce lower initial yields. Such structures located along transit routes connecting D.C. to Baltimore sold for cap rates below 6 percent this past year. Investors interested in greater first-year returns may target properties positioned along I-95 near Fredericksburg, where recent deals report cap rates in the low-7 to high-9 percent range.

2018 Market Forecast

NRI Rank
25, down 2 places
A high level of construction will cause the nation's capital to slip two positions in the Index.

Employment
up 1.5%
Payrolls expand at almost the same pace as in 2017 with 50,000 new positions added to the market.

Construction
1.5 million sq. ft.
Developers will surpass last year's delivery of 1.2 million square feet, with completions concentrated in northern Virginia, particularly around Leesburg and Route 28 near Dulles International Airport.

Vacancy
no change
Recovering demand will keep the vacancy rate at 4.7 percent. Last year negative absorption drove vacancy up by 30 basis points, ending a four-year run of declines.

Rent
up 2.8%
Average asking rent will increase to $27.65 per square foot in 2018, improving upon the 0.9 percent growth rate reported in 2017.

Investment
Although a smaller amount of total inventory, multi-tenant properties dominate the pool of recent transactions, primarily between the Virginia and Maryland suburbs. The average cap rate for this asset type lies below the metro rate at a low-6 percent.

Investor Demand Magnified by Strong Retail Property Metrics, NOI Growth

Strong in-migration trends, affluent population spur retailer expansions. An economy that is operating at near capacity has contributed to Palm Beach County's jobless rate sitting at 3.5 percent going into 2018, driving the local retail sector. Migration to the county also remains robust, drawn by a favorable climate and low tax environment, adding to retail demand. This year more than 21,000 households are anticipated to be formed, mirroring last year's growth and fueling the expansion of necessity-based retailers across the county. These increases and a sizable wave of recent apartment deliveries bode well for the local retail sector, leading companies like Bed Bath & Beyond, LA Fitness, Starbucks and T-Mobile to increase locations in Palm Beach County. Subdued retail development and strong preleasing steer more expanding retailers to existing properties, reducing the metro's vacancy rate to a historically low level. Heightened tenant demand amid limited availability support a robust rate of rent growth that notably surpasses gains experienced in other South Florida markets.

Stable yields, strong economic growth attract mix of investors. More properties came to market last year, notably improving deal flow with most buyers netting low-5 to low-7 percent yields. While values have advanced of late, Palm Beach County's average pricing remains significantly below the Miami metro, sustaining its appeal to both regional and institutional investors. West Palm Beach represents a primary target among buyers eyeing older storefronts and strip malls at sub-$3 million price tags. Investors focused on larger, 100,000-square-foot-plus centers pursue opportunities in North Palm Beach, namely Palm Beach Gardens, at above-average pricing. Local and in-state buyers should hunt for smaller, mixed-use properties in Delray Beach and discounted opportunities in Boynton Beach, where a mix of 1970s- to 1990s-built assets are available.

2018 Market Forecast

NRI Rank
14, up 4 places
West Palm Beach climbs four spots, leading the Florida markets on strong household incomes and retail sales.

Employment
up 1.6%
Employers expand with 10,000 jobs in 2018, down 1,200 positions compared to 2017's growth.

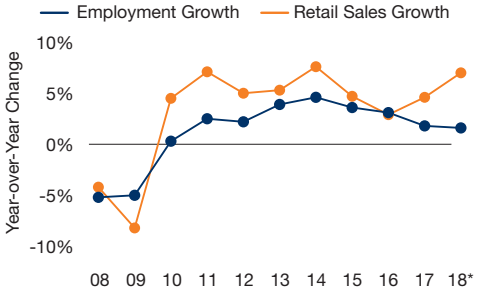
Construction
260,000 sq. ft.
Development activity slows following the completion of 330,000 square feet last year. A 137,000-square-foot expansion of a neighborhood center in Delray Beach represents the largest upcoming delivery

Vacancy
down 40 bps
Net absorption of 500,000 square feet outpaces delivery volume, reducing the metro's vacancy rate to 4.1 percent. In 2017, a decline of 10 basis points was recorded.

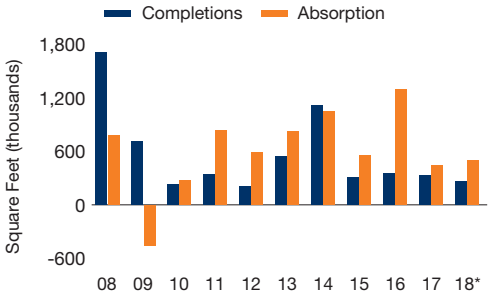
Rent
up 6.2%
The average asking rent continues to climb at a strong clip, ending the year at $24.49 per square foot after advancing by 11.8 percent last year.

Investment
A span of limited construction motivates value-add buyers to scour the county for remaining upside, though investors will find these assets to be fully priced as inventory shrinks.

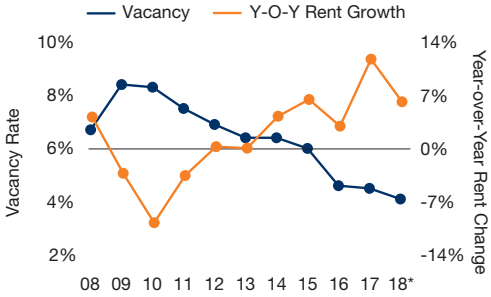
Employment vs. Retail Sales Trends



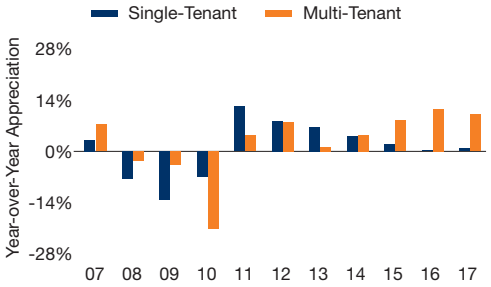
Retail Completions



Asking Rent and Vacancy Trends

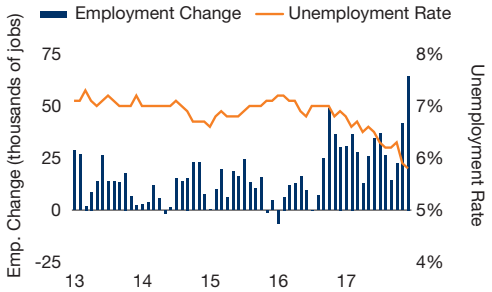


Price Per Square Foot Trends

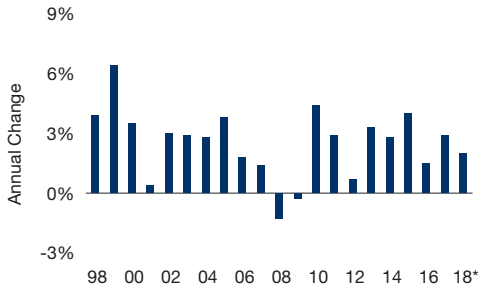


* Forecast
Sources: CoStar Group, Inc.; Real Capital Analytics

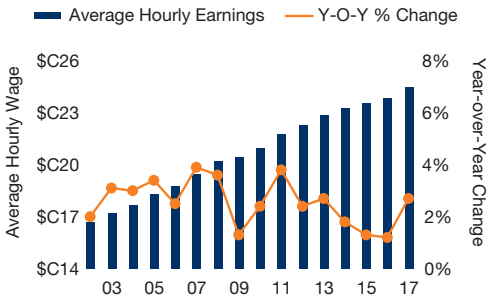
National Labour Force



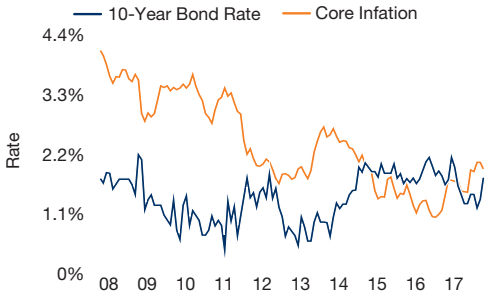
GDP Change



Avg. Hourly Earnings



10-Year Bond vs. Core Inflation



* Forecast
Sources: Altus Data Solutions;
Marcus & Millichap Real Estate Investment Services Canada Inc., Brokerage

Canadian Economy in Good Standing to Navigate Multiple Challenges on the Horizon

Healthy economy prepared for possible headwinds. The labour market sits at its strongest point in a decade following a 5.8 percent jobless rate posted in December, driving expectations of lower retail property vacancy and rising rents this year. The potential softening of part-time employment may arise as minimum wage increases affect small businesses, though overall job growth will remain robust. A turnaround in business investment made for solid economic gains as GDP accelerated to 2.9 percent last year, up from 1.4 percent in 2016. GDP growth in 2018 will slow as borrowing costs and stricter mortgage regulations weigh on consumption and housing investment, leading to growth near 2.0 percent. Low interest rates and easy credit access have led to household debt reaching 170 percent of net income, hampering future consumer spending and contributing to a pared down economic outlook.

Monetary policy beginning to kick in, though central bank remains cautious. The Bank of Canada raised interest rates 25 basis points at the beginning of 2018 to 1.25 percent, adding to the two similar increases last year. With the economy operating at near capacity, the central bank's decision was influenced by rising wage pressure and inflation that neared its 2 percent target at the end of 2017. January's rate increase reinforced expectations for further rate hikes this year, though the bank will remain cautious as imbalances in Vancouver and Toronto's housing markets persist and borrowers become more sensitive to rising rates. In the face of challenges surrounding the housing market and the future of the North American Free Trade Agreement, businesses remain optimistic and continue to grow investments. This is due in part to the recovery in oil prices. Crude oil exports marked a 7.4 percent increase from a year ago in December while exports of all energy posted a 6.2 percent rise. These gains are offset though by non-energy exports that continue to flounder, led by consumer goods, which were down last year.

2018 Canadian Economic Outlook

- **Job creation, low unemployment rate beginning to lift wages.** Employment growth totaled 373,500 positions in 2017, the strongest year of hiring since 2002, to drop the unemployment rate to 5.8 percent in December. Tightening of the labour force suggests that slack is quickly dissipating, posing a problem for employers looking to fill available positions with qualified labor. Wages should start to rise at a more meaningful pace as a result, leading to an anticipated 3.3 percent increase to income growth this year. In 2017, a 2.7 percent rise to employees' average weekly pay was registered.
- **Canadians still prefer brick-and-mortar retail over e-commerce.** Retail sales made headway in 2017 on improved consumer confidence and a strong economy, growing at a 6.5 percent annualized pace in November, up from 4.7 percent a year earlier. E-commerce sales of C$1.8 billion accounted for 3.5 percent of total retail trade, well below the roughly 14 percent of retail sales that occurred online in the United States. While e-commerce is growing at a strong clip in Canada, marking a 25.5 percent increase from a year ago, brick-and-mortar retailers stand to benefit from the slower adoption of online shopping in Canada.
- **Future of NAFTA remains in jeopardy.** A growing risk for the Canadian economy this year will be the fate of NAFTA. The possibility for changes to the agreement, or a full repeal, are an emerging threat, leading some businesses to err on the side of caution. In 2015, retail imports that originated in the United States were roughly C$108 billion, suggesting that Canadian retailers may be especially hard hit from a negative result following trade discussions. A varied range of outcomes are possible though, leaving the effects of a repeal largely unknown.

Headline-Grabbing Store Failures Detracting From Robust Underlying Demand, Property Performance

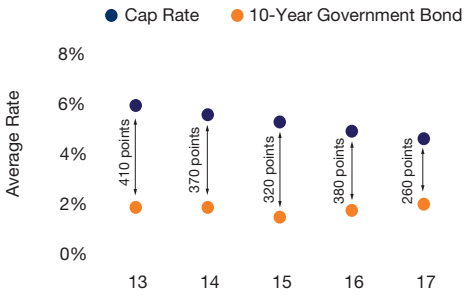
Investor optimism boosted by strong momentum in the retail sector. Healthy job creation and improving wage growth will carry through 2018, supporting retail sales and encouraging tenant expansion. Demand continues to outstrip new supply in most markets, keeping retailers' options limited to mostly existing storefronts and further tightening vacancy over the coming year. In the face of high-profile store closures that have left large blocks of space empty, overall vacancy has remained at exceptionally low levels. The shift to online retail is happening at a rapid pace, though e-commerce has yet to make up a significant portion of overall retail sales in Canada, boding well for brick-and-mortar locations. Retailers of all types are extending their reach across the nation, namely international luxury brands seeking to establish a footprint in a global city such as Vancouver and Toronto where rents are far below those of London, New York City and Paris. Discount and value retailers are also making headway with companies such as Giant Tiger, Marshalls and Walmart growing their store count.

Rising investor demand sends more capital to smaller markets. Overall pricing has climbed to its highest level of the current cycle while cap rates are at longtime lows, largely led by primary markets. Many secondary and tertiary markets, though, still offer unique opportunities as prices provide a discount from highly competitive major metros. Numerous smaller markets were able to grow deal flow substantially last year as investors expanded searches for remaining upside. Cap rates in secondary and tertiary markets are often 100 to 300 basis points above the exceptionally low yields recorded in the cities of Toronto and Vancouver, amassing strong interest from private parties in search of higher returns. Job gains and rising incomes in these markets will also gain the attention of expanding retailers, compressing vacancy and improving NOI growth.

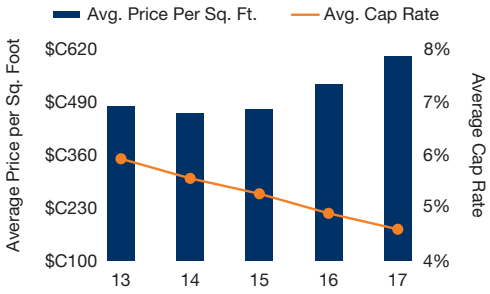
2018 Canadian Retail Outlook

- **Store closures providing investors new opportunities.** Big-box retailers that traditionally anchor malls and shopping centers have increased store closures, presenting some landlord and investors with opportunities to redevelop these dark spaces and grow yield. Breaking up the existing space into smaller-format retailers and restaurants is growing traffic counts at these centers, gaining the interest of a broad mix of retailers. As these vacated spaces are revamped and customer traffic improves, owners are achieving greater revenue through higher rents.
- **Yield spread putting pressure on single-tenant investment.** Single-tenant net-lease properties and small strip centers tenanted with nationally recognized brands remain a key focus of investors. Strong demand for these assets has compressed cap rates to the low-3 percent to upper-4 percent range. With interest rates expected to rise, the yield spread is tightening, leading higher-leverage investors to evaluate their options. These deals will remain attractive to low-leverage investors trading out of management-intensive properties.
- **Online trends shaping physical space.** As distribution channels are improved and Internet shopping increases in popularity across Canada, forward-thinking retailers will stand out. Traditional brick-and-mortar retailers are expanding their omnichannel efforts with same-day pickup of online orders, requiring an adjustment to property infrastructure including drive-through lanes, reserved parking near the storefront or changes to backroom storage. E-commerce brands are changing the landscape as well as some are making an entrance into physical retail. These merchants are able to draw increased store traffic with a modern design, leading them to pursue landlords who are flexible with tenant improvements.

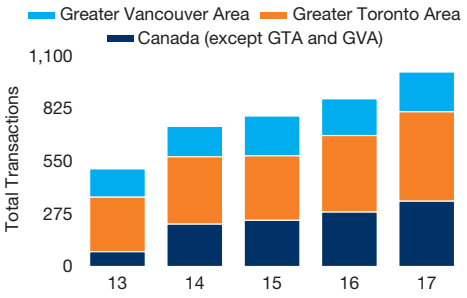
Bond and Cap Rate Trend*



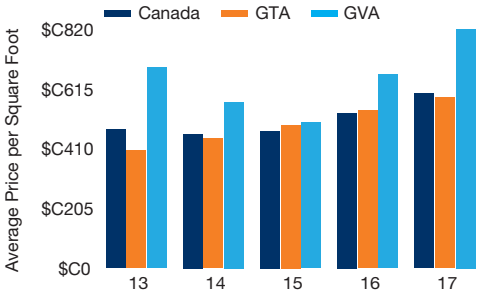
Retail PSF vs. Cap Rate



Transaction Velocity

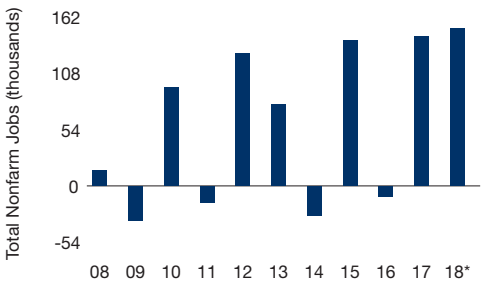


Avg. Price Per Square Foot

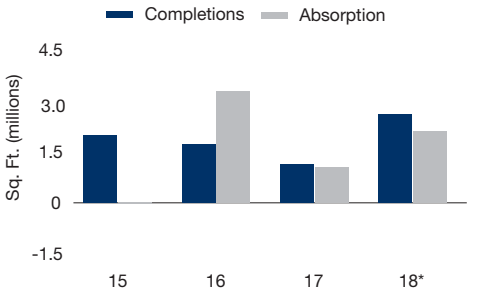


* December of each year
Sources: Altus Data Solutions;
Marcus & Millichap Real Estate Investment Services Canada Inc., Brokerage

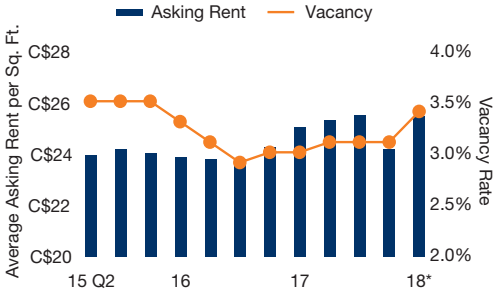
Employment Trends



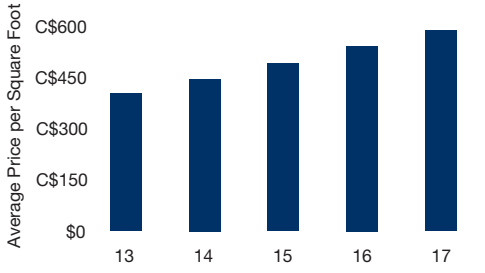
Supply



Asking Rent and Vacancy Trends



Sales Trends



* Forecast
Sources: Altus Data Solutions;
Marcus & Millichap Real Estate Investment Services Canada Inc., Brokerage

Construction Reaches Five-Year High As Toronto Retail Takes Off

Global brands enter Canada to set up shop in Toronto. A combination of robust hiring, steady household formation and increasing tourism are fueling the expansion of Toronto's retail sector. International brands have opened numerous stores across the metro over recent years, marking their entrance into Canada thanks to lower competition from traditional brick-and-mortar and online retail than is common in the United States. Following the opening of Toronto's first Nordstrom in 2016, the market will be introduced to Nordstrom Rack this year. Farm Boy, a grocer; Japanese lifestyle brand Miniso; and French fitness chain Keep Cool are launching in 2018 as well, following the wave of global brands looking to capitalize on increased wealth and a diverse population. Over the past five years, more than 1 million square feet has been added to the GTA annually as the economy rapidly strengthens. This year that number rises with developers on track to complete 2.6 million square feet of retail space, enticing more retailers to grow their local footprint with new high-end space such as The Shops at Centro Square and Galleria Centre.

Tighter yields boost investor activity in the outer submarkets. Robust leasing activity, tight vacancy and a run up in asset appreciation draw a variety of investors to Toronto. Deal flow climbed to a new high for the current cycle last year, dominated by private investors, many searching for quality credit single-tenant assets for their passive sources of income. Urban properties this year will remain the focus of institutional parties vying for large shopping centers that can be renovated and repositioned for increased rent rolls. While institutions favor the security of properties within Toronto, smaller parties have been searching the surrounding suburbs for higher returns. Overall, cap rates marked a 40-basis-point decline to the mid-4 percent territory, though assets beyond the urban core can trade 60 to 100 basis points higher.

2018 Market Forecast

Employment up 4.5%
The Toronto workforce grows by 150,000 positions this year, up from last year when 143,700 jobs were created.

Construction 2.6 million sq. ft.
Deliveries reach their highest point of the current cycle this year, eclipsing the 1.1 million square feet brought online in 2017.

Vacancy up 30 bps
A robust supply increase pushes the GTA vacancy rate up to 3.4 percent at the end of 2018, adding to the 10-basis-point rise registered a year earlier.

Rent up 5.4%
New Class A space coming online contributes to robust rent growth to C$25.50 per square foot this year, reversing the minor decline posted in 2017.

Investment
The demise of Sears Canada results in more than five big-box locations going dark across Toronto at the onset of this year, providing opportunities to revitalize vacant space and fill with new tenants, as well as capitalize on strong international demand from global retail brands.

Rising Global Status Fueling Tenant Demand In Vancouver, Tightening the Market

International retailers descend on Vancouver. A healthy Vancouver economy drives substantial tailwinds for the local retail sector, supported by an unemployment rate that is the lowest since 2008. Robust demand for retail space has held the vacancy rate exceptionally low for more than two years, including a sub-2 percent vacancy rate within the city of Vancouver last year. An improving international reputation draws a mix of retailers to the area to capitalize on an affluent local population and strong tourism activity. Luxury brands such as Van Cleef & Arpels and IWC Schaffhausen are among those taking up space. A variety of international brands opened their first western Canadian location last year, marking the introduction of Uniqlo, Muji and COS to Vancouver. Businesses will be challenged to find available space across the GVA this year as deliveries slow and vacancy is tight, supporting a steady pace of rent growth.

Investor sentiment holds strong amid exceptionally low cap rates. Robust property metrics and asset appreciation are keeping investors active in the marketplace; they are acquiring properties with cap rates in mid-3 percent territory. REITs and institutional parties remain focused on assets in the urban core while private investors are expanding search parameters toward suburban buildings, where returns can exceed the core by more than 100 basis points. While construction is slowing, more than 20 projects are anticipated for completion this year, which could boost opportunities for investors should merchant builders decide to list. An increase in listings could manifest this year as interest rates are expected to rise this year, driving more owners to sell and capitalize on equity growth that has persisted over the past several years. Store closings also bring the potential to change the investment landscape this year. The recent closure of Sears Canada and the announcement that grocery store Safeway is leaving the metro opens the possibility to reposition or repurpose big-box and grocery-anchored centers where these tenants are planning exits.

2018 Market Forecast

Employment up 4.0%
A tightening labour market slows job growth this year to 57,000, a modest reduction from the 62,400 jobs created in 2017.

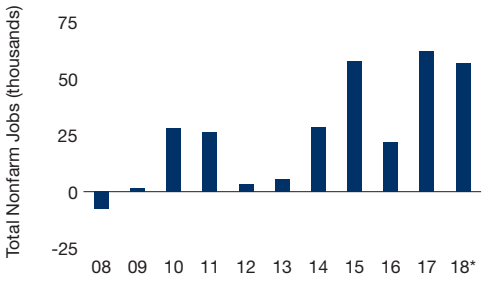
Construction 1.2 million sq. ft.
Deliveries slightly mirror last year's growth, delivering just 50,000 square feet less than 2017.

Vacancy down 20 bps
A slowdown in construction will be surpassed by new tenant demand, dropping the vacancy rate to a tight 2.8 percent, a reversal from last year's 70-basis-point rise.

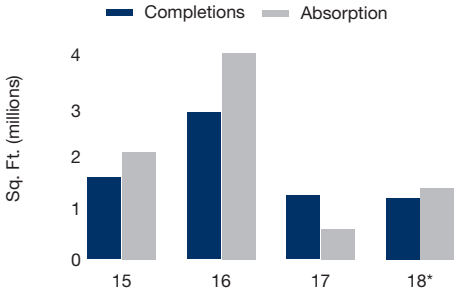
Rent up 5.8%
Effective rent surged 11 percent last year and will once again climb at a strong pace, reaching C$28.94 per square foot at year end.

Investment
First-year yields fell 20 basis points marketwide in 2017 to their lowest point of the current cycle, reaching the low-3 percent area in the city of Vancouver. Buyers looking for higher-yield prospects will look to Surrey, Delta and Richmond as cap rates here fall in the low- to high-4 percent range.

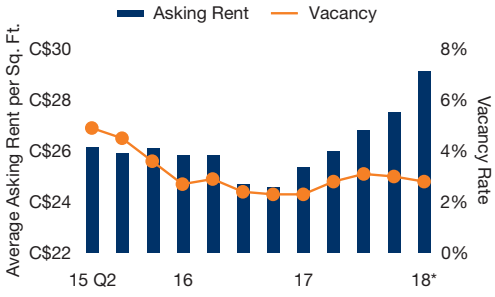
Employment Trends



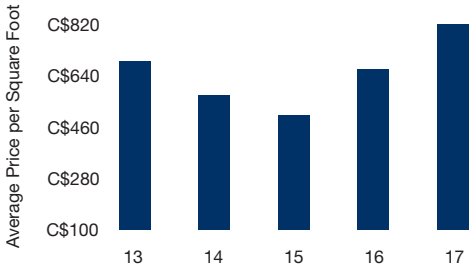
Supply



Asking Rent and Vacancy Trends



Sales Trends



* Forecast;
Sources: Altus Data Solutions;
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National Retail Index Note: Employment and retail data forecasts for 2018 are based on the most up-to-date information available as of January 2018 and are subject to change.

Statistical Summary Note: All rental rates are calculated using triple net (NNN) rental rates. Average prices and cap rates are a function of the age, class and geographic area of the properties trading and therefore may not be representative of the market as a whole. Forecasts for employment, retail sales and retail property data are made during the first quarter and represent estimates of future performance. No representation, warranty or guarantee, express or implied may be made as to the accuracy or reliability of the information contained herein. This is not intended to be a forecast of future events and this is not a guaranty regarding a future event. This is not intended to provide specific investment advice and should not be considered as investment advice.

Sources: Marcus & Millichap Research Services; American Council of Life Insurers; Blue Chip Economic Indicators; Bureau of Economic Analysis; CoStar Group, Inc.; Experian; Federal Reserve; Moody's Analytics; National Association of Realtors; Real Capital Analytics; Standard & Poor's; The Conference Board; Trepp; TWR/Dodge Pipeline; U.S. Bureau of Labor Statistics; U.S. Census Bureau; U.S. Securities and Exchange Commission; U.S. Treasury Department.

2018 U.S. Retail Investment Forecast

Market Name	Employment Growth				Household Income[2]				Retail Sales Growth[2]				Completions (000 of Sq. Ft.)[2]				Vacancy (Year-End)[2]				Rent ($/Sq. Ft., NNN)[2]				Market Name
	2015	2016	2017	2018*	2015	2016	2017	2018*	2015	2016	2017	2018*	2015	2016	2017	2018*	2015	2016	2017	2018*	2015	2016	2017	2018*	
Atlanta	2.7%	3.5%	2.1%	1.9%	$60,791	$63,333	$64,438	$66,176	3.8%	3.7%	5.1%	5.4%	1,300	1,600	2,300	1,100	6.9%	6.5%	5.9%	5.4%	$13.44	$14.08	$14.68	$15.16	Atlanta
Austin	4.4%	3.7%	2.7%	2.4%	$68,577	$72,435	$74,092	$76,762	4.9%	6.3%	5.5%	5.6%	950	1,100	970	890	3.8%	3.5%	4.0%	4.2%	$20.00	$21.47	$22.54	$23.33	Austin
Baltimore	2.3%	0.8%	0.6%	1.1%	$74,700	$78,180	$80,527	$83,353	1.8%	2.0%	3.3%	4.4%	780	480	720	520	4.7%	4.4%	4.0%	3.7%	$19.26	$19.51	$18.51	$18.70	Baltimore
Boston	1.9%	1.9%	1.8%	1.6%	$80,886	$83,977	$86,800	$89,847	3.4%	3.9%	5.5%	5.9%	2,000	900	1,100	1,100	3.4%	3.0%	2.7%	2.5%	$19.12	$20.26	$20.86	$21.03	Boston
Charlotte	4.0%	3.5%	1.5%	1.7%	$57,644	$61,074	$62,598	$64,766	3.7%	3.5%	5.1%	7.4%	1,400	1,300	1,000	1,200	5.5%	5.0%	4.4%	4.3%	$14.74	$15.06	$15.13	$15.21	Charlotte
Chicago	2.0%	0.7%	0.6%	0.9%	$64,992	$67,209	$69,551	$71,758	3.2%	3.3%	1.2%	4.0%	3,200	3,400	2,100	1,700	7.9%	7.5%	7.0%	6.4%	$17.09	$17.07	$17.16	$17.37	Chicago
Cincinnati	1.8%	2.2%	0.4%	1.3%	$58,772	$61,014	$63,348	$65,749	3.3%	5.4%	5.9%	3.2%	1,100	620	500	610	6.5%	5.4%	5.3%	4.9%	$10.83	$11.54	$12.41	$13.07	Cincinnati
Cleveland	0.5%	1.1%	0.2%	0.5%	$51,511	$52,575	$54,781	$57,046	1.1%	1.0%	1.3%	2.6%	600	860	520	1,100	6.9%	6.3%	6.4%	6.7%	$10.81	$10.51	$10.59	$10.64	Cleveland
Columbus	1.5%	2.8%	1.4%	1.6%	$59,193	$60,966	$63,217	$65,515	1.2%	2.1%	2.7%	3.4%	540	1,100	690	400	5.2%	4.5%	3.9%	3.6%	$11.42	$12.03	$12.97	$13.44	Columbus
Dallas/Fort Worth	2.9%	3.8%	2.2%	2.2%	$62,602	$65,012	$66,727	$69,310	4.8%	3.7%	5.2%	5.5%	5,500	3,400	5,300	3,700	6.0%	5.2%	5.1%	4.9%	$15.24	$15.55	$16.37	$16.73	Dallas/Fort Worth
Denver	3.2%	2.2%	1.9%	1.6%	$70,721	$72,977	$75,266	$78,004	4.1%	2.7%	5.7%	5.8%	810	610	920	1,800	5.8%	5.4%	5.0%	4.8%	$16.17	$16.85	$18.21	$19.14	Denver
Detroit	1.6%	2.2%	1.5%	1.7%	$55,599	$57,185	$59,336	$61,309	2.6%	2.8%	2.9%	3.8%	1,200	910	1,100	1,000	8.2%	7.2%	6.8%	6.2%	$12.26	$12.97	$13.64	$14.10	Detroit
Fort Lauderdale	2.9%	2.9%	2.1%	2.4%	$53,821	$54,397	$56,119	$58,577	6.4%	3.7%	5.6%	5.2%	590	590	570	580	5.8%	4.9%	3.8%	3.0%	$20.54	$21.76	$21.89	$22.50	Fort Lauderdale
Houston	0.0%	0.5%	1.5%	2.5%	$61,319	$62,012	$63,258	$66,221	3.4%	2.9%	3.2%	5.3%	4,300	5,400	5,700	2,900	5.4%	5.1%	5.8%	6.0%	$16.23	$16.20	$16.87	$17.12	Houston
Indianapolis	2.6%	2.5%	1.7%	2.4%	$55,271	$57,568	$59,682	$61,980	5.4%	9.1%	8.0%	5.3%	930	1,000	1,200	940	5.7%	4.8%	5.4%	5.2%	$14.21	$13.39	$14.53	$14.99	Indianapolis
Kansas City	2.2%	2.3%	0.9%	0.7%	$60,267	$62,174	$64,089	$66,144	2.8%	2.5%	5.2%	4.2%	990	1,400	970	350	6.6%	5.9%	5.9%	5.8%	$11.59	$11.63	$12.28	$12.82	Kansas City
Las Vegas	4.0%	3.0%	3.1%	1.8%	$53,845	$54,757	$56,154	$58,054	4.3%	1.9%	4.7%	5.5%	350	840	410	440	10.0%	8.9%	7.8%	7.3%	$16.56	$17.28	$17.08	$17.23	Las Vegas
Los Angeles	2.7%	2.1%	1.1%	1.2%	$60,072	$62,090	$63,904	$66,073	3.9%	3.8%	3.8%	2.9%	2,100	970	1,600	1,300	4.6%	4.1%	4.0%	4.1%	$27.87	$29.32	$30.87	$32.17	Los Angeles
Louisville	2.8%	2.7%	1.5%	1.5%	$53,595	$55,198	$56,659	$58,188	4.7%	5.1%	4.0%	3.6%	630	590	250	500	4.5%	4.1%	3.7%	3.5%	$12.79	$12.21	$13.32	$14.03	Louisville
Miami-Dade	3.1%	2.3%	3.0%	2.2%	$45,332	$46,255	$47,786	$49,996	5.0%	1.3%	4.0%	4.7%	1,100	1,100	1,200	2,000	3.5%	3.6%	3.7%	4.1%	$30.92	$33.38	$35.15	$35.82	Miami-Dade
Milwaukee	1.1%	0.0%	0.9%	1.2%	$56,708	$58,789	$60,796	$63,017	0.6%	2.2%	3.1%	4.0%	1,300	1,300	1,500	600	6.4%	6.4%	6.0%	5.7%	$11.35	$11.64	$11.23	$11.44	Milwaukee
Minneapolis-St. Paul	1.5%	1.6%	2.3%	1.7%	$71,951	$74,121	$75,773	$78,039	2.3%	2.4%	5.6%	3.9%	1,400	1,100	1,300	500	4.4%	3.7%	3.5%	3.1%	$13.82	$14.27	$15.99	$16.61	Minneapolis-St. Paul
Nashville	3.8%	4.0%	1.8%	2.0%	$58,256	$60,907	$63,233	$65,349	3.7%	2.4%	5.6%	5.3%	650	890	1,300	890	4.4%	3.3%	3.1%	3.3%	$16.09	$16.90	$17.89	$18.37	Nashville
New Haven-Fairfield County	0.6%	-0.3%	0.7%	0.3%	$76,564	$79,244	$81,953	$84,859	1.7%	1.7%	3.0%	4.3%	650	680	380	300	5.5%	4.8%	4.4%	4.1%	$20.53	$21.43	$22.71	$23.75	New Haven-Fairfield County
New York City	2.6%	1.9%	1.3%	0.7%	$64,493	$66,766	$68,246	$70,106	3.1%	2.3%	4.4%	4.9%	1,300	2,000	1,400	4,700	3.6%	3.1%	3.5%	3.7%	$53.42	$56.25	$59.62	$63.14	New York City
Northern New Jersey	0.9%	0.9%	0.0%	0.5%	$72,761	$75,382	$77,357	$79,503	4.0%	3.3%	3.5%	4.3%	1,100	610	540	550	4.6%	4.8%	4.6%	4.8%	$23.12	$25.66	$25.56	$25.87	Northern New Jersey
Oakland	3.7%	3.1%	1.1%	0.6%	$86,444	$92,512	$95,098	$98,277	4.7%	4.3%	1.8%	2.6%	490	540	280	910	3.8%	3.8%	3.5%	3.8%	$24.07	$25.63	$27.08	$28.22	Oakland
Orange County	3.0%	1.6%	1.3%	1.0%	$80,638	$82,547	$84,870	$87,607	4.1%	2.4%	2.4%	2.4%	870	370	580	510	3.8%	4.0%	4.2%	4.2%	$26.21	$26.28	$25.90	$26.24	Orange County
Orlando	5.2%	3.4%	3.8%	3.1%	$51,467	$52,917	$54,866	$57,176	4.2%	3.2%	8.8%	6.9%	1,400	1,100	1,300	1,300	5.7%	5.1%	4.4%	4.0%	$15.99	$16.57	$17.55	$17.95	Orlando
Philadelphia	1.4%	2.4%	0.8%	1.1%	$66,624	$67,925	$70,694	$73,184	2.3%	2.3%	3.7%	4.5%	1,800	1,900	1,800	920	5.8%	5.6%	5.3%	5.3%	$16.03	$16.26	$16.90	$17.20	Philadelphia
Phoenix	3.3%	2.9%	1.9%	2.6%	$56,708	$58,783	$61,348	$63,761	7.1%	5.5%	5.0%	7.0%	890	1,600	1,500	2,200	9.6%	9.5%	8.6%	8.5%	$14.77	$15.13	$15.64	$16.36	Phoenix
Pittsburgh	-0.1%	0.4%	1.7%	1.3%	$54,948	$56,929	$59,681	$61,998	1.3%	1.2%	3.9%	4.6%	370	640	740	300	4.0%	3.5%	3.6%	3.3%	$12.97	$13.53	$16.43	$17.04	Pittsburgh
Portland	3.3%	2.6%	2.3%	1.9%	$65,988	$69,787	$72,566	$75,357	4.1%	3.3%	5.7%	8.0%	810	460	330	1,000	4.5%	4.1%	4.0%	4.3%	$17.63	$18.27	$19.54	$20.17	Portland
Raleigh	3.0%	3.1%	2.1%	2.7%	$64,218	$68,066	$69,605	$71,856	5.5%	5.5%	4.7%	7.7%	940	810	730	600	4.6%	3.9%	3.7%	3.5%	$15.64	$16.14	$17.76	$18.54	Raleigh
Riverside-San Bernardino	5.1%	2.7%	3.3%	2.1%	$57,283	$58,674	$59,881	$61,260	4.0%	5.0%	3.6%	1.6%	720	760	1,100	1,400	9.0%	8.2%	7.9%	7.8%	$16.01	$16.67	$16.94	$17.31	Riverside-San Bernardino
Sacramento	4.0%	2.6%	2.3%	2.0%	$63,270	$64,715	$66,419	$68,479	4.0%	5.0%	5.0%	2.7%	590	400	840	360	8.2%	8.3%	7.0%	6.7%	$16.03	$16.94	$16.04	$16.45	Sacramento
Salt Lake City	4.3%	4.0%	2.1%	2.2%	$66,643	$68,942	$72,214	$74,833	4.2%	7.0%	10.3%	7.4%	990	950	1,100	1,400	4.0%	4.0%	5.0%	5.5%	$13.56	$14.70	$15.17	$15.88	Salt Lake City
San Antonio	3.1%	2.8%	3.2%	2.4%	$55,137	$56,717	$58,173	$60,050	3.5%	3.8%	3.9%	4.3%	1,100	1,600	710	400	5.0%	4.3%	4.5%	4.6%	$14.99	$15.42	$15.39	$15.59	San Antonio
San Diego	3.1%	2.2%	1.4%	1.6%	$69,344	$71,703	$73,771	$76,166	2.6%	2.7%	3.7%	2.9%	650	440	650	230	5.1%	4.0%	3.7%	3.5%	$23.43	$23.44	$24.07	$25.15	San Diego
San Francisco	4.7%	3.2%	2.0%	1.4%	$101,634	$108,189	$112,914	$118,367	7.2%	3.5%	7.8%	4.4%	11	50	280	220	2.6%	2.7%	2.9%	2.9%	$38.36	$37.57	$38.93	$40.02	San Francisco
San Jose	3.7%	2.9%	2.0%	1.5%	$106,022	$111,981	$116,393	$121,582	3.3%	2.1%	2.5%	2.9%	300	670	580	800	4.2%	5.3%	4.6%	4.5%	$32.58	$32.83	$33.11	$33.61	San Jose
Seattle-Tacoma	3.0%	3.4%	2.8%	2.4%	$76,984	$80,594	$83,408	$86,436	8.9%	12.6%	10.8%	5.3%	510	360	990	780	4.3%	3.9%	3.9%	3.6%	$18.74	$19.69	$20.75	$21.64	Seattle-Tacoma
St. Louis	2.1%	1.3%	0.7%	0.6%	$58,247	$60,461	$62,539	$64,821	1.9%	1.9%	3.9%	4.2%	1,400	960	450	130	6.1%	5.6%	5.1%	4.5%	$12.44	$12.50	$12.98	$13.10	St. Louis
Tampa-St. Petersburg	4.0%	3.3%	2.2%	2.5%	$49,954	$51,647	$53,524	$56,294	9.1%	10.6%	7.4%	5.8%	1,500	1,100	1,100	1,200	5.6%	5.1%	5.1%	4.8%	$14.03	$14.79	$15.61	$16.19	Tampa-St. Petersburg
Washington, D.C.	2.4%	1.4%	1.7%	1.5%	$94,572	$96,785	$99,394	$101,902	2.8%	1.8%	4.5%	4.6%	1,600	2,500	1,200	1,500	4.5%	4.1%	4.7%	4.7%	$25.77	$26.65	$26.90	$27.65	Washington, D.C.
West Palm Beach	3.6%	3.1%	1.8%	1.6%	$56,709	$58,050	$59,980	$62,971	4.7%	2.9%	4.6%	7.0%	310	360	330	260	6.0%	4.6%	4.5%	4.1%	$20.02	$20.63	$23.06	$24.49	West Palm Beach
United States	1.9%	1.6%	1.5%	1.2%	$56,627	$58,229	$60,163	$62,297	2.6%	3.0%	4.3%	4.5%	61,300	61,400	59,600	54,000	5.7%	5.2%	5.1%	5.0%	$18.14	$18.76	$19.53	$20.15	United States

* Forecast [2] See Statistical Summary Note on Page 64.

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