AUSTIN & SAN ANTONIO

RETAIL MARKET OVERVIEW

Prepared by Foresite Research Services

Q3 2021

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EXECUTIVE SUMMARY

ON THE MARKET

- 50 class A & B multi-tenant retail properties were publicly marketed this quarter, down from 59 properties at the end of Q2. There were 34 marketed properties during the same period last year.
- 8 new listings came to market during the quarter. The rate of new listings coming to market is slowing down from 15 last quarter.
- San Antonio's average multi-tenant retail asking cap rate for all product sizes is 7.00%, down 12 basis points from the previous quarter.
- The average cap rate for all product sizes in Austin is 6.11%, down 41 basis points from the previous quarter.

LEASING AND VACANCY

- The average vacancy rate in San Antonio is 5.80%, up 20 basis points from the same period last year.
- The average vacancy rate in Austin sharply decreased to 4.20%, down 60 basis points from the same period last year.
- The average asking rental rate increased by $2.48 in Austin and increased by $0.87 in San Antonio quarter over quarter.

CONSTRUCTION AND NEW DEVELOPMENTS

- San Antonio has about 924,750 square feet of retail space currently under construction, up slightly from 890,000 a year ago, however, square footage delivered is about ⅔ of the total from 2020.
- Austin has about 630,000 square feet of retail space currently under construction, down from 890,000 square feet a year ago.

TEXAS LABOR MARKET

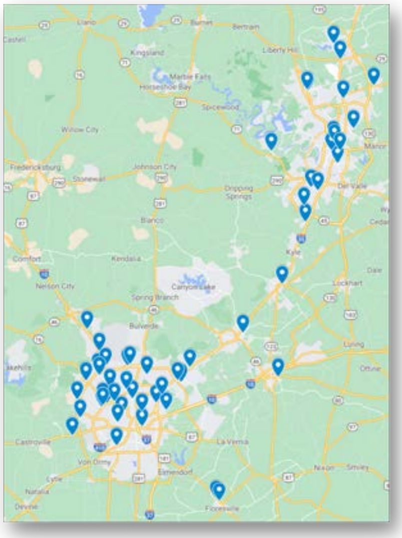
- The unemployment rate for San Antonio and Austin consistently decreased from July to August and outpaced Texas and the United States.
- Job growth in the US has slowed more than expected but the second half of 2021 continues to see steady expansion and a recovery that is more rapid than other recent downturns.

RETAIL SALES

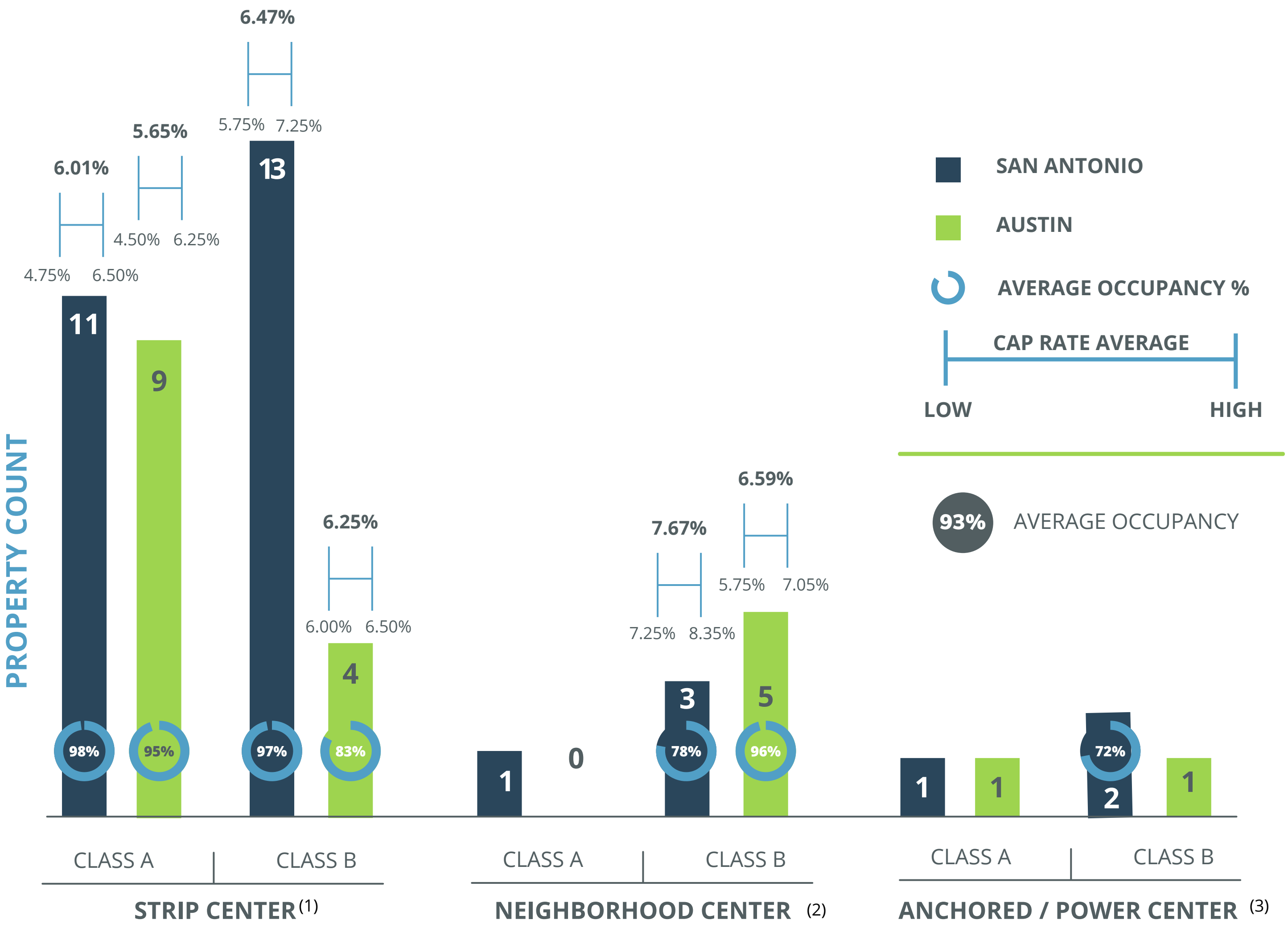
- Total U.S. Retail Sales for the month of September were 13.9% over September 2020 and 18.99% above September 2019.
- Total sales for the July through September 2021 period were up 14.9% from the same period a year ago.
- U.S. retail sales rose 0.7% in September from the previous month, following the 0.9% increase from July to August.

ON THE MARKET

- The dataset displayed below consists of Class A and B retail centers that were publicly listed on the market during the third quarter of 2021.
- Out of the 50 properties, 8 new listings came to market during the quarter, 9 went under contract, 3 reduced the listed price, and 14 sold after an average of 190 days.
- **San Antonio's average multi-tenant retail asking cap rate for all product sizes is 7.00%, down 12 basis points from the previous quarter. The average cap rate for all product sizes in Austin is 6.11%, down 41 basis points from the previous quarter.**
- Many of the properties that sold or were taken off the market in Austin last quarter had cap rates above 6.50% and the listings that were new to the market in Austin were below a 6.00% cap rate, pushing the average of all the listings in Austin toward 6%.



PUBLICLY MARKETED STRIP CENTERS



NOTE: Category change from last report

(1) Unanchored retail, generally under 20,000 square feet oriented in a straight line
(2) Unanchored retail, generally under 75,000 square feet with a mixture of local and regional tenants
(3) Over 75,000 square feet, anchored with a national tenant, may include inline retail or big box stores only

Source: Foresite Research Services

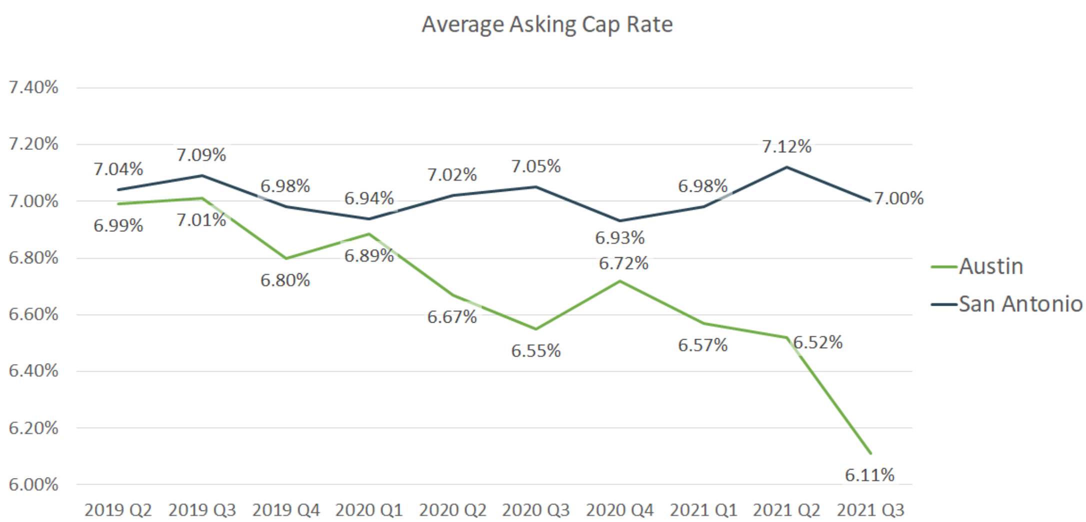
ON THE MARKET

CURRENT TRENDS

- The average asking cap rates for **Class A** shopping centers in **San Antonio** is **6.02%.** The average for **Class B** is **6.77%.**
- The average asking cap rates for **Class A** shopping centers in **Austin** is **5.65%**. The average for **Class B** is **6.46%.**

	SATX	ATX
# of Listings	31	19
Avg Cap Rate Class A	6.02%	5.65%
Avg Cap Rate Class B	6.77%	6.46%
Under 30K sf	6.30%	5.77%
Over 30K sf	7.58%	6.59%
Average Occupancy	97.00%	90.00%

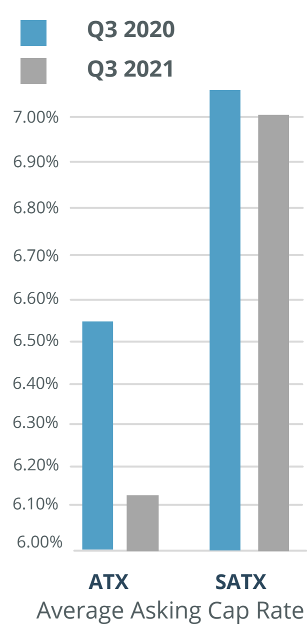
AVERAGE STARTING ASKING PRICE



YEAR OVER YEAR TRENDS

	Q3 2020	Q3 2021
Class A & B Centers	34	50
New Listings	5	8
Went Under Contract	2	9
Sold	4	14

*San Antonio & Austin Markets Combined



Source: Foresite Research Services

RETAIL CENTER SALES

TRAILING 12 MONTHS - SAMPLE OF 50 PROPERTIES

LESS THAN $5M	AVG CAP RATE 2020	AVG CAP RATE 2021	AVG $/SF 2020	AVG $/SF 2021	AVG OCCUPANCY 2020	AVG OCCUPANCY 2021
SAN ANTONIO	7.22%	**7.01%**	$214	**$278**	76%	**92%**
AUSTIN	6.86%	**6.20%**	$234	**$319**	91%	**100%**

MORE THAN $5M	AVG CAP RATE 2020	AVG CAP RATE 2021	AVG $/SF 2020	AVG $/SF 2021	AVG OCCUPANCY 2020	AVG OCCUPANCY 2021
SAN ANTONIO	7.74%	**6.95%**	$212	**$260**	94%	**93%**
AUSTIN	7.25%	**6.38%**	$284	**$408**	92%	**97%**

Source: Foresite Research Services

SALES TRENDS

Commercial real estate activity picked up during the second quarter and remained strong in the third quarter.

Commercial Real Estate transaction volume started the year at a 58% decrease in year-over-year transaction volume in January. According to Real Capital Analytics, pricing remained stable despite the decrease in transaction volumes. March deal volume increased 11% versus March 2020, but deal activity for the first quarter in total was 30% lower compared to Q1 2020.

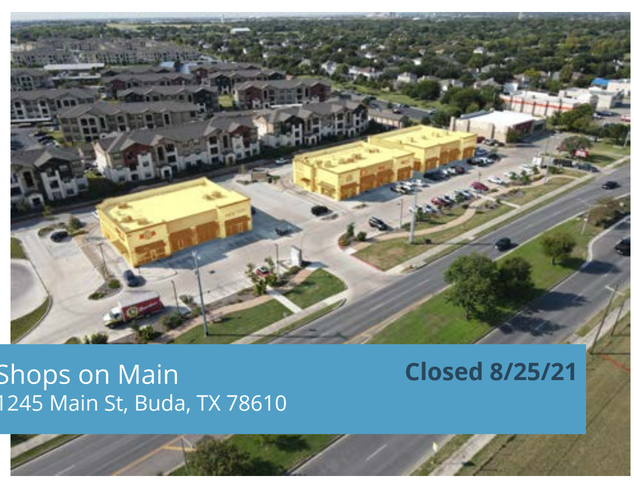
After a short-lived pause on capital flow into retail investments, reports show that commercial real estate investment volume has returned to pre-pandemic levels. Low-interest rates and buyer demand have driven investments in the commercial real estate market. Reports by Real Capital Analytics show that investors spent $144.7 billion on U.S. commercial properties in the second quarter of 2021, nearly three times more than what was spent in the second quarter of 2020. That is 13.4% greater than the average of $127.2 billion from 2015 to 2019.

Source: REAL CAPITAL ANALYTICS

NOTABLE TRANSACTIONS

Featured properties sourced from multiple brokerage firms and do not imply agency with Foresite

Huebner & Research Center **Closed 8/13/21**
10222 Huebner Rd, San Antonio, TX 78240



Shops on Main **Closed 8/25/21**
1245 Main St, Buda, TX 78610

SALES TRENDS

BUYER COMPOSITION

- Between the second quarter of 2020 and first quarter of 2021, private buyers — developers, owners, and operators — accounted for 64% of all distressed asset purchases. By contrast, institutional capital was behind only 20% of distressed purchases.

- Many of the owners who purchased distressed assets have the intent to redevelop the property into a different use. Preliminary RCA data shows that 12% of distressed assets purchased through the first five months of 2021 were acquired with the intent to redevelop, double the proportion of non-distressed sales slated for redevelopment over the same period.

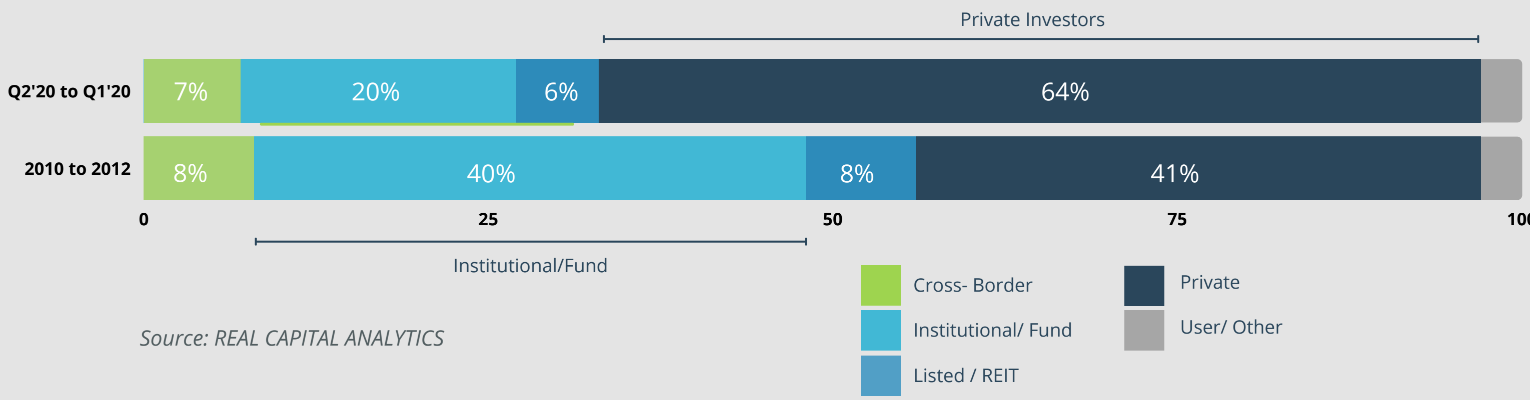
> “From Q2 2020 to Q1 2021, private investors have acquired 64% of all distressed real estate.”
>
> *Real Capital Analytics*

- Institutional-quality strip center transaction volumes rose 70 percent year over year in the second quarter.

- In San Antonio, the capital composition for buyers in 2021 was made up primarily of institutional investors at 73%, and private investors at 21%.

PRIVATE BUYERS IN THE DISTRESSED DRIVING SEAT

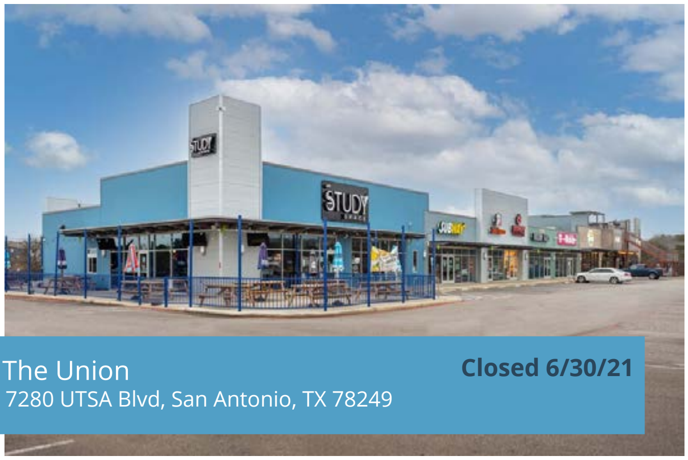
Buyer composition of US distressed assets, Covid era vs. Global Financial Crisis



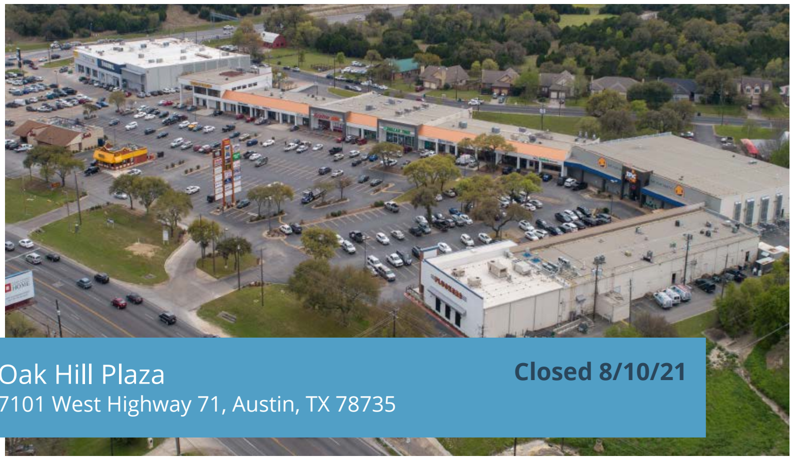
Source: REAL CAPITAL ANALYTICS

NOTABLE TRANSACTIONS

Featured properties sourced from multiple brokerage firms and do not imply agency with Foresite



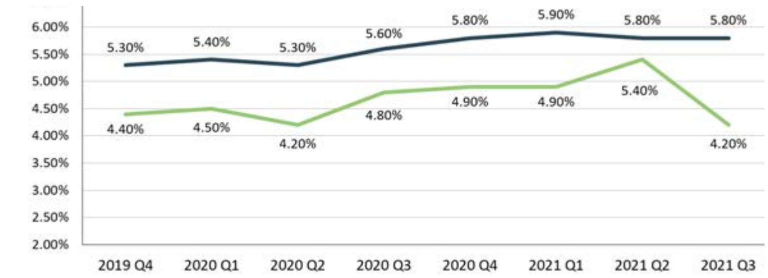
The Union **Closed 6/30/21**
7280 UTSA Blvd, San Antonio, TX 78249



Oak Hill Plaza **Closed 8/10/21**
7101 West Highway 71, Austin, TX 78735

LEASING ACTIVITY

AVERAGE RETAIL VACANCY RATE



5.8%
SAN ANTONIO

4.2%
AUSTIN

AVERAGE RETAIL ASKING RENT

$16.83
SAN ANTONIO

$22.48
AUSTIN

Absorption

The San Antonio retail market leasing activity has recorded approximately 1.6 million square feet of both new leases and renewals year-to-date, down about 7% from this time last year.

The Austin retail market leasing activity has recorded approximately 1.5 million square feet of both new leases and renewals year-to-date, down about 3% from this time last year.

"At the worst point in second quarter 2020, new leases were about half versus the historical average. From that trough, activity skyrocketed. Now we are positive about 10 percent above the historical level,"

Paulina Rojas Schmidt
Green Street retail analyst

LEASING TRENDS

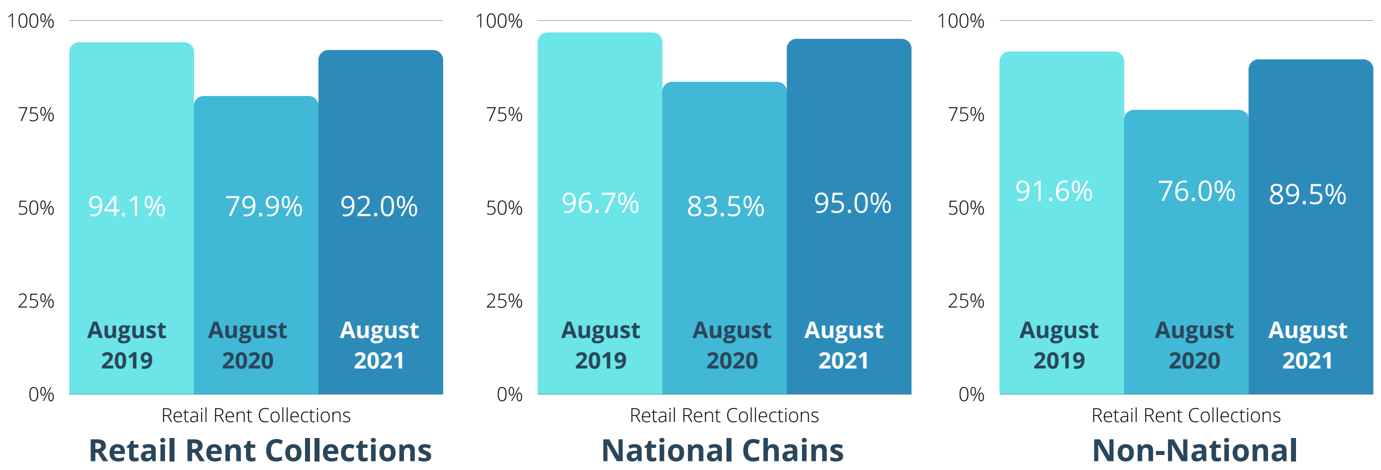
Landlords favor trading Tenant Improvement Allowance for more Free Rent at the beginning of the lease.

The time between executing a retail lease and the first rent payment has grown to accommodate pandemic hurdles like delays in delivery of construction material, backlogged city planning and permitting departments, and apprehension over further COVID-19 restrictions on commerce.

Prior to the pandemic, retail tenants typically had 60 to 90 days to obtain permits and complete tenant improvements between signing leases and the start of rent payment, while restaurants often received up to 120 days. Today, however, many tenants and landlords are agreeing to extend that grace period, or "lag time," by an additional 30 to 90 days.

Source: ICSC

RENT COLLECTIONS



NOTE: NATIONAL CHAINS ARE THOSE WITH MINIMUM GROSS MONTHLY RENT OF $250,000 OR THAT LEASE 10 OR MORE LOCATIONS.
SOURCE: DATEX PROPERTY SOLUTIONS

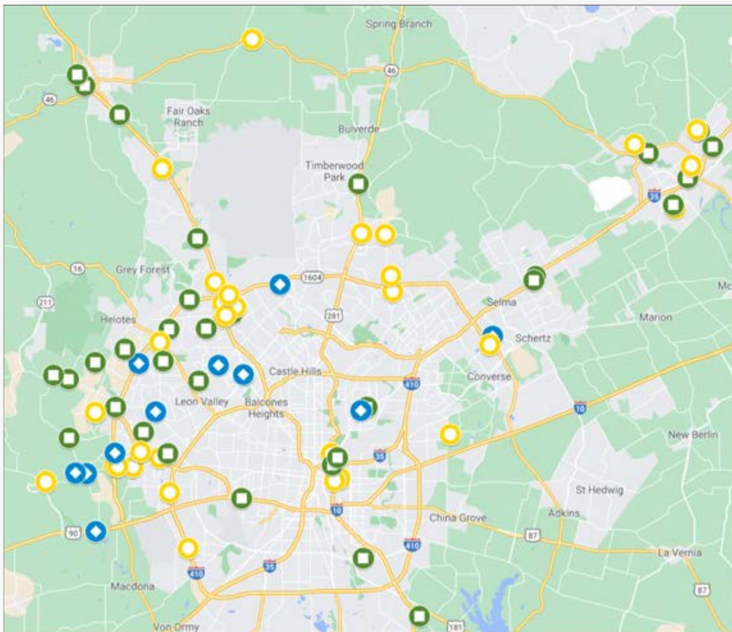
While payment from non-national retail tenants still has yet to surpass 90% rent collection, their improvement has outpaced the recovery of nationals year over year. The evidence suggests retail is far along in its recovery when the rent collection in 2021 is compared to 2019.

INTERESTING TRENDS

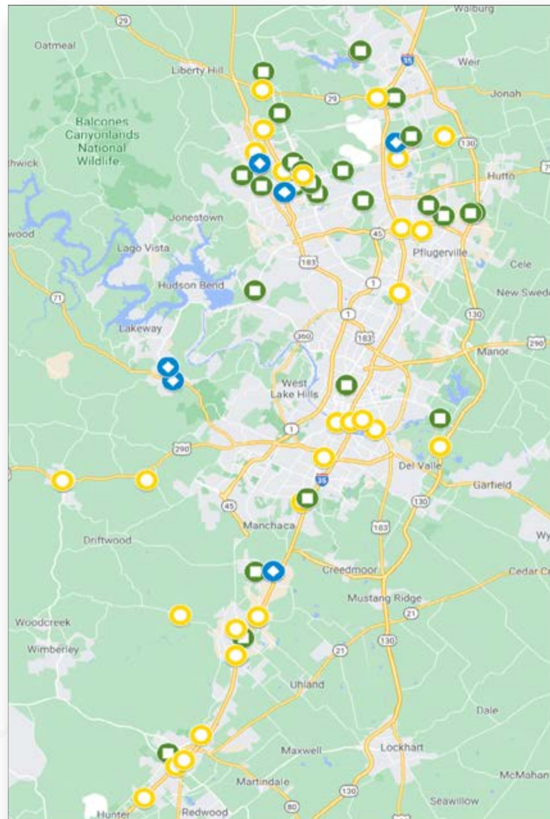
- Rent collections for auto parts retailers are down 21% year-over-year and are down from both 2020 and 2019. This suggests that people are driving less and spending less on auto maintenance.
- Rent collections among fast-food chains are up 29% from 2019, even as occupancy costs are down 14%, illustrating the way that the pandemic fueled growth in some categories.
- Rent collections for fitness are at 88%, down 9% compared to 2019 but up 58% year over year.

NEW RETAIL DEVELOPMENTS

SAN ANTONIO / NEW BRAUNFELS



AUSTIN / SAN MARCOS



- Proposed / Preleasing
- Under Construction
- Delivered in the last 6 months

LEGEND

Source: Foresite Research Services

- **San Antonio has about 924,750 square feet of retail space currently under construction**, up slightly from 890,000 square feet a year ago.
- There has been 590,000 square feet delivered this year, down from 900,000 delivered through Q3 in 2020.
- There is another 2.2 million square feet planned to be built through 2022 in San Antonio. According to CoStar, San Antonio ranks in the top 10 for inventory currently under construction among major markets.

- **Austin has about 630,000 square feet of retail space currently under construction**, down from 890,000 square feet a year ago.
- There have been 668,000 square feet delivered this year.
- There is another 1.1 million square feet planned to be built through 2022 in the Austin area.

LABOR MARKET

At the beginning of the year, many economists forecasted that the third quarter would be the beginning of the period of strong growth. After a solid pace of monthly growth in the jobs reports in the second quarter, it was surprising that job growth slowed so much in the third quarter.

While growth is slower than expected, the second half of 2021 continues to see steady expansion and a recovery that is more rapid than other recent downturns. The economy is held back by supply constraints, inflation, and the emergence of the Delta variant.

“Many people had Sept. 1 marked on their calendars as the day when things would go back to normal — when they would return to their offices, their kids would return to school and they’d head back to their favorite bars. But instead, the recovery sputtered,” said Julia Pollak, a labor economist with hiring site ZipRecruiter.

For the second month in a row, the US added far fewer jobs than expected. Nonfarm payrolls rose by 194,000 in September, much lower than the Dow Jones estimate of 500,000. One detail in the jobs reports that gives some hope was news that July and August's numbers were revised up by a combined 169,000 jobs, implying the economy entered the third quarter in a stronger position than it originally seemed.

> “This year has been one of false dawns for the labor market. Demand for workers is strong and millions of people want to return to work, but employment growth has yet to find its footing.”
>
> *Nick Bunker*
> *Economic Research Director*
> *Indeed.com*

UNITED STATES UNEMPLOYMENT RATE

Shaded areas indicate a recession.
https://www.cnbc.com/2021/10/08/september-jobs-report.html

Despite the weak jobs report, wages increased sharply. The monthly gain of 0.6% pushed the year-over-year rise to 4.6% as companies use wage increases to combat the persistent labor shortage.

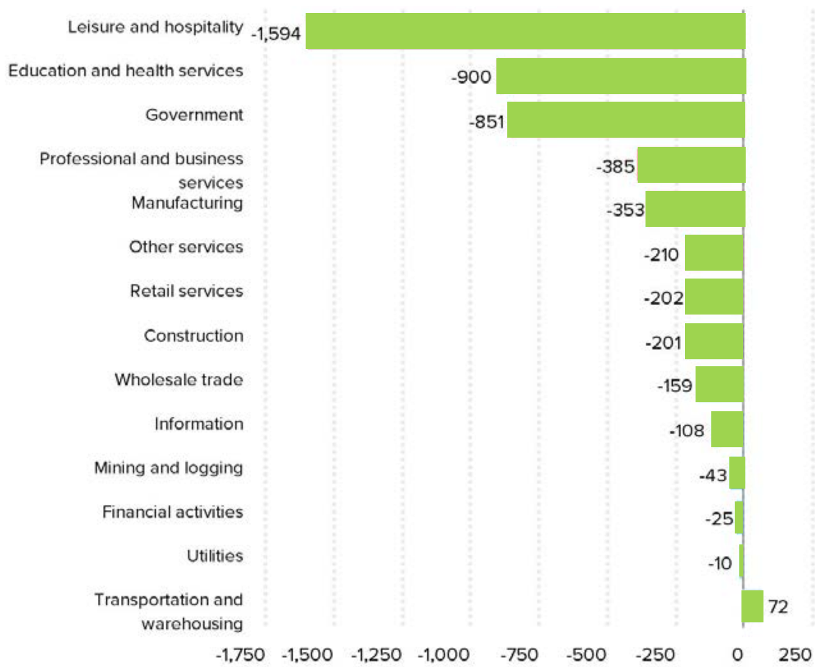
The available workforce declined by 183,000 in September and is 3.1 million shy of where it was in February 2020, just before the pandemic was declared.

4.8%	5.6%	4.5%	3.5%
UNITED STATES	TEXAS	SAN ANTONIO	AUSTIN

LABOR MARKET

Employment change by industry since February 2020

All employees (thousands), seasonally adjusted, September 2021



https://www.epi.org/indicators/unemployment/

Source: Bureau of Labor and Statistics' (BLS) Current Employment Statistics

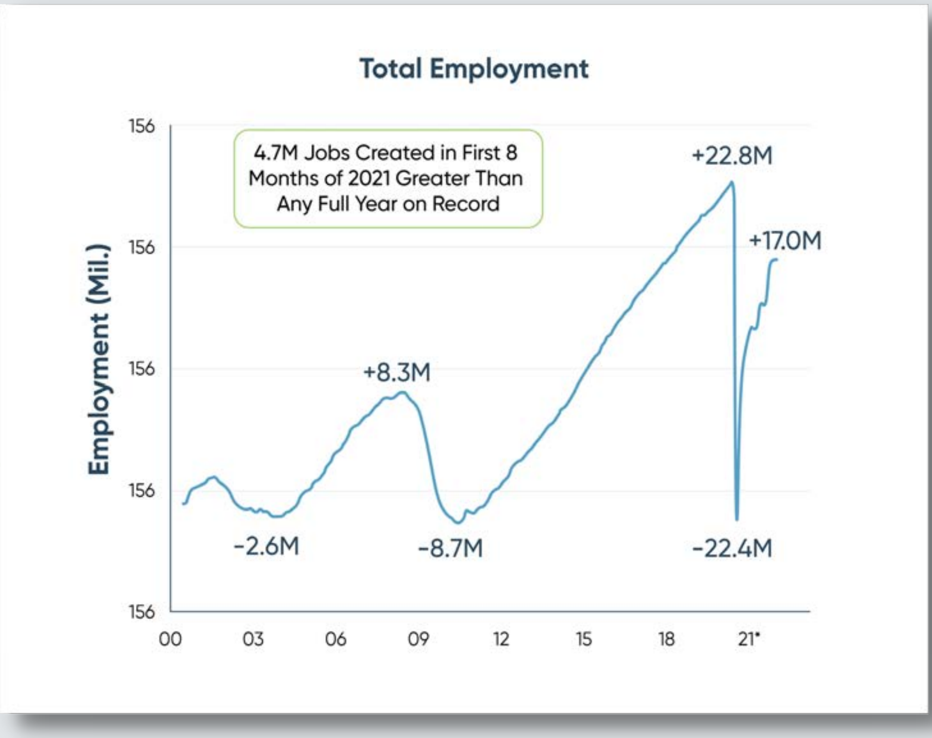
JOBS REPORT

- After losing 19,400 workers in January, food and drink places gained roughly 1.03 million jobs across six months before the reversal in August. In August, the restaurant industry lost 41,500 jobs, the first time it experienced negative growth since January. There were 11.3 million on payroll in August, still 1 million fewer than February 2020.

- **As consumer behavior started to respond to the spread of the Delta variant at the end of August, the National Restaurant Association completed a survey that showed 6 in 10 consumers changed their restaurant usage, and 37% said they ordered takeout or delivery instead of sitting down in a restaurant. 19% said they've stopped going out to restaurants and 9% canceled existing plans to dine out in recent weeks.**

Starting at 130 million workers in 2009, the workforce gained almost 23 million over the next 10 years, a 17% increase. We lost essentially all of that growth in 2020. 2021 has been the greatest job increase period on record.

SOURCE: IPA (Institutional Property Advisors)
**Through August: Job openings through July*



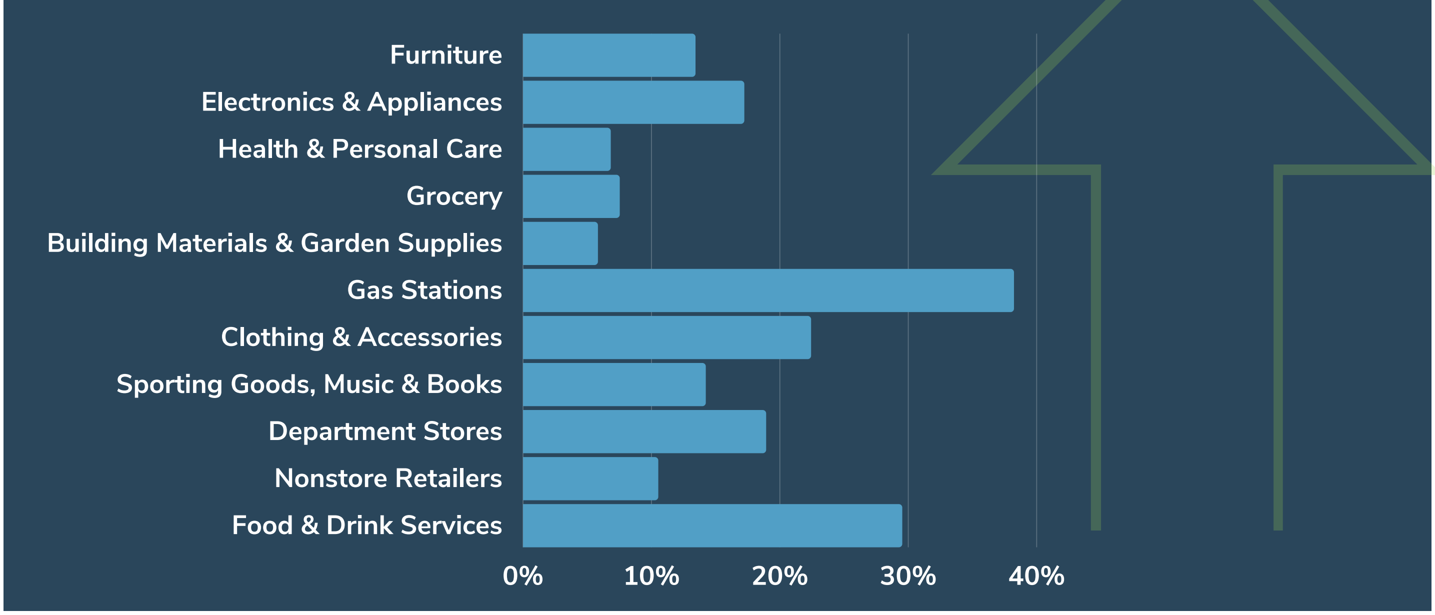
RETAIL SALES

NATIONAL TRENDS

- Retail sales increased in September as concern about the Delta variant and labor shortages pushed consumer spending toward merchandise rather than services.
- **Total U.S. Retail Sales for the month of September were 13.9% over September 2020 and 18.99% above September 2019.**
- Total sales for the July through September 2021 period were up 14.9% from the same period a year ago.
- **U.S. retail sales rose 0.7% in September from the previous month, following the 0.9% increase from July to August.**
- Moody's has lowered its 2022 outlook for the U.S. retail industry from positive to stable.
- **"The pent-up demand we have seen for goods and services this year is also at risk of reversing as consumers increase their mobility and possibly shift more spending to travel and leisure experiences"**
- Analysts expect supply constraints, labor shortages, and increasing costs will continue to challenge retailer profits next year. Retailers are already finding that the scarcity of materials is causing manufacturing delays, increasing costs, and they are not able to keep up with consumer demand.

> "Following a ferocious pace of growth in U.S. retail and apparel in 2021, we see momentum slowing considerably in 2022, to 3.9% revenue growth and a 2.3% increase in operating profit,"
>
> *Christina Boni*
> *Senior Vice President*
> *Moody's*

YEAR OVER YEAR US RETAIL SALES GROWTH



INDEX RATES

SEPTEMBER 2019
INDEX RATES

5- Year Treasury	1.52%
10- Year Treasury	1.81%
30 Day Avg SOFR	2.43%
10-Year Swap	1.64%

SEPTEMBER 2020
INDEX RATES

5- Year Treasury	0.28%
10- Year Treasury	0.69%
30 Day Avg SOFR	0.09%
10-Year Swap	0.68%

SEPTEMBER 2021
INDEX RATES

5- Year Treasury	0.77%
10- Year Treasury	1.31%
30 Day Avg SOFR	0.05%
10-Year Swap	1.33%

COMMERCIAL - LIFE COMPANIES

TERM	AMORTIZATION	LTV	SPREAD	RATE
5 - YEAR	25-30	65% -75%	210-265	2.85%-3.40%
10 -YEAR	25-30	50% -65%	130-170	2.60%-3.00%
10- YEAR	25-30	65%-75%	180-225	3.10%-3.55%
15- YEAR	25-30	65%-75%	180-225	3.15%-3.60%
LONGER	FULLY AMORTIZING	65%-75%	180-240	3.10%-3.70%

COMMERCIAL - CMBS

TERM	AMORTIZATION	LTV	SPREAD	RATE
5 - YEAR	30	65% -75%	330-370	4.05%-4.45%
10 -YEAR	30	50% -65%	215-255	3.45%-3.85%

SOURCE: NORTHMARQ

> “If the economy evolved broadly as anticipated, it could be appropriate to start reducing the pace of asset purchases this year"
>
> *Jerome Powell*
> *Chair of the Federal Reserve*

Federal Reserve officials are nearing an agreement to start reducing its bond purchases by the end of the year, a process known as tapering. The September meeting made it clear that tapering will happen despite headwinds from the Covid-19 Delta variant and disappointing jobs reports. Reducing bond-buying sooner could provide more flexibility to raise interest rates if inflation stays high and unemployment falls rapidly.

Tapering is the reduction of the rate at which a central bank buys new assets. It's most commonly used when talking about the reversal of quantitative easing (QE) policies and is regarded as the first step in winding down from a period of monetary stimulus. Tapering will allow the Federal Reserve to raise interest rates sooner than currently anticipated if the economy makes rapid progress toward its goals.

INVESTMENT SALES SPECIALISTS

Experience, **focus** and **creativity** is what makes Foresite Investment Sales so unique.

Coming together from large firms to form our team, we offer **decades of experience and a national reach**.

Having closed over 250 sale transactions across 15 states in every primary product type, our team has the expertise to maximize value for our clients in any market condition.

Chad Knibbe, CCIM

President / Co - Owner

Chad was a key player in the launching of Foresite in 2014 and later founded the investment sales division of Foresite Commercial Real Estate in 2018. Prior to Foresite, Chad was a Senior Vice President at Marcus & Millichap where he ranked as the #1 retail agent for the central Texas region. He is a graduate of Baylor University and lives in Spring Branch with his wife, three daughters and son.

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Alexandria Tatem

Head of Research / Associate

Alexandria Tatem joined Foresite as an Investment Sales Associate and was quickly promoted to Head of Research. She has a talent for sourcing data and compiling information in challenging markets. Alex is a graduate of the University of Central Arkansas, where she double-majored in Finance and Spanish. Her research has been used in testimonies to the state legislature, year-long studies, and published reports.

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Stephen Berchelmann

Vice President

Urban Developments / Special Projects

Stephen Berchelmann has worked in real estate for more than a decade. Prior to joining Foresite, Stephen worked at Marcus & Millichap as a senior agent and was a member of the #1 retail team in the central Texas Region. He is a member of ICSC and a graduate of St. Mary's University. Stephen lives in San Antonio with his wife and son and two daughters.

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Craig Hardy

Associate

Craig Hardy is an experienced business professional driven by an ambition to provide the most complete and comprehensive customer service to his clients. In addition to his primary job functions, Craig has been recognized throughout his career as one who is a pleasure to do business with, especially because of his extraordinary commitment to transparency, communication and honesty.

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