



# AUSTIN & SAN ANTONIO

RETAIL MARKET OVERVIEW

*Prepared by Foresite Investment Sales*

**Q4 2020**



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# EXECUTIVE SUMMARY

## *On Market Inventory and Transactions*

- 36 Class A and B shopping centers publicly marketed this quarter, down from 41 properties in the same period this time last year.
- Eight new shopping center listings came to market this quarter compared to three new listings that came to market in Q4 2019.
- Asking cap rates are 21 basis points lower on average at the end of 2020 compared to the end of 2019.
- Transaction volume is much lower and only two publicly listed shopping centers traded during the quarter. Seven publicly listed shopping centers traded in the same period in 2019.

## *Leasing and Vacancy*

- The leasing activity in Austin is down 9% compared to last year when you include new leases and renewals, but leasing activity is down 30% in San Antonio compared to 2019.
- San Antonio's vacancy rate increased 20 basis points to 5.8% quarter-over-quarter. Austin's vacancy rate increased 10 basis points to 4.90%.
- The average asking rental rate in San Antonio is \$16.15, down from \$17.94 this time last year.
- The average asking rental rate in Austin is \$22.15, slightly lower than the \$23.35 at the end of 2019.

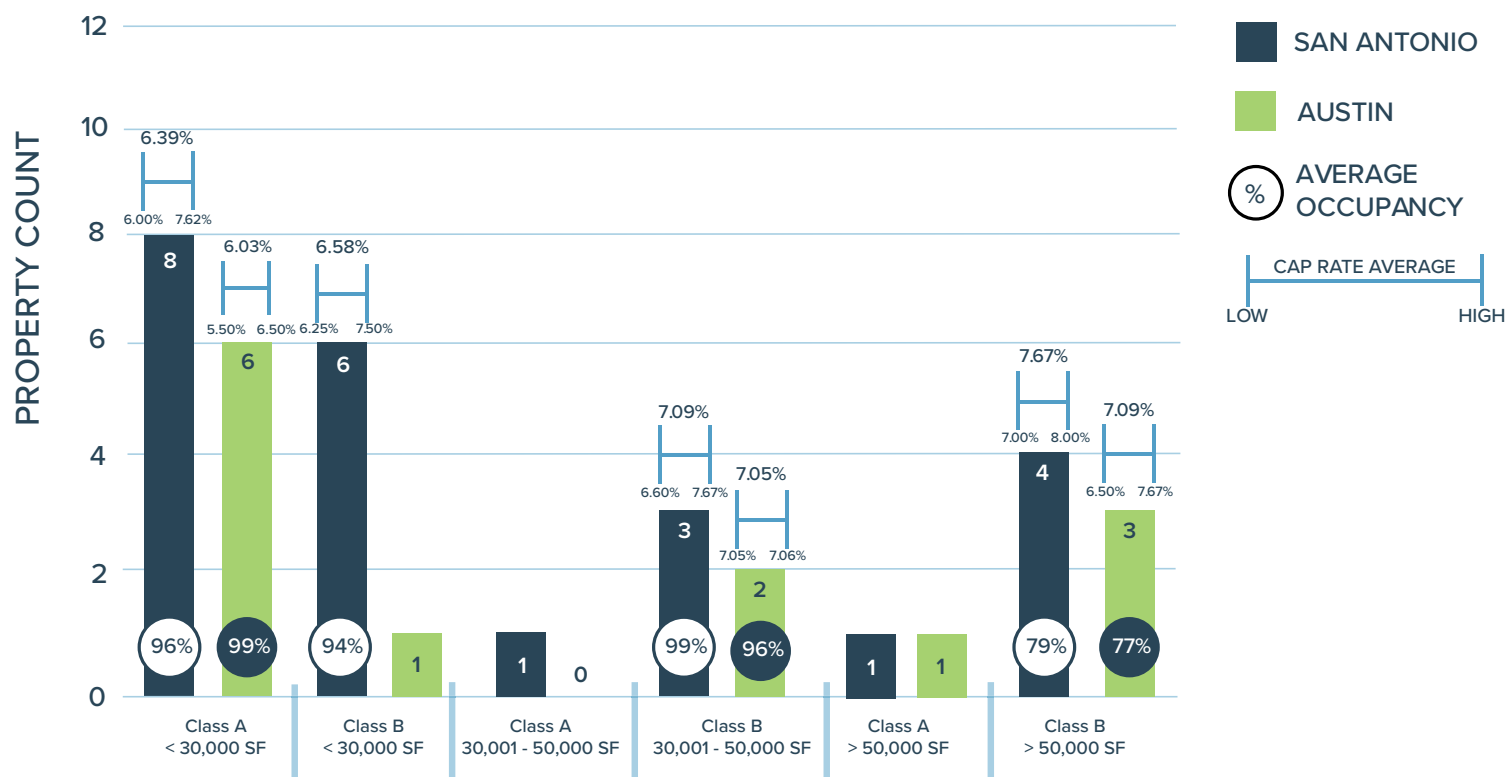
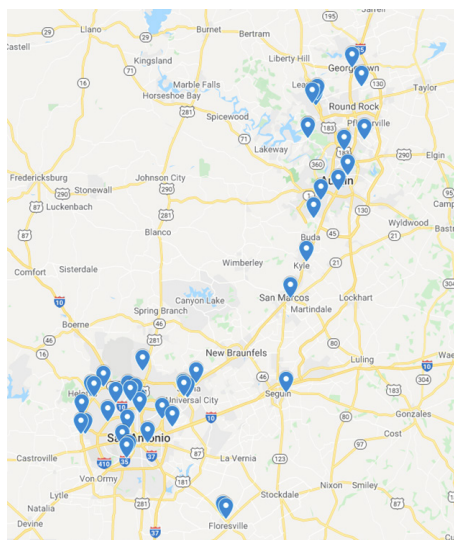
## *New Developments*

- Austin has about 1.2 million square feet of retail space currently under construction, 54% of which is available.
- There has been 917,000 square feet delivered in Austin this year. 81.3% of that space is currently occupied.
- San Antonio has 805,000 square feet under construction, 46% of which is available. There has been 1.2 million square feet delivered in San Antonio this year. 74% of that space is currently occupied.

## ON THE MARKET

The data set displayed below consists of Class A and B retail centers that were publicly available in both the San Antonio and Austin MSA's in Q4.

- Out of the **36** properties, **8** new listings came to market during the quarter, **6** went under contract, **4** reduced the listed price, and **2** sold.
- San Antonio's average multi-tenant retail **asking** cap rate for all product sizes is **6.93%**, down 12 basis points from Q3 (7.05%). The average cap rate Austin is **6.72%**, up 17 basis points from Q3 (6.55%).
- The average spread between the highest and lowest asking cap rates for San Antonio is **124** basis points. The average spread of asking cap rates for Austin is **73** basis points.



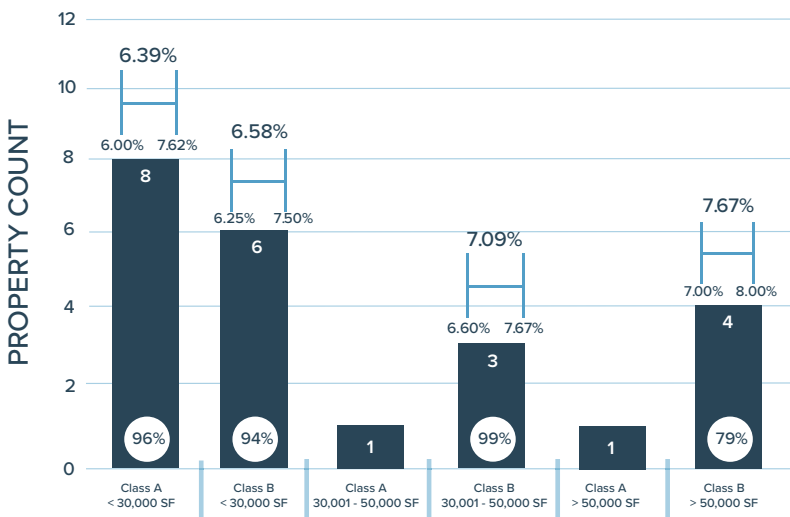
### HOW TO READ THE GRAPH ABOVE:

- The bar graph shows the number of properties in each category and market. The properties are categorized by size, class, and market. The blue bars represent San Antonio and the green bars represent Austin.
- Above each bar, there is a modified box and whisker plot showing the range of the asking cap rates for all of the advertised properties in each category. The purpose of this is to observe the range and average of cap rates in each category.
- At the bottom of each bar, the average occupancy of all the properties in each set is displayed.

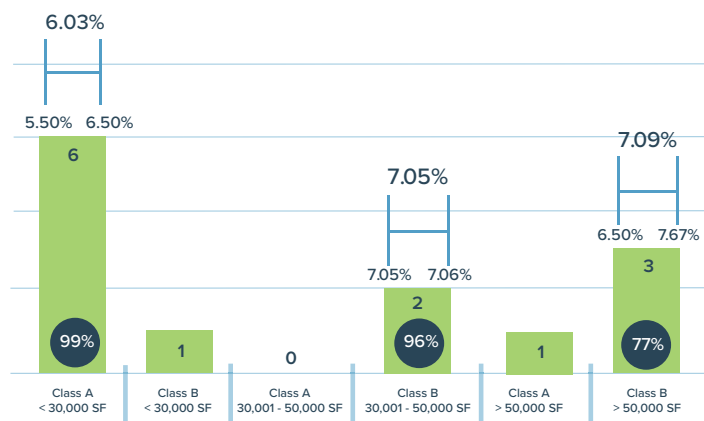
Source: Foresite Research Services

# ON THE MARKET (CONT.)

## SAN ANTONIO

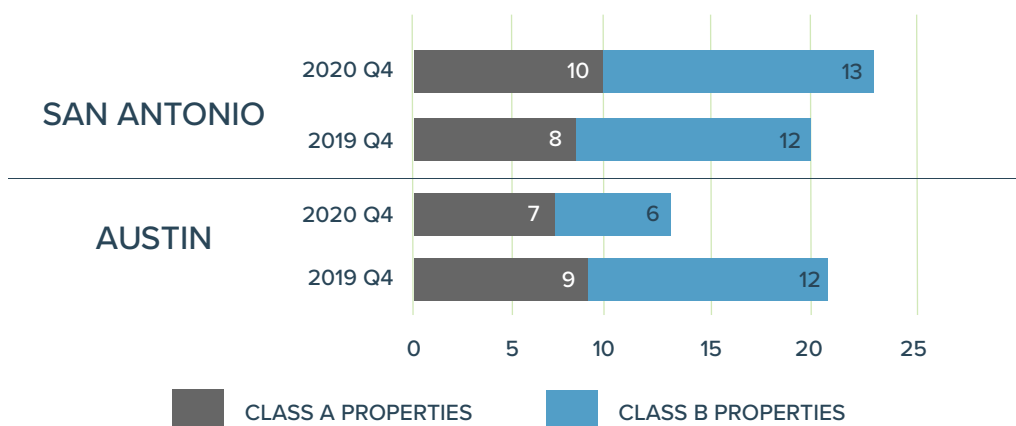


## AUSTIN



These graphs break out the Class A and B retail centers that were on the market during Q4 by metro area. San Antonio had 23 properties on the market and Austin had 13. During the same quarter in 2019, San Antonio had 20 properties on the market and Austin had 21.

## PUBLICLY MARKETED CENTERS



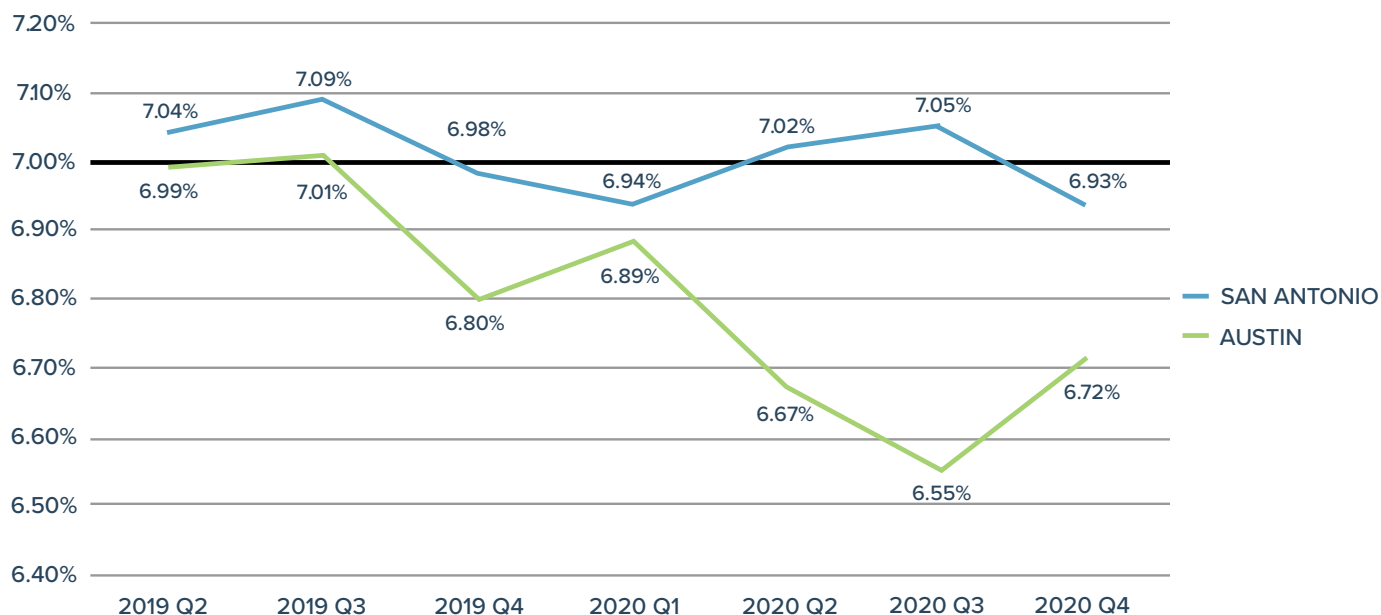
## BY THE NUMBERS

	SAN ANTONIO	AUSTIN
Number of Listings	23	13
Avg. Asking Cap Rate (Class A)	6.51%	6.03%
Avg. Asking Cap Rate (Class B)	6.98%	6.76%
Avg. Occupancy	93.19%	93.54%

Source: Foresite Research Services

# ON THE MARKET (CONT.)

AVERAGE ASKING CAP RATE



The graph above shows the averages by quarter of the starting asking prices for new listings on the market. The asking cap rates between Austin and San Antonio listings were very close during 2019 and into 2020 until the pandemic hit at the end of Q1. In 2020, we saw the average cap rate follow 2019 trends in San Antonio while the average in Austin decreased over thirty basis points.

Source: Foresite Research Services

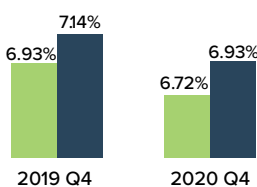
## ON MARKET DATA - YOY

2019 Q4 / 2020 Q4

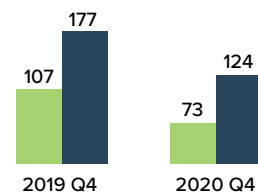
	2019 Q4	2020 Q4
CLASS A & B SHOPPING CENTERS*	41	36
NEW LISTINGS	3	8
WENT UNDER CONTRACT	6	6
REDUCED PRICE	0	4
SOLD	7	2

\*San Antonio and Austin markets combined

AVG. ASKING CAP RATE



AVG. ASKING CAP RATE SPREAD (BASIS POINTS)



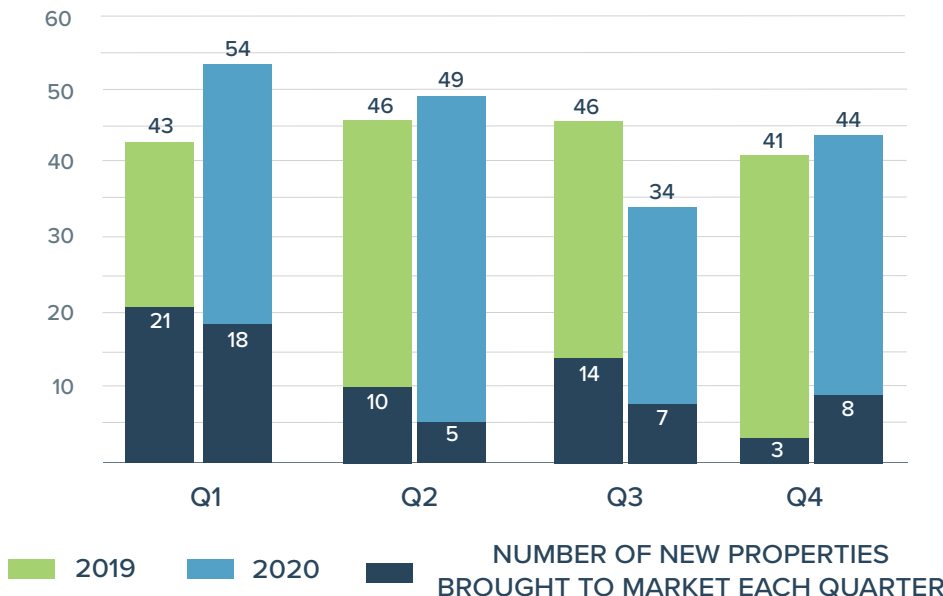
AUSTIN

SAN ANTONIO

Source: Foresite Research Services

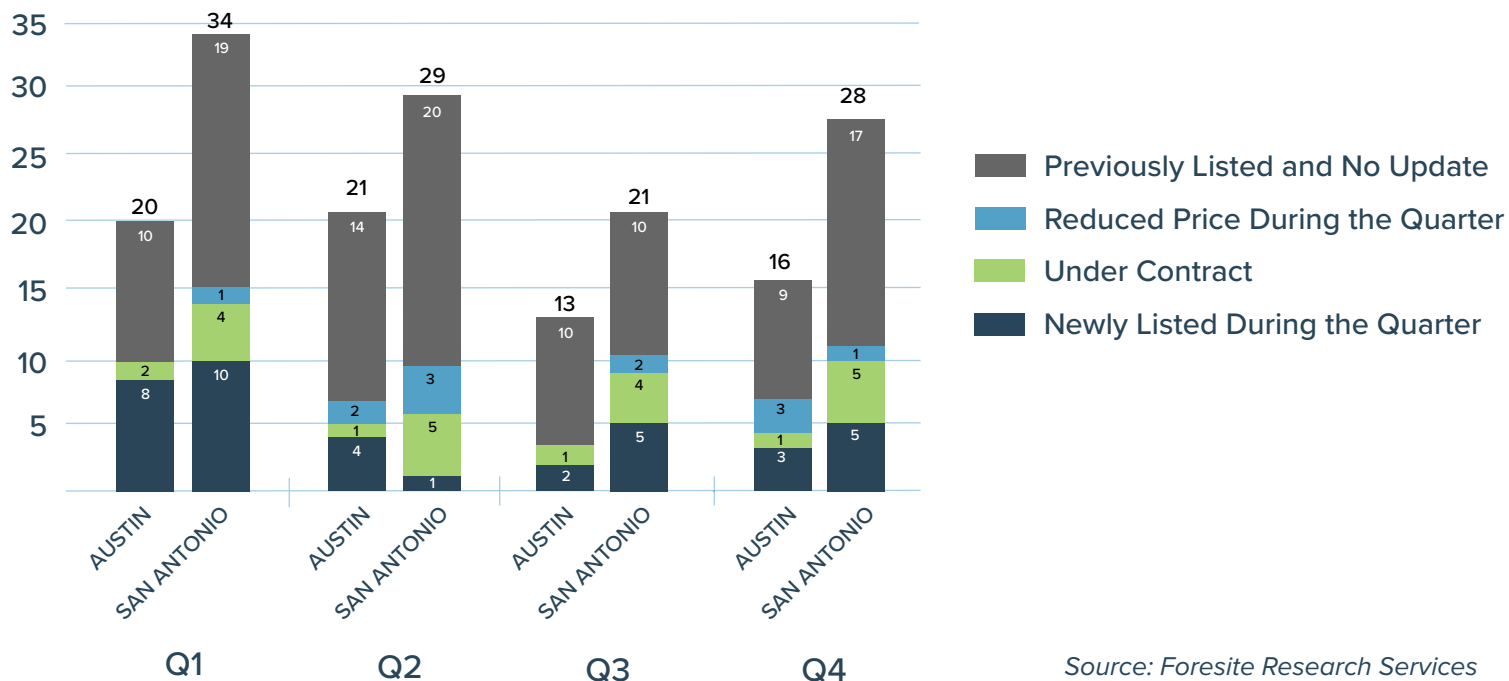
# MARKET INVENTORY

TOTAL INVENTORY (CLASS A, B & C)  
IN AUSTIN AND SAN ANTONIO



The total inventory of publicly marketed strip centers looks comparable from 2019 to 2020 with more inventory in every quarter of 2020 except Q3, however there were significantly fewer new properties brought to market with those for sale sitting on the market longer before going under contract. 48 new properties were brought to market in San Antonio and Austin during 2019 and 38 during 2020. In every quarter, there were fewer listings in Austin than the year before and more available inventory in San Antonio.

PUBLICLY MARKETING RETAIL CENTERS  
CLASS A, B & C



Source: Foresite Research Services

# RETAIL CENTER SALES



## RETAIL CENTER SALES TRAILING 12 MONTHS

*Sample of 50 Properties*



**\$2.5M - \$5M**

	AVG CAP RATE		AVG PPSF		AVG OCCUPANCY	
	2020	2019	2020	2019	2020	2019
SAN ANTONIO	7.61%	7.35%	\$203	\$216	89%	92%
AUSTIN	6.86%	6.92%	\$234	\$313	98%	96%

“The risk of purchasing retail property should be generating discounted prices for these assets. But sellers have been unwilling to adjust their price expectations and recognize a loss in value. Loss aversion is a powerful force in decision making, as the behavioral economists have discussed for over a quarter-century now. Deal velocity in the retail sector is at, or very near, a bottom. But pricing probably has a distance to fall in the year or so ahead.”

*Source: Integra Realty Resources Annual Report*

## YEAR OVER YEAR TRENDS TRAILING 12 MONTHS

*FOR ALL PRODUCT SIZES*

	2020	2019	Y-O-Y Change
San Antonio Average Cap Rate	7.61%	7.43%	2.42%
Austin Average Cap Rate	6.60%	7.01%	- 5.85%
San Antonio Average PPSF	\$196	\$209	- 6.22%
Austin Average PPSF	\$284	\$264	7.58%

*Source: Foresite Research Services*



# LEASING ACTIVITY

## ANALYSIS

The Austin retail market leasing activity (both new leases and renewals) for 2020 is down 9% compared to leasing activity from one year ago.

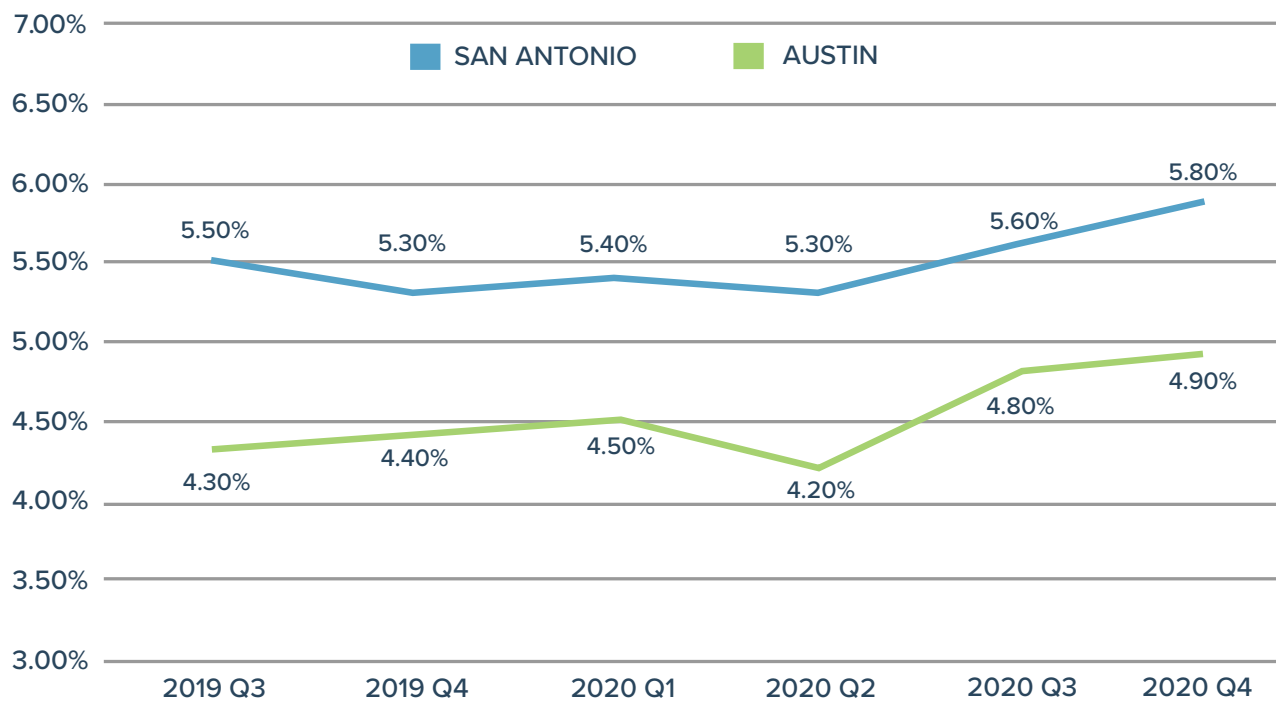
The San Antonio retail market leasing activity (both new leases and renewals) for 2020 is down 30% from leasing activity in 2019.

Austin has about 1.2 million square feet of retail space currently under construction. The availability rate is 54%. There has been 917,000 square feet delivered this year. 81.3% of that space is currently occupied.

San Antonio has 805,000 square feet under construction. The availability rate is 45.5%. There has been 1.2 million square feet were delivered this year. 74% of that space is currently occupied.

*Source: NAI Partners & The Texas A&M Real Estate Center*

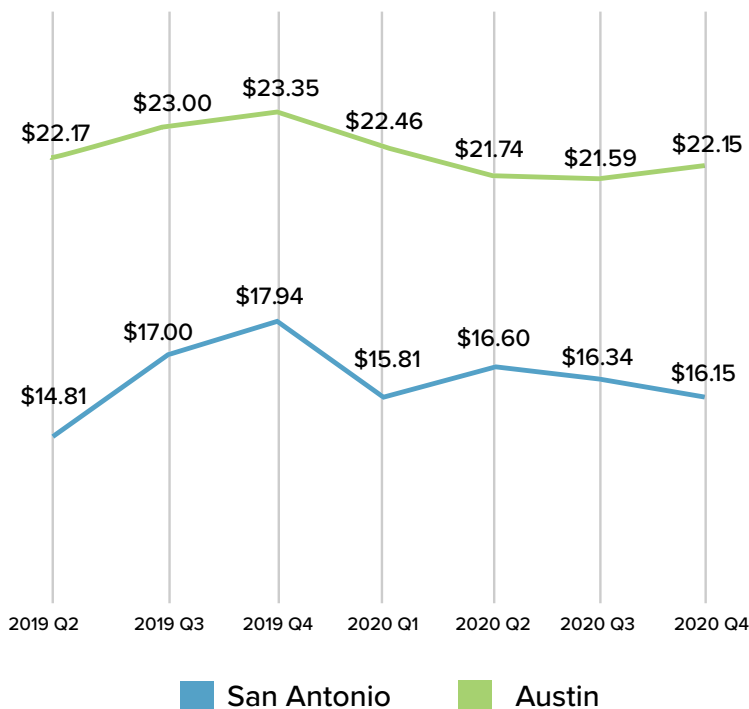
**AVERAGE RETAIL VACANCY RATE**



*Source: Foresite Research Services*

# LEASING ACTIVITY (CONT.)

AVERAGE ASKING RENTAL RATE



Source: Foresite Research Services

## RETAIL FORECASTED OVERALL VACANCY RATES, ASKING RENTS

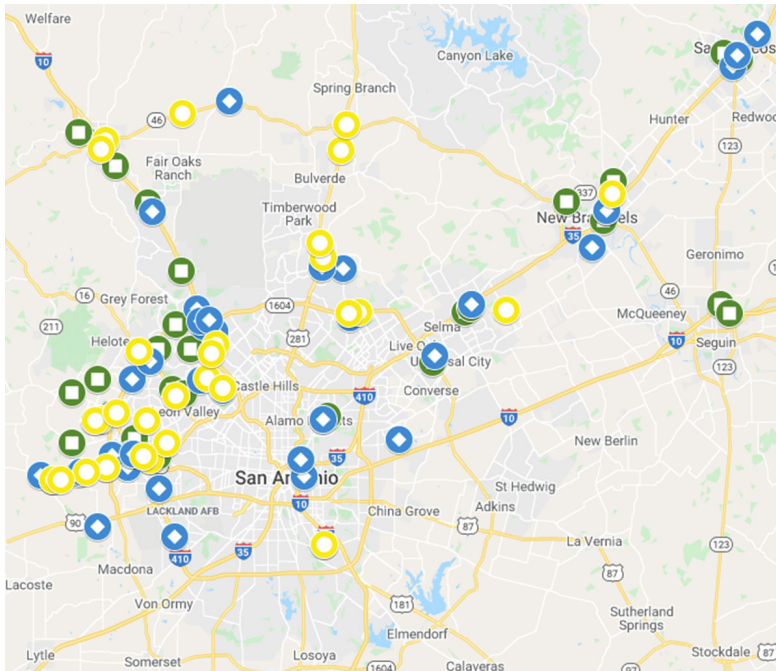
		Vacancy Rates (%)			Asking Rents (Y-O-Y %)		
Region MSA	Neutral Retail Vacancy Rate	2019	2020	2021	2019	2020	2021
Austin	6.0	4.5	4.6	4.9	0.0	-0.8	-0.7
San Antonio	6.0	5.0	5.7	5.9	2.2	3.1	1.0

Note: Annual numbers represent the four-quarter average of the seasonally adjusted data. Rent growth is nominally estimated from the previous year's average.

Sources: CoStar and Texas Real Estate Research Center at Texas A&M University

# NEW RETAIL DEVELOPMENTS

## SAN ANTONIO / NEW BRAUNFELS

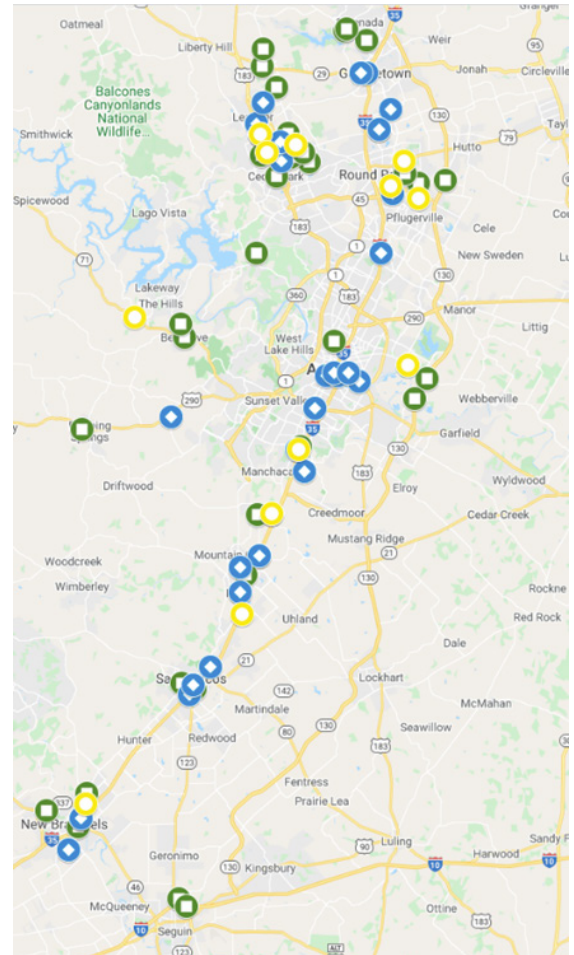


■ Proposed Preleasing

◆ Under Construction

● Developments Delivered in Last 6 Months

## AUSTIN / SAN MARCOS

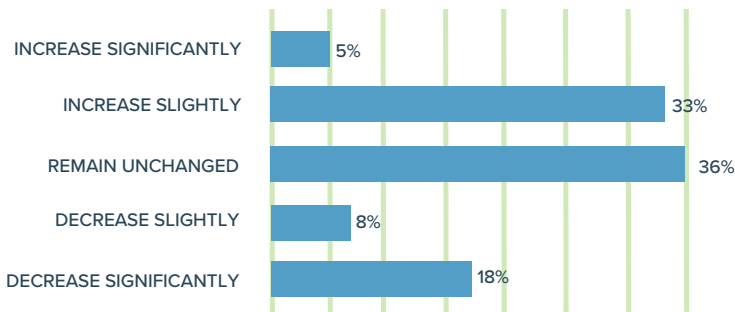


Source: Foresite Research Services

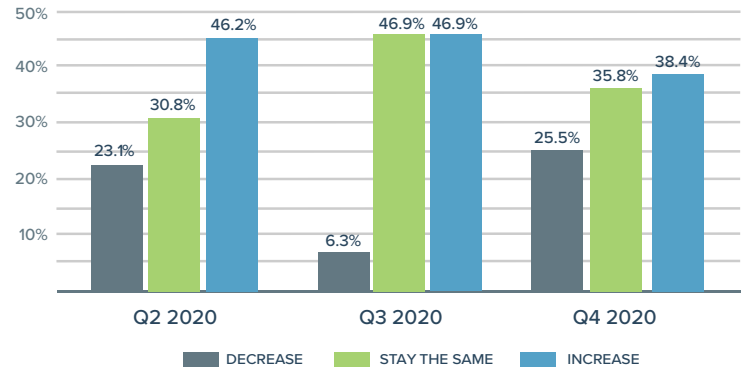
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# INVESTOR SENTIMENT SURVEY

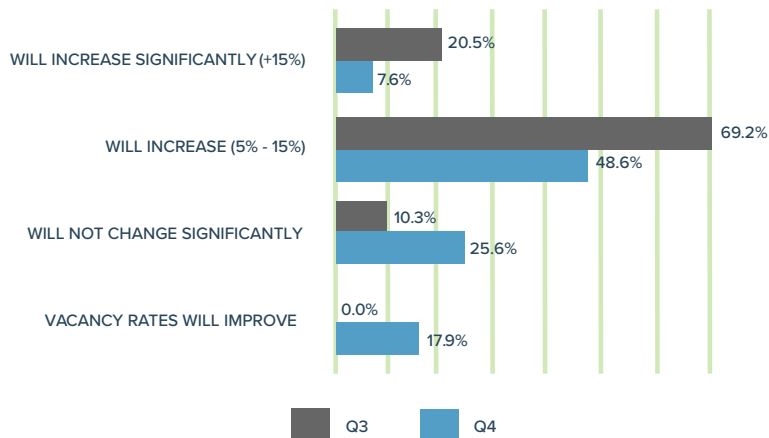
## HOW DO YOU THINK CAP RATES WILL ADJUST IN THE NEXT SIX MONTHS?



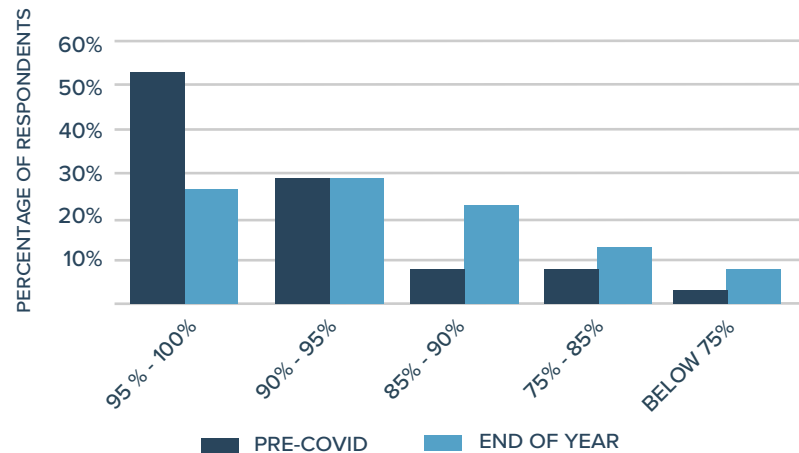
## HOW DO YOU THINK CAP RATES WILL ADJUST IN THE NEXT 6 MONTHS:



## ACROSS THE TEXAS RETAIL MARKET, HOW DO YOU SEE VACANCY RATES MOVING IN THE NEXT SIX MONTHS?



## WHAT WAS THE AVERAGE OCCUPANCY OF YOUR CENTER(S) PRE-COVID AND NOW?



## INVESTOR SENTIMENT SURVEY

To view the full results of the investor sentiment survey, please visit:

<https://foresitecre.com/blog/>



# LOOKING FORWARD



**ALEXANDRIA  
TATEM**

**HEAD OF RESEARCH /  
ASSOCIATE**

2020 was an unprecedented year that caused a great amount of uncertainty in the commercial real estate market that will continue into 2021. The uncertainty makes it hard to forecast how the economy will recover, especially since this recession was caused by a health crisis and will not follow the recovery path of previous recessions.

*"The retail segment of commercial real estate was hit the hardest as some businesses were unable to accommodate consumers' sudden shift from brick-and-mortar shops to e-commerce. Retail will probably continue to consolidate/contract in 2021. Retail that is more convenient, attractive, pleasing, engaging, or even entertaining may flourish."*

– Texas Real Estate Research Center, 2021  
Texas Housing Economic Outlook

The consensus among real estate experts is that the pandemic did not create new trends but rather accelerated trends that were already in motion. \*E-commerce as a percentage of all retail sales have been steadily increasing since the early 2000's and realized 10% of all sales in Q4 of 2018. E-commerce was 11.3% of all retail sales at the end of 2019. E-commerce trends were accelerated by the pandemic as consumers embraced social distancing and did the majority of shopping from home. The rise of e-commerce is significant and online sales now capture 16.7 percent of all retail sales (excluding automotive). While the level of e-commerce is widely expected to remain higher than it was in 2019, it is likely that consumers will return to physical retail locations in 2021 and recapture some of the e-commerce market share.

Businesses that were quick to adapt to the new safety environment performed the best. This included casual dine restaurants without drive thrus who turned to curbside pickup, developed a strong online presence, and put their menus on delivery apps. There will be a greater emphasis in the future on businesses to create a seamless experience between their brick-and-mortar stores and online presence.

While some businesses were able to adapt and survive under the restrictions of the pandemic, many businesses were unable to continue operating and permanently closed in 2020. Businesses deemed non-essential were required to close their doors for several months as state and local municipalities put lockdowns and curfews into place. Restaurants experienced lowered capacities for the majority of the year and sales have suffered. Vacancy rates are expected to increase across the Texas market. The Texas Real Estate Research Center at Texas A&M forecasts Austin's vacancy to moderately increase from 4.5% in 2019 to 4.9% in 2021. In San Antonio, 5.0 in 2019 to 5.9% in 2021.

2020 saw lower transaction velocity in CRE both locally and nationally. The uncertainty caused by the pandemic created a slowed-down transaction environment as investors demanded a discount on pricing that sellers were not ready to give. There was not an influx of distressed properties offered for sale throughout the year as some investors expected. The increased risk of retail properties and sellers' reluctance to lower prices created a significant bid/ask gap in the market. Cap rates for retail real estate have remained stable but transactions are down 50% nationally year-over-year according to Real Capital Analytics.

One major obstacle for potential buyers was the difficulty of obtaining capital. Lenders that have not been "pencils down" have increased requirements to obtain a loan such as a higher down payment or full-recourse loan. The lending environment is expected to remain tight during the first half of 2021. The Chairman of the Fed says the central bank will hold rates near zero "for as long as it takes" to revive the economy. The Blue Chip Economic consensus suggested that rates are likely to remain low through 2023 or even 2024.

\* E-commerce sales are sales of goods and services where the buyer places an order, or the price and terms of the sale are negotiated over an Internet, mobile device (M-commerce), extranet, Electronic Data Interchange (EDI) network, electronic mail, or other comparable online system. Payment may or may not be made online.  
(US CENSUS BUREAU)

# INDEX RATES

## DECEMBER 2019 RATES

### INDEX RATES

5-Year Treasury.....	1.71%
10-Year Treasury.....	1.88%
1-Month LIBOR.....	1.74%
10-Year Swap.....	1.82%

## DECEMBER 2020 RATES

### INDEX RATES

5-Year Treasury.....	0.38%
10-Year Treasury.....	0.67%
1-Month LIBOR.....	0.14%
10-Year Swap.....	0.95%

## Commercial - Life Companies

TERM	AMORTIZATION	LTV	SPREAD	RATE
5 - YEAR	25 - 30	65% - 75%	240 - 285	2.80% - 3.25%
10 - YEAR	25 - 30	50% - 65%	180 - 240	2.75% - 3.35%
10 - YEAR	25 - 30	65% - 75%	240 - 290	3.35% - 3.85%
15 - YEAR	15 - 25	65% - 75%	260 - 325	3.65% - 4.30%
LONGER	FULLY AMORTIZING	65% - 75%	260 - 325	3.75% - 4.40%

## Commercial - CMBS

TERM	AMORTIZATION	LTV	SPREAD	RATE
5-YEAR	30	65% - 75%	315 - 365	3.55% - 4.05%
10-YEAR	30	65% - 75%	235 - 260	3.30% - 3.55%

SOURCE: NORTHMARQ

## COVID-19 Resources for Retailers

Foresite put together a non-branded website in response to the coronavirus and current economic slowdown that features helpful resources for restaurants and retailers to utilize in this difficult time. We will continue to update the website as we hear from Federal and State officials on new or updated resources available. Please feel free to pass this along to any tenants you believe might find this helpful, as well as to local business owners that may be struggling right now.

<https://www.covidinfocenter.com/>

# MEET THE INVESTMENT SALES TEAM



## Alexandria Tatem

### Head of Research / Associate

Joined Foresite in 2019 after graduating from the University of Central Arkansas with a Bachelor's degree in Finance. In college, Alexandria worked for the Arkansas Center for Research in Economics where she compiled data into clear and detailed reports that was used in testimonies to the state legislature, year-long studies, and published reports.

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## Garrett Wood

### Vice President of Investment Sales

Garrett Wood joined Foresite in 2017 after working as an Investment Sales agent at Edge Realty Partners in Austin where he facilitated multiple retail shopping center transactions. He graduated from Texas Tech University in 2012 with a Bachelor's degree in Business Administration. Garrett continues to focus on representing sellers of retail centers throughout the state of Texas.

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## Stephen Berchermann

### Vice President of Investment Sales

Stephen Berchermann 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 daughter.

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## Michael Buckner

### Senior Vice President of Investment Sales

Mike joined Foresite in September 2020. Prior to joining Foresite, Mike was First Vice President Investment Sales at Marcus & Millichap Commercial Real Estate where he worked for nearly 17 years and was one of five individuals to start the Central Texas office. Prior to his career in Investment sales, he was Director of Property Services in Austin.

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## Jamie McDonough

### Associate

Prior to joining Foresite, Jamie was an associate with Marcus & Millichap Commercial Real Estate, focused on investment sales and specializing in urban core assets and redevelopment opportunities in the Dallas-Fort Worth metroplex. Jamie is a native of San Antonio and attended Sewanee University of the South, where he earned his degree in International and Global Studies with a Minor in History.

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## 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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## FORESITE COMMERCIAL REAL ESTATE

Foresite is a full-service brokerage firm that offers leasing, management, and investment sales services. Coming together from various national brokerage firms, the team brings their decades of experience and impressive track records to form the Investment Sales Division. The team concentrates on bringing a high level of dependability and communication to clients as well as a high energy approach to marketing properties.



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