

CRE marketwire

INTEL FROM THE SAN ANTONIO & AUSTIN
RETAIL COMMERCIAL REAL ESTATE MARKETS

Are Rates Up, Down or Sideways?

What the Market is Really Telling Us
About Interest Rates

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Texas Commercial Construction Spending

Key Cost Drivers and Construction
Spending Trends

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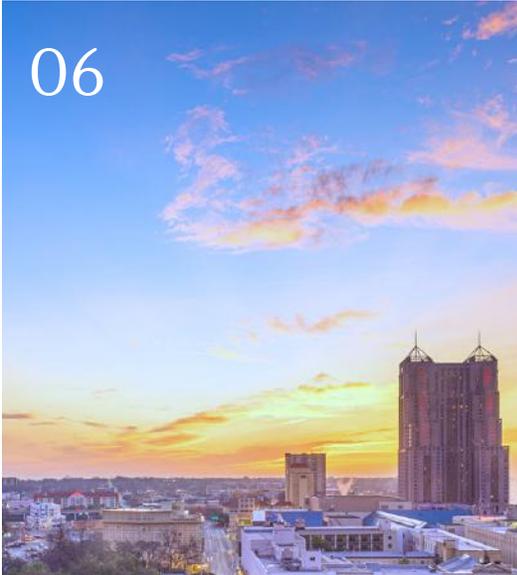


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Texas Commercial Construction Cost Overview

This report contains real data and analytics on the San Antonio and Austin commercial real estate markets covering all metrics of shopping centers and retail buildings, including retail occupancy and cap rates. Sourced from our proprietary extensive research efforts in aggregating hundreds of data points, interviewing active investors and property owners, and adding insights from experts in the segment, this is a comprehensive look at the current condition of the local retail commercial real estate market.

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Letter from the editor

MARKET MOMENTUM BUILDS

The San Antonio and Austin retail markets gained momentum in the fourth quarter as both sale and lease transaction activity increased. The close of 2025 also brought an uptick in acquisition and refinance activity, according to lenders. Pricing for new deals coming to market rose by approximately forty basis points quarter over quarter. Cap rates for closed deals in San Antonio compressed, while Austin experienced a notable increase. Although total transaction volume for 2025 finished 8 percent below 2024 levels, nearly half of all transactions occurred during the final three months of the year, signaling renewed market activity.

The retail leasing market finished the year strong. While rents trended down earlier in the year due to uncertainty, year-end leasing activity increased and starting rates ticked up. What we're seeing now is a stabilization of rents, driven by improved demand and fewer available spaces.

The latest employment report indicated that the labor market ended the year on a soft note. However, Texas leads all states with the largest job growth in the nation over 2025. Texas also set a new record for the size of the labor force and total Texas jobs. These gains underscore the continued strength and resilience of the state's economy.

Alex Tatem is the Head of Research for Foresite Commercial Real Estate and is also an active investment sales agent.

According to the Visa Holiday Sales Report, consumer spending increased during the holiday season, though at a slower pace as higher prices tempered overall growth.

Interest rates in 2026 are expected to remain similar to, or modestly lower than, current levels rather than decline materially. While additional Fed cuts remain possible as inflation moderates and the labor market shows signs of strain, a return to historically low rates is unlikely.

Momentum is already building across the retail market, with investor activity beginning to accelerate. Those waiting for more favorable interest rates or certain economic outcomes may risk missing near-term opportunities as pricing and competition continue to intensify.



CURRENT ISSUE'S KEY POINTS

ON THE MARKET

- 87 class A & B multi-tenant retail properties were publicly marketed during the fourth quarter of 2025.
- Nineteen new listings came to market during the quarter. Thirteen properties went under contract. Two reduced their price. Twenty two properties sold in San Antonio and Austin markets combined.
- San Antonio's average asking cap rate for all multi-tenant retail was 6.73%, up 11 basis points from Q4 2024.
- The average listing cap rate for all product sizes in Austin is 6.12%, down 8 basis points from Q4 2024.
- Year-end activity reflected stronger demand and improved market momentum going into 2026.

LEASING AND VACANCY

- Retail rental rates ticked up slightly for new leases, driven by increased activity and fewer available spaces.
- San Antonio's average starting rental rate is \$22.79, up \$2.54 (12.5%) from last quarter.
- Starting rents also increased in Austin to \$35.39, about 4% higher than Q4 2024.
- While year-end activity pushed starting rates higher in Austin, overall asking rents declined throughout the year, finishing 2025 approximately 12% below 2024 rates.

CONSTRUCTION COSTS

- Average commercial construction costs in Texas now range from \$190 to \$340 per square foot.
- Costs have increased 3-6% over 2024 levels.
- Labor remains the largest factor in commercial construction cost, with skilled trades commanding 4-5% annual wage growth through 2026.

LABOR MARKET

- Texas ended the fourth quarter with an unemployment rate of 4.2 percent, lower than the nation's 4.4 percent.
- Austin's unemployment rate is 3.5%. San Antonio's is 4.0%.
- U.S. employment increased by 50,000 jobs in December, below than the modest estimate of 73,000.
- Restaurant and bar jobs accounted for over half of the jobs created in December. Retail reported a decline of 25,000.

RETAIL SALES

- The VISA Holiday Sales Report showed consumer spending to be up 4.2% (compared to 4.8% last year)
- When adjusting for inflation, the growth becomes a more modest 2.2% versus 3.0% last year.
- 73% of holiday payment volume was in physical stores while 27% of retail spending happened online.

KEY INDICATORS

- The Consumer Price Index (CPI) rose by 2.7% year-over-year in December.
- Inflation for certain household necessities, especially food and shelter, increased in December.
- The Federal Reserve cut its benchmark interest rate at each of its last three meetings, most recently in December, bringing the target range to 3.5% to 3.75%, a three year low.



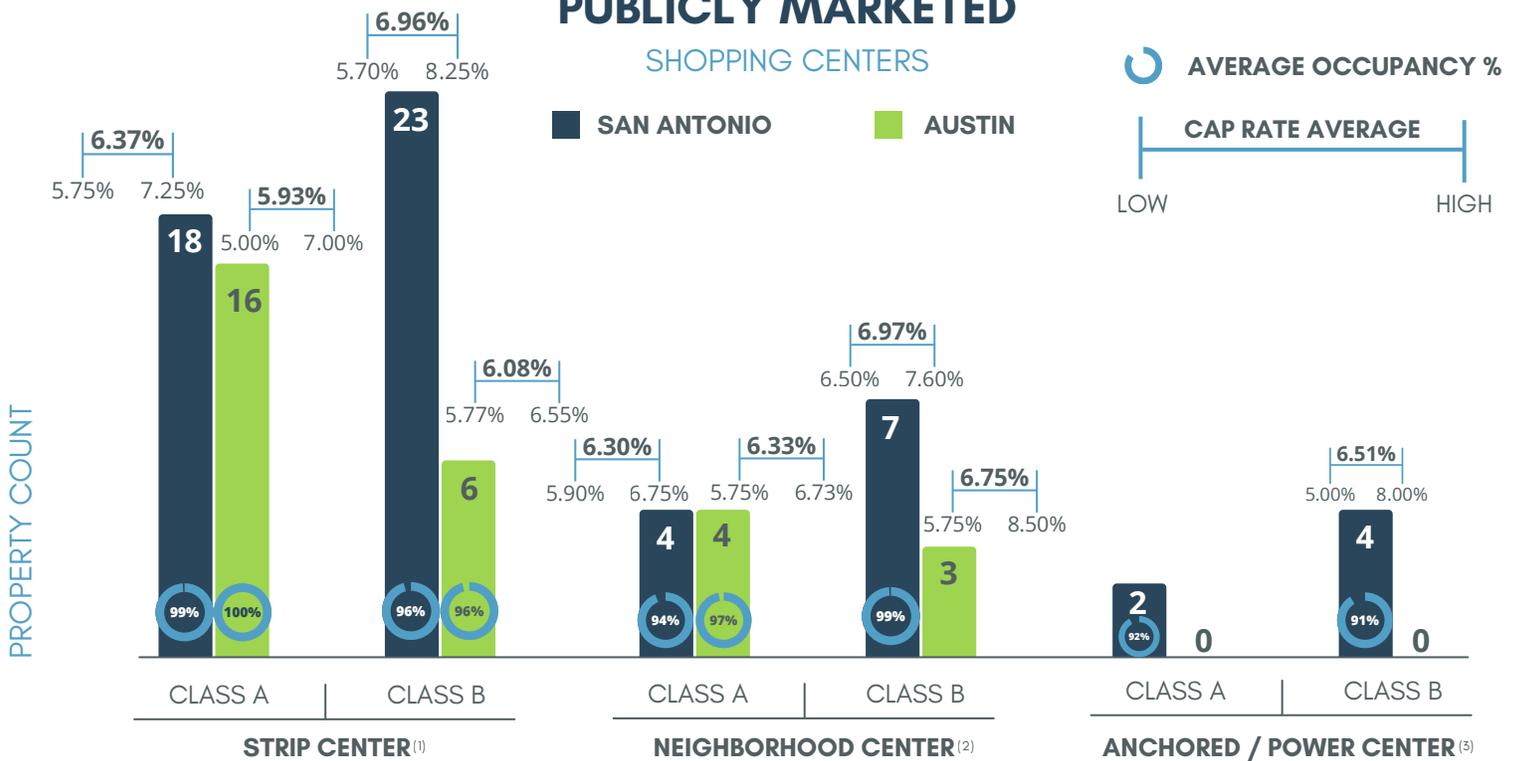
On The Market

Map shows properties available for sale during the fourth quarter of 2025



- The dataset below consists of **Class A and B** retail centers that were **publicly listed** on the market during the **fourth quarter of 2025**.
- Out of the 87 properties, **19 new listings** came to market during the quarter, 13 went under contract, 2 reduced their list price, and 22 sold.
- **San Antonio's** average multi-tenant retail asking cap rate for all product sizes is **6.73%**, down 11 basis points from the same period last year. The average cap rate for all product sizes in **Austin is 6.12%**, down 8 basis points from Q4 2024.
- In 2024, many listings were removed at year end after sitting on the market for a long period of time with limited activity. That was not the case in 2025 and there were many closings in December. Year-end activity reflected stronger demand and improved market momentum going into 2026.

PUBLICLY MARKETED SHOPPING CENTERS



CLASSIFICATION METHOD

(1) Unanchored retail, generally under 25,000 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

Current Trends

- The average asking cap rate for Class A shopping centers in San Antonio is 6.47%. The average for Class B is 6.90%
- The average asking cap rate for Class A shopping centers in Austin is 6.01%. The average for Class B is 6.42%

	SATX	ATX
# of Listings	59	29
Avg Cap Rate Class A	6.47%	6.01%
Avg Cap Rate Class B	6.90%	6.42%
Average Occupancy	96.65%	98.13%

CHANGES TO LISTED PROPERTIES

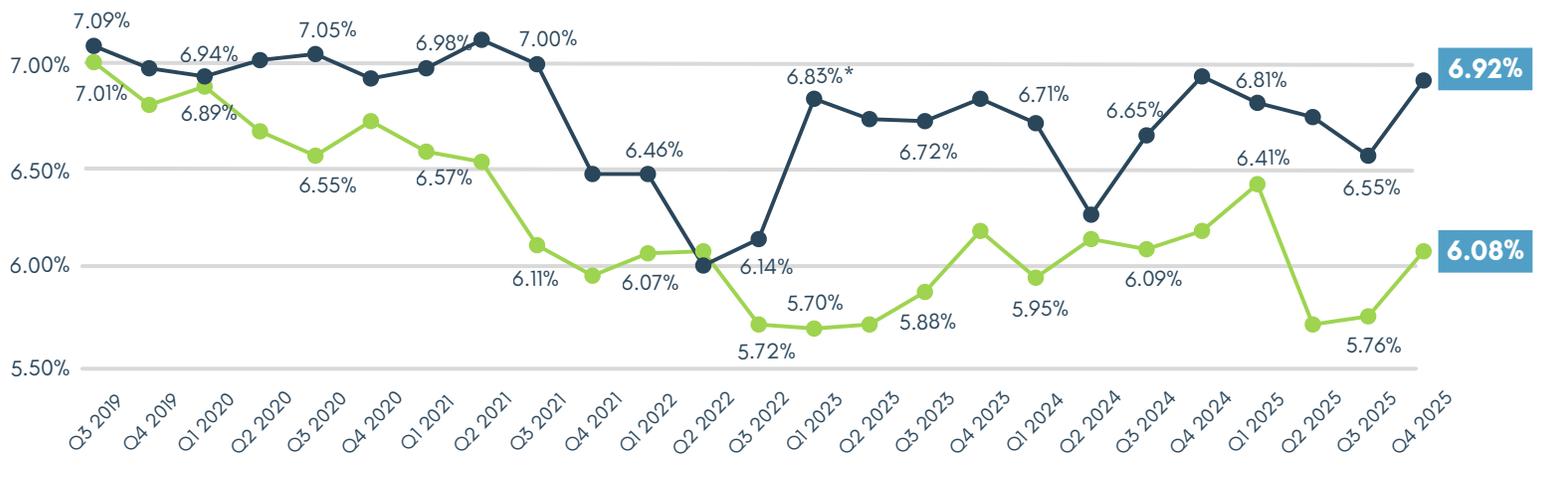
	Q4 2025	Q4 2024
Class A & B Centers	74	84
New Listings	19	18
Went Under Contract	13	11
Reduced Price	2	3
Sold	22	12

*San Antonio & Austin Markets Combined



AVERAGE STARTING ASKING PRICE

AVERAGE ASKING CAP RATE FOR NEW LISTINGS



Source: Foresite Research Services

*Q1 2023 San Antonio unadjusted asking cap rate was 7.12%. Data was adjusted to remove several power centers that came to the market at the same time.

- SAN ANTONIO
- AUSTIN

Retail Pricing

RETAIL CENTER SALES 2025 COMPARED TO 2024 *

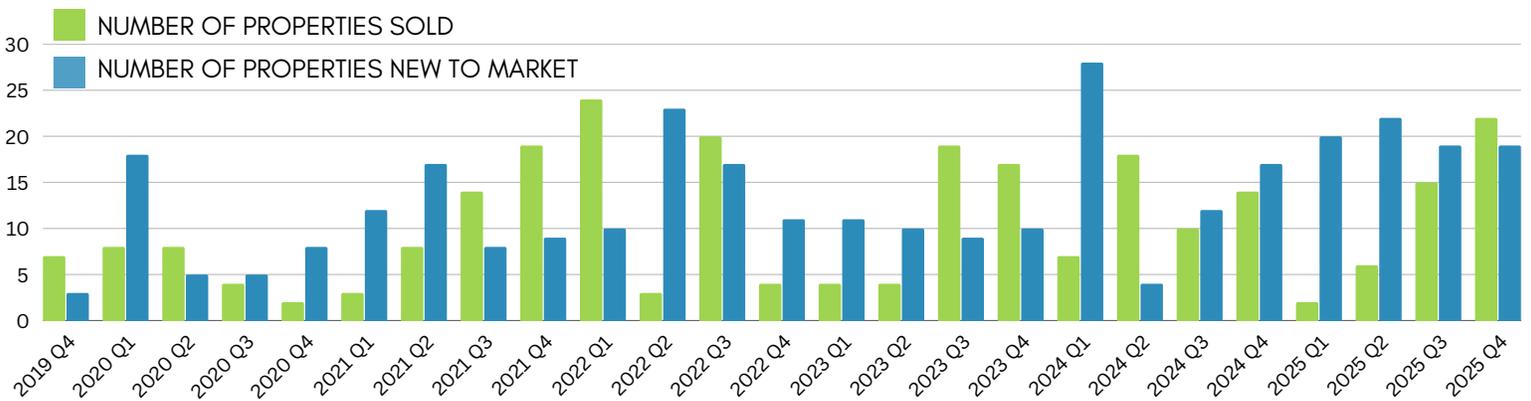
UNDER \$5M	AVERAGE CAP RATE		AVERAGE PPSF		AVERAGE OCCUPANCY	
	2025	2024	2025	2024	2025	2024
SAN ANTONIO	7.13%	7.21%	\$271	\$265	98%	97%
AUSTIN	6.51%	5.97%	\$42	\$382	83%	100%

OVER \$5M	AVERAGE CAP RATE		AVERAGE PPSF		AVERAGE OCCUPANCY	
	2025	2024	2025	2024	2025	2024
SAN ANTONIO	6.78%	7.31%	\$352	\$266	95%	95%
AUSTIN	6.81%	6.36%	\$366	\$385	94%	97%

*Sample of 50 Properties.

Source: Foresite Research Services

COMBINED SAN ANTONIO AND AUSTIN - NEWLY LISTED AND SOLD



Select Foresite Transactions in 2025



AUTUMN HEIGHTS SALE

Alexandria Tatem
Represented the Seller



MISSION PLAZA SALE

Xavier Alvarado
Represented the Seller



BABCOCK FLEX SALE

Alexandria Tatem & Xavier Alvarado
Represented the Buyer



ONASSIS RETAIL SALE

Alexandria Tatem & Stephen Berchelmann
Represented the Seller



JACK IN THE BOX SALE

Alexandria Tatem
Represented the Seller

Local Brokers Predict a *Cautiously Optimistic* 2026 Market



A recent survey of San Antonio-area commercial real estate brokers reveals a market outlook that is generally positive, though tempered by caution, heading into 2026. Participants were asked whether they expect 2026 to be better, the same, or worse than 2025, and to provide commentary explaining their view.

The data to the right shows a clear leaning toward optimism. This indicates that while enthusiasm isn't overwhelming, the majority of brokers see 2026 as a year of forward movement rather than continued stagnation.

Themes From Broker Commentary

Across dozens of written responses, several recurring themes emerged:

1. Anticipation of Interest Rate Relief

Many brokers noted that even modest rate cuts, or simply stability after two volatile years, could unlock pent-up transactions. Improved financing conditions were one of the most commonly cited reasons for predicting a better year.

2. Buyers Ready but Waiting

Several brokers mentioned active buyers who are currently paused due to pricing gaps, debt costs, or uncertainty. Many believe that once rates settle and sellers adjust expectations, deal activity will pick up.

3. Mixed Signals in the Multifamily Sector

A few brokers expressed concern about continued softness in apartments, pointing to oversupply, high concessions, or pressure on valuations. This was the most frequently cited reason among those predicting a "same" or "worse" scenario.

Most Brokers Expect an Improvement in 2026

64% believe 2026 will be a better year

32% expect conditions to remain about the same

A small minority anticipate a worse year

4. Industrial and Retail Remain Bright Spots

Comments highlighted continued strength in industrial and pockets of retail, especially service-oriented and necessity retail. These sectors were often referenced as stabilizing forces heading into 2026.

5. The Mood: Cautious, Not Exuberant

The commentary reflects neither distressed sentiment nor runaway optimism. Instead, brokers appear measured and hopeful that 2026 will be a turning point, but aware that recovery hinges on broader economic shifts.

Overall Outlook

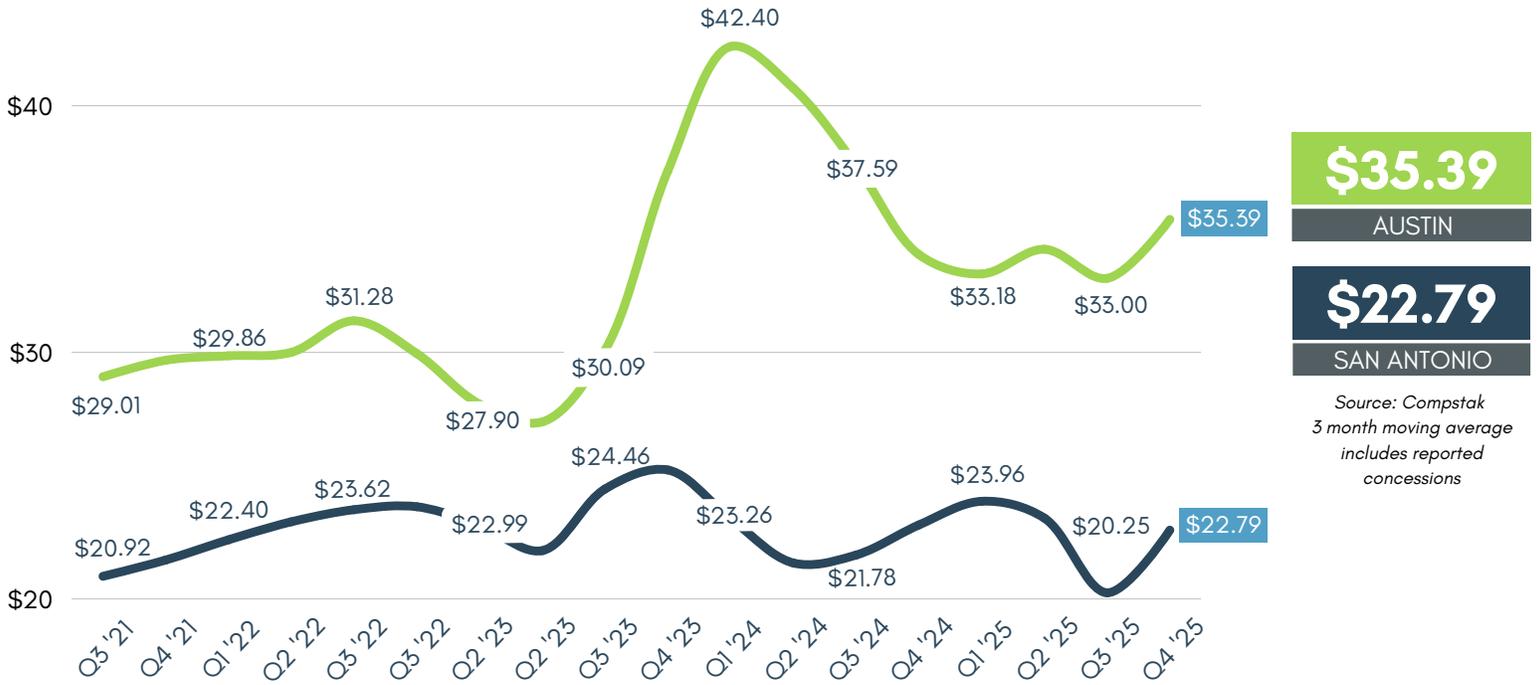
The 2026 broker forecast suggests that confidence is returning, though slowly. With most respondents expecting improvement and few anticipating deterioration, the mood across the market is one of guarded optimism.

If early signs of interest rate stabilization hold, brokers widely believe that 2026 could mark the beginning of renewed momentum across key sectors—especially for buyers and sellers who have been stuck in a wait-and-see cycle throughout 2024 and 2025.

Leasing Activity

Starting rates decrease in 2025

STARTING RENT TRENDS



\$35.39
AUSTIN

\$22.79
SAN ANTONIO

Source: Compstak
3 month moving average
includes reported
concessions

San Antonio MSA - Tenant Inquiries



Darker areas indicate higher leasing inquiries based on inbound calls to Foresite for the year of 2025.

ABSORPTION

To finish out 2025, San Antonio’s starting retail rents have increased to \$22.79, similar to year end of 2024 at \$23.00 for deals done during that quarter.

Starting rents also increased in Austin to \$35.39, about 4% higher than Q4 2024. While year-end activity pushed starting rates higher, overall asking rents declined throughout the year, finishing 2025 approximately 12% below 2024 rates.

While rents trended downward earlier in the year amid economic uncertainty, year-end leasing activity increased and starting rates ticked up. The market is now showing signs of rent stabilization, driven by improved demand and fewer available spaces.

Foresite Tenant Representation

Tenants that Foresite Works With

Finding the right location can be challenging and the best spaces lease up often before they ever hit the market. By leveraging our local market expertise and strong network of landlords, Foresite assists tenants in securing the ideal commercial space in San Antonio, Austin, and beyond.

How We Support Tenants

Market Insight

Detailed submarket and demographic analysis to align your location with your target audience.

Business Alignment

We introduce your concept and operations to landlords, positioning your business as a valuable addition to their property.

Landlord Relationships

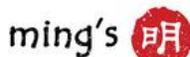
Access opportunities through our strong local network.

Lease Negotiation

Expert guidance to secure favorable terms and conditions.

Our tenant rep team partners with a wide range of clients, from emerging retailers entering the market to established brands expanding their footprint. Whether you're seeking a flagship location, multiple sites, or specialized space, we tailor our approach to your business goals.

REGIONAL AND NATIONAL TENANTS REPRESENTED BY FORESITE



A photograph of a Bruster's Real Ice Cream storefront. The building is constructed of brick and features the company logo in large letters above the entrance. The logo includes the text 'BRUSTER'S' in a stylized font, with 'real ice cream' written below it. There are also smaller logos on the building's facade. The sky is blue with some clouds, and there are trees and a parking lot visible in the background.

Sweet Success in San Antonio

By Kara Walters, Associate with Foresite Commercial Real Estate

Finding the right location is often the most challenging part of bringing a retail concept to life, and Casey Howard's journey to open Bruster's Real Ice Cream in San Antonio is a textbook example of perseverance in commercial real estate.

What many may soon look at as an overnight success was, in reality, the result of years of patience, strategic decision-making, and resilience. Casey spent nearly four years navigating the San Antonio market, with multiple promising sites and at least three deals falling through before the right opportunity finally came together.

This interview offers a candid look at the realities tenants face when entering a competitive retail market: evaluating site criteria, balancing visibility and access, competing with more established concepts, managing rising construction and financing costs, and knowing when to walk away from a deal that doesn't align with long-term goals. Casey's experience highlights how timing, capital planning, and strong brokerage representation can ultimately determine success or failure.

Most importantly, his story underscores a truth every business owner and developer understands: the right location is worth waiting for. Through setbacks, shifting economic conditions, and repeated negotiations, Casey stayed focused on his vision. The result is not just a new Bruster's Real Ice Cream location, but a powerful example of how persistence and smart commercial real estate strategy can turn a long, uncertain search into a defining win.

What were your goals when you first decided to look for space in the San Antonio market, and what were the primary factors that guided your site selection? Were you looking for visibility, demographics, co-tenancy, access, competition, or something else?

When we began searching for the right location in San Antonio, **our primary goal was to find a site that could fully support the Bruster's concept.**

We considered both an end-cap space with drive-thru potential or a stand-alone building to maximize convenience for our customers. High traffic and strong population density were essential factors, as they ensure the volume needed for a successful operation. Because Bruster's does not offer indoor seating, outdoor space was another critical consideration. We wanted a location that could accommodate a patio area, giving guests a comfortable place to enjoy their favorite treats. Visibility, accessibility, and the ability to create a welcoming environment guided every step of our site selection process.

Were there any surprises about the market—availability, pricing, timing, or demand—that influenced your decision-making?

One of the biggest surprises was how challenging it can be to introduce a new concept to the San Antonio market. While there were plenty of locations that seemed like a great fit for Bruster's, we often found that property owners preferred more familiar or established concepts.

It was an eye-opening experience that reinforced **the importance of persistence and creativity in site selection.**

Ultimately, finding the right space required patience and a clear vision for how Bruster's could bring something fresh and exciting to the community.

What kind of marketing strategies have you implemented or plan to implement to draw traffic to the store?

Social media and digital outreach will be major components of our strategy, helping us connect with the community and spread the word quickly. What's been especially encouraging is the organic buzz during construction—many people have stopped by to share their love for Bruster's and tell us they've visited locations in other cities. That enthusiasm reinforces our belief that San Antonio is ready for Bruster's, and we can't wait to welcome everyone when we open.

What role will your family play in Bruster's Real Ice Cream?

Bruster's is truly a family-driven venture for us. While most of the day-to-day operations will be managed by me, Casey, every member of the family will play an active role in supporting the business. Some family members will work in the store from time to time, while others will help manage our social media presence and community engagement.

It's exciting to build something that not only serves the neighborhood but also brings our family together in a shared vision.

What are your plans or hopes for the future now that you're operating in this new space?

Our goal is to bring the best fresh-made ice cream experience to the San Antonio market while creating a fun, welcoming environment for our guests. Beyond serving delicious treats, we plan to partner with local schools and nonprofits to support fundraising initiatives that enrich our community. We see Bruster's as more than a business—it's an opportunity to connect with people and make a positive impact in San Antonio.

What did this experience teach you about growth, timing, or navigating commercial real estate?

We spent nearly four years searching for the right location, and one of the most challenging aspects was finding a commercial broker who truly understood our vision. When we connected with Kara Walters, everything changed. She listened to what we wanted, guided us through the complexities of site selection, and stayed engaged even after the lease was finalized—checking on construction progress and sharing ideas for future locations. The process reinforced that timing matters, but having the right partner matters even more.

A knowledgeable, responsive broker can make all the difference in turning a frustrating search into a successful outcome.



Delinquency Risk by Tenant Type: Industry Analysis

What classification of tenants is the most risky after lease signing?

Our survey of over 600 retail tenants reveals that while overall delinquency rates remain relatively low at 5%, the distribution of delinquent tenants across industry sectors presents important considerations for portfolio risk management and tenant diversification strategies.

Industry Breakdown of Delinquent Tenants

High-Risk Sectors (20%+ of delinquencies)

- Restaurant (25%) - Represents the highest concentration of delinquent tenants, reflecting the industry's characteristically thin margins, high operational costs, and sensitivity to economic fluctuations and consumer spending patterns.

Standard-Risk Sectors (5-10% of delinquencies)

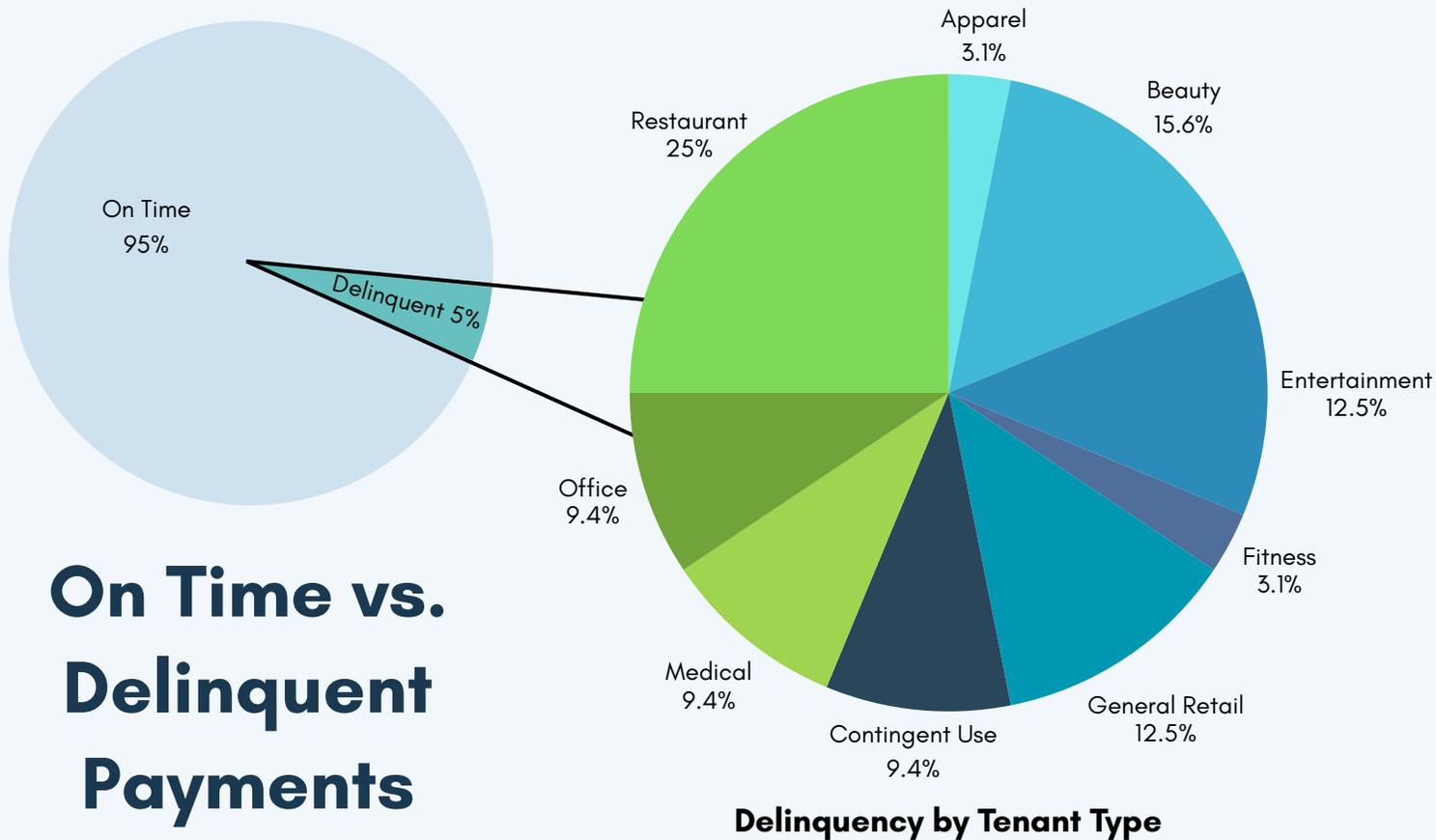
- Office (9.4%) - Moderate representation considering the sector's exposure to economic cycles and potential impacts from remote work trends.
- Medical (9.4%) - Relatively stable but facing pressures from insurance reimbursement challenges and regulatory changes.
- Contingent Use (9.4%) - Variable risk profile dependent on specific use case and market conditions.

Moderate-Risk Sectors (10-20% of delinquencies)

- Beauty (15.6%) - Second-highest concentration, likely driven by commission-based revenue models, high competition, and reliance on discretionary consumer spending.
- Entertainment (12.5%) - Elevated risk profile due to seasonal revenue fluctuations and changing consumer entertainment preferences.
- General Retail (12.5%) - Reflects ongoing challenges in the retail sector including e-commerce competition and evolving consumer shopping habits.

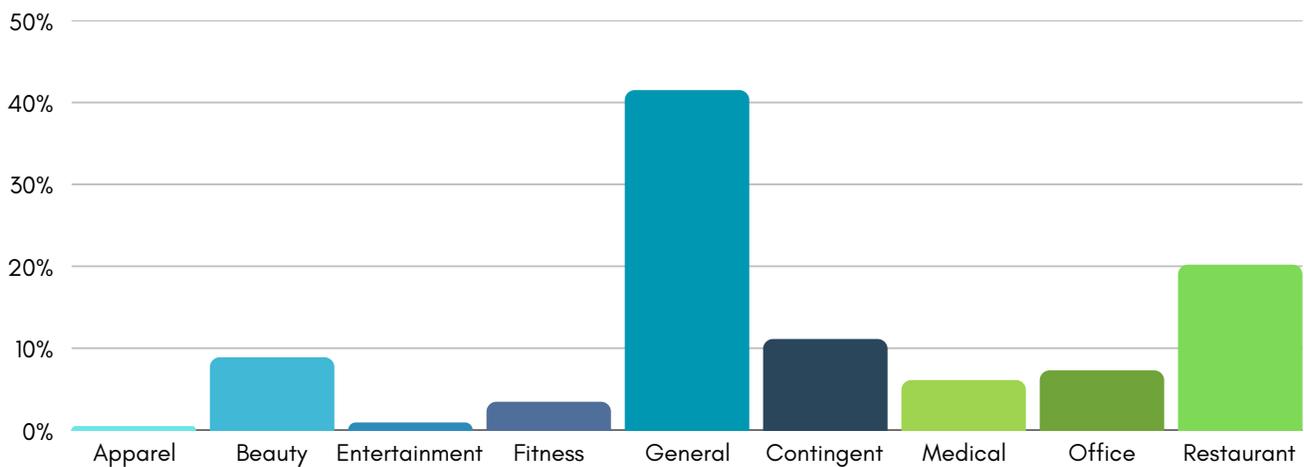
Lower-Risk Sectors (~5% of delinquencies)

- Fitness (5.1%) - Lower representation despite membership-based revenue volatility.
- Apparel (5.1%) - Minimal impact on overall delinquency despite retail sector challenges.



Expansion Inquiries by Tenant Type

Percent of Inquiries in 2025



Restaurant, Beauty, and Entertainment sectors collectively represent 53.1% of all delinquencies, yet these same consumer-facing categories also demonstrate the highest expansion rates among tenants.

The correlation between delinquency concentration and expansion activity suggests that landlords must carefully balance portfolio composition. Properties targeting aggressive growth through restaurant and experiential retail concepts will naturally assume higher short-term payment risk in exchange for higher occupancy.

Source: Foresite Research Services

Occupancy Cost

Rolling 12 month view of occupancy costs across retail categories.

Low Occupancy Cost (0% - 5%)		YoY % Change
Supermarket	1.9%	▲ 8.2%
Home Improvement	4.6%	▼ -9.3%
Beauty Supplies	5.0%	▲ 1.2%
Sporting Goods	5.0%	▼ -28.6%
Moderate Occupancy Cost (5% - 10%)		YoY % Change
Fast Food	6.2%	▲ 1.8%
Restaurant	6.4%	▲ 1.3%
Department Store	6.5%	▼ -44.0%
Home Goods	6.9%	▼ -0.7%
Specialty Retail	7.6%	▲ 11.2%
Dollar Store	7.9%	▲ 25.6%
Services	9.3%	▲ 1.7%
Apparel	9.8%	▼ -4.7%
Elevated Occupancy Cost (10% - 20+%)		YoY % Change
Specialty Food	10.1%	▲ 2.6%
Pet Supplies	10.1%	▼ -20.1%
Shoes	10.4%	▼ -1.1%
Salon	10.6%	▲ 2.7%
Craft	10.7%	▲ 35.2%
Hair	14.1%	▲ 5.1%
Specialty Restaurant	15.7%	▼ -8.6%
Fitness	20.7%	▲ 8.2%

Construction Spending

Texas Commercial Construction Cost Overview

Average commercial construction costs in Texas now range from \$190 to \$340 per square foot. This depends on the type of building, the region, and how complex the project is. That’s a 3-6% annual increase over 2024 levels. This shows steady but rising pressure from subcontractor wages and code requirements.

Building Type	2024 Avg. (\$/SF)	2025-2026 Avg. (\$/SF)	Trend
Retail / Restaurant	\$200	\$230-\$370	Rising due to finish quality
Office / Corporate	\$185	\$210-\$330	Moderate escalation
Industrial / Warehouse	\$140	\$160-\$250	Stable with steel price recovery
Medical / Healthcare	\$250	\$280-\$440	Highest growth rate
Multifamily / Mixed-Use	\$190	\$230-\$350	Increasing demand
Hospitality / Hotel	\$250	\$310-\$450	Fire protection and FF&E impact

Commercial Construction Cost per Square Foot by Project Type

Project Type	Low Range (\$/SF)	High Range (\$/SF)	Primary Cost Factors
Retail / Restaurant	\$210	\$370	HVAC load, finishes, kitchen MEP
Office / Corporate	\$190	\$330	Tenant build-out, elevator systems
Medical / Healthcare	\$270	\$440	Plumbing, electrical, code compliance
Industrial / Warehouse	\$130	\$250	Tilt-wall systems, slab thickness
Multifamily / Mixed-Use	\$200	\$350	Parking podium, shared amenities
Hospitality / Hotel	\$260	\$450	FF&E, fire suppression, ADA compliance

Key Cost Drivers for 2025–2026

1. Labor and Subcontractor Availability

Labor remains the largest factor in commercial construction cost, with skilled trades commanding 4-5% annual wage growth through 2026.

2. Material and Supply Trends

Structural steel, concrete, and MEP materials are stabilizing, though lead times remain long.

3. Code Compliance and Energy Standards

Adopting new energy efficiency and fire protection codes adds 2-3% to total construction cost.

4. Financing and Interest Rates

Financing conditions in 2025-2026 will impact project timelines, especially for speculative builds.

5. Site and Infrastructure Complexity

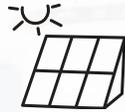
Projects requiring significant utility or drainage work typically add 10-15% to the overall construction cost per square foot.

Commercial Construction Cost Trends for 2025–2026



Design-Build Expansion

Design-build projects now account for more than 55% of Texas commercial builds due to cost control.



Sustainability and Efficiency

Energy-efficient materials and solar-ready designs are becoming standard.



Prefabrication and Modular Growth

Prefab reduces waste and stabilizes construction pricing.



Industrial Sector Strength

DFW and Houston lead the nation in industrial development activity.

Technology Integration - BIM and predictive modeling tools improve cost accuracy.

Regional Construction Cost Differences in Texas

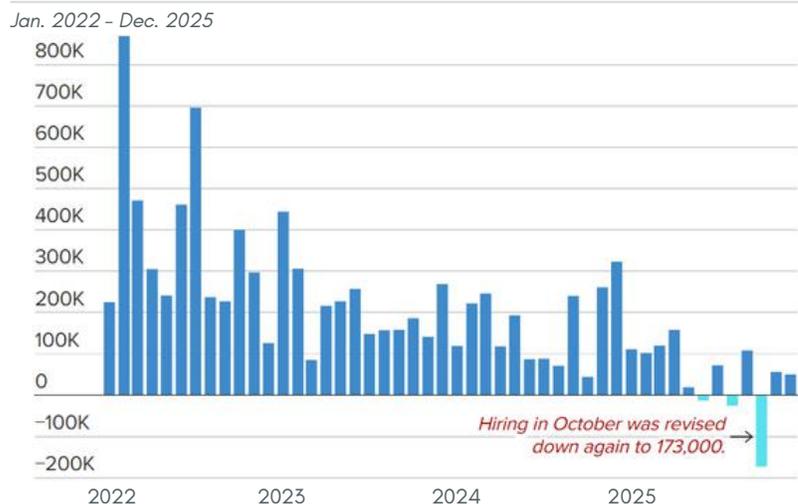
Region	Average Range (\$/SF)	Market Insights
Houston	\$185 - \$320	Strong trade base; competitive pricing
Dallas-Fort Worth	\$190 - \$340	Logistics growth and higher subcontractor demand
Austin	\$210 - \$360	High wages and land costs drive escalation
San Antonio	\$175 - \$300	Lower-cost market; expanding logistics sector

THE STATE OF UNEMPLOYMENT

THE US LABOR MARKET ENDED 2025 ON A SOFT NOTE, BUT TEXAS IS IN A BETTER POSITION THAN MOST.

Monthly change in jobs (000's)

Source: Bureau of Labor Statistics



U.S. employment increased by 50,000 jobs in December, below than the modest estimate of 73,000. The report also revised October and November data downward. The unemployment rate fell to 4.4%. For the full year, payroll gains averaged 49,000 a month, compared with 168,000 in 2024, according to the BLS.

Restaurant and bar jobs led the month, rising 27,000, while health care added 21,000 and social assistance increased by 17,000. Retail reported a decline of 25,000. Government added just 2,000 jobs for the month.

Unemployment Rate

4.4%	4.2%	3.5%	4.0%
United States	Texas	Austin	San Antonio

U.S. unemployment rate

Jan. 2022–Dec. 2025

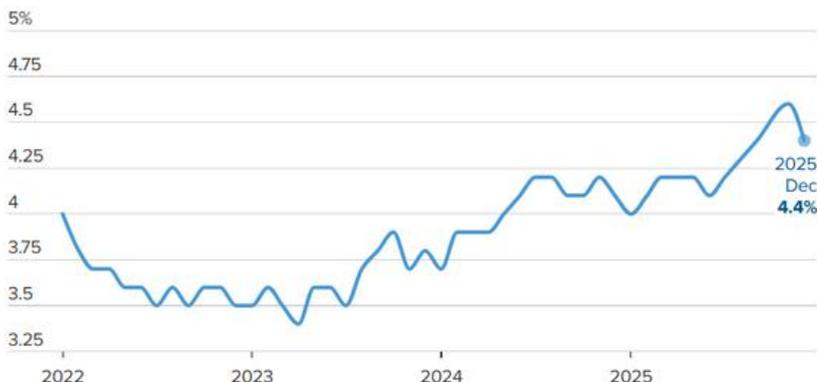


Chart: Gabriel Cortes / CNBC
Source: U.S. Bureau of Labor Statistics
Data as of Jan 9, 2026



Texas lead all states with the largest job growth in the nation over 2025. Texas also set a new record for the number of Texans working, the size of the labor force, and total Texas jobs.

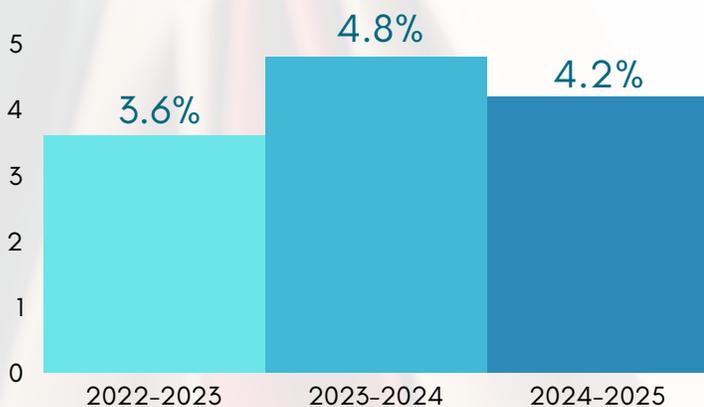
Retail Sales

HOLIDAY SEASON

While the December retail sales report has been delayed due to the backlog faced from the government shut down, the VISA Holiday Sales Report (first seven weeks) showed consumer spending to be up 4.2% (compared to 4.8% last year), however with a slower pace amid higher prices. When adjusting for inflation, the growth becomes a more modest 2.2% versus 3.0% last year.

RETAIL HOLIDAY SPENDING

Year-Over-Year Growth



“

"American consumers may be cautious in sentiment, yet remain fundamentally strong and continue to drive U.S. economic activity. More of the non-essentials that they're cutting out are in the services side of the economy, like recreation, travel, and eating out. They're not doing that, but they're continuing to spend on goods. Consumers are highly promotional right now. They are looking for deals but most retailers recognize that.

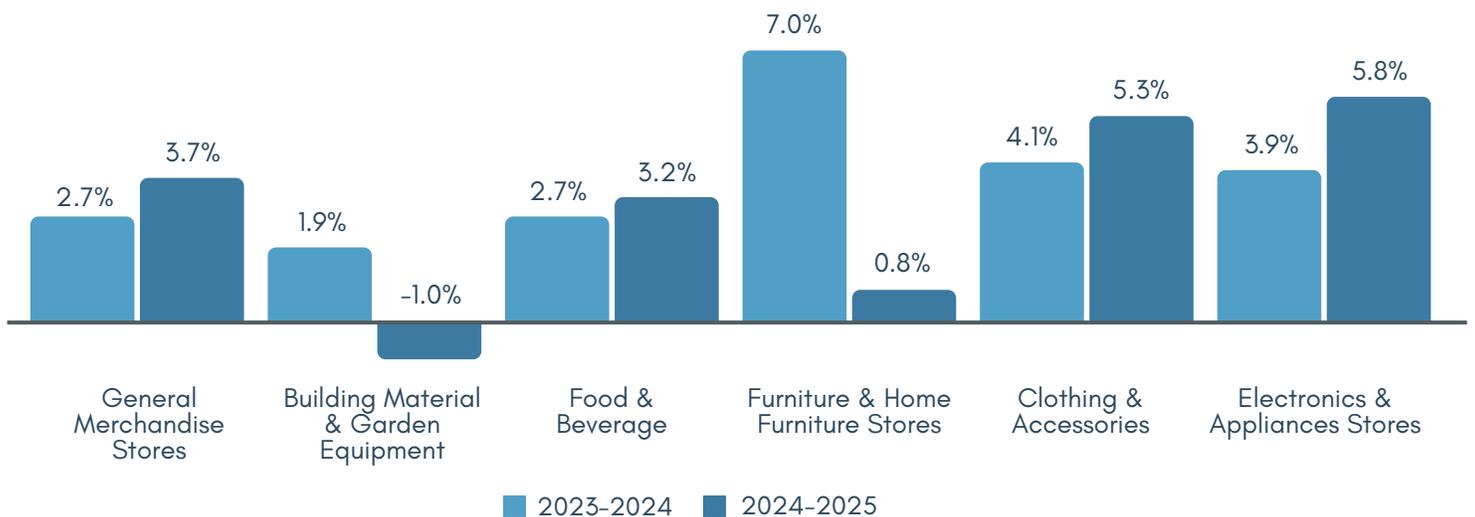
**The National Retail Federation
President and CEO Matthew Shay**

”

- VISA Forecast: +4.6% for November and December combined, in line with predictions
- In-store shopping remains strong: 73% of holiday payment volume was in physical stores while 27% of retail spending happened online.
- E-commerce sales +7.8% (fueled by early promotions)
- NRF Forecast: \$1.01T - \$1.02T (+3.7% to 4.2% over last year)

Key Retail Categories

YEAR OVER YEAR RETAIL SALES GROWTH



Source: VISA Holiday Sales Report & NRF Forecast

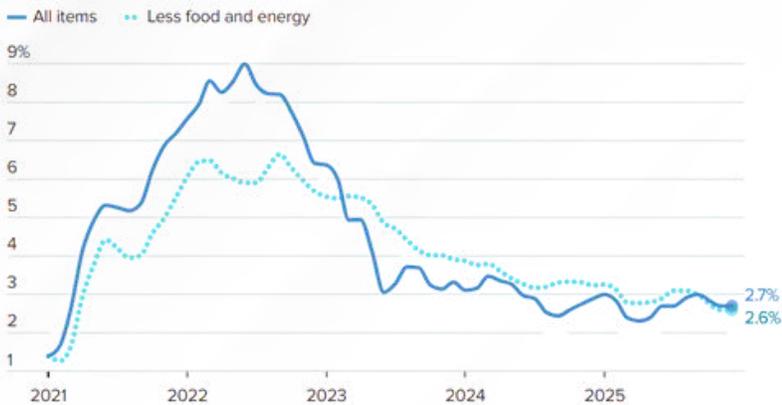
Key Indicators

CONSUMER PRICE INDEX

The Consumer Price Index (CPI) rose by 2.7% year-over-year in December. The cooling inflation rate brings it closer to the Fed's 2% target, but inflation has remained above that level since February 2021 and many households are feeling the squeeze. Inflation for certain household necessities, especially food and shelter, increased in December.

U.S. CONSUMER PRICE INDEX

Year-over-year percent change January 2021 - December 2025



Source: U.S. Bureau of Labor Statistics

“The bottom line is, I think inflation is still uncomfortably high. Inflation for staples, necessities, remains elevated.

“I think were it not for the tariffs, we would have been back to target already, but tariffs have pushed up inflation a little over half a [percentage] point.”

Mark Zandi, chief economist at Moody's.

Inflation is expected to ease further to 2.6% by the end of 2026. The personal-consumption expenditures price index, the measure preferred by the Fed, is expected to cool to 2.5% by the end of 2026.

THE FEDERAL RESERVE

The Federal Reserve cut its benchmark interest rate at each of its last three meetings, most recently in December, bringing the target range to 3.5% to 3.75%, a three year low. Economists expect the easing cycle to continue, with one quarter point cut anticipated by June and another in the second half of the year, which would place the federal funds rate at a midpoint of roughly 3%. According to James Knightley, chief international economist at ING, risks remain skewed toward additional rate cuts due to labor market weakness, inflation, and a more dovish Fed leadership.

Inflation ended last year at 2.7% based on the 12 month change in the consumer price index, well below the 3.6% expected last spring at the height of tariff concerns. Looking ahead, economists believe the worst of the labor market slowdown has passed, with unemployment expected to hover around 4.5% in 2026 after ending 2025 at 4.4%, while monthly job growth is projected to average 65,000 over the next four quarters. These improvements are partly attributed to the Fed's late 2025 rate cuts.

Economists now assign a 27% probability of recession over the next 12 months, the lowest level in a year, though risks remain tied to challenges to inflation, and slowing job growth among lower and middle income households. As Bernard Baumohl, chief global economist at the Economic Outlook Group, noted, current economic growth is being driven largely by higher income consumers benefiting from strong equity markets fueled by investment in AI and data centers, leaving the economy vulnerable to any sudden pullback in stock values.

Are Rates Up, Down or Sideways?

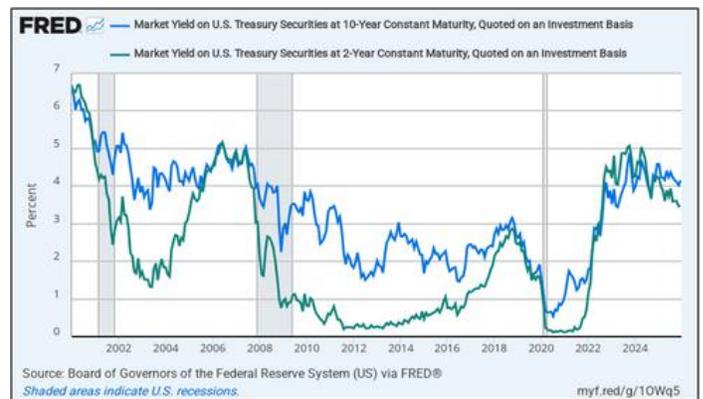
BY BRYAN LEONARD

Bryan Leonard has served as the managing director of the San Antonio Northmarq office since 2009.



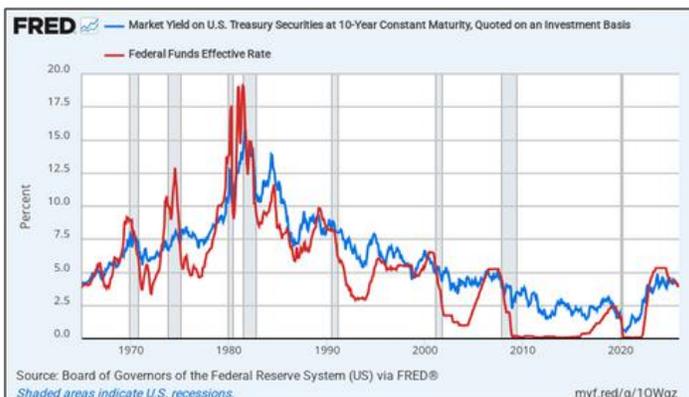
According to the Mortgage Bankers Association, the number of financing transactions nationwide in the 3rd quarter of 2025 were 36% higher on a year over year basis. "Commercial and multifamily borrowing has now increased for five straight quarters on both a quarterly and annual basis," said Reggie Booker, MBA's Associate Vice President of Commercial/Multifamily Research." Included in this increase is a 100% increase in financings (in terms of dollar volume) for retail properties. Major lenders are banks, insurance companies, debt funds and CMBS.

We continue to hear the narrative that some are waiting for rates to fall to transact. But, the aforementioned statistics indicating increasing financing activity suggest that view is changing. Waiting on rates to fall dramatically could lead to missed opportunities. Taking advantage of opportunity now at current rates (whether refinancing or purchasing) while maintaining flexibility to refinance in the nearer term if rates come down seems to be a contemporary sensible strategy. **In fact, at the end of 2025, we observed an uptick in both acquisition and refinance activity which anecdotally supports that the market is moving towards taking advantage of current conditions.**



Before projecting where rates might be in the future, let's start by taking a step back and look at some rate history, using the 10-year treasury and Fed Funds rates as benchmarks.

In 2020 the 10-year treasury was less than 1% and the Fed Funds Rate went to near 0%. Covid was in full swing, having been declared a pandemic in 2020, and the government began pushing out PPP money. That created a historical liquidity event and increase in the money supply and predictably was inflationary. Subsequently, the Fed aggressively raised rates to try and get that under control. Trouble is, they waited too long and raised too fast. Starting in March 2022, the Fed raised rates 11 times through July 2023, starting at near zero and ending up north of 5%. The market was transacting based on a much lower interest rate environment and this sudden increase in the cost of capital significantly impacted transaction volumes. The good news is that the market is settling into the new paradigm. **In my 35-year career, we have been in a net falling interest rate environment. As the cost of capital fell, cap rates compressed and values increased.**



Add in a little rent growth and debt amortization and times were good for real estate investors. **We are at an inflection point in our industry where rates have stabilized and now property operations and debt amortization are at the forefront, impacting investor returns.** To continue our rate discussion, let's now compare the 10 year and 2-year treasury note rates as depicted in the graph above. The gray bars indicate recessions. When the short-term rate exceeds the long-term rate it is called an inversion. Historically, inverted yield curves have been a reliable indicator of a recession to follow. However, the yield curve was inverted for nearly two years beginning in July 2022, with no recession indicated thus far. There have been other factors at play since the early 2000's influencing treasuries stemming from global monetary policy and this historical predictor of recession may not be as reliable as it once was.

Treasury based interest rates are comprised of the base treasury yield plus a spread that is often benchmarked to investment grade corporate bond yields. Currently the yield spreads on corporate bonds are low and could broaden a bit later in the year which would translate to widening spreads on permanent commercial real estate loans. **My view is that rates drift down some in 2026** but we should not expect a return to the once-in-a-lifetime lows experienced in the pandemic era. We saw our last rate cut in December 2025. Inflation has seemingly moderated and the jobs market is looking a bit strained, so we could still see some cuts in 2026.

Banks that are more focused on short term lending could lower rates further if the Fed cuts more in 2026 and longer-term lenders like insurance companies that base their rates on treasury indices could be in a position to offer lower rates if treasuries moderate some and bond yields don't widen out significantly. **In summary, it seems the consensus is for a similar but perhaps slightly lower rate environment in 2026.** It is unlikely we see a dramatic change though.



COMMERCIAL - LIFE COMPANIES

TERM	AMORTIZATION	LTV	SPREAD	RATE
5 - YEAR	25-30	60% - 75%	160-220	5.31%-5.91%
10 - YEAR	25-30	50% - 65%	150-190	5.66%-6.06%
10 - YEAR	25-30	60% - 75%	160-220	5.76%-6.36%
15 - YEAR	Fully Amortizing	60% - 75%	160-220	6.07%-6.67%

COMMERCIAL - CMBS

TERM	AMORTIZATION	LTV	SPREAD	RATE
5 - YEAR	30	65% - 75%	250-300	6.21%-6.71%
10 - YEAR	30	65% - 75%	225-275	6.41%-6.91%

Source: Northmarq | December 17, 2025

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Principal / 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.

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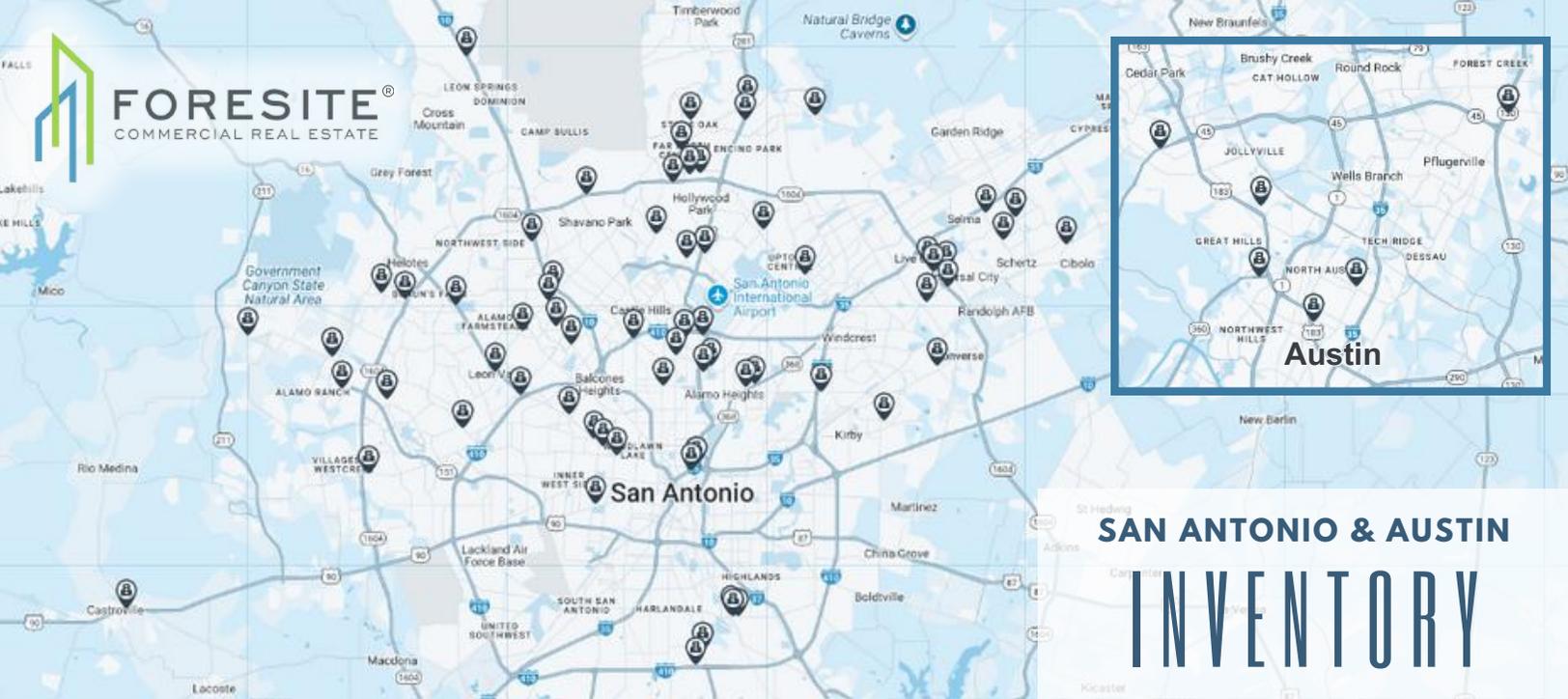
Kevin Gumprecht provides an expansive approach to commercial real estate investment sales with more than a decade of diverse operations management and strategic planning experience.

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Angelica Griesenbeck

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