FORESITE
INVESTMENT SALES

AUSTIN & SAN ANTONIO

RETAIL MARKET OVERVIEW

Prepared by Foresite Research Services

Q1 2021

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EXECUTIVE SUMMARY

ON THE MARKET

- **44** properties were publicly marketed this quarter, up from **36** properties at the end of 2020.
- **12** new listings came to market during the quarter.
- San Antonio's average asking cap rate is **6.98%**, comparable to the same period last year (6.94%)
- The average asking cap rate in Austin is **6.57%**, 32 basis points lower than the same period last year.

LEASING AND VACANCY

- The average vacancy rate in San Antonio is **5.90%**, up 50 basis points from the same period last year.
- The average vacancy rate in Austin is **4.90%**, up 40 basis points from the same period last year.
- The average asking rental rate decreased by **$1.42** in Austin and increased by **$0.41** in San Antonio.

CONSTRUCTION AND NEW DEVELOPMENTS

- The Commercial Construction Index* rose 2 points quarter-over-quarter but is **down 12 points** year-over-year.
- **80%** of contractors surveyed said they are continuing to experience project delays due to Covid-19.

TEXAS LABOR MARKET

- Initial unemployment claims in Texas jumped from 28,896 at the end of December to 60,271 by mid January and reached over **80,000** claims during the last week of March.
- Sales tax revenue is down **5.3%** for Jan-Mar compared to total revenue for the same period in 2020.

RETAIL SALES

- Total sales for the January to March 2021 period were **up 14.3%** from the same period a year ago.
- There was a **27.7%** year over year increase for the month of March.

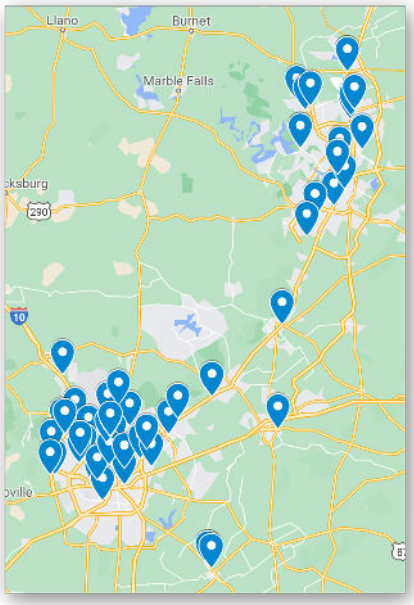
INVESTOR SENTIMENT SURVEY

- **46%** of investors believe cap rates will increase in the next six months.
- **81%** of investors are concerned that Property Taxes will go up in 2021 as a result of budget shortfalls during the pandemic.

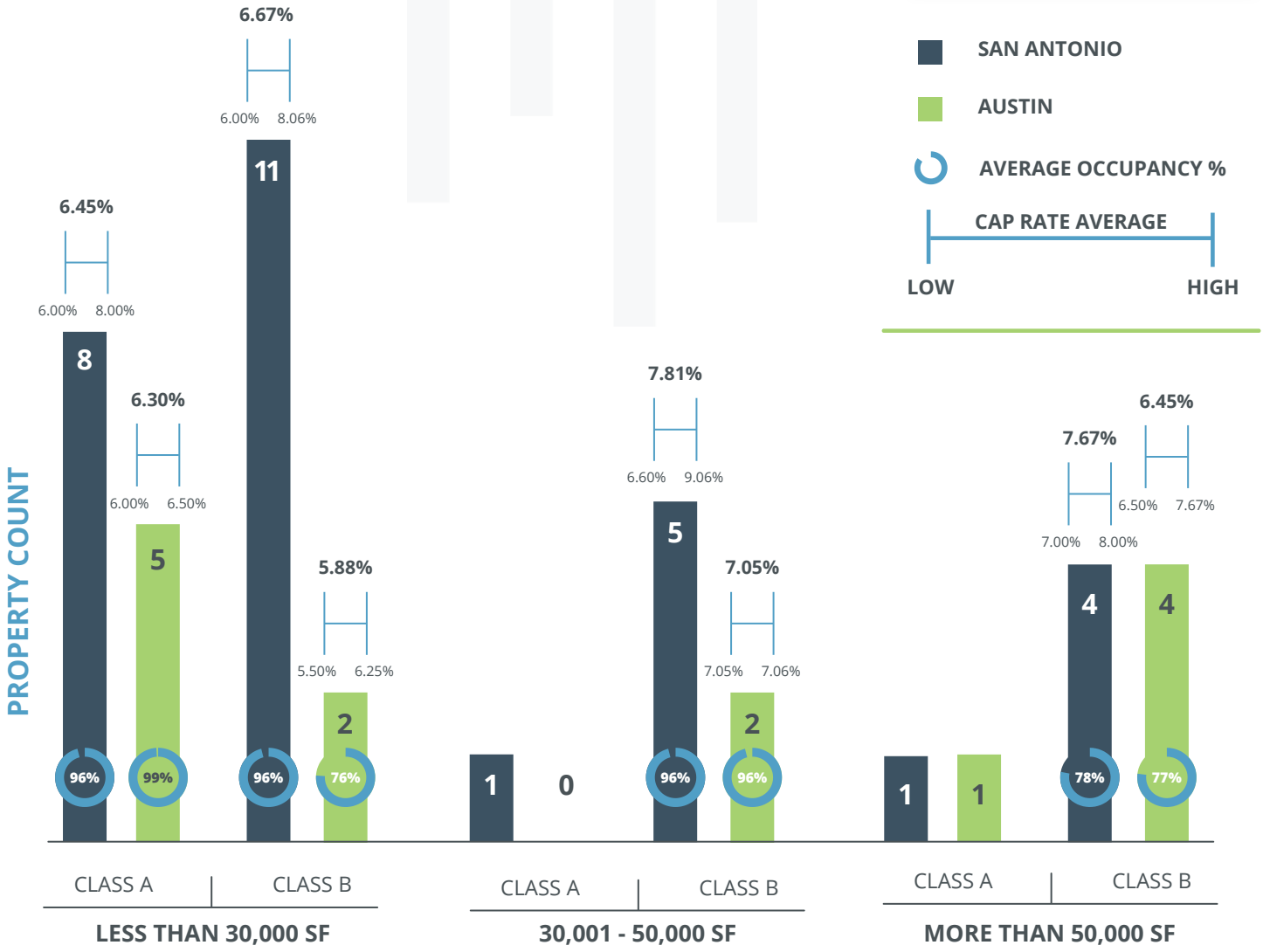
*The U.S. Chamber of Commerce surveys contractors across the country to determine the Commercial Construction Index. The index measures three key drivers behind contractors' confidence and outlook for the construction industry: revenue expectations, backlog, and new business.

ON THE MARKET

- The data set displayed above consists of Class A and B retail centers that were on the market during the first quarter of 2021.
- Out of the 44 properties, **12 new listings** came to market during the quarter, **6 went under contract, 3 reduced the listed price**, and **3 sold**.
- **San Antonio's average multi-tenant retail asking cap rate** for all product sizes is **6.98%**, comparable to the previous quarter. The **average cap rate in Austin is 6.57%**, down 15 basis points from the previous quarter (6.72%).
- The average range between the highest and lowest asking cap rates for **San Antonio** is **188 basis points**. The average range of asking cap rates for **Austin** is **47 basis points**.



PUBLICLY MARKETED STRIP CENTERS



Source: Foresite Research Services

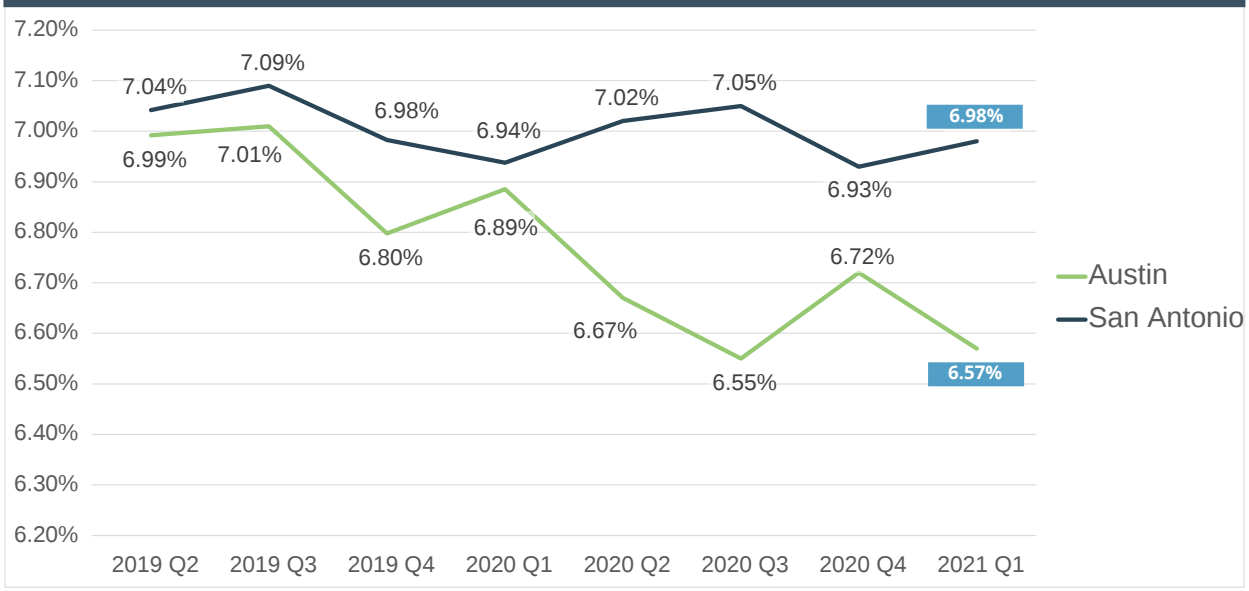
ON THE MARKET

CURRENT TRENDS

- The **asking cap rates in San Antonio have remained stable** and averaged 7.00% over the last two years.
- The **asking cap rates in Austin have continued to compress** and average almost 50 basis points lower than pre-covid prices.

	SATX	ATX
# of Listings	30	14
Avg Cap Rate Class A	6.56%	6.42%
Avg Cap Rate Class B	7.09%	6.67%
Average Occupancy	94.44%	89.29%

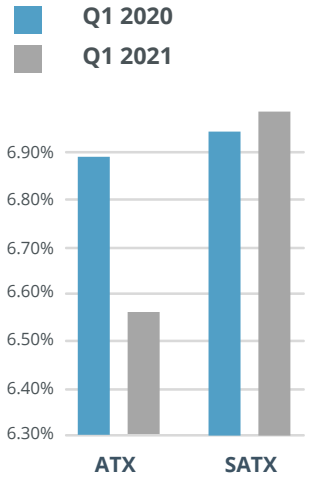
AVERAGE STARTING ASKING PRICE



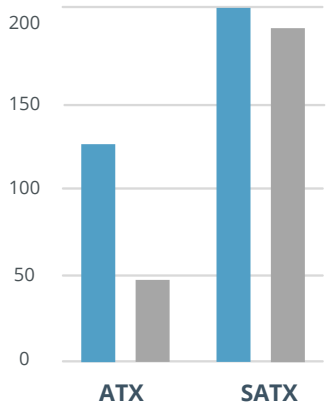
YEAR OVER YEAR TRENDS

	Q1 2020	Q1 2021
Class A & B Centers	50	44
New Listings	18	12
Went Under Contract	7	6
Reduced Price	5	3
Sold	8	3

*San Antonio & Austin Markets Combined



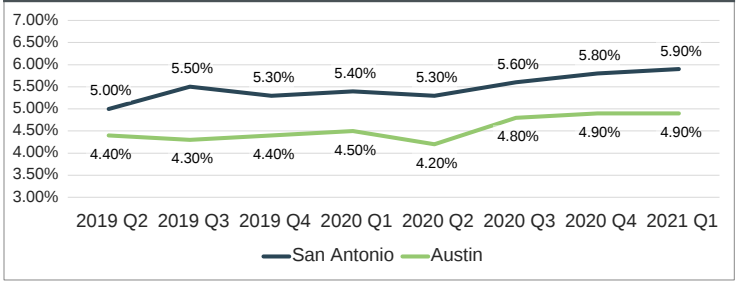
Avg Asking Cap Rate



Average Asking Basis Point Range

LEASING ACTIVITY

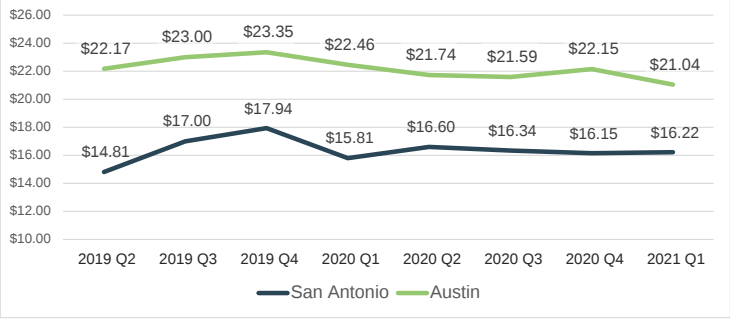
AVERAGE RETAIL VACANCY RATE



5.9%
SAN ANTONIO

4.9%
AUSTIN

AVERAGE RETAIL ASKING RENT



$16.22
SAN ANTONIO

$21.04
AUSTIN

Store Openings & Closings

Store openings have outpaced store closures in the first quarter of 2021.

According to Coresight Research's weekly tracker, retailers in the United States have announced 3,535 store openings and 3,169 store closures. Both counts for openings and closings outpace the same period in 2020. The final figures for 2020 show 8,953 closures and 3,298 store openings for the full year.

However, half of the openings are from four discount chains: Dollar General, Dollar Tree, Family Dollar, and Five Below. Dollar General has opened 1,035 new stores and Dollar Tree has opened 393 since the beginning of the year.

Another positive note is major retail bankruptcies are in line with pre-pandemic numbers, according to Coresight's research. There have been just seven total filings so far in 2021.

RETAIL LEASING

- The **Austin retail market leasing activity** has recorded approximately 285,000 square feet of both new leases and renewals for January and February 2021 **is down 46% compared to one year ago.**
- The **San Antonio retail market leasing activity** has recorded approximately 363,000 square feet of both new leases and renewals for January and February 2021 **is down 52% compared to one year ago.**

RETAIL CONSTRUCTION

- **Austin** has about **526,000 square feet of retail space currently under construction**. The availability rate is 37%. There has been **294,000 square feet delivered this year**. 55% of that space is currently occupied.
- **San Antonio** has about **933,000 square feet under construction**. The availability rate is 35.9%. There has been **208,000 square feet delivered this year**. 55% of that space is currently occupied.

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

LEASING ACTIVITY

Tenant Expansion

Hoots, the **fast-casual spin-off of Hooters** will focus on chicken wings for dine-in, carry out, and delivery. The first Hoots Wings **franchisee will develop 60 restaurants in Texas over the next five years**. The operators will focus on the Dallas and Austin markets. The concept will take between 1,300 and 1,500 square feet in shopping centers.

Coolgreens, the healthy lifestyle eatery, has seen an almost 20% increase in year-over-year sales during 2020. The **franchisee will develop 50 restaurants across Texas over the next seven years**. The operator will focus on opening locations in Austin, Houston, and San Antonio.

Dogtopia, a dog daycare, boarding and spa franchise, **will add 15 new locations in Texas through three new franchisees**. The locations will be in San Antonio, Houston, and Corpus Christi.

Rush Bowls is a fast-casual healthy meal-in-a-bowl restaurant. The brand opened eight locations in 2020 and 2021 **plans show 16 new locations in five states, including Texas.**

TRENDS WE'RE SEEING

Toward the end of 2020, new business activity was beginning to increase and Foresite received many incoming calls from first time entrepreneurs.

These callers asked questions about how commercial leases work and what it would take to open their first location.

Due to businesses like these, we are seeing shopping centers that have had vacancy issues for years start to get leased up, **especially those with second generation space.**

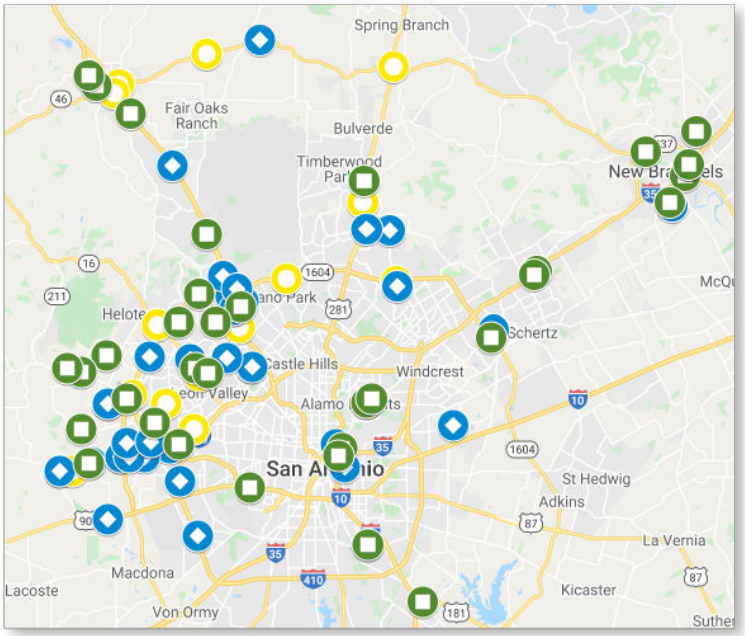
The calls have shifted over the last few months and Foresite is **receiving calls from experienced operators** that have several locations and are looking to expand.

These **operators are preparing for their patrons to receive the vaccinations** and for the economy to fully open and allow 100% occupancy in stores and restaurants.

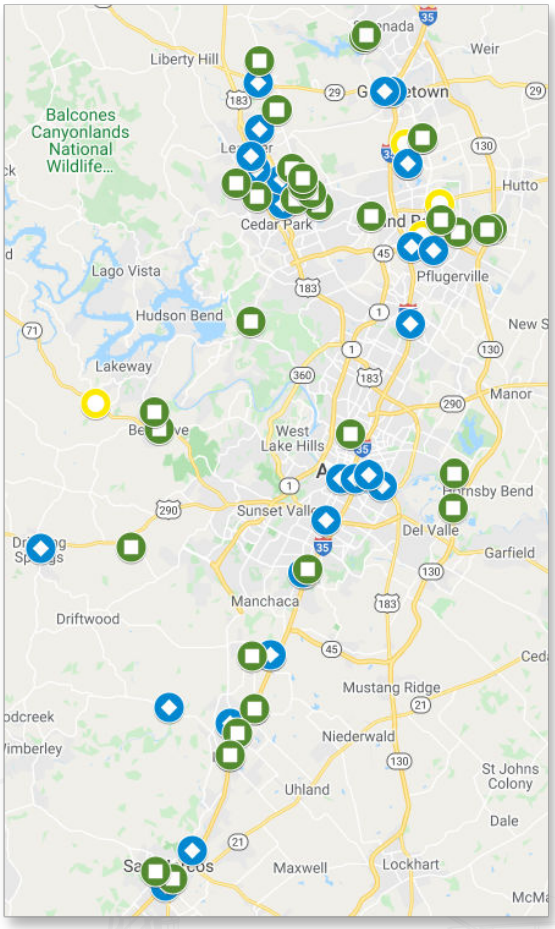
They want to have their new locations open and operating in time to serve the consumers' pent-up demand. **The retail market is expected to improve in 2021**, especially as more of the population is vaccinated in the second half of the year.

NEW RETAIL DEVELOPMENTS

SAN ANTONIO / NEW BRAUNFELS



AUSTIN / SAN MARCOS



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

LEGEND

Source: Foresite Research Services

Submit your project to info@foresitecre.com to be featured In the next report.

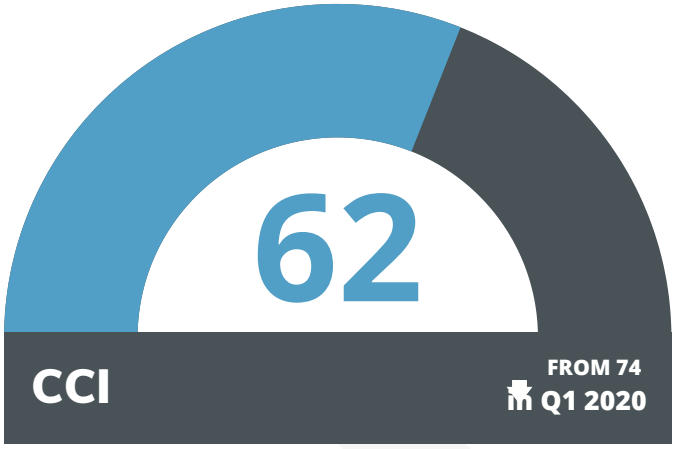
Average Asking Rent for New Retail Centers

$28.96 / SF / Year

SATX & ATX in-line, small shop space

from $33.46 in Q1 2020

YOY CHANGE



COMMERCIAL CONSTRUCTION INDEX

The Commercial Construction Index (CCI) is an indicator of the health of the contractor segment of the U.S. building industry. It is comprised of three **KEY DRIVERS** reflecting aspects of the commercial contractors' situation.

In the first quarter of 2021, the U.S. Chamber of Commerce Commercial Construction Index rose three points to 62 from 59 in Q4. However, this score is still well below pre-pandemic findings. In Q1 2020, the Index score was 74, which at the time was in the midrange of scores since 2017.

Key Drivers of Contractor Confidence

69 ▼ FROM 76 in Q1 2020

BACKLOG

- **The backlog indicator** measures the ratio of average current to ideal backlog.
- The average stated ideal backlog decreased from 12.3 months this time last year to 11.6 months in Q1 2021.
- The average months of actual backlog decreased from 9 months this time last year to 8 months in Q1 2021.

57 ▼ FROM 70 in Q1 2020

REVENUE

- **The revenue indicator** measures whether contractors believe their revenue will increase, decrease, or remain the same.
- Just over half of contractors (51%) expect their revenues to remain about the same in the next 12 months.

59 ▼ FROM 76 in Q1 2020

NEW BUSINESS

- **The new business indicator** measures contractors' confidence in the market's ability to provide new business in the next year.
- 62% of contractors report a moderate level of confidence that the US market will provide sufficient new business opportunities in the next 12 months.
- 24% of contractors report a high level of confidence in new business over the next year.

More than 1 in 3 contractors expect revenue to increase in the next year, up from 25% last quarter

80% of contractors are experiencing project delays due to Covid-19

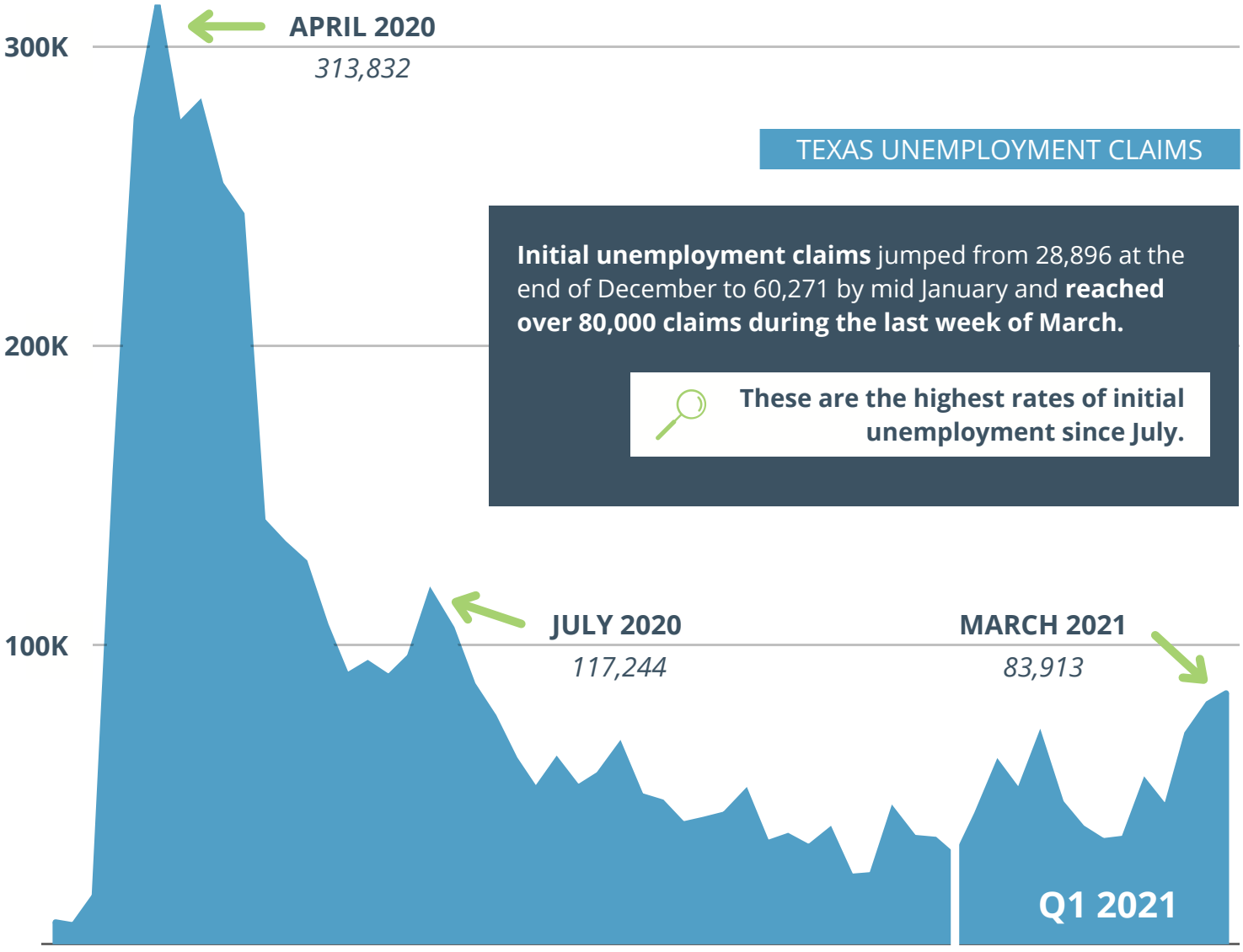
TEXAS OUTLOOK

The Texas economy is on the path to recovery, but growth slowed at the beginning of the year. On March 10, Texas Governor Greg Abbott lifted the mask mandate in Texas and increased the capacity of all businesses in the state to 100%.

While some businesses are seeing customers return, **there was an unexpected increase in the number of people filing for unemployment insurance.**

Nationally, initial unemployment claims have remained effectively flat during the quarter.

> The rise in unemployment claims is surprising, since other economic indicators are improving substantially as vaccination rates increase, and new COVID-19 cases continue to decline.
>
> *Dr. Luis Torres*
> *senior U.S. economist at Capital Economics.*



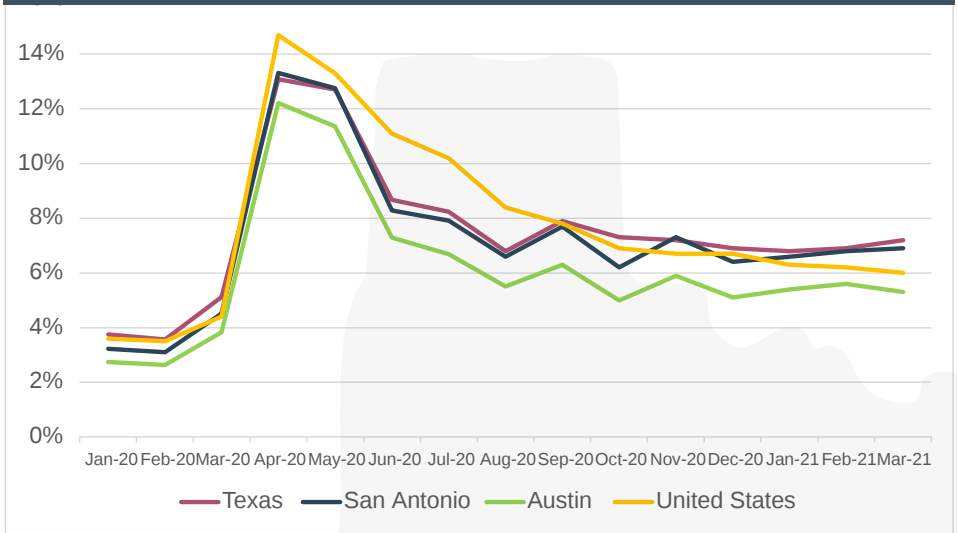
TEXAS UNEMPLOYMENT CLAIMS

Initial unemployment claims jumped from 28,896 at the end of December to 60,271 by mid January and **reached over 80,000 claims during the last week of March.**

These are the highest rates of initial unemployment since July.

TEXAS OUTLOOK

UNEMPLOYMENT RATES



6.0% UNITED STATES

7.2% TEXAS

6.9% SAN ANTONIO

5.3% AUSTIN

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

TEXAS SALES TAX REVENUE

Year Over Year Compared to March 2020

MOTOR VEHICLE SALES & RENTAL	↑ 20.2%
MOTOR FUEL	↓ 20.8%
NATURAL GAS PRODUCTION	↑ 36.6%
OIL PRODUCTION	↓ 22.4%
HOTEL OCCUPANCY	↓ 34.9%
ALCOHOLIC BEVERAGES	↑ 12.4%

- **Sales tax revenue is down 8.6%** from what the state collected in March 2020, but this amount includes some revenue remitted in March that should have been received by the state in February, **but the deadline was extended due to the winter storm in February.**
- The **total revenue for Jan-Mar was down 5.3%** compared with the same period in 2020.
- While the **effects of the pandemic continued to depress some sources of revenue**, others are now exhibiting gains over the same period last year.

RETAIL SALES

NATIONAL TRENDS

- The spring weather and **$1,400 stimulus checks boosted U.S. retail sales in March** to a record $619.1 billion.
- U.S. **retail sales rose 9.8% month-over-month** in March, following the 2.7% decrease from January to February.
- Total sales for the January 2021 through March 2021 period were **up 14.3% from the same period a year ago.**
- **Total sales for the month of March were 27.7% above March 2020**. Initial economic lockdowns began to be instated in the second half of March last year and 54.8% of the total retail square footage in the US had closed by the end of the month.
- Retail sales started to fall, then hit their lows in April as the majority of the country was on stay at home orders.

> Spending will almost certainly drop back in April as some of the stimulus boost wears off.
>
> But with the vaccination rollout proceeding at a rapid pace and households finances in strong shape, we expect overall consumption growth to continue rebounding rapidly in the second quarter too.
>
> *MICHAEL PEARCE*
> *senior U.S. economist at Capital Economics.*

YEAR OVER YEAR US RETAIL SALES GROWTH

27.7%
TOTAL RETAIL & FOOD SERVICES

Furniture Stores.....46.8%
Electronics & appliance stores.....28.5%
Building material & garden supply....29.4%
Health & personal care stores.....5.5%
Gas Stations.....34.8%
Clothing & Acessories.....101.1%
Sporting Goods.....73.5%
Department Stores.....25.6%
Nonstore Retailers.....28.7%
Food services and drinking places.....36%

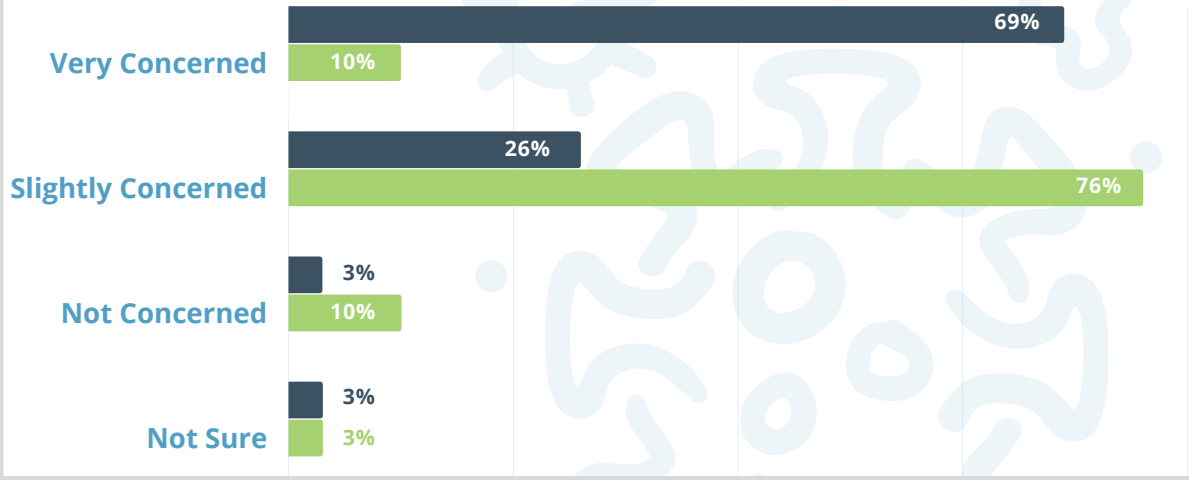
-13.8%
GROCERY STORES

Grocery sales have leveled off as retailers cycle the booming sales gains ignited by consumer stockpiling behavior during the coronavirus crisis.

-supermarketnews.com

INVESTOR SENTIMENT SURVEY

HOW CONCERNED ARE YOU WITH THE EFFECTS OF COVID-19 ON YOUR PROPERTY'S TENANTS OVER THE NEXT 6 MONTHS?



*Sentiment has improved since last quarter but **3 out of 4 landlords surveyed are still slightly concerned** about the effects of Covid-19.*

Email info@foresitecre.com to request the complete survey report.

Risk Factors

81%

Concerned about property taxes going up in 2021 as a result of budget shortfalls during the pandemic.

62%

Still have **tenants in rent deferral or catching up** from previously deferred rent.

56%

See vacancy rates across Texas retail properties **not changing or decreasing slightly** in the next 6 months.

WHAT IS YOUR POLICY ON CBD / VAPE SHOPS

ALLOW — **35%**

**21% previously denied but now allow.*

DON'T ALLOW — **35%**

DEPENDS ON OPERATOR — **24%**

An additional 3% of respondents had no objection in the past but will not allow in the future. 3% of those surveyed did not respond.

KEY INDICATORS

FED PREDICTIONS

- Gross Domestic Product **(GDP) could increase by 6.5% in 2021**, a significant revision from the anticipated 4.2% growth in December.
- **Inflation is expected to hit 2.4% by the end of the year**, revised from an anticipated 1.8% increase projected in December.
- **Unemployment is expected to fall to 4.5% at the end of 2021** and 3.5% in 2023.

> Monetary policy will continue to deliver powerful support to the economy until the recovery is complete.
>
> *JEROME POWELL*
> *Federal Reserve Chair*

During its March meeting, the Federal Reserve revised its economic forecast to show a faster recovery than expected due to the progress toward vaccinating the population. **Federal Reserve Chair Jerome Powell maintained that the Fed would continue to keep interest rates near zero.** The majority of the Federal Open Market Committee members do not expect to increase rates at least through 2023, which will help keep housing, auto, and credit-related spending strong.

INDEX RATES 3-Year Comparison

MARCH 2019	MARCH 2020	MARCH 2021
5- Year Treasury.....2.24%	5- Year Treasury.....0.36%	5- Year Treasury.....0.83%
10-Year Treasury.....2.41%	10-Year Treasury.....0.65%	10-Year Treasury.....1.64%
1-Month LIBOR.....2.48%	1-Month LIBOR.....0.92%	1-Month LIBOR.....0.11%
10-Year Swap.....2.67%	10-Year Swap.....0.65%	10-Year Swap.....1.65%

INFLATION RATE

- The **inflation rate was 1.4% at the end of 2020**, far below the 2.3% YOY 2019.
- As the pandemic ends, **some prices that had been depressed will start to bounce back** (apartment rents, air fare, and hotels for example).
- Overall **prices are expected to increase 2.5%** in 2021.
- **Core inflation**, which excludes the costs of food and energy, **will run about 2.2%** in 2021.

LOAN RATES *Source: NorthMarq*

TERM	AMTZ	LTV	SPREAD	RATE
5-Year	25 - 30	65 - 75%	225 - 270	3.10 - 3.55%
10-Year	25 - 30	50 - 65%	150 - 210	3.15 - 3.75%
10-Year	25 - 30	65 - 75%	225 - 275	3.90 - 4.40%
15-Year	15 - 25	65 - 75%	245 - 310	4.15 - 4.80%
Longer	FULL	65 - 75%	225 - 295	4.05 - 4.75%

COMMERCIAL - LIFE COMPANIES

TERM	AMTZ	LTV	SPREAD	RATE
5-Year	30	65 - 75%	330 - 370	4.15 - 4.55%
10-Year	30	65 - 75%	215 - 255	3.80 - 4.20%

COMMERCIAL- CMBS

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**.

The team works with our property management and leasing departments to better value properties they and **ensure that the sales price is maximized**.

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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Michael Buckner

Senior Vice President

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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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 daughter.

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James 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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