APRIL 2023

ISSUE 14

CRE marketwire

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

Retail Leasing

Strong leasing activity coupled with the lack of new development has increased competition for existing space.

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Property Tax Update

How the Texas State Legislation might change your property values

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ISSUE 14
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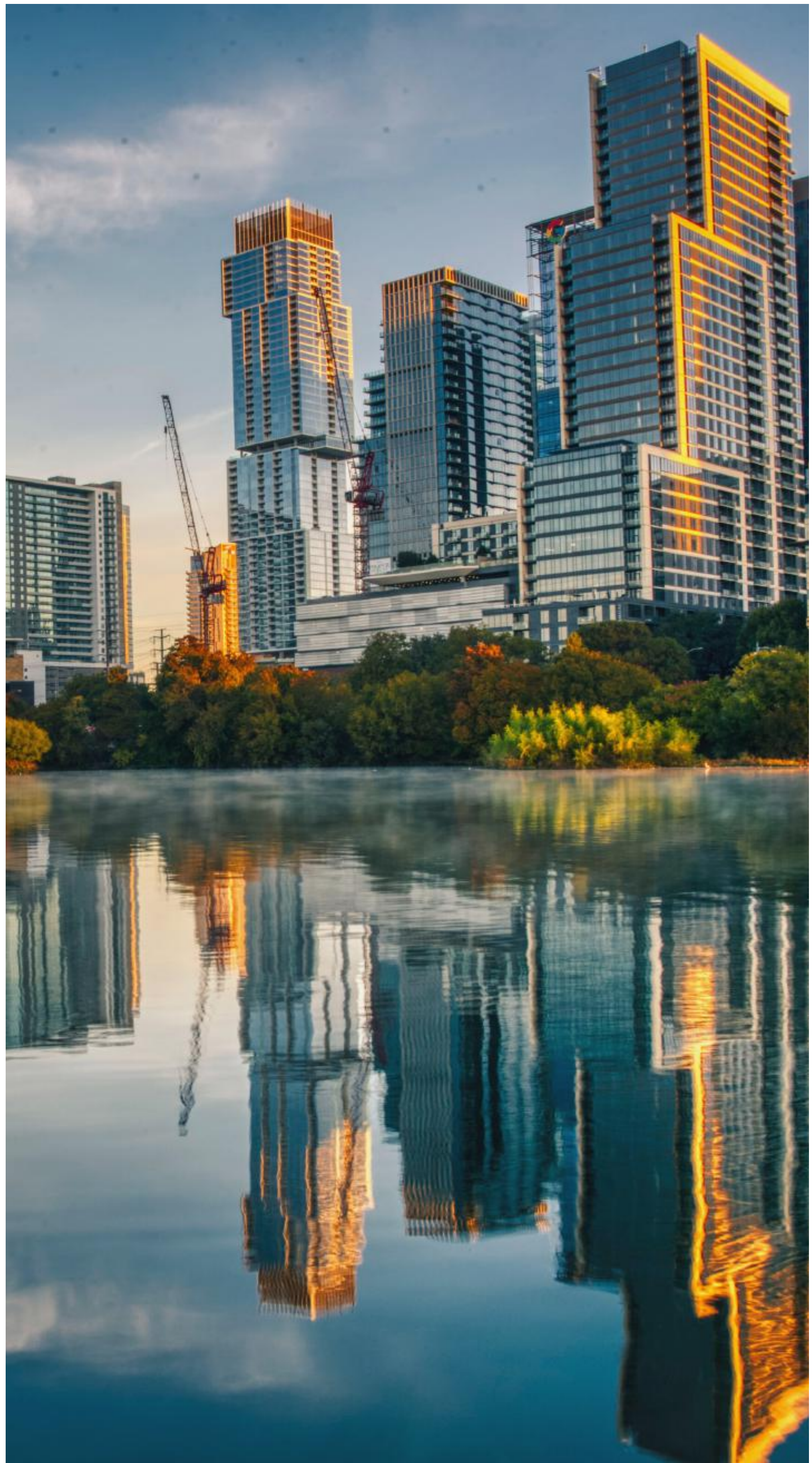
marketwire



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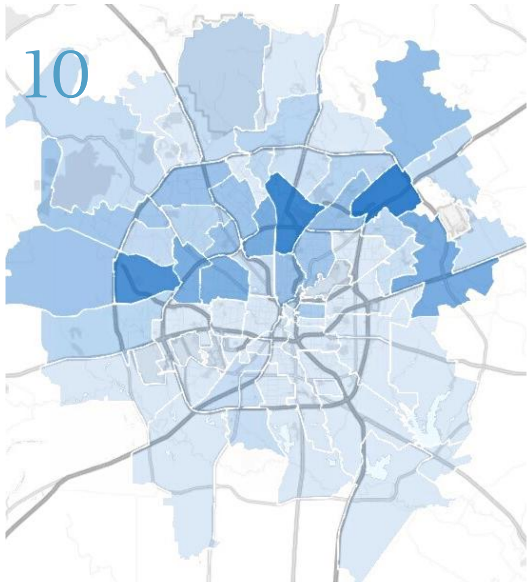


This report contains real data and analytics on the San Antonio and Austin commercial real estate markets covering all metrics of shopping centers and retail buildings, including retail occupancy and cap rates. Sourced from our proprietary extensive research efforts in aggregating hundreds of data points, 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.

FORESITE
COMMERCIAL REAL ESTATE

Letter from the editor

IS THE MARKET SLOWING?

The San Antonio and Austin retail markets have experienced very strong leasing demand to start off the year. A lack of new retail construction has intensified the competition for currently existing spaces and the vacancy rate is at a record low.

The rate of demand, combined with a lack of new development to bolster supply, has led to increased competition and an uptick in absorption of currently existing spaces. The tight inventory has affected asking rates, which have steadily risen over the past year.

There was a higher than normal transaction velocity throughout 2022, but starting in the third quarter things started to slow down. The compressed lending environment for commercial real estate transactions, coupled with higher interest rates, has investors underwriting with conservative debt terms.

Retail cap rates started to tick up as we entered 2023. Transaction velocity has slowed due to the tightening debt market, but there are still 1031 and cash buyers who are actively searching for deals.

Consumer spending slowed in March with shoppers remaining cautious due to concerns about a possible recession following the banking crisis. Concerns about persistent inflation continue even as the March Inflation Report shows the growth rate slowing. But the strong employment market suggests the economy is still in good shape. Over the past 12 months, the labor market has seen a net gain of more than 4.1 million jobs. Average hourly earnings have increased by 4.2% year over year.

The economy is showing signs of slowing, but the strong leasing demand is a positive indicator of future growth and optimism the the retail CRE market.

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

CURRENT ISSUE'S KEY POINTS

ON THE MARKET

- 40 class A & B multi-tenant retail properties were publicly marketed this quarter, 6 fewer than were listed Q1 2022.
- 11 new listings came to market during the quarter.
- San Antonio’s average multi-tenant retail asking cap rate for all product sizes is 7.12%, up from 6.46% last year.
- The average asking cap rate is 6.83% excluding power centers from the dataset.
- The average cap rate for all product sizes in Austin is 5.74%. In Q1 2022, the average was 6.07%

LEASING AND VACANCY

- The retail leasing market has been strong throughout the year and vacancy rates have decreased as demand continues to outpace supply.
- The average vacancy rate in San Antonio is 4.10%, down 60 basis points from the same period last year.
- The average vacancy rate in Austin is to 3.50%, down 30 basis points from the same period last year.
- San Antonio's average asking rate is $17.55, a 16.5% increase from last year's $16.40.
- Austin’s average asking rate is $22.20, a $1.36 dip from the previous quarter.

CONSTRUCTION AND NEW DEVELOPMENTS

- Lending constraints and construction costs are discouraging new development.
- A lack of new retail construction has intensified the competition for currently existing spaces.
- Costs for building materials are still above 2019 level.
- Nine of the top ten stores that are opening the most physical locations in 2023 are discount retailers.

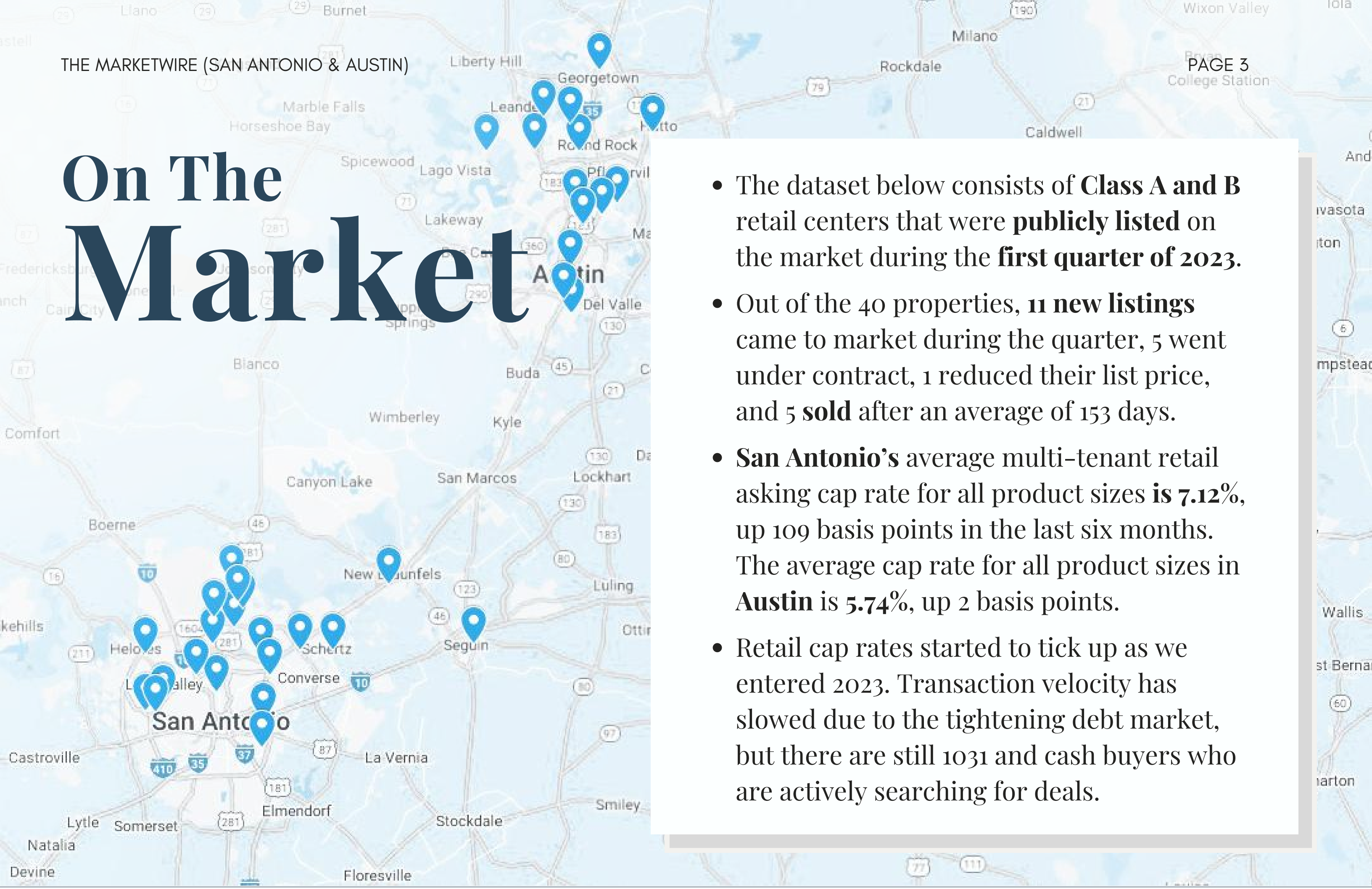
LABOR MARKET

- The unemployment rate changed little to start the year, dropping slightly from 3.6% to 3.5%.
- Over the past 12 months, the labor market has seen a net gain of more than 4.1 million jobs.
- Average hourly earnings have increased by 4.2% year over year.
- Employment in leisure and hospitality continued to lead the monthly increase, with a gain of 72,000 in March. Most of the job growth occurred in food service.
- Texas ended the quarter with an unemployment rate of 4.0%, higher than the nation's 3.5 percent.
- Austin's unemployment rate is 3.7%. San Antonio's is 4.3%.

RETAIL SALES

- Total U.S. Retail Sales for the month of March were 2.9% above March 2022.
- Total sales for the January through March period were up 5.4% year over year.
- E-Commerce sales grew 3.6% year-over-year and made up 21.1% of non-food retail sales in March.
- Food and Drink Services had the highest annual increase at 13.0%, followed by online retail and health care.

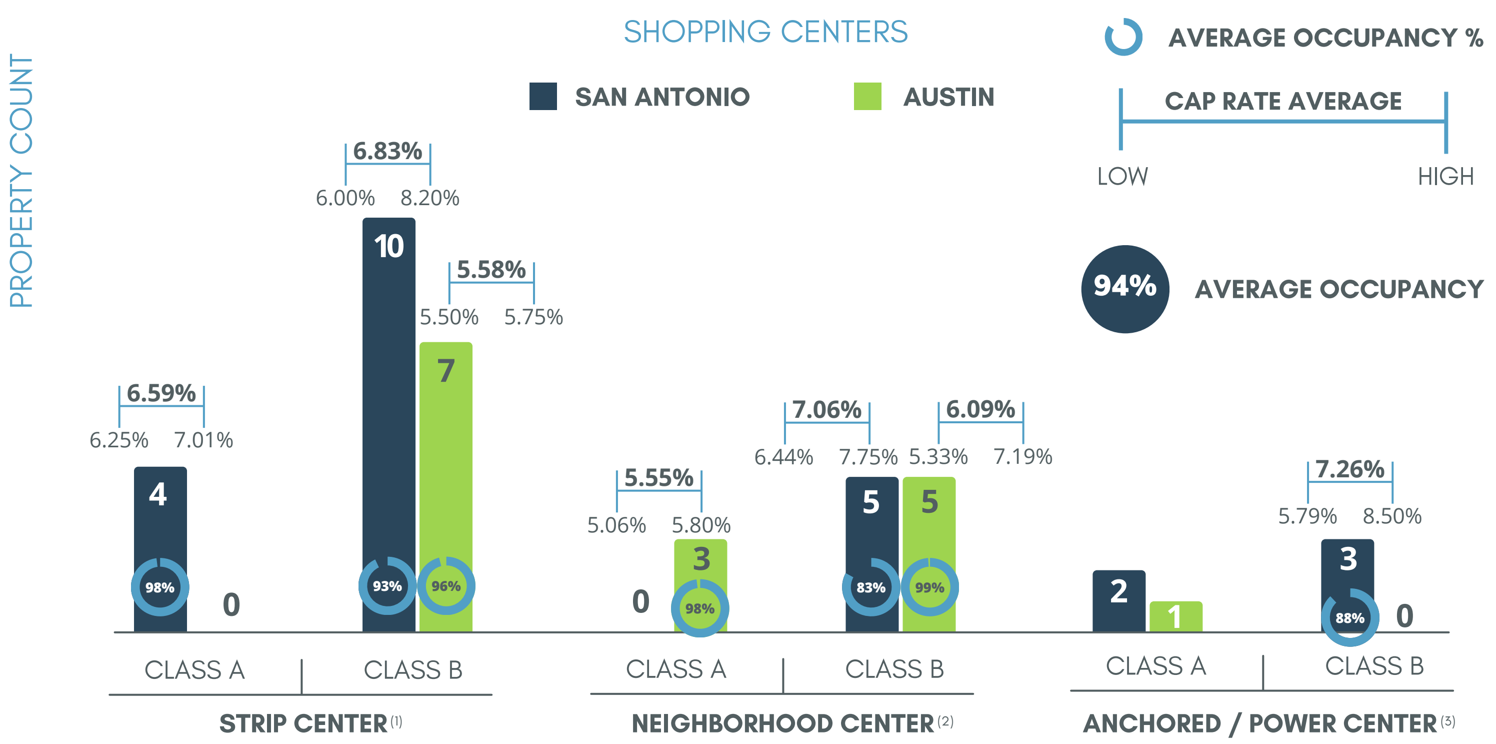
On The Market



- The dataset below consists of **Class A and B** retail centers that were **publicly listed** on the market during the **first quarter of 2023**.
- Out of the 40 properties, **11 new listings** came to market during the quarter, 5 went under contract, 1 reduced their list price, and 5 **sold** after an average of 153 days.
- **San Antonio's** average multi-tenant retail asking cap rate for all product sizes **is 7.12%**, up 109 basis points in the last six months. The average cap rate for all product sizes in **Austin** is **5.74%**, up 2 basis points.
- Retail cap rates started to tick up as we entered 2023. Transaction velocity has slowed due to the tightening debt market, but there are still 1031 and cash buyers who are actively searching for deals.

PUBLICLY MARKETED

SHOPPING CENTERS



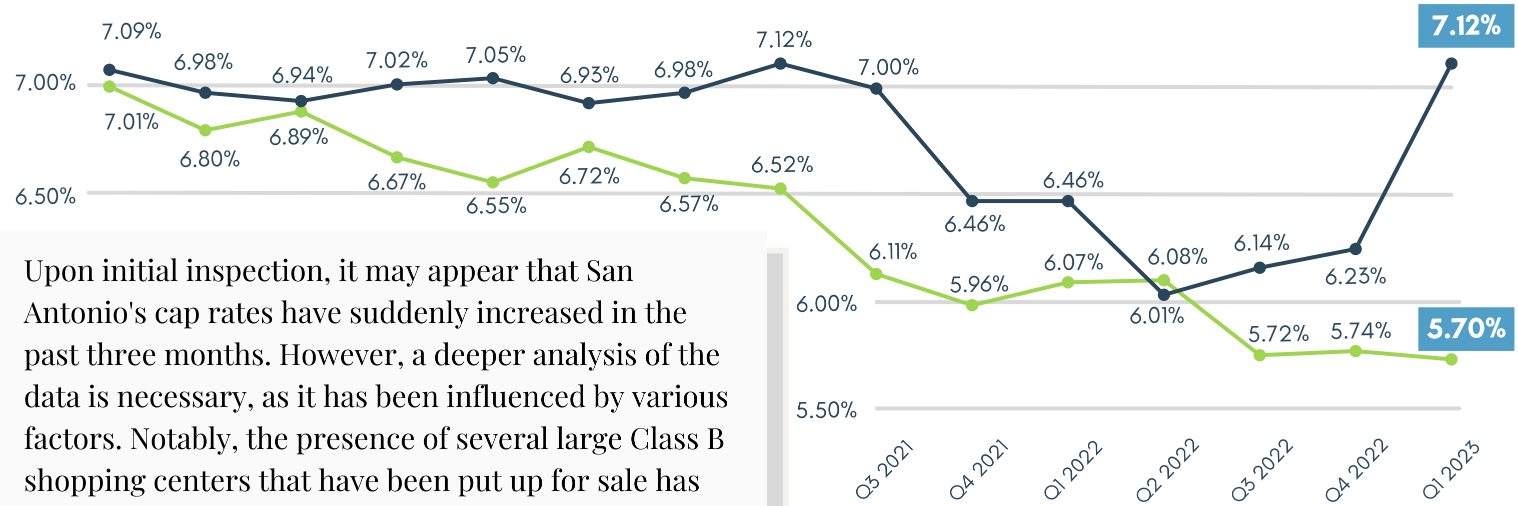
CLASSIFICATION METHOD

Source: Foresite Research Services

(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

AVERAGE STARTING ASKING PRICE

AVERAGE ASKING CAP RATE



Source: Foresite Research Services

Upon initial inspection, it may appear that San Antonio's cap rates have suddenly increased in the past three months. However, a deeper analysis of the data is necessary, as it has been influenced by various factors. Notably, the presence of several large Class B shopping centers that have been put up for sale has skewed the data.

Additionally, there is a lower number of strip centers for sale than usual, with 31 class A and B strip centers on the market this quarter compared to 38 one year ago in both San Antonio and Austin. **Excluding power centers from the dataset, the average asking cap rate in San Antonio is currently 6.83%.**

	SATX	ATX
# of Listings	24	16
Avg Cap Rate Class A	7.01%	5.55%
Avg Cap Rate Class B	7.22%	5.84%
Average Occupancy	90.42%	97.64%

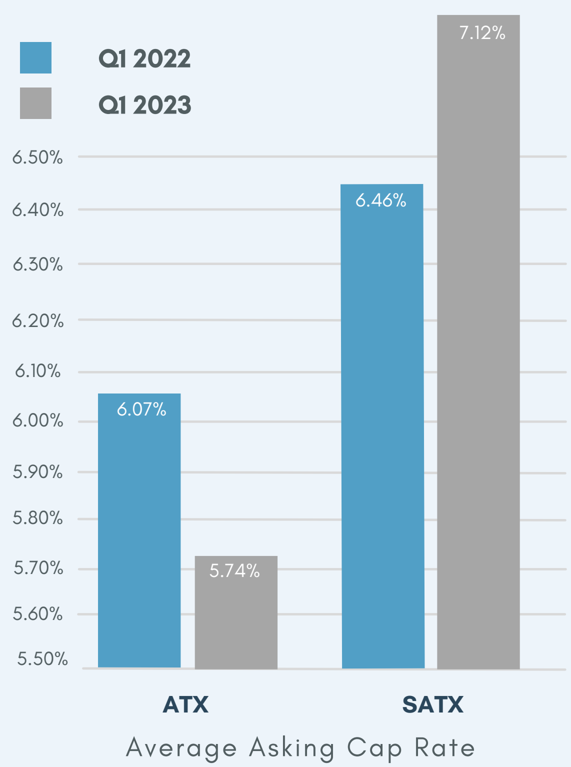
Current Trends

- The average asking cap rate for Class A shopping centers in San Antonio is 7.01%. The average for Class B is 7.22%
- The average asking cap rate for Class A shopping centers in Austin is 5.55%. The average for Class B is 5.84%

YEAR OVER YEAR TRENDS

	Q1 2023	Q1 2022
Class A & B Centers	40	46
New Listings	11	10
Went Under Contract	5	5
Reduced Price	1	3
Sold	5	24

*San Antonio & Austin Markets Combined



Retail Pricing

RETAIL CENTER SALES TRAILING 12 MONTHS (2022 Q2 - 2023 Q1)*

UNDER $5M	AVERAGE CAP RATE		AVERAGE PPSF		AVERAGE OCCUPANCY	
	2022	2023*	2022	2023	2022	2023
SAN ANTONIO	6.86%	6.64%	$271	$242	94%	90%
AUSTIN	6.14%	6.05%	$293	$335	100%	93%

OVER $5M	AVERAGE CAP RATE		AVERAGE PPSF		AVERAGE OCCUPANCY	
	2022	2023	2022	2023	2022	2023
SAN ANTONIO	6.64%	6.79%	$292	$316	97%	95%
AUSTIN	6.19%	6.36%	$358	$394	93%	84%

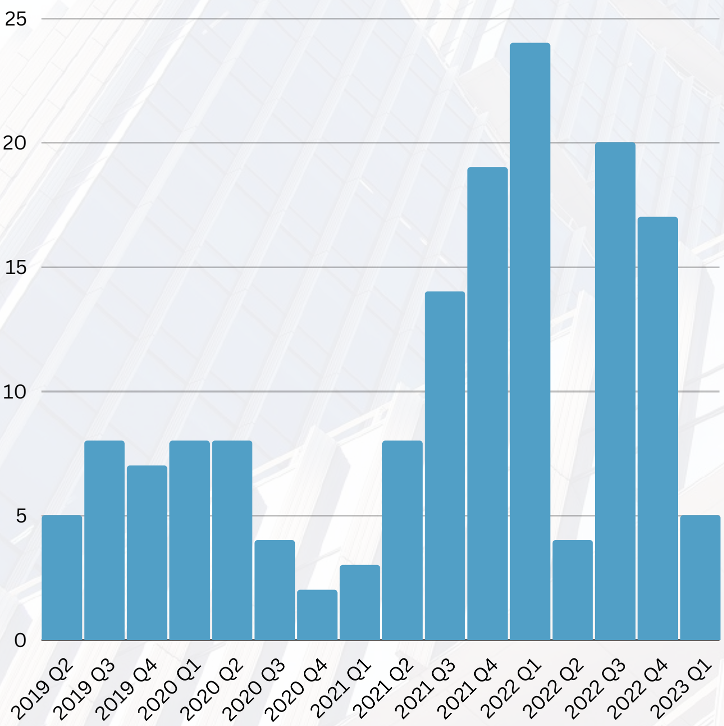
**2023 Q1. Sample of 40 Properties.*

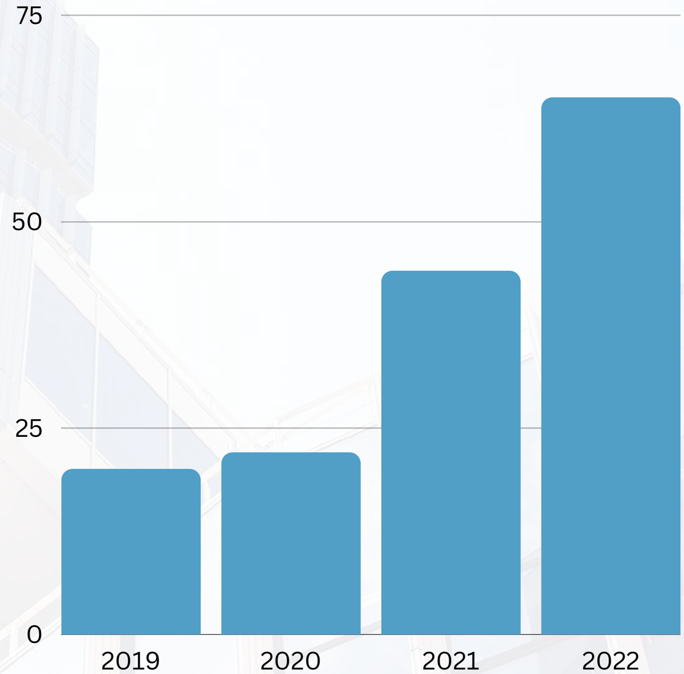
Source: Foresite Research Services

Between San Antonio and Austin, 24 retail centers traded hands in the first quarter of 2022. There was a 79% decrease in transaction velocity from Q1 2022 to Q1 2023. There was a higher than normal transaction velocity last year, but starting in the third quarter things started to slow down. The disparity between those numbers is attributable to many variables, but interest rates are the main cause. The compressed lending environment for commercial real estate transactions, coupled with higher interest rates, has investors underwriting with conservative debt terms. As a result, sellers that are hanging onto old prices are facing prolonged periods of assets sitting on the market, whereas reasonably priced properties are generating interest.

There is currently very little inventory on the market for sale. Off-market deals are prevalent, with sellers earning top dollar at low cap rates, even with no vacancy factor. Most buyers winning deals are cash buyers or 1031 exchanges. Investors are not necessarily buying for yield right now. Sellers are guaranteeing one to three master leases on spaces, and buyers are making offers that include these master leases. The market is tolerating this due to a lack of for-sale inventory and strong demand from buyers, reflecting optimism in the leasing market to get properties stabilized in less than a year.

TRANSACTION VELOCITY BY NUMBER OF DEALS COMBINED SAN ANTONIO AND AUSTIN SALES





Source: Foresite Research Services

GREEN STREET COMMERCIAL PROPERTY PRICE INDEX

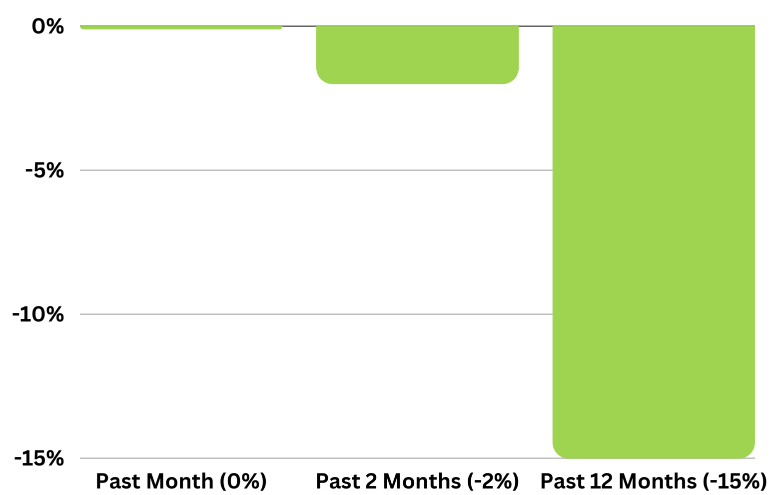
Indexed to 100 in August 2007 | Property Prices Down 15% vs. Last Year

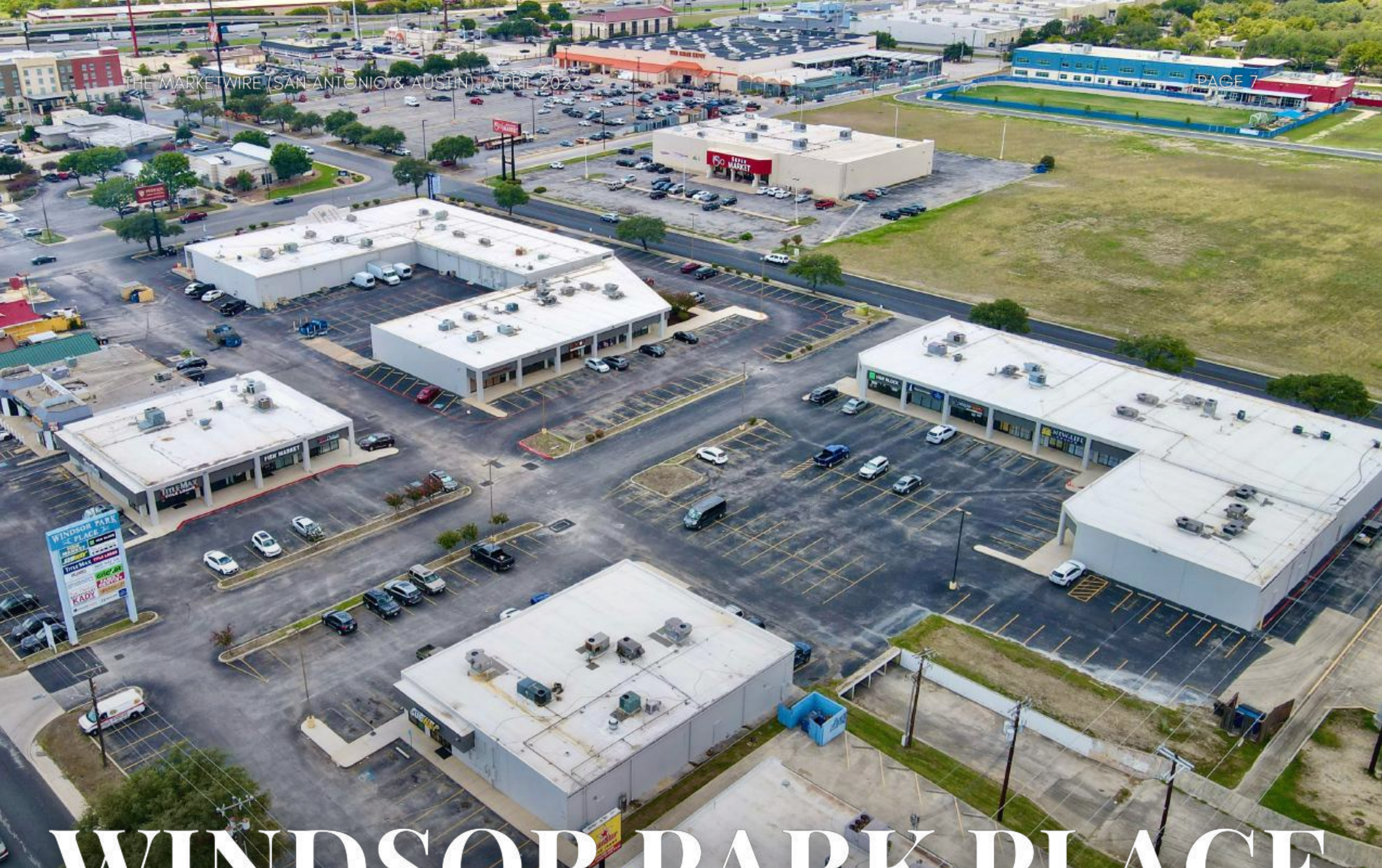
All-Property Index The Green Street Commercial Property Price Index® decreased by 2% in the last three months. Property prices have declined by 15% since the peak of the market, one year ago this quarter.

"Transaction volumes remain low, but our estimates put the bid price about 15% lower than it was a year ago. The change in pricing varies by property type. Office has seen the largest price declines, where even high-quality properties are down 25% over the past year."

Peter Rothemund
Co-Head of Strategic Research
Green Street

Change in Commercial Property Values
Amount property values have increased over this period
April 6, 2023





WINDSOR PARK PLACE

OWNERS EXIT AFTER SUCCESSFUL LEASE UP

The owners of Windsor Park Place shopping center have successfully sold the property to an out-of-market buyer after executing a value-add investment strategy. In 2019, Foresite's Stephen Berchelmann drafted a lease marketing plan for the 66,000 square foot center for the new ownership. Stephen then implemented the aggressive lease-up strategy, and facilitated the sale of the property in March 2023. The center was purchased with occupancy below 70% in 2019.

Property Background

Windsor Park Place is a 66,300 square foot center located in on the densely populated north-east side of San Antonio. The property was purchased in 2019, with occupancy below 70%, from an Austin-based investor looking to liquidate the asset.

Foresite's Stephen Berchelmann, recognizing the potential in the property, worked with the new buyers to ensure the value was maximized.

Stephen, their agent, successfully brought occupancy to over 90% and then partnered with Alexandria Tatem to bring the property to the market.

Lease-Up Strategy

Despite the challenges posed by Covid-19 on retail properties, the owners were able to increase occupancy to over 90% with the help of their agent, Stephen Berchelmann. After reaching the target occupancy threshold, Berchelmann partnered with Alexandria Tatem to bring the property to the market, where they successfully engaged an out-of-market buyer.

DESPITE THE CHALLENGES POSED BY COVID-19 ON RETAIL PROPERTIES, THE OWNERS WERE ABLE TO INCREASE OCCUPANCY TO OVER 90%.

The owners were able to exit the investment profitably, enjoying a 55% increase in the property's market value from their purchase. They are now engaged in a 1031 exchange to acquire a new property. Interest rates increased three times during the marketing and sale of the property.

Interest Rates and Buyer Selection
Despite headwinds from rising interest rates, the property received multiple offers and sold at a premium due to its leasing success. The buyers were selected for their experience and understanding of market conditions, as well as their proven ability to close deals successfully.

"Our goal was to get Windsor Park Place into a position where it could be sold," said Mr. Berchelmann. "We achieved this by using our knowledge of current market conditions and proactive leasing and management strategies, which allowed us to achieve an outcome that was favorable for all parties involved."

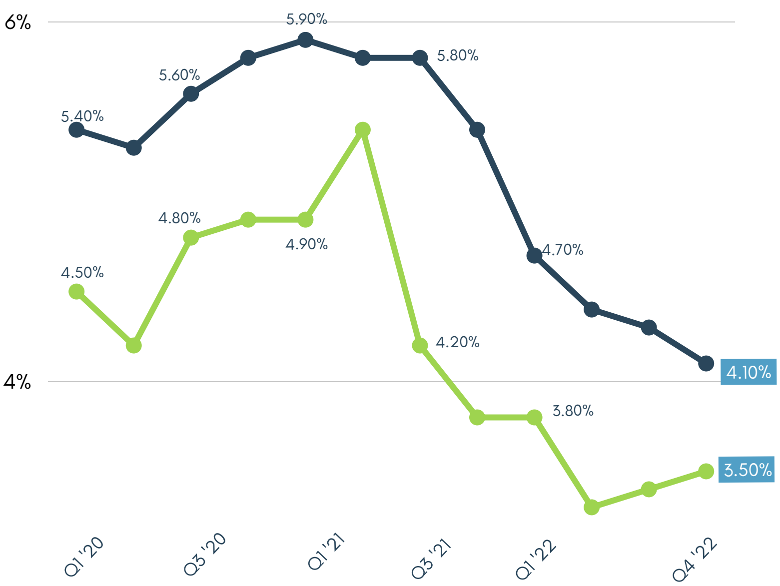
THE OWNERS WERE ABLE TO EXIT THE INVESTMENT PROFITABLY, ENJOYING A 55% INCREASE IN THE PROPERTY'S MARKET VALUE FROM THEIR PURCHASE.

This project was a prime example of a full service brokerage firm working together to maximize value. Stephen Berchelmann worked diligently to increase the occupancy of the property. The property management team maintained and improved the property and kept excellent financial records which enabled the new buyer to easily secure funding for the investment and successfully close the deal. Stephen then worked with Alexandria Tatem to list and sell the property through the company's investment sales department.

Leasing Activity

Strong leasing activity leads to increased competition for retail space

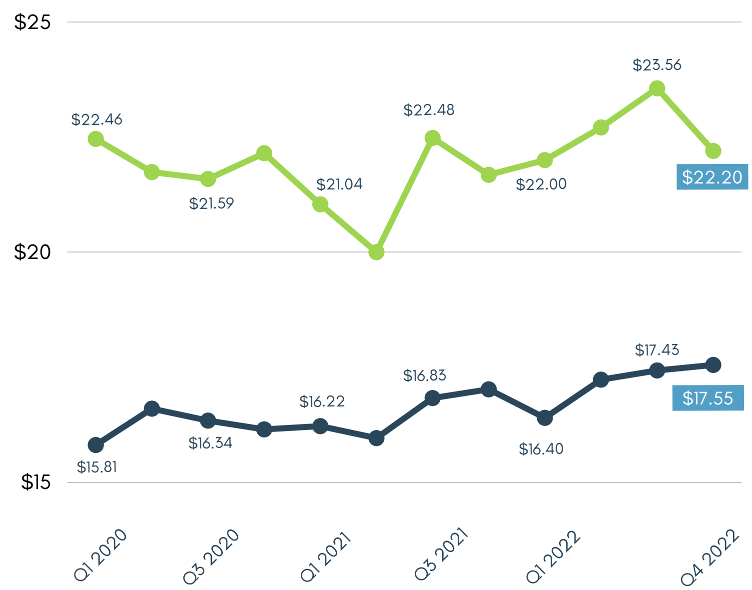
AVERAGE RETAIL VACANCY RATE



4.1% SAN ANTONIO

3.5% AUSTIN

AVERAGE RETAIL ASKING RENT



$17.55 SAN ANTONIO

$22.20 AUSTIN

RETAIL VACANCY RATES ARE AT ALL-TIME LOWS IN SAN ANTONIO

The Covid-19 pandemic had a significant impact on the commercial real estate market in San Antonio, particularly on retail spaces. Tenants held on as long as they could, but many local businesses, particularly restaurants, were forced to close their businesses, leading to a high vacancy rate of 6% in the first quarter of 2021.

However, one year later, San Antonio is experiencing a surge in demand for retail spaces, leading to a historically low vacancy rate of 4.1%.

A lack of new retail construction has intensified the competition for currently existing spaces. There is very little inventory and empty spaces for tenants to move into. Consequently, tenants are more likely to renew their leases at a higher rent in their current locations, as relocating to another space is prohibitively expensive. Lending constraints and construction costs are discouraging new development. In many cases, pro formas for new builds are only feasible when average rents are in the high $40/sf range, significantly higher than San Antonio's average of $17.55. Additionally, lenders are requiring retail developers to secure at least 70% pre-leasing before they will finance a new project when they historically have required 30-40%.

The rate of demand, combined with a lack of new development to bolster supply, has led to increased competition and an uptick in absorption of currently existing spaces. Even traditionally high-vacancy Class C properties are being absorbed, particularly from tenants who are priced out of new builds.

LEASING INQUIRIES CHANGE DIRECTION

BY MIRANDA RIHN

San Antonio's Northeast Side Emerges as Next Hot Retail Submarket, as Tenants Shift Focus from the West Side to Newly Booming Areas Along I-35 Corridor

Leasing inquiries provide some of the most valuable market data, but most leasing companies don't track this information closely. However this data provides crucial insights into the strongest leasing activity and where tenants prefer to be located.

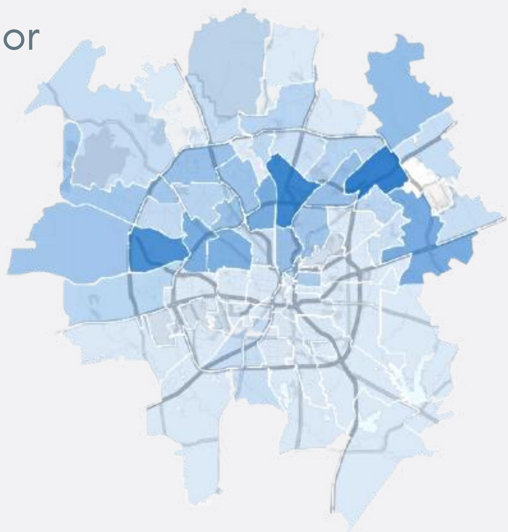
There is a turning tide in the San Antonio leasing market as the West Side has been a growing market for years, and will continue to be, but many tenants have already secured their spots on the West Side and are now focusing on other areas. Based on tenant interest, it appears that San Antonio's Northeast side - specifically, the I-35 corridor - is becoming the next hot retail submarket.

In March, a notable 23% of Foresite's inbound leasing inquiries targeted Northeast San Antonio, with the 78233 area code receiving the most calls, making up 11% of the total.

In April, 14% of all potential deals recorded by Foresite's leasing agents were for properties located in the 78233 zip code.

The Northeast side and its surrounding municipalities are expanding. The City of Cibolo, in particular, is booming with a compounded annual growth rate of 12.4% recorded in 2021. Cibolo reported a median household income at $101,197 in 2021 which is uniquely high, indicating a concentrated amount of disposable income within the city. With population growth and a surplus of disposable income comes commercial real estate; retail commercial real estate to be specific.

There are multiple large retail developments currently under construction in Cibolo, two of which are being developed by Endeavor and Fulcrum, respectively. Buffalo Heights is a 12 acre commercial development with over 60,000 SF of multi-tenant retail plus pad sites at the corner of Cibolo Valley Drive and W Borgfeld Road.



Darker areas indicate higher leasing inquiries based on inbound calls to Foresite this year to date.

Pad site users include Chick Fil A, P. Terry's and Dutch Bros Coffee. Just across Cibolo Valley Drive is another multi-tenant development, which is over 9,000 SF and has Chipotle signed up as a pad site user. With HEB opening its 110,000 SF Cibolo store in Q1 2023, retailers are flocking to the growing city, and investors are filling in valuable locations with retail centers and pad sites along the I-35 corridor.

Source: City of Cibolo EDC

Brooks Completes Over $1.2 Billion in Development to Date

Caroline at Brooks

A 22-year transformation from former Air Force Base to mixed-use community.

Brooks, a former Air Force Base, has seen stunning transformation into a vibrant community where you can live, work, learn, play and stay. In July 2002, the 1,308-acre campus was conveyed to Brooks Development Authority, one of only three authorities across the state of Texas, and has since completed more than $1.2 billion in investment, to date, with another $425 million in development underway.

The original mission was for Brooks to serve as a research and technology park, and DPT Laboratories was the first to expand by locating its 258,000-square-foot research and manufacturing facility at Brooks, enabling the company to retain pharmaceutical and biotechnology jobs in San Antonio. Following the addition of Brooks President & CEO Leo Gomez, in May 2013, the Board of Directors revamped that mission to serve as an energetic mixed-use community to attract jobs supporting those in the surrounding community and high-paying jobs. Brooks is on track to fulfill that mission and vision, which is supported by the 28% increase in household income across the Brooks Regional Center (7,500 acres), since 2016.

“Witnessing the notable evolution of Brooks, firsthand, has been remarkable,” says Brooks Board Chairman, Jim Campbell. “A number of tough decisions have been made over the years, yet we continue to attract regional, national, and international investments.

Brooks is a model for how decommissioned bases across the country can be transformed and serve as a hub of economic development.”

La Picosa

"With quality of life being a priority, we're achieving regional prosperity by adding quality housing options, improving infrastructure, and adding high paying jobs nearby."

Leo Gomez
President & CEO
Brooks

Home to 1,700 residents, today, the growing community offers a variety of residential options to include apartments and single-family homes. Currently underway is the first, for-sale residential community, Southlake at Brooks, and a 490 unit single-family, for-rent neighborhood, Los Cielos. In addition, The Morgan Group is building two more multi-family projects adding another 750 units. Now, there are nearly 1,700 residential units available with more than 1,200 units underway.

"Brooks is an anchor for growth across the southeast region of San Antonio, and we serve as a tool to realize a more prosperous community," said Brooks President & CEO, Leo Gomez. "With quality of life being a priority, we're achieving regional prosperity by adding quality housing options, improving infrastructure, and adding high paying jobs nearby."

Additional significant employers include Mission Trail Baptist Hospital, five international companies: Mission Solar with roots in South Korea, Nissei America, Inc. of Japan, OKIN Process of the Czech-Republic and French-based companies Bakerly and Cuisine Solutions.

With a $200 million capital investment, Cuisine Solutions has the highest investment across the growing campus for the world's largest sous vide plant. Today, the Brooks campus has more than 5,300 jobs with more than 1,000 being added over the next few years.

As a designated Opportunity Zone, Brooks has attracted nearly 500 Million in Opportunity Zone investments resulting in projects like Amazon, Los Cielos, Soli Organic, and the regions first Class A Office Buildings, WatersEdge I and II. Opportunity Zones are an economic development tool promoting investment in distressed areas across the country. Their purpose is to spur economic growth and job creation in low-income communities, like the Brooks region. Also under construction is Brooks Global Crossing, a spec light industrial facility totaling 813,000 square-feet.

After inheriting dilapidated roads, $130 million has been invested in horizontal infrastructure with the most recent being Inner Circle to Research Plaza and Research Plaza to South Presa, which helped secure one of Brooks' newest tenants, Bakerly.

Brooks recently submitted a proposal for $25 million out of the USDOT RAISE grant for Sidney Brooks (West), the main east-to-west corridor and hub for housing, businesses, and schools. Awards are expected to be announced in June 2023.

As Brooks continues to attract more businesses and jobs, building a workforce pipeline remains top of mind. Today, more than 2,500 students learn at Brooks across four campuses: Brooks Academy of Science and Engineering, Compass Rose Legacy, CAST Med, and the University of the Incarnate Road School of Osteopathic Medicine.

Once the schools complete their current expansion, the student population is expected to exceed 5,000.

Also, the Brooks campus is within the San Antonio and East Central Independent School Districts, and since 2016, the region has seen an increase of 8% more students graduating high school.

Moving forward, Brooks will continue to play a role in regional investment. Negotiations are underway to purchase the former Republic Golf Course for a partnership with Arboretum San Antonio, a 501(c)(3). The arboretum is expected to attract about 600,000 visitors, annually.

Today, the Brooks campus has more than 5,300+ jobs, 1,700+ residents, and 2,500+ students. The projected population in the coming years is more than 6,500+ jobs, 3,300+ residents, and 5,000+ students.

Waters Edge

OUR WHY
CRE TRAINING

In 2020, we decided to open our own training program to those outside our firm and **have since trained over 90 professionals both in-person and virtually for dozens of organizations.**

FORESITE
COMMERCIAL REAL ESTATE

INVESTING IN OUR FUTURE

For generations, commercial real estate training has been offered one way, mentorship. We still believe that nothing replaces a good mentor but that has created some gaps in the technical skills not typically taught in our industry without on-the-job experience.

Meanwhile, the technical aspects of the industry continue to evolve and become more complicated. The increased burden on the mentors and trainers leaves them little time and less desire to develop new talent.

As a result, our industry is not attracting and retaining new and diverse talent. A labor shortage could create a severe issue for all of our organizations in the very near future.

The goal of this program is to change that, one emerging professional at a time.

"Foresite's CRE Launch Program was top-notch. As a professional economic developer, I had certain preconceived ideas of what this course would teach me. The program easily surpassed those expectations. I gained a deeper appreciation of the many facets of commercial real estate – from macro economics to micro economics, outstanding lectures from solid professionals and real world projects – I felt I came away with a lot more than I expected. I cannot speak more highly about this program. Thank you again for this remarkable opportunity."

Kate Silva, CEdC - Class of '22

The Ripple Effect: How Rising Property Taxes Impact Retail Centers

BY CHAD KNIBBE, CCIM

Property Taxes are a major point for discussion in today's environment.   The following is a highlight of the various ways that the recent increases in property taxes, insurance and interest rates might affect retail centers, including the direct impact on property owners, tenants, and the potential consequences for investors.

The Impact of Underwriting

Underwriting is constantly evolving to reflect the changes in the market. Recent increases in property taxes and insurance have caused investors and investment sales brokers to revisit old standards to reflect current market conditions.

- **Property taxes:** While most experienced brokers and investors have habitually been careful to underwrite future property taxes with a valuation closer to the anticipated sales price, this concern is much more widespread in today's market. It is putting an increased focus on tenants who do not have full NNN language in their leases, and on centers with at least some vacancy where the owner is absorbing a portion of the increase.
- **Delinquency / Turnover:** Although this practice was relaxed over the past five to six years, investors are more commonly underwriting with a 5-7% vacancy factor. This is more important now due to the fact that increased property taxes will dramatically increase NNN burdens on tenants, potentially forcing struggling tenants to fail or close their business at the end of the lease term.

- **Insurance:** Typically retail brokers and investors have underwritten insurance growth between 3% and 5%, but massive increases in premiums are leading to the market expecting more aggressive and consistent increases in excess of 15%.

- **Interest Rates:** While many buyers are expecting rates to come down from their current level during their hold period, we are seeing fewer buyers underwrite accordingly, as many are using the current rates as a "stress test" to determine a property's ability to perform in this environment.

- **Master Leases:** On a positive note, the increase in demand for lease space has led to an acceptance for master leases with sellers even offering a short-term rental guarantee on multiple vacancies. This strategy is receiving mixed acceptance from lenders.

- **Tenant Improvements:** Assumptions on the costs of tenant improvement allowances for the renewals and absorption are increasing significantly. In spite of the demand for lease space, tenants are still looking to landlords to help bridge the gap with rising construction costs that have remained stubbornly high after their rapid increase due to material and labor scarcity in 2020. A few landlords of older retail properties are even offering turn key finish out as a way to shorten vacancy periods and continue positive average rent growth in their centers.

- **Leverage Amounts:** Acquisition loan amounts (LTVs) are more commonly requiring 35-40% down payments.

The Implications for Tenants

Tenants are also directly impacted by rising operating expenses in a retail center via the expense pass-through nature of NNN leases. This can lead to several consequences for tenants:

- **Strained Profit Margins:** With higher rent expenses, tenants may experience reduced profit margins, as their fixed costs rise without a corresponding increase in revenue. This can put financial pressure on businesses and may force some to reevaluate their location or even close their doors.

- **Increased costs for relocation or expansion:** Outside of base rent growth, increased NNN expenses and construction costs can often prevent small businesses from opening new locations. This potential stifling of business growth can lead to reduced occupancies and traffic at retail centers affecting even the thriving businesses there.

The escalating rates of operating expenses at retail centers creates a significant challenge for property owners and tenants. Unless these increases come back into check, the effect on small retail businesses and the centers they occupy in our market will be significantly impacted.

PROPERTY TAX UPDATE

TEXAS HOUSE PASSES PROPERTY TAX RELIEF BILL

The Texas House passed its $17.3 billion property tax relief bill, which it says is the largest tax cut in the state’s history. Reducing the state's high property tax burden has been a top priority for Texas Republicans this legislative session and this is the House's proposed package for how the legislature should go about doing it.

The controversial idea is to tighten the state’s “appraisal cap” on how much a property's taxable value can rise each year. The House proposal would lower the cap from 10% to 5% for all product types and expand the benefit from home owners to owners of business properties like grocery stores, restaurants and apartment complexes.

The bill also lowers school district taxes—typically the largest portion of a homeowner’s tax bill—by compressing the tax rate by 25 cents by 2025.

If passed, the bill will save Texans who own a $350,000 home—the average home price in Texas according to the Texas Real Estate Research Center—$542 in 2024 and $733 in 2025, over $1,000 in savings over two years.

> “Property owners should expect an increase in property tax in 2023. Among the 70+ properties that Foresite manages, property tax amounts are increasing an estimated 20% on the low end and up to 100% on the high end.”

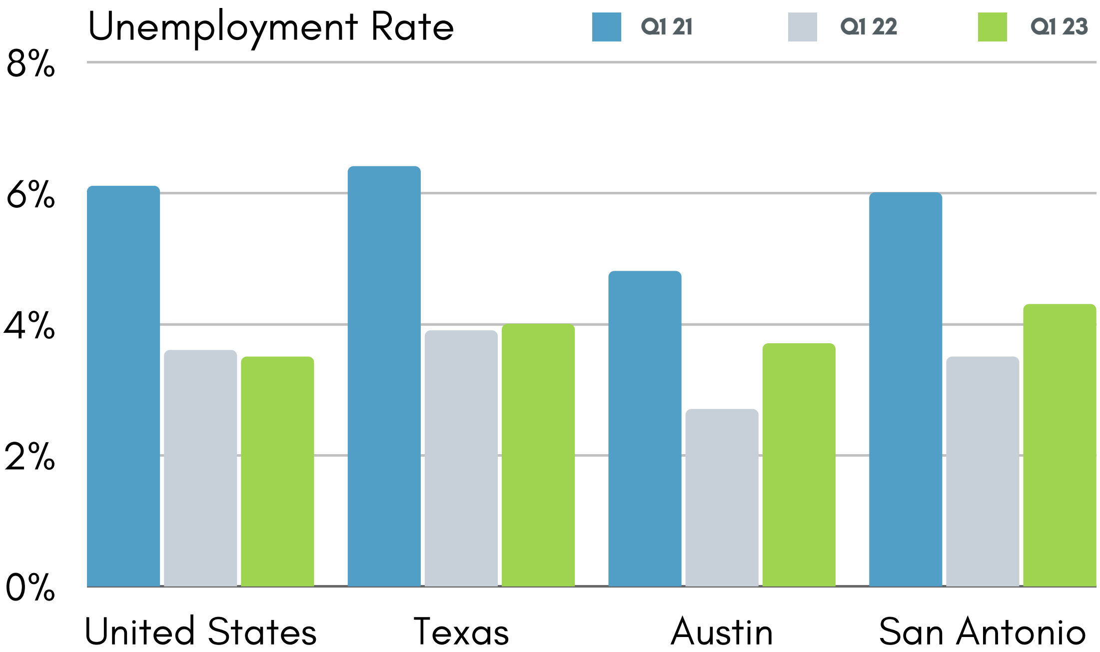
Craig Slaughter
Senior Property Manager
Foresite Commercial Real Estate

In addition, the longer a homeowner stays in the house, the greater the benefit, per the bill.

The Texas Senate passed its own property tax relief bill last month. Their version favors homestead exemptions over appraisal caps.

Lawmakers have roughly six weeks remaining in the regular session to decide which property tax plan, if any, will move forward.

Source: The Texas Workforce Commission



United States
3.50%

Texas
4.00%

Austin
3.70%

San Antonio
4.30%

**March Unemployment Rate*

EMPLOYMENT GROWTH COOLING AND WAGE GROWTH BEHIND INFLATION

The Employment Situation*

**March 2023*

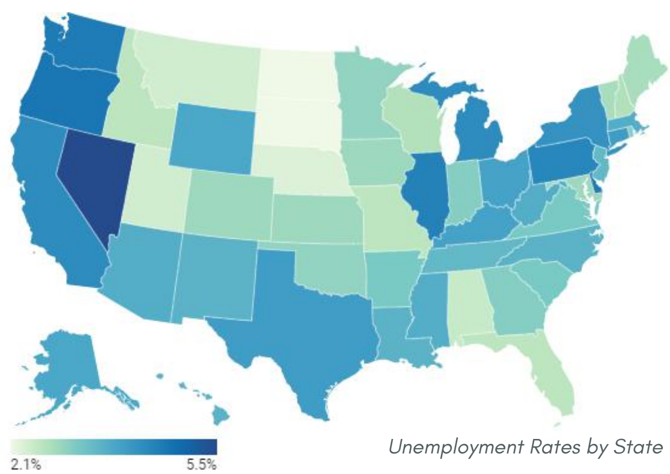
The unemployment rate changed little to start the year, dropping slightly from 3.6% to 3.5%. Nonfarm payrolls grew by 236,000 in March, a bit below the 239,000 estimate, under February's 311,000 and a sizable drop from 504,000 net gain in January.

Over the past 12 months, the labor market has seen a net gain of more than 4.1 million jobs. Average hourly earnings have increased by 4.2% year over year.

The job report was in line with expectations, showing early stages of a slowdown.

Employment in leisure and hospitality continued to lead the monthly increase, with a gain of 72,000 in March. Most of the job growth occurred in food service.

- food services and drinking places (+50,000)
- government (+47,000)
- professional and business services (+39,000)
- health care services (+34,000)
- retail trade (-14,600)
- construction (-9,000)



Unemployment Rates by State

"I think that this has been a nice counterbalance to the weaker labor data earlier last week and all the recession fears. This data suggests that the economy is still in pretty good shape."

Michael Arone
Chief Investment Strategist
State Street Global Advisors

Data Source: BLS.gov | Map Source: Forbes

Retail Sales

NATIONAL TRENDS

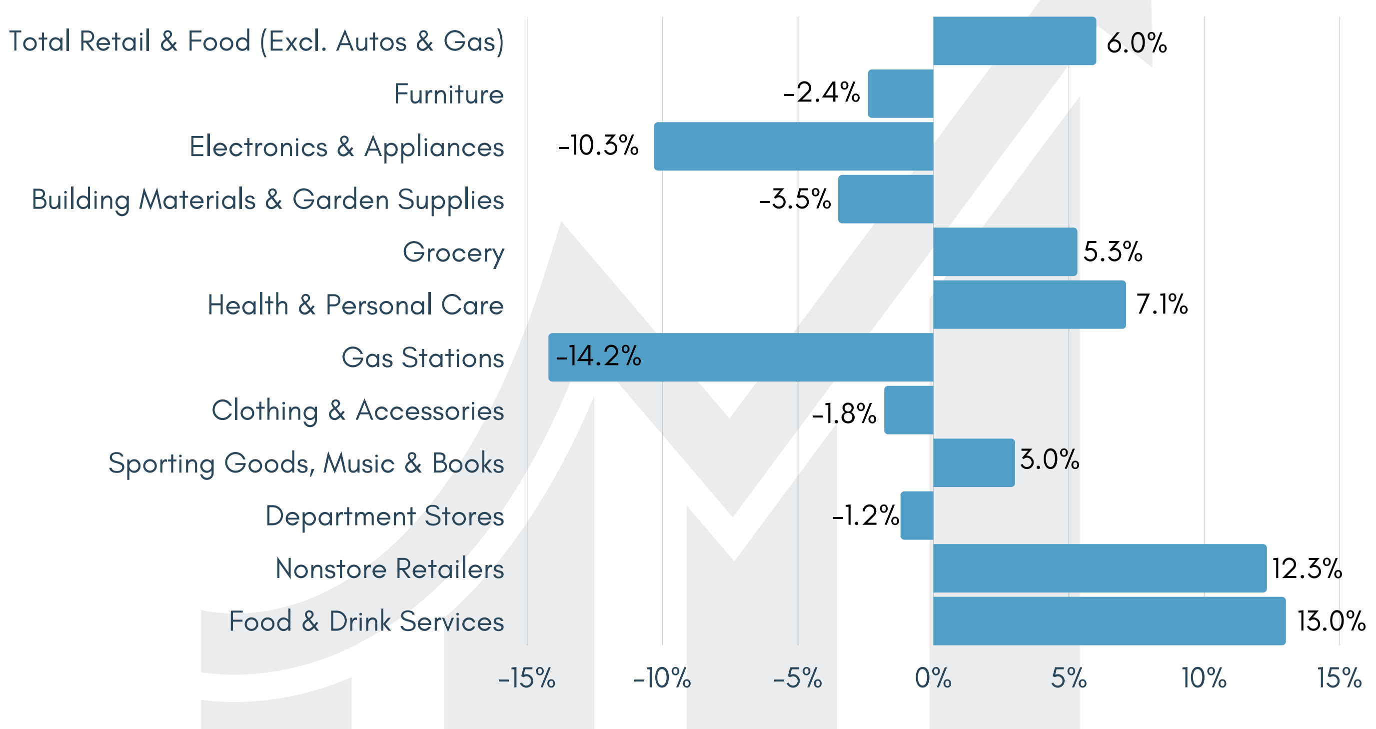
Consumer spending slowed in March with shoppers remaining cautious due to concerns about a possible recession following the banking crisis. The decline in sales from February was steeper than the estimated 0.4%, with a 1.3% drop. Facing persistent inflation and high interest rates, consumers cut back spending on electronics, building materials and garden supplies, and clothing. However restaurants experienced a 13% increase in year-over-year sales, followed by online retail and health care.

Another factor that may contribute to this month's unexpected slowdown is the lack of tax returns. The IRS issued $84 billion in tax refunds this March, about $25 billion less than they issued in March of 2022, according to BofA analysts. Consumer spending grew strongly in the first quarter, but it is projected to slow. For the full year, economists expect 4-6% annual retail sales growth after increasing 7% in 2022.

- Total U.S. Retail Sales for the month of March were 2.9% above March 2022.
- Month over month, March sales were down 1.3% from February.
- Total sales for the January through March period were up 5.4% year over year.

YEAR OVER YEAR RETAIL SALES GROWTH

MARCH 2022 - MARCH 2023



Inflation

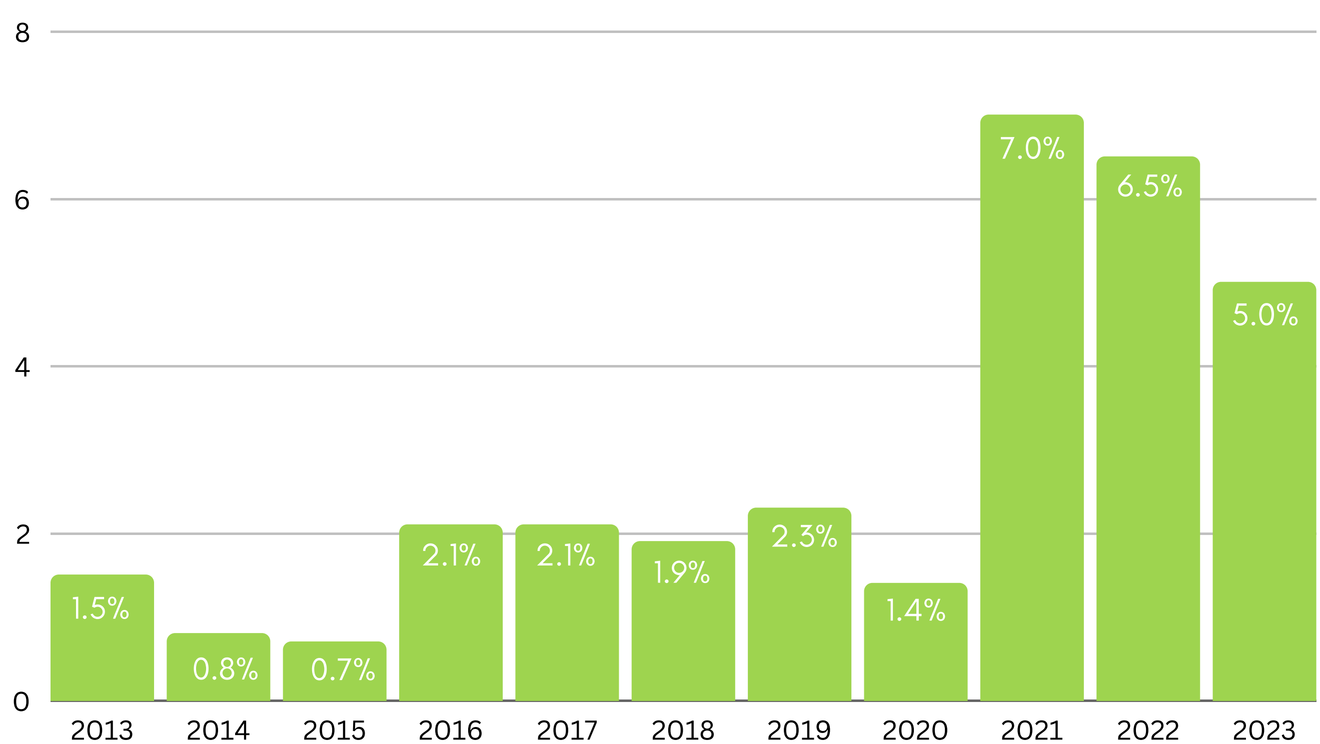
Consumer prices began rising rapidly in early 2021 when the economy started to reopen after Covid-19 shutdowns. Inflation persisted from 2021 into 2022 primarily due to the supply chain disruptions. In response, the Federal Reserve aggressively raised interest rates to slow the growing inflation. Going into 2023, inflation has remained stubborn in the services sector.

The March 2023 Inflation Report showed that the inflation rate has eased to 5%, down from 6% in February. The annual inflation rate peaked in June 2022 at over 9%.

According the Mark Zandi, chief economist of Moody's Analytics, "inflation seems poised to fall back to policymakers' target by this time next year, barring any unforeseen derailments."

Housing prices were the biggest contributor to the monthly all items increase at 8.2%. It more than offset a decline in energy which decreased 3.5% over the month and 6.4% in the past year. Categories that increased include shelter (8.2%), car insurance (15%), airline fares, furniture (5.6%), and new vehicles (6.1%). Categories that decreased include medical care and used cars. Grocery prices fell 0.3%, its first monthly decline since September 2020.

Chart: United States Annual Inflation Rates (2013 to 2023)



Fed Rate Hikes

2022 - 2023: Taming Inflation

INDEX RATES
MARCH 2023

3.65% 5- YEAR TREASURY	**4.60%** 30 DAY AVG SOFR
3.55% 10- YEAR TREASURY	**3.22%** 10-YEAR SWAP

INDEX RATES
MARCH 2022

1.26% 5- YEAR TREASURY	**0.05%** 30 DAY AVG SOFR
1.63% 10- YEAR TREASURY	**1.68%** 10-YEAR SWAP

FOMC Meeting Date	Rate Change (bps)	Federal Funds Rate
March 2, 2023	+25	4.75% to 6.00%
Feb 1, 2023	+25	4.50% to 4.75%
Dec 14, 2022	+50	4.25% to 4.50%
Nov 2, 2022	+75	3.75% to 4.00%
Sept 21, 2022	+75	3.00% to 3.25%
July 27, 2022	+75	2.25% to 2.50%
June 16, 2022	+75	1.50% to 1.75%
May 5, 2022	+50	0.75% to 1.00%
March 17, 2022	+25	0.25% to 0.50%

COMMERCIAL - LIFE COMPANIES

TERM	AMORTIZATION	LTV	SPREAD	RATE
5 - YEAR	25-30	65% - 75%	195-225	5.60%-5.90%
10 - YEAR	25-30	50% - 65%	175-195	5.30%-5.50%
10 - YEAR	25-30	65% - 75%	195-225	5.50%-5.80%
15 - YEAR	25-30	65% - 75%	195-225	5.50%-5.80%
15-20 YEAR	Fully Amortizing	65% - 75%	195-225	5.50%-5.80%

COMMERCIAL - CMBS

TERM	AMORTIZATION	LTV	SPREAD	RATE
5 - YEAR	30	65% - 75%	330-370	6.95%-7.35%
10 - YEAR	30	65% - 75%	215-255	5.70%-6.10%

Source: Northmarq

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

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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Alexandria Tatem

Head of Research / Senior Associate

Alexandria Tatem joined Foresite as an Investment Sales Assoc. and was quickly promoted to Head of Research. She has a talent for sourcing data and compiling information in challenging markets.

ATATEM@FORESITECRE.COM

Stephen Berchelmann

Vice President

Urban Developments / Special Projects

Stephen has worked in real estate for more than a decade and was a member of the #1 retail team in the central Texas Region.

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Xavier Alvarado

Investment Sales Associate

Xavier Alvarado is a retail investment sales specialist focusing exclusively on shopping centers and net-leased properties.

XALVARADO@FORESITECRE.COM

Leroy Sanchez

Investment Sales Associate

Leveraging his background in commercial and business insurance, Leroy Sanchez provides investment clients with comprehensive guidance and a unique perspective in real estate.

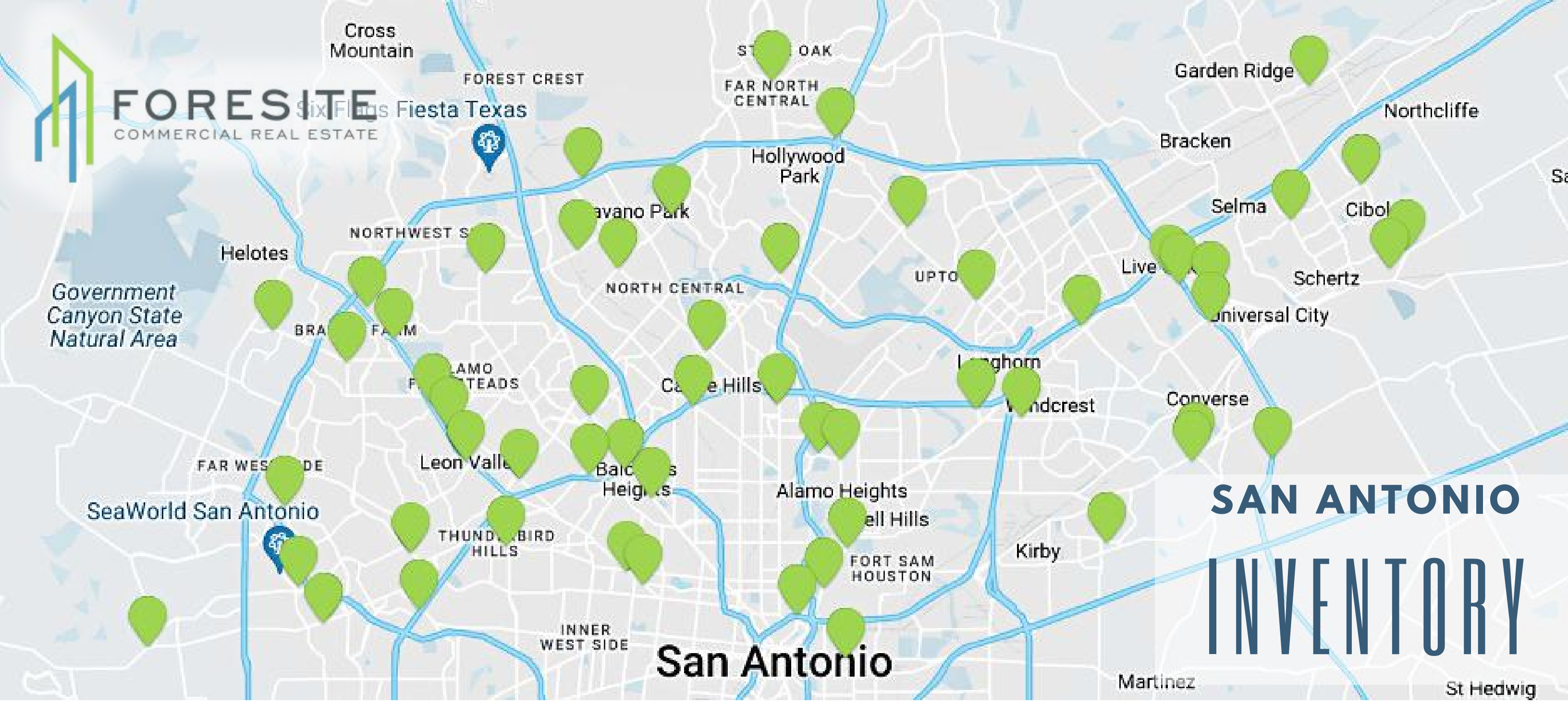
LSANCHEZ@FORESITECRE.COM

Kevin Gumprecht

Investment Sales Associate

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.

KGUMPRECHT@FORESITECRE.COM



SAN ANTONIO INVENTORY

Leasing Team

Bethany Babcock, MBA
Principal / Co - Owner

Zach Parra
Assistant Director of Leasing

Donna Havel
Operations Manager

Nicole Mendoza
Marketing Manager

Louis "Lex" Lutto III
Senior Vice President

Vicki Adelstein
Senior Associate

Michelle Di Filippo
Senior Associate

Bill Coats
Senior Associate

Jon Galindo, CCIM
Associate

Miranda Rihn
Associate / Property Manager

Madison Batey
Associate

Andrew Broyles, MBA
Associate

FORESITE RESEARCH SERVICES

UNIQUE REPORTS

Our Investment Sales Team compiles unique reports each quarter that you won't find anywhere else.

VALUABLE INFORMATION

This valuable information will help you understand national and local economic trends, investment market intel and what it all means for your portfolio.

TRANSPARENCY

Market reports, quarterly investor reports, and rent surveys performed by agents, not data aggregators, are some of the ways we approach the business differently. Our clients deserve to know what is happening so they can be the first to respond to changes.

FORESITE COMMERCIAL REAL ESTATE

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