MAY 2024

ISSUE 16

CRE marketwire

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

Development Tips

A property manager's perspective on what developers should consider before starting a new construction project.

pg. 11

Rent Growth and Low Vacancy

The strong retail leasing market has maintained historically low vacancy rates as new deliveries slow and high absorption lead to limited supply.

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Investment Sales | Leasing |
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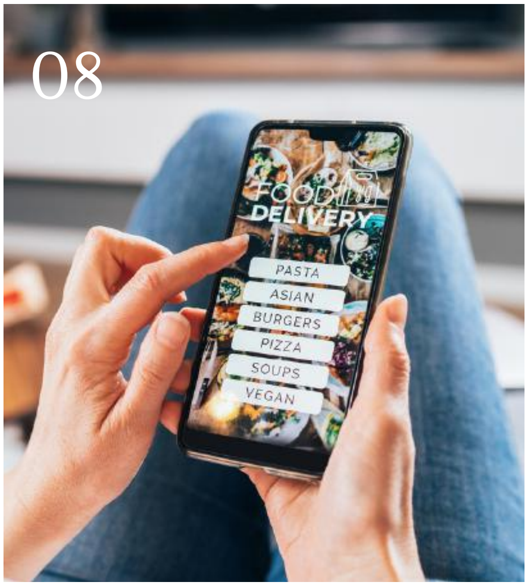


This report contains real data and analytics on the San Antonio and Austin commercial real estate markets covering all metrics of shopping centers and retail buildings, including retail occupancy and cap rates. Sourced from our proprietary extensive research efforts in aggregating hundreds of data points,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

Letter from the editor

A SLOWING ECONOMY: REAL ESTATE MARKETS FEEL THE IMPACT

The San Antonio and Austin real estate markets are experiencing a phase of pricing adjustment within the real estate cycle. Pricing is estimated to be about 21.5% lower than the March 2022 peak. Transaction velocity in the Central Texas retail market experienced a significant decline. From 2022 to 2023, transaction velocity decreased by 70% in the San Antonio area and 43% in Austin. While cap rates remained relatively stable in Austin, in San Antonio, cap rates increased about 50 basis points from 2022 to 2023.

The retail leasing market has continued to maintain historically low vacancy rates as new construction deliveries slowed and high absorption lead to a limited supply. The high absorption drives up asking rental rates and the Austin market has experienced asking rent growth of 14% year-over-year (about $3.23).

Due to lending constraints and high construction costs, developers are continuing to hold off on their new construction projects. The cost of materials are up 1.7% on a year-over-year basis and have increased every month in the first quarter. Persistent supply chain disruptions, along with inflationary pressures, are major contributors to the ongoing rise in material costs, affecting the overall stability of the real estate investment landscape.

Alex Tatem is the Head of Research and Operations for Foresite Commercial Real Estate and is Associate Vice President of Investment Sales.

The U.S. economy grew at a slower rate than expected in the first quarter. Inflation is being held high by the cost of shelter and it may take longer than expected to bring the rate back to the target 2%. Consumer spending is continuing to grow, but the increasing cost of services leaves less household income available for retail goods.

The national unemployment rate has been in a narrow range of 3.7 to 3.9 percent since August 2023. The labor market remains strong and is showing some signs that growth is moderating. Wage growth is slowing but has continued to increase and is still beating inflation.

The economy is slowing, but not showing the signs of a recession. A "soft landing" is anticipated, with slow growth and moderating inflation through the year.

CURRENT ISSUE'S

KEY POINTS

ON THE MARKET

- 55 class A & B multi-tenant retail properties were publicly marketed during the fourth quarter of 2023.
- 17 new listings came to market during the quarter.
- San Antonio's average multi-tenant retail asking cap rate for all product sizes was 6.61%, down from 51 basis points from the beginning of the year.
- The average cap rate for all product sizes in Austin is 5.85%, up 11 basis points from Q1 2023.
- The persistent inventory shortage in 2023 led to pent-up demand among buyers and sellers, driving competitive pricing dynamics in both markets.

LEASING AND VACANCY

- The retail leasing market has continued to maintain historically low vacancy rates as new construction deliveries slowed and high absorption lead to a limited supply.
- The average vacancy rate in San Antonio is 4.1%, up 10 basis points from the same period last year.
- The average vacancy rate in Austin is 3.6%, up 40 basis points from the same period last year.
- San Antonio's average asking rate is $18.28, up $0.07 from last year.
- Austin's average asking rate is $25.80, an 14.3% increase from last year's $22.57.

CONSTRUCTION AND NEW DEVELOPMENTS

- Construction material costs have continued to increase and prices are up 1.7% on a year-over-year basis.
- The repeated price hikes are largely due to persistent supply chain disruptions.
- Higher material costs are likely to slow down new projects and could contribute to higher real estate prices.

LABOR MARKET

- Texas ended the first quarter with an unemployment rate of 3.9 percent, slightly higher than the nation's 3.8 percent.
- Austin's unemployment rate is 3.5%. San Antonio's is 4.1%.
- The national unemployment rate remained steady, continuing a period of strong job growth. The unemployment rate has been in a narrow range of 3.7 to 3.9 percent since August 2023.
- Job growth was led by the health care sector, which added 72,000 jobs.

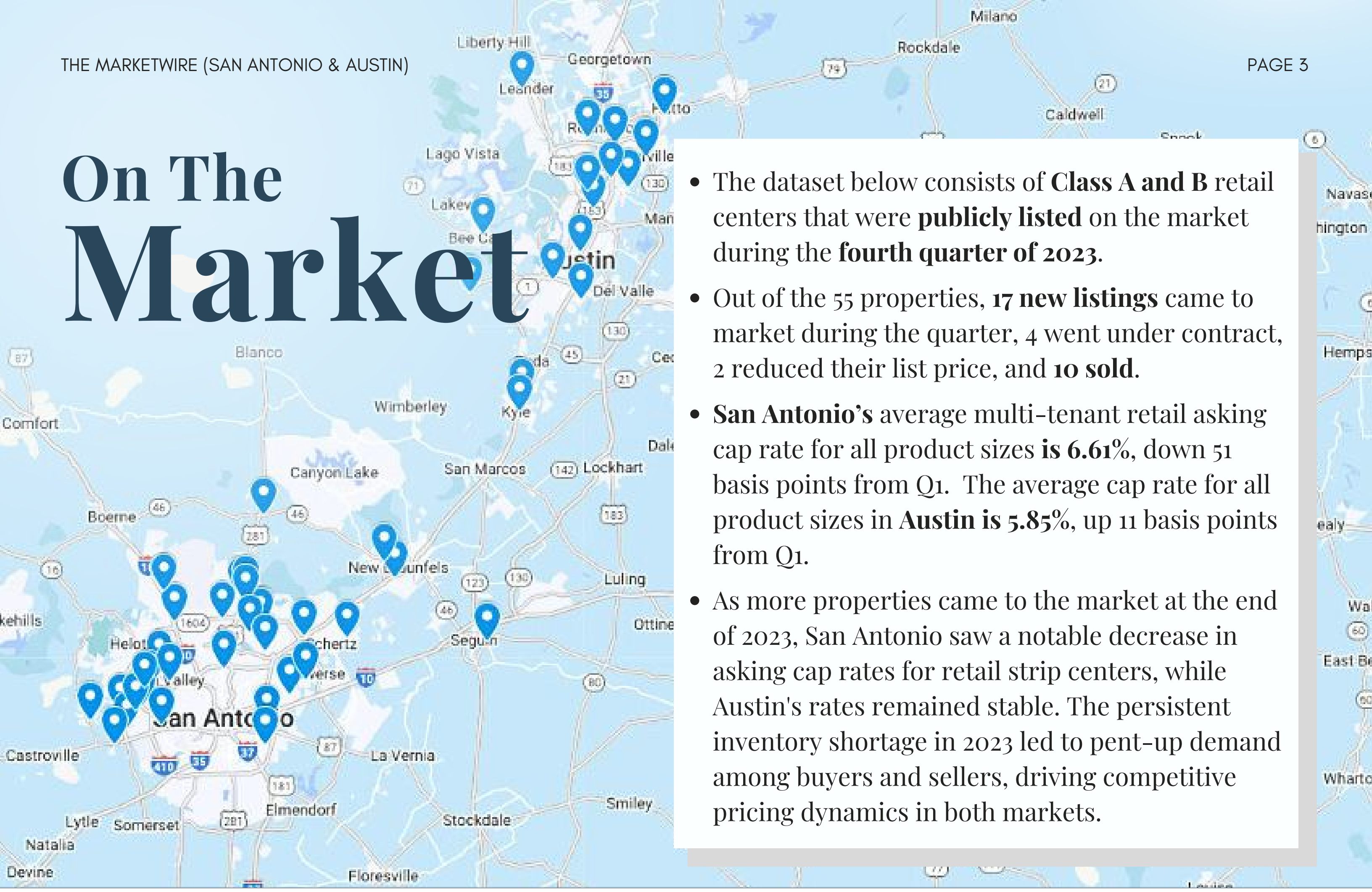
RETAIL SALES

- Total U.S. Retail Sales for the month of March were up 4% year over year.
- Consumers held off on buying bigger-ticket purchases for long-lasting items classified as durable goods.
- Services spending increased 4%, its highest quarterly level since the third quarter of 2021.

KEY INDICATORS

- The U.S. Economy grew at a slower rate than expected in the first quarter. GDP grew by only 1.6% annually, below the expected 2.4%.
- Inflation remains stubbornly high at 3.7%.

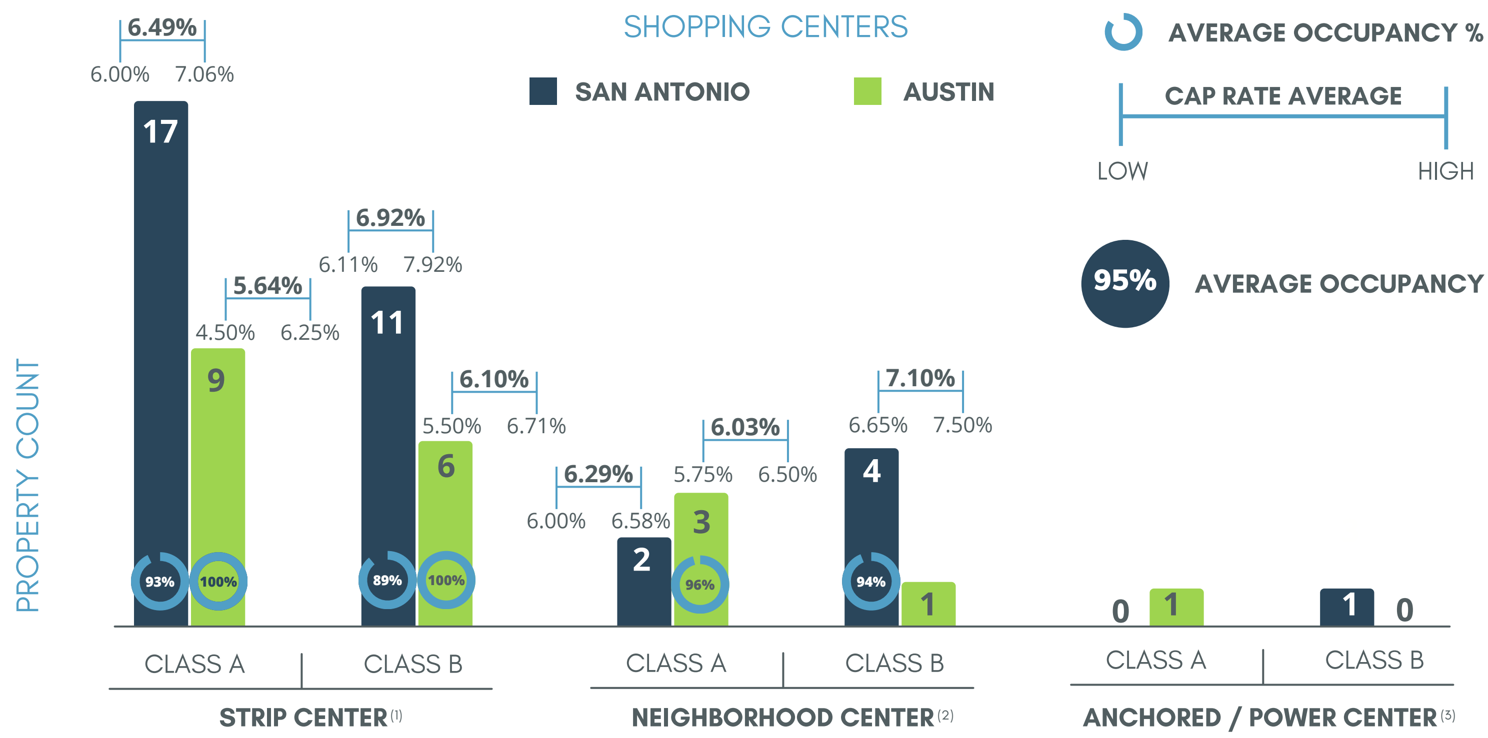
On The Market



- The dataset below consists of **Class A and B** retail centers that were **publicly listed** on the market during the **fourth quarter of 2023**.
- Out of the 55 properties, **17 new listings** came to market during the quarter, 4 went under contract, 2 reduced their list price, and **10 sold**.
- **San Antonio's** average multi-tenant retail asking cap rate for all product sizes **is 6.61%**, down 51 basis points from Q1. The average cap rate for all product sizes in **Austin is 5.85%**, up 11 basis points from Q1.
- As more properties came to the market at the end of 2023, San Antonio saw a notable decrease in asking cap rates for retail strip centers, while Austin's rates remained stable. The persistent inventory shortage in 2023 led to pent-up demand among buyers and sellers, driving competitive pricing dynamics in both markets.

PUBLICLY MARKETED

SHOPPING CENTERS



CLASSIFICATION METHOD

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

Source: Foresite Research Services

Current Trends

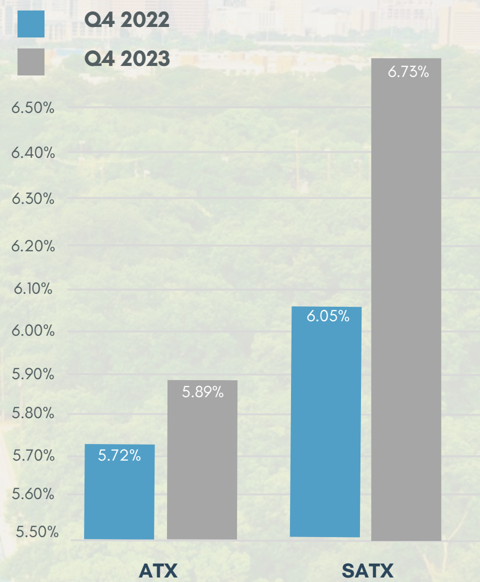
- The average asking cap rate for Class A shopping centers in San Antonio is 6.59%. The average for Class B is 6.87%
- The average asking cap rate for Class A shopping centers in Austin is 5.76%. The average for Class B is 6.03%

	SATX	ATX
# of Listings	35	20
Avg Cap Rate Class A	6.59%	5.76%
Avg Cap Rate Class B	6.87%	6.03%
Average Occupancy	92.08%	98.83%

CHANGES TO LISTED PROPERTIES

	Q1 2023	Q4 2023
Class A & B Centers	40	55
New Listings	11	17
Went Under Contract	5	4
Reduced Price	1	2
Sold	5	10

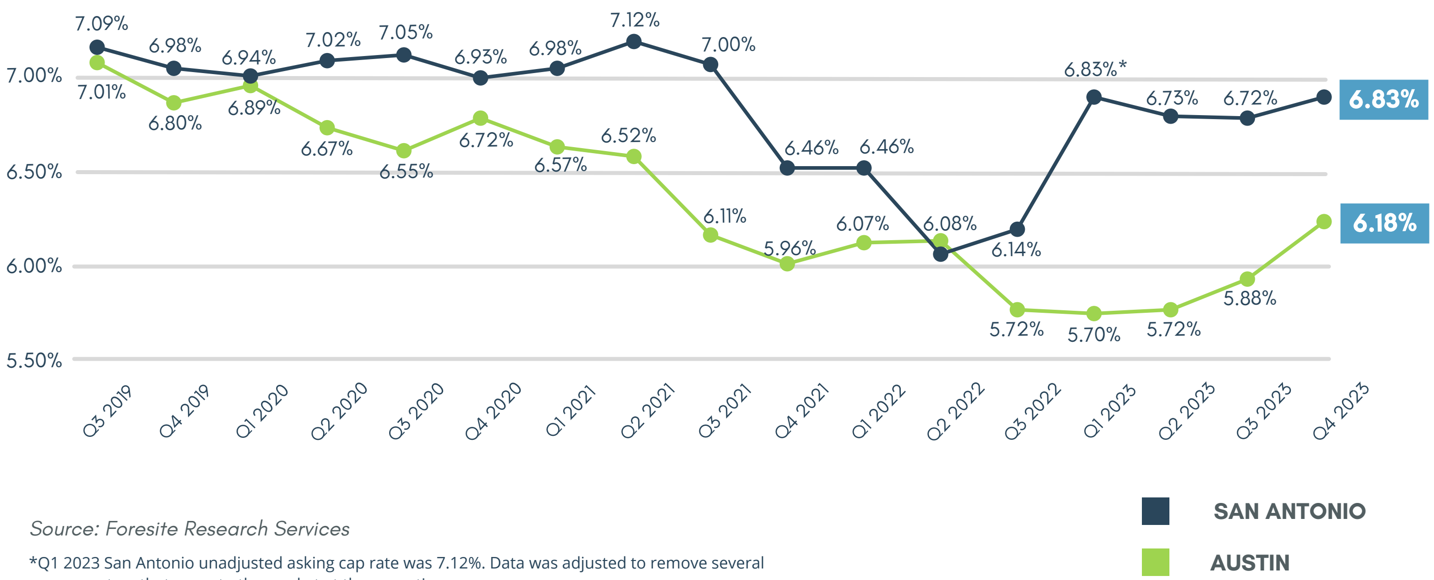
*San Antonio & Austin Markets Combined



Average Asking Cap Rate

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.

Retail Pricing

RETAIL CENTER SALES
2023 COMPARED TO 2022*

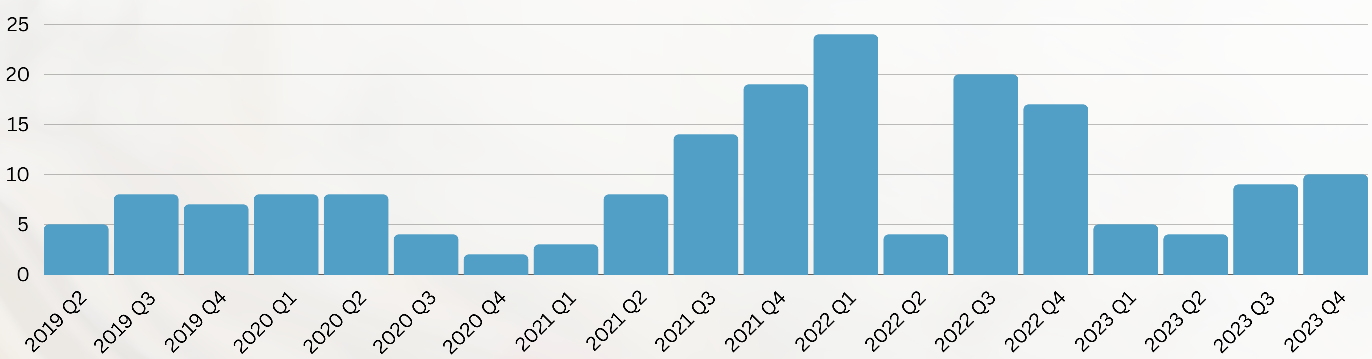
UNDER $5M	AVERAGE CAP RATE 2022	AVERAGE CAP RATE 2023	AVERAGE PPSF 2022	AVERAGE PPSF 2023	AVERAGE OCCUPANCY 2022	AVERAGE OCCUPANCY 2023
SAN ANTONIO	6.56%	7.14%	$238	$222	93%	98%
AUSTIN	6.06%	5.95%	$387	$395	94%	100%

OVER $5M	AVERAGE CAP RATE 2022	AVERAGE CAP RATE 2023	AVERAGE PPSF 2022	AVERAGE PPSF 2023	AVERAGE OCCUPANCY 2022	AVERAGE OCCUPANCY 2023
SAN ANTONIO	6.45%	6.93%	$323	$334	96%	95%
AUSTIN	5.92%	6.01%	$449	$394	86%	98%

**Sample of 50 Properties.*

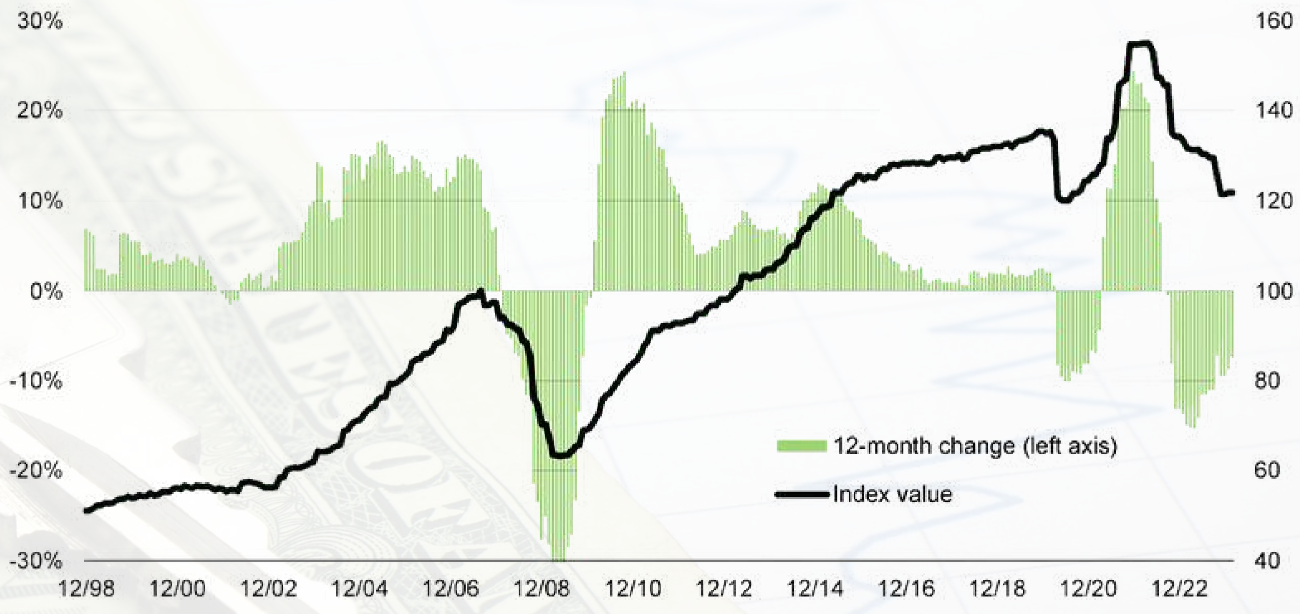
Source: Foresite Research Services

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



Transaction velocity in the Central Texas retail market experienced a significant decline, with a 63% decrease in number of deals from 2022 to 2023. There were more sales in the San Antonio market, recording 83 transactions compared to Austin's 36 during the same period. From 2022 to 2023, transaction velocity decreased by 70% in the San Antonio area while Austin experienced a more modest decline of 43%. In San Antonio, cap rates increased about 50 basis points from 2022 to 2023. In Austin, cap rates remained relatively stable, demonstrating the tight market in the smaller market.

Source: Foresite Research Services

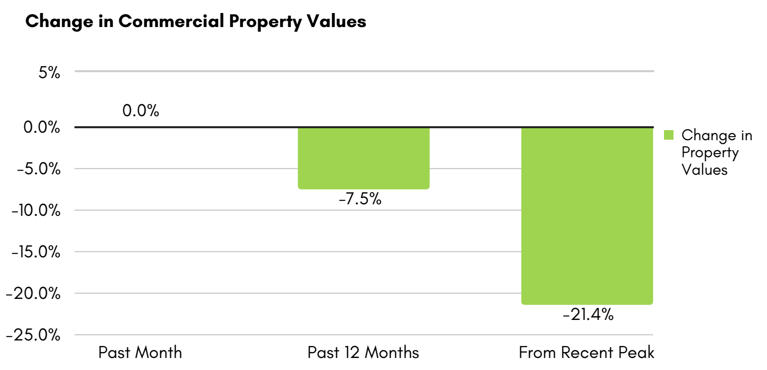


All Property CPPI Weights: retail (20%), office (17.5%), apartment (15%), health care (15%), industrial (12.5%), lodging (7.5%), net lease (5%), self-storage (5%), manufactured home park (2.5%). Retail is mall (50%) & strip retail (50%).

GREEN STREET COMMERCIAL PROPERTY PRICE INDEX

Indexed to 100 in August 2007 | Property Prices Down 21% from March 2022 Peak

All-Property Index The Green Street Commercial Property Price Index® decreased by 7% over the past year.



Green Street's Commercial Property Price Index® is a time series of unleveraged U.S. commercial property values that **captures the prices at which commercial real estate transactions are currently being negotiated and contracted.** Features that differentiate this index are its timeliness, its emphasis on institutional quality properties, and its ability to capture changes in the aggregate value of the commercial property sector.

"Property pricing has stabilized over the past couple of months.

Commercial real estate is now fairly priced relative to corporate bonds, so pricing should hold at current levels."

Peter Rothemund
Co-Head of Strategic Research
Green Street

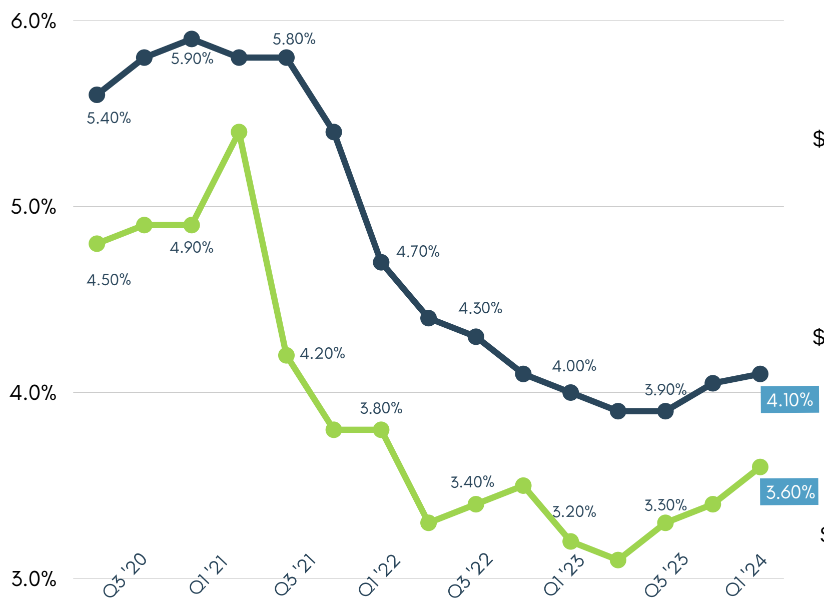
Green Street CPPI : Sector-Level Indexes

	Index Value	Change in Commercial Property Values		
		Past Month	Past 12 Mos	Recent Peak
All Property	121.8	0.0%	-7%	-21%
Core Sector	121.1	0.0%	-7%	-24%
Apartment	136.9	0.0%	-9%	-28%
Industrial	213.6	0.0%	-3%	-16%
Mall	78.1	0.0%	-2%	-20%
Office	73.4	0.0%	-14%	-35%
Strip Retail	108.7	0.0%	-6%	-18%
Health Care	120.5	0.0%	-11%	-20%
Lodging	105.4	0.0%	-2%	-7%
Manufactured Home Park	274.9	0.0%	-3%	-15%
Net Lease	94.1	0.0%	-4%	-19%
Self-Storage	248.1	0.0%	-11%	-21%

Leasing Activity

High absorption driving up asking rental rates

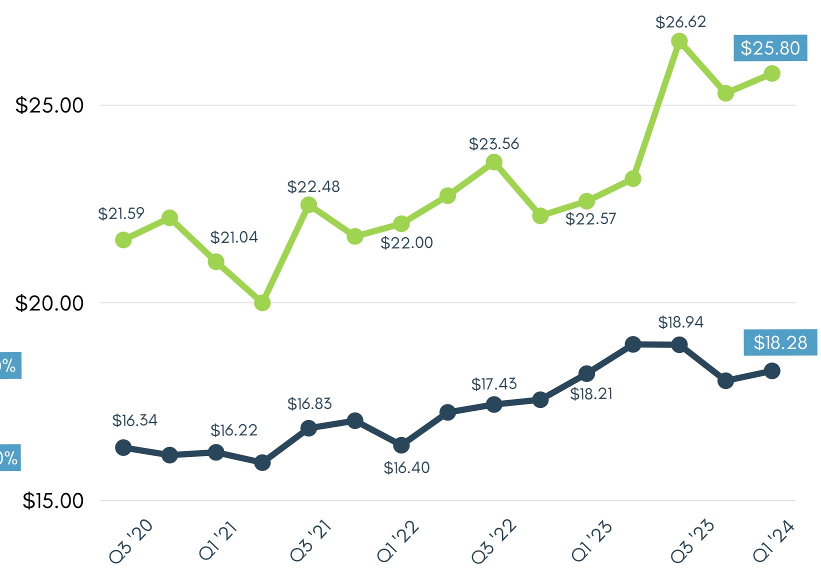
AVERAGE RETAIL VACANCY RATE



4.10% SAN ANTONIO

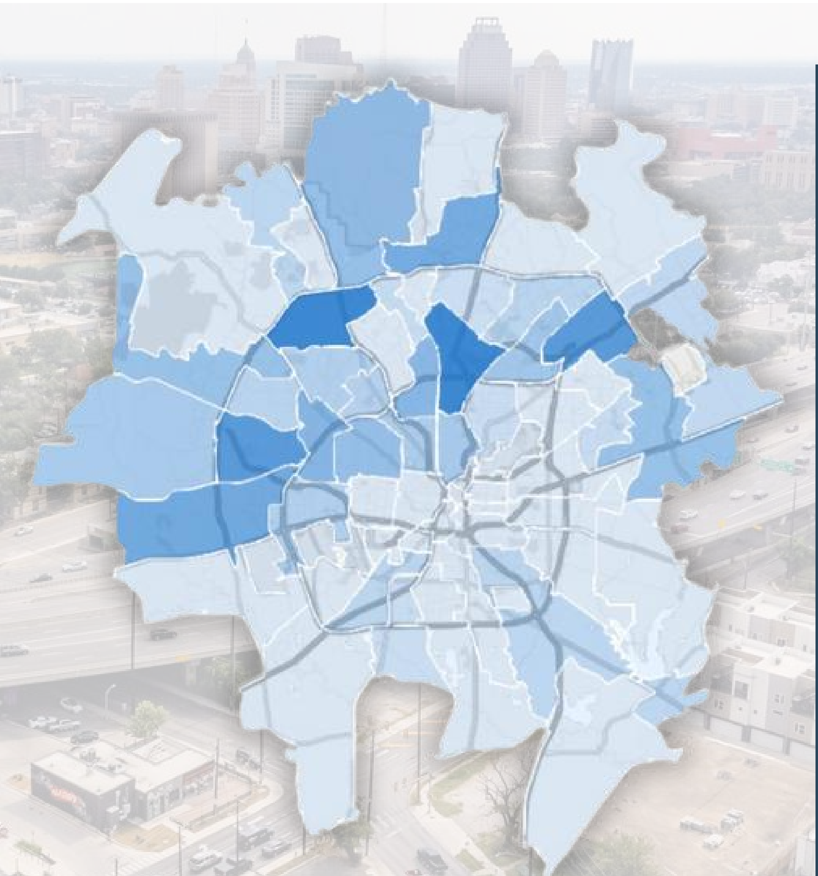
3.60% AUSTIN

AVERAGE RETAIL ASKING RENT



$18.28 SAN ANTONIO

$25.80 AUSTIN



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

ABSORPTION

San Antonio's average retail rents have increased to $18.28, up $0.07 (0.38%) year over year, and vacancy rates have increased 40 basis points (2.5% increase) from Q1 2023.

The Austin retail market has seen rent growth of 14.31% year over year. Vacancy rates increased 12.5% (40 basis points) from Q1 2023.

The San Antonio and Austin markets are continuing to experience consistently strong demand from both local and national concepts. Both markets have maintained historically low vacancy rates.

Source: Texas A&M Real Estate Research Center

Restaurant Expansion in 2024

Forty-three percent of restaurateurs plan to add a new location this year.

Restaurant management system, TouchBistro, released its annual report outlining the top challenges facing the industry, alongside the emerging trends shaping it. The survey reveals that while food costs and labor costs continue to be major financial strains, operators are navigating the changing industry landscape by tapping into new revenue streams and technologies.

Nearly all (94%) of restaurant operators have some sort of expansion plans for 2024, suggesting that most full service operators are optimistic about the year ahead, according to the survey of 600 U.S. full-service restaurant owners, CEOs, general managers and area managers.

The plans include opening new locations: Forty-three percent of restaurateurs plan to add a new location in the coming year, and 44% are planning to add multiple new locations. In other expansion, 54% plan to add catering services, tapping into growing demand from the return to the office and in-person events.

Respondents rated inventory costs as their top (58%) concern. Sixty percent of operators reported that all or most of their suppliers have raised prices in the past year, with the average expenditure on food increasing by a whopping 41% in the past year alone.

Despite economic uncertainty and high interest rates, most full service operators are optimistic about the year ahead. 2024 is looking like a year of growth for full-service restaurants.

*In our research, we found that **almost three-quarters (72%) of operators have automated online ordering, 70% have automated payroll, and 67% have automated invoicing** – all everyday tasks that can significantly slow down operations when done manually.*

Samir Zabaneh,
Chairman and CEO of TouchBistro

CHANGE ON THE MENU

Menu prices reflect inventory costs: In response to rising inventory costs, 67% of operators raised their menu prices in second half of 2023. Operators reported raising menu prices by an average of 13% over the year, which is a drop from the average price increase of 15% in 2022.

Commission fees eating into profits: Forty-six percent of operators added more off-premise ordering options to boost profits, however nearly a quarter (24%) report paying more than 20% in commission fees on each order.

Staff turnover rates remain high: Roughly 82% say they were short at least one position, an improvement from last year when 97% said the same. However, turnover rates remain unchanged from last year at 28% for all full-service restaurants and 34% for those with five or more locations.

The role of automation: Operators noted that productivity has become the number one priority for saving on labor costs. Forty-five percent said their goal is to increase productivity, over 10% higher than last year (34%), and automation is key to this goal.

AI becomes mainstream: 89% of operators surveyed are already using AI in their restaurants in some way. The top three ways operators are using AI are through digital assistants (35%), AI chatbots (34%) and predictive analytics/reporting (31%). While these applications of AI may not be apparent to most consumers, restaurateurs are already reaping the benefits of these tools behind the scenes.

Source: https://chainstoreage.com/restaurants-bullish-expansion-2024

San Antonio Municipal Code Update

BY STEVE LIN

Steve Line, P.E. is a senior project manager at CDS Muery, a civil engineering firm.

New SAWS Impact Fees to Start June 2024

Impact Fees are not a new thing for developers to navigate through during the development process. They are essentially a municipality or utility providers way of offsetting the cost of new development or growth within their service area or district. Typically, these fees are assessed just prior to construction of a new development, and therefore, developers tend to recoup these fees with their post-development performance measures to determine tenant lease rates, per lot costs, etc. Like recent years, it's no surprise that such fees are trending higher due to the cost to build and support new infrastructure. Such is the case for San Antonio Water System (SAWS) as it sets to increase their impact fees in June of this year.

In the State of Texas, impact fees from municipalities or utility districts can be adopted and collected under the provisions of Chapter 395 of the State's Local Government Code. Notably, Impact fees are a vehicle to finance capital improvement projects, specifically, in this case, to address growth and expansion of water and sewer infrastructure operated by SAWS. By rule, Chapter 395 requires that impact fees be reviewed and updated every five years, and in theory, can increase or decrease with demands and infrastructure needs.

A review committee, known as the Capital Improvements Advisory Committee (CAIC), was assembled to provide oversight in this process. Comprising of local community representatives and stakeholders, it should be noted that 40% of the CAIC members represented the real estate/building industry. Through its findings, the CAIC's report to the SAWS Board of Trustees indicated a growth projection of $1.5 Billion in capital improvement projects over the next ten (10) years through 2033. SAWS has historically used the "rate credit" calculation for impact fees which is based on the amount of projected future rate revenues and future collections or taxes expected to be generated by new development within its service area. Current SAWS impact fees were last updated in June of 2019. This year, the expected impact fee increase was approved by the SAWS Board of Trustees on March 05, 2024 and presented to the San Antonio City Council on April 3, 2024.

Top Five Regions with Most Combined Impact Fee Increases

Bexar County Quadrant	Percentage Increase
Far Northwest (I-10 West Corridor, Outside 1604)	34.9% Increase
North Central (281 North and I-10/1604 Region)	34.5% Increase
Far Northwest (1604 into Medina County)	30.2% Increase
Far West (Potranco Road Corridor 410 to outside 1604)	29.7% Increase
North Central (I-10 Corridor and Between 410 and 1604)	26.8% Increase

Note: statistics taken from presentation to SAWS Board, March 5, 2024

For calculation purposes, impact fees for water and sewer services are based on an equivalency factor compared to a single dwelling unit. Known as an Equivalent Dwelling Unit (EDU), this equates to 290 gallons per day of water usage and 200 gallons per day of sewer output. For new developments, the EDU is then based on meter size required for the development while sewer impact fees are based on land usage and often the square footage and/or population of the specific land use. So, what does this mean for development in the greater San Antonio area? Development within the region has historically trended towards the far west side and the far north side of the City/County. Historically, SAWS has continued to expand its services to these areas amidst the growth trend and the increased movement of population to the south and central Texas region. In terms of geography, the areas expected to see the most increases in Bexar County centers around a band of area west of Interstate 35, along the city's northside, and spanning to Potranco Road, mostly outside of 1604. In fact, below is a listing of the top five areas within the SAWS service area and their anticipated increases.

It only makes sense that these areas of growth are expected to have the highest increases in impact fees, especially if these areas take the lion's share of future capital improvement projects. In terms of breaking down actual fees based on a specific location, SAWS has their water system divided into three service areas based on elevation, and their sewer system divided into five service areas based on treatment facilities. These areas can be found in their development guide as well as SAWS's online developer resources. Knowing these areas can assist with determining actual fee increases. The percentage of impact fee increases, based on each SAWS service areas are below. Note, these are on a "per EDU" basis, or the equivalency of a single residential lot.

Water Impact Fee Increases (Per EDU)

Area	Current	Proposed	Percent Increase
Low Elevation	$4,749.00	$5,470.00	15.18%
Middle Elevation	$4,911.00	$5,704.00	16.15%
High Elevation	$5,097.00	$5,987.00	17.46%

Sewer Impact Fee Increases (Per EDU)

Area	Current	Proposed	Percent Increase
Upper Collection	$3,451.00	$5,541.00	60.56%
Middle Collection	$2,664.00	$3,897.00	46.28%
Lower Collection	$1,553.00	$2,243.00	44.43%
Upper Medina	$2,073.00	$2,807.00	35.41%
Lower Medina	$1,171.00	$1,873.00	59.95%
Medio Creek	$2,083.00	$3,363.00	61.45%

So, what happens now? The impact fees update is now in the hands of the City Council for final review and ultimate approval. A public hearing is scheduled for May 16, 2024 in which the plan and fee increases will be discussed, but the likelihood of approval is rather high. Once approved, the new impact fees will go into effect June 01, 2024. For developments currently underway, paying the impact fees upfront, such as during plat recordation (prior to June 01, 2024), may be beneficial if the subdivision plat is in progress and nearing approval. Otherwise, **developers should start including these increases in their performance measures as they analyze their deals, since these fees will be part of their initial capital costs upfront**. For example, if a development will require a new 2-inch water meter in the far north side along I-10 past Loop 1604, at 14 EDU's, that water meter will now cost the developer $83,818 instead of $71,358 starting in June. New single-family developments should recalculate their "per lot" costs factoring in these fees, particularly in terms of sewer fees, which will have the highest percentage of increase in fees. **Regardless, the common theme is that these fees will help with the growth that the city is experiencing, and of course, add to the cost of doing development in South Texas.**

Creating Successful Developments

Perspectives from Property Management

We asked our property management staff what they wish they could tell developers before they start construction. Here is what they said.

Fire Panels

Each panel needs to be separately monitored and the fees associated with that increase the CAM expenses for the property, so the fewer the better.

The cost is significant enough that it may cause a developer to rethink building a patio between two buildings as opposed to one larger building with a single fire panel. Additionally, non-proprietary equipment will allow for flexibility in selecting a monitoring and repair vendor.

Awnings and Window Treatments

Think through the orientation of the building when planning for awnings and window treatments. The wear and tear may be much more expensive than at other developments, depending on which direction the building faces.

Curb Design

When planning out the parking lot, attention should be given to how 18 wheelers making deliveries will navigate the parking lot. If turns cannot be easily made, landscaping and lighting will be frequently damaged, causing CAM costs to increase. Whenever possible, rear deliveries are preferred, especially in centers with tight parking, as store front deliveries can block customers into parking spaces.

> *"The cost to maintain what used to be industry standard has changed and developers need to reevaluate projects in light of today's upkeep costs.*
>
> *Small issues and inconveniences that were previously overlooked or accepted, are now driving CAM costs to new highs."*
>
> Nancy Braun
> Director of Property Management
> Foresite Commercial Real Estate

Drive Thrus

While the city may only require 5-8 car stacking, a typical drive thru user can use far more than that during peak hours. How will traffic wrap? This is something that should be thought out when laying out the parking to minimize fender benders and blocked parking spaces.

Pad Users

A strong REA agreement should be thought out not just for today's users but eventual back fill users. Pad sites converted to uses such as car washes have placed extraordinary strain on neighboring properties as the traffic moves through the shared drives.

Signage

Monochromatic punched metal signs are popular but not practical. The dark metal panels fade in the sun and as tenants move in and out the variation of the colors of the sign cheapen the overall look. It becomes an art form of sorts to adjust the paint swatch for the natural fading so that new signs match the older ones.

Landscaping

Once construction is complete, landscapers will usually overplant to fill in the empty beds. However, within a year or two, the landscaping often has to be completely redone as the plants fill in and overcrowd each other. Property managers also prefer using rocks to mulch, as mulch requires more frequent maintenance, again increasing CAM expenses.

Detention Ponds

The maintenance of detention ponds continues to increase each year. Developers may consider an underground system to maximize usable space of the development. Although, if space exists, an aboveground dry detention pond continues to be the easiest and most cost-effective to maintain.

Trash Enclosures

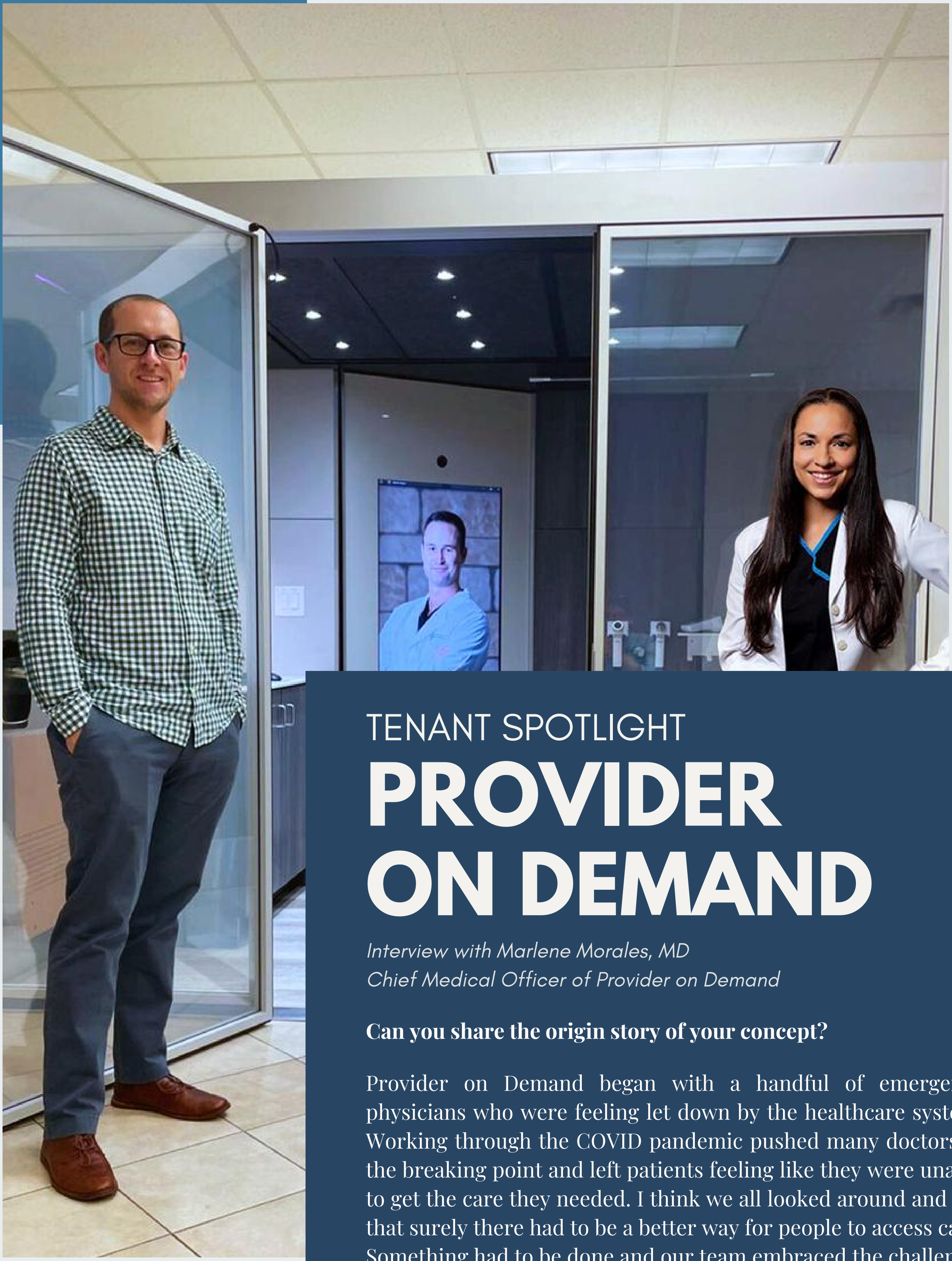
Diagonal enclosures are not recommended unless they are large enough to ensure smooth dumpster service. If restaurants are planned, increase the size of the dumpster pad site to include an area for grease oil receptacles. Use concrete instead of asphalt in front of the trash pick up to keep repairs to a minimum.

Grease Traps

Plans for where the grease traps will be placed is one thing, but having a common grease trap shared amongst tenants? While it may sound nice, it can be difficult to plan these without knowing which spaces will be occupied by restaurant tenants. If the highest volume user is on the opposite end of the clean out, then the system will need to be frequently hydro-jetted. One way to address this if the tenant placement is unknown or expected to change, is adding more than the necessary clean outs.

Roof Access

Most roofs are TPO roofs due to their long life of 20-30 years and their ease of repair. They do not do well with frequent foot traffic. The life of the roof can be extended and maintenance costs reduced by installing walking paths to each HVAC unit.



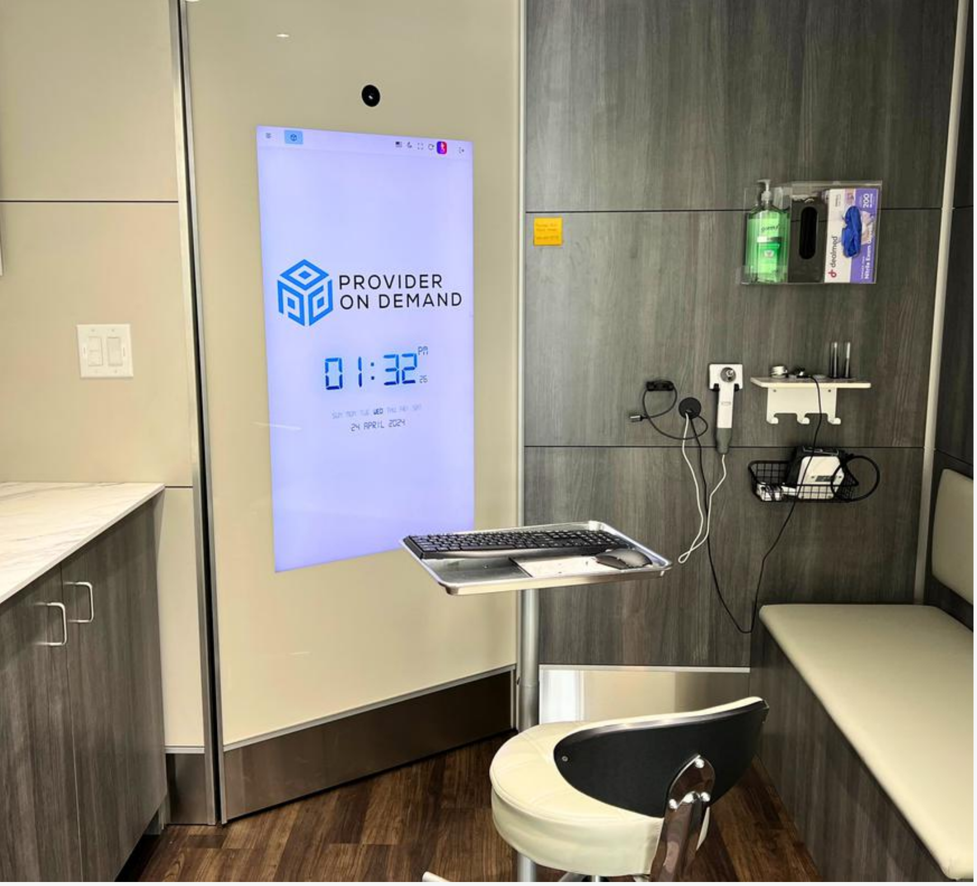
TENANT SPOTLIGHT

PROVIDER ON DEMAND

Interview with Marlene Morales, MD
Chief Medical Officer of Provider on Demand

Can you share the origin story of your concept?

Provider on Demand began with a handful of emergency physicians who were feeling let down by the healthcare system. Working through the COVID pandemic pushed many doctors to the breaking point and left patients feeling like they were unable to get the care they needed. I think we all looked around and felt that surely there had to be a better way for people to access care. Something had to be done and our team embraced the challenge. By making healthcare more accessible, affordable, and by eliminating the standard roadblocks, such as wait times, appointment scheduling, surprise billing and all the negative stigma associated with it, POD was born.



What motivated you to purchase/build this brand, and how did you go about building it from the ground up?

When you step back and assess a lot of the things we see as normal in our healthcare system, you find that we have unfortunately been forced to normalize things that would be unacceptable in any other industry. Waiting weeks or months for an appointment, being kept in the dark about types of services and their costs– these create a serious lack of control and sense of helplessness in the space. The more we peeled back these industry norms the more we have become motivated to create something better. We want to introduce the world to this game changing, tech-forward way of accessing care. We believe this is what healthcare should look like in the 21st century.

Have there been any specific challenges you faced during the initial stages, and how do you plan to overcome them to establish a successful brand?

Healthcare has a deep seeded culture to it, from both the provider side and the patient side. Meaning that both sides are often reticent and intimidated by significant change. We find that patients are frustrated by the current system but somewhat fatalistic about having any alternative. Overcoming that momentum can be challenging, but once people experience the POD, their feedback has been phenomenal.

Can you highlight key milestones or turning points that have shaped the growth and identity of your concept?

Signing our first corporate contrast was a huge milestone. The response from the employees who visited POD was so positive that the employer signed a three-year contract after the initial trial period. This gave us proof-of-concept and validated our ideas about patient experiences and value to employers. It also allowed us to not only better understand the needs of our patients, but to begin to think long term about the kinds of services we can provide with POD.

Expansion Plans and Criteria:

Could you discuss your expansion plans for the future? What regions or markets are you targeting, and what factors influence your decision to expand in specific areas?

We are really focused on the Texas Triangle in the next 24 months, continuing to engage private businesses and corporate partners, while also opening locations with direct to consumer models.

The Texas economy is strong, the primary care population statistics show a significant need, and the Texan ethos of individual freedom and independence align well with our model of healthcare that puts the patient in charge.

Provider on Demand began with a handful of emergency physicians who were feeling let down by the healthcare system.

MARLENE MORALES, MD

Do you have flexibility in purchasing larger tracts, building small centers, and using pad sites for your concept? Can you elaborate on how this approach aligns with your expansion strategy?

Flexibility is one of the greatest attributes of our product. We have taken the clinic experience and duplicated it in a 100sqft foot print. We can be installed on corporate campuses to add to their benefit package. We can be a traditional tenant in small hard to rent lease sites. We can partner with other companies to sublet space and thereby increase their penetrance into a new customer demographic.

How do you balance the preference for purchasing properties with your willingness to engage in lease deals with other desirable tenants? What criteria guide your decision-making process in such situations?

Being a growth stage start up we look to maximally leverage our capital for expansion and in doing so leasing is the best option for us at this time. As we grow this approach will likely shift.

In what ways do you ensure that your brand maintains a consistent identity and customer experience across various locations, especially considering the diverse types of properties you operate in?

Although the host location can vary greatly, the actual product, the POD, is uniform. Whether you are in Puerto Rico or in San Antonio, the POD experience is largely unchanged.

Community Programs and Initiatives:

You mentioned your involvement in several community programs. Could you share more about these initiatives and how they reflect your brand's values and commitment to the communities you serve?

Rural health is a major issue in our healthcare system. Rural hospitals are struggling to remain financially viable with the traditional healthcare models of the past 100 years. Our product will play a major role in increasing access to care for those in rural areas as well as increasing the reach of providers who don't live in those rural locales.

What impact have your community programs had on the local areas where your concept operates? Are there any specific success stories or memorable moments you'd like to share?

We have a location where people save on average 3 hours in travel per trip to the POD. This increases their likelihood to receive and participate in preventative care. This thereby decreases the likelihood of preventable catastrophic outcomes. Diabetics are better managed, hypertension is better controlled, stroke and heart attack risks go down. Secondly, we have significantly reduced the cost to access a Provider. There are no hidden fees or surprise bills. The transparency is a breath of fresh air.

How do you integrate community engagement into your overall business strategy?

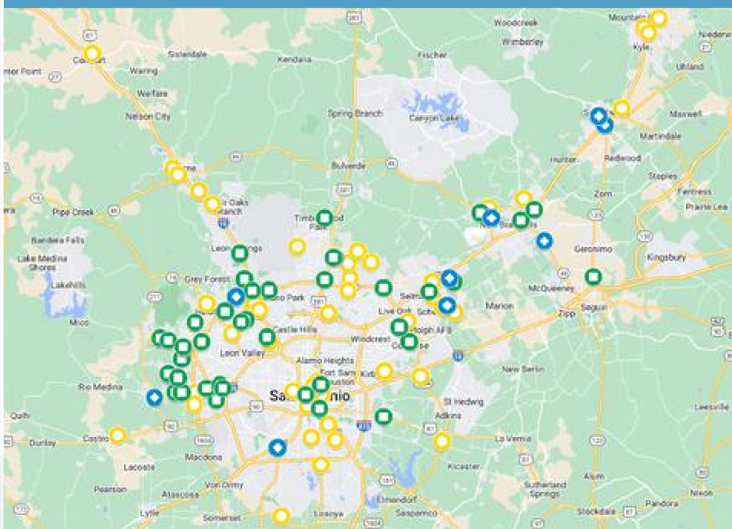
We try to be very engaged with the community. The more we can normalize wellness and seeking care the more that those who are resistant to seeking it might consider doing so. Sponsoring events at schools, daycares, doing free safety talks on disease and injury, are just a few examples.

Looking ahead, what do you envision for the future of your concept, both in terms of expansion and community involvement?

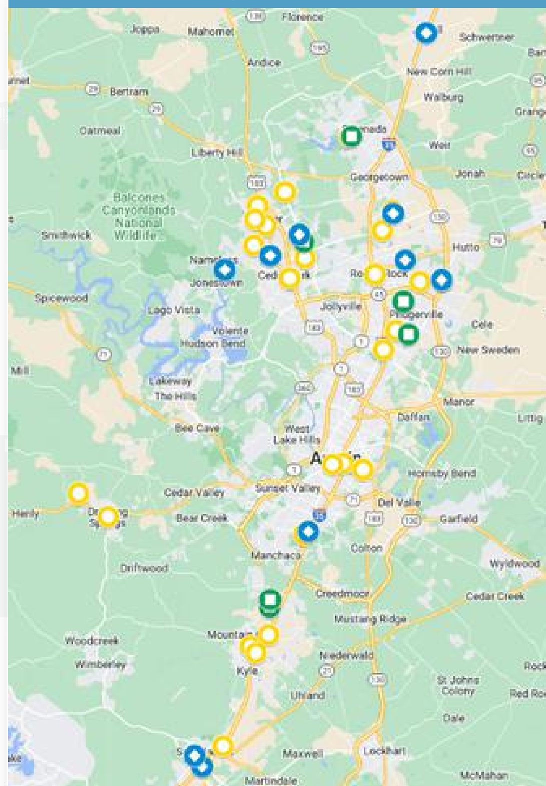
I believe our product will decentralize the primary care concept. We will also remove the fabricated delineation of primary care and urgent care. We will deliver broad spectrum care that you can coordinate with your natural life patterns. Patients will be able to see their PCP while grabbing groceries or even out of town; they will be in charge. We hope to make the feelings of helplessness and lack of agency experienced in today's care system a distant memory.

New Retail Developments

SAN ANTONIO / NEW BRAUNFELS



AUSTIN / SAN MARCOS



LEGEND

- Proposed / Preleasing
- Under Construction
- Delivered in 2023-2024

Source: Foresite Research Services

CONSTRUCTION COSTS INCREASING

Construction material costs have surged, marking the fifth consecutive month of increases. The non-seasonally adjusted index for construction materials rose by 0.21% in March, following a 0.54% increase in February and a significant 1.25% increase in January 2024. The prices are up 1.7% on a year-over-year basis.

This trend impacts both affordability and the pace of new constructions. Higher material costs are likely to slow down new projects and could contribute to higher prices in the real estate market.

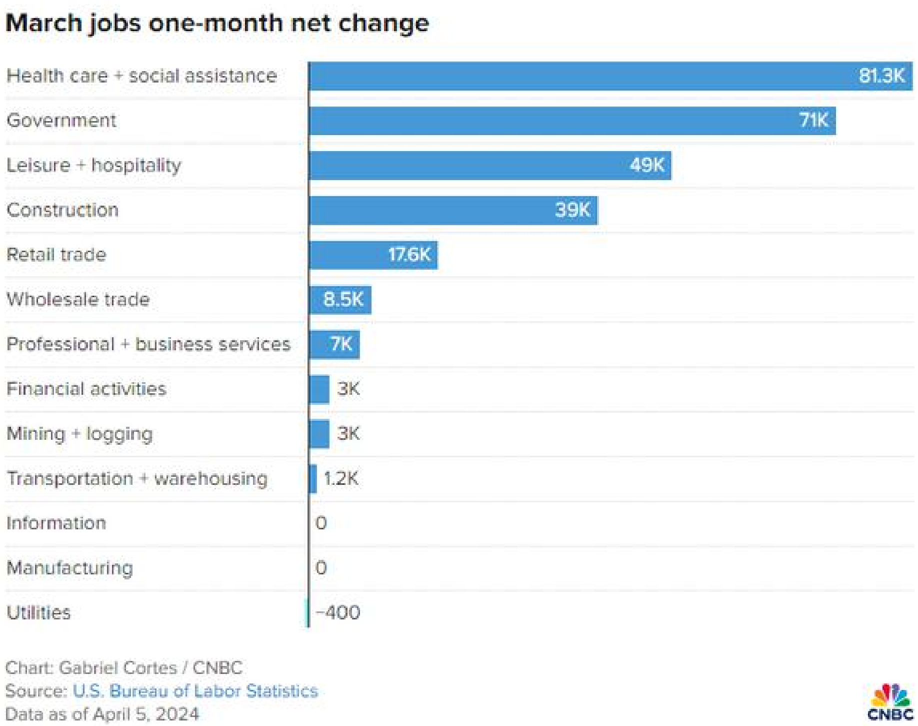
The repeated price hikes are largely due to persistent supply chain disruptions. These disruptions, along with inflationary pressures, are major contributors to the ongoing rise in material costs, affecting the overall stability of the real estate investment landscape.

Source: US Bureau of Labor Statistics

THE STATE OF UNEMPLOYMENT

*MARCH 2024

RESILIENT LABOR MARKET WAGE GROWTH ENDURING



U.S. employment increased by 303,000 jobs in March. The unemployment rate has been in a narrow range of 3.7 to 3.9 percent since August 2023. The labor market remains strong and is showing some signs that growth is moderating.

The increase in employment was led by the health care sector, which added 72,000 jobs. Employment in government followed, with 71,000 positions created. Construction doubled the average monthly gain of 19,000 and added 39,000 jobs in March.

The March report shows that job growth is holding steady rather than slowing down like many economists had predicted. The strong report has increased confidence among economists that the economy is healthy and provides a solid foundation for continued economic expansion despite headwinds such as inflationary pressures and geopolitical uncertainties.

Unemployment Rate

3.8%	3.9%	3.5%	4.1%
United States	Texas	Austin	San Antonio

The national unemployment rate remained steady at 3.8 percent, continuing a period of strong job growth. Wage growth is slowing but has continued to increase – earned wages were reported to be up 4.1 percent over the past year.

STATISTICS FOR TEXAS

Texas led the nation with the largest year-over-year increase in total nonfarm employment, which grew by 270,700 jobs from March 2023 to March 2024. This represents a 2.0 percent annual growth rate in Texas, which outpaced the U.S. growth rate by 0.1%.

The unemployment rate held steady at 4.1%, a marginal increase from 4.0% a year ago, and slightly higher than the nation's 3.9 percent.

TEXAS EMPLOYMENT

Texas leads the nation in year-over-year job growth

14,590,800

Texans Working (including Self-employed)
New High for Texas

15,189,900

Texas reaches a new high with the largest labor force ever in the state's history

270,700

Texas Jobs Added (The Most in the Nation)
From March 2023 - March 2024

14,115,700

Texas reaches a new high for total jobs after adding 19,100 non-farm jobs in March

45 of 47 months

March marked job growth in Texas for 45 of the last 47 months

Leisure & Hospitality

Had largest over-the-month addition of jobs

Source: Texas Workforce Commission

California 1031 Buyers Dethroned by Mexican Nationals as the Highest Bidder

BY CHAD KNIBBE, CCIM

Chad Knibbe is Co-Owner of Foresite Commercial Real Estate and founded its Investment Sales division.

The Strength of the Peso and its Impact on San Antonio's Investment Properties.

In the past, the California 1031 buyers and "top of the market bidders" were synonymous. They have since been dethroned and the Mexican investor has taken their place.

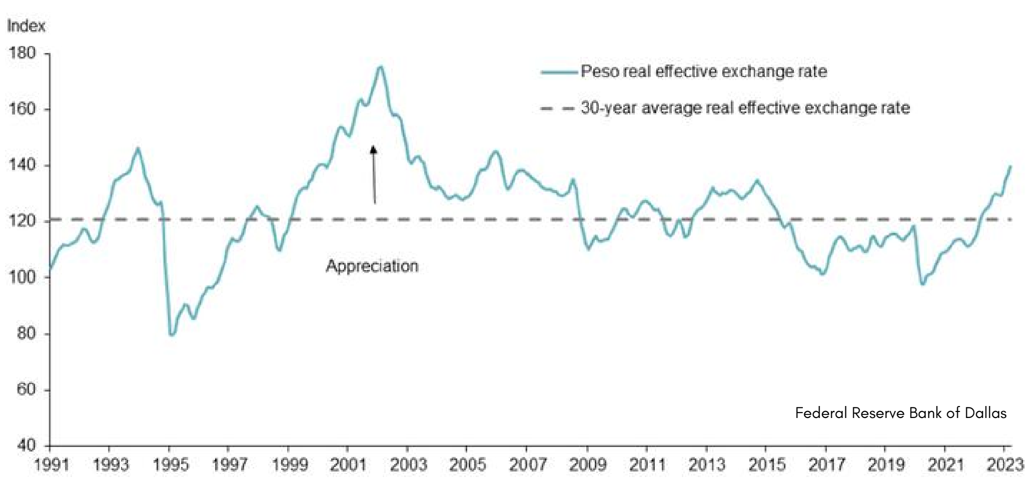
The strength of the Mexican Peso hit an all time high since 2015. This essentially places U.S. real estate "on sale" for Mexican investors and the market is reflecting the effects of this almost 20% discount.

Several notable properties traded recently to Mexico based groups who purchased the assets all cash and later placed debt. This is in spite of the fact that the Mexican treasuries are offering considerably higher returns (currently around 11%) than the U.S..

Mexican Buyers have indicated diversification and long-term appreciation as the primary motivator in investing outside of Mexico, and Texas' proximity and economic stability have made it an ideal landing spot for those investment funds.

Will the trend continue? Perhaps. Even before the favorable currency market, the investment sales market in Texas has benefited from Mexican Buyers. Nearshoring of manufacturing has bolstered the Peso and Mexican economy and many analysts believe this trend will continue.

For the investment sales teams based in Texas, this is good news but requires a shift in marketing strategy for targeting the highest bidders for our Texas-based assets.



Peso's real exchange rate rises above historical average

NOTES: The peso's real effective exchange rate (REER) data are through May 2022. REER is a weighted average for 111 countries. REER has been inverted, and an increase in the real exchange rate index represents a real appreciation of the currency.
SOURCE: Banco de Mexico

Retail Sales

NATIONAL TRENDS

Consumer spending continued to grow in seven of the past ten months through March, and March sales significantly beat expectations. Despite inflationary pressures resulting in higher prices and dwindling household savings accounts, consumers are still spending their discretionary funds.

The job market remains healthy, which is a key driver behind the strong spending growth. US unemployment has stayed below 4% for over a year and while annual wage growth is slowing, it is still beating inflation.

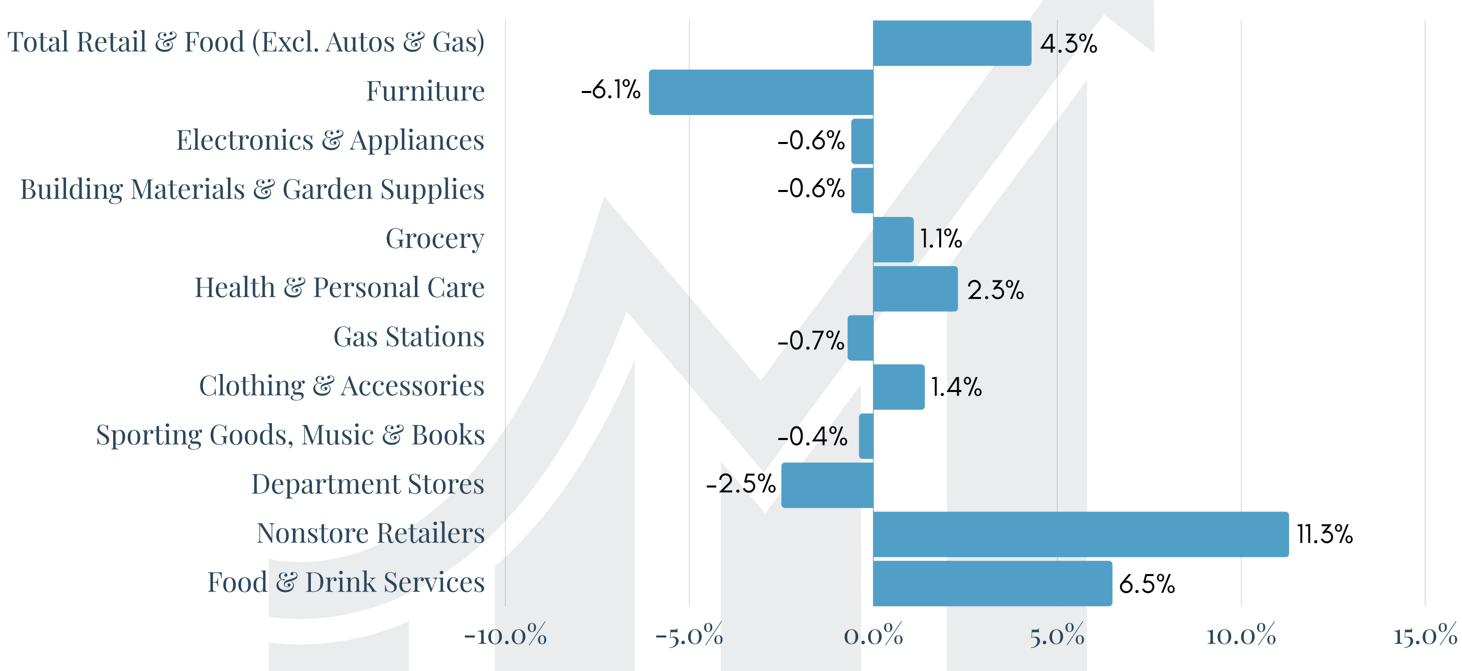
Overall, the US economy is expected to continue to grow in 2024. Strong consumer spending is a positive indicator that the economic growth is continuing to show momentum despite high inflation. The retail report combined with the strong jobs report has some analysts forecasting the first rate cut to be later than previously expected.

> March's Census Bureau numbers confirm that **consumer spending remains steady, underscoring a resilient consumer despite inflationary pressure.** While sales were mixed, several factors supported retail sales including an early Easter holiday, slightly larger 2023 tax refunds and stronger payroll growth over the last three months.
>
> Nonetheless, the increasing share of consumer spending going to services as prices for services rise remains a stubborn problem because it leaves less household income available to spend on retail goods.
>
> **The National Retail Federation**
> **Chief Economist Jack Kleinhenz**

- Total U.S. Retail Sales for the month of March were up 4% year over year.
- Month over month, March sales were up 0.7% from February.
- Total sales for the January through March period were up 2.1% year over year.

March 2023 - March 2024

YEAR OVER YEAR RETAIL SALES GROWTH



Key Indicators

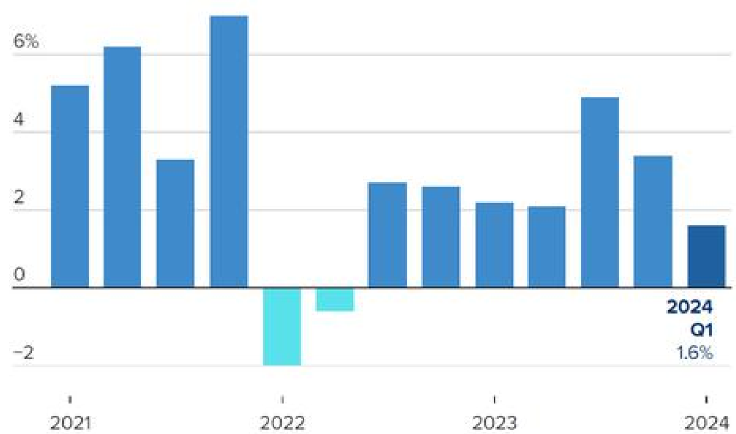
GROSS DOMESTIC PRODUCT

The U.S. Economy grew at a slower rate than expected in the first quarter. GDP grew by only 1.6% annually in Q1 2024, significantly below the expected 2.4%. The forecast for the U.S. economy points to a slowdown but not a recession. A "soft landing" is anticipated, with slow growth and moderating inflation through the year.

Consumer spending, as measured by personal consumption expenditures, grew 2.5% in the first three months of 2024. Spending patterns changed during the quarter. Spending on goods declined 0.4%, in large part to a 1.2% decrease in bigger-ticket purchases for long-lasting items classified as durable goods. Services spending increased 4%, its highest quarterly level since the third quarter of 2021.

U.S. REAL GROSS DOMESTIC PRODUCT

Percent change from previous quarter



Note: Seasonally adjusted annual rate

Source: U.S. Bureau of Economic Analysis via FRED

CONSUMER PRICE INDEX

Inflation remains stubbornly high at 3.7%, despite the Federal Reserve's target of 2%. Because the inflation has been so persistent, the Fed is postponing any rate cuts until the second half of the year. However, interest rates are predicted to ease by the end of 2024.

U.S. CONSUMER PRICE INDEX

Year-over-year percent change January 2021 – March 2024

Source: U.S. Bureau of Labor Statistics

Inflation is being held high by the cost of shelter. “Despite progress having stalled, broader evidence doesn’t suggest a renewed surge in inflation — though it may take longer than expected to bring the rate back to target. In fact, underlying inflation after stripping out shelter costs is already back to target” said Mark Zandi, chief economist at Moody’s Analytics.

Index Rates

INDEX RATES
MARCH 2024

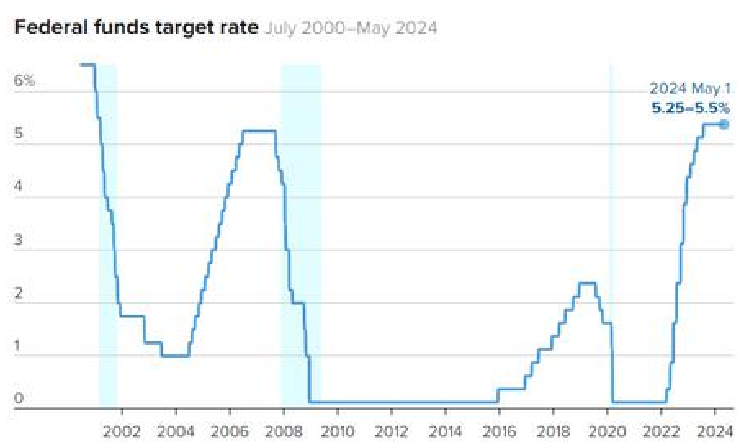
4.21% 5- YEAR TREASURY	**5.32%** 30 DAY AVG SOFR
4.22% 10- YEAR TREASURY	**4.31%** 10-YEAR SWAP

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

THE FED

At the beginning of the year, about 9 in 10 economists had forecast that the Fed would begin to lower interest rates at the May 1 meeting. Yet shifting economic winds and stubbornly high inflation have complicated policy makers' plans. The federal funds rate has been between 5.25%-5.50% since July 2023, when the Fed last hiked rates to the highest level in more than two decades. The Fed is now likely to hold off on cutting rates until the second half of 2024. Despite the Fed forecasting three rate cuts in 2024, economists now forecast just one rate cut for the year.



COMMERCIAL - LIFE COMPANIES

TERM	AMORTIZATION	LTV	SPREAD	RATE
5 - YEAR	25-30	65% - 75%	160-220	5.80%-6.40%
10 - YEAR	25-30	50% - 65%	150-190	5.70%-6.10%
10 - YEAR	25-30	65% - 75%	160-220	5.80%-6.40%
15 - YEAR	25-30	65% - 75%	160-220	5.85%-6.45%
15-20 YEAR	Fully Amortizing	65% - 75%	160-220	5.80%-6.40%

COMMERCIAL - CMBS

TERM	AMORTIZATION	LTV	SPREAD	RATE
5 - YEAR	30	65% - 75%	275-325	7.05%-7.55%
10 - YEAR	30	65% - 75%	235-285	6.65%-7.15%

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 / Associate VP

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.

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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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Investment Sales Associate

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

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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.

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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.

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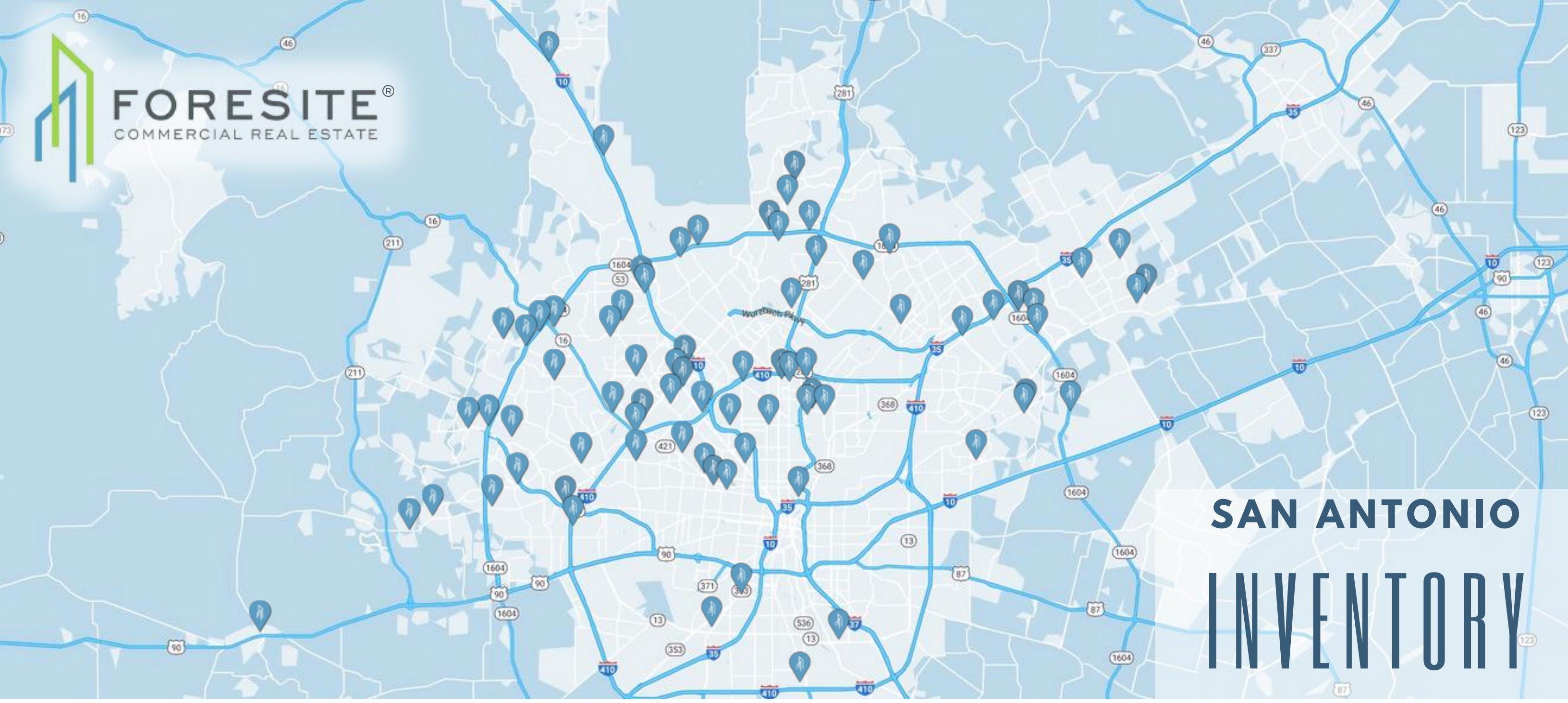

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COMMERCIAL REAL ESTATE

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INVENTORY

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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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