



AUSTIN & SAN ANTONIO

RETAIL MARKET OVERVIEW

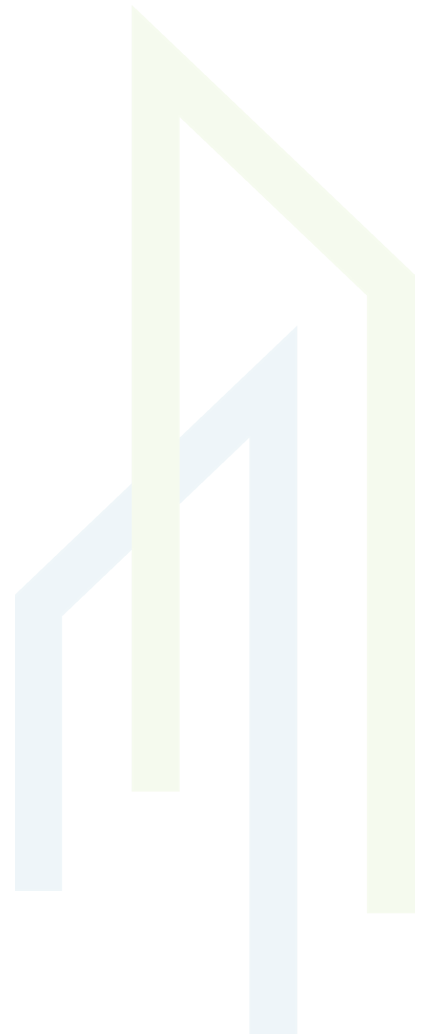
Prepared by Foresite Research Services

Q2 2021



TABLE OF CONTENTS

EXECUTIVE SUMMARY	3
ON THE MARKET	4
RETAIL CENTER SALES	6
LEASING ACTIVITY	7
NEW RETAIL DEVELOPMENTS	9
TEXAS OUTLOOK	10
LABOR MARKET	11
RETAIL SALES	12
CONSUMER PRICE INDEX	13
INFLATION	14



AUTHOR

Alexandria Tatem

Head of Research

210.816.2734

atatem@foresitecre.com



VISIT OUR BLOG
WWW.FORESITECRE.COM/BLOG

EXECUTIVE SUMMARY

ON THE MARKET

- 61 properties were publicly marketed this quarter, up from 44 properties at the end of Q1.
- 17 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 14 basis points from the previous quarter.
- The average cap rate for all product sizes in Austin is 6.52%, comparable to the previous quarter.

LEASING AND VACANCY

- The average vacancy rate in San Antonio is 5.90%, up 60 basis points from the same period last year.
- The average vacancy rate in Austin is 4.60%, up 40 basis points from the same period last year.
- The average asking rental rate decreased by \$1.04 in Austin and increased by \$0.26 in San Antonio quarter over quarter.

CONSTRUCTION AND NEW DEVELOPMENTS

- Construction costs are still high, but beginning to come back down. Economists forecast that costs will remain higher than 2019 prices, but overall costs should level out in 2022.
- San Antonio has about 900,554 square feet of retail space currently under construction.
- Austin has about 649,000 square feet of retail space currently under construction.

TEXAS LABOR MARKET

- The unemployment rate for San Antonio and Austin ticked up slightly from May to June but remained the same for the state of Texas.
- There have been 450,000 new business applications filed this year, 90% higher than the pre-pandemic average.

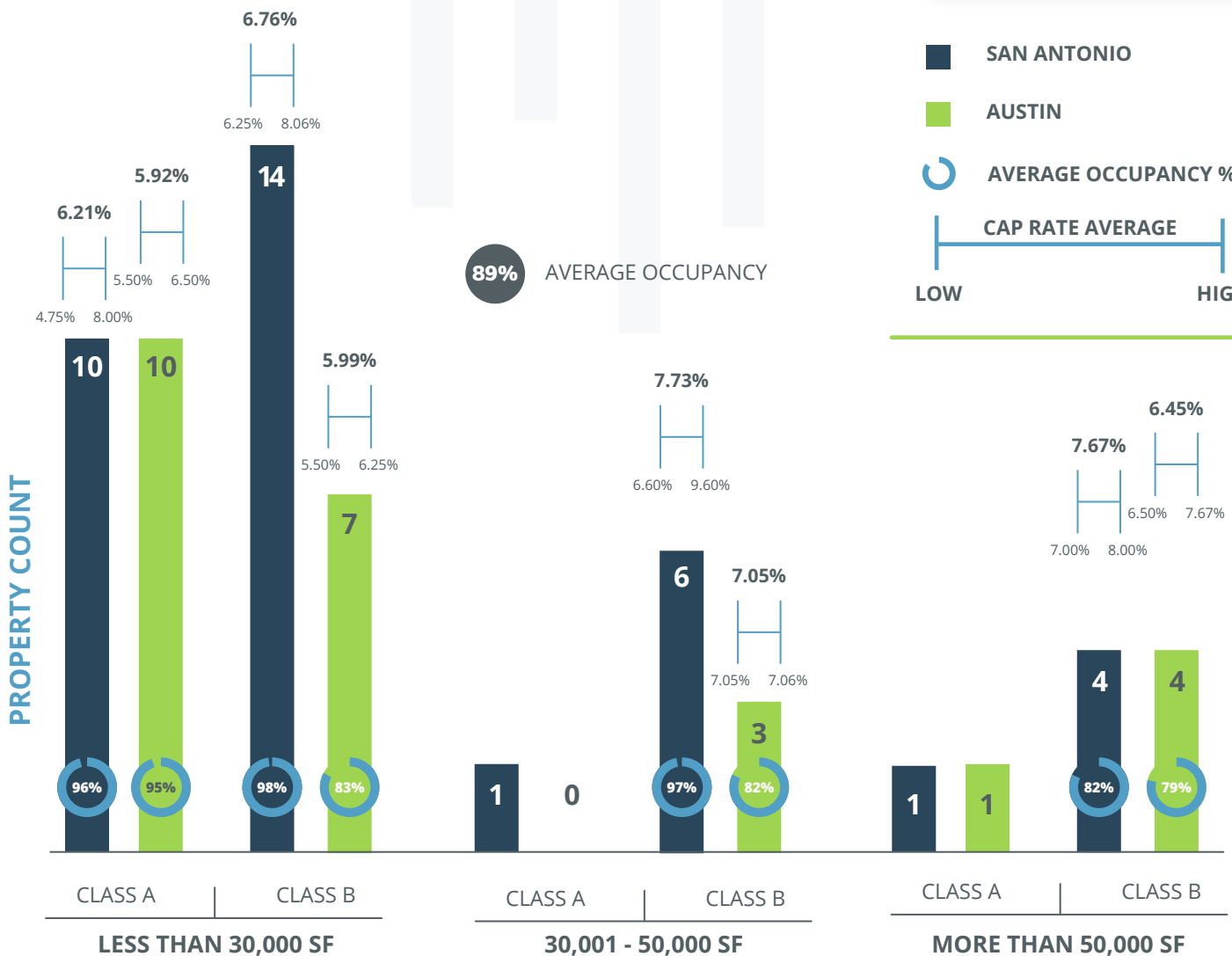
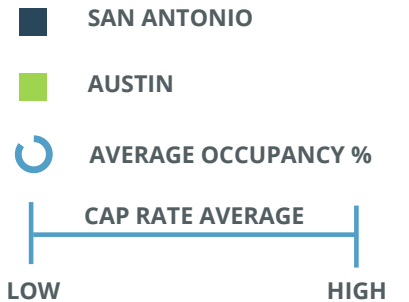
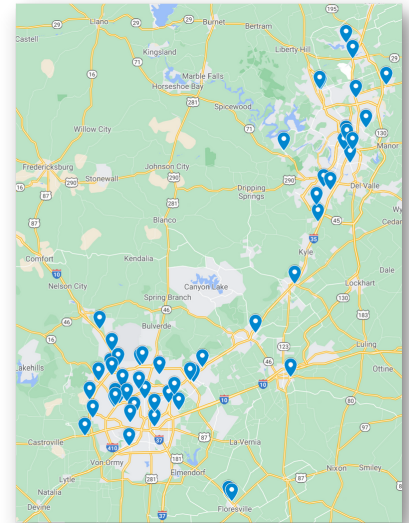
RETAIL SALES

- Total sales for the April to June 2021 period were 31.5 percent higher than the same period a year ago.
- There was an 18% year over year increase for the month of June.
- E-Commerce sales grew 6% year over year and 44% from 2019.



ON THE MARKET

- The dataset displayed below consists of **Class A and B retail centers that were publicly listed for sale** during the second quarter of 2021.
- Out of the 61 properties, **17 new listings** came to market during the quarter, 7 went under contract, 6 reduced the listed price, and **8 sold**.
- San Antonio's average multi-tenant retail asking cap rate** for all product sizes is **7.12%**, up 14 basis points from the previous quarter.
- The **average cap rate for all product sizes in Austin is 6.52%**, comparable to the previous quarter.



Source: Foresite Research Services

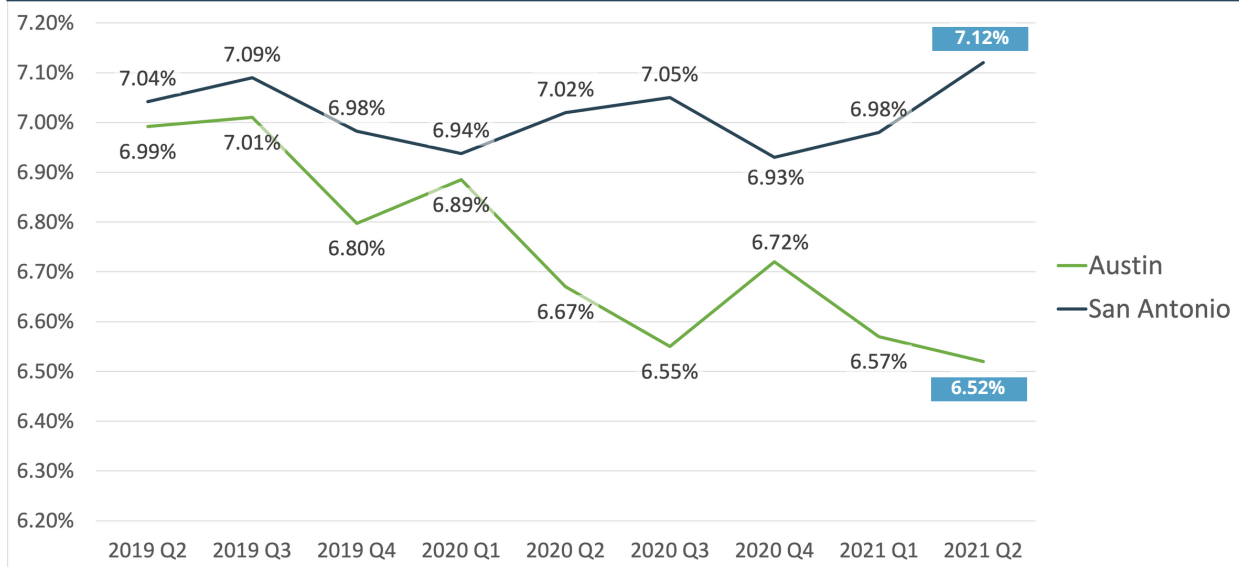
ON THE MARKET

CURRENT TRENDS

- The average asking cap rates for **Class A** shopping centers in **San Antonio** is **6.78%**. The average for **Class B** is **7.41%**.
- The average asking cap rates for **Class A** shopping centers in **Austin** is **6.45%**. The average for **Class B** is **6.71%**.

	SATX	ATX
# of Listings	35	24
Avg Cap Rate Under 30K SF	6.49%	5.96%
Avg Cap Rate Over 30K SF	7.74%	7.07%
Average Occupancy	93.25%	89.29%

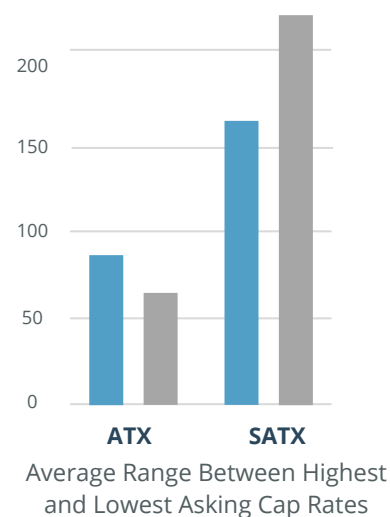
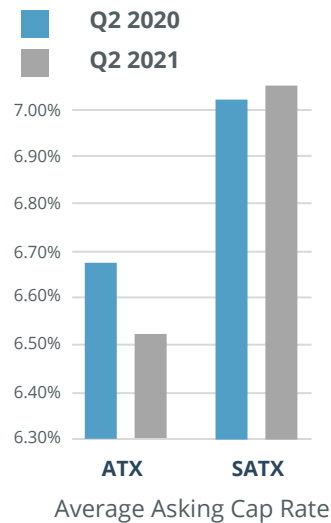
AVERAGE STARTING ASKING PRICE



YEAR OVER YEAR TRENDS

	Q2 2020	Q2 2021
Class A & B Centers	45	61
New Listings	5	17
Went Under Contract	6	7
Reduced Price	6	6
Sold	8	8

*San Antonio & Austin Markets Combined



RETAIL CENTER SALES

TRAILING 12 MONTHS - SAMPLE OF 50 PROPERTIES

LESS THAN \$5M	AVG CAP RATE		AVG \$/SF		AVG OCCUPANCY	
	2020	2021	2020	2021	2020	2021
SAN ANTONIO	7.21%	6.88%	\$216	\$281	87%	89%
AUSTIN	6.95%	6.47%	\$247	\$318	91%	100%

MORE THAN \$5M	AVG CAP RATE		AVG \$/SF		AVG OCCUPANCY	
	2020	2021	2020	2021	2020	2021
SAN ANTONIO	7.62%	7.04%	\$227	\$287	94%	95%
AUSTIN	7.03%	6.68%	\$243	\$353	93%	99%

SALES TRENDS

- National Commercial Real Estate **transaction volume started the year at a 58% decrease** in year-over-year transaction volume in January.
- According to Real Capital Analytics, **pricing remained stable** despite the decrease in transaction volumes.
- Commercial real estate **activity has been increasing during the first half of 2021**, although still lower than pre-covid volume.
- March deal volume increased 11% versus March 2020, but **deal activity for the first quarter in total was 30% lower compared to Q1 2020**.

Source: Real Capital Analytics

FOREIGN INVESTMENT

- According to a survey from the Association of Foreign Investors in Real Estate (AFIRE), **Austin is a top U.S. target for international investments in 2021**.
- 30 percent of all respondents cited Austin as a top three market for planned investment this year.** Austin tied with Boston for the top spot for investors.
- Austin was the first tertiary city to ever place first on the list**, a survey that has been conducted annually for 30 years.

“

“Austin, Boston, and Dallas — tertiary, primary, and secondary cities, respectively — are the **top three US cities for planned investment in 2021**. This is the first time a tertiary city has ever topped the AFIRE survey.”

AFIRE International Investor Survey, 2021

”

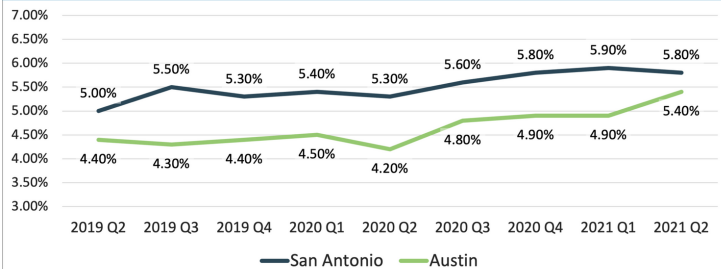
SAN ANTONIO & AUSTIN ARE EXPANDING MARKETS

The characteristics of expanding markets are:

- Decreasing Vacancy Rates
- Moderate/High New Construction
- High Absorption
- Moderate/High Employment Growth
- Med/High Rental Rate Growth

LEASING ACTIVITY

AVERAGE RETAIL VACANCY RATE



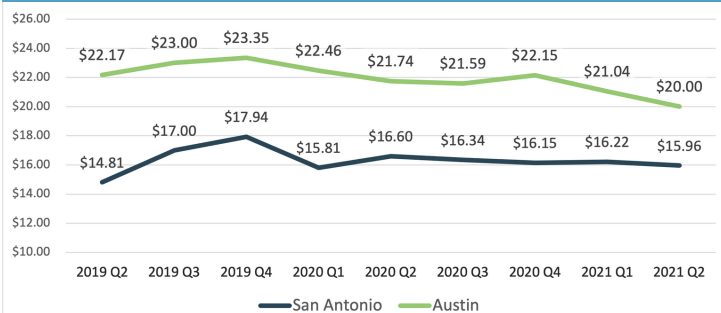
5.8%

SAN ANTONIO

5.4%

AUSTIN

AVERAGE RETAIL ASKING RENT



\$15.96

SAN ANTONIO

\$20.00

AUSTIN

Absorption

The **Austin** retail market leasing activity has recorded approximately **1,100,000 square feet of both new leases and renewals** for the first half of 2021, comparable to leasing activity from one year ago.

The **San Antonio** retail market leasing activity has recorded approximately **500,000 square feet of both new leases and renewals**, down 15% compared to leasing activity from one year ago.

“

“Net absorption of retail space is starting to trend positive again, with gains almost comparable to one year ago.”

Alexandria Tatem
 Foresite Head of Research

”

LEASING TRENDS

- **Short-term leases** are being offered in many strip centers.
- The **demand for end-cap spaces with drive-thrus is high** and there is not much inventory available.
- Landlords favor **trading tenant improvement allowance for more free rent** at the beginning of the lease.
- Demand for **first generation space** is starting to come back.

LEASING ACTIVITY

Online Concepts Expanding into Brick and Mortar



The RealReal is the world's largest online marketplace for secondhand luxury goods. The retailer was founded in 2011 and opened their first physical store in 2017. **So far in 2021, the brand has opened five new locations, including one in Austin and one in Dallas**, and currently operates ten locations. The brand will continue to add additional "neighborhood stores" in affluent communities.



Untuckit is a men's business casual clothing line that was founded in 2011. The company opened their first physical store in 2015 and currently has 86 locations. **The company recently closed on a \$30 million dollar loan that they will use to continue their brick and mortar expansion.**



Tecovas is a handmade western boot retailer, founded in 2015. **The Austin-based company opened their first physical location in 2019, now has 15 stores and plans to open 10-12 more.** The model is direct-to-consumer and sold at wholesale rates. The stores are built for the customer experience, featuring a high end space where customers are offered a complimentary beverage and shoe shine.



Warby Parker, online glasses retailer, was founded in 2010 and opened their first physical store in 2013. Their model allowed customers to select five frames from their online store to try on at home, or upload a photo into their app where customers can try on the frames virtually. **Even though more revenues are being made online, the brand plans to open 35 new stores in 2021.**

TRENDS WE'RE SEEING

Many retailers that started as a digital brand have opened stores and found that **having physical locations raised revenue and brand loyalty.**

Consumers spend significantly more on average when they shop in-person rather than online.

Pure-play online retailers with no physical stores only account for 5% of total US retail sales, and multi-channel retailers make up an additional 5%.

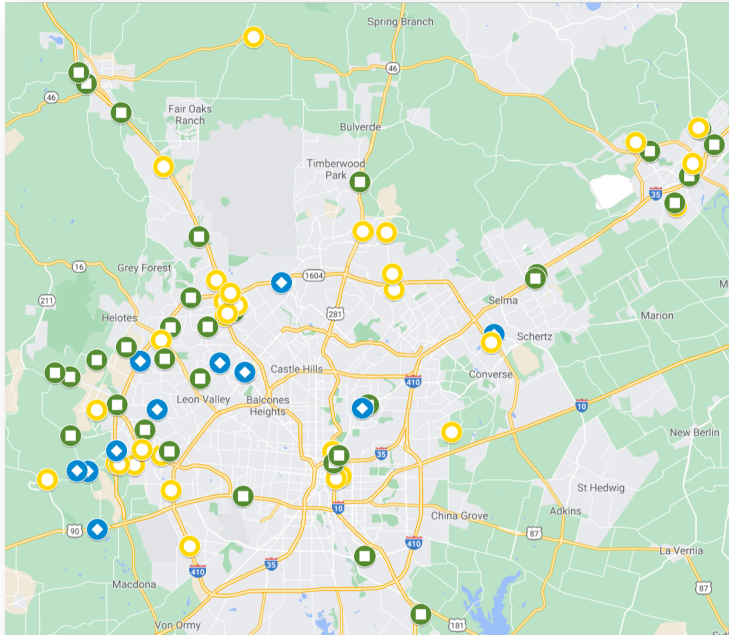
That means **90% of retail sales are still happening at physical stores.**

Customers look forward to the in-store experience. They like to view, touch, and interact with the products and enjoy the option to discuss the products with a salesperson.

Retailers have found that an **omni-channel approach increases brand awareness**, creates an integrated customer experience, and maximizes sales revenue.

NEW RETAIL DEVELOPMENTS

SAN ANTONIO / NEW BRAUNFELS

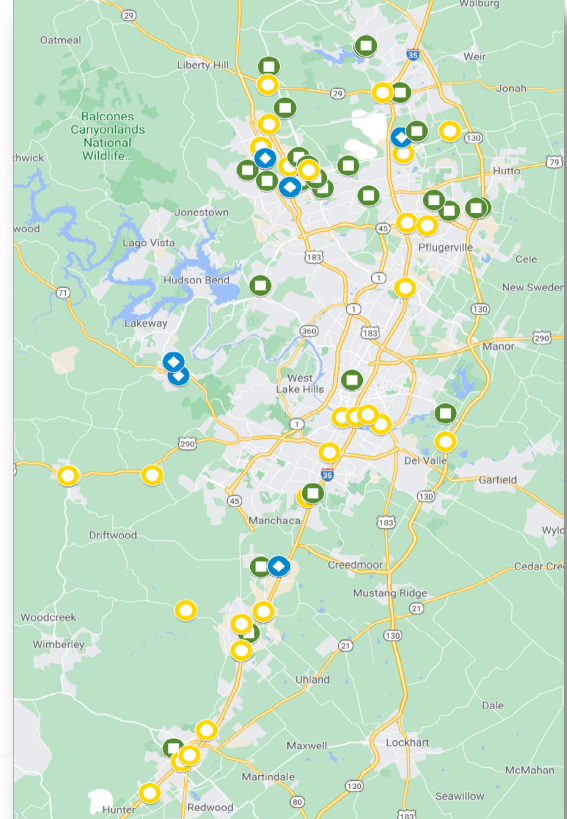


- Under Construction
- Proposed Preleasing
- ◆ Delivered in the last 6 months

LEGEND

- **San Antonio has about 900,554 square feet of retail space currently under construction**, down from 1,100,000 square feet a year ago.
- The availability rate is 33%. There has been 77,445 square feet delivered this quarter. **80% of that space is currently occupied.**

AUSTIN / SAN MARCOS



Source: Foresite Research Services

- **Austin has about 649,000 square feet of retail space currently under construction**, down from 1,500,000 square feet a year ago.
- The availability rate is 29%. There has been 130,282 square feet delivered this quarter. **59% of that space is currently occupied.**



**Average Asking Rent for
New Retail Centers**

\$29.72 / SF / Year

SATX & ATX in-line, small shop space

TEXAS OUTLOOK

BEST STATE FOR BUSINESS

- Texas was named the best state for business by the nation's leading CEOs in an annual survey conducted by Chief Executive Magazine.
- The rankings are determined by the CEO's assessments of each state's business climate, workforce, and quality of life.
- **Texas has secured the top spot each year since the ranking's inception 17 years ago.**

MONTHLY BUSINESS APPLICATIONS

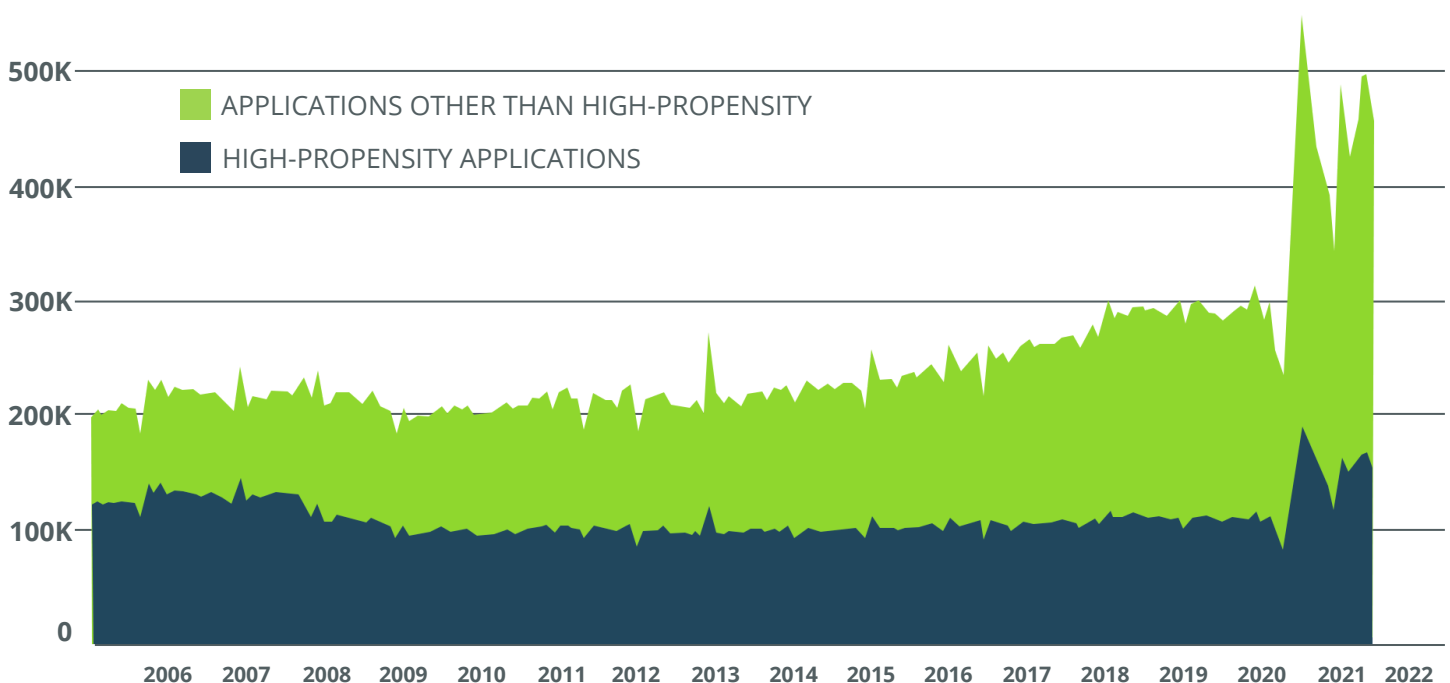
- A notable increase of new businesses being started are considered high-propensity applications, meaning the business is likely to have employees.
- High-propensity applications are up 15.5 percent from 2019 and are particularly important because they represent businesses that are most likely to lead to lasting job growth and innovation.
- **Small businesses employ about half of the workforce** and according to ICSC, 70% of shopping center tenants are small businesses.
- Small businesses created 10.5 million net new jobs between 2000 and 2019, accounting for 65.1% of net new jobs created since 2000, according to the Bureau of Labor Statistics

Rise of the Self Employed

The rise in unemployment claims is surprising considering other economic indicators are improving substantially as vaccination rates increase.

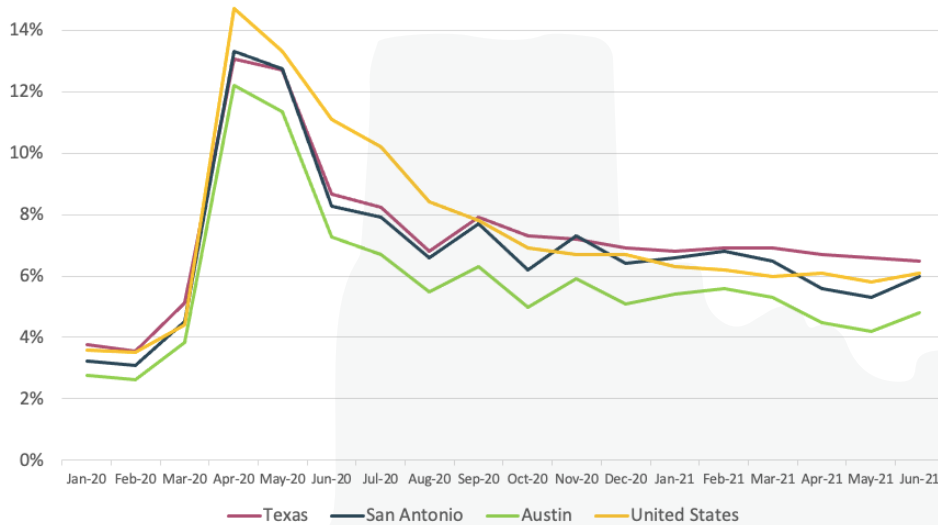
During the first quarter of 2021, 450,000 new business applications were filed with the government, nearly double the pre-COVID monthly average.

Since July 2020, the monthly average for new business applications has been 90 percent higher than the pre-pandemic average from 2004 to February 2020.



LABOR MARKET

UNEMPLOYMENT RATES



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

5.9%

UNITED STATES

6.5%

TEXAS

6.0%

SAN ANTONIO

4.8%

AUSTIN

JOBS REPORT

- Forecasting the rate of economic recovery after the Covid-19 pandemic has proven to be a challenge. At the beginning of the year, many economists cited the third quarter as their forecast for a period of strong growth, but now are pushing the date to September. **The first half of the year has sustained constrained growth and economists expect strong economic reports to show a steady recovery to wrap up the year.** The jobs report reflects a slow opening of the US economy, and there are several factors that contribute.
- Many economists expect the labor force participation rate to increase in the fall when schools reopen and children are able to return to in-class learning.** The vaccine brings hope to improved public health conditions and some are waiting until the majority of the population is vaccinated to return to work. Extended unemployment benefits are allowing people to hold out for something better or something remote, which is extremely popular among job seekers right now.
- The job reports have shown an improvement in employment rates over the second quarter.** Job creation doubled in May from the previous month and continued its growth in June, but the total employment level remains 7.13 million below where it was in February 2020. More than 22 million Americans lost their jobs in March and April due to the pandemic and government-imposed restrictions. The Congressional Budget Office forecasts that the economy is on track to recover all the jobs lost in the pandemic by mid-2022.

“

We will need to keep up this tempo for quite some time to get back to a semblance of the pre-pandemic labor market.

NICK BUNKER

Indeed

Economic Research Director

”

RETAIL SALES

NATIONAL TRENDS

- Total U.S. Retail Sales for the month of June were **18% above June 2020 and 26.8% above June 2019**. E-Commerce sales grew 6% year over year and 44% from 2019.
- Month over month, May's sales were down 1.3% from April and June's sales were 0.6% higher than May. **Total sales for the second quarter were up 31.5% year over year.**
- Clothing and accessories sales were up 47.1% year over year and **restaurants and bars were up 40.2%.**
- According to Bank of America, **spending on clothing is 35% greater than it was two years ago.**
- The main reason **people are updating their wardrobes is because their clothes simply don't fit.**
 A Harris Poll survey found that 61% of US adults' weight fluctuated in the past year, with an average weight gain of 29 pounds among those that put on weight.

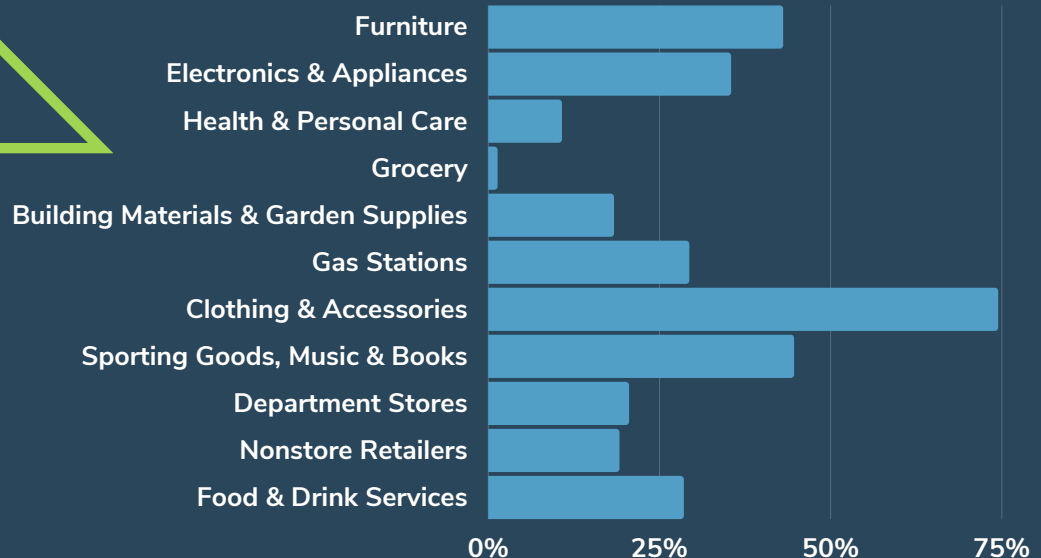
Summer Outlook

Economists and consumers alike are feeling optimistic about the summer.

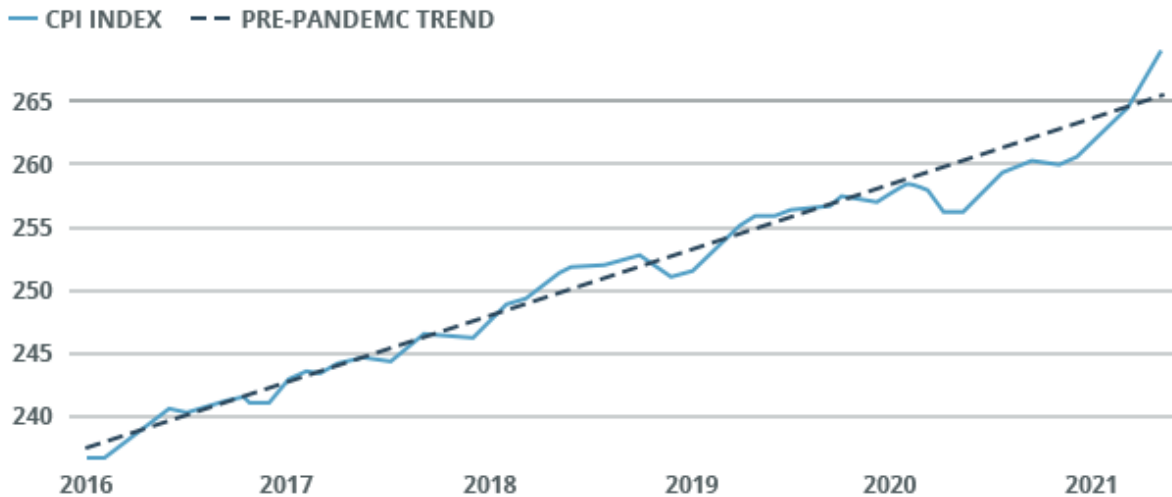
After a year of restricted spending and the record high personal savings rate, consumer spending on goods and services have exceeded pre-pandemic levels.

Overall consumer spending is estimated to grow 9% this year, the fastest rate since 1946.

YEAR OVER YEAR US RETAIL SALES GROWTH



CONSUMER PRICE INDEX



The latest Consumer Price Index (CPI) rose by 0.6% in May and 5% over the last twelve months. This increase is a lot higher than normal, and it is partly due to the major price declines a year ago. When the pandemic started, many prices fell including airfare, hotel rooms, and rental cars. The increasing consumer demand for travel, dining out, and shopping has put upward pressure on pricing. **Treasury Secretary Janet Yellen says she's watching the inflation situation, but not too concerned that prices will continue to increase.**

FED PREDICTIONS

- During its June meeting, the Federal Reserve indicated signs of economic recovery, kept the federal funds rate near zero, and touted their confidence in the upcoming economic rebound. **Fed policymakers suggested that they expect to raise interest rates sooner than previously forecasted.**
- They will likely make two interest rate increases by the end of 2023, and predict that rates will rise to an average 0.6 percent, up from 0.1 percent currently. This change in tone by the Fed comes after recent releases of **economic data signal that growth will be stronger in the second half of 2021, and expect inflation to average 3.4 percent in the final quarter of the year.**
- They expect that rising inflation will be temporary and will fall to 2.1 percent next year and 2.2 percent in 2023.
- The Federal Reserve has two mandates: maintaining maximum employment and keeping core price inflation stable at around 2%.
- The jobs reports from the second quarter show that employers are hiring more slowly than they were earlier in the year, and inflationary pressure is coming in faster than officials expected. **Officials maintain that they want to see the job market back at full strength and inflation on track to average 2 percent for several quarters before they will raise interest rates.**
- So while the Fed acknowledges that the economy hasn't improved to the level they expected by now, the change in tone during the June meeting demonstrates their **increasing confidence that the economy will quickly rebound from the pandemic.**

INFLATION RATE

TEMPORARY SURGE

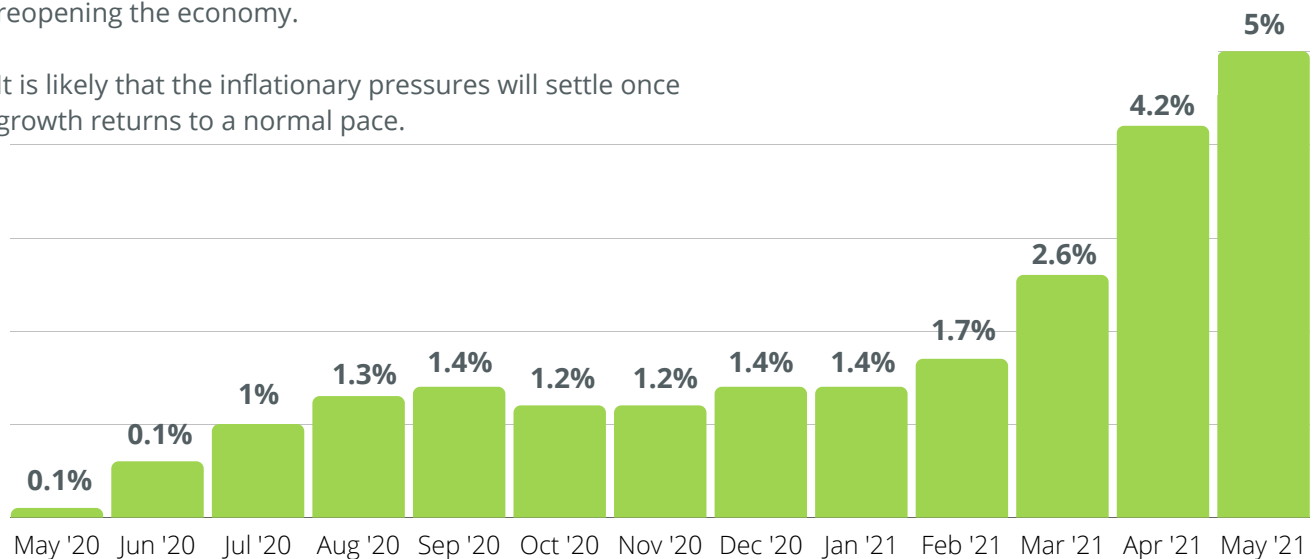
- Inflation in the United States has averaged less than 2 percent over the last few years, which has required **the Fed to maintain its policy of near zero interest rates.**
- The low interest rate helped to keep unemployment low, and when the pandemic hit, it allowed the government to **borrow trillions of dollars at very low interest rates** to keep the economy afloat.
- **The current surge in prices is argued to be temporary** due to the acceleration in economic growth caused by reopening the economy.
- It is likely that the inflationary pressures will settle once growth returns to a normal pace.

“

The current burst of inflation we've seen reflects the difficulties of reopening an economy that's been shut down,

JANET YELLEN
Treasury Secretary

”



INDEX RATES 3-Year Comparison

5- Year Treasury.....1.73%
10-Year Treasury.....2.15%
1-Month LIBOR.....2.40%
10-Year Swap.....2.17%

JUNE 2019

5- Year Treasury.....0.29%
10-Year Treasury.....0.64%
1-Month LIBOR.....0.19%
10-Year Swap.....0.62%

JUNE 2020

5- Year Treasury.....0.78%
10-Year Treasury.....1.49%
1-Month LIBOR.....0.07%
10-Year Swap.....1.46%

JUNE 2021

LOAN RATES Source: NorthMarq

TERM	AMTZ	LTV	SPREAD	RATE
5-Year	25 - 30	65 - 75%	210 - 265	2.90 - 3.45%
10-Year	25 - 30	50 - 65%	130 - 170	2.80 - 3.20%
10-Year	25 - 30	65 - 75%	180 - 225	3.30 - 3.75%
15-Year	15 - 25	65 - 75%	180 - 225	3.35 - 3.80%
Longer	FULL	65 - 75%	180 - 240	3.30 - 3.90%
COMMERCIAL - LIFE COMPANIES				

TERM	AMTZ	LTV	SPREAD	RATE
5-Year	30	65 - 75%	330 - 370	4.10 - 4.50%
10-Year	30	65 - 75%	215 - 255	3.65 - 4.05%
COMMERCIAL- CMBS				

INVESTMENT SALES SPECIALISTS

Experience, focus and creativity is what makes Foresite Investment Sales so unique.

Coming together from large firms to form our team, we offer **decades of experience and a national reach**.

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



Alexandria Tatem

Head of Research / Associate

Alexandria Tatem joined Foresite as an Investment Sales Associate and was quickly promoted to Head of Research. She has a talent for sourcing data and compiling information in challenging markets. Alex is a graduate of the University of Central Arkansas, where she double-majored in Finance and Spanish. Her research has been used in testimonies to the state legislature, year-long studies, and published reports.

ATATEM@FORESITECRE.COM



Craig Hardy

Associate

Craig Hardy is an experienced business professional driven by an ambition to provide the most complete and comprehensive customer service to his clients. In addition to his primary job functions, Craig has been recognized throughout his career as one who is a pleasure to do business with, especially because of his extraordinary commitment to transparency, communication and honesty.

CHARDY@FORESITECRE.COM



Chad Knibbe, CCIM

President / Co - Owner

Chad was a key player in the launching of Foresite in 2014 and later founded the investment sales division of Foresite Commercial Real Estate in 2018. Prior to Foresite, Chad was a Senior Vice President at Marcus & Millichap where he ranked as the #1 retail agent for the central Texas region. He is a graduate of Baylor University and lives in Spring Branch with his wife, three daughters and son.

CKNIBBE@FORESITECRE.COM



Stephen Berchermann

Vice President

Urban Developments / Special Projects

Stephen Berchermann has worked in real estate for more than a decade. Prior to joining Foresite, Stephen worked at Marcus & Millichap as a senior agent and was a member of the #1 retail team in the central Texas Region. He is a member of ICSC and a graduate of St. Mary's University. Stephen lives in San Antonio with his wife and son and two daughters.

SBERCHELMANN@FORESITECRE.COM



10999 IH-10 W. Suite 145
San Antonio, TX 78230



FOLLOW US
@FORESITECRE