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ISSUE 13

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marketwire

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

Where did CAP Rates go in Q3?

San Antonio is one of the most sought after markets, but pressure from interest rates has started to move the needle.

pg. 3

Inverted Yield Curve

How commercial lenders responded to the inverted yield curve and its impact on new construction financing in Texas.

pg. 18

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Foresite Commercial Real Estate
Investment Sales | Leasing |
Property Management

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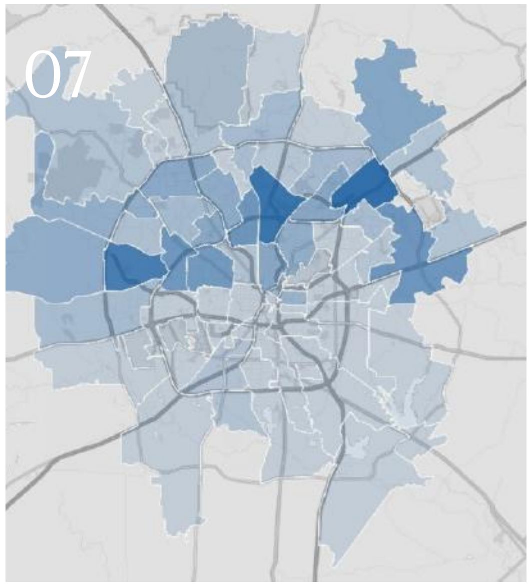


This report contains real data and analytics on the San Antonio and Austin commercial real estate markets covering all metrics of shopping centers and retail buildings, including retail occupancy and cap rates. Sourced from our proprietary extensive research efforts in aggregating hundreds of data points,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

Letter from the editor

THE MARKET IS CHANGING

The Austin and San Antonio retail commercial real estate markets fared well throughout 2022 but entered the final quarter of the year facing economic headwinds. After several quarters of cap rate compression, changes to monetary policies and rising interest rates have started to affect commercial real estate pricing. The strong buyer demand, availability of capital and affordable debt terms allowed sellers to push prices in the first half of the year, but there has been a slowdown in transaction velocity as buyers and sellers reconcile their expectations.

Leasing activity continues to be strong as demand for retail space outpaces supply. Construction levels have slowed in the past two years as supply delays and higher prices made projects less feasible. However, the amount of square footage under construction is starting to inch back up and new shopping center space is becoming available. Rental rates have to increase to cover the new cost to construct the space, and there are fewer second generation spaces available. Additionally, the cost to build out a new location is also pricier than it was in the past.

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

Employers have now replaced all of the 22 million jobs that were lost during the pandemic. The unemployment rate has remained fairly steady throughout 2022, staying in a narrow range of 3.5 percent to 3.7 percent since March. Wage growth has continued to increase and despite inflation, consumers are continuing to shop.

The market shift will create opportunities for buyers and sellers alike. Although cap rate compression might be behind us, the market is still strong. There is still a lot of capital and buyer demand, and many owners have benefitted from the strong leasing market. The low retail vacancy rates and high construction starts are promising indicators for the future value of today's properties.

CURRENT ISSUE'S

KEY POINTS

ON THE MARKET

- 61 class A & B multi-tenant retail properties were publicly marketed this quarter, 20 more than were listed in Q2. There were 50 marketed properties during the same period last year.
- 17 new listings came to market during the quarter.
- San Antonio's average multi-tenant retail asking cap rate for all product sizes is 6.03%, down from 7.00% last year.
- The average cap rate for all product sizes in Austin is 5.72%. In Q3 2021, the average was 6.11%.

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 4.30%, down 150 basis points from the same period last year.
- The average vacancy rate in Austin is to 3.40%, down 80 basis points from the same period last year.
- The average asking rental rates for San Antonio for San Antonio have steadily increased during the year. Austin's average asking rate is up to $23.56, which is a 4.8% year-over-year increase. San Antonio's average asking rate is now $17.43, a 3.5% increase from last year.

CONSTRUCTION AND NEW DEVELOPMENTS

- San Antonio has about 936,000 square feet of retail space currently under construction, up slightly from 924,000 square feet a year ago.
- San Antonio has delivered 898,000 square feet of retail space so far this year, up from 590,000 square feet last year.
- Austin has about 2.1 million square feet of retail space under construction, up significantly from 630,000 square feet a year ago.
- Austin has delivered 694,000 square feet this year, up slightly from the same period last year (668,000 square feet)

LABOR MARKET

- The US unemployment rate has remained fairly steady throughout 2022, staying in a narrow range of 3.5 percent to 3.7 percent since March. Employers have replaced the 22 million jobs that were lost during the pandemic.
- Texas ended the third quarter with an unemployment rate of 4.0%, higher than the nation's 3.5 percent.
- Austin's unemployment rate is 2.8%. San Antonio is down to 3.6%.
- Overall, monthly job growth averaged 407,000 jobs per month in 2022. The most notable job growth was in health care services, followed by professional and technical services and manufacturing.

RETAIL SALES

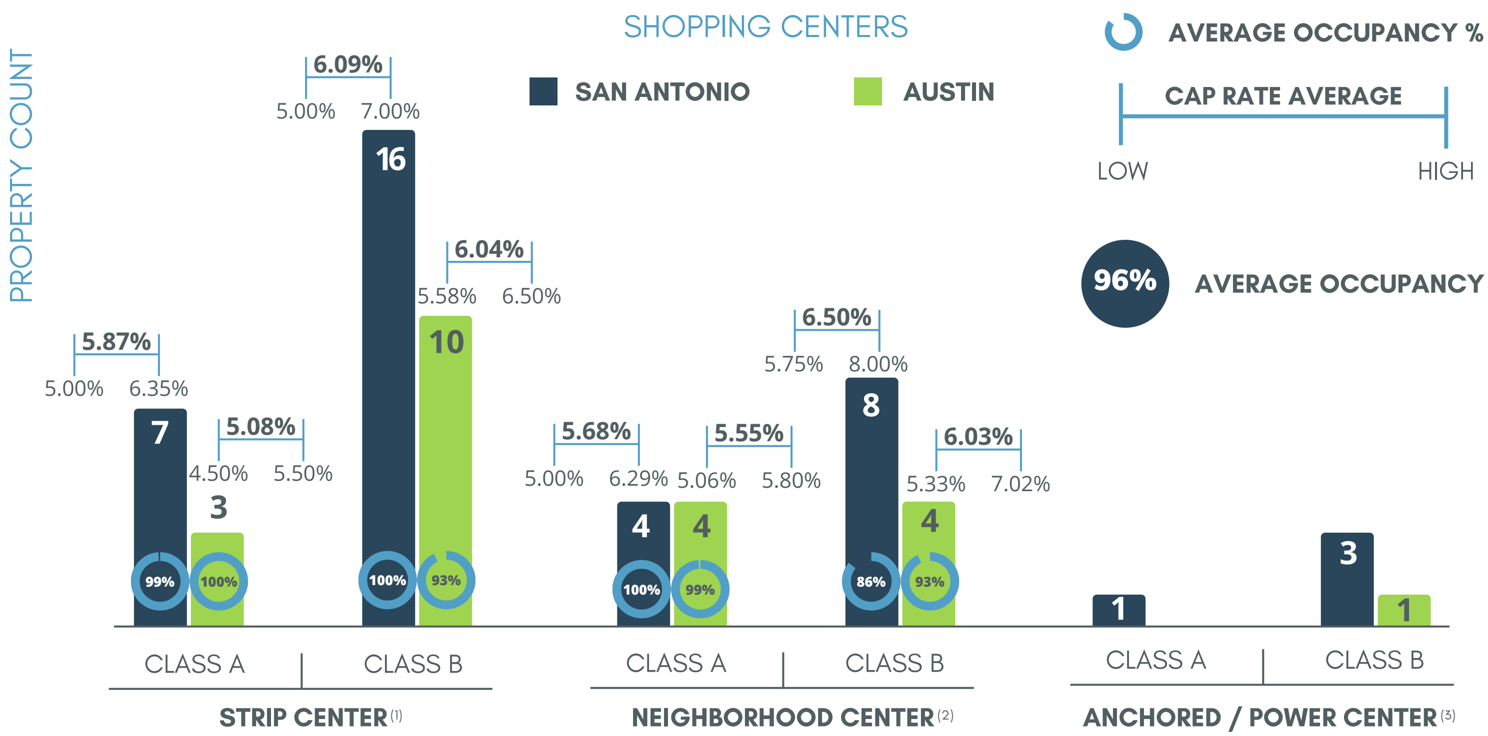
- Total U.S. Retail Sales for the month of October were 8.3% above October 2021.
- E-Commerce sales grew 11.5% year-over-year.
- Gas Stations had the highest annual increase at 17.8% and Food and Drink Services followed at 14.1%.

On The Market

- The dataset below consists of **Class A and B** retail centers that were **publicly listed** on the market during the **third quarter of 2022.**
- Out of the 61 properties, **17 new listings** came to market during the quarter, 7 went under contract, 3 reduced their list price, and **20 sold** after an average of 122 days.
- **San Antonio's** average multi-tenant retail asking cap rate for all product sizes **is 6.03%**, 43 basis points below Q1. The average cap rate for all product sizes in **Austin** is **5.72%**, down 35 basis points in the last six months.
- Pricing for retail properties held strong throughout 2022 as cap rates continued to compress. The **strong buyer demand, availability of capital** and **affordable debt** terms allowed sellers to push prices.

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

Current Trends

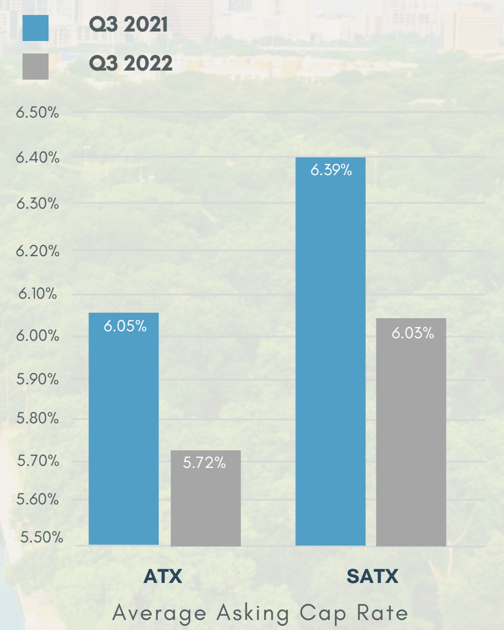
- The average asking cap rate for Class A shopping centers in San Antonio is 5.82%. The average for Class B is 6.23%
- The average asking cap rate for Class A shopping centers in Austin is 5.49%. The average for Class B is 5.94%

	SATX	ATX
# of Listings	39	22
Avg Cap Rate Class A	5.82%	5.49%
Avg Cap Rate Class B	6.23%	5.94%
Average Occupancy	96.00%	96.00%

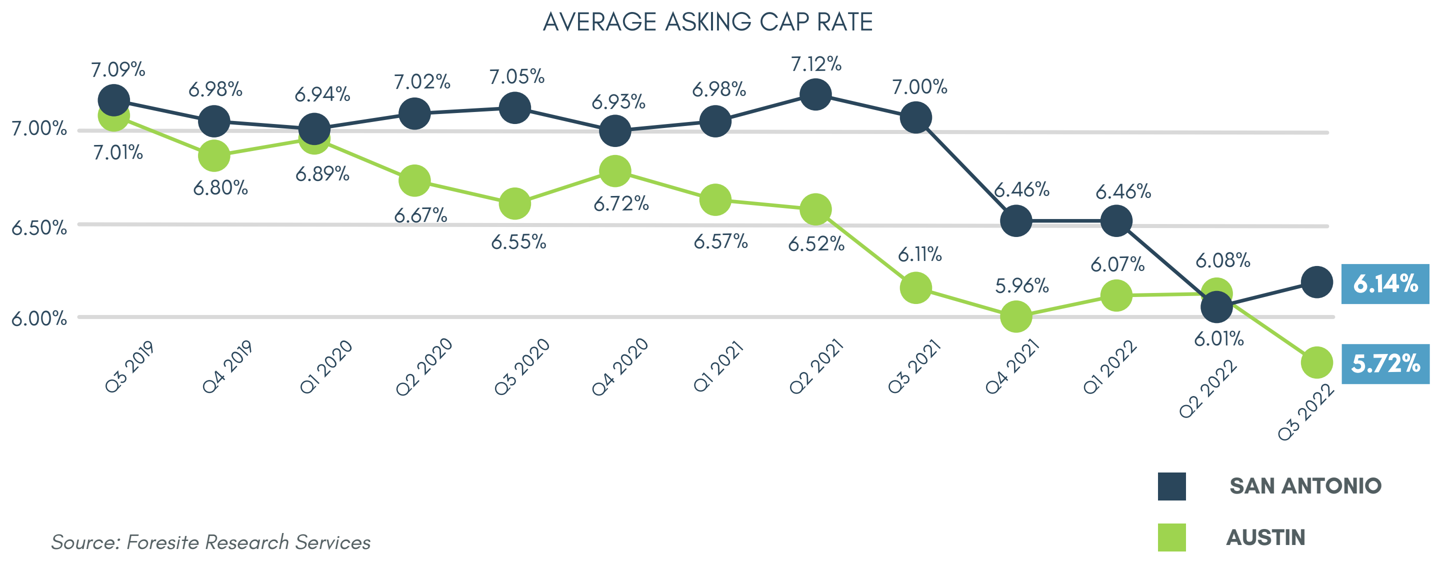
YEAR OVER YEAR TRENDS

	Q3 2022	Q3 2021
Class A & B Centers	61	50
New Listings	17	8
Went Under Contract	7	9
Reduced Price	3	3
Sold	20	14

*San Antonio & Austin Markets Combined



AVERAGE STARTING ASKING PRICE



Source: Foresite Research Services

Where's Retail Pricing Going?

RETAIL CENTER SALES TRAILING 12 MONTHS (2021 Q4 - 2022 Q3)*

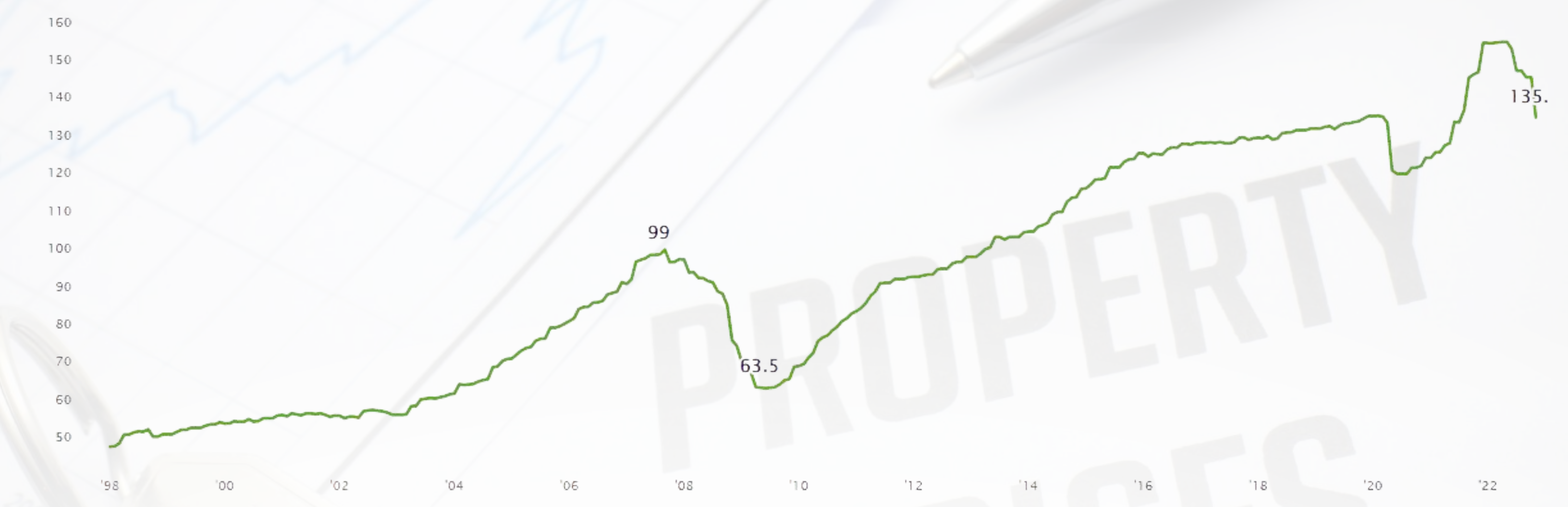
"The Green Street Commercial Property Price Index, which tracks prices for transactions being negotiated or contracted, showed prices declined 7.3 percent in October alone. No commercial sector has been spared from the downturn. Shopping malls took the biggest hit, down 23 percent from the peak. But industrial real estate prices, one of the hottest property types during the pandemic, are down 17 percent." *Source: Bisnow*

UNDER $5M	AVERAGE CAP RATE		AVERAGE PPSF		AVERAGE OCCUPANCY	
	2021	2022*	2021	2022	2021	2022
SAN ANTONIO	7.01%	6.72%	$278	$254	92%	92%
AUSTIN	6.20%	6.31%	$319	$372	100%	97%

OVER $5M	AVERAGE CAP RATE		AVERAGE PPSF		AVERAGE OCCUPANCY	
	2021	2022	2021	2022	2021	2022
SAN ANTONIO	6.95%	6.33%	$260	$362	93%	98%
AUSTIN	6.68%	6.23%	$353	$398	97%	82%

*2022 Q3. Sample of 40 Properties.

Source: Foresite Research Services

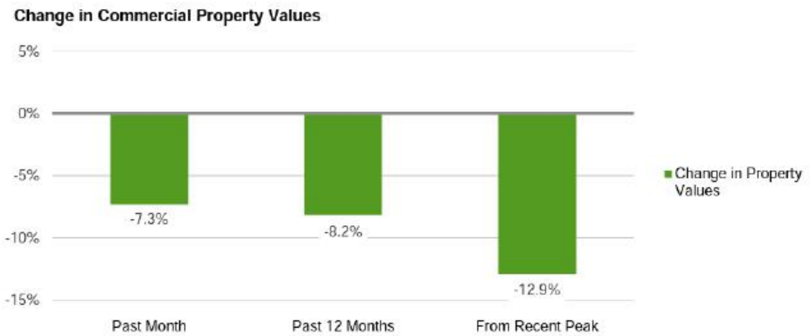


All Property CPPI® weights: retail (20%), office (17.5%), apartment (15%), health care (15%), industrial (10%), lodging (7.5%), net lease (5%), self-storage (5%), manufactured home park (2.5%), and student housing (2.5%). Retail is mall (50%) and strip retail (50%).
Core Sector CPPI® weights: apartment (25%), industrial (25%), office (25%), and retail (25%).

GREEN STREET COMMERCIAL PROPERTY PRICE INDEX

Indexed to 100 in August 2007 | Property Prices Down 13% this Year

All-Property Index The Green Street Commercial Property Price Index® decreased by 7% in October. Rising interest rates have caused property prices to decline by 13% this year.



After holding values in the first half of 2022, commercial property values have declined sharply starting in the third quarter. This price drop is partly due to the increase in interest rates and the anticipation of more increases. The price of an investment property is directly related to the calculated return that the investor can obtain, which is a factor of the cost of debt.

"It's a simple story: higher yields on Treasury bonds equals higher cap rates. And as large as the decline in pricing has been, I don't think we're out of the woods. If the 10-year note stays above 4%, property prices are likely to keep falling."

Peter Rothemund
Co-Head of Strategic Research
Green Street

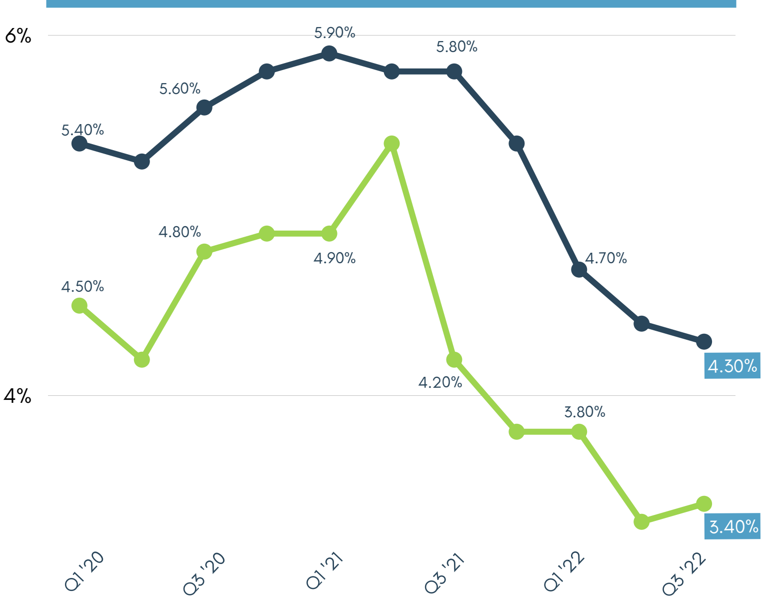
Green Street CPPI®: Sector-Level Indexes

	Index Value	Change in Commercial Property Values: Past Month	Past 12 Mos	Recent Peak
All Property	135.0	-7%	-8%	-13%
Core Sector	134.4	-8%	-10%	-16%
Apartment	157.8	-12%	-14%	-17%
Industrial	211.6	-8%	-10%	-17%
Mall	75.7	-6%	-10%	-23%
Office	98.2	-8%	-12%	-14%
Strip Retail	114.1	-5%	-4%	-13%
Health Care	134.6	-9%	-10%	-11%
Lodging	106.6	-5%	2%	-6%
Manufactured Home Park	296.4	-6%	-7%	-8%
Net Lease	105.0	0%	-9%	-9%
Self-Storage	295.1	-3%	13%	-6%

Leasing Activity

Low inventory pushes asking rates higher

AVERAGE RETAIL VACANCY RATE



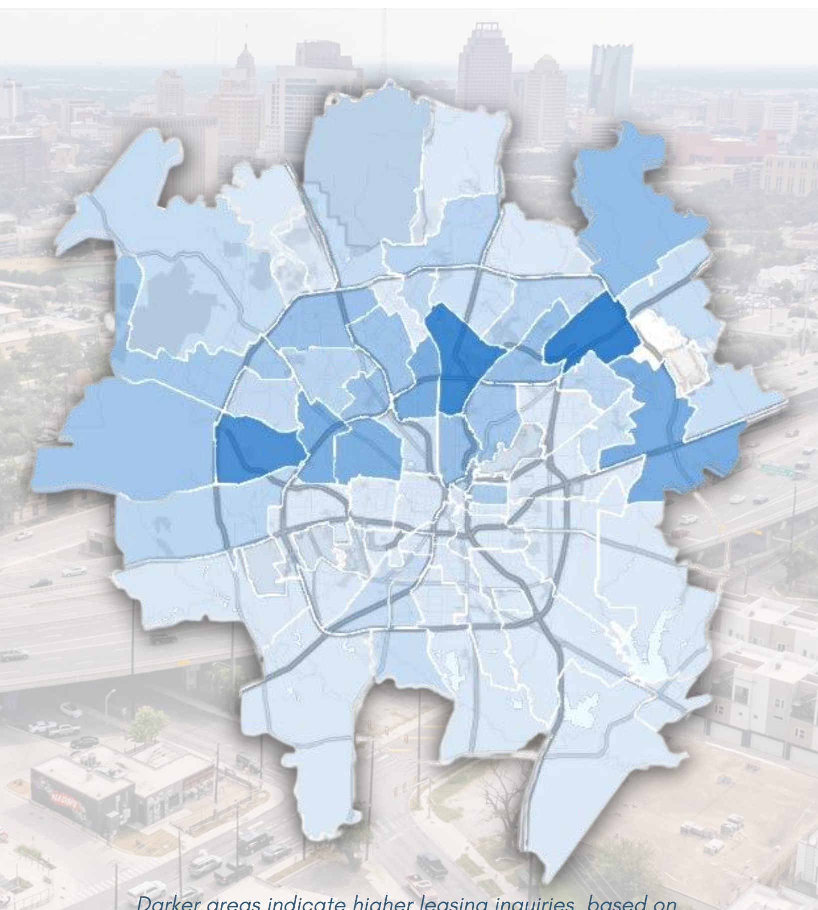
4.3% SAN ANTONIO

3.4% AUSTIN

AVERAGE RETAIL ASKING RENT

$17.43 SAN ANTONIO

$23.56 AUSTIN



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

ABSORPTION

The San Antonio retail market leasing activity has recorded approximately 300.000 square feet of both new leases and renewals during the third quarter. Asking rents are steadily increasing and up slightly (3.5%) year-over-year.

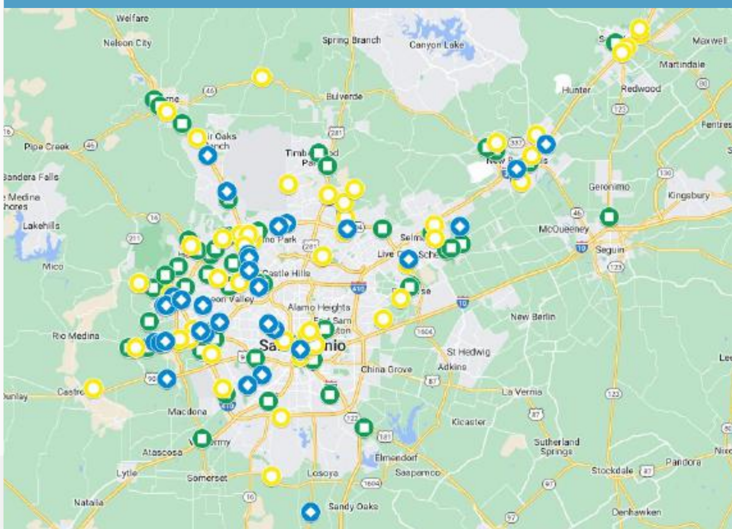
The Austin retail market leasing activity has recorded approximately 452,000 square feet of both new leases and renewals during the third quarter. Asking rents are up 4.8% year-over-year.

Source: NAI Research Services

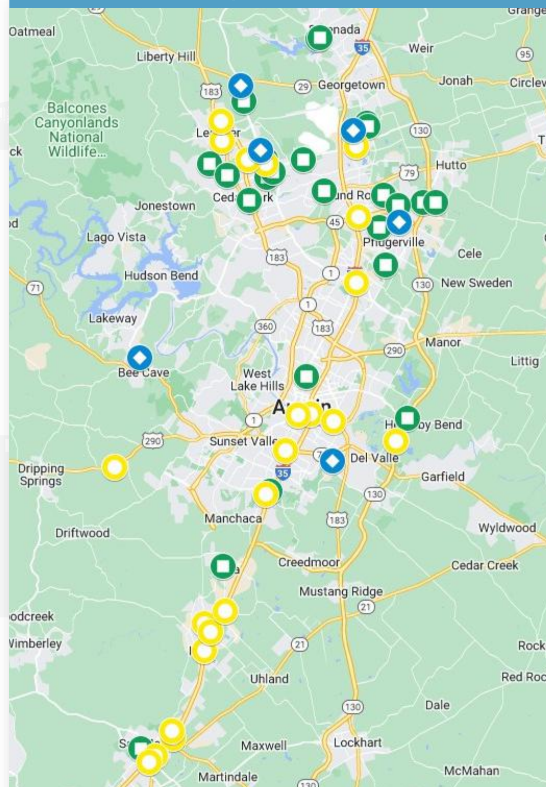
New Retail Developments

Demand for retail space continues to outpace supply

SAN ANTONIO / NEW BRAUNFELS



AUSTIN / SAN MARCOS

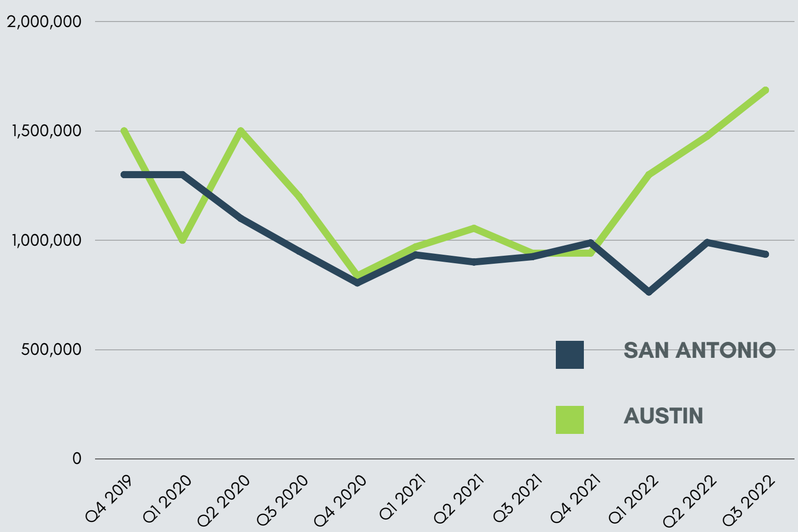


LEGEND

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

Source: Foresite Research Services

RETAIL SPACE UNDER CONSTRUCTION



San Antonio has about 936,000 square feet of retail space currently under construction, up slightly from 925,000 square feet a year ago. There has been 898,000 square feet delivered this year, an increase from from the same period last year (590,000 square feet). There is another 1.6 million square feet planned to be built through 2023 in San Antonio.

Austin has about 2.1 million square feet of retail space currently under construction, up considerably from 630,000 square feet a year ago. There have been 694,000 square feet delivered this year, up slightly from the same period last year (668,000 square feet). There is another 1.5 million square feet planned to be built through 2023 in the Austin metro.

Source: NAI Research Services

State of the Market

BY CHAD KNIBBE, CCIM

When did the market shift and what should we expect moving forward?

In spite of five significant rate hikes from March through July, the investment sales team pushed forward with record high transactions all through the summer. Investors had priced the rate hikes into their purchase prices and in spite of our concerns that deals may start to retrade, they didn't. In fact, intensity and competition continued to increase.

The rate hike on September 21st seemed to be the straw that broke the camel's back and the quick slowdown was obvious.

While sellers were still willing to sell, the spread between list price and offers grew. Buyers looked to protect their margins and sellers held on to old pricing.

That is likely a temporary adjustment to the new realities of the market, and we expect pricing to adjust as rates stabilize in the latter part of 2023. At that time, deal velocity will likely increase once again.

We have not seen the large adjustment in cap rates that the market was expecting but deals are still happening. Our team is still seeing our listings go under contract with qualified buyers, but with less competition.

"The rate hike on September 21st, seemed to be the straw that broke the camels back and the quick slowdown was obvious"

Currently the deals that are underway are still moving forward with more conservative underwriting and more buyer friendly timelines.

1031 buyers are still strong and plentiful, and the South Texas market continues to shine in the national spotlight.

All cash buyers and buyers with great banking relationships have the advantage and can now be more selective in their deals. Many are taking advantage of the current conditions with the intent to refinance at a future date.

Property Management Update

Budget season shines light on major expense increases

"Each year in October and November we plan the next year's budgets. Normally expenses go up 2-3%, but this year most vendors are increasing their prices by 3-5%. Expect triple nets to increase in 2023."

BY NANCY BRAUN

2,400,000

SQUARE FEET MANAGED

Inflation is rising faster than the cost increases of 3-5%. Vendors are holding off as long as possible before raising prices to stay competitive.

NNN Expenses on the rise.

While inflation has ranged between 6-8% in recent months, vendors are doing their best to absorb the cost increases before passing it on to landlords. Most vendors are holding off as long as possible and asking for increases between 3-5% to remain competitive in the changing market.

This doesn't add much comfort to tenants who are also facing higher rents at their new locations, not to mention increased property taxes.

The greatest pressure property managers are facing at this time comes from insurance. Insurance costs have increased between five and fifteen percent at most properties. Historically these are some of the highest increases to date.

In Foresite's portfolio of 2,383,398 square feet, average CAM+insurance psf was $4.13 in 2021 and is projected to end up at $4.27 in 2022. That is across all classes and ages of properties.

The reason property insurance has risen so much in Texas, and is expected to rise even more in 2023, is based off several factors. The average annual property losses in the 21st century are at 74 Billion USD, which has been exceeded 4 times in the last 5 years. With increased losses even prior to Hurricane Ian, insurers are re-underwriting their portfolios to mitigate risk, especially on CAT accounts, loss-prone accounts and those with poor risk quality. Increased losses, inflation and insurers looking to transfer risk means there will be less capacity in the markets as the demand for re-insurance grows, therefore creating these spikes we're seeing in property insurance premiums.*

**Source: Swiss RE*

WAYS YOU CAN MINIMIZE MARKET IMPACT ON INSURANCE PREMIUMS:

- Start the discussion and renewal process as early as possible.
- Verify all data related to exposures is accurate. Property analytics are critical to establishing appropriate limits and drive capital efficiency in structuring property coverage.
- Confirm valuations are in line with reasonable levels.
- Organize Risk Control visits early in the process and communicate recommendation compliance as applicable.
- Settle and close any open claims if possible.

Giselle Crawford
USI Insurance

Chain Restaurants

Expanding to Kyle

Just outside Austin, Kyle turns from small town to boom town.

With all of the residential growth in Central Texas, residents push out of the city limits and move to surrounding areas, chain restaurant are following the growth to Austin suburbs.

"The City of Kyle has seen incredible growth both in population and economic development in recent years..."

Rachel Sonnier
Director of Communications
City of Kyle

Breakfast Chains

Kyle went from a population of around 5,000 in 2000 to over 50,000 in 2020, according to the U.S. Census.

"We have also seen growth in building permits (a 110% increase from Q1 in 2020 when compared to Q1 in 2022) and sales tax revenue (a 121.7% increase from 2016), highlighting the immense growth in development accompanying the population growth," Sonnier said.

Waffle House
The Waffle House will be a 1,791-square-foot stand-alone store at 5767 Kyle Parkway, Kyle, TX, just behind the Walgreens and nearby Lowe's.

Denny's
According to a Texas Department of Licensing and Regulation filing, the $900,000 construction of Denny's is expected to be completed by December and is located at 19020 IH-35 Kyle, TX.

Dutch Bros
The Oregon-based coffee chain is opening up a new location at 20347 I-35 in Kyle and will feature a drive thru and walk-up window.

Source: Gabriel Romero, https://www.mysanantonio.com/food/article/kyle-chain-restaurants-texas-17377584.php

Quick Service Restaurants

Taco Bell

Taco Bell will begin construction on its $600,000, 2,739-square-foot building in October and is expected to be completed by February, 2023. The Taco Bell will be at 1750 Veterans Drive, Kyle, TX 78640, according to a Texas Department Licensing and Regulation filing.

P. Terry's

The burger stand will be located at 18940 I-35, Kyle, TX 78640 and will cost $1.2 million to build.

Chipotle

According to the Texas Department of Licensing and Regulation, Chipolte will start construction on a $300,000 alteration of a 2,400-square-foot building in October at 20160 Marketplace Ave., Suite 120, Kyle, TX. The burrito chain restaurant is expected to finish construction in early February.

Free Birds

Located at 19220 I-35 Suite 101 Kyle, TX 78640, Free Birds' newest location will be completed in December and cost an estimated $350,000, according to a Texas Department of Licensing and Regulation filing.

Fast Casual Dining

Walk-on's Sports Bistreaux

The restaurant co-owned by Super Bowl winning quarterback Drew Brees is expected to be completed by late 2022. The build will cost $2 million at be located at FM 126 and Kholer's Crossing Kyle, TX .

Pollo Compero

According to a Texas Department of Licensing and Regulation filing, Pollo Campero is expected to be completed by December and will be located at Kyle Towne Center.

Texas-Founded Restaurants

Smokey Mo's

The Austin-area based Smokey Mo's BBQ is expected to complete construction on its new $650,000 barbecue restaurant in October. The barbecue chain will be located at FM 1626 Kyle, TX.

Torchy's Tacos

The Austin-based taco restaurant will start construction in January 2023. The restaurant will be at located at 19100 I-35, Kyle, TX. The project is expected be completed by April 2023.

Z'Tejas

Construction on the southwest-based cusine restaurant began in September. The $2.5 million, 4,800-square-foot restaurant will be located at 18900 I-35, Kyle, TX and will open by the end of the year.

Willie's Grill and Icehouse

A $2.5 million construction on a new Willie's Grill and Icehouse will begin in October and will be located at 19220 I-35, Kyle, TX. The 6,014-square-foot building is expected to be completed by February 2023.

Rudy's Bar-B-Q

The 8,350-square-foot barbecue restaurant will be located at 19430 I-35, Kyle, TX,

How Radio Shack Ruined Percentage Rents for Everybody

by Bethany Babcock

Commercial leases with percentage rent clauses made up nearly a quarter of the LOI's we received from tenants in the summer of 2020. It was the tenants' attempt to transfer the risk of the uncertainty of the market to the landlord. It was an understandable approach considering the challenges of the market. A few years later it is still a topic brought up often in the industry.

Tenants were quick to state they felt this structure was where the market was heading. They were insistent that landlords needed to come to terms and realize the new world in leasing would be short-term leases and rent set as a percentage of sales. Even with few options, landlords were still reluctant. Tenants were beside themselves wanting to get the deals done to meet their store count requirements but landlords didn't budge. Why?

The obvious answer is debt. Landlords are bound by a partner that tenants rarely have to deal with - the bank. The lender on the property often dictates the terms of the leases and even if they do not, a short-term percentage rent lease is not financeable. Commercial loans are rarely self-amortizing, and most have a balloon payment due at the end of the term. When the loan comes due, the property owner must refinance the remaining balance or find alternative financing, otherwise they risk losing the property altogether. Short-term leases and percentage leases increase the risk to the landlord and the lender, which reduces the property value, occasionally even more so than just having the vacancy.

A lesser-known reason why landlords will not agree to percentage rent is because of the drawn out and slow demise of Radio Shack. Remember them?

The place that sold you walkmans and a TV antenna? They closed their last store in 2017. The bigger question is how did they survive as long as they did, especially in higher rent centers across from Walmarts and other major retailers? The answer is percentage rent clauses.

Radio Shack had shrewdly inserted percentage rent clauses in most of their leases. It contained language that seemed absurd at the time. "If sales drop below $300,000 a year, the tenant will pay 'X' percentage of sales as rent to the landlord." Some contained higher sales minimums, some lower. The number was so low that many landlords just shook their heads thinking their locations would obviously never fall below that amount, and if they did, the tenant would close the location. Except they didn't. Radio Shack didn't just stay, they even exercised renewal options under those terms. Some of those renewal options exceeded the length of the original lease term. Radio Shack was paying so little rent that stores could be half-empty with virtually no inventory and one employee and still remain open. They used this clause to finance a failed business concept for nearly a decade.

The result? Landlords could not remove the tenant who had no business being in business anymore, and the values of their properties dropped. There was nothing anyone could do about it.

Landlords don't forget. Neither do their banks or their lawyers. That clause was burned in their memories as a tenant failed at no fault of the location or the landlord, yet the landlord was left with the biggest loss.

So if you are representing a tenant and you want to propose a lease with a percentage lease clause, a short-term lease deal, or both, remember the landlord's perspective and opt to make it a short-term arrangement with limited renewal options. It should not serve as a means to finance a bad concept or a failing business that the landlord has no control over. This structure should be used to propose a testing ground for the tenant's business to identify if it is a viable long term business location.

THE STATE OF EMPLOYMENT

LABOR MARKET STILL STRONG DESPITE INFLATION

**October 2022*

The unemployment rate has remained fairly steady throughout 2022, staying in a narrow range of 3.5 percent to 3.7 percent since March. The labor force participation rate has shown little net change since early this year, around 62.2 percent, and is about 1.2 percentage points below February 2020. The number of people not in the labor force who currently want a job was little changed at 5.7 million in October and remains above its February 2020 level of 5.0 million.

Even though job growth has slowed, the decline is not surprising since employers have already replaced all of the 22 million jobs that were lost during the pandemic.

Overall, monthly job growth averaged 407,000 jobs per month in 2022, compared with 562,000 per month in 2021. Nonfarm payrolls grew by 261,000 in October.

The most notable job growth was in health care services, followed by professional and technical services and manufacturing.

Employment in leisure and hospitality continued to trend up in October by adding 20,000 jobs. The category averaged 78,000 jobs per month this year.

"Job gains were fairly widespread, and overall wage gains are still too high. So, steady as she goes from a Fed perspective, but incrementally, there's reason to have a little hope that we're starting to see some of the froth come out of the [jobs] market."

Marvin Loh
senior global macro strategist
State Street Global Advisors

Wage growth has not kept up with inflation. Over the past 12 months, average hourly earnings have increased by 5.2%. While workers are earning more dollars per hour, those dollars aren't stretching as far due to the increase in consumer prices. In effect, hourly earnings have fallen 2.8% in the last year when accounting for inflation. The Fed is attempting to lower inflation by raising interest rates and reducing discretionary income. In theory, less discretionary income helps to lower inflation.

Source: BLS.gov

Retail Sales

NATIONAL TRENDS

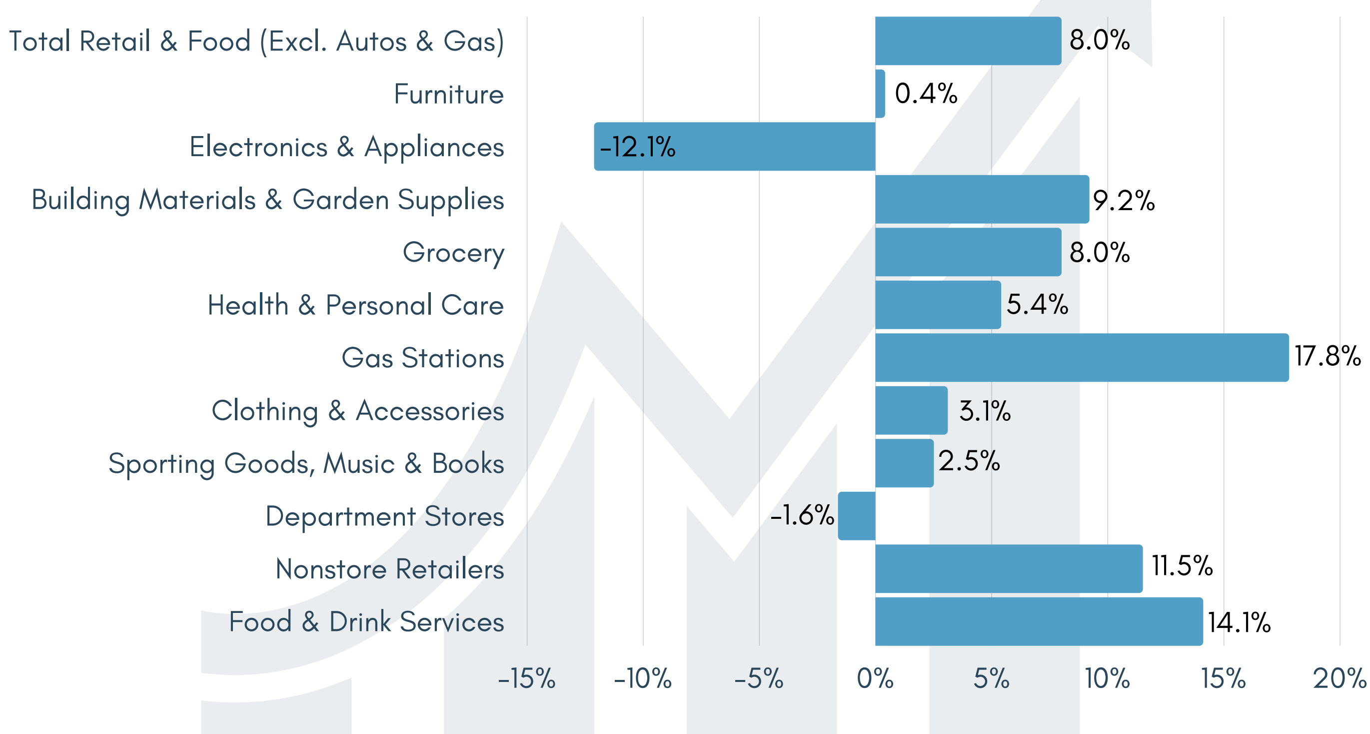
October sales were up in all but two categories on a yearly basis. Consumers have continued to shop despite higher costs and economic uncertainty. The strong employment report boosted total retail sales, which tripled the pace of price growth. The October sales report is a good indicator of what to expect during the holiday shopping season. With strong sales and buyer demand in October, NRF predicts robust store traffic and a record number of shoppers taking advantage of deals this November.

> "October retail sales data confirms that consumers continue to stretch their dollars on household priorities, including gifts for family and loved ones this holiday season,"
>
> **The National Retail Federation**

- Total U.S. Retail Sales for the month of October were 8.3% above October 2021.
- Month over month, October sales were up 1.3% from September.
- Total sales for the August through October period were up 9.9% year over year.

YEAR OVER YEAR RETAIL SALES GROWTH

OCTOBER 2021 - OCTOBER 2022

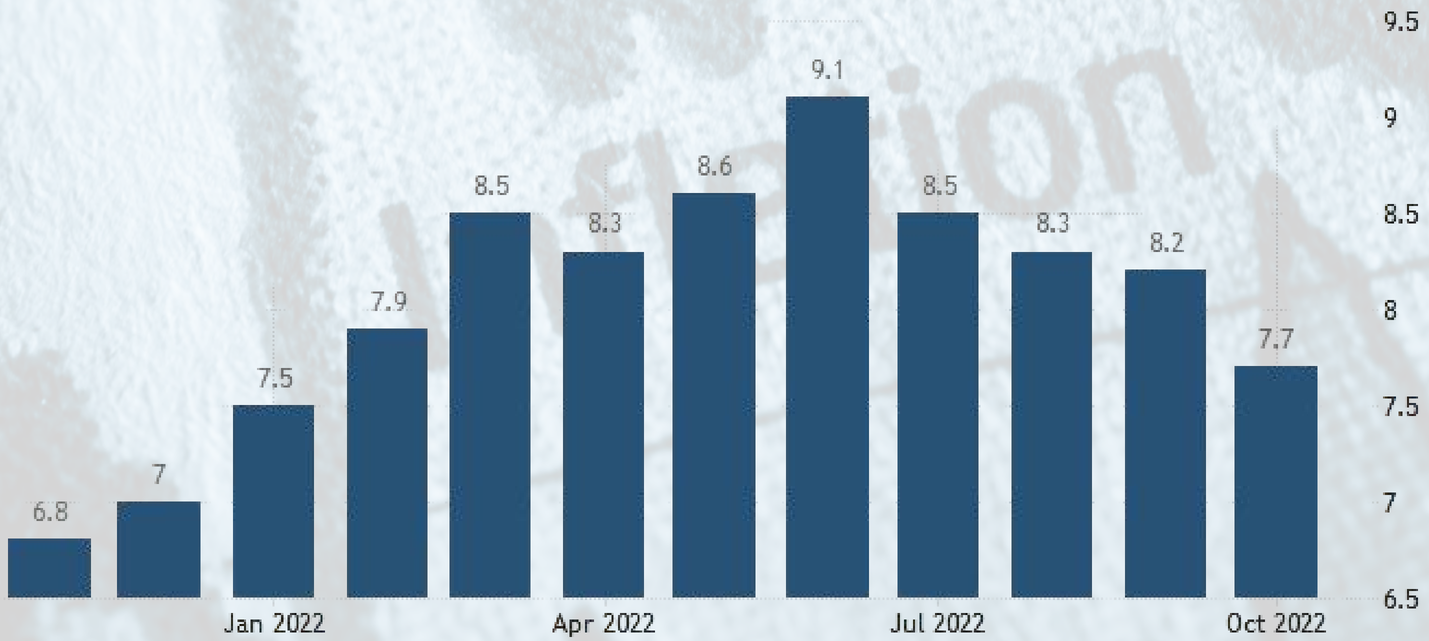


Inflation

October's Inflation Report showed that the inflation rate has fallen to its slowest pace since the beginning of the year. However, consumer prices are still rising quickly. The 0.4% decrease from September is still 7.7% higher than October 2021.

The encouraging inflation report in October comes after several rate hikes by the Fed. The Fed targets a 2% annual inflation rate and attempts to lower inflation by raising interest rates. Higher interest rates reduce discretionary income and demand for goods by making the cost of borrowing more expensive. A reduction in housing demand was one of the contributing factors to slowing price growth.

The economy has a lagging response to the changes in monetary policies. The members of the Fed review current reports to make decisions, but it isn't the whole picture. Economists expect another rate hike at the Fed's December meeting, but now expect a more moderate half-point increase rather than the 0.75 that they have instated during the last two meetings.



TRADINGECONOMICS.COM | U.S. BUREAU OF LABOR STATISTICS

THE CENTRAL BANK | UPDATED PROJECTIONS

1.9% → 0.7%
-1.2 POINTS
GDP Growth in 2023

6.3% → 3.5%
-2.8 POINTS
Core Inflation in 2023

3.7% → 4.2%
+0.5 POINTS
Unemployment Rate in 2023

Index Rates

INDEX RATES
NOVEMBER 2022

4.31% 5- YEAR TREASURY	**3.17%** 30 DAY AVG SOFR
4.14% 10- YEAR TREASURY	**3.63%** 10-YEAR SWAP

INDEX RATES
NOVEMBER 2021

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

THE FED

The Federal Reserve continued its aggressive pace of rate hikes when they raised the federal funds target rate by 75 basis points in November to a new target range of 3.75% to 4.00%. The increase was no surprise due to the high inflation that has been persistent throughout the year.

Since the beginning of 2022, the Fed has raised interest rates six times. The Federal Open Market Committee, the central bank's policymaking arm, anticipates ongoing increases "to attain a stance of monetary policy that is sufficiently restrictive to return inflation to 2 percent over time."

There is still one Fed meeting left in the year. The U.S. Federal Reserve will meet in December and will likely implement another rate hike. There is more economic data that will be released before the meeting that will influence their decision, but most economists expect an increase of 0.5 or 0.75 basis points.

COMMERCIAL - LIFE COMPANIES

TERM	AMORTIZATION	LTV	SPREAD	RATE
5 - YEAR	25-30	65% - 75%	170-210	6.00%-6.40%
10 - YEAR	25-30	50% - 65%	160-180	5.75%-5.95%
10 - YEAR	25-30	65% - 75%	180-210	5.95%-6.25%
15 - YEAR	25-30	65% - 75%	180-210	5.95%-6.25%
15-20 YEAR	Fully Amortizing	65% - 75%	180-210	5.95%-6.25%

COMMERCIAL - CMBS

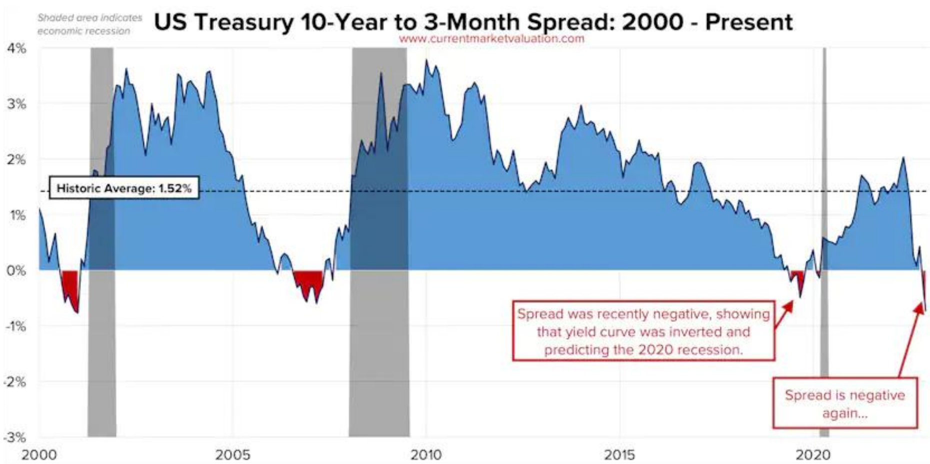
TERM	AMORTIZATION	LTV	SPREAD	RATE
5 - YEAR	30	65% - 75%	330-370	7.60%-8.00%
10 - YEAR	30	65% - 75%	215-255	6.30%-6.70%

Source: Northmarq

Inverted Yield Curve - Why it's not just a canary in the coal mine

BY BETHANY BABCOCK, MBA

What does the yield curve inversion mean for commercial real estate?



"On the construction loans, the bank has to utilize a higher stress rate (with the rate hikes) when underwriting and they are stressing rents also. This creates a higher equity requirement that will impact the IRR and the ability to do these loans"

-Laurie Griffith
Market President
Independent Financial

When the yield curve inverted again in the summer of 2022, predictions for a recession were made and then the definition of a recession was argued. Regardless of what the yield curve indicates may happen in the future, it is more important to take a look at what it actually does to our industry.

The yield curve simply means short term rates are higher than longer term rates in an anomaly created by investor concerns over the economy. When that occurs, banks who borrow on the short term and lend on the long term, face reduced margins. Depending on the severity of the inversion, banks will adjust and reduce their lending output. The current inversion is the steepest in years.

In our debt driven economy, the pullback from lenders creates a self-fulfilling prophecy in terms of economic performance. As lenders pull back, purchasing activity is diminished and economic performance suffers. We are seeing that now as lenders are adjusting their LTV requirements on new projects.

Construction loans are especially sensitive to this scenario. Laurie Griffith, Market President of Independent Financial shares that when underwriting, banks have to use higher stress rates with the rate hikes. This significantly reduces the amount of leverage available to developers across all product types.

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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Head of Research / Associate

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Vice President
Urban Developments / Special Projects

Stephen Berchelmann has worked in real estate for more than a decade. Prior to joining Foresite, Stephen worked at Marcus & Millichap as a senior agent and was a member of the #1 retail team in the central Texas Region.

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Xavier Alvarado

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

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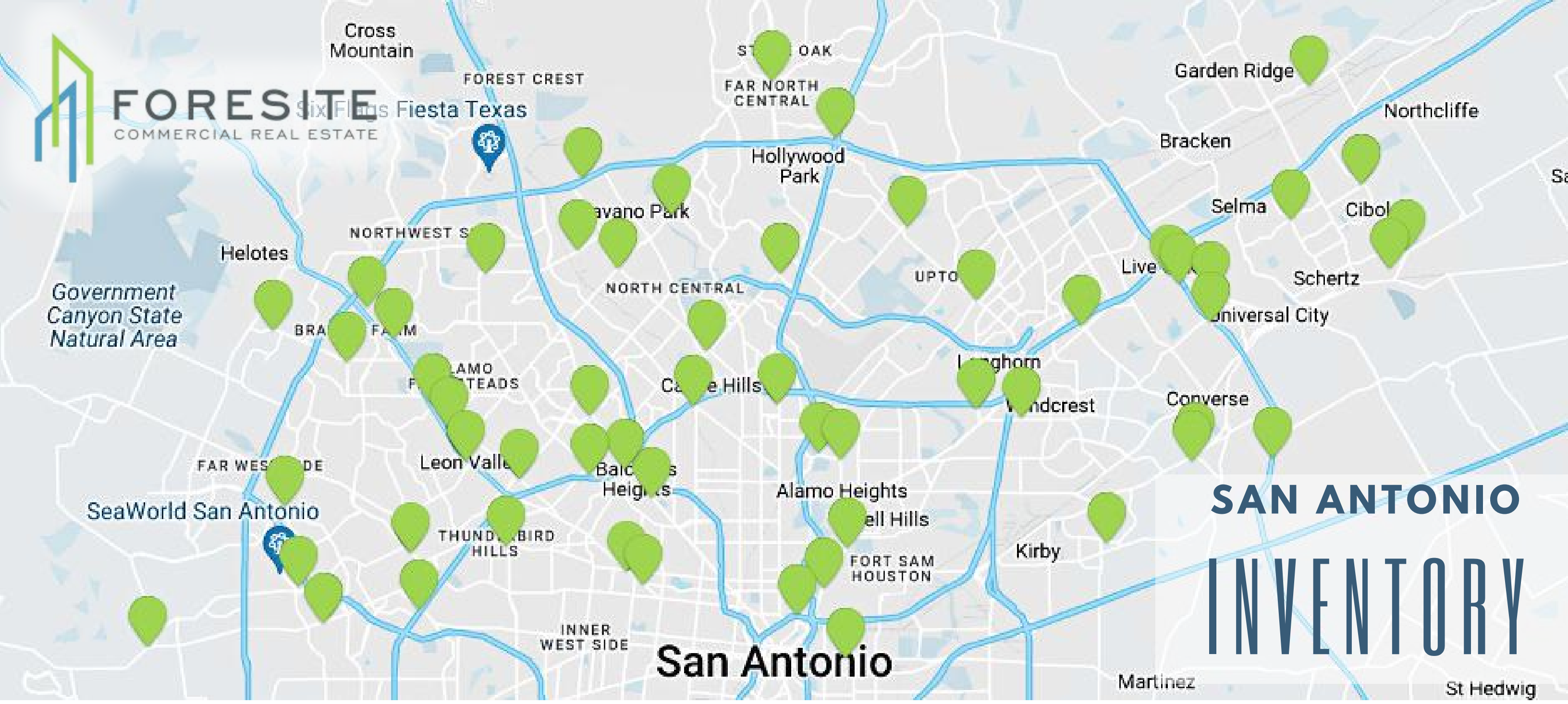
SAN ANTONIO INVENTORY



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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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