NOVEMBER 2023 ISSUE 15

CRE

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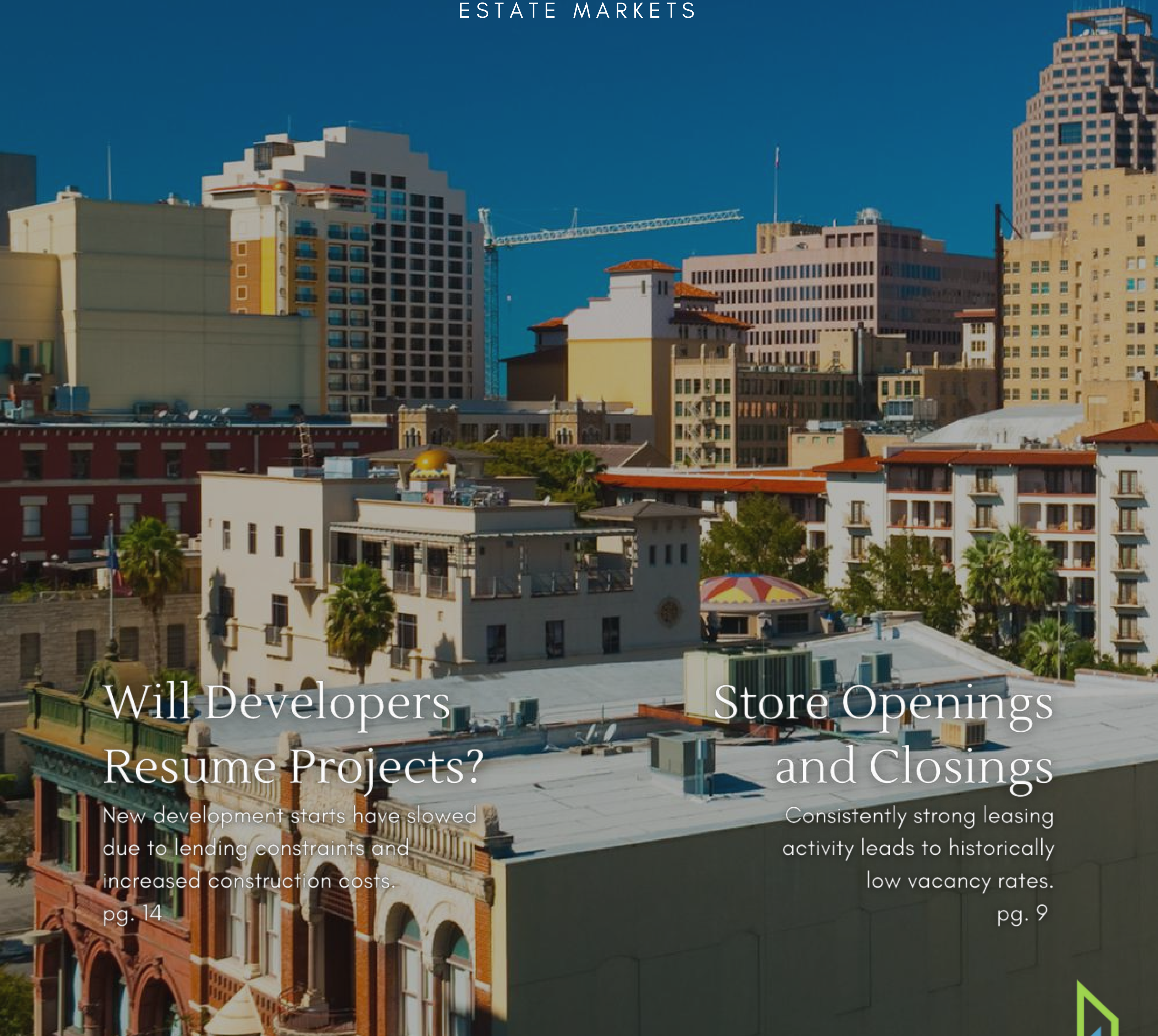
INTEL FROM THE SAN ANTONIO & AUSTIN COMMERCIAL REAL ESTATE MARKETS



Will Developers Resume Projects?

New development starts have slowed due to lending constraints and increased construction costs.

pg. 14

Store Openings and Closings

Consistently strong leasing activity leads to historically low vacancy rates.

pg. 9

ISSUE 15
November 2023

marketwire

Foresite Commercial Real Estate
Investment Sales | Leasing |
Property Management

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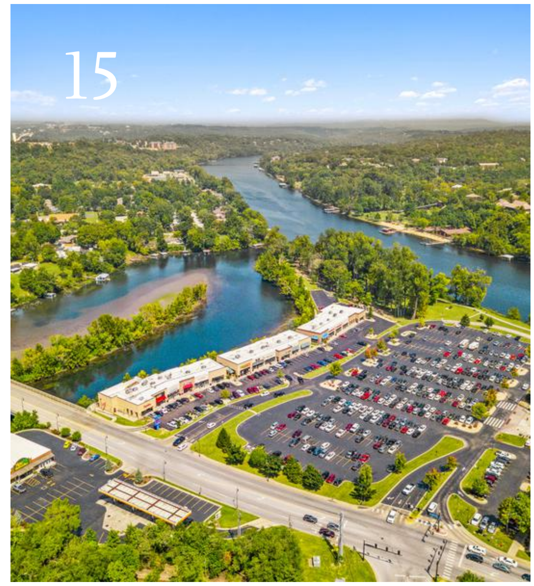


This report contains real data and analytics on the San Antonio and Austin commercial real estate markets covering all metrics of shopping centers and retail buildings, including retail occupancy and cap rates. Sourced from our proprietary extensive research efforts in aggregating hundreds of data points,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

FORESITE INVESTMENT SALES

Letter from the editor

THE MARKET REACTS TO HIGH INTEREST RATES

The San Antonio and Austin real estate markets are beginning to react to the nine interest rate hikes over the last 18 months. Pricing is estimated to be down about 15% from the 2022 peak. In the third quarter there has been an uptick in listing and transaction activity, and values for retail properties have slowly decreased as lenders grow more conservative in their debt quotes. The recent rise in interest rates is likely to cause another decline in property pricing.

The retail leasing market has continued to experience consistently strong demand from both local and national concepts, leading to historically low vacancy rates and contributing to a sense of urgency among expanding tenants.

New development starts have slowed due to lending constraints and increased construction costs. Projects that are still moving forward are benefitting from the strong leasing activity. However, construction costs are still well above pre-pandemic levels.

The U.S. economy grew faster than expected in the third quarter. However reports show that inflation is leveling off and extending a gradual slowdown in consumer price growth. Retail sales are still strong, but consumers are becoming more selective in their purchases.

The national unemployment rate remained steady, continuing the longest stretch under 4 percent unemployment since the 1960s. Job growth in the restaurant and bars returned employment in the sector back to its pre-pandemic level.

The economy is showing signs of cooling, but the hot leasing market and strong investor demand brings optimism to the retail CRE market.

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

CURRENT ISSUE'S

KEY POINTS

ON THE MARKET

- 38 class A & B multi-tenant retail properties were publicly marketed this quarter, 23 fewer than were listed Q3 2022.
- 19 new listings came to market during the quarter.
- San Antonio's average multi-tenant retail asking cap rate for all product sizes is 6.72%, down from 7.10% last year.
- The average cap rate for all product sizes in Austin is 5.88%. In Q3 2022, the average was 5.74%.
- There has been an uptick in listing and transaction activity, and pricing for retail properties has remained steady even as lenders grow more conservative in their debt quotes.

LEASING AND VACANCY

- The retail leasing market has continued to experience consistently strong demand from both local and national concepts, leading to historically low vacancy rates and contributing to a sense of urgency among expanding tenants.
- The average vacancy rate in San Antonio is 3.9%, down 40 basis points from the same period last year.
- The average vacancy rate in Austin is 3.3%, down 10 basis points from the same period last year.
- San Antonio's average asking rate is $18.94, a 7.9% increase from last year's $17.43.
- Austin's average asking rate is $26.62, an 11.5% increase from last year's $23.56.

CONSTRUCTION AND NEW DEVELOPMENTS

- New development starts have slowed due to lending constraints and increased construction costs.
- Retail space under construction in San Antonio is 17.7% down from last year.
- In Austin, retail space under construction is up 42% year over year, mainly due to larger grocery anchored projects.

LABOR MARKET

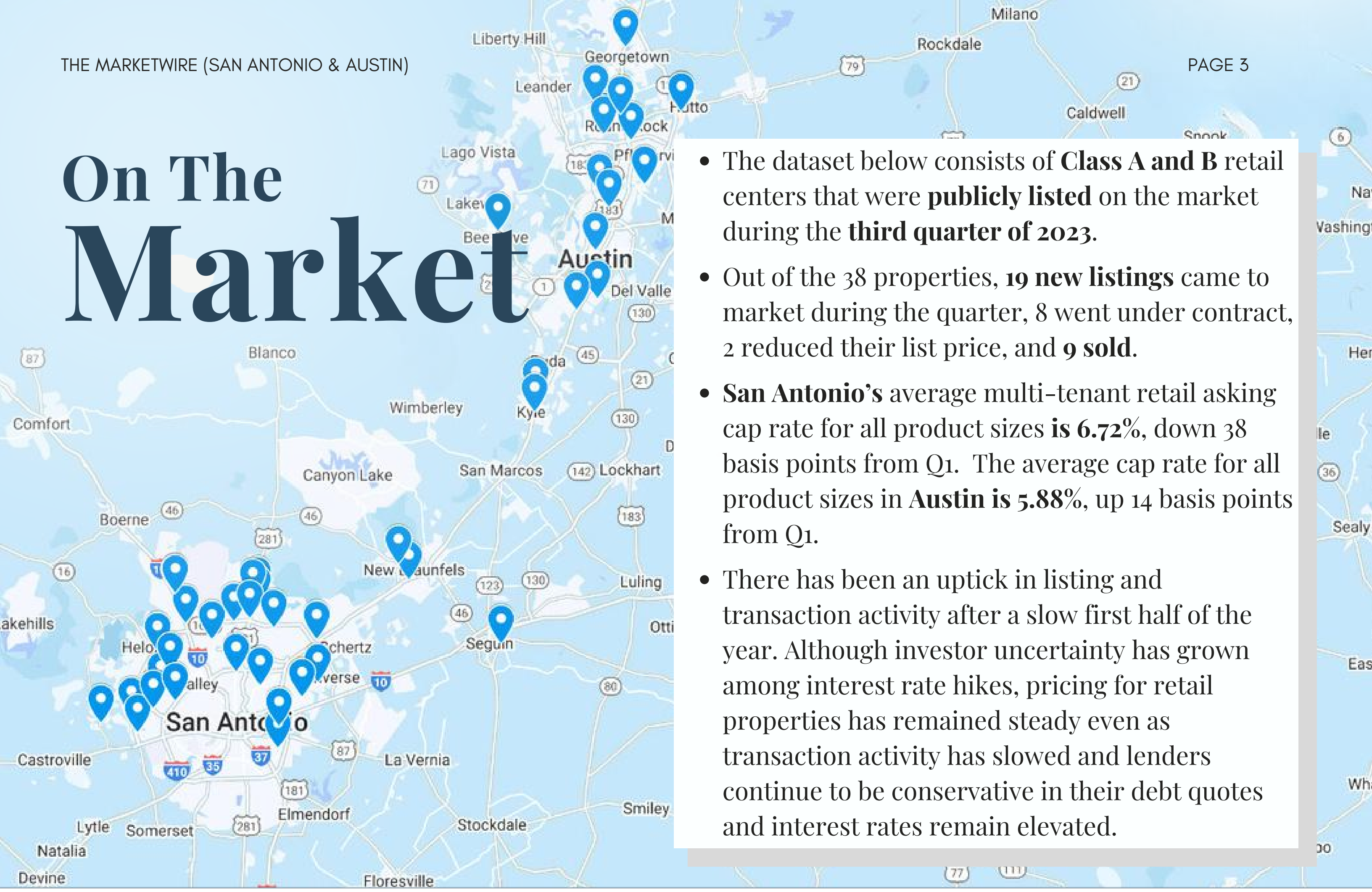
- Texas ended the third quarter with an unemployment rate of 4.1 percent, higher than the nation's 3.8 percent.
- Austin's unemployment rate is 3.9%. San Antonio's is 4.3%.
- The national unemployment rate remained steady, continuing the longest stretch under 4 percent unemployment since the 1960s.
- Job growth in the restaurant and bars returned employment in the sector back to its pre-pandemic level.

RETAIL SALES

- Total U.S. Retail Sales for the month of September were 3.8% above September 2022.
- Sales of electronics, appliances, and furniture declined due to consumers holding off on big-ticket purchases.
- Overall, the September retail sales figures indicate that consumers are still willing to spend, but are being more selective in their purchases.

KEY INDICATORS

- The U.S. economy grew faster than expected in the third quarter. Real GDP grew at a 4.9% annual rate.
- Reports show that inflation is leveling off and extending a gradual slowdown in consumer price growth.

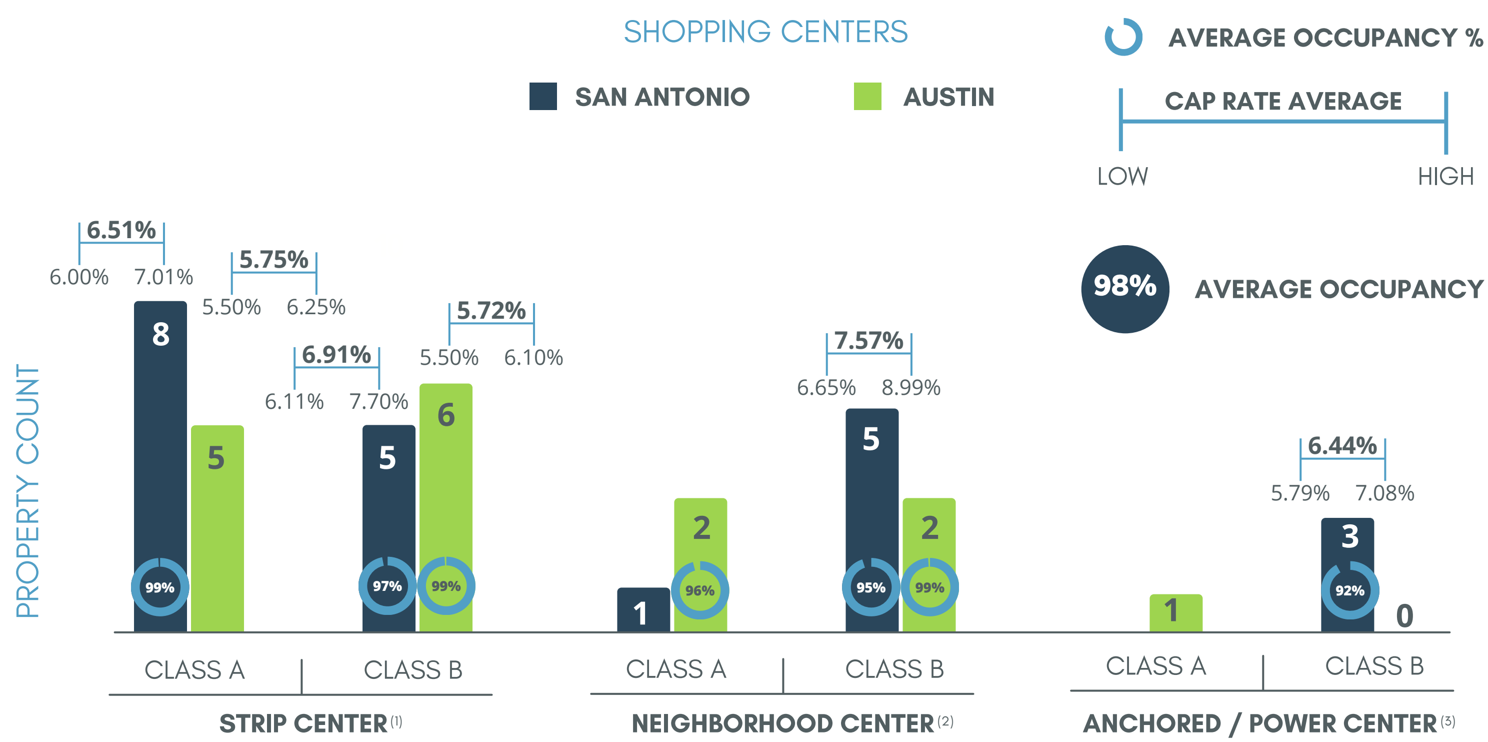


On The Market

- The dataset below consists of **Class A and B** retail centers that were **publicly listed** on the market during the **third quarter of 2023**.
- Out of the 38 properties, **19 new listings** came to market during the quarter, 8 went under contract, 2 reduced their list price, and **9 sold**.
- **San Antonio's** average multi-tenant retail asking cap rate for all product sizes **is 6.72%**, down 38 basis points from Q1. The average cap rate for all product sizes in **Austin is 5.88%**, up 14 basis points from Q1.
- There has been an uptick in listing and transaction activity after a slow first half of the year. Although investor uncertainty has grown among interest rate hikes, pricing for retail properties has remained steady even as transaction activity has slowed and lenders continue to be conservative in their debt quotes and interest rates remain elevated.

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

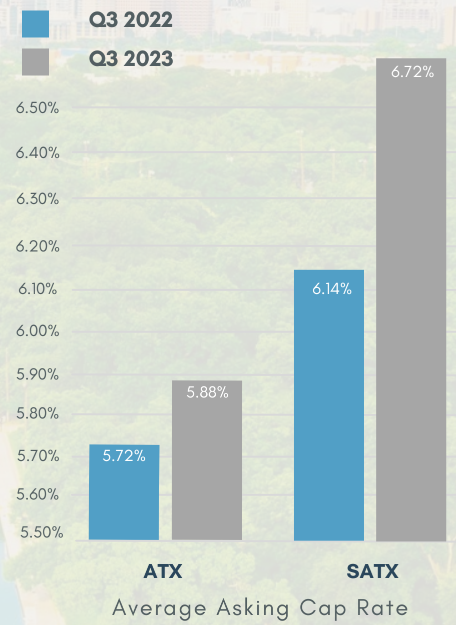
- The average asking cap rate for Class A shopping centers in San Antonio is 6.48%. The average for Class B is 7.03%
- The average asking cap rate for Class A shopping centers in Austin is 5.77%. The average for Class B is 6.01%

	SATX	ATX
# of Listings	28	18
Avg Cap Rate Class A	6.48%	5.77%
Avg Cap Rate Class B	7.03%	6.01%
Average Occupancy	97.19%	98.89%

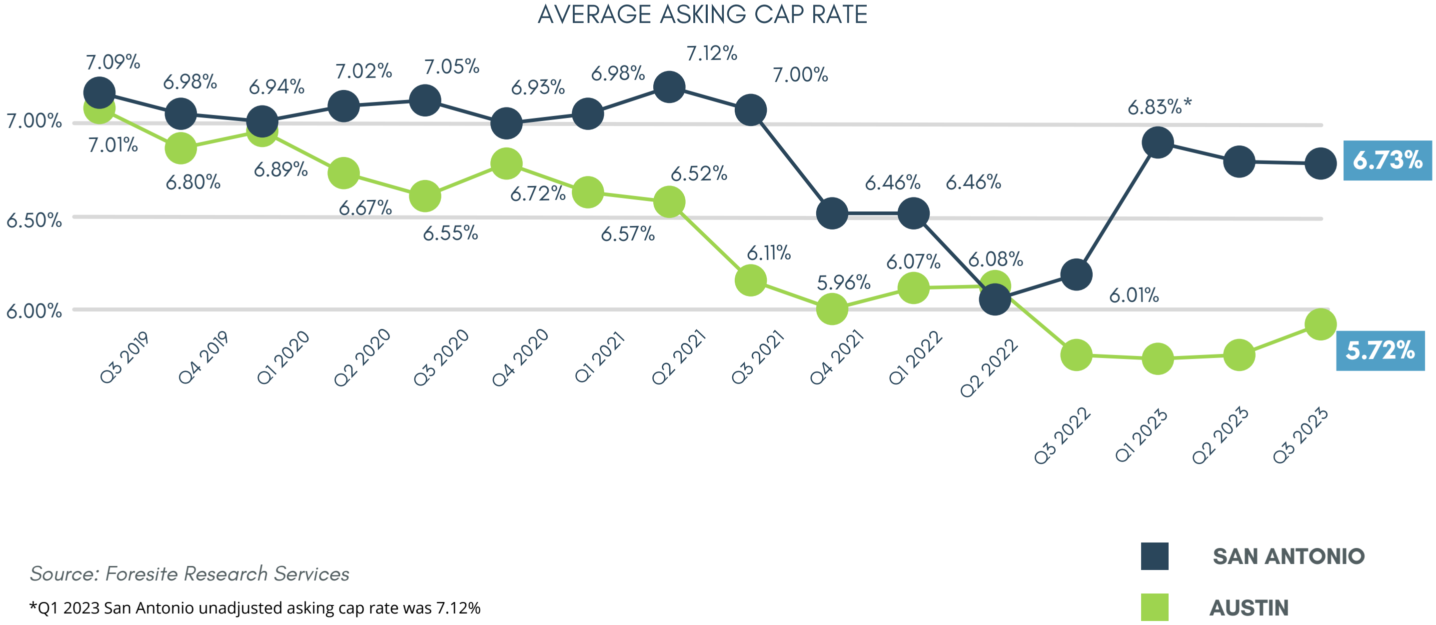
YEAR OVER YEAR TRENDS

	Q3 2022	Q3 2023
Class A & B Centers	61	38
New Listings	17	19
Went Under Contract	7	8
Reduced Price	3	2
Sold	20	9

*San Antonio & Austin Markets Combined



AVERAGE STARTING ASKING PRICE



Source: Foresite Research Services

*Q1 2023 San Antonio unadjusted asking cap rate was 7.12%

Retail Pricing

RETAIL CENTER SALES TRAILING 12 MONTHS (2022 Q4 - 2023 Q3)*

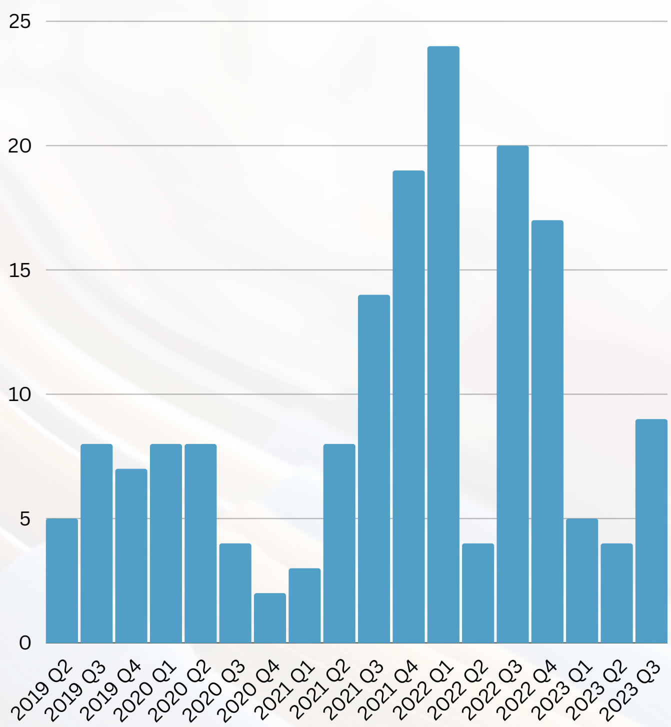
UNDER $5M	AVERAGE CAP RATE 2022	AVERAGE CAP RATE 2023*	AVERAGE PPSF 2022	AVERAGE PPSF 2023	AVERAGE OCCUPANCY 2022	AVERAGE OCCUPANCY 2023
SAN ANTONIO	6.72%	6.47%	$254	$236	92%	90%
AUSTIN	6.31%	6.03%	$372	$404	97%	100%

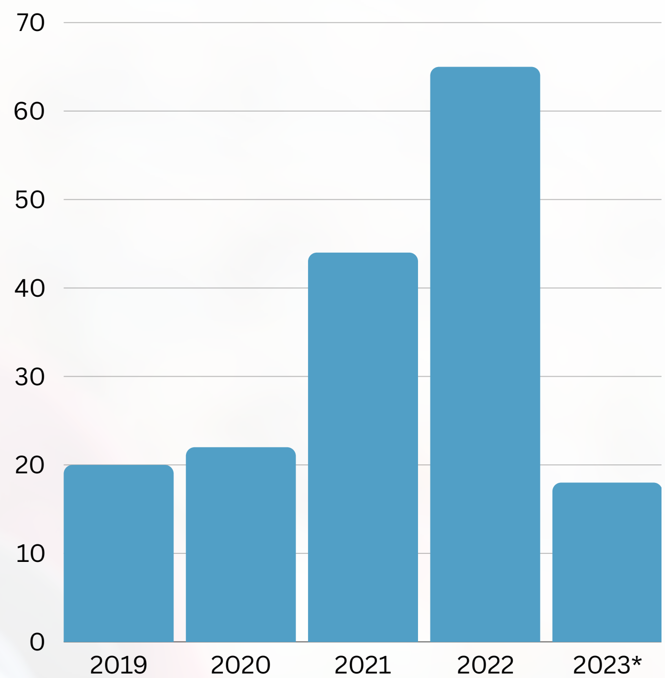
OVER $5M	AVERAGE CAP RATE 2022	AVERAGE CAP RATE 2023	AVERAGE PPSF 2022	AVERAGE PPSF 2023	AVERAGE OCCUPANCY 2022	AVERAGE OCCUPANCY 2023
SAN ANTONIO	6.37%	6.77%	$362	$305	98%	95%
AUSTIN	6.23%	6.74%	$398	$369	82%	95%

*2023 Q3. Sample of 30 Properties.

Source: Foresite Research Services

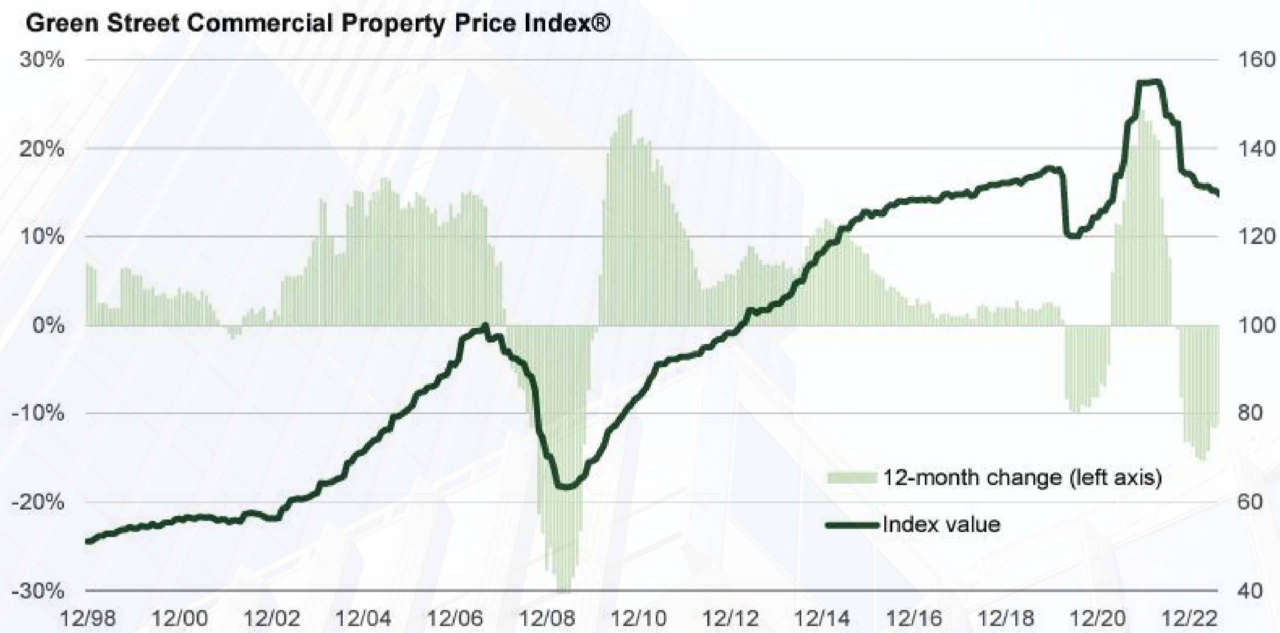
TRANSACTION VELOCITY BY NUMBER OF DEALS
COMBINED SAN ANTONIO AND AUSTIN SALES





*Year to date

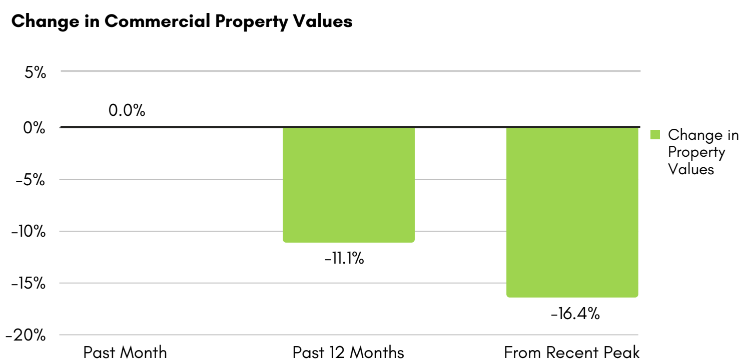
Source: Foresite Research Services



GREEN STREET COMMERCIAL PROPERTY PRICE INDEX

Indexed to 100 in August 2007 | Property Prices Down 16% from March 2022 peak

The Green Street Commercial All-Property Price Index® was unchanged from September to October. Property prices have declined by 11.1% from a year ago.



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.

"The recent rise in Treasury yields is likely to cause another decline in property pricing. We estimate that property prices are already down about 15% from their '22 peak. If bond yields stay near current levels, prices will fall further."

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	129.5	0.0%	-11%	-16%
Core Sector	129.6	0.0%	-12%	-19%
Apartment	148.9	0.0%	-16%	-22%
Industrial	235.4	0.0%	2%	-7%
Mall	81.5	0.0%	2%	-16%
Office	78.0	0.0%	-27%	-31%
Strip Retail	111.5	0.0%	-8%	-15%
Health Care	130.6	0.0%	-11%	-13%
Lodging	107.6	0.0%	-4%	-5%
Manufactured Home Park	286.3	0.0%	-9%	-12%
Net Lease	97.6	0.0%	-7%	-16%
Self-Storage	269.0	0.0%	-12%	-14%

Current Defeasance Scenarios

BY CHAD KNIBBE, CCIM

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

Unique financing environment might allow owners to defease CMBS loans at a reduced cost.

There's no denying the impact that rising interest rates have had on commercial real estate mortgage rates, as well as the values of the underlying properties serving as collateral. The Commercial Mortgage Backed Securities (CMBS) market has been no exception. For the past 10 years, the consistently low treasury rates has made these loans practically non-prepayable due to the high costs of defeasance. That dynamic has now shifted as treasury rates have increased, creating an opportunity for some borrowers holding Commercial Mortgage-Backed Securities (CMBS) loans to defease those loans at a much lower cost than over the past decade.

Defeasance is the process of substituting a portfolio of U.S. government securities for the collateral supporting a CMBS loan, to free up the encumbrance on that property and allow it to be sold or refinanced. When interest rates rise, the cost of purchasing the requisite government securities needed to substitute for that collateral is reduced. In the current environment, a borrower might be able to prepay a CMBS loan without incurring a significant penalty. In some cases borrowers may even be able to retire the loan for less than the outstanding balance.

Borrowers currently looking to sell a property with a CMBS loan to take advantage of a new opportunity, or perhaps refinance a CMBS loan to rebalance their portfolio debt strategy, might be able to retire the loan at a greatly reduced cost.

Defeasance is a complex financial transaction that involves legal, financial, and administrative intricacies. It's essential to consult with experienced professionals, including financial advisors, legal experts, and a defeasance consultant, to navigate this process successfully. They can help you determine if defeasance is the right strategy for your specific situation and guide you through the execution process.

Whether the current high interest rate environment is a result of a changing economic landscape, inflationary pressures, or central bank policies, it has led to an environment where the cost of borrowing is higher than before, but on the flip side for some CMBS borrowers, the cost of defeasance is considerably less. By leveraging this opportunity, CMBS borrowers can retire or refinance their loans at a fraction of the previous cost, optimizing their financial positions in an evolving economic landscape.

Property Tax Update

BY MICHAEL T. HILL II, MBA, SPTC

Michael Hill is a Senior Property Tax Consultant & a Foresite CRE Launch Program Graduate, Class of '23

New legislation gives the largest property tax relief in the state's history

The 88th Texas Legislative Session represents the largest property tax relief in the state's history and aligns with the continuous plea from Texans for tax reform and relief. Conflicting bills from the house and senate addressed critical items to include but not limited to, further relief for homeowners through increased exemptions, appraisal caps on all non-homestead real property valued $5 million or less, and tax rate compression.

The Texas Senate and House could not reach an agreement at the conclusion of the 88th regular session compelling Governor Greg Abbott to call two special sessions to reach resolution. On August 9th, 2023, Governor Abbott signed Senate Bill 2 delivering $18 billion in property tax cuts, making it the largest tax relief package in Texas history. Although Senate Bill 2 received approval from the Governor, in Texas, any new law that impacts the state budget must have the consent of voters through constitutional amendments.

On November 7th, 2023, Texas voters considered 14 constitutional amendments on the ballot with the largest support going to Proposition 4's $18 billion property tax cut. Proposition 4 unofficially received an 83% voter approval of the more than 2 million votes.

The passing of Proposition 4 marks a major victory for the nearly 6 million Texas homeowners resulting in a $1,200 property tax reduction for the average priced home. Key components of the property tax relief plan include:

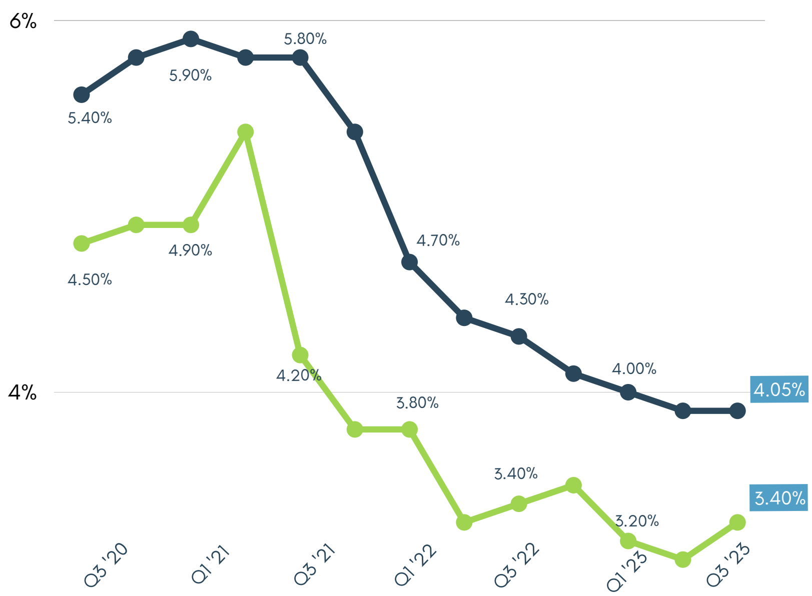
- SB 2 - Increasing the Texas Homestead Exemption from $40,000 to $100,000
- SB 2 - Reducing the overall school tax rate a minimum of $0.107
- SB 2 - Placing a 20% CAP on taxable value increase for properties valued $5 million or less
- HB 5 – Texas Jobs, Energy, Technology, and Innovation ACT (JETI) – Replaces the long standing and controversial Texas Economic Development Act. The JETI Act allows Texas to stay competitive with other states in attracting new companies to Texas leading to job creation and further economic investments into the state.

Texans can expect an immediate relief on their 2023 property tax bills generated by the County Assessor Collector.

Leasing Activity

Consistently strong leasing activity leads to historically low vacancy rates

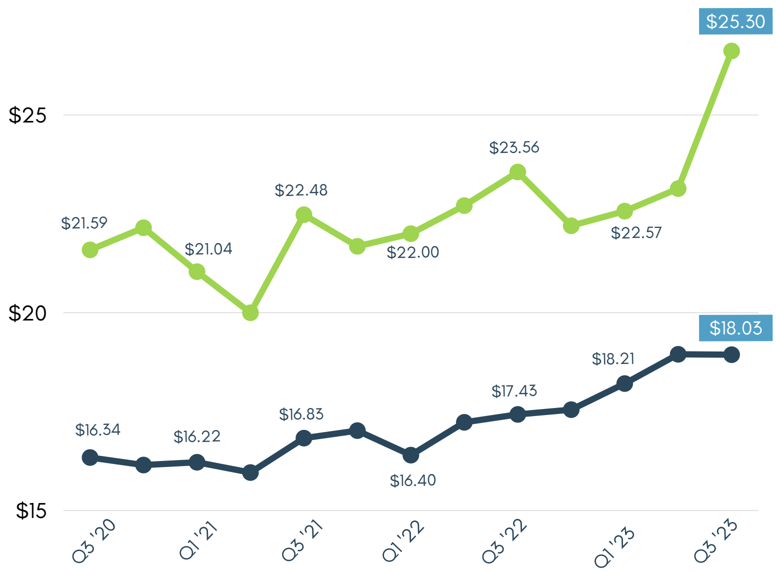
AVERAGE RETAIL VACANCY RATE



4.05% SAN ANTONIO

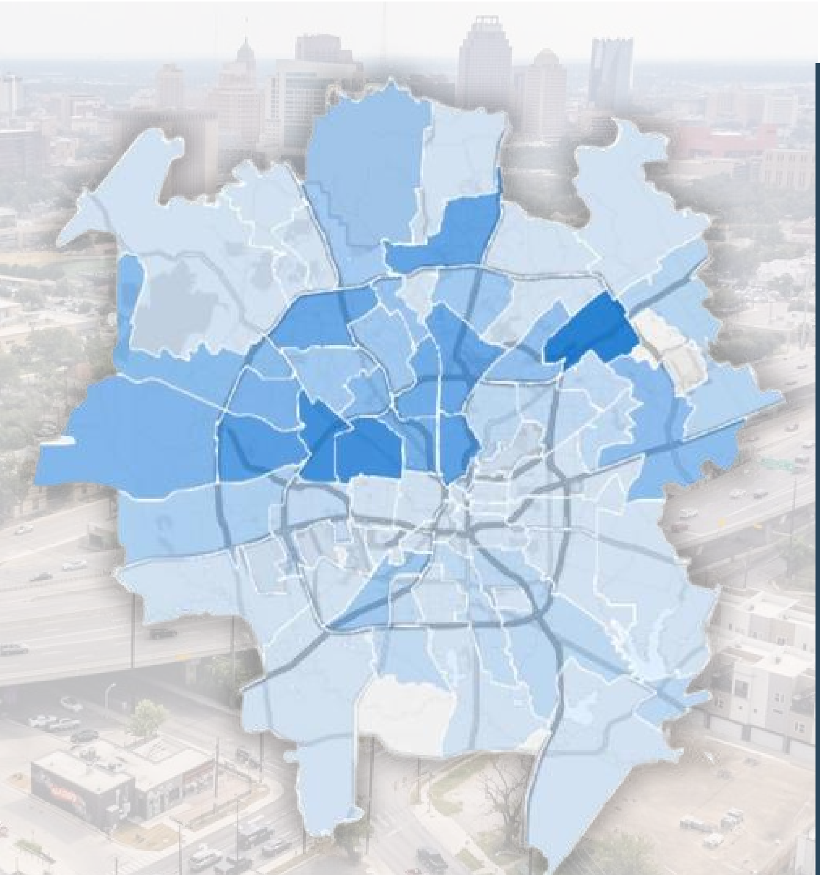
3.4% AUSTIN

AVERAGE RETAIL ASKING RENT



$18.03 SAN ANTONIO

$25.30 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 remained active and new supply has not caught up with demand pushing rent growth 9.2% compared to this time last year when including NNN's.

The Austin retail market has seen rent growth of 8.9% as compared to this time last year when including NNN's.

Both the San Antonio and Austin markets are seeing low vacancy and continued absorption with few new construction starts.

Source: Texas A&M San Antonio

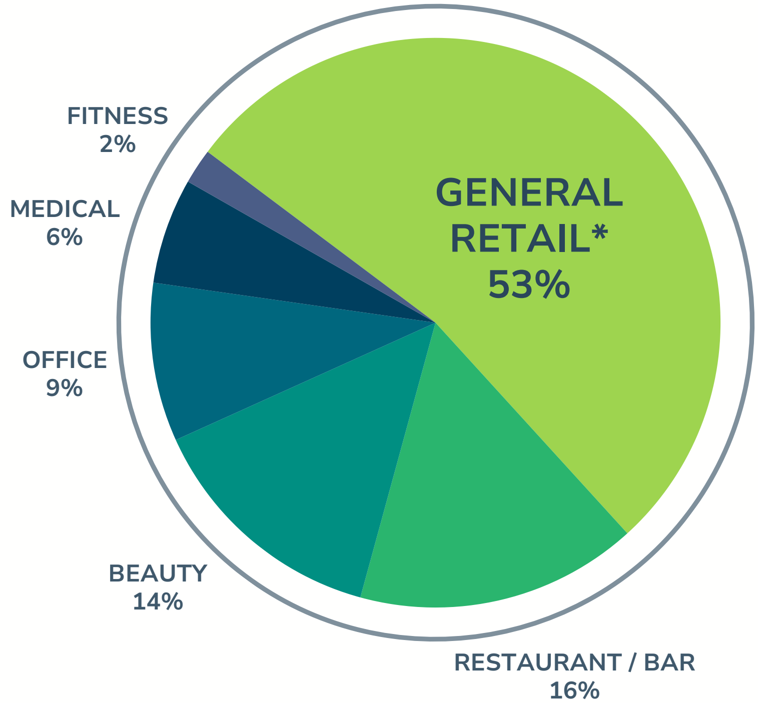
Store Openings and Closings

Expanding Tenants

FORESITE CRE HAS BUSY LEASING YEAR

Foresite CRE collects data on all inquiries from tenants that are expanding. In the past few months, General Retail inquiries have remained constant with only a 2 point drop over the past few months. Restaurants/Bars have seen an increase of 3.8 percentage points, while inquiries from the Beauty industry have almost doubled with an increase of 6.1 percentage points. Medical and Office inquiries have declined by 4.1 and 2 percentage points respectively, and Fitness related companies have remained somewhat the same with a 1.1 percentage point decrease.

*General Retail includes categories such as Clothing Stores, Daycares, Churches, and Vape shops.



RETAIL UPDATES

Closed 52 stores in Texas

Closed 6 stores in San Antonio

Opened 6 stores in San Antonio

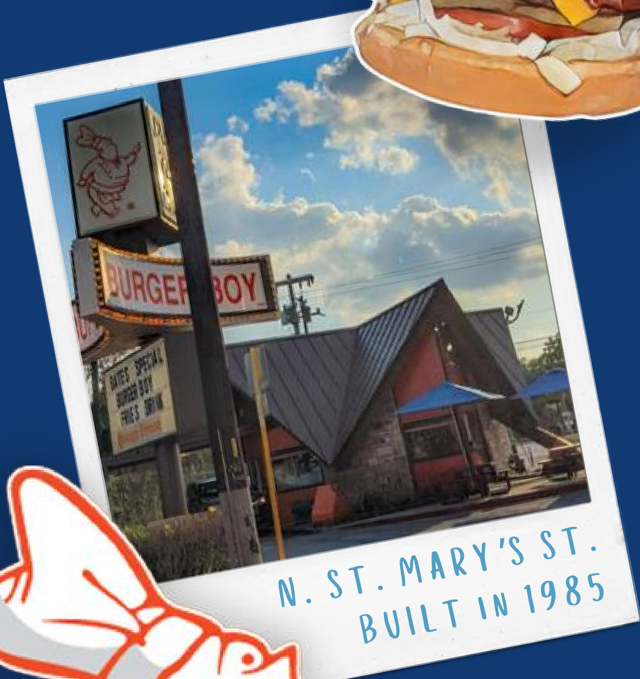
Costco (152,000 sq. ft.) in Georgetown and H-E-B (126,455 sq. ft.) in Kyle

Tim Horton's—a Canada-based coffee chain—announced an expansion of 40 stores around Austin within the next five years.

Insomnia Cookies is planning for its San Antonio debut

This fall, Academy will celebrate grand openings in Brenham and Kyle. The Brenham store will stand at more than 63,000 square feet, and the Kyle store will be approximately 56,000 square feet. Academy is on track to open 13 to 15 stores this year, with the goal of opening a total of 120 to 140 new stores by the end of 2027.

From One Burger to a Growing Legacy



N. ST. MARY'S ST.
BUILT IN 1985

The Story of San Antonio's Beloved Burger Concept

Established in 1955, it once boasted 26 thriving locations before dwindling down to just one. But it was this single location that drew the attention of a group of dedicated patrons who believed in its potential.

We sat down with Bryce Pohlmeier, one of the entrepreneurial minds behind this story of revival and expansion. He shared with us Burger Boy's journey, challenges, and vision for the future.

Tell us a bit about the brand and how it got started.

Burger Boy has been around since 1955 here in San Antonio. And, you know, as we were frequent customers of it, we loved the product. Over the years they experienced some different difficulties where they had up to 26 locations at one time and then had gone down all the way to one. Being loyal customers of the brand we felt like it was a brand that needed to be across San Antonio. The product's phenomenal. It's a hot, fresh made to order burger.

How did you all get involved?

We started talking with the original owner, which was Carl Bates and the Bates family had owned it through all those years, with the intent of maybe franchising and helping him grow it across San Antonio as he was getting older.

So it's probably about a year that we worked on it. Then finally, he said, “You know, I want to sell you the whole brand and you have two months to close the deal.” So he was ready. He was ready to retire and he gave us the opportunity to take this legacy brand that was here in San Antonio and introduce it back to San Antonio, kind of rebranded with the more modern type building and culture and deliver that same hot fresh product. So we took over January 1st of 2017.

Prior to this, myself and the two business partners, we operated Dunkin Donuts franchises here in San Antonio. We opened three of those here before we actually sold that franchise and started looking for something different. What made Burger Boy special is it's our own brand, we can grow it and build it as we see fit.

How have things gone since the acquisition?

Good in some avenues and very challenging in others.

I think we've learned a lot along the way, you know, in the franchise structure, you have a lot of support and help in terms of product delivery. Quite a lot goes into it every day, especially as you're trying to be a growing and emerging concept. But the beauty of it is, we get to make the decisions.

We can make decisions today that can go into effect tomorrow. And we can quickly change things in the direction that we see fit in order to continue to build the brand and the legacy here in San Antonio.

What was the biggest challenge?

We bought it right before COVID. So there were definitely some new experiences for everybody and to be a growing chain with everything that was going on. So really, figuring out how to manage, the different aspects of the business in terms of the product coming in and supplier issues and things like that. That's probably been one of the bigger challenges.

How many locations do you have now and where are you going?

We currently have 6 operating locations here in San Antonio and we're kind of spread across the city. From the far West side to the Northeast, and we have 3 more in the works, 1 that will open here in the next few months and then 2 more that will open in 2024.

There's a couple of areas in San Antonio that we're not in, so looking to expand up to 35 corridor to San Marcos and New Braunfels as well as the surrounding Metro of San Antonio.

What do you look for in a location?

I think it's probably like everybody else's, right? Lots of traffic, lots of rooftops and we really want a good daytime employment population. The main thing is, we really like to be close to schools and families.

Tell us about your community involvement.

We like to align our focuses with schools, support education, feed the hungry, and support the military. A lot of our programs over the years, we do with schools. We pride ourselves a lot on that. We always strive to be more involved. Sometimes it's just the balance between taking care of daily operations and making sure that we're finding those opportunities to be involved.

What were one of your favorite ways you got involved?

We got the opportunity as a management team last February to go out and help Northside ISD and support them in their Special Olympics program. We went out as a management team and volunteered that day to put on the meat for the Special Olympics. It was a good thing that we'll continue to do year after year, just because it's, it's important to us.

Tell us about the milkshakes and the rotation of flavors, how did that come about?

We get asked that all the time. There's a group of 4 or 5 of us that we're constantly tossing around ideas. And in fact, we just, we just left a meeting where we're tossing around ideas. It's getting harder and harder to come up with good ideas but some of it's listening to customers. Sometimes they have great ideas.

And then, you know, I think one of the biggest things is, I think you go back to being a kid. So you think of all these things that were great as a kid and, how can we bring that back and replicate that in today's world and hopefully have some kind of nostalgia. Our brand's nostalgic already, but how can these shakes be kind of nostalgic too?

It takes you back to being a kid. One of our most successful ones has been the fruity pebbles. Who didn't eat fruity pebbles growing up? And you get to share that with the kids and say this is what we used to do as a kid.

And then, I think it was 2019, we started our shake of the month program where we started to do a different shake every month. It's really been very successful. I mean, to be honest, I think our shake following started rivaling our burger following.

People look forward to our shakes. People look forward to the excitement of what, what next month's shake's going to be.

What is your personal favorite?

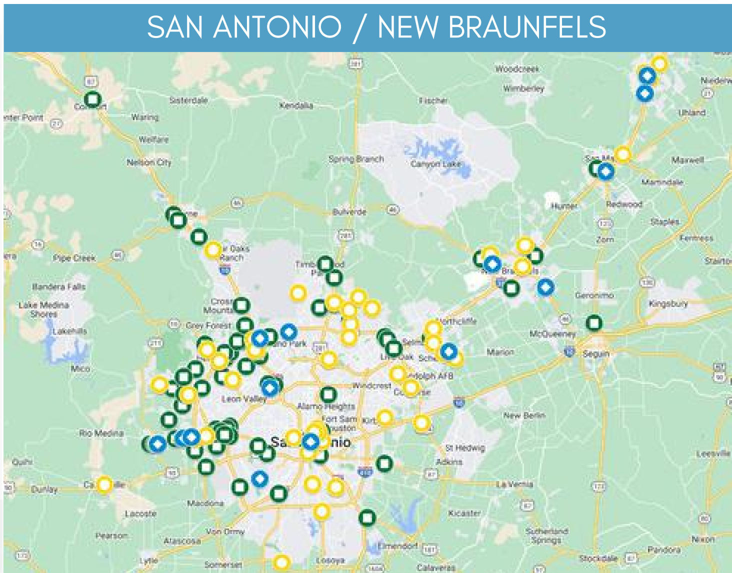
Oh man, that's a tough one. I probably have to say the peppermint chocolate chip. So that was our first seasonal shake that we did.

What do you look forward to for Burger Boy?

We love being a part of San Antonio and its culture and we're continuing to develop the brand across the city and make it a consistent brand that the San Antonio people can continue to count on as our go to burger place.

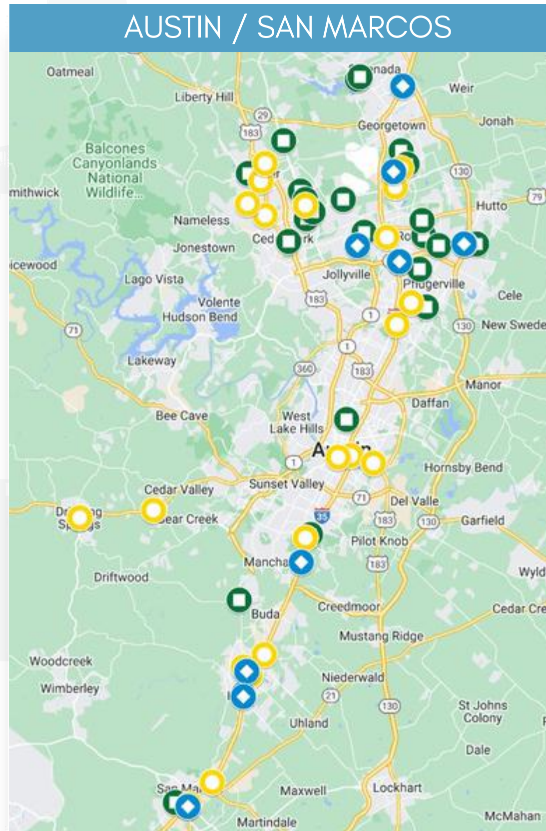
a SAN ANTONIO Original!

New Retail Developments



LEGEND

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



Source: Foresite Research Services

NEW DELIVERIES SLOWING

Excerpts from the San Antonio Express News, Madison Iszler
July 11, 2023

New Starts

Construction continues to be at near-record lows due to high construction and financing costs. About 335,000 square feet of retail space is expected to be added to the market this year, down from 380,000 square feet in 2022, 354,000 square feet in 2021 and 355,000 square feet in 2020.

Vacancies

Austin had the lowest vacancy rate among Texas' major metropolitan areas, with 96.6 percent of space filled across shopping centers totaling 52.5 million square feet. The rate was 94.5 percent in the Dallas-Fort Worth area across 200.2 million square feet and 95.1 percent in Houston across 162.2 million square feet.

Adventures
in Buy-Side Evaluations

Unveiling the Path to Property Investment Success: Lessons in Flexibility and Creative Underwriting

Written By Xavier Alvarado
Investment Sales Associate, Foresite

Record high lending rates, shortage of quality inventory and the persistent need to place 1031 proceeds, adaptability and creativity are essential in today's competitive Real Estate investment market.

Xavier Alvarado and Chad Knibbe with Foresite helped a repeat client evaluate Class B+ assets that fit his investment goals. However, the rapidly evolving market landscape demanded a shift in approach, leading to the discovery of —the Lakeside Shoppes at Branson Landing. By adopting a flexible mindset, the client gained insights that extend beyond current day financials to secure preferred yields.

Starting Expectations vs. Final Vision

The client began their search with a clear goal of acquiring Class B+ assets with a levered IRR of 15% based on a 10-year hold period. However, as we explored the expansive US market, it became evident that achieving this goal might not be practical given the current lending environment along with the gap in pricing expectations between buyers and sellers. The client recognized the need to adapt their underwriting approach and redefine their investment criteria.

Embracing Creative Underwriting

As a team, we analyzed each property's rent escalations, below market rents and potential vacancies, reaching for a higher yield. The exploration led them to consider lease-hold assets as part of their investment strategy. This openness to alternative avenues expanded the investor’s horizons and unveiled a wider and less competitive niche in the market.

The Discovery of Lakeside Shoppes at Branson Landing

Among the properties explored in the underwriting process, the Lakeside Shoppes at Branson Landing stood out. A 30,763 square foot Class A Shopping Center nestled in the heart of Branson's vibrant tourism district, a prime location adjacent to the famous Branson Landing and its proximity to Lake Taneycomo added to its appeal. The presence of a vacancy with scheduled rent bumps for existing tenants was a promising sign, suggesting the potential to surpass the client’s 15% IRR goal.

Lakeside Shoppes at Branson Landing Transaction

"Exceptional team! Both Chad and Xavier were superb during my acquisition of Lakeside Shoppes at Branson Landing. Chad brings a ton of experience and knowledge. He understands the real estate market and is extremely insightful. Xavier goes deep into the research necessary to uncover great properties. Additionally, I appreciate that the whole Foresite team are accessible anytime I have questions." **-Buyer of Branson Landing**

The initial concern was the property's lease-hold title and the ability of obtaining financing. After engaging with various lenders, the concern subsided as the lease duration extended beyond 80 years, which allowed the property to be considered by most lenders.

Seeing through the Eyes of an Owner

As we began assessing properties from an owner's standpoint, we assumed the possible risks and upsides and evaluated properties in a more comprehensive manner. Factors like property maintenance, cell phone data, tenant exclusives and termination options, and projected demographic growth became integral to our assessments.

General Takeaways in Today's Market Environment

The identification period proved to be a valuable learning experience. The client came to the conclusion that a property's viability extended beyond current financials and included factors such as future leases and practical lease assumptions. A flexible approach proved essential to navigate the adjusting lending environment and achieve the client's investment objectives.

The Pace of Property Evaluation: A Remarkable Endeavor

Over the course of four months, we evaluated more than 400 properties across the United States. This accelerated process demanded meticulous attention to detail at a rapid pace. Despite the challenges, we remained committed to delivering the best options to our client, ensuring each property underwent thorough scrutiny.

Crucial Evaluation Factors

In the property assessments, we considered several factors, weighing the pros and cons of each potential investment. Elements such as pricing guidance, conditions of the Roof, HVAC and Parking, market rent trends, 3-mile population demographics, household income levels, projected 5-year population growth, visibility and access to the property were analyzed. Additionally, data on expected monthly visits, vehicle count, ongoing lease negotiations, tenant sales reports, reimbursements on Property Management, and exclusive or termination options were given careful consideration.

The journey of our repeat client in the current real estate market exemplifies the significance of adaptability and creativity. By being open to unconventional strategies and viewing properties from a different perspective, the owner discovered a hidden opportunity in the Lakeside Shoppes at Branson Landing.

With a dedicated approach and a willingness to explore alternative paths, success in today's real estate market becomes not only attainable but also highly rewarding.

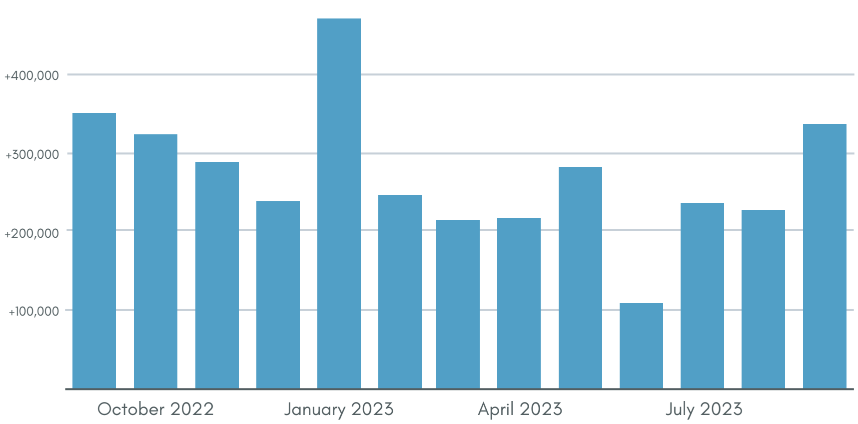
THE STATE OF UNEMPLOYMENT

*SEPTEMBER 2023

LABOR MARKET STILL STRONG THOUGH WAGE GROWTH IS SLOWING

Monthly change in US jobs

Employers added 336,000 jobs in September



Data are seasonally adjusted. Published October 6, 2023 at 12:35 PM GMT
Sources: Bureau of Labor Statistics, LSEG

Unemployment Rate

3.8%	4.1%	3.9%	4.3%
United States	Texas	Austin	San Antonio

U.S. employment increased by 336,000 jobs in September, the largest rise in eight months, as hiring rose broadly, demonstrating the persistent labor market strength, though wage growth is slowing.

The economy created 119,000 more jobs than previously reported in July and August. The broad increase was led by leisure and hospitality, which added 96,000 jobs. Restaurants and bars followed, with 61,000 positions created, returning employment in the sector back to its pre-pandemic level. The economy needs to create roughly 100,000 jobs per month to keep up with growth in the working-age population. The larger-than-expected surge last month and sharp upward revisions to previous months' jobs counts reported by the Labor Department cemented expectations that economic activity accelerated in the third quarter.

The national unemployment rate remained steady at 3.8 percent, continuing the longest stretch under 4 percent unemployment since the 1960s. Wage growth has remained steady - up 4.3 percent over the past year.

Statistics for Texas

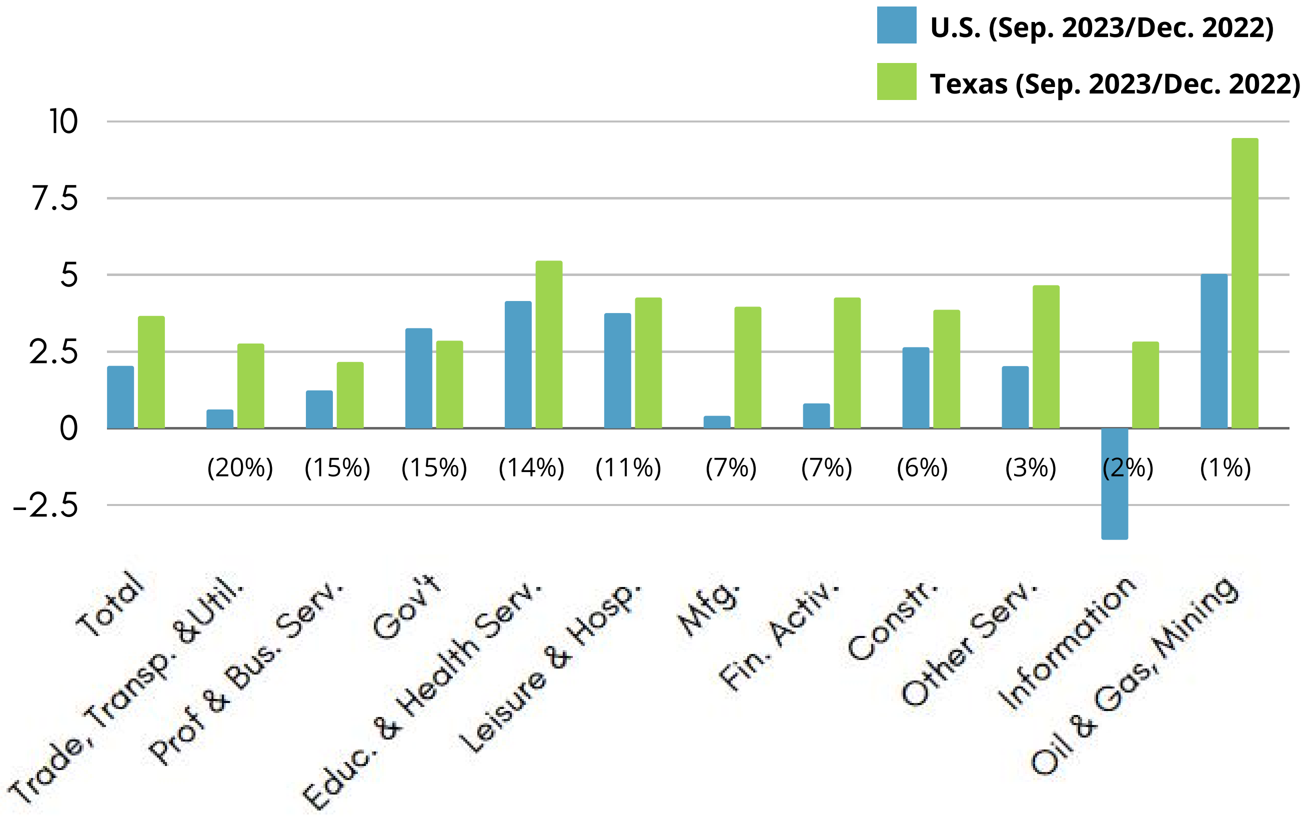
Texas ended the third quarter with an unemployment rate of 4.1 percent, higher than the nation's 3.8 percent.

The labor force remained steady with its continual increases, surpassing a 3 percent growth in a year. The state added 61,400 jobs in September, bringing total employment to over 14 million statewide for the first time, according to the Texas Workforce Commission.

The unemployment rate held steady at 4.1% from Q2 and increased from 3.7% a year ago.

Texas Employment

Texas year-to-date job growth



*Seasonally adjusted, annualized rate
NOTE: Numbers in parentheses indicate share of total state employment for September 2023
SOURCE: Bureau of Labor Statistics, Texas Workforce Commission, adjustments by Federal Reserve Bank of Dallas

Retail Sales

NATIONAL TRENDS

Consumer spending continued to grow in September, with retail sales increasing in five out of nine categories on a yearly basis. Despite facing persistent inflation and high interest rates, the final sales figures were higher than economists' expectations. The data showed consumer resilience despite concerns of the slowing economy.

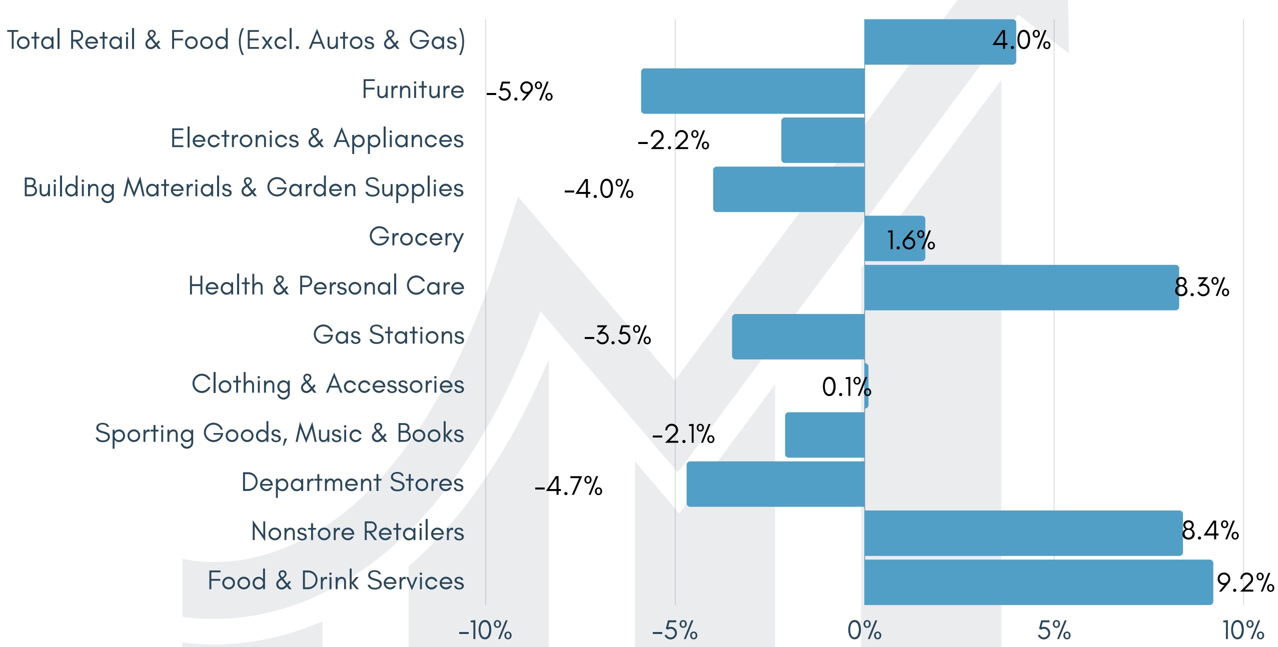
The strong employment report boosted total retail sales, as more people were able to afford discretionary spending. However, sales of electronics, appliances, and furniture declined due to consumers holding off on big-ticket purchases. Overall, the September retail sales figures indicate that consumers are still willing to spend, but are being more selective in their purchases. As the holiday season approaches, retailers will be keeping a close eye on consumer behavior to adjust their sales strategies accordingly.

> The consumer is still healthy and forging ahead with plenty of buying power despite persistent inflation, rising interest rates and geopolitical conflicts.
>
> Firm payroll growth over the past few months has likely helped spending across retail sectors. However, much of the rise was due to car sales, gasoline prices and food services. When you exclude those categories and look at core retail as measured by NRF, the pace of year-over-year growth is slowing.
>
> **The National Retail Federation Chief Economist Jack Kleinhenz**

- Total U.S. Retail Sales for the month of September were 3.8% above September 2022.
- Month over month, September sales were up 0.7% from August, and August sales were 0.8% higher month over month and 2.9% year over year.

SEPTEMBER 2022 - SEPTEMBER 2023

YEAR OVER YEAR RETAIL SALES GROWTH



Holiday Sales Forecast

Adobe Analytics recently forecast holiday sales (Nov. 1 to Dec. 31) to **increase by 4.8%** year-over-year (YoY).

Adobe said strong discounts, and the **increased use of the Buy Now, Pay Later (BNPL) flexible spending method** will drive spending this season as consumers look to stretch their budgets when making purchases.

Shopping on mobile devices is expected to hit a major milestone, surpassing desktop, and driving over half (51.2%) of all online spending this season.

BNPL is expected to **drive 17% more spending this year** – $17 billion in online spending vs. $14.5 billion in 2022, according to Adobe.

ICSC Forecasts 3.8% Growth in Retail Sales

The International Council of Shopping Centers conducted a survey of 1,007 consumers about their plans for the 2023 holiday shopping season.

Though many consumers plan to spend the same or more this year, inflation has driven some to reduce their holiday budgets, according to the survey. Of the consumers who expect their budgets to rise this year, 42% attribute that increase to inflation and a higher cost of holiday items. Conversely, 54% of consumers said they plan to spend less this year because of the same reason, according to the survey.

- 90% of consumers plan to shop this year
- 80% of shoppers expect to spend the same or more than they did last year
- 42% attributed their expectation for increased spending to inflation and a higher cost of holiday items, while 54 percent plan to spend less for the same reason.
- 87% of consumers will shop at brick-and-mortar stores this holiday season, and three-fourths of shoppers plan to buy their holiday goods online.
- most consumers plan to pay with a debit (63 percent) or credit (50 percent) card. Nearly half (48 percent) expect to pay with cash, while 14 percent will leverage buy now, pay later options.
- Seventeen percent of consumers anticipate buying online and picking up in-store. Among consumers who are shopping in stores and online, respondents said they plan to spend 41% of their holiday budget in physical stores and 42% online, the survey found.

“We expect a positive holiday shopping season this year as consumers continue to spend in spite of economic headwinds. This year’s forecast shows the industry is balancing itself out after rapid growth over the last few years, setting retailers up for another successful holiday season.”

Tom McGee
President & CEO
ICSC

Index Rates

INDEX RATES
OCTOBER 2023

4.94% 5- YEAR TREASURY	5.32% 30 DAY AVG SOFR
4.95% 10- YEAR TREASURY	4.85% 10-YEAR SWAP

INDEX RATES
OCTOBER 2022

4.21% 5- YEAR TREASURY	3.17% 30 DAY AVG SOFR
4.01% 10- YEAR TREASURY	4.02% 10-YEAR SWAP

THE FED

Series of rate increases in 2023 foster investor uncertainty

The nine rate hikes over the last 18 months were expected to slow hiring, spending, and broader economic growth in order to reduce inflation; however, recent reports shows that the US economy is still strong.

"Inflation is still too high, and a few months of good data are only the beginning of what it will take to build confidence that inflation is moving down sustainably toward our goal," stated Jerome Powell in October.

Powell noted the progress made since the peak of inflation last year but the Fed's inflation measurement remained at 3.7% through September, nearly twice the central bank's target.

"We cannot yet know how long these lower readings will persist, or where inflation will settle over coming quarters," Powell said. "The path is likely to be bumpy and take some time...My colleagues and I are united in our commitment to bringing inflation down sustainably to 2%."

COMMERCIAL - LIFE COMPANIES

TERM	AMORTIZATION	LTV	SPREAD	RATE
5 - YEAR	25-30	65% - 75%	185-220	6.80%-7.15%
10 - YEAR	25-30	50% - 65%	155-190	6.50%-6.85%
10 - YEAR	25-30	65% - 75%	185-220	6.80%-7.15%
15 - YEAR	25-30	65% - 75%	185-220	6.80%-7.15%
15-20 YEAR	Fully Amortizing	65% - 75%	185-220	6.80%-7.15%

COMMERCIAL - CMBS

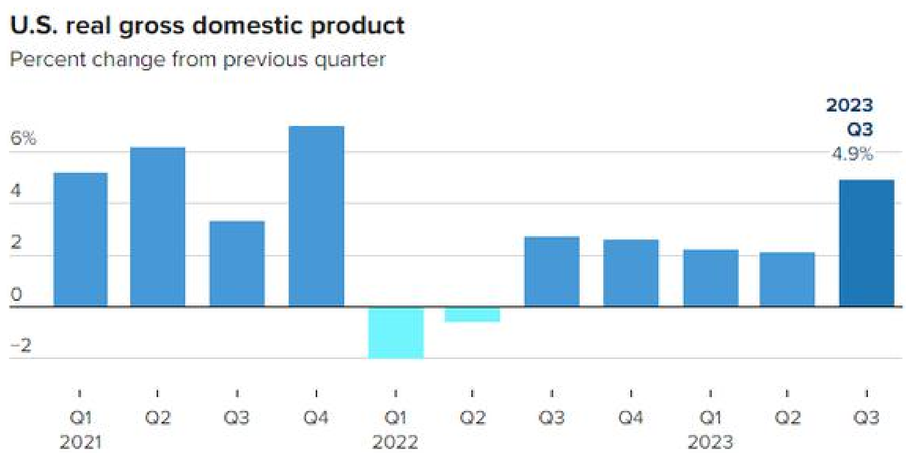
TERM	AMORTIZATION	LTV	SPREAD	RATE
5 - YEAR	30	65% - 75%	350-400	8.20%-8.70%
10 - YEAR	30	65% - 75%	290-340	7.55%-8.05%

Source: Northmarq

Key Indicators

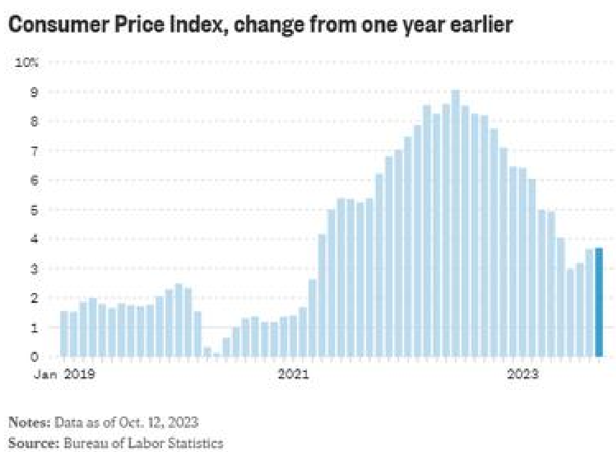
GROSS DOMESTIC PRODUCT

The U.S. economy grew at a faster rate than expected in the third quarter. Real GDP grew at a 4.9 percent annual rate. Despite high interest rates, ongoing inflation, and other headwinds, consumer spending remained strong. Consumer spending, as measured by personal consumption expenditures, increased 4% for the quarter after rising just 0.8% in Q2, and was responsible for 68% of GDP in Q3.



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

CONSUMER PRICE INDEX



The consumer price index rose 3.7% in the 12 months through September, unchanged from August. This early report may show that inflation is leveling off and extending a gradual slowdown in consumer price growth. Prices are not getting lower yet, but they are rising at a slower rate. Consumers remain cautious as elevated inflation continues to impact their purchasing power, potentially leading to reduced consumer spending in the near term.

The Federal Reserve aims for a 2% annual inflation rate, but Fed officials don't expect to see that figure until 2026. Core inflation (a measurement of costs that excludes energy and food) is up 4.1% from September last year. Major contributors to September's inflation report include gas prices, shelter, and restaurants. U.S. inflation has declined by more than five percentage points from its peak in 2022, but still has more to go. Inflation needs to fall further to support household budgets and encourage GDP growth.

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 / Senior Associate

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

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Vice President

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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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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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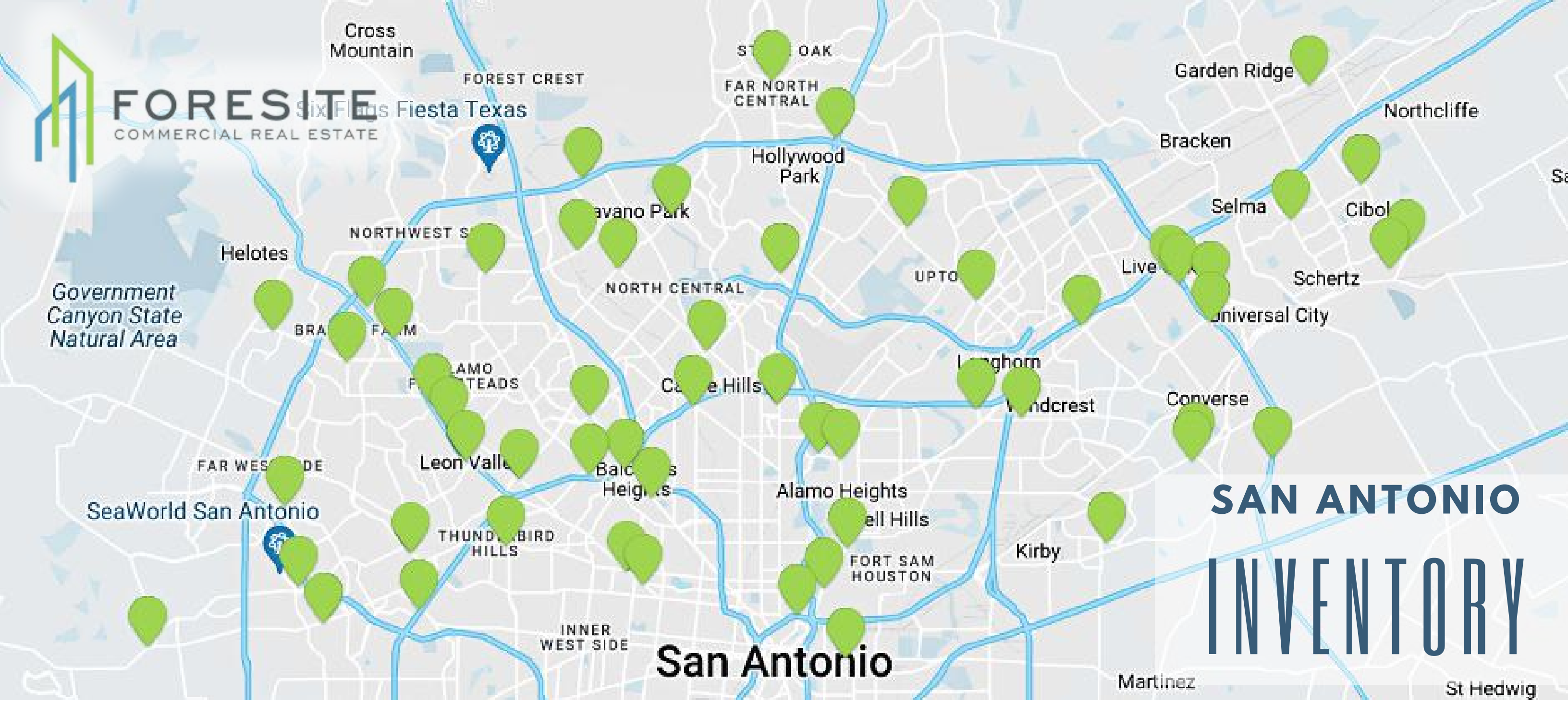
Kevin Gumprecht

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.

KGUMPRECHT@FORESITECRE.COM



SAN ANTONIO INVENTORY

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Miranda Rihn
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Madison Batey
Associate

Andrew Broyles, MBA
Associate

FORESITE
COMMERCIAL REAL ESTATE

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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