OCTOBER 2024

ISSUE 17

CRE marketwire

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

How Leasing Activity has Stayed Strong

Absorption has remained positive as new tenants continue to enter the market and inventory is limited

pg. 07

What Developers Look for in Local Tenants

Five things developers consider when leasing up new construction

pg. 11

ISSUE 17
October 2024

marketwire

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Investment Sales | Leasing |
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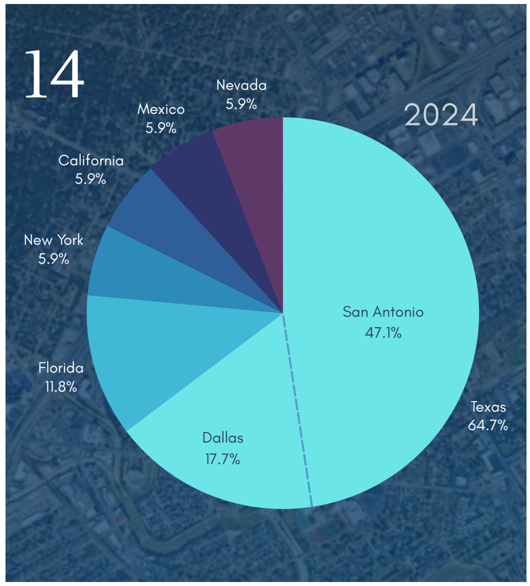


This report contains real data and analytics on the San Antonio and Austin commercial real estate markets covering all metrics of shopping centers and retail buildings, including retail occupancy and cap rates. Sourced from our proprietary extensive research efforts in aggregating hundreds of data points, interviewing active investors and property owners, and adding insights from experts in the segment, this is a comprehensive look at the current condition of the local retail commercial real estate market.

Letter from the editor

OPTIMISM IN THE MARKET

The San Antonio and Austin real estate markets are beginning to see some renewed market activity after the 50 basis point rate cut. Cap rates for new listings have adjusted upwards from the first half of the year and there is 85% more inventory on the market from a year ago. As lenders adjust their underwriting criteria and capital becomes more available, we expect listing and transaction velocity to increase in the fourth quarter and into 2025.

The retail leasing market has tightened as there is little new inventory coming to the market. The Austin market is seeing some pre-leasing activity for new projects. Even after a recent dip in starting rent trends in Austin (down about $6.00 from a year ago) due to new leases moving to older centers, rental rates are expected to continue their climb due to the limited space and high demand. Starting rents in San Antonio are 5.29% higher than they were a year ago.

Although increases in the cost of construction are starting to cool down, they have still risen by 5.41% over the last year. Looking ahead to 2025, interest rate reductions may stimulate delayed projects, which could increase competition for labor and materials, potentially driving costs higher. Many new construction projects remain on hold, as ground-up development is still difficult to justify financially. However, projects that are pre-leasing have benefited from strong leasing activity.

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

The U.S. economy has shown resilience this year, with growth slightly outpacing projections. Inflation is still elevated, and concerns are growing over a weakening labor market. While September did show improvement with a stronger jobs report and the national unemployment rate is 4.1%, the long term outlook hinges on how well the economy can manage both inflation and employment challenges.

The Federal Reserve lowered rates during their September meeting as expected, though the 50 basis point cut exceeded some economists' expectations. It is generally expected that there will be an additional four 25 basis point cuts in 2025.

The economy may be on track for the soft landing we've been targeting since the disruptions of the COVID pandemic. Tenants and investors are anxious to see how the upcoming election might impact the landscape. While we anticipate some improvement in the first half of 2025, activity is likely to remain subdued as transaction volumes recover slowly and the leasing market continues to face challenges.

CURRENT ISSUE'S KEY POINTS

ON THE MARKET

- 71 class A & B multi-tenant retail properties were publicly marketed during the third quarter of 2024.
- Twelve new listings came to market during the quarter. Eight properties went under contract. Nine sold.
- San Antonio’s average multi-tenant retail asking cap rate for all product sizes was 6.76%.
- The average listing cap rate for all product sizes in Austin is 6.15%, up 30 basis points from Q2 2024.
- Inventory in Central Texas grew this quarter as optimism in the market was fueled by lower interest rates and pent up demand.

LEASING AND VACANCY

- The retail leasing market has maintained low vacancy and high rents as the construction pipeline continues to trend downwards in both Austin and San Antonio.
- The average vacancy rate in San Antonio is 4.0%, down 10 basis points from the same period last year.
- The average vacancy rate in Austin is 3.0%, up 30 basis points from the same period last year.
- San Antonio's average starting rental rate is $23.06, up $1.16 from last year.
- Austin’s average starting rental rate is $29.09, a 17.8% decrease from last year’s $35.40.

CONSTRUCTION AND NEW DEVELOPMENTS

- Construction material costs have started to cool down. The recent plateau in construction prices follows a period of significant fluctuations, signaling a potential shift toward greater stability in the market.
- Labor costs have risen as wages in the construction industry have outpaced those in other sectors.
- Looking ahead to 2025, interest rate reductions may stimulate projects that have been delayed, but new project starts are expected to remain low.

LABOR MARKET

- Texas ended the third quarter with an unemployment rate of 4.1 percent, equal to the nation's 4.1 percent.
- Austin's unemployment rate is 3.4%. San Antonio's is 3.8%.
- The labor market was stronger than anticipated, with job gains, a lower unemployment rate, and accelerating wage growth. Wages for hourly pay are up 4% compared to a year ago.

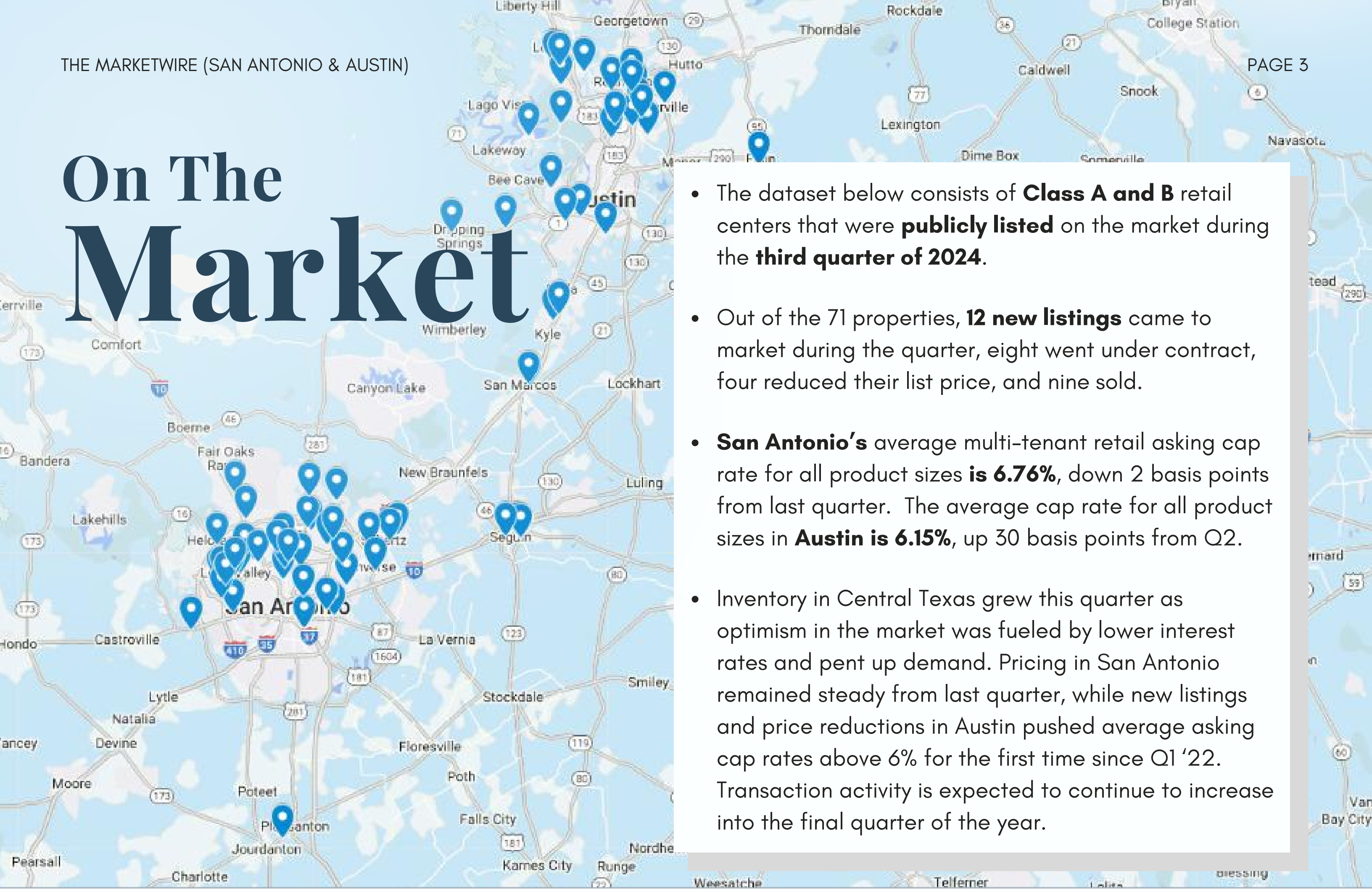
RETAIL SALES

- Total U.S. Retail Sales for the month of September were 1.7% above September 2023.
- There was strong growth in e-commerce sales and dining out. Although non-store sales reached an all time high, 80% of retail sales still occur in physical stores.
- Overall, the September retail sales figures indicate that there has been some tightening, but consumers are still willing to spend where they see value.

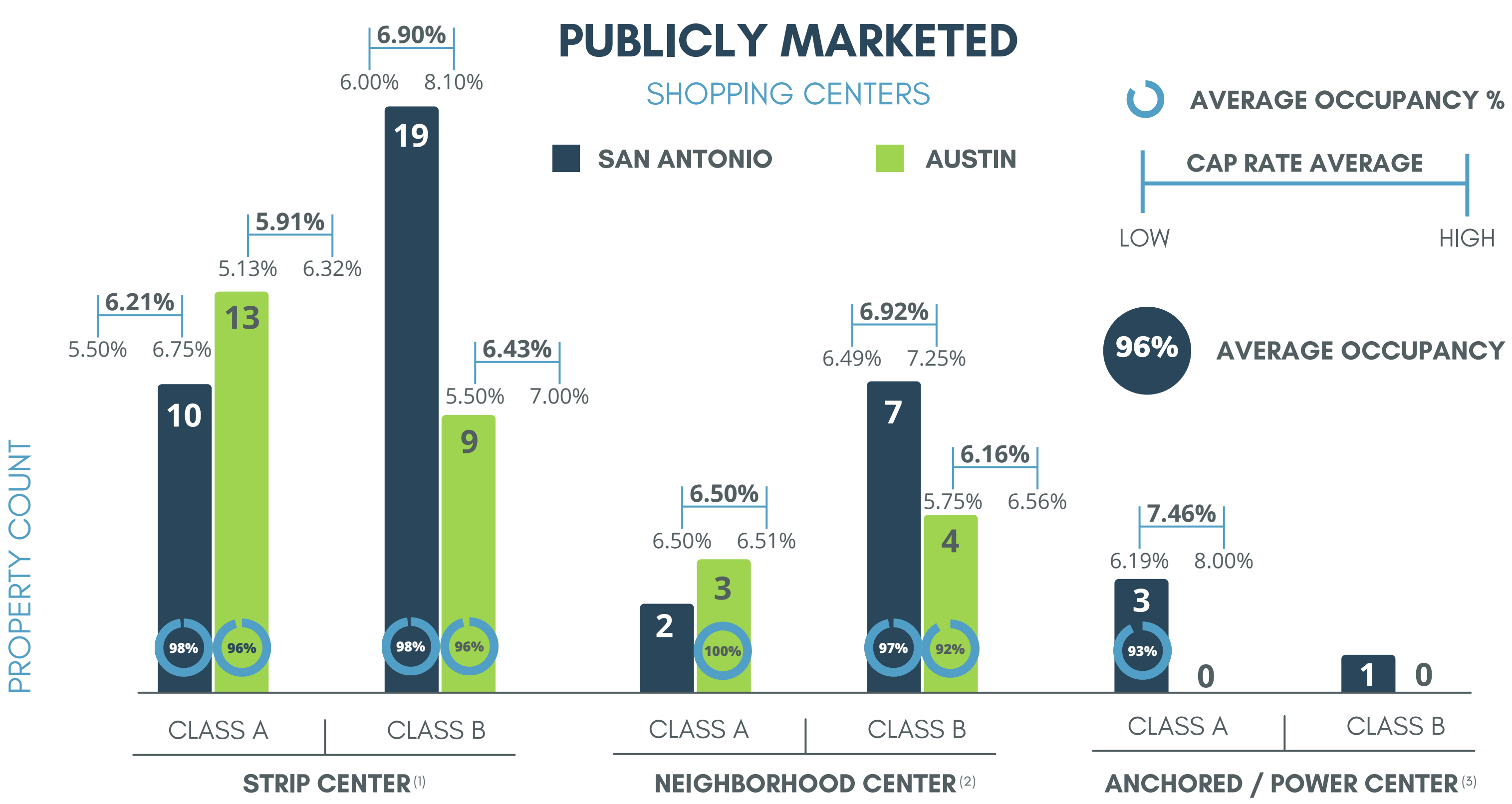
KEY INDICATORS

- The U.S. economy continues to show resilience despite uncertainties and external pressures.
- Real GDP is expected to grow by 2.5% in 2024.
- Reports show that inflation is following an uneven path down, but likely will not prevent the Federal Reserve from proceeding with an additional rate cut at the November meeting.

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 2024**.
- Out of the 71 properties, **12 new listings** came to market during the quarter, eight went under contract, four reduced their list price, and nine sold.
- **San Antonio's** average multi-tenant retail asking cap rate for all product sizes **is 6.76%**, down 2 basis points from last quarter. The average cap rate for all product sizes in **Austin is 6.15%**, up 30 basis points from Q2.
- Inventory in Central Texas grew this quarter as optimism in the market was fueled by lower interest rates and pent up demand. Pricing in San Antonio remained steady from last quarter, while new listings and price reductions in Austin pushed average asking cap rates above 6% for the first time since Q1 '22. Transaction activity is expected to continue to increase into the final quarter of the year.



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

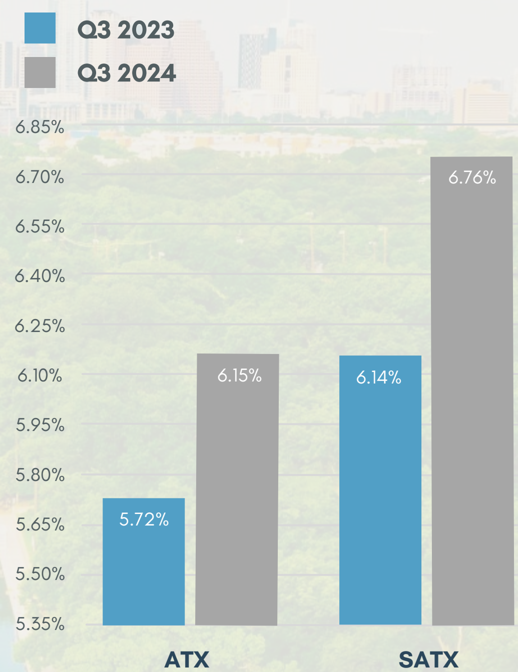
- The average asking cap rate for Class A shopping centers in San Antonio is 6.43%. The average for Class B is 6.91%
- The average asking cap rate for Class A shopping centers in Austin is 6.01%. The average for Class B is 6.37%

	SATX	ATX
# of Listings	42	30
Avg Cap Rate Class A	6.43%	6.01%
Avg Cap Rate Class B	6.91%	6.37%
Average Occupancy	97.10%	95.64%

CHANGES TO LISTED PROPERTIES

	Q3 2023	Q3 2024
Class A & B Centers	38	71
New Listings	19	12
Went Under Contract	8	8
Reduced Price	2	4
Sold	9	9

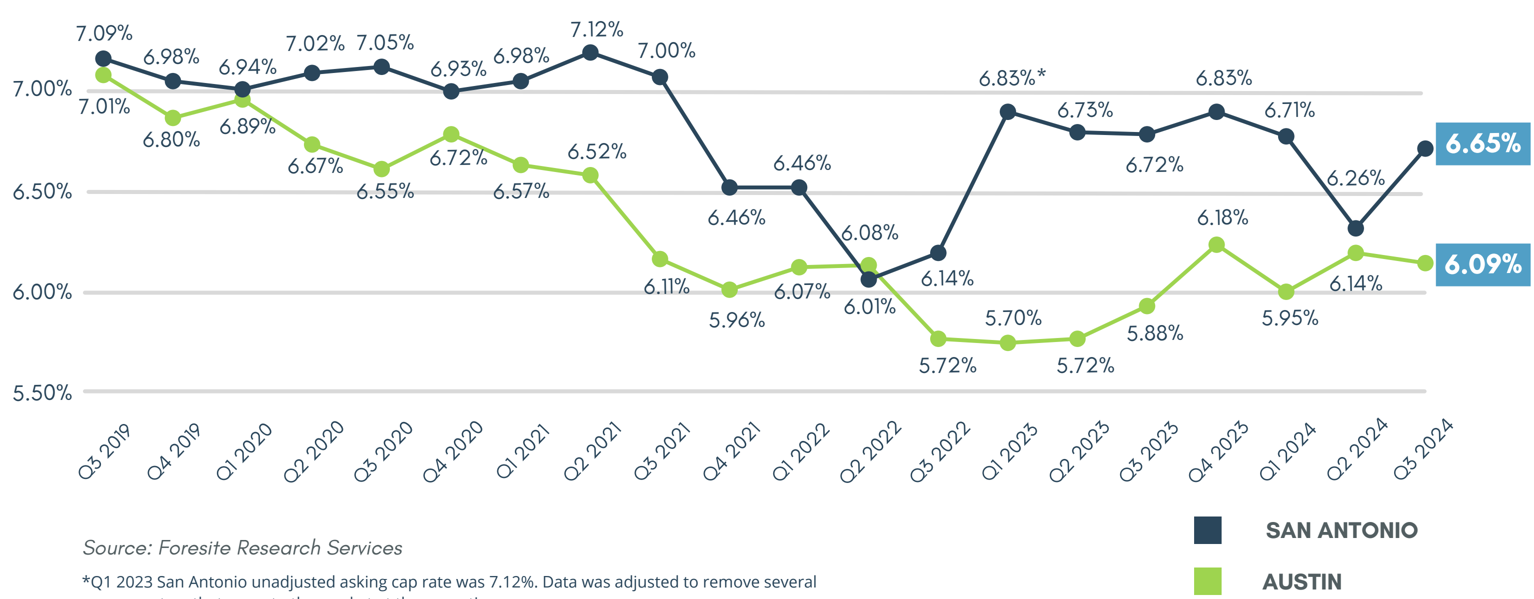
*San Antonio & Austin Markets Combined



Average Asking Cap Rate

AVERAGE STARTING ASKING PRICE

AVERAGE ASKING CAP RATE FOR NEW LISTINGS



Source: Foresite Research Services

*Q1 2023 San Antonio unadjusted asking cap rate was 7.12%. Data was adjusted to remove several power centers that came to the market at the same time.

Retail Pricing

RETAIL CENTER SALES TRAILING 12 MONTHS (2023 Q4 - 2024 Q3)*

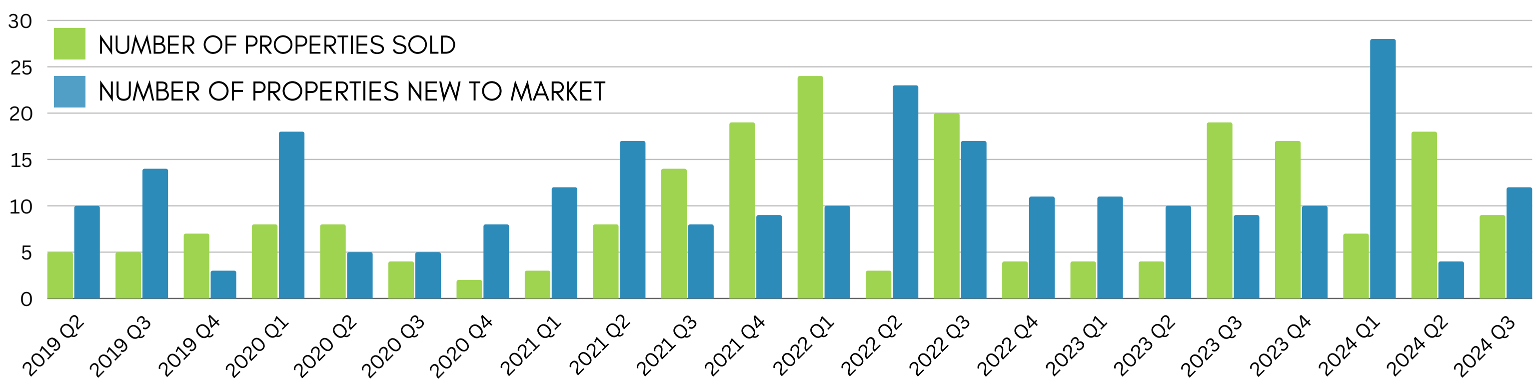
UNDER $5M	AVERAGE CAP RATE 2023	AVERAGE CAP RATE 2024	AVERAGE PPSF 2023	AVERAGE PPSF 2024	AVERAGE OCCUPANCY 2023	AVERAGE OCCUPANCY 2024
SAN ANTONIO	6.47%	7.15%	$236	$279	90%	93%
AUSTIN	6.03%	6.14%	$404	$415	100%	100%

OVER $5M	AVERAGE CAP RATE 2023	AVERAGE CAP RATE 2024	AVERAGE PPSF 2023	AVERAGE PPSF 2024	AVERAGE OCCUPANCY 2023	AVERAGE OCCUPANCY 2024
SAN ANTONIO	6.77%	7.09%	$305	$309	95%	92%
AUSTIN	6.74%	6.36%	$369	$402	95%	98%

*Sample of 50 Properties.

Source: Foresite Research Services

COMBINED SAN ANTONIO AND AUSTIN - NEWLY LISTED AND SOLD



"Although the Q3 stats are just starting to show it, we have recently seen a marked increase in properties coming to the market for sale. The FED decision to cut rates in September has spurred sellers who previously were waiting on the sidelines, to enter the market in expectation of continuing future rate cuts leading to stronger asset values. We expect this trend to gain further steam in Q4 and are optimistic it will continue through 2025. "

Chad Knibbe, CCIM
Foresite CRE, Director of Investment Sales

Source: Foresite Research Services

Shopping Center in San Antonio Held for 20 Years Has a New Owner

SAN PEDRO VILLAGE

Transaction highlights the importance of an experienced team of specialists working together.

San Pedro Village, a shopping center located next to the highly active North Star Mall in the heart of San Antonio, recently changed hands. This property, held by the seller for twenty years, was sold to a large regional buyer with assets across multiple Southern states.

"We collaborated closely with the seller to add value and bring this property to the market at the ideal time, attracting significant buyer interest and achieving the price the seller aimed for."

- Alex Tatem, Listing Agent

The Foresite team was hired to fill vacancies, firm up the rent roll, and get the property management books in order for the sale. The team secured several leases at the center including an attractive letter of intent (LOI) for the vacant suite, which would bring the center to 100% occupancy. However, the buyer preferred to keep the space vacant for their own targeted tenant plans, as the space had much potential for future occupancy.

"We were able to set up a competitive environment for the final vacancy and toured several groups in one day to receive an above market offer on the elbow space."

- Vicki Adelstein, Leasing Agent

As the property was being prepared for sale, issues with the underground plumbing were discovered, adding to the complexity of finding a resolution for a smooth closing. Through open communication and a shared commitment to resolving the issue, they managed to align their interests and find a solution that satisfied all involved, with the assistance of the very experienced property management team at Foresite.

"The due diligence presented some structural problems that required extensive corrections. Solutions were implemented and the closing occurred on time."

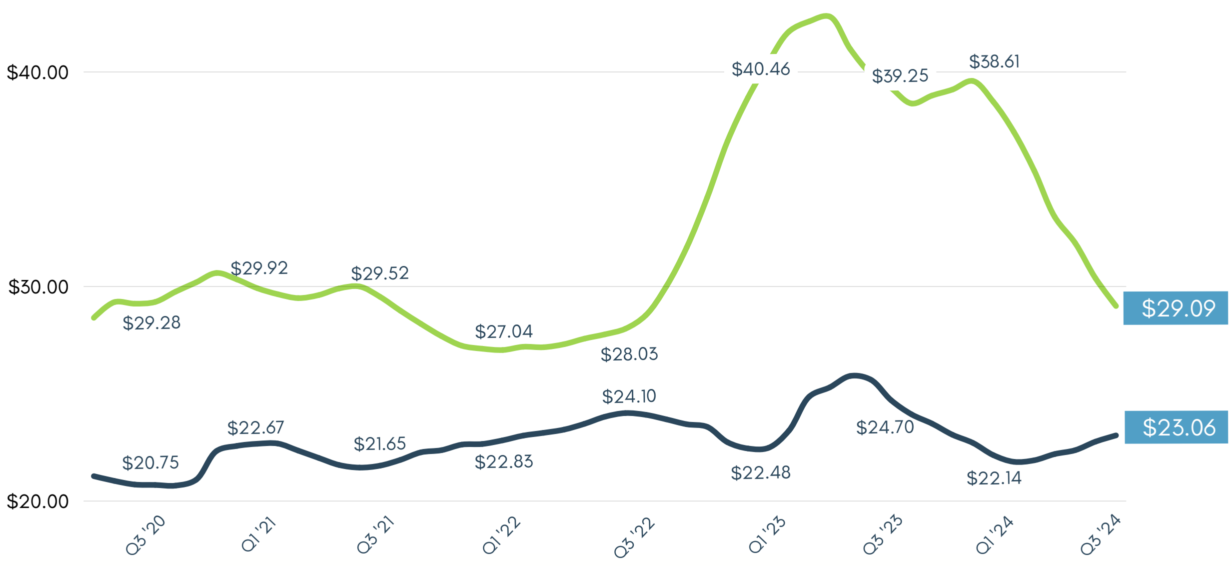
- Nancy Braun, Director of Property Management

This transaction highlights the importance of an experienced team of specialists working together to overcome obstacles during property transactions. San Pedro Village now begins a new chapter under its new ownership.

Leasing Activity

Central Texas is experiencing a very strong leasing market

STARTING RENT TRENDS



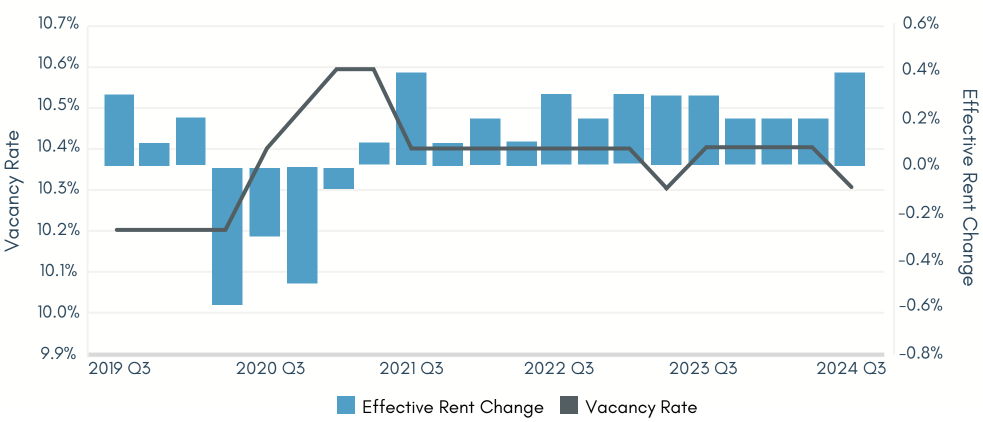
$29.09
AUSTIN

$23.06
SAN ANTONIO

Source: Compstak Avg 3 mo moving includes reported concessions

NATIONAL RETAIL RENT AND VACANCY TRENDS

Lack of New Construction Contributes to Lower Vacancy After Four Straight Flat Quarters



**These retail statistics represent national averages of neighborhood and community shopping centers only. Moody's does not report mall rents at the metro level.*

- The retail sector has evolved substantially over the last two decades, and in Q3 2024 the vacancy rate dropped by 10 basis points to 10.3%. A significant performance gap between struggling malls, especially those dependent on major chain stores, and newer mixed-use retail spaces continues.
- The Q3 2024 data indicated a slight decrease in the longstanding 10.4% vacancy rate for the retail sector, dropping to 10.3% this quarter. Asking rents saw a marginal increase of 0.3% to $21.85, while effective rents rose by 0.4% to $24.87 per square foot.
- Retail vacancies declined or remained flat in more than half (51 out of 80) of primary metros in Q3, but the changes were mostly moderate and stable, indicating the national trend was widespread.

Source: Moody's Q3 2024 Preliminary Trend Announcement

ABSORPTION

The San Antonio retail market leasing activity had negative absorption in the second quarter due to a few larger tenant move-outs, but absorption has been positive for the first half of the year overall.

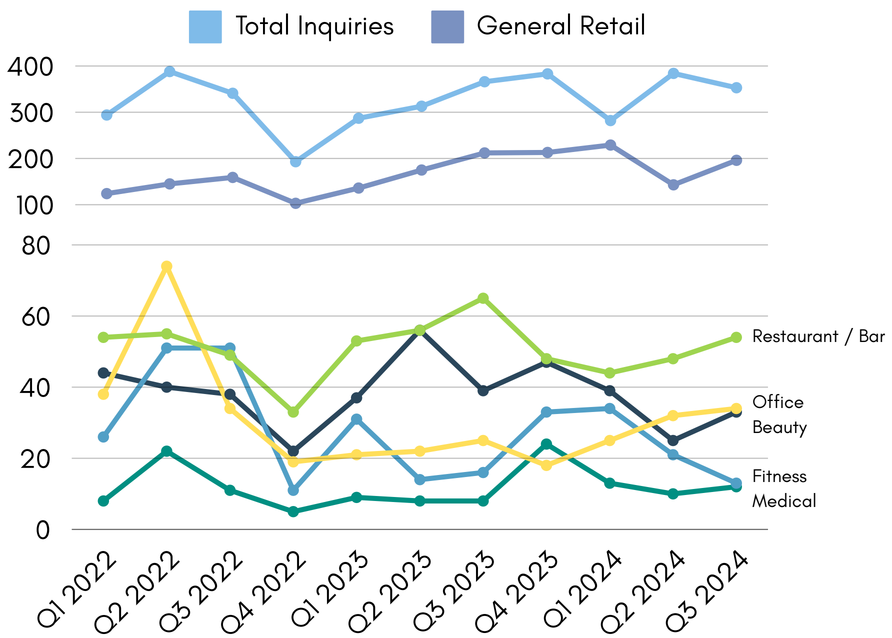
The Austin market had positive absorption and strong pre-leasing activity. The available inventory tightens as the vacancy rate continues to decrease. Rental rates are expected to continue their climb due to the limited space and high demand.

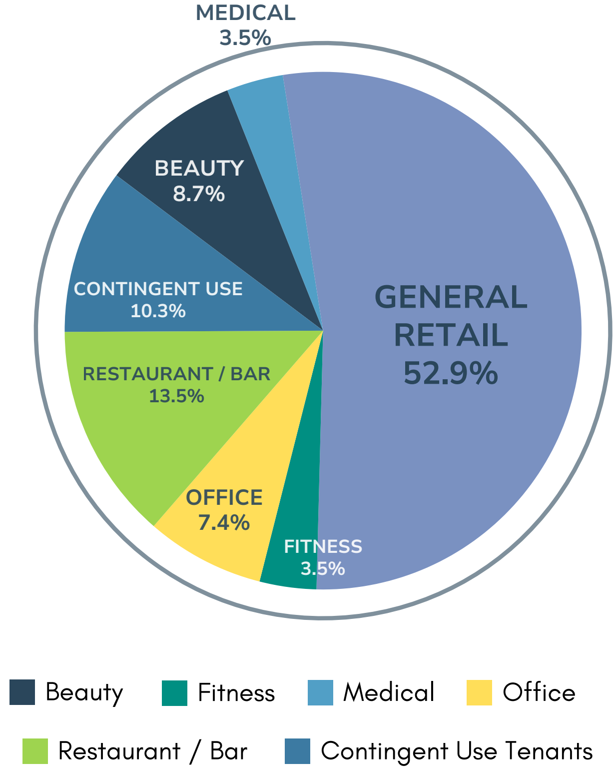
The construction pipeline continues to trend downward for both markets.

Leasing Activity

Incoming inquiries from tenants looking for space continues to be strong

INQUIRIES FROM TENANTS THAT ARE EXPANDING





Darker areas indicate higher leasing inquiries based on inbound calls to Foresite for 2024 year-to-date.

Tightened Supply of Retail Space Driving up Occupancy

The lack of new retail inventory delivered in San Antonio has pushed demand to all time highs. Retail leasing agents report receiving multiple LOI's on desirable vacancies allowing Landlords to have the upper hand in determining terms.

Lower quality properties are not seeing dramatic increases in rents however and much of this is due to increased NNN costs (mainly comprised of property taxes) putting downward pressure on rents.

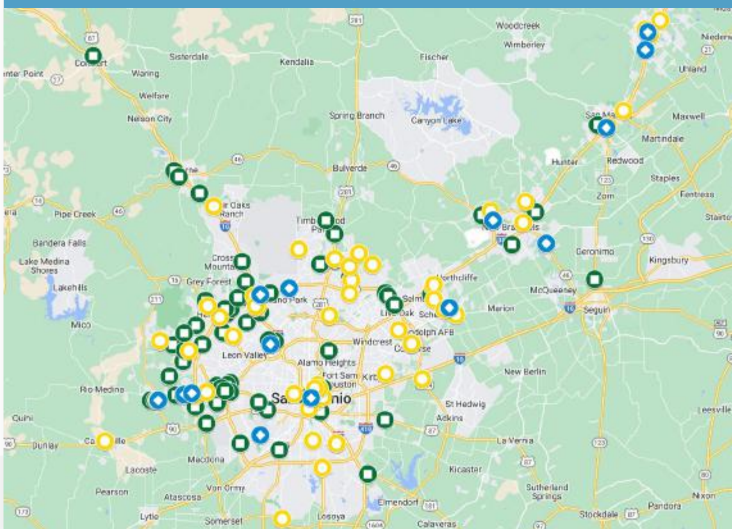
*Contingent Use Tenants includes categories that are not always approved by the landlord, such as Liquor Stores, Daycares, Churches, and Smoke/Vape/CBD shops.

Source: Foresite Research Services

New Retail Developments

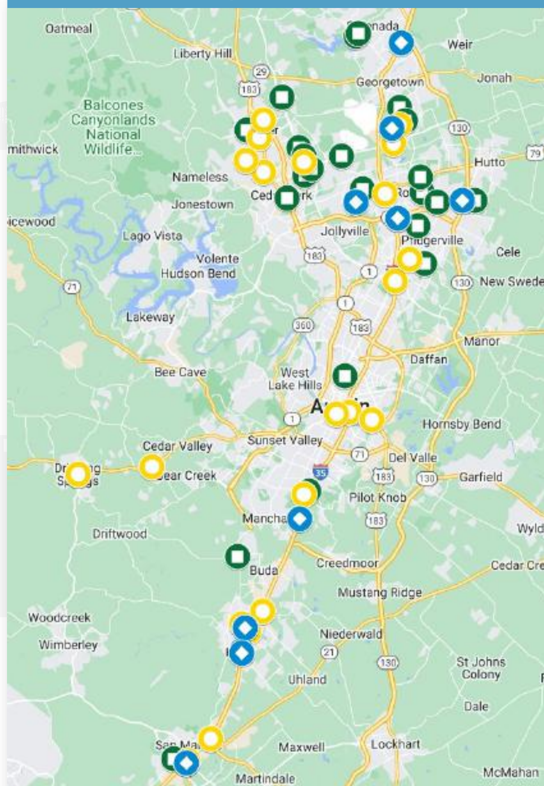
Tenant demand for space and stabilizing costs urge new development starts

SAN ANTONIO / NEW BRAUNFELS



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

AUSTIN / SAN MARCOS



Source: Foresite Research Services

CONSTRUCTION COSTS STABILIZING

Sourced from Rider Levett Bucknall's (RLB) mid year report

July 10, 2024

Construction Costs

Construction costs are starting to cool down, with the pace of increases slowing quarter by quarter. Over the past year, costs have risen by 5.41%, marking a slight dip from the 5.85% growth rate seen at the beginning this year. In the first quarter, costs climbed by 1.31% compared to the previous quarter, but by the second quarter, the increase tapered to 1.12%. The recent plateau in construction prices follows a period of significant fluctuations, signaling a potential shift toward greater stability in the market.

Looking ahead to 2025, interest rate reductions may stimulate projects that have been delayed, which could potentially put additional upward pressure on costs due to increased competition for labor and materials. Labor costs have risen as wages in the construction industry have outpaced those in other sectors. While construction costs may stabilize or continue to increase at a slower pace, new project starts are expected to remain low in 2025. This recent decrease in costs could allow new construction to sell at lower prices compared to properties built in the last three to five years, creating a competitive edge for newer projects.

5 things a developer looks for when leasing to local tenants

BY TYLER ALLEY, ROSE CITY PARTNERS

Tyler is the President and CEO of Rose City Partners, a family business creating generational impact through community-driven development.

#1) A Clear Business Idea

The first question we ask potential local tenants is “what kind of business are you looking to open?”

You would be surprised how often the answer is a handful of different ideas for potential businesses. If someone doesn’t know exactly what kind of business they want to do – run!

#2) Reasonable Cost Expectations

The second question we ask potential local tenants is “how much have you budgeted for this project?”

In my experience, when tenants fail, it all starts during the construction process when they run out of money. They almost always find a way to finish the project, but it usually comes at a great cost. Often, it comes with debt or a reduced marketing budget. This question really helps to weed out who is serious and who hasn’t put in the proper research.

#3) Experience

“Have you operated a business like this before?”
This answer can come in two forms. Ideally, the tenant owns and operates a similar business elsewhere and this is their third or fourth location. With that said, even having decades of experience in the industry is a great sign. This often comes down to a gut feeling, which leads me to my next point…

#4) Intangibles

Sometimes, you just know it’s going to work out. And sometimes, you just know it’s going to fail. Maybe it’s because the operator doesn’t seem to have their things together. Maybe it’s because the use doesn’t seem to fit. Maybe it’s just a gut feeling after meeting them.

Admittedly, this actually works in the tenants favor more often than not. Some of my best tenants are tenants I took a chance on, and it came from just looking them in the eye and believing what they were saying. Maybe it’s because if they can sell their business to me, they can sell it to customers.

#5) Financials

Are financials important? Yes.
Are they the most important thing when choosing a tenant? Not in my opinion.

I know that strong financials are helpful with lenders and eventual buyers, but I never go into a deal thinking about going after the tenant to get obligated rent.

I want a tenant who is hungry, who is organized, and who will do whatever it takes to make their business a success. So long as they have enough money in the bank to get the project going, I will almost always choose the tenant that I think will be most successful, regardless of who has the better financials.

"Ultimately, the best credit is a successful business, not a strong balance sheet.."

Tyler Alley

New and Coming Soon!

New and expanding concepts in and around San Antonio and Austin

1. **Amorino Gelato Store**
200 River Walk, San Antonio, TX 78205

2. **Dollar General**
E Southcross, San Antonio, TX 78222

3. **Umiya Sushi**
911 N Hunt Ln, San Antonio, TX 78251

4. **Soap Laundry Lounge**
900 Oblate Dr, San Antonio, TX 78216

5. **Nothing Bundt Cakes**
10003 NW Military Hwy, San Antonio, TX 78231

6. **Toasted Yolk**
18402 U.S. 281 Access Rd Bldg A Ste 101, San Antonio, TX 78259

7. **Visionworks Headquarters**
19100 Ridgewood Pkwy, San Antonio, TX 78259

8. **Yana Kitchen**
12015 Culebra Rd, San Antonio, TX 78253

9. **PJs Coffee**
25219 U.S. Hwy 281 N, San Antonio, TX 78260

10. **Shipley's**
7875 Kitty Hawk Rd, Converse, TX 78109

11. **Chick-Fil-A**
700 Kitty Hawk Rd, Universal City, TX 78148

12. **Luxxe Salon Suites**
813 Cibolo Valley Dr, Cibolo, TX 78108

13. **Panera**
NWC US Hwy 281 & Hwy 46, Bulverde, TX

13. **Chick-Fil-A**
NWC US Hwy 281 & Hwy 46, Bulverde, TX

Data collected by Bethany Babcock.
Managing Broker, Foresite CRE
(210) 816-2734

1 **Weirdo**
1800 Burton Dr, Austin, TX 78741

2 **Dumpling King**
1800 Burton Dr, Austin, TX 78741

3 **Ideal Dental**
200 W Slaughter Ln Ste 103, Austin, TX 78748

4 **Walk ATX Dog Ranch**
Blue Bluff Rd & Wildhorse Rnch Trl,
Decker Lake, TX 78653

5 **Waffle House**
13000 FM973, Manor, TX 78653

6 **Chick-Fil-A**
E Parmer Ln & Dessau Rd, Austin, TX 78753

7 **World Market**
10225 Research Blvd Ste 3500, Austin, TX 78759

8 **Tim Horton's**
16201 Ranch Rd 620 N, Austin, TX 78717

9 **Oumi Sushi**
13945 N Hwy 183 Ste d180, Austin, TX 78717

10 **Chipotle**
2260 Muirfield Bend Dr, Hutto, TX 78634

11 **El Pollo Rico**
1304 FM 685, Pflugerville, TX 78660

12 **Action Behavior Center**
13341 US-290, Dripping Springs, TX 78620

13 **Smoothie King**
164 Belterra Vlg Wy Ste y300, Austin, TX 78737

14 **Starbucks**
14211 State Hwy 71, Austin, TX 78738

15 **Chick-Fil-A**
11907 Anderson Mill Rd, Austin, TX 78726

Data collected by Tristen Palori.
Associate, Foresite CRE
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Buyers Buy Local

SAN ANTONIO MULTI-TENANT RETAIL INVESTMENT CLOSED DEALS
DATA AS OF OCTOBER 10, 2024. COLLECTED BY XAVIER ALVARADO.

SOLD

"It is common for sellers/investors to think that California money is flooding the Texas market, but when we look at the data, we find that most buyers purchasing multi-tenant retail properties in San Antonio are locals."

XAVIER ALVARADO - INVESTMENT SALES, FORESITE

For years, California buyers were considered the prime targets for sellers of multi-tenant retail centers in San Antonio. But recent data tells a different story. While many believe California buyers dominate the market, the reality is quite the opposite.

Year-to-date 2024: Out of the 17 multi-tenant retail center sales where buyer information was available: **64.7% of the buyers were based in Texas, with San Antonio accounting for 47% of those transactions** followed by Dallas at 17.65%. Notably, there were no buyers from Austin or Houston. The out-of-state buyers represented only 35% of the market, including 11.76% from Florida, 5.88% each from New York and Mexico, and 11.76% from California.

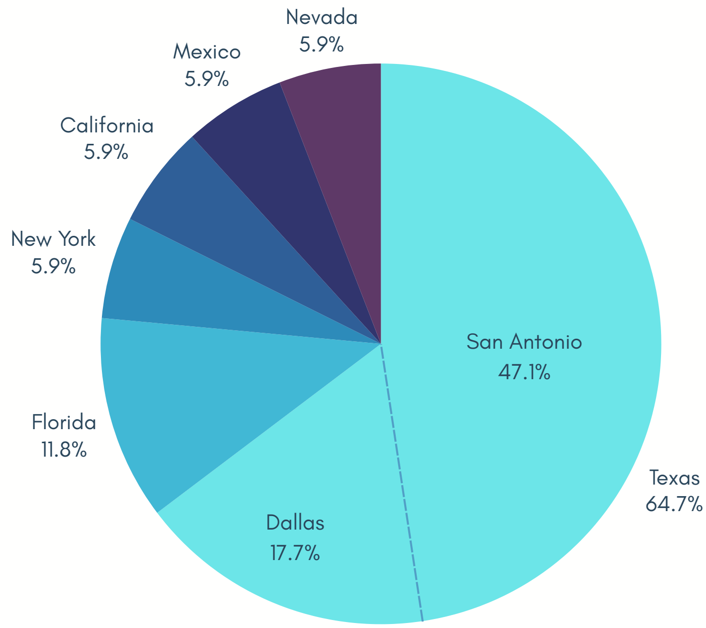


FIGURE 2: YEAR-TO-DATE 2024

2023: Texas-based buyers made up 79.17% of all transactions, with San Antonio leading the way at 62.5%. Dallas and Houston each represented 8.33% with two transactions apiece. Meanwhile, out-of-state buyers only accounted for 20.83% of the total, with individual purchases coming from Florida, New York, Arkansas, Colorado, and Mexico.

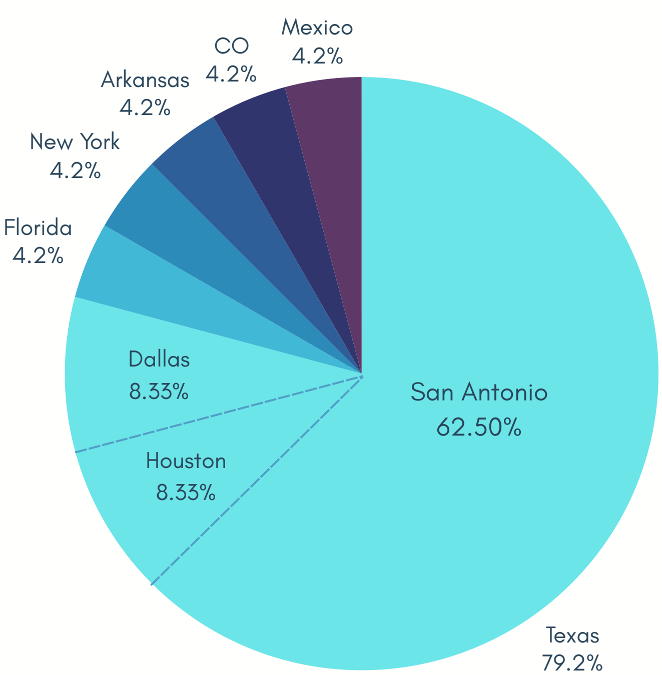


FIGURE 1: 2023 TRANSACTIONS

2022: Following a post-COVID boom, Texas buyers once again dominated the market, representing 77.03% of the 74 transactions. San Antonio buyers led with 52%. Austin and Houston were notable contributors, each representing 9.33%, and Dallas at 5.33%. Out-of-state buyers accounted for 18.67% of transactions, with a significant mention of California at 9.33%. And Foresite proudly represented 5 of the 7 transactions from California buyers that year.

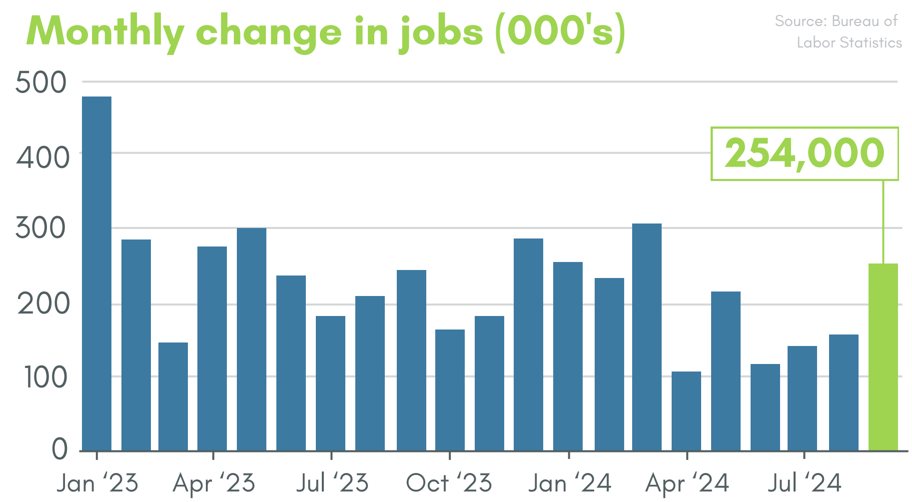
Despite the prevailing narrative, the San Antonio market is overwhelmingly driven by local buyers. Over the past two years, Texas investors have consistently comprised over 75% of the buyer pool, with California buyers representing 4.88% overall.

While national headlines and industry trends may emphasize the influence of out-of-state and California investors, understanding the actual data reveals where the real opportunities lie. This doesn't mean ignoring out-of-state interest—it's always wise to cast a wide net—but it does suggest a strategic advantage in partnering with brokers who have deep, established connections in Texas, and more importantly, in San Antonio.

THE STATE OF UNEMPLOYMENT

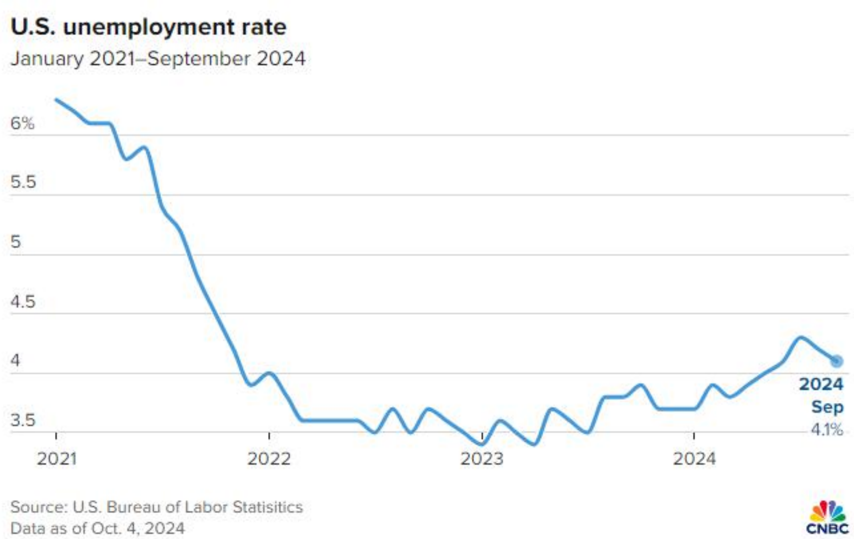
THE JOBS REPORT IS STRONG AS UNEMPLOYMENT RATE FALLS AND WAGES INCREASE

*SEPTEMBER 2024



Unemployment Rate

4.1%	4.1%	3.4%	3.8%
United States	Texas	Austin	San Antonio



U.S. employment increased by 254,000 jobs in September, better than the estimate of 132,500. The unemployment rate dropped from 4.2% to 4.1%. There has not been a rise in permanent job losses, and permanent layoffs declined in September. The labor market was stronger than anticipated, with job gains, a lower unemployment rate, and accelerating wage growth.

The increase in employment was led by the Leisure and Hospitality sector, which added 78,000 jobs. Employment in Health Care followed with 45,000 positions created. Government (31,000) followed and Construction added 25,000 jobs in September. Within hospitality, food services and drinking places saw jobs jump by 69,000. That is a notable increase from the average monthly gain of 14,000 over the past year

Wages for hourly pay are up 4% compared to a year ago.

The strong jobs report means the Fed is less likely to make large rate cuts during the November and December meetings and economists expect 25 basis point cuts at each meeting.

WHY DID THE JOBS REPORT GET REVISED?

The Bureau of Labor Statistics (BLS) that reports the monthly change in employment submitted a large revision to the jobs reports from this quarter. But why does the jobs data get revised?

The estimate of how many jobs were gained or lost is determined by a survey to about 560,000 employers who are selected to represent the millions of employers in the country. The survey generally provides a fairly accurate count, but this number is later revised based on additional information that was not available at the time of the estimate. Typically the adjustment is based on state unemployment insurance filings that are reported later in the month. This report is more reliable because it includes data from nearly every employer in the country.

The initial estimate of job change is based on the growth or loss of jobs at the specific businesses that have reported their data. One reason the survey is not always accurate is because the business is supposed to report the total number of people who worked or received pay during the pay period that includes the 12th of the month. Sometimes the businesses won't have their payroll data ready to report by the scheduled date that the BLS initially releases the data (up to 27% of the selected businesses will not complete the survey by the deadline). BLS continues to collect outstanding reports as it prepares a second and then a third estimate for the month. With each subsequent estimate, more businesses have provided their information.

The downward revisions in employment for the last year raised questions about why the gap was so large and what it means for our economy.

"Even with the revision the economy still created jobs at a very rapid pace in the period covered, from March 2023 to March 2024. While BLS had previously reported that we created 2.9 million jobs over this period, or 242,000 a month. The revision means we created 2.1 million jobs or 172,000 jobs a month. By comparison, in the three years prior to the onset of the pandemic, we created jobs at a rate of 179,000 a month. Even with the downward revision, we were still creating jobs at a very healthy pace." Dean Baker, Senior Economist at Center for Economic and Policy Research

There is not a clear answer as to why the gap was so large, but economists rather focus on reminding consumers that these are not job losses, but rather the job count was never that high. Chris Rupkey, chief economist at FwdBonds, writes that the economy apparently did not need those phantom workers because consumer expenditures have powered very strong economic growth.

What does it mean for our economy? The revision to the jobs reports does not change the fact that we still have high levels of employment and workers are seeing wage increases outpace inflation. It does mean that the economy is creating fewer jobs that we had previously believed, but we are showing high levels of employment with fewer jobs. If we have correctly measured output, then we have generated this output with fewer jobs that previously estimated, showing that productivity growth has been stronger than previously estimated. Despite the jobs report being revised down, our economy is in a good position.

Source: BLS

Retail Sales

NATIONAL TRENDS

Retail sales saw a slight month-over-month drop in September, but consumers continued to spend more than last year as interest rates and inflation fell while employment rose. After seven months of growth, consumer spending tightened a bit in September, which typically is a softer month for sales.

There was strong growth in e-commerce sales and dining out this quarter. Although non-store sales reached an all time high, 80% of retail sales still occur in physical stores. Sales at physical stores driven by a 2.1% year-over-year increase in foot traffic.

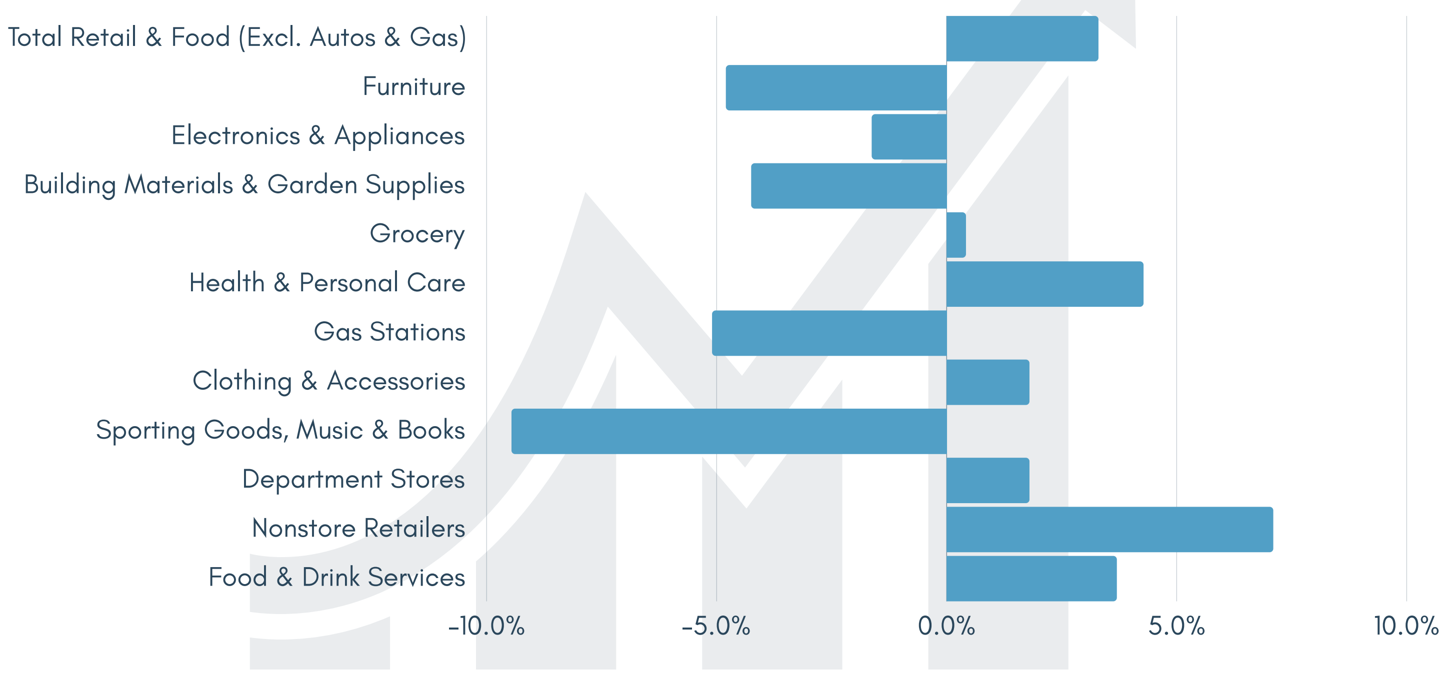
Conditions remain favorable as we move into the holiday season. NRF is forecasting that 2024 holiday sales will increase between 2.5% and 3.5% over the same time last year. This forecast is slightly more conservative compared to last year's increase of 3.9%.

> **While there have been some signs of tightening in consumer spending, September's numbers show consumers are willing to spend where they see value. September sales come amid the recent trend of payroll gains and other positive economic signs. Clearly, consumers continue to carry the economy, and conditions for the retail sector remain favorable as we move into the holiday season.**
>
> **The National Retail Federation Chief Economist Jack Kleinhenz**

- Total U.S. Retail Sales for the month of September were 1.7% above September 2023.
- Month over month, September sales were up 0.4% from August, and August sales were 0.1% higher month over month and 2.2% year over year.
- Core retail sales were up 3.3% year over year for the first nine months of the year, in line with NRF's forecast for 2024 retail sales to grow between 2.5% and 3.5% over 2023.

SEPTEMBER 2023 - SEPTEMBER 2024

YEAR OVER YEAR RETAIL SALES GROWTH



Key Indicators

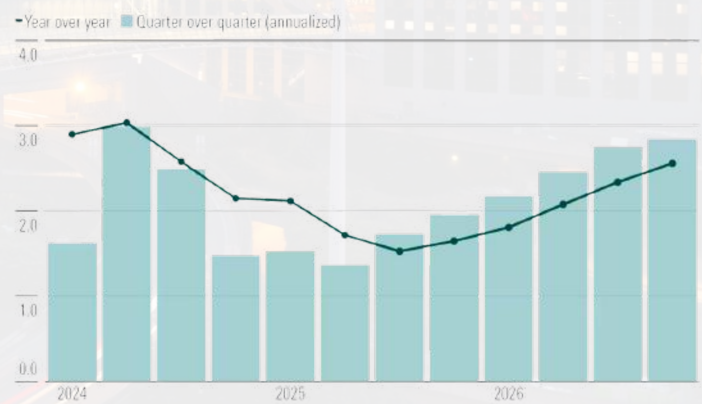
GROSS DOMESTIC PRODUCT

The U.S. economy continues to show resilience despite ongoing uncertainties and external pressures. Strong consumer spending, business investment, and lower interest rates demonstrate optimism about the economy. Real GDP is now expected to grow by 2.5% year-over-year in 2024, a slight upward revision from 2.4%. While growth may moderate toward the end of the year and into early 2025, and economists expect it to slow to 1.8% for 2025. This estimate reflects some quarterly acceleration in economic activity throughout next year, despite more tempered annual growth.

Real GDP growth for Q3 2024 has been adjusted upward to 1.8% from the previous estimate of 0.8%, reflecting stronger-than-expected household spending. Increased after-tax income, higher savings, and a robust labor market have supported this growth. Additionally, businesses ramped up imports in anticipation of a potential port strike, which contributed to an inventory buildup and helped offset some of the expected negative impact from weaker net exports.

U.S. REAL GROSS DOMESTIC PRODUCT

US Real GDP Growth, Quarterly Forecast



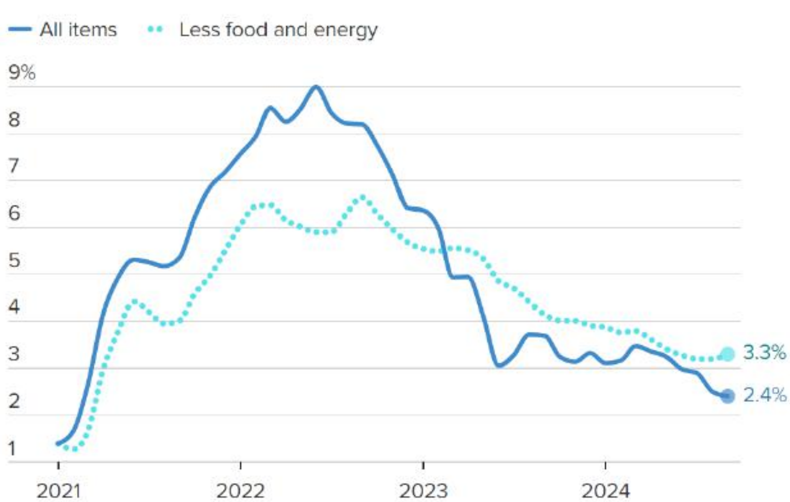
Source: U.S. Bureau of Economic Analysis, Morningstar

CONSUMER PRICE INDEX

The Consumer Price Index (CPI) rose by 2.4% year-over-year in September, slightly above expectations of 2.3% but down from 2.5% in August. Core inflation, which excludes food and energy prices, increased to 3.3%, also slightly above expectations of 3.2%. There were notable monthly increases in food, auto insurance and airfares. However, a slowdown in the labor market is concerning economists more than the inflation reports.

U.S. CONSUMER PRICE INDEX

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



Source: U.S. Bureau of Labor Statistics

Inflation continues to follow a very uneven path down, making it difficult for Federal Reserve officials and economists to feel completely confident that high inflation has been stamped out.

"It's a disappointment, but inflation's descent was going to be bumpy" as it moves back toward the Fed's target, said Ryan Sweet, chief U.S. economist at Oxford Economics.

Goods inflation has eased as supply and demand imbalances have been addressed, but inflation for services remains elevated. Wage growth has slowed and the services category is expected to moderate.

Financing Your First Investment Property

By Alexandria Tatem, Foresite Commercial Real Estate

Patrick and I were wondering if there's more we should be focusing on financially to prepare for our first property purchase, beyond just saving for the down payment. Are there specific steps that can make us more appealing candidates for a loan or even give us more leverage?

Janice, that is a great question. Here are my thoughts on some initial financial steps you can take to prepare for your first real estate investment and make yourself more attractive to lenders:

Build a relationship with your lender. Lenders put an emphasis on your relationship with their bank, which includes your history there and the amount of deposits that they hold. I'd suggest talking with the bank you currently use to see if they offer favorable terms for commercial real estate loans. Be sure to specify that it is a CRE investment acquisition loan. Almost all banks do SBA business lending, and the loan brokers call them CRE loans since they can be used to purchase owner-occupied loans, but it is not until you start asking specific questions that you realize they are referring to SBA loans. If your lender doesn't typically loan on CRE, or seems like they have unfavorable terms, then maybe consider moving your deposits and banking somewhere that does a lot of CRE loans. Having a good relationship with a lender can sometimes result in better terms or quicker approval processes.

Establish a cash reserve. The down payment is very important to save for, but you don't want to deplete your deposits. The bank will require you to have a certain amount in your account for unexpected expenses. Additional cash or liquidity beyond the down payment will be required and that minimum will vary from bank to bank, but the lender will likely tell you what it needs to be for them.

Visit with your accountant. It is a good idea to visit with your accountant beforehand, for many reasons. You might want to start getting your financial reports in order, and prepare for all the questions and documents the lender will ask for. This could be a good question to ask your lender, what you will need your accountant to prepare.

Understand your budget. Determine what your budget will be - remember that a down payment is typically much higher for commercial properties, so expect a 30-40% down payment. What is the highest purchase price you will be comfortable with? You may want to consider reducing any existing debt to improve your debt-to-income ratio, which is a key metric lenders use to assess the loan application.

Consider a partnership. If you are open to it, explore the possibility of forming a partnership. Do you know anyone who may be interested in investing with you? If you are able to find someone with a little experience or additional capital, you may be able to obtain more favorable debt terms. This could provide additional financial strength and make them more attractive to lenders, especially if they partner with experienced investors.

Build experience. Lenders look at more than financials, they will want to know your experience with a particular asset type. If you don't have experience investing in a particular property type, some clients will partner with industry professionals to make lenders more comfortable.

Understand the market. You may want to spend time educating yourself on the commercial real estate market, including current trends, property values, and rental rates. Being knowledgeable about the market can make you more confident and better prepared when negotiating with lenders and sellers.

These suggestions can help you not only prepare financially but also increase your chances of securing favorable loan terms and making a successful first investment.

Index Rates

INDEX RATES
SEPTEMBER 2024

3.52% 5- YEAR TREASURY	**4.84%** 30 DAY AVG SOFR
3.79% 10- YEAR TREASURY	**3.26%** 10-YEAR SWAP

INDEX RATES
SEPTEMBER 2023

4.62% 5- YEAR TREASURY	**5.31%** 30 DAY AVG SOFR
4.56% 10- YEAR TREASURY	**4.08%** 10-YEAR SWAP

THE FED

The Federal Reserve lowered rates during their September meeting as expected, though the 50 basis point cut may have exceeded the expectations of some economists. It is generally expected that there will be an additional four 25 bp cuts in 2025.

The lower interest rates do eventually affect the value of real estate by putting some upward pressure on pricing because of the increase in buyer competition. Many of the recent transactions have been completed by all cash buyers or buyers with a high capital reserves who obtained an unfavorable loan now with the intention to refinance in a couple of years.

Transaction volume for investment properties has been low over the past two years, resulting in pent-up demand. While there has been a slight price adjustment on the selling side, overall pricing has remained relatively stable. Instead of accepting lower prices, many sellers have chosen to delay listing their properties until interest rates become more favorable. This combination of sellers holding firm on prices and buyers reluctant to make purchases when financing is costly has contributed to the slowdown in transactions. Both buyers and sellers are waiting for a shift in market conditions to start making moves.

COMMERCIAL - LIFE COMPANIES

TERM	AMORTIZATION	LTV	SPREAD	RATE
5 - YEAR	25-30	60% - 75%	160-220	5.15%-5.75%
10 - YEAR	25-30	50% - 65%	150-190	5.30%-5.70%
10 - YEAR	25-30	60% - 75%	160-220	5.40%-6.00%
15 - YEAR	25-30	60% - 75%	160-220	5.45%-6.05%
15-20 YEAR	Fully Amortizing	60% - 75%	160-220	5.40%-6.00%

COMMERCIAL - CMBS

TERM	AMORTIZATION	LTV	SPREAD	RATE
5 - YEAR	30	65% - 75%	250-300	6.00%-6.50%
10 - YEAR	30	65% - 75%	225-275	5.95%-6.45%

Source: Northmarq

Investment Sales Specialists

Experience, **focus** and **creativity** is what makes Foresite Investment Sales so unique. Coming together from large firms to form our team, we offer **decades of experience and a national reach**. Having closed over 250 sale transactions across 15 states in every primary product type, our team has the expertise to maximize value for our clients in any market condition.

Chad Knibbe, CCIM

Principal / Co - Owner

Chad was a key player in the launching of Foresite in 2014 and later founded the investment sales division of Foresite Commercial Real Estate in 2018.

CKNIBBE@FORESITECRE.COM

Alexandria Tatem

Head of Research / Associate VP

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

ATATEM@FORESITECRE.COM

Stephen Berchelmann

Vice President

Urban Developments / Special Projects

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

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Xavier Alvarado

Investment Sales Associate

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

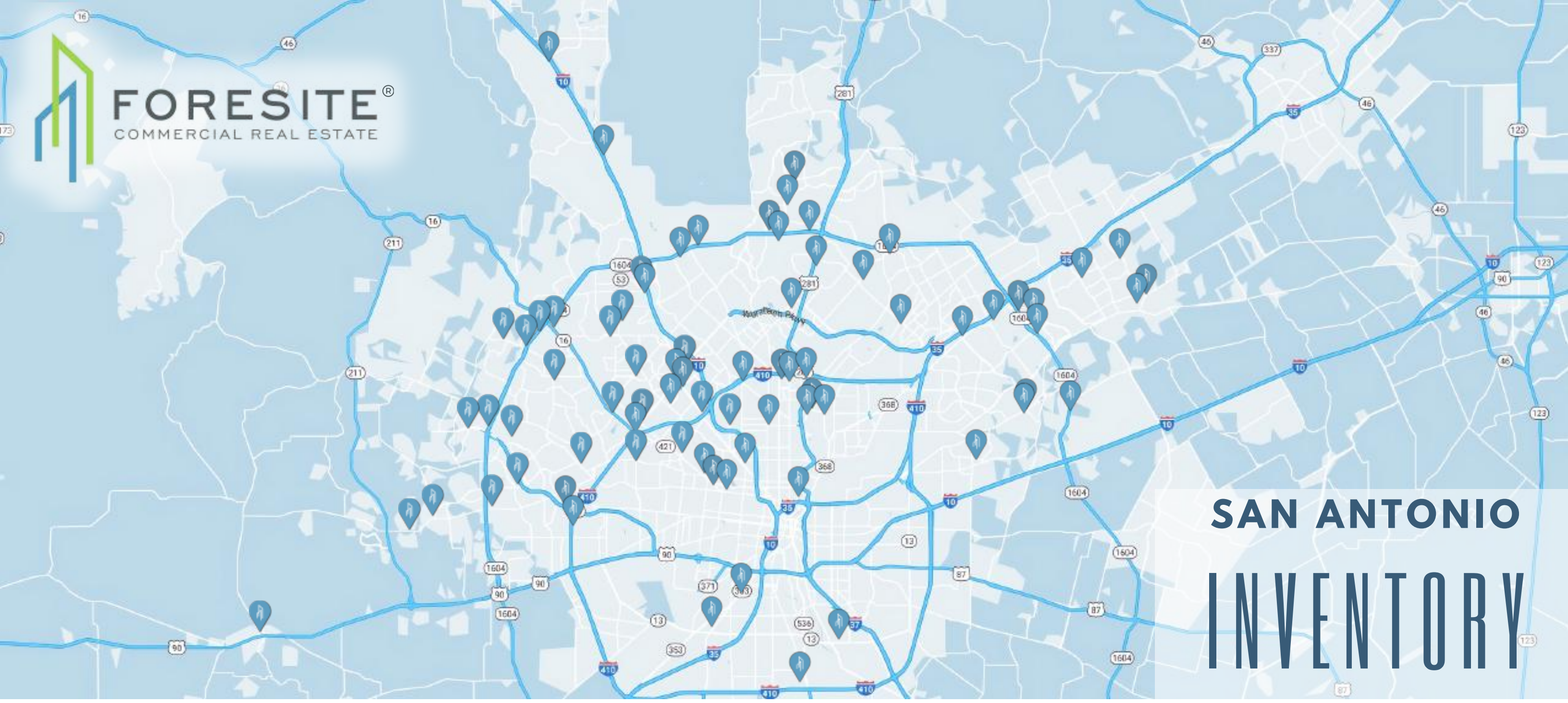
XALVARADO@FORESITECRE.COM

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



Leasing Team

Bethany Babcock, MBA
Managing Broker

Zach Parra
Assistant Director of Leasing

Donna Havel
Operations Manager

Nicole Mendoza
Marketing Manager

Louis "Lex" Lutto III
Senior Vice President

Bill Coats, CCIM
Associate Vice President

Vicki Adelstein
Senior Associate

Michelle Di Filippo
Senior Associate

Jon Galindo, CCIM
Senior Associate

Miranda Rihn Henry
Senior Associate

Madison Batey
Associate

Leroy Sanchez
Associate

Kara Walters
Associate

Tristen Palori
Associate

Property Management Team

More than just answering calls and bookkeeping, **our Property Management division adds value by discovering opportunities**. We offer our clients a **visualization of trends** occurring within their property and submarket. As investment sales brokers we understand how important this information is to investors and we aim to share that with our clients in an easy and quick to read format.

Nancy Braun, , RPA®
Director of Property Management

Lisa Jimenez
Director of Accounting

Kraig McCoy
Assistant Director
of Property Management

Craig Slaughter
Senior Property Manager

Donna Weidow, CPM®
Property Manager

Cindy James, RPA®
Property Manager

Regina Rios
Property Manager

Carmen Martinez
Property Management Coordinator

Olga Gonzales
Senior Property Accountant

DezaRae Garcia
Property Accountant / Administrator

McKenzie Schaefer
Property Accountant

Genevieve Resto
Receptionist / Accounting Admin

Joseph Villarreal
Maintenance Supervisor

Albert Gonzales
Maintenance Technician

Wilmer Hinkle
Maintenance Technician

GET INVOLVED

HOW YOU CAN HELP THE NEXT GENERATION OF COMMERCIAL REAL ESTATE LEADERS

SPONSORSHIP PACKAGE INFORMATION

Each year our goal is to make the CRE Launch program available at little to no cost to students who apply. We need your help to continue expanding and improving the program while not limiting access to the students. Please consider partnering with us in developing the talent our industry needs.

Platinum Sponsor
$5,000

- Sponsor logo on all advertisements named on all program materials, website, social media posts
- Attendance for four at Kickoff and Closing Reception
- May include branded items in student swag bags
- Hyperlinked website on landing page
- Sponsor may provide pop up banner to display at kickoff and all classes
- Company representative introduced to students
- Ongoing social media acknowledgments for the year
- Inclusion in press release
- Company may send one representative to each session
- Logo on E-blast to 8,500 industry professionals (2 blasts)
- Recognition for sponsorship of two students
- Half page ad in program brochure

Gold Sponsor
$3,500

- Sponsor logo on program materials and link on website, social media mentions
- Attendance for two at Kickoff and Closing Reception
- May include branded items in student swag bags
- Inclusion in press release
- Recognition for sponsorship of one student
- Logo on E-blast to 8,500 industry professionals (2 blasts)
- Quarter page ad in student program brochure

Silver Sponsor
$2,500

- Recognition for sponsorship of one student
- Sponsor logo on program materials and website, and inclusion in press release
- May include branded items in student swag bags
- Logo on E-blast to 8,500 industry professionals (2 blasts)
- 2x2 ad in program brochure

Half Scholarship
$1,250

- Sponsor logo on program materials and website, and inclusion in press release
- May include branded items in student swag bags
- Logo on E-blast to 8,500 industry professionals (2 blasts)
- 2x2 ad in program brochure

Have something else in mind? Talk to us about your goals and budget.

OTHER SPONSORSHIPS

☐	Headshot Sponsor $500	Professional photographer hired to provide professional headshots of all students to use in their careers. Acknowledgment at photo booth (set up at the kick off event).
☐	Recruiting Sponsor $1,000	Receive copies of resumes and application cover letters from the accepted students. Company representative may attend kick off and closing classes to meet students.
☐	Kickoff Lunch Sponsor $2,500	Named sponsor for kickoff lunch for alumni, mentors, instructors, and students. Approximately 150 attendees. Sponsor may provide and present pop up banner and set up display at event as well as be introduced and welcome the attendees at the start of the program.
☐	Lunch Lecture Sponsor $400	Named sponsor for lunch for students and volunteers. Approximately 30 attendees. Two representatives may attend the lecture that they sponsor. Acknowledgment for sponsorship at the end of the lecture and during the closing reception. Lectures are held Mondays and Thursdays.
☐	Closing Reception Sponsor $1,500	Named sponsor for closing reception for mentors, instructors, and students. Approximately 80 attendees. Sponsor may be introduced and welcome the attendees at the close of the program.

Payment can be made via credit card or check prior to March 1, 2025 to be included in E-Blasts and Early Marketing. Organizations partnering in 2025 will receive additional branding opportunities on materials and social media - Contact Foresite for more information.

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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