FORESITE
INVESTMENT SALES

AUSTIN & SAN ANTONIO

RETAIL MARKET OVERVIEW

Prepared by Foresite Research Services

Q4 2021

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EXECUTIVE SUMMARY

ON THE MARKET

- 47 class A & B multi-tenant retail properties were publicly marketed this quarter, down slightly from 50 properties at the end of Q3. There were 36 during the same period last year.
- 9 new listings came to market during the quarter.
- San Antonio's average multi-tenant retail asking cap rate for all product sizes is 6.46%, down 54 basis points from the previous quarter.
- The average cap rate for all product sizes in Austin is 5.96%, down 15 basis points from the previous quarter.

LEASING AND VACANCY

- The average vacancy rate in San Antonio is 5.40%, down 40 basis points from the same period last year, and 40 basis points from Q3.
- The average vacancy rate in Austin has decreased to 3.80%, down 110 basis points from the same period last year, and 40 basis points from Q3.
- The average asking rental rate for San Antonio is up 5.11% year-over-year, but down 5.38% from Q4 2019.
- The average asking rental rate for Austin is down 5.38% year-over-year, and down 7.68% from Q4 2019.

CONSTRUCTION AND NEW DEVELOPMENTS

- San Antonio has about 988,000 square feet of retail space currently under construction, up slightly from 805,000 a year ago.
- San Antonio has delivered 967,000 square feet of retail space in 2021, about 20% less than 2020.
- Austin has about 908,000 square feet of retail space under construction, down from 1.2 million a year ago.
- Austin has delivered 967,000 square feet of retail space in 2021, about 30% less than 2020.

TEXAS LABOR MARKET

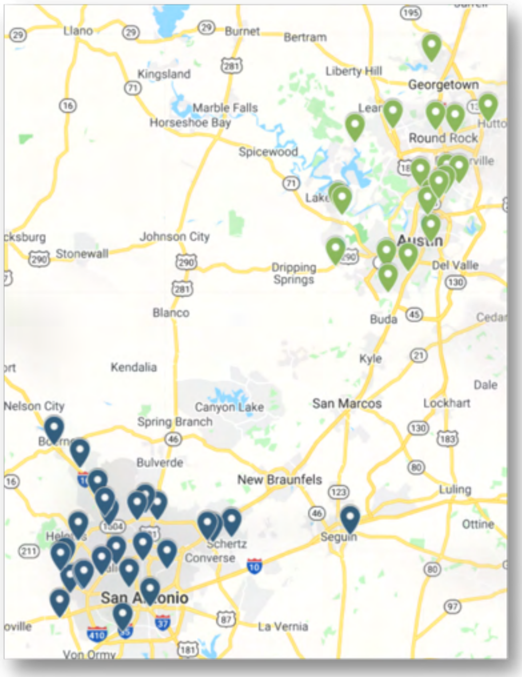
- Texas ended the year with a higher unemployment rate than the nation's 3.9 percent.
- Texas has recovered the jobs lost due to the pandemic and is now 28,200 jobs over February 2020.
- The US unemployment rate fell to 3.9%, exceeding expectations.

RETAIL SALES

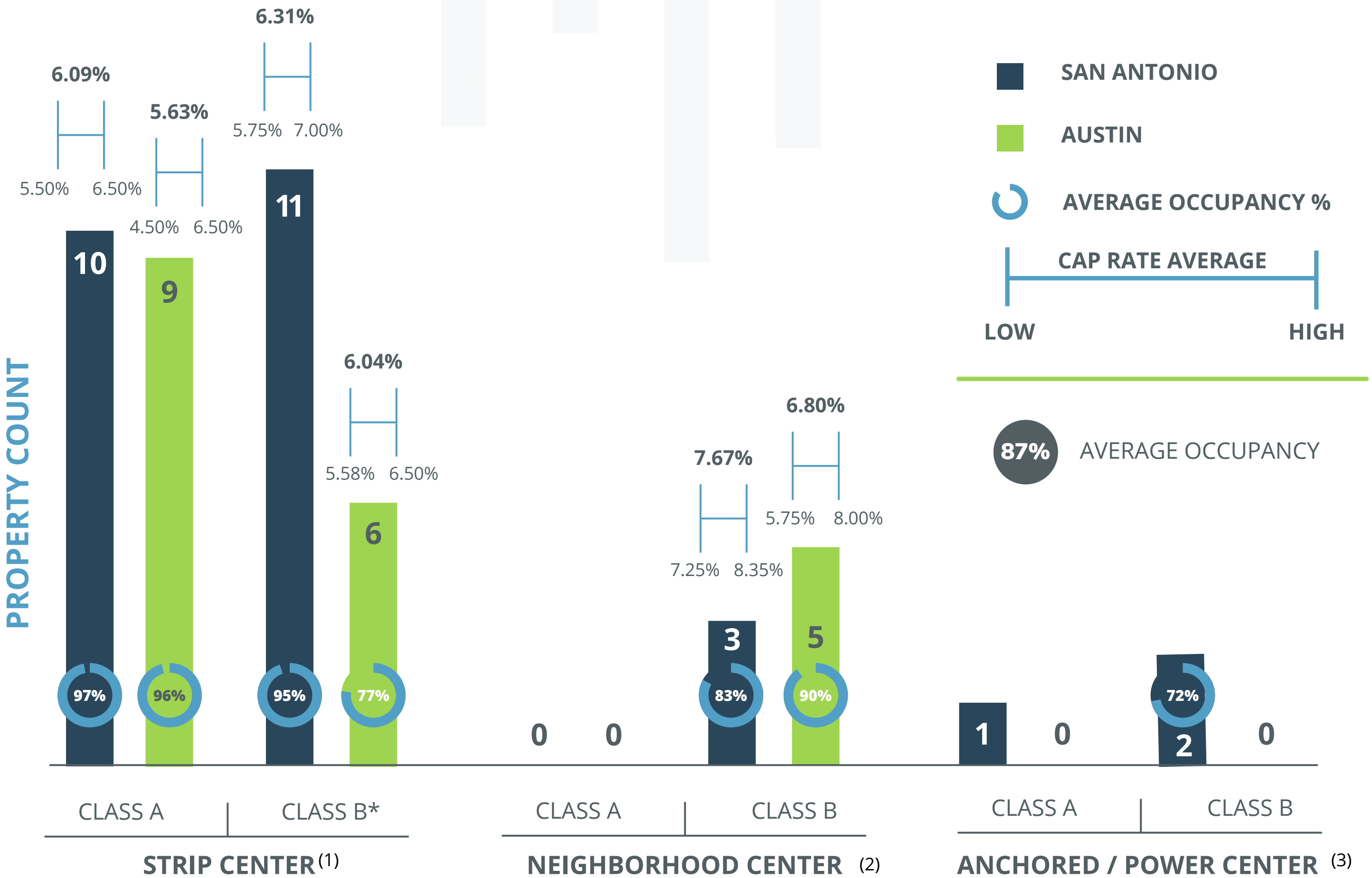
- Total U.S. Retail Sales for the month of December were 16.9% above December 2020.
- E-Commerce sales grew 10.7% year-over-year.
- Total sales for 2021 were up 19.3% from 2020

ON THE MARKET

- The dataset below consists of Class A and B retail centers that were publicly listed on the market during the fourth quarter of 2021.
- Out of the 47 properties, 9 new listings came to market during the quarter, 7 went under contract, zero reduced their list price, and 19 sold after an average of 167 days.
- **San Antonio's average multi-tenant retail asking cap rate for all product sizes is 6.46%, down from 7.00% in the previous quarter. The average cap rate for all product sizes in Austin is 5.96%, down 15 basis points from the previous quarter.**
- There was a frenzy to close on properties before year-end. A quarter of the properties that closed in the last quarter were publicly marketed for less than 100 days. This is a remarkable change from the last quarter of 2020, which saw only two closings out of the 36 class A & B multi-tenant retail properties that were listed.



PUBLICLY MARKETED STRIP CENTERS



NOTE: Category change from previous reports

Source: Foresite Research Services

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

*Many of the Austin Class B Strip Centers had a considerable amount of vacancy and were not priced based on cap rate

ON THE MARKET

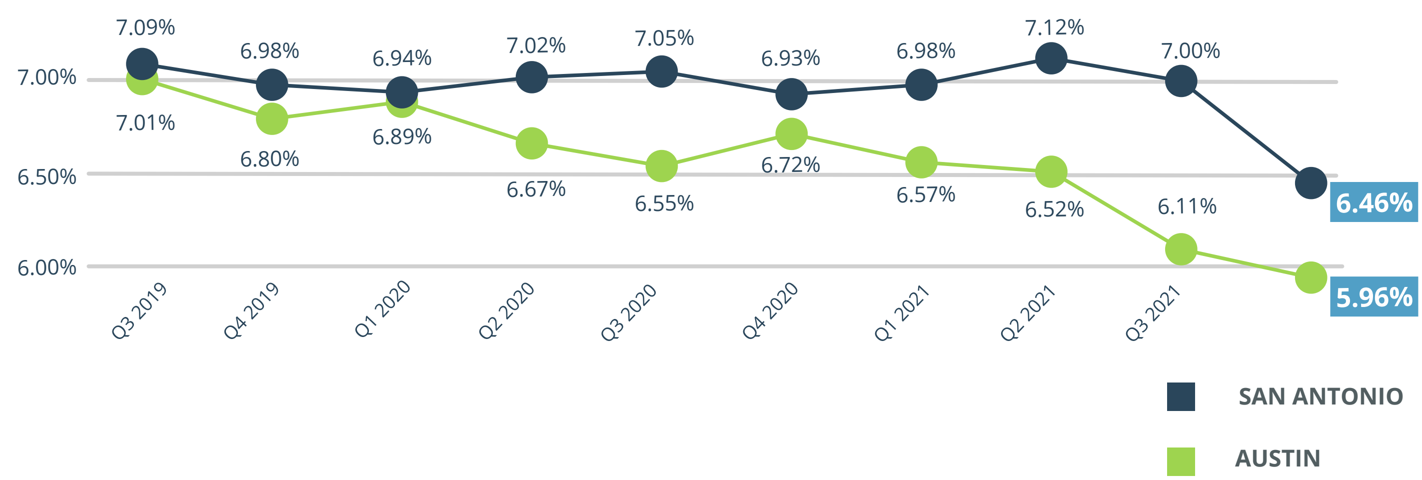
CURRENT TRENDS

- The average asking cap rates for **Class A** shopping centers in **San Antonio** is **6.09%.** The average for **Class B** is **6.71%.**
- The average asking cap rates for **Class A** shopping centers in **Austin** is **5.63%**. The average for **Class B** is **6.50%.**

	SATX	ATX
# of Listings	27	20
Avg Cap Rate Class A	6.09%	5.63%
Avg Cap Rate Class B	6.71%	6.50%
Average Occupancy	93.00%	89.00%

AVERAGE STARTING ASKING PRICE

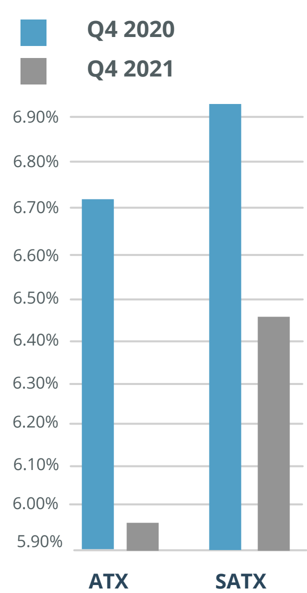
AVERAGE ASKING CAP RATE



YEAR OVER YEAR TRENDS

	Q4 2020	Q4 2021
Class A & B Centers	36	47
New Listings	8	9
Went Under Contract	6	7
Reduced Price	4	0
Sold	2	19

*San Antonio & Austin Markets Combined



Average Asking Cap Rate

Source: Foresite Research Services

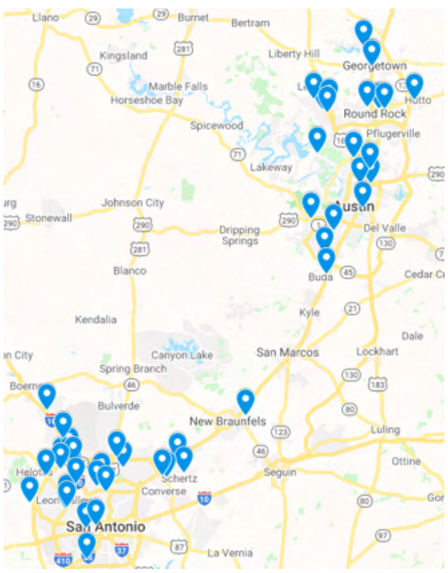
RETAIL CENTER SALES

TRAILING 12 MONTHS - SAMPLE OF 40 PROPERTIES

LESS THAN $5M	AVG CAP RATE 2021	AVG CAP RATE 2020	AVG CAP RATE 2019	AVG $/SF 2021	AVG $/SF 2020	AVG $/SF 2019	AVG OCCUPANCY 2021	AVG OCCUPANCY 2020	AVG OCCUPANCY 2019
SAN ANTONIO	6.85%	7.61%	7.35%	$255	$203	$216	90%	89%	92%
AUSTIN	6.24%	6.86%	6.92%	$335	$234	$313	100%	98%	96%

MORE THAN $5M	AVG CAP RATE 2021	AVG CAP RATE 2020	AVG CAP RATE 2019	AVG $/SF 2021	AVG $/SF 2020	AVG $/SF 2019	AVG OCCUPANCY 2021	AVG OCCUPANCY 2020	AVG OCCUPANCY 2019
SAN ANTONIO	6.68%	7.66%	7.50%	$263	$252	$205	97%	93%	95%
AUSTIN	6.31%	6.42%	7.05%	$342	$317	$240	92%	100%	97%

Source: Foresite Research Services



SALES TRENDS

The Frenzy to Close by Year End

Investor interest in commercial real estate remained strong over 2021. The strong demand continued to push cap rates lower, indicating a decline in the risk outlook. According to Real Capital Analytics, retail prices have bounced back from the lows in 2020, but deal volume, while up compared to 2020, was relatively flat compared to 2019. Overall, the pace of activity is expected to continue, supported by low interest rates and strong returns from rising rental rates and improved occupancies for most property types.

Retail is in a transitional period, experiencing pricing adjustments, low levels of new construction, and shifting demand to neighborhood centers and suburban markets. With strong returns now achievable compared to other product types, and an increasing number of centers brought to the market, analysts anticipate a high level of retail investment volume in 2022.

Source: REAL CAPITAL ANALYTICS

NOTABLE TRANSACTIONS

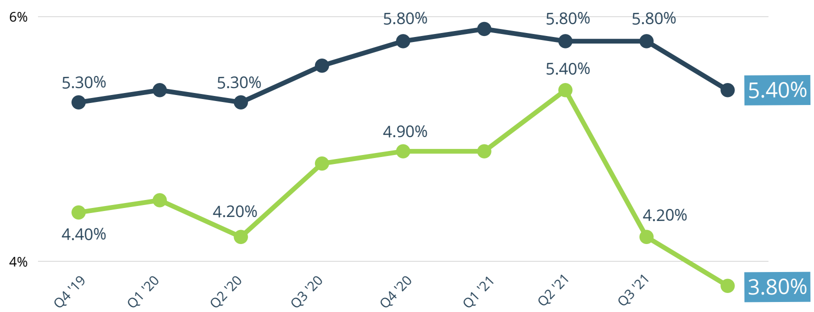
Featured properties sourced from multiple brokerage firms and do not imply agency with Foresite

Hanson's Corner Shops **Closed 11/17/21**
210 Ed Schmidt Blvd, Hutto, TX 78634

The Grove at Alamo Ranch **Closed 10/01/21**
11841 Alamo Ranch Pkwy, San Antonio, TX 78253

LEASING ACTIVITY

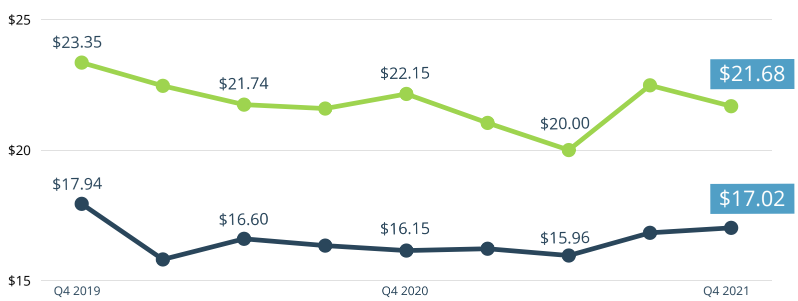
AVERAGE RETAIL VACANCY RATE



5.4% SAN ANTONIO

3.8% AUSTIN

AVERAGE RETAIL ASKING RENT



$17.02 SAN ANTONIO

$21.68 AUSTIN

ABSORPTION

The San Antonio retail market leasing activity has recorded approximately 1.98 million square feet of both new leases and renewals through November 2021. Asking rents are up 5.11% year-over-year, but down 5.38% from Q4 2019.

The Austin retail market leasing activity has recorded approximately 2.11 million square feet of both new leases and renewals through November 2021, the highest amount of net absorption since 2015 according to NAI Partner's research. Even though the vacancy rate is so low, asking rents are down 5.38% year-over-year, and down 7.68% from Q4 2019.

"The increasing demand for space has outpaced new construction this year, resulting in a lower vacancy rate and consistent rent growth for vacant spaces, indicators that show a strong recovery in the retail market."

Alexandria Tatem
Foresite Head of Research

LEASING TRENDS

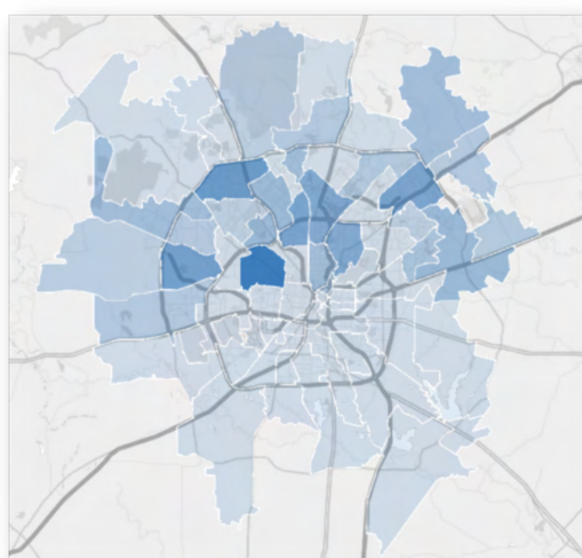
BETHANY BABCOCK

LEASING DIRECTOR ON ACTIVITY IN SAN ANTONIO

The darker areas in the map to the right are zip codes that received the most inbound calls from prospective tenants searching for space in San Antonio. This is for all inbound calls to Foresite from November 2021 to January 2022

Most would consider household income to be a major driver of leasing activity. The map shows us that it is not correct. What is driving the activity in the darker areas?

In my opinion, it is a combination of the visibility of the listings in each of those markets as well as the level of startup activity. Most of these callers were looking for first-time space. The darker areas are submarkets that have taken an entrepreneurial approach to the initial layoffs at the start of the Covid Shutdowns. Those markets are experiencing the benefits from the progression of those businesses.



LEASING ACTIVITY

Tenant Expansion in Texas

The fast-growing drive thru coffee chain is planning to open 125 locations across 12 states in 2022. Dutch Bros Coffee, based in Oregon, opened its first Texas location in January of last year and plans to have around 100 locations throughout the state by 2023. The company went public in September 2021.

Rusty Taco, an Inspire Brands concept based in Dallas, plans to open three locations in San Antonio in 2022. The street taco restaurant will include a full bar at a half inside/half outside concept. The brand has a growing national presence and currently has 32 locations in 10 states.

Bojangles, a North Carolina based chicken restaurant, will open more than 100 stores in the upcoming years. **Franchisees will open 50 restaurants in Texas, and three of those restaurants will be located in Northeast San Antonio.**

Black Bear Diner, based in California, **plans to open at least six new company-owned diners throughout Texas in 2022, including one in the Austin area.** The restaurant currently operates nine restaurants in Texas. The diner has signed several development deals with franchisees and will open 29 new locations by 2024 across four states including Texas.

Note: these are only a few highlights of the many retailers opening new locations in central Texas. To learn more about tenant expansion plans that may fit your property needs, please contact a member of our leasing team.

TRENDS WE'RE SEEING

Many large businesses are moving their headquarters and relocating their employees to the Lone Star State. As Texas attracts more companies, brands will eagerly follow suit in order to maintain their loyal customer base. Over 125 tech companies have announced that they are moving to Texas since Q4 2020. Texas ranked first in population growth in 2020, and third in 2021 when calculated by percentage growth.

A Texas A&M Research Report found that of that growing percentage, 15.2% of new residents were moving from California. Arizona, Illinois, Nevada and Colorado followed. As more companies and their employees relocate, the brands they are loyal to won't be far behind. As Texas population booms, the familiar brands that served the transplants back home, have followed their customer base.

STORE OPENINGS

For the first time in five years, store openings outpaced store closings, according to Coresight Research, an advisory group that focuses their research on the disruption of retail and technology. The research center tracks over 900 major retailers every year to determine the trends in physical retail and make projections for future years.

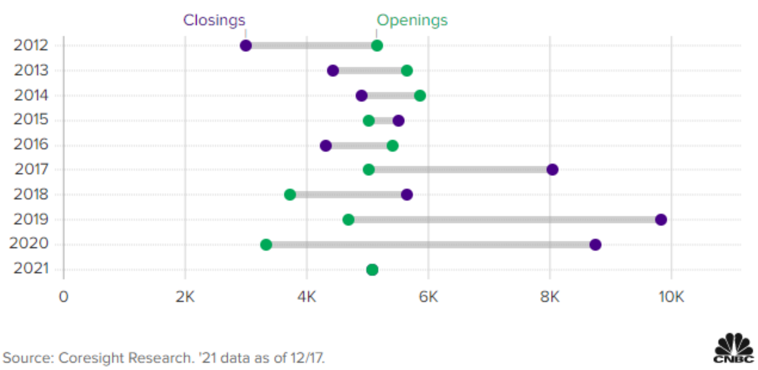
As of mid-December, Coresight counted 5,083 store openings and 5,079 closures in 2021.

After stay-at-home orders in many parts of the country, social distancing measures, and the rise of online shopping, the increase in physical store locations signals that retailers are reaching a balance between e-commerce and shopping in person.

> *"The biggest changes going forward will be the relationship the consumer has with the store. I've never seen the opportunity ahead for retail as big as it is now."*
>
> *Deborah Weinswig*
> *Founder of Coresight Research*

U.S. Retailer Closings and Openings

The net change in total stores is largely flat in 2021 following four years where closings outpaced openings



Source: Coresight Research. '21 data as of 12/17.

In 2019 and 2020, retailers announced 18,583 store closures, according to Coresight data.

2021 was a turning point for retailers as we saw many openings even as there were fewer concessions from landlords and strong rent growth throughout much of the country.

2020 recorded the most permanent store closings. There were 150% more closures than store openings in 2020. Many retailers used the pandemic as an opportunity to close underperforming locations, which may have boosted the number of closure announcements. Retailers are well positioned for success in 2022.

Expansions

TOTAL RETAIL STORE OPENINGS

Dollar Stores lead expansion
- **Dollar General - 1,050**
- **Dollar Tree & Family Dollar - 600**
- **Five Below - 170**

Discount Retailers
- **TJ Maxx - 120**
- **Burlington - 100**
- **Ross/DD's Discounts - 65**

Auto Parts
- **AutoZone - 200**
- **O'Reilly - 165**
- **Advance Auto Parts - 80**

Online/Others Retailers
- **Warby Parker - 35**
- **Fabletics - 24**
- **Parachute - 20**

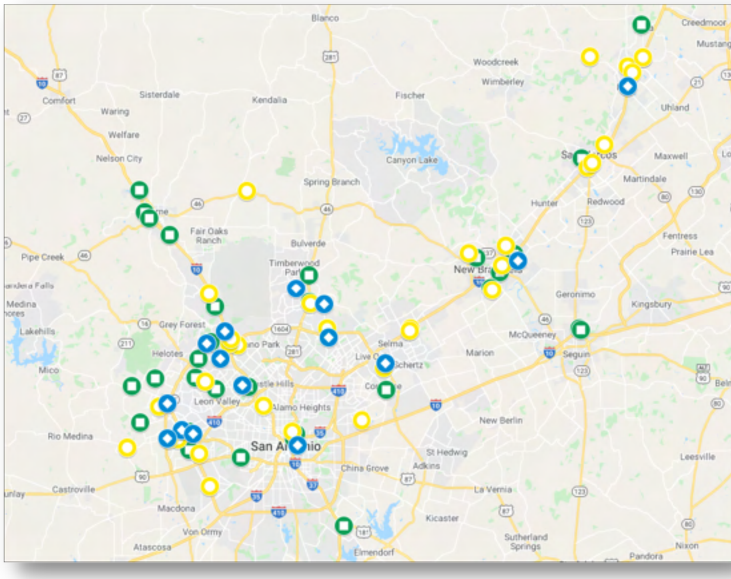
Closures

DEPARTMENT STORES/SPECIALTY CHAINS

- **Macy's - 45**
- **Foot Locker - 345**
- **Francescas - 225**
- **American Eagle - 225**
- **Disney - 60**
- **Bed Bath & Beyond - 43**
- **Children's Place - 122**

NEW RETAIL DEVELOPMENTS

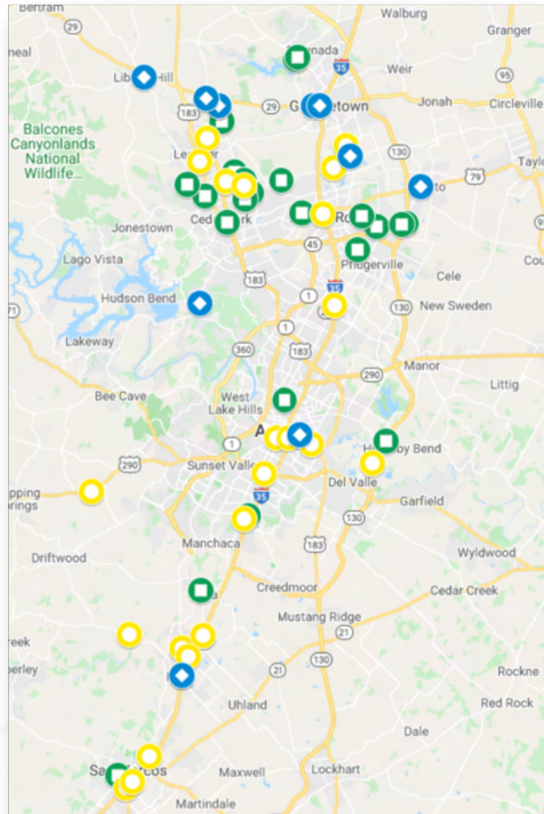
SAN ANTONIO / NEW BRAUNFELS



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

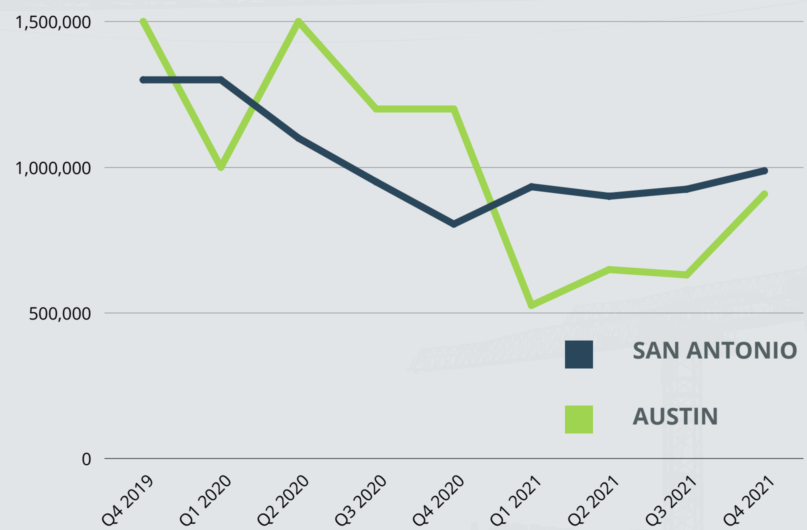
LEGEND

AUSTIN / SAN MARCOS



Source: Foresite Research Services

RETAIL SPACE UNDER CONSTRUCTION



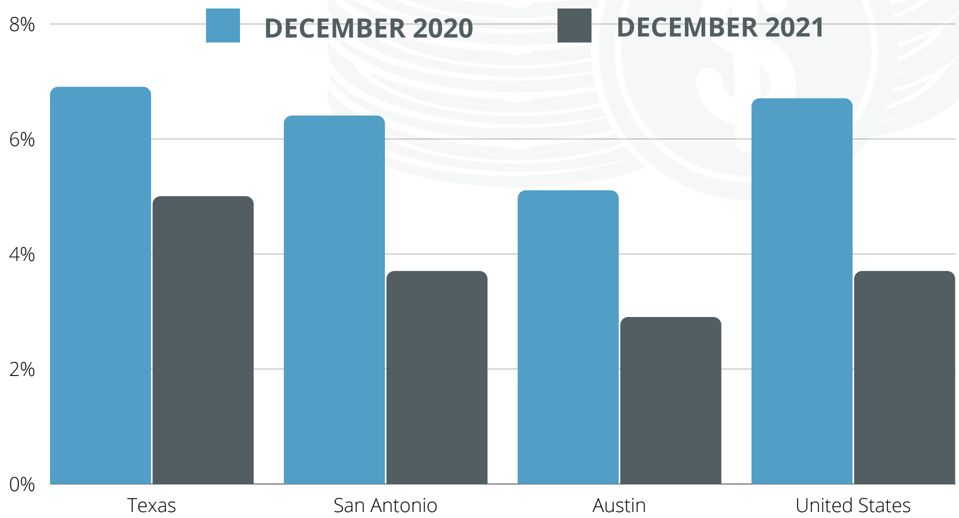
Austin has about 908,000 square feet of retail space currently under construction, down from 1.2 million square feet a year ago. There have been 987,000 square feet delivered this year, down from 1.4 million in 2020. There is another 464,000 square feet planned to be built through 2022 in the Austin area.

San Antonio has about 988,000 square feet of retail space currently under construction, up slightly from 805,000 square feet a year ago. There has been 766,000 square feet delivered this year, down from 1.2 million delivered in 2020. There is another 1.8 million square feet planned to be built through 2022 in San Antonio.

LABOR MARKET

Throughout 2021, the nation added an average of 537,000 jobs per month to add up to a record 6.45 million jobs for the year. The US unemployment rate fell to 3.9%, exceeding expectations. Early last year, economists predicted the unemployment rate would end in 2021 at 5.5%.

Average hourly paychecks rose by $1.46 an hour, another record-breaking statistic. The average hourly rate is now $26.61, a 5.8% increase from last year. The highest wage gains went to workers in the lowest-paid industries, and the fastest-growing category for pay increases was nonmanagerial hotel workers.



UNEMPLOYMENT RATE

3.90%
UNITED STATES

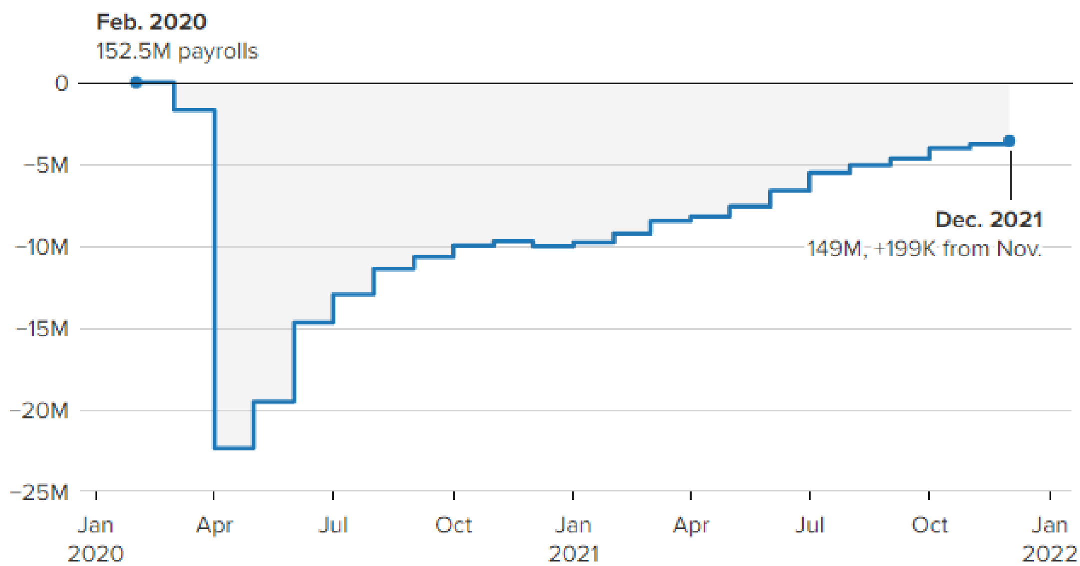
5.00%
TEXAS

2.90%
AUSTIN

3.90%
SAN ANTONIO

DIFFERENCE IN TOTAL U.S. EMPLOYMENT

FROM PRE-PANDEMIC LEVELS IN FEB. '20



Source: Bureau of Labor Statistics. Data is seasonally adjusted.

LABOR MARKET

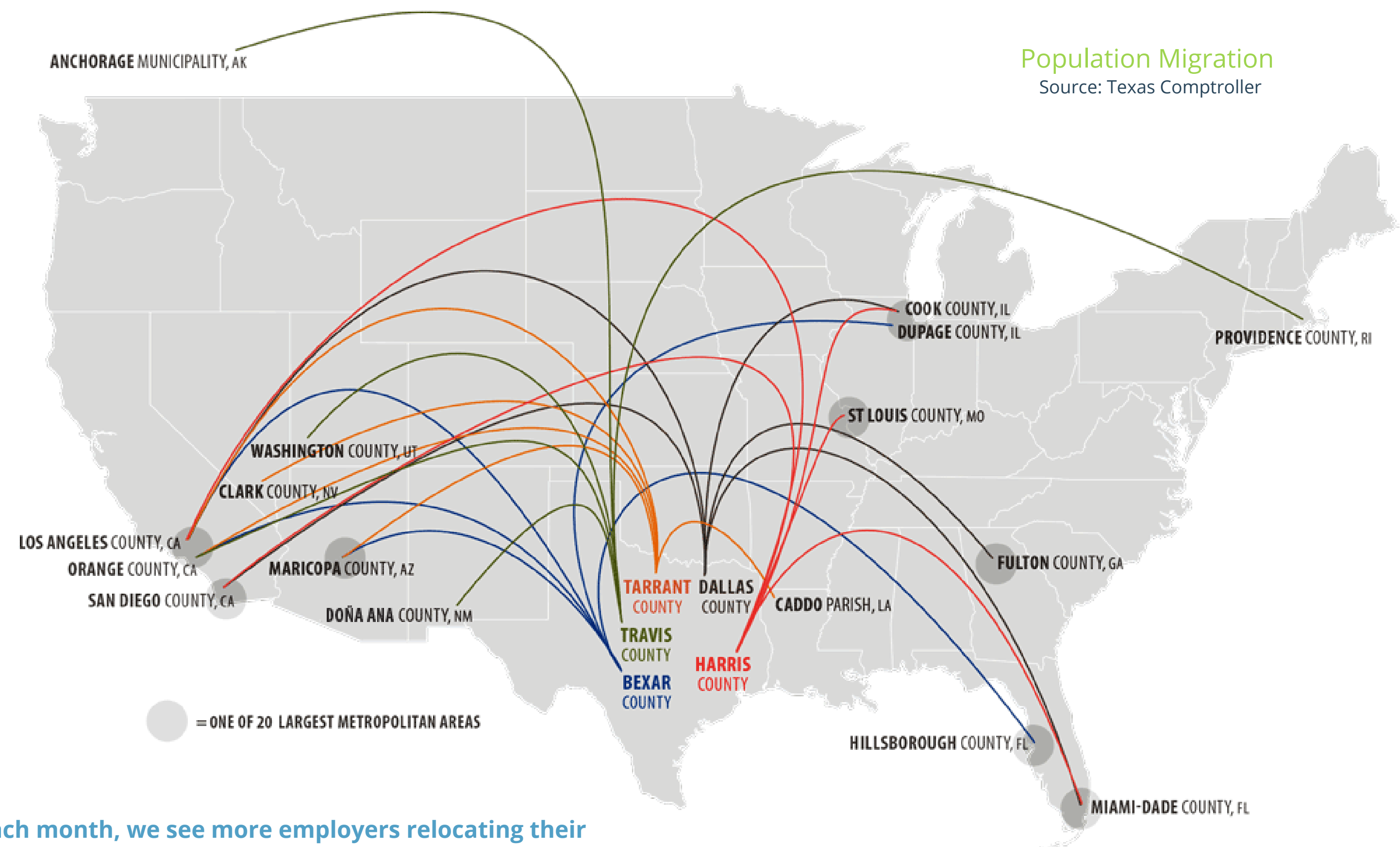
Texas ended the year with a higher unemployment rate than the nation's 3.9 percent, however it is getting closer to the pre-pandemic rate of 3.7 percent.

Texas added 50,000 jobs in December, making gains in 19 of the last 20 months. Texas has added a total of 694,400 positions since December 2020.

Due to the jobs gained during November, the Texas economy has recovered the jobs lost due to the pandemic and is now 28,200 jobs above the February 2020 employment level. It took Texas 19 months to recover the jobs lost due to the pandemic.

The Austin-Round Rock region recorded the highest annual growth rate of Texas' four major MSAs from November 2020 to November 2021. The region benefited from its substantial high-tech sector, which can socially distance and has prospered during the pandemic. Over 125 tech companies have announced they are moving to Texas since Q4 2020 and Austin is second on WalletHub's list of the best metro areas for STEM professionals.

> *"Seeing a second consecutive month of record-setting employment, with more than 13 million jobs, highlights the underlying strength of the Texas economy. This economic strength creates an environment for Texas employers to continue to create jobs and provide opportunities for the workforce in the Lone Star State."*
>
> *Bryan Daniel*
> *Texas Work Commission Chairman*



Population Migration
Source: Texas Comptroller

"Each month, we see more employers relocating their operations to the great state of Texas..."

Aaron Demerson
Texas Work Commissioner Representing Employers

RETAIL SALES

NATIONAL TRENDS

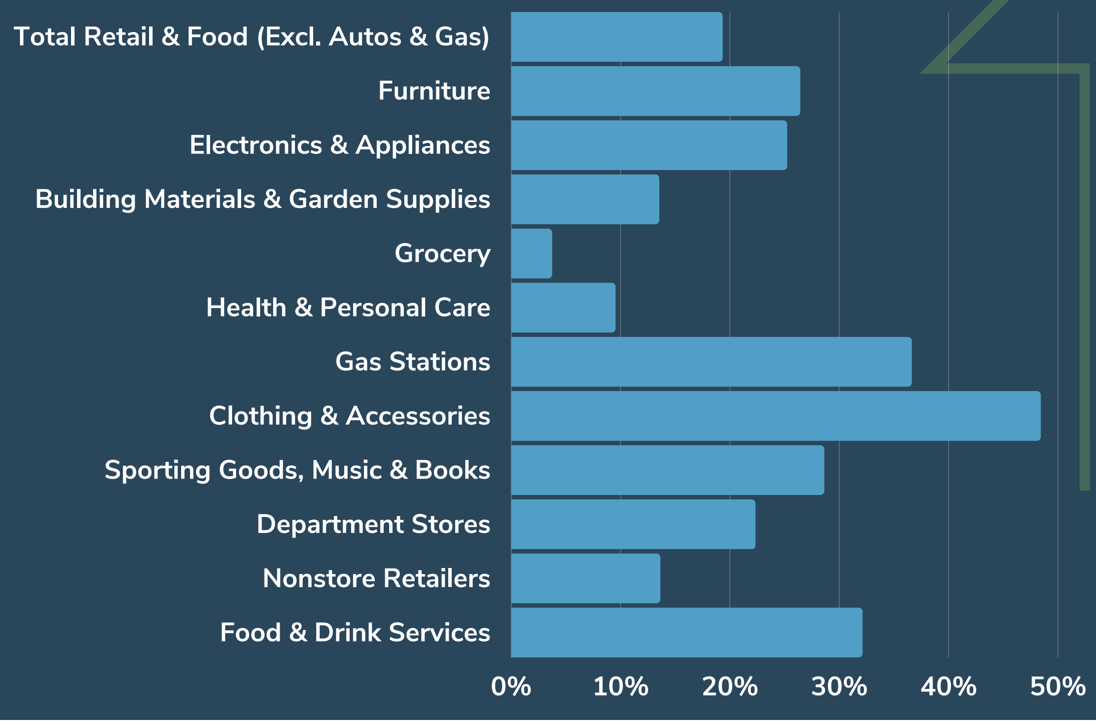
- Total U.S. Retail Sales for the month of December were 16.9% above December 2020. E-Commerce sales grew 10.7% year-over-year.
- **Month over month, December's sales were down 1.9% from November, and November's sales were 0.2% higher than October.**
- Total sales for the fourth quarter were up 17.1% year over year.
- **U.S. retail sales rose 0.7% in September from the previous month, following the 0.9% increase from July to August.**
- Clothing and accessories sales had the highest annual increase at 48.4% year-over-year and gas stations followed at 36.6%.
- **Online spending took the biggest hit as a share of overall spending, with nonstore retailers reporting a decrease of 8.7% for the month.**
- Total sales for 2021 were up 19.3% from 2020

Moody's analysts project operating profits for big-box stores to decrease from nearly 30% growth between 2019 and 2021 to -2.2% in 2022.

On the other hand, the analysts expect online retail to continue their steady growth, and for online sales to pass 30% of total retail sales in the next five years.

YEAR OVER YEAR US RETAIL SALES GROWTH

2020 to 2021



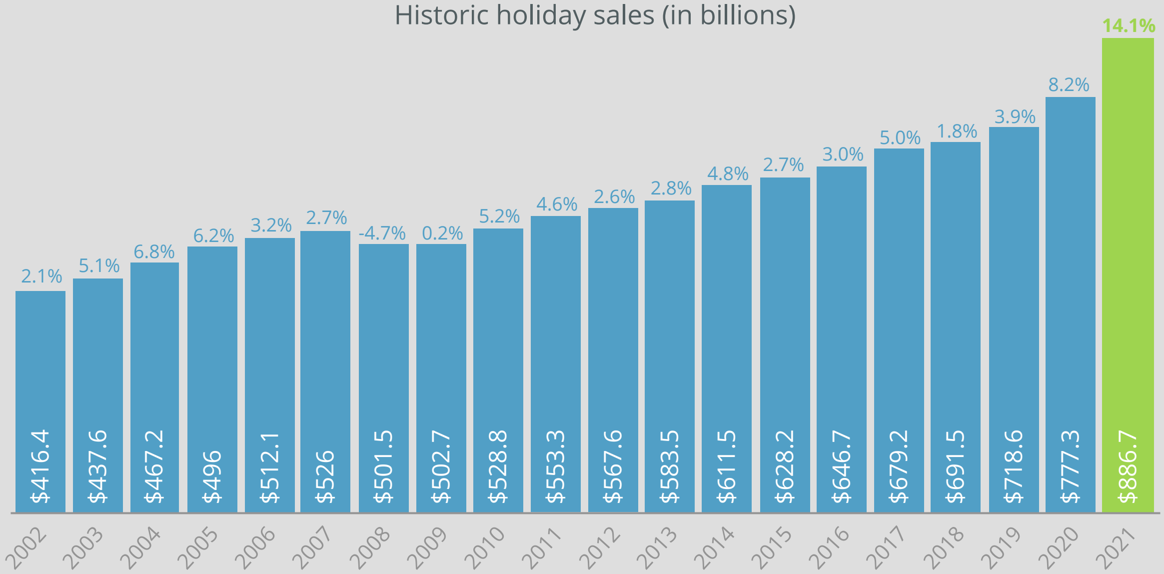
RETAIL SALES

NATIONAL TRENDS - THE HOLIDAY SEASON

Analysts at the National Retail Federation had predicted that shoppers would buy holiday gifts earlier in the year due to concerns about delivery delays due to the supply chain, inventory shortages, and rising inflation. Evidence suggests they were correct as December sales fell 1.9% from the previous month, but sales for the holiday season increased by 14.1% year-over-year.

HOLIDAY SALES FOR 2021 INCREASED BY 14.1 PERCENT

Historic holiday sales (in billions)



SOURCE. U.S. Census. Non-seasonally adjusted retail sales.
NRF holiday spending is defined as the months of November and December.
NRF's holiday sales excludes automobile dealers, gasoline stations and restaurants.

NRF National Retail Federation

"Retail foot traffic in the United States between Nov. 21 and Jan. 1 was down 19.5 percent compared with 2019, a slight improvement from 2020 when foot traffic in the same period was down 33.1 percent from 2019."

Sensormatic Solutions

"Retail sales displayed solid momentum throughout the holiday season. Worries about inflation and COVID-19 put pressure on consumer attitudes but did not dampen spending, and sales were remarkably strong.

Even though many consumers began shopping in October, this was the strongest November and December we've ever seen. Despite supply chain challenges, retailers kept their shelves stocked and consumers were able to fill their carts both in-store and online. Holiday spending during 2021 reflected continued consumer demand that is driving the economy and should continue in 2022. Nonetheless, we should be prepared for challenges in the coming months due to the substantial uncertainty brought by the pandemic."

NRF Chief Economist Jack Kleinhenz

INDEX RATES

DECEMBER 2021
INDEX RATES

1.23% 5- YEAR TREASURY

1.45% 10- YEAR TREASURY

0.05% 30 DAY AVG SOFR

1.54% 10-YEAR SWAP

DECEMBER 2020
INDEX RATES

0.38% 5- YEAR TREASURY

0.67% 10- YEAR TREASURY

0.08% 30 DAY AVG SOFR

0.95% 10-YEAR SWAP

DECEMBER 2019
INDEX RATES

1.71% 5- YEAR TREASURY

1.88% 10- YEAR TREASURY

1.55% 30 DAY AVG SOFR

1.82% 10-YEAR SWAP

COMMERCIAL - LIFE COMPANIES

TERM	AMORTIZATION	LTV	SPREAD	RATE
5 - YEAR	25-30	65% - 75%	210-265	3.35%-3.90%
10 - YEAR	25-30	50% - 65%	140-180	2.85%-3.25%
10 - YEAR	25-30	65% - 75%	180-225	3.25%-3.70%
15 - YEAR	25-30	65% - 75%	180-225	3.30%-3.75%
15-20 YEAR	Fully Amortizing	65% - 75%	180-240	3.25%-3.85%

COMMERCIAL - CMBS

TERM	AMORTIZATION	LTV	SPREAD	RATE
5 - YEAR	30	65% - 75%	330-370	4.55%-4.95%
10 - YEAR	25-30	50% - 65%	140-180	3.60%-4.00%

SOURCE: NORTHMARQ

KEY INDICATORS

GROSS DOMESTIC PRODUCT

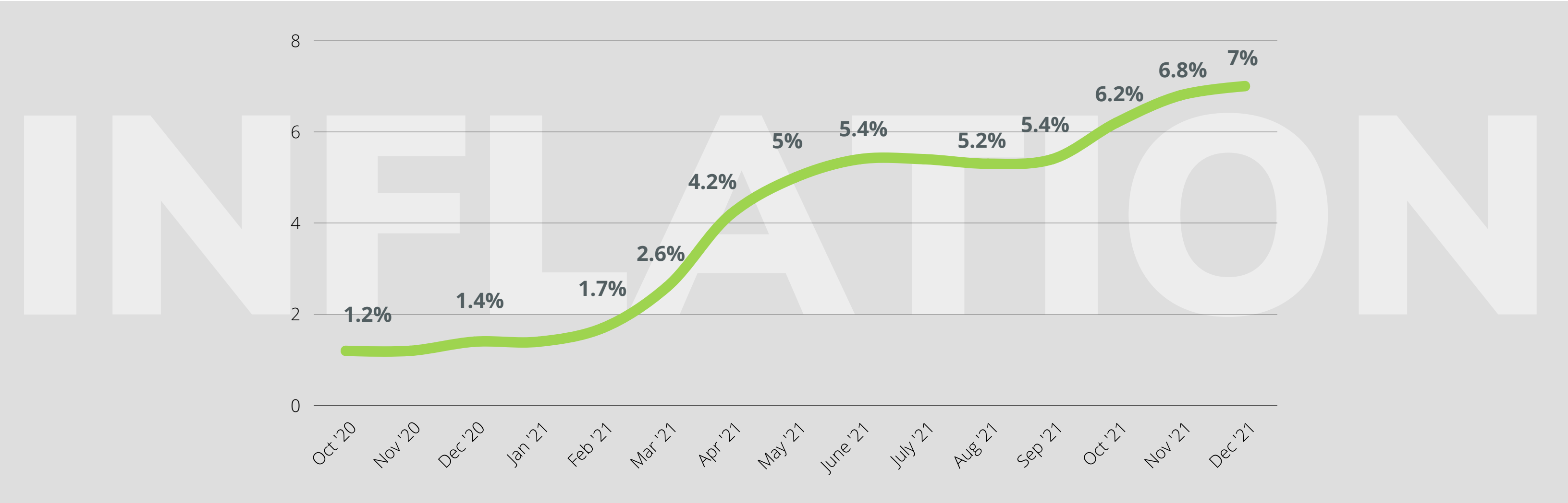
The Conference Board forecasts that US Real GDP growth will rise to 6.0 percent (annualized rate) in Q4 2021, vs. 2.3 percent growth in Q3 2021, and that 2021 annual growth will come in at 5.6 percent (year-over-year). The research group predicts that the US economy will grow by 3.5 percent year-over-year in 2022.

INFLATION

A Bloomberg survey of economists predicts the PCE price index will increase to 5.4% in the fourth quarter compared with the same three months last year. Annual inflation will average 4.9% in the first quarter of 2022 and 3.9% in the second, before slowing to 2.5% at the end of the year.

The consumer price index rose 0.5% for the month of December, bringing the year-over-year gain to 7%, the highest since June 1982. The year ending June 1982 saw a 7.1% increase, which occurred at a time when the Federal Reserve had driven up interest rates to double digits in an effort to stem runaway inflation triggered by the oil price shocks of the 1970s.

Prediction: Inflation will be lower in the second half of 2022, though still elevated.



THE FED

The Fed decided to quicken the pace of tapering, a process of reducing its bond purchases, giving the central bank flexibility to raise interest rates sooner next year if inflation stays high and the employment situation doesn't improve.

"Inflation is running very far above target. The economy no longer needs or wants the very accommodative policies we have had in place," Jerome Powell, U.S. Federal Reserve Board Chairman

Economists increasingly expect three or four interest rate increases in 2022, and it's likely that the first increase will be in the first quarter of the year.

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

President / Co - Owner

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

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Alexandria Tatem

Head of Research / Associate

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

ATATEM@FORESITECRE.COM

Stephen Berchelmann

Vice President

Urban Developments / Special Projects

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

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CHAD'S TAKE ON THE MARKET

We are currently in one of the most imbalanced investment sales markets in decades, creating significant value for those selling commercial real estate. The overabundance of capital looking for investment property acquisitions in nearly every product type far exceeds the supply of available properties for sale. This has pushed asking prices and corresponding cap rates to unprecedented levels never seen in most secondary and tertiary markets, and is spreading into class B and C assets in many cases.

This environment isn't likely to change significantly in the short term, despite the risk of rising interest rates in the coming quarters. There is still a shortage of new product being delivered to the market, and an overabundance of capital, both equity and debt, searching for yield as an alternative to the potentially volatile securities market. Now might be regarded as the best opportunity in generations for commercial real estate investors to expedite dispositions of any assets in their portfolio earmarked for sale and profit taking in the next few years.