

INVESTMENT FORECAST

Retail
Austin

IPA

INSTITUTIONAL
PROPERTY
ADVISORS

2022

Single-Tenant Firing on All Cylinders Amid Economic Headway, Multi-Tenant to Play Catch-up in 2022

Multitude of tailwinds signal fruitful outlook. Building off a resilient economic performance in which the metro job total surpassed the pre-pandemic peak by August of last year, Austin is positioned to sustain momentum in 2022. The leisure and hospitality headcount is approaching the 2019 measure, with the swift pace of population growth helping businesses find workers. Meanwhile, new tech and financial firms are entering the metro, creating higher-wage positions and boosting spending. By year-end, the median household income in Austin is expected to exceed \$87,000, a 10-plus percent premium over all three other major Texas markets. Many retailers are cognizant of these positive trends and are seeking space across the metro, with a particular preference for floorplans in fast-growing south and east suburbs. The retail landscape is uneven, with single-tenant vacancy falling below the 4 percent threshold for the first time since 2018, while multi-tenant availability remains 100 basis points above the pre-health crisis level. The variance in demand is impacting asking rates, as single-tenant rent has been climbing at a pace twice as fast as the trailing five-year average, while the mean multi-tenant rent has weakened.

Assets lower on the risk spectrum are favored, influencing sales metrics. Investors in Austin are prioritizing single-tenant properties and smaller centers with strong tenant rosters. This shift away from higher-risk assets altered the composition of trades, leading to a 7 percent lift in the average multi-tenant sale price as the mean cap rate fell to 6.3 percent. Multi-tenant trades occur most often in South, East and Central Austin, with sub-50,000-square-foot shopping centers comprising the bulk of deal flow. Meanwhile, the 3 percent rise in the mean single-tenant sale price and 20-basis-point cap rate retreat last year was largely driven by performance and buyer demand. Submarkets with notable year-over-year jumps in single-tenant trading in 2021 included Hays County, South and Southwest Austin. Minimum returns in these areas can dip into the low-4

2022 Market Forecast

Employment up 5.6%



The addition of 66,000 roles this year pushes the total approximately 113,000 jobs higher than the pre-pandemic peak.

Construction 575,000 sq. ft.



Builders slow the pace of arrivals considerably in 2022, with inventory scheduled to grow by the smallest amount since 2011. No submarket will add more than 100,000 square feet.

Vacancy down 60 bps



Sustained momentum in single-tenant and a more substantial multi-tenant rebound facilitates a vacancy decline to 3.4 percent, nearly on par with last year's 80-basis-point contraction.

Rent up 3.5%



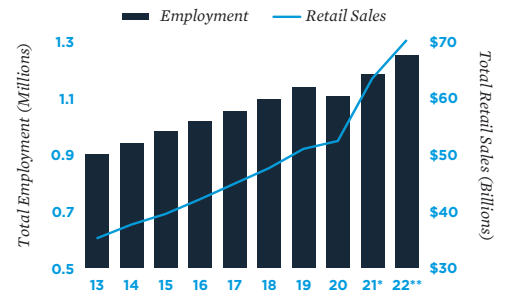
As vacancy falls to the lowest rate in more than a decade, tenants will compete for available space, allowing the average asking rent to climb to \$23.50 per square foot at year-end.

Investment

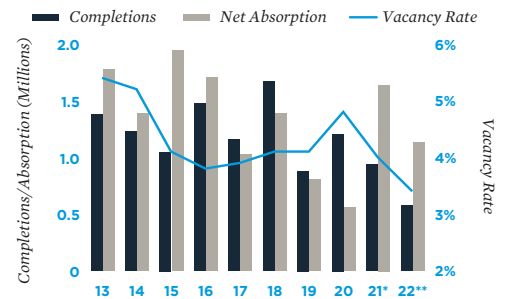


Buyers expand their risk tolerance as conditions improve. Double-digit,

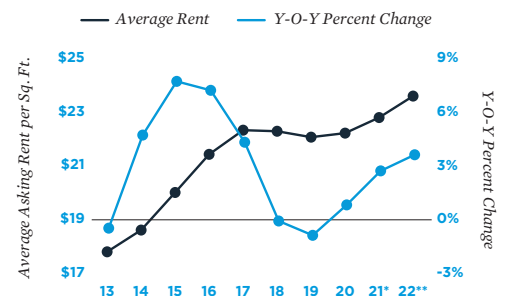
Economic Trends



Supply and Demand



Rent Trends



* Estimate; ** Forecast

Sources: CoStar Group, Inc.; Real Capital Analytics; RealPage, Inc.

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Metro-level employment, vacancy and effective rents are year-end figures and are based on the most up-to-date information available as of February 2022. Average prices and cap rates are a function of the age, class and geographic area of the properties trading and therefore may not be representative of the market as a whole. Forecasts for employment and retail data are made during the first quarter and represent estimates of future performance. No representation, warranty or guarantee, express or implied may be made as to the accuracy or reliability of the information contained herein. This is not intended to be a forecast of future events and this is not a guaranty regarding a future event. This is not intended to provide specific investment advice and should not be considered as investment advice.