

INVESTMENT FORECAST

Retail
San Antonio

IPA
INSTITUTIONAL
PROPERTY
ADVISORS

2022

Improved Visitor Tally and New Residents in Northeast Suburbs Highlight 2022 Retail Investor Contemplations

Revival of traditional drivers, new tailwinds to help ease vacancy. From an economic standpoint, San Antonio is on solid ground entering this year, with a job count on par with the recording prior to the pandemic. Additionally, the metro's population will grow at a pace more than twice as fast as the national average in 2022. This expansion coincides with homebuilding activity in Comal and Guadalupe counties, where developers are building a cluster of subdivisions and multifamily communities. Consumer spending and leasing velocity in these counties are poised to strengthen as these new dwellings are filled and the inhabitants desire convenient shopping and services. Vacancy in the two submarkets also rests below the market average, so stronger demand should produce rent gains. Meanwhile, retail in the urban core is highly reliant on tourism, with destinations like the River Walk and the Alamo driving foot traffic to nearby shops. Hotel metrics indicate that tourism recovery is underway, as metro room occupancy during the second half of 2021 was only 240 basis points below the same six months in 2019. Positive economic trends and more visitors support the strongest retail absorption in six years during 2022.

Entry costs and yields, still attractive among major Texas metros. Deal flow improved markedly in 2021 after a slowdown at the onset of the health crisis. Strong buyer demand for single-tenant assets pushed the average sale price above \$500 per square foot for the first time on record. Nevertheless, average entry costs for single-tenant assets remain more than 5 percent below the other three major Texas markets, while mean cap rates in San Antonio are the highest of the bunch at 6.0 percent. The average multi-tenant sale price also climbed last year, though this was predominantly a result of a flight-to-safety rather than demand-driven. Buyers of both asset types are most active in Northwest San Antonio, as the submarket contains one-third of metro inventory. Within this corridor, many investors are setting their sights outward as suburbs along Loop 1604 expand.

2022 Market Forecast

- Employment**
up 3.4%

The 2022 job gain trails last year's 4.7 percent jump, yet exceeds the trailing-decade average, as 37,000 positions are added.
- Construction**
1,400,000 sq. ft.

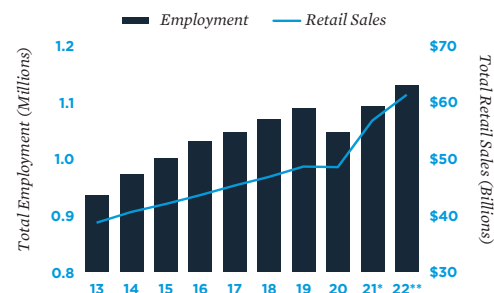
Delivery volume practically doubles the 2021 total, though more than 60 percent of new inventory is pre-leased. Northwest San Antonio is the recipient of one-third of the arrivals.
- Vacancy**
down 30 bps

Net absorption of almost 1.7 million square feet outpaces completions and pushes down on availability. The vacancy rate will taper to 5.1 percent, still 40 basis points higher than 2019.
- Rent**
up 3.0%

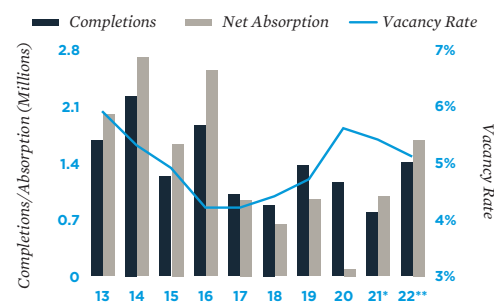
In line with the average annual gain over the past five years, the mean asking rate climbs to \$17.35 per square foot. This mean will be 5.5 percent above the pre-pandemic measure.
- Investment**

Assets in New Braunfels and Seguin are hot commodities amid rapid household creation. Out-of-state and local investors compete for coveted single-tenant properties and strip centers.

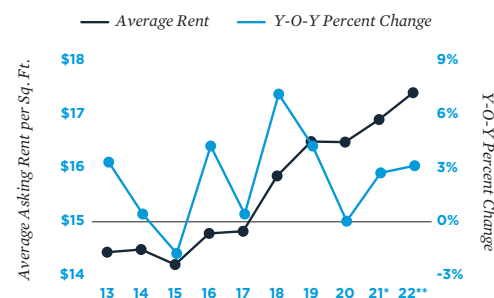
Economic Trends



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.