

MARKET REPORT

Retail
San Antonio Metro Area

IPA
INSTITUTIONAL
PROPERTY
ADVISORS

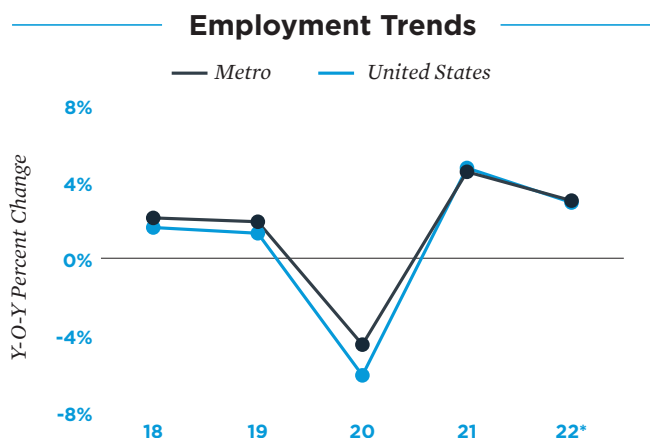
2Q/22

Discount Shops' Outlook Amid High Inflation Helps Steer Vacancy Downward

Availability to match decade-low by year-end. Through March of this year, San Antonio recorded six consecutive quarters of positive absorption, totaling nearly 2.6 million square feet during that span. About 60 percent of that volume came in the past two quarters, evidence that momentum is accelerating. Vacancy entered April at 4.6 percent, on par with the pre-pandemic measure already. The rate is expected to go even lower as the year progresses, approaching 4.2 percent in the fourth quarter — a rate that is 140 basis points below the prior 15-year average. Alongside noteworthy demand tailwinds, construction is low by historical standards, helping facilitate downward pressure on availability as tenants turn to existing spaces. Roughly 70 percent of the 2022 pipeline is pre-leased as of April, headlined by a new 120,000-square-foot H-E-B in New Braunfels and an 80,000-square-foot Living Spaces in Schertz.

Community centers draw discount shops as budgets tighten.

With U.S. inflation running historically high, in addition to elevated prices at the gas pump, more San Antonio residents may stiffen their budgets this year. Discount retailers are cognizant of these trends and have been inking triple-net leases across the Alamo City, in anticipation of a shift in consumer behavior. In May, Ollie's Bargain Outlet moved into a spot in the Woodlake Crossing community center, and Bargain Depot took up space in the Westpark Plaza off Loop 410. Earlier in the year, dd's DISCOUNTS occupied a floorplan in the Culebra Market community center as well.



* Forecast

Sources: BLS; CoStar Group, Inc.

Retail 2022 Outlook



**33,000
JOBS**
will be created

EMPLOYMENT:

The 7,500 roles added during the opening three-month frame of 2022 lowered unemployment to 4.0 percent, which is still a tick above the U.S. measure. This shows a margin for hiring persists, permitting San Antonio's job total to lift by 3.0 percent this year.



**940,000
SQ. FT.**
will be completed

CONSTRUCTION:

Metro supply increases by less than 1 percent for the second straight year, as additions trail the past decade annual average. Northwest San Antonio has the heaviest slate, with a large share of that space still unclaimed as of mid-April.



**50
BASIS POINT**
decrease in vacancy

VACANCY:

San Antonio's vacant stock realigns with the 2018 level of just 5 million square feet, as the availability rate eases to the low-4 percent territory by year-end. Net absorption in 2022 is expected to measure about 500,000 square feet higher than completions.

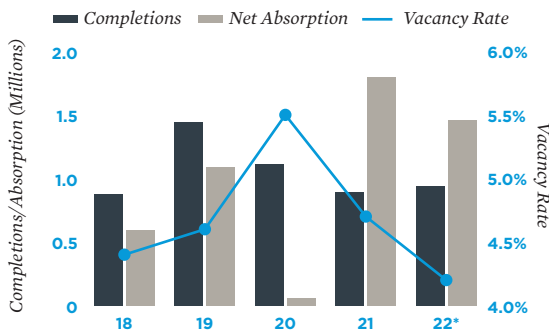


**3.6%
INCREASE**
in asking rent

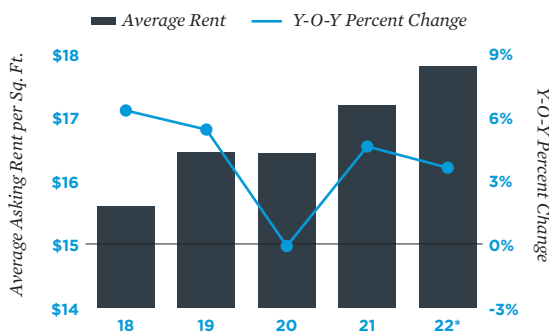
RENT:

Building off last year's 4.6 percent escalation, the average asking rent advances to \$17.80 per square foot in 2022. This marks the fourth time in five years that annual rent growth exceeds 3 percent, with a turbulent 2020 being the lone exception.

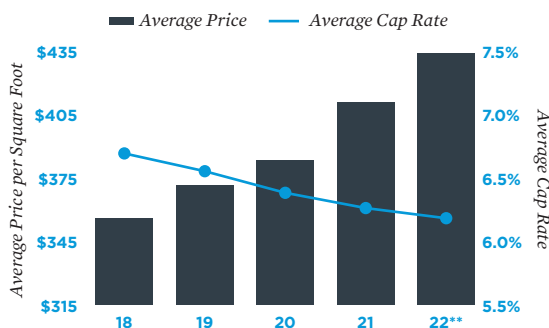
Supply and Demand



Rent Trends



Sales Trends



* Forecast ** Through 1Q

Sources: CoStar Group, Inc.; Real Capital Analytics

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Price: \$250

1Q 2022 - 12-Month Period



CONSTRUCTION

1,015,000 sq. ft. completed

- During the past four quarters ended in March, builders added 515,000 square feet in Northwest San Antonio and 205,000 square feet in Guadalupe County, collectively accounting for about 70 percent of new supply.
- Household creation in Comal County is spurring development. This year, the area will add 100,000-plus square feet for the first time since 2018.



VACANCY

90 basis point decrease in vacancy Y-O-Y

- Vacancy tapered to 4.6 percent in March on net absorption of 2.1 million square feet during the past 12 months. Among the five largest submarkets, Comal County and South San Antonio have the lowest vacancy.
- North Central San Antonio has the highest availability at 6.3 percent, though the local rate dropped 160 basis points over the past nine months.



RENT

3.0% increase in the average asking rent Y-O-Y

- Multi-tenant and single-tenant rent growth during the past year was in alignment, at 3.2 percent and 2.9 percent, respectively. Gains in both segments brought the overall average asking rate up to \$16.93 per square foot.
- Looking at the seven submarkets with inventories above 3 million square feet, Guadalupe County and the CBD had the strongest rent gains.

Investment Highlights

- Multi-tenant centers warranted an average sale price of \$330 per square foot during the 12-month span ended in March, escalating 10 percent relative to the previous yearlong period. The mean multi-tenant cap rate slid down 10 basis points to 6.6 percent, still 60 basis points above Austin.
- About 40 percent of multi-tenant trades completed during the past four quarters ended in March were located in Northwest San Antonio. Several portfolio deals executed by East Coast buyers took place here, while local investors also scoured the area for strip centers with strong tenant rosters.
- The average sale price of a single-tenant asset jumped 12 percent over the past year to \$589 per square foot. That gain was about three times the magnitude of the next highest major metro in Texas. Average first-year returns in the Alamo City dipped 20 basis points during that stretch to 5.6 percent.
- The Northwest, Northeast and North Central submarkets continue to dominate single-tenant activity, jointly accounting for two-thirds of deal flow over the past year. At the same time, growth in New Braunfels and other northern suburbs is garnering attention from a larger pool of investors. Trades in Comal County more than doubled annually.

The information contained in this report was obtained from sources deemed to be reliable. Every effort was made to obtain accurate and complete information; however, no representation, warranty or guarantee, express or implied, may be made as to the accuracy or reliability of the information contained herein. Metro-level employment growth is calculated based on the last month of the quarter/year. Sales data includes transactions sold for \$1 million or greater unless otherwise noted. 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. Sources: Marcus & Millichap Research Services; Bureau of Labor Statistics; CoStar Group, Inc.; Real Capital Analytics

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