

# MARKET REPORT

Retail  
Austin Metro Area

IPA  
INSTITUTIONAL  
PROPERTY  
ADVISORS

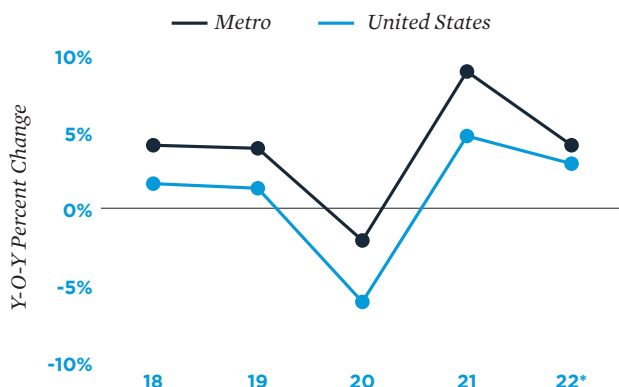
3Q/22

## North Expansion Powers Strong Performances; Vacancy Rates Among Top 10 Tightest

**Pair of northern submarkets lead the charge.** Local vacancy declines during the past year ended in the second quarter were recorded in 15 of Austin's 16 submarkets, with retail inventories of at least 2 million square feet. The Round Rock and Far Northwest Austin submarkets stood out, each eclipsing 350-basis-point reductions in availability, with corresponding double-digit percentage average asking rent jumps. Round Rock's proximity to North Austin employment hubs, as well as the quickly-expanding Interstate 35 corridor, will continue to drive population growth. Meanwhile, Far Northwest suburbs near Lake Travis are attracting relocating households desiring less urban density. The only exception to the marketwide vacancy contraction was a 30-basis-point rise in East Austin. This lift was largely outweighed by the area posting one of the strongest rent gains in the market, however, as major firms like Tesla aggressively enlarge staff counts and expand the local consumer base.

**Entire retail spectrum in a strong position.** Annual vacancy drops of at least 100 basis points in both the multi- and single-tenant segments allowed Austin to rank among the tightest in the country at midyear. Multi-tenant availability at 3.9 percent is the ninth lowest among major U.S. metros, while the single-tenant measure of 3.2 percent holds claim as the seventh smallest. Austin achieved this despite expanding its inventory at a faster pace than nearly every other market in the nation. Robust tenant demand for new floorplans should keep the metro near the top of the pack in the second half.

### Employment Trends



\* Forecast

Sources: BLS; CoStar Group, Inc.

## Retail 2022 Outlook



**50,200  
JOBS**

*will be created*

### EMPLOYMENT:

Austin's job count is expected to grow by 4.1 percent in 2022. The addition of 40,400 workers during the first eight months provided a strong start. However, headwinds in the tech sector and 3 percent unemployment will ease momentum in the near term.



**980,000  
SQ. FT.**

*will be completed*

### CONSTRUCTION:

Annual completions hold below the 1 million-square-foot threshold for a second straight year, after surpassing that mark in all but one period spanning 2013 to 2020. Nonetheless, two-thirds of the 2022 pipeline will come online in the second half.



**30  
BASIS POINT**

*decrease in vacancy*

### VACANCY:

The vacancy drop in 2022 brings the two-year decline to 140 basis points. During the peak of the pandemic in 2020, vacancy rose by just 60 basis points. As such, a year-end rate of 3.4 percent will be a decade-plus low.



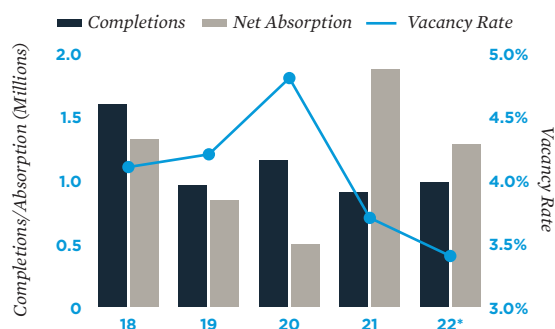
**6.7%  
INCREASE**

*in asking rent*

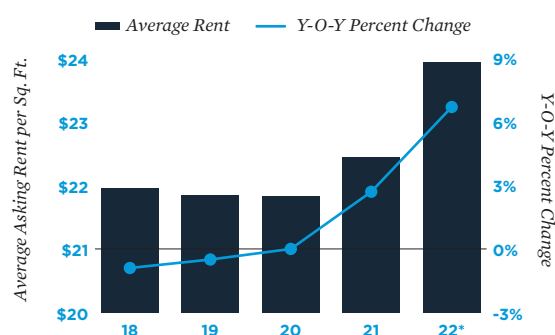
### RENT:

Retail asking rents are surging, with the annual gain halfway through 2022 ranking as the fastest in more than 10 years. By the close of the fourth quarter, the market's mean asking rate will climb to \$23.95 per square foot, among the highest in the Sun Belt.

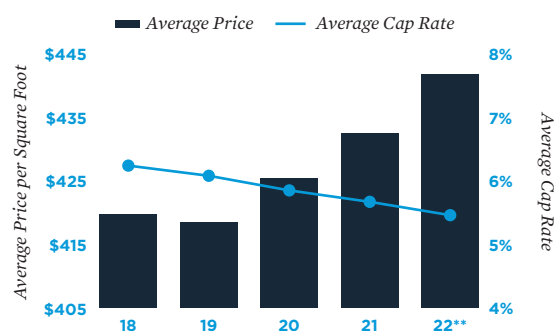
## Supply and Demand



## Rent Trends



## Sales Trends



\* Forecast \*\* Through 2Q

Sources: CoStar Group, Inc.; Real Capital Analytics

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## 2Q 2022 - 12-Month Period



### CONSTRUCTION

**778,000 sq. ft. completed**

- Inventory growth exceeded 3 percent in both Southeast Austin and Georgetown during the 12-month period. Despite the new supply, Southeast Austin was the only submarket with sub-1 percent vacancy at midyear.
- The largest project opening in the second half is a shopping center in Leander, where the populace doubled between the 2010 and 2020 censuses.



### VACANCY

**120 basis point decrease in vacancy Y-O-Y**

- Austin's three largest submarkets by inventory — South, Southwest and Hays County — have vacancy rates below the metro average of 3.4 percent. The overall rate is primarily lifted by Central Austin and Georgetown.
- Among all major U.S. markets, Austin's 80-basis-point vacancy decline from year-end 2019 to the midpoint of 2022 ranked as the fifth strongest.



### RENT

**8.5% increase in the average asking rent Y-O-Y**

- In just the first two quarters of 2022, Austin's average asking rent surged by 5.7 percent, a faster rise than in any full year between 2017 and 2021. The mean marketed rate stood at \$23.72 per square foot as of June.
- During the yearlong period, the average multi-tenant asking rent climbed faster than single-tenant, at 13.1 and 7.0 percent, respectively.

## Investment Highlights

- Strong rent growth, projections for sustained economic expansion and one of the nation's lowest single-tenant vacancy rates are bolstering buyer interest. Single-tenant trading activity increased by about 15 percent annually during the 12-month period ended in June. Of these transactions, about one-fourth were acquired by non-local investors, compared to a 15 percent share in the prior year. The average single-tenant cap rate of 5.1 percent presents West Coast buyers with the potential for higher returns, while an average sale price of \$535 per square foot offers lower entry costs relative to their home markets.
- Buyers pursue various types of single-tenant retail assets in the market, with restaurants and auto parts shops transacting most frequently. Dining establishments and automotive-related stores net leased by nationally-recognized tenants can fetch minimum returns in the 4 percent band, though yields in the 5 percent range are more common.
- Trades of multi-tenant assets grew more than 30 percent annually during the four-quarter period ended at midyear, as buyers returned in force. Heightened activity drove the average sale price up by 3 percent to \$374 per square foot, while the mean cap rate fell 30 basis points to 5.7 percent.

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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