

MARKET REPORT

Retail
San Antonio Metro Area

IPA
INSTITUTIONAL
PROPERTY
ADVISORS

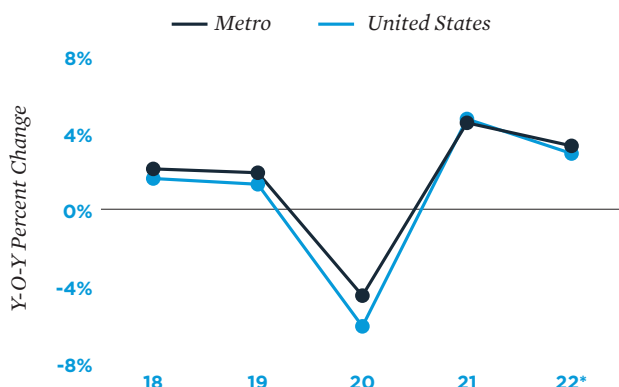
3Q/22

Vacancy on Track to Undercut Pre-Pandemic Lows; Vendors Broaden Footprints via Outer Suburbs

Retail space demand bounces back emphatically. After pandemic headwinds pushed retail availability to a peak of 5.6 percent at the midpoint of last year, the market has gone on to post four consecutive quarters of very strong demand. From July 2021 through June 2022, net absorption totaled nearly 2.8 million square feet, compared to a supply addition of less than half that amount over the same period. This was also the strongest four-quarter stretch for net absorption since 2015-2016. As a result, the metrowide vacancy rate has already dropped under the 2019 average by midyear, and has the momentum to notch a decade-plus low by the end of 2022. The surge in leasing is coming from a diverse collection of industries. Some local businesses are opening new locations in fast-growing areas of the metro, while many national and regional retailers are eager to enter the market, enticed by the expanding consumer base.

Pockets of suburban expansion encourage new shopping choices. Household creation along the Interstate 35 Corridor in suburbs like Schertz, Seguin and New Braunfels has accelerated since the onset of the pandemic. This trend is exemplified by several major single-family housing developments in these areas, and multifamily vacancy rates that have plummeted to some of the lowest levels in the market. As most people tend to shop close to where they live, this is driving demand for local retail. Since the beginning of this year, about 50 new leases have been signed across Comal and Guadalupe counties, with many inked by fast food or fast casual restaurants.

Employment Trends



* Forecast

Sources: BLS; CoStar Group, Inc.

Retail 2022 Outlook



**36,000
JOBS**

will be created

EMPLOYMENT:

Through August 2022, San Antonio's retail trade sector headcount had surpassed the February 2020 mark by about 4,400 workers. The entire employment tally will exceed the same pre-pandemic measure by almost 33,000 roles at year-end.



**1,050,000
SQ. FT.**

will be completed

CONSTRUCTION:

The 2022 delivery slate closely mirrors the trailing five-year average, as metro inventory expands by less than 1 percent for a second straight year. About three-fourths of the completions projected for 2022 finalized in the first half.



**60
BASIS POINT**

decrease in vacancy

VACANCY:

Following last year's 90-basis-point tightening, vacancy is expected to remain on a downward trajectory. At the close of 2022, the rate reaches 4.0 percent, which is 10 basis points under the year-end low of the past 10 years.



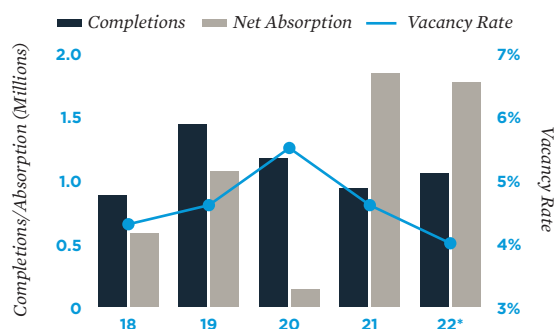
**4.1%
INCREASE**

in asking rent

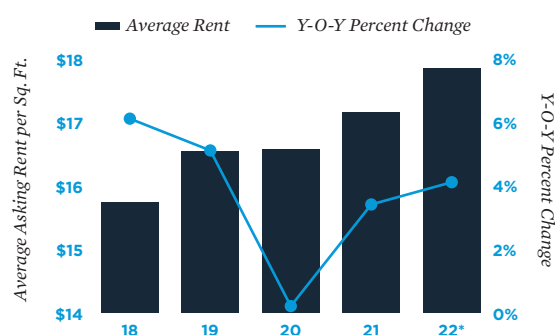
RENT:

San Antonio records its fastest annual rent growth since the onset of the pandemic, buoyed by a sharp drop in vacant retail space. The average asking rent rises to \$17.85 per square foot, as availability plunges to the lowest year-end rate on record.

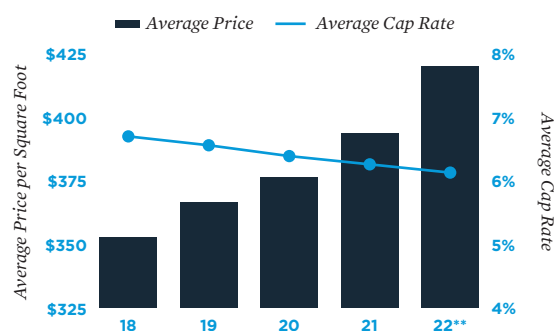
Supply and Demand



Rent Trends



Sales Trends



* Forecast ** Through 2Q

Sources: CoStar Group, Inc.; Real Capital Analytics

IPA Retail

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Price: \$250

2Q 2022 - 12-Month Period



CONSTRUCTION

1,233,000 sq. ft. completed

- Less than 100,000 square feet of multi-tenant space finalized during the past four quarters ended in June, the smallest 12-month delivery of such stock in over 10 years. This should help existing owners attract tenants.
- Single-tenant construction was strong in Guadalupe County. Household formation in suburbs like Seguin is boosting demand for shopping options.



VACANCY

140 basis point decrease in vacancy Y-O-Y

- Both the multi- and single-tenant segments logged vacancy contractions of at least 120 basis points. Multi-tenant registered the larger decline in availability at 180 basis points, with new supply very mild in the sector.
- Across the entire retail spectrum, Comal County boasts the lowest vacancy rate among submarkets with at least 2 million square feet of inventory.



RENT

4.5% increase in the average asking rent Y-O-Y

- Marketwide gains were piloted by a 5.3 percent lift in the average single-tenant asking rent annually through midyear. Growth in this sector surpassed 4.0 percent year-over-year in 10 of the metro's 12 submarkets.
- Vacant multi-tenant stock fell by almost one-fifth in North Central San Antonio, which facilitated one of the fastest sector rent gains in the metro.

Investment Highlights

- Single-tenant retail trading improved by approximately 20 percent during the yearlong period ended at midyear relative to the prior 12 months. Auto parts, fast food and restaurants had the most notable upticks in deal flow, with these types of properties transacting frequently in Northwest, Northeast and South San Antonio. Cap rates for these asset types in the aforementioned locations vary according to tenant, vintage and lease term specifics, but typically range between 4 percent and 6 percent.
- More activity in the single-tenant transaction market helped lift the average sale price by 11 percent to \$585 per square foot. This was a faster gain than in any calendar year across the past two decades. It was also more than three times the magnitude of any other major Texas metro. As such, San Antonio's average single-tenant cap rate is no longer the highest of the bunch, falling to 5.5 percent, 10 basis points below Houston.
- Multi-tenant trading also strengthened, as declining vacancy amid a shrinking construction pipeline helped revive investor confidence. Metrowide, the average multi-tenant sale price grew 6 percent during the 12-month stretch ended at midyear, reaching \$310 per square foot. The average cap rate held relatively stable in the mid-6 percent band.

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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