

# MARKET REPORT

Retail  
Austin Metro Area

IPA  
INSTITUTIONAL  
PROPERTY  
ADVISORS

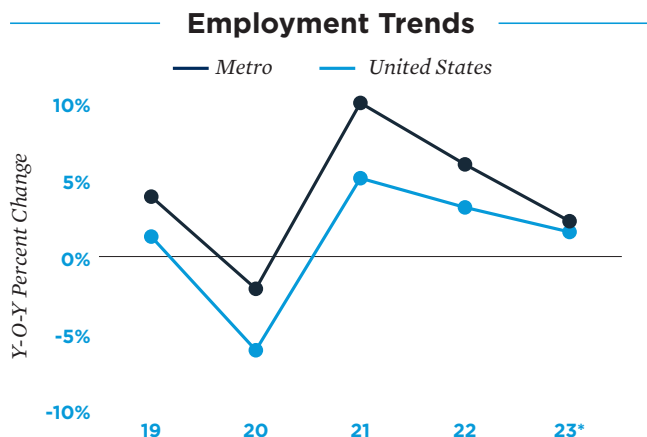
4Q/23

## Expanding Local Population Draws Necessity Retailers, Keeping Austin Vacancy Regionally Tight

### Austin leads Texas in population growth and retail space demand.

For the 17th year in a row, the Austin metro will claim the fastest pace of year-over-year population growth among major U.S. markets. The rapidly expanding resident pool has contributed to an uptick in necessity goods retailers signing large leases here over the last decade. While recessionary fears may limit some expansion plans, space demand will continue through 2023, maintaining the lowest vacancy rate among major Texas markets through the end of 2023. The metro also claimed the fourth-lowest single-tenant vacancy rate among all major U.S. markets in June. Robust population growth and limited availability have led to a hefty construction pipeline. Deliveries are, however, generally concentrated in growing outer areas, corresponding to some of the lowest vacancy rates in the metro, like Hays County. One-third of new builds in 2023 will come online here, a tally warranted by a local 1.7 percent vacancy rate in June.

**Grocers account for sizable portion of new space.** Wholesalers and grocers, such as Costco and H-E-B Grocery, account for roughly 641,000 square feet of deliveries this year, corresponding to 26 percent of new inventory. Built-to-suit projects for necessity goods retailers help mitigate the impact of Austin's 2-million-square-foot-plus pipeline on vacancy. As companies like Amazon and IBM expand local operations, contributing to elevated in-migration, necessity retail projects are likely to become increasingly common.



\* Forecast

Sources: BLS; CoStar Group, Inc.

## Retail 2023 Outlook



**30,000  
JOBS**

*will be created*

### EMPLOYMENT:

In the first eight months of 2023, Austin welcomed roughly 23,700 new jobs on net. Most of this hiring was for roles in government and business and professional services. The retail trade sector added just 2,000 jobs.



**2,475,000  
SQ. FT.**

*will be completed*

### CONSTRUCTION:

Deliveries reach a 15-year high in 2023 as inventory expands by 2.5 percent. Outer areas, such as Georgetown and Hays County, expect the bulk of new space, continuing the rapid stock growth of recent years.



**20  
BASIS POINT**

*increase in vacancy*

### VACANCY:

Inventory expansion will outpace net absorption this year, placing pressure on vacancy and lifting the metric up to 3.4 percent by year-end. Still, this rate will be 170 basis points below the long-term average.



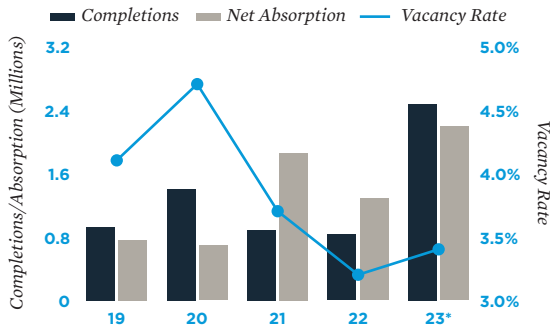
**5.8%  
INCREASE**

*in asking rent*

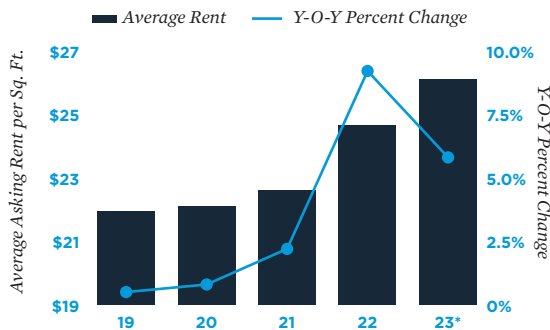
### RENT:

Austin expects to record the greatest average asking rent increase this year among major Texas markets. The metric will reach \$26.10 per square foot, more than \$6.00 per square foot higher than any other in-state metro.

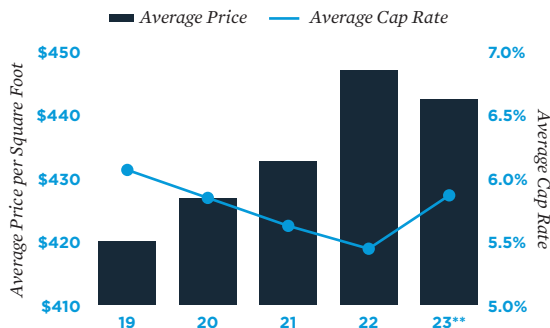
### Supply and Demand



### Rent Trends



### Sales Trends



\* Forecast \*\* Through 2Q

Sources: CoStar Group, Inc.; Real Capital Analytics

#### IPA Retail

##### Daniel Taub

Senior Vice President, Director

Tel: (212) 430-5100 | dtaub@ipausa.com

For information on national retail trends, contact:

##### John Chang

Senior Vice President, Director | Research & Advisory Services

Tel: (602) 707-9700 | jchang@ipausa.com

Price: \$250

## 2Q 2023 - 12-Month Period



### CONSTRUCTION

**1,215,000 sq. ft. completed**

- During the trailing 12 months ended in June, total inventory expanded by 1.2 percent. Deliveries surged in the second quarter of 2023 as this span received the greatest three-month completion total since 2020.
- Georgetown and Hays County welcomed the most builds in the yearlong span, translating to local stock growing 4.2 and 2.7 percent, respectively.



### VACANCY

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

- Entering the third quarter, vacancy sat at 3.1 percent, the second-lowest rate on record. The metric is 110 basis points below the same point in 2019.
- Single-tenant vacancy in Austin was at 2.7 percent in June, down 50 basis points annually. Meanwhile, multi-tenant vacancy was up 30 basis points year-over-year, rising to 4.0 percent.



### RENT

**8.1% increase in the average asking rent Y-O-Y**

- The average asking rent in Austin rose for the ninth straight quarter, reaching \$25.65 per square foot in June.
- Of Austin's 17 submarkets with more than 1 million square feet of space, more than two-thirds logged year-over-year rent gains. The Far Northwest Austin area recorded the greatest increase in local average asking rent.

## Investment Highlights

- Transactions in Austin dropped during the first and second quarters of 2023 to the lowest first half total since 2013. Higher lending costs and tight underwriting slowed investment activity. Multi-tenant deal flow was the most restricted; however, the sector's mean price point was still the highest among major Texas markets at \$372 per square foot, and was nearly \$100 per square foot higher than nearby San Antonio.
- Unlike multi-tenant properties, the mean single-tenant sale price over the trailing 12 months ended in June was roughly in line with other major in-state metros at \$535 per square foot. Similar pricing is supporting a cautiously active stance among Austin retail investors in the second half of 2023. Based on preliminary data, assets in outer areas along Interstate 35 were commonly targeted as the thoroughfare captures travelers driving into Austin from both Dallas-Fort Worth and San Antonio, particularly Georgetown and Hays County.
- North Austin continues to draw investors willing to pay a premium for space as companies like Amazon and IBM commit to moving employees to the area, boosting long-term area foot traffic expectations.

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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