

MARKET REPORT

Retail
San Antonio Metro Area

IPA
INSTITUTIONAL
PROPERTY
ADVISORS

4Q/23

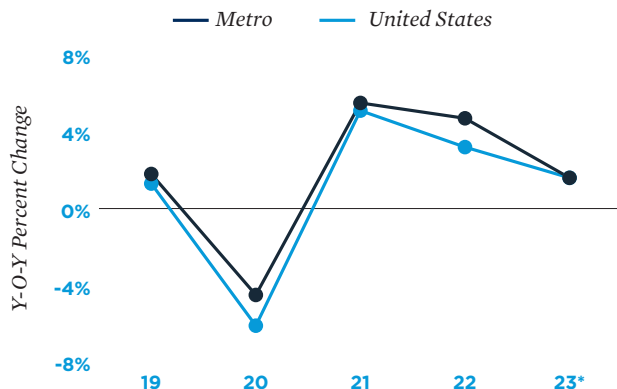
New Demand and Supply Trend Downward in Alignment, Keeping Vacancy Firm in Central Zones

San Antonio retail proving stable as pressure emerges. After falling to 3.8 percent at the close of 2022 – the lowest year-end vacancy on record – the metrowide rate held unchanged through the first half of 2023. This stability occurred despite net absorption decreasing on a quarterly basis in each period during the opening six months of 2023, as higher interest rates and economic headwinds began to slow retailer expansion. The reduction in net absorption, however, was offset by a deceleration in construction. Supply additions across the initial six months of 2023 totaled less than 500,000 square feet for only the third time in eight years. This pattern of moderating demand aligned with easing development is helping stabilize vacancy. At the same time, higher property taxes and insurance premiums are weighing on margins, creating additional hurdles as softer tenant demand tapers rent growth to a three-year low.

Vacancy recalibration mainly concentrated in outlying areas.

Across the opening six months of 2023, the metro's four largest areas spanning most neighborhoods within Loop 1604 – Northeast, Northwest, North Central and South San Antonio – each had marginal vacancy movement within 10 basis points. Conversely, outlying submarkets, including Kendall, Medina and Wilson counties, had vacancy increases of at least 40 basis points. Space proximate to dense residential areas is capturing tenant demand, while properties in rural areas dependent on roadway traffic are facing more hurdles.

Employment Trends



* Forecast

Sources: BLS; CoStar Group, Inc.

Retail 2023 Outlook



**18,000
JOBS**

will be created

EMPLOYMENT:

San Antonio started 2023 out strong by adding 21,500 roles during the first five months, but then lost a net of 3,100 jobs from June through August. This mixed dynamic will result in a 1.6 percent overall gain at year-end.



**1,300,000
SQ. FT.**

will be completed

CONSTRUCTION:

The annual construction volume falls 560,000 square feet short of last year's total, yet ranks as the second largest since 2019. This year's pipeline is back-loaded, with over 62 percent of space delivering in the second half.



**10
BASIS POINT**

increase in vacancy

VACANCY:

Following a combined 150-basis-point vacancy reduction across 2021-2022, San Antonio's rate inches up to 3.9 percent this year. Despite the slight elevation, vacancy will remain 140 basis points below the long-term mean.



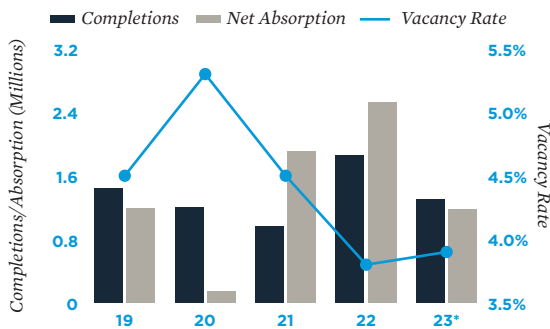
**3.3%
INCREASE**

in asking rent

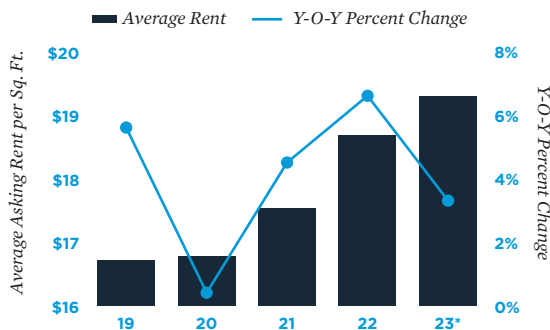
RENT:

Positive rent growth will be recorded in San Antonio for an eighth straight year, with the average asking rate reaching \$19.30 per square foot. This will also be the third consecutive annual gain exceeding 3.0 percent.

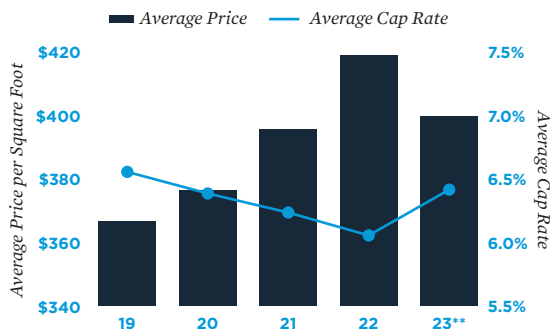
Supply and Demand



Rent Trends



Sales Trends



* Forecast ** Through 2Q

Sources: CoStar Group, Inc.; Real Capital Analytics

IPA Retail

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Price: \$250

2Q 2023 - 12-Month Period



CONSTRUCTION

1,456,000 sq. ft. completed

- Following the completion of a 35-quarter high of 883,000 square feet during the October through December span of 2022, deliveries cooled to 489,000 square feet across the opening six months of 2023.
- Construction will pick up during the second half of the year, headlined by a handful of 30,000-square-foot-plus projects in Northwest San Antonio.



VACANCY

30 basis point decrease in vacancy Y-O-Y

- Led by a 60-basis-point year-over-year vacancy contraction in the multi-tenant segment, San Antonio's overall rate fell to 3.8 percent in June 2023. Single-tenant vacancy contributed by easing 20 basis points as well.
- Northwest, Northeast and North Central San Antonio – which combine for over two-thirds of market supply – each posted vacancy reductions.



RENT

4.6% increase in the average asking rent Y-O-Y

- San Antonio's overall average asking rate rose to \$18.95 per square foot entering the second half of 2023. Single-tenant piloted the gain, as marketed rates in that segment surged 5.3 percent to \$19.37 per square foot.
- Among the seven largest submarkets by inventory, rent growth was the strongest in Comal County and South San Antonio, each above 9.0 percent.

Investment Highlights

- Multi-tenant properties changed hands with an average per-square-foot price of \$285 during the yearlong period ending in June, which was down 4 percent from the prior 12-month span. The mean shopping center cap rate also moved upward by 30 basis points to 6.9 percent, matching the pre-pandemic 2019 measure. These adjustments indicate more buyers and sellers are coming to terms following a rapidly changed financial climate, with higher interest rates and more conservative underwriting.
- The average single-tenant sale price was more stable, unchanged at \$570 per square foot for the four-quarter period ending in June relative to the prior span. At the same time, the mean cap rate crept up by 20 basis points to 5.7 percent, in part due to diminished investment activity for higher-priced single-tenant assets. More buyers will likely return to the metro upon greater financial markets stability, however, as San Antonio's robust growth trends can attract capital from across the country.
- Recent trades were concentrated within Loop 1604. Net-lease restaurants accounted for a large share of deals in the Northwest and North Central submarkets, while South San Antonio had notable auto parts shop velocity.

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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