

# MARKET REPORT

RETAIL

Austin Metro Area

IPA  
INSTITUTIONAL  
PROPERTY  
ADVISORS

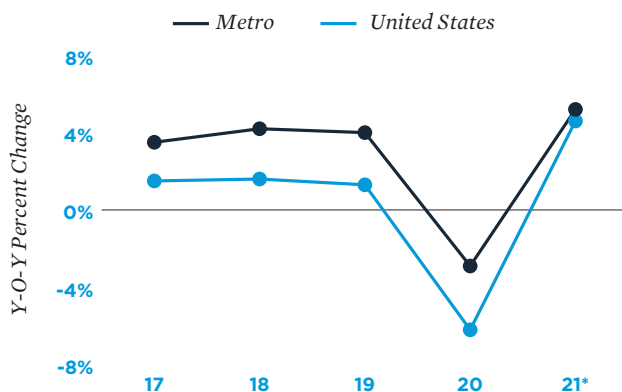
3Q/21

## Ingredients in Place for a Solid Retail Outlook; Northeast Corridor Leading the Recovery

**Economic growth reiterates retail prospects.** Several underlying dynamics indicate retail fundamentals in Austin are poised for improvement. The employment base is nearing a full recovery from the pandemic, compared with some other markets that could still be a few years out. Businesses and residents have been relocating to the market in droves, supporting household creation and spending. Additionally, the metro has become one of the premium technology hubs in the nation, growing the pool of high-income earners residing in Austin. All of these factors aid the retail outlook, particularly with minimal supply-side pressure in the near term. The metro is expected to be one of the 10 least vacant major markets at the end of this year, which will support the fastest annual rent climb in Austin since 2017.

**Northeast Austin a step ahead in recovery.** The corridor that spans east of Interstate 35 on the north side of the metro has exhibited strength over the past year. In the Northeast Austin submarket, vacancy fell 310 basis points from July 2020 to June 2021. Availability tapered by 200 basis points in the Far Northeast submarket as well. Both of these locales posted annual rent growth exceeding 5 percent during that time frame. The reopening of popular attractions that boost foot traffic, like Typhoon Texas, in addition to household formation in these neighborhoods that are comparatively more affordable than those west of I-35, prompted greater demand for retail space. Over the past few quarters, food service tenants have spearheaded leasing activity in the area.

### Employment Trends



\* Forecast

Sources: BLS; CoStar Group, Inc.

## Retail 2021 Outlook



**57,000  
JOBS**

*will be created*

### EMPLOYMENT:

Employment gains this year will increase payrolls by 5.2 percent, surpassing the pre-pandemic level. Entering August, the unemployment rate stood at 4.7 percent, at least 80 basis points below all three other major markets in the state of Texas.



**930,000  
SQ. FT.**

*will be completed*

### CONSTRUCTION:

In 2021, deliveries will fall short of the past decade's annual average of 1.1 million square feet. Inventory is projected to grow by 1.0 percent this year, with the largest additions in Georgetown and Round Rock.



**30  
BASIS POINT**

*decrease in vacancy*

### VACANCY:

Market availability will retreat to 4.5 percent in 2021 as net absorption exceeds the 1 million-square-foot threshold for the first time in three years. The decrease will cut into the 60-basis-point rise posted in 2020.



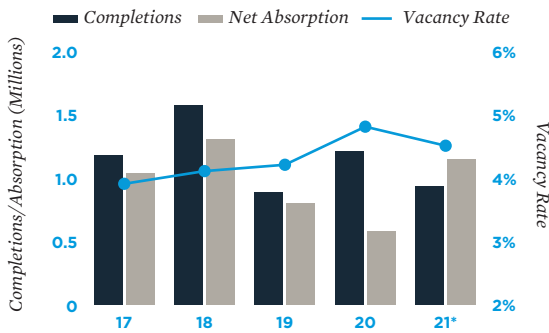
**2.2%  
INCREASE**

*in asking rent*

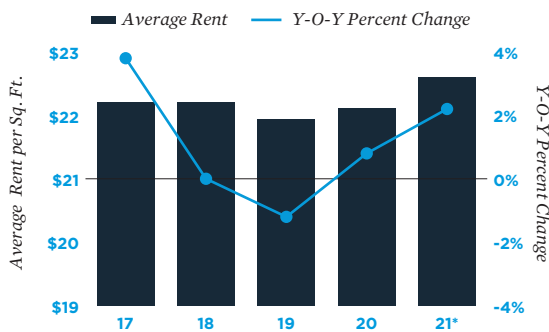
### RENT:

Tighter vacancy and less economic uncertainty provide a tailwind for rent growth. The metro's average asking rate is expected to reach \$22.60 per square foot in 2021, beating the previous high achieved in the third quarter of 2018.

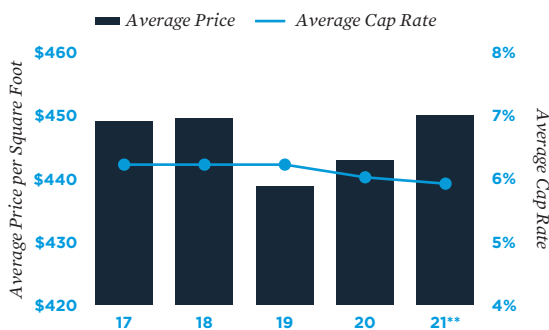
## Supply and Demand



## Rent Trends



## Sales Trends



\* Forecast \*\* Through 2Q

Sources: CoStar Group, Inc.; Real Capital Analytics

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Price: \$250

## 2Q21 – 12-Month Period



### CONSTRUCTION

**756,000** square feet completed

- Completions moderated over the past 12 months ended in June with a delivery volume about half of what was finalized in the previous year-long period. In July, an additional 636,000 square feet was underway.
- Over the first half of 2021, submarkets that added at least 100,000 square feet included East Austin, Georgetown and Round Rock.



### VACANCY

**10** basis point increase in vacancy Y-O-Y

- Metro vacancy fell 20 basis points during the first six months of 2021 to 4.6 percent, which is a tick above the recording in the prior year. Notably, single-tenant availability dropped by 40 basis points in the first half.
- Multi-tenant availability rose 130 basis points year over year, with the segment's vacancy rate in Round Rock rising into the double digits.



### RENT

**1.5%** increase in the average asking rent Y-O-Y

- Boosted by a 3.3 percent annual lift in the average single-tenant asking rent, the overall metro rate advanced to \$22.41 per square foot in the second quarter. Multi-tenant rent is down year over year, though.
- Of the submarkets with supply exceeding 5 million square feet, Cedar Park, North and Southwest Austin had the sharpest overall reductions.

## Investment Highlights

- Single-tenant trading activity jumped by more than 40 percent annually over the four-quarter period ended in June. The average price of single-tenant properties held relatively firm at \$516 per square foot while the mean first-year return dipped 10 basis points to 5.6 percent.
- Submarkets that recorded notable upticks in single-tenant transactions include Central Austin, Bastrop County and Round Rock. Investors focusing on the urban core often target assets built more than 50 years ago. Newer buildings change hands at a higher clip in Bastrop County and Round Rock, especially fast-food restaurants and dollar stores.
- Multi-tenant deal flow retreated by roughly one-third during the 12-month period ended in the second quarter, but recently built assets comprised a larger share of transactions. This contributed to the 5 percent bump in the average sale price to \$370 per unit and pushed the mean cap rate down to 6.4 percent.
- Multi-tenant properties have traded most frequently in Georgetown, South and Far Northwest Austin. In these areas buyers have concentrated on 10,000-square-foot to 30,000-square-foot strip centers.