



TRANSWESTERN

TEXAS RETAIL MARKETS WINTER 2023

Record Leasing Velocity, Construction Spikes Summarize Year's Activity

The Texas retail sector scored strong annual measures across all the major metros during 2023. Austin, Dallas-Fort Worth, San Antonio, and Houston reported an increase to their overall payrolls during the calendar year: 6.7%, 6.3%, 5.2%, and 4.1%, respectively. Retail vacancy across all major Texas metros maintained a record five-year low, ranging from 2.8% in Austin to 4.5% in Houston. Each market's tight vacancy is further emphasized as annual construction deliveries fight to catch up with leasing demand.

Construction clocked more than 10.2 million square feet at year-end. The lion's share is in Big D with 4.5 million square feet underway while Houston came in second with 2.9 million. Austin placed third with 1.6 million on-going, and San Antonio brings up the rear just shy of a million.

Meanwhile, demand for new space topped nearly 2.3 million square feet led by Houston chocking up more than half. Dallas-Fort Worth saw just over 545,000 square feet, followed by Austin's 390,000 square feet of new demand. San Antonio recorded the only 90-day seasonal loss with space givebacks barely missing a breakeven for the market at 37,000 square feet.

Dallas/Fort Worth

	Q4 23	Y-O-Y
Population Growth	-	▲ 131,646
Unemployment	3.3%	▲ 0.1%
Inventory (SF)	386,361,000	-
Net Absorption	544,000	2,611,000
Vacancy	4.2%	▼ 0.1%

Houston

	Q4 23	Y-O-Y
Population Growth	-	▲ 98,438
Unemployment	3.8%	▲ 0.1%
Inventory (SF)	370,415,000	-
Net Absorption	1,363,000	2,569,000
Vacancy	4.5%	▼ 0.8%

Austin

	Q4 23	Y-O-Y
Population Growth	-	▲ 46,431
Unemployment	3.0%	▲ 0.3%
Inventory (SF)	100,787,000	-
Net Absorption	389,000	1,713,000
Vacancy	2.8%	▼ 0.4%

San Antonio

	Q4 23	Y-O-Y
Population Growth	-	▲ 22,334
Unemployment	3.1%	▲ 0.1%
Inventory (SF)	118,608,000	-
Net Absorption	(37,000)	777,000
Vacancy	3.5%	▼ 0.3%

Source: Bureau of Labor Statistics, CoStar, Real Capital Analytics, Revista, Transwestern.

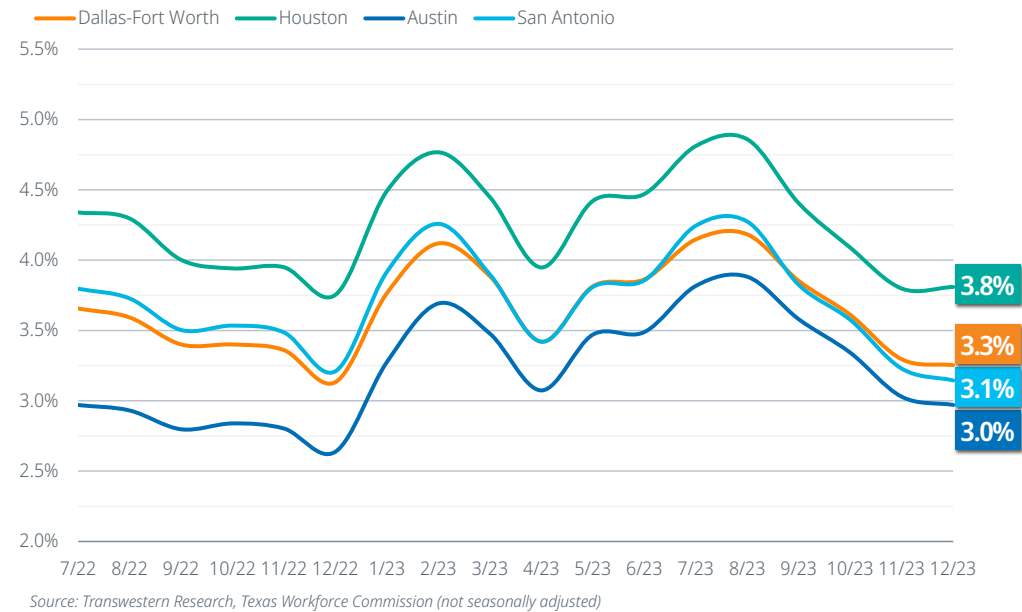
Arrow color palette indicates property sector agency leasing, management and investor trending assessment(s).

TEXAS ECONOMY

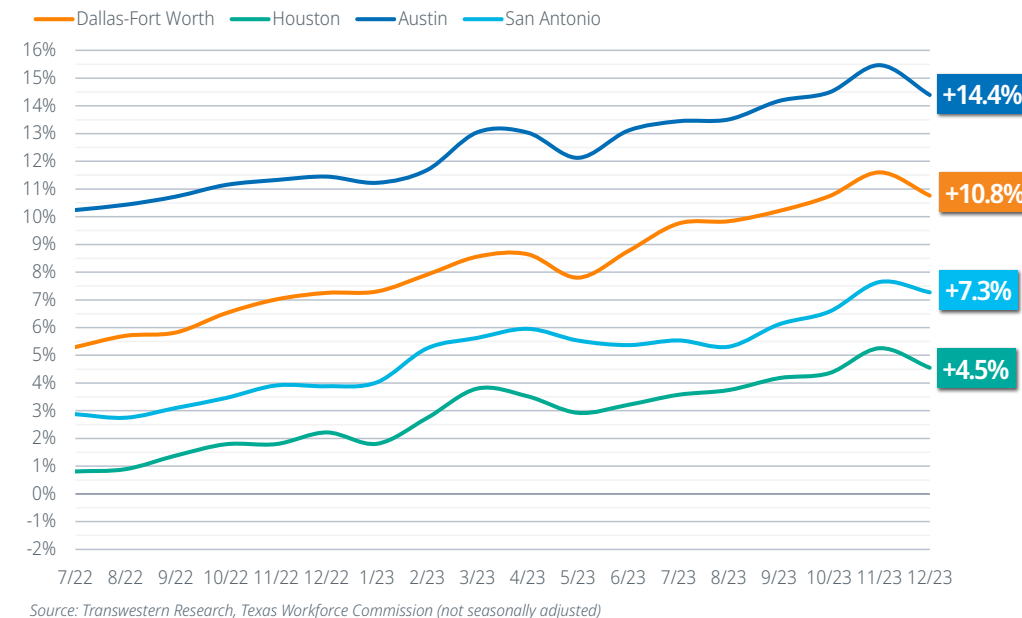
Moderate Growth in Outlook But Texas to Outpace U.S. in 2024

- While Texas's economy will be cyclically slower in 2024, it will still grow substantially faster than the national economy gaining momentum in the second half of the year, according to a recent outlook by Comerica Bank. The outlook is based on slowing inflation to a more normalized rate, the Federal Reserve cutting interest rates, and reaccelerating inward migration.
- The average unemployment rate of 3.5 percent in Texas remained flat from since this time last year, while initial unemployment claims dipped by a marginal 2.5 percent in December after a relatively consistent flow of initial unemployment claims during the early summer months.
- Recent data published from The Federal Reserve Bank of Dallas highlighted a seasonal deceleration in job growth during the fourth quarter, falling from 5.8 percent in September to 2.4 percent in December. It should be noted that growth seen throughout Texas was not tied to any one sector, and the job sectors to lead Texas's job growth were health care and leisure and hospitality.
- Economists' expectations on the U.S. job market were markedly on the sharp upside, according to a recent survey by The Wall Street Journal, as previous expectations of increased difficulty for job seekers were upended as evidenced by the January 2024 payrolls gaining upwards of 353,000, seasonally adjusted.
- The Federal Reserve Bank of New York reported at year-end that American household debt reached \$17.5 trillion in the fourth quarter, which is the highest on record. The analysis pointed out that while the figure is high, the debt looks manageable as wages have outpaced inflation. But with elevated interest rates, consumers are projected to scaled down their current spending habits going into the new year.

UNEMPLOYMENT RATE OVER LAST 18 MONTHS



EMPLOYMENT CHANGE FROM PRE-PANDEMIC HIGHS

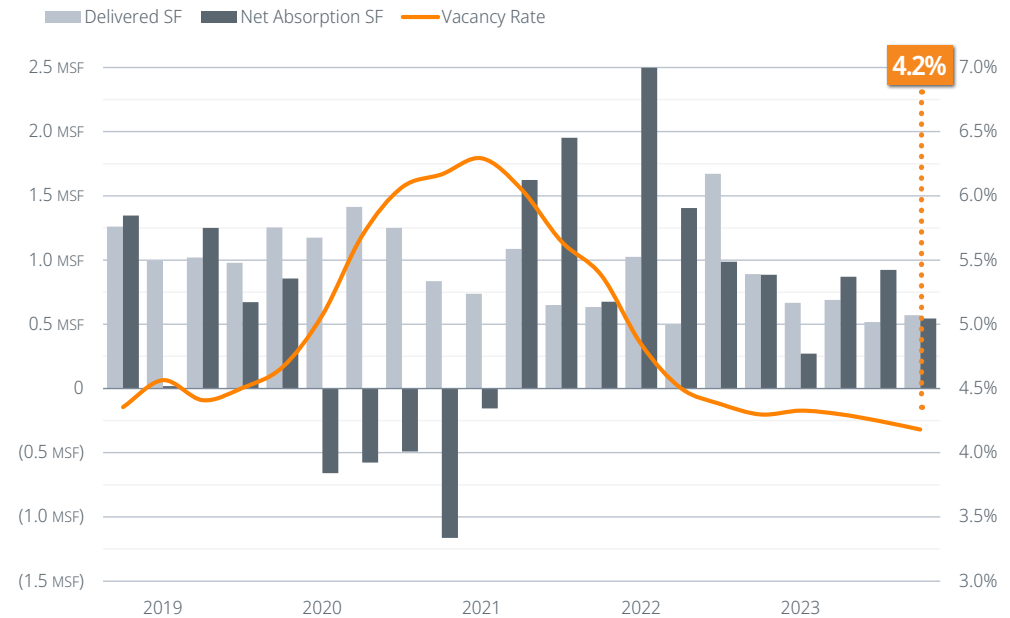


DALLAS/FORT WORTH

Downtown to see \$5 Billion in Redevelopment Around the Iconic Reunion Tower

- The Metroplex's retail sector registered 544,000 square feet of new demand during the third quarter and 2.61 million over the past 12 months, maintaining its streak for only positive gains for eleven consecutive quarters. Vacancy remained flat during the period, holding steady at 4.2 percent.
- Major announcements include Hunt Realty Investments' \$5 billion redevelopment plan around Reunion Tower. The more than 20-acre redevelopment consists of 150,000 square feet of new retail, 3,000 apartments, 2 million square feet of offices, and a convention hotel.
- Also making news was the construction start for the Knox Street development. The million square foot joint venture partnership-backed project includes 100,000 square feet of retail, 150,000 square feet of office, a 173-unit multi-residential complex, and a joint hotel and condominium.
- New construction in Big D currently sits at 4.6 million square feet, a 17.2 percent increase in total construction year-over-year, while overall asking rents \$20.56 NNN, increasing for the twelfth quarter in a row.

DELIVERY IMPACT ON KEY INDICATORS



Source: Transwestern Research, CoStar

Market / Niche	Inventory	Vacant SF	Vacant %	Total Available SF	Total Available %	Quarterly Net Absorption	12 Month Net Absorption	Under Construction	NNN Rent
Dallas - All Retail*	260,505,661	10,890,020	4.2%	14,884,082	5.6%	231,909	1,587,205	3,693,110	\$21.12
Strip Center	19,987,256	1,256,045	6.3%	1,719,581	8.4%	12,620	66,095	389,538	\$20.95
Neighborhood/Community Center	81,700,911	4,736,565	5.8%	6,012,309	7.3%	-	179,416	428,252	\$18.98
Power Center	28,515,574	934,575	3.3%	1,156,006	4.0%	(63,238)	158,933	142,000	\$33.24
Fort Worth - All Retail*	125,855,477	5,261,613	4.2%	6,881,367	5.4%	313,275	1,023,679	860,639	\$18.41
Strip Center	10,914,371	673,165	6.2%	767,159	7.0%	1,455	(30,397)	53,290	\$18.85
Neighborhood/Community Center	34,863,026	2,546,680	7.3%	2,989,353	8.5%	(27,781)	368,190	171,490	\$15.73
Power Center	8,922,376	291,619	3.3%	381,968	4.3%	6,272	16,112	7,072	\$33.48

*Includes properties not in shopping centers below

Source: Transwestern Research, CoStar

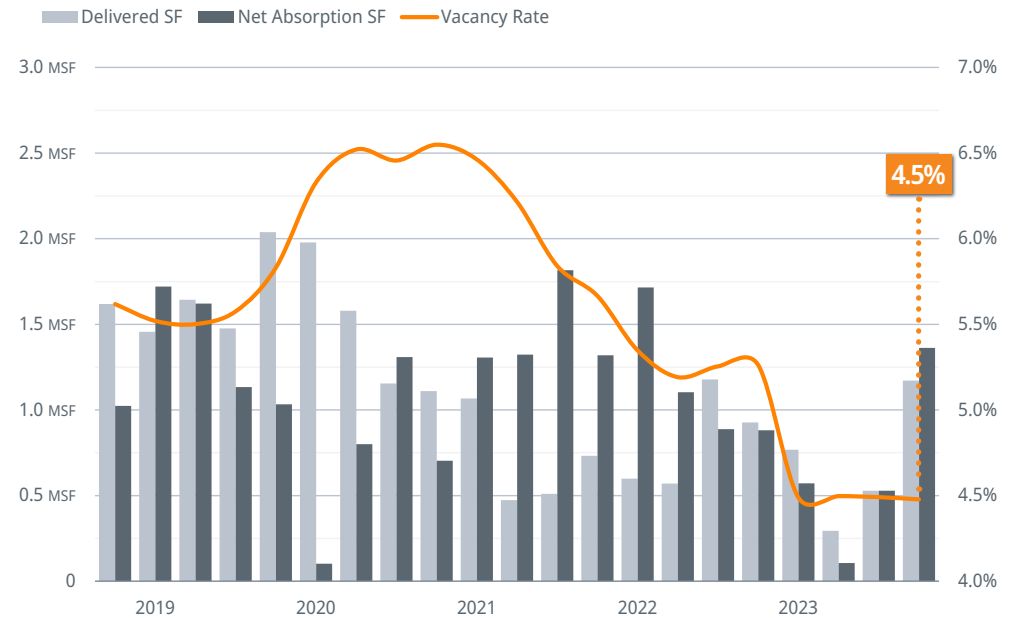


HOUSTON

Demand Outpaces Deliveries for First Time in 18 Months

- Reversing a pattern that emerged in 2022, where new construction was coming online faster than it could be leased and occupied, retailers this quarter turned the lights on in nearly 1.4 million square feet. Deliveries exceeded 1.1 million square feet. As a result, Houston's brick and mortar retail posting some of the strongest, and more balanced, year-end results that we had not seen since coming out of the pandemic in mid-2019.
- Construction leveled off this reporting period to nearly 3.0 million square feet with most of the new construction continuing to be found in Neighborhood/Community Centers concentrated in the northwest and western suburbs of Cypress, Copperfield, Katy, Cinco Ranch and Tomball.
- While direct vacancy remained unchanged at 4.5 percent, total availability tightened 30 basis points to 6.0% with the shrinkage marking the first period of lowered availability in nearly a year.
- Local news during the fourth quarter included Houston-based NewQuest Properties plans to develop a \$90 million retail center at Grand Parkway intersection in Tomball. The shopping center with 404,256 square feet of restaurants and retail is expected to open late next year. To be named The Grand at 249, the center will be the largest concentration of retail in Houston's northwest submarket with 96 percent of the development already leased or under negotiation.

DELIVERY IMPACT ON KEY INDICATORS



Source: Transwestern Research, CoStar

Market / Niche	Inventory	Vacant SF	Vacant %	Total Available SF	Total Available %	Quarterly Net Absorption	12 Month Net Absorption	Under Construction	NNN Rent
Houston - All Retail*	370,414,690	16,587,841	4.5%	22,555,895	6.0%	1,362,592	2,569,499	2,972,356	\$20.31
Strip Center	39,838,858	2,647,428	6.6%	3,422,429	8.6%	223,709	431,832	172,732	\$22.20
Neighborhood/Community Center	118,335,896	6,913,903	5.8%	9,282,082	7.8%	97,666	5,193	819,401	\$17.62
Power Center	30,269,654	1,106,531	3.7%	1,776,635	5.9%	180,521	104,811	22,450	\$18.63

*Includes properties not in shopping centers below

Source: Transwestern Research, CoStar

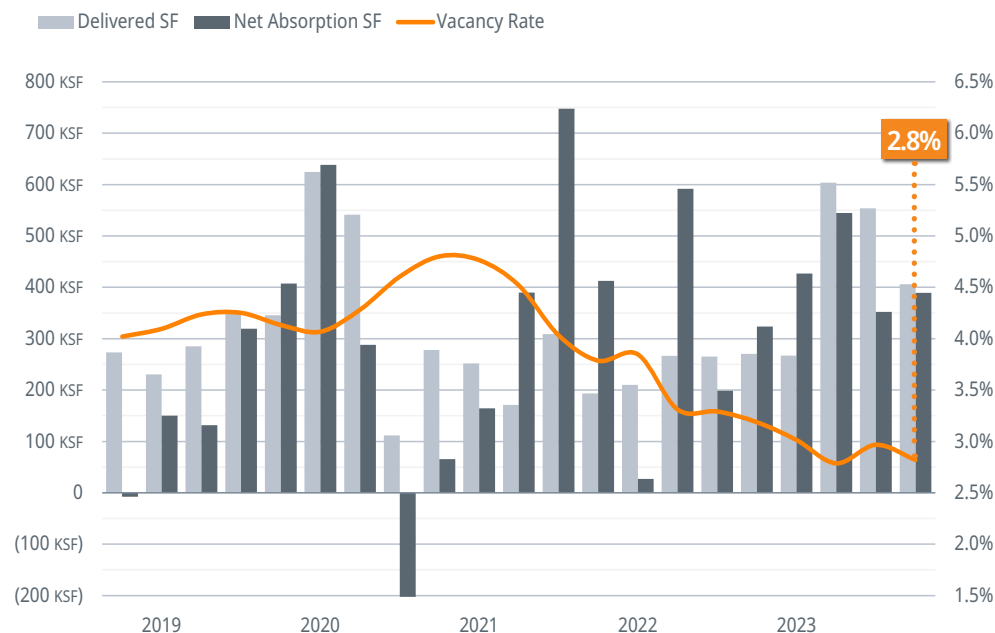


AUSTIN

Absorption Climbs at Year-End; Construction Tightens by 30%

- Austin's retail sector scored nearly 390,000 square feet of positive growth in the final period of the year and brought the 12-month rolling net total to more than 1.7 million. Interestingly, the year concluded with market levels between delivered product nearly 400,000 square feet and demand between evenly balanced, a pattern unseen in four years.
- Vacancy pulled back by 20 basis points over the quarter to 2.8 percent reversing the increase from the previous 90-day period while total availability registered 4.1 percent, down 30 basis points over the same timeframe.
- Overall average triple net asking rates are down 1.5 percent last quarter to \$26.13 per square foot and up 7.7 percent from Winter 2022 when average triple net asking rates were \$24.26 per square foot.
- Power centers saw the greatest increase in rental rates over the quarter jumping to \$39.97 per square foot while average triple net asking rates for Neighborhood/Community Centers and Strip Centers have gone up over the quarter by 50 basis points and 2.9 percent, respectively.
- Austin's retail sector has 1.6 million square feet in the pipeline as the market saw over 726,000 square feet deliver over the quarter, causing the pipeline to decline 30.8 percent as developers wrapped up construction projects.

DELIVERY IMPACT ON KEY INDICATORS



Source: Transwestern Research, CoStar

Market / Niche	Inventory	Vacant SF	Vacant %	Total Available SF	Total Available %	Quarterly Net Absorption	12 Month Net Absorption	Under Construction	NNN Rent
Austin - All Retail*	100,787,444	2,842,126	2.8%	4,184,264	4.1%	389,364	1,713,273	1,628,313	\$26.13
Strip Center	7,452,525	287,315	3.9%	588,376	7.5%	4,806	144,542	356,396	\$26.79
Neighborhood/Community Center	26,227,716	869,735	3.3%	1,237,133	4.7%	143,548	88,698	159,347	\$24.19
Power Center	15,828,928	620,533	3.9%	768,748	4.9%	(13,892)	35,586	12,500	\$39.97

*Includes properties not in shopping centers below

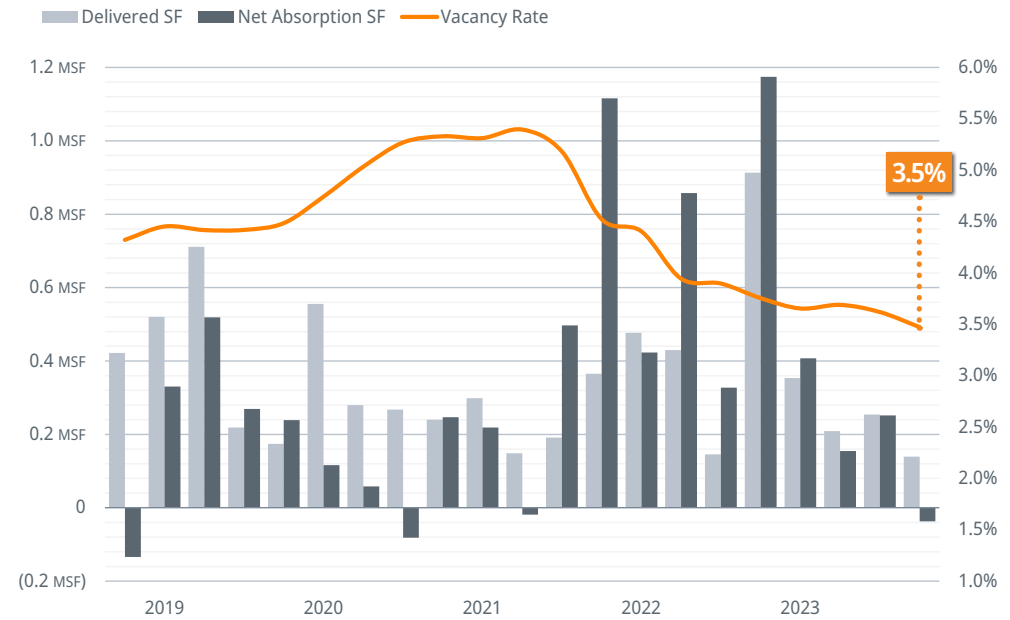
Source: Transwestern Research, CoStar

SAN ANTONIO

Demand Slips into the Red Ending Two Years of Steady Growth

- San Antonio's retail market chalked up slight declines this period coming off robust measures during the third quarter, which last saw negative net demand in mid-2021. Year-end net demand showed negative growth of nearly 38,000 square feet with space losses in two product categories, strip centers and power centers, which posted losses of approximately 56,000 square feet combined, nearly evenly divided between the two property types.
- Direct vacancy over the quarter still dipped 10 basis points to 3.5 percent and is down 50 basis points from 12 months ago. Overall triple net asking rents are up 1.2 percent quarter-over-quarter and surged 13.8 percent from this time last year, attributed to the delivery of new construction which continues to be active. The pipeline closed the year with more than 950,000 square feet underway, up slightly from 926,000 square feet in the past 90 days and even larger than the 770,000 measured at year-end 2022.
- Travel and tourism are a key economic driver to the San Antonio retail sector and to that end, the San Antonio International Airport (SAT), is currently undergoing a \$2.5 billion expansion plan which includes new ground gates, aircraft parking spots, larger passenger waiting areas and retail space, according to the San Antonio Business Journal. It will also include more than 29,000 square feet for upgraded airline clubs and renovated and improved passenger lounges.

DELIVERY IMPACT ON KEY INDICATORS

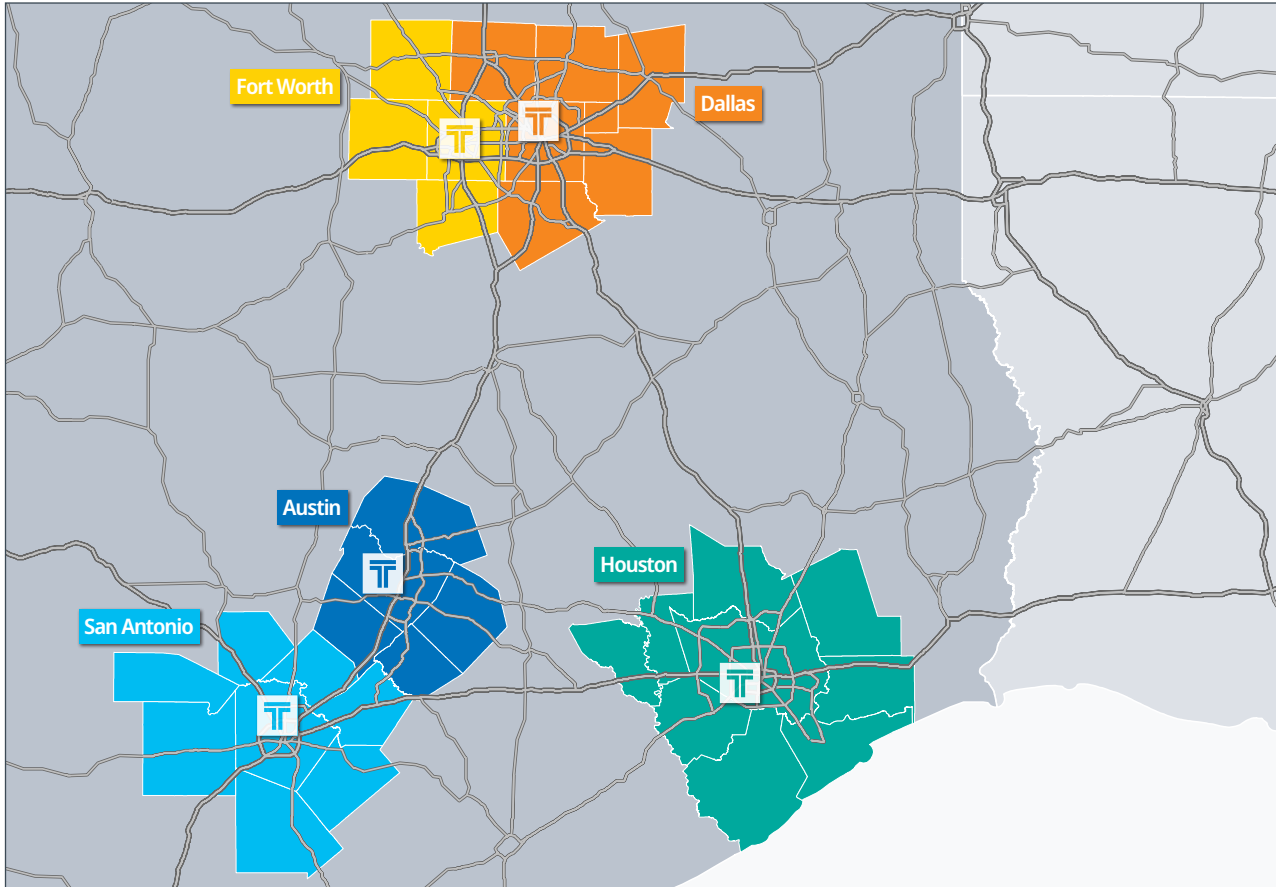


Source: Transwestern Research, CoStar

Market / Niche	Inventory	Vacant SF	Vacant %	Total Available SF	Total Available %	Quarterly Net Absorption	12 Month Net Absorption	Under Construction	NNN Rent
San Antonio - All Retail*	118,607,663	4,118,707	3.5%	6,354,220	5.3%	(37,229)	776,661	954,142	\$19.82
Strip Center	9,712,893	581,563	6.0%	804,130	8.2%	(31,932)	56,936	63,275	\$20.58
Neighborhood/Community Center	32,991,795	1,735,258	5.3%	2,412,389	7.3%	46,179	81,883	100,000	\$16.26
Power Center	10,402,709	267,336	2.6%	494,365	4.7%	(24,217)	9,576	100,000	\$20.52

*Includes properties not in shopping centers below

Source: Transwestern Research, CoStar



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RESEARCH METHODOLOGY

This report includes retail properties greater than 5,000 SF within the primary Texas markets. Bank, auto dealer, auto repair, service station, and truck stop properties are excluded.

Unless otherwise specified, vacancy is limited to direct vacant space with immediate availability. Economic data represent 'actual' figures without seasonal adjustment to minimize statistical massaging that obscures trends and turning points.

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