



TRANSWESTERN

TEXAS RETAIL MARKETS FALL 2022



Texas Retail Markets Remain Healthy

Texas retail markets continued performing in the third quarter. Vacancy rates remain at multi-year lows in all markets, although momentum has slowed slightly as availabilities remain tight. Construction levels have rebounded in Houston, Austin and San Antonio, although the pipeline continues to shrink in Dallas.

Transwestern's outlook remains unchanged: Inflation continues outpacing wage growth while rising interest rates increase the cost of consumer credit. As a result, Retailers and F&B are experiencing a 'sales recession' as consumers pull back on discretionary spending. Nevertheless, Texas markets remain well-positioned: migration (growing number of households) and job growth (increasing aggregate income) offset incremental spending decreases by consumers. Overall, Transwestern expects Texas markets to remain healthy, albeit with slowing momentum, as long as the 'sales recession' does not translate to an employment recession.

Dallas-Fort Worth		
	Q3 22	Y-O-Y
Population Growth	-	▲ 154,384
Unemployment	3.4%	▼ 1.1%
Inventory (SF)	375,348,000	-
Net Absorption	1,259,000	5,689,000
Vacancy	4.6%	▼ 1.3%

Houston		
	Q3 22	Y-O-Y
Population Growth	-	▲ 149,053
Unemployment	4.2%	▼ 1.5%
Inventory (SF)	358,557,000	-
Net Absorption	787,000	5,283,000
Vacancy	5.5%	▼ 0.8%

Austin		
	Q3 22	Y-O-Y
Population Growth	-	▲ 78,617
Unemployment	2.8%	▼ 0.8%
Inventory (SF)	95,773,000	-
Net Absorption	208,000	1,199,000
Vacancy	3.4%	▼ 0.8%

San Antonio		
	Q3 22	Y-O-Y
Population Growth	-	▲ 51,092
Unemployment	3.5%	▼ 1.1%
Inventory (SF)	81,028,000	-
Net Absorption	145,000	1,780,000
Vacancy	3.9%	▼ 1.1%

Sources: Transwestern Research, CoStar, ESRI

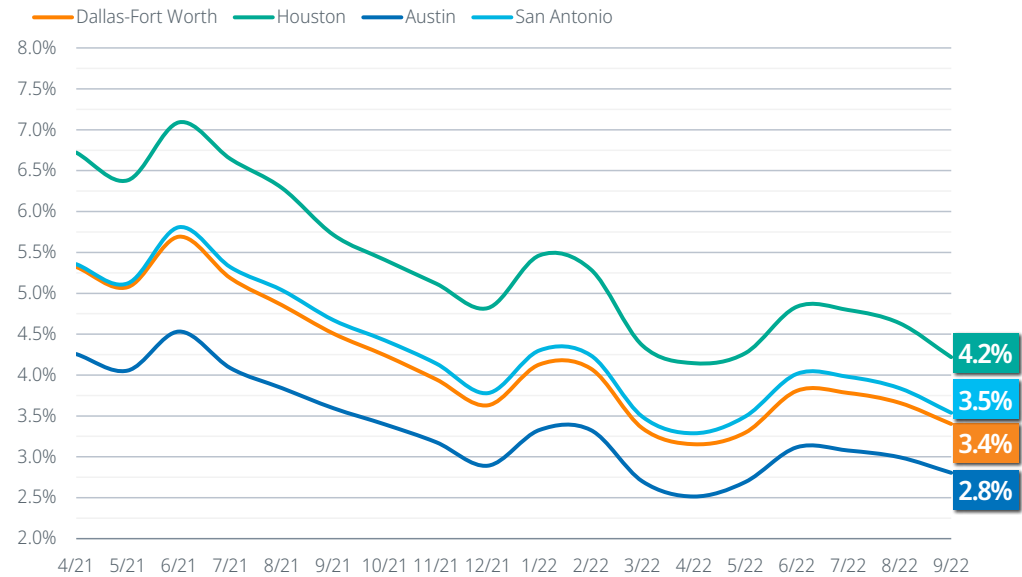


TEXAS ECONOMY

Unemployment Rate Continues Falling

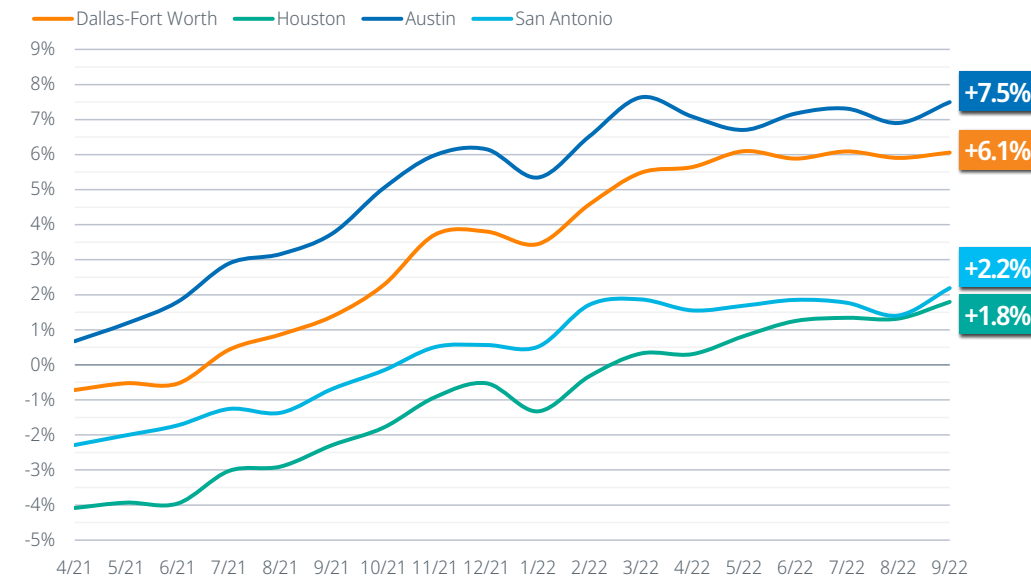
- Unemployment rates in Texas remained unchanged at 3.8%.
 - Dallas+Fort Worth:** Unemployment is 3.4%, down 1.1% from last year.
 - Houston:** Unemployment is 4.2%, down 1.5% from last year.
 - Austin:** Unemployment is 2.8%, down 0.8% from last year.
 - San Antonio:** Unemployment is 3.5%, down 1.1% from last year.
- The overall labor market remains healthy as migration has allowed the labor force to grow while labor force participation has completely recovered to 2019 levels.
- Layoff notices to the Texas Workforce Commission are beginning to tick up, but unemployment claims remain at healthy levels across the state and in the four major markets.
- According to official estimates from the BLS, inflation in Dallas and Houston remains slightly higher than the US average.
- Over the last six months, 20-30% of Texas retailers have reported sales declines in surveys by the Dallas Fed. Employment metrics, however, continue to remain in positive territory.

UNEMPLOYMENT RATE OVER LAST 18 MONTHS



Source: Transwestern Research, Texas Workforce Commission (not seasonally adjusted)

EMPLOYMENT CHANGE FROM PRE-PANDEMIC HIGHS



Source: Transwestern Research, Texas Workforce Commission (not seasonally adjusted)

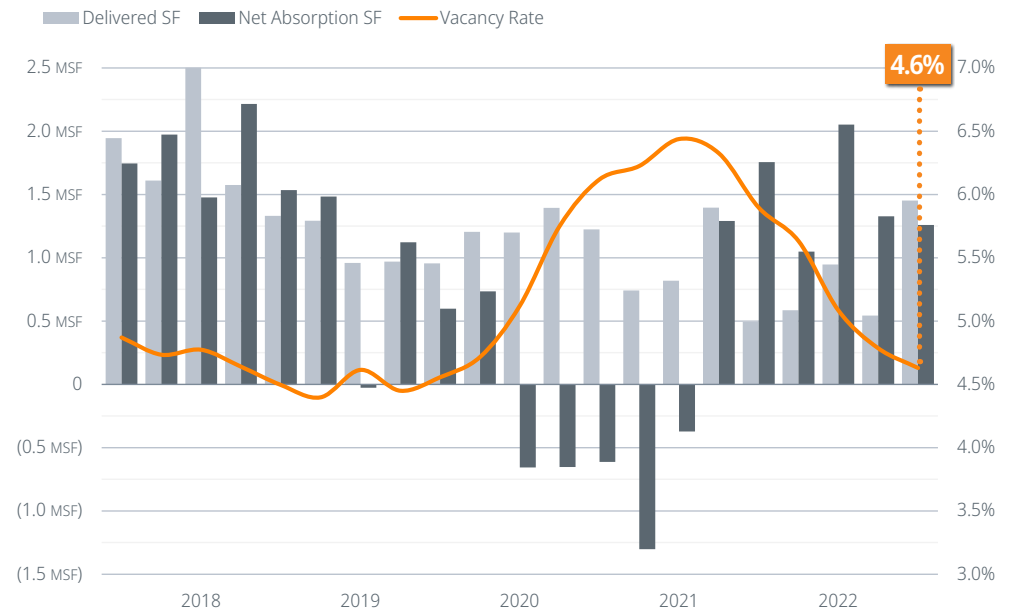


DALLAS-FORT WORTH

Vacancy Remains Low As Construction Falls

- Net absorption reached positive 4.0 million square feet over the last 12 months. Market vacancy has declined to 4.6% as space demand continues to exceed new supply.
- Construction continues falling and is now 1.6 million SF below the pre-pandemic average.
- Falling construction levels may be attributed to Dallas-Fort Worth's geography and healthy construction levels over the last 10 years. Demand for new shopping centers will emerge as urban sprawl continues developing trade areas in the periphery.
- H-E-B has opened its first two stores in Frisco and Plano to much fanfare. Construction on a new Central Market location at McKinney & Lemmon in Uptown is expected to begin later this year.
- According to RealCapitalAnalytics, investment sales volume remains at an all-time high of \$4.1 billion over the last 12 months. Rising interest rates continue to exert downward pressure on asset prices.

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
Dallas - All Retail*	252,970,378	11,121,604	4.4%	15,433,241	6.0%	1,082,987	4,016,884	2,437,765
Strip Center	19,555,399	1,187,476	6.1%	1,775,600	8.9%	7,377	298,327	327,542
Neighborhood/Community Center	81,820,395	5,195,725	6.4%	6,706,531	8.2%	47,900	98,955	405,116
Power Center	29,028,810	1,567,731	5.4%	1,861,623	6.4%	(57,910)	63,634	224,174
Fort Worth - All Retail*	122,377,142	6,256,092	5.1%	8,314,274	6.8%	176,206	1,672,187	578,004
Strip Center	10,780,347	648,331	6.0%	831,323	7.7%	(55,629)	68,402	63,788
Neighborhood/Community Center	35,199,328	3,006,612	8.5%	3,505,078	9.9%	59,900	447,166	114,400
Power Center	8,783,002	416,065	4.7%	543,116	6.2%	(6,298)	18,641	0

*Includes properties not in shopping centers below

Source: Transwestern Research, CoStar

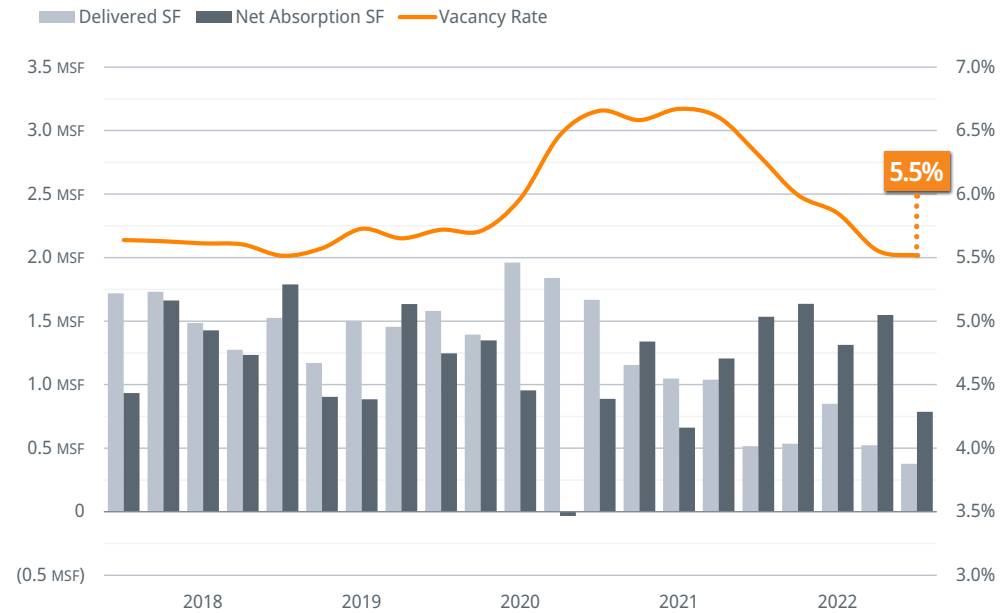


HOUSTON

Upside Surprise in Job Growth; Building Permits Rise

- Retail vacancy has continually tightened since Q1 2021, declining from 6.7% to 5.5%. Absorption slowed to positive 790,000 SF, mainly due to low availability in quality product. Construction remains unchanged at 4.4 million SF with small deliveries of strip center projects. Overall Triple Net rents rose by \$0.24 to \$19.54 per SF.
- According to the Greater Houston Partnership (GHP), metro Houston added 14,800 jobs in September, in-line with typical levels of 10,000 to 16,000 jobs. 108,600 jobs have been created over the last 12 months, well above the typical average of 60,000 to 70,000.
- City of Houston building permits totaled \$7.7 billion for the 12 months ending August 2022, up \$1.6 billion (25.6%) year-over-year. Commercial permits jumped 28.6% to \$4.3 billion and residential permits jumped 21.9% to \$3.4 billion, a sign that Houston’s housing market is buoyant in the face of rising interest rates.
- Local headlines recently featured a unique retail announcement this quarter: The Houston Maritime Center is relocating along Buffalo Bayou. The Center leased 6,281 SF of waterfront space at East River, a mixed-use development opening in 2023, and will expand its exhibit and event space.

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*	358,556,614	19,780,133	5.5%	23,320,534	6.4%	787,112	5,283,379	4,359,260	\$19.54
Strip Center	38,882,452	2,810,719	7.2%	3,440,366	8.7%	51,604	611,682	591,691	\$21.10
Neighborhood/Community Center	116,980,658	8,278,358	7.1%	9,733,956	8.3%	218,789	1,725,770	104,640	\$16.93
Power Center	29,711,296	1,476,588	5.0%	1,582,216	5.3%	76,708	395,112	67,729	\$26.10

*Includes properties not in shopping centers below

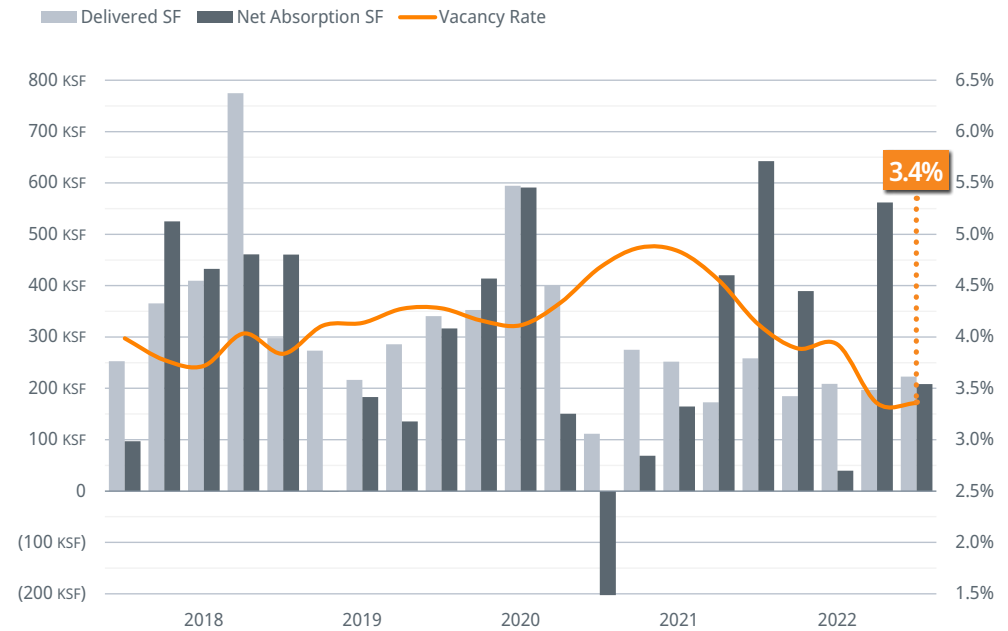
Source: Transwestern Research, CoStar

AUSTIN

Suburbs Dominate New Construction

- Net absorption remains strong at positive 810,000 SF year-to-date and positive 1.2 million SF over the last 12 months.
- Occupancy trends remain positive with direct vacancy at or below 4% for over 20 months. Direct vacant space has fallen 600,000 SF over the last 12 months.
- Triple Net asking rents are up 10.8% year-over-year. Growth in Neighborhood/Community Centers and Power Centers exceeds 15% year-over-year due to limited availability. Strip Center growth is more modest at 4.5% year-over-year.
- Virtually all of the 2 million SF under construction is located in suburbs. Major projects include the Goodnight Ranch in Southeast Austin (210,000 SF), Kyle Crossing III in Kyle (156,000 SF), Ronald Reagan Crossing in Leander (155,000 SF), and Cedar Breaks in Georgetown (115,000 SF). Year-to-date deliveries total 629,000 SF.
- Grocery chains, big box, and stand-alone retailers are also growing. H-E-B Grocery is building a 127,000 SF multi-story store in Georgetown and a renovating a 150,000 SF multi-story location in South Austin. Hobby Lobby has announced three new locations in the region, all of which are build-to-suit.

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*	95,773,175	3,214,672	3.4%	4,659,209	4.8%	208,287	1,199,292	2,033,166	\$23.54
Strip Center	7,218,565	426,874	5.9%	539,071	7.4%	48,089	212,762	109,977	\$23.32
Neighborhood/Community Center	26,148,871	1,066,574	4.1%	1,418,700	5.3%	106,627	343,510	461,491	\$21.02
Power Center	15,370,680	728,373	4.7%	861,666	5.6%	(64,903)	52,242	65,294	\$19.98

*Includes properties not in shopping centers below

Source: Transwestern Research, CoStar

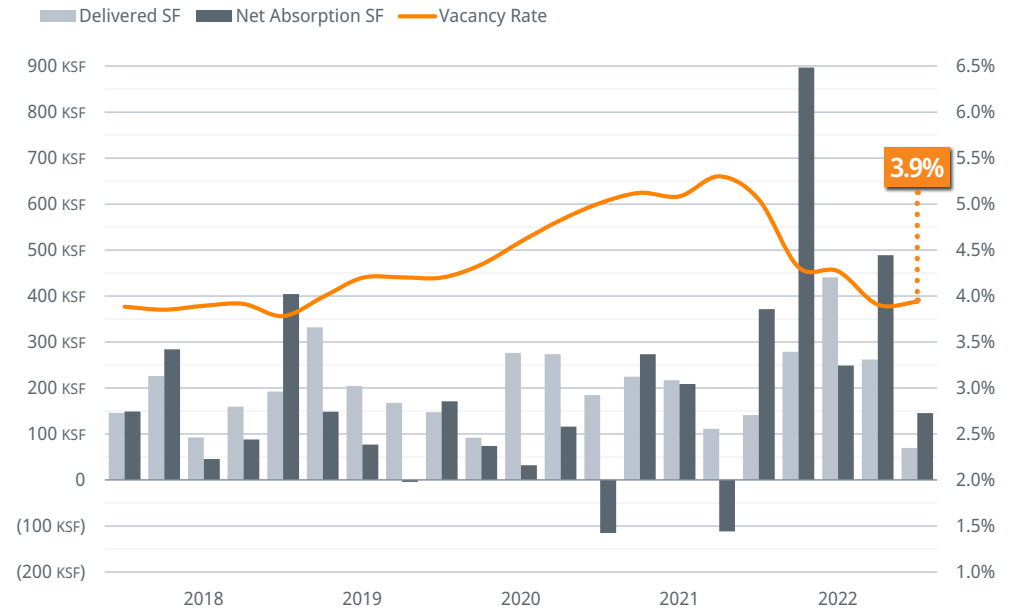


SAN ANTONIO

Vacancy Remains at Multi-Year Lows

- San Antonio's retail market remains healthy with direct net absorption exceeding positive 145,000 SF.
- The Northwest submarket dominates with its largest inventory base, posting direct leasing activity totaling more than 350,000 SF.
- Direct vacancy reached 3.9%, ticking up slightly from the previous quarter but declining 1.1% year-over-year.
- Triple Net asking rents reached \$17.22 PSF, up 5.3% year-over-year. Asking rents have increased 30% over the last five years.
- Over 820,000 SF of retail space is under construction, slightly above the pre-pandemic average of 703,500 SF.
- Construction follows rooftops and is concentrated in the New Braunfels (250,000 SF), Far Northwest (66,000 SF), and Far West (88,000 SF) submarkets.

DELIVERY IMPACT ON KEY INDICATORS

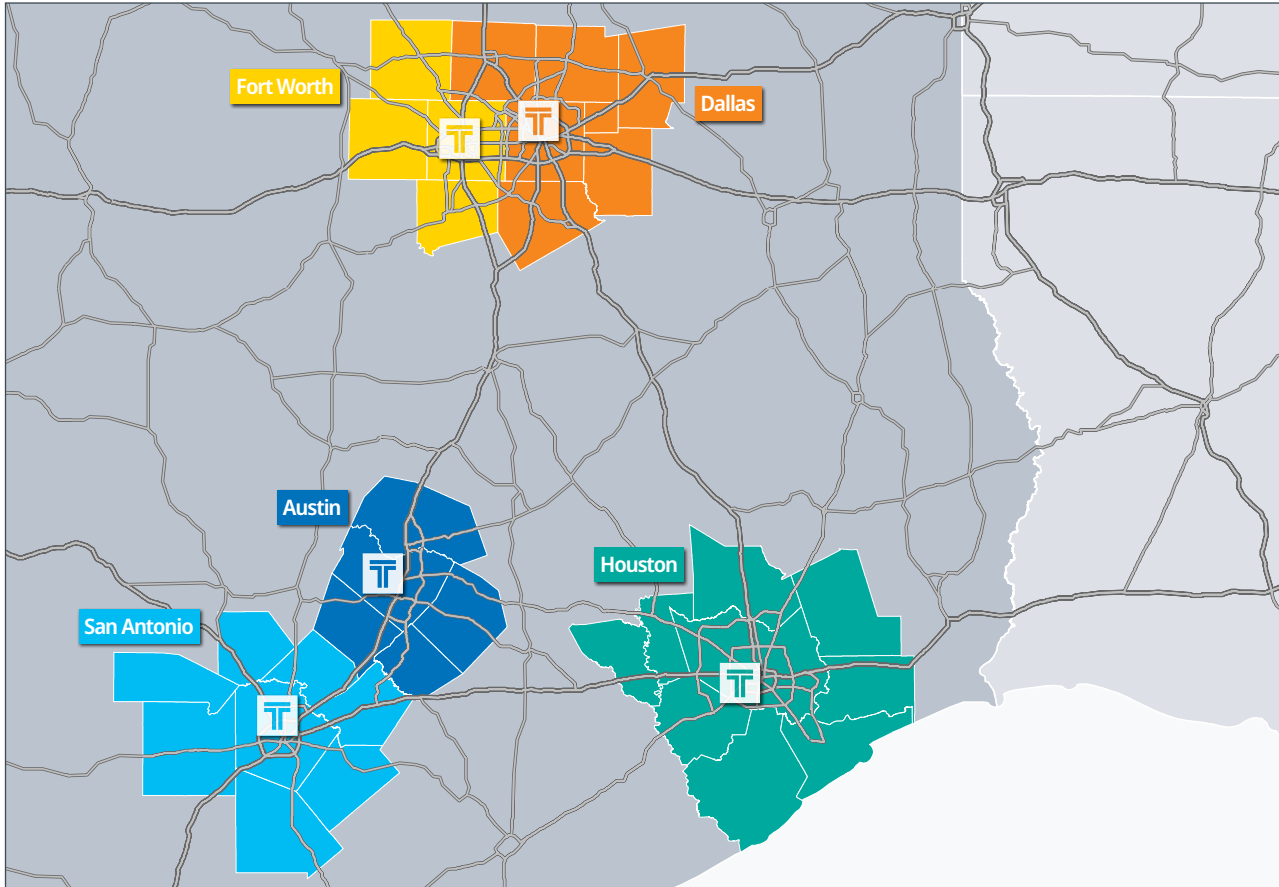


Source: Transwestern Research, CoStar

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*	81,028,276	3,190,756	3.9%	3,289,559	4.0%	145,386	1,779,978	829,123	\$17.22
Strip Center	4,979,560	390,348	7.8%	394,510	7.9%	(48,066)	136,110	41,013	\$20.76
Neighborhood/Community Center	21,624,009	1,324,723	6.1%	1,390,978	6.4%	41,358	224,567	133,617	\$15.69
Power Center	5,857,322	53,850	0.9%	53,850	0.9%	(21,702)	219,569	11,420	\$26.48

*Includes properties not in shopping centers below

Source: Transwestern Research, CoStar



FOR MORE INFORMATION

Dallas / Fort Worth

Andrew Matheny
Research Manager
Andrew.Matheny@transwestern.com
972.774.2529

Houston

Robert Kramp
Vice President
Robert.Kramp@transwestern.com
713.270.3346

Austin

Karen Judson
Senior Vice President, Marketing & Research
Karen.Judson@transwestern.com
512.314.3560

San Antonio

Noah Alkusari
Analyst
Noah.Alkusari@transwestern.com
210.202.2677

RESEARCH METHODOLOGY

This report includes retail properties greater than 5,000 SF within the primary Texas markets. Bank, auto dealer, 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.

ABOUT TRANSWESTERN

The privately held Transwestern companies have been delivering a higher level of personalized service and innovative real estate solutions since 1978. Through an integrated, customized approach that begins with fresh ideas, the firm drives value for clients across commercial real estate services, development, investment management, and opportunistic endeavors for high-net-worth investors. Operating from **33 U.S. offices**, Transwestern extends its platform capabilities globally through strategic alliance partners whose unique geographic, cultural, and business expertise fuels creative solutions. Learn more at transwestern.com.