TRANSWESTERN

TEXAS RETAIL MARKETS
WINTER 2022

A Photo Finish For Texas Retail Markets

Texas retail markets finished the year with positive performance. Net absorption remained positive, bringing vacancy rates at or below 2019 levels in every market. That said, vacancy rates appear to be plateauing as momentum slowed in the last three months of the year due to growing economic uncertainty and higher interest rates. Construction levels improved in some markets but is still not keeping pace with demand.

Although inflation is beginning to cool, price increases and higher interest rates have outpaced real wage gains for most workers and weighed on consumer sentiment. In addition, the prospect of layoffs and a reverse 'wealth effect' of falling home prices and a bear market have led consumers to dial back discretionary spending. Nevertheless, Texas markets remain well-positioned. Migration (growing number of households) and job creation (increasing aggregate income) offset incremental spending decreases by consumers, making Texas retailers more resilient in a downturn.

Dallas-Fort Worth

	Q4 22	Y-O-Y
Population Growth	-	▲ 154,384
Unemployment	3.2%	▼ 0.5%
Inventory (SF)	376,612,000	-
Net Absorption	932,000	5,506,000
Vacancy	4.5%	▼ 1.1%

Houston

	Q4 22	Y-O-Y
Population Growth	-	▲ 149,053
Unemployment	3.9%	▼ 0.9%
Inventory (SF)	360,490,000	-
Net Absorption	790,000	4,437,000
Vacancy	5.4%	▼ 0.6%

Austin

	Q4 22	Y-O-Y
Population Growth	-	▲ 78,617
Unemployment	2.7%	▼ 0.2%
Inventory (SF)	95,362,000	-
Net Absorption	321,000	1,187,000
Vacancy	3.3%	▼ 0.6%

San Antonio

	Q4 22	Y-O-Y
Population Growth	-	▲ 51,092
Unemployment	3.3%	▼ 0.5%
Inventory (SF)	81,903,000	-
Net Absorption	286,000	1,361,000
Vacancy	4.0%	▼ 0.4%

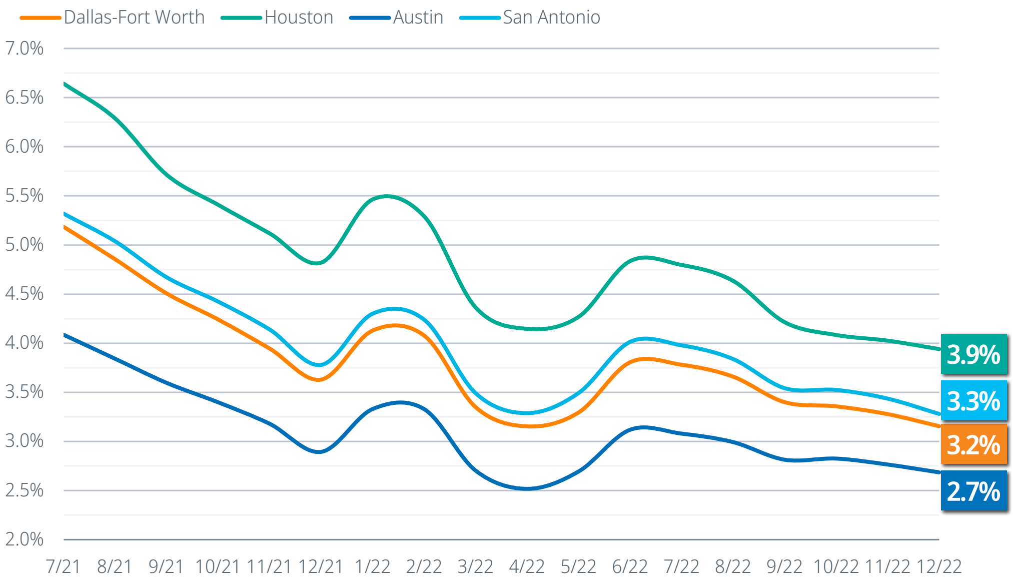
Sources: Transwestern Research, CoStar, ESRI

TEXAS ECONOMY

Unemployment Rate Puts In A Bottom

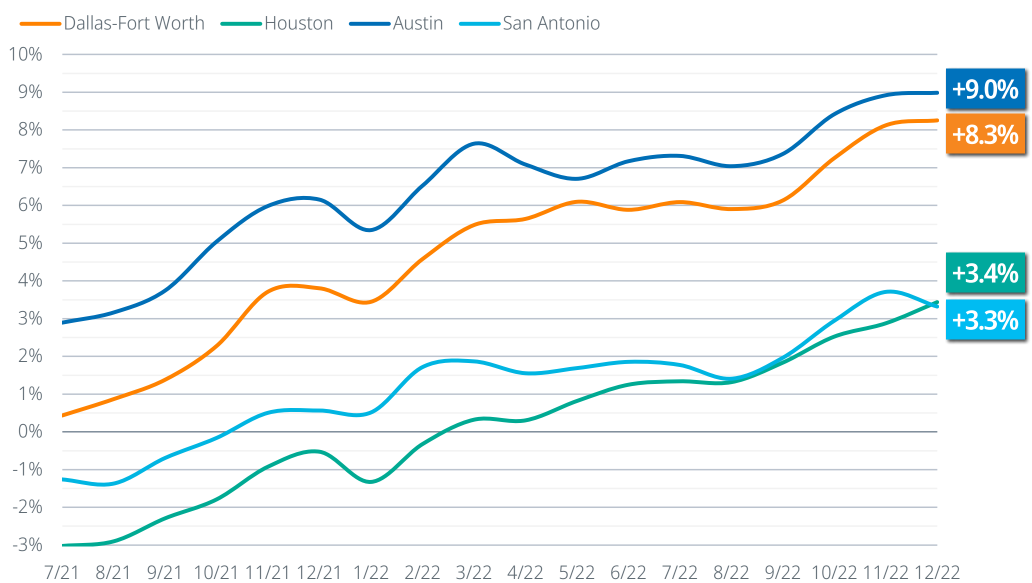
- Unemployment rates in Texas remained unchanged at 3.8%.
  - **Dallas+Fort Worth:** Unemployment is 3.2%, down 0.4% from last year.
  - **Houston:** Unemployment is 3.9%, down 0.9% from last year.
  - **Austin:** Unemployment is 2.7%, down 0.2% from last year.
  - **San Antonio:** Unemployment is 3.3%, down 0.5% from last year.
- Job creation continues in every market. Austin and Dallas-Fort Worth rank #1 and #2 in the nation among large metros for most jobs created since the pandemic, and job counts are well above pre-pandemic levels.
- Dallas Fed economists expect Texas job creation to return to typical pre-pandemic levels of 193,000 jobs in 2023.
- Statutory layoff notices remained low throughout Q4 2022 but accelerated in January 2023. It will take approximately 2-3 months for these layoffs to begin showing up in unemployment claims. Continued job creation, however, may absorb these employees and dampen any impact to the unemployment rate.
- According to official estimates from the BLS, inflation in Dallas remained slightly higher than the US average in November. In December, inflation in Houston fell below the US city average.
- Texas retailers continue to note flat or declining sales in surveys by the Dallas Fed. Company outlooks continue to worsen. 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



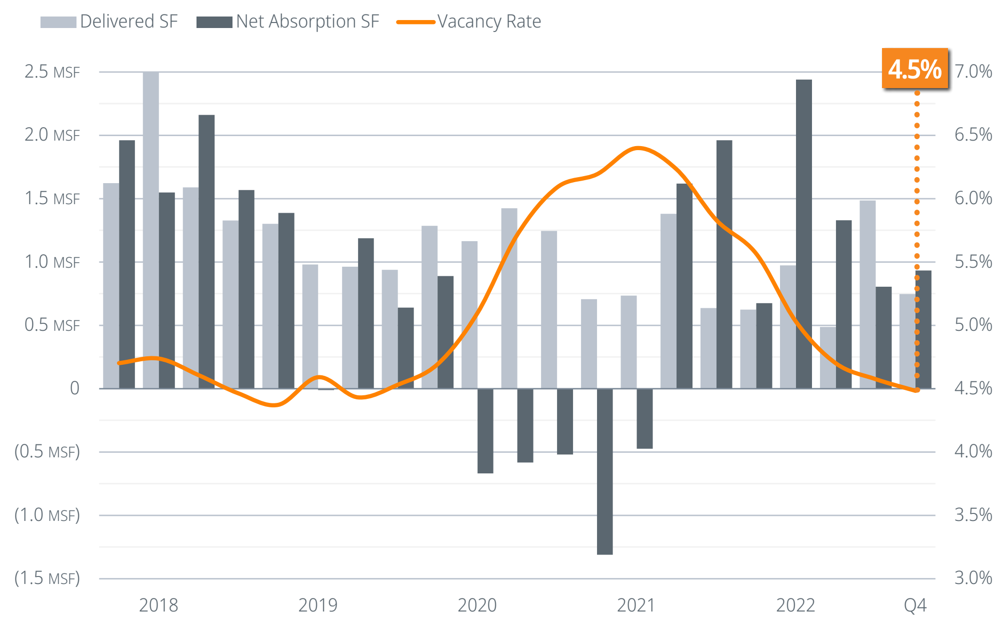
Source: Transwestern Research, Texas Workforce Commission (not seasonally adjusted)

DALLAS-FORT WORTH

Market Conditions Remain Tight

- Net absorption reached positive 5.5 million square feet over the last 12 months. Dallas-Fort Worth has experienced seven consecutive quarters of positive net absorption.
- Market vacancy declined to 4.5%, approximately 10 basis points below pre-pandemic levels.
- Major recent announcements include:
  - Universal plans to build a 100-acre theme park in Frisco on the Dallas North Tollway
  - CVS Pharmacy plans to close approximately 900 stores through 2024 across its national portfolio
  - A lender took possession of the Galleria Dallas mall and the connected Westin Hotel
- Investment sales volume finished the year at a healthy level of $2.9 billion per RealCapitalAnalytics. That said, deal activity fell sharply in the fourth quarter due to rising interest rates and diminishing appetite from lenders.

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*	**254,127,478**	**11,095,096**	**4.4%**	**15,552,676**	**6.0%**	**578,516**	**4,132,408**	**3,262,782**
Strip Center	19,717,035	1,199,739	6.1%	1,731,261	8.6%	60,369	263,948	338,107
Neighborhood/Community Center	81,882,690	5,386,305	6.6%	6,804,302	8.3%	10,763	96,663	403,896
Power Center	29,063,124	1,348,975	4.6%	1,674,219	5.7%	113,128	154,708	233,164
Fort Worth - All Retail*	**122,484,049**	**5,788,095**	**4.7%**	**7,852,029**	**6.4%**	**353,790**	**1,373,516**	**661,987**
Strip Center	10,810,905	606,878	5.6%	814,651	7.5%	31,775	48,530	63,788
Neighborhood/Community Center	35,010,986	2,764,255	7.9%	3,218,296	9.1%	133,708	402,772	191,500
Power Center	8,804,471	286,969	3.3%	403,917	4.6%	107,814	124,570	0

**Includes properties not in shopping centers below*

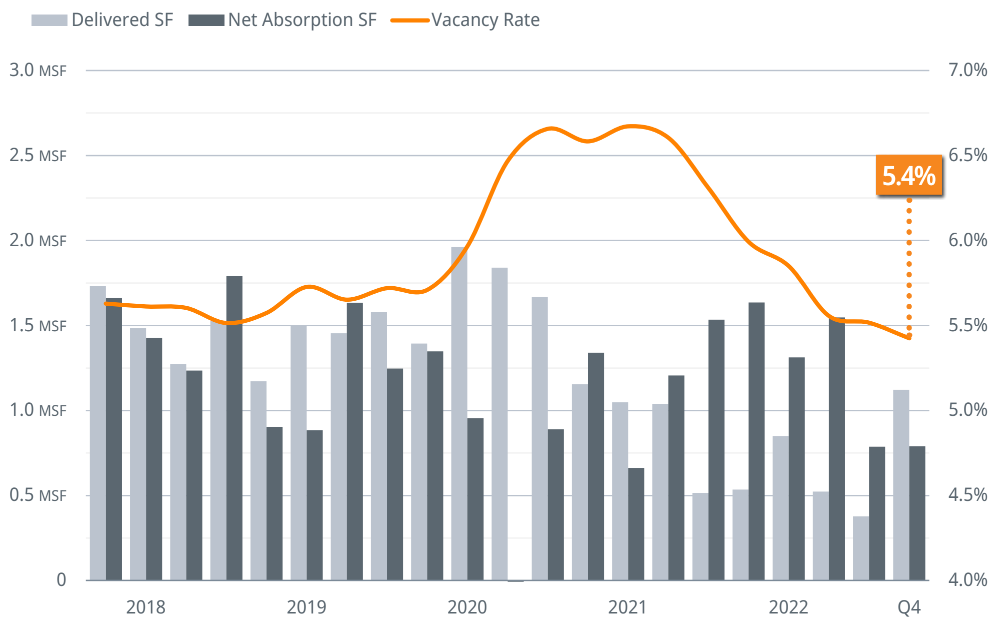
Source: Transwestern Research, CoStar

HOUSTON

Vacancy Reaches Pre-Pandemic Levels

- Net absorption remained positive at 790,000 SF this quarter or 4.4 million SF over the past 12 months. Houston has experienced nine consecutive quarters of positive absorption.
- Houston retail vacancy tightened slightly by 10 basis points to reach 5.4%, finishing the year below pre-pandemic levels. New construction delivered more than 1.1 million SF over the last 12 months. Meanwhile, overall Triple Net rents remained steady at $19.54 per SF.
- The Greater Houston Partnership (GHP) projects the region will add approximately 60,800 jobs in 2023, just shy of the region's long-term average of 65,000-70,000 jobs per year. How much and in which sectors job growth occurs will heavily depends on whether the economy experiences a national recession.
- Grocers and home improvement stores continue to be active after picking up popularity during the early days of the pandemic. Small-shop tenants, including restaurants, services, beauty, fitness, medical and dental are also expanding. These retail tenants are part of a post-pandemic wave that closures essentially made room for as consumers turn increasingly to brick-and-mortar.

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*	**360,489,781**	**19,556,326**	**5.4%**	**23,230,382**	**6.4%**	**789,592**	**4,437,166**	**4,193,772**	**$19.54**
Strip Center	39,093,327	2,900,110	7.4%	3,412,326	8.7%	252,971	612,815	308,189	$21.28
Neighborhood/Community Center	117,204,665	7,986,344	6.8%	9,455,953	8.1%	(138,217)	1,010,278	217,062	$16.69
Power Center	29,837,222	1,595,594	5.3%	1,581,105	5.3%	65,781	362,584	116,288	$26.25

**Includes properties not in shopping centers below*

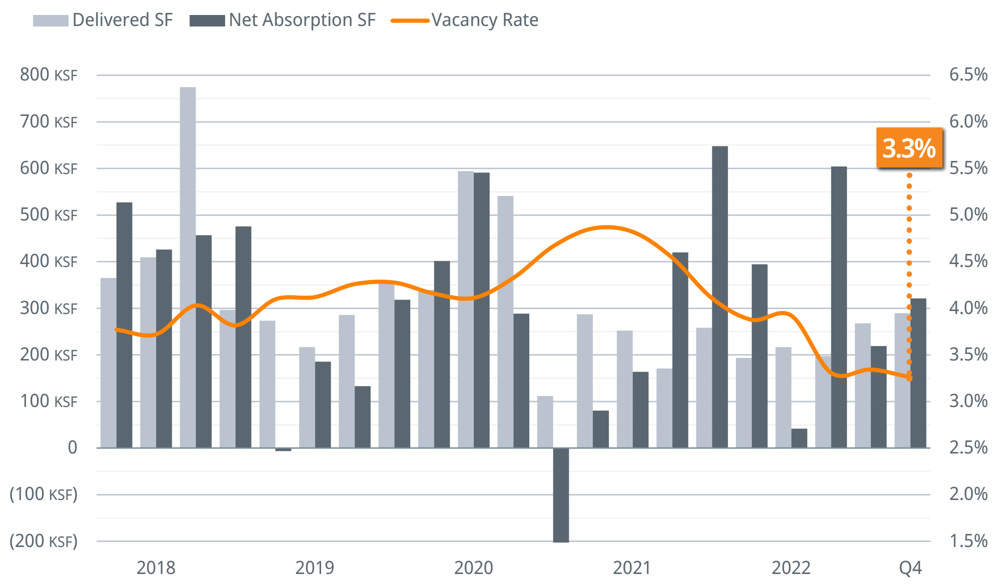
Source: Transwestern Research, CoStar

AUSTIN

Vacancy Reaches Lowest Level Since 2000

- Net absorption remained positive at 321,000 SF this quarter, or 1.2 million SF over the past 12 months. Austin has experienced positive absorption for nine consecutive quarters.
- Vacancy remained stable at 3.3%, its lowest level in over 20 years.
- Leasing activity posted a robust 2.3 million SF in 2022, well above average and slightly below 2021 levels (2.6 million SF).
- Tight market conditions allow landlords to continue pushing rate. Triple Net asking rents are up 11.9% year-over year. Growth is strongest in Neighborhood/Community Centers (+14.9%) and Power Centers (20.3%), while Strip Centers have posted a healthy increase of +6.1%.
- Virtually all new construction is located in suburbs. Although construction levels are now above average, it is still not keeping pace with demand: the market absorbed 1.2 million SF of net absorption over the last 12 months, which means the market can absorb 2 million SF of new inventory in less than *two years*.

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*	**96,362,325**	**3,140,313**	**3.3%**	**4,420,003**	**4.5%**	**321,342**	**1,186,636**	**2,020,548**	**$24.26**
Strip Center	7,280,273	418,053	5.7%	549,371	7.5%	62,362	213,240	90,112	$24.20
Neighborhood/Community Center	26,097,163	992,817	3.8%	1,241,742	4.7%	48,449	337,285	134,939	$20.96
Power Center	15,489,473	629,716	4.1%	760,983	4.9%	118,657	129,153	65,594	$20.64

**Includes properties not in shopping centers below*

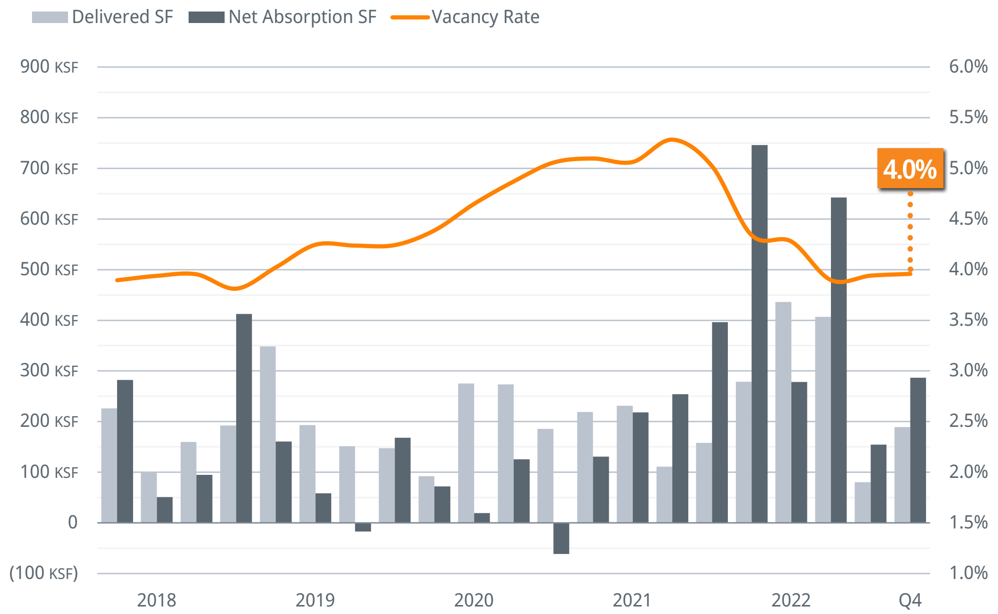
Source: Transwestern Research, CoStar

SAN ANTONIO

Healthy Net Absorption Continues

- Net absorption remained positive in San Antonio at 280,000 SF this quarter or 1.4 million SF over the last 12 months. The San Antonio market has experienced eight consecutive quarters of positive net absorption.
- Vacancy inched up to 4.0% this quarter but remains 0.3% below last year's levels.
- Triple Net asking rents reached $17.41 PSF, up 6.7% year-over-year.
- Over 760,000 SF of retail space is under construction, but this is dwarfed by a stellar net absorption figure of 1.4 million SF over the last 12 months. At a similar pace of demand, the market would absorb all new construction in ***less than one year.***
- San Antonio's retail market remains favorably positioned. Population growth, job creation, low cost of living, and nationally low rental rate will continue to make it an attractive market for retail tenants and investors.

DELIVERY IMPACT ON KEY INDICATORS

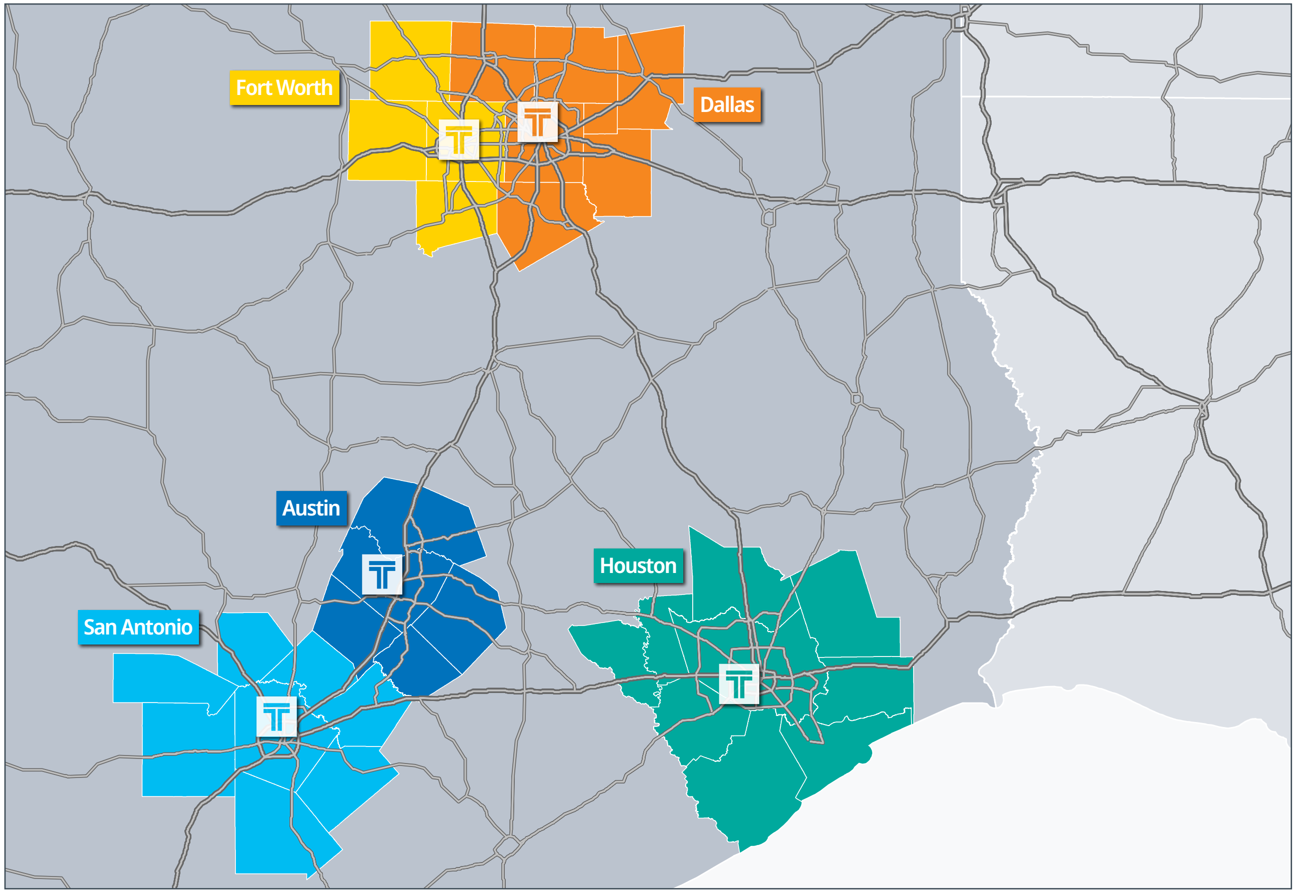


Source: Transwestern Research, CoStar

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*	**81,903,122**	**3,242,730**	**4.0%**	**3,330,985**	**4.0%**	**286,408**	**1,361,410**	**769,352**	**$17.41**
Strip Center	5,035,085	347,471	6.9%	356,210	7.0%	36,396	104,417	79,665	$20.78
Neighborhood/Community Center	22,174,476	1,247,225	5.6%	1,317,471	5.9%	231,552	435,013	142,000	$16.12
Power Center	5,809,641	54,950	0.9%	54,950	0.9%	28,396	113,678	5,420	$26.48

**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, 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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