



TEXAS RETAIL MARKETS SPRING 2023



Vacancies Tighten In Texas Markets

Market conditions remain tight in the major Texas retail markets as demand continues to outpace supply. Net absorption remained positive, bringing vacancy rates below 2019 levels in every market. Space demand remains strong but appears to be cooling due to tightening financial conditions and a lack of available space. Construction remains below average but continues to follow rooftops and population growth.

The outlook for retail greatly depends on whether the national economy enters a recession later in 2023 as some are predicting. That said, Texas markets are likely to fare better due to their strong job growth over the last two years. In addition, the closure of retail stores in bankruptcy, such as Bed Bath & Beyond and Tuesday Morning, may create new space availabilities that may be quickly absorbed given tight market conditions.

| Dallas-Fort Worth | | |
|-------------------|-------------|-----------|
| | Q1 23 | Y-O-Y |
| Population Growth | - | ▲ 154,384 |
| Unemployment | 3.9% | ▲ 0.5% |
| Inventory (SF) | 378,901,000 | - |
| Net Absorption | 271,000 | 3,549,000 |
| Vacancy | 4.3% | ▼ 0.5% |

| Houston | | |
|-------------------|-------------|-----------|
| | Q1 23 | Y-O-Y |
| Population Growth | - | ▲ 149,053 |
| Unemployment | 4.4% | ▲ 0.3% |
| Inventory (SF) | 363,691,000 | - |
| Net Absorption | 882,000 | 4,589,000 |
| Vacancy | 5.3% | ▼ 0.4% |

| Austin | | |
|-------------------|------------|-----------|
| | Q1 23 | Y-O-Y |
| Population Growth | - | ▲ 78,617 |
| Unemployment | 3.5% | ▲ 0.7% |
| Inventory (SF) | 97,220,000 | - |
| Net Absorption | 427,000 | 1,541,000 |
| Vacancy | 3.0% | ▼ 0.8% |

| San Antonio | | |
|-------------------|------------|-----------|
| | Q1 23 | Y-O-Y |
| Population Growth | - | ▲ 51,092 |
| Unemployment | 3.9% | ▲ 0.4% |
| Inventory (SF) | 82,226,000 | - |
| Net Absorption | 140,000 | 1,215,000 |
| Vacancy | 3.6% | ▼ 0.7% |

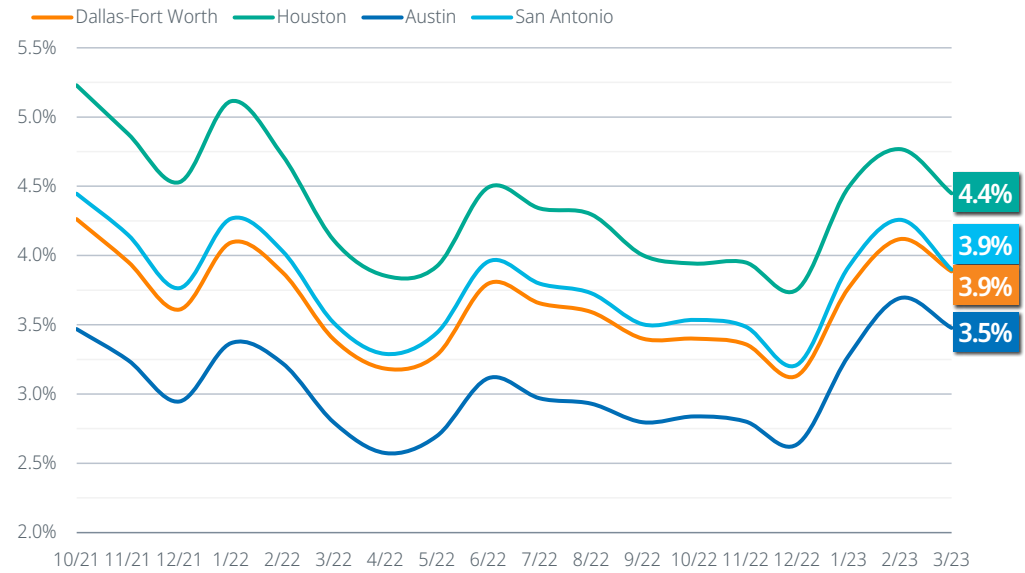


TEXAS ECONOMY

Unemployment Rates Inch Up Year-Over-Year

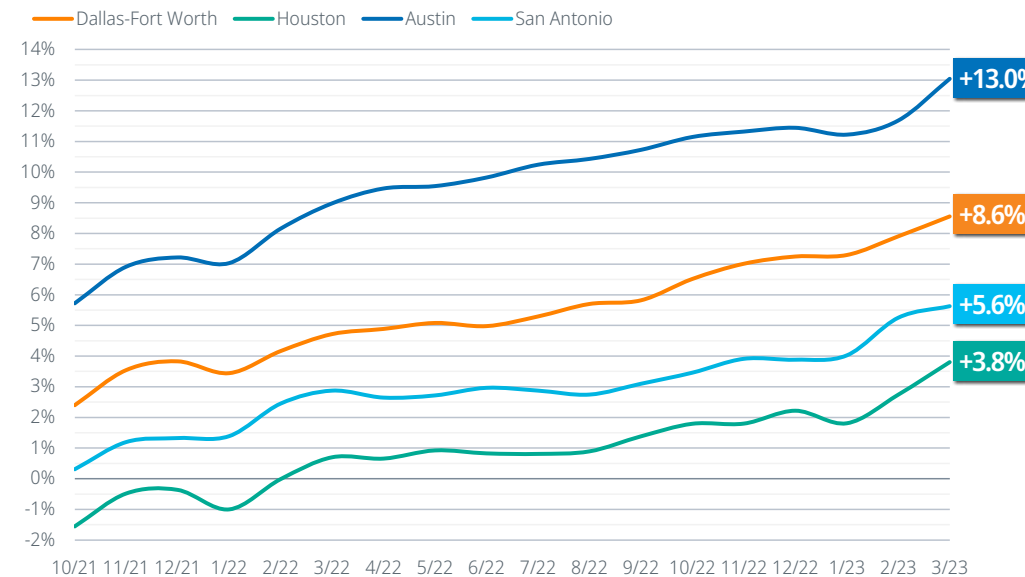
- Unemployment rates in Texas are inching up as hiring slows and are above 2022 levels.
 - Dallas+Fort Worth:** Unemployment is 3.9%, up 0.5% from last year.
 - Houston:** Unemployment is 4.4%, up 0.3% from last year.
 - Austin:** Unemployment is 3.5%, up 0.7% from last year.
 - San Antonio:** Unemployment is 3.9%, up 0.4% from last year.
- Dallas Fed economists expect Texas to add 332,500 jobs in 2023. These forecasts have moderated as the pace of hiring slows.
- Statutory layoff notices have remained slightly elevated since 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.
- Most Texas retailers noted flat or declining sales in surveys by the Dallas Fed through Q1 2023. Company outlooks and expectations for future business activity remain in negative territory. Expectations for future employment and sales remain in positive territory, although below average.

UNEMPLOYMENT RATE OVER LAST 18 MONTHS



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

EMPLOYMENT CHANGE FROM PRE-PANDEMIC HIGHS



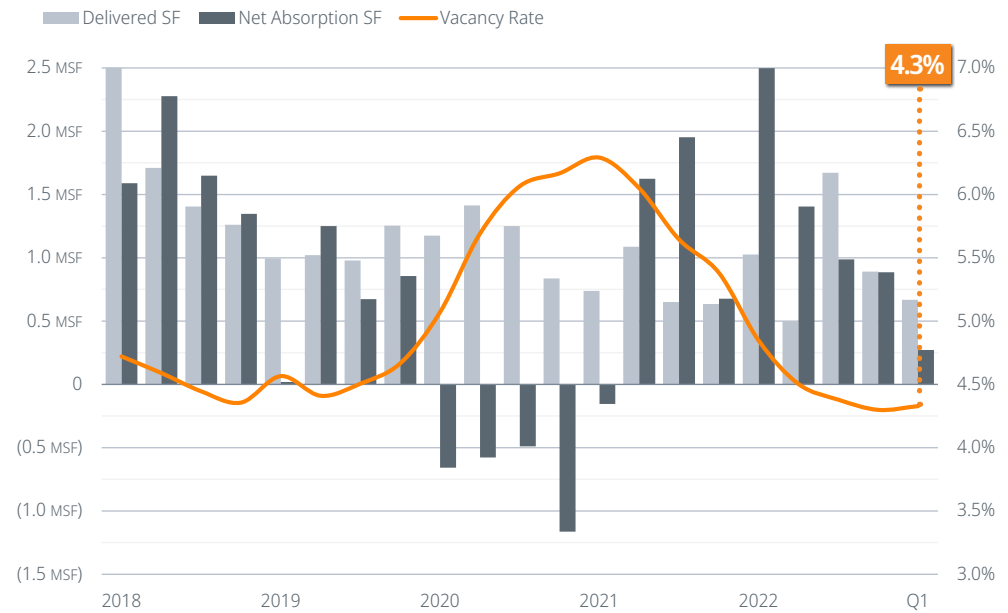
Source: Transwestern Research, Texas Workforce Commission (not seasonally adjusted)

DALLAS-FORT WORTH

Vacancy Rates Are Bottoming Out

- Net absorption reached positive 3.5 million square feet over the last 12 months. Dallas-Fort Worth has experienced eight consecutive quarters of positive net absorption.
- Market vacancy declined to 4.3%, approximately 20 basis points below pre-pandemic levels.
- Major recent announcements include:
 - The Container Store announced plans to trim its retail staff by approximately 3%
 - Natural Grocers is closing two under-performing stores in Coppell and Fort Worth
 - Tom Thumb, H-E-B, Kroger, Nordstrom Rack, Sprouts Farmers Market, Costco and Target announced plans for new big box stores at various locations across DFW
- Capital markets activity has slowed due to tightening lending standards and the impact of higher interest rates 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* | 256,146,387 | 10,932,832 | 4.3% | 15,104,728 | 5.8% | 104,450 | 2,477,725 | 3,503,298 |
| Strip Center | 19,721,294 | 1,161,476 | 5.9% | 1,761,092 | 8.8% | 20,047 | 209,888 | 386,894 |
| Neighborhood/Community Center | 81,839,371 | 5,314,378 | 6.5% | 6,732,405 | 8.2% | 9,200 | 65,363 | 528,396 |
| Power Center | 28,621,884 | 1,138,123 | 4.0% | 1,371,174 | 4.7% | (115,064) | (4,216) | 286,117 |
| Fort Worth - All Retail* | 122,754,938 | 5,463,409 | 4.5% | 7,123,065 | 5.8% | 167,025 | 1,071,612 | 926,626 |
| Strip Center | 10,876,746 | 636,748 | 5.9% | 734,948 | 6.7% | 16,148 | 43,582 | 24,672 |
| Neighborhood/Community Center | 35,089,887 | 2,699,811 | 7.7% | 3,230,334 | 9.1% | 102,303 | 315,319 | 259,258 |
| Power Center | 8,865,783 | 282,826 | 3.2% | 377,567 | 4.3% | 14,385 | 176,807 | 0 |

*Includes properties not in shopping centers below

Source: Transwestern Research, CoStar

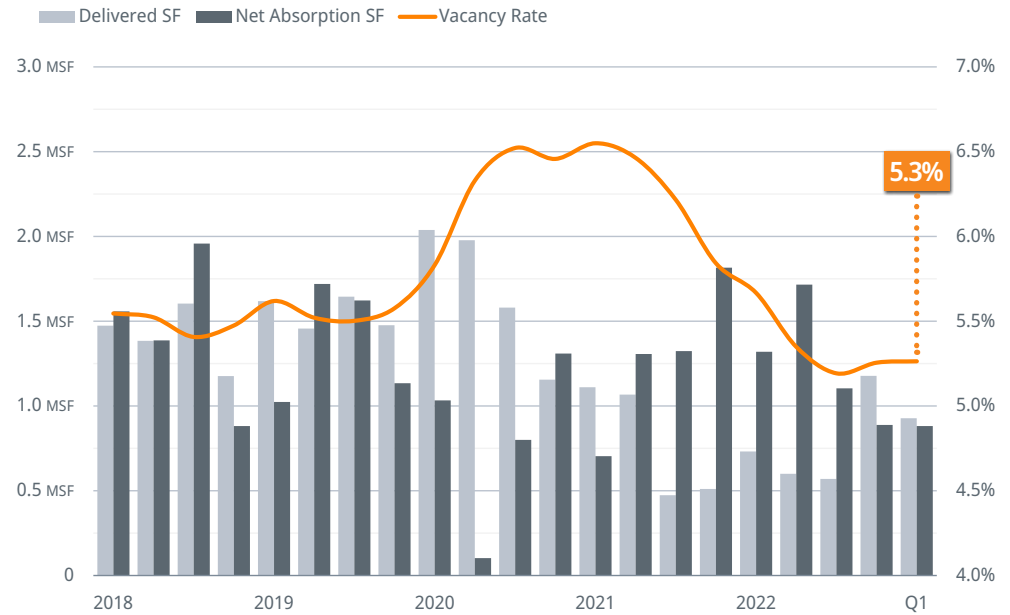


HOUSTON

Demand Keeping Pace With Construction

- Houston’s retail sector returned to seasonal historical patterns as demand was nearly 900,000 square feet during the first quarter and on top of that, added close to 400,000 square feet in April and the early weeks of May for a combined 1.3 million.
- Construction tops 4.0 million SF with the largest concentration in Strip Centers and Neighborhood/Community Centers. Vacancy held steady at 5.3%, which is impressive considering 1.0 million SF delivered this quarter. Asking rents are posting gains, reaching \$19.55 PSF on a Triple Net basis.
- Market news has fast casual food and beverage expanding such as Sweetgreen’s, Layne’s Chicken Fingers, several additions to Downtown’s numerous food halls. Meanwhile, Sprouts Farmers Market closed three stores in the Houston area and put the properties on the market for sublease as the Phoenix-based grocer moves toward a new prototype with a smaller, more efficient layout.
- The retail outlook in Texas’ largest metro is solid due to healthy population and job growth. Houston is the second fastest-growing major metro area in the U.S., seeing its largest population increase in the past six years, while the metro created 19,900 jobs in March, according to the Texas Workforce Commission (TWC).

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* | 363,691,180 | 19,139,929 | 5.3% | 22,602,241 | 6.1% | 881,866 | 4,588,662 | 4,257,967 | \$19.55 |
| Strip Center | 39,419,777 | 2,866,773 | 7.3% | 3,360,033 | 8.5% | 109,751 | 583,692 | 222,291 | \$21.68 |
| Neighborhood/Community Center | 118,291,191 | 7,439,687 | 6.3% | 9,158,285 | 7.7% | 503,501 | 1,251,745 | 541,280 | \$16.78 |
| Power Center | 30,073,758 | 1,500,825 | 5.0% | 1,473,925 | 4.9% | 48,686 | 490,321 | 22,834 | \$21.53 |

*Includes properties not in shopping centers below

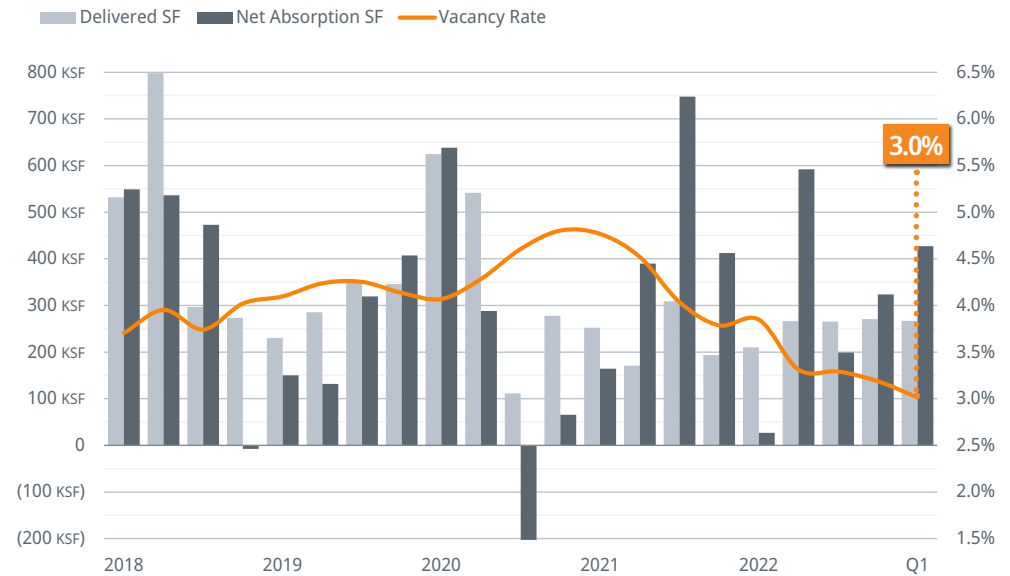
Source: Transwestern Research, CoStar

AUSTIN

Vacancy Continues Falling To New Lows

- Net absorption clocked in at positive 426,000 SF this quarter, marking the 10th consecutive quarter of positive absorption. Over the last 12 months, net absorption has reached positive 1.5 million SF.
- Vacancy fell further to 3.0%, its lowest level in over 20 years. The amount of vacant square feet has fallen 8.3% over the last 12 months, which has supported higher rents and additional construction.
- The Austin retail market recorded 443,000 SF of leasing in Q1 2023. This is significantly lower than the 829,000 SF in Q1 2022, and may signal a cooling of demand.
- Landlords continue to push rates, increasing Triple Net asking rents 11.9% year-over-year. Rent growth is at double digits in shopping centers: +26.4% in Power Centers, +12.0% in Neighborhood/Community Centers, and +10.1% in Strip Centers.
- Virtually all 3 million SF under construction is located in suburban submarkets where rapid population growth is occurring.

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* | 97,220,035 | 2,930,190 | 3.0% | 4,044,866 | 4.0% | 426,941 | 1,541,052 | 3,077,090 | \$25.16 |
| Strip Center | 7,352,497 | 411,745 | 5.6% | 526,742 | 7.0% | 19,128 | 196,283 | 147,192 | \$25.14 |
| Neighborhood/Community Center | 26,377,003 | 995,448 | 3.8% | 1,158,928 | 4.4% | (2,631) | 341,852 | 123,491 | \$21.36 |
| Power Center | 15,481,885 | 556,347 | 3.6% | 633,548 | 4.1% | 43,616 | 271,597 | 54,300 | \$22.94 |

*Includes properties not in shopping centers below

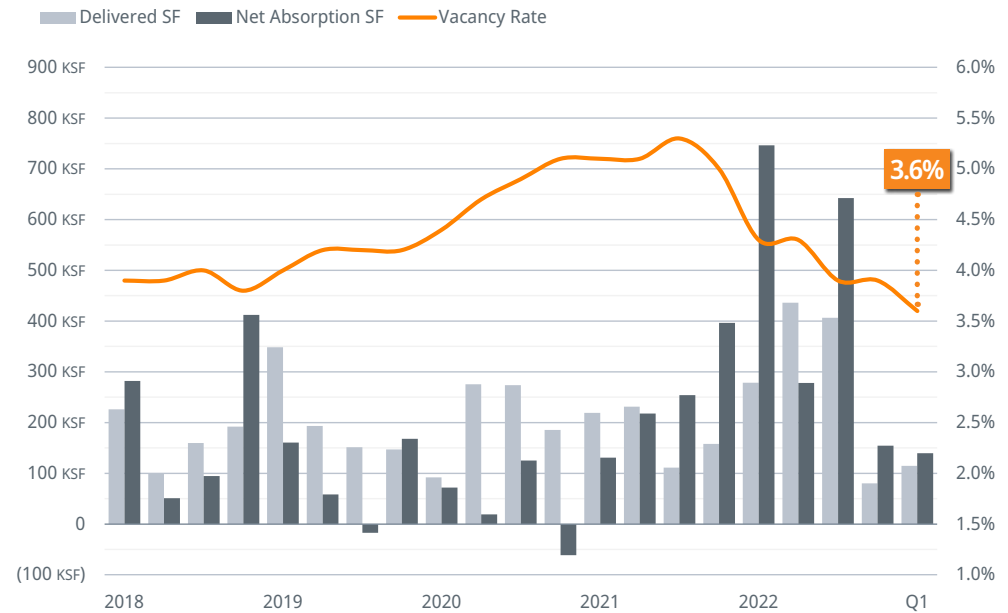
Source: Transwestern Research, CoStar

SAN ANTONIO

Healthy Net Absorption Continues

- San Antonio's retail market continued its positive trajectory in Q1 2023. Direct net absorption exceeded over positive 140,000 SF and leasing activity exceeded 500,000 SF. Net absorption and leasing activity appears to be limited by scarce availability in large blocks of space.
- Direct vacancy reached 3.6%, decreasing 0.1% over the last quarter and 0.7% over the 12 months.
- Triple Net asking rents reached have increased +6.7% over the last year, from \$16.31 PSF to \$17.41 PSF in Q1 2023.
- Over 800,000 SF of retail space is under construction, concentrated mostly in the submarkets of New Braunfels (110,000 SF), Far West (106,000 SF), Far Northwest (97,000 SF), and Far North Central (51,000 SF).
- Demand is outpacing supply, but new construction is largely skewed towards smaller spaces. Less than 20% of the project pipeline can satisfy larger tenants above 30,000 SF.
- Transwestern has seen a significant uptick in the number of tenants requesting market data and demographics.

DELIVERY IMPACT ON KEY INDICATORS

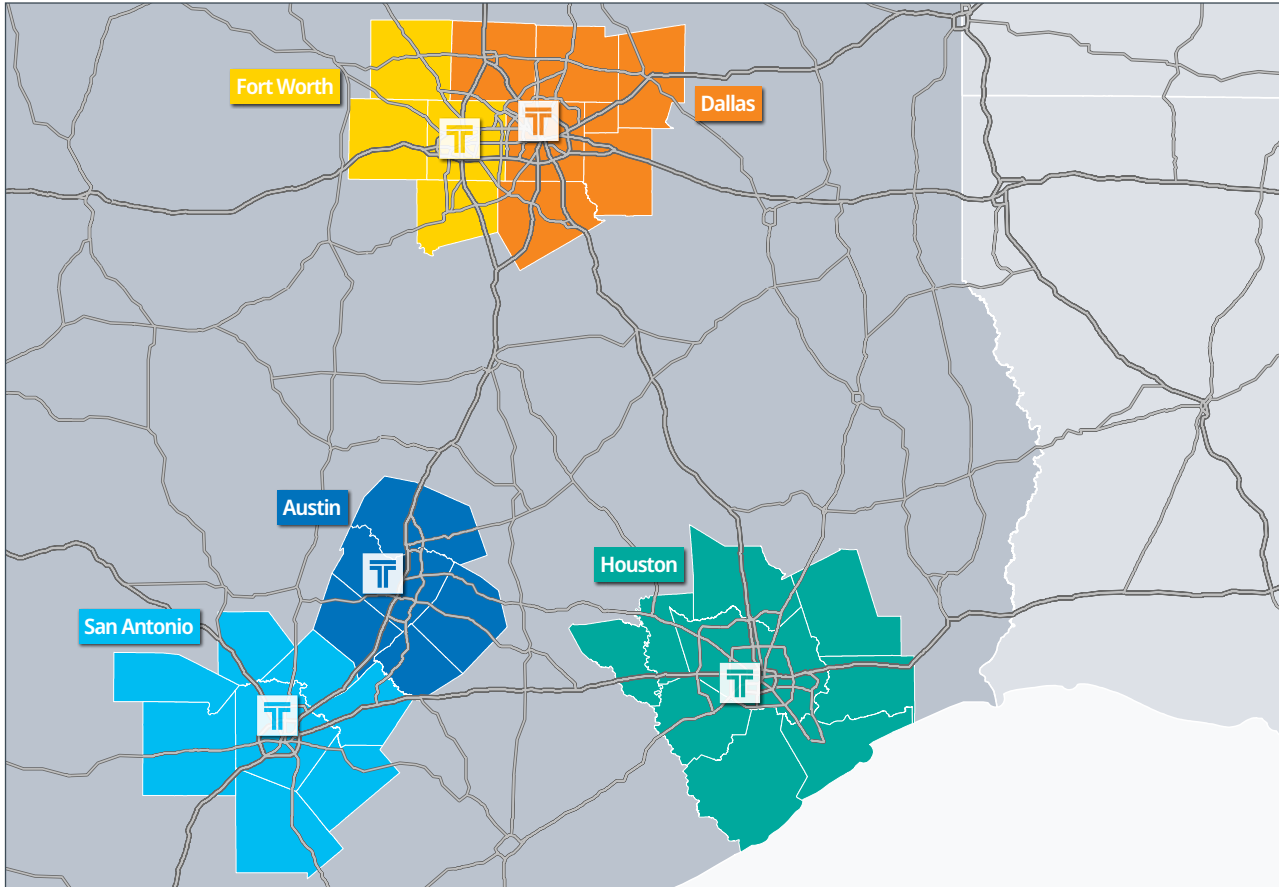


Source: Transwestern Research, CoStar

| 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* | 82,225,997 | 3,000,356 | 3.6% | 3,082,618 | 3.7% | 139,647 | 1,214,649 | 809,257 | \$17.41 |
| Strip Center | 5,088,734 | 350,383 | 6.9% | 471,393 | 9.2% | 26,808 | 94,829 | 51,638 | \$21.58 |
| Neighborhood/Community Center | 22,420,259 | 1,141,462 | 5.1% | 1,622,772 | 7.2% | 70,169 | 273,630 | 142,000 | \$16.15 |
| Power Center | 5,810,723 | 48,805 | 0.8% | 181,753 | 3.1% | 4,045 | 89,327 | 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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