TRANSWESTERN

TEXAS RETAIL MARKETS

SPRING 2024

Nearly 10 MSF of New Construction Statewide, Central Texas Dominates New Demand

Q1 2024 House View

Texas' major markets started 2024 with positive 12-month gains for retail sector jobs. Austin, San Antonio, Dallas-Fort Worth, and Houston increased overall retail sector employment by 4.3 percent, 2.7, 1.5, and 1.4 percent, respectively. Additionally, Texas payroll employment grew in February, increasing by 4.3% month-over-month, up from 1.9% in January.

The current retail construction pipeline for Texas' major metros came in at just under 10 million square feet at the end of Spring 2024. Dallas-Fort Worth maintains its dominance of new construction with a total of 4.4 million square feet in the pipeline, followed by Houston with 3.1 million square feet, and Austin with 1.9 million square feet; San Antonio did not surpass the 7-digit mark, but holds a respectable 600,000 square feet of ongoing development.

Demand for new space recorded a net positive 1.3 million square feet across the four major Texas metros. San Antonio and Austin commanded just over two-thirds of net gains with an almost even split between the two markets, while Houston and Dallas-Fort Worth dictated the remaining one-third of net new demand with 246,000 square feet and 182,000 square feet, respectively.

Dallas/Fort Worth

	Q1 24	Y-O-Y
Population Growth	-	▲ 128,410
Unemployment	3.9%	▲ 0.1%
Inventory (SF)	386,361,000	-
Net Absorption	179,000	2,519,000
Vacancy	4.3%	◀▶

Houston

	Q1 24	Y-O-Y
Population Growth	-	▲ 109,010
Unemployment	4.3%	▼ 0.2%
Inventory (SF)	372,246,000	-
Net Absorption	246,000	2,244,000
Vacancy	4.5%	◀▶

Austin

	Q1 24	Y-O-Y
Population Growth	-	▲ 64,452
Unemployment	3.5%	◀▶
Inventory (SF)	100,665,000	-
Net Absorption	453,000	1,739,000
Vacancy	2.8%	▼ 0.2%

San Antonio

	Q1 24	Y-O-Y
Population Growth	-	▲ 42,590
Unemployment	3.8%	▼ 0.1%
Inventory (SF)	119,278,000	-
Net Absorption	441,000	811,000
Vacancy	3.5%	▼ 0.2%

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

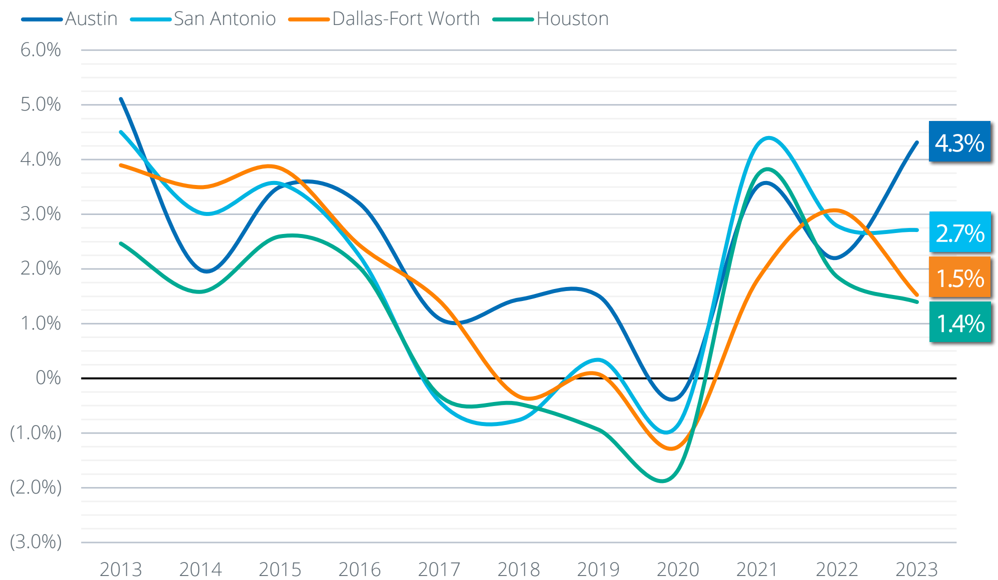
Arrow color palette indicates property sector agency leasing, management and investor trending assessment(s).

TEXAS ECONOMY

Retail Sector Records Mixed Jobs Results Despite Strong Overall Gains Statewide

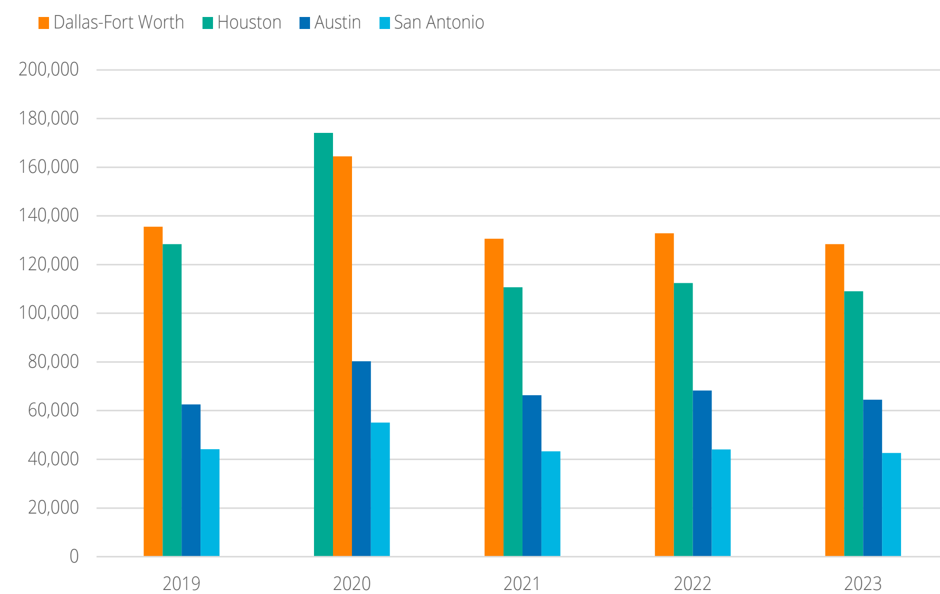
- Total Texas payroll employment grew in February, increasing 4.3 percent month-over-month, up from 1.9 percent in January, according to The Federal Reserve Bank of Dallas. Leisure and hospitality were notably among the sectors to lead overall expanding payrolls in the most current monthly results. Other employment sectors to see monthly increases include manufacturing, professional and business services, and financial activities.
- Nevertheless, recent data published from The Federal Reserve Bank of Dallas highlighted declining retail sales during the quarter. Health store and nondurable goods wholesalers reported that consumers have ebbed overall purchases, while auto dealers commented supply and demand fundamentals being misaligned with increases to both sales and inventory.
- Inflation rose 0.6 percent in March and 3.5 percent over the last 12 months as measured by the U.S. Bureau of Labor Statistics. Core inflation, which excludes the volatile food and energy categories, rose 0.5 percent in March and 3.8 percent over the year. With core inflation well above the Federal Reserve's 2.0 percent target, the bank will likely postpone lowering interest rates until late summer or early fall.
- Restaurant meals, electricity, motor vehicle insurance, motor vehicle repairs, shelter, and the other goods and services category saw the greatest year-over-year price increases. Apparel, groceries, education, and communications services saw modest increases. On the flip side, household furnishings, used cars and trucks, gasoline, airfares and recreation services saw price declines.

RETAIL SECTOR JOB GROWTH YEAR-OVER-YEAR



Source: Transwestern Research, Bureau of Labor Statistics (not seasonally adjusted)

POPULATION GROWTH YEAR-OVER-YEAR



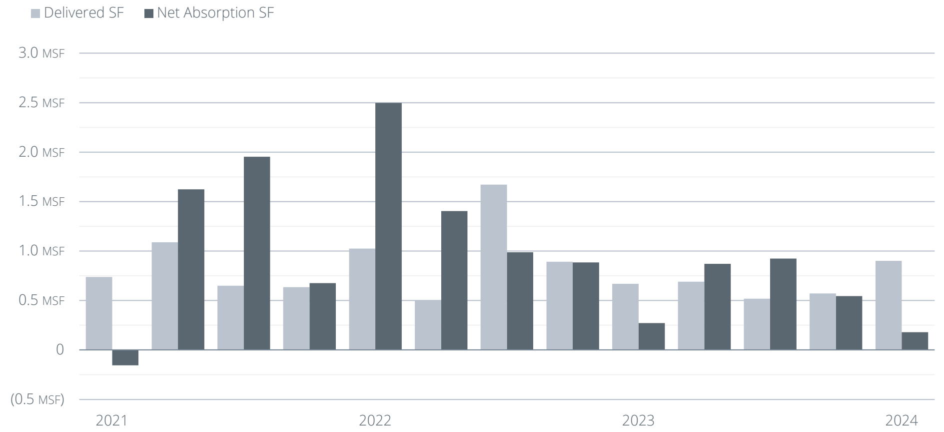
Source: Transwestern Research, Environmental Systems Research Institute, Inc.

DALLAS/FORT WORTH

Pipeline Expands by 800,000 Square Feet to 5.4 Million During Q1 2024

- The Metroplex's retail sector registered slightly less than 185,000 square feet of new demand during the first quarter and 1.7 million over the past 12 months, maintaining its streak for only positive gains for 13 consecutive quarters. Vacancy remained flat during the period, holding steady at 4.3 percent for the Dallas metro while Fort Worth weighed in at 4.4 percent.
- Major announcements include H-E-B grocery store moving forward with its planned store in Prosper, its latest stake at the edge of the Metroplex, by breaking ground at the corner of Frontier Parkway and the Dallas North Tollway. Meanwhile, H-E-B opened its first store in Fort Worth/Tarrant County in April at 3451 Heritage Trace Pkwy near Alliance Town Center.
- The RedBird mall redevelopment off West Camp Wisdom Road in southern Dallas continued to make progress during the first quarter. Construction of a 50,000 square foot Tom Thumb grocery store and redevelopment of the west side of the older mall are the main priorities this year for RedBird's developer on the 107 acres which, was purchased in 2015.

DELIVERY IMPACT ON KEY INDICATORS



Source: Transwestern Research, CoStar

- Dallas/Fort Worth's new construction level currently sits at a combined 5.4 million square feet, the largest of the four Texas metros, up from 4.6 million square feet just six months ago. Asking rents are likewise on the rise: Dallas retail commands a triple net rate of $21.70 per square foot while Fort Worth weighs in at $18.71 per square foot. Power centers command the highest rent premiums, calculated at $31.75 and $33.48 per square foot, respectively.

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*	261,253,957	11,309,207	4.3%	15,282,412	5.8%	182,505	1,665,260	4,397,312	$21.70
Strip Center	20,033,411	1,312,993	6.6%	1,879,627	9.2%	(35,476)	10,572	490,391	$20.75
Neighborhood/Community	81,584,208	4,726,096	5.8%	5,921,944	7.2%	-	170,216	440,376	$19.55
Power Center	23,452,955	949,574	4.0%	1,140,651	4.8%	(71,503)	202,494	291,293	$31.75
Fort Worth - All Retail*	126,405,906	5,503,481	4.4%	7,071,692	5.5%	(3,054)	853,600	1,030,076	$18.71
Strip Center	10,864,591	662,609	6.1%	765,201	7.0%	(3,024)	(49,569)	62,431	$18.89
Neighborhood/Community	34,694,776	2,596,104	7.5%	3,016,276	8.6%	44,190	310,077	191,630	$15.70
Power Center	8,919,381	296,318	3.3%	384,921	4.3%	(19,138)	(17,411)	7,072	$33.48

**Includes properties not in shopping centers below*

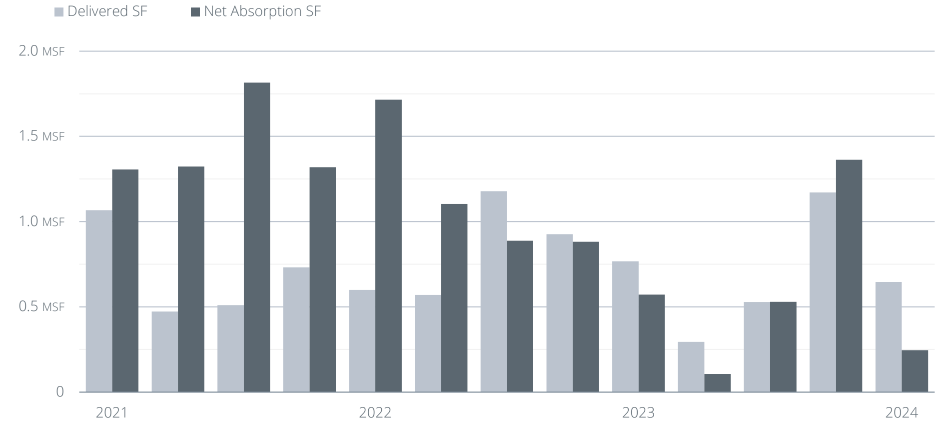
Source: Transwestern Research, CoStar

HOUSTON

Construction Starts Gain Momentum, Now Total 3.01 Million Square Feet

- Space deliveries outweighed new retailer demand throughout the Houston metro this quarter. Nearly 2.0 million square feet came online while net demand measured slightly less than 250,000 square feet. Unlike the retail sectors in Austin and San Antonio, where mid-sized neighborhood and community centers saw growth this quarter, Houston retailers shed space in the category to the tune of more than 375,000 square feet despite the overall sector still seeing a net absorption. Power centers were most active in new leasing totaling 330,000 square feet with vacancy shrinking to 2.8 percent from 3.7 percent at the end of 2023.
- Developers became busier this quarter as new construction projects currently underway are up to 3.01 million square feet, rising approximately 100,000 square feet with most of the space being in neighborhood and community centers exceeding 100,000 square feet followed, by a far distant 160,000 square feet in strip centers.
- While direct vacancy remained unchanged at 4.5 percent, total availability rose 10 basis points to 6.1 percent. Increases in availability were seen mainly in the neighborhood and community center category while strip centers remained unchanged at 8.6 percent total available. The most notable change this quarter was availability shrinking by a total 70 basis points in power centers to 5.2 percent.

DELIVERY IMPACT ON KEY INDICATORS



Source: Transwestern Research, CoStar

- During the quarter, it was announced that construction was officially underway on a 70-acre project in Northwest Houston in a retail development that includes a 100,000-square-foot H-E-B grocery store and nearly 28,000 square feet of retail space. In February, Howard Hughes Holdings broke ground on Village Green in Bridgeland Central as a part of its massive 925-acre master-planned project in Cypress, approximately 33 miles northwest of downtown Houston.

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*	372,245,890	16,740,499	4.5%	22,977,014	6.1%	246,037	2,243,719	3,050,521	$20.80
Strip Center	39,903,165	2,748,417	6.9%	3,458,128	8.6%	(128,150)	273,879	159,942	$21.75
Neighborhood/Community	118,031,234	7,068,495	6.0%	9,409,868	7.9%	(172,077)	(376,287)	704,618	$18.36
Power Center	30,001,125	845,150	2.8%	1,571,189	5.2%	183,833	329,717	7,000	$20.79

**Includes properties not in shopping centers below*

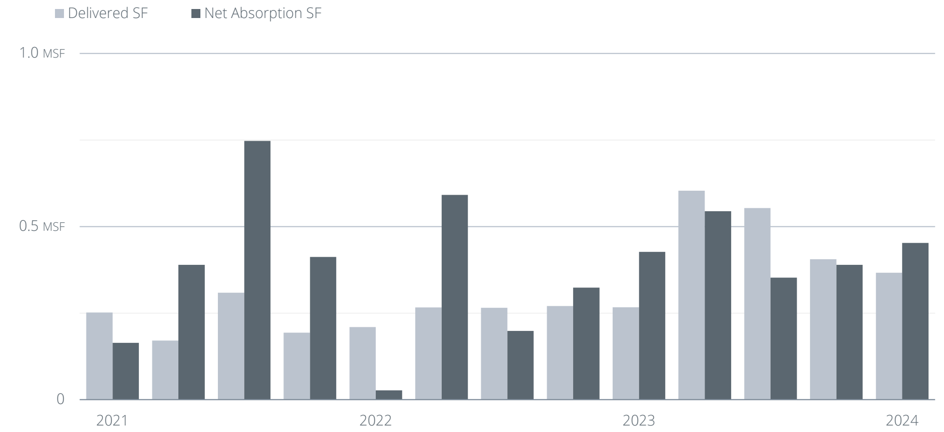
Source: Transwestern Research, CoStar

AUSTIN

Rents Remain Elevated Despite Slower Leasing Activity

- Retailers newly occupied close to 450,000 square feet throughout metro Austin at the beginning of the year, a slighly better performance when compared to the same period in 2023. The bulk of the space gains were made by neighborhood and community centers, totaling nearly 115,000 square feet, followed next by power centers. Austin's brick-and-mortar retail sector sustained its strong net absorption trend all during 2023, measuring nearly 1.75 million square feet, which has kept vacancy tight and rents on the ascent.
- As a result, asking rates for triple net leases increased by 50 basis points this quarter over the end of 2023 to $26.28 per square foot in addition to gauging 4.5 percent increase from Q1 2023 when triple net rates were $25.16 per square foot.
- Vacancy remains the lowest out of all four major Texas metros again this quarter at 2.8 percent while shrinking an additional 20 basis points since Q1 of 2023.
- Construction saw an uptick in new projects this quarter with the amount of space now totaling 1.86 million square feet, or a 14 percent increase from the end of 2023. But the pattern of new starts to deliveries (which came to just over 365,000 square feet in the past 90 days) continues to be relatively even over the past several quarters. Still, new construction underway is down sharply by 40 percent from its peak of 3.0 million square feet in Q1 2023.

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*	100,664,705	2,784,700	2.8%	4,705,860	4.6%	452,879	1,739,211	1,859,690	$26.28
Strip Center	7,595,467	334,836	4.4%	587,479	7.4%	65,024	190,438	320,564	$26.77
Neighborhood/Community Center	26,079,191	928,834	3.6%	1,441,770	5.5%	113,134	204,463	302,224	$25.67
Power Center	15,778,019	499,177	3.2%	707,024	4.5%	85,323	77,293	77,000	$30.35

**Includes properties not in shopping centers below*

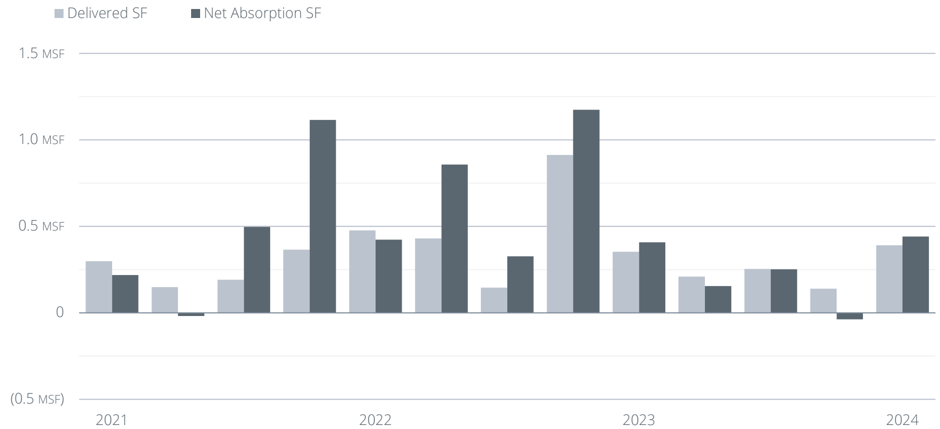
Source: Transwestern Research, CoStar

SAN ANTONIO

Demand Bounces Back into the Black

- San Antonio's retail market shrugged off the space losses recorded at the end of 2023 by registering more than 440,000 square feet of positive net growth during the first quarter. Power centers showed the strongest reversal as retailers occupied nearly 109,000 square feet compared to the slight reversal of less than 25,000 square feet in Q4 2023.
- Direct vacancy remained flat at 3.5 percent for the second consecutive quarter but is tighter by 20 basis points compared to this time last year even as nearly a million square feet delivered during the timespan.
- Construction activity is slowing quickly with this pipeline that took off sharply at the end of 2022 when it expanded by nearly 600,000 square feet during the second half of that year. Local developers had approximately 950,000 square feet underway in January and closed the first quarter in March at slightly less than 600,000 square feet. The past 90 days reflected a pattern that began early in 2023 and the amount of retail currently under construction has shrunk by 42 percent year-over-year. Most of the ongoing projects are in the Far West submarket, with nearly 228,000 square feet, followed by Comal County with nearly 103,000 square feet.

DELIVERY IMPACT ON KEY INDICATORS



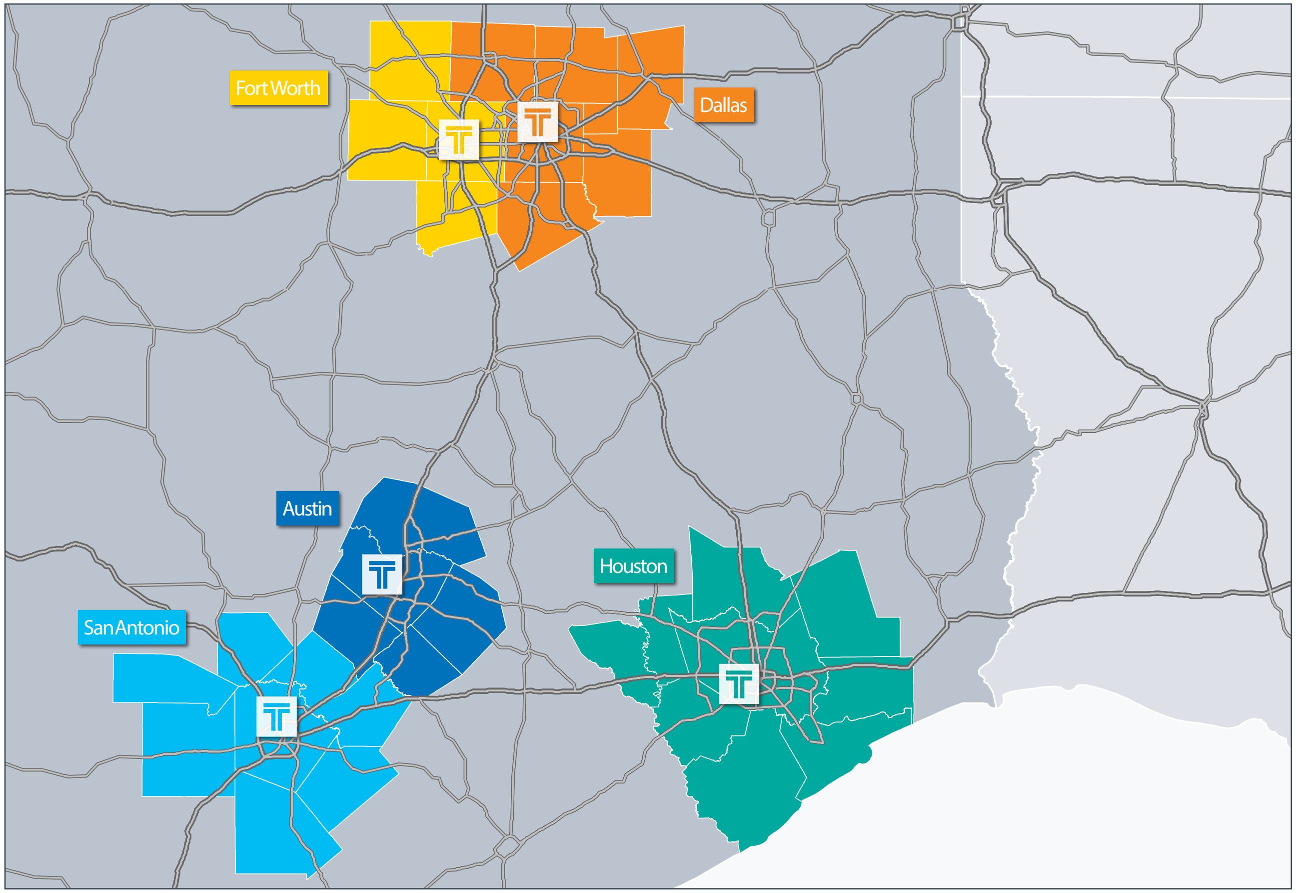
Source: Transwestern Research, CoStar

- The leveling of deliveries and building starts appear to be a short-term trend: plans for the development of almost 4.83 million square feet of retail space are currently on the drawing boards, with approximately a fourth of the proposed and planned construction starts being in mid-sized properties such as community and neighborhood centers. Hot spots for future construction include the suburban submarkets of the Far West, Far Northwest, Northwest and along the IH-35 corridor from New Braunfels south into San Antonio.

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*	119,277,711	4,172,007	3.5%	6,299,897	5.3%	441,367	810,687	598,872	$19.65
Strip Center	9,761,280	581,495	6.0%	790,424	8.1%	36,121	53,502	40,612	$20.40
Neighborhood/Community Center	33,037,529	1,771,894	5.4%	2,465,378	7.4%	12,622	60,395	70,000	$16.42
Power Center	10,503,059	297,484	2.8%	526,829	5.0%	108,466	71,495	-	$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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