MARKET REPORT

Marcus & Millichap

RETAIL

Austin Metro Area

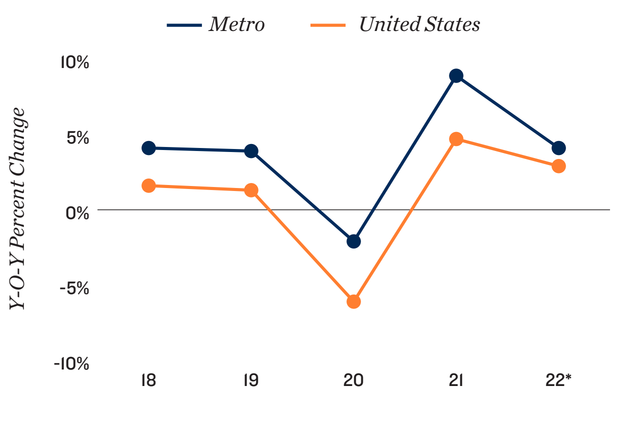
2Q/22

Grocery and Auto Parts Head Leasing Activity as Economic Drivers Magnify Consumer Demand

Vacancy entered 2022 at a decade-minimum, will go even lower. Retail headwinds from the health crisis have largely dissipated, and the metro's ability to grow its employment count and population tally during the pandemic put Austin in a strong position. Across 2020 and 2021, the market added more than 80,000 new residents, a growth pace that ranks as the fastest among all major U.S. metros during that span. This expedited consumer base expansion amplifies spending on goods and services, luring new retailers and encouraging local businesses to expand. Robust leasing momentum is the result. Net absorption exceeded completions by nearly 1 million square feet in 2021 — the largest disparity between the two metrics in at least 15 years. Demand is expected to remain heightened in 2022 while construction stays mild, setting the stage for vacancy to undercut the already tight rate of 3.8 percent in the first quarter.

National tenants seek new locations throughout the metro. The opportunity to expand in one of the fastest-growing markets in the nation is appealing. Grocery chains and auto parts, segments that outperformed amid lockdowns and bottlenecks that made newer cars difficult to purchase, are responsible for a handful of recent signings. Fresh International Market occupied a floorplan in the Shops at Tech Ridge in Northeast Austin this May, while Whole Foods Market took up a spot in the Market District of the urban core in April. This spring, AutoZone and O'Reilly Auto Parts also moved into new locations in South Austin and Round Rock, respectively.

Employment Trends



** Forecast*

Sources: BLS; CoStar Group, Inc.

Retail 2022 Outlook

50,000
JOBS
will be created

EMPLOYMENT:

During the first three months of 2022, Austin's headcount grew by roughly 11,000 personnel. This is a slower pace of hiring than last year's 25,000 jobs added per quarter, when the market was rebounding. Still, employment climbs by 4.1 percent this year.

950,000
SQ. FT.
will be completed

CONSTRUCTION:

Delivery volume falls below the 1 million-square-foot benchmark for the second straight year in 2022. About two-thirds of metro additions are split between four submarkets: Georgetown, Cedar Park, Hays County and Southeast Austin.

10
BASIS POINT
decrease in vacancy

VACANCY:

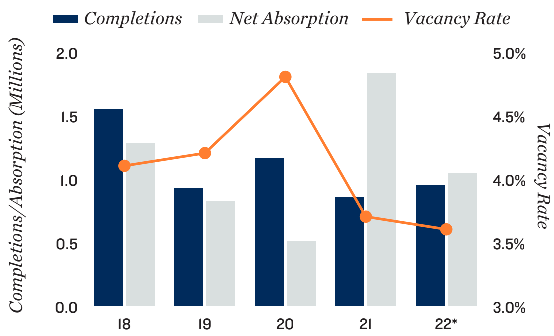
A moderate construction pipeline amid demand tailwinds spurred by economic growth allow for another vacancy contraction, following last year's 110-basis-point descent. Market vacancy drops to 3.6 percent in 2022, the lowest rate in 15-plus years.

3.9%
INCREASE
in asking rent

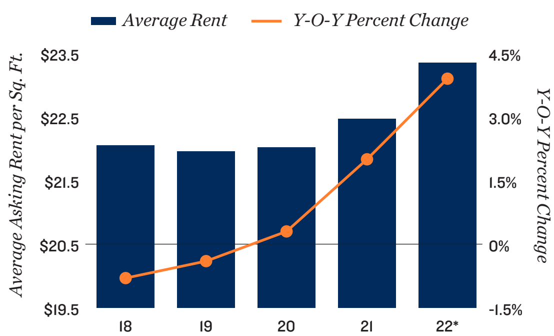
RENT:

Vacant stock of just 3.5 million square feet places additional upward pressure on marketed rates. The average asking rent per square foot elevates to $23.35 in 2022 — the priciest of the four major Texas markets by more than 15 percent.

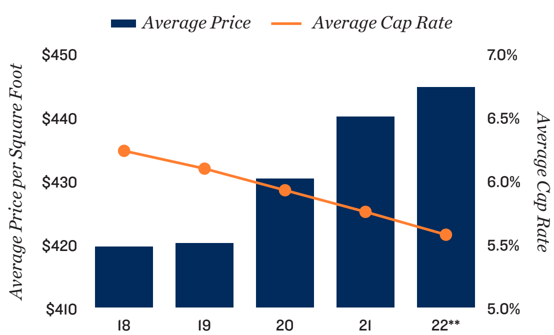
Supply and Demand



Rent Trends



Sales Trends



** Forecast ** Through 1Q*

Sources: CoStar Group, Inc.; Real Capital Analytics

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1Q 2022 - 12-Month Period

CONSTRUCTION

804,000 sq. ft. completed

- During the 12-month period ended in March, builders increased supply by 0.8 percent — a notch below the prior period's 0.9 percent enlargement.
- Activity in East Austin, most notably Tesla's arrival, was a catalyst for retail construction as developers anticipated consumer demand. Both the East and Southeast submarkets had stock expansions larger than 3 percent.

VACANCY

100 basis point decrease in vacancy Y-O-Y

- For the first time since 2017, vacancy fell below 4 percent in the fourth quarter of 2021 and held there through March 2022. The two largest submarkets — South Austin and Hays County — boast rates under 3 percent.
- Net absorption surpassed 100,000 square feet in six consecutive quarters, totaling nearly 2.1 million square feet absorbed over that 18-month span.

RENT

3.4% increase in the average asking rent Y-O-Y

- Single-tenant vacancy sits in the mid-3 percent band on the net absorption of 1.2 million square feet over the past year. Tenant competition pushed the segment's average asking rent up 3.2 percent year-over-year in March.
- Among the 10 largest submarkets, rent growth exceeded 5 percent in Round Rock, Hays County, Central and East Austin.

Investment Highlights

- The average sale price of a multi-tenant asset rose by more than 5 percent during the 12-month period ended in March, reaching $391 per square foot. Upward pressure on prices can be attributed to the metro's economic tailwinds and fruitful outlook. Strong buyer interest compressed the average multi-tenant cap rate to 6.0 percent, down 40 basis points since 2019.
- Shopping centers in the southern half of the metro intrigued buyers in recent periods. The South and Southwest Austin submarkets, along with Hays County, were the top areas for multi-tenant trades. Out-of-state capital has pursued portfolio deals and 1031 exchanges in these areas.
- Single-tenant sale prices have largely held firm through the pandemic, inching up about 1 percent over the past two years to $518 per square foot on average. Meanwhile, the mean single-tenant cap rate dropped by 60 basis points during that span to 5.0 percent, a product of both investor competition and the short-term pandemic impact on revenue streams.
- Fast food, drug stores and auto repair shops transact with average yields in the upper-3 percent to upper-4 percent band. Convenience stores and restaurants have higher mean cap rates in the 5 percent to 6 percent band.