

Texas Retail Enjoying Resurgent Demand in Recovery

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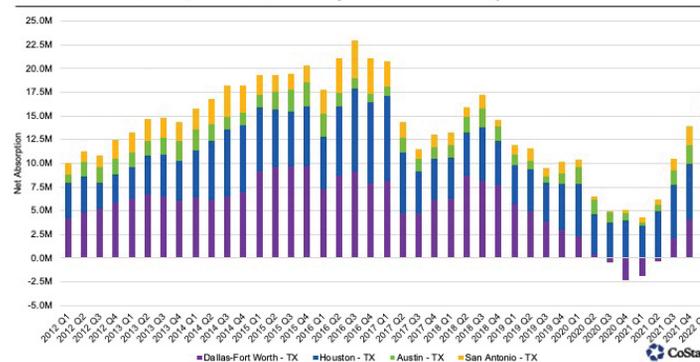
The "Texas Miracle" that defined the economic prosperity of the Lone Star State has cut a wide swath across all asset types. Beyond the pandemic, no asset type has realized more seismic changes in recent years than retail. From disruption in technology to consumer preferences, the space devoted to purchasing goods and services continues to evolve. While Texans share a common bond, the retailers and real estate community in every region of the State have had a unique experience navigating the choppy waters left by the pandemic.

Austin

Austin's retail market remains on firm footing. Vacancies fell to about 3.5%, well below the national average of 4.5%, and are among the top-10 lowest in the country. The market has seen some of the strongest demand over the past year, with about 2 million square feet absorbed despite disruptions from COVID-19 variants. Substantial population and economic growth have kept the market strong over the past few years.

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Retail Net Absorption Shifts Higher Across Major Texas Markets



loans into the hands of businesses helped keep the market afloat during the early days of the pandemic. However, the market hasn't been kept strong just due to government stimulus. Significant expansions in the tech sector, wage growth, and household formation have buoyed retail prospects. Consumers have resumed normal spending patterns, driving leasing activity to within a short distance of pre-pandemic norms.

The market has also been aided by very limited deliveries over much of the last decade, which looks to continue through the near term. About 1 million square feet is currently underway, well below the peaks before the Great Financial Crisis, despite Austin's population surging substantially in the 15 years since. With limited store closures and bankruptcies from national tenants, the market is poised to continue its momentum into our outlook. Austin is on most companies' radar for expansions, driving new leases for retailers like AutoZone, Five Below, and Floor & Décor. As a result of this stellar demand and limited supply rents never fell in Austin during the pandemic.

Over the forecast, CoStar's expectation is for the market to remain strong. With limited construction and strong economic fundamentals, new demand will likely exceed new supply over the next few years, driving vacancies lower and rents higher. That should keep Austin on every investor's radar over the next decade as the market rebounds from the COVID-19 induced recession.

Dallas-Fort Worth

Dallas-Fort Worth's retail market is benefitting from resurgent demand over the past year. Vacancy rates are falling closer to pre-pandemic norms through early 2022. The Metroplex reported leasing activity of 9.2 million square feet last year. With most store closures in the rearview mirror, the market reported net absorption of 4.1 million square feet, the best performance since 2018.

Thanks to the continuous demand for housing in the Metroplex, home furnishing, décor, and home improvement stores are major drivers for leasing activity. Among them, Plano-based At Home signed on to a 104,000-square-foot lease at Timber Creek Crossing. The space was previously occupied by JCPenney, another Plano-based retailer and a casualty of bankruptcy resulting from the pandemic and resulting recession.

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“While Texans share a common bond, the retailers and real estate community in every region of the State have had a unique experience.”

The construction pipeline is trending lower. Developers kicked off 3.6 million square feet last year, the lowest level since 2011. Construction activity is concentrated to the north in Denton and Collin counties, where developers are chasing robust demographic growth.

The outlook for Dallas-Fort Worth's retail market remains bright, thanks to the structural economic and demographic tailwinds found in the market. The latest population growth shows the Metroplex leads the country with about 95,000 new residents from 2020 to 2021. Meanwhile, the local economy has now transitioned to expansion mode. Last year, the labor market added 275,800 jobs, growing 7.4%, and has fully recovered from the recession, up 147,900 jobs since February 2020.

Houston

Last year's strong performance in Houston's retail sector has continued this year. Key indicators such as leasing activity, net absorption, and rent growth continue to head in the right direction. In addition, pent-up demand from the pandemic continues to bolster retail leasing activity, which, during 2021, totaled nearly 9 million SF, clocking the best year since 2016.

Following suburban rooftop growth, areas outside the 610 Loop accounted for nearly 90% of leasing activity in 2021. Mirroring the national trend, the

rebound in leasing activity was fueled by strong demand for smaller spaces. As a result, the average footprint leased fell to a record low during 2021 to just under 3,000 square feet. The largest leases during 2021 were driven by tenants in fast-growing suburban locations, chasing demographic and economic strengths found in these areas. These tenants were often grocers or large fitness centers.

Over the past 12 months, Houston ranked number one out of all U.S. metros for most retail space absorbed. Furthermore, net absorption in the Bayou City is forecast to reach its highest level in six years in 2022. However, strong demand has compressed vacancies to 5.4%, marking a four-year low.

Encouraged by a solid demand-side outlook, developers continue to bet on Houston's appetite for new retail. Houston has seen around 3.6 million SF of new space deliver over the past 12 months, the most of any metro in the country and more than double the next one, which is DFW. Of this, approximately 80% has been leased. Houston is also home to the largest supply pipeline in the country. The good news is that the market's total space underway represents only about 0.9% of its total inventory.

Continued on Page 16 >

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Retail

< Continued from Page 15

Retail fundamentals are expected to remain balanced in Houston through the near term. Strong demographic trends are assuredly a tailwind. According to the recently revised Census numbers, between July 2020 and July 2021, Houston ranked third in the nation in terms of most population added by metro, bested only by DFW and Phoenix, adding nearly 70,000 new residents during this time.

San Antonio

San Antonio continues to be a steady performer among the major Texas metropolitan areas, delivering 1.3 million square feet over the past year, only slightly below its historical 10-year average. However, this is not necessarily a cause for concern, as retail square footage per resident has actually declined in San Antonio over the past decade, making for tight vacancies and room to raise rents. Annual rent growth in South Central Texas stayed firmly in the black during the COVID-19 pandemic—a remarkable feat when many brick-and-mortar businesses were suffering.

This remarkably resilient level of rent growth is primarily due to strong year-over-year increases in less expensive suburban and exurban segments of the eight-county metropolitan area. Over the past year, the greater downtown area and the northwest side—two of the most expensive parts of the city for retail—either matched or lagged the metropolitan average.

Still, some of the most expensive retail nodes in San Antonio continue to attract solid tenants and, thus, solid investment activity. The largest sales over the course of the pandemic have been on the far northwest and far west sides, particularly the \$220 million The Rim and \$104 million Alamo Ranch shopping centers.

These two properties are heavyweights in the local retail market, and they offer insight into the direction of retail activity and rent growth in San Antonio. In fact, the far north and far west sides, along with downtown, command the highest rents in the metropolitan area: more than \$22 per square foot. The city-wide average is currently approaching \$20 per square foot.

Construction has largely focused on these areas as well, to include Comal County, which lies approximately 20 miles northeast of central San Antonio. Comal is regularly listed among the fastest-growing counties in the nation, which is notable for a region and State that continues to grow so rapidly. Because of this, retail has followed rooftop growth in Comal County, far north and west San Antonio, and the metropolitan area more broadly.

The solid economic underpinnings of the Texas economy have enabled the retail sector to recover quicker here than in other parts of the country. While many retailers felt significant pain in the short term and some never recovered, overall, the sector is in a much stronger position than before the pandemic. The State's perpetual population growth and job growth serve as a backdrop for a positive outlook for retail.

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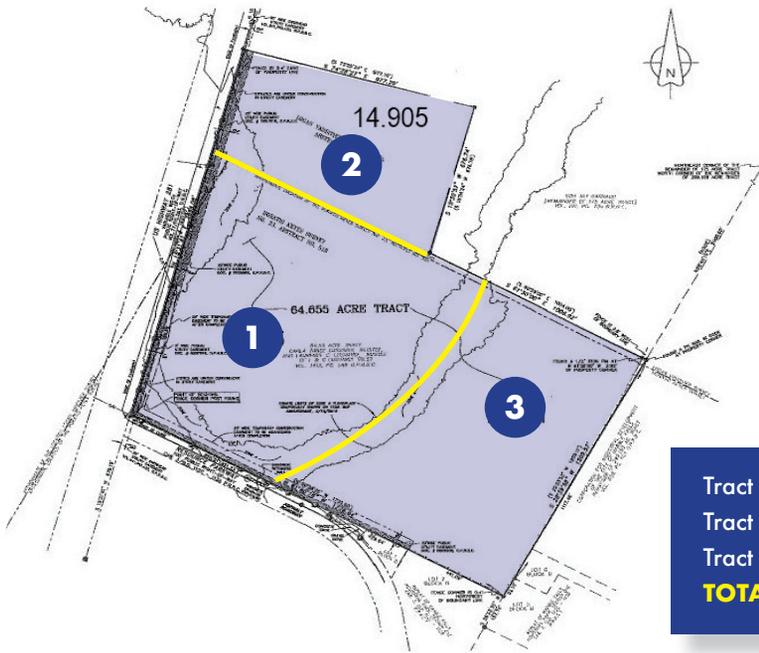
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