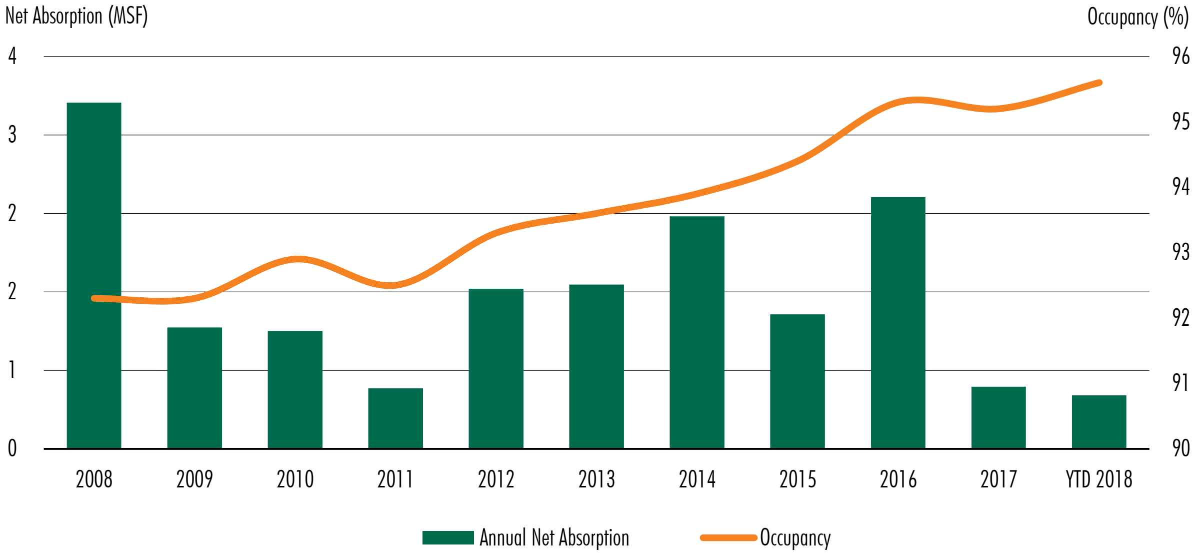
San Antonio Retail, Q3 2018

Local landlords keep pushing rents as U.S. retail e-commerce evolves

Occupancy 95.6%	Under Construction 1,658,352 SF	Completions 108,086 SF	Net Absorption (25,451) SF

*Arrows indicate trend from previous quarter.

Figure 1: Net Absorption and Market Occupancy



Source: CBRE Research, Q3 2018.

RETAIL RENTS KEEP RISING

While high-profile bankruptcies of big-box retailers have dominated industry headlines, the data for San Antonio brick-and-mortar retail space tells a very different story. Rents are on the rise, occupancy levels stand at close to 96 percent, and there are over 1.6 million sq. ft. under construction as developers rush to keep up with demand.

THE LABOR PIE KEEPS GROWING

Over the past decade, San Antonio's workforce has added nearly 180,000 workers — roughly the population of Amarillo. Industries like health care, education, and hospitality and tourism have shown remarkable resilience over the long term, resulting in an enviously stable and strong overall economy. Since 2008, San Antonio's leisure and hospitality industry has added over 33,000 workers, marking a more than 31 percent increase.

THE SOTO BREAKS GROUND

Earlier last month, the six-story, 140,600-square-foot office project, at the corner of Broadway and Eighth streets, broke ground. Along with the new office space, the building will boast 10,000 square feet of ground-floor retail. This is the first mass timber construction project in Texas. The building is expected to be completed by February 2020.

WALMART SHUTTING DOWN THREE SAN ANTONIO STORES

The retail giant has confirmed it will close three of its stores in San Antonio next month, affecting more than 200 employees. All three locations have other Walmart stores within a three mile radius. While Walmart readjusts its store mix, it is also remodeling several of its stores with changes including wider aisles, shorter shelving, new signs and flooring, and a redesigned electronics department with interactive displays.

Figure 2: Market Snapshot

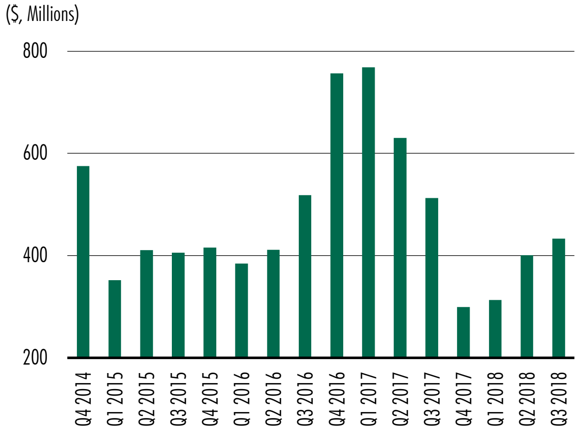
		2017	Q1 2018	Q2 2018	Q3 2018	YTD 2018
ATASCOSA COUNTY	Absorption (Net, SF)	7,136	-1,600	-	-5,000	-6,600
	Avg. Asking Rent (Annual,NNN, $/SF)	22.00	23.00	23.00	24.00	24.00
	Under Construction (SF)	-	-	-	-	-
	Rentable Building Area (RBA)	1,023,400	1,023,400	1,023,400	1,033,705	1,033,705
	Occupancy Rate (%)	99.4	99.2	99.2	98.7	98.7
COMAL COUNTY	Absorption (Net, SF)	45,065	78,930	-2,895	67,979	144,014
	Avg. Asking Rent (Annual,NNN, $/SF)	17.36	17.09	17.83	18.00	18.00
	Under Construction (SF)	86,155	95,094	94,483	82,474	82,474
	Rentable Building Area (RBA)	5,592,844	5,617,219	5,662,017	5,644,036	5,644,036
	Occupancy Rate (%)	95.7	97.1	96.7	97.5	97.5
KENDALL COUNTY	Absorption (Net, SF)	-17,150	31,322	-100	1,500	32,722
	Avg. Asking Rent (Annual,NNN, $/SF)	13.08	13.66	13.80	14.00	14.00
	Under Construction (SF)	-	-	10,000	10,000	10,000
	Rentable Building Area (RBA)	1,166,691	1,178,391	1,179,191	1,184,597	1,184,597
	Occupancy Rate (%)	95.4	98.1	98.1	98.3	98.3
CENTRAL BUSINESS DISTRICT	Absorption (Net, SF)	10,730	-17,649	8,570	-73	-9,152
	Avg. Asking Rent (Annual,NNN, $/SF)	22.11	33.68	25.00	26.00	26.00
	Under Construction (SF)	-	-	-	20,000	20,000
	Rentable Building Area (RBA)	3,959,749	3,903,729	3,866,381	3,866,381	3,866,381
	Occupancy Rate (%)	98.3	98.2	98.0	97.8	97.8
WILSON COUNTY	Absorption (Net, SF)	-12,591	2,583	8,600	8,208	19,391
	Avg. Asking Rent (Annual,NNN, $/SF)	17.40	18.84	17.93	18.50	18.50
	Under Construction (SF)	-	-	-	-	-
	Rentable Building Area (RBA)	403,929	395,545	395,545	395,545	395,545
	Occupancy Rate (%)	95.2	95.8	97.9	100.0	100.0
MEDINA COUNTY	Absorption (Net, SF)	-14,943	3,862	-	1,814	5,676
	Avg. Asking Rent (Annual,NNN, $/SF)	16.66	16.66	16.66	17.25	17.25
	Under Construction (SF)	-	-	-	-	-
	Rentable Building Area (RBA)	547,421	647,421	647,421	647,421	647,421
	Occupancy Rate (%)	84.5	87.5	87.5	87.8	87.8
NORTH CENTRAL	Absorption (Net, SF)	-26,829	-122,028	19,562	31,175	-71,291
	Avg. Asking Rent (Annual,NNN, $/SF)	18.26	17.74	25.00	25.50	25.50
	Under Construction (SF)	34,050	97,202	118,370	24,048	24,048
	Rentable Building Area (RBA)	20,858,854	20,902,726	20,849,223	21,046,202	21,046,202
	Occupancy Rate (%)	94.8	94.2	94.6	94.8	94.8

Figure 2: Market Snapshot

		2017	Q1 2018	Q2 2018	Q3 2018	YTD 2018
NORTHWEST	Absorption (Net, SF)	388,325	442,414	20,718	45,044	508,176
	Avg. Asking Rent (Annual,NNN, $/SF)	12.64	12.70	25.00	25.50	25.50
	Under Construction (SF)	78,870	66,286	511,626	607,539	607,539
	Rentable Building Area (RBA)	32,547,735	32,576,539	32,485,187	32,616,589	32,616,589
	Occupancy Rate (%)	95.0	96.4	96.4	95.9	95.9
SOUTH	Absorption (Net, SF)	-36,849	16,111	5,468	-51,939	-30,360
	Avg. Asking Rent (Annual,NNN, $/SF)	16.12	13.48	20.00	21.00	21.00
	Under Construction (SF)	166,545	144,565	10,690	23,990	23,990
	Rentable Building Area (RBA)	9,707,011	9,752,017	9,731,673	9,828,076	9,828,076
	Occupancy Rate (%)	96.1	96.3	96.9	96.8	96.8
NORTHEAST	Absorption (Net, SF)	247,153	-28,950	36,896	-103,357	-95,411
	Avg. Asking Rent (Annual,NNN, $/SF)	12.56	11.99	25.00	25.50	25.50
	Under Construction (SF)	-	-	-	707,344	707,344
	Rentable Building Area (RBA)	11,834,564	11,835,255	11,876,662	11,923,703	11,923,703
	Occupancy Rate (%)	94.7	94.5	94.9	92.9	92.9
GUADALUPE COUNTY	Absorption (Net, SF)	-5,604	39,860	-6,554	-20,802	12,504
	Avg. Asking Rent (Annual,NNN, $/SF)	6.20	6.20	13.08	13.50	13.50
	Under Construction (SF)	-	16,000	103,000	182,957	182,957
	Rentable Building Area (RBA)	3,066,843	3,182,104	3,206,509	3,250,078	3,250,078
	Occupancy Rate (%)	93.7	95.2	95.0	95.7	95.7
BANDERA COUNTY	Absorption (Net, SF)	8,000	-	-	-	-
	Avg. Asking Rent (Annual,NNN, $/SF)	11.48	11.48	17.09	18.00	18.00
	Under Construction (SF)	-	-	-	-	-
	Rentable Building Area (RBA)	168,086	168,086	168,086	168,086	168086
	Occupancy Rate (%)	100.0	100.0	100.0	100.0	100.0
SAN ANTONIO TOTAL						
	Absorption (Net, SF)	592,443	444,855	90,265	-25,451	509,669
	Avg. Asking Rent (Annual,NNN, $/SF)	15.49	14.97	23.33	23.88	23.88
	Under Construction (SF)	365,620	419,147	848,169	1,658,352	1,658,352
	Rentable Building Area (RBA)	90,877,127	91,182,432	91,091,295	91,604,419	91,604,419
	Occupancy Rate (%)	95.2	95.7	95.9	95.6	95.6

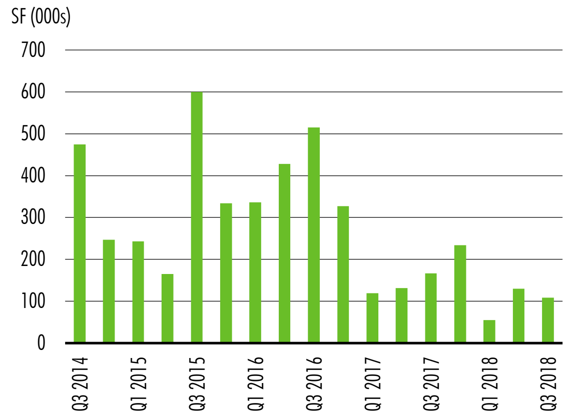
The spike in rental rates reflects the improved tracking of higher quality assets in the dataset. This includes converting base data from CBRE Research Third Party information service providers.

Figure 3: Retail Investment Sales Volume



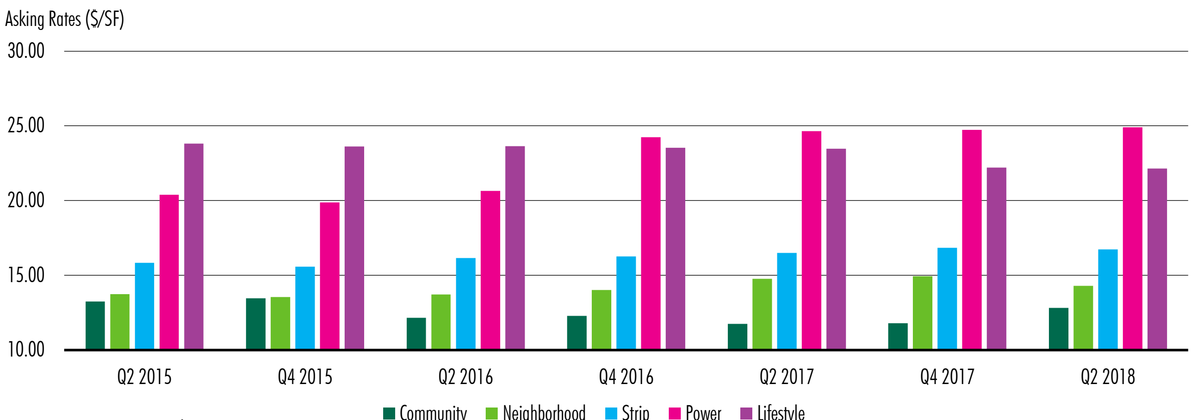
Source: Real Capital Analytics, Q3 2018

Figure 4: Deliveries



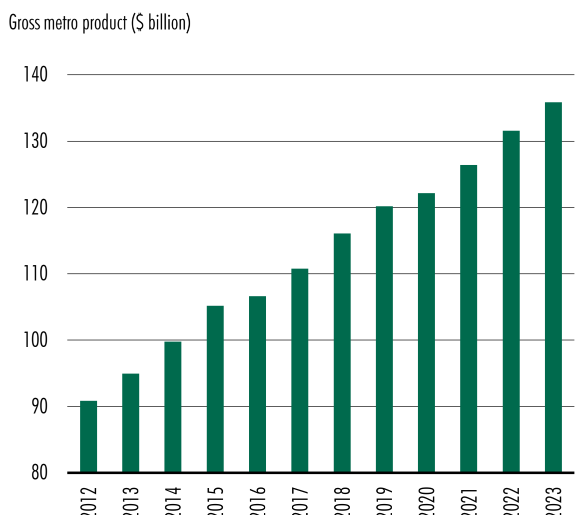
Source: CBRE Research, Q3 2018.

Figure 5: Asking Annual Rents by Center Type, NNN Avg.



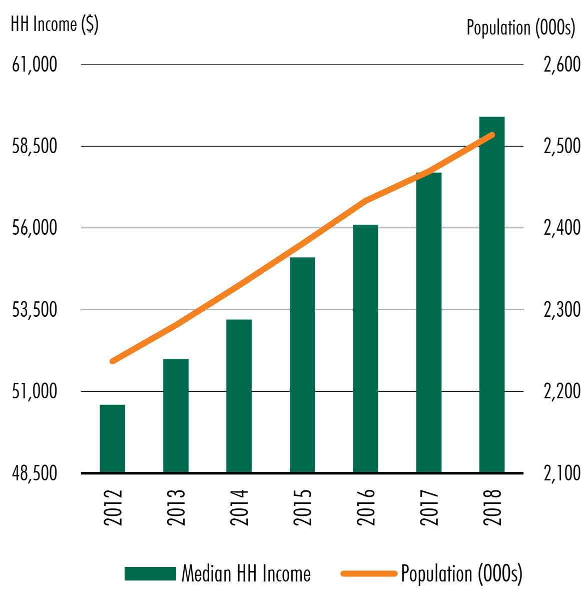
Source: CBRE Research, Q3 2018.

Figure 6: Gross Metro Product



Source: Bureau of Labor Statistics, Q3 2018.

Figure 7: Population Growth and Purchasing Power



Source: Moody's Analytics, Q3 2018.

**The Retail dataset includes properties 10,000-sq.-ft. and up.*

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