

San Antonio Retail, Q4 2018

# Retail isn't dead: Discount stores occupy vacant space across the city

▼ Occupancy  
95.5%

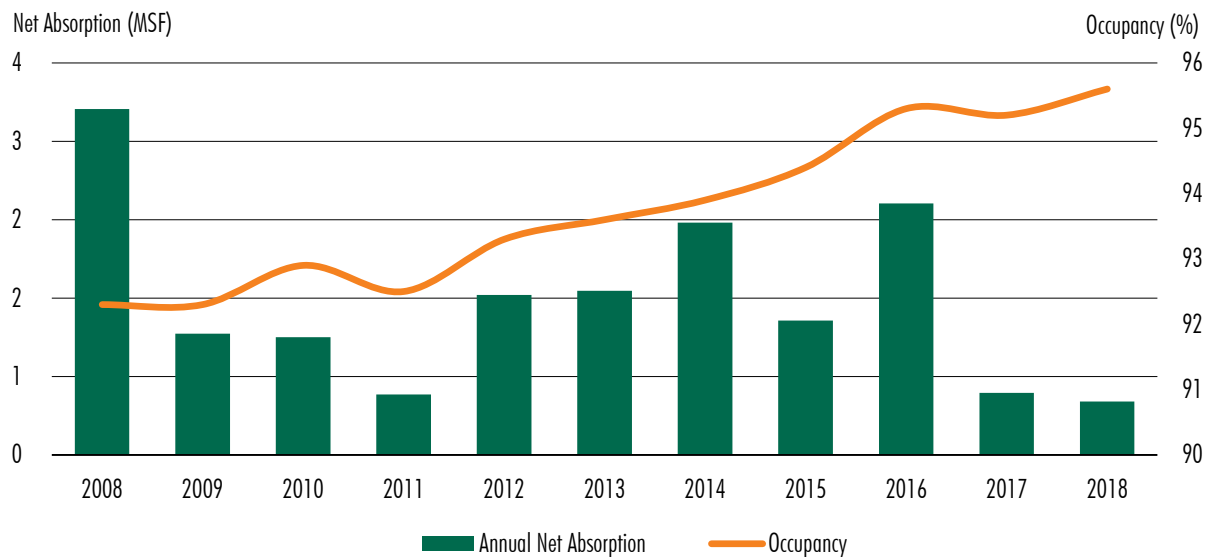
▼ Under Construction  
1,588,172 SF

▲ Completions  
323,278 SF

▲ Net Absorption  
178,611 SF

\*Arrows indicate trend from previous quarter.

Figure 1: Net Absorption and Market Occupancy



Source: CBRE Research, Q4 2018.

### NEW FORM OF RETAIL THERAPY

With big-box retailers such as Best Buy and Sears announcing nationwide store closures in 2018, the fear of a retail apocalypse struck the nation. The challenge of massive store vacancies transformed into new retail opportunities. Discount stores, gyms, and trampoline parks are filling up empty retail space. Discount furniture stores Living Spaces and Office Furniture Liquidations both opened locations in Q4 2018 with over 200,000 sq. ft. of space combined. Dollar Tree, Xtreme Jump, and Planet Fitness were among other tenants that took space this quarter.

### ASKING RENTS STABILIZE

Average asking rates stabilized quarter-over-quarter, with slight increases in the Northwest, Kendall County, and Northeast submarkets. With new construction underway and occupancy rates reaching near the one-hundred percent mark, rents

are expected to increment at a healthy pace into next year.

### CONSTRUCTION TIMELINE QUICKENS

Ten projects totaling over 323,000 sq. ft. delivered this quarter and a remaining 1.6 MSF is currently underway. The Live Oak Town Center in the Northeast submarket is one of the largest retail projects underway with over 600,000 sq. ft. expected to deliver in the second quarter of 2019. The development will anchor a 300,000-sq.-ft. IKEA store along with surrounding restaurant concepts.

### UNEMPLOYMENT REMAINS LOW

According to Moody Analytics, the unemployment rate for the San Antonio-New Braunfels market stood at only 3.3% in Q4 2018. With a continuously expanding commercial market that remains affordable, construction jobs have rapidly increased in the past year.

Figure 2: Market Snapshot

|                           |                                      | Q1 2018    | Q2 2018    | Q3 2018    | Q4 2018    | 2018       |
|---------------------------|--------------------------------------|------------|------------|------------|------------|------------|
| ATASCOSA COUNTY           | Absorption (Net, SF)                 | -1,600     | -          | -5,000     | 0          | -6,600     |
|                           | Avg. Asking Rent (Annual,NNN, \$/SF) | 23.00      | 23.00      | 24.00      | 24.00      | 24.00      |
|                           | Under Construction (SF)              | -          | -          | -          | -          | -          |
|                           | Rentable Building Area (RBA)         | 1,023,400  | 1,023,400  | 1,033,705  | 1,033,705  | 1,033,705  |
|                           | Occupancy Rate (%)                   | 99.2       | 99.2       | 98.7       | 99.2       | 99.2       |
| COMAL COUNTY              | Absorption (Net, SF)                 | 78,930     | -2,895     | 67,979     | -2,681     | 141,333    |
|                           | Avg. Asking Rent (Annual,NNN, \$/SF) | 17.09      | 17.83      | 18.00      | 18.00      | 18.00      |
|                           | Under Construction (SF)              | 95,094     | 94,483     | 82,474     | 30,511     | 30,511     |
|                           | Rentable Building Area (RBA)         | 5,617,219  | 5,662,017  | 5,644,036  | 5,731,033  | 5,731,033  |
|                           | Occupancy Rate (%)                   | 97.1       | 96.7       | 97.5       | 96.5       | 96.5       |
| KENDALL COUNTY            | Absorption (Net, SF)                 | 31,322     | -100       | 1,500      | 22,020     | 54,742     |
|                           | Avg. Asking Rent (Annual,NNN, \$/SF) | 13.66      | 13.80      | 14.00      | 14.50      | 14.50      |
|                           | Under Construction (SF)              | -          | 10,000     | 10,000     | -          | -          |
|                           | Rentable Building Area (RBA)         | 1,178,391  | 1,179,191  | 1,184,597  | 1,180,597  | 1,180,597  |
|                           | Occupancy Rate (%)                   | 98.1       | 98.1       | 98.3       | 98.3       | 98.3       |
| CENTRAL BUSINESS DISTRICT | Absorption (Net, SF)                 | -17,649    | 8,570      | -73        | 1,039      | -8,113     |
|                           | Avg. Asking Rent (Annual,NNN, \$/SF) | 33.68      | 25.00      | 26.00      | 26.00      | 26.00      |
|                           | Under Construction (SF)              | -          | -          | 20,000     | 20,000     | 20,000     |
|                           | Rentable Building Area (RBA)         | 3,903,729  | 3,866,381  | 3,866,381  | 3,837,714  | 3,837,714  |
|                           | Occupancy Rate (%)                   | 98.2       | 98.0       | 97.8       | 97.9       | 97.9       |
| WILSON COUNTY             | Absorption (Net, SF)                 | 2,583      | 8,600      | 8,208      | 0          | 19,391     |
|                           | Avg. Asking Rent (Annual,NNN, \$/SF) | 18.84      | 17.93      | 18.50      | 18.50      | 18.50      |
|                           | Under Construction (SF)              | -          | -          | -          | -          | -          |
|                           | Rentable Building Area (RBA)         | 395,545    | 395,545    | 395,545    | 426,384    | 426,384    |
|                           | Occupancy Rate (%)                   | 95.8       | 97.9       | 100.0      | 100.0      | 100.0      |
| MEDINA COUNTY             | Absorption (Net, SF)                 | 3,862      | -          | 1,814      | 0          | 5,676      |
|                           | Avg. Asking Rent (Annual,NNN, \$/SF) | 16.66      | 16.66      | 17.25      | 17.25      | 17.25      |
|                           | Under Construction (SF)              | -          | -          | -          | -          | -          |
|                           | Rentable Building Area (RBA)         | 647,421    | 647,421    | 647,421    | 647,421    | 647,421    |
|                           | Occupancy Rate (%)                   | 87.5       | 87.5       | 87.8       | 87.8       | 87.8       |
| NORTH CENTRAL             | Absorption (Net, SF)                 | -122,028   | 19,562     | 31,175     | -79,556    | -150,847   |
|                           | Avg. Asking Rent (Annual,NNN, \$/SF) | 17.74      | 25.00      | 25.50      | 25.50      | 25.50      |
|                           | Under Construction (SF)              | 97,202     | 118,370    | 24,048     | 47,496     | 47,496     |
|                           | Rentable Building Area (RBA)         | 20,902,726 | 20,849,223 | 21,046,202 | 21,028,779 | 21,028,779 |
|                           | Occupancy Rate (%)                   | 94.2       | 94.6       | 94.8       | 94.6       | 94.6       |

Figure 2: Market Snapshot

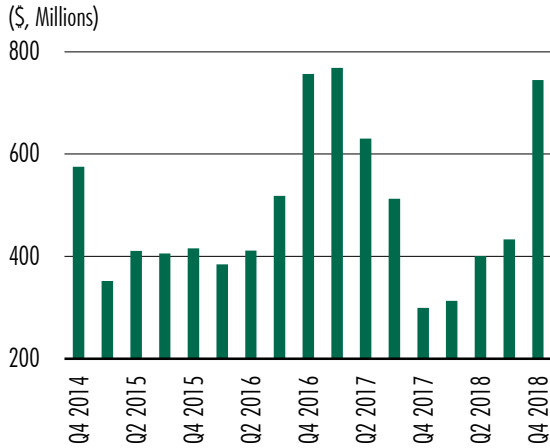
|                  |                                      | Q1 2018    | Q2 2018    | Q3 2018    | Q4 2018    | 2018       |
|------------------|--------------------------------------|------------|------------|------------|------------|------------|
| NORTHWEST        | Absorption (Net, SF)                 | 442,414    | 20,718     | 45,044     | 255,058    | 762,234    |
|                  | Avg. Asking Rent (Annual,NNN, \$/SF) | 12.70      | 25.00      | 25.50      | 26.00      | 26.00      |
|                  | Under Construction (SF)              | 66,286     | 511,626    | 607,539    | 566,564    | 566,564    |
|                  | Rentable Building Area (RBA)         | 32,576,539 | 32,485,187 | 32,616,589 | 32,946,476 | 32,946,476 |
|                  | Occupancy Rate (%)                   | 96.4       | 96.4       | 95.9       | 96         | 96         |
| SOUTH            | Absorption (Net, SF)                 | 16,111     | 5,468      | -51,939    | -6,755     | -37,115    |
|                  | Avg. Asking Rent (Annual,NNN, \$/SF) | 13.48      | 20.00      | 21.00      | 21.00      | 21.00      |
|                  | Under Construction (SF)              | 144,565    | 10,690     | 23,990     | 13,300     | 13,300     |
|                  | Rentable Building Area (RBA)         | 9,752,017  | 9,731,673  | 9,828,076  | 10,024,099 | 10,024,099 |
|                  | Occupancy Rate (%)                   | 96.3       | 96.9       | 96.8       | 96.7       | 96.7       |
| NORTHEAST        | Absorption (Net, SF)                 | -28,950    | 36,896     | -103,357   | -23,490    | -118,901   |
|                  | Avg. Asking Rent (Annual,NNN, \$/SF) | 11.99      | 25.00      | 25.50      | 26.00      | 26.00      |
|                  | Under Construction (SF)              | -          | -          | 707,344    | 707,344    | 707,344    |
|                  | Rentable Building Area (RBA)         | 11,835,255 | 11,876,662 | 11,923,703 | 11,912,550 | 11,912,550 |
|                  | Occupancy Rate (%)                   | 94.5       | 94.9       | 92.9       | 92.8       | 92.8       |
| GUADALUPE COUNTY | Absorption (Net, SF)                 | 39,860     | -6,554     | -20,802    | 12,976     | 25,480     |
|                  | Avg. Asking Rent (Annual,NNN, \$/SF) | 6.20       | 13.08      | 13.50      | 13.50      | 13.50      |
|                  | Under Construction (SF)              | 16,000     | 103,000    | 182,957    | 202,957    | 202,957    |
|                  | Rentable Building Area (RBA)         | 3,182,104  | 3,206,509  | 3,250,078  | 3,279,725  | 3,279,725  |
|                  | Occupancy Rate (%)                   | 95.2       | 95.0       | 95.7       | 97.9       | 97.9       |
| BANDERA COUNTY   | Absorption (Net, SF)                 | -          | -          | -          | -          | -          |
|                  | Avg. Asking Rent (Annual,NNN, \$/SF) | 11.48      | 17.09      | 18.00      | 18.00      | 18.00      |
|                  | Under Construction (SF)              | -          | -          | -          | -          | -          |
|                  | Rentable Building Area (RBA)         | 168,086    | 168,086    | 168,086    | 185,286    | 185,286    |
|                  | Occupancy Rate (%)                   | 100.0      | 100.0      | 100.0      | 100.0      | 100.0      |

**SAN ANTONIO TOTAL**

|                                      |            |            |            |            |            |
|--------------------------------------|------------|------------|------------|------------|------------|
| Absorption (Net, SF)                 | 444,855    | 90,265     | -25,451    | 178,611    | 688,280    |
| Avg. Asking Rent (Annual,NNN, \$/SF) | 14.97      | 23.33      | 23.88      | 24.08      | 24.08      |
| Under Construction (SF)              | 419,147    | 848,169    | 1,658,352  | 1,588,172  | 1,588,172  |
| Rentable Building Area (RBA)         | 91,182,432 | 91,091,295 | 91,604,419 | 92,233,769 | 92,233,769 |
| Occupancy Rate (%)                   | 95.7       | 95.9       | 95.6       | 95.5       | 95.5       |

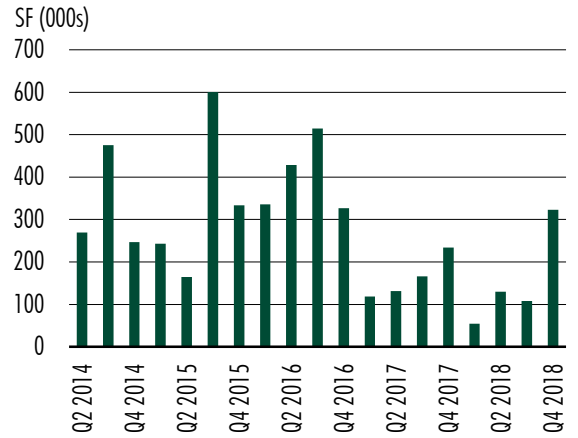
The spike in rental rates reflects the improved tracking of higher quality assets in the dataset. This includes converting base data from CBRE Research Third Party information service providers.

Figure 3: Retail Investment Sales Volume



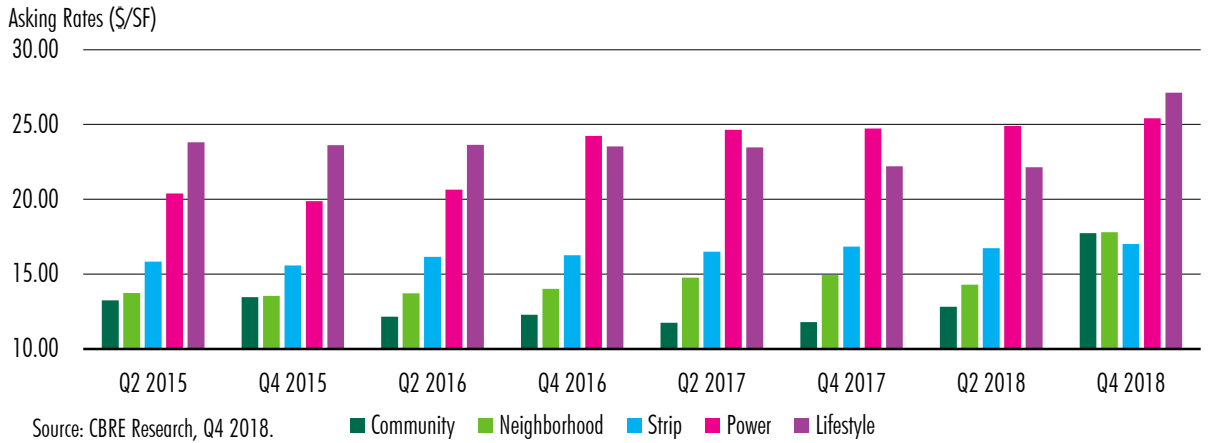
Source: Real Capital Analytics, Q4 2018

Figure 4: Deliveries



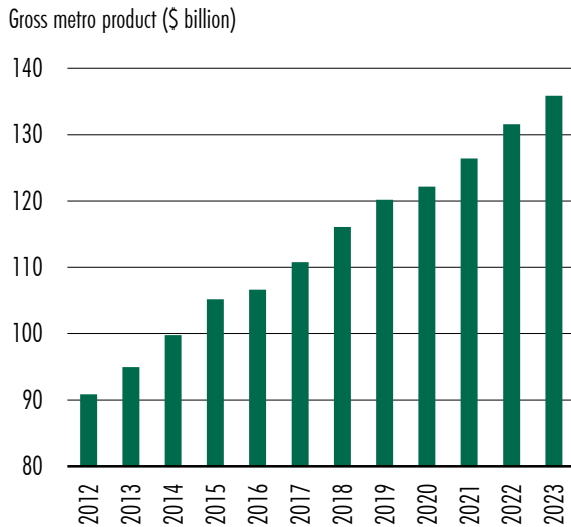
Source: CBRE Research, Q4 2018.

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



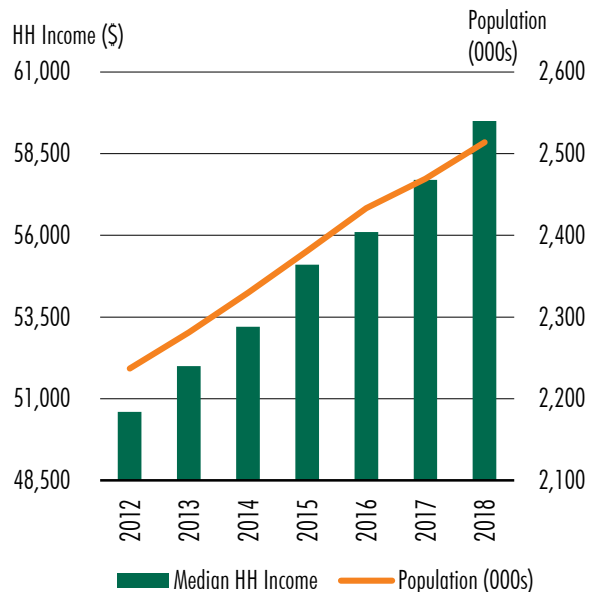
Source: CBRE Research, Q4 2018.

Figure 6: Gross Metro Product



Source: Bureau of Labor Statistics, Q4 2018.

Figure 7: Population Growth and Purchasing Power



Source: Moody's Analytics, Q4 2018.



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

**CONTACTS**

**Paige Suvalsky**  
*Research Analyst*  
 paige.suvalsky@cbre.com

**E. Michelle Miller**  
*Research Operations Manager*  
 michelle.miller@cbre.com

**CBRE OFFICES**

**CBRE San Antonio**  
 200 Concord Plaza Drive, Suite 800  
 San Antonio, TX 78216

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