

Austin Retail Market Report

Marcus & Millichap

Supply Growth Resuming in Austin; Competition for Tenants Expected to Intensify

The prospect of a shallow economic downturn has restored developer optimism in Austin, resulting in a leap in supply this year that will hamper property operations in older assets. Although anchors are in place at most new developments, including the 500,000-square foot Domain II, lenders continue to show restraint when considering small-business loans, limiting owners' ability to fill in-line space. Consequently, operators will slash small-space rents aggressively to attract users, a competition that ultimately will favor new properties with traffic-generating retailers. As a result, vacancy in older and unanchored retail centers will balloon above the metro average. Multi-tenant buildings in core areas where multi-family development has increased population density will be exceptions, as re-tenanting space is less of a concern. In the single-tenant sector, retailer churn will be more significant in 2010 due to tenant bankruptcies, though steady demand from local businesses and franchisees should keep vacancy in the segment relatively stable.

Sidelined investors with capital are poised to re-enter the retail market, although significant activity is not anticipated until mid-2010, when a pricing floor will emerge. In the first six months of the year, multi-tenant deal flow will be driven by traditional factors that compel owners to divest properties. Valuations will be determined by tenant mix, area demographics and asset positioning, while cap rates will push above 10 percent. As price clarity materializes and more retail centers are foreclosed upon, REITs and savvy local buyers will re-enter the market to target grocery-anchored listings, generating an intense bidding climate for these assets. As a result, these properties will trade at cap rates as much as 200 basis points below the metro average. Single-tenant assets, meanwhile, are anticipated to attract

out-of-state and institutional buyers this year, with first-year yields in the segment expected to rise into the mid- to high 8 percent range.

2010 Market Outlook

• **2010 NRI Rank:** 11, Down 4 Places. Robust construction will offset strong demand drivers in Austin, causing the metro to slip four places in this year's index.

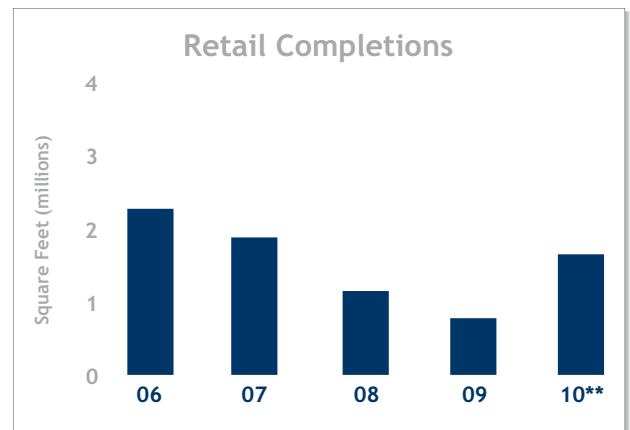
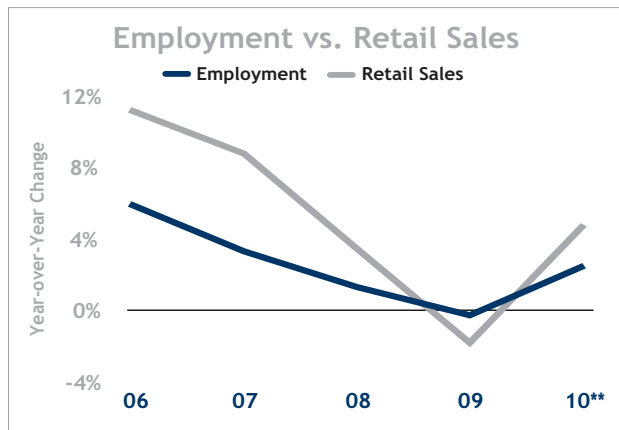
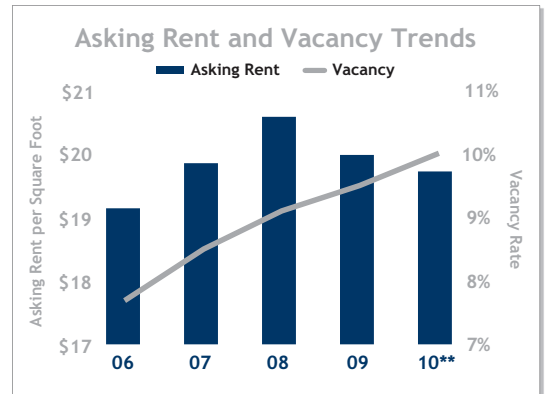
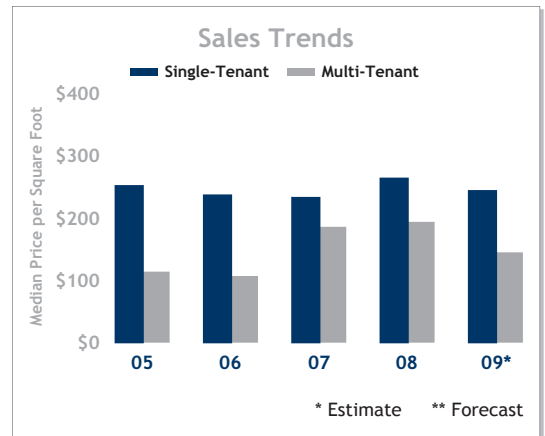
• **Employment Forecast:** Employers will increase payrolls by 2.5 percent, or 19,100 jobs, in 2010. Last year, 2,200 positions were cut in the metro.

• **Construction Forecast:** Developers are projected to add 1.6 million square feet of retail space to the market this year, more than double deliveries in 2009.

• **Vacancy Forecast:** After a 40 basis point rise last year, vacancy is expected to push up 50 basis points to 10 percent by year-end 2010.

• **Rent Forecast:** In 2010, asking rents are forecast to retreat 1.3 percent to \$19.68 per square foot, while effective rents will slip 4.1 percent to \$17.12 per square foot.

• **Investment Forecast:** Tight credit markets could encourage some local single-tenant operators to sell holdings in an effort to raise capital and expand to new locations in the coming months.



Market Forecast Employment: 2.5% ▲ Construction: 119% ▲ Vacancy: 50 bps ▲ Asking Rents: 1.3% ▼