

San Antonio Retail Market Report

Marcus & Millichap

Healthiest Employment Market in the Nation Attracting Retailers

While the effects of the recession will continue to impact the San Antonio retail market, some fiscally sound companies are using current conditions to enact expansion plans. IHOP, H-E-B, LongHorn Steakhouse and Five Guys Burgers & Fries all are set to take advantage of newly available prime locations and strong employment and household growth to open stores throughout the metro this year. Although these additions will mitigate a rise in vacancy, the supply/demand imbalance will persist due to years of aggressive completions, especially in the northern submarkets, where developers followed residential expansion. Household growth has slowed, however, which will delay leasing activity in these areas. In the South submarket, modest new supply and high population density will attract mainly necessity-based retailers, keeping vacancy low and allowing owners to raise rents before some of their northern San Antonio counterparts.

Local investors are expected to build on the increase in transaction velocity that emerged in late 2009, targeting multi-tenant assets held by out-of-state owners. Most deals made in early 2010 will involve distressed properties that are overleveraged or poorly managed, especially in the Northeast submarket, where speculative strip-center development was robust over the past four years and out-of-state buyers purchased at peak valuations. Cap rates for these assets will likely climb to the low-10 percent range in 2010. As retail operations and economic conditions stabilize in the second half, syndicate capital will begin to flow into the market, seeking top-tier properties where cap rates may break 9 percent. Activity from out-of-state and regional buyers will be minimal this year and focused on single-tenant assets; cap rates for these properties should remain stable in the high-7 percent to mid-8 percent range.

2010 Market Outlook

• **2010 NRI Rank:** 17, Down 6 Places. Despite healthy hiring and retail sales growth, still-rising vacancy drove down the San Antonio market six spots in the ranking.

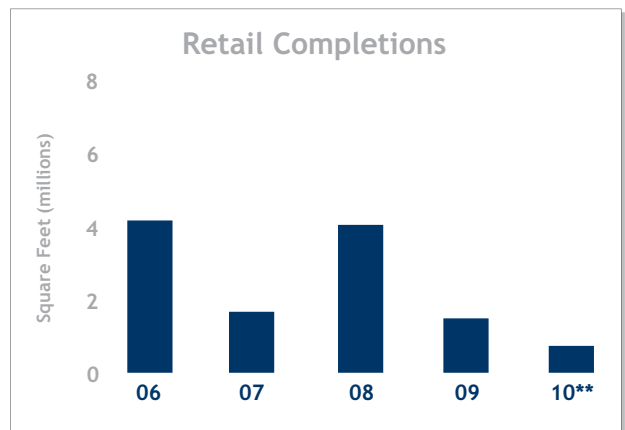
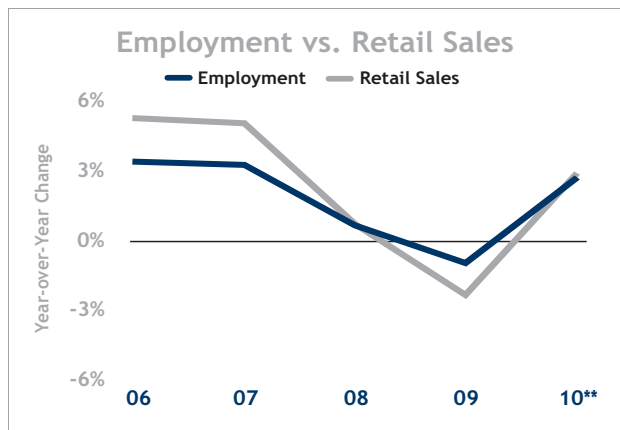
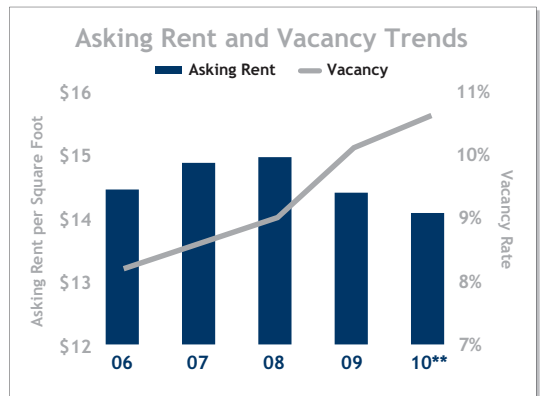
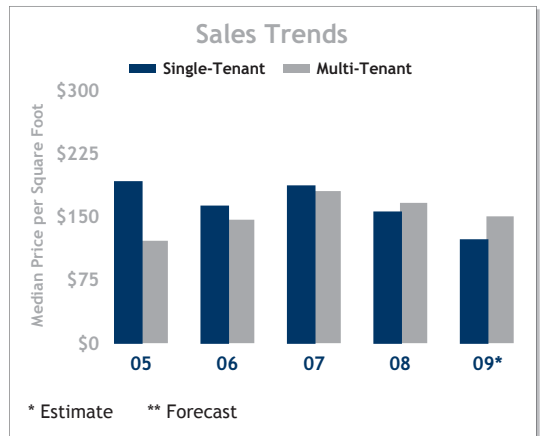
• **Employment Forecast:** With 22,000 jobs expected to be added this year, payrolls will swell by 2.6 percent, one of the healthiest increases in the nation. In 2009, local head counts contracted by 1 percent.

• **Construction Forecast:** Metrowide retail inventory is on pace to expand by 650,000 square feet, or 0.8 percent, in 2010, nearly 60 percent of which is located in the Northwest submarket.

• **Vacancy Forecast:** Vacancy is forecast to end this year at 10.6 percent, up 50 basis points from 2009, when vacancy spiked 110 basis points.

• **Rent Forecast:** Asking rents are expected to average \$14.03 per square foot at the close of 2010, while effective rents will slip to \$12.02 per square foot, annual declines of 2.2 percent and 4.5 percent, respectively.

• **Investment Forecast:** Toyota will hire 850 workers by February 2010 for its truck plant in the South submarket, a move that will likely draw suppliers and support positions. As a result, space demand from retailers around the plant will increase, strengthening conditions.



Market Forecast

Employment: 2.6% ▲

Construction: 54% ▼

Vacancy: 50 bps ▲

Asking Rents: 2.2% ▼