

Austin Retail, Q3 2017

Retailers flock to new product amidst tight Class A occupancy

Occupancy **96.2%**

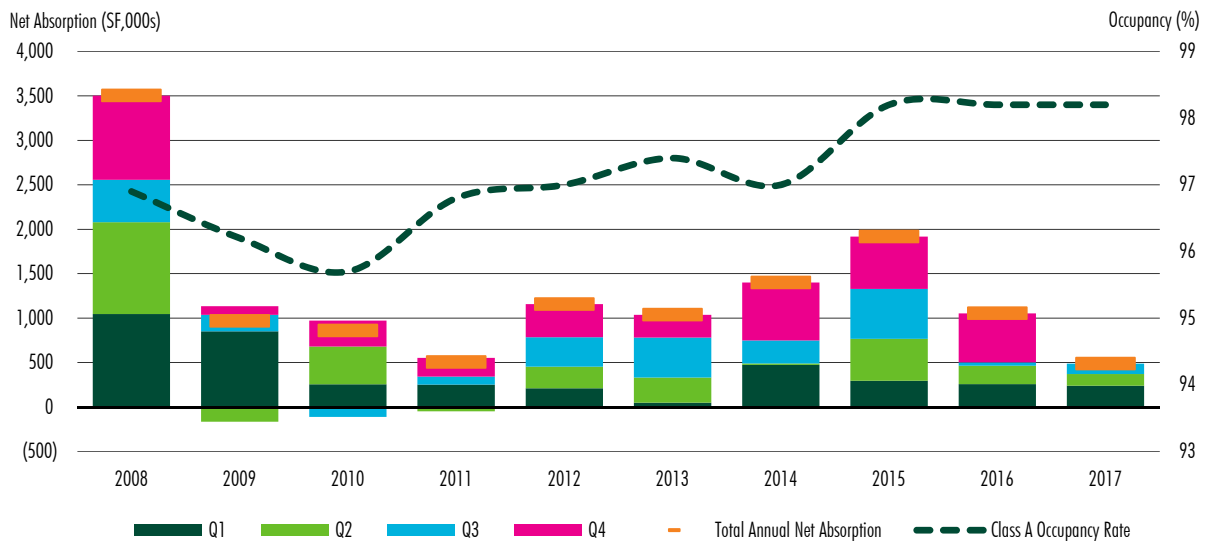
Under Construction **935,354 SF**

Avg. Asking Rate **\$22.49 PSF**

Net Absorption **116,119 SF**

*Arrows indicate trend from previous quarter.

Figure 1: Net Absorption and Class A Occupancy



Source: CBRE Research, Q3 2017.

BALANCING ACT: BIG BOX CLOSURES AND NEW PRODUCT SPLIT NET ABSORPTION

Like the rest of the nation, Austin retail has had to face a shift in retailers with several big box occupiers closing this year. As a result, absorption levels are lower than last year despite stable demand and high occupancy rates with a handful of big box closures including Bealls, Hastings, Gander Mountain, and Office Max were a drag on net absorption in Q3 2017 for a total of 88,000 sq. ft. of negative absorption. However, high demand for new space led to 64,000 sq. ft. of activity in new product alone offsetting the closures and bringing the total net absorption to 116,000 sq. ft.

Class A occupancy has been extremely tight for over two years and currently sits at 98.1%. The

limited availability has forced tenants into new retail developments. Retailers aren't just on the search for Class A space, overall occupancy is high as well at 96.2%—the highest retail occupancy in Texas.

CONSTRUCTION ACTIVITY CONTINUES TO INCREASE

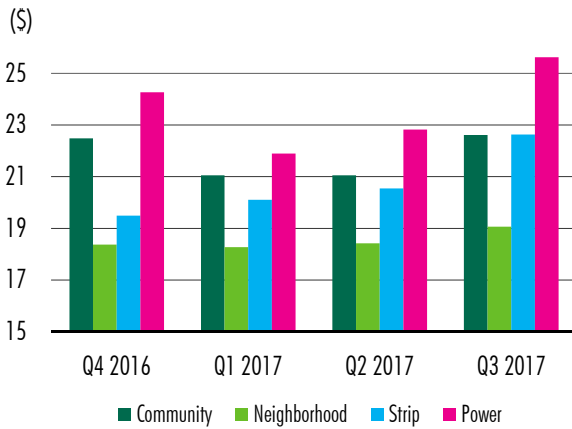
The Austin retail development pipeline continues to deepen reaching construction activity on par with 2013 levels. While the majority of development is smaller strip centers, 64% of sq. ft. underway is in four main projects. The largest developments are both mixed-use projects including Plaza Saltillo in East Downtown and Belterra Village in West Austin/Dripping Springs. Both developments follow national trends of focusing heavily on entertainment and restaurant to create an experience for consumers.

Figure 2: Market Snapshot

Market	Number of Centers	Net Rentable Area (SF)	Vacancy (%)	Asking Rate, NNN Avg. Annual (\$/SF)	Under Construction (SF)	Delivered Construction (SF)	Q3 2017 Net Absorption (SF)
Bastrop County	73	2,293,356	2.9	21.79	0	0	1,749
Caldwell County	17	449,337	2.9	12.50	0	0	0
CBD	63	1,820,166	1.5	26.25	0	0	10,059
Cedar Park	158	7,177,235	4.0	25.36	0	11,200	14,263
Central	184	6,257,830	5.1	21.53	0	0	(22,032)
East	85	2,975,333	1.9	22.00	260,000	13,000	18,577
Far Northeast	80	2,618,156	3.7	19.32	0	12,000	(29,002)
Far Northwest	83	3,403,560	9.8	22.22	0	0	(9,749)
Georgetown	143	4,855,456	5.1	16.92	77,050	0	27,967
Hays County	195	7,547,355	2.3	24.90	263,800	0	14,175
North	157	6,401,585	2.9	20.73	13,650	0	3,791
Northeast	60	2,513,511	6.4	19.73	23,800	0	17,203
Northwest	121	4,584,565	4.1	26.91	17,600	19,000	27,068
Round Rock	163	6,734,598	5.4	23.65	170,900	16,000	10,312
South	225	9,369,887	3.1	23.75	16,000	0	4,858
Southeast	54	2,099,059	1.0	24.17	48,700	11,050	5,553
Southwest	186	7,879,907	2.0	26.26	43,854	14,200	19,379
West Central	33	686,618	0.7	25.00	0	0	1,948
Austin Total	2,080	79,667,514	3.8	22.49	935,354	96,450	116,119

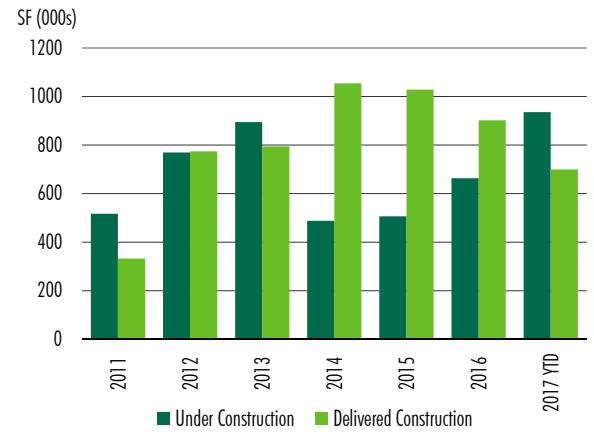
Source: CBRE Research, Q3 2017.

Figure 3: Asking Annual Rents, NNN Avg.



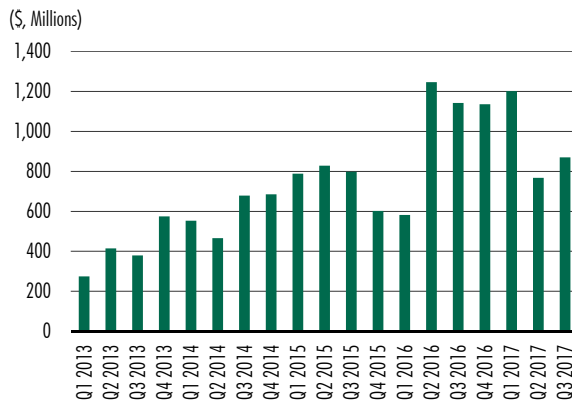
Source: CBRE Research, Q3 2017.

Figure 4: Construction



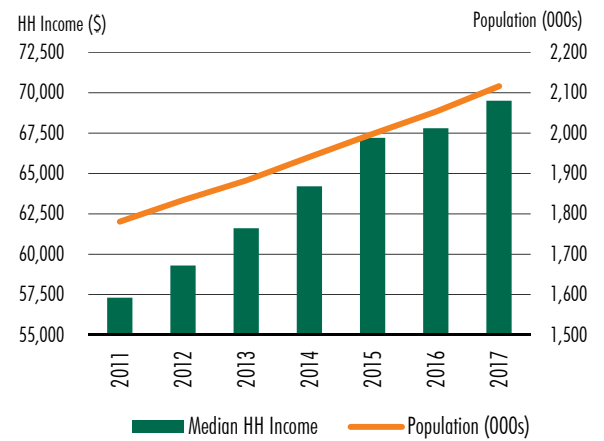
Source: CBRE Research, Q3 2017.

Figure 5: Retail Investment Sales Volume



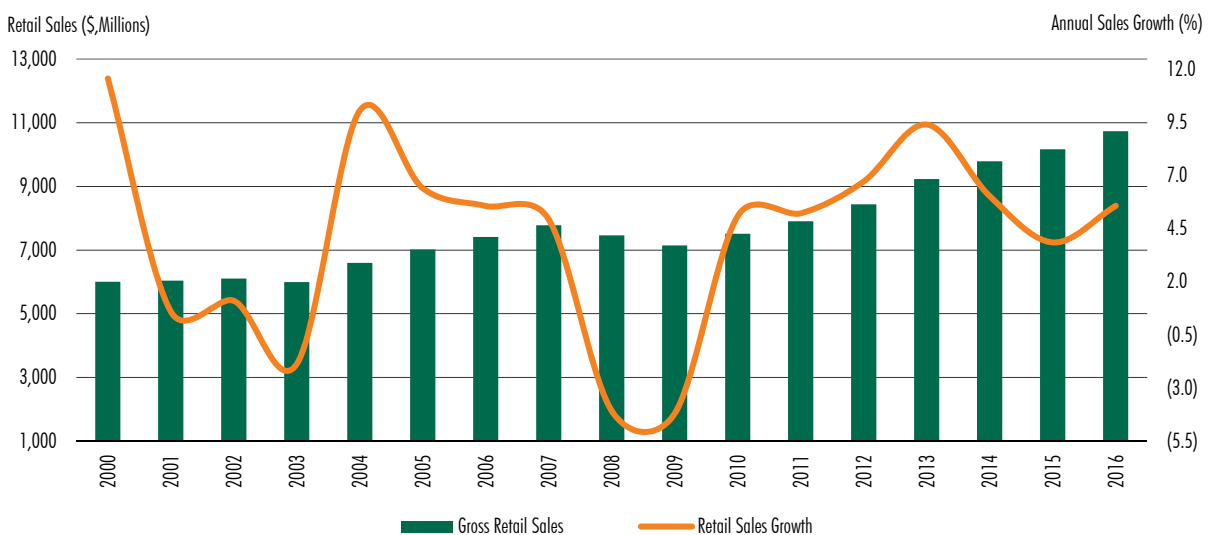
Source: Real Capital Analytics, Q3 2017.

Figure 6: Population Growth and Purchasing Power

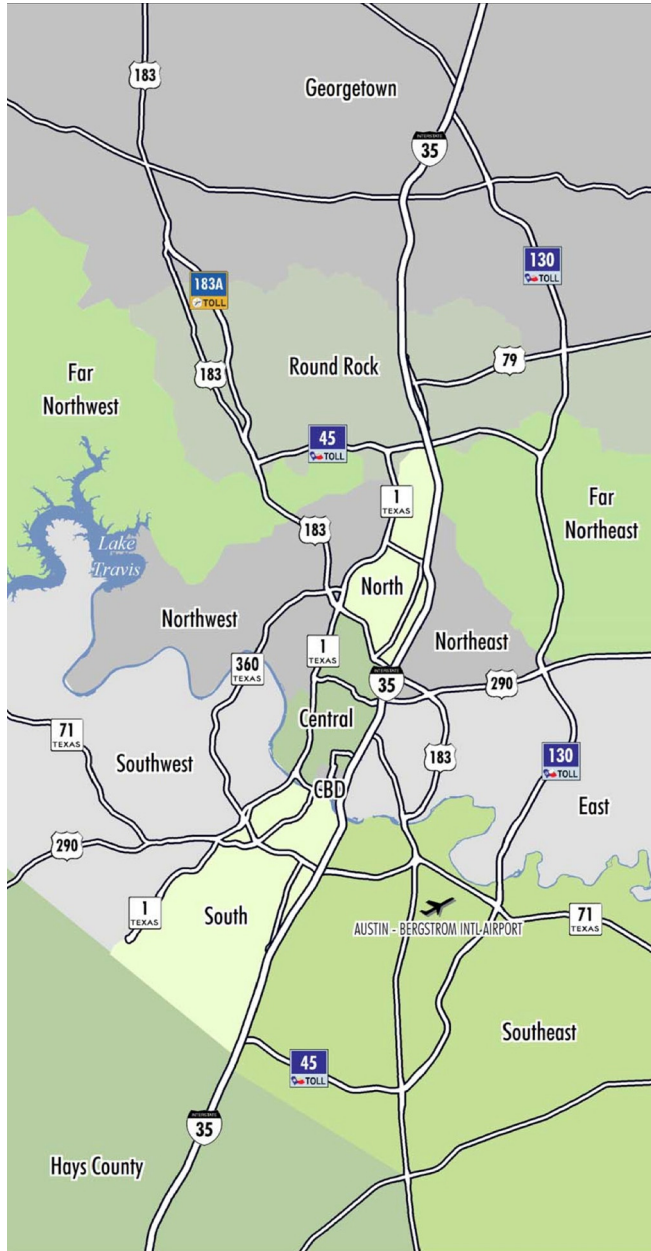


Source Moody's Analytics, Q3 2017.

Figure 7: Austin MSA Retail Sales



Source: Texas Comptroller of Public Accounts, Federal Reserve Bank of Dallas, Q3 2017.



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Austin Retail, Q2 2017

Strong fundamentals fuel growing development pipeline

Occupancy **96.3%**

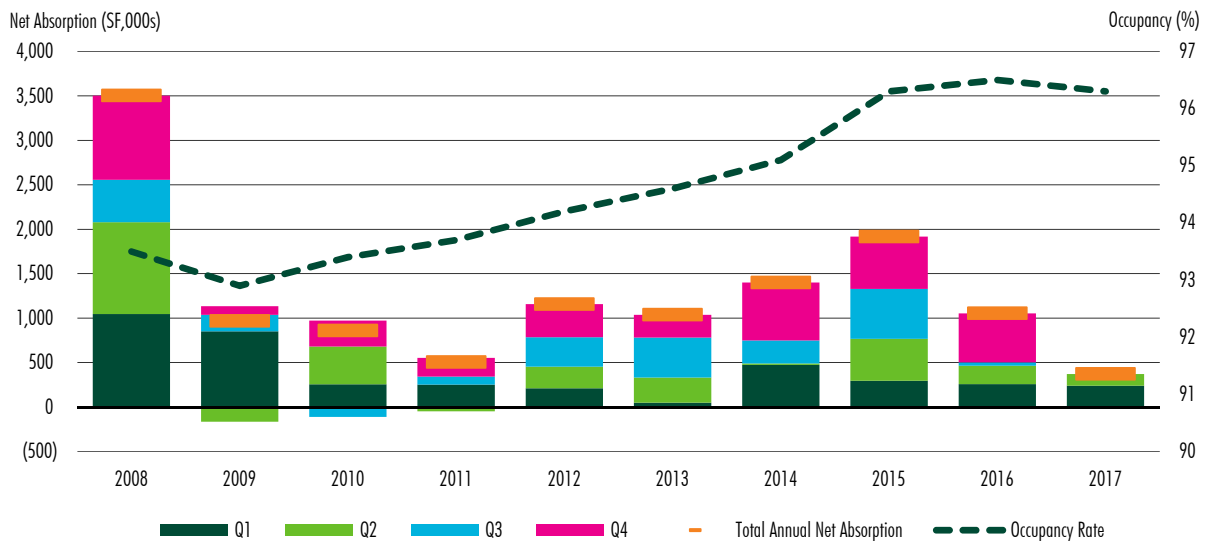
Under Construction **896,004 SF**

Avg. Asking Rate **\$21.94 PSF**

Net Absorption **132,360 SF**

*Arrows indicate trend from previous quarter.

Figure 1: Net Absorption and Market Occupancy



Source: CBRE Research, Q2 2017.

STEADY DEMAND CONTINUES FROM BIG BOX EXPANSIONS

Austin retail demand remained strong throughout the first half of 2017, absorbing 372,000 sq. ft. Big box retailers including Austin Couch Potato, Petco, and Rooms to Go all occupied large blocks in Q2 2017 contributing to positive net absorption in the Central, Northwest, and Far Northeast submarkets. As a result, occupancy increased 10 basis points quarter-over-quarter and sits well above the 10-year average of 94.4%.

These healthy fundamentals have spurred more construction activity, which hasn't been this elevated since 2013. The majority of recent development activity is strip centers and second phases of larger projects. The largest

concentration of construction is in Round Rock with eight projects totaling 217,000 sq. ft. The largest projects are both mixed-use developments including Plaza Saltillo in East Downtown and Belterra Village in West Austin/Dripping Springs. Both developments are focusing heavily on entertainment and restaurant tenants.

POPULATION GAINS TRANSLATE INTO GROWING RETAIL SALES

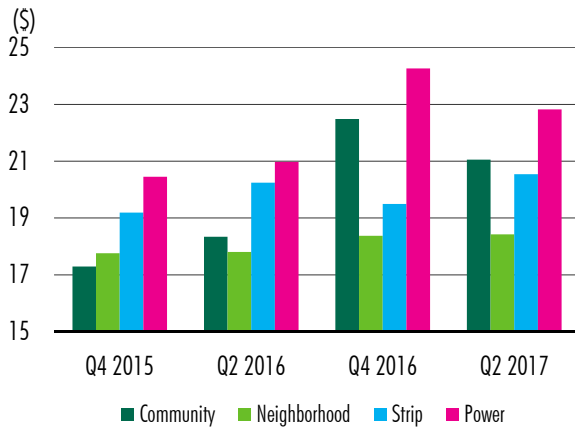
Austin saw some of the fastest population gains in the nation from 2015 to 2016 which has helped boost spending. Austin gross retail sales have steadily increased since 2010, and, 2016 sales growth increased by 5.6%, according to data released from the Texas Comptroller. Continued healthy consumer spending will further sustain Austin's stable retail demand.

Figure 2: Market Snapshot

Market	Number of Centers	Net Rentable Area (SF)	Vacancy (%)	Asking Rate, NNN Avg. Annual (\$/SF)	Under Construction (SF)	Delivered Construction (SF)	Q2 2017 Net Absorption (SF)
Bastrop County	75	2,795,693	1.9	21.01	0	0	11,623
Caldwell County	17	628,209	3.2	12.51	0	0	0
CBD	64	1,846,167	4.0	26.24	0	0	(6,487)
Cedar Park	153	7,145,523	3.6	25.58	11,200	0	(871)
Central	186	6,672,114	3.7	21.75	0	0	5,812
East	90	3,237,409	2.2	22.00	125,000	0	(6,684)
Far Northeast	77	3,406,905	6.5	18.08	12,000	60,150	62,965
Far Northwest	83	3,199,982	2.7	18.72	0	0	22,494
Georgetown	146	5,182,767	3.8	16.04	125,050	45,000	12,418
Hays County	195	6,964,522	3.7	22.78	251,800	0	37,785
North	157	5,770,765	2.9	20.03	0	0	(28,878)
Northeast	61	2,244,219	4.0	17.41	11,000	0	19,415
Northwest	120	5,612,891	5.2	22.83	19,000	0	46,387
Round Rock	159	5,651,591	3.0	23.07	217,327	24,244	9,935
South	226	8,167,514	4.3	28.17	16,000	0	11,643
Southeast	54	1,953,586	6.8	24.11	59,750	0	(3,037)
Southwest	184	7,974,040	3.1	26.04	47,877	10,021	(59,166)
West Central	34	860,428	2.7	29.75	0	0	(2,994)
Austin Total	2,081	79,314,325	3.7	21.94	896,004	139,415	132,360

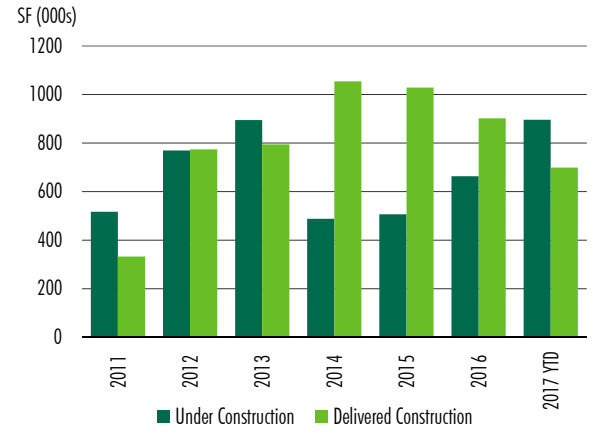
Source: CBRE Research, Q2 2017.

Figure 3: Asking Annual Rents, NNN Avg.



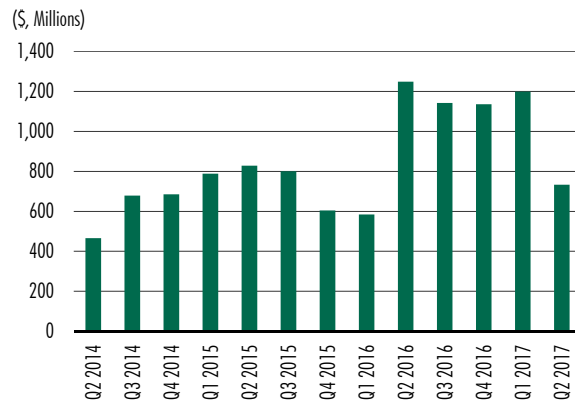
Source: CBRE Research, Q2 2017.

Figure 4: Construction



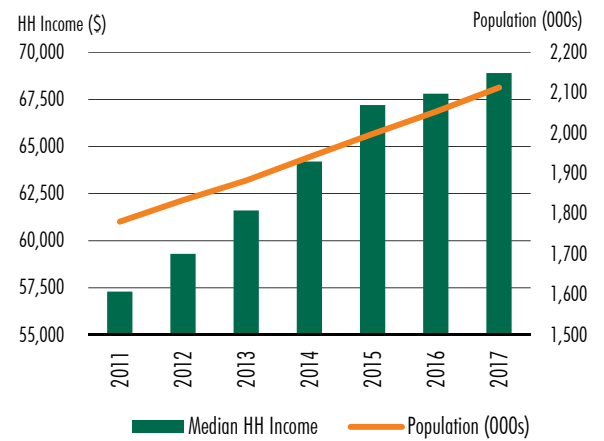
Source: CBRE Research, Q2 2017.

Figure 5: Retail Investment Sales Volume



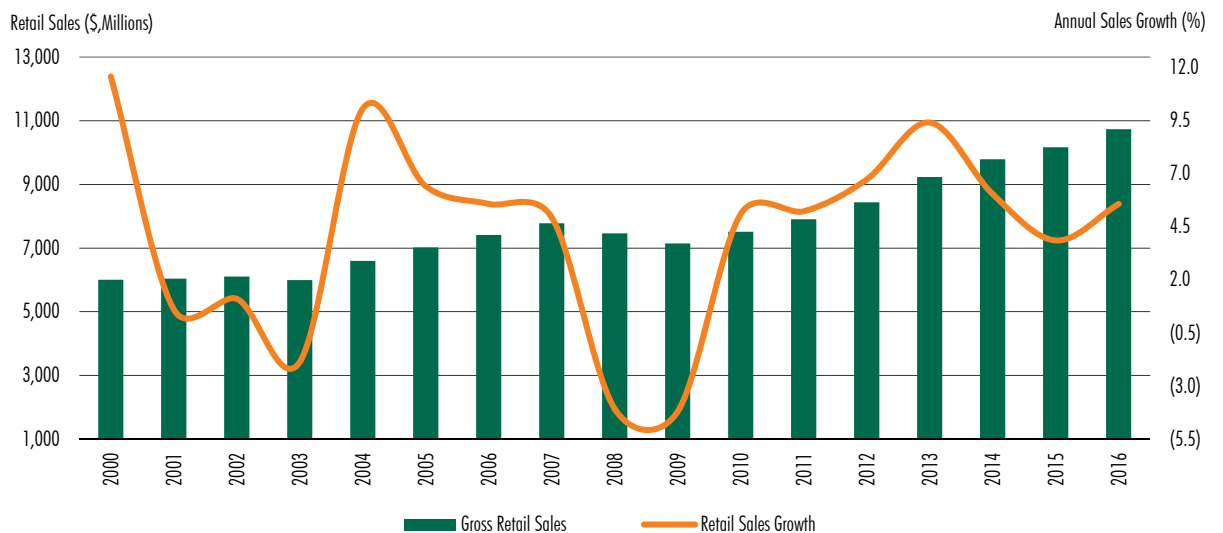
Source: Real Capital Analytics, Q2 2017.

Figure 6: Population Growth and Purchasing Power

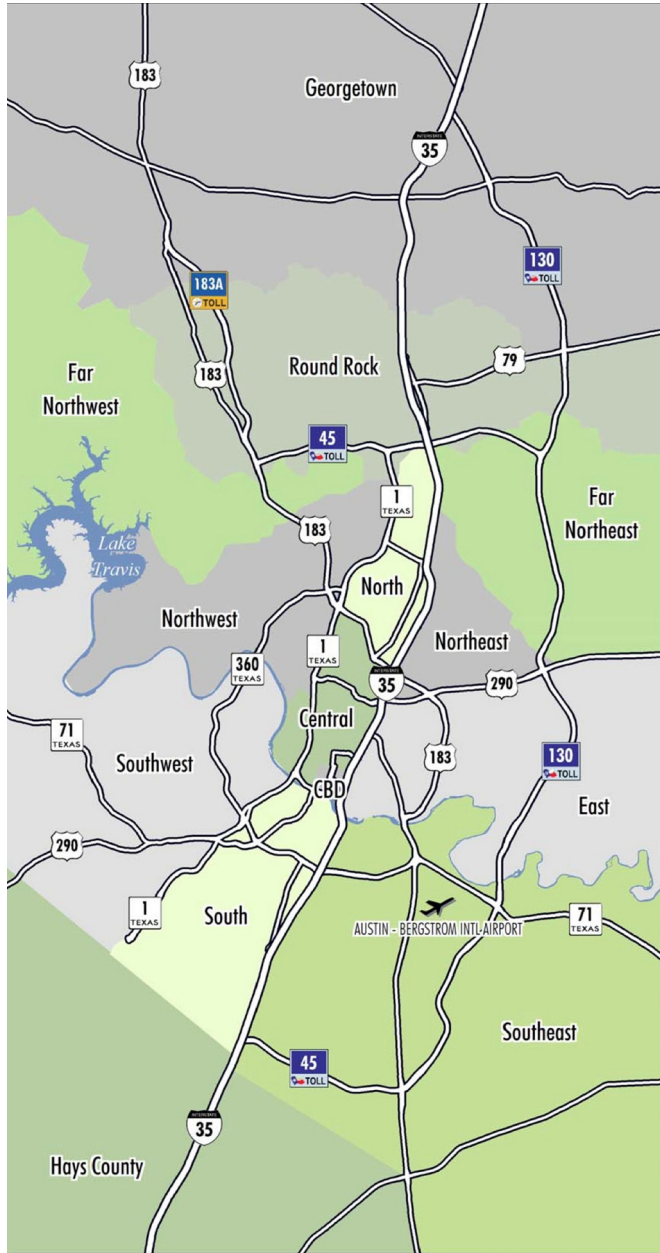


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