

AUSTIN RETAIL MARKET

2016 Year-End Summary



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The retail market has continued its strong performance over the past six months, with overall occupancy remaining unchanged at 95.4% between June 2016 and December 2016, while 780,921 square feet were added to the inventory. Within the same time span, citywide absorption was a positive 717,655 square feet. While the occupancy rate remained high and unchanged, the average rental rates for *vacant* space increased \$1.33 per sq. ft., from \$23.16 in June 2016 to \$24.49 in December 2016. This average rate increase reflects the higher average rates for new centers, and increased rates for older retail centers.

Construction activity remained steady in the second half of 2016, as four projects delivered new space. These four shopping centers include Domain Northside (525,000 sq. ft.), HEB Plus Gattis School Road (151,721 sq. ft.), Crystal Falls Town Center (93,000 sq. ft.), and Cypress Creek Plaza Building A (11,200 sq. ft.).

Positive absorption occurred in nine of the thirteen market areas. The highest rate of absorption occurred in the Northwest market area (332,961 sq. ft.) followed by the Round Rock market area (229,157 sq. ft.), and the South Central market area (61,131 sq. ft.). The Georgetown, North Central/Pflugerville, and Northwest/183 market areas experienced small amounts of negative absorption, while East remained unchanged.

As noted above, citywide occupancy for multi-tenant shopping center space remained unchanged from 95.4% recorded in June 2016. Regional center occupancy decreased, from 98.4% June 2016 to 96.0% in December 2016. Community center occupancy increased slightly from 96.1% in June to 96.2% in December, neighborhood center occupancy increased from 95.0% to 95.4%, while strip center occupancy increased from 90.8% to 92.6%.

Although overall occupancy remained unchanged since June, at 95.4%, absorption continues to show strength and average rents increased to \$24.49 per square foot.

Average rental rates in the region increased \$1.33 from June 2016, as newly delivered centers are quoting higher rents. Rental rates in new retail spaces are typically \$32.00 to \$40.00 (base rate), or higher, especially in high demand areas such as The Domain and Downtown Austin. Overall, quoted rates increased to \$24.49 due to increased retail sales and demand from tenants looking for new retail space throughout the region.

Market conditions in the Austin MSA continue to be positive. Absorption is strong and rental rates are trending upward. Occupancy remained at 95.4%, as retail sales increased and active leasing in existing centers provided the foundation for strong absorption. New construction continues to deliver at a steady pace, and the “pipeline” of new construction in the Austin area now includes more than 1.1 million sq. ft. of new shopping center space under construction, and over 2.9 million sq. ft. of future shopping center space planned throughout the region. As space currently under construction is brought to the market in 2017, positive absorption will continue. The increase in retail sales should result in higher rents, especially among new anchored shopping centers and mixed-use developments.

