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# AUSTIN

## Austin Retail Market Sees Demand Outpacing Supply as Construction Remains Low

AUSTIN – Austin’s retail market as of year-end 2015 is maintaining its low vacancy rate of only 4 percent, largely because demand for quality space continues to outpace supply.

The 96 percent occupancy rate is one of the highest recorded for the market, which has traditionally maintained healthy occupancy rates in the low-to-mid-90-percent range.

These findings are based on a review of retail market conditions for the greater Austin area as of year-end 2015 by The Weitzman Group and Cencor Realty Services. The market’s occupancy rate is based on an inventory of approximately 47.2 million square feet of multi-tenant retail space in centers with 25,000 square feet or more.

Occupancy remains highest in Central Austin, where density continues to increase due to active mid- and high-rise residential construction. The area also is essentially built out in terms of retail space, creating barriers to entry except through redevelopments.

The suburban markets, such as Cedar Park and Kyle, have also seen occupancy stabilize at healthy levels and are seeing the majority of the new space being built.

While Weitzman/Cencor does not review centers below 25,000 square feet, a number of centers with around 10,000 square feet or so are being built throughout the market. Most open fully leased, but some have issues in terms of mid-block locations or other access problems, which could spell trouble in the long run.



Hopdoddy Burger Bar is one of the many local dining concepts expanding in Austin. A new location in mixed-use project **The Triangle** will open in 2016, joining other local concepts like Maudie’s Tex-Mex.

Retailers leasing existing space and backfilling the few remaining large-format vacancies on the market have further improved the overall healthy occupancy.

**Examples included:**

- **Saks Fifth Avenue Off 5th**, which will open a 50,000-square-foot store – its first in Austin – in spring 2016 at **Gateway Shopping Center**, located at 9607 Research Boulevard. The space previously was a **Star Furniture** store;
- **Goodwill** and **Fitness Connection**, which backfilled a total of approximately 82,000 square feet of vacant anchor space in the **Market at Lake Creek**, a redevelopment project at Lake Creek Parkway and U.S. Highway 183 in northwest Austin. The location will be the first in Austin for **Fitness Connection**, based in North Carolina;
- **EVO Entertainment** and **Gold’s Gym**, which will occupy a total of 76,000 square feet in **The Spot**, the redevelopment of a former **Target**-anchored center in San Marcos. The **Target** had been vacant since 2009;
- **Total Wine**, with a 31,000-square-foot store at 11617 Research Boulevard in Cedar Park and a 28,600-square-foot store at 5601 Brodie Lane in Sunset Valley. The locations are the first for Maryland-based **Total Wine** in the Austin market;

- **Mega Furniture**, a Phoenix-based concept, which entered the market with two stores in 2015: a 31,736-square-foot store at 13945 Research Boulevard near **Lakeline Mall**, and a 29,000-square-foot store at 12611 N. MoPac Boulevard (Loop 1) at Parmer. **Mega Furniture**, founded in 2002, is also entering the San Antonio market;
- **Gold’s Gym**, which opened in approximately 30,000 square feet of existing space at 6th Street and Brazos in downtown Austin;
- **LA Fitness**, which opened a location (approximately 40,000 square feet) in redeveloped retail space at 4001 S. Lamar Boulevard.

Austin also experienced a good level of smaller-format retail and restaurant activity, with many concepts expanding in existing center space.

**New and expanding concepts opening or committing to space during 2015 included:**

- **Shake Shack**, a famed burger joint that opened in **The Domain** and in **Lamar Union**;
- **Pollo Tropical**, which will open a new location in 2016 on IH-35 in Kyle, on a pad site fronting **Lowe’s** and **Walmart**;
- **True Food Kitchen**, which is set to open its first Austin location at 222 West Avenue in Seaholm;
- **In-N-Out Burger**, at the site of a former **Wendy’s** on South Lamar;

Nationwide concept Orangetheory Fitness is expanding in the Austin area, including a new location in Austin’s largest regional power center, **Southpark Meadows**.



- **STK Rebel**, a high-end steakhouse, which is taking 7,000 square feet at 305 East 3rd Street in downtown Austin for a location to open in 2016;
- **World of Beer**, a Florida-based tavern, which opened its first Austin location in a 3,400-square-foot space at 3121 S. Lamar Boulevard;
- **Orangetheory Fitness**, which is entering the market with three locations, including **Southpark Meadows**;
- **Mellow Mushroom**, which located in Round Rock;
- **Panera Bread**, **Five Guys** and **Masala Wok**, which located in Round Rock;
- **Jersey Mike's**, specializing in submarine sandwiches, with several new area locations.

Additionally, the retail market continues to see a high level of activity from Austin-based restaurant favorites. These include:

- **Hopdoddy Burger Bar**, with new leases in Round Rock and at **The Triangle**, a mixed-use project in Central Austin;
- **Jack Allen's Kitchen**, which leased in **San Clemente**, across from **Davenport Village**;

- **VertsKebab**, a locally based chain specializing in döner kebab, with several new locations in 2015;
- **Pinthouse Pizza**, with a location at **Brodie Oaks**;
- **P. Terry's**, with new locations including a 2016 restaurant on Research Boulevard;
- **Torchy's Tacos**, which leased in San Marcos and Lakeway and which is opening a flagship location on South Congress in 2016;
- **Tacodeli**, with locations in Westlake and on Burnet Road;
- **Via 313**, which leased in Oak Hill;
- **Blenders and Bowls**, which leased in Westlake and East Austin;
- **Chi'lantro**, **Barley Swine**, **Buffalina Pizza** and **Lick Ice Creams**, all of which located on Burnet Road.

Other retailers/restaurants that expanded with multiple locations in 2015 and/or have similar plans for 2016 include: **Sway**, **Via 313**, **Moe's Southwestern Grill**, and **Mama Fu's Kitchen**, just to name a few.

For close-in Austin, retail space availability is extremely limited, which is driving up rates for small-shop space into the mid-\$30s-per-square-foot range and higher. In addition to restaurants, space demand is coming from fitness, beauty and discount concepts, and to a lesser extent medical-space users.



Austin Burrrito Company, a new concept offering all-natural ingredients, opened in late 2015 at Bee Cave's **Shops at the Galleria**, joining power and specialty retailers and local concepts like Mandola's Italian Market, Maudie's, Woody's and more.

For calendar-year 2015, the Austin market added approximately 900,000 square feet of space in new and expanded retail projects, a decline from the 1.2 million square feet added in 2014. The 2015 construction remains notably low, especially for a market with such high occupancy. However, other than grocery stores and a handful of other anchors, much of the new retail activity involved redevelopments or backfilled space.

Due to development costs and demand for new space, new-construction small-shop space can go for rates as high as \$40 per square foot per year or more. However, especially in Austin's most urban markets, the density and traffic justifies the rates to retailers.

#### **New projects for 2015 include:**

- **Oaks at Lakeway**, a 175,000-square-foot community center located at RR 620 South and Main Street in Lakeway, which opened a 100,000-square-foot **H-E-B**, as well as additional retail space;
- **Sam's Club**, a warehouse shopping club concept from **Walmart**, with a new approximately 135,000-square-foot location at 10900 Lakeline Mall Drive in Cedar Park;
- **Walmart**, with a 156,000-square-foot **Supercenter** that opened at 5754 Kyle Parkway in Kyle. The location also features small-shop space;
- **H-E-B**, with a 46,000-square-foot store on RR 12 in Wimberley;
- **Bass Pro Shops**, which opened a 120,000-square-foot location at the northeast corner of IH-35 and University Drive in Round Rock, adjacent to the **Round Rock Premium Outlets**;
- **Spare Time Texas**, a 50,000-square-foot indoor entertainment venue, which opened in late 2015 adjacent to **Walmart** at 1724 FM 685 in Pflugerville;
- **Lamar Union**, a mixed-use redevelopment project located on S. Lamar Boulevard, with 86,000 square feet of retail space and 422 apartments. The retail is anchored by **Alamo Drafthouse Cinema** and

includes **The Highball**, New York-based **Shake Shack** and others;

- **Seaholm**, the major residential, office and retail redevelopment of the art deco Seaholm power plant on Lady Bird Lake, with the retail anchored by a 11,500-square-foot **Trader Joe's** that opened during the first half of the year. **Seaholm** is designed to incorporate approximately 48,000 square feet of retail space;
- **Lamar Central**, a four-level mixed-use project at the site of the former Lamar Village Shopping Center on N. Lamar Boulevard at 38th Street. **Lamar Central** features 34,000 square feet of street-level retail space;
- **Burleson Crossing** in Bastrop, which expanded with a 55,000-square-foot **Hobby Lobby**.

#### **Several new projects are in the works for 2016, including:**

- New **H-E-B** grocery stores scheduled to open in locations including Hutto, New Braunfels and on South Congress;
- **High 5**, a 46,000-square-foot entertainment venue with bowling, an arcade, a restaurant and bar and more, which will open in January 2016 at 1502 RR 620 S in the **Oaks at Lakeway** in Lakeway;
- **Harker Heights Plaza**, a planned retail center to join anchor **Walmart Neighborhood Market** at the southwest corner of FM 2410 and Stillhouse Lake Drive in Harker Heights;
- Phase III of **Round Rock Crossing**, a regional center with **Target**, **Gander Mountain**, **Best Buy** and others. The third phase, designed to add as much as 90,000 square feet to the approximately 460,000-square-foot project, is scheduled to start in 2016;
- **Belterra Village**, a power retail project at U.S. Highway 220 at Nutty Brown Road in Dripping Springs. The project, adjacent to a proposed **H-E-B**, is designed for anchor and junior anchor space (such as **Pet Supplies Plus**, **Spec's**), as well

as a cinema, and is set for delivery in 2016;

- **Crystal Falls Town Center**, a community retail center to be anchored by a 59,000-square-foot **Randalls** grocery store. The center, at the southwest corner of Lakeline Boulevard and Crystal Falls Parkway in Leander, will total 94,000 square feet and open in the fourth quarter of 2016;
- The new specialty-retail phase of **The Domain**, called **Rock Rose**, which opens in early 2016 with space for local restaurants and retailers. Also at **The Domain** in 2016, **Nordstrom** will open a 123,000-square-foot luxury department store;
- New fitness facilities, including an **LA Fitness** to open on Slaughter Lane in South Austin and a **Gold's Gym** on FM 1431 in Cedar Park, adjacent to **Randalls**;
- **Aldrich Street**, with new retail planned for the existing space in the town center in the Mueller master-planned community. The retail in the town center, located in Central Austin off of IH-35, is designed with a focus on local concepts and will feature as much as 1.2 million square feet of mixed-use space (which includes an existing museum, apartments and offices). The first announced retail tenant is **Alamo Drafthouse Cinema**, which plans a six-screen theater.

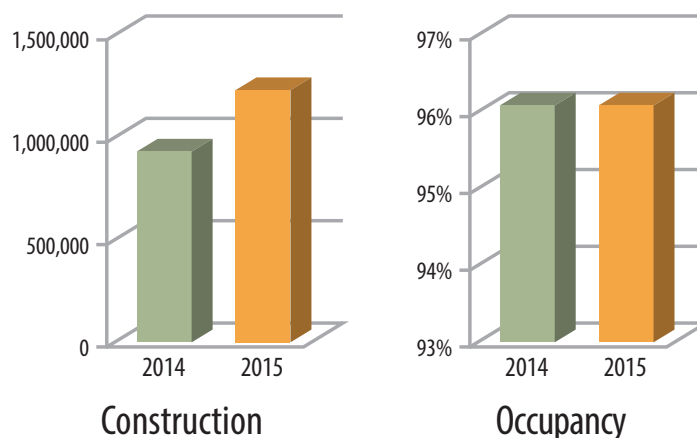
The tight market for well-located Class A retail space is resulting in average rates above \$30 per square foot for shop space in newly constructed projects. For the best-located new-construction projects and existing retail centers, rates have reached the \$40-per-square-foot level.

As Class A space fills up, the resulting demand for Class B and some C spaces has resulted in rental rate increases for select properties in those categories. However, there still remains a significant gap between Class A and other classes of rents.

- For small-shop space in anchored Class A projects, rates range from the mid-\$30s per square foot per year to \$40 per square foot or higher;
- Averages for Class B small-tenant rates are posting from the mid-\$20s to around \$33 per square foot per year;
- Averages for Class C rates for small-tenant in-line spaces typically range from around \$20 to \$24 per square foot, though some Class C rates are in the teens.

For all classes of space, rates can go notably lower or higher than the rates listed above due to factors including anchors, traffic, demographics and location within a center.

## AUSTIN



# AUSTIN MALL MAP

