

01/31/2009 12:00 CST

## Retail vacancy rates up in fourth quarter

[By Creighton A. Welch](#) - Express-News

A record amount of new retail opened in 2008, but supply outpaced demand, driving up the amount of vacant shopping space.

Despite that, rents continued to increase and San Antonio's market has remained more stable than other cities, experts say.

Vacancy rates jumped 2.1 percentage points from 11.1 percent in the fourth quarter of 2007 to 13.2 percent in the fourth quarter of 2008.

The actual amount of vacant space increased 31 percent, from 4.35 million square feet in the fourth quarter of 2007 to 5.7 million square feet in the fourth quarter of 2008.

The increase in vacancy wasn't greatly affected by store closings, although that might become more common this year.

“The trend in 2008 was definitely more retail stores closing than opening, so I'm assuming that the trend is going to continue into 2009,” said Kim Gatley, senior vice president and director of research for NAI REOC Partners, a San Antonio real estate company.

Already this year, Satel's men's clothing announced it would close its Colonnade location. The national electronics store Circuit City, which has three stores in San Antonio and one in New Braunfels, announced this month it will close all its stores. And national clothing store Harold's, which announced in November it would close all its stores, closed its store at the Alamo Quarry this month.

More than 4 million square feet of new retail space was delivered in 2008, but less than 2.7 million square feet was absorbed, according to NAI REOC. Net absorption is the square feet leased in a given time after deducting space vacated during the same period.

“It may seem counterintuitive to develop so much space given the recent barrage of bad news on the national level, including store closures and slumping retail sales,” Gatley said.

But she said market conditions were much stronger when construction began, and that many of these projects were driven by the expansion of large tenants.

For example, H-E-B opened two stores during the fourth quarter that were anchors to larger developments. Stores opened at the Alon Town Centre at Wurzbach Road and Northwest Military Highway and at the Stone Ridge Shopping Center at Evans Road and U.S. 281.

Rents reached \$18.11 per square foot per year in the fourth quarter of 2008, up \$1.02, or 6

percent compared with the fourth quarter of 2007.

There's about 1.6 million square feet of retail space currently under construction, much less than the 4 million square feet that was under way around this time last year.

"I think new ground breakings will probably be delayed, especially on smaller projects," Gatley said. **The retail outlook in San Antonio isn't all gloomy, though.**

**Guyla Sineni, a partner with United Commercial Realty San Antonio who specializes in retail, said she recently surveyed tenants in Alamo Ranch, the 950,000-square-foot retail center on the far West Side, about their holiday sales.**

**"We got some very positive and good results," Sineni said. "I'd say 90 percent of them did better than they expected."**

**She said the biggest challenge for retailers continues to be a lack of funds for operating and opening new stores.**

**"A lot of these new stores are dependent on banks to keep their stores open and operate their stores," Sineni said. "It seems to me that's been a real problem, especially for people trying to open new businesses or expand their businesses."**