

SAN ANTONIO OFFICE | Q1 2022 QUARTERLY MARKET REPORT

San Antonio Office market construction remains consistent.

APRIL 2022

EXECUTIVE SUMMARY

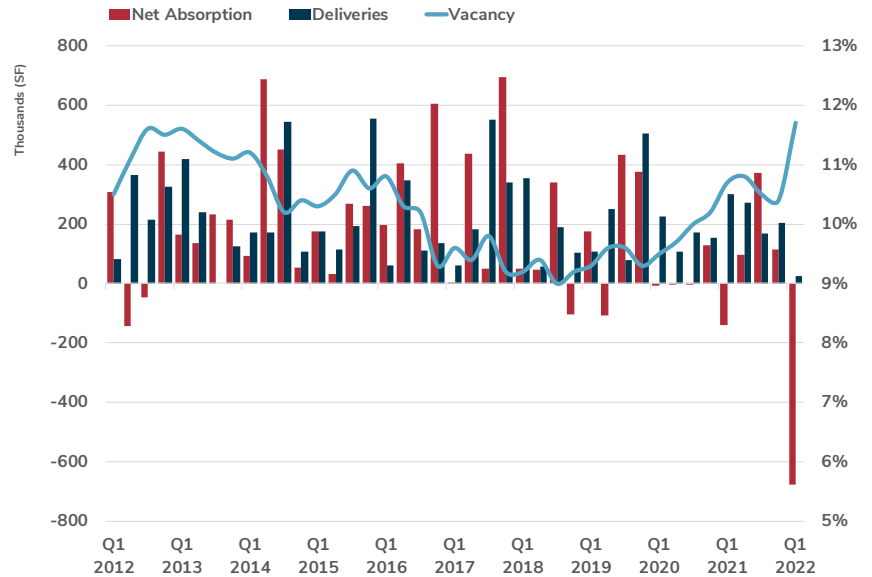
SAN ANTONIO AVAILABILITY AT PEAK RATE

Overall space availability, which includes current, sublease, and future vacancy, is at 15%. The North Central submarket ended Q1 2022 with an availability rate of 19.6%, followed by the CBD at an 18.0% availability rate, and in third place, the Northeast submarket at 14.1%. The difference between this figure and the vacancy rate reflects expected future move-outs. Delivered supply has outpaced demand, represented by net absorption, in all but one quarter (Q3 2021) since Q4 2019. With current projects under construction at 1.4 million sq. ft., and proposed projects estimated at 2.4 million sq. ft. during 2022 and 2023, demand will have to increase for the high availability rate to have an opportunity to decrease gradually.

SAN ANTONIO'S ECONOMY IS MAINLY POSITIVE

The metro's unemployment rate remained stable in February at 4.1%, one of the lowest rates since the start of the pandemic. For comparison, the state's jobless rate fell slightly to 4.7%, and the nation's rate fell to 3.8%. San Antonio's labor force expanded an annualized 7.5% in February, well above Texas' gain of 3.4% and the nation's gain of 2.3%. San Antonio payrolls expanded an annualized 5.5% (14,430 jobs) in the three months ending in January. Among the major sectors, health and education services (13.4%, or 5,269 jobs) led three-month growth, followed closely by leisure and hospitality (12.6%, or 3,954 jobs). Industries that posted contractions the past three months were manufacturing (-8.1%, or 1,082 jobs) and government (-3.3%, or 1,444 jobs). In March and April 2020 combined, 138,332 jobs were lost in the metro as the pandemic hit. As of February 2022, all jobs had been recovered, and employment was 0.3% above pre-pandemic levels.

SUPPLY & DEMAND



MARKET INDICATORS

	CURRENT Q1 2022	PRIOR QUARTER Q4 2021	PRIOR YEAR Q1 2021
Vacant Total	11.7%	10.4% ▲	10.7% ▲
Vacant Direct	10.4%	9.9% ▲	10.2% ▲
Available Total	15.0%	14.6% ▲	14.8% ▲
Available Direct	13.3%	13.5% ▼	13.9% ▼
Net Absorption (SF)	-675,208	112,668 ▼	-141,458 ▼
Leasing Activity (SF)	541,763	912,909 ▼	564,405 ▼
Construction (SF)	1,409,783	1,204,437 ▲	1,322,890 ▲
Deliveries (SF)	194,654	23,886 ▲	249,355 ▼
Avg Asking Rent (Gross)	\$24.56	\$23.86 ▲	\$22.85 ▲
Inventory (SF)	66,143,685	65,949,031 ▲	65,549,537 ▲

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**NET ABSORPTION REGISTERS
NEGATIVE IN Q1**

The San Antonio office market registered a negative 675,208 sq. ft. of net absorption as the disruptions from the Delta and Omicron variants continue to plague some return-to-office policies. In Q4 2021, USAA, which employs 19,000 in San Antonio, announced will sublease portions of its downtown office on Convent Street, approximately 421,000 sq. ft., as the pandemic-era trend toward remote work continues. In addition, over 90,000 sq. ft. was added to the market in The Grant & Kress Building at 305-315 E. Houston Street. The recently redeveloped buildings downtown were listed for sale earlier this year.

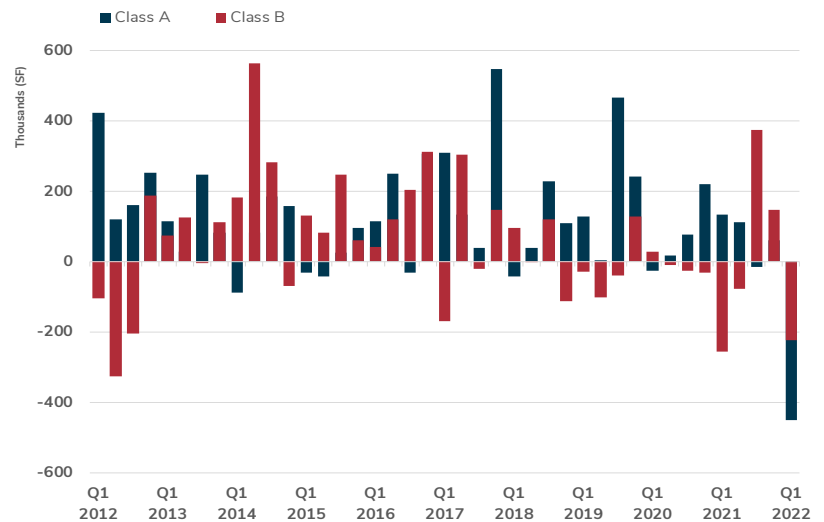
CONSTRUCTION ACTIVITY

San Antonio has 1.4 million sq. ft. underway (70% preleased), representing 2.1% of inventory, on top of the 200,000 sq. ft. that have been delivered so far in 2022. There is 2.4 million sq. ft. of proposed projects that have been announced for 2022 and 2023, although they have yet to break ground. The amount of construction underway and in the pipeline has been, on average, about 1.3 million sq. ft. over the past decade. Of the 12 buildings under construction, the range in size varies from the Jefferson Bank headquarters at 280,000 sq. ft. to medical office buildings ranging from 80,000 sq. ft. to 30,000 sq. ft.

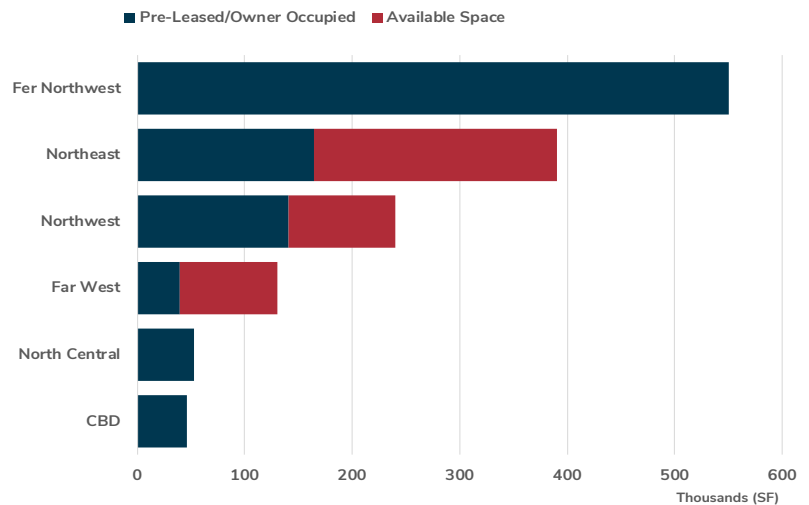
INVESTMENT SALES ACTIVITY

Real Capital Analytics data reports the cumulative monthly sales volume as of Q1 2022 for San Antonio office properties was \$172 million compared to the same time in Q1 2021 at \$59 million, an almost 200% increase. Value and growth — particularly regarding office-using jobs and population — have likely played a major role in investors' eagerness to buy assets there. The San Antonio office market's primary capital composition for buyers in 2022 was made up of 68% private investors and 28% institutional. For sellers, the majority were 45% private investors, 28% institutional, and 28% user/other investors.

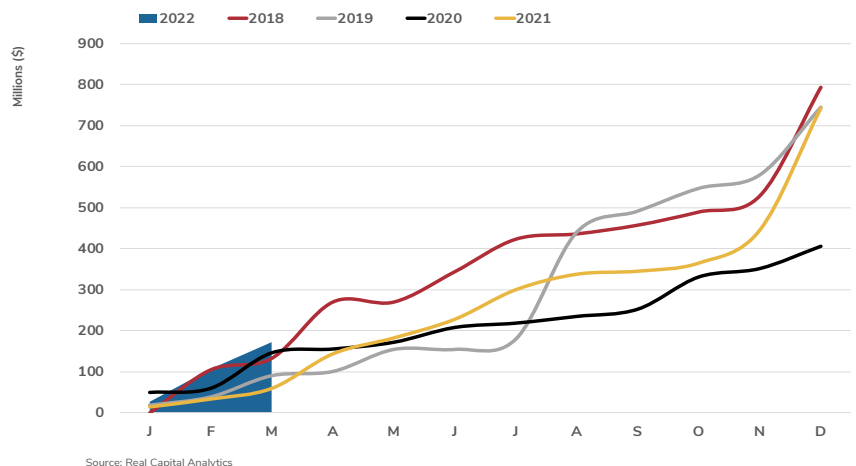
NET ABSORPTION



CONSTRUCTION



CUMULATIVE MONTHLY SALES VOLUME



Source: Real Capital Analytics

LEASING ACTIVITY

Leasing velocity slowed by about 40% quarter-over-quarter, registering 542,000 sq. ft. in Q1 2022 versus 913,000 sq. ft. in Q4 2021. Significant lease transactions so far in 2022 include Spectrum signing a deal for 69,000 sq. ft. of office space at 11826 Tech-Com Suite 100. The property known as the Crosswinds Technology Park is located in the northeast submarket. Also, UT Health leased 20,000 sq. ft. at 5109 Medical Drive. The property is located at South Texas Medical Center, which is in the northwest submarket.

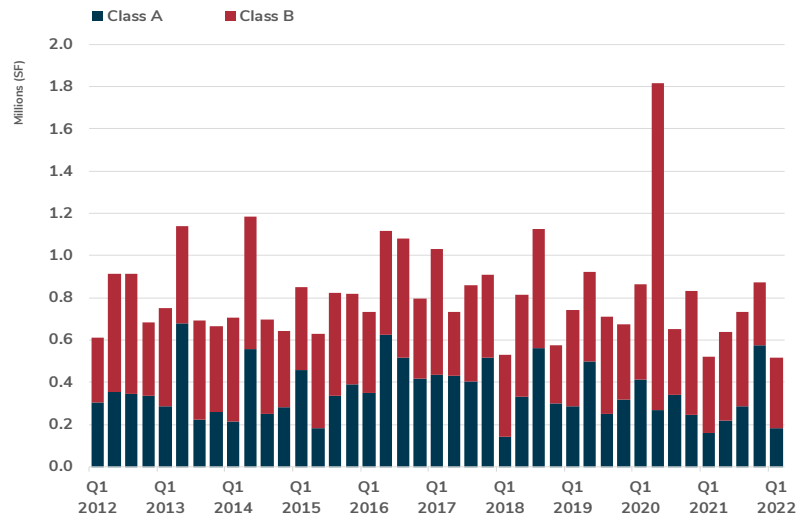
OVERALL VACANCY RATE AT 11.7%

The overall vacancy rate in the San Antonio office market is 11.7%, up 130 basis points quarter over quarter from 10.4% and up 100 basis points year over year from 10.7%. The highest vacancy rate by location and class is the CBD Class A at 29.4% vacancy, followed by the North Central Class A at 19.7%, and the third-highest ranking is the North Central Class B at 17.4%. Home of the Pearl, San Antonio’s premier development, and much of the city’s northern suburbs, North Central San Antonio is a large and bifurcated submarket. The submarket (at least the more suburban areas) could see growth constrained by nearby Northwest San Antonio. Tenants don’t just want a decent building anymore; they want amenities, and it’s difficult to compete with Northwest San Antonio’s lures, including La Cantera, the Rim, and the economic activity that revolves around the University of Texas at San Antonio. The vacancy rate for medical/office space is 14.3%, down from 14.9% in Q4 2021 and down from 16.2% this time last year. The total amount of medical office inventory in San Antonio is 10.1 million sq. ft.

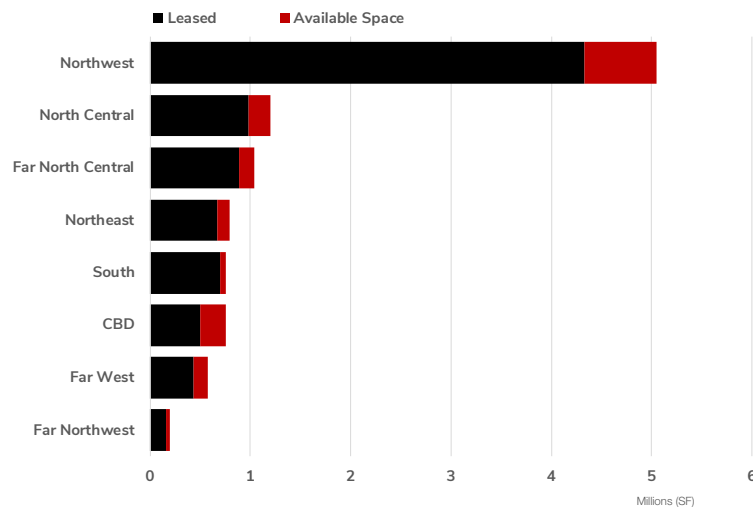
HIGHEST OVERALL ASKING LEASE RATES

Full-service average rates are at \$24.56 per sq. ft., up 7.5% from this time last year, pushing the metro San Antonio office market to its highest overall asking lease rate. Asking rates for Class A space are averaging \$29.30, and Class B is averaging \$21.81 per sq. ft. During the past ten years, average annual rent growth has been somewhat flat at 2.3%, with a peak year in 2019 at 6.5%.

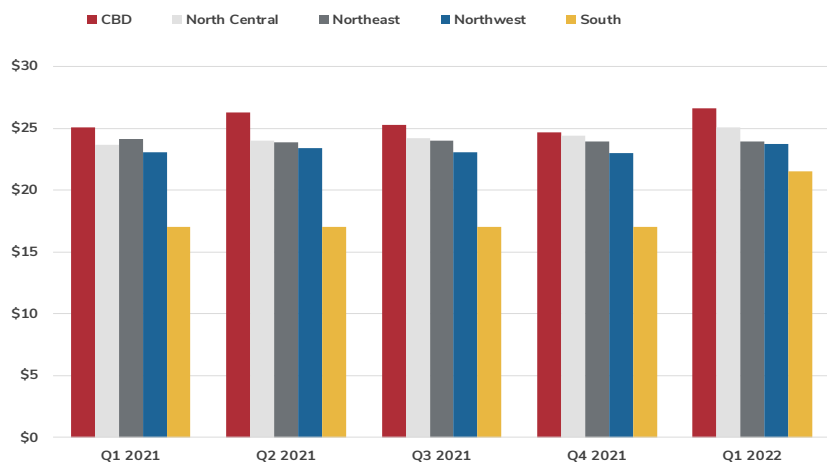
LEASING ACTIVITY



MEDICAL/OFFICE INVENTORY



AVERAGE GROSS ASKING RENT



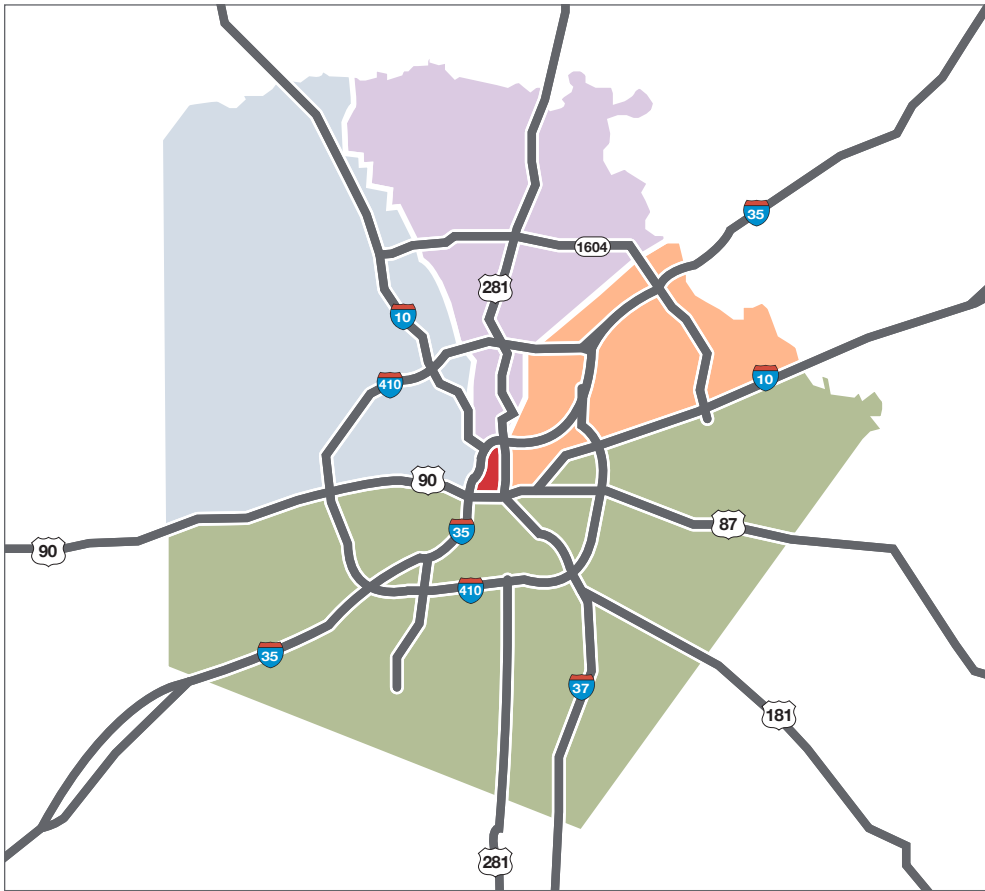
MARKET OVERVIEW

SUBMARKET STATS

Submarket Statistics (Total reflects Class A/B/C)	Total Inventory (SF)	Total Vacancy (%)	Total Availability (%)	Q1 2022 Net Absorption (SF)	2022 YTD Net Absorption (SF)	Q1 2022 Leasing Activity (SF)	Q1 2022 Deliveries (SF)	Under Construction (SF)	Overall Gross Avg Asking Rent (\$/PSF)
San Antonio Total	66,143,685	11.7	15.0	-675,208	-675,208	541,763	194,654	1,409,783	24.56
Class A	19,537,023	16.5	23.6	-451,469	-451,469	181,134	100,000	454,890	29.30
Class B	38,559,382	10.4	12.2	-222,892	-222,892	334,200	94,654	923,690	21.81
CBD Total	9,487,004	14.3	18.0	-522,052	-522,052	16,595	0	45,960	26.63
Class A	3,341,310	29.4	37.8	-536,870	-536,870	0	0	0	32.72
Class B	4,633,905	7.5	9.0	32,448	32,448	16,595	0	45,960	23.96
North Central Total	17,703,966	17.9	19.6	-201,222	-201,222	210,911	156,000	53,000	25.10
Class A	7,361,211	19.7	20.3	-64,606	-64,606	122,624	100,000	0	29.72
Class B	8,753,922	17.4	19.8	-129,077	-129,077	72,336	56,000	53,000	22.38
Northeast Total	5,774,972	9.5	14.1	-49,580	-49,580	84,772	0	390,709	23.97
Class A	1,202,819	8.0	25.0	26,868	26,868	3,880	0	280,000	28.70
Class B	3,606,684	10.8	10.7	-72,288	-72,288	78,405	0	79,506	21.52
Northwest Total	30,756,553	8.4	12.7	79,583	79,583	223,817	38,654	920,114	23.72
Class A	7,251,065	9.4	21.3	125,975	125,975	54,630	0	174,890	28.49
Class B	20,136,142	8.4	10.6	-67,826	-67,826	166,864	38,654	745,224	20.71
South Total	2,421,190	3.1	3.1	18,063	18,063	5,668	0	0	21.52
Class A	380,618	3.2	3.2	-2,836	-2,836	0	0	0	-
Class B	1,428,729	3.8	3.8	13,851	13,851	0	0	0	21.98
Suburban Total	56,656,681	11.2	14.6	-153,156	-153,156	525,168	194,654	1,363,823	24.41
Class A	16,195,713	13.8	20.8	85,401	85,401	181,134	100,000	454,890	29.12
Class B	33,925,477	10.8	12.7	-255,340	-255,340	317,605	94,654	877,730	21.63

MARKET OVERVIEW

SAN ANTONIO OFFICE SUBMARKETS



- 1. CBD
- 2. North Central
- 3. Northeast
- 4. Northwest
- 5. South

Information and data within this report were obtained from sources deemed to be reliable. No warranty or representation is made to guarantee its accuracy.

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Q1 2022

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