

San Antonio Industrial | Q4 2022

Quarterly Market Report

January 2023

San Antonio's industrial vacancy rate drops to 3.5% with record-breaking net absorption in 2022.

Executive Summary

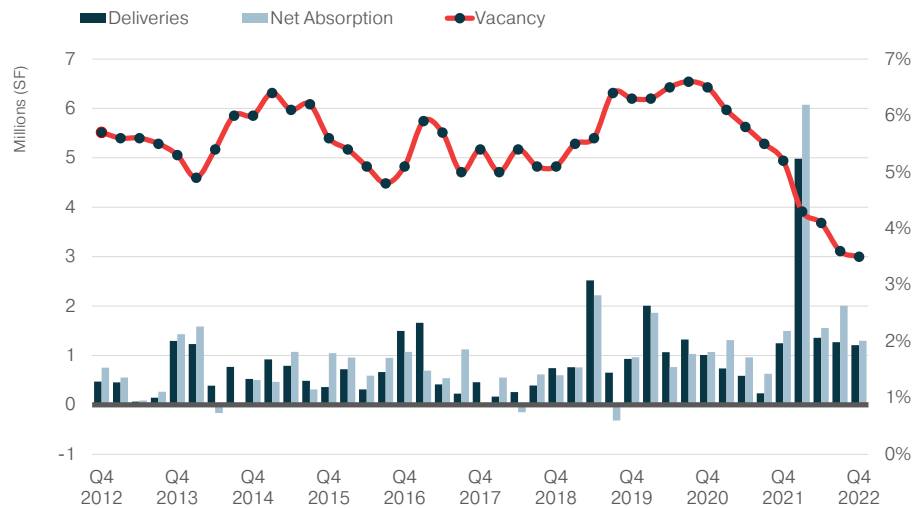
High demand in Industrial market continues

Q4 2022 marks the ninth consecutive quarter that demand for industrial space, represented by net absorption (1.3 million sq. ft.), outpaced supply (1.2 million sq. ft.) in the San Antonio metro—the longest streak on record. Leasing was strong, with the San Antonio area recording 1.2 million sq. ft. of activity, comparable to last quarter at 1.3 million sq. ft. In addition, 8.8 million sq. ft. was delivered in 2022, 8.0 million sq. ft. is under construction, and another 5.5 million sq. ft. is proposed through 2023. Combined with a vacancy rate of 3.5%—indicating strong tenant demand—the need for more industrial development in the area appears apparent.

San Antonio economy continued to expand in November

The San Antonio unemployment rate remained at 3.6% in November. The metro's jobless rate is lower than both the U.S. and the state figures of 3.7% and 4.0%, respectively. This month, San Antonio's labor force grew at a 4.0% annualized rate. All sectors except one experienced growth. Mining was the only sector to decline (0.4% or 2 jobs). Growth was led by other services (31.1% or 869 jobs), leisure and hospitality (10.3% or 1,146 jobs), and health and education services (5.6% or 781 jobs). Year over year, San Antonio experienced 3.3% payroll growth.

Supply & Demand



Source: CoStar, Partners Research

Key Market Indicators

	CURRENT Q4 2022	PRIOR QUARTER Q3 2022		PRIOR YEAR Q4 2021	
Vacant Total	3.5%	3.6%	↓	5.2%	↓
Vacant Direct	3.2%	3.4%	↓	5.1%	↓
Available Total	9.3%	8.4%	↑	6.9%	↑
Available Direct	8.7%	7.9%	↑	6.7%	↑
Net Absorption (SF)	1,297,257	2,006,138	↓	1,497,941	↓
Leasing Activity (SF)	1,209,392	2,191,685	↓	1,426,674	↓
Construction (SF)	8,016,472	7,264,202	↑	10,165,033	↓
Deliveries (SF)	1,210,432	1,268,258	↓	1,247,986	↓
Avg Asking Rent (Gross)	\$0.68	\$0.65	↑	\$0.61	↑
Inventory (SF)	145,373,461	144,163,029	↑	136,556,994	↑

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Market Overview

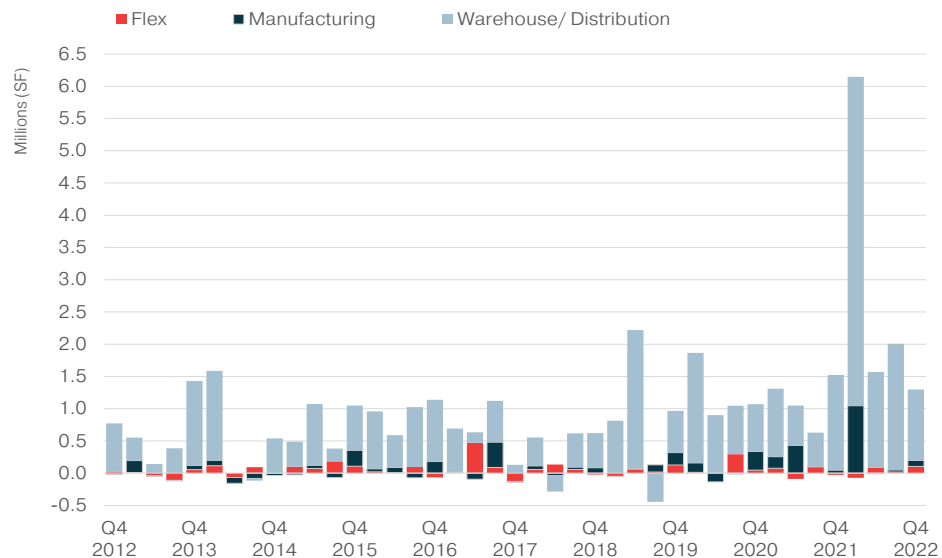
Vacancy rate tightens to 3.5%

San Antonio’s industrial vacancy rate dropped 10 basis points quarter-over-quarter from 3.6% and decreased 170 basis points year-over-year from 5.2%. The vacancy rate for Class A properties is at 6.7%, dropping significantly from 11.2% in Q4 2021. Total inventory for Class A space represents 25 million sq. ft., up from 18 million sq. ft. as of this time last year—an impressive 38% increase. The drop in the overall vacancy rate is largely due to the record-breaking net absorption in 2022 of 11 million sq. ft. Some of the largest leases in 2022 include Tesla moving into 439,809 sq. ft. at Becknell-Foster Ridge 2 in the South submarket; Dollar General leased 267,840 sq. ft. at Connections Distribution Center in the South submarket; 250,373 sq. ft. leased at Enterprise Industrial Park in Schertz; Caterpillar leasing 207,492 sq. ft. in Cornerstone Business Park in the Northeast submarket; and Nippon Express leasing 196,800 sq. ft. in Prologis Park in the Northeast submarket.

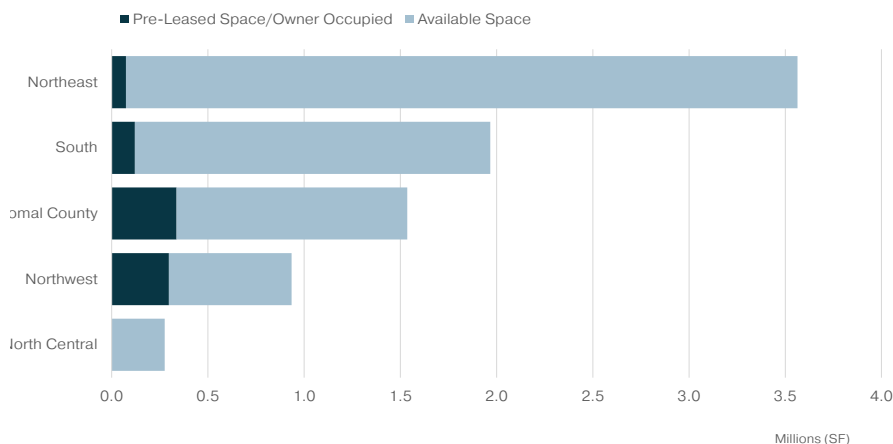
New industrial spec development

Core5 Industrial Partners and MBK Industrial Properties have officially started work on Core5 Logistics Center at I-10 in Schertz, about 21 miles northeast of downtown San Antonio. Core5 Logistics Center, at the intersection of I-10 and North Loop 1604 East, is a 1.8 million-sq.-ft. industrial project that will be developed in two phases. The first phase is scheduled to be completed by Q4 2023 and includes Building A with 533,520 sq. ft. and Building B with 466,560 sq. ft. The second phase includes Building C and Building D, comprising a total of 788,940 sq. ft. Partners is the exclusive leasing agent for the property, which is offered for sale and lease.

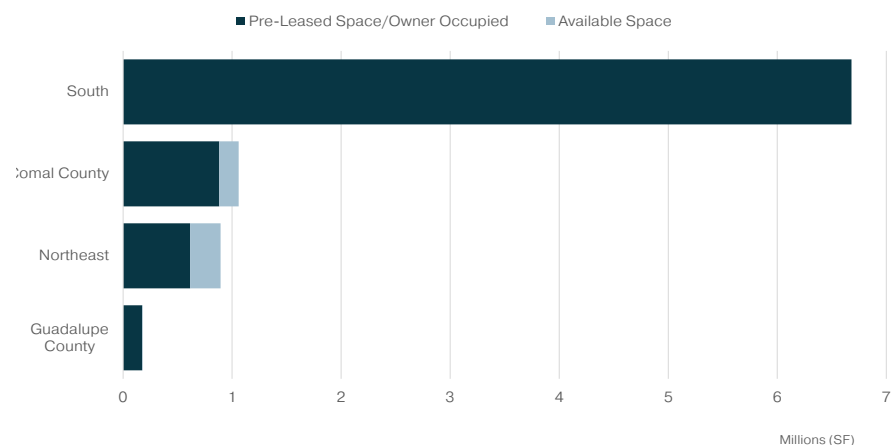
Net Absorption



Under Construction



Deliveries



Investment sales trends

Real Capital Analytics data reports the cumulative monthly sales value for 2022 in the San Antonio area was \$879 million, up 19% from 2021 at \$739 million. The primary capital composition for buyers in 2022 was made up of 51% institutional investors, 30% private, and 13% cross-border. For sellers, the majority were 52% private investors, 36% REIT/ listed, and 12% institutional. In a recent significant transaction, Fort Worth-based investment firm Fort Capital has acquired The Starcrest Industrial Portfolio, eight Class B light industrial buildings totaling 465,648 sq. ft. The buildings are located within a mile of San Antonio International Airport and had a combined occupancy rate of 89% at the time of sale. The seller was Forester Properties. A sales price was not disclosed.

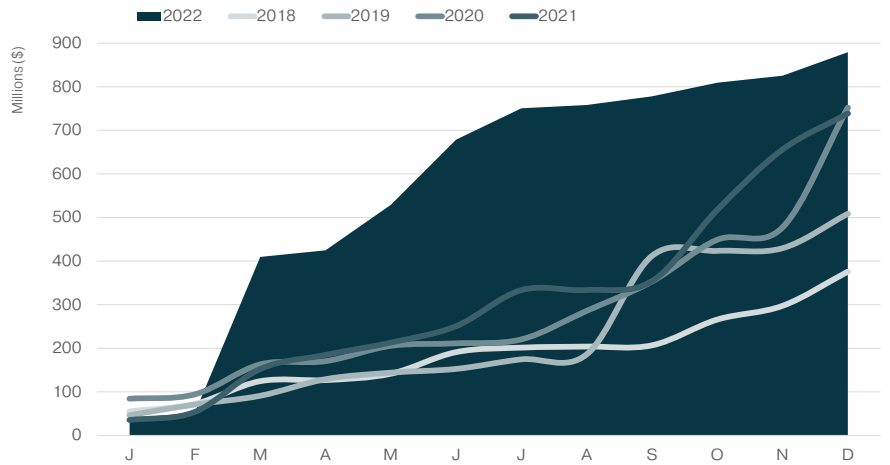
Logistics center in Schertz lands major leases ahead of completion

Doerr Lane Logistics Center located at 9870 Doerr Lane in Schertz, is now 75% preleased, thanks to Quality Custom Distribution signing a lease for 116,176 sq. ft., and MEI Rigging & Crating inking a deal for 112,935 sq. ft., for a combined total of 229,111 sq. ft. of industrial space, reflecting the demand for the property type. The industrial park is set to open in Q1 2023. The 307,000-sq.-ft. industrial building features available office space, 32-foot clear heights, two 12-foot-by-16-foot drive-in doors, 80 docks, 318 parking spaces for vehicles and 96 parking spaces for trailers. The two leases were arranged by Partners Real Estate representing the property's landlord, Baltisse-Ackerman Schertz.

Average asking NNN rent

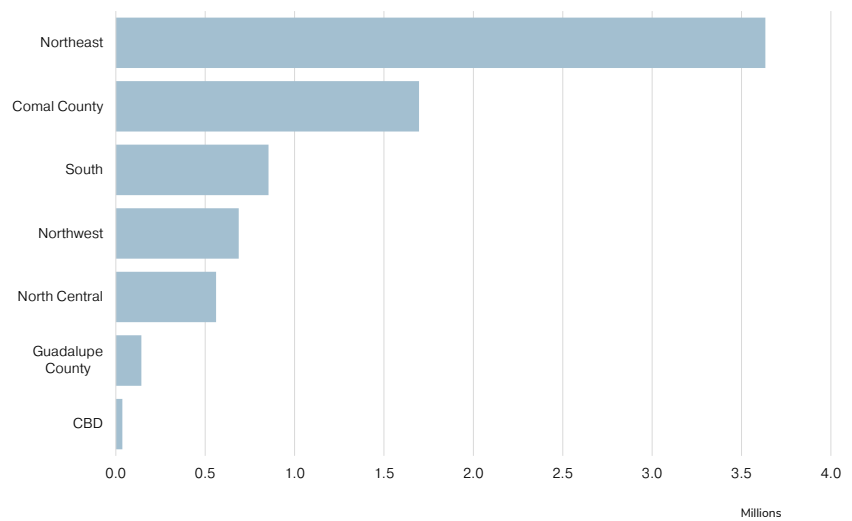
On average, monthly asking rental rates for the San Antonio market was \$0.68 per sq. ft., as of the end of 2022, up year-over-year from \$0.61, a 13% increase. The monthly average rate for Flex space is currently at \$1.08 per sq. ft.; Manufacturing rates are at \$0.58, and Warehouse/ Distribution space sits at \$0.60. The North Central (\$1.02 PSF) and Northwest (\$0.81 PSF) submarkets currently have two of the highest monthly overall average rates, followed by Guadalupe County (\$0.69 PSF). As developers experience rising costs associated with bringing high-quality new projects to the market, rental rates may remain elevated.

Cumulative Monthly Sales Volume

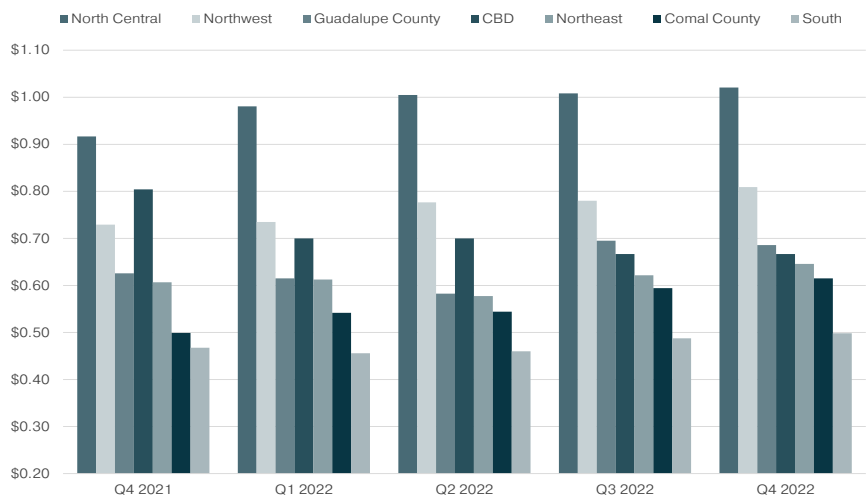


Source: Real Capital Analytics

Leasing Activity 2022



Overall NNN Asking Rent (\$/PSF/MO)



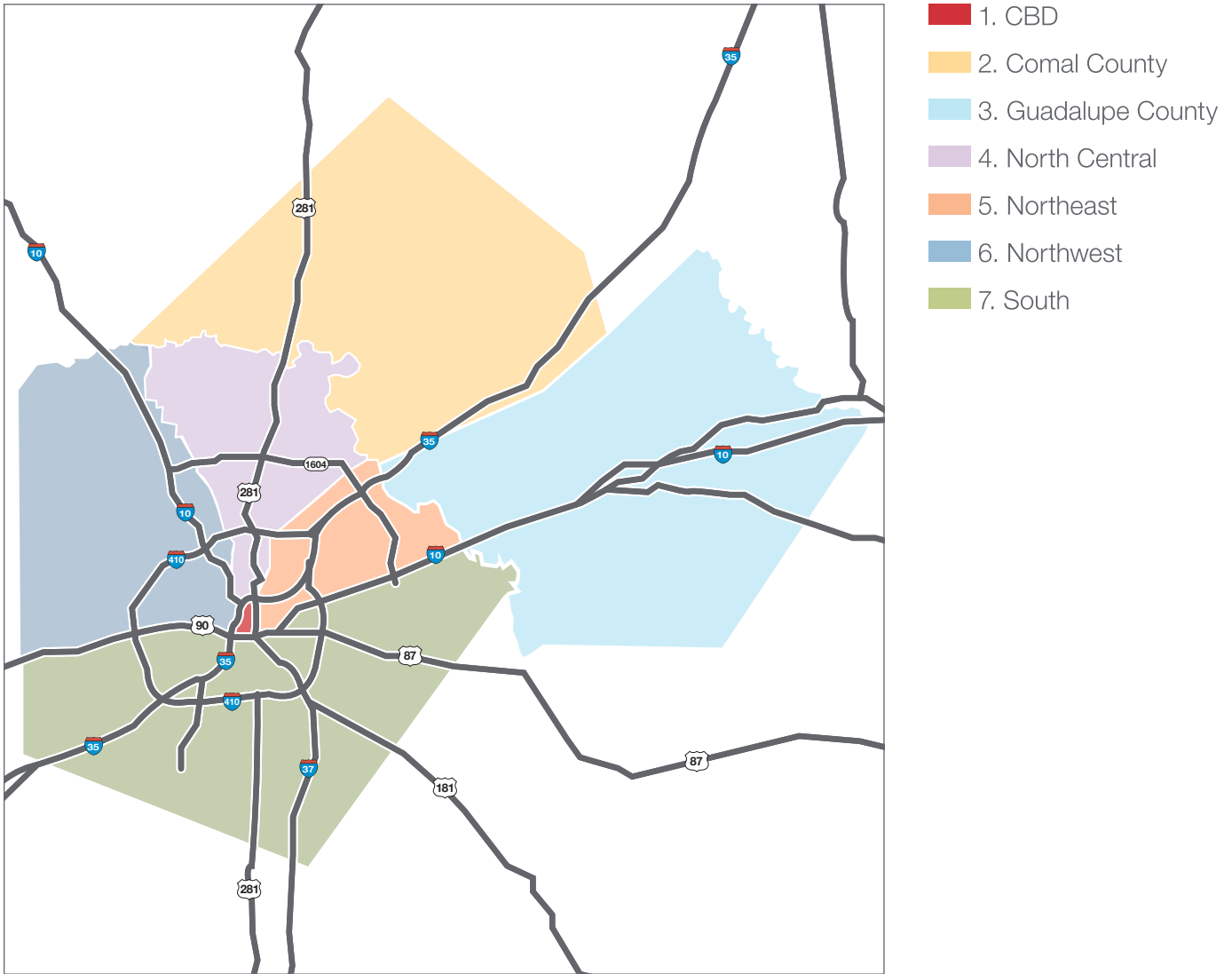
Market Overview

Submarket Stats

Submarket Statistics	Total Inventory (SF)	Total Vacancy (SF)	Total Availability (%)	Q4 2022 Net Absorption (SF)	2022 YTD Net Absorption (SF)	2022 YTD Deliveries (SF)	Under Construction (SF)	NNN Avg Asking Rent (\$/PSF)/MO
San Antonio Market Total	145,373,461	3.5	9.3	1,297,257	10,935,942	8,816,467	8,016,472	0.68
Flex	12,839,732	6.1	9.2	104,103	136,705	29,232	469,000	1.08
Manufacturing	26,637,180	1.9	3.4	94,349	1,159,848	935,000	0	0.58
Warehouse/Distribution	105,896,549	3.5	10.7	1,098,805	9,639,389	7,852,235	7,547,472	0.60
CBD Total	3,180,910	3.1	3.4	-17,806	-4,506	0	0	0.67
Flex	522,268	10.4	10.4	0	0	0	0	-
Manufacturing	682,934	0.0	0.0	0	0	0	0	-
Warehouse/Distribution	1,975,708	2.3	2.8	-17,806	-4,506	0	0	0.67
Comal County Total	16,967,600	4.5	15.0	78,578	745,897	1,060,344	1,535,416	0.62
Flex	409,484	0.0	5.4	30,222	30,222	0	0	1.10
Manufacturing	2,828,639	0.5	3.9	10	12,000	0	0	0.82
Warehouse/Distribution	13,729,477	5.5	17.3	48,346	703,675	1,060,344	1,535,416	0.59
Guadalupe County Total	12,767,770	1.5	2.5	152,267	132,766	180,325	0	0.69
Flex	296,843	8.3	18.6	0	-3,006	10,800	0	0.86
Manufacturing	5,351,962	0.0	0.0	75,540	75,540	0	0	0.50
Warehouse/Distribution	7,118,965	2.4	3.7	76,727	60,232	169,525	0	0.58
North Central Total	14,416,236	4.0	6.0	55,126	108,460	0	0	1.02
Flex	3,685,049	4.9	6.6	29,186	17,959	0	0	1.24
Manufacturing	1,729,260	8.9	10.4	8,899	-24,080	0	0	0.94
Warehouse/Distribution	9,001,927	2.7	4.9	17,041	114,581	0	0	0.87
Northeast Total	42,201,411	4.0	10.8	208,738	3,212,983	894,705	2,558,741	0.65
Flex	2,515,782	8.5	20.2	66,805	66,721	18,432	210,000	0.98
Manufacturing	4,947,122	2.7	2.7	1,900	47,391	35,000	0	0.58
Warehouse/Distribution	34,738,507	3.9	11.2	140,033	3,098,871	841,273	2,348,741	0.56
Northwest Total	20,367,387	3.7	7.2	-104,838	252,871	0	1,315,682	0.81
Flex	5,000,537	5.4	5.2	-21,403	32,184	0	259,000	1.14
Manufacturing	2,651,489	6.7	6.7	8,000	13,196	0	0	0.45
Warehouse/Distribution	12,715,361	2.4	8.0	-91,435	207,491	0	1,056,682	0.76
South Total	35,472,147	2.7	9.9	925,192	6,487,471	6,681,093	2,606,633	0.50
Flex	409,769	8.9	7.7	-707	-7,375	0	0	0.88
Manufacturing	8,445,774	0.2	3.6	0	1,035,801	900,000	0	0.46
Warehouse/Distribution	26,616,604	3.3	11.7	925,899	5,459,045	5,781,093	2,606,633	0.50

Market Overview

San Antonio Industrial Submarkets



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