

San Antonio's diverse economy has helped the city to regain all of its lost jobs during the pandemic.

Executive Summary

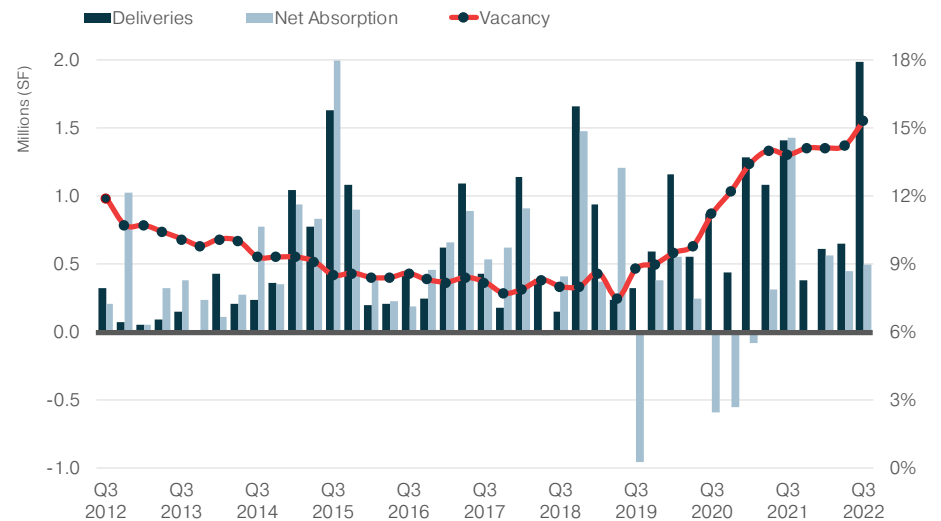
Vacancy rate at 12%

The overall vacancy rate in the San Antonio office market was down quarter-over-quarter from 12.3% in Q2 2022 and up year-over-year from 10.7% in Q3 2021. The vacancy rate for Class A properties is 16.6%. In Q3 2022, overall net absorption totaled positive 240,000 sq. ft., bringing the year-to-date amount to negative 632,000 sq. ft. Of the 1.5 million sq. ft. currently, under construction, half of that space is available. The overall San Antonio average asking full-service rent is at \$24.34 per sq. ft.—up from last year's \$23.92 per sq. ft.—while the asking price for Class A space in the Central Business District is averaging \$30.57 per sq. ft.

San Antonio's economy slowed in August

The San Antonio unemployment rate remained at 3.7% in August. The metro's unemployment figure was the same as the U.S rate of 3.7% but below the state's 4.1%. This month, the San Antonio labor force experienced marginal growth at a 0.7% annualized rate. San Antonio payrolls contracted 1.4% from July to August (1,293 jobs). Financial activities grew the most among the major sectors at 12.7% (982 jobs). On the other hand, construction had the greatest decline at 14.2% (761 jobs), followed by the government sector at 11.6% (1,792 jobs). Since the worst of the pandemic in April 2020, San Antonio has gained approximately 170,096 jobs, and numbers remain above pre-pandemic employment. San Antonio wages stayed steady in August. The three-month moving average of hourly wages in San Antonio declined slightly to \$27.61, below the state average of \$29.92 and the national average of \$32.24.

Supply & Demand



Source: CoStar, NAI Partners Research

Key Market Indicators

	CURRENT Q3 2022	PRIOR QUARTER Q2 2022		PRIOR YEAR Q3 2021	
Vacant Total	12.0%	12.3%	↓	10.7%	↑
Vacant Direct	10.7%	11.0%	↓	10.3%	↑
Available Total	15.9%	15.4%	↑	14.4%	↑
Available Direct	14.4%	13.9%	↑	13.4%	↑
Net Absorption (SF)	239,756	-142,583	↑	412,351	↓
Leasing Activity (SF)	505,444	737,134	↓	804,077	↓
Construction (SF)	1,452,334	1,261,069	↑	1,151,160	↑
Deliveries (SF)	83,000	119,506	↓	180,621	↓
Avg Asking Rent (Gross)	\$24.34	\$24.61	↓	\$23.92	↑
Inventory (SF)	66,714,965	66,631,965	↑	66,293,919	↑

Market Overview

San Antonio office space availability increases

Overall space availability, which includes current, sublease, and future vacancy, is at 15.9%. The CBD ended Q3 2022 with an availability rate of 19.7%, followed by the North Central submarket at a 19.1% availability rate and the Northeast at 16.0%. The difference between this figure and the vacancy rate reflects expected future move-outs. Q3 2022 marks the first quarter in 2022, that demand (represented by net absorption at 240,000 sq. ft.) outpaced delivered supply (83,000 sq. ft.). With current projects under construction at 1.5 million sq. ft., demand will have to significantly increase for the availability rate to have an opportunity to decrease. Also, increasing remote work could slow the market's growth moving forward. San Antonio has many smaller tech companies that could decide to remain remote, shifting the amount of required space in the future.

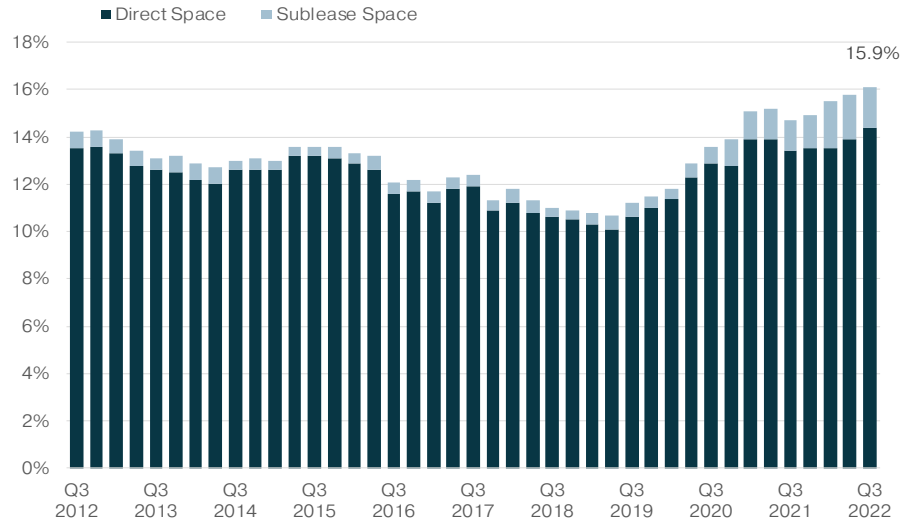
Positive net absorption in Q3 2022

Net absorption in the San Antonio office market was positive for the first quarter this year at 285,544 sq. ft. Class A represented positive 172,158 sq. ft. and Class B positive 41,617 sq. ft. The submarkets leading positive net absorption year-to-date in 2022 are the North Central at 124,126 sq. ft., followed by the South submarket at 29,516 sq. ft.

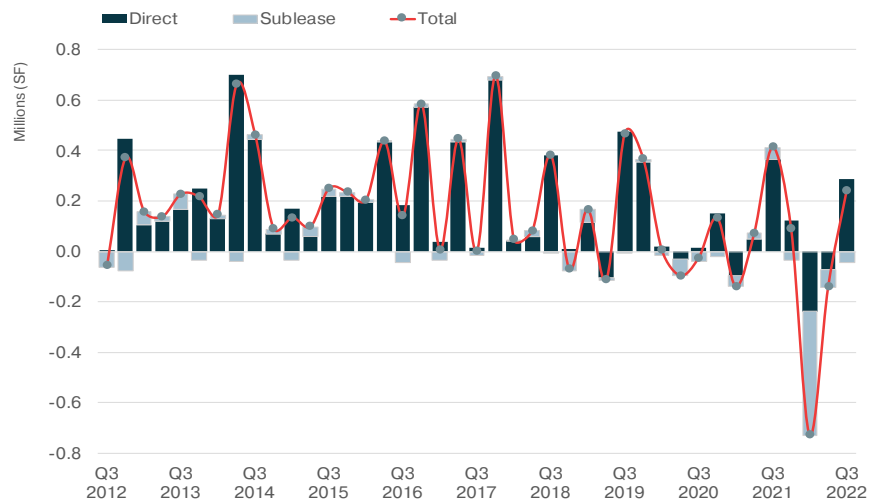
Construction activity

San Antonio has 1.5 million sq. ft. underway (50% preleased), representing 2.2% of total inventory, on top of the 400,000 sq. ft. delivered so far in 2022. In addition, 940,000 sq. ft. of proposed projects 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. The range in size of the 12 buildings under construction varies from North Rim Corporate Campus at 550,000 sq. ft. in the northwest submarket and Jefferson Bank headquarters at 280,000 sq. ft. in the Northeast submarket to medical office buildings ranging from 95,000 sq. ft. to 20,000 sq. ft.

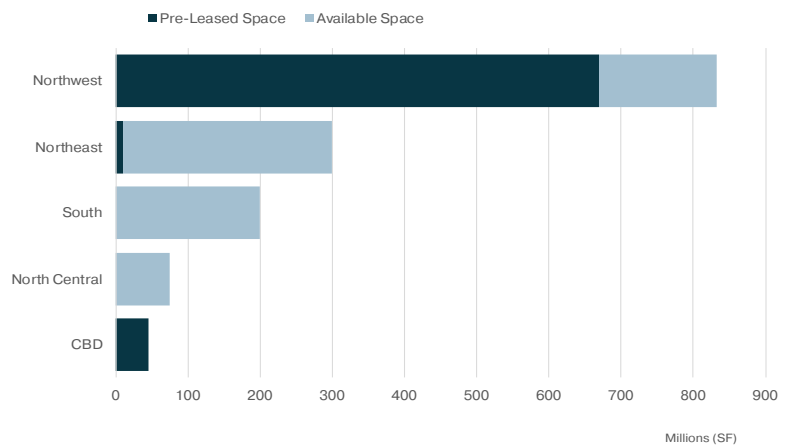
Availability Rates



Net Absorption



Construction



Investment sales trends

Real Capital Analytics data reports quarterly sales volume for Q3 2022 in the San Antonio metro area at \$250 million, up 113% from last year at \$117 million. The primary capital composition for buyers so far in 2022 was made up of 79% private investors and 14% institutional. For sellers, the majority were 57% private investors, 22% REIT/listed, and 13% user/other. One of San Antonio’s most notable office transactions in Q3 2022 was Fuller Realty Interests purchasing five buildings in an office park in the North Central submarket. The buildings are listed at 814 and 900 Arion Parkway. The company purchased the buildings from Field Investments. The sale price was not disclosed.

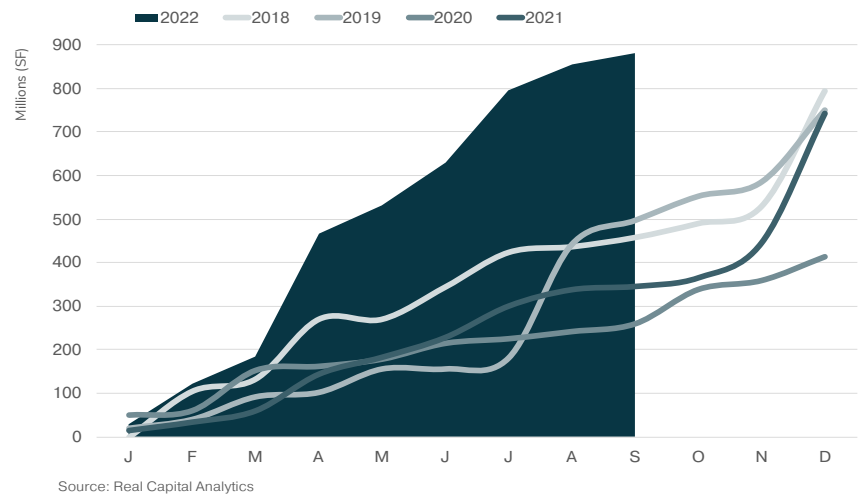
Leasing activity

The volume of signed lease transactions during the third quarter—which is comprised of both new leases and renewals—was 505,000 sq. ft. compared to the previous quarter’s 737,000 sq. ft. and a year ago at 804,000 sq. ft. Leasing volume year-to-date in the San Antonio metro is 5.5 million sq. ft. Significant transactions that were signed in 2022 include 88,250 sq. ft. leased in One International Centre in the North Central submarket; Spectrum signing a lease for 69,000 sq. ft. in Crosswinds Technology Park in the Northeast submarket; Texas Public Radio leasing 45,960 sq. ft. at 321 W. Commerce in the CBD; and Eleanor Kolitz Hebrew Language Academy in the Northwest submarket.

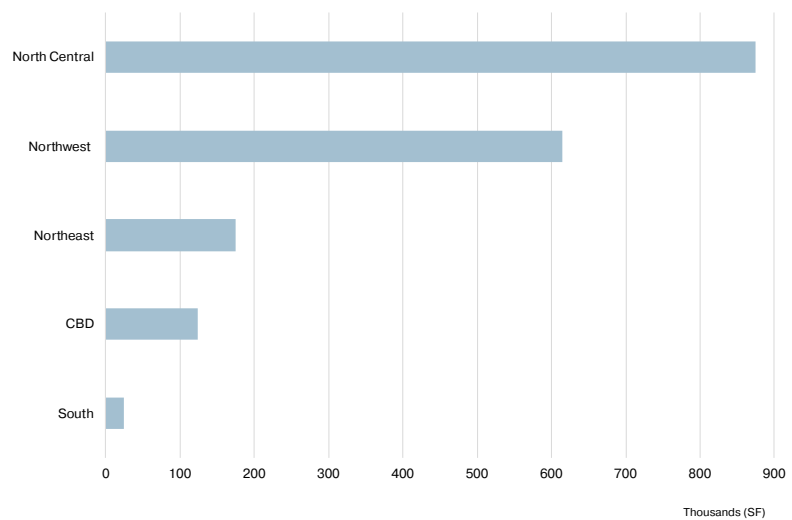
Rent growth continues on an upward path

San Antonio’s overall full-service average rates are at \$24.34 per sq. ft., up 1.8% from this time last year at \$23.92. Overall asking rates for Class A space is \$28.10, and Class B is \$22.05 per sq. ft. The asking rate is officially quoted for any given building and will differ from the ‘bottom line’ actual rental after negotiations, known as the effective rate. The long-term outlook is bright in San Antonio, despite the fact that roughly a million square feet of sublease space is sitting on the market. This is undoubtedly the highest figure that San Antonio has ever seen, but it also pales in comparison to the much higher figures witnessed in other markets. It will, however, compete with space available for direct lease, which will weigh on rent growth in the near term. Another headwind could be a potential new wave of construction. New supply would only add more competition, possibly moderating gains that could be realized in San Antonio.

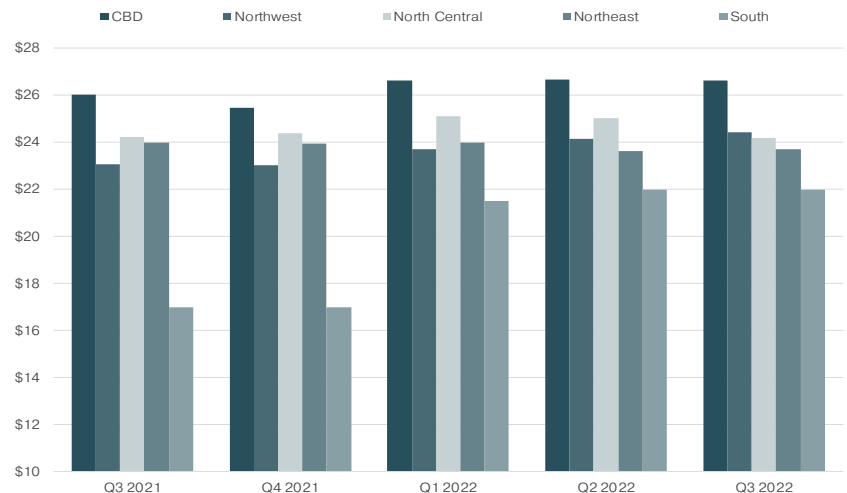
Cumulative Monthly Sales Volume



Leasing Activity Year To Date



Overall Gross Asking Rent (\$PSF)



Market Overview

Submarket Stats

Submarket Statistics (Total reflects Class A/B/C)	Total Inventory (SF)	Total Vacancy (SF)	Total Availability (%)	Q3 2022 Net Absorption (SF)	2022 YTD Net Absorption (SF)	Q3 2022 Leasing Activity (SF)	Under Construction (SF)	Overall Gross Avg Asking Rent (\$/PSF)
San Antonio Market Total	66,714,965	12.0	15.9	239,756	-632,020	505,444	1,452,334	24.34
Class A	20,347,011	16.6	24.6	172,158	-400,760	188,244	471,181	28.10
Class B	38,425,577	10.8	13.0	41,617	-242,737	297,572	808,154	22.05
CBD Total	9,517,862	15.1	19.7	-44,544	-641,366	66,328	45,960	26.61
Class A	3,644,310	27.0	34.6	-15,520	-443,511	12,120	0	30.57
Class B	4,386,747	9.8	13.4	-30,259	-182,267	54,208	45,960	23.02
North Central Total	17,760,144	16.5	19.1	275,407	124,126	239,931	74,265	24.19
Class A	7,634,754	18.9	20.4	123,857	24,727	108,898	0	27.92
Class B	8,641,624	15.6	19.2	126,128	61,538	119,519	74,265	22.32
Northeast Total	5,850,532	11.9	16.0	8,553	-19,296	31,727	299,290	23.72
Class A	1,222,726	13.2	28.9	3,591	-38,740	4,560	226,291	28.62
Class B	3,660,974	12.7	13.0	5,525	31,972	26,369	0	21.97
Northwest Total	31,141,393	9.2	13.3	-8,398	-125,000	162,320	832,819	24.44
Class A	7,464,603	10.5	23.4	53,824	53,194	59,830	144,890	27.80
Class B	20,283,659	9.0	10.7	-56,581	-167,357	97,476	687,929	33.03
South Total	2,445,034	3.9	12.3	8,738	29,516	5,138	200,000	21.98
Class A	380,618	1.6	21.5	6,406	3,570	2,836	100,000	-
Class B	1,452,573	5.9	6.3	-3,196	13,377	0	0	21.98
Suburban Total	57,197,103	11.5	15.3	284,300	9,346	439,116	1,406,374	24.22
Class A	16,702,701	14.3	22.5	187,678	42,751	176,124	471,181	27.95
Class B	34,038,830	10.9	12.9	71,876	-60,470	243,364	762,194	22.01

San Antonio Office Quarterly Market Report

Q3 2022

Leta Wauson

Director of Research

leta.wauson@partnersrealestate.com

tel 713 275 9618

partners

SAN ANTONIO

+ 210 446 3644

1020 NE Loop 410, Suite 810

San Antonio, Texas 78209

PARTNERSREALESTATE.COM