San Antonio Office
Q2 2023

QUARTERLY MARKET REPORT

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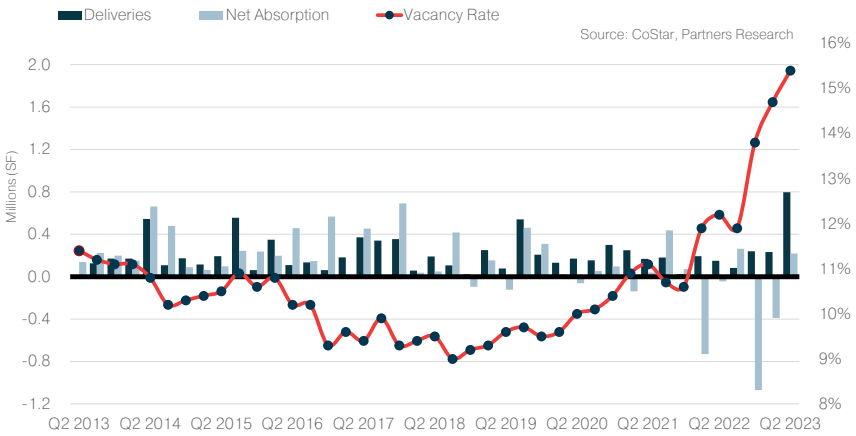
Executive Summary

San Antonio Office deliveries more than triple quarter-over-quarter.

Q2 In Review

By the end of Q2 2023, the overall vacancy rate in the San Antonio office market rose 70 basis points quarter-over-quarter, from 14.7% to 15.4%. Net absorption turned positive in Q2 2023 at 219,104 sq. ft., after two prior quarters of negative absorption—primarily due to office deliveries more than tripling quarter-over-quarter. In Q2 2023, office deliveries totaled 797,040 sq. ft., up from 232,037 sq. ft. the prior quarter. Fasken Development's 717,000-sq.-ft. campus delivered in April 2023 still stands as one of the largest office deliveries in San Antonio so far this year. On the other hand, rent growth in the San Antonio office market has continued to slow down, with the average full-service rate standing at $24.26 per sq. ft.

Supply & Demand



San Antonio Economic Update

San Antonio's unemployment rate increased to 4.0% in May 2023, slightly up from 3.8% in April 2023. The metro's jobless rate beat the nation's rate (3.7%) but was lower than the state's rate (4.1%). Professional and business services saw the most growth (3,987 jobs, 33.5%), while leisure and hospitality experienced the largest decline (97 jobs, 0.8%) among the sectors. San Antonio wages also increased by an annualized 3.0% in May 2023—moving the average hourly wage up to $27.94.

Key Market Indicators

	CURRENT Q2 2023	PRIOR QUARTER Q1 2023		PRIOR YEAR Q2 2022	
Vacant Total	15.4%	14.7%	▲	12.2%	▲
Vacant Direct	14.5%	14.0%	▲	10.9%	▲
Available Total	18.6%	17.8%	▲	15.2%	▲
Available Direct	17.5%	16.7%	▲	13.8%	▲
Net Absorption (SF)	219,104	-388,989	▲	-43,456	▲
Leasing Activity (SF)	545,188	1,045,974	▼	1,024,140	▼
Construction (SF)	1,160,681	1,795,731	▼	1,524,358	▼
Deliveries (SF)	797,040	232,037	▲	119,506	▲
Avg Asking Rent (Gross)	$24.26	$24.33	▼	$24.38	▼
Inventory (SF)	67,638,461	66,841,421	▲	66,286,529	▲

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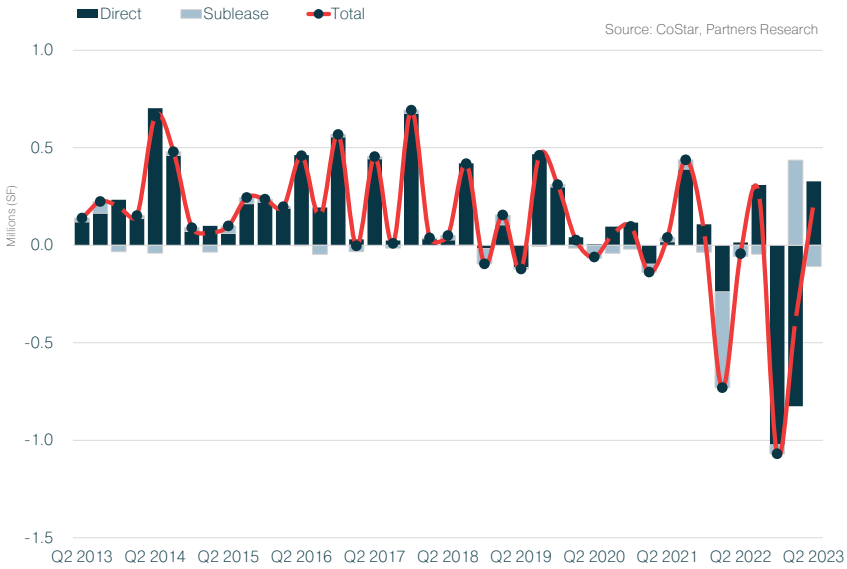
Market Overview

01

Net Absorption Turns Positive in Q2 2023

In Q2 2023, net absorption—move-ins minus move-outs—increased to 219,104 sq. ft. in San Antonio's office market. This is a notable increase compared to the two preceding quarters, where net absorption was -388,989 sq. ft. in Q1 2023 and -43,456 sq. ft. in Q4 2022. This increase is partially due to 327,153 sq. ft. of direct space allocated in net absorption in Q2 2023. Year-to-date, net absorption is at -169,885 sq. ft.

Net Absorption

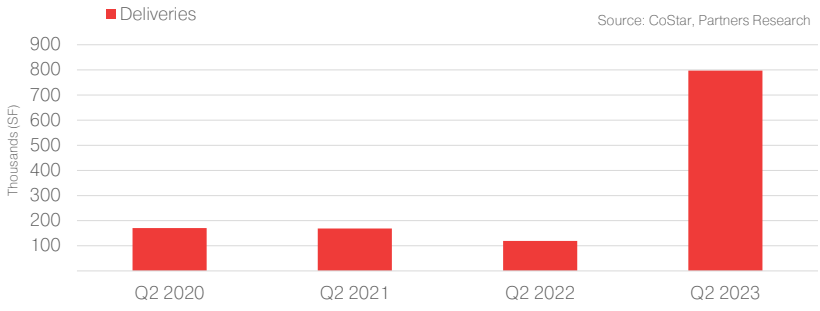


02

The Northwest Submarket Dominates Construction and Deliveries

Deliveries in the San Antonio office market reached 797,040 sq. ft. by the end of Q2 2023. Quarter-over-quarter, deliveries more than tripled from 232,037 sq. ft. in Q1 2023. Year-to-date, deliveries are 1.0 million sq. ft. —with the Northwest submarket accounting for 77% of the space delivered. Fasken Development's North Rim Campus—a two-building, 717-000-sq. ft. site delivered in April 2023— still stands as one of the largest contributors to San Antonio's office deliveries in 2023 thus far. Although still strong, office construction decreased 35% quarter-over-quarter from 1.7 million sq. ft. in Q1 2023 to 1.1 million sq. ft. in Q2 2023.
The Northwest submarket also leads construction, with 643,417 sq. ft.—or 55%—of all space under development, followed by the South with 200,000 sq. ft. (17%).

Deliveries



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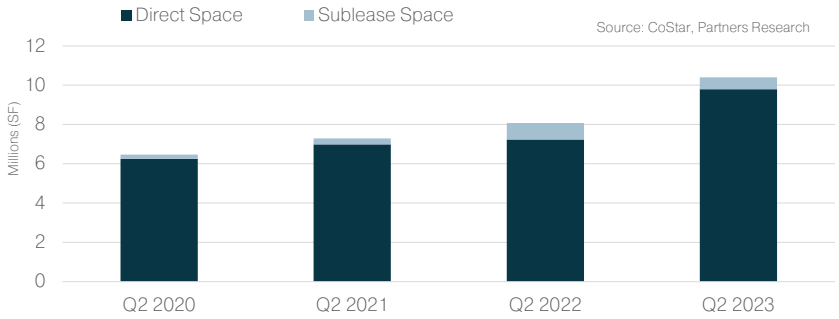
Vacancy Rate Increases to 15.4%

The overall vacancy rate in the San Antonio office market is at 15.4%, up 70 basis points from 14.7% in Q1 2023. Class A and Class B properties have vacancy rates of 20.6% and 14.2%, respectively. Class A submarkets with the greatest quarter-over-quarter increases include: Northeast (12.1% to 15.0%), CBD (27.0% to 29.8%), and Northwest (16.3% to 18.1%). Class B submarkets with the greatest quarter-over-quarter increases include: Northeast (47.9% to 50.5%), Northwest (8.9% to 9.6%) and South (2.2% to 2.6%). High-profile move-outs at the end of 2022—such as Rackspace Technology vacating 1.6 million sq. ft. of office space—contributes to the heightened vacancy rates thus far in 2023.

Vacancy



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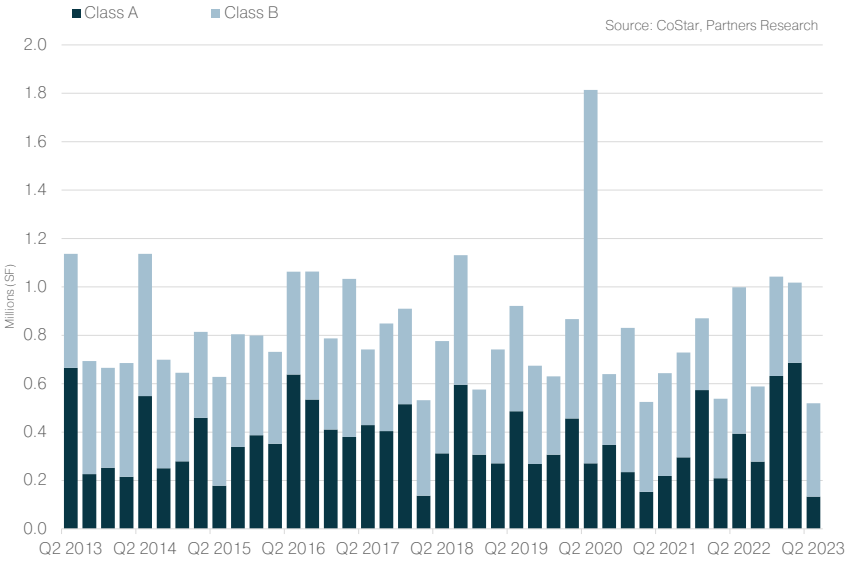
Leasing Down from Previous Quarter

The volume of signed lease transactions during the second quarter—comprised of new leases and renewals—was 545,188 sq. ft., down from a more robust 1.0 million sq. ft. in Q1 2023. Despite the quarter-over-quarter decrease, the San Antonio office market has averaged 896,860 sq. ft. annually in leasing activity over the last four years.

Leasing Activity



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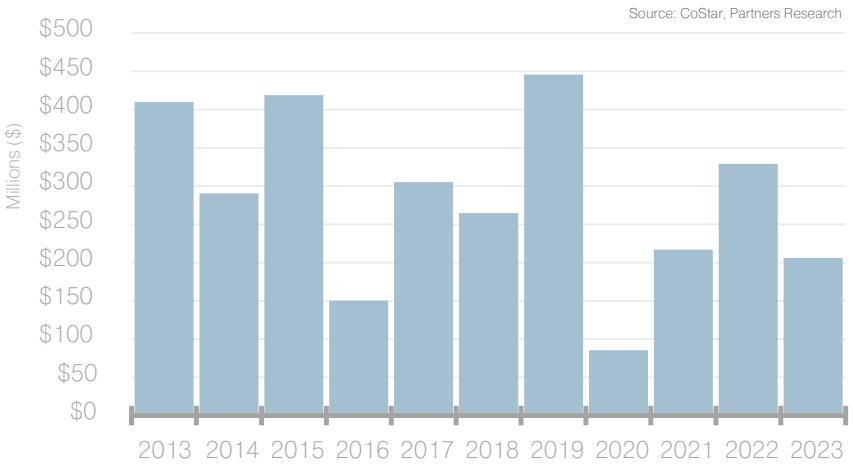
Investment Sales Trends

Year-to-date, CoStar Capital Market Analytics reports the cumulative 12-month sales volume for 2023 at $206 million in San Antonio's office market. With 104 deals completed thus far in 2023, the average transaction price currently stands at $293 per sq. ft. with an average transaction cap rate at 6.4%. By year-end of 2022, the cumulative 12-month sales volume was $329 million, and 360 deals were completed with an average transaction price of $208 per. sq. ft. and an average cap rate of 6.5%. A notable acquisition within Q2 2023 included Advenir closing on a 109-320-sq.-ft. office complex at 2455 Northeast Loop 410 for $19 million. Located in the Northeast submarket this property was 100% at the time of sale.

Year-To-Date Cumulative Sales Volume

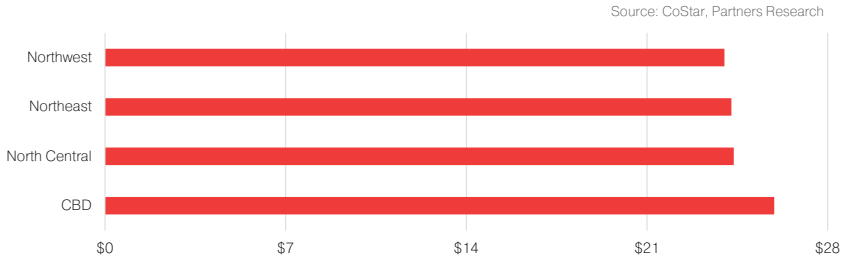


06

Rent Growth Slowing Down

The San Antonio overall full-service average rate stands at $24.26 per sq. ft., down slightly from the previous quarter's $24.33 per sq. ft., and the previous year's $24.38 per sq. ft. Overall asking rates for Class A and Class B space are $27.98 and $22.00 per sq. ft., respectively. On the quarter, submarkets with the highest asking rates include CBD at $25.93 per sq. ft., followed by North Central at $24.36 per sq. ft.

Overall Gross Asking Rent ($/PSF)



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Submarket Stats

Submarket Statistics (Total reflects Class A/B)	Total Inventory (SF)	Total Vacancy (SF)	Total Availability (%)	Q2 2023 Net Absorption (SF)	2023 YTD Net Absorption (SF)	Q2 2023 Leasing Activity (SF)	Q2 2023 Deliveries (SF)	Under Construction (SF)	Overall Gross Avg Asking Rent ($/PSF)
San Antonio Total	**67,638,461**	**15.4**	**18.6**	**219,104**	**-169,885**	**545,188**	**797,040**	**1,160,681**	**24.26**
Class A	20,885,449	20.6	24.9	-138,190	-396,062	133,282	227,040	829,264	27.98
Class B	38,864,258	14.2	17.2	432,605	282,032	385,661	570,000	331,417	22.00
CBD Total	**8,942,780**	**17.8**	**20.3**	**-70,816**	**-278,830**	**190,803**	**0**	**170,000**	**25.93**
Class A	3,665,156	32.2	34.8	-113,456	-295,605	9,984	0	0	31.47
Class B	3,863,480	10.3	13.8	50,472	24,607	180,819	0	170,000	23.22
North Central Total	**17,870,088**	**16.6**	**18.5**	**77,064**	**-71,650**	**193,469**	**0**	**74,265**	**24.36**
Class A	7,736,865	19.7	20.9	-26,587	-118,225	81,377	0	74,265	27.48
Class B	8,633,916	15.2	17.6	104,704	21,576	99,638	0	0	22.62
Northeast Total	**6,018,749**	**34.4**	**37.1**	**-136,874**	**12,322**	**20,060**	**0**	**72,999**	**24.27**
Class A	1,640,931	15.0	15.3	-48,229	150,030	13,213	0	72,999	30.13
Class B	3,410,986	50.5	54.9	-88,354	-136,409	5,514	0	0	22.05
Northwest Total	**32,350,293**	**11.4**	**15.2**	**386,375**	**208,966**	**135,223**	**797,040**	**643,417**	**24.00**
Class A	7,461,879	18.1	25.5	50,082	-132,262	28,708	227,040	482,000	27.63
Class B	21,491,786	9.6	12.5	371,218	377,371	94,057	570,000	161,417	21.23
South Total	**2,456,551**	**3.3**	**12.5**	**-36,645**	**-40,693**	**5,633**	**0**	**200,000**	**-**
Class A	380,618	0.8	35.0	0	0	0	0	200,000	-
Class B	1,464,090	2.6	6.0	-5,435	-5,113	5,633	0	0	-
Suburban Total	**58,695,681**	**15.0**	**18.3**	**289,920**	**108,945**	**354,385**	**797,040**	**990,681**	**24.18**
Class A	17,220,293	18.1	22.9	-24,734	-100,457	123,298	227,040	829,264	27.85
Class B	35,000,778	14.7	17.6	382,133	257,425	204,842	570,000	161,417	21.92

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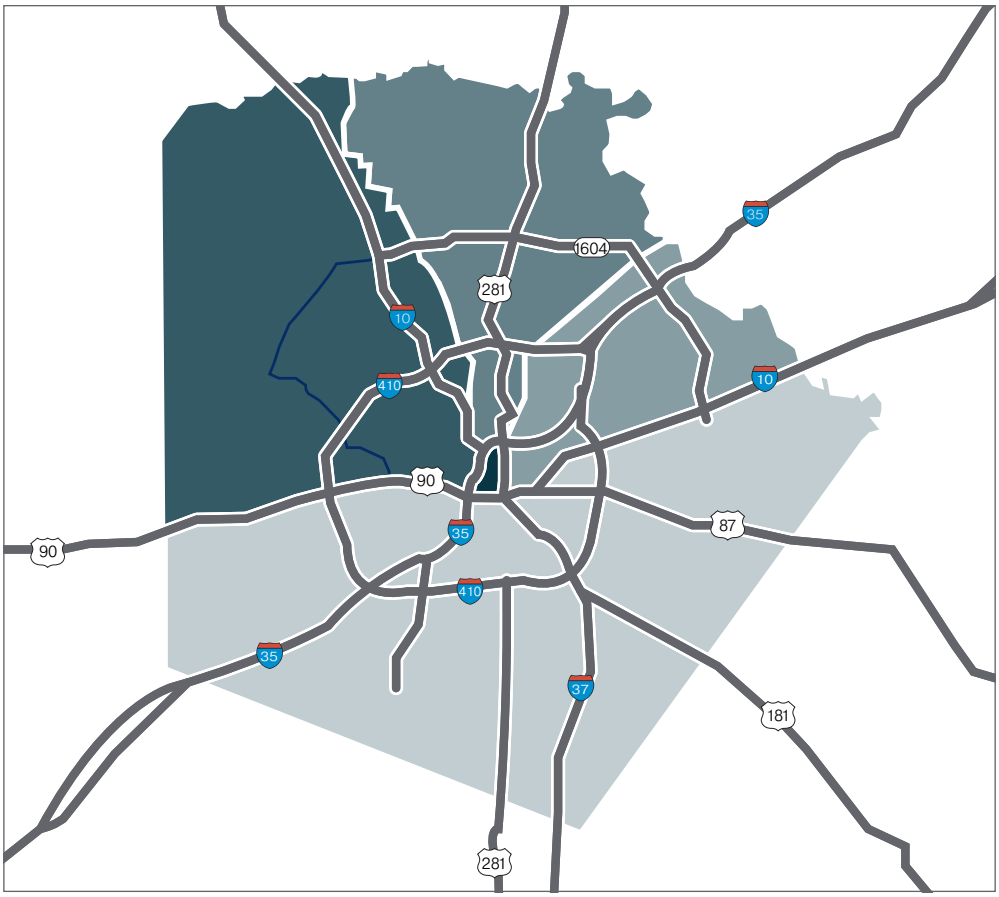
San Antonio Office Submarkets



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