

San Antonio Industrial

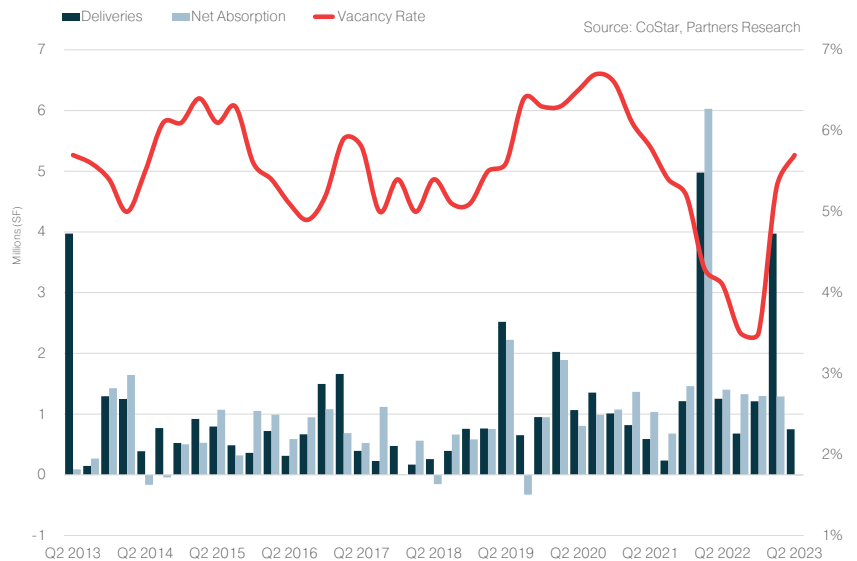
Q2 2023

San Antonio Industrial asking rents increase 13% from the prior year.

Q2 2023 in Review

By the end of Q2 2023, the overall vacancy rate in the San Antonio industrial market rose 40 basis points quarter-over-quarter, from 5.3% to 5.7%. Although still strong, leasing activity fell 14% quarter-over-quarter from 1.9 million sq. ft. in Q1 2023 to 1.7 million sq. ft. in Q2 2023. Construction remains robust with 7.3 million sq. ft. in the pipeline. The Northeast accounted for 35% of all space under development, with notable projects such as a 125,000-sq.-ft. manufacturing facility and a 116,562-sq.-ft. warehouse underway in April 2023. Net absorption fell quarter-over-quarter from 1.2 million sq. ft. in Q1 2023 to -8,533 sq. ft. Q2 2023. Rent growth continues to keep up with inflation with a 13% increase year-over-year, with the average monthly rental rate currently standing at \$0.69 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 national 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

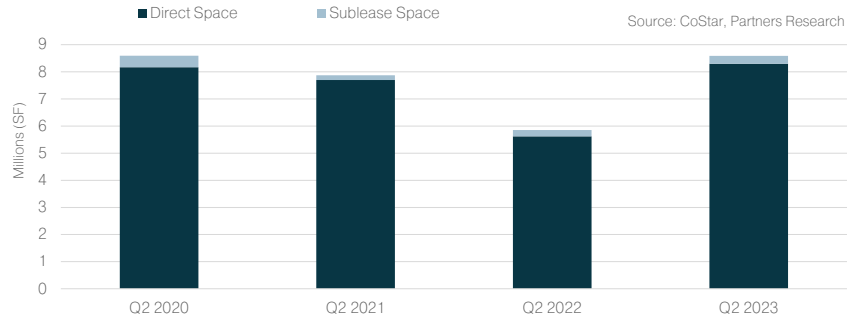
| | CURRENT Q2 2023 | PRIOR QUARTER Q1 2023 | | PRIOR YEAR Q2 2022 | |
|--------------------------|-----------------|-----------------------|---|--------------------|---|
| Vacant Total | 5.7% | 5.3% | ▲ | 4.1% | ▲ |
| Vacant Direct | 5.5% | 5.2% | ▲ | 3.9% | ▲ |
| Available Total | 10.3% | 10.7% | ▼ | 8.1% | ▲ |
| Available Direct | 9.9% | 10.3% | ▼ | 7.7% | ▲ |
| Net Absorption (SF) | -8,533 | 1,290,982 | ▼ | 1,402,241 | ▼ |
| Leasing Activity (SF) | 1,705,482 | 1,992,297 | ▼ | 1,959,951 | ▼ |
| Construction (SF) | 7,390,484 | 7,414,905 | ▼ | 7,350,125 | ▲ |
| Deliveries (SF) | 749,330 | 3,973,055 | ▼ | 1,252,425 | ▼ |
| Avg Asking Rent (NNN/MO) | \$0.69 | \$0.68 | ▲ | \$0.61 | ▲ |
| Inventory (SF) | 150,398,519 | 149,588,397 | ▲ | 142,637,134 | ▲ |

01

Vacancy Rate Increases to 5.7%

By the end of Q2 2023, the overall vacancy rate in the San Antonio Industrial market is at 5.7%, up 40 basis points from 5.3% in Q1 2023. Despite the slight increase, the overall vacancy rate has remained relatively stable, averaging 5.5% over the last 10 years. By space type, Flex, Manufacturing, and Warehouse/Distribution have vacancy rates of 5.2%, 1.8%, and 6.7% respectively for the second quarter of 2023.

Vacancy

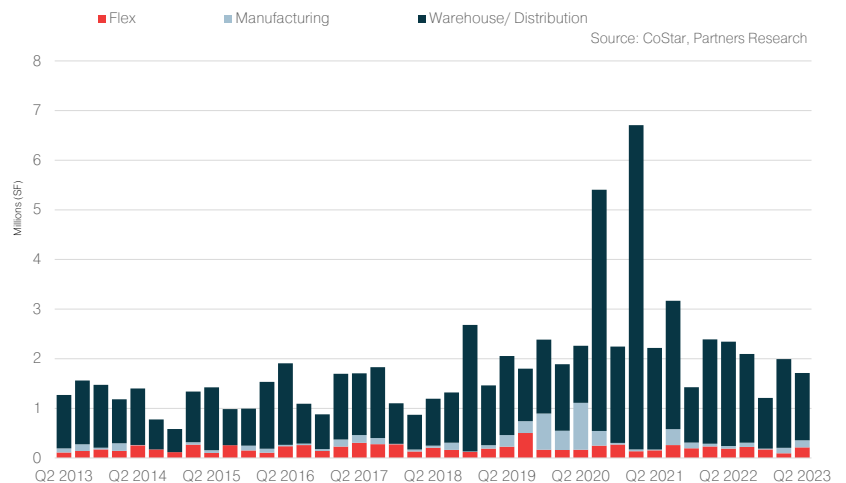


02

Leasing Down 14% From Previous Quarter

The volume of signed lease transactions during the second quarter—comprised of new leases and renewals—was 1.7 million sq. ft., slightly down (14%) from the previous quarter’s 1.9 million sq. ft. Notable leases signed within Q2 2023 include Southwestern Warehousing securing a lease for a 273,334-sq.-ft. warehouse at 4787 Rittiman Road in April 2023, and Wesco Distribution inking a deal for a 119,200-sq.-ft. distribution center situated between Midcrown Drive and Walzem Road in May 2023.

Leasing Activity

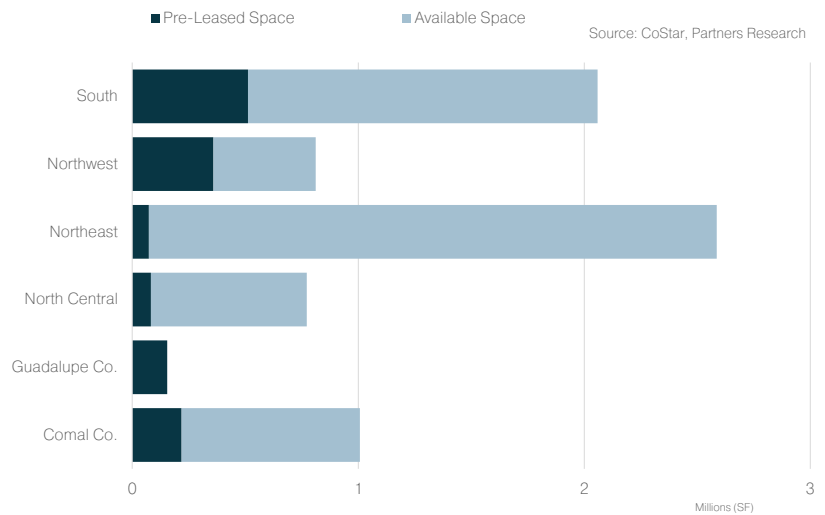


03

7.3 Million Sq. Ft. in the Pipeline

San Antonio’s industrial construction pipeline remains strong with a total volume of 7.3 million sq. ft., primarily consisting of 6.9 million sq. ft. in Warehouse/Distribution space and 345,900 sq. ft. in Flex Space. The Northeast submarket leads construction with 2.6 million sq. ft.—35% of all space under development—followed by the South with 2.0 million sq. ft. (28%). New construction starting in Q2 2023 included a 125,000-sq.-ft. manufacturing facility situated between Eighth Street and Guadalupe Street, just south of I-10, and a 116,562-sq.-ft. warehouse along the Northeast Interstate 410 Loop. On the other hand, deliveries decreased from 3.9 million sq. ft. in Q1 2023 to 749,330 sq. ft. in Q1 2023. Year-to-date, deliveries are at 4.5 million sq. ft.—with the South and Northeast submarkets accounting for 51.3% and 19.7% of space delivered, respectively.

Construction

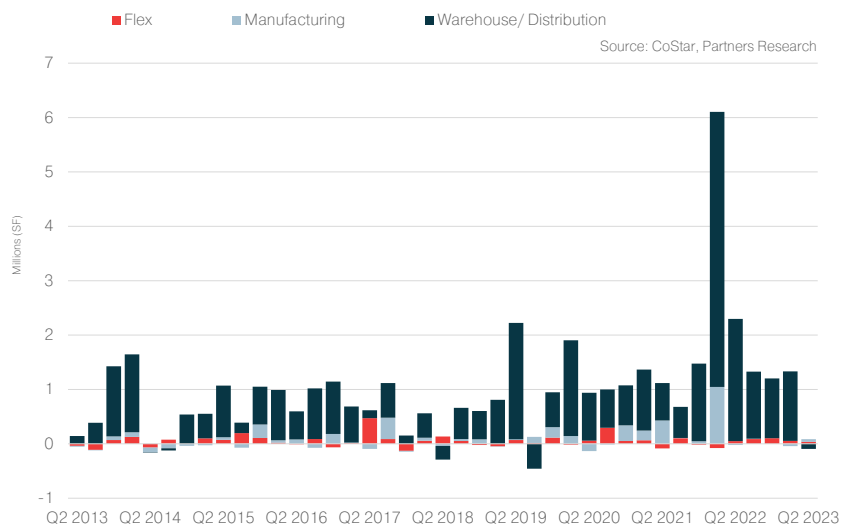


04

Negative Net Absorption in Q2 2023

Net absorption—move-ins minus move-outs—fell from 1.2 million sq. ft. to -8,533 sq. ft., quarter-over-quarter. The decrease could be partially due to the year-over-year change in absorption within Warehouse/Distribution space. In Q2 2023, net absorption for Warehouse/Distribution space in San Antonio’s industrial market fell to -94,005 sq. ft. after finishing stronger in the first quarter at 1.2 million sq. ft. Fortunately, this negative net absorption is temporary. CoStar forecasts net absorption to rise back up to 1.0 million sq. ft. during the 3rd and 4th quarters of 2023.

Net Absorption

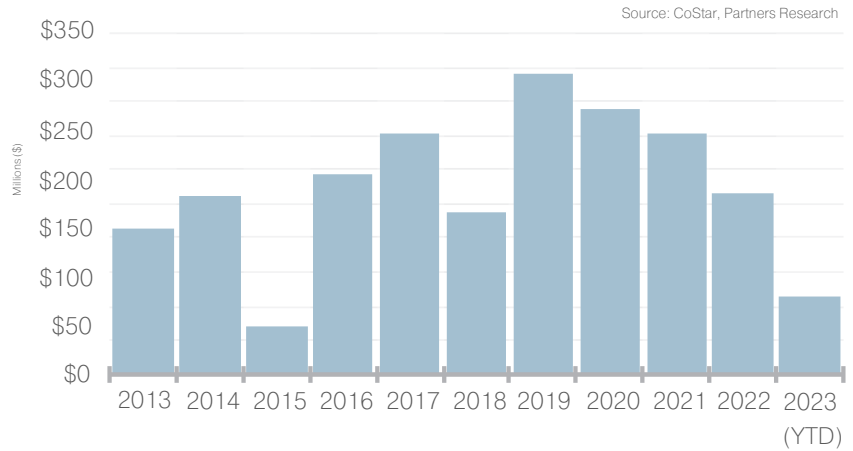


05

Investment Sales Trends

Year-to-date, CoStar Capital Market Analytics reports the cumulative 12-month sales volume for 2023 at \$78.8 million in San Antonio's industrial market. With 86 deals completed thus far in 2023, the average transaction price currently stands \$180 per sq. ft. with an average transaction cap rate at 6.9%. In comparison, the cumulative 12-month sales volume in 2022 was \$185 million, ending the year with 329 deals completed. In a notable transaction, TradeLane Properties, a privately held real estate investment firm, closed on a five-building industrial portfolio totaling 631,000 sq. ft. in April 2023. Situated in the Northeast submarket, this industrial portfolio was constructed in 2005-2006 and was 100% leased at closing.

Year-To-Date Investment Sales Volume

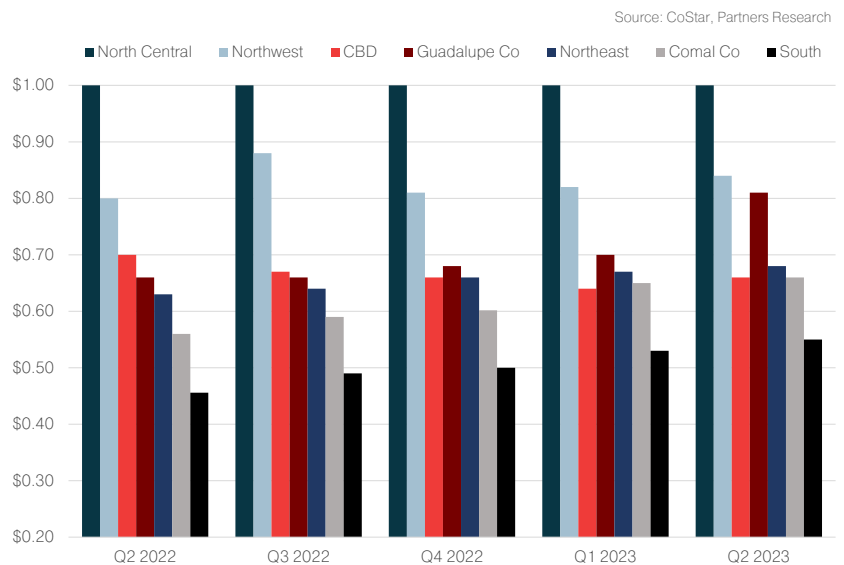


06

Asking Rents Increase 13% Year-over-Year

In Q2 2023, the average monthly rental rate for San Antonio's industrial market was \$0.69 per sq. ft., up slightly from \$0.68 per sq. ft. quarter-over-quarter, and up 13% year-over-year from \$0.61 per sq. ft. The average monthly rate per square foot for Flex space stood at \$1.17 per sq. ft., while the rates for Manufacturing space and Warehouse/Distribution space were \$0.55 per sq. ft. and \$0.63 per sq. ft., respectively. The North Central and Northwest submarkets currently have the highest overall average rates at \$1.00 per sq. ft. and \$0.84 per sq. ft., respectively.

Average Asking Monthly NNN Rent

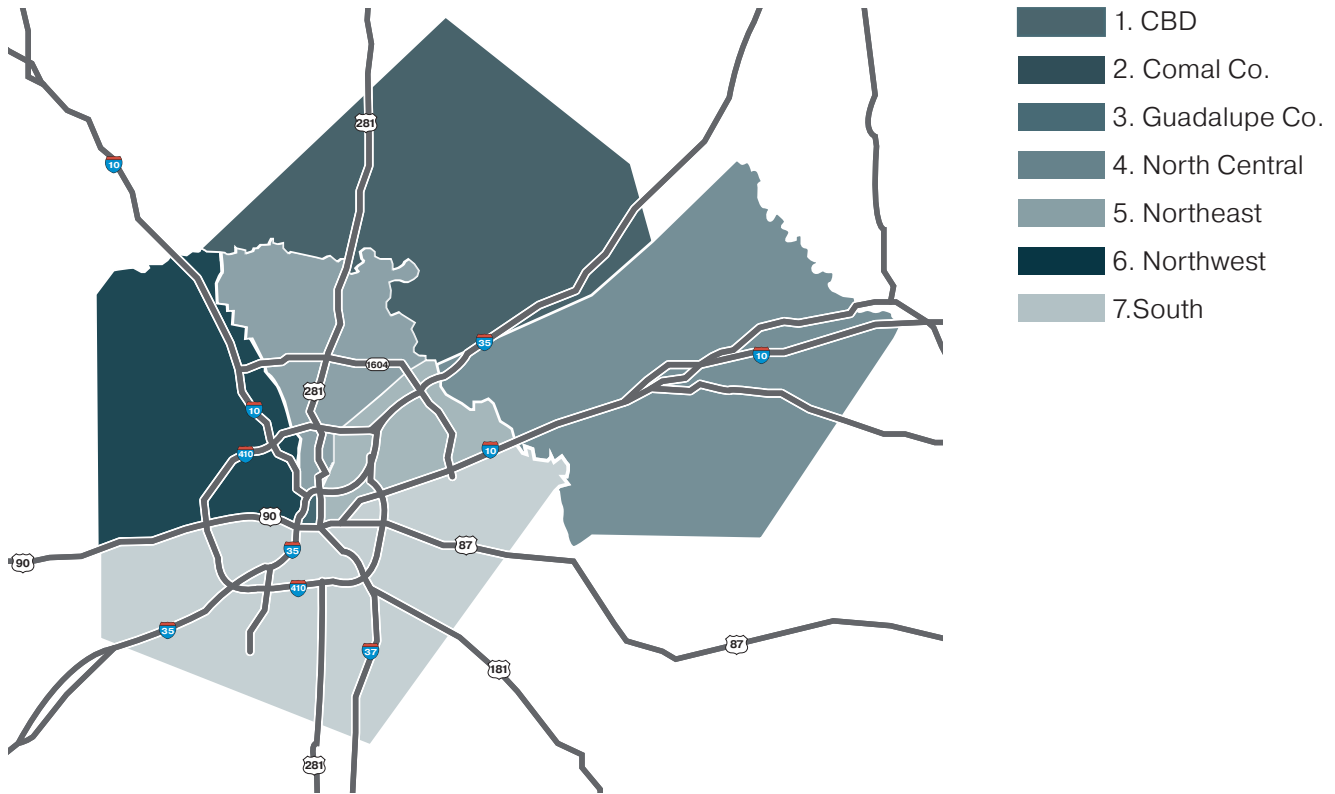


Submarket Stats

| Submarket Statistics (Total reflects Flex/Manf/WD) | Total Inventory (SF) | Total Vacancy (SF) | Total Availability (%) | Q2 2023 Net Absorption (SF) | YTD Net Absorption (SF) | Q2 2023 Deliveries (SF) | YTD Deliveries (SF) | Under Construction (SF) | Overall Gross Avg Asking Rent (\$/PSF) |
|---|-------------------------|-----------------------|---------------------------|-----------------------------------|----------------------------|----------------------------|------------------------|----------------------------|---|
| San Antonio Market Total | 149,715,585 | 5.7 | 10.3 | -8,533 | 1,143,388 | 749,330 | 4,560,012 | 7,390,484 | 0.69 |
| Flex | 13,099,932 | 5.2 | 7.2 | 37,479 | 90,681 | 0 | 0 | 345,900 | 1.17 |
| Manufacturing | 26,133,432 | 1.8 | 3.8 | 47,993 | 30,490 | 0 | 0 | 125,000 | 0.55 |
| Warehouse/Distribution | 111,165,155 | 6.7 | 12.2 | -94,005 | 1,022,217 | 749,330 | 4,560,012 | 6,919,584 | 0.63 |
| CBD Total | 2,518,649 | 1.9 | 3.3 | 10,700 | 10,700 | 0 | 0 | 0 | 0.66 |
| Flex | 588,180 | 9.2 | 9.2 | 10,700 | 10,700 | 0 | 0 | 0 | 0 |
| Manufacturing | 682,934 | 0.0 | 2.9 | 0 | 0 | 0 | 0 | 0 | 0 |
| Warehouse/Distribution | 1,930,469 | 0.9 | 1.6 | 0 | 0 | 0 | 0 | 0 | 0.66 |
| Comal County Total | 17,251,804 | 7.6 | 12.8 | -262,260 | 33,849 | 127,500 | 555,500 | 1,007,042 | 0.66 |
| Flex | 437,688 | 7.6 | 6.4 | -5,000 | -5,000 | 0 | 0 | 0 | 1.48 |
| Manufacturing | 2,387,851 | 0.4 | 14.1 | 0 | 6,000 | 0 | 0 | 0 | 0.57 |
| Warehouse/Distribution | 14,426,265 | 8.9 | 13.0 | -257,260 | 32,849 | 127,500 | 555,500 | 1,007,042 | 0.70 |
| Guadalupe County Total | 13,072,211 | 1.5 | 1.5 | 931 | 4,879 | 0 | 12,000 | 155,000 | 0.81 |
| Flex | 296,843 | 1.7 | 11.2 | -5,000 | 19,730 | 0 | 0 | 0 | 0.87 |
| Manufacturing | 5,369,306 | 0.3 | 0.0 | 0 | -13,500 | 0 | 0 | 125,000 | 0.75 |
| Warehouse/Distribution | 7,406,062 | 2.5 | 2.2 | 5,931 | -1,351 | 0 | 12,000 | 30,000 | 0.73 |
| North Central Total | 14,412,488 | 4.4 | 10.2 | -5,705 | -79,563 | 0 | 0 | 772,115 | 1.00 |
| Flex | 3,672,849 | 4.7 | 6.9 | 19,549 | -9,832 | 0 | 0 | 42,900 | 1.25 |
| Manufacturing | 1,731,270 | 8.9 | 7.7 | 0 | 0 | 0 | 0 | 0 | 0.70 |
| Warehouse/Distribution | 9,008,369 | 3.4 | 11.9 | -25,254 | -69,731 | 0 | 0 | 729,215 | 0.91 |
| Northeast Total | 43,117,780 | 5.6 | 12.6 | 20,361 | 393,113 | 152,880 | 898,633 | 2,585,744 | 0.68 |
| Flex | 2,666,855 | 6.6 | 11.0 | 15,973 | 19,064 | 0 | 0 | 0 | 1.29 |
| Manufacturing | 4,862,558 | 2.1 | 2.1 | 42,999 | 28,246 | 0 | 0 | 0 | 0.59 |
| Warehouse/Distribution | 35,588,367 | 6.0 | 14.1 | -38,611 | 345,803 | 152,880 | 898,633 | 2,585,744 | 0.59 |
| Northwest Total | 21,228,344 | 4.2 | 6.8 | 212,164 | 546,478 | 363,950 | 754,816 | 811,616 | 0.83 |
| Flex | 5,024,748 | 4.4 | 5.2 | 1,945 | 48,822 | 0 | 0 | 303,000 | 1.05 |
| Manufacturing | 2,653,739 | 6.7 | 6.5 | 0 | 0 | 0 | 0 | 0 | 0.46 |
| Warehouse/Distribution | 13,549,857 | 3.7 | 7.5 | 210,219 | 497,656 | 363,950 | 754,816 | 508,616 | 0.80 |
| South Total | 38,114,309 | 8.1 | 12.0 | 15,276 | 233,932 | 105,000 | 2,339,063 | 2,058,967 | 0.55 |
| Flex | 412,769 | 7.1 | 7.1 | -688 | 7,197 | 0 | 0 | 0 | 0.89 |
| Manufacturing | 8,445,774 | 0.1 | 2.7 | 4,994 | 9,744 | 0 | 0 | 0 | 0.44 |
| Warehouse/Distribution | 29,255,766 | 10.4 | 14.6 | 10,970 | 216,991 | 105,000 | 2,339,063 | 2,058,967 | 0.56 |

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San Antonio Industrial Submarkets



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