

San Antonio Office

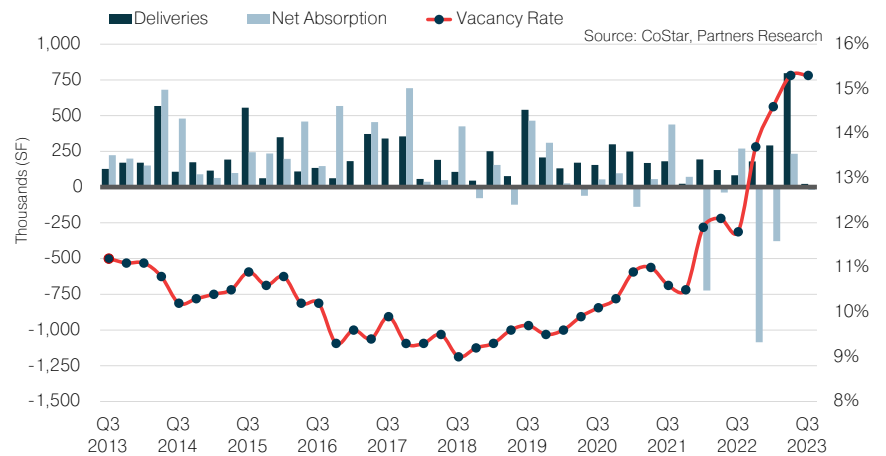
Q3 2023

Asking rent nears all-time high even as vacancy persists at elevated levels in San Antonio Office market

Q3 In Review

By the end of Q3 2023, the overall vacancy rate in the San Antonio office market remained flat from the previous quarter at 15.3%. Net absorption dipped slightly into negative territory at -19,109 sq. ft., as the metro is still recovering from past and recent move-outs such as Rackspace (-1.2 million sq. ft.) in Q4 2022, and WellMed (-189,492 sq. ft.) in Q3 2023. Year-to-date, net absorption is at -164,093 sq. ft. The Northwest submarket has reclaimed a majority of developments, accounting for 79% of the year-to-date deliveries and 64% of construction underway. Year-to-date, deliveries total 1.1 million sq. ft. Office construction is at 968,681 sq. ft., across 9 buildings, with 310,363 sq. ft. (32%) available for lease. Leasing activity increased 3% from 438,038 sq. ft. in Q2 2023 to 450,457 sq. ft. Lastly, the average asking rent increased slightly to \$24.41 per sq. ft.

Supply & Demand



San Antonio Economic Update

San Antonio's unemployment rate remained flat at 3.9% from July to August. The metro's jobless rate was lower than the state's rate of 4.1% and slightly higher than the nation's rate of 3.8%. In August, San Antonio's labor force increased an annualized 4.5%; these gains offset payroll growth, leading to the steady unemployment rate. The largest gains by sector included: leisure and hospitality (2,677 jobs, 25.6%), other services (371 jobs, 11.3%), and construction (326 jobs, 6.3%). The largest declines by sector included: professional and business services (-1,058 jobs, -7.5%), trade, transportation, and utilities (-878 jobs, -5.0%), financial services (-179 jobs, -2.1%), and manufacturing (-97 jobs, -2.0%).

Key Market Indicators

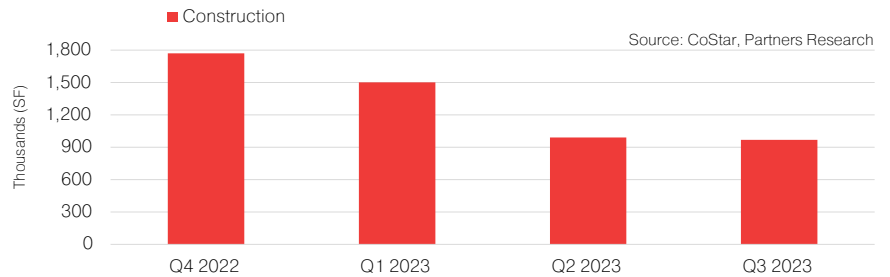
	CURRENT Q3 2023	PRIOR QUARTER Q2 2023		PRIOR YEAR Q3 2022	
Vacant Total	15.3%	15.3%	—	11.8%	▲
Vacant Direct	14.3%	14.4%	▼	10.5%	▲
Available Total	18.4%	18.3%	▲	15.5%	▲
Available Direct	17.2%	17.2%	—	14.0%	▲
Net Absorption (SF)	-19,104	232,942	▼	269,613	▼
Leasing Activity (SF)	450,867	438,048	▲	617,956	▼
Construction (SF)	968,681	990,981	▼	1,615,623	▼
Deliveries (SF)	22,000	797,040	▼	83,000	▼
Avg Asking Rent (Gross)	\$24.41	\$24.26	▲	\$24.09	▲
Inventory (SF)	67,774,337	67,752,337	▲	66,483,405	▲

01

The Northwest Submarket leads the way in Construction and Deliveries

During the quarter, the Northwest submarket once again controlled office supply in San Antonio—accounting for 64% of construction underway and 79% of year-to-date deliveries. Office construction is at 968,681 sq. ft., across 9 buildings, with 310,363 sq. ft. (32%) available for lease. Deliveries are at 22,000 sq. ft., down from 797,040 sq. ft. in Q2 2023. Year-to-date, deliveries totaled 1.1 million sq. ft. Located in the Northwest submarket, a 22,000-sq.-ft. office space (Building 5) at 4318 De Zavala Road was recently completed in September 2023.

Construction

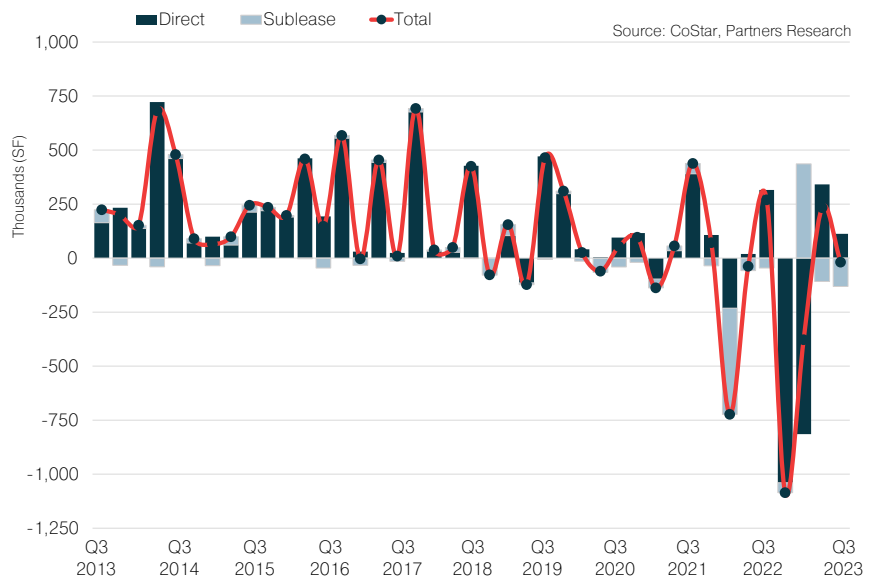


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Negative Net Absorption in Q3 2023

Net absorption—move-ins minus move-outs—fell into negative territory at -19,104 sq. ft., plummeting from 232,942 sq. ft. in Q2 2023. Year-to-date, net absorption is at -164,093 sq. ft., During the third quarter, WellMed moved out of The Oaks at University Business Park—a three-building complex totaling 189,492 sq. ft. Building 2 (44,005 sq. ft.), Building 3 (80,439 sq. ft.) and Building 4 (65,048 sq. ft.) are located in the Northwest submarket on Network Boulevard, and were prominent contributors to the third quarter’s negative net absorption. In addition, San Antonio’s office sector is still recovering from past significant move-outs such as Rackspace (-1.2 million sq. ft.) in Q4 2022, which accounted for a majority of the metro’s negative net absorption over the past 12 months. As a result, San Antonio is likely to see improved fundamentals once these move-outs shift out of the city’s trailing 12-month absorption figure.

Net Absorption

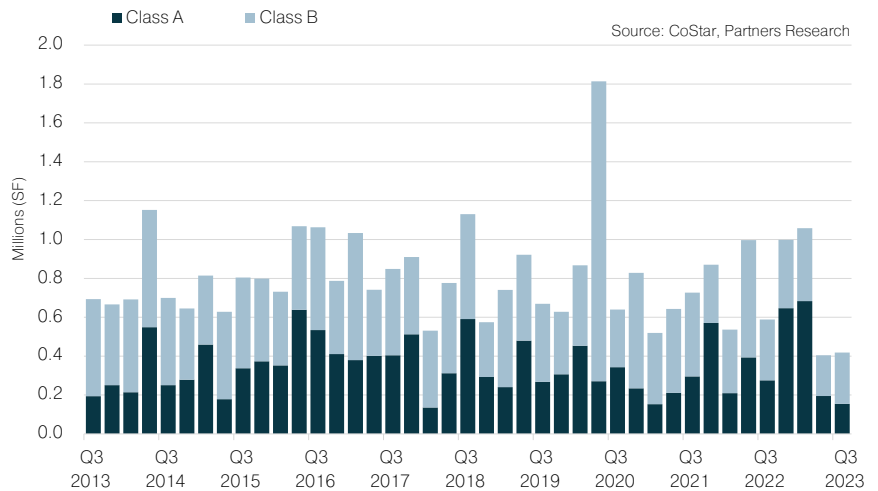


03

Leasing Activity Up 3% Quarter-Over-Quarter

Quarterly leasing velocity—which is comprised of new leases and renewals—stood at 450,457 sq. ft.—up 3% from 438,048 sq. ft. in Q2 2023. Year-to-date, leasing activity registered at 1.9 million sq. ft. In Q3 2023, Bridgehead IT signed a lease for 15,280 sq. ft. of office space at 1355 South Central Parkway in September, and Oracle inked a deal for 17,464 sq. ft. of office space at 613 Northwest Loop 410 in August.

Leasing Activity

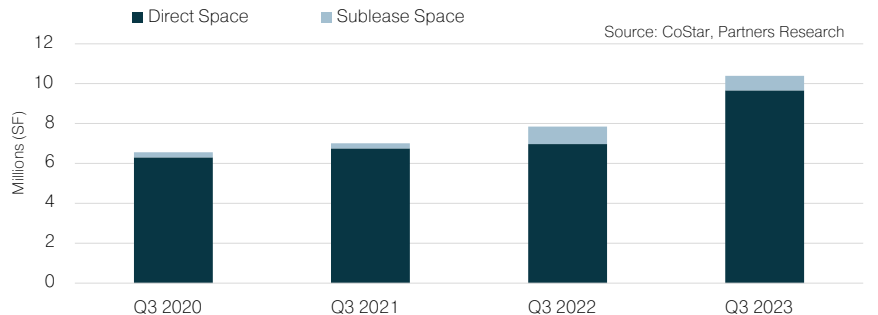


04

Vacancy Rate Remains At 15.3%

The overall vacancy rate in San Antonio's office market remained flat from the previous quarter at 15.3%. Class A and Class B properties have vacancy rates of 21.4% and 13.8%, respectively. The Northeast submarket recorded the greatest overall vacancy rate increase from 34.4% to 36.0%. The South submarket noted the greatest overall vacancy rate decrease from 12.4% to 9.4%.

Vacancy Rate

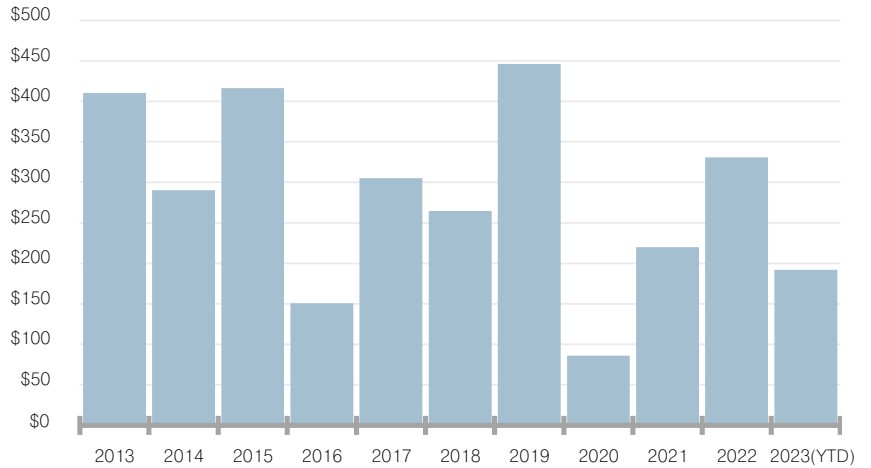


05

Investment Sales Trends

Year-to-date, CoStar Capital Analytics reports the cumulative 12-month sales volume for 2023 at \$192 million in the San Antonio office market. With 140 deals completed thus far in 2023, the average transaction price currently stands at \$267 per sq. ft. with an average transaction cap rate of 6.9%. A notable transaction in Q3 2023 included QPM Enterprises, closing on two buildings in August 2023. Building 1 (Tech Ridge I) encompasses 72,474 sq. ft. of office space at 12668 Silicon Drive and Building 2 (Tech Ridge II) contains 46,265 sq. ft. of office space at 12672 Silicon Drive. Located in the Northwest submarket, this acquisition was 100% leased at the time of sale.

Year-To-Date Cumulative Sales Volume

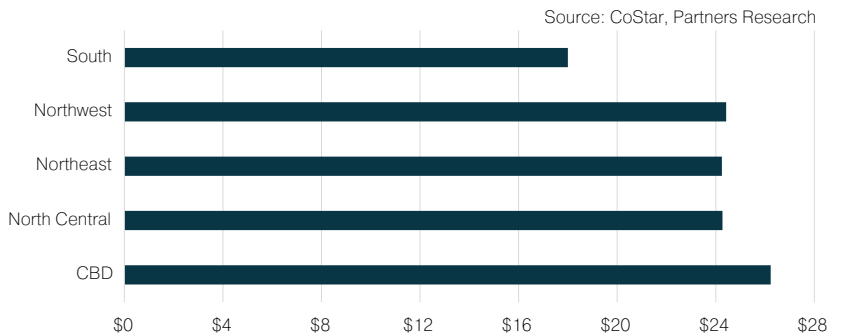


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Rent Increases To \$24.41 Per Sq. Ft.

The San Antonio office overall full-service average rate stands at \$24.41 per sq. ft., up slightly from the previous quarter's \$24.26 per sq. ft., and the previous year's \$24.09 per sq. ft. Asking rates for overall Class A and Class B space are at \$27.46 per sq. ft. and \$22.50 per sq. ft. respectively. Submarkets with the highest quarter-over-quarter increases in asking rates include the CBD at \$36.23 per sq. ft. (1%), and the Northwest at \$24.42 per sq. ft. (2%).

Overall Gross Asking Rent (\$/PSF)



Market Overview

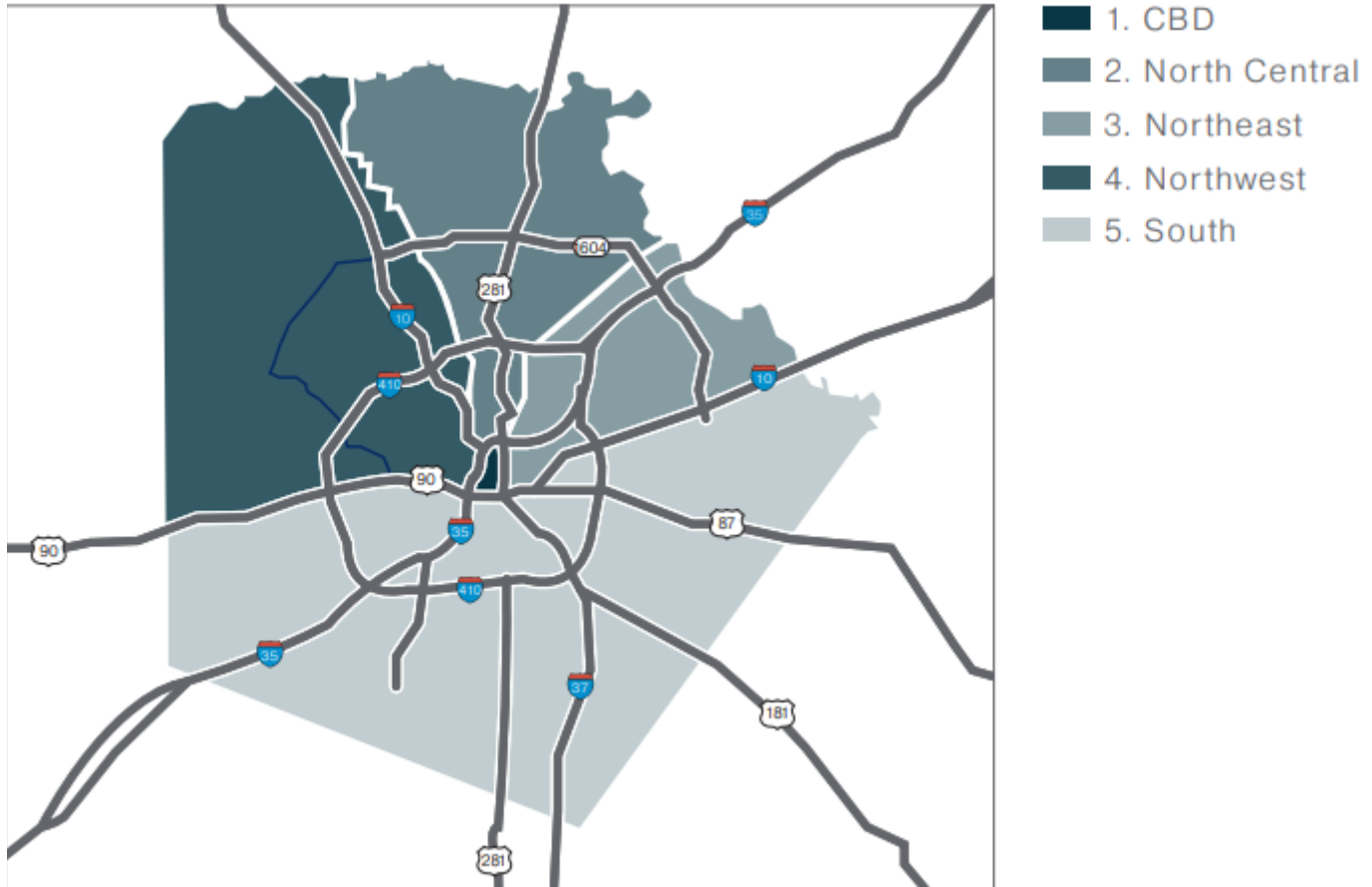
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Submarket Stats

Submarket Statistics (Total reflects Class A/B)	Total Inventory (SF)	Total Vacancy (%)	Total Availability (%)	Q3 2023 Net Absorption (SF)	2023 YTD Net Absorption (SF)	Q3 2023 Leasing Activity (SF)	Q3 2023 Deliveries (SF)	Under Construction (SF)	Overall Gross Avg Asking Rent (\$/PSF)
San Antonio Total	67,774,337	15.30	18.40	-19,104	-164,093	450,867	22,000	968,681	24.41
Class A	20,715,558	21.40	24.50	-97,570	-489,839	154,178	22,000	682,264	27.46
Class B	39,227,897	13.80	17.10	78,430	376,978	264,440	0	286,417	22.50
Suburban Total	58,822,765	15.00	17.90	-22,641	111,200	430,464	22,000	968,681	24.32
Class A	17,202,138	19.20	22.60	-133,561	-210,179	140,623	22,000	682,264	27.31
Class B	35,203,889	14.10	17.10	110,663	364,558	257,592	0	286,417	22.40
CBD Total	8,951,572	17.70	21.70	3,537	-275,293	20,403	0	0	26.23
Class A	3,513,420	31.70	34.70	35,991	-279,660	13,555	0	0	32.56
Class B	4,024,008	11.40	17.60	-32,233	12,420	6,848	0	0	23.92
North Central Total	17,791,101	16.40	19.20	27,279	-49,371	182,349	0	74,265	24.27
Class A	7,636,969	19.70	21.80	8,485	-109,740	65,857	0	74,265	26.38
Class B	8,655,278	15.10	18.60	11,085	27,661	110,183	0	0	23.01
Northeast Total	6,017,866	36.00	37.80	-95,978	-83,656	34,321	0	72,999	24.25
Class A	1,640,931	17.90	16.90	-46,957	103,073	7,585	0	72,999	28.83
Class B	3,410,103	51.20	54.80	-23,257	-159,666	20,443	0	0	22.70
Northwest Total	32,535,853	11.20	14.20	54,586	293,448	209,794	22,000	621,417	22.42
Class A	7,543,620	20.00	24.90	-95,089	-203,512	67,181	22,000	335,000	27.82
Class B	21,674,890	8.60	11.40	124,163	503,004	126,966	0	286,417	21.66
South Total	2,477,945	3.60	9.40	-8,528	-49,221	4,000	0	200,000	18.00
Class A	380,618	0.80	17.80	0	0	0	0	200,000	0.00
Class B	1,463,618	2.70	6.60	-1,328	-6,441	0	0	0	0.00

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San Antonio Office Submarkets



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