San Antonio Industrial

Q3 2023

QUARTERLY MARKET REPORT

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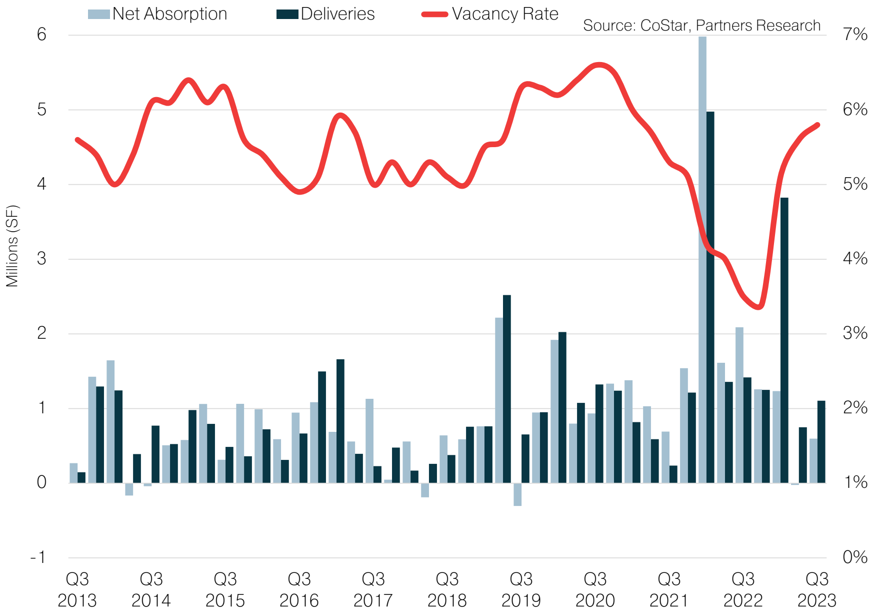
Executive Summary

South(ern) Comfort: Submarket leads way in San Antonio Industrial year-to-date deliveries

Q3 2023 in Review

By the end of Q3 2023, the overall vacancy rate in the San Antonio industrial market rose 20 basis points quarter-over-quarter, from 5.6% to 5.8%. Net absorption shifted from -24,901 sq. ft. in Q2 2023 to positive 595,967 sq. ft. in Q3 2023. Dixie Flooring & Floors, Inc. and OnTrac move-ins contributed to the third quarter's positive absorption. Deliveries are at 1.1 million sq. ft., up 47% from the prior quarter's 749,330 sq. ft. Year-to-date, deliveries are at 5.6 million sq. ft.—with the South submarket accounting for 59% of the space delivered. Lastly, the average monthly rental rate reached $0.70 per sq. ft., a record-high for San Antonio's industrial market.

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	5.8%	5.6%	⬆	3.5%	⬆
Vacant Direct	5.7%	5.4%	⬆	3.4%	⬆
Available Total	9.8%	9.4%	⬆	8.6%	⬆
Available Direct	9.5%	9.0%	⬆	8.1%	⬆
Net Absorption (SF)	595,967	-24,901	⬆	2,087,297	⬇
Leasing Activity (SF)	1,459,774	1,869,910	⬇	2,907,032	⬇
Construction (SF)	6,017,708	6,047,716	⬇	8,187,305	⬇
Deliveries (SF)	1,105,196	749,330	⬆	1,416,395	⬇
Avg Asking Rent (NNN/MO)	$0.70	$0.69	⬆	$0.65	⬆
Inventory (SF)	152,338,514	151,233,318	⬆	145,408,797	⬆

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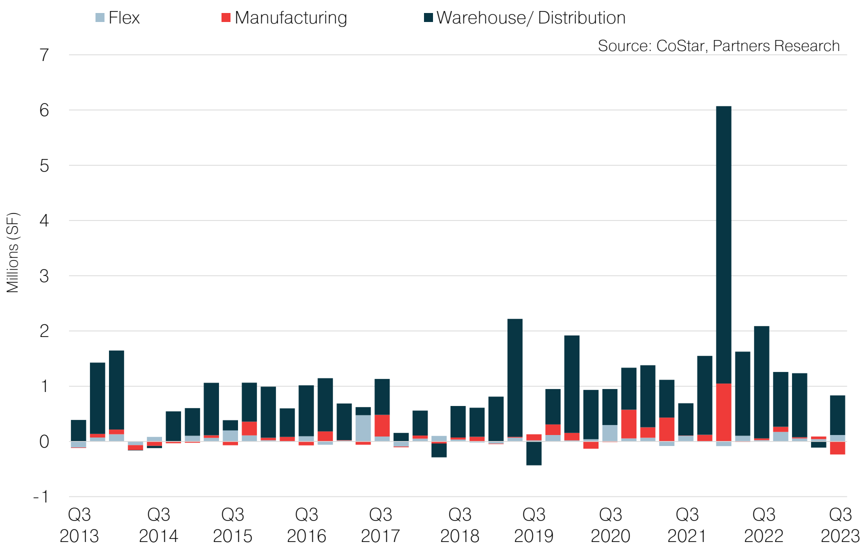
Net Absorption Turns Positive in Q3 2023

Net absorption—move-ins minus move-outs—increased to 595,967 sq. ft., rebounding from -24,901 sq. ft. in Q2 2023. Year-to-date, net absorption has totaled 1.8 million sq. ft. Warehouse/Distribution space and Flex Space recorded positive absorption of 716,693 sq. ft. and 115,433 sq. ft., respectively. Manufacturing space logged negative absorption of -236,159 sq. ft. Dixie Flooring & Floors Inc., filled 106,356-sq. ft. of warehouse space at 5930-6010 Eisenhauer Road in September. In addition, OnTrac occupied 104,000-sq. ft. of warehouse space at 17670 Four Oaks Lane in July.

Net Absorption



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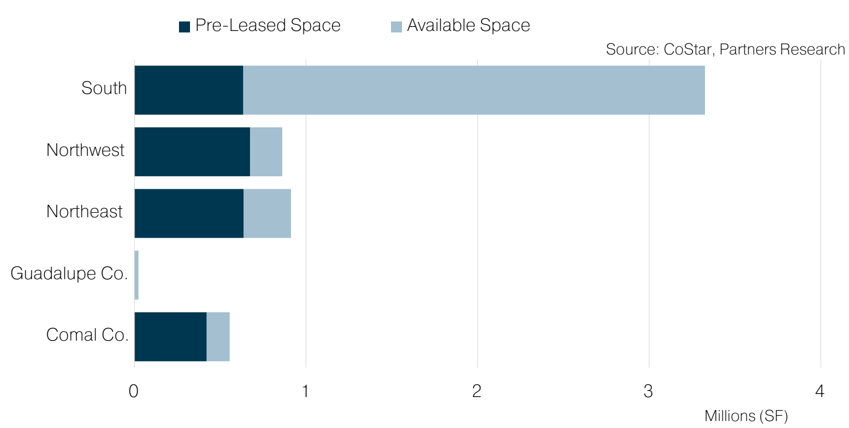
The South Dominates Deliveries

Deliveries in the San Antonio industrial market increased to 1.1 million sq. ft., ticking up 47% from 749,330 sq. ft. in Q2 2023. Year-to-date, deliveries are at 5.6 million sq. ft.—with the South submarket accounting for 59% of the space delivered. A master-planned industrial development, Foster Commerce Center, added 651,596 sq. ft. to Q3's deliveries. Building 2 (406,402 sq. ft.) and Building 3 (295,194 sq. ft.) were completed in August 2023 and are located at 1122 South Foster Road between Interstate 10 and US Highway 87. In addition, a 252,600-sq.-ft. distribution center at the intersection of Dunton Street and North Tayman Street was delivered in September 2023. Construction is at 2.6 million sq. ft., down 10% from 2.9 million sq. ft. last quarter.

Deliveries



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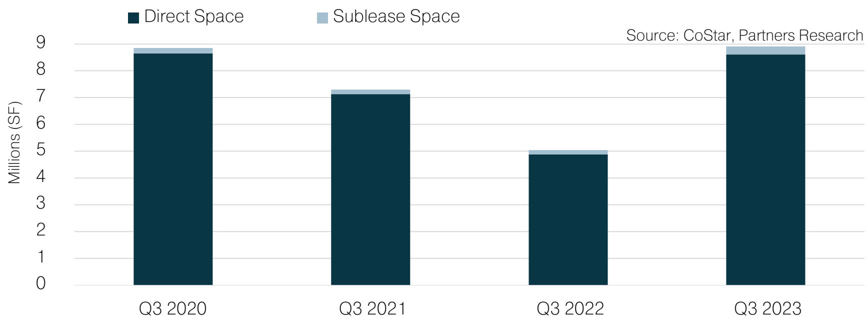
Vacancy Rate Increases to 5.8%

The overall vacancy rate in San Antonio's industrial market rose to 5.8%, increasing 20 basis points from the prior quarter (5.6%). Only 44% of the year-to-date deliveries have been fully leased, contributing to the increase in the overall vacancy rate. Despite the slight increase, the overall vacancy rate has remained relatively stable, averaging 5.5% over the last 10 years. Flex, Manufacturing, and Warehouse/Distribution space have vacancy rates of 5.6%, 2.1%, and 6.8%, respectively.

Vacancy



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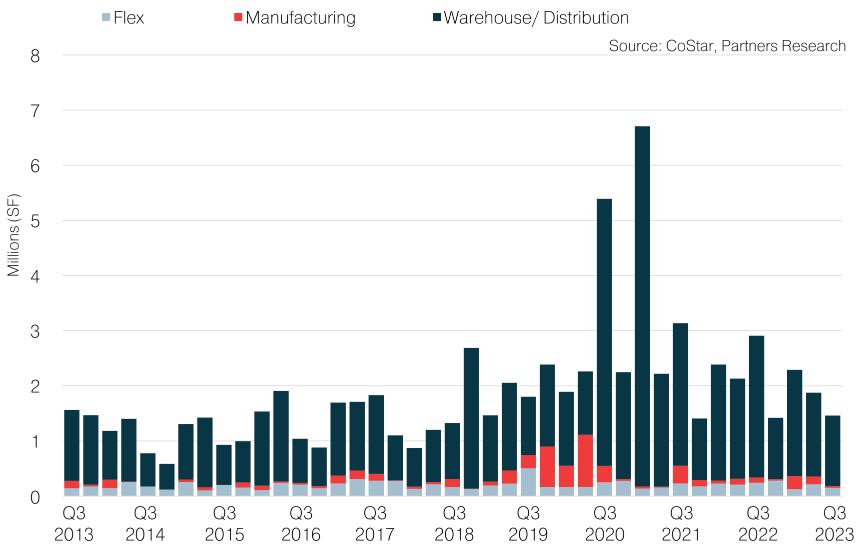
Leasing Down 22% Quarter-Over-Quarter

Quarterly leasing velocity—which is comprised of both new leases and renewals—stood at 1.4 million sq. ft. during the third quarter—down 22% from 1.8 million sq. ft. in Q2 2023. Year-to-date, leasing activity registered at 5.6 million sq. ft. A transaction within the third quarter included Mega Furniture's lease renewal on a 101,200-sq.-ft. distribution center at 8627 NE Loop 410 in July 2023.

Leasing Activity



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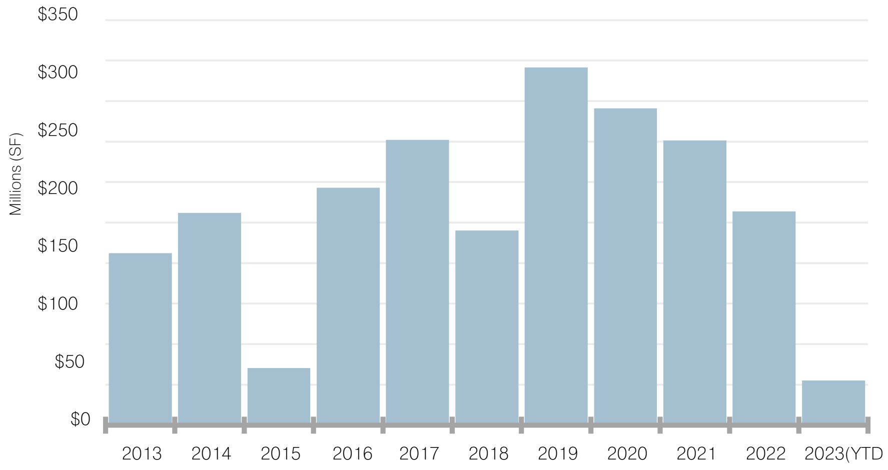
Investment Sales Trends

Year-to-date, Costar Capital Markets Analytics reports the cumulative 12-month sales volume for 2023 at $38.7 million in the San Antonio Industrial market. With 167 deals completed thus far in 2023, the average transaction price currently stands at $117 per sq. ft. with an average transaction cap rate at 7.7%. A notable transaction in Q3 2023 included Capstar Real Estate Advisors closing on a 490,083-sq.-ft. distribution center at 6851 Cal Turner Drive.

Year-To-Date Investment Sales Volume



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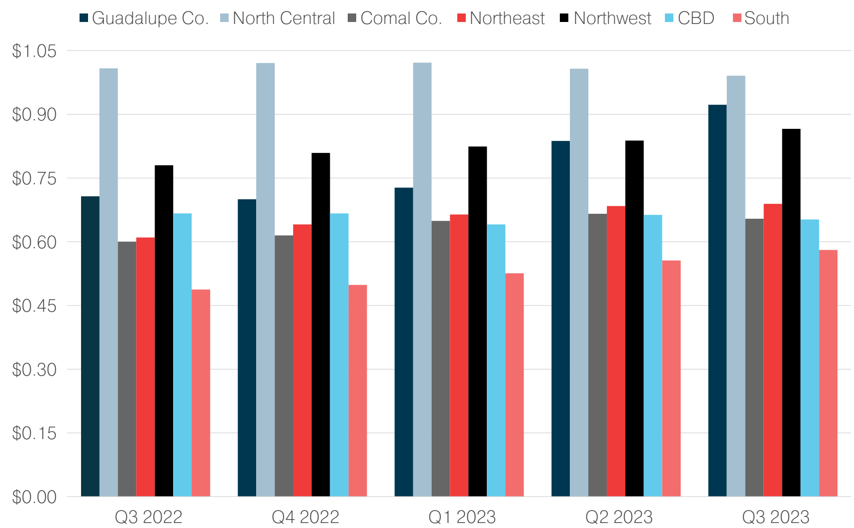
Record-High Rental Rates

The average monthly rental rate for the San Antonio industrial market reached a record-high $0.70 per sq. ft. in Q3 2023, up 8% year-over-year from $0.65 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 and Warehouse/Distribution space were at $0.54 per sq. ft. and $0.63 per sq. ft., respectively. The North Central and Guadalupe County submarkets command the highest monthly average rates at $0.99 per sq. ft. and $0.92 per sq. ft.

Average Asking Monthly NNN Rent



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Submarket Stats

Submarket Statistics (Total reflects Flex/Manf/WD)	Total Inventory (SF)	Total Vacancy (%)	Total Availability (%)	Q3 2023 Net Absorption (SF)	YTD Net Absorption (SF)	Q3 2023 Deliveries (SF)	YTD Deliveries (SF)	Under Construction (SF)	Overall Avg Asking Rent (NNN/MO)
San Antonio Market Total	**152,338,514**	**5.80%**	**9.80%**	**595,967**	**1,804,512**	**1,105,196**	**5,679,238**	**6,017,708**	**0.70**
Flex	13,352,469	5.60%	8.30%	115,433	208,344	187,000	187,000	238,900	1.17
Manufacturing	26,393,792	2.10%	3.60%	-236,159	-165,882	0	0	125,000	0.54
Warehouse/Distribution	112,592,253	6.80%	11.40%	716,693	1,762,060	918,196	5,492,238	5,653,808	0.64
CBD Total	**3,242,939**	**3.10%**	**5.50%**	**-40,291**	**-29,591**	**0**	**0**	**0**	**0.65**
Flex	614,625	13.10%	13.10%	-37,145	-26,445	0	0	0	0.00
Manufacturing	682,934	2.90%	2.90%	-20,000	-20,000	0	0	0	0.00
Warehouse/Distribution	1,945,380	0.00%	4.00%	16,854	16,854	0	0	0	0.65
Comal County Total	**17,395,237**	**7.30%**	**12.40%**	**34,662**	**62,537**	**0**	**555,500**	**1,224,254**	**0.65**
Flex	437,688	6.40%	6.40%	5,000	0	0	0	0	1.46
Manufacturing	2,387,851	10.90%	15.10%	-252,049	-246,049	0	0	0	0.57
Warehouse/Distribution	14,569,698	6.90%	12.40%	281,711	308,586	0	555,500	1,224,254	0.69
Guadalupe County Total	**13,367,935**	**0.80%**	**1.70%**	**104,327**	**126,830**	**12,000**	**24,000**	**155,000**	**0.92**
Flex	289,962	8.50%	18.30%	-20,950	3,780	0	0	0	0.88
Manufacturing	5,599,306	0.00%	0.00%	13,500	0	0	0	125,000	0.75
Warehouse/Dsitribution	7,478,667	1.10%	2.30%	111,777	123,050	12,000	24,000	30,000	0.98
North Central Total	**14,461,307**	**4.70%**	**10.90%**	**-73,601**	**-155,944**	**0**	**0**	**732,115**	**0.99**
Flex	3,676,364	6.50%	9.40%	-61,148	-73,760	0	0	42,900	1.12
Manufacturing	1,731,270	6.80%	5.20%	1,951	1,951	0	0	0	0.59
Warehouse/Distribution	9,053,673	3.60%	12.40%	-14,404	-84,135	0	0	689,215	0.91
Northeast Total	**43,061,873**	**5.40%**	**10.70%**	**11,981**	**458,881**	**0**	**912,663**	**1,811,655**	**0.69**
Flex	2,666,855	5.50%	10.70%	24,195	43,259	0	0	0	1.32
Manufacturing	4,876,038	1.60%	2.20%	-12,330	55,703	0	0	0	0.61
Warehouse/Distribution	35,518,980	6.00%	11.80%	116	359,919	0	912,663	1,811,655	0.59
Northwest Total	**21,463,763**	**3.20%**	**6.70%**	**217,731**	**776,209**	**107,000**	**861,816**	**730,461**	**0.87**
Flex	5,174,206	3.90%	5.70%	117,772	166,594	107,000	107,000	196,000	1.12
Manufacturing	2,656,981	1.90%	5.50%	54,924	54,924	0	0	0	0.46
Warehouse/Distribution	13,632,576	3.20%	7.40%	45,035	554,691	0	754,816	534,461	0.85
South Total	**39,345,460**	**9.40%**	**11.90%**	**341,158**	**565,590**	**986,196**	**3,325,259**	**1,364,223**	**0.58**
Flex	492,769	4.40%	4.40%	87,709	94,906	80,000	80,000	0	0.89
Manufacturing	8,459,412	0.40%	2.70%	-22,155	-12,411	0	0	0	0.43
Warehouse/Distribution	30,393,279	12.00%	14.50%	275,604	483,095	906,196	3,245,259	1,364,223	0.58

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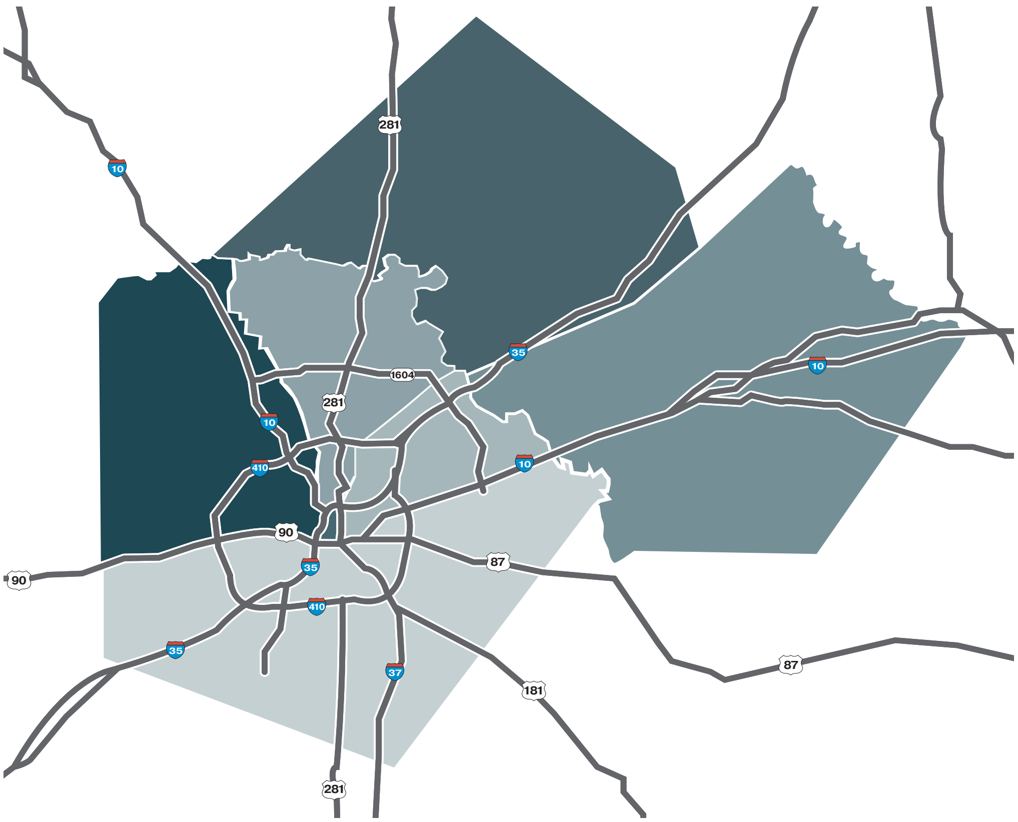
San Antonio Industrial Submarkets



1. CBD
2. Comal Co.
3. Guadalupe Co.
4. North Central
5. Northeast
6. Northwest
7.South

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