

San Antonio Office

Q4 2023

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Quarterly Market Report

San Antonio Office market ends year with lowest vacancy rate in Texas

Executive Summary

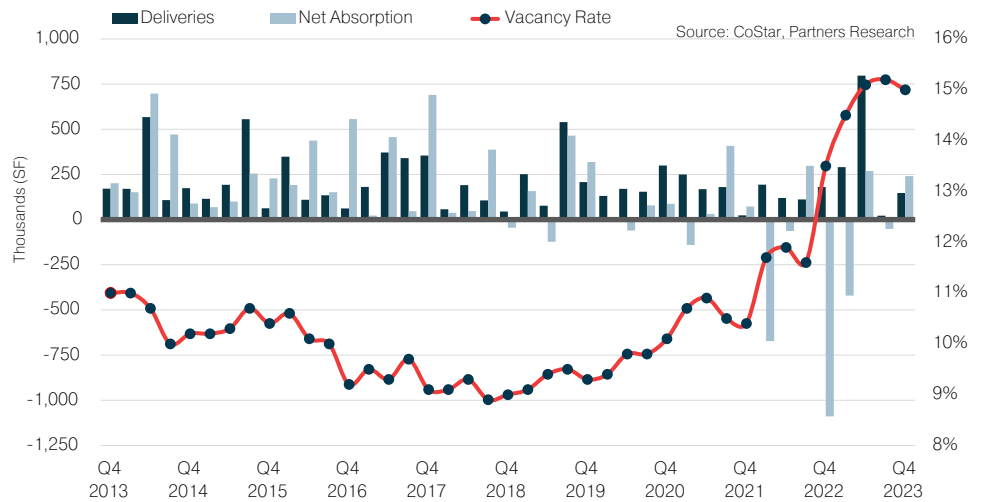
Q4 in Review

By the end of Q4 2023, the overall vacancy rate in the San Antonio office market increased 150 basis points year-over-year, from 13.5% to 15.0%—closing the year with the lowest overall vacancy rate in Texas. The low vacancy rate is attributed to the continuous slowdown of new supply through 2023. Construction is at 276,722 sq. ft.—down 35% quarter-over-over from 432,986 sq. ft. and 80% down year-over-year from 1.4 million sq. ft. Deliveries are at 147,264 sq. ft., bringing the year-to-date total to 1.2 million sq. ft. Net absorption is at 240,988 sq. ft. WellMed's move-ins (386,040 sq. ft.) and Microsoft's move-ins (269,000 sq. ft.) throughout the year, helped bring year-to-date net absorption to 38,224 sq. ft. Lastly, office rent growth cooled year-over-year in San Antonio, with the average full-service asking rate at \$23.34 per sq. ft., 5% down from \$24.66 per sq. ft. last year.

San Antonio Economic Update

San Antonio's unemployment rate decreased to 3.8%, slightly down from 3.9% in September 2023, according to the latest release of San Antonio's Economic Indicators. The metro's jobless rate lagged the state and national rates at 4.1% and 3.9%, respectively. In October, San Antonio's labor force increased by an annualized 3.6%, as strong job growth offset gains in the labor force, leading to a lower employment rate. The largest gains by sector included: manufacturing (+729 jobs, 15.5%), leisure and hospitality (+1,623 jobs, 14.6%), and government (+8,600, 5.8%). The largest declines by sector included: financial activities (-200 jobs, -0.5%), education and health services (-299 jobs, -2.0%), and other services (-17 jobs, -0.5%).

Supply & Demand



Key Market Indicators

	CURRENT Q4 2023	PRIOR QUARTER Q3 2023		PRIOR YEAR Q4 2022	
Vacant Total	15.0%	15.2%	↓	13.5%	↑
Vacant Direct	14.1%	14.1%	—	12.1%	↑
Available Total	18.4%	18.5%	↓	17.7%	↑
Available Direct	17.3%	17.3%	—	16.1%	↑
Net Absorption (SF)	240,988	-51,600	↑	-1,089,594	↑
Leasing Activity (SF)	583,258	403,607	↑	688,378	↓
Construction (SF)	276,722	423,986	↓	1,411,867	↓
Deliveries (SF)	147,264	22,000	↑	180,114	↓
Avg Asking Rent (FSG)	\$23.34	\$24.41	↓	\$24.66	↓
Inventory (SF)	68,195,369	68,048,105	↑	66,938,224	↑

Market Overview

Positive Net Absorption in Q4 2023

Net absorption—move-ins minus move-outs—is at 240,988 sq. ft., improving year-over-year from -1.0 million sq. ft. Year-to-date, net absorption is at 38,224 sq. ft., up from the prior year-to-date number of -1.5 million sq. ft. For the quarter, Class A space registered 408,767 sq. ft. of positive absorption, and Class B space logged -177,335 sq. ft. of negative absorption—emphasizing the ongoing “flight to quality” trend in San Antonio’s office market. WellMed secured the largest move-in for the year—occupying 219,000 sq. ft. of Class A office space at 19500 West Interstate 10 (Building 2) in April. WellMed also filled an additional 167,040 sq. ft. (Building 1) of Class A office space within the North Rim Corporate Campus in May—expanding their San Antonio office presence to 500,086 sq. ft. Microsoft occupied an additional 152,000 sq. ft. of Class A office space at 3545 Wiseman Boulevard in November after initially occupying 107,000 sq. ft. in September (same location)—expanding their San Antonio office presence to 355,736 sq. ft.

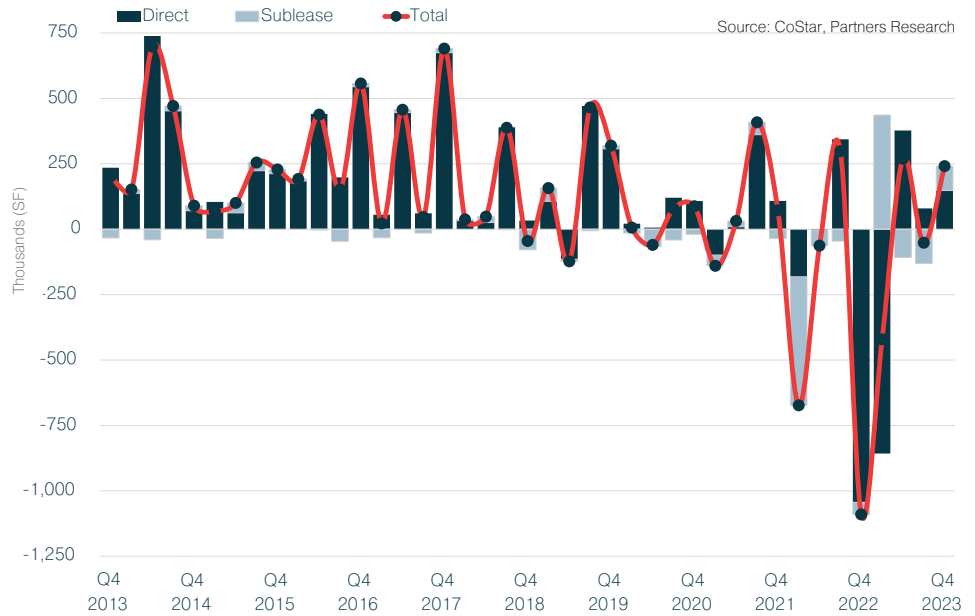
Total Deliveries Top 1.2 Million Sq. Ft.

Deliveries are at 147,264 sq. ft., down 18% from the prior year’s 180,114 sq. ft. Despite the decrease, year-to-date deliveries registered at 1.2 million sq. ft., almost doubling from the previous year-to-date number of 605,196 sq. ft. This marks the first time in 24 quarters—since Q4 2017—that year-to-date deliveries surpassed 1.2 million sq. ft. The Northwest submarket solidified its delivery lead for 2023—with 877,444 sq. ft. completed (70%). Most space delivered in the past 12 months has been pre-leased or built-to-suit. For example, The North Rim Corporate Campus is tied to the year’s largest move-in and the year’s largest delivery—totaling 717,040 sq. ft. in April—accounting for 57% of total deliveries in 2023. Construction is at 276,722 sq. ft., 80% down from the prior year’s 1.4 million sq. ft. Over the last three years, construction has averaged 1.4 million sq. ft. annually.

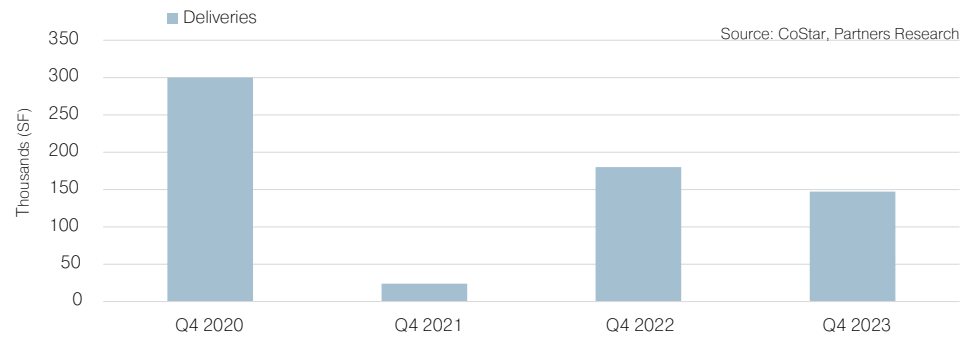
Leasing Activity 15% Down Year-Over-Year

Quarterly leasing activity—comprised of new leases and renewals—stood at 583,258 sq. ft.—down 15% year-over-year from 688,378 sq. ft. Year-to-date, leasing activity is at 2.5 million sq. ft., down from the prior year-to-date tally of 2.8 million sq. ft. By year-end, 13 leases were signed, with the lease sizes averaging out at 57,432 sq. ft. The North Central submarket led leasing activity for the fourth quarter—registering 333,993 sq. ft.—or 57% of office deals inked—Rackspace obtained 80,000 sq. ft. at 19122 North U.S. Highway 281 in February, and KCI Technologies obtained 23,000 sq. ft. at 2806 West Bitters Road in March 2023.

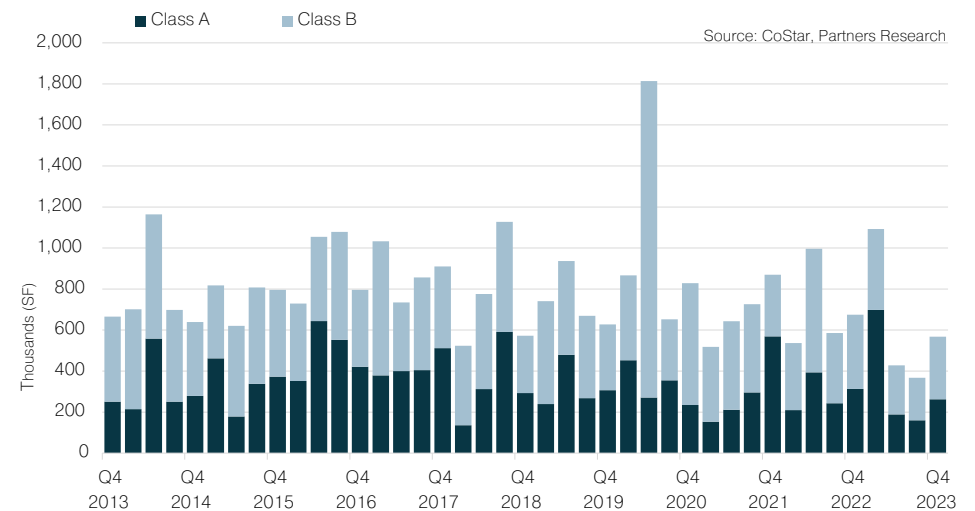
Net Absorption



Deliveries



Leasing Activity



Vacancy Rate at 15.0%

The overall vacancy rate in San Antonio's office market is at 15.0%. Quarter-over-quarter, the vacancy rate decreased 20 basis points from 15.2%. Year-over-year, the vacancy rate increased 150 basis points from 13.5%. Class A and Class B spaces have vacancy rates of 20.1% and 14.1%, respectively. Class A submarkets with the greatest year-over-year increases include: CBD (23.9% to 30.3%), Northwest (14.2% to 20.4%), and North Central (11.6% to 16.5%). Class B submarkets with the greatest year-over-year increases include: Northeast (44.1% to 49.4%), Northwest (8.2% to 9.2%), and CBD (10.4% to 11.0%). As of year-end, San Antonio holds the lowest overall office vacancy rate in Texas.

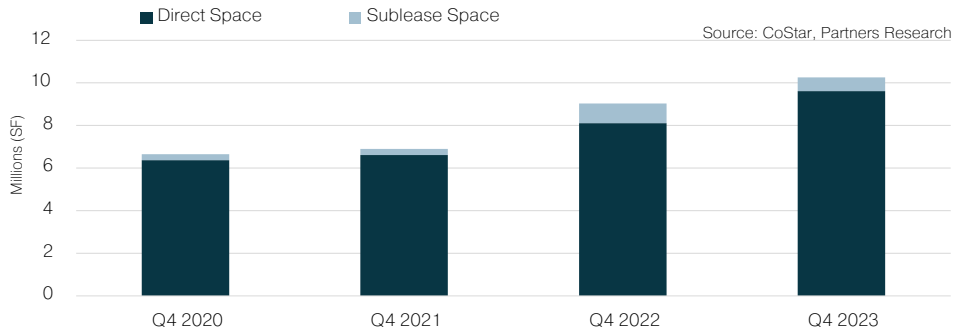
Investment Sales Trends

CoStar Capital Market Analytics reports the cumulative 12-month sales volume for Q4 2023 at \$168 million, 49% down from \$331 million in Q4 2022. By year-end, 191 deals were completed in the San Antonio office market with an average transaction price of \$205 and an average cap rate of 6.9%. Notable transactions in 2023 included Truist Securities Inc. acquiring a 321,840-sq.-ft. office building from NuStar Energy for \$103 million in March, and Advenir Inc. securing a 109,320-sq.-ft. office building from Gemini Rosemont Commercial Real Estate for \$19.5 million in June. Both properties were 100% leased at the time of sale.

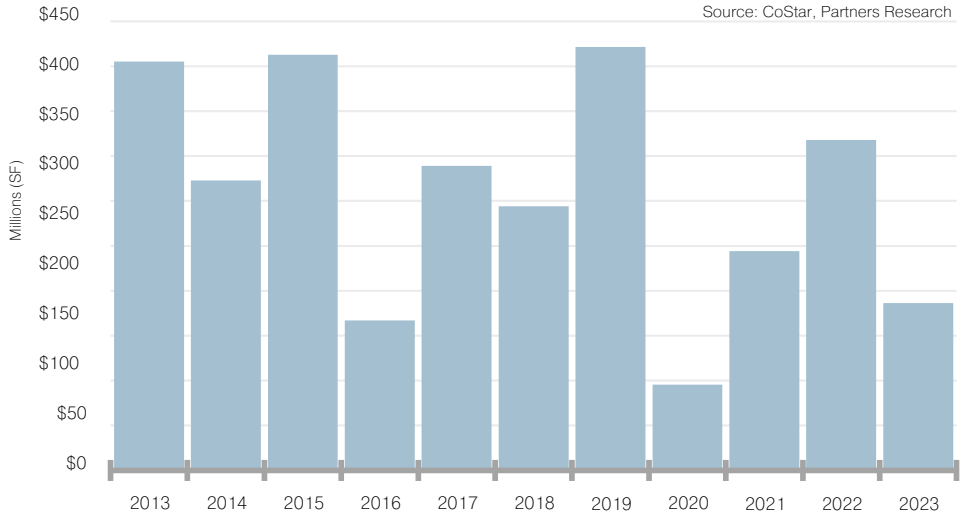
Rent Growth Cools Down

San Antonio's full-service average rent stands at \$23.34 per sq. ft., 4% down from the previous quarter's \$24.41 per sq. ft. and 5% down from last year's \$24.66 per sq. ft. Asking rents for Class A and Class B space are at \$25.91 per sq. ft. and \$22.59 per sq. ft., respectively. On the quarter, submarkets with the highest asking rents include North Central at \$24.26 per sq. ft., followed by CBD at \$24.00 per sq. ft. The South submarket logged the lowest asking rent at \$18.00 per sq. ft. CoStar Market Analytics projects year-over-year rent growth to continue to cool (-1.7%) by Q4 2024.

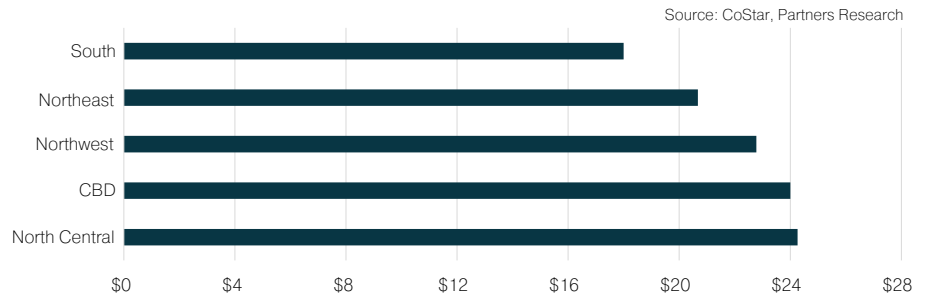
Vacancy



Cumulative Sales Volume



Overall Gross Asking Rent (\$/PSF)



Market Overview

Submarket Stats

Submarket Statistics (Total reflects Class A/B Only)	Total Inventory (SF)	Total Vacancy (%)	Total Availability (%)	Q4 2023 Net Absorption (SF)	2023 YTD Net Absorption (SF)	Q4 2023 Leasing Activity (SF)	Q4 2023 Deliveries (SF)	Overall Gross Avg Asking Rent (\$/PSF)
San Antonio Market Total	68,195,369	15.0%	15.2%	240,988	38,224	583,258	147,264	23.34
Class A	20,536,004	20.1%	24.5%	408,767	-105,209	262,915	147,264	25.91
Class B	39,840,096	14.0%	17.3%	-177,335	185,109	304,446	0	22.49
CBD Total	9,286,891	17.1%	20.9%	30,237	-256,242	93,417	0	24.00
Class A	3,492,574	30.3%	33.8%	57,325	-222,335	0	0	25.00
Class B	4,315,458	11.0%	16.3%	-27,088	-25,854	93,417	0	23.62
North Central Total	17,968,842	15.0%	17.5%	321,009	248,022	333,993	74,265	24.26
Class A	7,686,316	17.0%	18.5%	243,743	110,803	204,071	74,265	27.09
Class B	8,783,672	14.7%	17.9%	78,163	105,408	125,827	0	22.97
Northeast Total	6,251,822	34.9%	36.2%	55,128	-28,528	12,306	72,999	20.67
Class A	1,686,708	16.5%	16.4%	87,287	190,360	1,965	72,999	23.65
Class B	3,597,556	49.4%	51.1%	-31,699	-191,365	7,487	0	22.16

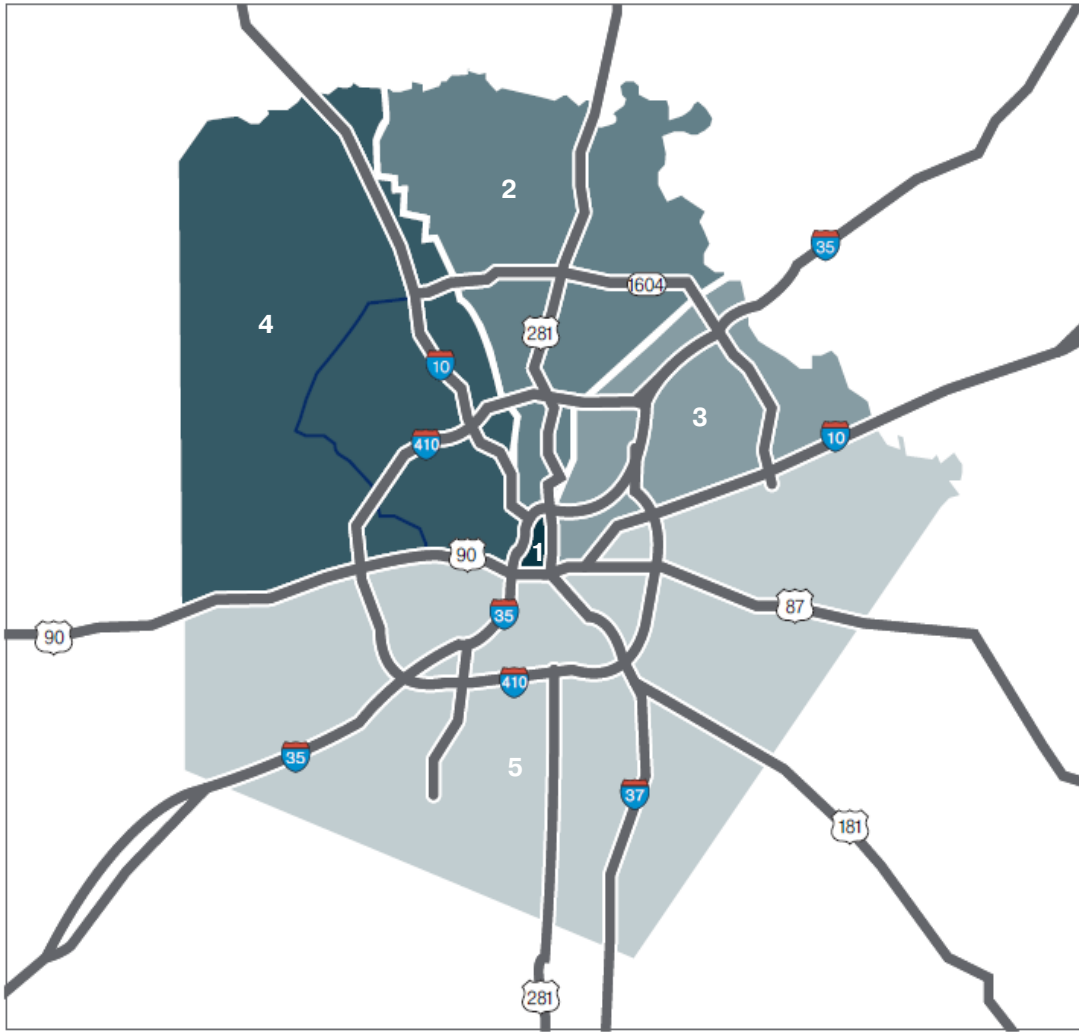
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Northwest Total	32,194,786	11.5%	15.2%	-171,341	118,238	137,484	0	22.78
Class A	7,289,788	20.4%	27.4%	20,412	-184,037	53,751	0	24.79
Class B	21,679,792	9.2%	12.3%	-196,711	303,361	77,715	0	21.86
South Total	2,493,028	3.4%	12.8%	5,955	-43,266	6,058	0	18.00
Class A	380,618	0.8%	34.4%	0	0	3,128	0	0.00
Class B	1,463,618	2.7%	6.6%	0	-6,441	0	0	0.00
Suburban Total	58,908,478	14.7%	18.0%	210,751	294,466	489,841	147,264	23.31
Class A	17,043,430	18.0%	22.6%	351,442	117,126	262,915	147,264	25.92
Class B	35,524,638	14.4%	17.4%	-150,247	210,963	211,029	0	22.43

Market Overview

San Antonio Office Submarkets



- 1. CBD
- 2. North Central
- 3. Northeast
- 4. Northwest
- 5. South

Information and data within this report were obtained from sources deemed to be reliable. No warranty or representation is made to guarantee its accuracy.

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