

San Antonio Office

Q1 2024

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Quarterly Market Report

Significant Redevelopment Fuels Drop in San Antonio Office Vacancy

Executive Summary

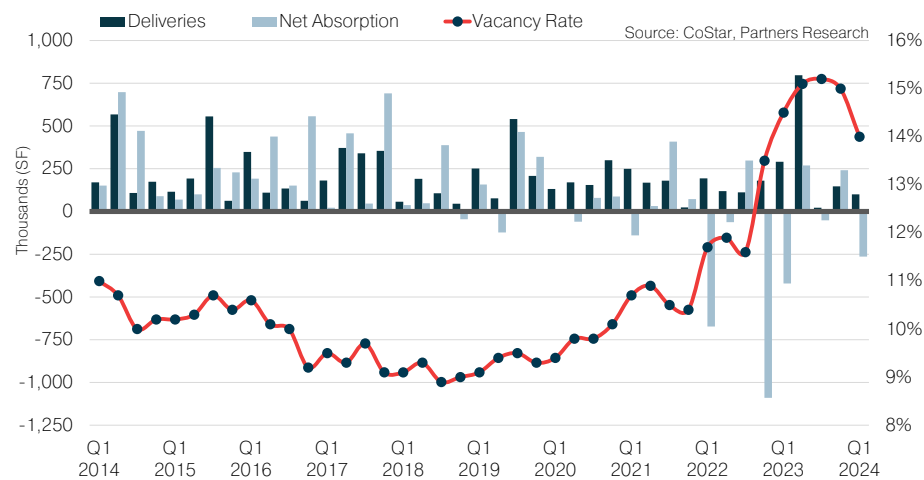
Q1 in Review

By the end of Q1 2024, the overall vacancy rate in the San Antonio office market decreased 100 basis points over the past quarter to 14%. This drop in the vacancy rate was not because of positive net absorption but because the largest vacancy in the market, the former Rackspace headquarters property sold and is going to be redeveloped into an adaptive reuse mixed-use project. This reduces the amount of direct vacant space by 1,245,000 sq. ft. Net absorption for the quarter was a negative 263,829 sq. ft. Still, leasing activity ticked up and there was only a single office delivery. These mixed market fundamentals increased the overall asking rate slightly for the quarter, but overall asking rates were down slightly from one year ago (2.5%).

San Antonio Economic Update

The San Antonio unemployment rate ticked up to 3.9% in February. This matches the 2023 high of 3.9% reached in October. The jobless rate was the same in the region, the state and the country. San Antonio payrolls increased an annualized 2.3% in February (2,249 jobs). Job gains were driven by government (9.7 percent, or 1,416 jobs) and construction (5.8 percent, or 314 jobs). All other sectors experienced positive monthly growth except mining (-4.5 percent, or 27 jobs), education and health services (-2.8 percent, or 427 jobs), and trade, transportation and utilities (-1.3 percent, or 225 jobs). Year-to-date total nonfarm employment grew 0.2 percent in San Antonio compared with gains of 3.1 percent in Texas and 1.9 percent in the U.S.

Supply & Demand



Key Market Indicators

	CURRENT Q1 2024	PRIOR QUARTER Q4 2023		PRIOR YEAR Q1 2023	
Vacant Total	14.0%	15.0%	▲	15.2%	▲
Vacant Direct	13.1%	14.1%	▬	14.4%	▲
Available Total	17.4%	18.4%	▼	18.5%	▲
Available Direct	16.5%	17.3%	▬	17.3%	▲
Net Absorption (SF)	-263,829	240,988	▲	-389,056	▲
Leasing Activity (SF)	681,640	583,258	▲	1,276,473	▼
Construction (SF)	201,722	276,722	▼	1,268,026	▼
Deliveries (SF)	100,000	147,264	▲	290,841	▼
Avg Asking Rent (FSG)	\$23.92	\$23.34	▼	\$24.53	▼
Inventory (SF)	60,758,658	60,658,658	▲	59,592,354	▲

Market Overview

Positive Net Absorption in Q1 2024

Net absorption—move-ins minus move-outs—was a negative 263,829 sq. ft. for the quarter. This was a pullback from last quarter, which recorded a positive 240,988 sq. ft. of net absorption. For the quarter, Class A space registered a negative 176,578 sq. ft. of negative net absorption, and Class B space logged 87,251 sq. ft. of negative absorption. Overall, net absorption was weak for the first quarter, but there were some notable leases, including Oracle extending their 17,464 sq. ft. lease in the Spectrum Building, Sanger & Altgelt Insurance taking 10,000 sq. ft. at 1900 Broadway and the General Services Administration taking 24,215 sq. ft. at One Alamo Center.

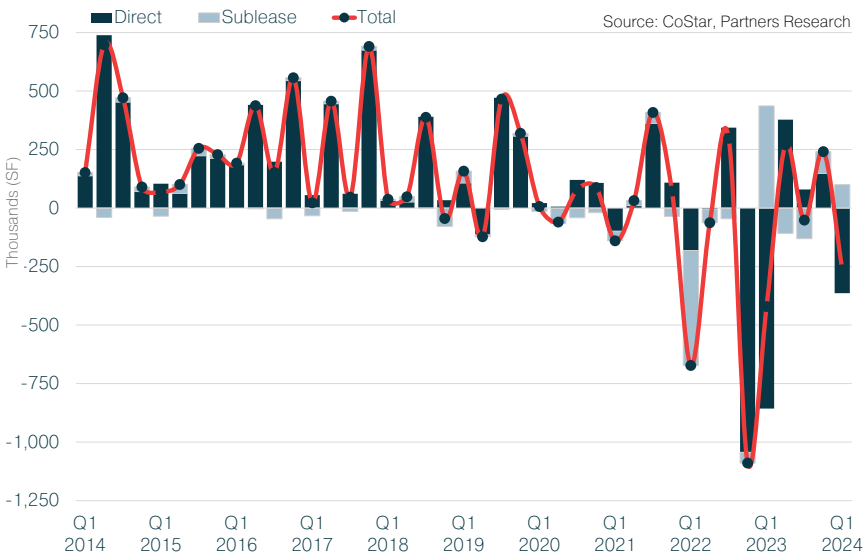
Total Deliveries only 100,000 sq. ft. for the quarter

Deliveries are at 100,000 sq. ft, down 32% from last quarter and down even more dramatically by 47% over the past year. The new delivery was WatersEdge Building II, a spec construction project developed by Brooks Development Authority in the South submarket. Both WatersEdge I & II are 100% available for lease at this time.

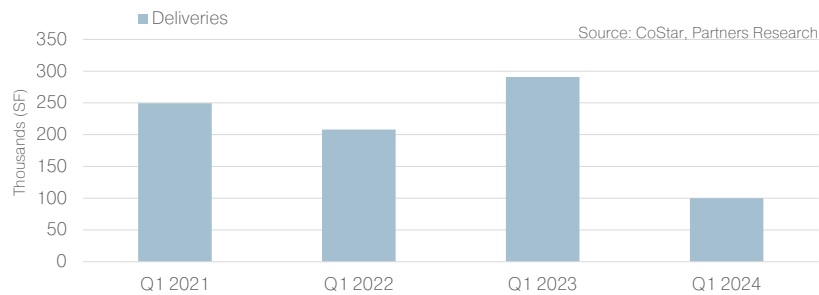
Leasing Activity Ticked up for the Quarter

Quarterly leasing velocity—comprised of new leases and renewals—stood at 681,640 sq. ft.—up 16.9% from the last quarter. A notable large lease includes Private nursing school Galen School of Nursing moving their San Antonio campus to the Vista Corporate Center after signing one of the largest office leases in the first quarter. The school will take the entire 157,470 sq. ft. building at 13805 IH-10 W. Also, Wells Fargo signed a lease to take two full floors (44,456 sq. ft.) at City View and Raices’s move to 131 Interpark Blvd after signing a lease for 29,923 sq. ft. of office space. The San Antonio-based charity now has two separate offices in San Antonio, with other offices also located in Austin and Corpus Christi.

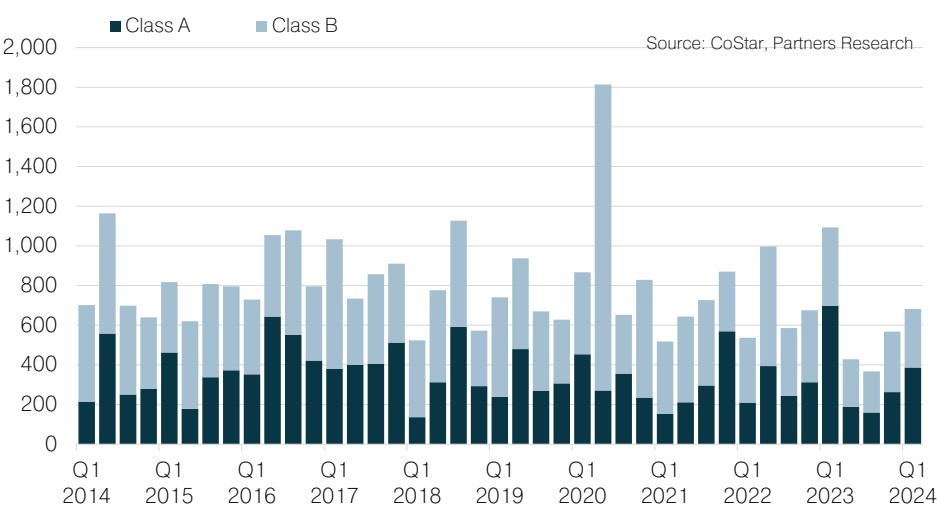
Net Absorption



Deliveries



Leasing Activity



Vacancy Rate at 14.0%

The overall vacancy rate in San Antonio's office market is at 14.0%. Quarter-over-quarter, the vacancy rate decreased 100 basis points from 15.%. Year-over-year, the vacancy rate decreased 120 basis points from 15.2%. Class A and Class B spaces have vacancy rates of 21.2% and 10.2%, respectively. The highest concentrations of vacant space are in the CBD and North Central submarkets, which have vacancy rates of 19.6% and 16.1%, respectively. Vacancy rates remain extremely tight in the South submarket, which has a total vacancy rate of 3.4%.

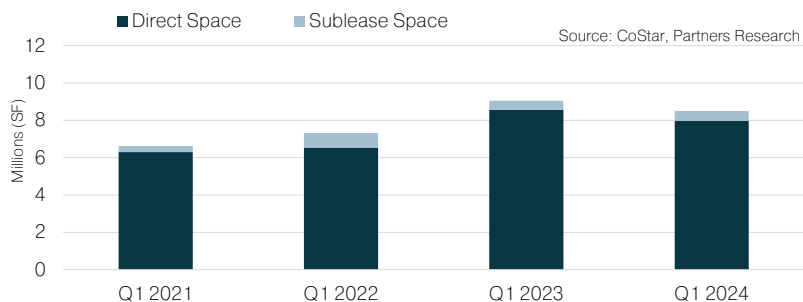
Investment Sales Trends Remain Subdued

CoStar Capital Market Analytics reports the cumulative 12-month sales volume for Q1 2024 at \$54.4 million. For the past year, 38 office properties were sold with an average \$131 price per sq. ft. and an average cap rate of 9.9%. Notable transactions in the first quarter included Energy Plaza I & II being sold as part of a larger portfolio sale to Silver Star, who purchased the properties from Hatman. Also, AT&T sold 7159 San Pedro Ave, a 62,727-sq.-ft. office property to Athena Domain.

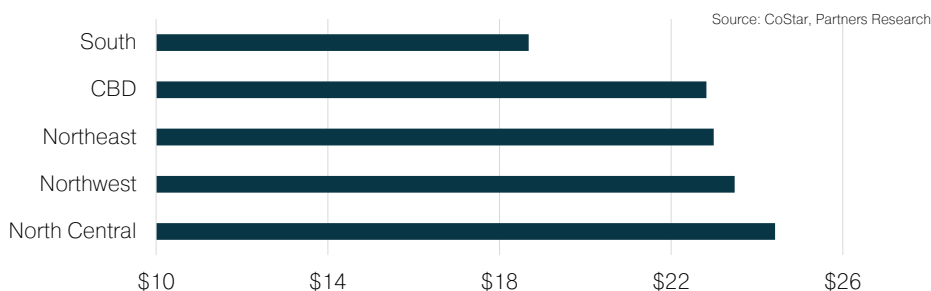
Rent Growth Slightly Up for the Quarter

San Antonio's full-service average rent stands at \$23.92 per sq. ft., which is up 2.5% from the previous quarter's \$23.34 per sq. ft. but down 2.5% from last year's \$24.53 per sq. ft. Asking rents for Class A and Class B space are at \$25.95 per sq. ft. and \$22.71 per sq. ft., respectively. Despite limited demand over the past few quarters, both Class A and Class B properties saw the overall asking rate increase slightly over the past quarter.

Vacancy



Overall Gross Asking Rent (\$/PSF)



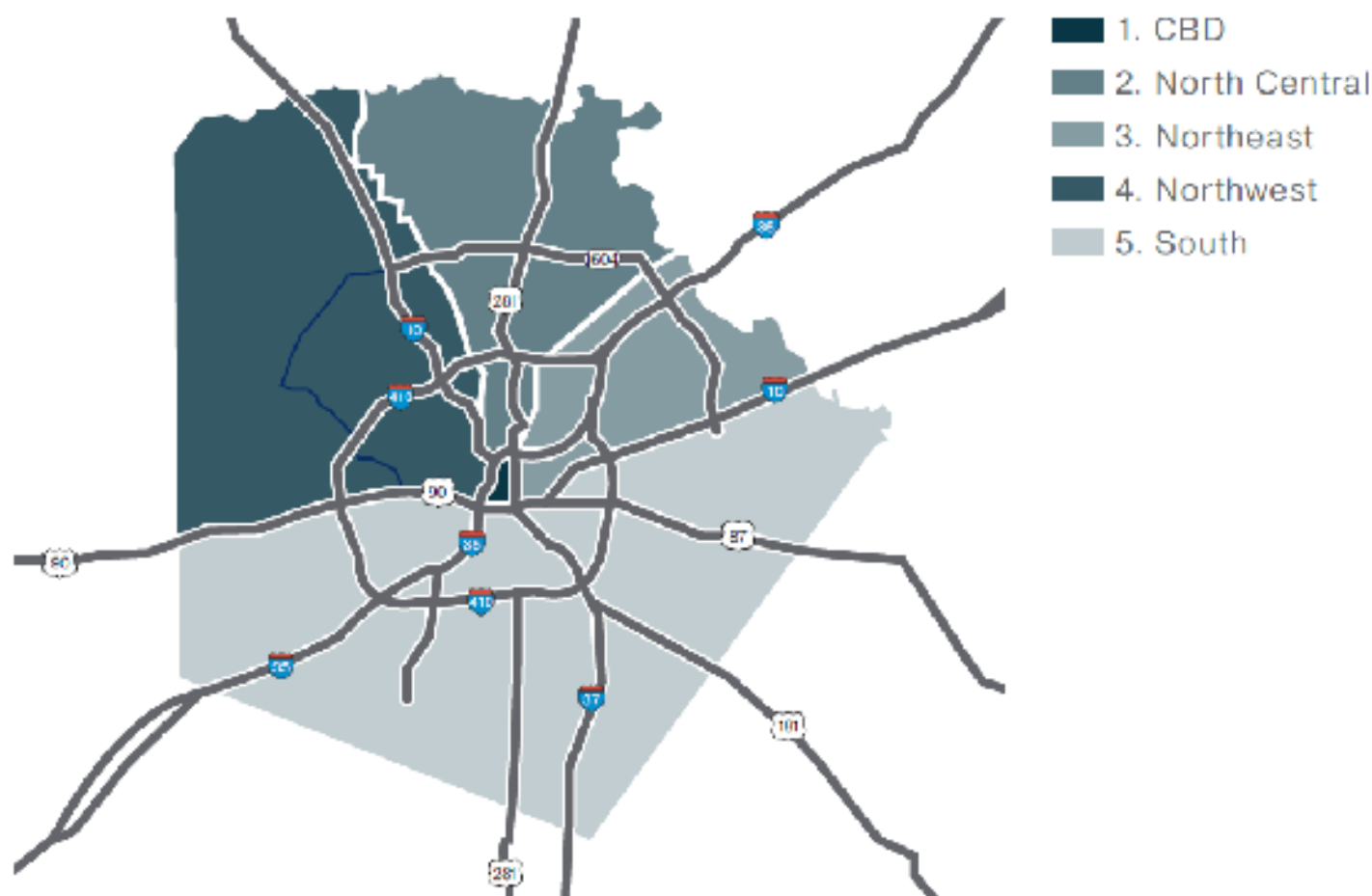
Market Overview

Submarket Stats

Submarket Statistics (Total reflects Class A/B Only)	Total Inventory (SF)	Total Vacancy (%)	Total Availability (%)	Q1 2024 Net Absorption (SF)	2024 YTD Net Absorption (SF)	Q1 2024 Leasing Activity (SF)	Q4 2023 Deliveries (SF)	Overall Gross Avg Asking Rent (\$/PSF)
CBD Total	8,027,094	19.6%	23.7%	-40,374	-40,374	72,456	0	22.82
Class A	3,492,574	31.4%	35.0%	-39,549	-39,549	28,609	0	25.00
Class B	4,534,520	10.5%	15.0%	-825	-825	43,847	0	22.47
North Central Total	16,548,029	15.7%	17.8%	-8,608	-8,608	246,524	0	24.42
Class A	7,664,794	17.8%	18.4%	-58,686	-58,686	116,129	0	26.58
Class B	8,883,235	14.0%	17.3%	50,078	50,078	130,395	0	22.82
Northeast Total	5,367,429	16.1%	16.9%	-106,990	-106,990	37,081	0	22.99
Class A	1,686,708	16.8%	16.9%	-3,990	-3,990	4,724	0	24.22
Class B	3,680,721	15.8%	16.9%	-103,000	-103,000	32,357	0	22.22
Northwest Total	28,771,870	11.2%	15.7%	-4,555	-4,555	323,279	0	23.48
Class A	7,438,458	19.8%	24.1%	26,289	26,289	236,966	0	25.20
Class B	21,333,412	8.1%	12.7%	-30,844	-30,844	86,313	0	22.68
South Total	2,044,236	3.4%	12.8%	-103,302	-103,302	2,300	100,000	18.68
Class A	580,618	35.1%	35.1%	-100,642	-100,642	0	100,000	0.00
Class B	1,463,618	2.8%	7.0%	-2,660	-2,660	2,300	0	18.68
Suburban Total	52,731,564	13.1%	16.4%	-223,455	-223,455	609,184	100,000	23.95
Class A	17,370,578	19.1%	21.3%	-137,029	-137,029	357,819	100,000	25.96
Class B	35,360,986	10.2%	14.1%	-86,426	-86,426	251,365	0	22.72
San Antonio Market Total	60,758,658	14.0%	17.4%	-263,829	-263,829	681,640	100,000	23.92
Class A	20,863,152	21.2%	23.6%	-176,578	-176,578	386,428	100,000	25.95
Class B	39,895,506	10.2%	14.2%	-87,251	-87,251	295,212	0	22.71

Market Overview

San Antonio Office Submarkets



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