

# Quarterly Market Report

OCTOBER 2020

## EXECUTIVE SUMMARY

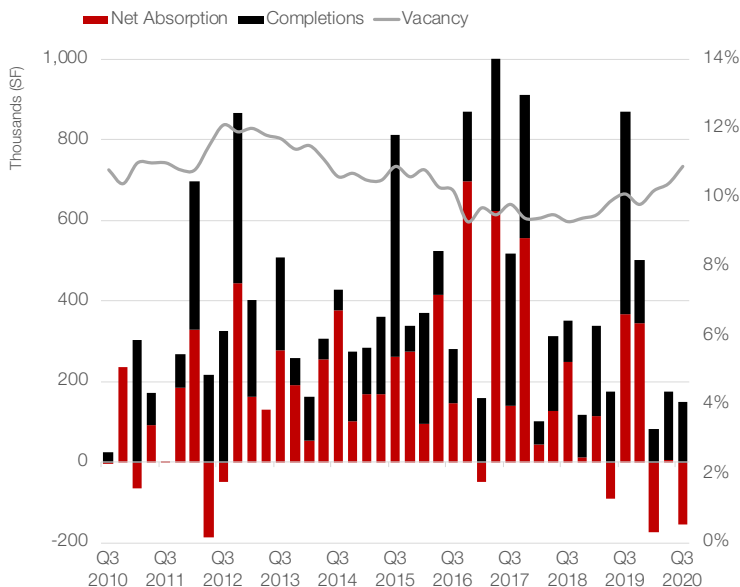
### Vacancy rate at 10.9%

The overall vacancy rate in the San Antonio office market was up 50 basis points quarter-over-quarter, and up 80 basis points year-over-year. The vacancy rate for Class A properties is at 13.8%, and Class B at 10.1%. In the third quarter, overall net absorption was negative 153,400 sq. ft.—Class A represented negative 81,200 sq. ft. and Class B tallied negative 5,500 sq. ft. Of the 1.6 million sq. ft. currently under construction, 65.6% of that space has been spoken for. Of the 400,000 sq. ft. completed in 2020, 55.6% is available for lease. The overall San Antonio average asking full-service rent is at \$23.58 per sq. ft.—up from Q3 2019 at \$22.82 per sq. ft.—while Class A space in the Central Business District is averaging \$30.30 per sq. ft.

### Economic indicators

The Federal Reserve Bank of Dallas reported that San Antonio’s metro unemployment rate ticked down to a still elevated 6.4% in August, lower than the state and national rates of 6.8% and 8.4%, respectively. San Antonio payrolls grew at a nonannualized 2.8% (27,850 jobs) in the three months ending in August, with mixed performance across sectors. Leisure and hospitality experienced the most gains (13.1%, or 13,330 jobs) followed by other services (8.0%, or 2,700 jobs) and trade, transportation and utilities (3.4%, or 6,100 jobs). The mining sector declined at the sharpest rate, contracting 2.7% (-250 jobs). While increases over the past four months have generally been strong, they have not been large enough to offset the losses in March and April. So far this year, employment has declined across all sectors, with total jobs down 5.5%.

## Supply & Demand



## Market Indicators

	Current Q3 2020	Prior Quarter Q2 2020		Year Ago Q3 2019	
Vacancy Direct	10.9%	10.4%	▲	10.1%	▲
Vacancy Total	10.2%	10.1%	▲	9.9%	▲
Availability Direct	14.4%	13.5%	▲	11.7%	▲
Availability Total	13.4%	12.9%	▲	11.0%	▲
Net Absorption (SF)	-153,459	6,320	▼	367,048	▼
Leasing Activity (SF)	404,042	365,473	▲	823,976	▼
Construction (SF)	1,588,711	1,570,045	▲	1,068,803	▲
Deliveries (SF)	148,000	169,600	▼	504,054	▼
Avg Asking Rent (Gross)	\$23.58	\$23.43	▲	\$22.82	▲
Inventory (SF)	62,460,839	62,312,839	▲	61,903,545	▲

# MARKET OVERVIEW

## CBD Class A vacancy at 14.5%

The CBD has 3.0 million sq. ft. of Class A inventory tracked in 13 buildings with 441,000 sq. ft. of vacant space (14.5%) as of Q3 2020. Class A vacancy in the suburban office market was at 13.7%, while overall vacancy in the CBD registered at 9.2%. There is approximately 9.2 million sq. ft. of medical office space in the San Antonio area, representing 15% of the 62 million sq. ft. of total office inventory. The overall vacancy rate for medical office space is 16.4%, down from 16.5% in the prior period.

## Overall steady office market in San Antonio

San Antonio’s office market remains steady. Unlike other markets, occupancies remain in the relatively tight range they’ve been in over the past decade. That’s likely the result of the fact that San Antonio’s economy is driven primarily by defense, tourism, and healthcare—all light office-using sectors—as well as the energy and office support services sectors. Defense and healthcare will certainly serve the market well during a downturn, stabilizing the market.

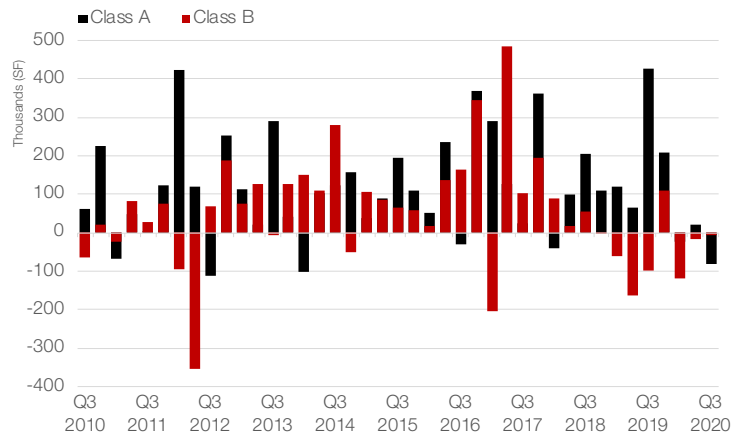
## Broadway East development near Pearl set to begin

A \$560 million mixed-use development east of the Pearl, past Broadway, on more than 20 acres of land in the Government Hill neighborhood is set to begin before year-end. Local development group GrayStreet Partners is planning to build apartments, offices, and retail. The project, known as Broadway East, will reportedly cover 1.6 million sq. ft., intending to connect Pearl Parkway into Government Hill. The multi-phased development is scheduled to be built over the next 10 years, starting with a 380-unit apartment building facing Broadway at Pearl Parkway. In addition, there will be office space as well as ground-floor retail. GrayStreet is also planning to build a 20-story office and hotel tower at 1603 Broadway.

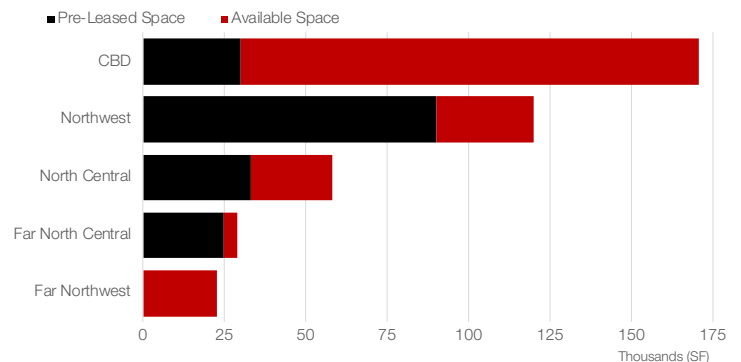
## USAA subleasing Vista Corporate Center

USAA has vacated all five floors of the Class A space it occupied at the Vista Corporate Center at 13805 1-10 W, adding 157,470 sq. ft. to the sublease market. The office space, available in the third quarter, represented the largest new sublease availability of the quarter in the San Antonio area, according to data from CoStar. This and other large subleases may indicate movement towards a tenant’s market. The approximately 830 affected employees

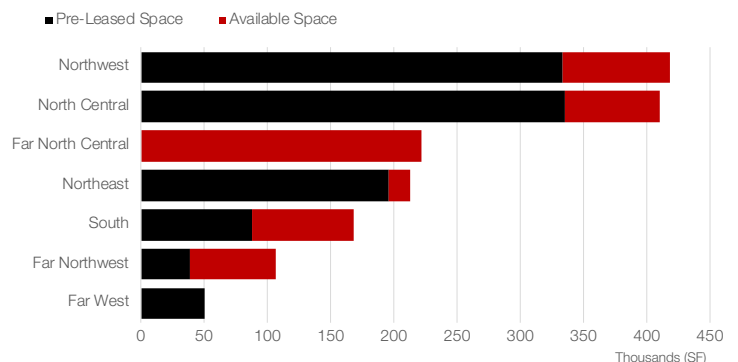
## Net Absorption



## Deliveries



## Construction



and contractors either moved to other campuses or continued working from home, as did the majority of USAA's 35,000 employees in response to cases of COVID-19 in the San Antonio area.

### Investment sales activity

Real Capital Analytics data reports the third quarter sales volume for San Antonio office properties was \$26.9 million compared to third quarter 2019 at \$60.5 million. The primary capital composition for buyers year-to-date 2020 was made up primarily of private investors at 77.6%, and 15.5% institutional investors. For sellers, the majority was 68.5% private and 16.5% user/other investors. A significant transaction that took place during the third quarter was the sale of a 33,750-sq.-ft. Class A office building at 3611 Paesanos Parkway—John Yantis Center in the Shavano Oaks Office Park in the North Central submarket. CoStar reported that the investment property was listed for \$6.75 million and sold for an undisclosed price. The office building was 38% leased at the time of sale.

### Leasing activity

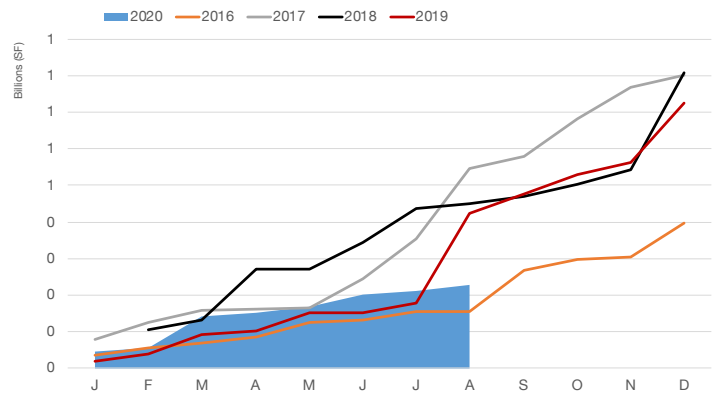
The volume of square footage signed during the third quarter—which is comprised of both new leases and renewals—was at 404,000 sq. ft.—up from the previous quarter's 365,000 sq. ft., although down from 824,000 sq. ft. this time last year. Over half the leasing activity took place in the North Central submarket. As many workers begin to return to the office, there is still uncertainty in future office needs and how office space will be occupied. Much of the current leasing activity has been based on lease expirations and an increased amount of short-term deals.

### Average asking rents

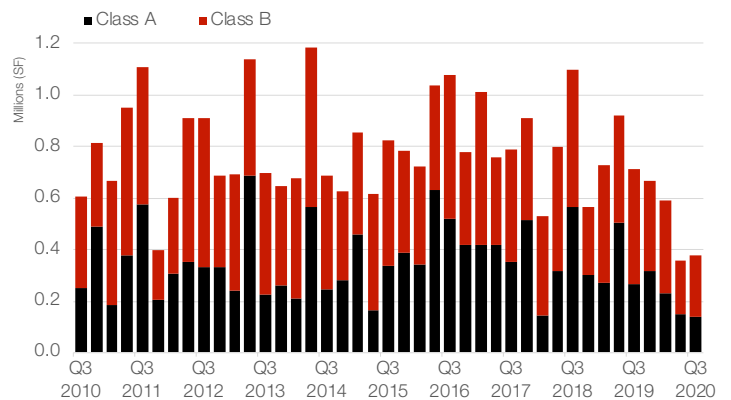
The San Antonio overall full-service average rates are at \$23.58 per sq. ft., an increase of \$0.76 year-over-year from \$22.82 per sq. ft. Asking rates for Class A space are averaging \$28.39 and Class B are averaging \$21.44 per sq. ft. Rent growth has varied across San Antonio's submarkets. Many submarkets saw asking rates increase or remain the same, while some saw decreases. Increases are due in part to the new supply added to the market. Office tenants may have more leverage with regards to negotiating rental rates, terms, tenant improvements and concessions than they have had in the past. However, since the market was healthily prior to the current situation, the relative impact to occupancies and rents in the future is uncertain.

### Cumulative Monthly Sales Volume San Antonio Office

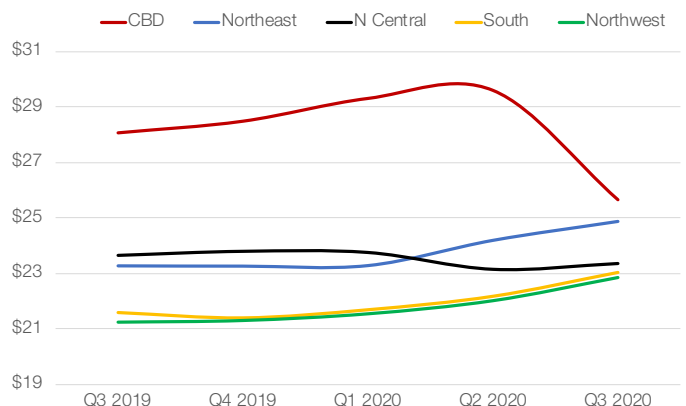
Source: Real Capital Analytics



### Leasing Activity



### Overall Average Asking Gross Rents



# MARKET OVERVIEW

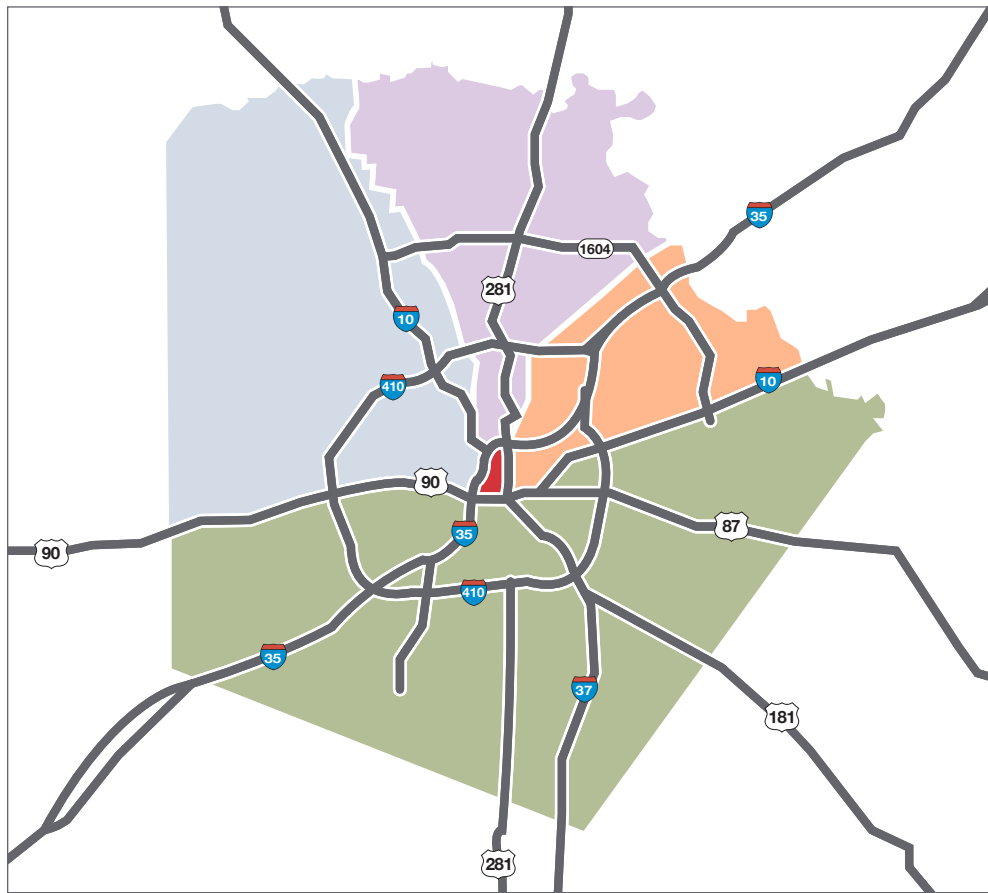
## Submarket Stats

Submarket Statistics (Total reflects Class A/B/C)	Total Inventory (SF)	Total Vacancy (%)	Total Availability (%)	Q3 2020 Net Absorption (SF)	2020 YTD Net Absorption (SF)	Q3 2020 Leasing Activity (SF)	Q3 2020 Deliveries (SF)	Under Construction (SF)	Overall Gross Avg Asking Rent (\$/PSF)
<b>San Antonio Market Total</b>	<b>62,460,839</b>	<b>10.9</b>	<b>14.4</b>	<b>-153,459</b>	<b>-320,791</b>	<b>404,042</b>	<b>148,000</b>	<b>1,588,711</b>	<b>23.58</b>
Class A	18,172,040	13.8	18.7	-81,207	-84,247	139,493	58,000	1,278,505	28.39
Class B	37,433,975	10.1	13.2	-5,538	-140,486	236,593	90,000	310,206	21.44

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<b>CBD Total</b>	<b>8,668,832</b>	<b>9.2</b>	<b>11.2</b>	<b>24,206</b>	<b>18,085</b>	<b>12,248</b>	<b>30,000</b>	<b>0</b>	<b>25.63</b>
Class A	3,039,094	14.5	16.4	-7,606	-6,741	6,397	0	0	30.30
Class B	4,100,237	8.4	11.2	28,912	21,200	5,851	30,000	0	23.85
<b>North Central Total</b>	<b>16,902,609</b>	<b>12.9</b>	<b>18.4</b>	<b>44,542</b>	<b>-151,736</b>	<b>202,486</b>	<b>58,000</b>	<b>632,295</b>	<b>23.36</b>
Class A	6,849,386	13.0	18.7	52,548	50,861	65,566	58,000	608,295	27.77
Class B	8,620,551	13.7	19.7	-10,294	-217,890	118,397	0	24,000	21.79
<b>Northeast Total</b>	<b>5,681,460</b>	<b>11.7</b>	<b>15.1</b>	<b>-29,254</b>	<b>49,505</b>	<b>17,073</b>	<b>0</b>	<b>213,355</b>	<b>24.88</b>
Class A	1,174,464	17.2	26.5	-8,036	14,685	2,900	0	28,355	30.05
Class B	3,488,312	11.3	11.8	-9,558	57,720	6,540	0	185,000	21.52
<b>Northwest Total</b>	<b>29,093,140</b>	<b>10.4</b>	<b>13.2</b>	<b>-280,014</b>	<b>-301,824</b>	<b>171,309</b>	<b>60,000</b>	<b>574,474</b>	<b>22.85</b>
Class A	6,942,654	14.0	18.0	-118,113	-145,317	64,630	0	473,268	27.66
Class B	19,836,366	9.1	11.6	-101,659	-64,430	104,879	60,000	101,206	20.30
<b>South Total</b>	<b>2,114,798</b>	<b>5.5</b>	<b>8.2</b>	<b>87,061</b>	<b>65,179</b>	<b>926</b>	<b>0</b>	<b>168,587</b>	<b>17.30</b>
Class A	166,442	7.8	24.0	0	2,265	0	0	168,587	-
Class B	1,388,509	5.6	5.9	87,061	62,914	926	0	0	18.98
<b>Suburban Total</b>	<b>53,792,007</b>	<b>11.1</b>	<b>14.9</b>	<b>-177,665</b>	<b>-338,876</b>	<b>391,794</b>	<b>118,000</b>	<b>1,588,711</b>	<b>23.42</b>
Class A	15,132,946	13.7	19.1	-73,601	-77,506	133,096	58,000	1,278,505	28.27
Class B	33,333,738	10.4	13.5	-34,450	-161,686	230,742	60,000	310,206	21.21

## 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. NAI Partners' quarterly report for the San Antonio office market includes information and data for Class A, Class B and Class C buildings—20,000 sq. ft. and up—for all office property types (including leasable medical space in office buildings). Owner-occupied buildings are excluded.

SAN ANTONIO OFFICE | Q3 2020

# Quarterly Market Report

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