

Quarterly Market Report

JANUARY 2021

EXECUTIVE SUMMARY

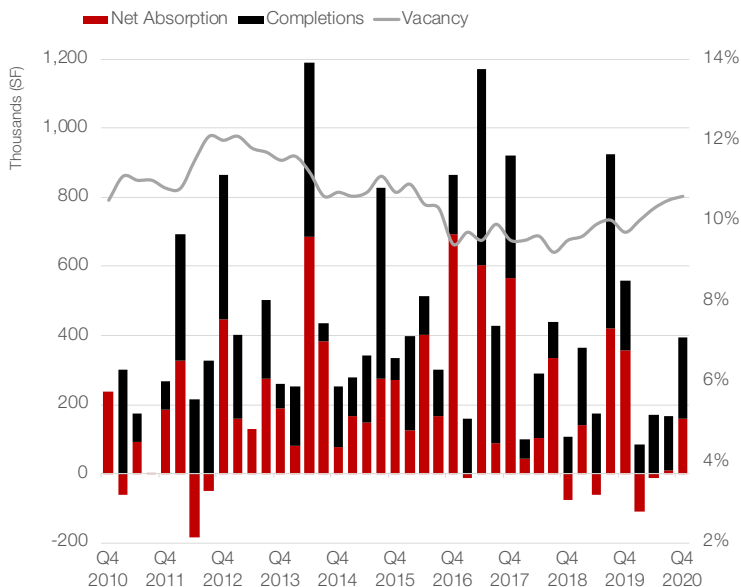
Vacancy rate at 10.6%

The overall vacancy rate in the San Antonio office market was up 10 basis points quarter-over-quarter, and up 90 basis points year-over-year. The vacancy rate for Class A properties is at 12.5%, and Class B at 10.2%. In the fourth quarter, overall net absorption bounced back in black to 159,000 sq. ft.—Class A represented positive 230,000 sq. ft. and Class B tallied negative 16,300 sq. ft. Of the 1.8 million sq. ft. currently under construction, 76.0% of that space has been spoken for. Of the 644,000 sq. ft. completed in 2020, 42.4% is available for lease. The overall San Antonio average asking full-service rent is at \$23.64 per sq. ft.—up from Q4 2019 at \$23.09 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 increased sharply in November to a six-month high of 7.8%, which is below the 8.1% for the state but above the 6.7% for the nation. Net new payrolls in San Antonio increased an annualized 2.5% (6,160 jobs) in the three months ending in November, with mostly positive but weakening growth across sectors. While job gains have been broad based since May, they have not been large enough to offset the losses in March and April. Local consumer spending improved in mid-November and early December, and the number of small businesses open increased briefly around the Thanksgiving holiday.

Supply & Demand



Market Indicators

	Current Q4 2020	Prior Quarter Q3 2020		Year Ago Q4 2019	
Vacancy Direct	10.6%	10.5%	▲	9.7%	▲
Vacancy Total	10.1%	10.1%	▬	9.5%	▲
Availability Direct	14.1%	14.0%	▲	11.8%	▲
Availability Total	13.0%	13.2%	▼	11.3%	▲
Net Absorption (SF)	159,305	10,838	▲	356,181	▼
Leasing Activity (SF)	459,184	529,069	▼	695,603	▼
Construction (SF)	1,827,277	1,667,377	▲	1,338,131	▲
Deliveries (SF)	236,766	154,644	▲	203,507	▲
Avg Asking Rent (Gross)	\$23.64	\$23.55	▲	\$23.09	▲
Inventory (SF)	63,022,794	63,022,794	▬	62,379,066	▲

MARKET OVERVIEW

CBD Class A vacancy at 13.9%

The CBD has 3.2 million sq. ft. of Class A inventory tracked in 15 buildings with 443,000 sq. ft. of vacant space as of end of year 2020. Class A vacancy in the suburban office market was at 12.2%, while overall vacancy in the CBD registered at 8.5%. There is approximately 9.5 million sq. ft. of medical office space in the San Antonio area, representing 15% of the 63 million sq. ft. of total office inventory. The overall vacancy rate for medical office space is 16.7%, up from 16.4% in the prior period.

San Antonio construction permits

The San Antonio Business Journal reported that November saw more than \$554 million in commercial construction permits. Included is Skanska’s multiple permits totaling \$59.4 million for interior work at the former Frost Bank tower it is redeveloping for the city of San Antonio at 100 W. Houston St. In addition, Southwest Research Institute is building an office building on its headquarters campus, separate from the office project announced this summer. The 70,000-sq.-ft. facility will include administrative, lab and testing areas for commercial spacecraft evaluation.

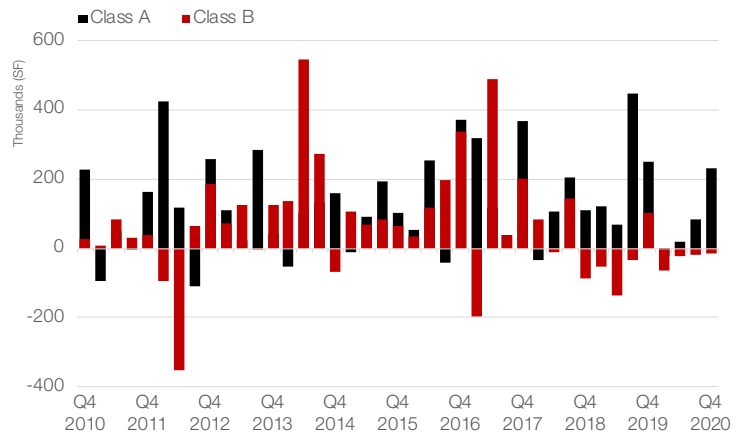
Relocations in the Alamo City

Information technology services company Computer Solutions is relocating its headquarters to Walker Ranch Business Park, a new two-building office and flex project being developed in San Antonio’s North Central area. Computer Solutions, which is currently headquartered at 814 Arion Parkway, signed a 20,540-sq.-ft. lease within Building II of the office development. The company’s new space is scheduled for move-in by April 2021. Also, Keller Williams City View, has signed a full-building lease for 30,000 sq. ft. at The Park at Vance Jackson, located at 15510 Vance Jackson Rd. in San Antonio’s Northwest submarket. The property was delivered in February 2020. The Keller Williams franchise has been located at 10999 West I-10 for more than 30 years.

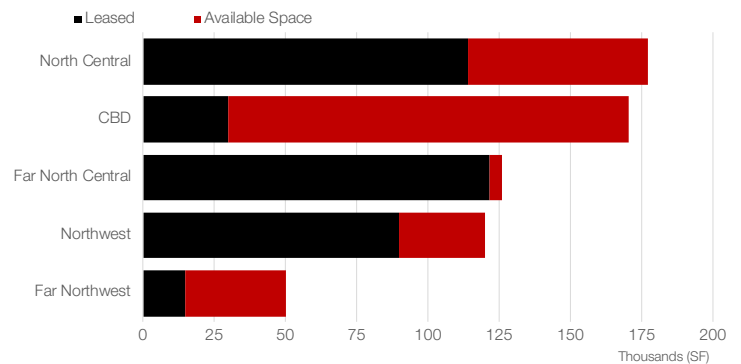
Investment sales activity

Real Capital Analytics data reports the fourth quarter sales volume for San Antonio office properties was \$92.4 million compared to fourth quarter 2019 at \$249.3 million. The primary capital composition for buyers in 2020 was made up primarily of private investors at 74.5%, and 15.7% institutional investors. For sellers, the majority was 70.1% private and 15.7%

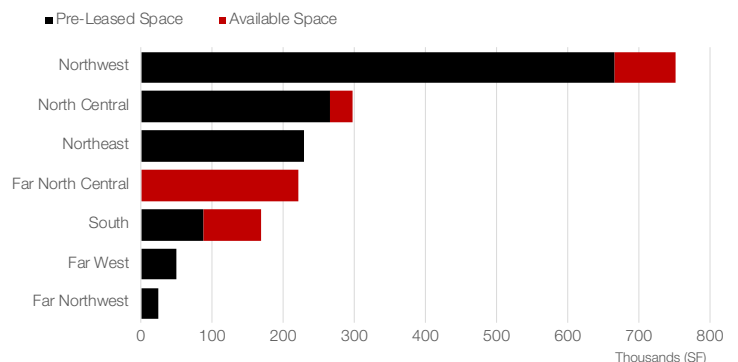
Net Absorption



Deliveries Year-To-Date



Construction



REIT/listed investors. A significant transaction that took place during the fourth quarter was the sale of University Park Tech Center III and IV in San Antonio. Clarion Partners sold the 165,007-sq.-ft. office properties to University Health System (UHS) for an undisclosed sum in what is reportedly San Antonio’s largest combined office trade year to date. University Park consists of four million sq. ft. of primarily single-story office buildings with tenants including EY, Becton Dickinson, H-E-B, Accenture, SWBC, United HealthCare, Harland Clarke and WellMed.

Leasing activity

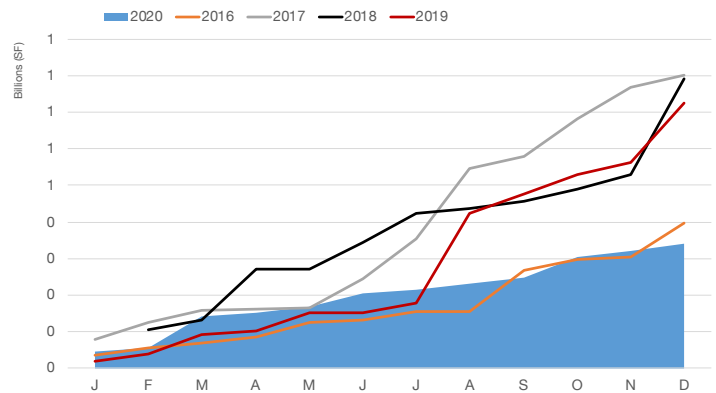
The volume of square footage signed during the fourth quarter—which is comprised of both new leases and renewals—was at 459,000 sq. ft.—down from the previous quarter’s 529,000 sq. ft., and from 696,000 sq. ft. this time last year. Over half the leasing activity took place in the Northwest submarket. 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. Transactions during the fourth quarter included Medtronic Inc. signing a renewal for 144,000 sq. ft. at 18302 Talavera Ridge in the Far Northwest submarket; i2C took a 17,088 sq. ft. sublease at 12688 Silicon Drive in University Heights Business Park in the Northwest submarket; and Embrace Hospice renewed 10,641 sq. ft. at 5835 Callaghan Road in the Northwest submarket.

Average asking rents

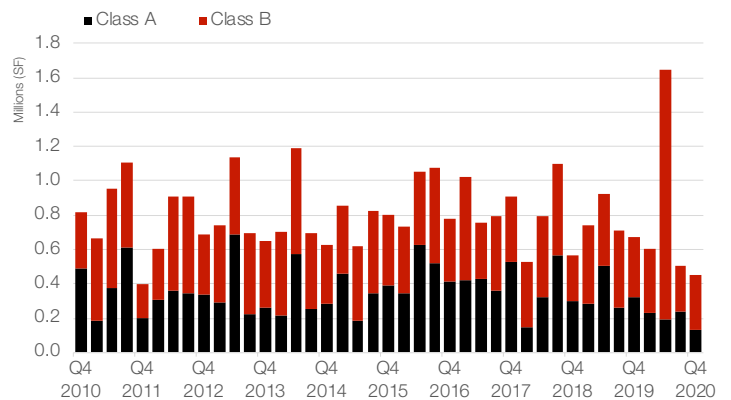
The San Antonio overall full-service average rates are at \$23.64 per sq. ft., an increase of \$0.55 year-over-year from \$23.09 per sq. ft. Asking rates for Class A space are averaging \$28.17 and Class B are averaging \$21.54 per sq. ft. Rent growth has varied across San Antonio’s submarkets. Many 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 healthy prior to the current situation, the relative impact to occupancies and rents in the future is uncertain.

Cumulative Monthly Sales Volume San Antonio Office

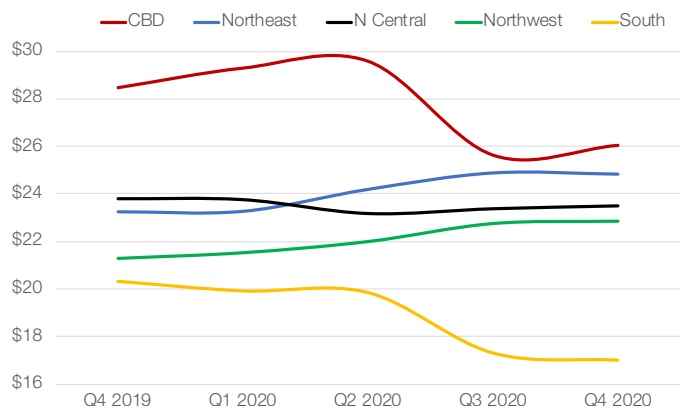
Source: Real Capital Analytics



Leasing Activity



Overall Average Asking Gross Rents



MARKET OVERVIEW

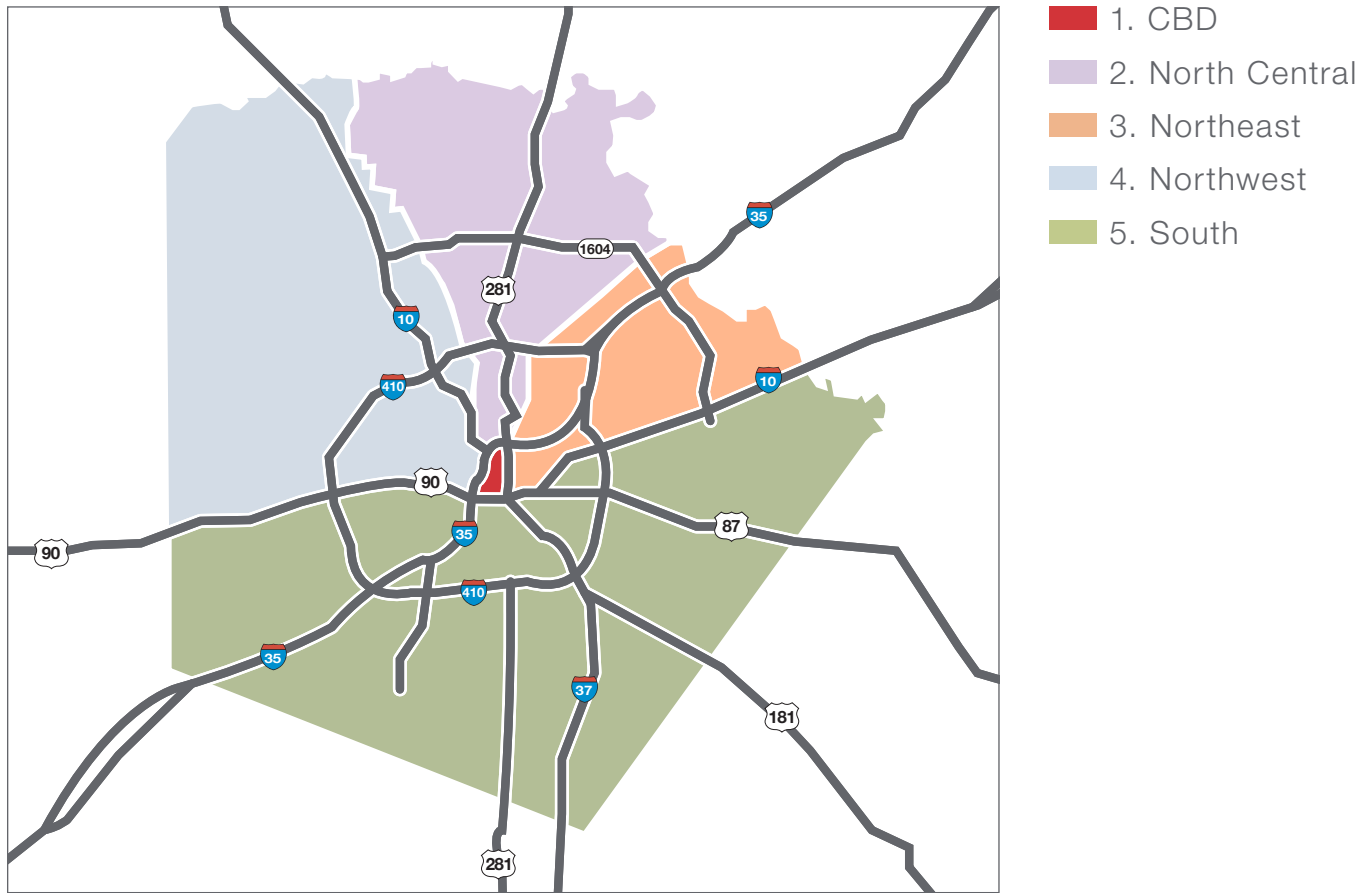
Submarket Stats

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)
San Antonio Market Total	63,022,794	10.6	14.1	159,305	46,813	459,184	236,766	1,827,277	23.64
Class A	18,771,018	12.5	18.4	229,875	309,548	133,554	209,446	1,499,391	28.17
Class B	37,470,565	10.2	12.7	-16,301	-125,875	317,601	27,320	327,886	21.54

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)
CBD Total	8,760,401	8.5	11.6	17,377	35,462	22,171	0	0	26.04
Class A	3,177,093	13.9	18.8	867	-8,332	16,648	0	0	30.30
Class B	4,097,399	7.3	10.1	21,505	45,163	5,523	0	0	24.18
North Central Total	17,100,035	13.3	18.5	79,832	-60,230	161,595	209,446	519,849	23.48
Class A	7,065,476	13.4	19.1	147,864	205,369	70,848	209,446	495,849	27.30
Class B	8,674,314	13.8	19.1	-38,006	-240,923	85,144	0	24,000	22.14
Northeast Total	5,681,460	10.8	14.2	39,086	102,645	19,893	0	258,355	24.83
Class A	1,174,464	17.2	25.3	298	14,983	0	0	28,355	30.05
Class B	3,488,312	10.1	10.7	39,175	96,895	18,112	0	230,000	21.63
Northwest Total	29,366,100	10.0	12.6	10,827	-108,426	255,525	27,320	880,486	22.88
Class A	7,187,543	10.5	16.2	67,846	82,263	46,058	0	806,600	27.59
Class B	19,822,031	9.6	11.2	-46,458	-97,407	208,822	27,320	73,886	20.21
South Total	2,114,798	4.9	8.2	12,183	77,362	0	0	168,587	17.00
Class A	166,442	0.0	24.0	13,000	15,265	0	0	168,587	-
Class B	1,388,509	5.1	5.4	7,483	70,397	0	0	0	18.98
Suburban Total	54,262,393	10.9	14.4	141,928	11,351	437,013	236,766	1,827,277	23.47
Class A	15,593,925	12.2	18.3	229,008	317,880	116,906	209,446	1,499,391	28.04
Class B	33,373,166	10.6	13.0	-37,806	-171,038	312,078	27,320	327,886	21.33

MARKET OVERVIEW

San Antonio Office Submarkets



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 | Q4 2020

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