

SAN ANTONIO OFFICE | Q1 2021 QUARTERLY MARKET REPORT

San Antonio Office market vacancy rises

APRIL 2021

EXECUTIVE SUMMARY

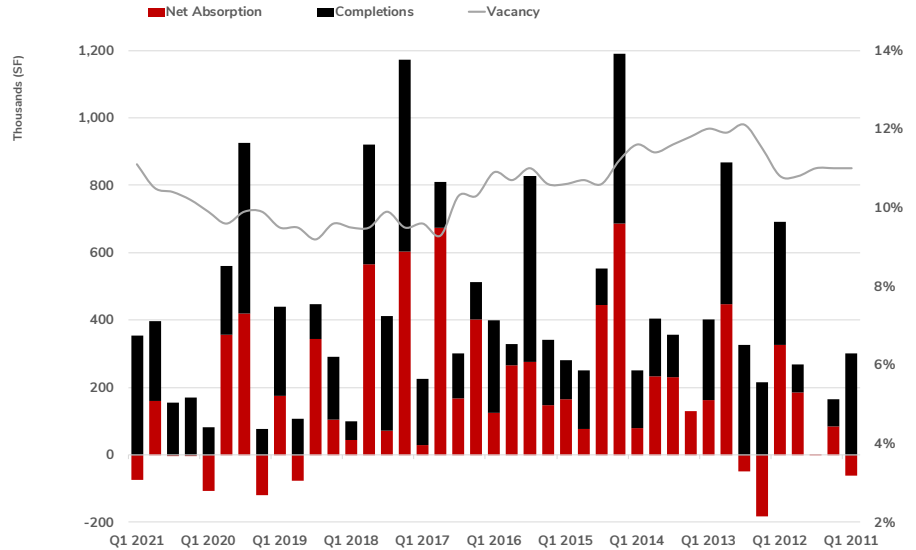
VACANCY RATE INCREASES TO 11.1%

The overall vacancy rate in the San Antonio office market was up 60 basis points quarter-over-quarter, and up 120 basis points year-over-year. The vacancy rate for Class A properties is at 13.0%, and Class B at 10.8%. In the first quarter, overall net absorption was negative 74,000 sq. ft.—Class A represented positive 124,000 sq. ft. and Class B tallied negative 182,000 sq. ft. Of the 1.6 million sq. ft. currently under construction, 72.1% of that space has been spoken for. Of the 353,000 sq. ft. completed in Q1 2021, 25.1% is available for lease. The overall San Antonio average asking full-service rent is at \$23.59 per sq. ft.—up from Q1 2020 at \$23.24 per sq. ft.—while Class A space in the Central Business District is averaging \$27.87 per sq. ft.

SAN ANTONIO ECONOMIC INDICATORS

The Federal Reserve Bank of Dallas reported that while San Antonio's metro unemployment rate ticked down, jobs contracted. The metro's unemployment rate fell in January to 6.3%, compared to the state and national unemployment rates also declining in January to 6.8% and 6.3%, respectively. Job growth by industry was mixed in recent months. The Texas Workforce Commission recently released the annual benchmark revision to job growth from April 2019 to September 2020. This resulted in a revision to the Dallas Fed estimate of 2020 job growth from -6.4% to -4.3% for San Antonio. Employment fell across all sectors in 2020, with the most significant declines occurring in mining and leisure and hospitality.

SUPPLY & DEMAND



MARKET INDICATORS

	CURRENT Q1 2021	PRIOR QUARTER Q4 2020	PRIOR YEAR Q1 2020
Vacant Total	11.1%	10.5% ▲	9.9% ▲
Vacant Direct	10.6%	10.0% ▲	9.7% ▲
Available Total	15.2%	14.0% ▲	12.2% ▲
Available Direct	14.3%	12.9% ▲	11.8% ▲
Net Absorption (SF)	-73,579	158,929 ▼	-108,215 ▲
Leasing Activity (SF)	352,017	822,625 ▼	904,950 ▼
Construction (SF)	1,627,210	1,854,611 ▼	1,443,476 ▲
Deliveries (SF)	353,401	236,766 ▲	82,718 ▲
Avg Asking Rent (Gross)	\$23.59	\$23.64 ▼	\$23.24 ▲
Inventory (SF)	63,333,080	62,937,648 ▲	62,375,785 ▲

CBD CLASS A VACANCY AT 13.8%

The CBD has 3.1 million sq. ft. of Class A inventory tracked in 14 buildings with 434,000 sq. ft. of vacant space as of Q1 2021. Class A vacancy in the suburban office market was at 12.9%, while overall vacancy in the CBD registered at 10.1%. There is approximately 9.6 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 16.5%, comparable to 16.4% in the prior period.

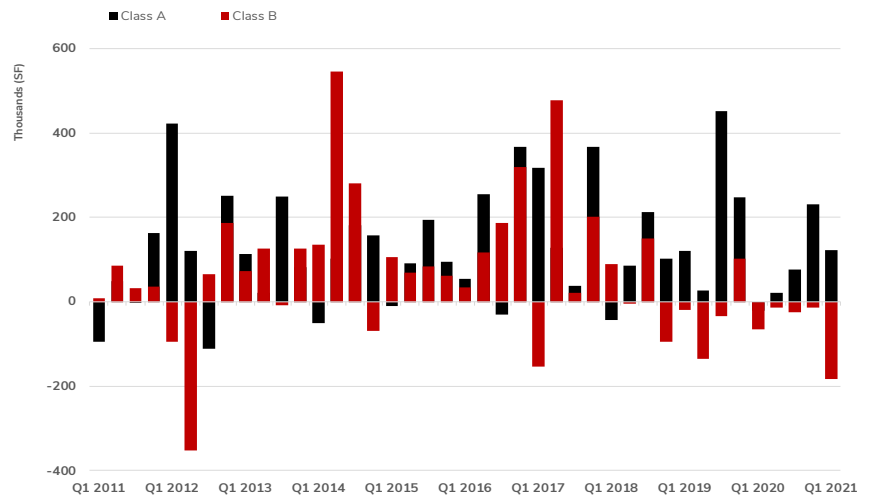
ALAMO HEIGHT'S NEW CLASS A OFFICE BUILDING

The first high-end office development in the city of Alamo Heights has been delivered in Q1 2021. The Class A property has 28,000 sq. ft. of office space, with three completed spec suites. Construction of the four-story building started the end of 2019 at 200 Austin Highway, the site of a Bank of America branch demolished in November 2019. Development of this type is common in the surrounding neighborhoods of San Antonio, while new projects in Alamo Heights have been rare. The recent completion of Magnolia Heights, a high-end luxury apartment development next door brought 150 residential units and two ground-floor retail spaces to the neighborhood.

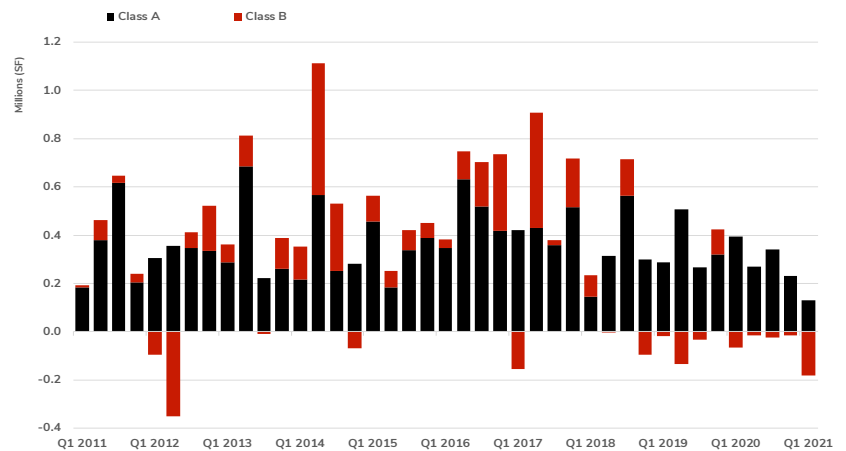
INVESTMENT SALES ACTIVITY

Real Capital Analytics data reports the first quarter sales volume for San Antonio office properties was 45.2 million compared to first quarter 2020 at \$141.2 million. The primary capital composition for buyers in Q1 2021 was made up primarily of private investors at 93.8%, and 6.2% institutional investors. For sellers, 100% were private investors. A significant transaction that took place during the first quarter was the sale of the Navarro Building, a 10-story office building in the RiverWalk area. The building and garage at 146 Navarro St. was originally built in 1968, the year the World's Fair was held in San Antonio. BH Properties has acquired the building that consists of 100,000 sq. ft. of office space above a 605-space parking structure. A capital improvement program to completely transform the office component into institutional quality Class A space is planned.

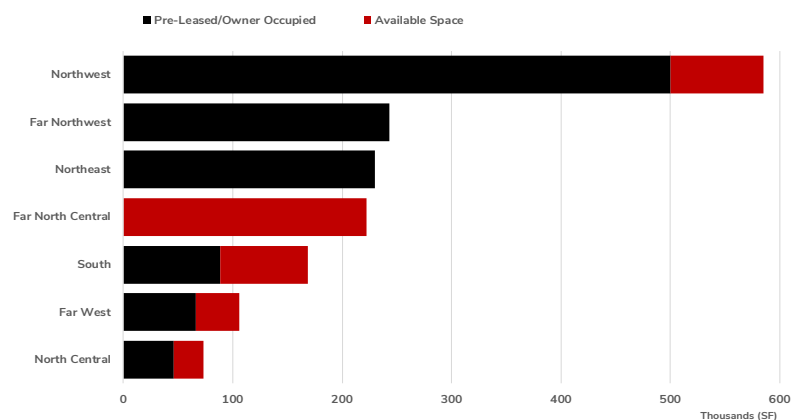
NET ABSORPTION



LEASING ACTIVITY



CONSTRUCTION



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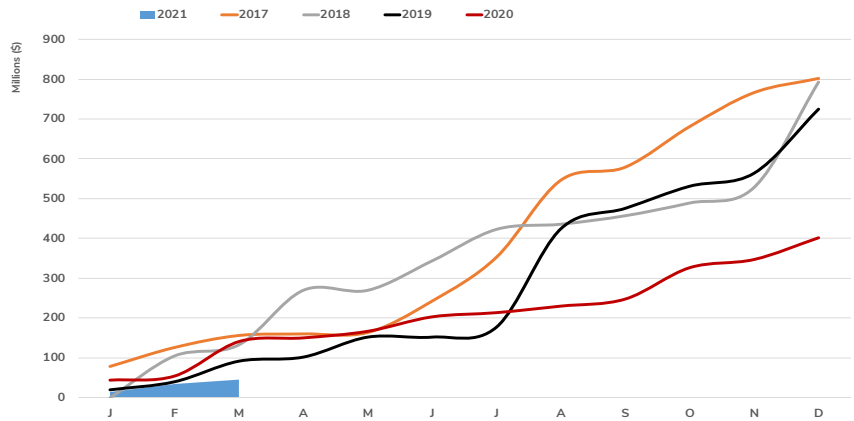
LEASING ACTIVITY

The volume of square footage signed during the first quarter—which is comprised of both new leases and renewals—was at 352,000 sq. ft.—down from the previous quarter's 823,000 sq. ft., and from 905,000 sq. ft. this time last year. 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. Another question is how office space design trends will translate to market activity. Clare Flesher, managing director for NAI Partners in San Antonio, said that office tenants had been considering changes such as unassigned workspaces even before the pandemic. But space decisions, including those influenced by market trends, happen at the end of leases.

AVERAGE ASKING RENTS

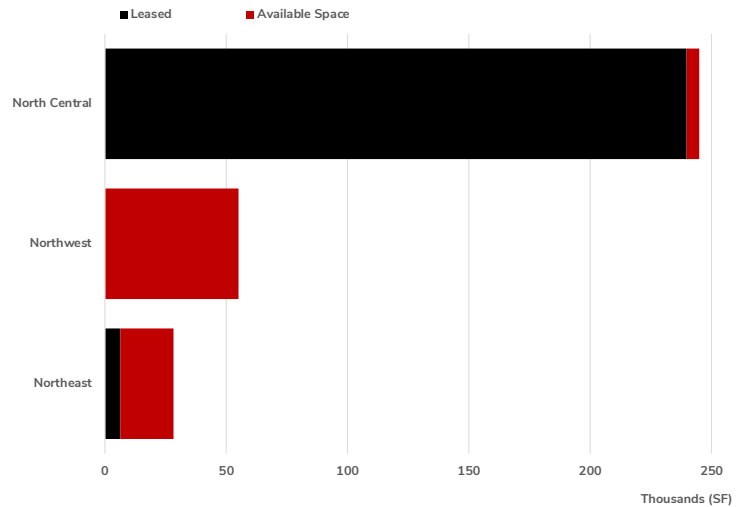
The San Antonio overall full-service average rates are at \$23.59 per sq. ft., an increase of \$0.35 year-over-year from \$23.24 per sq. ft. Asking rates for Class A space are averaging \$27.91 and Class B are averaging \$21.54 per sq. ft. Increases are due in part to the new supply added to the market. 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

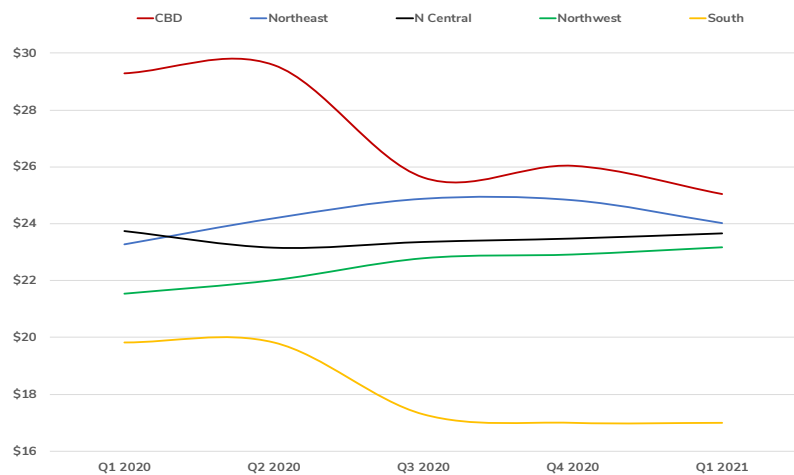


Source: Real Capital Analytics

DELIVERIES



HISTORICAL AVERAGE GROSS ASKING RENT



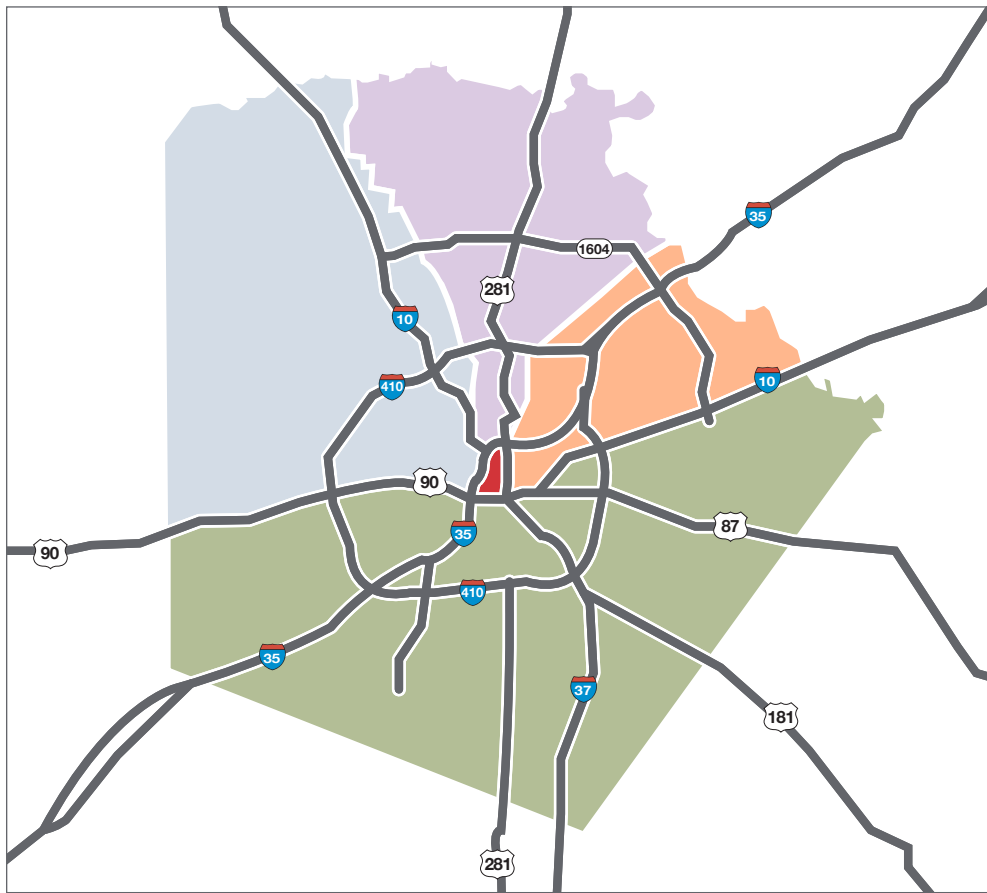
MARKET OVERVIEW

SUBMARKET STATS

Submarket Statistics (Total reflects Class A/B/C)	Total Inventory (SF)	Total Vacancy (%)	Total Availability (%)	Q1 2021 Net Absorption (SF)	2021 YTD Net Absorption (SF)	Q1 2021 Leasing Activity (SF)	Q1 2021 Deliveries (SF)	Under Construction (SF)	Overall Gross Avg Asking Rent (\$/PSF)
San Antonio Total	63,333,080	11.1	15.2	-73,579	-73,579	352,017	353,401	1,627,210	23.59
Class A	19,033,218	13.0	19.9	124,358	124,358	130,932	304,401	1,028,324	27.91
Class B	37,615,690	10.8	13.6	-182,413	-182,413	206,113	49,000	578,886	21.54
CBD Total	8,728,112	10.1	13.1	-135,601	-135,601	28,217	0	0	25.05
Class A	3,140,699	13.8	18.9	5,814	5,814	6,847	0	0	27.87
Class B	4,101,504	10.6	12.9	-133,726	-133,726	21,370	0	0	24.18
North Central Total	17,326,507	14.3	19.7	5,569	5,569	128,508	245,000	294,849	23.66
Class A	7,210,943	14.7	20.8	62,035	62,035	61,015	221,000	274,849	27.81
Class B	8,755,319	14.7	20.2	-63,513	-63,513	53,776	24,000	0	22.15
Northeast Total	5,612,007	11.4	15.6	-22,176	-22,176	16,717	28,355	230,000	24.02
Class A	1,202,819	19.3	27.7	-1,296	-1,296	1,646	28,355	0	28.74
Class B	3,488,312	10.5	12.5	-11,599	-11,599	15,071	0	230,000	22.85
Northwest Total	29,548,125	9.9	13.4	86,481	86,481	172,419	80,046	933,774	23.16
Class A	7,270,284	10.4	18.2	57,805	57,805	61,424	55,046	584,888	27.70
Class B	19,920,546	9.6	11.4	29,349	29,349	109,740	25,000	348,886	20.24
South Total	2,118,329	5.2	11.3	-7,852	-7,852	6,156	0	168,587	17.00
Class A	208,473	0.0	21.3	0	0	0	0	168,587	-
Class B	1,350,009	5.3	10.3	-2,924	-2,924	6,156	0	0	18.98
Suburban Total	54,604,968	11.3	15.5	62,022	62,022	323,800	353,401	1,627,210	23.50
Class A	15,892,519	12.9	20.1	118,544	118,544	124,085	304,401	1,028,324	27.91
Class B	33,514,186	10.8	13.7	-48,687	-48,687	184,743	49,000	578,886	21.51

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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Q1 2021

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