

SAN ANTONIO OFFICE | Q2 2021

QUARTERLY MARKET REPORT

Asking rent in San Antonio Office market rises despite slight uptick in vacancy

JULY 2021

EXECUTIVE SUMMARY

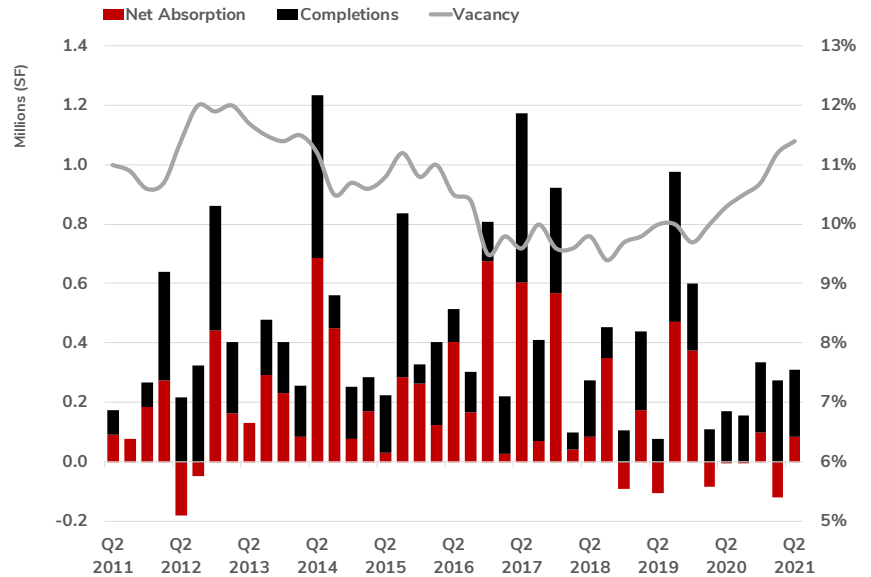
VACANCY RATE INCREASES TO 11.4%

The overall vacancy rate in the San Antonio office market was up 20 basis points quarter-over-quarter, and up 110 basis points year-over-year. The vacancy rate for Class A properties is at 13.9%, and Class B at 11.1%. In the second quarter, overall net absorption was positive 86,000 sq. ft.—Class A represented positive 115,000 sq. ft. and Class B tallied negative 94,000 sq. ft. Of the 1.1 million sq. ft. currently under construction, 74% of that space has been spoken for. Of the 619,000 sq. ft. completed so far in 2021, 33% is available for lease. The overall San Antonio average asking full-service rent is at \$23.96 per sq. ft.—up from Q2 2020 at \$23.43 per sq. ft.—while Class A space in the Central Business District is averaging \$30.60 per sq. ft.

SAN ANTONIO ECONOMIC INDICATORS

The Federal Reserve Bank of Dallas reported that San Antonio's metro unemployment rate declined to 5.7% in May, the lowest since March 2020. The state's jobless rate fell to 6.5%, and the nation's rate ticked down to 5.8%. Net payrolls in San Antonio expanded an annualized 4.5% (11,445 jobs) in the three months ending in May. Leisure and hospitality led the growth (18.7%, or 5,050 jobs) and was followed by construction (16.4%, or 2,180 jobs). Industries that posted net declines were financial activities (-6.0%, or 1,445 jobs), and professional and business services (-2.2%, or 830 jobs). In March and April 2020 combined, 130,511 jobs were lost as the pandemic hit. As of April 2021, 76.4% of those jobs had been recovered.

SUPPLY & DEMAND



MARKET INDICATORS

	CURRENT Q2 2021	PRIOR QUARTER Q1 2021	PRIOR YEAR Q2 2020
Vacant Total	11.4%	11.2% ▲	10.3% ▲
Vacant Direct	10.9%	10.7% ▲	9.9% ▲
Available Total	15.3%	15.3% ■	13.3% ▲
Available Direct	14.3%	14.4% ▼	12.7% ▲
Net Absorption (SF)	86,186	-118,120 ▲	-1,262 ▲
Leasing Activity (SF)	476,963	468,544 ▲	1,820,791 ▼
Construction (SF)	1,102,183	1,295,816 ▼	1,272,023 ▼
Deliveries (SF)	223,633	273,355 ▼	170,453 ▲
Avg Asking Rent (Gross)	\$23.96	\$23.58 ▲	\$23.43 ▲
Inventory (SF)	63,863,367	63,639,734 ▲	62,974,969 ▲

CBD CLASS A VACANCY RISES TO 17.4%

The CBD has 3.3 million sq. ft. of Class A inventory tracked in 15 buildings with 573,000 sq. ft. of vacant space as of Q2 2021. Class A vacancy in the suburban office market was at 13.1%, while overall vacancy in the CBD registered at 17.4%. There is close to 10 million sq. ft. of medical office space in the San Antonio area, representing 16% of the 64 million sq. ft. of total office inventory. The overall vacancy rate for medical office space is 16.2%, unchanged from this time last year.

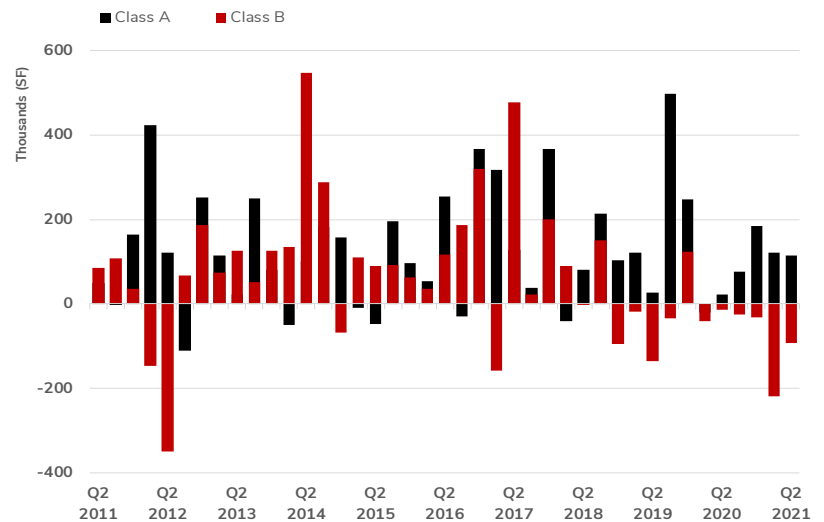
ZACHRY MOVING HQ INTO WALKER RANCH

Zachry Construction Materials is moving its headquarters to Walker Ranch Business Park, a 150,000-sq.-ft. office park at 14410 Wurzbach Parkway in the North Central submarket. The company will occupy 57,718 sq. ft. in the 93,000-sq.-ft. Class A Building II. The building is under construction with completion scheduled for Q3 2021. Zachry is planning to move around 190 employees into the new space in Q4 2021.

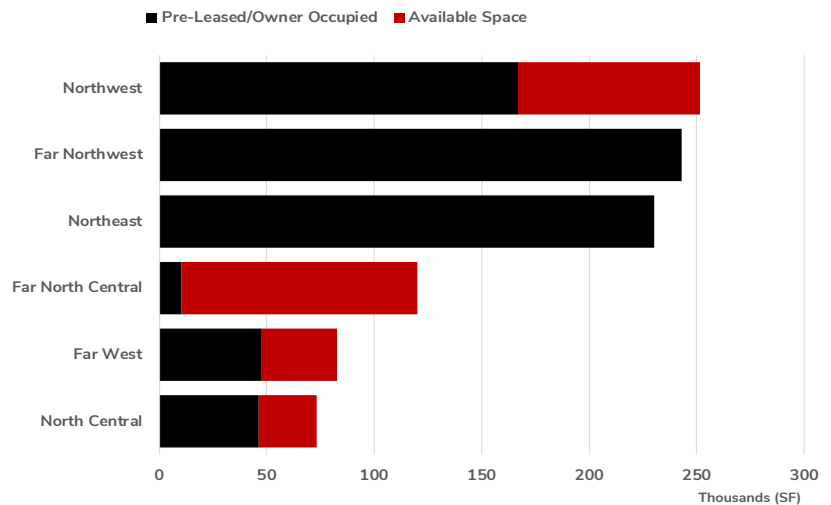
INVESTMENT SALES ACTIVITY

Real Capital Analytics data reports the first quarter sales volume for San Antonio office properties was \$81.7 million compared to second quarter 2020 at \$61.9 million. The capital composition for buyers in Q2 2021 was made up primarily of private investors at 74.4%, and 15.3% user/other investors. For sellers, 72.7% were private investors, and 17.7% were institutional investors. A recent transaction that took place during the second quarter was the sale of Westover Town Center, a 3-story 45,000-sq.-ft. medical office building located on a 4.61-acre parcel located in the Far West submarket. The building originally delivered in 2014 and occupancy at the time of sale was 100%. Tenants include Medcom, Alamo Orthopedic, and Baptist Health System.

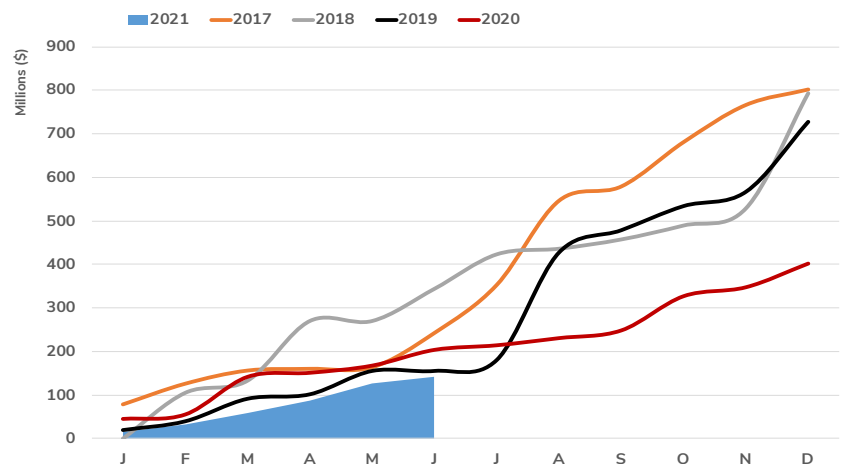
NET ABSORPTION



CONSTRUCTION



CUMULATIVE MONTHLY SALES VOLUME



SOURCE: REAL CAPITAL ANALYTICS

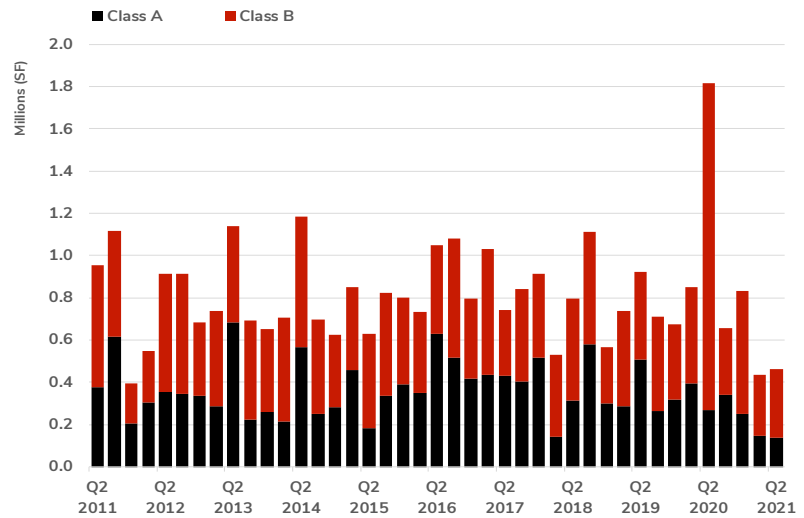
LEASING ACTIVITY

The volume of square footage signed during the second quarter—which is comprised of both new leases and renewals—was 477,000 sq. ft.—close to the previous quarter’s 469,000 sq. ft. Almost half the leasing activity took place in the North Central submarket. Lease transactions that took place during Q2 2021 include 72,977 sq. ft. being taken at 310 S. Saint Mary’s St. in the CBD; 22,040 sq. ft. leased at 10999 W. IH-10 in the Northwest submarket; 15,219 sq. ft. at 2338 N. Loop 1604 W. in the North Central submarket; and 15,089 sq. ft. leased by GH at 12500 San Pedro Ave. in the North Central submarket. As many workers begin to return to the office, there is still uncertainty about 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.

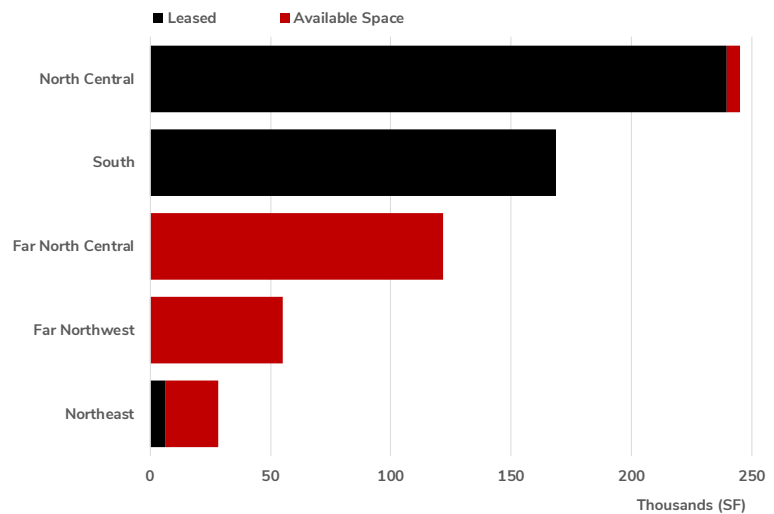
AVERAGE ASKING RENTS

The San Antonio overall full-service average rates are at \$23.96 per sq. ft., an increase of \$0.53 year-over-year from \$23.43 per sq. ft. Asking rates for Class A space are averaging \$28.14 and Class B are averaging \$21.83 per sq. ft. Increases are due in part to the new supply added to the market. Since the market was healthy prior to the current situation, the relative impact to occupancies and rents in the future is uncertain.

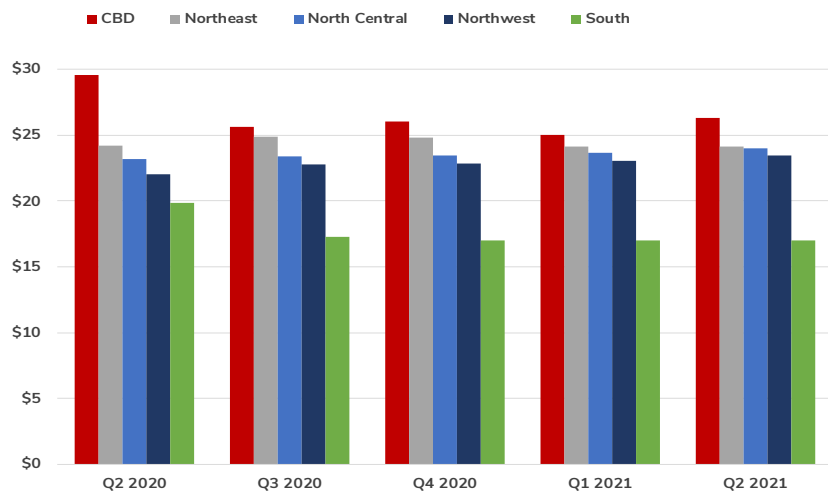
LEASING ACTIVITY



DELIVERIES



HISTORICAL AVERAGE GROSS ASKING RENT



MARKET OVERVIEW

SUBMARKET STATS

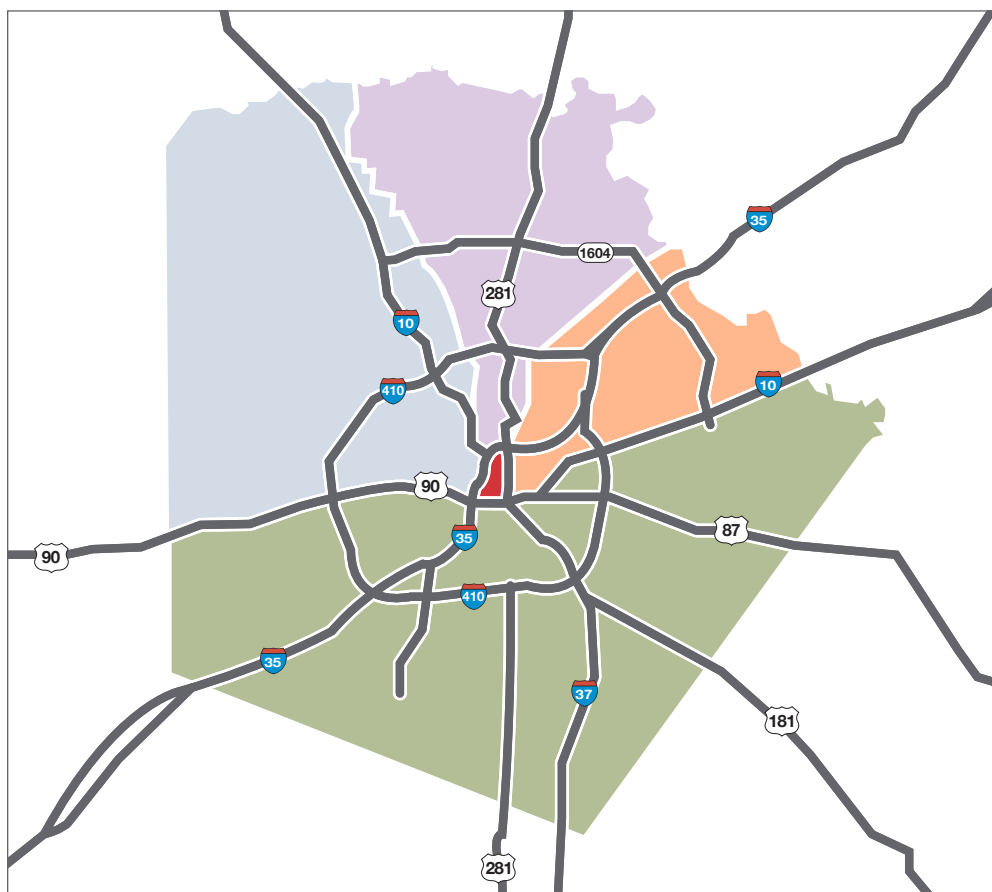
Submarket Statistics (Total reflects Class A/B/C)	Total Inventory (SF)	Total Vacancy (%)	Total Availability (%)	Q2 2021 Net Absorption (SF)	2021 YTD Net Absorption (SF)	Q2 2021 Leasing Activity (SF)	Q2 2021 Deliveries (SF)	Under Construction (SF)	Overall Gross Avg Asking Rent (\$/PSF)
San Antonio Total	63,863,367	11.4	15.3	86,186	-31,934	476,963	223,633	1,102,183	23.96
Class A	19,363,288	13.9	21.0	115,393	237,454	138,119	223,633	556,405	28.14
Class B	37,510,043	11.1	13.4	-93,882	-314,202	324,213	0	545,778	21.83
CBD Total	8,930,793	12.0	14.0	-42,110	-177,711	124,553	0	0	26.31
Class A	3,289,468	17.4	22.9	10,441	16,255	11,626	0	0	30.60
Class B	4,155,416	11.7	11.7	-52,987	-186,713	112,927	0	0	24.21
North Central Total	17,307,712	14.8	20.6	-71,987	-83,427	201,470	0	294,849	24.01
Class A	7,210,497	14.5	22.0	13,279	76,717	47,036	0	274,849	27.90
Class B	8,581,711	16.2	21.6	-92,453	-170,041	142,530	0	20,000	22.36
Northeast Total	5,653,597	11.2	15.1	3,767	-18,106	18,834	0	230,000	24.12
Class A	1,202,819	19.2	28.2	2,940	-434	1,989	0	0	28.80
Class B	3,403,297	9.2	8.9	24,148	14,930	14,118	0	230,000	22.06
Northwest Total	29,660,791	9.6	13.4	92,736	151,382	129,234	55,046	577,334	23.43
Class A	7,279,886	10.4	19.0	458	56,641	77,468	55,046	281,556	27.80
Class B	19,999,610	9.5	11.4	24,538	27,674	51,766	0	295,778	20.44
South Total	2,310,474	7.5	6.5	103,780	95,928	2,872	168,587	0	17.00
Class A	380,618	21.1	0.0	88,275	88,275	0	168,587	0	-
Class B	1,370,009	5.0	9.4	2,872	-52	2,872	0	0	18.98
Suburban Total	54,932,574	11.3	15.6	128,296	145,777	352,410	223,633	1,102,183	23.80
Class A	16,073,820	13.1	20.6	104,952	221,199	126,493	223,633	556,405	27.99
Class B	33,354,627	11.0	13.7	-40,895	-127,489	211,286	0	545,778	21.65

MARKET OVERVIEW

SAN ANTONIO OFFICE SUBMARKETS

SAN ANTONIO OFFICE
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- 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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