

# SAN ANTONIO OFFICE | Q3 2021 QUARTERLY MARKET REPORT

San Antonio among strongest Office markets in the U.S.

OCTOBER 2021

## EXECUTIVE SUMMARY

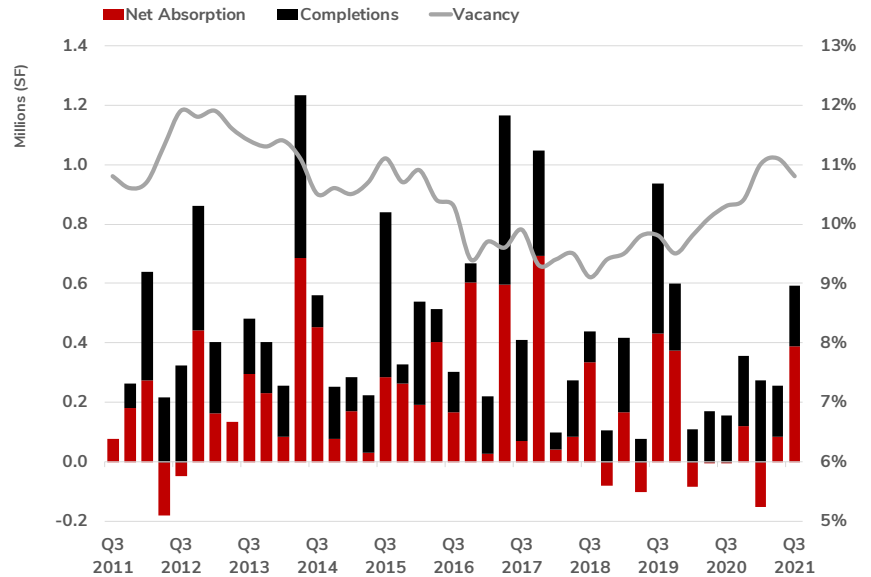
### LEASING VOLUME GROWS IN Q3

The San Antonio office market is showing signs of increased demand, as leasing volume grew in the third quarter by 45% quarter-over-quarter to 700,000 sq. ft. Unlike other major metros in Texas, San Antonio hasn't seen large fluctuations in demand or increases in sublease space, which has kept vacancies steady over the last ten years. Vacancy has remained between 9% and 11% during the past decade, which has been beneficial during the economic slowdown.

### SAN ANTONIO ONE OF THE STRONGEST OFFICE MARKETS IN THE U.S.

The National Association of Realtors identified 10 markets as having the strongest office market conditions as of third quarter 2021, including the Alamo City. The city met the requirements out of 390 commercial real estate markets. Like most major Texas metros, San Antonio has recovered from the pandemic at a healthier pace than most, regaining 82% of its lost jobs since Q1 2020. In addition, all of its lost jobs are expected to be recovered in Q4 2021, according to Oxford Economics. San Antonio's gross domestic product (GDP) level exceeded its pre-pandemic peak in Q2 2021 and has grown 1% since Q4 2019. GDP is expected to grow 2.3% per year, on average, over the five years to 2027, which is above the U.S. expected growth rate of 2%.

## SUPPLY & DEMAND



## MARKET INDICATORS

	CURRENT Q3 2021	PRIOR QUARTER Q2 2021	PRIOR YEAR Q3 2020
Vacant Total	10.8%	11.1% ↓	10.3% ↑
Vacant Direct	10.4%	10.7% ↓	9.9% ↑
Available Total	14.8%	15.1% ↓	13.3% ↑
Available Direct	13.8%	14.1% ↓	12.7% ↑
Net Absorption (SF)	389,343	86,186 ↑	-1,262 ↑
Leasing Activity (SF)	699,156	481,627 ↑	1,820,791 ↓
Construction (SF)	1,167,751	1,260,243 ↓	1,272,023 ↓
Deliveries (SF)	203,295	168,587 ↓	170,453 ↑
Avg Asking Rent (Gross)	\$23.90	\$23.96 ↓	\$23.43 ↑
Inventory (SF)	64,303,093	64,099,798 ↑	62,974,969 ↑

**NET ABSORPTION REMAINS POSITIVE**

Net absorption ended Q3 at positive 389,000 sq. ft. This has been a welcome turnaround compared to this time last year at negative 2,000 sq. ft. The amount of total office inventory that is being marketed for lease is at an availability rate of 14.8%, down from 15.1% in Q2 2021. The difference between this figure and the vacancy rate reflects expected future move-outs. The overall vacancy rate in the CBD is at 9.9%, although the availability rate is at 13.7%. A wider margin holds true in Class A space in the CBD at 14.5% vacancy, compared to 22.3% availability.

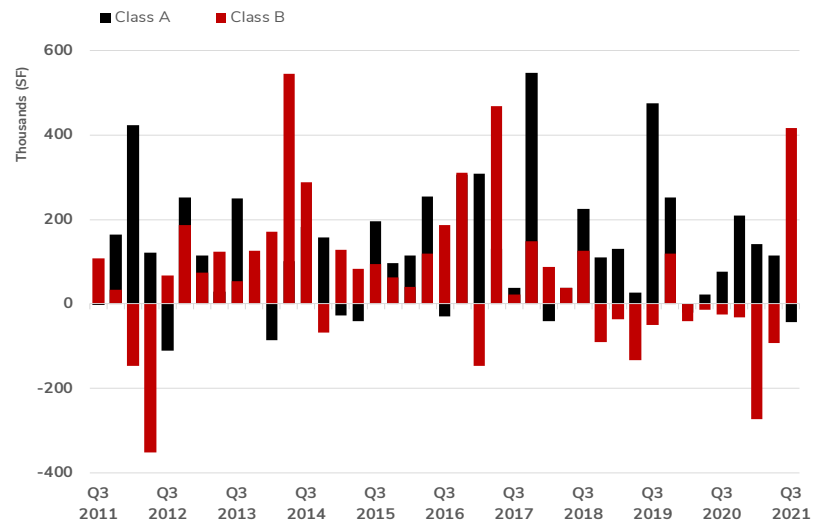
**CONSTRUCTION ACTIVITY**

San Antonio has 1.2 million sq. ft. underway (73% preleased), representing 1.8% of inventory, on top of the 645,000 sq. ft. (67% preleased) that delivered during 2021. There is 878,000 sq. ft. of proposed projects that have been announced, although they have not broken ground yet. The amount of construction underway and in the pipeline has been on average about 1.2 million sq. ft. over the past decade. Of the 13 buildings under construction, the range in size varies from the Jefferson Bank headquarters at 230,000 sq. ft. to smaller medical office buildings at 30,000 sq. ft.

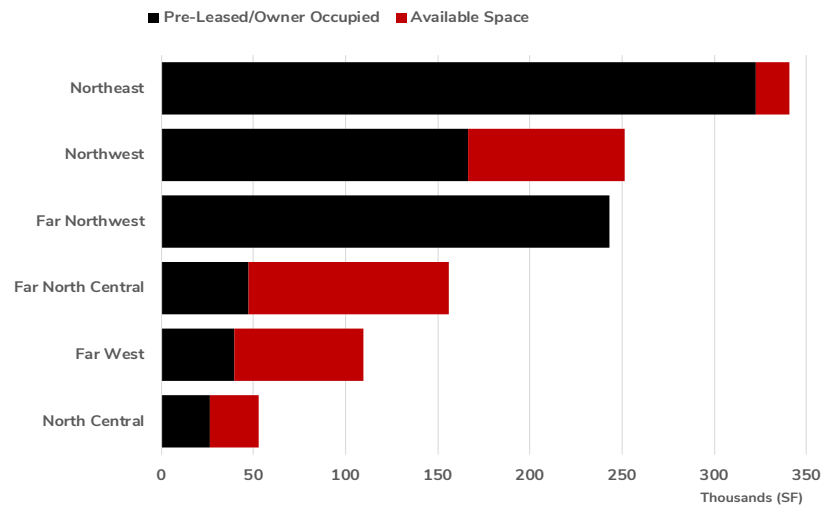
**INVESTMENT SALES ACTIVITY**

Among the notable Q3 2021 office sales in San Antonio were Boyd Watterson Asset Management acquiring Lincoln Center for an undisclosed amount. The 8-story building located at 7800 W. IH-10 in the Northwest submarket is 157,933 sq. ft. and was 83% occupied at the time of the sale. The seller was Primera Partners. Real Capital Analytics data reports the cumulative monthly sales volume for the first nine months of 2021 for San Antonio office properties was up \$266.2 million compared to the same time period in 2020 at \$247.7 million. The San Antonio office market's primary capital composition for buyers so far in 2021 was made up of 78.3% private investors, 12.6% institutional, and 9.1% user/other. For sellers, the majority was 80.1% private investors, and 14.2% institutional investors.

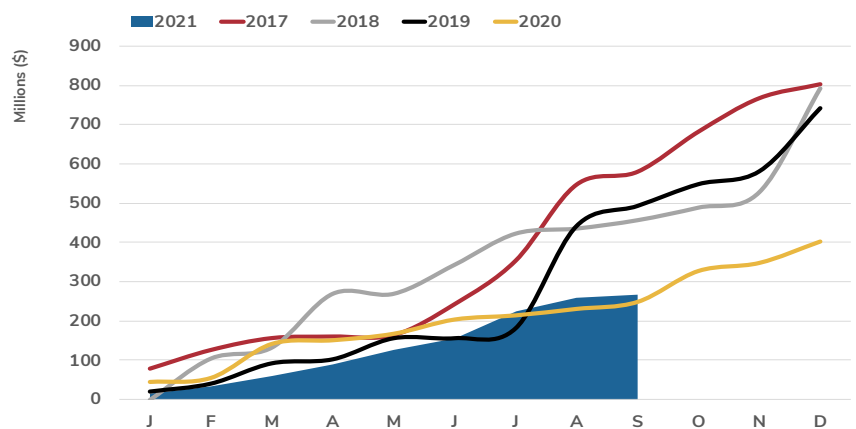
**NET ABSORPTION**



**CONSTRUCTION**



**CUMULATIVE MONTHLY SALES VOLUME**



Source: Real Capital Analytics

**LEASING ACTIVITY TICKED UP**

Quarterly leasing velocity—which is comprised of both new leases and renewals—grew to 700,000 sq. ft. during the third quarter—up slightly from 691,000 sq. ft. year-over-year. Top transactions during the third quarter included Medtronic renewing their lease in September for 145,025 sq. ft. at Overlook at the Rim in the Far Northwest submarket; a new lease for 80,312 sq. ft. at Port San Antonio in the South submarket in July; University Health inking a deal for 40,544 sq. ft. Wonderland of the Americas in the Northwest submarket in July; and Pure Energy taking 31,828 sq. ft. at 231 E. Rhapsody Drive in the North Central submarket in September.

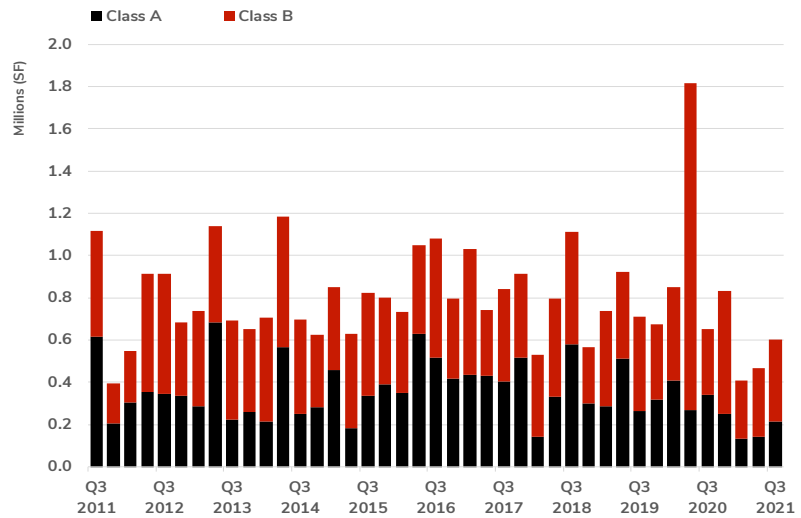
**WHAT TESLA'S AUSTIN EXPANSION MEANS FOR SAN ANTONIO**

Electric vehicle maker Tesla is moving its corporate headquarters from Palo Alto, California, to Austin. The company made the announcement in Austin, where it is building a \$1.1 billion manufacturing plant. Site selection and economic development experts believe Tesla's move to Austin will cause more auto industry and tech-related companies to look to the Interstate 35 corridor and as far south as San Antonio as they search for new locations. San Antonio is home to Toyota Motor Manufacturing Texas Inc. and is where Navistar is nearing completion of its commercial truck assembly facility. San Antonio is well positioned for upcoming opportunities of site-seeking companies interested in the I-35 corridor whether directly or indirectly linked to Tesla.

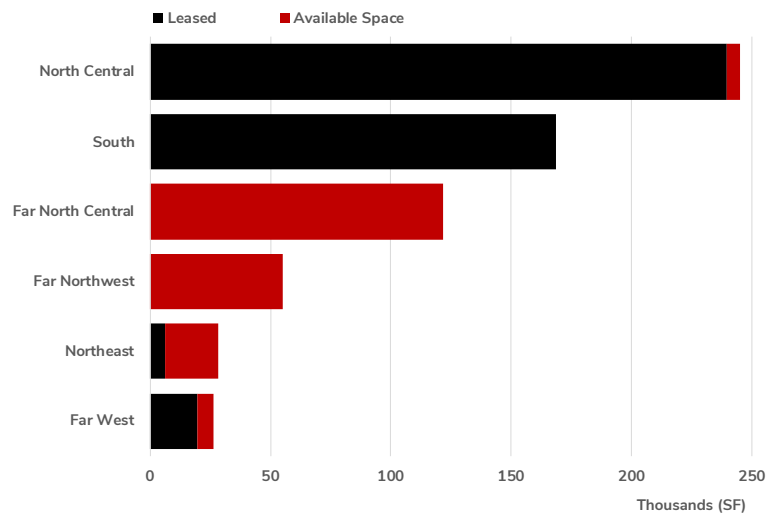
**AVERAGE ASKING RENTS**

San Antonio's overall full-service average rates are at \$23.90 per sq. ft., up 1.5% from this time last year at \$23.55, and down slightly quarter over quarter. Overall asking rates for Class A space are averaging \$27.50 and Class B are averaging \$21.84 per sq. ft. During the past ten years, average annual rent growth has been somewhat flat at 2.3%, with a peak year in 2019 at 6.5%. In the wake of the pandemic and the uncertainty surrounding remote work, there may be some softness in rent growth over the near term, although over the long term, the outlook should be optimistic.

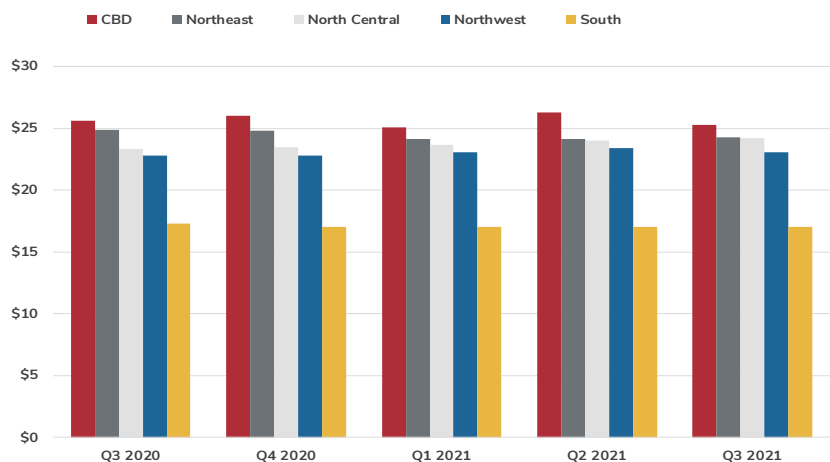
**LEASING ACTIVITY**



**DELIVERIES**



**AVERAGE GROSS ASKING RENT**



# MARKET OVERVIEW

## SUBMARKET STATS

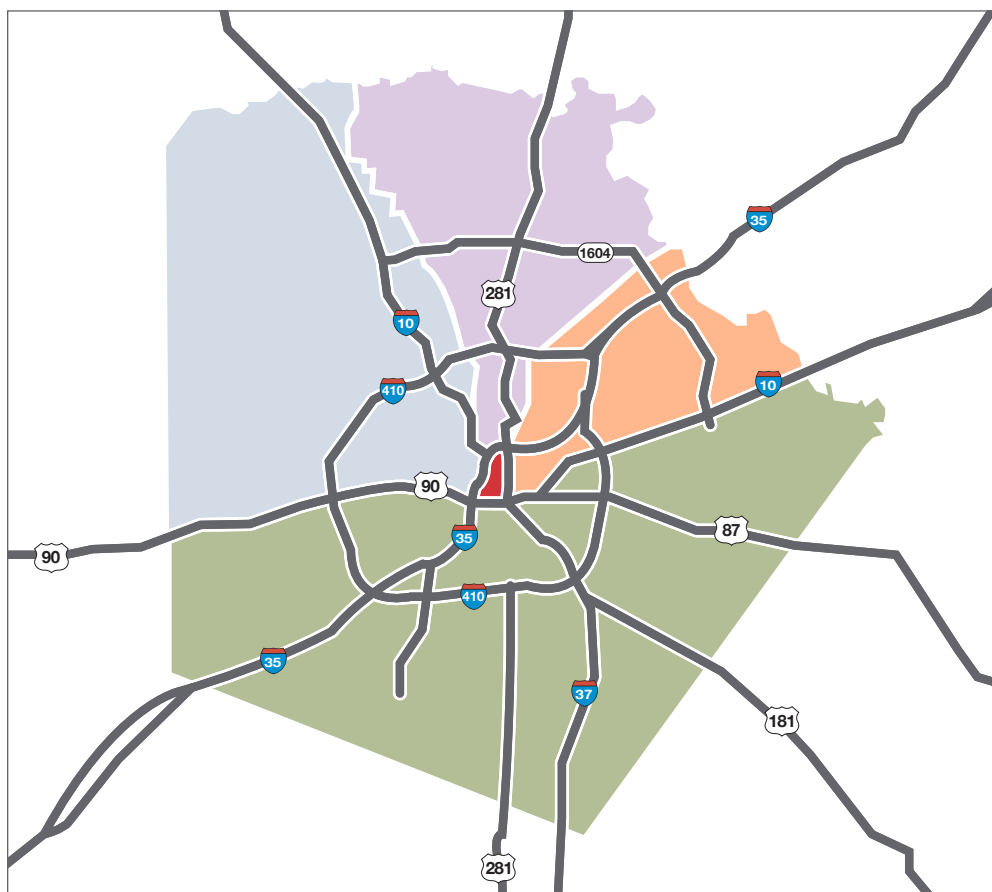
Submarket Statistics (Total reflects Class A/B/C)	Total Inventory (SF)	Total Vacancy (%)	Total Availability (%)	Q3 2021 Net Absorption (SF)	2021 YTD Net Absorption (SF)	Q3 2021 Leasing Activity (SF)	Q3 2021 Deliveries (SF)	Under Construction (SF)	Overall Gross Avg Asking Rent (\$/PSF)
<b>San Antonio Total</b>	64,303,093	10.8	14.8	389,343	322,911	699,156	203,295	1,167,751	23.90
Class A	19,613,086	14.0	20.7	-42,818	213,252	213,362	176,895	434,556	27.50
Class B	37,669,728	10.1	12.9	417,109	49,793	390,947	26,400	701,992	21.84
<b>CBD Total</b>	9,177,082	9.9	13.7	73,508	-138,701	42,491	0	0	25.31
Class A	3,380,268	14.5	22.3	-33,314	-17,059	20,736	0	0	25.68
Class B	4,310,905	9.4	11.7	106,822	-114,389	21,755	0	0	25.00
<b>North Central Total</b>	17,469,823	15.4	21.0	-6,760	-90,187	158,154	121,849	223,000	24.22
Class A	7,366,641	16.0	22.6	-5,859	89,474	65,957	121,849	153,000	27.90
Class B	8,567,073	15.6	21.2	48,896	-139,761	87,250	0	70,000	22.36
<b>Northeast Total</b>	5,663,235	10.6	13.9	30,794	12,688	26,075	0	340,709	24.26
Class A	1,202,819	19.5	25.5	-3,806	-4,240	452	0	0	28.81
Class B	3,403,297	8.3	8.4	30,383	45,313	21,144	0	309,506	22.63
<b>Northwest Total</b>	29,682,479	8.6	12.4	326,041	477,423	384,894	81,446	604,042	23.05
Class A	7,282,740	10.4	18.3	3,289	59,930	43,640	55,046	281,556	27.45
Class B	20,018,444	8.3	10.7	268,822	296,496	256,612	26,400	322,486	20.28
<b>South Total</b>	2,310,474	9.0	6.9	-34,240	61,688	87,542	0	0	17.00
Class A	380,618	21.9	3.2	-3,128	85,147	82,577	0	0	-
Class B	1,370,009	7.8	9.5	-37,814	-37,866	4,186	0	0	18.98
<b>Suburban Total</b>	55,126,011	11.0	15.0	315,835	461,612	656,665	203,295	1,167,751	23.77
Class A	16,232,818	13.9	0.0	-9,504	230,311	192,626	176,895	434,556	27.72
Class B	33,358,823	10.2	13.1	310,287	164,182	369,192	26,400	701,992	21.54

# MARKET OVERVIEW

## SAN ANTONIO OFFICE SUBMARKETS

SAN ANTONIO OFFICE  
QUARTERLY MARKET REPORT

Q3 2021



- 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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