

SAN ANTONIO MEDICAL OFFICE MARKET

Q4 2022



TRENDLINES

	Q4 2022	Q4 2021	ONE-YEAR TREND	FIVE-YEAR AVERAGE
UNEMPLOYMENT RATE	3.5	4.4	↓	4.5
NET ABSORPTION (Thousands SF)	139.8	79.2	↑	45.8
OVERALL VACANCY RATE	13.0%	13.3%	↓	13.9%
DIRECT VACANCY RATE	12.4%	13.2%	↓	13.8%
OVERALL VACANT SF (MSF)	1.8	1.9	↓	1.9
UNDER CONSTRUCTION (Thousands SF)	218.8	222.0	↓	267.0
ASKING RENT (PSF)	\$28.17	\$27.42	↑	26.91
SALES VOLUME (Millions)	\$8.2	\$65.2	↓	\$22.0

Source: Bureau of Labor Statistics, CoStar, Real Capital Analytics, Transwestern

VACANCY RATES DECLINE WHILE RENT GROWTH REMAINS STEADY

The San Antonio medical office market finished the year strong, with most metrics reflecting historically healthy figures. The overall vacancy rate decreased to 13% in Q4, reflecting a 30 bps improvement from Q4 2021 at 13.3%. Rental rates reached \$28.17 PSF, which is a \$0.75, or 2.7% increase compared to the previous year.

This quarter continued to see major expansion and funding initiatives from University Health System, Baptist Health System, Methodist Healthcare, Texas Biomedical Institute, and The University of Texas Board of Regents as outlined on the 2nd page.

The forecast for the remainder of 2023 is still uncertain when considering rising debt costs, loan maturities, and increasing financial scrutiny from banks to landlords, and landlords to tenants. However, San Antonio's medical office market remains favorably positioned, despite the anticipation of economic headwinds. San Antonio's population growth, declining unemployment rate, low cost of living, and nationally low rental rate, make it an attractive market for tenants and investors.

MARKET INDICATORS

All Classes of Space | Q4 2022

SUBMARKET	INVENTORY SF	DIRECT VACANT SF	DIRECT VACANCY RATE	TOTAL VACANT SF	OVERALL VACANCY RATE	UNDER CONSTRUCTION SF	TOTAL NET ABSORPTION SF	12 MONTH ROLLING NET ABSORPTION SF	ASKING RENT PSF
CORE MED CENTER (NW)	3,572,708	545,015	15.3%	552,725	15.5%	0	*120,755	141,491	\$27.00
NORTHWEST	5,891,026	708,807	12.0%	720,439	12.2%	20,000	*144,124	175,777	\$26.34
NORTH CENTRAL	1,367,954	175,224	12.8%	175,224	12.8%	0	952	72,918	\$25.43
NORTHEAST	1,042,138	163,408	15.7%	163,408	15.7%	72,999	(11,899)	(44,452)	\$24.39
CBD	893,305	285,634	32.0%	285,634	32.0%	0	(15,755)	(142,041)	\$24.65
FAR NORTH CENTRAL	1,433,406	128,895	9.0%	133,346	9.3%	29,220	5,688	49,300	\$30.33
FAR NORTHWEST	264,185	43,728	16.6%	43,728	16.6%	0	(8,648)	4,098	\$33.94
FAR WEST	853,621	122,048	14.3%	122,048	19.2%	60,000	34,272	29,652	\$32.54
SOUTH	968,393	24,191	2.5%	24,191	2.5%	0	63,930	120,035	\$24.80
OUTLYING COUNTIES	1,495,209	117,100	7.8%	175,674	11.7%	39,604	(72,894)	(35,801)	\$31.13
TOTAL	14,209,237	1,769,035	12.4%	1,843,692	13.0%	218,823	139,770	221,290	\$28.17

Source: CoStar, Transwestern

*The delivery of Oak Hills Women's Pavilion accounts for 95,224 SF of this figure



RELEVANT NEWS

San Antonio Business Journal, Dec 2022

Baptist plans \$14M hospital expansion amid multiple CEO changes

Baptist Health System, one of the region's largest health care providers, plans to invest \$14 million to expand its Mission Trail Baptist Hospital.

San Antonio Business Journal, Dec 2022

Mission Trail Baptist Hospital expands access to care for women on southeast side

A new Healthy Women's Center is now open on the Mission Trail campus to bring access to early pregnancy care for women living and working on the southeast side.

RELEVANT NEWS

Community Impact, Dec 2022

Christus Santa Rosa Hospital-Westover Hills expands its emergency department

The expansion to the hospital's emergency department consists of adding 16 private treatment rooms, seven Fast Track bays to treat fewer emergent cases more effectively, as well as CT, X-ray, and lab services within the emergency department to support the growing needs of the Westover Hills community.

Christus Santa Rosa Hospital-Westover Hills President Patricia Burns said her facility's patient base keeps growing because of the expanding far West Side population.

RELEVANT NEWS

San Antonio Business Journal, Dec 2022

Methodist Healthcare pursuing southward expansion

Methodist Healthcare has acquired space in a retail center across from Brooks where it plans to open a new freestanding emergency center, Methodist ER | City Base. More southward expansion could follow.

The ER will be affiliated with Methodist Hospital Metropolitan near downtown San Antonio. The full-service ER will house CT, x-ray and ultrasound equipment as well as lab and pharmacy services.

RELEVANT NEWS

San Antonio Business Journal, Dec 2022

Texas A&M University, University Health's new partnership to focus on underserved communities

Major investment in new facilities are planned near the South San Antonio campus that will address a long-undeserved area. A&M-SA has become a more critical player in health care as University Health looks to expand its footprint. Last year, University Health acquired 68 acres for a 256-bed hospital that it plans to develop near the South San Antonio campus.

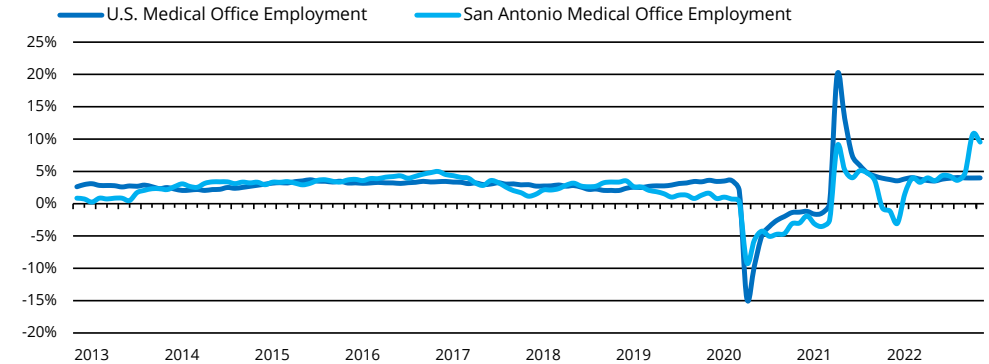


ECONOMY

Record Breaking Job Growth

- The San Antonio economy added 9,200 medical office-using jobs during the 12-month period ending November 2022. From September to October only, the San Antonio economy added 3,500 medical office jobs, reflecting the largest monthly increase in the history of the San Antonio market. By extension, the San Antonio economy saw a record-breaking YoY employment increase of over 10%.
- The largest YoY increases in jobs occurred in medical related industries: Education and Health Services (15,600), Healthcare and Social Assistance (13,500), and Ambulatory and Healthcare Services (8,700 SF).
- The quarterly unemployment rate decreased to 3.5% in November 2022, reflecting a 90 bps improvement compared to 4.4% 12-months ago.
- Q4 continued to see major funding and expansion plans for the healthcare industry. Methodist Healthcare is planning a \$150 million hospital in the Westover Hills area located in the Far West submarket. Additional activity in the Far West submarket includes Texas Biomedical Research Institute, also known as Texas Biomed, receiving a federal designation allowing access to a portfolio of up to \$100 million in funding from The Biomedical Advanced Research and Development Authority (BARDA).
- The Texas Board of Regents approved \$2.5 million to establish the Trauma Research and Combat Casualty Care Collective (TRC4), located at The University of Texas Health Science Center, located in San Antonio's core medical center.
- San Antonio's diverse economy is spread out among major industries (information technology, healthcare, defense, national security, and real estate) and that gives it a competitive advantage in having less downside risk if a particular industry underperforms.

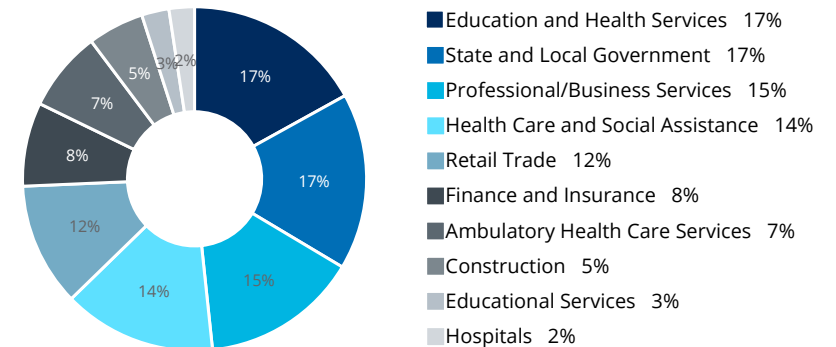
Y-O-Y CHANGE IN MEDICAL OFFICE JOBS



Source: Bureau of Labor Statistics, Transwestern

SHARE OF EMPLOYEES BY INDUSTRY

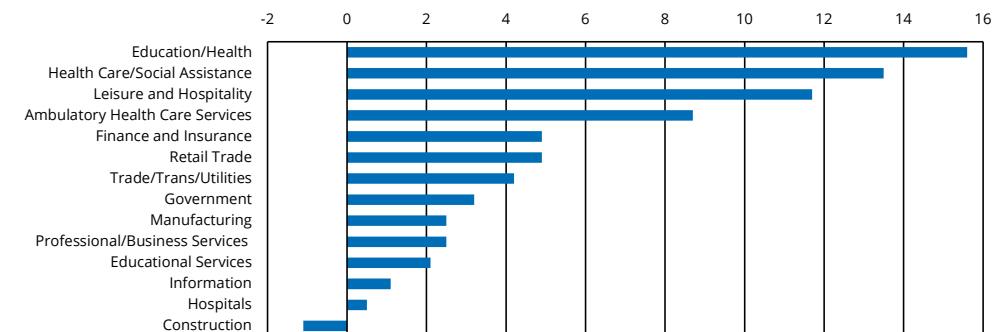
San Antonio | November 2022



Source: Bureau of Labor Statistics, Transwestern

Y-O-Y CHANGE IN JOBS BY INDUSTRY

San Antonio | November 2022



Source: Bureau of Labor Statistics, Transwestern

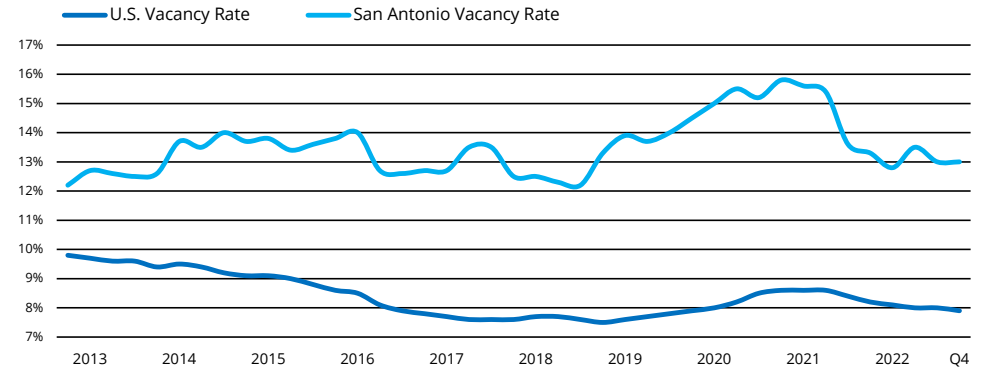


VACANCY

Vacancy Rate Increases in Q4

- The direct vacancy rate averaged to 12.4%, reflecting a 50 bps improvement compared to Q3, and a 80 bps improvement compared to last year. Overall vacancy was 13% and sublease vacancy was 0.6%
- Class B vacancy reached an all-time low of 12.2%, while Class A vacancy is approaching a record high of 21.9%. Notable submarket direct vacancy rates include; Far North Central (9.0%), North Central (12.8%), and Northwest (12.0%). The Core Medical Center, which is located within the Northwest submarket, had a vacancy rate of 15.3% YoY.

OVERALL VACANCY RATE



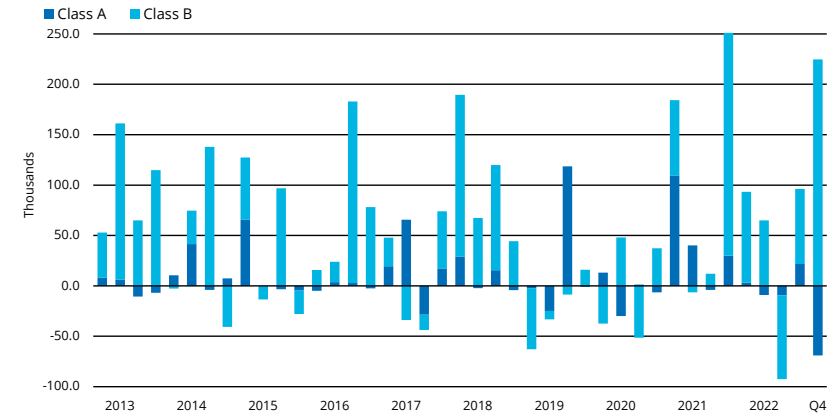
Source: CoStar, Transwestern

NET ABSORPTION

Medical Office Demand Remains Positive

- Net absorption totaled positive 139,770 SF, which mostly occurred in Class B product (224,000 SF). The Core Medical Center, located within the Northwest submarket, reflects a higher than normal positive net absorption due to the delivery of Oak Hills Women's Pavilion (95,224 SF).
- Significant absorption events include Westover Primary Care pre-leasing 7,073 SF at Westover Medical Plaza and Pinnacle Clinical Research signing a new 6,333 SF lease at Pecan Valley Medical Building. At least 135,000 SF of leasing activity occurred throughout the market with concentrations in the Northwest (43,000 SF) and Northeast (47,000 SF) submarkets.

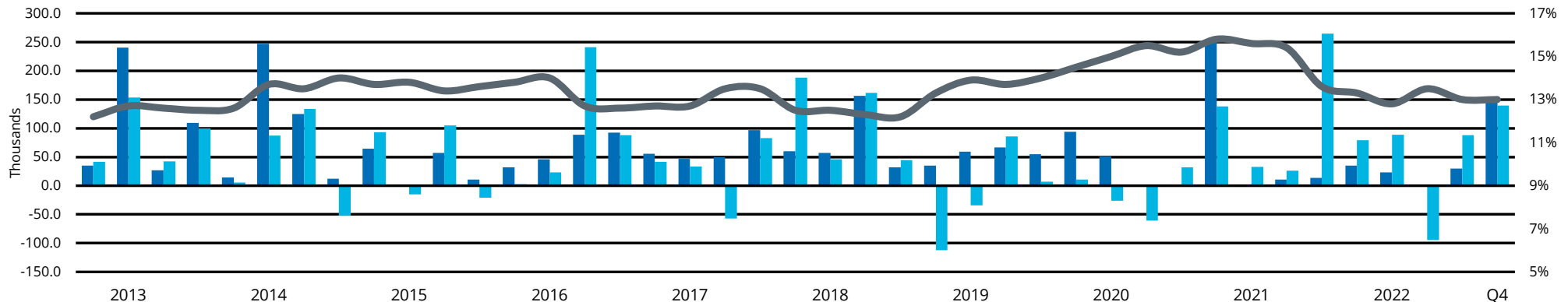
NET ABSORPTION BY CLASS



Source: CoStar, Transwestern

DELIVERY IMPACT ON KEY INDICATORS

Delivered SF (dark blue bar), Net Absorption SF (light blue bar), Vacancy Rate (grey line)



Source: CoStar, Transwestern

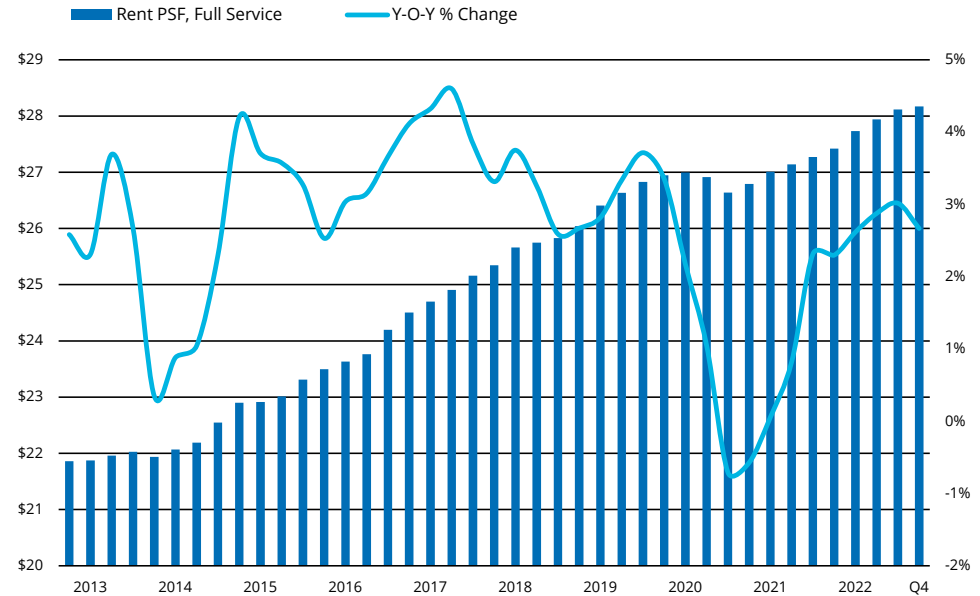


RENTAL RATES

Rates Continue To Increase In Q4

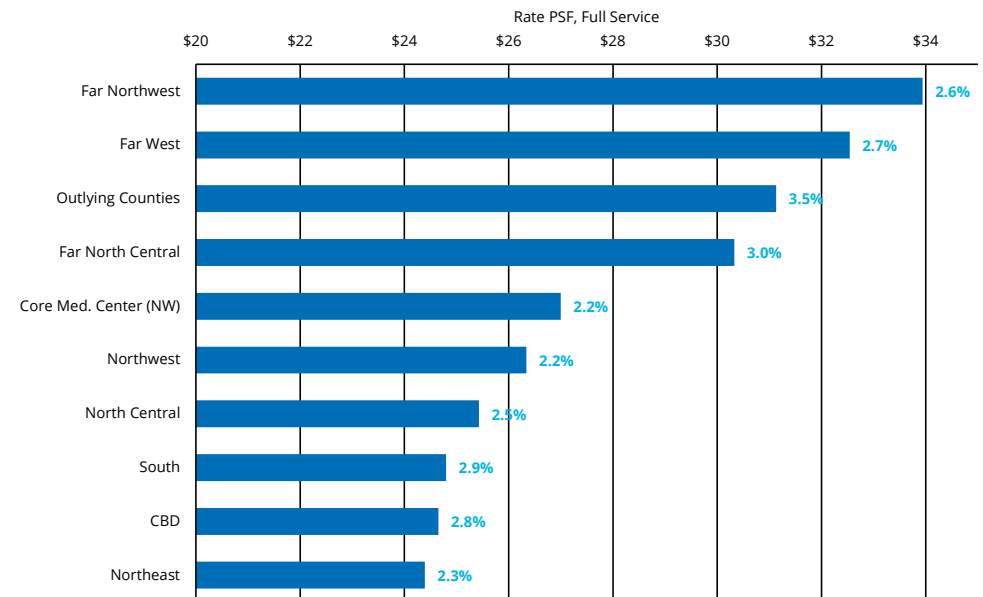
- Rates reached \$28.17 PSF full service in Q4 2022, reflecting a \$0.75, or 2.74% increase compared to Q4 2021.
- YoY rent growth in the Core Medical Center, located in the Northwest, was less than any other submarket at 2.2%. The Far North Central, which includes the Stone Oak area, saw the largest YoY rent growth of any submarket at 3.0%.
- Notable leases include Sonterra Medical Management renewing for 19,280 SF at Christus Santa Rosa Medical Tower II (Transwestern as landlord representative) and Methodist Healthcare renewing for 7,861 SF at 4330 Medical Dr.
- In addition to rental rate growth, landlords are increasing concessions to remain competitive in the market. TI's have occasionally exceeded \$80 PSF with rental abatement from 3-10 months (at the most), on 10 YR term leases.

MARKET RENT



Source: CoStar, Transwestern

MARKET RENTS BY SUBMARKET AND Y-O-Y GROWTH



Source: CoStar, Transwestern



UNDER CONSTRUCTION

Construction Activity Slows Down

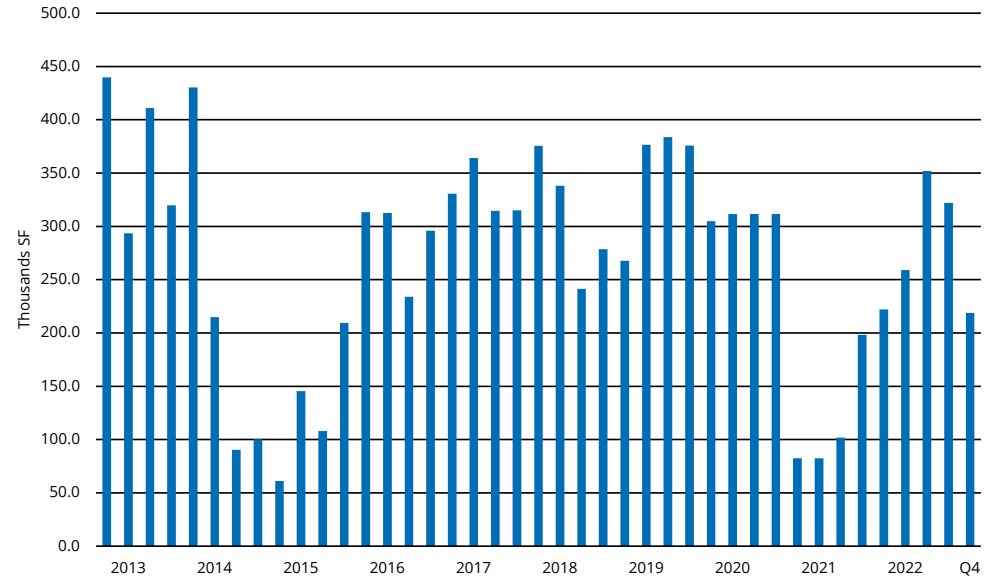
- There is 218,823 SF of medical office under construction in San Antonio, spread over eight buildings, and five submarkets. The largest construction project is OneFiftyOne Medical Office; a 60,000 SF, 2-story, Class A building, located in Westover Hills.
- One of the most notable deliveries was the Oak Hills Women's Pavilion, located in the Core Medical Center. Oak Hills Women's Pavilion (Transwestern as landlord representative) is 95,224 SF, 4-story, Class B medical office building with one 14,755 SF vacancy remaining. In addition, the University Health Women's and Children's Hospital, a 12-story, 300 bed hospital, is anticipated to deliver Q2 2023.
- The construction pipeline for medical office is anticipated to slow down over the course of 2023 due to high interest rates on construction loans, a reduction in construction jobs, and increases in maintenance costs.

SALES

Sales Volume Slows

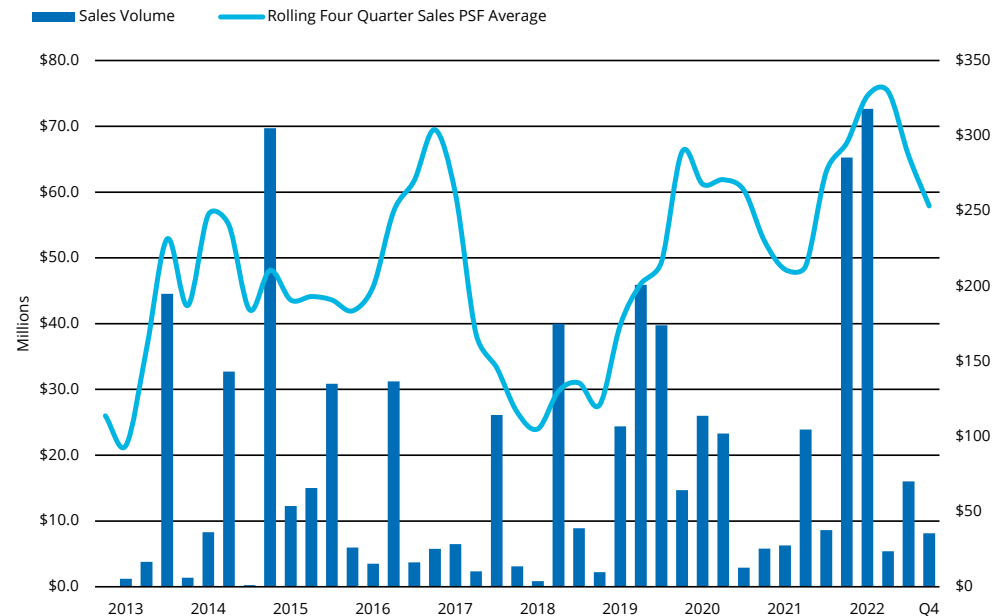
- Medical office building sales totaled at least \$8.15M. However, that figure is likely more than \$15M after estimating and including undisclosed sales prices. Based on the known figure, Q4 brings the rolling four quarters sales average to 253\$ PSF, compared to \$295 PSF in Q4 2021.
- In notable transactions, 250 E Basse Rd, a 38,370 SF, 2-story building located in the North Central was sold in November by Mohr Partners to Big Sky Medical.
- We expect sales volume to be muted in 2023, due to interest rate hikes and economic uncertainty.

UNDER CONSTRUCTION



Source: CoStar, Transwestern

SALES VOLUME



Source: CoStar, Transwestern



NOTABLE LEASES

TENANT	ADDRESS	SUBMARKET	TYPE	SF LEASED
SONTERRA MEDICAL MANAGEMENT	Christus Santa Rosa Medical Tower II	Northwest	Renewal	19,280
COMPREHENSIVE RADIOLOGY MANAGEMENT	Toepperwein Medical Plaza	Northeast	Renewal	10,051
BHS PHYSICIANS	Atrium MOB	Far North Central	New	9,491
METHODIST HEALTHCARE	4330 Medical Dr	Northwest	Renewal	7,861
WESTOVER PRIMARY CARE	Westover Hills Medical Office	Far West	Renewal	7,073
PINNACLE CLINICAL RESEARCH	Pecan Valley Medical Building	South	New	6,333
MCDONALD HEALTH ARMY CENTER	Resolute Health Medical Plaza	Comal County	New	6,272
BOARD OF REGENTS OF UNIVERSITY OF TEXAS SYSTEM	Christus Santa Rosa Medical Tower I	Northwest	Renewal	5,792

NOTABLE SALES

ADDRESS	SUBMARKET	BUILDING SF	BUYER	SELLER
250 E BASSE RD	North Central	38,370	Big Sky Medical	Mohr Partners
25331 W IH-10	Far Northwest	21,118	Undisclosed	Gentry Research & Development
1130 E SONTERRA BLVD	Far North Central	15,002	SGD Texas	Sonterra Professional Building
WESTOVER MEDICAL PLAZA	Far West	11,570	Undisclosed	Pharmderm Holdings
JUDSON MEDICAL BUILDING	Northeast	10,394	SGD Texas	Texsan Holdings

= Transwestern deal



MARKET INDICATORS

Class A | Q4 2022

SUBMARKET	INVENTORY SF	DIRECT VACANT SF	DIRECT VACANCY RATE	TOTAL VACANT SF	OVERALL VACANCY RATE	UNDER CONSTRUCTION SF	NET ABSORPTION SF	12 MONTH ROLLING NET ABSORPTION SF	ASKING RENT PSF
NORTHWEST	291,473	65,786	22.6%	65,786	22.6%	0	60	18,968	\$32.12
NORTH CENTRAL	110,130	8,108	7.4%	8,108	7.4%	0	1,557	7,047	\$30.33
NORTHEAST	145,776	23,062	15.8%	23,062	15.8%	0	-	(23,062)	\$25.40
CBD	143,077	107,141	74.9%	107,141	74.9%	0	(4,596)	(34,305)	\$24.60
FAR NORTH CENTRAL	445,288	50,555	11.4%	50,555	11.4%	0	(2,893)	9,760	\$31.16
FAR NORTHWEST	41,590	11,419	27.5%	11,419	27.5%	0	(8,200)	(3,839)	\$40.21
FAR WEST	409,906	55,516	13.5%	55,516	13.5%	60,000	(1,940)	(9,825)	\$36.43
SOUTH	80,000	3,128	3.9%	3,128	3.9%	0	2,836	6,406	\$30.22
OUTLYING COUNTIES	196,438	24,436	12.4%	83,010	42.3%	0	(55,865)	(36,860)	\$33.08
TOTAL	1,863,678	349,151	18.7%	407,725	21.9%	60,000	(69,041)	(65,710)	\$31.62

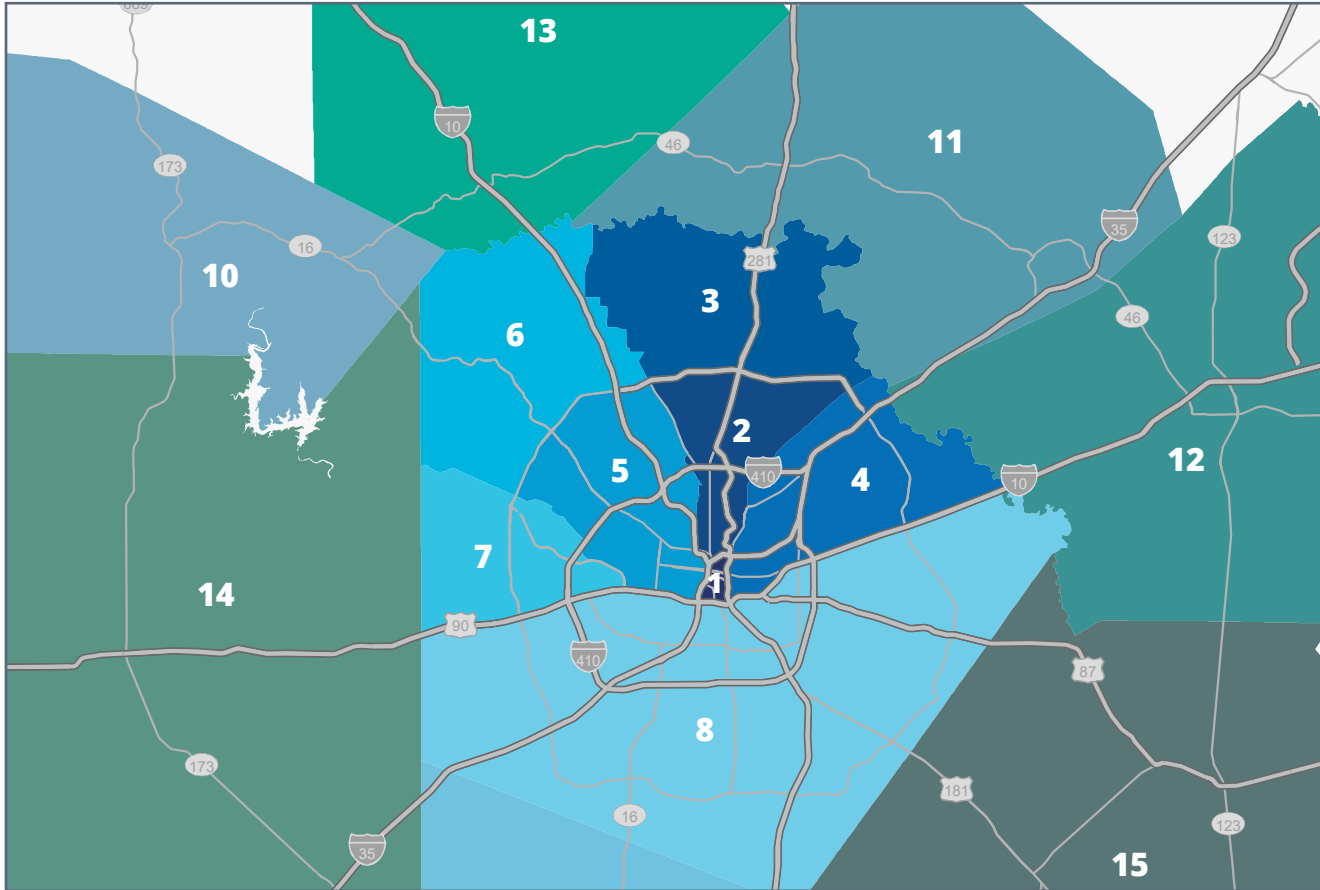
MARKET INDICATORS

Class B | Q4 2022

SUBMARKET	INVENTORY SF	DIRECT VACANT SF	DIRECT VACANCY RATE	TOTAL VACANT SF	OVERALL VACANCY RATE	UNDER CONSTRUCTION SF	NET ABSORPTION SF	12 MONTH ROLLING NET ABSORPTION SF	ASKING RENT PSF
NORTHWEST	4,409,821	530,226	12.0%	541,858	12.3%	20,000	*143,776	152,873	\$26.42
NORTH CENTRAL	1,016,952	112,985	11.1%	112,985	11.1%	0	1,146	65,327	\$25.69
NORTHEAST	519,689	92,734	17.8%	92,734	17.8%	0	1,399	(1,712)	\$24.95
CBD	713,687	178,493	25.0%	178,493	25.0%	0	(11,159)	(107,736)	\$24.64
FAR NORTH CENTRAL	976,012	76,365	7.8%	80,816	8.3%	29,220	8,556	41,515	\$29.97
FAR NORTHWEST	222,595	32,309	14.5%	32,309	14.5%	0	(448)	(259)	\$32.77
FAR WEST	443,715	66,532	15.0%	66,532	13.5%	0	36,212	39,477	\$28.41
SOUTH	499,021	16,317	3.3%	16,317	3.3%	0	63,396	90,163	\$25.05
OUTLYING COUNTIES	1,169,169	92,664	7.9%	92,664	7.9%	15,004	(18,229)	1,059	\$31.38
TOTAL	9,970,661	1,198,625	12.0%	1,214,708	12.2%	64,224	224,649	280,707	\$27.70

Source: CoStar, Transwestern

*The delivery of Oak Hills Women's Pavilion accounts for 95,224 SF of this figure



San Antonio Office Submarkets

- 1 CBD
- 2 North Central
- 3 Far North Central
- 4 Northeast
- 5 Northwest
- 6 Far Northwest
- 7 Far West
- 8 South
- 9 Atascosa County
- 10 Bandera County
- 11 Comal County
- 12 Guadalupe County
- 13 Kendall County
- 14 Medina County
- 15 Wilson County

RESEARCH METHODOLOGY

The information in this report is the result of a compilation of information on medical office properties located in the San Antonio metropolitan area. This report includes single tenant, multi-tenant and owner-user properties 10,000 SF and larger, excluding condo and hospital facilities and those properties owned and occupied by a government agency.

ABOUT TRANSWESTERN

The privately held Transwestern companies have been delivering a higher level of personalized service and innovative real estate solutions since 1978. An integrated approach formed from fresh ideas drives value for clients across commercial real estate services, development, investment management and opportunistic programs for high-net-worth investors. The firm operates through 30+ U.S. offices and global alliances with BNP Paribas Real Estate and Devcore. Learn more at transwestern.com and [@Transwestern](https://twitter.com/Transwestern).

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