

SAN ANTONIO OFFICE MARKET

Q1 2023



TRENDLINES

| | Q1 2023 | Q1 2022 | ONE-YEAR TREND | FIVE-YEAR AVERAGE |
|-------------------------------|---------|---------|----------------|-------------------|
| UNEMPLOYMENT RATE | 3.8 | 4.1 | ↓ | 4.5 |
| NET ABSORPTION (THOUSANDS SF) | (494.0) | (760.4) | ↑ | 37.4 |
| OVERALL VACANCY RATE | 12.7% | 11.4% | ↑ | 9.7% |
| DIRECT VACANCY RATE | 11.9% | 10.1% | ↑ | 9.1% |
| OVERALL VACANT SF (MSF) | 7.6 | 6.8 | ↑ | 5.6 |
| DIRECT VACANT SF (MSF) | 5.9 | 5.5 | ↑ | 5.3 |
| UNDER CONSTRUCTION (MSF) | 1.64 | 1.60 | ↑ | 1.5 |
| RENT, FULL SERVICE (PSF) | \$29.34 | \$28.71 | ↑ | \$28.10 |
| SALES VOLUME (MILLIONS) | \$155.0 | \$98.0 | ↑ | \$59.3 |

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

OFFICE MARKET SLOWS IN Q1 2023

The San Antonio office market slowed in the Q1, with a total of 494,074 SF of negative net absorption. This was largely due to large block (50,000 + SF) vacancies and downsizes. By extension, the overall vacancy rate reached 12.7% reflecting a 120-bps point increase compared to the previous quarter.

Over 950,000 SF of leasing activity occurred throughout the market with major concentrations in the North Central (395,000 SF), Northwest (228,000 SF), and Far North Central (123,000 SF) submarkets.

The forecast for the remainder of 2023 is still trending downwards when considering rising debt costs, loan maturities, and increasing financial scrutiny from banks to landlords, and landlords to tenants. However, San Antonio's vacancy rate and asking rent is lower than all Texas markets and the national average.

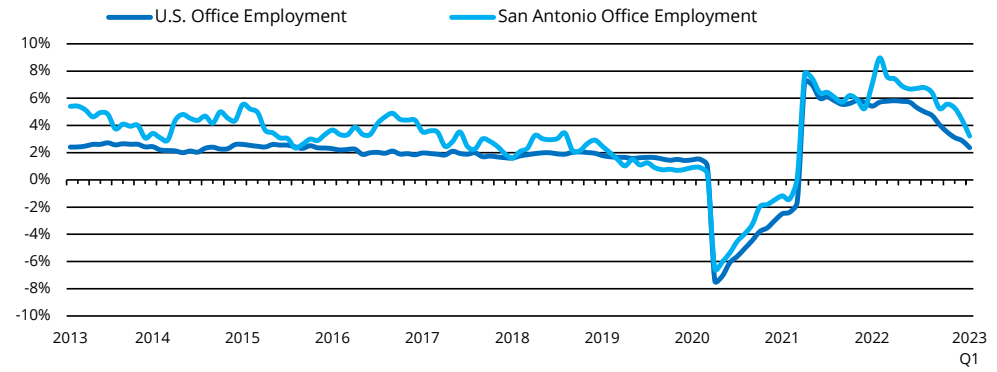


ECONOMY

Unemployment Increases in Q1

- The San Antonio economy added 8,900 office-using jobs during the 12-month period ending February 2023. The largest Y-O-Y increases in jobs occurred in leisure and hospitality (15,100), financial activities (5,000), government (4,800), and educational and health services (4,500). Information, construction, professional and business services, and manufacturing saw the least amount of job growth.
- The quarterly unemployment rate in San Antonio decreased to 3.8%, in February 2023, which is a 30-basis point increase compared to 4.1% in February 2022.
- San Antonio’s diverse economy is balanced among major industries (Education/Health Services, Leisure/Hospitality, Government, and Financial Activities) so no one industry comprises of more than 20% of the workforce. This diversity of industry provides San Antonio competitive advantage with less downside risk if a particular industry under-performs.

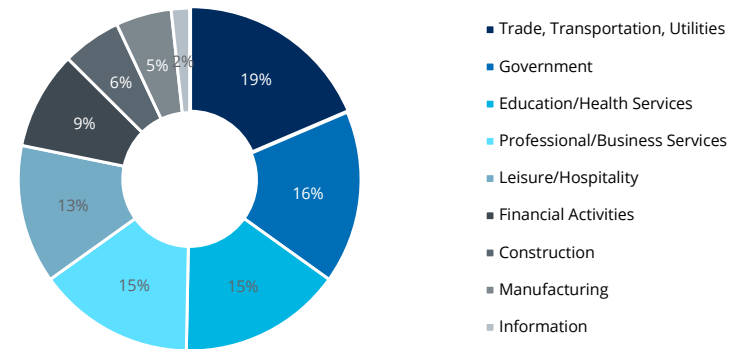
Y-O-Y CHANGE IN OFFICE JOBS



Source: Bureau of Labor Statistics, Transwestern

SHARE OF EMPLOYEES BY INDUSTRY

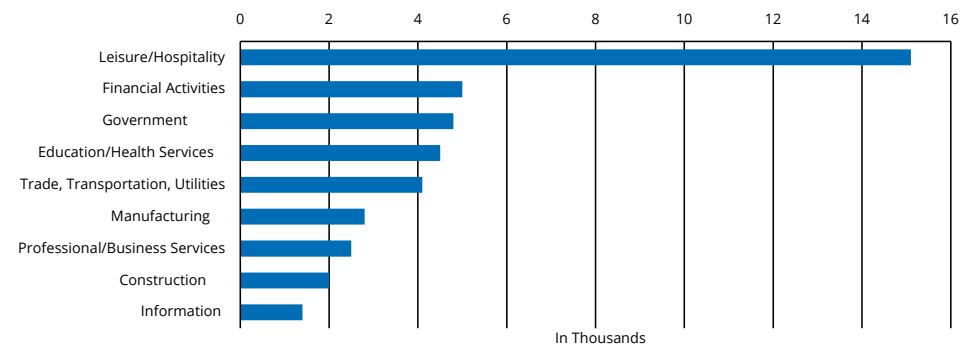
San Antonio | February 2023



Source: Bureau of Labor Statistics, Transwestern

Y-O-Y CHANGE IN OFFICE JOBS BY INDUSTRY

San Antonio | February 2023



Source: Bureau of Labor Statistics, Transwestern

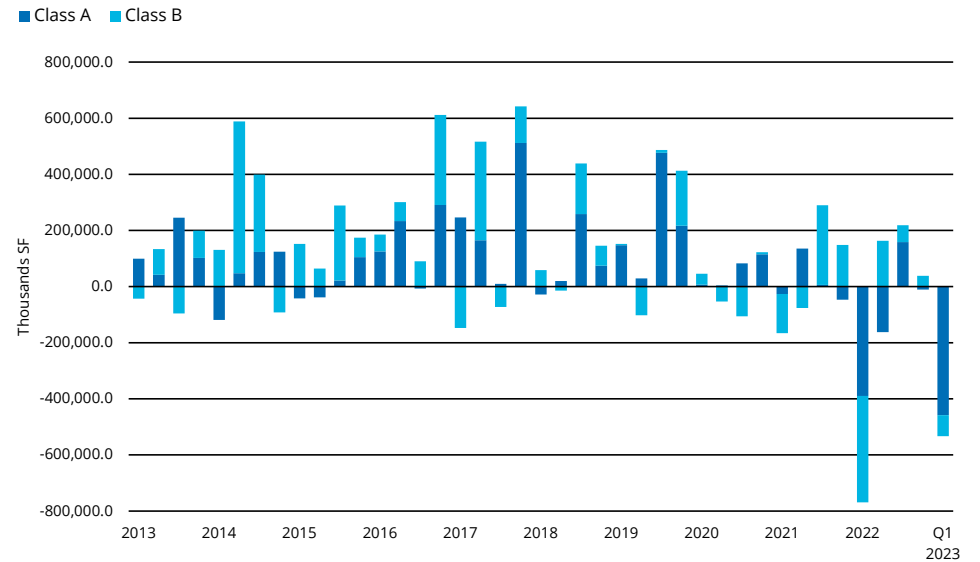


NET ABSORPTION

Net Absorption Trends Downward

- Net absorption totaled negative 494,074 SF, which mostly occurred in Class A product (458,450 SF). The submarkets with the largest negative absorption are CBD (186,265 SF), Far West (212,441 SF), and Far North Central (74,842 SF). Examples include CodeUp moving out of the CBD and Nationwide giving back space in the Far West. Despite Rackspace signing a new lease for 80,000 SF in the Far North Central, the submarket absorption figures are still offset by space coming to market.
- The only submarkets reflecting positive net absorption are the Northwest (51,061 SF) and Far Northwest (14,563 SF). Examples include CrowdStrike expanding 12,400 SF at Landmark One.
- The absorption outlook for the remainder of 2023 could be challenged due to companies reducing overhead and resizing their footprint.

NET ABSORPTION BY CLASS



Source: CoStar, Transwestern

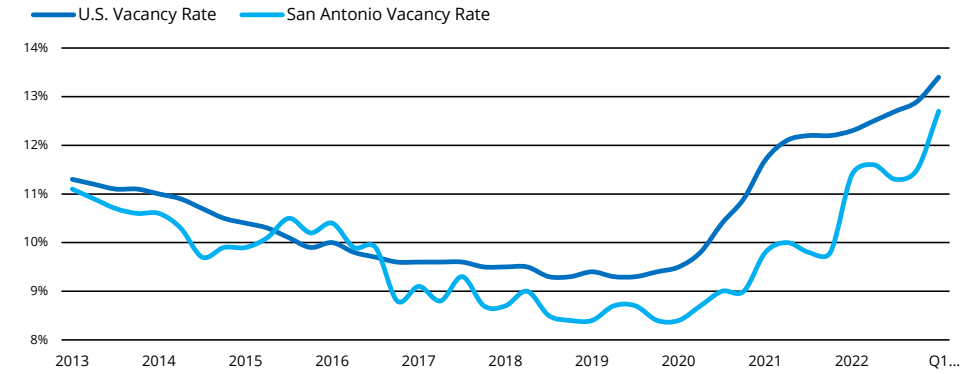


VACANCY

Vacancy Rate Increases in Q1

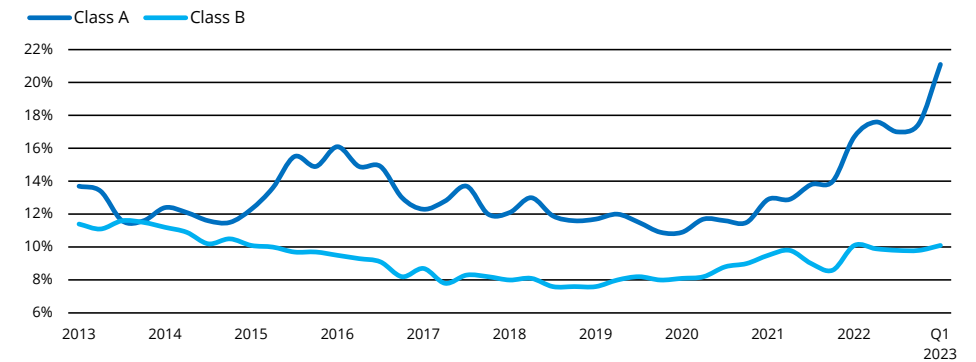
- The direct vacancy rate in Q1 reached 11.9%, reflecting a 200-basis point increase from Q4, and a 180-basis point increase compared to Q1 2022. Overall vacancy was 12.7%.
- Class A overall vacancy increased to 21.1% in Q1. Class A product with the highest vacancy is the following submarkets: Far West (38.7%), CBD (31.2%), North Central (15.8%), Northwest (13.1%).
- Class B overall vacancy increased to 10.1% in Q1. Class B product with the highest vacancy is the following submarkets: North Central (16.8%), CBD (9.8%), Northwest (8.4%), Far West (6.1%).
- There's approximately 511,000 SF of sublease space on the market today, equating to 0.8% of total inventory. That figure is significantly less than the amount of sublease space in cities such as Austin (3.5%), Houston (1.2%), Dallas (2.1%), Phoenix (3.8%), Charlotte (3.0%), and Orlando (1.1%). Therefore, direct leasing space has a much better chance of out-competing sublease space and enabling landlords to regain pricing power.

OVERALL VACANCY RATE



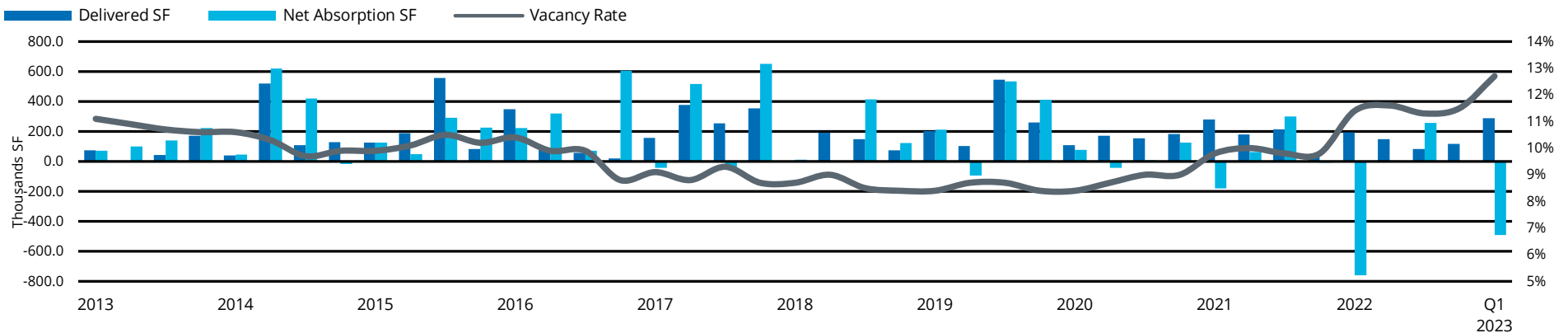
Source: CoStar, Transwestern

OVERALL VACANCY RATE BY CLASS



Source: CoStar, Transwestern

DELIVERY IMPACT ON KEY INDICATORS



Source: CoStar, Transwestern

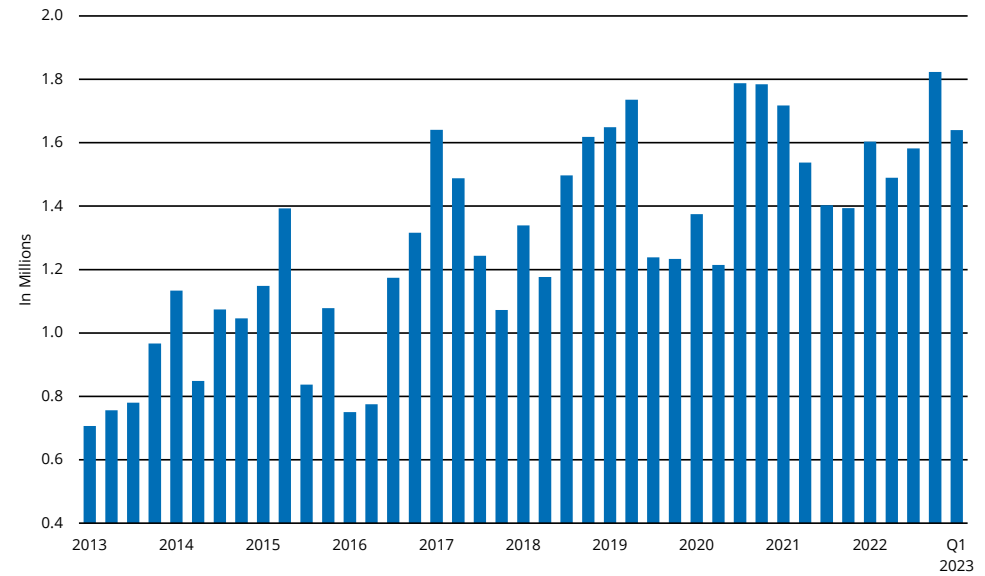


UNDER CONSTRUCTION

Construction Pipeline Exceeds Over 1.56 MSF

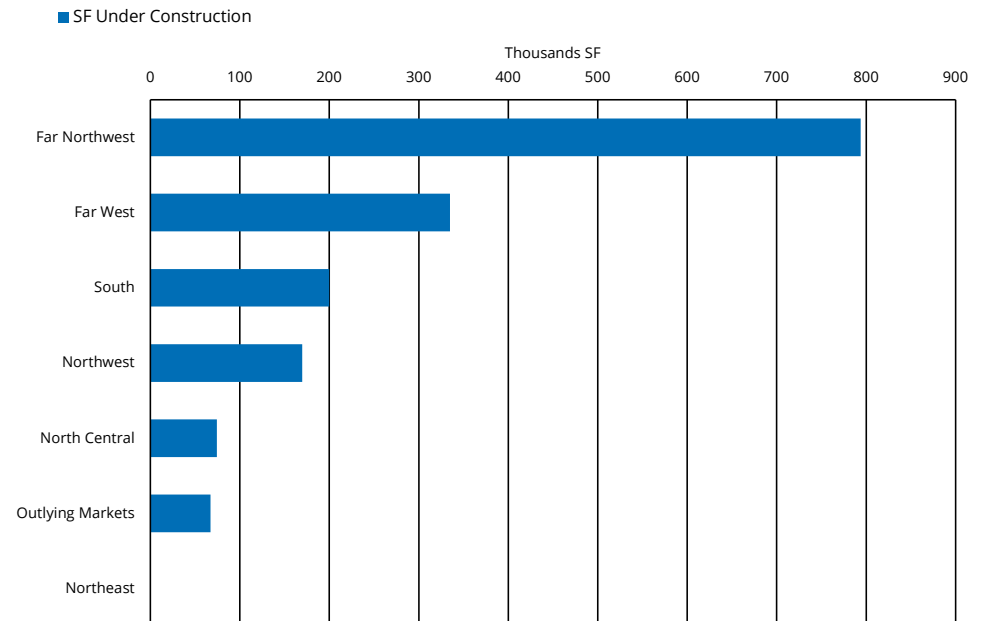
- There are 13 office buildings under construction in Q1, totaling 1.56 MSF. Notable construction projects include WatersEdge I & II (200,000 SF) in the South, the Inwood Village II (74,265 SF) in the North Central, Indian Woods Business Park (22,000 SF) in the Northwest, and 1878 Herbelin Rd (24,000 SF) in New Braunfels.
- North Rim Corporate Campus Building 1 & 2 delivered just prior to the end of Q1 and are included in our under construction totals this quarter. The Q2 office report will reflect this project as delivered along with the accompanying positive absorption. Building 1 is fully pre-leased to Fasken Oil & Ranch for 167,040 SF, and Building 2 is pre-leased to WellMed for 219,000 SF.
- The construction pipeline is anticipated to slow down over the course of 2023 due to tightening in construction financing, the diminishing appetite for speculative construction, rising construction costs, and increases in vacancy rate.

UNDER CONSTRUCTION



Source: CoStar, Transwestern

UNDER CONSTRUCTION BY SUBMARKET



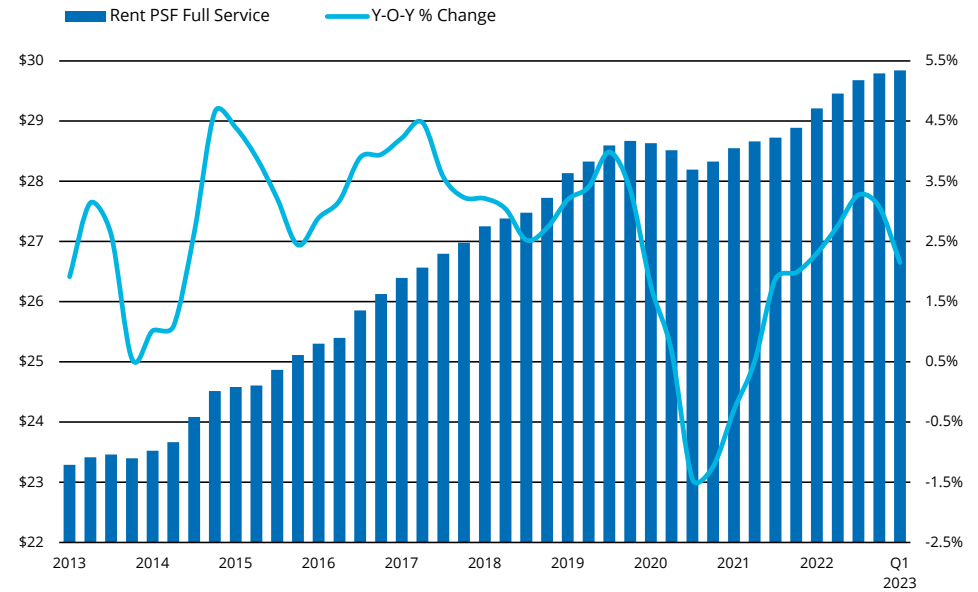


RENTAL RATES

Rates Continue to Increase in Q1

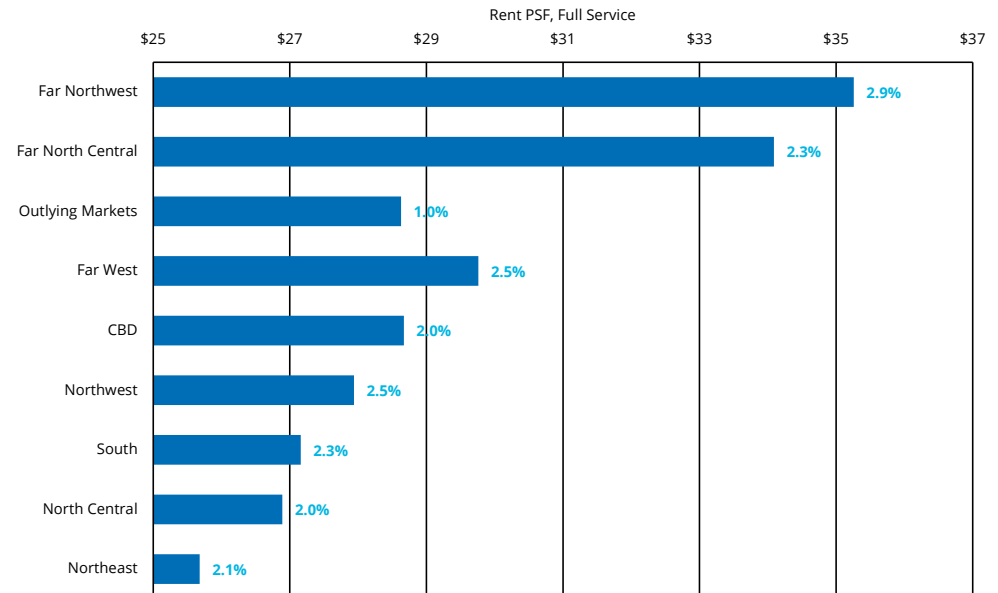
- Rates reached \$29.34 PSF in Q1 2023, reflecting a \$0.63, or 2.20% increase compared to Q1 2022. Q1 surpassed the 5-YR average of \$28.10 by \$1.24.
- Class A rates reached \$32.60 PSF, reflecting a \$0.80, or 2.52% increase over Q1 2022. Class B rates reached \$27.80 PSF, reflecting a \$0.56, or 2.06% increase over Q1 2022. Overall, the submarkets with the highest rent growth include Far Northwest (2.9%), Northwest (2.5%), and Far West (2.5%) while the lowest rent growth occurred in the CBD (2.0%), North Central (2.0%), and Northeast (2.1%).
- One of the most notable leases was NuStar Energy renewing for 321,840 SF in a sale-lease back transaction at their corporate location at 19003 IH-10 West. Rackspace relocated its headquarters from the Northeast submarket to Far North Central submarket and downsized to less than 10% of its original space of more than 1.25 million SF. CodeUp vacated the CBD and signed a new lease for 33,301 SF at Petroleum Towers along the 410 corridor. The largest lease signed in the CBD in Q1 was Pabst taking up the entire 6th floor (25,325 SF).
- Abated rent, TI, and escalations remain balanced in San Antonio, compared to other major cities in Texas and the United States.

ASKING RENT



Source: CoStar, Transwestern

ASKING RENTS BY SUBMARKET AND Y-O-Y GROWTH



Source: CoStar, Transwestern

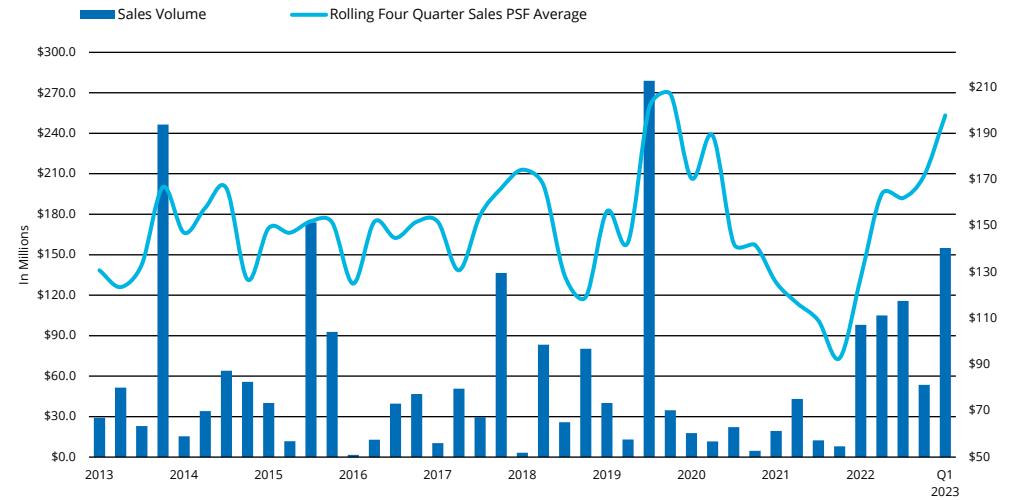


SALES

Sales Volume Remains Above the 5-YR Average

- Office building sales during Q1 totaled at least \$155M. Q1 brings the rolling four quarters sales average to \$198 PSF, compared to Q1 2022 at \$176 PSF.
- Notable sales include NuStar Energy Corporate Campus, Northbrook Business Center, 6660 First Park Ten, and Indian Woods Business Park Building 4. NuStar Energy sold their 321,840 SF corporate campus to Truist Securities in a sale-leaseback transaction for \$103M. 6660 First Park Ten is a single-story office building that will be converted into a school by its new owner Compass Rose Public Schools. Northbrook Business Center, which Transwestern leased prior to sale, was an investment purchased by Fuller Realty.
- Transaction volume is expected to slow for the remainder of 2023 due to increased interest rates and decreasing appetite for commercial real estate lending in office product.

SALES VOLUME



Source: CoStar, Transwestern



NOTABLE LEASES

| TENANT | PROPERTY | SUBMARKET | TYPE | SF LEASED |
|------------------------------------|-----------------------------|-------------------|---------|-----------|
| WORLDWIDE CLINICAL TRIALS | Greenway Park | Northeast | Renewal | 92,450 |
| CODEUP | Petroleum Tower II | North Central | New | 33,031 |
| CITY OF SAN ANTONIO | Airport Center | North Central | New | 26,006 |
| ECPI | 4715 Fredericksburg Road | Northwest | Renewal | 20,083 |
| COMMON DESK | Travis Park Plaza | CBD | New | 19,995 |
| CROWDSTRIKE | Landmark One | Northwest | Renewal | 12,460 |
| HALFF ASSOCIATES | One International Center | Northwest | Renewal | 12,074 |
| LINEBARGER GOGGAN BLAIR & SAMPSON | Parkway Plaza - Building 6 | North Central | Renewal | 11,778 |
| PEARSON EDUCATION | Concord Park III | Far North Central | New | 10,224 |
| LINCOLN TOWER ASSOCIATES | Lincoln Center | Northwest | Renewal | 10,209 |
| TASKUS USA | The Commons at Concord Park | Far North Central | New | 9,790 |
| MOCKINGBIRD MIDSTREAM GAS SERVICES | Heritage Oaks | North Central | Renewal | 9,152 |
| SAFERIDE | The Burns Building | CBD | New | 9,083 |
| MANTECH ASI | Colonnade Office Building | Northwest | Renewal | 8,675 |

NOTABLE SALES

| PROPERTY | SUBMARKET | BUILDING SF | BUYER | SELLER |
|---|-------------------|-------------|--------------------------------|----------------------------------|
| NUSTAR ENERGY CORPORATE CAMPUS (SALE-LEASEBACK) | Far Northwest | 321,840 | Truist Securities | NuStar Energy |
| NORTHBROOK BUSINESS CENTER | North Central | 110,290 | Fuller Realty | Albany Road Real Estate Partners |
| FIRST PARK TEN | Northwest | 64,545 | Compass Rose Legacy Elementary | Ward Development |
| INDIAN WOODS BUILDING PARK - BLDG 3 & 4 | Northwest | 28,800 | Undisclosed | Champion Construction |
| MOSSROCK CENTRE | Northwest | 24,864 | Dang Law Office | Quality Realty Investments |
| 420 MILAM | Northeast | 13,259 | Tribe Properties | JKKC Properties |
| 1102 E SONTERRA | Far North Central | 17,002 | Hina Rizvi | Alamo Capital Investments |
| 1114 ST. MARY'S ST | CBD | 11,300 | Ironwood Real Estate | JJ Real Co. |
| 12175 NETWORK BLVD | Northwest | 11,028 | Undisclosed | Templeton Insurance |



MARKET INDICATORS

Class A | Q1 2023

| SUBMARKET | INVENTORY SF | DIRECT VACANT SF | DIRECT VACANCY RATE | OVERALL VACANCY RATE | UNDER CONSTRUCTION SF | NET ABSORPTION SF | 12-MONTH ROLLING NET ABSORPTION SF | ASKING RENT PSF, FULL SERVICE |
|---------------------------|-------------------|------------------|---------------------|----------------------|-----------------------|-------------------|------------------------------------|-------------------------------|
| CENTRAL BUSINESS DISTRICT | 3,074,167 | 915,666 | 29.8% | 31.2% | 0 | (182,149) | (150,705) | \$33.81 |
| NORTH CENTRAL | 5,410,132 | 834,802 | 15.4% | 15.8% | 74,265 | (4,153) | 205,795 | \$31.32 |
| NORTHWEST | 4,911,624 | 555,950 | 11.3% | 13.1% | 147,000 | 29,406 | (82,514) | \$30.78 |
| NORTHEAST | 1,231,359 | 398,654 | 32.4% | 32.4% | 0 | 6,191 | (39,095) | \$30.93 |
| FAR NORTH CENTRAL | 1,746,239 | 431,792 | 24.7% | 34.1% | 0 | (81,301) | (199,563) | \$37.15 |
| FAR NORTHWEST | 980,101 | 75,739 | 7.7% | 14.8% | 167,040 | 4,761 | (17,486) | \$37.21 |
| FAR WEST | 748,619 | 279,928 | 37.4% | 38.7% | 335,000 | (212,441) | (262,408) | \$31.01 |
| SOUTH | 300,618 | - | - | - | 200,000 | - | 0 | \$33.66 |
| OUTLYING SUBMARKETS | 87,109 | 18,764 | 21.5% | 21.5% | 24,000 | (18,764) | -16,633 | \$27.57 |
| TOTAL | 18,489,968 | 3,511,295 | 19.0% | 21.1% | 947,305 | (458,450) | (562,609) | \$32.60 |

MARKET INDICATORS

Class B | Q1 2023

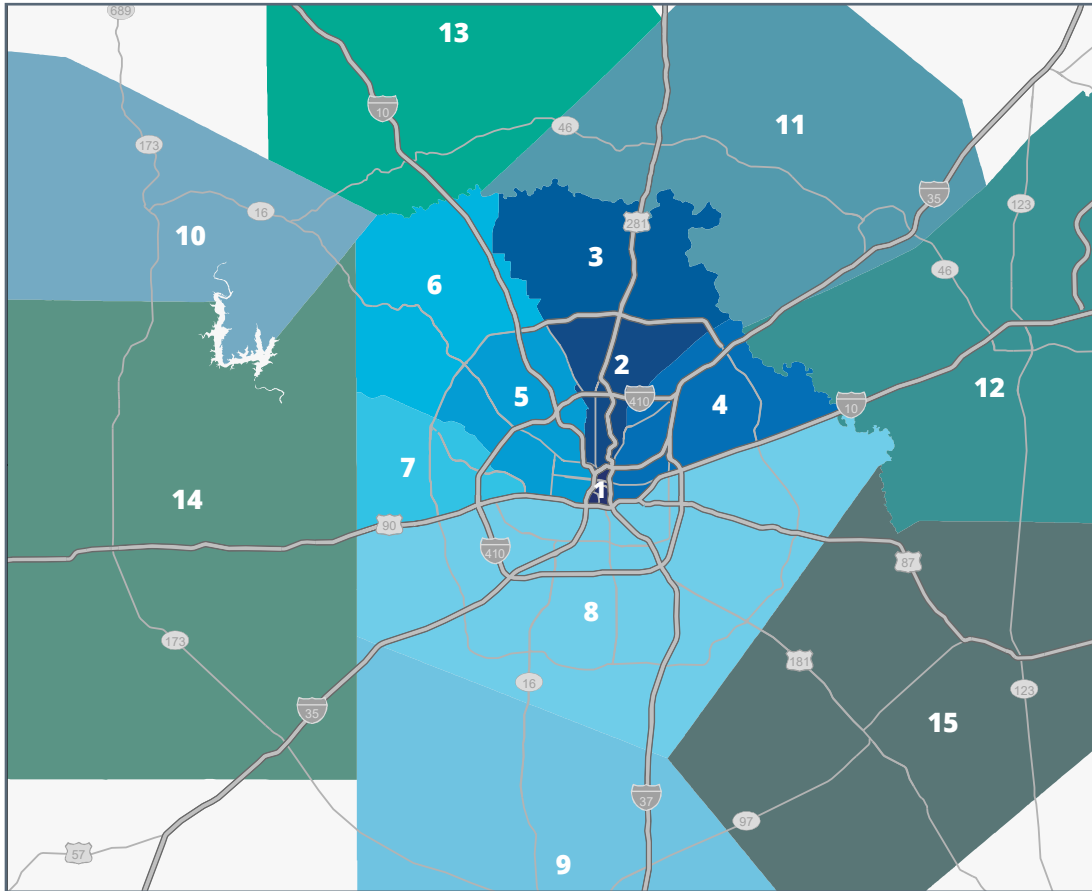
| SUBMARKET | INVENTORY SF | DIRECT VACANT SF | DIRECT VACANCY RATE | OVERALL VACANCY RATE | UNDER CONSTRUCTION SF | NET ABSORPTION SF | 12-MONTH ROLLING NET ABSORPTION SF | ASKING RENT PSF |
|---------------------------|-------------------|------------------|---------------------|----------------------|-----------------------|-------------------|------------------------------------|-----------------|
| CENTRAL BUSINESS DISTRICT | 3,139,587 | 309,205 | 9.8% | 9.8% | 0 | (4,116) | (25,955) | \$25.50 |
| NORTH CENTRAL | 6,704,468 | 1,091,752 | 16.3% | 16.8% | 0 | (73,289) | 120,358 | \$24.26 |
| NORTHWEST | 12,835,784 | 1,021,549 | 8.0% | 8.4% | 22,705 | 8,609 | 66,292 | \$27.33 |
| NORTHEAST | 2,203,939 | 359,383 | 16.3% | 16.9% | 0 | (45,277) | 77,661 | \$24.85 |
| FAR NORTH CENTRAL | 1,583,930 | 129,286 | 8.2% | 9.2% | 0 | 6,459 | 905 | \$30.98 |
| FAR NORTHWEST | 407,450 | 20,950 | 5.1% | 5.1% | 626,722 | 1,622 | (699) | \$31.69 |
| FAR WEST | 4,087,105 | 250,126 | 6.1% | 6.1% | 0 | - | (103,763) | \$30.09 |
| SOUTH | 1,126,963 | 25,771 | 2.3% | 2.3% | 0 | - | (25,771) | \$26.06 |
| OUTLYING SUBMARKETS | 1,305,826 | 45,671 | 3.5% | 3.5% | 26,300 | 21,268 | 50,315 | \$29.40 |
| TOTAL | 33,395,052 | 3,253,693 | 9.7% | 10.1% | 675,727 | (84,724) | 159,343 | \$27.80 |



MARKET INDICATORS

All Classes | Q1 2023

| SUBMARKET | INVENTORY SF | DIRECT VACANT SF | DIRECT VACANCY RATE | OVERALL VACANCY RATE | UNDER CONSTRUCTION SF | NET ABSORPTION SF | 12-MONTH ROLLING NET ABSORPTION SF | ASKING RENT PSF, FULL SERVICE |
|----------------------------------|-------------------|------------------|---------------------|----------------------|-----------------------|-------------------|------------------------------------|-------------------------------|
| CENTRAL BUSINESS DISTRICT | 7,566,516 | 1,231,907 | 16.3% | 16.9% | 0 | (186,265) | (84,454) | \$28.67 |
| NORTH CENTRAL | 14,151,717 | 2,047,422 | 14.5% | 14.9% | 74,265 | (48,563) | 397,080 | \$26.89 |
| NORTHWEST | 19,121,768 | 1,718,417 | 9.0% | 9.7% | 169,705 | 51,061 | (18,070) | \$27.94 |
| NORTHEAST | 4,341,884 | 840,885 | 19.4% | 19.7% | 0 | (40,091) | 11,324 | \$25.68 |
| FAR NORTH CENTRAL | 3,417,506 | 561,078 | 16.4% | 21.7% | 0 | (74,842) | (198,658) | \$34.09 |
| FAR NORTHWEST | 1,453,759 | 96,689 | 6.7% | 11.4% | 793,792 | 14,563 | 41,327 | \$35.26 |
| FAR WEST | 5,975,285 | 530,054 | 8.9% | 9.0% | 335,000 | (212,441) | (366,171) | \$29.76 |
| SOUTH | 1,940,238 | 25,771 | 1.3% | 1.3% | 200,000 | 0 | (5,592) | \$27.16 |
| OUTLYING SUBMARKETS | 1,802,124 | 64,435 | 3.6% | 3.6% | 67,300 | 2,504 | 34,057 | \$28.63 |
| TOTAL | 59,770,797 | 7,116,658 | 11.9% | 12.7% | 1,640,062 | (494,074) | (189,157) | \$29.34 |



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 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 medical office 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. Through an integrated, customized approach that begins with good ideas, the firm drives value for clients across commercial real estate services, development, investment management, and opportunistic endeavors for high-net-worth investors. Operating from 33 U.S. offices, Transwestern extends its platform capabilities globally through strategic alliance partners whose unique geographic, cultural, and business expertise fuels creative solutions. Learn more at transwestern.com.

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