

# SAN ANTONIO MEDICAL 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)	34.5	104.4	↓	48.4
OVERALL VACANCY RATE	12.8%	12.7%	↔	13.9%
DIRECT VACANCY RATE	12.3%	12.6%	↓	13.7%
OVERALL VACANT SF (MSF)	1.82	1.78	↔	1.91
UNDER CONSTRUCTION (THOUSANDS SF)	381	259	↑	274
RENT, FULL SERVICE (PSF)	\$28.04	\$27.35	↑	\$26.76
SALES VOLUME (MILLIONS)	\$27.4	\$72.6	↓	\$23.4

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

## VACANCY RATES REMAINS STEADY AND RENT GROWTH CONTINUES UPWARD

The San Antonio medical office market started the year strong, with most metrics reflecting historically healthy figures. The overall vacancy rate increased slightly to 12.8% in Q1 2023, reflecting a 10-bps increase from Q1 2022 at 12.7% gross. Rental rates reached \$28.04 PSF, which is a \$0.69, or 2.5% increase compared to the previous year.

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, cost of living, and nationally low rental rate, make it an attractive market for tenants and investors.

**MARKET INDICATORS**

All Classes of Space | Q1 2023

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
<b>CORE MED CENTER (NW)</b>	3,555,889	532,635	15.0%	540,345	15.2%	0	4,920	137,786	\$27.35
<b>NORTHWEST</b>	5,874,207	664,692	11.3%	676,324	12.2%	20,000	11,065	152,901	\$26.68
<b>NORTH CENTRAL</b>	1,367,954	188,335	13.8%	190,085	13.9%	0	18,430	(24,356)	\$25.43
<b>NORTHEAST</b>	1,042,294	144,978	13.9%	144,978	13.9%	72,999	(11,899)	(44,452)	\$24.80
<b>CBD</b>	895,576	285,083	31.8%	285,083	31.8%	0	551	(102,229)	\$25.32
<b>FAR NORTH CENTRAL</b>	1,433,406	171,632	12.0%	176,083	12.3%	29,220	(16,728)	5,883	\$30.45
<b>FAR NORTHWEST</b>	243,067	38,124	15.7%	38,124	15.7%	0	5,604	(623)	\$35.46
<b>FAR WEST</b>	853,621	116,314	13.6%	116,314	13.6%	60,000	5,734	38,503	\$33.02
<b>SOUTH</b>	968,393	25,655	2.6%	25,655	2.6%	0	(1,464)	82,429	\$25.45
<b>OUTLYING COUNTIES</b>	1,524,613	108,269	7.1%	166,843	10.9%	198,600	23,231	(39,524)	\$31.88
<b>TOTAL</b>	<b>14,203,131</b>	<b>1,743,082</b>	<b>12.3%</b>	<b>1,819,489</b>	<b>12.8%</b>	<b>380,819</b>	<b>34,524</b>	<b>68,532</b>	<b>\$28.04</b>

Source: CoStar, Transwestern



**RELEVANT NEWS**

**Baptist Health System, Apr 2023**  
**Baptist Medical Network experiences exponential growth in healthcare services provided to community**

The Baptist Medical Network has grown from a few physician practices into one of the largest healthcare providers in South Texas. The network now employs more than 220 physicians, physician assistants and nurse practitioners in a wide variety of primary and specialty care. With 40 practices, more than 100 locations, in 17 communities, and across 12 counties, Baptist Medical Network providers cared for some 607,000 patients in 2022.

**RELEVANT NEWS**

**San Antonio Business Journal, May 2023**  
**Downtown SA hospital campus to undergo major changes**

More than 11 years after Christus Health confirmed plans to transform its City Centre campus into the Children’s Hospital of San Antonio, the Irving-based organization is making another major change to the downtown tower. The nonprofit is rebranding the pediatric hospital as Christus Children’s, a shift leadership believes will better integrate its downtown facilities and extend the reach of its pediatric services, while also addressing some confusion here at home.

**RELEVANT NEWS**

**San Antonio Business Journal, May 2023**  
**New \$50M-plus hospital planned near UTSA**

Methodist Healthcare is gaining a stronger foothold in Northwest San Antonio as it plans to develop a new hospital near Interstate 10 and Loop 1604. Methodist Hospital-Landmark will be situated in a roughly 150,000-square-foot structure once home to Forest Park Medical Center, that closed in 2015 due to financial challenges. Methodist plans to invest more than \$50 million to redevelop the structure into a new community hospital that will house 50-plus beds and emergency facilities.

**RELEVANT NEWS**

**University Health, Apr 2023**  
**University Health Transplant Institute named best liver transplant program in country**

Excellent patient survival rates, the ability to transplant a significant number of patients and shorter wait times for life-saving surgeries are among the many reasons University Health Transplant Institute is being designated the No. 1 liver transplant program in the country. The recognition comes from INTERLINK, a managed care company that evaluated 86 liver transplant programs by considering more than 30 performance factors.

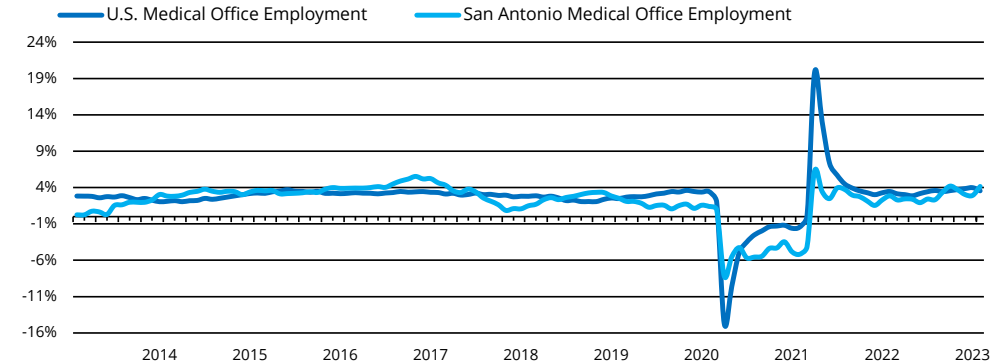


### ECONOMY

#### Job Growth Remains Steady

- The San Antonio economy added 13,300 medical office-using jobs during the 12-month period ending March 2023. Health Care and Social Services added 6,800, Ambulatory Health Care Services added 4,800, and Hospitals added 1,700. From January to February only, the San Antonio economy added 4,000 medical office jobs, reflecting the largest jobs increase in six months.
- The quarterly unemployment rate decreased to 3.8% in February 2023, reflecting a 30-bps improvement compared to 4.1% 12-months ago.
- Q1 continued to see major funding and acquisition plans for the healthcare industry. UT Health San Antonio will begin construction soon in the South Texas Medical Center. The 5-story building is over 103,000 SF and will be the center for neurodegenerative disease treatment and study.
- In January, The Health Resources Services Administration provided more than \$1M in funding to the University of the Incarnate Word. The funding will help improve nursing education and practice.
- The Christus Santa Rosa Hospital located in the CBD is planning to rename the 400,000 SF hospital campus into the Christus Children’s Hospital of San Antonio. The Christus name was added to the title in a rebranding effort to draw more patients outside of San Antonio.
- The University Health Transplant Institute achieved a milestone by performing the most pediatric kidney transplants from living donors than all transplant programs in the county.

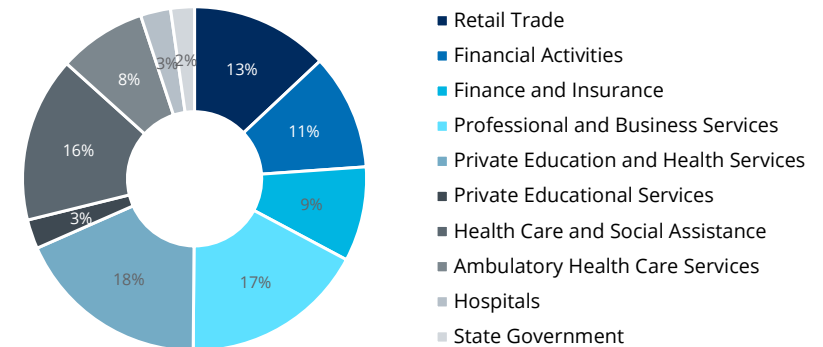
### Y-O-Y CHANGE IN MEDICAL OFFICE JOBS



Source: Bureau of Labor Statistics, Transwestern

### SHARE OF EMPLOYEES BY INDUSTRY

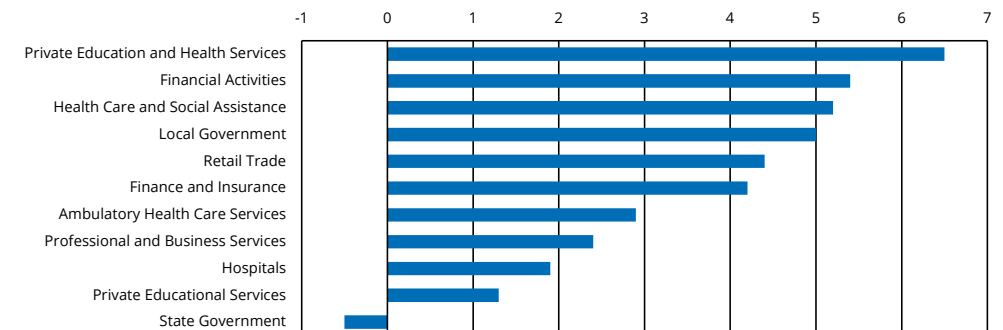
San Antonio | February 2023



Source: Bureau of Labor Statistics, Transwestern

### Y-O-Y CHANGE IN JOBS BY INDUSTRY

San Antonio | February 2023



Source: Bureau of Labor Statistics, Transwestern



### VACANCY

#### Vacancy Rate Remains Steady in Q1

- The direct vacancy rate averaged to 12.3%, reflecting a 10-bps improvement compared to Q4, and a 30-bps improvement compared to last year. Overall vacancy was 12.8% and sublease vacancy was 0.5%.
- Class B vacancy reached an all-time low of 11.9%, while Class A vacancy is approaching a record high of 22.3%.
- Notable submarket direct vacancy rates include Far North Central (12.0%), North Central (13.8%), and Northwest (11.3%) submarkets. The Core Medical Center, which is located within the Northwest submarket, had a vacancy rate of 15.0% year-over-year.
- Class A vacancy reached 22.3% and there's over 380,000 SF of vacant space out of 1.7M SF. Class B vacancy reached dropped to 11.9% and there's just under 1.2M SF of vacant space out of 10M SF.

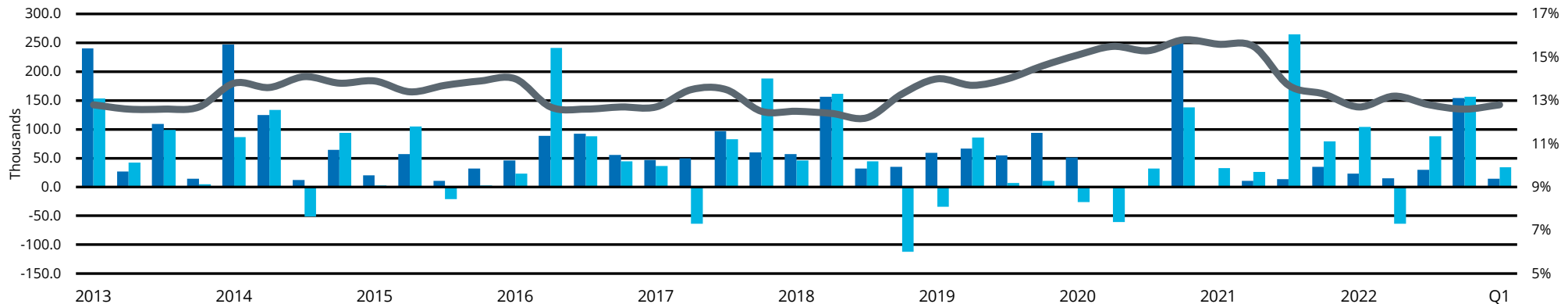
### NET ABSORPTION

#### Medical Office Demand Remains Positive

- Net absorption totaled positive 34,524 SF. Significant absorption events include: a new lease for the entire 5th floor (19,280 SF) of Christus Medical Tower 1; Kellum Physician Partners signing a 10,000 SF lease at 3701 FM 3009, located in Schertz; and University Health moving into 3,598 SF at Oakwell Medical Office.
- At least 90,000 SF of leasing activity occurred throughout the market with concentrations in the Northwest (44,796 SF), Far Northwest (10,915 SF) and Outlying (16,826 SF) submarkets.

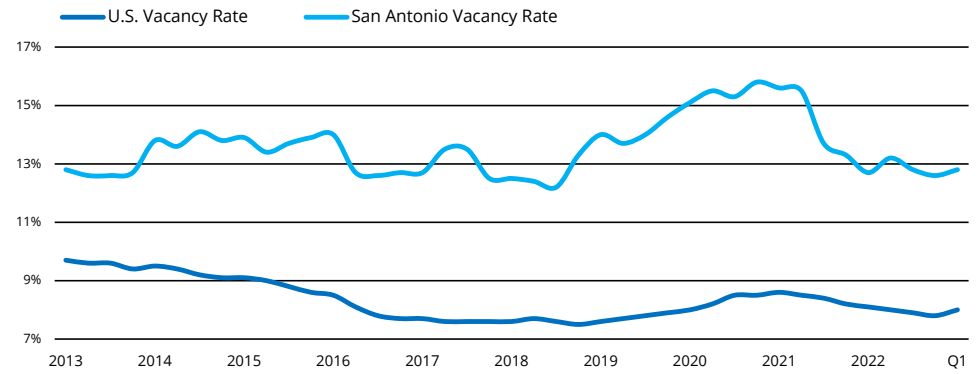
### DELIVERY IMPACT ON KEY INDICATORS

Delivered SF    Net Absorption SF    Vacancy Rate



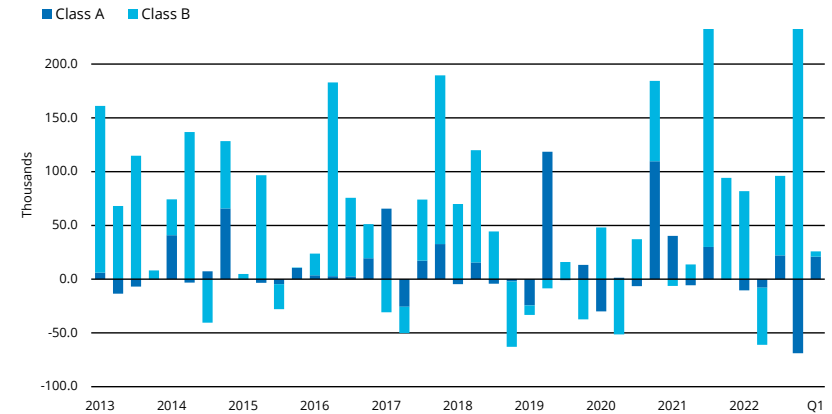
Source: CoStar, Transwestern

### MEDICAL OFFICE VACANCY RATE



Source: CoStar, Transwestern

### NET ABSORPTION BY CLASS



Source: CoStar, Transwestern

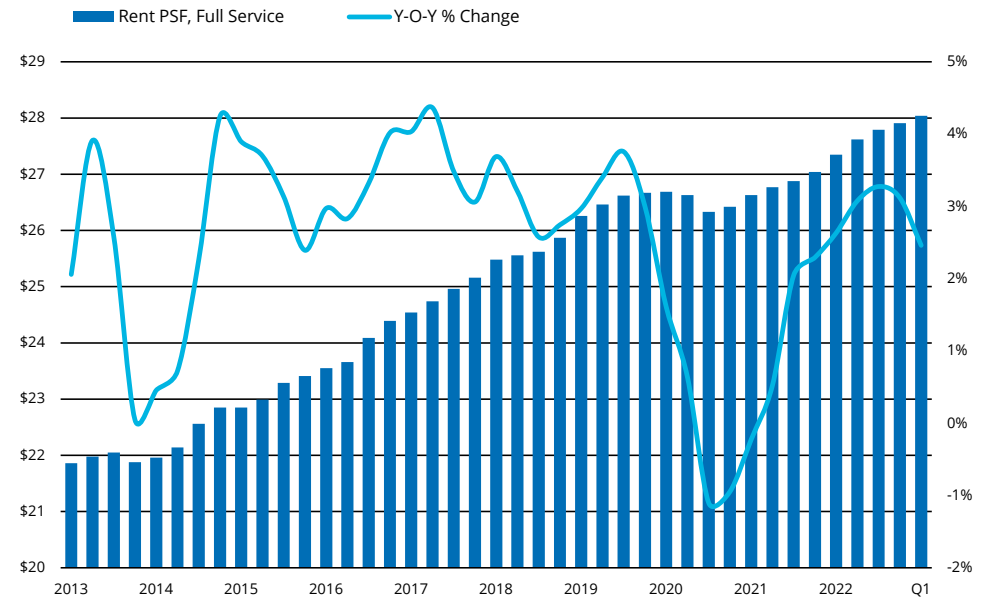


### RENTAL RATES

#### Rates Continue to Increase in Q1

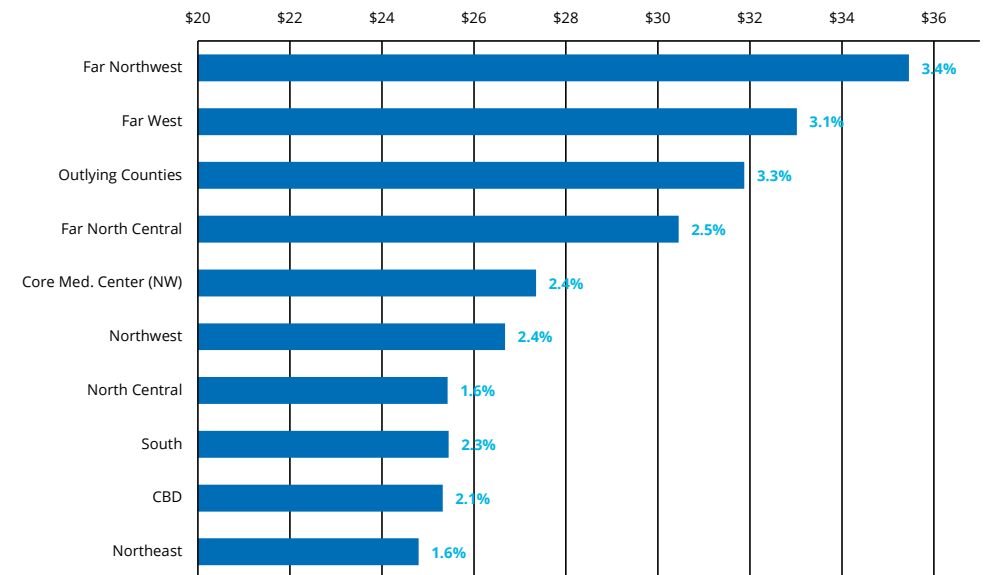
- Overall rental rates reached \$28.04 PSF full service in Q1 2023, reflecting a \$0.69, or 2.5% increase compared to Q1 2022.
- Class A rates reached \$32.41 PSF, reflecting a \$0.89, or 2.85% increase over Q1 2022. Class B rates reached \$28.14 PSF, reflecting a \$0.71, 2.58% increase over Q1 2022.
- Year-over-year rent growth in the Core Medical Center, located in the Northwest, reached 2.4%. The Far Northwest saw the largest year-over-year rent growth of any submarket at 3.4% while the Far North Central, which includes the Stone Oak area, had the 2nd largest year-over-year rent growth at 3.0%.
- 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 abatements of 3-10 months, on 10-year term leases.

### MARKET RENT



Source: CoStar, Transwestern

### MARKET RENTS BY SUBMARKET AND Y-O-Y GROWTH



Source: CoStar, Transwestern



### UNDER CONSTRUCTION

#### Construction Activity Exceeds 380,000 SF

- There is over 380,000 SF of medical office under construction in San Antonio, spread over eight buildings, and five submarkets. Notable construction projects include the Schertz Medical Building (52,000 SF) located on the I-35 corridor. Another notable medical office under construction is 3202 Cherry Ridge Dr (22,000 SF), located in the Northwest submarket. 80% of the building is pre-leased and delivery is expected in 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 construction costs.

### RENOVATIONS & REDEVELOPMENT

#### 540 Madison Oak Dr - Stone Oak Medical Office

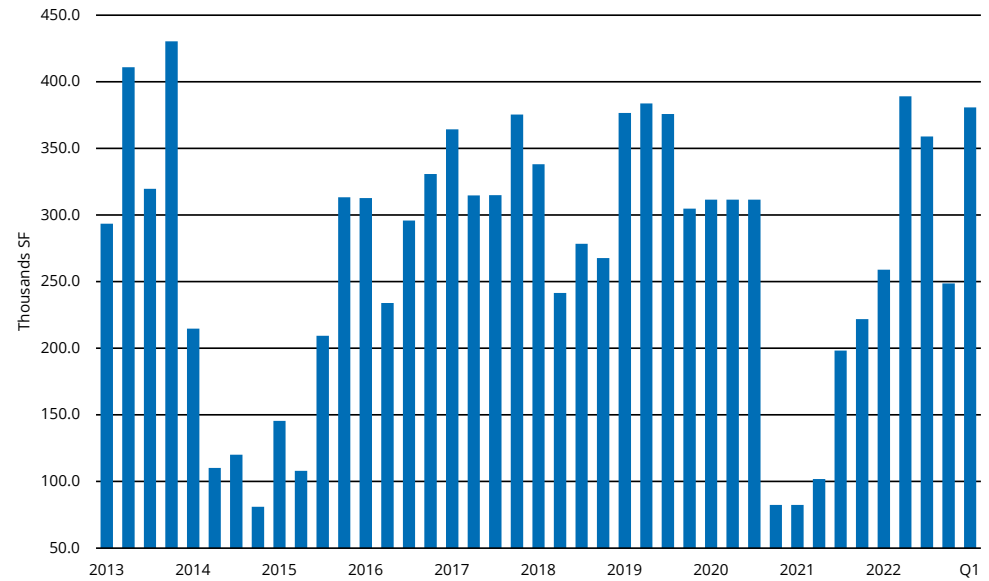
- Renovations include a limestone-inspired façade, elegant lobby, luxury tenant lounge/conference room, and an upgraded patient drop-off/entrance. Stone Oak Medical offers move-in ready spec suites and white box spaces situated on the North Central Baptist Hospital campus.

### SALES

#### Sales Volume Slows

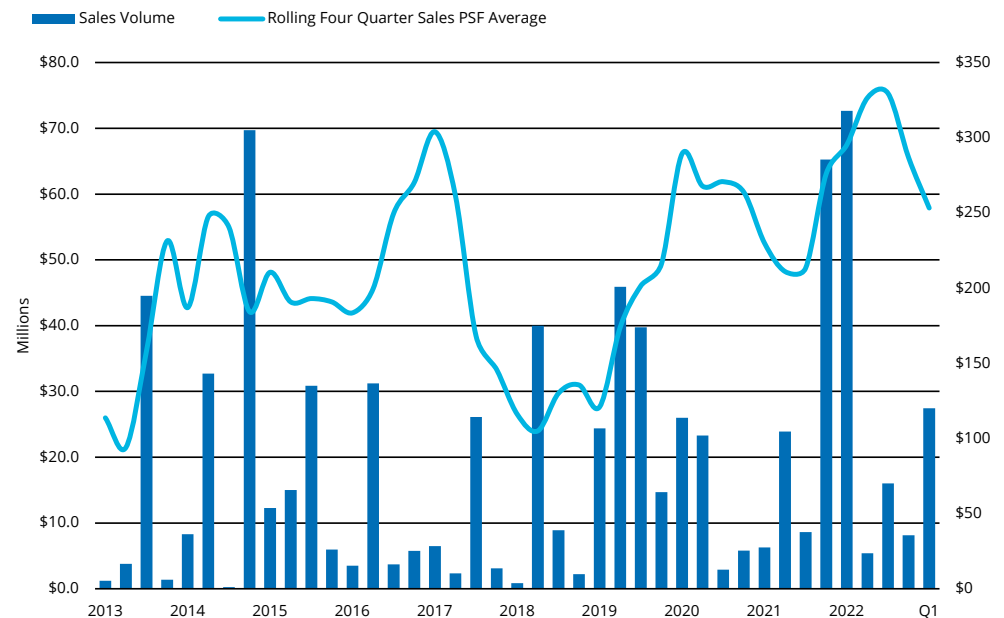
- Medical office building sales during Q1 totaled at least \$27.4M. Q1 brings the 12-months rolling sales average to \$261 PSF compared to \$241 PSF in Q1 2022.
- In notable transactions, Mossrock Centre, a 24,864 SF, 3-story building located in the Northwest was sold in February by Quality Realty Investment to Dang Law Office. The building was 54% leased at the time of sale. Kellum Schertz Medical Center, a 22,944 SF, 2-story building located in Guadalupe County was sold in March by Sixth Street Industrial to Kellum real Estate. The building was 100% pre-leased by Kellum Physician Partners and Methodist Healthcare System of SA prior at the time of sale.
- 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
WORLD WIDE CLINICAL TRIALS	2455 NE Loop 410	Northeast	Renewal	92,450
CONFIDENTIAL 	Christus Medical Tower 1	Northwest	New	19,280
LONE STAR OBGYN ASSOCIATES	7950 Floyd Curl Dr	Northwest	Renewal	18,570
SENIOR CENTER	3701 FM 3009	Guadalupe County	New	10,800
STRIVE PHARMACY TEXAS 	Brookhollow Business Center	North Central	New	7,977
BHS PHYSICIANS NETWORK INC	Westover Town Center	Far West	Renewal	6,083
OCVT SAN ANTONIO	255 E Sonterra Blvd	Far North Central	Renewal	5,378
CHRISTUS TRINITY CLINIC 	Children's Hospital of San Antonio	Northwest	Renewal	5,315

**NOTABLE SALES**

ADDRESS	SUBMARKET	BUILDING SF	BUYER	SELLER
2900 MOSSROCK DR - MOSSROCK CENTRE	Northwest	24,864	Dang Law Office	Quality realty Investments
3701 FM 3009 - BUILDING A	Guadalupe County	22,944	Sixth Street Industrial	Kellum Real Estate
2520 BROADWAY ST - UPTOWN	Northeast	17,621	DuWest Realty	Boomerang Capital Partners
11601 TOEPPERWEIN RD	Northeast	14,738	Covenant Equipment Company	Berry J Mark
3411 PAESANOS PKY - BADER HOUSE MEMORY CARE	North Central	11,122	KRSNA Properties	Bader House of Shavano Park
12031 HIGHWAY 151 ACCESS RD - ACTION BEHAVIOR CENTER 	Far West	10,462	Calista Corporation	Hunington Properties

 = Transwestern deal



**MARKET INDICATORS**

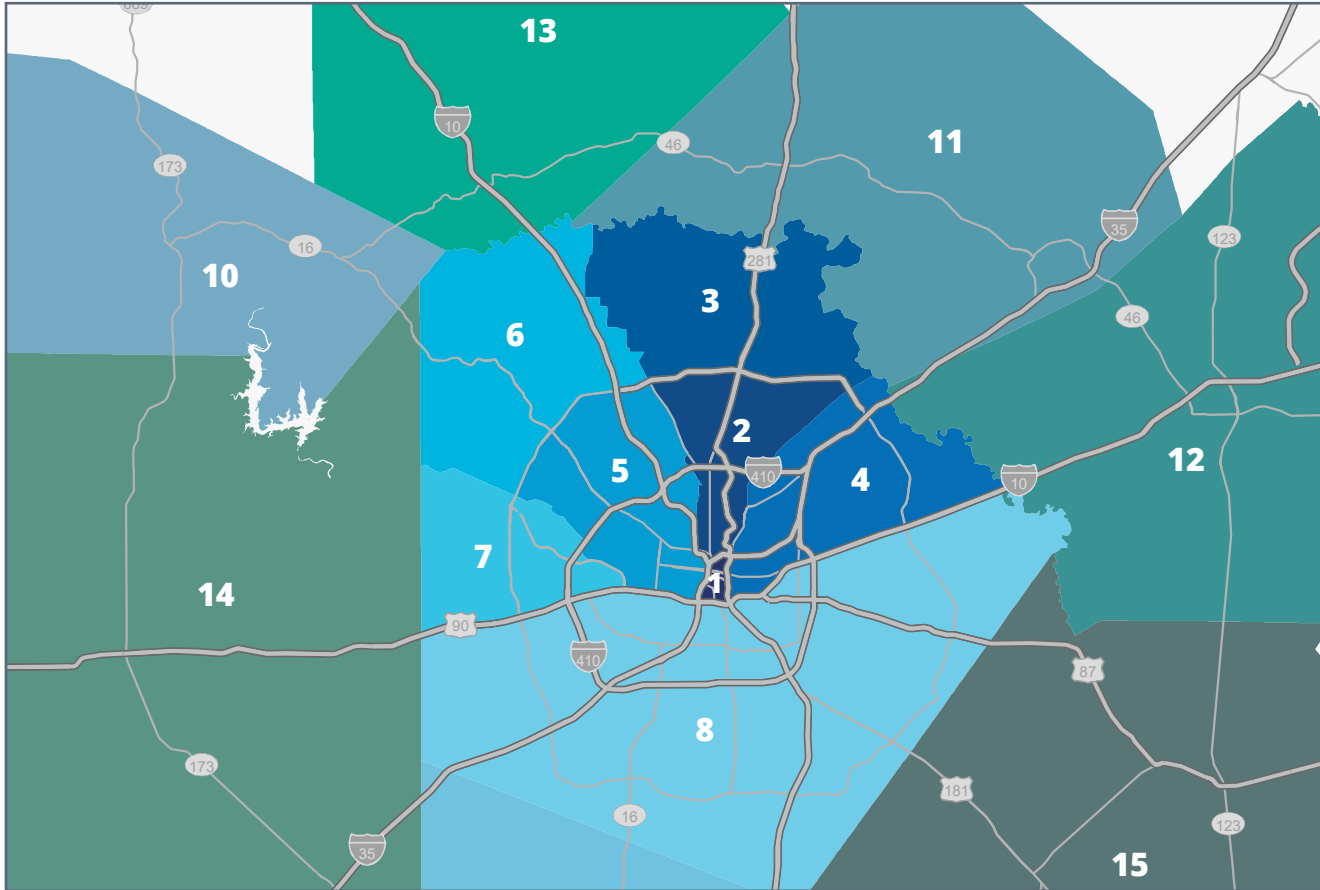
Class A | Q1 2023

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	162,041	33,917	20.9%	33,917	20.9%	0	8,450	13,553	\$36.54
NORTH CENTRAL	110,130	5,964	5.4%	5,964	5.4%	0	2,144	9,191	\$29.49
NORTHEAST	145,776	25,818	17.7%	25,818	17.7%	0	(2,756)	(25,818)	\$25.61
CBD	143,077	107,141	74.9%	107,141	74.9%	0	(4,596)	(4,596)	\$24.86
FAR NORTH CENTRAL	445,288	63,438	14.2%	63,438	14.2%	0	12,883	(5,501)	\$31.01
FAR NORTHWEST	41,590	8,200	19.7%	8,200	19.7%	0	3,219	(620)	\$40.22
FAR WEST	409,906	56,855	13.9%	56,855	13.9%	60,000	(1,339)	(3,442)	\$36.90
SOUTH	80,000	3,128	3.9%	3,128	3.9%	0	2,836	9,242	\$30.52
OUTLYING COUNTIES	196,438	24,436	12.4%	83,010	42.3%	0	-	(49,804)	\$32.74
<b>TOTAL</b>	<b>1,734,246</b>	<b>328,897</b>	<b>19.0%</b>	<b>387,471</b>	<b>22.3%</b>	<b>60,000</b>	<b>20,841</b>	<b>(57,795)</b>	<b>\$32.41</b>

**MARKET INDICATORS**

Class B | Q1 2023

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	4,522,434	503,879	11.1%	515,511	11.4%	20,000	4,539	171,145	\$26.84
NORTH CENTRAL	1,016,952	127,978	12.6%	129,728	12.8%	0	(16,743)	57,084	\$25.81
NORTHEAST	519,689	81,828	15.7%	81,828	15.7%	72,999	10,906	15,385	\$25.82
CBD	715,958	177,942	24.9%	177,942	24.9%	0	551	(97,633)	\$25.37
FAR NORTH CENTRAL	976,012	106,219	10.9%	110,670	11.3%	29,220	(29,854)	13,359	\$30.23
FAR NORTHWEST	201,477	29,924	14.9%	29,924	14.9%	0	2,385	(3)	\$35.20
FAR WEST	443,715	59,459	13.4%	59,459	13.4%	0	7,073	41,945	\$28.90
SOUTH	499,021	13,411	2.7%	13,411	2.7%	0	2,906	61,139	\$25.56
OUTLYING COUNTIES	1,198,573	83,833	7.0%	83,833	7.0%	198,600	23,231	10,280	\$32.19
<b>TOTAL</b>	<b>10,093,831</b>	<b>1,184,473</b>	<b>11.7%</b>	<b>1,202,306</b>	<b>11.9%</b>	<b>320,819</b>	<b>4,994</b>	<b>272,701</b>	<b>\$28.14</b>



### 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](http://transwestern.com) and [@Transwestern](https://twitter.com/Transwestern).

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