

SAN ANTONIO OFFICE MARKET

Q2 2023



TRENDLINES

	Q2 2023	Q2 2022	ONE-YEAR TREND	FIVE-YEAR AVERAGE
UNEMPLOYMENT RATE	3.8	3.5	↑	4.6
NET ABSORPTION (THOUSANDS SF)	(404.4)	61.6	↓	151.0
OVERALL VACANCY RATE	13.3%	11.4%	↑	9.7%
DIRECT VACANCY RATE	12.3%	10.0%	↑	8.9%
OVERALL VACANT SF (MSF)	7.9	6.7	↑	5.7
DIRECT VACANT SF (MSF)	7.3	5.9	↑	5.2
UNDER CONSTRUCTION (MSF)	1.09	0.75	↑	1.1
RENT, FULL SERVICE (PSF)	\$28.38	\$27.77	↑	\$27.15
SALES VOLUME (MILLIONS)	\$138.8	\$105.0	↑	\$67.4

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

OFFICE MARKET SLOWS IN Q2 2023

The San Antonio office market slowed in Q2, with a total of 404,000 SF of negative net absorption. This was largely due to 15 large block spaces, each over 30,000 SF, vacated during Q2. Most spaces coming to market are concentrated in the Northwest, North Central, and Far West submarket. By extension, the overall vacancy rate reached 13.3% reflecting a 100-bps point increase compared to the previous quarter and a 190-bps point increase compared to Q2 2022.

Over 450,000 SF of leasing activity occurred throughout the market with major concentrations in the CBD (190,000+ SF), North Central (167,000+ SF), and Northwest (50,000+ 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 for office product.

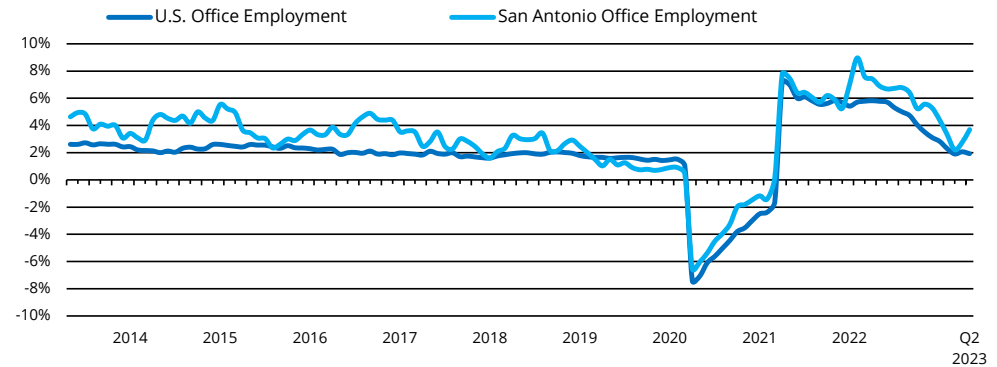


ECONOMY

Unemployment Increases in Q2

- The San Antonio economy added 10,200 office-using jobs during the 12-month period ending May 2023. The largest Y-O-Y increases in office-using jobs occurred in financial activities (5,000), professional and business services (4,500), and information (700). Additional sectors that experienced job growth are leisure/hospitality (12,500), government (8,000), education/health services (7,100) and trade/transportation/utilities (5,800).
- The quarterly unemployment rate in San Antonio reached 3.8%, in May 2023, which is a 30-basis point increase compared to 3.5% in May 2022.
- San Antonio’s diverse economy is balanced among major industries (Education/Health Services, Leisure/Hospitality, Government, and Financial Activities). No one industry comprises more than 20% of the workforce. That gives it a competitive advantage with less downside risk if a particular industry underperforms.

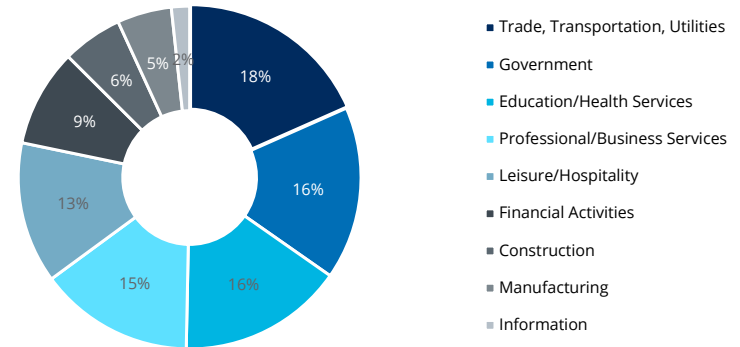
Y-O-Y CHANGE IN OFFICE JOBS



Source: Bureau of Labor Statistics, Transwestern

SHARE OF EMPLOYEES BY INDUSTRY

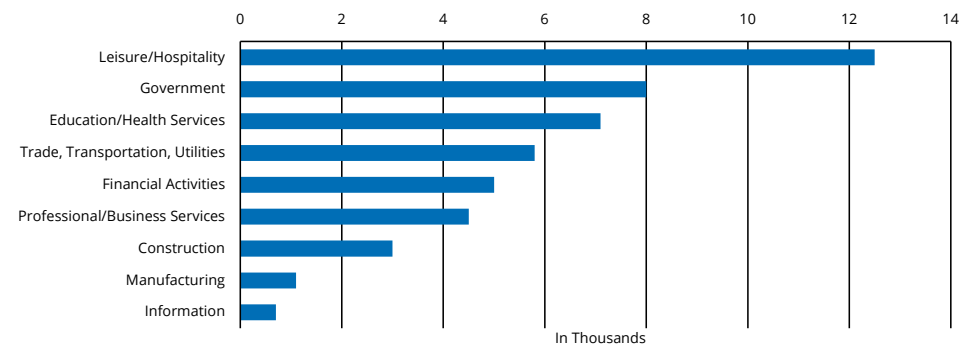
San Antonio | May 2023



Source: Bureau of Labor Statistics, Transwestern

Y-O-Y CHANGE IN OFFICE JOBS BY INDUSTRY

San Antonio | May 2023



Source: Bureau of Labor Statistics, Transwestern

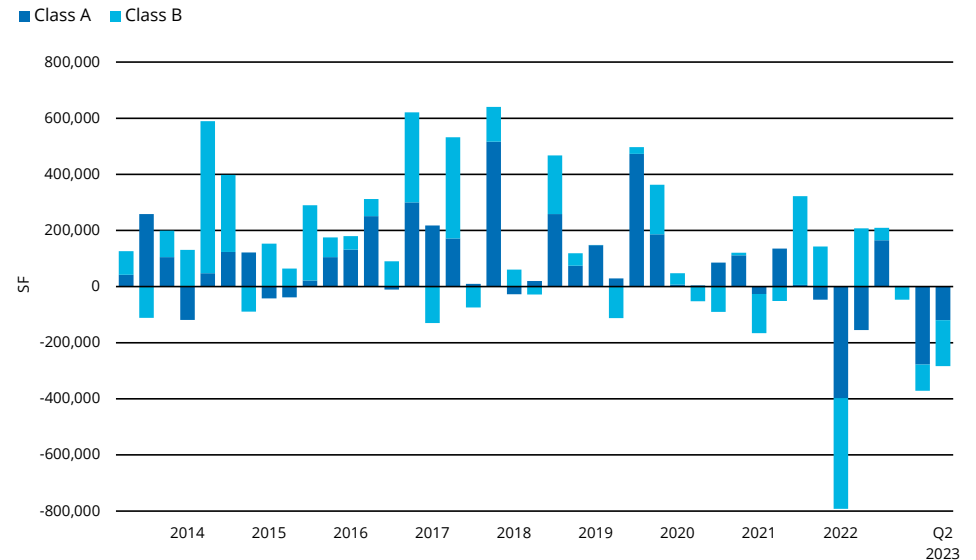


NET ABSORPTION

Net Absorption Trends Downward

- Net absorption totaled negative 404,364 SF, which mostly occurred in Class B product (163,016 SF). Class A product recorded negative 120,147 SF. The submarkets with the largest negative absorption are Northwest (174,006 SF), Northeast (145,012 SF), and CBD (95,494).
- Specific events leading to negative absorption: IBEX Global Solutions (call center) vacating from 42,262 SF at University Park Business Center. This forced 200 employees to relocate to their nearest location in New Braunfels or work from home.
- The only submarkets reflecting positive net absorption are the Far Northwest (165,279 SF), Far North Central (65,969 SF), and North Central (17,957 SF). Examples of positive absorption in the North Central submarket include: Texas Capital Bank's expansion to occupy the entire 6th floor (14,526 SF) at Trinity Plaza II. Following commencement, Texas Capital Bank will occupy a grand total of approximately 30,000 SF at Trinity Plaza II. Additionally, WGI Engineering relocated to McCombs Plaza for 9,017 SF from University Heights Tech Center, located in the Northwest submarket. The positive absorption in the Far Northwest submarket is due to WellMed moving into their campus.
- One of the most sizable leases was Allcat Claims Service renewing/ expanding for more than 64,000 SF at Parkway Plaza, a single-story office located in the Northwest submarket. One of the most notable leases in terms of location and rate was Champions School of Real Estate signing a new 10,840 SF lease at 3010 N Loop 1604 W, located in the Far West submarket. One of the only notable leases in the CBD was Chamberlain Hrdlicka (law firm) renewing for 10,263 SF at the Weston Centre.
- 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

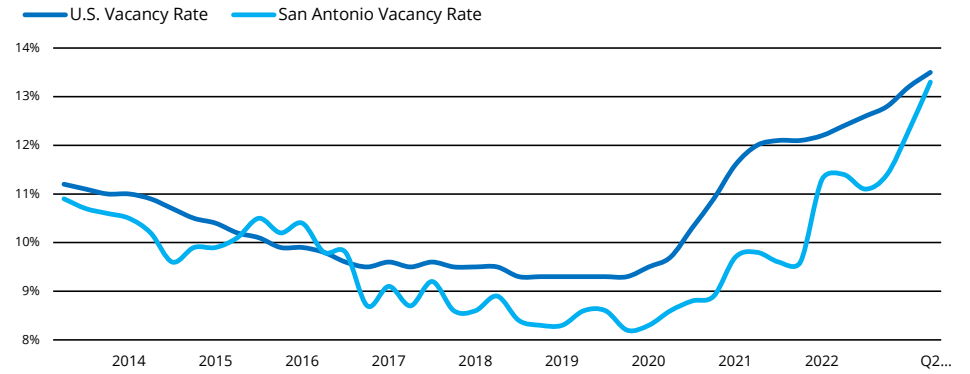


VACANCY

Vacancy Rate Increases in Q2

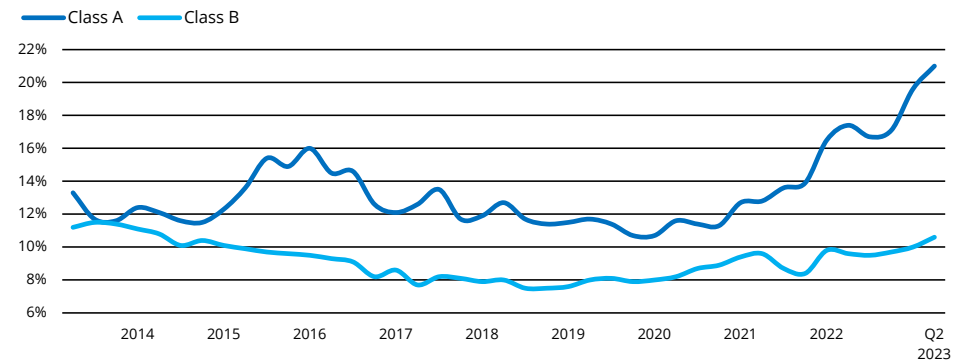
- The overall vacancy rate in Q2 reached 13.3%, reflecting a 80-bps increase from Q1, and a 190-bps increase compared to Q2 2022. The direct vacancy rate reached 12.3%, reflecting a 80-bps increase from Q1, and a 230-bps increase compared to Q2 2022.
- Class A overall vacancy increased to 21.0% in Q2. Class A product with the highest vacancy in the following submarkets: Far West (46.7%), CBD (34.8%), Far North Central (31.1%).
- Class B overall vacancy increased to 10.6% in Q2. Class B product with the highest vacancy in the following submarkets: Northeast (22.5%), North Central (15.3%), Northwest (9.4%).
- There's approximately 600,000 SF of sublease space on the market today, equating to 1.0% of total inventory. 400,000 SF is Class A and 176,000 SF is Class B. The overall figure is significantly less than the amount of sublease space in cities such as Phoenix (4.4%), Austin (3.1%), Charlotte (3.0%), Dallas (2.1%), Houston (1.2%). Therefore, direct leasing space has a much better chance of outcompeting sublease space and enabling landlords to regain pricing power.

OVERALL VACANCY RATE



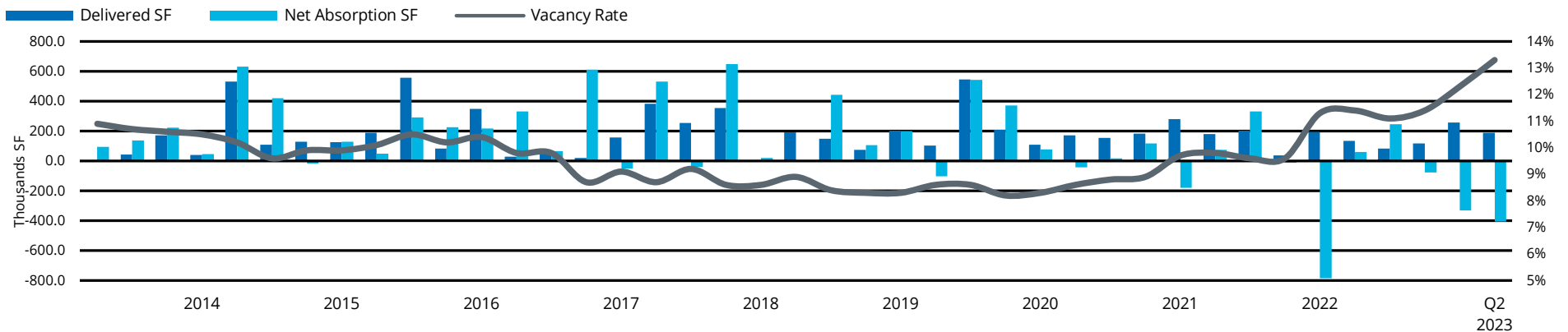
Source: CoStar, Transwestern

OVERALL VACANCY RATE BY CLASS



Source: CoStar, Transwestern

DELIVERY IMPACT ON KEY INDICATORS



Source: CoStar, Transwestern

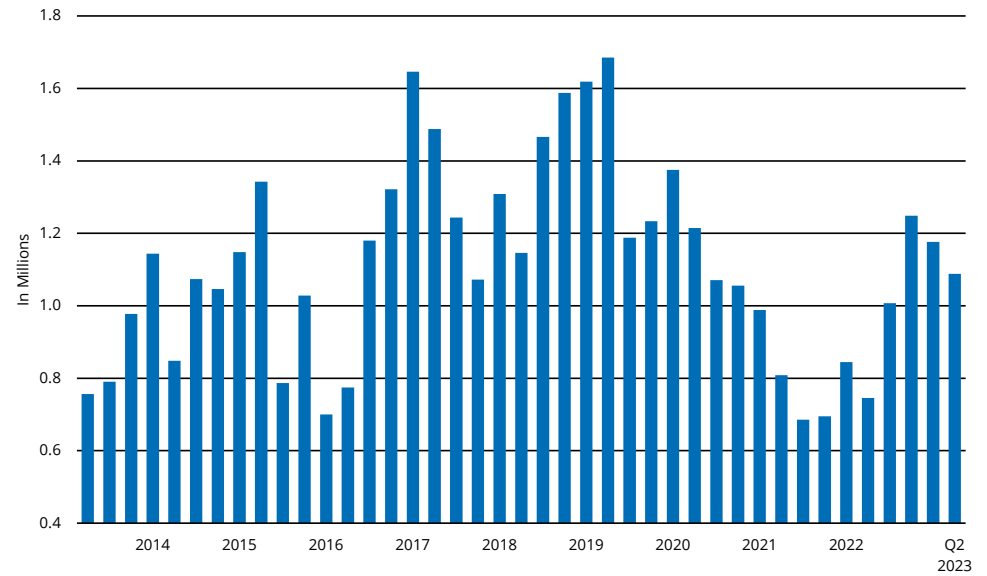


UNDER CONSTRUCTION

Construction Pipeline Exceeds Over 1.08 MSF

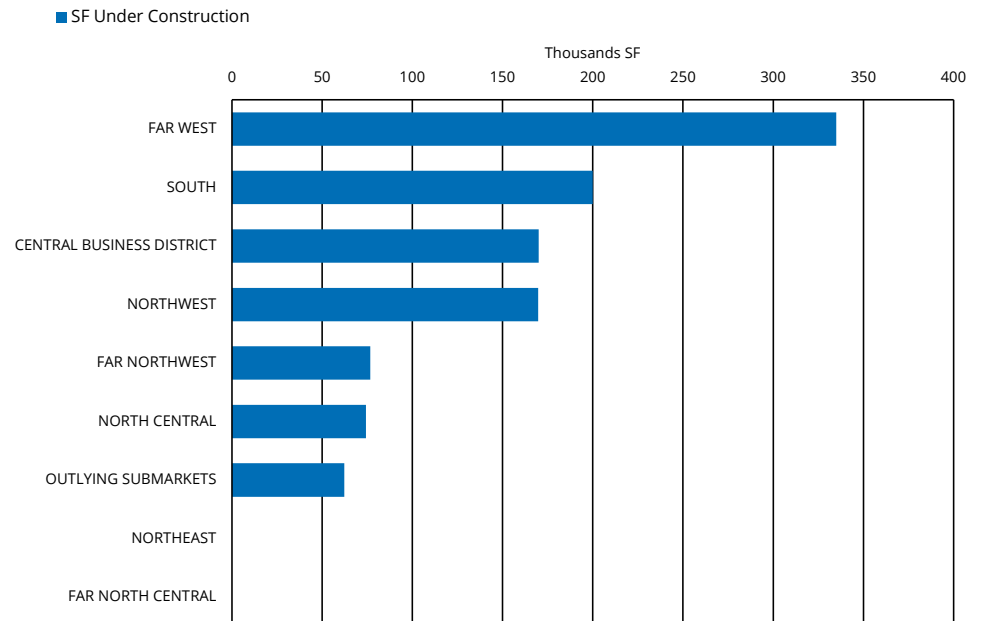
- Two office buildings delivered in Q2. First, North Rim Corporate Campus Bldg 1 (167,040 SF), located on the I-10 corridor in the Far Northwest submarket. Fasken Oil & Ranch is the owner and WellMed Medical Management is the only tenant. Second, 2225 E Common St (21,380 SF), located in New Braunfels is the general office of the Guadalupe-Blanco River Authority.
- There are 12 office buildings under construction in Q2, totaling 1.08 MSF. Notable construction projects include WatersEdge I & II (200,000 SF) in the South, Gateway Medical Office Phase II (125,000 SF) in the Northwest, Lemon Creek Ranch (76,722 SF) in the Far Northwest, Indian Woods Business Park (22,000 SF) in the Northwest, and 1878 Herbelin Rd (24,000 SF) in New Braunfels. The largest construction project in San Antonio is the Bill Miller Bar-B-Q Headquarters located in the Far West Submarket. The building is 335,000 SF and the address is 5330 State Highway 151, adjacent to the San Antonio Food Bank.
- The construction pipeline is anticipated to slow down over the course of 2023 due to tightening in construction financing, and the increasing vacancy rate.

UNDER CONSTRUCTION



Source: CoStar, Transwestern

UNDER CONSTRUCTION BY SUBMARKET





RENTAL RATES

Rates Continue to Increase in Q2

- Rates reached \$28.38 PSF in Q2 2023, reflecting a \$0.61, or 2.2% increase compared to Q2 2022.
- Class A rates reached \$32.19 PSF, reflecting a \$0.69, or 2.19% increase over Q2 2022. Class B rates reached \$27.05 PSF, reflecting a \$0.60, or 2.27% increase over Q2 2022.
- Overall, the submarkets with the highest rent growth include Far West (2.65%), Far Northwest (2.58%), Northwest (2.29%), Far North Central (2.25%), Northeast (2.18%), and North Central (1.98%). The Far West submarket rent growth is primarily due to asking rental rates being added to available properties rather than being withheld or negotiable.

Notable rate changes in Class A product:

Colonnade Centre increasing rates from \$18.50 NNN to \$22.00 NNN PSF for last remaining vacancies that will be developed into spec suites.

Inwood Village II changing rate structure from \$26.25 NNN PSF to \$38.25+ELEC PSF

Concord Park III revealing a \$30.00 NNN PSF rate after withholding rates for more than a year.

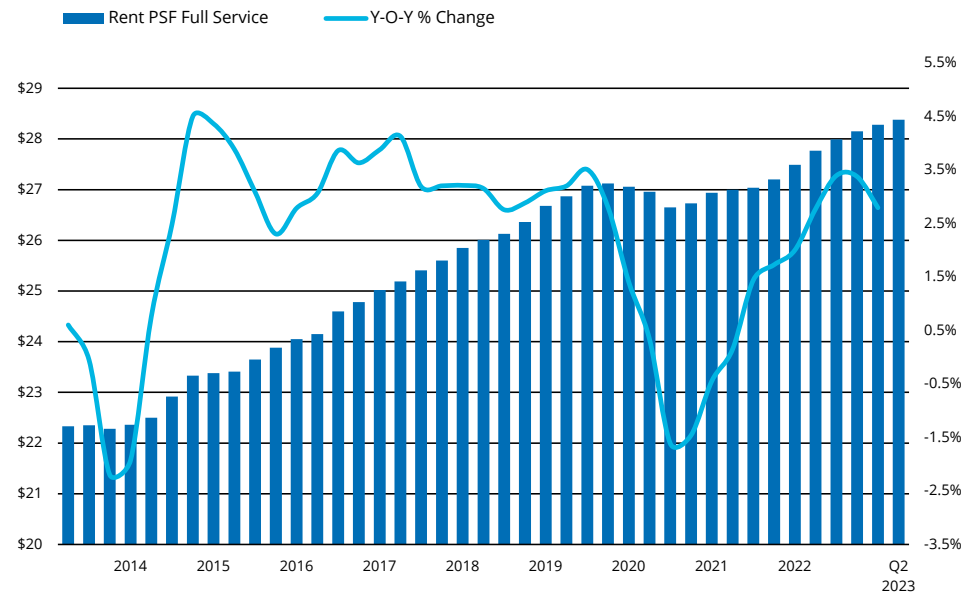
Notable rate changes in Class B product:

10000 Rogers Run – Former Kohl’s HQ raised rates from \$19.00 NNN to \$21.00 NNN PSF to compete with large block spaces in the market.

Cannon Oaks Tower – Significant rate reduction from \$18.00 FSG to \$16.00 FSG PSF.

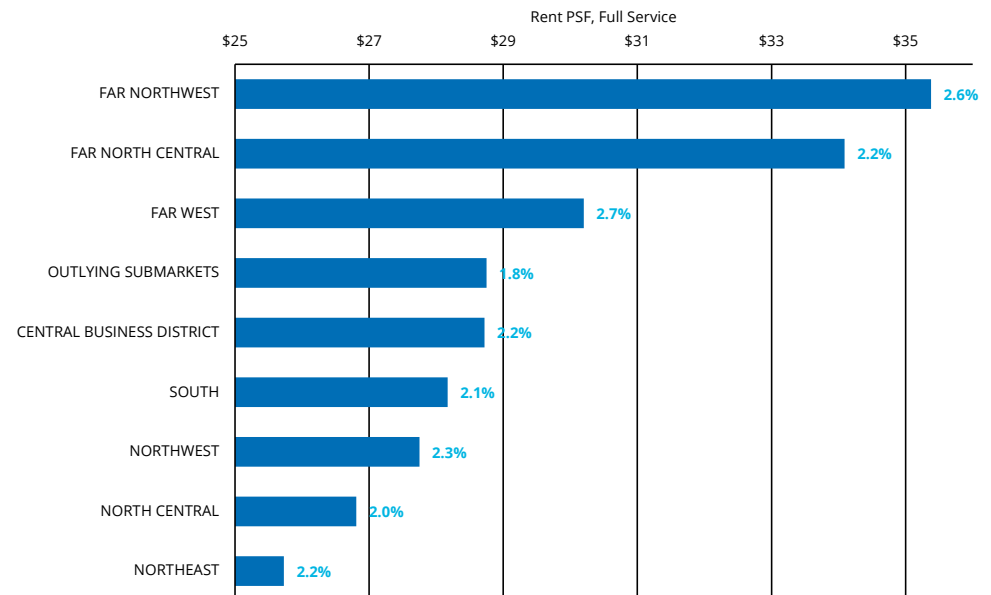
- Abated rent, TI, and escalations remain balanced in San Antonio, compared to other major cities in Texas and the United States.

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 Q2 totaled at least \$138M. Q2 brings the rolling four quarters sales average to \$181 PSF, compared to Q2 2022 at \$164 PSF.

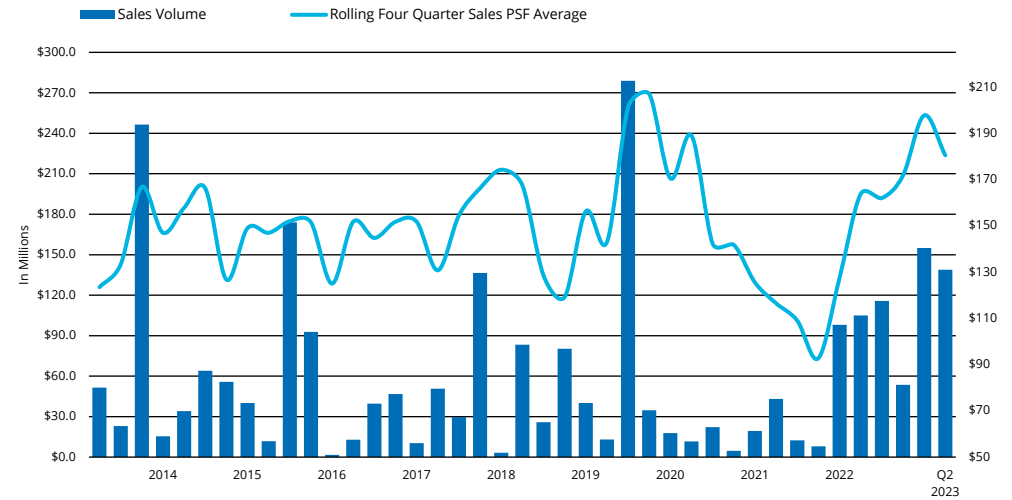
▪ **Notable sales include:**

Colonnade Centre: 140,709 SF, Class A, 6 story office building located in the Northwest submarket along the popular I-10 corridor. Asking rates increased from \$18.50 PSF NNN to \$22.00 PSF NNN following the purchase by SageView Partners. Security State Bank financed the purchase.

Greenway Park: 109,320 SF, Class B, 3 story office building located in the Northeast submarket along the 410 corridor. Greenway Park is 100% leased and anchored by Worldwide Clinical and WellMed. The facility conducts over 100 studies annually and includes 200 beds for overnight studies, Class 10,000 clean room, cGMP Phase I pharmacy and a full-service sample processing lab, which delivers +600,000 samples per year. Advenir Inc purchased the building for \$20,000,000, or \$179 PSF, at an 8.5% cap rate. Bank of America financed the purchase.

- 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
ALLCAT CLAIMS SERVICE, LLC	Parkway Plaza 1 & 3	North Central	Renewal	64,463
SENO MEDICAL INSTRUMENTS	Callaghan Tower	Northwest	Renewal	26,719
TEXAS CAPITAL BANK	Trinity Plaza II	North Central	Renewal/Expansion	26,649
ISS FACILITY SERVICES	Parkway North	North Central	Renewal	20,122
ALLCAT CLAIMS SERVICE, LLC	Parkway Plaza 1 & 2	North Central	Expansion	16,486
CHAMPIONS SCHOOL OF REAL ESTATE	3010 North Loop 1604 West	Far West	New	10,840
CHAMBERLAIN, HRDLICKA, WHITE, WILLIAMS, & AUGHTRY	Weston Centre	CBD	Renewal	10,263
CHICAGO TITLE	Sonterra Office Park	South	Renewal	9,063
WGI ENGINEERING	755 E Mulberry Ave	North Central	New	9,017
ACADEMY MORTGAGE CORP	One Twin Oaks	Far North Central	Renewal	8,268
MAYER LAW	Travis Park Plaza	North Central	New	6,141
SERENITY HEALTH	4715 Fredericksburg Road	Far North Central	New	6,011
XPEL TECHNOLOGIES	The SOTO	CBD	New	5,698

NOTABLE SALES

PROPERTY	SUBMARKET	BUILDING SF	YR BUILT	STORIES	CLASS	BUYER	SELLER
COLONNADE CENTRE	Northwest	140,709	1986	6	A	SageView Partners, LLC	Affinius Capital
GREENWAY PARK	Northeast	109,320	1983	3	B	Advenir, Inc. Vitalis	Gemini Rosemont Commercial Real Estate
4300 CENTERVIEW DR	Northwest	93,296	1979	4	B	Valor Public Schools	Southwest Business Corporation (SWBC)
VILLA ROSA MEDICAL PLAZA (PORTFOLIO)	Northwest	68,402	2009	3	A	Ventas, Inc.	Santerre Health Investors
HARDY OAK MEDICAL OFFICES BLDG (PORTFOLIO)	Far North Central	42,337	2003	3	B		Santerre Health Investors
TEXAS RESEARCH PARK	Far West	63,548	1992	2	B	CloudHQ	The University of Texas System
4800 FREDERICKSBURG RD	Northwest	58,853	1978	2	B	Carlos Soto	Kb Home Lone Star Inc
MEISNER BUILDING	Far North Central	24,924	2007	2	B	CNL Partners dba Pizza Patron	Abraxas
CLOCK TOWER	North Central	15,870	1984	1	C	San Antonio Eye Center	Jon Wiegand
12175 NETWORK BLVD	Northwest	11,028	2000	1	B	Network Blvd	Templeton Southwest Insurance
WHISPERING WATERS DAY SPA	Northwest	10,145	2008	2	B	Ritu Ajmani 15 Rx Pharmacy-4	Estate of Christopher John Pettit



MARKET INDICATORS

Class A | Q2 2023

SUBMARKET	INVENTORY SF	DIRECT VACANT SF	DIRECT VACANCY RATE	OVERALL VACANT SF	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	1,027,122	33.4%	1,070,964	34.8%	0	(111,456)	(183,271)	\$33.42
NORTH CENTRAL	5,387,028	876,681	16.3%	899,292	15.8%	74,265	(50,524)	135,256	\$31.24
NORTHWEST	4,897,229	590,947	12.1%	691,017	14.1%	147,000	(49,051)	(160,945)	\$30.54
NORTHEAST	1,385,720	220,252	15.9%	220,252	15.9%	0	(48,229)	157,727	\$30.21
FAR NORTH CENTRAL	1,744,163	380,367	21.8%	543,182	31.1%	0	31,844	(83,527)	\$37.10
FAR NORTHWEST	1,152,734	75,739	6.6%	144,825	12.6%	0	167,040	194,295	\$36.69
FAR WEST	748,619	339,699	45.4%	349,690	46.7%	335,000	(59,771)	(272,212)	\$30.89
SOUTH	300,618	-	-	-	-	200,000	-	-	\$33.80
OUTLYING SUBMARKETS	87,109	18,764	21.5%	18,764	21.5%	24,000	-	(18,764)	\$27.26
TOTAL	18,777,387	3,529,571	18.8%	3,937,986	21.0%	780,265	(120,147)	(231,441)	\$32.19

MARKET INDICATORS

Class B | Q2 2023

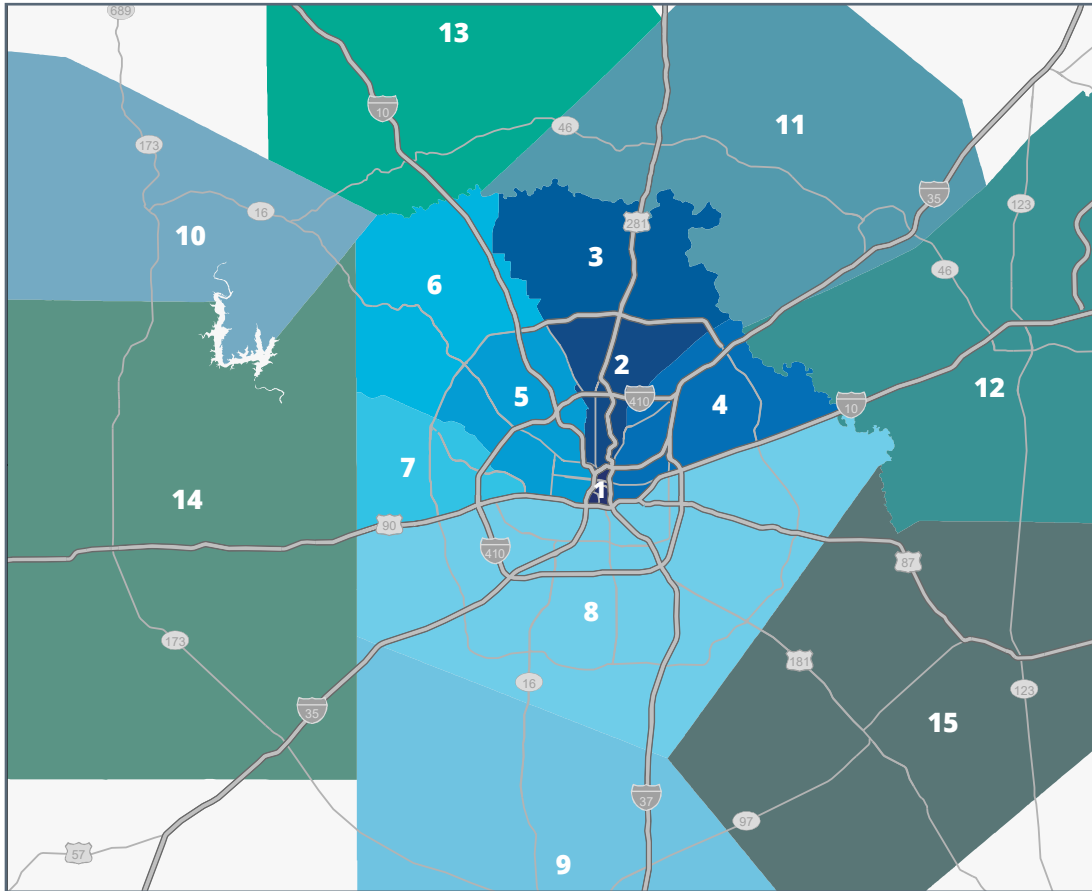
SUBMARKET	INVENTORY SF	DIRECT VACANT SF	DIRECT VACANCY RATE	OVERALL VACANT SF	OVERALL VACANCY RATE	UNDER CONSTRUCTION SF	NET ABSORPTION SF	12-MONTH ROLLING NET ABSORPTION SF	ASKING RENT PSF
CENTRAL BUSINESS DISTRICT	3,383,240	288,911	8.5%	288,911	8.5%	170,000	23,794	(39,333)	\$26.06
NORTH CENTRAL	6,661,450	997,572	15.0%	1,022,386	16.4%	0	67,015	149,263	\$24.18
NORTHWEST	12,917,298	1,150,836	8.9%	1,213,115	9.4%	22,705	(87,118)	(100,172)	\$27.10
NORTHEAST	1,921,174	359,622	18.7%	432,767	22.5%	0	(93,492)	(97,141)	\$24.60
FAR NORTH CENTRAL	1,583,372	95,161	6.0%	111,804	7.1%	0	34,125	41,859	\$31.07
FAR NORTHWEST	411,568	22,711	5.5%	22,711	5.5%	76,722	(1,761)	152	\$33.14
FAR WEST	4,076,426	370,976	9.1%	370,976	9.1%	0	(127,450)	(272,260)	\$30.37
SOUTH	1,106,963	24,805	2.2%	24,805	2.2%	0	966	(9,448)	\$27.22
OUTLYING SUBMARKETS	1,305,087	46,146	3.5%	46,146	3.5%	38,300	20,905	69,248	\$29.75
TOTAL	33,366,578	3,356,740	10.1%	3,533,621	10.6%	307,727	(163,016)	(257,832)	\$27.05



MARKET INDICATORS

All Classes | Q2 2023

SUBMARKET	INVENTORY SF	DIRECT VACANT SF	DIRECT VACANCY RATE	OVERALL VACANT SF	OVERALL VACANCY RATE	UNDER CONSTRUCTION SF	NET ABSORPTION SF	12-MONTH ROLLING NET ABSORPTION SF	ASKING RENT PSF
CENTRAL BUSINESS DISTRICT	7,770,044	1,330,901	17.1%	1,374,743	17.7%	170,000	(95,494)	(229,201)	\$28.72
NORTH CENTRAL	14,072,633	1,993,655	14.2%	2,047,935	14.7%	74,265	17,957	336,021	\$26.81
NORTHWEST	19,145,639	1,911,336	10.0%	2,080,665	10.9%	169,705	(174,006)	(281,339)	\$27.75
NORTHEAST	4,202,980	666,013	15.8%	739,158	17.6%	0	(145,012)	27,839	\$25.73
FAR NORTH CENTRAL	3,414,872	475,528	13.9%	654,986	19.2%	0	65,969	(41,668)	\$34.09
FAR NORTHWEST	1,630,510	98,450	6.0%	167,536	10.3%	76,722	165,279	197,232	\$35.38
FAR WEST	5,964,606	710,675	11.9%	720,666	12.1%	335,000	(187,221)	(544,472)	\$30.20
SOUTH	1,920,238	88,186	4.6%	88,186	4.6%	200,000	(62,415)	(69,440)	\$28.17
OUTLYING SUBMARKETS	1,834,511	75,236	4.1%	75,236	4.1%	62,300	10,579	40,158	\$28.75
TOTAL	59,956,033	7,349,980	12.3%	7,949,111	13.3%	1,087,992	(404,364)	(564,870)	\$28.38



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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