

SAN ANTONIO MEDICAL 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)	(10.6)	(66.6)	↓	38.8
OVERALL VACANCY RATE	13.4%	13.3%	↔	13.9%
DIRECT VACANCY RATE	12.9%	13.2%	↔	13.7%
OVERALL VACANT SF (MSF)	1.95	1.90	↔	1.95
UNDER CONSTRUCTION (THOUSANDS SF)	226	390	↓	270
RENT, FULL SERVICE (PSF)	\$27.88	\$27.28	↑	\$26.55
SALES VOLUME (MILLIONS)	\$19.5	\$5.4	↑	\$22.4

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 slowed in Q2, with a total of 10,646 SF of negative net absorption. The overall vacancy rate increased slightly to 13.4% in Q2 2023, reflecting a 10-bps increase from Q2 2022 at 13.3%. Rental rates reached \$27.88 PSF, which is a \$0.60, or 2.2% 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 | Q2 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
CORE MED CENTER (NW)	3,566,730	522,622	14.7%	522,622	14.7%	-	17,723	161,848	\$27.37
NORTHWEST	5,984,195	684,810	11.4%	684,810	11.4%	-	13,736	229,920	\$26.65
NORTH CENTRAL	1,419,761	206,504	14.5%	212,658	15.0%	-	(22,573)	(20,086)	\$25.48
NORTHEAST	1,042,294	143,050	13.7%	143,050	13.7%	72,999	1,928	1,808	\$24.96
CBD	895,222	277,083	31.0%	277,083	31.0%	-	8,000	(12,214)	\$25.49
FAR NORTH CENTRAL	1,433,406	158,575	11.1%	163,026	11.4%	29,220	8,502	611	\$30.58
FAR NORTHWEST	243,067	38,124	15.7%	38,124	15.7%	-	-	(4,984)	\$36.09
FAR WEST	926,084	188,294	20.3%	188,294	20.3%	72,100	(5,380)	35,328	\$32.59
SOUTH	999,910	47,104	4.7%	47,104	4.7%	-	(11,827)	59,419	\$26.96
OUTLYING COUNTIES	1,568,332	132,901	8.5%	191,475	12.2%	52,000	(3,032)	(38,895)	\$31.87
TOTAL	14,512,271	1,876,445	12.9%	1,945,624	13.4%	226,319	(10,646)	250,907	\$27.88

Source: CoStar, Transwestern



RELEVANT NEWS

Express News, June 2023

Baptist Health System could get a boost from state sales taxes to expand after Texas Vista closure

On the heels of Texas Vista's closure, the city & county are working to bolster an existing hospital system through a potential state sales tax refund. The City Council signed off on Bexar County's plan to nominate four Baptist Health System hospitals for the Texas Enterprise Zone Program – the first time county officials have pursued such a designation for an area hospital system. Baptist Health System plans to make \$55 million in capital investments across the four hospitals, including additional women's services beds at Mission Trail.

RELEVANT NEWS

San Antonio Business Journal, Apr 2023

Downtown SA hospital campus to undergo major changes

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. The new name is part of a larger hospital transformation will include greater integration with other Christus facilities near the campus, including a new look and feel and improved wayfinding. There will also be a new branding campaign.

RELEVANT NEWS

San Antonio Business Journal, June 2023

SA hospital system owner to invest nearly \$150M to boost health equity

Methodist Healthcare Ministries of South Texas Inc., the 50% nonprofit owner of one of the state's largest hospital systems, plans to invest \$149.9 million to boost health equity and expand services across its 74-county region. That 2023 investment will support a variety of direct services as well as community partnerships and advocacy initiatives intended to level the playing field when it comes to access to care.

RELEVANT NEWS

University Health, July 2023
University Hospital Achieves MBSAQIP Accreditation

In a significant milestone for the healthcare community in San Antonio, University Hospital has been awarded the prestigious Metabolic and Bariatric Surgery Accreditation and Quality Improvement Program (MBSAQIP) designation. This accreditation reflects the hospital's unwavering commitment to providing exceptional care and ensuring patient safety for individuals undergoing metabolic and bariatric surgery.



ECONOMY

Job Growth Remains Steady

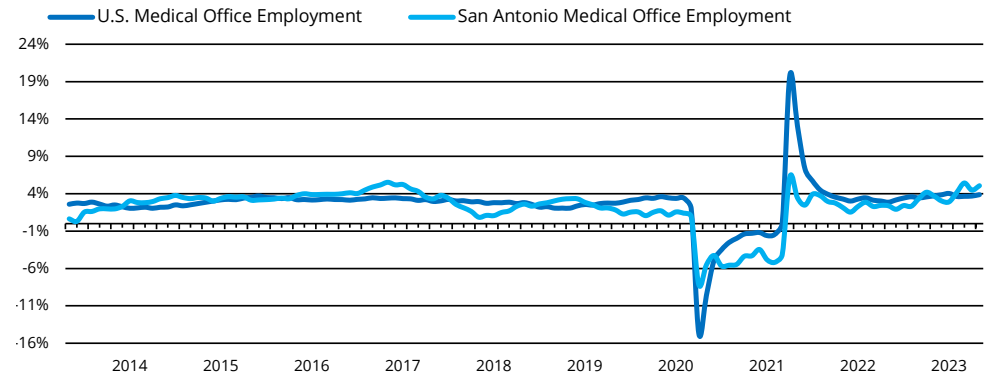
The San Antonio economy added 12,400 medical office-using jobs during the 12-month period ending May 2023. Health Care and Social Services added 6,300, Ambulatory Health Care Services added 4,500, and Hospitals added 1,600. From April to May alone, the San Antonio economy added 2,500 medical office jobs. 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.

Recent Acquisitions: Methodist Healthcare agreed to acquire Hill Country Memorial, a primary care and family medicine health system located in Fredericksburg. The hospital has 86-beds and specializes in acute-care. Additionally, Methodist Healthcare has agreed to purchase 14 urgent care centers across San Antonio. Many factors made this acquisition an easy decision for Methodist Hospital, especially the city's population growth rate. Methodist officials expect a 5.2% growth in regions population over the next five years.

Recent Expansions: Methodist Hospital is redeveloping a 150,000 SF hospital, formally home to Forest Park Medical Center, into an acute-care hospital. Acquisition and redevelopment costs for the Landmark Hospital will be approximately \$75M. The hospital will have 27 private patient rooms, 12 operating rooms, and 14 VIP suites with a surgical focus.

Recent Funding: UT Health San Antonio is investing \$1 billion to strengthen San Antonio's role in scientific research. The plan will include construction and improvement to existing hospitals and is also expected to create 1,500 jobs. The UT Health San Antonio Multispecialty and Research Hospital received a portion of that investment and is expected to open in 2024. Construction is underway for the Center of Brain Health, a \$100M research building dedicated to providing care to patients with Alzheimer's disease, movement disorders, amyotrophic lateral sclerosis, and related dementias.

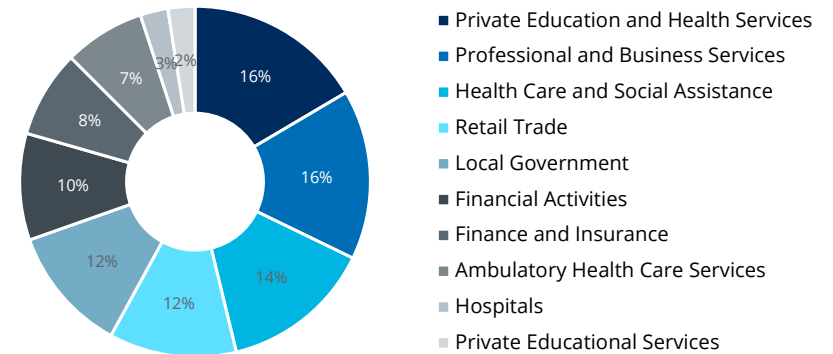
Y-O-Y CHANGE IN MEDICAL OFFICE JOBS



Source: Bureau of Labor Statistics, Transwestern

SHARE OF EMPLOYEES BY INDUSTRY

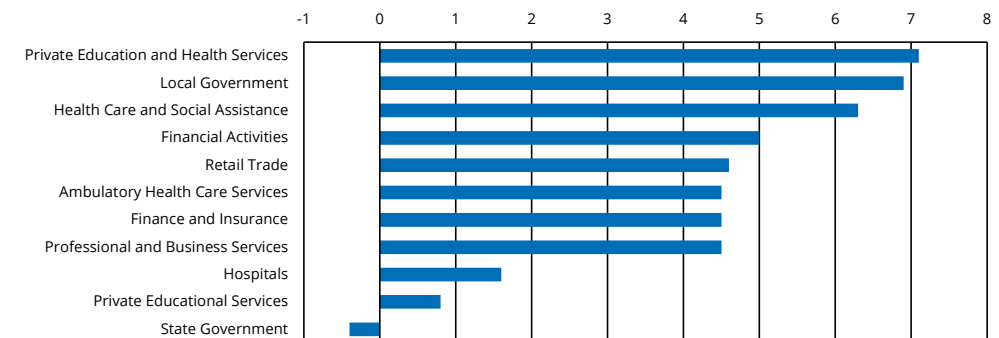
San Antonio | February 2023



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 Increases in Q2

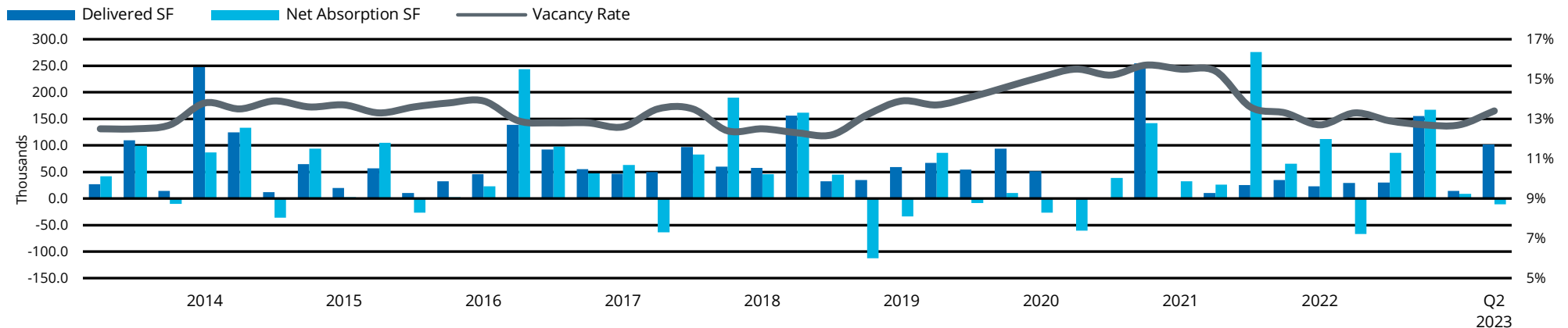
- The overall vacancy rate in Q2 reached 13.4%, reflecting a 70-bps increase from Q1, and a 10-bps increase compared to Q2 2022. The direct vacancy rate reached 12.9%, reflecting a 70-bps increase from Q1, and a 30-bps decrease compared to Q2 2022.
- Class A vacancy reached 24.3% with over 390,000 SF of vacant space. Class B vacancy reached 12.4% with just over 1.2M SF of vacant space available. Notable submarket direct vacancy rates include the CBD (31.0%), Northwest (11.4%), and North Central (14.5%) submarkets. The vacancy rate in The Core Medical Center, located within the Northwest submarket, reached its lowest in 5-years at 14.7%.

NET ABSORPTION

Absorption in Negative Territory

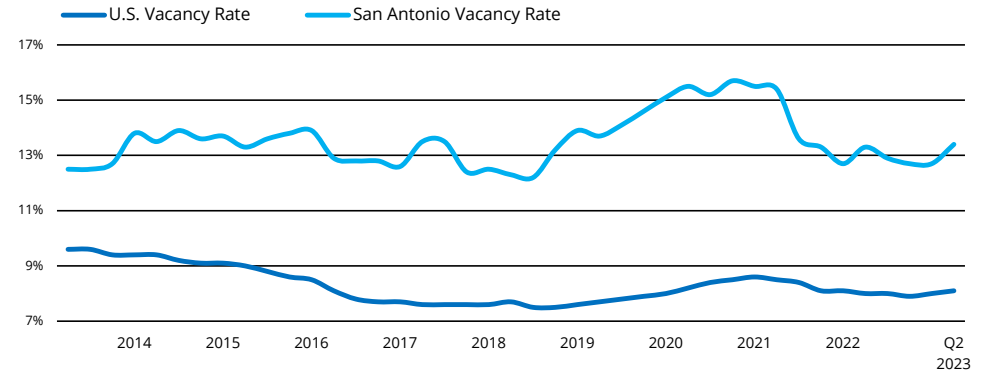
- Net absorption totaled negative 10,646 SF. Significant absorption events include: Pediatrix Medical Services signing a 2,507 SF expansion in the Stone Oak Outpatient Medical building, located in the Far North Central submarket; Board of Regents expanding 3,091 SF at Christus Medical Tower I, located in the South Texas Medical Center within the Northwest submarket; Jeffrey M. Martinez, M.D. signing a lease for 5,633 SF at 7500 Barlite, located in the South submarket; and Christus Health signing a lease for 5,581 SF at the Dominion Crossing Office, located in the Far Northwest submarket. One of the largest absorption events was Modern Vascular giving back 11,912 SF at Lexington Plaza.
- At least 120,000 SF of leasing activity occurred throughout the market with concentrations in the Far West (66,654 SF), Northwest (12,949 SF), Far North Central (12,797 SF) submarkets.

DELIVERY IMPACT ON KEY INDICATORS



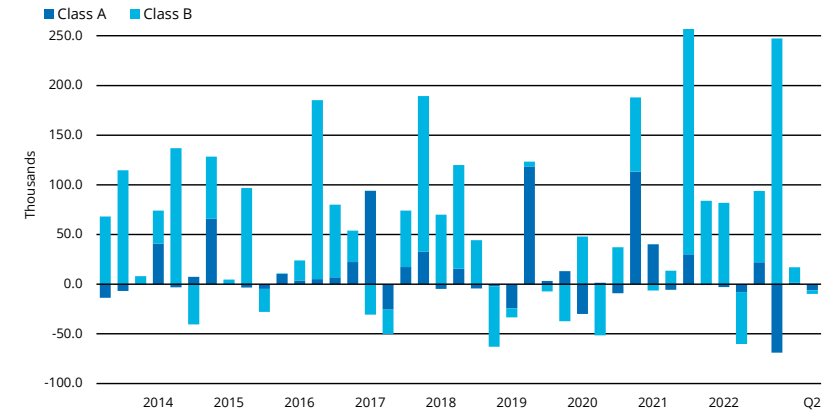
Source: CoStar, Transwestern

MEDICAL OFFICE VACANCY RATE



Source: CoStar, Transwestern

NET ABSORPTION BY CLASS



Source: CoStar, Transwestern

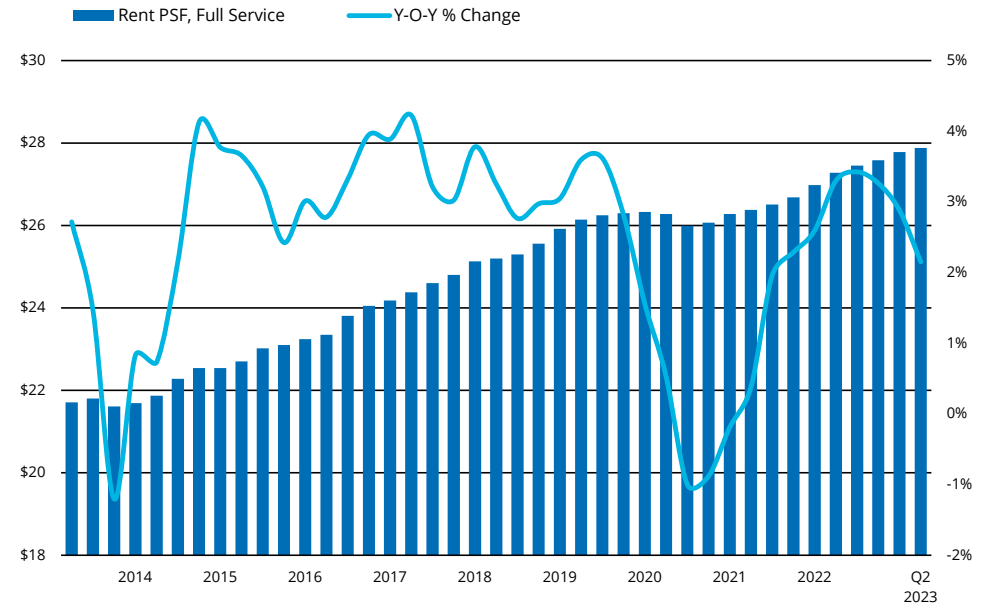


RENTAL RATES

Rates Continue to Increase in Q2

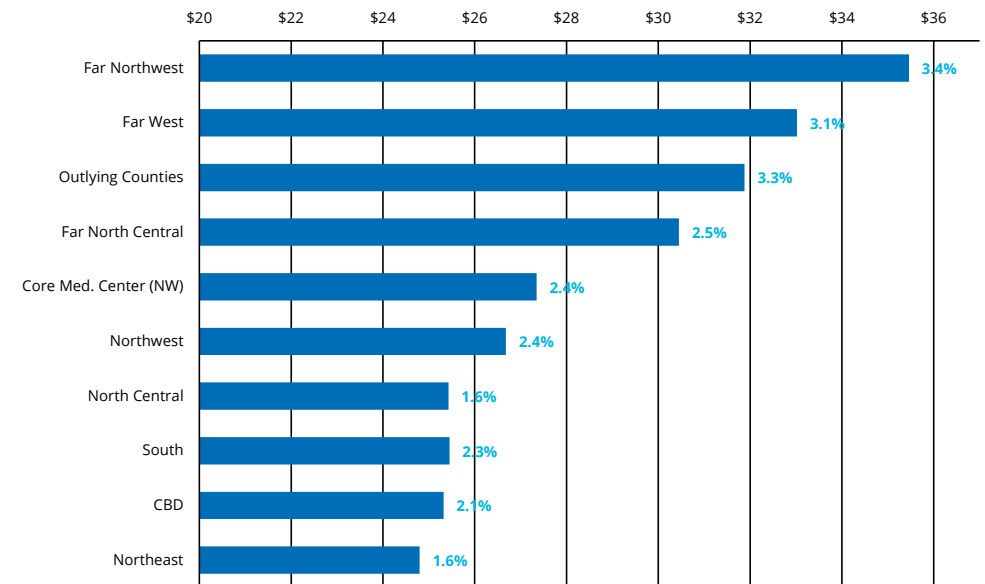
- Overall rental rates reached \$27.88 PSF full service in Q2 2023, reflecting a \$0.60, or 2.2% increase compared to Q2 2022.
- Class A rates reached \$32.21 PSF, reflecting a \$0.77, or 2.45% increase over Q2 2022. Class B rates reached \$27.86 PSF, reflecting a \$0.64, or 2.35% increase over Q2 2022.
- Year-over-year rent growth in the Core Medical Center, located in the Northwest, reached 2.1%. The Far Northwest and Far North Central saw the largest year-over-year rent growth of any submarket at 2.8% while the South Texas Medical Center and Northwest rent growth hovered around 2.0%.
- In addition to rental rate growth, landlords are increasing concessions to remain competitive in the market. Landlord tenant improvement contributions 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 220,000 SF

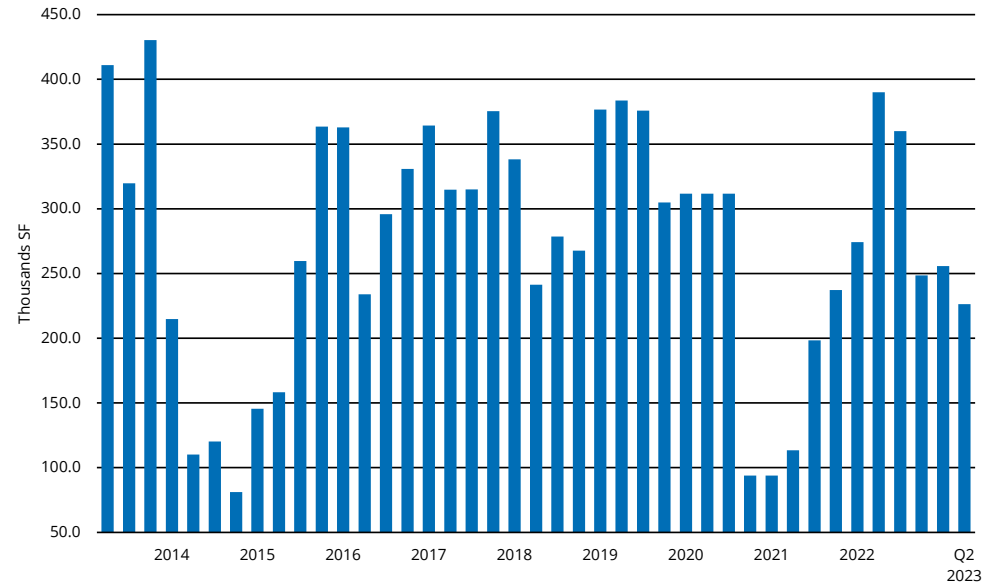
- There is over 220,000 SF of medical office under construction in San Antonio, spread over six buildings, and three submarkets. Notable construction projects include the Westover Medical Offices (61,990 SF) located on Hwy 151 in the Far West. The project is expected to deliver in Q2 2024. Another notable medical office under construction is RidgeWood Medical Office Building 1 & 2, located in the Far North Central. Both buildings total 29,220 SF. Building 1 has been preleased to WellMed while building 2 is available and asking \$35.50 NNN, which is one of the highest asking rates in the submarket.
- 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

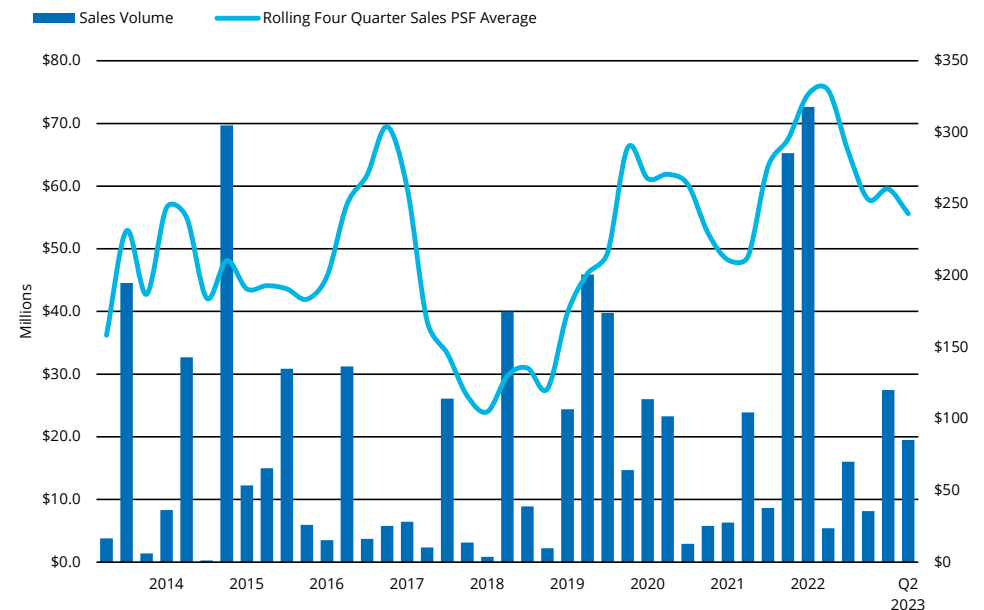
- Medical office building sales totaled during Q2 totaled at least \$19.5M. Q2 brings the rolling four quarters sales average to \$243 PSF compared to \$330 PSF in Q1 2022.
- One of the most notable transactions was the Santerre Portfolio. The Portfolio includes 88 MOB's, 16 senior housing communities, and 48 skilled nursing facilities. Ventas purchased the Portfolio with a mezzanine loan and their ownership will be subject to an existing \$1 billion non-recourse senior loan. Only 3 buildings from this portfolio are in San Antonio. Villa Rosa Medical Plaza, Schertz Medical MOB, and Hardy Oak MOB.
- Another notable sale was the Texas Research Park, located in the Far West submarket. The lab and research facility is known as the Alice P. McDermott Institute for Drug Development. The lab is 63,548 SF and the office building adjacent to it is 20,000 SF. CloudHQ purchased the building from The University of Texas System.
- 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
UNIFIED WOMENS HEALTHCARE 	Remington Oaks Outpatient Medical	Far North Central	Extension	6,257
JEFFREY M. MARTINEZ. M.D. 	Southwest MOB	South	New	5,633
SOUTH TEXAS ONCOLOGY AND HEMATOLOGY (STOH) 	Atrium Outpatient Medical	Far North Central	Renewal	5,069
CHRISTUS TRINITY CLINIC	21727 IH-10 W	Far Northwest	New	5,581
PEDIATRIX MEDICAL SERVICES 	Stone Oak Outpatient Medical	Far North Central	Renewal/Expansion	1,786 (Renewal) 2,507 (Expansion)
SAN ANTONIO KIDNEY DISEASE CENTER	7142 San Pedro Ave	North Central	New	3,855
COMMUNICARE	7863 Callaghan Rd	Northwest	New	3,668
PERIPHERAL VASCULAR ASSOCIATES 	Hardy Oak MOB	Far North Central	Renewal	3,379

NOTABLE SALES

ADDRESS	SUBMARKET	BUILDING SF	YEAR BUILT	BUYER	SELLER
SE MEDICAL CENTER - 4242 E SOUTHCROSS BLVD	South	20,126	1972	Habitat For Humanity of San Antonio	Methodist Healthcare Ministries Of South
VILLA ROSA MEDICAL PLAZA - 5131 MEDICAL DR (PART OF A 154 PROPERTY PORTFOLIO)	Northwest	68,402	2009	Ventas, Inc.	Santerre Health Investors
SCHERTZ MEDICAL OFFICE BUILDING - 5000 BAPTIST HEALTH DR (PART OF A 154 PROPERTY PORTFOLIO)	Guadalupe County	19,925	2005	Ventas, Inc.	Santerre Health Investors
HARDY OAK MEDICAL OFFICE BUILDING - 18626 HARDY OAK BLVD (PART OF A 154 PROPERTY PORTFOLIO)	Far North Central	42,337	2003	Ventas, Inc.	Santerre Health Investors
TEXAS RESEARCH PARK - 14960 OMICRON DR (PART OF A 2 PROPERTY SALE)	Far West	63,548	1992	CloudHQ	The University of Texas System
CLOCK TOWER - 14801-14819 SAN PEDRO AVE	North Central	15,870	1984	San Antonio Eye Center	Jon Wiegand

 = Transwestern deal



MARKET INDICATORS

Class A | Q2 2023

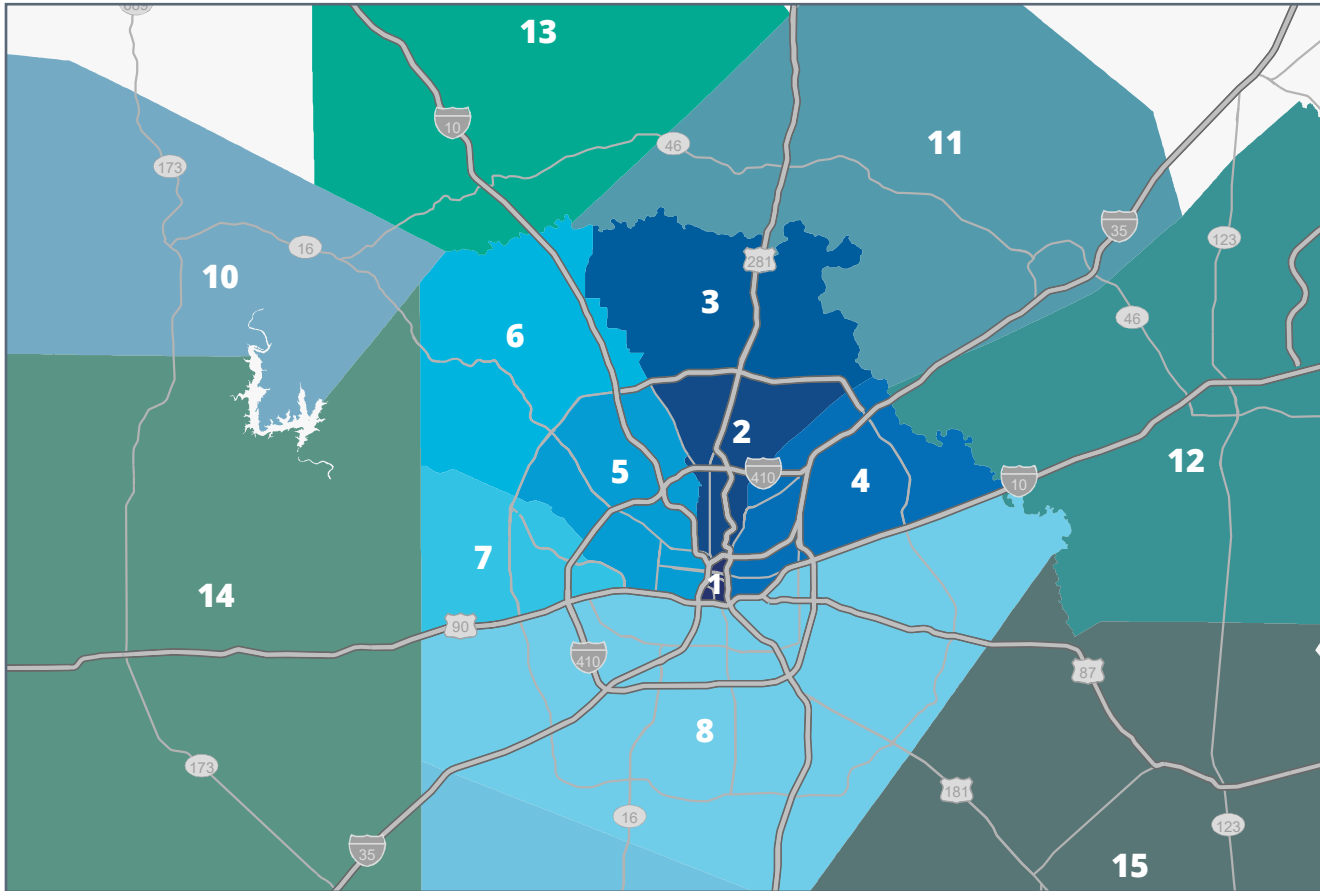
SUBMARKET	INVENTORY SF	DIRECT VACANT SF	DIRECT VACANCY RATE	TOTAL VACANT SF	OVERALL VACANCY RATE	UNDER CONSTRUCTION SF	NET ABSORPTION SF	12 MONTH ROLLING NET ABSORPTION SF	ASKING RENT PSF
NORTHWEST	162,041	34,905	21.5%	34,905	21.5%	0	-988	7,852	\$36.52
NORTH CENTRAL	160,386	16,070	10.0%	16,070	10.0%	0	(10,106)	(915)	\$29.52
NORTHEAST	145,776	25,818	17.7%	25,818	17.7%	72,999	-	(6,846)	\$26.52
CBD	143,077	107,141	74.9%	107,141	74.9%	0	-	(4,596)	\$25.57
FAR NORTH CENTRAL	445,288	56,684	12.7%	56,684	12.7%	0	2,199	(4,369)	\$31.20
FAR NORTHWEST	41,590	8,200	19.7%	8,200	19.7%	0	-	(4,981)	\$40.86
FAR WEST	469,906	124,003	26.4%	124,003	26.4%	0	(7,148)	(7,021)	\$36.41
SOUTH	80,000	3,128	3.9%	3,128	3.9%	0	-	9,242	\$31.24
OUTLYING COUNTIES	196,438	14,436	7.3%	73,010	37.2%*	0	10,000	(39,804)	\$32.88
TOTAL	1,844,502	390,385	21.2%	448,959	24.3%	72,999	(6,043)	(51,438)	\$32.21

MARKET INDICATORS

Class B | Q2 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	4,567,565	518,157	11.3%	518,157	11.3%	0	17,354	235,286	\$26.86
NORTH CENTRAL	1,018,503	137,086	13.5%	143,240	14.1%	0	(13,512)	(17,697)	\$25.69
NORTHEAST	519,689	84,144	16.2%	84,144	16.2%	0	-2,316	15,270	\$25.61
CBD	702,458	169,942	24.2%	169,942	24.2%	0	8,000	(7,618)	\$25.22
FAR NORTH CENTRAL	976,012	101,891	10.4%	106,342	10.9%	29,220	4,328	4,980	\$30.33
FAR NORTHWEST	201,477	29,924	14.9%	29,924	14.9%	0	-	(3)	\$35.18
FAR WEST	456,178	64,291	14.1%	64,291	14.1%	72,100	1,768	42,349	\$29.20
SOUTH	530,538	29,434	5.5%	29,434	5.5%	0	(6,401)	57,119	\$27.04
OUTLYING COUNTIES	1,242,292	118,465	9.5%	118,465	9.5%	52,000	(13,032)	909	\$32.17
TOTAL	10,214,712	1,253,334	12.3%	1,263,939	12.4%	153,320	(3,811)	330,595	\$27.86

Source: CoStar, Transwestern



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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