

SAN ANTONIO OFFICE MARKET

Q2 2024



TRENDLINES

	Q2 2024	Q2 2023	ONE-YEAR TREND	FIVE-YEAR AVERAGE
UNEMPLOYMENT RATE	3.5	3.8	↓	4.4
NET ABSORPTION (THOUSANDS SF)	130.5	323.6	↓	67.9
OVERALL VACANCY RATE	13.7%	12.1%	↑	9.9%
DIRECT VACANCY RATE	13.2%	11.0%	↑	9.2%
OVERALL VACANT SF (MSF)	7.1	7.3	↔	5.8
DIRECT VACANT SF (MSF)	5.2	4.9	↔	4.8
UNDER CONSTRUCTION (MSF)	0.13	0.64	↓	1.2
RENT, FULL SERVICE (PSF)	\$29.81	\$28.45	↑	\$27.37
SALES VOLUME (MILLIONS)	\$185.1	\$87.0	↑	\$118.9

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

OFFICE MARKET PICKS BACK UP IN Q2 2024

The San Antonio office market improved this quarter, with around 130,000 square feet of positive absorption. This is a significant improvement from the negative 340,000 square feet of net absorption seen last quarter. However, the overall vacancy rate increased by 40 basis points from the previous quarter to reach 13.2%.

In the second quarter, the market witnessed over 435,000 square feet of leasing activity, with the majority (134,000 square feet) occurring in the North Central submarket and 80,000 square feet in the Central Business District.

Construction continues to slow down with 130,000 square feet under construction, which is a decrease from the previous quarter's 430,000 square feet.

As office construction slows, the office market is expected to stabilize throughout the rest of 2024. Rising operating expenses are leading office occupiers to seek more efficient spaces, causing a clear distinction between Class A and Class B office spaces.

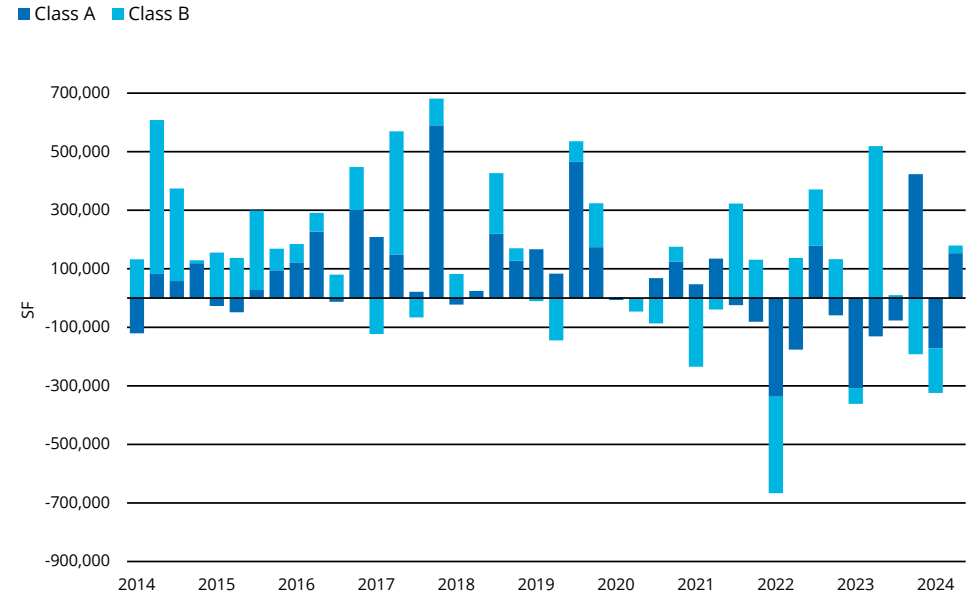


NET ABSORPTION

Net Absorption Trends Up

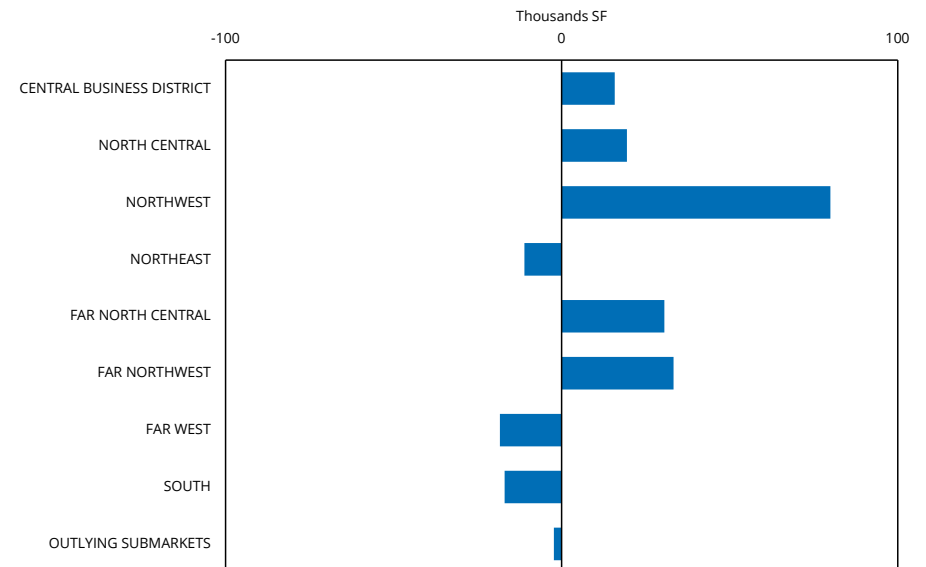
- In the current quarter, there was a positive net absorption of 130,000 square feet, representing a significant increase from the previous quarter's negative 340,000 square feet. However, over the past 12 months, the total net absorption was only 105,000 square feet, given the significant impact of the Q1 negative absorption .
- Class A office totaled over 150,000 square feet of positive net absorption and has a trailing 12 months of over 325,000 square feet of positive net absorption. Class B office totaled over 25,000 square feet of absorption and had a trailing 12 months of over 305,000 square feet of negative net absorption.
- Northwest, Far Northwest and Far North Central had the largest amount of positive net absorption during the 2nd quarter, totaling approximately 140,000 square feet.
- In the past 3 years, Class B office space has generally performed better than Class A office space in terms of net absorption, except for the Q4 of 2023. This is mainly due occupiers in San Antonio seeking more cost-effective space. However, there has been a recent change in this trend, with Class A experiencing approximately 150,000 square feet of positive absorption, while Class B had 25,000 square feet of positive net absorption this quarter.

NET ABSORPTION BY CLASS



Source: CoStar, Transwestern

NET ABSORPTION BY SUBMARKET



Source: CoStar, Transwestern

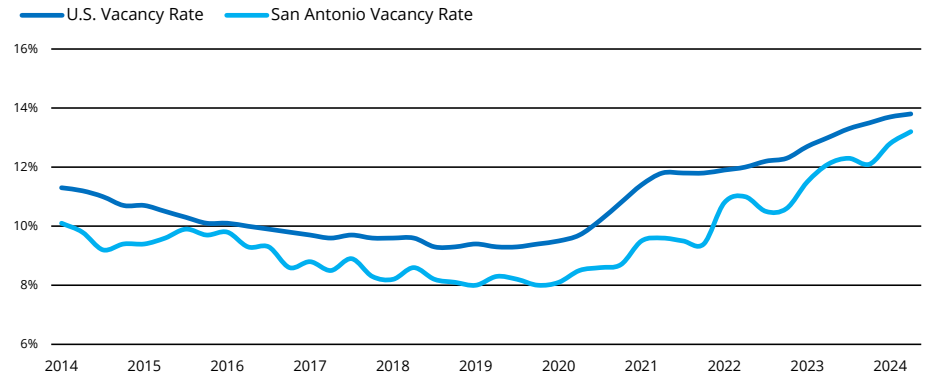


VACANCY

Vacancy Continues to Rise

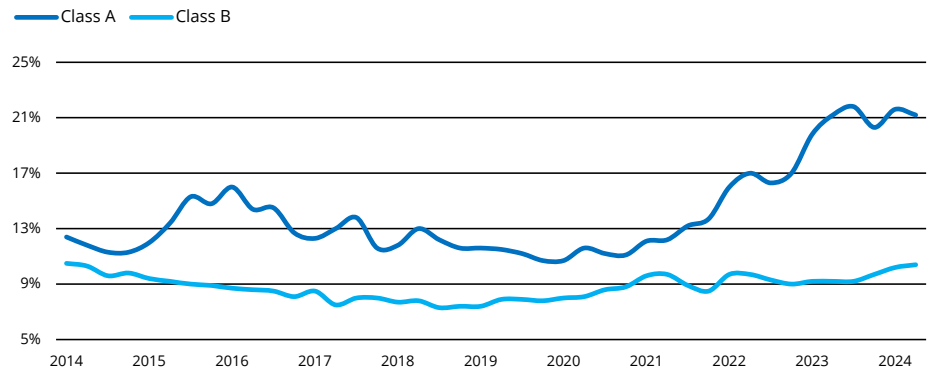
- Overall Vacancy increased to 13.7 % (for Class A, Class B and Class C office, that is 10,000 SF and larger), which is a 90 bps increase from last quarter and a 160 bps increase from Q2 of 2023.
- Class A office vacancy declined 40 bps this quarter to 21.2%, and Class B office rose 20 bps to 10.4%. Compared to Q2 of 2023, Class A remained the same, while Class B space rose 120 bps year-over-year. The disparity in vacancy rates between Class A and Class B product does not fit the national "flight to quality" narrative since many San Antonio firms are seeking value and efficiency for their real estate needs.
- Central Business District saw a 70 bps increase to 19.1%. However, downtown San Antonio experienced notable leasing activity in Q2, including a 44,000 square foot lease at 300 Convent with Amegy Bank.
- South Submarket vacancy rate rose 60 bps to 12.7%, mainly due to the newly constructed Watersedge Building II being delivered as vacant.
- Most San Antonio office users have already addressed footprint reductions and we expect downsizing activity to decrease significantly over the remainder of 2024. Nearly all major employers in San Antonio have implemented Return to Office mandates and are occupying their leased premises.

OVERALL VACANCY RATE



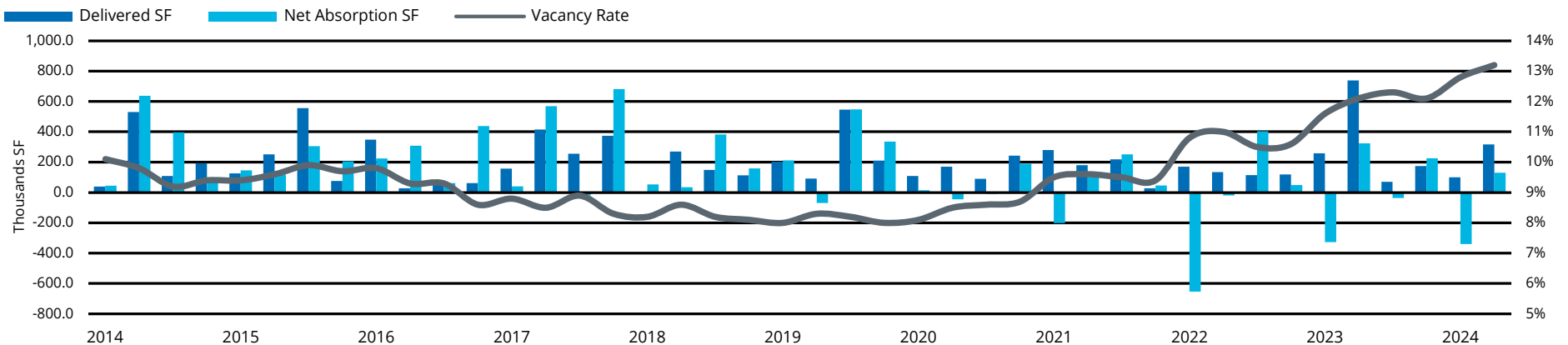
Source: CoStar, Transwestern

OVERALL VACANCY RATE BY CLASS



Source: CoStar, Transwestern

DELIVERY IMPACT ON KEY INDICATORS



Source: CoStar, Transwestern



UNDER CONSTRUCTION

Office Construction Continues to Slow

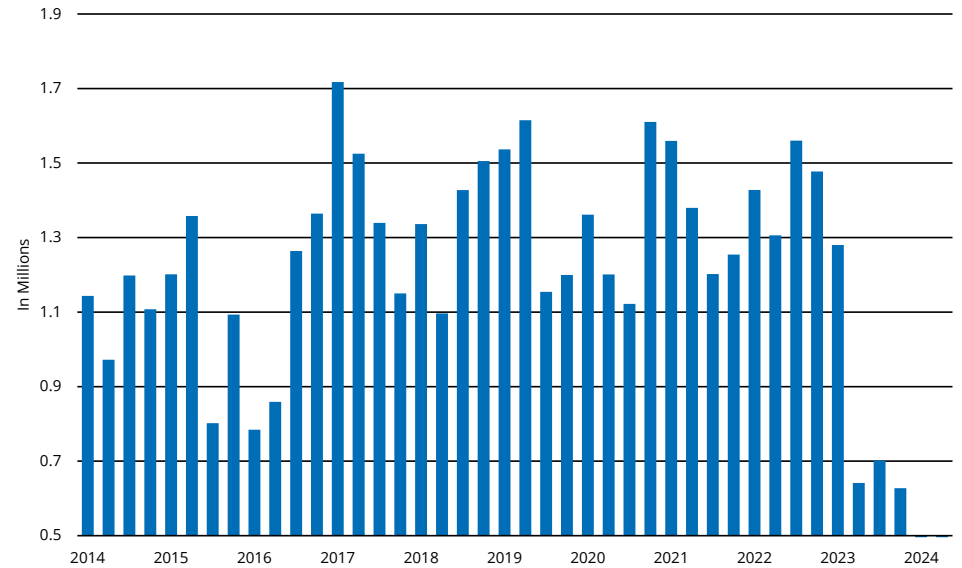
- Office construction in San Antonio is continuing to slow down, with approximately 130,000 square feet under construction, down 65% from Q1. This is due to the delivery of Watersedge Building II (100,000 sq ft) and Alterman’s new campus off Interstate 35 (200,000 sq ft).
- Currently under construction is Casey Development’s mixed-use development in Comal County, consisting of 130,000 square feet of office space called the River Mill.

SALES

Office Sales Activity Trends Up

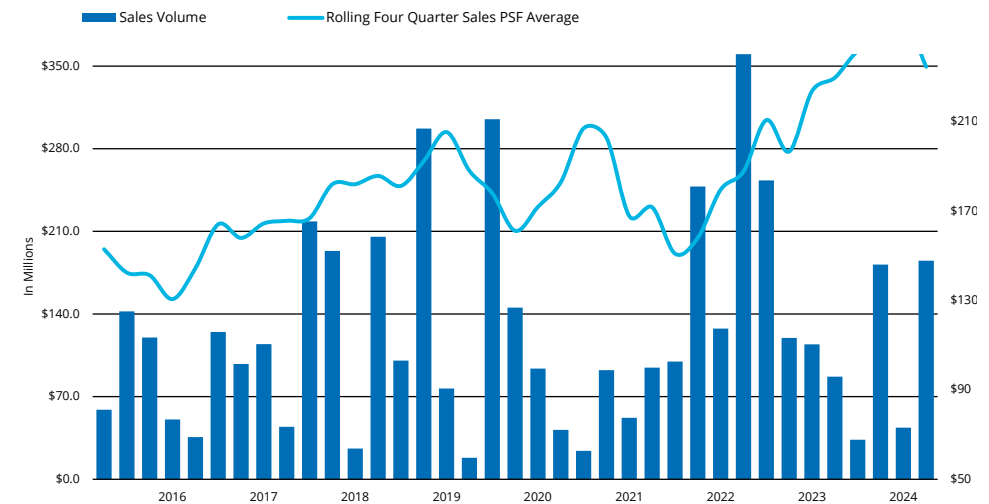
- San Antonio office sales activity trends up this quarter with approximately \$185 million in sales volume, up from last quarter’s \$50 million.
- Significant transactions, such as the purchase of 6200 Northwest Parkway by University Health Systems helped boost the market’s sales activity. University Health System will occupy all of 6200 Northwest Parkway upon United Healthcare’s lease expiration in the 4th quarter of 2024.
- Sunoco purchased NuStar’s headquarters off Interstate 10 from Truist Bank. However, this was not an arm’s length transaction. Sunoco and NuStar finalized their merger in May of this year, and NuStar sold their building to Truist Bank last year in a sale-leaseback. Truist Bank is the exclusive financial advisor for Sunoco.
- Charles Martens acquires Heritage Oaks Building 1 (2330 N Loop 1604) from East West Bank, who foreclosed on Griffin Partners in April this year.
- Dogwood Commercial purchased San Pedro Plaza (7330 San Pedro Ave) from Buchanan Street Partners which had been on and off the market since 2001.

UNDER CONSTRUCTION



Source: CoStar, Transwestern

SALES VOLUME



Source: Real Capital Analytics, Transwestern









MARKET INDICATORS

All Classes | Q2 2024


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	7,630,079	1,445,397	18.9%	1,457,375	19.1%	-	15,830	3,313	\$29.85
NORTH CENTRAL	14,107,266	1,725,709	12.2%	1,771,879	12.6%	-	19,443	269,790	\$27.81
NORTHWEST	18,951,378	1,627,747	8.6%	1,784,400	9.4%	-	79,958	80,955	\$29.13
NORTHEAST	4,644,561	771,871	16.6%	867,571	18.7%	-	(11,061)	(205,531)	\$27.31
FAR NORTH CENTRAL	3,404,054	475,666	14.0%	554,115	16.3%	-	30,562	64,657	\$35.19
FAR NORTHWEST	2,270,686	330,607	14.6%	330,607	14.6%	-	33,307	(31,932)	\$37.82
FAR WEST	6,007,433	722,522	12.0%	732,513	12.2%	-	(18,337)	(100,906)	\$31.05
SOUTH	2,277,330	289,874	12.7%	289,874	12.7%	-	(16,933)	(15,285)	\$29.26
OUTLYING SUBMARKETS	2,151,808	106,833	5.0%	165,407	7.7%	130,000	(2,289)	40,324	\$31.60
TOTAL	61,444,595	7,496,226	13.2%	7,953,741	13.7%	130,000	130,480	105,385	\$29.81



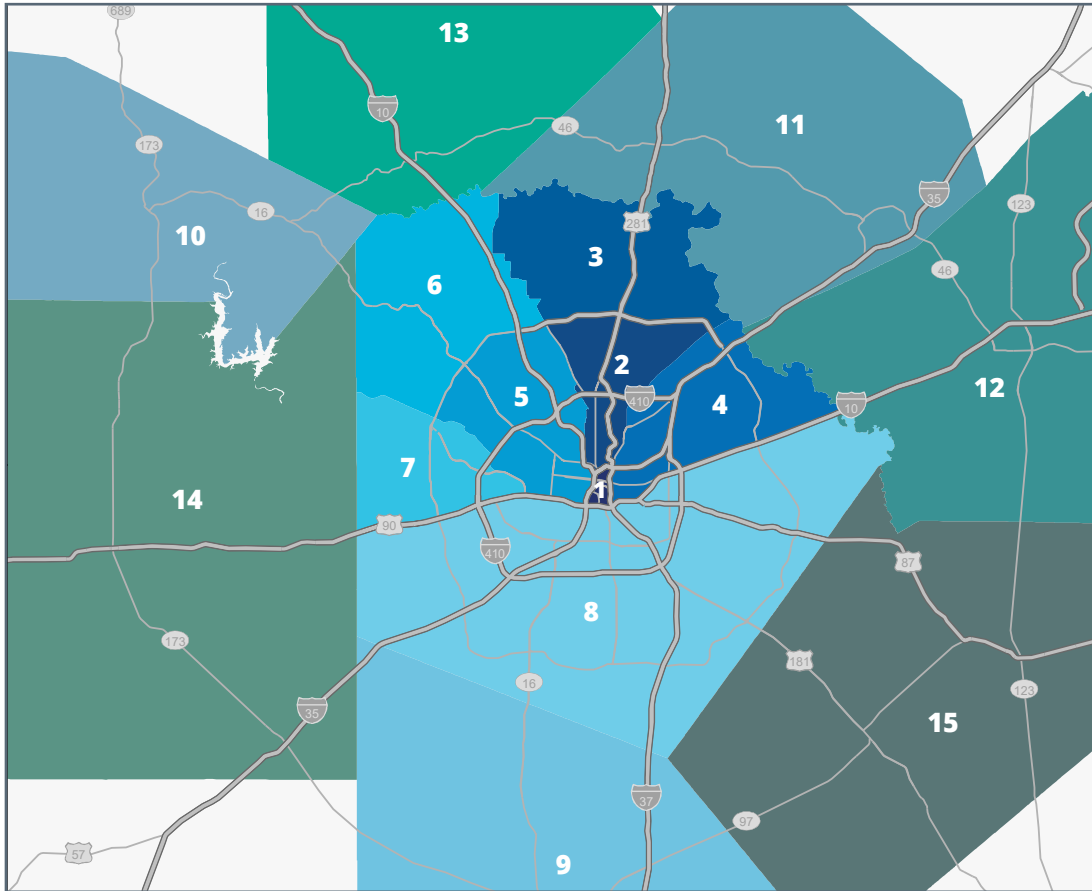
NOTABLE LEASES

TENANT	PROPERTY	SUBMARKET	TYPE	SF LEASED
VICTORY CAPITAL MANAGEMENT	WestRidge Two at La Cantera	Far Northwest	New	64,506
AMEGY BANK 	300 Convent	CBD	New	44,207
HULU 	Fountainhead Business Park	Northwest	Renewal/Downsize	30,016
BOARD OF REGENT UNIVERSITY OF TEXAS SYSTEM 	Fountainhead Business Park	Northwest	New	26,370
LENNAR HOMES	One International Centre	North Central	Renewal/Expansion	25,877
SPECTRUM 	Northpark Corporate Center	North Central	Renewal	19,738
COX RADIO 	Ashford Oaks	Northwest	Renewal/Downsize	18,594
SANTIKOS ENTERPRISES 	Lockhill Crossing	Northwest	Renewal	14,207
WEBSTER UNIVERSITY	One Castle Hills	North Central	Expansion	13,646
HOBLIT, DARLING, RALLS, HERANDEZ, & HUDLOW	Inwood Village	North Central	New	10,861

NOTABLE SALES

PROPERTY	SUBMARKET	BUILDING SF	YR BUILT	STORIES	CLASS	BUYER	SELLER
SAN PEDRO PLAZA	North Central	163,852	1985	9	A	Dogwood Commercial	Buchanan Street Partners
NUSTAR ENERGY HEADQUARTERS	Northwest	321,453	2011	5	A	Sunoco	Truist Bank
HERITAGE OAKS BLDG 1	North Central	82,428	2007	3	A	Charles Martens	East West Bank
3510 N LOOP 1604 E	North Central	19,174	2018	2	B	Maldonado Nursery	Alterman
SOUTHTOWN WORKS	CBD	40,853	1960/2018	1	B	H-E-B	Hixon Properties
6200 NORTHWEST PKY 	Northwest	142,500	1959	2	B	University Health Systems	Sentinel Net Lease

 = Transwestern transaction



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.

FOR MORE INFORMATION

[Guy Liljenwall](mailto:Guy.Liljenwall@transwestern.com)

Research Analyst
Guy.Liljenwall@transwestern.com
 210 202 2677