INVESTMENT FORECAST

IPA INSTITUTIONAL PROPERTY ADVISORS

Office

San Antonio

2022

Prevalence of Back-Office Operations Aids Class B/C Vacancy and Keeps Buyers Active in North Submarkets

Variance in office segments' rebound timelines emerges. San Antonio has long been a metro of choice for companies wanting to house back-office operations like administration and customer service personnel. The market is attractive to these types of office users due to lower rents than nearby Austin and coastal markets, while also offering a large resident pool to select workers from. Most often, firms prefer low-to-mid-tier spaces for back-office functions as costs are the main consideration. This has translated to a level of stability in the Class B/C segment during the pandemic, as well as a comparatively faster rebound relative to the Class A sector. Late last year, availability for Class B/C offices was just over 100 basis points above the 2019 log and average asking rents grew on an annual basis. Conversely, the Class A vacancy rate was more than 500 basis points higher than the pre-pandemic recording, leading to an ease in asking rents last year. On a positive note, less than 150,000 square feet of upper-tier space is expected to finalize in 2022. As such, the recovery should not be further hampered by supply-side pressure.

Mid-tier assets in local office hubs dominate deal flow. Investors ramped up activity in 2021 after many paused acquisitions in the months following the onset of the health crisis. Improving buyer sentiment will likely continue to drive trading velocity in 2022 as fundamentals rebound and more firms bring workers into offices, barring setbacks from new variants of COVID-19. Three adjacent submarkets historically spearhead deal flow in San Antonio as buyers favor lower vacancy locales saturated with major employers' headquarters like USAA and Valero Energy Corporation. These trends persisted last year when the Northwest, Northeast and North Central submarkets were responsible for about half of the trades completed, with Class B properties accounting for a large share of deals. Mid-tier assets in the aforementioned areas typically change hands with prices in the $1 million to $10 million range and cap rates in the 6 percent to 7 percent band.

2022 Market Forecast

Employment up 3.4% — Traditional office-using sectors account for just short of one-third of the 37,000 jobs added in San Antonio this year.

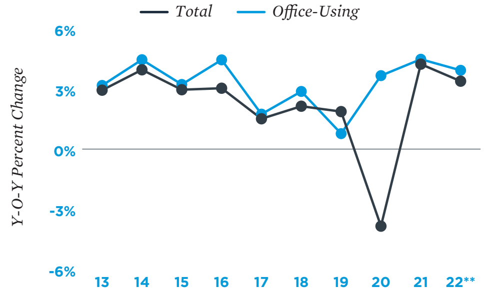
Construction 750,000 sq. ft. — Completions in 2022 fall to the lowest level since 2013 amid labor shortages and high material costs. More than 80 percent of the for-lease space set to deliver has a tenant commitment.

Vacancy down 40 bps — Net absorption exceeds deliveries by almost 200,000 square feet, pushing down on availability. Vacancy is expected to dip to 13.6 percent, roughly 200 basis points above the 2019 posting.

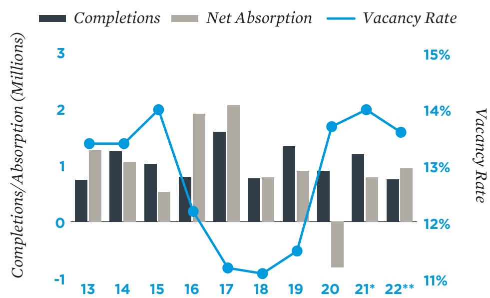
Rent up 2.1% — Annual rent growth practically doubles last year's gain as the average asking rate climbs to $21.75 per square foot. The previous peak set in 2019 will be surpassed by 1.5 percent.

Investment — Suburban offices in Comal County warrant buyer attention as the Interstate 35 corridor between San Antonio and Austin expands. Vacancy here fell nearly 1,000 basis points last year.

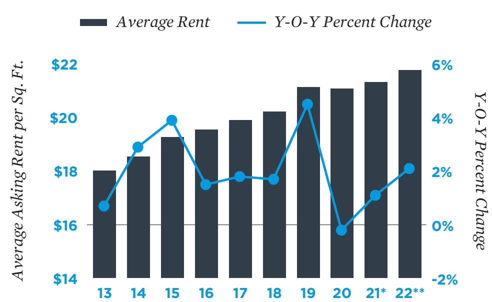
Employment Trends



Supply and Demand



Rent Trends



** Estimate; ** Forecast*

Sources: CoStar Group, Inc.; Real Capital Analytics; RealPage, Inc.

Al Pontius

Senior Vice President

Director IPA Office

Tel: (415) 963-3000 | apontius@ipausa.com

Metro-level employment, vacancy and effective rents are year-end figures and are based on the most up-to-date information available as of December 2021. Effective rent is equal to asking rent less concessions. Average prices and cap rates are a function of the age, class and geographic area of the properties trading and therefore may not be representative of the market as a whole. Sales data includes transactions valued at $1,000,000 and greater unless otherwise noted. Forecasts for employment and apartment data are made during the fourth quarter and represent estimates of future performance. No representation, warranty or guarantee, express or implied may be made as to the accuracy or reliability of the information contained herein. This is not intended to be a forecast of future events and this is not a guaranty regarding a future event. This is not intended to provide specific investment advice and should not be considered as investment advice.

© Marcus & Millichap 2022 | www.marcusmillichap.com