

MARKET REPORT

Office
San Antonio Metro Area

IPA
INSTITUTIONAL
PROPERTY
ADVISORS

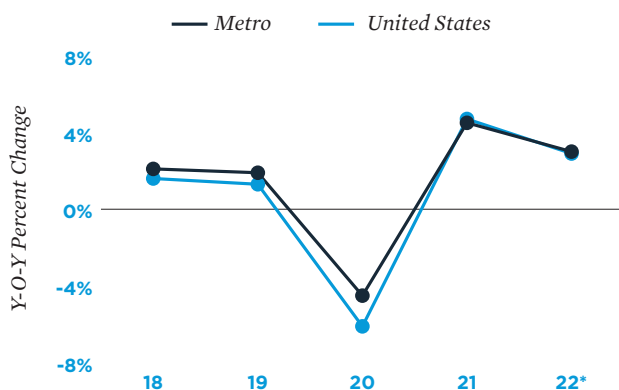
2Q/22

Northwest San Antonio Retains Reputation as Metro Focal Point for Office Sector

Talent pool and major employers aid Northwest leasing. A single submarket was responsible for one-third of the metro's net absorption over the past year ended in March, as Northwest San Antonio's occupied stock grew by 315,000 square feet. Home to several of the market's largest employers, the area boasts an environment plentiful with skilled professionals and collaborative opportunities. This submarket houses 10 of the 30 biggest firms by number of local personnel, headlined by USAA, UT Health Science, University Health System, Southwest Research Institute and Valero Energy. These organizations employ a combined 40,000 local workers, serving as a foundation for office demand. During the past two quarters, a collective of organizations from a variety of industries inked new leases here, including the Federal Government, LJA Engineering, the NRP Group and Catamount Constructors.

Tighest vacancy in Texas supports rise in construction. Entering April, availability in San Antonio was nearly 300 basis points below Austin and more than 750 basis points under Houston and Dallas-Fort Worth. These conditions justify an uptick in development. Builders are responding with the largest completion slate in the past decade, including 900,000 square feet in the Northwest submarket. This sizable total here is propped up by the North Rim Corporate Campus, a mixed-use project featuring 550,000 square feet of office space. The impact on local vacancy should be minimal, however, as WellMed Medical Management is secured as an anchor tenant.

Employment Trends



* Forecast

Sources: BLS; CoStar Group, Inc.

Office 2022 Outlook



**33,000
JOBS**
will be created

EMPLOYMENT:

Since the onset of the pandemic two of the fastest rising job sectors on a net basis are correlated with office usage. The professional and business services and financial activities segments will continue to expand, assisting in a 3.0 percent overall employment climb.



**1,500,000
SQ. FT.**
will be completed

CONSTRUCTION:

San Antonio is on pace to record its largest annual delivery volume in 10 years, doubling 2021's supply addition. The impact on fundamentals should be mitigated by solid pre-leasing, however, with over 65 percent of space accounted for as of May.



**20
BASIS POINT**
decrease in vacancy

VACANCY:

The elevation of incoming supply is met with strong demand, allowing the completion and net absorption figures to be in alignment this year. A mix of new floor plans and existing space is taken off the market, dropping San Antonio's vacancy rate to 13.6 percent.

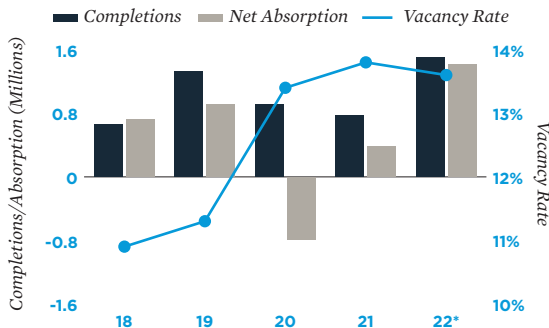


**1.8%
INCREASE**
in asking rent

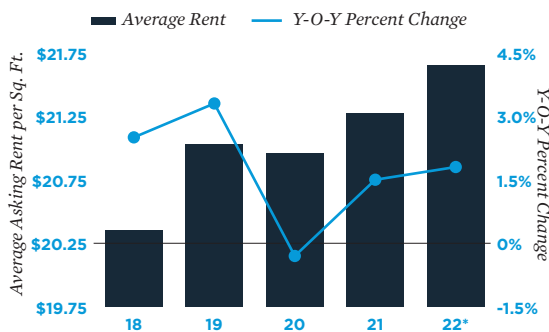
RENT:

Rent growth has yet to return to pre-pandemic norms, when the average gain from 2015-2019 was 2.7 percent, but this year marks the second straight enhancement. By year-end, the average asking rent will reach \$21.65 per square foot.

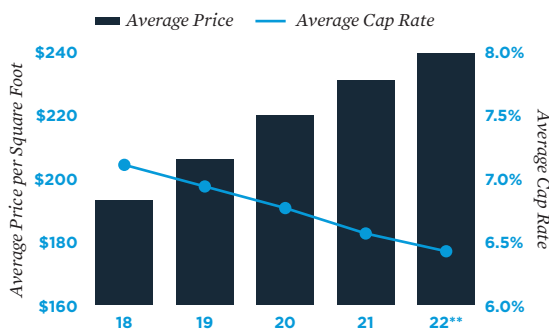
Supply and Demand



Rent Trends



Sales Trends



* Forecast ** Through 1Q

Sources: CoStar Group, Inc.; Real Capital Analytics

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Price: \$250

1Q 2022 - 12-Month Period



CONSTRUCTION

714,000 sq. ft. completed

- North Central and Northwest San Antonio combined for two-thirds of deliveries over the past year, and have a similar share of space still underway.
- The Jefferson Bank tower, with ground floor retail and 280,000 square feet of office space, is scheduled to open in the second half of 2022, and will be the largest completion in Northeast San Antonio in more than a decade.



VACANCY

50 basis point decrease in vacancy Y-O-Y

- Vacancy fell year-over-year in March in five of the six submarkets with local inventories greater than 1 million square feet. The steepest declines occurred in Comal County, South and Northeast San Antonio.
- San Antonio's CBD was the only major submarket where availability rose. The rate jumped 570 basis points as vacant stock grew nearly 50 percent.



RENT

0.7% increase in the average asking rent Y-O-Y

- Northwest San Antonio's 2.6 percent rise buoyed market performance, as it contains more than 40 percent of total metro inventory.
- In 2019, San Antonio had an average rent roughly \$5.80 per square foot below Austin. Now in March 2022, that gap stretched to almost \$8.00 per square foot, potentially encouraging cost-cutting firms to migrate south.

Investment Highlights

- Despite turbulence since the onset of the pandemic and the coinciding shift to remote work, investors are confident in San Antonio's long-term office outlook. Deal flow across the past four quarters ended in March beat the 2019 count by almost 25 percent. This contributed to the average sale price rising 8 percent to \$239 per square foot during the yearlong period, while the mean cap rate fell 30 basis points to 6.4 percent.
- Local buyers have been the driving force behind buy-side activity in the traditional office segment. Texas-based capital sources accounted for approximately three-fourths of acquisitions over the past year ended in March, with these investors particularly focused on the Northwest, North Central and Northeast submarkets. Here, Class B offices in the 10,000-square-foot to 30,000-square-foot range trade most frequently.
- Medical office transaction velocity more than doubled during the 12-month span ended in March relative to the prior period, with the sharpest increases in Northwest and North Central San Antonio. Assets in these areas often command sale prices greater than \$300 per square foot, with cap rates in the 5 to 6 percent zone. Lower entry costs and robust population growth in New Braunfels and Seguin also captivate buyers.

The information contained in this report was obtained from sources deemed to be reliable. Every effort was made to obtain accurate and complete information; however, no representation, warranty or guarantee, express or implied, may be made as to the accuracy or reliability of the information contained herein. Metro-level employment growth is calculated based on the last month of the quarter/year. Sales data includes transactions sold for \$1 million or greater unless otherwise noted. 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. Sources: Marcus & Millichap Research Services; Bureau of Labor Statistics; CoStar Group, Inc.; Real Capital Analytics

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