

MARKET REPORT

INDUSTRIAL

San Antonio Metro Area

IPA

INSTITUTIONAL
PROPERTY
ADVISORS

2H/19

Expanding Tenant Base Triggers Speculative Delivery; Asset Trades Rise As Out-Of-State Buyer Demand Grows

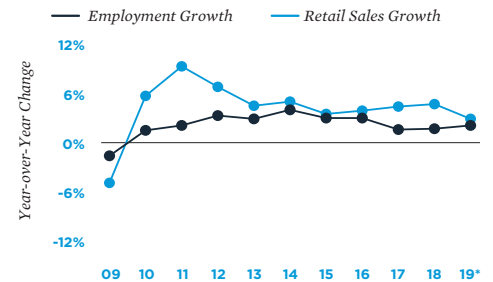
Trade continues to play an increasingly large role in the market. Demand for industrial space continues to be driven by several diverse factors. The NAFTA corridor as well as the Gulf of Mexico ports in Corpus Christi and Houston support the market's expanding logistics and distribution sector. The U.S. military presence also provides the economy with defense contractors who require smaller specialized manufacturing facilities. To accommodate these and other needs, such as retailers' necessity for space to deliver digital purchases, construction will reach the highest level of the current cycle, topping 5 million square feet in 2019. Distribution facilities account for the majority of the new inventory, including a 1.7 million-square-foot distribution center for TJ Maxx. Developer confidence in the market is also spurring a rise in speculative projects. As these buildings enter the market, the time to lease this volume of space will temporarily push vacancy higher and dampen rent growth in the quarters ahead.

Transactions ramp up as warehouses continue to take center stage for investors. The potential for lower entry costs and higher returns than are available in many larger markets is keeping buyers interested in San Antonio assets. Although Texas buyers still dominate sales activity, more investors are coming from out of state, particularly California, New York and Pennsylvania. The increase assisted in pushing trading volume up 60 percent in the past 12 months ended in September compared with the previous trailing period. Over this time, properties changed hands at an average of \$106 per square foot, up 25 percent year over year, with cap rates typically in the mid- to high-6 percent range. Buyers most often targeted assets with convenient interstate access north of Highway 90. Older Class B/C warehouses were of interest to a number of local investors. Prices for these buildings varied widely depending on quality of structure, location and lease term but typically traded slightly below the metro average. Newer distribution facilities with more than 100,000 square feet are garnering additional interest among out-of-state investors, with transactions nearly doubling over the past four quarters.

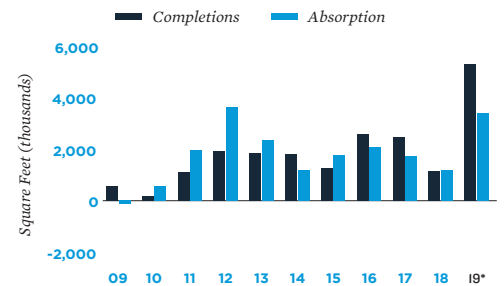
2019 Market Forecast

- Employment**
up 2.1%
Employment growth expands from 17,500 jobs in 2018 to 22,200 positions this year. Hiring remains above the national average of 1.3 percent.
- Construction**
5.3 million sq. ft.
Deliveries rise to the highest level of the cycle in 2019, and to more than four times last year's total as 5.3 million square feet is finalized. Roughly 1 million square feet of this year's total is built on speculation.
- Vacancy**
up 150 bps
An increase in speculative deliveries will contribute to supply overwhelming demand as vacancy jumps at year's end to 7.6 percent, the highest rate since 2012. Last year, the rate dipped 10 basis points.
- Rent**
1.7%
Higher vacancy will hinder larger rent gains in 2019. The average asking rent moves to \$5.95 per square foot, slightly above last year's 1.6 percent advance.
- Investment**
Older warehouses near the metro core will continue to be sought after by distribution companies seeking facilities for last-mile deliveries.

Employment vs. Retail Sales Trends



Industrial Completions



Asking Rent and Vacancy Trends



* Forecast

Sources: CoStar Group, Inc.; Moody Analytics; Real Capital Analytics; www.sanantonio.gov

For information on national industrial trends, contact:

Alan L. Pontius Senior Vice President | IPA National Office and Industrial Properties
Tel: (415) 963-3070 | apontius@ipausa.com

John Chang Senior Vice President | Research Services
Tel: (602) 707-9700 | jchang@ipausa.com

Metro-level employment, vacancy and asking rents are year-end figures and are based on the most up-to-date information available as of September 2019. 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 industrial data are made during the third 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.