

# INVESTMENT FORECAST

OFFICE

San Antonio Metro Area

IPA

INSTITUTIONAL  
PROPERTY  
ADVISORS

2020

## Influx of New Supply Weighs on Market Fundamentals; Investor Sentiment Remains High as Rent Climbs

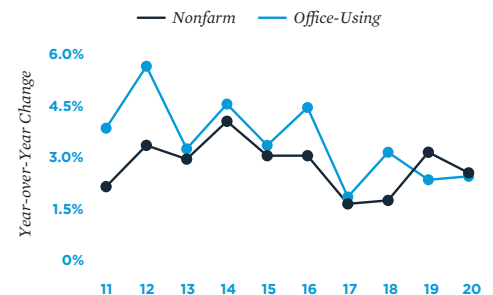
**Sizable speculative construction drives rising vacancy.** Development will surpass 1 million square feet of new space for the second consecutive year. This jump in supply includes roughly 425,000 square feet of speculative space, which will test market fundamentals and ultimately lift vacancy again in 2020. One of the largest speculative developments is The Soto, a 140,000-square-foot project located in the CBD. Both developers and tenants have shown renewed interest in the core recently, highlighted by the completion of the Frost Tower, the first high-rise office space delivered downtown in over 30 years. Additionally, Credit Human will be moving into a 210,000-square-foot space nearby in the Pearl District. Although the metrowide vacancy rate will inch up this year, it will remain more than 100 basis points below the national level. Tight conditions are powered by companies choosing San Antonio to house back-office operations and call centers. These tenants are drawn by the affordability of space relative to other Texas markets and the sizable labor pool. Competition among these firms will sustain the upward trajectory of the average rent in 2020.

**Buyers find attractive yields in northern suburbs.** Rent gains above the national average and vacancy well below the national rate will keep investor sentiment high in 2020. Stabilized assets are top of mind for investors, and aggressive bidding is powering noteworthy appreciation. Out-of-state buyers are often targeting Class A and B complexes in the northwest Interstate 10 corridor or far north suburbs such as Stone Oak. Here, first-year returns for high-quality office spaces have been in the mid-6 to mid-7 percent area. Medical offices are also appealing to a wide-range of private investors. They are homing in on northern suburbs near the state Highway 1604 loop, where a handful of properties priced under \$10 million with cap rates near 8 percent have traded recently.

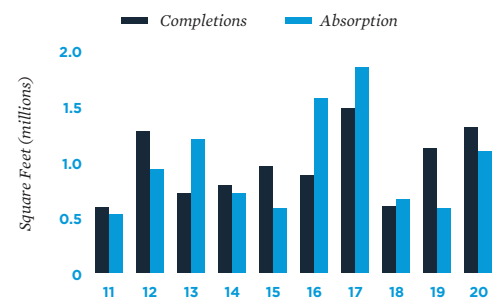
## 2020 Market Forecast

- Employment** up 2.5%  
Employment gains will fall shy of the 3.1 percent increase logged in 2019 yet remain well above the national rate.
- Construction** 1.3 million sq. ft.  
For the third time in just four years deliveries will surpass 1 million square feet, as the 2020 total exceeds last year's stock additions by nearly 200,000 square feet.
- Vacancy** up 10 bps  
Vacancy will move up to 11.7 percent this year as speculative space takes time to be absorbed. Last year, the vacancy rate rose 60 basis points.
- Rent** up 2.6%  
The pace of growth ticks up from the 2.5 percent average annual gain logged over the trailing five years. The average asking rent will be \$22.82 by the end of 2020.
- Investment**  
Value-add opportunities in suburbs along the I-10 corridor will entice private investors. Class C assets here often trade at a discount to lower-tier offices in other major Texas metros.

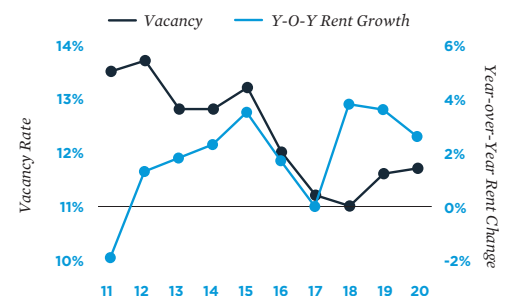
### Employment Trends



### Office Supply and Demand



### Vacancy and Rent Trends



\* Forecast

Sources: CoStar Group, Inc.; Real Capital Analytics

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Metro-level employment, vacancy and asking rents are year-end figures and are based on the most up-to-date information available as of December 2020. Asking rent is based on the full-service marketed rental rate. 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 office data are made during the fourth quarter and represent estimates of future performance. No representation, warranty or guaranty, 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.