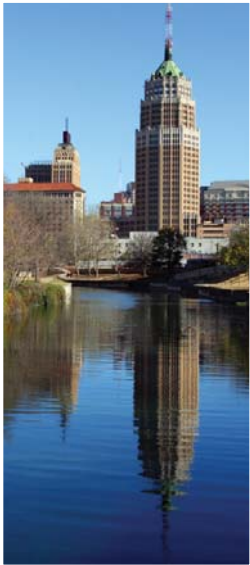




Better information, better decisions.

Industrial Building Market Update San Antonio Metropolitan Area Third Quarter 2013



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OVERVIEW

The San Antonio industrial market continued its solid performance in the third quarter. According to the survey of more than 32 million square feet of area industrial space, leasing activity generated positive net absorption for a tenth consecutive quarter. The local industrial market continues to benefit from San Antonio's economy which has been further strengthened by a growing business base related to oil production in the nearby Eagle Ford Shale.

ABSORPTION

New leases and expansions in the third quarter generated 316,485 square feet of positive net absorption led by gains in the Northeast sector totaling 181,651 square feet. Some of the larger contributors filling space included existing company expansions. Forward Air, for example, vacated 60,000 square feet at Cornerstone Industrial Park in order to occupy 89,600 square feet at Port San Antonio for a net gain of 29,600 square feet of leased space.

In all, area industrial properties have experienced more than 1.1 million square feet of positive net absorption year-to-date. If current leasing velocity continues through next quarter, the year-end absorption figure may surpass the 1.4 and 1.5 million square feet recorded in peak performance years of 2006 and 2007.

VACANCY

With little new speculative space added to offset the strong positive absorption, the citywide vacancy rate has tightened to 7.3% which is down compared to 8.1% last quarter and 10.6% recorded in the same quarter one year ago. More than two-thirds of the buildings surveyed currently stand at 100% occupancy; and, only 3% of the buildings offer 20,000 square feet or more. Perhaps even more telling is the fact that only one existing building in the tracked set could immediately accommodate a tenant looking to lease 100,000 square feet and only a handful offer upcoming availabilities of that size.

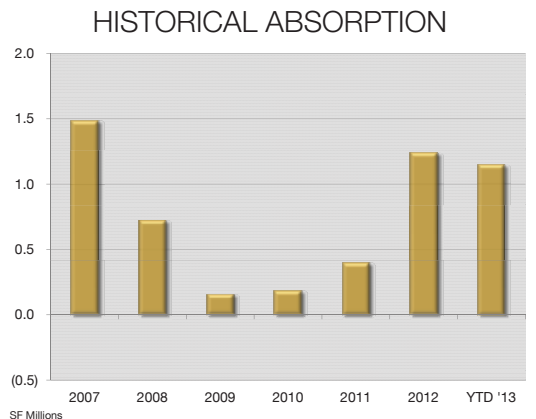
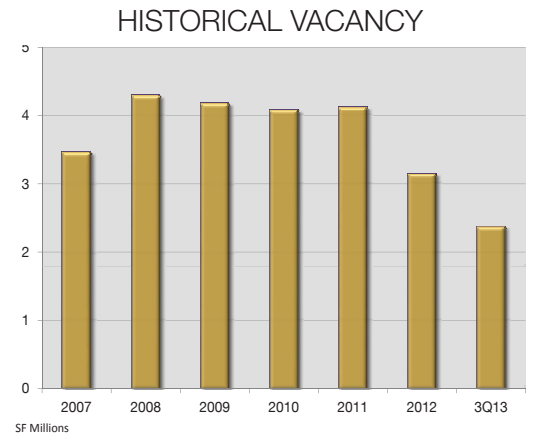
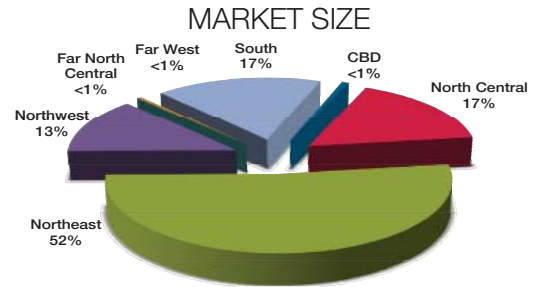
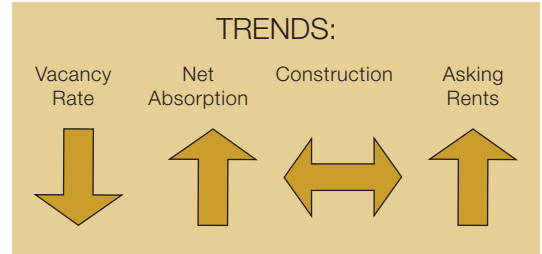
DEVELOPMENT

A lack of available space could derail the area's ability to attract new companies or retain expanding tenants. The market is positioned to grow but speculative development remains limited. Building 3 (66,170 sf) at Thousand Oaks Business Park came online this quarter but it is the only speculative project delivered to the market so far this year and the only one expected through year-end. However, with vacancy at an all-time low and demand for industrial space remaining strong, developers are eager to kick off new development but, so far, have been reluctant to break ground without a pre-leasing commitment.

Meanwhile, several significant build-to-suit projects have recently been delivered to the market including the Amazon.com Fulfillment Center (1.2 msf) in Verde Enterprise Business Park, located in the Northeast satellite community of Schertz, as well as Glazer's Distribution (518,000 sf) situated in the Southwest Business & Technology Park along Highway 151 at Callaghan Road. The Maruchan noodle factory (500,000 sf), located on the city's Southwest side, is still under construction and expected to reach completion in the first quarter of next year.

RENTAL RATES

Diminishing availabilities have supported increased rental rates and landlords are enjoying greater control in lease negotiations. The citywide average cost of renting industrial space rose \$0.03 over the quarter to reach \$7.54 per square foot on a triple net basis – up \$0.34 or 4.7% compared to the same quarter last year, according to data provided by Xceligent, a nationwide provider of commercial real estate property information, and certified by a local Advisory Board of industrial brokers including REOC San Antonio's John Greg Turcotte.



CITYWIDE

	3Q 2013	3Q 2012
All Property Types		
Inventory	32,347,757	31,643,100
Available	2,369,967	3,364,505
%Vacant	7.3%	10.6%
Average Rent	\$7.54	\$5.63
3Q Absorption	316,485	112,605
YTD Absorption	1,146,329	948,142
Distribution / Warehouse		
Inventory	24,384,226	24,404,845
Available	1,334,425	2,188,680
%Vacant	5.5%	9.0%
Average Rent	\$5.20	\$4.48
3Q Absorption	282,071	86,202
YTD Absorption	841,997	829,726
Service Center/Flex Combined		
Inventory	7,963,531	7,238,255
Available	1,035,262	1,175,825
%Vacant	13.0%	16.2%
Average Rent	\$9.14	\$9.52
3Q Absorption	34,414	26,403
YTD Absorption	304,332	118,416

CENTRAL BUSINESS DISTRICT

	3Q 2013	3Q 2012
All Property Types		
Inventory	233,395	233,395
Available	28,548	69,934
%Vacant	12.2%	30.0%
Average Rent	\$3.60	\$3.15
3Q Absorption	0	0
YTD Absorption	11,912	(14,274)
Distribution / Warehouse		
Inventory	233,395	233,395
Available	28,548	69,934
%Vacant	12.2%	30.0%
Average Rent	\$3.60	\$3.15
3Q Absorption	0	0
YTD Absorption	11,912	(14,274)
Service Center/Flex Combined		
Inventory	0	0
Available	0	0
%Vacant	0	0
Average Rent	0	0
3Q Absorption	0	0
YTD Absorption	0	0

NON-CBD

	3Q 2013	3Q 2012
All Property Types		
Inventory	32,114,362	31,409,705
Available	2,341,139	3,294,571
%Vacant	7.3%	10.5%
Average Rent	\$7.57	\$5.65
3Q Absorption	316,485	112,605
YTD Absorption	1,134,417	962,416
Distribution / Warehouse		
Inventory	24,150,831	24,171,450
Available	1,305,877	2,118,746
%Vacant	5.4%	8.8%
Average Rent	\$5.23	\$4.49
3Q Absorption	282,071	86,202
YTD Absorption	830,085	844,000
Service Center/Flex Combined		
Inventory	7,963,531	7,238,255
Available	1,035,262	1,175,825
%Vacant	13.0%	16.2%
Average Rent	\$9.14	\$9.52
3Q Absorption	34,414	26,403
YTD Absorption	304,332	118,416

Analysis by REOC San Antonio based on 2013 data provided by Xceligent and approved by the San Antonio Industrial Advisory Board. 2012 data provided by REOC San Antonio Statistics based on all multi-tenant industrial facilities 20,000 square foot and larger excluding single-tenant, owner-occupied and government buildings. 2013 Average rental rates reflect non-weighted strict average asking rental rates quoted on a triple net annual basis; 2012 rents reflect weighted average.

WAREHOUSE/DISTRIBUTION

The city's inventory of more than 24 million square feet of Distribution Warehouse space closed the third quarter with a citywide vacancy rate of 5.5% - down from 6.4% last quarter and 9.0% in the same quarter of last year. Warehouse properties accounted for 282,071 square feet of the total net absorption experienced this quarter which raised the year-to-date total to 841,997 square feet. The average quoted rental rate for Distribution Warehouse space currently stands at \$5.20 per square foot.

SERVICE CENTER/FLEX

The Service Center/Flex market closed the third quarter with a citywide vacancy rate of 13.0% - down from 13.4% last quarter and 16.2% recorded in the same quarter last year. Area Service Center/Flex properties experienced 34,414 square feet of positive net absorption in the third quarter which raised the year-to-date total to 304,332 square feet. Improved vacancy, however, has not yet translated into higher rental rates. The average quoted triple net rental rate for Service Center/Flex space currently stands at \$9.14 per square foot annually - up only \$0.01 compared to last quarter and roughly 4% lower compared to last year at this time.

SUMMARY

Looking ahead, existing industrial space is expected to remain in tight supply but the anticipation of new projects will create additional options for an expanded tenant base. Meanwhile, tenants may be challenged with higher lease costs as the market continues its steady march forward.

LEASE TRANSACTIONS

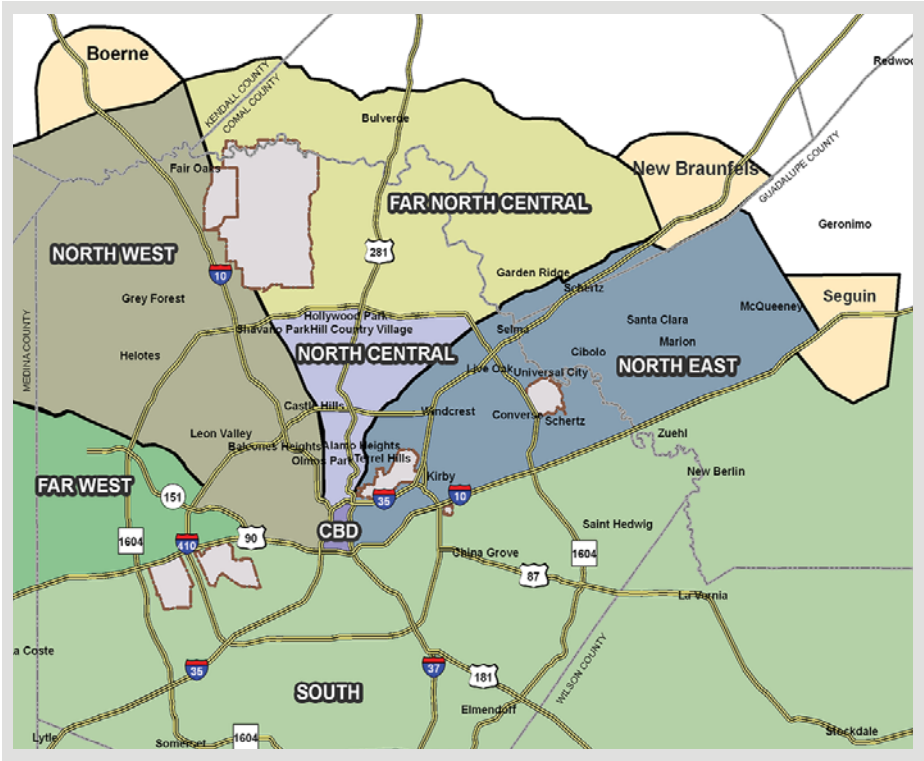
Tenant	Type	Building	Size	Submarket
Harland Clarke (renewal)	DW	5003 Stout Drive	166,000	South
Chalk Mountain *	DW	19500 Bulverde Road	120,041	Far North
Forward Air	DW	Port San Antonio Air Cargo	89,600	South
MRC	DW	City Park East DC, Bldg D	64,050	North East
HD Supply (expansion)	DW	Tri-County DC, Bldg 3	55,025	North East
Chalk Mountain *	DW	Alamo Downs Distribution	50,372	North West
Hollingsworth (expansion)	DW	Tri-County DC, Bldg 1	48,000	North East
Stag-Parkway, Inc.	DW	City Park East DC, Bldg E	46,200	North East

* Conversion from short-term

SALE TRANSACTIONS

Building	Type	Buyer	Size	Submarket
Park Central Corporate Center	SC	CA Real Property Inc.	98,560	North Central
750 Merida Street	DW	750 Merida LLC	82,985	North West
3463 E. Commerce Street	DW	3463 E Commerce LLC	47,040	CBD

SUBMARKET MAP



DEFINITIONS

Absorption (Net)
The change in occupied space in a given time period

Average Asking Rental Rate
Rental rate as quoted from each center's owner/leasing/management company. Industrial rental rates quoted on an annual triple net basis.

Direct Vacancy
Space currently available for lease directly with the landlord or building owner; excludes sublease space.

SF/PSF
Square foot/per square foot, used as a unit of measurement

Sublease
Arrangement in which a tenant leases rental property to another and the tenant becomes the landlord to the subtenant.

Sublease Space
Total square footage being marketed for lease by a tenant; sublease space is not considered in the overall occupancy or absorption numbers – only direct leases are included.

Sublease Vacancy
Space currently available in the market for sublease through the tenant to a third party for the remainder of the tenant's lease term

PROPERTY TYPES

Distribution Warehouse – bulk warehouse facilities usually larger than 50,000 sf consisting of less than 30% office finish and featuring higher clear heights and dock loading

Service Center – office showroom or light manufacturing space consisting of 30% or more office finish/air-conditioned space and featuring optional grade/dock loading, attractive landscaping, generous parking and generally 12' – 18' clear heights.

Flex – new generation of service center product designed with flexibility to serve as either office or warehouse space based on use of windows versus overhead doors. The majority of Flex space in the San Antonio area has been built since the late 1990's and is finished as 100% office

CRITERIA

This study includes industrial buildings in all major industrial parks and developments, as well as other San Antonio area industrial buildings 20,000 square feet or larger. These figures do not include owner-occupied buildings.

INDUSTRIAL SERVICES

REOC San Antonio is actively involved in all aspects of industrial real estate brokerage, landlord representation, site location, tenant and buyer representation and consulting. For additional information, please feel free to contact John Greg Turcotte, CCIM, or Kim Gatley, Director of Research.

