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Office Building Market Update San Antonio Metropolitan Area Third Quarter 2013



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Conditions in the San Antonio office market continue to improve, but activity in the third quarter was rather slow. According to the survey of more than 28 million square feet of area office properties, demand for office space generated only 13,874 square feet of positive net absorption for the period spanning July through September.

The slowed demand for office space reflects recent job losses recorded in the latest employment figures. According to the August employment report released by Workforce Solutions, total nonfarm employment in the San Antonio metropolitan area grew by 7,800 jobs since August 2012 for a modest annual increase of 0.9% but compared to July of this year, the number decreased by 500 jobs. Although the Leisure and Hospitality sector posted the largest decline of 1,500 jobs due to seasonal changes, the Financial Services sector, which is more closely tied to the office market, saw the significant setback of 700 jobs lost which compounded the total number of jobs lost over the year to 1,400. The Professional and Business Services sector, considered perhaps the main driver of demand for office space, recorded a healthy gain of 1,800 jobs over the previous month which may bode well for the office market going forward but the sector remains 300 jobs in the red compared to a year ago; this, at the very least, has softened demand for office space.

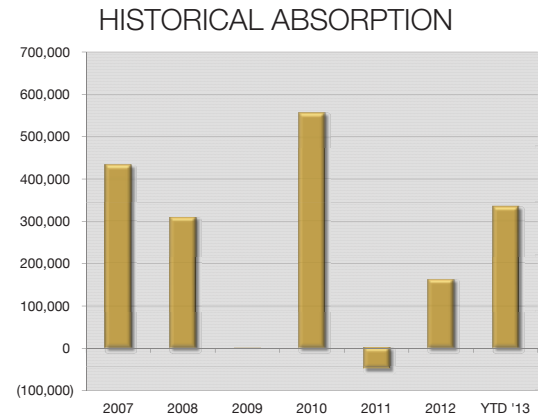
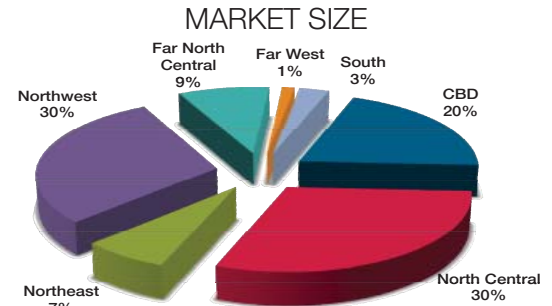
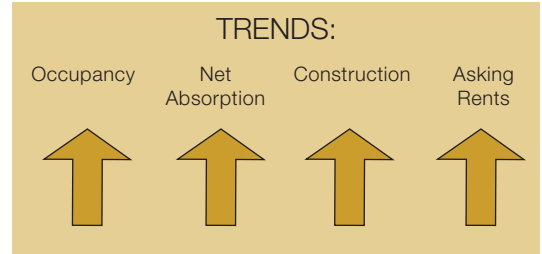
Topping third quarter leasing news, Ibox Global inked a lease to fill 87,000 square feet of the former Scooter Store facility in New Braunfels, which is not included in the San Antonio tracked set but speaks to demand and activity in the greater San Antonio area. Off-setting positive gains, ANICO consolidated out of 77,603 square feet at 4500 Lockhill Selma. Although weak, third quarter activity pushed the year-to-date total net absorption to 334,080 square feet – indicating that demand for office space has been healthy this year compared to the past few years.

Answering demand, new construction delivered Shavano Center IV (43,500 sf) – a three-story office building located along Loop 1604 at Paesano's Way in the Far North Central sector. The building came online with some pre-leasing in place including Armadillo Homes and Capital Title but the addition of new vacant space contributed to the slight uptick in the citywide vacancy rate which moved to 18.8% at the close of the third quarter compared to 18.6% the previous quarter. However, the citywide vacancy rate showed significant improvement compared to 20.9% recorded last year at this time and the citywide Class A vacancy rate tightened to 10.3% compared to 10.6% last quarter and 13.1% recorded in the same quarter last year.

The average quoted full-service rental rate for area office space climbed \$0.14 over the quarter to reach \$19.59 per square foot per year. The cost for renting Class A space jumped to an average of \$25.45 marking an increase of 5.5% compared to last quarter and top-tier Class A space commands rental rates north of \$30. With Class A vacancy tightening and little new construction delivering true Class A space, rental rates among the best in class are expected to continue to climb.

There was no new construction started in the third quarter but there are several proposed projects and it is possible that at least one of them could move forward in the next quarter or two. Frontrunners include USAA's WestRidge at La Cantera (128,700 sf) and Stream Realty's 4602 N Loop 1604 (110,600 sf). The delivery of new Class A space would provide additional alternatives for expanding existing tenants as well as opportunities for new relocations.

Overall, the office market continues to show improvement but the pace of recovery has been somewhat tepid; still, the area continues to attract both people and companies which bodes well for long-term outlook of the local office market.



CITYWIDE

	3Q 2013	3Q 2012
All Classes		
Inventory	28,032,425	28,479,323
Direct Vacant	5,278,320	5,964,728
%Vacant	18.8%	20.9%
Average Rent	\$19.59	\$20.94
3Q Absorption	13,874	166,079
YTD Absorption	334,080	68,197
Class A Space		
Inventory	9,829,538	9,856,397
Direct Vacant	1,015,621	1,290,409
%Vacant	10.3%	13.1%
Average Rent	\$25.45	\$25.04
3Q Absorption	74,447	50,233
YTD Absorption	202,134	221,114
Class B Space		
Inventory	14,893,797	13,703,758
Direct Vacant	3,439,113	3,108,608
%Vacant	23.1%	22.7%
Average Rent	\$19.61	\$19.66
3Q Absorption	(80,668)	98,322
YTD Absorption	131,180	(119,051)
Class C Space		
Inventory	3,309,090	4,919,168
Direct Vacant	823,586	1,565,711
%Vacant	24.9%	31.8%
Average Rent	\$14.76	\$16.28
3Q Absorption	20,095	17,524
YTD Absorption	766	(33,866)

CENTRAL BUSINESS DISTRICT

	3Q 2013	3Q 2012
All Classes		
Inventory	5,673,787	5,619,867
Direct Vacant	1,681,997	1,918,367
%Vacant	29.6%	34.1%
Average Rent	\$19.60	\$18.95
3Q Absorption	(5,521)	37,920
YTD Absorption	89,566	(377,069)
Class A Space		
Inventory	1,994,170	1,994,710
Direct Vacant	197,651	320,618
%Vacant	9.9%	16.1%
Average Rent	\$23.00	\$21.40
3Q Absorption	22,795	(14,770)
YTD Absorption	93,208	6,802
Class B Space		
Inventory	2,705,394	2,615,088
Direct Vacant	1,132,003	1,168,993
%Vacant	41.8%	44.7%
Average Rent	\$19.77	\$17.87
3Q Absorption	(28,316)	49,277
YTD Absorption	(211)	(378,057)
Class C Space		
Inventory	974,223	1,010,069
Direct Vacant	352,343	428,756
%Vacant	36.2%	42.4%
Average Rent	\$16.18	\$16.93
3Q Absorption	0	3,413
YTD Absorption	(3,431)	(5,814)

NON-CBD

	3Q 2013	3Q 2012
All Classes		
Inventory	22,358,638	22,859,456
Direct Vacant	3,596,323	4,046,361
%Vacant	16.1%	17.7%
Average Rent	\$19.59	\$21.42
3Q Absorption	19,395	128,159
YTD Absorption	244,514	445,266
Class A Space		
Inventory	7,835,368	7,861,687
Direct Vacant	817,970	969,791
%Vacant	10.4%	12.3%
Average Rent	\$25.82	\$25.96
3Q Absorption	51,652	65,003
YTD Absorption	108,926	214,312
Class B Space		
Inventory	12,188,403	11,088,670
Direct Vacant	2,307,110	1,939,615
%Vacant	18.9%	17.5%
Average Rent	\$19.59	\$20.08
3Q Absorption	(52,352)	49,045
YTD Absorption	131,391	259,006
Class C Space		
Inventory	2,334,867	3,909,099
Direct Vacant	471,243	1,136,955
%Vacant	20.2%	29.1%
Average Rent	\$14.55	\$16.11
3Q Absorption	20,095	14,111
YTD Absorption	4,197	(28,052)

Analysis by REOC San Antonio based on 2013 data provided by Xceligent and approved by the San Antonio Office Advisory Board. 2012 data provided by REOC San Antonio. Statistical Information is calculated for all multi-tenant office buildings 20,000 sq. ft. and larger (excluding Single-Tenant, Owner-Occupied, Government and Medical Buildings). 2013 rental rates reflect non-weighted strict average asking rental rates quoted on an annual full-service basis vs. 2012 rents which reflect a weighted average.

LEASE TRANSACTIONS

Tenant	Building	Size	Submarket
Ibex Global	Heritage Business Center	87,000	New Braunfels
VMC Consulting	Brooks City-Base	35,644	South
Peer 1 Hosting	The Pearl - Full Goods Building	25,000	CBD
ADT Security	Parkway Plaza	17,194	North Central
Constellation Brands	Promenade Two at Eilan	13,077	North West

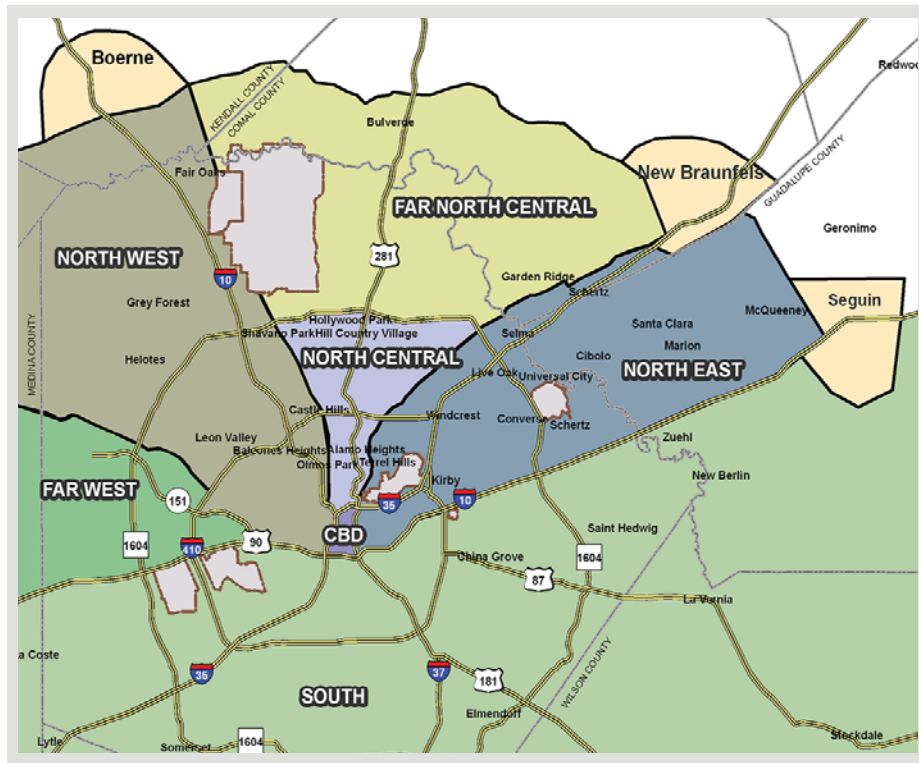
SALE TRANSACTIONS

Building	Buyer	Size	Submarket
One Riverwalk Place	US Real Estate LP	261,431	CBD
One & Two Twin Oaks	AFO/RE Twin Oaks LLC	166,425	Far North Central
Conroy Square	SATX SCL LLC	43,427	North West

NEW DEVELOPMENT

Building	Comments	Size	Submarket
Shavano Center IV	Completed 3Q 2013	43,500	Far North
Oaks at University Business Park	Scheduled completion 4Q 2013	101,630	North West
Ridgewood Business Center	Scheduled completion 4Q 2013	65,000	Far North
250 W Nottingham	3-story; 80% pre-leased	68,000	North Central
WestRidge at La Cantera	Planned; 4-story, La Cantera area	128,700	North West
Monterrey Office Park	Planned; 3-story, Hwy 151/Westover Hills	120,000	Far West
4602 N Loop 1604 W	Planned; 5-story, Loop 1604/Lockhill Selma	110,600	North West
Hausman Centre	Planned; 3-story, IH-10/UTSA Blvd.	104,500	North West
Heritage Oaks III	Planned; 3-story, Loop 1604/Bitters Rd.	84,000	Far North

SUBMARKET MAP



DEFINITIONS

Absorption (Net)

The change in occupied space in a given time period expressed in square feet.

Average Asking Rental Rate

Non-weighted strict average rental rate quoted on an annual full-service basis; rents quoted on a non-full-service basis (such as NNN) have been calculated up to reflect a full-service rate.

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.

PROPERTY TYPES

Class A - top-tier office buildings situated in prime locations along major thoroughfares featuring high quality standard interior finish and excellent amenities which command premium rental rates.

Class B - well-located but perhaps older office buildings with average standard interior finish and some amenities which command market average rental rates.

Class C - older office buildings in secondary locations with few, if any, amenities.

CRITERIA

This study includes San Antonio area office buildings 20,000 square feet or larger excluding owner-occupied, single-tenant, government and medical-only office buildings.

OFFICE SERVICES

REOC San Antonio is actively involved in all aspects of office real estate brokerage, landlord representation, site location, tenant and buyer representation and consulting.

For additional information, please feel free to contact Kim Gatley, Senior Vice President & Director of Market Research.

