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Industrial Building Market Snapshot San Antonio Metropolitan Area

Third Quarter 2014



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OVERVIEW

Tenants searching for industrial space continue to face tight market conditions but projects currently under construction will provide some new space options in the months ahead. According to the survey of more than 33 million square feet of industrial lease space, the San Antonio industrial market closed the third quarter with a citywide vacancy rate of 6.1% which is improved compared to 7.3% recorded in the same quarter last year. The vacancy that remains in the market is mostly older product challenged with some functional obsolescence.

Area industrial properties experienced 94,642 square feet of positive net absorption in the third quarter which raised the year-to-date total to 528,936 square feet of net gain. With 117,213 square feet of positive net absorption, the Service Center/Flex set of properties outperformed the Distribution Warehouse product type this quarter, which uncharacteristically experienced 22,571 square feet of negative absorption.

Rental rates for area industrial space continue to gain momentum in the wake of tightening supply. The citywide average quoted rental rate currently stands at \$7.76 per square foot per year on a triple net basis, which is up \$0.22 or 2.9% compared to a year ago.

Although no new speculative industrial projects were delivered to the market through the end of the third quarter, there is more than 800,000 square feet of industrial space currently under construction. Although day-to-day leasing activity has slowed due to the lack of available lease space, tenant demand has not let up. In fact, San Antonio seems to be the target of larger users and those users, like Dollar General, Carrier and others, are pursuing build-to-suit projects.

CITYWIDE			CENTRAL BUSINESS DISTRICT			NON-CBD		
	3Q 2014	3Q 2013		3Q 2014	3Q 2013		3Q 2014	3Q 2013
All Property Types			All Property Types			All Property Types		
Inventory	33,427,213	32,347,757	Inventory	233,395	233,395	Inventory	33,193,818	32,114,362
Direct Vacant	2,051,109	2,369,967	Direct Vacant	0	28,548	Direct Vacant	2,051,109	2,341,139
%Vacant	6.1%	7.3%	%Vacant	0.0%	12.2%	%Vacant	6.2%	7.3%
Average Rent	\$7.76	\$7.54	Average Rent	N/A	\$3.60	Average Rent	\$7.76	\$7.57
3Q Absorption	94,642	316,485	3Q Absorption	0	0	3Q Absorption	94,642	316,485
YTD Absorption	528,936	1,146,329	YTD Absorption	28,548	11,912	YTD Absorption	500,388	1,134,417
Distribution / Warehouse			Distribution / Warehouse			Distribution / Warehouse		
Inventory	25,762,433	24,384,226	Inventory	233,395	233,395	Inventory	25,529,038	24,150,831
Direct Vacant	1,215,811	1,334,425	Direct Vacant	0	28,548	Direct Vacant	1,215,811	1,305,877
%Vacant	4.7%	5.5%	%Vacant	0.0%	12.2%	%Vacant	4.8%	5.4%
Average Rent	\$5.74	\$5.20	Average Rent	N/A	\$3.60	Average Rent	\$5.74	\$5.23
3Q Absorption	(22,571)	282,071	3Q Absorption	0	0	3Q Absorption	(22,571)	282,071
YTD Absorption	415,634	841,997	YTD Absorption	28,548	11,912	YTD Absorption	387,086	830,085
Service Center/Flex Combined			Service Center/Flex Combined			Service Center/Flex Combined		
Inventory	7,664,780	7,963,531	Inventory	0	0	Inventory	7,664,780	7,963,531
Direct Vacant	835,298	1,035,262	Direct Vacant	0	0	Direct Vacant	835,298	1,035,262
%Vacant	10.9%	13.0%	%Vacant	0	0	%Vacant	10.9%	13.0%
Average Rent	\$9.35	\$9.14	Average Rent	0	0	Average Rent	\$9.35	\$9.14
3Q Absorption	117,213	34,414	3Q Absorption	0	0	3Q Absorption	117,213	34,414
YTD Absorption	113,302	304,332	YTD Absorption	0	0	YTD Absorption	113,302	304,332

Analysis by REOC San Antonio based on data provided by Xceligent and approved by the San Antonio Industrial Advisory Board.

Statistics based on all multi-tenant industrial facilities 20,000 square foot and larger excluding single-tenant, owner-occupied and government buildings.

Average rental rates reflect non-weighted strict average asking rental rates quoted on a triple net annual basis.

CURRENT QUARTER LEASE TRANSACTIONS

Tenant	Building	Size	Submarket
Mattress Firm	Perrin Creek Corporate Center, Bldg 1	70,400	North East
Goodman Networks	Enterprise Industrial Park	52,876	North East
Documation	Shavano Lockhill Business Park, Bldg 1	46,400	North West
Pak Rats	Pan Am Distribution Center, Bldg 1	39,579	North East
Undisclosed	San Antonio Distribution Center, Bldg 4	28,350	North East
Hobsonn Enterprises, LLC	Interstate Business Park, Bldg 5	21,550	North East
Lee-Wright, Inc.	Wetmore Business Center II, Bldg 4	20,700	North Central

CURRENT QUARTER SALE TRANSACTIONS

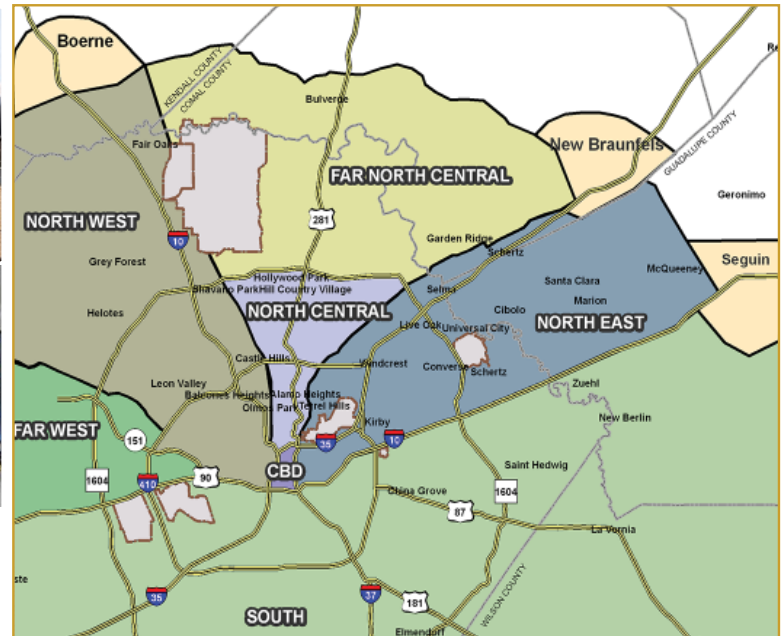
Building	Buyer	Size	Submarket
1102 N Cherry Street	Markwardt	62,961	North East
106 Guadalupe Drive	GQ Investments	49,078	North East
Sebastian Place	DeZavala BP, LLC	17,450	North West

DEVELOPMENT



Clockwise from top left: Enterprise Industrial Park, Tri-County 3, San Antonio Wholesale Produce Market, Alamo Ridge Business Park I & II

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.

For more information about this report, please contact Kim Gatley, Senior Vice President & Director of Research.

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.

SERVICES

REOC San Antonio is actively involved in all aspects of commercial real estate: project leasing, acquisition and disposition, buyer and tenant representation, site selection, property management, construction supervision, development, research, marketing and consulting.

For additional information about our services, please contact: Blake Bonner, Senior Vice President, Director of Brokerage
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