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Industrial Building Market Snapshot

San Antonio Metropolitan Area

Fourth Quarter 2013



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OVERVIEW

The San Antonio industrial market closed out 2013 with a citywide vacancy rate of 6.8% - the lowest on record and down compared to 7.3% last quarter and 9.9% recorded in the same quarter last year. Steady tenant demand coupled with little new leasable inventory constructed over the past several years has tightened vacancy to its lowest point ever.

Tenant move-ins recorded between the first of October and the end of December generated 1,299,611 square feet of positive net absorption led by the delivery of the Amazon.com Fulfillment Center (1,260,000 sf) in the Northeast sector. The healthy fourth quarter gain pushed the year-end total absorption figure to nearly 2.5 million square feet – another record set and besting the 1.5 million square feet recorded in 2007.

Aside from the Amazon facility, which was developed by USAA and leased by Amazon for fifteen years, the remainder of the market experienced only 39,611 square feet of positive net absorption – a marked slowdown compared to earlier quarters. Two factors contributed to the slowed absorption in the fourth quarter – tenant closures and lack of available space.

Recognizing the need for more leasable inventory, developers broke ground in the fourth quarter on two new projects – both located in the Northeast sector near the intersection of I-35 & FM 3009.

As new space is being constructed, market conditions continue to tighten which has supported increased rental rates giving landlords greater control in lease negotiations. The citywide average cost of renting industrial space rose \$0.04 over the quarter to reach \$7.58 per square foot on a triple net basis – up an impressive \$0.52 or 7.4% compared to the same quarter last year.

CITYWIDE			CENTRAL BUSINESS DISTRICT			NON-CBD		
	4Q 2013	4Q 2012		4Q 2013	4Q 2012		4Q 2013	4Q 2012
All Property Types								
Inventory	33,548,079	31,643,100	Inventory	233,395	233,395	Inventory	33,314,684	31,409,705
Direct Vacant	2,294,405	3,144,909	Direct Vacant	28,548	69,934	Direct Vacant	2,265,857	3,074,975
%Vacant	6.8%	9.9%	%Vacant	12.2%	30.0%	%Vacant	6.8%	9.8%
Average Rent	\$7.58	\$7.06	Average Rent	\$3.60	\$3.48	Average Rent	\$7.61	\$7.11
4Q Absorption	1,299,611	207,041	4Q Absorption	0	0	4Q Absorption	1,299,611	207,041
YTD Absorption	2,478,132	1,238,433	YTD Absorption	11,912	(14,274)	YTD Absorption	2,466,220	1,252,707
Distribution / Warehouse								
Inventory	25,633,726	24,404,845	Inventory	233,395	233,395	Inventory	25,400,331	24,171,450
Direct Vacant	1,332,906	1,819,368	Direct Vacant	28,548	69,934	Direct Vacant	1,304,358	1,749,434
%Vacant	5.2%	7.5%	%Vacant	12.2%	30.0%	%Vacant	5.1%	7.2%
Average Rent	\$5.28	\$4.90	Average Rent	\$3.60	\$3.48	Average Rent	\$5.31	\$4.93
4Q Absorption	1,220,169	324,062	4Q Absorption	0	0	4Q Absorption	1,220,169	324,062
YTD Absorption	2,112,516	1,237,038	YTD Absorption	11,912	(14,274)	YTD Absorption	2,100,604	1,251,312
Service Center/Flex Combined								
Inventory	7,914,353	7,238,255	Inventory	0	0	Inventory	7,914,353	7,238,255
Direct Vacant	961,499	1,325,541	Direct Vacant	0	0	Direct Vacant	961,499	1,325,541
%Vacant	12.1%	18.3%	%Vacant	0	0	%Vacant	12.1%	18.3%
Average Rent	\$9.26	\$9.19	Average Rent	0	0	Average Rent	\$9.26	\$9.19
4Q Absorption	79,442	(117,021)	4Q Absorption	0	0	4Q Absorption	79,442	(117,021)
YTD Absorption	365,616	1,395	YTD Absorption	0	0	YTD Absorption	365,616	1,395

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.

LEASE TRANSACTIONS

Tenant	Building	Size	Submarket
Amazon.com	Amazon Fulfillment Center	1,260,000	North East
River Recycling dba ReCommunity	1949 Hormel	96,090	North East
Conn's	San Antonio Distribution Center 7	63,000	North East
Aviation Technologies	Woodlake Center Bldg 2	44,680	North East
Southern Warehousing & Dist (Expansion)	1400 Currency	44,640	North East
Goodwill	Salado Creek Business Park 2	24,785	North East

SALE TRANSACTIONS

Building	Buyer	Size	Submarket
1720 Kingsbury St., Seguin	ElmTree Net Lease Fund II	300,000	Seguin
5308 Distribution Drive	ARKA Monterrey Park LLC	60,399	North East
12903 & 12918 Delivery Drive	12903 Delivery Drive LLC	24,000	North Central

LOOKING AHEAD

Tenants may be challenged with higher lease costs as the market continues to tighten; the addition of new projects will create some options for expansion and tenant relocation but the market is in need of more than what is currently under construction. In the meantime, businesses looking for large blocks

of space will be forced to consider building their own facilities. Dollar General, for example, has tentative plans and is awaiting governmental permits and development approvals to construct a new distribution facility on 110 acres located along North Foster Road near Interstate Highway 10 in East Bexar County.

Tenant moves and lack of available space are expected to stymie absorption figures heading into the first half of 2014. Changes in the aviation industry may result in some consolidations at Port San Antonio; companies like Pratt & Whitney and Lockheed Martin are expected to downsize out of some space next quarter.

Meanwhile, Eagle Ford Shale-related activity will continue to play a role in the expansion and success of the local industrial market.

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.

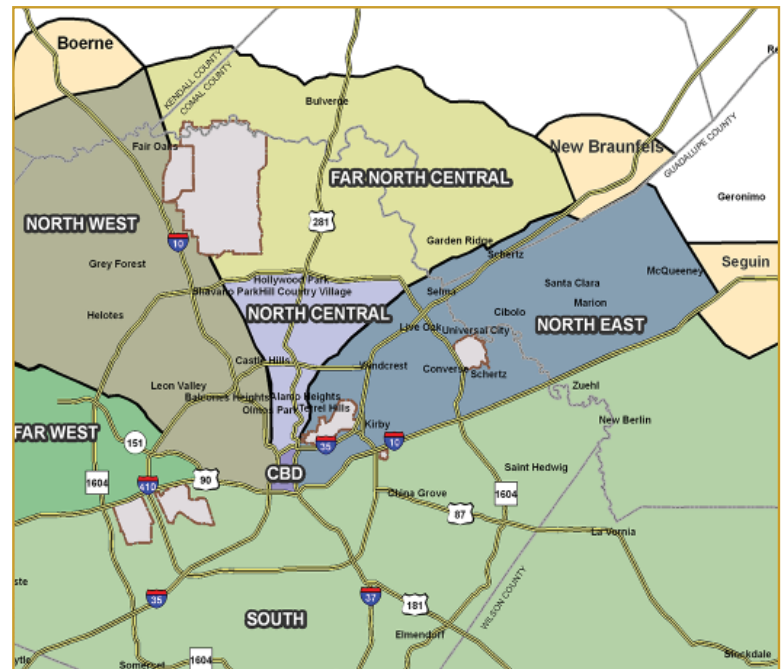
Sublease Space

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.

SUBMARKET MAP



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.