

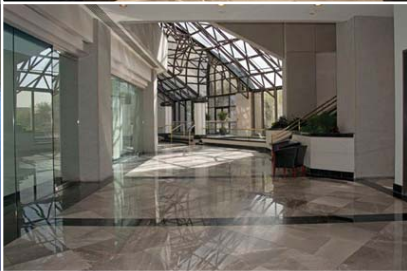


The Source

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Office Building Market Snapshot San Antonio Metropolitan Area

Third Quarter 2014



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OVERVIEW

Demand for office space waned in the third quarter compared to activity recorded in the first half of the year. According to the survey of nearly 28.7 million square feet of office lease space, new leases and expansions inked in the third quarter were countered by tenant moves and consolidations which resulted in 7,480 square feet of negative net absorption.

At the close of the third quarter, the citywide vacancy rate stood at 17.8%, up slightly compared to 17.5% last quarter but improved compared to 18.8% recorded in the same quarter a year ago. Vacancy within the subset of top-tier Class A properties now stands at 9.7% compared to 10.3% recorded a year ago. Even San Antonio's challenged downtown market recorded a Class A vacancy rate of 7.5%.

Rental rates softened slightly in the third quarter. The average quoted full-service rental rate for area office space now stands at \$19.57 per square foot per year on a full-service basis which is down \$0.02 compared to the third quarter of 2013%. By comparison, the citywide average cost for renting Class A space currently stands at \$25.29 – down \$0.16 compared to a year ago.

CITYWIDE			CENTRAL BUSINESS DISTRICT			NON-CBD		
	3Q 2014	3Q 2013		3Q 2014	3Q 2013		3Q 2014	3Q 2013
All Classes			All Classes			All Classes		
Inventory	28,654,406	28,032,425	Inventory	5,759,928	5,673,787	Inventory	22,894,478	22,358,638
Direct Vacant	5,102,223	5,278,320	Direct Vacant	1,547,330	1,681,997	Direct Vacant	3,554,893	3,596,323
%Vacant	17.8%	18.8%	%Vacant	26.9%	29.6%	%Vacant	15.5%	16.1%
Average Rent	\$19.57	\$19.59	Average Rent	\$19.11	\$19.60	Average Rent	\$19.64	\$19.59
3Q Absorption	(7,480)	13,874	3Q Absorption	2,456	(5,521)	3Q Absorption	(9,936)	19,395
YTD Absorption	594,327	334,080	YTD Absorption	178,205	89,566	YTD Absorption	416,122	244,514
Class A Space			Class A Space			Class A Space		
Inventory	9,851,881	9,829,538	Inventory	1,994,761	1,994,170	Inventory	7,857,120	7,835,368
Direct Vacant	955,568	1,015,621	Direct Vacant	149,993	197,651	Direct Vacant	805,575	817,970
%Vacant	9.7%	10.3%	%Vacant	7.5%	9.9%	%Vacant	10.3%	10.4%
Average Rent	\$25.29	\$25.45	Average Rent	\$23.50	\$23.00	Average Rent	\$25.58	\$25.82
3Q Absorption	31,411	74,447	3Q Absorption	20,060	22,795	3Q Absorption	11,351	51,652
YTD Absorption	317,388	202,134	YTD Absorption	66,837	93,208	YTD Absorption	250,551	108,926
Class B Space			Class B Space			Class B Space		
Inventory	15,509,470	14,893,797	Inventory	2,790,944	2,705,394	Inventory	12,718,526	12,188,403
Direct Vacant	3,309,598	3,439,113	Direct Vacant	1,042,674	1,132,003	Direct Vacant	2,266,924	2,307,110
%Vacant	21.3%	23.1%	%Vacant	37.4%	41.8%	%Vacant	17.8%	18.9%
Average Rent	\$19.67	\$19.61	Average Rent	\$18.57	\$19.77	Average Rent	\$19.85	\$19.59
3Q Absorption	(24,394)	(80,668)	3Q Absorption	(15,559)	(28,316)	3Q Absorption	(8,835)	(52,352)
YTD Absorption	292,223	131,180	YTD Absorption	104,304	(211)	YTD Absorption	187,919	131,391
Class C Space			Class C Space			Class C Space		
Inventory	3,293,055	3,309,090	Inventory	974,223	974,223	Inventory	2,318,832	2,334,867
Direct Vacant	837,057	823,586	Direct Vacant	354,663	352,343	Direct Vacant	482,394	471,243
%Vacant	25.4%	24.9%	%Vacant	36.4%	36.2%	%Vacant	20.8%	20.2%
Average Rent	\$14.60	\$14.76	Average Rent	\$16.75	\$16.18	Average Rent	\$14.39	\$14.55
3Q Absorption	(14,497)	20,095	3Q Absorption	(2,045)	0	3Q Absorption	(12,452)	20,095
YTD Absorption	(15,284)	766	YTD Absorption	7,064	(3,431)	YTD Absorption	(22,348)	4,197

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

Statistical Information is calculated for multi-tenant office bldgs 20,000 sf and larger (excluding Single-Tenant, Owner-Occupied, Gov't and Medical Buildings).

Rental rates reflect non-weighted strict average asking rental rates quoted on an annual full-service basis. Rents quoted on a non-full-service basis (such as NNN) have been calculated up to reflect the full-service rate.

CURRENT QUARTER LEASE TRANSACTIONS

Tenant	Building	Size	Submarket
Mission Pharmacal (Renew & Exp)	CityView	23,316	North West
Federal Reserve Bank of Dallas	402 Dwyer Ave.	20,454	CBD
Bromley Communications	IBC Centre I	14,658	CBD
Healthsmart Holdings	RidgeWood Business Center I	12,885	Far North
Texas Commission for the Blind (DARS)	Woodcock Building	11,582	North West
Vysk Communications	The Phipps	9,200	CBD

CURRENT QUARTER SALE TRANSACTIONS

Building	Buyer	Size	Submarket
Vantage Point Professional Center	Swipe Track Solutions	26,184	North West
3100 Nacogdoches Road	Yeakey Family Trust	10,323	North Central

WHAT'S NEW



Clockwise from top right: 250 W Nottingham, Pape-Dawson HQ, Quarry Village Phase II, Avnet at RidgeWood, Lockhill Crossing, WestRidge One

DEFINITIONS

Absorption (Net)

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

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

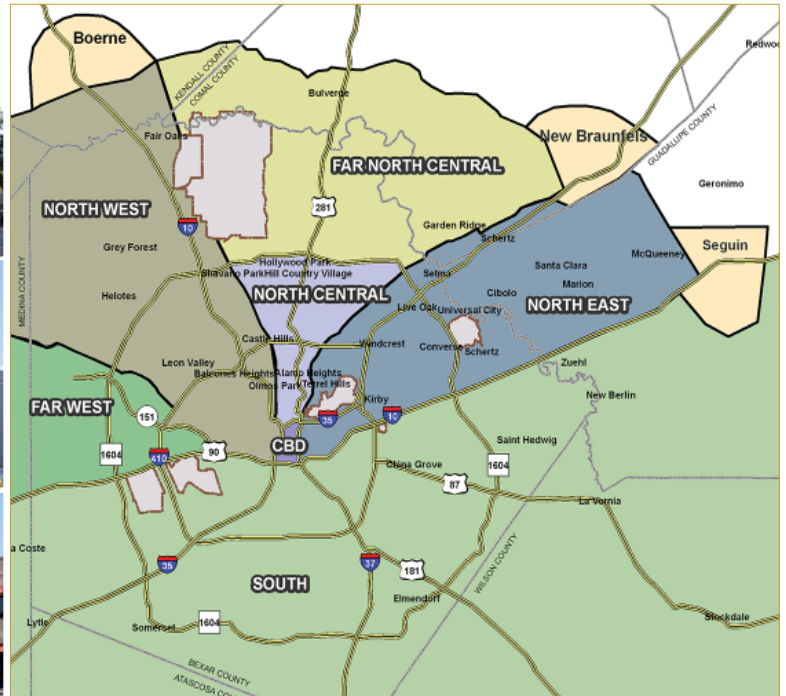
Sublease

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.

SUBMARKET MAP



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 average market 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.

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

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.

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