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Medical Office Market Snapshot

San Antonio Metropolitan Area

Second Quarter 2017

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Medical Office 2Q 2017

The mid-year check up of the San Antonio medical office market remained steady and positive. The survey of more than 7.2 million square feet of separately tracked medical-only office space revealed that the citywide vacancy rate remained relatively unchanged at 20.0% compared to 20.1% at mid-year 2016 as new inventory offset positive absorption.

Demand for medical office space continued at a healthy pace in the second quarter and generated 38,267 square feet of positive net absorption which raised the year-to-date total net gain to 71,489 square feet. Still trending is the spillover of medical related tenants leasing into non-medical facilities.

As positive absorption was offset by the addition of new product, the citywide vacancy rate remained unchanged. Still, the robust healthcare industry continues to be a leading pillar in the city's stable economy.

Average quoted rental rates increased $.10 in the second quarter from the previous quarter to reach $25.02 per square foot on an annual full-service basis – which reflects an over-the-year increase of nearly 2%.

Citywide

	2Q 2017	2Q 2016
All Classes		
Inventory	7,232,344	7,002,864
Available	1,443,666	1,407,628
%Vacant	20.0%	20.1%
Average Rent	$25.02	$24.59
2Q Absorption	38,267	12,633
YTD Absorption	71,489	30,648
Class A Space		
Inventory	2,661,503	2,588,780
Available	483,220	479,988
%Vacant	18.2%	18.4%
Average Rent	$29.04	$28.09
2Q Absorption	31,337	39,123
YTD Absorption	72,883	43,931
Class B Space		
Inventory	4,013,867	3,894,720
Available	818,681	778,945
%Vacant	20.4%	20.2%
Average Rent	$23.09	$23.04
2Q Absorption	1,912	(17,323)
YTD Absorption	(8,324)	(20,360)
Class C Space		
Inventory	556,974	519,364
Available	141,765	148,695
%Vacant	25.5%	26.8%
Average Rent	$19.69	$19.29
2Q Absorption	5,018	(9,167)
YTD Absorption	6,930	7,077

Central Business District

	2Q 2017	2Q 2016
All Classes		
Inventory	1,111,002	1,036,686
Available	200,555	193,322
%Vacant	18.1%	19.1%
Average Rent	$20.93	$20.86
2Q Absorption	(5,890)	(15,918)
YTD Absorption	3,062	(18,681)
Class A Space		
Inventory	121,886	121,886
Available	30,048	33,114
%Vacant	24.7%	27.2%
Average Rent	$24.07	$24.07
2Q Absorption	0	(9,216)
YTD Absorption	3,066	(9,216)
Class B Space		
Inventory	880,365	843,659
Available	161,251	150,481
%Vacant	18.3%	18.4%
Average Rent	$20.77	$20.58
2Q Absorption	(5,890)	(7,929)
YTD Absorption	(6,475)	(10,692)
Class C Space		
Inventory	108,751	71,141
Available	9,256	9,727
%Vacant	8.5%	13.7%
Average Rent	$18.70	$18.54
2Q Absorption	0	1,227
YTD Absorption	471	1,227

Suburban (Non-CBD)

	2Q 2017	2Q 2016
All Classes		
Inventory	6,121,342	5,966,178
Available	1,243,111	1,214,306
%Vacant	20.3%	20.3%
Average Rent	$25.77	$25.22
2Q Absorption	44,157	28,551
YTD Absorption	74,427	49,329
Class A Space		
Inventory	2,539,617	2,466,894
Available	453,172	446,874
%Vacant	17.8%	17.9%
Average Rent	$29.28	$28.28
2Q Absorption	31,337	48,339
YTD Absorption	69,817	53,147
Class B Space		
Inventory	3,133,502	3,051,061
Available	657,430	628,464
%Vacant	21.0%	20.7%
Average Rent	$23.75	$23.71
2Q Absorption	18,119	(9,394)
YTD Absorption	8,468	(9,668)
Class C Space		
Inventory	448,223	448,223
Available	132,509	138,968
%Vacant	29.6%	28.6%
Average Rent	$19.93	$19.40
2Q Absorption	5,018	(10,394)
YTD Absorption	6,459	5,850

Source: REOC San Antonio

Statistical Information is calculated for all multi-tenant medical office buildings 20,000 sq. ft. and larger (excluding Single-Tenant, Owner-Occupied, Government & Clinical Facilities).
Average Rental Rates reflect asking rental rates quoted on an annual full-service basis. Individual building rates are weighted by the total rentable square footage of the building.

Current Quarter Lease Transactions

Tenant	Building	Size	Submarket
Vighter Medical Group	Sir Winston Office Complex	4,464	North Central
Advanced Spine and Pain Center	Sonterra Medical Park III*	3,653	Far North Central
Stone Oak Therapy	Brookhollow Office Park	3,440	North Central
Results Physiotherapy	The Shops at Lincoln Heights	2,500	North Central
San Antonio Urology	Pasteur Plaza*	2,475	North West

Lease transactions reflect medical related activity in both Medical-Only (*) and general commercial buildings.

Current Quarter Sale Transactions

Building	Buyer	Size	Submarket
Christus Santa Rosa - Alamo Heights	Duke Realty - Dallas	57,736	North Central
600 Division	Tierra Finita Real Estate	11,184	South
Villages on Sonterra III	Garcia Lozano Holdings, LLC	10,228	Far North Central
Villages on Sonterra III	MDMT Commercial Investments	4,963	Far North Central
Villages on Sonterra III	Dr. Alec Tisdall	3,523	Far North Central

2017 Development

Project	Comments	Size	Submarket
Live Oak Hills Medical Office Building	Completed 2Q 2017; Institute for Women's Health	72,754	North West
Texas Oncology Cancer Center	Completed 2Q 2017; Owner-occupied	40,000	North West
Villages on Sonterra III	Completed 2Q 2017	30,000	Far North Central
Gastroenterology Consultants of SA	Completed 1Q 2017; Owner-occupied	24,234	North West
Cibolo Medical Office Building	Construction; 4Q 2017; South Texas Center for Pediatric Care	45,000	North East
Singing Hills Professional Building	Planned: 3-story MOB at US 281 & Hwy 46	60,000	Far North Central

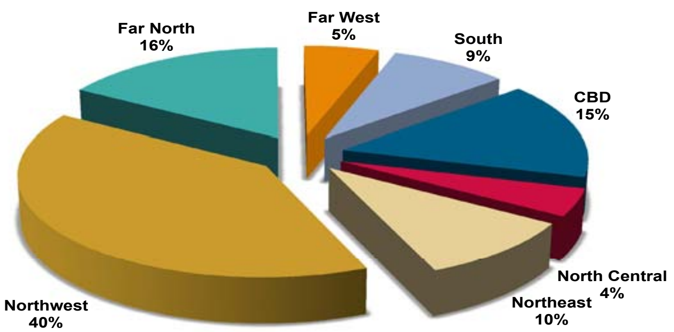
Economic Impact

According to the 2016 Healthcare & Bioscience Economic Impact Study, the healthcare and bioscience industry is a dominant powerhouse in the local economy with a conservatively measured annual economic impact of $28.4 billion.

The 2016 report highlights the fact that over the past decade, the healthcare and bioscience industry has added nearly 50,000 net new jobs. Now, more one of every six San Antonio employees work in the healthcare and bioscience industry.

General job growth typically translates to into increased demand for commercial real estate which serves to support activity not only in medical-only properties but in other property types as well.

Inventory by Sector



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.

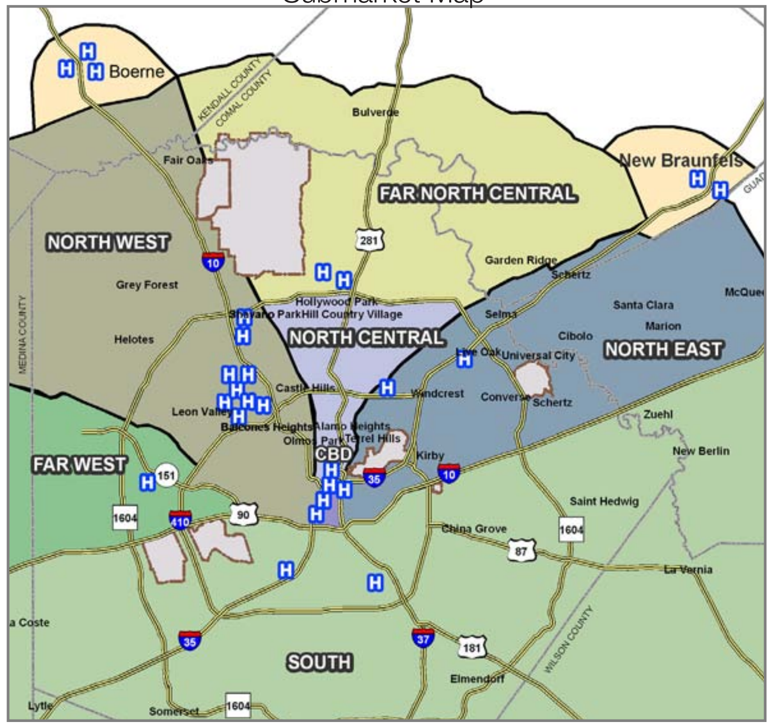
Direct Vacancy
Space currently available for lease directly with the landlord or building owner; excludes sublease space.

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.

Submarket Map



Property Types

Class A - top-tier medical office buildings situated in prime locations, in many cases attached or connected to hospital facility; features high quality standard interior finish and excellent amenities which command premium rental rates.

Class B - well-located but perhaps older medical 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 medical-only office buildings 20,000 square feet or larger excluding owner-occupied, single-tenant, government and clinical facilities.

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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