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Office Building Market Snapshot
 San Antonio Metropolitan Area
Third Quarter 2017



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Topping office market news in the third quarter, USAA purchased Bank of America Plaza (533,465 sf) located across from One Riverwalk Place, another USAA-owned downtown property. The transaction is expected to have a significant impact on the CBD Class A market as tenant activity will likely be funnelled to Weston Centre while USAA decides how much space it may need for its own use.

Although a relatively quiet third quarter in terms of leasing activity, the San Antonio office market experienced positive absorption which improved the citywide vacancy rate. No new office product was delivered in the third quarter to offset the 121,083 square feet of positive net absorption experienced. With demand outpacing new supply in the third quarter, the citywide vacancy rate tightened to 14.6%, compared to 15.1% last quarter and 15.6% recorded a year ago. The North Central sector recorded the tightest vacancy rate at 12.0% with the Far North Central sector not far behind at 12.2%.

Although new projects are commanding record-high rents, the office market, overall, closed the third quarter with a citywide average quoted full-service rental rate of \$23.30 per square foot on an annual basis – down \$0.57 or 2.4% compared to the same quarter last year with the most dramatic decreases noted among Class B properties in the CBD. Led by Frost Bank Tower (462,000 sf) in the CBD, the development pipeline has swelled to more than 1.4 million square feet of new office lease space in various stages of construction.

Citywide			Central Business District			Suburban (Non-CBD)		
	3Q 2017	3Q 2016		3Q 2017	3Q 2016		3Q 2017	3Q 2016
All Classes			All Classes			All Classes		
Inventory	30,224,492	29,940,341	Inventory	5,127,025	5,504,574	Inventory	25,097,467	24,435,767
Direct Vacant	4,416,727	4,673,386	Direct Vacant	823,111	1,024,096	Direct Vacant	3,593,616	3,649,290
%Vacant	14.6%	15.6%	%Vacant	16.1%	18.6%	%Vacant	14.3%	14.9%
Average Rent	\$23.30	\$23.87	Average Rent	\$21.16	\$23.57	Average Rent	\$23.74	\$24.05
3Q Absorption	121,083	391,324	3Q Absorption	(23,382)	15,497	3Q Absorption	144,465	375,827
YTD Absorption	325,320	841,500	YTD Absorption	(14,198)	91,157	YTD Absorption	339,518	750,343
Class A Space			Class A Space			Class A Space		
Inventory	11,721,456	11,224,965	Inventory	2,002,381	2,002,381	Inventory	9,719,075	9,222,584
Direct Vacant	1,515,712	1,311,201	Direct Vacant	253,841	238,180	Direct Vacant	1,261,871	1,073,021
%Vacant	12.9%	11.7%	%Vacant	12.7%	11.9%	%Vacant	13.0%	11.6%
Average Rent	\$27.92	\$27.86	Average Rent	\$26.17	\$27.71	Average Rent	\$28.25	\$27.93
3Q Absorption	140,516	214,458	3Q Absorption	(23,981)	(10,615)	3Q Absorption	164,497	225,073
YTD Absorption	123,640	453,299	YTD Absorption	(35,922)	20,854	YTD Absorption	159,562	432,445
Class B Space			Class B Space			Class B Space		
Inventory	15,452,300	15,360,965	Inventory	2,374,905	2,566,490	Inventory	13,077,395	12,794,475
Direct Vacant	2,387,089	2,610,388	Direct Vacant	386,373	461,688	Direct Vacant	2,000,716	2,148,700
%Vacant	15.4%	17.0%	%Vacant	16.3%	18.0%	%Vacant	15.3%	16.8%
Average Rent	\$20.77	\$21.92	Average Rent	\$18.60	\$21.75	Average Rent	\$21.16	\$21.99
3Q Absorption	(26,373)	137,101	3Q Absorption	8,924	17,390	3Q Absorption	(35,297)	119,711
YTD Absorption	175,354	324,848	YTD Absorption	37,309	64,289	YTD Absorption	138,045	260,559
Class C Space			Class C Space			Class C Space		
Inventory	3,050,736	3,354,411	Inventory	749,739	935,703	Inventory	2,300,997	2,418,708
Direct Vacant	513,926	751,797	Direct Vacant	182,897	324,228	Direct Vacant	331,029	427,569
%Vacant	16.8%	22.4%	%Vacant	24.4%	34.7%	%Vacant	14.4%	17.7%
Average Rent	\$16.91	\$16.84	Average Rent	\$16.54	\$15.51	Average Rent	\$17.08	\$17.14
3Q Absorption	6,940	39,765	3Q Absorption	(8,325)	8,722	3Q Absorption	15,265	31,043
YTD Absorption	26,326	63,353	YTD Absorption	(15,585)	6,014	YTD Absorption	41,911	57,339

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
UBEO LLC	Concord Park II	22,773	Far North Central
Boon Chapman	Heritage Plaza	20,000	New Braunfels
SA Metropolitan Ministries	1919 NW Loop 410	15,347	North West
Forge Energy	Landmark One	14,291	North West

Current Quarter Sale Transactions

Building	Buyer	Size	Submarket
Bank of America Plaza	USAA Real Estate Co.	533,465	CBD
Legacy Oaks	Velocis	223,368	North West
4350 Lockhill-Selma	Demicilio HS LLC	116,545	North West
Shavano Center I & II	DRB Shavano LLC	58,222	North West
ICON	8307 Gault Lane LLC	41,616	North Central

New Development



Clockwise from top left: University Oaks IV, GM Financial Campus, Landmark One, Teralta, One51 Phase II, Bella Vista.

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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