

SAN ANTONIO MARKET OVERVIEW

Office | Medical Office | Industrial | Retail

2015

Mid-Year Snapshot

Introduction

San Antonio is the heart of Bexar County and the urban center of the San Antonio Metropolitan Statistical Area (MSA). San Antonio's MSA is comprised of eight counties: Bexar, Comal, Wilson, Guadalupe, Bandera, Atascosa, Kendall and Medina. Roughly 1,248 square miles are contained within Bexar County, comprising a significant chunk of the MSA's 3,338 square miles of land. San Antonio is considered one of the top tourist attractions in the country and attracts approximately 26 million visitors per year. The local tourism industry has an annual economic impact of \$10.5 billion and accounts for 132,700 jobs. Over the last ten years, San Antonio's economy has diversified and now features a healthy mix of business services, health care, communications, manufacturing, corporate and regional offices, government agencies, and a robust convention and tourism industry.

The healthcare and bioscience sector is the backbone of the San Antonio economy, with an economic impact of nearly \$24 billion a year. San Antonio hosts nationally-recognized healthcare facilities, cutting-edge biotech companies and renowned global enterprises. The City is home to the only Department of Defense Burn Center, two Level 1 trauma centers and the only Pediatric Trauma Center in South Texas. Additionally, all medical education and training for the U.S. military occurs in San Antonio.

Population

San Antonio is the 7th largest city in the United States and the 2nd largest city in Texas, with an estimated population of 2.16 million (MSA). By the year 2025, the population is expected to increase to an estimated 2.66 million.

Employment

As of September 2015, San Antonio's MSA had a workforce of 987,200 people and an unemployment rate of 3.7%, below the unemployment rates for the state of Texas (4.4%) and the U.S. (4.9%). Manufacturing, education and health services, as well as leisure and hospitality industries, lead the local employment sectors.

(SAEDF and Texas Workforce Commission, September 2015)

Statistics

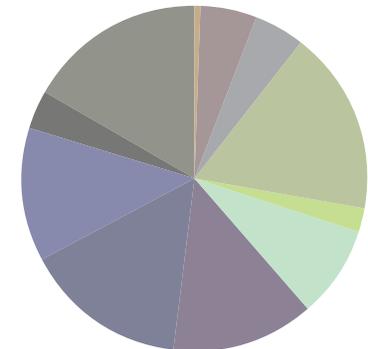
- The Milken Institute recognized San Antonio as one of 2014's best performing cities.
- The Brookings Institution named San Antonio one of the strongest economies among the 100 largest metropolitan areas in the nation and #1 in overall performance based on employment and unemployment levels.
- Fifteen area colleges and universities graduate approximately 25,000 students who enter the workforce each year.

Corporate headquarters in San Antonio

Company	Local Employees
H-E-B	20,000
USAA	17,000
Bill Miller Bar-B-Q	4,190
Cullen/Frost National Bank	3,982
Valero Energy	3,700
Rackspace	3,300
Toyota Motor Manufacturing	2,900
Clear Channel Communications	2,800
Southwest Research Institute	2,715
Harland Clarke	1,500
KCI	1,400
HVHC	1,200
Security Service FCU	1,111
SWBC	1,009
Tesoro Corporation	800
Nustar	550

Leading employment sectors

Mining and Logging	0.8%
Construction	5.3%
Manufacturing	4.7%
Trade, Transportation & Utilities	17.1%
Information	2.2%
Financial Activities	8.7%
Professional and Business Services	13.2%
Education and Health Services	15.3%
Leisure and Hospitality	12.5%
Other Services	3.6%
Government	16.6%



Source: Texas Workforce Commission, September 2015

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OFFICE

Inventory, Absorption and Deliveries

The San Antonio office market consists of approximately 71.7M square feet of space, with 13.9M sf of Class A space, 42.0M sf of Class B space and 15.8M sf of Class C space. Citywide office space absorption through mid-year 2015 was nearly 434,000 square feet. Class A and B properties have seen healthy activity, and absorption has been well balanced between the two asset classes. Significant leases in the first half of the year include The Bank of San Antonio's new office building at 1900 NW Loop 410 (57,000 sf) and BSG's lease at One Technology Center (27,789 sf). New office deliveries have been slowing steadily over the last 12 months, with approximately 292,000 sf square feet delivered in the first six months of this year. Approximately 964,000 square feet is currently under construction, headlined by 19026 Ridgewood Parkway (147,000 sf) and WestRidge Two at La Cantera (129,015 sf). Nearly all new construction is occurring in the robust North Central and Northwest submarkets, and projects underway are currently 20% pre-leased.

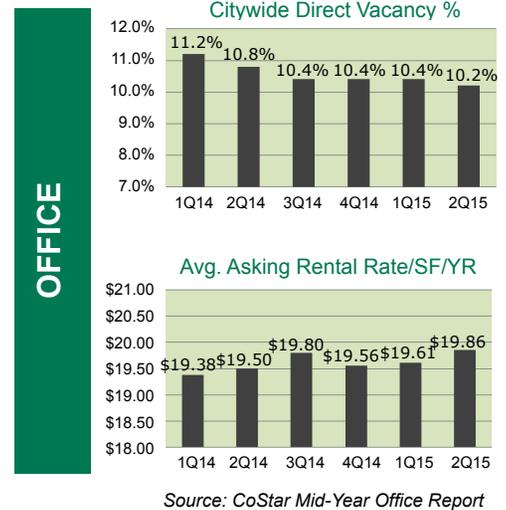
Vacancy and Rental Rates

The citywide vacancy rate dropped to 10.2% in the second quarter after remaining at a flat 10.4% over the last several quarters. Likewise, Class A properties fell to 14.4% vacancy in the second quarter of 2015 after ticking up slightly over the last 12 months. Class B vacancy has seen a steady decline over the last 24 months, and now sits at 10.1%. Sublease vacancy is also dwindling, with approximately 123,000 sf of space now available. Overall citywide asking rental rates are \$19.86, up approximately 2% in the last 24 months. Rental rates are up across the board, and Class A and B rates now stand at \$23.06 and \$18.95 psf, respectively.

MEDICAL OFFICE

The local medical office market consists of approximately 6.9M square feet of space, including nearly 1.1M sf in the CBD and 5.8M sf in the suburban areas. The citywide vacancy rate in mid-2015 was 19.5%, up from 17.5% at the same time last year, partly due to an influx of new deliveries. While net absorption for the year is a negative 18,674 square feet, the market did experience positive absorption (1,874 sf) in the second quarter. Thus far in 2015, negative absorption in the suburban markets has been somewhat offset by positive activity in the CBD. Average citywide rental rates for medical office space are now \$24.05, up \$0.24 over 2014 for an annual growth rate of one percent. Class A, suburban medical office space commands the highest average rental rate, at \$27.69, while Class A CBD space and Class B suburban space are offering competitive rates of \$23.24 and \$23.34, respectively.

Source: NAI REOC



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INDUSTRIAL

Inventory, Absorption and Deliveries

The San Antonio industrial market consists of approximately 117.5M square feet of space - 10% of which is flex space, with the remaining 90% comprised of warehouse facilities. Absorption in the first half of 2015 was nearly 878,000 square feet. The bulk of the absorption (663,000 sf) occurred in warehouse buildings, while flex properties experienced nearly 215,000 square feet of positive absorption. Big leases completed in the first half of the year include the 202,763-sf space for FedEx Ground at the FedEx Distribution property in Schertz; 76,000 square feet by Pearson in northeast San Antonio; and Custom Fab's 60,000-sf lease on Old Pearsall Road in the South submarket. Approximately 500,000 sf of space was delivered in the first six months of the year, with 67% of the space pre-leased. There is 1.35M square feet of industrial space currently under construction, with the vast majority of the new space located in Comal County.

Vacancy and Rental Rates

The citywide vacancy rate at the end of the second quarter was down to 6.7% - a decrease of 50 basis points from the first quarter. Flex space has a vacancy of 9.0% while warehouse space is now 6.5% vacant. Sublease vacancy has declined dramatically from the earlier this year, and only 125,000 sf of sublease space remains available citywide. The average asking rate for industrial space is \$5.94 psf, with rates for flex and warehouse space of \$10.17 and \$5.25 psf, respectively. Overall industrial rental rates are up nearly 4% in the last twelve months. Flex rental rates have been steadily rising since early 2013, increasing 7% in the last 24 months. Warehouse rates have seen a more prolonged and rapid pace of growth, with rates up 17% since 2011.



Source: CoStar Mid-Year Industrial Report

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RETAIL

Inventory, Absorption and Deliveries

The retail market in San Antonio is comprised of more than 124.5M square feet of space, including shopping centers, power centers, malls, specialty centers and other retail properties. Absorption in the first half of 2015 was approximately 286,000 square feet, with most of the activity occurring in general retail properties and power centers. Several large leases were completed in the first half of the year, including a 75,000-sf Conn's Home Plus at HEB Plus in Far West San Antonio; a new 63,000-sf Academy Sports at the Bandera Market Place power center in the Northwest submarket; and a 24,900-sf Ross Dress For Less lease in North Central San Antonio. Since 2008, new project deliveries have remained steady but well below the annual historical average of 2.1M square feet. Approximately 923,000 square feet have been delivered in the last 12 months, and more than three-quarters of all recent deliveries have been buildings with a footprint smaller than 50,000 square feet. There is roughly 393,000 sf of retail space currently under construction, concentrated largely in the Northwest and Guadalupe County submarkets, which are seeing explosive residential population growth. Properties under construction are now more than 87% pre-leased, and there is nothing underway with a completion date beyond mid-2016.

Vacancy and Rental Rates

The citywide vacancy rate at the end of the second quarter held steady at 5.3%, where it has remained since late 2014. Sublease vacancy is very low and accounts for only 3% of the overall retail market vacancy. The average asking rate for retail space is \$14.32 psf, up \$0.21 year-over-year. While rental rates have fluctuated since early 2013 - hovering in the \$14.20 range for most of that time - they have been trending up over the last three quarters.

