

FIGURES | SAN ANTONIO OFFICE | Q3 2024

# Office market remains stable entering the final quarter of 2024

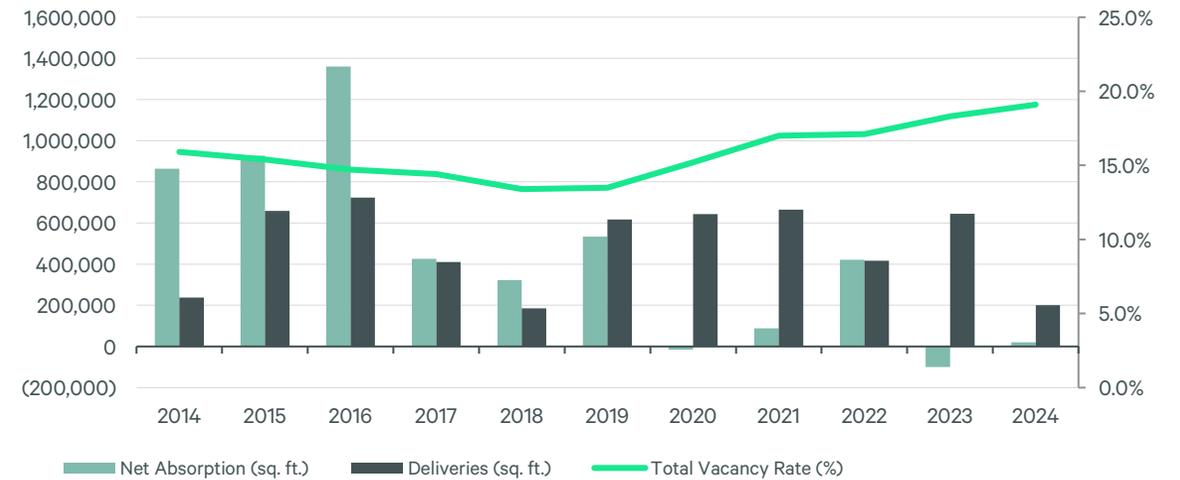


Note: Arrows indicate change from previous quarter.

## MARKET HIGHLIGHTS

- The absorption gains seen during the first half of the year, nearly all of which occurred almost entirely to Galen College of Nursing occupying 157,000 sq. ft., have been offset by Visionworks vacating their 157,000 sq. ft. space at IBC Center I. Visionworks downsized and moved into just under 30,000 sq. ft. at Ridgewood Park.
- So, despite the large negative absorption seen in the current quarter, occupancy gains remain slightly positive for the year, with 19,900 sq. ft. of net absorption year-to-date.
- There is 130,000 sq. ft. in the pipeline with zero preleasing in place set to deliver early next year. River Mill in the Northeast submarket is slated for delivery next quarter, which will further elevate vacancy.
- Class A leasing activity has totaled over 1.25 million sq. ft. in the first three quarters of 2024, matching the volume seen in the entirety of 2023.
- While the market has experienced continued softening since the pandemic, fundamentals have stabilized and are generally on a positive trajectory. This is particularly true in high-quality space – a trend that mirrors what’s occurring nationally.

FIGURE 1: Historical Absorption, Deliveries and Vacancy



## SUPPLY

Despite the occupancy gains seen in Class A space, this absorption has been offset by new development coming online. Since 2022, nearly 1.4 million square feet of Class A product has been delivered – or roughly 8.2% of inventory. Since 2022, Class A absorption has only totaled 1.6% of inventory. Although this space on the market may present challenges in the short-term, the flight to quality trend seen locally and nationally provides tenants options when looking to upgrade their space and perhaps attract tenants from out of market. This is especially true in emerging submarkets such as Midtown, where the Class A vacancy currently sits at 7.1% and the three most recent deliveries since 2022 totaling 311,000 sq. ft. are 87.2% occupied.

New product set to deliver early next year at River Mill will add to the vacancy rate, but with no new additional ground breakings anticipated in the near future, the market should naturally start tightening again – particularly as the economy continues to improve; albeit, at a slower pace than seen prior to the Pandemic.

## DEMAND

Leasing activity for through the first three quarters of 2024 has been particularly strong compared with the prior year. Tenants have already leased over 1.8 million sq. ft. – that compares with 2.1 million square feet in all of 2023. Leasing volume is particularly significant among Class A assets, which has already surpassed levels seen in the entirety of 2022 (1.0 million sq. ft.) and has matched the volume seen in all of 2023 (1.25 million sq. ft.). Class A leasing activity is comprising an increased share of total activity in the market. Between 2014 and 2022, Class A assets accounted for 48.5% of total leasing volume. In comparison, since 2023, 63.2% of leasing activity has occurred in Class A product. This percent has peaked so far in 2024 at 69.0% of activity.

## PRICING

After a sharp increase in rents from 2022, rates have leveled off around historical highs. Overall asking rents currently sit at \$28.45/sq. ft. (FSG), a 4.7% year-over-year increase. Given the activity occurring in Class A product, rent growth in those assets has been more aggressive, with rents increasing 6.2% year-over-year.

FIGURE 2: Leasing Activity



FIGURE 3: Asking Rates



FIGURE 4: San Antonio Office Market Statistics

Submarket	Net Rentable Area (SF)	Total Vacancy (%)	Total Availability (%)	Asking Rate, Gross (\$/SF)	Under Construction (SF)	Q2 2024 Deliveries (SF)	Q3 2024 Net Absorption (SF)	YTD 2024 Total Net Absorption (SF)
<b>CBD</b>	<b>5,120,200</b>	<b>27.9%</b>	<b>28.9%</b>	<b>\$31.80</b>	-	-	<b>-196,100</b>	<b>-202,100</b>
Class A	2,397,300	47.5%	49.3%	\$32.63	-	-	-189,300	-236,000
Class B	2,175,200	10.8%	11.0%	\$28.36	-	-	-6,800	28,400
<b>Far North Central</b>	<b>2,623,500</b>	<b>20.0%</b>	<b>23.0%</b>	<b>\$34.28</b>	-	-	<b>4,900</b>	<b>86,500</b>
Class A	1,957,800	20.9%	22.4%	\$37.06	-	-	-1,500	62,100
Class B	665,700	17.4%	24.8%	\$26.54	-	-	6,400	24,400
<b>Far West</b>	<b>1,284,400</b>	<b>31.2%</b>	<b>23.0%</b>	<b>\$24.80</b>	-	-	<b>3,600</b>	<b>3,600</b>
Class A	886,600	37.7%	25.6%	\$30.67	-	-	-	-
Class B	397,700	16.6%	17.2%	\$19.85	-	-	3,600	-
<b>Midtown*</b>	<b>2,266,000</b>	<b>8.3%</b>	<b>10.1%</b>	<b>\$36.55</b>	-	-	<b>-4,800</b>	<b>9,900</b>
Class A	1,720,300	7.1%	8.9%	\$39.95	-	-	-4,800	24,500
Class B	421,200	8.4%	10.7%	\$35.26	-	-	-	16,100
<b>North Central</b>	<b>8,773,100</b>	<b>16.8%</b>	<b>18.7%</b>	<b>\$25.65</b>	-	-	<b>-35,600</b>	<b>-34,400</b>
Class A	3,269,200	17.5%	17.7%	\$30.30	-	-	14,900	-26,600
Class B	4,187,200	19.1%	22.1%	\$23.42	-	-	-44,400	-23,000
<b>Northeast</b>	<b>2,225,700</b>	<b>29.4%</b>	<b>32.2%</b>	<b>\$23.50</b>	<b>130,000</b>	-	<b>-4,900</b>	<b>13,500</b>
Class A	642,000	26.3%	26.6%	\$29.75	130,000	-	-	12,200
Class B	1,221,600	34.3%	38.8%	\$22.78	-	-	-6,000	7,700
<b>Northwest</b>	<b>11,260,400</b>	<b>15.0%</b>	<b>21.4%</b>	<b>\$27.27</b>	-	-	<b>51,700</b>	<b>169,400</b>
Class A	4,542,100	15.1%	20.1%	\$33.77	-	-	44,700	157,100
Class B	5,115,700	15.4%	22.7%	\$24.05	-	-	10,400	50,500
<b>South</b>	<b>921,600</b>	<b>26.1%</b>	<b>24.8%</b>	<b>\$35.95</b>	-	-	-	<b>(26,400)</b>
Class A	455,000	44.0%	44.0%	\$35.95	-	-	-	-
Class B	318,000	12.7%	8.9%	-	-	-	-	(26,400)
<b>San Antonio Total</b>	<b>34,564,900</b>	<b>19.2%</b>	<b>22.0%</b>	<b>\$28.45</b>	<b>130,000</b>	-	<b>-181,400</b>	<b>19,900</b>
<b>Class A</b>	<b>15,960,400</b>	<b>18.5%</b>	<b>23.2%</b>	<b>\$33.76</b>	<b>130,000</b>	-	<b>-136,000</b>	<b>-6,700</b>
<b>Class B</b>	<b>14,502,400</b>	<b>18.4%</b>	<b>16.1%</b>	<b>\$23.91</b>	-	-	<b>-36,900</b>	<b>81,300</b>

\*In Q1 2024, CBRE Research added the Midtown submarket to San Antonio's office market, resulting in changes to the sizes of the CBD, North Central, and Northeast submarkets.

^Class C stats not shown, but included in total

## ECONOMIC OUTLOOK

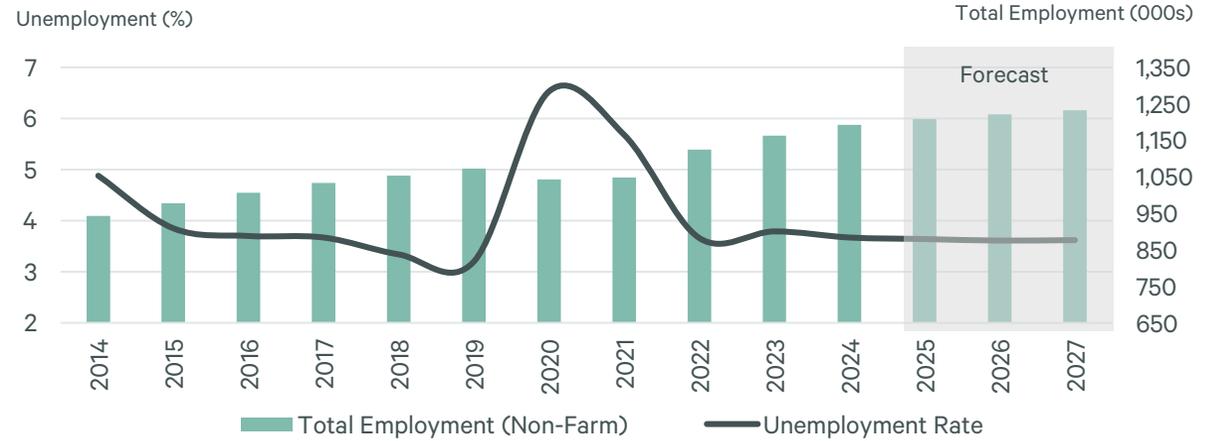
Soft landings are rare, but recent data suggest that this outcome for the economy is increasingly likely. Business investment is holding its own and consumer distress is confined to a few vulnerable segments. Discretionary spending, such as travel, is generally on a par with last year although many signs indicate the post-pandemic spending boom is over.

The key threat to consumption is a rollover in the labor market although the recent bump in unemployment appears benign, mainly driven by an increase in participation. A reason for concern is the decline in the share of private industries that are creating jobs. On the other hand companies are not shedding workers at a particularly high rate. The labor market has slowed, but it is not slumping.

While many are focused on November’s election the most consequential policy lever has already been pulled via the FOMC’s 50 bps September cut and signaling another 50 by year-end. This easing of financial conditions combined with continued economic growth should support modest hiring and consumption that precedes tighter commercial space market fundamentals.

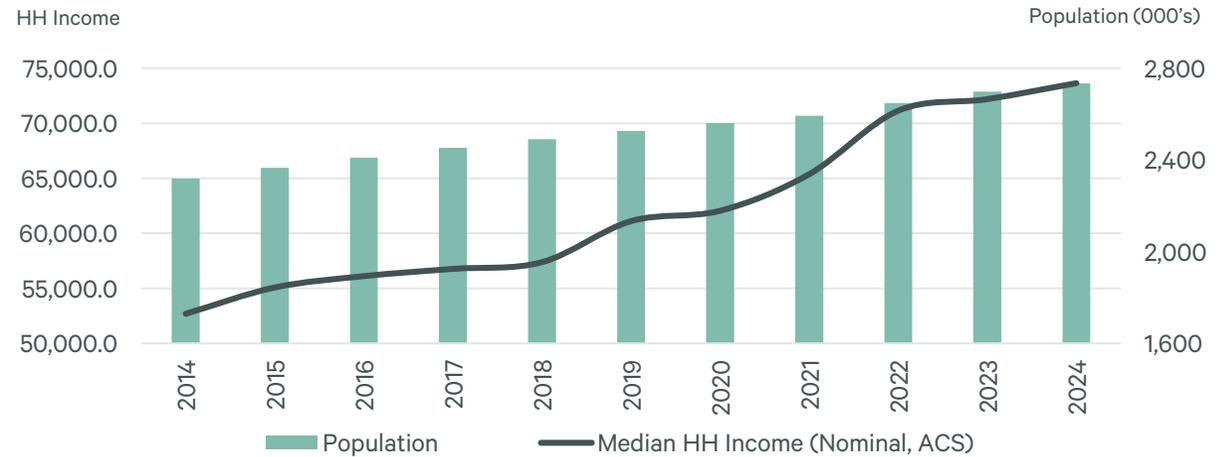
This backdrop will breathe fresh wind into real estate transactions markets and coincides with other signals that cap rates have peaked and may be starting to fall in some sectors.

FIGURE 5: San Antonio Labor Force and Unemployment



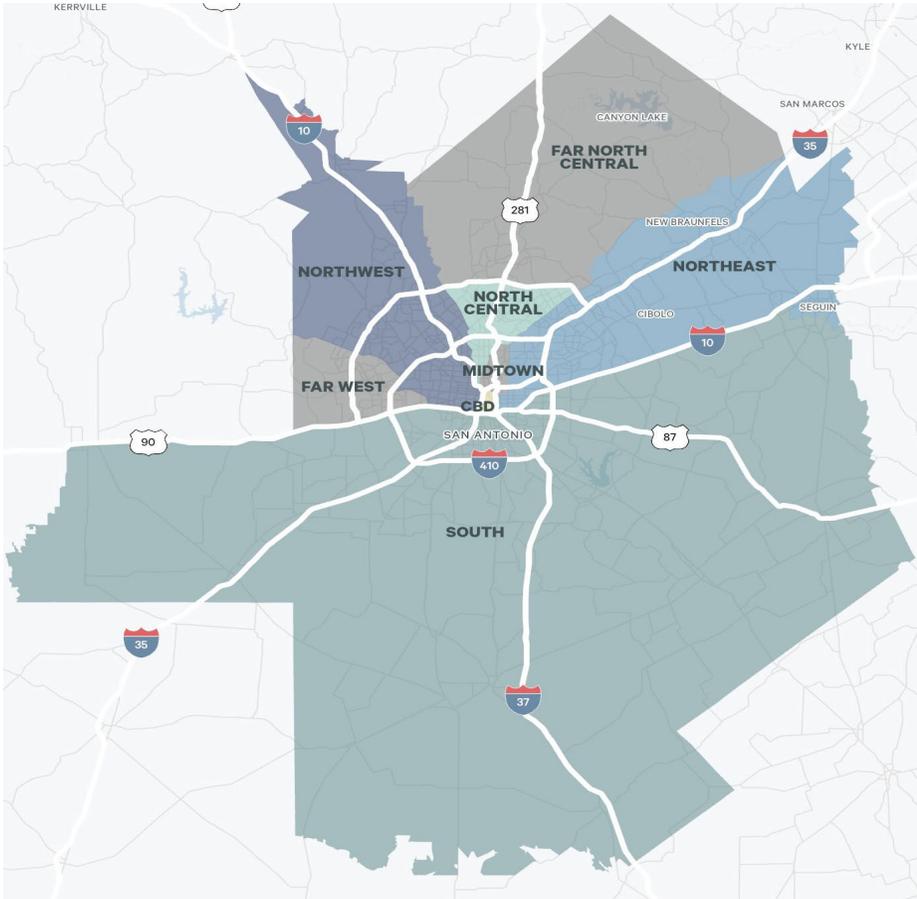
Source: Oxford Economics

FIGURE 6: Population Growth & Household Purchasing Power



Source: Oxford Economics

## Market Area Overview



### Definitions

Available Sq. Ft.: Space in a building, ready for occupancy within six months; can be occupied or vacant. Availability Rate: Total Available Sq. Ft. divided by the Total Building Area. Average Asking Lease Rate: A calculated average that includes net and gross lease rate, weighted by their corresponding available square footage. Building Area: The total floor area sq. ft. of the building, typically taken at the “drip line” of the building. Gross Lease Rate: Rent typically includes real property taxes, building insurance, and major maintenance. Net Absorption: The change in Occupied Sq. Ft. from one period to the next. Net Lease Rate: Rent excludes one or more of the “net” costs (real property taxes, building insurance, and major maintenance) typically included in a Gross Lease Rate. Occupied Sq. Ft.: Building Area not considered vacant. Vacancy Rate: Total Vacant Sq. Ft. divided by the total Building Area. Vacant Sq. Ft.: Space that can be occupied within 30 days.

### Survey Criteria

Includes all non-owner occupied, non-medical office buildings 20,000 sq. ft. and greater in size in the greater metropolitan area of San Antonio, TX. Buildings which have begun construction as evidenced by site excavation or foundation work.

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