CBRE

Market fundamentals maintain stability in the second half of 2023

▲ **96.0%**
Occupancy Rate

▼ **29,738**
SF Net Absorption

▼ **750,350**
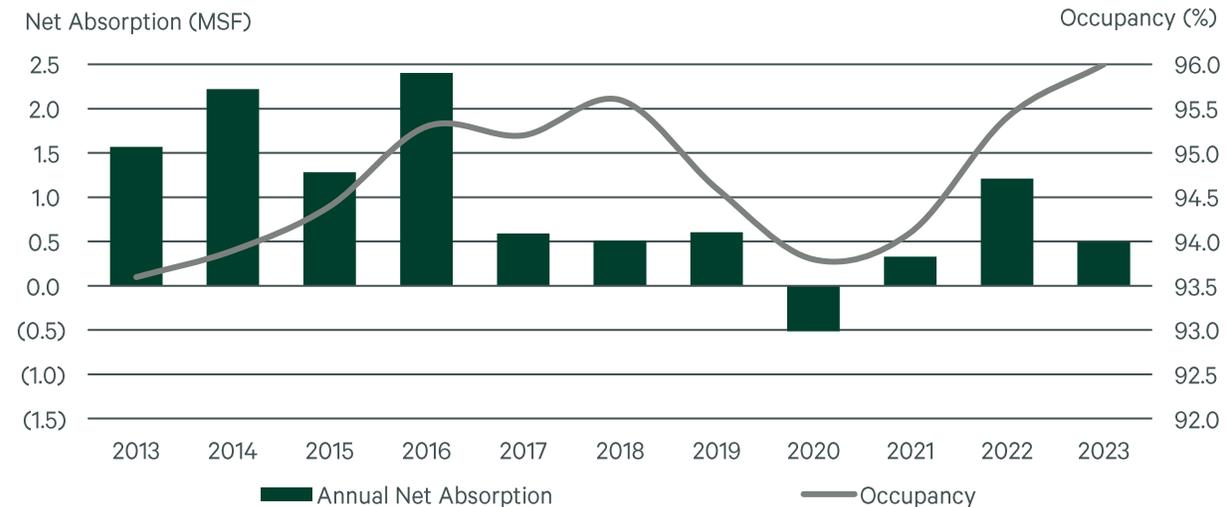SF Under Construction

▼ **64,061**
SF Delivered

Note: Arrows indicate change from previous quarter.

HIGHLIGHTS

— Overall market demand slowed down but remained positive with roughly 30,000 sq. ft. of net absorption in Q3 2023.

— Market-wide occupancy ticked up slightly to 96.0% in Q3 2023, up 10 basis points (bps) from the previous quarter.

— Quarter-over-quarter employment in the leisure and hospitality sector decreased by 4.4%, yet it still showed a year-over-year increase of 3.1%.

— Deliveries tapered off with only four projects totaling 64,061 sq. ft. delivering in Q3 2023.

The retail sector continued to exhibit healthy market fundamentals in Q3 2023, marking the tenth consecutive quarter of positive net demand. The hospitality industry experienced a minor setback in the third quarter, with an 11% decrease in seated dinners from September 2022 to September 2023, per Open Table. Despite a decrease in seated dinners, the San Antonio International Airport registered over 850,000 passengers in September. This was the busiest September in the airport's history.

FIGURE 1: Net Absorption and Market Occupancy

Net Absorption (MSF) / Occupancy (%)

Legend: Annual Net Absorption, Occupancy

Source: CBRE Research, Q3 2023.

FIGURE 2: San Antonio Retail Market Statistics

		Q2 2022	Q3 2022	Q4 2022	Q1 2023	Q2 2023	Q3 2023
ATASCOSA COUNTY	Absorption (Net, SF)	-	-	3,000	-	6,000	-
	Under Construction (SF)	-	-	-	16,520	-	-
	Rentable Building Area (RBA)	1,004,530	1,004,530	1,004,670	1,040,727	1,040,727	1,033,727
	Occupancy Rate (%)	97.9	97.9	98.2	98.3	98.9	98.9
COMAL COUNTY	Absorption (Net, SF)	3,251	8,086	128,830	(3,655)	4,766	14,785
	Under Construction (SF)	205,208	256,223	122,001	154,431	102,218	102,218
	Rentable Building Area (RBA)	5,362,162	5,174,047	5,308,269	5,324,901	5,378,670	5,408,015
	Occupancy Rate (%)	97.8	97.9	97.9	97.9	97.5	97.8
KENDALL COUNTY	Absorption (Net, SF)	46,174	(1,500)	(1,447)	(1,347)	1,571	10,640
	Under Construction (SF)	-	14,534	14,534	10,640	10,640	-
	Rentable Building Area (RBA)	1,156,454	1,156,454	1,148,454	1,138,834	1,138,834	1,139,148
	Occupancy Rate (%)	99.3	99.1	99.1	99.1	99.2	99.2
CENTRAL BUSINESS DISTRICT	Absorption (Net, SF)	19,065	(33,332)	4,156	16,115	(3,321)	11,318
	Under Construction (SF)	12,000	22,920	12,000	-	-	-
	Rentable Building Area (RBA)	3,817,243	3,832,586	3,843,506	3,527,670	3,527,670	3,528,316
	Occupancy Rate (%)	97.0	96.1	96.0	97.0	97.2	97.6
WILSON COUNTY	Absorption (Net, SF)	27,360	-	8,450	(2,560)	-	(1,640)
	Under Construction (SF)	-	-	-	10,500	10,500	10,500
	Rentable Building Area (RBA)	427,037	427,037	427,037	427,037	427,037	427,037
	Occupancy Rate (%)	98.1	96.4	98.3	97.7	97.7	97.4
MEDINA COUNTY	Absorption (Net, SF)	3,882	-	4,551	-	(1,005)	(440)
	Under Construction (SF)	-	-	-	-	-	-
	Rentable Building Area (RBA)	653,194	653,194	651,988	671,524	671,524	671,177
	Occupancy Rate (%)	98.4	98.4	99.1	99.1	99.0	98.9
NORTH CENTRAL	Absorption (Net, SF)	40,621	23,456	9,737	104,823	50,839	(43,525)
	Under Construction (SF)	21,430	21,430	21,200	55,366	10,836	10,836
	Rentable Building Area (RBA)	19,703,957	19,698,541	19,726,077	20,746,451	20,737,472	20,754,011
	Occupancy Rate (%)	93.1	93.3	93.4	94.3	94.4	94.1

Source: CBRE Research, Q3 2023.

FIGURE 2: San Antonio Retail Market Statistics

		Q2 2022	Q3 2022	Q4 2022	Q1 2023	Q2 2023	Q3 2023
NORTHWEST	Absorption (Net, SF)	78,943	8,681	881	(1,844)	(16,305)	64,938
	Under Construction (SF)	287,290	96,500	164,847	193,440	274,899	155,420
	Rentable Building Area (RBA)	29,752,654	29,775,792	29,672,332	29,385,688	29,370,878	29,411,341
	Occupancy Rate (%)	95.4	95.5	95.7	96.2	96.2	96.6
FAR WEST	Absorption (Net, SF)	4,413	8,941	156,204	49,586	11,049	(31,742)
	Under Construction (SF)	104,701	105,201	113,315	88,085	156,994	145,299
	Rentable Building Area (RBA)	2,988,926	2,901,381	2,913,877	2,970,865	2,983,403	2,972,972
	Occupancy Rate (%)	90.6	90.6	94.7	95.7	96.1	96.5
SOUTH	Absorption (Net, SF)	10,620	(24,556)	(3,172)	24,955	2,405	14,174
	Under Construction (SF)	10,542	33,340	123,094	105,185	41,126	122,798
	Rentable Building Area (RBA)	9,772,811	9,669,482	9,680,297	9,720,899	9,755,988	9,770,642
	Occupancy Rate (%)	97.5	97.2	97.2	97.3	97.2	97.3
NORTHEAST	Absorption (Net, SF)	54,511	74,904	18,543	17,254	17,643	(10,537)
	Under Construction (SF)	10,382	10,382	-	-	36,429	47,279
	Rentable Building Area (RBA)	12,233,780	12,270,741	12,240,731	12,356,940	12,363,893	12,357,447
	Occupancy Rate (%)	94.9	95.4	94.1	94.2	94.2	94.1
GUADALUPE COUNTY	Absorption (Net, SF)	7,913	3,489	(637)	14,669	177,723	1,767
	Under Construction (SF)	186,455	186,455	237,230	257,230	140,000	156,000
	Rentable Building Area (RBA)	3,476,789	3,169,989	3,189,706	3,230,399	3,396,854	3,373,192
	Occupancy Rate (%)	93.7	97.0	96.4	96.1	97.7	97.7
BANDERA COUNTY	Absorption (Net, SF)	-	-	-	-	-	-
	Under Construction (SF)	-	-	-	-	-	-
	Rentable Building Area (RBA)	173,567	173,567	173,567	173,567	173,567	173,567
	Occupancy Rate (%)	100.0	100.0	100.0	100.0	100.0	100.0
SAN ANTONIO TOTAL	**Absorption (Net, SF)**	**296,753**	**68,169**	**329,096**	**217,996**	**251,365**	**29,738**
	Under Construction (SF)	**838,008**	**746,985**	**808,221**	**891,397**	**783,642**	**750,350**
	Rentable Building Area (RBA)	**90,523,104**	**89,907,341**	**89,980,511**	**90,715,502**	**90,966,517**	**91,020,592**
	Occupancy Rate (%)	**95.2**	**95.3**	**95.4**	**95.8**	**95.9**	**96.0**

Source: CBRE Research, Q3 2023.

OVERVIEW OF MARKET FUNDAMENTALS

San Antonio experienced steady job growth in the first quarter at an annualized rate of 1.2% from July to August, according to the Federal Reserve Bank of Dallas. Growth was concentrated in the leisure and hospitality sector at an annualized rate of 26.6% (2,677 jobs) and in other services at 11.3% (371 jobs). The professional and business services sector experienced the largest decline at a rate of 7.5% (1,058 jobs) in the same period. San Antonio's wages have increased at an annualized rate of 7.7%; the three-month moving average of wages was $28.26. Unemployment remained relatively flat at 3.9% as of September, remaining below the statewide unemployment rate of 4.1%, according to the Bureau of Labor Statistics (BLS).

OCCUPANCY & NET ABSORPTION

Market-wide occupancy grew slightly to 96.0% in Q3 2023 – 10 basis points (bps) up from the previous quarter. The San Antonio metro area saw continued moderate leasing activity this quarter, resulting in tighter vacancies. Four submarkets in the area reported an increase in occupancy.

— The Northwest and Comal County submarkets registered the most amount of space absorbed this quarter.

— Five submarkets registered negative absorption in Q3 2023, with the bulk of vacancies in the North Central submarket.

DEVELOPMENT

Four projects totaling 64,061 sq. ft. delivered in Q3 2023. New construction is on the horizon, with 30 projects totaling over 750,000 sq. ft. currently underway.

— Retail development remained strongest in the suburbs where demand is highest, particularly near new housing projects.

— The Northwest, Far West, and Guadalupe County submarkets held the lion's share of new development, with a combined 456,719 sq. ft. of space under construction across the three areas.
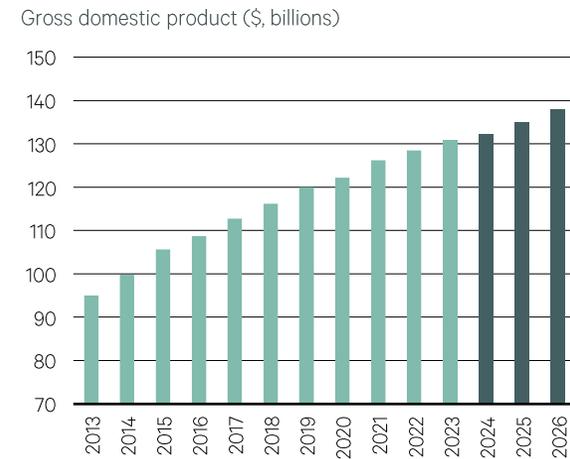
FIGURE 3: Annual Retail Sales

$/SF

Billions

Q1   Q2   Q3   Q4

Source: Oxford Economics, Q3 2023. Data excludes vehicle sales.

FIGURE 4: Retail Investment Sales Volume

($, Millions)
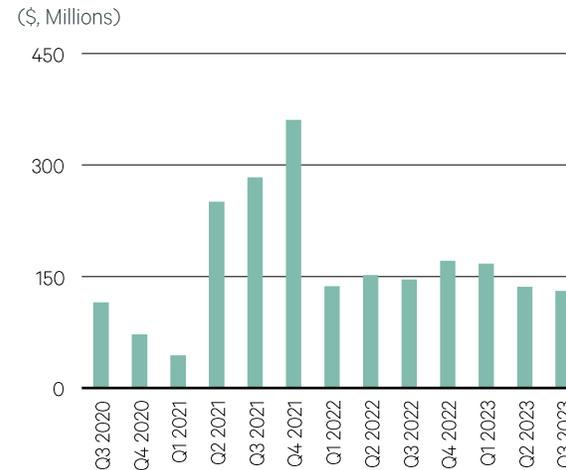
Source: Real Capital Analytics, Q3 2023.

FIGURE 5: Gross Domestic Product

Gross domestic product ($, billions)

Source: Oxford Economics, Q3 2023.

OVERVIEW OF ECONOMIC TRENDS

The U.S. economy has defied expectations for a slowdown and has even exhibited some signs of acceleration despite sharp tightening of credit conditions and ongoing write-downs in the banking sector. This resilience is due to a number of factors: 1) the Chips and IRA Acts have stimulated the construction sector; 2) the Fed. and the FDIC have provided prompt and effective support for the banks, and: 3) consumers are in good shape from a balance sheet and income perspective. Nevertheless, headwinds are intensifying: such as higher oil prices, resumption of student loan payments, and a weakening global economy. These headwinds, not serious in themselves, will hit home at a time when the squeeze from elevated interest rates is at its maximum.

The upshot for real estate is that the Fed is likely finished with its tightening cycle, allowing a clearer path for real estate capital markets to unfold. Although we expect economic growth to deteriorate it is likely that valuations will stabilize during 1H 2024.

UNEMPLOYMENT TRENDS

Over the next 24 months, unemployment is expected to stay marginally above 4.0%, according to data from Oxford Economics. Though unemployment will likely remain the same over the next two years, it is expected to fall back to under 4.0% by early 2026.

POPULATION GROWTH

New residents pushed population growth rates to 1.2% year-over-year and 7.6% over the last five years. Additionally, the median household income stood at $73,850, growing nearly 3.9% year-over-year.

— According to data from Oxford Economics, the population of the Greater San Antonio Metropolitan area increased by roughly 116,000 since 2020.

— Data from Oxford Economics forecasts that population will increase by approximately 79,000 people by 2026.

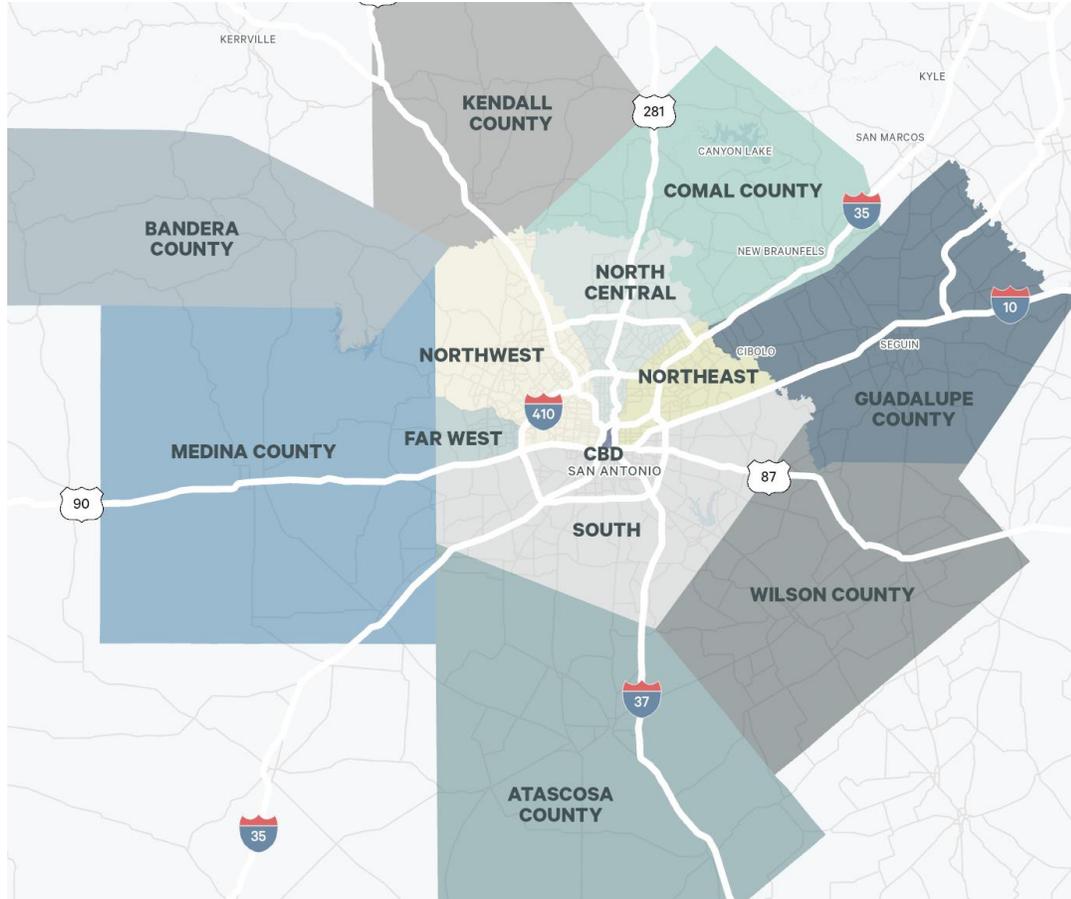FIGURE 6: San Antonio Labor Force and Unemployment
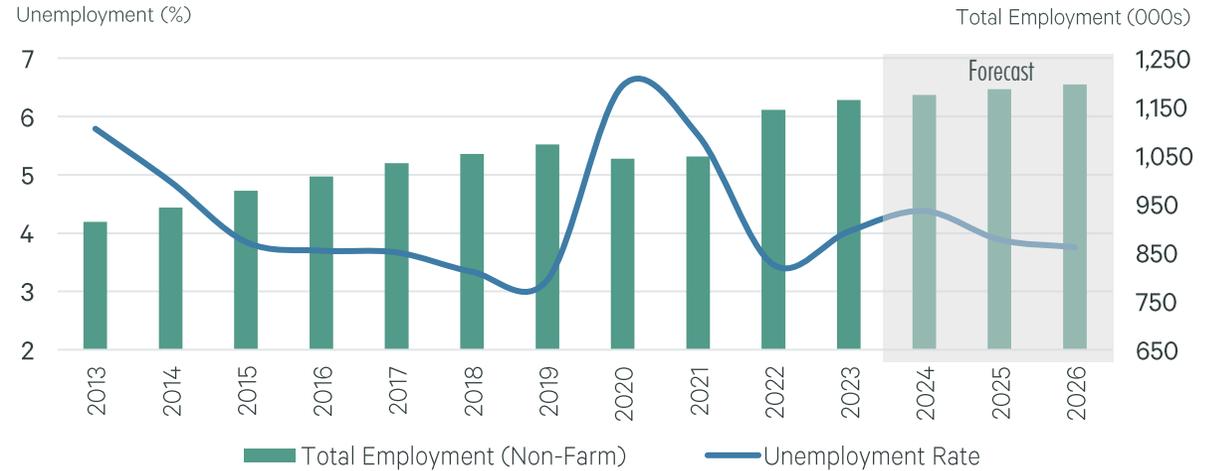
Source: Oxford Economics, October 2023.

FIGURE 7: Population Growth & Household Purchasing Power
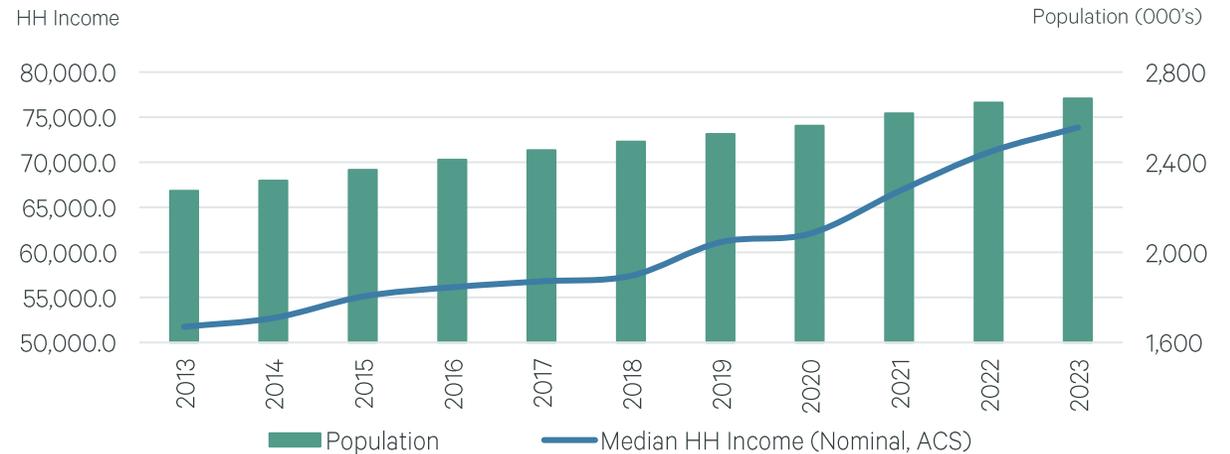
Source: Oxford Economics, October 2023.

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 retail buildings 10,000 sq. ft. and greater in size in greater metropolitan area of San Antonio, TX. Buildings which have begun construction as evidenced by site excavation or foundation work. Auto dealerships are excluded.

Contacts

Paige Suvalsky

Field Research Manager
paige.suvalsky@cbre.com

CBRE SAN ANTONIO Retail

1803 Broadway, Suite 825

San Antonio, TX 78215

CBRE