Leasing activity cools off amid summer slowdown

▼ 18.4%
Vacancy Rate

▼ (57,163)
SF Net Absorption

▲ 320,265
SF Construction

▼ $27.08
Avg. Gross Lease Rate

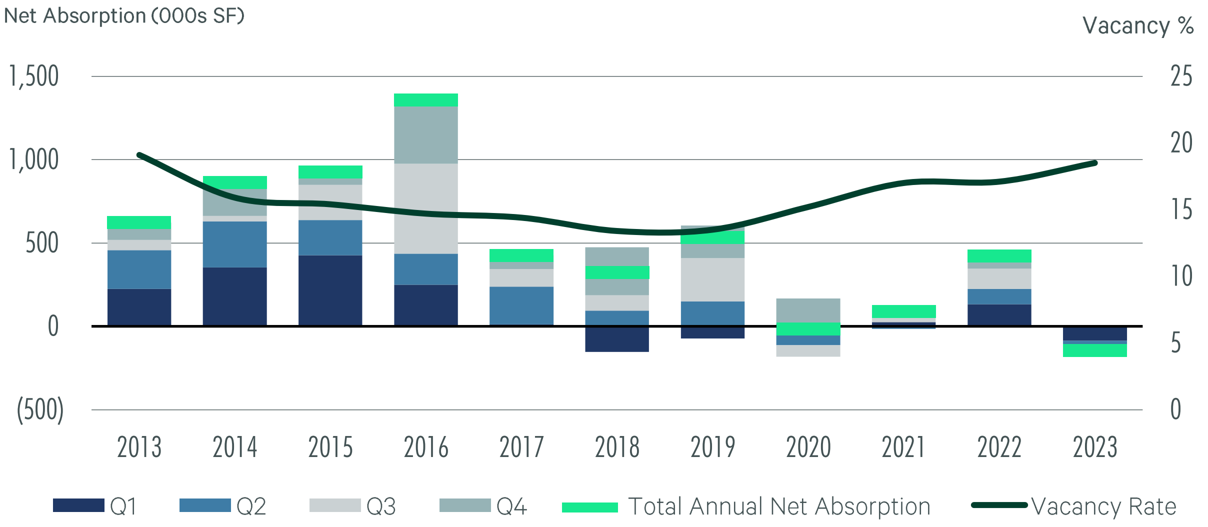
Note: Arrows indicate change from previous quarter.

MARKET OVERVIEW

- Vacancy decreased slightly by 10 basis points (bps) from 18.5% in Q1 2023 to 18.4%.
- New construction slowed down with zero deliveries and only one 22,000-sq.-ft. building added to the development pipeline this quarter.
- Market wide sublease availability increased slightly by roughly 36,000 sq. ft. quarter-over-quarter to 917,000 sq. ft.
- With limited new supply additions and a lack of available top-tier space across the market, average gross asking rents dipped $0.52 quarter-over-quarter.

The San Antonio office market closed the first half of the year with negative net absorption of over 143,000 sq. ft. from January to June. Much of the negative net absorption is largely attributed to USAA's downtown departure at Bank of America Plaza and One Riverwalk in Q1 2023, where over half a million sq. ft. was vacated and nearly 500 employees returned to its corporate headquarters on the Northwest side. While new occupancies slowed down into the summer, the leasing outlook for the remainder of the year remains bullish, as CBRE Research is tracking over 80 tenants totaling roughly 1.8 million sq. ft. actively seeking space across the market.

FIGURE 1: Net Absorption and Vacancy



Source: CBRE Research, Q2 2023.

FIGURE 2: San Antonio Office Market Statistics

Submarket	Net Rentable Area (SF)	Total Vacancy (%)	Total Availability (%)	Asking Rate, Gross (S/SF)	Under Construction (SF)	Q2 2023 Deliveries (SF)	Q2 2023 Net Absorption (SF)	2023 Total Net Absorption (SF)
CBD	5,405,307	23.9	28.5	31.95	-	-	(21,682)	(618,561)
Class A	2,686,671	36.8	39.2	32.90	-	-	(17,485)	(626,788)
Class B	2,170,930	11.4	19.9	26.21	-	-	3,635	16,059
North Central	10,522,421	16.1	19.7	25.11	74,265	-	41,623	150,539
Class A	4,470,325	14.5	17.4	30.18	74,265	-	6,968	73,924
Class B	4,610,983	18.8	22.8	23.12	-	-	43,305	68,587
Far North Central	2,598,189	22.7	22.9	34.14	-	-	26,967	2,958
Class A	1,933,766	26.1	25.9	35.31	-	-	21,828	(2,181)
Class B	664,423	12.8	14.2	27.16	-	-	5,139	5,139
Northeast	2,496,397	26.4	33.0	24.19	24,000	-	(21,215)	72,071
Class A	855,602	25.7	25.9	28.23	24,000	-	6,607	99,019
Class B	1,278,777	29.0	41.0	23.00	-	-	(23,067)	(21,068)
Northwest	11,310,709	15.4	23.7	25.82	22,000	-	(83,822)	244,101
Class A	4,542,053	16.6	27.4	32.71	22,000	-	(27,297)	323,299
Class B	5,166,053	15.1	22.3	22.84	-	-	(43,943)	(56,715)
Far West	1,284,395	26.2	53.3	25.72	-	-	0	0
Class A	886,646	27.1	63.4	29.93	-	-	0	0
Class B	397,749	24.2	30.8	23.40	-	-	0	0
South	721,639	2.0	2.6	25.00	200,000	-	966	5,310
Class A	255,029	0.0	0.0	-	200,000	-	0	0
Class B	317,956	4.6	4.6	-	-	-	966	966
San Antonio Total	**34,339,057**	**18.4**	**24.5**	**27.08**	**320,265**	**-**	**(57,163)**	**(143,582)**
Class A	**15,630,092**	**21.5**	**27.9**	**32.14**	**320,265**	**-**	**(9,379)**	**(132,727)**
Class B	**14,606,871**	**16.9**	**23.2**	**23.25**	**-**	**-**	**(13,965)**	**12,968**

Source: CBRE Research, Q2 2023.

OVERVIEW OF MARKET FUNDAMENTALS

San Antonio experienced solid job growth in the first quarter at an annualized rate of 9.5% from April to May, according to the Federal Reserve Bank of Dallas. Growth was concentrated in the professional and business Services sector at an annualized rate of 33.5% (3,987 jobs) and in financial activities at 15.8% (1,243 jobs). The information services sector experienced the largest decline at a rate of 2.9% (47 jobs) in the same time period. San Antonio's wages have increased at an annualized rate of 3.0%; the three-month moving average of wages was $27.94. Unemployment edged slightly upward to 3.8% as of May, remaining below the statewide unemployment rate of 4.1%, according to the Bureau of Labor Statistics (BLS).

ASKING RATES & VACANCY

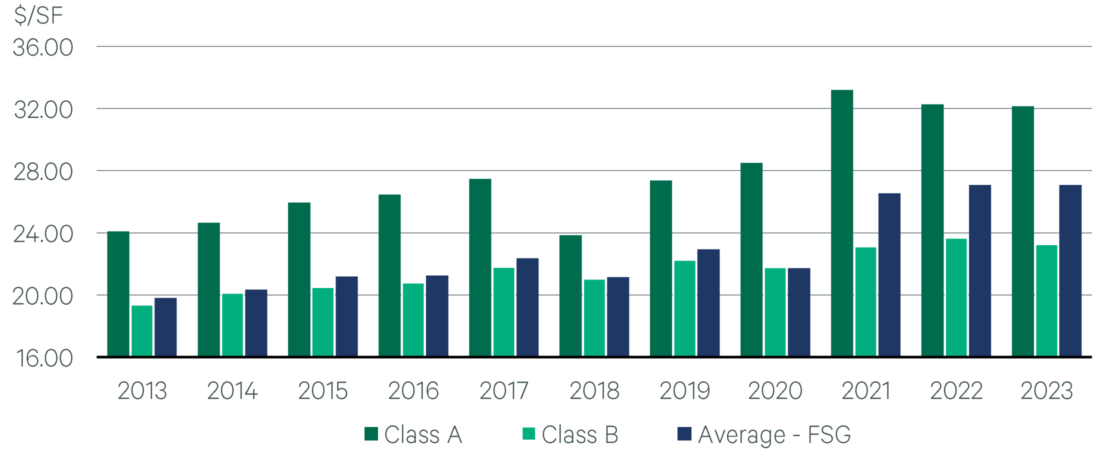
The market wide gross average asking rent flattened this quarter, decreasing by $0.52 per sq. ft. quarter-over-quarter. This is largely attributed to a lack of premium Class A supply delivering to the market and limited availability in existing top-tier product, specifically along lower Broadway in the Midtown Corridor.

Overall vacancy decreased 10 bps this quarter, from 18.5% in Q1 2023. Class A vacancy took a hit this quarter with vacancy growing 60 bps quarter-over-quarter and availability increasing 110 bps in the same time period. Flight to quality is a common trend in 2023, as many users are consolidating or downsizing office space, typically in Class A- buildings and flocking to smaller footprints in A+ office buildings.

DEVELOPMENT

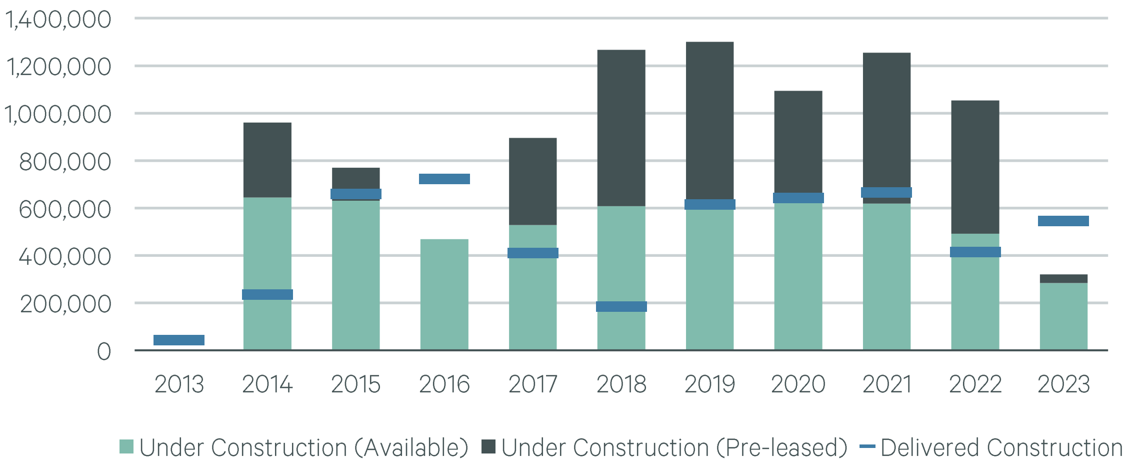
New construction slowed across the market, with one building totaling 22,000 sq. ft. breaking ground in New Braunfels this quarter. Only five projects remain underway, with deliveries slated for the second half of the 2023. Approximately 11.2% of the construction pipeline is pre-leased. Deliveries also flattened this quarter with no new deliveries to the market.

FIGURE 3: Asking Rates, Avg. Annual - Gross



Source: CBRE Research, Q2 2023.

FIGURE 4: Development Pipeline and Availability



Source: CBRE Research, Q2 2023.

OVERVIEW OF ECONOMIC TRENDS

For the last six months the consensus amongst economists has been that H2 would bring the United States to the brink of recession and possibly push it over the edge. Recently, this narrative has been challenged by a surprisingly resilient consumer and labor market. Indeed, GDP growth in Q2 2023 is poised to hit the mid-2% range (p.a.). Beneath this veneer of health lies a fragile economy, which will probably lapse into recession, albeit a little later than previously expected.

The chief concern is credit conditions tightening at a magnitude that typically precedes a recession. The consequences are already manifest in the housing market, and particularly across the Western U.S. where valuations are most disconnected from local incomes. Other rate sensitive sectors, such as manufacturing, are also under pressure—both domestic and abroad—exemplified by cooling capital goods orders and PMI data. And while the labor market is objectively tight, it is softer than one year ago when we saw higher quit rates and stronger wage growth.

Perhaps the key question is: Will the inflation slow fast enough to avert further rate hikes? CBRE's baseline view is that there is no need for further rate hikes because inflation is coming under control, but because of strong recent data the Fed will make one more rate hike, just to make sure the job is done. This will slightly exacerbate the coming slowdown and lead the Fed to begin cutting rates at the end of the year.

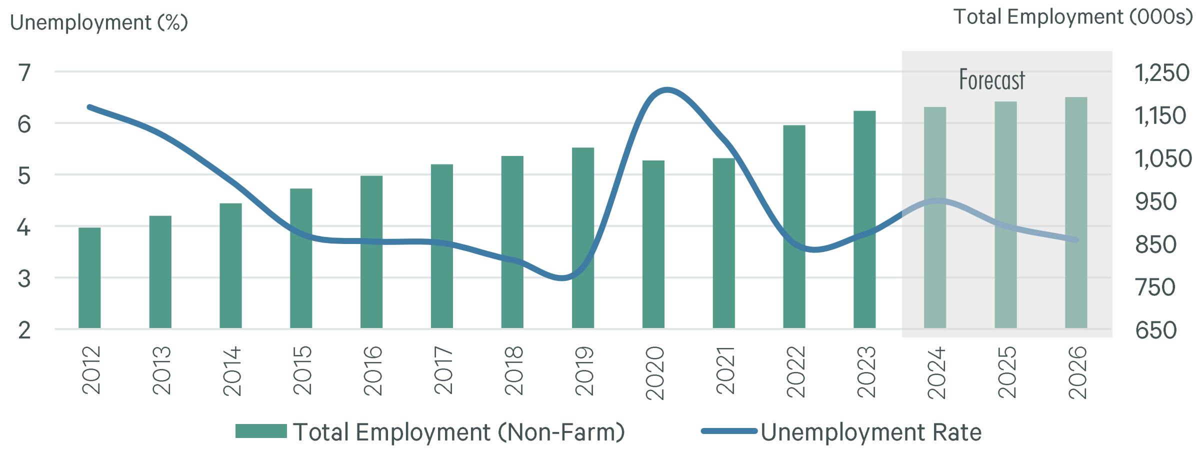
UNEMPLOYMENT TRENDS

Over the next 24 months, unemployment is expected to rise from 3.8% in Q2 2023 to 4.4% by Q4 2024, according to data from Oxford Economics. Though unemployment will likely increase over the next two years, it is expected to remain below 5.0% and will likely fall back to under 4.0% by 2026.

POPULATION GROWTH

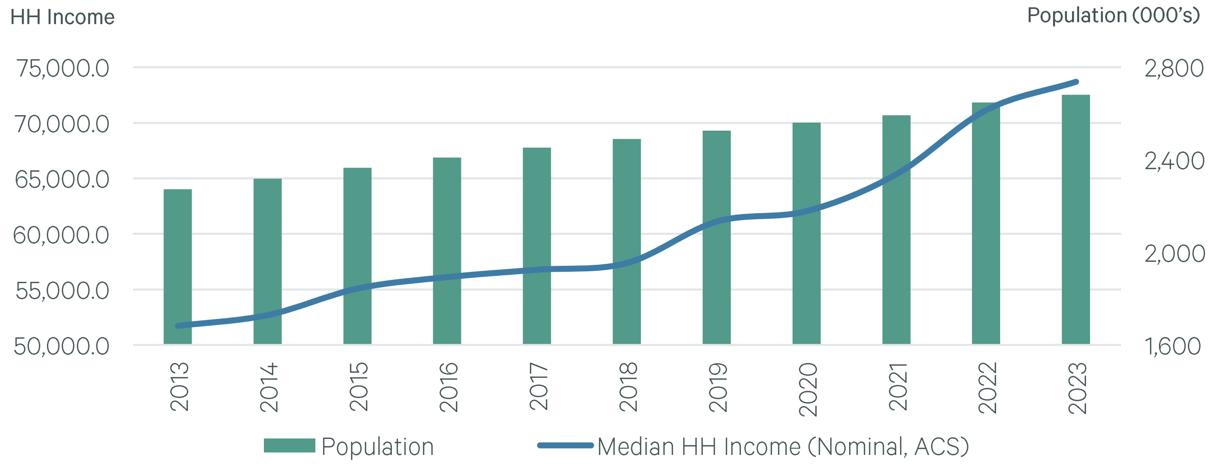
New residents pushed population growth rates to 1.2% year-over-year and 6.2% over the last five years. Additionally, the median household income stood at $73,690, growing nearly 3.6% year-over-year.

FIGURE 5: San Antonio Labor Force and Unemployment



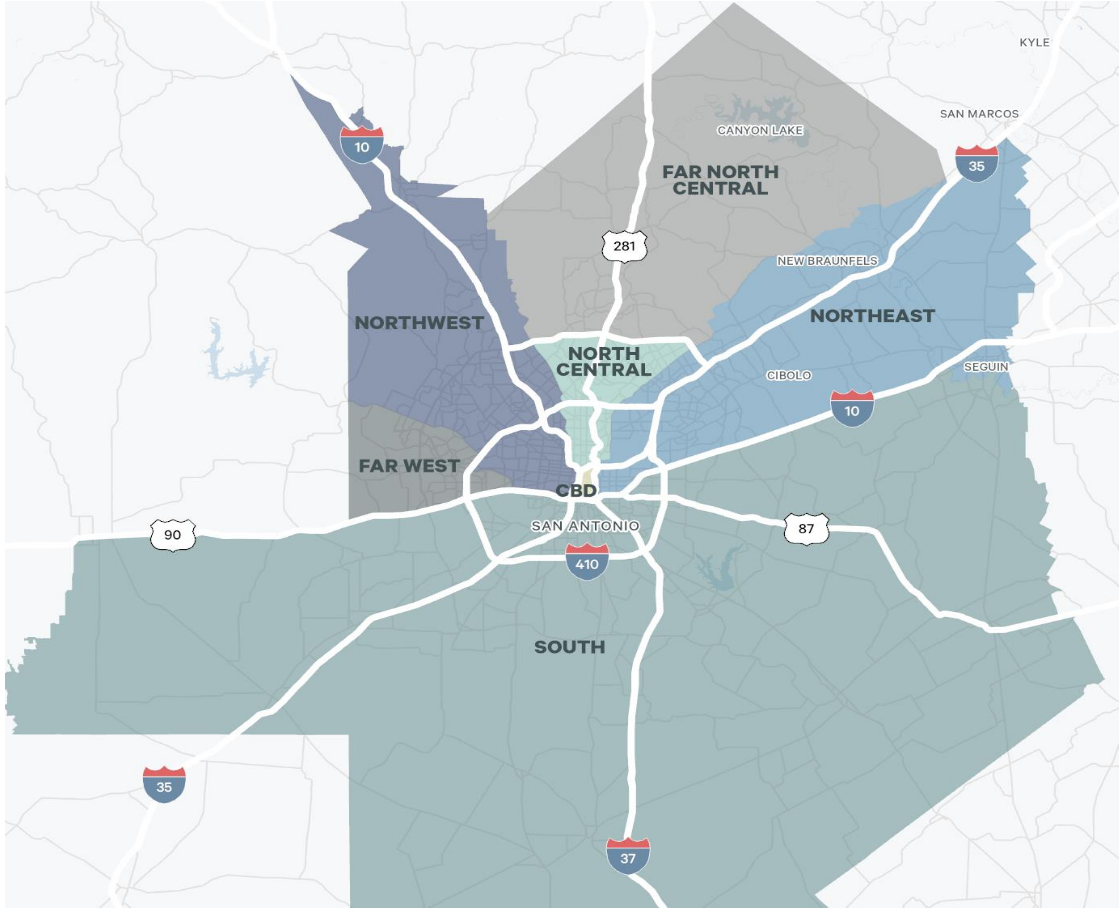
Source: Oxford Economics, June 2023.

FIGURE 6: Population Growth & Household Purchasing Power



Source: Oxford Economics, June 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 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.

Contacts

Paige Suvalsky
Field Research Manager
paige.suvalsky@cbre.com

E. Michelle Miller
Head of Research, South Region & South-Central Division
michelle.miller@cbre.com

CBRE SAN ANTONIO OFFICE

1803 Broadway, Suite 825
San Antonio, TX 78215