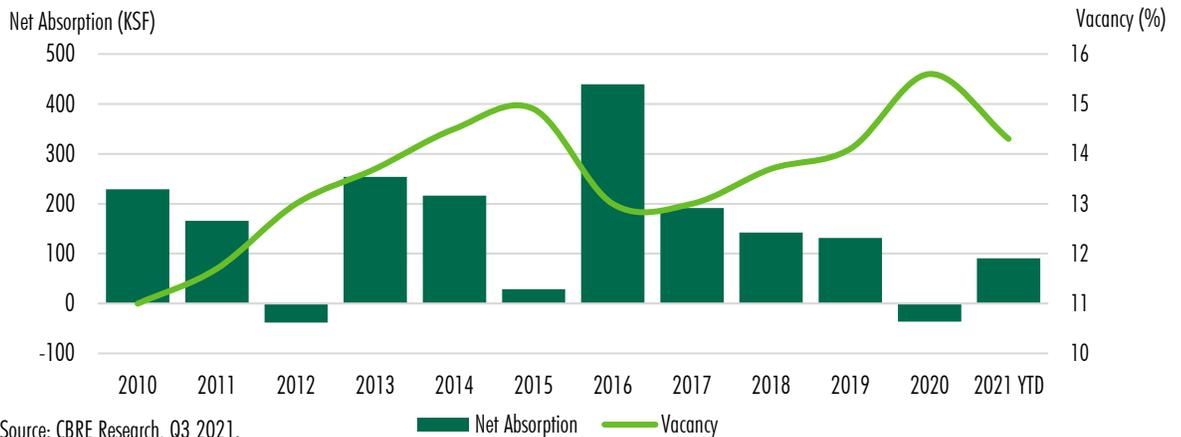


Q3 2021

Market conditions remain favorable as pandemic subsides

▼ Vacancy 13.8%
▲ Net Absorption 44,377 SF
▲ Avg. Asking Rate 20.06 PSF
▲ Under Construction 133,911 SF
▼ Completions 0 SF

Figure 1: Net Absorption and Vacancy Rate



LEASING AND SALES ACTIVITY REMAIN ROBUST

While many property sectors continue to face implications from the pandemic, the medical office building (MOB) sector proved to be resilient, with five consecutive quarters of positive net absorption. Market-wide vacancy dipped 50 basis points (bps), from 14.8% in Q3 2020 to 14.3% in Q3 2021. Moreover, MOB sales volume increased over 6.7% quarter-over-quarter. Cap rates also shrunk by 50 bps year-over-year, with an average cap rate of 6.1% in Q3 2021.

DEVELOPMENTS ON THE HORIZON

The construction pipeline remained tight, with only eight projects, totaling over 133,000 sq. ft. underway in Q3 2021. However, several sizeable projects are in proposal stages with plans to break ground in early 2022. Projects of note include UT Health Park West, Methodist Hospital MOB in Westover Hills, and the new Spurs training facility which will include medical space for lease.

U.S. OUTLOOK ON COVID-19

The summer of 2021 began with a surge, only to ease back as the Delta variant forced many consumers to rethink their holidays and restaurant visits. But demand for labor remains high and most signals suggest the key problem firms face is finding workers. Thus, employment growth should remain above 3% through 2022. Longer-term hiring in the U.S. will be restrained by a shrinking labor force.

A plausible outlook is that waves of COVID-19 continue but the U.S. economy and health system learn to manage these disruptions. This will allow room for 5% GDP growth in 2022, as business investment and consumer activity normalize. Upside risks include the prospect of greater infrastructure spending, albeit the political dynamics are fluid. Also, the construction of more housing units to correct a historic shortage—estimated at 3.8 million units, per FreddieMac—would also be material tailwind for growth.

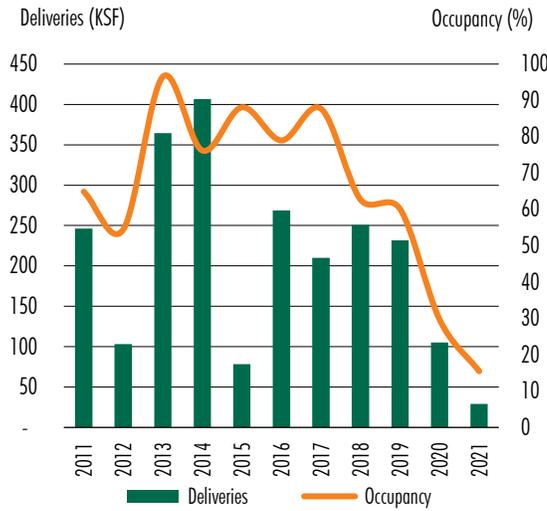
Figure 2: San Antonio Market Statistics

Submarket	Net Rentable Area	Total Vacancy (%)	Total Availability (%)	Avg. NNN Asking Rate (\$)	Under Construction (SF)	Q3 2021 Deliveries (SF)	Q3 2021 Net Absorption
Atascosa County	132,669	13.8	13.8	-	-	-	-
Class A	-	-	-	-	-	-	-
Class B	98,672	18.6	18.6	-	-	-	-
CBD	714,073	27.7	33.6	-	-	-	(994)
Class A	143,077	47.3	73.7	-	-	-	59
Class B	546,385	23.8	24.6	-	-	-	(1,053)
Comal County	534,025	12.1	12.1	26.95	41,295	-	18,406
Class A	129,674	2.6	2.6	35.28	-	-	4,426
Class B	392,351	15.7	15.7	24.17	41,295	-	13,980
Far North Central/Stone Oak	1,247,782	12.5	15.0	20.95	-	-	6,134
Class A	357,282	16.5	19.3	19.50	-	-	1,463
Class B	878,394	11.1	13.5	21.28	-	-	4,671
Far Northwest	203,986	14.7	14.0	-	-	-	8,887
Class A	27,320	45.8	45.8	-	-	-	-
Class B	176,666	9.9	9.0	-	-	-	8,887
Far West/Westover Hills	640,460	8.4	8.0	22.83	69,672	-	3,994
Class A	397,906	4.2	3.9	-	69,672	-	3,994
Class B	242,554	15.3	14.6	22.83	-	-	-
Guadalupe County	329,233	9.0	8.5	18.40	22,944	-	3,994
Class A	60,066	32.7	32.7	26.00	22,944	-	3,994
Class B	245,865	1.8	1.0	-	-	-	-
Kendall County	220,790	11.4	11.4	18.00	-	-	4,434
Class A	54,854	6.5	6.5	-	-	-	-
Class B	151,036	14.2	14.2	18.00	-	-	4,434
North Central	1,167,454	14.8	15.7	19.08	-	-	2,218
Class A	89,392	14.4	14.4	-	-	-	-
Class B	911,286	12.1	13.2	20.33	-	-	1,808
Northeast	956,754	15.2	15.5	19.50	-	-	(3,375)
Class A	125,869	25.1	25.1	-	-	-	-
Class B	492,724	16.0	16.1	19.50	-	-	-
Northwest (Non-Medical Center)	948,506	4.0	3.3	22.00	-	-	(6,400)
Class A	-	-	-	-	-	-	-
Class B	849,503	3.7	3.0	22.00	-	-	(6,596)
Northwest Medical Center Proper	4,234,324	15.9	16.4	17.00	-	-	11,267
Class A	389,093	14.9	15.7	17.85	-	-	-
Class B	3,241,619	17.1	17.7	18.38	-	-	12,556
South	1,048,597	10.7	11.3	16.00	-	-	(3,594)
Class A	80,000	3.9	15.5	-	-	-	(3,128)
Class B	469,768	16.9	16.3	20.00	-	-	(367)
San Antonio Total	12,378,653	13.8	14.7	20.06	133,911	-	44,377
 Class A	1,854,533	15.5	18.7	25.07	92,616	-	6,814
 Class B	8,696,823	14.3	14.8	20.38	41,295	-	41,720

*NNN rent averages include only properties with corresponding quoted rents. Although Class C is not listed, totals are inclusive of all classes of data. Statistics exclude owner occupied properties.

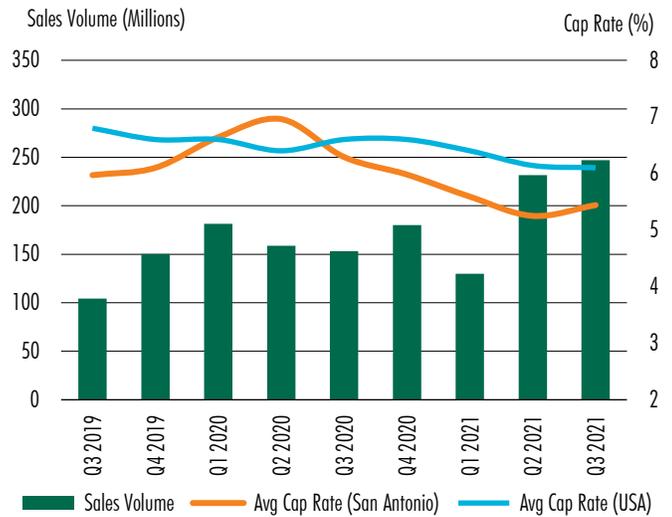
Source: CBRE Research, Q3 2021.

Figure 3: Historical Development



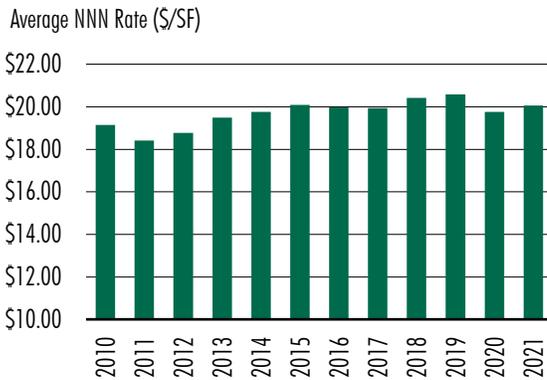
Source: CBRE Research, Q3 2021.

Figure 4: Sales Volume and Cap Rates



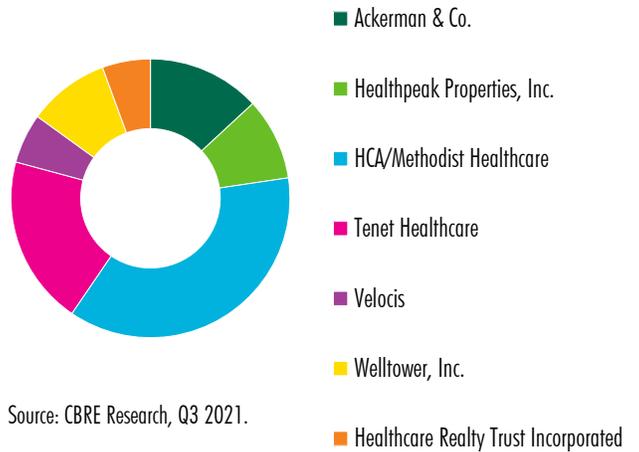
Source: CBRE Research, Q3 2021.

Figure 5: Asking Rental Rate



Source: CBRE Research, Q3 2021.

Figure 6: Top MOB Owners by Sq. Ft.



Source: CBRE Research, Q3 2021.

Figure 7: Notable MOBs Under Construction

	SF	Building Name	Address	City	Expected Delivery
1	41,295	Generations Office Bldgs 500-800	790 Generations Dr	New Braunfels	Jan-22
2	28,892	Building III	11153 Westwood Loop	San Antonio	Jul-21
3	22,944	Kellum Schertz Medical Center	3701 FM 3009	Schertz	Sep-21

Source: CBRE Research, Q3 2021.

Figure 8: Recent Sale Transactions

	SF	Building Name	Address	Buyer	Seller	Price	Date	Cap Rate
1	82,316	Legent Orthopedic & Spine	5330 N Loop 1604 W	Remedy Medical Properties	PSN Affiliates	N/A	Jul-21	N/A
2	32,011	Oakview Medical Center	2040 Babcock Rd	Atharva, LLC	Oakview VG, LLC	N/A	Aug-21	N/A
3	10,649	DaVita Dialysis	798 Generations Dr	Elliott Bay Capital Trust, LLC	Westover Dialysis Property LLC	N/A	Aug-21	6.0%

Source: CBRE Research, Q3 2021.



**The MOB dataset includes non-owner occupied properties 10,000-sq.-ft. and greater.*

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