Office fundamentals shift positively heading into 2025

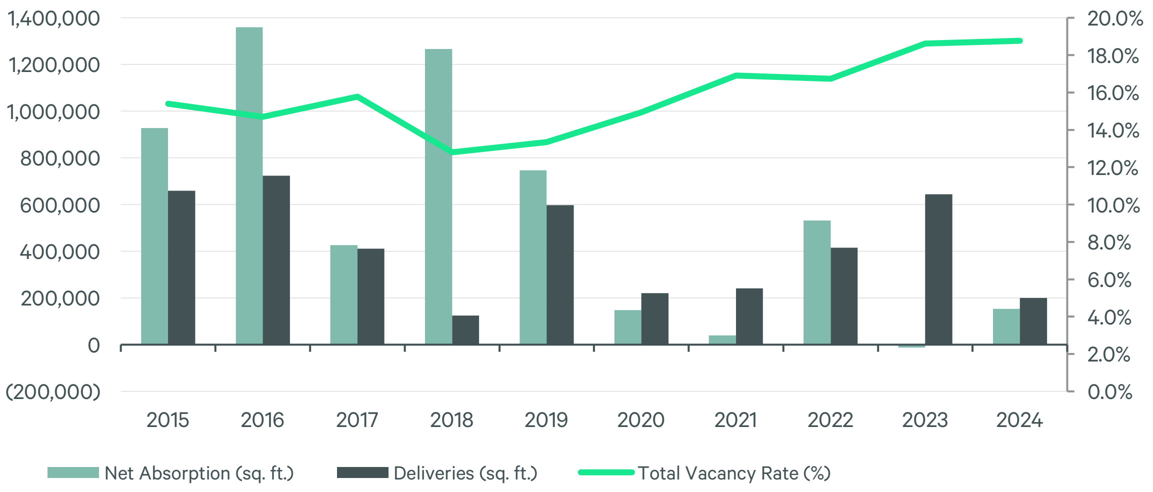
▼ 18.8%	▲ 122,623	▶ 130,000	▲ $28.71
Total Vacancy	SF Net Absorption	SF Construction	Avg. Gross Lease Rate

Note: Arrows indicate change from previous quarter.

MARKET HIGHLIGHTS

- San Antonio's office market closed out Q4 2024 with positive net absorption totaling 122,623 sq. ft., mostly attributable to Guidehouse occupying 107,094 sq. ft. in the Far West submarket. This move pushed annual absorption to 153,762 sq. ft. in a year characterized by a handful of larger-than-typical occupancy swings.
- Fundamentals are stable marketwide and have been consistently healthy in the Midtown submarket, which includes the Broadway corridor and the Pearl. Class A vacancy is very tight in Midtown relative to the rest of the market, reaching 8.1% in Q4 following a mid-year low of 6.8%.
- Marketwide vacancy dipped to 18.8%, just below the nationwide average of 18.9%. Vacancy remains elevated above pre-pandemic norms, driven by tenants downsizing as their leases expire and by slower lease-up of speculative deliveries. As is true nationwide, high-quality space is in the most demand.
- No new office product is underway in San Antonio proper, and vacancy will likely begin to decline in coming quarters as recently delivered properties lease up.

FIGURE 1: Historical Absorption, Deliveries and Vacancy



Source: CBRE Research Q4 2024.

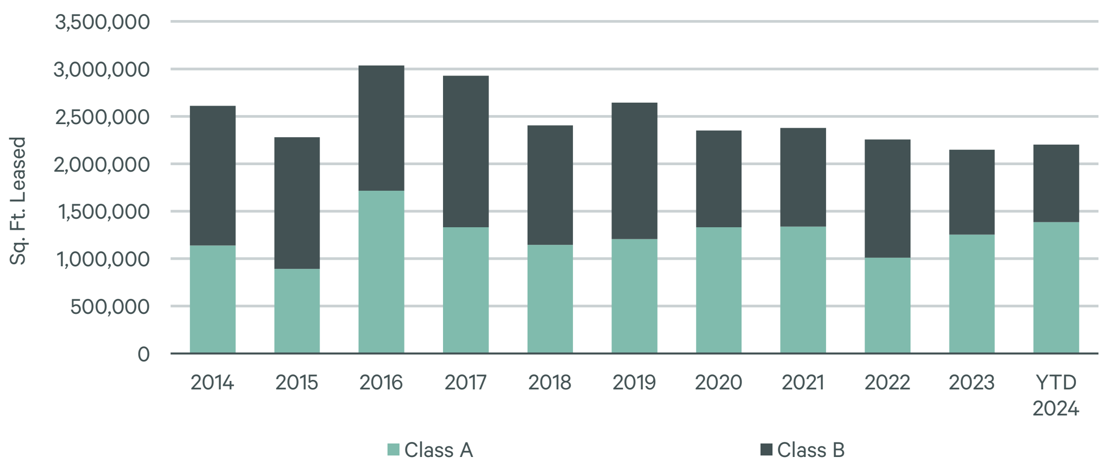
SUPPLY & DEMAND

Leasing activity trended upward in 2024: tenants leased 2.8 million sq. ft. of office space in 2024, as compared with 2.1 million square feet in 2023. The most active verticals were Finance, Information, Healthcare and Legal Services, and leasing volume continues to be greatest among Class A assets, comprising 51% of total leasing volume in 2024. In spite of strong leasing activity, Class A vacancy remains elevated at 22.02%, a scant year-over-year decrease from 22.27% at the close of 2023. Nearly 1.4 million sq. ft. of Class A product has been delivered since 2022, of which 36.2% remains vacant.

On the supply side, no new construction broke ground in 2024, and there is currently no office construction is underway in the city of San Antonio. In New Braunfels, the 130,000 sq. ft. River Mill project remains under construction with no pre-leasing activity.

With no new significant developments expected soon, the market is likely to begin tightening again, in tandem with the economy gradually improving.

FIGURE 2: Leasing Activity

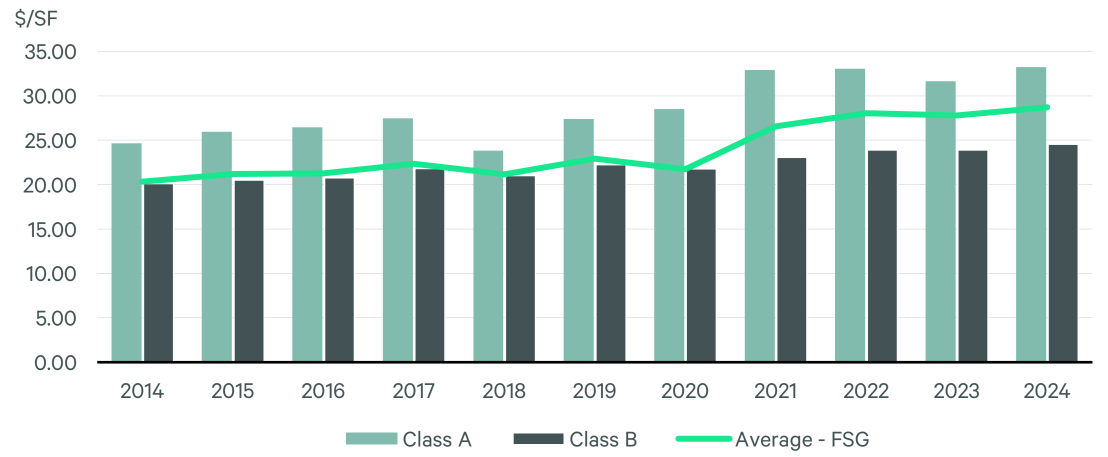


PRICING

Rates have gradually increased over the past eight quarters to reach historic highs in Q4 2024. Overall asking rents currently sit at $28.71/sq. ft. (FSG), a 3.3% year-over-year increase. Given the activity occurring in Class A product, rent growth in those assets has been more aggressive, with rents increasing 8.8% year-over-year to a marketwide average of $33.22. Class B rents have increased incrementally over the same period, settling at $24.54 in Q4.

Midtown Class A office commanded the highest rates at $38.87 (FSG), followed closely by the Far North Central submarket at $38.10.

FIGURE 3: Asking Rates



Submarket	Net Rentable Area (SF)	Total Vacancy (%)	Total Availability (%)	Asking Rate, Gross (S/SF)	Under Construction (SF)	Q4 2024 Deliveries (SF)	Q4 2024 Net Absorption (SF)	YTD 2024 Total Net Absorption (SF)
CBD	**5,210,238**	**27.6**	**29.1**	**31.68**	**-**	**-**	**(5,333)**	**(207,385)**
Class A	2,487,302	46.9	50.3	32.34	-	-	13,360	(222,667)
Class B	2,175,230	10.5	10.2	28.91	-	-	(12,884)	15,509
Far North Central	**2,611,069**	**19.0**	**19.6**	**35.32**	**-**	**-**	**30,565**	**117,020**
Class A	1,957,766	18.0	19.0	38.10	-	-	57,867	119,938
Class B	636,457	22.5	21.9	27.69	-	-	(27,302)	(2,918)
Far West	**1,597,991**	**18.0**	**18.0**	**23.50**	**-**	**-**	**99,928**	**103,507**
Class A	886,646	25.6	25.6	30.67	-	-	107,094	107,094
Class B	711,345	8.4	8.4	15.34	-	-	(7,166)	(3,587)
Midtown*	**2,267,114**	**9.4**	**9.9**	**34.93**	**-**	**-**	**(23,229)**	**(13,299)**
Class A	1,720,275	8.1	8.7	38.87	-	-	(16,598)	7,891
Class B	422,355	9.9	10.1	35.11	-	-	(6,631)	9,517
North Central	**8,864,531**	**16.4**	**18.5**	**26.82**	**-**	**-**	**35,576**	**(28,130)**
Class A	3,269,239	16.2	17.9	29.73	-	-	52,851	4,769
Class B	4,235,540	19.0	21.4	25.78	-	-	(5,898)	(27,760)
Northeast	**2,288,552**	**27.6**	**30.6**	**24.17**	**130,000**	**-**	**21,947**	**35,405**
Class A	642,047	24.9	25.2	29.75	130,000	-	9,015	21,208
Class B	1,284,487	31.4	36.0	22.96	-	-	15,961	23,690
Northwest	**11,394,668**	**16.3**	**22.2**	**26.95**	**-**	**-**	**(54,635)**	**155,273**
Class A	4,377,334	16.1	21.5	34.20	-	-	(29,913)	159,427
Class B	5,480,868	17.4	23.5	23.40	-	-	(36,188)	30,132
South	**921,316**	**24.1**	**24.1**	**35.95**	**-**	**-**	**17,804**	**(8,629)**
Class A	455,029	44.0	44.0	35.95	-	-	-	-
Class B	324,030	6.9	6.9	-	-	-	17,804	(8,629)
San Antonio Total	35,155,479	18.8	21.7	28.71	130,000	-	122,623	153,762
Class A	15,795,638	22.0	24.6	33.22	130,000	-	193,676	197,660
Class B	15,270,312	17.4	20.6	24.54	-	-	(62,304)	35,954

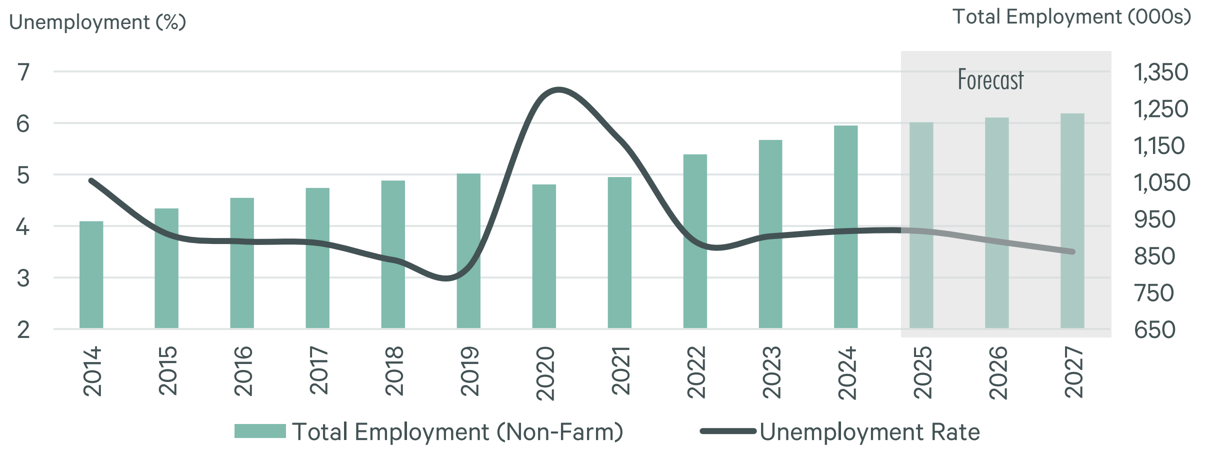
*In Q1 2024, CBRE Research added the Midtown submarket to San Antonio's office market, resulting in changes to the sizes of the CBD, North Central, and Northeast submarkets.
^Class C stats not shown, but included in total

ECONOMIC OUTLOOK

The U.S. economy continues to exceed expectations. Much of this is due to a sturdy consumer who is enjoying increased household wealth, real income growth, and a resilient labor market. Consequently, CBRE is revising its outlook upward for 2025 annual average GDP growth by 60 basis points to 2.3%.

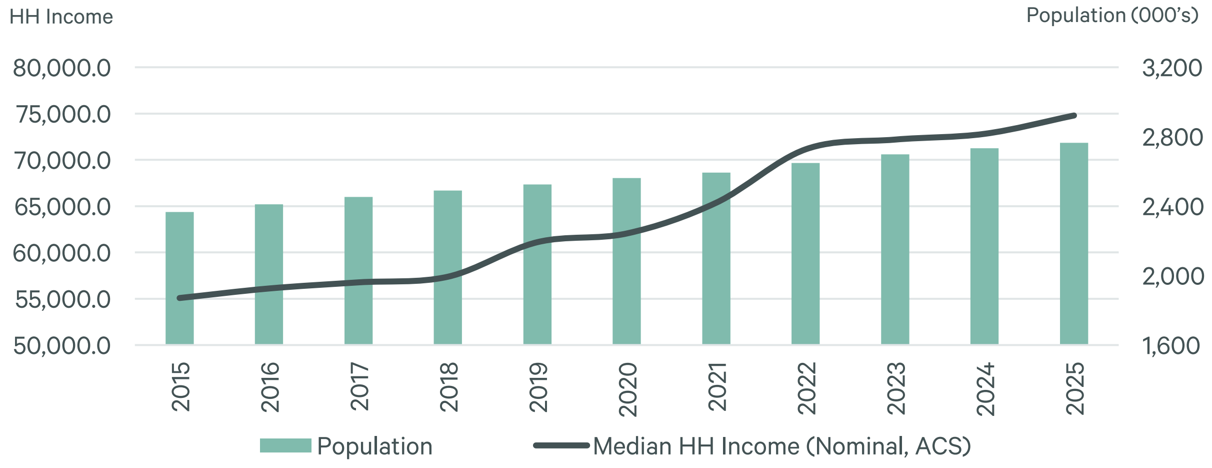
Typically, sturdy economic growth alongside Fed rate cuts would be rocket fuel for commercial real estate (CRE) performance. The catch is capital markets have grown skeptical of just how low rates will go in 2025. The mix of sticky core inflation and future policy concerns are putting upward pressure on long-term rates. Nevertheless, real estate capital markets have made good progress in recent quarters. Lending spreads are tightening, and credit issuance is up. Lending conditions are easing a bit as multifamily LTVs are trending slightly upward. Stronger debt markets and balanced and/or recovering space market fundamentals should translate into a noticeable uptick in investment during the next several quarters.

FIGURE 5: San Antonio Labor Force and Unemployment



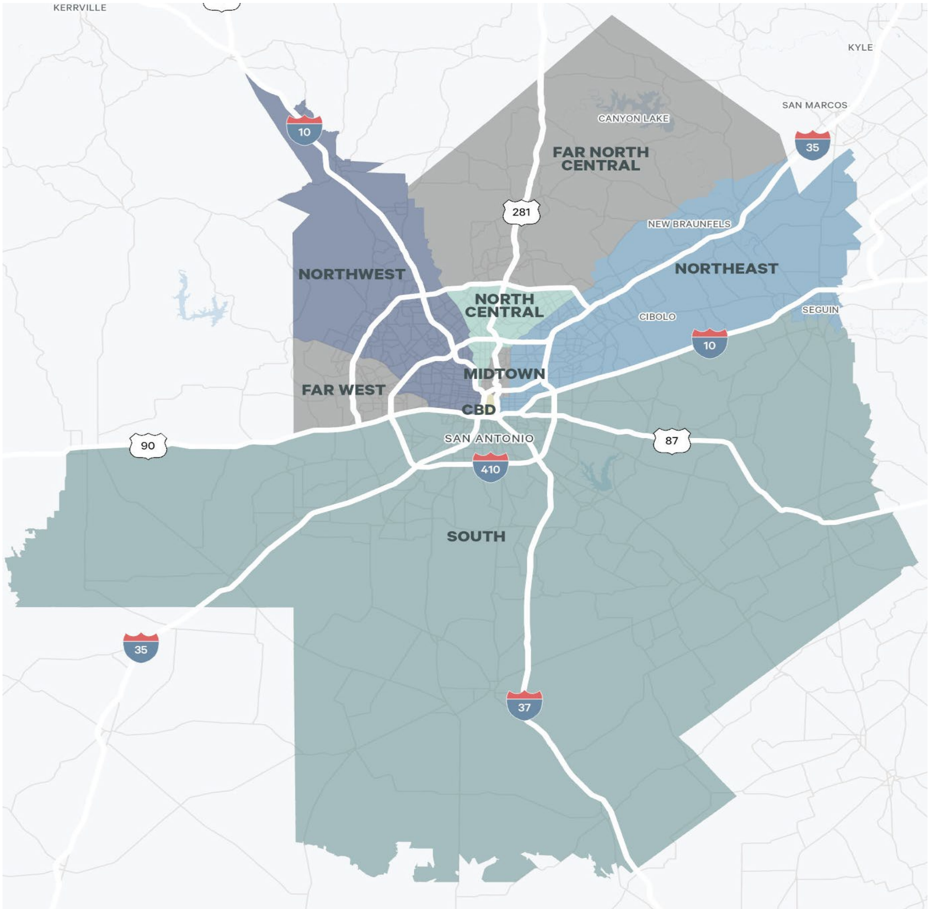
Source: Oxford Economics

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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