Net absorption tapers but remains positive in Q2

▲ 4.8%
Vacancy Rate

▼ 559,302
SF Net Absorption

▲ 6,952,916
SF Construction

▼ $7.22
NNN / Lease Rate

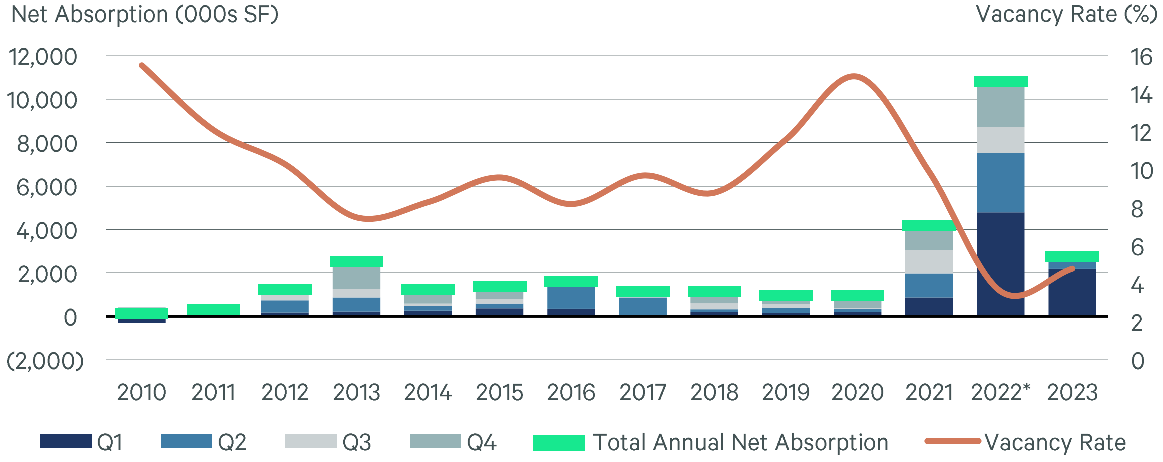
Note: Arrows indicate change from previous quarter.

MARKET OVERVIEW

- Following a strong first quarter, new occupancies slowed down in Q2 as just over 559,000 sq. ft. of net absorption was registered.
- Despite a summer slowdown, activity is expected to ramp up in Q3 as several sizeable pre-leased projects come online.
- Vacancy rose 20 basis points (bps) quarter-over-quarter to 4.8%, which can be attributed to several projects delivering unleased in the Northeast and Northwest submarkets.
- Six projects totaling 467,580 sq. ft. delivered in Q2 2023 and an additional 6.6M sq. ft. are slated for delivery in the next 12 months.
- The market wide average asking rental rate dropped $0.23 quarter-over-quarter from $7.45 in Q1 2023.

Demand for bulk user product continued to drive market fundamentals in the first half of 2023. Developers continue to respond to heightened demand, although at a slightly slower pace than previous quarters with four new projects breaking ground in Q2 for a combined total of 785,266 sq. ft., with a remaining 34 projects underway.

FIGURE 1: Net Absorption and Vacancy



Source: CBRE Research, Q2 2023.

As of Q2 2022, owner-occupied properties are now included in our tracked inventory to better reflect the entire market.

FIGURE 2: San Antonio Industrial Market Statistics

Submarket	Net Rentable Area (SF)	Total Vacancy (%)	Total Availability (%)	Asking Rate, NNN Avg. Annual (S/SF)	Under Construction (SF)	Q1 2023 Deliveries (SF)	Q1 2023 Net Absorption	2023 Total Net Absorption
CBD	2,151,911	0.9	1.4	-	-	-	-	-
Class A	-	-	-	-	-	-	-	-
Class B	366,955	-	-	-	-	-	-	-
North Central	12,242,458	3.6	5.9	11.25	718,215	-	(21,021)	(25,342)
Class A	1,062,818	8.7	23.4	11.50	718,215	-	(53,061)	(51,029)
Class B	6,203,405	3.7	5.0	11.68	-	-	26,803	15,426
Northeast	63,958,160	3.8	5.9	6.98	3,339,342	280,380	577,872	2,131,411
Class A	21,514,518	7.4	7.9	6.53	3,339,342	280,380	515,368	1,873,558
Class B	22,156,249	2.4	6.0	7.12	-	-	10,205	246,838
Northwest	16,301,816	3.9	4.5	8.06	489,461	187,200	20,623	(6,381)
Class A	970,658	19.7	21.4	5.89	451,205	187,200	-	37,114
Class B	7,553,128	3.0	3.7	11.23	38,256	-	1,199	(31,656)
South	37,961,558	7.3	7.7	5.76	2,405,898	-	(18,172)	652,289
Class A	17,643,039	12.1	12.1	6.01	2,153,287	-	(77,737)	520,414
Class B	12,611,226	2.4	3.8	5.63	252,611	-	61,228	128,788
San Antonio Total	**132,615,903**	**4.8**	**6.2**	**7.22**	**6,952,916**	**467,580**	**559,302**	**2,751,977**
Class A	**41,191,033**	**9.7**	**10.4**	**6.43**	**6,952,916**	**467,580**	**384,570**	**2,380,057**
Class B	**48,890,963**	**2.6**	**4.9**	**8.20**	**-**	**-**	**99,435**	**359,396**

Source: CBRE Research, Q2 2023.

As of Q2 2022, owner-occupied properties are now included in CBRE Research's tracked inventory for San Antonio Industrial to better reflect the entire market.

FIGURE 3: San Antonio Market Statistics, Distribution/Logistics & Flex/R&D

Submarket	DISTRIBUTION/LOGISTICS					FLEX/R&D					MANUFACTURING				
	Total Vacant (SF) / Total RBA (SF)	Vacancy Rate (%)	NNN $/SF	Q1 2023 Net Absorption (SF)	2023 Total Net Absorption (SF)	Total Vacant (SF) / Total RBA (SF)	Vacancy Rate (%)	NNN $/SF	Q1 2023 Net Absorption (SF)	2023 Total Net Absorption (SF)	Total Vacant (SF) / Total RBA (SF)	Vacancy Rate (%)	NNN $/SF	Q1 2023 Net Absorption (SF)	2023 Total Net Absorption (SF)
CBD	0 / 1,203,597	0.0%	0.00	0	0	20,000 / 361,050	5.5%	0.00	0	0	0 / 587,264	0.0%	-	0	0
North Central	178,496 / 7,465,547	2.4%	9.96	(39,061)	(54,829)	168,988 / 3,139,794	5.4%	12.42	18,040	29,487	93,472 / 1,637,117	5.7%	-	0	29,487
Northeast	2,178,252 / 48,902,115	4.5%	6.98	637,566	2,154,411	107,545 / 3,680,597	2.9%	10.30	38,906	50,566	129,919 / 11,335,661	1.1%	8.16	(98,600)	(73,566)
Northwest	405,485 / 9,869,711	4.1%	6.71	1,379	(45,757)	148,291 / 3,549,375	4.2%	12.40	14,194	28,326	79,770 / 2,882,730	2.8%	5.43	5,050	11,050
South	2,709,151 / 29,149,547	9.3%	5.73	(18,538)	650,058	4,000 / 787,330	0.5%	12.56	1,413	3,278	41,610 / 8,024,681	0.5%	-	(1,047)	(1,047)
San Antonio Total	**5,471,384 / 96,590,517**	**5.7%**	**6.61**	**581,346**	**2,703,883**	**448,824 / 11,518,146**	**3.9%**	**12.05**	**72,553**	**111,657**	**344,771 / 24,467,453**	**1.4%**	**5.26**	**(94,597)**	**(63,563)**

Source: CBRE Research, Q2 2023.

As of Q2 2022, owner-occupied properties are now included in CBRE Research's tracked inventory for San Antonio Industrial to better reflect the entire market.

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

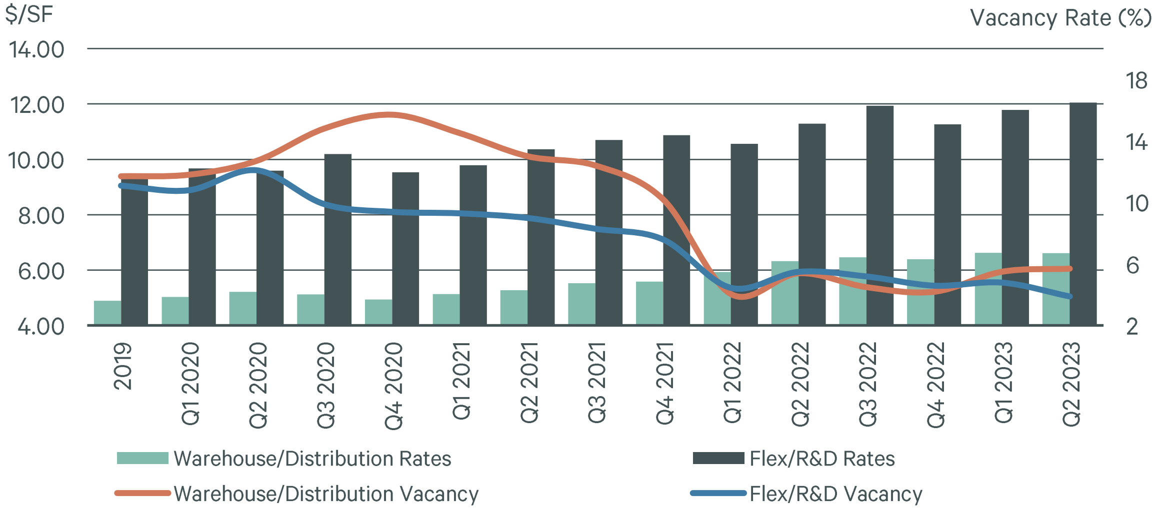
The market wide average asking rental rate decreased by $0.23 quarter-over-quarter. A lack of premium available supply in the market will often cause average asking rents to fluctuate. Vacancy for warehouse/distribution space remained flat market wide, while Flex/R&D vacancy dropped by 90 basis points. Though several buildings delivered vacant, leasing activity typically accelerates within the first few months of completion.

DEVELOPMENT PIPELINE

Supply underway continued to grow as CBRE Research tracked just under seven million sq. ft. in projects at the end of Q2 2023, including 5.3 million sq. ft of speculative distribution space. Developers continue to respond to the ever-growing demand for bulk user space, adding four bulk projects totaling 785,266 sq. ft. to the construction pipeline this quarter. This brought the total number of developments under construction to 38 in at the end of Q2 2023. Of the 38 projects under construction, 29 are over 100,000 sq. ft. Approximately 15% of the space underway is pre-leased.

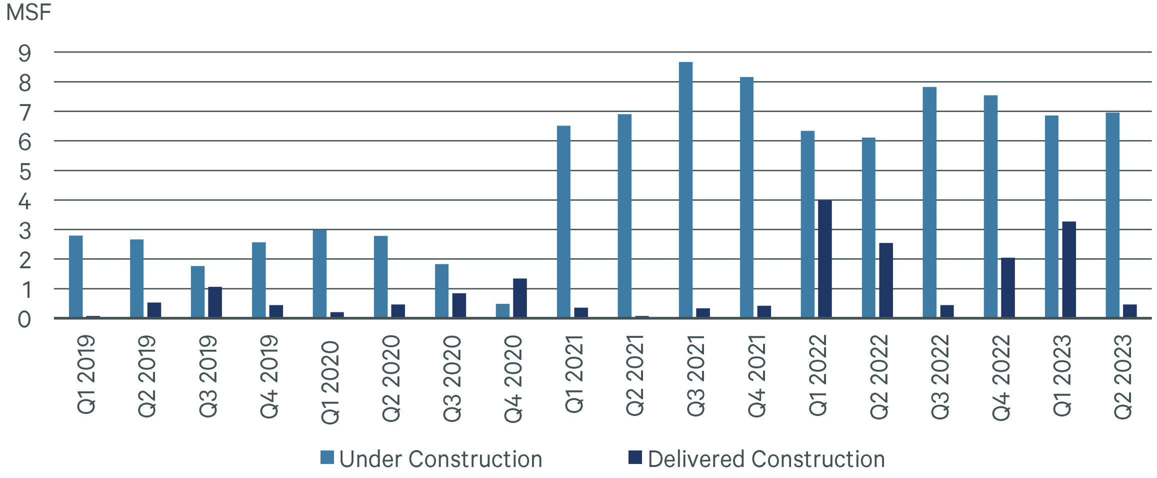
Deliveries tapered in Q2 with only six buildings totaling 467,580 sq. ft. completing construction by the end of the quarter, all of which are speculative and for distribution/logistics use.

FIGURE 4: Asking Rates & Vacancy, Warehouse/Distribution & Flex/R&D



Source: CBRE Research, Q2 2023.

FIGURE 5: Historical Construction & Deliveries



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. Tighter credit conditions are also likely to catch up with Americas small and medium sized industries (restaurants, cafes) in the service sector in the next two quarters.

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. The long expected slowdown in the U.S. economy is still on track, but will start in earnest at the end of Q3 a last through to the end of Q1 2024 by which time, inflation will have slowed up, and rates will be falling.

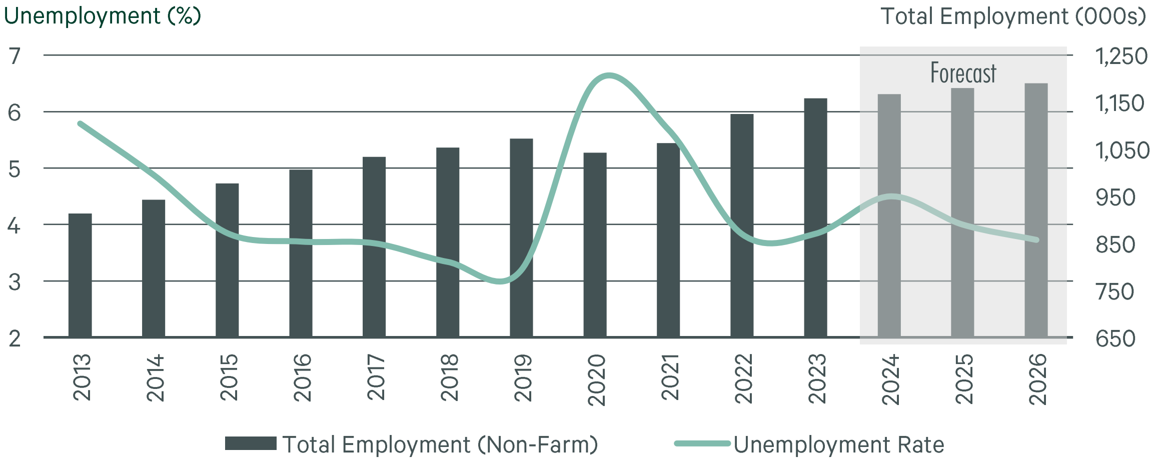
UNEMPLOYMENT TRENDS

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 6: San Antonio Labor Force and Unemployment



Source: Oxford Economics, June 2023.

FIGURE 7: Largest Q1 2023 Positive Space Absorptions

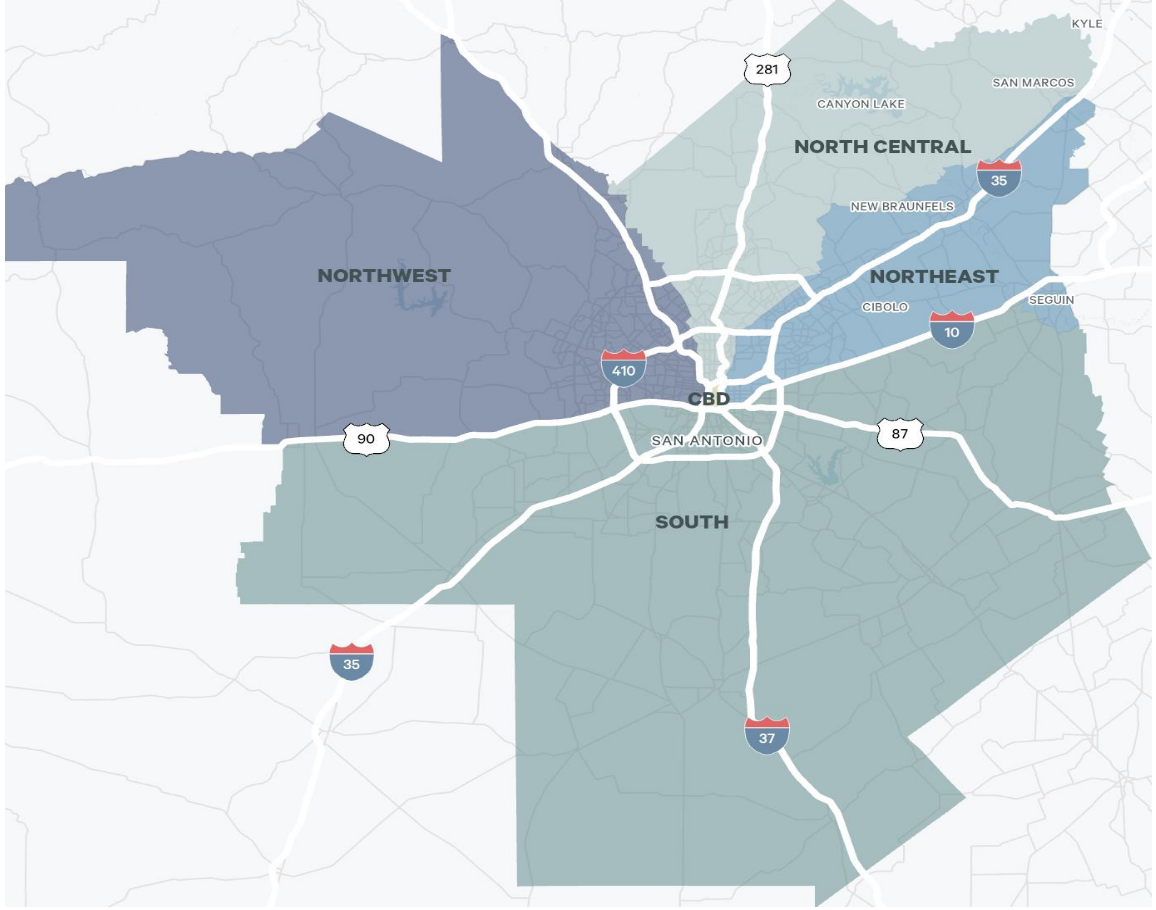
Lease (Tenant)	Property	Total SF
Southern Warehousing	Rittiman 35 Distribution Center	273,334
Berlin Packaging	Selma Industrial Park – Building 2	235,760
Southern Warehousing	3030 Aniol	111,800

FIGURE 8: Largest Q1 2023 Space Vacancies

Lease (Tenant)	Property	Total SF
USPS	Gateway 10 – Building 10	(175,055)
Harland Clarke	2435 Goodwin Ln	(98,600)
Shift Technologies	Northpoint Business Park – Building 4	(86,000)

Source: CBRE Research, Q2 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 known market relevant industrial 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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