Net absorption reaches record high, surpassing 10M SF in 2022

▼ **3.6%**
Vacancy Rate

▲ **2,076,775**
SF Net Absorption

▼ **7,543,628**
SF Construction

▼ **$7.22**
NNN / Lease Rate

Note: Arrows indicate change from previous quarter.

MARKET OVERVIEW

— Demand drove market fundamentals in Q4 2022 with over 2.0 million sq. ft. of positive net absorption.

— Strong leasing activity over the last year caused vacancy to dwindle by 40 basis points (bps) quarter-over-quarter to 3.6%.

— Developers continued to respond to the ever-growing demand for bulk user space, adding 13 projects totaling nearly 1.8 million sq. ft. to the construction pipeline this quarter.

— Four projects, totaling over 2.0 million sq. ft. delivered in Q4 2022.

— The market-wide average asking rental rate fell $0.41 quarter-over-quarter, which can be attributed to space removals from leases in newly constructed buildings that quote higher rents.

The San Antonio industrial market closed the year on a new high, with 10.8 million sq. ft. of net absorption in 2022. This is more than double what was registered in 2021 and the most space the San Antonio industrial market has seen absorbed in a singular year.

FIGURE 1: Net Absorption and Vacancy

Net Absorption (000s SF) / Vacancy Rate (%)

Legend: Q1, Q2, Q3, Q4, Total Annual Net Absorption, Vacancy Rate
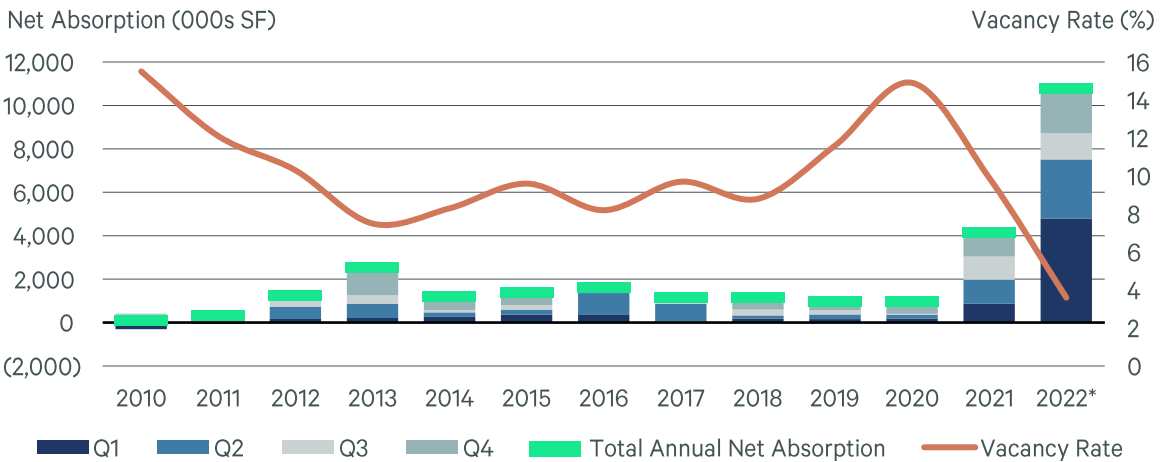
Source: CBRE Research, Q4 2022.

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)	Q4 2022 Deliveries (SF)	Q4 2022 Net Absorption	2022 Total Net Absorption
CBD		2,151,911	2.2	2.7	-	-	-	(952)	(952)
	Class A	-	-	-	-	-	-	-	-
	Class B	366,955	-	-	-	-	-	-	-
North Central		12,242,694	3.4	6.2	10.27	-	-	58,995	151,127
	Class A	1,060,574	3.9	19.5	12.49	-	-	(2,032)	(5,338)
	Class B	6,205,885	3.9	6.6	10.28	-	-	18,412	60,424
Northeast		63,164,093	3.9	4.3	6.62	4,904,375	485,760	881,798	3,282,700
	Class A	20,486,773	8.3	6.8	6.26	4,904,375	485,760	795,484	2,660,236
	Class B	22,335,469	2.0	3.9	6.71	-	-	(58,266)	326,492
Northwest		16,112,718	2.8	4.4	9.58	637,570	-	27,194	274,565
	Class A	783,458	5.3	4.6	8.28	637,570	-	31,915	64,532
	Class B	7,553,128	2.6	4.6	11.99	-	-	(21,016)	104,943
South		36,525,662	3.7	4.2	5.83	2,001,693	1,560,500	1,109,740	7,093,154
	Class A	15,969,525	6.1	5.8	5.89	2,001,693	1,560,500	1,141,677	6,968,029
	Class B	12,791,287	0.9	2.7	6.13	-	-	-	160,647
San Antonio Total		**130,197,078**	**3.6**	**4.4**	**7.22**	**7,543,628**	**2,046,260**	**2,076,775**	**10,800,594**
	Class A	**38,300,330**	**7.2**	**6.7**	**6.13**	**7,543,628**	**2,046,260**	**1,967,044**	**9,687,459**
	Class B	**49,252,724**	**2.0**	**4.0**	**8.56**	**-**	**-**	**(60,870)**	**652,506**

Source: CBRE Research, Q4 2022.

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, Warehouse/Distribution & Flex/R&D

Submarket	WAREHOUSE/DISTRIBUTION					FLEX/R&D					MANUFACTURING				
	Total Vacant (SF) / Total RBA (SF)	Vacancy Rate (%)	NNN $/SF	Q4 2022 Net Absorption (SF)	2022 Total Net Absorption (SF)	Total Vacant (SF) / Total RBA (SF)	Vacancy Rate (%)	NNN $/SF	Q4 2022 Net Absorption (SF)	2022 Total Net Absorption (SF)	Total Vacant (SF) / Total RBA (SF)	Vacancy Rate (%)	NNN $/SF	Q4 2022 Net Absorption (SF)	2022 Total Net Absorption (SF)
CBD	28,000 / 1,203,597	2.3%	-	(952)	(952)	20,000 / 361,050	5.5%	-	0	0	0 / 587,264	0.0%	-	0	0
North Central	123,667 / 7,463,303	1.7%	9.15	29,593	107,093	195,887 / 3,142,274	6.2%	11.32	29,402	34,059	93,472 / 1,637,117	5.7%	-	0	83,616
Northeast	2,278,370 / 48,155,995	4.7%	6.36	862,206	2,960,876	123,886 / 3,457,557	3.6%	8.78	17,692	60,234	52,953 / 11,550,541	0.5%	5.24	1,900	947,520
Northwest	194,548 / 9,680,613	2.0%	8.01	(15,099)	151,773	171,696 / 3,549,375	4.8%	12.63	36,093	65,008	90,820 / 2,882,730	3.2%	6.66	6,200	108,172
South	1,319,202 / 27,541,340	4.8%	5.77	1,072,805	6,164,815	7,278 / 814,330	0.9%	15.34	4,872	4,101	41,610 / 8,169,992	0.5%	-	32,063	4,896,373
San Antonio Total	**3,943,787 / 94,044,848**	**4.2%**	**6.39**	**1,948,553**	**9,383,605**	**518,747 / 11,324,586**	**4.6%**	**11.27**	**88,059**	**163,402**	**278,855 / 24,827,644**	**1.1%**	**6.38**	**40,163**	**6,035,681**

Source: CBRE Research, Q4 2022.

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

The job market continued to bounce back from the COVID-induced slump in the second half of 2022. According to the Federal Reserve Bank of Dallas, roughly 180,000 jobs have been added since April 2020, surpassing the numbers of jobs lost due to implications from the pandemic.

The Dallas Fed also reported that San Antonio payrolls increased by 4,966 jobs from October to November 2022. Private sector hourly wages increased at a steady pace from $27.61 in August to $27.83 in October. The other services sector saw a 31.1% increase in jobs from October to November, while leisure and hospitality jobs rose 10.3%. Conversely, mining was the only sector to experience a decline in payrolls from the same time period, with only a 0.4% decrease.

ASKING RATES & VACANCY

The market-wide average asking rental rate decreased by $0.41 quarter-over-quarter, which can be attributed to space removals from leases in newly constructed buildings that quote higher rents. Meanwhile, overall vacancy fell 40 basis points (bps) from 4.0% in Q3 2022 to 3.6% in Q4 2022. Vacancy for warehouse/distribution space in the Northeast submarket registered a 100-basis point decrease quarter-over-quarter. Meanwhile, warehouse/distribution vacancy in the South submarket experienced a 100-basis point increase in Q4 2022. The uptick in vacancy in the South submarket is due to one 560,500-sq.-ft. building delivering unleased this quarter.

DEVELOPMENT PIPELINE

Supply underway continued to grow as CBRE Research tracked over 7.5 million sq. ft. in projects at the end of Q4 2022. Developers have quickly responded to the ever-growing demand for bulk user space, adding 13 projects totaling nearly 1.8 million sq. ft. to the construction pipeline this quarter. This brought the total number of developments under construction to 40 by the end of the year. 29 of the 40 buildings underway are over 100,000 sq. ft. in size. 100% of the construction pipeline is speculative and for warehouse/distribution use.
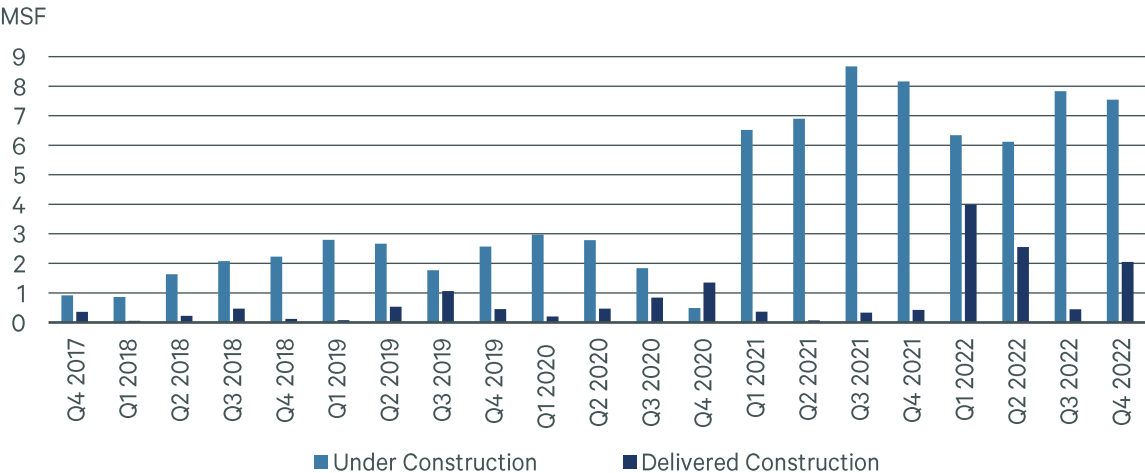
Deliveries ramped up with four projects totaling over 2.0 million sq. ft. completing construction by the end of Q4 2022. 67% of delivered space was pre-leased upon completion.

FIGURE 4: Asking Rates & Vacancy, Warehouse/Distribution & Flex/R&D
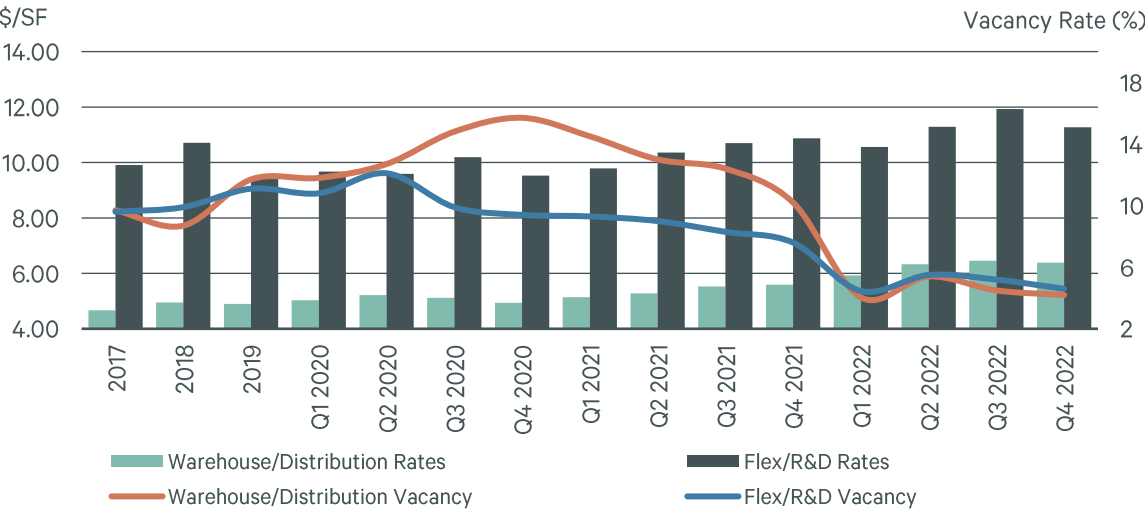
Source: CBRE Research, Q4 2022.

FIGURE 5: Historical Construction & Deliveries

Source: CBRE Research, Q4 2022.

OVERVIEW OF ECONOMIC TRENDS

Everybody from Jerome Powell to single parents and Wall Street banks have been laser focused on inflation during the past year. Thankfully, the increase in the CPI has been decelerating due to improved supply chains, lower energy prices, and higher interest rates, which are curtailing demand for housing and autos. Despite this good news inflation remains a menace. Food and shelter prices are heightened, and fears persist that inflation is embedded in the labor market. Consequently, the Federal Reserve continues its aggressive tightening program. The pace of recent rate hikes has been the most dramatic in decades and this has increased volatility in the financial markets. Sharply reduced expectations of earnings growth in 2023, means that firms are looking to cut costs, helping to fulfill recessionary prophecies.

Some positive signals can be found in monthly payroll gains, but other labor market metrics are not so sanguine. Data from Challenger, Gray & Christmas shows that the current level of layoff announcements is consistent with past recessions. This is paired with business surveys exhibiting deteriorating activity and consumers grappling with eroding savings. The upshot is we believe the economy will face a moderate recession in 1H 2023."

UNEMPLOYMENT TRENDS

Unemployment continued to dwindle toward pre-pandemic numbers in September. Over the next 24 months, unemployment is expected to rise from 3.9% in Q4 2022 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 Q4 2025.

POPULATION GROWTH

New residents pushed population growth rates to nearly 1.0% year-over-year and 6.8% over the last five years. Additionally, the median household income stood at $70,910, growing nearly 6.2% year-over-year.

FIGURE 6: San Antonio Labor Force and Unemployment
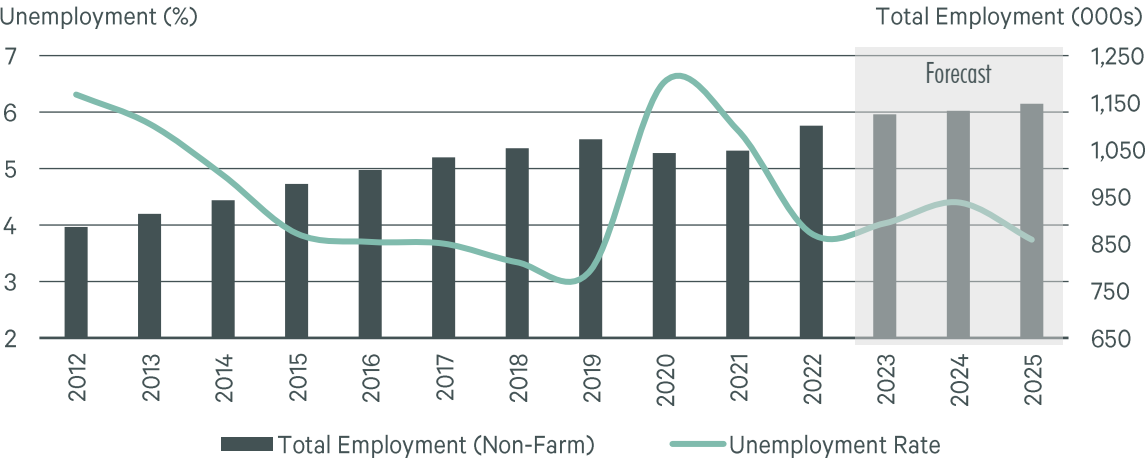
Source: Oxford Economics, December 2022.

FIGURE 7: Largest Q4 2022 Positive Space Absorptions

Lease (Tenant)	Property	Total SF
Confidential E-Commerce	10360 W US Hwy 90	1,000,000
Confidential E-Commerce	4958 N IH-35	180,000
Multiple Tenants	Tri-County Crossing 6	124,179

FIGURE 8: Largest Q4 2022 Space Vacancies

Lease (Tenant)	Property	Total SF
CVS Caremark	Alamo Downs Distribution Center II	(94,600)
Rail Link International	402 Tayman	(56,000)
Gardner Denver	8034 NE Loop 410	(26,436)

Source: CBRE Research, Q4 2022.

Market Area Overview
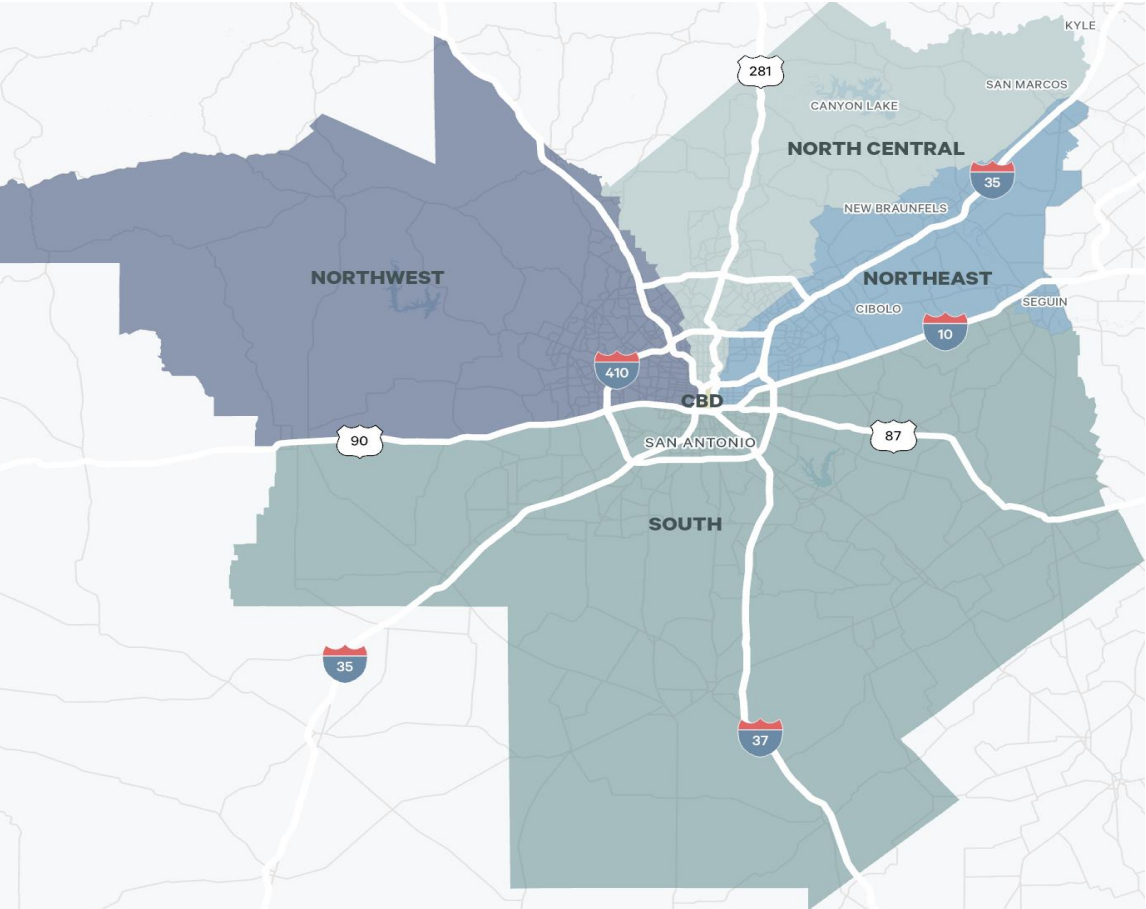
Definitions

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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