

FIGURES | SAN ANTONIO INDUSTRIAL | Q4 2023

Positive absorption continues; vacancy rises, remains below pre-pandemic levels



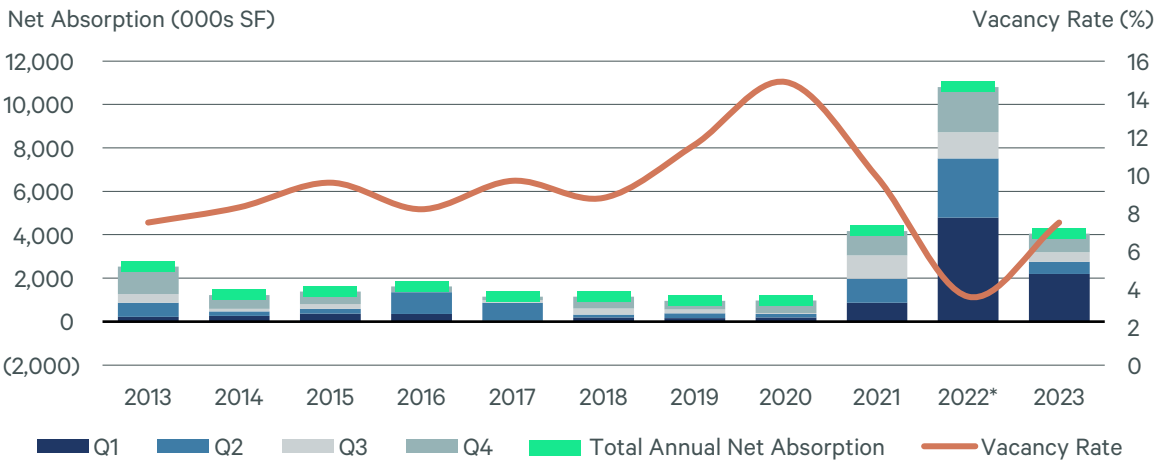
Note: Arrows indicate change from previous quarter.

MARKET OVERVIEW

- Vacancy rose to 7.5% at the close of Q4 but remained below pre-pandemic averages, following a record low of 3.6% one year prior.
- Deliveries were the second highest on record for the market in 2023, with nearly 8.1 million sq. ft. completed market-wide in the calendar year and 2.7 million sq. ft. delivered in Q4.
- San Antonio's construction pipeline comprises 3.0 million sq. ft., all of which is slated for delivery in 2024.
- 24.6% of product underway was pre-leased at the close of Q4 2023.

Q4 2023 marked the 29th consecutive quarter of positive net demand for the San Antonio Industrial market, with 856,599 sq. ft. absorbed in the fourth quarter and a total of nearly 4.1 million sq. ft. in positive net absorption in 2023. Throughout 2023, there was notable tension between robust leasing activity and scarce liquidity in the construction sector, resulting in delays in physical absorption despite resilient tenant demand.

FIGURE 1: Net Absorption and Vacancy



Source: CBRE Research, Q4 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 (\$/SF)	Under Construction (SF)	Q4 2023 Deliveries (SF)	Q4 2023 Net Absorption	2023 Total Net Absorption
CBD	2,151,911	0.9	4.0	12.00	-	-	-	-
Class A	-	-	-	-	-	-	-	-
Class B	366,955	-	17.8	12.00	-	-	-	-
North Central	12,286,198	3.3	6.0	11.25	689,215	29,000	56,619	44,649
Class A	1,091,818	8.1	22.1	9.81	689,215	29,000	29,000	(18,723)
Class B	6,203,405	3.1	4.8	11.71	-	-	34,727	60,219
Northeast	79,375,952	9.7	11.0	7.26	1,837,295	1,847,587	633,351	2,855,691
Class A	33,624,836	18.1	18.9	6.62	1,837,295	1,847,587	739,724	2,767,527
Class B	24,265,511	4.8	6.4	7.55	-	-	(17,976)	41,881
Northwest	16,781,132	5.5	7.0	8.32	38,256	451,205	79,453	147,693
Class A	1,421,863	45.1	46.2	5.80	-	451,205	-	39,043
Class B	7,573,009	2.0	3.4	12.45	38,256	-	80,522	37,669
South	25,945,919	4.3	5.7	9.66	402,823	353,766	87,176	1,003,104
Class A	9,282,798	3.7	7.4	9.84	150,212	353,766	101,176	881,334
Class B	10,128,620	4.1	4.5	12.72	252,611	-	(14,000)	101,838
San Antonio Total**	136,541,112	7.5	8.9	8.33	2,967,589	2,681,558	856,599	4,051,137
Class A	45,421,315	15.8	17.5	6.63	2,967,589	2,681,558	869,900	3,669,181
Class B	48,537,500	4.0	5.4	10.09	-	-	83,273	241,607

Source: CBRE Research, Q4 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	Q4 2023 Net Absorption (SF)	2023 Total Net Absorption (SF)	Total Vacant (SF) Total RBA (SF)	Vacancy Rate (%)	NNN \$/SF	Q4 2023 Net Absorption (SF)	2023 Total Net Absorption (SF)	Total Vacant (SF) Total RBA (SF)	Vacancy Rate (%)	NNN \$/SF	Q4 2023 Net Absorption (SF)	2023 Total Net Absorption (SF)
CBD	-	-	12.00	-	-	20,000	5.5%	-	-	-	-	-	-	-	-
	1,203,597					361,050					587,264				
North Central	159,390	2.1%	9.84	31,700	15,932	184,134	5.8%	12.73	33,819	45,266	64,454	3.9%	-	(8,900)	45,266
	7,494,547					3,154,534					1,637,117				
Northeast	7,408,458	11.6%	6.99	693,273	2,210,118	150,586	4.0%	9.51	(19,922)	(8,262)	174,919	1.5%	7.25	(40,000)	(14,966)
	63,728,504					3,760,124					11,887,324				
Northwest	774,610	7.5%	6.77	47,482	346	113,563	3.2%	12.57	29,971	44,103	35,000	1.2%	8.89	2,000	8,000
	10,329,873					3,568,529					2,882,730				
South	982,021	5.4%	9.75	86,320	754,916	64,000	8.2%	11.54	856	2,721	64,802	0.9%	-	-	-
	18,140,378					779,473					7,026,068				
San Antonio Total	9,324,479	9.2%	7.68	858,775	2,981,312	532,283	4.6%	11.61	44,724	83,828	339,175	1.4%	8.74	(46,900)	(15,866)
	100,896,899					11,623,710					24,020,503				

Source: CBRE Research, Q4 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 made its debut in Q4 as a top-ten city to watch in PwC’s *Emerging Trends in Real Estate* 2024 report. The report classified San Antonio as a “Super Sun Belt” market, citing its affordability relative to factors including size, diversity and quality of life. According to the Federal Reserve Bank of Dallas, San Antonio saw rapid job growth in Q4 following a significant uptick in September. Job growth was concentrated in the manufacturing sector at an annualized rate of 15.5%, followed by Leisure and Hospitality at an annualized rate of 14.6%. In October, San Antonio experienced strong growth in payroll jobs, following a significant increase in September. San Antonio wages increased by 4.9% on an annualized basis, surpassing both the state and national rates of 3.2% during the same period. Unemployment declined to 3.8% as of October, remaining below the statewide unemployment rate of 4.1%, according to the Bureau of Labor Statistics (BLS). Year-over-year, average hourly earnings increased by 2.4% to \$28.46.

ASKING RATES & VACANCY

Market-wide average asking rents grew 15% from December 2022 to December 2023, reaching \$8.33 per sq. ft. in Q4. Warehouse/distribution rents experienced a steady incline over the course of the year, climbing to \$7.68 per sq. ft. at the end of the fourth quarter; Flex/R&D rents dropped to \$11.61 in Q4 but reflected a net increase year-over-year from \$11.27 per sq. ft. in Q4 2022.

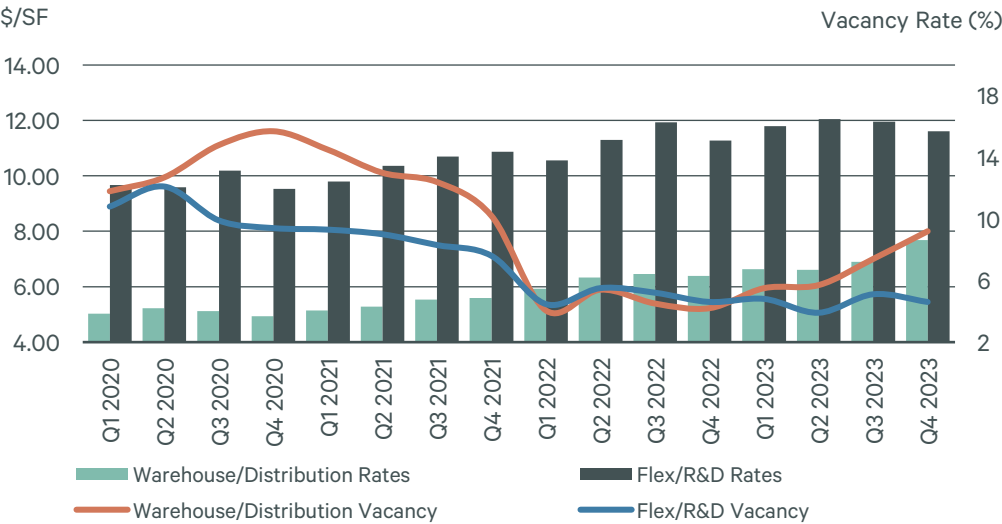
A large majority of new construction has been focused on Class A bulk distribution spaces. Because Flex/R&D spaces command higher rates per square foot than distribution spaces, the inclusion of older Class B Flex/R&D spaces in surveyed rental rates creates the illusion that Class B rates are higher than Class A rates. In fact, Class A rates for like kind assets remain higher than their Class B counterparts across the market.

Market-wide vacancy rose to 7.5% in Q4, following a record low vacancy rate of 3.6% one year prior. Warehouse/distribution vacancy ticked upward by 1.8 percentage points to 9.2%, attributable to three large projects delivering unleased, while Flex/R&D vacancy dropped by 0.5 percentage points to 4.6%. Manufacturing vacancy remained minimal at 1.4%.

DEVELOPMENT PIPELINE

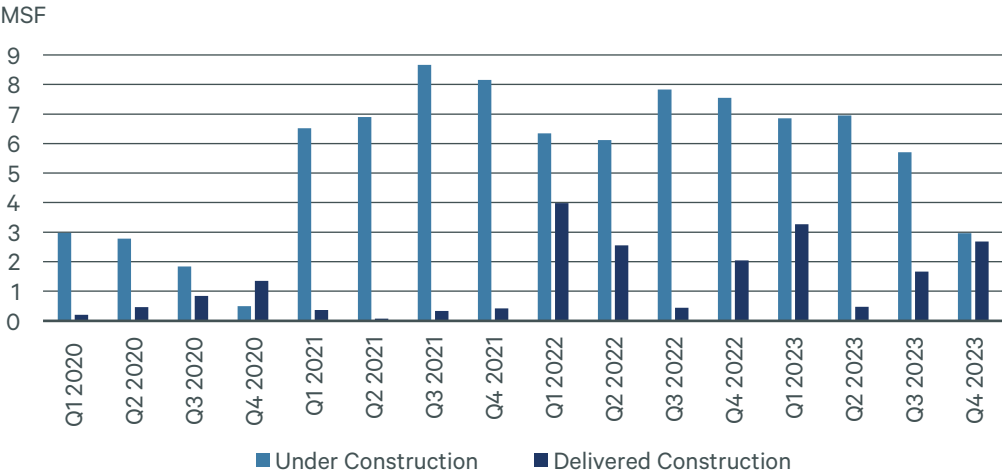
Developers have responded to elevated demand for bulk user space by delivering 21.2 million sq. ft. of industrial product to the market from 2020 to present. Deliveries were the second highest on record for the market in 2023, with nearly 8.1 million sq. ft. completed market-wide in the calendar year and 2.7 million sq. ft. delivered in Q4. Developers broke ground on 15 buildings, totaling 4.1 million sq. ft. in the first three quarters of 2023; of those, approximately 1.0 million sq. ft. completed construction before the end of the year. The remaining construction pipeline comprises 3.0 million sq. ft., all of which is slated for delivery in 2024. 24.6% of San Antonio’s industrial pipeline was pre-leased at the close of Q4. Construction starts tapered at the close of the year with no new starts in Q4; however, groundbreakings are expected to tick upward again in coming quarters as the existing supply is absorbed.

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



Source: CBRE Research, Q4 2023.

FIGURE 5: Historical Construction & Deliveries



Source: CBRE Research, Q4 2023.

OVERVIEW OF ECONOMIC TRENDS

The combination of continued economic momentum with a likelihood that the Fed’s dramatic tightening cycle is now complete makes a ‘soft landing’ appear more likely for early 2024, but the pace of growth will be more modest than in recent quarters. Foremost, lower and middle-income households no longer have the luxury of excess savings and the pace of wage growth, whilst remaining elevated, is slowing. This nuance with wage growth is important. Higher wages is helping to maintain higher, albeit decelerating, core inflation. This backdrop will likely translate into the Fed only slowly lower its target rate in 2024. (CBRE expects 75 – 100 basis points worth of rate cuts in 2024.) This outlook may deter some spending, but it does help illuminate a pathway forward for real estate capital markets. Indeed, the combination of healthy fundamentals for many sectors and thawing credit markets could provide some welcome upside surprises for real estate performance in 2024.

UNEMPLOYMENT TRENDS

Over the next 12 months, unemployment is expected to stay marginally above 4.0%, according to data from Oxford Economics. Though unemployment will likely remain the same over the next year, it is expected to fall back to under 4.0% by early 2026.

POPULATION GROWTH

New residents pushed population growth rates to 1.2% year-over-year and 7.6% over the last five years. Additionally, the median household income stood at \$72,680, growing over 3.0% year-over-year.

- According to data from Oxford Economics, the population of the Greater San Antonio Metropolitan area increased by roughly 116,000 since 2020.
- Data from Oxford Economics forecasts that population will increase by approximately 79,000 people by 2026.

FIGURE 6: San Antonio Labor Force and Unemployment



Source: Oxford Economics, January 2024.

FIGURE 7: Largest Q4 2023 Positive Space Absorptions

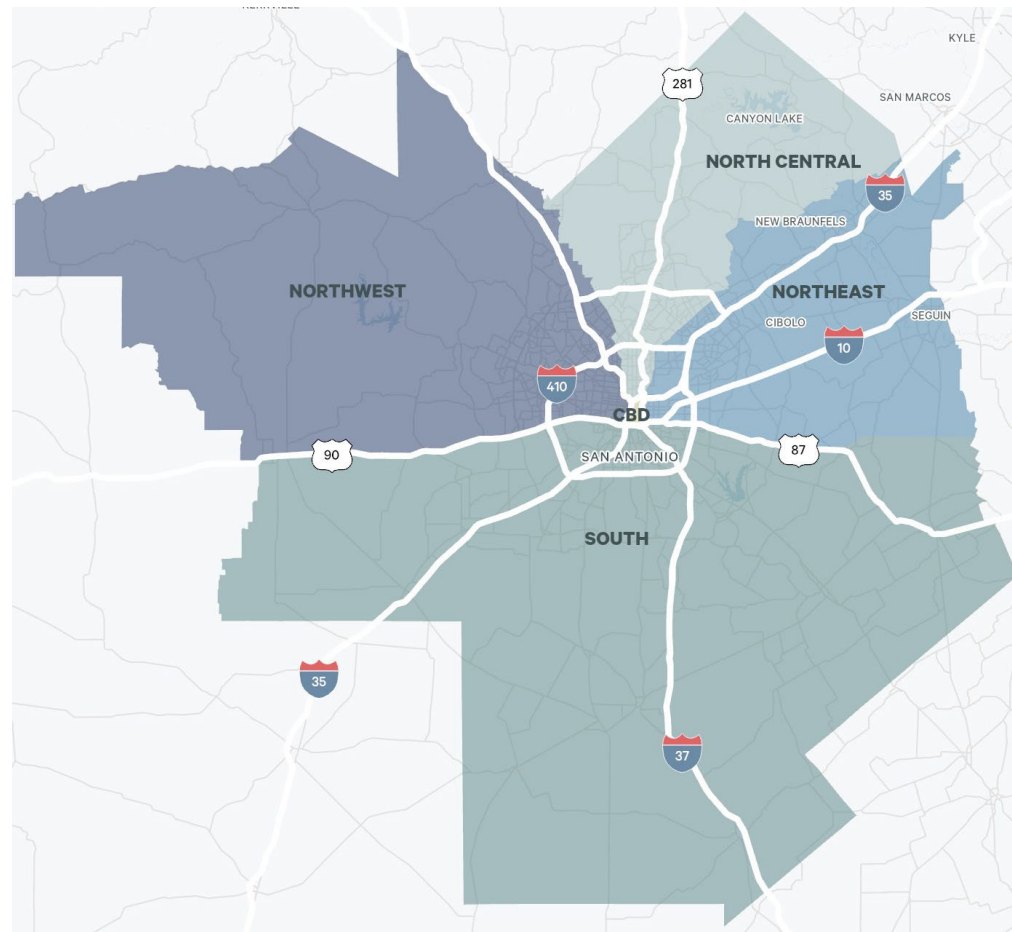
Lease (Tenant)	Property	Total SF
MAC Discount, LLC	Enterprise Industrial Park IV	125,214
Wesco Distribution	Eisenhower North Business Park I	119,200

FIGURE 8: Largest Q4 2023 Space Vacancies

Lease (Tenant)	Property	Total SF
Nehemiah Wall Systems	2311 Lifehaus Industrial	(40,000)
AZ Partsmaster	I-35 Logistics Center	(46,380)

Source: CBRE Research, Q4 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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