

FIGURES | SAN ANTONIO INDUSTRIAL | Q3 2024

Q3 vacancy elevated by recently delivered speculative distribution space

▲ 9.2%
 Vacancy Rate

▼ 299,733
 SF Net Absorption

▼ 3,885,316
 SF Construction

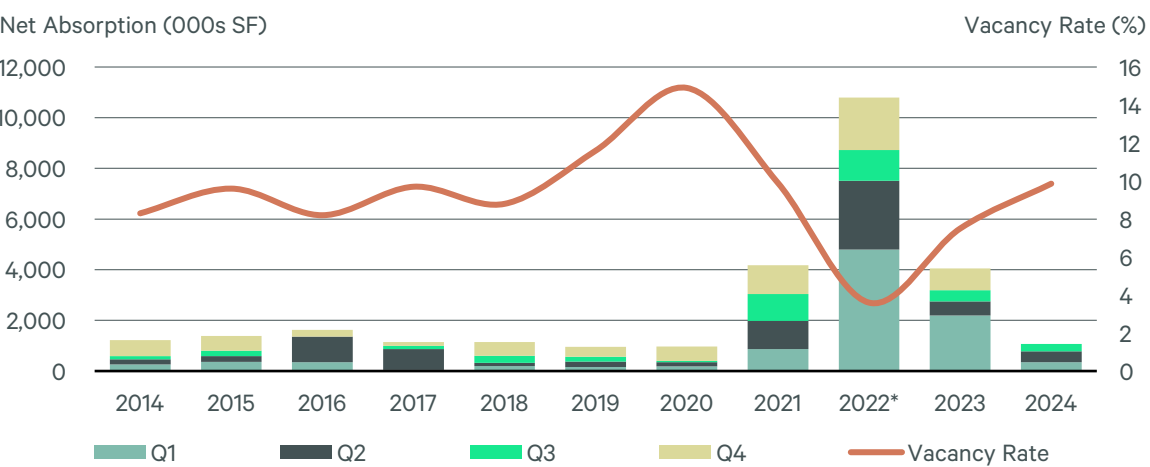
▼ \$7.94
 NNN / Lease Rate

Note: Arrows indicate change from previous quarter.

MARKET OVERVIEW

- Vacancy grew to 9.2% marketwide as several newly delivered spec distribution projects remain unoccupied and one distributor shuttered operations, vacating 360,000 sq. ft. and suppressing total net absorption.
- Positive absorption continues to be driven by manufacturing users, notably Premium Waters occupying its new 390,808 sq. ft. facility in Seguin.
- Although new starts dwindled to 37,500 sq. ft. in Q3, 3.9 million sq. ft. of new construction remains underway, which is currently 22.8% pre-leased. All product underway is located in the Northeast submarket, with the single exception of JCB Equipment’s highly anticipated 720,000 sq ft. manufacturing facility in the South submarket.
- 1.1 million sq. ft. of Industrial space delivered in Q3, which was 40% pre-leased.
- In spite of weaker market fundamentals in Q3, there remains a strong possibility that latent demand will begin to translate into positive absorption heading into 2025, in the wake of 2024’s economic uncertainty. CBRE is currently tracking ±60 tenants in the San Antonio market seeking approximately 5.0 million sq. ft. of cumulative space.

FIGURE 1: Net Absorption and Vacancy



Source: CBRE Research, Q3 2024.

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

ASKING RATES, ABSORPTION AND VACANCY

Marketwide vacancy reached 9.2% heading into the fourth quarter, continuing a steady upward trajectory from a ten-year low of 3.4% in Q3 2022. Since then, developers have responded to post-pandemic demand for bulk user space by adding 13.3 million sq. ft. of new product to the market, equivalent to approximately 10.0% of the market’s total industrial inventory. This influx of new supply combined with slowing absorption has propelled vacancy rates upward.

Q3 vacancy is overwhelmingly concentrated in the distribution segment, which is 11.5% vacant, and the lion’s share of this vacant distribution space is among recent deliveries. Distribution space built from 2020 to present is 33.1% vacant as of Q3 2024; by contrast, distribution space built prior to 2020 is only 4.8% vacant. In 2024’s challenging financial environment, many tenants have opted to renew or extend leases in place instead of moving into newly delivered speculative spaces.

Flex/R&D vacancy is nearly flat quarter-over-quarter at 5.8%, a 40 basis-point (bp) increase from 5.4% in Q2. Manufacturing vacancy remains negligible at only 1.0% as is historically typical for the San Antonio market.

Total net absorption dipped to 299,733 sq. ft. in Q3: most notably, Fiesta Warehousing closed permanently in July after several decades of operation, vacating 360,000 sq. ft. of distribution space in the South submarket. Positive absorption was driven by manufacturing users, including Premium Waters as it occupied its new 390,808 sq. ft. facility in Seguin.

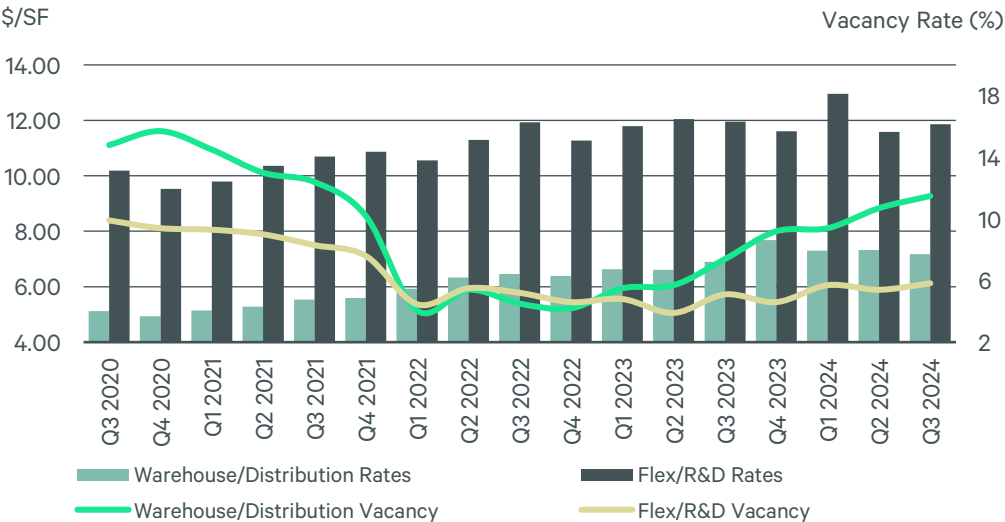
On a quarter-over-quarter basis, marketwide average asking rents are virtually unchanged, dipping 2.1% to \$7.94 per sq. ft. in Q3 2024. Warehouse/distribution rents fell 2.0% to \$7.17 per sq. ft, while Flex/R&D climbed 2.4% to \$11.86 per sq. ft. Because Flex/R&D space commands higher rates per square foot than distribution space, the inclusion of older Class B Flex/R&D space 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.

DEVELOPMENT PIPELINE

Developers have curtailed new starts in response to elevated supply, with only 37,500 sq. ft. breaking ground in Q3 2024. 3.9 million sq. ft. are currently underway, comprised of 3.2 million sq. ft. in the Northeast submarket, dominated by distribution space; and 720,000 sq. ft. of manufacturing space in the South submarket at JCB Equipment’s highly anticipated new San Antonio facility.

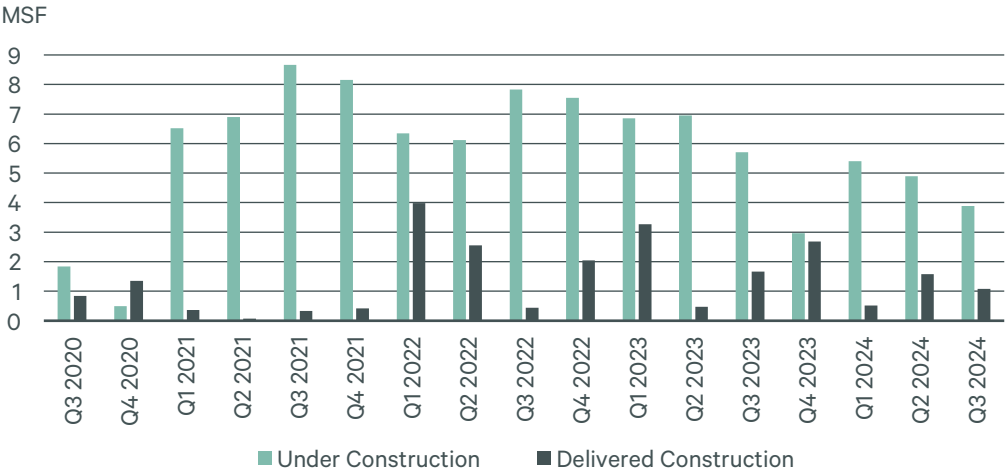
3.2 million sq. ft. of new product has delivered this year to date, including 1.1 million sq. ft. in Q3.

FIGURE 2: Asking Rates & Vacancy, Warehouse/Distribution & Flex/R&D



Source: CBRE Research, Q3 2024.

FIGURE 3: Historical Construction & Deliveries



Source: CBRE Research, Q3 2024.

SAN ANTONIO MARKET FUNDAMENTALS

San Antonio was the nation’s fastest growing city in 2023 according to census data, with 28,700 people moving to the city in 2023. In Q4 2023, San Antonio made its debut 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.

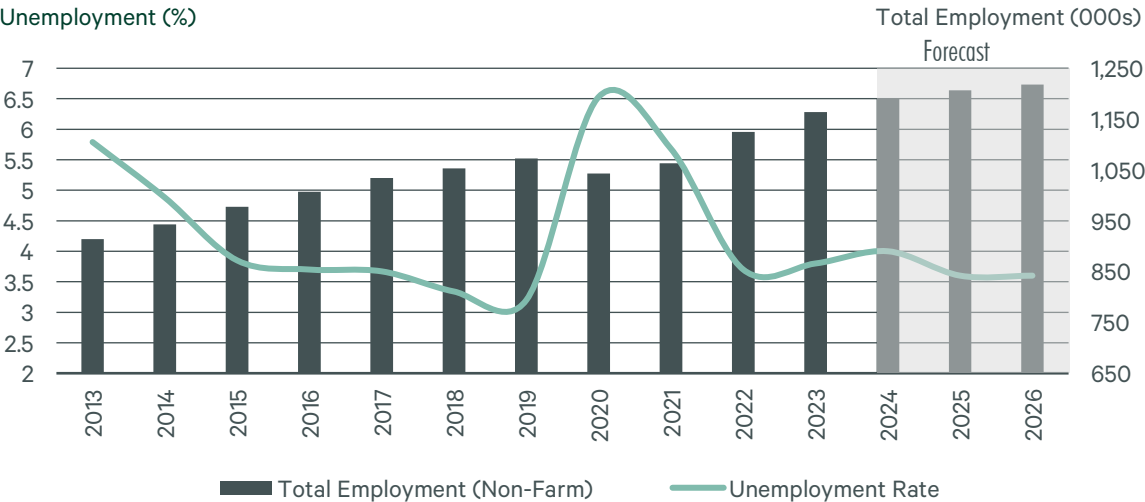
According to the Federal Reserve Bank of Dallas, San Antonio saw job growth at an annualized rate of 1.9% from March to June 2024, continuing a pattern of solid growth over the previous two quarters. Job gains were concentrated in the mining, construction, education and health services, and manufacturing sectors. San Antonio’s unemployment rate of 4.0% as reported by the Bureau of Labor Statistics remains just slightly below the state and national averages of 4.1% and 4.2%, respectively.

OVERVIEW OF ECONOMIC TRENDS

Soft landings are rare, but recent data suggest that this outcome for the economy is increasingly likely. Business investment is holding its own and consumer distress is confined to a few vulnerable segments. Discretionary spending, such as travel, is generally on a par with last year although many signs indicate the post-pandemic spending boom is over. The key threat to consumption is a rollover in the labor market although the recent bump in unemployment appears benign, mainly driven by an increase in participation. A reason for concern is the decline in the share of private industries that are creating jobs. On the other hand companies are not shedding workers at a particularly high rate. The labor market has slowed, but it is not slumping.

While many are focused on November’s election the most consequential policy lever has already been pulled via the FOMC’s 50 bps September cut and signaling another 50 by year-end. This easing of financial conditions combined with continued economic growth should support modest hiring and consumption that precedes tighter commercial space market fundamentals. This backdrop will breathe fresh wind into real estate transactions markets and coincides with other signals that cap rates have peaked and may be starting to fall in some sectors.

FIGURE 4: San Antonio Labor Force and Unemployment



Source: Oxford Economics, June 2024.

FIGURE 5: Largest Q3 2024 Positive Space Absorptions

Occupier	Property	Total SF
Premium Waters	2411 Crossroads Blvd, Seguin	390,808
Mesa Solutions	Eisenhauer North, Bldg 2	186,324
Bestop, Inc.	Cornerstone Commerce A	104,514

FIGURE 6: Largest Q3 2024 Negative Space Absorptions

Occupier	Property	Total SF
Fiesta Warehousing	302 Tayman St, San Antonio	(360,000)
Kroger	Centerpoint Logistics Park - Bldg 1	(67,008)
Trancy Logistics	Macro Distribution Center - Bldg 4	(54,277)

Source: CBRE Research, Q3 2024.

FIGURE 6: San Antonio Industrial Market Statistics

Submarket	Net Rentable Area (SF)	Total Vacancy (%)	Total Availability (%)	Asking Rate, NNN Avg. Annual (\$/SF)	Under Construction (SF)	Q3 2024 Deliveries (SF)	Q3 2024 Net Absorption	YTD 2024 Total Net Absorption
CBD	2,152,612	5.2	4.2	12.00	-	-	(8,942)	(8,942)
Class A	-	-	-	-	-	-	-	-
Class B	305,706	2.1	2.1	12.00	-	-	(6,537)	(6,537)
North Central	12,961,772	8.5	10.4	11.10	-	-	(4,276)	13,286
Class A	1,844,502	40.5	46.8	9.50	-	-	45,936	95,105
Class B	6,141,891	4.0	4.8	12.61	-	-	(34,327)	(79,521)
Northeast	81,537,034	11.4	11.8	7.15**	3,165,316	1,083,529	647,468	679,354
Class A	35,429,912	20.2	20.5	7.07	2,957,816	652,721	237,694	544,998
Class B	24,082,020	5.8	6.4	7.07	207,500	-	21,432	(209,595)
Northwest	16,613,488	6.1	8.2	12.06	-	-	(22,698)	(66,759)
Class A	1,415,859	36.1	33.7	10.18	-	-	38,108	146,063
Class B	7,504,749	3.7	7.0	13.33	-	-	(17,133)	(106,217)
South	26,745,872	5.4	5.2	6.44	720,000	-	(311,819)	209,215
Class A	9,847,010	6.4	6.5	15.00	-	-	(360,000)	(136,622)
Class B	10,380,531	3.3	3.3	5.53	720,000	-	-	353,190
San Antonio Total*	140,010,778	9.2	9.9	7.94	3,885,316	1,083,529	299,733	826,154
Class A	48,537,283	18.65	19.04	7.32	3,677,816	652,721	(38,262)	649,544
Class B	48,414,897	4.66	5.59	10.19	207,500	-	394,243	382,128

Source: CBRE Research, Q3 2024.

*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.

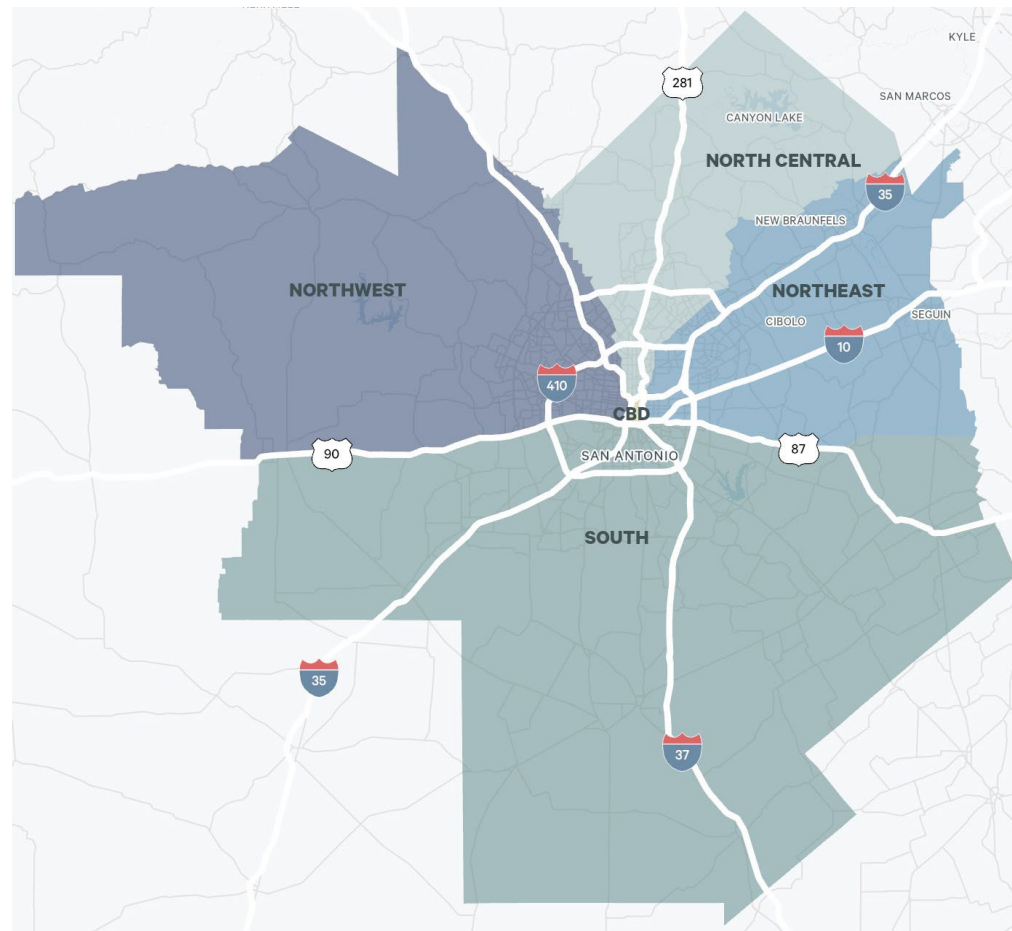
**Average asking rent calculations include all Industrial subtypes and property classes; currently, the average Class C R&D/Flex asking rate for the Northeast submarket is \$8.14.

FIGURE 7: San Antonio Market Statistics, Distribution/Logistics & Flex/R&D, Manufacturing

Submarket	DISTRIBUTION/LOGISTICS					FLEX/R&D					MANUFACTURING				
	Total Vacant (SF) Total RBA (SF)	Vacancy Rate (%)	NNN \$/SF	Q2 2024 Net Absorption (SF)	YTD 2024 Total Net Absorption (SF)	Total Vacant (SF) Total RBA (SF)	Vacancy Rate (%)	NNN \$/SF	Q2 2024 Net Absorption (SF)	YTD 2024 Total Net Absorption (SF)	Total Vacant (SF) Total RBA (SF)	Vacancy Rate (%)	NNN \$/SF	Q2 2024 Net Absorption (SF)	YTD 2024 Total Net Absorption (SF)
CBD	8,942	0.8%	12.00	(8,942)	(8,942)	20,000	5.5%	10.00	0	0	20,000	3.4%	-	0	0
	1,142,348					361,050					587,264				
North Central	785,919	9.7%	10.03	(10,464)	87,486	244,287	7.6%	11.58	2,688	(56,885)	42,454	2.6%	-	22,000	26,516
	8,085,240					3,207,208					1,641,633				
Northeast	9,087,027	13.9%	6.99	224,252	240,002	148,218	4.4%	9.65	(8,592)	(20,150)	37,629	0.3%	7.25	431,808	653,098
	65,422,451					3,367,536					12,478,132				
Northwest	700,935	6.9%	9.93	(8,505)	117,804	206,101	5.9%	13.88	(21,593)	(73,036)	105,767	3.7%	8.89	7,400	(71,852)
	10,229,499					3,500,488					2,883,501				
South	1,341,291	7.1%	6.42	(311,819)	(279,315)	31,178	4.3%	15.00	0	54,310	43,625	0.6%	-	0	50,927
	18,915,734					727,123					7,026,018				
San Antonio Total	11,924,114	11.5%	7.17	(115,478)	157,035	649,784	5.8%	11.86	(27,497)	(95,761)	249,475	1.0%	8.55	461,208	658,689
	103,795,272					11,163,405					24,616,548				

Source: CBRE Research, Q3 2024.
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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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