

FIGURES | SAN ANTONIO INDUSTRIAL | Q4 2024

Market fundamentals show signs of tightening to close out the year

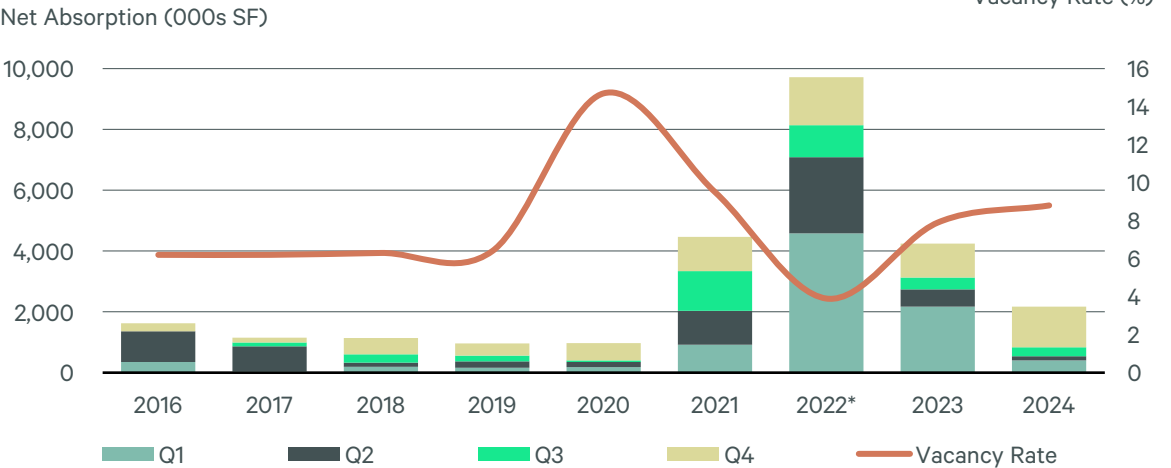


Note: Arrows indicate change from previous quarter.

MARKET OVERVIEW

- Net absorption climbed to 1,329,395 sq. ft. in the fourth quarter, placing annual net absorption over 2.1 million sq. ft. In contrast to recent quarters which were characterized by strong build-to-suit and owner/user activity, Q4’s absorption was driven by distribution and manufacturing tenants. Five of this quarter’s top ten largest move-ins went into Class A space built in the last five years.
- New leasing activity was dominated by small-bay space in the fourth quarter, with larger tenants generally opting to renew in place.
- Marketwide vacancy dipped to 8.8% in Q4, decreasing 70 bps from Q3 but increasing by 90 bps on a year-over-year basis. As is the case nationwide, newly delivered construction continues to push vacancy; developers have delivered over 5.0 million sq. ft. of new product to the San Antonio market over the last three years.
- 24 Buildings comprising 3.7 million sq. ft. delivered in 2024, including three deliveries (451,880 sq. ft.) in Q4. An additional 3.7 million sq. ft. remains under construction and is 23.5% pre-leased.

FIGURE 1: Net Absorption and Vacancy



Source: CBRE Research, Q4 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 closed out the year at 8.8%, down slightly from Q3’s 9.5% but up 90 bps year over year from 7.9% in Q4 2023. This increase continues 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.

As in previous quarters, vacancy is concentrated amongst recent speculative deliveries in the distribution segment, which is 11.1% vacant. Throughout 2024, tenants have often opted to renew or extend leases in place, in lieu of moving into new construction.

Manufacturing vacancy reached 0.5%, a new low for a historically tight segment. Flex/R&D vacancy is nearly flat quarter-over-quarter at 5.3%, dropping 50 bps quarter over quarter.

Total net absorption increased dramatically to 1,329,895 sq. ft. in Q4, as compared to 299,733 sq. ft. in Q3. Annual net absorption reached 2,170,142 sq. ft. Although annual net absorption was only just over half of 2023’s annual net absorption, more than 60% of this year’s net absorption occurred in Q4. Muted absorption in the first three quarters echoed 2024’s challenging financial environment and a general “wait-and-see” approach amidst economic uncertainty; Q4’s tightening fundamentals can be seen as a positive expression of latent demand in the market.

On a quarter-over-quarter basis, marketwide average asking rents grew 7.8% to \$8.55 per sq. ft. Warehouse/distribution grew by 10% to \$7.89 per sq. ft, while Flex/R&D inched downward by 0.4% to \$11.81 per sq. ft. Light manufacturing rates also grew significantly, rising 7.8% quarter over quarter from \$8.55 to \$9.22 per sq. ft.

DEVELOPMENT PIPELINE

Developers have curtailed new starts in response to elevated supply, with only 347,306 sq. ft. breaking ground in the second half of 2024. A total of 3.7 million sq. ft. is currently underway, which is 23.5% pre-leased. Product underway is comprised of 3.0 million sq. ft. of predominantly distribution space in the Northeast submarket; and 720,000 sq. ft. of manufacturing space in the South submarket at JCB Equipment’s highly anticipated new San Antonio facility. I-10/I-410 Distribution Center was the only groundbreaking in Q4, which will add 309,806 sq. ft. to the Northeast submarket.

3.7 million sq. ft. of new product delivered in 2024, including 451,880 sq. ft. in Q4.

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

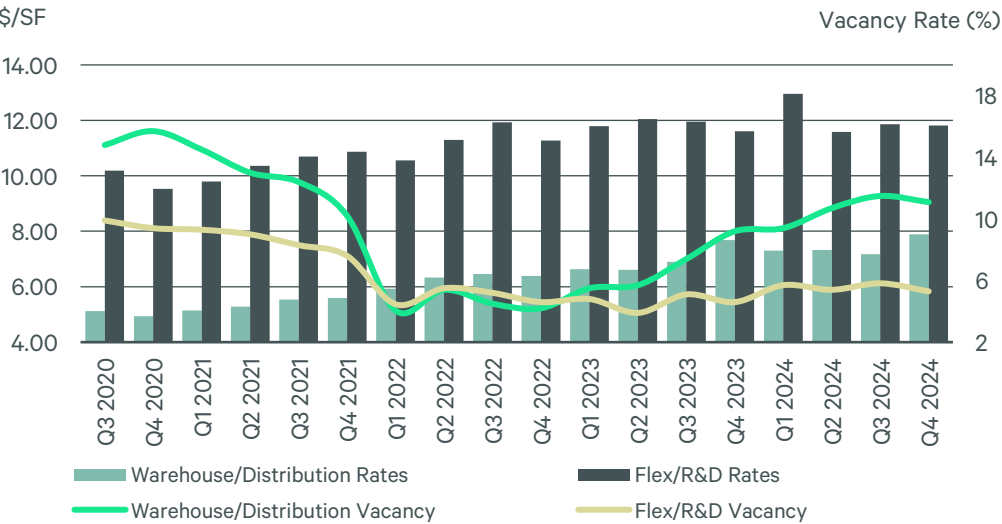
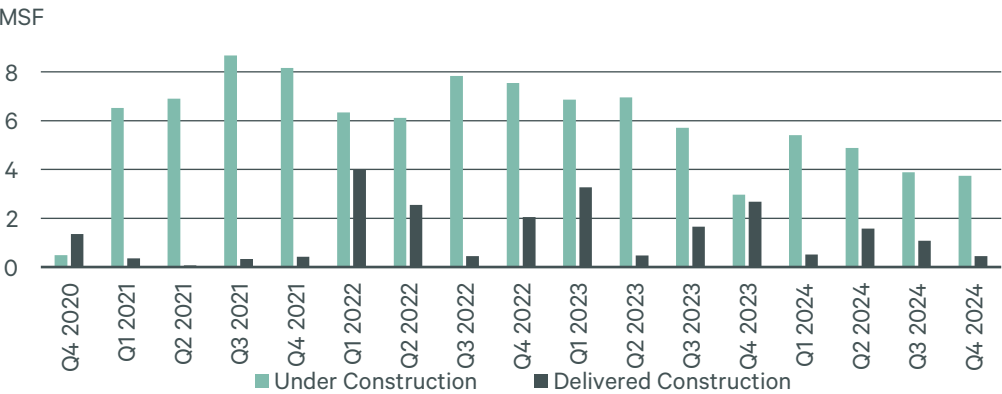


FIGURE 3: Historical Construction & Deliveries



Source: CBRE Research, Q4 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.

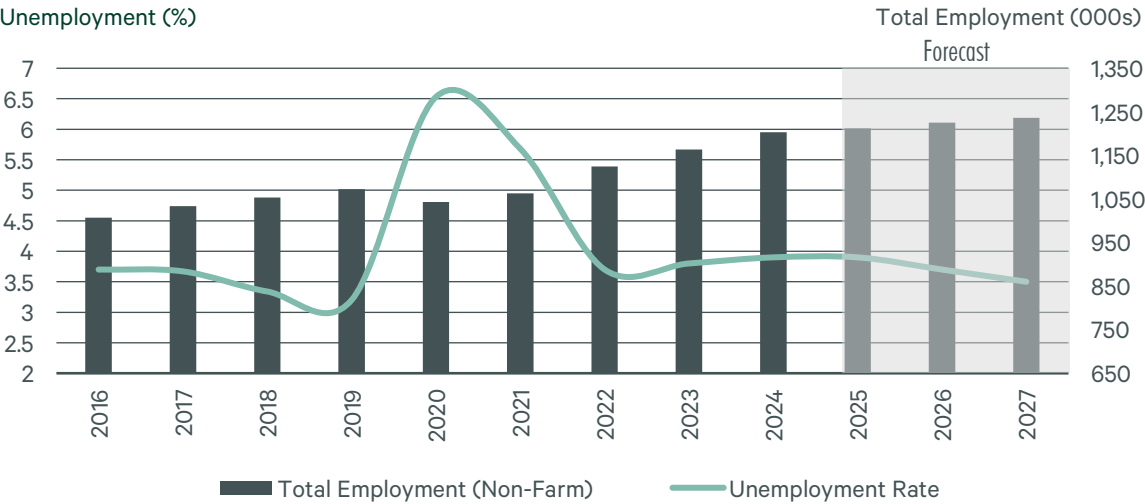
According to the Federal Reserve Bank of Dallas, San Antonio saw job growth at an annualized rate of 3.7% from July to October 2024, continuing a pattern of solid growth over the previous two quarters. Job gains were concentrated in the construction, leisure and hospitality, and education and health services sectors. San Antonio’s unemployment rate of 3.9% as reported by the Bureau of Labor Statistics remains just slightly below the state and national average of 4.1%.

OVERVIEW OF ECONOMIC TRENDS

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 4: San Antonio Labor Force and Unemployment



Source: Oxford Economics, December 2024.

FIGURE 5: Largest Q4 2024 Positive Space Absorptions

| Occupier | Property | Total SF |
|-------------------------|-------------------------------|----------|
| Sumitomo | Gateway 10, Bldg 2 | 141,475 |
| International Paper Co. | Centerpoint Logistics, Bldg 5 | 138,495 |
| MEI Rigging & Crating | 1851 South Seguin | 138,365 |

FIGURE 6: Largest Q4 2024 Negative Space Absorptions

| Occupier | Property | Total SF |
|--------------------|--|----------|
| H-E-B | Prologis Industry Park 3 (Vacated partial space) | (77,430) |
| Amazon | Green Mountain Business Park 7B | (50,000) |
| Anderson Machinery | 9415 NE Loop 410 | (29,183) |

Source: CBRE Research, Q4 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 | 4.7 | 5.2 | 7.07 | - | - | - | (8,942) |
| Class A | - | - | - | - | - | - | - | - |
| Class B | 305,706 | 2.1 | 2.1 | 13.20 | - | - | - | (6,537) |
| North Central | 12,961,772 | 7.8 | 9.3 | 11.19 | - | - | 77,613 | 116,230 |
| Class A | 1,844,502 | 40.2 | 42.1 | 10.54 | - | - | 4,357 | 85,993 |
| Class B | 6,141,891 | 3.2 | 4.1 | 12.34 | - | - | 45,766 | (4,955) |
| Northeast | 82,143,239 | 11.1 | 12.0 | 7.44 | 3,015,742 | 451,880 | 765,777 | 1,700,579 |
| Class A | 35,881,792 | 20.5 | 21.2 | 7.13 | 2,505,936 | 451,880 | 385,290 | 1,092,553 |
| Class B | 24,613,328 | 4.3 | 5.9 | 7.86 | 509,806 | - | 282,856 | 569,073 |
| Northwest | 16,488,887 | 4.9 | 6.9 | 13.22 | - | - | 336,602 | 269,052 |
| Class A | 1,415,859 | 29.4 | 33.7 | 9.46 | - | - | 94,822 | 240,885 |
| Class B | 7,329,054 | 4.1 | 5.7 | 15.81 | - | - | 64,948 | (42,060) |
| South | 26,745,657 | 4.8 | 4.0 | 6.74 | 720,000 | - | 139,789 | 315,711 |
| Class A | 9,847,010 | 6.3 | 4.6 | 14.43 | 720,000 | - | 3,175 | (185,240) |
| Class B | 10,380,531 | 2.9 | 2.9 | - | - | - | 42,976 | 414,666 |
| San Antonio Total* | 140,492,167 | 8.8 | 9.5 | 8.55 | 3,735,742 | 451,880 | 1,329,895 | 2,402,744 |
| Class A | 48,989,163 | 18.6 | 19.0 | 7.55 | 3,225,936 | 451,880 | 487,644 | 1,234,191 |
| Class B | 48,770,510 | 3.8 | 5.0 | 11.39 | 509,806 | - | 436,546 | 887,884 |

Source: CBRE Research, Q4 2024.

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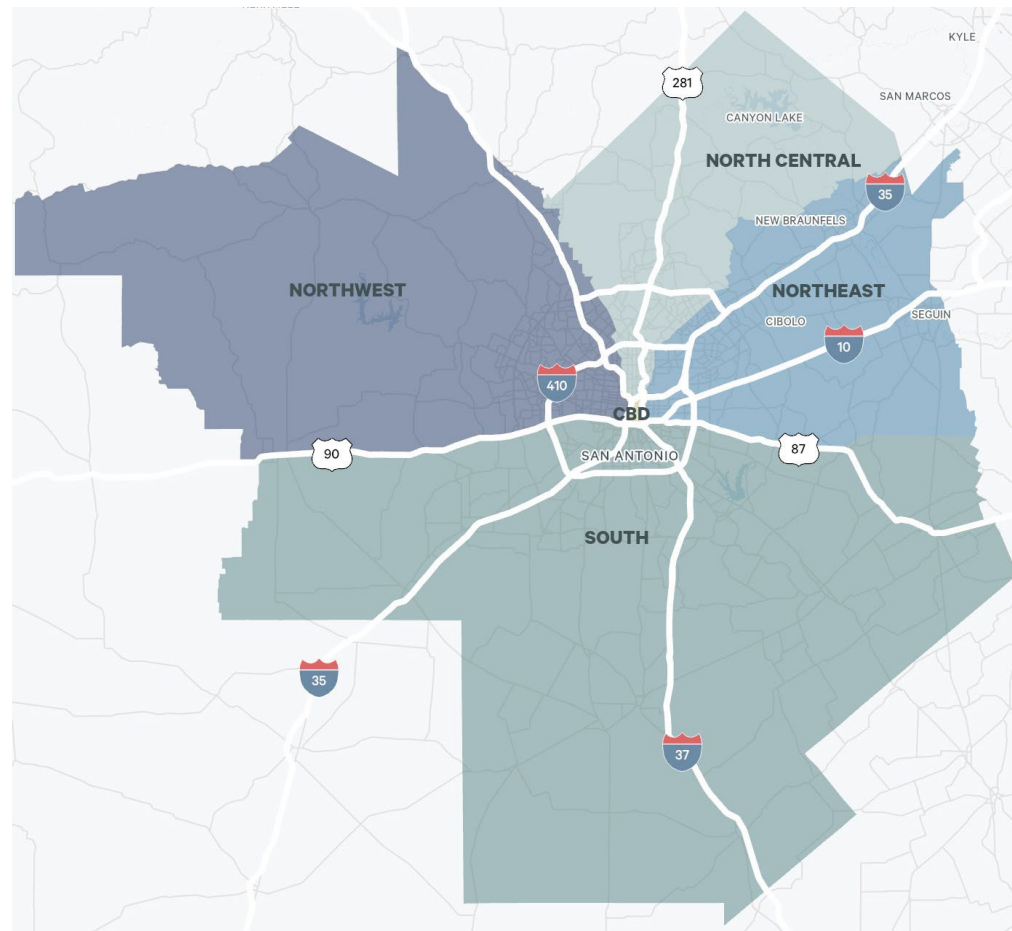
**Because Flex/R&D space commands higher rates per square foot than distribution space, the inclusion of older Class B Flex/R&D space in surveyed rental rates creates the illusion that Class B rates are higher than Class A rates. In fact, Class A rates for like kind assets remain higher than their Class B counterparts across the market.

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

| Submarket | DISTRIBUTION/LOGISTICS | | | | | FLEX/R&D | | | | | MANUFACTURING | | | | |
|-------------------|------------------------|------------------|-----------|-----------------------------|------------------------------------|-------------------|------------------|-----------|-----------------------------|------------------------------------|-------------------|------------------|-----------|-----------------------------|------------------------------------|
| | Total Vacant (SF) | Vacancy Rate (%) | NNN \$/SF | Q2 2024 Net Absorption (SF) | YTD 2024 Total Net Absorption (SF) | Total Vacant (SF) | Vacancy Rate (%) | NNN \$/SF | Q2 2024 Net Absorption (SF) | YTD 2024 Total Net Absorption (SF) | Total Vacant (SF) | Vacancy Rate (%) | NNN \$/SF | Q2 2024 Net Absorption (SF) | YTD 2024 Total Net Absorption (SF) |
| | Total RBA (SF) | | | | | Total RBA (SF) | | | | | Total RBA (SF) | | | | |
| CBD | 18,828 | 1.6 | 12.54 | (9,886) | (18,828) | 20,000 | 5.5 | 10.00 | 0 | 0 | 0 | - | - | 20,000 | 20,000 |
| | 1,142,348 | | | | | 361,050 | | | | | 587,264 | | | | |
| North Central | 714,062 | 8.8 | 10.94 | 71,857 | 159,343 | 258,192 | 8.1 | 11.67 | (19,650) | (76,535) | 13,048 | 0.8 | - | 29,406 | 55,922 |
| | 8,085,240 | | | | | 3,207,208 | | | | | 1,641,633 | | | | |
| Northeast | 8,933,596 | 13.6 | 7.28 | 785,445 | 1,025,447 | 154,586 | 4.6 | 9.25 | (6,368) | (26,518) | 50,929 | 0.4 | 7.25 | (13,300) | 639,798 |
| | 65,784,672 | | | | | 3,367,536 | | | | | 12,478,132 | | | | |
| Northwest | 632,441 | 6.2 | 13.25 | 153,133 | 270,937 | 156,381 | 4.4 | 13.90 | 49,720 | (23,316) | 23,915 | 0.9 | 8.89 | 133,749 | 61,897 |
| | 10,230,508 | | | | | 3,583,662 | | | | | 2,674,717 | | | | |
| South | 1,247,690 | 6.6 | 6.67 | 93,601 | (185,714) | 6,515 | 0.9 | 15.00 | 24,663 | 78,973 | 22,100 | 0.3 | - | 21,525 | 72,452 |
| | 18,915,519 | | | | | 727,123 | | | | | 7,026,018 | | | | |
| San Antonio Total | 11,546,617 | 11.1 | 7.89 | 1,094,150 | 1,251,185 | 595,674 | 5.3 | 11.81 | 48,365 | (47,396) | 109,992 | 0.5 | 9.22 | 191,380 | 850,069 |
| | 104,158,287 | | | | | 11,246,579 | | | | | 24,407,764 | | | | |

Source: CBRE Research, Q4 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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