

FIGURES | SAN ANTONIO INDUSTRIAL | Q2 2024

Vacancy ticks upward following influx of new deliveries; absorption stable quarter-over-quarter

▲ 8.6%
 Vacancy Rate

▲ 422,178
 SF Net Absorption

▼ 4,889,928
 SF Construction

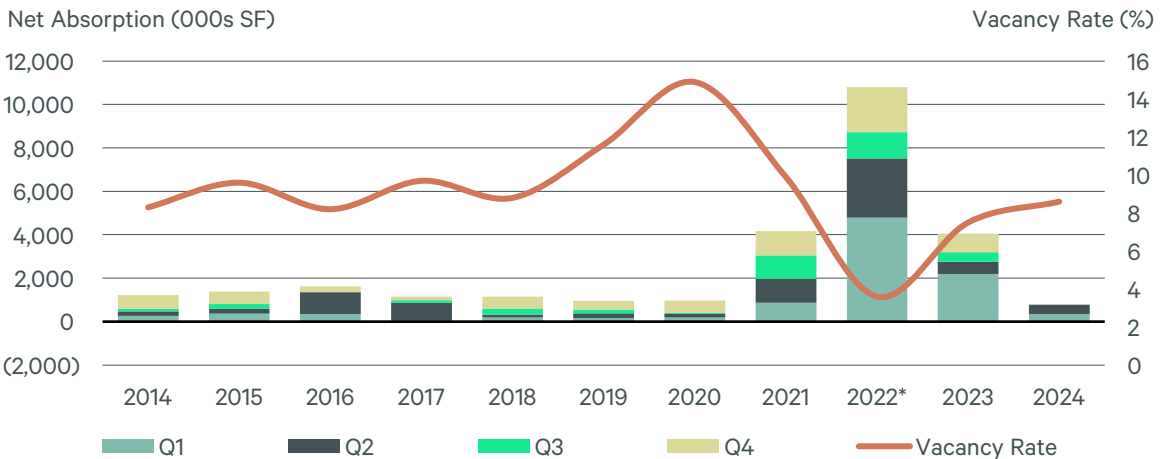
▼ \$8.11
 NNN / Lease Rate

Note: Arrows indicate change from previous quarter.

MARKET OVERVIEW

- Market-wide net absorption ticked upward slightly to 422,178 sq. ft. in Q2 2024, remaining relatively flat during a quarter frequently characterized by low absorption.
- The majority of occupiers contributing to positive absorption were manufacturing users.
- Vacancy increased 90 bps to 8.6% in the second quarter, driven by several large projects delivering vacant in the Northeast and North Central submarkets.
- A total of 1.57 million sq. ft. delivered in Q2 24, which was 29.1% pre-leased.
- Developers began construction on six new projects totaling 1.6 million sq. of new projects; 46.9% of the total square footage breaking ground in the second quarter was speculative space.
- 4.9 million sq. ft. of industrial product is currently underway, the majority of which is located in the Northeast submarket; 26.2% of the total pipeline is pre-leased.
- Q2 2024 marked the 31st consecutive quarter of positive net demand for the San Antonio industrial market.

FIGURE 1: Net Absorption and Vacancy



Source: CBRE Research, Q2 2024.

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)	Q2 2024 Deliveries (SF)	Q2 2024 Net Absorption	YTD 2024 Total Net Absorption
CBD	2,151,911	4.7	4.0	12.00	-	-	-	-
Class A	-	-	-	-	-	-	-	-
Class B	366,955	16.9	17.8	12.00	-	-	-	-
North Central	13,042,276	8.3	10.1	10.96	-	689,215	53,460	42,893
Class A	1,844,502	43.0	47.0	9.63	-	689,215	-	35,700
Class B	6,202,283	3.4	4.6	12.39	-	-	20,083	(16,394)
Northeast	80,572,221	10.6	11.5	7.30	4,169,928	733,865	183,762	289,055
Class A	34,872,121	19.0	19.5	7.31	3,565,468	733,865	108,968	469,569
Class B	24,104,937	5.4	6.4	6.57	565,808	-	(128)	(166,023)
Northwest	16,684,810	6.1	9.0	11.77	-	-	68,146	(44,852)
Class A	1,415,859	38.8	38.8	10.31	-	-	110,683	107,955
Class B	7,576,071	3.5	7.6	14.10	-	-	(56,061)	(89,875)
South	26,709,692	4.3	4.2	6.75	720,000	150,212	116,810	487,741
Class A	9,847,010	3.2	3.6	16.77	720,000	150,212	158,667	171,585
Class B	10,380,531	3.1	3.1	5.53	-	-	9,793	371,690
San Antonio Total*	139,160,910	8.6	9.5	8.11	4,889,928	1,573,292	422,178	774,837
Class A	47,979,492	17.3	17.8	7.83	4,285,468	1,573,292	378,318	784,809
Class B	48,630,777	4.4	5.7	8.82	565,808	-	(26,313)	99,398

Source: CBRE Research, Q2 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.

FIGURE 3: 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	61,950	5.1	12.00	-	-	20,000	5.5	-	-	-	20,000	3.4	-	-	-
	1,203,597					361,050					587,264				
North Central	779,455	9.5	9.98	55,200	97,950	236,975	7.4	11.27	(6,256)	(59,573)	64,454	3.9	-	4,516	4,516
	8,196,145					3,204,498					1,641,633				
Northeast	8,379,747	13.0	7.11	(36,785)	15,750	139,626	3.9	9.40	7,988	(11,558)	38,629	0.3	7.25	98,190	221,290
	64,665,406					3,590,576					12,047,324				
Northwest	692,430	6.8	10.38	112,587	126,309	186,815	5.2	14.24	(44,441)	(51,443)	131,167	4.5	8.89	-	(79,252)
	10,229,499					3,571,810					2,883,501				
South	1,081,265	5.7	6.62	85,541	32,504	31,178	4.3	19.68	(2,066)	54,310	43,625	0.6	-	33,335	50,927
	18,899,554					727,123					7,026,018				
San Antonio Total	10,994,847	10.7	7.32	216,543	272,513	614,594	5.4	11.58	(44,775)	(68,264)	297,875	1.2	6.98	136,041	197,481
	103,194,201					11,455,057					24,185,740				

Source: CBRE Research, Q2 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.

ASKING RATES & VACANCY

On a quarter-over-quarter basis, market-wide average asking rents dipped 3.8% to \$8.11 per sq. ft. in Q2 2024. Warehouse/distribution rents remained flat at \$7.32 per sq. ft, while Flex/R&D rates dropped 10.6% to \$11.58 per sq. ft. 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 ticked upward to 8.6% in Q2 2024, a 90 basis point (bp) increase over Q1. This increase was driven not by negative absorption but instead by a large amount of construction delivering vacant in Q2; after a slower Q1, developers delivered 1.57 million sq. ft. in the second quarter, which was 29% occupied. Major new deliveries included Interpark Logistics Center, adding 689,215 sq ft. of vacant distribution space to the North Central submarket; tenants will occupy just under 80,000 sq. ft. (13%) in Q3. In the Northeast submarket, Corporate Drive Industrial park delivered 511,000 sq. ft. of vacant distribution space, with tenants set to occupy 154,880 sq. ft. (30%) in Q3. Historically, leasing has tended to ramp up in the first few quarters following completion.

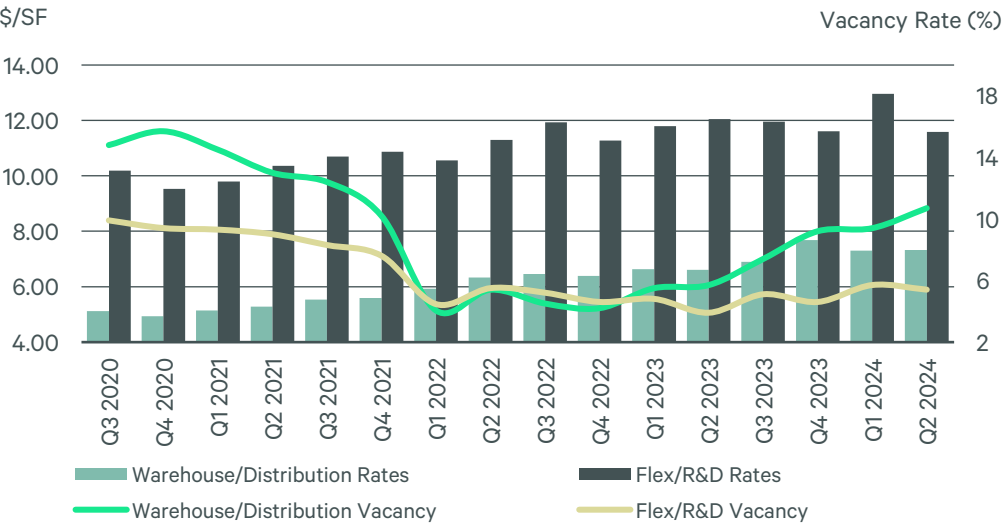
Marketwide distribution and warehouse vacancy grew 130 bps to 10.7% quarter-over-quarter. Flex/R&D vacancy dropped 30 bps to 5.4%, and manufacturing vacancy remained minimal at 1.8%.

DEVELOPMENT PIPELINE

Developers have responded to elevated demand for bulk user space by delivering 23.2 million sq. ft. of industrial product to the market from 2020 to present. 2023 saw a record-breaking 8.1 million sq. ft. in total deliveries; 2.09 million sq. ft. have delivered this year to date, including 1.57 million sq. ft. in Q2. Developers broke ground on six new projects totaling 1.6 million sq. ft. during the second quarter, bringing the total under-construction pipeline to 4.9 million sq. ft.

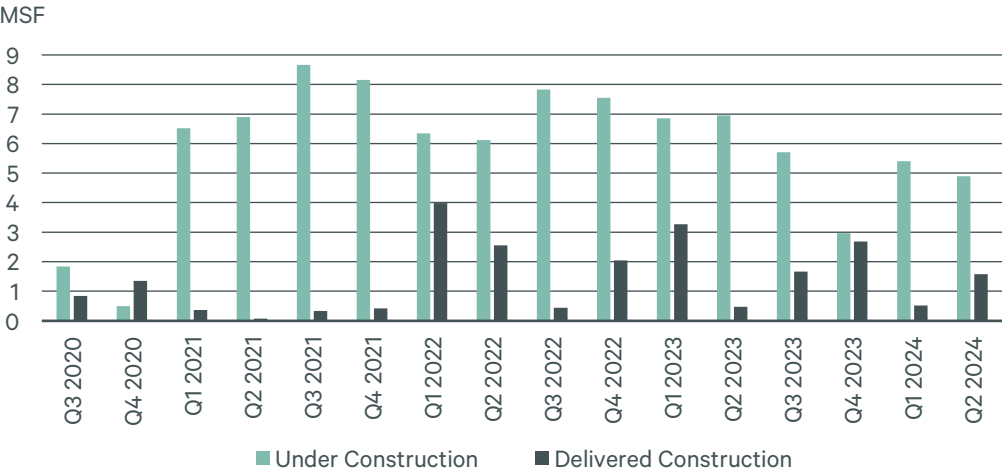
While the vast majority of recent development has been located in the Northeast submarket, Q2 saw the South submarket emerge as a secondary center of activity. UK-based heavy equipment manufacturer JCB began construction on a 720,000-sq.-ft. factory, its second in North America, on a 400-acre site in the South submarket; additionally, Brooks Global Crossing Building Two delivered 150,212 sq. ft. of space fully occupied by automotive parts manufacturer Simwon Global America. 660,000-sq. ft. Building One is scheduled to begin construction in Q3.

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



Source: CBRE Research, Q2 2024.

FIGURE 5: Historical Construction & Deliveries



Source: CBRE Research, Q2 2024.

SAN ANTONIO MARKET FUNDAMENTALS

San Antonio made its debut in Q4 2023 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 2.3% in Q2, continuing a pattern of solid growth over the previous two quarters. In 2023, employment grew by 3.4%, placing San Antonio in the top 10 of the largest 50 metro areas.

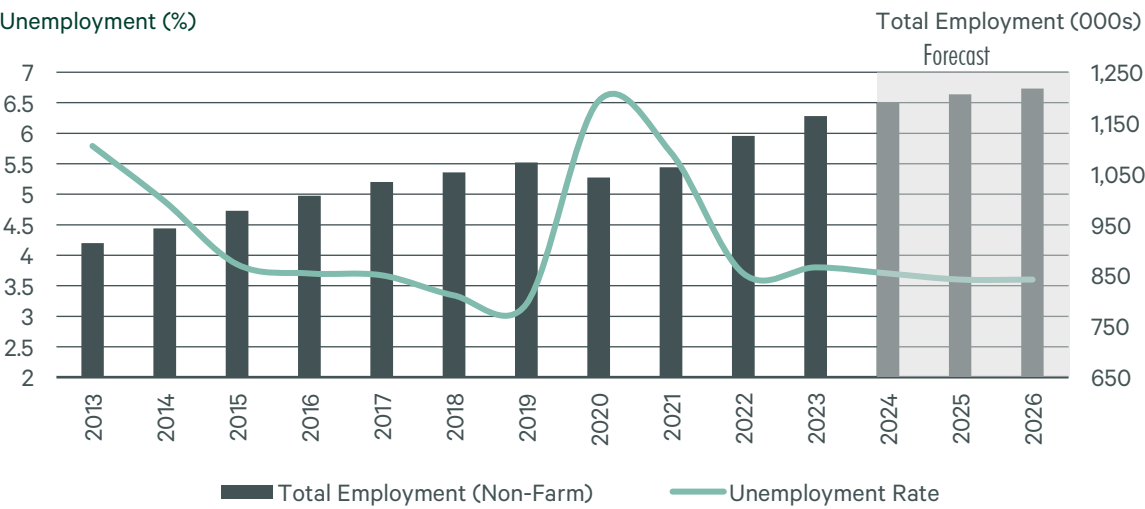
San Antonio’s unemployment rate of 3.5% as reported by the Bureau of Labor Statistics remains slightly below the state and national averages of 3.8% and 3.7%, respectively. The metro area population grew by 1.8% (48,700 people) in 2023; one-third of population growth was due to net in-migrating residents.

OVERVIEW OF ECONOMIC TRENDS

Following a year of expectation-busting growth, which has given us interest rates higher for much longer, it seems we will get a “soft landing” in 2024. Last year’s expansion was almost certainly driven by fiscal stimulus that far exceeded other western countries. Today, stimulus effects are fading, and higher interest rates continue to bite. There is evidence of this on the consumer front, wherein delinquency rates are trending upward, and credit growth is quickly slowing. The latter signals that consumption—a key driver of GDP growth in recent quarters—is poised to slow further. This partly explains why we believe growth will settle at the mid-1% range this year.

A more severe contraction in consumption would require the labor market to contract. Presently, conditions are merely softening. Both job openings and hours worked are falling. Also, most of the job growth is clustered in sectors that are immune to higher interest rates and receive at least some public funding, such as education, healthcare and government jobs. Leisure & hospitality has been a growth sector, but these cooling trends are evident here too. A soft landing in consumption and hiring point to further disinflation. Labor-intensive service costs are poised to soften and falling rents across the Sun Belt suggest weaker housing inflation is on the horizon. Fed rate cuts are downstream of disinflation, and a most welcome outcome within the commercial real estate space where higher financing costs and devaluations are triggering distress. The prospect of a rate cut this Autumn will at least help ease rate volatility, put cap rates on a slight downward trajectory, and generate more common ground between buyers and sellers in coming quarters.

FIGURE 6: San Antonio Labor Force and Unemployment



Source: Oxford Economics, June 2024.

FIGURE 7: Largest Q2 2024 Positive Space Absorptions

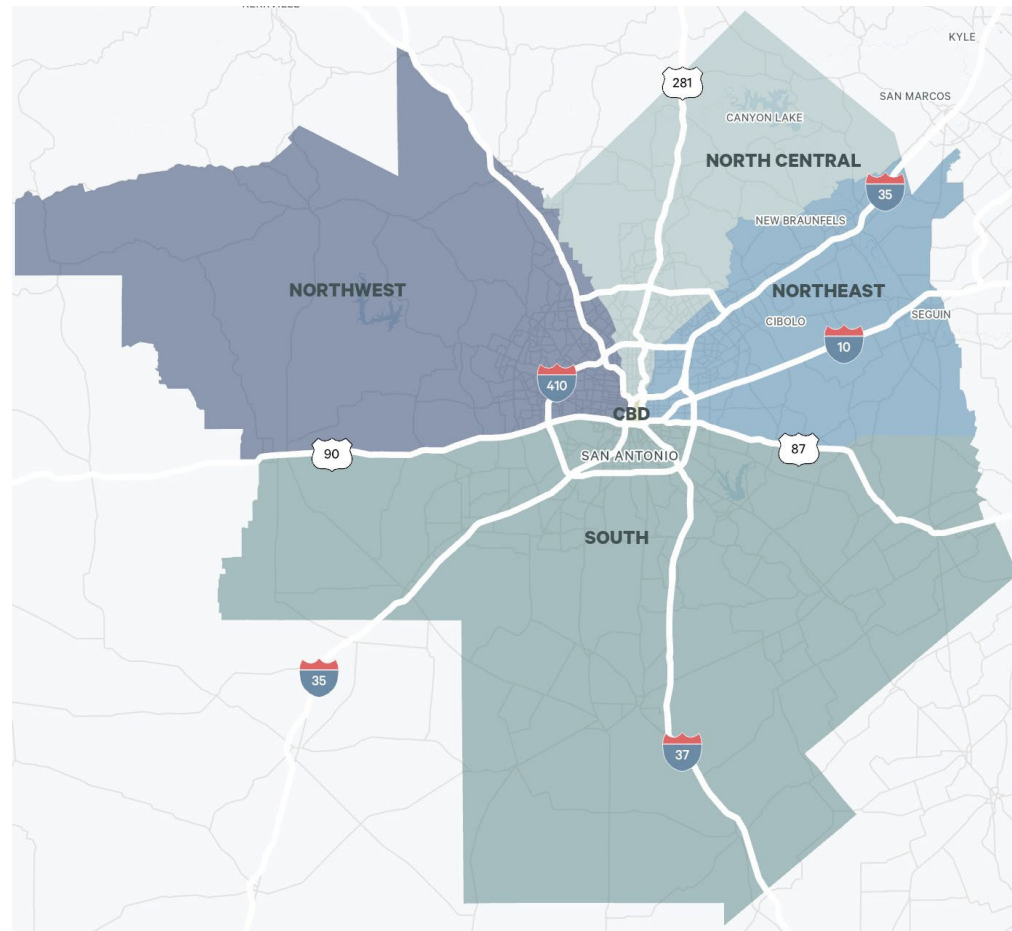
Occupier	Property	Total SF
Simwon America	Brooks Global Crossing 2	150,212
Mercado Libre (d/b/a Global Selling)	Foster Commerce Center 3	122,824
Bob Mills Furniture	17975 N Interstate 35	114,369

FIGURE 8: Largest Q2 2024 Negative Space Absorptions

Occupier	Property	Total SF
Southern Warehousing	Prologis Industry Park 1	86,800
Watts Water	13700-13812 US Hwy 90 W	66,952
Convermex	Rittiman West 5	36,211

Source: CBRE Research, Q2 2024.

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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