




TRANSWESTERN®

Q3 2018 | SAN ANTONIO
OFFICE MARKET

EXTRAORDINARY
40
YEARS

Q3 2018 | SAN ANTONIO OFFICE MARKET



Positive momentum continues in San Antonio's Tricentennial year

Average asking rates reach new all-time high, up 10.2% year-over-year

OVERVIEW

Strong Fundamentals

The San Antonio office market continues to lead with positive absorption figures into the final stretch of 2018. New deliveries caused an increase in vacancy at 14.6%, on par with the five-year average of 14.3%. New construction reached a five-year high at 1.4M square feet with a pre-lease rate of 49.1%. The San Antonio MSA's unemployment rate remained near a 13-year low at 3.5%, compared to a national rate of 3.7%.

DEMAND

Third Quarter Gains

Net absorption in the third quarter was positive with a total of 117,490 square feet. This compares to 93,476 square feet in Q2, 26,323 SF in Q1 and 180,201 SF in Q4 2017, totaling 417,490 SF for the previous 12 months. Third quarter's largest lease transactions are outlined below.

Notable Lease Transactions Q3 2018 (Over 15K SF)					
BUILDING	TENANT	SUBMARKET	CLASS	SF	TYPE
First Park Ten	TaskUs Inc	Northwest	B	65,821	Sublease
Northwood Tower	Leidos Innovations Corporation	Northeast	A	35,382	Renewal
9725 Datapoint	Nuvision, LLC	Northwest	B	29,764	New
6723 S Flores	Alamo Workforce Solutions	South	B	25,000	Renewal/Extension
Centerview Crossing - Brazos Building	X Technologies	Northwest	B	24,972	New
McAllister Plaza	Travelers	North Central	A	21,652	Renewal
One Technology Center	BSG Clearing	Northwest	B	17,261	Renewal
Oak Park	Marmon Mok	North Central	A	17,012	New
Viewpoint Office Building	John R. Heard	North Central	B	15,939	Renewal
Heritage Oaks - Bldg 3	Acquisition Billing Services	North Central	A	15,689	New
5555 Northwest Pkwy	CGI Federal Inc	Northwest	B	15,571	Renewal/Reduction
The Light Building	WebTPA	Central Business District	A	15,071	New

San Antonio Office Market Indicators

Submarket	Inventory	Net Absorption Q3 2018	12-Month Rolling Absorption	Direct Vacancy	Sublease Space	Total Available	Avg FSG Rate PSF
Class A	12,038,110	107,141	215,197	17.0%	1.3%	19.2%	\$29.08
Class B	18,256,418	24,142	202,573	13.9%	0.4%	16.9%	\$22.60
Class C	3,164,182	(13,793)	(280)	9.3%	-	10.9%	\$19.17
TOTAL	33,458,710	117,490	417,490	14.6%	0.7%	17.2%	\$25.23

TRENDLINES

5-YEAR TREND CURRENT QUARTER

DIRECT VACANCY



14.6%

Compared to 14.3% five-year average

RENTAL RATE



\$25.23PSF

(FSG) Increase of 10.2% year-over-year

ABSORPTION



117,490SF

417,490 SF Rolling 12-month total

UNDER CONSTRUCTION



1.4MSF

49.1% pre-leased; \$42.99 PSF (FSG)

JOB GROWTH



4,200 JOBS

Gained YTD; 3.5% unemployment

VACANCY

Vacancy Rates Steady

The overall direct vacancy rate for San Antonio increased 100 basis points in Q3 for a total of 14.6%. This compares to the five-year average of 14.3%, with 13.6% in Q2, 14.1% in Q1, and 14.2% in Q4 2017. Direct vacancy rates for Class A space increased to 17.0% from the previous quarter's 16.5%. Overall Class B vacancy rate finished Q3 at 13.9%. The Class C office sector rates increased to 9.3%.

The overall office availability rate (all space marketed as available for lease, both direct and sublet) increased over the quarter, ending at 17.2%. Class A properties finished the third quarter with an availability rate of 19.2% while Class B properties sit at 16.9%.

SUPPLY AND DEVELOPMENT

New Construction Near All-Time High

As tenants strive to retain talent and attain efficiency both in their space footprint as well as their operating expenses, demand for quality office space continues to push new construction levels to a five-year high, specifically in the CBD and Far Northwest submarkets. Currently, there are 1,369,565 SF under construction across 12 buildings with a pre-lease rate of 49.1% and asking rate of \$42.99 PSF full service. Major projects under construction include the highly-anticipated Frost Tower in the CBD, due for delivery in Q1 2019 and the Pearl Office Towers, which broke ground in Q1 2018. Over 269k square feet of new product has delivered in 2018, a majority of which is Class A in the Northwest and FNW submarkets. Occupancy levels for new deliveries are at approximately 25.8%.

RENTAL RATES

Asking Rates Ascend, Reach New High

Overall asking rates for the San Antonio Metro area increased by 64 basis points over the quarter and 10.2% over the year, finishing Q3 2018 at \$25.23 PSF full service. Despite the increase in asking rates, concessions remain elevated throughout the market with generous concession packages and tenant improvement allowances being offered in order to maintain high rent figures.

Class A rates closed the quarter up 0.80% (+\$0.23), ending at \$29.08 PSF full service, while Class B asking rates increased by 1.07%, ending at \$22.60 PSF full service. The submarkets with the highest asking rents are the Far Northwest (\$35.91 PSF FSG), Midtown (\$33.31 PSF FSG) and South (\$31.37 PSF FSG).

Total Available Space - Largest Submarkets
San Antonio Metro | Q3 2018

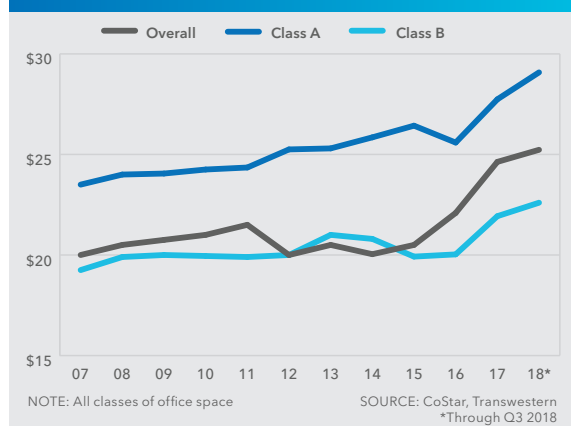
SUBMARKET	TOTAL # OF BLDGS	TOTAL RENTABLE SF	DIRECT VACANT	TOTAL AVAILABLE
Northwest	171	9,664,896	14.4%	18.3%
North Central	155	7,850,595	15.0%	18.3%
CBD	48	5,117,185	14.0%	16.3%
Far North Central	65	3,041,123	10.5%	12.8%
Northeast	44	2,712,013	18.4%	19.6%
Grand Total	574	33,458,710	14.6%	17.2%

NOTE: Total available space includes vacant, occupied and sublease space marketed for lease.

Office Under Construction
San Antonio Metro | Q3 2018

SUBMARKET	# OF BLDGS	SF	% PRE-LEASED	AVG FSG RATE PSF
CBD	2	602,654	48.4%	\$50.22
Far Northwest	2	66,900	-	\$26.50
Midtown	2	344,000	79.1%	\$46.00
North Central	4	201,121	54.3%	\$30.83
Northwest	1	84,890	41.9%	\$32.00
South	1	70,000	-	\$30.00
Grand Total	12	1,369,565	58.4%	\$41.14

AVERAGE OFFICE RENTS
San Antonio Metro Area

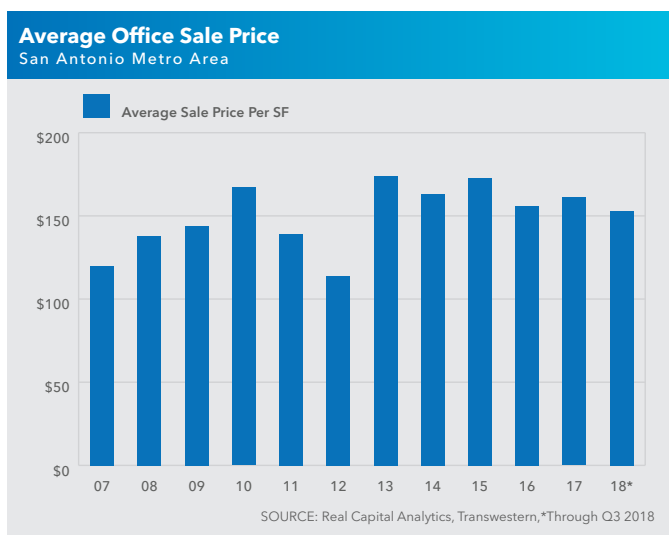


INVESTMENT SALES

San Antonio an Enticing Market for Investors

Investors are attracted to markets with strong economic fundamentals. The San Antonio market remained enticing to the investor community with over \$703M in total sales volume over the previous 12 months, comprised of 46 properties. This compares to \$708M in Q3 2017 for the same time period. The average sales price per square foot in Q3 was \$153 PSF, compared to a national average of \$258 PSF. Sales for the quarter (including deals pending), totaled \$156.3 million and were comprised of 13 transactions. Given the amount of product currently on the market, we should see several more properties trade over the next 6-9 months.

Notable office sale transactions from the prior 12-month period are listed below.



Notable Sale Transactions

BUILDING	SUBMARKET	SF	DATE	BROKER	SELLER	BUYER
The Spectrum Building 613 NW Loop 410	North Central	175,390	October 2018	HFF	Pace Properties	Hartman
UnitedHealth Group Bldg 6200 Northwest Pkwy	Northwest	142,500	July 2018	Transwestern	Lexington Corp Properties Trust	TPG
Century Building 84 NE Loop 410	North Central	187,718	July 2018	HFF	Gemini Rosemont	Braun Enterprises
Highpoint One & Two 8401 & 8415 Datapoint Dr	Northwest	303,803	April 2018	HFF	RedRock	Richmond Honan
Centerview Crossing Loop 410/Callaghan Rd	Northwest	237,468	April 2018	Transwestern	Omninet	Bow River
Accenture Federal Svcs Bldg 10931 Laureate Dr	Northwest	89,928	April 2018	HFF	Hale Johnston Enterprises	TPG
WestRidge at La Cantera I & II 15955 La Cantera Pkwy	Far Northwest	258,031	November 2017	HFF	USAA/Patrinely	Preferred Office Properties
Lincoln Center 7800 IH-10 West	Northwest	157,933	October 2017	CBRE	CPS Energy	Primera Partners
GM Financial 3302 N Ellison Dr	Far West	100,260	September 2017	CBRE	Berkeley Estates	Radler Enterprises
Bank of America Plaza 300 Convent St	Central Business District	533,171	August 2017	--	Clarion Partners, Griffin Partners	USAA
Legacy Oaks 5360-5430 Fredericksburg Rd	Northwest	224,262	July 2017	--	MJR Investments	Velocis
4350 Lockhill Selma	Northwest	116,545	June 2017	Cushman & Wakefield	Harbert Management Corp	Domicilio LHS LLC

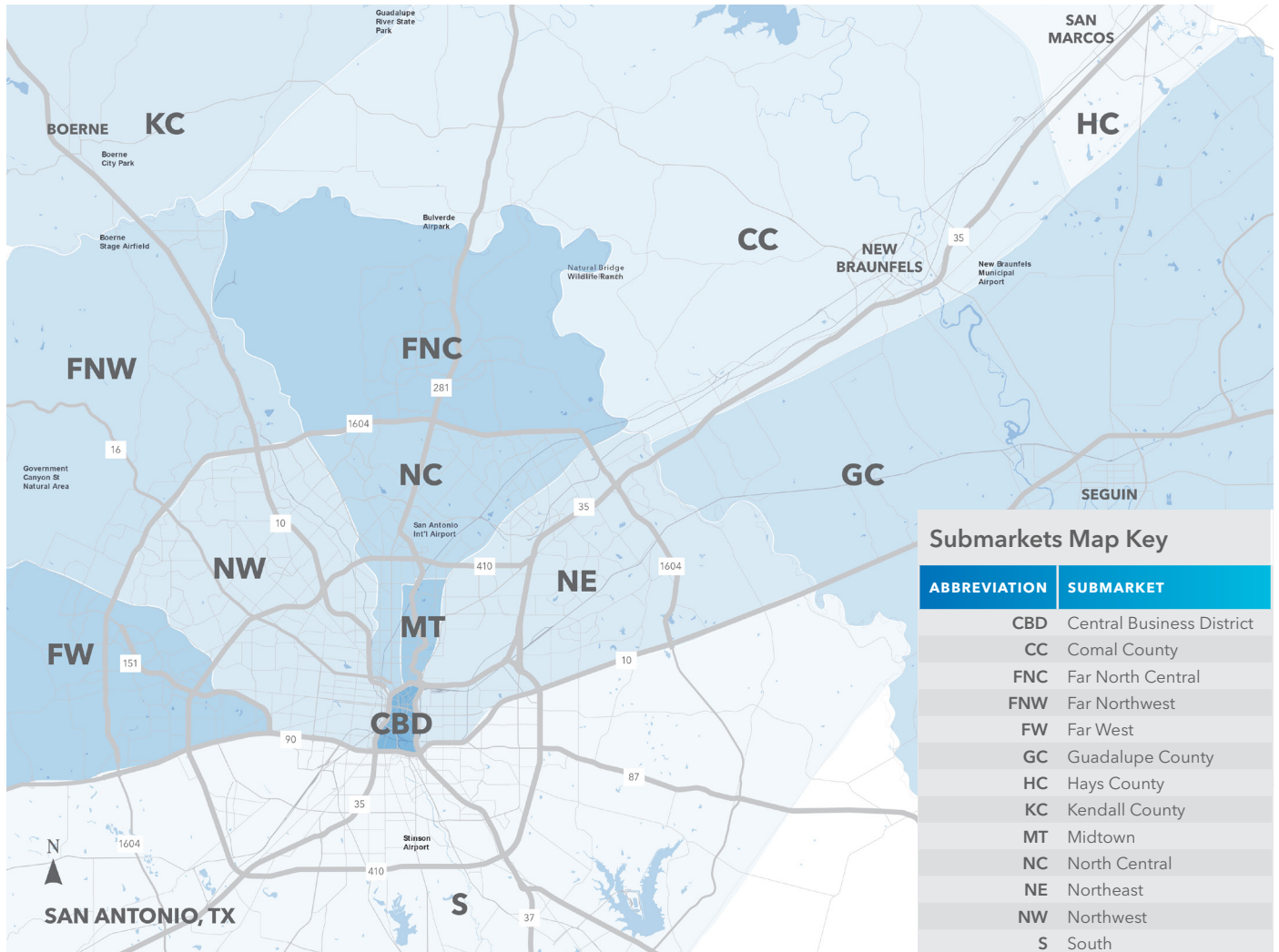
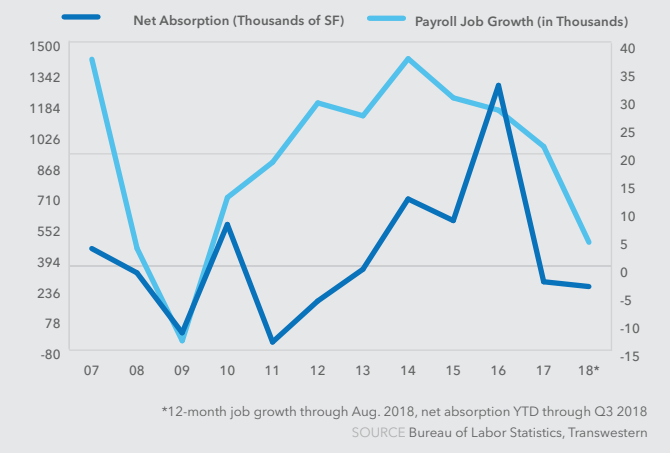
SOURCE: Real Capital Analytics, Transwestern

OUTLOOK

What Keeps Investors Coming Back for More

The economy and workforce in southern Texas are the primary factors that draw investor interest. While San Antonio is known for its deep-rooted history, art and ethnic diversity, this city's growth ranks high among large Texas cities and has emerged as one of the best environments for business. Local businesses and companies entering San Antonio enjoy a collaborative culture focused on creating opportunity. The city has continued to diversify its industries over the past several decades with government, healthcare, biomedical, finance, and manufacturing being top industries in San Antonio. The city is home to several Fortune 500 companies, including Valero, USAA, Andeavor, and iHeart Media Inc.

Office Absorption and Employment
San Antonio Metro Area



Notable Lease Transactions 2018 (Over 10K SF)

BUILDING	TENANT	SUBMARKET	CLASS	SQUARE FEET	LEASE TYPE	DATE
Bank of America Plaza	Bank of America	Central Business District	A	75,249	Renewal	April 2018
First Park Ten	TaskUs Inc.	Northwest	B	65,821	Sublease	August 2018
Farinon Business Park	EY	Northwest	A	54,130	New	January 2018
12621 Silicon Drive	Deeproot	Northwest	B	41,752	New	January 2018
Heritage Plaza	TaskUs	Comal County	A	41,000	New	January 2018
Northwood Tower	Leidos Innovations Corp.	Northeast	A	36,100	Sublease	August 2018
North Park Corporate Center Phase II, Bldg 3	Spectrum Association Mgmt	North Central	B	34,262	Expansion/Extension	January 2018
9725 Datapoint	Nuvision, LLC	Northwest	B	29,764	New	June 2018
Network Crossing	Marathon Oil Company	Northwest	B	29,665	Renewal	June 2018
Weston Centre	BBVA Compass	Central Business District	A	28,899	New	February 2018
Circle Bar Bldg	Streamline Aircraft Interiors	North Central	B	25,600	Renewal	January 2018
Brazos Building	X Technologies	Northwest	B	24,972	New	June 2018
McAllister Plaza	Travelers Indemnity Co	North Central	A	21,652	Renewal	June 2018
Trinity Plaza I	Wells Fargo Bank	Midtown	A	21,191	Renewal	March 2018
Southtown Works	HEB Grocery Company	Central Business District	B	20,907	New	February 2018
Corporate Square	University Health Systems	Northwest	A	18,040	Renewal/Expansion	May 2018
Lockhill Crossing	Inspired eLearning	Northwest	A	17,986	New	March 2018
18545 Sigma Road	Texas Security General Insurance	Far North Central	C	17,125	New	January 2018
Heritage Oaks Bldg 3	Acquisition Billing Services	North Central	A	15,689	New	June 2018
5555 Northwest Pkwy	CGI Federal Inc	Northwest	B	15,571	Renewal/Reduction	June 2018
IBC Centre I	Liquid Web	Central Business District	A	14,658	Expansion/Extension	July 2018
Weston Centre	Mailgun Technologies	Central Business District	A	13,475	New	April 2018
Network Crossing	Tessco Technologies	Northwest	B	13,108	Renewal	March 2018
Tower West	CACI	Northwest	B	12,848	Renewal	June 2018
Weston Centre	Haynes and Boone	Central Business District	A	12,702	New	April 2018
Burns Building	Price Waterhouse Coopers	Central Business District	B	12,032	New	April 2018
Bank of America Plaza	Bracewell LLP	Central Business District	A	11,454	New	May 2018
Northbrook Business Center	ABSG Consulting	North Central	C	11,373	Renewal	May 2018
Tetco Center	7-Eleven, Inc.	North Central	B	10,704	Renewal	February 2018
Shavano Oaks Office Park	Payment Data Systems	Far North Central	A	10,535	New	February 2018
Trinity Plaza II	Raymond James	Midtown	A	10,327	Renewal	March 2018

San Antonio Office Market Indicators

Submarket	Total Bldgs	Inventory	Net Absorption Q3 2018	12-Month Rolling Absorption	Direct Vacancy	Sublease Space	Total Available	Avg FSG Rate PSF	# of Lg Contig. Blocks	Avg Size Max Contig. Block (over 35KSF)
Class A	90	12,038,110	107,141	215,197	17.0%	1.3%	19.2%	\$29.08	9	72,818
CBD	5	1,558,221	20,253	(8,812)	19.4%	2.0%	21.3%	\$30.75	1	110,646
Comal County	2	192,838	5,357	51,057	15.7%	-	15.7%	\$26.50	-	-
Far North Central	19	1,857,173	51,443	125,487	10.5%	0.1%	12.2%	\$30.86	-	-
Far Northwest	8	941,445	-	71,141	20.4%	-	19.5%	\$35.91	2	78,542
Far West	6	708,670	(983)	(983)	29.5%	-	24.8%	\$29.63	2	72,284
Midtown	9	765,788	(1,657)	597	5.0%	0.8%	6.7%	\$33.31	-	-
North Central	16	2,549,644	7,547	(35,678)	14.6%	2.1%	18.3%	\$27.31	1	35,700
Northeast	5	659,729	(15,655)	(8,765)	29.8%	1.2%	32.7%	\$25.50	1	109,435
Northwest	18	2,640,472	36,245	22,079	16.2%	2.2%	21.1%	\$26.73	1	41,275
South	2	164,130	4,591	(926)	53.2%	-	43.8%	\$31.37	1	56,653
Class B	355	18,256,418	24,142	202,573	13.9%	0.4%	16.9%	\$22.60	5	60,756
CBD	32	2,877,080	46,272	226,549	13.2%	-	16.2%	\$23.10	-	-
Comal County	5	97,304	(4,228)	(3,050)	6.3%	-	6.3%	\$24.41	-	-
Far North Central	38	1,112,213	2,329	(19,126)	10.9%	1.8%	14.3%	\$26.75	-	-
Far Northwest	8	237,628	3,408	1,811	21.5%	-	23.8%	\$28.14	-	-
Far West	3	180,855	-	-	20.3%	-	20.3%	\$22.50	-	-
Kendall County	5	162,881	-	2,248	-	-	-	\$24.50	-	-
Midtown	13	909,435	(22,800)	14,143	8.3%	-	13.1%	\$25.69	-	-
North Central	94	4,364,552	(81,747)	(70,652)	17.2%	0.5%	20.7%	\$22.81	-	-
Northeast	23	1,587,750	(8,085)	16,948	14.4%	-	15.1%	\$22.59	1	35,717
Northwest	122	6,378,057	81,993	(29,718)	13.7%	0.5%	17.0%	\$21.10	4	67,016
South	12	348,663	7,000	63,420	5.8%	0.6%	5.4%	\$20.24	-	-
Class C	129	3,164,182	(13,793)	(280)	9.3%	-	10.9%	\$19.17	-	-
CBD	11	681,884	-	(1,099)	4.9%	-	5.7%	\$20.72	-	-
Far North Central	8	71,737	2,098	(940)	4.2%	-	5.1%	\$22.31	-	-
Guadalupe County	1	20,000	-	-	-	-	2.5%	\$21.20	-	-
Medina County	1	24,060	-	-	-	-	-	\$18.00	-	-
North Central	45	936,399	(7,693)	(3,424)	5.8%	-	7.2%	\$18.58	-	-
Northeast	16	464,534	(3,790)	(44,070)	15.9%	-	16.2%	\$20.19	-	-
Northwest	31	646,367	(3,453)	(4,677)	14.2%	-	18.6%	\$18.49	-	-
South	16	319,201	(955)	53,930	12.1%	-	12.6%	\$19.55	-	-
TOTAL - San Antonio	574	33,458,710	117,490	417,490	14.6%	0.7%	17.2%	\$25.23	14	68,510

SOURCE: CoStar, Transwestern

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METHODOLOGY

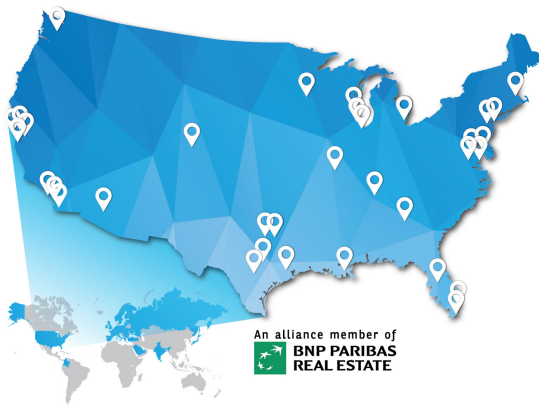
The information in this report is the result of a compilation of information on office properties located in the San Antonio metropolitan area. This report includes multi-tenant properties and building parks over 20,000 square feet and excludes properties owned and occupied by a government agency.

Transwestern is a privately held real estate firm of collaborative entrepreneurs who deliver a higher level of personalized service - the Transwestern Experience. Specializing in Agency Leasing, Asset Services, Occupier Solutions, Capital Markets and Research, our fully integrated global enterprise adds value for investors, owners and occupiers of all commercial property types. We leverage market insights and operational expertise from members of the Transwestern family of companies specializing in development, real estate investment management and research. Transwestern has 35 U.S. offices and assists clients from more than 221 offices in 37 countries through strategic alliances with France-based BNP Paribas Real Estate and Canada-based Devencore. Experience Extraordinary at transwestern.com and @Transwestern.

We are collaborative entrepreneurs raising the bar on what it means to provide a higher level of service. No matter how much we grow our global reach and resources, our approach to commercial real estate will always be people-driven and client-focused. The way we see it, better is bigger.

Better Service

We create value and a unique, cohesive experience for owners and occupiers of all property types through a complete set of service offerings. Our team members go above and beyond to deliver a higher level of personalized service – The Transwestern Experience. Our passion for our people and their commitment to our clients is unprecedented. For us, the deal is not the end of the transaction; it’s the beginning of a long and meaningful relationship.









TRANSWESTERN employs over 2,500 team members and operates in 35 markets across the U.S.

- | | | |
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San Antonio

The San Antonio office of Transwestern was established in 1987 to provide a broad spectrum of real estate services for assets in the San Antonio, Texas area. We are a market leader in San Antonio, currently providing real estate services for a multitude of office, healthcare, industrial, and retail properties representing approximately 7.9 million square feet. Transwestern has seasoned veterans in every area of expertise with the integrity, experience and creativity to be the best partner for its clients. Transwestern’s San Antonio office currently employs over 70 team members and has been a leader in the San Antonio market for over 30 years. The combination of a local focus and national resources allows Transwestern to offer the most comprehensive package of services under one roof, and provides the greatest flexibility for our clients.


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