

## San Antonio Office/Industrial Report

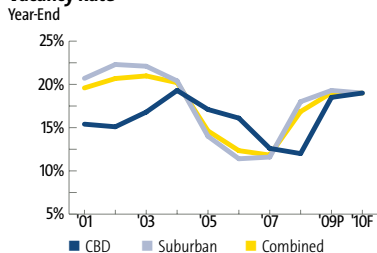
Excerpts from the San Antonio Office & Industrial Market Reports by Grubb & Ellis



### San Antonio Office

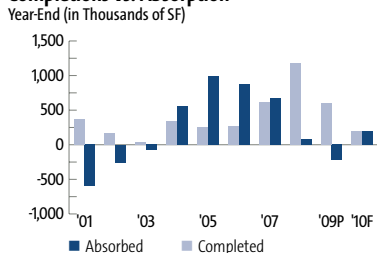
While San Antonio was not directly impacted by the national recession, sluggish demand and excess construction deliveries caused vacancy to climb to a five-year high.

#### Vacancy Rate



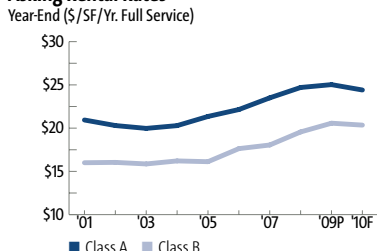
Source: Grubb & Ellis

#### Completions vs. Absorption



Source: Grubb & Ellis

#### Asking Rental Rates



Source: Grubb & Ellis

Even as corporate consolidations and space deliveries contributed to a 220 basis point vacancy increase in 2009, the Alamo City's office market fared relatively well in comparison to other markets containing similarly large concentrations of energy, technology and financial services companies. The most significant event to influence the market's performance was AT&T's headquarters relocation to Dallas, which left behind more than 320,000 square feet of vacant sublease space in the Central Business District. Tesoro also dumped over 150,000 square feet on the competitive market as the firm relocated into its newly built 618,000-squarefoot headquarters building. However, San Antonio's low business costs

and high quality of living attracted several new companies such as Whataburger, Medtronic and Concorde Career College. Of most significance, Whataburger's headquarters relocation from Corpus Christi, Texas brought good news with approximately 250 jobs and provided a cushion as the newcomer acquired 200 Concord, a 150,000-square-foot office that previously was home to Tesoro.

Although the office market has not climbed out of the trough yet, the worst may be behind it. The vacancy rate appears to have reached a plateau, while construction levels declined with less than 600,000 square feet of new space added in 2009, compared to the 1.8 million square feet built in the preceding two years. The lack of construction financing and the existence of excess supply will limit near-term speculative product and provide landlords relief from the excessive development of the past two years.

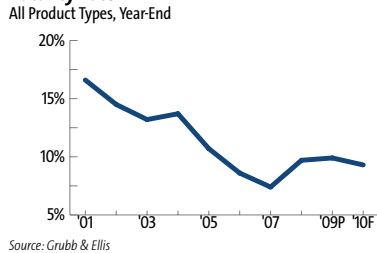
Landlords of newly constructed properties will likely face a difficult road ahead as ample opportunities exist for tenants. Stable firms should seize this opportunity to renew their leases as effective rents will continue to retreat and favorable concessions remain available. As landlords attempt to balance the need for positive returns on their investments with the realities of the market, the fragility of the financial system could limit the availability of capital funds to finance tenant improvement allowances. Without sufficient capital to make a property more competitive in the marketplace, concessions available to a tenant will be limited to those which do not require cash from the landlord.

While 2010 will generally produce more of the same, office leasing will begin to make its much-anticipated comeback during the latter part of 2010, as employers start to hire and companies abandon their "wait and see" approach. Until then, San Antonio will see little improvement in its office leasing fundamentals.

### San Antonio Industrial

While San Antonio has experienced some effects of the recession, the city's strategic location and strong underlying growth fundamentals have kept the industrial market stable.

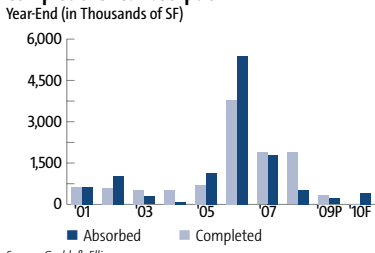
#### Vacancy Rate



Source: Grubb & Ellis

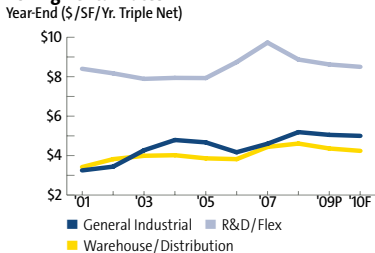
Although leasing activity was well below the pace seen in the prior two years, the local industrial market still managed to post modest absorption gains supported by the expansion of area businesses. On the development side, the speculative construction pipeline emptied out as the tightened credit market and sluggish demand shelved several projects until the market recovers. With nearly 2.3 million square feet delivered since 2008 and nearly 60 percent of this vacant, San Antonio has ample opportunities to accommodate large relocating businesses looking to reduce their real estate costs. Looking ahead, the decrease in construction should benefit

#### Completions vs. Absorption



Source: Grubb & Ellis

#### Asking Rental Rates



Source: Grubb & Ellis

the leasing market as it will provide an opportunity for new leases to chip away at vacancy over time.

Although asking rents have declined to their lowest level in two years, expect landlords to continue offering generous concession packages to attract and retain tenants. Landlords that are in a position to negotiate aggressive concessions may benefit in the short term from the fact that many companies are redefining their revenue growth strategies, reorganizing operations, reducing costs and positioning themselves for what many economists project will be a 2010 turnaround for San Antonio's economy. Port San Antonio, which lies at the former Kelly Air Force Base, is the city's largest industrial park and a key component to future economic progress. Located at the crossroads of three interstate highways, two Class I railroads and served by an 11,500 foot runway, Port San Antonio has positioned itself to become a premier logistics hub. Port San Antonio's functionality and cost savings has attracted numerous companies such as Affiliated Computer Services, Chromalloy Gas Turbine Corp. and has also been on the receiving end of many military units as a result of the Base Realignment And Closure (BRAC). In addition to the newly announced Cyber Command, a total of 11 units will take occupancy of a 400,000-square-foot building, adding 2,700 jobs to the area.

The 2010 scheduled delivery of a new Caterpillar engine assembly plant in Seguin could also bring some businesses to San Antonio to help fill excess vacancy. While the primary suppliers for the plant will be located in or near Seguin, second and third-tier suppliers, providing goods and services to the primary suppliers, may end up leasing space in the eastern part of San Antonio.

The Alamo City remains poised for a recovery and the recent attraction of several businesses further exemplifies the area's potential even amidst economic uncertainty.

CENTRAL / SOUTH TEXAS