

Industrial Market Trends | San Antonio

Excerpts from First Quarter 2009 San Antonio Industrial Market Trends by Grubb & Ellis



CENTRAL / SOUTH TEXAS



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Quarterly Absorption in Positive Territory Executive Summary

As a result of the current economic downturn and questionable future, the San Antonio industrial leasing market has braced for an expected slowdown. Within the past year, smaller businesses hit by the rapid rise of fuel costs and decreased consumer spending were forced to downsize operations, merge with a stronger company or close. Logistics and distribution companies affected by the same factors also had to make decisions as to the cost effectiveness of operating from San Antonio. While this contributed to 2008 being less than a stellar year, the San Antonio industrial leasing market appears to be holding its own. San Antonio's industrial leasing market rebounded during the first quarter of 2009 by posting 191,477 square feet of positive absorption. The bulk of the absorption gain was anticipated with the previously penned leases by Greenstar and New Breed Logistics,



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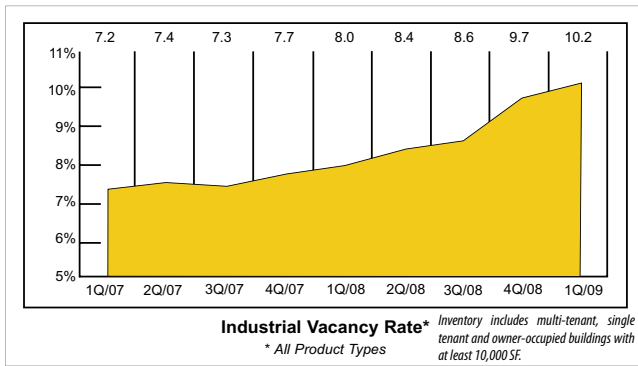
increased and landlords anticipated fewer lease renewals. Available sublease space inventory is currently 496,019 square feet, almost 40,000 square feet more than the end of 2008. Direct space available is 7.3 million square feet, making a jump from only 5 million square feet in the first quarter of 2008. By submarket, the highest vacancy is located in Far Northeast with 32.9 percent, which experienced a construction boom in 2006. Of the approximately 1.5 million square feet of space constructed between 2006 and 2008, only half a million square feet was leased in the same time period. The good news is that any further construction in the area has been halted at this time. Completed construction citywide during the quarter includes 275,000 square feet on Tayman in Port San Antonio and Gulf Coast Paper's 52,000 square foot facility at City Park East.

Overall triple net asking rents declined for the second consecutive quarter in the Alamo City by \$0.06 to \$5.46 per square foot per year. By property type, R&D/flex increased by \$0.25 to \$8.71 per square foot per year. On the other hand, general industrial rents fell by \$0.06 to \$5.38 per square foot per year while overall rents for the ever dependable warehouse/distribution sector remained flat at \$4.60 per square foot per year. As an indicator in the market, the overall asking rates are not a true reflection as leasing concessions have become aggressive. Leasing concessions have hit all time highs as some developers struggle to generate cash flow. Marketing flyers have spaces advertised with everything from several months free rent to 50 percent off face rents or even \$1 per square foot rents for the first 12 months on a five year term. On an effective rent basis, under market rates for direct and sublease transactions are skewing the market average. The asking rates for sublease spaces

are dependent on the length of time it has been available on the market and the financial stability of each individual company. Businesses with long term leases in place such as Cardell with approximately 162,000 square feet through 2017 or City Electric Supply with a 45,000 square foot lease until 2013; may hold out until a lease is signed at a market rate. However, some businesses may decide that a lease buyout or subleasing at a below market rate would be in their best interest. Nonetheless, lowered rents for both direct and sublease space are beginning to generate positive activity in the market and providing some tenants with amazing deals.

Opportunities/Challenges

The San Antonio industrial market is jam-packed with opportunities for tenants. Abundant available space and low effective rents make this the prime occasion for tenants to consider expansion or relocation. For those companies not adversely affected by slowed consumer spending, San Antonio is receiving positive activity. However, companies that are concerned about the months and possibly years ahead, a lower rental rate may not be the cure-all as other factors come into play in making a relocation decision. Given the rumors pertaining to future growth in San Antonio that will result from increased trade, it is likely that any and all fears will subside soon enough.



which both took occupancy during the first quarter. However, with the ambiguity in the national economy, nothing is certain. Most activity has been isolated to the expansion of businesses with a local presence already, such as the case with Zachry Construction, Gemaire, and Gulf Coast Paper Company. There are rumors of large corporations testing the waters in San Antonio for potential new sites, not to the extent of Toyota or Caterpillar, but San Antonio has recently become a beacon on the radar for corporations looking southward. Therefore, while smaller businesses may not withstand the troubles ahead, larger businesses are expected to backfill vacancy and leasing should remain stable for 2009.

Overview

Despite the positive absorption for the quarter, vacancy increased by 50 basis points to 10.2 percent and the availability rate experienced a jump of 170 basis points to 11.3 percent. Throughout 2007, the variation between the availability and vacancy rates was approximately 20 basis points. Starting with the second quarter of 2008, that number began to swell as available sublease space

is beginning to generate positive activity in the market and providing some tenants with amazing deals.

Forecast

In a situation where retail sales are down for an undetermined amount of time, manufacturing and distribution lines are ultimately affected. San Antonio had already begun to reposition itself in the logistics industry prior to the economic slump. Therefore, as companies evaluate cost-effectiveness, the Alamo City may be the answer. The new Union Pacific Intermodal became fully operational in February. Combined with the Port of San Antonio, this will increase the overall capacity of products that can be moved in and out of the Alamo City, which opens the door for future distribution lines. The logistics operations supported by UP will aid in reducing distribution costs for retailers, manufacturers and ultimately consumers. Additional routes from overseas are being explored including Port Lazaro Cardena, the only port in Mexico with water depths and access channel to accommodate the newest cargo ships. It is also the only protected harbor that can receive

