

## Office Market Trends | San Antonio

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



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### Office Leasing Market is Poised for Rebound

#### Executive Summary

The San Antonio office leasing market, which was braced for two significant hits to the overall inventory can now breathe steady. For several months, there was speculation as to whether or not Tesoro's current headquarters at 300 Concord Plaza would return to the market as a multi-tenant office building and substantially alter the total recorded vacancy for the North Central submarket. Speculation has ended with the news of Whataburger Corporate's purchase of 300 Concord Plaza. Whataburger announced its relocation to San Antonio from Corpus Christi in 2008. This seamless transition from being the once famous Tesoro headquarters to Whataburger's headquarters will occur in late June when Tesoro relocates northward to RidgeWood Park. Since owner-occupied office buildings are excluded from the competitive office set, this will not impact the statistics for the North Central submarket which has already moved into the red with 54,667 square feet of negative absorption during the first quarter.



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However, the market is taking a step back with the departure of AT&T Corporate from the 175 E Houston and 130 E Travis Street buildings coming to an end. The total amount of space left vacant was 320,666 square feet reported to Grubb & Ellis with 275,000 square feet in the E. Houston building. Even though a long term lease is still in place, this space has been included as sublease for statistical purposes since the buildings were vacated completely on January 1st. This is a "once in a decade event" and is the root cause for the overall absorption turning negative with 454,354 square feet during the first quarter.

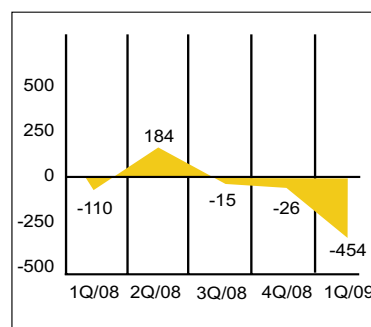
that many great companies have risen in times of an economic downturn. San Antonio is positioned to stimulate innovation of new enterprises and take advantage of new companies entering the market. Furthermore, San Antonians should be proud of our city as a whole and the repeated national exposure we are receiving for our low unemployment and economic stability compared to other cities across the country. Whereas San Antonio may have been overlooked by an expanding or relocating business previously, that is not the case any longer.

The negative absorption and rise in vacancy was highly anticipated over the last year and the office market fundamentals altered accordingly. Moving from a market in which vacancy was primarily impacted by construction deliveries versus negative absorption, the annual vacancy increase of 710 basis points since the first quarter of 2008 is a sticker shock to many. As a result of a downturn in the national economy, many companies have downsized or unfortunately filed for bankruptcy and left behind vacant spaces throughout the city. This is not solitary to the office leasing market but occurring in the industrial and retail leasing markets as well. With the amount of available space in the market, second generation space in highly coveted areas of town has increased in popularity versus new construction in recently developed areas, as the rents are more affordable. In previous years, there has been a migration outward which aided in the quick absorption of newly constructed office buildings. Recently, landlords are finding it more difficult to achieve budgeted lease up estimates and asking rents within office buildings that have been delivered to the market in the past year even with the amount of construction dwindling. This is especially the case in the newly divided submarkets of Far Northwest and Far West which contain a total of 566,890 square feet of leasable multi-tenant office space. The combined vacancy for these submarkets is 76 percent, a direct result of sluggish leasing activity in the Westover Hills area and the new Overlook at the Rim building. Vacancy for these submarkets is not expected to decrease anytime soon with another 398,838 square feet of space under construction. By sector, the increase in vacancy was most prominent for Class A space which rose by 430 basis points to 21.3 percent during the first quarter of 2009 and a massive 870 basis points within the past year. Following at a slower pace was the Class B sector which saw vacancy move upwards by 100 basis points to 18.8 percent. The dark horse in the market was Class C office space which saw an increase of 130 basis points for the quarter, but there is an overall drop of 20 basis points to 13.3 percent since the first quarter of 2008.

### Forecast

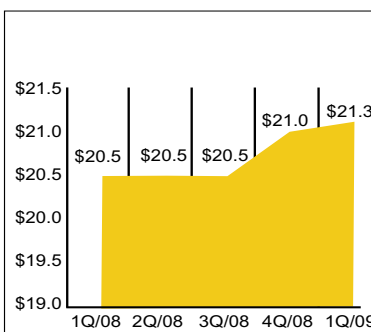
San Antonio's office leasing market experienced several anomalies this past quarter. Excluding the hefty amount of space reintroduced to the market in the Central Business District, the slated foreclosure of One Riverwalk Plaza had real estate professionals speechless. San Antonio has been shielded from this type of economic crisis related event until this point, and nothing of this magnitude should occur again in the near future. With that being said, the

outlook for the future is in fact promising. While powerhouse USAA's office campus is not included in the competitive set, their decision to expand operations in the Alamo City as they close offices in other cities will have a ripple effect on the Northwest submarket. New jobs bring new households, and new households require support services. Excluding the confirmed hiring notifications published, the rumor mill in the area has several other companies poised to hire additional employees this year which will aid an overall market rebound for San Antonio.



**Office Absorption\***  
\* In Thousands

Inventory includes multi-tenant and single tenant buildings with at least 20,000 SF.



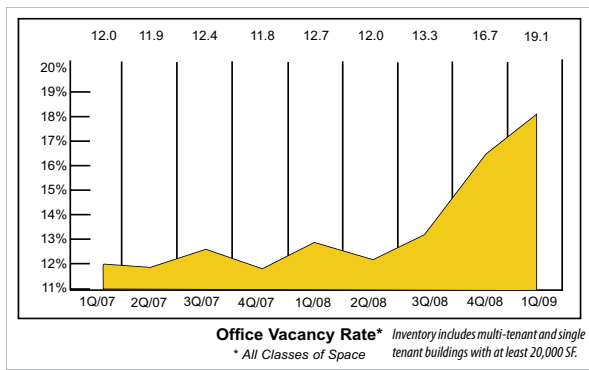
**Office Rents**

On the investment side, office sales have improved despite the tightened credit market. Announced office sales include 300 Concord Plaza, Petroleum Tower I & II and the Summit IV building. Investors that were hesitant throughout 2008 as they analyzed the economy now appear geared up to make a move. There are ample opportunities in the market for a buyer with sufficient liquidity who may be searching for an office building with upside potential.

### Opportunities and Challenges

San Antonio's sublease inventory jumped from 253,818 to 690,233 square feet this past quarter. Excluding the block of space vacated in the Central Business District, there is 170,119 square feet in the Northwest submarket and 148,818 square feet of available sublease space in the North Central submarket. There was a combined total of 109,177 square feet of sublease space added in these submarkets during the first quarter. Large additions in the Northwest submarket include Lifemasters placing 47,700 square feet of sublease space on the market at First Park Ten Tech Center and Verizon subleasing 40,955 square feet at the Forum Office Complex. In contrast to the last three years when sublease space was minimal citywide, the influx of available sublease space provides opportunity for tenants in the market. Asking rents for sublease space have declined as landlords are feeling pressured by the rise in vacancy and availability for both direct and sublease office space. Prospective tenants should take note of who is downsizing or vacating the market in San Antonio as there may be an agreement to acquire any FF&E (Furniture, Fixtures and Equipment) that is left behind.

CENTRAL / SOUTH TEXAS



**Office Vacancy Rate\*** Inventory includes multi-tenant and single tenant buildings with at least 20,000 SF.  
\* All Classes of Space

### Market Overview

During the first quarter, San Antonio's overall vacancy escalated by 240 basis points to 19.1 percent amid what could be stated as a restructuring of the commercial real estate market. During times of economic distress, companies evaluate their stance in the market which unfortunately has a negative impact on the overall office leasing inventory. On the upside, while industry giants such as AT&T and several banks are moving or downsizing, history has proven