

Industrial Report | 3rd Quarter 2009

Excerpts from 3rd Quarter 2009 San Antonio Industrial Report by NAI REOC Partners

NAI REOC Partners
Commercial Real Estate Services, Worldwide.

Industrial Market Sees Unexpected Bounce In Third Quarter

Topping industry news in the third quarter, Toyota Motor Corp. announced that, in order to streamline operations, production of the Tacoma pick-up truck would be relocated from the United Motor Manufacturing, Inc. (NUMMI) plant in Fremont, California to the Texas Motor Manufacturing Texas (TMMTX) plant in south Bexar County starting in March 2010. The addition of the Tacoma to the Tundra production line will not only solidify San Antonio's manufacturing base but it will create as many as 850 new jobs at the plant. On top of the \$1.3 billion already spent to date to build the plant, Toyota will invest an estimated \$100 million to retool the two-million square-foot facility to accommodate the Tacoma line. "As an owner-occupied facility, the plant does not directly impact the statistics for the competitive industrial market but the expansion of production at Toyota is an overall plus for the city and will stimulate related activity within the tracked set of industrial properties," says Kim Gatley, director of research for NAI REOC Partners, a locally-based, full-service commercial real estate company.

The city's 30 million square feet of competitive industrial properties had recorded negative absorption through the first half of the year

but activity in the third quarter generated an unexpected bounce which pulled the market back into the black. According to the survey conducted by the research department of NAI REOC Partners, new leases and expansions yielded 240,068 square feet of positive net absorption leading to a year-to-date total of 118,429 square feet of net gain.

In addition to new leases and expansions, the market was relieved of more than 488,000 square feet of vacancy upon the removal of two functionally-obsolete warehouses at Port San Antonio which were taken off the market and eliminated from statistics. The net effect of both positive absorption and adjustment of inventory tightened the citywide vacancy rate to 13.8% compared to 15.2% recorded last quarter. Despite the positive turn in the third quarter, citywide vacancy is still up compared to 12.2% recorded last year at this time – a symptom of the slowed economy. Meanwhile, the average quoted triple net rental rate remained relatively stable at \$5.57 per square foot per year – up one cent

from last quarter but down four cents compared to a year ago – an annual decline of less than one percent.

3Q 2009 Submarket	Total Inventory	Total Vacant SF	% Vacant	Avg. Quoted Rent Rate
CBD	262,509	54,388	20.7%	\$3.26
NC	4,468,563	580,743	13.0%	\$7.52
FAR NC	26,586	0	0.0%	\$15.00
NW	3,910,842	586,262	15.0%	\$9.26
NE	16,192,432	2,125,135	13.1%	\$4.35
SOUTH	5,618,649	843,335	15.0%	\$4.99
FAR WEST	154,872	31,151	20.1%	\$6.10
Totals	30,634,453	4,221,014	13.8%	\$5.57

Source: NAI REOC Partners

Office Report | 3rd Quarter 2009

Excerpts from 3rd Quarter 2009 San Antonio Office Report by NAI REOC Partners

NAI REOC Partners
Commercial Real Estate Services, Worldwide.

Office Market Pained By Tenant Moves In Third Quarter

Despite economic challenges, the San Antonio market, which measures more than 26 million square feet of competitive office space, has continued to enjoy some enviable momentum. "While other cities have watched businesses close up shop, San Antonio's low business costs and high quality of living have attracted companies like Medtronic, Whataburger and Concorde Career College," says Norm Binsted, Vice President, Corporate Services at NAI REOC Partners. Although slowed, overall leasing activity within the statistical market produced over 100,000 square feet of positive net absorption through the first half of the year. Positive activity continued with several sizeable leases signed in the third quarter, the largest of which was a GSA lease of more than 50,000 square feet in the downtown Bank of America Plaza building. The newly completed 4350 Lockhill Selma building signed two new tenants including Vidacare (16,932 sf) and UTSA (11,168 sf). Other notable leases included Winstead PC (11,256 sf) at Bank of America Plaza and Clear Wireless (10,981 sf) at Union Square.

Countering the positive activity experienced in the third quarter, tenant moves created more new vacancy than space filled by new leases and expansions resulting in 147,843 square feet of negative net absorption. The third quarter underperformance dragged the market into the red with a total year-to-date loss of 38,571 square feet. "The shortfall this quarter is mainly attributed to the moves of two companies – neither of which closed or abandoned San Antonio but rather vacated multi-tenant space in order to occupy their own facilities (owner-occupied facilities are not included in the statistical tracked set)," explains Kim Gatley, Director of Research at NAI REOC Partners. "Although the moves by Tesoro and Wells Fargo created

additional vacancies in the multi-tenant office market, their growth and presence are very much a positive for the city overall." Upon completion of its new 618,000 square-foot headquarters facility located at Ridgewood Park in the Far North Central sector, Tesoro Companies vacated four different Core North Central office buildings this summer which dumped roughly 150,000 square feet back onto the market. Also contributing to the drain this quarter was the decision by Wells Fargo to vacate 72,000 square feet at Centerview Crossing in the Northwest quadrant in order to consolidate into the Far West campus facility acquired with its recent takeover of Wachovia. last quarter. Despite the positive turn in the third quarter, citywide vacancy is still up compared to 12.2% recorded last year at this time – a symptom of the slowed economy. Meanwhile, the average quoted triple net rental rate remained relatively stable at \$5.57 per square foot per year – up one cent from last quarter but down four cents compared to a year ago – an annual decline of less than one percent.

At the close of the third quarter, the citywide direct vacancy rate climbed from 14.2% recorded last year at this time to 18.4% - the highest recorded in the past five years. When direct vacant space is combined with available sublease space, the result is a much softer overall vacancy rate of 21.0% - up compared to 15.4% recorded a year ago. There is roughly 664,000 square feet of sublease office space currently marketed throughout the city, nearly half of which was left dark by AT&T at IBC Centre I & II downtown (312,000 sf).

Higher vacancy has kept quoted rental rates flat while prompting

3Q 2009 Submarket	Total Inventory	Total Vacant SF	% Vacant	Avg. Quoted Rent Rate
CBD	5,350,820	1,029,073	19.2%	\$19.15
CORE NC	8,046,296	1,157,449	14.4%	\$20.68
FAR NC	1,908,591	464,104	24.3%	\$25.72
NW	8,322,420	1,644,545	19.8%	\$19.88
FAR W	339,655	216,000	63.6%	\$19.44
NE	2,010,899	280,440	13.9%	\$20.47
SOUTH	498,576	91,188	18.3%	\$18.33
Totals	26,477,257	4,882,799	18.4%	\$20.41

Source: NAI REOC Partners

many landlords to offer significant incentives to attract tenant activity. The citywide average quoted rental rate currently stands at \$20.41 per square foot per year on a full-service basis – unchanged from last quarter and up less than one percent over this time last year. "Depending on the individual economic situation of the landlord, some buildings are offering rental abatements and tenant improvement dollars that lower the effective cost of leasing space by as much as 20-30% off quoted rates," Gatley says. "In this market, it really is in the tenant's best interest to seek professional representation to find and take advantage of the best deals possible," adds Binsted.