

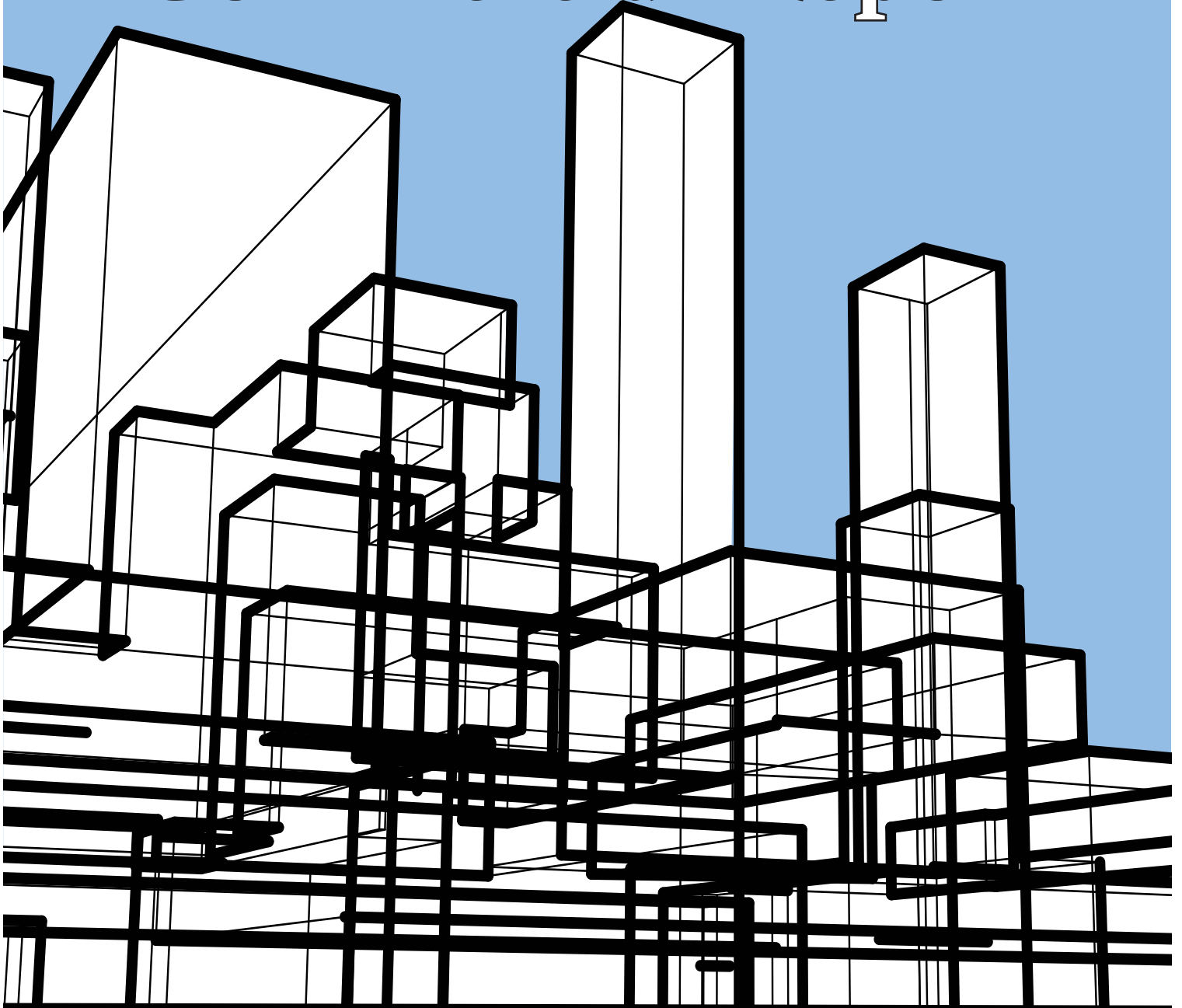


TEXAS A&M UNIVERSITY

Texas Real Estate Research Center



Texas Quarterly Commercial Report



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Technical Report
2211
FIRST QUARTER 2021

Texas Quarterly Commercial Report: 1st Quarter 2021

DALLAS FORT WORTH

	OCCUPANCY RATES	ASKING RENTS
OFFICE	78.8% ▼	2.5% ▼
OFFICE CLASS A	74.7% ▼	1.3% ▼
RETAIL	92.8% ▬	-0.7% ▬
WAREHOUSE	92.2% ▲	12.7% ▼

AUSTIN

	OCCUPANCY RATES	ASKING RENTS
OFFICE	84.1% ▼	0.2% ▼
OFFICE CLASS A	80.7% ▼	-0.1% ▲
RETAIL	95.0% ▬	0.4% ▲
WAREHOUSE	92.1% ▲	5.3% ▼

SAN ANTONIO

	OCCUPANCY RATES	ASKING RENTS
OFFICE	86.6% ▼	2.5% ▼
OFFICE CLASS A	84.1% ▼	2.6% ▼
RETAIL	94.0% ▬	-3.5% ▼
WAREHOUSE	94.2% ▲	10.8% ▲

HOUSTON

	OCCUPANCY RATES	ASKING RENTS
OFFICE	77.5% ▼	0.3% ▬
OFFICE CLASS A	73.7% ▼	-1.1% ▼
RETAIL	93.1% ▬	6.0% ▲
WAREHOUSE	87.1% ▬	1.5% ▼



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Sources: CoStar and the Texas Real Estate Research Center at Texas A&M University



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About this Report

Texas Real Estate Research Center economists continuously monitor multiple facets of the global, national, and Texas economies. The *Texas Quarterly Commercial Report* is a summary of important economic indicators that help discern commercial real estate (CRE) trends in four major Texas Metropolitan Statistical Areas (MSA)—Austin, Dallas-Fort Worth, Houston, and San Antonio.

All quarterly measurements are calculated using seasonally adjusted and trend-cycled data. Seasonal adjustment smooths the quarterly fluctuations in the data, while trend-cycle adjustment provides a clearer, less volatile view of upward and downward movements. Both enrich our analysis by producing a more accurate depiction of long-term movements and trends in the data.

This report analyzes asking rents, which exclude tenant improvements and concessions, as opposed to effective rents. Rents reflect nominal year-over-year estimates, unless stated otherwise. The analysis uses industry-specific employment growth to reflect the employment most relevant to each industry. For example, the employment data for the office sector includes finance, insurance, and real estate as well as professional and business services (FIRE & PBS) employment to measure the bulk of employees working in the office sector.

This analysis uses CoStar and Dodge Analytics data. The time series varies by sector and geography, depending on the data available. Sectors with shorter time series limit the interpretation of the data. The data reflect nonowner-occupied space. No raw data are published in this report. Both CoStar and Dodge Analytics make changes to their historical data.

This quarterly publication provides data and insights on the Texas commercial real estate markets. We hope you find them useful. Your feedback is always appreciated. Send comments and suggestions to info@recenter.tamu.edu.

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Overview of the Texas Economy

Economic activity within Texas moderated during first quarter 2021 but remained on the path to recovery despite weather-related disruptions in February. Robust hiring in March resulted in solid first-quarter payroll growth, although joblessness in the Lone Star State was still higher than the national average. Moreover, inflation-adjusted headline wage numbers flattened compared with year-ago levels while initial unemployment claims surged unexpectedly. On the bright side, oil prices rebounded, contributing to increased export values. As Gov. Greg Abbott removed business restrictions amid downward-trending new COVID-19 cases, consumer confidence improved and supported an optimistic outlook on the service-providing sector. The relative health of the state's economy and favorable business practices attracted migrants and firms from other parts of the country, bolstering population growth and housing demand. Containment of the pandemic is vital as additional waves of infection, although becoming less likely as vaccination rates increase, can weigh on consumer behavior and spending and slow the return to pre-pandemic conditions.

The Texas Nonresidential Construction Cycle (Coincident) Index, which measures current construction levels, ticked down due to declining construction put in place values. The statewide Nonresidential Construction Leading Index points toward further future declines in nonresidential construction activity, amid falling construction value starts. Similarly, Austin's office and retail leading indexes are pointing toward declines in commercial construction activity in the near future as the value of construction starts fall. In contrast, Austin's warehouse construction leading index is signaling stronger future construction activity due to increasing construction value starts. DFW leading indexes point toward increased activity in office, while future retail and warehouse construction should slowdown as a result of falling construction start values. Houston leading indexes, with the exception of office, are signaling higher construction activity going forward due to increasing construction start values. San Antonio leading indexes, with the exception of retail, are indicating more activity going forward. See Figures 1-5 for the Nonresidential Coincident Index and Leading Indicator for Texas and the four major metros.

Texas nonfarm employment added 99,000 jobs in March, rising 4.3 percent SAAR despite shedding 2,400 jobs in February during Winter Storm Uri. The surprisingly strong gain pushed Dallas Fed's annual employment forecast up from a 6.0 to 6.6 percent increase to 13.2 million workers. Hiring in Houston remained robust in the first three months of the year, recovering

34,800 jobs and almost matching the previous quarterly gain. Total payrolls, however, were still 6 percent off from pre-pandemic levels, a greater gap than the other major metros. Austin added 16,700 employees in the first quarter, exceeding the state in terms of SAAR growth (5.5 percent). San Antonio and Dallas registered net quarterly increases of 10,600 and 10,100 workers, respectively. Payroll expansions were largely concentrated in the leisure/hospitality, retail trade, professional/business services, and education/health services industries across the major metros. Only in Fort Worth did employment decline, shedding 2,000 positions during the first quarter due to Winter Storm Uri. Goods-producing employment decreased, but the transportation/utilities sector was the main deterrent to growth. For additional commentary and statistics, see the Texas Real Estate Research Center's *Outlook for the Texas Economy*.

Texas' goods-producing sector regained a record-breaking 32,100 positions in March, pushing the first-quarter net total to 38,500 workers. Amid increasing oil prices, energy-related employment rose by 10,600 jobs in the first three months of the year but remained more than a fifth below year-ago levels. Recovering global economic conditions also supported the state's manufacturing industry, which added 9,200 employees, nearly half of which were hired in Dallas or San Antonio. Durable-goods payrolls expanded every month in the first quarter, resulting in a 7,900-job gain. Construction payrolls registered sluggish growth the first two months of the year but accelerated in March, adding 18,700 quarterly jobs.

Despite Texas' service-providing sector being the hardest-hit major industry last April, employment fell only 3.1 percent relative to the February 2020 peak (compared with the 3.6 percent nonfarm decline) after hiring 97,100 workers in the first quarter. Leisure/hospitality recouped 20,500 jobs in 1Q2021, but arts/entertainment/recreation payrolls remained a fifth below pre-pandemic levels. On the other hand, the transportation/warehousing/utilities industry added 10,700 positions, surpassing year-ago employment by 6.6 percent.

The number of Texans filing initial unemployment insurance claims shot up to 370,200, its highest level since May 2020, after increasing the last three weeks of March. The surge was unexpected amid downward-trending new COVID-19 cases and the termination of capacity restrictions for businesses on March 10. Initial claims ended the month higher within the major MSAs as well. Texas' average weekly continued unemployment insurance claims, however, declined for the eighth consecutive month, suggesting improved conditions for laid-off workers seeking new job opportunities. Nevertheless, the labor market still has a long road to recovery with total claims six-and-a-half times greater than pre-pandemic levels a year ago due to the rise in initial claims. Anecdotal evidence from the service sector points toward the lack of available applicants and generous unemployment benefits as major impediments in rehiring workers. To eliminate the incentive of remaining unemployed, Texas is opting out of further federal unemployment compensation related to the COVID-19 pandemic effective June 26,

2021. This will reduce minimum unemployment payments from \$19,240 a year to \$3,640 a year.

Despite the increase in hiring during March, Texas' unemployment rate was unchanged at 6.9 percent, still greater than the national rate of 6 percent, as the size of the state's labor force expanded, pushing the labor force participation rate to 62.3 percent. Joblessness in Houston flattened, albeit at a higher rate of 8.3 percent, while the size of the local labor force expanded for the second straight month. On the other hand, unemployment inched down to 7 percent in Fort Worth and 6.8 and 6.7 percent in San Antonio and Dallas, respectively. The metric remained lowest in Austin, where the jobless rate slid to 5.5 percent. The decrease in unemployment after 2Q2020 is important for commercial vacancies given the relationship between unemployment rates and vacancy rates. The longer unemployment rates remain elevated, the stronger the negative impact on vacancies and rents. As expected, the increase in the unemployment rate during 2Q2020 pushed up vacancy rates in the major metros, and the declining unemployment rates have alleviated some of the pressures on rising vacancy rates (Figures 6-9).

Climbing oil prices, accelerating vaccination rates, and optimistic national economic data during the first quarter resulted in higher growth and inflation expectations for 2021. The ten-year U.S. Treasury bond yield increased to 1.2 percent in March, almost reaching pre-pandemic levels. The increase in the yield has caused the spread between commercial capitalization rates and the ten-year Treasury yield to fall. The decrease in the spread indicates falling risk and profitability in commercial real estate. Inflation and growth expectations will continue to push up interest rates during 2021. As a result, the spread between commercial cap rates and the ten-year Treasury bill should continue to decline somewhat in the rest of the year.

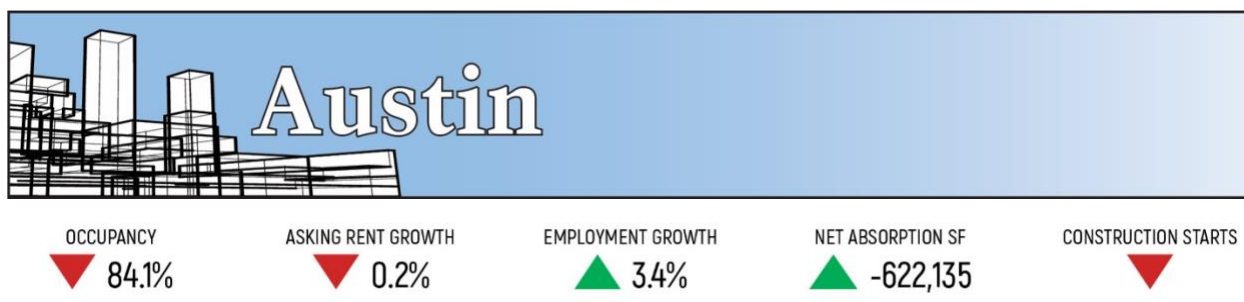
Office cap rates (Figure 10) decreased at the start of 2021 in Texas' major MSAs, after increasing during 2020. Increasing vaccination rates among the population have reduced uncertainty surrounding the end of pandemic, allowing for the full reopening of the economy and the return of white collar workers back to the office, helping to lower the risk in the office cap rate. San Antonio and Houston continued to register the highest cap rates. Since 2Q2020, the spread between the ten-year Treasury bill has decreased. Austin was the least risky market for office real estate at the start of 2021 based on the spread with the ten-year Treasury bill.

Retail cap rates (Figure 11) decreased during 1Q2021 in Austin and San Antonio MSAs,, while increasing in Houston and not changing in DFW. The spread between the ten-year Treasury bill decreased at the start of 2021 in Texas' major MSAs. Austin and San Antonio are the least risky and lowest-return markets for retail real estate.

Industrial cap rates (Figure 12) for San Antonio and Houston were the highest during 1Q2021. All major MSAs registered increases in cap rates at the start of the year, a trend observed since 2020. As with the office and retail markets, the spread between the ten-year Treasury decreased during 1Q2021 in all four MSAs. DFW is the least risky and lowest-return market for industrial real estate based on the spread with the ten-year Treasury bill.

Commercial Real Estate Outlook Due to COVID-19

- During and after 2Q2021 commercial real estate is being benefited by:
 - o Wide distribution of the vaccine among the population.
 - o The further rounds of fiscal stimulus.
- Based on this scenario:
 - o Office: occupancy will probably not improve significantly until second half of 2021 when employees could start returning to the office safely. Only then will the effects of remote working will be apparent to the office sector. Still, the office market has been exposed to some pervasive underlying changes in the working environment that are not fully evident.
 - o Retail: will probably continue to consolidate/contract in 2021. New retail that is more convenient, attractive, pleasing, engaging, or even entertaining will possibly flourish. Majority of the population is preferring the brick-and-mortar experience after being isolated for a year during the pandemic with money to spend on tangible goods a must needed respite.
 - o Industrial: will continue to benefit from e-commerce growth during 2021 and changes in supply chain managements as the economy reopens.



Sources: CoStar and the Texas Real Estate Research Center

Note: Arrows indicate change from previous quarter with the exception of asking rent growth (change from previous year). Seasonally adjusted data.

Overall Office (Figures 13 - 17)

Since hitting a record low at the end of 2017, vacancy rates have gradually increased, surpassing the natural vacancy rate of 13.0 percent for a third consecutive quarter. Asking rent growth declined for the fourth consecutive quarter but remained positive. With an increase in vacancy and a decrease in rent growth, the Austin market is continuing to feel the effects of COVID-19. Net absorption was slightly negative before the pandemic but it has increased significantly, further reaching a peak in the previous quarter. FIRE & PBS employment growth continued to increase for the third consecutive quarter, hovering just above 3.4 percent.

After experiencing a sharp decrease in 4Q2020, deliveries recovered and significantly increased above 400,000 square feet. Additionally, the value of construction starts decreased, and square feet under construction declined. The COVID-19 crisis has caused apprehension, impacting new Austin office construction and increasing vacancy rates.



Sources: CoStar and the Texas Real Estate Research Center

Note: Arrows indicate change from previous quarter with the exception of asking rent growth (change from previous year). Seasonally adjusted data.

Class A Office (Figures 18 - 22)

Actual vacancy climbed to 19.3 percent, stretching the trend out into its sixth quarter of decreased occupancy. In addition to the last two quarters, this is the third quarter vacancy levels have risen above the natural vacancy rate of 15.0 since 2012. Despite remaining negative, asking rent growth and net absorption both showed quarterly improvements in 1Q2021. These changes signal demand is improving for Class A space.

Deliveries increased 74 percent while square feet under construction declined 56 percent as the pipeline cleared. Reduced construction activity could be attributed to the negative impact the COVID-19 crisis is having on vacancy rates and the uncertainty surrounding future office work.



Sources: CoStar and the Texas Real Estate Research Center

Note: Arrows indicate change from previous quarter with the exception of asking rent growth (change from previous year). Seasonally adjusted data.

Retail (Figures 23 - 27)

For the past five years, actual retail vacancy has remained relatively constant between 4.0 and 5.0 percent. Despite the pandemic, 1Q2021 continued this trend, with actual vacancy holding steady at 5.0 percent, still below the natural vacancy rate of 6.0 percent. Asking rents have tapered over the past five quarters, finally growing positive in 1Q2021. Employment growth in the retail sector further increased from the previous quarter but remained negative at 0.6 percent. This could indicate returning demand for retail in Austin as employment growth corrects from the negative growth experienced in 2Q2020.

The value of construction starts decreased moderately in 1Q2021 after improving in the last quarter of 2020. Both square feet under construction and deliveries decreased from the previous quarter. Rent collection is a major concern related to the pandemic. This is particularly relevant to retailers, who have seen their brick-and-mortar sales decrease considerably. The retail sector will likely continue to be negatively affected as the crisis plays out, with some signs of resiliency occurring in a few subsectors within retail.



Sources: CoStar and the Texas Real Estate Research Center

Note: Arrows indicate change from previous quarter with the exception of asking rent growth (change from previous year). Seasonally adjusted data.

Warehouse (Figures 28 - 32)

Actual vacancy decreased from last quarter, finishing out at 7.9 percent, though remaining well below the natural vacancy rate of 11 percent. The asking rent growth decreased to 5.3 percent. Demand appears to be increasing in the Austin market even after declining the previous quarter. In 1Q2021, occupancy, rent and employment continued to experience positive growth as Austin warehouse demand proved resilient to the effects of COVID-19.

Construction starts increased this quarter, as net absorption remained positive and increased. Additionally, with the pandemic showing the importance of e-commerce, it is not surprising that demand for industrial space in Austin is increasing to pre-pandemic highs. The movement of manufacturing firms, such as Tesla, to the Austin MSA should increase demand for industrial space.



Sources: CoStar and the Texas Real Estate Research Center

Note: Arrows indicate change from previous quarter with the exception of asking rent growth (change from previous year). Seasonally adjusted data.

Overall Office (Figures 33 - 37)

Historically, vacancy rates have hovered around the natural vacancy rate of 18.0 percent. However, this trend began to deviate in the previous quarter, and vacancy rates in 1Q2021 continued to climb to 21.2 percent. Asking rent growth decreased slightly, lingering around 2.5 percent. Despite posting a negative value for the first time since the Great Recession in 2Q2020, employment growth continues to move in the right direction.

The value of construction starts has increased over the past year. Developers and investors are keen to pursue less risky nonspeculative properties like build-to-suit space, and/or some speculative properties with perceived long-run growth potential like industrial developments. COVID-19's impact on the Dallas-Fort Worth office market is still unclear. It is likely buyers will be shopping for a different type of office space post-pandemic. With more people working from home than ever before, the days of cubicles and desks in a bullpen may be numbered. More employees will likely be splitting their time between home and the office. As a result, some current office space will require remodeling to remain competitive as the use for office space changes.



Sources: CoStar and the Texas Real Estate Research Center

Note: Arrows indicate change from previous quarter with the exception of asking rent growth (change from previous year). Seasonally adjusted data.

Class A Office (Figures 38 - 42)

Class A office vacancy rates in Dallas-Fort Worth have been relatively stable since the Great Recession, generally hovering around the natural vacancy rate of 20.0 percent. However, rates have begun to climb steadily as the pandemic-driven recession drags on, reaching 25.3 in 1Q2021. After improving the last quarter of 2020, asking rent growth decreased to 1.3 percent falling out of the 2.0-4.0 percent standard range since 2017. Employment growth remains a negative value at 0.8 percent while showing positive growth. Net absorption declined considerable this quarter, registering a negative value for a fifth straight quarter.



Sources: CoStar and the Texas Real Estate Research Center

Note: Arrows indicate change from previous quarter with the exception of asking rent growth (change from previous year). Seasonally adjusted data.

Retail (Figures 43 - 47)

Actual vacancy continued increasing a trend that started on 4Q2018, reaching 7.2 percent this quarter. While actual vacancy is well below the natural vacancy rate of 9.0 percent. Asking rents continued to register negative growth, marking a year of contraction in the retail sector. Net absorption increased but still remained negative. Net absorption has registered a downward trend since 2019. Such a distressing level of net absorption was not even approached during the Great Recession, highlighting how unexpected the disruption was to an already overbuilt market. Employment growth provides a slightly less dire narrative, with continued growth rising near negative 0.5 percent. The future of in-store retail demand is unclear, hinging largely on public perception of personal safety while shopping in the aftermath of COVID-19. However, as widespread vaccination occurs movement should be toward pre-pandemic demand.

Deliveries increased during 1Q2021 while square footage under construction decreased slightly. The value of construction starts, though not extraordinarily low, decreased moderately in 1Q2021. It remains to be seen whether this reduction in new supply will help alleviate the decrease in in-store demand due to the COVID-19 crisis.



Sources: CoStar and the Texas Real Estate Research Center

Note: Arrows indicate change from previous quarter with the exception of asking rent growth (change from previous year). Seasonally adjusted data.

Warehouse (Figures 48 - 52)

Demand for Dallas-Fort Worth warehouse space remains quite strong, outperforming every other sector over previous years in most demand metrics. Actual vacancy remained low at 7.7 percent, far below the natural vacancy rate of 11.0 percent. Additionally, asking rent growth slowed to a still strong 12.7 percent. Net absorption increased considerably, surpassing the 1Q2020 peak. The warehouse employment growth rate decreased slightly this quarter.

The value of construction starts in DFW decreased this quarter but still remains high. At the same time, deliveries fell slightly while square footage under construction dropped minimally, a year-long trend. Even though supply seems to be slowing, the supply metrics should be monitored going forward to look at the balance between demand and supply in the DFW warehouse market.



Sources: CoStar and the Texas Real Estate Research Center

Note: Arrows indicate change from previous quarter with the exception of asking rent growth (change from previous year). Seasonally adjusted data.

Overall Office (Figures 53 - 57)

In 1Q2021, actual vacancy continued to climb, a trend that began in 2015, reaching a historic high of 22.5 percent. This is significantly higher than its natural vacancy rate of 14 percent. Despite this, asking rent growth remained just above 0 percent, breaking the trend of contraction in the overall office market. Additionally, FIRE & PBS employment growth has stalemated since the second half of 2020, remaining below pre-pandemic levels. Net absorption improved but remains negative and in alignment with increasing vacancy rates.

Even though actual vacancy started its ascent since 2015, square feet under construction increased at the end of 2019 and has maintained the same levels of square feet since. Even with the upward trend in vacancy rates, construction activity remained higher than would be expected. During 1Q2021, square feet under construction fell moderately, while deliveries increased. Value of construction starts continues to decrease, having remained low for several quarters due to the COVID-19 crisis and a battered energy industry. The continued negative economic impact from both factors do not bode well for the future of Houston's overall office market.



Sources: CoStar and the Texas Real Estate Research Center

Note: Arrows indicate change from previous quarter with the exception of asking rent growth (change from previous year). Seasonally adjusted data.

Class A Office (Figures 58 - 62)

Class A office vacancy reached a historic high of 26.3 percent this quarter, remaining significantly higher than the natural vacancy rate of 16.0 percent. Asking rents decreased and continued to register negative annual growth due in part to the large amount of vacant space. Both net absorption and FIRE & PBS employment growth continue to remain negative. However, net absorption improved from the previous quarter.

Houston Class A office deliveries significantly increased after a large decrease in 4Q2020. However, the number of square feet under construction slightly decreased from 4Q2020. Given

these factors, neither Houston’s overall nor Class A office market are poised to come back from the pandemic and the oil downturn in the short term. With the current level of uncertainty surrounding office buildings and their tenants, numerous submarkets in Houston will be significantly affected. Fortunately, Houston is a highly segmented market with districts that have somewhat independent supply and demand schedules. Office space in the energy corridor continues to flounder, while the rest of the MSA is performing somewhat better. Overall, the Class A office market will be slow to recover to pre-pandemic levels.



Sources: CoStar and the Texas Real Estate Research Center

Note: Arrows indicate change from previous quarter with the exception of asking rent growth (change from previous year). Seasonally adjusted data.

Retail (Figures 63 - 67)

Actual vacancy declined minimally in 1Q2021 to 6.9 percent which is still less than the natural vacancy rate of 8.0 percent. This quarter, asking rent growth increased to 6.0 percent while employment growth improved but remained negative, decreasing 2.3 percent. These factors, coupled with increase in net absorption, signal demand for Houston retail space has been relatively steady in the face of a pandemic.

Value of construction starts, square feet under construction, and deliveries during 1Q2021 indicate developers are predicting weaker demand in the market going forward, affecting the supply of retail space and reducing the probability of overbuilding. As the ramifications of the pandemic continue to be felt, including tenants’ ability to remain solvent, it is still unclear how severely retail will be affected. However, it is already bringing about a shift in utility for retail space. As delivery services, online shopping, and curbside pickup become increasingly common, retail will continue to diversify beyond brick-and-mortar sales to include online fulfillment centers and additional inventory storage.



Sources: CoStar and the Texas Real Estate Research Center

Note: Arrows indicate change from previous quarter with the exception of asking rent growth (change from previous year). Seasonally adjusted data.

Warehouse (Figures 68 - 72)

Actual vacancy (12.9 percent) slightly increased during 1Q2021 to reach a historical high, marking a two-year trend, while occupancy remains at 87.1 percent. As opposed to other Texas MSAs, warehouse vacancy in Houston has been well above its natural vacancy rate of 8.0 percent for the past seven quarters, likely due to the high number of deliveries during that time. Despite increasing vacancy, asking rent growth remained positive and decreased only this

quarter to 1.5 percent, and employment growth increased by 6.3 percent. Net absorption decreased this quarter after a sharp increase in 4Q2020.

There has been a decline in deliveries in 1Q2021, after registering high levels of deliveries during 2020. Square feet under construction increased from the previous quarter but is still significantly lower than pre-COVID levels observed during 2019, as supply probably is adjusting downward to over-construction in the previous years. As e-commerce has become even more popular with the onset of the pandemic, demand for warehouse space will likely continue to rise. With both construction start values and square feet under construction registering slower growth, vacancy will likely begin to stabilize as long as demand remains strong.



Sources: CoStar and the Texas Real Estate Research Center

Note: Arrows indicate change from previous quarter with the exception of asking rent growth (change from previous year). Seasonally adjusted data.

Overall Office (Figures 73 - 77)

Overall office vacancies in San Antonio increased during 1Q2021, reaching 13.4 percent and continuing the trend of increasing rates for the fifth quarter in a row. Asking rent growth decreased to 2.5 percent, falling below 5.0 percent for only the second time since 1Q2019. San Antonio's FIRE & PBS employment growth improved in the 1Q2021.

Square feet under construction decreased during 1Q2021. Deliveries increased, recording two straight quarters of increases after falling considerably during 2Q2020 when the economy shut down, registering values well within the normal range of the past ten years. Unlike the slight uptick in 3Q2020, San Antonio recorded a significant increase in the value of construction starts in 1Q2021. FIRE & PBS employment growth and positive net absorption are positives for San Antonio's office market short-run outlook, in contrast to the long-term effects of the pandemic remain unclear.



Sources: CoStar and the Texas Real Estate Research Center

Note: Arrows indicate change from previous quarter with the exception of asking rent growth (change from previous year). Seasonally adjusted data.

Class A Office (Figures 78 - 82)

Class A office actual vacancy increased to 15.9 percent in 1Q2021, higher than the natural vacancy rate of 14.5 percent. Asking rent growth declined to 2.6 percent during the first quarter, showing a significant decrease from the previous quarter. Net absorption improved considerably during this quarter, registering two straight quarters of positive values and increases, while square feet under construction continued to decline for a third straight quarter.

After the historic low of 3Q2020, deliveries dramatically increase. With considerable uncertainty surrounding the pandemic, the lack of new future supply could help counteract the crisis' negative effects. However, as with the overall office market, the full impact of COVID-19 has yet to emerge.



Sources: CoStar and the Texas Real Estate Research Center

Note: Arrows indicate change from previous quarter with the exception of asking rent growth (change from previous year). Seasonally adjusted data.

Retail (Figures 83 - 87)

For San Antonio retail, actual vacancy declined moderately to slightly below 6.0 percent after experiencing a three-year rise. Still, it remained below the natural vacancy of 7.0 percent. Asking rent growth continued to decline, falling to -3.5 percent. Net absorption increased this quarter, turning positive, while retail employment growth improved but remained negative.

Deliveries and square footage under construction increased this quarter after posting a gradual decline over the past five years, likely helping to keep vacancy increases at bay. Value of construction starts decreased with respect to 4Q2020. Both employment data and demand measured through net absorption suggest San Antonio's retail sector should improve in the coming months. Still, the pandemic's full effects have yet to play out.



Sources: CoStar and the Texas Real Estate Research Center

Note: Arrows indicate change from previous quarter with the exception of asking rent growth (change from previous year). Seasonally adjusted data.

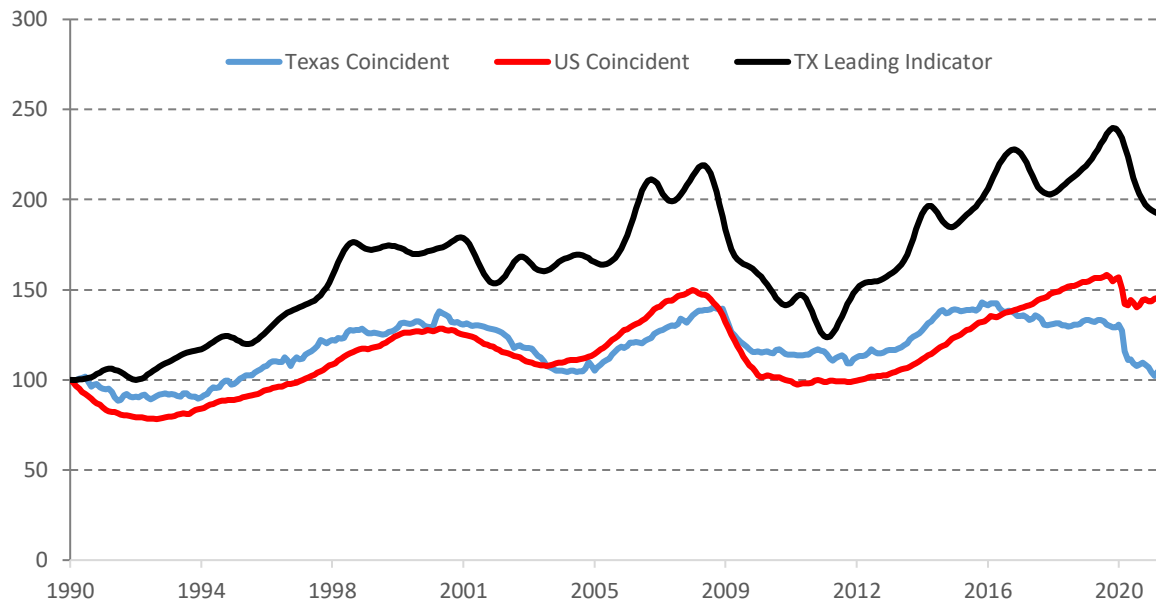
Warehouse (Figures 88 - 92)

San Antonio warehouse performed very well during 1Q2021, with positive growth across the board. Actual vacancy declined in 1Q2021 to 5.8 percent. Actual vacancy has not surpassed the natural vacancy rate of 8.0 percent since the Great Recession. Asking rent growth increased to 10.8 percent this quarter, while net absorption increased considerably as well. Employment growth in the warehouse sector has been climbing since 4Q2018, despite the COVID-19 crisis.

Deliveries trended downward from the end of 2019 through 3Q2020, rebounding strongly from the previous two quarters. This could be one reason why vacancies have remained relatively low as supply decreased. San Antonio's construction start values increased considerably during 1Q2021. In a similar manner, square feet under construction has decreased the last four quarters in a row, while net absorption has increased during the same period. If both under-construction and deliveries continue to increase, vacancy rates should face upward pressure going forward.

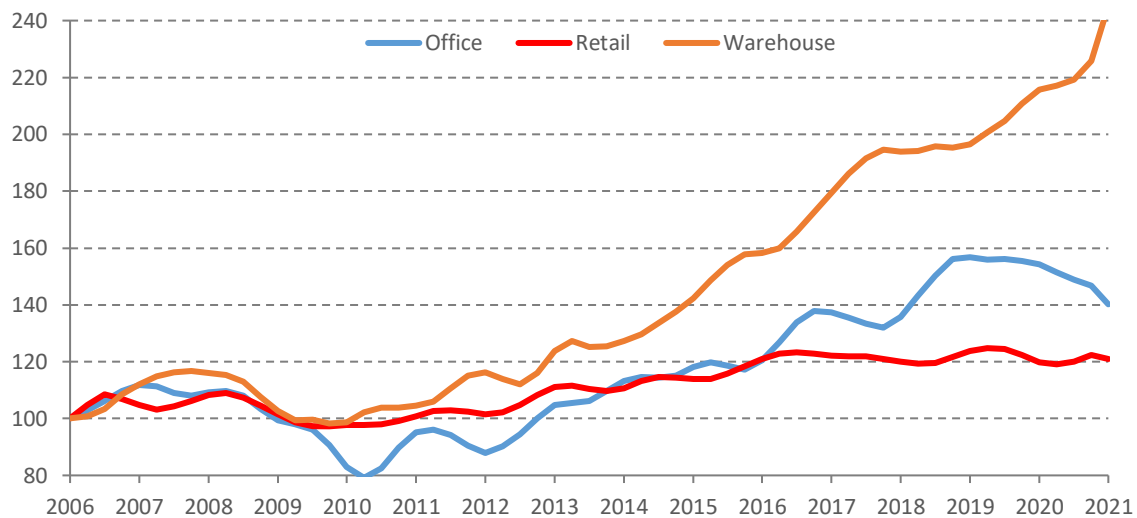


Figure 1. Texas Nonresidential Construction Coincident and Leading Indicators
(Index Oct. 1990 = 100)



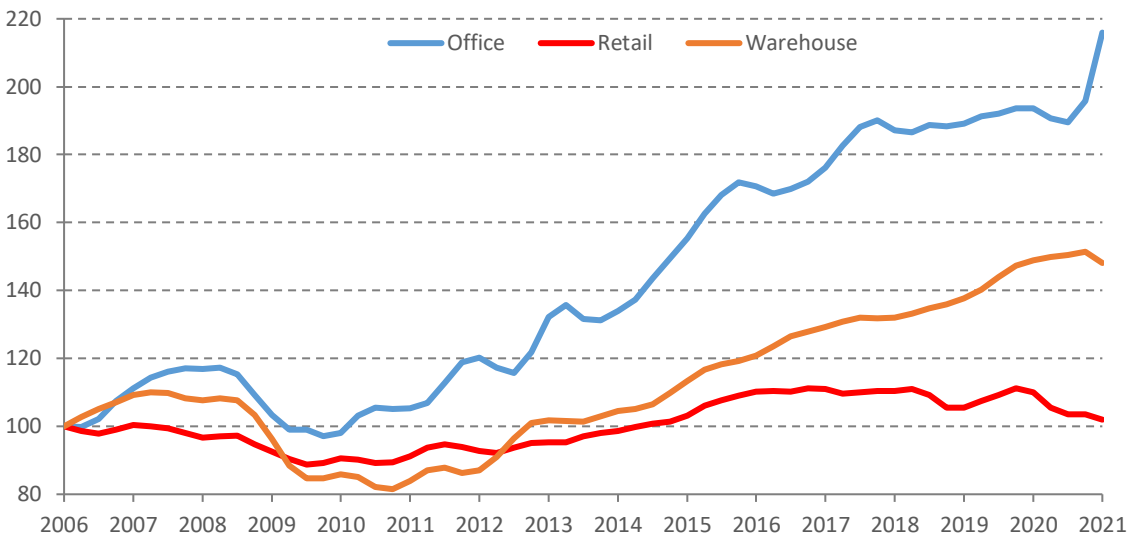
Source: Texas Real Estate Research Center at Texas A&M University

Figure 2. Austin Nonresidential Construction Leading Indicators
(Index 2006 Q1 = 100)



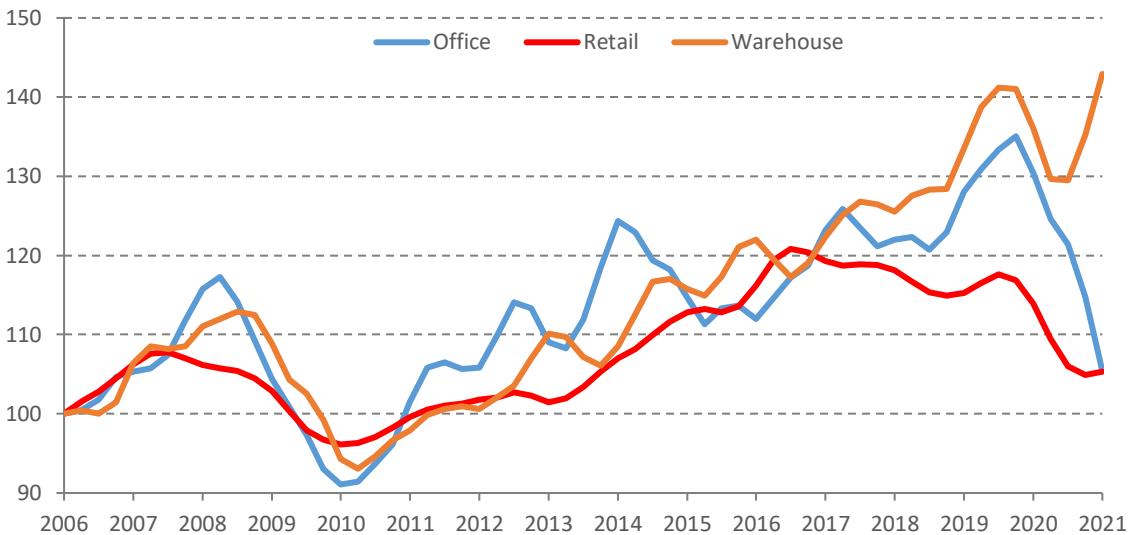
Source: Texas Real Estate Research Center at Texas A&M University

Figure 3. DFW Nonresidential Construction Leading Indicators
(Index 2006 Q1 = 100)



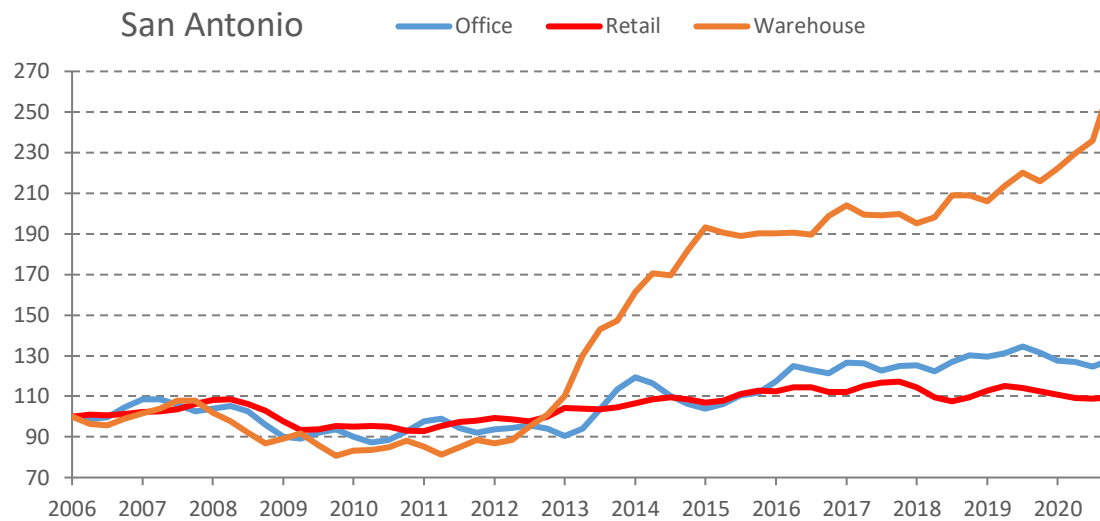
Source: Texas Real Estate Research Center at Texas A&M University

Figure 4. Houston Nonresidential Construction Leading Indicators
(Index 2006 Q1 = 100)



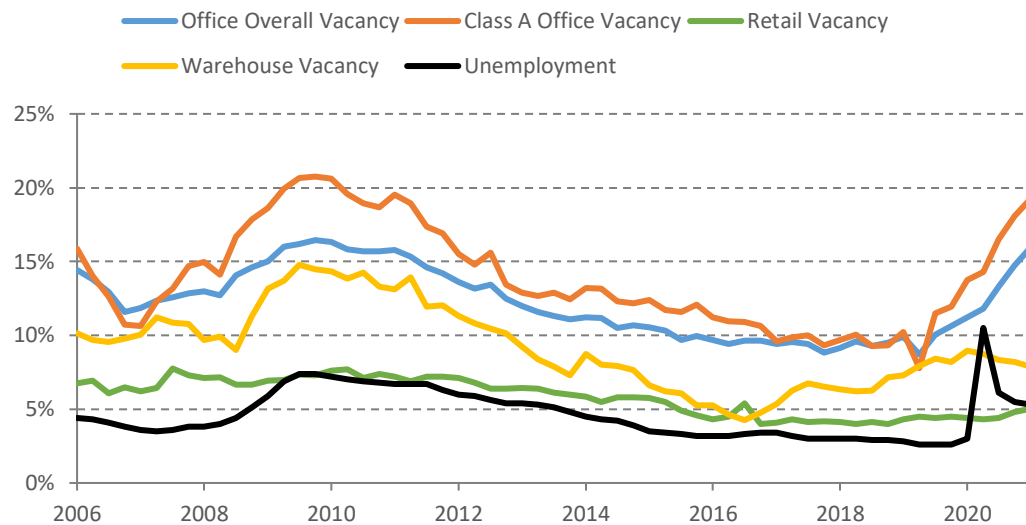
Source: Texas Real Estate Research Center at Texas A&M University

Figure 5. San Antonio Nonresidential Construction Leading Indicators
(Index 2006 Q1 = 100)



Source: Texas Real Estate Research Center at Texas A&M University

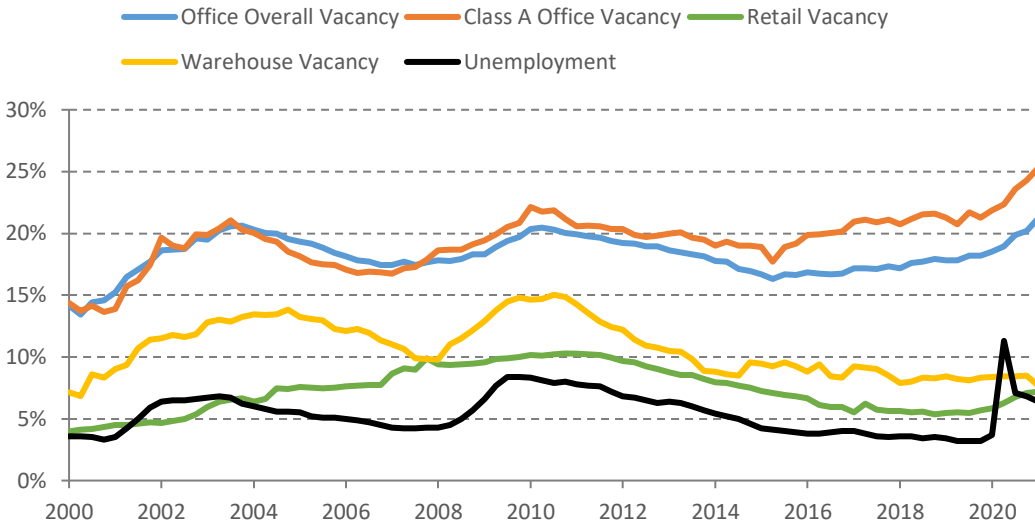
Figure 6. Austin Commercial Vacancy Rates and Unemployment (SA and TC)*



*Note: Vacancy rates seasonally adjusted and trend-cycled, unemployment seasonally adjusted.

Sources: Bureau of Labor Statistics, CoStar, and Texas Real Estate Research Center at Texas A&M University

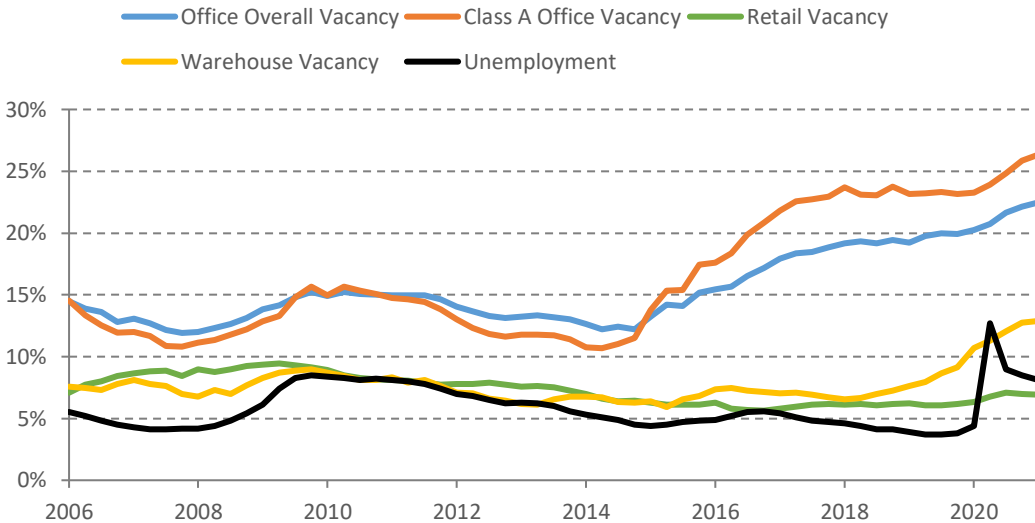
Figure 7. DFW Commercial Vacancy Rates and Unemployment (SA)*



*Note: Vacancy rates seasonally adjusted and trend-cycled, unemployment seasonally adjusted.

Sources: Bureau of Labor Statistics, CoStar, and Texas Real Estate Research Center at Texas A&M University

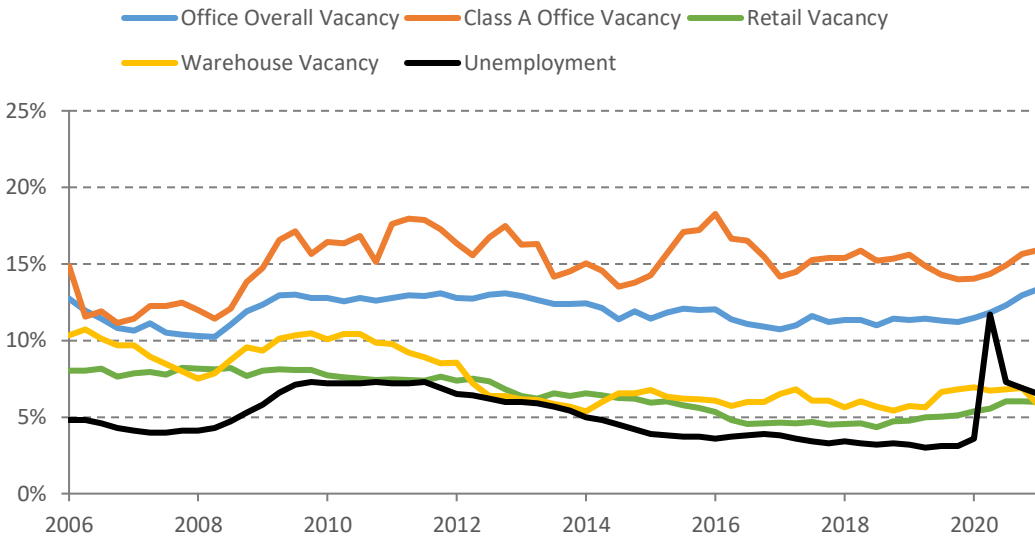
Figure 8. Houston Commercial Vacancy Rates and Unemployment (SA)*



*Note: Vacancy rates seasonally adjusted and trend-cycled, unemployment seasonally adjusted.

Sources: Bureau of Labor Statistics, CoStar, and Texas Real Estate Research Center at Texas A&M University

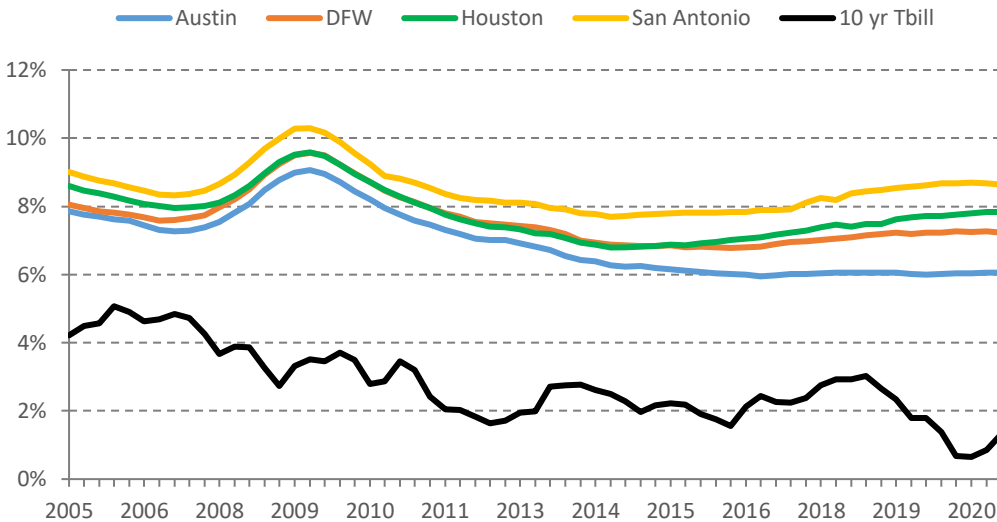
Figure 9. San Antonio Commercial Vacancy Rates and Unemployment



*Note: Vacancy rates seasonally adjusted and trend-cycled, unemployment seasonally adjusted.

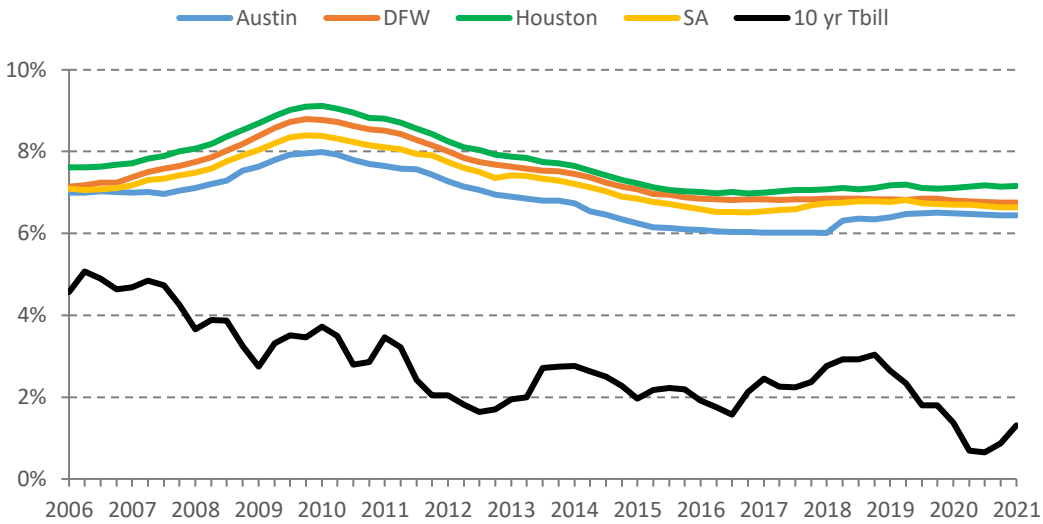
Sources: Bureau of Labor Statistics, CoStar, and Texas Real Estate Research Center at Texas A&M University

Figure 10. Texas Major MSAs Office Cap Rates



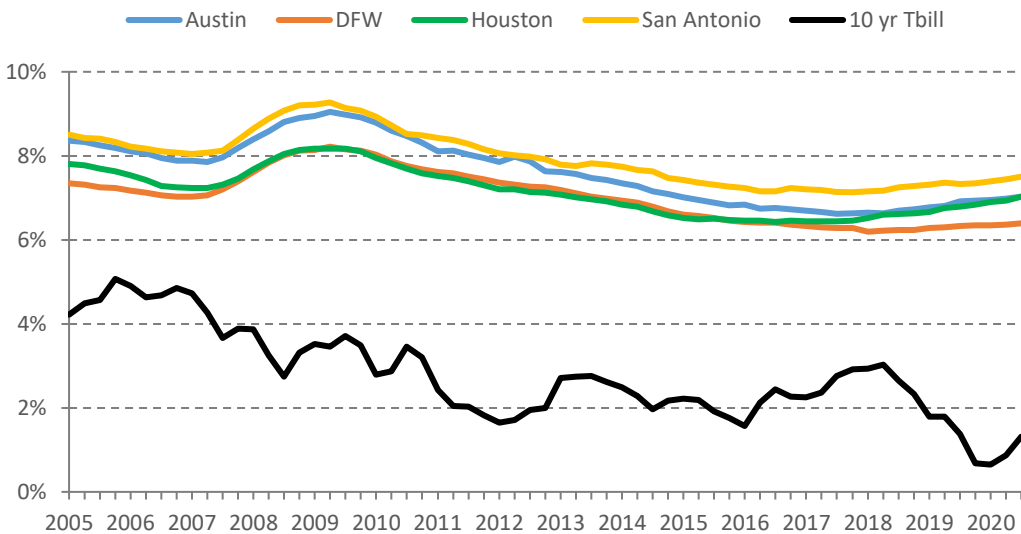
Sources: CoStar and Texas Real Estate Research Center at Texas A&M University

Figure 11. Texas Major MSAs Retail Cap Rates



Sources: CoStar and Texas Real Estate Research Center at Texas A&M University

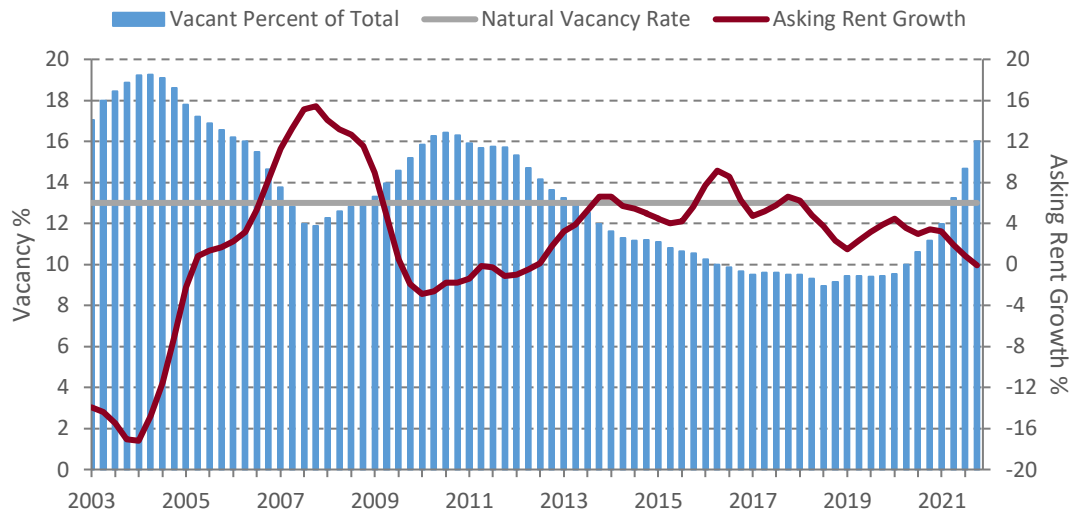
Figure 12. Texas Major MSAs Warehouse Cap Rates



Sources: CoStar and Texas Real Estate Research Center at Texas A&M University

Austin

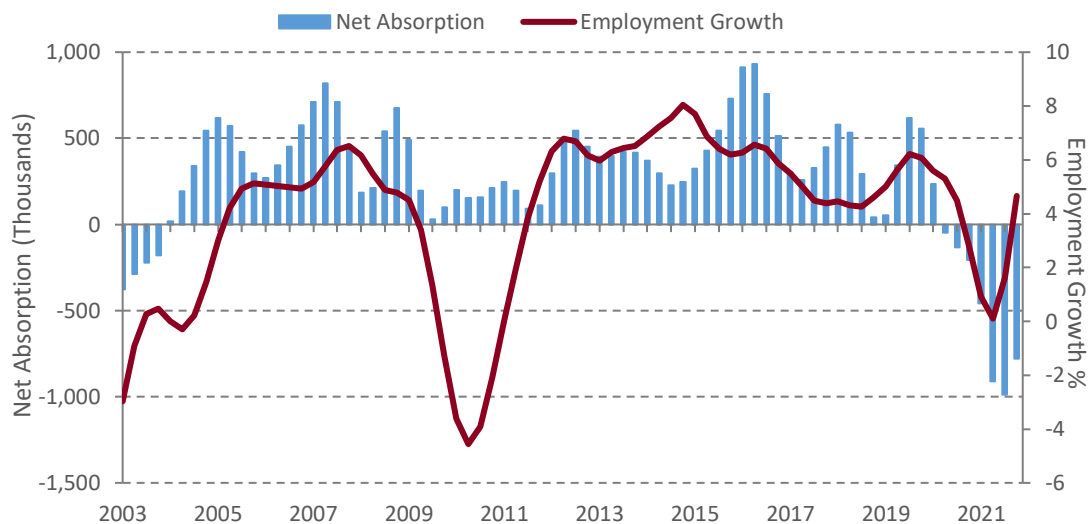
Figure 13. Austin Office Overall Vacancy and Asking Rent Growth (SA and TC)*



*Note: Seasonally adjusted and trend-cycle component.

Sources: CoStar and Texas Real Estate Research Center at Texas A&M University

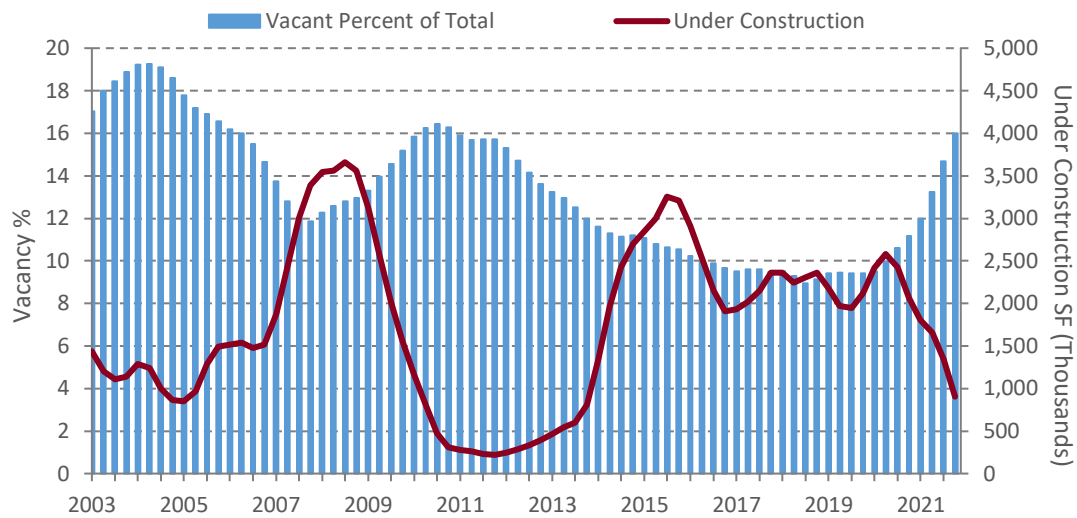
Figure 14. Austin Office Overall Net Absorption and Employment Growth (SA and TC)*



*Note: Seasonally adjusted and trend-cycle component.

Sources: Bureau of Labor Statistics, CoStar, and Texas Real Estate Research Center at Texas A&M University

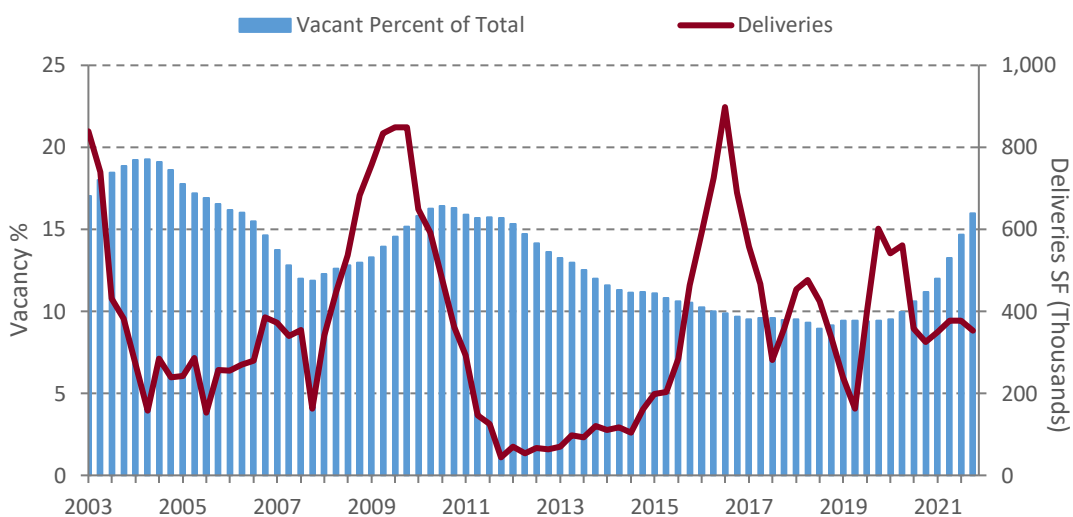
Figure 15. Austin Office Overall Vacancy and Under Construction (SA and TC)*



*Note: Seasonally adjusted and trend-cycle component.

Sources: CoStar and Texas Real Estate Research Center at Texas A&M University

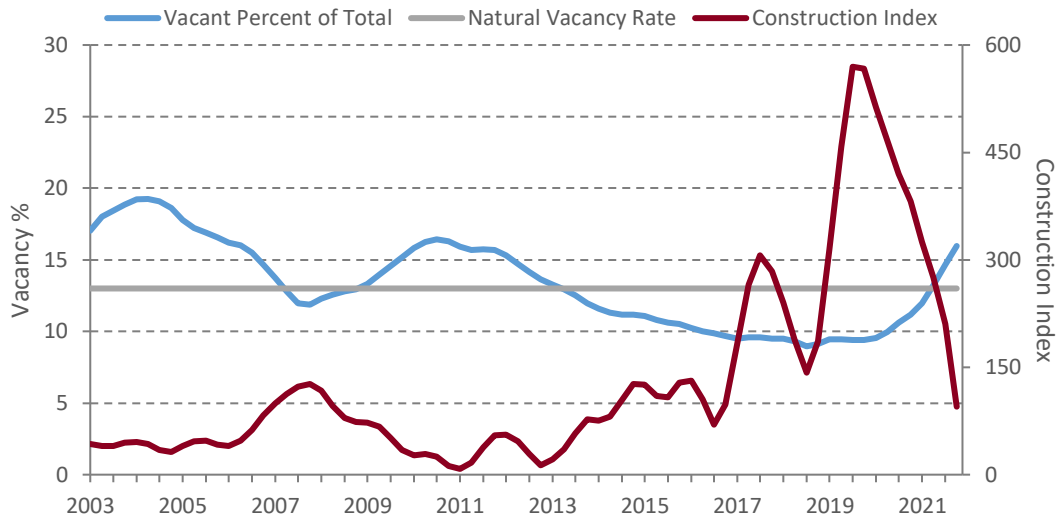
Figure 16. Austin Office Overall Vacancy (SA and TC)* and Deliveries



*Note: Four-quarter moving average used for deliveries, seasonal adjustment and trend cycling used for vacant percent of total.

Sources: CoStar and Texas Real Estate Research Center at Texas A&M University

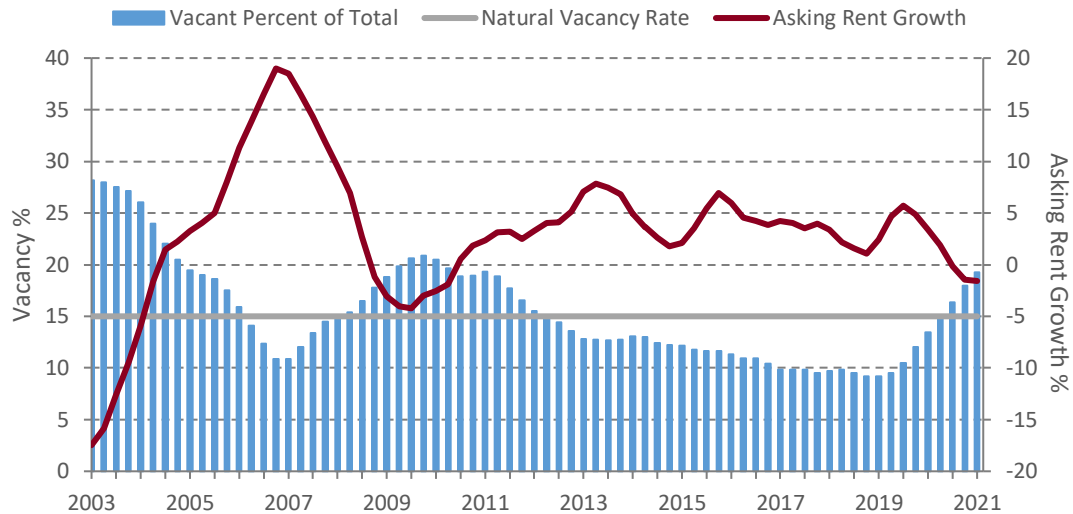
Figure 17. Austin Office Overall Vacancy and Construction Index (SA and TC)*
(Index 2000 Q4 = 100)



*Note: Inflation adjusted, seasonally adjusted, and trend-cycle component.

Sources: CoStar, Dodge Analytics, and Texas Real Estate Research Center at Texas A&M University

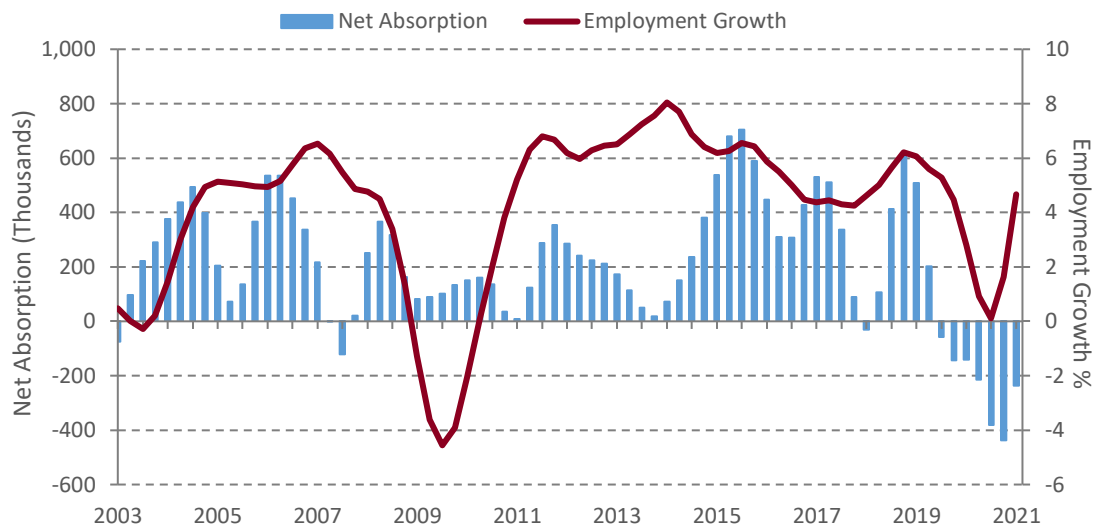
Figure 18. Austin Office Class A Vacancy and Asking Rent Growth (SA and TC)*



*Note: Seasonally adjusted and trend-cycle component.

Sources: CoStar and Texas Real Estate Research Center at Texas A&M University

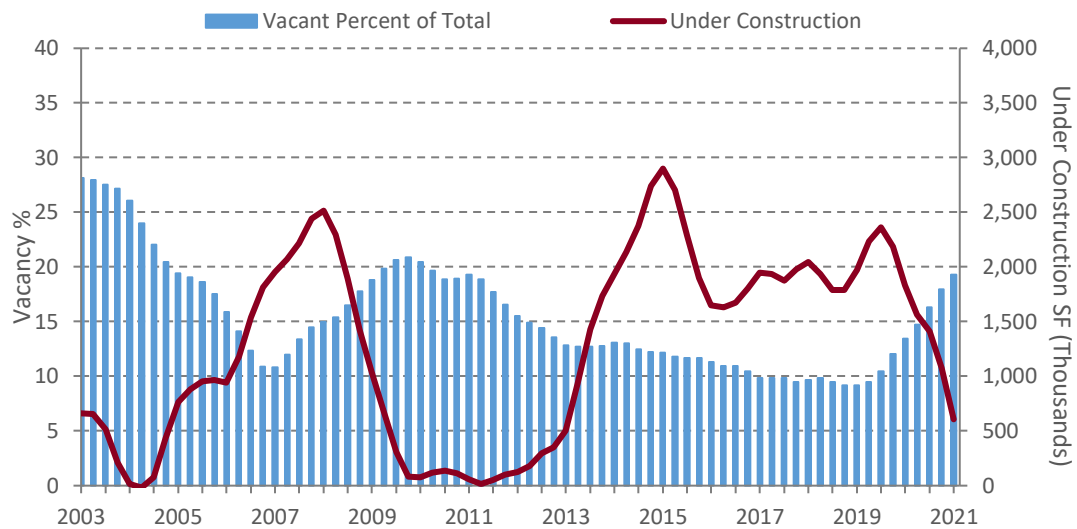
Figure 19. Austin Office Class A Net Absorption and Employment Growth (SA and TC)*



*Note: Seasonally adjusted and trend-cycle component.

Sources: Bureau of Labor Statistics, CoStar, and Texas Real Estate Research Center at Texas A&M University

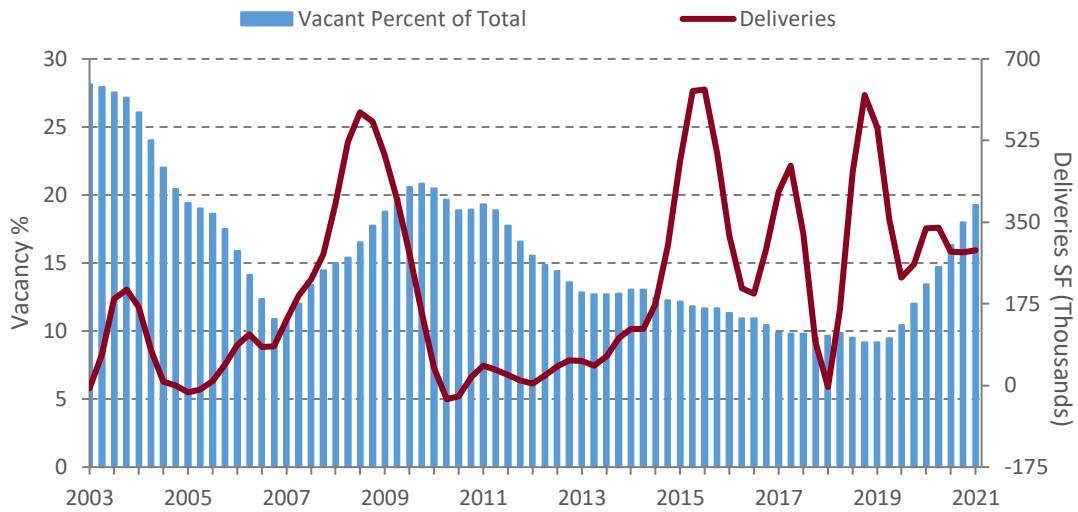
Figure 20. Austin Office Class A Vacancy and Under Construction (SA and TC)*



*Note: Seasonally adjusted and trend-cycle component.

Sources: CoStar and Texas Real Estate Research Center at Texas A&M University

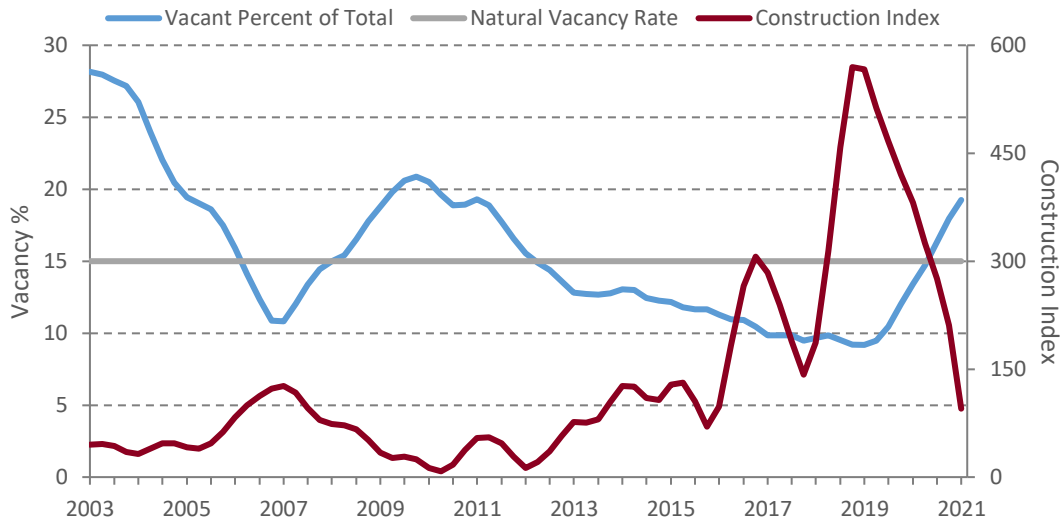
Figure 21. Austin Office Class A Vacancy and Deliveries (SA and TC)*



*Note: Seasonally adjusted and trend-cycle component.

Sources: CoStar and Texas Real Estate Research Center at Texas A&M University

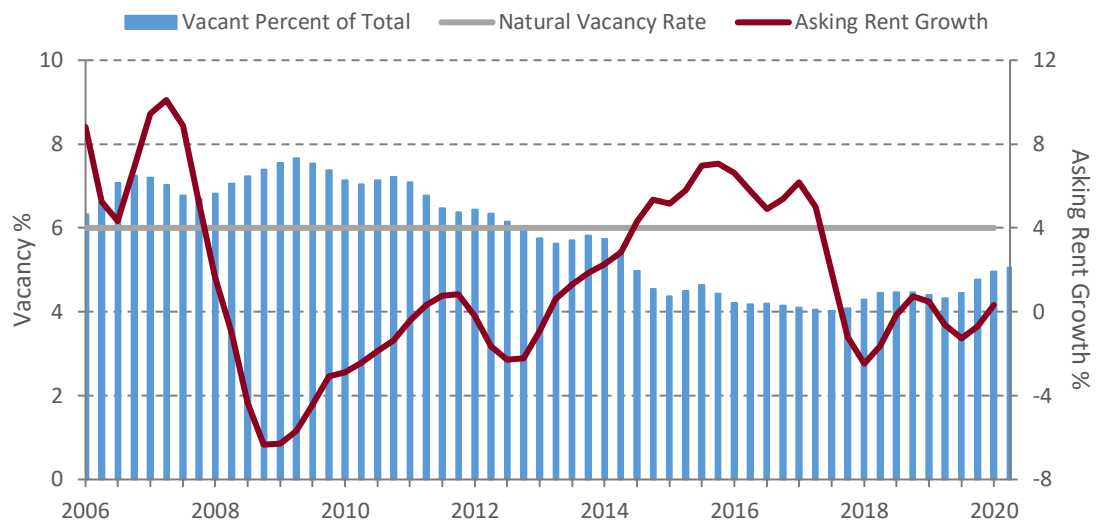
**Figure 22. Austin Office Class A Vacancy and Construction Index (SA and TC)*
(Index 2000 Q4 = 100)**



*Note: Inflation adjusted, seasonally adjusted, and trend-cycle component.

Sources: CoStar, Dodge Analytics, and Texas Real Estate Research Center at Texas A&M University

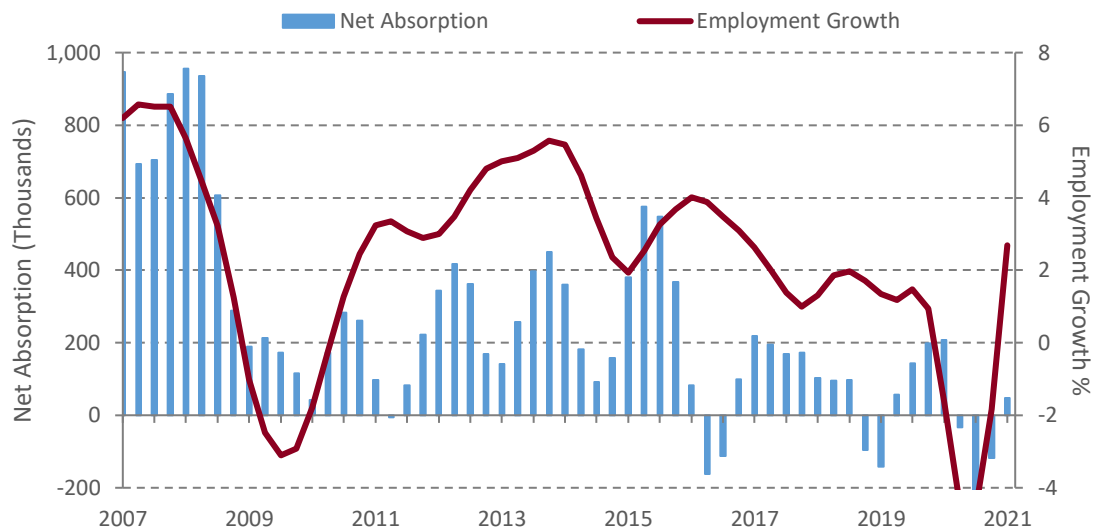
Figure 23. Austin Retail Vacancy and Asking Rent Growth (SA and TC)*



*Note: Seasonally adjusted and trend-cycle component.

Sources: CoStar and Texas Real Estate Research Center at Texas A&M University

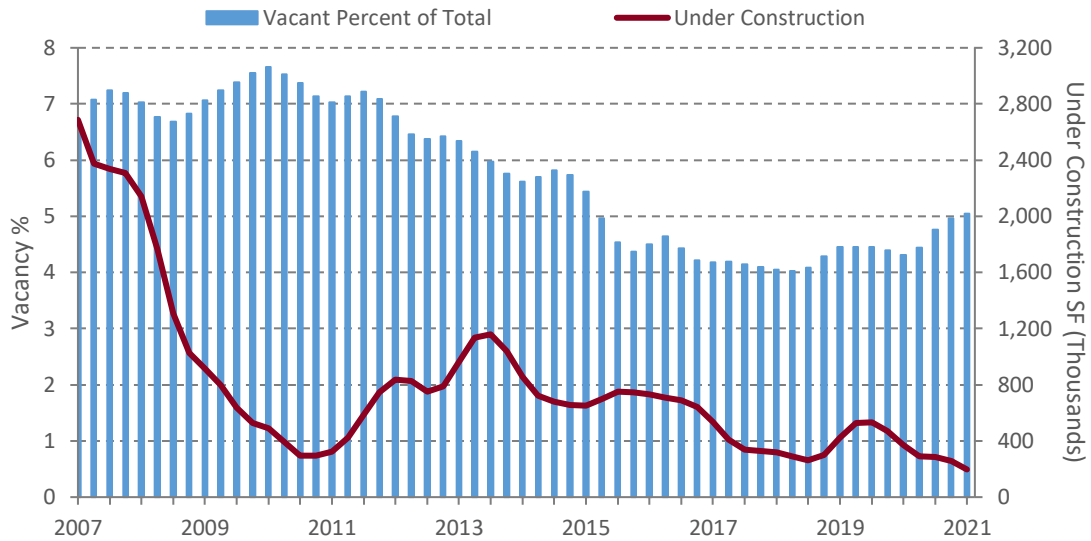
Figure 24. Austin Retail Net Absorption SF and Employment Growth (SA and TC)*



*Note: Seasonally adjusted and trend-cycle component.

Sources: Bureau of Labor Statistics, CoStar, and Texas Real Estate Research Center at Texas A&M University

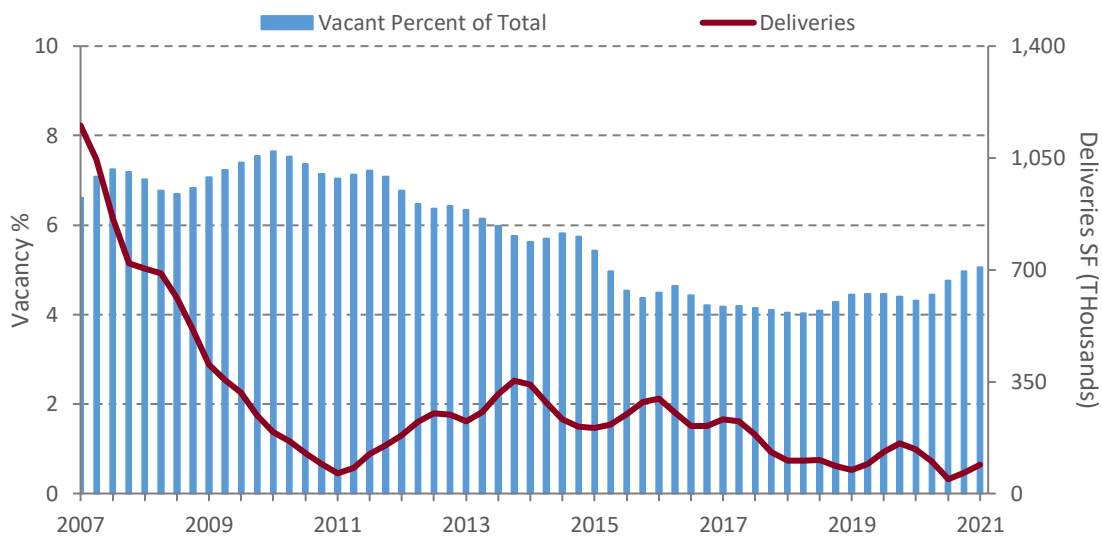
Figure 25. Austin Retail Vacancy and Under Construction (SA and TC)*



*Note: Seasonally adjusted and trend-cycle component.

Sources: CoStar and Texas Real Estate Research Center at Texas A&M University

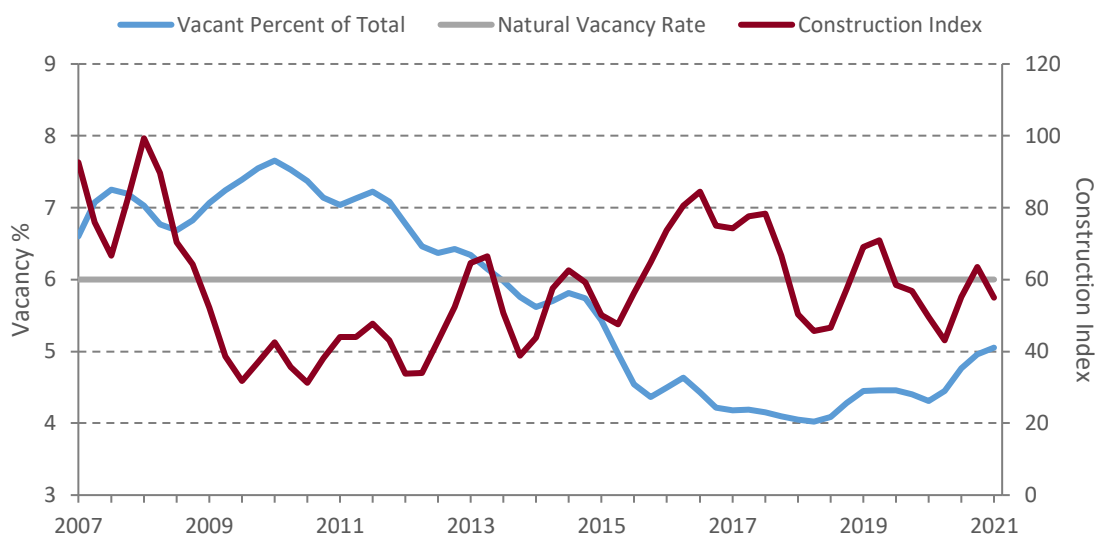
Figure 26. Austin Retail Vacancy and Deliveries (SA and TC)*



*Note: Seasonally adjusted and trend-cycle component.

Sources: CoStar and Texas Real Estate Research Center at Texas A&M University

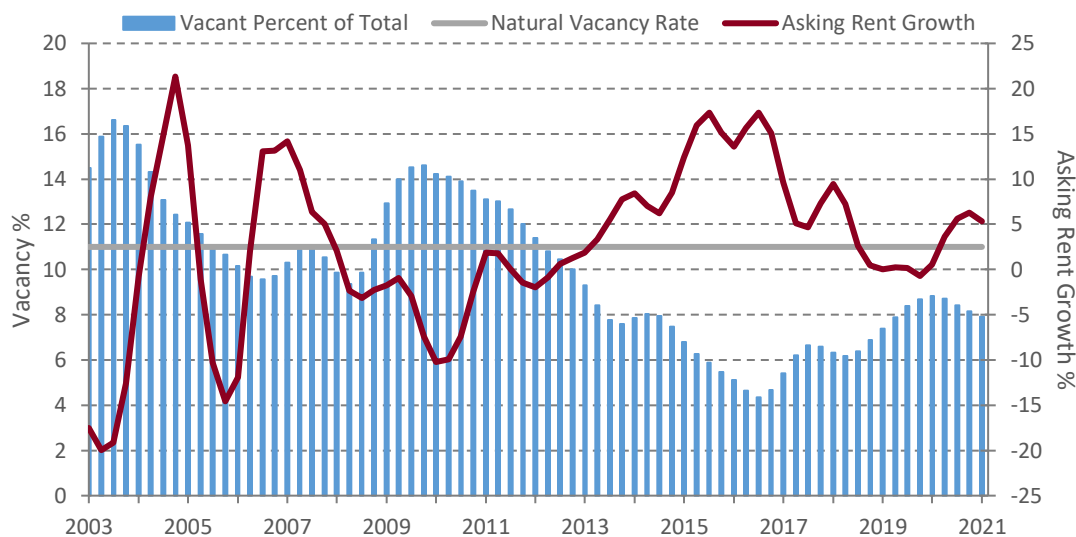
Figure 27. Austin Retail Vacancy and Construction Index (SA and TC)*
(Index 2006 Q1 = 100)



*Note: Inflation adjusted, seasonally adjusted, and trend-cycle component.

Sources: CoStar, Dodge Analytics, and Texas Real Estate Research Center at Texas A&M University

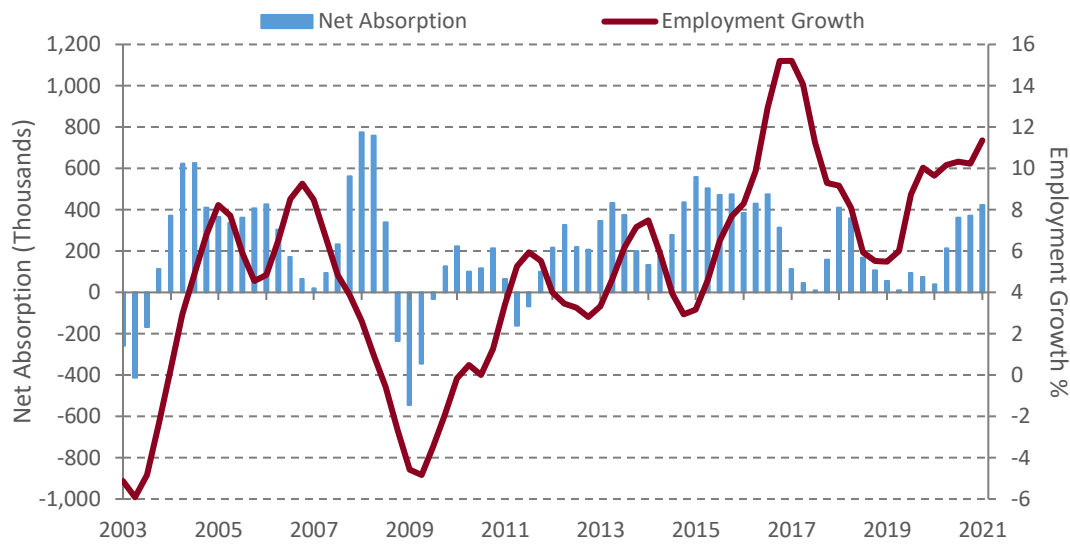
Figure 28. Austin Warehouse Vacancy and Asking Rent Growth (SA and TC)*



*Note: Seasonally adjusted and trend-cycle component.

Sources: CoStar and Texas Real Estate Research Center at Texas A&M University

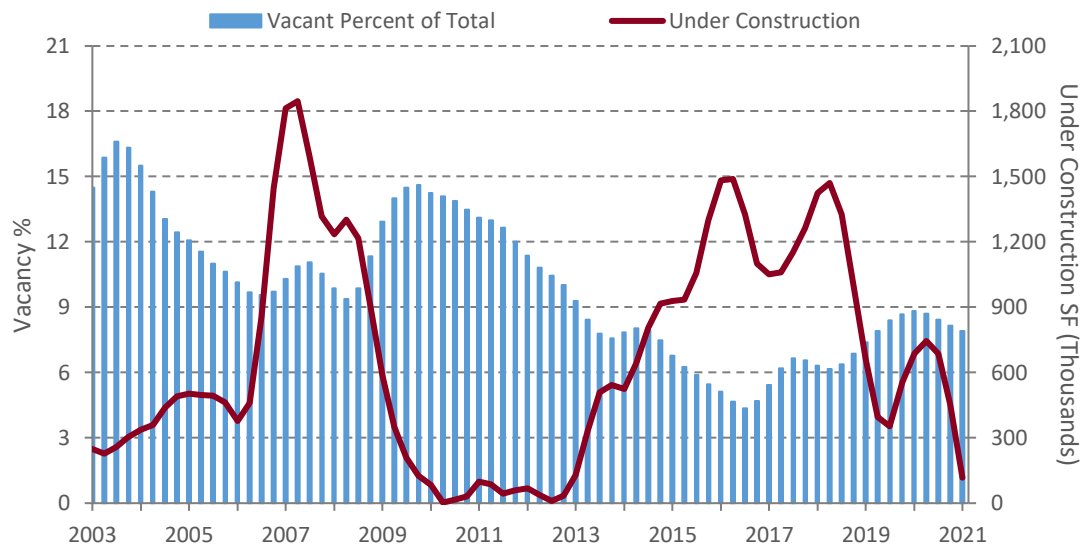
Figure 29. Austin Warehouse Net Absorption and Employment Growth (SA and TC)*



*Note: Seasonally adjusted and trend-cycle component.

Sources: Bureau of Labor Statistics, CoStar, and Texas Real Estate Research Center at Texas A&M University

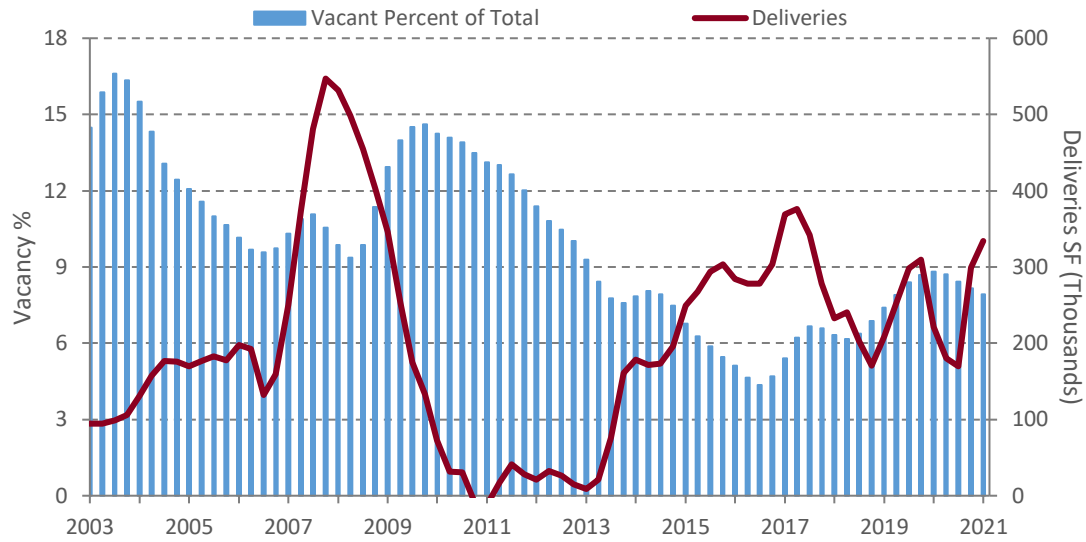
Figure 30. Austin Warehouse Vacancy and Under Construction (SA and TC)*



*Note: Seasonally adjusted and trend-cycle component.

Sources: CoStar and Texas Real Estate Research Center at Texas A&M University

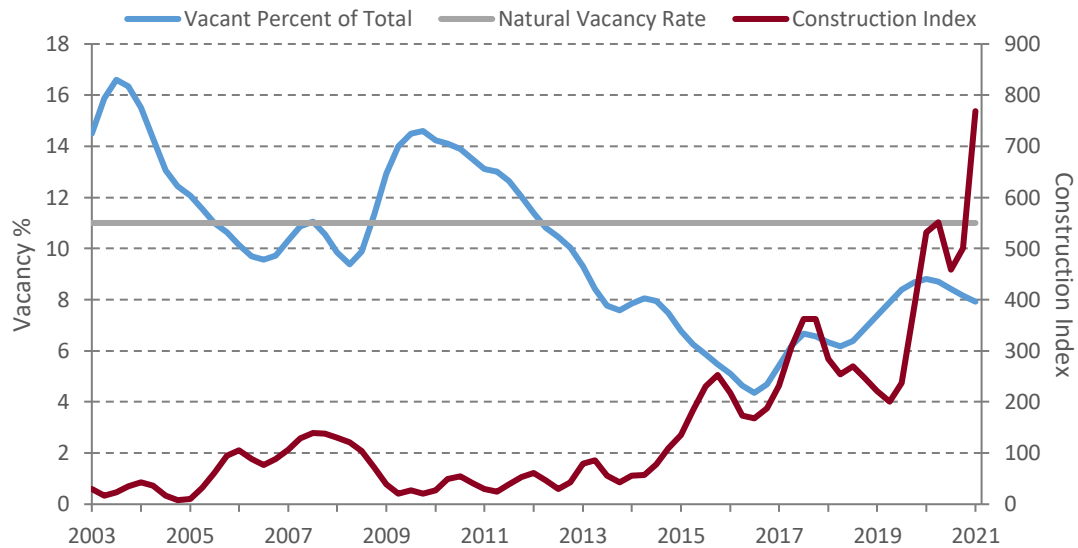
Figure 31. Austin Warehouse Vacancy and Deliveries (SA and TC)*



*Note: Seasonally adjusted and trend-cycle component.

Sources: CoStar and Texas Real Estate Research Center at Texas A&M University

Figure 32. Austin Warehouse Vacancy and Construction Index (SA and TC)*
(Index 2000 Q4 = 100)

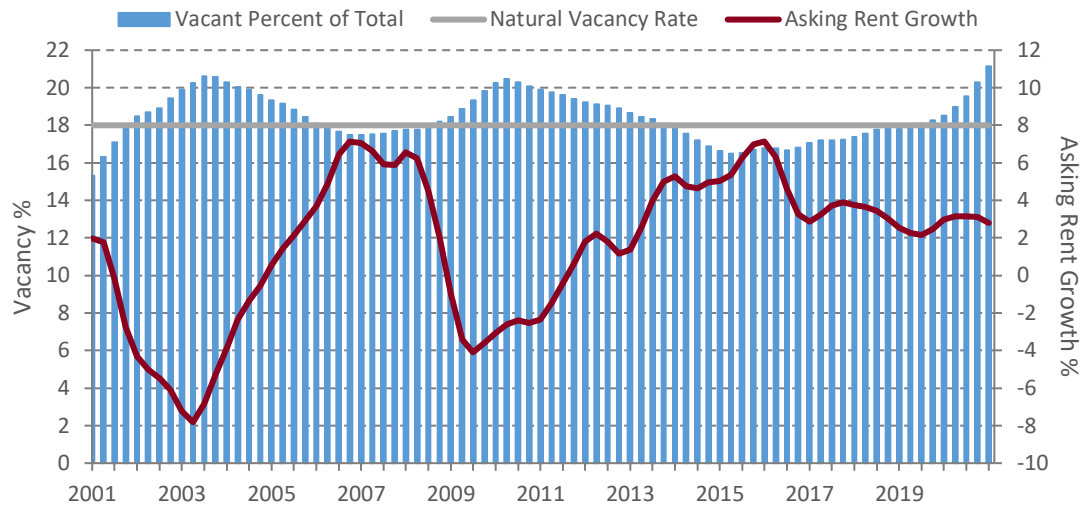


*Note: Inflation adjusted, seasonally adjusted, and trend-cycle component.

Sources: CoStar, Dodge Analytics, and Texas Real Estate Research Center at Texas A&M University

DFW

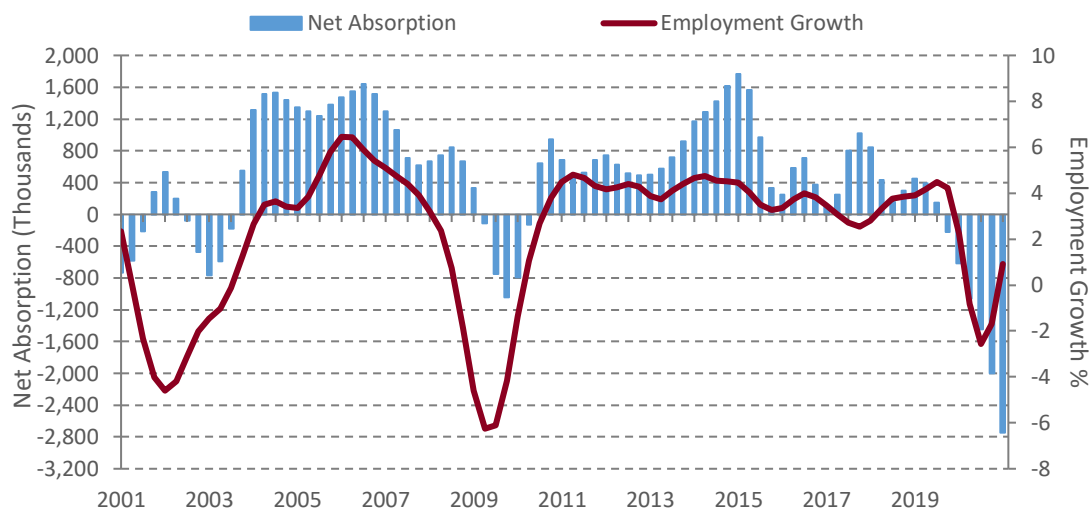
Figure 33. DFW Office Overall Vacancy and Asking Rent Growth (SA and TC)*



*Note: Seasonally adjusted and trend-cycle component.

Sources: CoStar and Texas Real Estate Research Center at Texas A&M University

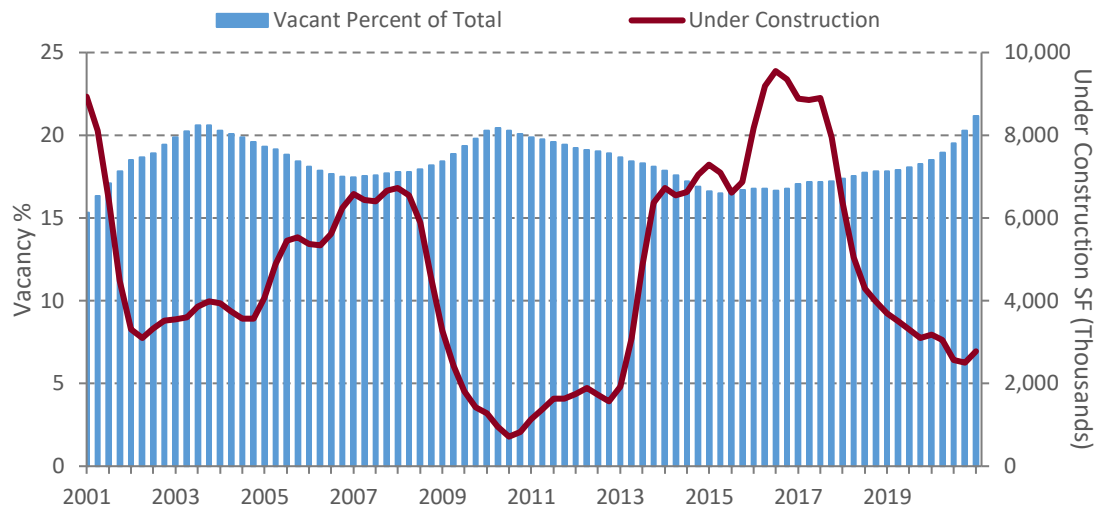
Figure 34. DFW Office Overall Net Absorption and Employment Growth (SA and TC)*



*Note: Seasonally adjusted and trend-cycle component.

Sources: Bureau of Labor Statistics, CoStar, and Texas Real Estate Research Center at Texas A&M University

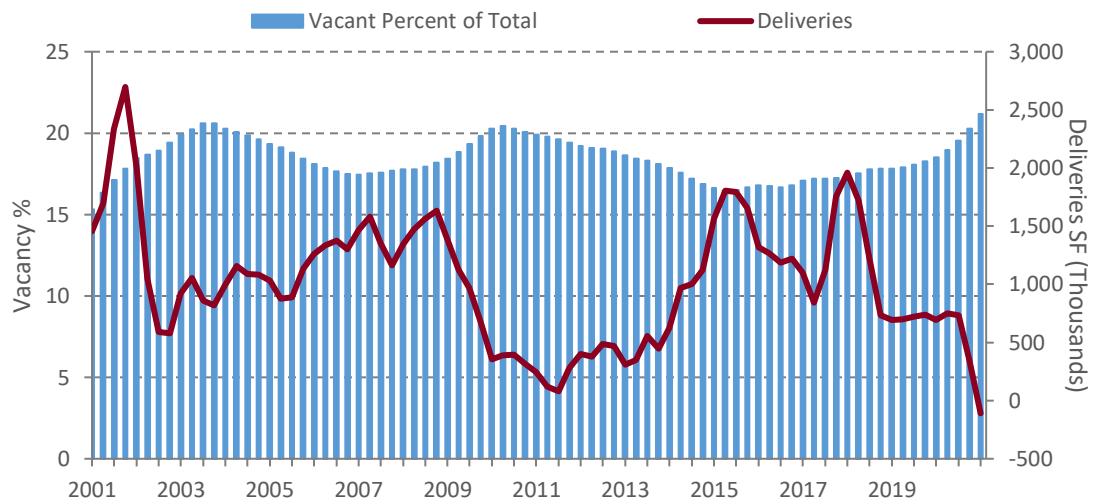
Figure 35. DFW Office Overall Vacancy and Under Construction (SA and TC)*



*Note: Seasonally adjusted and trend-cycle component.

Sources: CoStar and Texas Real Estate Research Center at Texas A&M University

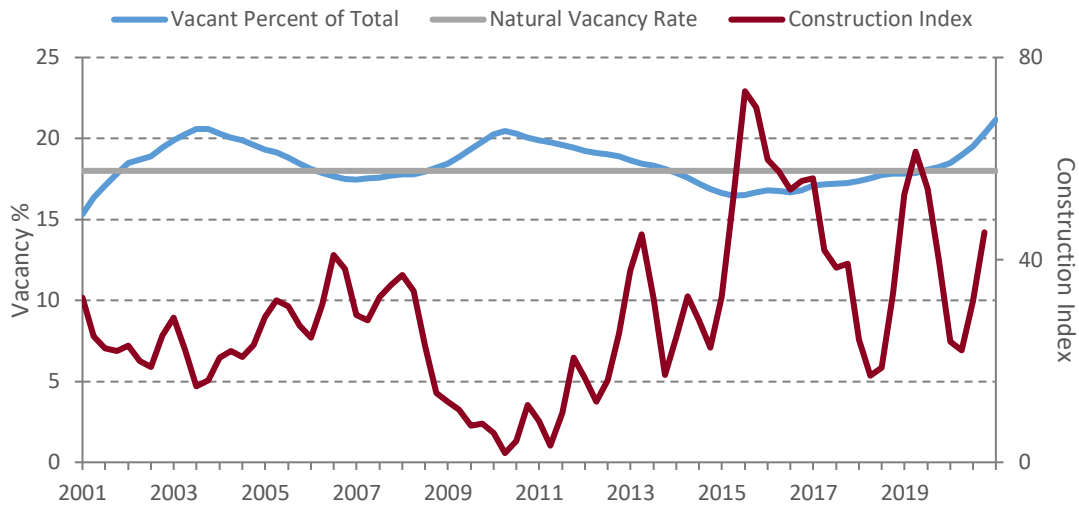
Figure 36. DFW Office Overall Vacancy and Deliveries (SA and TC)*



*Note: Seasonally adjusted and trend-cycle component.

Sources: CoStar and Texas Real Estate Research Center at Texas A&M University

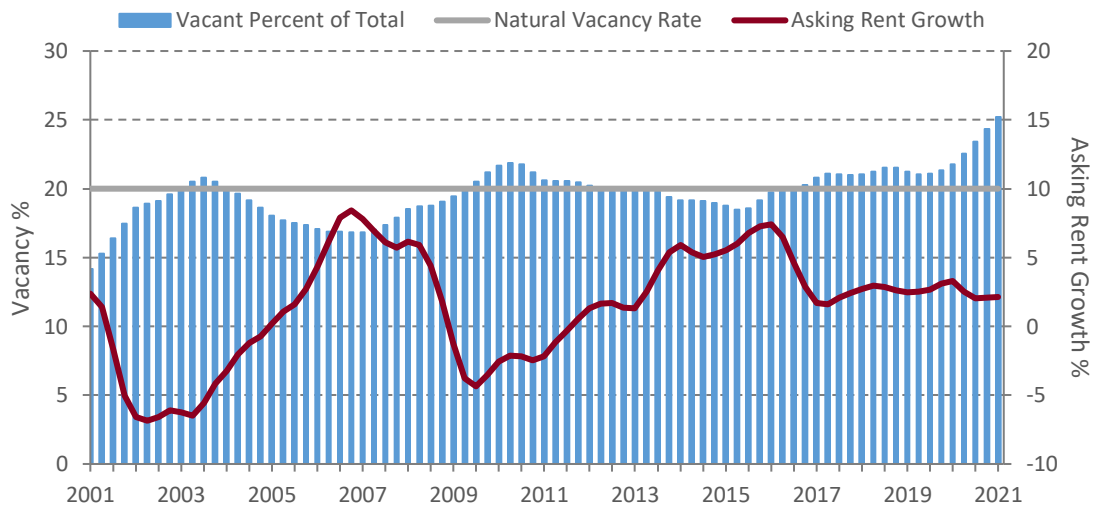
Figure 37. DFW Office Overall Vacancy and Construction Index (SA and TC)*
(Index 1982 Q1 = 100)



*Note: Inflation adjusted, seasonally adjusted, and trend-cycle component.

Sources: CoStar, Dodge Analytics, and Texas Real Estate Research Center at Texas A&M University

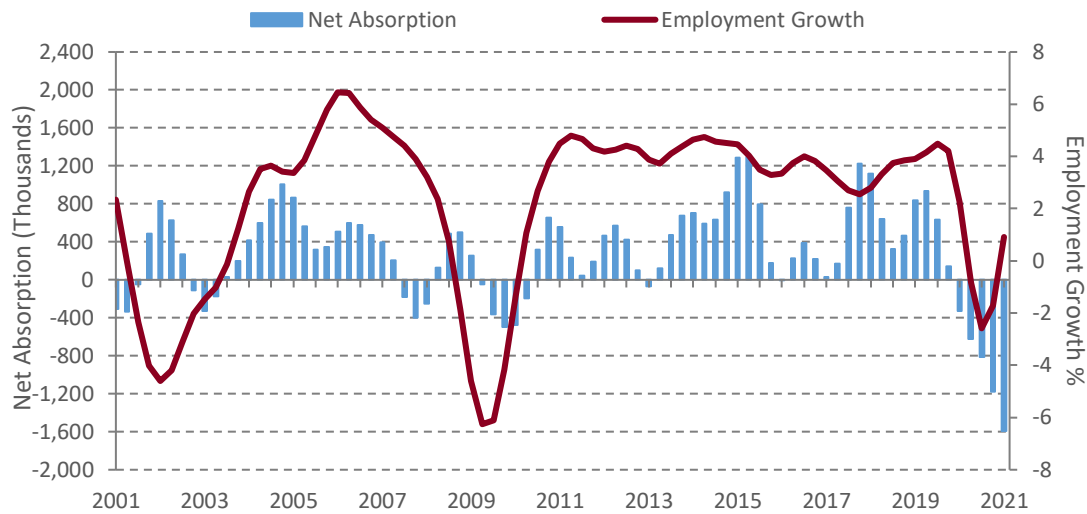
Figure 38. DFW Office Class A Vacancy and Asking Rent Growth (SA and TC)*



*Note: Seasonally adjusted and trend-cycle component.

Sources: CoStar and Texas Real Estate Research Center at Texas A&M University

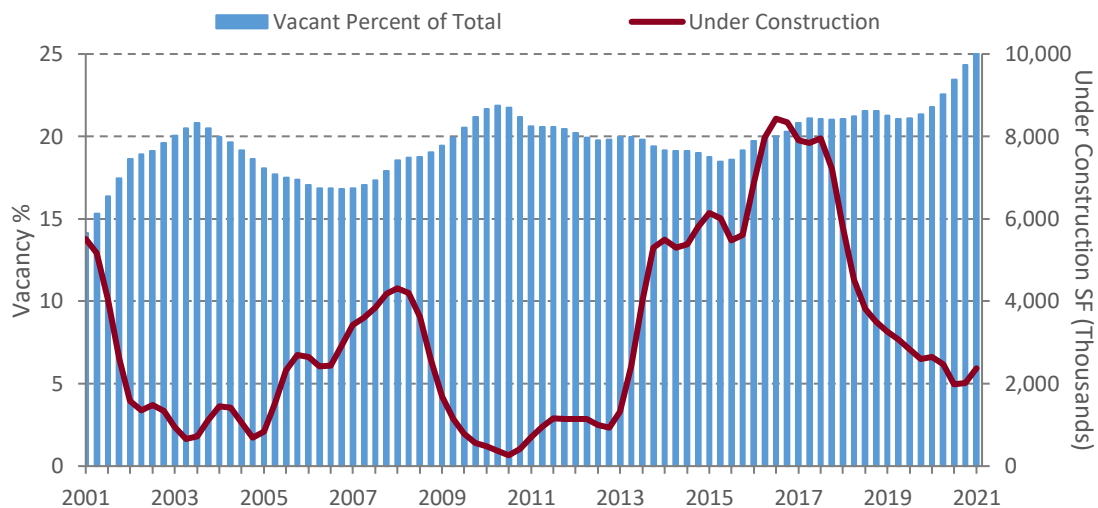
Figure 39. DFW Office Class A Net Absorption and Employment Growth (SA and TC)*



*Note: Seasonally adjusted and trend-cycle component.

Sources: Bureau of Labor Statistics, CoStar, and Texas Real Estate Research Center at Texas A&M University

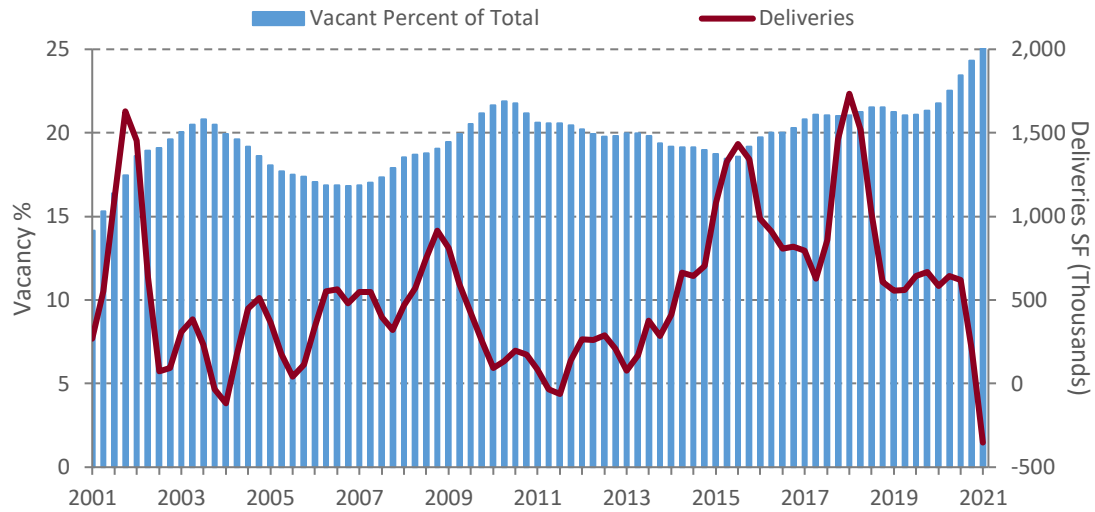
Figure 40. DFW Office Class A Vacancy and Under Construction (SA and TC)*



*Note: Seasonally adjusted and trend-cycle component.

Sources: CoStar and Texas Real Estate Research Center at Texas A&M University

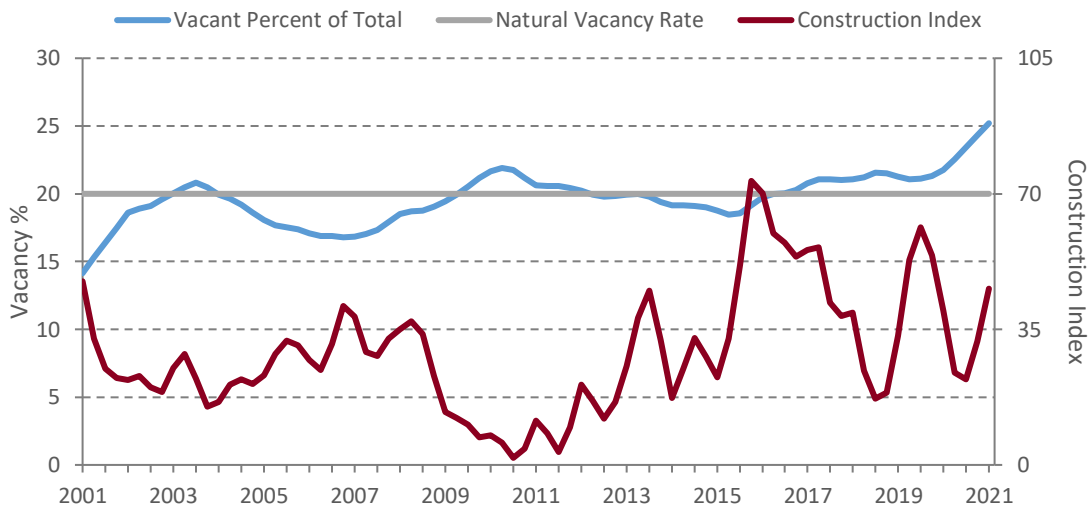
Figure 41. DFW Office Class A Vacancy and Deliveries (SA and TC)*



*Note: Seasonally adjusted and trend-cycle component.

Sources: CoStar and Texas Real Estate Research Center at Texas A&M University

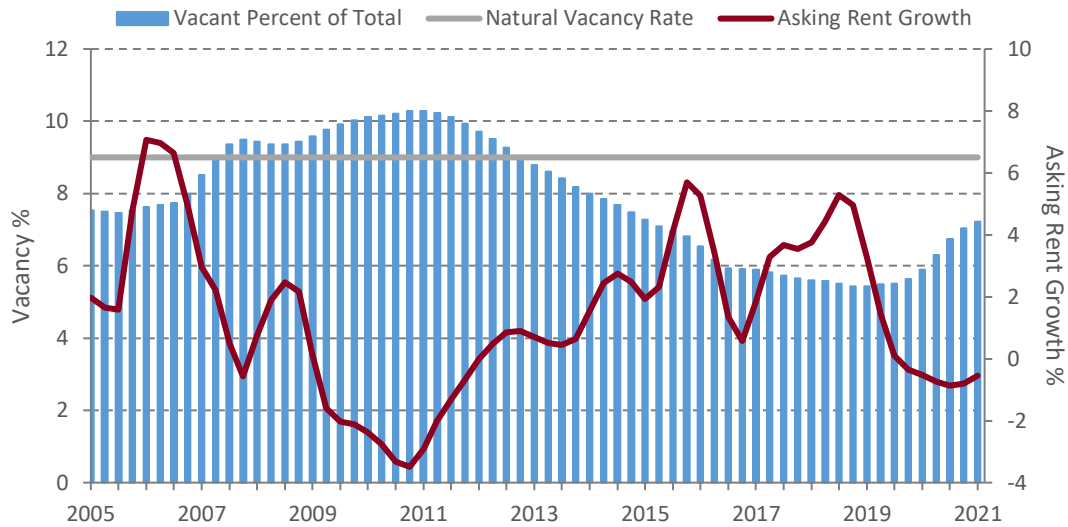
Figure 42. DFW Office Class A Vacancy and Construction Index (SA and TC)*
(Index 1982 Q1 = 100)



*Note: Inflation adjusted, seasonally adjusted, and trend-cycle component.

Sources: CoStar, Dodge Analytics, and Texas Real Estate Research Center at Texas A&M University

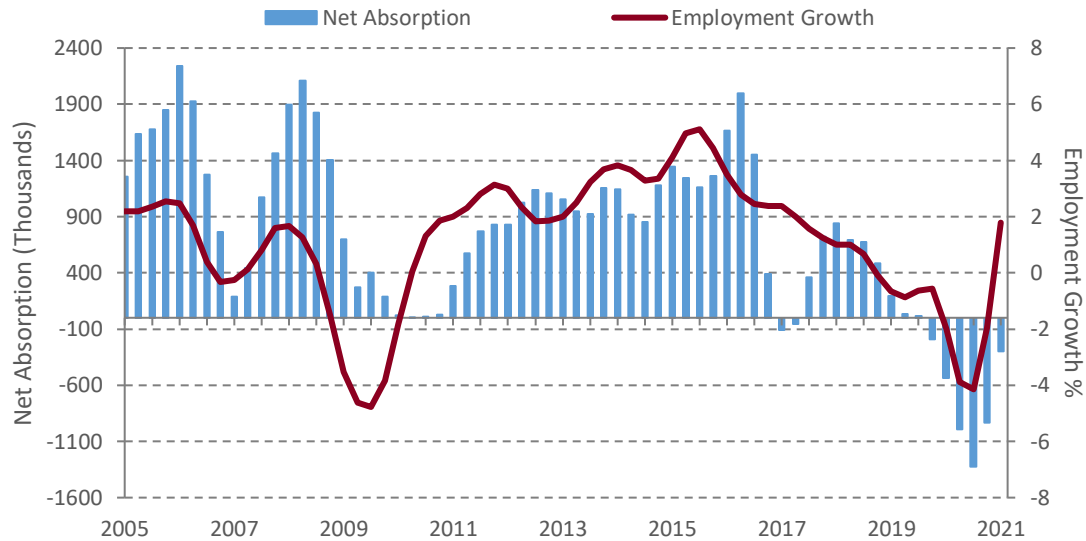
Figure 43. DFW Retail Vacancy and Asking Rent Growth (SA and TC)*



*Note: Seasonally adjusted and trend-cycle component.

Sources: CoStar and Texas Real Estate Research Center at Texas A&M University

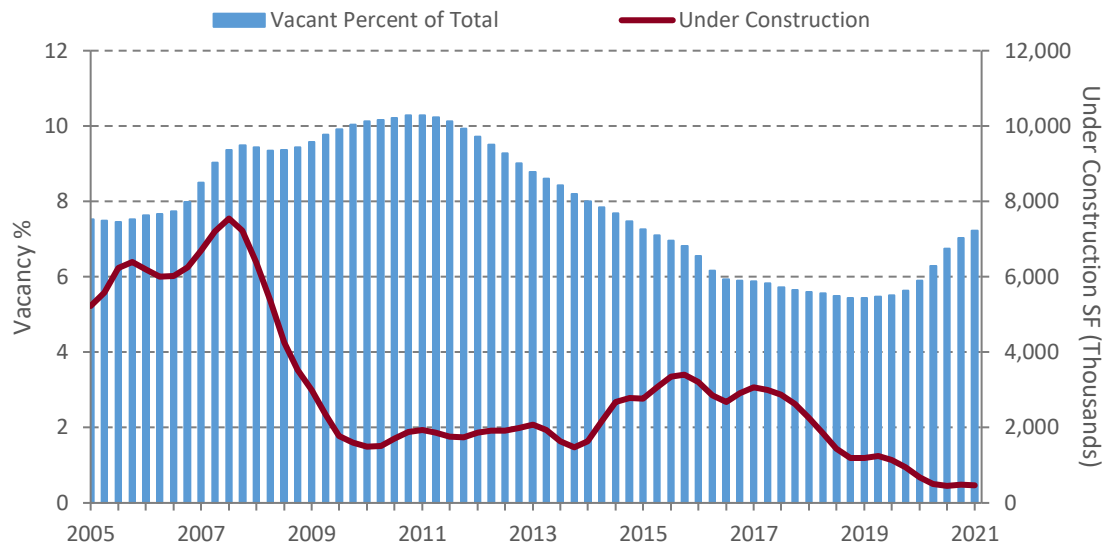
Figure 44. DFW Retail Net Absorption and Employment Growth (SA and TC)*



*Note: Seasonally adjusted and trend-cycle component.

Sources: Bureau of Labor Statistics, CoStar, and Texas Real Estate Research Center at Texas A&M University

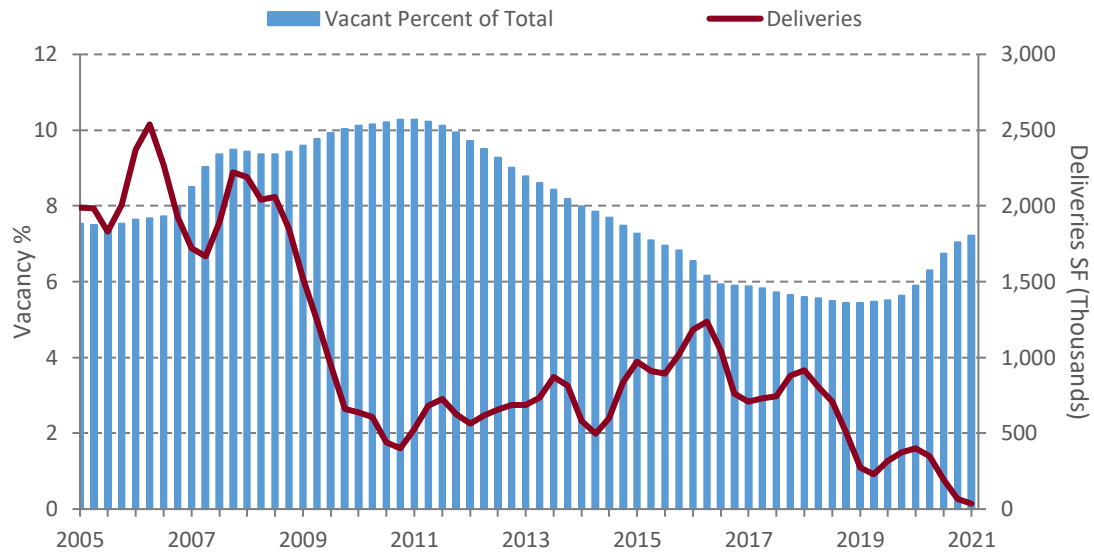
Figure 45. DFW Retail Vacancy and Under Construction (SA and TC)*



*Note: Seasonally adjusted and trend-cycle component.

Sources: CoStar and Texas Real Estate Research Center at Texas A&M University

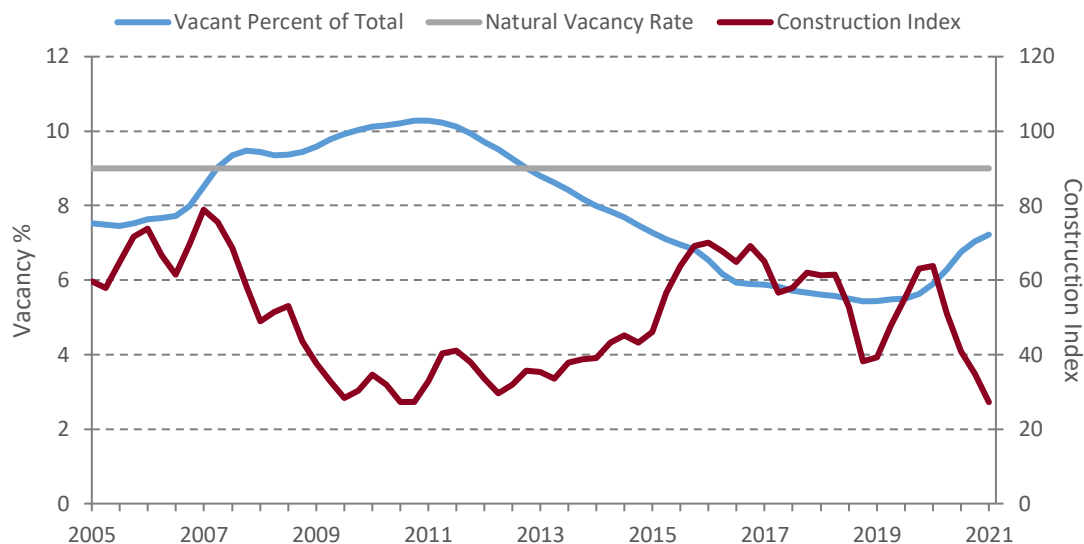
Figure 46. DFW Retail Vacancy and Deliveries (SA and TC)*



*Note: Seasonally adjusted and trend-cycle component.

Sources: CoStar and Texas Real Estate Research Center at Texas A&M University

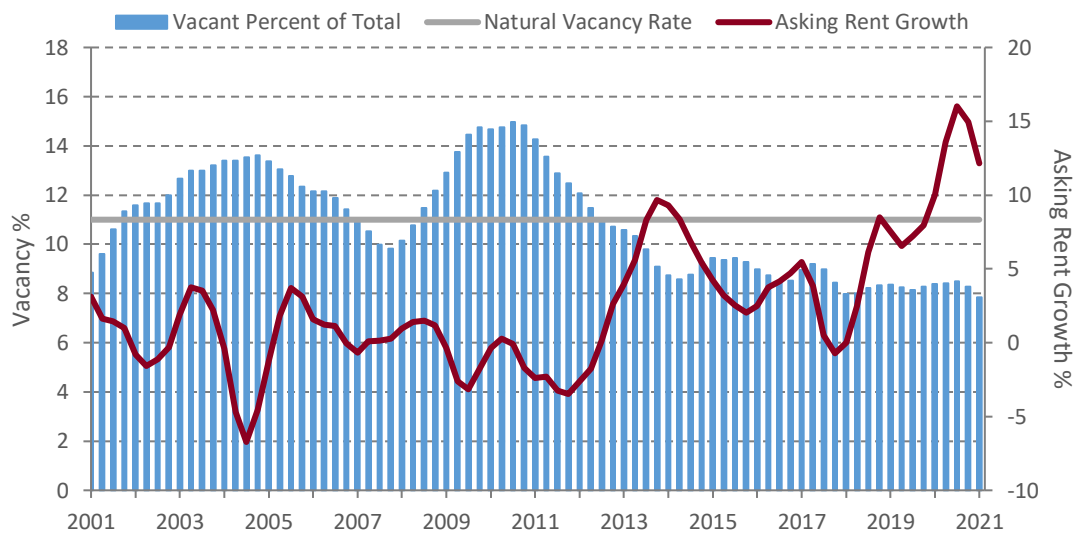
Figure 47. DFW Retail Vacancy and Construction Index (SA and TC)*
(Index 2000 Q1 = 100)



*Note: Inflation adjusted, seasonally adjusted, and trend-cycle component.

Sources: CoStar, Dodge Analytics, and Texas Real Estate Research Center at Texas A&M University

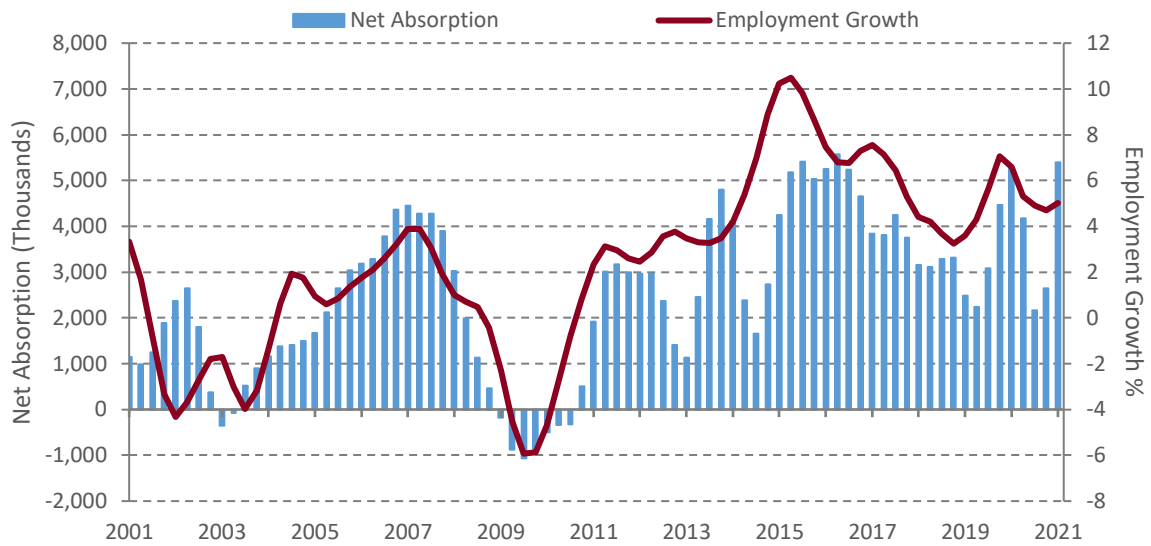
Figure 48. DFW Warehouse Vacancy and Asking Rent Growth (SA and TC)*



*Note: Seasonally adjusted and trend-cycle component.

Sources: CoStar and Texas Real Estate Research Center at Texas A&M University

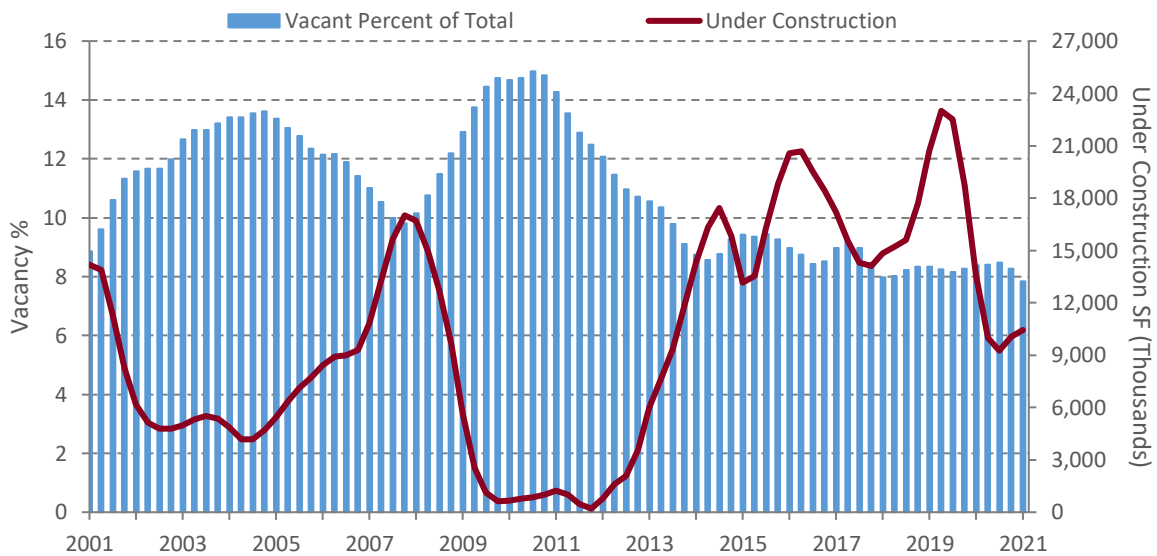
Figure 49. DFW Warehouse Net Absorption and Employment Growth (SA and TC)*



*Note: Seasonally adjusted and trend-cycle component.

Sources: Bureau of Labor Statistics, CoStar, and Texas Real Estate Research Center at Texas A&M University

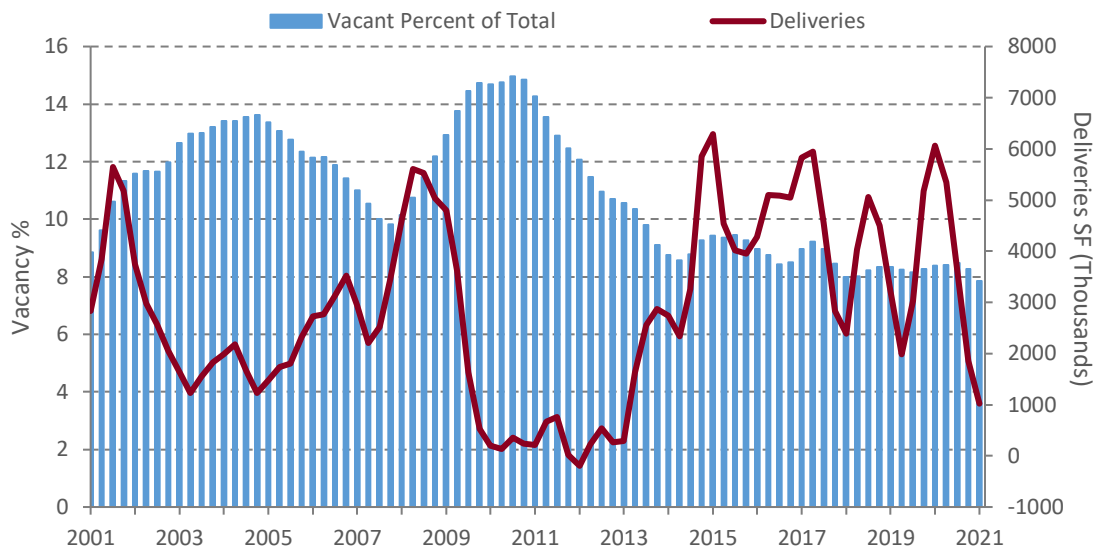
Figure 50. DFW Warehouse Vacancy and Under Construction (SA and TC)*



*Note: Seasonally adjusted and trend-cycle component.

Sources: CoStar and Texas Real Estate Research Center at Texas A&M University

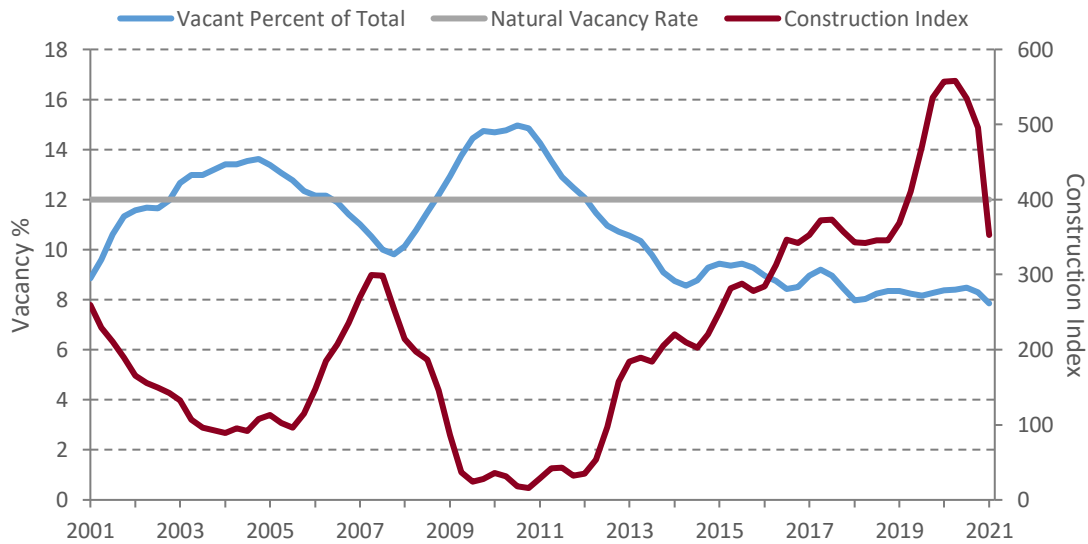
Figure 51. DFW Warehouse Vacancy and Deliveries (SA and TC)*



*Note: Seasonally adjusted and trend-cycle component.

Sources: CoStar and Texas Real Estate Research Center at Texas A&M University

Figure 52. DFW Warehouse Vacancy and Construction Index (SA and TC)*
(Index 1995 Q1 = 100)

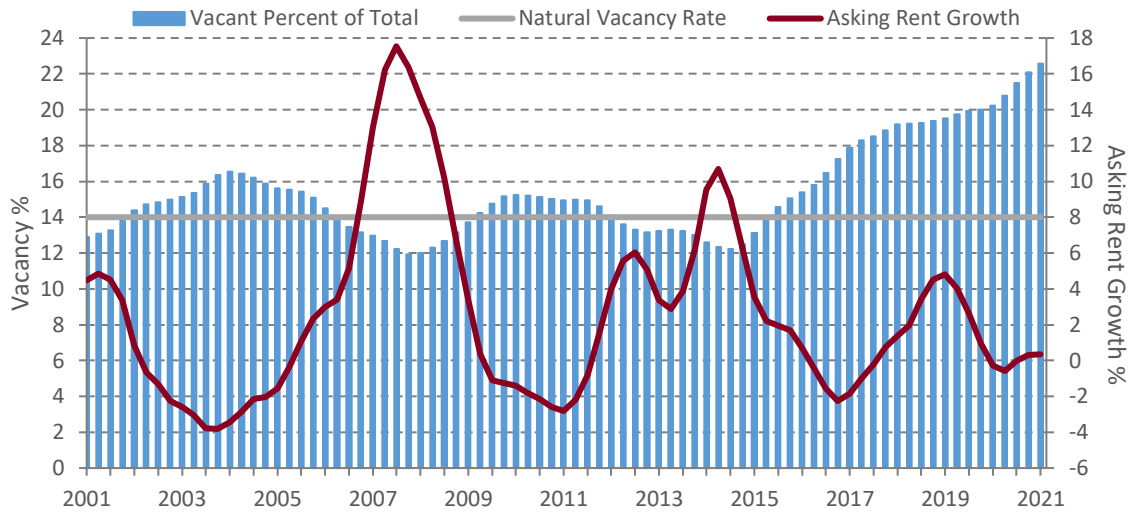


*Note: Inflation adjusted, seasonally adjusted, and trend-cycle component.

Sources: CoStar, Dodge Analytics, and Texas Real Estate Research Center at Texas A&M University

Houston

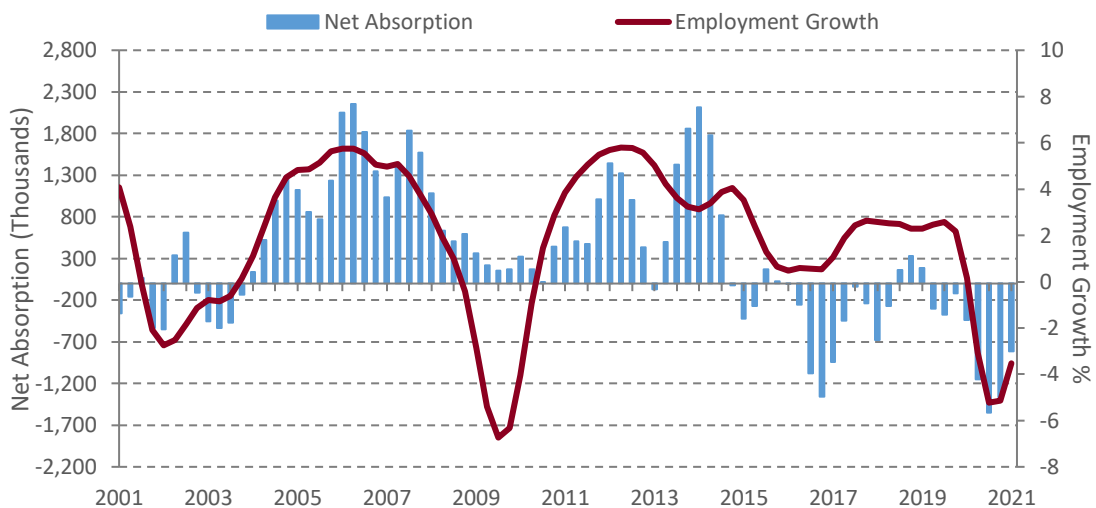
Figure 53. Houston Office Overall Vacancy and Asking Rent Growth (SA and TC)*



*Note: Seasonally adjusted and trend-cycle component.

Sources: CoStar and Texas Real Estate Research Center at Texas A&M University

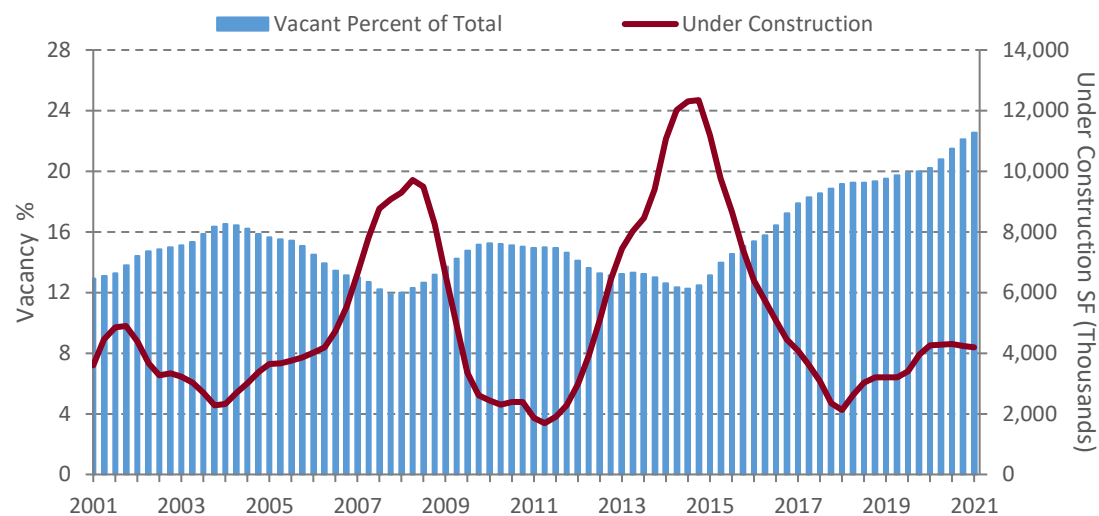
Figure 54. Houston Office Overall Net Absorption and Employment Growth (SA and TC)*



*Note: Seasonally adjusted and trend-cycle component.

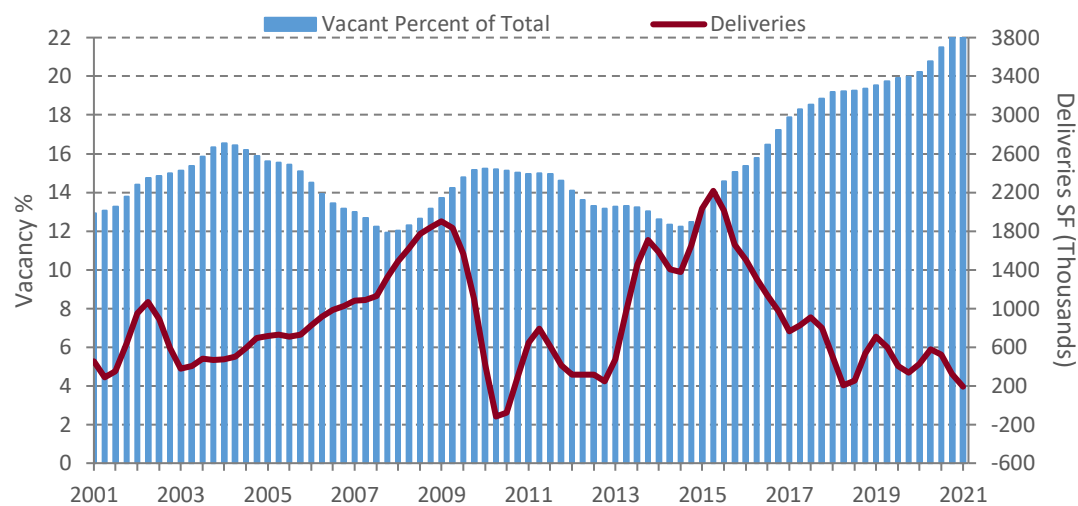
Sources: Bureau of Labor Statistics, CoStar, and Texas Real Estate Research Center at Texas A&M University

Figure 55. Houston Office Overall Vacancy and Under Construction (SA and TC)*



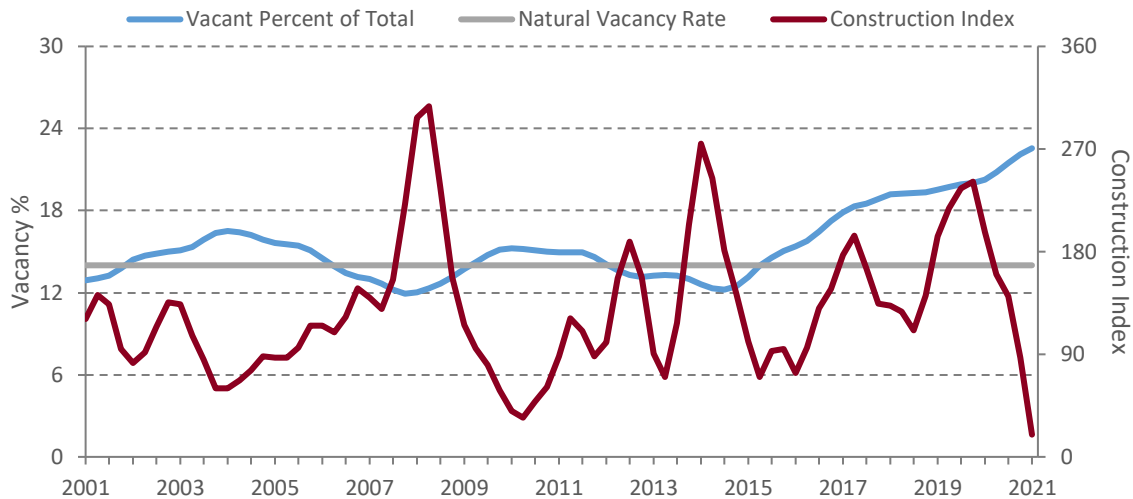
*Note: Seasonally adjusted and trend-cycle component.
Sources: CoStar and Texas Real Estate Research Center at Texas A&M University

Figure 56. Houston Office Overall Vacancy and Deliveries (SA and TC)*



*Note: Seasonally adjusted and trend-cycle component.
Sources: CoStar and Texas Real Estate Research Center at Texas A&M University

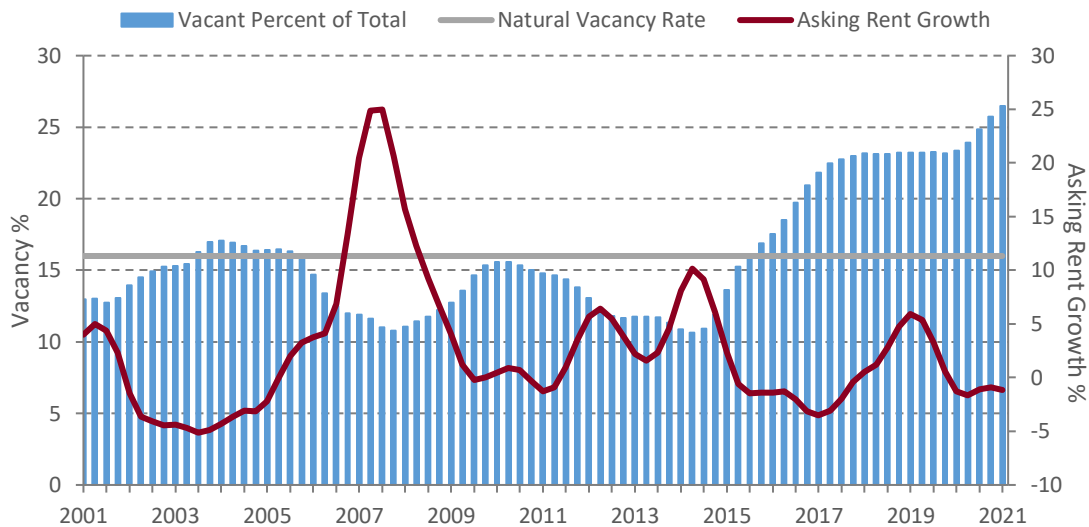
Figure 57. Houston Office Overall Vacancy and Construction Index (SA and TC)*
(Index 1999 Q1 = 100)



*Note: Inflation adjusted, seasonally adjusted, and trend-cycle component.

Sources: CoStar, Dodge Analytics, and Texas Real Estate Research Center at Texas A&M University

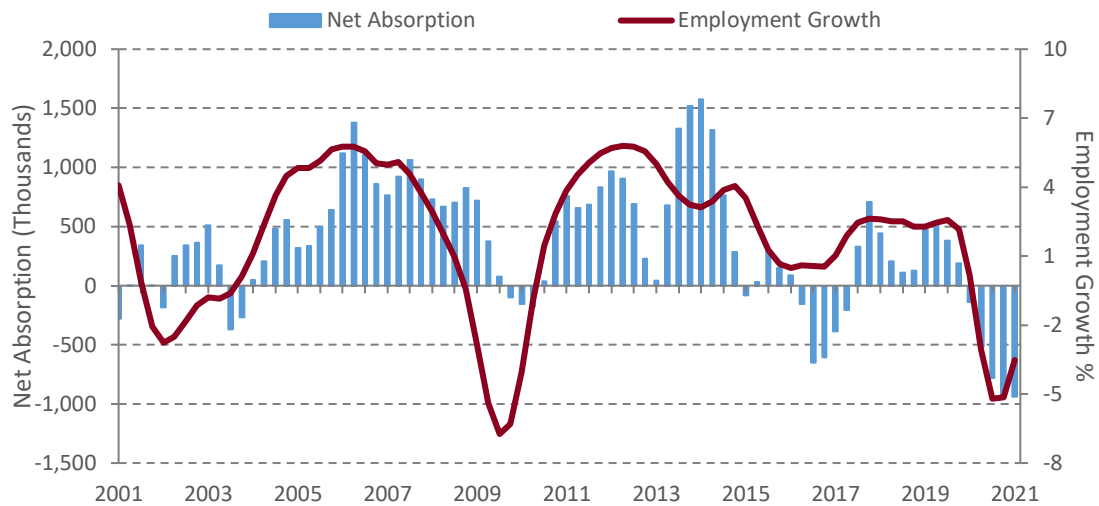
Figure 58. Houston Office Class A Vacancy and Asking Rent Growth (SA and TC)*



*Note: Seasonally adjusted and trend-cycle component.

Sources: CoStar and Texas Real Estate Research Center at Texas A&M University

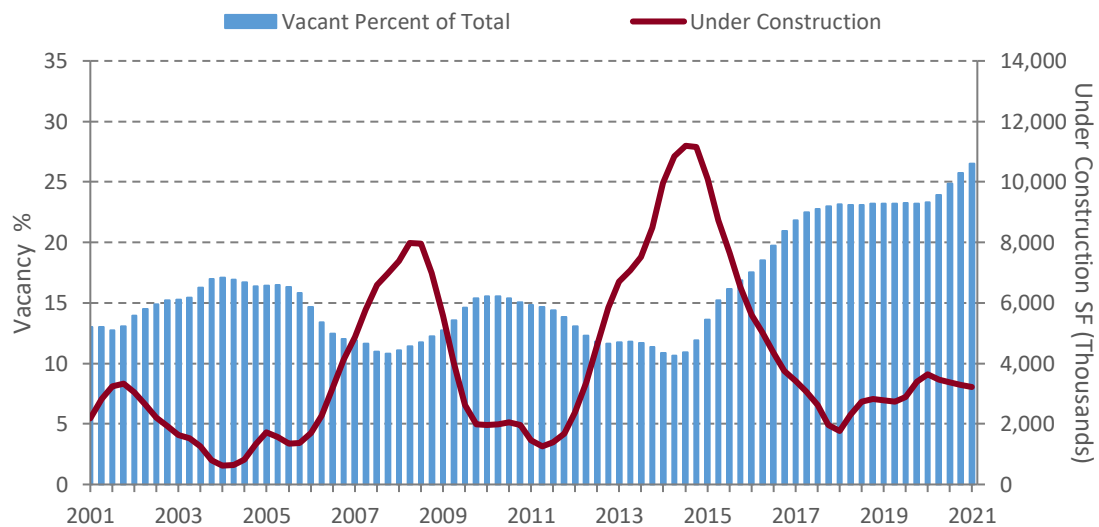
Figure 59. Houston Office Class A Net Absorption and Employment Growth (SA and TC)*



*Note: Seasonally adjusted and trend-cycle component.

Sources: Bureau of Labor Statistics, CoStar, and Texas Real Estate Research Center at Texas A&M University

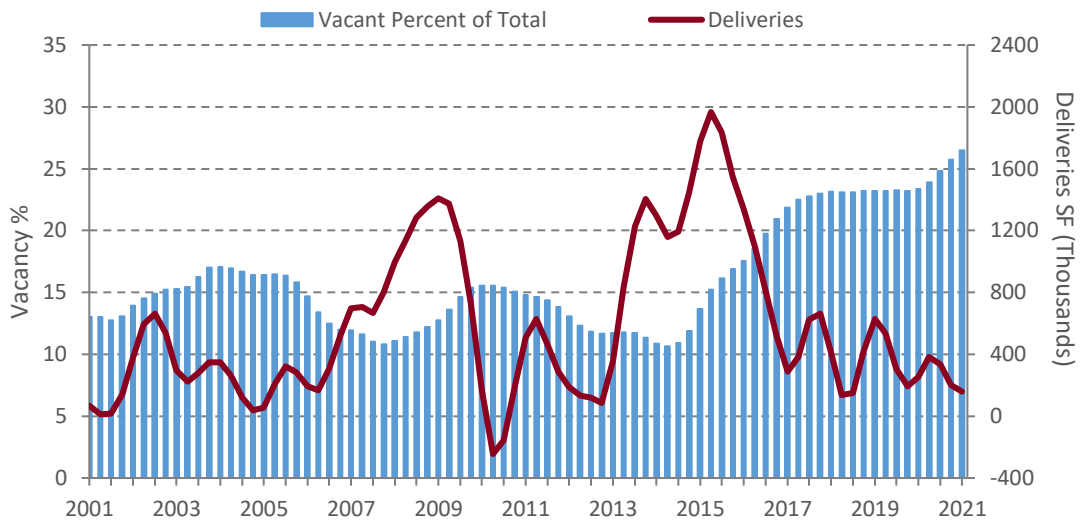
Figure 60. Houston Office Class A Vacancy and Under Construction (SA and TC)*



*Note: Seasonally adjusted and trend-cycle component.

Sources: CoStar and Texas Real Estate Research Center at Texas A&M University

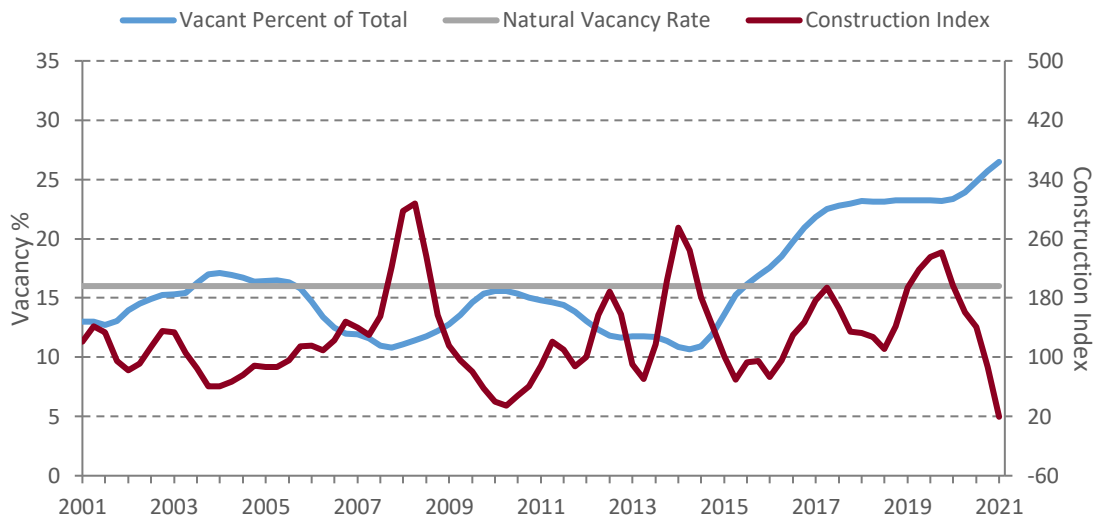
Figure 61. Houston Office Class A Vacancy and Deliveries (SA and TC)*



*Note: Seasonally adjusted and trend-cycle component.

Sources: CoStar and Texas Real Estate Research Center at Texas A&M University

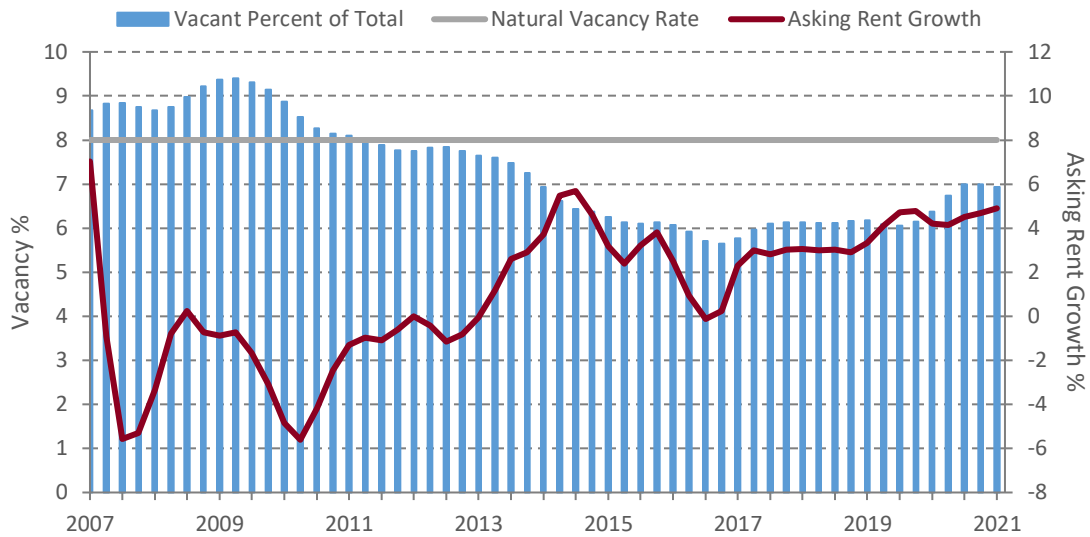
**Figure 62. Houston Office Class A Vacancy and Construction Index (SA and TC)*
(Index 1999 Q1 = 100)**



*Note: Inflation adjusted, seasonally adjusted, and trend-cycle component.

Sources: CoStar, Dodge Analytics, and Texas Real Estate Research Center at Texas A&M University

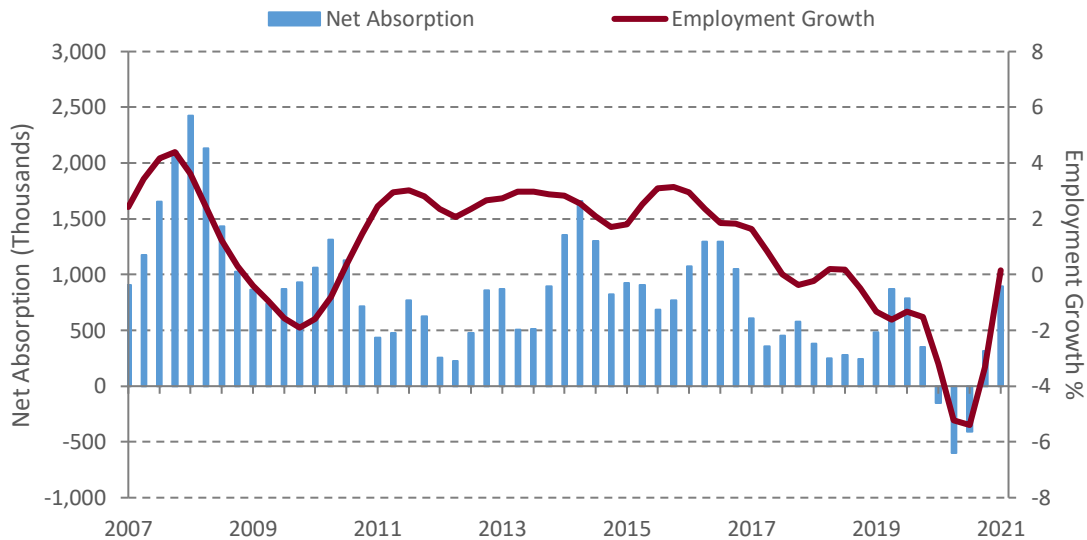
Figure 63. Houston Retail Vacancy and Asking Rent Growth (SA and TC)*



*Note: Seasonally adjusted and trend-cycle component.

Sources: CoStar and Texas Real Estate Research Center at Texas A&M University

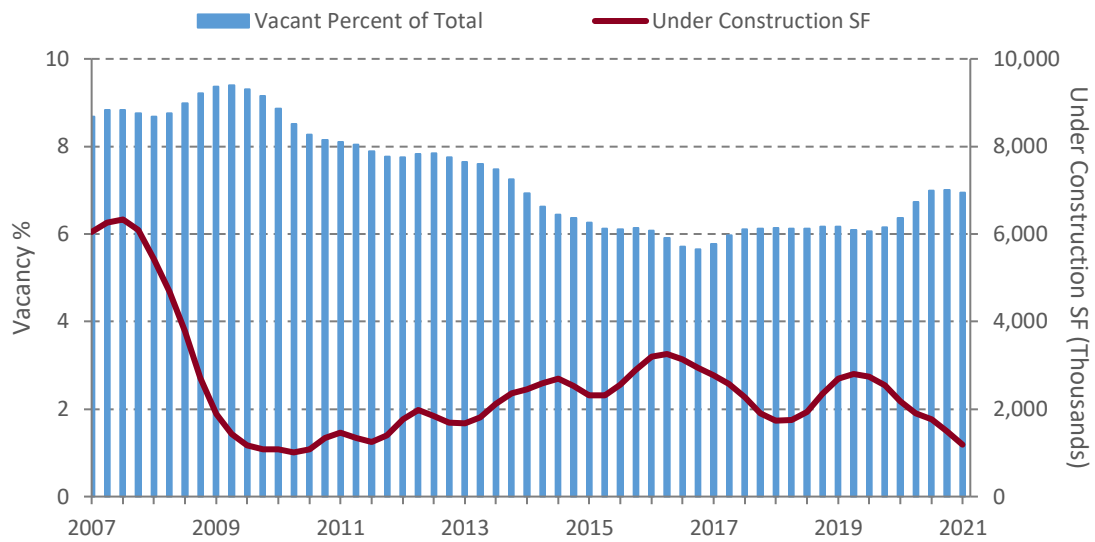
Figure 64. Houston Retail Net Absorption and Employment Growth (SA and TC)*



*Note: Seasonally adjusted and trend-cycle component.

Sources: Bureau of Labor Statistics, CoStar, and Texas Real Estate Research Center at Texas A&M University

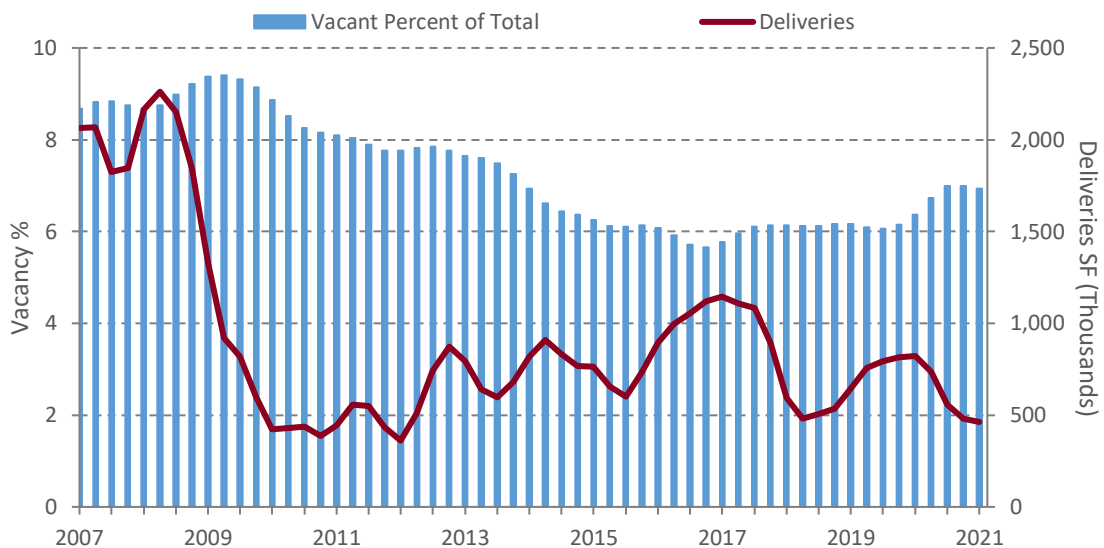
Figure 65. Houston Retail Vacancy and Under Construction (SA and TC)*



*Note: Seasonally adjusted and trend-cycle component.

Sources: CoStar and Texas Real Estate Research Center at Texas A&M University

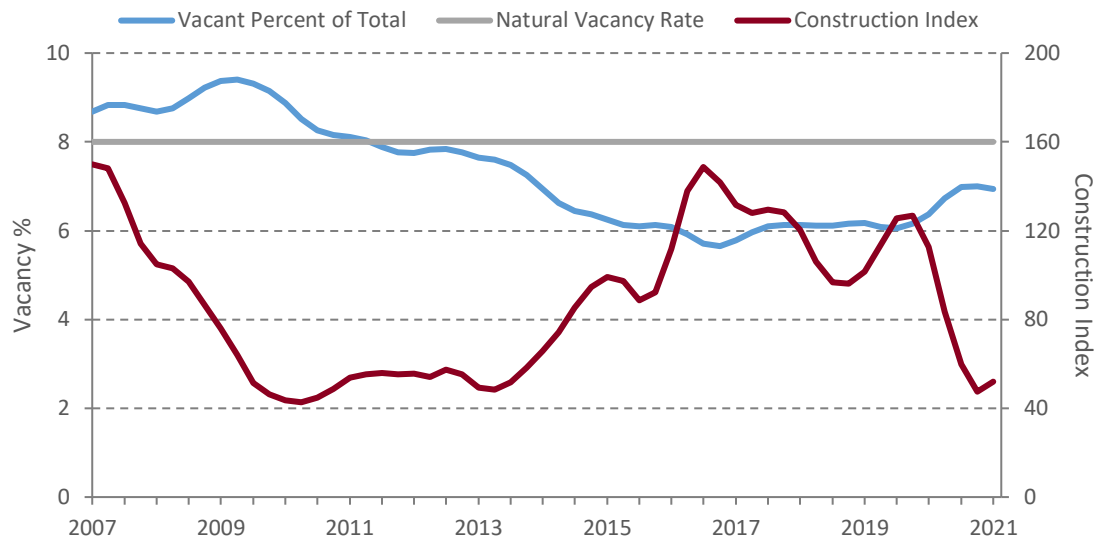
Figure 66. Houston Retail Vacancy and Deliveries (SA and TC)*



*Note: Seasonally adjusted and trend-cycle component.

Sources: CoStar and Texas Real Estate Research Center at Texas A&M University

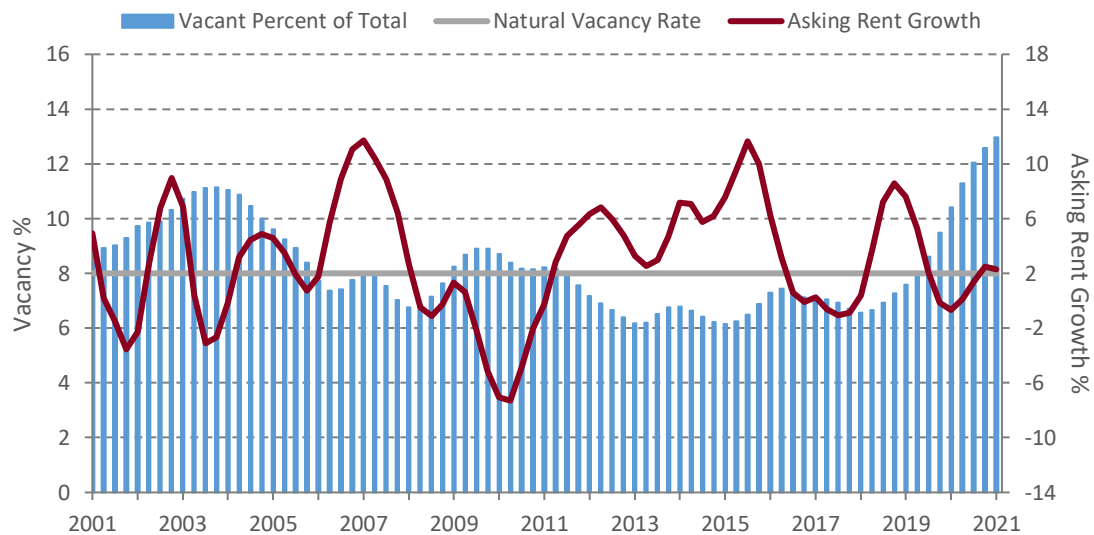
Figure 67. Houston Retail Vacancy and Construction Index (SA and TC)*
(Index 2006 Q1 = 100)



*Note: Inflation adjusted, seasonally adjusted, and trend-cycle component.

Sources: CoStar, Dodge Analytics, and Texas Real Estate Research Center at Texas A&M University

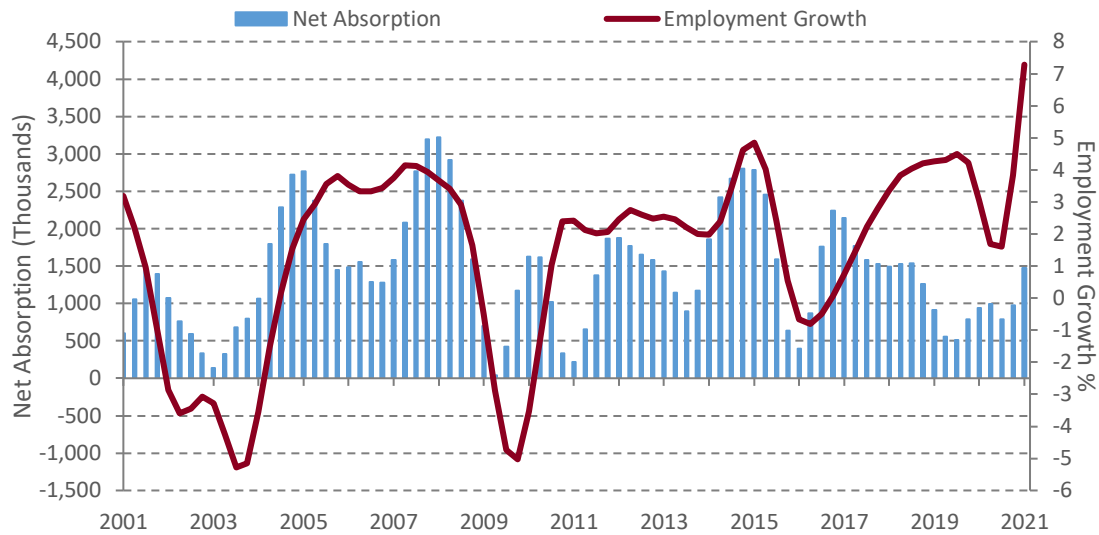
Figure 68. Houston Warehouse Vacancy and Asking Rent Growth (SA and TC)*



*Note: Seasonally adjusted and trend-cycle component.

Sources: CoStar and Texas Real Estate Research Center at Texas A&M University

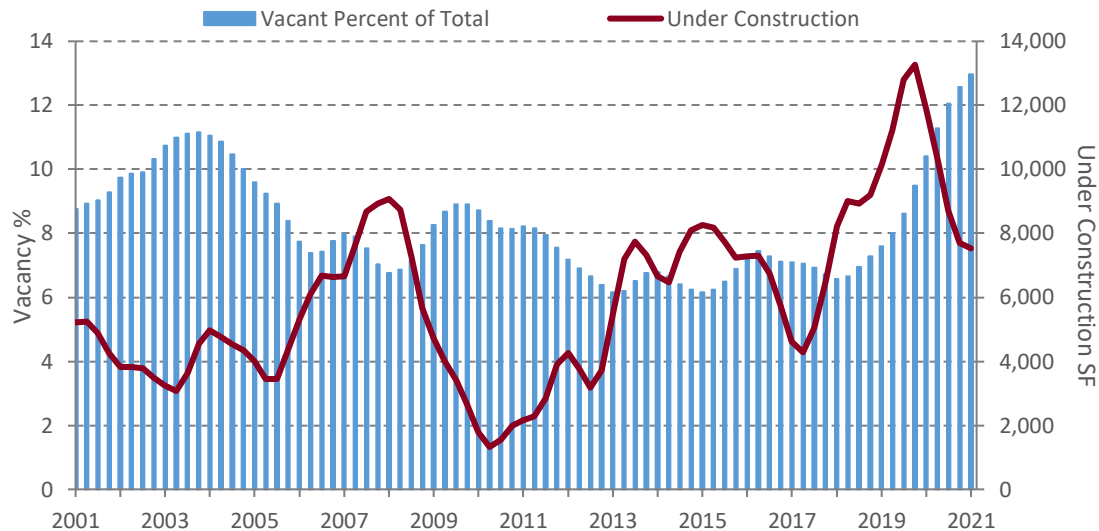
Figure 69. Houston Warehouse Net Absorption and Employment Growth (SA and TC)*



*Note: Seasonally adjusted and trend-cycle component.

Sources: Bureau of Labor Statistics, CoStar, and Texas Real Estate Research Center at Texas A&M University

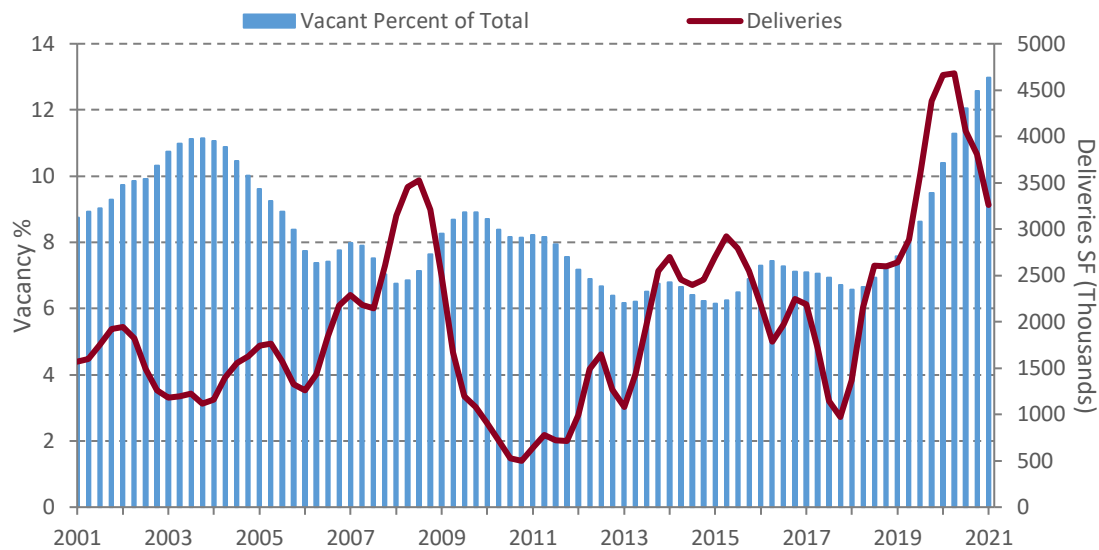
Figure 70. Houston Warehouse Vacancy and Under Construction (SA and TC)*



*Note: Seasonally adjusted and trend-cycle component.

Sources: CoStar and Texas Real Estate Research Center at Texas A&M University

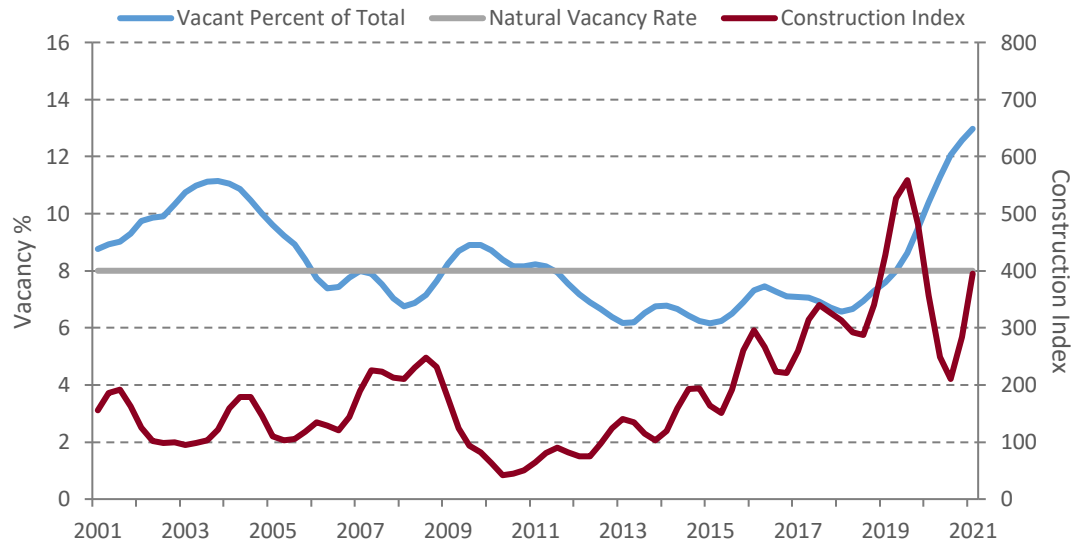
Figure 71. Houston Warehouse Vacancy and Deliveries (SA and TC)*



*Note: Seasonally adjusted and trend-cycle component.

Sources: CoStar and Texas Real Estate Research Center at Texas A&M University

**Figure 72. Houston Warehouse Vacancy and Construction Index (SA and TC)*
(Index 1999 Q1 = 100)**

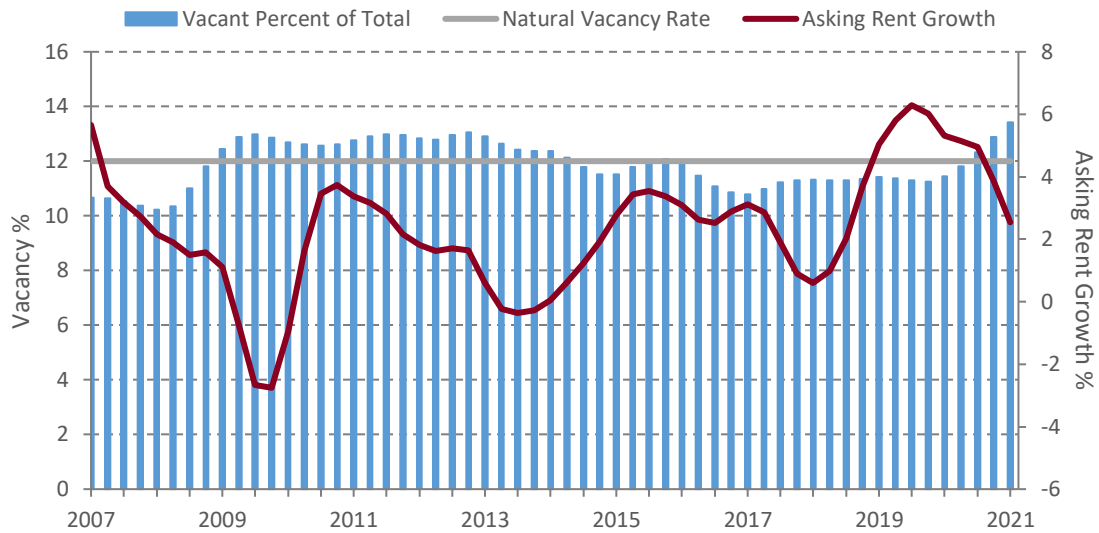


*Note: Inflation adjusted, seasonally adjusted, and trend-cycle component.

Sources: CoStar, Dodge Analytics, and Texas Real Estate Research Center at Texas A&M University

San Antonio

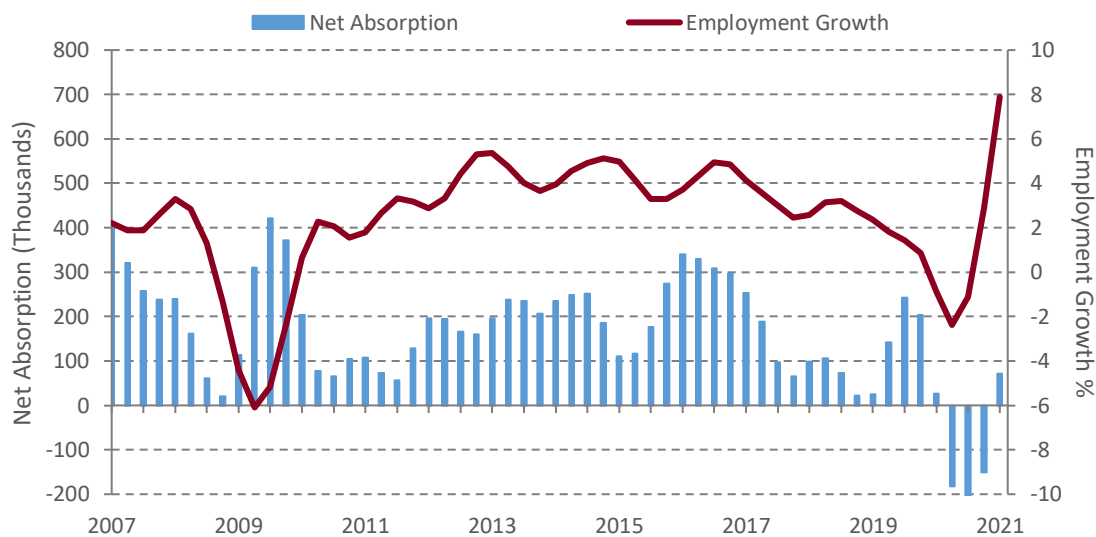
Figure 73. San Antonio Office Overall Vacancy and Asking Rent Growth (SA and TC)*



*Note: Seasonally adjusted and trend-cycle component.

Sources: CoStar and Texas Real Estate Research Center at Texas A&M University

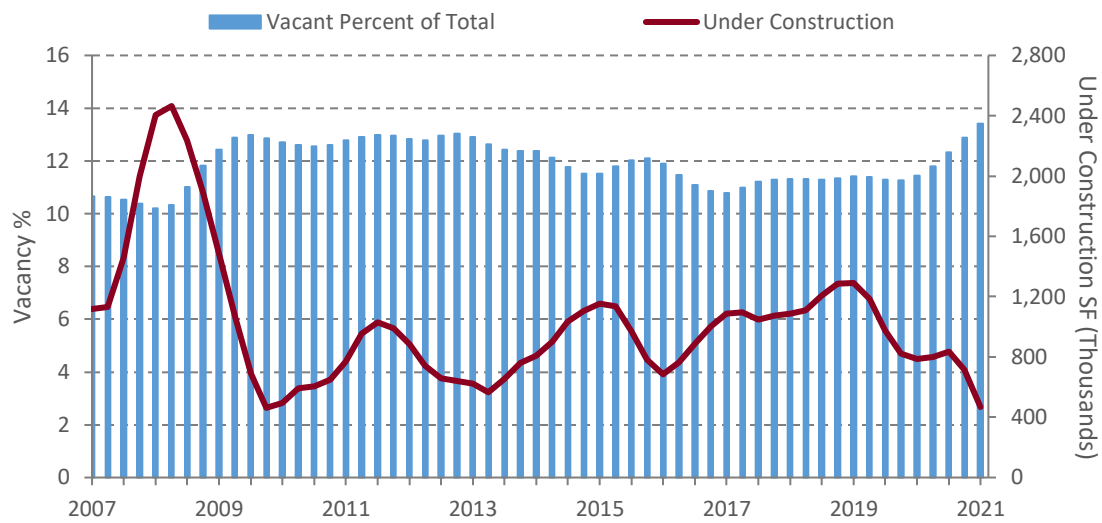
Figure 74. San Antonio Office Overall Net Absorption and Employment Growth (SA and TC)*



*Note: Seasonally adjusted and trend-cycle component.

Sources: Bureau of Labor Statistics, CoStar, and Texas Real Estate Research Center at Texas A&M University

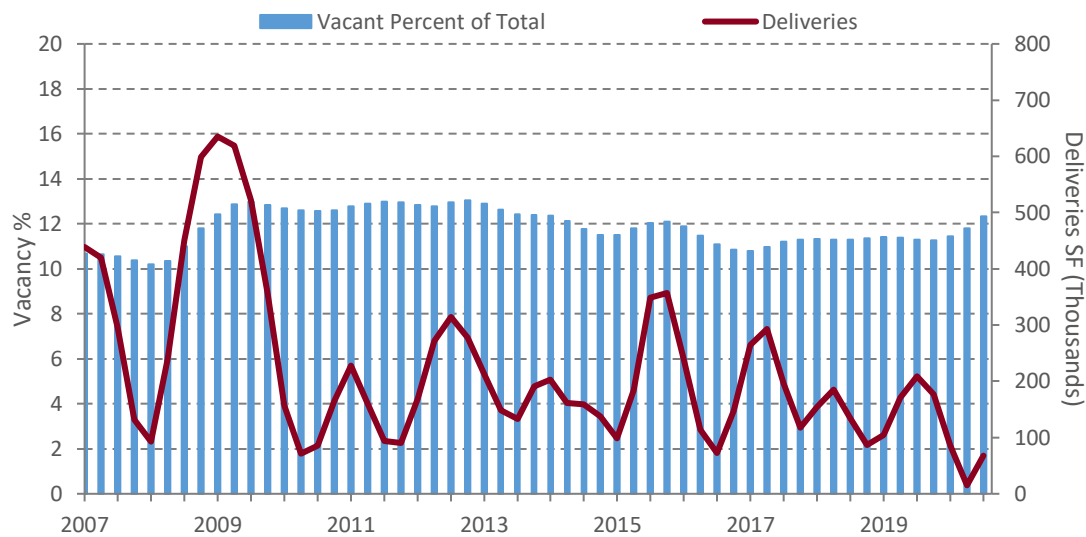
Figure 75. San Antonio Office Overall Vacancy and Under Construction (SA and TC)*



*Note: Seasonally adjusted and trend-cycle component.

Sources: CoStar and Texas Real Estate Research Center at Texas A&M University

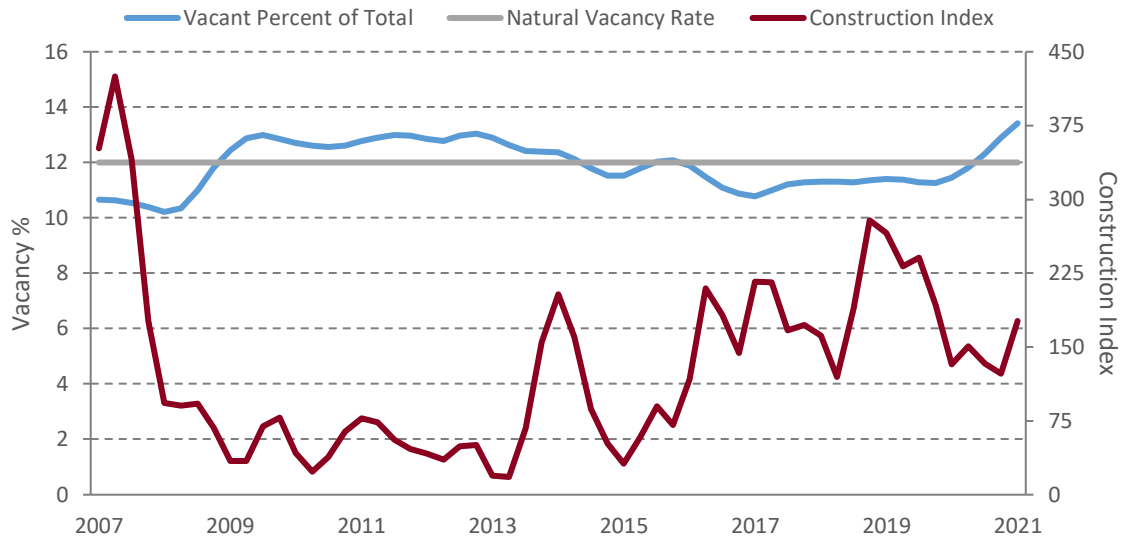
Figure 76. San Antonio Office Overall Vacancy and Deliveries (SA and TC)*



*Note: Seasonally adjusted and trend-cycle component.

Sources: CoStar and Texas Real Estate Research Center at Texas A&M University

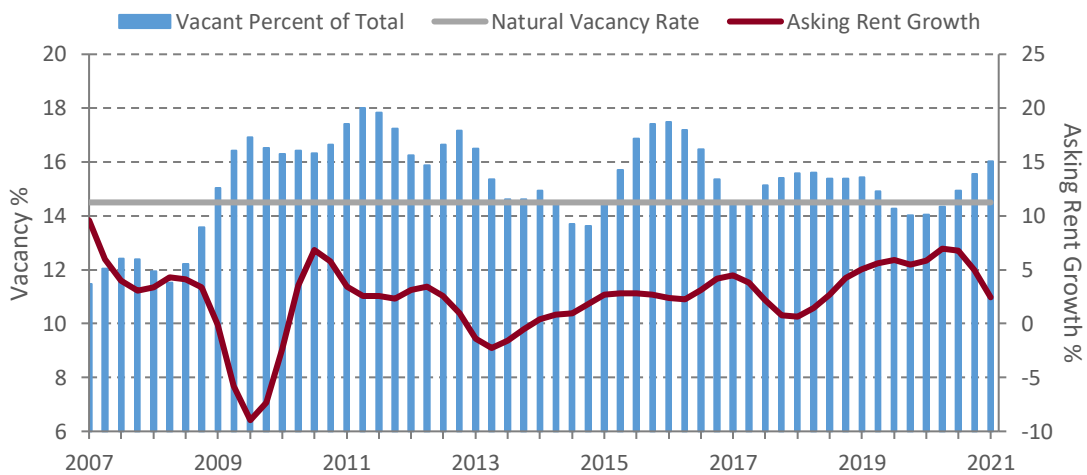
Figure 77. San Antonio Office Overall Vacancy and Construction Index (SA and TC)*
(Index 2005 Q3 = 100)



*Note: Inflation adjusted, seasonally adjusted, and trend-cycle component.

Sources: CoStar, Dodge Analytics, and Texas Real Estate Research Center at Texas A&M University

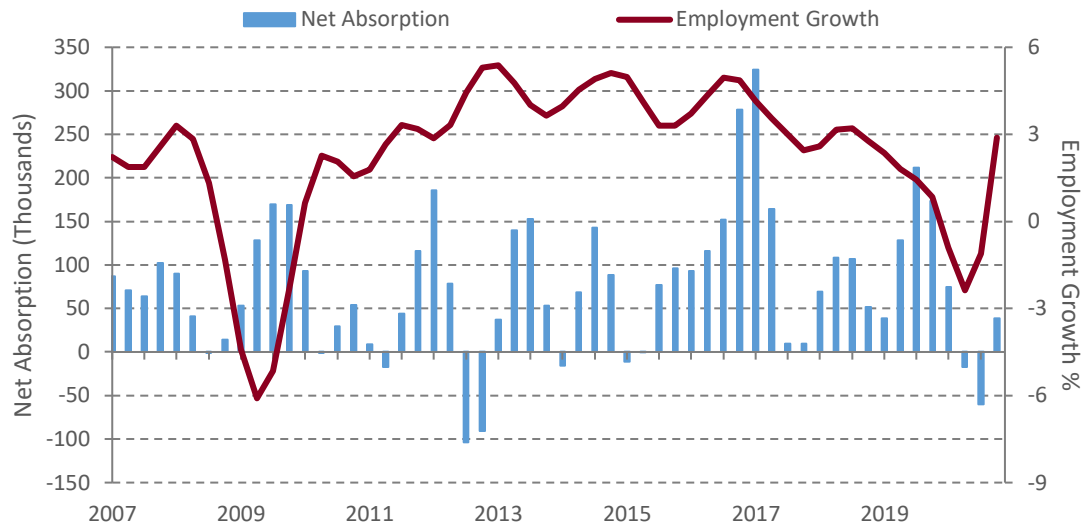
Figure 78. San Antonio Office Class A Vacancy and Asking Rent Growth (SA and TC)*



*Note: Seasonally adjusted and trend-cycle component.

Sources: CoStar and Texas Real Estate Research Center at Texas A&M University

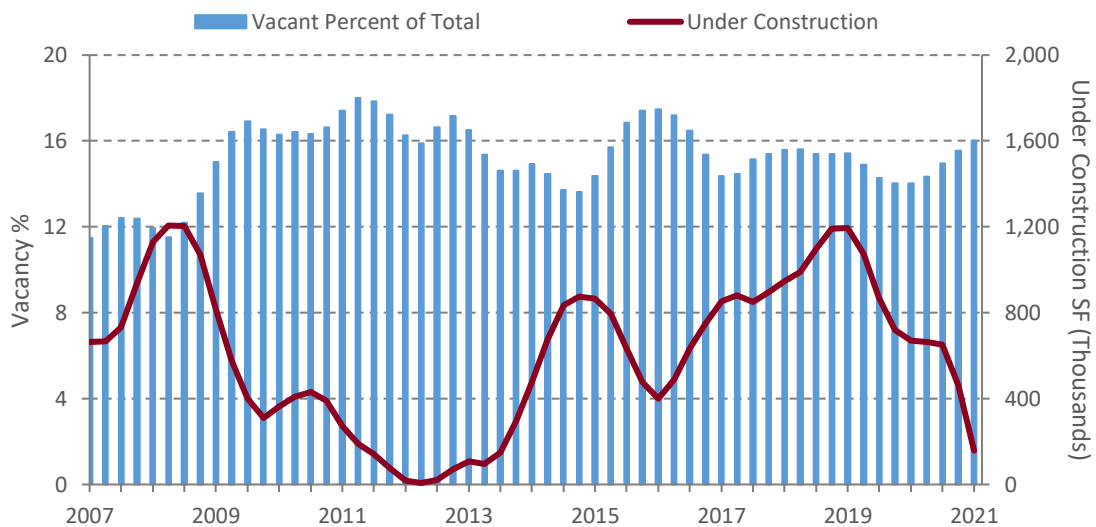
Figure 79. San Antonio Office Class A Net Absorption and Employment Growth (SA and TC)*



*Note: Seasonally adjusted and trend-cycle component.

Sources: Bureau of Labor Statistics, CoStar, and Texas Real Estate Research Center at Texas A&M University

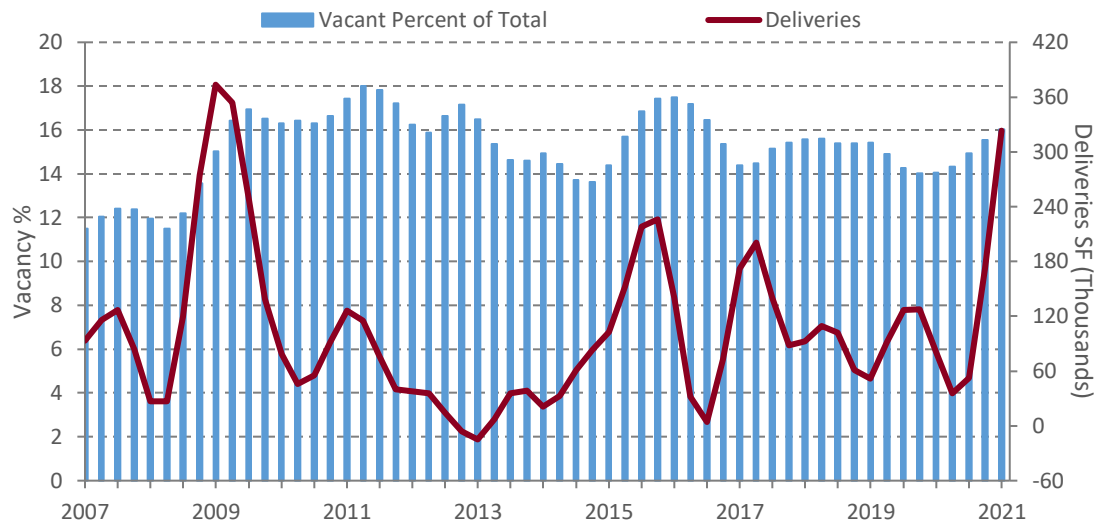
Figure 80. San Antonio Office Class A Vacancy and Under Construction (SA and TC)*



*Note: Seasonally adjusted and trend-cycle component.

Sources: CoStar and Texas Real Estate Research Center at Texas A&M University

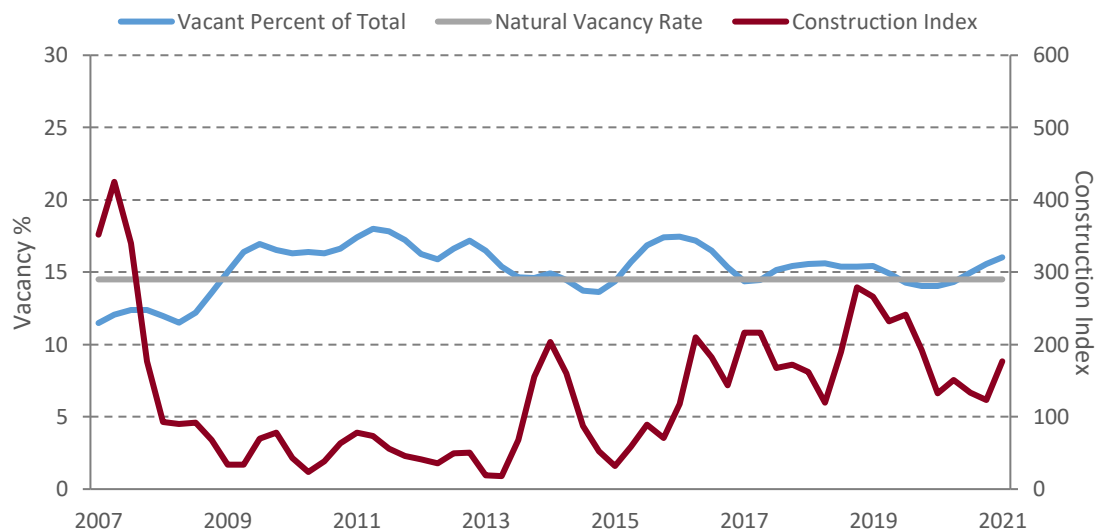
Figure 81. San Antonio Office Class A Vacancy and Deliveries (SA and TC)*



*Note: Seasonally adjusted and trend-cycle component.

Sources: CoStar and Texas Real Estate Research Center at Texas A&M University

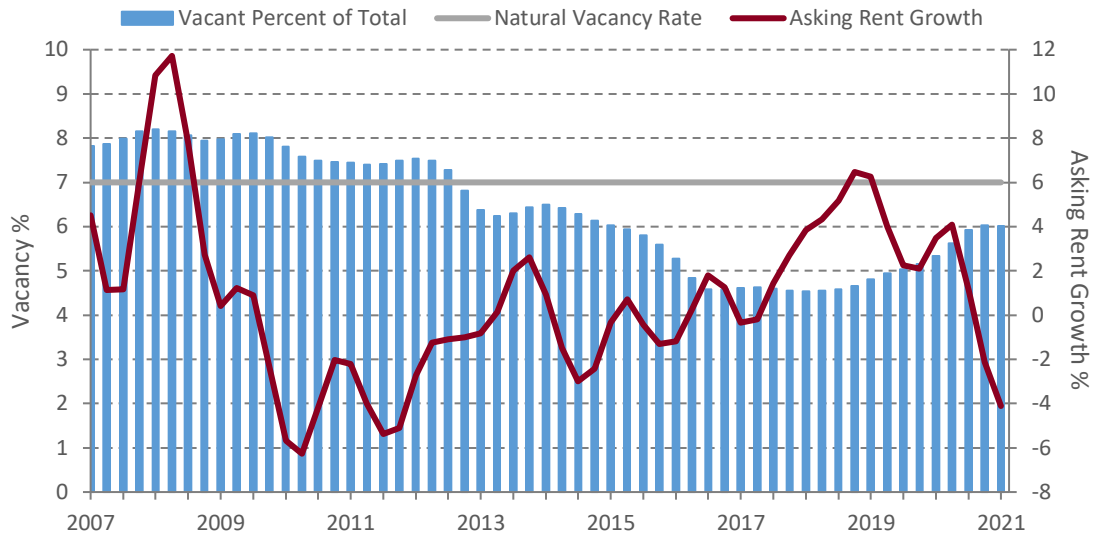
Figure 82. San Antonio Office Class A Vacancy and Construction Index (SA and TC)*
(Index 2005 Q3 = 100)



*Note: Inflation adjusted, seasonally adjusted, and trend-cycle component.

Sources: CoStar, Dodge Analytics, and Texas Real Estate Research Center at Texas A&M University

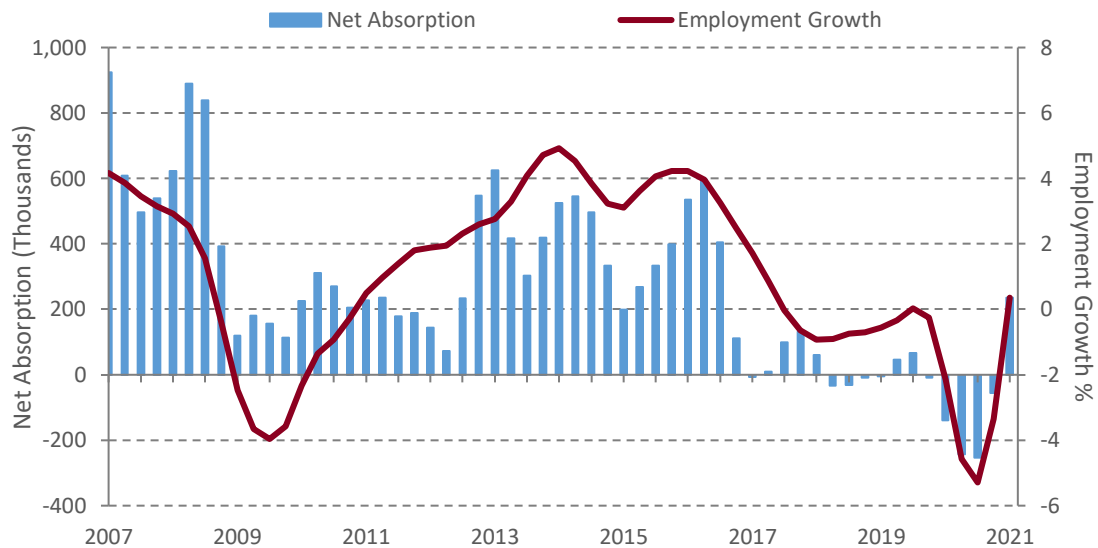
Figure 83. San Antonio Retail Vacancy and Asking Rent Growth (SA and TC)*



*Note: Seasonally adjusted and trend-cycle component.

Sources: CoStar and Texas Real Estate Research Center at Texas A&M University

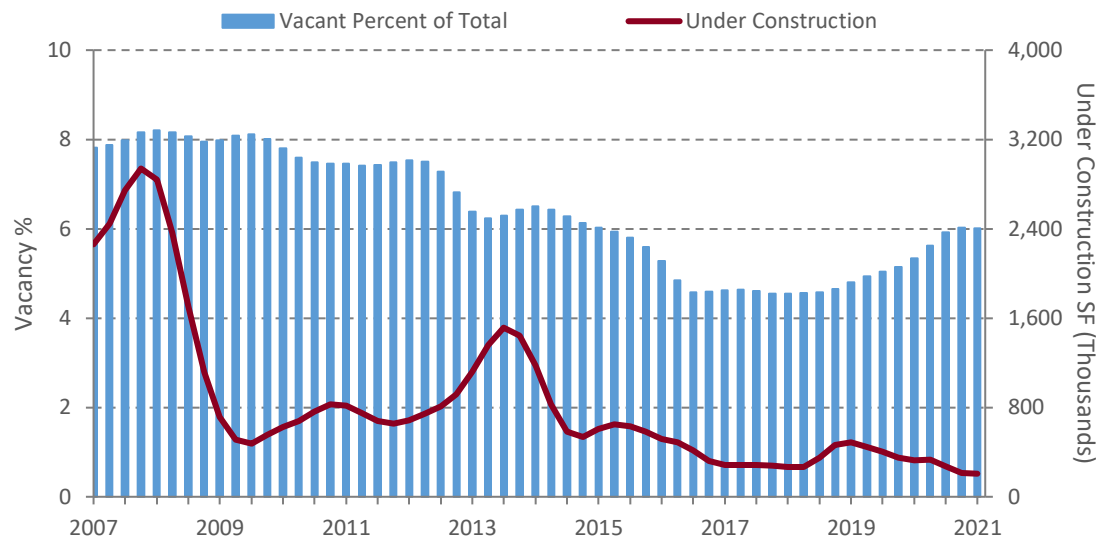
Figure 84. San Antonio Retail Net Absorption and Employment Growth (SA and TC)*



*Note: Seasonally adjusted and trend-cycle component.

Sources: Bureau of Labor Statistics, CoStar, and Texas Real Estate Research Center at Texas A&M University

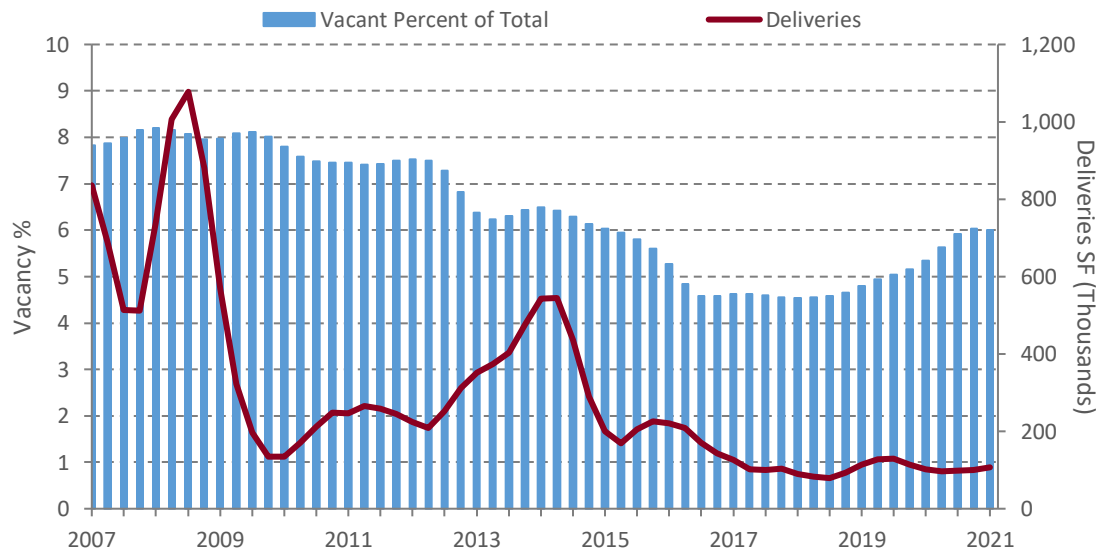
Figure 85. San Antonio Retail Vacancy and Under Construction (SA and TC)*



*Note: Seasonally adjusted and trend-cycle component.

Sources: CoStar and Texas Real Estate Research Center at Texas A&M University

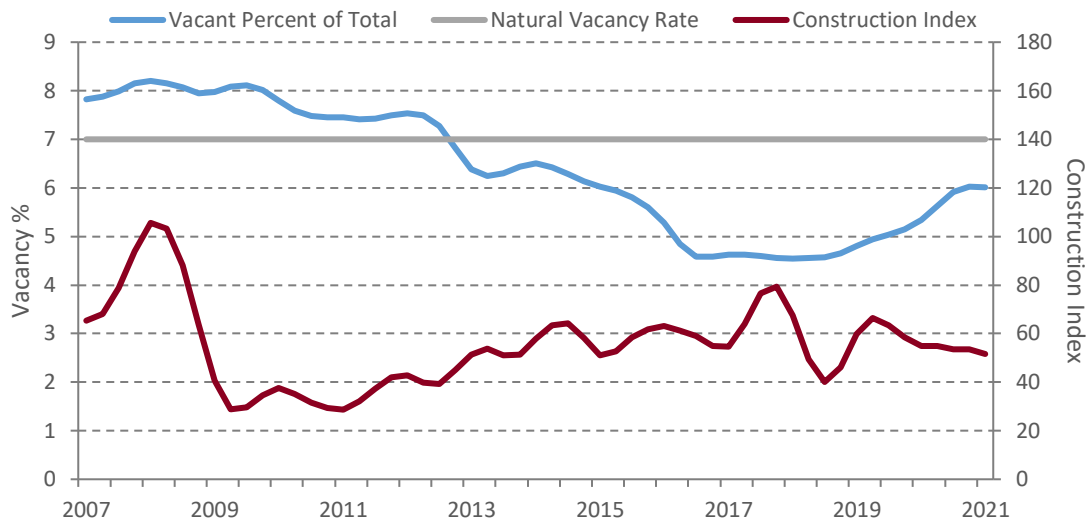
Figure 86. San Antonio Retail Vacancy and Deliveries (SA and TC)*



*Note: Seasonally adjusted and trend-cycle component.

Sources: CoStar and Texas Real Estate Research Center at Texas A&M University

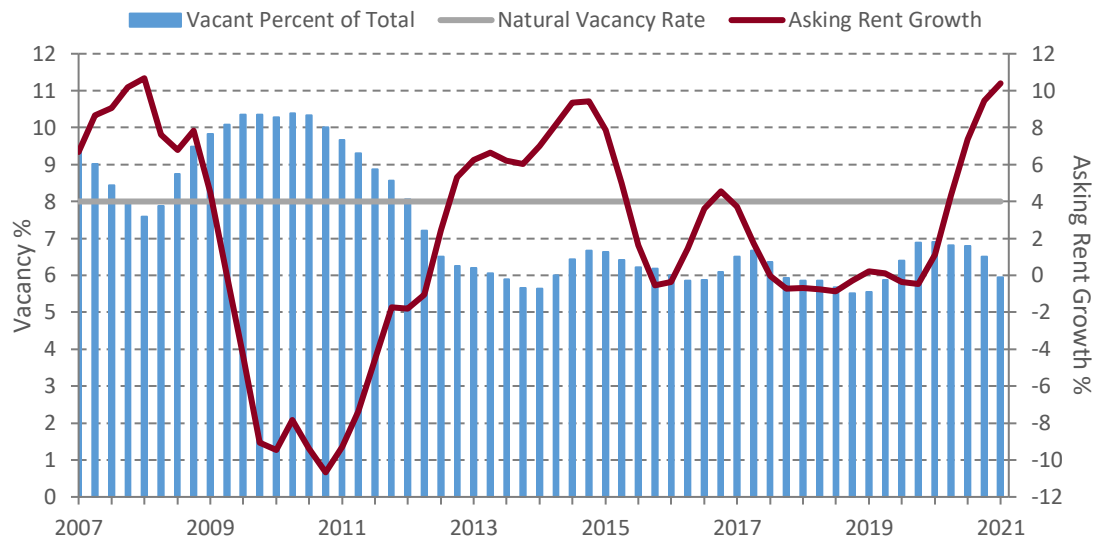
Figure 87. San Antonio Retail Vacancy and Construction Index (SA and TC)*
(Index 2005 Q3 = 100)



*Note: Inflation adjusted, seasonally adjusted, and trend-cycle component.

Sources: CoStar, Dodge Analytics, and Texas Real Estate Research Center at Texas A&M University

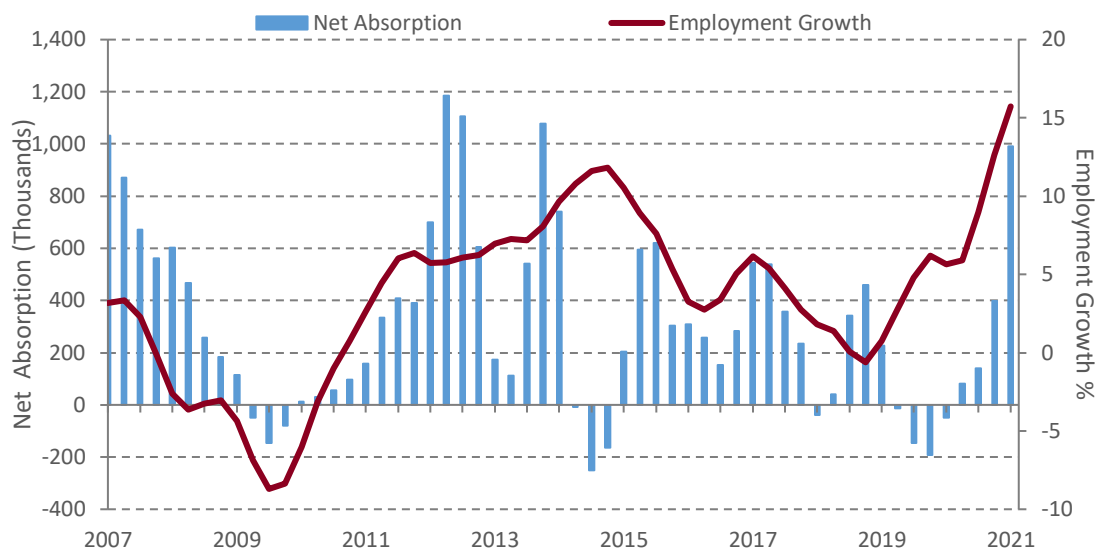
Figure 88. San Antonio Warehouse Vacancy and Asking Rent Growth (SA and TC)*



*Note: Seasonally adjusted and trend-cycle component.

Sources: CoStar and Texas Real Estate Research Center at Texas A&M University

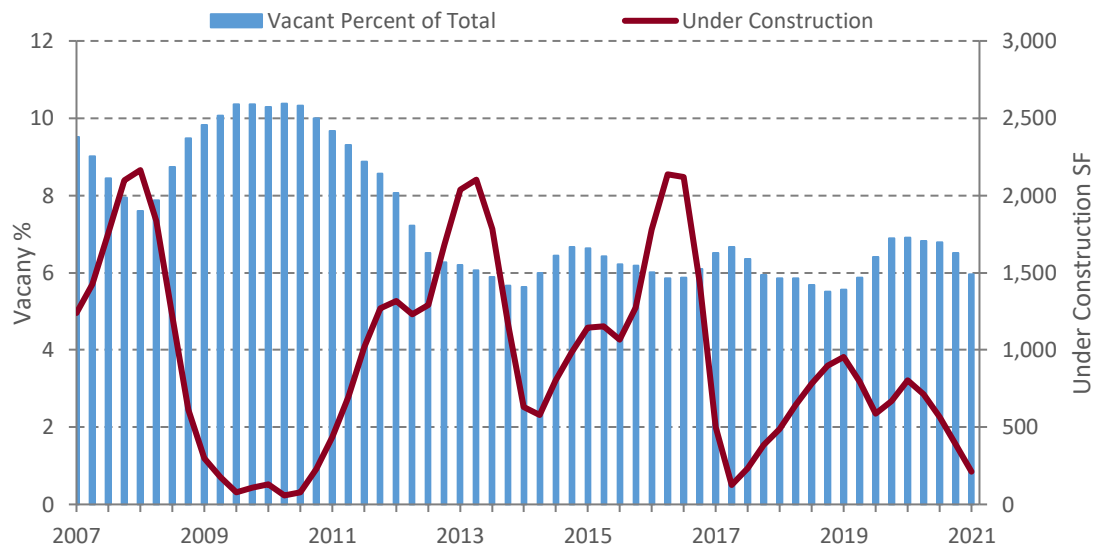
Figure 89. San Antonio Warehouse Net Absorption and Employment Growth (SA and TC)*



*Note: Seasonally adjusted and trend-cycle component.

Sources: Bureau of Labor Statistics, CoStar, and Texas Real Estate Research Center at Texas A&M University

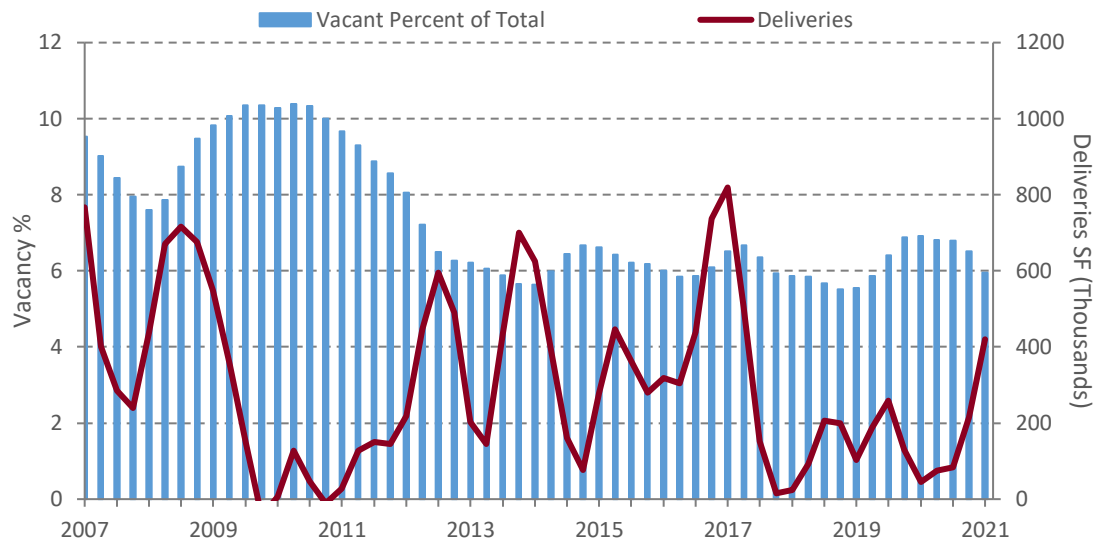
Figure 90. San Antonio Warehouse Vacancy and Under Construction (SA and TC)*



*Note: Seasonally adjusted and trend-cycle component.

Sources: CoStar and Texas Real Estate Research Center at Texas A&M University

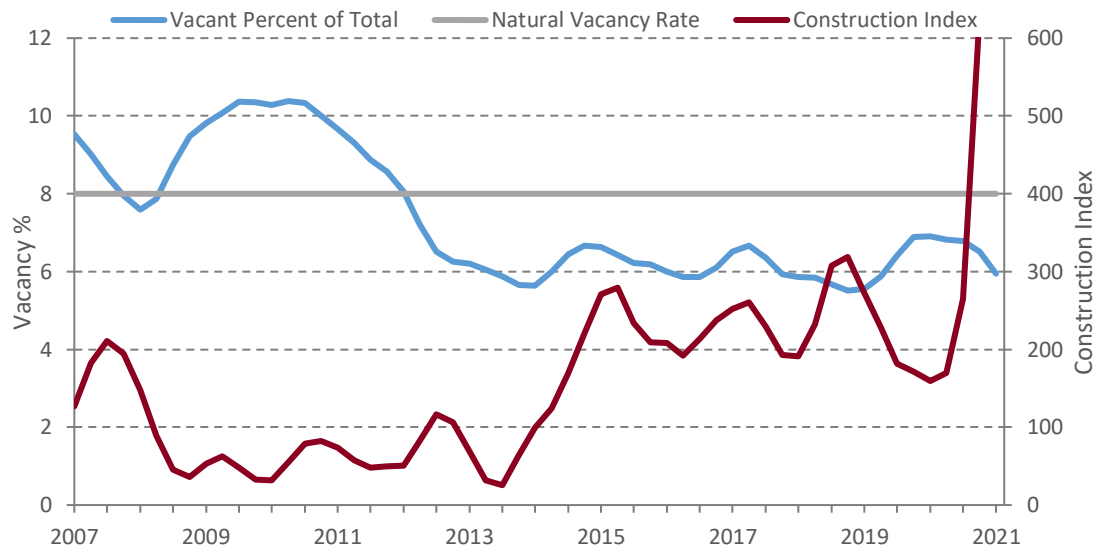
Figure 91. San Antonio Warehouse Vacancy and Deliveries (SA and TC)*



*Note: Seasonally adjusted and trend-cycle component.

Sources: CoStar and Texas Real Estate Research Center at Texas A&M University

**Figure 92. San Antonio Warehouse Vacancy and Construction Index (SA and TC)*
(Index 2005 Q3 = 100)**



*Note: Inflation adjusted, seasonally adjusted, and trend-cycle component.

Sources: CoStar, Dodge Analytics, and Texas Real Estate Research Center at Texas A&M University



Definitions

Asking rents. The dollar amount per square foot the landlord requests from a tenant, excluding tenant improvements and concessions. Leases typically dictate this amount paid annually.

Capitalization rate/cap rate. The cap rate is computed by dividing expected net operating income (NOI) generated from the property by the current property value (V) and expressing it as a percentage. NOI is rent minus the owners share of expenses, such as taxes, insurance, maintenance, and management costs. Mortgage costs and any other costs of financing are not included in expenses.

In general, the higher the cap rate, the higher the risk. Investors compare cap rates for potential projects with their cost of funds when selecting investment projects, considering only those investments where the cap rates exceed the cost of funds.

Risk can be estimated by computing the “spread,” the difference between the cap rate and some risk-free rate. Because commercial real estate investments are expected to generate streams of income over a long period, investors commonly use the U.S. ten-year Treasury rate as a risk-free rate.

Construction Starts Index. Reflects the dollar value of construction starts in relation to a specified base year and is a precursor to future units under construction.

Dodge Analytics tracks commercial construction start figures as soon as a new project kicks off to estimate its total construction “value,” which is essentially total construction cost. We realize that some real estate professionals may question whether calling the total dollars to be spent on a project’s “construction value” actually equates to its “market value” at completion. However, for consistency, this report will use Dodge’s terminology.

Trend-cycle component. Removes the effects of accumulating data sets from a trend to show only the absolute changes in values while allowing potential cyclical patterns to be identified.

FIRE & PBS. A sector of the economy composed of finance, insurance, and real estate. PBS employment represents professional and business services.

Net absorption. The net change in occupied space, measured in square feet, over a given period. Net absorption reflects the amount of space occupied as well as the amount of space vacated. Net absorption includes direct and sublease space.

Nominal. Value or rate reflecting current prices or rates without adjusting for inflation.

Real. Value or rate reflecting current prices or rates adjusted for inflation.

Seasonal adjustment. A statistical method for removing the seasonal patterns in time series data.

SF. Square feet.

Under construction. The square footage being built within a particular market; applies to buildings that have not received a certificate of occupancy.

Vacancy rate. A measurement expressed as a percentage of the total amount of physically vacant space divided by the total amount of existing inventory.

Natural and actual vacancy.

The projected vacancy rates and rents for each commercial use in the four major metro areas are made relative to each area's natural vacancy rate for each property type.

The natural vacancy rate is the point at which zero real (inflation-adjusted) rent growth will occur. Natural vacancy reflects the level to which current vacancy rates gravitate over the long term.

The actual vacancy rate is seasonally adjusted and trend-cycled to smooth fluctuations in the data and provide a clearer, less volatile view of upward and downward movements.

Natural vacancies used to estimate the possibility of new construction are calculated separately using historical construction data. The calculated natural vacancies were compared with the actual vacancies to estimate whether new development could be expected in the various commercial real estate markets. When actual vacancy in a local market falls below natural vacancy, developers may consider building new space.

When actual vacancy in a local market falls below (rises above) natural vacancy, building managers may consider increasing (decreasing) rents. A comparison of natural vacancy and actual vacancy along with historical vacancy trends allows researchers to anticipate the future direction of CRE rental rates in real terms. However, changes in asking rents in this report reflect nominal changes since real estate professionals typically think in nominal terms.

Aggregate natural vacancy in an overall market may not reflect the vacancy rate an individual CRE professional uses to make decisions affecting a specific property or project. However, these measures indicate the direction of rents and new construction within the broader market.



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