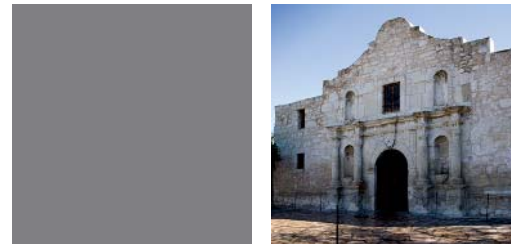


# San Antonio Office Report

Third Quarter 2011



## TRENDS:

Vacancy Rate



Net Absorption



Construction



Asking Rents

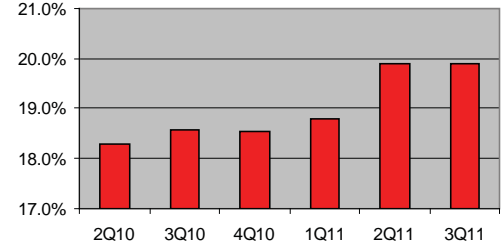


## Overview

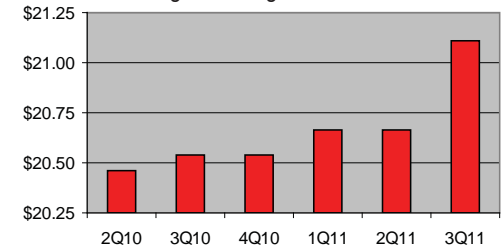
The downtown San Antonio office market experienced a big win in the third quarter with the backfilling of more than half of the expired AT&T sublease space that returned to direct vacancy last quarter. Leading all activity citywide, HVHC, Inc. (EyeMasters) leased 112,652 square feet at IBC Centre I & II. Joining HVHC, Argo Group US Inc. will occupy approximately 77,000 square feet. In all, the Central Business District netted 265,034 square feet in the third quarter. However, in an unusual reversal of fortunes, the CBD's gain came at the expense of the suburban market which suffered 99,504 square feet of net loss in the third quarter. Neither of the headline tenants are new to the market; in fact, both represent relocations from north side office space. Still, the net result of third quarter activity generated 165,530 square feet of positive net absorption which helped offset losses posted in the first half of the year, although year-to-date total remains in the red. The citywide vacancy rate currently stands at 19.9% compared to 18.7% recorded last year at this time. Despite the increased vacancy, quoted rental rates increased 2.8% over the same quarter last year to reach a citywide average of \$21.11 per square foot annually on a full-service basis.

Speculative construction remains very constrained and may be limited to only one multi-tenant project this year. The office building known as 17115 San Pedro Avenue (42,377 sf) came online this quarter anchored by Killam Development (6,864 sf). Looking ahead, The Bakery on Broadway redevelopment project is expected to deliver 107,644 square early 2012 and a new ground-up project at Pearl Brewery will add new office space over street-level retail later in 2012. Meanwhile, construction continues on nearly one million square feet of build-to-suit projects including Broadway Bank (80,000 sf), Randolph-Brooks Federal Credit Union (137,000 sf), NuStar (300,000 sf), KCI (100,000 sf) and Nationwide (300,000 sf).

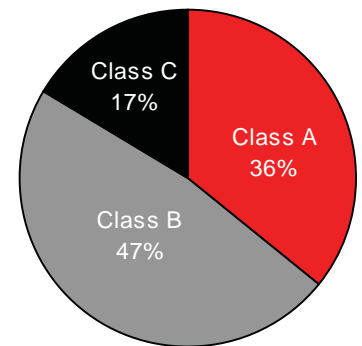
Overall Vacancy (%)



Average Asking Rental Rate



Market Inventory %



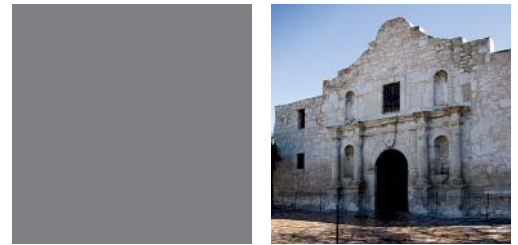
## Major Lease Transactions

Tenant	Building	Size	Submarket
Eye Care Centers of America	IBC Centre I & II	112,652	Central Business District
Argo	IBC Centre I & II	77,000	Central Business District
City of SA/Dept Community Initiatives	One Alamo Center	22,279	Central Business District
Biglari Holdings	IBC Centre I & II	19,417	Central Business District
Microsoft	Concord Park II	9,147	Far North Central
Evoltent Technologies	Colonnade I	8,675	Northwest
Espada Marine Services	SWBC Tower	6,688	North Central

\*All rents are per SF/per YR unless otherwise noted.

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## CITYWIDE

	3Q 2011	3Q 2010
<b>All Classes</b>		
Inventory	27,844,594	27,154,092
Available	5,544,386	5,064,648
%Vacant	19.9%	18.7%
Average Rent	\$21.11	\$20.54
3Q Absorption	165,530	(901)
YTD Absorption	(129,871)	449,010
<b>Class A Space</b>		
Inventory	9,936,586	9,181,826
Available	1,611,758	1,252,215
%Vacant	16.2%	13.6%
Average Rent	\$24.40	\$23.90
3Q Absorption	157,757	62,792
YTD Absorption	(73,701)	376,519
<b>Class B Space</b>		
Inventory	13,259,788	13,542,509
Available	2,592,918	2,575,239
%Vacant	19.6%	19.0%
Average Rent	\$20.34	\$19.58
3Q Absorption	1,784	36,437
YTD Absorption	(93,956)	171,366
<b>Class C Space</b>		
Inventory	4,648,220	4,429,757
Available	1,339,710	1,237,194
%Vacant	28.8%	27.9%
Average Rent	\$16.26	\$16.45
3Q Absorption	5,989	(100,130)
YTD Absorption	37,786	(98,875)

## CENTRAL BUSINESS DISTRICT

	3Q 2011	3Q 2010
<b>All Classes</b>		
Inventory	5,301,944	5,398,502
Available	1,273,284	1,186,916
%Vacant	24.0%	22.0%
Average Rent	\$18.85	\$18.96
3Q Absorption	265,034	(18,257)
YTD Absorption	(67,021)	(9,255)
<b>Class A Space</b>		
Inventory	1,975,808	1,975,808
Available	344,474	248,781
%Vacant	17.4%	12.6%
Average Rent	\$20.80	\$21.05
3Q Absorption	193,105	10,684
YTD Absorption	(94,875)	(1,831)
<b>Class B Space</b>		
Inventory	2,439,200	2,535,758
Available	598,025	595,810
%Vacant	24.5%	23.5%
Average Rent	\$17.95	\$17.84
3Q Absorption	62,221	(39,102)
YTD Absorption	16,314	(45,878)
<b>Class C Space</b>		
Inventory	886,936	886,936
Available	330,785	342,325
%Vacant	37.3%	38.6%
Average Rent	\$16.93	\$17.45
3Q Absorption	9,708	10,161
YTD Absorption	11,540	38,454

## NON-CBD

	3Q 2011	3Q 2010
<b>All Classes</b>		
Inventory	22,542,650	21,755,590
Available	4,271,102	3,877,732
%Vacant	18.9%	17.8%
Average Rent	\$21.64	\$20.93
3Q Absorption	(99,504)	17,356
YTD Absorption	(62,850)	458,265
<b>Class A Space</b>		
Inventory	7,960,778	7,206,018
Available	1,267,284	1,003,434
%Vacant	15.9%	13.9%
Average Rent	\$25.30	\$24.69
3Q Absorption	(35,348)	52,108
YTD Absorption	21,174	378,350
<b>Class B Space</b>		
Inventory	10,820,588	11,006,751
Available	1,994,893	1,979,429
%Vacant	18.4%	18.0%
Average Rent	\$20.87	\$19.98
3Q Absorption	(60,437)	75,539
YTD Absorption	(110,270)	217,244
<b>Class C Space</b>		
Inventory	3,761,284	3,542,821
Available	1,008,925	894,869
%Vacant	26.8%	25.3%
Average Rent	\$16.11	\$16.20
3Q Absorption	(3,719)	(110,291)
YTD Absorption	26,246	(137,329)

Statistical Information is calculated for all multi-tenant office buildings 20,000 sq. ft. and larger (excluding Single-Tenant, Owner-Occupied, Government and Medical Buildings).

Average Rental Rates reflect asking rental rates quoted on an annual basis for full service. Individual building rates are weighted by the total rentable square footage of the building.