



In general, the San Antonio commercial real estate market has high average capitalization rates and low average prices compared to national averages. The industrial sector has the most potential, likely seeing continuing strong fundamentals and demand for properties increasing greatly over the coming quarters.

Office

- Vacancy in the San Antonio office market fell during fourth quarter 2006, and absorption increased. Rents responded to the tightening market, increasing throughout the area.
- RERC's transaction analysis indicates office space in the San Antonio area is selling for an average price of \$93 per square foot, substantially lower than the regional average price of \$130 per square foot and the national average price of \$167 per square foot.
- The average transaction-based capitalization rate for the San Antonio area is 7.3 percent, slightly higher than the national rate and slightly lower than the regional rate.
- CCIM designees and candidates rated the San Antonio area office market at 5.5 on a scale of 1 to 10, with 10 being high, the lowest rating given to any of the five property types within the area.

The average capitalization rate on office properties in the San Antonio area is slightly higher than the national average and the price per square foot was substantially lower. Prices should increase to come more in line with national averages, while the capitalization rate is expected to remain about the same.

Industrial

- The San Antonio industrial market fundamentals were strong during fourth quarter 2006, with high net absorption and decreasing availability.
- RERC's transaction analysis indicates that the average price for San Antonio industrial space is \$57 per square foot, less than the regional average of \$64 per square foot and the national average of \$83 per square foot.
- The average capitalization rate for the San Antonio area is 7.8 percent, slightly high when compared with the regional average of 7.3 percent and the national average of 7.4 percent.
- Survey respondents gave the San Antonio area an economic performance rating of 8.3 on a scale of 1 to 10, with 10 being high, the highest rating among all property types.

The industrial market in the San Antonio area continues to strengthen. As supply struggles to keep up with demand, availability rates will continue to decline and rental rates will increase, placing much of the power in landlords' hands. Expect prices to increase as capitalization rates decrease and come more in line with national levels.

Retail

- RERC's transaction analysis indicates retail space in the San Antonio area is selling for an average price

Demographics & Economy

Population:

2006 (est.): 2.0 million
2011 (proj.): 2.2 million

Unemployment Rate:

San Antonio - 3.7%
Texas - 4.1%
National - 4.5%

Economic Performance Rating*:

San Antonio - 8.0
National - 7.0

**Rating given by CCIM designees and candidates in the study area, based on a scale of 1 to 10, with 10 high.*

of \$111 per square foot, much lower than the regional average of \$140 per square foot and the national average of \$169 per square foot.

- The average capitalization rate for the San Antonio area is 7.1 percent, equal to the regional average and 20 basis points higher than the national average.
- CCIM designees and candidates rated the San Antonio area retail market a 6.7 on a scale of 1 to 10, with 10 being high.

The population and employment, which are the primary sources of demand for retail, are expected to continue to grow over the coming years. The market will likely see some change in the average price and average capitalization rate.

Apartment

- RERC's transaction analysis indicates apartment properties in the San Antonio area are selling for an average of \$61,344 per unit. Both the regional average of \$75,192 per unit and national average of \$107,833 per unit were considerably higher than the San Antonio average sale price.

National Transaction Breakdown (Jan. 1, 2006 - Dec. 31, 2006)

| | Office | Industrial | Retail | Apartment | Hotel | Total |
|-----------------------------------|------------|------------|------------|------------|------------|------------|
| Volume (in millions) | | | | | | |
| <\$2 million | \$2,307 | \$4,047 | \$4,070 | \$5,669 | \$220 | \$16,312 |
| \$2-5 million | \$3,910 | \$5,701 | \$6,222 | \$5,910 | \$926 | \$22,668 |
| >\$5 million | \$155,131 | \$32,581 | \$50,896 | \$87,663 | \$33,689 | \$359,961 |
| All | \$161,348 | \$42,328 | \$61,188 | \$99,242 | \$34,835 | \$398,942 |
| Unit Price Averages | | | | | | |
| <\$2 million | \$103 | \$68 | \$103 | \$92,566 | \$53,998 | - |
| \$2-5 million | \$167 | \$96 | \$216 | \$128,810 | \$59,767 | - |
| >\$5 million | \$209 | \$104 | \$250 | \$126,410 | \$137,649 | - |
| All | \$167 | \$83 | \$169 | \$107,833 | \$110,713 | - |
| Median of all | \$137 | \$66 | \$123 | \$86,170 | \$82,776 | - |
| Capitalization Rates (All) | | | | | | |
| Range | 4.7 - 10.5 | 4.8 - 11 | 4.4 - 10.4 | 3.8 - 10.6 | 5.7 - 12.3 | 3.8 - 12.3 |
| Average | 7.2 | 7.4 | 6.9 | 6.3 | 8.7 | 7.3 |

- The average capitalization rate for the apartment market in the San Antonio area is 7.1 percent, substantially higher than the regional average of 6.5 percent and the national average of 6.3 percent.

- CCIM designees and candidates gave the San Antonio area apartment market a performance rating of 8.0 on a scale of 1 to 10.

With the average capitalization rate for apartment properties in the San Antonio area high and the average price per unit low, the performance rating given shows that area investors have faith in the market. Population is expected to increase, and the employment rate is expected to remain strong, which should help to increase demand and prices for apartment properties.

Hotel

- RERC's transaction analysis indicates San Antonio hotel properties are selling for an average price of \$80,302 per unit, less than the regional and national average prices per unit, which were \$94,532 and \$110,713, respectively.

- The average capitalization rate for the San Antonio area hotel market is 9.2 percent, slightly higher than the regional average of 8.9 percent and the national average of 8.7 percent.

- CCIM designees and candidates rated the San Antonio area hotel market at 8.0 on a scale of 1 to 10, with 10 being high.

The average capitalization rate is higher and the average price per unit is lower than regional and national levels, and the San Antonio hotel market received a fairly high economic performance rating, indicating investor confidence in the market. If the area economy continues strong, prices for hotel properties in the area may increase.

South Region Transaction Breakdown (Jan. 1, 2006 - Dec. 31, 2006)

| | Office | Industrial | Retail | Apartment | Hotel | Total |
|-----------------------------------|------------|------------|-----------|-----------|------------|------------|
| Volume (in millions) | | | | | | |
| <\$2 million | \$624 | \$1,016 | \$1,310 | \$924 | \$68 | \$3,940 |
| \$2-5 million | \$938 | \$1,223 | \$2,081 | \$1,073 | \$330 | \$5,646 |
| >\$5 million | \$25,735 | \$7,093 | \$13,161 | \$23,008 | \$8,648 | \$77,644 |
| All | \$27,256 | \$9,281 | \$16,472 | \$24,975 | \$9,031 | \$87,015 |
| Unit Price Averages | | | | | | |
| <\$2 million | \$96 | \$57 | \$99 | \$62,693 | \$65,336 | - |
| \$2-5 million | \$147 | \$72 | \$181 | \$73,179 | \$60,230 | - |
| >\$5 million | \$153 | \$77 | \$183 | \$90,463 | \$109,868 | - |
| All | \$130 | \$64 | \$140 | \$75,192 | \$94,532 | - |
| Median of all | \$112 | \$54 | \$106 | \$60,648 | \$82,562 | - |
| Capitalization Rates (All) | | | | | | |
| Range | 4.9 - 10.5 | 4.8 - 9.8 | 4.8 - 9.3 | 4.1 - 9.3 | 6.2 - 11.8 | 4.1 - 11.8 |
| Average* | 7.4 | 7.3 | 7.1 | 6.5 | 8.9 | 7.4 |

| San Antonio Transaction Breakdown (Jan. 1, 2006 - Dec. 31, 2006) | | | | | | |
|--|-----------|------------|-----------|-----------|------------|------------|
| | Office | Industrial | Retail | Apartment | Hotel | Total |
| Volume | | | | | | |
| <\$5 million | \$23 | \$13 | \$181 | \$59 | \$16 | \$293 |
| >\$5 million | \$446 | \$104 | \$393 | \$393 | \$240 | \$1,576 |
| All | \$469 | \$117 | \$574 | \$452 | \$256 | \$1,868 |
| Unit Price Averages | | | | | | |
| <\$5 million | \$67 | \$41 | \$100 | \$59,105 | \$38,340 | - |
| >\$5 million | \$127 | \$74 | \$158 | \$64,926 | \$91,957 | - |
| All | \$93 | \$57 | \$111 | \$61,344 | \$80,302 | - |
| Median of all | \$83 | \$53 | \$91 | \$46,650 | \$82,776 | - |
| Capitalization rates (all) | | | | | | |
| Range | 5.5 - 9.1 | 5.9 - 9.8 | 5.3 - 8.9 | 5.3 - 8.9 | 6.9 - 11.5 | 5.3 - 11.5 |
| Average | 7.3 | 7.8 | 7.1 | 7.1 | 9.2 | 7.7 |

| NCREIF Real Estate Index Returns - 4Q 2006 | | | | | |
|--|--------|------------|--------|-----------|---------|
| | Office | Industrial | Retail | Apartment | Average |
| Total Returns: | | | | | |
| 1-Year Rate | 24.70% | 17.80% | 13.30% | 10.00% | 16.60% |
| 3-Year Rate | 12.90% | 15.80% | 22.60% | - | 18.70% |
| 5-Year Rate | 9.60% | - | 20.00% | - | 16.10% |
| 10-Year Rate | 11.30% | - | - | - | 12.80% |
| 15-Year Rate | - | - | - | - | 11.30% |
| Income Return | | | | | |
| 1-Year Rate | 7.00% | 8.40% | 6.70% | 7.10% | 7.10% |
| 3-Year Rate | 7.20% | 9.10% | 6.90% | - | 7.40% |
| 5-Year Rate | 7.60% | - | 7.70% | - | 7.90% |
| 10-Year Rate | 8.80% | - | - | - | 8.30% |
| 15-Year Rate | - | - | - | - | 8.80% |
| Allocation | | | | | |
| | Office | Industrial | Retail | Apartment | Other |
| 1-Year Average | 28% | 12% | 43% | 17% | 0% |
| 3-Year Average | 25% | 13% | 49% | 10% | 4% |
| 5-Year Average | 20% | 9% | 53% | 6% | 11% |
| 10-Year Average | 17% | 5% | 36% | 3% | 39% |
| 15-Year Average | 13% | 3% | 24% | 2% | 58% |

Sources: RERC and National Council of Real Estate Investment Fiduciaries

Noteworthy Transactions

- Fountainhead One, located at 8200 Interstate 10 and containing 174,108 square feet of office space, sold for slightly less than \$24 million, or approximately \$135 per square foot, a little higher than the average price of \$127 per square foot for properties selling for more than \$5 million.
- The 39-unit Clarion O'Brian Hotel sold for approximately \$3 million, or \$85,897 per room – more than twice the average price of \$38,340 per unit for hotel properties in the area selling for less than \$5 million.
- The 35,622-square-foot retail property located at 15701-15759 San Pedro Ave. sold for slightly over \$4 million, or \$117 per square foot, higher than the average price of \$100 per square foot for retail properties selling under \$5 million.
- Walker Ranch Apartment Homes, a 235-unit apartment complex, sold for nearly \$31 million, or approximately \$130,851 per unit – double the average price of \$64,926 per unit for properties selling in this price category.
- The 5,002-square-foot industrial property located at 130 Avenue Del Ray sold for \$265,000, or \$53 per square foot, slightly higher than the average price of \$41 per square foot for properties selling for less than \$5 million.