

# REOC San Antonio

San Antonio Medical Office Market | First Quarter 2016



## **MEDIA RELEASE**

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### **MEDICAL OFFICE MARKET OFF TO A POSITIVE START IN 2016**

Conditions improved in the San Antonio medical office market in the first quarter. Citywide occupancy within the city's inventory of more than 7 million square feet of medical-only office lease space improved compared to the previous quarter and rents ticked up. Demand for medical office space generated positive net absorption in the first three months of the year, reversing the negative absorption trend that troubled the market last year.

Moreover, recent announcements regarding activity in one of San Antonio's newest medical office buildings will generate more positive absorption in the coming quarter. The San Antonio Integrated Medical Plaza, located adjacent to the Cumberland Surgical Hospital on the campus previously known as the Victory Medical Center, will soon house a long-term acute care hospital (LTAC) (33,000 sf) along with a Dialysis Clinic (9,900 sf). "Activity at Integrated Medical Plaza not only shrinks one of the largest vacant spaces in the market but also generates momentum and demonstrates the strength of San Antonio's healthcare industry," says Kimberly Gatley, Senior Vice President and Director of Research for REOC San Antonio, a locally-based, full-service commercial real estate company. "Perhaps some of that momentum will carry around the corner," says Gatley referring to the former Forest Park Medical Center complex which was shuttered in October of last year and purchased at auction in early March by TCB/Marina Del Sol, LLC – a company affiliated with Texas Capital Bank, the lender that foreclosed on the complex. No plans have been announced yet for the 54-bed hospital (155,000 sf) or adjacent medical office building (84,000 sf).

In general, strong gains in healthcare spending and healthcare-related employment continue to support industry growth but not all medical growth translates directly into gains for the medical office

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market. “Medical buildings face the challenging headwind of competing with other commercial properties as tenants scout all alternatives,” says Gatley. Heart Endovascular & Rhythm of Texas, for example, recently leased 9,551 square feet at the Villages of Sonterra – a professional office complex in Far North San Antonio but not a medical-only office building. Similarly, The Medical Team, LLC inked a lease for 9,177 square feet at Centre Plaza, again, a general office building.

“Even as the healthcare business model continues to undergo significant change, fundamental factors, such as population growth and an aging population, continue to drive demand for medical office space,” says Carl Bohn, Vice President, REOC San Antonio. New leases and expansions within medical-only office buildings generated 18,105 square feet of positive net absorption in the first three months of the year. With no new inventory added to the market yet in 2016, the citywide vacancy dipped to 20.3% compared to 20.6% last quarter. However, new construction delivered in the second half of last year pushed the vacancy rate up compared to 19.5% recorded a year ago. Vacancy rates for Class A & B submarkets are nearly even at 19.9% and 19.8%, respectively; but, vacancy rates vary greatly by location. The small but emerging Far West sector boasts a 12.2% vacancy rate – the lowest of all the sectors. By comparison, the Northwest sector, home to the South Texas Medical Center and the largest concentration of medical office space in the city, reported a vacancy rate of 24.1% which remained stable compared to last quarter but ticked up slightly compared to last year at this time.

Despite the uneven vacancy, the upward rent trend has remained stable, although the impact of increasing operating expenses is largely responsible. The average quoted rental rate for medical-only office stepped up \$0.13 from last quarter to reach \$24.68 per square foot on an annual full-service basis – which reflects an over-the-year increase of 2.8%. *(To adjust for buildings which quote rents on a triple net basis, operating expense figures have been added into the equation to arrive at an average equivalent full-service rate.)* Unlike vacancy, the difference between rental rates quoted for Class A and B medical office space is significant with Class A properties averaging \$28.42 while Class B properties stand at \$23.05.

“San Antonio’s stable economy and growing healthcare industry continue to attract investment activity,” says Bohn, “but the dearth of properties listed for sale creates a challenge for investors.”

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The largest transaction in the first quarter was the interesting purchase of 400 Concord Plaza Drive (49,270 sf) by corporate neighbor Whataburger; no announcements have been made regarding their plans for the facility which currently houses The Orthopaedic Institute.

Looking ahead, “there is a lack of developer participation in speculative development, especially for smaller, stand-alone buildings,” observes Bohn, adding that “inventory is virtually non-existent.” Still, nearly 131,000 square feet of medical office lease space is currently under construction and expected to come online in 2016. Most of the space slated for completion this year is already substantially pre-leased which will spare the market from any significant spike in vacancy through the course of the year. However, as the election draws closer, the future of the Affordable Care Act and how it may be altered is likely to be a topic of discussion that may add some uncertainty for investors and tenants alike.

1Q 2016 Submarket	Total Inventory	Direct Vacant SF	% Vacant	Avg. Quoted Rent Rate
CBD	1,060,076	194,461	18.3%	\$20.47
CORE NC	314,438	38,668	12.3%	\$24.54
FAR NC	1,140,835	180,191	15.8%	\$29.99
NW	2,785,269	670,858	24.1%	\$24.48
FAR W	391,400	47,689	12.2%	\$29.37
NE	741,593	169,598	22.9%	\$23.27
SOUTH	581,131	122,737	21.1%	\$21.66
<b>Totals</b>	<b>7,014,742</b>	<b>1,424,202</b>	<b>20.3%</b>	<b>\$24.68</b>

Source: REOC San Antonio

## End of Press Release

### Quarterly Surveys conducted by REOC San Antonio:

Statistics are based on the quarterly survey of all multi-tenant medical office buildings 20,000 square feet and larger, excluding owner-occupied, single tenant and clinical facilities.

For more information about REOC San Antonio please visit [www.reocsanantonio.com](http://www.reocsanantonio.com). For further statistical detail regarding the above media release, please refer to the accompanying Medical Office Market Analysis chart. For additional comment, please feel free to contact Carl Bohn, Vice President, or Kim Gatley, Senior Vice President and Director of Research at 210 524 4000.