What’s Up Next For San Antonio?

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A high quality of life and affordable cost of living have brought thousands of new jobs and residents to San Antonio in recent years. The market’s fundamentals are strong, but the question of how much disruption COVID-19 will cause remains uncertain.

Interviews conducted by Taylor Williams

During the 10-year expansionary cycle, San Antonio posted

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one of the highest rates of population growth in the country, bringing new development of luxury apartment communities, modernized e-commerce facilities, bustling entertainment destinations and a landmark Class A office building.

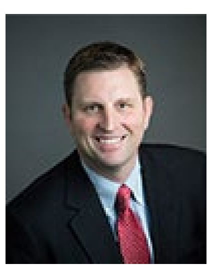
While some short- and long-term pain from COVID-19 is inevitable, there is also some optimism on the horizon.

Industrial broker Cody Woodland of NAI Partners, multifamily developer David Lynd of LYND Co. and retail investment sales specialists Kevin Catalani and Price Onken of CBRE share thoughts on what’s happened and what’s coming in the Alamo City.

Texas Real Estate Business: In terms of your sector, what have you seen in the San Antonio market in response to COVID-19?

Cody Woodland: Much like other industrial markets, we’ve seen many tenants put their requirements on hold, including some sizable leases near execution. Most of these resulted in short-term extensions that should resurface in 2021. We’ve also seen numerous deals with essential users requiring immediate short-term space for storage purposes due to fluctuations in supply chains, primarily in the grocery and medical product sectors. Even during the pandemic, some long-term leases have still transacted, such as Dollar General’s 285,000-square-foot deal in northeast San Antonio.

In terms of Class A speculative space, there is currently 2.5 million square feet under construction and set to deliver in 2020. Even with that level of spec construction, we do not believe we are exposed on the supply side.



Cody Woodland, NAI Partners

Landlords are showing patience and are not “fire-selling” deals to gain occupancy. As typical to any slowdown, there has been some uptick in rental

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abatements to entice tenants to commit to space, which should eventually subside as we move into recovery stages. Ultimately, the remarkable growth of our population of 2 million-plus and our strong, diverse workforce provide for a market that is exceptionally resilient.

David Lynd: We’ve been working with our tenants to understand why specifically they’re having trouble paying rent and are offering various payment plans, discounts and incentives to pay on time. We’ve also introduced new cleaning initiatives in the common areas of our communities and are offering prospective residents the opportunity to tour units online during any time of the day.

David Lynd, LYND Co.

With regard to major multifamily operators with good track records that are being transparent about their cash flows, lenders are being realistic and flexible. If they see you’re doing everything you can to keep rents and occupancies up, they’re generally showing willingness to renegotiate loan terms or give forbearance. In terms of construction, you never want to be delivering new units in the face of declining rents and occupancies. So for our projects that haven’t started yet, we’re looking to break ground at the end of the summer and deliver during a recovery.

Kevin Catalani: We are still seeing limited activity in terms of new retail listings hitting the market, but that trend showed signs of thawing in April and May. With the city and state reopening to some extent, the marketability of all multi-tenant centers is becoming stronger.

That said, with a constrained lending market and uncertainty regarding the post-opening financial strength of rent rolls, marketing multi-tenant space has still been more challenging relative to

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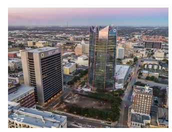

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other subtypes of retail product. The single-tenant, net-leased space has probably had the strongest push to bring deals to market. With a 1031 exchange deadline of July 15 for some investors, we have seen increased activity in the [single-tenant, net-leased] space in San Antonio.

Kevin Catalani, CBRE

TREB: Can you share some of your expectations for the San Antonio market in late 2020 and/or late 2021 as it pertains to your sector?

Woodland: Our outlook is positive, especially when we factor the overall market metrics, population growth and diverse tenant mixes. I expect to see a resurgence in proposals to start trading by late 2020, resulting in a sizable uptick in 2021 closed leases.

The e-commerce and automotive industries, both of which were thriving pre-COVID-19, should lead the way, followed by food and beverage, dry goods and construction materials. Navistar just broke ground on its 1 million-square-foot commercial truck assembly plant, which will attract suppliers needing warehouse space for 2021.

E-commerce users like T.J. Maxx, Best Buy and Amazon have also added new warehouses in San Antonio over the past 18 months. As we navigate recovery, retailers will increasingly rely on e-commerce distribution alternatives to better serve customers.

Lynd: I love to be optimistic and am glad to see businesses reopen, but the reality is that jobs have been lost and social norms have changed such that multifamily occupancy expectations and rent models are lower.

Retail, hotels, entertainment — they’re all taking hits. Renters who work in those industries will be affected. There have been too many systemic changes that are detrimental to the economy, and that’s going to trickle down to multifamily in the forms of lower rents and occupancies at some point. I don’t


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see how it's avoidable.

Price Onken: We can't predict the next few months, but so far, the space we have seen come back to market in San Antonio is mostly in the restaurant sector, primarily restaurants that were seeing lower customer volumes pre-pandemic.

Price Onken, CBRE

We expect these available spaces to create opportunities for new restaurant groups interested in entering the San Antonio market for the first time or existing groups that want to expand their market share. Across the overall retail market in San Antonio, it is a very positive indicator that, since Texas began to slowly reopen, we have seen an uptick in inquiries from retail tenants seeking space.

— *This article first appeared in the June issue of* Texas Real Estate Business *magazine.*

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