

# Class A sales provide a spark in 3Q

## CONSTRUCTION ACTIVITY



UNDER CONSTRUCTION **15,505**

UNITS DELIVERED **5,877**

## MARKET FUNDAMENTALS



VACANCY RATE **6.5%**

YEAR-OVER-YEAR CHANGE **+150bps**

ASKING RENTS **\$1,150**

YEAR-OVER-YEAR CHANGE **+1.4%**

## TRANSACTION ACTIVITY (YTD)



MEDIAN PRICE PER UNIT\* **\$114,000**

## HIGHLIGHTS

- Operating conditions in the San Antonio multifamily market softened during the third quarter, as asking rents inched lower while the vacancy rate trended higher. Developers are active, with roughly 5,900 units completed year to date and another 15,505 units under construction.
- The vacancy rate rose in recent months after improving slightly in the preceding quarter. Area vacancy trended higher by 60 basis-points during the third quarter to 6.5 percent. Year over year, the rate has climbed by 150 basis points.
- Asking rents inched lower to \$1,150 per month, but rents are slightly higher than one year ago. Asking rents have advanced 1.4 percent during the past 12 months after double-digit gains throughout much of 2021 and 2022.
- Multifamily sales activity picked up in recent months although year-to-date sales velocity is down from 2022 levels. In sales where pricing was available, the median price to this point in the year is \$114,000 per unit, essentially unchanged from last year.

## SAN ANTONIO MULTIFAMILY MARKET OVERVIEW

While property fundamentals in the San Antonio multifamily market softened in recent months, current conditions are closely aligned with the region's long-term metrics. The vacancy rate trended higher, offsetting a slight improvement in the middle of the year, as supply growth has remained elevated. To this point in the year, developers have delivered nearly 5,900 units, already outpacing annual completions from last year. The current vacancy rate of 6.5 percent is only 180 basis points above the cyclical low from a few years ago, and it is nearly identical to the rate that prevailed for much of the past decade. Rents have been essentially flat for much of 2023, although most submarkets have recorded modest year-over-year increases.

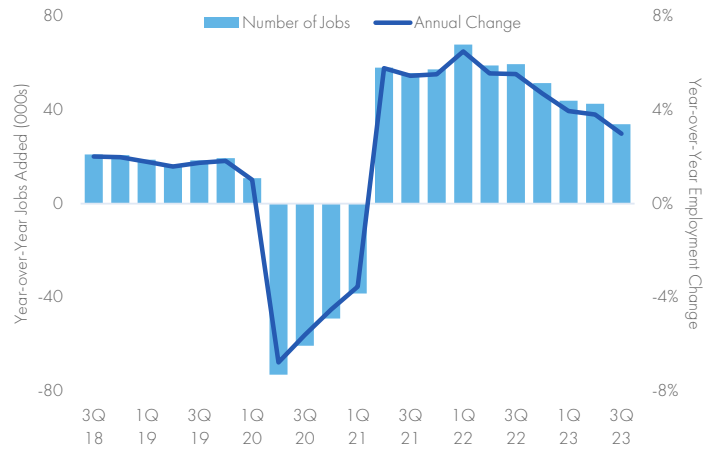
Although transaction volume to this point in 2023 is still down significantly from levels posted in the past two years, the San Antonio multifamily investment market posted an accelerating flow of deals during the third quarter. Total sales in the last three months surged from depressed levels in the middle of the year, and sales prices showed signs of trending higher. Class A properties are accounting for a larger share of transactions in 2023, totaling nearly 40 percent of sales, up from less than 20 percent of the transaction mix in 2022. While pricing is not always fully transparent, sales of Class A properties have typically been between \$185,000 per unit and \$230,000 per unit to this point in 2023.

## EMPLOYMENT

- Area employers continues to expand at a rapid rate. Year over year through the third quarter, total employment rose 3 percent, with the addition of 33,900 new workers.
- The education and health services sector recorded consistent job additions throughout the past 12 months, making it one of the region’s fastest-growing industries. During the past year, this sector added 9,400 new workers, expanding by 5.5 percent.
- The local manufacturing sector is set to receive a significant employment boost through the end of the decade. Heavy machinery manufacturer JCB recently announced plans to build a 720,000-square-foot manufacturing plant in San Antonio. Construction is scheduled to begin next year, and the site is set to create 1,500 new jobs over the next five years.
- **FORECAST:** The local labor market will likely continue to add jobs in the closing months of 2023. Employers are on pace to expand payrolls by 2.6 percent for the full year, with the addition of 30,000 jobs. During the past decade, annual employment growth has averaged 2.4 percent.

Year over year, total employment rose 3 percent.

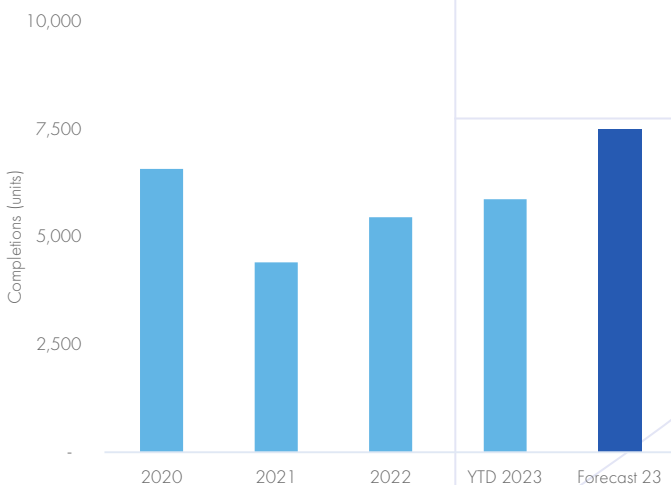
### EMPLOYMENT OVERVIEW



Sources: Northmarq, Bureau of Labor Statistics

Projects totaling more than 15,500 units are under construction.

### DEVELOPMENT TRENDS



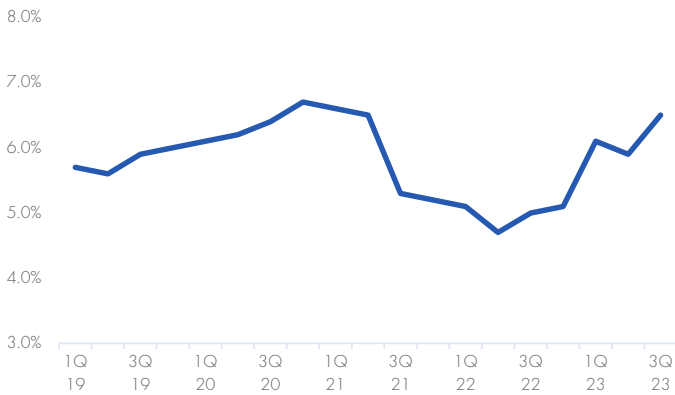
Sources: Northmarq, Apartment Trends, CoStar, Reis

## DEVELOPMENT & PERMITTING

- The pace of multifamily deliveries slowed in recent months, as projects totaling nearly 1,600 units came online during the third quarter, after about 2,700 units were completed in the prior quarter. Deliveries to this point in the year have already surpassed totals from last year; developers have completed nearly 5,900 units to this point in 2023.
- Projects totaling more than 15,500 units are currently under construction in San Antonio, up 10 percent from levels recorded one year ago. Multifamily development is spread throughout the city of San Antonio, while there are also nearly a dozen projects under construction in New Braunfels.
- Following 18 months of elevated levels, multifamily permitting pulled back significantly during the third quarter. Developers pulled permits for 815 units in the last three months, down from roughly 3,600 units in the previous quarter.
- **FORECAST:** Annual deliveries are forecast to peak in 2023, with projects totaling 7,500 units expected to come online for the full year. Annual completions averaged approximately 5,400 units from 2018 to 2022.

The vacancy rate rose 60 basis points during the third quarter.

VACANCY TRENDS



Sources: Northmarq, Reis

VACANCY

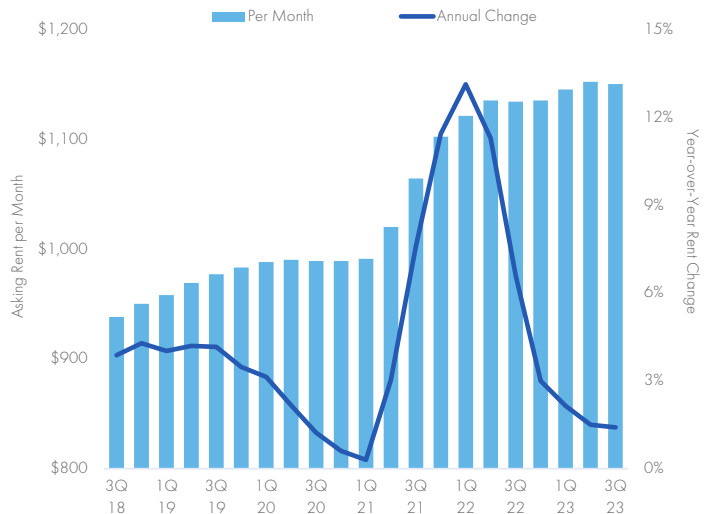
- Area vacancy trended higher in recent months after posting a slight improvement in the previous quarter. The vacancy rate rose 60 basis points during the third quarter to 6.5 percent. Vacancy in San Antonio is up 150 basis points in the past 12 months.
- Vacancy has returned closer to the region’s long-term ranges, following tight conditions during the second half of 2021 and throughout 2022. Area vacancy averaged 6.4 percent from 2010 to 2020.
- Despite an accelerating pace of new construction in recent years, vacancy increases for the Class A segment have been mild, highlighting the strength of demand for premium units. Year over year, Class A vacancy inched up just 30 basis points, ending the third quarter at 5.7 percent.
- **FORECAST:** Vacancy is expected to continue rising in the final quarter of 2023. The vacancy rate is forecast to close 2023 at 6.8 percent, up 170 basis points for the full year. This follows two consecutive years where vacancy rates tightened.

RENTS

- Rents have remained in a tight range throughout much of 2023. During the third quarter, rents dipped 0.2 percent to \$1,150 per month. Year over year, apartment rents rose 1.4 percent.
- While growth is fairly modest across the region, rents pushed higher in nearly all of San Antonio’s submarkets during the past year. The Central San Antonio submarket recorded the steepest increases, with rents spiking 5.1 percent during the past 12 months to \$1,219 per month.
- Rent growth was modest across all asset classes during the past year. Class A rents inched higher by 0.8 percent during the past 12 months to \$1,338 per month.
- **FORECAST:** Apartment rents are forecast to close 2023 at \$1,160 per month, up 2.2 percent for the full year. Rents increased by 3 percent in 2022, which is closely in line with the region’s long-term trend.

Year over year, apartment rents rose 1.4 percent.

RENT TRENDS



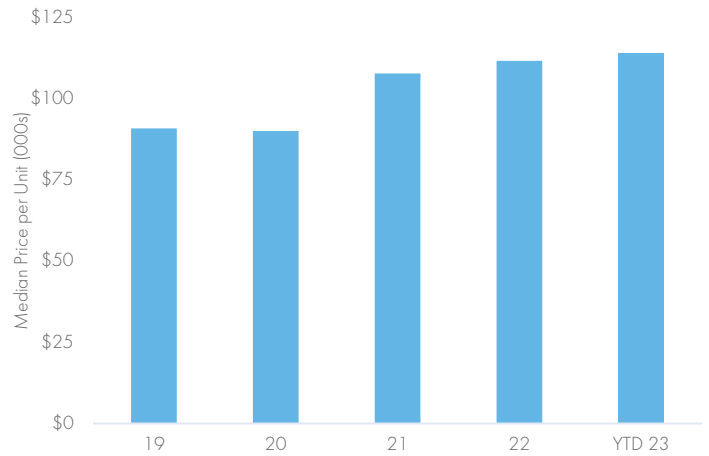
Sources: Northmarq, Reis

## MULTIFAMILY SALES

- Sales velocity accelerated in recent months, as transaction volume during the third quarter closely tracked the combined number of sales from the entire first half of the year. Despite the recent spike in activity, sales volume to this point in the year is down about 65 percent from the same period in 2022.
- Sales prices trended higher alongside sales volume during the third quarter. In transactions where pricing was available, the median price thus far in 2023 is \$114,000 per unit, nearly identical to the median price last year.
- Cap rates held steady during the third quarter, averaging roughly 5.5 percent, same as they did during the second quarter of 2023. Cap rates were closer to 4 percent at the middle of last year and had risen to 4.75 percent by the end of 2022.

The median price thus far in 2023 is \$114,000 per unit.

### INVESTMENT TRENDS



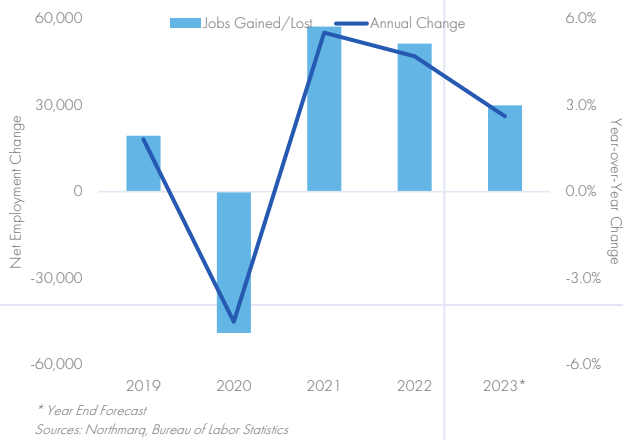
Sources: Northmarq, CoStar, Apartment Trends

## LOOKING AHEAD

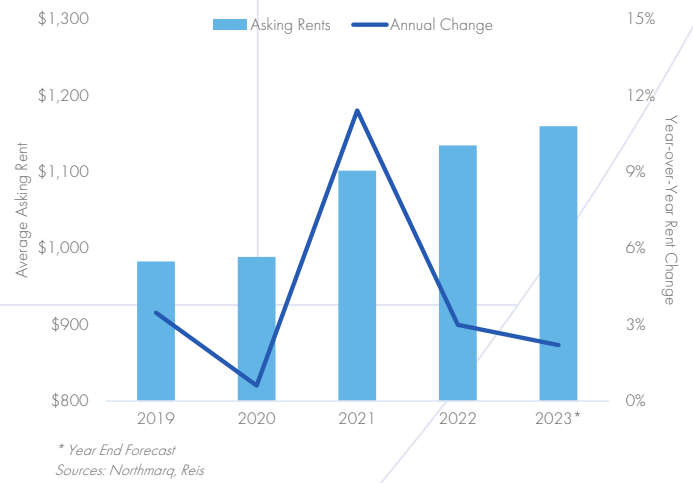
Renter demand for apartments in San Antonio is expected to remain healthy in the coming quarters, but an extended run of new construction will likely result in some mixed operational performance. Vacancies are forecast to inch higher at the end of this year and leading into 2024, but the rate is not expected to trend outside of the market’s long-term range. With vacancies close to historical averages, renter demand healthy, and the economy continuing to expand, operators should be able to implement modest rent increases, although this year will be the lightest period of rent growth since 2020.

Transaction volume in the local multifamily investment market is already set to lag levels recorded last year, but the market could begin to build some momentum in the coming quarters. While owners of existing assets may want a few more periods to evaluate market conditions and see if financing costs inch lower and cap rates level off, the recent and forecast inventory growth should create investment opportunities over the next few years. Continued absorption of new and existing units—coupled with anticipated rent increases—will ultimately support transaction activity.

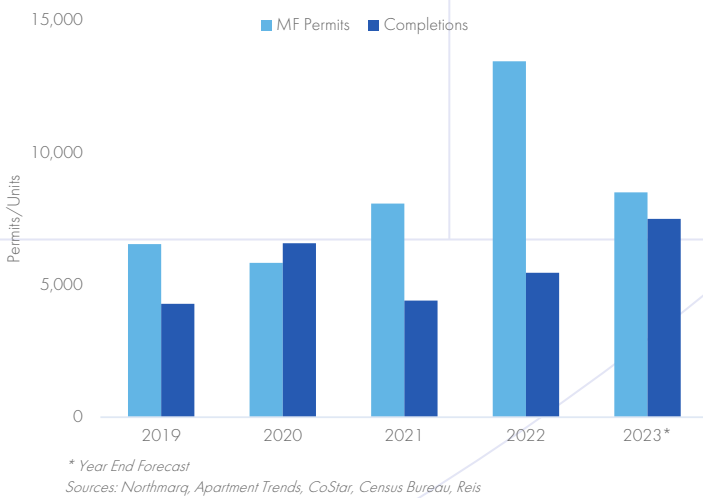
### EMPLOYMENT FORECAST



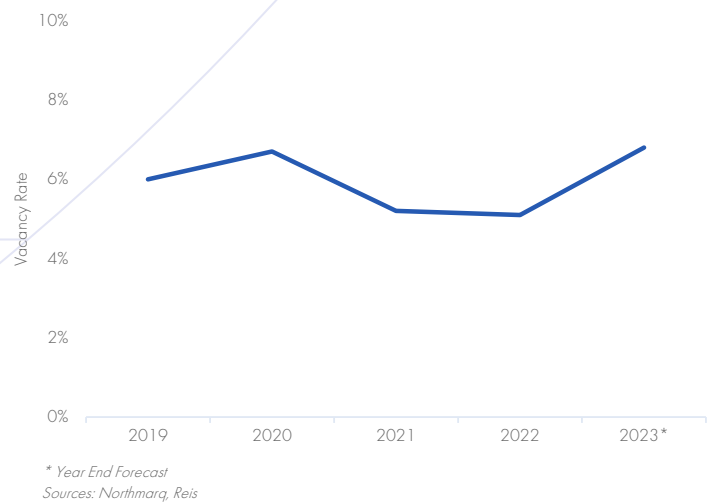
### RENT FORECAST



### CONSTRUCTION & PERMITTING FORECAST



### VACANCY FORECAST





**FOR MORE INFORMATION,  
PLEASE CONTACT:**

**ZAR HARO**

*Managing Director—Investment Sales*  
210.281.5276  
zharo@northmarq.com

**MOSES SILLER**

*Managing Director—Investment Sales*  
210.281.8155  
msiller@northmarq.com

**BRYAN VANCURA**

*Vice President—Investment Sales*  
210.729.9624  
bvancura@northmarq.com

**BRIAN BOOTH**

*Senior Associate—Investment Sales*  
210.806.5125  
bvancura@northmarq.com

**PHIL GRAFE**

*Senior Associate—Investment Sales*  
210.686.4970  
pgrafe@northmarq.com

**BRYAN LEONARD**

*Managing Director—Debt & Equity*  
210.734.1844  
bleonard@northmarq.com

**PETE O'NEIL**

*Director of Research*  
602.508.2212  
poneil@northmarq.com

**ABOUT NORTHMARQ**

Northmarq offers real estate investors access to experts in debt, equity, investment sales and loan servicing. We combine industry-leading capabilities with an open, flexible structure, allowing our team of seasoned professionals to do the best work on behalf of clients and lenders. Our solid foundation and innovative approach have led to substantial growth, with more than 1,000 employees, loan servicing volume approaching \$80 billion, and \$40+ billion in transaction volume.

The information contained herein has been obtained from sources deemed reliable. While every reasonable effort has been made to ensure its accuracy, we cannot guarantee it. No responsibility is assumed for any inaccuracies. Readers are encouraged to consult their professional advisors prior to acting on any of the material contained in this report.

© 2023. All rights reserved.

**BUILT TO THRIVE**

**northmarq.com**