

San Antonio Multifamily

Market Conditions Mostly Stable Through the First Half

Highlights

- > The San Antonio multifamily market posted relatively steady results in the first half of the year. Rents are up, absorption has remained positive, although vacancy has inched higher in recent quarters.
- > Apartment vacancy rose 10 basis points in both the first and second quarters, with the rate reaching 6.2 percent, 60 basis points higher than one year earlier.
- > Asking rents finished the second quarter at \$990 per month, 2.2 percent higher than one year ago. Rent growth has averaged nearly 4 percent per year since 2015.
- > Investment activity in San Antonio slowed during the first half of the year, reflecting trends recorded across most major markets in the country. In transactions where cap rates are available, cap rates have averaged 5.2 percent in 2020, nearly identical to levels from last year.

San Antonio Multifamily Market Overview

The San Antonio multifamily market has recorded steady performance through the first half of this year, despite economic volatility at the national level. The vacancy rate has inched higher, but the minimal increase in the second quarter was identical to modest rises recorded at the end of last year and at the beginning of 2020. Renter demand for apartments has been positive but has lagged levels of new construction. This trend will likely continue for the next few quarters but should change course as the local economy stabilizes. Employers have already been active in bringing back workers, and additional gains are likely in the second half of the year.

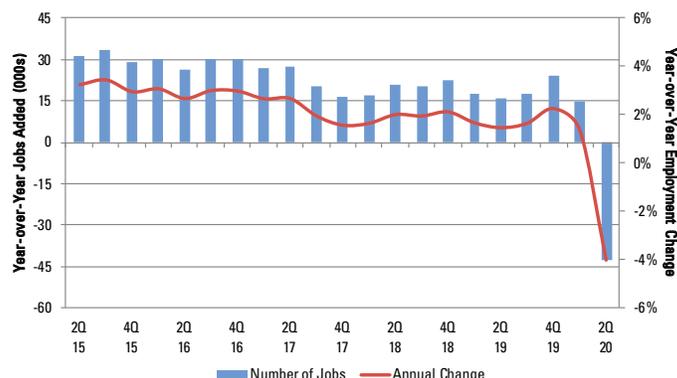
Q2 Snapshot	San Antonio Market
	Market Fundamentals
	Vacancy 6.2%
	- Year Over Year Change +60 bps
	Asking Rent \$990
	- Year Over Year Change +2.2%
	Transaction Activity
	Median Sales Price Per Unit (YTD) \$86,800
	Cap Rates (Avg YTD) 5.2%
	Construction Activity
	Units Under Construction 5,041
	Units Delivered YTD 1,174

Multifamily properties continued to change hands in San Antonio during the first half of the year, although sales volume lagged levels from the past two years. Transaction counts to this point in 2020 are closer to 2016 or 2017 levels. A fairly diverse mix of properties has traded, although Class C buildings accounted for more than half of the transactions closed in the first half of the year, which is a larger percentage than in 2019. Cap rates have held steady in 2020, averaging 5.2 percent. With interest rates low and investor demand healthy, cap rates are likely to remain near their current ranges.

Employment

- > Employment in San Antonio contracted during the shutdown in March and April with net job losses totaling nearly 120,000 jobs. The market has begun a quick rebound in subsequent months. Employers added back more than 29,000 jobs in both May and June, rehiring roughly half of the jobs that were trimmed during the downturn. Year over year through the second quarter, local employment is down 4 percent.
- > The leisure and hospitality sector recorded the most significant decline in jobs as losses totaled approximately 60,000. Locally, employment in the sector has rebounded more rapidly than at the national level; more than 45,000 leisure and hospitality jobs were added back to payrolls in May and June.
- > The construction sector has been a source of modest growth in recent quarters. Year over year, construction employment has expanded by 2 percent with the addition of more than 1,000 net new jobs.
- > **Forecast:** Projecting the exact rate of the local employment rebound is challenging, but current forecasts call for San Antonio to record annual job losses of approximately 2 percent in 2020, with the market returning to pre-coronavirus levels of employment in 2021.

Employment Overview



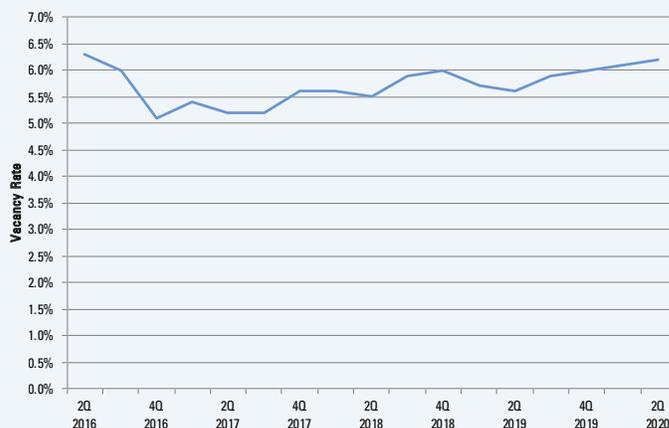
Sources: NorthMarq, Bureau of Labor Statistics

Employers added back more than 29,000 jobs in both May and June

Vacancy

- > The local vacancy rate has been inching higher during the past few quarters. After dipping in the first half of last year, vacancy has ticked up 10 basis points in each of the past three quarters.
- > Vacancy in San Antonio has increased 60 basis points to 6.2 percent during the past 12 months. While the rate has crept higher, demand is still strong; net absorption has totaled nearly 2,300 units during the past 12 months.
- > Vacancy in Class A properties ended the second quarter at 6.7 percent, up 70 basis points year over year. Construction of new units has been active since 2014, putting upward pressure on the Class A vacancy rate.
- > **Forecast:** With the pace of apartment deliveries forecast to accelerate in the second half of the year, vacancy in San Antonio will likely push higher. The rate is expected to end 2020 at 6.8 percent.

Vacancy Trends



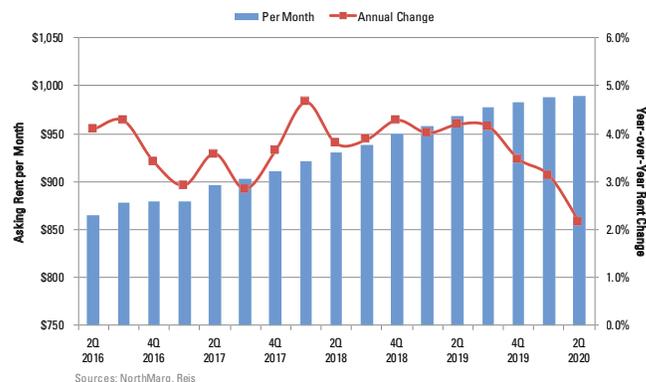
Sources: NorthMarq, Reis

Vacancy rose 10 basis points in consecutive quarters to begin 2020 and finished the second quarter at 6.2 percent

Rents

- > Rent growth in San Antonio ticked higher during the second quarter, running counter to the national trend. Local asking rents rose 0.2 percent from the first quarter to the second quarter, reaching \$990 per month.
- > Rents are increasing, although the pace is slower than in recent years. During the past 12 months, local asking rents have advanced 2.2 percent; one year ago, rents had advanced 4.2 percent.
- > The pace of rent growth in Class B and Class C units is ahead of the overall market. During the past 12 months, the combined average asking rents for Class B and Class C buildings rose 2.5 percent to \$769 per month.
- > **Forecast:** Apartment rents posted modest gains in the first half of the year but are expected to end 2020 very close to levels at the beginning of the year. Rent growth has averaged nearly 4 percent per year since 2015.

Rent Trends

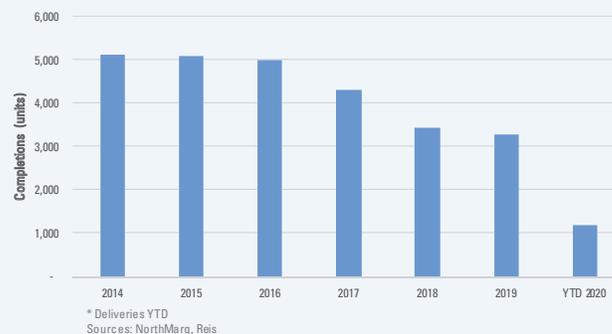


During the past 12 months, local asking rents have advanced 2.2 percent

Development and Permitting

- > After a slow start to the year, apartment construction gained momentum in the second quarter. Developers brought approximately 830 apartment units online in the second quarter; year to date, completions have totaled nearly 1,175 units.
- > In recent years, development in San Antonio has been more active in the second half of the year, and the trend is likely to continue in 2020. Projects totaling 5,041 units are under construction, with 3,300 units on pace to deliver in the second half of the year.
- > In 2019, permitting in San Antonio recorded its most active year in the past decade. Multifamily permitting to this point in 2020 is down slightly from levels recorded last year. Through the first half, developers pulled permits for roughly 2,900 multifamily units, down 13 percent when compared to the same period in 2019.
- > **Forecast:** Developers are currently forecast to deliver projects totaling approximately 4,500 units in San Antonio in 2020, outpacing completions from last year by nearly 40 percent. Uncertainty surrounding supply chains and labor markets could delay some projects, pushing them into 2021.

Development Trends



Projects totaling 5,041 units are under construction with 3,300 units on pace to deliver in the second half

Multifamily Sales

- > Transaction activity cooled in the first half of 2020 as many buyers and sellers elected to stay on the sidelines during uncertain market conditions. Sales velocity dipped more than 40 percent from levels recorded in the first half last year.
- > Prices recorded a minimal decline from last year. During the first half of the year, the median price was approximately \$86,800 per unit, down 4 percent from the median price in 2019. Prices picked up from the first quarter to the second quarter, and the median price was \$107,000 per unit in sales that closed during second quarter.
- > Cap rates averaged approximately 5.2 percent during the first half of 2020, holding steady from the 2019 average.

Investment Trends



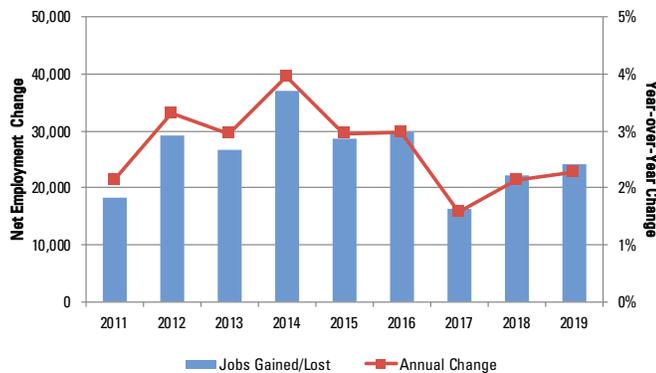
The median price during the first half of the year was approximately \$86,800 per unit

Looking Ahead

The San Antonio multifamily market is forecast to have an active second half of 2020. Developers are forecast to deliver more than a dozen new apartment complexes in the second half of this year with additional development expected in the next few years. Renter demand should be fueled by employment growth, which began to round back into form late in the second quarter, following widespread layoffs during the economic shutdown. In recent years, employers have created an average of 25,000 net new jobs per year, and a return to this rate of growth would support the local multifamily market.

The strong growth conditions that made San Antonio an attractive choice for multifamily investors should reemerge in the near future, which would support additional transaction activity in the coming quarters. During the second quarter, private capital investors led the way, but institutions are expected to step up activity levels in the coming quarters, which would likely alter the mix of assets changing hands and the per-unit prices being recorded, and it could also impact cap rates.

Employment Forecast



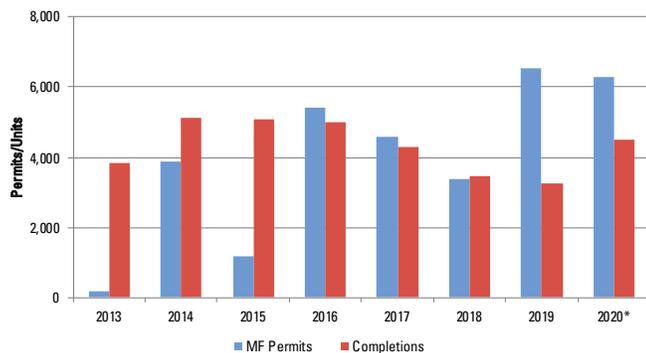
* Year End Forecast
Sources: NorthMarq, Bureau of Labor Statistics

Rent Forecast



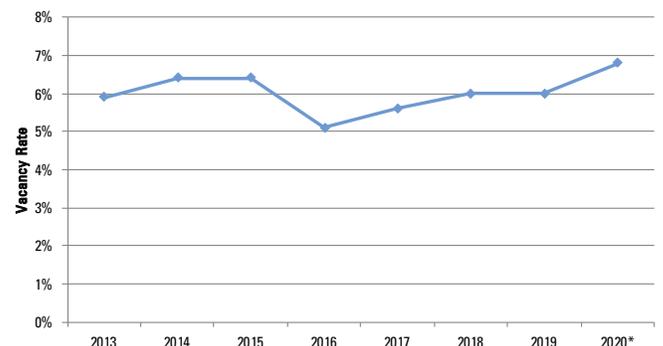
* Year End Forecast
Sources: NorthMarq, Reis

Construction & Permitting Forecast



* Year End Forecast
Sources: NorthMarq, Census Bureau, Reis

Vacancy Forecast



* Year End Forecast
Sources: NorthMarq, Reis

About NorthMarq

As a capital markets leader, NorthMarq offers commercial real estate investors access to experts in debt, equity, investment sales, and loan servicing to protect and add value to their assets. For capital sources, we offer partnership and financial acumen that support long- and short-term investment goals. Our culture of integrity and innovation is evident in our 60-year history, annual transaction volume of \$14 billion, loan servicing portfolio of more than \$61 billion and the multi-year tenure of our nearly 600 people.

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