

# San Antonio Multifamily

## Investment Activity Steady, Despite Construction Spike

### Highlights

- > Apartment construction in San Antonio was elevated in 2020, and the rise in new units put upward pressure on vacancy. Developers have been active in bringing new projects online to align with the area's long-term demand drivers.
- > Vacancy crept up 30 basis points in the fourth quarter, ending the year at 6.7 percent. For the full year, the rate rose 70 basis points.
- > While several markets recorded rent declines in 2020, conditions were far more stable in San Antonio. Asking rents were essentially flat all year, finishing 2020 at \$989 per month, up 0.6 percent from one year earlier.
- > Investment activity was very consistent during the second half of the year, and sales velocity in the fourth quarter closely tracked levels from the previous three-month period. The median price in 2020 was approximately \$90,000 per unit, nearly identical to the median price one year earlier, while cap rates dipped 20 basis points on average to 5 percent.

### Q4 Snapshot

### San Antonio Market



#### Market Fundamentals

Vacancy .....	<b>6.7%</b>
- Year Over Year Change .....	<b>+70 bps</b>
Asking Rent .....	<b>\$989</b>
- Year Over Year Change .....	<b>+0.6%</b>



#### Transaction Activity\*

Median Sales Price Per Unit (YTD) .....	<b>\$90,000</b>
Cap Rates (Avg YTD) .....	<b>5.0%</b>



#### Construction Activity

Units Under Construction .....	<b>8,193</b>
Units Delivered YTD .....	<b>6,582</b>

\*In transactions where pricing is available

### San Antonio Multifamily Market Overview

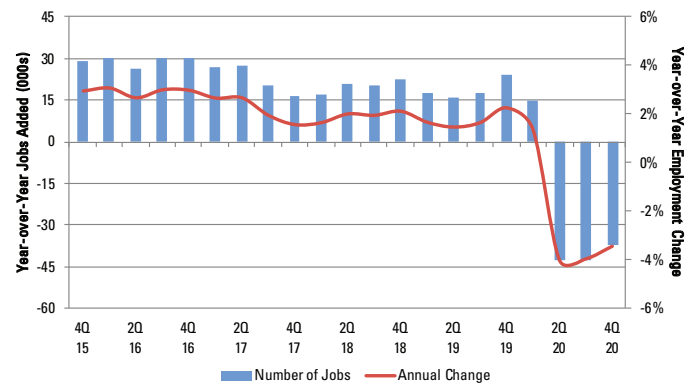
The San Antonio multifamily market performed reasonably well in 2020, despite having demand restrained by the COVID-19 outbreak and an acceleration in new apartment development. These two forces combined to push the local vacancy rate higher, but the pace of increases has been gradual and has not shocked the market. Rents were largely steady in 2020, with quarterly changes limited to a few dollars. Looking ahead, the development pipeline is still relatively full, which should create some additional supply-side pressures in the next few quarters as new projects come online. Unlike in 2020, these new units will be delivered during a period of rapid economic recovery, which should fuel absorption.

The San Antonio investment market posted a steady year in 2020, with only a minor disruption in the period immediately following the onset of coronavirus. Sales activity in the third and fourth quarters was consistent and closely tracked the elevated transaction levels recorded in 2018 and 2019. In 2020, the median sales price was similar to the figure from 2019, while cap rates compressed and averaged 5 percent. The continued population expansion in San Antonio is forecast to resume, supporting favorable conditions in the investment market during 2021.

## Employment

- > The pace of rehiring in San Antonio accelerated during the fourth quarter following a sluggish pace of additions in the previous quarter. Employers added back more than 17,000 jobs in the final three months of 2020, with transportation and logistics and leisure and hospitality services leading the way. About 70 percent of the job cuts from earlier in the year have now been recovered.
- > Job losses in San Antonio were less severe than national averages in 2020, but the market slightly underperformed a few other markets statewide including Austin and Dallas. In 2020, local job losses totaled roughly 37,000, an annual decline of 3.4 percent.
- > In December, Amazon announced plans for a significant expansion across San Antonio, including two new fulfillment centers and a delivery station, with a combined footprint of more than 2 million square feet of commercial space. The new facilities are expected to bring more than 1,500 jobs to the San Antonio area.
- > **Forecast:** Employers are forecast to expand local payrolls by 3 percent in 2021, adding approximately 33,000 jobs. In the 10 years prior to 2020, annual growth had averaged 2.7 percent.

## Employment Overview



Sources: NorthMarq, Bureau of Labor Statistics

*In December, e-commerce giant Amazon announced plans for a significant expansion across San Antonio*

## Vacancy

- > Area vacancy trended higher throughout 2020. After vacancy ticked up 20 basis points during the third quarter, the rate rose 30 basis points in the fourth quarter, finishing 2020 at 6.7 percent.
- > Apartment development was robust in 2020, which caused a near-term supply/demand imbalance. San Antonio's vacancy rate increased 70 basis points in 2020 after holding steady in the preceding year.
- > Vacancy increases were concentrated almost entirely in the top tier of the market. Class A vacancy rose 120 basis points to 7.6 percent in 2020. In Class B and Class C properties, vacancy was nearly identical to year-earlier levels.
- > **Forecast:** After a record year of inventory additions, apartment construction is expected to remain elevated in 2021, but renter demand is expected to gain some momentum as employment rebounds. The local vacancy rate is forecast to increase 20 basis points, reaching 6.9 percent by the end of 2021.

## Vacancy Trends



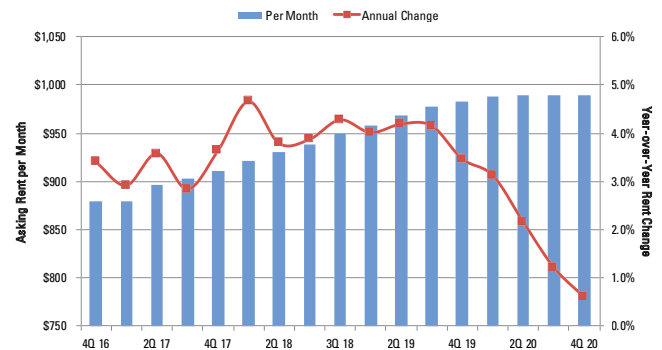
Sources: NorthMarq, Reis

*Vacancy rose 30 basis points in the fourth quarter, finishing 2020 at 6.7 percent*

## Rents

- > While vacancies were volatile, quarterly rent trends in San Antonio were essentially flat throughout 2020. Local asking rents held steady at \$989 per month in the fourth quarter, up 0.6 percent from one year earlier.
- > Annual rental growth in San Antonio had been on a consistent upward trajectory. From 2010 to 2019, rental gains averaged 3.5 percent per year, with little deviation from the figure.
- > Rents in Class A properties were mostly stable throughout much of 2020, despite rising vacancies. The average Class A asking rent ticked down just 0.2 percent to \$1,151 per month year over year.
- > **Forecast:** Rent growth should accelerate in 2021 as the economy strengthens and boosts renter demand for apartments. Asking rents are forecast to rise approximately 3.5 percent in the year ahead and should reach \$1,025 per month.

## Rent Trends



Sources: NorthMarq, Reis

*Local asking rents held steady at \$989 per month in the fourth quarter*

## Development and Permitting

- > Multifamily developers were active in San Antonio. Nearly 6,600 apartment units were brought online in 2020, an increase of more than 50 percent from levels in 2019. Approximately 1,100 units were delivered during the fourth quarter.
- > The development pipeline remains crowded entering 2021. Projects totaling approximately 8,200 multifamily units are currently under construction in San Antonio. Roughly 1,500 units are being developed in Central San Antonio, which poses some near-term oversupply risks unless apartment demand in the area picks up notably.
- > Developers pulled permits for more than 5,800 multifamily units in 2020, an 11 percent decline from the prior year. Despite a dip in 2020, permitting in San Antonio has ramped up in the past several years; from 2016 to 2020, an average of more than 5,100 permits were issued per year.
- > **Forecast:** The bulk of the projects that are currently under way are forecast to deliver in 2021. Apartment complexes totaling about 6,500 units are forecast to come online in 2021, similar to the number of units delivered in 2020.

## Development Trends



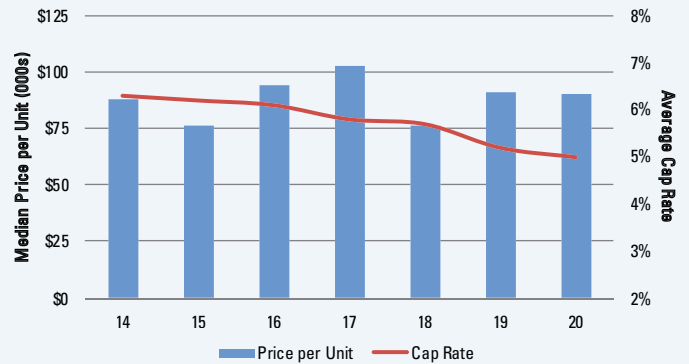
\* Deliveries YTD  
Sources: NorthMarq, Apartment Trends, Reis

*Projects totaling approximately 8,200 multifamily units are currently under construction in San Antonio*

## Multifamily Sales

- > Transaction activity during the fourth quarter was nearly identical to the number of sales in the third quarter. Local sales velocity was consistent throughout much of 2020, with the exception of the second quarter when deal flow stalled due to the COVID-19 shock. Total transaction activity in 2020 declined roughly 20 percent from levels in 2019.
- > While activity recorded a modest decline, pricing was steady. During 2020, the median price was \$90,000 per unit, nearly identical to the figure from 2019. In sales of Class A properties, the median price was \$148,000 per unit.
- > Cap rates compressed, averaging 5 percent in 2020, down 20 basis points from the average cap rate in 2019.

## Investment Trends



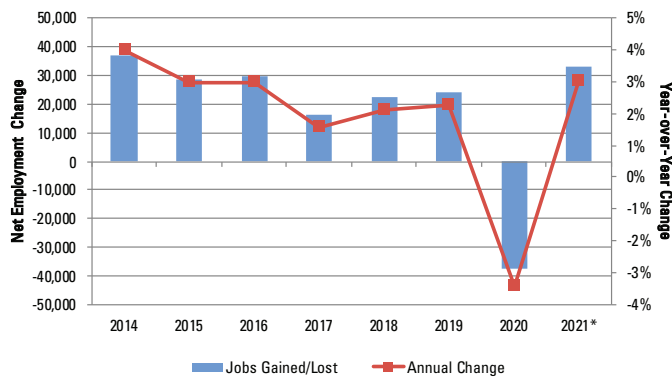
*Cap rates compressed, averaging 5 percent in 2020*

## Looking Ahead

Multifamily developers are expected to remain active in San Antonio in 2021, bringing new apartment units to the market to meet renter demand. While new supply trends in the year ahead will closely resemble activity from the previous year, a far stronger economic outlook for 2021 should provide a spark on the demand side. The leasing environment should be buoyed as employers add workers, particularly in the market's core industries of aerospace, manufacturing, and health care, as well as in emerging industries including technology. In addition, San Antonio's tourism and hospitality industries should be sparked by a full reopening of the local economy.

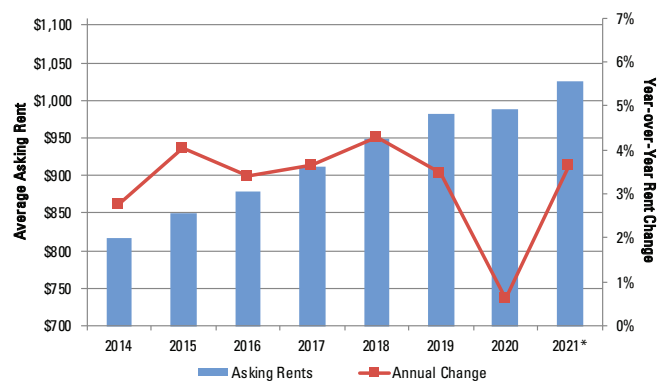
The investment climate in San Antonio is expected to remain favorable in 2021. The market posted very consistent performance, despite economic turbulence in the past year, highlighting the area's long-term investment appeal. Cap rates have trended lower over the past several years, as investor demand has strengthened. In 2021, interest rates will likely push higher, and cap rates may level off in response to higher financing costs. A return to the healthy rent growth recorded in the market in recent years should support pricing.

### Employment Forecast



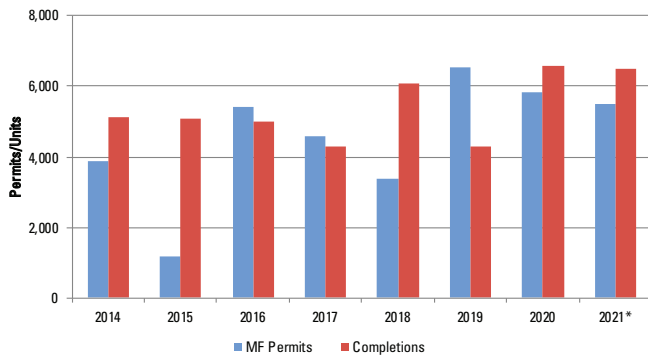
\* Year End Forecast  
Sources: NorthMarq, Bureau of Labor Statistics

### Rent Forecast



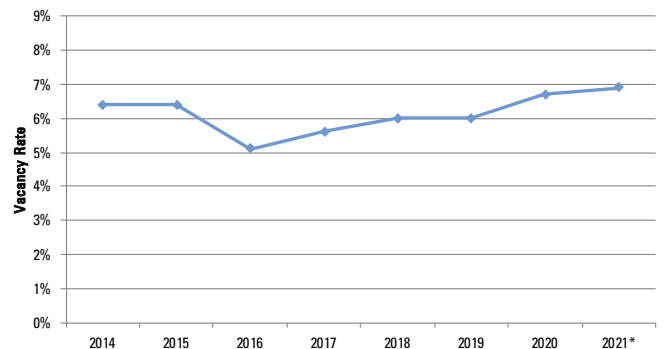
\* Year End Forecast  
Sources: NorthMarq, Reis

### Construction & Permitting Forecast



\* Year End Forecast  
Sources: NorthMarq, Apartment Trends, 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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