

Market Insights

San Antonio Multifamily 4Q 2021



Construction Activity



11,800

Units under construction

4,410

Units delivered (YTD)

Market Fundamentals



5.2%

Vacancy

-150bps

Year over year change

\$1,102

Asking Rent

+11.4%

Year over year change

Transaction Activity*



\$140,300

Median sales price per unit (YTD)

Investment Activity Sparked by Strengthening Operations

Highlights

- A healthy rebound in hiring, particularly during the fourth quarter, supported the San Antonio multifamily market. Renter demand outpaced new supply, driving the area vacancy rate lower and fueling rapid rent growth. Additional economic expansion is likely in 2022.
- Apartment vacancy in San Antonio dropped in all four quarters of 2021. During the final three months of the year, vacancy dipped 10 basis points to 5.2 percent. For the full year, vacancy tightened 150 basis points, reaching the lowest figure in over four years.
- Asking rents increased at a rapid pace during 2021, advancing 11.4 percent to end the year at \$1,102 per month. Rents advanced 3.6 percent during the fourth quarter, building on gains that had been achieved in the middle part of the year.
- Investment activity surged in the fourth quarter, doubling sales from the previous period. The increased investor demand pushed prices higher while applying downward pressure on cap rates. In transactions where pricing was available, the median sales price closed out the year at \$140,300 per unit, up 56 percent from the 2020 figure.

San Antonio Multifamily Market Overview

The San Antonio multifamily market ended 2021 on a high note, with property fundamentals strengthening in the fourth quarter. Asking rents rose 3.6 percent in the final three months of the year, bringing the total annual rent growth to 11.4 percent, the highest annual growth rate on record. Aided by a short-term slowdown in the delivery of new units, the overall vacancy rate across the San Antonio market improved by 150 basis points, dropping to the lowest figure since mid-2017. Demand outpaced supply growth in 2021, fueling the upward surge in rents. Demand was boosted by a thriving local economy, as employment levels made a full comeback from the job losses sustained by the pandemic. The anticipated job growth in the coming quarters will continue to fuel demand for apartments.

The investment market gained momentum as investors ramped up activity in the final quarter of 2021. This marked a continuation of a trend of accelerating sales velocity throughout the year. Twice as many properties changed hands in 2021 than during the previous year. The spike in activity, coupled with a sharp increase in rents, caused prices to push higher. Approximately one-third of sales that closed in 2021 occurred in Northwest San Antonio, including nearly 20 Class A properties as well as a handful of newer, Class B assets. The median price in these Class A properties in the Northwest San Antonio region was nearly \$150,000 per unit. Cap rates compressed in 2021, with investors willing to accept lower initial returns with the anticipation of implementing healthy rent gains as leases roll over.

* In transactions where pricing is available

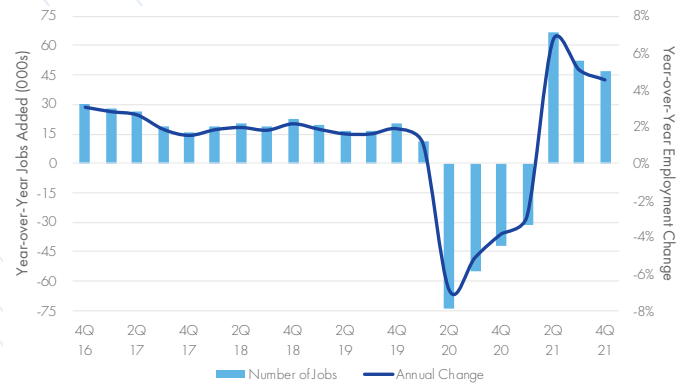
Employment

- The San Antonio labor market made a full recovery in 2021, as employers added back all the jobs lost during the pandemic-related downturn in the preceding year. In 2021, employers added back more than 47,000 jobs including a net gain of 18,000 jobs during the fourth quarter. For the full year, area employment expanded by 4.5 percent.
- The professional and business services sector has been one of the leading sources of economic growth in 2021. This industry accounted for roughly one quarter of all new jobs added in the region. Year over year, this sector grew by 12,000 jobs, a gain of 8.4 percent.
- Zoho Corp., a multinational technology company that makes web-based tools, recently opened a new 10,000-square-foot office in New Braunfels. The company plans to hire 80 additional workers in the near future to work in the new office space.
- **Forecast:** The local economy is forecast to record rapid expansion in the year ahead. Employers in San Antonio are projected to add approximately 50,000 jobs in 2022, a gain of 4.6 percent.



In 2021, employers added back more than 47,000 jobs.

Employment Overview

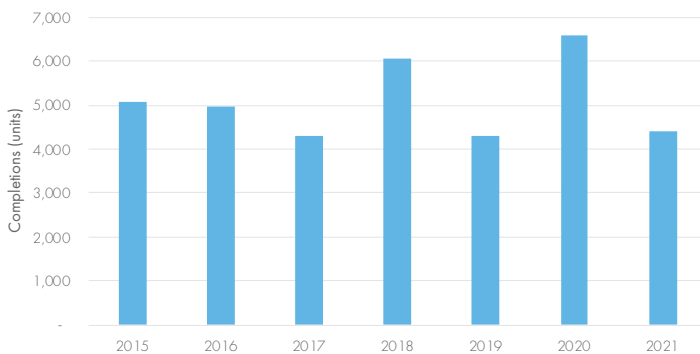


Sources: Northmarq, Bureau of Labor Statistics



Projects totaling more than 4,400 units were delivered in 2021.

Development Trends



Sources: Northmarq, Apartment Trends, Reis

Development and Permitting

- The pace of development was modest in 2021. Projects totaling more than 4,400 units were delivered, after nearly 6,600 units came online in the prior year. Completions in San Antonio have averaged more than 5,100 units per year since 2014.
- Deliveries will accelerate in the coming quarters as more than 11,800 units are under construction, an increase of 44 percent compared to construction activity at the end of 2020.
- Permitting has been extremely active this year as developers increase volume to satisfy the heightened renter demand. Permits for nearly 8,100 multifamily units were pulled in 2021, an increase of 40 percent from one year ago.
- **Forecast:** The pace of deliveries is expected to gain momentum in the year ahead. Developers are forecast to bring around 3,600 new units to the market by the end of 2022.

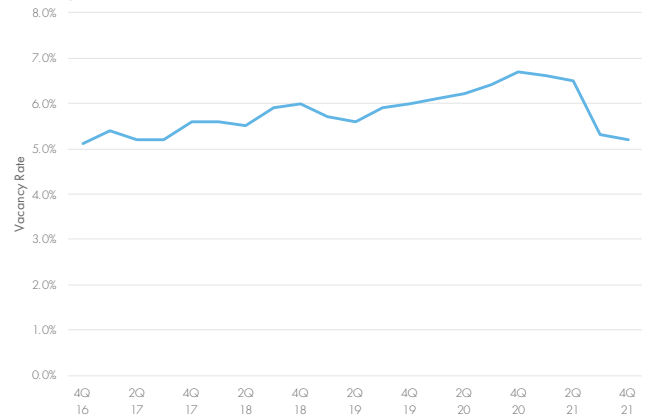
Vacancy

- Area vacancies continued to improve in the final months of 2021. Vacancy in San Antonio dipped an additional 10 basis points in the fourth quarter, ending the year at 5.2 percent. This marks the lowest figure since mid-2017.
- For the full year, vacancy in San Antonio fell 150 basis points, more than offsetting an increase in 2020. The combined forces of accelerating demand and slowing supply growth allowed for the drastic vacancy tightening.
- The increase in renter demand can be measured in the region's growing absorption levels. Nearly 4,500 units were absorbed in 2021, an increase of nearly 14 percent compared to levels in 2020.
- **Forecast:** With construction expected to accelerate in 2022, deliveries and absorption should be closely aligned. The vacancy rate is forecast to end 2022 at 5.2 percent, unchanged from the 2021 year-end figure.



Vacancy ended the year at 5.2 percent.

Vacancy Trends

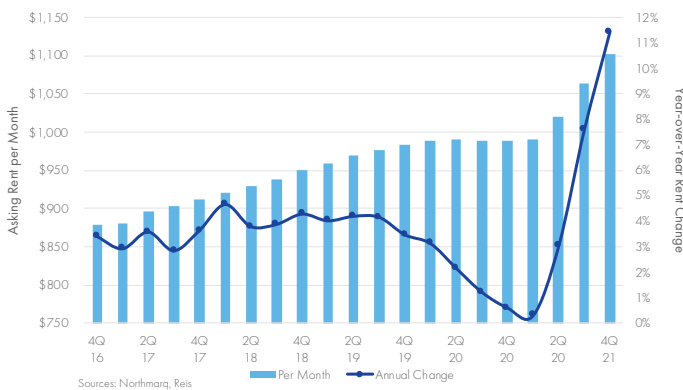


Sources: Northmarq, Reis



Asking rents spiked by 11.4 percent in 2021.

Rent Trends



Sources: Northmarq, Reis

Rents

- Area asking rents continued to increase through the end of 2021, rising 3.6 percent from the third quarter to the fourth quarter to reach \$1,102 per month.
- The past year marked an all-time high for the pace of local rent growth. Asking rents in San Antonio spiked by 11.4 percent in 2021, following average gains of about 3 percent per year since 2010.
- Class A units drove the overall rent growth in San Antonio. The average Class A asking rent rose 3.3 percent in the fourth quarter and 11.4 percent year over year, ending 2021 at \$1,290 per month.
- **Forecast:** The momentum gained in the San Antonio multifamily market is expected to carry over into 2022. Asking rents are forecast to advance about 6 percent in 2022, reaching \$1,170 per month.

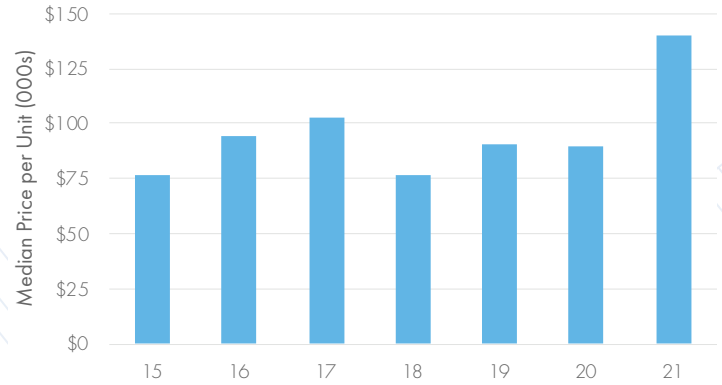
Multifamily Sales

- Transaction activity surged in the final months of 2021, with more than double the number of properties changing hands from the previous quarter. For the full year, sales volume nearly tripled levels from 2020.
- The spike in investor demand has caused acquisition prices to increase. The median price in sales where pricing data was available was \$140,300 per unit, a 56 percent increase from the median price in 2020.
- Cap rates have generally declined in San Antonio, particularly as vacancies have tightened and rents have spiked. During the fourth quarter, the bulk of the transactions occurred with cap rates ranging from 3.5 percent to 4.5 percent.



For the full year, sales volume nearly tripled levels from 2020.

Investment Trends



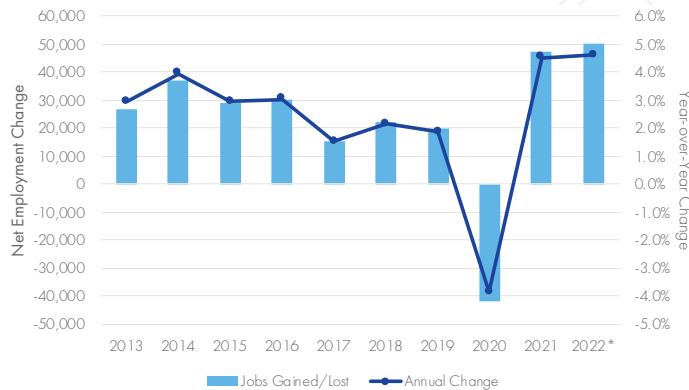
Sources: NorthMarq, CoStar

Looking Ahead

After recording a year of sharp improvement in 2021, the San Antonio multifamily market is expected to post another year of strong performance in the year ahead. Renter demand is forecast to remain elevated for a second consecutive year, although the pace of supply growth is on track to accelerate in 2022. The end result will likely be a fairly stable vacancy rate for much of 2022, following a rapid tightening in the past year. The consistently low vacancy rates, along with healthy demand, should support an above-average pace of rent increases.

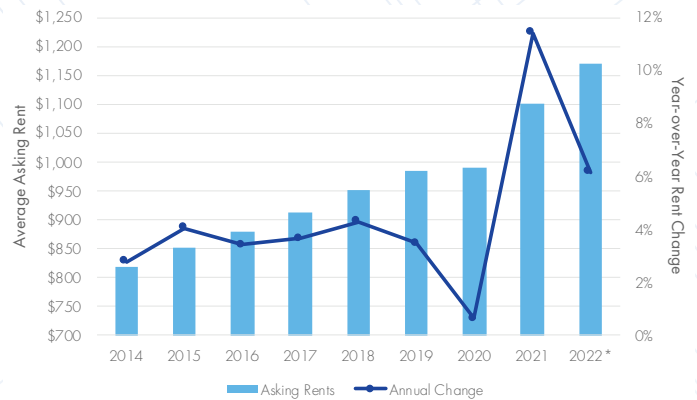
The momentum gained in the local investment market will likely carry over into 2022. The conditions that prompted investors to step up activity levels in 2021 are likely to remain in place in the coming year. Each successive quarter where absorption continues at a healthy clip, vacancy rates remain low, and rents trend higher will continue to attract investment capital. The market has already begun to record an increase in the number of Class A property sales, and with the delivery of additional projects scheduled to gain momentum, there should be an increase in the sale of newer communities.

Employment Forecast



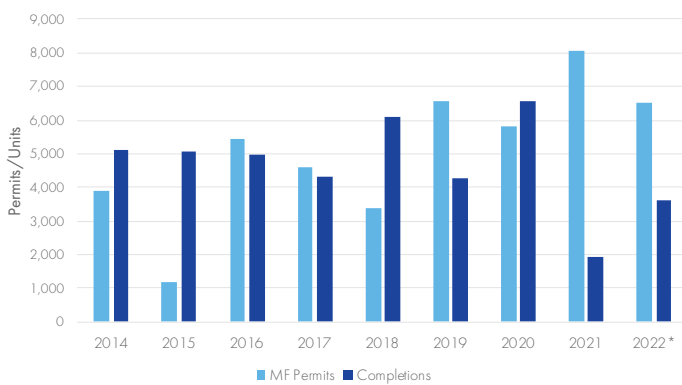
* Year End Forecast
Sources: Northmarq, Bureau of Labor Statistics

Rent Forecast



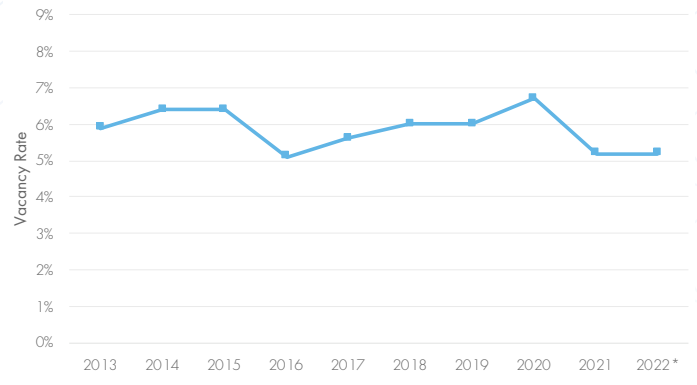
* Year End Forecast
Sources: Northmarq, Reis

Construction & Permitting Forecast



* Year End Forecast
Sources: Northmarq, Apartment Trends, Census Bureau, Reis

Vacancy Forecast



* Year End Forecast
Sources: Northmarq, Reis



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