Northmarq

MARKET INSIGHTS

With renter demand elevated, more supply on the way

CONSTRUCTION ACTIVITY

UNITS UNDER CONSTRUCTION	18,248
UNITS DELIVERED	5,461

MARKET FUNDAMENTALS

VACANCY RATE	5.1%
YEAR-OVER-YEAR CHANGE	-10bps
ASKING RENTS	$1,135
YEAR-OVER-YEAR CHANGE	+3.0%

MARKET TRANSACTION ACTIVITY (YTD)

MEDIAN PRICE PER UNIT*	$111,600

** Transactions where pricing is available*

San Antonio Multifamily
4Q 2022

HIGHLIGHTS

- San Antonio continues to expand, and with demand elevated, developers are moving additional supply through the pipeline. The market operated close to equilibrium throughout much of 2022, but there could be added supply-side pressures in the coming year.
- Vacancy ended 2022 at 5.1 percent, down 10 basis points from one year earlier. The rate edged higher during both the third and the fourth quarters.
- Rents in San Antonio have remained in a very tight range in each of the past three quarters. Asking rents ended the fourth quarter at $1,135 per month, matching the figure from the second quarter. For the full year, rents rose 3 percent.
- Investment activity was elevated in the first half of the year and then cooled in the second half. In transactions where pricing is available, the median sales price reached $111,600 per unit in 2022.

SAN ANTONIO MULTIFAMILY MARKET OVERVIEW

Operating conditions in the San Antonio multifamily market were healthy throughout 2022, despite some modest softening in the fourth quarter. Vacancies were lower at the end of 2022 than they were at the beginning of the year. The healthy vacancy conditions occurred during a period when the pace of new apartment development was accelerating. Nearly 5,500 units were delivered in 2022, and after a very active year of permitting, multifamily deliveries are expected to remain elevated for the next few years. To this point, renter demand for units has closely tracked supply growth. Employers continue to add workers across a wide range of industries. In 2022, some of the most rapid gains were in high-wage professional sectors, supporting demand for new, Class A developments.

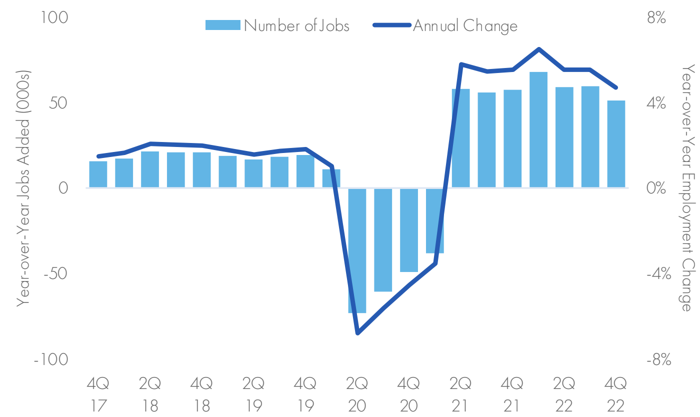
The investment market remained active in the final few months of the year, but transaction volume lagged the peak levels recorded in the first half of 2022. The period when the most properties changed hands in San Antonio was the second quarter. By the time the year had ended, activity levels were down about 50 percent from the peak. Still, transactions were getting closed, with investors drawn to the region's healthy growth outlook. The market showed signs of adjusting to the evolving capital environment during the fourth quarter, with cap rates averaging about 4.75 percent overall, and some properties changing hands with cap rates of 5 percent or higher.

EMPLOYMENT

- The local employment market posted rapid gains throughout 2022, adding more than 51,000 jobs for the full year, a 4.7 percent expansion of area payrolls. This marked the second consecutive year where job growth topped 50,000 positions.
- Growth was widespread across several industries in 2022 but was strongest in white-collar industries. More than 7,000 jobs were added in the financial activities sector, a 7.4 percent expansion, while the professional and business services sector grew by 3.5 percent with the addition of 5,400 jobs.
- The manufacturing sector should receive a boost from a new facility northeast of the city core. During the fourth quarter, the Seguin City Council approved an agreement to allow a $75 million manufacturing plant for Maruichi Stainless Tube Corp. The new facility is slated to begin construction in early 2023 and should result in more than 100 net new jobs.
- **FORECAST:** A slowing pace of economic growth at the national level will likely spill over into the local labor market. Employers in San Antonio are forecast to add 15,000 net new jobs in the region, a 1.3 percent expansion to area payrolls.

2022 was the second consecutive year where growth topped 50,000 jobs.

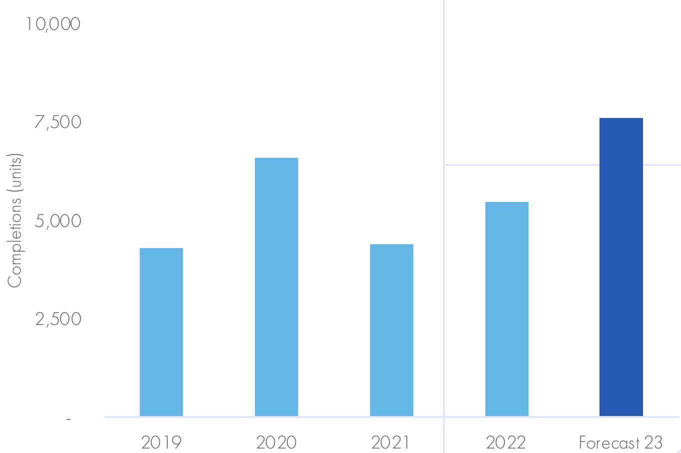
EMPLOYMENT OVERVIEW



Sources: Northmarq, Bureau of Labor Statistics

Developers pulled permits for nearly 13,500 multifamily units in 2022.

DEVELOPMENT TRENDS



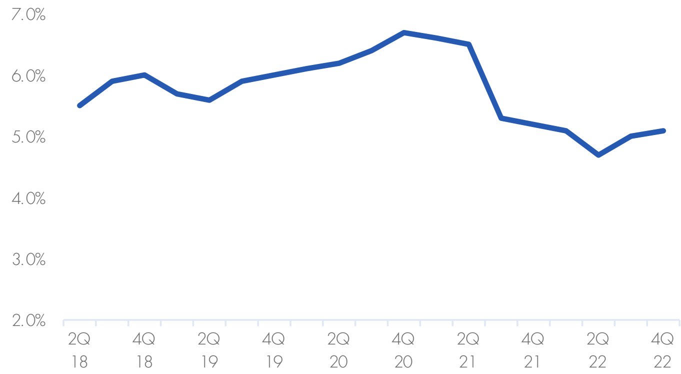
Sources: Northmarq, Apartment Trends, CoStar, Reis

DEVELOPMENT & PERMITTING

- In 2022, apartment deliveries in San Antonio totaled nearly 5,500 units, after more than 4,400 units were delivered in the prior year. The fourth quarter was the most active period for completions; more than 2,500 units came online in the final three months of the year.
- The pace of new construction accelerated throughout 2022. By the end of the year, projects totaling more than 18,200 units were under construction in the region, up nearly 55 percent from the year-end 2021 total. Approximately 1,350 units are under way in the Pearl District in Midtown San Antonio.
- The past year was a particularly active one for permit issuance. Developers pulled permits for nearly 13,500 multifamily units in 2022, up more than 65 percent from the preceding year. During the fourth quarter, the pace slowed modestly with permits for approximately 2,700 units issued.
- **FORECAST:** Annual deliveries in San Antonio have averaged 5,400 units per year since 2018 but are on pace to exceed that total in 2023. Projects totaling nearly 7,600 units are slated to be delivered in the coming year, with a more modest number of units set to come online in 2024.

The local vacancy rate declined 10 basis points in 2022.

VACANCY TRENDS



Sources: Northmarq, Reis

VACANCY

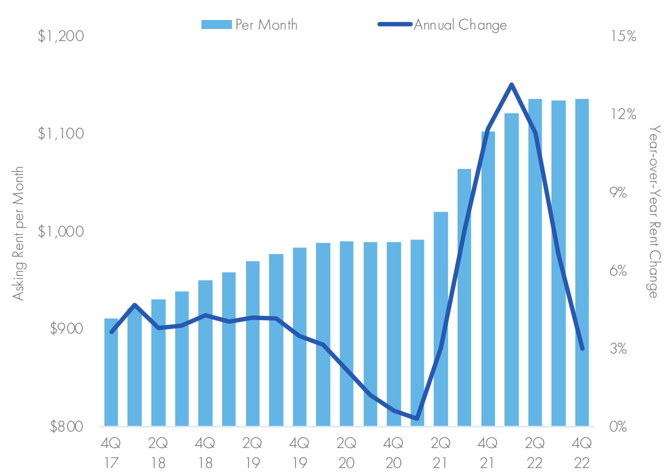
- Despite some quarterly volatility, the local vacancy rate declined 10 basis points in 2022, ending the year at 5.1 percent. The current vacancy rate is about 80 basis points lower than the region's long-term average.
- After tightening throughout all of 2021 and again in the first half of 2022, vacancy rates in San Antonio rose in the second half of the year. Vacancies inched up 10 basis points in the fourth quarter, following a 30-basis-point rise in the third quarter.
- Average vacancies in Class A buildings ended the year at 4.8 percent, while the combined vacancy rate in Class B and Class C properties was 5.4 percent. Looking ahead, the rise in new construction will likely result in an above-average vacancy level in Class A projects in 2023.
- **FORECAST:** Vacancy is forecast to end 2023 at 5.7 percent, closer to the region's long-term average. The rate is forecast to rise 60 basis points, after retreating by more than 150 basis points since 2020.

RENTS

- Rents in the Class A segment edged up 2.6 percent in 2022, ending the year at $1,327 per month. Class A asking rents had been advancing at a pace of nearly 3 percent per year before spiking by 11.4 percent in 2021.
- Rent growth stalled in the second half of the year. Asking rents ended the fourth quarter at $1,135 per month, matching the figure from the second quarter. Since surpassing the $1,000 per month threshold, quarterly rent increases have averaged $20 per month.
- During the 12-month period that ended in the fourth quarter, rents rose 3 percent. Annual rent growth peaked in early 2022 but has historically averaged about 3.3 percent per year.
- **FORECAST:** Rents will likely hold steady or may inch lower in the early parts of 2023, but for the full year, the market should record a gain that closely tracks long-term averages. Asking rents are forecast to end the year at approximately $1,170 per month, a 3.1 percent annual increase.

Rents ended the fourth quarter at $1,135 per month.

RENT TRENDS

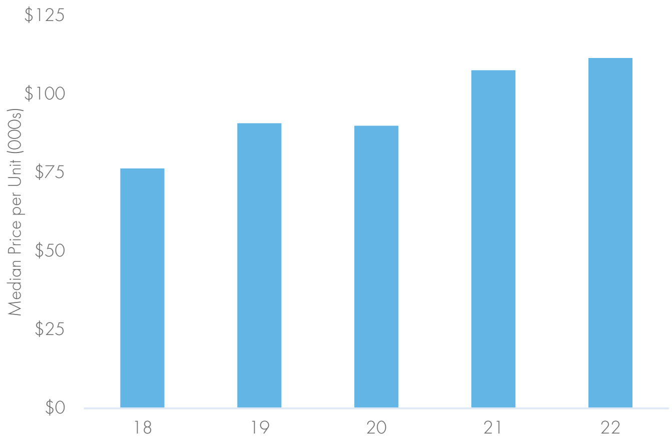


Sources: Northmarq, Reis

MULTIFAMILY SALES

- Transaction activity levels dropped 23 percent from the third quarter to the fourth quarter, although transactions did continue to close throughout the final three months of the year.
- For the full year, sales velocity was down 28 percent from 2021 to 2022. The second quarter was the most active period of transaction activity in 2022.
- In transactions where pricing information has been available, the median price in 2022 was approximately $111,600 per unit. In properties that changed hands in the fourth quarter, the median price was closer to $95,000 per unit.
- After remaining close to 4 percent in the first half of 2022, cap rates trended higher at the end of the year. Cap rates averaged approximately 4.75 percent in the fourth quarter, and some properties traded with cap rates above 5 percent.

INVESTMENT TRENDS



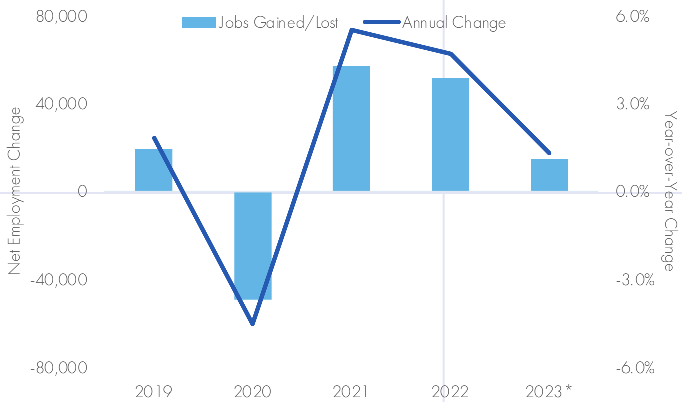
Sources: Northmarq, CoStar, Apartment Trends

The second quarter was the most active period of transaction activity in 2022.

LOOKING AHEAD

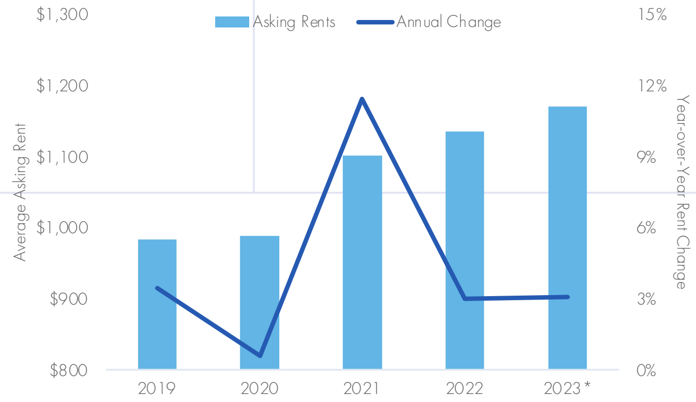
New supply will likely outpace renter demand growth in San Antonio in 2023. The local economy is forecast to continue to expand, but developers will be very active bringing new projects to the market in each of the next two years. The result should be an increase in vacancy rates, at least in the near term. This supply-demand imbalance is not expected to persist beyond 2024, however, as fewer projects are likely to be permitted and break ground as the capital markets for new development get tighter in the year ahead. Despite the competitive challenges stemming from new supply, renter demand should be strong enough to support rent growth, which will also receive a boost from the influx of newer, more expensive units entering the inventory. Investors have been increasingly drawn to the San Antonio multifamily market in recent years, as the region's strong property performance has resulted in heightened transaction activity. In recent months, sales velocity has slowed but has not stalled completely, and properties continue to change hands, setting the stage for 2023. Cap rates have already begun to creep higher, reflecting the rising interest rate environment. The increases in cap rates have somewhat narrowed the expectations gap between buyers and sellers and have allowed for the price discovery that is necessary for additional transaction volume. Sales velocity will likely get off to a bit of a sluggish start to 2023, befvore gaining momentum in the second half of the year; this would be the inverse of investment trends from 2022 when activity peaked in the first half.

EMPLOYMENT FORECAST



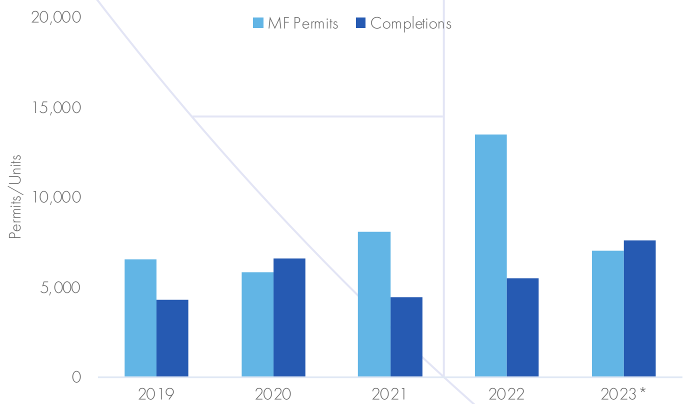
* Year End Forecast
Sources: Northmarq, Bureau of Labor Statistics

RENT FORECAST



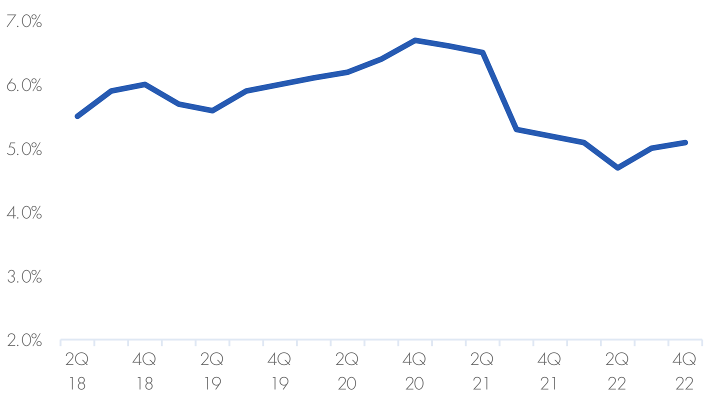
* Year End Forecast
Sources: Northmarq, Reis

CONSTRUCTION & PERMITTING FORECAST



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

VACANCY FORECAST



Sources: Northmarq, Reis

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