

San Antonio Multifamily

Apartment Developers Active, but Rents Remain Stable

Highlights

- > The San Antonio multifamily market posted mostly steady performance during the third quarter. Developers brought a wave of new units to the market, but the additional supply should be absorbed over a period of a few quarters.
- > Vacancy ticked higher in the third quarter, rising 20 basis points to 6.4 percent. Year over year, the local vacancy rate has increased by 50 basis points.
- > Asking rents were essentially flat, finishing the third quarter at \$989 per month. Local asking rents are 1.2 percent higher than they were 12 months ago.
- > The investment market picked up where it left off prior to the coronavirus shutdown. The median price reached approximately \$88,200 per unit, nearly identical to the 2019 median. Cap rates have averaged 5.1 percent this year, down 10 basis points from the average cap rate in 2019.

San Antonio Multifamily Market Overview

The San Antonio multifamily market has been mostly stable despite the economic volatility that has occurred in 2020. During the third quarter, the major development was the significant amount of new supply coming online, which pushed the local vacancy rate higher. With projects totaling more than 8,500 units still under construction, the vacancy rate will likely tick up for another few quarters before the pace of deliveries slows and absorption gains momentum.

Q3 Snapshot	San Antonio Market
	Market Fundamentals
	Vacancy 6.4%
	- Year Over Year Change +50 bps
	Asking Rent \$989
	- Year Over Year Change +1.2%
	Transaction Activity*
	Median Sales Price Per Unit (YTD) \$88,200
	Cap Rates (Avg YTD) 5.1%
	Construction Activity
	Units Under Construction 8,533
	Units Delivered YTD 5,464

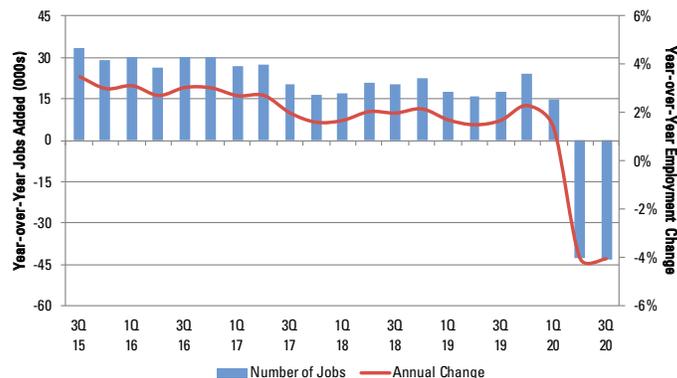
*In transactions where pricing is available

Sales of apartment properties regained momentum during the third quarter, and activity levels closely tracked historical norms. While the number of properties that have sold has varied from quarter to quarter, pricing and cap rate trends have been quite consistent. The median per-unit price is nearly identical to the figure from 2019, and cap rates are slightly lower than last year. The fuel for the investment market is the area's growth; from 2016 to 2019, San Antonio's population expanded at an average rate of 3.9 percent per year.

Employment

- > Following a fairly quick rebound in May and June, the San Antonio labor market added back jobs more slowly during the third quarter. Employers added just 4,900 net jobs in the current period, and several sectors, including leisure and hospitality services, recorded further cuts.
- > Year over year, total employment in San Antonio is down 4 percent, with net job losses totaling more than 43,000 positions.
- > While several industries have recorded losses in the past year, a few are expanding. Area construction employment is up 3.2 percent in the past 12 months, adding nearly 2,000 workers. Since the beginning of 2018, local construction employment has spiked by 13.7 percent with the addition of more than 7,000 workers.
- > **Forecast:** Net job losses are expected to reach approximately 32,000 positions in 2020, a decline of nearly 3 percent. Annual growth has averaged 2.6 percent over the past decade, suggesting this year's losses should be offset fairly quickly.

Employment Overview



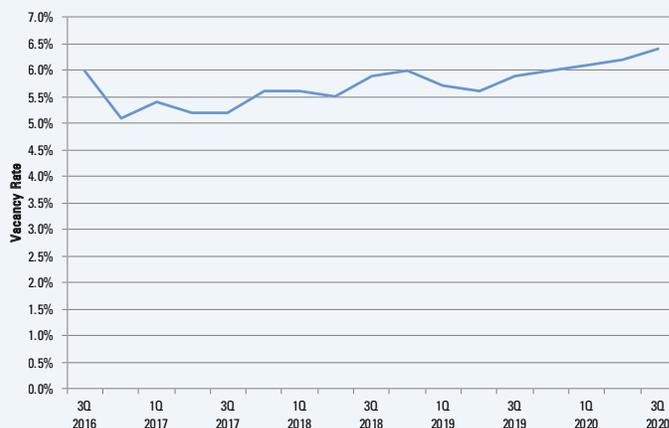
Sources: NorthMarq, Bureau of Labor Statistics

Since the beginning of 2018, local construction employment has spiked by 13.7 percent

Vacancy

- > A spike in the delivery of new units pushed vacancy higher during the third quarter. The rate rose 20 basis points in the quarter, reaching 6.4 percent, 50 basis points higher than the figure one year earlier.
- > Vacancy in lower-tier properties has been much more stable in recent periods as renters have prioritized space and affordability. The combined vacancy rate for Class B and Class C units is 5.5 percent, marking the third consecutive quarter in which the rate has been unchanged.
- > The Far Northwest submarket is one area where vacancy has tightened this year. The submarket's vacancy rate has declined 30 basis points year to date and is currently 6.1 percent.
- > **Forecast:** Construction of new apartment units is expected to remain active through the remainder of this year and into 2021, putting upward pressure on vacancy in the near term. The vacancy rate is forecast to end 2020 at 6.7 percent, 70 basis points higher than at the end of 2019.

Vacancy Trends



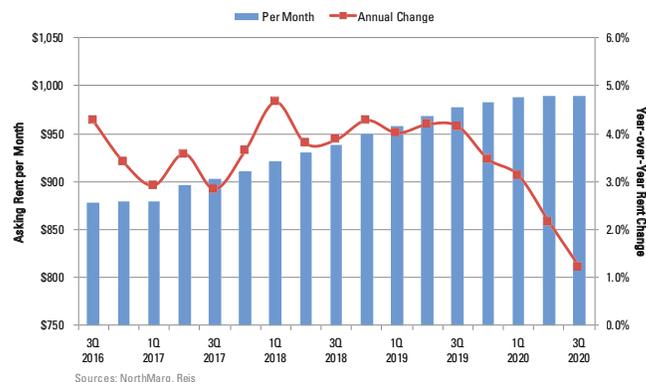
Sources: NorthMarq, Reis

A spike in the delivery of new units pushed vacancy higher during the third quarter

Rents

- > Apartment rents in San Antonio have been very stable this year, avoiding the dips that have occurred in many other markets. Asking rents ended the third quarter at \$989 per month, virtually unchanged from the previous two quarters.
- > While rents have proven to be mostly stable to this point in 2020, they are not rising as they had in recent years. Year over year through the third quarter, asking rents are up just 1.2 percent, down from an annual gain of 4.2 percent one year ago.
- > The healthy demand in properties at the bottom end of the market has led to Class B and Class C buildings' rents slightly outperforming. Asking rents in the combined building class finished the third quarter at \$764 per month, up 1.5 percent from a year ago.
- > **Forecast:** Apartment rents in San Antonio are expected to hold steady during the fourth quarter, as renter demand remains healthy. Asking rents are forecast to record a 0.6 percent increase in 2020.

Rent Trends

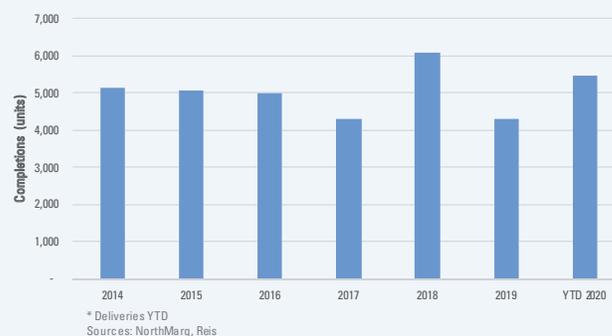


Asking rents ended the third quarter at \$989 per month, virtually unchanged from the previous two quarters

Development and Permitting

- > The pace of new construction accelerated during the third quarter, and developers brought more than 2,400 apartment units online. Year to date, nearly 5,500 apartment units have been completed, 27 percent higher than the full-year total in 2019.
- > The development pipeline remains full, and projects totaling more than 8,500 units are currently under construction. Central San Antonio is an area with a large concentration of new development relative to its supply, and roughly 1,550 apartment units are underway in the submarket.
- > Multifamily permitting has remained active, and developers pulled permits for approximately 1,600 units in the third quarter. Permits for more than 4,500 apartment units have been issued through the first three quarters of 2020, down 18 percent from the same period last year.
- > **Forecast:** Apartment deliveries are forecast to total approximately 6,200 units in 2020, nearly doubling the number of units that came online in 2019. Development is being sparked by the San Antonio area's long-term growth prospects.

Development Trends



Projects totaling more than 8,500 units are currently under construction

Multifamily Sales

- > Transaction activity regained momentum during the third quarter with the number of deals closely tracking levels from earlier in the year. Sales velocity this year still trails the 2019 pace by nearly 25 percent due to a decline in activity during the second quarter.
- > Pricing has been consistent through 2020. Year to date, the median price is approximately \$88,200 per unit, down just 3 percent from the median price last year.
- > Cap rates compressed in the third quarter, bringing the average cap rate this year down to 5.1 percent, 10 basis points below the average cap rate from 2019.

Investment Trends



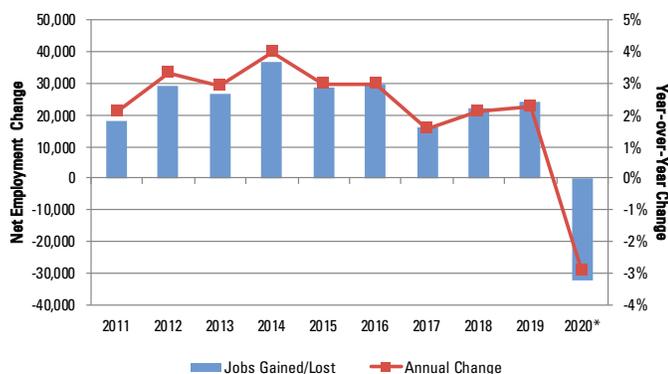
Year to date, the median price is approximately \$88,200 per unit

Looking Ahead

The San Antonio multifamily market is expected stabilize as 2020 comes to a close and should record healthy improvement starting next year. Both supply and demand have been impacting market performance in 2020, but pressures on both forces should ease in the year to come. Demand has been slowed by the coronavirus and the corresponding softness in the labor market. On the supply side, deliveries of new units have reached a cyclical high. Looking ahead to 2021, demand should return as the employment market gets back on track. Next year will still be an active one for new construction, but the number of units slated to come online should be lower than in 2020.

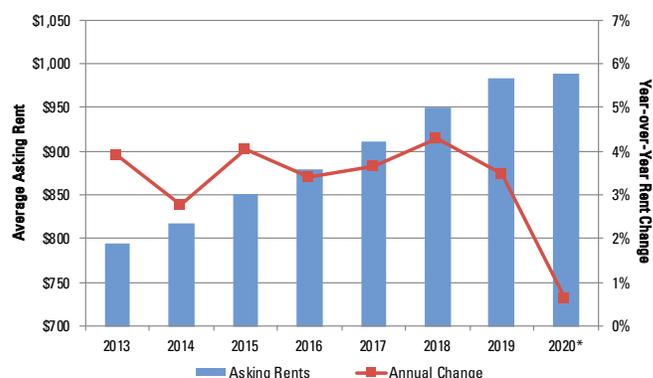
Investment activity is being sparked by San Antonio's long-term demand drivers. The market is expected to continue to attract businesses from higher-tax, higher-regulation markets, fueling investor demand. After recording a pause during the second quarter, transaction activity resumed in the third quarter, setting the stage for a healthy close to the year. Going forward, the influx of new construction will likely prompt additional transaction activity as developers sell projects after lease-up periods.

Employment Forecast



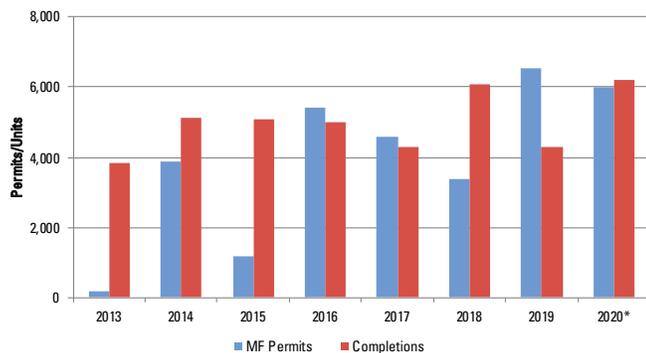
* Year End Forecast
Sources: NorthMarq, Bureau of Labor Statistics

Rent Forecast



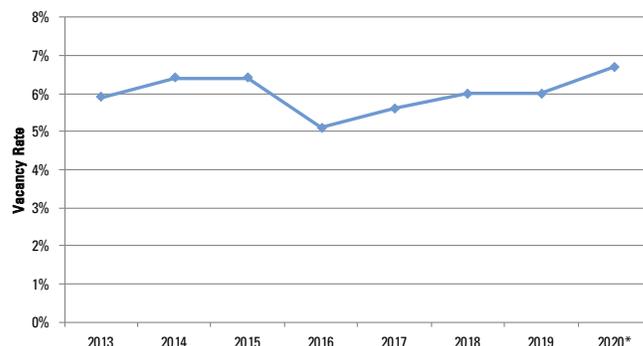
* Year End Forecast
Sources: NorthMarq, Reis

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.

For more information, 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 Leonard

SVP/MANAGING DIRECTOR – DEBT & EQUITY
210.734.1844
bleonard@northmarq.com

Pete O'Neil

DIRECTOR OF RESEARCH
602.508.2212
poneil@northmarq.com

Copyright © 2020 NorthMarq Multifamily, LLC.

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.

