

# Vacancy finds stability, returning closer to historical range

## CONSTRUCTION ACTIVITY



UNDER CONSTRUCTION **17,434**

UNITS DELIVERED **1,604**

## MARKET FUNDAMENTALS



VACANCY RATE **6.1%**

YEAR-OVER-YEAR CHANGE **+100bps**

ASKING RENTS **\$1,145**

YEAR-OVER-YEAR CHANGE **+2.1%**

## TRANSACTION ACTIVITY (YTD)



MEDIAN PRICE PER UNIT\* **\$97,700**

\* Transactions where pricing is available

## HIGHLIGHTS

- The San Antonio multifamily market posted a mixed performance during the first quarter, as the vacancy rate continued to trend higher, while rents posted modest gains.
- Renter demand cooled at the onset of 2023, leading to a vacancy spike during the first quarter. The vacancy rate rose 100 basis points in the first three months of 2023 to 6.1 percent.
- Asking rents advanced 0.9 percent during the first quarter to \$1,145 per month. During the past 12 months, rents are up 2.1 percent.
- Sales velocity in the first quarter was down roughly 30 percent from levels recorded at the end of last year. In transactions where pricing was available, the median sales price year to date is \$97,700 per unit, down 12 percent from the 2022 figure.

## SAN ANTONIO MULTIFAMILY MARKET OVERVIEW

After roughly two years of extremely tight conditions in the San Antonio multifamily market, the vacancy rate spiked at the onset of 2023. A drop in renter demand drove vacancy higher during the first quarter, the third consecutive quarter when the rate pushed higher. Even with the recent spikes, current vacancy conditions are closely aligned with San Antonio's long-term trends. The pace of deliveries slowed at the start of the year after completions surged in late 2022. Apartment deliveries are expected to ramp up going forward, with projects totaling more than 17,400 units currently under construction throughout the region.

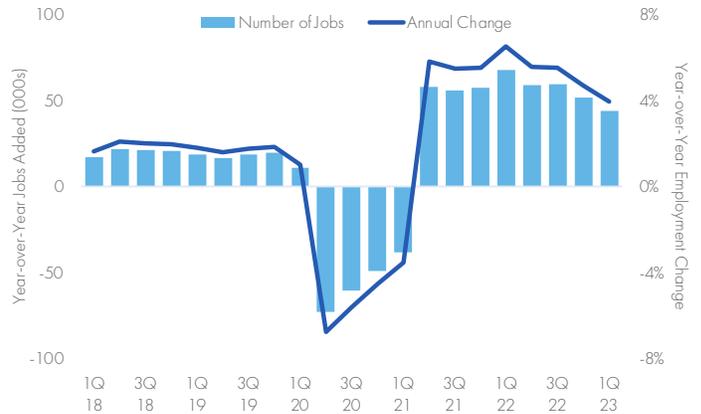
The San Antonio multifamily investment market continued to cool during the first quarter, as both sales volume and pricing dipped. The number of deals in the first quarter was down roughly 30 percent from the previous period, as elevated interest rates dragged on sales activity. The mix of transactions that closed during the first quarter involved properties at both ends of the quality spectrum with limited activity in Class B buildings. The evolving mix impacted pricing. In transactions where pricing was available, the median price reached \$97,700 per unit, while cap rates averaged 5.25 percent.

## EMPLOYMENT

- The local labor market continued to post strong, steady gains in the early months of 2023, as area employers expanded payrolls by 10,300 workers during the first quarter. Year over year, total employment in San Antonio grew by 43,900 positions, an increase of 4 percent.
- The education and health services sector has been one of the region’s top-performing industries for the past several years. In the past 12 months, this sector added 8,000 jobs, expanding by 4.8 percent.
- UT Health San Antonio recently announced plans for a \$1 billion expansion to its San Antonio campus. The project will be headlined by a multispecialty and research hospital, and the expansion is set to create approximately 1,500 jobs beginning in 2025.
- **FORECAST:** The local labor market will likely add positions at a more modest pace through the end of this year, after economic growth surged in 2021 and 2022. San Antonio employers are forecast to add 22,900 jobs in 2023, an annual increase of 2 percent.

*Year over year, total employment grew by 43,900 positions.*

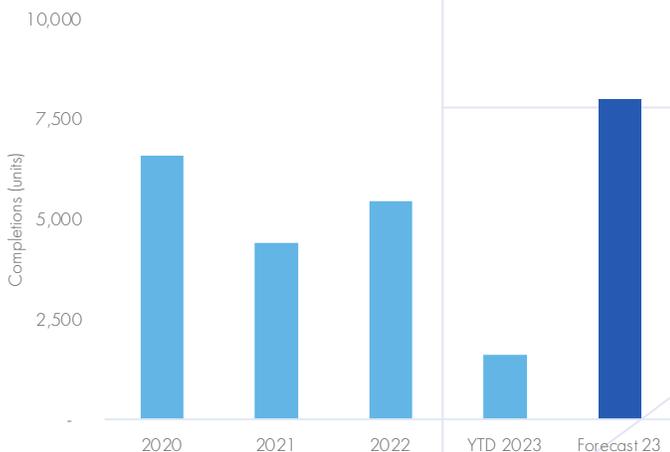
### EMPLOYMENT OVERVIEW



Sources: Northmarq, Bureau of Labor Statistics

*Approximately 1,600 units came online during the first quarter.*

### DEVELOPMENT TRENDS



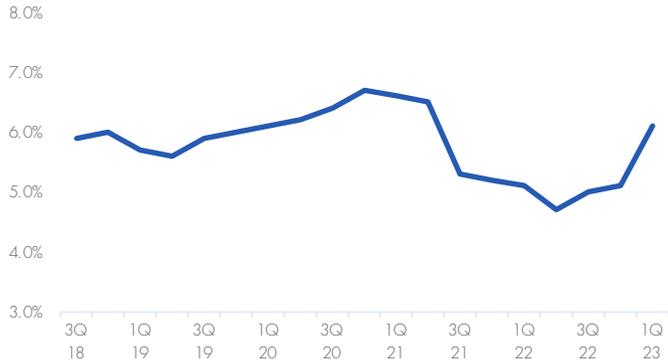
Sources: Northmarq, Apartment Trends, CoStar, Reis

### DEVELOPMENT & PERMITTING

- The pace of multifamily completions slowed in the early months of 2023, after deliveries surged at the end of 2022. Approximately 1,600 units came online during the first quarter, down 36 percent from completions during the fourth quarter of last year.
- Projects totaling more than 17,400 units are currently under construction throughout the region, up 34 percent from levels one year ago.
- After peaking in the middle of last year, multifamily permitting slowed in recent months. Developers pulled permits for roughly 2,000 units during the first quarter; since the beginning of 2021, multifamily permit issuance has averaged 2,700 units per quarter.
- **FORECAST:** Projects totaling 8,000 units are slated to come online in 2023. The market has been recording a steady pace of inventory growth for the past several years; completions have averaged 5,100 units per year since 2014.

Area vacancy averaged 6.4 percent from 2010 to 2020.

VACANCY TRENDS



Sources: Northmarq, Reis

VACANCY

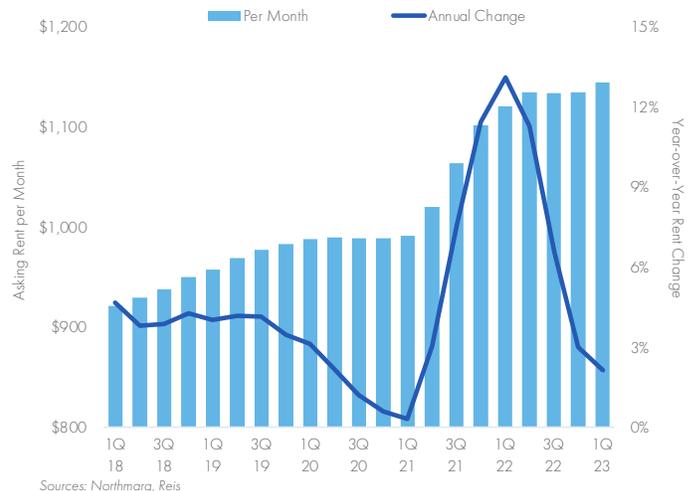
- Vacancy spiked during the first quarter, as renter demand contracted. The rate rose 100 basis points during the first three months of 2023 to 6.1 percent.
- Local vacancy trended higher by 100 basis points during the past 12 months. Despite recent increases, current vacancy conditions are tracking the region’s long-term trends. Area vacancy averaged 6.4 percent from 2010 to 2020, before falling to cyclical lows in 2021 and 2022.
- Class A properties were the only asset class to record vacancy improvements during the past 12 months. Year over year, the vacancy rate in upper-tier properties dropped 30 basis points to 5.6 percent.
- **FORECAST:** While persistent employment growth should support renter demand, completions are forecast to outpace net absorption through the remainder of this year. The vacancy rate is projected to finish 2023 at 6.4 percent.

RENTS

- Area rents trended higher in recent months, after growth was mostly flat during the second half of 2022. Asking rents advanced by 0.9 percent during the first quarter, reaching \$1,145 per month. Year over year, rents increased by 2.1 percent.
- Rents are rising throughout San Antonio, with the Far Northeast submarket posting the largest gains. Year over year, asking rents in this submarket, which surrounds Randolph AFB, increased by 6.4 percent, reaching \$1,126 per month.
- During the past 12 months, average rents in Class A units trended higher by 2.2 percent to \$1,339 per month. With the pace of deliveries forecast to gain momentum through the remainder of this year, the addition of new, more expensive units should result in additional rent increases across Class A properties.
- **FORECAST:** Rents are forecast to rise 3.1 percent in 2023, ending the year at \$1,170 per month. In 2022, rents posted a 3 percent increase.

Rents in Class A units reached \$1,339 per month.

RENT TRENDS



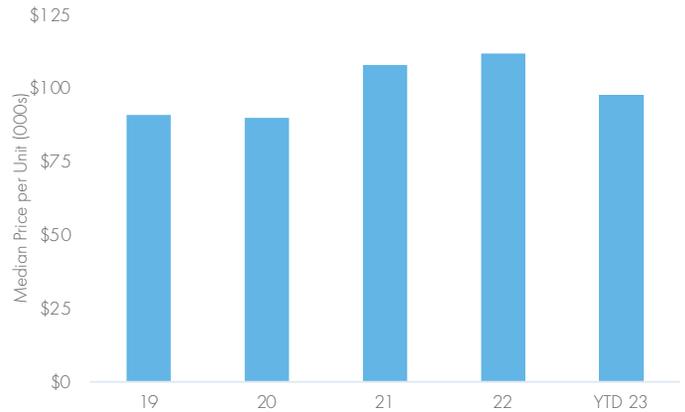
Sources: Northmarq, Reis

## MULTIFAMILY SALES

- Sales activity in the first quarter was down approximately 30 percent from levels at the end of last year. Newer assets continue to trade, with properties built in the last decade accounting for roughly one-third of all transactions.
- In transactions where pricing is available, the median sales price to this point in the year is \$97,700 per unit, down roughly 12 percent from the median price in 2022.
- Cap rates averaged around 5.25 percent during the first quarter, up roughly 50 basis points from levels recorded during the second half of last year.

Cap rates averaged around 5.25 percent in the first quarter.

## INVESTMENT TRENDS



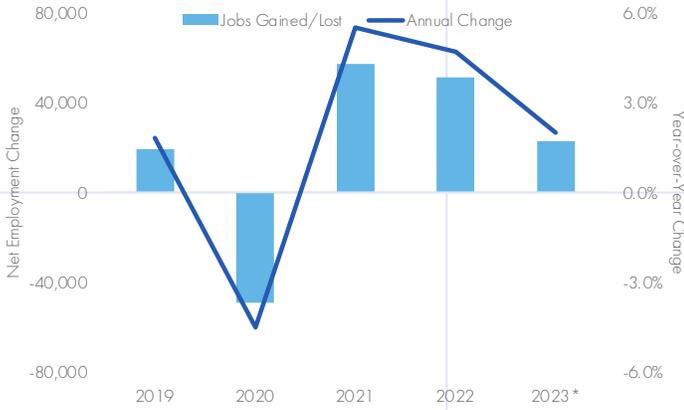
Sources: Northmarq, CoStar, Apartment Trends

## LOOKING AHEAD

The year ahead is expected to be an active one in San Antonio. Multifamily developers, who have delivered nearly 27,000 units to the market in the past five years, are on pace to add another 8,000 units in 2023. The accelerating pace of supply growth comes at a time when renter demand is showing signs of easing. The result of this supply-demand imbalance is forecast to be the market’s first calendar-year vacancy increase since 2020. Much of the anticipated rise in vacancy occurred during the first quarter, and steadier performance is likely in the coming months. Northern San Antonio will receive the heaviest concentration of new deliveries in the coming periods.

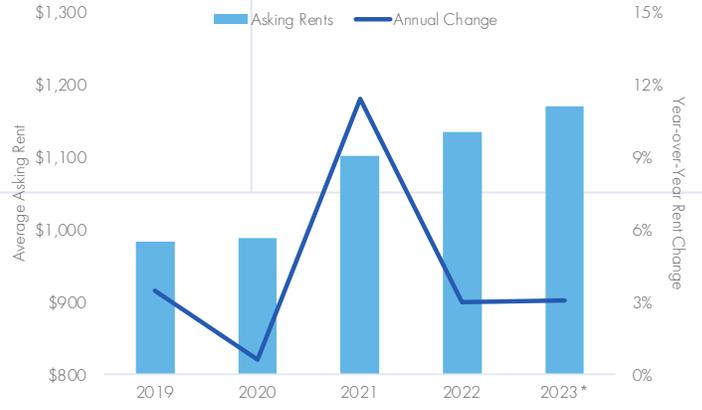
The investment market in San Antonio in 2023 is unlikely to reach the heights from recent years, but properties will continue to trade. Cap rates have begun to push higher—topping 5 percent in the first quarter—offsetting some of the increase in borrowing costs. With cap rates now more than 100 basis points higher than recent lows, and with the region still recording strong economic growth, buyers will likely begin to move off the sidelines by year end. To date, investors have demonstrated a preference for newer assets after dozens of 1970s- and 1980s-vintage properties changed hands since 2019.

### EMPLOYMENT FORECAST



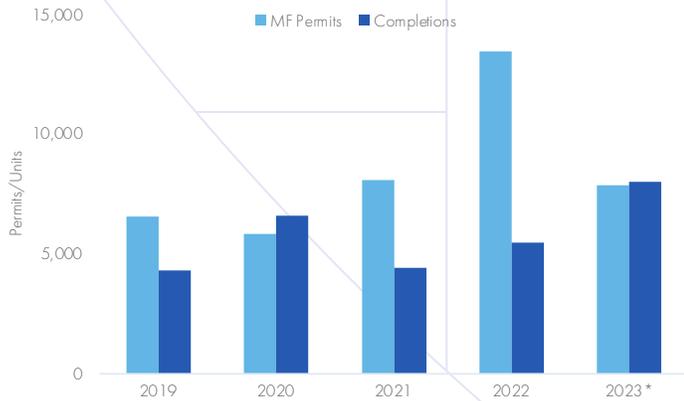
\* Year End Forecast  
Sources: Northmarq, Bureau of Labor Statistics

### RENT FORECAST



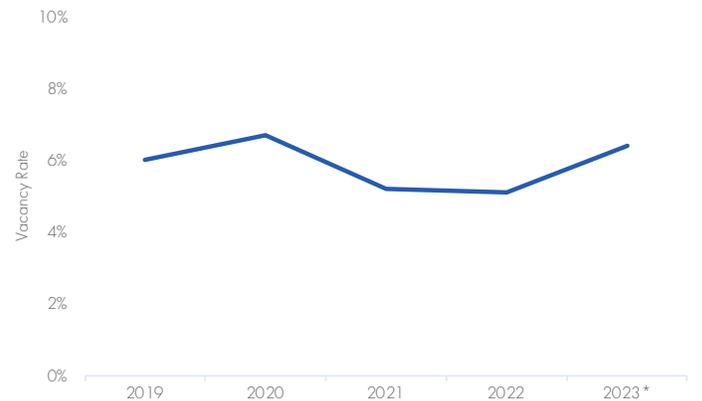
\* Year End Forecast  
Sources: Northmarq, Reis

### CONSTRUCTION & PERMITTING FORECAST



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

### VACANCY FORECAST



\* Year End Forecast  
Sources: Northmarq, Reis





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