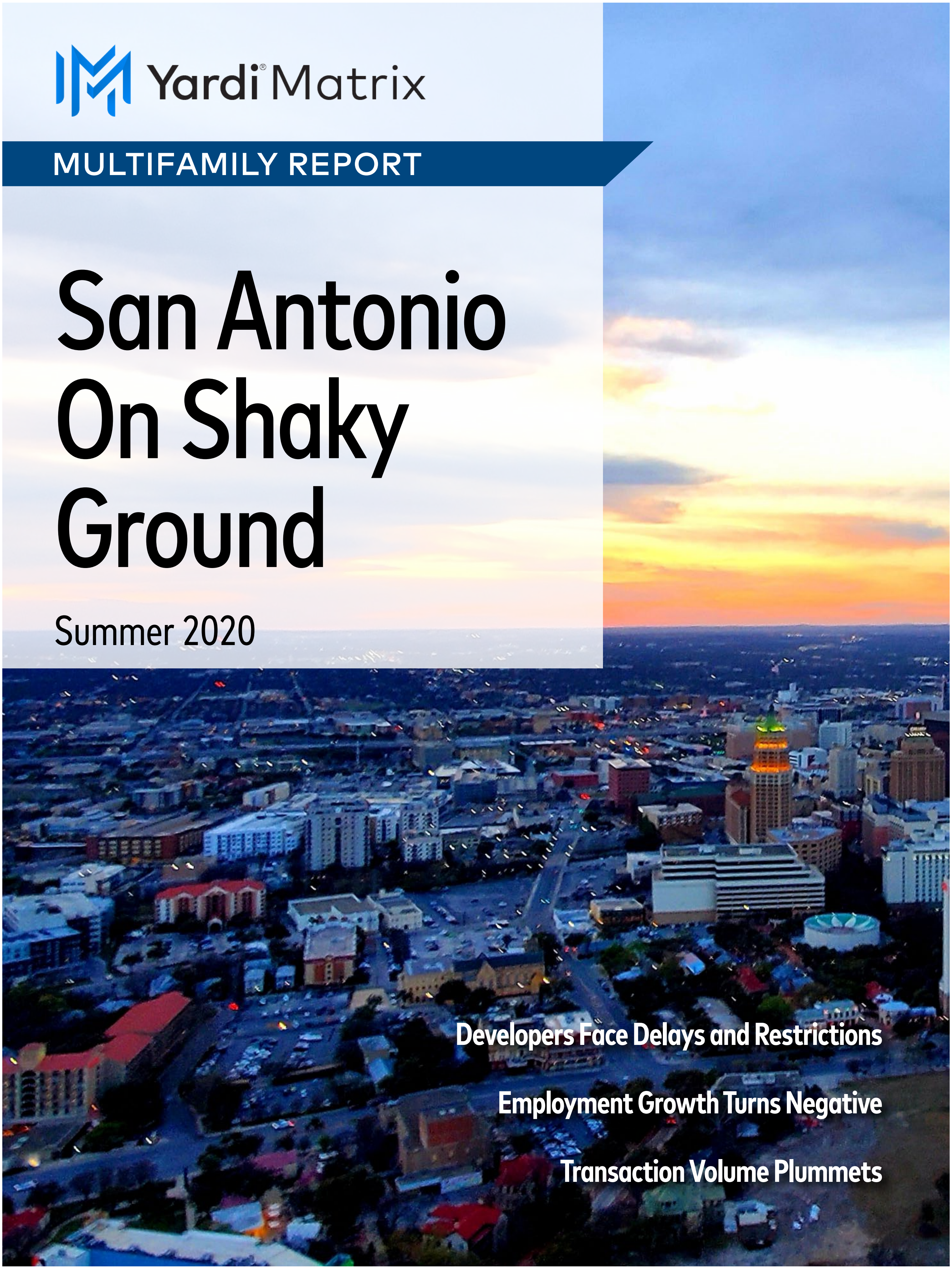

Yardi® Matrix

MULTIFAMILY REPORT

San Antonio On Shaky Ground

Summer 2020

Developers Face Delays and Restrictions

Employment Growth Turns Negative

Transaction Volume Plummets

SAN ANTONIO MULTIFAMILY

Yardi Matrix

Uncertainty Disrupts The Metro

San Antonio's multifamily market performance has slowed considerably amid the COVID-19 outbreak. The average rent in the metro fell 0.2% on a trailing three-month basis through June—10 basis points higher than the U.S. rate—with the $1,043 average well behind the $1,457 national figure. The occupancy rate in stabilized properties slid 120 points, to 92.1%, year-over-year through May.

All employment sectors except construction marked contractions year-over-year through May, highlighting the immediate economic impact of the health crisis. Of the 2.8 million unemployment claims filed across the state through July, more than 188,000 were filed in San Antonio, according to the Real Estate Center at Texas A&M University. The unemployment rate, which indicated a tight labor market at the end of 2019, rose to 13.2% in April. In May, Gov. Greg Abbott reopened Texas, but a recent spike in cases could lead to reinstated restrictions.

Multifamily investment during the first half of 2020 totaled just $259 million, significantly trailing last year's sales total of $1.5 billion. The per-unit price rose 1.0% to $101,563, well behind the $163,799 national average. Meanwhile, developers delivered 2,781 units and had another 9,057 underway. We expect rents to decrease by 1.9% by the end of the year.

Market Analysis | Summer 2020

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Recent San Antonio Transactions

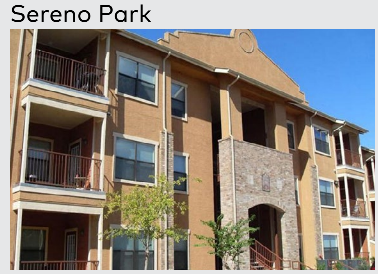
Tradehouse at Bulverde Marketplace

City: San Antonio
Buyer: Sun Holdings Group
Purchase Price: $41 MM
Price per Unit: $124,444

Brynwood

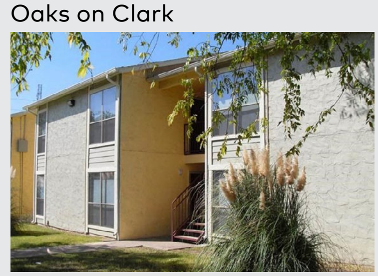
City: San Antonio
Buyer: Shippy Property Management
Purchase Price: $29 MM
Price per Unit: $106,159

Sereno Park



City: San Antonio
Buyer: Shippy Property Management
Purchase Price: $25 MM
Price per Unit: $123,529

Oaks on Clark



City: San Antonio
Buyer: Texas Housing Foundation
Purchase Price: $13 MM
Price per Unit: $166,667

RENT TRENDS

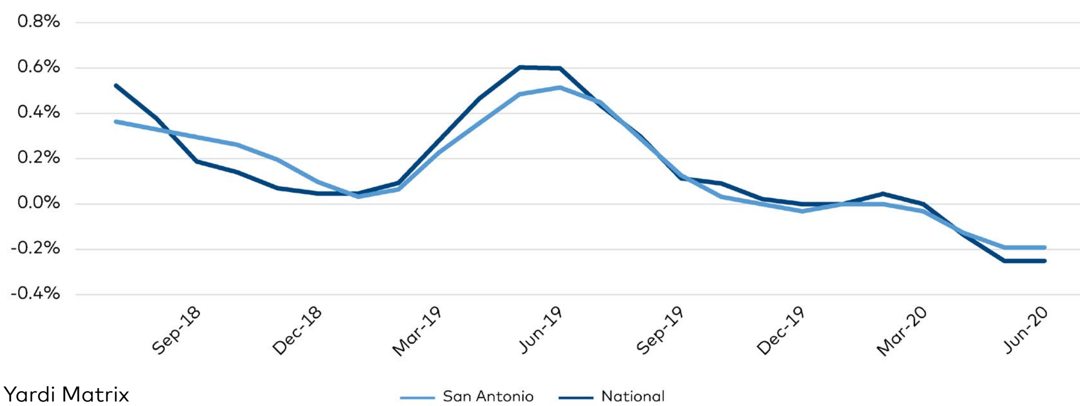
- San Antonio's rental performance has slowed considerably amid the COVID-19 outbreak. San Antonio rents contracted by 0.2% on a trailing three-month basis through June, to an average of $1,043, while the national rate fell 0.3% to $1,457. The Renter-by-Necessity segment inched up 0.1% to $892, while Lifestyle rents declined 0.4% to $1,218.

- Last year, the metro maintained steady rent performance, due to decreasing inventory. Supply has outweighed demand in San Antonio, signaled by the occupancy rate in stabilized properties, which dropped to 92.1% in May, down 120 basis points year-over-year.

- The 120-day moratorium on evictions that expired on July 24, stay-at-home orders and the economic stimulus checks contributed to flattening rental demand. Additionally, the recent spike in COVID-19 cases has deterred potential renters.

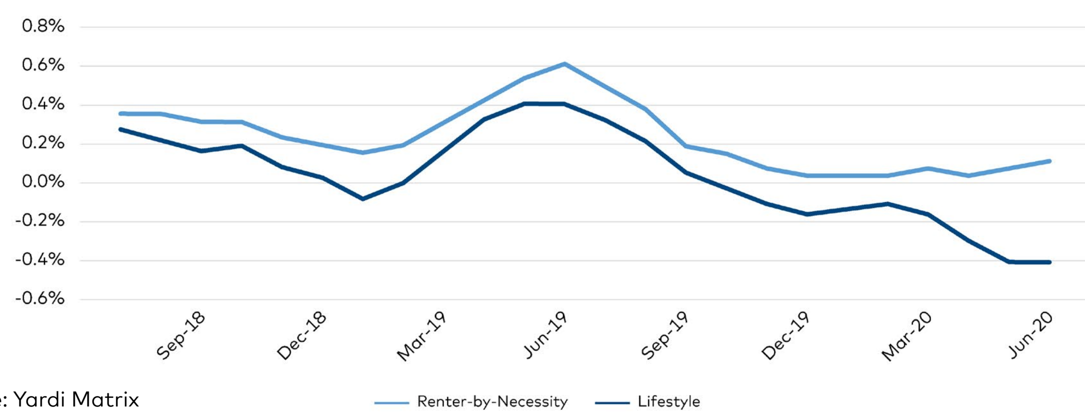
- Submarkets where rental inventories consisted of mostly upscale Lifestyle properties saw average rents take the largest losses: In Northwest Bexar County, the average rent contracted by 2.6% year-over-year through June to $1,170, while in Southtown/King William and Beckmann, San Antonio's most expensive submarkets, the average dipped by 2.5% to $1,388 and $1,357, respectively.

San Antonio vs. National Rent Growth (Trailing 3 Months)



Source: Yardi Matrix

San Antonio Rent Growth by Asset Class (Trailing 3 Months)



Source: Yardi Matrix

ECONOMIC SNAPSHOT

- San Antonio's economic development was cut short by the pandemic—the unemployment rate rose to 13.3% in April, while preliminary data for May pointed to a 50-basis point decrease. By early July, nearly 2.8 million Texans had filed unemployment claims. More than 188,000 of claims were filed in San Antonio, according to the Real Estate Center at Texas A&M University.

- In the 12 months ending in May, all sectors except construction had lost jobs in San Antonio. Leisure and hospitality, the hardest-hit sector, contracted by more than a quarter. With tourism being a major driver for its downtown economy, specifically from the convention business, the Alamo is struggling. Still, its limited dependence on the energy sector which accounts for 6.7% of its workforce—sheltered it from a severe impact during the oil crisis.

- Amid the health crisis, Governor Greg Abbott reopened Texas in May, but a surge in new cases this summer made the state one of the hardest hit in the country. Mayor Ron Nirenberg hinted that a rollback may apply, with restrictions meant to curb the number of infections on the horizon.

San Antonio Employment Share by Sector

		Current Employment	
Code	Employment Sector	(000)	% Share
15	Mining, Logging and Construction	67	6.7%
30	Manufacturing	51	5.1%
50	Information	19	1.9%
55	Financial Activities	92	9.1%
40	Trade, Transportation and Utilities	178	17.7%
90	Government	172	17.1%
80	Other Services	35	3.5%
60	Professional and Business Services	134	13.3%
65	Education and Health Services	156	15.5%
70	Leisure and Hospitality	104	10.3%

Sources: Yardi Matrix, Bureau of Labor Statistics

Population

- San Antonio gained 32,924 residents in 2019, up 1.3% and well above the 0.3% national rate. Growth was mostly driven by domestic migration.

- Between 2016 and 2019, the metro gained 122,634 residents—a 5.1% uptick, exceeding the 1.6% U.S. rate.

San Antonio vs. National Population

	2016	2017	2018	2019
National	323,071,342	325,147,121	327,167,434	328,239,523
San Antonio	2,428,326	2,474,274	2,518,036	2,550,960

Sources: U.S. Census, Moody's Analytics

SUPPLY

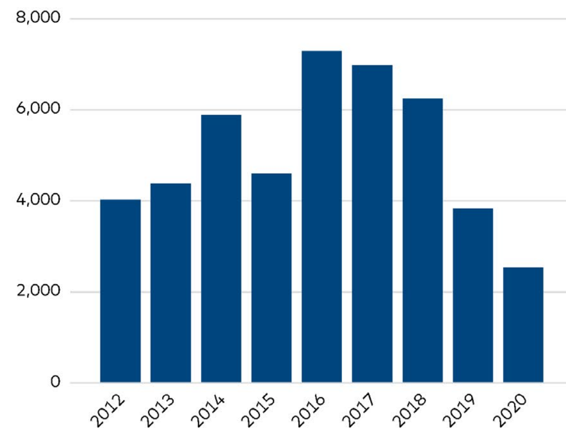
- San Antonio had 9,057 units under construction as of June. Since the last decade's delivery high of 7,296 units in 2016, completions have progressively dwindled. Since 2016, more than 27,000 units have come online.

- Developers added 2,781 units to the metro's housing inventory in the first half of 2020, 1.3% of total stock and 30 basis points above the national rate. Another 5,800 units were slated for completion by the end of the year, but current circumstances will likely restrict new inventory. With the number of COVID-19 cases on the rise, new restrictions could be on the horizon, and, even if construction remains an essential service, social distancing guidelines and other safety measures will likely cause further delays.

- The entire multifamily pipeline has been geared to the Lifestyle segment, however, coronavirus' impact on service industries has already increased demand for RBN apartments, while rents for units in the upscale segment have contracted.

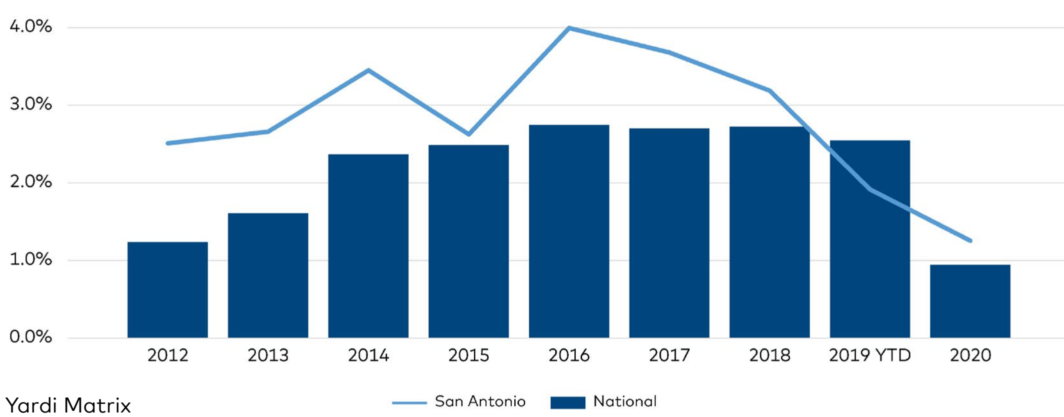
- As of June, nearly half of the construction pipeline was centered in three submarkets—some of the most sought-after areas in the city—the Far North Side (1,704 units under construction), Southtown/King William (1,582 units) and Terrell Hills (651 units).

San Antonio Completions (as of June 2020)



Source: Yardi Matrix

San Antonio vs. National Completions as a Percentage of Total Stock (as of June 2020)

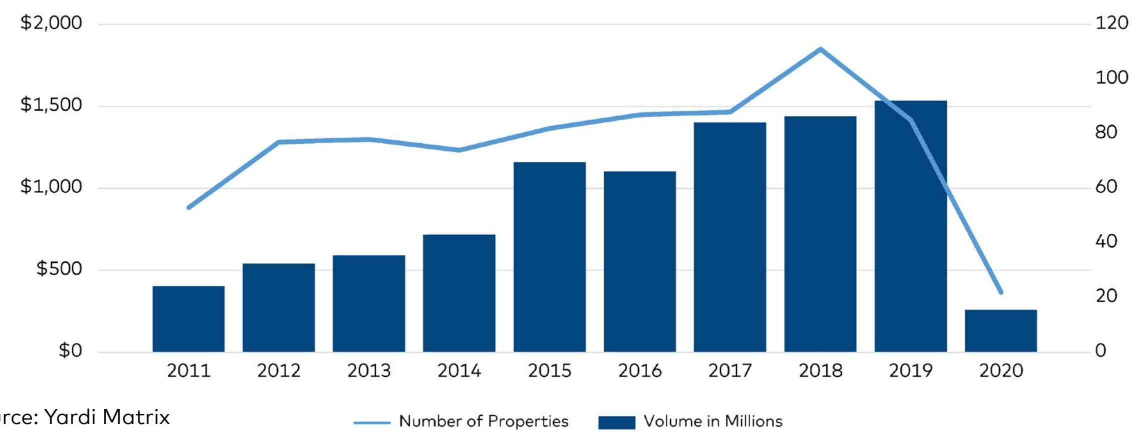


Source: Yardi Matrix

TRANSACTIONS

- Multifamily transactions totaled $259 million in 2020 through June. Investors moved on 22 assets, two-thirds of which were in the Renter-by-Necessity segment. After last year's cycle peak, when $1.5 billion in multifamily assets traded in the metro, sales dropped, due in no small measure to the ongoing health crisis and economic fallout from the ensuing lockdown. Increasing demand for RBN apartments pushed the price per unit up 1.0% to $101,563, trailing the $163,799 national average.
- The 80-unit, fully affordable Oaks on Clark, acquired by the Texas Housing Foundation for $13 million, or $166,667 per unit, marked the sale with the highest price per unit.
- The ongoing health crisis has kept investors hesitant and deals slow. As the year advances, transaction activity will likely remain limited.

San Antonio Sales Volume and Number of Properties Sold (as of June 2020)



Source: Yardi Matrix

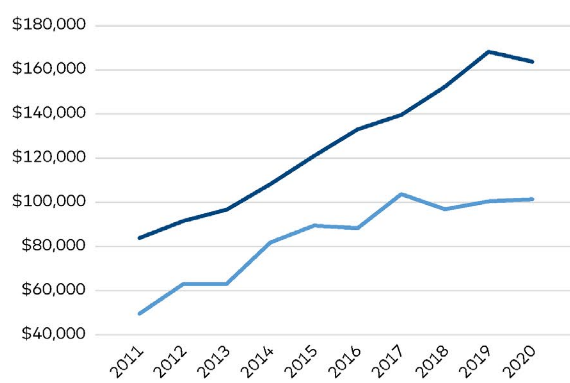
Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
Shavano Park	129
Far North Side	113
Southtown/King William	101
Hollywood Park/Welmore	80
Terrell Hills	63
Northwest Side	61
USAA Area	58

Source: Yardi Matrix

[1] From July 2019 to June 2020

San Antonio vs. National Sales Price per Unit



Source: Yardi Matrix

EXECUTIVE INSIGHTS

Brought to you by: MULTI-HOUSING NEWS

Investing Across Sun Belt Markets

By Adina Marcut

With a portfolio of more than 5,000 units throughout the U.S., Sun Holdings Group is focused on investing in Texas and Georgia. In April, the company acquired a 330-unit community in San Antonio amid strained market conditions. Managing Partner Ido Blatt discusses what makes Sun Belt markets attractive, touches on the risks of investing in multifamily assets and explains why he considers San Antonio more resilient than other metros.

What led you to invest in the Sun Belt and do you plan on expanding to other markets?

We gravitate towards the Sun Belt markets due to affordability and job growth, strong economics and warmer weather. Texas has shown a tremendous amount of population growth and job growth in the past few years, which translates into strong apartment demand. However, the main challenge in Texas is the relatively low barriers to entry, which results in elevated supply levels. Additionally, since real estate taxes are higher than other states, coupled with the metro being a non-disclosure state—this combination adds more uncertainty and risk for investors. We continue to look at other states across the Sun Belt markets, specifically Florida and the Carolinas, which often demonstrate strong apartment fundamentals.

What are the risks of investing in these trying times?

There is a lot of uncertainty with regards to the duration of this crisis and its severity, which in turn makes financial underwriting much more difficult than in normal times. Having said that, as long-term owners, we remain bullish on multifamily as an asset class and even more so on San Antonio. San Antonio has already proven to be more resilient than others due to its steady workforce.

How should housing investors respond to the COVID-19 crisis?

Investors should be cautious about transacting at yesterday's prices and need to adjust downward their rents/occupancies and net operating income assumptions in their underwriting. However, there are still attractive deals out there, if executed at the right basis and allowing for longer-term investment horizons.

How do you see the multifamily sector going forward?

As long as the uncertainty sustains and we don't have a clear path to recover from the pandemic and associated economic crisis, there is a wide range of opinions on values and disconnect between buyers and sellers. Long-term implications of the crisis are higher vacancy rates, stagnant-to-reducing rent levels and increasing delinquency.

Once certainty returns, transaction volume will increase, and the relatively stable income streams of the apartment sector and still relatively attractive yields will lure the surplus of liquidity and create a healthy, competitive landscape.

(Read the complete interview on multihousingnews.com.)

SAN ANTONIO SUBMARKETS

Area No.	Submarket
1	Southtown/King William
2	West Side
3	Southwest Research Institute
4	Balcones Heights
5	West Alamo Heights
6	Alamo Heights–Central
7	Terrell Hills
8	Fort Sam Houston
9	East Side
10	Southeast Side
11	Terrell Wells
12	Southside/Columbia Heights
13	Lackland Terrace
14	Leon Valley–East
15	Oak Hills Country Club

Area No.	Submarket
16	Oakland Estates
17	USAA Area
18	Robards
19	Castle Hills
20	North Loop
21	Longhorn
22	Windcrest
23	City South
24	Far West Side
25	Leon Valley–West
26	Northwest Side
27	University of Texas at San Antonio
28	Shavano Park
29	Hill Country Village
30	Far North Central

Area No.	Submarket
31	Hollywood Park/Welmore
32	Northeast Side
33	Helotes
34	Beckmann
35	Far North Side
36	Universal City
37	Schertz
38	Selma
39	New Braunfels
40	Seguin
41	Southeast Bexar County
42	Southwest Bexar County
43	Northwest Bexar County
44	Outlying Comal County
45	Outlying Guadalupe County

DEFINITIONS

Lifestyle households (renters by choice) have wealth sufficient to own but have chosen to rent. Discretionary households, most typically a retired couple or single professional, have chosen the flexibility associated with renting over the obligations of ownership.

Renter-by-Necessity households span a range. In descending order, household types can be:

- *A young-professional*, double-income-no-kids household with substantial income but without wealth needed to acquire a home or condominium;
- *Students,* who also June span a range of income capability, extending from affluent to barely getting by;
- *Lower-middle-income ("gray-collar") households,* composed of office workers, policemen, firemen, technical workers, teachers, etc.;
- *Blue-collar households,* which June barely meet rent demands each month and likely pay a disproportionate share of their income toward rent;
- *Subsidized households*, which pay a percentage of household income in rent, with the balance of rent paid through a governmental agency subsidy. Subsidized households, while typically low income, June extend to middle-income households in some high-cost markets, such as New York City;
- *Military households*, subject to frequency of relocation.

These differences can weigh heavily in determining a property's ability to attract specific renter market segments. The five-star resort serves a very different market than the down-and-outer motel. Apartments are distinguished similarly, but distinctions are often not clearly definitive without investigation. The Yardi® Matrix Context rating eliminates that requirement, designating property market positions as:

Market Position	Improvements Ratings
Discretionary	A+ / A
High Mid-Range	A- / B+
Low Mid-Range	B / B-
Workforce	C+ / C / C- / D

The value in application of the Yardi® Matrix Context rating is that standardized data provides consistency; information is more meaningful because there is less uncertainty. The user can move faster and more efficiently, with more accurate end results.

The Yardi® Matrix Context rating is not intended as a final word concerning a property's status—either improvements or location. Rather, the result provides reasonable consistency for comparing one property with another through reference to a consistently applied standard.

To learn more about Yardi® Matrix and subscribing, please visit www.yardimatrix.com or call Ron Brock, Jr., at 480-663-1149 x2404.