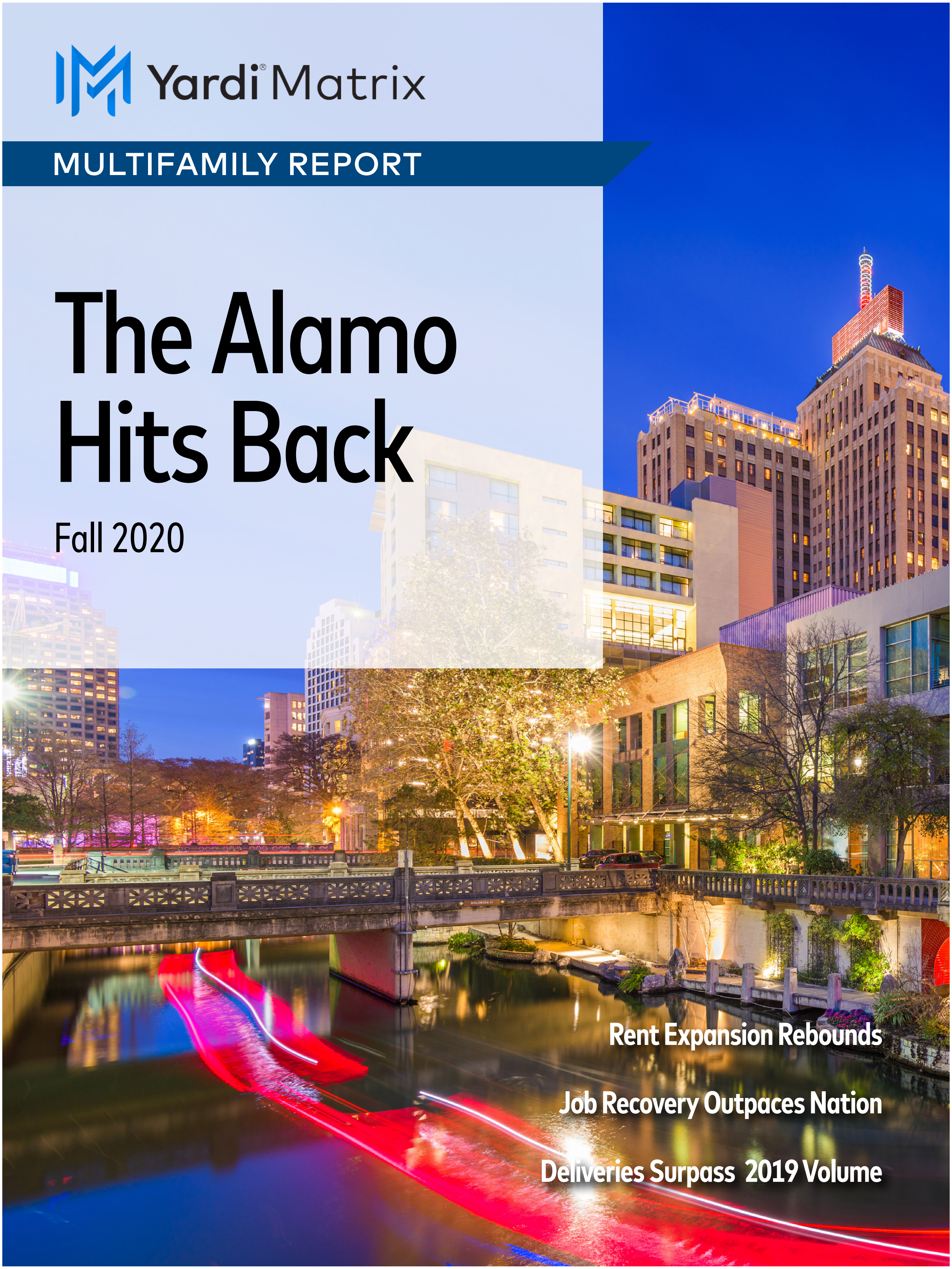
Yardi Matrix

MULTIFAMILY REPORT

The Alamo Hits Back

Fall 2020



Rent Expansion Rebounds

Job Recovery Outpaces Nation

Deliveries Surpass 2019 Volume

SAN ANTONIO MULTIFAMILY

Yardi Matrix

Rent Growth Positive Amid Economic Volatility

San Antonio's multifamily market showed resilience during the second and third quarters, with the metro's fundamentals outperforming major markets and the nation. Rents rose 0.1% on a trailing three-month basis through October to $1,049.

San Antonio was among the metros with the fewest job losses in the wake of the health crisis. The unemployment figure dropped to 6.6% in August, but preliminary data for September signaled a relapse, with the rate rising again to 7.8%. The sectors that lost most jobs were leisure and hospitality—which shrunk by 11.2% in the 12 months ending in September—and professional and business services, down by 5.8%. The largest sector in San Antonio—trade, transportation and utilities—restabilized and gained 800 jobs during the period. Still, the Alamo's more pressing issue is not related to unemployment, but rather underemployment, as an increasing number of people resort to a mix of part-time jobs.

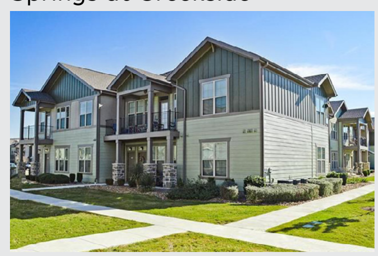
Developers brought online 4,613 units in 2020 through October—surpassing last year's total—and had another 9,468 underway, heavily favoring the Lifestyle segment. Meanwhile, investors traded multifamily assets worth $778 million in the first 10 months of the year, down 37% compared to the same period in 2019. The average price per unit clocked in at $102,723, marking a 3.2% uptick.

Recent San Antonio Transactions

Mira Loma

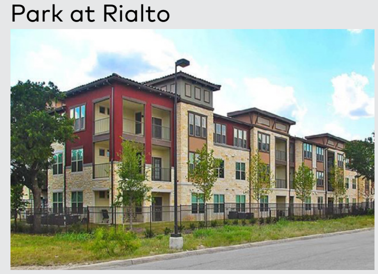
City: Live Oak, Texas
Buyer: Atlantic Pacific Cos.
Purchase Price: $47 MM
Price per Unit: $123,810

Springs at Creekside



City: New Braunfels, Texas
Buyer: AMBO Properties
Purchase Price: $43 MM
Price per Unit: $162,204

Park at Rialto



City: San Antonio
Buyer: Covenant Capital Group
Purchase Price: $38 MM
Price per Unit: $136,959

Legacy Creekside

City: San Antonio
Buyer: Univest
Purchase Price: $31 MM
Price per Unit: $90,730

Market Analysis | Fall 2020

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On the cover: Photo by Sean Pavone/iStockphoto.com

RENT TRENDS

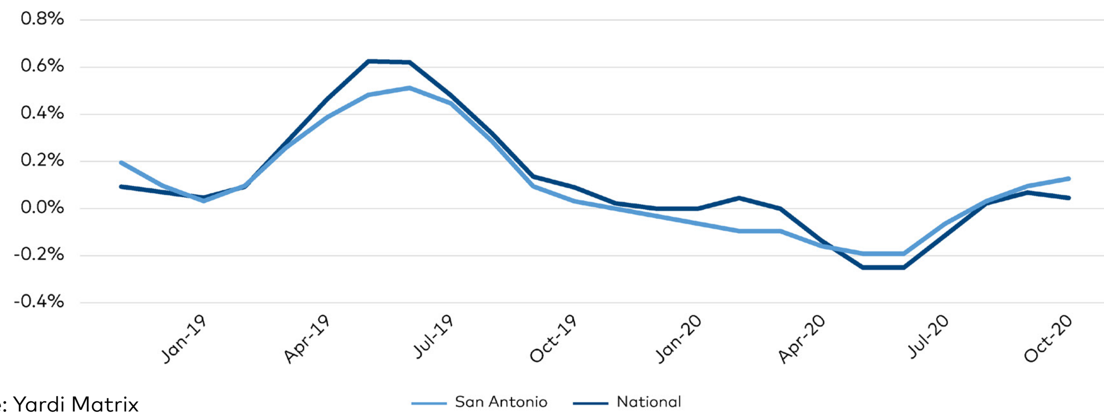
- Rents in San Antonio marked the second consecutive month of growth, up 0.1% on a trailing three-month (T3) basis through October to $1,049. Meanwhile, the national average rent stayed flat at $1,464.

- Rent evolution for the working-class Renter-by-Necessity segment remained positive throughout the year, with the average rate rising 0.1% on a T3 basis through October and clocking in at $897. Still, the current downturn cut short last year's performance when, during the summer months, the average rent was rising by as much as 0.6%. Meanwhile, Lifestyle rents were up 0.2% on a T3 basis through October, to $1,225.

- Nearly all of San Antonio's most expensive submarkets registered rent declines in the 12 months ending in October, including Southtown/King William (-1.8% to $1,387), Beckmann (-2.2% to $1,358) and the University of Texas at San Antonio (-3.7% to $1,330). The latter also marked one of the steepest rent contractions in the metro, alongside Northwest Bexar County (-4.1% to $1,144) and the Northwest Side (-2.6% to $1,133).

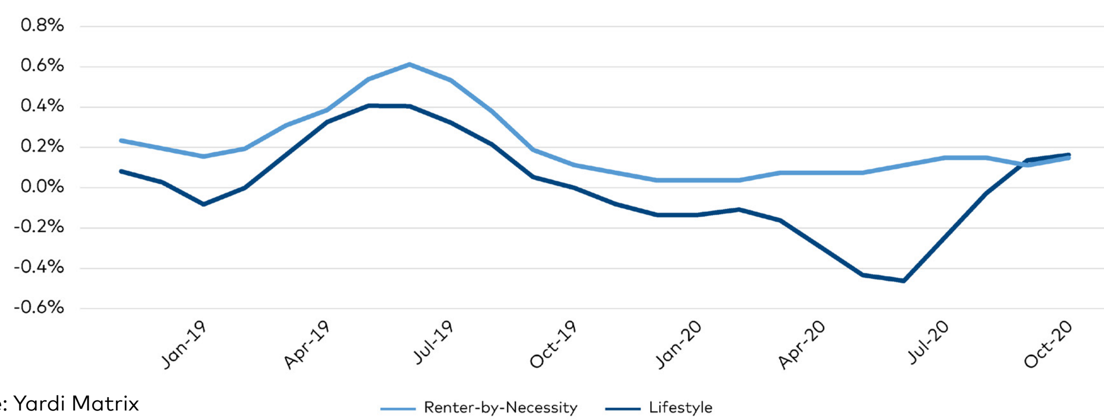
- The list of submarkets leading rent growth in the 12 months ending in October included more affordable submarkets: Windcrest (12.7% to $902), Southwest Research Institute (5.8% to $891), Selma (4.3% to $1,116) and Lackland Terrace (3.3% to 730).

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

- Nearly 3.8 million Texans filed unemployment claims between the start of the pandemic and early November. While the unemployment rate in San Antonio stood at 6.6% in August, preliminary data for September pointed to a new increase, to 7.8%, as additional economic instability kicked in. Prior to the current economic downturn, the metro boasted a rapidly growing economy, with unemployment remaining below the 4.0% mark since 2017.

- San Antonio employment took a direct hit, declining by 5.5% in the 12 months ending in September, but the metro was among the country's Top 10 performers during the recovery phase. U.S. employment contracted by 9.3% during the same time frame.

- Following nationwide trends, San Antonio's hardest-hit sectors were those with a high concentration of low-wage jobs. The freeze of tourism activity and convention lineups has deep implications for the metro, as the bulk of city departments derive sizable resources from the hotel occupancy tax.

- With the metro offering growth potential in aerospace, biosciences and cybersecurity, a local workforce development program passed in November—SA Ready to Work—aims to help 10,000 people annually receive training and higher education certifications through 2025.

San Antonio Employment Share by Sector

		Current Employment	
Code	Employment Sector	(000)	% Share
40	Trade, Transportation and Utilities	184	17.8%
15	Mining, Logging and Construction	68	6.6%
50	Information	19	1.8%
30	Manufacturing	50	4.8%
80	Other Services	37	3.6%
55	Financial Activities	92	8.9%
90	Government	168	16.2%
65	Education and Health Services	161	15.6%
60	Professional and Business Services	135	13.0%
70	Leisure and Hospitality	123	11.9%

Sources: Yardi Matrix, Bureau of Labor Statistics

Population

- San Antonio is among the fastest-growing cities in the U.S., having gained 32,924 residents in 2019 for a 1.3% demographic expansion, more than four times the 0.3% U.S. figure.

- For the past decade, domestic migration was the metro's main population growth driver.

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

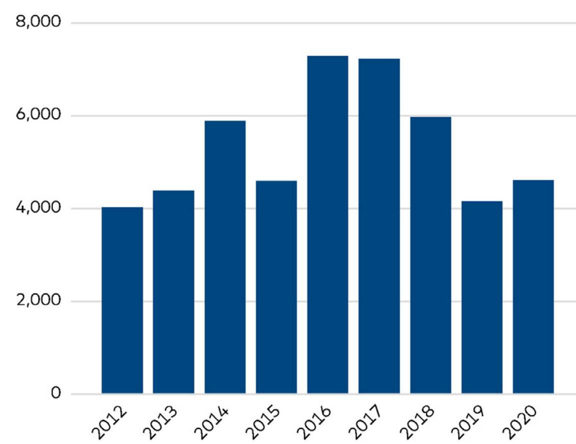
- Construction activity remained high in San Antonio, despite temporary restrictions gone into effect since the onset of the COVID-19 crisis. There were 9,468 units under construction as of October, and nearly 34,000 in the planning and permitting stages.

- San Antonio developers added 4,613 units in 16 communities this year through October, already surpassing last year's total of 4,167 units. The current level of completions is the equivalent of 2.3% of total stock, 50 basis points above the U.S. average. Aside from one fully affordable project of 324 units, the bulk of 2020 deliveries continued to be concentrated in the Lifestyle segment. By the end of the year, another 4,242 units were initially slated to come online. However, significant delays are expected for deliveries.

- Like recent deliveries, the development pipeline, which counted 41 properties as of October, also mostly encompassed upscale projects. However, 18 of the projects underway have at least one affordable component, with eight being fully affordable. Yet, considering that the pandemic has mainly affected the service industry, demand for workforce housing will likely continue to rise, which will provide a boost to working-class rent expansion.

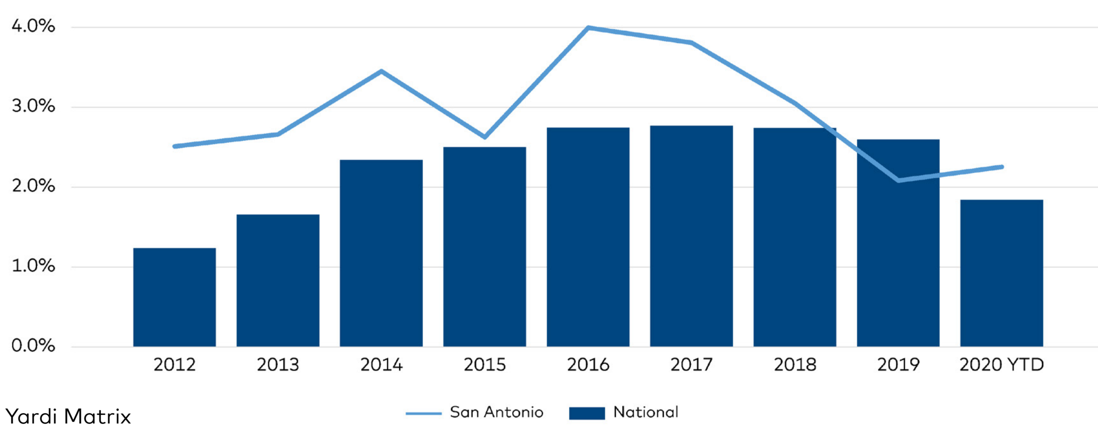
- As of October, more than half of the development pipeline was concentrated in just four submarkets—the Far North Side (2,096 units underway), Southtown/King William (1,784), Hollywood Park/Welmore (581) and New Braunfels (569).

San Antonio Completions (as of October 2020)



Source: Yardi Matrix

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

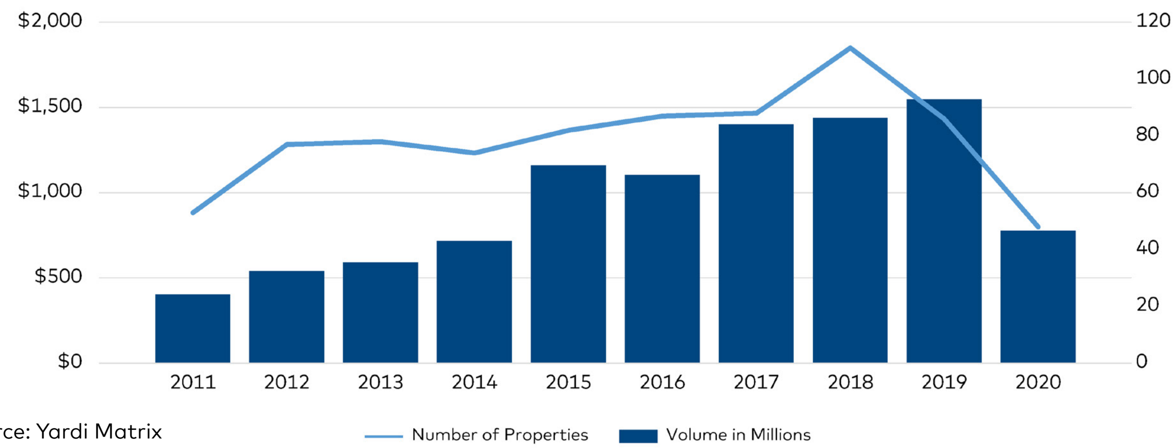


Source: Yardi Matrix

TRANSCTIONS

- San Antonio deal volume reached $778 million in 2020 through October, marking a 37% decrease when compared to the same period last year. With investors taking notice of sustained demand and limited supply of workforce housing, 35 of the 48 properties that traded in the first 10 months of 2020 were in the Renter-by-Necessity segment.
- Although investor interest shifted more toward RBN assets in 2020, the price per unit inched up 3.2% to $102,723 in the first 10 months of the year, still trailing the $164,863 national average.
- Shippy Properties, an Austin, Texas-based investor, was one of the most active buyers in San Antonio this year. The firm acquired 949 units across four properties—Brynwood, City Crest, City Summit and Sereno Park. These additions boosted Shippy's San Antonio portfolio to just south of 2,500 apartments.

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



Source: Yardi Matrix

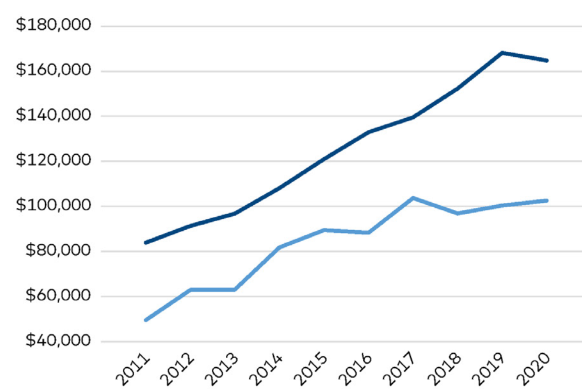
Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
Far North Side	124
Northwest Bexar County	113
Hollywood Park/Welmore	83
Shavano Park	82
East Side	64
Northwest Side	61
New Braunfels	52

Source: Yardi Matrix

[1] From November 2019 to October 2020

San Antonio vs. National Sales Price per Unit



Source: Yardi Matrix

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MULTI-HOUSING NEWS

How the Quest for Low Population Density Is Benefiting the Sun Belt

By Laura Calugar

The economic volatility resulting from the ongoing pandemic is accelerating suburban growth, with low-density areas experiencing a large uptick in demand. But the relatively low cost of living and the high quality of life had been fueling migration to the Sun Belt region well before the health crisis. Cushman & Wakefield Senior Director Tai Cohen and Vice Chair Robert Stickel explain why the Sun Belt has benefited most from the latest relocation trends.

What is attracting investors to the Sun Belt?

Cohen: A significant amount of capital is flooding into the Sun Belt region. International investors are comfortable with cities with major airports and employment drivers.

How have Sun Belt multifamily investors responded to the COVID-19 crisis?

Cohen: There was certainly a pause in transactions between March and May while owners assessed their current portfolios and COVID-19's impact on resident job loss and bad debt. Once they felt comfortable again, everyone flooded back in, especially into the Sun Belt. Now investors are underwriting the same as they were before COVID-19.

How has the pandemic impacted the region's multifamily industry?

Cohen: Multifamily has come out as the winner relative to other asset types because it's proven

Tai Cohen *(left)* and Robert Stickel *(right)*

to be fairly recession-proof. There are still hurdles with bad debt, but people will always need a place to live. A big difference in multifamily capital markets is that we have two government agencies that lend, Freddie Mac and Fannie Mae.

Investors are drawn to the Sun Belt because of the lower cost of living. The warmer weather and open cities are driving people to relocate and driving investor confidence.

What are some of your biggest concerns, nine months into the pandemic?

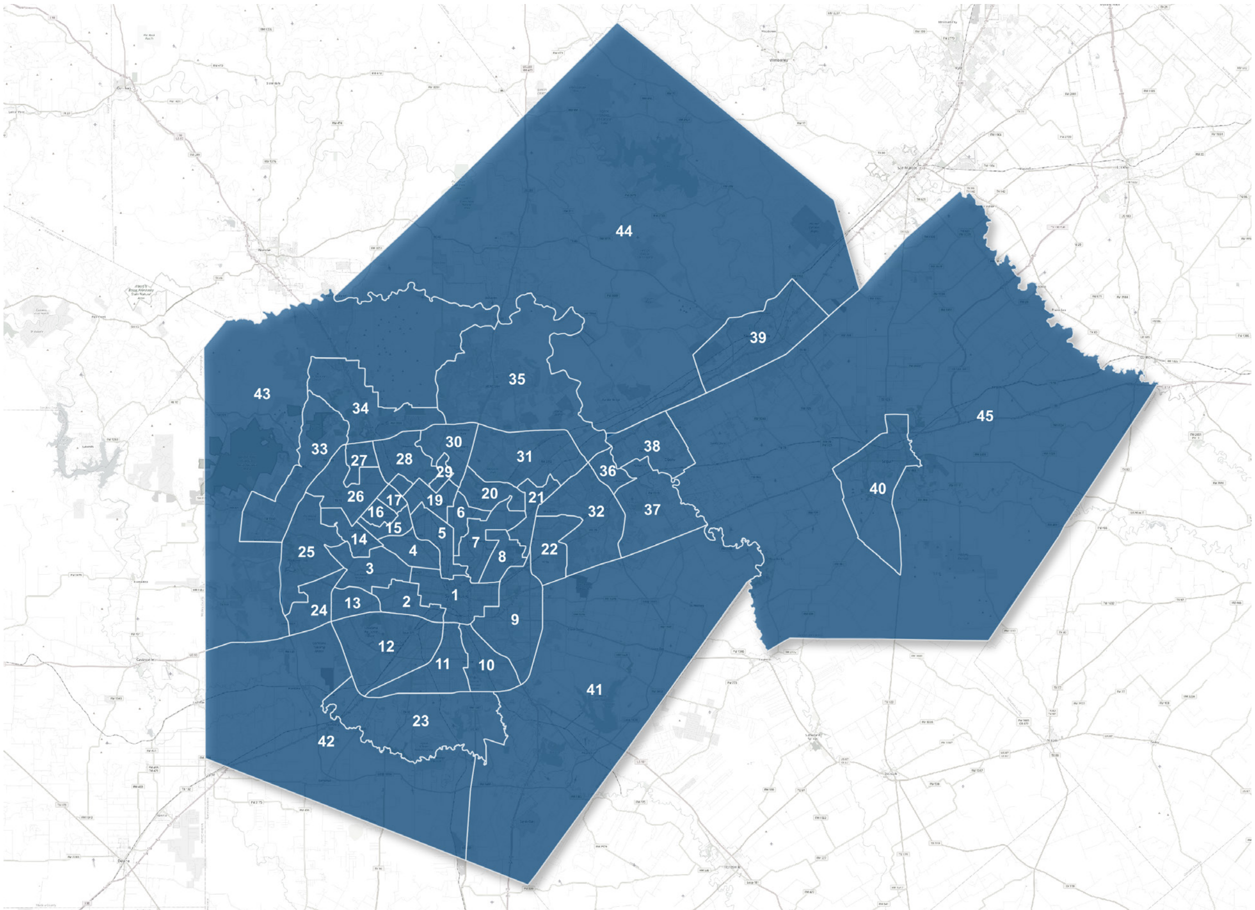
Stickel: While the pandemic has certainly been challenging for everyone in different ways, it has also created a lot of opportunities, specifically for multifamily investments in the Sun Belt region. Aside from everyone's health and safety, one concern is the ability for people to conduct business in a relational way—i.e. touring properties, market overview meetings etc. Some clients have expressed concerns about 1031 exchanges being eliminated as these are meaningful transactions in our industry.

How do you expect the region's multifamily market to perform in 2021?

Stickel: Aside from biased optimism, I believe there are several good reasons the region will perform very favorably next year. We anticipate seeing increased capital flow from other regions of the country, while also other sectors within real estate.

(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 October 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 October 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, October 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.

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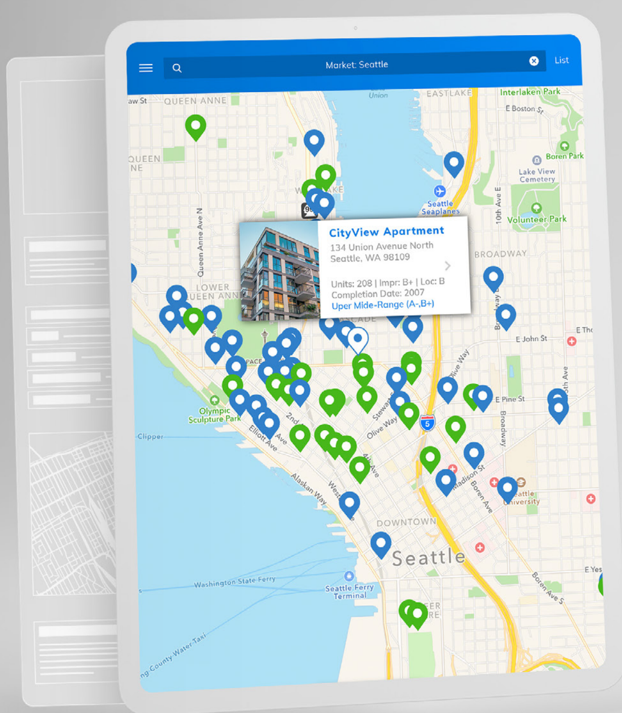

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