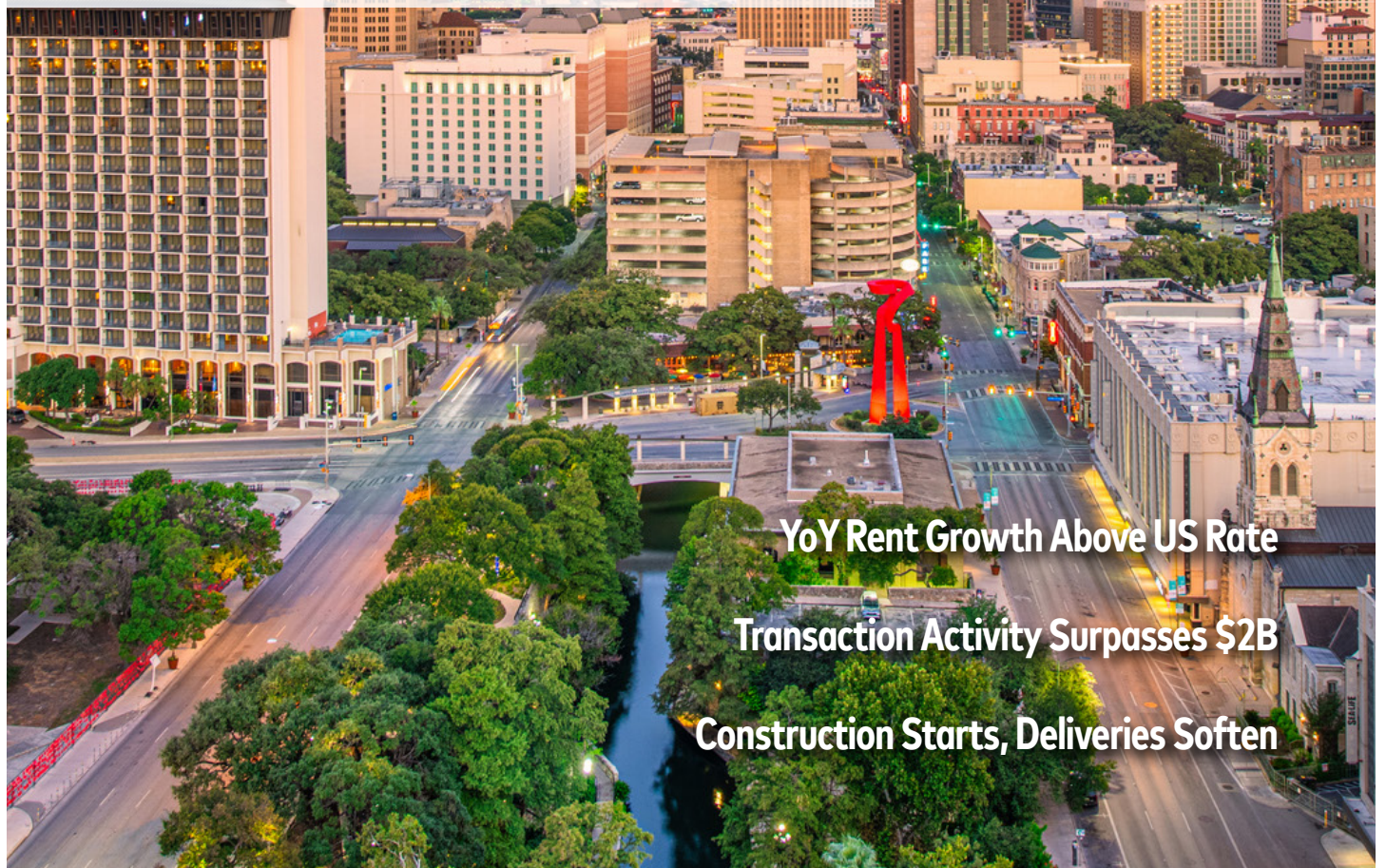


# San Antonio's Steady Improvement

October 2022



**YoY Rent Growth Above US Rate**

**Transaction Activity Surpasses \$2B**

**Construction Starts, Deliveries Soften**



# SAN ANTONIO MULTIFAMILY



## Robust Supply Outpaces Demand

San Antonio's economy recovered all jobs lost during the pandemic and entered expansion mode, but progression has slightly moderated, as some of the market's main economic drivers tend to be slow-moving. Meanwhile, the metro's multifamily sector fared well overall, with rents up 0.5% on a trailing three-month basis, to an average of \$1,295, well below the \$1,718 U.S. figure. Growth has remained relatively modest, mostly due to the rental pipeline's propensity for the Lifestyle segment, leading to a drop in the occupancy rate of 80 basis points year-over-year as of July, to 94.9%. Meanwhile, rent gains in the segment also underperformed, up 0.2% on a trailing three-month basis in August.

Unemployment jumped to 4.0% in July from 3.3% in April, trailing the U.S. rate (3.5%) and on par with the state. Of the big four Texas markets, San Antonio only outperformed Houston (4.8%). The job market expanded 5.2% in the 12 months ending in June, 50 basis points above the national rate. Of all sectors, only construction lost jobs (-900). San Antonio is making big strides in the cybersecurity industry, ranking sixth among major U.S. cities for tech job postings.

Development is moderating, with 3,279 units delivered through August, and 12,705 underway. Meanwhile, investment remained high, surpassing \$2 billion, for a per-unit price that's just 6.0% higher than last year, at \$141,251.

## Market Analysis | October 2022

### Contacts

#### Jeff Adler

Vice President & General  
Manager of Yardi Matrix  
[Jeff.Adler@Yardi.com](mailto:Jeff.Adler@Yardi.com)  
(303) 615-3676

#### Ron Brock, Jr.

Industry Principal, Matrix  
[JR.Brock@Yardi.com](mailto:JR.Brock@Yardi.com)  
(480) 663-1149 x2404

#### Doug Ressler

Media Contact  
[Doug.Ressler@Yardi.com](mailto:Doug.Ressler@Yardi.com)  
(480) 695-3365

#### Author

#### Anca Gagiuc

Senior Associate Editor

### Recent San Antonio Transactions

#### Sonterra Blue



City: San Antonio  
Buyer: The Connor Group  
Purchase Price: \$77 MM  
Price per Unit: \$224,561

#### ReNew at TPC



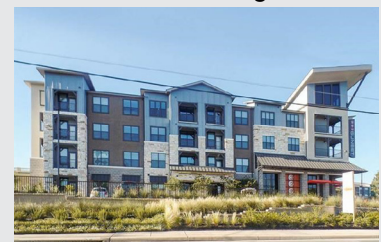
City: San Antonio  
Buyer: DB Capital Management  
Purchase Price: \$76 MM  
Price per Unit: \$186,765

#### Timberhill Commons



City: Leon Valley, Texas  
Buyer: Dreamstone Investments  
Purchase Price: \$75 MM  
Price per Unit: \$224,206

#### Lantower Alamo Heights

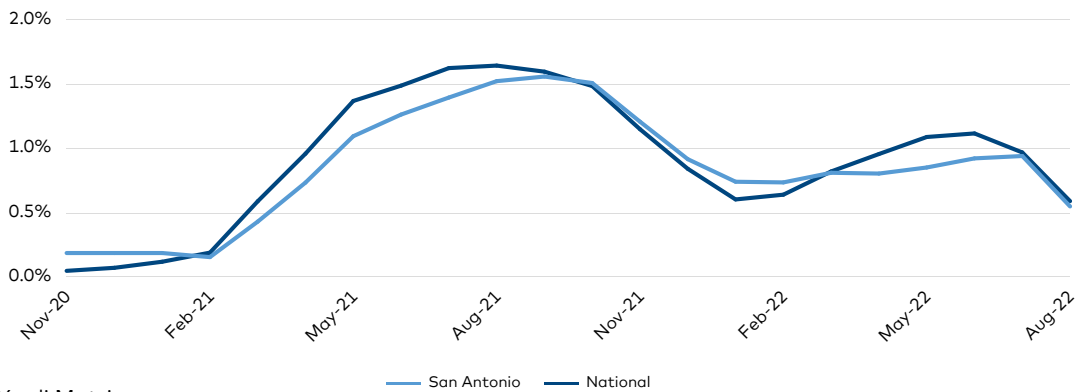


City: San Antonio  
Buyer: Old Three Hundred Capital  
Purchase Price: \$63 MM  
Price per Unit: \$202,094

## RENT TRENDS

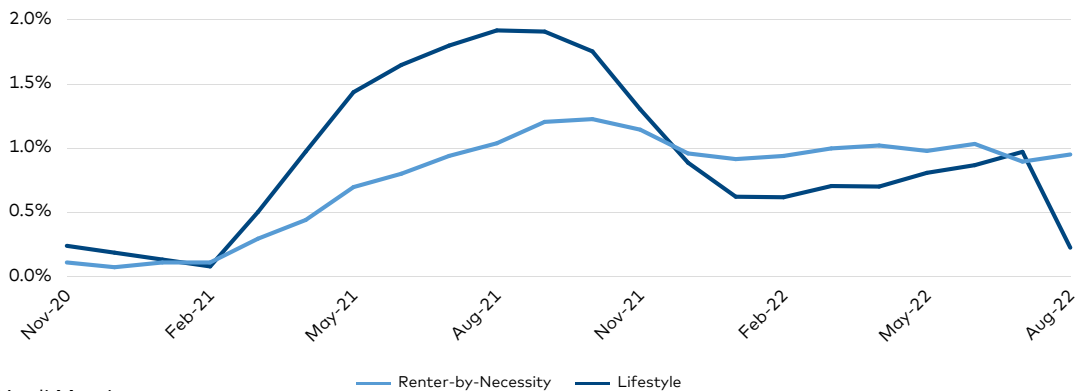
- ▶ San Antonio rents rose 0.5% on a trailing three-month (T3) basis through August, 10 basis points below the U.S. rate. At an average of \$1,295, rent in the metro is fairly affordable and well behind the \$1,718 national figure. On a year-over-year basis, rents in the metro posted a 13.0% increase, leading the 10.9% U.S. rate.
- ▶ Renter-by-Necessity figures have been hovering around the 1.0% mark for 15 consecutive months and rose by 1.0% on a T3 basis in August, to \$1,071. Meanwhile, Lifestyle gains plummeted to 0.2%, to \$1,518, likely due to the substantial inventory expansion consisting of mostly upscale apartments.
- ▶ The robust supply additions impacted the occupancy rate in stabilized properties, which decreased by 40 basis points in the 12 months ending in July, to 94.6%. Lifestyle occupancy declined 90 basis points to 94.9%, while RBN occupancy inched up 10 basis points to 94.4%.
- ▶ Rent development was positive across the map; of the 45 submarkets tracked by Yardi Matrix, 30 posted double-digit rent increases on a year-over-year basis. As of August, just six submarkets had an average asking rent below the \$1,000 mark, down from 16 the year prior. Southtown/King William (8.2% to \$1,657), Beckmann (6.7% to \$1,647) and University of Texas at San Antonio (9.8% to \$1,634) remained the most expensive areas in the metro.
- ▶ SFR occupancy was down 0.7% year-over-year in July, but rents were actually up 14.1% in August.

### 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 unemployment rose to 4.0% in July from 3.3% in April, according to data from the Bureau of Labor Statistics. The rate placed it on par with the state, but behind the U.S., at 3.5%. Compared to other Texas metros, San Antonio outperformed only Houston (4.8%), trailing Austin (3.1%) and Dallas (3.8%). The employment market expanded 5.2% in the 12 months ending in June, 50 basis points above the U.S. rate.
- Mining, logging and construction contracted by 900 jobs. This drop is not surprising given the robust supply delivered during the pandemic. The ongoing recovery of leisure and hospitality led gains (13,000 jobs), followed by the metro's main economic drivers—trade, transportation and utilities (7,300 jobs), professional and business services (7,000 jobs) and education and health services (6,500 jobs).
- San Antonio's stature as a cybersecurity hub is rising—the metro ranked sixth among major U.S. cities for growth in tech job postings over the 12 months ending in June, as per a Dice report. Furthermore, its local IT industry is estimated to generate an annual economic impact of nearly \$11 billion, a 27% increase since 2010, according to a report by Tech Bloc and Port San Antonio. In addition, work on widening the Corpus Christi Ship Channel is slated for completion next year.

### San Antonio Employment Share by Sector

Code	Employment Sector	Current Employment	
		(000)	% Share
70	Leisure and Hospitality	142	12.8%
40	Trade, Transportation and Utilities	194	17.4%
60	Professional and Business Services	154	13.8%
65	Education and Health Services	173	15.6%
80	Other Services	43	3.9%
55	Financial Activities	98	8.8%
30	Manufacturing	54	4.9%
90	Government	174	15.6%
50	Information	18	1.6%
15	Mining, Logging and Construction	63	5.7%

Sources: Yardi Matrix, Bureau of Labor Statistics

### Population

- San Antonio gained 35,105 residents in 2021, for a 1.4% demographic expansion, 20 basis points below the 2020 rate, but well above the 0.1% U.S. 2021 rate.
- In the decade ending in 2021, The metro's population grew 16.3%, well ahead the 5.7% national rate.

### San Antonio vs. National Population

	2018	2019	2020	2021
National	326,838,199	328,329,953	331,501,080	331,893,745
San Antonio	2,512,526	2,550,147	2,566,683	2,601,788

Source: U.S. Census

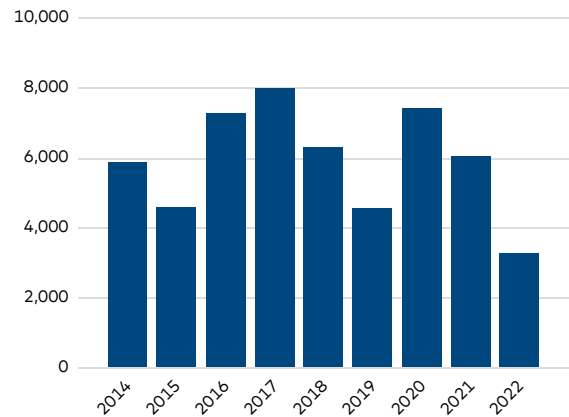
## SUPPLY

- ▶ Developers delivered 3,279 units through August, marking a drop from the 3,891 units completed during the same interval last year. This year's deliveries accounted for 1.5% of existing stock, 20 basis points ahead of the U.S. rate. The composition of the new inventory is almost equally divided between Lifestyle units and fully affordable communities. No market-rate units were delivered through August.
- ▶ The construction pipeline consisted of 12,705 units underway and another 39,400 units in the planning and permitting stages. Looking at construction starts, development activity is moderating in San Antonio—3,613 units broke ground in 2022 through August, well below last year's corresponding period, when 5,511 units started construction. The composition of the pipeline is different from recent deliveries, tilting heavily in favor of upscale units (67%); 23% of units were in fully affordable communities and the remaining are market-rate apartments.
- ▶ Construction activity was uneven across San Antonio, with 26 of the 45 submarkets tracked by Yardi Matrix having at least 50 units underway. The top five submarkets accounted for nearly half of the construction pipeline, four of which

had more than 1,000 units underway—Northwest Bexar County (1,463 units), Southtown/King William (1,366 units), New Braunfels (1,119 units) and Northeast Side (1,028 units).

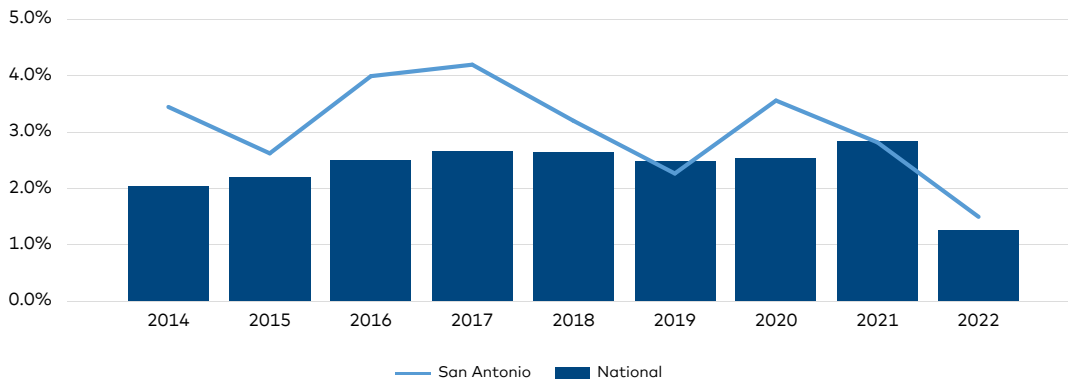
- ▶ The largest project delivered through August was Presidium Chase Hill, a 370-unit Lifestyle property in Beckmann. Presidium Group built it with aid from a construction loan for an undisclosed amount funded by Sculptor Real Estate.

### San Antonio Completions (as of August 2022)



Source: Yardi Matrix

### San Antonio vs. National Completions as a Percentage of Total Stock (as of August 2022)



Source: Yardi Matrix

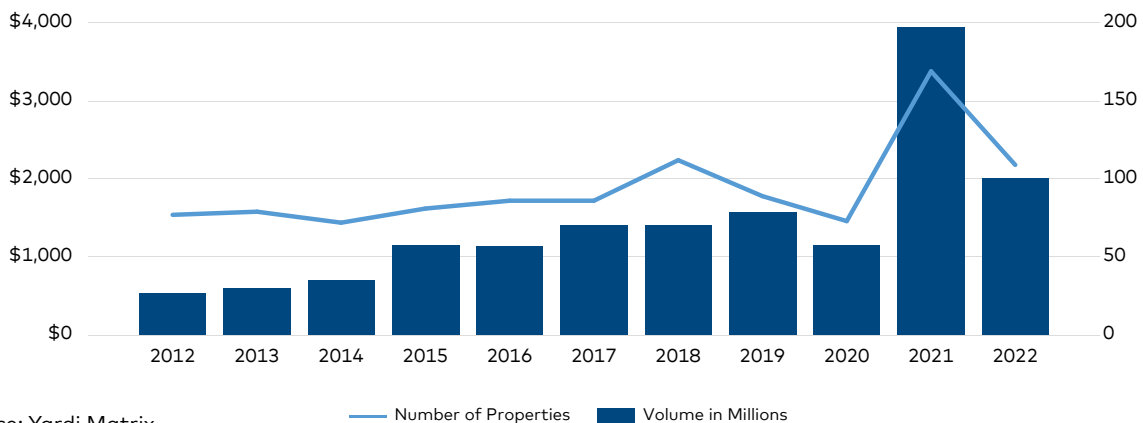
## TRANSACTIONS

- ▶ Investment activity remained elevated in San Antonio, with investors trading more than \$2 billion in multifamily assets in 2022 through August, surpassing the \$1.8 billion volume registered during the same period last year. Still, the rising economic uncertainty will likely suppress transactions as the year comes to an end.
- ▶ Considering the sales composition, investor interest remained high for value-add plays. Renter-by-Necessity properties accounted for

three-quarters of the total number of properties that changed hands. San Antonio remains fairly affordable; the price per unit rose just 6.0% year-over-year through August, to \$141,251, well behind the \$217,196 U.S. average.

- ▶ Electra America was one of the most active investors in the market, having acquired 2,076 units in the 12 months ending in August. River Rock Capital also bolstered its holdings in the metro, having purchased 1,560 units during this time.

### San Antonio Sales Volume and Number of Properties Sold (as of August 2022)



Source: Yardi Matrix

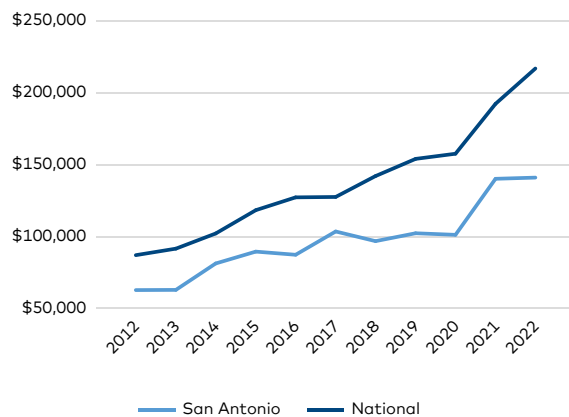
### Top Submarkets for Transaction Volume<sup>1</sup>

Submarket	Volume (\$MM)
Far North Side	557
Beckmann	464
Hill Country Village	241
Oakland Estates	238
Robards	233
USAA Area	230
Southtown/King William	221

Source: Yardi Matrix

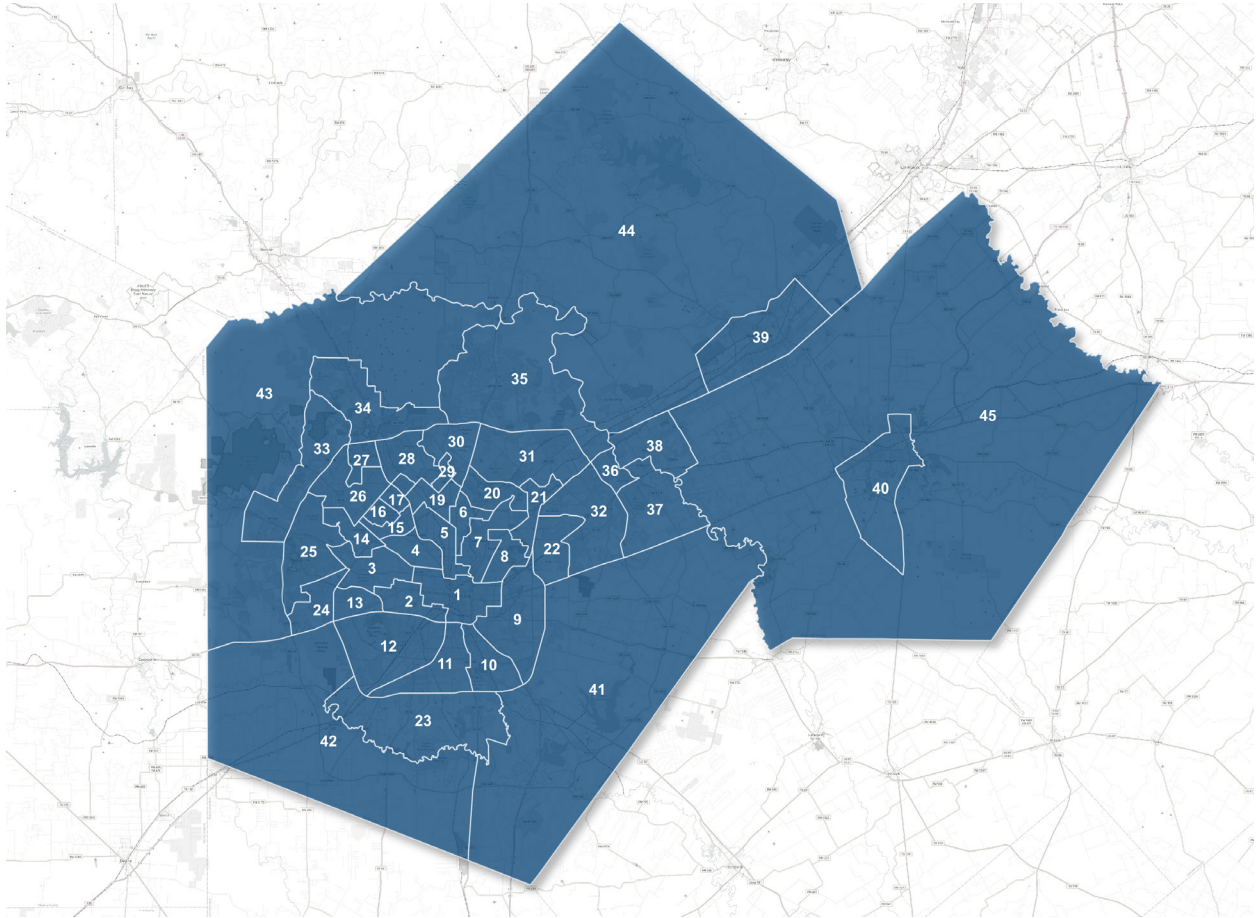
<sup>1</sup> From September 2021 to August 2022

### San Antonio vs. National Sales Price per Unit



Source: Yardi Matrix

# 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 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 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, 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.

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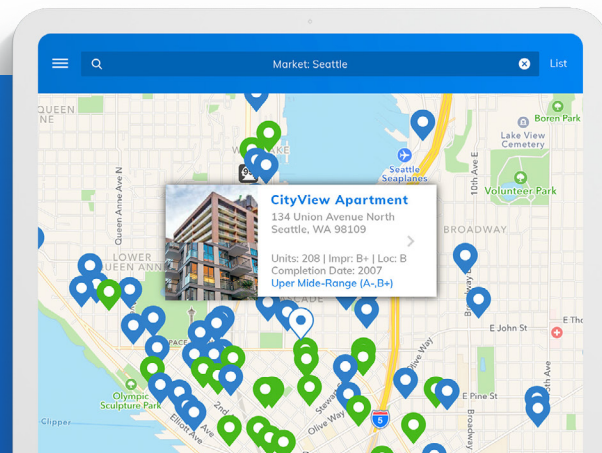
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