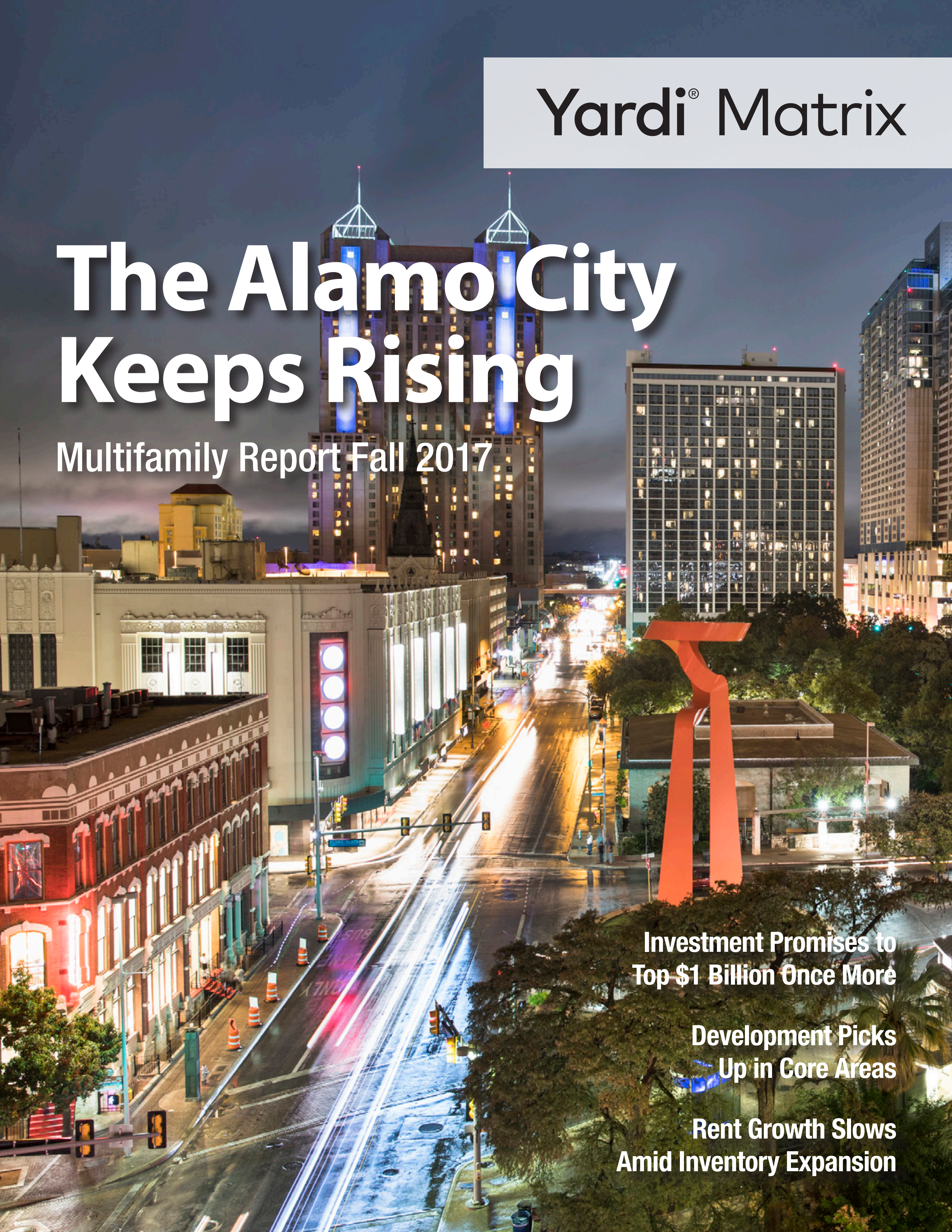
Yardi® Matrix

The Alamo City Keeps Rising

Multifamily Report Fall 2017



Investment Promises to Top $1 Billion Once More

Development Picks Up in Core Areas

Rent Growth Slows Amid Inventory Expansion

Market Analysis

Fall 2017

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New Supply Tempers Rent Growth

In recent years, San Antonio has been riding favorable demographic trends, healthy job creation and a high demand for apartments. The metro's population continues to grow at a pace nearly three times the national rate. The prime renter cohort, aged between 20 and 34 years old, accounts for much of this increase. A heavy new supply of apartments has put a damper on rent growth, up 1.1% year-over-year through August, trailing the 2.4% national average.

Employment gains were led by the education and health services sector, with 10,100 new jobs. The sector's progress is likely to continue due to a $390 million Women & Children's Inpatient Tower announced for northwest San Antonio. Also on the northwestern side, Hulu is investing $13 million in a new, 45,000-square-foot viewer operations center that will employ 500 people.

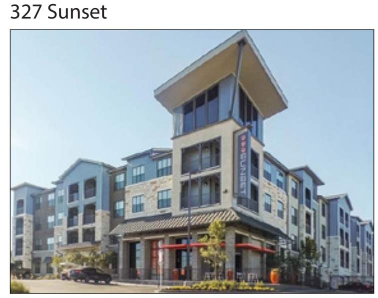
The metro's economy continues to appeal to both investors and developers. More than $780 million in multifamily assets changed hands by July 2017, placing the metro on track to surpass the $1 billion mark for the third consecutive year. Apartment construction is still strong, with 3,200 units already completed and an estimated 7,800 apartments expected to come online by the end of the year. Upcoming supply is robust, with more than 8,000 units under construction and more than 10,000 units in different planning stages. Yardi Matrix forecasts rent growth of 1.5% for 2017.

Recent San Antonio Transactions

Agave

City: San Antonio
Buyer: Castle Lanterra Properties
Purchase Price: $66 MM
Price per Unit: $188,378

327 Sunset



City: San Antonio
Buyer: Lantower Residential
Purchase Price: $55 MM
Price per Unit: $176,282

Hidden Lake

City: San Antonio
Buyer: Starwood Capital Group
Purchase Price: $46 MM
Price per Unit: $120,000

The View at Encino Commons

City: San Antonio
Buyer: Draper & Kramer
Purchase Price: $46 MM
Price per Unit: $140,481

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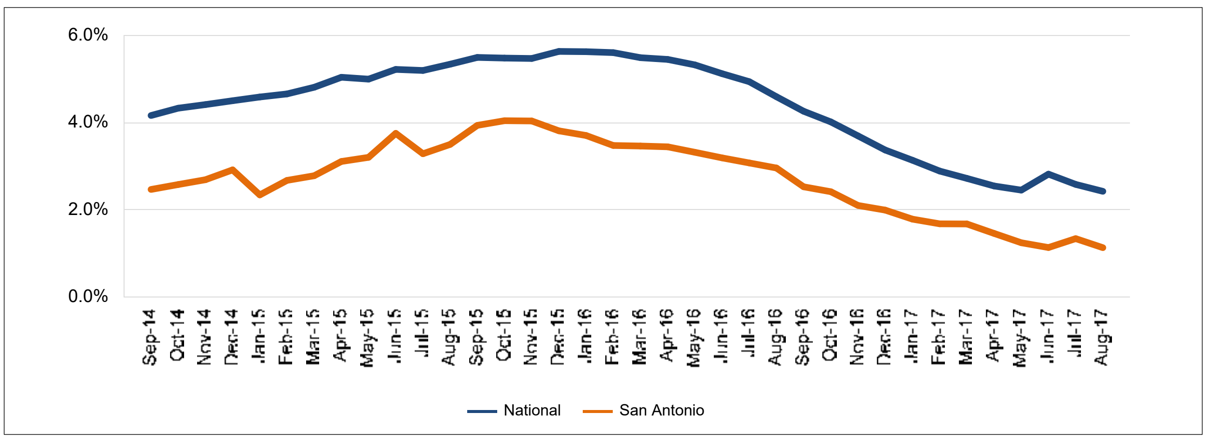
On the cover: Photo by Pgiam/iStockphoto.com

Rent Trends

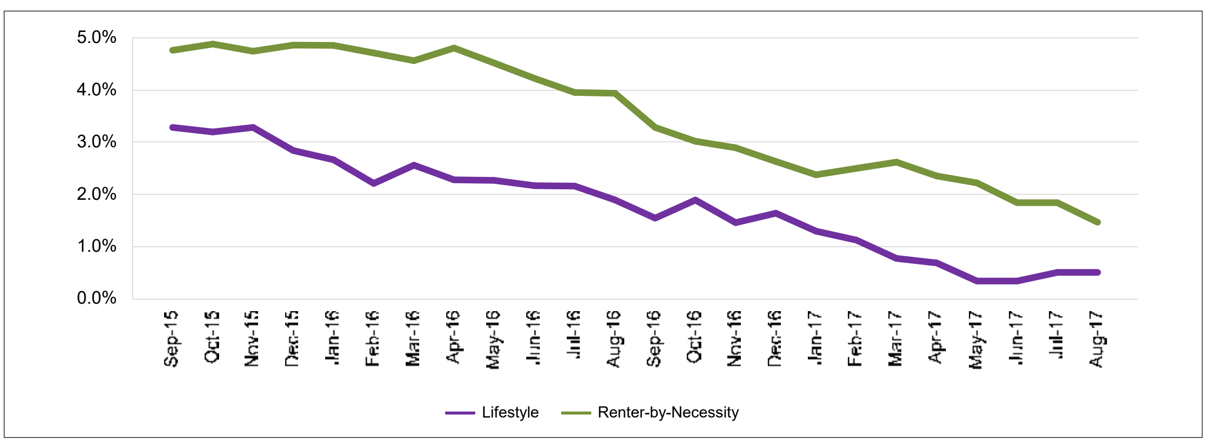
- Rents in San Antonio rose 1.1% year-over-year through August, reaching $985, well below the $1,353 national average. Rent growth has tempered following last year's major injection of new apartments, when more than 6,600 units were delivered, a cycle high. Falling occupancy rates already highlight that it will take the market a while until the new stock will be absorbed. San Antonio's average occupancy rate in stabilized properties dropped to 93.7% as of July, from 94.3% 12 months prior.
- Rents in the working-class Renter-by-Necessity segment continue to advance faster than the more expensive Lifestyle units. Rents for RBN properties rose 1.5% year-over-year to $830, while rates for Lifestyle assets increased only 0.5%, to $1,189. Recent job cuts have lowered demand for upscale properties, generating a greater need for affordable apartment stock, as renters look for cheaper options.
- More than 10 submarkets in the metro saw rent dips in the last 12 months. West Side, currently the metro's most affordable submarket, registered the highest rent increase—9.2%—adding $55 to the rental rate. The biggest dip in rent occurred in Southeast Bexar County, where the rate dropped by more than $100. San Antonio's most expensive submarkets—Beckmann ($1,360) and Southtown/King William ($1,317) each show a decrease in the rental rate. We expect rent growth to top out at 1.5% in 2017.

San Antonio vs. National Rent Growth (Sequential 3 Month, Year-Over-Year)



Source: YardiMatrix

San Antonio Rent Growth by Asset Class (Sequential 3 Month, Year-Over-Year)



Source: YardiMatrix

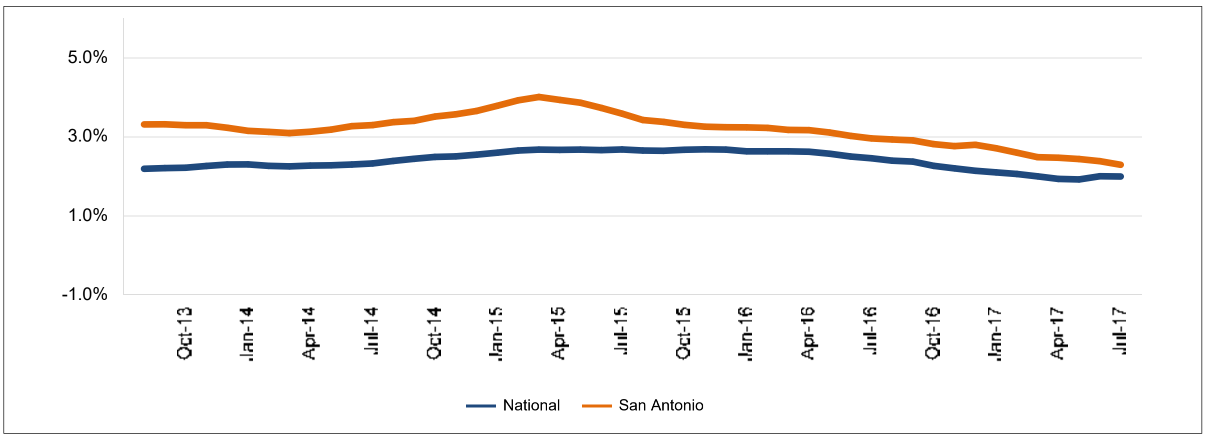
Economic Snapshot

- San Antonio added 18,900 jobs in the 12 months ending in July, up 2.3% year-over-year and 30 basis points above the U.S. average. Employment growth has occurred across most industries, except in the leisure and hospitality, and trade, transportation and utilities sectors, which saw some contractions. The metro's unemployment rate is below 4.0%, one of the lowest in the U.S.

- Education and health services led growth with the addition of 10,100 jobs, followed by mining, logging and construction, with 4,500 new jobs. The trend is poised to continue in education and health services, as officials from University Health System and UT Health San Antonio plan to build a $390 million Women & Children's Inpatient Tower in northwest San Antonio. With a solid development pipeline, including Oden Hughes' 57-acre mixed-use development in Far North Central San Antonio, and the recovery of Eagle Ford shale activity, San Antonio's mining, logging and construction industry also shows signs of strengthening.

- Nearly 250,000 square feet of office space was absorbed in the second quarter of 2017, which led vacancy to drop to about 15%. New deliveries include the 101,562-square-foot One51 Office Centre Phase II in Westover Hills and the 164,351-square-foot Landmark One building. The development pipeline totals 852,000 square feet and includes the 462,000-square-foot Frost Bank Tower and the 80,532-square-foot Pinnacle Oaks.

San Antonio vs. National Employment Growth (Year-Over-Year)



Sources: YardiMatrix, Bureau of Labor Statistics (not seasonally adjusted)

San Antonio Employment Growth by Sector (Year-Over-Year)

		Current Employment		Year Change	
Code	Employment Sector	(000)	% Share	Employment	%
65	Education and Health Services	166	16.0%	10,100	6.5%
15	Mining, Logging and Construction	63	6.1%	4,500	7.7%
60	Professional and Business Services	135	13.0%	4,400	3.4%
90	Government	166	16.0%	2,800	1.7%
30	Manufacturing	49	4.7%	1,400	2.9%
80	Other Services	39	3.8%	900	2.4%
55	Financial Activities	89	8.6%	400	0.5%
50	Information	21	2.0%	-800	-3.8%
40	Trade, Transportation and Utilities	177	17.1%	-1,700	-1.0%
70	Leisure and Hospitality	132	12.7%	-3,100	-2.3%

Sources: YardiMatrix, Bureau of Labor Statistics

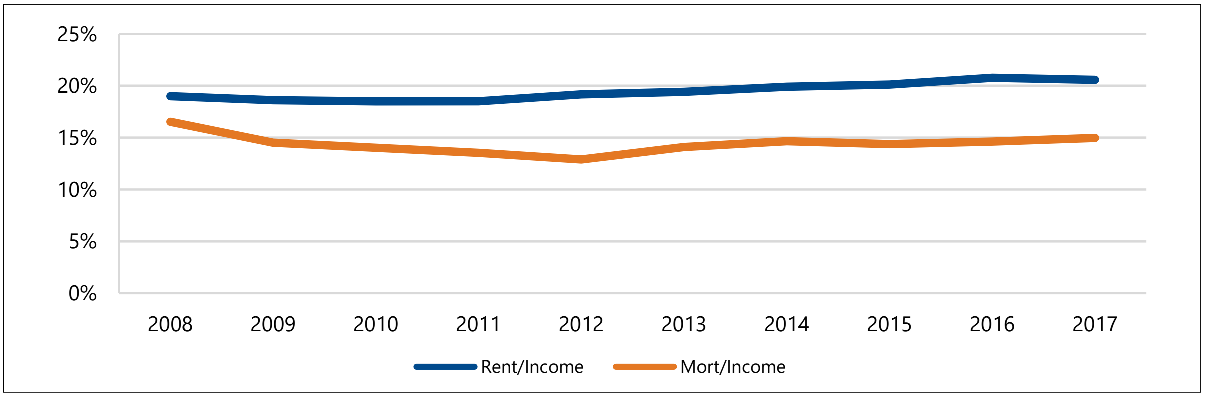
Demographics

Affordability

- The median home value in San Antonio has increased throughout the current cycle, hitting $185,692 during the first half of 2017. Although homeownership is relatively more affordable, representing only 15% of income, credit issues and down payment requirements have been tilting the household creation balance in favor of renting. Average rental rents climbed to $985 in August, accounting for 21% of the metro's median income.

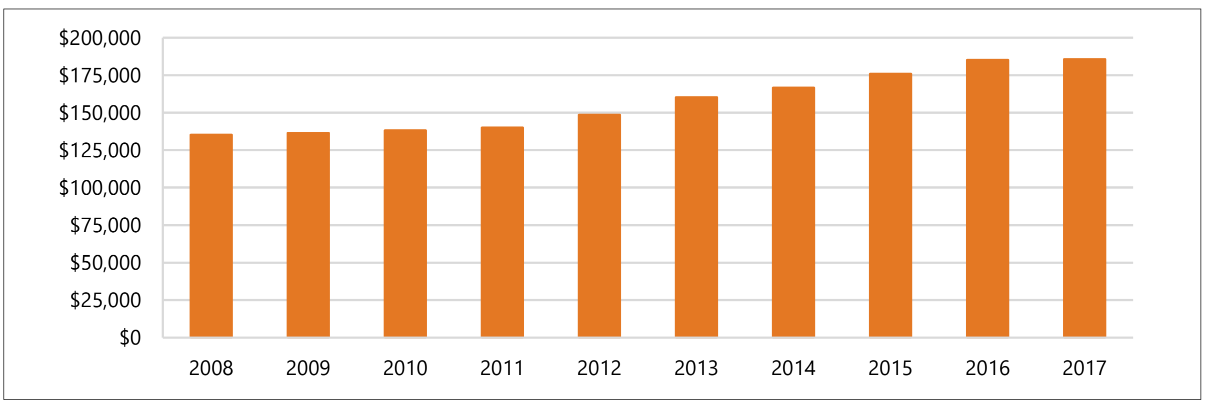
- City officials approved a $20 million housing bond in May, targeting 12 neighborhood improvement areas. The funds will be used to purchase distressed properties and turn them into mixed-income or affordable housing.

San Antonio Rent vs. Own Affordability as a Percentage of Income



Sources: YardiMatrix, Moody's Analytics

San Antonio Median Home Price



Source: Moody's Analytics

Population

- The metro gained 47,906 residents in 2016, a growth rate of 2.0%.

- San Antonio ranked third among U.S. cities in population growth between July 2015 and July 2016, as per U.S. Census Bureau data.

San Antonio vs. National Population

	2012	2013	2014	2015	2016
National	313,998,379	316,204,908	318,563,456	320,896,618	323,127,513
San Antonio Metro	2,237,381	2,281,831	2,331,197	2,381,703	2,429,609

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

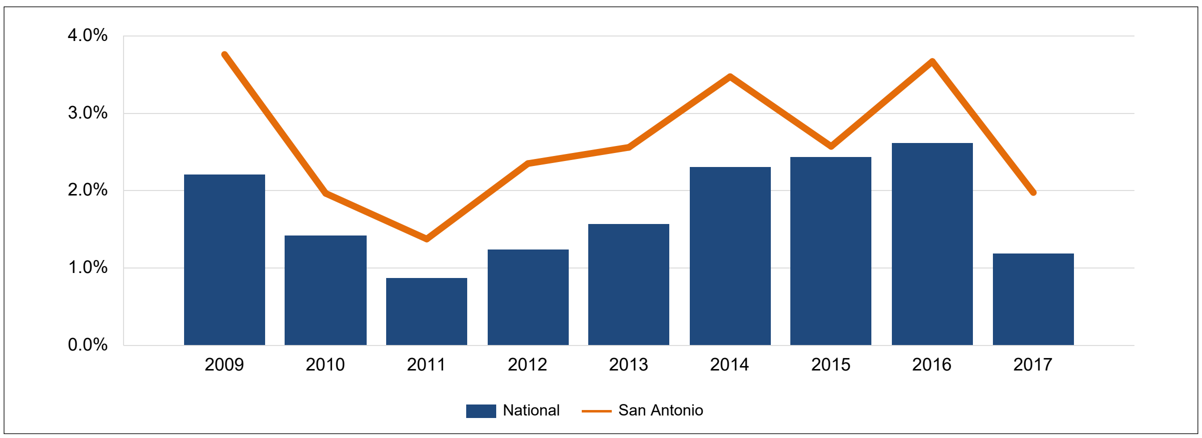
Supply

- About 3,200 units came online in San Antonio through August, representing 1.7% of existing stock. Although well over the 1.0% national average, it is unlikely that the new supply will exceed last year's rate of 3.7% by the end of 2017. The slowdown in development can be attributed in part to the difficulty in finding skilled workers, as 70% of contracting firms recently surveyed by the Associated General Contractors of America (AGC) reported a labor shortage. We expect roughly 7,800 units to be delivered this year.

- Some 8,000 units were underway in San Antonio as of August, while the entire development pipeline totaled 23,000 units. Occupancy in stabilized properties dipped 60 basis points year-over-year, from 94.3% to 93.7% as of July, as the rate of deliveries stayed well above the nation's throughout the current cycle.

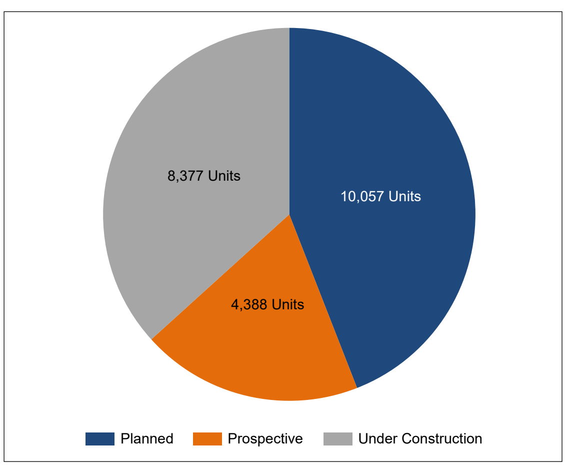
- The metro's northwestern area remains the most attractive to developers, but construction is starting to pick up in central San Antonio too, with more than 1,300 units underway. Beckmann is still the most active submarket, with 1,983 units under construction, followed by Southtown/King William (1,305 units). The largest projects are rising in Beckmann: Legacy Alliance Holdings' 427-unit Villas at the Rim and The Lynd Co.'s 380-unit Tribute at the Rim, both slated for completion by the end of the year.

San Antonio vs. National Completions as a Percentage of Total Stock (as of August 2017)



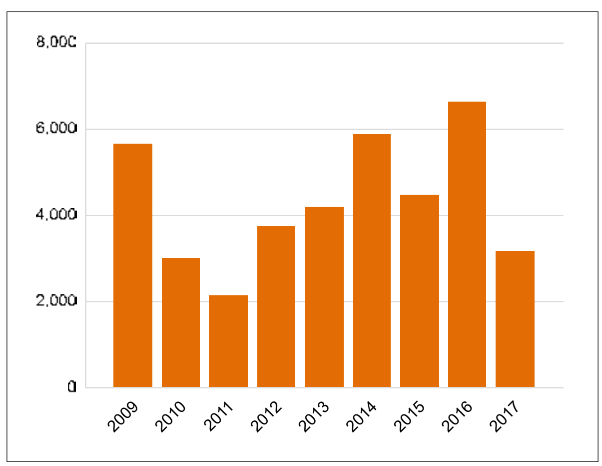
Source: YardiMatrix

Development Pipeline (as of August 2017)



Source: YardiMatrix

San Antonio Completions (as of August 2017)

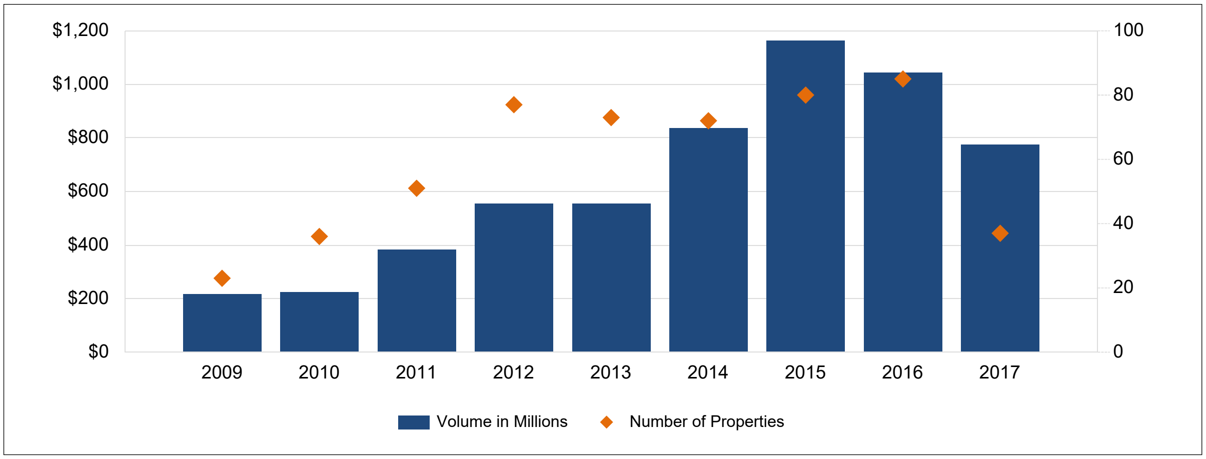


Source: YardiMatrix

Investment Transactions

- Roughly $780 million in multifamily properties traded in 2017 through July. Of the 37 properties that changed hands during the year's first seven months, nearly two-thirds were in the higher-end Lifestyle segment. That dynamic has led to a 25.6% increase in the average per-unit price, at $108,808 as of July.
- Interest in upscale properties has further compressed acquisition yields for San Antonio assets in the 4.8-5.5% range for stabilized Class A properties.
- The most active submarkets for transactions in San Antonio in the first seven months of 2017 were Beckmann ($145 million), Far North Side ($126 million) and Northwest Side ($93 million). The most expensive community to trade in The Alamo City so far was Agave, a 349-unit asset acquired in May by Castle Lanterra Properties for nearly $66 million, or $188,372 per unit.

San Antonio Sales Volume and Number of Properties Sold (as of July 2017)



Source: YardiMatrix

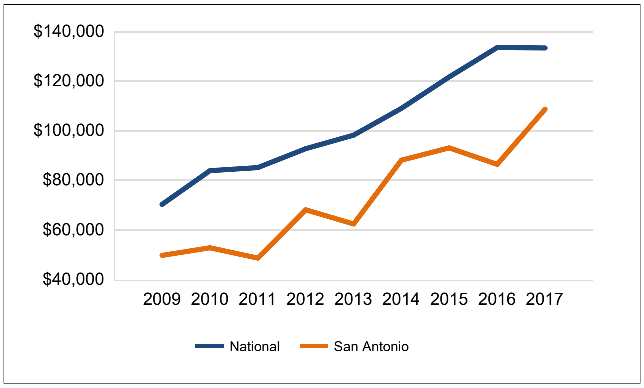
Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
Beckmann	145
Far North Side	126
Northwest Side	93
Southtown/King William	88
Terrell Hills	83
University of Texas at San Antonio	66
Hollywood Park/Welmore	65
USAA Area	65

Source: YardiMatrix

[1] From August 2016 to July 2017

San Antonio vs. National Sales Price per Unit



Source: YardiMatrix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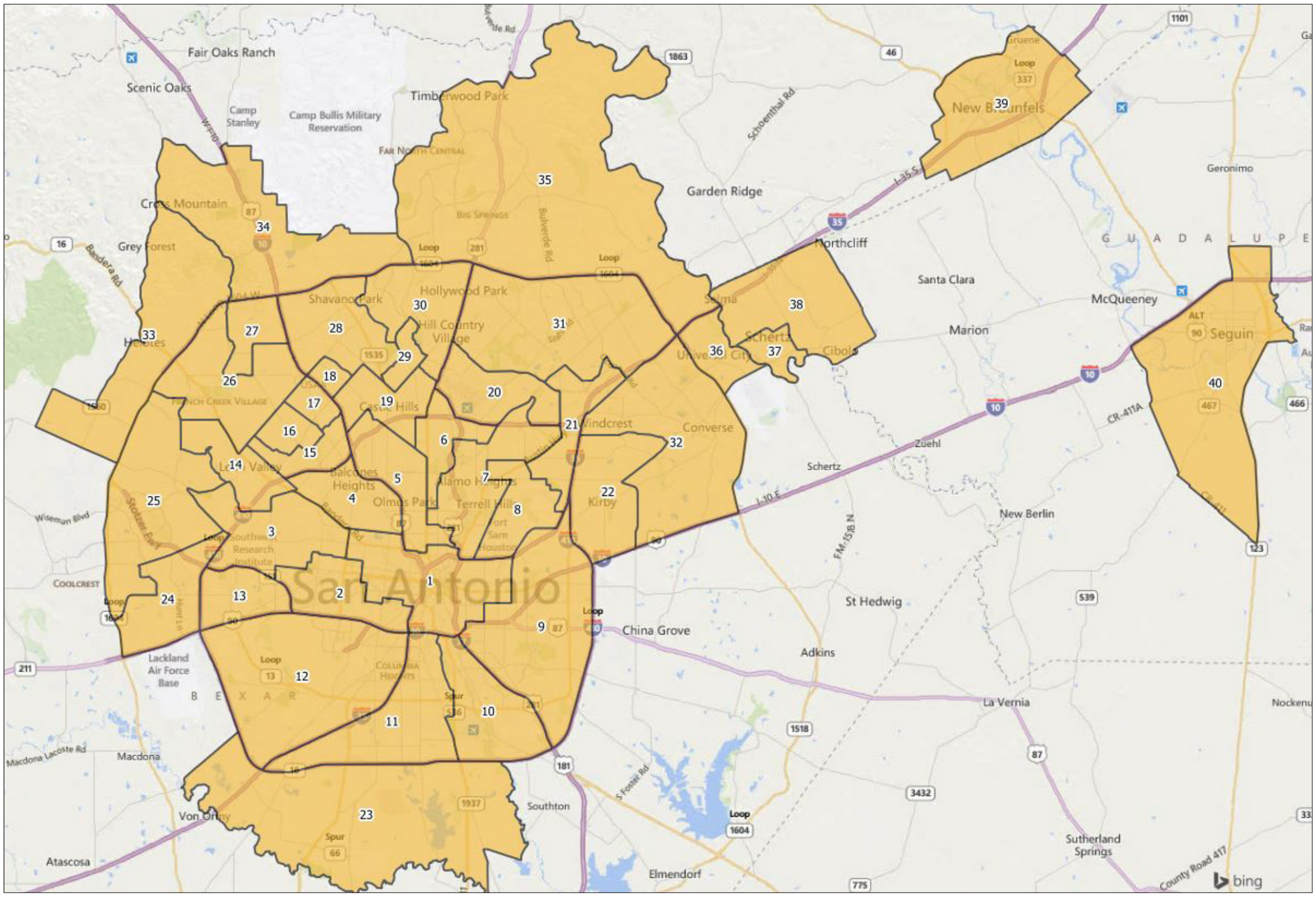
San Antonio Submarkets



Area #	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
16	Oakland Estates
17	USAA Area
18	Robards
19	Castle Hills
20	North Loop

Area #	Submarket
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
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

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 may 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 may 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, may 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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