Yardi® Matrix

San Antonio In High Gear

Multifamily Report Winter 2018

Job Gains Sustain Demand

Transaction Volume Hits Cycle High

Development Activity Remains Elevated

Market Analysis

Winter 2018

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Construction Surge Stalls Rent Growth

Above-trend employment gains, falling occupancy rates and elevated deliveries characterized San Antonio's multifamily market in 2017. Texas was among the top five states in the U.S. for job growth last year, thanks in part to San Antonio's contribution. Rents were up 0.8%, reaching $987 but well below the 2.5% national rate. Even though a supply surge dampened rent growth, the metro's multifamily fundamentals remain healthy.

Employment growth was diverse in 2017, with education and health services and mining, logging and construction leading the expansion. In addition to the hefty multifamily pipeline, new projects across the metro kept the construction industry busy. The list of notable projects underway includes the 23-story Frost Bank Tower, anticipated for delivery in 2019, and Oden Hughes' 57-acre mixed-use development, to be delivered in three stages, with the first, 338-unit phase scheduled to open in late 2018.

San Antonio occupancy in stabilized properties remains the lowest among major U.S. metros, falling 90 basis points in 2017, to 92.9% as of December. Investors have set their eyes on San Antonio: Nearly $1.4 billion in multifamily properties changed hands in 2017, representing an all-time cycle high. Apartment construction is strong, with more than 7,100 units underway and an additional 19,000 in various planning stages, leading Yardi Matrix to forecast rent growth of 1.5% in 2018.

Recent San Antonio Transactions

Agave

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

The Preserve on Fredericksburg

City: San Antonio
Buyer: Cortland Partners
Purchase Price: $57 MM
Price per Unit: $151,596

Marquis at Stone Oak

City: San Antonio
Buyer: Bluerock Real Estate
Purchase Price: $55 MM
Price per Unit: $154,609

Hidden Lake

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

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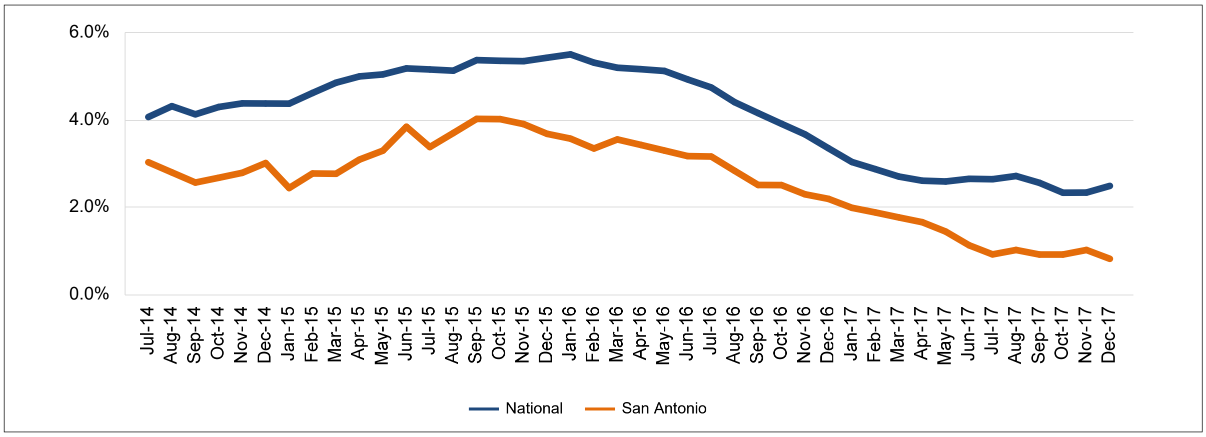
On the cover: Photo by Sean Pavone/iStockphoto.com

Rent Trends

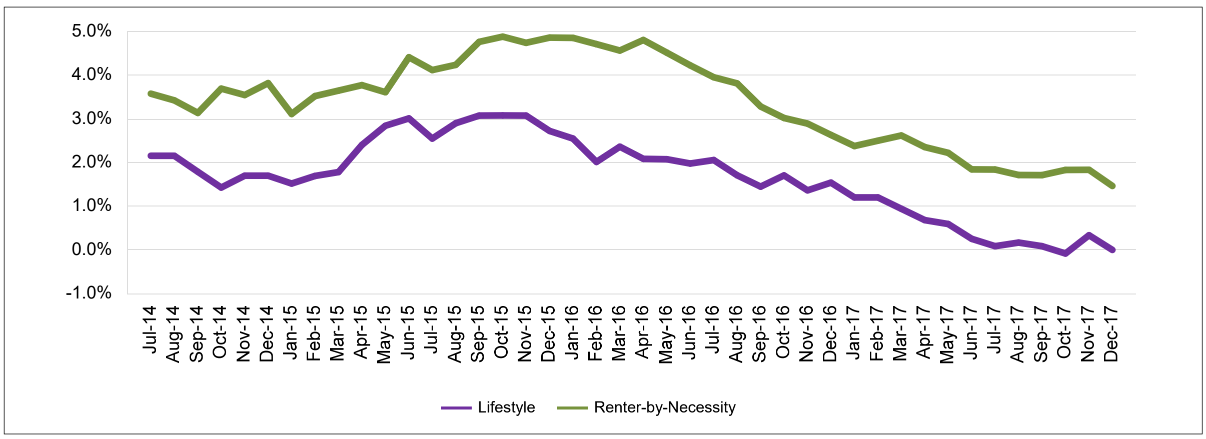
- In line with nationwide trends, San Antonio rent gains were modest in 2017. Average year-over-year growth decelerated to 0.8%, down from 2.9% one year prior and trailing the 2.5% U.S. rate. Occupancy dropped 90 basis points in one year, to 92.9% as of December, marking the lowest occupancy rate among major U.S. metros. This trend signals that San Antonio needs more time to absorb the spate of new stock.
- The working-class Renter-by-Necessity segment led growth, increasing by 1.5% to $831, while rates for Lifestyle assets stayed flat, at $1,187. Employment growth maintained a steady pace of household formation, but demand for workforce apartments is still greater.
- About 10 San Antonio submarkets saw rents dip in 2017—Selma, one of the metro's mid-tier submarkets, registered the steepest drop, down 3.0% to $1,022. West Side, the metro's most affordable submarket, registered the largest spike of 8.9%, resulting in average rent of $637. Southtown/King William ($1,395) and Beckmann ($1,343) have the metro's highest rents.
- As the construction surge continues to dampen demand, we expect rent growth to remain tepid. Yardi Matrix forecasts rents will appreciate by 1.5% in 2018.

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

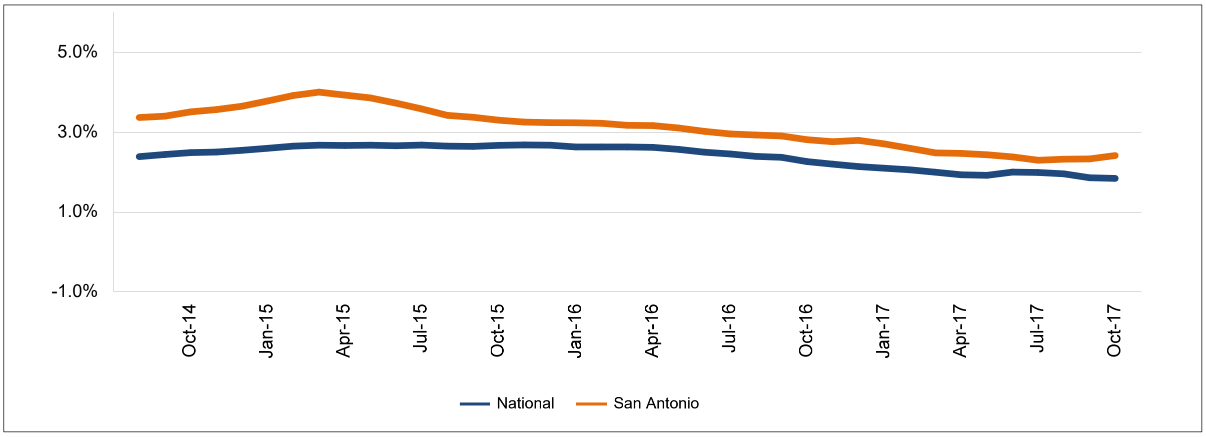
Economic Snapshot

- San Antonio continues to be one of the country's most stable regional economies, adding jobs at a faster pace than the nation. The metro gained 30,100 jobs in the 12 months ending in October, up 2.4% year over year and 60 basis points above the U.S. average. Unemployment dropped to 3.0% as of November, staying among the lowest levels in the country and 90 basis points below the national rate.

- Leading the way was the education and health services sector, which added 11,900 jobs, marking a 7.4% expansion, followed by mining, logging and construction, which added 6,800 jobs. These sectors have experienced the strongest growth in recent years. The robust development pipeline and the city's major projects will keep activity elevated: The Frost Bank Tower in downtown San Antonio is slated for completion in 2019 and Port San Antonio, which aims to add 5,000 new jobs by 2020, recently broke ground on a multi-phase facility that will host additional cybersecurity operations and could total more than 500,000 square feet.

- San Antonio's office market registered steady leasing activity in 2017, with more than 420,000 square feet in annual net absorption, according to CBRE. Yet, demand remains consistent, active tenant requirements totaling almost 1.2 million square feet. Vacancy dropped to 14.4%, down 30 basis point from one year prior, while total development was nearly 900,000 square feet.

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	172	16.3%	11,900	7.4%
15	Mining, Logging and Construction	65	6.2%	6,800	11.6%
70	Leisure and Hospitality	133	12.6%	5,300	4.2%
90	Government	176	16.7%	3,100	1.8%
60	Professional and Business Services	136	12.9%	1,900	1.4%
55	Financial Activities	89	8.4%	1,100	1.3%
80	Other Services	37	3.5%	700	1.9%
30	Manufacturing	49	4.6%	300	0.6%
40	Trade, Transportation and Utilities	178	16.9%	-100	-0.1%
50	Information	20	1.9%	-900	-4.3%

Sources: YardiMatrix, Bureau of Labor Statistics

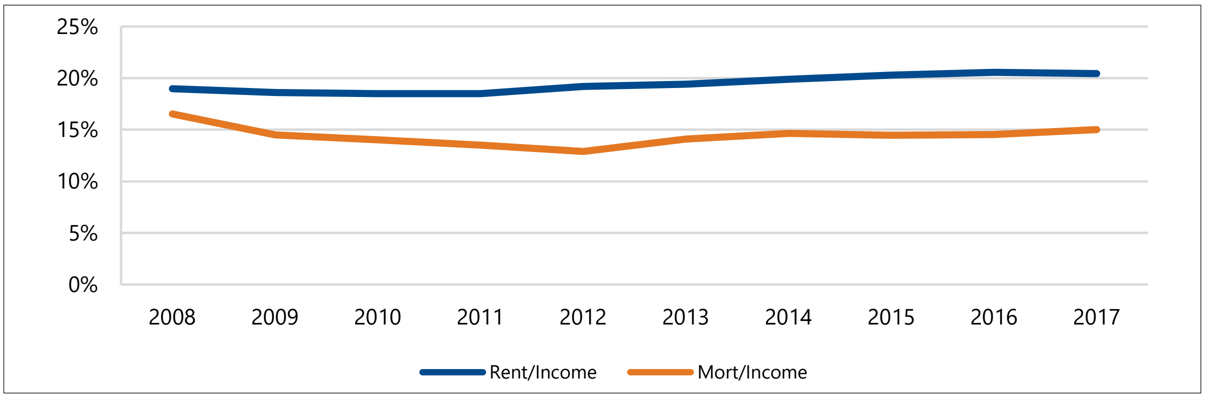
Demographics

Affordability

- Home values are rising faster than incomes in San Antonio. Home prices in the Alamo City rose 17.4% over the past five years, to $188,131. However, owning remains the more affordable option, with the average mortgage payment accounting for 15% of the median income, as compared to 20% for the average rent.

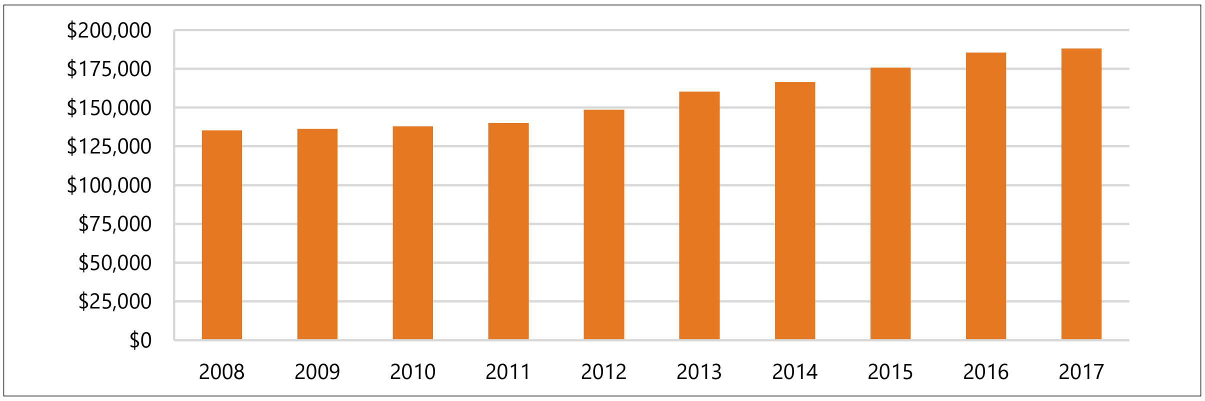
- In 2018, the city is set to receive as much as $19.5 million from the U.S. Department of Housing and Urban Development for several affordable communities, along with infrastructure and support programs. Moreover, a 296-unit affordable community on the city's Northwest side was approved, largely funded through the San Antonio Housing Trust.

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

- San Antonio added nearly 48,000 residents in 2016 for a 2.0% increase, almost triple the U.S. average.

- The metro added more than 275,000 people between 2010 and 2016, marking a 12.8% expansion.

San Antonio vs. National Population

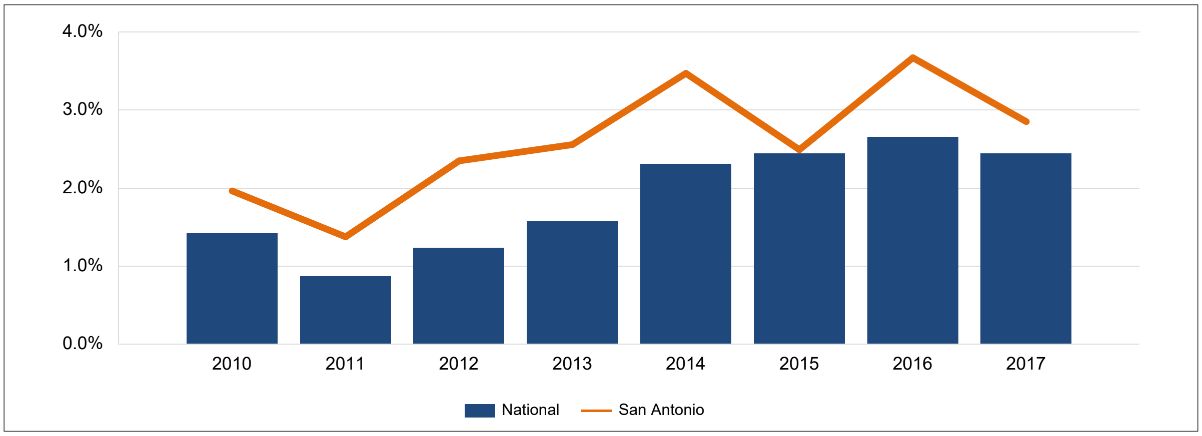
	2012	2013	2014	2015	2016
National	313,998,379	316,204,908	318,563,456	320,896,618	323,127,513
San Antonio Metro	2,237,381	2,281,831	2,331,197	2,381,703	2,429,609

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

Supply

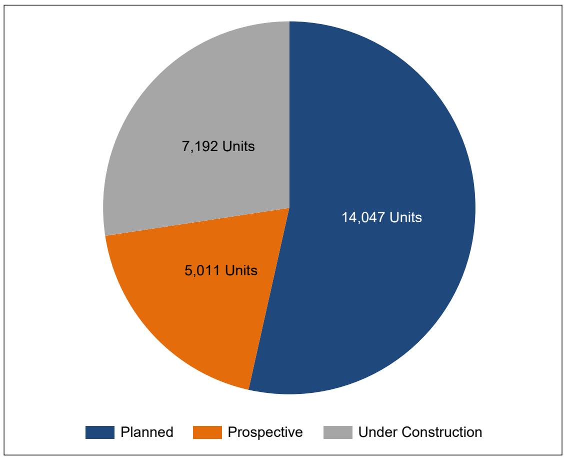
- Some 5,300 units were delivered in 2017, representing 2.9% of the total stock, 50 basis points above the national average. This follows 2016's cycle peak of more than 6,600 units. Robust employment and population growth have been the main drivers of accelerated housing demand in San Antonio.
- More than 7,000 units were underway in San Antonio as of December. Considering planned and prospective projects, the pipeline adds up to 26,250 units. Occupancy dropped 90 basis points in 2017, raising the issue of overbuilding on the higher end of the spectrum, which could delay or cancel some upscale projects.
- Construction activity has been most intense across submarkets to the north and west of the city, with central areas and those southwest of the urban core are also becoming more attractive to developers lately. Beckmann continues to lead the development surge, with 1,709 units under construction, followed by New Braunfels (988 units), which exceeded Southtown/King William's 912 units under development.
- The largest developments underway are located in Beckmann. The 427-unit Villas at the Rim owned by Legacy Alliance Holdings is slated for completion by the end of March 2018, while Tribute at the Rim, a 380-unit community owned by The Lynd Cos., is anticipated for delivery by February 2018.

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



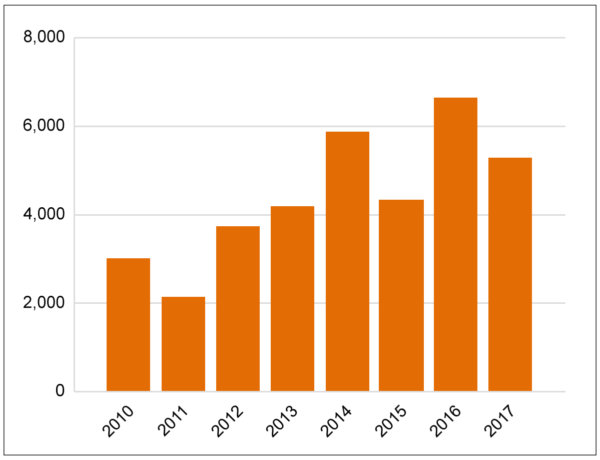
Source: YardiMatrix

Development Pipeline (as of December 2017)



Source: YardiMatrix

San Antonio Completions (as of December 2017)

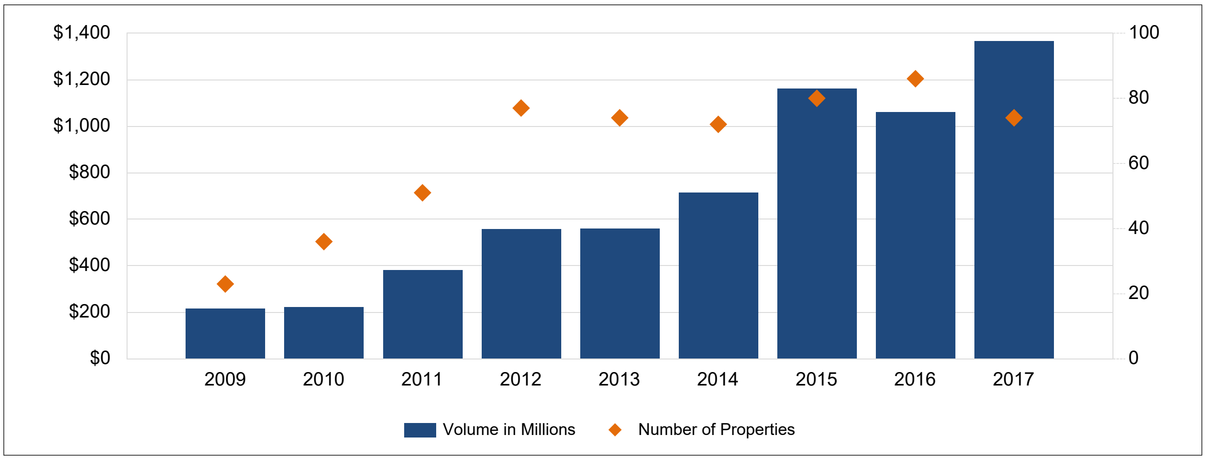


Source: YardiMatrix

Transactions

- Investor appetite remained high in San Antonio in 2017, with nearly $1.4 billion in multifamily properties changing hands, a new cycle high. Of the 74 properties that traded last year, half are in the Renter-by-Necessity segment and half in the Lifestyle segment, which reflects growing investor interest in San Antonio across asset classes. However, value-add opportunities are drying up, as the number of Class B and C properties available for sale is shrinking.
- At $107,722, San Antonio per-unit prices were up 24.8% in 2017, surpassing the $100,000 mark for the first time this cycle. The most active submarkets in 2017 were neighboring Beckmann ($210 million) and Far North Side ($114 million), where eight properties totaling 2,214 units traded at $127,966 per unit. The most expensive San Antonio property to change hands in 2017 was Agave, a 349-unit asset for which Castle Lanterra Properties paid Greystar roughly $66 million, or $188,372 per unit.

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



Source: YardiMatrix

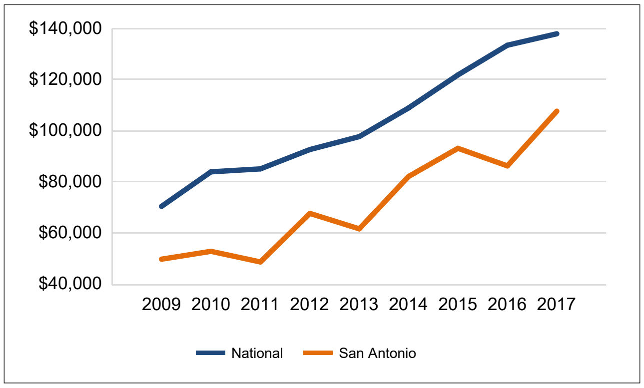
Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
Beckmann	210
Far North Side	114
University of Texas at San Antonio	111
USAA Area	110
Northwest Side	98
Southtown/King William	66
Terrell Hills	63
Leon Valley–West	60

Source: YardiMatrix

[1] From January 2017 to December 2017

San Antonio vs. National Sales Price per Unit



Source: YardiMatrix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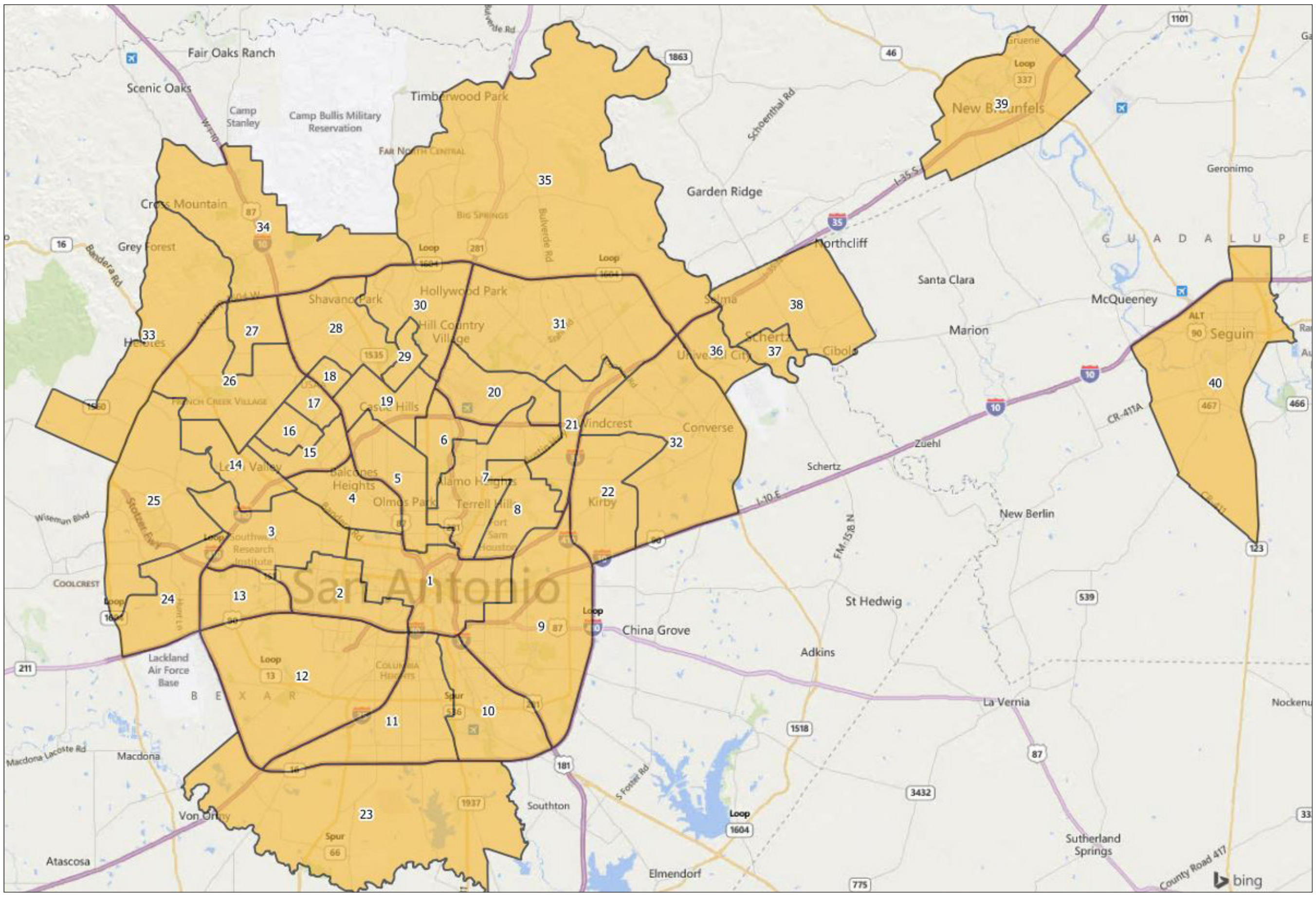
San Antonio Submarkets



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
40	Seguin

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.

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