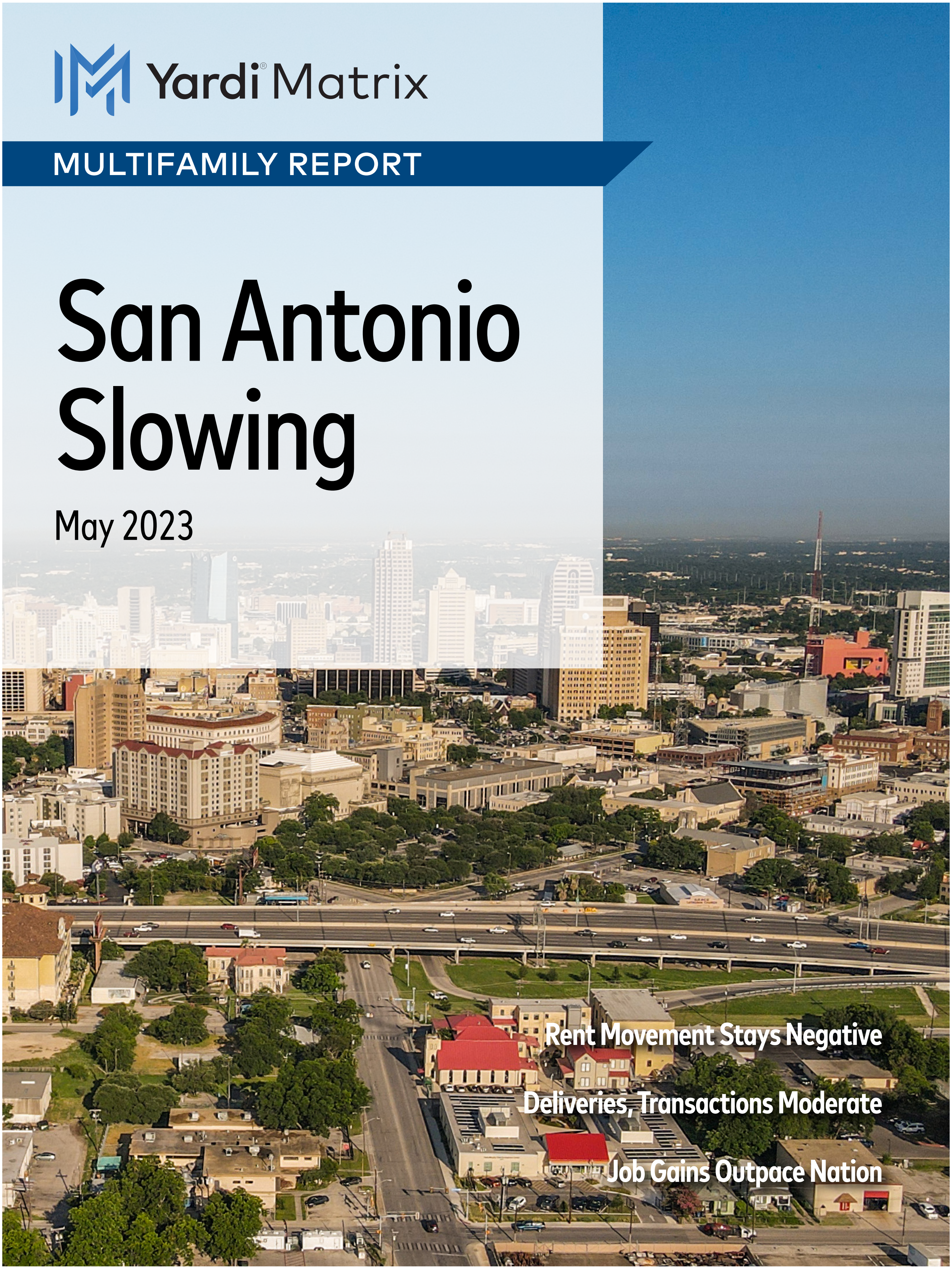
Yardi Matrix

MULTIFAMILY REPORT

San Antonio Slowing

May 2023



Rent Movement Stays Negative

Deliveries, Transactions Moderate

Job Gains Outpace Nation

SAN ANTONIO MULTIFAMILY

Yardi Matrix

Rents, Occupancy Follow Market Slowdown

San Antonio multifamily market fundamentals began softening, especially in transaction and new construction volume. The metro's rent movement was negative for four consecutive months, down 0.3% on a trailing three-month basis through March to an overall average of $1,274. The rate trailed the U.S. figure, which remained flat, at $1,706. The occupancy rate in stabilized properties also fell 170 basis points in the 12 months ending in February, to 93.0%.

The jobless rate clocked in at 4.3% in February, faring better than the state (4.0%) and Houston (4.8%), but lagging the U.S. (3.6%), Austin (3.7%) and Dallas (4.1%) according to preliminary data from the Bureau of Labor Statistics. The employment market expanded by 4.6%, or 46,600 jobs, in 2022, leading the 3.7% U.S. figure. Two sectors lost a combined 4,100 jobs—professional and business services and mining, logging and construction—but San Antonio's economy is strong and diverse enough to withstand upcoming distress.

Deliveries through March were scarce, with just 78 units in one fully affordable community coming online, but the construction pipeline had 16,000 units underway, 8,455 of which Yardi Matrix forecasts will be completed by year-end. Meanwhile, investors traded just $176 million in multifamily assets, coming in at just over $100,000 for an average price per unit.

Market Analysis | May 2023

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Recent San Antonio Transactions

The Redland

City: San Antonio
Buyer: Ilan Investments
Purchase Price: $44 MM
Price per Unit: $159,420

Reata at Alamo Ranch

City: San Antonio
Buyer: MLG Capital
Purchase Price: $35 MM
Price per Unit: $151,305

Broad Viewe

City: San Antonio
Buyer: Raven Capital Group
Purchase Price: $16 MM
Price per Unit: $90,220

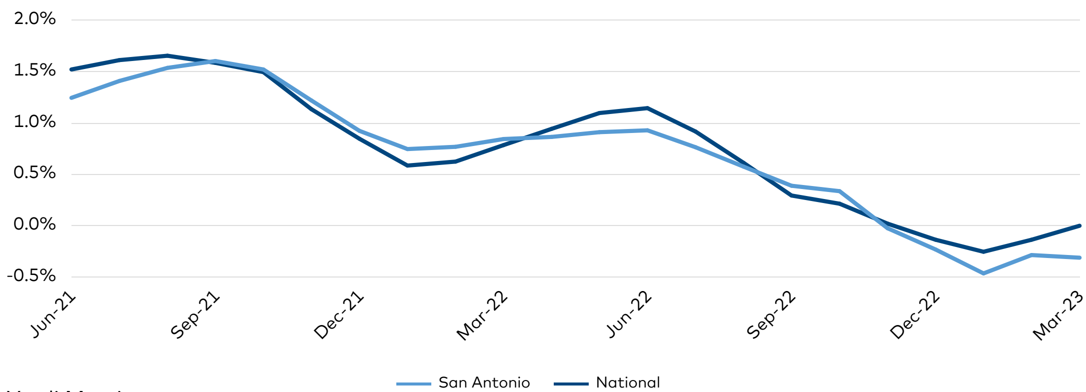
Torrey Place

City: New Braunfels, Texas
Buyer: MLG Capital
Purchase Price: $14 MM
Price per Unit: $94,468

RENT TRENDS

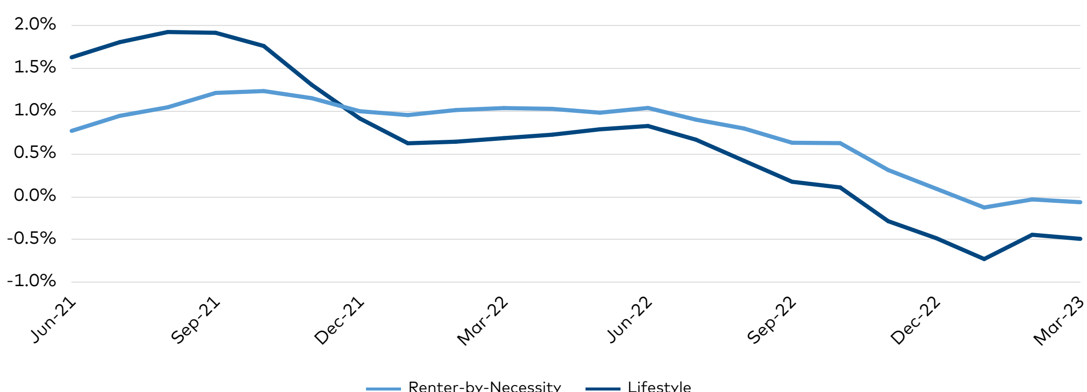
- San Antonio's asking rents posted negative movement for the fourth consecutive month, down 0.3% on a trailing three-month (T3) basis in March, to $1,274. The national rate remained flat, at $1,706, through the same interval. The metro trailed the U.S. on an annual basis, up 2.3%, while the national average was 4.0%.
- Rates in the Lifestyle segment dipped 0.5% on a T3 basis through March, to $1,478, marking the fifth straight month of contraction. Meanwhile, rents in the working-class Renter-by-Necessity segment also decreased, down 0.1% to $1,069.
- The average occupancy rate in stabilized properties declined 170 basis points year-over-year as of February, to 93.0%. The decrease was even across asset classes, down to 92.6% for RBN units and to 93.3% for Lifestyle apartments.
- At the submarket level, rents contracted in four of the 45 submarkets tracked by Yardi Matrix, with the highest decreases in two of the most expensive areas in San Antonio—Far North Central and Beckmann, both down by 0.7% year-over-year, to $1,387 and $1,600, respectively. In Southtown/King William—the most expensive submarket housing the metro's second-largest construction pipeline as of March—and Leon Valley-West, rents remained flat at a respective $1,626 and $1,332.
- The SFR segment posted solid performance, with annual rents rising 6.7% year-over-year through March and occupancy down 2.7% as of February.

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 unemployment rate stood at 4.3% in February, outperforming the state (4.0%), but trailing the U.S. (3.6%), BLS data shows. Among other major Texas metros, San Antonio outperformed Houston (4.8%), while trailing Austin (3.7%) and Dallas (4.1%). The rate was close to the figure recorded 12 months ago (4.2%), but lagged the metro's 3.0% pre-pandemic rate.

- Job market growth continued, rising 4.6%, or 46,600 positions, in 2022, ahead of the 3.7% national rate. The metro has been in expansion mode since November 2021. The mining, logging and construction and professional and business services sectors shrunk by 1,500 and 2,600 jobs, respectively. The metro's economy is diverse enough to weather a possible downturn, especially since one of its largest sectors is government, which added 4,000 positions during the period.

- Education and health services (15,200 jobs) led gains and is poised to expand further, supported, among others, by WellMed Medical Management Inc., which will bring 2,000 hires to the North Rim Corporate Campus. Moreover, The University of Texas at San Antonio has opened its new data science building, which will house the school's data science, data analytics and national security programs. This is the first phase of the school's 10-year plan to revitalize and expand its downtown campus.

San Antonio Employment Share by Sector

		Current Employment	
Code	Employment Sector	(000)	% Share
65	Education and Health Services	179	15.7%
70	Leisure and Hospitality	142	12.5%
55	Financial Activities	103	9.1%
40	Trade, Transportation and Utilities	203	17.8%
80	Other Services	44	3.9%
90	Government	181	15.9%
30	Manufacturing	55	4.8%
50	Information	18	1.6%
15	Mining, Logging and Construction	61	5.4%
60	Professional and Business Services	153	13.4%

Sources: Yardi Matrix, Bureau of Labor Statistics

Population

- San Antonio remained one of the fastest-growing metros in the U.S., even though the annual demographic expansion in 2021 softened to 1.4% from 1.6% in 2020. Meanwhile, the national rate inched up 0.1%.

- Since the 2010 census, San Antonio's population has expanded 20.8%.

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 one 78-unit fully affordable property in 2023 through March, accounting for less than 0.1% of San Antonio's existing stock. Nationally, the multifamily housing stock expanded 0.3% during the first quarter.

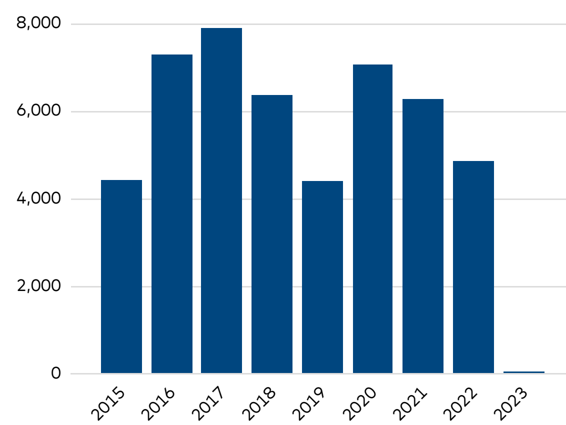
- The construction pipeline remained robust, with 15,847 units underway and another 42,600 units in the planning and permitting stages. Should conditions hold, Yardi Matrix expects 8,455 units to be delivered by year-end, which would be the equivalent of 3.9% of total stock.

- Rising interest rates have burdened construction financing, but even so, the number of construction starts increased in 2022, to 8,746 units in 34 properties, from 6,734 units in 25 properties in 2021. The composition of the construction pipeline was still primarily Lifestyle projects, accounting for 72% of the units underway, while fully affordable communities represented 23% of the pipeline.

- Construction activity was spotty across the map, with 26 of the 45 submarkets tracked by Yardi Matrix posting at least 50 units underway. In five submarkets—where the average asking rent was among the highest in San Antonio—developers had more than 1,000 units under construction, led by Northwest Bexar County (1,937 units), Southtown/King William (1,520 units) and the Far North Side (1,184 units).

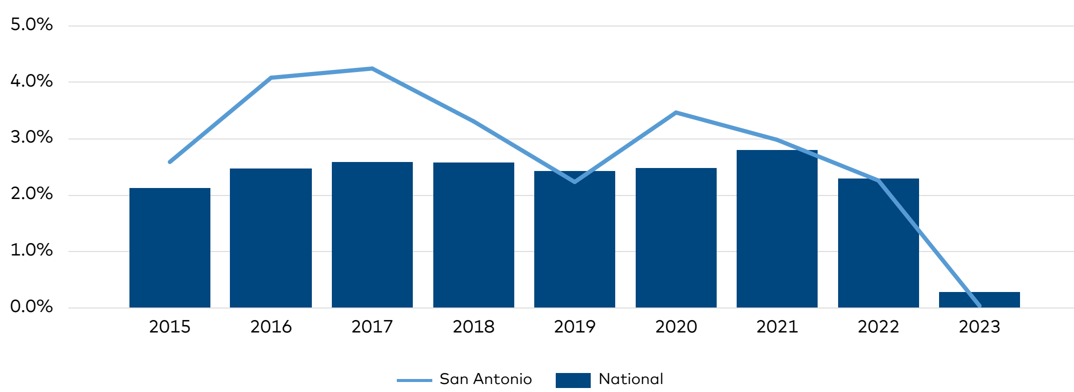
- The largest project under construction as of March was Ascend at 1604, a 424-unit property in Hollywood Park/Welmore, owned by D.R. Horton and slated for completion in the summer of 2023.

San Antonio Completions (as of March 2023)



Source: Yardi Matrix

San Antonio vs. National Completions as a Percentage of Total Stock (as of March 2023)

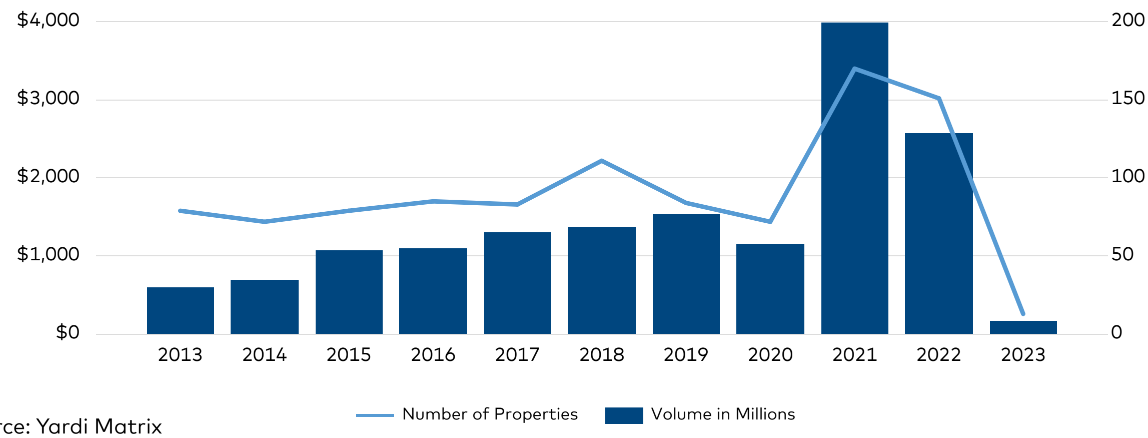


Source: Yardi Matrix

TRANSACTIONS

- Multifamily deals in San Antonio amounted to $176 million in 2023 through March, just a fraction of the $822 million that changed hands during the first quarter of 2022. Last year, $2.6 billion in multifamily properties traded in the metro.
- Similar to previous years, the sales composition remained tilted toward value-add opportunities, as eight of the 13 properties that traded were RBN assets. This has impacted the metro's average price per unit—on a downward trend since its 2021 high—which slid another 21.2% year-over-year in March, to $102,076. Meanwhile, the U.S. average price per unit declined 6.9% from the value registered in December, to $196,544.
- As of March, Harbor Group International was the most active investor in the market, acquiring 828 units for an average price per unit of $77,052. Next in line was Nord Group with the purchase of 492 units.

San Antonio Sales Volume and Number of Properties Sold (as of March 2023)



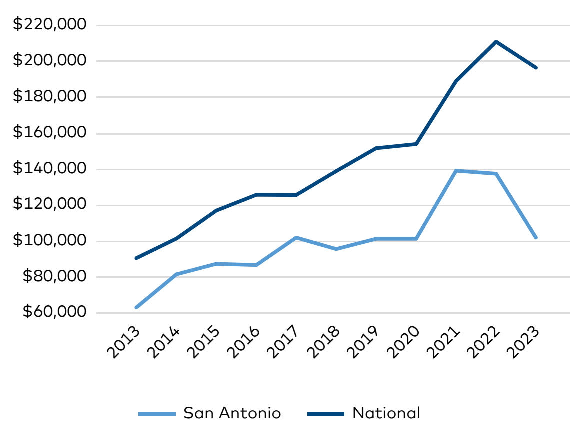
Source: Yardi Matrix

Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
Beckmann	217
Far North Side	197
Hill Country Village	157
Robards	152
New Braunfels	144
Leon Valley-East	121
Hollywood Park/Welmore	118

Source: Yardi Matrix
[1] From April 2022 to March 2023

San Antonio vs. National Sales Price per Unit



Source: Yardi Matrix

Opportunities Are on the Horizon: Atlantic Pacific COO

By Tudor Scolca

Multifamily rent development started slowing down in the last quarter of 2022 following two years of record gains. But demand remains high across the U.S., with competitivity increasing in sought-after markets across Sun Belt states, according to Brett Duke, COO of Atlantic Pacific Real Estate Group. He shares his views on what's to come for Sun Belt multifamily operators, considering the current economic uncertainty.

How have these past couple of years shaped your business strategy for the future?

The past couple of years have shaped and refined our business strategy to focus on finding and retaining the best people and preparing them to lead our company into the future, and leveraging technology to enhance our residents' experiences and our teams' capabilities. We've also been focusing on executing each property's business plan while accounting for the macro and local conditions that exist.

Atlantic Pacific Cos. manages units across several major metro areas. Are you focusing on any specific markets in 2023?

Our focus continues to be on the major Sun Belt markets. We intend to grow our portfolio in all the markets where we have a presence, with additional emphasis on growing within Georgia, Texas, North Carolina and Florida.

Where do you expect cap rates to go?

Acquiring a property today on a leveraged basis at a seller's cap rate expectation will, more than likely, result in negative leverage for the buyer. With rent growth slowing and expense inflation still present, the period of negative leverage a buyer must endure may be more than the proforma can handle. Unless interest rates come down some or lenders reduce spreads, I suspect cap rates will tick up slightly from sellers' current expectations.

Multifamily markets in the Sun Belt have been on a hot streak for quite a while. Are you expecting any changes this year?

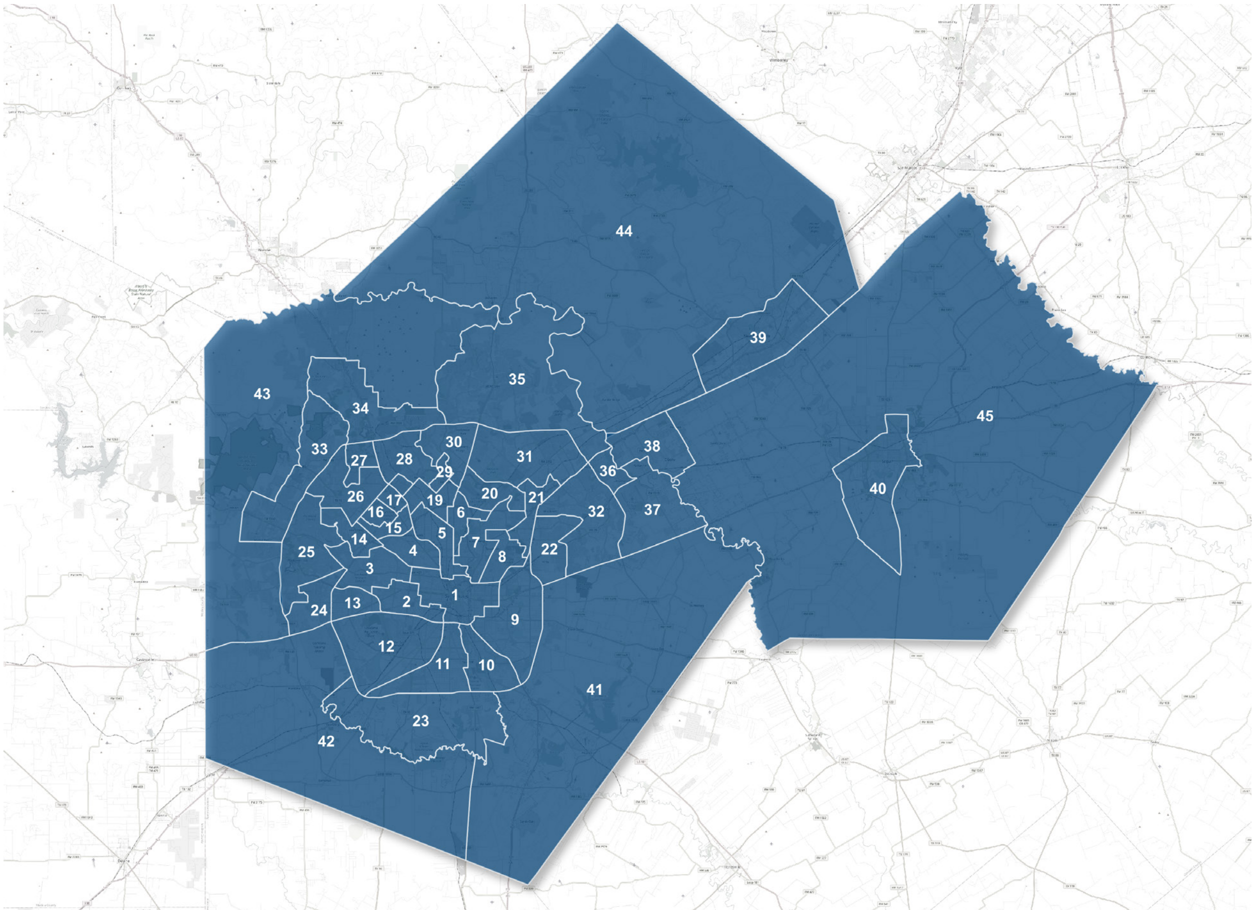
Although there may be a slight return to historical growth in these markets, the low income-tax and pro-growth environment created by community and governmental leaders will continue to propel the upward trajectory of these markets which ultimately creates the outsized demand for multifamily.

What are your plans this year for the markets you are in?

From a corporate perspective, we will continue allocating significant resources to attract and retain the best talent. As it relates to our existing portfolio, we will further our deployment of advanced strategies that allow our onsite teams to produce outsized renewal retention by creating communities in which our residents feel at home. Finally, regarding our growth in these markets, our acquisition team remains focused on finding the right opportunities at the right time.

(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 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.

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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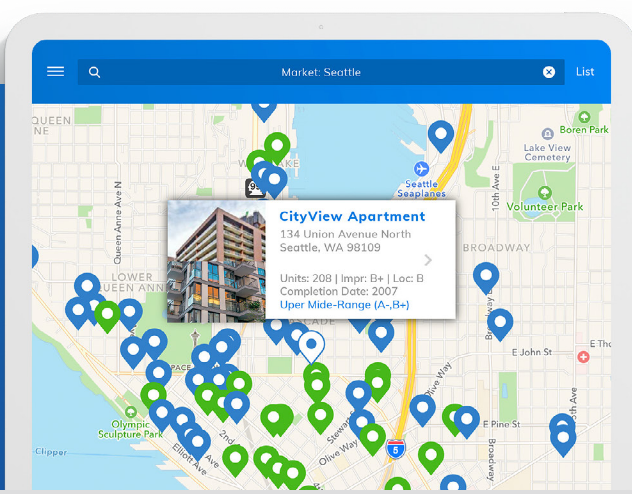
- Gain complete new supply pipeline information from concept to completion
- Find acquisition prospects based on in-place loans, maturity dates, lenders and originators
- Access aggregated and anonymized residential revenue and expense comps



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