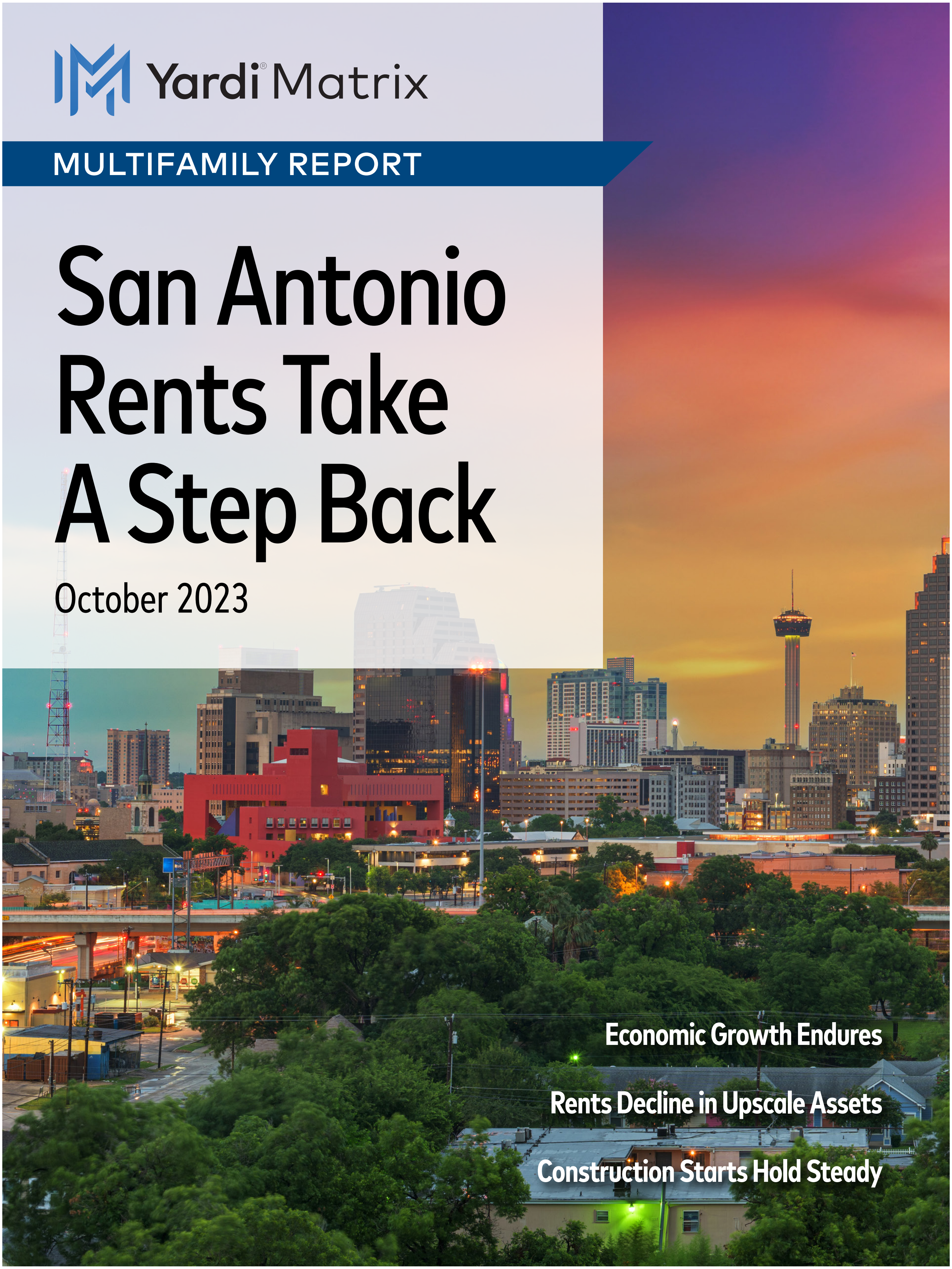
Yardi Matrix

MULTIFAMILY REPORT

San Antonio Rents Take A Step Back

October 2023



Economic Growth Endures

Rents Decline in Upscale Assets

Construction Starts Hold Steady

SAN ANTONIO MULTIFAMILY

Yardi Matrix

Persisiting Volatility Softens Fundamentals

The string of Federal Reserve decisions in an attempt to bring down inflation amid a soft landing is prolonging uncertainty, and San Antonio multifamily fundamentals, which are steady but softening, have felt the pinch. Rent growth fell back into negative territory, down 0.1% on a trailing three-month basis through August, to $1,287. Year-over-year, the San Antonio average was down 0.6%, while the U.S. figure rose 1.5%, to $1,728. The metro's slide was solely due to the Lifestyle segment, where rates dropped 2.2%, while rents in Renter-by-Necessity assets were actually up 1.6%.

In the 12 months ending in June, the metro gained 41,700 jobs, a 4.2% expansion, well ahead of the 2.8% national average. All sectors added jobs, led by leisure and hospitality (7,500 jobs) and education and health services (6,600 jobs). Meanwhile, the unemployment rate clocked in at 4.2% in July, trailing the U.S. and outperforming the state by only 10 basis points. San Antonio's hosting of high-profile events such as the U.S. Travel Association's IPW trade show could further bolster the sector's expansion in the coming years. In addition, San Antonio International Airport will embark on a $2.5 billion upgrade in 2025, with completion slated for 2028.

Development remained healthy, but softened. Deliveries amounted to 2,090 units in 2023 through August and the pipeline had 17,943 units underway. Mirroring the overall trend, transactions moderated sharply, to $560 million in total volume through August.

Market Analysis | October 2023

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Recent San Antonio Transactions

Signature Ridge

City: San Antonio
Buyer: Kairoi Residential
Purchase Price: $76 MM
Price per Unit: $124,830

Presidium Chase Hill

City: San Antonio
Buyer: Edgewood REIT
Purchase Price: $67 MM
Price per Unit: $181,081

Diamond Ridge

City: San Antonio
Buyer: Sapphire Partners
Purchase Price: $31 MM
Price per Unit: $101,974

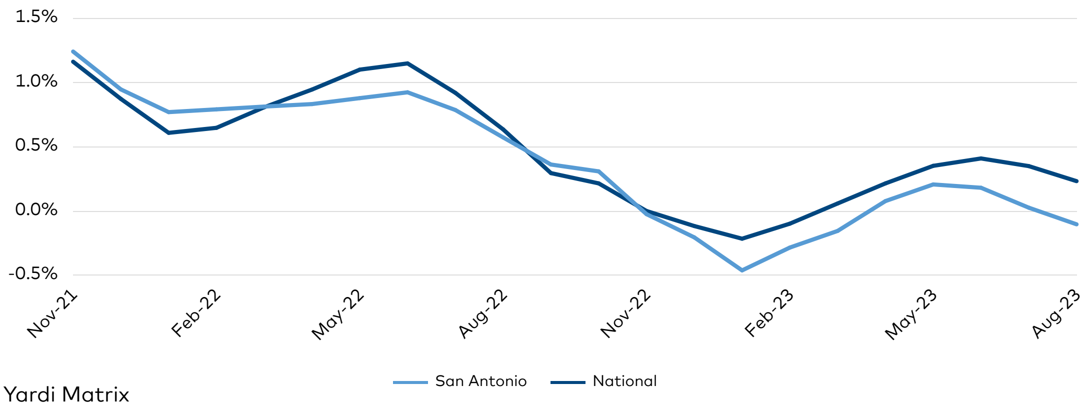
Republic at Alamo Heights

City: San Antonio
Buyer: JW Capital Management
Purchase Price: $31 MM
Price per Unit: $110,432

RENT TRENDS

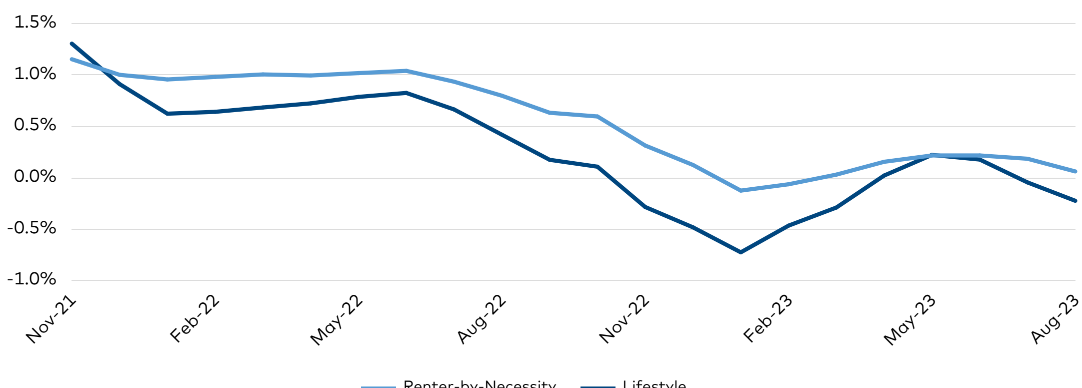
- After four consecutive months of stagnation or slight increases, San Antonio rents dipped again, down 0.1% on a trailing three-month (T3) basis through August, to $1,287. Meanwhile, the U.S. average was up 0.2%, to $1,728. Year-over-year, rents depreciated by 0.6%, while the U.S. rate increased 1.5%.
- San Antonio's rent drop was exclusively due to upscale Lifestyle rates, which declined 2.2% in a year to $1,492, while working-class RBN rates actually inched up 1.6%, to $1,078.
- Softening demand was reflected by the occupancy rate in stabilized properties, which declined 180 basis points in the 12 months ending in July, to 92.3%. Surprisingly, the drop was steeper in the RBN segment, down 210 basis points to 91.8%, while for the Lifestyle component it dipped 160 basis points, to 92.9%.
- Of the 45 submarkets tracked by Yardi Matrix, 19 posted declines in rent growth on a year-over-year basis through August, including the top six most expensive areas of San Antonio. The top three most expensive submarkets were Southtown/King William (-1.0% to $1,630), Beckman (-2.0% to $1,615) and the Far North Side (-1.1% to $1,545). Lackland Terrace (7.5% to $921) and Alamo Heights-Central (6.3% to $1,086) posted the best rent performances.
- San Antonio's single-family rental market posted an annual rent increase of 4.3% in August, while occupancy declined 4.4% as of July.

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 4.2% in July, up 40 basis points from June, marking the second spike above the 4.0% mark in more than a year, according to preliminary data from the Bureau of Labor Statistics. At this level, the metro trailed the 3.5% U.S. average and Austin (3.8%) and was just above the 4.1% Texas and Dallas rates, but outperformed Houston (4.8%).
- In the 12 months ending in June, employment expanded by 4.2%, or 41,700 positions, well above the 2.8% U.S. rate. All sectors gained jobs, led by leisure and hospitality (7,500 jobs) and education and health services (6,600 jobs). While leisure and hospitality has yet to fully recover from the pandemic, this year, San Antonio hosted the U.S. Travel Association's IPW conference, an international inbound travel trade show event which brought together some 5,000 people from more than 60 countries. An impact study found that post-event, the metro will attract an additional 390,000 visitors and gather some $614 million in international visitor spending, while creating nearly 2,800 annual average full- and part-time jobs. In addition, the San Antonio International Airport is slated for a $2.5 billion upgrade by 2028, including a new terminal, with construction expected to begin by 2025.
- Although USAA laid off hundreds of employees in 2023 through August, the financial activities sector gained 4,300 jobs.

San Antonio Employment Share by Sector

		Current Employment	
Code	Employment Sector	(000)	% Share
70	Leisure and Hospitality	149	12.8%
65	Education and Health Services	176	15.1%
40	Trade, Transportation and Utilities	207	17.8%
90	Government	179	15.4%
55	Financial Activities	103	8.8%
60	Professional and Business Services	163	14.0%
15	Mining, Logging and Construction	71	6.1%
80	Other Services	41	3.5%
30	Manufacturing	58	5.0%
50	Information	19	1.6%

Sources: Yardi Matrix, Bureau of Labor Statistics

Population

- San Antonio's lower cost of living and housing, paired with a diverse job market, made it highly attractive, boosting its population by 1.4%, or 35,105 people in 2021, while the U.S. population inched up just 0.1%. Since the 2010 Census, the metro's population has expanded by 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

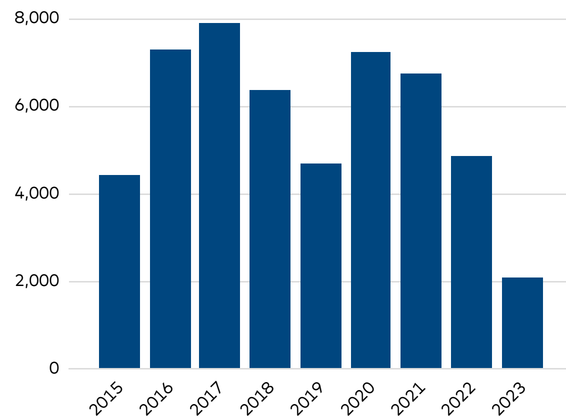
- San Antonio's multifamily stock expanded by 2,090 units in 2023 through August, the equivalent of 1.0% of existing stock and slightly below the 1.2% national average. Developers remained focused on upscale projects, with Lifestyle units accounting for 76% of deliveries, while the remaining 24% apartments were all units in fully affordable communities.

- The construction pipeline consisted of 17,943 units underway and another 44,000 units in the planning and permitting stages in August. By asset class, 70% of units under construction were in Lifestyle projects and a quarter were in fully affordable developments. Yardi Matrix anticipates that San Antonio's inventory will grow by 5,254 units for the whole of 2023, surpassing 2022's total of 4,871 new apartments.

- Looking at construction starts, San Antonio has kept up the pace, with 5,889 units across 20 properties breaking ground in 2023 through August. Last year during the same period, 6,302 units across 26 properties started construction across the metro. Overall, 10,966 units across 42 properties broke ground in San Antonio in 2022.

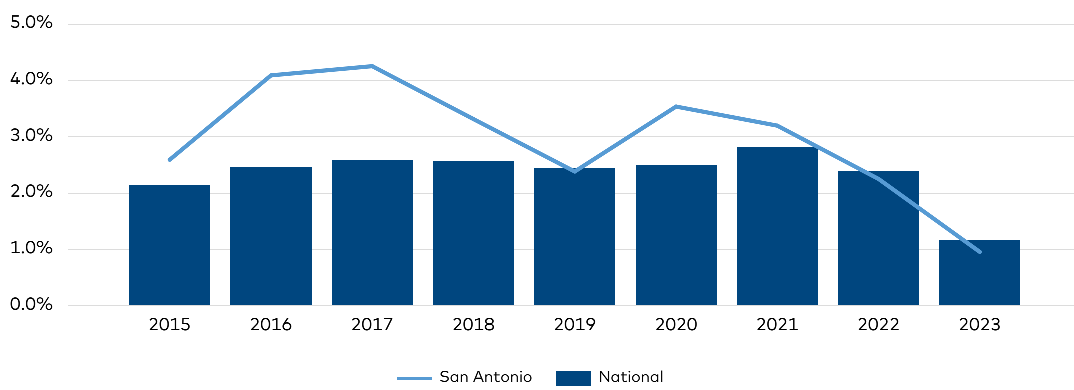
- Construction activity is spread across the map, with 30 of the 45 submarkets tracked by Yardi Matrix having at least 50 units underway. Five submarkets had more than 1,000 units under construction, led by Northwest Bexar County with 2,279 units, all in Lifestyle properties. The largest project delivered in 2023 through August was the fully affordable 348-unit Frontera Crossing in City South. It is owned by NRP Group and Opportunity Home San Antonio and was built with aid from three construction loans totaling $51 million.

San Antonio Completions (as of August 2023)



Source: Yardi Matrix

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

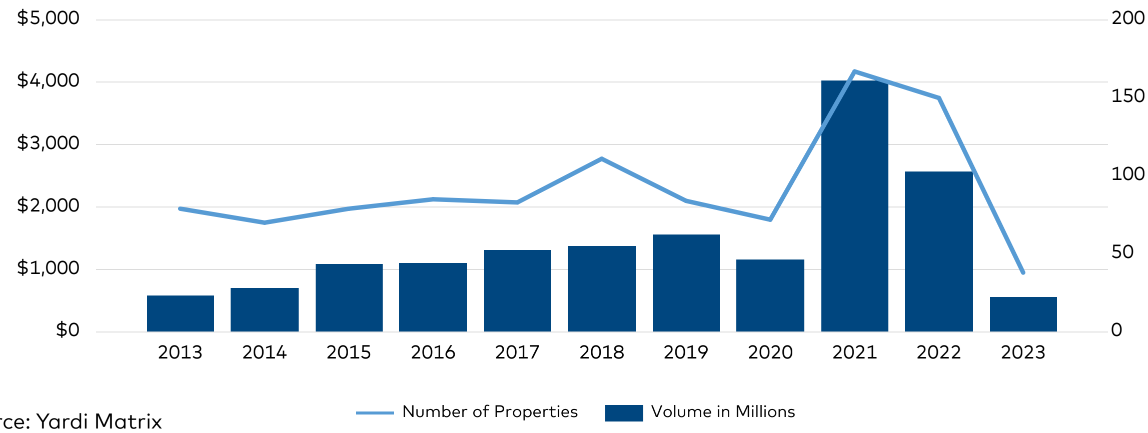


Source: Yardi Matrix

TRANSACTIONS

- Investors traded just $560 million in multifamily assets in 2023 through August. In line with national trends, increasing interest rates and the widening bid-ask spread has slowed down activity in San Antonio, too.
- The volume was almost equally split between upscale properties and value-add opportunities, with 20 of the 38 transactions consisting of RBN assets. And due to the large gap between buyer and seller expectations, the price per unit declined 10.5% from December's value, to $123,203 year-to-date through August. Meanwhile, the U.S. rate decreased to $186,926.
- Kairoi Residential marked one of the largest sales of the past 12 months in metro San Antonio, with the acquisition of the 612-unit Signature Ridge in the USAA Area submarket from CBRE Investment Management. The deal took place with aid from a $57.3 million, five-year, Fannie Mae CMBS loan originated by Newmark at a 5.57% fixed interest rate.

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



Source: Yardi Matrix

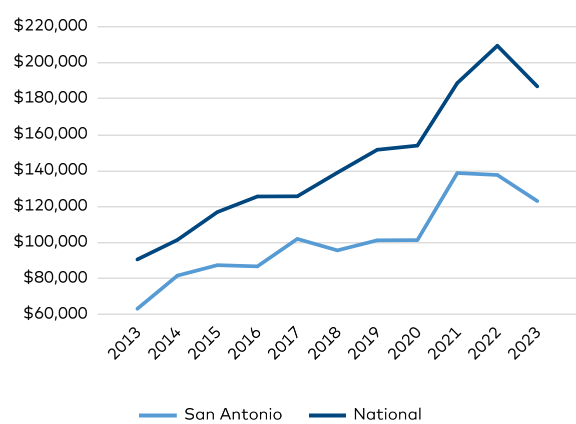
Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
Far North Side	110
Helotes	96
USAA Area	92
Beckmann	67
Far West Side	50
Hill Country Village	47
Leon Valley–East	46

Source: Yardi Matrix

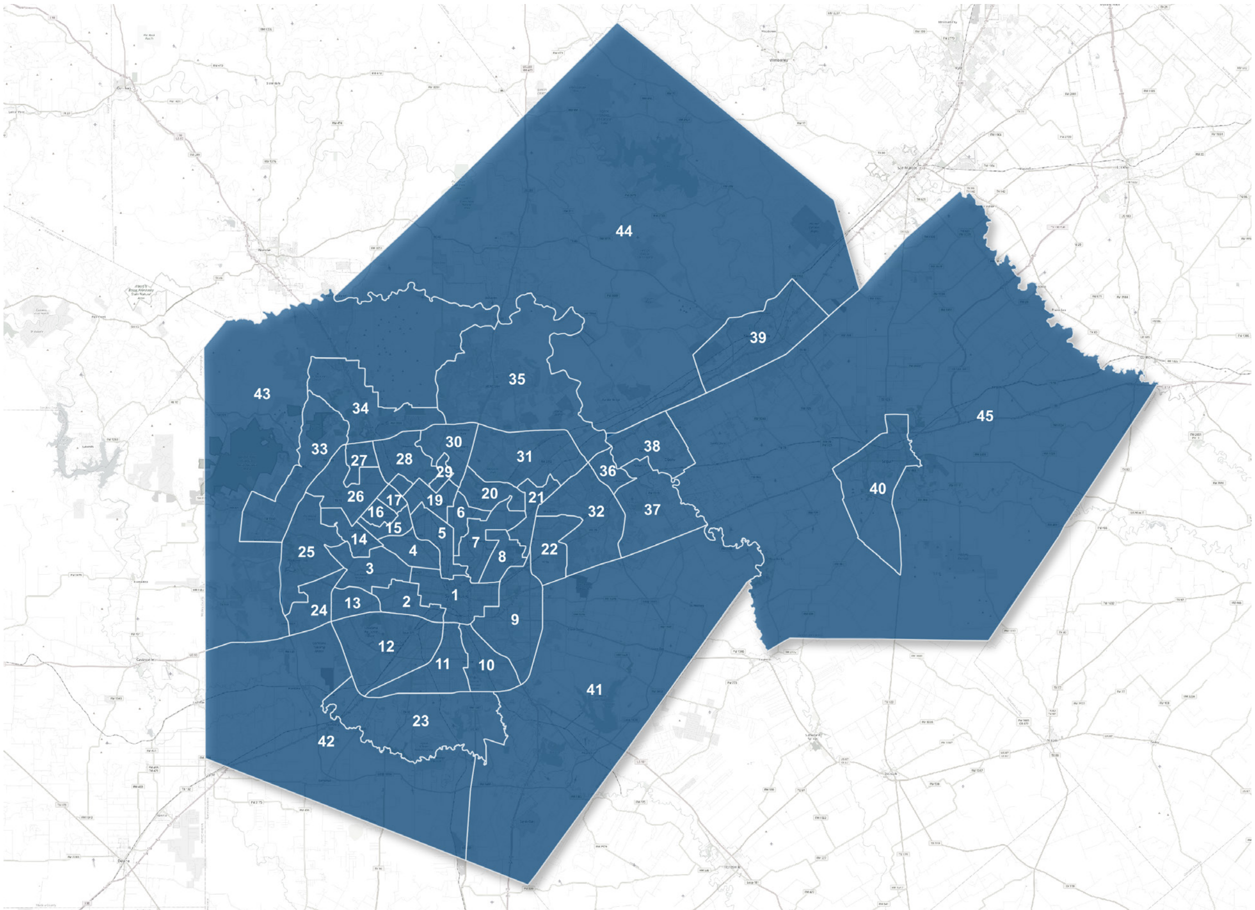
[1] From September 2022 to August 2023

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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Yardi Matrix

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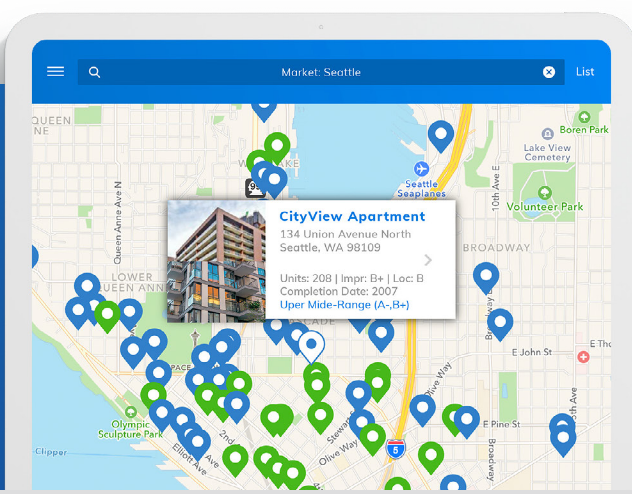
MULTIFAMILY KEY FEATURES

- Pierce the LLC every time with true ownership and contact details
- Leverage improvement and location ratings, unit mix, occupancy and manager info
- 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



Yardi Matrix Multifamily provides accurate data on **19.7+ million units**, covering over **92% of the U.S. population.**

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