



Yardi® Matrix

San Antonio's Breezy Summer

Multifamily Report Summer 2018

Rent Growth Tapers

Transaction Volume Dwindles

Construction Leads Job Growth

Market Analysis

Summer 2018

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Job Growth Fuels South Texas

On its 300th anniversary, San Antonio has a strong economy to show, with a thriving luxury multifamily market that's creating opportunities for investors looking to enter a stable market. The strong economic and population growth keep creating demand for housing, despite the recent wave of supply that has tempered rent growth, up 1.1% year-over-year through May to \$1,002 and below the \$1,381 U.S. average.

Up by 10.1%, the mining, logging and construction sector led San Antonio's employment expansion in the 12 months ending in March with the addition of 5,800 jobs. With nearly 8,000 rental units underway, development activity in the multifamily sector will likely maintain this positive trend. Several other developments across the metro will boost the construction sector, with a number of projects lined up, as well: the 462,000-square-foot Frost Bank Tower, the multi-phase Essex Modern City and the \$320-million University Village mixed-use project near University of Texas at San Antonio.

The multifamily transaction volume hit \$427 million in 2018 through April. Most of the traded assets were in lower-rated classes, which influenced the per-unit price, resulting in a \$2,000 slide to \$101,428. With 6,700 units scheduled for completion by year's end, we expect rents to rise 1.8% this year.

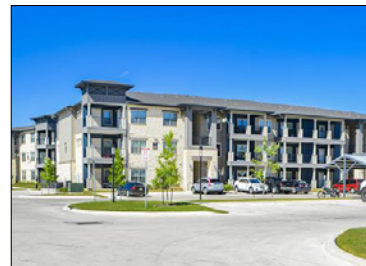
Recent San Antonio Transactions

The Flats at Big Tex



City: San Antonio
Buyer: The Accend Cos.
Purchase Price: \$69 MM
Price per Unit: \$205,667

Legacy Flats



City: San Antonio
Buyer: PEM Real Estate Group
Purchase Price: \$35 MM
Price per Unit: \$112,839

Monterra



City: San Antonio
Buyer: Knightvest Capital
Purchase Price: \$34 MM
Price per Unit: \$97,362

Whispering Creek Villas

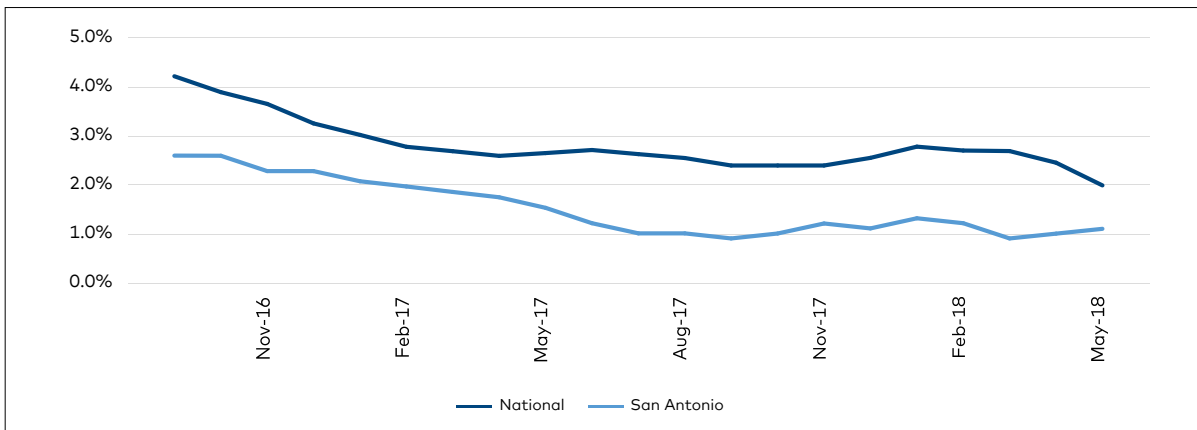


City: San Antonio
Buyer: Hilltop Residential
Purchase Price: \$32 MM
Price per Unit: \$123,411

Rent Trends

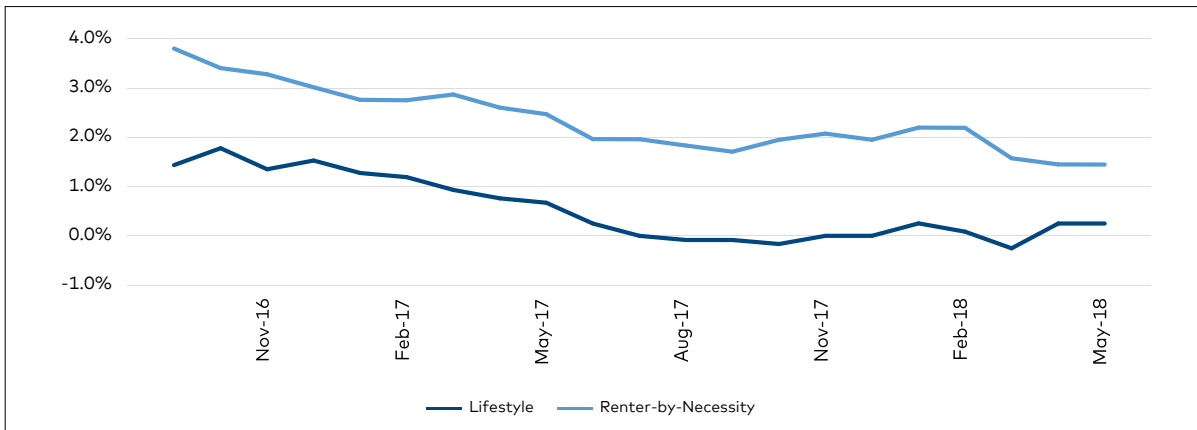
- Rents in San Antonio rose 1.1% year-over-year through May, below the national growth rate of 2.0%. The average overall rent stood at \$1,002, well below the national average of \$1,381. The supply imbalance has not only resulted in a softened rate of rent growth but also contributed to falling occupancy, which dropped 130 basis points year-over-year through April at 92.3%, the lowest among major metros.
- Assets in the working-class Renter-by-Necessity segment led growth, rising 1.5% to \$841, while rates for Lifestyle assets inched up 0.3% to \$1,199. Elevated multifamily construction has also influenced payrolls, especially in the construction sector, boosting household formation.
- The number of submarkets experiencing rent dips has dropped to eight, the steepest decrease coming in Selma, down 5.8% to \$1,013. At \$655, West Side was the least expensive submarket, due to its inventory being mostly made up of affordable communities. Rent growth there was 4.3% year-over-year. The metro's most expensive submarkets remain Southtown/King William, up 1.0% to \$1,443, and Beckmann, down 0.3% to \$1,395.
- Population growth and the metro's solid economy should propel rent growth to 1.8% for the year.

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)

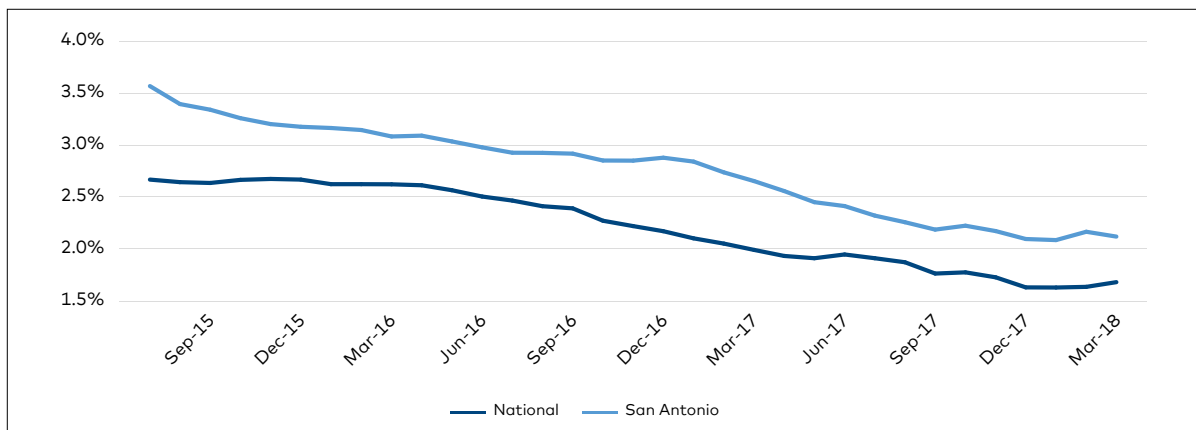


Source: YardiMatrix

Economic Snapshot

- San Antonio added 18,800 jobs in the 12 months ending in March, up 2.1% year-over-year, above the 1.7% U.S. rate. Growth occurred across most industries, except the information sector, which contracted by 600 jobs. The metro's unemployment rate was 3.1% in April, well below average.
- Mining, logging and construction led growth with the addition of 5,800 jobs, followed by the trade, transportation and utilities sector, which added 3,800 jobs. The strong development pipeline will maintain this trend: The Frost Bank Tower is about two-thirds complete and on schedule to open early next year, while the multi-phase, \$150 million Essex Modern City mixed-use development is currently underway. Additionally, the 1,900-acre Port San Antonio plans to hire 5,000 people by 2020 and has already begun to do so: In late May, the first facility at the newly built 90,000-square-foot Project Tech was inaugurated and will serve the cybersecurity and other digital industries.
- Organizations are expanding in the metro, pushing office vacancy rates to 9.8%, up 10 basis points year-over-year. Net absorption remained positive at 18,595 square feet, according to NAI, and leasing activity dropped to 365,000 square feet from 870,000 a year ago. There was 1.2 million square feet of space underway, with 665,000 square feet scheduled for delivery by year's end. The 462,000-square-foot Frost Bank Tower is set to be completed in the first quarter of 2019.

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)

Code	Employment Sector	Current Employment		Year Change	
		(000)	% Share	Employment	%
15	Mining, Logging and Construction	64	6.1%	5,800	10.1%
40	Trade, Transportation and Utilities	183	17.4%	3,800	2.1%
70	Leisure and Hospitality	135	12.9%	2,900	2.2%
60	Professional and Business Services	135	12.9%	2,100	1.6%
65	Education and Health Services	163	15.5%	1,900	1.2%
30	Manufacturing	49	4.7%	1,000	2.1%
90	Government	174	16.6%	1,000	0.6%
80	Other Services	38	3.6%	900	2.4%
55	Financial Activities	89	8.5%	-	0.0%
50	Information	20	1.9%	-600	-2.9%

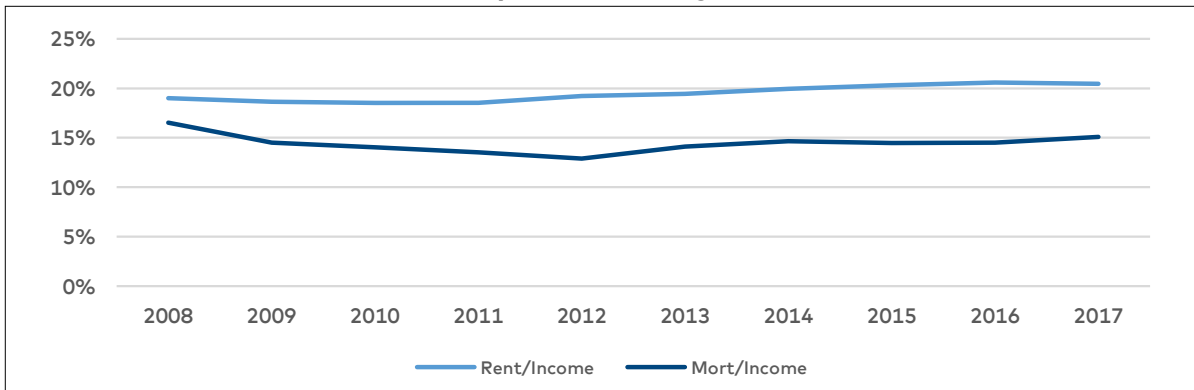
Sources: YardiMatrix, Bureau of Labor Statistics

Demographics

Affordability

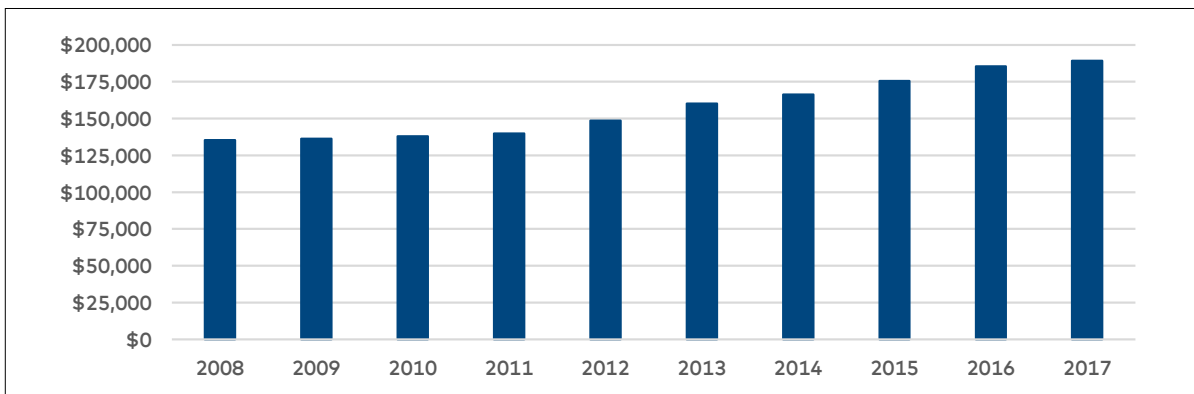
- San Antonio's strong economy has held onto a strong growth rate, putting more pressure on demand for workforce housing. The median home value was up 2.0% in 2017, to \$189,189, which is about \$55,000 higher than it was 10 years ago, at the start of the cycle. Owning remains more affordable than renting, accounting for 15% of the median income, while rents comprise 20%.
- City officials are working on policy changes anticipated to be released in August. As per the City's Comprehensive Housing Needs Assessment, the metro's housing need was at 179,960 units in 2016, with affordable housing becoming increasingly necessary.

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 more than 47,700 residents in 2017, representing a growth rate of nearly 2.0%.
- More than 194,000 residents moved to San Antonio between 2013 and 2017, an 8.5% increase.

San Antonio vs. National Population

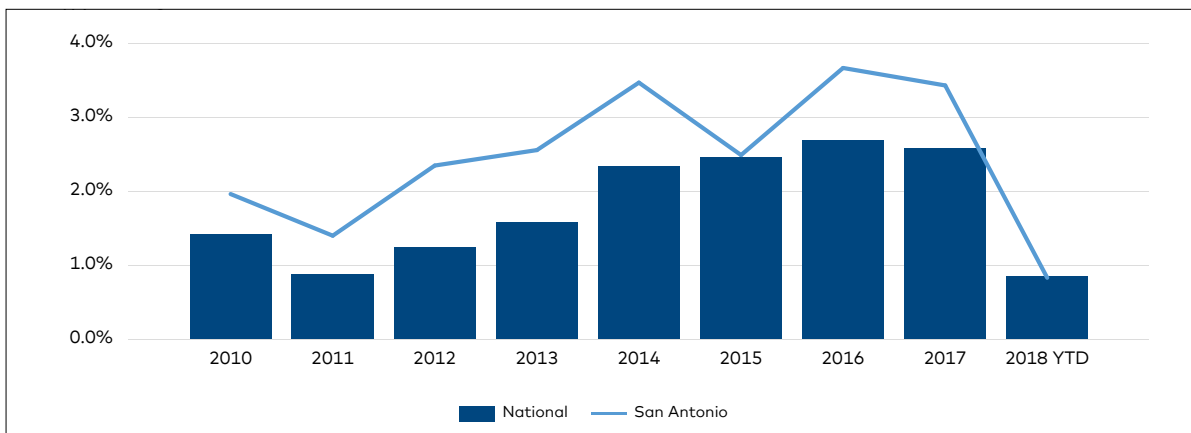
	2013	2014	2015	2016	2017
National	316,234,505	318,622,525	321,039,839	323,405,935	325,719,178
San Antonio Metro	2,279,878	2,328,419	2,379,054	2,426,211	2,473,974

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

Supply

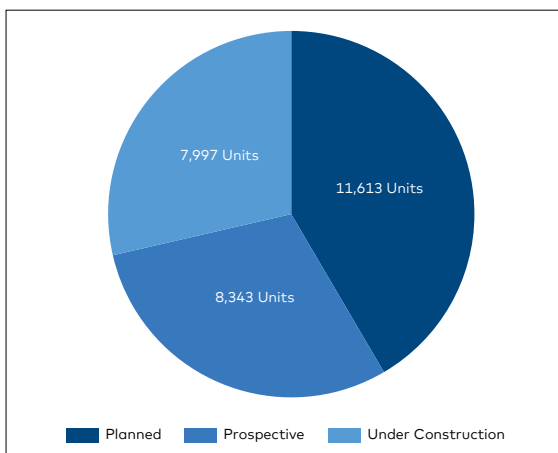
- Overall deliveries slowed down in 2018, but some areas are lined up to boost inventory. About 1,500 units were delivered in San Antonio by May, 0.8% of total stock. The metro's booming population and consistent employment growth have been accelerating housing demand in the Alamo City.
- Nearly 8,000 units were under construction in the metro, with roughly 6,700 scheduled for completion by year's end. Adding in the planned and prospective projects, the development pipeline totals nearly 28,000 units. Even though occupancy in stabilized properties dropped 130 basis points year-over-year through April to 92.3%, there are no concerns of overbuilding.
- Construction has been mostly concentrated in the northern part of the metro, but it's starting to pick up in core submarkets, as well. The submarkets with the most intense development activity remain Beckmann, with 2,142 units in seven properties, and Southtown/King William (1,052 units).
- The largest community underway is Legacy Alliance Holdings' 427-unit Villas at the Rim in Beckmann, a two-building property slated for completion at the start of the summer.

San Antonio vs. National Completions as a Percentage of Total Stock (as of May 2018)



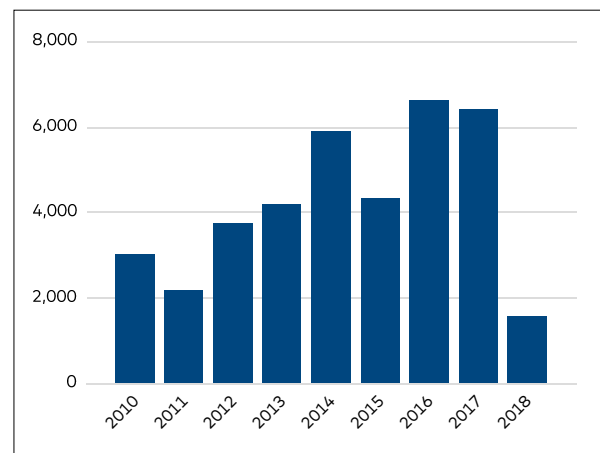
Source: YardiMatrix

Development Pipeline (as of May 2018)



Source: YardiMatrix

San Antonio Completions (as of May 2018)

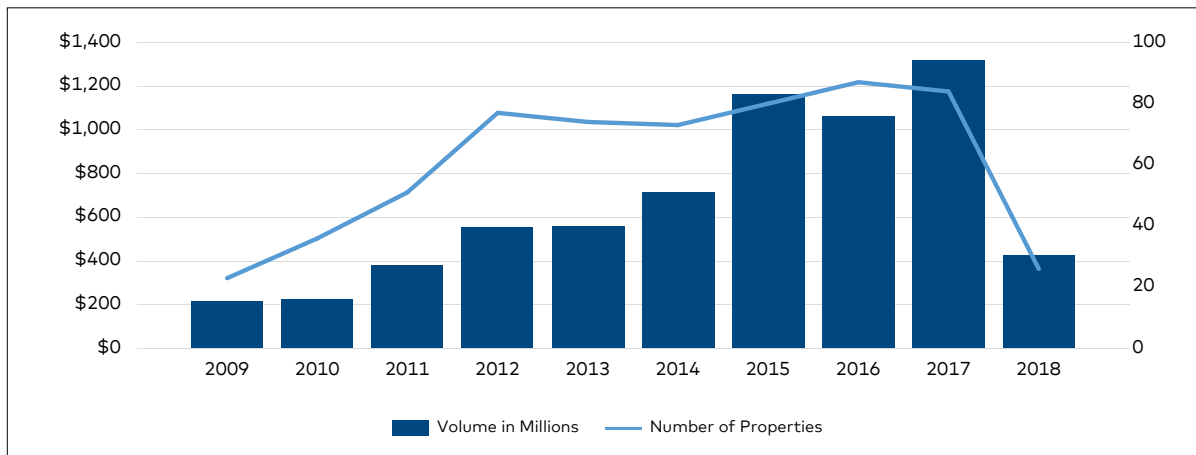


Source: YardiMatrix

Transactions

- More than \$427 million in multifamily properties traded in 2018 through April. Of the 26 properties that changed hands during this time, the majority were in the Renter-by-Necessity segment. This has resulted in a \$2,000 drop in the average per-unit price to \$101,428. Yet, finding value-add assets is increasingly challenging in San Antonio.
- The most active submarkets in the 12 months ending in April were University of Texas at San Antonio (\$145 million), Southtown/King William (\$135 million) and Beckmann (\$131 million). The priciest community to change ownership in 2018 was The Flats at Big Tex—The Accend Cos. paid roughly \$69 million (\$205,667 per unit) to The Lifshutz Co. for the 336-unit, six-building asset spread across more than 9 acres in the Southtown/King William submarket.

San Antonio Sales Volume and Number of Properties Sold (as of April 2018)



Source: YardiMatrix

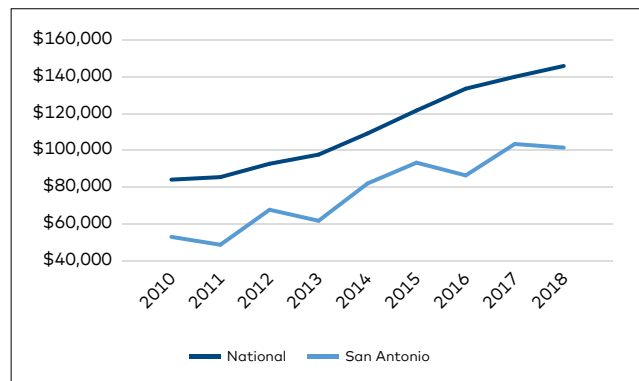
Top Submarkets for Transaction Volume¹

Submarket	Volume (\$MM)
University of Texas at San Antonio	145
Southtown/King William	135
Beckmann	131
Far North Side	114
Terrell Hills	111
Helotes	97
Oakland Estates	81
USAA Area	77

Source: YardiMatrix

¹ From May 2017 to April 2018

San Antonio vs. National Sales Price per Unit



Source: YardiMatrix

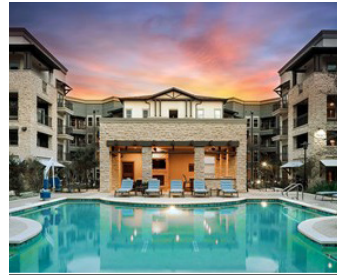
News in The Metro

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IPA Brokers Sale Of San Antonio Value-Add Community

JBT Investments purchased Fredericksburg Place with the help of a loan from Deutsche Bank. The asset was more than 90 percent leased at the time of sale.



Atlanta Investor Expands in the Metro With Foreign Funds

Benimax increased its San Antonio footprint with the acquisition of its second multifamily property in a deal arranged by ARA Newmark.



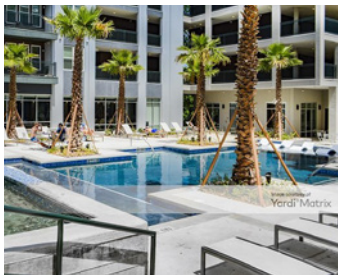
Kairoi Residential Buys Again in Texas

The San Antonio-based company acquired the 308-unit Broadstone City Park in Houston. According to Yardi Matrix, Alliance Residential Co. sold the property, which it had owned since 2014.



Twin Creeks at Alamo Ranch Changes Ownership

Will Balthrope and Jordan Featherston of Institutional Property Advisors brokered the sale of the property. An out-of-state investor bought the asset.



Luxury San Antonio Community Changes Hands

According to Yardi Matrix, the property came online in 2016 and is 83 percent occupied. ARA Newmark brokered the transaction on behalf of the seller.

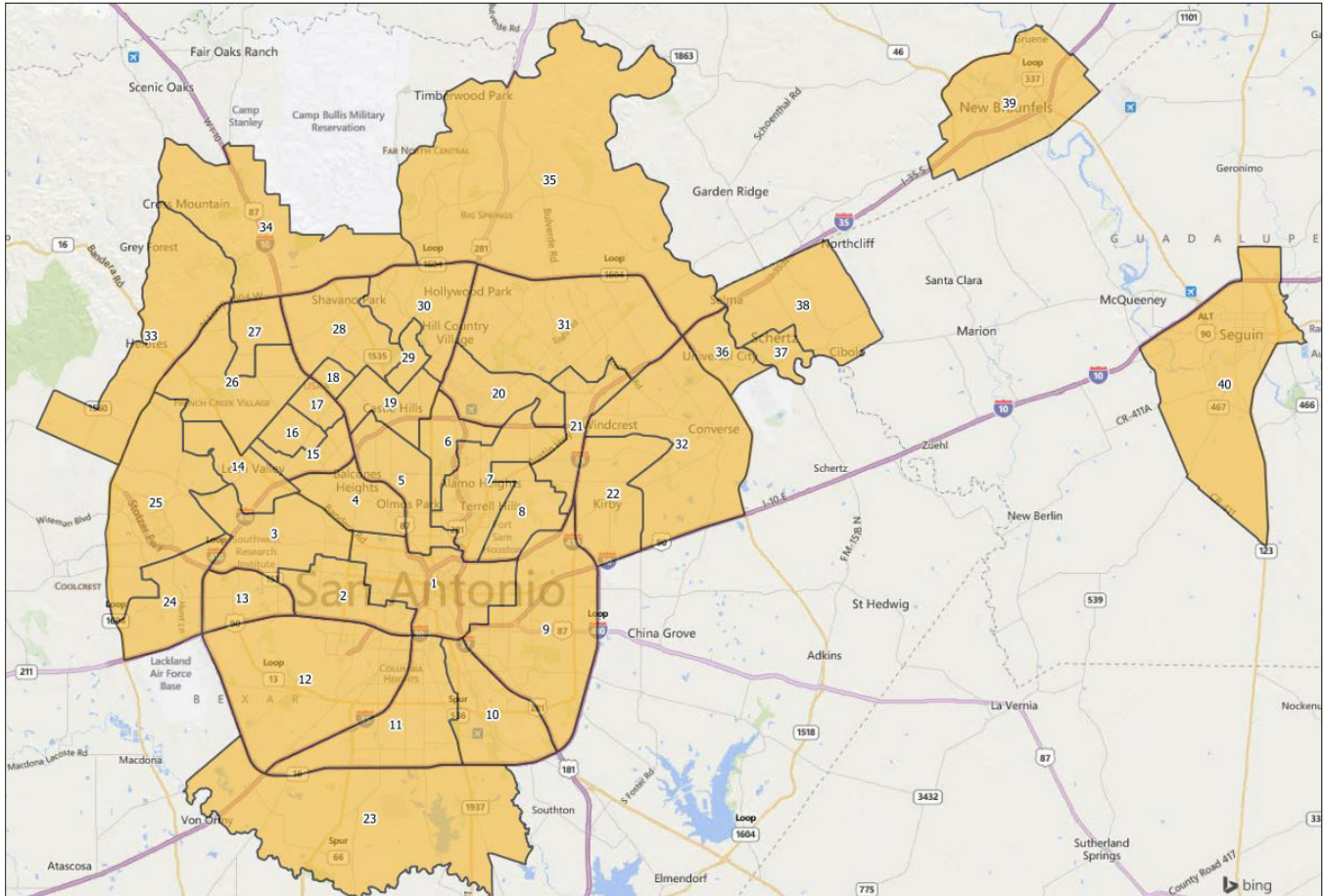


JLL Brokers Sale Of San Antonio Asset

Achieve Investment Group's Villa de Oro is located in the southwestern part of the city and includes 150 units, a clubhouse, a playground and a spa.

Log on to Multi-HousingNews.com to get the latest metro-specific news.

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.

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Market Data & Analysis

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Mark Fogelman
President
Fogelman Properties

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