Yardi® Matrix

San Antonio: Slow And Steady

Multifamily Report Fall 2018

Rent Growth Remains Tepid

Development Boom Continues

Population Gains Keep Demand Healthy

Market Analysis

Fall 2018

Contacts

Paul Fiorilla
Associate Director of Research
Paul.Fiorilla@Yardi.com
(800) 866-1124 x5764

Jack Kern
Director of Research and Publications
Jack.Kern@Yardi.com
(800) 866-1124 x2444

Author

Anca Gagiuc
Associate Editor

Building Surge Keeps Rent Growth Tepid

San Antonio's multifamily market has been somewhat of a steady tortoise in a race against the more agile Texas hares of Austin, Dallas and Houston. Despite the robust pipeline, the Alamo City manages to keep demand relatively healthy, attracting Millennials and Baby Boomers with its strong economy and creating the need for new stock, especially workforce housing. The building surge pushed down the occupancy rate in stabilized assets a mere 10 basis points in the 12 months ending in September, to 93.3%. Meanwhile, rent growth decelerated to 0.5% year-over-year.

Two sectors hold the first spot in job creation—mining, logging and construction, and education and health services—adding 6,200 jobs each. The multifamily pipeline's more than 30,000 units and the many commercial projects around the metro, including the $200 million Hemisfair and CPS Energy's new headquarters, will likely maintain this trend. Coworking is expanding, too—WeWork has leased five floors in the Kress Building near the Geekdom tech incubator, where it will house more than 1,000 members.

Transaction activity has dwindled since last year, but values remain high: Some $925 million in apartments traded this year through September. With more than 9,000 units underway, we expect rent growth to remain tepid for the foreseeable future.

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

Ridgeline at Rogers Ranch

City: San Antonio
Buyer: Benimax Investment Group
Purchase Price: $53 MM
Price per Unit: $176,419

Landmark Grandview

City: San Antonio
Buyer: B & M Management
Purchase Price: $51 MM
Price per Unit: $142,322

Republic Woodlake

City: San Antonio
Buyer: Triago Ventures
Purchase Price: $33 MM
Price per Unit: $115,741

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

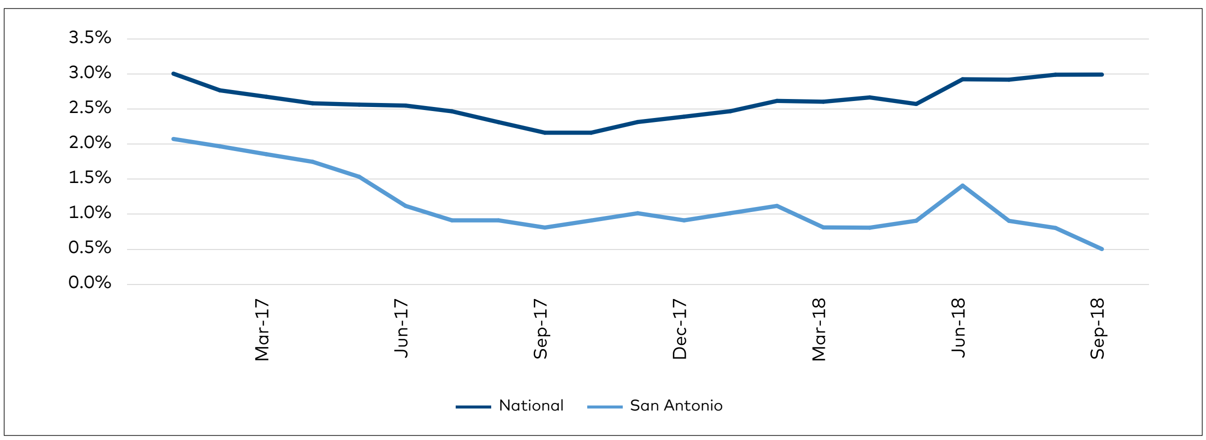
Rent Trends

- Rents in San Antonio rose 0.5% year-over-year through September, ranking the metro last among major U.S. cities for rent growth. The average rate stood at $1,002, trailing the $1,412 national figure. The robust supply of the past two years has impacted growth, but San Antonio's occupancy in stabilized properties—although one of the lowest in the country—has remained relatively flat, at 93.3% as of September, down just 10 basis points over 12 months.

- Assets in the working-class Renter-by-Necessity segment led rental rate growth, up 1.4% to $843, while rates for Lifestyle assets contracted 0.4%, to $1,194, after 16 months of staying relatively flat. With demand for workforce apartments on the rise, as the bulk of the supply is geared toward upscale projects, rents in the RBN segment will likely continue to increase.

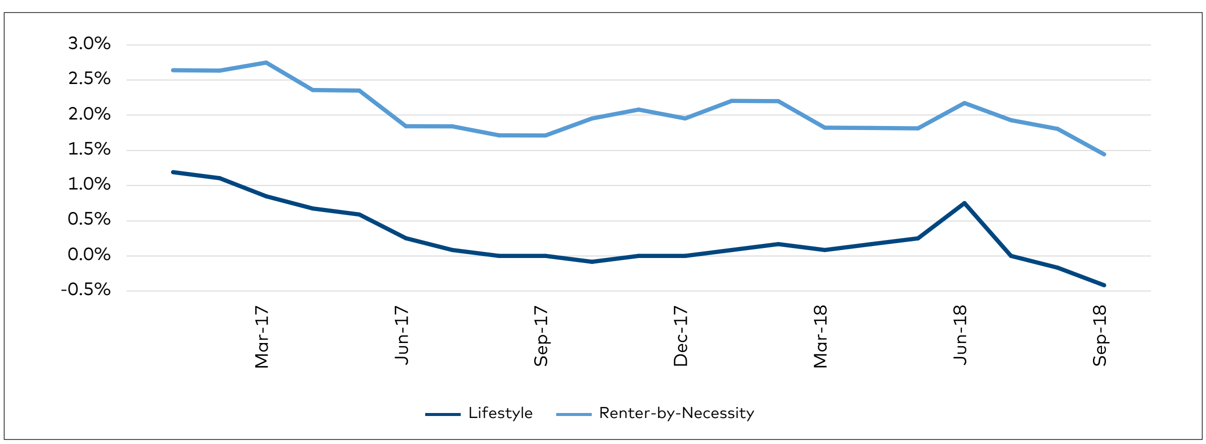
- Rents contracted in about 10 of San Antonio's submarkets over the past year. The steepest drop was registered in Fort Sam Houston (-2.8% to $1,061). Rents in Beckmann, one of the most expensive areas in the metro, also contracted (-2.6% to $1,363). The most affordable submarket was the West Side, where the inventory consists of mostly affordable communities—rates advanced 2.5%, to $661. Rents in Southtown/King William, San Antonio's most expensive submarket, contracted 1.0% to $1,390.

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

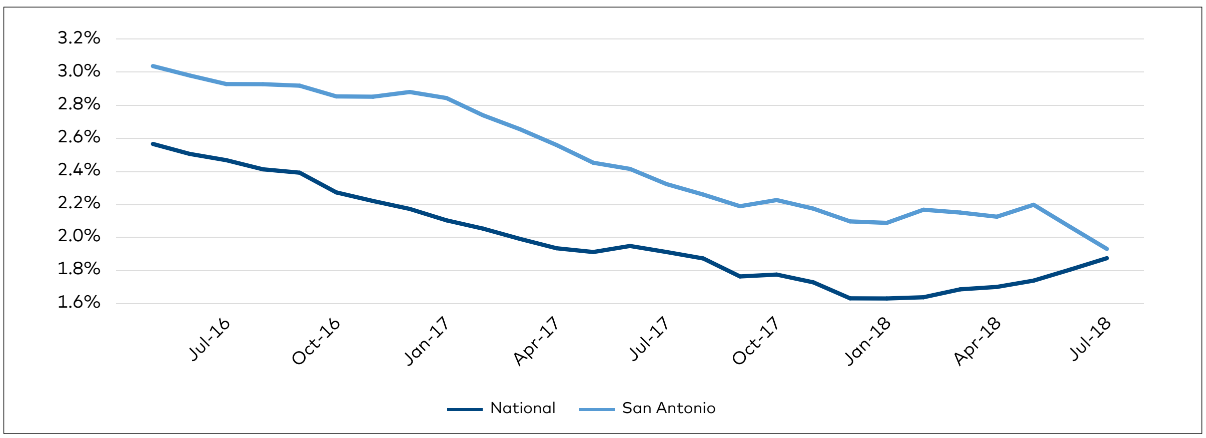
Economic Snapshot

- San Antonio added 13,300 jobs in the 12 months ending in July, up 1.9% year-over-year, on par with the U.S. rate. Unemployment dropped to 3.5% in July, ranking it the second lowest of Texas' four major metros and 40 basis points below the U.S. figure.

- Two sectors shared the first spot in job additions through July—mining, logging and construction, and education and health services—expanding by 6,200 positions each. Considering the region's bustling medical presence—with a local impact estimated at some $37 billion—and active development pipeline across industries, both are poised for further growth. The sector was also boosted by Eagle Ford Shale's role in making the U.S. the largest oil producer in the world this year. Leisure and hospitality, the metro's fourth-largest sector, lost 1,700 jobs, impacted in part by stricter immigration rules but also by a tight labor market that encourages workers to look for new, higher-paying positions.

- More than 230,000 square feet of office space was delivered in 2018 through September, including the 85,000-square-foot Holt Cat headquarters in South San Antonio, while some 2.4 million square feet of space was under construction at the end of this year's third quarter. Notable projects include the 460,000-square-foot Frost Tower in the central business district and CPS Energy's $145 million headquarters, slated for completion in 2020.

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	%
15	Mining, Logging and Construction	66	6.3%	6,200	10.4%
65	Education and Health Services	166	15.8%	6,200	3.9%
40	Trade, Transportation and Utilities	183	17.4%	1,600	0.9%
90	Government	166	15.8%	1,600	1.0%
80	Other Services	40	3.8%	800	2.1%
30	Manufacturing	49	4.7%	200	0.4%
50	Information	21	2.0%	-	0.0%
60	Professional and Business Services	134	12.7%	-100	-0.1%
55	Financial Activities	88	8.4%	-1,500	-1.7%
70	Leisure and Hospitality	139	13.2%	-1,700	-1.2%

Sources: YardiMatrix, Bureau of Labor Statistics

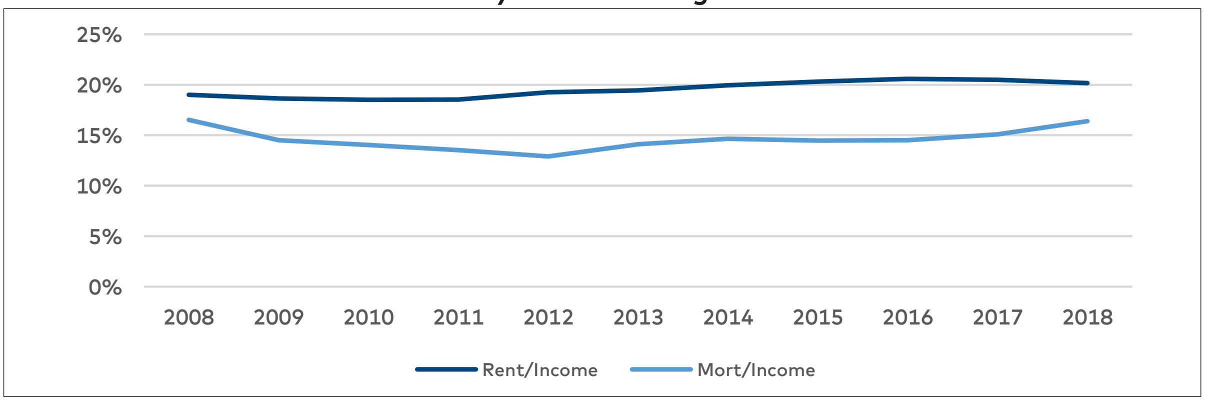
Demographics

Affordability

- The metro's median home price climbed almost 7% during this year's first two quarters. At $201,588, the value is nearly 50% higher than it was when the cycle bottomed out. Renting is the more expensive option, with the average rate accounting for 20% of the median income. Meanwhile, the average mortgage payment comprises only 16%.

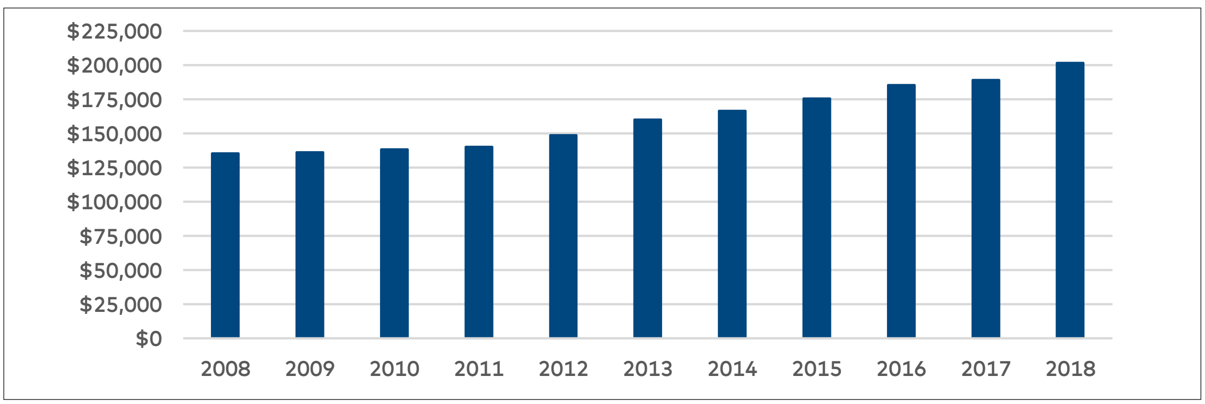
- San Antonio does not lack housing inventory, but rather faces a mismatch between number of affordable units and individuals at their respective income level. Mayor Nirenberg's Housing Policy Task Force estimates that the affordability gap could widen to $77,700 by 2030.

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's population expanded by roughly 2.0% annually since 2012. In 2017, the metro gained almost 48,000 residents.
- Alamo City is expected to nearly double in size over the next 25 years.

San Antonio vs. National Population

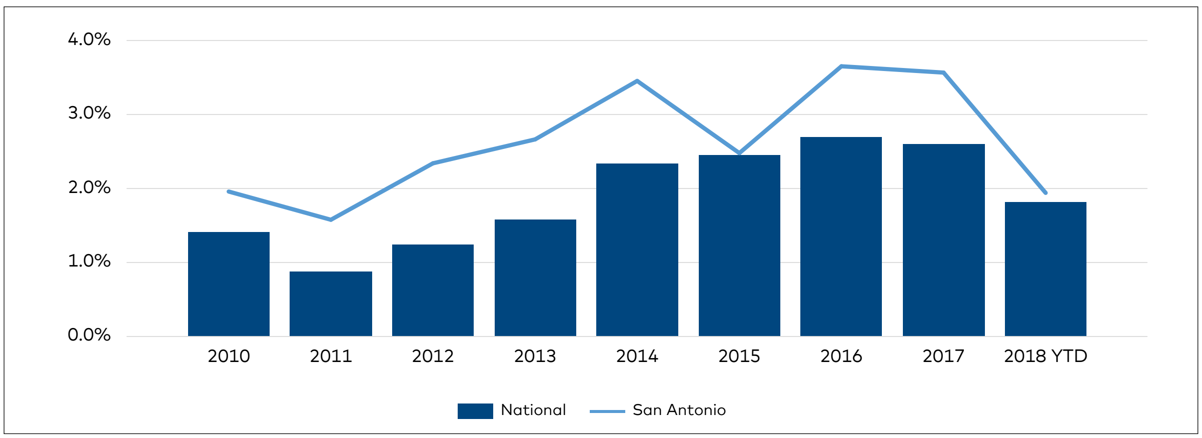
	2013	2014	2015	2016	2017
National	316,234,505	318,622,525	321,039,839	323,405,935	325,719,178
San Antonio Metro	2,279,878	2,328,419	2,379,054	2,426,211	2,473,974

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

Supply

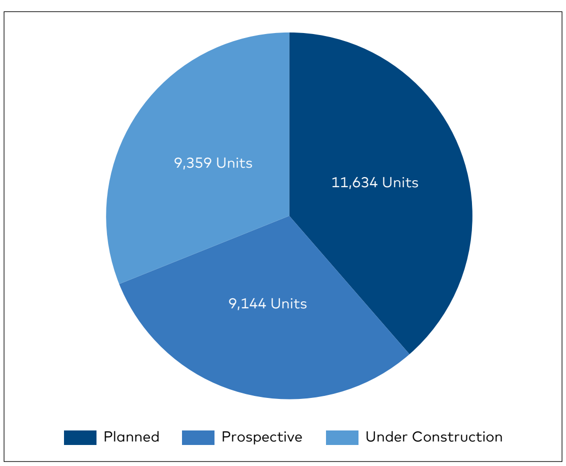
- Deliveries shifted down a gear in San Antonio after two years of accelerated construction, with more than 13,000 units delivered during 2016 and 2017. Almost 3,500 units in 15 properties came online in 2018 through September, roughly 1.9% of the stock, slightly above the 1.8% national rate. Two-thirds of this year's completions target Lifestyle renters.
- More than 9,300 units were under construction in September. Adding planned and prospective projects, the development pipeline totals more than 30,000 units, which points to further sustained inventory growth.
- Construction activity is high across the map and continues to be led by Beckmann (2,228 units) and Southtown/King William (1,203 units). The Far West Side follows with 630 units under construction, more than half of which are geared for low-income residents. Beckmann also holds the largest development underway—Legacy Alliance Holdings' two-building, 427-unit Villas at the Rim—and the largest recent delivery—the 380-unit Tribute at the Rim, a Kairoi Residential asset with 30,220 square feet of retail space.

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



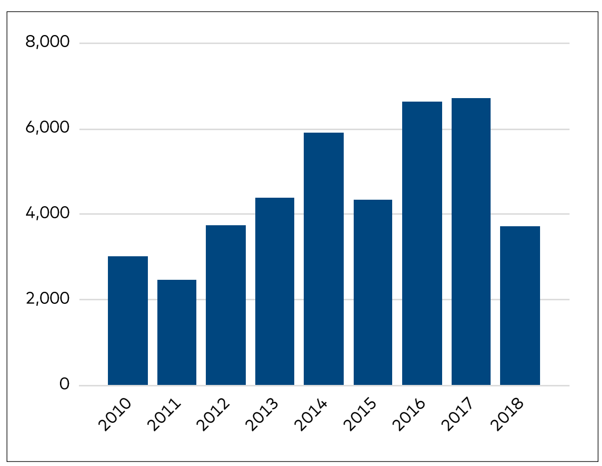
Source: YardiMatrix

Development Pipeline (as of September 2018)



Source: YardiMatrix

San Antonio Completions (as of September 2018)

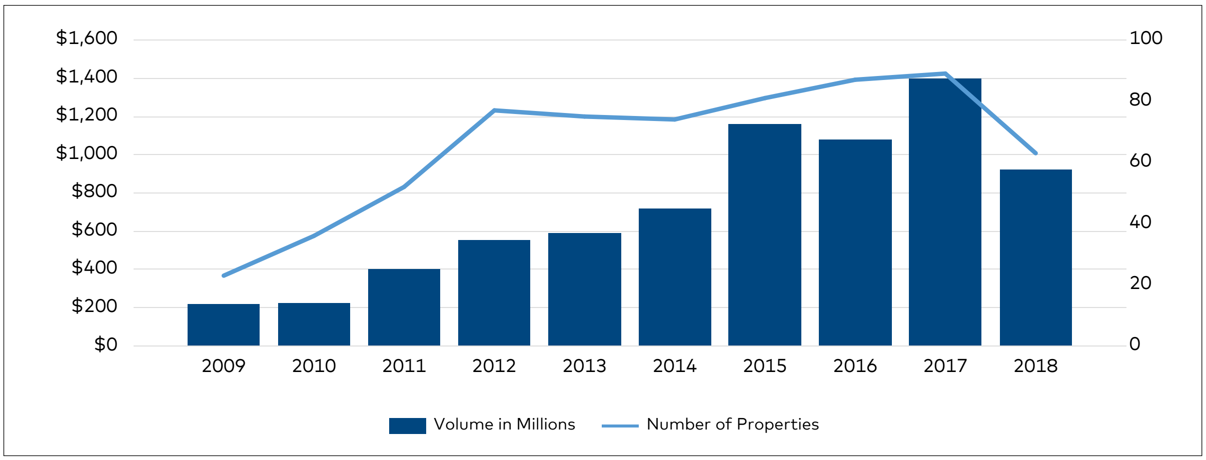


Source: YardiMatrix

Transactions

- Transaction activity has dwindled since last year, but values remain high, with more than $925 million in multifamily assets changing hands in San Antonio this year through September. Attractive yields are catching the eye of buyers that were until recently more drawn to other Texas metros. Rising interest rates are compressing yield spreads as cap rates stay above the 5.0% margin for RBN assets.
- The bulk of transactions during the first three quarters was for assets in the Renter-by-Necessity segment, a fact that has compressed the average per-unit price by 34%, dragging it down to $98,516, way below the $151,135 U.S. figure. The average RBN unit checked in at $71,373, while the average for Lifestyle was $133,932. The most active submarkets for transactions in San Antonio in the 12 months ending in September were Helotes ($147 million), the University of Texas at San Antonio ($113 million) and Beckmann ($111 million).

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



Source: YardiMatrix

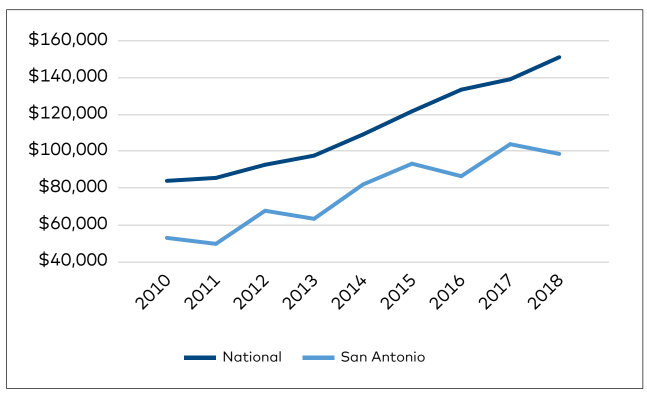
Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
Helotes	147
University of Texas at San Antonio	113
Beckmann	111
Northeast Side	86
Oakland Estates	81
Southtown/King William	69
Northwest Side	59
Shavano Park	51

Source: YardiMatrix

[1] From October 2017 to September 2018

San Antonio vs. National Sales Price per Unit

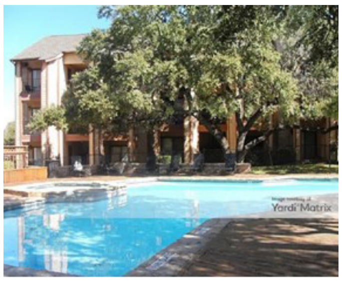


Source: YardiMatrix

News in the Metro

Brought to you by:

MULTI-HOUSING NEWS



Hayden Properties Sells TX Portfolio

RSN Property Group picked up two Class B San Antonio communities, financing the transaction with a nearly $31 million mortgage.

JV Acquires 208-Unit TX Community

JLL Capital Markets arranged the acquisition financing on behalf of Internacional and Dome Equities, which purchased Sunrise Canyon Apartment Homes in Universal City.

San Antonio Portfolio Lands $27M Bridge Loan

The new financing package retires $25.4 million in prior debt. The four properties total 624 units across three of the city's submarkets.

Pensam Trades San Antonio Community

Triago Ventures financed the acquisition of the 288-unit multifamily value-add property with a $25 million loan originated by Walker & Dunlop.

Value-Add Asset Changes Hands

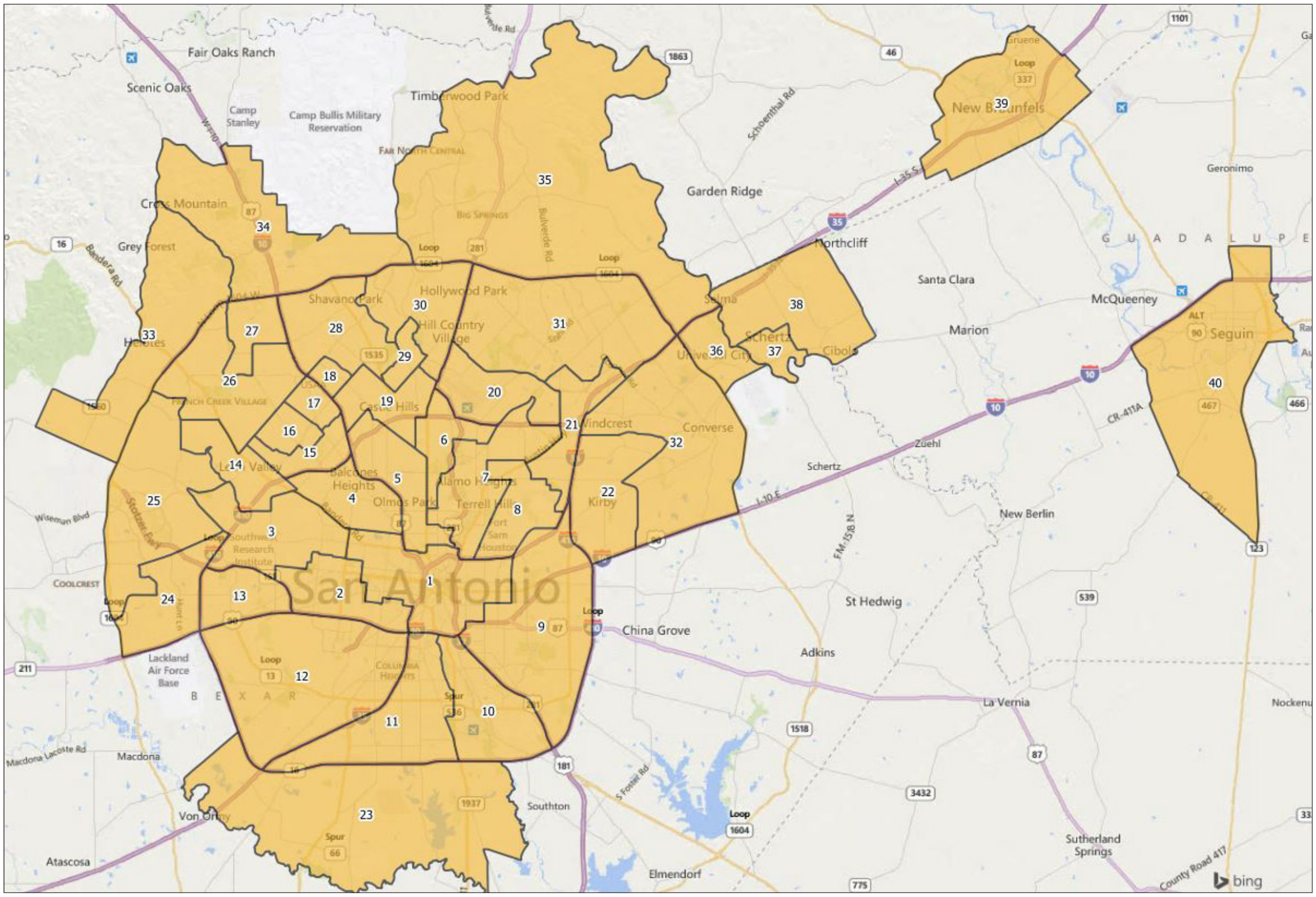
JLL has brokered the sale of Cordoba Apartment Homes, a community comprising 30 studio, 70 one-bedroom and 160 two-bedroom apartments.

Resort-Style Community Trades In San Antonio

Benimax purchased the 336-unit asset from Stone River Co. in a transaction subject to a $40 million Freddie Mac loan.

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.

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

DISCLAIMER

COPYRIGHT NOTICE