Yardi® Matrix

San Antonio's Solid Footing

Multifamily Report Summer 2019

Healthy Demographics Elevate Demand

Transaction Activity Remains Strong

Construction Surge Continues

Market Analysis

Summer 2019

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Healthy Demand Sustains Rent Growth

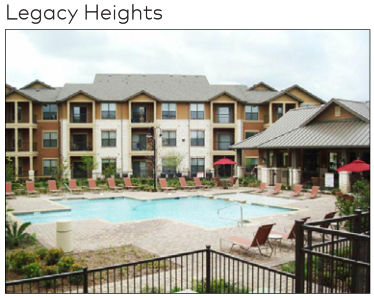
The nation's seventh-largest city is facing a sizable economic shift, which is spilling over into the multifamily market. Despite continued robust supply, year-over-year rent growth in San Antonio was on par with the U.S. average, at 2.5% through May, more than double the figure recorded at the same time last year. The surge in completions met healthy demand and the occupancy rate in stabilized assets actually inched up 20 basis points over 12 months, to 92.9% as of April.

Alamo City is heading toward an urban revival that has picked up pace over the past year. While the leading sector in employment growth was leisure and hospitality (up 8,100 jobs), boosted by the metro's 300th anniversary, professional and business services added 5,000 positions. This trend is likely to continue, given a sustained interest from office-using companies such as OKIN Business Process Services, which is set to bring more than 1,400 jobs to the city. Ernst & Young also announced the expansion of its financial services and public sector business lines, with plans to hire more than 900 employees combined by 2023.

Transaction activity totaled $457 million in the first five months of the year, following last year's cycle peak, when more than $1.4 billion in assets traded. With 9,000 units underway, we expect rents to rise 2.6% in 2019.

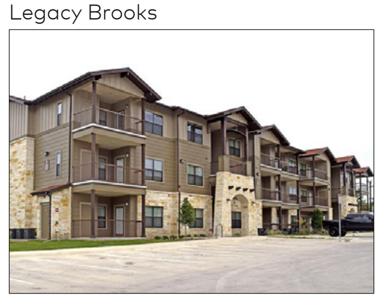
Recent San Antonio Transactions

Legacy Heights



City: San Antonio
Buyer: RIM
Purchase Price: $47 MM
Price per Unit: $154,248

Legacy Brooks



City: San Antonio
Buyer: Commerce Capital Partners
Purchase Price: $46 MM
Price per Unit: $111,359

The Luxx

City: San Antonio
Buyer: The Preiss Co.
Purchase Price: $36 MM
Price per Unit: $161,515

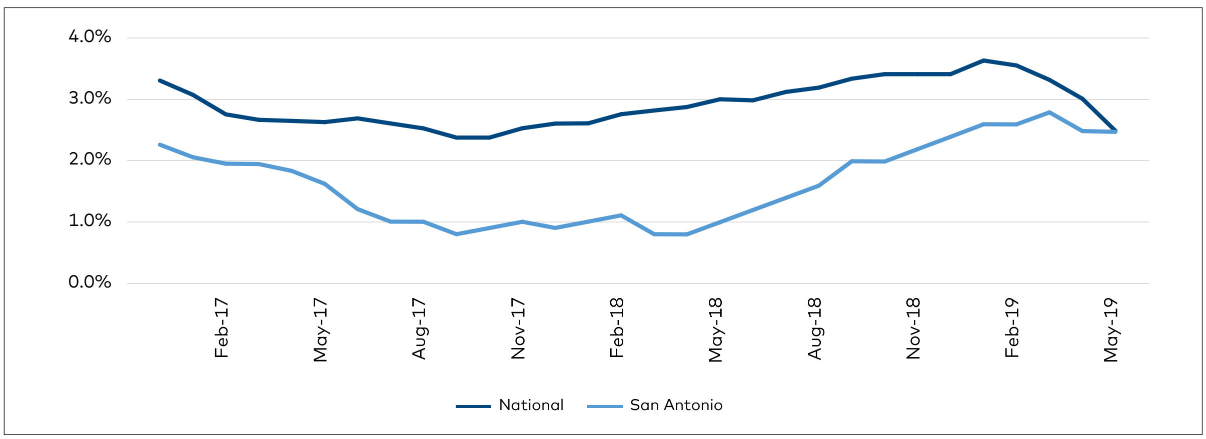
Belleza at Cresta Bella

City: San Antonio
Buyer: CWS Capital Partners
Purchase Price: $33 MM
Price per Unit: $112,963

Rent Trends

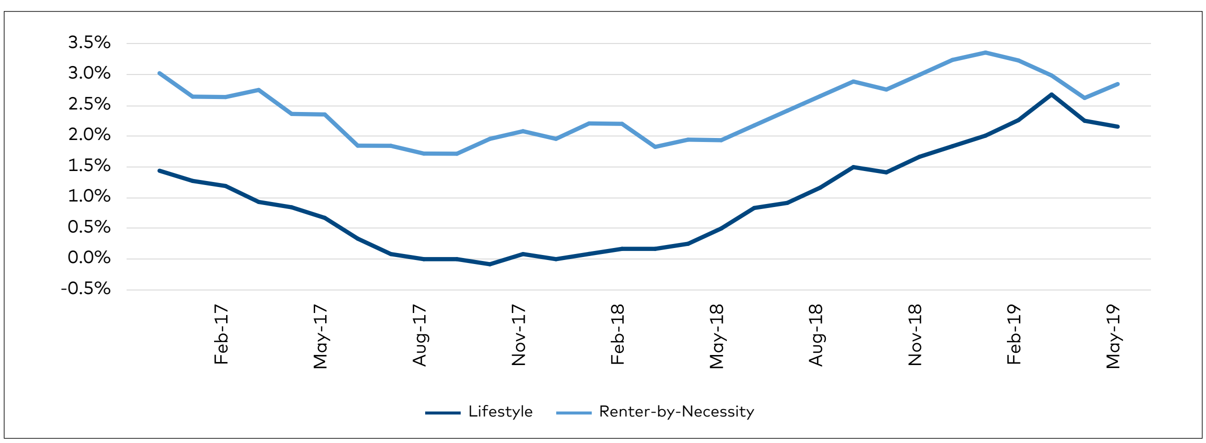
- San Antonio rents were up 2.5% year-over-year through May, on par with the U.S. average and more than double the figure recorded at the same time last year. The average San Antonio rate stood at $1,037, trailing the $1,442 national figure. Assets in the working-class Renter-by-Necessity segment led growth, with the average up 2.8% to $867, while rates in Lifestyle communities rose 2.2%, to $1,233.
- The number of submarkets recording year-over-year rent contractions dropped further, from eight in May last year to four in 2019. The steepest decrease as of May was in distant Helotes (-1.1% to $1,095). At $672, the West Side remained the most affordable area in San Antonio, with an inventory consisting mostly of affordable and RBN communities. The most expensive submarkets were Southtown/King William (with the average rent up 3.6% to $1,462) and Beckmann (2.8% to $1,429).
- Despite consistent supply over the past three years, sustained multifamily demand has kept the occupancy rate in stabilized properties relatively steady, but below the U.S. average. Occupancy inched up 20 basis points in 12 months, reaching 92.9% as of April. With strong demographic growth due to the metro's relative affordability and an economy that is steadily diversifying and growing its tech base, the multifamily sector is poised for further growth. We expect the average San Antonio rent to advance 2.6% in 2019.

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)

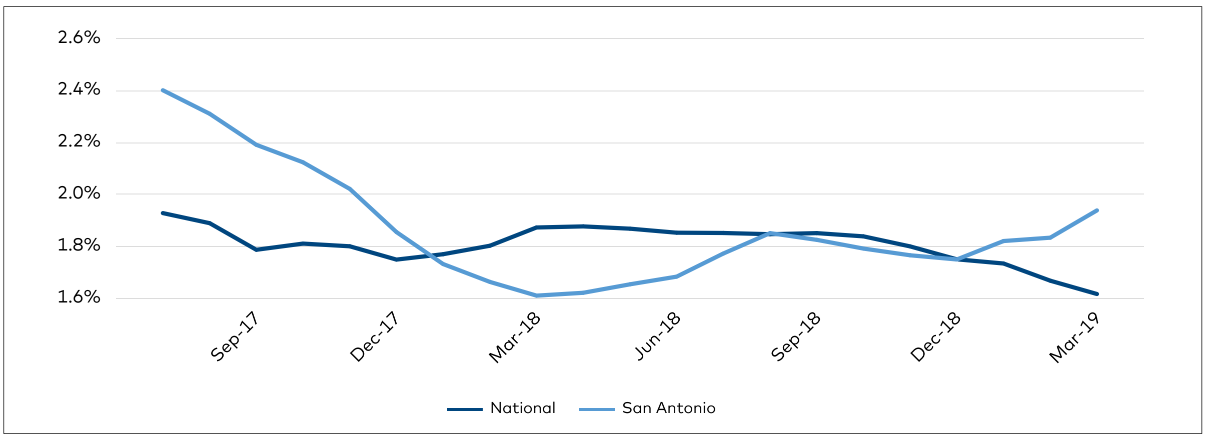


Source: YardiMatrix

Economic Snapshot

- San Antonio added 22,100 jobs in the 12 months ending in March, up 1.9% and 30 basis points above the U.S. rate. Unemployment dropped to 3.1% in March, 70 basis points below the U.S. figure.
- Job growth was consistent across all industries except information, the only sector that remained flat over the past year. The metro's tricentennial, celebrated in 2018, the River Walk and the Alamo boosted the leisure and hospitality sector to fare best, with the addition of 8,100 positions. Professional and business services added 5,000 jobs and is poised to expand further: Prague-based OKIN BPS will set its U.S. headquarters at Brooks City Base, where it plans to invest $23 million into the renovation of two historic buildings slated to house as many as 1,400 employees. Weston Urban has completed several commercial projects and is working on new ones, with a focus on bringing tech firms back to the downtown area. The company has delivered the 460,000-square-foot, LEED Silver-seeking Frost Tower, a public-private partnership estimated at $142 million when it was initiated in 2014.
- The University of Texas at San Antonio is planning to expand on county land with a $33 million, 80,000-square-foot National Security Collaboration Center and a $57 million, 138,000-square-foot School of Data Science, as well as private housing. Slated for completion by 2023, the project will receive $70 million from the state's Permanent University Fund.

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	%
70	Leisure and Hospitality	142	13.2%	8,100	6.1%
60	Professional and Business Services	144	13.4%	5,000	3.6%
15	Mining, Logging and Construction	65	6.1%	2,900	4.7%
65	Education and Health Services	166	15.5%	2,400	1.5%
40	Trade, Transportation and Utilities	180	16.8%	1,700	1.0%
55	Financial Activities	92	8.6%	1,300	1.4%
90	Government	174	16.2%	300	0.2%
80	Other Services	38	3.5%	200	0.5%
30	Manufacturing	50	4.7%	200	0.4%
50	Information	21	2.0%	-	0.0%

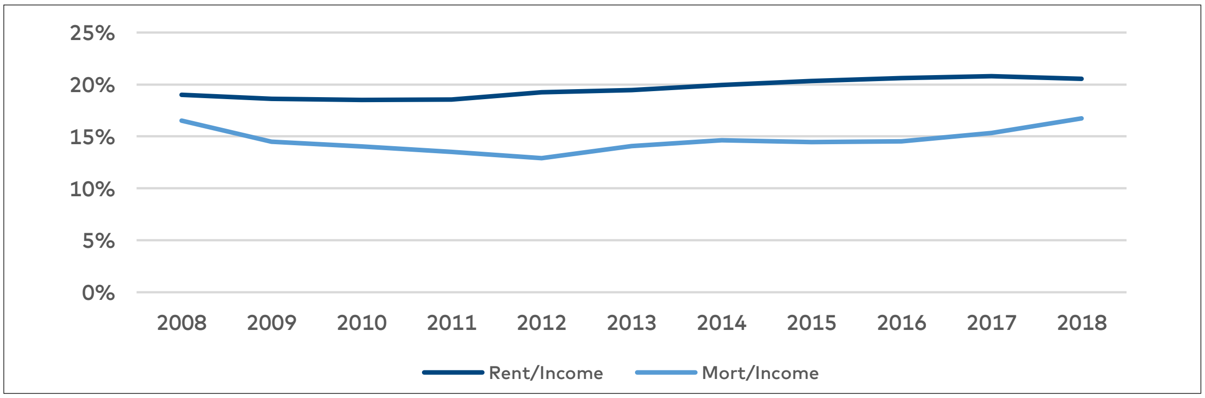
Sources: YardiMatrix, Bureau of Labor Statistics

Demographics

Affordability

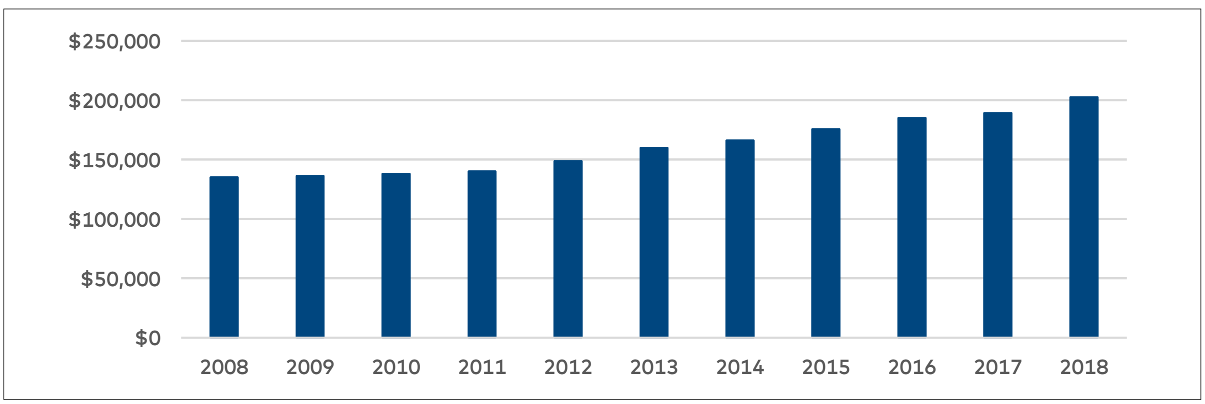
- The median home value in San Antonio rose 7.1% in 2018 to $202,437. Although the metro remains relatively affordable and the average mortgage payment accounted for only 17% of the area median income last year, rising values are pressuring potential first-time buyers, turning them into long-term renters. Meanwhile, the metro's average rent accounted for 21% of the area median income.
- The metro's recently updated housing incentive policy includes the addition of a luxury cap: Tax breaks won't be allocated to housing units valued at $360,000 or more, and 10% of new housing will have to be reserved for residents earning 60% or less of AMI.

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 is one of the fastest-growing cities in the U.S., expanding roughly 2.0% annually since 2012.
- In 2017, the metro added some 27,700 residents, a 2.0% demographic growth, nearly three times the U.S. rate.

San Antonio vs. National Population

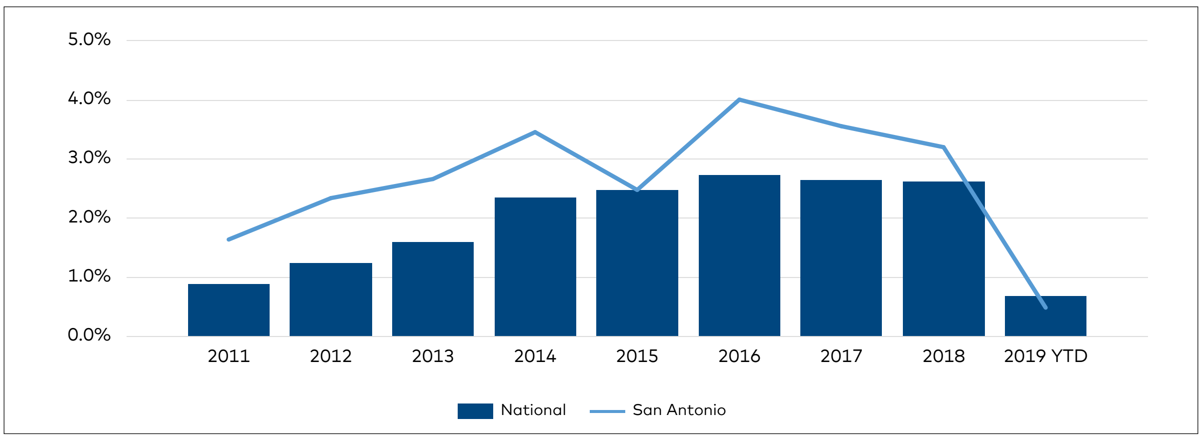
	2013	2014	2015	2016	2017
National	316,234,505	318,622,525	321,039,839	323,405,935	325,719,178
San Antonio Metro	2,279,878	2,328,419	2,379,054	2,426,211	2,473,974

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

Supply

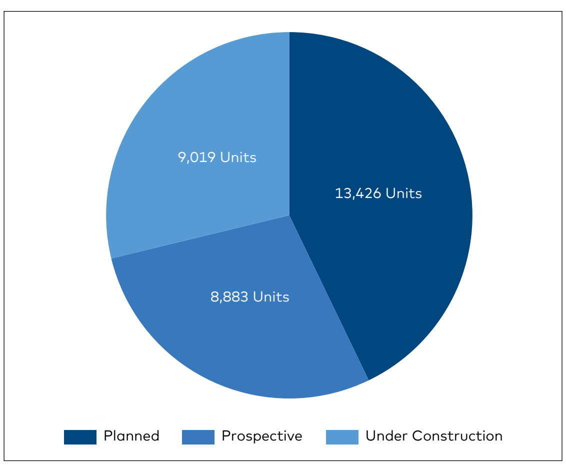
- San Antonio was off to a slow year for deliveries, with fewer than 1,000 units coming online through May, all of them in Lifestyle communities. This followed a development surge: Between 2016 and 2018, the metro added more than 20,000 units to its inventory, with roughly 6,200 delivered last year.
- The persisting shortage in construction labor is affecting supply not just in the metro but also nationally. The number of projects underway is dwindling, but not dramatically. There were 9,019 units under construction in San Antonio as of May, and an additional 22,309 apartments in the planning and permitting stages.
- Construction activity was concentrated in core and northern submarkets, mostly boosted by local developers. The Far North Side led development (with 1,324 units underway), followed by Southtown/King William (1,304 units) and Beckmann (1,225 units). These top three submarkets accounted for nearly half of the metro's pipeline. The largest community underway was Retreat at the Rim, a 396-unit property Hines is developing in Beckmann. Bank of America originated a $49 million construction loan for the project, which is slated for completion by the end of the year.

San Antonio vs. National Completions as a Percentage of Total Stock (as of May 2019)



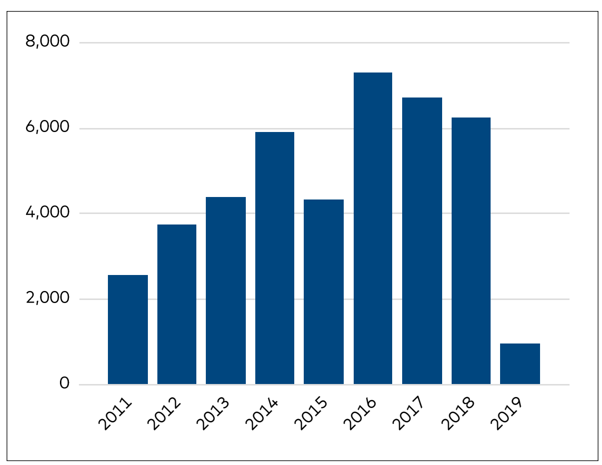
Source: YardiMatrix

Development Pipeline (as of May 2019)



Source: YardiMatrix

San Antonio Completions (as of May 2019)



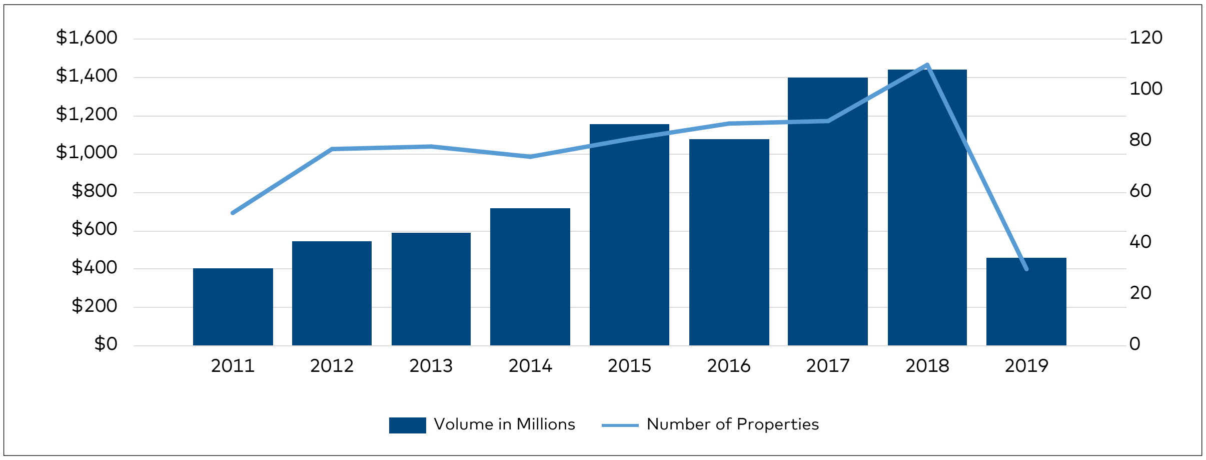
Source: YardiMatrix

Transactions

- Employment and population growth, coupled with San Antonio's proximity to Austin, continue to attract both local and out-of-state investors. These factors place the metro at the intersection of low investment risks and long runway opportunity. After last year's cycle high, when some $1.4 billion in assets changed ownership, $457 million in multifamily properties traded in the first five months of 2019, reflecting investor interest in value-add assets.

- Of the properties that changed ownership in the first five months of 2019, more than two-thirds were in the Renter-by-Necessity segment. This has pushed down the per-unit price to $87,519, a 16% decrease since last year and significantly below the $149,096 U.S. figure. The average price for an RBN unit was $67,430, while the figure for Lifestyle communities stood at $124,092.

San Antonio Sales Volume and Number of Properties Sold (as of May 2019)



Source: YardiMatrix

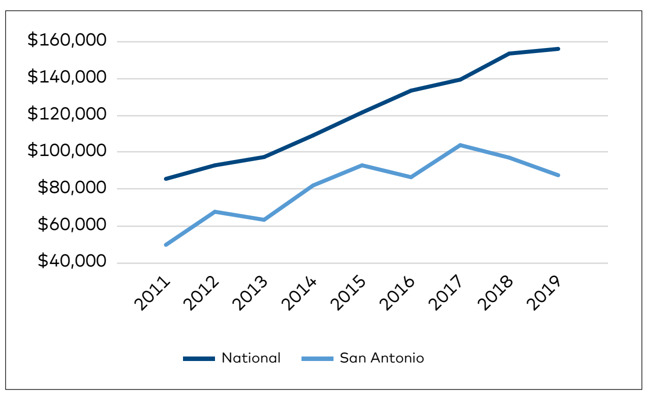
Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
Northeast Side	117
Shavano Park	99
Beckmann	92
University of Texas at San Antonio	84
Hollywood Park/Welmore	77
Hill Country Village	77
Balcones Heights	66
Far West Side	65

Source: YardiMatrix

[1] From June 2018 to May 2019

San Antonio vs. National Sales Price per Unit



Source: YardiMatrix

News in the Metro

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Passco Buys 380-Unit Community

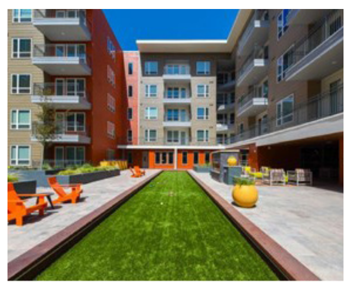
Situated within the 1.8 million-square-foot The RIM mixed-use development, Tribute at the Rim grants access to the metro's major employers.

Westmount Expands Presence In Alamo City

The new owner intends to invest in a capital improvement program on both interiors and exteriors at the 300-unit The Pointe at Ramsgate.

Allied Orion's Retreat at Creekside

The project is the last property to be constructed within Creekside Town Center, the more than 400-acre master-planned development in the Interstate 35 Corridor.



Greystone Provides $58M Loan For Infinity at the Rim

The financing will enable the borrower, DeBartolo Development, to pay off the initial construction loan and preferred equity.

Welltower Acquires Senior Living Portfolio

The two luxury properties—totaling 335 units and offering independent living, assisted living and memory care services—have been rebranded together as Discovery Village at Dominion.

JV Acquires Student Housing Asset

The Preiss Co. and a private real estate fund advised by Crow Holdings Capital purchased the 694-bed community, marking the joint venture's second acquisition in San Antonio this year.

Back to Basics: Giving Your Community a Personal Touch

By Jeff Hamann

Pegasus Residential manages more than 35,000 units in southern U.S. markets, but also along the East Coast. Roughly 1,700 apartments in the company's portfolio are located in Texas. The firm has found different ways to make its properties successful and residents happy.

Vice President of Operations Wendy Dorchester spoke with Multi-Housing News about how a company can stay a few moves ahead in the business. While technology has an increasingly important role to play, building a strong, solid on-site team remains the mainstay of effective property management.

What is the most important component in successfully marketing a community to prospective renters?

To start with, we strive to have excellent web and social media presences to draw prospective renters to our communities. Blanketing the market and submarket online and personal community outreach have been keys to our success.

Your pictures online have to be amazing, and your property websites have to flow smoothly and be easy to navigate. Online leasing has to be easy. Another component is online reviews and reputation, which will make or break a community and single-handedly increase traffic and occupancy.

How have recent technological advances impacted Pegasus' management strategies?

Self-guided prospect tours, smart home solutions, pet DNA testing, pet-behavior screening, prospect ID verification, artificial intelligence, augmented reality and chat bots are

just some of the technologies we're focused on.

We have also embraced an iPad-based leasing app … that greatly enhances the leasing experience for both our associates and our prospects.

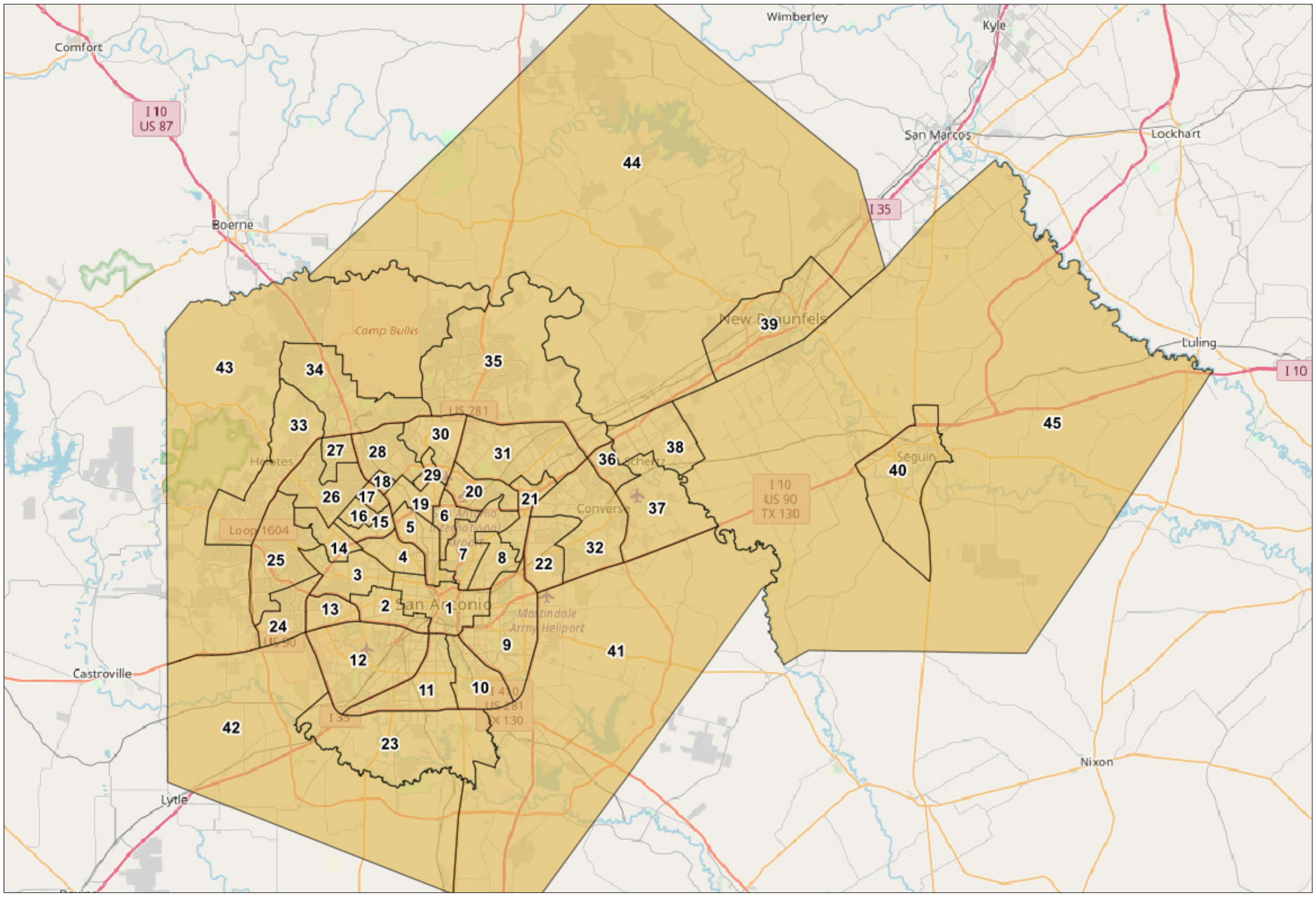
Considering the high number of luxury communities under construction across the country, how can a property manager set one property apart from the crowd?

Concierge service and attention to detail play a big part. Doing something different on a tour—such as offering cocktails or mocktails and snacks—can set you apart from others. It's about making the sales process a memorable one before, during and after the lease is signed. Make it fun. Each property has a personality. Don't be afraid to show it! The days of stuffiness, starchy collars and pearls are over. Mobile technology … is vital to this class of community, as well.

What market dynamics differentiate the Texas Triangle metros, and how does this impact multifamily management strategies?

Dallas, Houston, San Antonio and Austin are booming, with healthy job markets, rent growth and obvious demand. They are so diverse that there is literally something for everyone. The amount of product that comes in would probably flatline other markets, but in these particular Texas markets there is always demand for new product. The amount of competition means we have to stand out from our competitors. In the end, it's all about the people and the technology you invest in.

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
21	Longhorn
22	Windcrest
23	City South

Area #	Submarket
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
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 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.

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