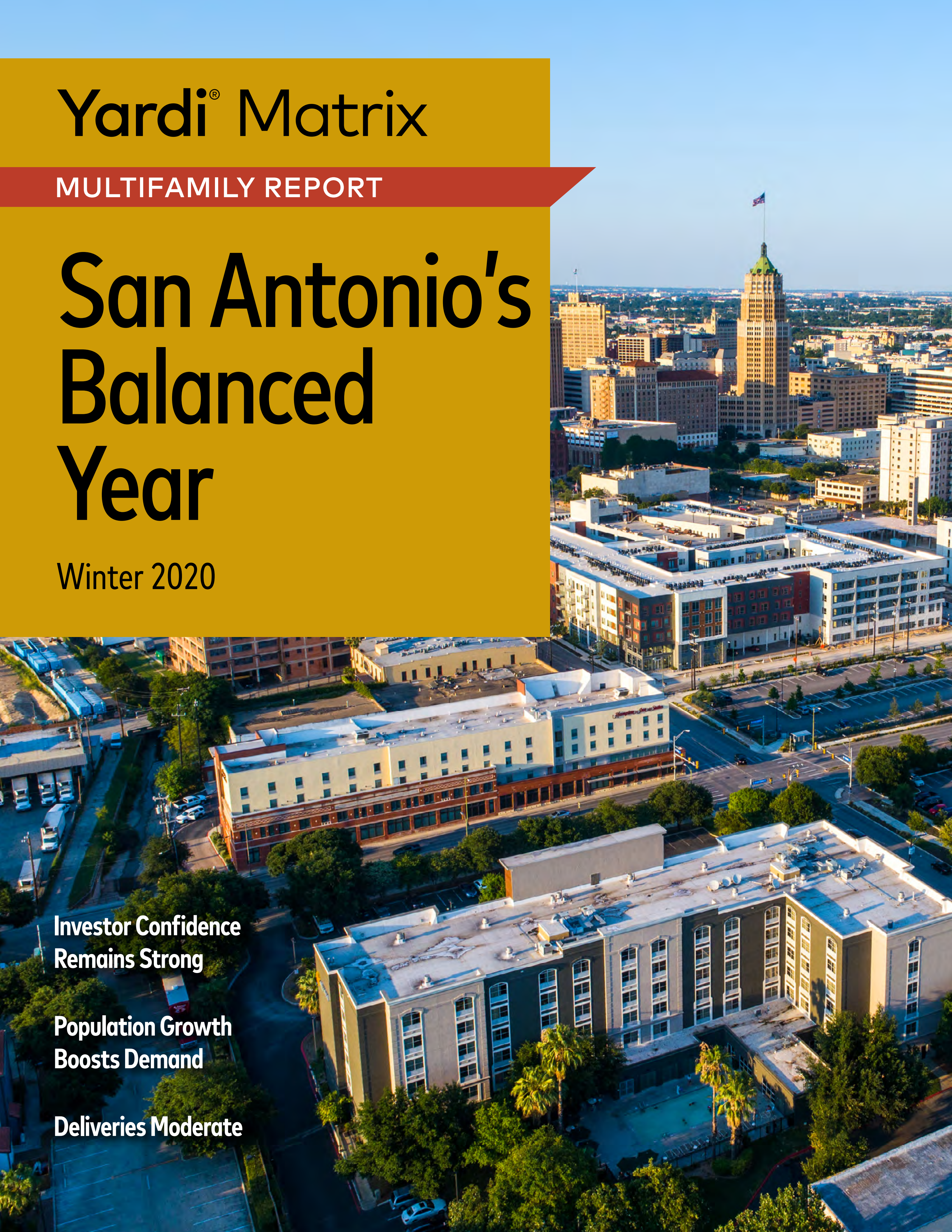
Yardi® Matrix

MULTIFAMILY REPORT

San Antonio's Balanced Year

Winter 2020



Investor Confidence Remains Strong

Population Growth Boosts Demand

Deliveries Moderate

Yardi® Matrix

Tepid Supply Sustains Rent Growth

San Antonio's multifamily market continued to benefit from sustained population and employment growth through 2019's second half. Following robust supply for the better part of this cycle, the metro recorded a sharp deceleration in deliveries during 2019. This has helped keep demand in check, with rents going up 2.1% to $1,050 year-over-year as of November. On the other hand, a consequence of the metro's long-term strong pipeline is a descending occupancy rate in stabilized assets—93.0% as of October, down 20 basis points over 12 months and one of the lowest across all major national metros.

San Antonio gained 27,500 jobs in the 12 months ending in September, a 2.0% expansion and 20 basis points above the national rate. Professional and business services led gains (6,500 jobs), followed closely by leisure and hospitality (6,400 jobs). Manufacturing lost 100 positions but could bounce back as several firms—such as Navistar International and Aisin AW— have announced investments in the metro, which would require some 1,500 employees combined.

Multifamily sales totaled $1.1 billion in 2019 through October, at an average per-unit price of $94,554—almost on par with the 2018 average—with investors predominantly focusing on value-add assets. While only 2,833 units came online last year through November—all in upscale communities—the current construction pipeline is once again robust with more than 10,000 units underway.

Market Analysis | Winter 2020

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Recent San Antonio Transactions

Tribute at the Rim

City: San Antonio
Buyer: PASSCO Real Estate
Purchase Price: $60 MM
Price per Unit: $156,989

The Vistana

City: San Antonio
Buyer: Ares Management
Purchase Price: $55 MM
Price per Unit: $223,908

The Jax

City: San Antonio
Buyer: PPA Group
Purchase Price: $47 MM
Price per Unit: $146,998

Vista del Rey

City: Leon Valley, Texas
Buyer: GVA Real Estate Investments
Purchase Price: $38 MM
Price per Unit: $84,621

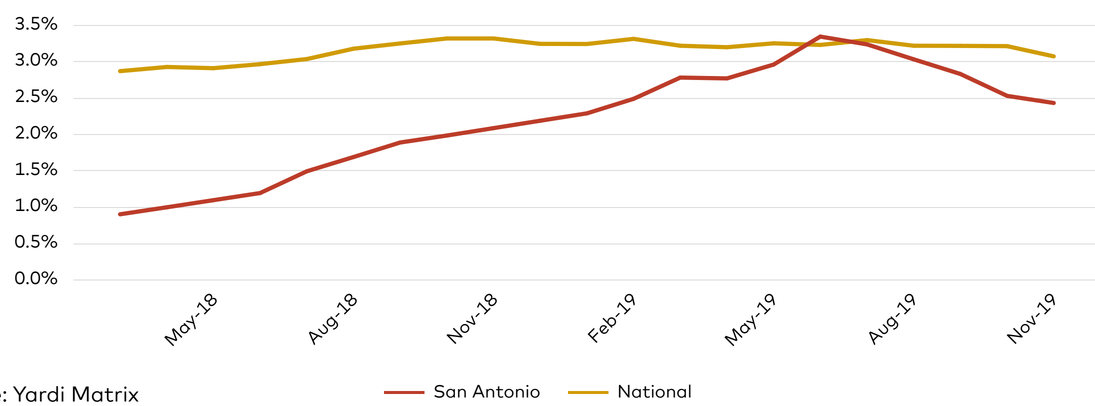
RENT TRENDS

- San Antonio rents rose 2.1% year-over-year through November, 100 basis points below the national average and on par with the figure recorded 12 months prior. The metro's average rate stood at $1,050, trailing the $1,473 national figure. The consistent pipeline of recent years has impacted rent growth as well as the occupancy rate in stabilized properties, which slid 20 basis points year-over-year through October to 93.0%.

- Assets in the working-class Renter-by-Necessity segment led growth with rents up 3.4% to $887, but signs of moderation surfaced after a June 2019 peak. Lifestyle rates rose 1.1% to $1,235 during the same period. With recent deliveries and the bulk of projects underway catering to the Lifestyle segment, workforce housing demand is set to continue increasing, putting upward pressure on RBN rates.

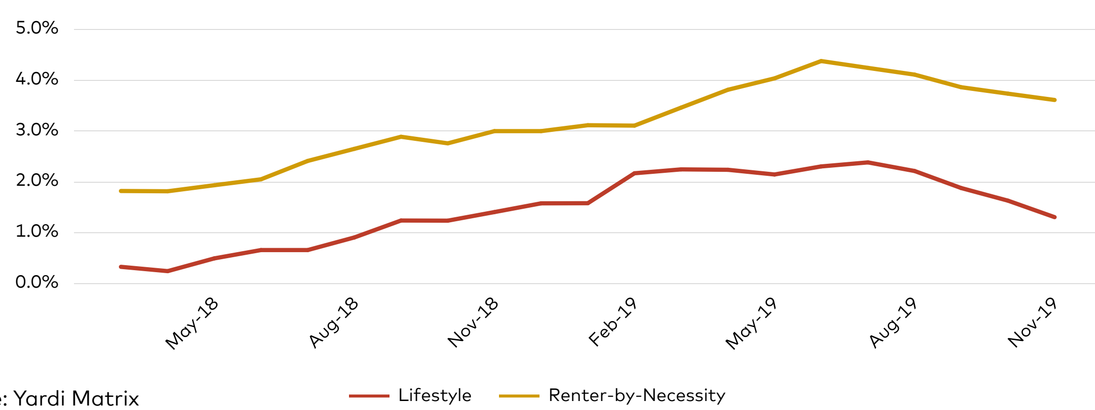
- Half of San Antonio's submarkets posted rents above the $1,000 threshold and only three registered rent contractions year-over-year through November. Average rents dropped in the metro's two most expensive submarkets: Southtown/King William (-1.5% to $1,436) and Beckmann (-1.3% to $1,391). The largest rent increases were registered in submarkets consisting of mainly workforce housing, including Castle Hills (7.6% to $911) and Seguin (8.1% to $1,006). Lackland Terrace (1.7% to $706) and Terrell Wells (5.6% to $736) posted the metro's most affordable rents as of November 2019.

San Antonio vs. National Rent Growth (Sequential 3 Month, Year-Over-Year)



Source: Yardi Matrix

San Antonio Rent Growth by Asset Class (Sequential 3 Month, Year-Over-Year)



Source: Yardi Matrix

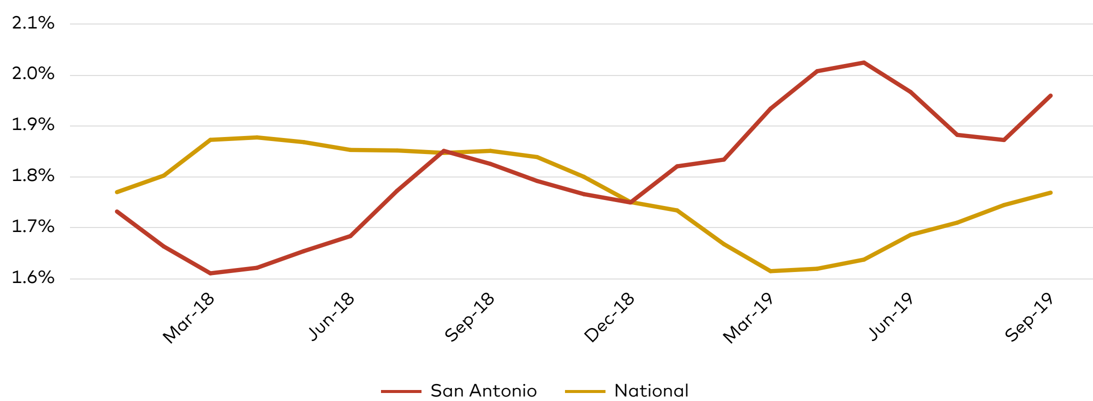
ECONOMIC SNAPSHOT

- San Antonio gained 27,500 jobs in the 12 months ending in September, up 2.0% year-over-year and 20 basis points above the national rate. Unemployment stood at 3.0% as of September, 50 basis points below the national average.

- Job growth was positive across all sectors except manufacturing, which contracted by 100 positions. However, the tide could turn as several companies have announced expansions in the area: Navistar International will build a $250 million truck factory, set to employ 600 people. Aisin AW—an automotive parts manufacturer—is investing $400 million in a Cibolo plant, slated to create 900 jobs during its the first phase.

- Although the metro's educational system is yet to produce enough highly skilled workers, strong in-migration supported growth in the professional and business services sector, which led employment expansion with the addition of 6,500 jobs gained. The leisure and hospitality sector followed with 6,400 jobs. Both are poised for growth in upcoming years, boosted by expansions of companies such as Ernst & Young and H-E-B. The former is expected to hire more than 900 workers through 2023, while the latter will need to fill 500 technical positions when the company's 150,000-square-foot technical center in downtown San Antonio is complete in 2022.

San Antonio vs. National Employment Growth (Year-Over-Year)



Sources: Yardi Matrix, 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	%
60	Professional and Business Services	149	13.7%	6,500	4.6%
70	Leisure and Hospitality	142	13.1%	6,400	4.7%
15	Mining, Logging and Construction	68	6.3%	4,900	7.7%
65	Education and Health Services	170	15.7%	4,300	2.6%
40	Trade, Transportation and Utilities	182	16.8%	2,300	1.3%
55	Financial Activities	93	8.6%	1,300	1.4%
90	Government	172	15.8%	1,100	0.6%
80	Other Services	39	3.6%	700	1.8%
50	Information	21	1.9%	100	0.5%
30	Manufacturing	51	4.7%	-100	-0.2%

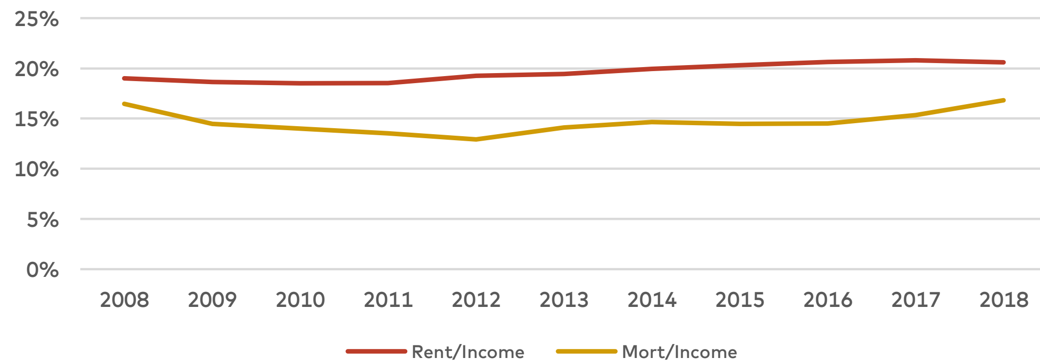
Sources: Yardi Matrix, Bureau of Labor Statistics

DEMOGRAPHICS

Affordability

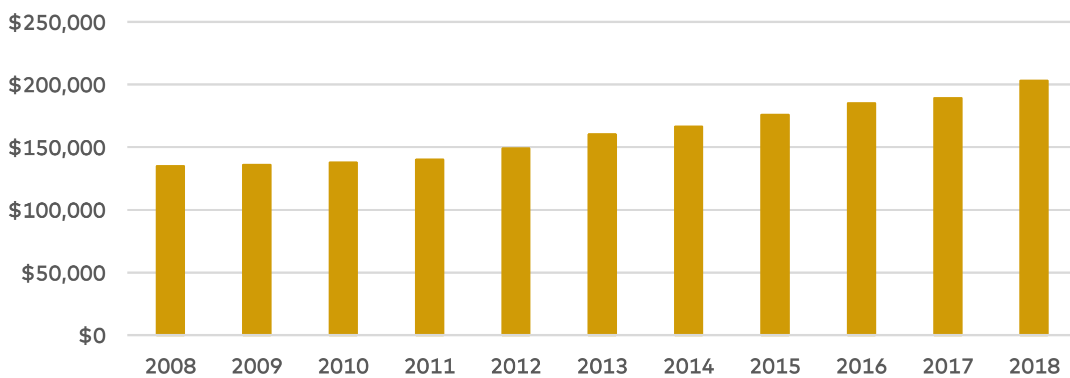
- The median San Antonio home price rose 7.3% in 2018 to $203,006. The average mortgage payment accounted for 17% of the area median income, while the average rent equated to 21%.
- Official estimations showed that the metro needs more than 18,600 affordable units over the next 10 years, but current plans fall short. The San Antonio Housing Authority has approved $486 million to build and pursue financing for 3,729 units in 14 affordable housing developments over the next five years. As of November, 877 units in five fully affordable communities were underway across the metro, following 644 units delivered in two such properties in 2019 through November.

San Antonio Rent vs. Own Affordability as a Percentage of Income



Sources: Yardi Matrix, Moody's Analytics

San Antonio Median Home Price



Source: Moody's Analytics

Population

- Metro San Antonio gained 43,762 residents in 2018, a 2.0% uptick year-over-year and more than triple the 0.6% national rate.
- San Antonio's demographic expansion is mainly supported by domestic migration.

San Antonio vs. National Population

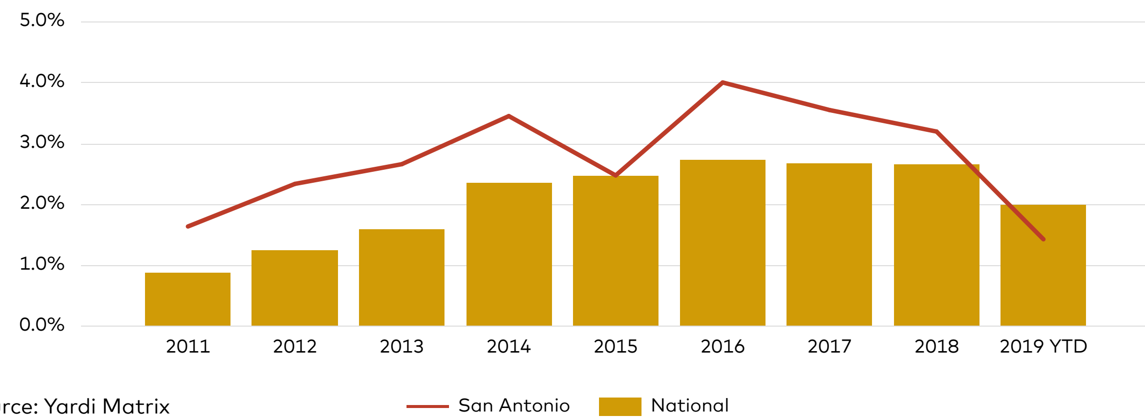
	2015	2016	2017	2018
National	320,742,673	323,071,342	325,147,121	327,167,434
San Antonio Metro	2,380,630	2,428,326	2,474,274	2,518,036

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

SUPPLY

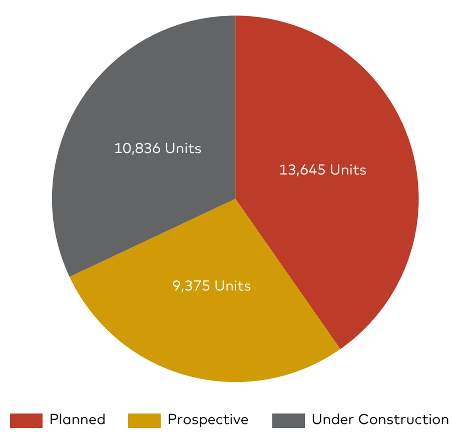
- Developers added 2,833 units to the market's rental inventory in 2019 through November, less than half of 2018's total volume. This figure represents 1.4% of total stock, 60 basis points below the national rate. All 11 properties delivered in 2019 through November were in the Lifestyle segment.
- The metro's decelerating construction pace managed to keep demand in check, following the delivery of more than 30,000 units in the previous five years.
- Alamo City's multifamily pipeline had nearly 11,000 units under construction as of November, while another 23,000 units were in the planning and permitting stages. With four projects underway totaling 1,021 units, The NRP Group is one of the metro's most active developers.
- San Antonio development activity is most intense in core areas and the northern submarkets outside of Loop 410, where most businesses build offices. The Far North Side (1,698 units underway) and Southtown/King William (1,650 units) submarkets led the pipeline. The University of Texas at San Antonio and Southeast Bexar County submarkets followed, each with one large mixed-use project: The 50-acre Parkline (1,149 units) and the 998-unit, 112-townhome University Village, respectively.

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



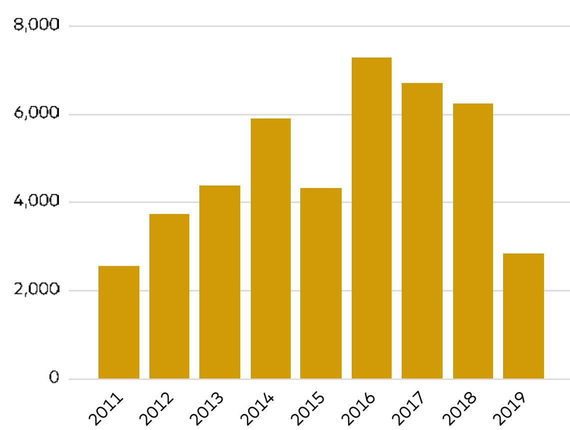
Source: Yardi Matrix

Development Pipeline (as of November 2019)



Source: Yardi Matrix

San Antonio Completions (as of November 2019)

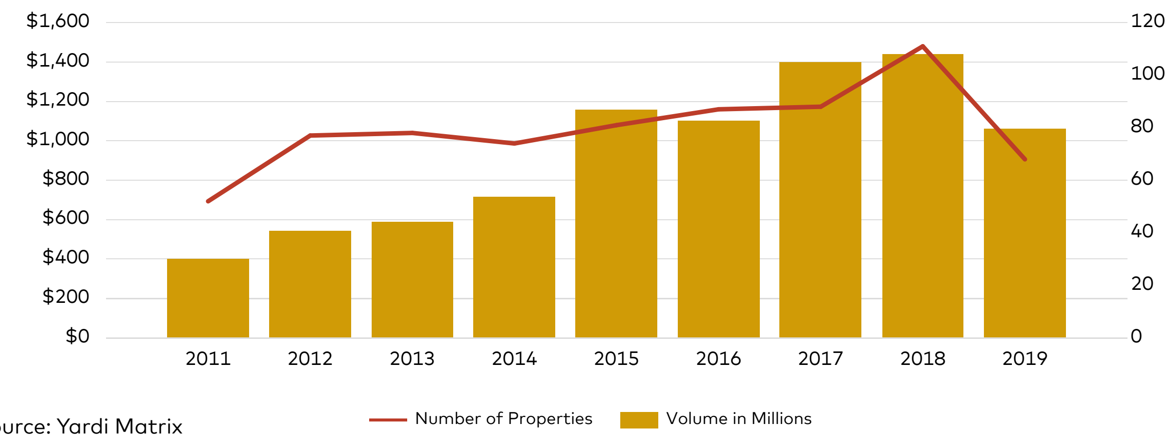


Source: Yardi Matrix

TRANSACTIONS

- Nearly $1.1 billion in multifamily assets traded in San Antonio in 2019 through October, with investors predominantly targeting value-add plays. Of the 68 properties sold during this interval, two-thirds were Renter-by-Necessity assets, consistent with the deal distribution recorded in 2018. At $94,554, the average overall price per unit remained close to 2018's figure and well behind the $162,751 national average.
- The average RBN price per unit, however, increased 9.5% to $81,316 during 2019's first 10 months. Meanwhile, the per-unit price for Lifestyle assets slid 2.9% to $126,175.
- The metro's most active buyers in the 12 months ending in October were GVA Real Estate Investments—2,657 units in nine assets—and Fortress Investment Group—a 2,115-unit, 11-property portfolio acquired from Keller Property Co.

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



Source: Yardi Matrix

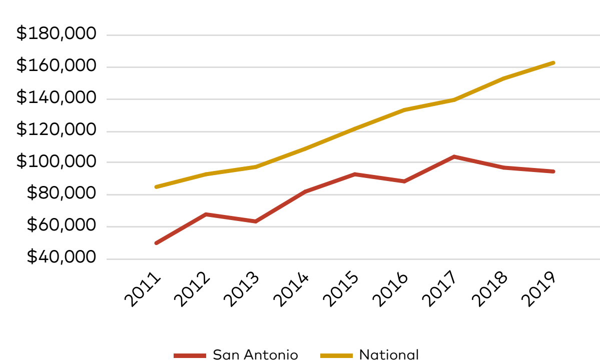
Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
Hollywood Park/Welmore	95
Shavano Park	95
Beckmann	92
USAA Area	87
Hill Country Village	80
University of Texas at San Antonio	72
Southside/Columbia Heights	61
Leon Valley–East	61

Source: Yardi Matrix

[1] From November 2018 to October 2019

San Antonio vs. National Sales Price per Unit



Source: Yardi Matrix

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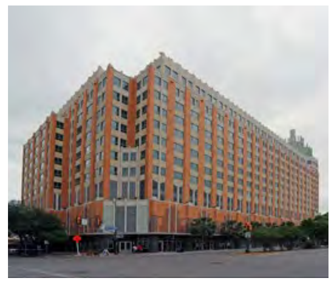
MBP Capital Sells 346-Unit Community

The buyer financed the acquisition through a $24.2 million Fannie Mae loan.



JV Buys Downtown Mixed-Use Property

A Berkadia team arranged a five-year loan for the acquisition and renovation of the 247-unit The Vistana.

GVA Real Estate Expands Presence

The new owner will also manage the 328-unit Bella Madera, which last traded five years ago.

Comunidad Realty Sells 208-Unit Asset

The new owner assumed the outstanding balance of a $10.4 million Fannie Mae loan, set to mature in 2028.

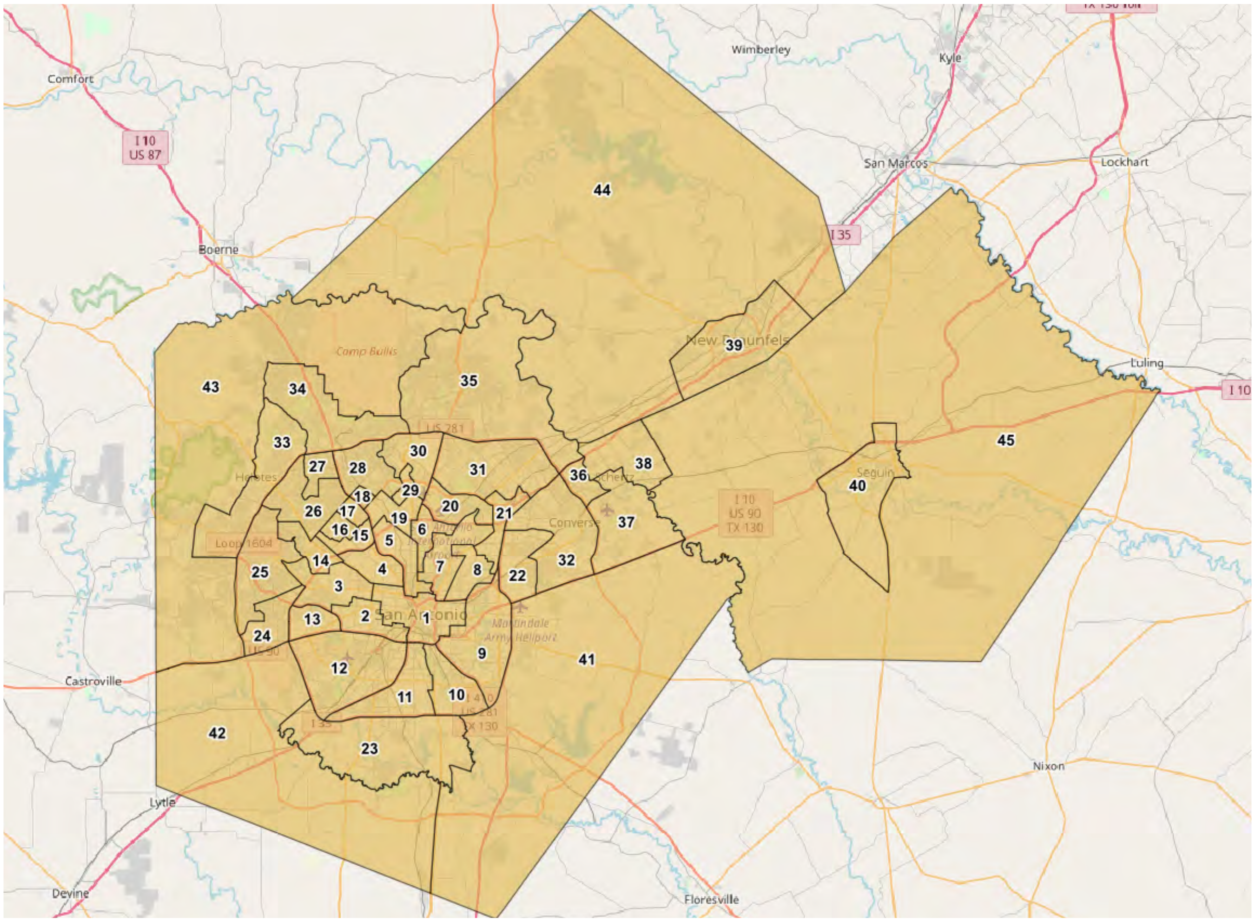
Hayden Properties Sells Townhomes

The new owner assumed a $13.1 million loan originally taken out in 2014.

Waypoint Residential Scores $29M Refi

The financing will retire an existing construction loan for the 278-unit Estraya Westover Hills.

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 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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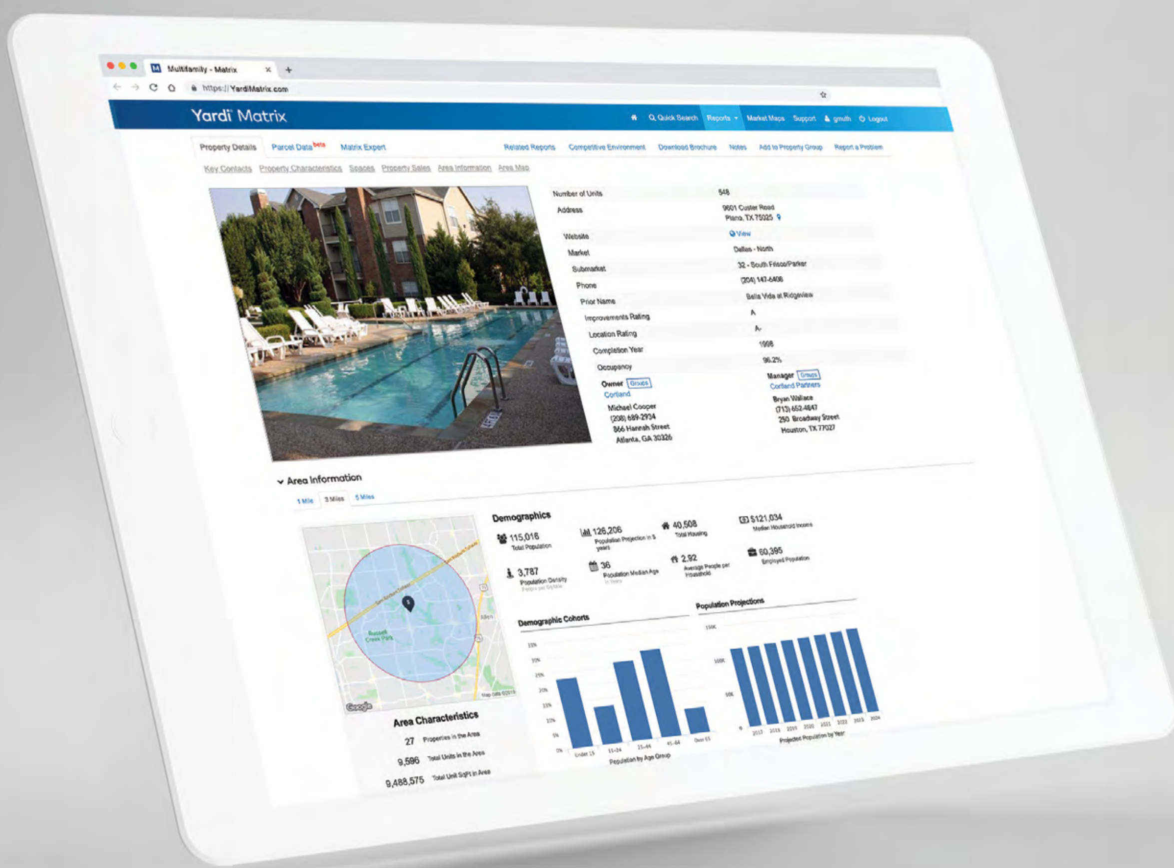

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