

# San Antonio Multifamily




## Sales Activity in Newer Assets Pushes Prices Higher

### Highlights

- > With property fundamentals stabilizing and investment activity strengthening, the San Antonio multifamily market got off to a strong start to 2021. The outlook calls for continued improvement, although the development pipeline remains full, and deliveries will be near all-time highs for the third time in four years.
- > The local vacancy rate dipped 10 basis points to 6.6 percent during the first quarter, the first quarterly drop in nearly two years. Despite the improvement in the first three months of 2021, the current rate is up 50 basis points from one year earlier.
- > Rents have been steady throughout the past several quarters. Asking rents inched higher to start the year, ending the first quarter at \$991 per month, up 0.3 percent year over year.
- > Sales of apartment properties are ahead of the pace established in 2020, and pricing has trended higher. In transactions where pricing information was available, the median price spiked to approximately \$145,000 per unit.

### San Antonio Multifamily Market Overview

The San Antonio multifamily market began to improve during the first quarter. The local vacancy rate inched lower, with additional improvement likely in the coming quarters. Absorption of apartment units was strong, and renter demand should accelerate as the local labor market gains momentum. Construction of new units remains heightened, and the steady pace of competition from new supply growth is preventing significant rent gains. Rents have been essentially flat in recent quarters but will likely edge higher as supply and demand move more closely into equilibrium.

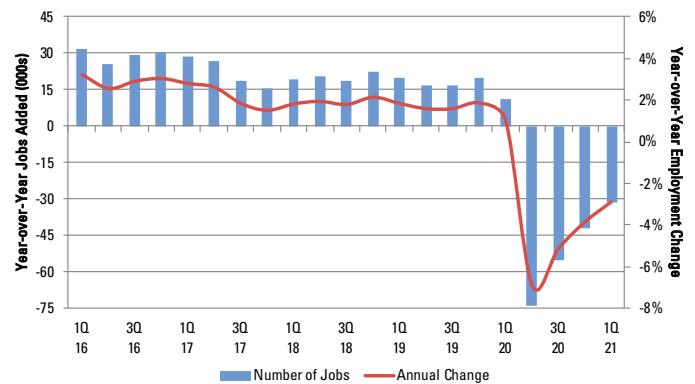
Q1 Snapshot	San Antonio Market
	<b>Market Fundamentals</b>
	Vacancy ..... <b>6.6%</b>
	- Year Over Year Change ..... <b>+50 bps</b>
	Asking Rent ..... <b>\$991</b>
	- Year Over Year Change ..... <b>+0.3%</b>
	<b>Transaction Activity*</b>
	Median Sales Price Per Unit (YTD) ..... <b>\$145,000</b>
	Cap Rates (Avg YTD) ..... <b>4.75%</b>
	<b>Construction Activity</b>
	Units Under Construction ..... <b>7,585</b>
	Units Delivered YTD ..... <b>1,335</b>
	<small>*In transactions where pricing is available</small>

Investment activity in the local apartment market is reflecting the positive investor sentiment for area properties. Sales velocity is well ahead of last year's pace, and prices have pushed up considerably. Some of the rise in the median price is a result of the newer properties that have changed hands thus far in 2021. Nearly half of the transactions that have closed year to date have been properties completed within the past 10 years; these properties have traded between \$130,000 per unit and \$170,000 per unit. In the deals involving older assets, pricing has generally remained between \$65,000 per unit and \$75,000 per unit.

## Employment

- > Employers in San Antonio added 10,000 new jobs during the first quarter. Total employment in the area is down 2.9 percent year over year, but the market will begin posting annual employment gains in the second quarter, and healthy growth is forecast for the remainder of the year.
- > The professional and business services sector recorded rapid growth at the end of last year, and gains have carried over into 2021. Total employment in the sector has expanded by approximately 10 percent year over year, with nearly 15,000 net positions added. Companies like i2c Inc., a payment processing and bank solutions company bringing more than 300 jobs to the area, are to credit for the growth in this super sector.
- > Navistar, a leading maker of commercial trucks, will bring 600 manufacturing jobs to the San Antonio labor market by early 2022 with the launch of its new 900,000-square-foot vehicle production factory.
- > **Forecast:** Employers are forecast to add approximately 36,000 workers to payrolls in 2021, a 3.4 percent gain. The San Antonio market has posted steady expansion for most of the past decade; from 2010 to 2019, growth averaged 24,000 jobs per year.

## Employment Overview



Sources: NorthMarq, Bureau of Labor Statistics

*Employers are forecast to add approximately 36,000 workers to payrolls in 2021*

## Vacancy

- > After trending higher in each quarter in 2020, the vacancy rate improved slightly at the start of 2021. Vacancy dipped 10 basis points in the first quarter. This marked the first quarterly tightening of the local vacancy rate since mid-2019.
- > Year over year through the first quarter, the market-wide vacancy rate rose 50 basis points to 6.6 percent.
- > The vacancy rise has been recorded primarily in Class A units; vacancy in the Class A segment is up 70 basis points during the past 12 months to 7.3 percent. Vacancy in Class B and Class C properties has been very stable for the past 24 months, averaging approximately 5.5 percent.
- > **Forecast:** Renter demand for units is forecast to gain momentum this year, but the pace of deliveries is also expected to pick up in the coming quarters. For the full year, vacancy is forecast to inch 20 basis points lower, ending 2021 at 6.5 percent.

## Vacancy Trends



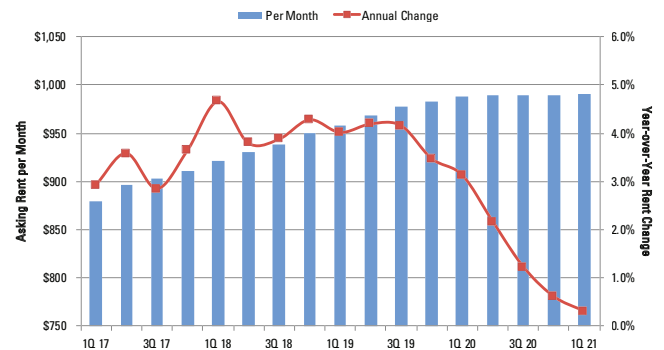
Sources: NorthMarq, Reis

*Vacancy dipped 10 basis points in the first quarter*

## Rents

- > The pace of rent growth slowed throughout 2020, and a minimal uptick was recorded during the first quarter. Asking rents ended the first quarter at \$991 per month, up just \$2 per month from the year-end 2020 figure.
- > Year over year through the first quarter, asking rents have advanced 0.3 percent. In recent years, rent growth has averaged nearly 4 percent annually.
- > Rents in Class A apartments have ticked lower in the past year, a trend that is forecast to reverse course in the coming quarters. Asking rents ended the first quarter at \$1,152 per month, down 0.7 percent year over year.
- > **Forecast:** After holding steady in recent quarters, rents in San Antonio are expected to push higher for the remainder of the year. Asking rents are forecast to advance more than 3 percent in 2021 to \$1,020 per month.

## Rent Trends



Sources: NorthMarq, Reis

Asking rents ended the first quarter at \$991 per month

## Development and Permitting

- > Construction activity has been elevated in San Antonio since 2018. During the first quarter, more than 1,300 units came online. In the first quarter of last year, fewer than 1,000 units were completed, but deliveries accelerated in subsequent quarters.
- > Multifamily development will continue in the coming quarters, as nearly 7,600 units were under construction across the San Antonio market at the end of the first quarter.
- > Over 1,200 multifamily permits were pulled during the first quarter of 2021, an increase of 23 percent from the figure one year ago.
- > **Forecast:** Developers are forecast to complete 6,000 new units by the end of 2021, down nearly 10 percent from the number of units brought online in 2020.

## Development Trends



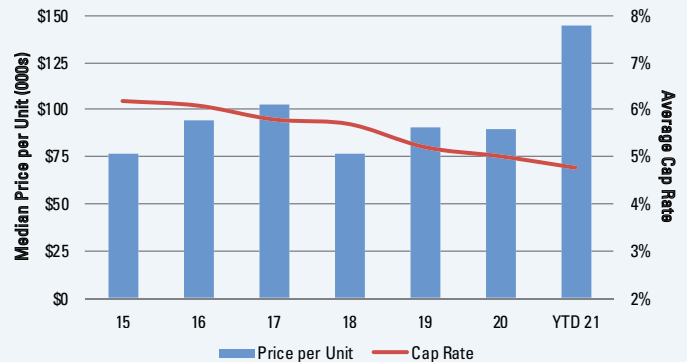
\* Deliveries YTD  
Sources: NorthMarq, Apartment Trends, Reis

Nearly 7,600 units were under construction at the end of the first quarter

## Multifamily Sales

- > Investment activity began 2021 on an upswing with sales velocity rising nearly 25 percent when compared to levels from one year earlier. Part of the rise in activity was fueled by the sale of newer properties delivered in recent years. One quarter of the sales involved properties built since 2015, and more than 40 percent of transactions were assets that had been delivered in the past decade.
- > The increase in sales of newer properties pushed prices higher. The median price in sales where pricing data was available was \$145,000 per unit, up from approximately \$90,000 per unit in 2020.
- > With investor demand elevated and transaction activity increasingly concentrated in newer assets, cap rates compressed. Cap rates have averaged 4.75 percent, with a handful of properties changing hands with cap rates near 4.25 percent.

## Investment Trends



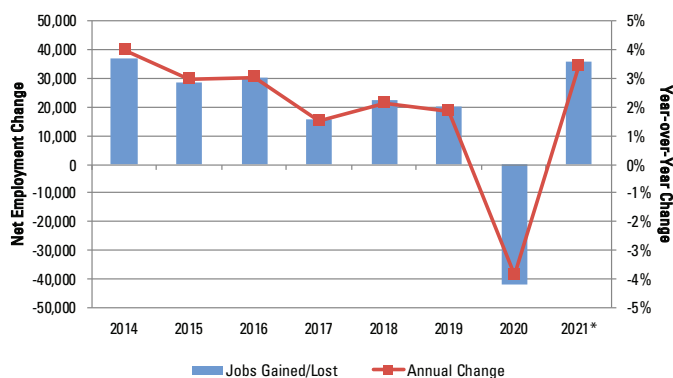
*The median price in sales where pricing data was available was \$145,000 per unit*

## Looking Ahead

The San Antonio multifamily market is expected to strengthen throughout the remainder of 2021, fueled by a local employment outlook that is forecast to be quite favorable. The market is already recording rapid gains in the professional and business services sector, as companies seeking to expand are increasingly landing in San Antonio. The cybersecurity sector is one area that is expected to provide a boost to the local economy in the years ahead. Cybersecurity will be one of the programs that benefits from the ongoing expansion of the Downtown Campus at the University of Texas San Antonio.

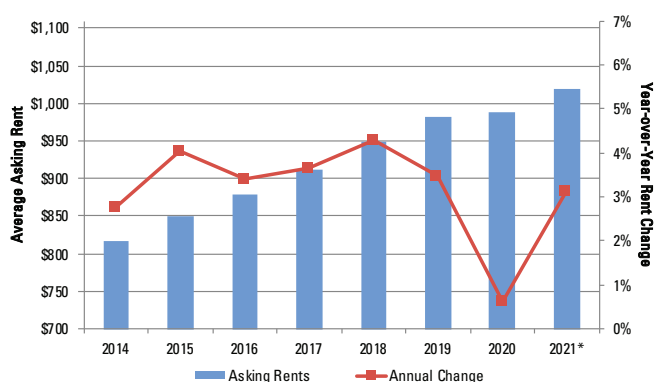
Apartment properties in San Antonio are getting increased attention from investors, a trend that is likely to continue as new units are absorbed and rents tick higher. Newer properties have accounted for an increasing share of the overall transaction activity to this point in 2021, and with several projects in lease-up or on pace to come online this year, investors are expected to continue to acquire newer properties. Cap rates ticked below 5 percent on average at the end of last year and are expected to remain low as investor demand for area properties intensifies.

### Employment Forecast



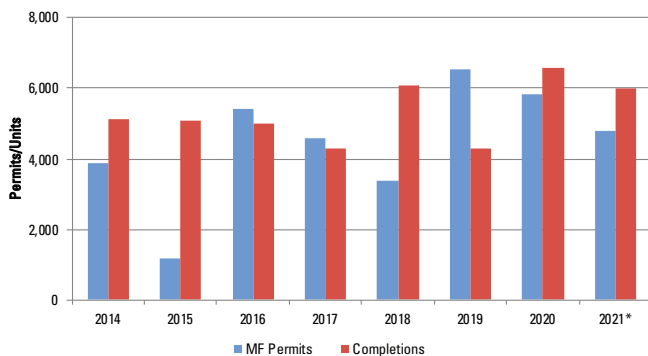
\* Year End Forecast  
Sources: NorthMarq, Bureau of Labor Statistics

### Rent Forecast



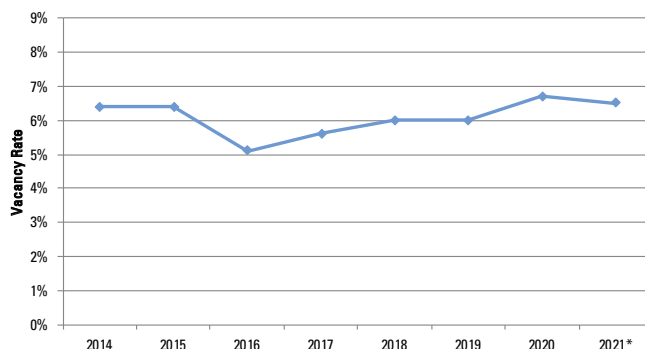
\* Year End Forecast  
Sources: NorthMarq, Reis

### Construction & Permitting Forecast



\* Year End Forecast  
Sources: NorthMarq, Apartment Trends, Census Bureau, Reis

### Vacancy Forecast



\* Year End Forecast  
Sources: NorthMarq, Reis

## About NorthMarq

As a capital markets leader, NorthMarq offers commercial real estate investors access to experts in debt, equity, investment sales, and loan servicing to protect and add value to their assets. For capital sources, we offer partnership and financial acumen that support long- and short-term investment goals. Our culture of integrity and innovation is evident in our 60-year history, annual transaction volume of more than \$16 billion, loan servicing portfolio of more than \$65 billion and the multi-year tenure of our nearly 600 people.

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