

Market Insights

San Antonio Multifamily 3Q 2021



Construction Activity



10,667

Units under construction

3,181

Units delivered (YTD)

Market Fundamentals



5.3%

Vacancy

-110 bps

Year over year change

\$1,064

Asking Rent

+7.6%

Year over year change

Transaction Activity



\$133,400

Median sales price per unit (YTD)

4.2%

Cap rates (YTD)

Vacancies Dip to Four-Year Low, Rents on the Rise

Highlights

- The third quarter proved to be a particularly strong period of apartment property performance in San Antonio, setting the stage for a healthy close to 2021 and a brightening outlook for 2022. The strengthening economy has sparked absorption of rental units and is the primary driver of the improving market fundamentals.
- Vacancy dropped 120 basis points during the third quarter, falling to 5.3 percent. The rate is down 110 basis points year over year and has reached its lowest point since 2017.
- The pace of rent growth gained momentum in recent months. Asking rents advanced 4.3 percent in the third quarter, and at \$1,064 per month, are up 7.6 percent from one year earlier.
- The local investment market sustained the momentum from the first half of the year. The pace of transaction activity continued to accelerate, while prices rose and cap rates continued to compress. In sales where pricing information is available, the median price has risen to \$133,400 per unit.

San Antonio Multifamily Market Overview

The San Antonio multifamily market recorded a strong performance during the third quarter with rents rising and vacancies dropping. Both improvements occurred at rapid rates with vacancy declining by more than 100 basis points in a single three-month period and rents spiking by nearly \$50 per month. The rise in rents was fueled by absorption that is well ahead of last year's pace and a vacancy rate that hit a four-year low. A number of companies are either relocating to or expanding their existing footprints in the San Antonio area, bringing a wide variety of high-paying jobs to the region.

With property fundamentals strengthening, investment activity gained momentum during the third quarter. Sales volume has increased since the beginning of the year with a growing number of properties changing hands. While the bulk of transactions occurred within the San Antonio city limits, activity picked up in Canyon Lake and New Braunfels. An increasingly competitive investment climate has pushed rents higher. In transactions where pricing was available, the median price reached over \$133,000 per unit. Cap rates have compressed to the lowest level in nearly a decade due to healthy rent growth and improving occupancy levels.

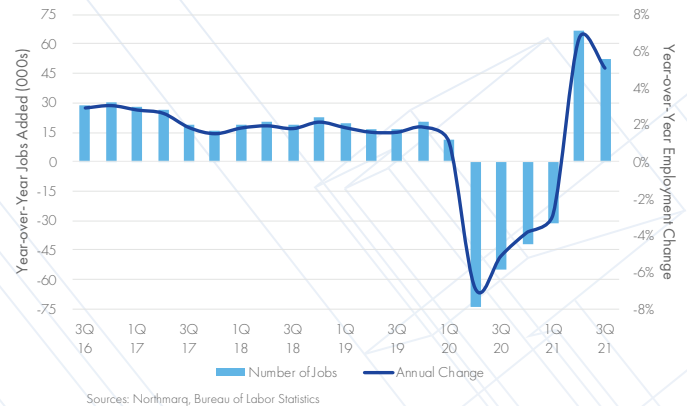
Employment

- The San Antonio labor market has almost made a full recovery from the losses suffered during the pandemic. Year over year through the third quarter, employers have added 62,200 workers back to area payrolls, an expansion of 6.1 percent.
- The San Antonio manufacturing sector has been one of the fastest-growing sectors in recent quarters. Employers within the industry have added 3,700 workers in the past 12 months, an increase of 7.5 percent.
- Nissei, an international plastics manufacturer, recently announced that the company will be moving its U.S. headquarters from Anaheim, Calif., to San Antonio. The company opened its production facility in San Antonio in 2018, which will now serve as the space for the new headquarters.
- **Forecast:** Employers are on pace to add approximately 48,000 jobs in 2021, a 4.6 percent gain. At the current pace of growth, employment in San Antonio will surpass pre-pandemic levels by early 2022.



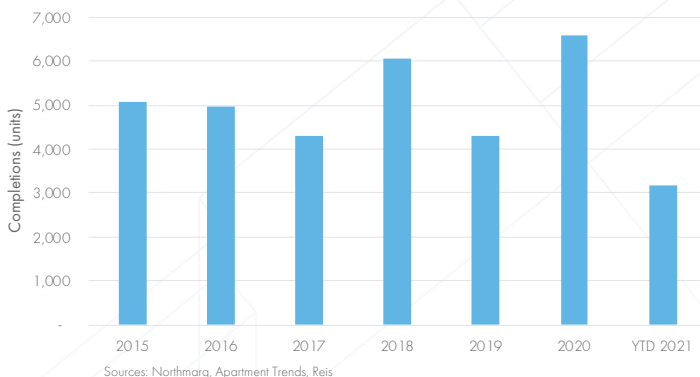
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Employment Overview



Projects totaling nearly 10,700 units are under construction.

Development Trends



Development and Permitting

- Deliveries of new apartments slowed through the first three quarters of this year. Developers delivered projects totaling nearly 3,200 units in the first nine months of the year, down roughly 40 percent compared to deliveries from the same period in 2020.
- While the pace of deliveries has slowed in 2021, developers are ramping up projects in the construction pipeline to keep pace with demand. Projects totaling nearly 10,700 units are under construction in the San Antonio metro area, up 25 percent from one year ago.
- Multifamily permitting in San Antonio spiked during the third quarter. Year to date, developers have pulled permits for approximately 6,500 units. This is an increase of nearly 45 percent compared to the same period one year ago.
- **Forecast:** This year, developers are forecast to complete approximately 4,200 new units, after construction peaked at more than 6,500 units delivered in 2020. Completions have averaged approximately 5,000 units per year since 2014.

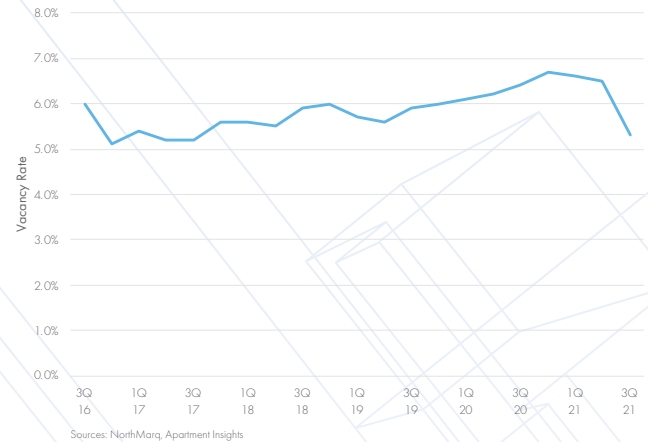
Vacancy

- After a modest decrease during the first half of 2021, vacancy improved significantly during the third quarter. The local vacancy rate tightened 120 basis points from July to September, ending the quarter at 5.3 percent. This is the lowest vacancy rate in the market since 2017.
- The steep decline in the third quarter pushed the current vacancy rate down 110 basis points from one year earlier. Vacancy had averaged nearly 6 percent since the beginning of 2017.
- The drop in vacancy is the result of a rise in absorption. During the third quarter, net absorption reached nearly 2,400 units, bringing the total for the year to more than 3,800 units. Absorption year to date is up 40 percent from the same period in 2020.
- **Forecast:** Vacancy will continue to improve before the end of the year, although not at the rapid pace recorded during the third quarter. The rate is forecast to drop an additional 30 basis points, ending 2021 at 5 percent.



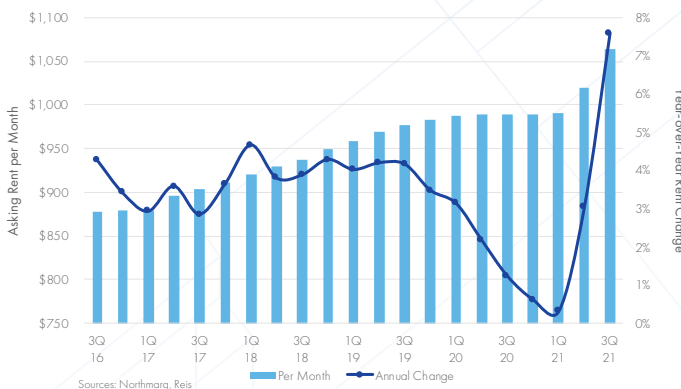
The local vacancy rate tightened 120 basis points from July to September.

Vacancy Trends



In the third quarter, asking rents increased 4.3 percent, reaching \$1,064 per month.

Rent Trends



Rents

- The pace of rent growth in San Antonio has accelerated in each quarter of 2021. In the third quarter, asking rents increased 4.3 percent, reaching \$1,064 per month.
- The pace of local rent growth is strengthening. Year over year through the third quarter, asking rents have jumped by 7.6 percent, up from just 1.2 percent one year ago. This is the strongest annual rent growth in the market since 2014.
- Rent growth in the Far North Central submarket is outpacing the market. Asking rents in the submarket spiked 6.7 percent in the third quarter, reaching \$1,160 per month. Year over year, the submarket has posted a rent increase totaling 8.6 percent.
- **Forecast:** Rents in San Antonio are expected to push higher throughout the rest of the year as renter demand remains elevated. Asking rents are forecast to rise to \$1,090 per month by the end of 2021, an increase of 10.2 percent.

Multifamily Sales

- With market fundamentals improving, investment activity has been on the rise. Following a 30 percent increase in the second quarter, sales velocity rose an additional 18 percent during the third quarter. Year to date, transaction activity in San Antonio has more than doubled levels recorded in 2020.
- With investor demand elevated, acquisition prices have been rising. The median price in sales where pricing data was available was \$133,400 per unit, a 48 percent increase from the median price in 2020.
- An increasing rate of rent growth has supported cap rate compression. In sales that have closed thus far in 2021, cap rates have averaged 4.2 percent, 80 basis points lower than in 2020.



Year to date, transaction activity has more than doubled 2020 levels.

Investment Trends

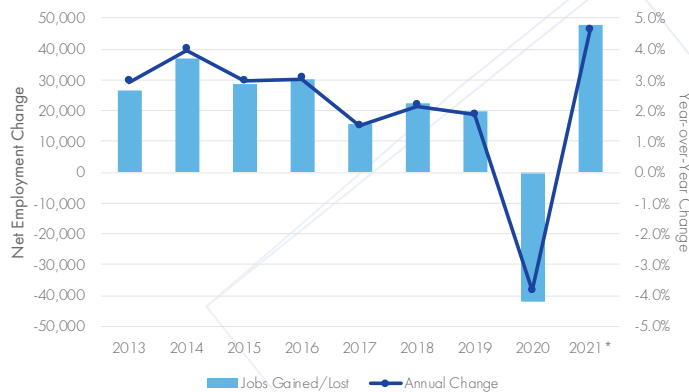


Looking Ahead

Rapid growth in the local economy is forecast to persist in San Antonio, supporting demand for apartment units and driving vacancy rates lower. Absorption in 2021 has outpaced levels from recent years, reflecting the expanding employment market and the release of pent-up demand for rental units. These trends are forecast to persist well into 2022, particularly as the San Antonio labor market continues to record gains in an increasingly diverse set of industries. Rents in the region should push higher again in 2022, but gains will likely come in slightly slower than this year's rapid pace.

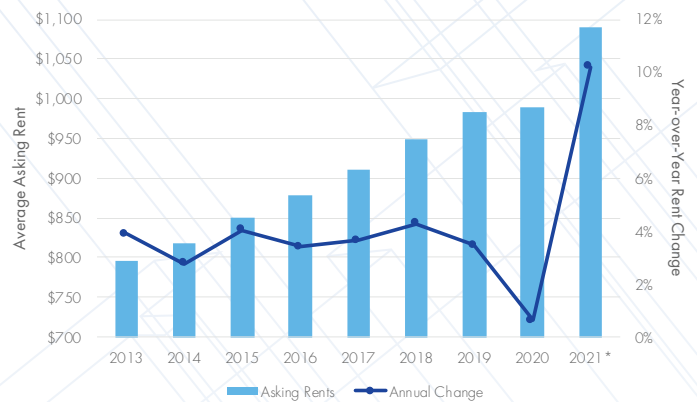
The significant increase in investor demand for multifamily properties in the San Antonio market likely reflects a long-term shift rather than a short-term change in capital allocation. An increasing number of investors are seeking acquisitions in San Antonio as the local economic outlook brightens. The rise in investment activity should keep cap rates low into 2022, particularly if owners can continue to push rents higher throughout the year. Cap rates have compressed by about 80 basis points in 2021, with the lowest cap rates being recorded in recent months.

Employment Forecast



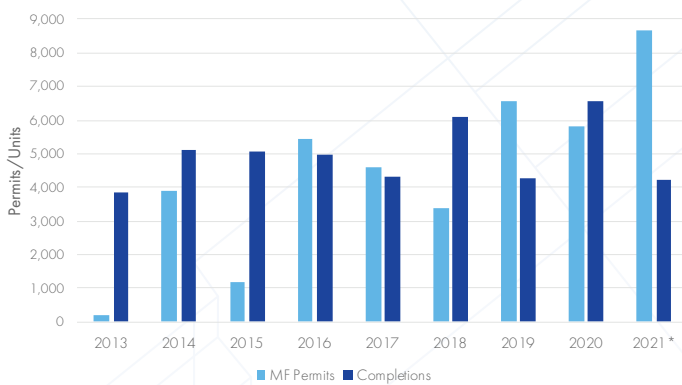
* Year End Forecast
Sources: Northmarq, Bureau of Labor Statistics

Rent Forecast



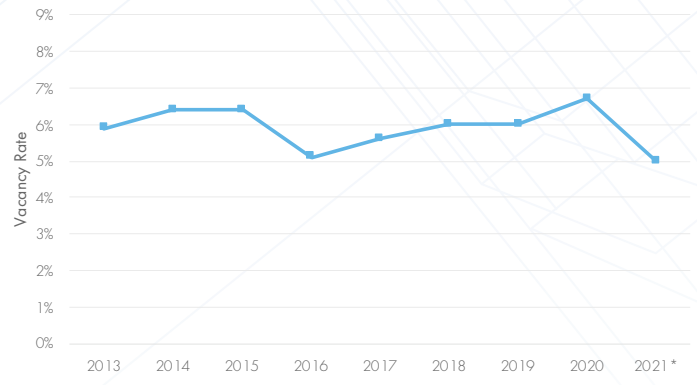
* Year End Forecast
Sources: Northmarq, Reis

Construction & Permitting Forecast



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

Vacancy Forecast



* Year End Forecast
Sources: Northmarq, Reis



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