

MARKET REPORT

MULTIFAMILY

San Antonio Metro Area

IPA INSTITUTIONAL
PROPERTY
ADVISORS

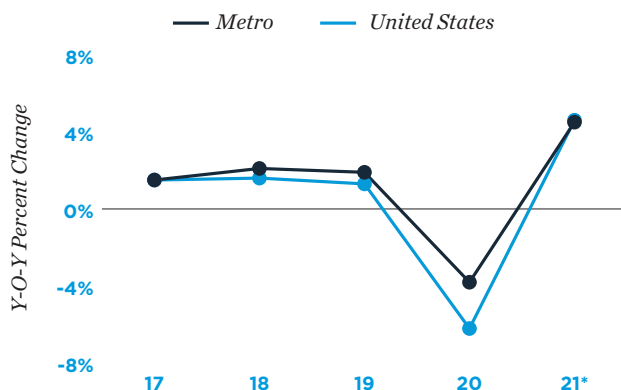
3Q/21

Interstate 35 Corridor Growing Exponentially, Boosting Apartment Performance in Suburbs

Northeast neighborhoods boast tightest vacancy. Remote work during the pandemic prompted many to relocate to the suburbs, a trend that continues even as some firms begin to bring workers back into the office. Household formation is particularly strong in the New Braunfels-Schertz-Universal City submarket, spanning the I-35 corridor between the rapidly expanding cities of Austin and San Antonio. Vacancy in the submarket fell 210 basis points year over year to 3.9 percent in June, the tightest availability in the metro. Rising home prices and limited for-sale inventory are bolstering demand for upper-tier apartments in the submarket. Class A vacancy dropped 290 basis points and Class B availability eased 200 basis points to 3.6 percent and 3.7 percent, respectively. Heightened competition is on the horizon, though. The 1,900-acre Mayfair project will create 6,000 housing units in New Braunfels over the next 15 years, with the first houses finalizing in 2023.

Construction wane to aid apartment metrics. Builders in San Antonio will complete fewer rentals in the metro in 2021 than in any year dating back to 2011. The moderation in development coincides with the anticipated addition of 29,800 residents in 2021 that will aid in the creation of 20,500 new households. Demand is poised to outpace supply and push down apartment availability, which should present a tailwind for rent growth. The Airport Area and Far West San Antonio submarkets highlight the list of places where vacancy rested below the market average in June, with few to no rentals expected to deliver in the next few quarters.

Employment Trends



* Forecast

Sources: BLS; CoStar Group, Inc.; RealPage, Inc.

Multifamily 2021 Outlook



**47,000
JOBS**

will be created

EMPLOYMENT:

San Antonio's worker count is expected to jump by 4.5 percent in 2021, a pace that allows the metro to surpass the 2019 total by the end of the year. In 2020, roughly 42,000 roles were cut and almost half were recovered in the first six months of this year.



**4,000
UNITS**

will be completed

CONSTRUCTION:

Annual delivery volume will drop to a decade low as market stock expands by less than 2 percent in 2021. This supply expansion ranks as the slowest among the four major markets in Texas and also falls below the U.S. rate of inventory growth.



**50
BASIS POINT**

decrease in vacancy

VACANCY:

The vacancy rate will slide down to 5.9 percent in 2021, marking the lowest availability to end a year since 2012. Limited supply arrivals coupled with robust in-migration and household creation underscore momentum for vacancy to tighten in San Antonio.



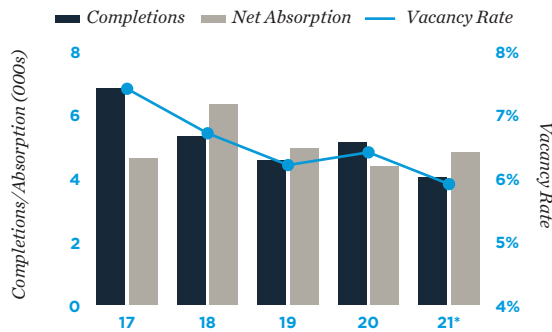
**6.2%
INCREASE**

in effective rent

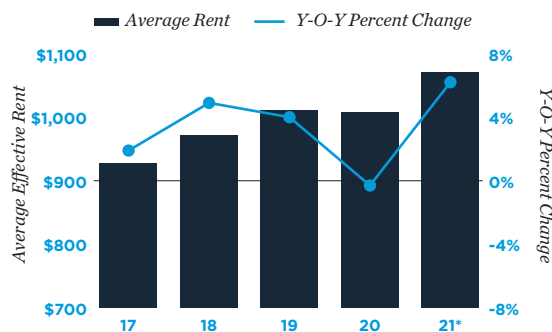
RENT:

In 2021, the market will register its strongest annual rent growth since at least the turn of the century. The average effective monthly rate will climb to \$1,070 this year, a major improvement after the measure fell by 0.3 percent in 2020.

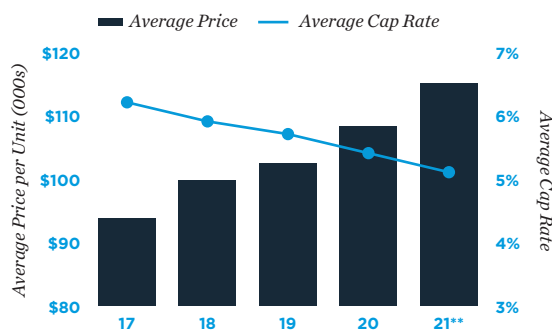
Supply and Demand



Rent Trends



Sales Trends



* Forecast; ** Through 2Q

Sources: CoStar Group, Inc.; Real Capital Analytics; RealPage, Inc.

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Price: \$250

2Q21 – 12-Month Period



CONSTRUCTION

4,761 units completed

- During the past four quarters ended in June builders finalized roughly 250 fewer rentals than in the previous period. As of July, approximately 7,900 units were underway with completion dates extending into 2023.
- Through the first half of 2021 Central San Antonio has added 660 units and an additional 580 rentals are expected to deliver before year-end.



VACANCY

90 basis point decrease in vacancy Y-O-Y

- Vacancy plunged 80 basis points from April through June to 6.0 percent. Class A led with a 130-basis-point decline in the quarter to 5.4 percent, the lowest rate for any tier since the onset of the pandemic.
- In spite of development being concentrated in Central San Antonio, vacancy in the locale is down 210 basis points over the first six months.



RENT

5.5% increase in the average effective rent Y-O-Y

- The average effective monthly rent in San Antonio has now increased in two consecutive quarters, reaching \$1,060 in June. All three tiers had year-over-year rent growth exceeding 2 percent.
- Areas farther from the core are luring tenants, catalyzing annual rent gains of 8 percent-plus in the Far Northwest and Far West submarkets.

Investment Highlights

- Trading activity during the past year ended in the second quarter was up from the previous period as resilience during the health crisis and a strong outlook are attracting more investors to San Antonio. An expanding buyer pool contributed to the average sale price jumping 9 percent annually to \$115,000 per unit. Properties traded during the past four quarters ending in June had a mean cap rate of 5.1 percent, down 30 basis points from 2020. Preliminary data reveals that downward pressure on cap rates has continued in the third quarter.
- Strong household formation and rental demand in the patch between Interstate 410 and Loop 1604 on the western side of the metro are encouraging buyers to focus on the area. Particularly, the corridor spanning from U.S. Route 90 up to State Highway 16 has recorded a notable uptick in Class A/B transactions.
- Private investors concentrating on lower-tier assets often target inner west side neighborhoods. Apartment buildings in communities just south of to the I-410 and I-10 interchange are compelling to buyers seeking below-market-average entry costs.

The information contained in this report was obtained from sources deemed to be reliable. Every effort was made to obtain accurate and complete information; however, no representation, warranty or guarantee, express or implied, may be made as to the accuracy or reliability of the information contained herein. Note: Metro-level employment growth is calculated based on the last month of the quarter/year. Sales data includes transactions sold for \$1 million or greater unless otherwise noted. This is not intended to be a forecast of future events and this is not a guaranty regarding a future event. This is not intended to provide specific investment advice and should not be considered as investment advice. Sources: IPA Research Services; Bureau of Labor Statistics; CoStar Group, Inc.; Real Capital Analytics; RealPage, Inc.