MARKET REPORT

Multifamily

San Antonio Metro Area

IPA INSTITUTIONAL PROPERTY ADVISORS

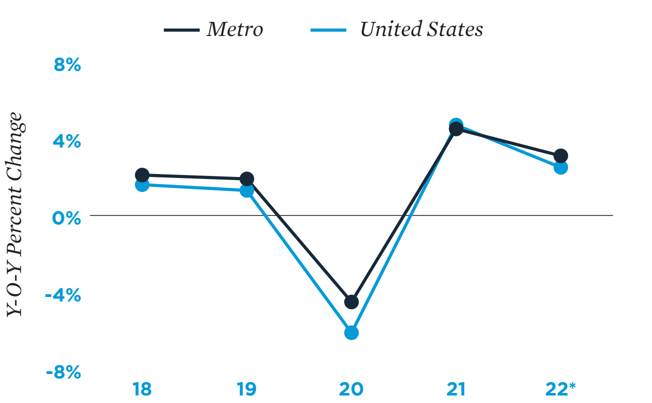
2Q/22

Shrinking Availability Shows a Need for Construction, but the 2022 Pipeline is Small

Economic recalibration factors into upper-tier performance. The job counts of the major labor segments last year relative to their respective 2019 measures reveal that higher-wage sectors accounted for a notable percentage of the metro's employment growth. The professional and business services segment added nearly 12,000 personnel over that two-year stretch, while trade, transportation and utilities was the only other sector to add at least 6,000 positions. This indicates that San Antonio's economy is transforming. Historically rooted in tourism and military operations, the metro now draws more companies in the tech and financial industries. This correlates with the ongoing Class A vacancy reduction, as more residents have incomes to support renting at higher-quality properties with amenities. Entering April, half of the 14 submarkets had sub-3 percent Class A vacancy.

Passive development is abnormal. Vacancy across apartment tiers is historically low, and the metro is recording sturdy in-migration, household creation and employment growth, yet construction is very moderate. In fact, San Antonio's 1.4 percent inventory expansion in 2022 will be among the smallest of any major market in the southern half of the country. Labor shortages are one component of the constrained pace, with the local construction job count a tick under the pre-pandemic mark. Developers are also preoccupied in the market's northerly neighbor, as Austin will lead the nation in supply growth this year.

Employment Trends



* Forecast

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

Multifamily 2022 Outlook

34,000 JOBS
will be created

EMPLOYMENT:

San Antonio's unemployment rate was 4.0 percent in March — the second-highest among the major Texas markets. Existing room for growth, especially in the recovering leisure and hospitality segment, translates to a 3.1 percent increase in jobs this year.

3,200 UNITS
will be completed

CONSTRUCTION:

For the first time in 10 years, the annual completion total measures below 4,900 units, and construction will remain mild in the near term. Less than 9,000 rentals have broken ground as of the first quarter, with scheduled finalization dates into 2023.

80 BASIS POINT
decrease in vacancy

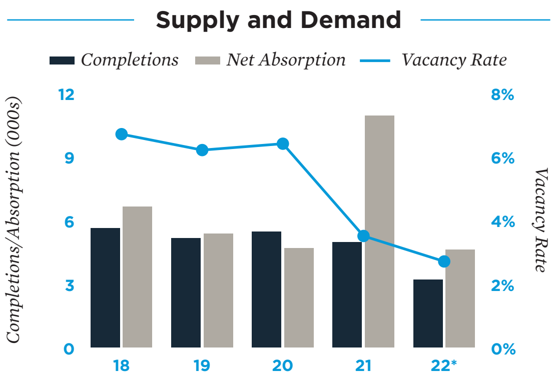
VACANCY:

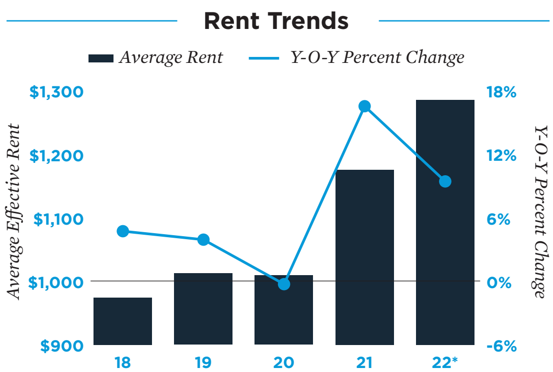
Vacancy contraction is occurring across the nation, especially in the Sun Belt; however, most markets here are witnessing record construction, which is not the case in San Antonio, allowing for one of the steepest drops in availability this year to 2.7 percent.

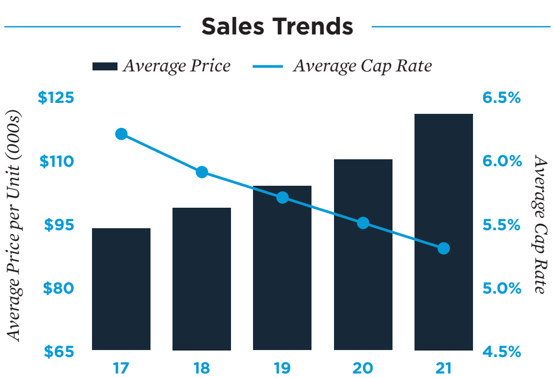
9.4% INCREASE
in effective rent

RENT:

Following the market's fastest annual rent hike this century, jumping 16.5 percent last year, San Antonio has the dynamics to support another solid gain in 2022. The mean effective rate moves up to $1,285 per month by year-end, still the lowest in Texas.







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1Q 2022 - 12-Month Period

CONSTRUCTION

4,636 units completed

- Inventory growth in the April through March period over the past decade was about 2.7 percent on average. During that same yearlong span ended in March 2022, stock expansion totaled just 2.1 percent.
- The New Braunfels-Schertz-Universal City and Far North Central submarkets combined for roughly 40 percent of the past year's additions.

VACANCY

350 basis point decrease in vacancy Y-O-Y

- Availability in San Antonio's urban core has plummeted amid a revival of tourism and in-person office work. The vacancy rate here of 8.5 percent in 2020 was sliced to 3.5 percent entering the second quarter of 2022.
- Since peaking at 6.8 percent in the first quarter of 2021, overall metro vacancy declined in every period, falling to 3.3 percent in March 2022.

RENT

17.8% increase in the average effective rent Y-O-Y

- The average effective rent soared to $1,203 per month in March, with Class A rates growing at the fastest pace among property tiers.
- Rises in mean rents across submarkets ranged from 10.8 percent to 23.8 percent annually in the first quarter. In general, outlying areas performed better, with the Far West and Far Northwest submarkets leading the pack.

Investment Highlights

- Transaction velocity in 2021 surpassed the previous two years and was on par with the 2018 level. Low vacancy amid a lack of construction and strong in-migration will likely sustain this momentum in 2022. At the same time, the buyer pool is reshuffling. San Antonio is quickly becoming a market where private investors struggle to outbid institutions and well-capitalized buyers, with the average sale price advancing 40 percent in a five-year span to $120,800 per unit in 2021.
- Private investors seeking prices below the market mean and cap rates higher than the metro average of 5.3 percent sift through listings in Southwest and Southeast San Antonio. Class C assets built pre-1990 constitute a high level of trades in these submarkets, as local and out-of-state buyers pursue upside through value-add opportunities.
- Minimum yields in the low-4 percent area are recorded for transactions in Northwest and Northeast San Antonio in recent months. Here, upper- and mid-tier assets with 100-plus units are popular targets for California and New York buyers. Apartments near employment and academic hubs, like the Medical Center, are especially attractive.

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