MARKET REPORT

Multifamily

San Antonio Metro Area

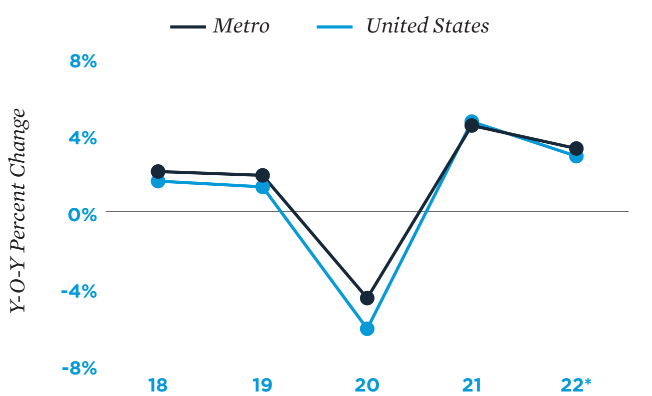
3Q/22

Despite a Marketwide Rise, Every Submarket Has Fewer Units Available Than One Year Ago

Demand starts to moderate after a hot stretch. In the span of just 12 months, metro vacancy fell from a pandemic-era high of 6.8 percent to a historic low of 3.3 percent. The number of available rentals plummeted to just 7,200 units in the first quarter of this year. The last time the count was this low was in 2000, when the market had roughly 60 percent of the apartment inventory that it currently has. Given this exceptional tightness, it was expected that a normalization would eventually play out, and it did in the second quarter of 2022. Net absorption from April through June was measured at negative 1,600 units — the lowest quarter in over 20 years. Still, vacancy remains almost 250 basis points below the long-term average, and every submarket sustained a tighter rate relative to June 2021.

Greater construction is on the horizon. San Antonio's apartment inventory is scheduled to grow by just 1.3 percent in 2022, the smallest annual expansion in more than a decade. This mild pace has helped keep vacancy extremely tight, contributing to robust rent escalations as prospective tenants compete for a limited amount of available rentals. Some relief is ahead, however, with nearly 11,000 units underway as of August with expected completion dates in either 2023 or 2024, about four times as many rentals compared to this year's figure. Central San Antonio, in particular, has an active pipeline headlined by a handful of 200-plus unit builds. Several of these are near the Pearl and River Walk Districts, as developers take notice of demand returning to urban areas.

Employment Trends



* Forecast

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

Multifamily 2022 Outlook

36,000 JOBS
will be created

EMPLOYMENT:

Alamo City employers added nearly 21,000 workers in the first half, dropping the unemployment rate into the sub-4 percent zone. This makes it more difficult to find available labor, resulting in a slightly slower, albeit still solid, addition in the second half.

2,800 UNITS
will be completed

CONSTRUCTION:

Fewer than 1,400 rentals finalized during the opening six months of 2022, the smallest two-quarter expansion since 2011. Roughly the same number of units are expected to deliver in the second half of this year, keeping supply pressure very low.

60 BASIS POINT
increase in vacancy

VACANCY:

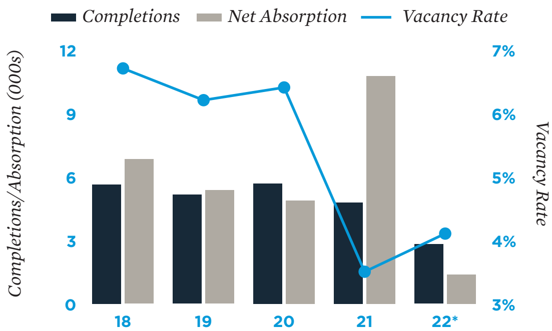
After spending six months in the mid-3 percent range from October 2021 through March 2022, vacancy will climb back up to 4.1 percent by year-end. This rate is more than 200 basis points below 2019's recording.

8.1% INCREASE
in effective rent

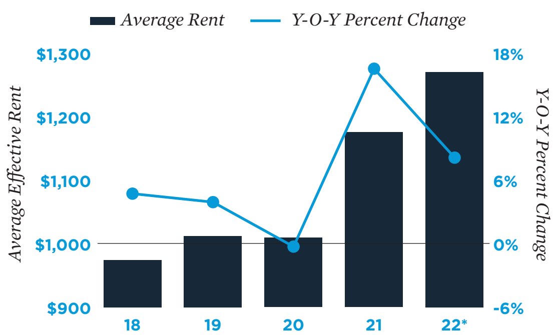
RENT:

Rent growth fueled by tight vacancy will hike the average effective monthly rate to $1,270 at the end of 2022, a two-year gain exceeding 25 percent. San Antonio remains relatively affordable, potentially attracting new residents seeking lower costs of living.

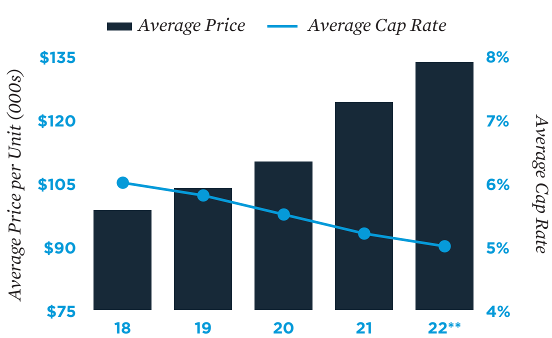
Supply and Demand



Rent Trends



Sales Trends



** Forecast ** Through 2Q*

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

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Price: $250

2Q 2022 - 12-Month Period

CONSTRUCTION

3,463 units completed

- Only one quarter across the past four featured a delivery slate of over 1,000 units. Prior to this, that threshold was met in 33 of the previous 36 quarters, exemplifying the substantial cool down in construction activity.
- New Braunfels-Schertz-Universal City, a cluster of growing suburbs along the Interstate 35 corridor, had the fastest stock expansion at 5.4 percent.

VACANCY

160 basis point decrease in vacancy Y-O-Y

- In the second quarter of 2022, all three classes of apartments had vacancy rates between 4 and 5 percent. The Class B rate was down 170 basis points year-over-year, while the Class A metric declined by 70 basis points.
- Five submarkets boasted sub-4 percent vacancy in June, with the largest declines among these areas in Northeast San Antonio and Alamo Heights.

RENT

17.6% increase in the average effective rent Y-O-Y

- Both the Class A and B segments recorded annual rent growth surpassing 19 percent, while the Class C gain was about half that pace.
- In 2019, the CBD had the highest rent by a premium of 12 percent over the next most costly area. Now, Far Northwest San Antonio leads the pack with an average effective rent above $1,500 per month.

Investment Highlights

- After a record-breaking 13 percent lift in the average sale price in 2021, the pace kept up during the first half of this year. During the 12-month period ended in June 2022, the price per unit rose by 14 percent compared to the prior yearlong interval to an average of $133,500. This jump ranked as the second fastest among major metros in Texas, outpacing Austin and Houston. Still, the average entry cost in San Antonio remains the lowest of the four main Lone Star markets, attracting a diverse pool of investors.
- First-year returns in the upper-3 percent to lower-4 percent range are frequent for Class A/B assets in North Central and Northwest San Antonio, which are the predominant focal points for institutional investors. North Central has tighter Class A and B vacancy rates, each below 4 percent, while the pace of rent growth has been fairly uniform across the two areas.
- Larger-scale garden-style assets in the Northwest, Northeast and North Central submarkets are the most heavily targeted multifamily asset type by institutions. However, revitalization projects in the urban core could lead more investors to explore luxury listings in the Central San Antonio sub-market. Here, the average Class A effective rent grew at the slowest pace in the market, possibly indicating upside through tenant turnover.