INVESTMENT FORECAST

Multifamily

San Antonio

IPA INSTITUTIONAL PROPERTY ADVISORS

2020

San Antonio Apartment Performance Gains Momentum as Wave of Supply Abates

Workforce fueling strong lease-up performance. Six consecutive years of at least 5,000 units delivered annually ended in 2019, and this abatement will continue in 2020. As the metro is no longer facing profound supply headwinds, lease-ups will overshadow deliveries and contract vacancy into the mid-5 percent range after hovering near the high-6 percent area for the majority of this decade. Demand is buoyed by consistent employment growth, primarily within working-class fields. Wholesale and retail trade jobs are being created at a faster rate than the national average, as corporations establish strategic logistical facilities inland from Gulf of Mexico ports and within the NAFTA corridor. Additionally, the inflow of retirees is boosting the need for leisure and healthcare workers. The working-class population segment will remain a tailwind for budget-friendly rentals, holding vacancies in the mid-5 percent range for Class B/C properties, helping maintain the positive growth trajectory of rental costs.

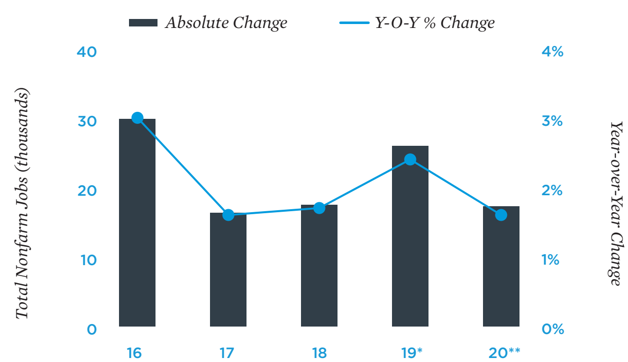
Texas economic growth plus higher yields drawing national attention. With higher yields than other major Texas markets and excellent economic growth driving strong apartment absorption, San Antonio has attracted attention from national investors, which will supplement regional capital inflows for acquisitions. The increased number of investors actively searching for purchases should help maintain the transaction activity level seen in 2019 for the coming year. San Antonio offers investors two highly in-demand product types: newly developed properties and value-add opportunities. The twist for newer properties in San Antonio, however, is that most of them are garden properties at higher cap rates and lower per unit pricing, allowing investors seeking higher yields downside protection from rising capital expenditure outlays. Value-add buyers will remain strongly engaged in the Northwest submarket but opportunities have become harder to find. This could create a shift into the Northeastern area of the metro, which has a large inventory of older assets with upside renovation potential. Given the elevated attention level from national buyers combined with a 2020 rent forecast above the national average, expect competitive pricing across the board for disposition assets.

22.1% *2019 share of local population between 20 and 34 years old*

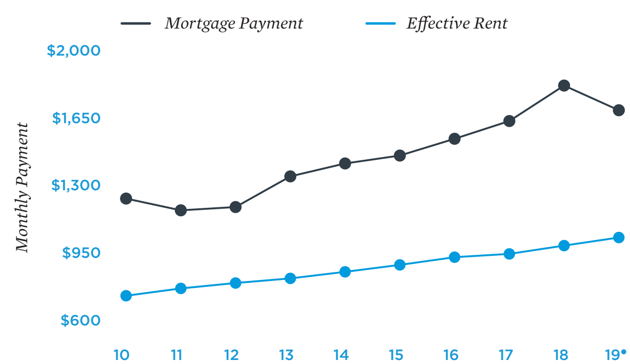
27.3% *of local population hold bachelor's degree or higher*❖

$234,575 *2019 median home price*

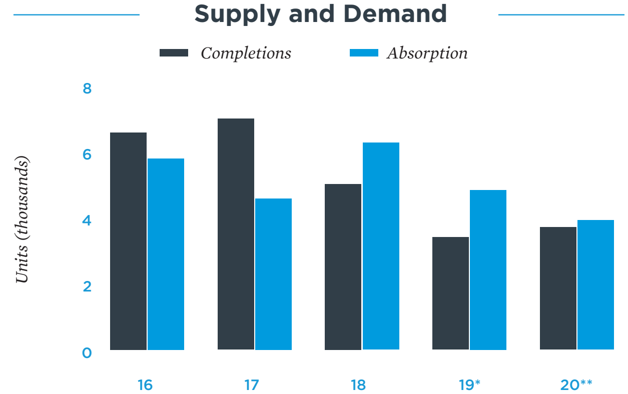
Employment Trends



Housing Affordability Gap



Supply and Demand



* Estimate ** Forecast • Through 3Q
❖ 2019: 25+ years old
Sources: Marcus & Millichap Research Services; RealPage, Inc.

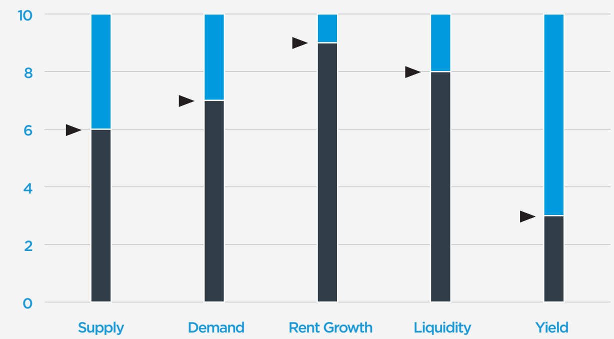
2020 Investment Outlook

One-point increases in demand and rent growth highlight San Antonio's solid Key Performance Index results over the last six months. Moderating completions combined with the demand index residing at 7 allowed continued strong results from the rent growth index, which rose to 9.

Liquidity held steady at 8 as transaction volume for $20 million-plus properties remains near the cycle high as capital continues seeking acquisitions throughout the metro. The high demand for assets pushed down yield by a point to 3 but that remains an attractive entry point for capital inflow.

Note: The Key Performance Index provides a metro-level relational benchmark scaled from 1-10 for five key metrics.

Key Performance Index



2020 Market Forecast

Employment
17,300 jobs
Metro **1.6%**
U.S. **1.0%**

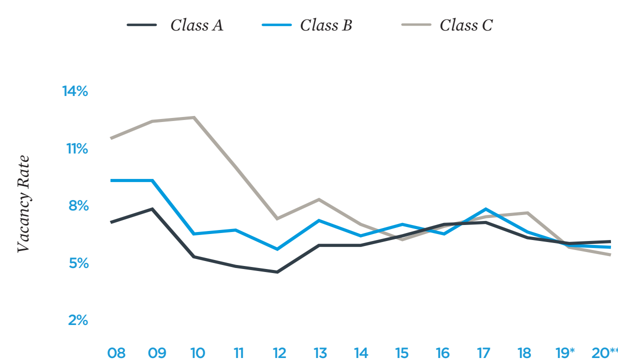
Construction
as % of inventory❖
Metro **1.8%**
U.S. **1.7%**

Class A Vacancy
Down 10 bps
Metro **6.0%**
U.S. **5.3%**

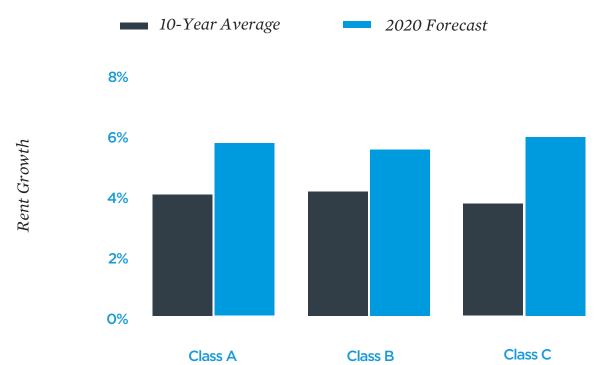
Class A Rent
$1,350 per month
Metro **5.7%**
U.S. **3.3%**

Investment
3-yr. avg. activity
$20+ million
Deals: **41**
Volume: **$1.5 billion**

Vacancy By Class



Rent Growth By Class



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** Estimate ** Forecast*
❖ Arrow reflects completions trend compared with 2019
Sources: Marcus & Millichap Research Services; CoStar Group, Inc.; RealPage, Inc.; Real Capital Analytics