

San Antonio Multifamily

Cap Rates Compress as Sales Velocity Accelerates

Highlights

- > Renter demand for apartment properties in San Antonio has been on the rise in 2021, pushing vacancy rates lower and driving rents higher. Construction remains active as developers move projects through the pipeline to meet demand.
- > Vacancy dipped 10 basis points in the second quarter, following an identical decline in the first three months of this year. Despite the improvement in 2021, the current vacancy rate of 6.5 percent is 30 basis points higher than the figure from one year earlier.
- > After holding steady for the past several quarters, the pace of rent growth surged in the second quarter. Asking rents rose 3 percent in the second quarter, reaching \$1,020 per month. The recent gains pushed annual asking rent growth up to 3 percent.
- > Sales velocity in the local multifamily market gained momentum during the second quarter, with transactions picking up by nearly 30 percent. In transactions where pricing information was available, the median price has reached approximately \$135,000 per unit, while cap rates have compressed to 4.4 percent.

Q2 Snapshot

San Antonio Market



Market Fundamentals

Vacancy	6.5%
- Year Over Year Change	+30 bps
Asking Rent	\$1,020
- Year Over Year Change	+3.0%



Transaction Activity*

Median Sales Price Per Unit (YTD)	\$135,000
Cap Rates (Avg YTD)	4.4%



Construction Activity

Units Under Construction	8,490
Units Delivered YTD	2,226

*In transactions where pricing is available

San Antonio Multifamily Market Overview

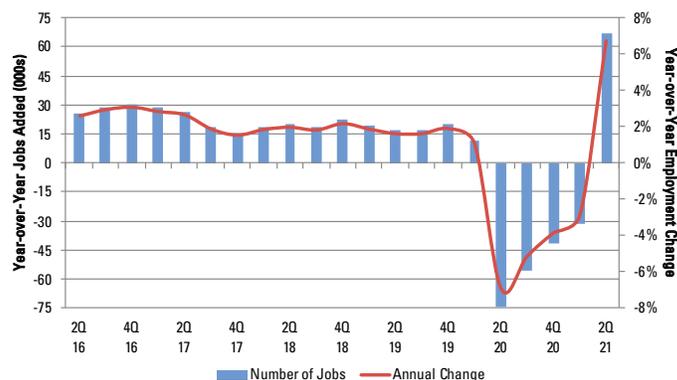
The San Antonio multifamily market continued to strengthen in the second quarter. The pace of rent growth accelerated while the local vacancy rate dipped lower for the second consecutive quarter. The current vacancy rate remains a bit higher than levels from one year ago, but that is primarily due to a very active period of new supply growth during the past 24 months. Renter demand for apartments has accelerated, with absorption reaching nearly 3,800 units during the second quarter. Developers are forecast to remain active in the market, delivering new units through the construction pipeline to meet demand, particularly in some of the outer submarkets in the northern portion of the market.

The investment market in San Antonio gained momentum in the second quarter. There were two clear signs of the health of the local investment market. The first was in the number of properties changing hands. Sales velocity accelerated by nearly 30 percent in the second quarter. The second indication of the health of the market was cap rate compression. Cap rates have averaged just 4.4 percent to this point in 2021, and the average figure during the second quarter was just 4.1 percent. Investors are accepting lower cap rates with expectations of higher rent growth through the remainder of this year and into 2022.

Employment

- > Employers in San Antonio have been adding back workers at a steady pace thus far in 2021. Approximately 10,000 jobs were added in both the first and second quarters. Year over year, nearly 67,000 jobs have been added, growing local payrolls by 6.7 percent.
- > White-collar employment growth in San Antonio is fueling the local employment market. Since the beginning of 2020, the professional and business services sector has expanded by nearly 10 percent with the addition of more than 14,000 jobs.
- > The delivery app Skipcart recently announced that the company is moving its corporate headquarters from Boerne to Downtown San Antonio. Skipcart will add 100 high-wage jobs including software developers and engineers.
- > **Forecast:** Employers are forecast to add approximately 42,000 workers to payrolls in 2021, a 4 percent gain. With this growth, total employment in San Antonio will exceed pre-COVID employment levels.

Employment Overview



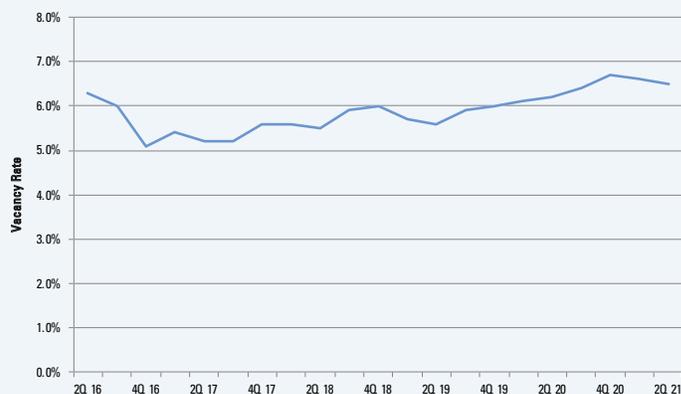
Sources: NorthMarq, Bureau of Labor Statistics

Approximately 10,000 jobs were added in both the first and second quarters

Vacancy

- > Local vacancy has made a slight improvement in recent months. The vacancy rate ticked down 10 basis points in the second quarter, repeating the dip recorded during the first quarter. Vacancy in San Antonio ended the second quarter at 6.5 percent.
- > Despite the modest tightening in the first half of 2021, the current vacancy rate is up 30 basis points year over year.
- > Net absorption has remained positive in 2021 and surged by more than 40 percent in recent months. Net absorption totaled nearly 3,800 units in the second quarter.
- > **Forecast:** Vacancy will continue to tighten in the second half of the year. By the end of 2021, vacancy in San Antonio is forecast to dip an additional 20 basis points to 6.3 percent.

Vacancy Trends



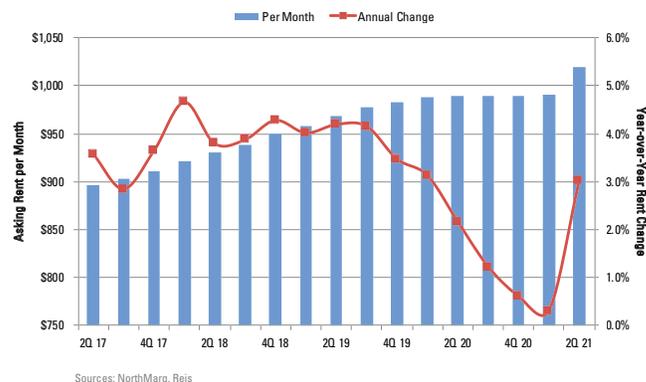
Sources: NorthMarq, Reis

Vacancy in San Antonio ended the second quarter at 6.5 percent

Rents

- > San Antonio posted strong rent growth in the second quarter after consecutive periods of little movement. Local asking rents increased around 3 percent since the end of March, ending the quarter at \$1,020 per month.
- > Year over year through the second quarter, asking rents have advanced 3 percent. The pace of rent growth is accelerating as the local economy gains traction.
- > Vacancy rates in the Far North Central submarket are still a bit higher than the market average, and rent growth in the submarket may lag the market average for a few more quarters. Asking rents in the Far North Central submarket ended the second quarter at \$1,082 per month
- > **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 \$1,050 per month by the end of 2021, an increase of 6.2 percent.

Rent Trends

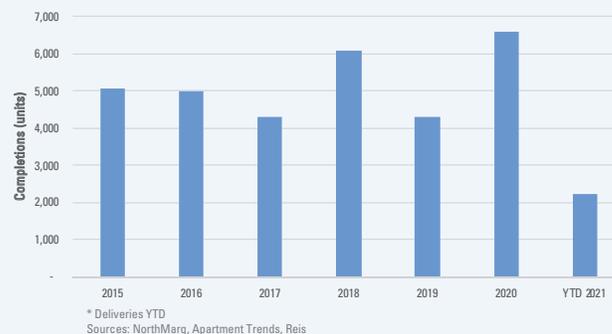


Asking rents ended the second quarter at \$1,020 per month

Development and Permitting

- > Deliveries slowed in the second quarter after a strong start to 2021. Approximately 900 units came online, after more than 1,300 units were delivered in the first quarter.
- > Developers continue to move new projects into the construction pipeline to meet current and future demand for rentals. Projects totaling approximately 8,500 multifamily units were under construction at midyear, an increase of more than 40 percent from one year ago.
- > While the number of units under construction is on the rise, multifamily permitting has slowed in San Antonio to this point in 2021. Developers pulled permits for nearly 2,000 multifamily units in the first half of the year, a decrease of 32 percent from the first half of 2020.
- > **Forecast:** Developers are forecast to complete approximately 6,500 new units by the end of 2021, nearly identical to the figure in 2020.

Development Trends



Projects totaling approximately 8,500 multifamily units were under construction at midyear

Multifamily Sales

- > Local investment activity increased in the San Antonio market from April to June. Sales volume accelerated by nearly 30 percent during the second quarter.
- > Prices remained elevated during the second quarter. During the first half of this year, the median price in sales where pricing data was available was \$135,000 per unit, up more than 40 percent from the median price in 2020.
- > Cap rates have compressed throughout this year. The average cap rate to this point has been 4.4 percent, 60 basis points lower than in 2020. During the second quarter, cap rates averaged approximately 4.1 percent.

Investment Trends



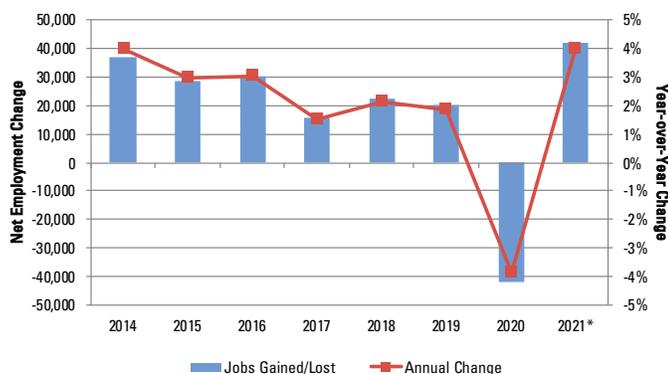
During the second quarter, cap rates averaged approximately 4.1 percent

Looking Ahead

The San Antonio multifamily market is expected to continue to gain momentum throughout the second half of 2021. Employers are bringing back workers at a steady pace, and new companies are moving into the market. With renter demand for apartments elevated, the pace of new development is on schedule to remain active. Multifamily developers delivered more than 6,500 units in 2020, and a similar number of units is forecast to come online this year. This represents an acceleration in the pace of new construction; from 2015 to 2019, apartment construction averaged about 5,000 units per year.

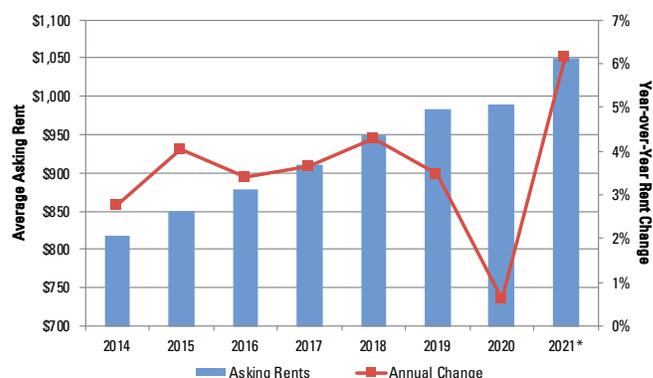
Strengthening absorption of apartment properties is fueling additional investment activity in San Antonio. In transactions where pricing information is available, the median price has spiked from levels recorded in recent years. The increasingly competitive acquisitions environment is leading to lower cap rates. After cap rates averaged above 5 percent from 2017 until late last year, current cap rates are below 4.5 percent, and in a few instances, properties are changing hands with cap rates below 4 percent. While cap rates may not record any additional significant compression in the coming months, demand is high enough that rates are not expected to inch higher either.

Employment Forecast



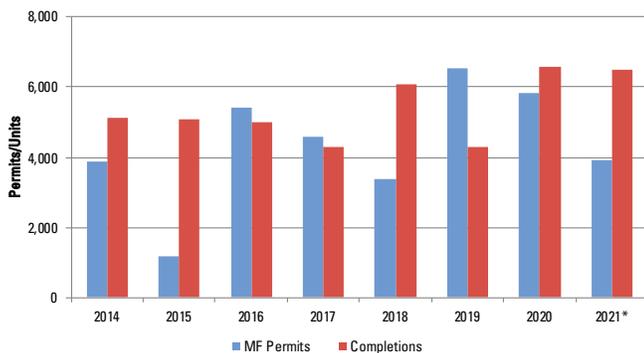
* Year End Forecast
Sources: NorthMarq, Bureau of Labor Statistics

Rent Forecast



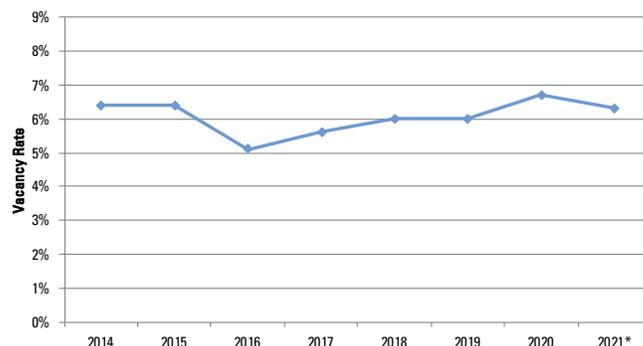
* Year End Forecast
Sources: NorthMarq, Reis

Construction & Permitting Forecast



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

Vacancy Forecast



* Year End Forecast
Sources: NorthMarq, Reis

About NorthMarq

As a capital markets leader, NorthMarq offers commercial real estate investors access to experts in debt, equity, investment sales, and loan servicing to protect and add value to their assets. For capital sources, we offer partnership and financial acumen that support long- and short-term investment goals. Our culture of integrity and innovation is evident in our 60-year history, annual transaction volume of more than \$16 billion, loan servicing portfolio of more than \$65 billion and the multi-year tenure of our nearly 600 people.

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