Market Insights

San Antonio Multifamily 2Q 2022

Northmarq

Construction Activity

13,044

Units under construction

1,345

Units delivered (YTD)

Market Fundamentals

4.7%

Vacancy

-180bps | Year over year change

$1,135

Asking Rent

+11.3% | Year over year change

Transaction Activity*

$129,600

Median sales price per unit (YTD)

* In transactions where pricing is available

Continued Population Expansion Supporting Property Operations

Highlights

- The San Antonio multifamily market continued to strengthen during the second quarter as vacancies tightened, and rents climbed higher. The pace of new development should accelerate in the second half of the year.
- Apartment vacancy improved by 40 basis points in the second quarter; this marked the fifth consecutive quarter where the rate fell. Year over year, vacancy has tightened by 180 basis points, falling to 4.7 percent as of the second quarter.
- Rents in San Antonio continued to trend higher in the first half of 2022, expanding by 3 percent to $1,135 per month. In the past 12 months, asking rents have surged by 11.3 percent.
- Activity in the local investment market has accelerated. Year to date, the number of properties that have changed hands increased by nearly 50 percent from the same period in 2021. In transactions where pricing is available, the median sales price was $129,600 per unit. Cap rates averaged 4 percent in the second quarter.

San Antonio Multifamily Market Overview

The San Antonio multifamily market recorded positive performance in nearly all major metrics during the first half of 2022. Rents continue to trend higher, and vacancies have been declining for more than a year straight. The tightening vacancy conditions have been fueled by continued population growth. During the second quarter, the U.S. Census Bureau released data showing that the city of San Antonio had recorded population growth of more than 13,600 residents in the 12-month period ending in mid-2021, the highest increase of any city in the country. The city has routinely attracted new residents and companies from more expensive markets within Texas and throughout the Southwest. This has created a supply shortfall, and developers are moving projects into the development pipeline. Deliveries to this point have been modest, but construction is scheduled to accelerate in the coming quarters.

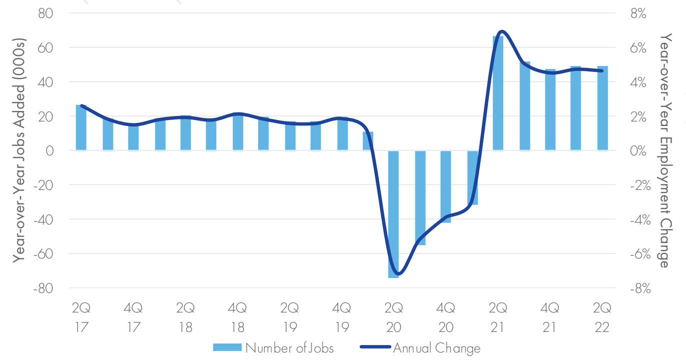
The investment market is reflecting the strong operational performance that has been recorded during the past several quarters. Investors are responding to vacancy rates that are at 20-year lows and rents that are posting double-digit annual growth rates. Transaction levels are up nearly 50 percent from the pace established during the first half of last year. When compared to deals that closed in 2021, properties that changed hands in the first half of 2022 were on average smaller in size and older in age. Despite the changing mix of assets that have traded, prices have closely tracked levels from 2021. The median sales price in transactions where pricing information was made available was approximately $129,600 per unit. As the investment climate has become increasingly competitive, cap rates have remained low. During the second quarter, cap rates averaged 4 percent.

Employment

- Employers in San Antonio continue to expand payrolls at a healthy rate in 2022. In the second quarter alone, more than 12,000 new jobs were created. Year over year, total employment in the metro area has grown by 4.7 percent with the addition of 49,300 jobs.
- Growth in the education and health services sector continues to provide fuel for the local employment market. Approximately 5,000 new workers were added to this sector during the past 12 months, accounting for more than 10 percent of the job growth in San Antonio in the past year.
- Earlier this year, DeLorean Motor Company announced plans to establish the company's headquarters in San Antonio. The company has been operating in Humble since 1995 servicing existing cars, but the San Antonio facility will serve as a headquarters and manufacturing hub for the production of its new electric vehicle. The move should result in 450 new jobs in executive, management, and engineering roles.
- **Forecast:** Employers in San Antonio are forecast to expand the labor market at a healthy pace in 2022. Approximately 31,500 jobs are expected to be added this year, a 2.9 percent pace of growth. From 2014 to 2019, job growth averaged 2.6 percent annually.

> In the second quarter, more than 12,000 new jobs were created.

Employment Overview



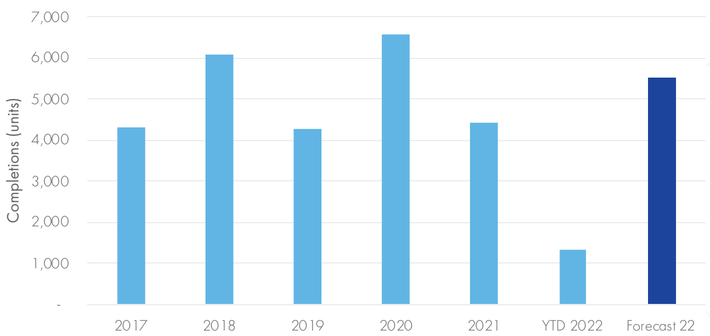
Sources: Northmarq, Bureau of Labor Statistics

Development and Permitting

> Projects totaling more than 13,000 units are currently under construction.

- Apartment deliveries in San Antonio got off to a slightly slower start in 2022 when compared to last year, but supply growth is expected to accelerate in the coming quarters. Roughly 1,350 units came online during the first half of the year, down from around 2,200 units that were delivered during the same period in 2021.
- The number of ongoing construction projects in the San Antonio area continued to rise during the second quarter. Projects totaling more than 13,000 units are currently under construction.
- Additional projects are expected to be delivered to the market over the next few years. Multifamily permitting activity accelerated in the first half, with developers pulling permits for nearly 4,500 units, a 43 percent increase from the first half of 2021.
- **Forecast:** The pace of new development is forecast to accelerate in the coming months, a trend that will likely continue through the next few years. Projects totaling approximately 5,500 units are slated to be delivered in 2022, after more than 4,400 units were delivered last year.

Development Trends



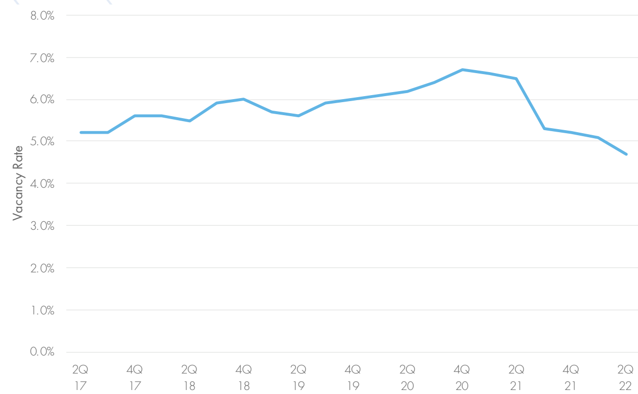
Sources: Northmarq, Apartment Trends, Reis

Vacancy

- Vacancies continued to tighten in San Antonio in the second quarter, falling 40 basis points to 4.7 percent. This marked the fifth consecutive quarter of improvement.
- Year over year, vacancy in San Antonio improved by 180 basis points. The market's largest submarket, Far North Central, posted some of the steepest declines in vacancy. The vacancy rate in the submarket dropped 230 basis points in the past 12 months to 4.9 percent.
- The improving vacancy rate is largely due to fairly strong absorption levels. Nearly 900 units were absorbed in the second quarter, bringing positive net absorption to more than 1,300 units year to date. In the first half of last year, net absorption totaled around 1,750 units.
- **Forecast:** With multifamily development activity accelerating, the vacancy rate will likely push higher in the coming quarters. The rate is forecast to rise 30 basis points in the second half, ending the year at 5 percent. This would mark a modest decline from year-end 2021 levels.

> Year over year, vacancy in San Antonio improved by 180 basis points.

Vacancy Trends

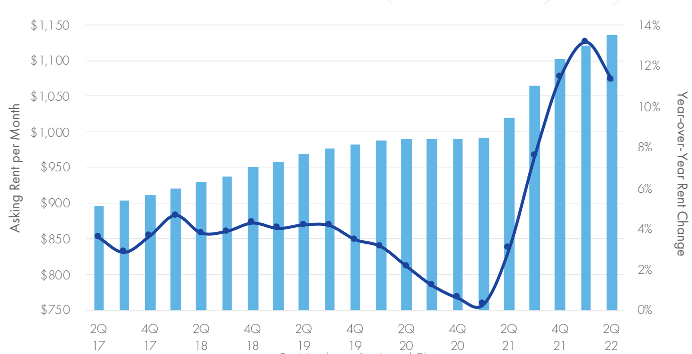


Sources: NorthMarq, Reis

Rents

> Year over year, rents have spiked by 11.3 percent.

Rent Trends



Sources: Northmarq, Reis

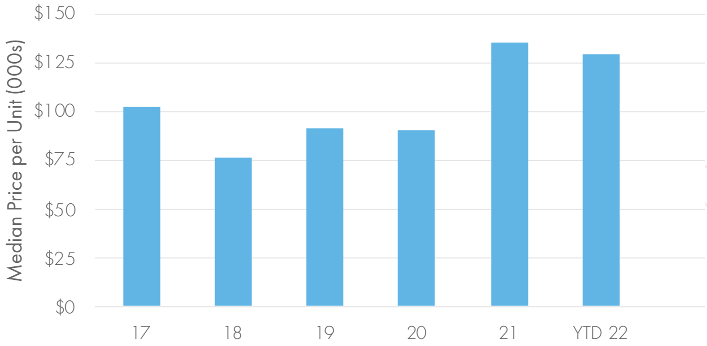
- Following double-digit increases last year, asking rents continued to trend higher throughout the first half of 2022. Asking rents in San Antonio advanced 1.3 percent in the second quarter, reaching $1,135 per month, building on a gain of 1.7 percent in the first three months of the year.
- Year over year, asking rents in San Antonio have spiked by 11.3 percent. This marks the third consecutive quarter where annual rent growth has topped 10 percent, after gains had averaged 3.5 percent in recent years.
- Some of the highest rents and fastest increases in the region are being recorded in the Far North Central area. Rents in this submarket reached $1,236 per month in the second quarter, up 13.3 percent from one year ago.
- **Forecast:** Rent growth in 2022 is expected to outpace the market's long-term average but will fall short of the steep gains recorded in recent periods. Asking rents in San Antonio are forecast to advance 4.5 percent this year, topping $1,150 per month.

Multifamily Sales

- The momentum gained in the multifamily investment market in the past year carried over into 2022. Sales activity through the first two quarters of this year increased by nearly 50 percent from levels recorded during the same period one year ago.
- Per-unit prices spiked in 2021 but have inched lower year to date. In transactions where pricing information has been available, the median price to this point in 2022 was approximately $129,600 per unit. Pricing was generally below $100,000 per unit from 2016 through 2020.
- Cap rates averaged approximately 4 percent during the first half, similar to the range where most properties were trading at the end of 2021.

> The median price was approximately $129,600 per unit.

Investment Trends



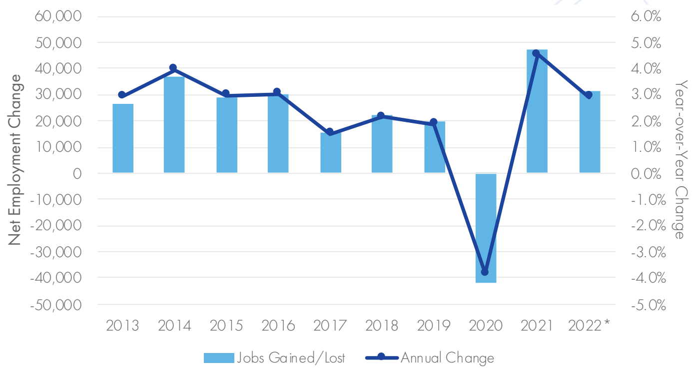
Sources: NorthMarq, CoStar

Looking Ahead

This year is expected to be a strong one for the San Antonio multifamily market, although an accelerating pace of supply growth will cause improvements to level off, following a period of rapid growth during the past several quarters. Renter demand is expected to remain healthy, supported by continued population growth and gains in the local labor market. Total employment is on track to expand at a sustainable pace, and the rising costs of housing in neighboring markets should continue to support in-migration to San Antonio. These in-place demand drivers will fuel supply growth, and deliveries are on track to be elevated for the next few years. The new inventory growth should bring the market closer to equilibrium with vacancy likely to end the year at about 5 percent.

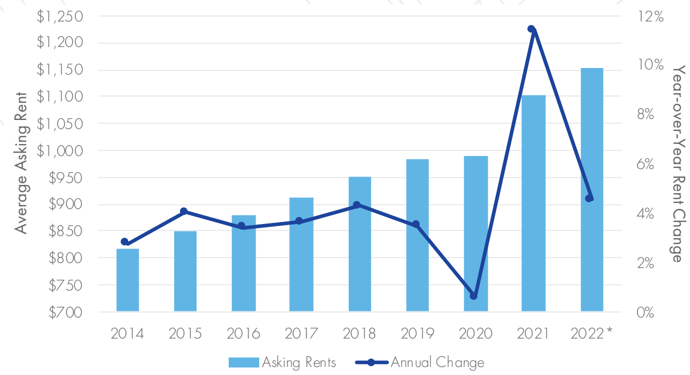
The rapid acceleration in the local multifamily investment market may prove difficult to sustain in the second half of this year, particularly with the cost of capital trending higher. Historically, the bulk of the San Antonio market's investment activity has consisted of 1970s- and 1980s-vintage units. These buildings are expected to continue to attract investor attention, particularly in properties where rents have not kept up with the growth in the market. Any increases in activity will likely be recorded in newer assets as projects come online. This trend began to emerge at the end of last year and has continued into 2022. With newer properties likely to account for a larger share of transactions, the pace of lease-up and the level of concessions offered will be tracked closely by investors.

Employment Forecast



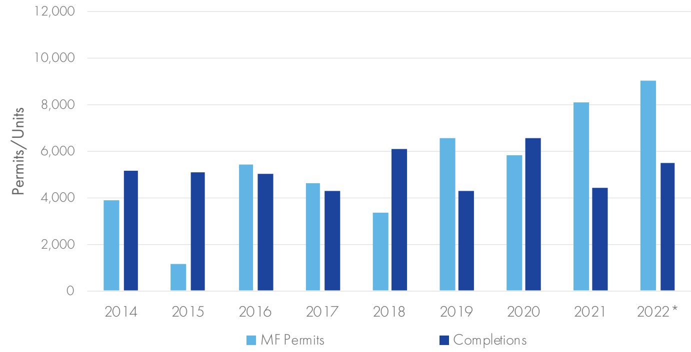
* Year End Forecast
Sources: Northmarq, Bureau of Labor Statistics

Rent Forecast



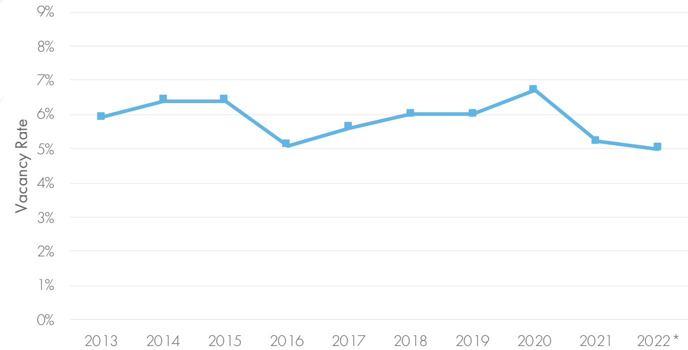
* Year End Forecast
Sources: Northmarq, Reis

Construction & Permitting Forecast



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

Vacancy Forecast



* Year End Forecast
Sources: Northmarq, Reis

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