

**YARDI**<sup>®</sup> Matrix

# San Antonio's Investor Appeal

Multifamily Summer Report 2016

**New Buyers Arrive as Sales Volume Hits Peak**

**Rent Growth Slows Despite Strong Demand**

**Developers Shift Focus to Central, South Submarkets**

## Market Analysis

Summer 2016

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## Supply, Investor Demand on the Rise

San Antonio's multifamily market continues to be healthy, with the metro adding jobs and households at an above-trend rate. The metro's central location within the U.S. and the skill set of the local workforce are attracting investors interested in secondary market expansion.

Though softening from recent years, the metro added 25,400 jobs, a 2.7% increase, through April 2016, with further growth expected to be driven by non-energy-related sectors including health care, leisure and hospitality, and trade and transportation. Examples include Microsoft's eight-building data center, started in early 2016 and expected to add 900 construction jobs, while General Motors Financial Co. is creating another 700 positions.

Apartment construction slowed slightly in 2015 after marking a cyclical high in 2014, but the development pipeline is robust, with 22,000 units, 9,900 of which are under construction. Last year, San Antonio added 4,200 units to total stock, and more than 7,000 are scheduled to come online in 2016. Developers are focusing on projects in Central and South San Antonio, after having focused on the northern part of the city. The metro is becoming increasingly popular with investors, and transaction volume reached a record high of \$1 billion in 2015. We expect that strong renter demand will be balanced by development and affordability issues, leading to a moderate 3.3% rise in rents in 2016.

### Recent San Antonio Transactions

Hidden Lake



City: San Antonio  
Buyer: Milestone Group  
Purchase Price: \$51 MM  
Price per Unit: \$134,211

The Brackenridge at MidTown



City: San Antonio  
Buyer: Pure Multi  
Purchase Price: \$51 MM  
Price per Unit: \$180,851

Sonterra Blue



City: San Antonio  
Buyer: Draper & Kramer  
Purchase Price: \$47 MM  
Price per Unit: \$136,452

Walker Ranch

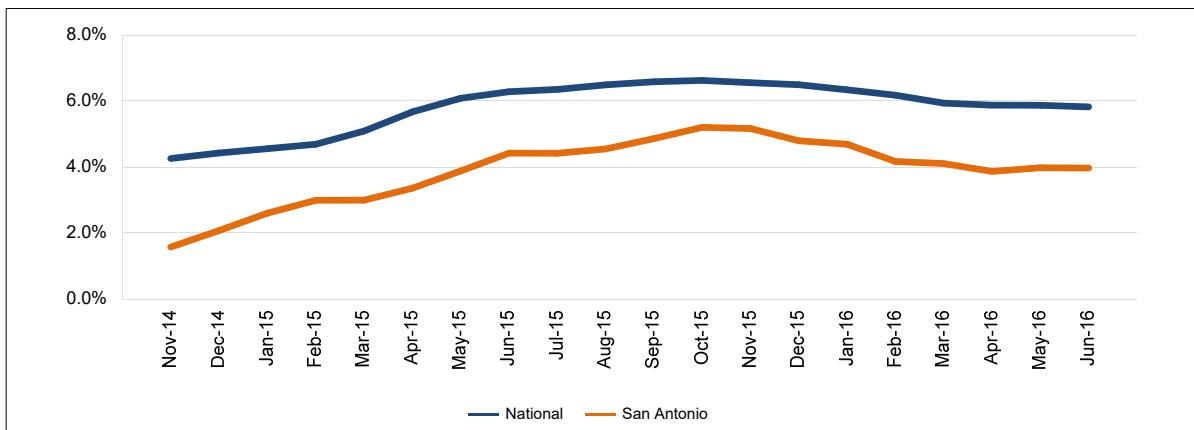


City: San Antonio  
Buyer: Milestone Group  
Purchase Price: \$44 MM  
Price per Unit: \$135,385

## Rent Trends

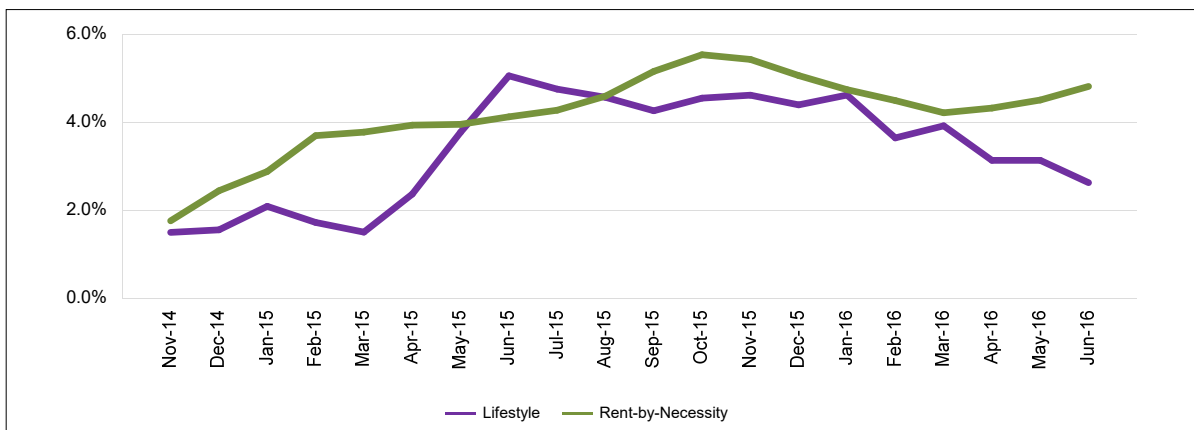
- Rents in San Antonio advanced 4.0% year-over-year through June, lagging some of the hot Texas markets and behind the 6.0% national average. The average rent in San Antonio is \$892, well below the U.S. average of \$1,213. Although operations have softened slightly, renter demand continues to be robust.
- Rent growth was led by the working-class Renter-by Necessity segment, which rose 4.8% to \$902, while Lifestyle rents increased 2.6% to \$1,088. Rent growth was most significant among properties built before 1990, thanks to healthy employment gains in the area's blue-collar workforce that will continue to support advancing operations in older-vintage assets.
- Submarkets with the highest rent increases include the Far West Side (10.8%), Fort Sam Houston (9.3%), Lackland Terrace (8.8%), Seguin (6.5%) and University of Texas at San Antonio (5.3%). Rent growth has been broad; only six submarkets produced growth of less than 1%.
- We expect that employment and population growth will remain strong and create demand that will help absorb the increasing amount of new supply that is in the pipeline. Still, with new jobs focused on lower-income segments, concerns about affordability and occupancy lead us to forecast rent gains of 3.3% in 2016.

### San Antonio vs. National Rent Growth (Sequential 3 Month, Year-Over-Year)



Source: YardiMatrix

### San Antonio Rent Growth by Asset Class (Sequential 3 Month, Year-Over-Year)

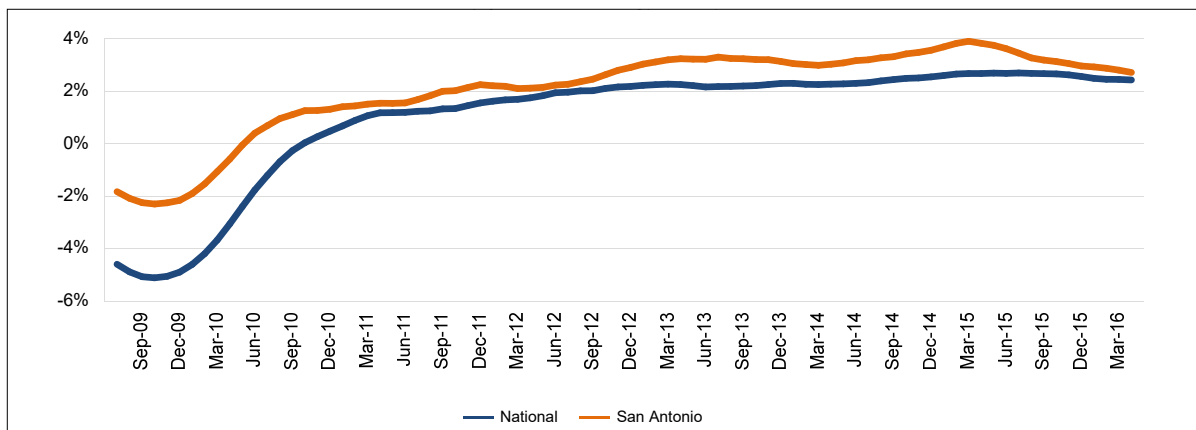


Source: YardiMatrix

## Economic Snapshot

- San Antonio added 25,400 jobs in the 12 months ending in May. The gains were relatively robust, topping the 2.4% national average, but the 2.7% year-over-year increase was the lowest since 2012.
- The education and health services sector, a prominent driver of the local economy, led growth with 7,100 new jobs. Over the past decade, the health care and bioscience industry added more than 41,500 net new jobs, an increase of 40%, according to a health care and bioscience economic impact study. The sector employs nearly one of every six workers in San Antonio.
- The trade, transportation and utilities sector saw significant growth, adding 6,400 jobs. Shipping firms are taking advantage of San Antonio's location between Los Angeles and Miami, Mexico and the U.S. The professional and business services sector added only 2,400 jobs, but corporate expansions in San Antonio will likely continue. GM Financial began construction on a \$24.5 million servicing center in San Antonio, which will add approximately 700 jobs. The federal Fixing America's Surface Transportation Act will pump billions of dollars into transportation projects.
- Even though the mining and logging sector lost jobs in the past 12 months as oil prices plummeted, the positions have largely been absorbed by other industries. For example, Microsoft started construction on an eight-building data center that will add 900 construction jobs.

### San Antonio vs. National Employment Growth (Year-Over-Year)



Sources: YardiMatrix, Bureau of Labor Statistics (not seasonally adjusted)

### San Antonio Employment Growth by Sector (Year-Over-Year)

Code	Employment Sector	Current Employment		Year Change	
		(000)	% Share	Employment	%
65	Education and Health Services	156	15.6%	7,100	4.8%
40	Trade, Transportation and Utilities	174	17.4%	6,400	3.8%
70	Leisure and Hospitality	126	12.6%	3,600	2.9%
90	Government	171	17.1%	3,500	2.1%
80	Other Services	39	3.9%	3,100	8.7%
60	Professional and Business Services	128	12.8%	2,400	1.9%
55	Financial Activities	84	8.4%	600	0.7%
15	Mining, Logging and Construction	58	5.8%	-200	-0.3%
50	Information	21	2.1%	-400	-1.9%
30	Manufacturing	46	4.6%	-700	-1.5%

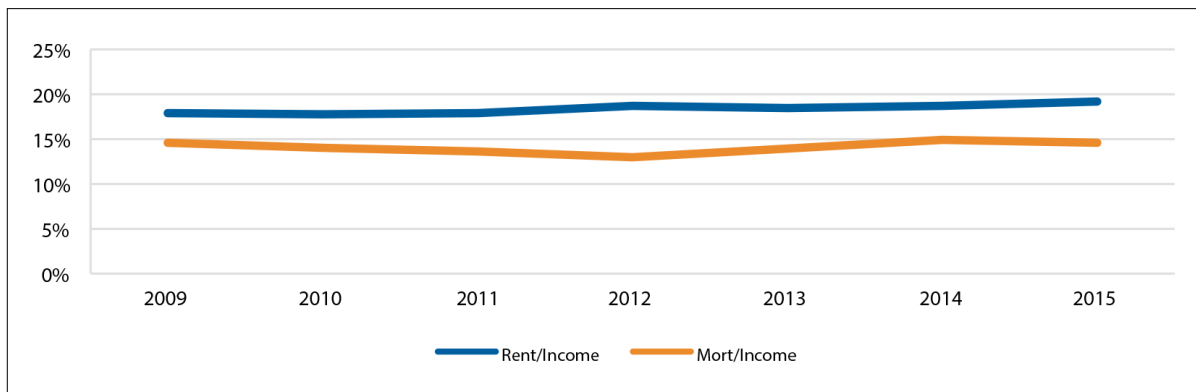
Sources: YardiMatrix, Bureau of Labor Statistics

## Demographics

### Affordability

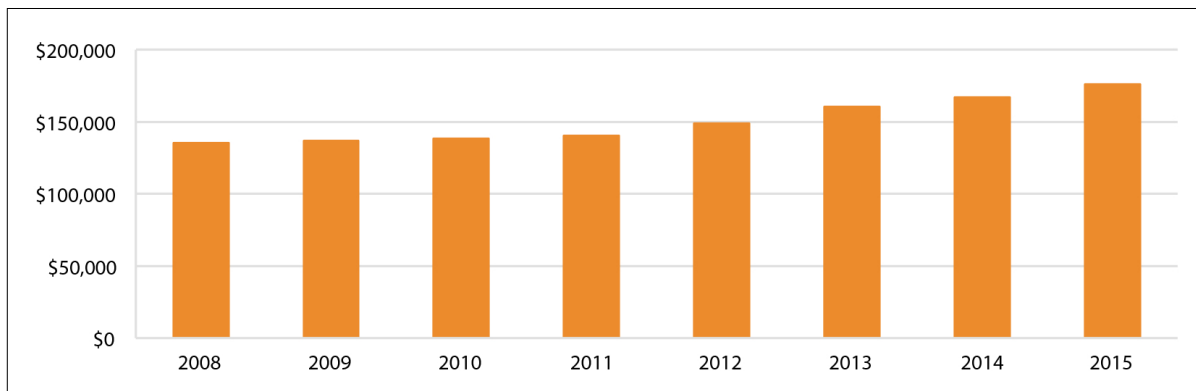
- San Antonio continues to be relatively affordable. Even though home prices rose in the city in the past few years, the average mortgage accounts for only 15% of the area's median income of \$53,590. The median home price climbed to \$176,017 in 2015, a consistent 30% increase since 2008.
- Renting is less affordable than owning across San Antonio, where the average rent accounts for 19% of the area's median income, but rates differ significantly depending on the submarket. However, overall San Antonio is relatively inexpensive compared to most major U.S. metros.

### San Antonio Rent vs. Own Affordability as a Percentage of Income



Sources: YardiMatrix, Moody's Analytics

### San Antonio Median Home Price



Source: Moody's Analytics

### Population

- The population of the second-largest Texas city has been expanding steadily.
- In 2015, the metro added nearly 31,300 residents, a 2.2% year-over-year increase and well ahead of the 0.8% national rate.

### San Antonio vs. National Population

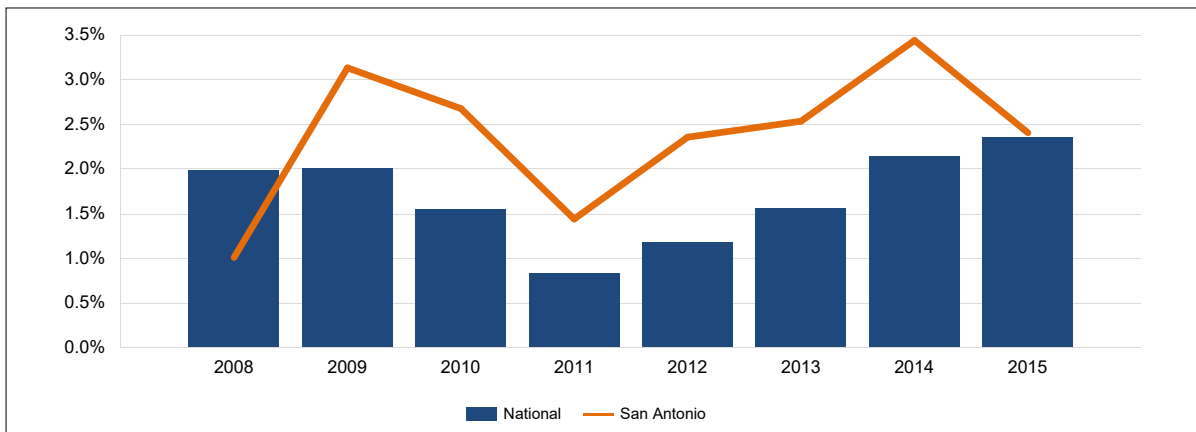
	2010	2011	2012	2013	2014	2015
National	309,346,863	311,718,857	314,102,623	316,427,395	318,907,401	321,418,820
San Antonio-New Braunfels, TX Metro	2,153,215	2,194,579	2,238,578	2,283,485	2,332,790	2,384,075

Sources: U.S. Census, Moody's Analytics

## Supply

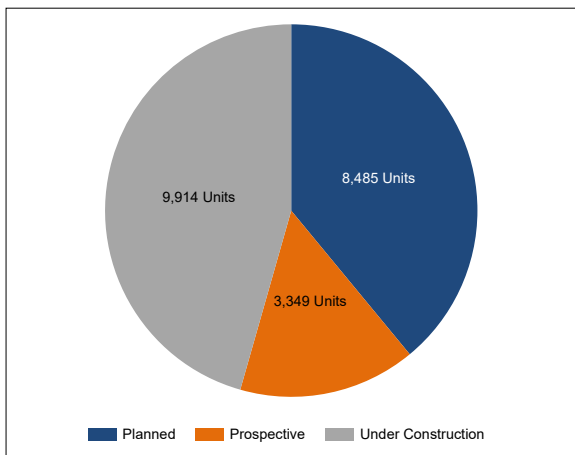
- After achieving a cyclical high number of deliveries in 2014, construction slightly slowed in 2015, when about 4,200 units came online. This represents a 2.4% expansion of the multifamily stock, in line with the national growth rate of 2.3%.
- The development pipeline encompasses around 22,000 units, more than 9,900 of which are currently under construction, so new supply is likely to be strong for another few years. Occupancy will likely remain around 95.0%, thanks to a rise in the city's renter population, a healthy job market and rising wages.
- Construction in recent years has been concentrated in the northern part of the metro, but developers have started ramping up projects in Central and South San Antonio. The bulk of development is taking place in Southtown/King William (2,072 units), Helotes (950 units), Leon Valley – West (879 units), the Southeast Side (874 units) and Shavano Park (838 units). Some of the largest projects include the 356-unit Landmark Grandview in Shavano Park, the 349-unit Agave and the 336-unit The Flats at Big Tex in Southtown/King William, as well as the 320-unit Lookout Springs and 312-unit Agora Palms in the Far North Side submarket.

### San Antonio vs. National Completions as a Percentage of Total Stock (as of June 2016)



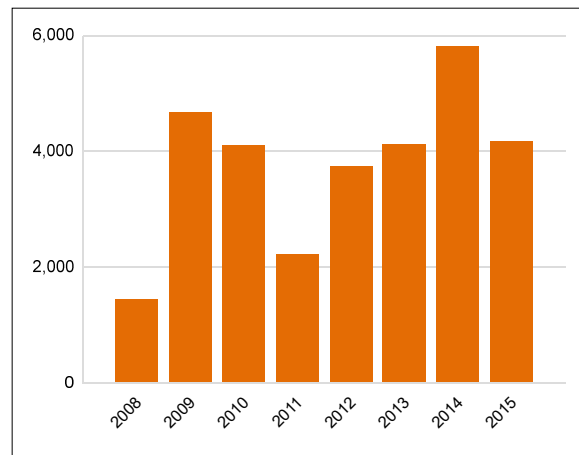
Source: YardiMatrix

### Development Pipeline (as of June 2016)



Source: YardiMatrix

### San Antonio Completions (as of June 2016)

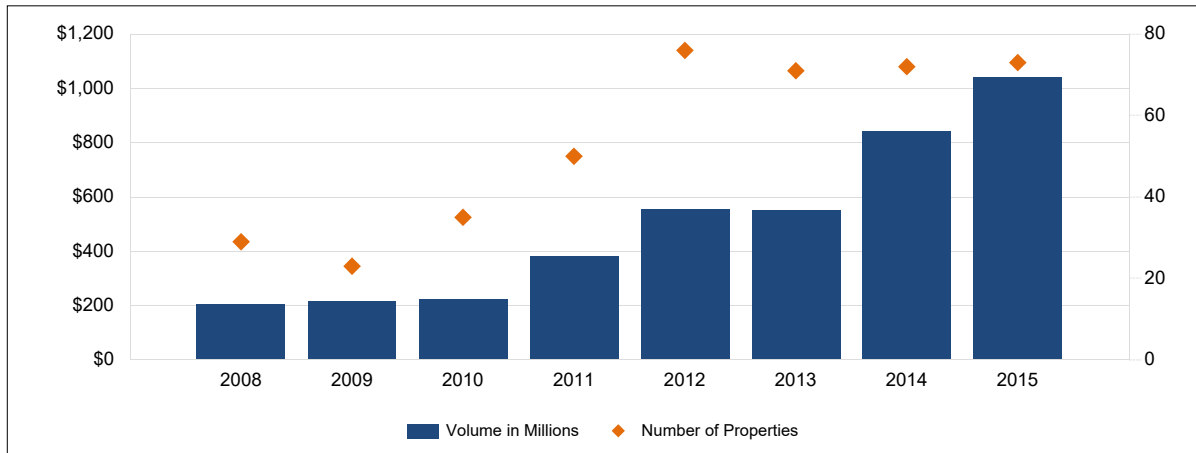


Source: YardiMatrix

## Transactions

- More than \$1 billion worth of properties changed hands in the metro in 2015, reaching a peak in the current cycle. This almost doubles the volume of transactions recorded in 2013.
- Growth in volume is a sign that investors are moving into secondary markets and looking for increased yield. What's more, as San Antonio grows, the investor base is expanding to include more institutions and foreign buyers. The average price per unit climbed to \$94,453 in 2015, although it trailed the \$117,000 national average.
- Submarkets with the most activity include the Northwest Side, the Far North Side, Hill Country Village, Beckmann and Terrell Hills. Milestone Group's acquisition of the Hidden Lake property on the Northwest Side and Pure Multi's purchase of The Brackenridge at MidTown, each purchased for \$51 million, ranked as the largest multifamily transactions in 2015.

### San Antonio Sales Volume and Number of Properties Sold (as of June 2016)



Source: YardiMatrix

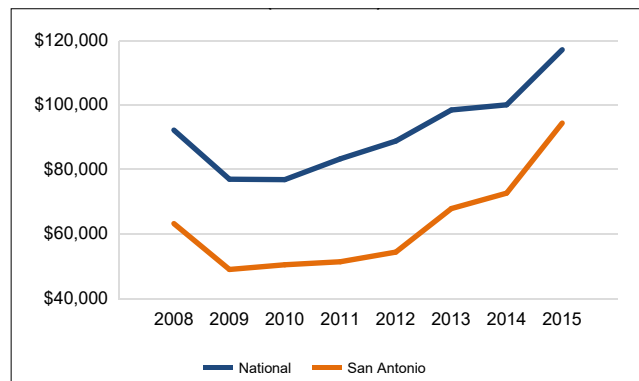
### Top Submarkets for Transaction Volume<sup>1</sup>

Submarket	Volume (\$MM)
Northwest Side	128
Far North Side	115
Hill Country Village	112
Beckmann	109
Terrell Hills	99
USAA Area	31
City South	28
Shavano Park	23

Source: YardiMatrix

<sup>1</sup> From July 2015 to June 2016

### San Antonio vs. National Sales Price per Unit



Source: YardiMatrix

# Read All About It!



Greysteel Arranges Refi  
For Amigos Del Sol



Westfort Urban Villas Celebrates  
Opening in San Antonio



Frost Reveals Milestone  
San Antonio Tower

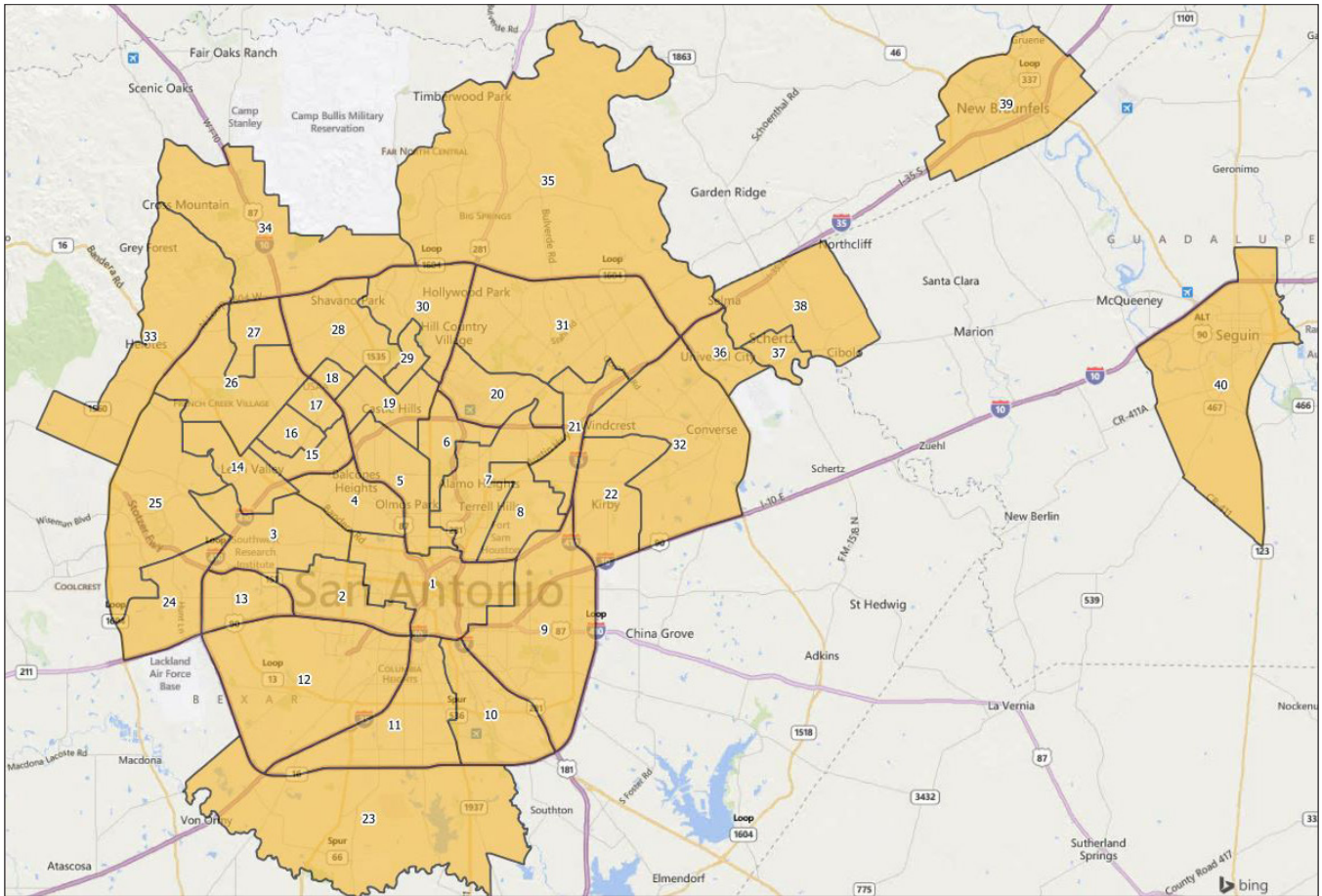


Northmarq Capital Arranges  
\$54M Refi of San Antonio  
Office Center

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## San Antonio Submarket Map



Area #	Submarket
2	West Side
3	Southwest Research Institute
4	Balcones Heights
5	West Alamo Heights
6	Alamo Heights - Central
7	Terrell Hills
8	Fort Sam Houston
9	East Side
10	Southeast Side
11	Terrell Wells
12	Southside/Columbia Heights
13	Lackland Terrace
14	Leon Valley - East
15	Oak Hills Country Club
16	Oakland Estates
17	USAA Area
18	Robards
19	Castle Hills
20	North Loop

Area #	Submarket
21	Longhorn
22	Windcrest
23	City South
24	Far West Side
25	Leon Valley - West
26	Northwest Side
27	University of Texas at San Antonio
28	Shavano Park
29	Hill Country Village
30	Far North Central
31	Hollywood Park/Welmore
32	Northeast Side
33	Helotes
34	Beckmann
35	Far North Side
36	Universal City
37	Schertz
38	Selma
39	New Braunfels

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## Definitions

**Lifestyle households (renters by choice)** have wealth sufficient to own but have chosen to rent. Discretionary households, most typically a retired couple or single professional, have chosen the flexibility associated with renting over the obligations of ownership.

**Renter by Necessity households** span a range. In descending order, household types can be:

- *A young-professional, double-income-no-kids household* with substantial income but without wealth needed to acquire a home or condominium;
- *Students*, who also may span a range of income capability, extending from affluent to barely getting by;
- *Lower-middle-income (“gray collar”) households*, composed of office workers, policemen, firemen, technical workers, teachers, etc.;
- *Blue-collar households*, which may barely meet rent demands each month and likely pay a disproportionate share of their income toward rent;
- *Subsidized households*, which pay a percentage of household income in rent, with the balance of rent paid through a governmental agency subsidy. Subsidized households, while typically low income, may extend to middle-income households in some high-cost markets, such as New York City;
- *Military households*, subject to frequency of relocation.

These differences can weigh heavily in determining a property’s ability to attract specific renter market segments. The five-star resort serves a very different market than the down-and-outer motel. Apartments are distinguished similarly, but distinctions are often not clearly definitive without investigation. The Yardi® Matrix Context rating eliminates that requirement, designating property market positions as:

Market Position	Improvements Ratings
Discretionary	A+ / A
High Mid-Range	A- / B+
Low Mid-Range	B / B-
Workforce	C+ / C / C- / D

The value in application of the Yardi® Matrix Context rating is that standardized data provides consistency; information is more meaningful because there is less uncertainty. The user can move faster and more efficiently, with more accurate end results.

The Yardi® Matrix Context rating is not intended as a final word concerning a property’s status—either improvements or location. Rather, the result provides reasonable consistency for comparing one property with another through reference to a consistently applied standard.

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