Yardi® Matrix

San Antonio Lures Investors

Multifamily Report Spring 2017

Employment Sustains Demand

Developers Target North, Northwest Areas

Transaction Volume Tops $1B

Market Analysis

Spring 2017

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Job Growth Keeps Demand Strong

San Antonio has a diversified economy and employment is growing in most industries. That has fueled demand for apartments, which is expected to remain high as the metro continues to add jobs and households at a rate above the national trend, and as more residents move south to avoid the growing cost of housing in Austin.

Driving the economy are education and health services; professional and business services; and trade, transportation and utilities. While employment growth cooled off after the drop in energy prices in 2015, the metro continued to add jobs above the national rate. San Antonio's office market saw its best year since 2006, with 1.3 million square feet of positive net absorption in 2016.

Rents increased 1.9% year-over-year through April, while occupancy for stabilized properties reached 92.6% as of March. Apartment construction marked a new high in 2016, with developers delivering 6,600 new units, a 3.7% increase in inventory. Furthermore, there were 8,000 units under construction as of April. Transaction volume surpassed the $1 billion mark for the second consecutive year, with value-add projects seeing the strongest interest from investors pursuing higher yields. Yardi Matrix forecasts rent growth to be on par with the 2016 rate, keeping rent appreciation to 2.0% for 2017.

Recent San Antonio Transactions

327 Sunset

City: San Antonio
Buyer: Lantower Residential
Purchase Price: $55 MM
Price per Unit: $176,282

The View at Encino Commons

City: San Antonio
Buyer: Draper & Kramer
Purchase Price: $46 MM
Price per Unit: $140,481

Mira Loma

City: San Antonio
Buyer: Crescent Real Estate
Purchase Price: $43 MM
Price per Unit: $112,698

Vineyard Springs

City: San Antonio
Buyer: Ilan Investments
Purchase Price: $38 MM
Price per Unit: $104,637

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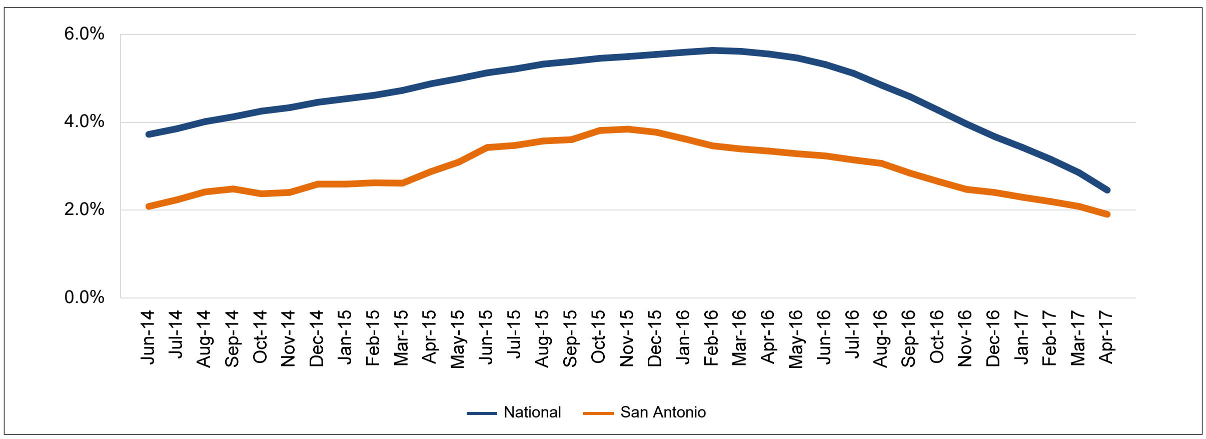
On the cover: Photo by Aneese/iStockphoto.com

Rent Trends

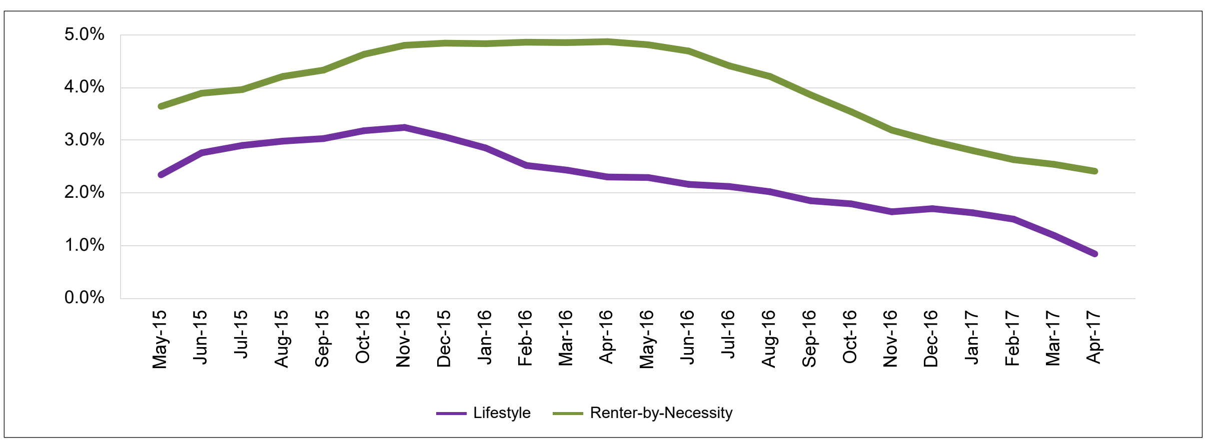
- Rents in San Antonio are growing modestly, though decelerating, as in most U.S. metros. The average rent rose 1.9% year-over-year through April, roughly in line with the 2.0% national rate.
- Rent growth was led by the working-class Renter-by-Necessity segment, which increased 2.4% to $825, while Lifestyle rents increased 0.8% to $1,167. Demand remains elevated due to solid employment growth and the large stream of in-migration, which provides a steady flow of renters. Household formation is growing at a healthy pace, triggering demand for apartments.
- All but five submarkets in the metro saw rent gains during the last 12 months. The north region and the airport area had minor dips in rent, but continue to be among the most expensive submarkets in San Antonio. Submarkets with the highest rent increases included Outlying Guadalupe County (10.3% rent growth), the West Side (10.1%), Universal City (7.1%), Lackland Terrace (5.9%) and the Northeast Side (5.4%).
- Although demand for apartments is expected to remain high, supply growth will keep rents in check. Yardi Matrix forecasts rents will rise by 2.0% in 2017.

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)

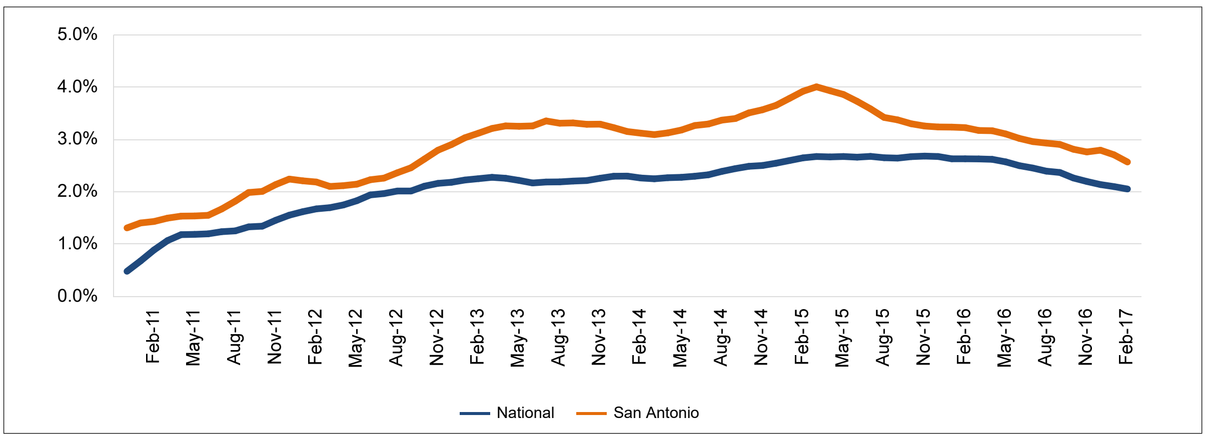


Source: YardiMatrix

Economic Snapshot

- San Antonio added 21,700 jobs in the 12 months ending in February, up 2.6% and above the national rate. The metro has consistently outperformed the nation during the current recovery. The metro's unemployment rate is about 4.0%, among the lowest in the country.
- Job gains were led by education and health services (9,900). Professional and business services (5,600) also did well, with companies such as Accenture Federal Services adding positions. San Antonio's largest segment—trade, transportation and utilities—added 3,200 workers.
- Sectors that have struggled include mining, logging and construction (-400); information (-500); and leisure and hospitality (-1,300). The construction industry will be supported in coming years by the development of the 440,000-square-foot Frost Tower downtown. In addition, the downtown Hemisfair Park Development is projected to create approximately 6,100 jobs following completion in 2020.
- San Antonio's office market finished 2016 on a high note, with 1.3 million square feet of positive net absorption, the highest since 2006. Two new projects were completed in the fourth quarter of 2016, Hardy Oak and Vista Corporate Center. By fall 2017, USAA will move into the nearly 160,000-square-foot Vista Corporate Center.

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)

		Current Employment		Year Change	
Code	Employment Sector	(000)	% Share	Employment	%
65	Education and Health Services	164	16.0%	9,900	6.4%
60	Professional and Business Services	133	13.0%	5,600	4.4%
40	Trade, Transportation and Utilities	178	17.4%	3,200	1.8%
90	Government	174	17.0%	2,300	1.3%
80	Other Services	38	3.7%	1,300	3.6%
30	Manufacturing	49	4.8%	1,200	2.5%
55	Financial Activities	87	8.5%	400	0.5%
15	Mining, Logging and Construction	58	5.7%	(400)	-0.7%
50	Information	21	2.1%	(500)	-2.4%
70	Leisure and Hospitality	123	12.0%	(1,300)	-1.0%

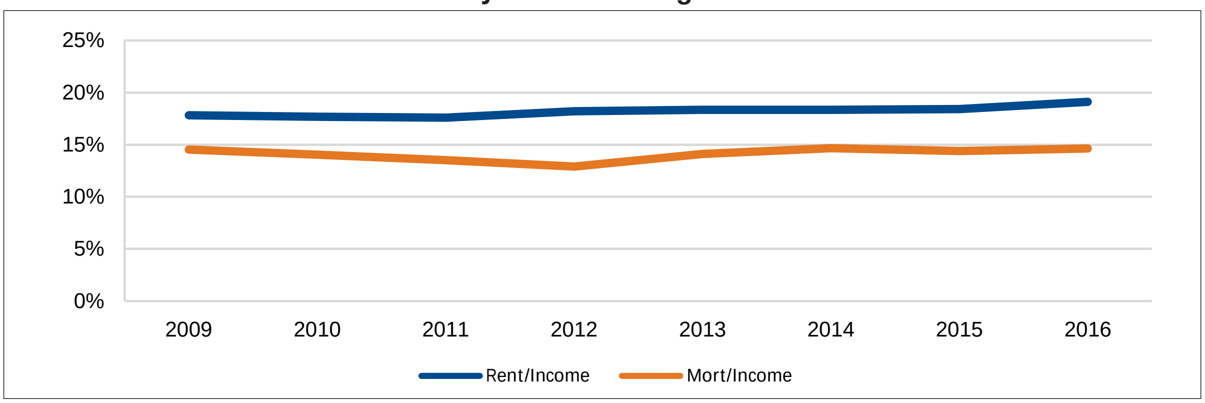
Sources: YardiMatrix, Bureau of Labor Statistics

Demographics

Affordability

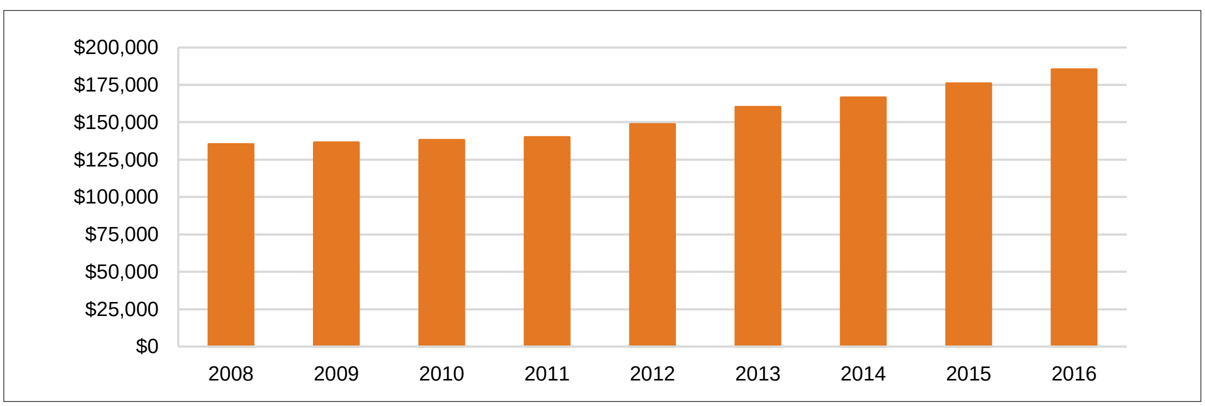
- The median home price in San Antonio has been rising in recent years, supported by employment growth and continued population expansion. The median home value hit $185,252 in 2016, a new cycle high and up 37% from the 2008 trough. Mortgage payments accounted for only 15% of the metro's median income, while the average rent comprised 19%.
- In recent years, San Antonio's history of affordability has come under threat. The city recently received approval for an $850 million bond, which includes a $20 million Neighborhood Improvements pilot program that will fund the development of affordable and mixed-income housing.

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

- San Antonio grew by 47,906 residents in 2016, an increase of 2.0%, well above the national rate of 0.8%.
- Since 2012, more than 192,000 residents have relocated to San Antonio.

San Antonio vs. National Population

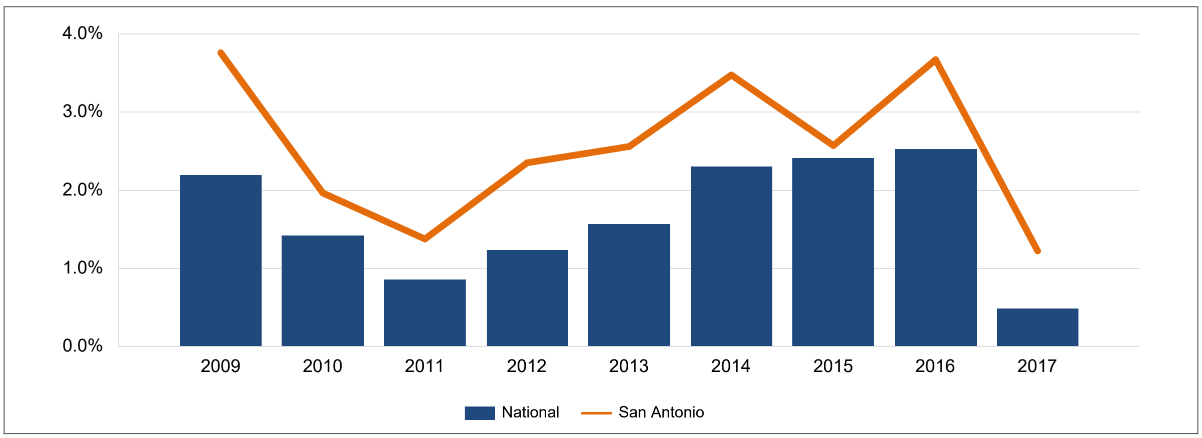
	2012	2013	2014	2015	2016
National	313,998,379	316,204,908	318,563,456	320,896,618	323,127,513
San Antonio Metro	2,237,381	2,281,831	2,331,197	2,381,703	2,429,609

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

Supply

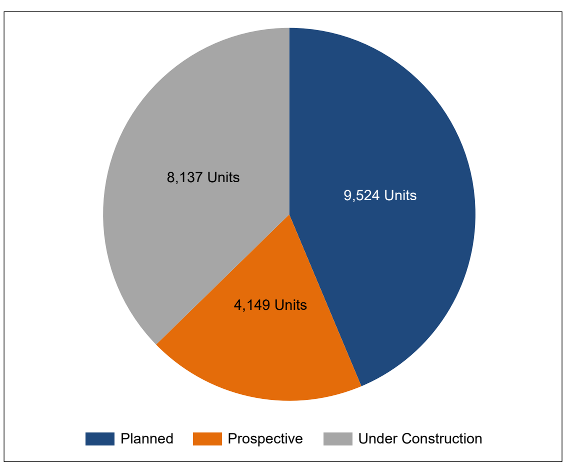
- Development activity is robust in San Antonio. Yardi Matrix expects nearly 8,000 units to come online in 2017, a 4.3% increase in stock. That follows more than 6,600 units delivered in 2016, a new high for the current cycle and a 3.7% inventory increase, well above the national rate of 2.5%. Steady employment and population growth in San Antonio have contributed to the increased demand for housing.
- Supply will remain strong for a few years, with nearly 22,000 units in the development pipeline as of April. With occupancy for stabilized properties at 92.6%, overbuilding could become an issue, especially for high-end Lifestyle units. Demand is strong from Millennials and renters fleeing the high prices they find in Austin.
- Construction activity has been mostly concentrated in the far north and northwestern regions of the metro, but completions will also rise in the core, where roughly 1,500 units were underway as of April. Beckmann is the most active submarket, with 2,557 units under construction, followed by Southtown/King William (1,427 units). The largest developments underway are located in Beckmann: Legacy Alliance Holdings' 427-unit Villas at the Rim and The Lynd Co.'s 380-unit Tribute at the Rim.

San Antonio vs. National Completions as a Percentage of Total Stock (as of April 2017)



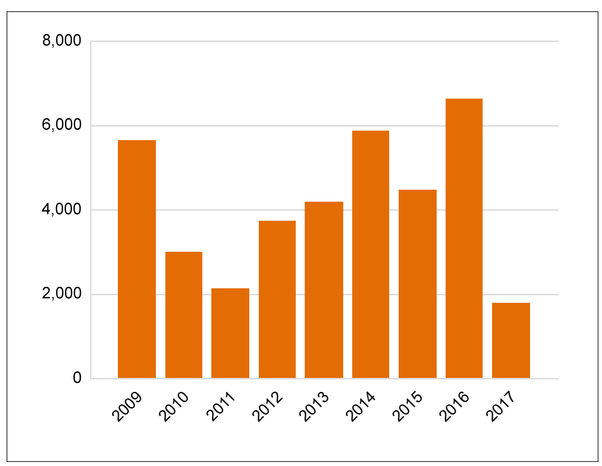
Source: YardiMatrix

Development Pipeline (as of April 2017)



Source: YardiMatrix

San Antonio Completions (as of April 2017)



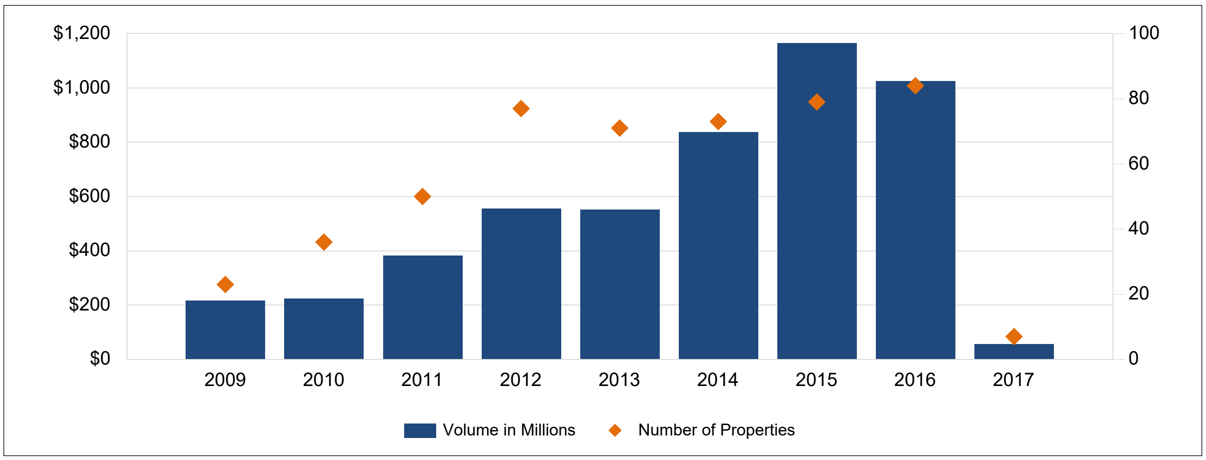
Source: YardiMatrix

Transactions

- Investor appetite in San Antonio remains strong, with roughly $1 billion worth of multifamily assets trading last year, almost on par with the cycle peak recorded in 2015. Although buyer interest is high, there is a limited amount of inventory, as owners are holding on to properties. Value-add projects are seeing the strongest demand, as buyers pursue higher yields.

- The average price per unit in San Antonio was nearly $81,000 at the start of 2017, well below the national average. Buyers are drawn to core assets and properties located in the far north submarkets, with plenty higher-end units surpassing the $100,000 mark. The most active submarkets over the past 12 months were the Far North Side, Beckmann, the USAA area and Alamo Heights–Central.

San Antonio Sales Volume and Number of Properties Sold (as of April 2017)



Source: YardiMatrix

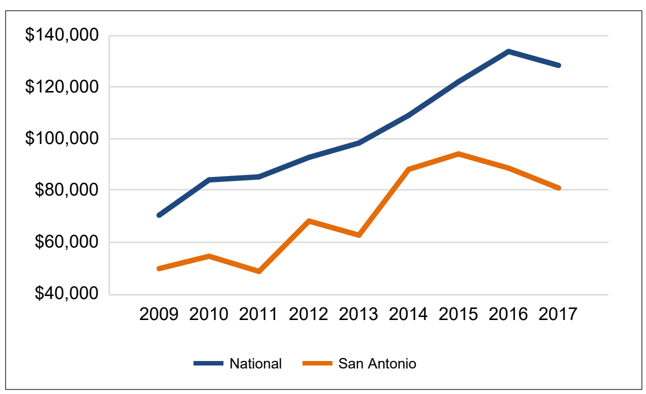
Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
Far North Side	88
Beckmann	73
USAA Area	65
Alamo Heights--Central	64
Northwest Side	46
Terrell Hills	46
North Loop	45
Hill Country Village	44

Source: YardiMatrix

[1] From May 2016 to April 2017

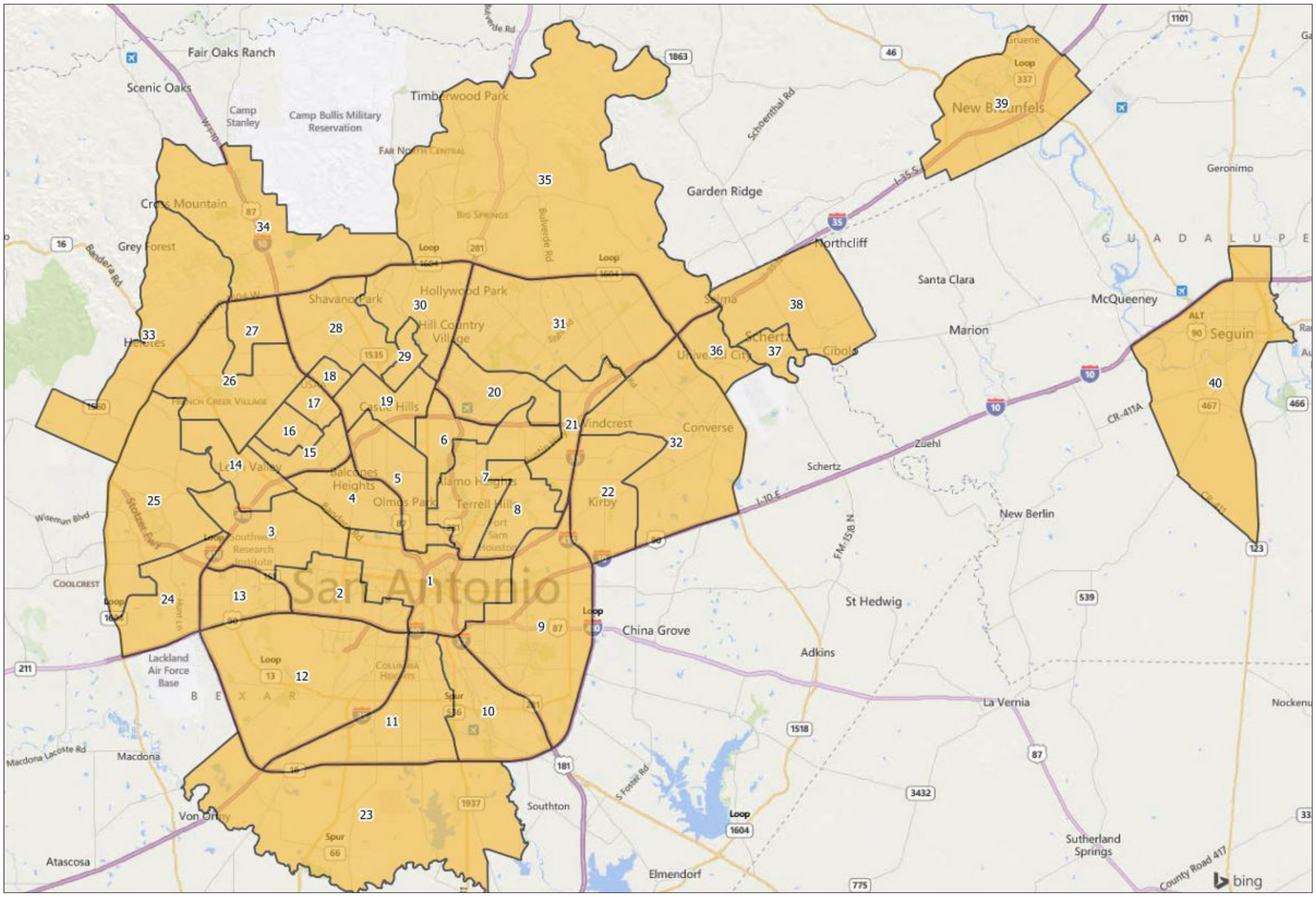
San Antonio vs. National Sales Price per Unit



Source: YardiMatrix

Photo by hstiver/iStockphoto.com

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

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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