MARKET REPORT

Multifamily

San Antonio Metro Area

IPA INSTITUTIONAL PROPERTY ADVISORS

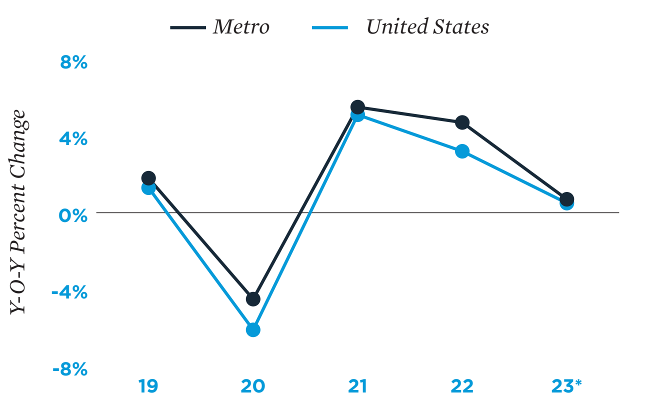
2Q/23

Homeownership Barriers Funnel New Residents to Rentals, Justifying Supply Gains

Vacancy climb begins to moderate from recent surge. Last year noted a significant readjustment in availability as negative net absorption reached a multi-decade high. In 2023, however, the metro's occupied unit count will begin to increase, as a rapidly growing populace and barriers to homeownership backstop multifamily demand. This year alone, the metro will welcome over 20,700 new residents as in-migration accounts for nearly two-thirds of population growth, the second-highest count in Texas. Class A/B properties may see benefits from employment growth and spillover housing demand from a challenging single-family home market. By the end of February 2023, office-using roles accounted for nearly 25 percent of the local employment base. Expected hiring in this sector could boost the median household income as high-skill segments, such as the growing cybersecurity presence, are likely to weather a potential downturn. These long-term positive factors support a bright outlook in San Antonio.

Developers focus on downtown-adjacent areas. Completions will reach a five-year high in 2023. Supply additions will contribute to additional upward pressure on availability; however, many of these units are slated for submarkets with robust demand. One such area is Far North Central San Antonio, where stock grew by over 30 percent from 2018 through 2022. Despite being the metro's fastest-growing submarket by inventory, vacancy here sat 100 basis points below the metro's rate in March 2023. Developers focusing on under-supplied areas will likely aid availability through near-term headwinds.

Employment Trends



* Forecast

Sources: BLS; CoStar Group, Inc.; RealPage, Inc.

Multifamily 2023 Outlook

8,000 JOBS *will be created*

EMPLOYMENT:

The pace of hiring will slow in 2023 as employers face a possible broad-based downturn. Still, total employment will expand by 0.7 percent this year, and one-fourth of the jobs added will be traditionally office-using positions.

6,000 UNITS *will be completed*

CONSTRUCTION:

Inventory will rise by 2.7 percent this year. The Central, North Central and Far Northwest San Antonio submarkets are slated to receive approximately half of the new builds scheduled to come online in 2023.

130 BASIS POINT *increase in vacancy*

VACANCY:

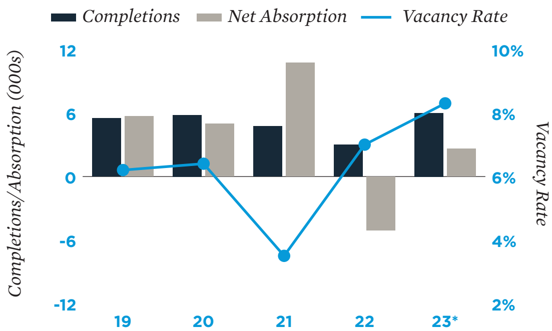
Elevated supply additions this year — particularly in the Central San Antonio submarket — will place upward pressure on availability. By year-end, the rate will be 8.3 percent, its largest mark since 2009 and the highest vacancy among major Texas markets.

0.1% INCREASE *in effective rent*

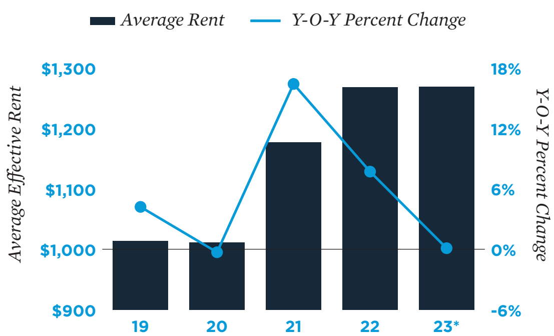
RENT:

The average effective rent will remain relatively flat in 2023, following last year's 7.7 percent gain. By year-end, the monthly rate will be $1,269. This is still a 25 percent increase from the pre-pandemic high noted in 2019.

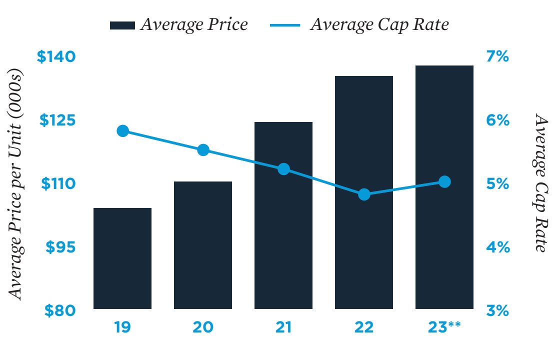
Supply and Demand



Rent Trends



Sales Trends



** Forecast ** Through 1Q*

Sources: CoStar Group, Inc.; Real Capital Analytics; RealPage, Inc.

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Price: $250

1Q 2023 - 12-Month Period

CONSTRUCTION

3,847,162 units completed

- Nearly 18,000 units were under construction in the metro, entering the second quarter with delivery dates extending into 2025, resulting in at least an 8 percent increase in total stock over the next three years.
- In the trailing 12 months ended in March, inventory rose by 1.8 percent. The first quarter of 2023 saw developers complete 1,400 units.

VACANCY

430 basis point increase in vacancy Y-O-Y

- After a new record-low vacancy was recorded in the first three months of 2022, the market began to recalibrate from unsustainable levels, and availability rose to 7.5 percent in March.
- Vacancy increased by the fastest pace since 2000, outdistancing the 350-basis-point annual increase from the previous quarter.

RENT

4.8% increase in the average effective rent Y-O-Y

- The average effective rent slid on a quarterly basis in the beginning of 2023. Year-over-year growth, however, was in-line with historical expectations, bringing the rate to $1,264 per month in March.
- Loosening vacancy and negative net absorption in the last three quarters of 2022 likely contributed to moderating rent growth.

Investment Highlights

- Increasing interest rates impacted deal flow in the second half of 2022. The gap between buyer and seller price expectations has drawn this trend into 2023. As financial conditions stabilize, however, comparably lower entry costs and higher first-year returns may attract in-state buyers from other higher-cost major Texas markets. Out-of-state buyers began to pay more attention to San Antonio amid a strong pandemic performance as well, a trend that could pick back up in the second half of this year.
- Class A assets in areas proximate to downtown, such as in North Central and Northwest San Antonio, were targeted last year as buyers sought assets near the metro's economic heart. Luxury assets in Northwest San Antonio recorded vacancy below the metro's overall rate of 6.9 percent in March.
- Along the Interstate 35 Corridor, buyers have focused on New Braunfels, a city that is becoming increasingly popular for commuters because of its comparably lower cost-of-living. In the last five years, inventory in the New Braunfels-Schertz-Universal City submarket has increased by nearly 20 percent, providing options for investors looking for new builds. The area's vacancy rate was also 30 basis points below the overall metro in March.