San Antonio 1Q 2024 Market Report

MARKET SNAPSHOT

AVERAGE RENT
$1,224 1Q 2024

1Q 2024 RENT CHANGE
-2.9%

OCCUPANCY RATE
90% 1Q 2024

ANNUAL OCCUPANCY CHANGE
-130 BASIS POINTS

TOTAL OPERATING EXPENSE ANNUAL CHANGE
3.2% (FEB 2024)

NET OPERATING INCOME ANNUAL CHANGE
1.9% (FEB 2024)

** Please note that these employment figures have been adjusted for seasonal variations and are based on Moody's Analytics forecast as of January 1, 2024.*

*** Please note that these unemployment rates are estimates that have not been adjusted for seasonal variations, and they are derived from Moody's Analytics forecast as of January 1, 2024.*

KEY TAKEAWAYS

- **Q1 2024 Absorption**: In the first quarter, approximately 900 units were absorbed, with particularly strong demand in Midtown, including the popular Pearl District. This area attracts young professionals seeking luxury apartments, driving robust absorption rates.
- **Concessions Becoming Common**: The influx of new, well-appointed units is poised to continue influencing the market, likely driving rents down and moderating growth for the remainder of the year. To attract tenants, many large apartments built in 2023 are offering concessions such as four to eight weeks of free rent.
- **Growth On the Horizon**: Despite short-term pressures, the long-term outlook for San Antonio's multifamily market is positive. Construction starts have realigned with historical averages, suggesting a stabilization of market dynamics beyond 2024. By 2025, rental growth is expected to stabilize, supported by a solid job market and ongoing demand.

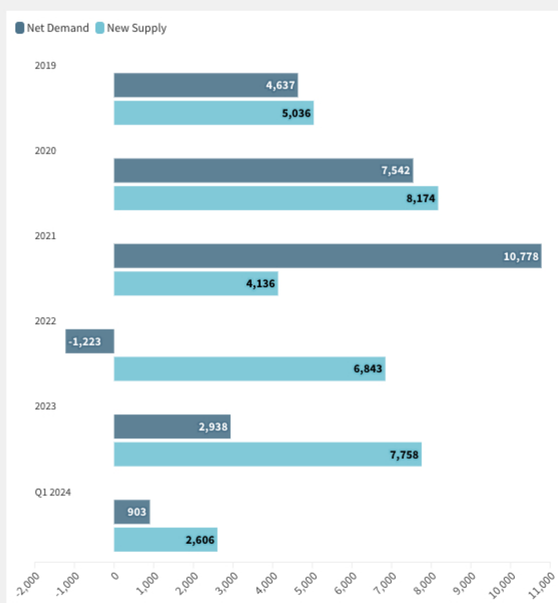
Supply & Demand

1Q 2024

903 Units
QUARTERLY DEMAND

2,606 Units
QUARTERLY COMPLETIONS

Annual Demand Vs Completions



A Flourish chart

Demand Trends

As the San Antonio market transitions out of the typically slower winter leasing period, demand for apartments remains robust across South Central Texas. In the first quarter alone, tenants absorbed approximately 900 units, contributing to a total of 3,500 units over the past year, showcasing four consecutive quarters of positive absorption. This rebound is particularly strong in areas like Midtown, including the popular Pearl District, where demand is driven largely by young professionals seeking luxury apartments. This trend extends to the Downtown area and the Northwest Submarket just outside of Loop 1604, highlighting a continued enthusiasm for multifamily living in these areas of San Antonio.

Construction Trends

San Antonio is increasing its apartment inventory at one of the fastest rates among major U.S. multifamily markets, placing substantial supply-side pressure on existing property owners in South Central Texas. The year 2023 marked the second-highest record for new apartment deliveries, with the trend expected to persist until at least 2025. Despite this surge, developers are finding it increasingly challenging to maintain such a rapid pace of construction. Consequently, construction starts have realigned with more historical averages. Development is particularly vigorous in Midtown, Downtown, and Far West San Antonio, as well as Comal County, which are the primary locations for new luxury apartment constructions.

Occupancy & Rent Trends

A Flourish chart

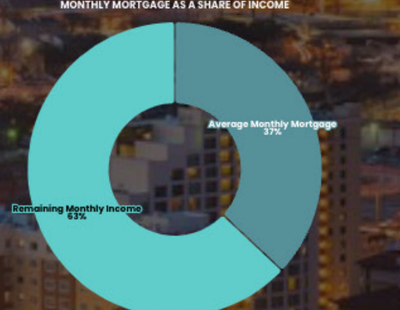
OCCUPANCY TRENDS

San Antonio has seen its inventory increase by 4.0% over the past year, leading to a surplus of supply relative to absorption and a consequent drop in the average occupancy rate by 130 basis points to 90.0%. However, the decline in occupancy is showing signs of stabilizing, with a modest 20-basis point decrease from the previous quarter. Despite the challenges in balancing supply and demand, eight out of seventeen submarkets in San Antonio reported occupancy rates above the market average. Bandera County and Medina County both boasted rates above 95.0%, while North Central San Antonio recorded the lowest rate, despite a 10-point improvement from the last quarter. Notably, Downtown San Antonio exhibited the most significant year-over-year increase in occupancy, even amid moderate rent performance. These trends suggest that San Antonio are prioritizing occupancy over pushing rents higher for the time being.

RENT TRENDS

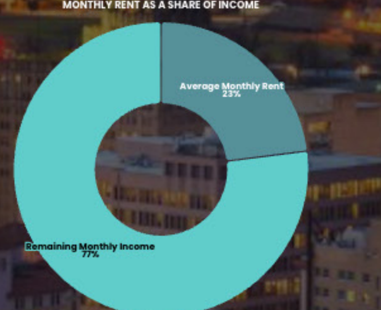
Rent growth in San Antonio has been negative for three consecutive quarters, primarily due to an influx of new supply. Over the past year, effective rents for new leases have declined by 2.9%, with high levels of construction continuing to impact the market. The competition from new, well-appointed units is expected to continue driving rents down and tempering growth prospects for the remainder of the year. As new developments promote their high-end finishes, luxury amenities, and locations in desirable areas like the Pearl District, stabilized multifamily properties are countering with more competitive rents and enhanced concessions to attract renters. Notably, many large apartments constructed in 2023 are offering four to eight weeks of free rent, especially in new developments near the Pearl and in the Rim-La Cantera area of far northwest San Antonio.

MONTHLY MORTGAGE AS A SHARE OF INCOME



A Flourish chart

MONTHLY RENT AS A SHARE OF INCOME



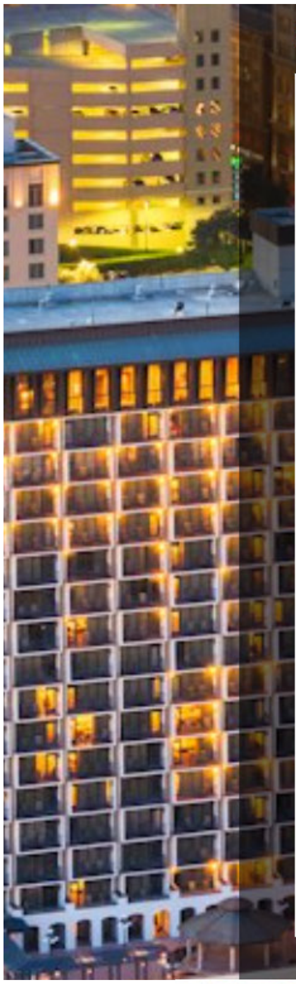
A Flourish chart

$1,977

Average Monthly Mortgage Payment

$1,224

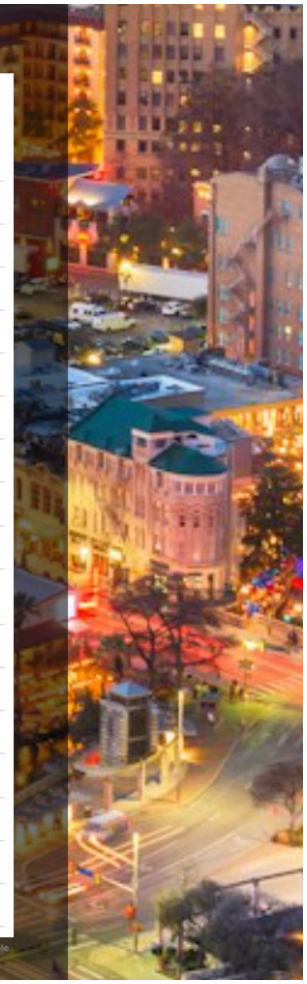
Average Monthly Rent



Submarket Rent & Occupancy

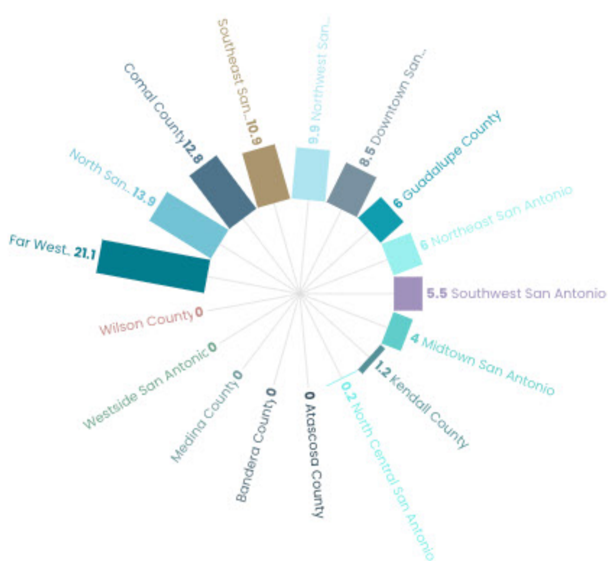
Submarket	Q1 2024 Occupancy	Annual Occupancy Change	Q1 2024 Effective Annual Rent Growth	Q1 2024 Effective Rent/Unit
Atascosa County	88.3%	-1.1%	1.1%	$1,041
Bandera County	95.4%	-1%	1.1%	$625
Comal County	92%	-0.5%	-3.7%	$1,428
Downtown San Antonio	91.5%	1%	-2.5%	$1,400
Far West San Antonio	90.5%	-0.9%	-4.1%	$1,229
Guadalupe County	93.6%	0%	-0.5%	$1,262
Kendall County	92.1%	0.3%	2.5%	$1,350
Medina County	95.1%	-1.1%	1.3%	$885
Midtown San Antonio	88.9%	-1.8%	-1.3%	$1,762
North Central San Antonio	86.7%	-0.9%	-0.5%	$1,145
North San Antonio	89.9%	-1.9%	-2.6%	$1,284
Northeast San Antonio	90.9%	-0.7%	-0.7%	$1,125
Northwest San Antonio	89.8%	-1.5%	-3.9%	$1,229
Southeast San Antonio	89.5%	-1.9%	-0.1%	$1,145
Southwest San Antonio	89.1%	-2.8%	-0.4%	$958
Westside San Antonio	89.9%	-1.9%	1.9%	$920
Wilson County	89.4%	-2.3%	1.1%	$1,211

A Flourish table



Submarket Construction Pipeline

% of Total Market Wide UC



A Flourish hierarchy chart

Submarket	Units UC Delivering in the Next 4 Quarters	Under Construction Units	% of Total Market Wide UC
Atascosa County	0	0	0%
Bandera County	0	0	0%
Comal County	999	2,026	12.8%
Downtown San Antonio	1,292	1,356	8.5%
Far West San Antonio	1,407	3,347	21.1%
Guadalupe County	575	954	6%
Kendall County	191	192	1.2%
Medina County	0	0	0%
Midtown San Antonio	377	639	4%
North Central San Antonio	29	30	0.2%
North San Antonio	1,083	2,206	13.9%
Northeast San Antonio	548	957	6%
Northwest San Antonio	915	1,571	9.9%
Southeast San Antonio	1,182	1,731	10.9%
Southwest San Antonio	568	877	5.5%
Westside San Antonio	0	0	0%
Wilson County	0	0	0%
Total	9,166	15,886	100%

A Flourish table

Sales Activity

Preliminary data from MSCI reveals that the transaction volume for single-asset conventional multifamily properties in San Antonio was approximately $228.2 million in the first quarter of 2024, marking a significant 45.4% decrease compared to the same quarter of the previous year. Excluding the second quarter of 2020, when transaction activity halted due to the economic shutdown from the early days of the pandemic, this quarter's volume was the lowest since the first quarter of 2016. At that time, Texas experienced a severe downturn in the energy market that temporarily affected markets closely linked to this sector. Moreover, with only 9 properties traded, this quarter also marks the lowest number of transactions in a first quarter since 2014.

Most Active Buyers (Previous 24 Months)

- **Ilan Investments**
- **DB Cap Mgmt**
- **CWS Capital Partners**
- **Univest**
- **Kairoi Residential**

Most Active Sellers (Previous 24 Months)

- **Internacional Realty**
- **Fortress**
- **Greenlaw Partners LLC**
- **CBRE Investment Mgmt**
- **Churchill Forge Props**

**Most Active Buyers and Sellers are based on the sale volume of apartment units.*

TRANSACTION VOLUME

$228.2M

YTD Transaction Volume

-45.4%

Y-O-Y Change

9 YTD

Individual Transaction Count

$148.6k*

Price Per Unit

8.3%

Annual PPU Change

** Trailing 4Q average PPU*

** Preliminary Data from RCA – Individual transaction $2.5M +*

Income & Expense Analysis

Please note that the income and expense data presented in this section is sourced from third-party providers. Our firm does not provide any warranty or guarantee as to the accuracy or reliability of this information. We recommend that users exercise their own discretion and professional judgment when interpreting and utilizing this data.

Income & Expenses

– Operating Income Metrics

Income Assumptions	Value / Unit	Year Change (%)
Rental Income / Occupied Unit	$1,262.07	4.2%
Recoverable Expenses / Occupied Unit	$69.14	9.3%
Other Income / Occupied Unit	$83.37	4.6%
Total Income / Occupied Unit	**$1,414.58**	**4.5%**
Operating Income		
Rental Income	$1,156.02	2.3%
Recoverable Expenses	$63.30	7.3%
Other Income	$76.45	2.8%
Total Income	**$1,295.77**	**2.6%**

– Operating Expense Metrics

Operating Expenses	Value / Unit	Year Change (%)
Payroll	$133.72	5.3%
Repairs & Maintenance	$49.14	8.6%
Leasing	$56.39	2.9%
General	$28.19	4.7%
Marketing & Advertising	$23.76	12.1%
Repairs & Maintenance	$83.76	4.2%
Cleaning	$16.34	3.1%

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Roads & Grounds	$14.64	-0.7%
General	$52.78	6.0%
Administrative	$37.31	9.5%
Security	$3.84	0.9%
General	$33.47	10.6%
Management Fees	$39.16	1.5%
Utilities	$81.07	1.5%
Electric	$15.07	-0.4%
Gas	$1.12	-35.2%
Water/Sewer	$64.88	3.2%
Real Estate & Other Taxes	$235.51	-4.2%
Insurance	$57.22	28.0%
Other Operating Expensees	$1.48	
Total Operating Expense	**$692.99**	**3.2%**

— Net Operating Income

	Value / Unit	Year Change (%)
Net Operating Income	**$602.78**	**1.9%**

Market Outlook

In response to the surge in demand and population growth in the post-pandemic years, San Antonio multifamily developers launched a building spree, spurred by low interest rates in 2021 and 2022, to meet this rising demand. Consequently, the short-term effect has been an influx of units exceeding the market's capacity to absorb them. As of March 2024, there were 15,886 units under construction, with an anticipated 9,166 units expected to be completed within the next year. This supply side pressure is likely to exert a downward force on rents throughout much of 2024.

However, the long-term outlook for San Antonio remains positive. Multifamily starts have adjusted to align more closely with historical averages, indicating a realignment of market dynamics beyond 2024. By 2025, rental growth is expected to stabilize, bolstered by a steady job market that should help buffer any economic fluctuations. The future of San Antonio's rental housing market is promising, with expected increases in absorption driven by employment growth and rising salaries. Key sectors such as healthcare, government, military, and aerospace manufacturing continue to underpin the market's resilience and optimistic future.

Sources: Yardi Matrix; Costar; MSCI.

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