4Q20 San Antonio Multifamily Market Update

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Key Takeaways

Sales Volume

Despite a slow start to 2020 due to COVID-19, activity picked up substantially in the second half with national volume for the year totaling $138.7 billion. San Antonio finished 2020 with a strong fourth quarter, recording 18 transactions totaling 5,012 units with an average price per unit of $112,903. The market totaled more than $1.8 billion in sales for 2020, ranking 19th nationally. Multifamily investment allocation in San Antonio was 52.4% of total commercial real estate sales in 2020.

Rent Collections

Multifamily rent collections have been resilient since the pandemic began, never dropping below 91.7% in 2020, according to NCREIF. San Antonio saw 94.5% of rent payments collected in 4Q20, which outperformed the national average of 93.8%. Secondary markets in particular continue to fare better than those with dense urban populations like New York and Los Angeles, but overall, most markets saw significant improvement throughout the year as the initial economic disruptions burned off.

Rent Growth

Quarterly rent growth for the U.S. multifamily market fell to -0.6% in 4Q20, while annualized rent growth dropped to 0.1%. Although this is the first year in a decade without an annualized increase, San Antonio was able to remain stable with average rates at $1.19 per square foot recorded for all four quarters of 2020. San Antonio was one of the better performing markets in Texas and is poised to capitalize off rebounding economic conditions in 2021.

Total Returns

San Antonio had a stable fourth quarter and ended the year with total annualized returns at 1.8%, the same as the national multifamily average, for 4Q20. As a whole, national multifamily total returns accelerated in the second half of 2020, with 4Q20 returns rising 162 basis points from the 2Q20 low of -0.6%.

Supply and Demand

Historically, San Antonio has seen new units outpace absorption in the fourth quarter and 2020 was no exception. However, annualized figures show that as a whole San Antonio's demand was able to keep up with supply as 4,060 of 4,886 new units were absorbed over the past 12 months – the most favorable supply/demand metrics in Texas. After experiencing elevated levels of completions over the past decade, supply is starting to taper off in San Antonio.

Employment

With its diverse employment base rooted in healthcare, biotech, government, cybersecurity and military, San Antonio was relatively insulated from the severe pandemic-related economic downturn experienced by most of the country. Although the market has taken a short-term hit, all sources indicate San Antonio will remain stable and continue its steady growth trajectory over the long term. Over the next year San Antonio is expected to recoup all of the jobs lost in March and April during the initial shutdown of 2020.

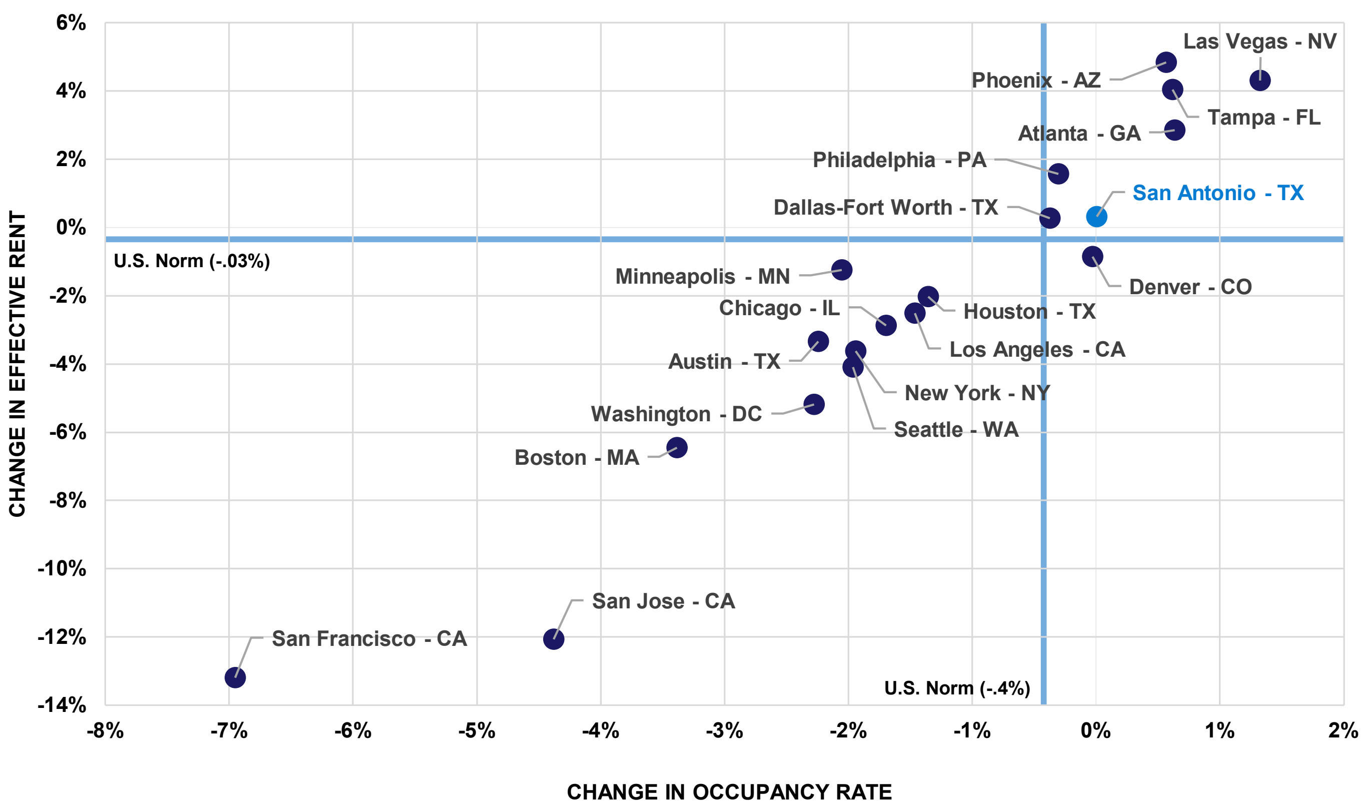
Market Snapshot

4Q20 SAN ANTONIO MSA MULTIFAMILY STATS

Source: Apartment Trends by Austin Investor Interests

91.2%	$1,007	$1.19	$112,903	1,118
average occupancy	average effective rent	average effective rent psf	average sales price per unit	new units added

MARKET COMPARISON, ANNUALIZED



Source: CoStar

San Antonio outperformed all Texas markets and much of the nation in terms of 4Q19 to 4Q20 change in effective rent and occupancy, illustrating the city's stability in the face of economic disruptions.

Sales Volume

Multifamily sales volume in 4Q20 totaled $56.7 billion, representing a 115.2% quarter-over-quarter increase, surpassing 4Q19 as the largest quarterly investment sales figure to date.

Topping the previous highest monthly total in December 2019 by 6.3%, sales volume for December 2020 totaled $24.9 billion as pent-up demand from multifamily was met with greater for-sale opportunities.

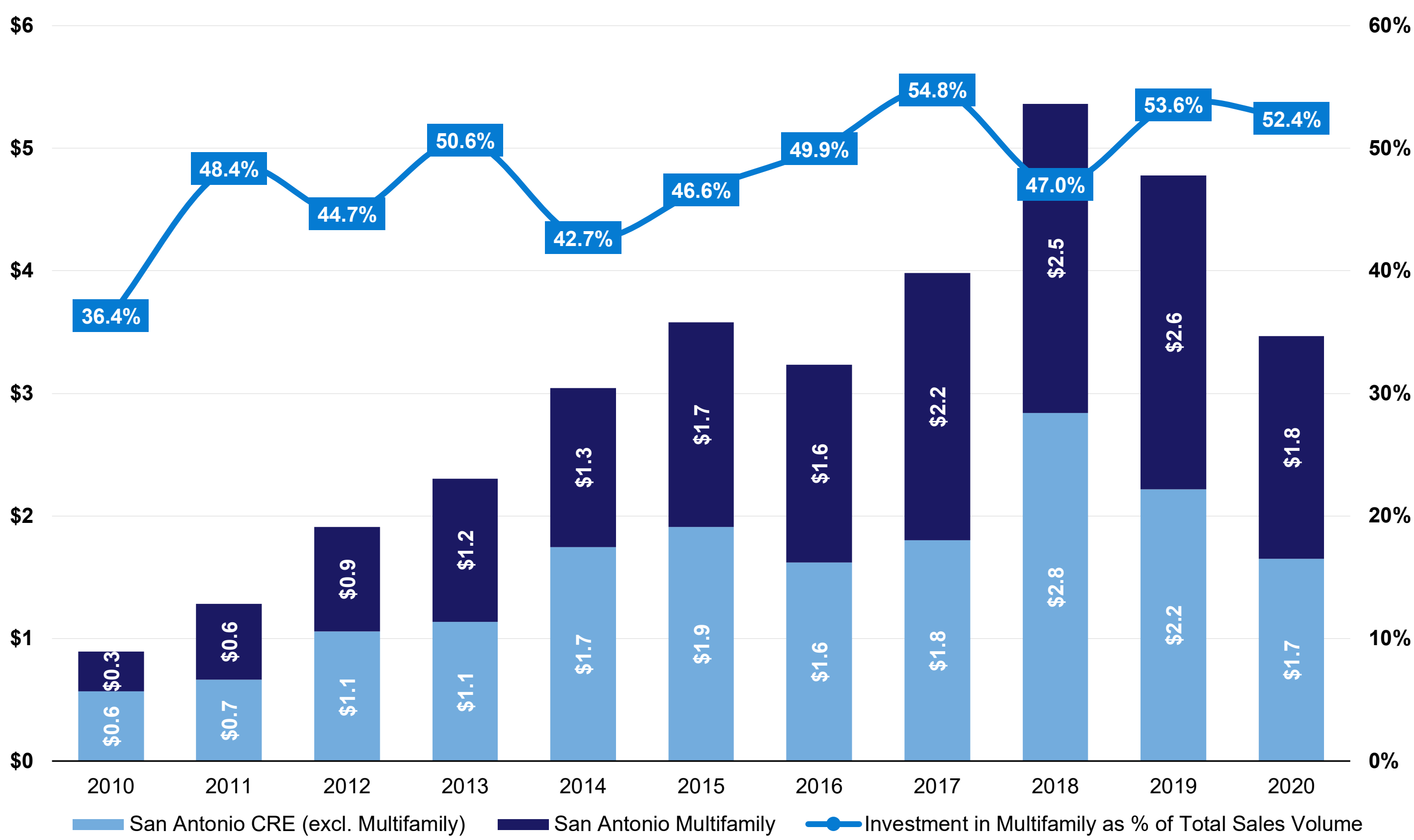
San Antonio ended the year with $1.8 billion in transaction volume, and while the number of sales was down from 2019, pricing remained relatively stable.

Investor allocation toward multifamily is at an all-time high, raking in 34.2% of all commercial sales volume in 2020 – an 8.1% increase over the long-term average of 26.1%. In San Antonio in particular, 52.4% of all commercial trades were in multifamily as investors shifted their capital to the sector after traditional retail, office and hospitality markets continue to experience pandemic-related disruptions.

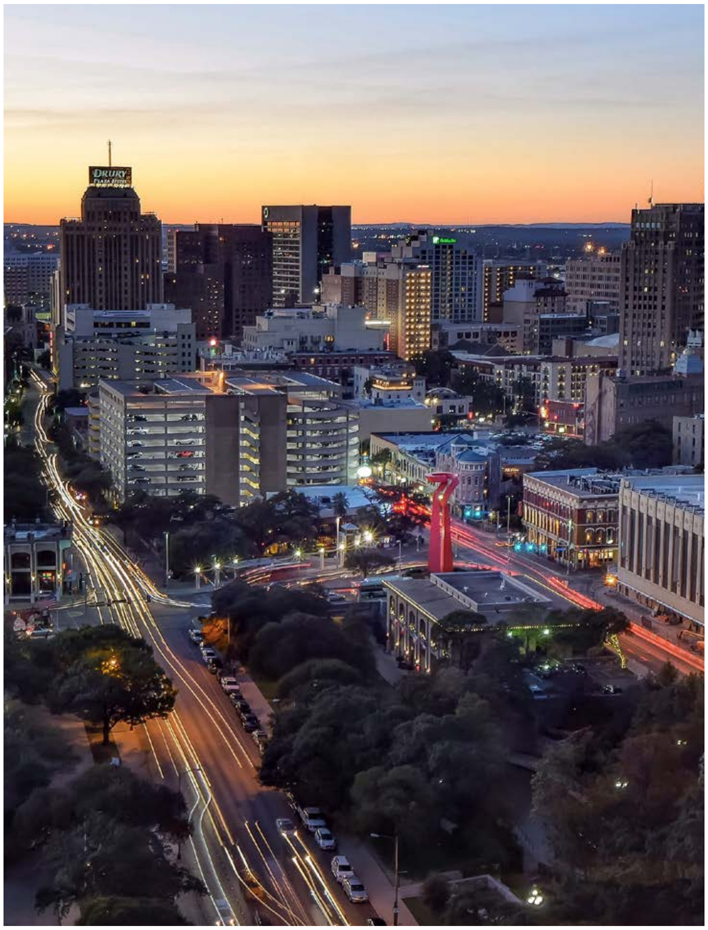
Density issues brought on by COVID-19 accelerated the trend of multifamily investors favoring non-major markets, which received 75.8% of investment dollars in 2020, a record high.

NEWMARK RESEARCH

INVESTMENT ALLOCATION TO MULTIFAMILY, ANNUALIZED (IN BILLIONS)



Source: Newmark Research, Real Capital Analytics



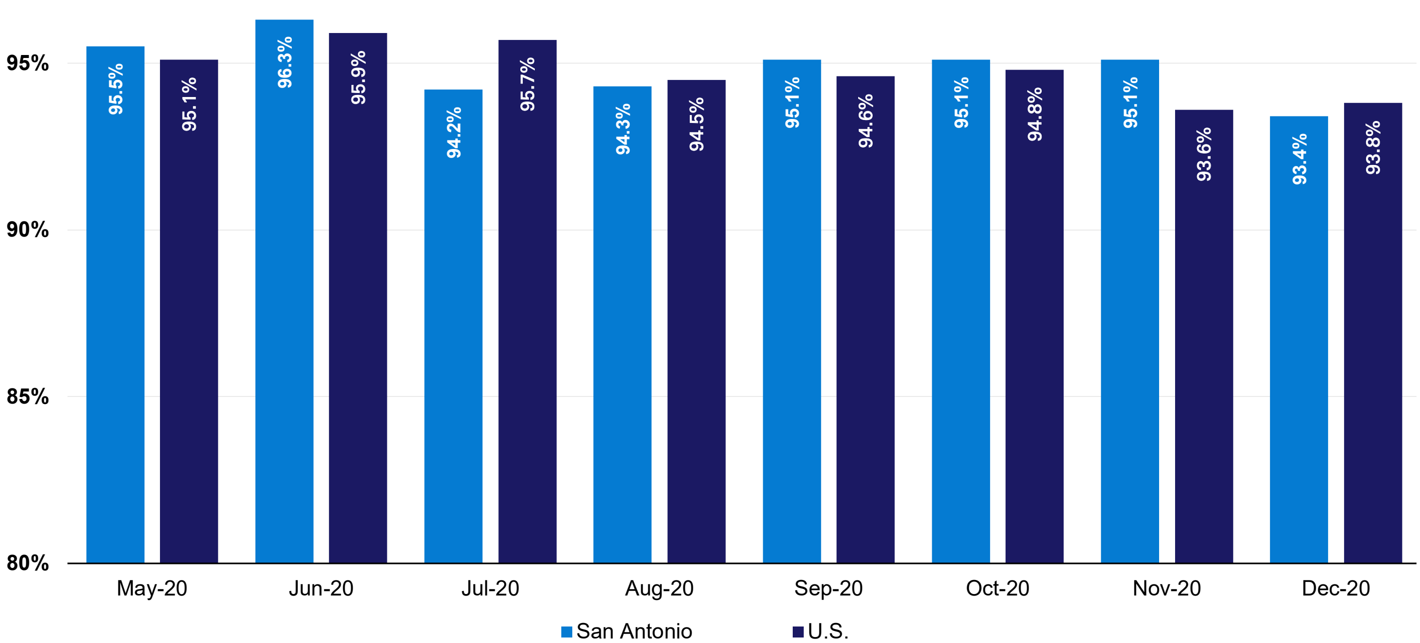
Rent Collections

Multifamily demonstrated its resiliency with rent collections never dropping below 91.7% in 2020.

Along with industrial, multifamily was the only property type to never dip below 90% collected rent during the unexpected economic downturn of 2020. While rent collection continues to vary widely from market-to-market, several areas are on the rebound seeing improved collections in 4Q20 compared to the initial onset of COVID-19 as vaccines continue to roll out.

San Antonio outperforms the national average of 93.8% with 94.5% of rent payments collected for 4Q20 and has steadily remained over 93% the last three quarters of the year. The 4Q20 average also showed a slight 0.1% increase compared to the April-December average, illustrating the market's stability even during tumultuous times.

RENT COLLECTIONS, ANNUALIZED



Source: Newmark Research, NMHC, NCREIF

Rent Growth

Rent growth in the Sunbelt markets has continued to outperform the national average, which fell to 0.1% for 2020.

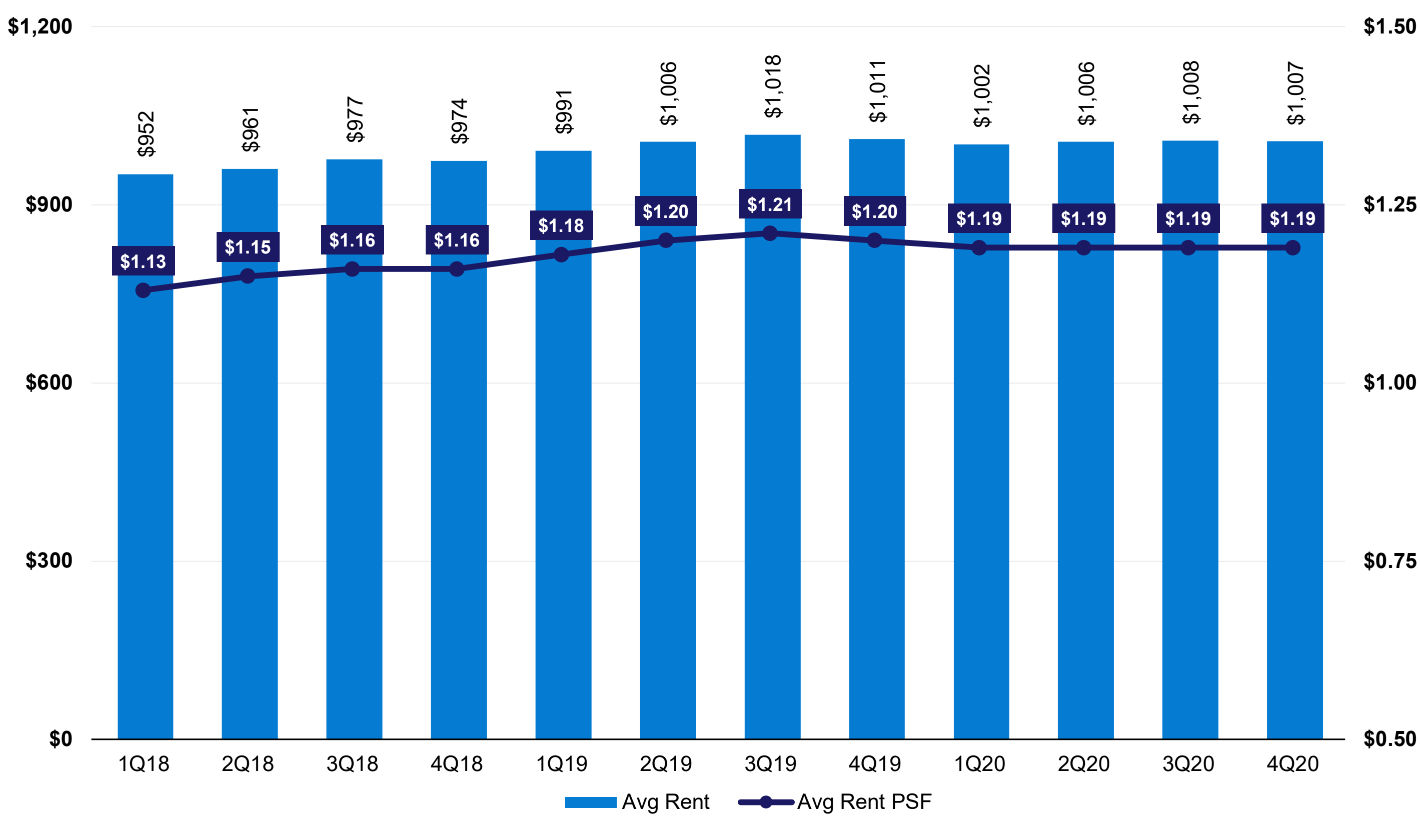
Only a handful of markets saw rental gains as the national average hit its lowest annual growth rate in a decade. Forecasts point to modest recoveries in 2021 as vaccines become more widely available and state/city economies continue to reopen and rebound.

San Antonio proved it is as stable a market as any, seeing a slight 0.3% annualized decline in rent growth compared to 2019. However, rates remained at $1.19 per square foot (only a $0.01 decrease from last year) throughout 2020. With a year where many previously booming markets, major and non-major alike, experience sharp declines, San Antonio demonstrates its rental market's steadiness and resiliency, which is bolstered by population and job growth.

Apartment operators are likely to return to rent growth mode by the end of 2021. Long-term, slow and steady growth looks to be the norm post-recovery, mirroring San Antonio's slow growth but stable economic and demographic profile.

REALPAGE

HISTORICAL RENTS, QUARTERLY



Source: Apartment Trends by Austin Investor Interests

Suburban Submarkets Soar in 2020

With the increased amount of people working remotely, renters have flocked to the suburbs, attracted to the lower rents and more spacious floorplans offered by suburban garden communities. Investor appetite for suburban product followed suit, carrying 66.8% of all multifamily transactions in 2020. Over the past year, San Antonio's suburban submarkets were the only areas to experience positive year-over-year rental growth, indicating localized demand further out from the CBD.

"With remote work the new norm and an inability to enjoy downtown restaurants, entertainment and other experiences, many residents chose to move to suburban areas in search of cheaper rents, larger homes and more green spaces," cites a recent report published by the San Antonio Apartment Association. Affluent suburbs like Stone Oak have long been desirable, but growing areas like southwest and northeast San Antonio are poised to capitalize on this shift in renter demand.

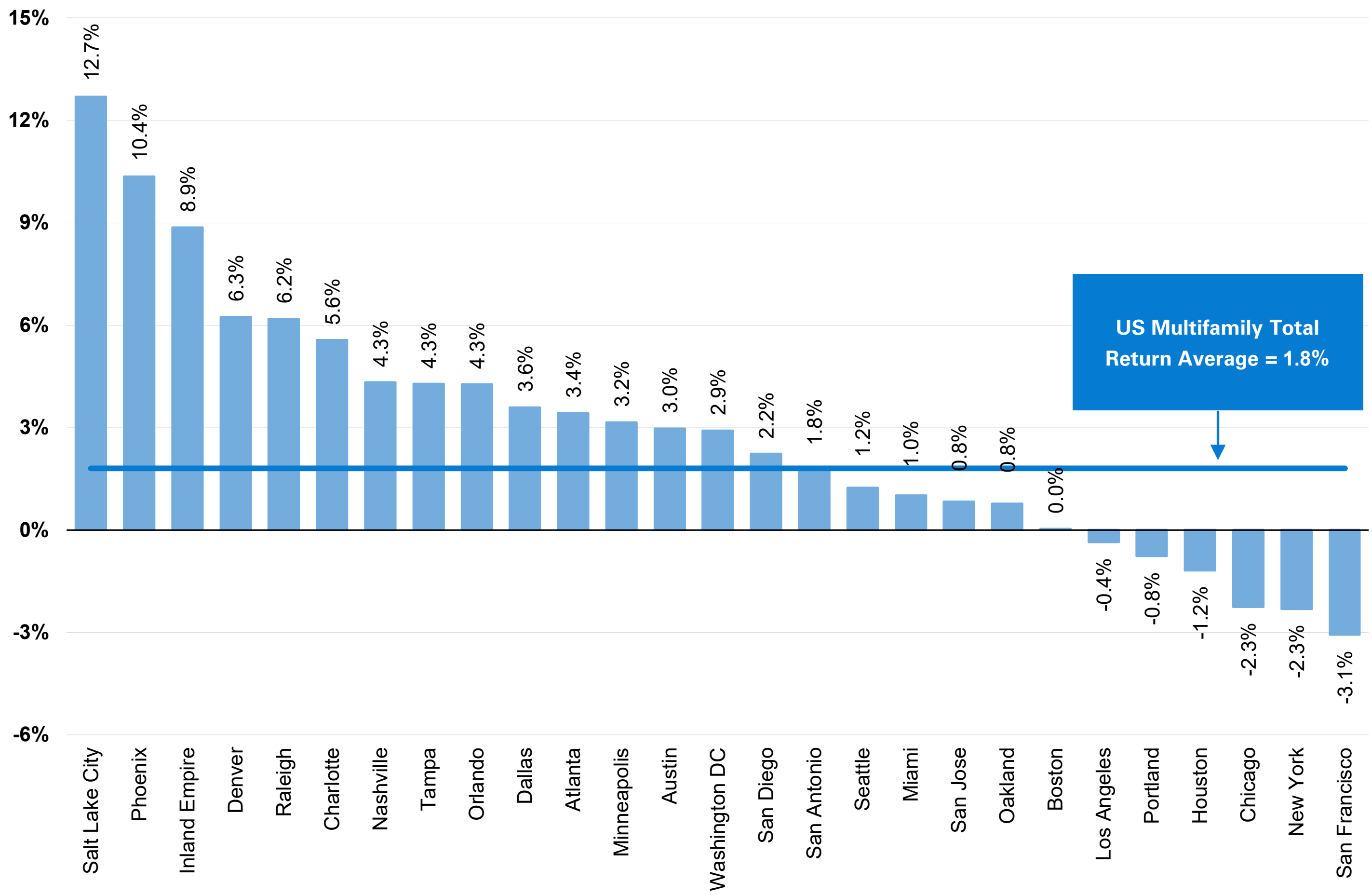
> About one-third of multifamily building has moved to low-density markets in the suburbs and exurbs, which are seeing populations increase faster than city centers over the past year.
>
> **NATIONAL ASSOCIATION OF HOME BUILDERS**

SAN ANTONIO SUBMARKET ANNUALIZED RENT GROWTH

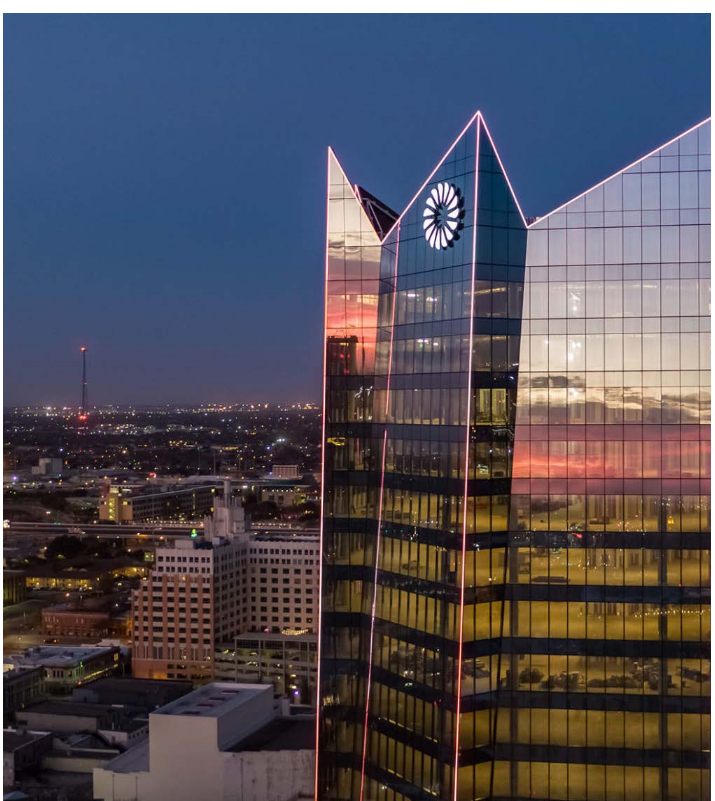
Source: Apartment Trends by Austin Investor Interests

7.57% Boerne	3.12% Far Northeast
4.24% East	2.14% New Braunfels
3.92% Southwest	2.10% South Central

TOTAL RETURNS BY MARKET, ANNUALIZED



Source: Newmark Research, NCREIF



Total Returns

The year finished out strong with total returns increasing in the latter half of 2020, balancing out the dip that occurred in the second quarter.

While multifamily values were negatively impacted by the COVID-19 pandemic, according to the National Council of Real Estate Investment Fiduciaries' (NCREIF) Appreciation Index, the income generation for multifamily properties remained strong, keeping total returns positive in 2020. Three quarters of the top 16 markets by total returns are in the Sunbelt, including San Antonio coming in right at the national average of 1.8%.

Supply and Demand

Inventory grew by 344,380 new units across the nation, representing a 1.9% annual increase and the highest level of new deliveries on record.

Sunbelt markets continue to drive the highest demand and garner the most attention from multifamily investors and developers. In 2020, San Antonio saw 4,866 units completed and 4,060 units absorbed. While absorption was about 800 units fewer than supply, San Antonio's supply and demand metrics were the best in Texas when compared to the other three major metros of Austin, Dallas-Fort Worth and Houston.

Additionally, San Antonio's housing market is struggling to keep up with demand as inventory falls to record lows, driving up prices in return. With in-migration showing no signs of slowing and a significant 20-34 year old population, demand for multifamily housing in San Antonio is expected to even out supply over the next five years.

"With San Antonio's significant youth population, pent-up demand can be expected for apartment living, especially once this cohort enters the job market and/or attains more solid financial footing."

TERI BILBY, EXECUTIVE DIRECTOR
SAN ANTONIO APARTMENT ASSOCIATION

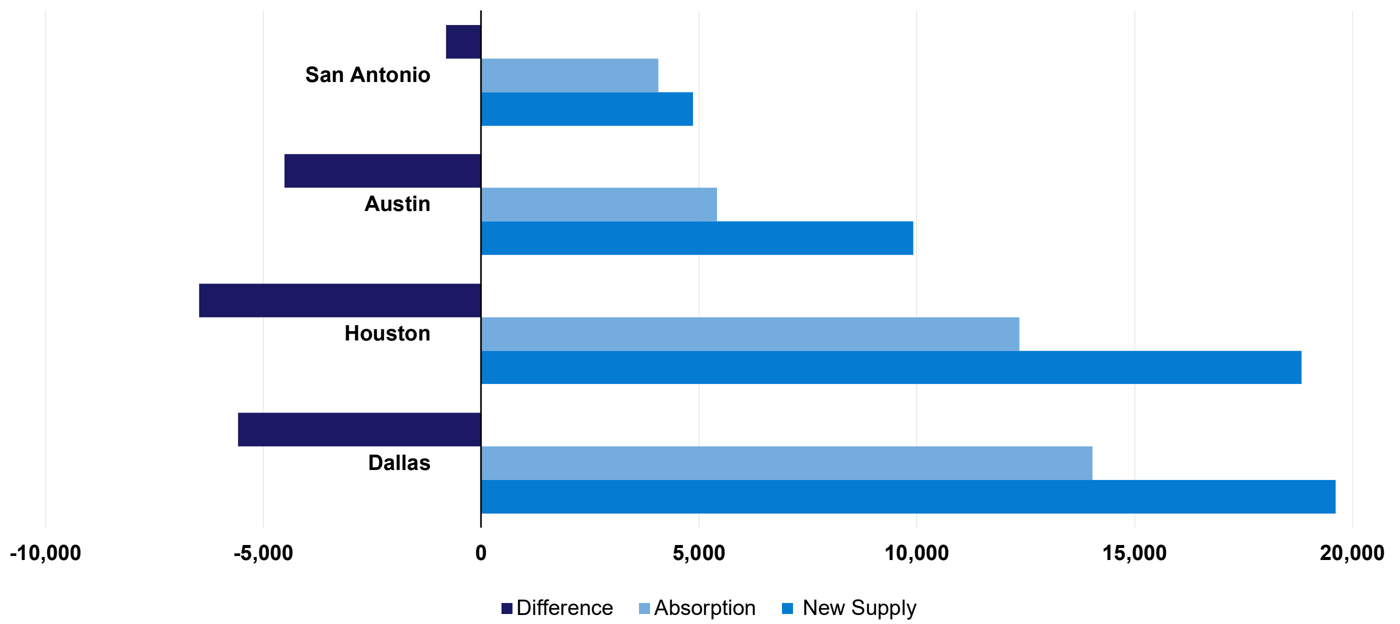
Youth Population Key to Sustaining San Antonio's Rental Market

A significant portion of San Antonio's population growth was made up of the 20-34 year old cohort, a prime renter demographic, which grew 9.4% from 2014-2019, nearly six times the national average.

According to Moody's Analytics, this growth pattern is expected to continue over the next five years with population as a whole forecasted to grow at double the national rate. This is partly thanks to 30.3% of San Antonio's population being <20, compared to 26.8% nationally. As the older end of that group ages over the next 5-10 years, San Antonio will have a uniquely robust, renter-heavy demographic profile.

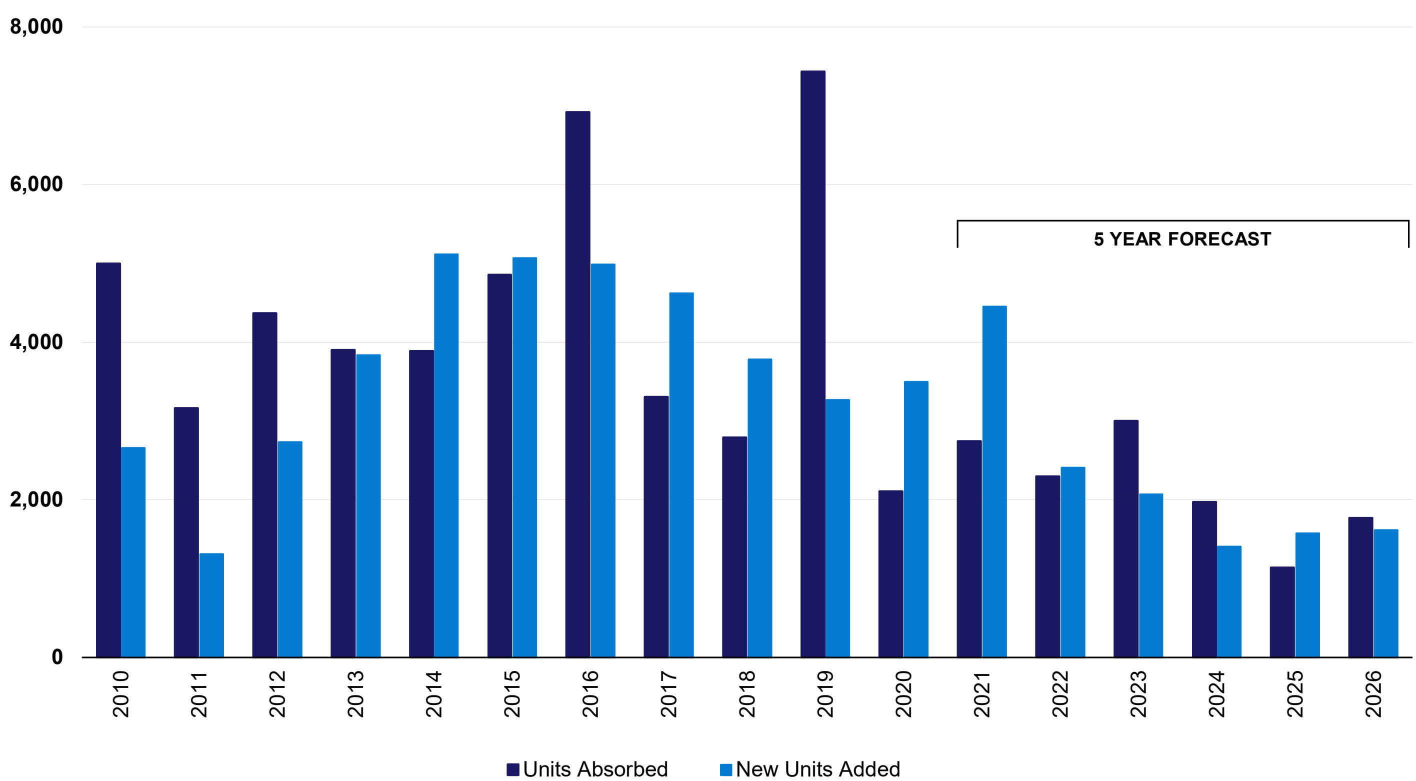
GROWTH FORECAST (5 YEAR AVERAGE)	SAN ANTONIO	NATIONAL
Population	1.21%	0.52%
Households	1.35%	0.81%
Renting Cohort (Ages 20-34)	1.15%	-0.19%
Total Employment	3.35%	2.81%
Median Household Income	2.45%	1.88%

DIFFERENCE BETWEEN SUPPY AND DEMAND, ANNUALIZED



Source: Newmark Research, RealPage

SUPPLY AND DEMAND, ANNUALIZED + PROJECTION



Source: REIS

Newmark Insights

Our Managing Director, Andrew Dickson, dives deep into the question on every investor's mind, "What about supply?"

What is fueling the supply boom, and will demand be able to keep up?

San Antonio checks all of the macro boxes that most developers chase, including migration patterns, corporate/tax-friendly environments and overall quality of life offered. As much as the independent data providers point to potential "oversupply" concerns, San Antonio has been able to absorb, on average, 92% of the units delivered each of the past four years. Amid record deliveries, San Antonio rent growth still hovered around 3% before the pandemic and even since then, rents have remained flat, which is impressive when comparing to most other major MSAs. Additionally, during the onset of COVID-19, we heard underwriting from both the equity and debt side was significantly more stringent, especially when comparing San Antonio to Austin. This, combined with the dramatic increase in land and construction costs, has helped generate a slightly more measured supply pipeline. In short, with these favorable fundamentals and the corporate relocations coming to Central Texas, we are bullish on apartment demand in San Antonio.

What has been the defining trend of San Antonio's supply/demand story over the past five years and what is the outlook for the next five?

San Antonio's multifamily development story has been one that supports the herd mentality theory. Total supply fluctuates slightly from year-to-year, however, it tends to be concentrated in specific submarkets for years at a time. The Rim and La Cantera submarket experienced a wave of new product within the past four years. Then, within the past two years, developers focused on the CBD, Pearl and Southtown areas. Most recently, the Stone Oak area has seen several deliveries of garden-style product, which bodes well for current investor demand in the suburbs.

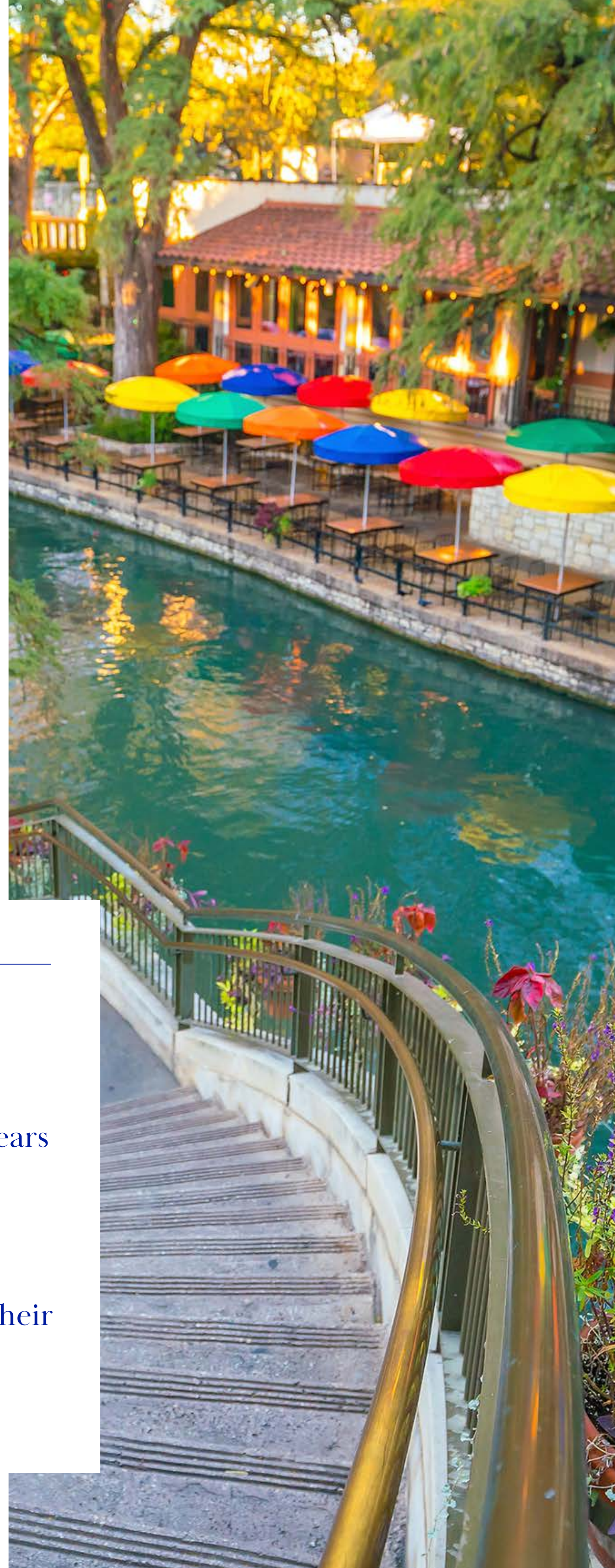
Over the next five years, we anticipate a slowing of deliveries in the downtown area and a continued push into the suburbs. We're also expecting continued growth along the I-35 corridor (New Braunfels, San Marcos, Kyle, Buda) as more companies move to Central Texas in search of affordable commercial space that offers great mobility and transportation access. The merging of Austin and San Antonio has been slowly progressing over the past decade, but today, and in the years to come, we see Austin and San Antonio more quickly becoming one large metroplex similar to Dallas-Fort Worth.

Employment

San Antonio's economy is thriving, thanks to exceptional population growth and a variety of established and expanding industries.

San Antonio is the seventh largest city in America and the second largest in Texas, with MSA in-migration averaging more than 37,000 per year over the past five years. Over 50 companies are headquartered in the city, many Fortune 500, and more are expected to come as employers continue to jump ship from California to the business-friendly environment that Texas offers.

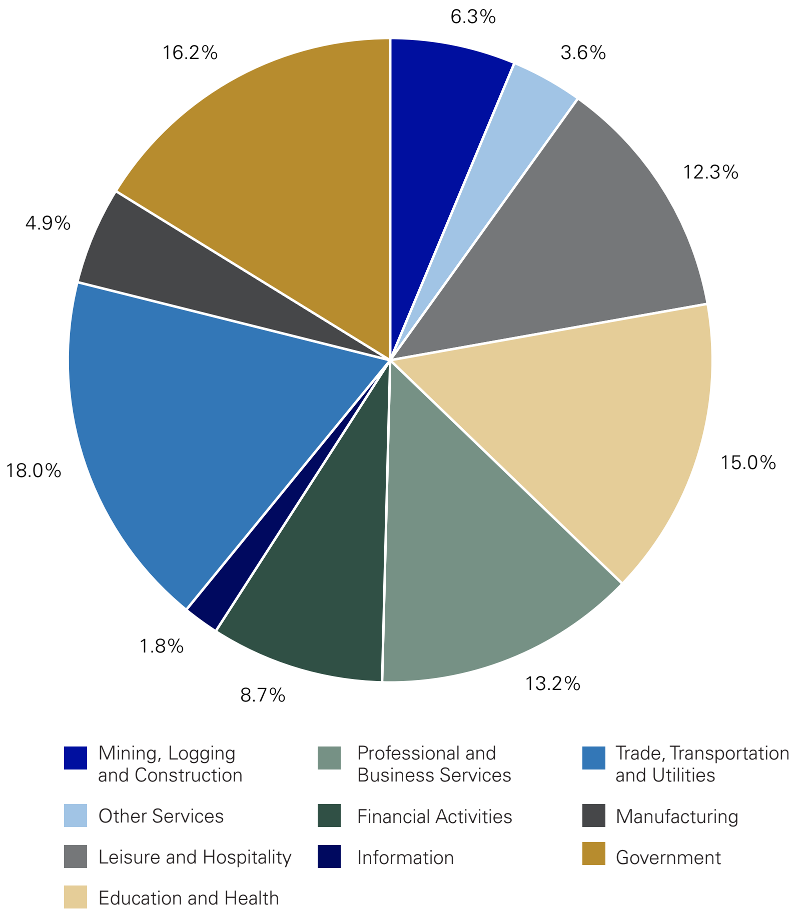
San Antonio's diverse economy played a major role in shielding the city from a more severe economic downturn akin to those experienced by major markets such as New York and Los Angeles in 2020. Although tourism provides significant revenue for the city, a healthy mix of stable sectors like government and healthcare, along with growing sectors like biotech and cybersecurtiy, solidified San Antonio's status as one of the most resilient economies in the nation.



> "We know we've been able to help our local businesses thrive and grow and also land some really important relocations in the last few years — not because of our ability to incentivize but because of the long-term return on investment that those businesses see by planting their flag in San Antonio."

RON NIRENBERG, MAYOR OF SAN ANTONIO
SAN ANTONIO BUSINESS JOURNAL

SAN ANTONIO'S INDUSTRY COMPOSITION



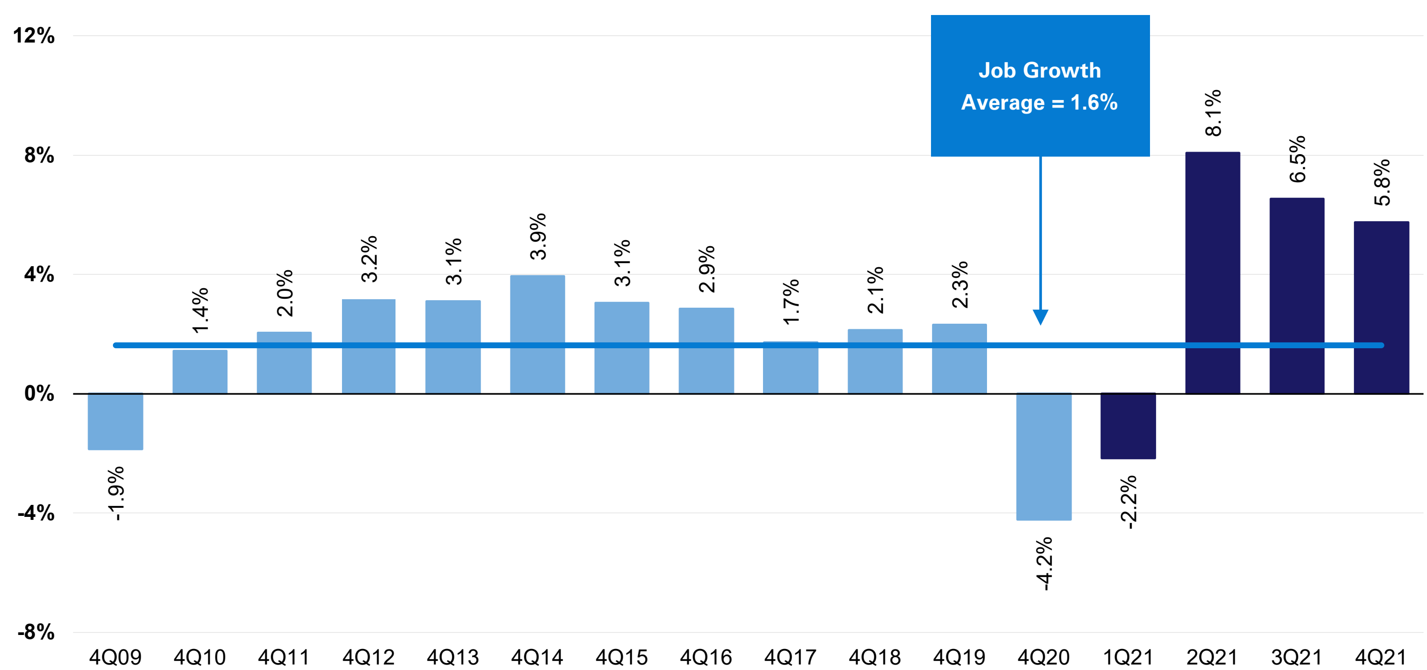
Building Steady Growth

"San Antonio's population is rising and the area's affordability, large bilingual population, military bases and proximity to Mexico are among the factors attracting employers."

WILL MCINTOSH, HEAD OF GLOBAL RESEARCH
USAA REAL ESTATE

Although the market has taken a short-term hit, all sources point to San Antonio remaining stable and continuing its steady growth trajectory in the long term. Over the next year San Antonio is expected to recoup all of the jobs lost in March and April during the initial shutdown. Additionally, according to the San Antonio Economic Development Foundation, the city is expected to add 26,000 jobs in 2021. Speaking demographically, San Antonio's robust cohort of younger residents will help bolster economic growth as they enter the employment sector and fuel job creation.

JOB GROWTH, 2009-2021 (PROJECTED)



Source: Axiometrics

Sources and Acknowledgments

Apartment Trends by Austin Investor Interests

Axiometrics

Brookings Institute

Connect CRE

Costar

CoStar Analytics

Esri

Fannie Mae

Forbes

Globe Street

Moody's Analytics

Multi-housing News

National Association of Home Builders

NCREIF

Newmark Research

Real Capital Analytics

RealPage

Realtor Magazine

REIS

San Antonio Apartment Association

San Antonio Business Journal

San Antonio Economic Development Foundation

San Antonio Report

U.S. Bureau of Labor Statistics

U.S. Census Bureau

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