

# San Antonio Apartment Market Update

Edited by Kathryn Koepke

\$399/year

2<sup>nd</sup> Quarter 2007

## Moving Forward

Right on the heels of the solid first quarter of 2007, the San Antonio apartment market continues to make strides with 1,264 units being absorbed over the second quarter, the highest figure reported since the third quarter of 2005. Those reporting the highest absorption figures were the Class B and C markets (597 and 479 units, respectively), showing strong signs of demand for new tax-credit and affordably-priced older properties in the area. The Class A market followed closely absorbing 306 units over the quarter, however, the Class D market fell back in the red, absorbing -118 units for the second quarter.

Strong demand in the five-county area contributed to increases in overall occupancy levels, which currently stands at 90.87%. However, demand will need to keep that pace if occupancy levels are to increase or even hold steady, as 3,032 units are currently under construction, with another 717 units proposed as of the second quarter. San Antonio continues to be the target of developers and investors alike, and should continue to be so as we head into the middle of 2007.

With the lowest overall rental rates out of the four major Texas markets, San Antonio's \$0.839 per square foot rents should help maintain the current apartment occupancy levels, if not bring increases as the year continues. With the sub-prime mortgage lending market fall-out, many apartment renters who were considering purchasing a new home would find it more beneficial to stay in their apartment until the dust settles in the mortgage industry. Fears of high interest rates, rising property values, and the risk of foreclosure will scare off many potential homebuyers. Although the housing market in Texas continues to be strong, stricter credit lending procedures continue to eliminate a good portion of the potential buyers, mainly those in the lower-end of the housing spectrum.

With the recent negative side effects of the mortgage industry and weary homebuyers-to-be, the San Antonio multifamily rental market is poised to benefit from stabilized occupancy and rental rates, if not increases, and continued positive absorption as we enter the second half of 2007.

By: [Matthew Kubecka](#)

San Antonio Apartment Market at a Glance

	Class A	Class B	Class C	Class D	Overall	Qtr	Yr
Occupancy	90.67%	91.62%	90.17%	90.69%	90.87%	▲	▼
Rent/Unit	\$917	\$645	\$593	\$514	\$676	▲	▲
Rent/SF	\$1.000	\$0.842	\$0.762	\$0.694	\$0.839	▲	▲
Absorption	306	597	479	-118	1,264	▲	▲

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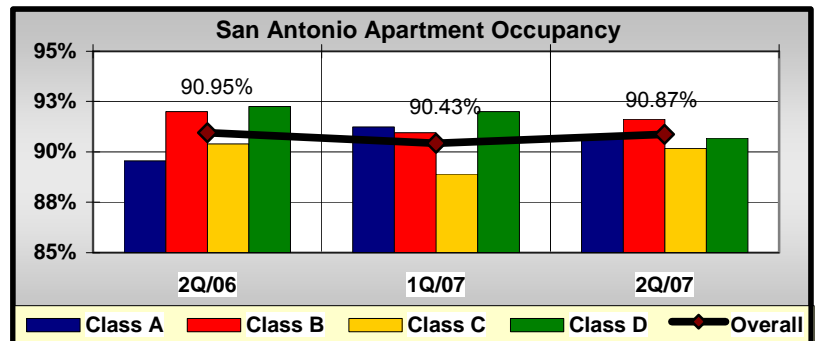
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## Metro Occupancy Overview

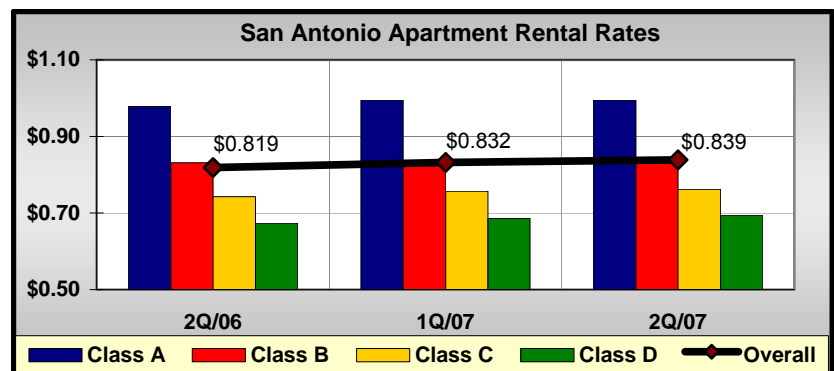
Occupancy continues to rebound in the second quarter after a drop in the fourth quarter of 2006, gaining 0.44 points to 90.87% from the first quarter of 2007. However, occupancy remains only 0.08 points below levels one year ago. The **Class A** market experienced a decrease in occupancy, down 0.57 points over the quarter; currently at 90.67%, occupancy is up 1.12 points since this time last year. Occupancy in the **Class B** market gained 0.67 points to 91.62%. Class B occupancy has fallen 0.38 points over the past year. **Class C** occupancy has gained 1.27 points over the quarter to 90.17%, the highest level in four quarters. Year-over-year occupancy in Class C, however, is currently down 0.23 points. After a substantial gain in the first quarter of 2007, **Class D** occupancy fell 1.31 points over the quarter to 90.69%; occupancy is down still, 1.56 points since this time last year.



Quarter	Class A	Class B	Class C	Class D	Overall
2Q/06	89.55%	92.00%	90.40%	92.25%	90.95%
1Q/07	91.24%	90.95%	88.90%	92.00%	90.43%
2Q/07	90.67%	91.62%	90.17%	90.69%	90.87%

## Metro Rent Overview

Rental rates posted yet another quarterly gain in 2007, increasing \$0.007 to \$0.839 per square foot (psf). Rents have increased \$0.020 psf over the past year. **Class A** rental rates gained \$0.005 psf over the first quarter to \$1.000 psf; rents are \$0.021 psf higher than one year ago; **Class B** rents also continued to climb, increasing \$0.008 psf over the quarter to \$0.842 psf. Rents in the Class B market have risen \$0.011 psf in the last year. The **Class C** market posted a quarterly increase of \$0.005 psf. Currently at \$0.762 psf, Class C rents have increased \$0.019 psf over the past 12 months. **Class D** rents also increased \$0.008 psf over the first quarter to \$0.694 psf. Rental rates in the Class D market have gained \$0.021 psf since this time last year.



Quarter	Class A	Class B	Class C	Class D	Overall
2Q/06	\$0.979	\$0.831	\$0.743	\$0.673	\$0.819
1Q/07	\$0.995	\$0.834	\$0.757	\$0.686	\$0.832
2Q/07	\$1.000	\$0.842	\$0.762	\$0.694	\$0.839

## Submarket Performance

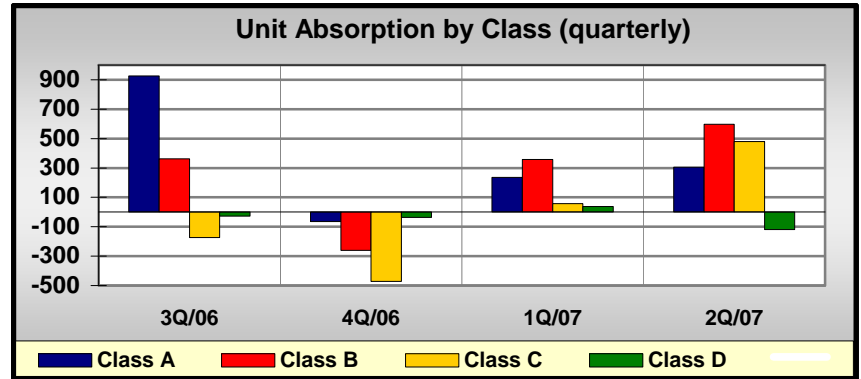
Of all the submarkets in the Greater San Antonio market, the **Far Northeast** reported the highest occupancy at 98.84%, while the lowest average occupancy was recorded in the **West** submarket at 84.70%. The highest average rental rates were reported in the **Far Northwest** and **Downtown** submarkets at \$0.984 psf and \$0.966 psf, respectively, while the **East** submarket recorded the lowest at \$0.676 psf.

Of submarkets with more than one project, highest Class A occupancy was found in the **Downtown** submarket at 100.00%, while the **Randolph AFB** submarket recorded the lowest at 74.25%. The highest Class B occupancy was found in the **Far Northwest** submarket at 99.00%, while the **West** submarket reported the lowest at 77.85%. **Downtown** reported the highest Class C occupancy at 98.31%, while the **Southeast** submarket had the lowest at 80.98%. Class D occupancy was highest in the **Kerrville** submarket at 100.00%, while the **Northeast 1** submarket reported the lowest Class D occupancy at 70.00%.

The highest average Class A rents were once again found in the **Downtown** submarket at \$1.153 psf, while the **Lackland/Kelly AFB** submarket again had the lowest at \$0.793 psf. Class B rents were highest in the **Alamo Heights** submarket at \$0.997 psf, and lowest in the **Kerrville** submarket at \$0.535 psf. The **Downtown** submarket had the highest Class C rents at \$0.903 psf, while the **Kerrville** submarket recorded the lowest at \$0.684 psf. The highest Class D rents were found in the **Randolph AFB** submarket at \$0.821 psf, while the **Northeast 1** submarket reported the lowest Class D rents at \$0.584 psf.

## Metro Absorption Overview

Demand continues to rebound into the second quarter of 2007. The market absorbed 1,264 units in the second quarter, driven primarily by positive absorption in the Class A and B markets. Absorption since this time last year stands at 2,209 units. The **Class A** market absorbed 306 units over the second quarter; Class A absorption over the past 12 months stands at 1,404 units. **Class B** demand continues to be the strongest of any class over the quarter, as quarterly absorption was 597 units. The Class B market has absorbed 1,057 units over the past year. The **Class C** market showed signs of recovery, posting positive quarterly absorption, at 479 units. However, annual absorption remains negative at -144 units. The **Class D** market is in the red at -118 units, bringing 12-month absorption to -144 units.



12-month Ending	Class A	Class B	Class C	Class D	Overall
2Q/05	670	108	-226	70	622
2Q/06	1,078	931	911	166	3,086
2Q/07	1,404	1,057	-108	-144	2,209

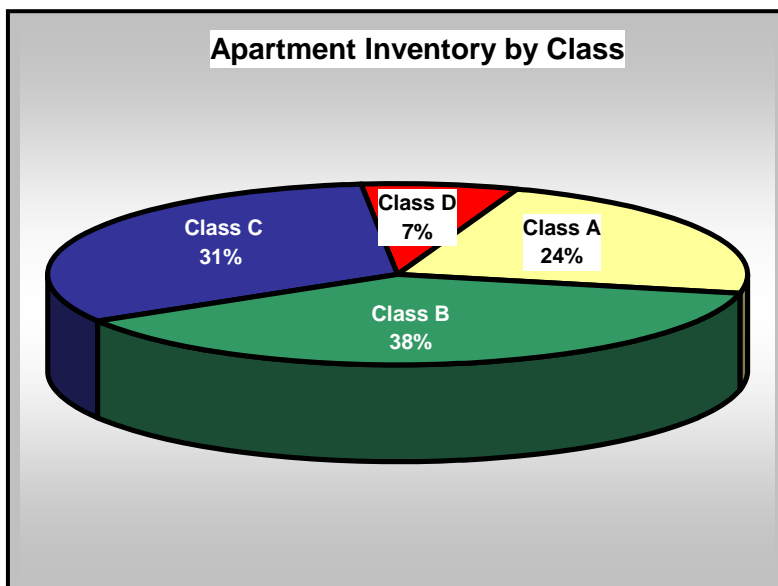
## Submarket Performance

The **North Central 1** submarket posted the strongest absorption figures following the first quarter, absorbing 286 units, followed by the **Medical Center** submarket, which absorbed 177 units. The weakest demand was found in the **Northeast 2** submarket, which posted absorption of -66 units.

Class A absorption was highest in the **North Central 1** submarket at 106 units, while the weakest figures were posted by the **Alamo Heights** submarket at -67 units. The **North Central 1** submarket recorded the strongest Class B absorption at 105 units, while demand was weakest in the **Northeast 1** submarket at -53 units. The **Northwest** submarket posted the strongest absorption figures in Class C, absorbing 112 units, while absorption was weakest in the **Lackland/Kelly AFB** submarket at -23 units. Class D absorption ranged from 8 units in the **West** submarket to -82 units in the **Northeast 1** submarket.

## Apartment Inventory

There are a total of 671 operating or under-construction projects (greater than 25 units) in the San Antonio metro market with a total of 131,651 units. Approximately 24% of the total units is Class A, 38% is Class B, 31% is Class C, and 7% is Class D. The chart and table below display Greater San Antonio apartment market inventory by class.



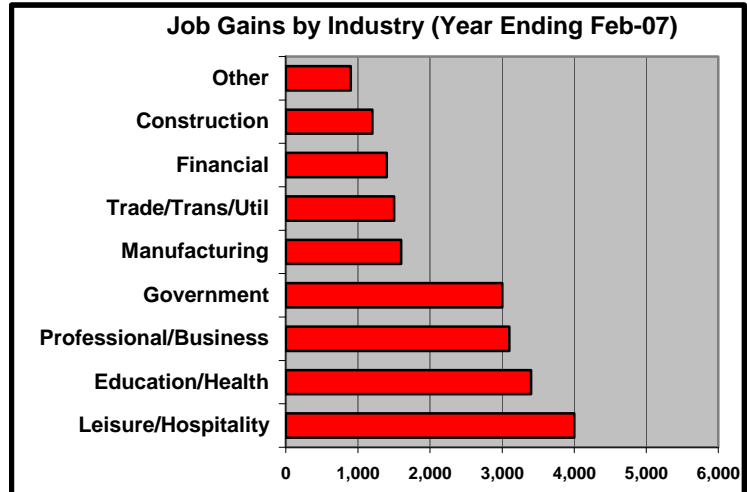
Operating	Projects	Units
Class A	116	29,439
Class B	218	48,791
Class C	252	41,063
Class D	72	9,326
<b>TOTAL**</b>	<b>658</b>	<b>128,619</b>

Under Cons.	Projects	Units
Class A	5	1,357
Class B *	7	1,600
Class C	1	75
<b>TOTAL**</b>	<b>13</b>	<b>3,032</b>

\* Class B also includes Affordable Housing developments  
 \*\* There are additional Unclassified (Class U) projects

## Job Growth

The civilian labor force unemployment rate in the eight-county San Antonio MSA dropped significantly to 3.6%, while the total number of nonagricultural wage and salary jobs increased to 833,800 in May 2007, according to the **Texas Workforce Commission**. This month's total is 19,900 jobs more than at this time last year. Of the nonagricultural employers, Leisure & Hospitality gained 4,000 jobs over the previous 12 months; Education & Health Services gained 3,400 jobs; Professional & Business Services is up 3,100 jobs; Government is up 3,000 jobs; Manufacturing is up 1,600 jobs; Trade, Transportation & Utilities gained 1,500 jobs; Financial Activities added 1,400 jobs; Construction added 1,200 jobs over the year; Other Services and Mining added 900 and 300 jobs, respectively; The only industry to lose jobs over the year was the Information sector, with -500 jobs

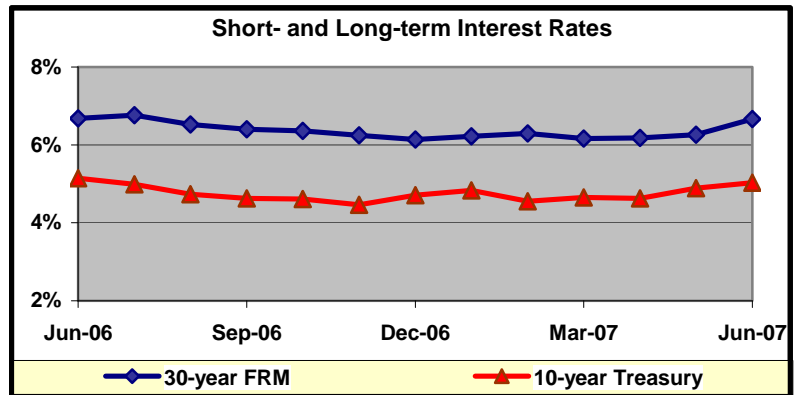


## Interest Rates

The yield on the **10-year Treasury** note rose to 5.03% in June 2007, down 0.11 points from its 5.14% yield one year ago.

The **30-year fixed-rate mortgage (FRM)** averaged 6.66% in June 2007. One year ago, the 30-year FRM was at 6.68%. The average for the **15-year FRM** in June was 6.34%, up 0.03 points from a year ago.

The **Prime Rate** in June was reported in the Wall Street Journal at 8.25%, up 0.25 points from a year ago.



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## Research & Consulting

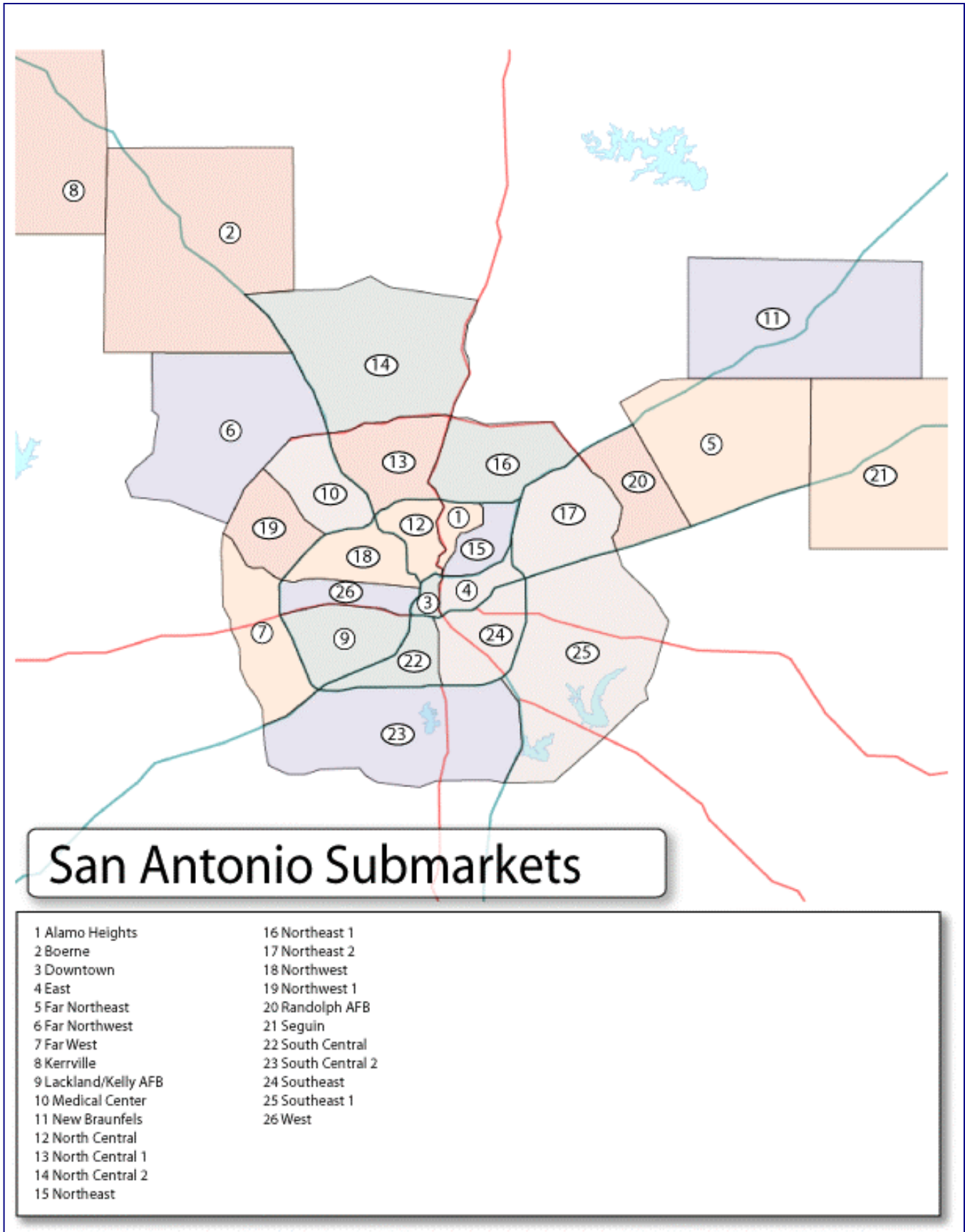
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## Data Collection

Our in-house research team continuously updates over 100 fields of data for nearly 6,000 apartment complexes in our database. We update at least 90% of properties on a monthly basis to generate accurate market trend reports on rents, concessions, occupancy, etc. Our monthly surveys also update other property-specific data such as fees, policies, management, and owner information. On a less-frequent basis we update amenities, schools, and other data fields that change rarely. We perform current and historical data audit after we close each month's survey to identify any data inconsistencies or incorrectly keyed values.

## Research

We monitor various news media, press releases, marketing materials, web-sites, CAD records, permit issuance, and other sources to capture new construction, planned projects, financing and sales. Our researchers conduct phone interviews with relevant developers, brokers, or lenders to gather information on new construction and sales. We add properties to our database on a regular basis to ensure we offer the most up-to-date and complete apartment database.

## Market Coverage

Our online apartment database covers all four major Texas metro markets – Austin, Dallas-Fort Worth, Houston, and San Antonio. The **Austin** market includes Caldwell, Hays, Travis, Bastrop, and Williamson counties. The **DFW** market covers Dallas, Tarrant, Wise, Denton, Collin, Hunt, Rockwall, Kaufman, Ellis, Johnson, Parker, and Erath counties. The **Houston** market includes Harris, Montgomery, Fort Bend, Brazoria, and Galveston counties (Brazos county is also included in the database but excluded from the trend reports). **San Antonio** includes Bexar, Comal, Guadalupe, Kendall, and Kerr counties.

We subdivide each market into submarkets (see map on previous page): Austin – 23 submarkets, DFW – 50 submarkets, Houston – 53 submarkets, San Antonio – 26 submarkets. The submarkets are based on neighborhood-style areas with defining boundaries such as major roads and other factors that establish a neighborhood. This approach allows the user to view distinct areas of properties that have evolved into their own sections of town and can be identified together.

## Glossary

**Absorption** = Change of Occupied Units, including new construction. Absorption is a proxy for demand.

**Occupancy** = Percentage of physically occupied units on property

**Pre-leased** = Net of percentage of units that have been pre-leased but not yet occupied and units on notice to be vacated.

**Rents** = Market rents (excluding any concessions)

**Class** = Properties are classified as A, B, C, D or Unclassified (U) based on various factors, such as age, location, amenities, curb appeal, overall condition, rents, etc. Class A properties are generally less than 10 years old, have excellent amenities, prime location, and great appeal, thus they tend to have highest rents. Older properties built in early 1900s that were converted from warehouses or office buildings, or older apartment projects that have had major renovations may also be classified as A. Class B properties are generally 10 to 20 years old, have prime location, good level of amenities, somewhat less appealing than Class A projects, in overall good condition. New affordable projects are also classified as B. Class C projects are usually 20 to 30 years old, have few amenities, poor location, and are not well maintained. Class D projects are generally more than 30 years old, in poor condition, have no or limited amenities, poor location and curb appealing. They tend to have lowest rents per unit (although per-square-foot rents may be high since the units are usually very small). Unclassified or Class U projects are senior housing, student housing, or other properties that have unusual lease terms, include meals with the rent, or other services, so their rents and occupancies are not good representative of the actual market. We exclude these from our statistical reports as they skew the averages for other classes.

## Reporting

Occupancy, Rent, and Absorption trend data is based on Operating, Under-construction, and Under-renovation projects, Classes A, B, C, and D (excluding Class U).