



San Antonio Apartment Market Update

Edited by Kathryn Koepke

\$399/year

3rd Quarter 2007

Affordability Shift

San Antonio has been a steady market for multifamily developments over the past couple of years and the current wave of new construction shows no sign of giving in through 2007. In 2006, 22 projects with nearly 5,100 units were delivered. Through the third quarter of 2007, over 1,400 units have been completed and another 3,800 units are currently under construction. Of the units completed this year, 604 are Class A market-rate projects, while 688 are affordable (rent-restricted) housing. The upcoming construction includes 1,993 units of Class A market-rate projects and over 1,600 units of affordable apartments.

Submarkets seeing the most new tax-credit developments in the San Antonio area include the New Braunfels, Boerne, Lackland/Kelly AFB, and Randolph AFB sectors. New Braunfels currently has the largest number of tax-credit units under construction as two properties containing 362 units are underway. Within the Boerne sector, there is one property with 264 units currently under construction. The Lackland/Kelly AFB and Randolph AFB sectors have over a combined 500 units under construction in two projects. Construction remains active in the South Central and West sectors as well with a total of 470 tax-credit units being delivered in those submarkets. Overall, the MacDonald Companies is currently the most active tax-credit developer in San Antonio, with a total of 374 units in the construction pipeline. San Antonio Housing Authority is next with 305 tax-credit units under construction in two regions.

Key driving factors in the surge in construction of income-restricted tax-credit developments is the growing economy and middle-class employment. According to the Texas Workforce Commission, the San Antonio MSA has added 14,400 jobs over the last twelve months, most of them in the working middle-class sectors, such as Mining & Construction, which added 800 jobs, Leisure & Hospitality employment is up 2,300 jobs, and Trade, Transportation, & Utilities added 1,800 jobs. Tax-credit properties are often times the most affordable housing options available to these workers in the San Antonio area. Current rental rates at the 77 operating area tax-credit properties average \$0.752 per square foot (psf), which is considerably lower than the overall market rental rate of \$0.840 psf. Demand for this type of housing in the San Antonio area is high, as indicated by the fact that occupancy at the tax-credit developments currently properties averages 91.72% and has been at or above 90% over the last year.

By: [Amanda Vasquez](#)

San Antonio Apartment Market at a Glance

	Class A	Class B	Class C	Class D	Overall	Qtr	Yr
Occupancy	92.55%	92.32%	89.76%	90.99%	91.44%	▲	▲
Rent/Unit	\$922	\$643	\$596	\$518	\$677	▲	▲
Rent/SF	\$1.005	\$0.839	\$0.766	\$0.697	\$0.840	▲	▲
Absorption	522	378	-161	23	762	▼	▼

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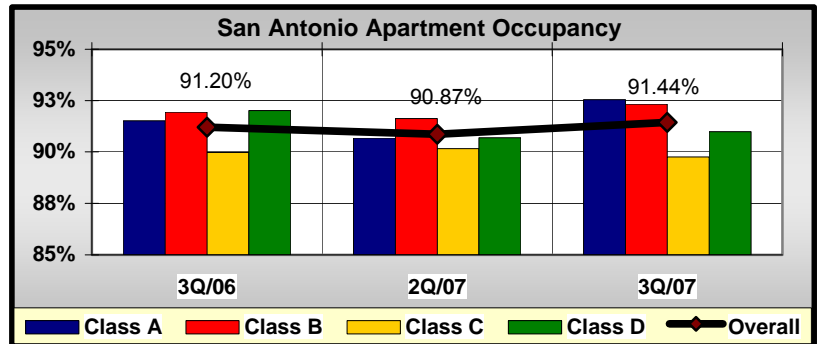
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Metro Occupancy Overview

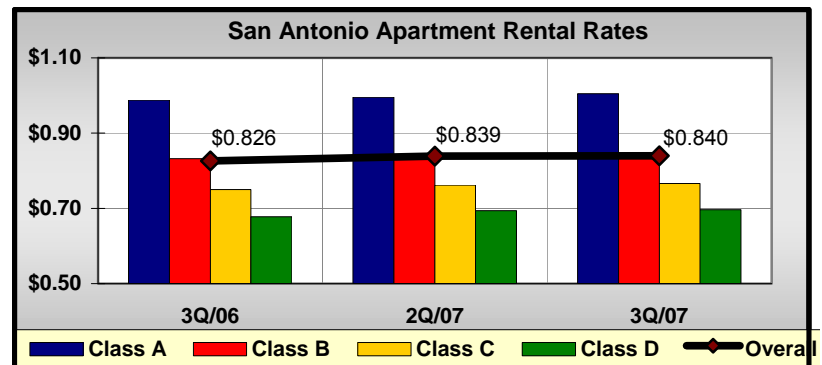
Occupancy continues to rebound in the third quarter after a drop in the fourth quarter of 2006, gaining 0.57 points to 91.44% from the second quarter of 2007. Occupancy is up 0.24 points above levels one year ago. The **Class A** market experienced the biggest increase in occupancy, up 1.88 points over the quarter; currently at 92.55%, occupancy is up 1.03 points since this time last year. Occupancy in the **Class B** market gained 0.70 points to 92.32%. Class B occupancy has increased 0.39 points over the past year. **Class C** occupancy lost 0.41 points over the quarter to 89.76%. Year-over-year occupancy in Class C is currently down 0.22 points. After a substantial loss in the second quarter of 2007, **Class D** occupancy gained 0.30 points over the quarter to 90.99%; occupancy is down still, 1.03 points since this time last year.



Quarter	Class A	Class B	Class C	Class D	Overall
3Q/06	91.52%	91.93%	89.98%	92.02%	91.20%
2Q/07	90.67%	91.62%	90.17%	90.69%	90.87%
3Q/07	92.55%	92.32%	89.76%	90.99%	91.44%

Metro Rent Overview

Rental rates posted yet another quarterly gain in 2007, increasing \$0.001 to \$0.840 per square foot (psf). Rents have increased \$0.014 psf over the past year. **Class A** rental rates gained \$0.005 psf over the third quarter to \$1.005 psf; rents are \$0.017 psf higher than one year ago; **Class B** rents declined for the first time since the fourth quarter 2005, decreasing \$0.003 psf over the quarter to \$0.839 psf. However, rents in the Class B market have risen \$0.007 psf in the last year. The **Class C** market posted a quarterly increase of \$0.004 psf. Currently at \$0.766 psf, Class C rents have increased \$0.016 psf over the past 12 months. **Class D** rents also increased \$0.003 psf over the third quarter to \$0.697 psf. Rental rates in the Class D market have gained \$0.019 psf since this time last year.



Quarter	Class A	Class B	Class C	Class D	Overall
3Q/06	\$0.988	\$0.832	\$0.750	\$0.678	\$0.826
2Q/07	\$1.000	\$0.842	\$0.762	\$0.694	\$0.839
3Q/07	\$1.005	\$0.839	\$0.766	\$0.697	\$0.840

Submarket Performance

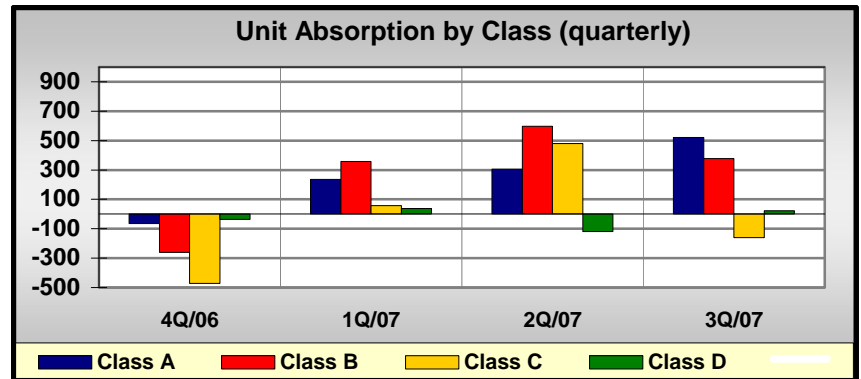
Of all the submarkets in the Greater San Antonio market, **Boerne** reported the highest occupancy at 98.41%, while the lowest average occupancy was recorded in the **Northeast** submarket at 85.36%. The highest average rental rates were reported in the **North Central 2** submarket at \$1.022 psf, while 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 85.15%. The highest Class B occupancy was found in the **Kerrville** submarket at 97.43%, while the **New Braunfels** submarket reported the lowest at 71.11%. **Boerne** reported the highest Class C occupancy at 100%, while the **West** submarket had the lowest at 80.41%. Class D occupancy was highest in the **North Central** submarket at 94.87%, while the **Northeast 1** submarket reported the lowest Class D occupancy at 70.00%.

The highest average Class A rents were found in the **Alamo Heights** submarket at \$1.165 psf, while the **Lackland/Kelly AFB** submarket again had the lowest at \$0.898 psf. Class B rents were highest in the **Alamo Heights** submarket at \$0.997 psf, and lowest in the **Kerrville** submarket at \$0.541 psf. The **Downtown** submarket had the highest Class C rents at \$0.903 psf, while the **Kerrville** submarket recorded the lowest at \$0.688 psf. The highest Class D rents were found in the **Randolph AFB** submarket at \$0.795 psf, while the **Northwest** submarket reported the lowest Class D rents at \$0.637 psf.

Metro Absorption Overview

Demand continues to rebound into the third quarter of 2007. The market absorbed 762 units over the quarter, driven primarily by positive absorption in the Class A and B markets. Absorption since this time last year stands at 1,883 units. The **Class A** market absorbed 522 units over the third quarter; Class A absorption over the past 12 months stands at 1,000 units. **Class B** quarterly absorption was 378 units. The Class B market has absorbed 1,072 units over the past year. The **Class C** market was the only class to post a negative quarterly absorption, at -161 units. Annual absorption remains negative at -95 units. The **Class D** market is in the black again at 23 units, bringing 12-month absorption to -94 units.



12-month Ending	Class A	Class B	Class C	Class D	Overall
3Q/05	475	425	98	277	1,275
3Q/06	1,691	772	279	-63	2,679
3Q/07	1,000	1,072	-95	-94	1,883

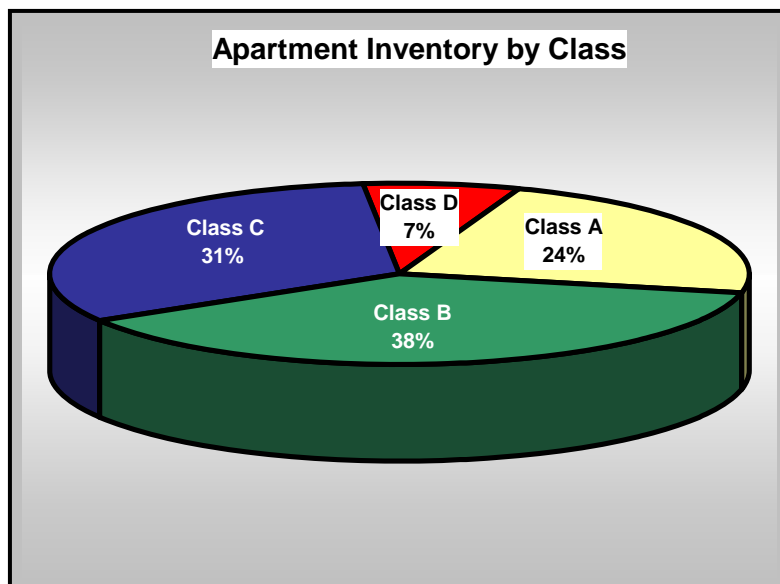
Submarket Performance

The **West** submarket posted the strongest absorption figures following the third quarter, absorbing 143 units, followed by the **North Central 2** submarket, which absorbed 140 units. The weakest demand was found in the **South Central** submarket, which posted absorption of -66 units.

Class A absorption was highest in the **North Central 2** submarket at 140 units, while the weakest figures were posted by the **Far Northwest, Kerrville, and Northeast** submarkets at -1 units each. The **West** submarket recorded the strongest Class B absorption at 175 units, while demand was weakest in the **Far West** submarket at -50 units. The **North Central 1** submarket posted the strongest absorption figures in Class C, absorbing 46 units, while absorption was weakest in the **Northeast** submarket at -62 units. The **Northeast 2** submarket posted the strongest absorption figures in Class D, absorbing 70 units, while absorption was weakest in the **West** submarket at -31 units.

Apartment Inventory

There are a total of 679 operating or under-construction projects (greater than 25 units) in the San Antonio metro market with a total of 137,136 units. Approximately 24% of the total units are Class A, 38% are Class B, 31% are Class C, and 7% are Class D. The chart and table below display Greater San Antonio apartment market inventory by class.



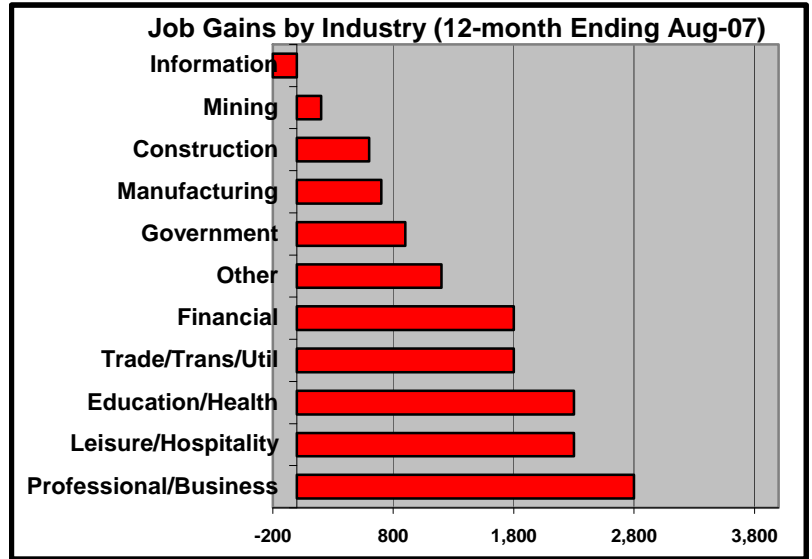
Operating	Projects	Units
Class A	118	30,099
Class B	221	49,173
Class C	252	41,063
Class D	72	9,326
TOTAL**	663	129,660

Under Cons.	Projects	Units
Class A	7	1,993
Class B *	7	1,600
Class C	1	75
TOTAL**	15	3,668

* 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 increased to 4.0%, while the total number of nonagricultural wage and salary jobs decreased to 828,800 in August 2007, according to the **Texas Workforce Commission**. This month's total is 14,400 jobs more than at this time last year. Of the nonagricultural employers, Leisure & Hospitality gained 2,300 jobs over the previous 12 months; Education & Health Services gained 2,300 jobs; Professional & Business Services is up 2,800 jobs; Government is up 900 jobs; Manufacturing is up 700 jobs; Trade, Transportation & Utilities gained 1,800 jobs; Financial Activities added 1,800 jobs; Construction added 600 jobs over the year; Other Services and Mining added 1,200 and 200 jobs, respectively; The only industry to lose jobs over the year was the Information sector, with -200 jobs

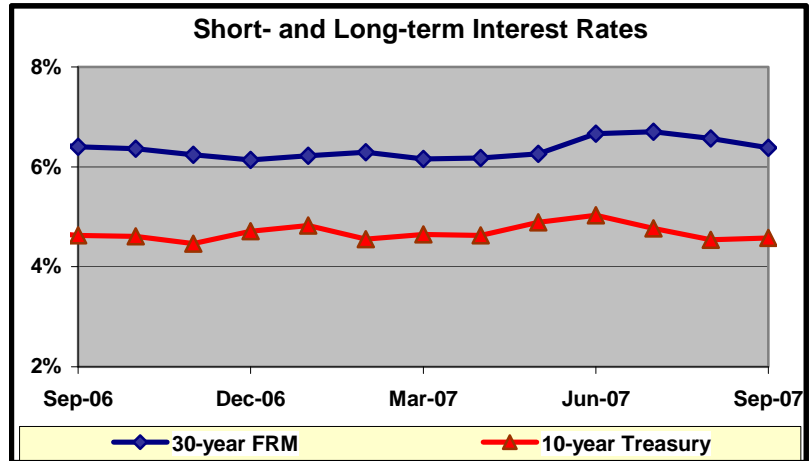


Interest Rates

The yield on the **10-year Treasury** note fell to 4.58% in September 2007, down 0.05 points from its 4.63% yield one year ago.

The **30-year fixed-rate mortgage (FRM)** averaged 56.38% in September 2007. One year ago, the 30-year FRM was at 6.40%. The average for the **15-year FRM** in September was 6.05%, down 0.03 points from a year ago.

The **Prime Rate** in September was reported in the Wall Street Journal at 7.75%, up 1.00 points from a year ago.



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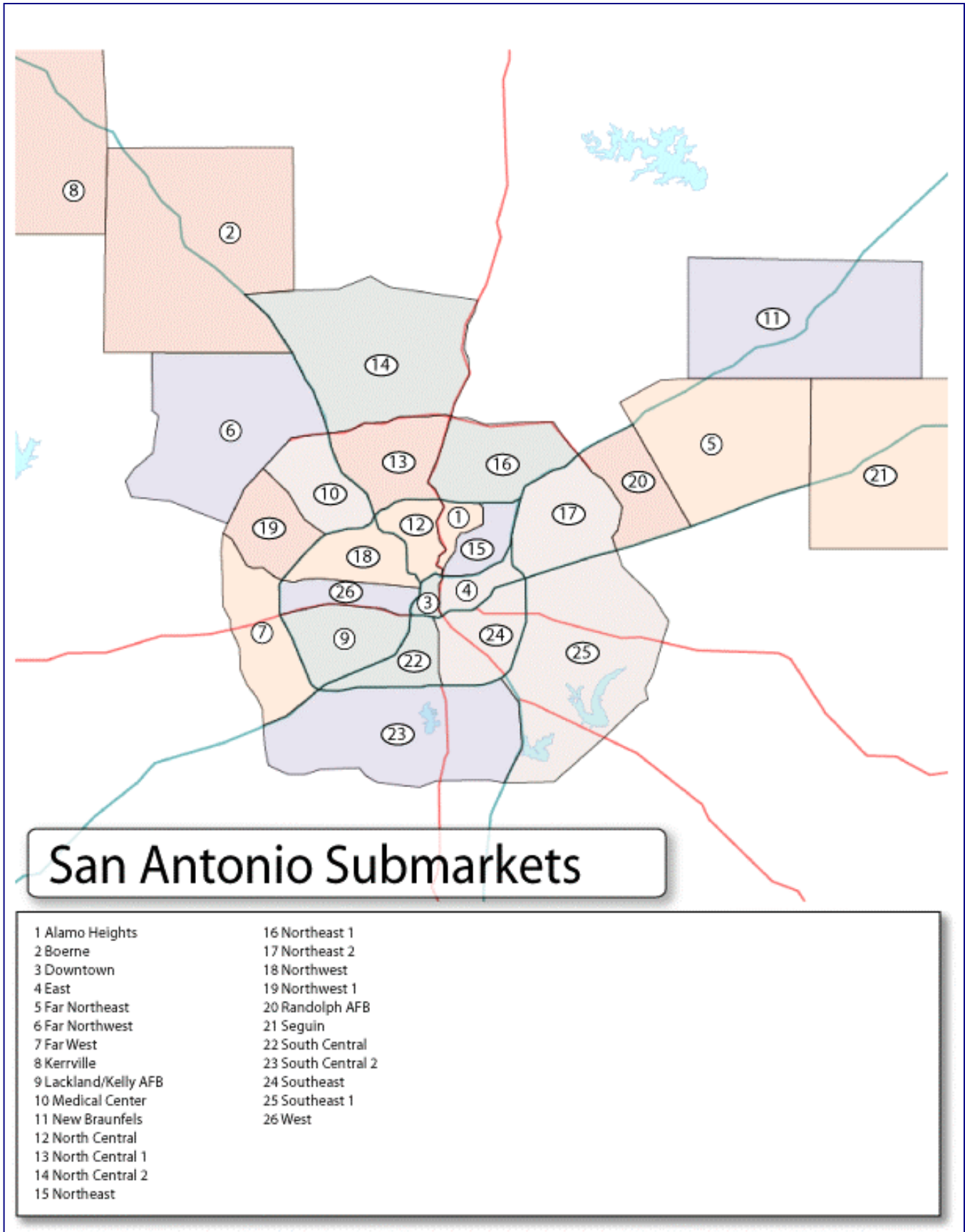
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For more information, contact Kathryn Koepke, 800-856-7325 x 239 or via e-mail kkoepke@pocconnor.com.



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).