

San Antonio Apartment Market Update

Edited by Kathryn Koepke

\$399/year

2nd Quarter 2006

No signs of construction slowing

San Antonio has been a hot market for multifamily developers over the past couple of years and the pall of new construction shows no sign of relenting through 2006. In 2005, 17 projects with nearly 3,500 units were delivered. During the first half of 2006, over 950 units have been completed and another 8,500 units are currently under construction. The year-end construction numbers for 2006 are likely to exceed 2005 totals. Of the units completed this year, 621 are Class A market-rate projects, while 330 are affordable (rent-restricted) housing. The upcoming construction includes 4,616 units of Class A market-rate projects and over 3,700 units of affordable apartments.

Submarkets seeing the most new developments in the San Antonio area include the Northwest 1, Medical Center, and North Central sectors. Northwest 1 currently has the largest number of units under construction as four properties containing 1,158 units are underway. Within the Medical Center, there are five properties with 1,000 units currently under construction. The North Central 1 and North Central 2 sectors combined have over 1,700 units under construction in six projects. Construction remains active in the South Central and Southeast sectors as well with a total of 1,406 units being delivered in those submarkets. Key driving factors in the southern regions are the air force bases and the new Toyota plant, which will employ an estimated 2,000 workers when production begins this year. Overall, Odyssey Residential Holdings is currently the most active developer in San Antonio, with a total of 992 units in the construction pipeline concentrated primarily in the southern submarkets. Southwest Housing Development is next with 744 units under construction in various regions. Both firms are active Tax Credit affordable housing developers.

With the construction activity remaining stronger than ever, there appears to be caution among property operators. The large waves of new construction hitting the market have had a negative impact on the occupancy levels at existing properties, driving citywide occupancy down to its current average of 90.97%. All classes, except Class A, reported falling occupancies this quarter, while Class B projects posted the largest occupancy loss. This may partly be an indication of Class B renters moving into newer Class A projects, which are becoming more affordable due to attractive rent concessions and move-in specials. The nominal rent increases in the market have been driven primarily by the new construction; however, effective rents are much lower due to increasing concessions. As property managers continue to compete for the hearts and pockets of the same renters, rent concessions are here to stay, at least for a while.

By: [Maria Fernandez](#)

San Antonio Apartment Market at a Glance

	Class A	Class B	Class C	Class D	Overall	Qtr	Yr
Occupancy	89.55%	92.05%	90.41%	92.25%	90.97%	▼	▼
Rent/Unit	\$898	\$634	\$580	\$500	\$659	▲	▲
Rent/SF	\$0.98	\$0.83	\$0.74	\$0.67	\$0.82	▲	▲
Absorption	393	-12	-220	-82	79	▼	▲

In This Issue

Occupancy & Rent Trends	2
<i>Current and Historical Trends</i>	
Absorption & Inventory.....	3
<i>Absorption, Current Market Inventory</i>	
Economic Fundamentals	4
<i>Job growth, Key Interest Rates</i>	
Market Map	5
<i>Submarket Boundaries</i>	
Methodology	6
<i>Research and Reporting, Definitions</i>	

Did you know?

O'Connor & Associates now offers online apartment market and property data in all four major Texas markets, Austin, DFW, Houston, and San Antonio. Brokers, lenders, investors, owners, and apartment vendors have relied on our superior research and accurate data for over decades!

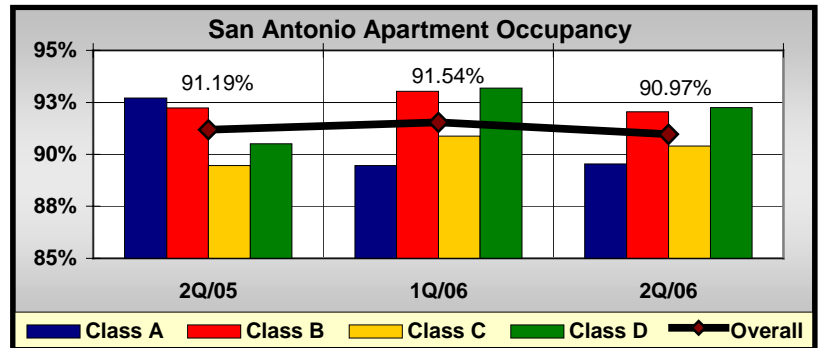
Visit <http://www.oconnordata.com> for more information, sample reports, and FREE trial registration.



O'Connor & Associates
 Research & Consulting Services
 1-800-856-REAL
www.poconnor.com
www.oconnordata.com

Metro Occupancy Overview

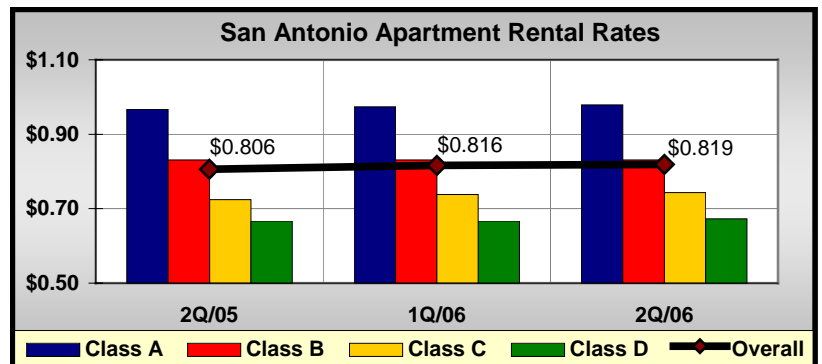
Overall occupancy posted a 0.57-point drop over the quarter slipping to 90.97%, the lowest level since mid-2004. All Classes, except Class A, reported occupancy decreases over the last quarter. The **Class A** market reported a 0.08-point increase in occupancy over the quarter, however, it remains 3.17 points below its level at this time last year. The slight increase in the Class A occupancy is an indication of steady lease-ups at recently built properties. **Class B** occupancy posted the largest quarterly loss with -0.98 points, plunging to 92.05% in the second quarter and remaining 0.19 points below the level at this time last year. **Class C** and **D** properties also reported occupancy drops over the quarter, currently at 90.41% and 92.25%, respectively. Despite the quarterly losses, both Class C and D occupancies remain above the levels at this time last year. While the annual occupancy gain in the Class C market is 0.94 points, Class D posted the healthiest annual gain with 1.17 points.



Quarter	Class A	Class B	Class C	Class D	Overall
2Q/05	92.72%	92.24%	89.47%	90.52%	91.19%
1Q/06	89.47%	93.03%	90.87%	93.19%	91.54%
2Q/06	89.55%	92.05%	90.41%	92.25%	90.97%

Metro Rent Overview

Overall rental rates in the San Antonio area continued their steady upward trend this quarter, reaching the highest rate on record at \$0.819 per square foot (psf), up \$0.003 over the quarter and \$0.013 over the year. Average **Class A** rents gained \$0.005 this quarter and \$0.012 over the year, reaching the current average of \$0.979 psf. **Class B** rents remained flat at \$0.831 psf over the second quarter and remain unchanged over the year. The **Class C** market posted rent growth of \$0.005 psf over the quarter. Class C properties report the highest year-over-year increase in rents, up \$0.019 to the current average of \$0.743 psf. **Class D** properties had a slightly larger quarterly gain with a \$0.006 psf increase in average rents. Currently at \$0.673 psf, Class D rents remain \$0.013 above last year's level. Rents are expected to remain on an upward trend, particularly in the Class A market, with another large construction wave entering the market next quarter.



Quarter	Class A	Class B	Class C	Class D	Overall
2Q/05	\$0.967	\$0.831	\$0.724	\$0.667	\$0.806
1Q/06	\$0.974	\$0.831	\$0.738	\$0.667	\$0.816
2Q/06	\$0.979	\$0.831	\$0.743	\$0.673	\$0.819

Submarket Performance

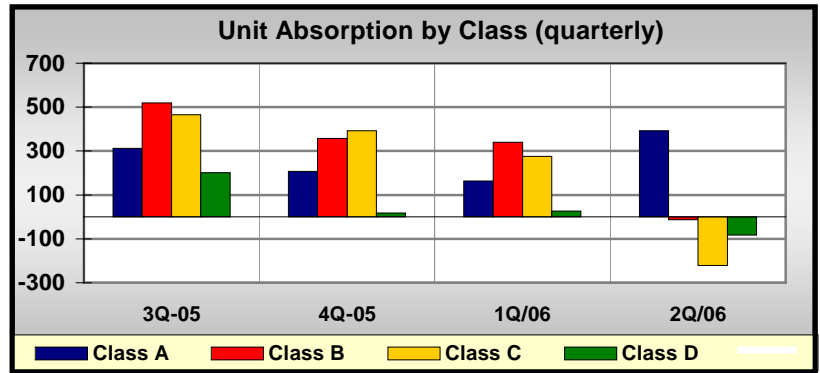
Of all the submarkets in the Greater San Antonio market, **Kerrville** reported the highest occupancy at 98.11%, while the lowest average occupancy was reported in the **New Braunfels** submarket at 83.40%. In terms of rental rates, the **Far Northeast** submarket reported the highest average rents at \$1.037 psf. The lowest average rents were reported in **Kerrville** at \$0.663 psf.

The best performing submarket in the Class A category is **Alamo Heights** (97.54%), in Class B is **Kerrville** (95.89%), in Class C is **Downtown** with only 2 Class C projects (99%), and in Class D **Kerrville** again leads the market with one fully occupied Class D project.

Downtown has the highest-priced Class A properties renting at \$1.098 psf, closely followed by the **Alamo Heights** submarket with average Class A rents at \$1.090 psf. In the Class B category, **Alamo Heights** leads the market at \$1.001 psf, in the Class C category **Downtown** gains the leading role again, while the highest Class D rents are found in the **Randolf AFB** submarket.

Metro Absorption Overview

All classes except Class A reported negative absorption in the second quarter. **Class A** properties continue experiencing strong demand posting another quarter of solid positive absorption with 393 units, more than double that of first quarter's Class A absorption. The 12-month absorption in the Class A category is also strong with 1,078 units absorbed. The **Class B** properties reported weak absorption with -12 units over the quarter. The year-over-year absorption, however, remains strong with over 1,200 units absorbed. The **Class C** market reported the largest drop in demand this quarter posting a negative absorption of 220 units. The 12-month absorption for Class C properties remains strong with over 917 units. Absorption in the **Class D** market was also negative this quarter at -82 units but remains positive for the year. Overall, despite the negative quarterly absorption figures, all Classes have enjoyed strong demand in the past 12 months.



12-month Ending	Class A	Class B	Class C	Class D	Overall
2Q/04	953	342	-894	-131	270
2Q/05	670	108	-220	70	628
2Q/06	1,078	1,206	917	166	3,365

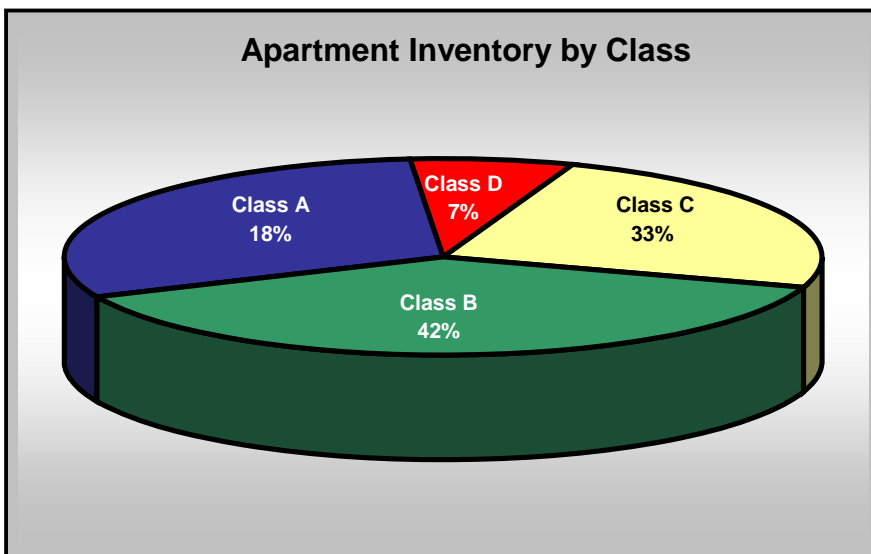
Submarket Performance

Strong demand was reported in the **North Central 2** submarket with over 140 units absorbed over the past three months. Of all the submarkets, 11 reported negative absorption this quarter. **Northeast 2** was hit the hardest with -98 units, followed by the **South Central 2** and **East** submarkets with -54 and -51 units, respectively.

In the Class A or B categories, three of the North Central area submarkets report strongest demand, with **North Central 2** leading the Class A market and **North central 1** leading the Class B market. Most of the submarkets posted negative absorption for Class C properties, with the largest loss in the **Southeast** submarket (-64 units) and the largest gain in the **Randolph AFB** sector (20 units). Of the 15 submarkets with Class D properties, only **Southeast** and **Northeast 2** posted positive demand with 11 and 1 units, respectively.

Apartment Inventory

There are a total of 693 operating or under-construction projects (greater than 25 units) in the San Antonio metro market with a total of 135,848 units. Approximately 48% of the total units is Class A, 25% is Class B, 18% is Class C, and 9% is Class D. The chart and table below display Greater San Antonio apartment market inventory by class.



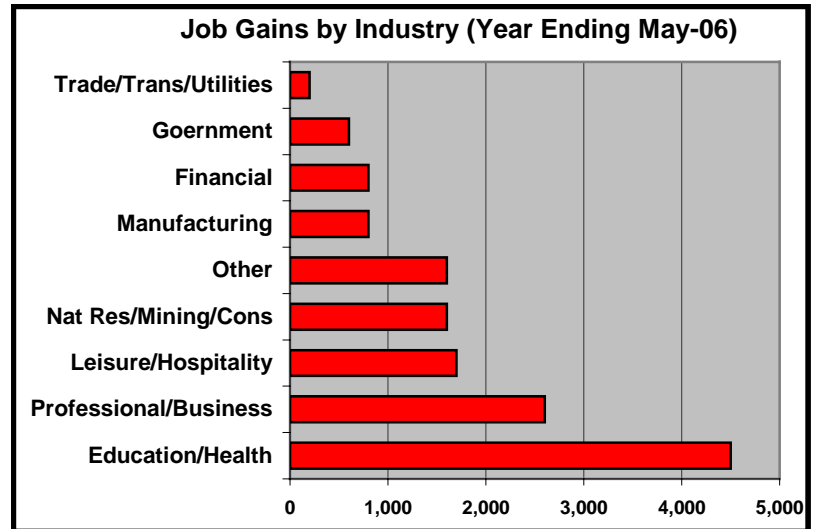
Operating	Projects	Units
Class A	116	29,029
Class B	215	48,241
Class C	255	41,424
Class D	72	9,326
TOTAL**	658	128,020

Under Cons.	Projects	Units
Class A	20	4,366
Class B *	15	3,462
TOTAL**	35	7,828

* Class B includes primarily 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 5.2%, while the total number of nonagricultural wage and salary jobs increased to 796,700 in May 2006, according to the **Texas Workforce Commission**. This month's total is 13,800 jobs more than at this time last year. Of the nonagricultural employers, Education & Health Services gained 4,500 jobs over the previous 12 months; Professional & Business Services gained 2,600 jobs; Leisure & Hospitality is up 1,700 jobs; Natural Resources and Government sectors each added 1,600 jobs; and Manufacturing and Financial sectors each added 800 jobs. The only industry to lose jobs over the year was the Information sector with -600 jobs. The largest monthly gain was in the Leisure & Hospitality industry driven by seasonal factors.

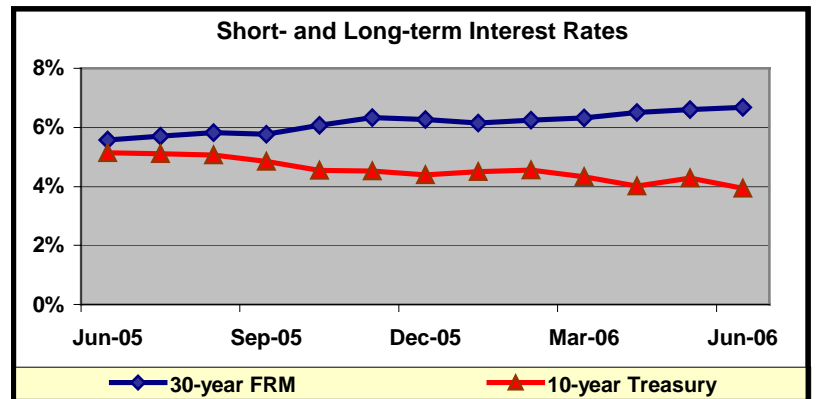


Interest Rates

The yield on the **10-year Treasury** note rose to 5.14% on the last Friday of June 2006, up 1.2 points from its 3.94% yield one year ago.

The **30-year fixed-rate mortgage (FRM)** averaged 6.68% in June 2006, the highest level since January 2002. One year ago, the 30-year FRM was at 5.58%. The average for the **15-year FRM** in June was 6.31%, the highest level since January 2002 and up 1.14 points from a year ago.

The **Prime Rate** in June was reported in the Wall Street Journal at 8.25%, up 2.00 points from a year ago. It is now at the highest rate since February 2001.



Apartment Data News Release

O'Connor & Associates is pleased to re-launch the **ApartmentLink**, the best online apartment data source in Texas, previously offered by **Monarch Data**. Some of the upgrades and enhancements made to the platform include:

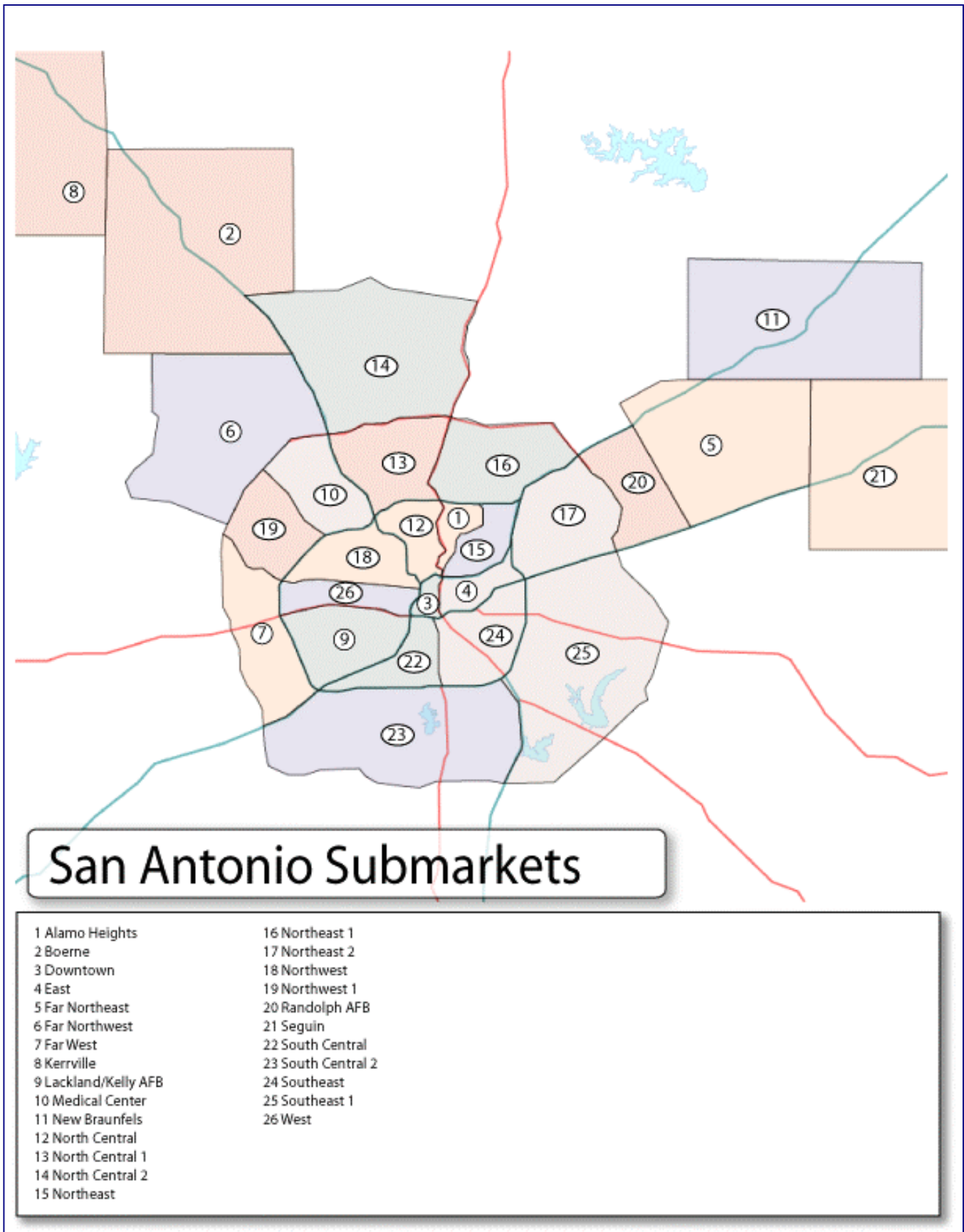
- ◆ Ownership Information
- ◆ More comprehensive data
- ◆ More search options
- ◆ More analytical reports
- ◆ More user-friendly
- ◆ Mapping & emailing options
- ◆ Excel exporting function
- ◆ Monthly updates, real-time data

All this and more now available at your fingertips from a company trusted by apartment industry leaders for over 30 years!

Contact us for a Free Trial registration or visit

www.OconnorData.com

Austin.....Dallas/Fort Worth.....Houston.....San Antonio



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).