

San Antonio Apartment Market Update

Edited by Kathryn Koepke

\$399/year

3rd Quarter 2006

Bustling 'Burbs

Just about every other major city in Texas has seen a boom in the housing market in and around its downtown area recently. While San Antonio's downtown has definitely caught the eye of developers, many of whom see the historic buildings there as perfect candidates for renovation into Class A complexes, the outlying areas of the city still seem to have more appeal in the eyes of most renters as evidenced by 2006 absorption. San Antonio's Downtown submarket has posted absorption of -2 units over the first three quarters of 2006.

In contrast, many of the submarkets removed from San Antonio's core have turned in strong performances so far in 2006. The Northwest 1 sector, between Loop 410 and Loop 1604 on the northwest side, has set the pace with 406 units absorbed to date this year. The Medical Center submarket continues to record healthy absorption figures thanks to its proximity to major area employers; it has absorbed 255 units through the first three quarters of the year. Outside Loop 1604, the North Central 2 submarket, which has only Class A complexes, has absorbed 333 units so far this year. While most of the demand is surfacing in the northern part of the city, the Southeast submarket has recorded strong demand figures as well, absorbing 224 units over the first nine months of 2006.

For now, living in the suburbs is still the way to go for most residents. Many of the areas on the north side between Loop 410 and Loop 1604 have a dual appeal, as there are several employment centers in the area, and there is the added bonus of more open space. Affluent residents continue to flock even further out to areas north of Loop 1604, as the beautiful views and recreational opportunities in the area are a major draw. Furthermore, the suburbs have additional appeal to families due to their superior school systems and safe neighborhoods. San Antonio's relative lack of traffic, at least compared to other large Texas cities, is also a factor, as most parts of town are easy to get to at any time of day. Downtown San Antonio has long been popular with tourists, but it will likely be a few years before large numbers of residents abandon their two-acre lots, three-car garages, and Hill Country views in favor of two-bedroom, 1,000-square-foot condos within walking distance of the Riverwalk.

By: [Chris Law](#)

San Antonio Apartment Market at a Glance

	Class A	Class B	Class C	Class D	Overall	Qtr	Yr
Occupancy	91.52%	91.93%	89.98%	92.02%	91.20%	▲	▼
Rent/Unit	\$909	\$636	\$585	\$503	\$666	▲	▲
Rent/SF	\$0.988	\$0.832	\$0.751	\$0.678	\$0.826	▲	▲
Absorption	926	342	-182	-27	1,059	▲	▼

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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!

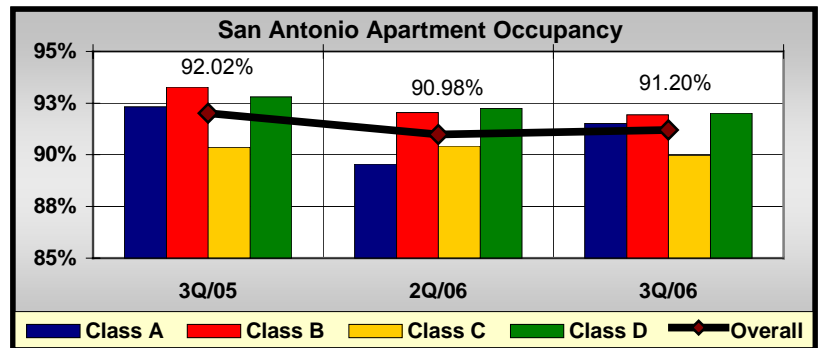
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Metro Occupancy Overview

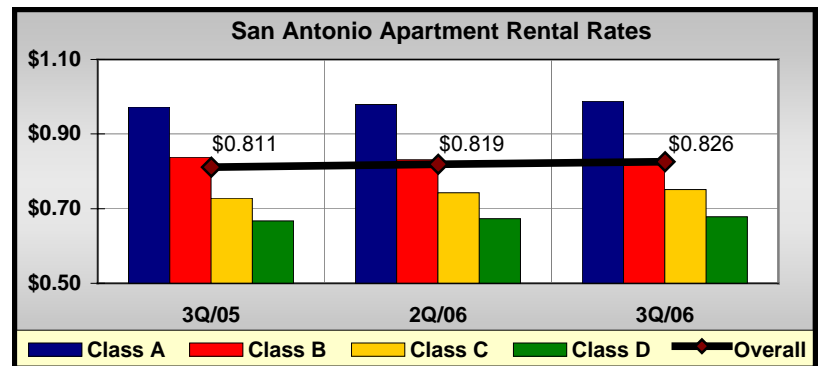
Despite decreases in all classes except Class A, overall occupancy increased 0.22 points over the third quarter to 91.20%. However, overall occupancy has decreased 0.82 points since this time last year. The **Class A** market drove up the overall figures with a healthy 1.97-point increase. Currently at 91.52%, Class A occupancy is down 0.81 points from this time last year. **Class B** occupancy posted a slight decrease, slipping 0.12 points to 91.93%. Occupancy in Class B has decreased 1.35 points over the last year, the largest year-over-year decrease of any class. The **Class C** market posted the largest decrease of any class over the quarter, decreasing 0.44 points to 89.98%; Class C occupancy has decreased 0.39 points over the past 12 months. Occupancy in **Class D** decreased for the second straight quarter, losing 0.23 points over the quarter to 92.02%, and has dropped 0.79 points over the last year.



Quarter	Class A	Class B	Class C	Class D	Overall
3Q/05	92.33%	93.28%	90.37%	92.81%	92.02%
2Q/06	89.55%	92.05%	90.42%	92.25%	90.98%
3Q/06	91.52%	91.93%	89.98%	92.02%	91.20%

Metro Rent Overview

Overall rental rates reached another record high in the third quarter, gaining \$0.007 psf over the quarter to \$0.826 per square foot (psf). Average rents rose for all classes over the quarter and overall rents have increased \$0.015 since this time last year. The **Class A** market posted the largest quarterly increase of any class, as average rents increased \$0.009 to \$0.988 psf. Rents in Class A have increased \$0.016 psf over the last year. **Class B** rents posted a small increase of \$0.001 psf over the quarter, but have decreased \$0.006 over the past 12 months to \$0.832 psf. Rents in **Class C** continued their robust increase, gaining \$0.008 over the quarter to \$0.751 psf. Class C rents have increased \$0.023 psf over the last year. After remaining flat for several quarters, **Class D** rents posted their second straight quarterly increase, gaining \$0.005 to \$0.678 psf, and have increased \$0.011 from levels at this time last year.



Quarter	Class A	Class B	Class C	Class D	Overall
3Q/05	\$0.972	\$0.838	\$0.728	\$0.667	\$0.811
2Q/06	\$0.979	\$0.831	\$0.743	\$0.673	\$0.819
3Q/06	\$0.988	\$0.832	\$0.751	\$0.678	\$0.826

Submarket Performance

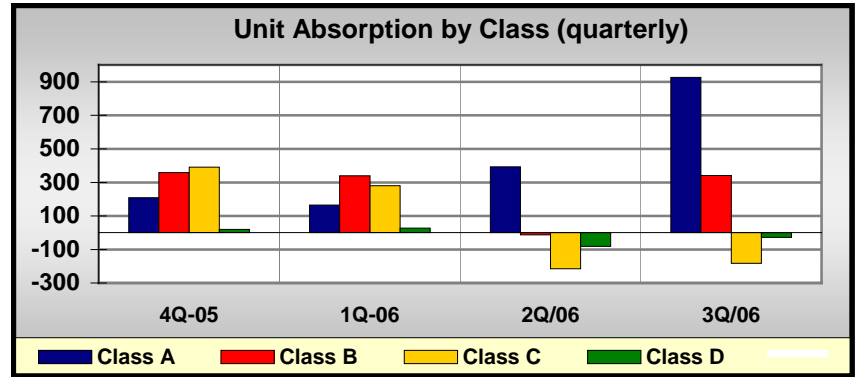
Of all the submarkets in the Greater San Antonio market, **Kerrville** reported the highest occupancy at 98.59%, while the lowest average occupancy was reported in the **Seguin** submarket at 78.62%. The highest average rental rates were reported by the **North Central 2** and **Far Northwest** submarkets, at \$1.017 psf and \$0.957 psf, respectively, while the **Kerrville** submarket had the lowest at \$0.670 psf.

The **Northwest** submarket posted the highest Class A occupancy at 99.00%, while the **Randolph AFB** submarket posted the lowest at 73.92%. Class B occupancy was highest in the **Far Northwest** submarket at 98.00%, while the lowest Class B occupancy was found in **Seguin** at 73.70%. The highest Class C occupancy was found in the **Kerrville** submarket at 99.04%, while the **Northeast 2** submarket had the lowest at 83.33%. **Kerrville** also led the way in Class D with one fully occupied project, while the lowest occupancy was found in the **Northeast 1** submarket at 80.00%.

The highest average Class A rents are found in the **Downtown** submarket at \$1.147 psf, while the lowest are found in **Lackland/Kelly AFB** at \$0.807 psf. **Alamo Heights** features the highest Class B rents at \$0.997 psf, while **Kerrville** has the lowest at \$0.532 psf. Class C rents are highest in the **Downtown** submarket at \$0.898 psf, and lowest in the **West** submarket at \$0.666 psf. The **Randolph AFB** submarket reports the highest Class D rents at \$0.821 psf, while the lowest are found in the **Northwest** submarket at \$0.611 psf.

Metro Absorption Overview

Overall demand was strong over the third quarter, as the market absorbed 1,059 units, bringing 12-month absorption to 2,931 units. The **Class A** market led the way, absorbing a whopping 926 units over the quarter. Year-over-year absorption in Class A is the highest of any class, at 1,691 units. **Class B** absorption was robust as well, at 342 units; 12-month absorption in Class B now stands at 1,028 units. Absorption in **Class C** was the weakest of any class over the third quarter, as the market absorbed -182 units. Yearly Class C absorption is now at 275 units. The **Class D** market posted negative absorption over the quarter as well, at -27 units, bringing year-over-year absorption to -63 units.



12-month Ending	Class A	Class B	Class C	Class D	Overall
3Q/04	850	465	-624	-48	643
3Q/05	475	423	97	207	1,272
3Q/06	1,691	1,028	275	-63	2,931

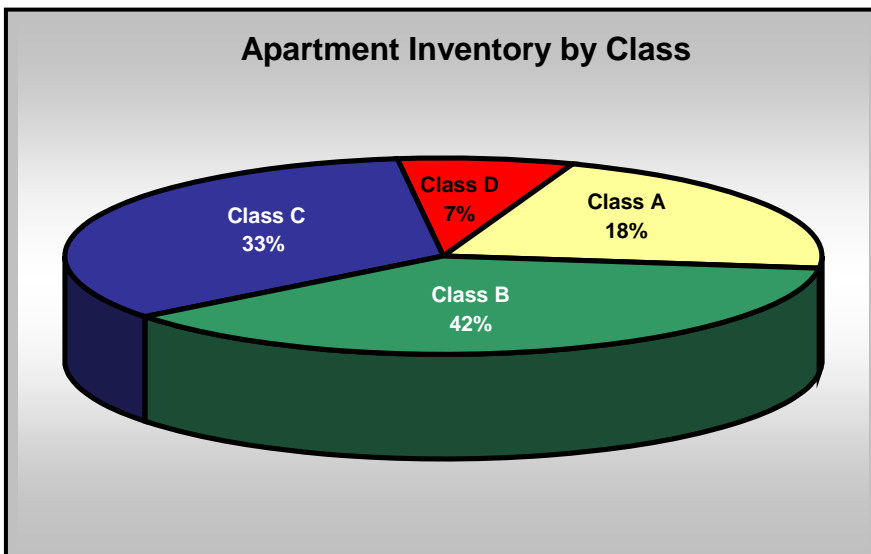
Submarket Performance

The **Northwest 1** submarket posted the highest absorption figures over the third quarter, absorbing 395 units, with the **North Central 2** submarket absorbing 220 units. The weakest figures were recorded by the **Northeast 1** and **Lackland/Kelly AFB** submarkets, which absorbed -94 and -58 units, respectively.

The **Northwest 1** and **North Central 2** submarkets reported the strongest demand in Class A, absorbing 245 and 220 units, respectively. The **Northwest 1** submarket also had the highest Class B absorption at 155 units, followed by the **Medical Center** at 144 units. Class C demand was weak over the quarter, with the **North Central 1** submarket posting one of the only positive figures in the class at 67 units, while the **Medical Center** submarket recorded absorption of -105 units. The strongest absorption figures in Class D were found in the **South Central** submarket, at 41 units, while the lowest were recorded by the **Lackland/Kelly AFB** submarket at -28 units.

Apartment Inventory

There are a total of 659 operating or under-construction projects (greater than 25 units) in the San Antonio metro market with a total of 128,246 units. Approximately 18% of the total units is Class A, 42% is Class B, 33% is Class C, and 7% is Class D. The chart and table below display Greater San Antonio apartment market inventory by class.



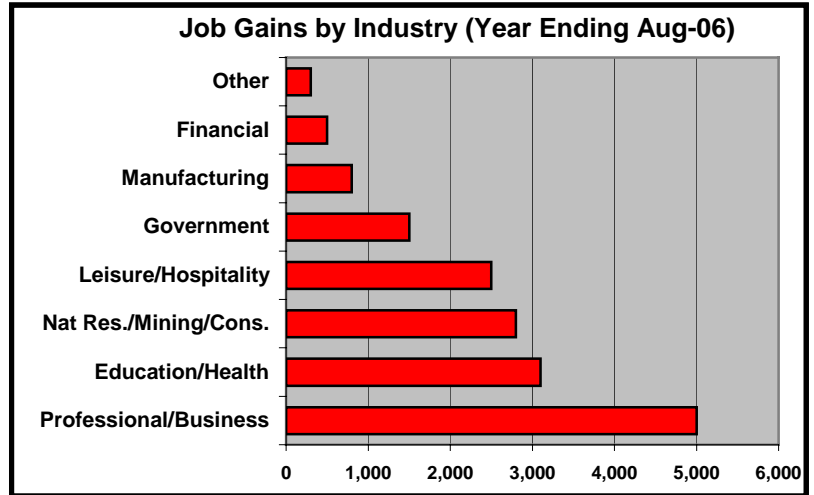
Operating	Projects	Units
Class A	104	26,467
Class B	206	46,039
Class C	254	41,320
Class D	72	9,326
TOTAL**	634	122,959

Under Cons.	Projects	Units
Class A	9	2,156
Class B *	13	2,863
TOTAL**	24	5,287

* 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 decreased to 4.8%, while the total number of nonagricultural wage and salary jobs increased to 798,400 in August 2006, according to the **Texas Workforce Commission**. This month's total is 15,400 jobs more than at this time last year. Of the nonagricultural employers, Professional & Business Services gained 5,000 jobs over the previous 12 months; Education & Health Services gained 3,100 jobs; Natural Resources, Mining, & Construction is up 2,800 jobs; Leisure & Hospitality is up 2,500 jobs; and Government added 1,500 jobs. The only industries to lose jobs over the year were the Trade, Transportation, & Utilities and Information sectors with -600 and -500 jobs, respectively. The largest monthly gains were in the Government and Education & Health Services sectors.

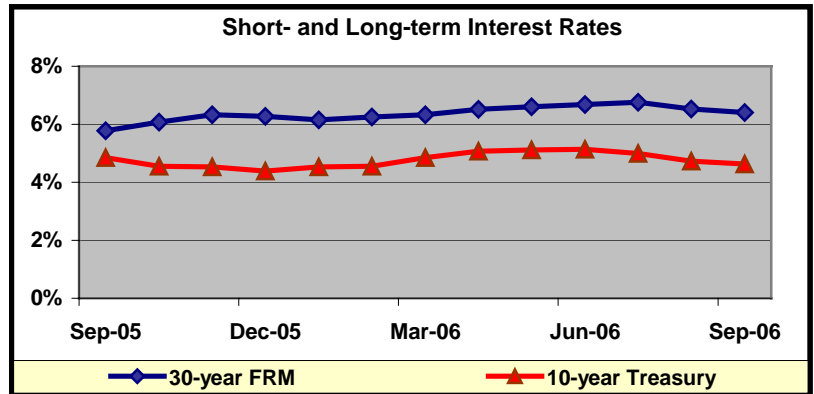


Interest Rates

The yield on the **10-year Treasury** note rose to 4.62% on the first business day of October 2006, up 0.23 points from its 4.39% yield one year ago.

The **30-year fixed-rate mortgage (FRM)** averaged 6.40% in September 2006. One year ago, the 30-year FRM was at 5.77%. The average for the **15-year FRM** in June was 6.08%, up 0.72 points from a year ago.

The **Prime Rate** in June was reported in the Wall Street Journal at 8.25%, up 1.50 points from a year ago..



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:

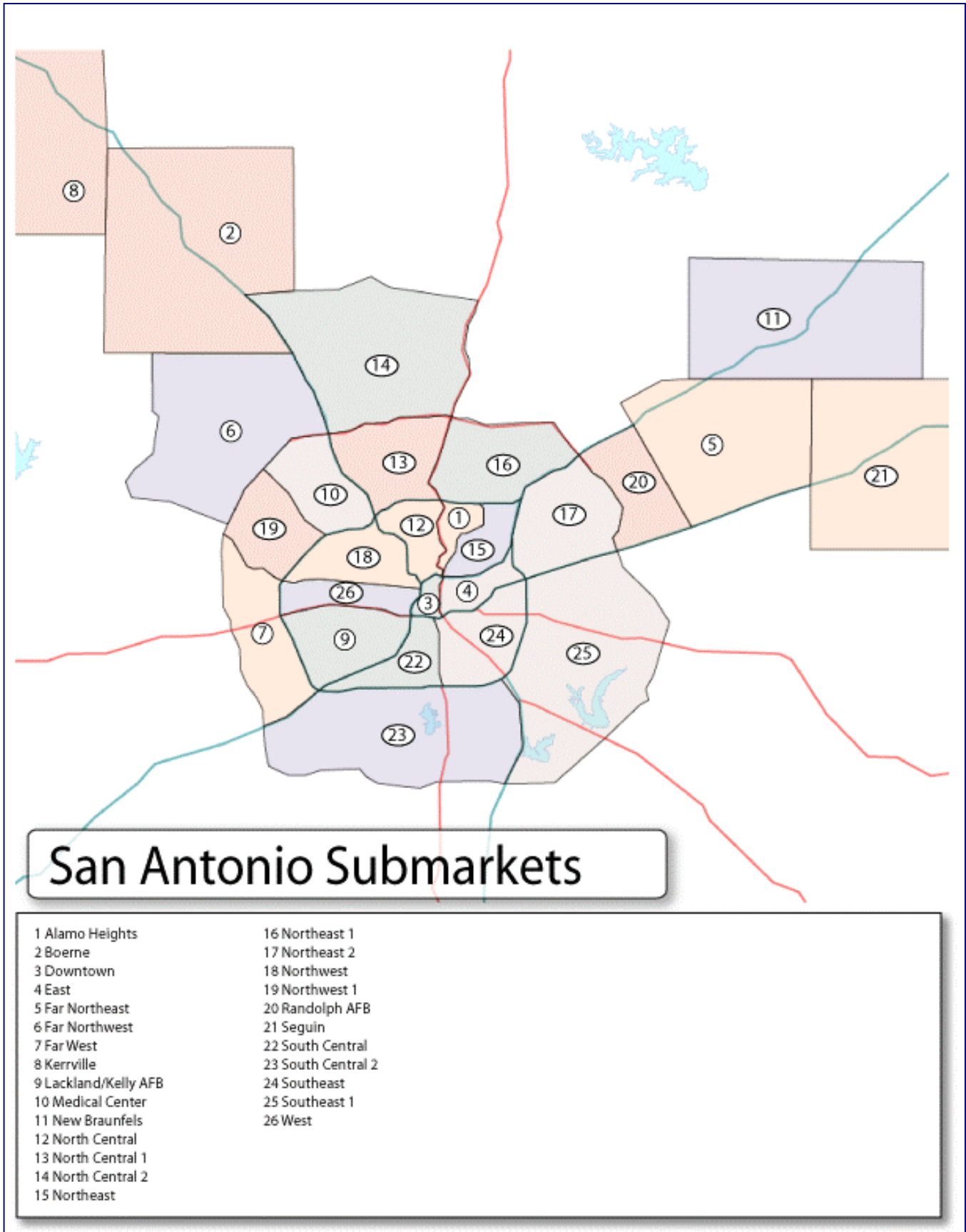
- ◆ Ownership Information
- ◆ More comprehensive data
- ◆ More search options
- ◆ More analytical reports
- ◆ More user-friendly
- ◆ Mapping & emailing options
- ◆ Excel exporting function
- ◆ Monthly updates, real-time data

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

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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).