

San Antonio Apartment Market Update



Edited by Kathryn Koepke

\$399/year

4th Quarter 2006

More on the Effects of Katrina

In the wake of Hurricane Katrina approximately 16 months ago, San Antonio caught the nation's eye when between 25,000 and 50,000 evacuees made their way to the Alamo City. The city responded swiftly with makeshift shelters and food, and San Antonians received praise and recognition nationwide. Since then, although many of those who came to San Antonio after the hurricane remain, talk of the hurricane and the evacuees has tapered off, save for the occasional news article or personal interest story on the evening news. Current estimates indicate between 12,000 and 15,000 evacuees remain.

However, the effects of the thousands of evacuees in San Antonio is certainly not over. The ongoing debate about when FEMA would cut off assistance to hurricane evacuees has ended, as FEMA announced plans to cease assistance to evacuees at the end of February. Although FEMA has gone back and forth on this issue, it is unlikely that assistance will again be extended, as Congress would have to intervene. Most significant for those who follow the apartment market is the fact that FEMA will no longer provide money for rent payments for evacuees' apartment units. While figures are hard to find, it is likely that many evacuees are unemployed; it was recently estimated that two-thirds of evacuees in Texas do not have jobs. Many of those who are employed may not earn enough to cover the rent at their apartment without the voucher assistance.

What all of this adds up to is that many apartment units could be vacated in the coming month or two. Many areas of town are likely to be affected. Areas with a high concentration of apartment units, such as the Medical Center area, may see more move-outs than other parts of town. It is difficult to predict exactly how many units will be vacated as evacuee surveys have indicated nearly half plan to stay. The vacated units may drive occupancy levels down substantially, or, thanks to relatively good fundamentals, it may register as little more than a blip on the radar. Rents and concessions could also be affected, as landlords may respond to higher vacancies by offering better deals for potential tenants. It will be interesting to watch the changes taking place as the San Antonio apartment market closes a chapter.

By: [Chris Law](#)

San Antonio Apartment Market at a Glance

	Class A	Class B	Class C	Class D	Overall	Qtr	Yr
Occupancy	90.36%	90.92%	88.76%	91.55%	90.13%	▼	▼
Rent/Unit	\$912	\$637	\$588	\$508	\$668	▲	▲
Rent/SF	\$0.992	\$0.832	\$0.755	\$0.684	\$0.829	▲	▲
Absorption	-64	-261	-473	-36	-834	▼	▲

In This Issue

Occupancy & Rent Trends 2

Current and Historical Trends

Absorption & Inventory..... 3

Absorption, Current Market Inventory

Economic Fundamentals 4

Job growth, Key Interest Rates

Market Map 5

Submarket Boundaries

Methodology 6

Research and Reporting, Definitions

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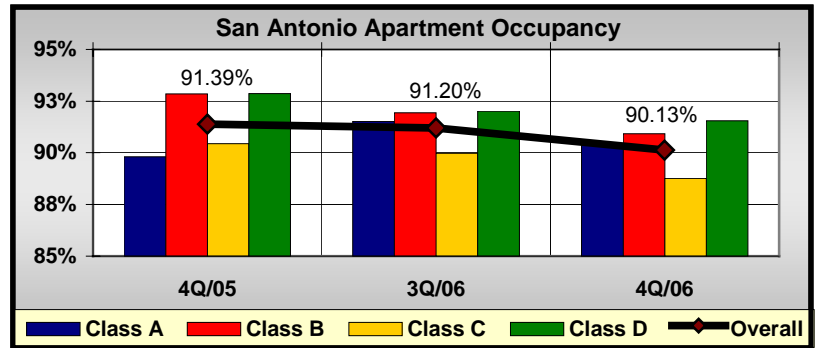
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Metro Occupancy Overview

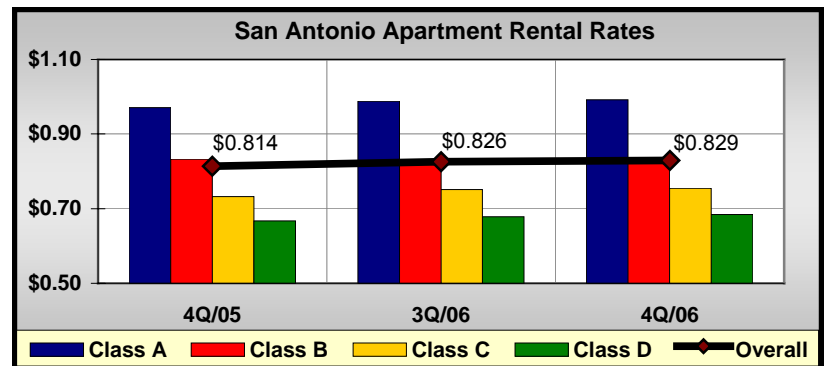
Decreases in occupancy in all classes fueled a 1.07-point decrease in overall occupancy over the fourth quarter. Currently at 90.13%, occupancy has declined 1.26 points since this time last year. After a strong third quarter, **Class A** occupancy declined 1.16 points over the fourth quarter to 90.36%. However, Class A occupancy is up 0.55 points over the past year. Occupancy in **Class B** fell 1.01 points to 90.92%, and has slid 1.93 points over the past 12 months. The **Class C** market continued its steep decline, as occupancy fell 1.22 points over the quarter to 88.76%, the largest quarterly decrease of any class. Year-over-year occupancy in Class C is currently down 1.68 points. **Class D** occupancy decreased 0.47 points over the quarter to 91.55%, bringing the yearly decrease to 1.32 points.



Quarter	Class A	Class B	Class C	Class D	Overall
4Q/05	89.81%	92.85%	90.44%	92.87%	91.39%
3Q/06	91.52%	91.93%	89.98%	92.02%	91.20%
4Q/06	90.36%	90.92%	88.76%	91.55%	90.13%

Metro Rent Overview

Overall rental rates continued to climb over the fourth quarter, increasing \$0.003 psf over the quarter to \$0.829 per square foot (psf). Rents have increased \$0.015 over the past 12 months. Rental rates in **Class A** gained \$0.004 psf over the quarter to \$0.992 psf, bringing the year-over-year increase to \$0.021 psf. **Class B** was the only class not to post an increase in average rents, as rents remained flat at \$0.832 psf. Class B rents have declined \$0.001 psf since this time last year. The **Class C** market posted a seventh straight quarterly increase, as rents gained \$0.004 psf over the quarter to \$0.755 psf. Class C rents have increased \$0.023 psf over the last year. **Class D** recorded the largest quarterly increase, as rents rose \$0.006 psf over the quarter. Currently at \$0.684 psf, rents in Class D have gained \$0.017 psf over the last four quarters.



Quarter	Class A	Class B	Class C	Class D	Overall
4Q/05	\$0.971	\$0.833	\$0.732	\$0.667	\$0.814
3Q/06	\$0.988	\$0.832	\$0.751	\$0.678	\$0.826
4Q/06	\$0.992	\$0.832	\$0.755	\$0.684	\$0.829

Submarket Performance

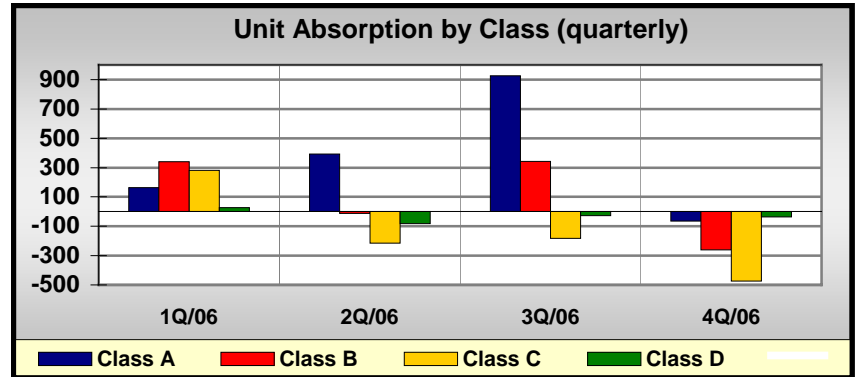
Of all the submarkets in the Greater San Antonio market, **Kerrville** reported the highest occupancy at 98.38%, while the lowest average occupancy was found in the **South Central 2** and **Southeast** submarkets at 83.74% and 83.76%, respectively. The highest average rental rates were found by the **North Central 2** and **Far Northwest** submarkets, at \$1.017 psf and \$0.981 psf, respectively, while the **Kerrville** submarket recorded the lowest at \$0.670 psf.

Of submarkets with more than one project, the **Boerne** submarket posted the highest Class A occupancy at 97.31%, while the lowest was found in the **Lackland/Kelly AFB** submarket at 71.50%. The highest Class B occupancy was found in **Kerrville** at 98.46%, while the lowest Class B occupancy was reported by the **South Central** submarket at 72.36%. **Kerrville** also had the highest Class C occupancy at 98.60%, while the lowest was recorded in the **Southeast** submarket at 77.38%. The **West** submarket posted the highest occupancy in Class D at 97.11%, while the **Lackland/Kelly AFB** submarket had the lowest at 84.18%.

The highest average Class A rents were found in the **Downtown** submarket at \$1.147 psf, while the **Lackland/Kelly AFB** submarket recorded the lowest at \$0.798 psf. **Alamo Heights** recorded the highest Class B rents at \$0.997 psf, while the lowest were found in **Kerrville** at \$0.532 psf. The **Downtown** submarket had the highest Class C rents at \$0.898 psf, while the **West** submarket had the lowest at \$0.674 psf. The **Randolph AFB** submarket reported the highest Class D rents at \$0.821 psf, while the lowest were found in the **Northwest** submarket at \$0.617 psf.

Metro Absorption Overview

After a strong third quarter, demand fell off sharply in the fourth quarter, as all classes posted negative absorption and the market absorbed -834 units. Absorption over the last 12 months now stands at 1,121 units. The **Class A** market posted its first quarter of negative absorption in three years, absorbing -64 units over the quarter. Class A absorption since this time last year stands at 1,419 units. **Class B** demand was weak, as the market absorbed -261 units, bringing annual absorption to 409 units. **Class C** absorption was the weakest of any class, as -473 units were absorbed over the quarter, bringing yearly absorption into the red at -589 units. The **Class D** market posted a third straight quarter of negative absorption, absorbing -36 units. Absorption since this time last year in Class D is -118 units.



12-month Ending	Class A	Class B	Class C	Class D	Overall
4Q/04	990	668	-10	113	1,761
4Q/05	629	813	611	271	2,324
4Q/06	1,419	409	-589	-118	1,121

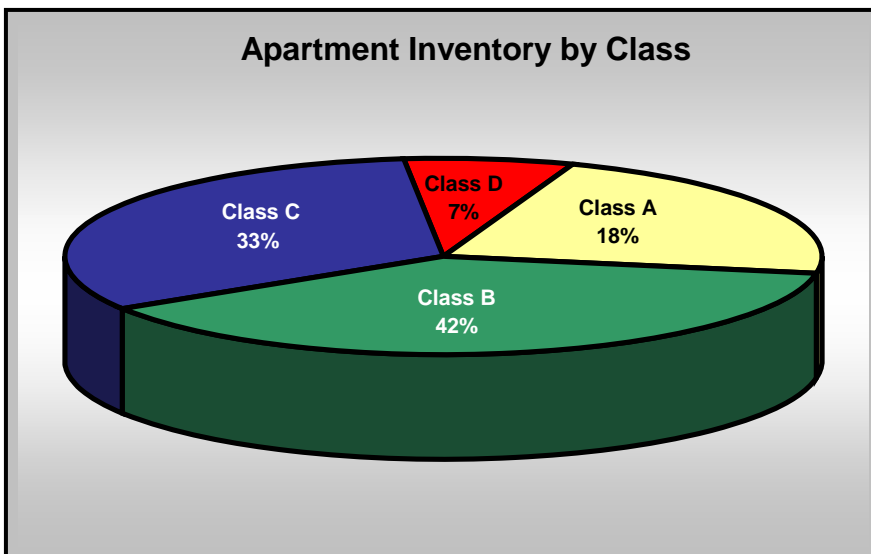
Submarket Performance

The **Randolph AFB** submarket posted the strongest absorption figures over the third quarter, absorbing 86 units, followed by the **Lackland/Kelly AFB** submarket, which absorbed 65 units. The **North Central 1** and **Medical Center** submarkets reported the weakest demand, absorbing -210 and -184 units, respectively.

The **Randolph AFB** submarket recorded the highest Class A absorption, absorbing 132 units, while the **North Central 1** submarket reported the weakest demand, absorbing -87 units. Class B absorption was highest in **Seguin** at 45 units, while the weakest demand was found in the **Medical Center** submarket, which absorbed -193 units. The **Medical Center** submarket posted one of the only positive absorption figures in Class C, absorbing 33 units, while the **Southeast** submarket recorded absorption of -105 units. The **West** submarket posted the strongest Class D absorption, at 45 units, while the weakest was found in the **Lackland/Kelly AFB** submarket, at -80 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.



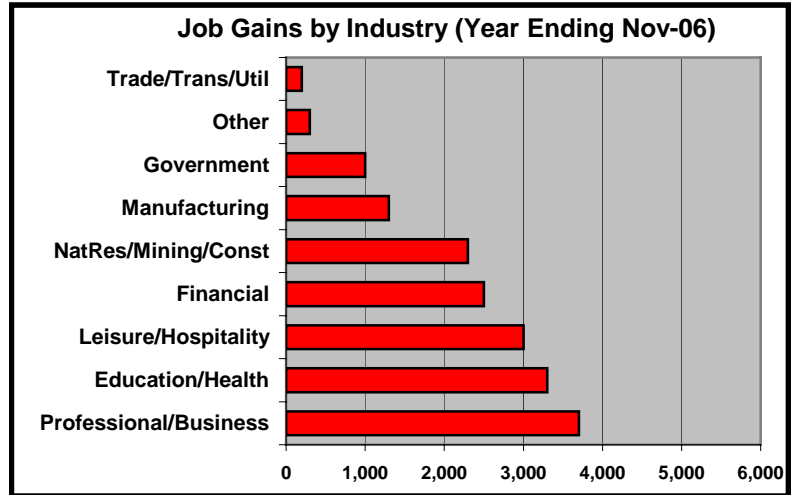
Operating	Projects	Units
Class A	107	27,214
Class B	208	46,389
Class C	254	41,320
Class D	72	9,326
TOTAL**	640	124,056

Under Cons.	Projects	Units
Class A	6	1,409
Class B *	11	2,513
TOTAL**	19	4,190

* 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 decreased to 4.3%, while the total number of nonagricultural wage and salary jobs increased to 807,600 in November 2006, according to the **Texas Workforce Commission**. This month's total is 17,400 jobs more than at this time last year. Of the nonagricultural employers, Professional & Business Services gained 3,700 jobs over the previous 12 months; Education & Health Services gained 3,300 jobs; Leisure & Hospitality is up 3,000 jobs; Financial Activities is up 2,500 jobs; Natural Resources, Mining, & Construction added 2,300 jobs; Manufacturing added 1,300 jobs; and Government added 1,000 jobs. The only industry to lose jobs over the year was the Information sector, with -200 jobs. The largest monthly gains were in the Trade, Transportation, & Utilities and Government sectors.

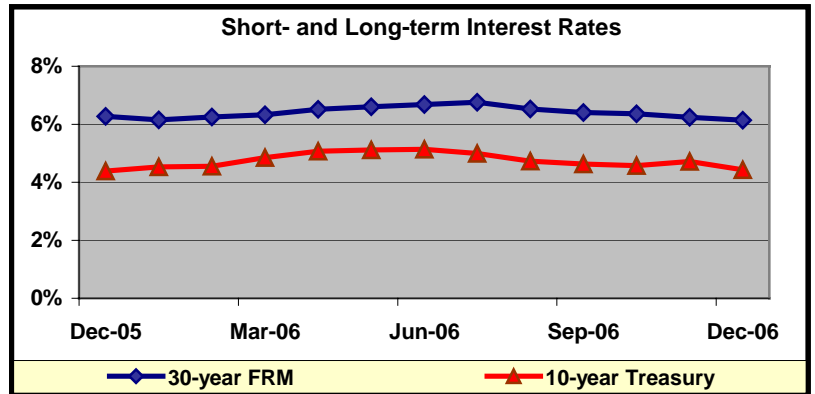


Interest Rates

The yield on the **10-year Treasury** note rose to 4.62% on January 4, 2007, up 0.26 points from its 4.36% yield one year ago.

The **30-year fixed-rate mortgage (FRM)** averaged 6.14% in December 2006. One year ago, the 30-year FRM was at 6.27%. The average for the **15-year FRM** in December was 5.88%, up 0.06 points from a year ago.

The **Prime Rate** in January was reported in the Wall Street Journal at 8.25%, up 1.00 points from a year ago.



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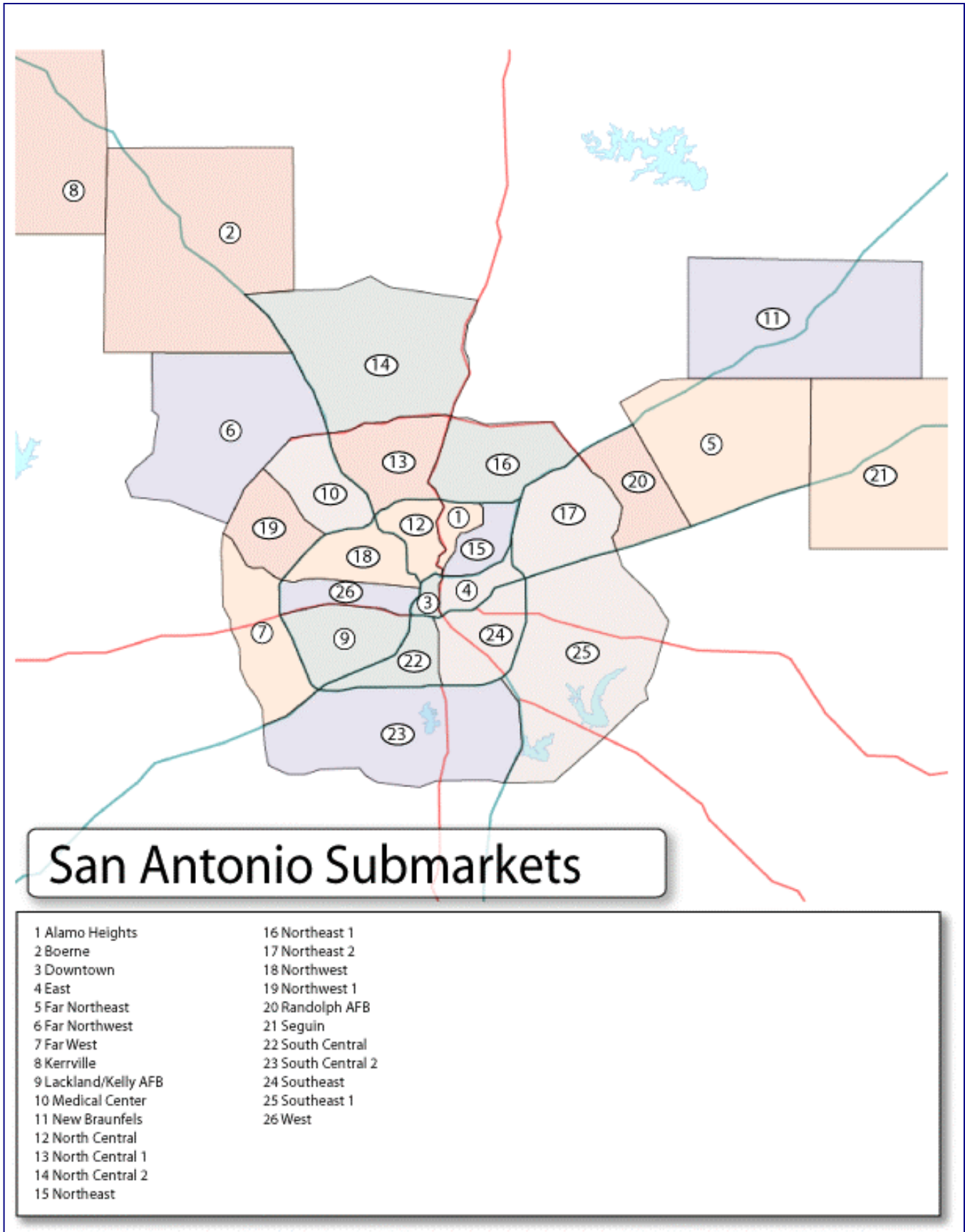
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Data Collection

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).



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