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San Antonio Apartment Association Issues State-of-the-Industry Report

Local first: San Antonio strongest-performing, most stable rental housing market among Texas cities

(San Antonio, TX – Feb. 1, 2021) As the multifamily industry enters 2021, San Antonio Apartment Association today issued a State-of-the-Industry report, including insights into local economic data driving rental housing trends and forecasts, construction and development activity, and pandemic impacts.

According to San Antonio-area economist Will McIntosh, USAA Real Estate head of global research, San Antonio saw continued net increase in migration, or newcomers, in 2020, mainly from the West Coast but also other cities in Texas. Overall, the metropolitan area has experienced a 20.3 percent population increase in the past 10 years, tying the city with Dallas/Fort Worth as the fifth fastest-growing city in the nation. Two other Texas cities also made the top 5 ranking: Austin tops the list, with 31.2 percent growth over the past decade and, in the number 4 position, Houston at 20.9 percent growth in 10 years.

McIntosh cited numerous factors driving San Antonio's popularity among interested employers, including:

- affordability, livability and low cost of doing business;
- a large bilingual population, with an abundance of healthcare workers and historically robust leisure and hospitality employment;
- the presence of fiberoptic infrastructure, the University of Texas at San Antonio and its top-US-ranked cybersecurity program;
- the joint military base San Antonio; and
- the city's strategic location near Mexico.

Although the area's older population is growing, San Antonio is relatively young compared to the U.S., McIntosh noted, with approximately 52 percent of the local population aged 34 and under, and median age of 33.6 compared to 38.1 nationwide.

"Employers are looking for young, energetic talent to take their companies into the future," McIntosh explained. "San Antonio, with its relatively rare severe weather events, and rich lifestyle, ticks many boxes for corporate re-locaters. If the city can deliver on the quality housing these employers say they need to recruit great people, we'll have a winning formula."

Despite its attractiveness to companies, San Antonio did not escape significant COVID-19 impacts. The area's unemployment rate peaked in July at 8 percent, compared to a 14.7 percent nationwide peak in April and a 12.8 percent peak in Texas in April/May. As of December 2020, San Antonio unemployment hovered at 6.4 percent, compared to 7.1 percent unemployment statewide.

Local leisure and hospitality and other consumer-facing sectors that rely on some combination of face-to-face interaction and/or discretionary spending have borne the brunt of the pandemic. Alamo city employment fell by 46,000 jobs. The leisure and hospitality industry lost 23,115 jobs or 16.2 percent of its workforce, followed by 9,586 jobs lost in education and health services, 8,811 in professional services jobs, and 3,334 in financial services. On a percentage basis, the energy industry lost the most area jobs, with 16.9 percent or 1,761 jobs lost.

"Many of those residents hardest hit in 2020 are renters and a great many continue to worry about their ability to make rent in a prolonged recovery," said Teri Bilby, Executive Director of San Antonio Apartment Association. "What saved them -- and helped place San Antonio at the top of the list of best-performing Texas apartment markets in 2020 for the first time ever-- is the fact that our community came together to deliver rental assistance to those most in need, which kept apartment owners financially stable and able to properly operate their properties and invest in much-needed new housing supply."

Local Housing Market Dynamics Signal Need for Rental Housing

Homeownership is on the rise, a national trend before the pandemic thanks to historically low interest rates. In second quarter 2020, the U.S. homeownership rate was 67.9 percent, up from 64.1 percent in second quarter 2019, according to the U.S. Census Bureau.

In 2020, San Antonio saw an 11 percent increase in single-family homes sales, with approximately 38,448 homes sold in the greater metro area, according to San Antonio Board of Realtors. The median home price increased 7 percent year-over-year to $250,100; the average home price rose 9 percent to $294,106. Nonetheless, people were eager to buy homes: the average number of days on the market in 2020 decreased 29 percent, from 68 days in 2019 to just 48 days.

Bexar County showed the greatest home sales increase among Texas counties with an 11.2 percent jump. In comparison, Harris County home sales increased by 6.7 percent, Dallas County by 4 percent and Travis County by 3.2 percent.

"Shifting homebuyer preferences for additional living space in suburban residences, stimulated by work-from-home and home-school needs, contributed to robust demand, but inventory shortages, explosive construction costs and rising home prices will be challenges for single-family home sales," McIntosh said. "Those constraints coupled with a growing employment base bode well for multi-family, which offers flexibility, many amenities and locations of choice."

Renter Aid, Property Owner Actions Help San Antonio Avoid Declines of Other Texas Markets

According to Apartmentdata.com, San Antonio apartment rental rates remained flat in 2020, with just 0.7 percent growth as a result of new communities entering the market and resulting rental concessions.

Class C and Class D low-income apartments saw a slight decrease in rents of 0.1 and 1.4 percent respectively, while Class A and B properties experienced flat rental rate growth of 0.2 and 0.4 percent respectively, according to Cindi Reed, vice president at Apartment Data. The Dallas Fort Worth market saw a similar flat rental rate growth of 0.3 percent overall, while in contrast, Austin experienced a rent price decrease of 5.1 percent and Houston a decrease of 1.2 percent. Class A properties in all those three metros noted downward trends in rental rates, which translates to less income to apartment owners to weather the pandemic storm or add to much-needed housing supply in Texas.

"The growing gap between home prices and flat rent prices locally means renting will be a better option in many areas," said Bilby. "With San Antonio's significant young population, pent-up demand can be expected for apartment living, especially once this cohort enters the job market and/or attains more solid financial footing. Moreover, the growing 55+ population will also create additional demand for multi-family living, following the national trend of empty-nesters increasingly choosing to downsize and move to apartment communities in walkable, amenities-rich areas."

Metro-wide, apartment occupancy decreased by 0.9 percent to 90.6 percent in 2020, Reed said. In 2020, 6,120 units were absorbed, exceeding 2019 absorption, showing a strong demand for apartment housing. Moreover, 4,642 new units were added in 2020. Currently, 5,500 units are under construction and another 17,000 are proposed. Depending on the pace of the recovery, Reed anticipates 4,400 units or more to be absorbed in 2021.

"San Antonio's multifamily market did not rank as the healthiest in Texas by accident," said Bilby. "Thanks to the proactive approach by our industry and City leaders to put forth meaningful and sensible policies and secure significant rental relief early on, we were able to keep residents housed, owners paid and communities well-maintained, safe and healthy, as we continue to focus on how we can deliver quality, affordable housing to meet growing demand."

San Antonio Submarkets Show Significant Shifts

According to Reed, following the national trend, San Antonio has experienced a residential exodus from the city's core. With remote work the new norm and an inability to enjoy downtown restaurants, entertainment and other experiences, many residents chose to move to suburban areas, in search of cheaper rents, larger homes and more green spaces.

The Downtown/Southtown/Brackenridge submarket was the most adversely affected by the flight to the suburbs, with a 5.6 percent rental rate decrease. Centrally located Medical Center/ USAA/ Leon Valley, UTSA/ Bandera Rd/ Vance Jackson, Alamo Heights/ The Quarry and Thousand Oaks/ Stone Oak/ 281 North submarkets also felt the effects of rent price declines, though these locales showed the highest number of new communities. In 2020, developers delivered 3,318 apartment homes in the area, representing 57 percent of the overall new inventory in San Antonio. Rental concessions by apartment owners likely contributed to the average rate decrease of 1.1 percent, according to Reed. Average occupancy in these centrally located submarkets was 89.4 percent, with an absorption of 2,758 units. Another 2,829 units are under construction, representing 51 percent of the anticipated 2021 new inventory in greater San Antonio.

Away from the metro core, Hwy 151/ SeaWorld, Nacogdoches Rd/ Perrin Beitel Rd, Brooks AFB/ I-10E, Balcones Heights/ St Mary's University and Castle Hills/ San Pedro/ Jackson-Keller submarkets experienced a moderate rental rate increase of 1.7 percent. These submarkets added 1,790 units in 2020 and absorbed 2,390, indicating healthy demand with an occupancy rate of 90.9 percent. An additional 381 units are currently under construction in these areas surrounding the city center.

Showing the strongest performance among San Antonio submarkets, the suburban areas of Blanco Rd/ West Ave, Port San Antonio/ I-35S, Windcrest/ Universal City, New Braunfels/ Seguin and Leon Springs/ Boerne/ Kerrville likely benefited from renters now relieved of commutes to work. These residents seized the opportunity to get larger apartments while lowering their cost of rent. The outer submarkets experienced an overall positive rental rate growth of 3 percent and an average 92.8 percent occupancy rate. Some 972 units were absorbed, while 687 new apartment homes became available to meet growing demand in 2020. An additional 2,359 units are currently under construction, reflecting developers' faith in the outlying areas.

"The multifamily industry in San Antonio continues to be a significant economic contributor while offering a multitude of flexible options to the growing population of our city," said Bilby. "Whether you're looking to lock in a great deal on a downtown, amenity-rich property before the economy bounces back or are working remotely and want to experience a suburban lifestyle without the hassle of maintenance, there is an apartment home perfect for you."

San Antonio poised for rebound as US apartment owners meet pandemic challenges, prepare for future. Nationally and locally, COVID-19 effects on the apartment industry varied by submarket and asset class. Universally, rent debt, eviction moratoria and other policies put in place in response to the pandemic pose potential risks to the industry in 2021 and beyond, according to Rick Graf, National Apartment Association Chairman and President, Multifamily, Asset Services at Cushman & Wakefield.

Nationally, Graf forecasts positive, albeit muted, rental rate growth and slight declines in occupancy in 2021, before a more marked recovery in 2022. New supply predictions range from 300,000 to 400,000 apartment homes added across the country in 2021.

"U.S. apartment owners and operators are preparing for another challenging year, budgeting for declining revenues and increasing costs, both on the operating side and for capital expenditures," Graf said. "In terms of operating expenses, the greatest increases stemmed from personal protective equipment, sanitation, and technology investment for virtual tours, digital marketing, touchless devices, package delivery and storage. According to a National Apartment Association survey from September, 21 percent of respondents said expenses increased by at least 50 percent in 2020."

“The U.S. apartment industry was on solid ground when the pandemic hit, coming off strong net operating income growth in 2019,” said Graf. “Despite the unexpected challenges, we have witnessed the agile responses of owners and operators in working with residents, adopting new procedures around health and safety, and embracing technological solutions. NAA policy priorities remain unchanged and are determined by three core principles: Reducing operational risk and operational challenges to housing providers, preserving housing affordability, and ensuring the continued viability of the housing industry through this crisis and beyond.”

“Here closer to home, apartment owners embraced residents in need across all income brackets,” Bilby said. “Property managers became pseudo-social workers, helping to find rental aid and preserve people’s credit, conduct food and school supply drives, and make daily check-ins on seniors, while investing in health and safety measures, forgoing fees, and offering concessions. Plus, local community leadership’s early, generous focus on financial assistance kept San Antonio renters safe at home and demonstrated to newcomer companies this is a city where people care about each other and work together to get things done. Our city is a shining example of how federal, state and local policy makers can enact meaningful solutions that aid renters today and help stimulate the economy tomorrow.”

About San Antonio Apartment Association

The San Antonio Apartment Association (SAAA) is a non-profit trade association composed of diverse groups representing and serving the multi-family and rental housing industry whose purpose is to participate in the legislative process, promote professionalism through education, provide a means of communication to our members and support the surrounding communities.

The Association comprises more than 1,500 Property Owners, Management Companies and Multi-family Communities representing more than 215,000 apartment homes. Our membership includes over 360 supplier companies providing products and services to our industry. For more information, visit www.saaaonline.org/resources.

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