

Metro Housing Outlook:

San Antonio – Q4 2023

Overview:

- San Antonio's robust economic growth prospects were interrupted by COVID, but the metro has returned to being a growth market, albeit currently at a slower pace than its recent history. The metro was in the midst of a long-term expansion of the area's economy, and it likely has returned to that growth path, as it will have to contend with a weaker economy's countervailing forces, which are a bit more pronounced than in the typical market. Those forces include the stabilizing impact of the metro's large military and health care engines, countered by volatile energy and sluggish and unreliable tourism segments.
- While San Antonio has one of the most attractive demographic and economic forecasts in the nation over the next five years, its apartment market is not quite as exceptional, though conditions remain quite favorable for an expansion of multifamily rental demand once the nation enters into a sustained expansion. The volume of apartments underway, coupled with available land and lower than average incomes will likely result in a healthy apartment market, though not a blockbuster.

Market Strengths:

- San Antonio's job and population growth trends are quite favorable for the rental market. In-migration has averaged more than 26,000 residents per year for the past five years. Population is forecasted to grow at twice the national rate, and even faster in the 20–34-year-old prime renting cohort.
- San Antonio military and health care sectors are both large and stabilizing segments of its economy. Aside from being a regional medical center for area residents, the metro's base is the primary training center for all U.S. Army medics.

Market Weaknesses:

- San Antonio has had a high level of rental units come online, which were poorly timed given the easing of job growth rates in the metro and the steep decline in oil prices (though drilling is just a small fraction of economic activity in the metro, it's an important growth engine). Future development is also high and will likely hold the market back, though only marginally.
- An important potential negative in the San Antonio picture is the profile of demand. Per capita income in the metro is 21% below the national average, which means that demand is primarily for affordable product and there is limited potential for exceptional home price appreciation in the metro.
- Although it has diminished somewhat with higher interest rates, single family housing remains comparatively affordable in San Antonio, relative to other major Texas metros, and is often a competitive substitute to the multifamily market for residents. And there is significant new inventory with around 14,000 single-family permits issued in 2021, 10,000 in 2022, and 9,000 more expected for 2023.

Development:

- Condos are not a significant concern in San Antonio. The remarkably low level of condo development in the area has been focused on niche markets. Fewer than 2,700 units have been delivered since the start of 2006, and fewer than 50 are underway and due to be completed by Q4 2023.
- For-rent development in the metro has been active to meet the needs of the growing metro. Nearly 45,800 units have been delivered since the start of 2017, and another 12,900 units are currently underway. While this housing will almost certainly be necessary, the level of development will probably not allow for a significant tightening of rental conditions in the metro over the forecast horizon.

Outlook:

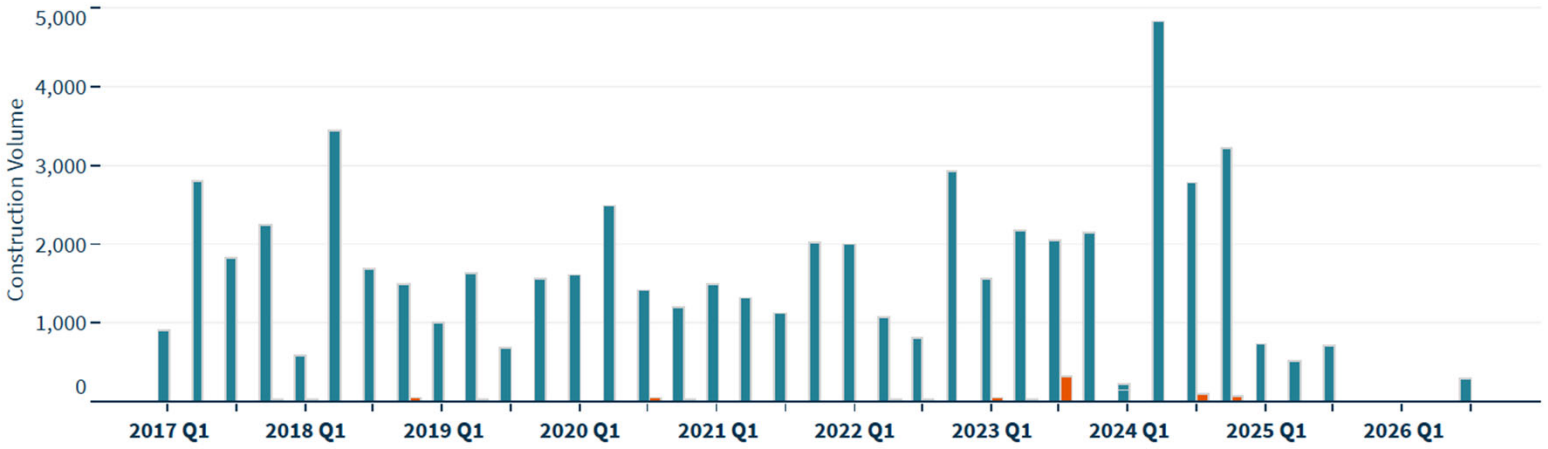
- As San Antonio's apartment rental came down from its pandemic rebound, rents and vacancies in the market softened in 2023. But it should return to being a steady performer once the nation resumes steady growth. The metro saw many new units delivered while job growth also slightly eased, but near-term prospects appear to be supportive of the rental market. Upcoming supply may result in some further easing of rent growth and vacancy rates, but the underlying strength of the area's economy and demographics should prevent larger problems longer term.
- Over the next several years, San Antonio will expand economically, which will likely result in higher levels of demand for housing. The metro's exceptional demographic and economic growth prospects will support significant additions to inventory. In addition to job growth, which is forecasted to be twice national rates, is the metro's exceptional young cohort: the age 20-34 cohort is 22% of the population (compared to 20.7% nationally) and the age <20 cohort is 30.3% (compared to 26.8% nationally). Given the large military presence in the metro, and growing regional health care sector, a return to the metro's long term economic expansion is highly likely once the nation is in a sustained expansion.



Multifamily Apartment Pipeline

Apartments & Condos/Townhomes: Units Completed and Underway

Apartments | Condos



Source: Dodge Data & Analytics SupplyTrack Pipeline

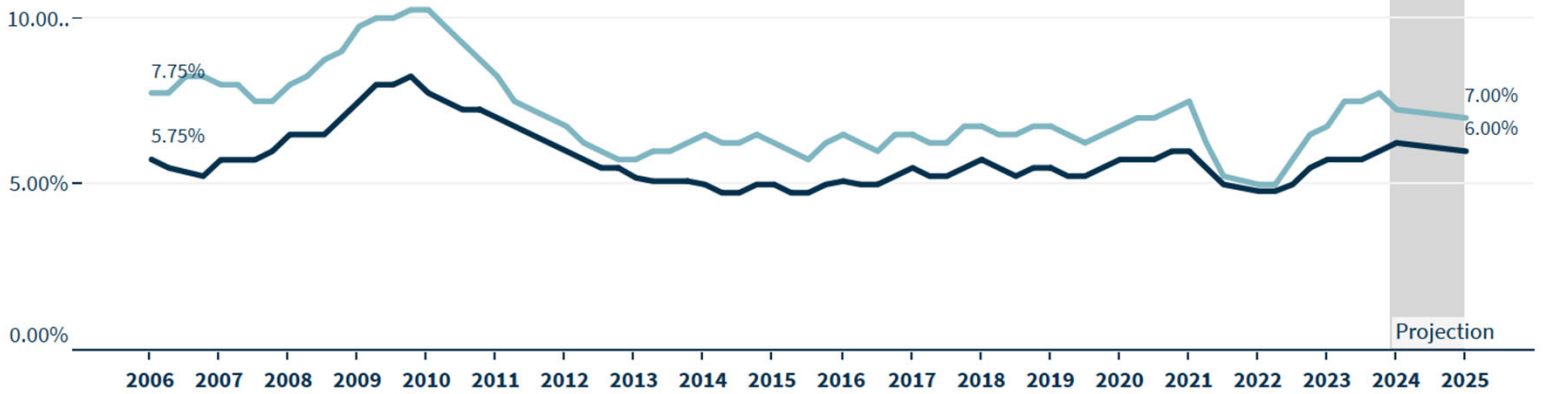
Multifamily Vacancy & Rent Estimates

Vacancy Rates

San Antonio | National

Q4 2023 Vacancy Rate:

7.75%



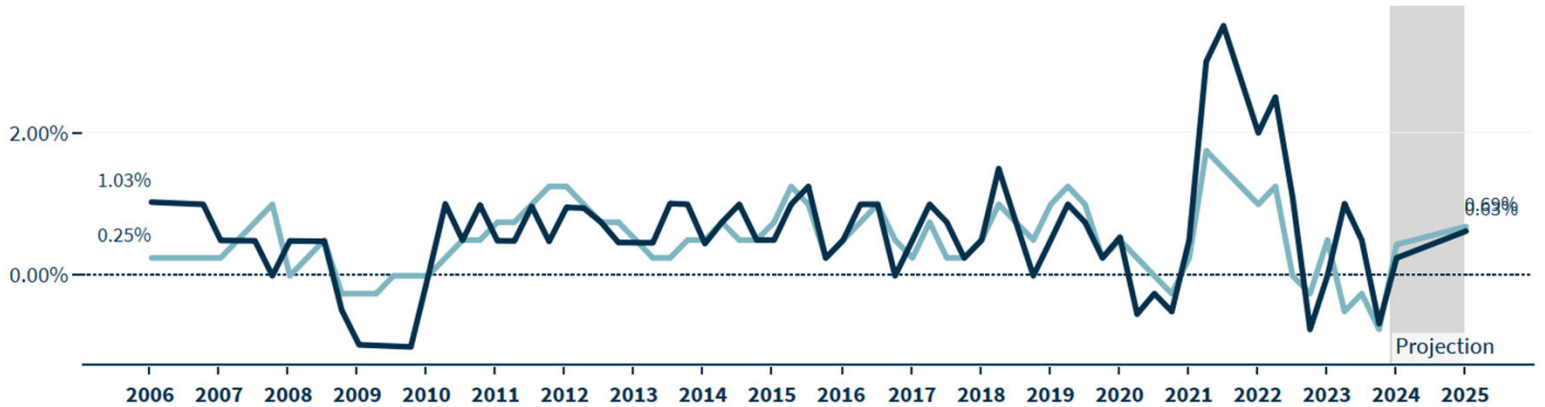
Projection

Asking Rent Growth

San Antonio | National

Q4 2023 Asking Rent:

\$1,050

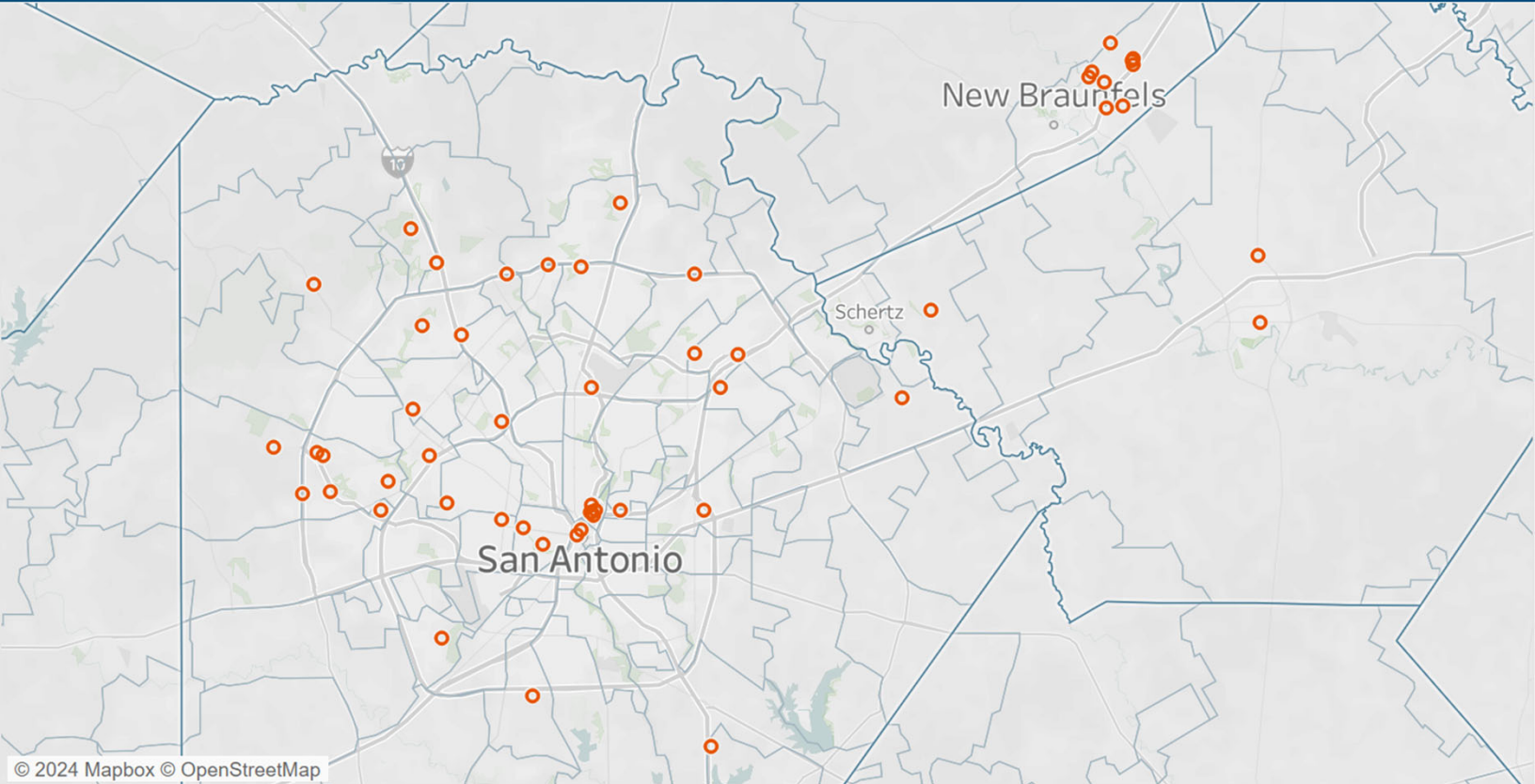


Projection

Source: Fannie Mae Multifamily Economics and Research



Multifamily Construction: Bidding & Underway



MultiHousingSubmarketName	Apartments	Units
Airport Area	1	351
Central San Antonio	10	2,097
Far North Central San Antonio	2	744
Far Northwest San Antonio	5	1,185
Far West San Antonio	6	1,913
Medical Center	2	410
New Braunfels/Schertz/Universal City	13	3,085
North Central San Antonio	2	651
Northeast San Antonio	3	619
Northwest San Antonio	1	300
South San Antonio	3	643
Southwest San Antonio	3	702
West San Antonio	2	523
Grand Total	53	13,223

Source: Dodge Data & Analytics SupplyTrack Pipeline



Multifamily: ESR Team

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Multifamily Economics and Market Research Team

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Sources Used

- Moody's Economy.com
- Moody's CRE/REIS
- CoStar
- Real Capital Analytics
- RealPage
- Greenstreet
- Dodge Data and Analytics SupplyTrack Pipeline
- CBRE-Econometric Advisors
- Yardi

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