

San Antonio, Texas

Multifamily Housing Update

March 2010

EXECUTIVE SUMMARY

Alamo City payroll headcounts declined -22,800 (-2.7%) year-over-year in 4Q09, on par with the -23,500 (-2.8%) job decrease in the previous period. Much of the metro's job loss was attributable to falling headcounts among construction and business service providers as the sectors cut a combined -13,300 positions from payrolls y-o-y in 4Q09. Moreover, the health care sector was weaker. Following a 4,100-job y-o-y gain in 3Q09, employers added only 2,700 jobs y-o-y in 4Q09.

The metro business-cycle index, published by the Federal Reserve Bank of Dallas reveal that the San Antonio economy continued to contract in January. The index value (217.8) was down -7.1% y-o-y and was down -9.6% from the April 2008 peak.

On the other hand, seasonally-adjusted payroll trends rebounded in the fourth quarter. Employers added 1,300 workers from October to December, following a net decline of -21,900 jobs in the first nine months of the year. Likewise, the Manpower Employment Outlook Survey from March suggested that employment will continue to rebound this year. Among survey respondents, 17% expected to add workers in 2Q10, while only 5% planned to reduce staffs. In the previous survey, 19% of surveyed businesses anticipated growth in 1Q10, versus 7% that planned to contract.

The **RED CAPITAL Research (RCR)** econometric model projects that payroll employment will advance 4,400 (0.5%) in 2010 and 19,900 (2.4%) jobs next year. Economy.com, on the other hand, forecast robust growth of 31,070 (3.6%) new jobs next year and a solid 17,640-job advance in 2010.

According to the Real Estate Center at

Texas A&M University, home sales activity slowed in 2009 as 18,682 homes were sold, -3.6% below the 2008 tally. Median price data were better and the source calculate a 3.9% y-o-y increase in the median home and condo price in December. The National Association of Realtors calculate a 0.3% y-o-y increase in the metro median single-family home price from \$143,400 in 4Q08 to \$143,800 in 4Q09.

Positive net absorption of 801 units resulted in a 20 basis point increase in occupancy from 89.6% in 3Q09 to 89.8% in 4Q09. Conversely, occupancy fell 120 basis points in the twelve-month period ended in December as supply (3,765 units) outpaced demand (1,474 units). Reis expect occupancy to rise 40 basis points this year, after accounting for six properties that were expected to open this year, totaling 1,905 units.

Effective rent was stable in the fourth quarter. The average figure was unchanged sequentially and fell -0.2% y-o-y to \$660. On the other hand, O'Connor & Associates report that the average rent advanced 1.4% y-o-y to \$703 in January. Reis expect effective rent to remain unchanged by year-end, before growing 2.7% annually from 2011 to 2014.

Real Capital Analytics count 12 trades involving properties priced at or above \$5 million in 2009. Sales volume totaled \$170 million, -62% below the 2008 sales total. The source reports that the average price per unit was \$51,974. Based on an assumed going-in yield of 8.0%, **RCR** calculate a 9.6% expected rate of total return, the highest rate among the **RED 50**. On the other hand, slightly higher measures of NOI growth volatility produce only the tenth highest measure of risk-adjusted return (3.31) in the group.

SNAP SHOT

	Y-o-y change	Projected 2010
Vacancy (10.2% - 4Q09)	↑120bps	↓40bps
Effective Rents (\$660 - 4Q09)	↓0.2%	↔
Cap Rate (6.3% - 4Q09)	↓	↑
Employment (832.5m - 4Q09)	↓22.8m	↑4.4m

KEY POINTS

- Strong tenant demand contributed to a 20 basis point decrease in vacancy from 10.4% in 3Q09 to 10.2% in 4Q09. On the other hand, vacancy climbed 120 basis points year-over-year, largely owing to increased supply. Developers completed 3,765 units and owners net leased 1,474 units in 2009.
- The average effective rent was unchanged sequentially but fell -0.2% year-over-year to \$660 in 4Q09. The size of the average concession package edged lower from 6.0% of asking rent in 3Q09 to 5.7%.
- O'Connor & Associates calculate an 88.0% metro occupancy rate in January, 100 basis points below the figure from the same month of 2009. The source also notes that the average rent was \$703 (\$0.86 per square foot), up \$9 or 1.4% year-over-year.
- Reis identified 1,356 units added to inventory in the first two months of 2010. The service predicts that another 549 units are scheduled to open by year-end.
- Real Capital Analytics count 12 trades involving properties priced at or above \$5 million in 2009, totaling \$170 million in sales proceeds.



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