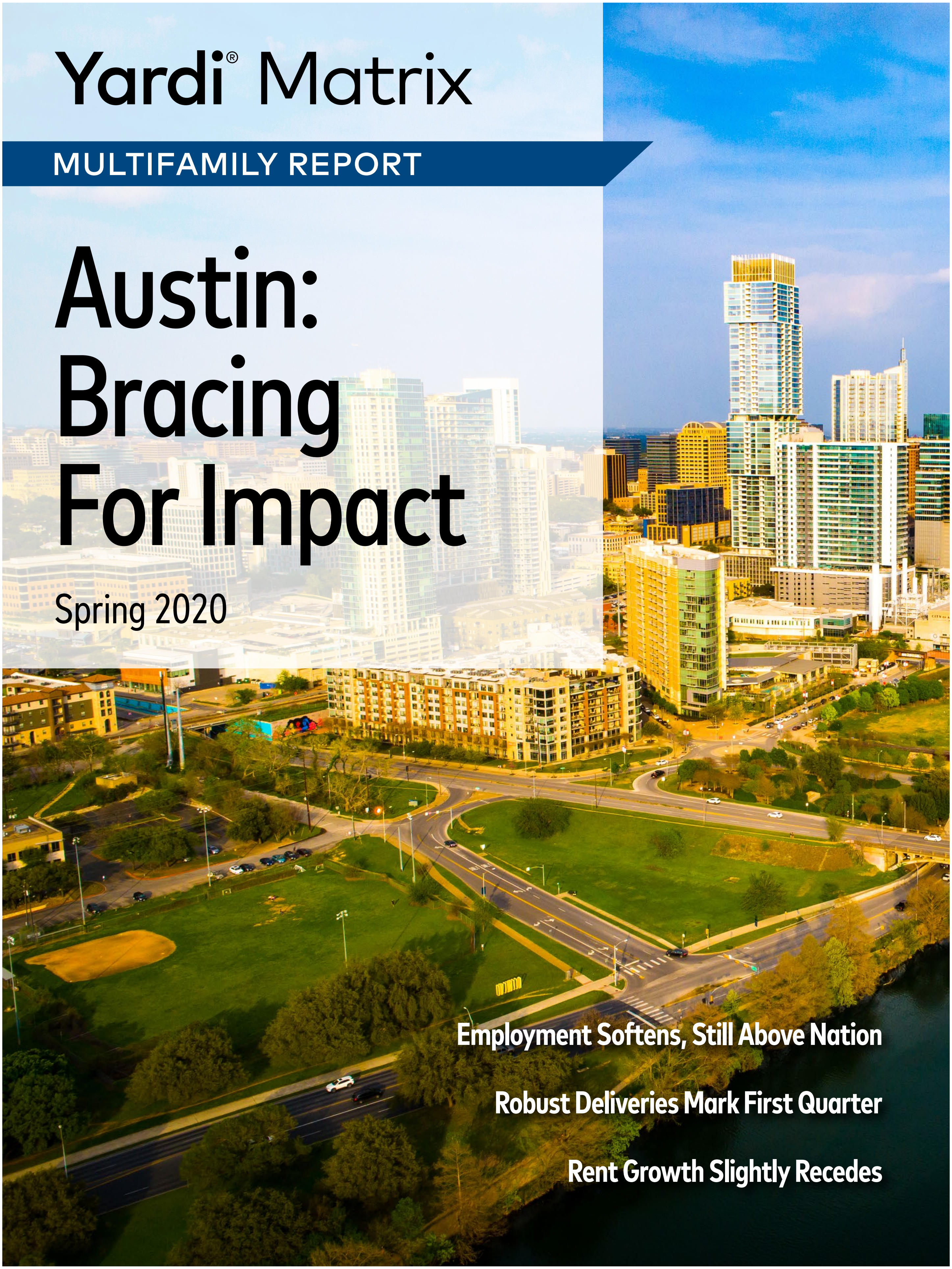

Yardi® Matrix

MULTIFAMILY REPORT

Austin: Bracing For Impact

Spring 2020

Employment Softens, Still Above Nation

Robust Deliveries Mark First Quarter

Rent Growth Slightly Recedes

AUSTIN MULTIFAMILY

Yardi® Matrix

A Diverse Economy Keeps The Metro Afloat

Despite its strong evolution throughout the cycle, Austin was not immune to the COVID-19 pandemic. Although some signs were visible during the first four months of 2020, the pandemic's full impact on the multifamily market is yet to be felt. The average rent in the metro has already contracted 0.1% to $1,389 on a trailing three-month basis through April, outperformed by the national rate that remained unchanged at $1,465.

Austin gained 27,200 jobs in the 12 months ending in March, for a solid 3.3% year-over-year uptick, well above the 1.4% U.S. average. The metro's largest sectors—trade, transportation and utilities, and professional and business services—accounted for nearly half of the expansion. The effects of the health crisis on the local economy are expected to intensify; between mid-March and early May, more than 1.5 million unemployment claims were filed in the state, with the service sectors hit the hardest. Still, Austin's diverse economy is robust enough to weather the crisis, at least in the short term.

Multifamily sales this year through April totaled $363 million, with a per-unit price that inched up 1.1% to $147,934, while the U.S. per-unit averages slid 3.7% to $162,169. Meanwhile, developers delivered 3,857 units and had another 26,000 underway. We expect delays and investor appetite to affect transactions and deliveries in upcoming months.

Market Analysis | Spring 2020

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Recent Austin Transactions

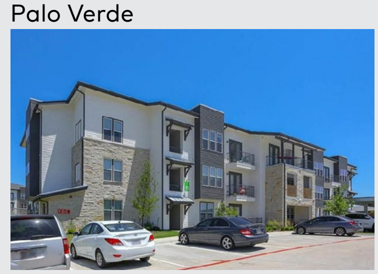
Enclave at La Frontera

City: Round Rock, Texas
Buyer: The Lynd Co.
Purchase Price: $60 MM
Price per Unit: $146,350

Lakeside at La Frontera

City: Round Rock, Texas
Buyer: The Lynd Co.
Purchase Price: $54MM
Price per Unit: $147,951

Palo Verde



City: Austin, Texas
Buyer: Steadfast Cos.
Purchase Price: $52 MM
Price per Unit: $175,784

Patten East

City: Austin, Texas
Buyer: Wildhorn Capital
Purchase Price: $45 MM
Price per Unit: $157,278

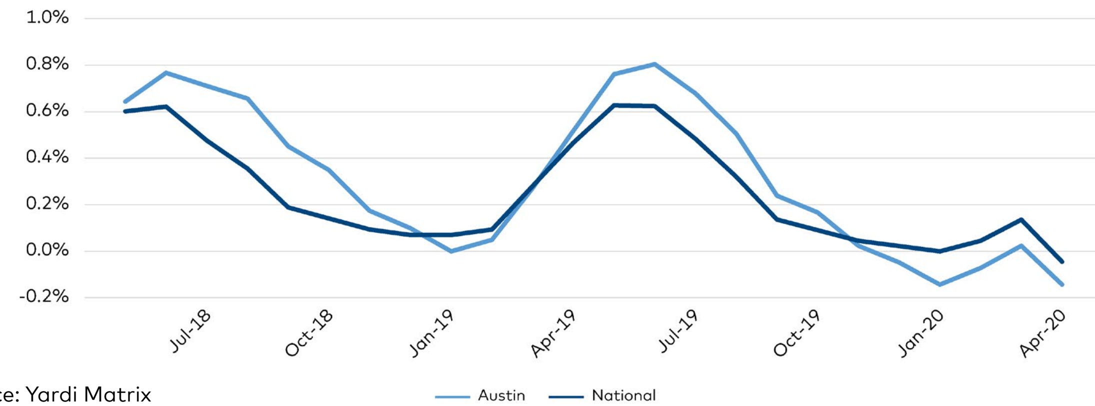
RENT TRENDS

- Rents in Austin slid 0.1% on a trailing three-month basis through April to an average of $1,389, while the U.S. rate remained flat at $1,465. Lifestyle rents were hit especially hard—down 0.2% to $1,516 during the period, while working-class Renter-by-Necessity rents contracted 0.1% to $1,145. High availability of apartments in the metro–due to increased construction–combined with the impact of COVID-19 on the local economy began to negatively affect rent growth in Austin at the start of the second quarter.

- Typically, in the past several years, rents in Austin would begin an upward seasonal trend in the spring and peak in the summer months. Yet, even though the numbers are just beginning to emerge, this year's evolution will paint a significantly different picture. Stay-at-home orders, eviction moratoriums and overall uncertainty surrounding the virus and the economy will moderate demand and impact rent growth. Two urban core areas posted rents above the $2,000 mark as of April: the Downtown-North ($2,538) and The University of Texas ($2,192).

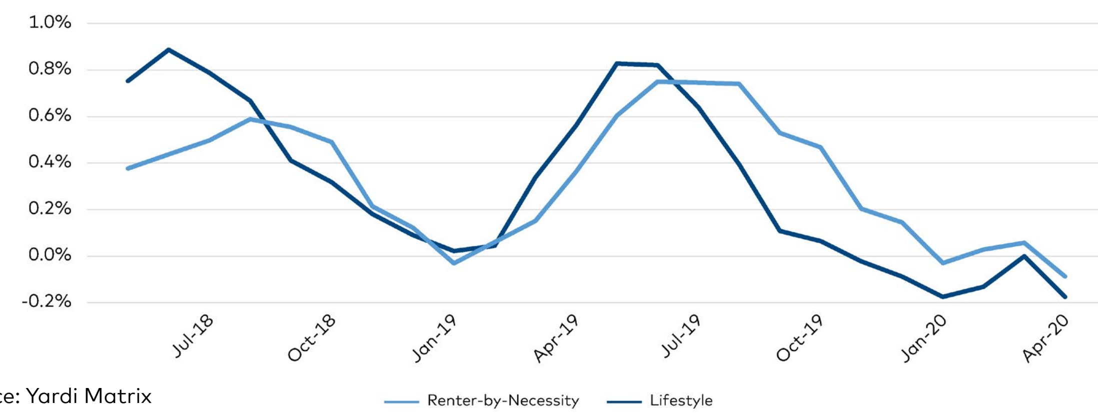
- With more than half of the metro's households in the rent segment, local lawmakers have come up with solutions to help with rent payments. In addition to the $15 million COVID-19 relief fund passed by the Austin City Council to provide aid to families left unemployed by the pandemic, officials unlocked another $1.2 million for rent assistance in early May.

Austin vs. National Rent Growth (Trailing 3 Months)



Source: Yardi Matrix

Austin Rent Growth by Asset Class (Trailing 3 Months)



Source: Yardi Matrix

ECONOMIC SNAPSHOT

- Although employment performed steadily throughout the second half of the cycle—27,200 new jobs in the 12 months ending in March, up 3.3% year-over-year—impacts of the COVID-19 crisis are rearing their head. Texas' capital is anchored by professional and business services, and trade, transportation and utilities, with more than a third of Austin's jobs in those two sectors.

- The unemployment rate clocked in at 2.6% in February, and a sharp spike is projected in the short term. As expected, event cancellations and postponements led to substantial job losses in the leisure and hospitality sector, down by 2,100 jobs in the year ending in March, and the decline may not stop there. Although some events were postponed until fall, uncertainty prevails, as a second coronavirus wave could strike in the fall.

- From mid-March to the first week of May, more than 1.5 million Texans had filed for unemployment relief, far exceeding the roughly 700,000 total of 2019. Overall, one-third of the metro's employment force was at risk in April. Still, Austin's diversified economy is strong enough to overcome the crisis, at least in the short term, thanks to its robust tech sector, with Apple and Google expanding their local presence.

Austin Employment Share by Sector

		Current Employment	
Code	Employment Sector	(000)	% Share
40	Trade, Transportation and Utilities	188	16.6%
15	Mining, Logging and Construction	72	6.4%
60	Professional and Business Services	200	17.7%
55	Financial Activities	69	6.1%
80	Other Services	50	4.4%
65	Education and Health Services	130	11.5%
30	Manufacturing	64	5.7%
50	Information	39	3.4%
90	Government	188	16.6%
70	Leisure and Hospitality	132	11.7%

Sources: Yardi Matrix, Bureau of Labor Statistics

Population

- Austin gained 53,086 new residents in 2018, up 2.5% year-over-year and more than four times the 0.6% national average.

- The metro is among the fastest-growing in the country, especially within the Millennial cohort, a key driver of rental demand.

Austin vs. National Population

	2015	2016	2017	2018
National	320,742,673	323,071,342	325,147,121	327,167,434
Austin Metro	2,002,591	2,062,211	2,115,230	2,168,316

Sources: U.S. Census, Moody's Analytics

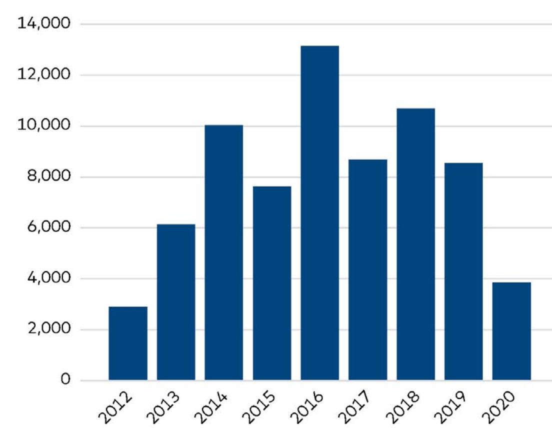
SUPPLY

- Construction labor shortages in Austin have pushed delivery dates into 2020, which led to 3,857 units, or 1.6% of total stock, being added to the market's rental inventory by April—triple the 0.5% national rate. Of 13 properties, all but two are in the Lifestyle segment. Developers have largely favored this property type throughout the better part of the cycle, pushing availability up. With incoming headwinds due to the health crisis, the segment will likely be tested this year.

- There were 26,000 units underway in Austin as of April and more than 71,000 units in the planning and permitting stages. Following a short period of unclear guidelines for the industry, construction was deemed an essential service in the metro, which allowed for both residential and commercial projects to continue. However, COVID-19's impact on the sector will most likely translate to significant completion delays, as well as an increasing demand for working-class Renter-by-Necessity apartments, as the metro's employment endures serious damage, especially in the service industries.

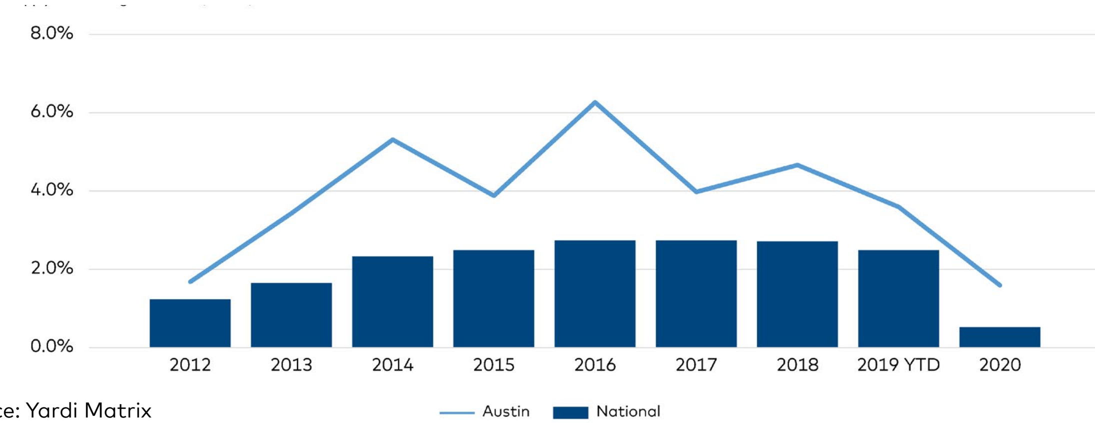
- The northwestern submarket of Cedar Park, where tech companies have offices, has the most robust pipeline with 2,787 units underway. The University of Texas submarket came in second with 2,036 units under construction. Endeavor Real Estate Group finalized construction on the metro's largest mixed-use project, Residences at Saltillo, a 703-unit community with 45,000 square feet of space in Pershing.

Austin Completions (as of April 2020)



Source: Yardi Matrix

Austin vs. National Completions as a Percentage of Total Stock (as of April 2020)



Source: Yardi Matrix

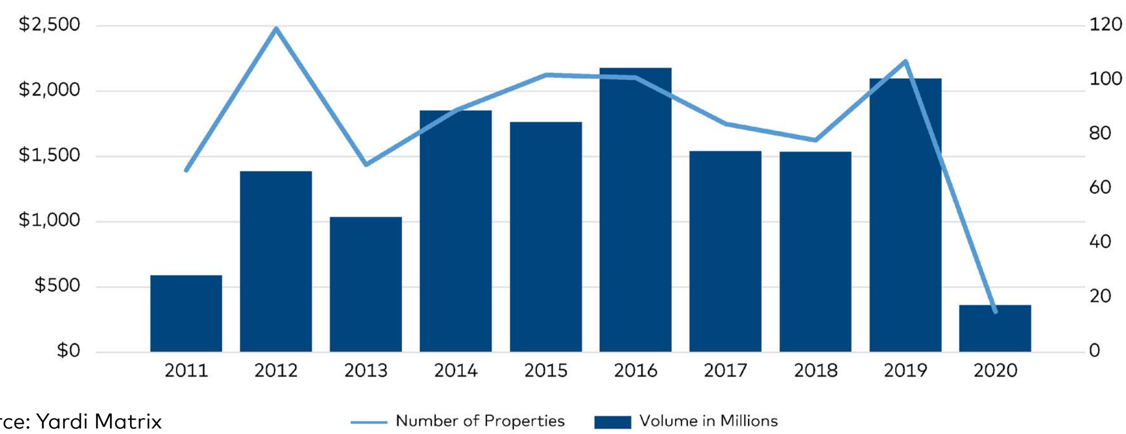
TRANSACTIONS

- Austin was off to a good start in 2020, from an investment standpoint, with $363 million and 15 multifamily assets trading in the metro through April. This comes after 2019's $2.1 billion in sales, the second-best year of the cycle.

- Investor interest was equally split between asset classes, which pushed up the per-unit price 1.1% to $147,934, still trailing the $162,169 national average. The U.S. figure was down 3.7% compared to last year's level.

- In 2019, Austin shared the country's lowest acquisition yields figure with San Francisco, ranging between 4.0% and 4.8% for stabilized, core Class A properties and up to only 5.0% for value-add plays. The ongoing health crisis will likely soften transaction activity this year, amid the uncertainty that is overshadowing the economy.

Austin Sales Volume and Number of Properties Sold (as of April 2020)



Source: Yardi Matrix

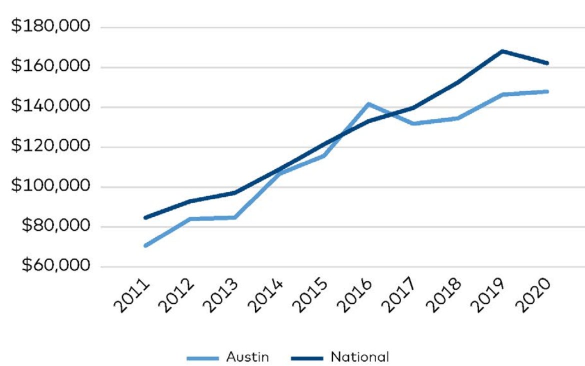
Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
Downtown - North	229
Oak Hill	203
East Central Austin	170
Abercrombie	138
Downtown - South	114
Round Rock - South	114
Sunset Valley	112

Source: Yardi Matrix

[1] From May 2019 to April 2020

Austin vs. National Sales Price per Unit



Source: Yardi Matrix

TOP 5 MULTIFAMILY DELIVERIES IN AUSTIN

By Anca Gagiuc

data by Yardi® Matrix

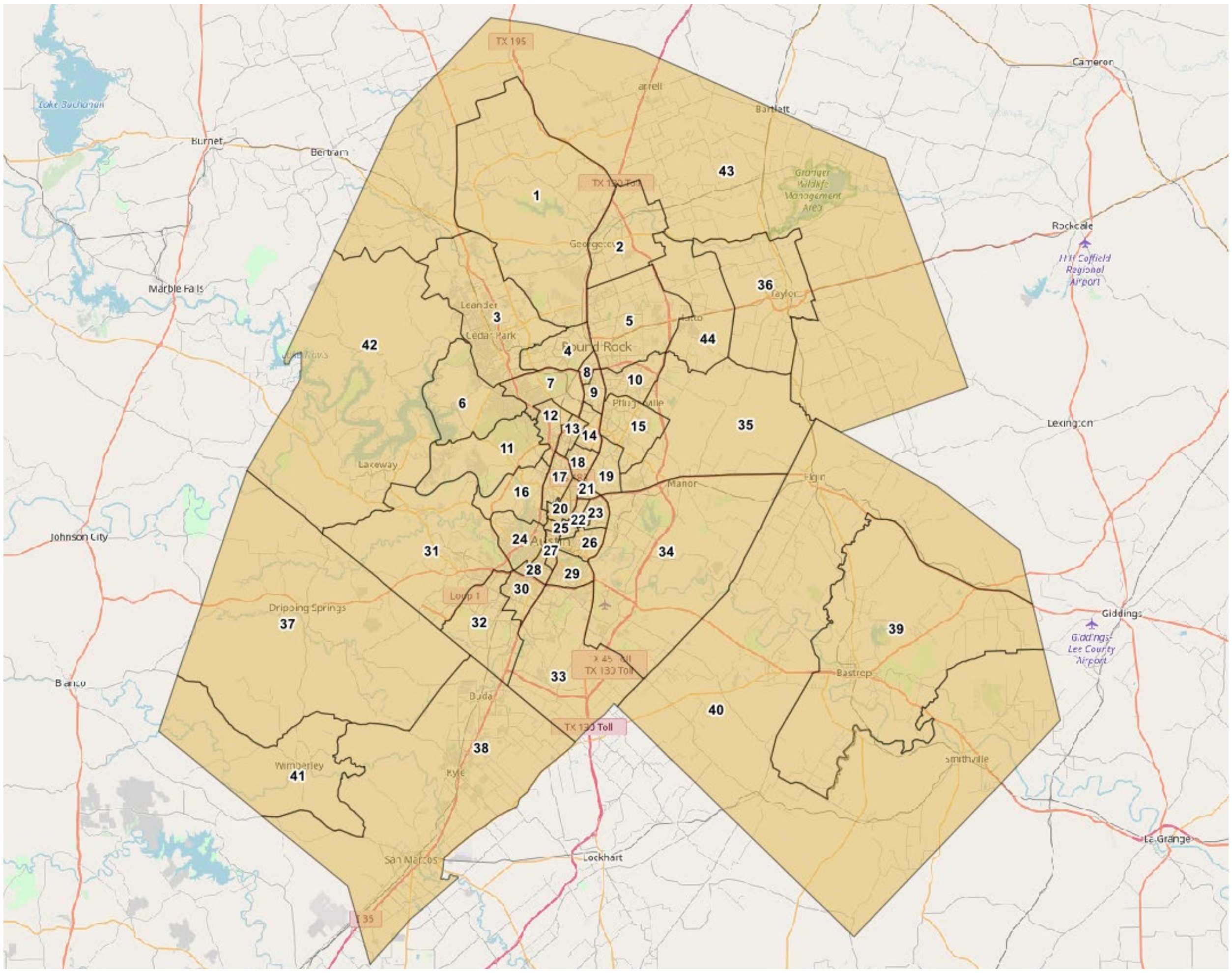
The prosperous Central Texas economies have not been spared by the impacts of the ongoing COVID-19 pandemic. Austin, one of the best-performing economies in the U.S., has experienced a year-over-year decline in the number of apartment deliveries. Austin multifamily demand has been robust in the past decade, thanks to corporate relocations and expansions. The metro's building boom has gone through an April downturn because only critical infrastructure projects were allowed to continue.

Rank	Property Name	Units	Owner	Manager
1	Residences at Saltillo	703	Endeavor Real Estate Group	Lincoln Property Co.
2	Aura Riverside	368	Trinsic Residential Group	Avenue5 Residential
3	Flatiron Domain	364	Stonelake Capital Partners & Streetlights Residential	Greystar Management
4	Lenox Ridge	350	Oden Hughes	Alliance Residential Co.
5	The Park at Estancia	320	GenCap Partners	Allied Orion Group

THE PARK AT ESTANCIA

Sprawling across 16 acres at 820 Camino Vaquero Parkway in Austin's Sunset Valley submarket, the GenCap Partners' community totals 320 apartments managed by Allied Orion Group. In August 2015, Bank OZK funded the development of the project with a $40 million construction loan. The unit mix includes one- to three-bedroom floorplans ranging from 656 to 1,424 square feet, with Energy Star stainless steel appliances and private yards in select units.

AUSTIN SUBMARKETS



Area No.	Submarket
1	Georgetown–West
2	Georgetown–East
3	Cedar Park
4	Brushy Creek
5	Round Rock–East
6	Anderson Mill
7	Jollyville–North
8	Round Rock–South
9	Wells Branch
10	Pflugerville
11	St. Edwards Park
12	Jollyville–South
13	IBM Area
14	Eubank Acres–North
15	Dessau
16	Far West Blvd
17	Abercrombie
18	Eubank Acres–South
19	Walnut Forest
20	Hyde Park
21	St. Johns Park
22	Capital Plaza

Area No.	Submarket
23	Berkman Drive
24	West End
25	University of Texas
26	Pershing
27	Downtown–North
28	Downtown–South
29	East Central Austin
30	Pleasant Hill–West
31	Oak Hill
32	Sunset Valley
33	Pleasant Hill–East
34	Daffan
35	Elgin
36	Taylor
37	Dripping Springs
38	San Marcos/Kyle
39	Bastrop
40	Outlying Bastrop County
41	Woodcreek–Wimberley
42	West Travis County
43	Outlying Williamson County
44	Hutto

DEFINITIONS

Lifestyle households (renters by choice) have wealth sufficient to own but have chosen to rent. Discretionary households, most typically a retired couple or single professional, have chosen the flexibility associated with renting over the obligations of ownership.

Renter-by-Necessity households span a range. In descending order, household types can be:

- *A young-professional*, double-income-no-kids household with substantial income but without wealth needed to acquire a home or condominium;
- *Students,* who also may span a range of income capability, extending from affluent to barely getting by;
- *Lower-middle-income ("gray-collar") households,* composed of office workers, policemen, firemen, technical workers, teachers, etc.;
- *Blue-collar households,* which may barely meet rent demands each month and likely pay a disproportionate share of their income toward rent;
- *Subsidized households*, which pay a percentage of household income in rent, with the balance of rent paid through a governmental agency subsidy. Subsidized households, while typically low income, may extend to middle-income households in some high-cost markets, such as New York City;
- *Military households*, subject to frequency of relocation.

These differences can weigh heavily in determining a property's ability to attract specific renter market segments. The five-star resort serves a very different market than the down-and-outer motel. Apartments are distinguished similarly, but distinctions are often not clearly definitive without investigation. The Yardi® Matrix Context rating eliminates that requirement, designating property market positions as:

Market Position	Improvements Ratings
Discretionary	A+ / A
High Mid-Range	A- / B+
Low Mid-Range	B / B-
Workforce	C+ / C / C- / D

The value in application of the Yardi® Matrix Context rating is that standardized data provides consistency; information is more meaningful because there is less uncertainty. The user can move faster and more efficiently, with more accurate end results.

The Yardi® Matrix Context rating is not intended as a final word concerning a property's status—either improvements or location. Rather, the result provides reasonable consistency for comparing one property with another through reference to a consistently applied standard.

To learn more about Yardi® Matrix and subscribing, please visit www.yardimatrix.com or call Ron Brock, Jr., at 480-663-1149 x2404.