



MULTIFAMILY REPORT

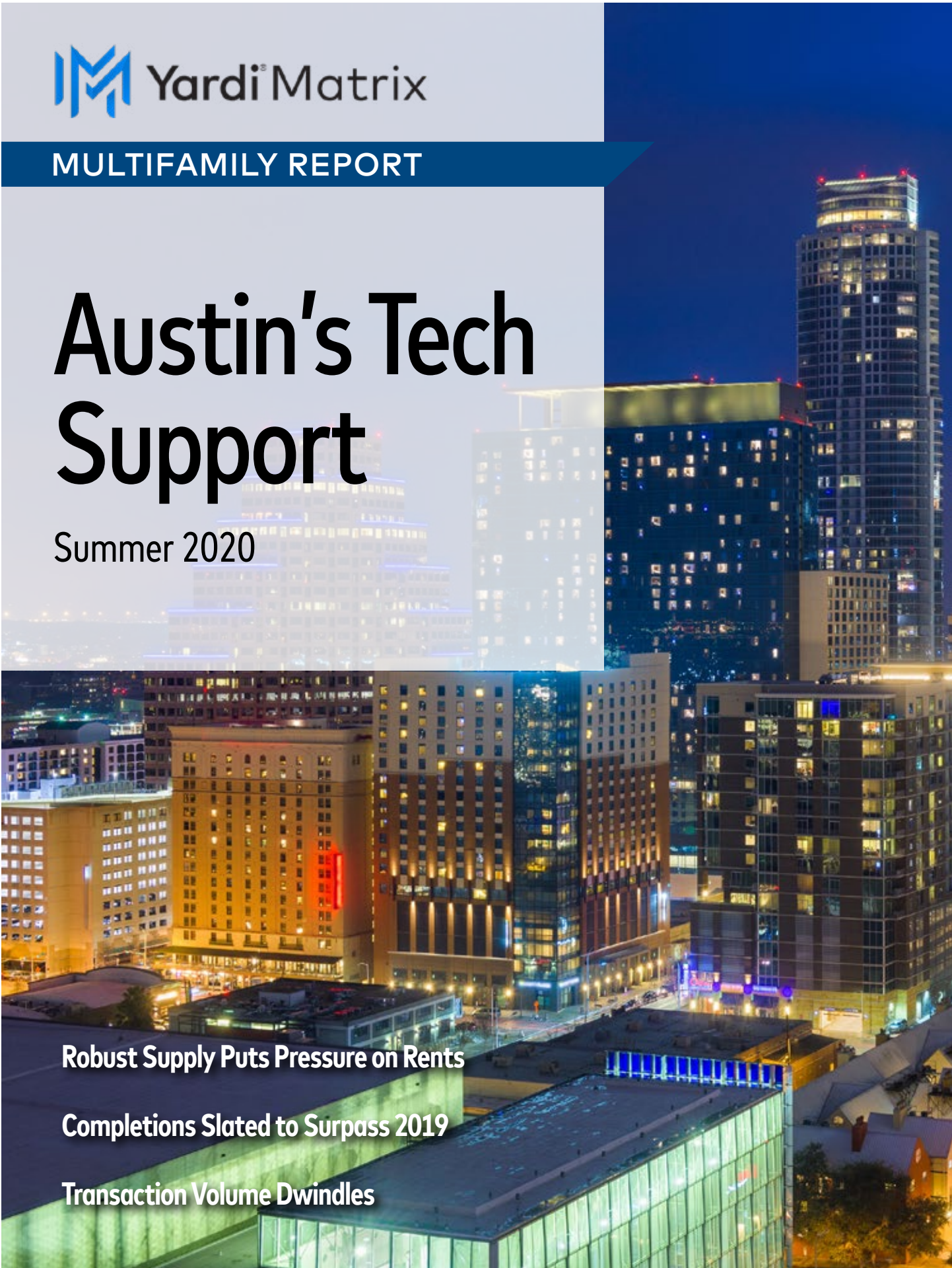
Austin's Tech Support

Summer 2020

Robust Supply Puts Pressure on Rents

Completions Slated to Surpass 2019

Transaction Volume Dwindles



AUSTIN MULTIFAMILY



Economy Rebounds, Overbuilding Risk Looms

Austin's multifamily market displayed weakening fundamentals in the second quarter, but was kept afloat with help from the growing presence of tech companies. Still, the pandemic's impact and high number of completions have pressured rents, which contracted 0.2% to \$1,372 on a trailing three-month basis through July. Meanwhile, the occupancy rate in stabilized properties was down 90 basis points in 12 months, to 94.0% as of July.

Throughout the last cycle, Austin has built a diversified and balanced economy, which helped it withstand COVID-19's blunt force. Still, the metro's economic activity contracted sharply in the second quarter. The unemployment rate rose in April to its highest value at 12.2%, but dropped to 7.3% in June and further to 6.7% in July, according to preliminary data. Yet the 3.3 million unemployment claims filed across the state between mid-March and late August could continue rising, as Gov. Greg Abbott reversed the state's reopening in early July due to a spike in the number of coronavirus cases in late June.

Multifamily transactions totaled just \$812 million through August, with a per-unit price that inched up 2.6% to \$150,134. Meanwhile, 6,072 units came online and another 28,052 apartments were underway at the end of the summer. Taking current volatility into account, we expect Austin rents to drop 0.4% in 2020.

Market Analysis | Summer 2020

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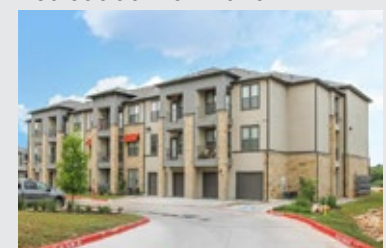
Recent Austin Transactions

Residences at the Triangle



City: Austin, Texas
Buyer: Castle Lanterra Properties
Purchase Price: \$129 MM
Price per Unit: \$243,856

Retreat at Wolf Ranch



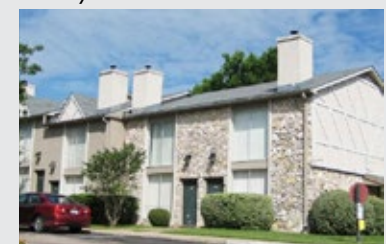
City: Georgetown, Texas
Buyer: BSR Trust
Purchase Price: \$52 MM
Price per Unit: \$170,297

Bexley Wolf Ranch



City: Georgetown, Texas
Buyer: Weinstein Properties
Purchase Price: \$51 MM
Price per Unit: \$152,610

Chevy Chase

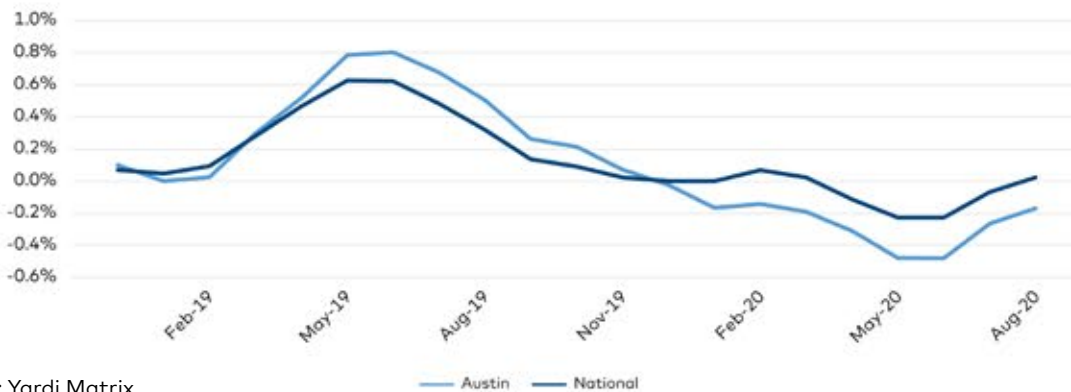


City: Austin, Texas
Buyer: Bluerock Real Estate
Purchase Price: \$33 MM
Price per Unit: \$101,667

RENT TRENDS

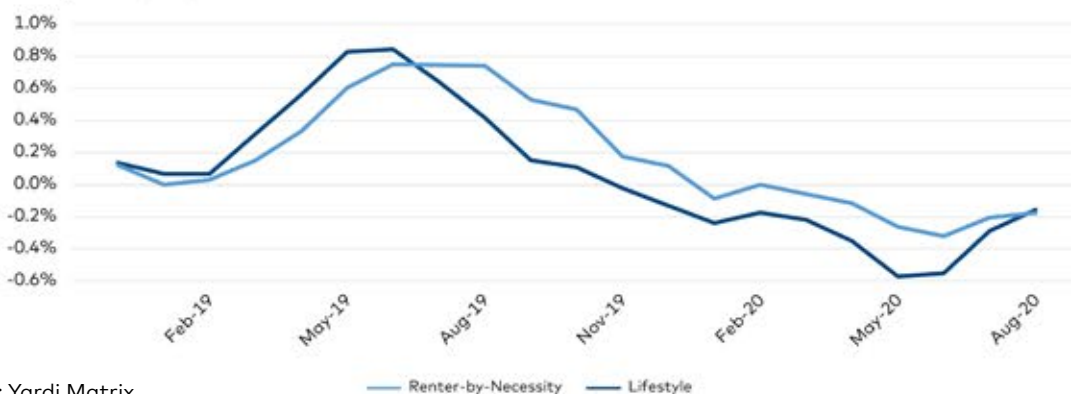
- ▶ Austin rents slid 0.2% on a trailing three-month (T3) basis through August, to \$1,372, while the U.S. rate remained flat at \$1,463. The decrease was evident across the quality spectrum, with the average Austin rent for both working-class Renter-by-Necessity and Lifestyle units marking 0.2% contractions during the same period.
- ▶ Completions remained robust in 2020, and this has not only encouraged apartment operators to trim rents, but has also caused a dent in occupancy for stabilized properties. The metro's rate stood at 94.0% as of July, down 90 basis points in 12 months. Apart from substantial multifamily deliveries, the decline in Austin rents was also influenced by a rising homeownership rate, which reached 67.9% in the second quarter of 2020, marking a 3.8% uptick.
- ▶ In August, the city of Austin's Neighborhood Housing and Community Development and the Housing Authority of the City of Austin announced a \$12.9 million rent assistance program that provides financial assistance for up to three months for income-eligible renters. This preceded the federal eviction moratorium announced in early September.
- ▶ Several noncore areas recorded strong gains as of August, including Georgetown-West (average rent up 9.2% to \$1,283), Taylor (5.1% to \$1,005) and Round Rock-East (2.9% to \$1,225). Meanwhile, rates contracted across most of the metro's priciest submarkets: Downtown-North (-4.8% to \$2,499), the West End (-4.8% to \$1,872), Pershing (-6.8% to \$1,837) and Downtown-South (-5.1% to \$1,457).

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

- ▶ Austin's tech hub status has helped its economy perform better than many U.S. metros, especially gateway cities. COVID-19's force was most intense in April—the unemployment rate rose to 12.2%, but dropped to 7.3% as of June, and preliminary July data clocked in at 6.7%. Still, this is the first time since the summer of 2012 that the rate surpassed 6.0%. Additionally, unemployment claims filed in Texas neared 3.3 million between mid-March and Aug. 22.
- ▶ June marked the second month for negative year-over-year job growth in Austin. Employment contracted 2.0% year-over-year, but fared much better than the U.S. average, which declined 5.0%. In fact, Austin ranked third across major U.S. metros, after Phoenix (-1.1%) and Dallas (-1.4%).
- ▶ While leisure and hospitality marked a 27.1% contraction in the 12 months ending in June, four sectors gained jobs, led by financial activities (8,700 positions). Professional and business services—Austin's largest sector—also expanded with 800 new positions. Additional good news came from aerospace and defense contractor BAE Systems. The company plans to build a \$150 million, 350,000-square-foot campus in North Austin, which, upon completion in 2022, will need more than 1,400 employees.

Austin Employment Share by Sector

| Code | Employment Sector | Current Employment | |
|------|-------------------------------------|--------------------|---------|
| | | (000) | % Share |
| 55 | Financial Activities | 75 | 7.1% |
| 15 | Mining, Logging and Construction | 73 | 6.9% |
| 30 | Manufacturing | 65 | 6.1% |
| 60 | Professional and Business Services | 198 | 18.6% |
| 40 | Trade, Transportation and Utilities | 182 | 17.1% |
| 80 | Other Services | 45 | 4.2% |
| 50 | Information | 34 | 3.2% |
| 65 | Education and Health Services | 118 | 11.1% |
| 90 | Government | 174 | 16.4% |
| 70 | Leisure and Hospitality | 101 | 9.5% |

Sources: Yardi Matrix, Bureau of Labor Statistics

Population

- ▶ Austin remained one of the fastest growing cities in the country, gaining 58,767 residents in 2019. That marked a solid 2.7% expansion, nine times the 0.3% U.S. rate.
- ▶ Between 2016 and 2019, Texas' capital added 164,872 residents, for an 8.0% increase.

Austin vs. National Population

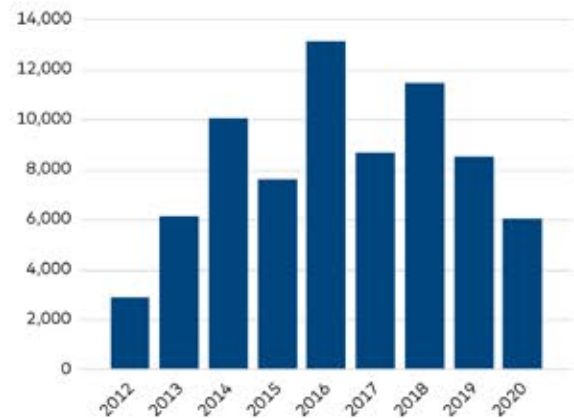
| | 2016 | 2017 | 2018 | 2019 |
|--------------|-------------|-------------|-------------|-------------|
| National | 323,071,342 | 325,147,121 | 327,167,434 | 328,239,523 |
| Austin Metro | 2,062,211 | 2,115,230 | 2,168,316 | 2,227,083 |

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

SUPPLY

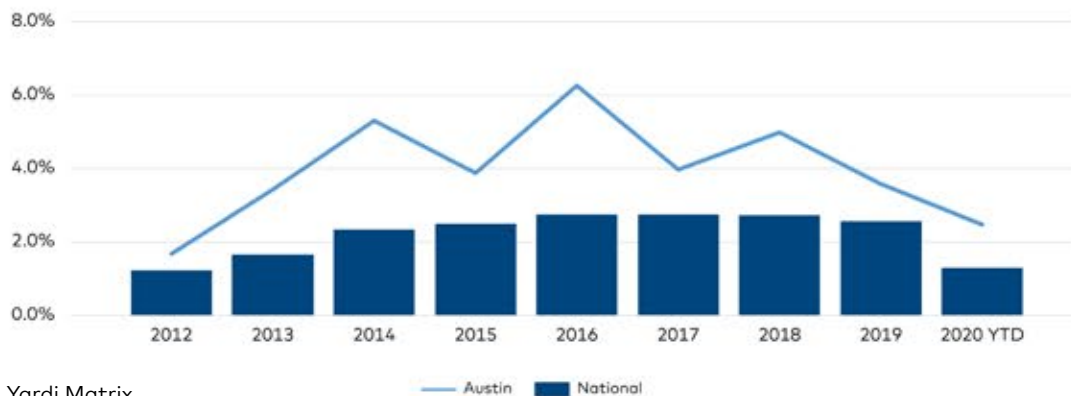
- ▶ Developers added 6,072 units to Austin's inventory in the first eight months of 2020, equal to 2.5% of total stock and nearly double the 1.3% U.S. rate. Almost 66,000 units have come online in the metro since the beginning of 2014. The pace of development has revealed the balanced distribution during the past expansion, one that met sustained demand while keeping rent gains in check.
- ▶ In August, 28,053 units were underway in Austin, 7,023 of which broke ground in 2020. In addition, more than 74,000 units were in the planning and permitting phases, although many of these projects could face long delays or be axed due to economic conditions. We expect a total of 9,342 units to come online across the metro in 2020, more than the 8554 apartments that were delivered in 2019.
- ▶ Austin's pipeline continues to overwhelmingly comprise Lifestyle assets. Beyond the turbulence induced by the health crisis and the resulting downturn, tech companies are expanding in the metro, propping up demand for upscale product. This, in turn, is helping absorption at the higher end of the quality spectrum.
- ▶ As of August, about one-third of the pipeline was centered in just four submarkets, with Cedar Park (3,300 units under construction) and East Central Austin (2,637) topping the list. East Central Austin also held the top spot for deliveries in 2020 through August (832 units in three Lifestyle communities), followed by Sunset Valley (690 units in two properties). The largest project underway was Korina at The Grove in Abercrombie, a 500-unit asset owned by Milestone Community Builders and Trammell Crow Co., slated for completion in 2021.

Austin Completions (as of August 2020)



Source: Yardi Matrix

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



Source: Yardi Matrix

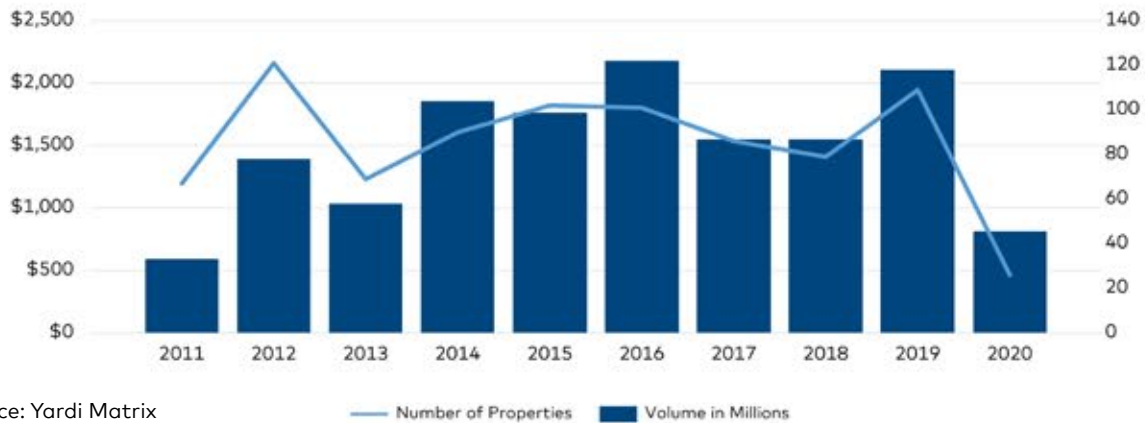
TRANSACTIONS

- Nearly \$812 million in multifamily assets changed hands across metro Austin in 2020 through August, which, relative to the same period last year, marked a 32.2% drop in transaction volume. Sales during 2020's second quarter totaled just \$319 million. By comparison, last year's second quarter registered \$798 million in closed deals.
- The national price per unit marked a marginal decrease to \$163,833 in 2020 through August, while the Austin figure rose slightly—2.6% to \$150,134.

The increase was due in part to the composition of traded properties: Of the 26 assets that changed ownership in the first eight months of the year, 16 were Lifestyle communities.

- Castle Lanterra Properties' acquisition of the 529-unit Residences at The Triangle marked the year's largest deal through August. The upscale asset in north-central Austin was previously owned by Dinerstein Cos., and sold for \$129 million, or \$243,856 per unit, with the help of a \$98 million Freddie Mac loan.

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



Source: Yardi Matrix

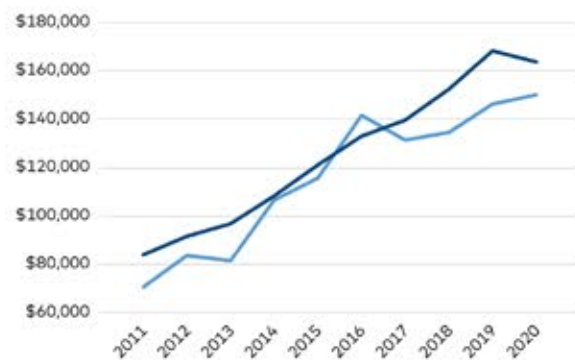
Top Submarkets for Transaction Volume¹

| Submarket | Volume (\$MM) |
|---------------------|---------------|
| East Central Austin | 170 |
| Hyde Park | 162 |
| San Marcos/Kyle | 141 |
| Abercrombie | 138 |
| Round Rock South | 114 |
| Downtown-North | 109 |
| Pflugerville | 104 |

Source: Yardi Matrix

¹ From September 2019 to August 2020

Austin vs. National Sales Price per Unit



Source: Yardi Matrix

Top Texas Metros for Multifamily Development in 2020

By Anca Gagiuc

The Texas job market performed strongly before the onset of the pandemic, with all three of its major markets showing up across rankings related to economic and demographic development. This created substantial demand for apartments, pressuring developers to keep up. Land availability, a friendly business climate, good weather and a high quality of life, all contributed to the rapid expansion of the state's rental market.

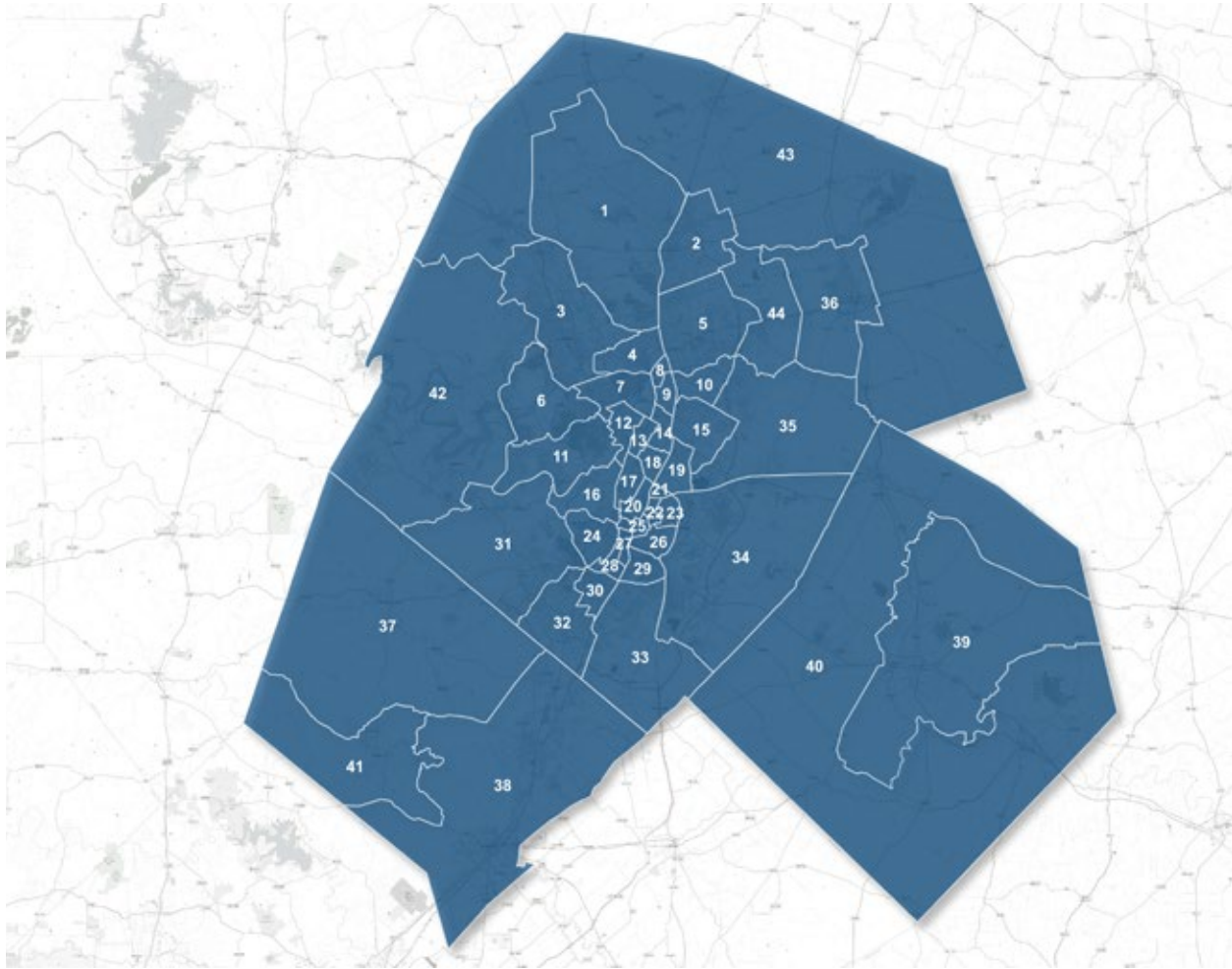
| Submarket | Property Name | No. of Units Under Construction |
|-----------------------|-----------------------------------|---------------------------------|
| 17 - Abercrombie | Korina at The Grove | 500 |
| 15 - Dessau | The Oaks at Techridge West & East | 468 |
| 5 - Round Rock - East | Parkside at Round Rock | 433 |

AUSTIN

The Texas capital holds the top spot for deliveries as a percentage of total stock. Through the first eight months of 2020, developers delivered 6,072 units, or 2.5 percent of total stock, well above the 1.3 percent U.S. rate. The substantial number of new units supplied during the health crisis has affected the occupancy rate in stabilized properties, which dropped 90 basis points year-over-year through July, to 94.0 percent.



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 August 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 August 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, August 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.

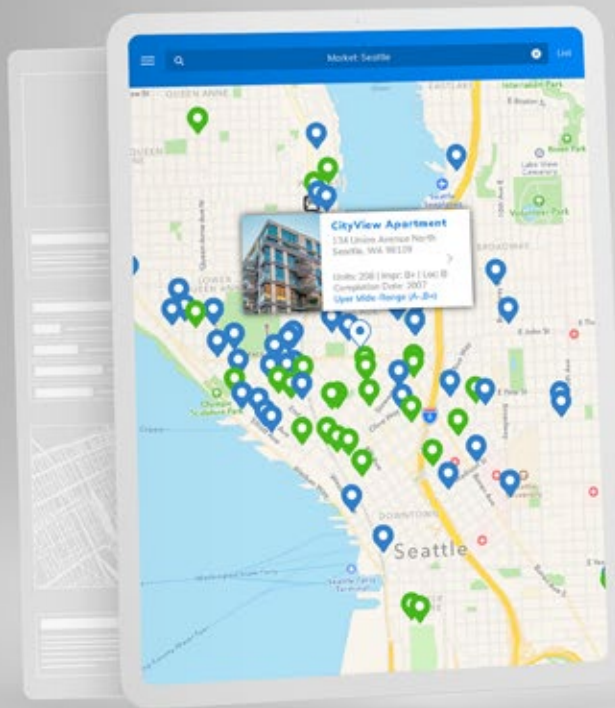
The Yardi® Matrix Context rating is not intended as a final word concerning a property's status—either improvements or location. Rather, the result provides reasonable consistency for comparing one property with another through reference to a consistently applied standard.

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