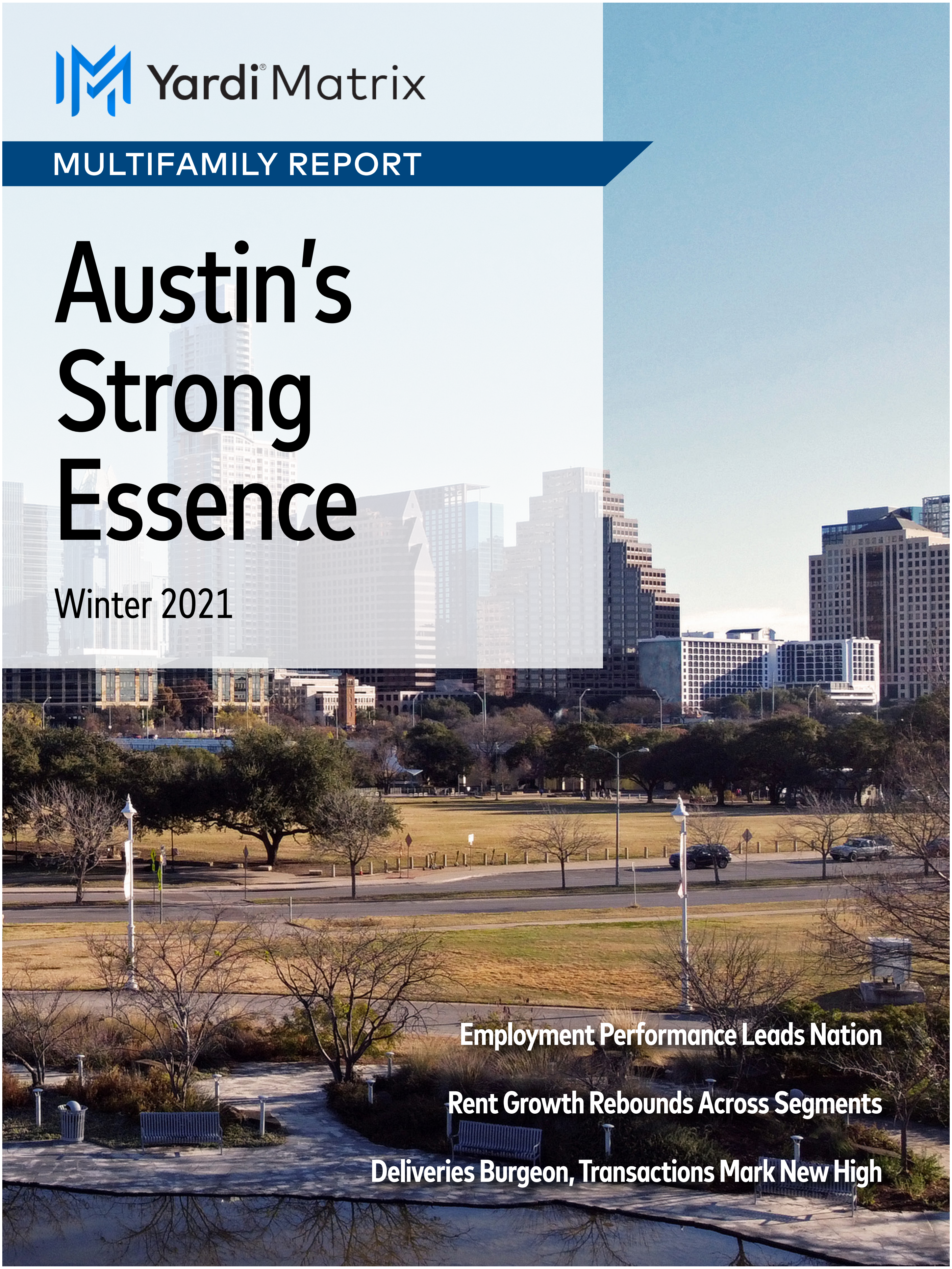
Yardi Matrix

MULTIFAMILY REPORT

# Austin's Strong Essence

Winter 2021



Employment Performance Leads Nation

Rent Growth Rebounds Across Segments

Deliveries Burgeon, Transactions Mark New High

# AUSTIN MULTIFAMILY

Yardi Matrix

## In-Migration Supports Economy, Rental Market

Austin continued to showcase strength in pandemic times, and real estate fundamentals remained relatively steady despite strong supply. The metro's rental market still has obstacles ahead, but is sustained by numerous corporate relocations and strong in-migration. The average rent rebounded, rising 0.1% on a trailing three-month basis through January, to $1,367.

The metro's economy ranked first among major U.S. cities—employment contracted by only 2.8% year-over-year through November, while the national figure shrank by 7.8%. The unemployment rate stood at 5.9% in November, with preliminary December data pointing to 5.1%. Amid the health crisis, Tesla announced a multiphase facility set to open in mid-2021 and expected add 5,000 jobs, while Oracle announced the relocation of its corporate headquarters. Voters approved Project Connect, Austin's light rail system, which will alleviate traffic congestion and support the metro's expansion.

Developers delivered 12,292 units in 2020, marking the second-best year of the decade, and had another 32,637 units underway in early 2021. Transaction activity intensified following a numb second quarter and closed the year at nearly $2.4 billion—a new peak—with the per-unit price up 10.1% to $160,872. Investment sales took a significant step back in 2020, coming in at $1.4 billion. That's less than half the $3.7 billion recorded in 2019.

### 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

## Market Analysis | Winter 2021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On the cover: Photo by brucemaloneatx/iStockphoto.com

## RENT TRENDS

- Austin rents rebounded after more than a year of declines, up 0.1% on a trailing three-month (T3) basis through January, to 1,367. Meanwhile, the U.S. average remained flat for the seventh consecutive month on a T3 basis, at $1,392.

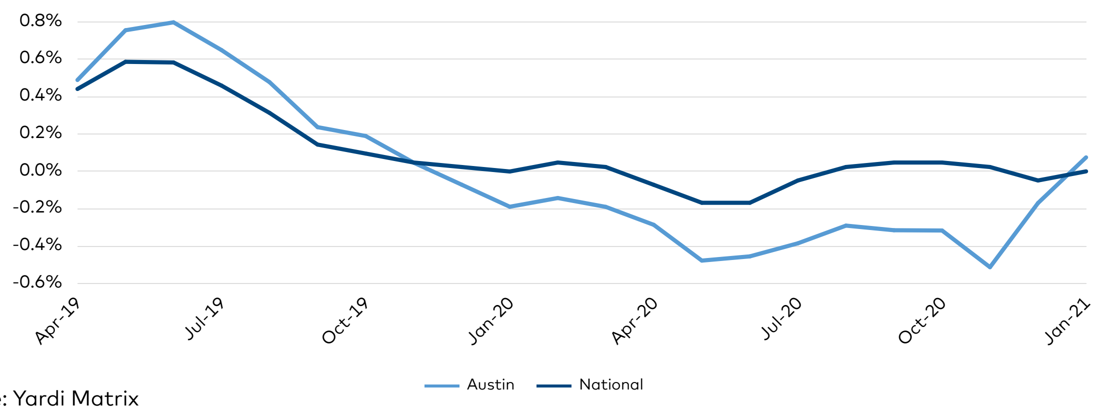
- Pressured by strong supply and economic volatility, the year-over-year Austin average was down 2.7% as of January. However, a high influx of in-migration from costlier gateway markets is boosting rental demand, providing the ingredients for a healthy recovery.

- While working-class Renter-by-Necessity rates held up better than Lifestyle rents last year, demand recorded some rebalancing at the beginning of 2021: On a T3 basis, both segments were up 10 basis points as of January.

- About two-thirds of Austin's submarkets posted year-over-year rent declines through January, with Pershing (-9.8% to $1,760) and Capital Plaza (-8.6% to $1,464) marking the largest drops. Taylor remained the most affordable submarket, with rents up 1.0% to $978.

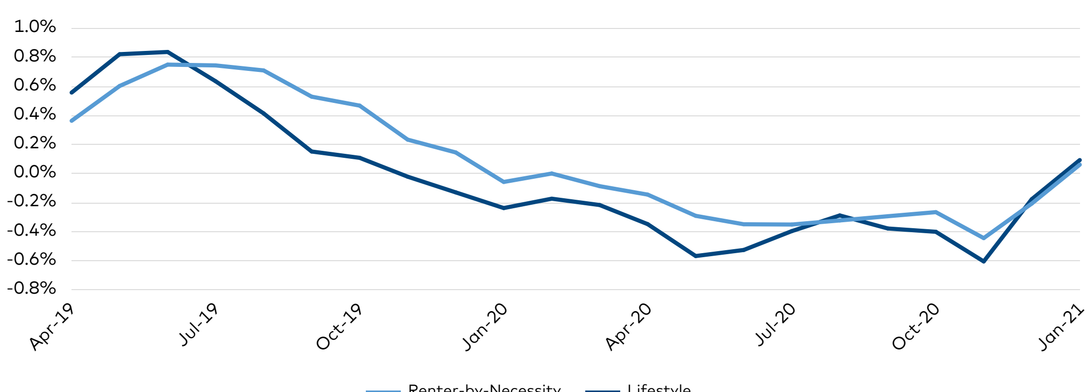
- Diametrically opposed, the metro's most expensive submarkets remained Downtown-North (-6.1% to $2,405) and University of Texas (3.6% to $2,292), although rent evolution for the two bifurcated. The latter also clocked in one of the metro's best rate improvements, behind only Georgetown, where rents rose 11.8% on the east side and 3.8% on the west side.

**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 economy, among others, benefited from Texas' shorter lockdown period and early reopening. The metro's jobless rate quickly improved from the 12.2% April peak, bouncing in the 5.0% to 6.0% band during the last quarter of 2020.
- Employment growth was encouraging in September, when the rate marked a 5.1% year-over-year contraction. The recovery led to a relatively healthy average (-2.8%) in the 12 months ending in November, leading all major markets and substantially outperforming the U.S. figure (-7.2%).
- Four sectors gained jobs in the year ending in November, led by professional and business services (12,400 jobs) and financial activities (11,800). Manufacturing posted a promising uptick (4,300). Tesla's factory, underway east of Austin, will speed up the expansion and is expected to add 5,000 jobs through 2023.
- Austin's economy is likely to validate the wider trend of a K-shaped recovery. On one hand, the metro is propped up by companies that can thrive in remote environments, such as tech firms and other traditionally office-using businesses. On the other hand, it is lagging due to service providers and entities selling experiences, and, in general, industries that normally rely on population density and human interaction.

### Austin Employment Share by Sector

| | | Current Employment | |
|---|---|---|---|
| Code | Employment Sector | (000) | % Share |
| 60 | Professional and Business Services | 215 | 19.1% |
| 55 | Financial Activities | 79 | 7.0% |
| 30 | Manufacturing | 67 | 6.0% |
| 40 | Trade, Transportation and Utilities | 192 | 17.1% |
| 80 | Other Services | 48 | 4.3% |
| 15 | Mining, Logging and Construction | 72 | 6.4% |
| 90 | Government | 183 | 16.3% |
| 50 | Information | 35 | 3.1% |
| 65 | Education and Health Services | 124 | 11.0% |
| 70 | Leisure and Hospitality | 109 | 9.7% |

Sources: Yardi Matrix, Bureau of Labor Statistics

## Population

- Robust in-migration keeps Austin among the fastest growing cities in the country. The metro's demographics maintained an upward trend throughout the entire cycle.
- Austin gained 58,767 residents in 2019, marking a 2.7% expansion, nine times the 0.3% U.S. rate.

### Austin vs. National Population

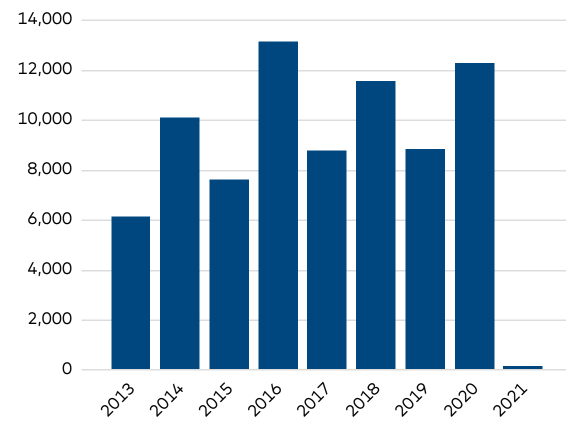
| | 2016 | 2017 | 2018 | 2019 |
|---|---|---|---|---|
| National | 323,071,342 | 325,147,121 | 327,167,434 | 328,239,523 |
| Austin Metro | 2,062,211 | 2,115,230 | 2,168,316 | 2,227,083 |

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

## SUPPLY

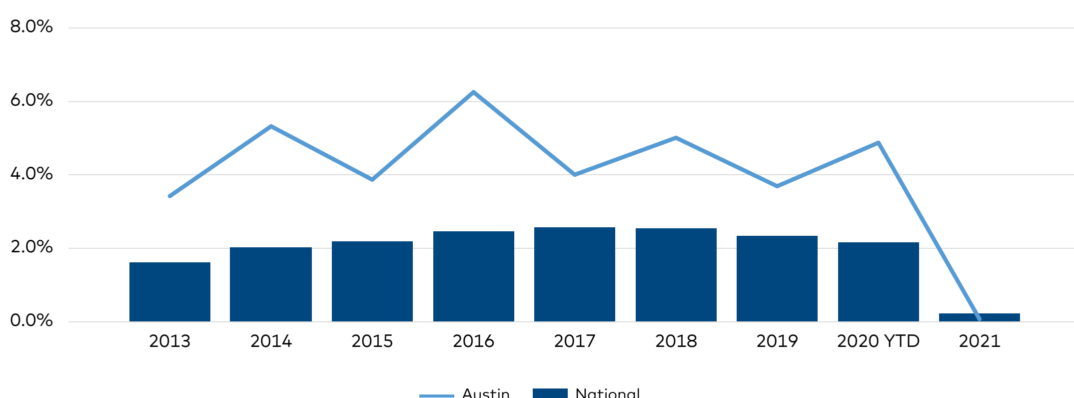
- Austin was among the leaders in multifamily deliveries in 2020—marking the second-best year in a decade—with developers adding 12,292 units. The figure represented 4.9% of total stock, 120 basis points above 2019's rate and more than double the national figure.
- The metro is one of the main beneficiaries of the strong migration out of high-cost gateway markets. This has encouraged developers to maintain focus on upscale projects; nearly all new stock consists of Lifestyle communities. However, six fully affordable properties totaling 1,237 units came online in Austin in 2020.
- As of January, the metro had 32,647 units under construction and another 69,443 in the planning and permitting stages. Of the projects currently underway—which continue to be heavily geared toward the Lifestyle segment—Yardi Matrix expects a little more than 10,000 apartments to come online in 2021.
- Development is high across the map, with Central East Park as the most-active submarket, with 3,093 units underway as of January. San Marcos/Kyle and University of Texas followed, with 2,707 and 2,394 units underway, respectively.
- The largest project underway as of January was The Vineyard, a 468-unit upscale property located in north Austin. The Pflugerville community, slated for completion in the first quarter, is owned by Ledcor Properties and managed by Lincoln Property Co.

**Austin Completions** (as of January 2021)




Source: Yardi Matrix

**Austin vs. National Completions as a Percentage of Total Stock** (as of January 2021)

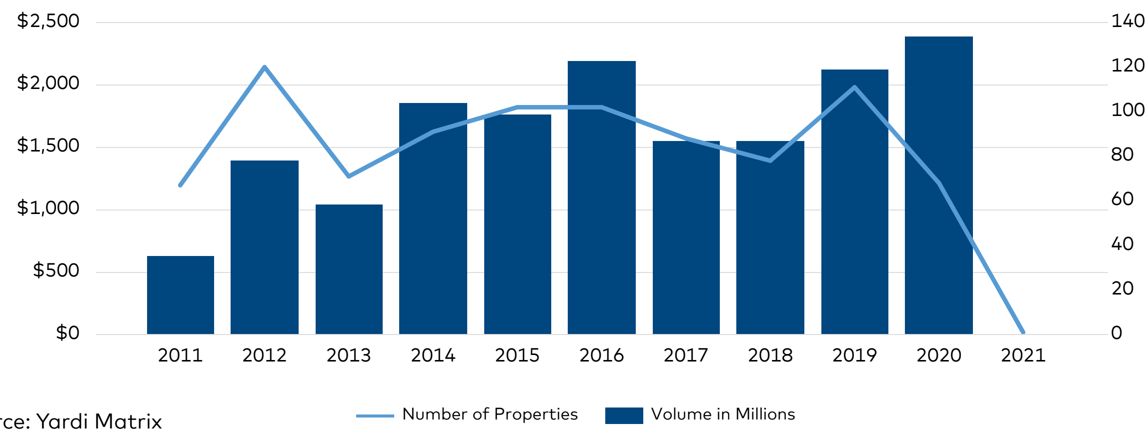



Source: Yardi Matrix

## TRANSACTIONS

- Nearly $2.4 billion in assets traded in Austin in 2020, bucking nationwide trends and recording the metro's highest figure of the past decade. Yet, the pandemic left its mark, nearly halting investor activity during the second quarter, when only $138 million in assets changed hands. By the third quarter, transactions had picked up again, culminating in $866 million in multifamily sales in the fourth quarter.
- With two-thirds of traded properties catering to the Lifestyle segment, the per-unit price rose 10.1% to $160,872 in 2020, once again surpassing the U.S. average, which clocked in at $157,900.
- While East Central Austin recorded the highest transaction volume in the 12 months ending in January, northern suburbs drew a good chunk of capital—investors spent about a quarter of the total volume here. With the new transit system Project Connect approved, properties along Interstate 35 are gaining appeal. The system is also expected to alleviate traffic congestion.

**Austin Sales Volume and Number of Properties Sold** (as of January 2021)




Source: Yardi Matrix

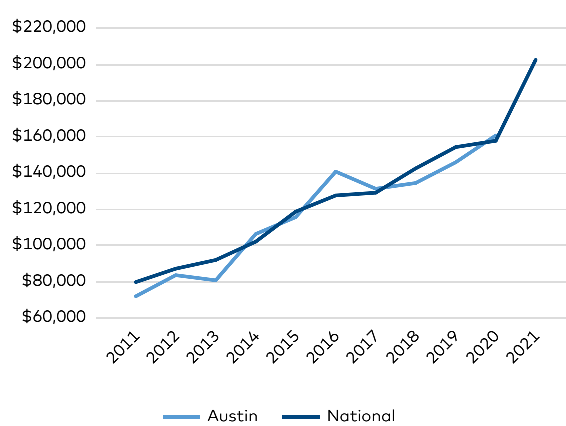
### Top Submarkets for Transaction Volume[1]

| Submarket | Volume ($MM) |
|---|---|
| East Central Austin | 257 |
| Jollyville–North | 184 |
| Cedar Park | 167 |
| Round Rock–East | 163 |
| Hyde Park | 162 |
| Pleasant Hill–West | 154 |
| West Travis County | 141 |

Source: Yardi Matrix

[1] From February 2020 to January 2021

### Austin vs. National Sales Price per Unit




Source: Yardi Matrix

# More Roads to Lead Austin to the Global Stage

By Anca Gagiuc

Austin's fantastic performance during the past cycle is about to receive a new boost. City officials passed Proposition A in late 2020, a program designed to solve the problematic local public transit system. Through a permanent increase in property taxes, the city aims to raise $7.1 billion to invest in mass transit. Here's how local investor Ari Rastegar, CEO of Rastegar Property Co., thinks the project will transform the metro in the years to come.

*What's your take on the plan?*

The passing of Prop A is fantastic news and will catapult Austin onto the global stage. With Proposition A, we are going to start seeing the city grow at a rapid pace. Major tech companies are ditching Silicon Valley for Austin en masse, and their executives and employees are coming here with them. Public transportation is going to play a huge role in servicing these new residents in their eventual commutes.

*What does the project mean for the local real estate industry?*

This is going to be great for Austin, as it will turn it into a mixed-use, walkable and accessible city. Property values along the light rail route are going to increase, so the time to get in is now.

*How does the infrastructure project affect your investment portfolio?*

It couldn't be better for us. Our properties are going to become more valuable as this light rail

will make Austin an even more attractive city for those looking to move. We have an assembled site on South Congress where property value will increase considerably over the next decade, as the light rail is completed. This is fantastic for Austin, providing terrific, sustainable transportation to downtown, the airport and other dynamic parts of the city.

*Opponents to the plan believe Proposition A is an improper use of taxpayer dollars, as more people are likely to work from home going forward. What would you say about their concerns?*

This is such a shortsighted critique of the project. All the greatest cities in the world have many transportation options, and now, Austin can be added to that list. Construction will certainly be a temporary hindrance, but in the long term, Prop A will be a great catalyst for local businesses to thrive along the new transit corridor.

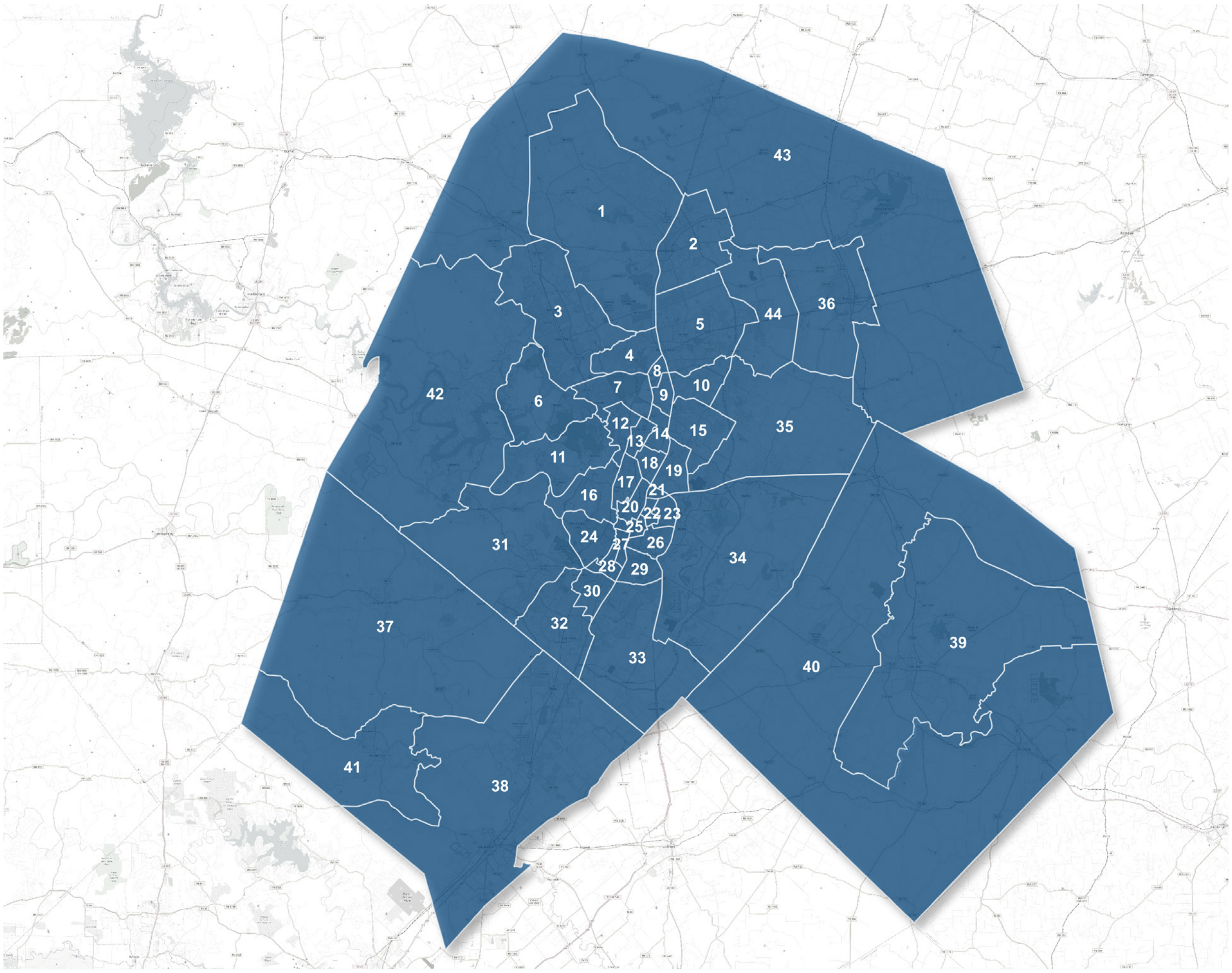
The city of Phoenix estimated $11 billion and 35,000 jobs followed within 0.5 miles of their light rail system since 2008, and I expect Austin to have an even greater return on investment, especially considering Tesla, Oracle, Facebook and countless other employees from top-tier tech companies are making their way to the city.

*Are there any downsides to this project?*

This light rail is exactly what Austin needs. The city is growing and proper public transportation is the next logical extension for a city that is readying for more recognition on a global scale.

*(Read the complete interview on multihousingnews.com.)*

## 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 December 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 December 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, December 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.