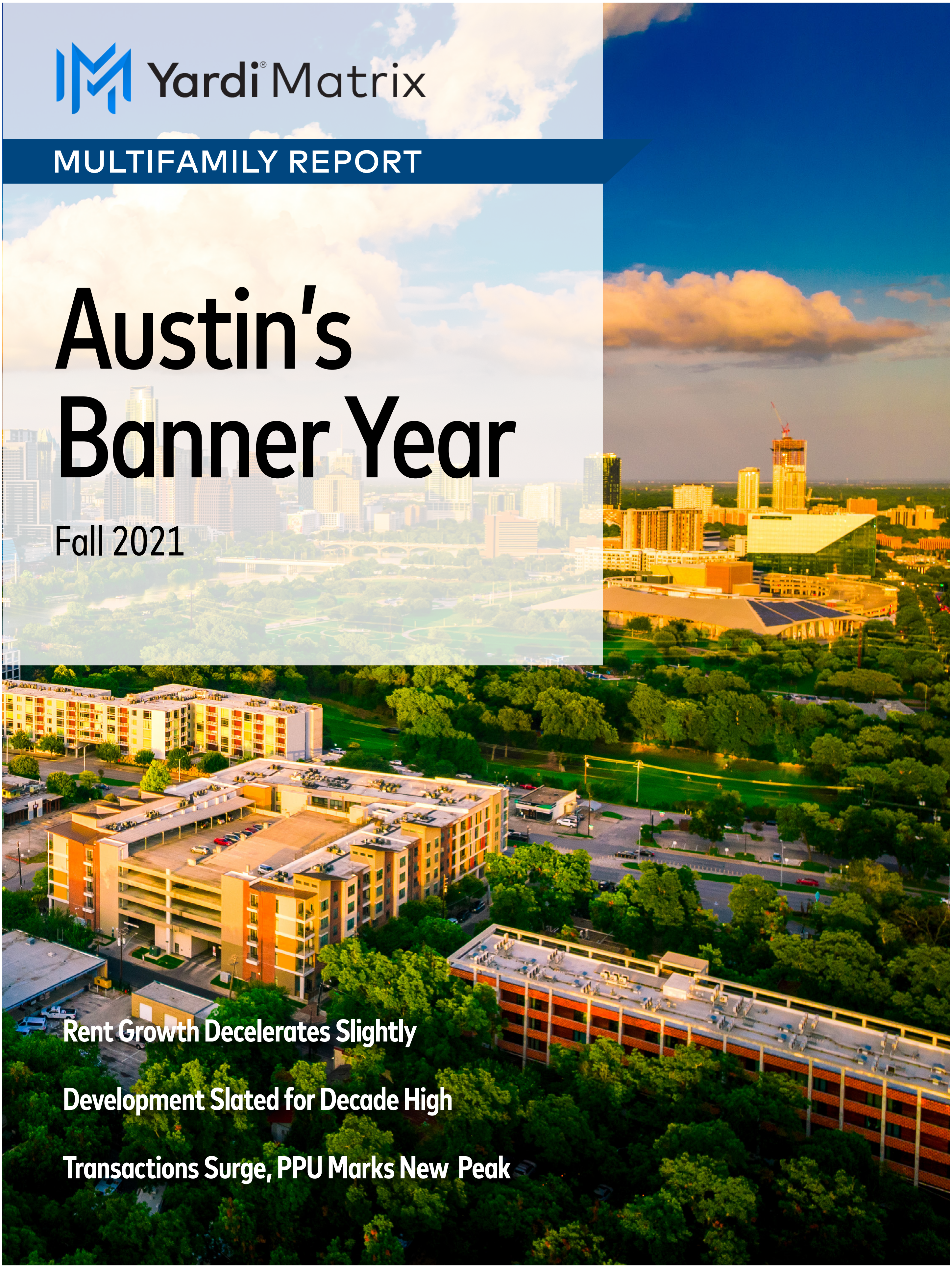
Yardi Matrix

MULTIFAMILY REPORT

Austin's Banner Year

Fall 2021



Rent Growth Decelerates Slightly

Development Slated for Decade High

Transactions Surge, PPU Marks New Peak

AUSTIN MULTIFAMILY

Yardi Matrix

Robust In-Migration Bolsters Demand

A year and a half into the pandemic, Austin is strengthening its position as a hot market for investment, attracting out-of-state corporate relocations and reinforcing its high-tech hub status. Paired with robust demographic expansion, the multifamily market continued to expand, with rents rising 2.1% on a trailing three-month basis through September to $1,620, surpassing the $1,558 U.S. average. Meanwhile, the occupancy rate in stabilized properties increased a solid 160 basis points in the 12 months ending in August, to 95.2%.

Austin's unemployment rate improved to 3.8% in August, outperforming the 5.9% Texas rate and the 5.2% U.S. figure. In fact, the local employment market ranked first among major metros, rising 5.0% in the 12 months ending in July, double the 2.5% national rate. Austin's largest sectors—professional and business services and trade, transportation and utilities—expanded by 13.0% and 7.7%. In this context, moves such as Tesla's headquarters relocation both fuel and underpin an already decade-long trend.

Developers delivered 7,838 units in 2021 through September and had another 38,489 units under construction, with the primary focus on Lifestyle projects. Meanwhile, the transaction volume surpassed $1.9 billion, with the price per unit climbing another 18.5% year-over-year, to $184,701.

Market Analysis | Fall 2021

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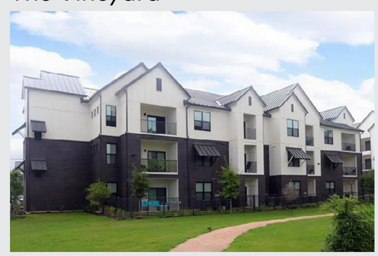
Recent Austin Transactions

The Davis SoCo

City: Austin, Texas
Buyer: Kairoi Residential
Purchase Price: $95 MM
Price per Unit: $253,119

The Vineyard



City: Pflugerville, Texas
Buyer: Treeline Partners
Purchase Price: $89 MM
Price per Unit: $ 189,459

Muir Lake

City: Cedar Park, Texas
Buyer: Old Three Hundred Capital
Purchase Price: $82 MM
Price per Unit: $246,586

The Morgan

City: Austin, Texas
Buyer: CAF Capital Partners
Purchase Price: $80 MM
Price per Unit: $159,074

RENT TRENDS

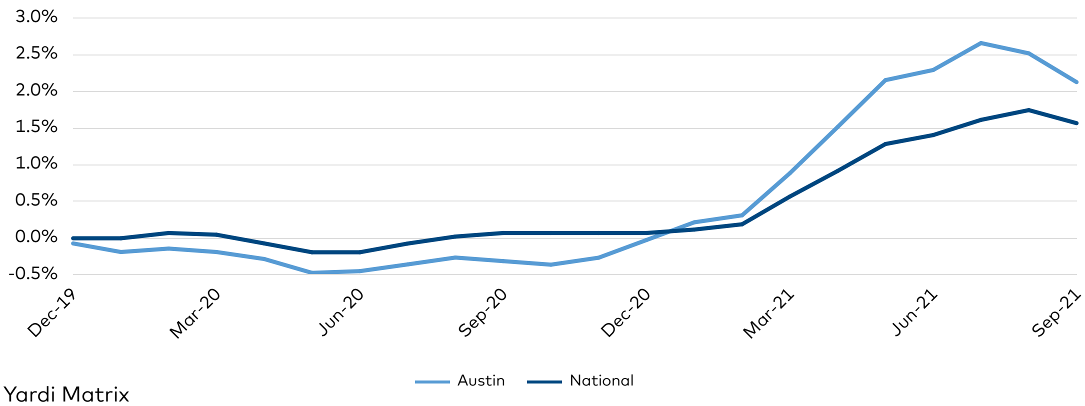
- Austin rents rose 2.1% on a trailing three-month (T3) basis through September to $1,620, surpassing the U.S. average, up 1.6%, to $1,558. The market showed signs of deceleration as growth marked the second-consecutive month of softening on a T3 basis, from the 2.7% high recorded in July. Nonetheless, on a year-over-year basis, Austin rents were up an impressive 17.0%, above the already astounding 11.4% national figure.

- Demand was even across the quality spectrum, with rents rising by 2.1% on a T3 basis through September in both segments, to $1,782 for Lifestyle units and $1,281 for Renter-by-Necessity apartments. Despite the substantial stock expansion, occupancy in stabilized properties increased 160 basis points in the 12 months ending in August, to 95.2%. The rate was up by 150 basis points for RBN units, to 95.1%, and by 160 basis points for Lifestyle properties, to 95.3%.

- All submarkets registered positive growth on a year-over-year basis through September. Downtown—North and University of Texas remained the most sought-after areas, with rents rising 19.5% to $2,857 and 14.0% to $2,495, respectively. The latter also has one of the most consistent construction pipelines in the metro.

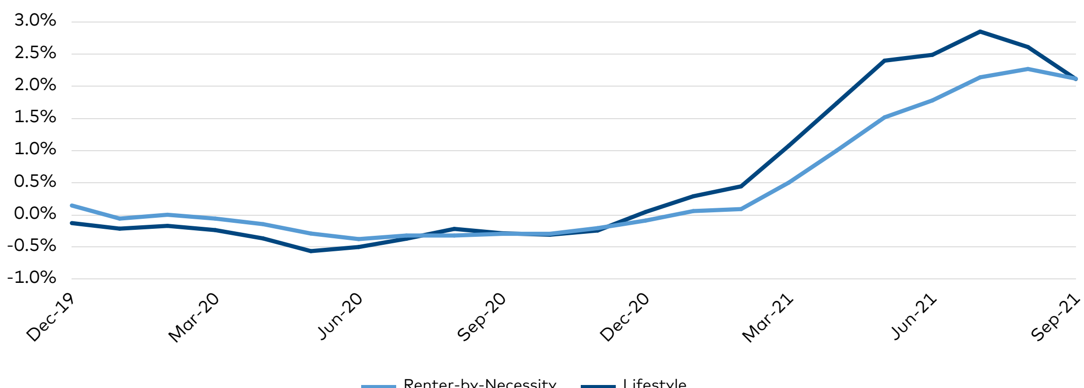
- Considering the metro's fundamentals, Austin rent growth should continue on a healthy trajectory, at least in the near to medium term. Yardi Matrix expects the average Austin rent to rise 17.7% this year.

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

- The unemployment rate in Austin improved to 3.8% in August, according to preliminary data from the BLS, outperforming the 5.2% U.S. rate. With the addition of 81,100 jobs, Austin ranked first among major metros, with the employment market posting the third-consecutive month of gains and recording a remarkable 5.0% expansion in the 12 months ending in July. That was double the 2.5% U.S. rate.

- This somewhat counterintuitive performance shows that the pandemic's impact on the metro's economy has been overestimated, and that Austin has remained highly attractive to jobseekers and companies alike, which has led to an influx of out-of-state investors.

- With property values in some areas going through the roof, the wave of relocations to Texas' capital has only accelerated. The latest high-profile move to Austin, that of Tesla's headquarters, is bound to further boost the city's magnetism.

- The government sector shrunk by 0.9% year-over-year through July, but Austin's main sectors—professional and business services and trade, transportation and utilities—expanded by 13.0% and 7.7%, respectively, which combined accounted for half of all job gains.

Austin Employment Share by Sector

		Current Employment	
Code	Employment Sector	(000)	% Share
70	Leisure and Hospitality	125	10.9%
60	Professional and Business Services	223	19.5%
40	Trade, Transportation and Utilities	197	17.3%
55	Financial Activities	72	6.3%
80	Other Services	44	3.9%
50	Information	42	3.7%
30	Manufacturing	64	5.6%
15	Mining, Logging and Construction	71	6.2%
65	Education and Health Services	125	10.9%
90	Government	180	15.8%

Sources: Yardi Matrix, Bureau of Labor Statistics

Population

- Austin remained the fastest-growing metro in the country and gained 68,822 residents in 2020, a consistent 3.1% population expansion and well above the 0.4% national rate.

- During the decade, the metro gained 567,775 residents, a 32.9% rise.

Austin vs. National Population

	2017	2018	2019	2020
National	325,147,121	327,167,434	328,239,523	329,484,123
Austin Metro	2,115,230	2,168,316	2,227,083	2,295,303

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

SUPPLY

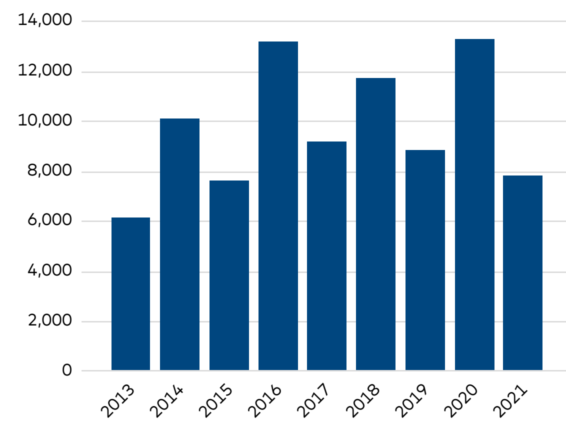
- Despite limitations stemming from the pandemic, inventory expansion remained robust. Developers delivered 7,838 units in 2021 through September, a substantial 3.0% of total stock and almost double the 1.6% national rate. This comes on the heels of the 13,300 units delivered last year, or 5.2% of stock, more than twice the 2.4% U.S. figure. Last year, in fact, was Austin's best for multifamily deliveries in a decade. For the whole of 2021, Yardi Matrix expects 14,798 apartments to come online across metro Austin, which would mark a new peak.

- Demand remained high across the quality spectrum, even though developer focus remained on Lifestyle projects. The Renter-by-Necessity segment expanded by just 641 units in 2021 through September, 407 units of which were in fully affordable communities. However, starting with the fall season, when demand is typically moderating, this substantial supply of Lifestyle apartments is likely to outpace demand in some submarkets, implicitly impacting rent growth.

- Austin had 38,489 units underway and another 81,500 apartments in the planning and permitting stages going into the fourth quarter. As with recent deliveries, the bulk of projects underway favors the upscale segment.

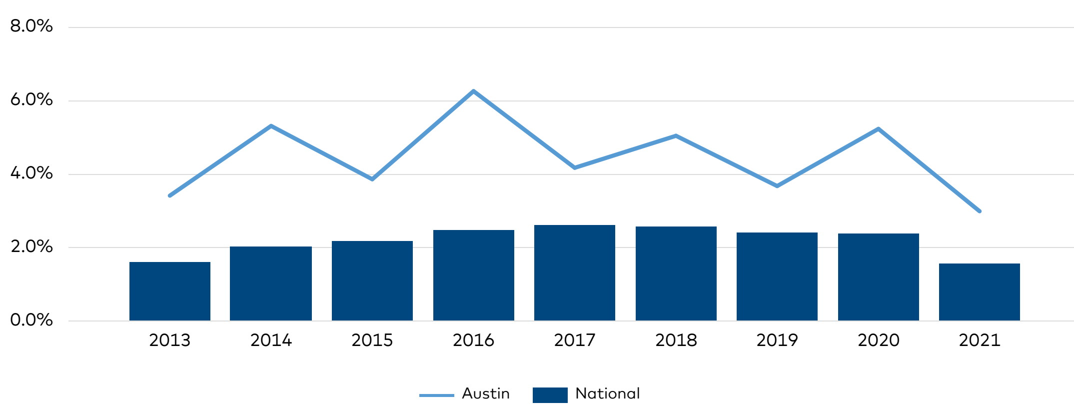
- As of September, development was most intense in San Marcos/Kyle (3,501 units), followed by University of Texas (2,802) and Daffan (2,800).

Austin Completions (as of September 2021)



Source: Yardi Matrix

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



Source: Yardi Matrix

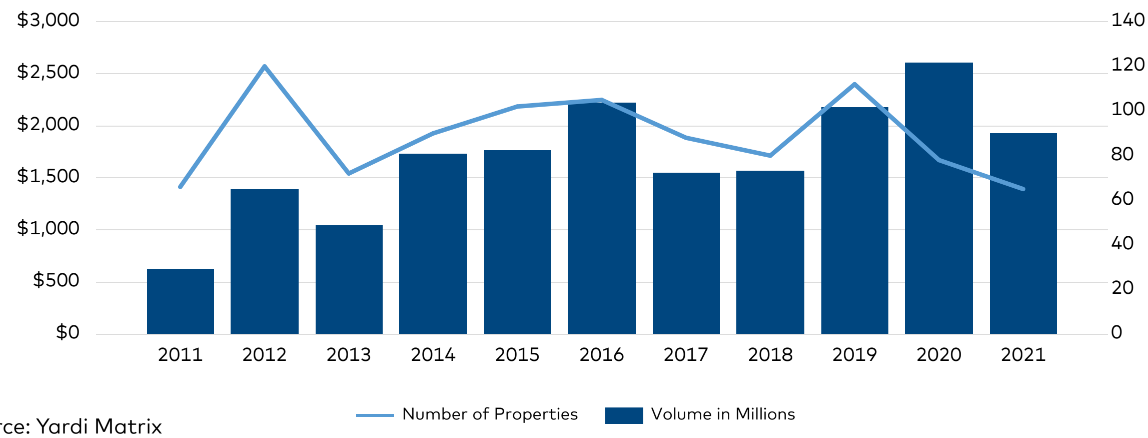
TRANSACTIONS

- Austin's transaction volume surpassed $1.9 billion in the first three quarters of 2021, outpacing the $1.5 billion registered during the same period of 2020. What's more, accounting for current market conditions and elevated investor interest, 2021 is likely to mark a new peak for multifamily sales, topping the $2.6 billion total of 2020.

- Property values continued to rise, with the price per unit increasing by 18.5% year-over-year through September to $184,701. During the period, two-thirds of the assets that traded were in the Lifestyle segment. Meanwhile, the national per-unit price rose to $179,959.

- In the 12 months ending in September, investors focused on Cedar Park ($446 million) and East Central Austin ($392 million). Both submarkets had more than 2,000 units under construction each, as of September.

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



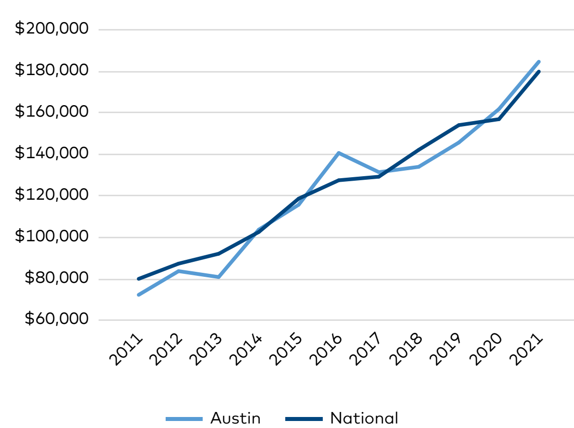
Source: Yardi Matrix

Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
Cedar Park	446
East Central Austin	392
Sunset Valley	227
Jollyville—North	210
Dessau	210
IBM Area	203
Oak Hill	172

Source: Yardi Matrix
[1] From October 2020 to September 2021

Austin vs. National Sales Price per Unit



Source: Yardi Matrix

The Michaels Organization Eyes a Bright Future

By Anca Gagiuc

Last year, right before the outbreak of the health crisis, The Michaels Organization entered the Austin, Texas, market—one of the fastest-growing metros in the country—with Zoey, a 307-unit riverfront development. Later on, the company opened Mission Trail at El Camino, a luxury workforce housing community serving almost 1,000 residents. To find out more about the firm's plans in the area we reached out to Senior Vice President of Operations Roger Williams.

How is work life at The Michaels Organization since the onset of the pandemic?

Our Michaels corporate office employees worked remotely from March 2020 to June 2021, but our on-site property management teams were on-site as essential employees every day. Our staff worked on flexible, rotating schedules and we accommodated requests for those with high risk.

We took our communication to a higher level with video conferences held on a daily, weekly and monthly basis to ensure our communities were operating within the ever-changing CDC guidelines. Many of our traditional site visits were replaced with video communication, including inspections.

What has the pandemic's impact been on leasing and retention?

For our affordable portfolio, there was an eviction moratorium in effect, so our occupancy rate was not impacted. Yet, many residents faced challenges in paying their

rent as their incomes had suffered reductions. Our staff, along with our social service provider, Better Tomorrows, worked diligently to help the residents connect with the resources available to assist them to pay their rent.

How does the development pipeline look?

Our pipeline is strong: We closed six development deals in 2021 so far—two market-rate and four affordable projects—and by the end of the year, we anticipate closing on 12 more. Our development team never lost a step and we are looking forward to an even stronger 2022.

On July 20, we celebrated the grand opening of Mission Trail at El Camino, a luxury workforce housing development serving almost 1,000 residents, about 15 minutes from Austin.

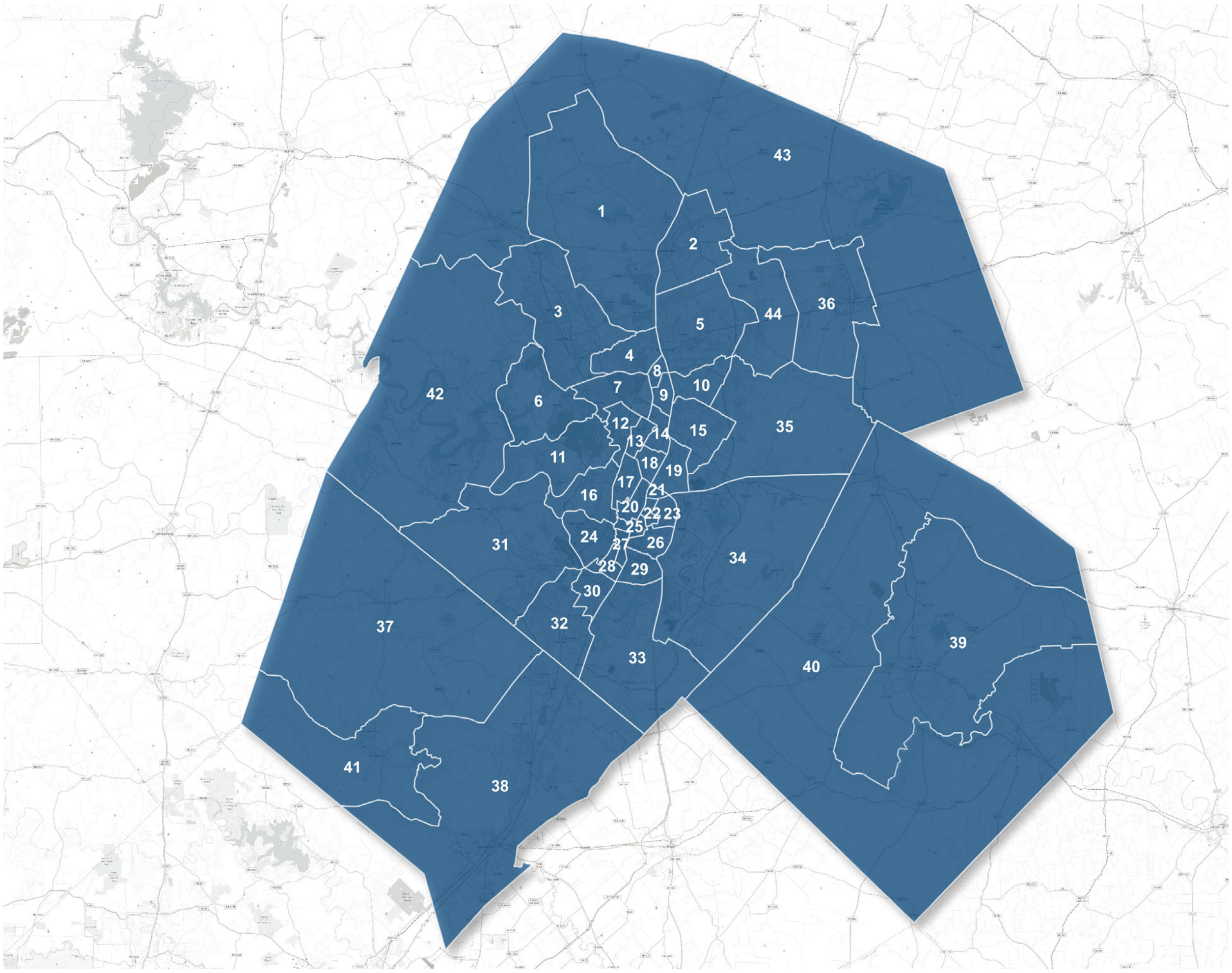
How does the future look like at The Michaels Organization?

We believe the pandemic has taught us how to be more flexible and how to work collaboratively even when not together. We enhanced our technological prowess and worked hard to maintain our culture and our commitment to "Lifting Lives," during the most difficult and unimaginable times.

We see our future as being very bright, with new opportunities in front of us, especially in the area of acquisitions given the changes to the real estate market during the pandemic and the continuing need for affordable housing all across this country.

(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

OTHER PROPERTY SECTORS

Office

Austin's average asking rent rose 4.5% year-over-year through July to $43.54 per square foot, according to CommercialEdge data. In the first half of the year, investment sales reached $969 million, more than twice the amount over the same period last year. The increase in listing rates stemmed primarily from renewed interest from the tech industry, with many Silicon Valley companies having opened offices here and several others having projects underway, including Apple's West Parmer Lane Campus, under construction north of downtown.

This year through August, 3.4 million square feet of office space broke ground in Austin, with 7.5 million square feet estimated to be added over the next two years. At the end of May, Trammell Crow and Principal Real Estate Investors delivered Indeed Tower, a 708,438-square-foot asset in the metro's CBD. Soon after, Kilroy Realty Corp. entered a definitive agreement to purchase it for $580 million in an off-market transaction.

The vacancy rate clocked in at 15.9% in August, marking a 5.9% year-over-year increase, but a 20-basis-point drop from July. The highest vacancy rate was in Austin East (29.2%), Austin Northwest (20.8%) and Downtown (18.3%), while the other end of the spectrum included Round Rock (5.7%), Austin North (6.2%) and Southeast (7.0%).

A new surge in COVID-19 cases hit Texas over the summer, which has caused many office tenants in Austin to delay their plans for returning to the office, especially when it came to larger tech companies.

Industrial

Austin is recording strong demand for industrial space, fueled by major tech companies moving into the metro. According to Yardi Matrix data, Texas' capital is one of only two metros in the top 10 for both total supply and percentage growth with projects underway accounting for 13.1% of total stock.

In addition to Tesla's Gigafactory Texas and Chanel's manufacturing facility nearby, several other developers are rushing in to serve the growing demand: Rastegar Industrial announced plans to develop a 530,000-square-foot industrial property, with completion expected in the third quarter of 2022. Another project slated to come online next year is Partners Capital's 350,000-square-foot speculative distribution center in Taylor—the property will occupy more than 25 acres at 201 FM 3349, within an Opportunity Zone. TaylorPort Rail Park 01 is the first spec building in the 750-acre RCR Taylor Logistics Park.

Samsung has not yet announced where it will build its new U.S. semiconductor plant, but Taylor and Williamson County officials have begun approving a series of tax incentives to attract the company to a 1,200-acre site 25 miles of Austin.

Self Storage

Exceptional demographic expansion and the influx of corporate relocations are boosting the self storage sector, too. Strong demand paired with a relatively tight construction pipeline—which accounted for 5.9% of existing inventory as of August, according to Yardi Matrix data—kept Austin among the metros with the highest levels of year-over-year rent growth.

Year-over-year through August, street rates increased by 12.0% for 10×10 non-climate-controlled units and by 15.0% for climate-controlled units of similar size, outperforming the national street rates. The U.S. average rent for 10×10 non-climate-controlled units increased 10.6% year-over-year to $125, while for 10×10 climate-controlled units the rate grew 12.7%, to $142.

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.