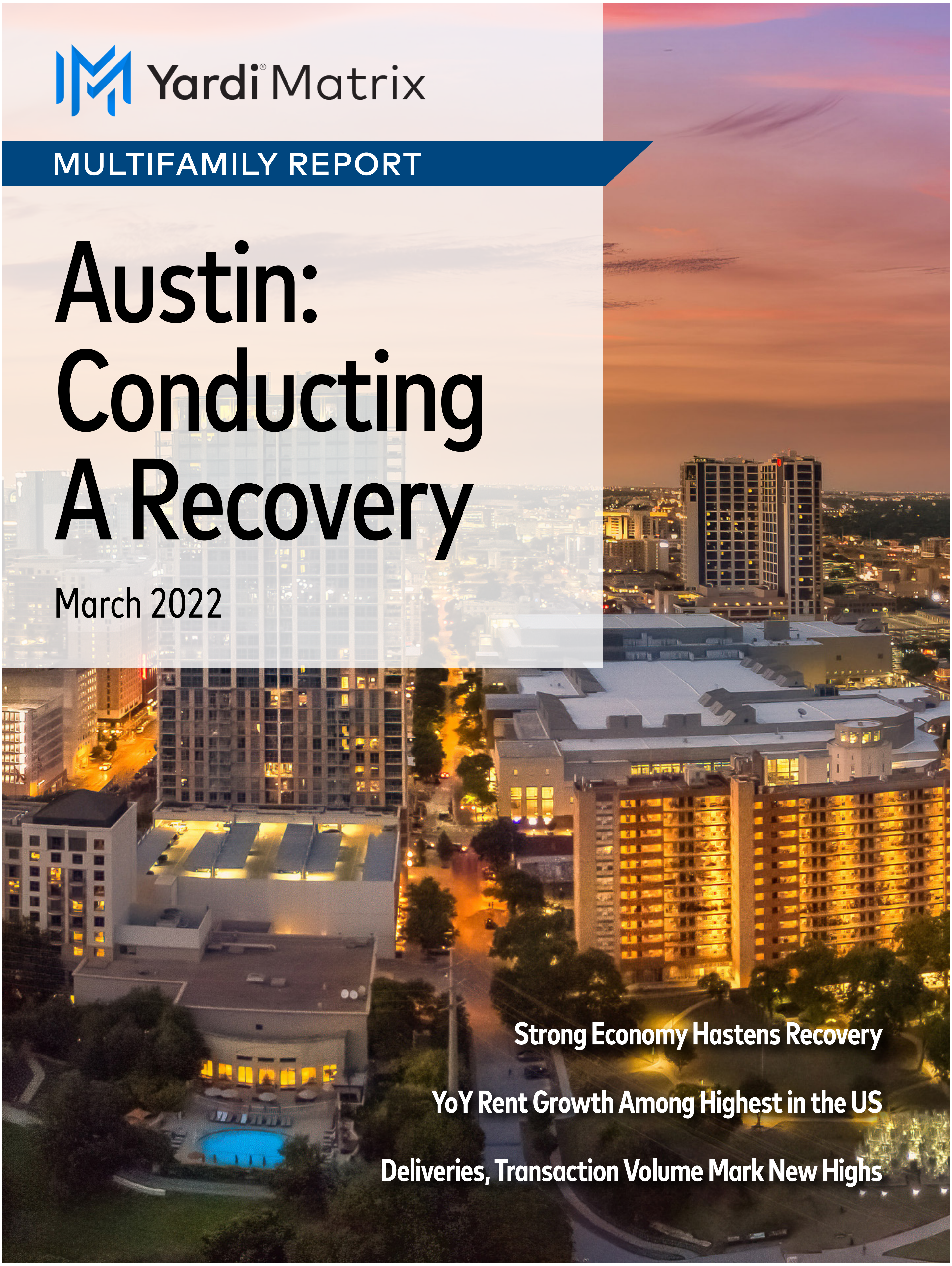
Yardi Matrix

MULTIFAMILY REPORT

Austin: Conducting A Recovery

March 2022



Strong Economy Hastens Recovery

YoY Rent Growth Among Highest in the US

Deliveries, Transaction Volume Mark New Highs

AUSTIN MULTIFAMILY

Yardi Matrix

Demand Boosts Rents, Occupancy, Supply

Austin sits at an inflection point between midsize city and world-class tech hub, which has its advantages and disadvantages. On one hand, it boasts a strong economy that helped it recover faster from the pandemic's woes, but on the other it faces a deepening housing affordability issue, as developers struggle to work with an outdated land code to keep up with elevated demand. Rent growth mirrors the robust demand, up 0.6% on a T3 basis through January, to $1,694, as does the occupancy rate in stabilized properties, up 230 basis points year-over-year through December, to 95.8%.

Austin is one of the few metros that has managed to recover jobs lost during the pandemic. The unemployment rate stood at 2.9% in December, surpassing both the state (5.0%) and the U.S. (3.9%) averages. The job market posted a 7.4% expansion, or 85,800 jobs, in the 12 months ending in November, outperforming the 4.6% national rate. Professional and business services led growth (29,900 jobs), sustained by the plethora of tech firms that moved into the metro. With several billion-dollar projects underway, Austin has strong prospects for a sustained economic expansion.

Developers delivered 1,075 units in January 2022 and had 37,813 units under construction, continuing the accelerated pace of deliveries, which last year marked the best level of the decade. Multifamily sales recorded a new high of $4.3 billion in 2021.

Market Analysis | March 2022

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Recent Austin Transactions

Tides on Copper Creek

City: Austin, Texas
Buyer: Tides Equities
Purchase Price: $137 MM
Price per Unit: $253,851

The Place at 1825

City: Pflugerville, Texas
Buyer: MC Cos.
Purchase Price: $94 MM
Price per Unit: $205,544

Bridge at Ribelin Ranch

City: Austin, Texas
Buyer: Austin Affordable Housing Corp.
Purchase Price: $93 MM
Price per Unit: $266,712

Nexus East

City: Austin, Texas
Buyer: Ardent Residential
Purchase Price: $93 MM
Price per Unit: $263,258

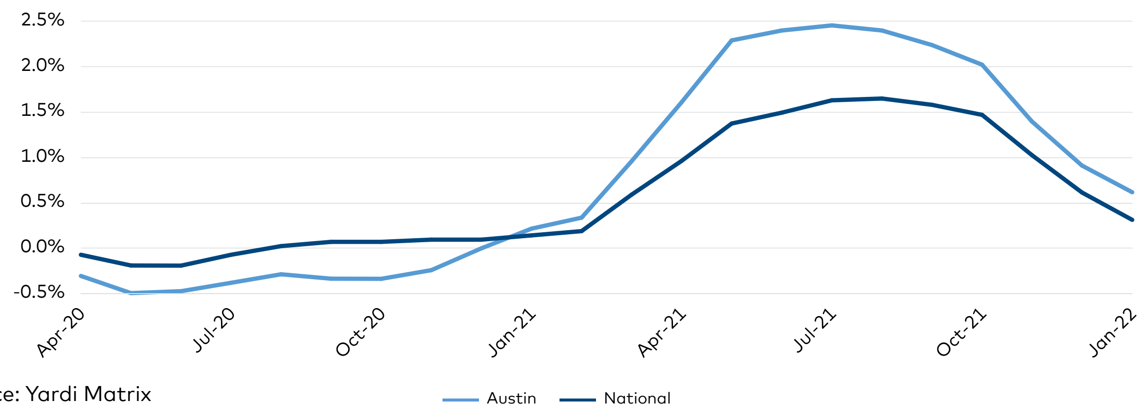
RENT TRENDS

- Austin rents rose 0.6% on a trailing three-month (T3) basis through January, to $1,694, widening the gap with the U.S. average, up 0.3% to $1,604. Despite the softening in rent growth—which can be attributed to the seasonal slowdown—Austin continued to rank among the best-performing markets in the country: For six consecutive months last year, rent growth was above the 2.0% mark, and on a year-over-year basis through January, figures posted a solid 22.0% increase, well above the 13.9% U.S. rate.

- Rent growth was even across the quality spectrum, rising 0.6% on a T3 basis in both segments, to $1,341 for Renter-by-Necessity units and $1,861 for Lifestyle apartments. Demand outstripped supply—even though last year's stock expansion was the highest in a decade, the occupancy rate in stabilized properties rose 230 basis points year-over-year as of December, to 95.8%. Stronger demand for RBN units pushed up occupancy by 290 basis points, to 95.9%, while for Lifestyle units it rose 200 basis points, to 95.8%.

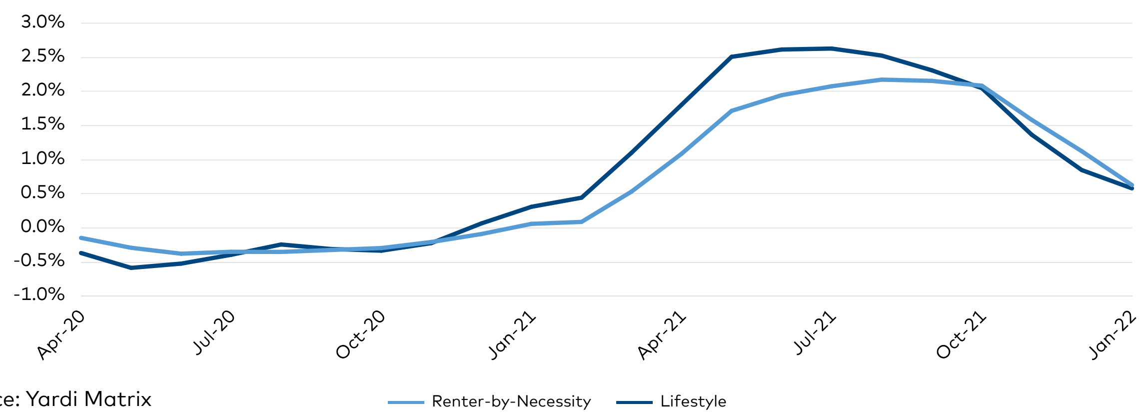
- Of the 42 submarkets tracked by Yardi Matrix, 40 posted double-digit year-over-year increases in average rates, which pushed up the number of submarkets with average rents above $2,000 to five, compared to just two in 2020. Downtown-North (21.6% to $2,998) and the University of Texas (11.0% to $2,518) submarkets remained the most expensive, but high performance was recorded in the Cedar Park (29.9% to $1,732) and IBM Area submarkets (29.8% to $1,815).

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 unemployment rate improved to 2.9% in December, from 5.4% in January 2021, surpassing the state's performance—down to 5.0% in December from 6.8% in January—as well as the U.S. figure, at 3.9% in December.
- Austin is one of the few metros to regain all the jobs lost during the pandemic. The employment market expanded by 7.4% (85,800 jobs) in the 12 months ending in November, well ahead of the 4.6% U.S. average and trailing only Las Vegas and Orange County. Leisure and hospitality remained the weak link in the metro's economy, while recovery was led by professional and business services (29,900 positions), boosted by the growing number of tech firms relocating to the metro. Tesla alone was responsible for some 5,000 jobs created in 2021, according to estimates from the Austin Chamber of Commerce, and has plans to grow that figure to 15,000 positions in the coming years. Government was the only sector to contract (-400 jobs).
- Short- and long-term prospects are bright for Austin's economy, sustained by a plethora of projects announced or underway, including billion-dollar developments such as Uptown ATX, Reger Holdings' EastVillage, Samsung's semiconductor plant and industrial projects GTX Logistics Park and Gateway 35 Commerce Center.

Austin Employment Share by Sector

		Current Employment	
Code	Employment Sector	(000)	% Share
60	Professional and Business Services	232	19.5%
70	Leisure and Hospitality	127	10.7%
40	Trade, Transportation and Utilities	206	17.3%
65	Education and Health Services	133	11.2%
55	Financial Activities	75	6.3%
80	Other Services	45	3.8%
50	Information	43	3.6%
15	Mining, Logging and Construction	71	6.0%
30	Manufacturing	65	5.5%
90	Government	191	16.1%

Sources: Yardi Matrix, Bureau of Labor Statistics

Population

- Austin ranked first in demographic expansion in 2020, gaining 68,822 residents, up 3.1%, 40 basis points above 2019's growth rate and well above the 0.4% national figure.
- Austin's population marked a 32.9% expansion during the decade.

Austin vs. National Population

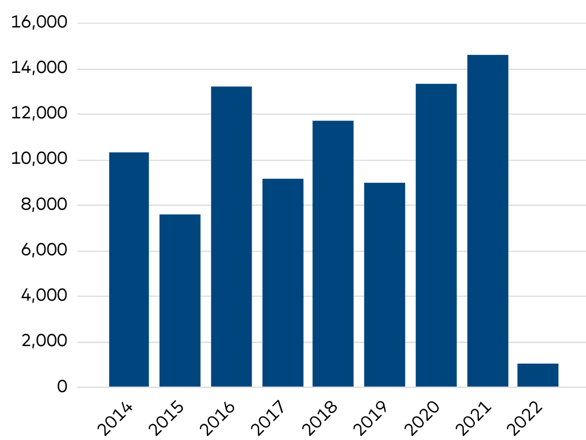
	2017	2018	2019	2020
National	325,147,121	327,167,434	328,239,523	329,484,123
Austin Metro	2,115,230	2,168,316	2,227,083	2,295,303

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

SUPPLY

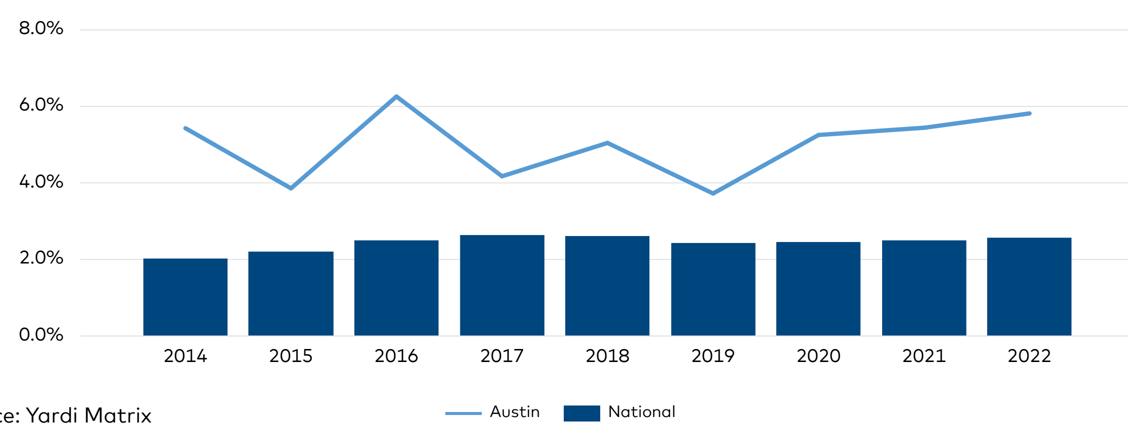
- Developers delivered 1,075 units in the first month of 2022, 0.4% of total stock, and above the 0.1% national rate. This came on the heels of the 14,631 units delivered in 2021 (5.4% of stock), which marked the best year in a decade for completions.
- Developers maintained the focus on Lifestyle projects—90% of last year's completions were in upscale properties. Their preference resulted from robust in-migration of renters able to pay more because Austin's average rate compares favorably to the high-priced markets they moved from. There were 1,101 units completed in fully affordable communities.
- The construction pipeline consisted of 37,813 units underway and more than 80,000 units in the planning and permitting stages. The composition of the projects under construction was slightly more balanced than last year's deliveries, with the Lifestyle segment accounting for 80% of the pipeline.
- San Marcos/Kyle (2,819 units underway), Downtown-North (2,660 units) and East Central Austin (2,283 units) led in construction activity—eight submarkets across the metro had more than 2,000 units under construction.
- The largest project underway was Camber Ranch, a 483-unit property in Dessau, owned by Legacy Partners and Bridge Investment Group and slated for completion in 2024.

Austin Completions (as of January 2022)



Source: Yardi Matrix

Austin vs. National Completions as a Percentage of Total Stock (as of January 2022)

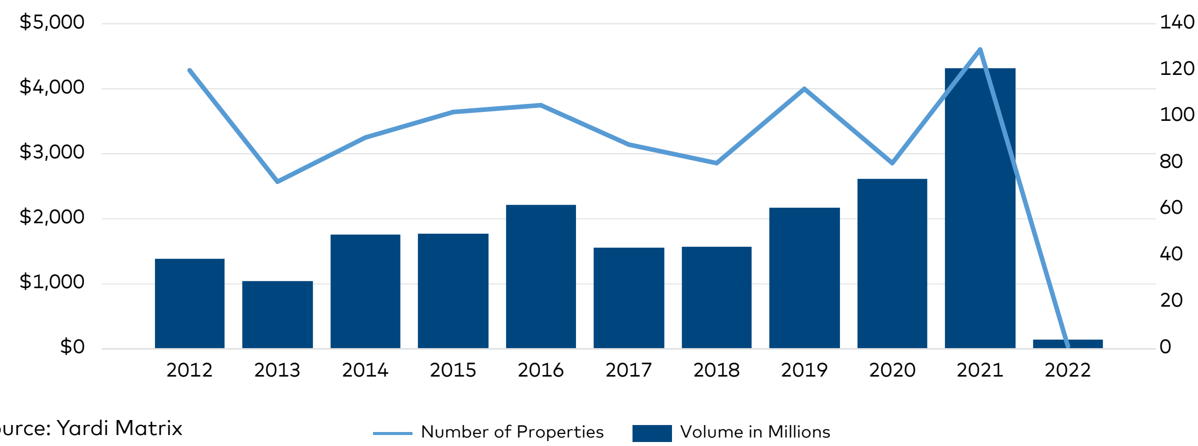


Source: Yardi Matrix

TRANSACTIONS

- Last year marked a new peak in transaction activity in Austin, with more than $4.3 billion in multifamily asset sales. The metro's growing allure among investors is reflected in the volume of multifamily transactions, which has been on an upward trend since 2017.
- The flourishing tech industry in Austin has maintained investors' appetite for upscale assets, with two-thirds of the overall multifamily investment composition centering on Lifestyle properties. This has boosted the overall per-unit price in the metro by 20.6% year-over-year, to $196,172, nearly on par with the U.S. rate, which rose 21.3%, to $191,341.
- In the 12 months ending in January, the top five submarkets for transaction activity accounted for one-third of the total volume and comprised northern areas Jollyville-North, Cedar Park, Dessau and Oak Hill, and the southern region's San Marcos/Kyle, which also led for development activity.

Austin Sales Volume and Number of Properties Sold (as of January 2022)



Source: Yardi Matrix

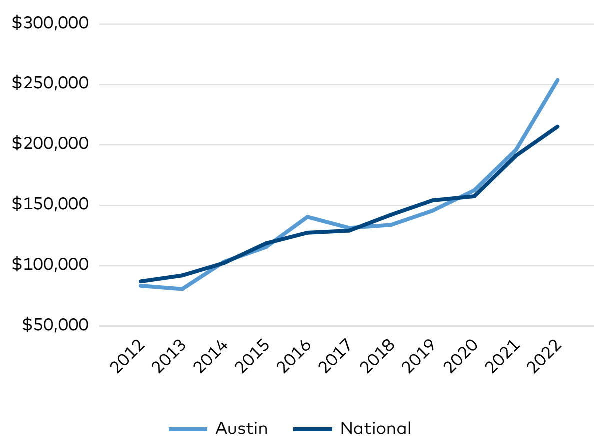
Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
Jollyville–North	318
Cedar Park	308
San Marcos/Kyle	302
Dessau	283
Oak Hill	204
IBM Area	193
Eubank Acres–North	185

Source: Yardi Matrix

[1] From February 2021 to January 2022

Austin vs. National Sales Price per Unit



Source: Yardi Matrix

LISTICLE

MHN MULTI-HOUSING NEWS
data by Yardi Matrix

Top 10 Multifamily Markets by Units Delivered in 2021

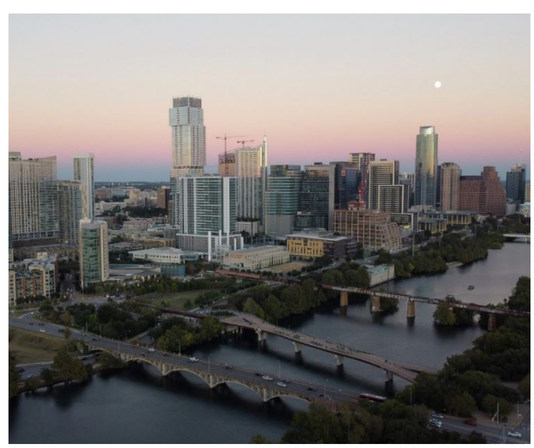
By Anca Gagiuc

In the ranking below, we present the top 10 markets for deliveries in 2021 by the number of units, based on Yardi Matrix data. To get a clearer picture, we'll be comparing their performance with data not just from 2020 but from 2019, too. Combined, 146,483 units came online in these 10 metros, accounting for roughly 42 percent of the national volume. The figure is also above the 2020 and 2019 volumes recorded in these metros, when the number of units delivered amounted to 122,521 and 120,808 units.

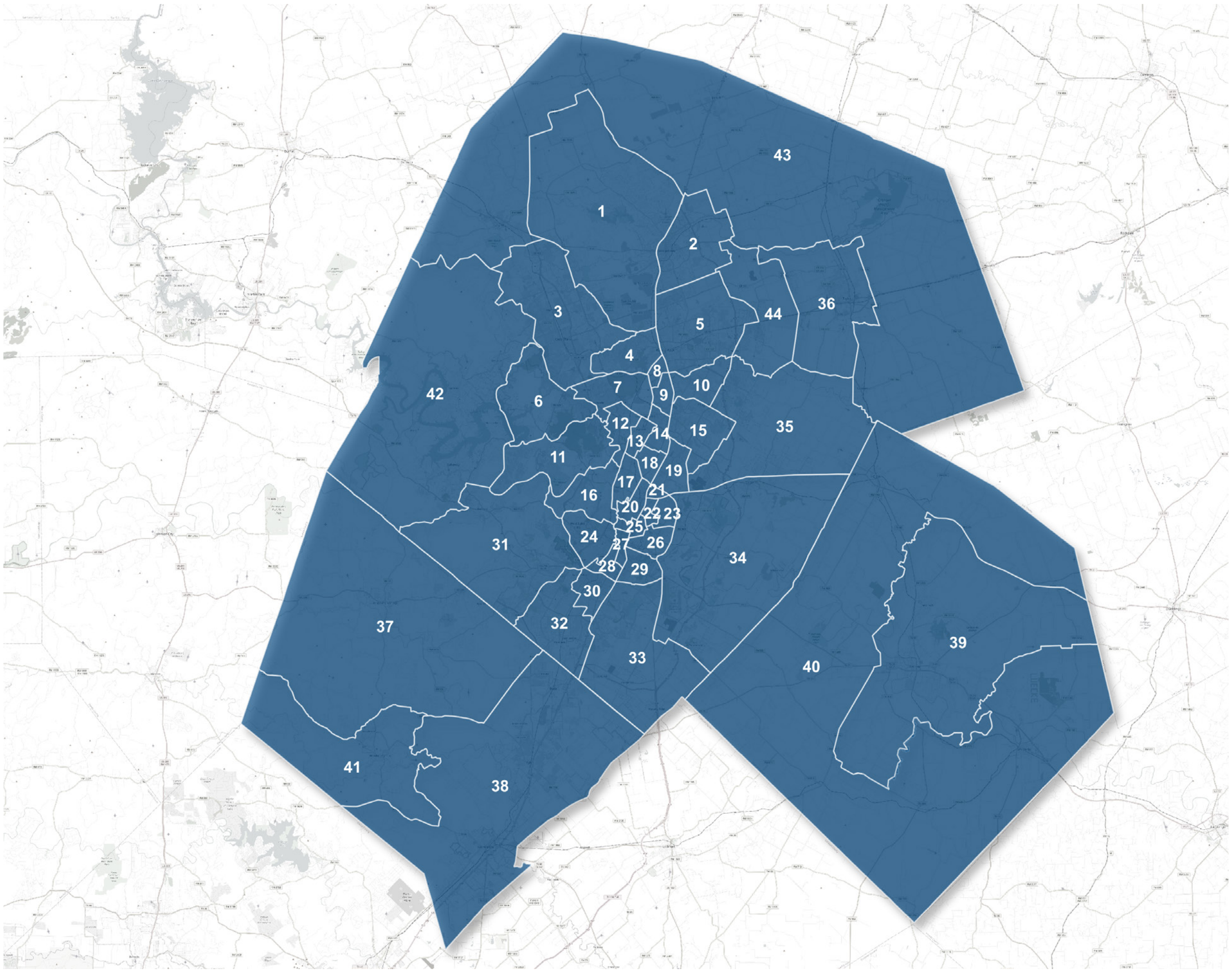
Rank	Metro	Units Delivered 2021	Percentage of Stock 2021	Units Delivered 2020	Percentage of Stock 2020
10	Phoenix	10,058	2.9	9,143	2.7
9	Charlotte	10,692	5.5	6,151	3.3
8	Los Angeles	10,883	2.4	11,369	2.6
7	Orlando	12,948	5.0	6,864	2.8
6	Washington, D.C.	13,148	2.3	12,822	2.3
5	Atlanta	13,653	2.9	10,540	2.3
4	Austin	14,367	5.3	13,363	5.2
3	Miami Metro	16,221	4.7	11,132	3.4
2	Houston	19,878	2.9	14,403	2.2
1	Dallas	24,635	3.0	26,734	3.4

Austin, Texas

On the heels of the 13,363 units delivered in 2020, Texas' capital marked a new record high in 2021, with 14,367 units added to the multifamily inventory, 5.3 percent of total stock. In contrast, in 2019, just 8,980 units came online in the metro. Austin has been one of the fastest-growing metros in the country, its population marking a 32.9 percent expansion during the decade. Paired with the fact that in 2021 the metro ranked first among major metros in economic expansion, demand for housing was through the roof. The Lifestyle segment was favored, expanding by 13,080 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

OTHER PROPERTY SECTORS

Office

- Bucking the national trend of slowing office development, construction activity in Austin remained elevated. In fact, Texas' capital had the most robust development pipeline in December among major markets, 10.6% of its total inventory, according to data from CommercialEdge. Adding projects in the planning and permitting stages, the rate stood at 26.9% of existing stock. Specifically, Austin's pipeline reached 9.3 million square feet under construction, up 15.5% year-over-year. Of these, 4.4 million square feet broke ground in 2021.

- Notable projects that started construction last year include the first phase of Uptown ATX—the $3 billion, 66-acre development owned by Brandywine Realty and Canyon Partners Real Estate broke ground in December and will comprise 7 million square feet of office, multifamily, retail and hotel, and a new Capital Metro Rail Station. Another one is Reger Holdings' Eastvillage—a 425-acre, $1 billion mixed-use property in the Tech Ridge area that started construction in June: The project is planned to deliver 810,000 square feet of office space, a 1.5-acre ball park, three hotels, 466 single family homes, 2,000 multifamily units and roughly 400,000 square feet of retail and entertainment space.

- The sustained construction activity has left a mark on Austin's vacancy rate, causing it to drop to 17% in December—down 30 basis points since November—and rise 5.5% year-over-year. The market is highly attractive to big tech companies including Tesla—which relocated headquarters from California—Samsung—which chose Austin for its new $17 billion semiconductor plant—and Amazon, which leased 332,865 square feet at Cousins Properties' Domain 9 office project.

- The asking rate rose to $43.6 per square foot in December, while most similar markets averaged roughly $30 per square foot. Through November, office transactions totaled $1.9 billion.

Industrial

- Austin is one of the preferred markets for industrial investment across the U.S., the Gigafactory in southeast Austin driving demand in the area. Amazon has also continued leasing space in the region. Industrial developments under construction include Green Point Properties' 3.4 million-square-foot GTX Logistics Park in Georgetown and Titan Development's Gateway35 Commerce Center, a two-phase industrial development also located in Georgetown that will span 114 acres once completed.

- Samsung also chose Austin as the location for its $17 billion semiconductor plant, $6 billion of which will stand for the real estate component and $11 billion for the machinery and equipment.

Self Storage

- Businesses are turning to larger storage units for logistics and distribution purposes, according to a recent Yardi Matrix report. Austin's pipeline with properties under construction or in the planning stages of development was equal to 6.9% of existing inventory in December.

- Year-over-year through December, street rates increased by 11.0% for both 10×10 non-climate-controlled units and climate-controlled units of similar size, outperforming the national street rates. Yet, the $110 Austin average rent for 10×10 non-climate-controlled units was $110, below the U.S. figure, which increased 7.0% year-over-year to $127.

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.