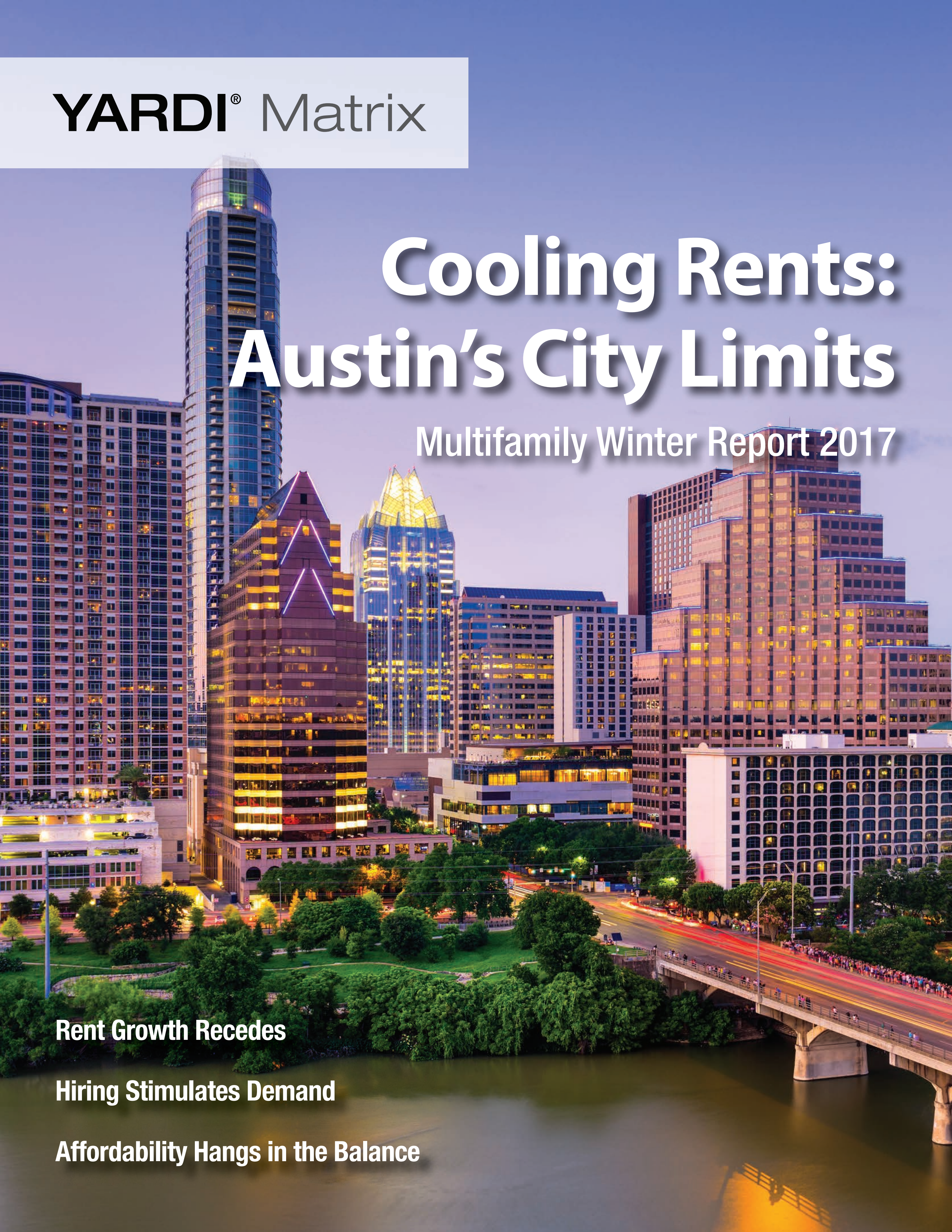
YARDI® Matrix

Cooling Rents: Austin's City Limits

Multifamily Winter Report 2017



Rent Growth Recedes

Hiring Stimulates Demand

Affordability Hangs in the Balance

Market Analysis

Winter 2017

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Rent Appreciation Ebbs in Austin

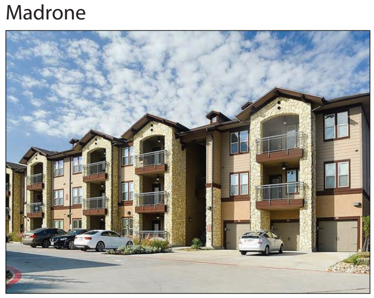
Austin's multifamily market continues to be a hotbed of activity, despite a growing sense of caution that rents and development are beginning to decelerate. Economic and population growth are creating strong demand for multifamily. Employment is also expanding, especially in technology; education and health care; trade, transportation and utilities; and construction. These sectors entice young professionals, many of whom are relocating. However, the market faces challenges, foremost affordability and supply growth.

Austin's healthy economy and friendly business climate continue to attract investment and development, as a new wave of office construction is underway in the Northwest and Southwest. The Dell Medical School at the University of Texas at Austin opened last summer, contributing 350 new jobs. Additional development is underway at the university, resulting in more health-care jobs.

Although demand remains strong—population has risen 12% since 2011—supply is a growing concern. More than 11,000 units came online in 2016, a 5.3% expansion of stock, well above the 2.5% national average. Investors have been drawn to the locale's growth prospects, turning Austin into a top secondary market. Given the metro's strong fundamentals and likely advancement, we expect rents to grow 6.9% in 2017.

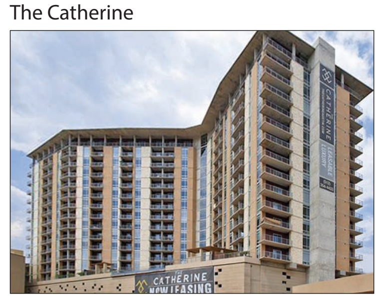
Recent Austin Transactions

Madrone



City: Austin
Buyer: Starlight Investments
Purchase Price: $87 MM
Price per Unit: $156,438

The Catherine



City: Austin
Buyer: Christopher Commercial
Purchase Price: $80 MM
Price per Unit: $266,666

The Davis SoCo

City: Austin
Buyer: Sendera Investment Group
Purchase Price: $65 MM
Price per Unit: $174,488

The Preserve at Rolling Oaks

City: Austin
Buyer: Cortland Partners
Purchase Price: $64 MM
Price per Unit: $129,555

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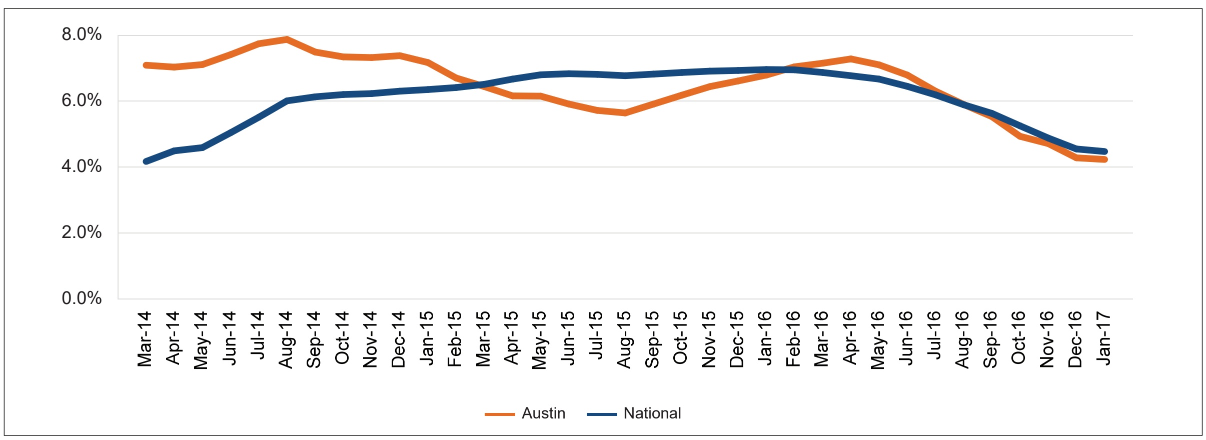
Rent Trends

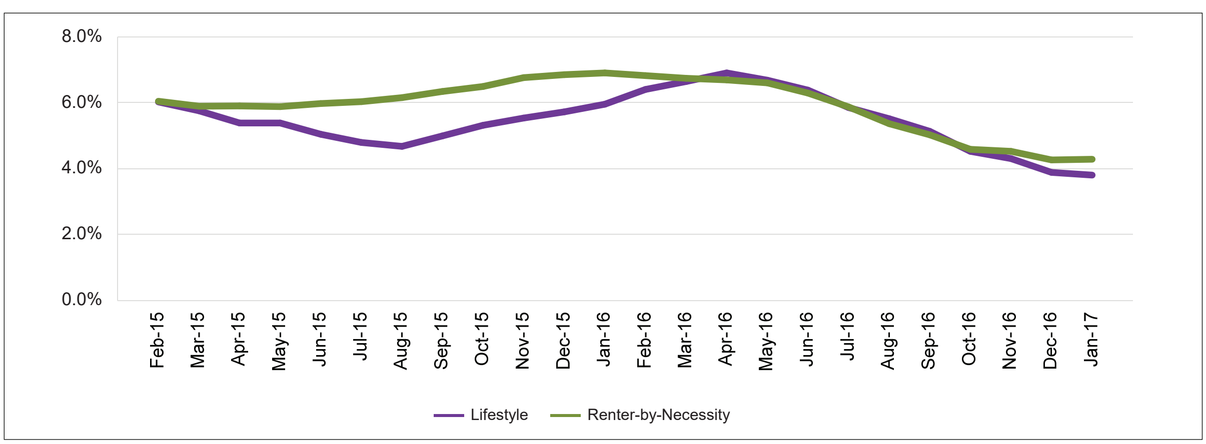
- Rent growth in Austin is leveling out, with rents rising 4.2% year-over-year through January—slightly behind the nation's 4.6% rate. Despite slackening, however, rents climbed to an all-time high of $1,292.
- Although healthy demographics and strong employment will continue to drive demand for multifamily, vacancy rates are starting to creep up. The occupancy rate for stable properties was 94.4% as of January 2017—down 10 basis points from the previous month.
- The Renter-by-Necessity segment experienced the largest rent gain—4.3% year-over-year to an average of $1,074. Among this group, demand for workforce housing will remain high, with most new supply aimed toward luxury renters. Assets in the higher-end Lifestyle segment are growing, as well, as average rents increased to $1,423—up 3.8% year-over-year. The greatest gains occurred in northeastern submarkets, including Daffan (14.9%); Pershing, the IBM area, and Brushy Creek (all 8.0%); and Round Rock–South (7.5%).
- We expect demand to continue outpacing supply, despite a slowdown in rent growth. Yardi Matrix forecasts a 6.9% increase in 2017.

Austin vs. National Rent Growth (Sequential 3-Month, Year-Over-Year)



Source: YardiMatrix

Austin Rent Growth by Asset Class (Sequential 3-Month, Year-Over-Year)

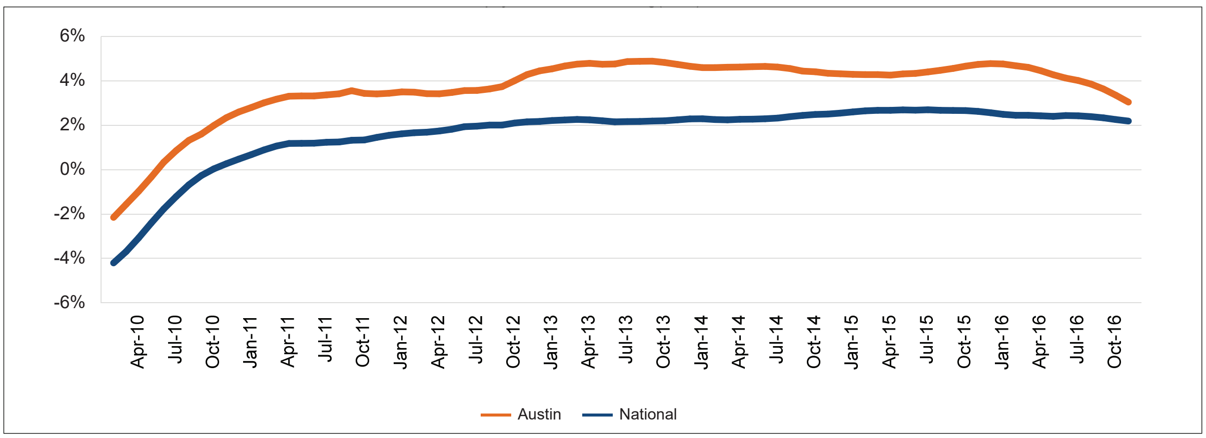


Source: YardiMatrix

Economic Snapshot

- A total of 19,500 positions hit Austin's job market in the year ending in November 2016—up 3.1% year-over-year—even while employment in manufacturing continued to diminish. Signs point toward steady improvement in the labor force, albeit at a slower rate. Core sectors such as education, health care and trade, transportation and utilities added the most jobs. More companies are relocating or expanding in the city's "Silicon Hills," eager to participate in the startup hub, which is upheld by a highly educated and growing workforce.
- New hires were highest in education and health services, which contributed 4,800 jobs. The new Dell Medical School opened last summer, enrolling 350 physicians with faculty appointments. Adjacent to the new school, the $310 million Dell Seton Medical Center is slated for completion in May 2017.
- Austin's office market saw consistent expansion in 2016, as both large corporations and young firms established a presence. The cost of doing business is significantly lower here than in other western markets—a major incentive for investors. New supply is surging; nearly 3 million square feet of office space was under construction as of 2016's end, including 500 W. Second St., Domain 8 and the Diamond Building. Strong employment and tight vacancy rates are also draws for businesses seeking office space.

Austin vs. National Employment Growth (Year-Over-Year)



Sources: YardiMatrix, Bureau of Labor Statistics (not seasonally adjusted)

Austin Employment Growth by Sector (Year-Over-Year)

		Current Employment		Year Change	
Code	Employment Sector	(000)	% Share	Employment	%
65	Education and Health Services	117	11.6%	4,800	4.3%
40	Trade, Transportation and Utilities	176	17.5%	4,000	2.3%
15	Mining, Logging and Construction	62	6.2%	3,800	6.6%
60	Professional and Business Services	170	16.9%	2,500	1.5%
90	Government	178	17.7%	2,300	1.3%
55	Financial Activities	57	5.7%	2,100	3.8%
80	Other Services	43	4.3%	1,600	3.9%
70	Leisure and Hospitality	120	11.9%	1,400	1.2%
50	Information	28	2.8%	700	2.6%
30	Manufacturing	54	5.4%	-3,700	-6.4%

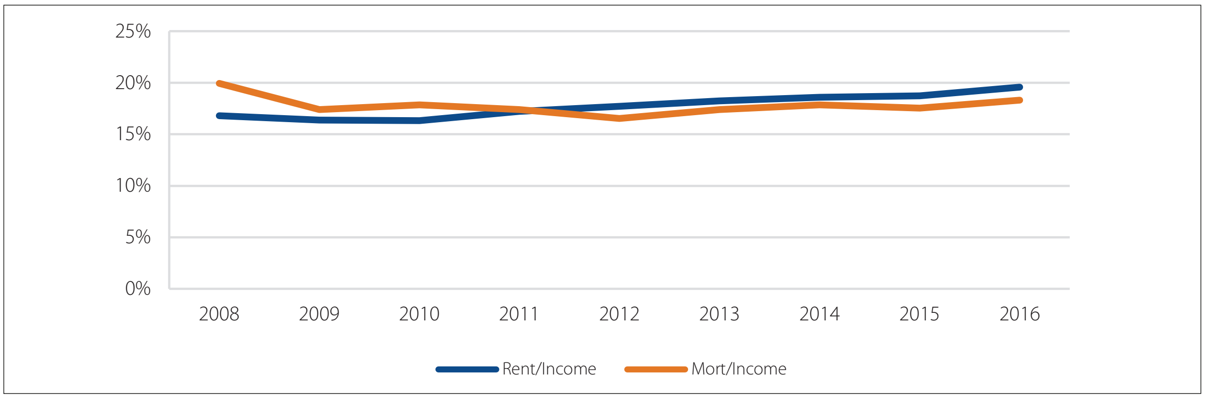
Sources: YardiMatrix, Bureau of Labor Statistics

Demographics

Affordability

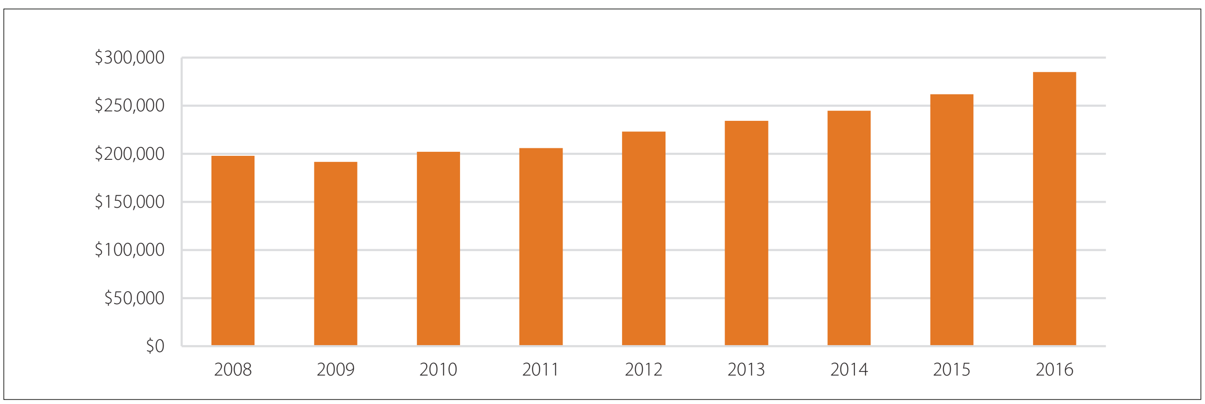
- The affordability issue intensified in 2016: Rent comprised about 20% of median income, while mortgage payments accounted for roughly 18%. Home prices have risen steadily over the last several years. The median home value reached $284,899 in 2016, but household incomes for many homebuyers are not growing fast enough to keep up.
- Acknowledgeding the housing affordability problem, the city government is taking steps to modify its land code and build 135,000 affordable units over the next decade.

Austin Rent vs. Own Affordability as a Percentage of Income



Sources: YardiMatrix, Moody's Analytics

Austin Median Home Price



Source: Moody's Analytics

Population

- Austin's population continues to rise considerably.
- Between 2011 and 2015, population grew 12.3%—significantly above the 3% national rate.

Austin vs. National Population

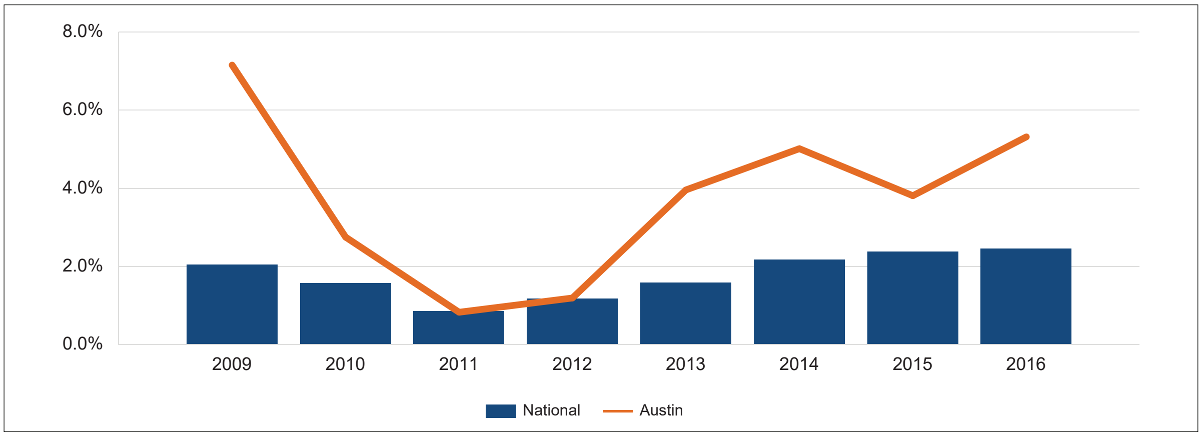
	2011	2012	2013	2014	2015
National	311,718,857	314,102,623	316,427,395	318,907,401	321,418,820
Austin-Round Rock, Texas, Metropolitan Statistical Area	1,781,409	1,835,298	1,884,439	1,943,465	2,000,860

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

Supply

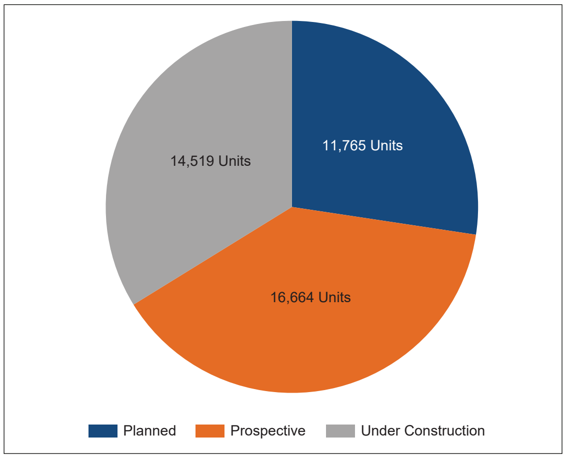
- Consistent gains in population and employment keep Austin in the spotlight for developers. Last year saw 11,039 units delivered, broadening stock by 5.3%, more than twice the nation's 2.5% rate.
- Construction is expected to remain robust, with nearly 43,000 units in various stages of development and 14,500 under construction. While conventional projects account for the bulk of apartment deliveries, affordable, senior and student housing developments continue to crop up.
- Multifamily development is concentrated downtown, but southern and northern submarkets have also caught builders' attention. Four have more than 1,000 units under construction: Cedar Park (1,267 units), Round Rock–East (1,158), Downtown–North (1,125) and Oak Hill (1,110).
- Large developments slated for completion this year include the 445-unit The Mansions at Travesia in Round Rock–South, the 444-unit Pearl Lantana in Oak Hill, the 439-unit Northshore Austin in Downtown–North, the 415-unit The Michael at Presidio in Cedar Park and the 400-unit Lenox Springs in Sunset Valley.

Austin vs. National Completions as a Percentage of Total Stock (as of January 2017)



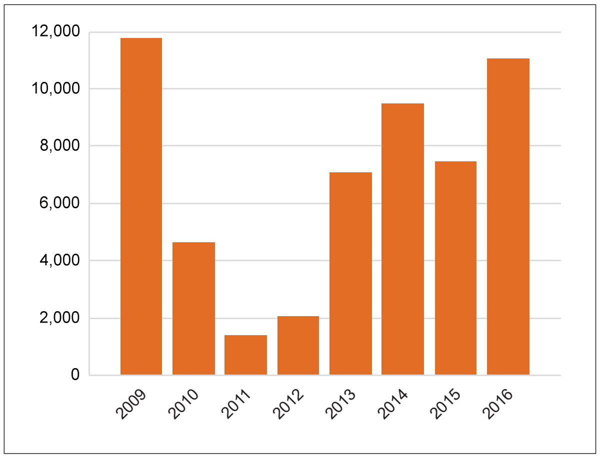
Source: YardiMatrix

Development Pipeline (as of January 2017)



Source: YardiMatrix

Austin Completions (as of January 2017)

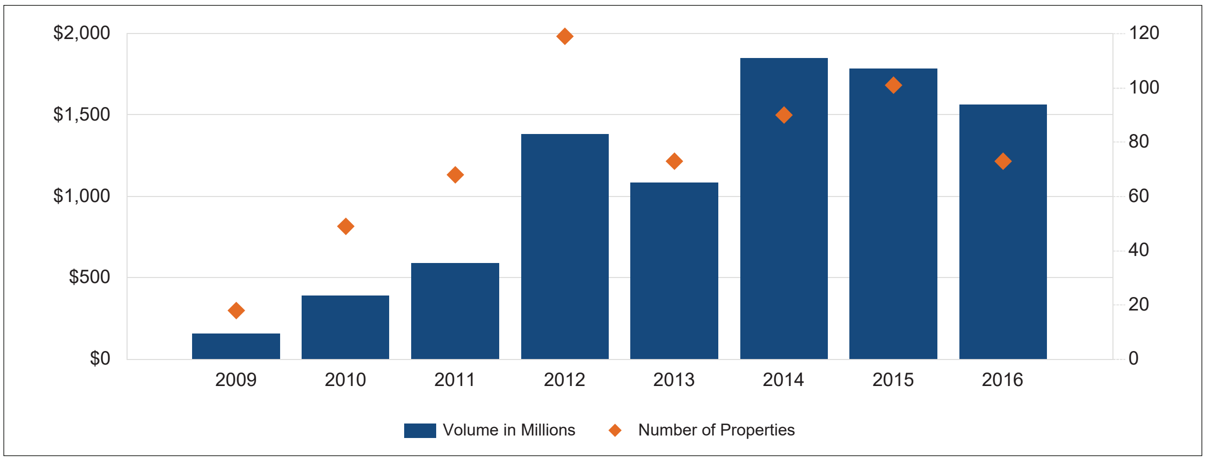


Source: YardiMatrix

Transactions

- More than $1.5 billion in multifamily assets traded in 2016, down from the previous two years. Still, the slight decline signifies that Austin has become one of the most sought-after secondary markets in the U.S.
- Increased buyer competition and the limited number of listings put pressure on prices: The price per unit climbed to $129,743—a 15.3% year-over-year increase. Buyers are drawn to core assets and properties located in the southern submarkets, but they are also beginning to show interest in the northern region.
- The two largest transactions of the past 12 months were sales totaling $80 million and above. Madrone, located in the Oak Hill submarket, sold to Starlight Investments for $156,438 per unit, while The Catherine in Downtown - South, went to Christopher Commercial for $266,666 per unit.

Austin Sales Volume and Number of Properties Sold (as of January 2017)



Source: YardiMatrix

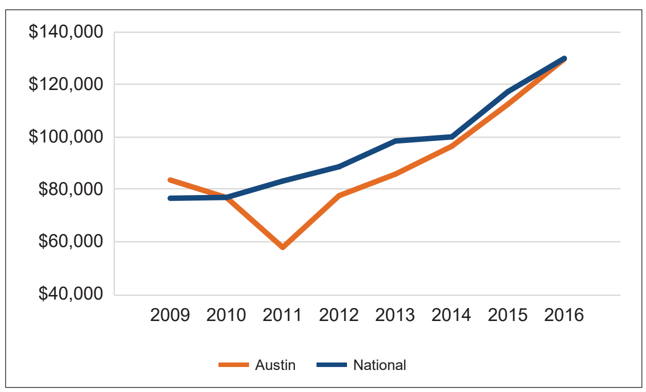
Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
Downtown–South	145
Oak Hill	135
Jollyville–North	109
Sunset Valley	107
St. Edwards Park	103
Cedar Park	95
University of Texas	84
East Central Austin	71

Source: YardiMatrix

[1] From February 2016 to January 2017

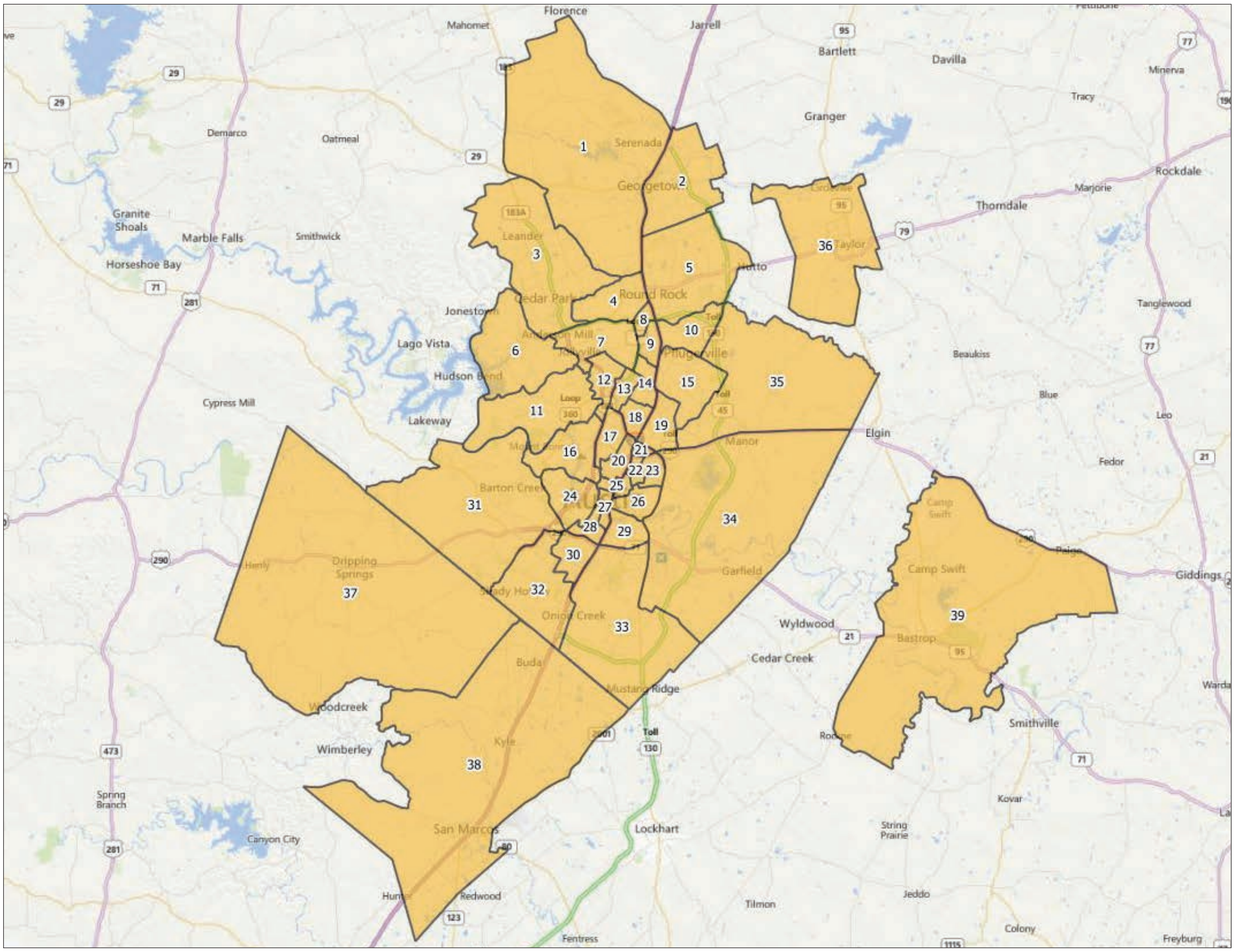
Austin vs. National Sales Price per Unit



Source: YardiMatrix

Photo by lokapik/iStockphoto.com

Austin Submarkets



Area #	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 Boulevard
17	Abercrombie
18	Eubank Acres–South
19	Walnut Forest
20	Hyde Park

Area #	Submarket
21	St. John Park
22	Capital Plaza
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

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.