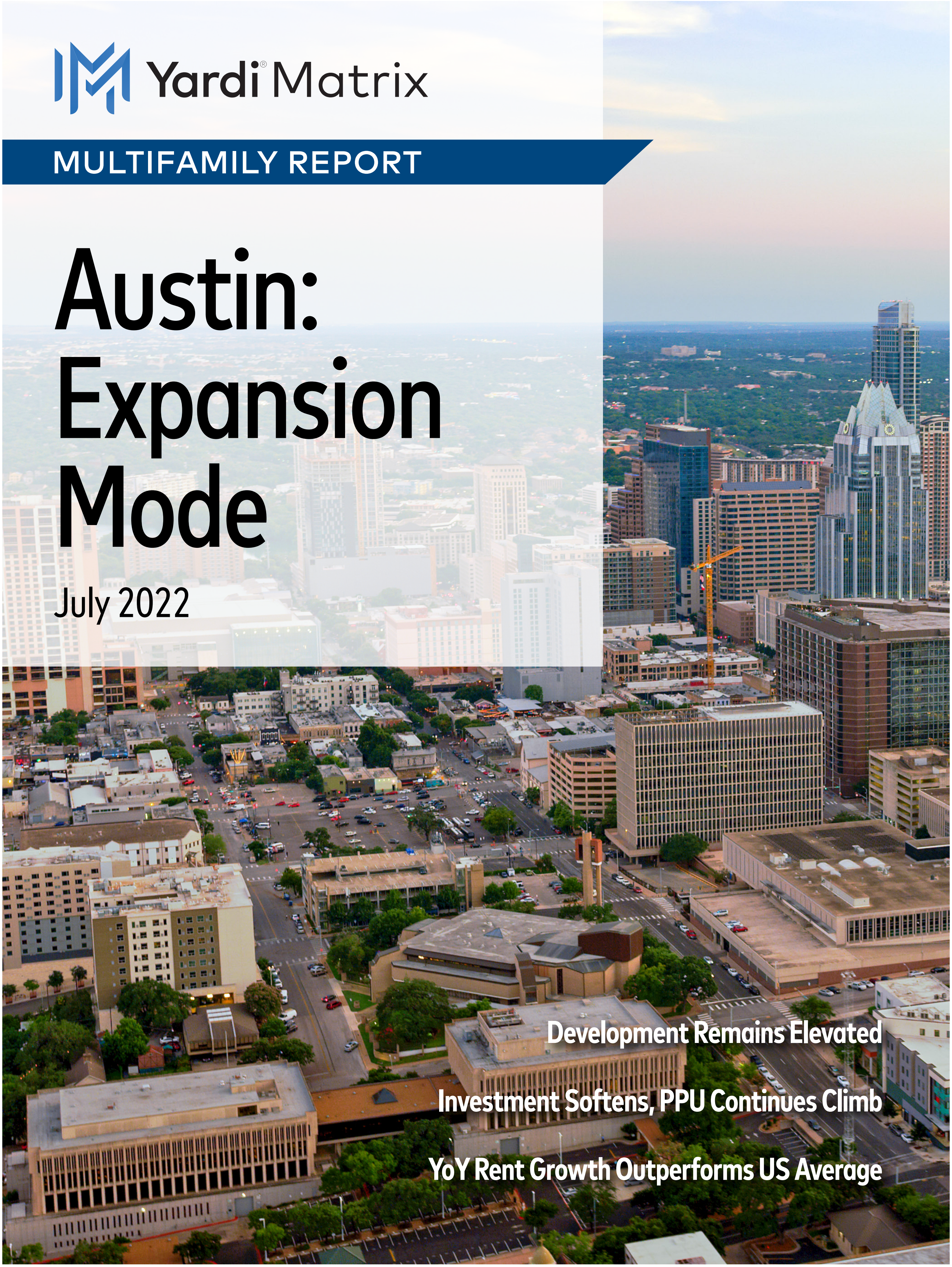
Yardi Matrix

MULTIFAMILY REPORT

Austin: Expansion Mode

July 2022



Development Remains Elevated

Investment Softens, PPU Continues Climb

YoY Rent Growth Outperforms US Average

AUSTIN MULTIFAMILY

Yardi Matrix

Texas Capital Maintains Momentum

Austin's eclectic status has been a magnet for residents and companies throughout the last decade. The metro's population expanded by more than 28% during this time, creating substantial housing demand, fueling a trend that has accelerated in the past couple of years. Following a brief seasonal softening, rents picked up again and rose 0.8% on a trailing three-month basis through May, to $1,744, maintaining the lead over the U.S. rate, which reached $1,680. Moreover, occupancy in stabilized properties climbed 130 basis points in the 12 months ending in April, to 95.7%.

Austin has moved beyond the recovery phase and entered expansion mode. Unemployment reached pre-pandemic levels, clocking in at 2.5% in April, ahead of the nation (3.6%) and the state (4.3%), as well as Dallas-Fort Worth (3.2%) and Houston (4.1%). The job market expanded by 8.9%, or 95,600 jobs, in the 12 months ending in March, with only one sector, government, contracting (-1,400). The metro's robust tech presence was one of the main catalysts during this time. Professional and business services (29,500 positions) led growth, followed by leisure and hospitality (21,600).

Development remained elevated, reflecting one of the country's busiest pipelines, with 42,118 units underway and 2,853 units delivered in 2022 as of May. Meanwhile, investors turned cautious with just $698 million in assets traded in the first five months of the year. The price per unit continued to increase, however, up 24.2% to $216,657.

Market Analysis | July 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

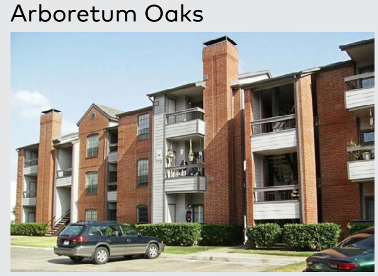
Edison Riverside

City: Austin, Texas
Buyer: The Connor Group
Purchase Price: $102 MM
Price per Unit: $287,194

Pioneer Hill

City: Austin, Texas
Buyer: Conti Organization
Purchase Price: $70 MM
Price per Unit: $234,000

Arboretum Oaks

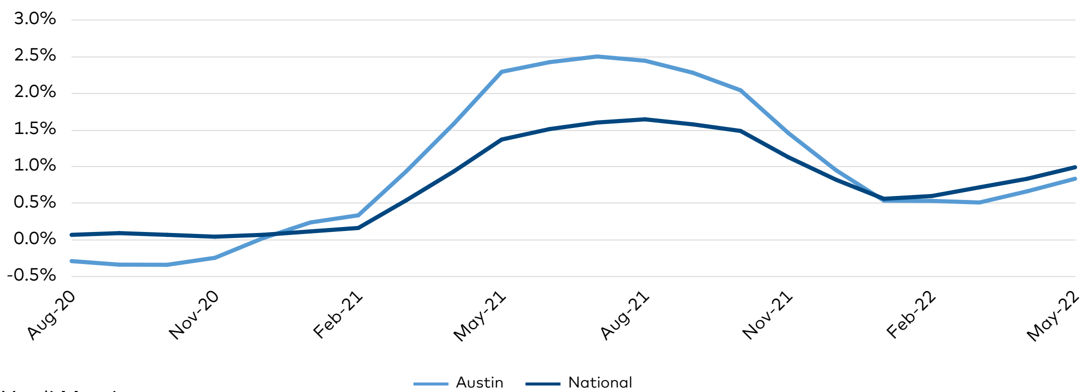


City: Austin, Texas
Buyer: Embrey Partners
Purchase Price: $69 MM
Price per Unit: $273,695

RENT TRENDS

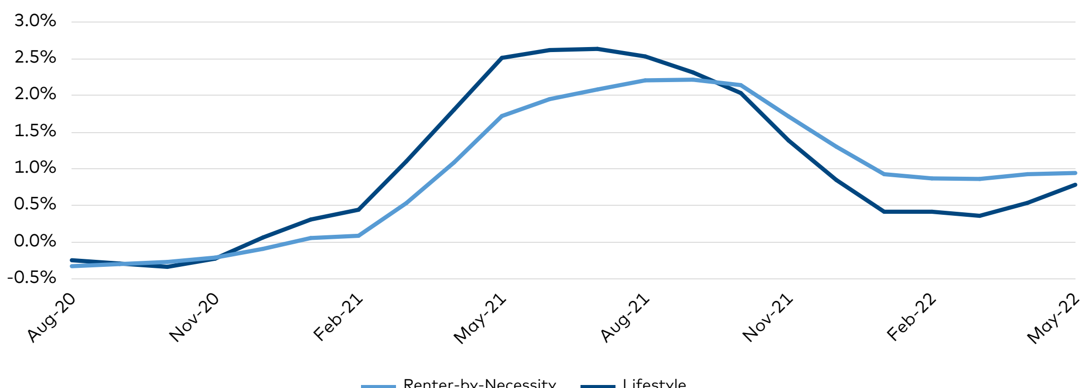
- Austin rents rose 0.8% on a trailing three-month (T3) basis through May, 20 basis points below the U.S. figure. However, year-over-year, Austin's 17.0% increase was above the 13.9% U.S. rate. The $1,744 average remained slightly above the $1,680 national figure.
- Rent gains were led by the working-class Renter-by-Necessity segment, up 0.9% on a T3 basis through May for the fifth consecutive month, clocking in at $1,403. Meanwhile, Lifestyle rents picked up again and rose 0.8%, to $1,900.
- Higher demand for RBN units is also reflected in occupancy in stabilized assets, up by 1.9% in the workforce segment for the 12 months ending in April, to 95.9%. Lifestyle occupancy rose 1.0% during the period, to 95.6%. Overall, occupancy in the metro climbed 1.3% to 95.7%.
- Rent expansion was in the double digits for the 12 months ending in May in all but one submarket. This substantial growth raised the average asking rate above the $1,000 mark in all submarkets. What's more, in four submarkets, the average figure rose above the $2,000 mark. Meanwhile, Downtown-North's average rate rose 11.9% to $3,023.
- The Federal Reserve's rate hikes will likely result in higher occupancy and tighter rental markets, as potential home buyers are expected to face higher borrowing costs and barriers to entry. A beneficiary of this increase, the single-family-rental sector posted an average annual rent gain of 12.0% as of May. However, occupancy slid 1.0% in the 12 months ending in April.

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 marked an 80-basis-point improvement since the start of the year, clocking in at 2.5% in April, leading the nation (3.6%) and the state (4.3%), as well as Dallas-Fort Worth (3.2%) and Houston (4.1%).
- Austin's strong economy is supported by companies across a range of sectors. Employment expanded by 8.9%, or 95,600 jobs, in the 12 months ending in March, behind only Las Vegas (12.5%), among major U.S. markets. Yet, unlike Las Vegas, Austin's broad-based economy helped many of its components rebound in unison, regaining the jobs lost during the health crisis by the end of 2021. The government sector—the metro's third largest—was the only one to contract (-0.7%, or -1,400 jobs). Unlike most of the country, leisure and hospitality job additions (21,600 positions) didn't lead gains, trailing professional and business services, which added 29,500 jobs in the 12 months ending in March. The sector is bolstered by corporate expansions, including heavyweights such as Apple, Oracle, Facebook and Tesla. Recently, TikTok leased 125,000 square feet in downtown Austin.
- CelLink, a California-based electronics technology company, has entered Austin via Williamson County, where it has a nearly 300,000-square-foot facility under construction. Completion is set for this summer, with hiring expected to generate up to 2,000 positions over a decade.

Austin Employment Share by Sector

		Current Employment	
Code	Employment Sector	(000)	% Share
60	Professional and Business Services	252	20.6%
70	Leisure and Hospitality	132	10.8%
40	Trade, Transportation and Utilities	201	16.4%
65	Education and Health Services	140	11.4%
50	Information	49	4.0%
55	Financial Activities	75	6.1%
30	Manufacturing	67	5.5%
80	Other Services	46	3.8%
15	Mining, Logging and Construction	74	6.1%
90	Government	187	15.3%

Sources: Yardi Matrix, Bureau of Labor Statistics

Population

- Austin gained 53,301 residents in 2021—a 2.3% uptick—while many of the country's coastal cities saw their populations shrink. The national figure recorded a 10-basis-point rise.
- Metro Austin ranked fourth in the U.S. in terms of absolute numbers last year.

Austin vs. National Population

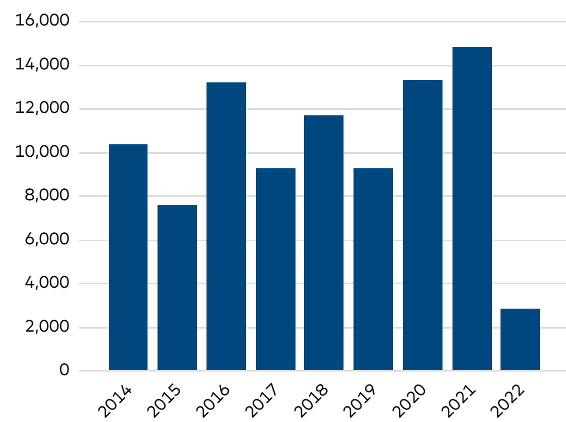
	2018	2019	2020	2021
National	326,838,199	328,329,953	331,501,080	331,893,745
Metro Austin	2,166,805	2,228,106	2,299,125	2,352,426

Source: U.S. Census

SUPPLY

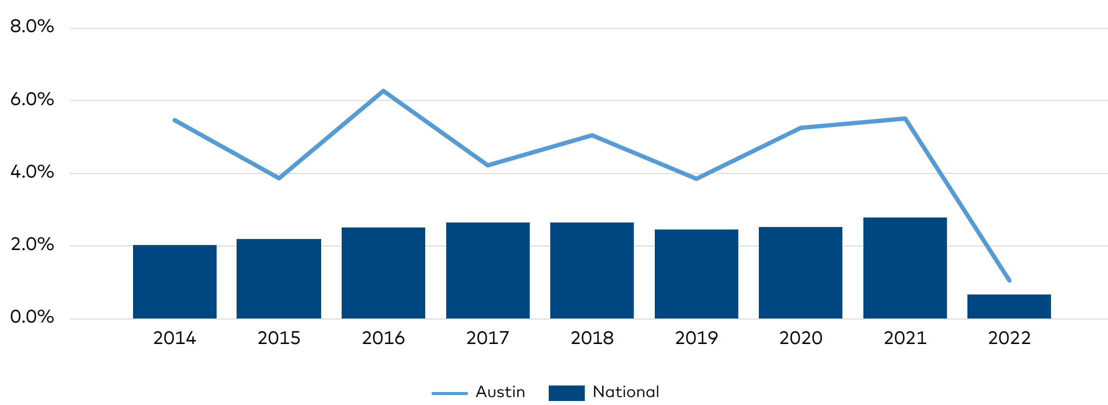
- Austin's inventory expanded by 2,853 units in 2022 through May, nearly 1.1% of total stock and 40 basis points above the U.S. average. Similar to recent years, high demand for upscale apartments kept developers focused on Lifestyle projects, which accounted for the bulk of deliveries (nearly 97%). Meanwhile, as many residents continue to be priced out, just one, 88-unit fully affordable community came online in the metro during the period, as well as a 50-unit workforce project.
- Developers had 42,118 units under construction as of May, 8,028 of which broke ground in the first five months of 2022, slightly above the 7,524 units that started construction during the same period last year. Austin has the country's second-largest number of apartments underway, after Dallas-Fort Worth, no small feat considering its size. Consistent with recent deliveries, the pipeline remains heavily tilted toward the upscale segment, which represented 77.5% of all projects underway as of May.
- Construction activity remained spread across the map, with 35 of the 42 submarkets tracked by Yardi Matrix having at least 180 units underway. In 18 submarkets, developers had more than 1,000 units under construction, with the largest volumes in Dessau (3,187 units), Downtown-North (2,702 units) and San Marcos/Kyle (2,599 units).
- Dessau also houses the largest project underway—the 483-unit Camber Ranch. Owned by Legacy Partners in a joint venture with Bridge Investment Group, the Lifestyle property is located in an Opportunity Zone, with completion slated for 2024.

Austin Completions (as of May 2022)



Source: Yardi Matrix

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



Source: Yardi Matrix

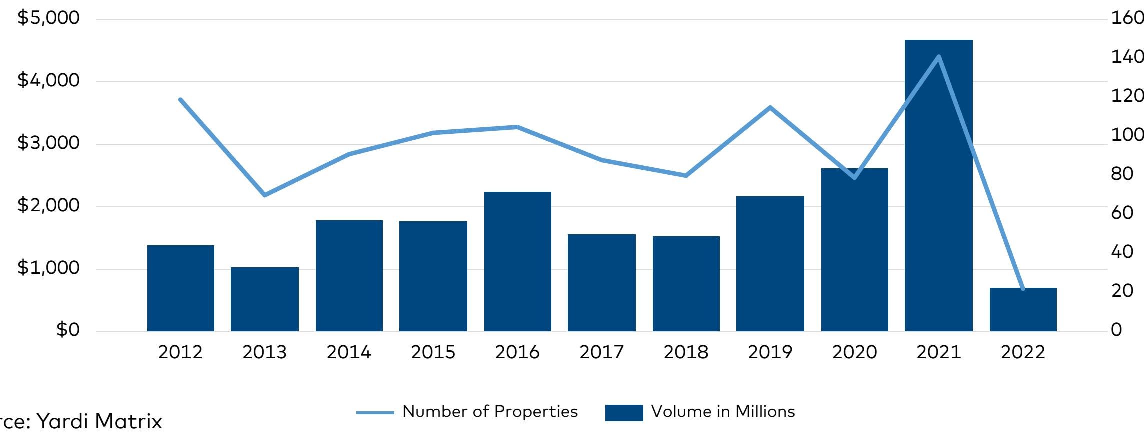
TRANSACTIONS

- Investors traded $698 million in multifamily assets in 2022 through May, well behind the $1.1 billion recorded during the same period last year. This softening is already influenced, to a good extent, by overall economic uncertainty and the rise of interest rates in particular.

- Investor interest was fairly balanced between quality segments—12 Lifestyle assets and 10 RBN properties traded this year through May. While volume dropped, per-unit prices continued their surge, up 24.2% year-over-year through May, to $216,657, almost on par with the $213,724 U.S. average. Per-unit prices marked a hefty 43.6% increase since the end of 2019.

- The Federal Reserve's interest rate hikes, including the 75-basis-point June rise, have put additional pressure on the capital markets, making debt more expensive. While the ultimate aim is to cool inflation and reach a soft landing, repricing and lower leverage are likely to put some deals on the back burner.

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



Source: Yardi Matrix

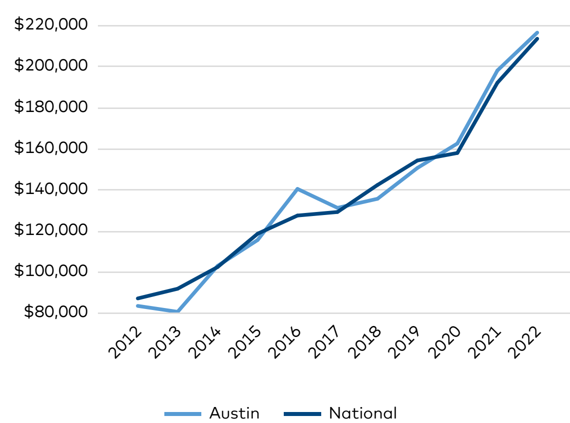
Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
Cedar Park	395
San Marcos/Kyle	386
Jollyville-North	318
Pleasant Hill-East	278
Round Rock-East	228
Oak Hill	204
Eubank Acres-North	185

Source: Yardi Matrix

[1] From June 2021 to May 2022

Austin vs. National Sales Price per Unit



Source: Yardi Matrix

LISTICLE

MULTI-HOUSING NEWS
data by Yardi Matrix

Top Multifamily Markets for Construction Activity

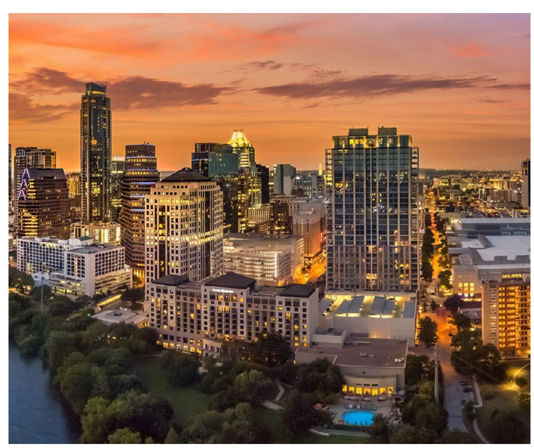
By Lucia Morosanu

The multifamily sector has been among the best-performing industries since the onset of the health crisis. Strong demand pushed development to surpass pre-pandemic levels, with 388,141 units completed across the country in 2021, up almost 13 percent compared to 2019. The list below details the most-active markets across the country for construction activity.

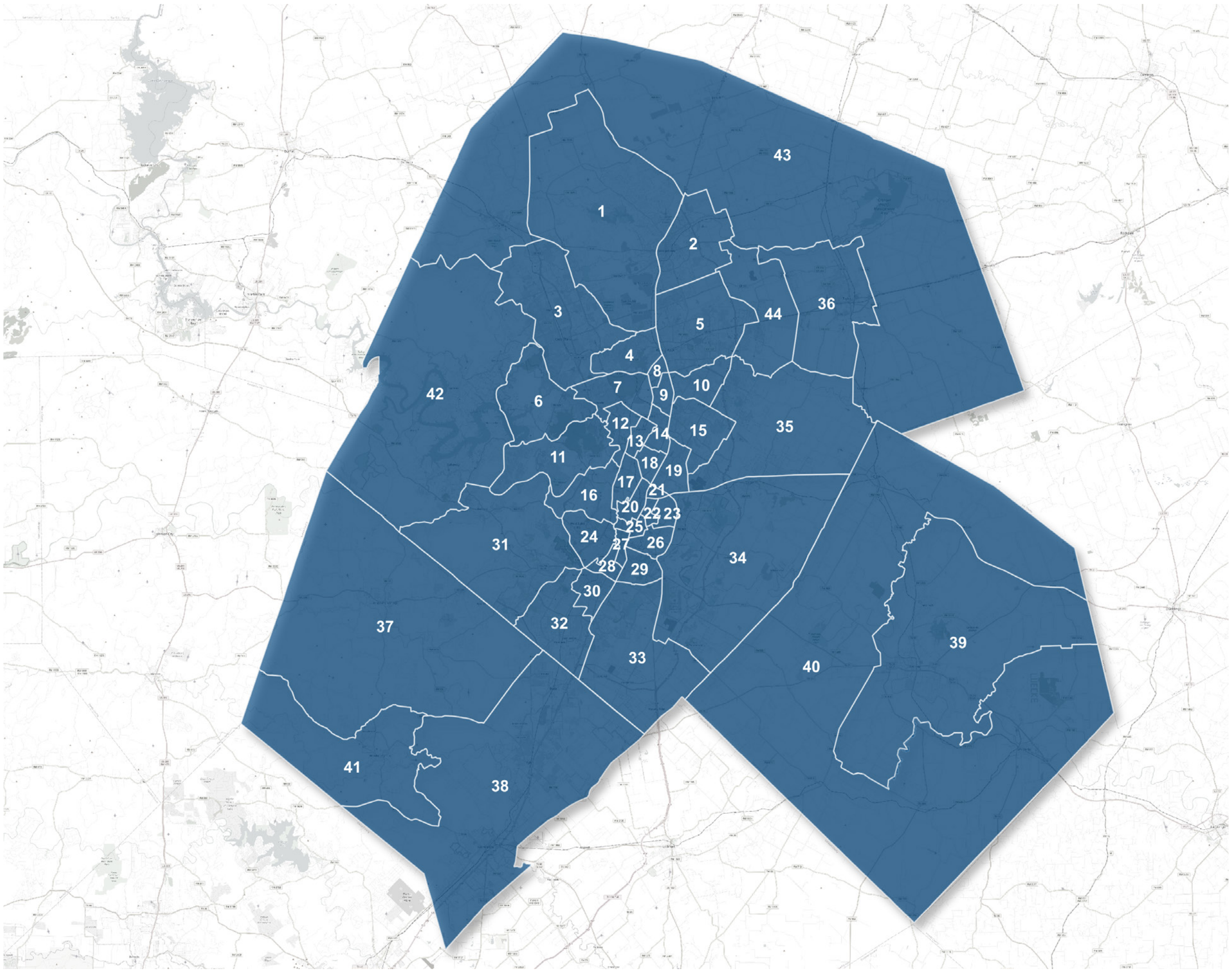
Rank	Metro	Units Under Construction	Forecast Units Delivered 2022	Units Delivered 2021
1	Dallas	44,595	21,105	25,976
2	Austin	41,358	15,536	14,856
3	Phoenix	37,929	18,585	10,108
4	Washington, D.C.	36,570	12,214	13,703
5	Miami Metro	34,880	19,739	18,068

Austin

Our runner-up is the first Texas metro on the list. Developers were working on 41,358 units across the metro as of March, with 15,536 units forecast to be completed by the end of the year. Construction activity experienced consistent growth in the past three years, with 9,282 units added to the inventory in 2019, 13,363 units in 2020 and 14,856 units in 2021. Austin attracted national attention because of high-profile tech-company relocations to the metro, from Tesla to Oracle.



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

- While the sector continues to seek its footing toward a post-pandemic environment, Austin remained the fastest-growing office market in the U.S., according to CommercialEdge data. The metro had 8.8 million square feet of office space under construction as of May, which is the equivalent of 10.0% of existing stock. More than two-fifths of Austin's pipeline is in the downtown submarket. Notable projects include AQUILA Commercial's Alto, a 110,000-square-foot development in the East Austin submarket, and The Republic, a 48-story office tower in downtown Austin. Planned developments also marked the highest share of stock in the nation, clocking in at 25.9%.
- The office investment landscape is, however, less headline-grabbing—in the first quarter of 2022, office sales in the Texas capital totaled just $237 million. The amount marks one of the lowest volumes across major U.S. markets. Yet, during the same period of last year, the volume was much lower, totaling just $7 million. The average price per square foot in Austin through April stood at $271, nearly on par with the $277 national rate.
- Austin's office vacancy dropped 50 basis points since March, to 15.4% in April, which is a 170-basis-point decrease year-over-year. Meanwhile, the national average hit 15.7% in April, down 30 basis points year-over-year. The asking rate marked a 2.5% decrease on a year-over-year basis through April, to $42.3, leading other Sun Belt metros such as Charlotte ($32.3), Nashville ($30.6) and Houston ($30.5). Across the metro, Austin Northwest (25.7%), East (23.2%) and Southwest (17.3%) recorded the highest office vacancy rates. One notable lease in the metro was Accenture's 37,800-square-foot renewal in Southwest Austin.

Industrial

- In recent years, Austin's attracted industrial industrial household names, too, with high-tech manufacturing companies relocating here. Following Samsung's decision to build a $17 billion semiconductor plant in Taylor, the submarket and the surrounding area saw increased interest. Among them, Park 183—a 950,000-square-foot Class A industrial facility underway in Southeast Austin, and Titan Development's NorthPark 35 Industrial Park in Georgetown, which recently broke ground on the 297,057-square-foot Building 5. Titan is also much closer to starting construction on Hutto Mega Tech-Center, an industrial park of nearly 2.6 million square feet, near Samsung's plant.
- Austin's industrial market totals 58 million square feet, significantly lower than neighboring Dallas (not including Fort Worth, the metro totals 563 million square feet of industrial space). However, the proposed/planned pipeline has between 15 and 25 million square feet, which has good chances to turn into yet another development wave. Consequently, rent growth is anticipated to slow in the longer run. Meanwhile, Amazon has paused development plans for its distribution center in Round Rock, citing "excess capacity in the network" they need to grow into.

Self Storage

- Despite rising capital cost and thinner acquisition yields, the self storage industry remained relatively firm. Austin street rates for 10x10 units rose 1.7% on a month-over-month basis through April, to $123, a rate of growth on par with Nashville's and below only Charlotte (1.8%). Meanwhile, through April, the metro's development pipeline—under cosnstruction or in the planning phases—equaled 9.5% of existing stock.

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 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 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, 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.

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MULTIFAMILY KEY FEATURES

- Pierce the LLC every time with true ownership and contact details
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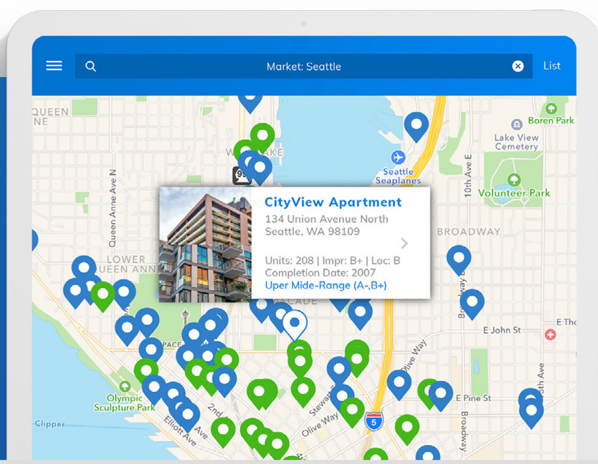
- Gain complete new supply pipeline information from concept to completion
- Find acquisition prospects based on in-place loans, maturity dates, lenders and originators
- Access aggregated and anonymized residential revenue and expense comps



Yardi Matrix Multifamily provides accurate data on **19.7+ million units**, covering over **92% of the U.S. population.**

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