Yardi® Matrix

Austin Embraces Live-Work-Play

Multifamily Report Summer 2017

Rent Growth Stalls Amid Heavy New Supply

Employment, Population Boom

Transaction Volume Ebbs

Market Analysis
Summer 2017

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Growing Inventory Caps Rent Growth

Austin's economy is strong and population is booming, but a heavy new supply of apartments is limiting rent growth. Rents in the metro were flat year-over-year compared to a 1.5% national growth rate as of May. The metro attracts Millennials to its urban core, as well as Baby Boomers retiring to the Texas Hill Country. However, with more than 16,000 units under construction, Yardi Matrix forecasts a modest rent growth of 1.1% in 2017, as the heavy new supply is absorbed.

The Texas capital's economy is centered around government, the University of Texas, and a large number of technology firms, led by hometown company Dell Technologies. Major projects include the 700-acre master-planned Mueller site, which will house 13,000 residents and generate 13,000 permanent jobs and 10,500 construction jobs. In addition, Dell Seton Medical Center has begun operation and plans to hire 15,000 people. Rapid population growth and affordability challenges are leading the city to pursue infrastructure projects and development aimed at easing urban congestion.

Transaction volume reached another record of $2 billion in 2016, but began 2017 with slower activity levels, as only $300 million worth of properties traded in the first five months of the year. Transaction volume has decreased faster for the more expensive Lifestyle properties than for Renter-by-Necessity communities, in part reflecting the weaker rent performance of Lifestyle assets.

Recent Austin Transactions

Madrone

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

The Davis SoCo

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

The Preserve at Rolling Oaks

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

Marq on Burnet

City: Austin, Texas
Buyer: CWS Capital Partners
Purchase Price: $63 MM
Price per Unit: $184,703

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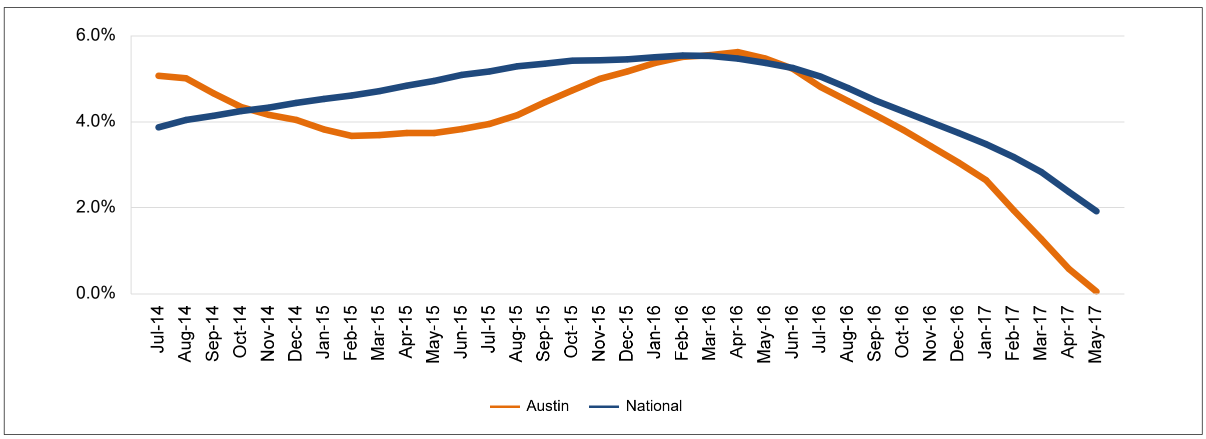
Rent Trends

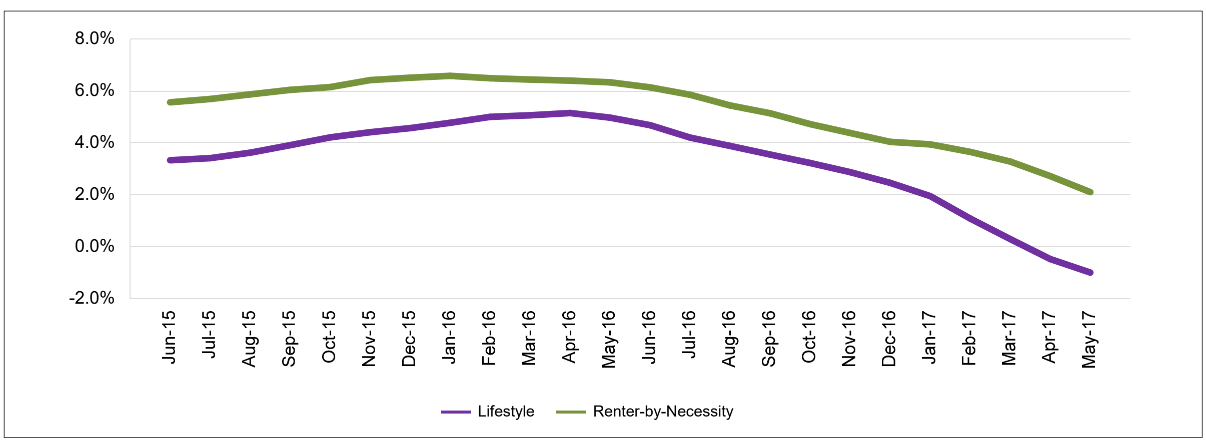
- Rents in Austin were unchanged year-over-year as of May 2017, after peaking at a growth rate of 5.5% in May 2016. The rate of rent growth has been under pressure during the last year, due to heavy levels of new supply. The average rent in Austin stood at $1,266 as of May, compared to a slightly higher national average of $1,316.
- Working-class Renter-by-Necessity rents grew by 2.1% year-over-year, to $1,069, while Lifestyle rents decreased by 1.0%. Rents for the more expensive Lifestyle properties have been capped due to the heavy new supply of high-end units.
- Rent performance has been uneven in the Austin metro, with more than half of the submarkets reporting lower rents over the last year. Rent growth is fastest in Georgetown–West (7.0%), Berkman Drive (6.0%) and Bastrop (5.2%), while the largest rent decreases occurred in Downtown–North (-4.4%), Anderson Mill (-5.1%) and Pershing (-6.3%).
- Occupancy in Austin was 93.8% as of April and has been stable despite high levels of new supply. Multifamily construction starts have slowed substantially over the past year, so rents are expected to resume growth. Yardi Matrix forecasts Austin rents to increase by 1.1% 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)

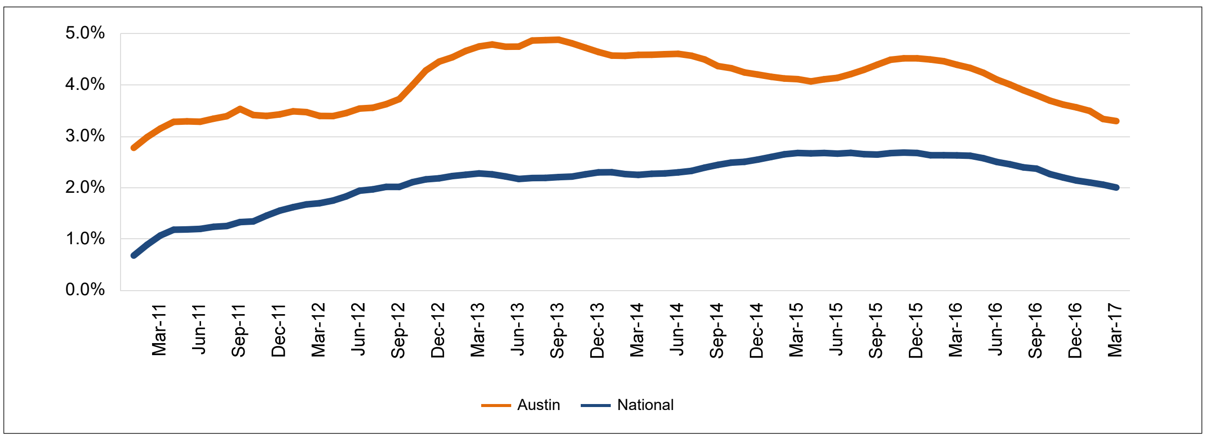


Source: YardiMatrix

Economic Snapshot

- Austin added 32,700 new jobs in the year ending in March 2017, which is up 3.3% year-over-year and faster than the U.S. pace of 2.0%. The metro is a growing tech hub and houses the headquarters of Dell Technologies and National Instruments, as well as major offices of Google, Facebook, IBM, Apple, Oracle and Amazon, along with an ever-rising number of startups.
- Education and health services, which led growth with 6,300 new jobs, is driven in part by the University of Texas at Austin, a major academic and research center. Health services are also expanding due to the Dell Seton Medical Center's opening in May, bringing 15,000 permanent jobs to the area while strengthening the metro's position as a national destination for life sciences and biotech innovation.
- Leisure and hospitality (5,400) was boosted by increased travel to the metro. Some 900 people were hired to work at the 37-story Fairmont Austin, which is opening soon.
- Austin's office market shares some of the same characteristics as multifamily. Absorption of office space is topping 1 million square feet per quarter, but the vacancy rate and rents are relatively flat, as new supply comes online. More than 2 million square feet of office space is under construction.

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	121	11.9%	6,300	5.5%
70	Leisure and Hospitality	125	12.2%	5,400	4.5%
60	Professional and Business Services	171	16.7%	5,000	3.0%
40	Trade, Transportation and Utilities	172	16.8%	3,600	2.1%
15	Mining, Logging and Construction	61	6.0%	3,300	5.7%
90	Government	184	18.0%	3,100	1.7%
80	Other Services	45	4.4%	2,200	5.2%
30	Manufacturing	57	5.6%	1,900	3.4%
55	Financial Activities	57	5.6%	1,500	2.7%
50	Information	28	2.7%	400	1.4%

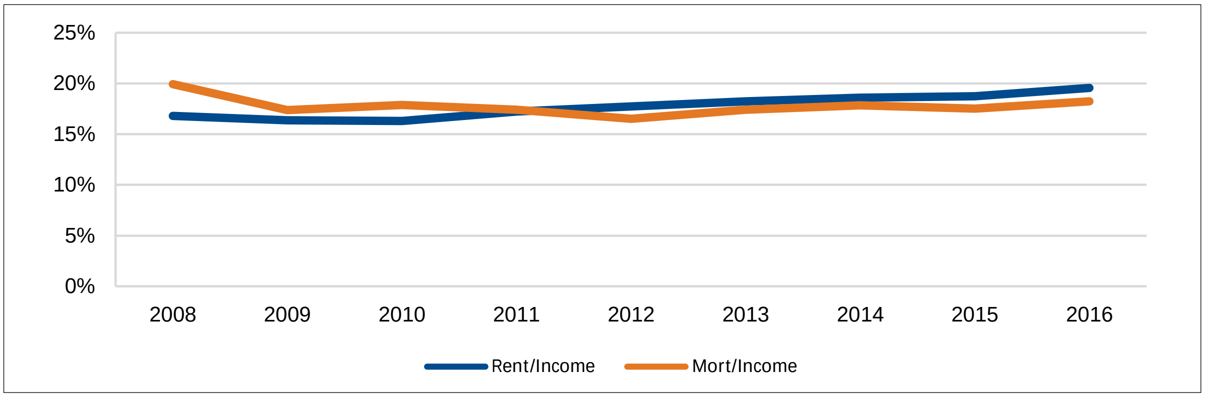
Sources: YardiMatrix, Bureau of Labor Statistics

Demographics

Affordability

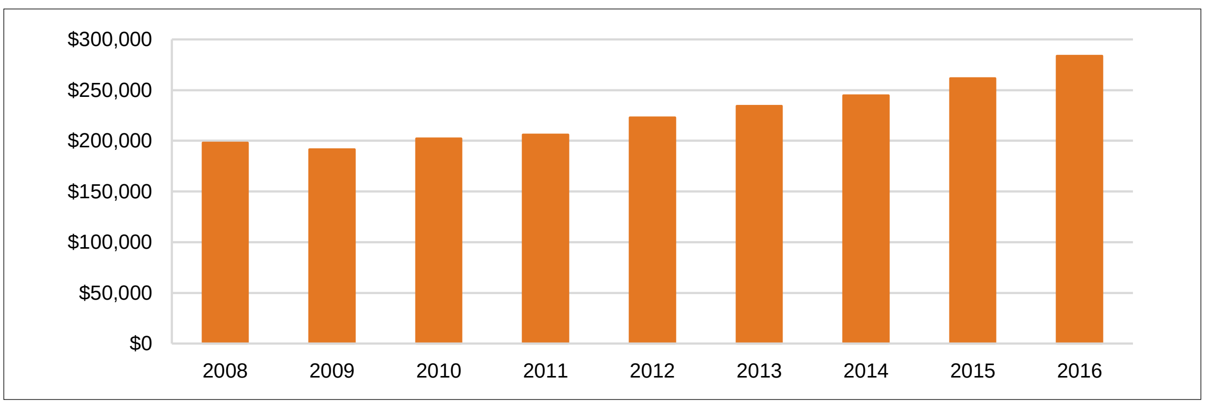
- The median home price in Austin reached a record $284,000 in 2016, an 8.4% year-over-year increase. Homes in the metro are more expensive than in other Texas cities because of high land costs and regulatory hurdles in the Hill Country.
- Purchasing a home remains slightly more affordable than renting in Austin. Mortgage payments comprised 18% of the metro's median income, while the average rent accounted for 20%. Austin's city council recently passed a plan to increase the supply of affordable housing by 2025. Metro voters also approved a $720 million bond issue that will improve commuting infrastructure between downtown and more affordable areas.

Austin Rent vs. Own Affordability as a Percentage of Income



Sources: YardiMatrix, Moody's Analytics

Austin Median Home Price



Source: Moody's Analytics

Population

- The metro's population reached 2 million in 2016, with the addition of 58,000 residents. Austin's population growth of 2.9% eclipsed national gains of 0.7% in 2016.
- Since 2012, the metro has added 222,000 residents.

Austin vs. National Population

	2012	2013	2014	2015	2016
National	313,998,379	316,204,908	318,563,456	320,896,618	323,127,513
Austin Metro	1,834,319	1,882,856	1,941,389	1,998,104	2,056,405

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

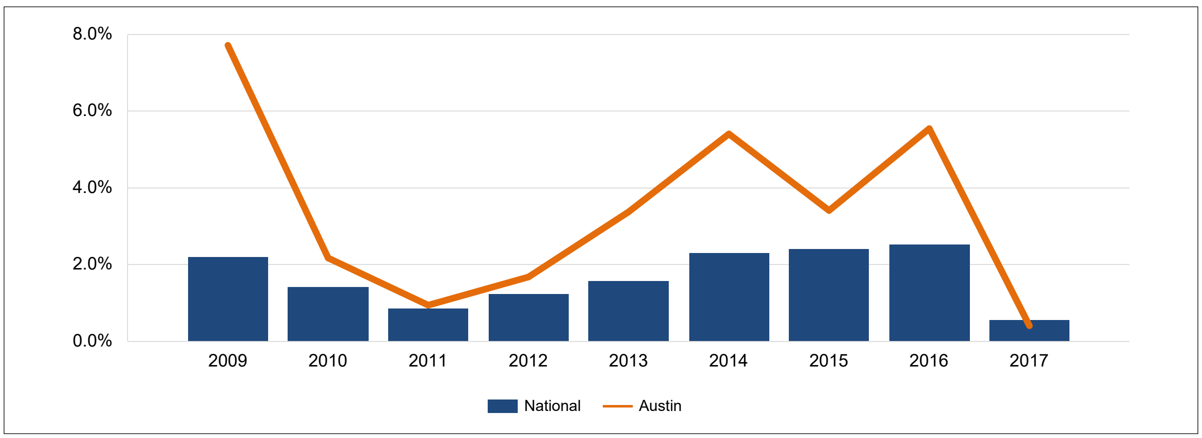
Supply

- Austin continues to absorb huge volumes of new apartments, sustained by consistent development. There were 1,200 new deliveries during the first five months of 2017, and Yardi Matrix forecasts 8,300 units to come online during 2017. Although that is a large amount—a 4.0% increase—that's down from the 11,500 units delivered in 2016. While the metro is growing fast and demand is not flagging, development is having an impact on the ability of landlords to raise rents.

- Currently there are 16,000 units under construction, with most of the building occurring in 10 of the metro's submarkets. Five submarkets have more than 1,000 units under construction: Dessau (1,461 units), Round Rock–East (1,328 units), Cedar Park (1,209 units), Sunset Valley (1,205 units) and Oak Hill (1,110 units). Overall, more than 46,000 units were in various stages of development as of May.

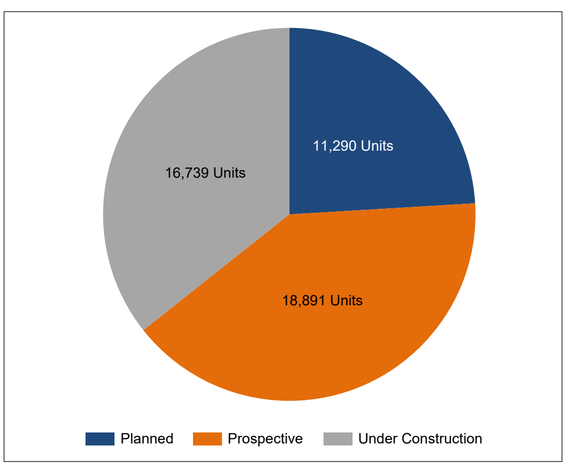
- Four of the five largest projects under construction are slated for delivery in 2017. These include the 445-unit The Mansions at Travesia in Round Rock–South, the 444-unit Pearl Lantana in Oak Hill and the 415-unit The Michael at Presidio in Cedar Park.

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



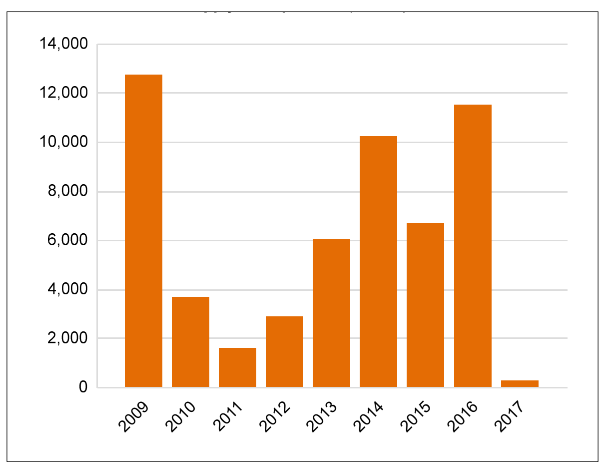
Source: YardiMatrix

Development Pipeline (as of May 2017)



Source: YardiMatrix

Austin Completions (as of May 2017)

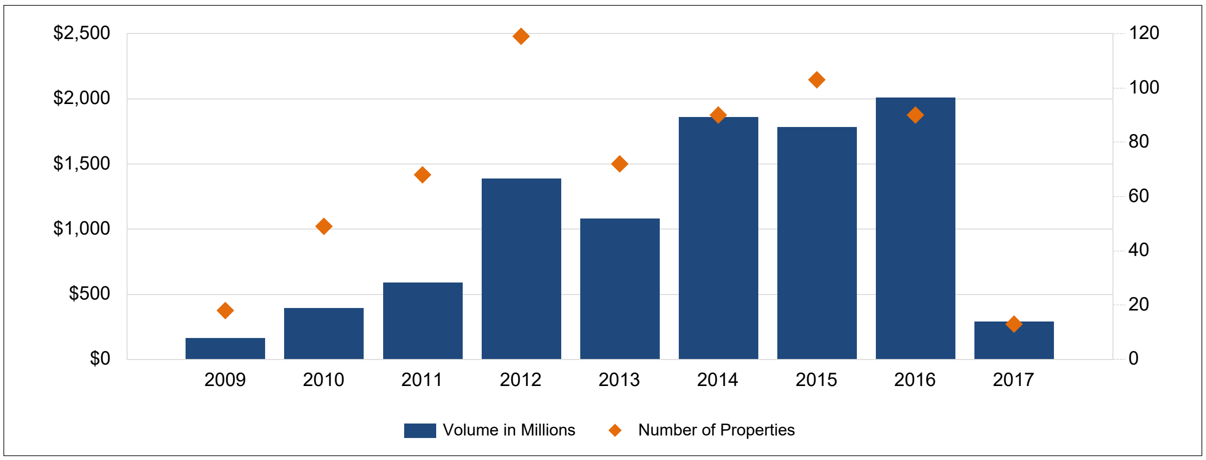


Source: YardiMatrix

Transactions

- Transaction volume in Austin has slowed, with only $300 million worth of properties trading through the first five months of the year. This comes after last year's cycle high, when more than $2 billion in assets changed hands in the metro.
- The price per unit dropped to $111,322 this year, after last year's $145,268. The drop reflects investors' attraction shifting from the higher-end assets to the older, value-add properties.
- The largest transactions during the last year include Madrone in Oak Hill, acquired by Starlight Investments for $87 million, and The Davis SoCo in Downtown–South, purchased by Sendera Investment Group for $65 million, or $174,489 per unit. The most active submarket for transactions during the last year was St. Edwards Park, which recorded $200 million in sales.

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



Source: YardiMatrix

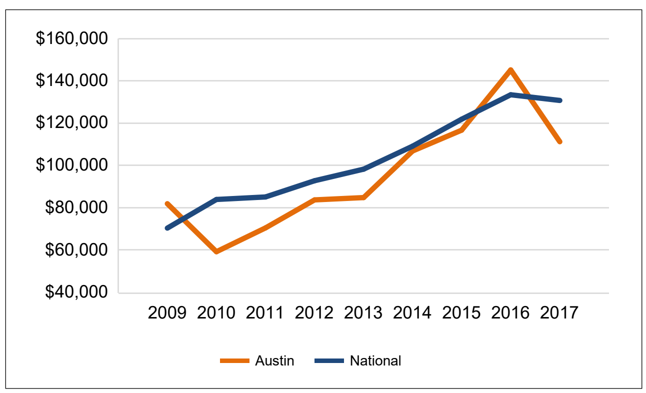
Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
St. Edwards Park	197
Sunset Valley	142
Oak Hill	135
Jollyville–North	123
Cedar Park	117
Abercrombie	105
Walnut Forest	75
Downtown–South	65

Source: YardiMatrix

[1] From June 2016 to May 2017

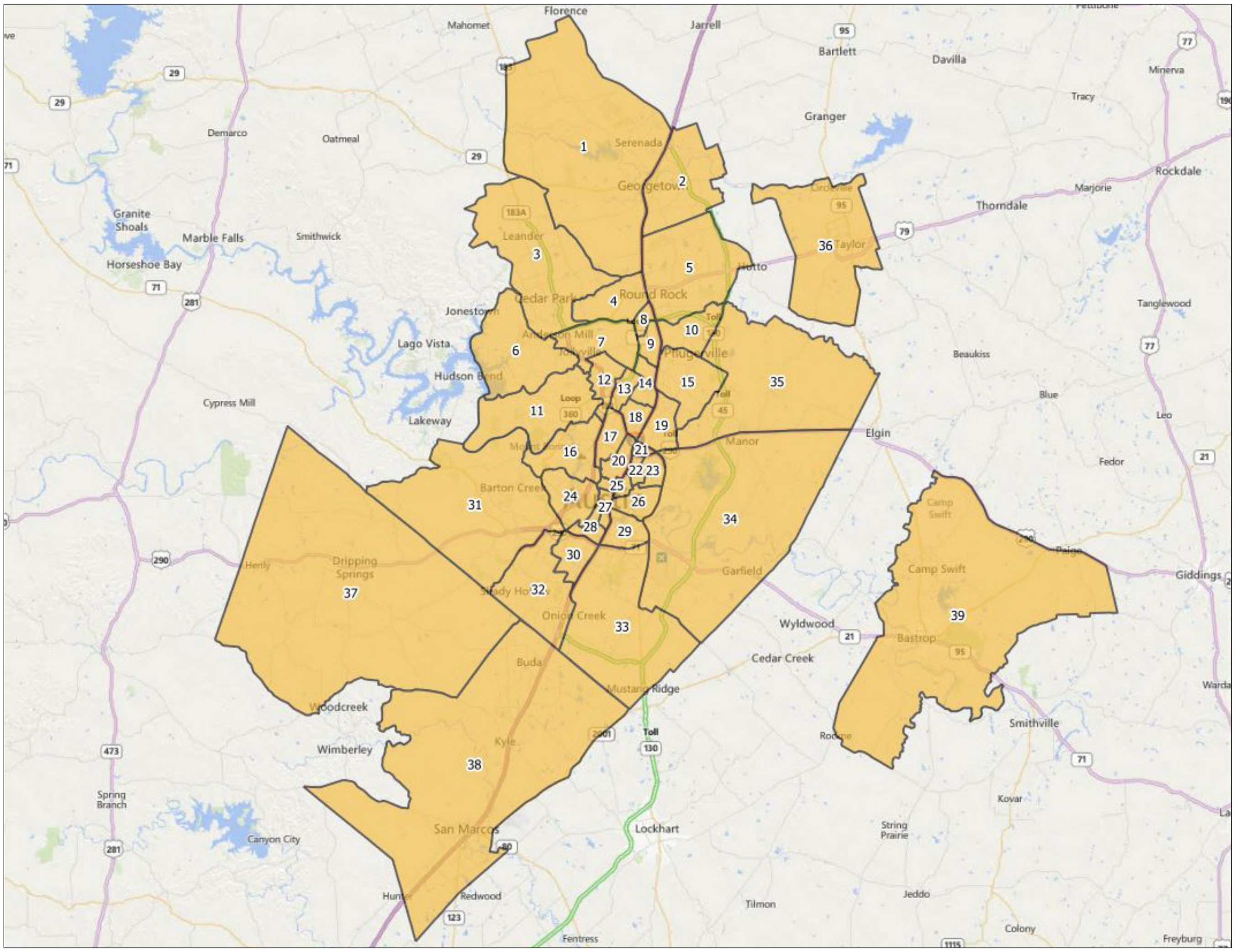
Austin vs. National Sales Price per Unit



Source: YardiMatrix

Photo by RoschetzkyIstock Photo/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.