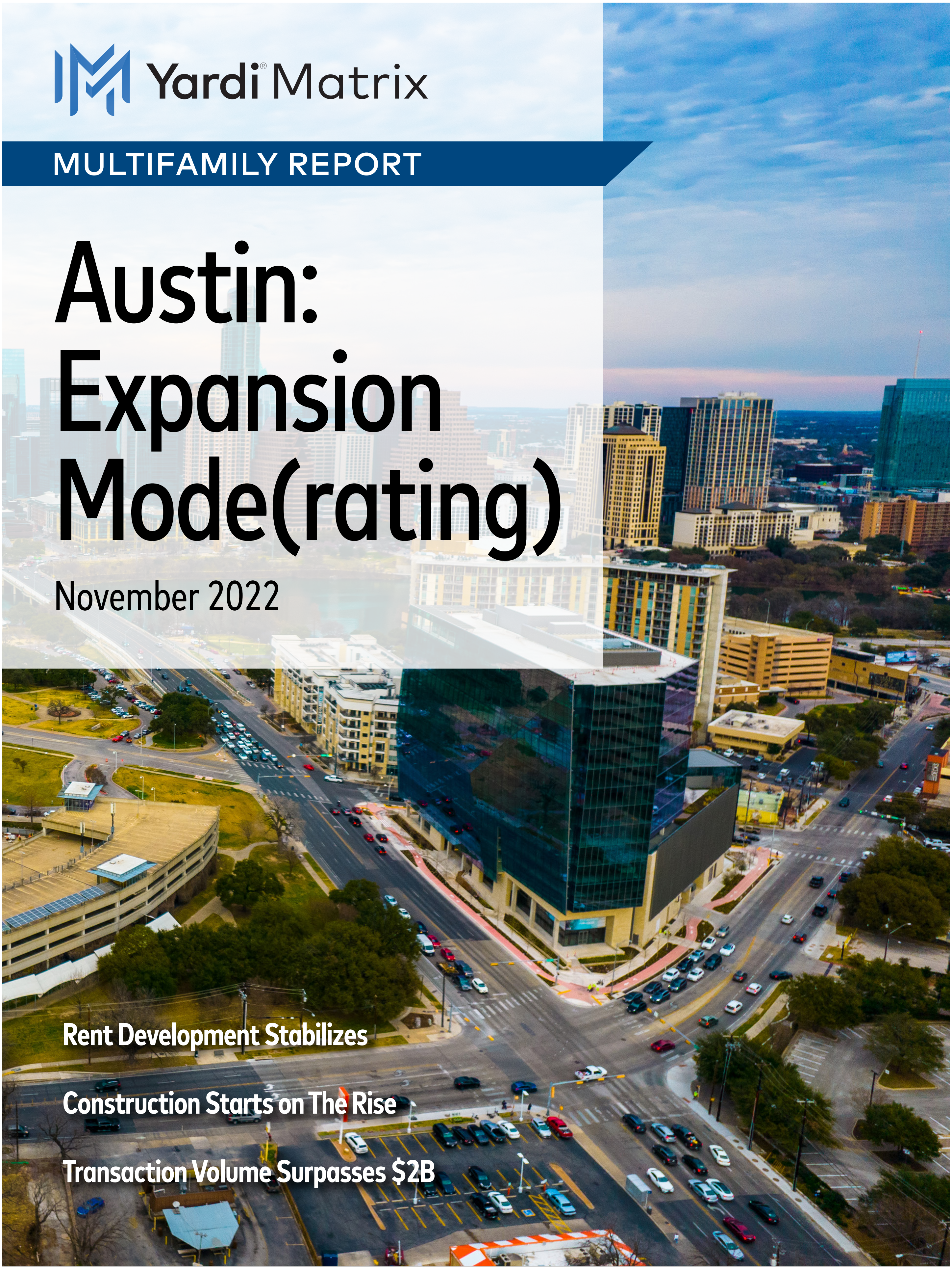
Yardi Matrix

MULTIFAMILY REPORT

Austin: Expansion Mode(rating)

November 2022



Rent Development Stabilizes

Construction Starts on The Rise

Transaction Volume Surpasses $2B

AUSTIN MULTIFAMILY

Yardi Matrix

Poised for a Comeback

Austin's economy has evolved remarkably during the past decade, reaching a balance that made it appealing to businesses and residents and helped it withstand the COVID-19 health crisis. Although current economic challenges loom over the metro, there will likely be some sort of a pause in expansion rather than a full-blown crisis. So far, the industry has reacted to rising interest rates and inflation, as rents remained flat on a trailing three-month basis through September, to $1,792, and occupancy slid 30 basis points in the 12 months ending in August, to 95.3%.

The unemployment rate stood at 3.0% in August, leading the state (4.1%), the U.S. (3.7%), as well as the other major Texas metros. The job market expanded 7.4%, or 70,900 jobs, in the 12 months ending in July, with contractions seen in government (-0.1%) and mining, logging and construction (-2.1%). Professional and business services (25,300 jobs) and leisure and hospitality (16,700 jobs) led gains, and both are poised for sustained growth.

Unlike most markets, development increased in Austin, with 51,161 units under construction as of September. Deliveries softened compared to last year, with 8,795 units coming online, but it's no surprise as the metro faces labor shortages. Meanwhile, transaction activity dwindled slightly from quarter to quarter. Investors traded $2.1 billion in multifamily assets, but the price per unit continued to rise, up 25.1% year-over-year.

Market Analysis | November 2022

Contacts

Jeff Adler
Vice President & General Manager of Yardi Matrix
Jeff.Adler@Yardi.com
(303) 615-3676

Ron Brock, Jr.
Industry Principal, Matrix
JR.Brock@Yardi.com
(480) 663-1149 x2404

Doug Ressler
Media Contact
Doug.Ressler@Yardi.com
(480) 695-3365

Author

Anca Gagiuc
Senior Associate Editor

On the cover: Photo by RoschetzkyIstockPhoto/iStockphoto.com

Recent Austin Transactions

South Shore District

City: Austin, Texas
Buyer: Bell Partners
Purchase Price: $178 MM
Price per Unit: $350,988

Bridge at Canyon Creek

City: Austin, Texas
Buyer: Housing Authority of the City of Austin
Purchase Price: $107 MM
Price per Unit: $322,650

Bridge at Steiner Ranch

City: Austin, Texas
Buyer: Housing Authority of the City of Austin
Purchase Price: $94 MM
Price per Unit: $311,201

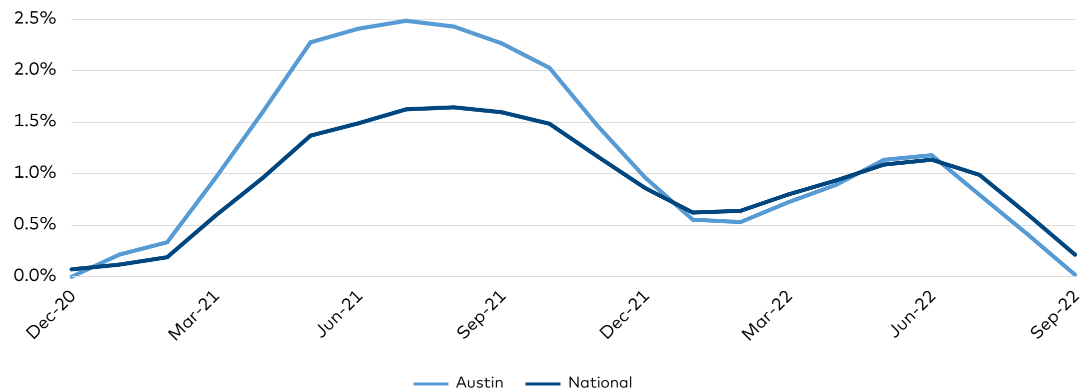
Latitude at Presidio

City: Cedar Park, Texas
Buyer: TerraCap Management
Purchase Price: $92 MM
Price per Unit: $274,184

RENT TRENDS

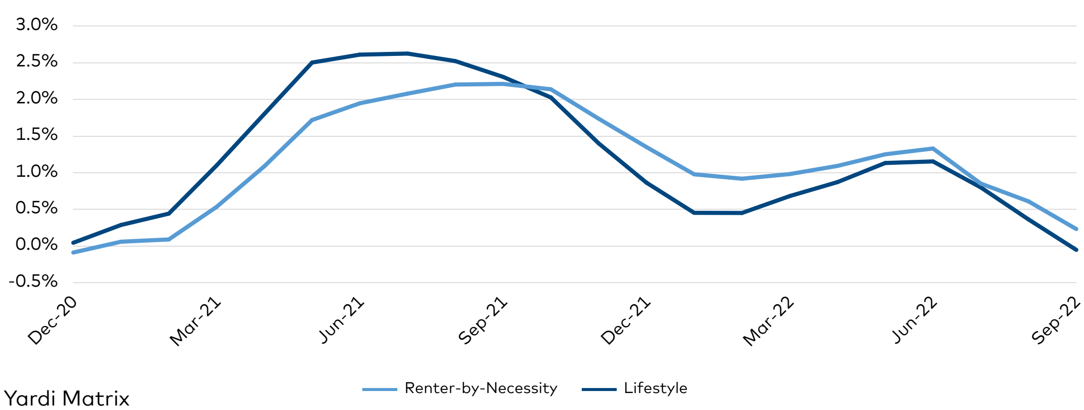
- Austin remained the most expensive metro in the state of Texas, with rents stabilizing at $1,792 in September. Meanwhile, the U.S. rate inched up 0.2% on a trailing three-month (T3) basis, to $1,718. On a year-over-year basis, the average asking rent in Austin was up 9.0% in September, trailing the national rate by 40 basis points. The average rate rose by a hefty 30% from pre-pandemic values and accounted for 26.5% of the median income in August.
- Rents in working-class Renter-by-Necessity units were up 0.2% on a T3 basis through September, to $1,450, while upscale Lifestyle figures contracted slightly, down 0.1% to $1,947. This is likely due to substantial inventory expansion primarily consisting of Lifestyle apartments. Robust deliveries and an increased cost of renting have impacted the occupancy rate in stabilized properties, down 30 basis points in the 12 months ending in August, to 95.3%. The decrease was greater for Lifestyle apartments—60 basis points to 95.3%—while RBN units saw occupancy decline by 30 basis points, to 95.4%.
- Of the 42 submarkets tracked by Yardi Matrix, 23 posted double-digit increases on a year-over-year basis. The average asking rent in Downtown-North reached $3,119, following a 9.3% annual increase. Other sought-after areas were the University of Texas (6.9% to $2,616) and Pershing (11.2% to $2,415).
- The SFR segment also softened, with rents up 5.0% year-over-year through September and occupancy sliding 0.7% year-over-year through August.

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 unemployment rose to 3.0% in August, from 2.5% in April, according to data from the Bureau of Labor Statistics, and despite the rise, it posted the best performance among all other major Texas metros—Dallas (3.7%), Houston (4.6%) and San Antonio (3.8%). The rate was also ahead of the state (4.1%) and the U.S. (3.7%).
- Austin has long been in expansion mode and its economic prospects are beaming. Employment expanded 7.4%, or 70,900 jobs, in the 12 months ending in July, trailing Dallas by just 10 basis points, and well above the 4.5% U.S. rate. Two sectors lost jobs—government and construction, for 1,700 jobs combined. Similar to Dallas, job growth in the metro was led by the professional and business services sector (25,300 jobs), supported by the consistent influx of companies relocating or expanding in the metro. Among them is Apple, which finalized the first phase of its 12-building campus, which will eventually employ 15,000 workers. Another is Google, which already has an office under construction in downtown Austin and announced earlier this year that Texas' capital is part of its $9.5 billion multistate expansion set to create 12,000 jobs.
- Leisure and hospitality followed with the addition of 16,700 jobs, as tourism and conventions returned to Austin. Moreover, to aid companies hit by the pandemic, a new $180 million recovery program was established.

Austin Employment Share by Sector

		Current Employment	
Code	Employment Sector	(000)	% Share
60	Professional and Business Services	264	21.2%
70	Leisure and Hospitality	142	11.4%
40	Trade, Transportation and Utilities	202	16.2%
65	Education and Health Services	142	11.4%
30	Manufacturing	71	5.7%
50	Information	50	4.0%
55	Financial Activities	77	6.2%
80	Other Services	46	3.7%
90	Government	179	14.4%
15	Mining, Logging and Construction	73	5.9%

Sources: Yardi Matrix, Bureau of Labor Statistics

Population

- Austin gained 53,301 residents in 2021, for a 2.3% demographic expansion, trailing the 3.1% growth rate posted in 2020. Meanwhile, the U.S. population inched up 0.1%.
- Since 2010, Austin's population has increased by 36.2%.

Austin vs. National Population

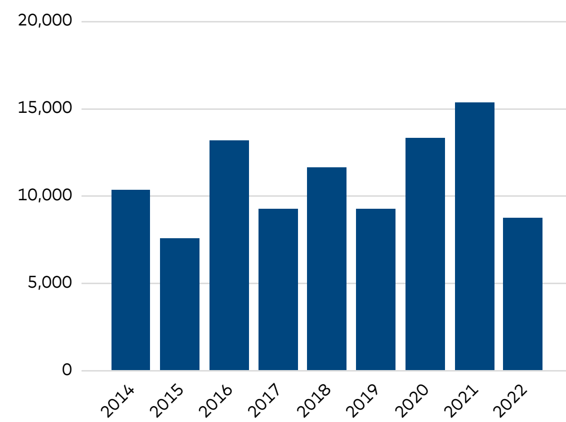
	2018	2019	2020	2021
National	326,838,199	328,329,953	331,501,080	331,893,745
Austin Metro	2,166,805	2,228,106	2,299,125	2,352,426

Source: U.S. Census

SUPPLY

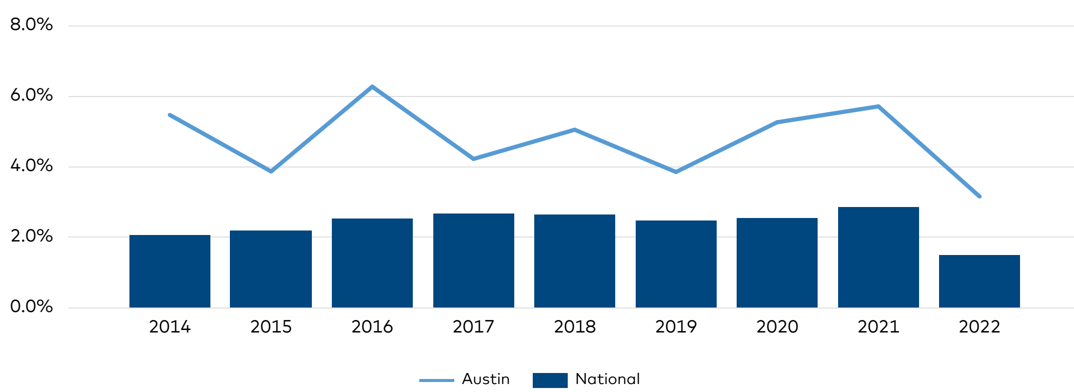
- Although issues such as increasing construction materials costs, rising inflation and labor shortages impacted deliveries, development remained high in Austin. Through September, 8,795 units came online, accounting for 3.2% of existing stock, more than double the 1.5% U.S. rate but significantly below the 11,247 units that were delivered during the same period last year.
- The construction pipeline was robust, with 51,161 units underway in September and some 94,000 units in the planning and permitting stages. Of these, nearly half broke ground this year (24,161 units), almost double the volume registered during the same interval last year (13,776 units), which shows not just healthy demand but also heightened confidence in the metro's multifamily sector.
- The composition of the recent stock expansion remained heavily tilted toward upscale projects, with 90% of deliveries adding to the Lifestyle segment. Just 8% of new stock comprised units in fully affordable communities. New construction includes Renter-by-Necessity (about 5% to 10%) and fully affordable properties (16%), but the bulk also favors Lifestyle properties.
- Construction activity was spread out across the map, with 37 of the 42 submarkets tracked by Yardi Matrix having at least 50 units underway. Dessau (4,330 units), San Marcos/Kyle (3,542 units) and Cedar Park (3,542 units) led ranks.
- The largest project delivered through September was Avenir, a 387-unit Lifestyle property in Pershing. Owned by a joint venture formed by Quarterra Multifamily and Legend Communities, the property includes 195 affordable units.

Austin Completions (as of September2022)



Source: Yardi Matrix

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

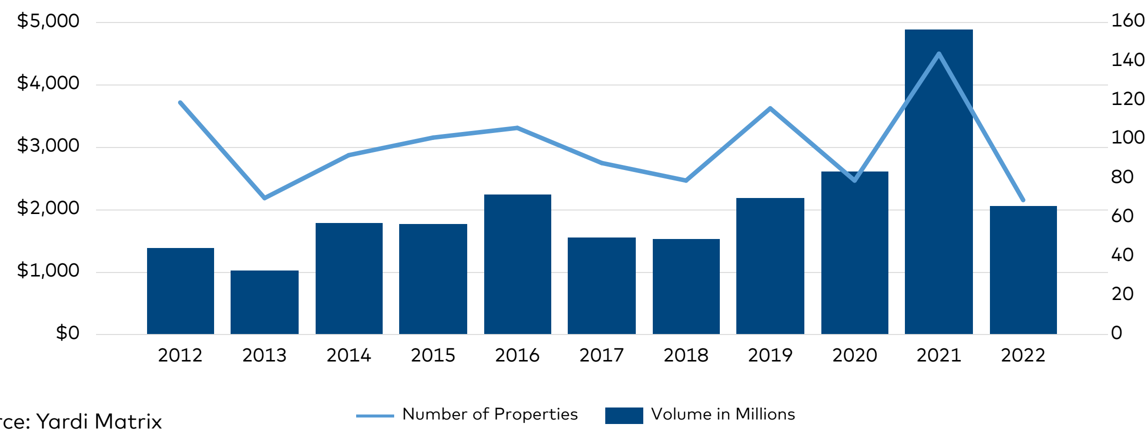


Source: Yardi Matrix

TRANSACTIONS

- Through September, some $2.1 billion in multifamily assets traded in Austin. During the same period last year, the transaction volume was $2.8 billion. Investors reacted to rising interest rates and overall increasing economic volatility, as reflected in the dwindling sales volumes from one quarter to the next. In the third quarter, the total amounted to just $513 million, and the trend is likely to continue.
- Investor interest was slightly higher for Lifestyle assets (57% of sales). Although the Federal Reserve's actions to combat inflation have dampened transactions, the price per unit continued to rise, up another 25.1% year-over-year, to $232,132, surpassing the $216,578 national average in September.
- Tide Equities (1,142 units), LivCor (1,105 units) and Austin Affordable Housing Corp. (1,010 units) were among the major investors in Austin in 2022 through September.

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



Source: Yardi Matrix

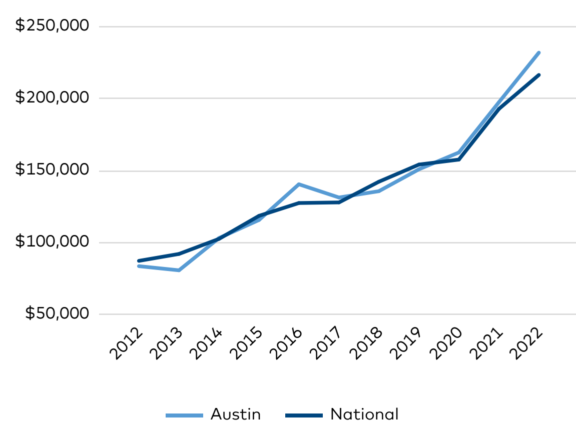
Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
San Marcos/Kyle	492
East Central Austin	482
Cedar Park	408
Pleasant Hill–East	296
Jollyville–North	235
St. Edwards Park	187
Eubank Acres–North	174

Source: Yardi Matrix

[1] From October 2021 to September 2022

Austin vs. National Sales Price per Unit



Source: Yardi Matrix

Brought to you by:
MULTI-HOUSING NEWS

When CRE Looks Like Shaky Ground, Build Multifamily Assets

By Anca Gagiuc

While the number of COVID-19 cases is declining, other numbers are rising—inflation and interest rates. Construction companies have to adapt their strategies to make profits in an economic landscape that is bracing for a downturn. After a successful career in commercial development, Founder Barry Wurzel of Wurzel Builders in Austin is now pivoting to multifamily construction. Here's why and how he's doing it.

What stands behind your decision to make your debut on the multifamily stage?

Wurzel Builders has been building in a variety of sectors over the past two decades, including health care, hospitality, industrial, retail and fuel. Multifamily is a growing market with a lot of potential. We decided to add multifamily to our focus because we have quite a bit of hospitality experience under our belts, and hospitality and multifamily are complementary to one another.

We want to become experts as a company in the space moving forward. The demand is there for new projects in the Greater Austin area.

Do you intend to extend to other multifamily markets?

We are continuously in search of new projects across the state. While we are based in Austin, we have completed and underway construction projects throughout the state—from Dallas all the way down the Interstate 35 corridor to San Antonio and in other states, including Nebraska.

How is the current economic landscape impacting multifamily construction?

Construction in some sectors is slowing down, and developers are slowing down specific projects due to inflation. Construction costs have increased 30 percent or more over the past two years. The expenses sometimes have developers questioning projects, wondering if consumers will support the project due to the rising costs. It's something developers are keeping a watchful eye on for now.

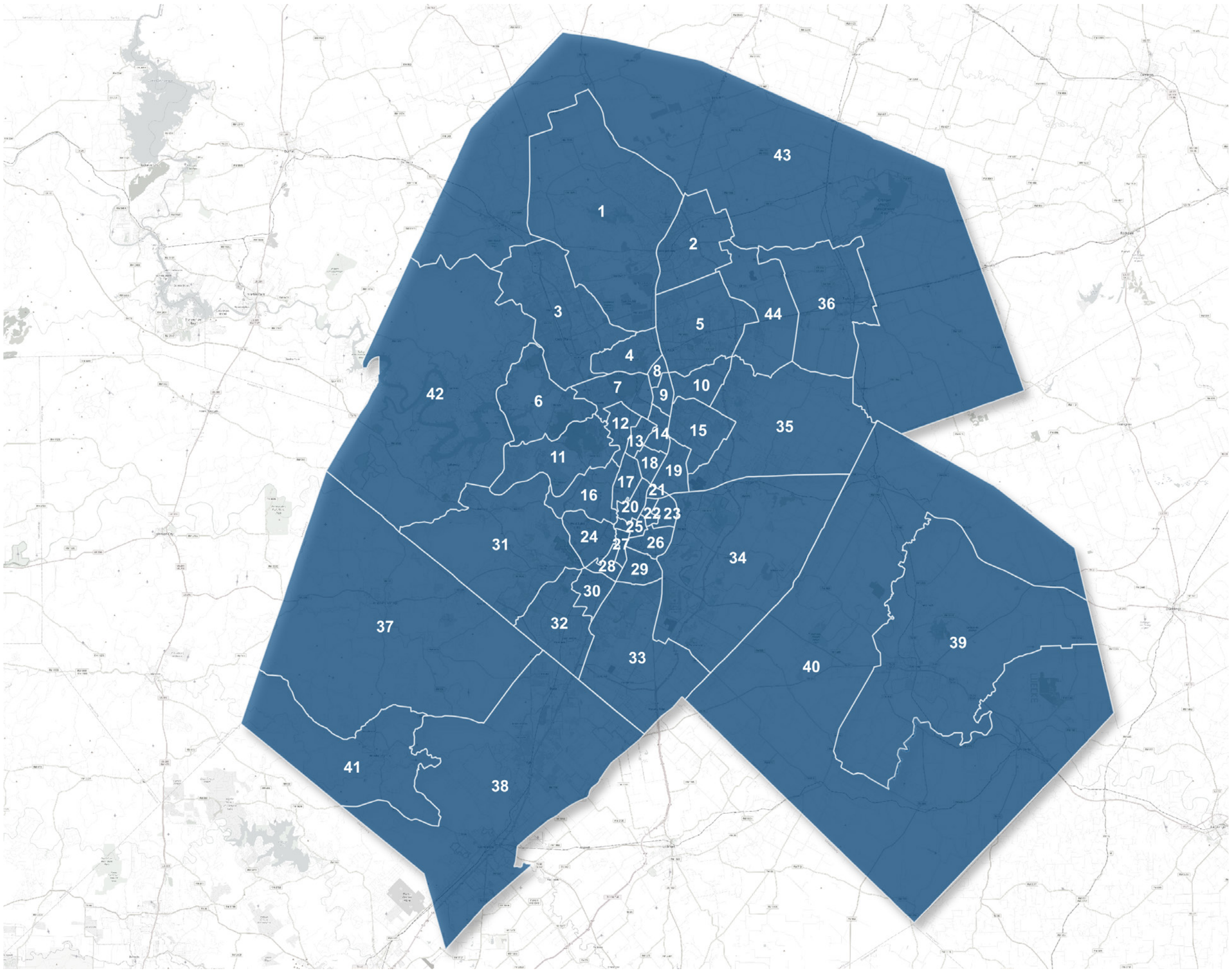
What would you advise other contractors who plan to make their way into the multifamily industry?

When entering a new sector like multifamily, enter it slowly. Make sure you're incorporating an experienced team that has worked in the sector before and use subcontractors, project managers and a superintendent who all have experience in the sector. The more experience your team has in the space, the more efficient you'll be. Industrial suppliers and project managers work differently, so finding people who have experience working in multifamily will benefit you greatly.

Texas has shown incredible resilience during the health crisis. How do you see the region performing going forward?

It looks like the demand is still strong. Depending on inflation, some developers may wait on projects, or they just may change designs or finishes based on budgets.

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

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.

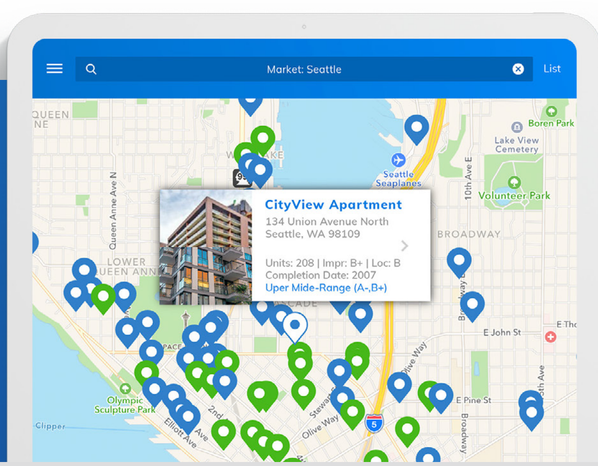
To learn more about Yardi® Matrix and subscribing, please visit www.yardimatrix.com or call Ron Brock, Jr., at 480-663-1149 x2404.

Yardi Matrix

Power your business with the industry's leading data provider

MULTIFAMILY KEY FEATURES

- Pierce the LLC every time with true ownership and contact details
- Leverage improvement and location ratings, unit mix, occupancy and manager info
- 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.**

YARDI

(800) 866-1144
Learn more at yardimatrix.com/**multifamily**

Contact us