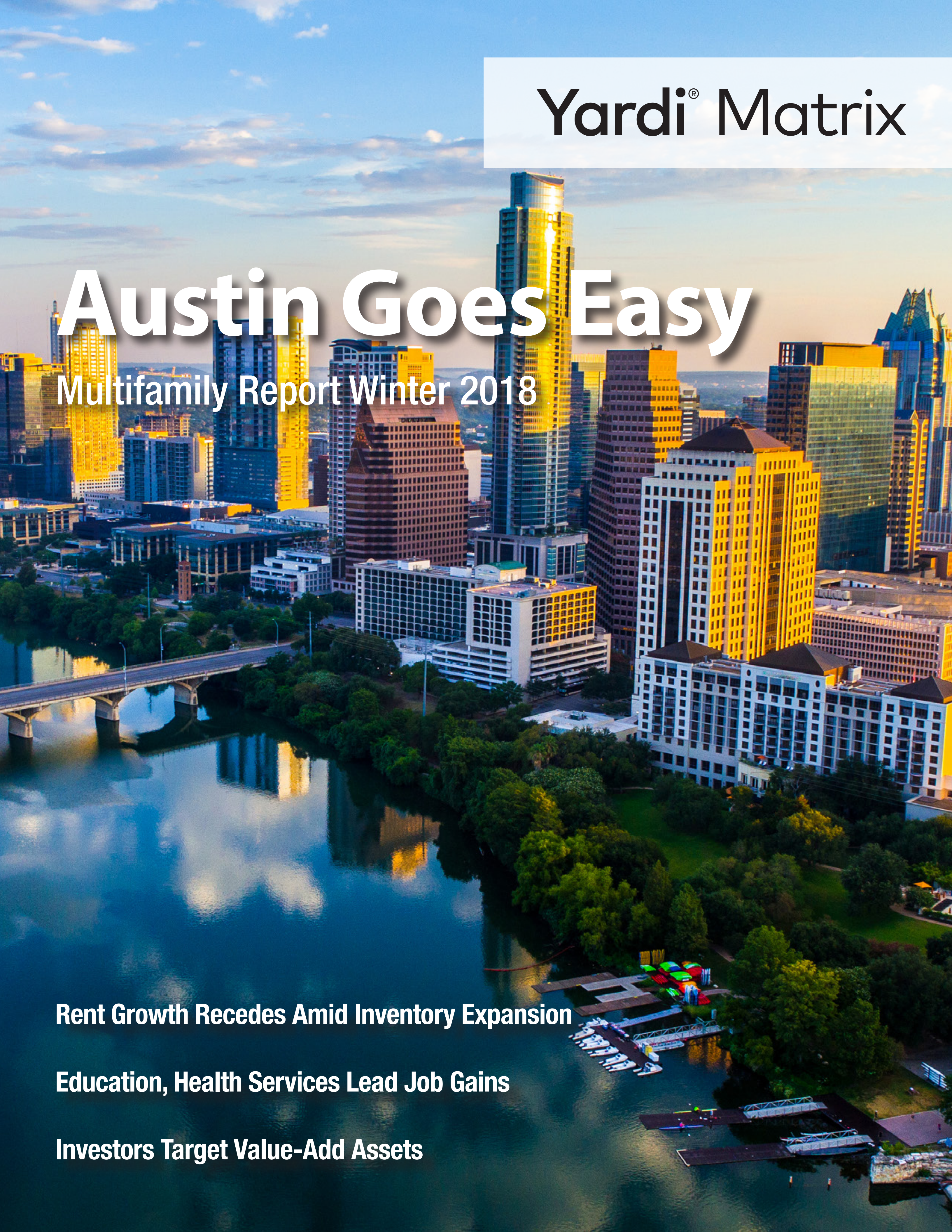
Yardi® Matrix



Austin Goes Easy

Multifamily Report Winter 2018

Rent Growth Recedes Amid Inventory Expansion

Education, Health Services Lead Job Gains

Investors Target Value-Add Assets

Market Analysis

Winter 2018

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Supply Catches Up With Demand

Austin's multifamily market shifted down a gear in 2017, due to last year's strong wave of supply. As a result, rents contracted 0.3% year-over-year through October, trailing the 2.3% U.S. average. Continued construction pushed the occupancy rate to 94.6% as of September, down 70 basis points in 12 months. This figure is likely to keep falling in the short term, while the metro absorbs the new stock.

The Texas capital boasts a strong economic and population growth, maintaining a steady demand for multifamily, despite the temporary surge in supply. A leading market for science, technology, engineering and math (STEM) jobs, the metro added 6,600 positions in the education and health services sector, partly thanks to the opening of Dell Seton Medical Center. Austin's most notable development underway is the mixed-use, 700-acre Mueller project, which is in full development and is slated to house 14,300 residents and 14,500 employees, while also generating10,500 construction jobs.

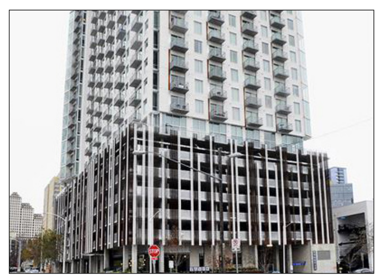
Transaction activity continued to decelerate in the second half of 2017, with $961 million in apartments trading in the first 10 months of the year, half of last year's volume. Nearly 3,700 units were delivered this year through October, a third of last year's new stock, but almost 17,000 units were still under construction as of October. Given the metro's strong pipeline, we expect rents to remain flat in the foreseeable future.

Recent Austin Transactions

The Landing at Round Rock

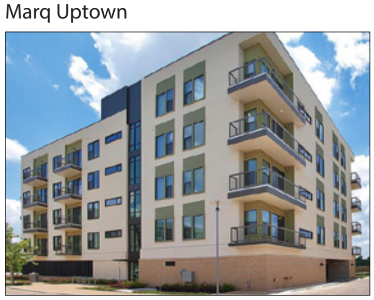
City: Round Rock, Texas
Buyer: Starlight Investments
Purchase Price: $93 MM
Price per Unit: $159,634

Seven



City: Austin, Texas
Buyer: Greystar
Purchase Price: $60 MM
Price per Unit: $ 274,545

Marq Uptown



City: Austin, Texas
Buyer: CWS Capital Partners
Purchase Price: $51 MM
Price per Unit: $189,808

The Ridge at Barton Creek

City: Austin, Texas
Buyer: Arel Capital
Purchase Price: $48 MM
Price per Unit: $117,121

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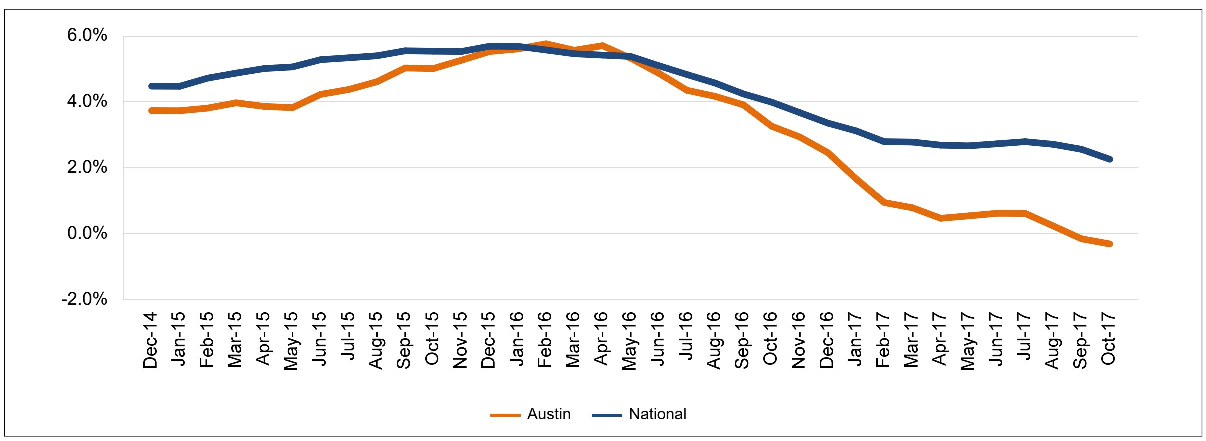
On the cover: Photo by RoschetzkyIstock Photo/iStockphoto.com

Rent Trends

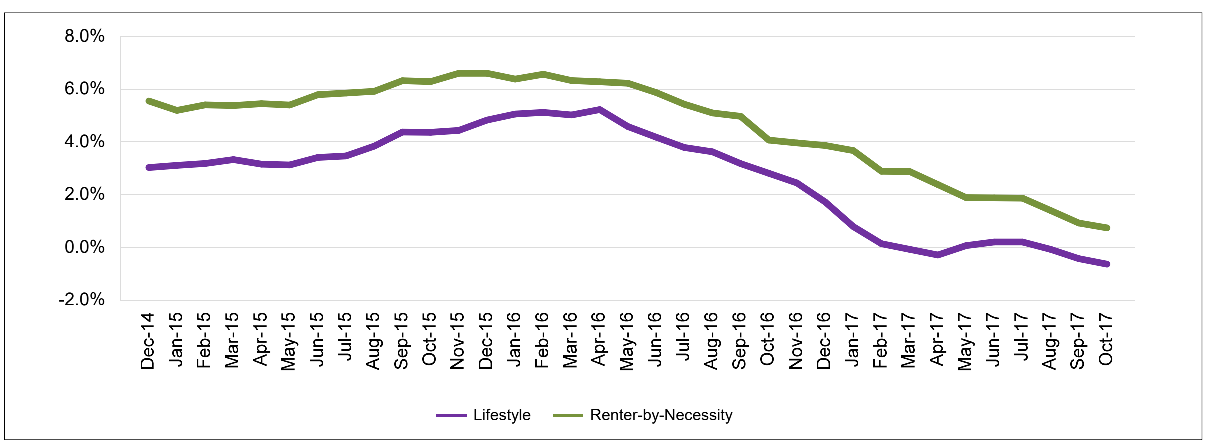
- Austin rents were down 30 basis points year-over-year through October, to $1,294, not far behind the national average of $1,358. After reaching a 5.8% cycle high in the first quarter of 2016, Austin's rent growth rate steadily decelerated, as a strong wave of new stock came online.
- The cooling trend has mostly affected the Lifestyle segment, with rents falling 0.6%, to an average of $1,415. Although demand for working-class stock is stronger, roughly 80% of the metro's new supply falls within the upscale category. As a result, rents in the working-class Renter-by-Necessity segment were up 0.7%, to $1,081.
- Growth was spotty across the map, with nearly half of all submarkets reporting rent contractions. The only core submarket with consistent rent growth was University of Texas (4.6%), mainly due to the area's large percentage of student housing stock. The metro's most expensive submarkets—Downtown-North ($2,364) and University of Texas ($2,107)—are neighboring the most affordable ones—Taylor ($793) and St. Johns Park ($921).
- The occupancy rate for stabilized properties dropped to 94.6% as of September, down 70 basis points from one year prior. Although deliveries decelerated this year, after the 2016 surge, the high number of units underway is likely to dampen growth in the foreseeable future, keeping rents flat.

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

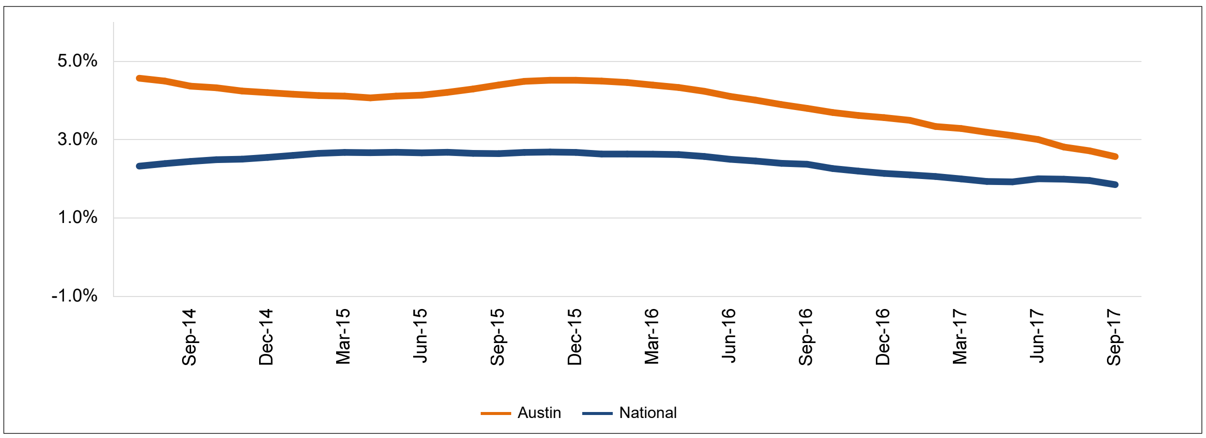
- Austin added 23,500 jobs in the year ending in September, a 2.6% increase, above the 1.9% U.S. rate. The city's job-creation machine has slowed compared to the rapid-fire clip it maintained in 2016. Even so, Austin remains among the top 15 metros in the U.S. for job creation, with an unemployment rate of 3.3% as of August. The metro maintains a vibrant start-up economy: According to PricewaterhouseCoopers, 11.5% of Austin firms have been formed in the past three years, which account for 3.3% of total employment.

- Austin is among the top five U.S. markets for STEM jobs concentration. This fact is reflected by the leading employment sector, education and health services, which added 6,600 positions. A new big employer is the recently opened Dell Seton Medical Center, which is set to hire 15,000 people and is expected to boost the local economy by $2 billion.

- The government sector added 5,800 positions, while trade, transportation and utilities increased by 3,900 jobs, offsetting contractions in manufacturing (-900 jobs) and professional and business services (-2,400).

- The Austin office development boom continues, with 4.2 million square feet under construction, half of which is available for lease. This year through October, net absorption stood at roughly 1.4 million square feet and deliveries at nearly 2 million square feet.

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	124	12.1%	6,600	5.6%
90	Government	182	17.7%	5,800	3.3%
40	Trade, Transportation and Utilities	175	17.0%	3,900	2.3%
15	Mining, Logging and Construction	64	6.2%	3,700	6.2%
30	Manufacturing	58	5.6%	2,300	4.1%
70	Leisure and Hospitality	126	12.3%	1,700	1.4%
80	Other Services	45	4.4%	1,400	3.2%
55	Financial Activities	59	5.7%	1,400	2.5%
50	Information	28	2.7%	-900	-3.2%
60	Professional and Business Services	169	16.4%	-2,400	-1.4%

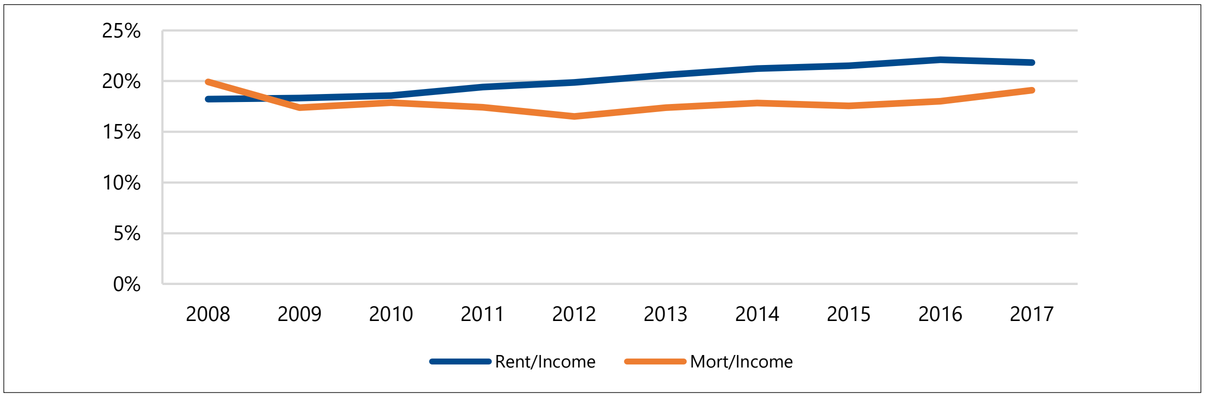
Sources: YardiMatrix, Bureau of Labor Statistics

Demographics

Affordability

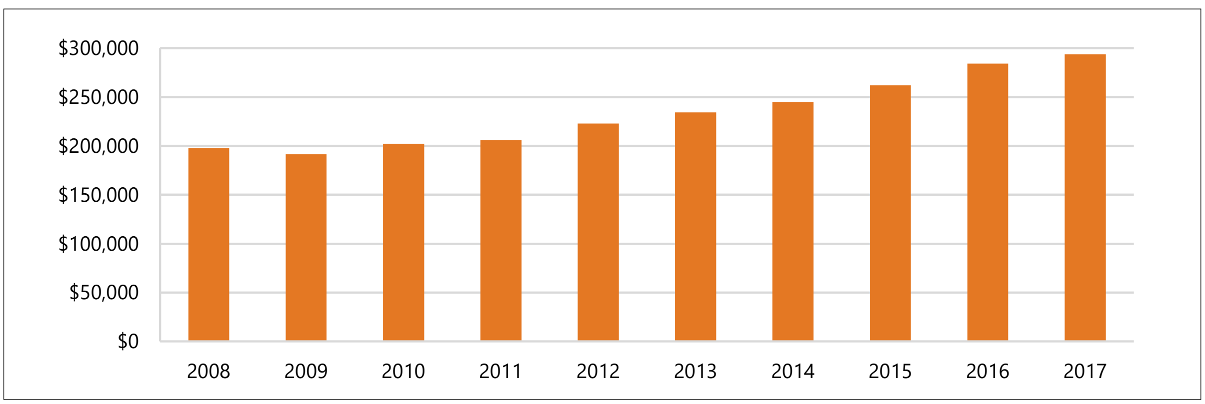
- The median home price topped last year's cycle high in the first half of 2017, up 3.4% to $293,794. Home values rose more than 50% since 2009, but owning remains more affordable than renting, mainly due to the proportion of Austin's prime renting cohort, which is the largest in the country. The average mortgage payment comprised 19% of the median income, while the average rent accounted for as much as 22%.
- Moreover, high land costs and more restrictive lending requirements have spurred many residential developers to aim at the higher end of the market. According to population projections from City of Austin Demographer, the city would need to add a minimum of 69,000 units by 2025, just to maintain today's tight market.

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 increased by more than 150% since 1980.
- The metro exceeded the 2 million people mark in 2016. This accounted for a 2.9% yearly increase, more than four times the 0.7% U.S. rate.

Austin vs. National Population

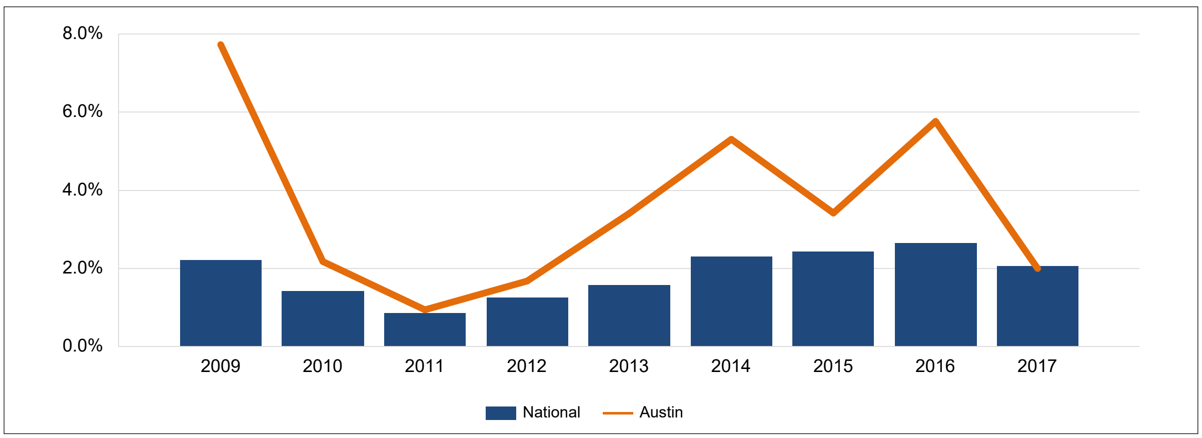
	2012	2013	2014	2015	2016
National	313,998,379	316,204,908	318,563,456	320,896,618	323,127,513
Austin Metro	1,834,319	1,882,856	1,941,389	1,998,104	2,056,405

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

Supply

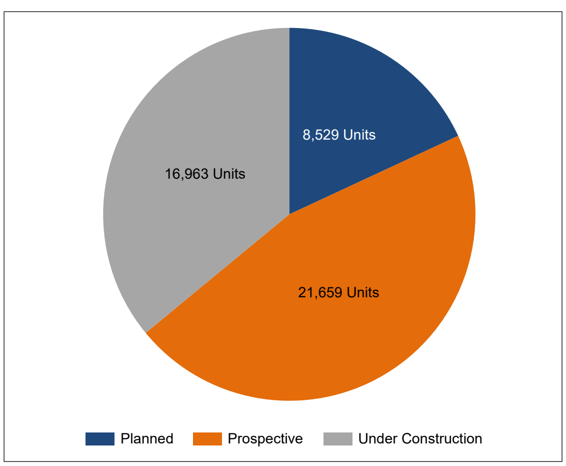
- Supply additions outstripped demand for the second consecutive year. Nearly 3,700 units were delivered in Austin in the first 10 months of 2017—just one third of 2016's sharp surge, but enough to keep rent growth tepid. This comes after three years of intense construction activity, with almost 29,000 units coming online between 2014 and 2016.
- About 17,000 units were under construction as of October. The development pipeline comprised more than 47,000 units in various stages of development, of which some 8,500 were in the planning stages. This solid inventory continues to signal short-term oversupply issues.
- Construction activity is high across the board, but more intense in non-core submarkets such as Sunset Valley (1,440 units), Cedar Park (1,356) and San Marcos/Kyle (1,149).
- Two of the four largest communities under development are slated for delivery by the end of 2017—the 384-unit The Emerson in Pflugerville and the 372-unit Austin Flatiron in the IBM area. The largest project, Plaza Saltillo, is a mixed-use, transit-oriented development located in East Austin, which includes 140,000 square feet of office space, 115,000 square feet of retail space and 800 units slated for completion in 2019.

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



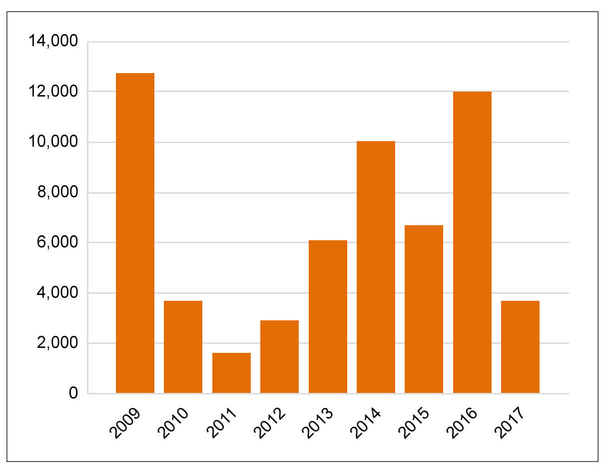
Source: YardiMatrix

Development Pipeline (as of October 2017)



Source: YardiMatrix

Austin Completions (as of October 2017)

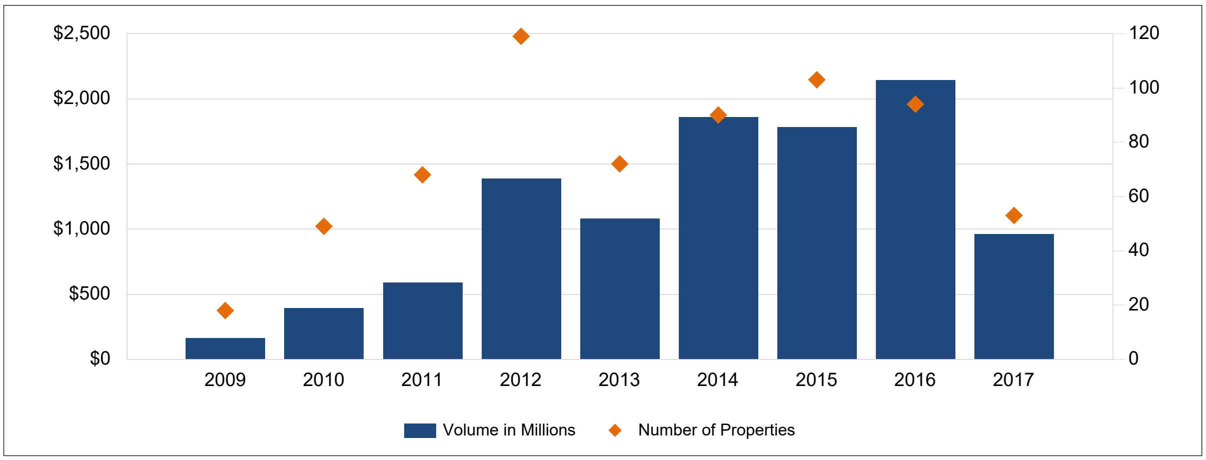


Source: YardiMatrix

Transactions

- Roughly $962 million in apartments changed hands this year through October. Buyer demand in Austin remains strong, although transaction activity has slowed compared to last year's cycle peak of $2 billion.
- Following seven years of increases, the average price per unit was down 13.2% in the first 10 months of 2017, to $124,481. The dip mainly mirrors a slight investor focus shift toward value-add assets. The price per unit in Austin has more than doubled since 2010, but continues to trail the $135,622 national average.
- Jollyville–North was the most active submarket in the 12 months ending in October, with nearly $142 million in assets changing hands. The largest single transaction of the last two quarters was Starlight Investments' acquisition of the 583-unit Landing at Round Rock. Seller Brass Enterprises cashed in nearly $94 million, or $159,634 per unit. The property was completed in 2002 and last traded in 2013, for $70 million.

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



Source: YardiMatrix

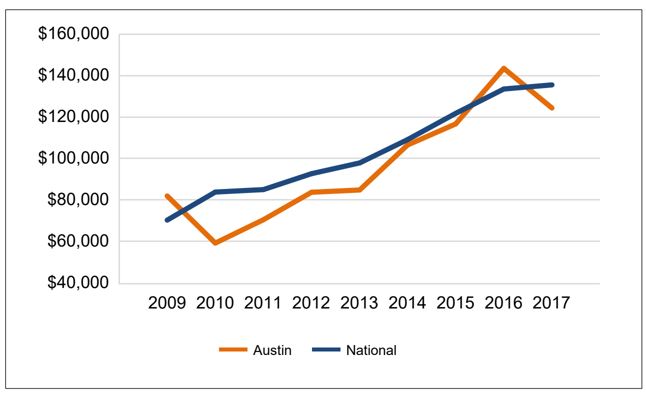
Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
Jollyville–North	142
St. Edwards Park	136
Sunset Valley	118
Abercrombie	96
Brushy Creek	93
Dessau	79
San Marcos/Kyle	76
Walnut Forest	69

Source: YardiMatrix

[1] From November 2016 to October 2017

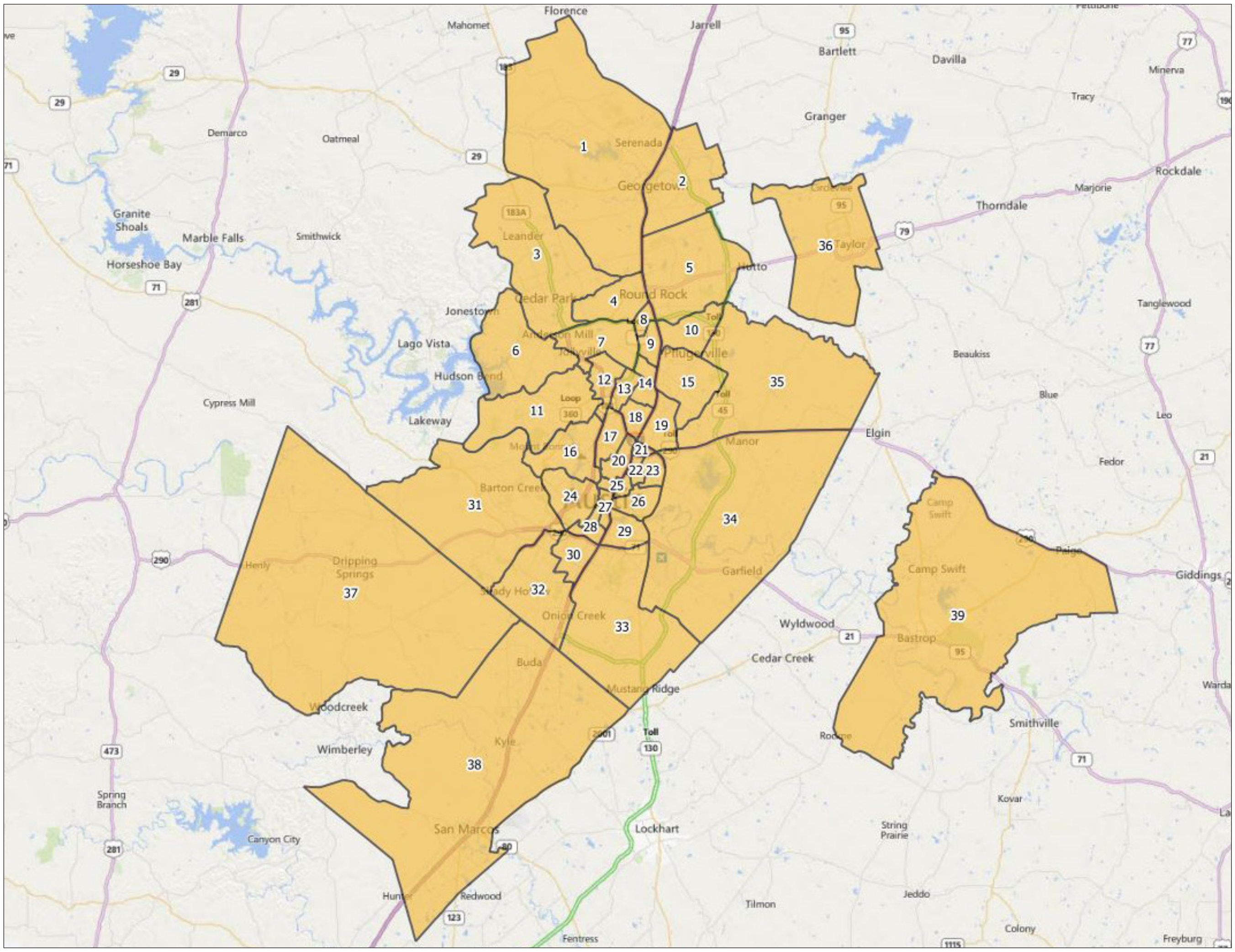
Austin vs. National Sales Price per Unit



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.

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