Yardi® Matrix

Thriving Economy Fuels Austin

Multifamily Report Spring 2018

Hiring Outpaces Nation

Increasing Supply Pressures Occupancy

Tepid Rent Growth Likely to Improve

Market Analysis
Spring 2018

Contacts
Paul Fiorilla
Associate Director of Research
Paul.Fiorilla@Yardi.com
(800) 866-1124 x5764

Jack Kern
Director of Research and Publications
Jack.Kern@Yardi.com
(800) 866-1124 x2444

Author
Anca Gagiuc
Associate Editor

Healthy Demographics Push Up Demand

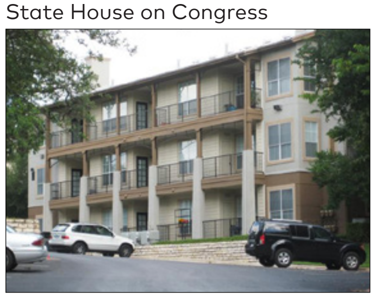
Austin remains one of the most coveted real estate markets in the nation. Further strengthening housing demand, the metro's population is expected to grow by 2.8% in 2018. After several months of contraction, rents have stabilized, inching up 0.1% year over year through February to an average of $1,282, roughly $80 behind the national average. Despite experiencing delays, construction activity is strong, bringing the average occupancy rate down to 94.1% as of January, down 40 basis points in 12 months.

Although the metro faces affordability and transportation issues, its status as one of the most green cities in the U.S. has maintained Austin's popularity as a destination with extensive outdoor recreation options. As a result, the city's leisure and hospitality sector is thriving: The segment added 6,500 jobs in 2017, boosted by the 1,048-key Fairmont Austin, which is the hotelier's largest location in the country. In January, Oracle began its relocation to a new 40-acre campus southeast of downtown, which will accommodate as many as 3,000 employees.

Transaction volume reached $102 million by February 2018, fueled by investors seeking value-add opportunities. Some 1,700 units came online as of February, with another 19,300 underway, 12,800 of which are slated for completion in 2018. By year-end, we expect rents to rise by 1.6%.

Recent Austin Transactions

State House on Congress

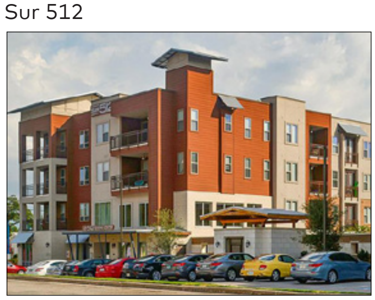


City: Austin, Texas
Buyer: Turnbridge Equities
Purchase Price: $121 MM
Price per Unit: $421,324

The Landing at Round Rock

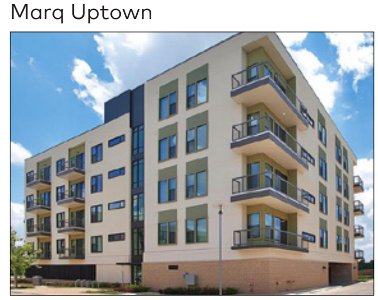
City: Round Rock, Texas
Buyer: LivCor
Purchase Price: $93 MM
Price per Unit: $159,634

Sur 512



City: Austin, Texas
Buyer: Cypress Real Estate Advisors
Purchase Price: $64 MM
Price per Unit: $181,686

Marq Uptown

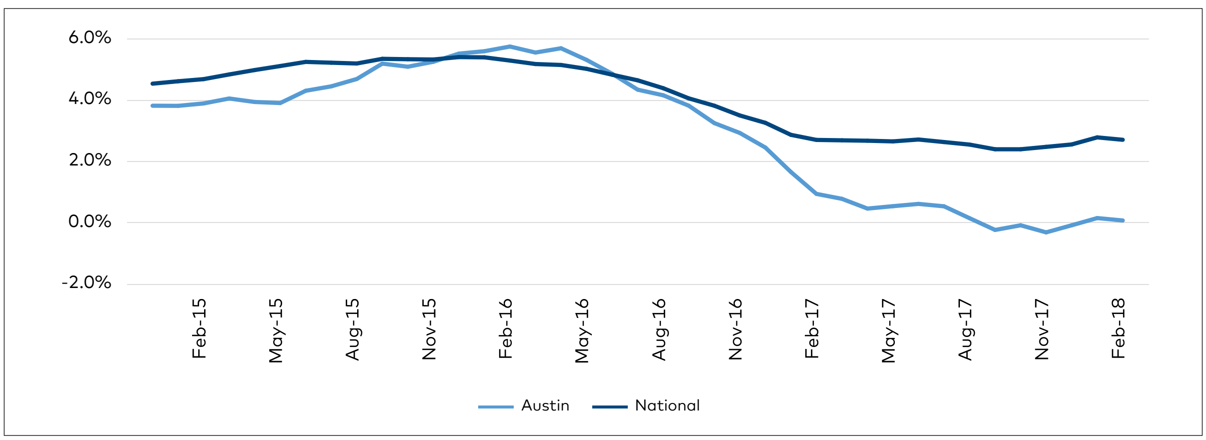


City: Austin, Texas
Buyer: CWS Capital Partners
Purchase Price: $51 MM
Price per Unit: $189,808

Rent Trends

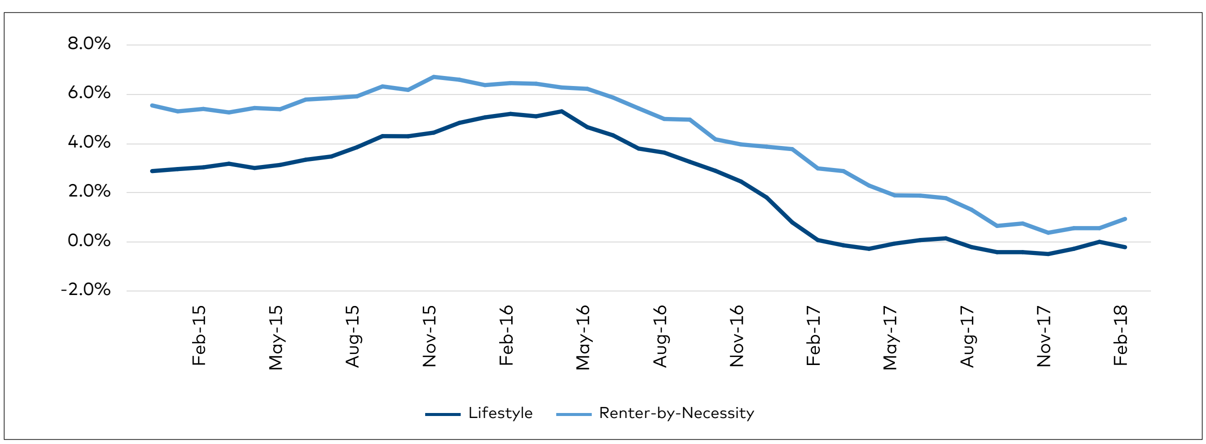
- Momentum in the rental sector has slowed in Austin over the past 12 months, with rents only rising by 0.1% year-over-year through February, to an average of$1,282, trailing the national average of $1,364. Rent growth deceleration was primarily caused by elevated levels of inventory expansion, which have left a mark on the occupancy rate in stabilized assets, down 40 basis points year-over-year, to 94.1%.
- The Lifestyle segment felt the dampening trend. Rents in the segment dropped by 0.2% to $1,394 and the trend will likely continue as the bulk of properties underway are in the upscale segment. Rents in the working-class Renter-by-Necessity segment rose 0.9% to an average of $1,080, as limited stock continues to drive appreciation at a far stronger rate than for Lifestyle assets.
- Rent growth was uneven in Austin, with about half of all submarkets recording rent decreases. Growth was highest in Downtown–North (up 5.7% to $2,409), followed closely by the University of Texas (up 1.1% to $2,118). All other submarkets have average monthly rents below the $2,000 mark.
- The shortage of construction workers, combined with heightened inventory expansion, is likely to maintain positive rent growth, albeit modest. Yardi Matrix expects rents will appreciate by 1.6% in 2018.

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

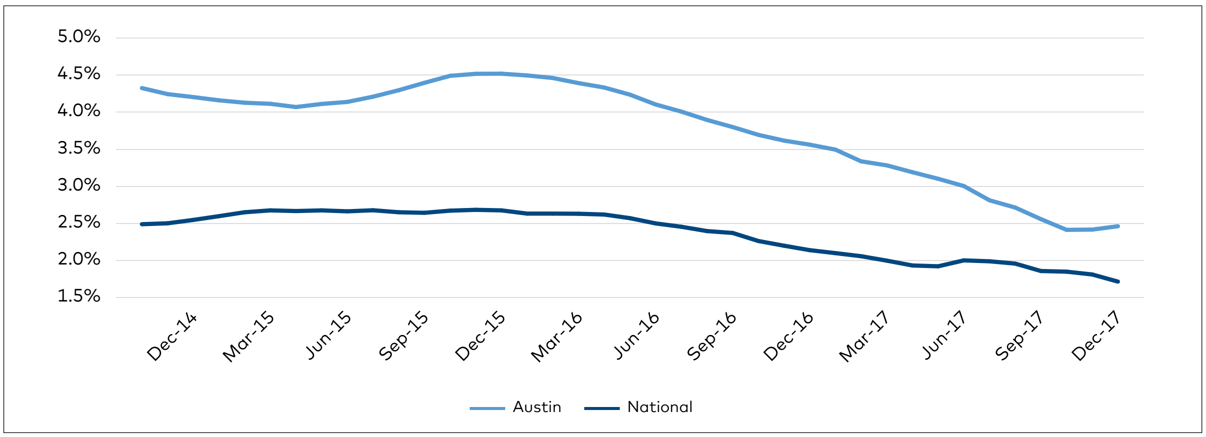
Economic Snapshot

- Austin added 30,000 new jobs in 2017, a 2.5% year-over-year expansion, well ahead of the 1.7% national pace. The metro's accelerated hiring rate has pushed unemployment to 2.7% as of December, and it is expected to contribute to a rise in housing demand, too.

- Leading growth is the leisure and hospitality sector, which added 6,500 jobs in 2017. The recent opening of the 1,048-key Fairmont Austin will likely maintain this trend, as the facility needs about 900 workers to be fully operational. Amazon's $13.7 billion acquisition of Whole Foods Market is anticipated to encourage grocery startups. Even though the information sector lost 900 jobs in 2017, the metro's tech ecosystem has been a magnet for smaller tech startups. In January, Oracle began moving employees into a newly constructed campus—slated to accommodate up to 3,000 people—southeast of downtown. A second phase could add up to 2,000 jobs.

- Strong demand for space has compressed the office vacancy rate to 8.2% midway through the first quarter, according to NAI Partners. Net absorption clocked in at 423,698 square feet, and deliveries hit 573,250 square feet over the same period. Some 4 million square feet are under construction, and 1.6 million are available for lease. Work is underway at The Foundry, a 95,000-square-foot office and condo building near I-35, and Third + Shoal, a 29-story office tower in Austin's central business district.

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	%
70	Leisure and Hospitality	130	12.4%	6,500	5.3%
40	Trade, Transportation and Utilities	183	17.4%	5,700	3.2%
65	Education and Health Services	123	11.7%	4,800	4.0%
60	Professional and Business Services	176	16.8%	4,400	2.6%
15	Mining, Logging and Construction	63	6.0%	3,000	5.0%
90	Government	183	17.4%	2,200	1.2%
30	Manufacturing	58	5.5%	2,000	3.6%
80	Other Services	46	4.4%	1,600	3.6%
55	Financial Activities	58	5.5%	700	1.2%
50	Information	28	2.7%	-900	-3.1%

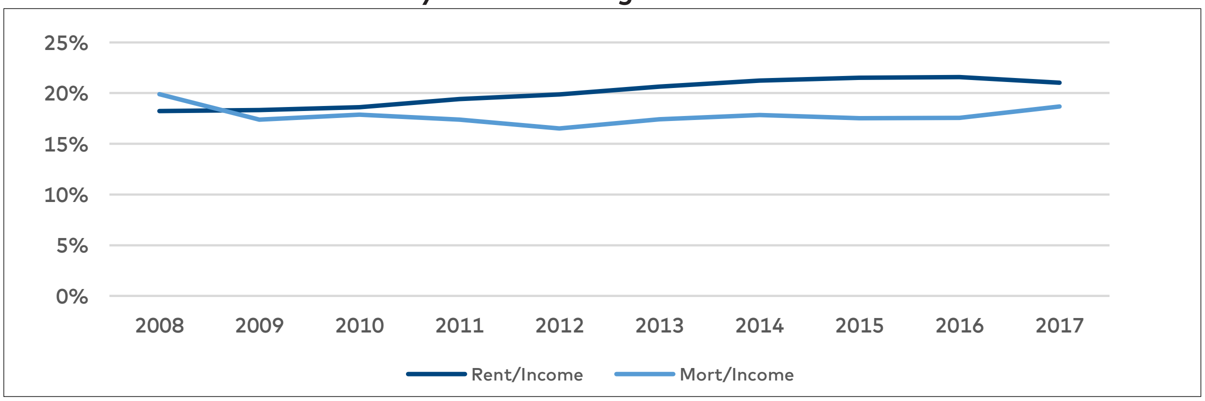
Sources: YardiMatrix, Bureau of Labor Statistics

Demographics

Affordability

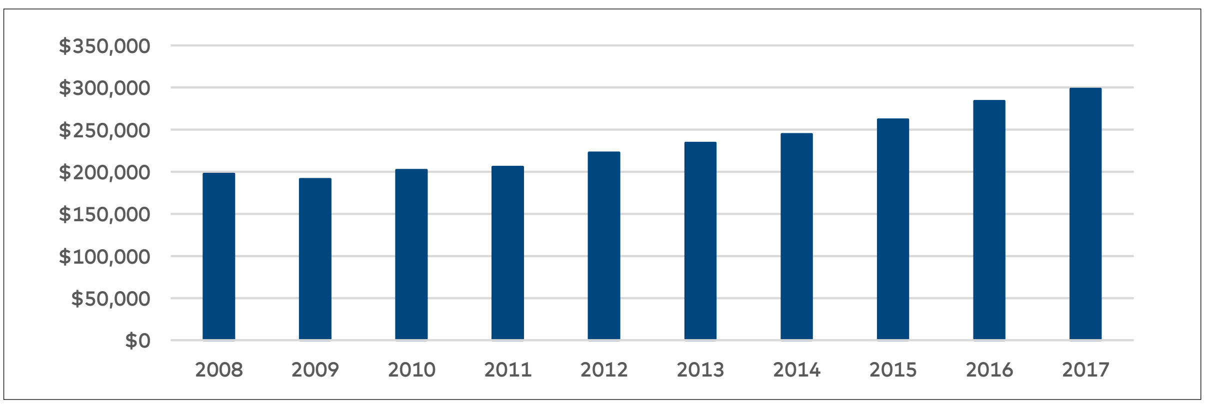
- The median home price in Austin climbed to $298,401 in 2017, a 5.1% year-over-year increase, 56% higher than it was in 2009. Owning is less expensive than renting in Austin, but homeownership is declining as a driver of household creation, as down payment costs are too high for most residents.
- The metro is struggling to find solutions to its housing affordability issue through a third CodeNext draft, but the project can only create about 6,000 units, far from the city's need of 60,000 affordable units over the next decade. Moreover, the recent federal corporate income tax cuts will put a dent into the low-income tax credit market, making access to the remaining credits more valuable.

Austin Rent vs. Own Affordability as a Percentage of Income



Sources: YardiMatrix, Moody's Analytics

Austin Median Home Price



Source: Moody's Analytics

Population

- Secondary markets like Austin led demographic expansion, due to higher levels of in-migration than gateway cities.
- Having surpassed the two million mark in 2016, Austin's population will grow by 2.8% in 2018, per PwC estimates.

Austin vs. National Population

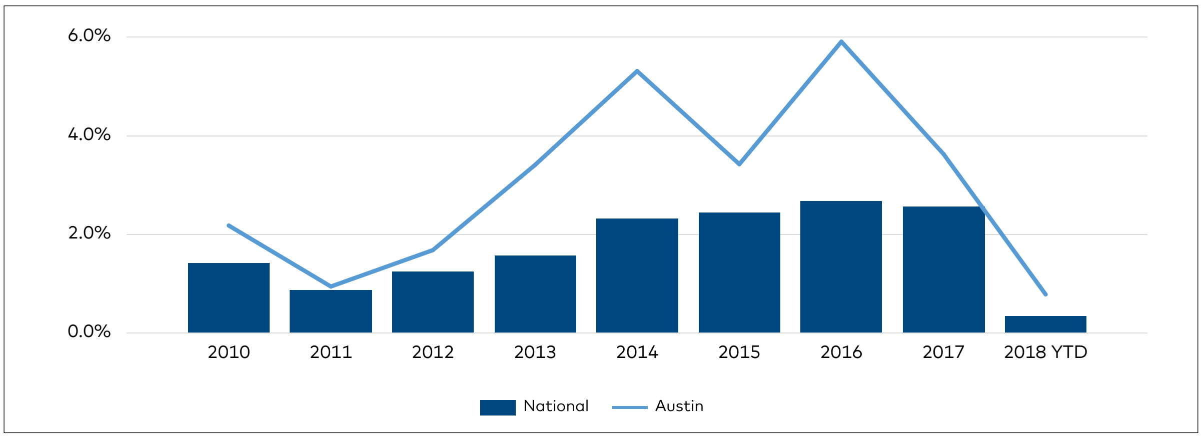
	2012	2013	2014	2015	2016
National	313,998,379	316,204,908	318,563,456	320,896,618	323,127,513
Austin Metro	1,834,319	1,882,856	1,941,389	1,998,104	2,056,405

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

Supply

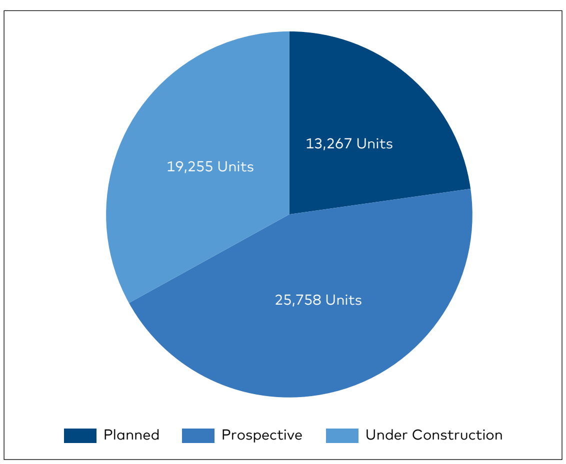
- More than 1,700 units came online through February, signaling another banner year for deliveries. Even though 2017 marked a 36% drop in completions as compared to the previous year, 2018 looks likely to reverse that trend.
- About 19,300 units were under construction as of February, with more than 12,800 units slated for completion by year-end. The pipeline featured more than 58,000 units in various stages of development, 13,200 of which were in the planning stage. Robust oncoming inventory makes oversupply a short-term concern, a fact that could contribute to stalling rent growth.
- Construction occurred across the map, with six submarkets having more than 1,000 units underway. Pershing led growth with 1,767 units, and also hosts the largest multifamily development currently being built in Austin: the 800-unit Plaza Saltillo owned by the joint venture between Endeavor Real Estate Group, Columbus Realty Partners and DMA Properties, slated for completion in March 2019. The largest project scheduled for completion in 2018 is Oden Hughes' 400-unit Lenox Springs in Sunset Valley, scheduled for completion in April.

Austin vs. National Completions as a Percentage of Total Stock (as of February 2018)



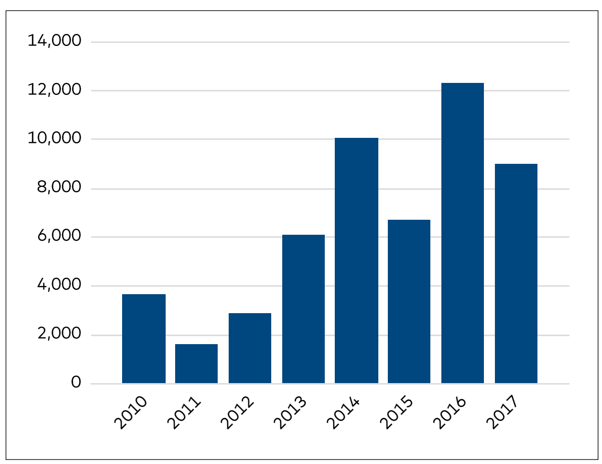
Source: YardiMatrix

Development Pipeline (as of February 2018)



Source: YardiMatrix

Austin Completions (as of February 2018)



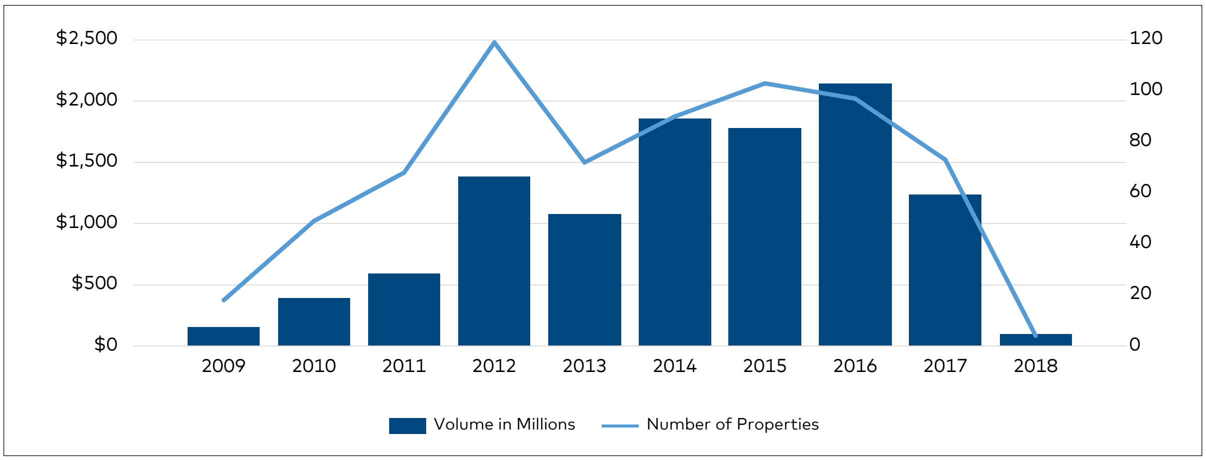
Source: YardiMatrix

Transactions

- Investment sales in Austin have cooled off, nearly halving 2016's $2.1 billion cycle peak to $1.2 billion in 2017. By February 2018, four properties had already changed ownership, for a total of $102 million. The average per-unit price dropped, sliding 10.7% to $116,972, increasing the gap between the $151,680 national average and the local rate. The dip reflects current investor interest for value-add opportunities, but it is also a consequence of the moderation in rent growth.

- Downtown–North leads in transaction activity, thanks to the sale of a single asset—State House on Congress, a 287-unit community built in 1995. Turnbridge Equities acquired the property from TIAA for about $121 million, through a $91 million loan held by International Bank of Commerce. San Marcos/Kyle also piqued investor interest over the past 12 months, with more than $120 million in multifamily assets trading during the same period.

Austin Sales Volume and Number of Properties Sold (as of February 2018)



Source: YardiMatrix

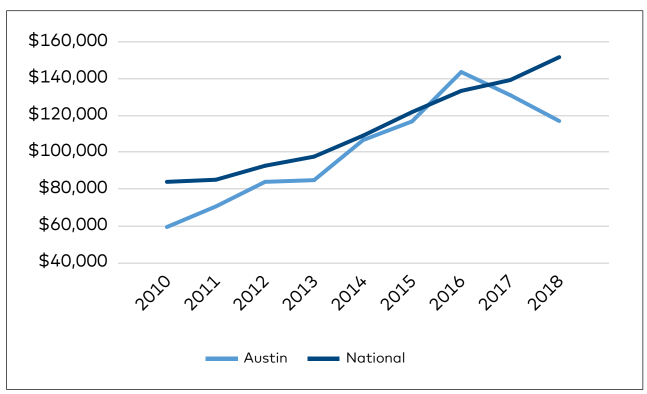
Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
Downtown–North	121
San Marcos/Kyle	120
Brushy Creek	93
Eubank Acres–South	85
Pershing	82
Pleasant Hill–West	73
Jollyville–North	72
University of Texas	63

Source: YardiMatrix

[1] From March 2017 to February 2018

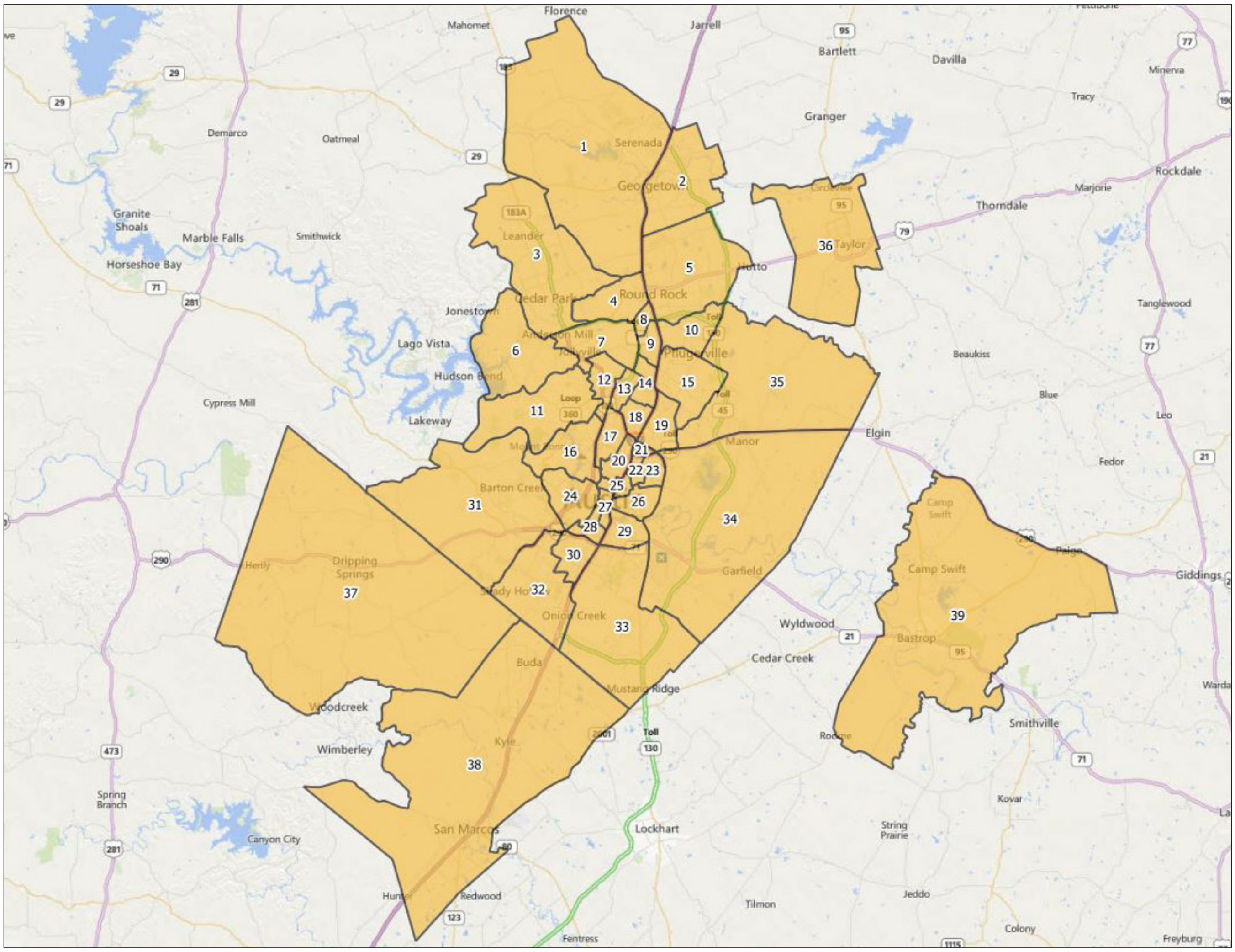
Austin vs. National Sales Price per Unit



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.

Research drives deals on Yardi Matrix

In 30 minutes we'll show you how you can:

» Leverage the power of multifamily, office & self storage market data

» Reveal a property's true ownership and contacts behind the LLC

» Deliver sales, rent and occupancy comps

» Aggregate comp set level revenue and expense comps—only available with Yardi Matrix

» Show in-place loans, maturity dates and originators

» Update new supply pipelines continuously

» Create presentation-ready reports

800.866.1144
Yardi.com/Matrix
The Data and Analytics Service for Real Estate Professionals

YARDI | Energized for Tomorrow